Uncollected Premiums

The New Jersey Department of Banking and Insurance has reviewed information regarding premium tax levies, specifically regarding whether the tax is levied on premiums written or premiums collected. The answer is that it is levied on premiums written.

N.J.S.A. 54:18A-1 reads in relevant part:

“…..The tax shall be based on net premiums on contracts of insurance covering property and risks located within this State written during the calendar year ending December 31 next preceding.” (Emphasis supplied).

The remedy for any company that finds itself in a position where there is a discrepancy between premiums first written versus collected, is to quickly cancel policies where premiums are not timely paid. The result will be a reduction in both earned premiums and premiums written.

As a practical matter, there is no way for DOBI to determine premiums collected, and sound policy dictates that the statute be followed as written, as it expresses the legislative intent.

In the interests of equity, DOBI will not seek to recoup prior deficiencies based on a “collected premiums” basis for years 2012 and prior. However, beginning with years 2013 and going forward, the tax should be calculated on premiums written.