Model Legislation

A Resolution Concerning Tax Treatment of Affiliated Reinsurance

Summary

The Resolution lays out the importance of offshore affiliated reinsurance in risk-spreading and management throughout the insurance business. The Resolution opposes new taxes on reinsurance which would reduce its supply and raise prices for consumers and business which use primary insurance.

Resolution

WHEREAS, reinsurance plays a vital role in managing and spreading risk for companies in nearly all segments of the insurance business; and

WHEREAS, as a means of managing capital, all large insurers make use of “affiliated” reinsurance purchased from companies within the same group; and

WHEREAS, such affiliated reinsurance serves a valid and important risk-transfer purpose which provides significant additional primary insurance capacity particularly in areas such as crop, windstorm, general, liability, products liability, and aircraft insurance; and

WHEREAS, United States based and non-United States based insurance groups currently pay functionally equivalent taxes on reinsurance transactions; and

WHEREAS, a major study from the economic research and consulting firm, “The Brattle Group” concluded that policies intended to reduce the use of affiliated reinsurance by companies with headquarters located outside of the United States would result in a 20 percent reduction in the supply of reinsurance and a significant increase in the prices of primary insurance for consumers and businesses; and

WHEREAS, such taxation would significantly limit the ability of many insurers to manage their capital and, thus, undermine the international risk management practices at the heart of international reinsurance markets; and

WHEREAS, a broad coalition of industry, consumer, and free market groups have spoken out against discriminatory taxation of offshore affiliated reinsurance.

THEREFORE BE IT RESOLVED that the American Legislative Exchange Council (ALEC) opposes any effort to impose new discriminatory taxes that would significantly limit the use of reinsurance by companies located outside of the United States by imposing a new punitive tax regime.

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