

Inc. *Id.* Elevance Health, Inc. and its subsidiaries file a federal 1120. *Id.* Petitioner files Iowa gross premium tax returns but does not pay gross premium tax. *Id.*

II. ISSUES PRESENTED

The Petition presents a single issue: whether Petitioner is exempt from Iowa corporate income tax because it is an insurance company as the term is used in Iowa Code section 422.34.

III. STANDARD OF REVIEW

A. Declaratory Orders and the Iowa Administrative Procedure Act

Iowa's Administrative Procedure Act ("IAPA") was enacted "to provide a minimum procedural code for the operation of all state agencies when they take action affecting the rights and duties of the public." Iowa Code § 17A.1(2) (2023). Under the IAPA, "[a]ny person may petition an agency for a declaratory order as to the applicability to specified circumstances of a statute, rule, or order within the primary jurisdiction of the agency." *Id.* § 17A.9(1)(a). The IAPA also describes agency rights and responsibilities with respect to declaratory order proceedings. *Id.* § 17A.9.

The purpose of a declaratory order is to provide a "generally available means for persons to obtain reliable information about agency administered law as it applies to their particular circumstances." *Sierra Club Iowa Chapter v. Iowa Dep't of Transp.*, 832 N.W.2d 636, 647 (2013) (citing Arthur Earl Bonfield, Amendments to Iowa Administrative Procedure Act, Report on Selected Provisions to Iowa State Bar Association and Iowa State Government 1–8 (1998)). Declaratory orders are not contested cases that "entitle[] parties affected by the agency action to an adversarial hearing" in order to "adjudicate disputed facts pertaining to particular individuals in specific circumstances." *Greenwood Manor v. Iowa Dep't of Pub. Health, State Health Facilities Council*, 641 N.W.2d 823, 834 (Iowa 2002); *see also* Iowa Code § 17A.12. Instead, the

IAPA “contemplates declaratory rulings by administrative agencies on purely hypothetical sets of facts.” *City of Des Moines v. Pub. Emp. Rels. Bd.*, 275 N.W.2d 753, 758 (Iowa 1979). As such, “[t]he procedure established by section 17A.9 allows persons to seek formal opinions on the effect of future transactions and arrange their affairs accordingly.” *Bennett v. Iowa Dep’t of Nat. Res.*, 573 N.W.2d 25, 26 (Iowa 1997). Declaratory orders issued by an administrative agency do, however, have “the same status and binding effect as any final order issued in a contested case proceeding.” Iowa Code § 17A.9(7).

Pursuant to Iowa Code section 17A.9(2), the Department adopted Iowa Administrative Code rule 701—7.24, which outlines department-specific rules governing declaratory orders. The Department’s rule governing declaratory orders is consistent with this understanding of the role of declaratory orders in administrative procedure. *See* Iowa Admin. Code r. 701—7.24 (2023).

B. Statutory Construction and Interpretation of Tax Statutes

Generally, when interpreting a statute, the Department begins by “examin[ing] the language of the statute and determin[ing] whether it is ambiguous.” *Kay-Decker v. Iowa State Bd. of Tax Review*, 857 N.W.2d 216, 223 (Iowa 2014) (citing *Rolfe State Bank v. Gunderson*, 794 N.W.2d 561, 564 (Iowa 2011)). If the statute’s language is unambiguous, the express language in the statute is controlling. *Id.* (citing *Rolfe State Bank v. Gunderson*, 794 N.W.2d 561, 564 (Iowa 2011)). “If, however, the statute is ambiguous,” the Department’s interpretation will seek to effectuate the legislature’s intent. *See id.* (citing *Rolfe State Bank*, 794 N.W.2d at 564). A statute “must [be] read . . . as a whole and give[n] ‘its plain and obvious meaning, a sensible and logical construction.’” *Id.* (quoting *Hamilton v. City of Urbandale*, 291 N.W.2d 15, 17 (Iowa 1980)). When ascertaining the meaning of undefined words in a statute, the Department may

look to the words' ordinary usage, dictionary definitions, use in similar statutes, and court rulings to aid in its interpretation. *Id.* (citing *Gardin v. Long Beach Mortg. Co.*, 661 N.W.2d 193, 197 (Iowa 2003)).

