

REVENUE ESTIMATING CONFERENCE

Revenue Source: Insurance Taxes

Issue: Policy Deduction for IPT, Fire, and Flood – Refundable Credit

Bill Number(s): [Proposed Language](#)

Entire Bill

Partial Bill:

Sponsor(s): N/A

Month/Year Impact Begins: July 2024

Date(s) Conference Reviewed: March 6th, 2024

Section 1: Narrative

- a. **Current Law:** Currently exists no mandatory premium deductions for insurers.
- b. **Proposed Change:** Creates a mandatory deduction equal to the value of the Premium Tax and the State Fire Marshal Assessment on coverage for a residential dwelling. Another 1.75% deduction is for flood or excess flood coverage, both personal and commercial. The total value of deductions is allowed to be claimed as a credit with excess credit generating a refund to be paid from the General Revenue Fund. The credit can only be generated by deductions to policies with effective dates between October 1, 2024, and September 30, 2025.

Section 2: Description of Data and Sources

National Flood Insurance Program – Policy Info by State

[\[https://nfipservices.floodsmart.gov/sites/default/files/nfip_policy-information-by-state_20231130.xlsx\]](https://nfipservices.floodsmart.gov/sites/default/files/nfip_policy-information-by-state_20231130.xlsx)

National Flood Insurance Program – 2020 Report

[\[https://cdn.nar.realtor/sites/default/files/documents/2020-flood-reports-florida-11-04-2020.pdf\]](https://cdn.nar.realtor/sites/default/files/documents/2020-flood-reports-florida-11-04-2020.pdf)

Miami Herald/The Insurance Information Institute

[\[https://www.miamiherald.com/news/business/real-estate-news/article269946847.html\]](https://www.miamiherald.com/news/business/real-estate-news/article269946847.html)

Florida Market Data available on the Florida Surplus – [\[https://www.fslso.com/Florida/MarketData/home\]](https://www.fslso.com/Florida/MarketData/home)

Write Your Own Flood Insurance Company List – [\[https://nfipservices.floodsmart.gov/wyo-program-list\]](https://nfipservices.floodsmart.gov/wyo-program-list)

DOR Return Data

Results of the January 2024 General Revenue Estimating Conference

Section 3: Methodology (Include Assumptions and Attach Details)

Part 1: Universal Drivers

Certain data elements are reused across multiple sections of this impact. The consistent base for these sections is the taxable premiums from the DR-908's Schedule X, lines 1, 7, and 9. These lines represent premium volume in Fire Residential, Residential Allied Lines, and Homeowners Multiple Peril, respectively. The Fire Marshal's assessment on these premiums is also pre-calculated here based on the tax rate of 1% and the percent of premium volumes treated as taxable for the Fire Marshal's tax.

Also included in this section is the Share Up (Down) factor used to align DOR-Return data to Florida OIR data. While DOR Return data is necessary to drive the impact on the State Fire Marshall Assessment, the lines provided in Schedule X do not directly translate to OIR provided categories. As such, it is assumed the selected lines from Schedule X (1, 7, & 9) are entirely qualified and some amount within other lines qualify, though no one individual line can account for the entire difference. Thus, a Share Up factor of 108.3% is proposed. In previous impacts a \$750,000 coverage cap was included as a limitation to qualified premiums. Analysis of the property tax roll showed 73.86% of residential parcels had a dwelling value of less than \$750,000. The conference increased this share to 80%, which is a 108.3% increase in qualification.

Finally, the Schedule X growth rates used to drive previous IPT Impacts are presented here. These rates underly the adopted IPT forecast from the January 2024 General Revenue Estimating Conference.

Across this impact, it is assumed that the credits taken would only affect the March 1st payment with return, and not be felt through the quarterly installment payments. Therefore, the full impact from the CYx tax year is placed in FYx+1.

Part 2: 1.75% Deduction

The 1.75% deduction on under-cap coverage of a residential dwelling is first calculated for Calendar Year 2022.

