



# PRIMER – FEDERAL INCOME TAXATION OF INSURANCE COMPANIES

Insurance Tax Conference  
November 9, 2020

Speakers

Laura Dinsmore, Director  
PricewaterhouseCoopers, LLP  
Minneapolis, MN

Rob Finnegan, Managing Director  
PricewaterhouseCoopers, LLP  
Chicago, IL

Moderator

Julie Goosman, Partner  
PricewaterhouseCoopers, LLP  
Boston, MA

45<sup>th</sup> Annual Insurance Tax Conference

2020 Virtual Insurance Tax Conference

# Primer – Federal income taxation of insurance companies

This presentation will focus on the basic federal income tax principles affecting insurance companies

Presentation designed to be of particular interest to those who are new to the industry

Our goal is to define terms, demonstrate calculations, and connect to annual statement and tax return schedules.

# Primer – Federal income taxation of insurance companies

Two 90 minute sessions.



## Session I

- Overview of insurance industry / accounting
- Source of IRC taxation and applicable tax regimes
- Definition of Insurance Company, Insurance, and Life Company
- Focus on Life Companies – LICTI and Form 1120L
- Focus on Life Companies – Treatment of premium revenue
- Focus on Life Companies – Treatment of premium acquisition costs

# Primer – Federal income taxation of insurance companies

Two 90 minute sessions.



## Session II

- Focus on Life Companies – Treatment of policy liabilities
- Focus on Non-life Companies – Taxable income and Form 1120PC
- Focus on Non-life Companies – Treatment of premium revenue
- Focus on Non-life Companies – Treatment of policy acquisition costs
- Focus on Non-Life Companies – Treatment of policy liabilities
- Tax favored investment income and the concept of “double benefit”
- Topics not addressed



# *Polling Question #1*

**I have worked with insurance company taxation for:**

1. Less than 1 year
2. More than 1 year, less than 2
3. More than 2 years, less than 3
4. More than 3 years, less than 4
5. I don't recall, I just need the CPE

## *Polling Question #2*

### **Which best describes me:**

1. Non-CPA, working in the tax department
2. CPA, working in the tax department
3. Attorney, working in the tax department
4. Non-tax person seeking CPE
5. Working for a “Big Four”
6. Working at a law firm

# Disclaimers

The information contained within this presentation is provided for informational purposes only and is not intended to substitute for obtaining accounting, tax, or financial advice from a qualified professional.

