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Technical Advisory

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Subject: What is the Louisiana Citizens Insurance Tax Credit?

In December 2006, the Louisiana Legislature authorized a refundable income tax credit for the LA Citizens assessments that resulted from Hurricanes Katrina and Rita. This credit is available to people who paid the LA Citizens assessments in addition to their homeowner's or property insurance premium.

The LA Citizens assessments are a result of losses on insured property caused by Hurricanes Katrina and Rita. In years when there are no large catastrophic losses, LA Citizens collects enough premiums to cover their cost of operations. However, the massive losses of Hurricanes Katrina and Rita cost LA Citizens over \$1.2 Billion, which created a deficit. LA Citizens assessments on assessable property insurance policies in Louisiana were used to partially fund this deficit left by Hurricanes Katrina and Rita.

Background: How do I determine the amount of the credit?

Premium notices received before January 1, 2007 may include the LA Citizens assessments due to Hurricanes Katrina and Rita. The LA Citizens assessments are shown as separate line item(s) in addition to your normal premium amount on what is referred to as the "declaration page" of your homeowner's or property insurance premium notice. The declaration page names the policyholder, describes the property or liability to be insured, the type of coverage, and policy limits. Due to limited space on the declaration page, some insurance companies may include a supplemental schedule that itemizes the LA Citizens assessments.

LA Citizens assessments line item charges may include any or all of the following (your insurer's description may vary slightly from the references below):

- Louisiana Citizens FAIR Plan Regular Assessment Recoupment Surcharge
- Louisiana Citizens Coastal Plan Regular Assessment Recoupment Surcharge
- Louisiana Citizens FAIR Plan Emergency Assessment
- Louisiana Citizens Market Equalization Charge

To determine the amount of the credit that you can claim, add the charges for these line items together. If only one of the line items appears on your insurance bill, then that is the amount of your credit.

You must have actually paid these amounts to claim the credit. It does not matter if you directly paid your insurance company or if the payment was made for you by an escrow company.

This is NOT a credit for the total amount due on your insurance bill. Do NOT add your insurance premium to the LA Citizens assessments. Only claim the amount of the LA Citizens assessments.

When can the credit be claimed?

The credit is claimed for the year paid regardless of the due date of your premium. Citizens assessments paid before January 1, 2007 can be claimed on the first income tax return with an original or extended return due date in 2007. Only LA Citizens assessments actually paid in 2005 or 2006 will be allowed as a credit on a 2006 income tax return. If you paid multiple LA Citizens assessments, for example, one in December 2005 and another in December 2006, you are entitled to claim a credit for both payments on your 2006 income tax return. If you were assessed before January 1, 2007, and make periodic payments to your insurance company (e.g. monthly or quarterly) you may claim the credit on the 2006 tax return if the first periodic payment was made before January 1, 2007.

LA Citizens assessments paid in 2007 are eligible to be claimed on the 2007 income tax return which is due in 2008.

MAIN POINTS:

Individuals

What documents are required to be filed and retained?

Paper Returns:

A copy of your homeowner's or property insurance declaration page that shows the separate line item charges for the LA Citizens assessments must be attached to all paper returns. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, attached both a copy of the declaration page and the supplemental page to your income tax return.

Returns filed Electronically or through LDR e-file:

Your homeowner's insurance declaration page that shows the separate line item charges for the LA Citizens assessments should be retained for 4 years in case of audit. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, retain both the declaration page and the supplemental page for 4 years in case of audit.

Returns Prepared by Paid Preparer, such as a National Tax Service Firm or Individual Tax Practitioner:

You must bring a copy of your homeowner's insurance declaration page that shows the separate line item charges for the LA Citizens assessments to your preparer. Preparers are not authorized to claim this credit on your behalf without this declaration page. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, bring both the declaration page and the supplemental page to your tax preparer.

Substitute Documents:

A substitute document issued by your insurance company that contains the line item LA Citizens assessments will also be accepted if you did not keep your original declaration page.