$(\text{Line 1 Volume} + \text{Line 7 Volume} + \text{Line 9 Volume}) \times 108.3\% \times 1.75\% = \text{CY22 Value of 1.75\% Reduction}$

This value is then grown to CY25 levels by the Schedule X growth rates. To account for the split effective window (Oct-1-24 to Sep-30-25) 25% of the CY24 value and 75% of the CY25 value are taken as the direct impact. Holding the assumptions made in Part 1 unchanged, the total impact for Part 2 is \$308.5 M.

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Part 3: Deduction for State Fire Marshal Assessment

The total value of the CY22 assessments is first multiplied by the 108.3% qualification rate, then grown through CY25 by the assumed Schedule X growth rates. To account for the split effective window (Oct-1-24 to Sep-30-25) 25% of the CY24 value and 75% of the CY25 value are taken as the direct impact. Holding the assumptions made in Part 1 unchanged, the total impact for Part 3 is \$40.1 M.

Part 5: Deduction for Flood and Excess Flood Coverage

This impact cannot be deducted from DR-908 data and therefore rests on 3rd party data and assumptions. The impact process described below has been seen and adopted by conference before, most recently on February 23rd, 2023.

There are 3 methods of acquiring flood insurance in Florida. The first method, under which most policies are written, is the National Flood Insurance Program's (NFIP) "Write Your Own Program," a cooperative of private insurance companies and FEMA. Applying the 1.75% tax rate that would be exempt under the proposed change, the impact of the NFIP policies alone would be - \$22,533,422.

The second method is through Surplus Lines. These policies are subject to a different and higher tax rate than the other 2 methods and would not be exempt under this change. The Florida Surplus Lines Service Office has data available on the number of properties and the premium values for flood insurance.

The third method is private insurers writing their own flood policies. There is no data available for this method, and an estimate for the number of policies and cost per policy must be produced. According to a 2020 NFIP report, there are 4,110,395 properties at high risk of flooding and 4,832,882 at high or moderate risk of flooding. For the impact, the displayed impact uses exclusively high-risk properties. It is assumed that 50% of these properties go without Flood Insurance. Applying this percentage to the at-risk properties arrives at an estimate of the total number of flood policies in the state, and subtracting the known NFIP and Surplus Lines policies from it arrives at an estimate of policies written by private insurers. Multiplying the estimated number of policies under private insurers by the estimated average cost per policy for private insurers arrives and an estimate of premiums for private insurers. Adding this to the NFIP premiums and multiplying by the 1.75% tax rate arrives at an impact for the first year.

The first-year impact is grown through CY25 by the adopted total P&C growth rates driving the overall premium tax growth rates adopted at the January 2024 General Revenue Estimating Conference. To account for the split effective window (Oct-1-24 to Sep-30-25) 25% of the CY24 value and 75% of the CY25 value are taken as the direct impact. Holding the assumptions made above unchanged, the total impact for Part 5 is \$29.9 M.

Part 6: Refunds and Impact

The refund math is driven by a return-based simulation, applying the changes made by this language to returns submitted for the 2022 Tax Year. Via this approach, each return can be evaluated individually to see if it would have generated enough credit to overwhelm its premium tax due after other credits, and thus generate a refund. The sticking point here is the credit generated from Flood Insurance deductions. As Flood Insurance is not separately itemized on the DR-908, there is no way to measure the potential flood credit generated on a single return. Instead, a new set of assumptions must be made.

First, it assumed that the only flood insurance in the state is obtained through FEMA's Write Your Own program. The companies named as servicers for the program are identified on FEMA's website and can be identified in the return data. Next, the Flood Insurance first-year impact is split among the WYO-servicers by the proportion of P&C premiums among the service group. For example, if *Freedonia Flood Funding LLC* services the WYO program and they have 15% of the P&C premiums among all WYO-servicers, then they'll receive 15% of the Part 5 first-year impact as "flood credit". This flood credit is then added to other credits generated to evaluate the refund potential. Insurers not identified on the WYO company list receive "flood credit" of \$0.