“Special additional principles [of statutory construction] apply in tax cases.” *Iowa Auto Dealers Ass’n v. Iowa Dep’t of Revenue*, 301 N.W.2d 760, 762 (Iowa 1981). When a statute imposes a tax, it “is construed liberally in favor of the taxpayer.” *Scott Cnty. Conservation Bd. v. Briggs*, 229 N.W.2d 126, 127 (Iowa 1975). “However, when the taxpayer relies on a statutory exemption, the exemption is construed strictly against the taxpayer and liberally in favor of the taxing body.” *Iowa Auto Dealers Ass’n*, 301 N.W.2d at 761 (emphasis added). This is so because “exemptions from taxation are generally disfavored as contrary to the democratic notions of equality and fairness, and exist solely due to legislative grace.” *Van Buren Cnty. Hosp. & Clinics v. Bd. of Review of Van Buren Cnty.*, 650 N.W.2d 580, 586 (Iowa 2002). As such, any doubts as to the applicability of an exemption to a taxpayer must be “resolved against [allowing the] exemption.” *Iowa Auto Dealers Ass’n*, 301 N.W.2d at 762–63 (citing *Iowa Methodist Hosp. v. Bd. of Review*, 252 N.W.2d 390, 391 (Iowa 1977)).

IV. APPLICABLE LAW

A. Imposition of Corporate Income Tax and Definition of Insurance Company

There is a corporate income tax “imposed annually upon each corporation doing business, in this state, or deriving income from sources within this state. . . .” Iowa Code § 422.33(1)(a). There are exemptions from this imposition of tax for “state, national, private, cooperative, and savings banks, credit unions, title insurance and trust companies, federally chartered savings and loan associations, production credit associations, insurance companies or insurance associations, reciprocal or inter-insurance exchanges, and fraternal beneficiary

associations.” *Id.* § 422.34(1). The relevant exemption for this issue is the exemption for “insurance companies or insurance associations.” The Code section does not provide a definition of insurance companies or insurance associations.

Iowa Insurance Division’s Code chapter outlining the examination of insurance companies defines “company” as “any person engaging in or proposing or attempting to engage in any transaction or kind of insurance or surety business and any person or group of persons who may otherwise be subject to the administrative, regulatory, or taxing authority of the commissioner.” *Id.* § 507.1(2)(b). That same section defines “insurer” as including “all companies or associations organized under chapter 508, 511, 512A, 512B, 514, 514B, 515, 515C, or 518A, associations subject to chapters 518 and 520, and companies or associations admitted or seeking to be admitted to this state under any of those chapters.” *Id.* § 507.1(2)(c).

B. Imposition of Gross Premium Tax and Taxation of Health Maintenance

Organizations

“Every insurance company or association of whatever kind or character” is subject to a tax on gross premiums received. Iowa Code § 432.1. There are certain exemptions to this tax. Specifically, there is an exemption for health maintenance organizations in their first five years of existence or perpetually for those “payments made by the United States secretary of health and human services “under contracts issued under section 1833 or 1876 of the federal Social Security Act, section 4015 of the federal Omnibus Budget Reconciliation Act of 1987, or chapter 249A for enrolled members. . . .” Iowa Code § 514B.31. A health maintenance organization means any person, who:

- a. Provides either directly or through arrangements with others, health care services to enrollees on a fixed prepayment basis;

- b. Provides either directly or through arrangements with other persons for basic health care services; and,
- c. Is responsible for the availability, accessibility and quality of the health care services provided or arranged.

Id. § 514B.1(6).