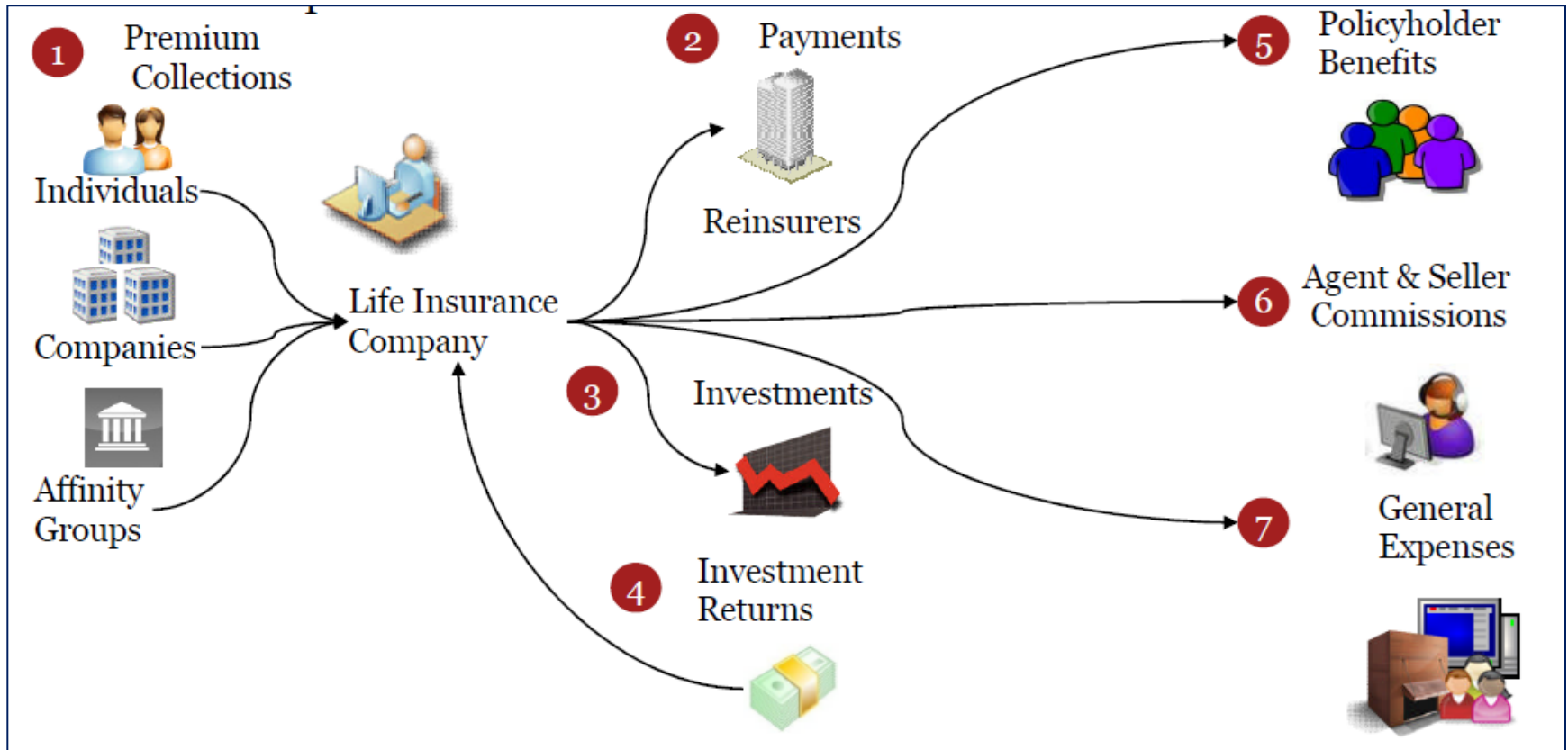
While we use reasonable efforts to furnish accurate and up-to-date information, we do not warrant that any information contained in or made available through this presentation is accurate, complete, reliable, current or error-free. We assume no liability or responsibility for any errors or omissions in the content of this presentation or such other materials or communications.

**IRS Circular 230 Disclosure.** To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (I) avoiding penalties under the Internal Revenue Service (II) promotion, marketing or recommending to another party any transaction or matter addressed herein.

# Overview of insurance industry/accounting

# Overview of insurance industry/accounting

## Business of insurance



# Overview of insurance industry/accounting

*Insurance companies focus on three primary operating cycles:*

- *Premium acquisition (product development & sales)*
- *Investment income (earnings from invested assets)*
- *Claims handling (estimating liabilities & settling claims)*

*Each cycle directly impacts the financial strength of a company!*



# Overview of insurance industry/accounting

- Insurance products involve a **transfer of risk** from the policyholders to the insurers.
- In addition to risk shifting, life products have the potential for investment earnings (which do not involve risk)
- Insurers must be prepared to honor risk guarantees as well as manage the investment results.

# Overview of insurance industry/accounting

- Premium income is received up front, prior to the pay out of benefits and future claims
- Generally, policies are categorized as either “long duration” or “short duration” depending on the length of time the policy is in-force.

Long duration	Short duration
Term life insurance	Auto
Whole life insurance	Homeowners
Universal life	Accident & Health
Annuity products	Marine
Reinsurance	Reinsurance



# Overview of insurance industry/accounting

- In order to manage risk for the product guarantees, insurance companies are required to hold reserves.
  - The total reserves required are set by state laws.
  