The refund value is calculated with 25% of the annual credit and 75% of the annual credit (called 3mo and 9mo respectively) to allow for evaluation of refund magnitude in the two affected tax years. The 25%/3mo carryforward is grown to CY24 and the 75%/9mo carryforward is grown to CY25.

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The issues evaluated in this impact have been presented to the conference before.

Parts 2 & 6 - <http://edr.state.fl.us/Content/conferences/revenueimpact/archives/2024/pdf/page456-458.pdf>

Parts 2 & 3 - <http://edr.state.fl.us/Content/conferences/revenueimpact/archives/2024/pdf/page161-163.pdf>

Part 5 - <http://edr.state.fl.us/Content/conferences/revenueimpact/archives/2024/pdf/page440-442.pdf>

With Credit Carryforward - <http://edr.state.fl.us/Content/conferences/revenueimpact/archives/2024/pdf/page476-484.pdf>

Section 4: Proposed Fiscal Impact

	High		Middle		Low	
	Cash	Recurring	Cash	Recurring	Cash	Recurring
2024-25			(\$120.8) M			
2025-26			(\$381.0) M			
2026-27						
2027-28						
2028-29						

Revenue Distribution: Insurance Taxes

Section 5: Consensus Estimate (Adopted: 03/06/2024) The Conference adopted the proposed estimate.

	GR		Trust		Local/Other		Total	
	Cash	Recurring	Cash	Recurring	Cash	Recurring	Cash	Recurring
2024-25	(120.8)	0.0	0.0	0.0	0.0	0.0	(120.8)	0.0
2025-26	(381.0)	0.0	0.0	0.0	0.0	0.0	(381.0)	0.0
2026-27	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2027-28	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2028-29	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

	A	B	C	D	E	F	G	H	I	J
1	Part 1: Universal Drivers									
2	DR-908 Schedule X Data for CY2022						Schedule X Growth Rates			
3					Premium Volume	Fire Assessment		CY	Growth	
4	Line 1 - Fire Residential				520,616,801	4,841,736		2019	4.0%	
5	Line 7 - Residential Allied Lines				1,499,861,726	734,932		2020	10.4%	
6	Line 9 - Homeowner Multiple Peril				14,499,781,243	32,044,517		2021	9.6%	
7	Residential Policy Premiums				16,520,259,769	37,621,185		2022	21.6%	
8								2023	18.5%	Estimate
9	Share Up				108.3%			2024	8.4%	Estimate
10								2025	5.1%	Estimate
11										
12	Part 2: 1.75% Deduction									
13	Residential Policy Premium Volume				16,520,259,769	=E7				
14	Qualifying Premium Volume				17,891,441,330	=E13*E9				
15	Value of 1.75% Reduction in CY22				313,100,223	=E14*0.0175				
17	in CY23				371,023,765	=E15*(1+I8)				
18	in CY24				402,189,761	=E17*(1+I9)				
19	in CY25				422,701,439	=E18*(1+I10)				
21	Split Calculation - 25% of CY 24 Value				100,547,440	=E18*0.25				
22	Split Calculation - 75% of CY 25 Value				317,026,079	=E19*0.75				
24	Direct Impact in FY2024-25 (Millions)				100.55	=E21/1000000				
25	Direct Impact in FY2025-26 (Millions)				317.03	=E22/1000000				
26					417.57					
27										
28	Part 3: Deduction for State Fire Marshal Assessment									
29	Residential Fire Marshal Assesments				37,621,185	=F7				
30	Qualifying Assessments in CY22				40,743,743	=E29*E9				
32	in CY23				48,281,336	=E30*(1+I8)				
33	in CY24				52,336,968	=E32*(1+I9)				
34	in CY25				55,006,154	=E33*(1+I10)				
36	Split Calculation - 25% of CY 24 Value				13,084,242	=E33*0.25				
37	Split Calculation - 75% of CY 25 Value				41,254,615	=E34*0.75				
39	Direct Impact in FY2024-25 (Millions)				13.08	=E36/1000000				
40	Direct Impact in FY2025-26 (Millions)				41.25	=E37/1000000				
41					54.34					
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	A	B	C	D	E	F	G	H	I	J
51	Part 5: 1.75% Deduction for Flood and Excess Flood Coverage									
52	<i>Adopted Methodology From Feb-23-2024</i>									
53	Assumptions				Adopted	Source				
54	NFIP Policies				1,710,539	National Flood Insurance Program -				
55	Surplus Lines Properties				84,495	Surplus Lines Service Office				
56	At Risk Properties				4,110,395	National Flood Insurance Program -				
57	Share of at Risk Without Flood Ins.				50%	Miami Herald / The Insurance				
58	Total with Flood Insurance				2,055,198	=E56*(1-E57)				
59	Policies with Private Insurers				260,164	=E58-E54-E55				
60	Total Premium with NFIP				\$ 1,287,624,135	National Flood Insurance Program -				
61	Total Premium with Surplus Lines				\$ 157,530,901	Surplus Lines Service Office				
62	Cost Per Policy, Private				\$ 1,000	Conference Adjusted				
63	Total Premium with Private Insurers				\$ 260,163,500	=E62*E59				
64	Total Premium Taxed at 1.75%				\$ 1,547,787,635	=E60+E63				
65	CY23 Tax Impact				\$ 27,086,284	=1.75%*E64				
66										
67	<i>Adopted Methodology Grown into Impact Window</i>									
68	CY24 Tax Impact				28,827,932	=E65*(1+I69)				
69	CY25 Tax Impact				30,280,859	=E68*(1+I70)				
70										
71	<i>Accounting For Split Year of Deduction Program</i>									
72	Split Calculation - 25% of CY 24 Value				7,206,983	=E68*0.25				
73	Split Calculation - 75% of CY 25 Value				22,710,645	=E69*0.75				
74										
75	<i>Direct Impacts</i>									
76	Direct Impact in FY2024-25 (Millions)				7.21	=E72/1000000				
77	Direct Impact in FY2025-26 (Millions)				22.71	=E73/1000000				
78					29.92					
79										
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96	Part 6: Refund and Impact									

