

Regional Home Office Insurance Premium Tax Rate Reduction



OFFICE OF THE STATE AUDITOR
C O L O R A D O

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Colorado levies a 2 percent premium tax on insurance companies' in-state premiums, which is the revenue insurers collect for writing insurance policies covering property or risks in the state. The Regional Home Office Insurance Premium Tax Rate Reduction (RHO Rate Reduction) allows insurers that maintain a "home office" or "regional home office" in Colorado to have a 1 percent premium tax rate. To be considered to maintain a home or regional home office, an insurer must either substantially perform certain functions related to insurance business operations in the state or maintain significant direct insurance operations in the state, and maintain at least 2.5 percent of its total domestic workforce in the state. The purpose of the RHO Rate Reduction is to create an incentive for insurance companies to maintain a substantial workforce presence in the state.

The RHO Rate Reduction may incentivize some insurers to maintain some of their workforce in the state, but the incentivizing effect is likely limited primarily to companies that have close to 2.5 percent of their workforce in Colorado and those that receive a larger benefit from the provision. We also found:

- The number of qualifying companies and the revenue impact of the RHO Rate Reduction has decreased in recent years due to the implementation of the Colorado workforce percentage requirement.
- Since the benefit of the RHO Rate Reduction is tied to premiums collected, the revenue impact of the RHO Rate Reduction is likely to increase in future years as premiums continue to increase, but may not result in additional Colorado jobs. Between 2022 and 2024, 15 of the 18 insurance groups that qualified for the RHO Rate Reduction reported a decrease in Colorado jobs, collectively cutting about 4,300 jobs while receiving a \$17.5 million increase in credits.

Policy Consideration

The General Assembly could consider whether to restructure the RHO Rate Reduction so that the benefit it provides to insurance companies more closely aligns with its purpose to incentivize insurers to maintain a substantial workforce presence in Colorado.

Tax Type:	Insurance Premium	Year Enacted:	1959
Expenditure Type:	Rate Reduction	Repeal/Expiration Date:	None
Statutory Citation:	Section 10-3-209(1)(b)(I)(B), C.R.S	Revenue Impact (2024):	\$72.3 million

Purpose given in statute or enacting legislation? **Yes**



Regional Home Office Insurance Premium Tax Rate Reduction

Background

Colorado levies a 2 percent premium tax on insurance companies' in-state premiums, which is the revenue insurers collect for writing insurance policies covering property or risks in the state. **The Regional Home Office Insurance Premium Tax Rate Reduction (RHO Rate Reduction) allows insurers that maintain a “home office” or “regional home office” in Colorado to have a 1 percent premium tax rate instead of the standard 2 percent rate.** To maintain a home or regional home office in the state, an insurance company's Colorado office must meet two requirements. First, it must either (1) substantially perform certain functions related to insurance business operations in the state or (2) maintain “significant direct insurance operations” in Colorado that are supported by “functional operations which are both necessary for and pertinent to” its in-state business. More specific details about how a company demonstrates that it meets one of these two tests are provided in the technical note. Second, the company must have a workforce in Colorado that is greater than or equal to 2.5 percent of the company's total domestic workforce (referred to throughout this report as the “minimum Colorado workforce percentage”).

The requirement that an insurance company have a certain percent of its total domestic workforce in Colorado was added in 2021 by House Bill 21-1312. This requirement was gradually phased in from 2 percent for 2022, to 2.25 percent for 2023, and then 2.5 percent for 2024 and onward. This is the only direct change to the operation of the RHO Rate Reduction since our office published an evaluation of it in January 2020.

The insurance premium tax and RHO Rate Reduction are administered by the Division of Insurance (Division), which is within the Department of Regulatory Agencies. Insurers must apply for the RHO Rate Reduction every year using

Technical Note

To meet the substantial performance test, an insurance company's Colorado office must substantially perform actuarial, medical, legal, application review, issuance of policies, information and service, advertising and publications, public relations, hiring, testing, and/or training of sales/service forces for its business in three or more states in which it is licensed, or in all states in which it is licensed (if fewer than three). Division of Insurance regulations specify that insurers must perform at least two-thirds of these operations in Colorado to be eligible through this test.

