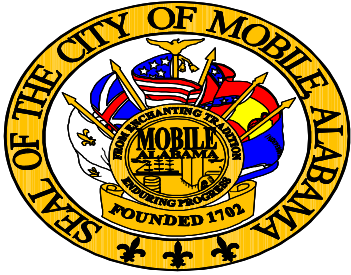


CITY OF MOBILE REVENUE DEPT.



December 19, 2007

The City of Mobile's Revenue Dept. has received a number of inquiries from insurance companies seeking information about the computation of the annual business license tax and pension fee due the Mobile Police & Fire Pension Fund. The law governing the payment of license taxes and pension fees is complex and often confusing, therefore the City developed special forms to aid insurance companies in making correct calculations. The purpose of this memo is to provide you with an overview of the calculations as required by law, and to demonstrate how proper use of the form will simplify your annual reporting and prevent overpayments.

Definitions from Sec. 34-43, Ch 34 Mobile City Code effective Jan. 1, 2008

Fire and Marine Insurance means all lines of insurance, regardless of the name of the policy, for which the primary coverage is insurance on real or personal property against loss or damage from any and every hazard or cause such as fire, theft or weather damage, and includes but is not limited to specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, inland marine insurance or boiler insurance.

Fire and Marine Insurance Company means a company engaged in the sale of insurance whose principal business endeavor, as manifested by its charter, its activities and its operations, is the sale of fire and marine insurance. For purposes of this ordinance, a fire and marine insurance company is one that derives fifty percent or more of its gross premiums in a calendar year from the sale of fire and marine insurance.

Other Insurance Company means a company engaged in the sale of insurance that is not a fire and marine insurance company.

Due Dates & Penalties

The Municipal License Tax and payment to the Mobile Police & Firemen's Pension Fund is due on or before March 1 and delinquent after March 1. There is a 15% penalty for payments received in March and a 30% penalty for payments

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received in April and thereafter. The Municipal License Tax is subject to 1% simple interest per month until payment is received.

The Municipal License Tax

State law authorizes all municipalities to collect an annual license tax from all persons conducting business within the city and its police jurisdiction (*Alabama Code 11-51-90 and 11-51-91 (1975)*). The police jurisdiction encompasses an area three miles beyond the corporate limits. The tax rate for police jurisdiction businesses may not exceed one-half the rate charged for business conducted within the corporate limits. Tax rates on insurance companies are further regulated by *Alabama Code 11-51-91 (1975)*. Currently the maximum rate in the city limits is four percent for fire and marine companies and one percent for all others.

Cases interpreting the business license statutes state that only *new* business is included in license tax calculations – renewal premiums should be *excluded*.

The Mobile Police & Fire Pension Law

In addition to purchasing the annual business license that was discussed above, insurance companies that write fire insurance on property within the City of Mobile and its police jurisdiction must also pay an amount equal to four percent of all premiums *including renewal premiums* to the City. The City is then required to pay one-half of these sums to the Pension Fund. The Act then directs the City of Mobile to retain the remaining one-half and credit this amount against the insurance company's business license tax. Article 6 of Alabama Act No. 97-689 contains the pertinent language.

Unfortunately, the drafters of Act No. 97-689 failed to appreciate the distinction between the calculation of the annual license tax and the pension fee. As noted earlier, pension fees are paid on *all* premiums, *including renewal premiums*, while the annual license tax is based *only upon new business*.

A literal application of the Act would require many companies to actually overpay the amount due for the annual business license. Moreover, the City, in turn, would be required to write annual refund checks. To understand this result, consider the table below. Company X writes \$410,000 premiums for the previous year, broken down as follows:

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Line of Business	New Business	Renewals
Fire & Marine	30,000	160,000
Auto comp	10,000	30,000
Home Owners	10,000	40,000
All Other	20,000	110,000
Total:	70,000	340,000

Under the terms of the Pension Act, the company must pay to the City of Mobile four percent of new and renewal premiums or \$16,400. The City is required to pay one half of the sum (\$8,200) to the Pension Fund and the company receives an \$8,200 credit against its business license obligations.

Because the business license tax is calculated only on new business, however, the actual amount of the business license tax is far less than \$8,200, \$2,800 (70,000 x .04). A strict application of the statute results in an overpay of \$5,400 (8,200 - 2,800).

It should be noted that the example above simply illustrates one of the problems caused by the wording of the Act. There are others. Section 6.02(d) of the Act states that where a premium covers more than one line, only the portion of the premium attributable to coverage for the risk of loss by fire should be included in the pension calculation, Business license taxes on the other hand depend on whether or not the essential character of the company is fire and marine or other, and whether the business is in the City limits or within the police jurisdiction.

The City of Mobile Reporting Forms

In an effort to streamline the administrative process and to eliminate the wasteful task of writing annual refund checks, the Revenue Dept. designed two forms: one to be used for the calculation of business license taxes and the other to be used for the calculation of pension fees. ***A copy of these forms is attached.***

As you can see, the pension form uses a simply two percent rate rather than the four percent- divided-by two approach required by the statute. Continuing with the previous example, the substitution of two percent eliminates the need for a refund because the company will make two separate payment to the City: \$2,800 for its annual business license and \$8,200 (410,000 x .02) for pension fees, for a total of \$11,000.

Without these forms the company would pay \$16,400 under the Pension Act (410,000 x .04) plus another \$2,800 for its annual business license (70,000 x .04) for a total payment of \$19,200. The City then would be required to refund \$5,400. (19,200 - 8,200 - 2,800 = 5,400)

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We have also attached *examples of the above calculations on the forms provided* by the City of Mobile, after reviewing the forms and the completed example, please call (251) - 208-7796 or (251)-208-7461 if you have any questions.

Note: *The City of Mobile is a self administrating municipality and such as requires payment be made directly to The City of Mobile and NOT to the Alabama League of Municipalities.*