Retention of Documentation of Proof of Payment:

All individuals should keep any documents showing proof of payment for 4 years in case of audit. Documents that will be accepted as proof of payment include, but are not limited to, cancelled checks, an image of a check, or an itemized escrow statement.

What form should be used?

The form that you will use to claim the credit will depend on whether you are required to file a 2006 Louisiana income tax return and whether you are a resident or nonresident who paid the LA Citizens assessments.

If you had more than one property for which you paid the LA Citizens assessments before January 1, 2007, you must also prepare Form R-INS Supplement.

Individuals Who Are Required to File a 2006 Louisiana Income Tax Return:

Louisiana Residents will use the standard Louisiana income tax return, IT 540, and will list the credit on Schedule F, Line 9. Nonresident Louisiana taxpayers will use the standard Louisiana Nonresident and Part-year Resident income tax return, the IT540B, and will list the credit on Schedule F, Line 9. If this line is entitled "Other Credits," write "LA Citizens Assessments" in the space provided.

If you are filing in the traditional method by using a paper return provided by the Department of Revenue, you may claim

this credit on Schedule F, Line 9 of either Form IT-540 or Form IT-540B. Line 9 is labeled "Other Refundable Tax Credits." When filing your return, you must attach Schedule F and a copy of your "Declaration Page" in order for the credit to be allowed.

If you have purchased software to assist you in the preparation of your 2006 Louisiana individual income tax return, your software should prompt you to provide the information contained on the Declaration Page mentioned above. You should visit the software vendor's website in order to insure that you have the latest updates to their product.

NON-FILERS – People Not Required to File a 2006 LA Income Tax Return

How do I file for the credit?

If you are not required to file a personal income tax return, you will file your claim for refund on the special form provided by the Department of Revenue. This form is called the "Request for Refund of Louisiana Citizens Property Insurance Corporation (LA Citizens) Assessment." It is form number R-540INS, which is available in the Department's statewide offices and on the Department's website.

A copy of your homeowner's or property insurance declaration page that shows the separate line item charges for the LA Citizens assessments must be attached to the R-540INS. If the insurance declaration page had a supplemental page itemizing the LA Citizens assessments, attach both a copy of the declaration page and the supplemental page to the R-540INS.

Businesses

How do I determine the amount of the credit?

Premium notices received before January 1, 2007 may include the LA Citizens assessments due to Hurricanes Katrina and Rita. The LA Citizens assessments are shown as separate line item(s) in addition to your normal premium amount on what is referred to as the "declaration page" of your homeowner's or property insurance premium notice. The declaration page names the policyholder, describes the property or liability to be insured, the type of coverage, and policy limits. Due to limited space on the declaration page, some insurance companies may include a supplemental schedule that itemizes the LA Citizens assessments.

LA Citizens assessments line item charges may include any or all of the following (your insurer's description may vary slightly from the references below):

- Louisiana Citizens FAIR Plan Regular Assessment Recoupment Surcharge
- Louisiana Citizens Coastal Plan Regular Assessment Recoupment Surcharge
- Louisiana Citizens FAIR Plan Emergency Assessment
- Louisiana Citizens Market Equalization Charge

To determine the amount of the credit that you can claim, add the charges for these line items together. If only one of the line items appears on your insurance bill, then that is the amount of your credit.

You must have actually paid these amounts to claim the credit. It does not matter if you directly paid your insurance company or if the payment was made for you by an escrow company.

This is NOT a credit for the total amount due on your insurance bill. Do NOT add your insurance premium to the LA Citizens assessments. Only claim the amount of the LA Citizens assessments.

When can the credit be claimed?