To meet the significant direct insurance operations test, Division of Insurance regulations specify that a company must meet two of the following three requirements: (1) maintain a Colorado workforce of at least 150 full-time employees (excluding agents and their staff), (2) own or lease at least 30,000 square feet of office space in Colorado (excluding off-site storage of claims files), or (3) spend at least \$5 million in Colorado on salaries, administration, operating expenses, etc.

Division application forms, which require that the insurer provide information about their operations showing that they qualify, including which of the two tests they are qualifying under, their total number of domestic employees, total number of Colorado employees, and Colorado workforce percentage. There is no limit on how many insurers can be approved for the rate reduction, and insurance groups—typically composed of parent, subsidiary, and other affiliated insurers that each specialize in different markets (e.g., life insurance, accident and casualty insurance, etc.)—are allowed to submit one application per year for all of their affiliated insurers, as long as the performance of their affiliate insurers does not substantially vary and each individual affiliate insurer can independently meet the requirements. Once approved, insurers claim the rate reduction by applying a 1 percent insurance premium tax rate to their in-state insurance premiums when calculating and reporting their premium tax liability to the Division.

We inferred that the direct beneficiaries of the rate reduction are insurers that maintain home or regional home offices in Colorado and have a significant business presence in the state. In addition, to the extent that the rate reduction encourages insurance companies to expand or maintain employment in Colorado, the workers they hire or continue to employ are indirect beneficiaries. In 2024, insurers that qualified for the RHO Rate Reduction reported employing 9,775 people in Colorado. According to the U.S. Bureau of Labor Statistics (BLS) Quarterly Census of Employment and Wages data for private insurance carriers in Colorado, there were about 17,600 insurance jobs in Colorado in 2024. Between 2020 and 2024, insurance groups that qualified for the RHO Rate Reduction employed between 55 and 69 percent of the total private insurance industry employees (excluding agents) in the state each year.

The legislative declaration of House Bill 21-1312 states that **the RHO Rate Reduction “. . . was designed to create an incentive for insurance companies to maintain a substantial workforce presence in the state. . . .”**

Statute does not provide performance measures for the RHO Rate Reduction. In order to determine whether the RHO Rate Reduction is meeting its purpose, we developed the following performance measure: **To what extent does the RHO Rate Reduction incentivize insurers to maintain a substantial workforce presence in Colorado?**

Evaluation Results

The RHO Rate Reduction may incentivize some insurers to maintain some of their workforce in the state, but the incentivizing effect is likely limited primarily to companies that have close to 2.5 percent of their workforce in Colorado and those that receive a larger benefit from the provision. The RHO Rate Reduction appears to provide the greatest incentive to insurers to maintain or increase their workforce in the state when they are close to the 2.5 percent threshold needed to qualify, but provides less incentive for companies with Colorado workforce

percentages well above or below the threshold. For example, a company with a Colorado workforce percentage of 2.4 percent (just under the threshold) and that meets one of the two tests, along with having 100 Colorado-based staff and \$100 million in annual Colorado premiums, could receive a tax benefit of \$1 million by hiring just five additional Colorado staff, which would allow it to qualify. Conversely, if the same company had a Colorado workforce percentage of 10 percent, it would receive the same \$1 million benefit from the rate reduction regardless of how much it expanded its Colorado workforce, or could cut as much as 75 of its 100 Colorado-based staff, as long as it continued to meet one of the other required tests.

