



**ARKANSAS INSURANCE DEPARTMENT
LEGAL DIVISION**

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BULLETIN 13-99

October 29, 1999

TO: ALL LICENSED FOREIGN AND DOMESTIC INSURERS, HMOs, HOSPITAL MEDICAL SERVICE CORPORATIONS, SURPLUS LINE COMPANIES, TITLE INSURERS, NOTARY BOND INSURERS, EMPLOYEE LEASING COMPANIES, LEGAL TRADE ASSOCIATIONS, NAIC, ADVISORY ORGANIZATIONS AND OTHER INTERESTED PARTIES.

FROM: ARKANSAS INSURANCE DEPARTMENT

SUBJECT: ACT 37 OF THE 1999 LEGISLATIVE SESSION; TAX CREDIT AVAILABLE TO THOSE INSURERS THAT INVEST IN A COUNTY OR REGIONAL INDUSTRIAL DEVELOPMENT CORPORATION OR LIMITED LIABILITY COMPANY.

The purpose of this Bulletin is to inform insurers of a new premium tax credit available beginning in the 1999 tax year to offset the premium taxes due to the State of Arkansas. A tax credit will be available to those insurers that invest in a County or Regional Industrial Development Corporation or Limited Liability Company created pursuant to Act 37 of the 1999 legislative session. This corporation or limited liability company must be authorized to be organized under the provisions of Section 2 of Act 37 of the 1999 legislative session. Insurers claiming premium tax credits pursuant to Section 23 of Act 37 shall provide an explanation of the total credit. This explanation shall be attached to their annual premium tax filing. Please find listed below a copy of the applicable section of Act 37.

15-4-1224. Tax credit.

(a)(1) The original purchaser of common stock of a corporation or a unit of interest of a limited liability company shall be entitled to a credit against any Arkansas income tax liability or premium tax liability which may be imposed on such purchaser for any tax year commencing on or after January 1, 1999, for common stock purchased from a corporation or units of interest of a limited liability company and retained during any of the calendar years 1999-2003. The credit shall be determined in the following manner:

(A) The credit is an amount equal to thirty-three and one-third percent (33 1/3%) of the actual purchase price paid for the stock of a corporation to the corporation or units of interest of a limited liability company to the limited liability company, which shall include any fees or commissions to underwriters or sales agents paid by the Company; provided, however, that the total amount of fees and commissions to underwriters or sales agents for which a credit may be taken shall not exceed fifteen percent (15%) of the actual purchase price. Any fees or commissions in excess of fifteen percent (15%) of the total purchase price shall not be considered in calculating the amount of the credit determined hereunder. If any shares or units of interest, once purchased from the Company, are then sold or otherwise disposed of prior to five (5) years elapsing from the date of purchase, the maximum amount of any credit shall be reduced a pro rata amount. In addition, any distribution from the Company to the holder of the common stock or unit of interest that is not a dividend or distribution within the meaning of § 15-4-1215 shall be deemed a sale of that portion of the original purchase price of the common stock or unit of interest on the date of such distribution for application of the credit reduction calculated under subdivision (a)(1)(A) of this section;

(B) In any one (1) tax year, the credit allowed by this section shall not exceed fifty percent (50%) of the net Arkansas state income tax or premium tax liability of the taxpayer after all other credits and reductions in tax have been calculated;

(C) Any credit in excess of the amount allowed by subdivision (a)(1)(B) of this section for any one (1) tax year may be carried forward and applied against Arkansas state income tax or premium tax for the next succeeding tax year and annually thereafter for a total period of three (3) years next succeeding the year in which the credit arose, subject to the provisions of subdivision (a)(1)(B) of this section, or until the credit is exhausted, whichever occurs first. Provided, however, that any credit arising under Act 1029 of 1991 shall be allowed to be carried forward to years past December 31, 1999, subject to the three-year carry forward rules of this subdivision (a)(1)(C). In no event will the credit allowed by this section be allowed for any tax year ending after December 31, 2006;

(D) Any original purchaser of common stock or units of interest who seeks to qualify for and maintain the income tax credit or premium tax credit provided in this section must obtain and attach to its annual income tax or premium tax return a certified statement from the Company issuing the common stock or units of interest stating:

- (i) The name and address of the original purchaser;
- (ii) The number of shares or units of interest purchased;
- (iii) The amount paid by the original purchaser for the common stock or units of interest, specifying what portion of the original purchase price consisted of fees or commissions to the underwriter of sales agent;
- (iv) The date of purchase of the common stock or units of interest;
- (v) The number of shares or units of interest of the original purchase still owned by the original purchaser; and
- (vi) The amount and date of distributions made from the Company to the purchase and whether or not such distributions are ones made pursuant to § 15-4-1215 hereof.

(b) For the purpose of ascertaining the gain or loss from the sale or other disposition of common stock in a corporation or units of interest in a limited liability company, the original purchaser of the common stock or units of interest shall reduce his basis in the stock or units by the amount of the tax credits previously deducted under this section. The original purchaser's basis in the stock or units shall be further reduced by ten percent (10%) of the original purchase price for any shares of stock or units of interest sold or otherwise disposed of before five (5) years has elapsed from the date of purchase. This reduced basis shall be used by the original purchaser when calculating tax due under the Income Tax Act of 1929, beginning at § 26-51-101.

The Central Arkansas Regional Industrial Development Company, L.L.C., is assisting in the investment by insurers into the companies provided for in this legislation. If you have any questions regarding this Bulletin, please contact Central Arkansas Regional Industrial Development Company, L.L.C at (501) 224-6511 or the Arkansas Insurance Department Accounting Division at (501) 371-2605.

MIKE PICKENS
INSURANCE COMMISSIONER