V. ANALYSIS

A. Petitioner's Arguments

Petitioner states it is an insurance company as that term is used in Iowa Code section 422.34 which makes it exempt from Iowa corporate income tax. Petition at 6. Petitioner states it should qualify as an insurance company because it is licensed as a health maintenance organization and is regulated by the Iowa Insurance Division under Iowa Code section 514B.2. *Id.* at 6. Petitioner also references Iowa Code section 514B.31 that discusses the taxation of health maintenance organizations but does not mention corporate income tax, only gross premium tax, as further reason it should be considered exempt.

B. Corporate Income Tax Exemption Statute

As stated above, corporations doing business in the state of Iowa are subject to a tax on their income. Iowa Code § 422.33(1). Petitioner is a corporation doing business in Iowa and therefore would generally be subject to this tax. However, certain corporations are exempt from that tax, one type being “insurance companies or insurance associations.” *Id.* § 422.34(1). It must then be determined what the statute means by “insurance companies or insurance associations.”

While analyzing a statute it must first be established whether the statute is ambiguous. *See Kay-Decker v. Iowa State Bd. of Tax Review*, 857 N.W.2d 216, 223 (Iowa 2014). Ambiguity in a statute exists when “reasonable minds could disagree as to its meaning.” *Colwell v. Iowa Dep’t of Human Servs.*, 923 N.W.2d 225, 232 (Iowa 2019) (citing *State v. Spencer*, 737 N.W.2d

124, 129 (Iowa 2007). Ambiguity can “arise from either the meaning of particular words or the general scope and meaning of a statute.” *Id.* This makes the exemption statute ambiguous. The exemption statute does not provide a definition of insurance companies or insurance associations. *See* Iowa Code § 422.34. There is also no definition in the Department rules implementing this statute. *See* Iowa Administrative Code rr. 701—501.1, 701—502.15, 701—503.6.

The intent of the legislature is the primary focus when interpreting an ambiguous statute. *Kay-Decker*, 857 N.W.2d at 223. Legislative history is a factor to consider when determining the intent of the legislature. Iowa Code § 4.6(3).

C. Legislative History of Iowa Code § 422.34

Iowa Code section 422.34, in its first form, was enacted with the passing of Iowa corporate income tax in 1934. H.F. 1, 45th Gen. Assemb., Extraordinary Sess. (Iowa 1934). At the time of its passing, the gross premium tax on insurance companies already existed. *See* Iowa Code ch. 335 (1931). The bill creating Iowa’s corporate income tax provided an exemption for

All state, national, private, cooperative and savings banks, credit unions, title insurance and trust companies, building and loan associations, corporations operating under the provisions of chapter 392 of the Code, 1931, *insurance companies and/or insurance associations*, reciprocal or inter-insurance exchanges, fraternal beneficiary associations, now or hereafter organized or incorporated by or under the laws of this state or lawfully operating in the state of Iowa.

H.F. 1, § 29, 45th Gen. Assemb., Extraordinary Sess. (Iowa 1934) (emphasis added). The statute has not substantially changed since its passing and has not substantively changed with regard to

insurance companies or insurance associations. *Compare* Iowa Code § 6943-f30 (1935) with Iowa Code § 422.34(1) (2023).

It is worth noting that when the corporate income tax exemption was enacted, health maintenance organizations did not exist. When health maintenance organizations were permitted in Iowa, the bill outlining the requirements of a health maintenance organization also provided an exemption from the gross premium tax in substantially the same language as it exists today. S.F. 25, 65th Gen. Assemb., Reg. Sess. (Iowa 1973). The exemption was provided for the first five years of existence and then the premiums were subject to tax. *Id.* The additional exemption for payments for Medicaid programs was not added until 1990. S.F. 2407, 73rd Gen. Assemb., Reg. Sess. (Iowa 1990). This exemption from the gross premium tax passed by the legislature shows the legislature considered health maintenance organizations subject to the gross premium tax. To be subject to the gross premium tax an entity must be an “insurance company or association of whatever kind or character.” Iowa Code § 432.1 (2023). This exemption shows the legislature considered health maintenance organizations to be insurance companies at least in the context of the gross premium tax.