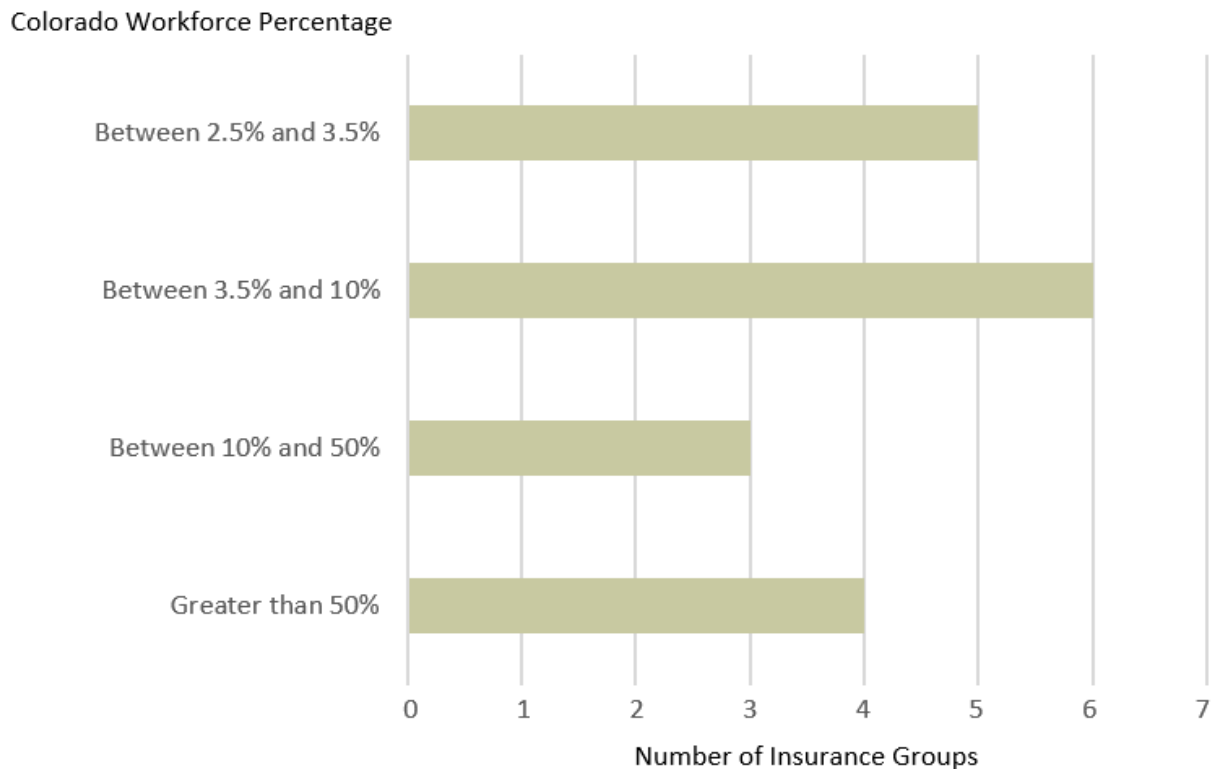
We surveyed the 18 insurance groups that have qualified for the RHO Rate Reduction in all of the years that the minimum Colorado workforce percentage has been in effect (2022, 2023, and 2024) and received responses from eight groups (a 44 percent response rate). We asked these survey respondents, “To what extent has the recent requirement to maintain at least 2.5 percent of the insurance group’s total domestic workforce in Colorado incentivized your insurance group to increase or maintain employees in Colorado?” Six of the survey respondents (75 percent) said the requirement is either not at all influential, minorly influential, or somewhat influential in their insurance group’s decision to increase or maintain employees in Colorado. One other respondent said it was highly influential, and another said it was the sole deciding factor. The insurance group that said the requirement was the sole deciding factor had a Colorado workforce percentage in 2024 that was less than 1 percent higher than the requirement and received a substantial benefit (i.e., several millions of dollars) from the rate reduction; whereas, the other respondents that reported the requirement being less influential in their employment decisions had much higher Colorado workforce percentages, ranging from about 4 percent to 40 percent, and received a smaller benefit from the rate reduction (on average, the benefit was under \$500,000 for these respondents). This suggests that the requirement likely has a more incentivizing impact on maintaining or increasing jobs in Colorado when an insurance group is close to the minimum Colorado workforce percentage and receives and/or has the potential to receive a large tax benefit from the rate reduction.

However, having a Colorado workforce percentage that is close to the requirement may not always incentivize insurance groups to increase employment in order to qualify. We surveyed 12 insurance groups that qualified for the RHO Rate Reduction in any year between 2019 and 2023, but no longer qualified as of 2024; we received three survey responses (a 25 percent response rate). All three of these insurance groups reported that they stopped qualifying for the RHO Rate Reduction because they did not meet the requirement to maintain the minimum required Colorado workforce percentage, and all three of these insurance groups said they do not intend to increase jobs in Colorado in order to requalify. All of the respondents reported having a Colorado workforce percentage around 2 percent before they stopped qualifying. One of the respondents reported that while the Colorado workforce percentage requirement was the reason they stopped qualifying, over time they had slowly been changing their company operations and they were no longer going to be able to meet one of the other two tests to qualify for the RHO Rate Reduction. They stated that if the Colorado workforce percentage requirement was the only requirement preventing them from

