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STATEMENT RE: **Raised Bill 6349**
“An Act concerning the sales tax on services”

TO: Insurance and Real Estate Committee

BY: Professional Insurance Agents
of Connecticut Inc.

ON: Feb.16, 2009

The Professional Insurance Agents of Connecticut Inc. (PIACT), an association representing more than 500 member independent insurance agencies who employ over 3,500 people throughout the state **OPPOSES** Raised Bill 6349.

As worded, the proposal is vague, and would present exceptional difficulties for insurance producers and purchasers to comply with. The bill includes insurance transactions in the category of taxable sales without regard to the profound difference between purchasing an insurance policy and purchasing a television or sofa or automobile. The bill does not speak to the question of whether the tax on the transaction is due immediately, or paid in an alternative manner. This is a significant consideration when an expensive, high-value policy is purchased, but paid for in periodic installments. Imposing a large single tax payment due at the moment of sale puts unreasonable financial pressure on a purchaser.

From an insurance producer’s standpoint, an insurance transaction is particularly unsuited to the simple application of a sales tax. A substantial proportion of insurance transactions are “direct billed.” This means that while an agent advises, counsels and eventually consummates the transaction that places the insurance consumer with an insurer, the insurer bills the consumer and directly collects the premium. By requiring the seller (in this case, the producer) to remit sales tax to the state, the state would put an insurance producer in the position of separately billing a customer for the tax due apart from any premium billed by the insurer. It is foreseeable that producers, seeking to comply with this mandate, would forward the tax owed on behalf of the consumer and then be forced to spend time, effort and money to recoup this money from a surprised and annoyed insurance purchaser.

A number of insurance policies are written in the surplus lines market, which already generates a 4 percent tax. It is the expressed public policy of Connecticut to prefer placing risks in the admitted market. This policy is supported by fact that policies written in the admitted market are not taxed. Changing this policy by imposing a previously nonexistent tax on the sale of policies in the admitted market alters this dynamic and removes an additional incentive for consumers to strive to have their risk placed in the admitted market.

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From a practical perspective, imposing this tax will exacerbate an already troublesome situation regarding the high proportion of uninsured drivers. Like 47 other states, Connecticut requires its drivers to carry auto liability insurance. Despite all the efforts taken to ensure compliance, the General Assembly produced a report last year (available at: <http://www.cga.ct.gov/2008/rpt/2008-R-0045.htm>) estimating that there are nearly 300,000 uninsured drivers in Connecticut. It goes without saying that imposing an additional financial burden on drivers already unwilling or unable to shoulder this financial obligation makes no sense, and is likely to inflate this already unacceptably high figure. This burden, unfortunately, hits poor, urban drivers the hardest, drivers who, instead of having their financial difficulties alleviated, will be asked to pay even more.

Because of the above-listed reasons, the Professional Insurance Agents of Connecticut Inc. **OPPOSES** this bill.

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