Additionally, the title of the statute providing an exemption from the gross premium tax for health maintenance organizations was and still is “Taxation.” *See* S.F. 25, 65th Gen. Assemb., Reg. Sess. (Iowa 1973); Iowa Code § 514B.31 (2023). This title is not limited to the gross premium tax on insurance companies and yet that is the only tax mentioned in the statute. Iowa Code § 514B.31. This implies that while the legislature was contemplating the taxation of these entities, they only considered the gross premium tax and not the corporate income tax. During this time of establishing health maintenance organizations in Iowa and providing an exemption for them from gross premium tax, there were no changes to the corporate income tax exemption

statute in regards to insurance companies or insurance associations. While this could be an oversight by the legislature or show an intention of them to not exclude health maintenance organizations from corporate income tax, it more likely suggests the legislature did not provide an exemption from corporate income tax for health maintenance organizations because they did not think these entities were subject to it.

As noted above, Petitioner is a health maintenance organization that is subject to, but qualifies for an exemption from, the gross premium tax on insurance companies. The legislative history of Iowa Code section 422.34 shows the legislature used broad language when enacting the exemption for insurance companies and it has not changed substantively with regard to insurance companies since enactment. It also shows that while providing an exemption for health maintenance organizations, such as Petitioner, from the gross premium tax, there were no changes made to the exemption from corporate income tax implying the legislature likely did not think companies, such as Petitioner, were subject to it.

D. Other Definitions in Iowa Code

Another factor to consider when determining the intention of the legislature is “laws upon the same or similar subjects.” Iowa Code § 4.6(4). As stated above, there are other definitions of similar words found elsewhere in the Code that could provide some guidance as to the meaning of insurance companies or insurance associations in Iowa Code section 422.34. Iowa Code chapter 507 outlines the “system for examining the activities, operations, financial condition, and affairs of all persons transacting the business of insurance in this state and all persons otherwise subject to the jurisdiction of the commissioner.” Iowa Code § 507.1(1). This chapter defines company as “any person engaging in or proposing or attempting to engage in any transaction or kind of insurance or surety business and any person or group of persons who may otherwise be

subject to the administrative, regulatory, or taxing authority of the commissioner.” *Id.*

§ 507.1(2)(b). This chapter also defines “insurer” as including “all companies or associations organized under chapter 508, 511, 512A, 512B, 514, 514B, 515, 515C, or 518A, associations subject to chapters 518 and 520, and companies or associations admitted or seeking to be admitted to this state under any of those chapters.” *Id.* § 507.1(2)(e). Health maintenance organizations are organized Iowa Code chapter 514B. *See id.* ch. 514B. While these defined terms are not the exact terms used in Iowa Code section 422.34 and these definitions are not controlling over Iowa Code chapter 422, they are useful when determining the intent of the legislature. Petitioner is a health maintenance organization organized under Iowa Code chapter 514B and subject to examination by the Iowa Insurance Division. Petitioner would fall under both the definitions of company and insurer in Iowa Code chapter 507.

E. Petitioner’s Treatment under Iowa Code § 422.34

The legislative history of Iowa Code section 422.34 as discussed above, shows an intent by the legislature to include all insurance companies and insurance associations in the exemption from corporate income tax. Further, the legislative history of Iowa Code section 514B.31 shows the legislature did not view health maintenance organizations as subject to corporate income tax when enacting the special taxation provisions for those companies. Finally, looking at the definitions of “company” and “insurer” found in the Code, health maintenance organizations and therefore, Petitioner, are included. Based on all of these factors, the Director concludes Petitioner is an insurance company as that term is used in Iowa Code section 422.34 and is exempt from corporate income tax.

ORDER

THEREFORE, based on the facts presented, foregoing reasoning, and applicable provisions of law, the Director finds that Petitioner is an insurance company or insurance association as the term is used in Iowa Code section 422.34 and is exempt from corporate income tax.

Done at Des Moines, Iowa on this 14th day of September, 2023.

IOWA DEPARTMENT OF REVENUE

BY Mary Mosiman

Mary Mosiman, Director