qualifying, they may have considered hiring enough employees in Colorado to qualify, but that since they were no longer going to be able to meet one of the other two tests without making significant changes to their operations, they were not going to hire more employees to requalify. We do not know how many additional employees all of the respondents would have needed to hire in order to qualify for the reduction again, but for at least some insurance groups, the rate reduction does not seem to provide enough of an incentive for them to increase their employment in the state or modify their operations to meet one of the two tests. All three of those insurance groups said when they qualified for the rate reduction, they kept the tax benefit as profit and have not changed their operations as a result of losing the RHO Rate Reduction benefit. On average, those three groups received a benefit of about \$1.4 million in the last year they qualified.

Exhibit 1 shows the 2024 Colorado workforce percentages for insurance groups that qualified for the RHO Rate Reduction.

Exhibit 1
Number of Insurance Groups that Qualified for the RHO Rate Reduction, by their 2024 Colorado Workforce Percentages



Source: Office of the State Auditor analysis of Division of Insurance data.

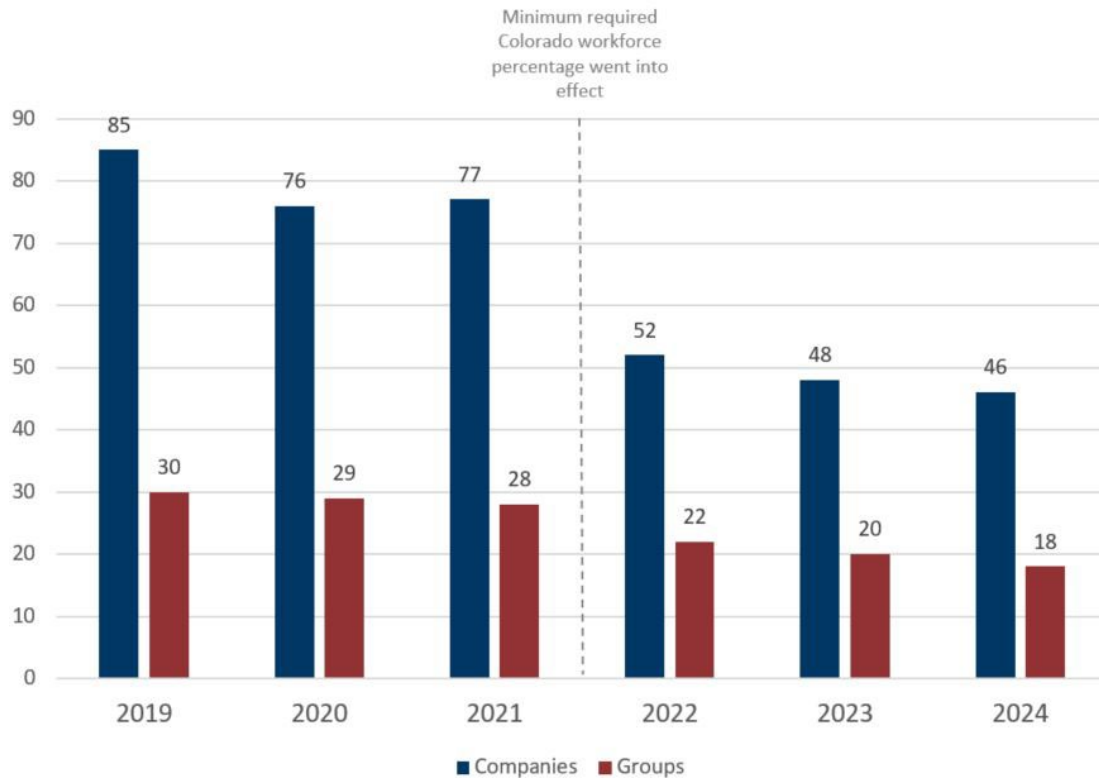
As shown, 5 of the 18 insurance groups (28 percent) that qualified for the RHO Rate Reduction had between 2.5 and 3.5 percent of their workforce in Colorado. Whereas, the other 13 insurance groups had more than 3.5 percent of their total domestic workforce in Colorado. Therefore, for a significant portion of qualifying insurance groups, the rate reduction may not provide a strong incentive to maintain employment since most have significantly above the minimum required workforce percentage (e.g., they could reduce their Colorado workforce substantially and still receive the same tax benefit as long as they were still able to meet one of the other two tests).