- The requirement to hold reserves for claims/benefits to be paid in the future and other special accounting rules leads to special tax treatment.

# Overview of insurance industry/accounting

## **All insurers are state regulated**

- State regulations control financial structures, including limits on product designs and offerings, and reserves.
- Prior to the 1984/1986 Tax Acts, tax law relied more on state regulatory requirements.
- State taxation: gross premium versus income tax

# Overview of insurance industry/accounting

## **National Association of Insurance Commissioners (“NAIC”)**

- US standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, DC, and 5 US territories.
- State insurance regulates establish standards and best practices, conduct peer review, and coordinate regulatory oversight.
- Established a uniform and comprehensive basis of accounting and disclosure

# Overview of insurance industry/accounting

Statutory Accounting, it's definitely not GAAP...

Loading

Modco Ceding company

Surplus Assuming  
SSAPs company

IBNR

Reinsurance

Nonadmitted assets

Accident year

Case reserves

# Overview of insurance industry/accounting

- Solvency (liquidation) accounting model. Generally more conservative than GAAP, and focuses on the insurer's ability to satisfy its obligations (future claims).
- Surplus serves as one of the primary factors in performance and solvency metrics (similar to retained earnings)
- Nonadmitted assets – decreases surplus value by excluding certain assets
  - Receivables greater than 90 days
  - Some or all of the deferred tax asset
  - Fixed assets
  - Excess concentrations or investment assets

# Source of IRC taxation and applicable tax regimes

# Source of IRC taxation and applicable tax regimes

## Subchapter L

- **Part I** contains provisions that are directly applicable to life, including the basis of life company taxable income
- **Part II** contains provisions that are directly applicable to all other (non-life) insurance companies, including the basis of non-life company taxable income
- **Part III** contains provisions that apply to both life and non-life companies based upon specific facts.

# Source of IRC taxation and applicable tax regimes

## Subchapter L, Part I

- Section 801 – Tax imposed
- Section 803 – Life insurance company gross income
- Section 804 – Life insurance company deductions
- Section 805 – General deductions
- Section 806 – [Small Life Deduction](#) (Repealed)
- Section 807 – Rules for reserves (TCJA)
- Section 808 – Policyholder dividend deduction
- Section 810 – [Operations loss deduction](#) (Repealed)



# Source of IRC taxation and applicable tax regimes

## Subchapter L, Part I

- Section 811 – Accounting Methods
- Section 812 – Proration rules (TCJA)
- Section 814 – Contiguous country branches
- Section 815 – Policyholders' surplus account (TCJA)
- Section 816 – Life insurance company defined
- Section 817 – Separate accounts/variable contracts
- Section 817A – Modified guaranteed contracts
- Section 818 – Other definitions

# Source of IRC taxation and applicable tax regimes

## Subchapter L, Part II

- Sections 831 – Tax on ins. cos. Other than life cos.
- Section 832 – Insurance company taxable income
- Section 833 – Treatment of BCBS organizations, etc.
- Section 834 – Determination of taxable investment income
- Section 835 – Election by reciprocal

# Source of IRC taxation and applicable tax regimes

## Subchapter L, Part III

- Section 841 – Foreign tax credit
- Section 842 – U.S. branches of foreign insurers
- Section 843 – Annual accounting period
- Section 844 – NOL carryover if change in status
- Section 845 – Reinsurance anti-abuse rules
- Section 846 – Discounting of unpaid losses (TCJA)
- Section 848 – Capitalization of policy acquisition expenses (“DAC”) (TCJA)

# Source of IRC taxation and applicable tax regimes



## A few comments about accounting methods.

- General Rule: IRC section 446 provides that taxable income follows the method of accounting used by the taxpayer in preparing books and records.
- Of course, the IRC then contains specific provisions regarding the timing of revenue recognition (IRC 451), authority to claim deductions (IRC 162), and timing of allowable deductions (IRC 461)
- General rule is modified for insurance companies