	A	B	C	D	E	F	G	H	I	J
97	Direct Impact From...				CY2024	CY2025				
98	Part 2: Premium Tax				100,547,440	317,026,079				
100	Part 3: State Fire Marshal				13,084,242	41,254,615				
102	Part 5: Flood and Excess Flood				7,206,983	22,710,645		Total		
103	Total Direct Estimate				120,838,665	380,991,339		501.83		
104										
105	Assumed Share Up				108.3%	=E9				
107	3mo CY22 Flood Writer Credit Coverage				7,144,841	Return Simulation				
108	9mo CY22 Flood Writer Credit Coverage				28,352,154	Return Simulation				
110	3mo CY22 Other Writer Credit Coverage				22,684,670	Return Simulation				
111	9mo CY22 Other Writer Credit Coverage				141,852,868	Return Simulation				
113	Total 3mo Credit Coverage in CY22				29,829,511	=E107+E110				
114			in CY23		29,829,512	=E113+(1+I8)				
115			in CY24		29,829,513	=E114+(1+I9)				
117	Total 9mo Credit Coverage in CY22				170,205,022	=E108+E111				
118			in CY23		201,692,951	=E117*(1+I8)				
119			in CY24		218,635,159	=E118*(1+I9)				
120			in CY25		229,785,552	=E119*(1+I10)				
121										
122					Fiscal Year	Reduced Liability				
123					FY 2024-25	(91.01)				
124					FY 2025-26	(151.21)				
125					Total	(242.21)				
126										
127					Fiscal Year	Refund				
128					FY 2024-25	(29.83)				
129					FY 2025-26	(229.79)				
130					Total	(259.62)				
131										
132					Fiscal Year	Total				
133					FY 2024-25	(120.84)				
134					FY 2025-26	(380.99)				
135					Total	(501.83)				