The RHO Rate Reduction provides an inconsistent incentive to maintain Colorado jobs and offset higher labor costs in Colorado because the per-employee benefit insurers receive varies considerably. In 2022, qualifying companies received a benefit ranging between \$150 and \$21,646 per Colorado employee, in 2023 between \$157 and \$29,702 per Colorado employee, and in 2024 between \$100 and \$40,139 per Colorado employee. For example, in 2024, the insurance group that received a benefit of \$40,139 per employee received a total benefit from the RHO Rate Reduction of about \$13.6 million, which we divided by the number of employees it reported employing in Colorado (339) to determine the per employee benefit. In our survey of insurance groups that qualified for the RHO Rate Reduction in 2022, 2023, and 2024, two insurance groups that responded to our survey said that cost of labor is an important factor that they consider when deciding where to locate, expand, or maintain a home or regional home office. One of the survey respondents elaborated and said that Colorado has a higher cost of labor, particularly for professional-level roles, compared to other markets that have the same or similar workforce attributes and the RHO Rate Reduction keeps Colorado competitive with those markets by providing partial relief from the higher cost of labor. According to BLS data, the average annual salary in 2022 and 2023 for private sector insurance jobs in Colorado was about \$102,700 and \$110,200, respectively. This means that the RHO Rate Reduction covered anywhere between 0.1 and 21 percent of the average insurance employee salary for companies in 2022 (calculated as \$150 and \$21,646 each divided by \$102,700) and between 0.1 and 27 percent in 2023 (calculated as \$157 and \$29,702 each divided by \$110,200). As of March 2025, BLS average annual salary data for 2024 was not available so we were not able to do the same analysis for 2024. The three insurance groups that reported an increase in Colorado jobs reported a total increase of 72 jobs and had Colorado workforce percentages between 2.75 and 3.75 percent in 2024; since they were close to the minimum required percentage, they may have been incentivized to maintain or increase jobs in order to retain the financial benefit of the RHO Rate Reduction.

The number of qualifying companies and the revenue impact of the RHO Rate Reduction has decreased in recent years due to the implementation of the Colorado workforce percentage requirement. We analyzed Division data that shows the number of insurance companies/groups that qualified for the RHO Rate Reduction from 2019 to 2024. As provided in Exhibit 2, the number of companies and groups that qualified for the rate reduction decreased substantially in 2022 when the Colorado workforce percentage requirement went into effect. The number of insurers and groups that qualified continued to drop modestly in 2023 and 2024 as the

Colorado workforce percentage requirement increased from 2 percent in 2022 to 2.25 percent in 2023 and to 2.5 percent in 2024.

Exhibit 2
Number of Insurance Companies/Groups that Qualified for the RHO Rate Reduction
2019-2024