# Source of IRC taxation and applicable tax regimes



## A few comments about accounting methods

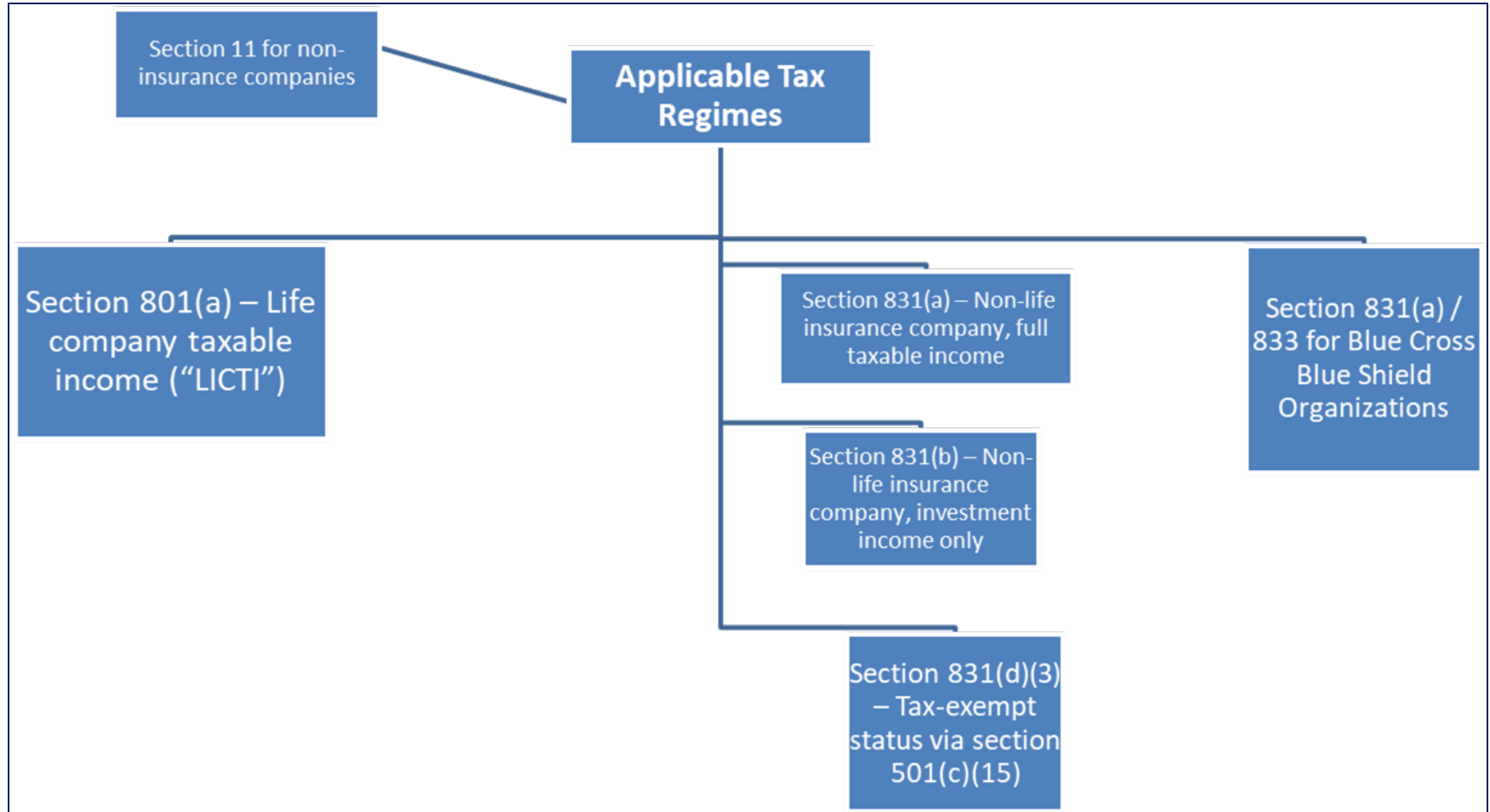
- Insurance Companies apply NAIC statutory accounting principles
- Congress has recognized NAIC statutory as the starting point for ALL insurance companies. (IRC 811(a))
- NAIC method carries significant weight for insurance specific items
- “No double counting” (IRC section 811(c))

## *Polling Question #3*

**When was the definition of an insurance company added to the Code:**

1. 1984
2. 1986
3. 1954
4. 2004
5. Never!

