

## ALLOCATION OF SURPLUS LINES AND INDEPENDENTLY PROCURED INSURANCE PREMIUM TAX ON MULTI-STATE RISKS MODEL REGULATION

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### Section 1. Purpose

The purpose of this regulation is to:

- A. Implement the provisions of Section [insert citation to state law equivalent to Section 5 of the Nonadmitted Insurance Model Act] by requiring surplus lines licensees to allocate premiums where a placement of surplus lines insurance covers properties, risks or exposures located or to be performed in various states (multi-state risks);
- B. Facilitate payment of surplus lines tax or independently procured insurance tax in this state pursuant to [cite state law equivalent to Section 6 of the Nonadmitted Insurance Model Act]; and
- C. Provide a mechanism by which a surplus lines licensee or insured shall allocate premiums and pay premium taxes to each state where placement of surplus lines insurance covers properties, risks or exposures located or to be performed in each state.

### Section 2. Allocation of Premium Tax on Multi-State Risks

- A. In determining the amount of premiums taxable in this state, all premiums written, procured or received in this state shall be presumed to be written on properties, risks or exposures located or to be performed in this state, except
  - (1) For a reciprocal state, premiums that are allocated or apportioned as taxable premiums of the reciprocal state in accordance with the provisions of this regulation, but the tax payable to this state shall not be less than the tax due pursuant to this regulation. However, if the amount of tax due under this provision is less than \$50 in any jurisdiction, it shall be payable in the jurisdiction in which the affidavit is required to be filed; or
  - (2) For a nonreciprocal state, premiums that are allocated or apportioned as taxable premiums of the nonreciprocal state and the taxes have been paid to the nonreciprocal state.
- B. On an insurance policy covering properties, risks or exposures located or to be performed in various states, the tax to be paid to the commissioner of each state shall be computed on that portion of the policy premium that is attributable to properties, risks or exposures located or to be performed in each state.

Allocation of Premium Tax

- C. The surplus lines licensee or the insured who has independently procured insurance shall determine the taxable portion of the premium by using one of the following methods:
- (1) Allocate premium on the same basis or bases used to establish the policy premium; or
  - (2) Allocate premium as prescribed in the allocation schedule in Appendix A of this regulation that pertains to the classification describing the coverage, subject to the following:
    - (a) If the allocation schedule does not identify a classification appropriate to the properties, risks or exposures being insured, the surplus lines licensee or the insured who has independently procured insurance shall use an alternative equitable method of allocation; and
    - (b) If a policy covers more than one classification:
      - (i) For any portion of the coverage identified by a classification on the allocation schedule, the tax shall be computed by using the allocation schedule for the corresponding portion of the premium;
      - (ii) For any portion of the coverage not identified by a classification on the allocation schedule, the tax shall be computed in accordance with Subparagraph (a) of this paragraph; and
      - (iii) For any portion of the coverage where the premium is indivisible, the tax shall be computed by using the method of allocation that pertains to the classification describing the predominant coverage.
- D. If the information provided by the surplus lines licensee or the insured who has independently procured insurance is insufficient to substantiate its method of allocation, or if the commissioner determines that its method is incorrect, the commissioner shall determine the equitable and appropriate amount of tax due to this state, as follows:
- (1) If the allocation schedule identifies a classification appropriate to the coverage, the commissioner shall use the method prescribed in Subsection C.
  - (2) If the Allocation Schedule does not identify a classification appropriate to the coverage, the commissioner, in determining the equitable and appropriate amount of tax due to the state, shall give significant weight to documented evidence of the underwriting bases and other criteria used by the insurer. The commissioner may also consider other available information, to the extent sufficient and relevant, such as the percentage of the insured's physical assets in this state, the percentage of the insured's employee payroll in this state, the percentage of the insured's sales in this state and the amount of premium tax paid to another jurisdiction for the policy.

**Drafting Note:** In some states, determination of, and payment of, tax is the responsibility of a state official other than the commissioner. Subsection D should be modified as necessary to reflect state law.

**Section 3. Reporting and Remittance of Tax**

- A. Each licensee or insured who has independently procured insurance shall file a tax allocation report, as specified in Appendix B of this regulation. The filing of a tax allocation report and the remittance of tax may be made by a person authorized by the insured to act as its agent.
- B. The commissioner shall at least annually furnish to the commissioner of a reciprocal state a copy of all filings reporting an allocation of taxes required by this section.
- C. The preparation and submission of tax allocation reports and the payment of independently procured insurance taxes by a surplus lines licensee of another state to the commissioner of this state either directly or indirectly for lawful transactions taking place outside this state shall not be considered the placement of insurance in this state by the surplus lines licensee.