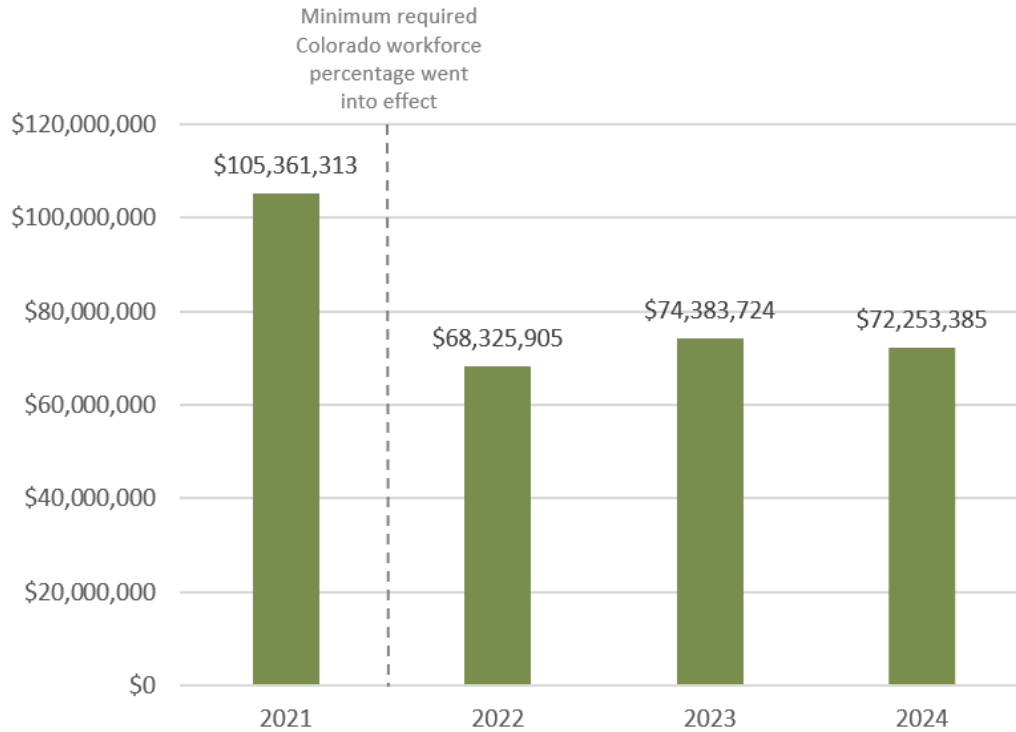


Source: Office of the State Auditor analysis of Division of Insurance data.

The revenue impact of the RHO Rate Reduction to the State, which corresponds to the benefit qualifying insurance groups receive, also decreased substantially when the Colorado workforce percentage requirement went into effect. In 2021, the year immediately preceding the requirement, the revenue impact to the State/benefit to taxpayers of the rate reduction was about \$105.4 million. In 2022, 2023, and 2024, the revenue impact/benefit to taxpayers of the rate reduction was about \$68.3 million, \$74.4 million, and \$72.3 million, respectively. The Division reported that it was not able to provide revenue impact data for 2019 and 2020 because it is a manual and time-consuming process to calculate these amounts, but during our last evaluation of the rate reduction, the Division provided our office with data that showed the revenue impact for 2018 was about \$89.7 million. Exhibit 3 shows the revenue impact of the RHO Rate Reduction in 2021 through 2024.

Exhibit 3

Revenue Impact to the State of the RHO Rate Reduction, 2021-2024



Source: Office of the State Auditor analysis of Division of Insurance data.

The Division did not collect data on insurance groups' Colorado workforce percentage prior to 2022 since that was not a statutory requirement to qualify for the RHO Rate Reduction, so we were not able to verify whether insurance groups stopped qualifying because they did not meet the new requirement to maintain at least a certain percentage of their total domestic workforce in Colorado. However, as discussed above, three survey respondents reported that they stopped qualifying for the RHO Rate Reduction primarily because of the Colorado workforce percentage requirement, so it is likely that many of the others that previously qualified stopped qualifying because of this requirement, too, and the new requirement was the reason fewer groups qualified and the revenue impact to the State decreased.

Due to increasing insurance premiums, the revenue impact of the RHO Rate Reduction is likely to increase in future years, but might not result in additional Colorado jobs. Because the RHO Rate Reduction is generally equivalent to 1 percent of an insurer's premiums, its revenue impact to the state increases when a qualifying insurer's premium collections increase. Between Fiscal Year 2021 and Fiscal Year 2023, total insurance premium taxes collected by the State increased by 54 percent. Nationally, insurance premiums have risen in recent years and are expected to continue to rise. For example, the National Bureau of Economic Research found that insurance

premiums for property have increased by 33 percent nationwide over the last 3 years, and a representative from the Rocky Mountain Insurance Association said they are likely to continue to rise. According to the National Association of Insurance Commissioners, many factors go into determining premium prices, but they are typically tied to risk and other factors like deductibles and litigation costs. Since insurance premiums are expected to continue increasing, this means that the revenue impact of the RHO Rate Reduction is also likely to increase in the future, but not necessarily with a proportionate increase in Colorado insurance industry jobs since the increase in premiums is not tied directly to an increase in industry jobs.