# Source of IRC taxation and applicable tax regimes



# Definition of insurance company, insurance, and life company



# Definition of insurance company, insurance, and life company

- The IRC definition of insurance company can be found in IRC Sec 816(a)(2):

The term 'insurance company' means any company ***more than half of the business*** of which during the taxable year is the issuing of insurance or annuity contracts or the reinsuring of risks underwritten by insurance companies.

Applies to ALL insurance companies.

# Definition of insurance company, insurance, and life company

- The IRC does not explicitly define insurance!
- Court cases have largely defined what is insurance for tax purposes relying upon evidence of – risk shifting and risk distribution must be present
- IRS has added ‘common notions’ of insurance

# Definition of insurance company, insurance, and life company

## Life company versus other insurance companies -

- It's all about the reserves

Life insurance reserves plus

UPR and unpaid losses on non-can  
A&H products not already included

-----  
Total Reserves (includes above plus)

> 50%

# Definition of insurance company, insurance, and life company

## IRC Sec 816 (b) Life insurance reserves defined

- (1) **In general.** For purposes of this part, the term “life insurance reserves” means amounts—
- (A) which are computed or estimated on the basis of recognized mortality or morbidity tables and assumed rates of interest, and
  - (B) which are set aside to mature or liquidate, either by payment or reinsurance, future unaccrued claims
  - (C) Reserves must be required by law
- (2) **Amount of reserves.** The amount of any reserve for any taxable year is the mean of such reserve at the beginning and end of the taxable year.

# Definition of insurance company, insurance, and life company

		<b>Formula Reference</b>	<b>Per A/S End of CY</b>	<b>Per A/S End of PY</b>
<b>These amounts meet the IRC section 816 definition of life contract reserves.</b>				
Aggregate reserves for life policies and contracts	Pg. 3, L.1		939,940,065	616,330,722
Aggregate reserves for noncancellable A&H	Exhibit 6, L.17, C.5	<b>AS P14, L17, C5</b>	0	0
Policy and contract claims on noncancellable A&H	Pg. 3, L.4.2		0	0
<b>Total Life Insurance Reserves</b>			939,940,065	616,330,722
<b>These amounts include all of the above, plus any other qualified non-life insurance reserves.</b>				
Aggregate reserves for life policies and contracts	Pg. 3, L.1		939,940,065	616,330,722
Aggregate reserves for A&H policies	Pg. 3, L.2		0	0
Policy and contract claims A&H	Pg. 3, L.4.2		0	0
Other reserve amounts - described			0	0
Other reserve amounts - described			0	0
<b>Total Reserves</b>			939,940,065	616,330,722
Mean of total life insurance reserves				778,135,394
Mean of total reserves				778,135,394
<b>Life Reserve Percentage</b>				100.00%
				<b>Qualified</b>

# Definition of insurance company, insurance, and life company

Annual statement, Page 3:

<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>		
	1 Current Year	2 Prior Year
1. Aggregate reserve for life contracts \$ .....939,940,065 (Exh. 5, Line 9999999) less \$ ..... included in Line 6.3 (including \$ ..... Modco Reserve) .....	939,940,065	616,330,722
2. Aggregate reserve for accident and health contracts (including \$ ..... Modco Reserve) .....		
3. Liability for deposit-type contracts (Exhibit 7, Line 14, Col. 1) (including \$ ..... Modco Reserve) .....		
4. Contract claims:		
4.1 Life (Exhibit 8, Part 1, Line 4.4, Col. 1 less sum of Cols. 9, 10 and 11) .....	5,574,895	
4.2 Accident and health (Exhibit 8, Part 1, Line 4.4, sum of Cols. 9, 10 and 11) .....		