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*Chronological Summary of Actions (all references are to the Proceedings of the NAIC).*

*1995 Proc. 3rd Quarter 5, 18, 855, 903, 930 (adopted).*

**APPENDIX A**

**SURPLUS LINES PREMIUM TAX  
ALLOCATION SCHEDULE**

**Criteria for Tax  
Allocation of Multi-State Risks**

<b>CODE CLASSIFICATION</b>	<b>ALLOCATE TO STATE BY</b>
<b>PROPERTY INSURANCE:</b>	
01 Real Property (including buildings and other permanent additions)	Insured value of structures and other property in state
02 Personal Property (including inland marine)	Insured value of property permanently or principally situated in state
03 Business Interruption, Time Element, or similar time value coverages	Insured time valued elements in state
04 Farmowners, Homeowners, and Businessowners (BOP)	Insured value of structures and other property in state
05 Aircraft	Insured value of aircraft principally hangared or principally used in state
06 Motor Vehicle	Insured value of motor vehicles principally garaged or principally used in state
07 Kidnap & Ransom	Number of insured employees principally employed in state
08 Ocean Marine	None to state
<b>FIDELITY AND SURETY:</b>	
11 Fidelity, Forgery, and other Indemnity Bonds	Number of insured employees in state
12 Bankers' Blanket Bonds	Number of insured employees in state
13 Performance Bonds	Total bond value of contracts in state
14 Other surety Bonds	Total bond value of contracts in state

**CREDIT INSURANCE:**

21 Credit Insurance Value of insured debt in state

**RESIDUAL VALUE INSURANCE:**

31 Residual Value Insurance Allocate to value of underlying property

**LIABILITY INSURANCE:**

41 Manufacturers and Contractors Payroll in state

42 Premises Operations Square footage of premises in state

43 Owners and Contractors Protective Cost of contract in state

44 Products Receipts in state

45 Completed Operations Receipts in state

46 Municipalities, Public Authorities and other Political Subdivisions Number of municipalities, etc. in state

47 Child Care Number of children in state

48 Contractual If “stand alone” policy, value of sales in state

49 Recreational Amount of gate receipts in state

50 Environmental Impairment Number of units of exposure in state

51 Asbestos Abatement Payroll in state

52 Employee/Member Benefit Program Number of employees/members in state

53 Special Events Receipts from state

54 Professional Liability Number of insureds in state

55 Errors and Omissions Revenues generated in state

56-A For-Profit Organization Revenues generated in state

56-B Not-for-Profit Organization Number of directors and officers based in state

Allocation of Premium Tax

**LIABILITY INSURANCE:** (cont.)

57	Hospital, Nursing Home, and Adult Home	Number of beds in facility plus one additional bed for each 100 outpatient visits at locations in state
58	Liquor Liability	Receipts from sales of alcoholic beverages in state
59	Railroad Protective	Miles of track in state
60	Aircraft	Number of aircraft principally hangared or principally used in state
61	Motor Vehicle	Number of motor vehicles principally garaged or principally used in state
62	Umbrella	Classification of predominant coverage; except if underlying coverages are divisible, then use underlying classifications
63	Excess Liability	If directly over primary, use underlying classifications. If over umbrella, use method in Code 62.

**APPENDIX B**  
**TAX ALLOCATION REPORT**

AFFIDAVIT # \_\_\_\_\_

1. NAME AND LICENSE NO. OF SURPLUS LINES PRODUCER

\_\_\_\_\_

2. NAMES, ADDRESSES, TELEPHONE NOS., AND NAIC NOS. OF INSURERS

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. NAME OF INSURED AND POLICY NUMBER \_\_\_\_\_

\_\_\_\_\_

If purchasing group or an authorized group, list (a) name of group; (b) names of individual members for whom the allocation is being made; and (c) the policy numbers (group and individual) and certificate numbers, as applicable.

4. TOTAL GROSS POLICY PREMIUM  
(PG. 2 ITEM 8, COL. 5 TOTAL) \$ \_\_\_\_\_

5. PREMIUM ALLOCATED TO (insert state) \_\_\_\_\_ \$ \_\_\_\_\_  
(PG. 2 ITEM 8, COL. 6 TOTAL)

6. AMOUNT OF PREMIUM TAX DUE TO (state) \_\_\_\_\_ \$ \_\_\_\_\_  
(PG. 2 ITEM 8, COL. 7 TOTAL)

NOTE: This payment shall be included with your quarterly (or annual) premium tax payment.

