National Association *of* Insurance Commissioners

The CENTER *for* INSURANCE POLICY *and* RESEARCH

January 27, 2020

The Honorable Mike Thompson
Chairman, Subcommittee on Select Revenue Measures
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Re: Catastrophe Loss Mitigation Incentive and Tax Parity Act of 2019, H.R. 5494

Dear Chairman Thompson:

On behalf of the National Association of Insurance Commissioners (NAIC)[1], we write in support of the Catastrophe Loss Mitigation Incentive and Tax Parity Act of 2019 (H.R. 5494). Your legislation would ensure that state-based disaster mitigation grants receive the same federal tax exemptions as federal mitigation grants and help provide greater incentives for homeowners to take action to protect their homes from natural disasters.

State insurance regulators recognize that natural catastrophes take a considerable financial and emotional toll on Americans every year and we strongly support efforts to encourage investments in pre-disaster mitigation to help lessen these impacts. It is critical to develop strategies today to better manage and mitigate the catastrophic events of tomorrow, particularly considering that every $1 spent on mitigation grants saves $6 in future disaster costs.[2] Significant investment in preparation and mitigation could result in substantial savings in federal disaster relief. States are leading resiliency initiatives throughout the country and establishing mitigation grant programs to support homeowners' efforts to retrofit their homes. Encouraging mitigation not only reduces risks to homeowners, but to the insurance companies who provide them coverage.

While promoting mitigation planning is a shared state and federal goal, there is inconsistent tax treatment of state and federal disaster mitigation grants. Congress has excluded grants provided through the Federal Emergency Management Agency from federal income tax, but state grants, including those offered by state established residual market mechanisms, for the same purpose are, in many cases, subject to federal income tax even if they are exempt from state income tax. This reduces both the impact of the grant and the incentive to pursue them. This legislation would fix the inconsistency and provide parity for residential mitigation grants provided by state public entities. As we continue to experience the

[1] As part of our state-based system of insurance regulation in the United States, the NAIC provides expertise, data, and analysis for insurance commissioners to effectively regulate the industry and protect consumers. The U.S. standard-setting organization is governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. For more information, visit www.naic.org.
[2] National Institute of Building Sciences, *Natural Hazard Mitigation Saves: 2018 Interim Report* (December 2018), http://www.nibs.org/page/mitigationsaves

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devastating effects of natural disasters, it is more important than ever to encourage residents and homeowners to utilize pre-disaster mitigation programs.

We appreciate your leadership in ensuring consistent federal tax treatment for grants received by homeowners for mitigation and encouraging state-based mitigation and resiliency programs. We look forward to continuing to work with you as you move forward with this important legislation.

Sincerely,

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