The credit is claimed for the year paid regardless of the due date of your premium. Citizens assessments paid before January 1, 2007 can be claimed on the first income tax return with an original or extended return due date in 2007. Only LA Citizens assessments actually paid in 2005 or 2006 will be allowed as a credit on a 2006 income tax return. If you paid multiple LA Citizens assessments, for example, one in December 2005 and another in December 2006, you are entitled to claim a credit for both payments on your 2006 income tax return. If you were assessed before January 1, 2007, and make periodic payments to your insurance company (e.g. monthly or quarterly) you may claim the credit on the 2006 tax return if the first periodic payment was made before January 1, 2007.

LA Citizens assessments paid in 2007 can only be claimed on the first income tax return due in 2008.

What documents are required to be filed and retained?

A copy of the property insurance Declaration Page that shows the separate line item charges for the LA Citizens assessments and proof of payment for each insured property must be attached to all paper income tax returns. If the insurance Declaration Page had a supplemental page itemizing the LA Citizens assessments, attach both a copy of the Declaration Page and the supplemental page to your income tax return. A substitute document issued by your insurance company that contains the line item LA Citizens assessments will also be accepted if you did not keep your original declaration page.

Documents that will be accepted as proof that you actually paid the LA Citizens assessments include, but are not limited to, cancelled checks, an image of a check, or an itemized escrow statement.

If you file electronically, retain the Declaration Page that shows the separate line item charges for the LA Citizens assessments and proof of payment for 4 years in case of audit. If the insurance Declaration Page had a supplemental page itemizing the LA Citizens assessments, retain both the Declaration Page and the supplemental page for 4 years in case of audit.

If you have your return prepared by a paid preparer, such as a national tax service firm or individual tax practitioner, you must bring a copy of the property insurance Declaration Page that shows the separate line item charges for the LA Citizens assessments and proof of payment to the preparer. Preparers are not authorized to claim this credit on your behalf without this Declaration Page. If you are filing electronically, your preparer must keep a copy of this Declaration Page on file. If the insurance Declaration Page had a supplemental page itemizing the LA Citizens assessments, bring both a copy of the Declaration Page and the supplemental page to your tax preparer.

What form should be used to claim the credit?

The form that you will use to claim the credit will depend on whether the business is required to file a Louisiana income tax return.

If you had more than one property for which you paid the LA Citizens assessments before January 1, 2007 you must also prepare Form R-INS Supplement. You must attach the required documentation, including proof of payment, for each property listed when you file. If you claim this credit you should retain the required documentation for each property listed for 4 years in case of audit.

Corporations that must file a Louisiana corporate income tax return and are entitled to claim this credit will use the standard Louisiana Corporation Income and Franchise Tax, the CIFT-620, and will claim the credit on Line 9 of Schedule RC. If this line is entitled "Other Credits," write "LA Citizens Assessments" in the space provided.

Fiscal year filers that are filing a 2005 Louisiana Corporation Income and Franchise Tax return with an original or extended due date that is on or after January 1, 2007 will claim the credit on the 2005 CIFT-620, and will claim the credit on Line 8 of Schedule RC. If this line is entitled "Other Refundable Credit," write "LA Citizens Assessments" in the space provided.

Sole Proprietors

If the business that paid the LA Citizens assessments is a sole proprietorship that files a LA Resident income tax return, the IT-540, the credit should be claimed on Schedule F, Line 9. If this line is entitled "Other Credits," write "LA Citizens Assessments" in the space provided.

If the business that paid the LA Citizens assessments is a sole proprietorship that files a LA Nonresident and Part-year Resident income tax return, the IT 540B, the credit should be claimed on Schedule F, Line 9. If this line is entitled "Other Credits," write "LA Citizens Assessments" in the space provided.

S Corporations

If the business that paid the LA Citizens assessments operated as an S corporation during 2006, the LA Citizen's credit must be used at the corporation level unless the S corporation makes the annual flow through election provided for in [R.S. 47:1675\(G\)\(2\)\(b\)](#).

An S corporation that is entitled to the LA Citizens credit may elect to flow through the entire amount of the credit to its shareholders. The election may be made separately for each credit received by the S corporation and is made annually. There is no special form required to make the election. The election is made when the S corporation does not claim the credit on the CIFT-620, but instead allows each shareholder to claim that shareholder's share of the credit on their own income tax return. Once made, the election may not be revoked for that tax year.