7. LIST ALL STATES IN WHICH EXPOSURE EXISTS AND THE CORRESPONDING PREMIUMS AND TAXES ALLOCATED TO EACH STATE (USE A SEPARATE PAGE IF NEEDED).

Allocation of Premium Tax

8. Calculation of Premium Tax Allocation:

1	2	3	4	5	6	7
Classification Codes and Methods of Allocation as indicated in the Allocation Schedule	Total Amount of Exposure	Exposure in (insert state)	% Ratio of Column 3 to Column 2	Total Gross Policy Premium	Premium Allocated to (insert state). Multiply Column 4 by Column 5	Tax Due to (insert state). Multiply Column 6 by _____
<b>TOTALS</b>	XXXXX	XXXXX	XXXXX	\$	\$	\$



Notes:

Column 1:

- (a) If policy covers more than one classification, enter each classification code separately.
- (b) For any portion of the premium that is not divisible, list all coverages and specify the predominant coverage.

Columns 2 and 3:

- (c) Indicate the units, insured values, numbers, etc. upon which the allocation is made. If classification code and method of allocation for all or a portion of the policy is not listed in the Allocation Schedule, attach explanatory memorandum describing the property or risk and supporting the alternative equitable method of allocation used for that portion.

Column 7:

- (d) Insert tax rate.

**THE FOLLOWING CERTIFICATION MUST BE COMPLETED**

The undersigned certifies that the information reported in Items 1 through 8 of this form, including all attached supporting documentation, is true to the best of my knowledge, information and belief under penalties of perjury.

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Date

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Signature of Licensee or Sublicensee

**ALLOCATION OF SURPLUS LINES AND INDEPENDENTLY PROCURED INSURANCE  
PREMIUM TAX ON MULTI-STATE RISKS MODEL REGULATION**

**This chart is intended to provide readers with additional information to more easily access state statutes, regulations, bulletins or administrative rulings related to the NAIC model. Such guidance provides readers with a starting point from which they may review how each state has addressed the model and the topic being covered. The NAIC Legal Division has reviewed each state’s activity in this area and has determined whether the citation most appropriately fits in the Model Adoption column or Related State Activity column based on the definitions listed below. The NAIC’s interpretation may or may not be shared by the individual states or by interested readers.**

**This chart does not constitute a formal legal opinion by the NAIC staff on the provisions of state law and should not be relied upon as such. Nor does this state page reflect a determination as to whether a state meets any applicable accreditation standards. Every effort has been made to provide correct and accurate summaries to assist readers in locating useful information. Readers should consult state law for further details and for the most current information.**

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**KEY:**

**MODEL ADOPTION:** States that have citations identified in this column adopted the most recent version of the NAIC model in a **substantially similar manner**. This requires states to adopt the model in its entirety but does allow for variations in style and format. States that have adopted portions of the current NAIC model will be included in this column with an explanatory note.

**RELATED STATE ACTIVITY:** Examples of Related State Activity include but are not limited to: older versions of the NAIC model, statutes or regulations addressing the same subject matter, or other administrative guidance such as bulletins and notices. States that have citations identified in this column **only** (and nothing listed in the Model Adoption column) have **not** adopted the most recent version of the NAIC model in a **substantially similar manner**.

**NO CURRENT ACTIVITY:** No state activity on the topic as of the date of the most recent update. This includes states that have repealed legislation as well as states that have never adopted legislation.

NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
Alabama		ALA. CODE § 27-10-31 (1993).
Alaska		ALASKA STAT. § 21.33.055; § 21.33.061 (1992/1996).
American Samoa	NO CURRENT ACTIVITY	
Arizona		ARIZ. REV. STAT. ANN. § 20-401.07 (1974/2000); § 20-416 (1981/1997); ARIZ. ADMIN. CODE § 20-6-207 (1974); BULLETIN 2006-4 (2006).
Arkansas		ARK. CODE ANN. §§ 23-65-301 to 23-65-320 (1959/2013).
California		CAL. INS. CODE § 1775.5 (1994).
Colorado		COLO. REV. STAT. § 10-3-909; § 10-5-111 (1992).
Connecticut		CONN. GEN. STAT. § 38a-277 (1969/1997).
Delaware		DEL. CODE ANN. tit. 18, § 1917 (1988/1995).
District of Columbia	NO CURRENT ACTIVITY	