# Focus on life companies – LICTI and Form 1120L

# Focus on life companies – LICTI and Form 1120L

## Life Insurance Company Taxable Income – “LICTI”

- LICTI – equals *life insurance company gross income, less life insurance company deductions*
- Definition of LICTI largely unchanged since 1959 Act



# Focus on life companies – LICTI and Form 1120L

- IRC Section 803 – Life insurance company gross income is the sum of:
  - Premiums,
  - Decrease in certain reserves
  - Other amounts includible under this “subtitle”
  
- IRC section 804 – Life insurance company deductions are
  - General deductions permitted by IRC section 805

# Focus on life companies – LICTI and Form 1120L

- General deductions include
  - Death benefits -- All claims and benefits accrued and losses incurred
  - Increase in certain reserves
  - Policyholder dividends
  - Dividends received deduction for “company’s share” of dividends
  - Assets transferred under reinsurance agreements
  - Other “ordinary & necessary” business expenses
  - Net operating loss carryover (f.k.a. operations loss deduction)

# Focus on life companies – LICIT and Form 1120L

- Form 1120-L
  - [Pg1](#)
  - [Pg 2](#)
  - [Pg 3](#)
  - [Pg 4](#)
  - [Pg 5](#)

## *Polling Question #4*

### **Which best applies to reinsurance?**

1. The initial transfer of a risk from the insured to the insurer
2. Transaction whereby an insurance company spreads risks among other insurance companies
3. The reinstatement of insurance coverage after a missed policy premium
4. An agreement to pay a fixed amount upon a fixed date

# Focus on life companies – Treatment of premium revenue

# Focus on life companies – Treatment of premium revenue

## Statutory Accounting Treatment

- SSAP 51 provides guidance applicable to premium recognition for life and annuity contracts.
- Terminology
  - **Gross** premium = amount charged to the policyholder
  - **Net** premium = amount calculated for use in setting policy reserves, based upon interest and mortality tables
  - **Loading** = difference between the gross and net premium, may be negative.
- Recognition Method – when due under the terms of the contract, regardless of when received

# Focus on life companies – Treatment of premium revenue

## Premium Revenue – Book

- + Collected
- Ceded
- + Assumed
- +/- Change in Advance\* (Add PY, Subtract CY)
- +/- Change in Deferred^ (Subtract PY, Add CY)
- +/- Change in Due&Uncollected# (Subtract PY, Add CY)
- = Statutory Earned Premium

\* Cash, Included in collected, not yet due

^ Non-cash, Accounting fiction to offset policy liability assumption, also creates expense fiction, i.e., Loading

# Non-cash, Past due premium, account receivable

# Focus on life companies – Treatment of premium revenue

A/S, Page 4 -

<b>SUMMARY OF OPERATIONS</b>		1
		Current Year
1.	Premiums and annuity considerations for life and accident and health contracts (Exhibit 1, Part 1, Line 20.4, Col. 1, less Col.11) .....	61,546,690
2.	Considerations for supplementary contracts with life contingencies .....	143,365

A/S, U/I Exhibit 1, Part 1

<b>TOTAL</b>		
20.	TOTAL Premiums and annuity considerations:	
20.1	Direct .....	142,762,038
20.2	Reinsurance assumed .....	20,912,331
20.3	Reinsurance ceded .....	102,127,680
20.4	Net (Lines 9.4 + 10.4 + 19.4) .....	61,546,690