Policy Consideration

In our previous evaluation of the RHO Rate Reduction, published in January 2020, we included two policy considerations: (1) the General Assembly may want to consider reviewing this provision to ensure that it is meeting its intent and consider amending statute to clarify its intent and include performance measures for the provision, and (2) consider whether the tax benefit provided under the rate reduction should continue to be tied to in-state premiums rather than other metrics more closely correlated with employment. In 2021, the General Assembly passed House Bill 21-1312, which provided that the purpose of the RHO Rate Reduction is to incentivize insurance companies to maintain a substantial workforce presence in the state and added an additional requirement that insurance companies maintain a minimum percentage of their total domestic workforce in Colorado in order to qualify for the rate reduction.

The General Assembly could consider whether to restructure the RHO Rate Reduction so that the benefit it provides to insurance companies more closely aligns with its purpose to incentivize insurers to maintain a substantial workforce presence in the Colorado. As discussed, as long as insurance groups meet either the substantial performance or significant direct insurance operations test and maintain at least 2.5 percent of their total domestic workforce in the state, they can continue to qualify for the RHO Rate Reduction despite not maintaining or increasing their overall employment in Colorado. Additionally, the benefit they receive from the RHO Rate Reduction can actually increase while they decrease jobs since the tax benefit is based on premiums collected, not jobs maintained or created. Between 2022 and 2024, we found that 15 of the 18 insurers who claimed the rate reduction collectively decreased their Colorado workforce by about 4,300 employees, but the tax benefit they received increased by about \$17.5 million during those years. These 4,300 job losses between 2022 and 2024 account for about 74 percent of the 5,800 total Colorado job losses in the private insurance industry (as reported in the BLS data) during the same period. The 5,800 job losses represent a 25 percent decline in private insurance industry jobs in the state, while, in contrast, between 2022 and 2024 nationally insurance jobs increased slightly by 0.2 percent. Therefore, the General Assembly could consider restructuring the tax expenditure so that its benefit corresponds more closely to the total jobs maintained or created each year.

Our review of other states found that 11 states structure similar tax expenditures for insurers as credits, tied to the number of employees (new or maintained) or employee payroll they have in the state. For example, in Florida and Kansas, insurers can claim a credit of 15 percent of the amount paid in salaries to eligible employees that are located in those states (in both states there is a cap on the credit). Other states allow companies to claim a credit for a specific dollar amount based on jobs created or maintained. For example, in Arizona, insurers can claim a credit for each new full-time employee hired in each of their first 3 years of employment. The credit is \$3,000 per employee hired/maintained. For context, the average per-employee benefit for Colorado insurers was about \$4,000 in 2022, \$6,100 in 2023, and \$7,400 in 2024. We identified two states—Alabama and Oklahoma—that provide a tax expenditure for insurance companies that is similar to Colorado’s RHO Rate Reduction. However, in Alabama and Oklahoma, the percent of the tax incentive is tied to the number of employees the insurer has in the state, so insurers with more employees in the state have a higher percent rate reduction in their insurance premium taxes than insurers with fewer employees. These structures (i.e., credits based on a percentage of in-state employee payroll or set dollar amount per new or maintained employee or rate reduction tiers based on number of employees in the state) all tie the benefit more closely to jobs created or maintained in the state. As a result, when employment and/or wages increase, the benefit increases, but if employment and/or wages decrease, the benefit companies get also decreases.

This approach would also be more consistent with job creation tax incentives targeted to other industries that are subject to income taxes in Colorado. For example, the Colorado Job Growth Incentive Credit [Section 39-22- 531, C.R.S.] is available for businesses that create new jobs for a project “that encourages, promotes, and stimulates economic development in key economic sectors...” The company’s annual credit amount is equal to 50 percent of the Federal Insurance Contributions Act (FICA) taxes imposed on the taxpayer during the year for net new jobs. Companies must typically create at least 20 net new jobs to qualify, but that number is reduced when the jobs are created in certain economically distressed areas of the state.

Office of the State Auditor

State Auditor	Kerri L. Hunter, CPA, CFE
Deputy State Auditor	Michelle Colin, JD
Evaluation Managers	Trey Standley, JD James Taurman, MPA
Evaluation Supervisor	Kim Tinnell, MBA, MS, MA



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