The S Corporation that elects to flow through any credits, including the LA Citizens credit, must prepare and distribute to each shareholder a schedule detailing the shareholder's share of each credit for which the election is made. Shareholders claiming the credit should attach a copy of this schedule to the income tax return on which the credit is claimed. A corporate shareholder will claim the credit as set forth in this RIB. An individual shareholder will claim the credit as set forth in [Revenue Information Bulletin \(RIB\) 07-006](#).

Business Entities Not Subject to Louisiana Income Tax—Flow Through of the Credit

If the business that paid the LA Citizens assessments is an entity not subject to Louisiana income tax, such as a partnership, the LA Citizens credit will flow through to partners or members of the entity as provided in the operating agreement. In the absence of an operating agreement or if the operating agreement is silent with respect to the allocation of tax items, the LA Citizens credit will flow through to each partner or member in accordance to the partner or member's ownership interest in the entity. A corporate partner will claim the credit as set forth in this RIB. An individual partner or member will claim the credit as set forth in [RIB 07-006](#).

If the business entity has a different tax-year end than the partner or member, the partner or member will claim the LA Citizens credit in the same tax year in which the partner or member is required to report any income or loss from the entity.

Businesses not subject to Louisiana income tax must prepare and distribute to each partner or member a schedule detailing the partner or member's share of each credit earned including any LA Citizens assessment credit. Partners or members claiming the credit should attach a copy of this schedule to the income tax return on which the credit is claimed.

Insurance Companies

Insurers that paid the 2005 regular assessment levied by the Louisiana Citizens Property Insurance Corporation before January 1, 2007 and did not pass on the entire assessment to their policyholders are eligible to receive a credit for the amount of the regular assessment that they did **not** recoup.

Insurers that paid the 2005 regular assessment and levied a recoupment surcharge on their policyholders to recoup the LA Citizens regular assessment are not entitled to receive a credit for the amount of the assessment they recouped.

Eligible insurers that are not subject to Louisiana income tax should claim the credit on Form R-620INS. To claim credit for the LA Citizens regular assessment, in its entirety or for that portion not recouped, the insurer must provide a copy of the LA Citizens regular assessment payment notice and proof of payment. In addition, the insurer must provide certified statement and audited summary of the full and final amount recouped from the insurer's policyholders. A copy of the certified statement, proof of payment, and audited summary must also be filed with the Louisiana Department of Insurance, Office of Property and Casualty.

NON-FILERS – Entities that are Not Required to File a 2006 LA Income Tax Return

How do we file for the credit?

Exempt organizations and corporations such as churches, not-for profit hospitals, charities, 501(c)(3) organizations, community foundations, banks that pay the local shares tax, public entities such as municipalities and school boards, and all other corporations exempt from the Louisiana corporate income tax under R.S. 47:287.501 that paid the LA Citizens assessments will be eligible for the LA Citizens credit.

If the exempt organization is not required to file an income tax return, it should file a claim for refund on the special form provided by the Department of Revenue. This form is called the "Request for Refund of Louisiana Citizens Property Insurance Corporation (LA Citizens) Assessment," Form R-620INS, which is available at the Department's statewide offices and on the Department's website.

Forms

- [R-620INS - Corporate Income Tax Request for Refund of LA. Citizens Property Insurance](#)
- [R-INS Supplement - Supplement Schedule for Refund of Louisiana Citizens Property Insurance Assessment](#)
- [CIFT-620 - 2006 Corporation Income and 2007 Franchise Tax Return](#)
- [RIB 07-006 - Corporations and Exempt Organizations Claiming the Credit for the Louisiana Citizens Property Insurance Corporation Assessments](#)

Necessary Action: Circulate this Technical Advisory to all appropriate agency staff, and any other interested parties.