# Focus on life companies – Treatment of premium revenue

## Underwriting/Investment Exhibit 1, Part 1

FIRST YEAR (other than single)		
1.	Uncollected .....	1,606,157
2.	Deferred and accrued .....	
3.	Deferred, accrued and uncollected:	
3.1	Direct .....	642,347
3.2	Reinsurance assumed .....	963,812
3.3	Reinsurance ceded .....	
3.4	Net (Line 1 + Line 2) .....	1,606,157
4.	Advance .....	23,474
5.	Line 3.4 - Line 4 .....	1,582,683
6.	Collected during year:	
6.1	Direct .....	23,666,651
6.2	Reinsurance assumed .....	6,045,247
6.3	Reinsurance ceded .....	3,506,007
6.4	Net .....	26,205,891
7.	Line 5 + Line 6.4 .....	27,788,574
8.	Prior year (uncollected + deferred and accrued - advance) .....	1,138,920
9.	First year premiums and considerations:	
9.1	Direct .....	23,937,110
9.2	Reinsurance assumed .....	6,218,551
9.3	Reinsurance ceded .....	3,506,007
9.4	Net (Line 7 - Line 8) .....	26,649,654

RENEWAL		
11.	Uncollected .....	
12.	Deferred and accrued .....	5,861,389
13.	Deferred, accrued and uncollected:	
13.1	Direct .....	4,595,472
13.2	Reinsurance assumed .....	1,265,917
13.3	Reinsurance ceded .....	
13.4	Net (Line 11 + Line 12) .....	5,861,389
14.	Advance .....	354,942
15.	Line 13.4 - Line 14 .....	5,506,447
16.	Collected during year:	
16.1	Direct .....	121,127,647
16.2	Reinsurance assumed .....	14,779,161
16.3	Reinsurance ceded .....	98,621,673
16.4	Net .....	37,285,135
17.	Line 15 + Line 16.4 .....	42,791,582
18.	Prior year (uncollected + deferred and accrued - advance) .....	7,894,546
19.	Renewal premiums and considerations:	
19.1	Direct .....	118,824,928
19.2	Reinsurance assumed .....	14,693,780
19.3	Reinsurance ceded .....	98,621,673
19.4	Net (Line 17 - Line 18) .....	34,897,036

SINGLE		
10.	Single premiums and considerations:	
10.1	Direct .....	
10.2	Reinsurance assumed .....	
10.3	Reinsurance ceded .....	
10.4	Net .....	

# Focus on life companies – Treatment of premium revenue

## Practice Part 1

X Life collected \$700,000 of first year premium revenue. Of that amount, 40% was ceded to other insurance companies. X Life also received \$150,000 of premium assumed under an indemnity reinsurance agreement. Determine X Life's first year premium?

# Focus on life companies – Treatment of premium revenue

## Part 1 Solution:

# Focus on life companies – Treatment of premium revenue

## Practice Part 2

X Life received premium amounts before the due date (received in December, due in January). For the year, advance premium increased \$35,000. Determine the impact of this information on the solution for Part 1.

# Focus on life companies – Treatment of premium revenue

## Part 2 Solution

# Focus on life companies – Treatment of premium revenue

## Practice Part 3

Deferred premium recognized in response to the actuarial reserving assumption was \$115,000 as of the end of the year. The prior year amount was \$90,000. Determine the impact to the solution from Part 2.

# Focus on life companies – Treatment of premium revenue

## Part 3 Solution

## *Polling Question #5*

**According to NASA, how long is the average lunar “daytime” in Earth hours?**

1. 30 hours
2. 110 hours
3. 210 hours
4. 310 hours



# Focus on life companies – Treatment of premium revenue

## Practice Part 4

Some X Life policyholders do not pay premiums by the due date, which become uncollected premium. The end of the year balance for this asset is \$3,000. The prior year balance was \$5,000. Determine the impact of this information on the solution from Part 3.

