COALITION FOR **COMPETITIVE INSURANCE RATES**

The Honorable Orrin G. Hatch
Chairman
United States Senate
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Hatch,

Thank you for the opportunity to submit recommendations, "to create a simpler and fairer [U.S. tax] system that is more conducive to sustained economic growth in the 21st Century global marketplace."[1]

The membership of the Coalition for Competitive Insurance Rates ("CCIR"), which consists of business organizations, consumer advocates, citizen groups, insurers and their associations, fully supports the efforts by the president and Congress to enact reforms to the U.S. tax system that will lower tax rates and produce a more competitive and rational international tax regime.

However, CCIR has several concerns about the potential application of an affiliate tax or of the border adjustment proposal (i.e. border adjustment tax or BAT) – a feature of the House Republican Blueprint for Comprehensive Tax Reform – on foreign insurers, reinsurers and their affiliates. Foreign-based insurers and reinsurers play an important role in the U.S. economy by helping U.S. property owners recover and rebuild when catastrophe strikes. Foreign insurers and reinsurers have provided substantial support following recent disasters, paying nearly 50 percent of the estimated $19 billion in losses incurred from Hurricane Sandy; an estimated 85 percent of privately insured crop losses resulting from the 2012 drought (approximately $1.2 billion); and, in the aftermath of the 2001 terrorist attacks on New York, international insurance and reinsurance firms paid 64 percent of the estimated $27 billion in U.S. payouts for the claims.

CCIR urges the Senate Finance Committee to take the information set forth below into account if it considers proposals to tax foreign affiliate reinsurance or all international reinsurance, or any BAT-style proposals that would treat commercial insurance and reinsurance transactions as an import of a service, resulting in the denial of the deduction for premiums paid for insurance or reinsurance acquired from non-U.S. insurance and reinsurance companies. Such proposals would have serious negative consequences on the U.S. insurance and reinsurance market at the expense of U.S. consumers and, as explained below, taxpayers.

The House Republican Blueprint and the BAT

The Blueprint released in June 2016 does not provide sufficient details to determine the tax treatment of cross border insurance and reinsurance under the BAT proposal, which would effectively tax imports and provide for tax-free exports. It is our understanding that the authors

[1] Chairman Hatch, Letter to Stakeholders requesting submissions and comments on tax reform. June 16, 2017

of the Blueprint intended that the BAT apply to services as well as goods, but we also understand that the application of the BAT to financial services is a design issue – the final details of which are still being developed. If policymakers were to follow the design of most other border adjustable tax systems imposed globally, generally through value added taxes, they would not include such services in the BAT base, as most countries that impose VAT or GST taxes do not apply those taxes to insurance or reinsurance.

However, should legislation to redesign the tax system impose a new tax on all cross-border reinsurance transactions, the distortions to the U.S. insurance markets could be devastating to U.S. consumers –according to a report issued by the Brattle Group, a leading economic consultancy:

- At the low end a 20 percent reduction in reinsurance would lead to a $15.6 billion drop in the supply of U.S. insurance. U.S. consumers would annually pay $8.4 billion more in higher insurance premiums to obtain the same coverage.
- At the high end, an 80 percent reduction in reinsurance would lead to a $69.3 billion drop in the supply of U.S. insurance. U.S. consumers would annually pay $37.4 billion more in higher insurance premiums to obtain the same coverage.

In further analyses, R Street Institute scholars analyzed how a decrease in the supply of international reinsurance resulting from an improperly-designed BAT would impact property insurance premiums paid by consumers in states prone to natural catastrophe, specifically California, Texas, Louisiana, and North Carolina. Another study, completed by Florida Tax Watch, examined the impact of a BAT on policyholders in the Sunshine State. The results are sobering:

- A BAT set at 20 percent would increase the cost of property-casualty insurance and would increase insurance premiums in California by $1.91 billion over the next decade; in Texas by $3.4 billion over the next ten years; in Louisiana, it would result in an increase of $1.1 billion over ten years; and in North Carolina, it would result in an increase of $800 million over ten years.
- Most striking is the impact a BAT set at 20 percent would have on Florida. Research indicates premiums would need to increase between $1.4 and $2.6 billion *annually* simply to maintain coverage as it exists today.

R Street noted: "Deep and liquid global reinsurance markets are a vital component of the nation's approach to risk transfer. Having access to international reinsurance capital keeps insurance rates affordable and allows consumers to protect themselves without burdening fellow taxpayers. Our research indicates that virtually any scenario in which a BAT set at a rate of 20 percent were levied on the import of insurance or reinsurance would have significant negative effects for policyholders. Insurance, and the financial services sector as a whole, benefit from the ready availability of international capital. Policy developments limiting the availability of such capital produce a cascade of negative effects for Americans across the country and from all walks of life."[2]

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[2] R Street Institute. www.Rstreet.org. Impact of a border adjustment tax on the California Insurance Market, July 13, 2017; Impact of a border adjustment tax on the North Carolina Insurance Market, May 17, 2017; Impact of a border adjustment tax on the Louisiana Insurance Market, May 4, 2017; Impact of a border adjustment tax on the Texas insurance market, April 27, 2017; Policy studies by Dr. Lars Powell.

Keep Disaster at Bay. Keep Insurance Competitive.

Foreign insurers, reinsurers and their affiliates play a vital role in spreading risk in the global marketplace. *All* insurance companies, U.S.-based and foreign-based, utilize reinsurance in order to most efficiently and safely pool catastrophic and other risks and match capital to support those risks. Such pooling diversifies risk into a global portfolio providing substantial price and capacity benefits to insurance markets globally.

The BAT is designed to put the United States on a level footing with much of the rest of the world that imposes border adjustable consumption taxes. However, since most of the world excludes cross-border insurance and reinsurance from their VAT systems, application of the BAT to reinsurance would seem to be unnecessary and counterproductive. It would not follow the global best practices for a VAT/GST and could cause major disruptions in the U.S. reinsurance markets impacting the amount of affordable reinsurance available.

Foreign insurers, reinsurers and their affiliates are the backbone of the safety net that U.S. businesses and consumers depend on to help rebuild when disaster strikes; they rely on an efficient and stable global reinsurance market that provides access to affordable reinsurance. An ill-conceived proposal taxing foreign affiliate reinsurance or all international reinsurance would only serve to limit US insurance capacity and drive up the cost of insurance. There is no reason why a policymaker would have chosen to compel Gulf Coast policyholders and U.S. investors to shoulder the entire costs of Hurricane Katrina – sharing these losses with global shareholders affords better benefits in lower prices and more competitive insurance markets to U.S. consumers. Doing so likewise lessens the fiscal pressure on government-funded disaster response and mitigation programs.

On behalf of CCIR, we urge you to maintain the current law treatment of deductions for reinsurance premiums paid by U.S. companies to foreign insurers, reinsurers or their affiliates.

Sincerely yours,

Pete Sepp
President
National Taxpayers Union

Eli Lehrer
President
R Street Institute

Ryan Ellis
Forbes opinion columnist