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<b>NAIC MEMBER</b>	<b>MODEL ADOPTION</b>	<b>RELATED STATE ACTIVITY</b>
Florida		FLA. STAT. § 626.932 (1992/1997).
Georgia		GA. CODE ANN. § 33-5-31 (1995).
Guam	NO CURRENT ACTIVITY	
Hawaii		HAW. REV. STAT. § 431:8-315 (1987).
Idaho		IDAHO CODE ANN. § 41-1229; § 41-1233 (1987/1993).
Illinois	NO CURRENT ACTIVITY	
Indiana	NO CURRENT ACTIVITY	
Iowa	NO CURRENT ACTIVITY	
Kansas	NO CURRENT ACTIVITY	
Kentucky		KY. REV. STAT. ANN. § 304.10-180 (1982/2010); § 304.11-050 (1992/2000).
Louisiana		LA. REV. STAT. ANN. § 22:1265 (1984/1999); § 22:1269 (1970/1999).
Maine		ME. REV. STAT. ANN. tit. 24-A, § 2016 (1991/1997).
Maryland		MD. CODE ANN., INS. § 3-324 (1983/1997); §§ 4-209 to 4-211 (1993/1997).
Massachusetts	NO CURRENT ACTIVITY	
Michigan	NO CURRENT ACTIVITY	
Minnesota		MINN. STAT. § 60A.198 (1981/2009); § 60A.209 (1987/2000).
Mississippi	NO CURRENT ACTIVITY	

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<b>NAIC MEMBER</b>	<b>MODEL ADOPTION</b>	<b>RELATED STATE ACTIVITY</b>
Missouri		MO. REV. STAT. § 384.051 (1987/2011); § 384.061 (1987/2011); MO. CODE REGS. ANN. § 200-6.400 (1992).
Montana		MONT. CODE ANN. § 33-2-311; § 33-2-706 (1989).
Nebraska	NO CURRENT ACTIVITY	
Nevada	NEV. ADMIN. CODE § 685A.420 (1996) (Table from model).	
New Hampshire		N.H. REV. STAT. ANN. §§ 406-B:11 to 406-B:12 (1971).
New Jersey	N.J. ADMIN. CODE §§ 11:2-34.1 to 11:2-34.6(1993/2001).	N.J. REV. STAT. §17:22-6.59 (1960/1996).
New Mexico		N.M. STAT. ANN. § 59A-14-12 (1984/1999).
New York	N.Y. COMP. CODES R. & REGS. tit. 11, §§ 27.4 to 27.8 (1993/2013) (Regulation No. 41).	N.Y. INS. LAW § 9102 (1984/1991).
North Carolina	NO CURRENT ACTIVITY	
North Dakota		N.D. CENT. CODE § 26.1-44-06 (1985).
Northern Marianas	NO CURRENT ACTIVITY	
Ohio	NO CURRENT ACTIVITY	
Oklahoma		OKLA. STAT. tit. 36, § 1115 (1991/1999).
Oregon	NO CURRENT ACTIVITY	
Pennsylvania		40 PA. CONS. STAT. §§ 15-121 to 15-122 (1992).
Puerto Rico	NO CURRENT ACTIVITY	

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<b>NAIC MEMBER</b>	<b>MODEL ADOPTION</b>	<b>RELATED STATE ACTIVITY</b>
Rhode Island	NO CURRENT ACTIVITY	
South Carolina	NO CURRENT ACTIVITY	
South Dakota		S.D. CODIFIED LAWS §§ 58-32-45 to 58-32-47 (1966/1978).
Tennessee		TENN. CODE ANN. § 56-14-113 (2013).
Texas		TEX. INS. CODE ANN. §§ 225.001 to 225.013 (2005/2013).
Utah		UTAH CODE ANN. § 31A-3-303 (1985/1992).
Vermont		VT. STAT. ANN. tit. 8, § 5036 (1979).
Virgin Islands		V.I. CODE ANN. tit. 22, § 662 (1968/1999).
Virginia	NO CURRENT ACTIVITY	
Washington		WASH. REV. CODE ANN. § 48.15.120 (1947).
West Virginia	NO CURRENT ACTIVITY	
Wisconsin		WIS. STAT. § 618.43 (1971/1988).
Wyoming		WYO. STAT. ANN. § 26-11-118 (1967/1983).