# Focus on life companies – Treatment of premium revenue

## Part 4 Solution

# Focus on life companies – Treatment of premium revenue

## Premium Revenue – Book

+ Collected	\$700,000	
- Ceded	(280,000)	
+ Assumed	<u>\$150,000</u>	ST \$570,000
+/- Change in Advance* (Add PY, Subtract CY)		<u>(35,000)</u>
		ST\$535,000
+/- Change in Deferred^ (Subtract PY, Add CY)		<u>\$ 25,000</u>
		ST \$560,000
+/- <u>Change in Due&amp;Uncollected# (Subtract PY, Add CY)</u>		<u>(2,000)</u>
= Statutory Earned Premium		GT <u>\$558,000</u>

# Focus on life companies – Treatment of premium revenue

## IRC accounting treatment

Tax follows cash receipts, as demonstrated by the following excerpt from the 1984 JCT Blue Book, page 585:

Under the Act, life insurance gross income is the sum of (1) premiums, (2) decreases in certain reserves, and (3) other amounts generally includible by a taxpayer in gross income. For these purposes, premiums consist of the gross amount of premiums and other consideration received on insurance and annuity contracts reduced by return premiums paid to policyholders, such as on the cancellation

# Focus on life companies – Treatment of premium revenue

## IRC accounting treatment

- IRC section 803(a)(1). Premiums. – (A) The gross amount of premiums and other considerations on insurance and annuity contracts
- “premiums and other considerations” include:
  - Advance premiums, deposits, fees, assessments, consideration in respect of assuming liabilities under contracts not issued by the taxpayer, and the amount of policyholder dividends reimbursable to the taxpayer by a reinsurer in respect of reinsured policies

# Focus on life companies – Treatment of premium revenue

## Premium Revenue Tax

+ Collected		Book Premium Revenue
- Ceded		
+ Assumed	OR	
Include Cash Items		Reverse book Adv. Prem. Change
<u>Exclude Non-cash items</u>		<u>Reverse book non-cash adjustments</u>
= Taxable Premium Revenue		Taxable Premium Revenue

# Focus on life companies – Treatment of premium revenue

## Form 1120-L, Page 1

<b>Income</b>	<b>1</b>	Gross premiums, etc., less return premiums, etc. Enter balance . . . . .	<b>1</b>		
	<b>2</b>	Net decrease, if any, in reserves (Schedule F, line 12) . . . . .	<b>2</b>		
	<b>3</b>	Decrease in reserves under section 807(f) . . . . .	<b>3</b>		
	<b>4</b>	Investment income (Schedule B, line 6) (see instructions) . . . . .	<b>4</b>		
	<b>5</b>	Net capital gain (Schedule D (Form 1120), line 18) . . . . .	<b>5</b>		
	<b>6</b>	Income from a special loss discount account (attach Form 8816) . . . . .	<b>6</b>		
	<b>7</b>	Other income (attach statement) . . . . .	<b>7</b>		
	<b>8</b>	Life insurance company gross income. Add lines 1 through 7 . . . . .	<b>8</b>		

## Form 1120PC, Schedule E

<b>Schedule E</b>		<b>Premiums Earned—Section 832 (see instructions)</b>				
<b>1</b>	Net premiums written . . . . .			<b>1</b>		
<b>2</b>	Unearned premiums on outstanding business at the end of the preceding tax year:					
	<b>a</b> Enter 100% of life insurance reserves included in unearned premiums (section 832(b)(7)(A)) and unearned premiums of section 833 organizations (see instructions) . . . . .	<b>2a</b>				
	<b>b</b> Enter 90% of unearned premiums attributable to insuring certain securities . . . . .	<b>2b</b>				
	<b>c</b> Discounted unearned premiums attributable to title insurance . . . . .	<b>2c</b>				
	<b>d</b> Enter 80% of all other unearned premiums (see instructions) . . . . .	<b>2d</b>				
	<b>e Total.</b> Add lines 2a through 2d . . . . .	<b>2e</b>				
<b>3</b>	<b>Total.</b> Add lines 1 and 2e . . . . .			<b>3</b>		
<b>4</b>	Unearned premiums on outstanding business at the end of the current tax year:					
	<b>a</b> Enter 100% of life insurance reserves included in unearned premiums (section 832(b)(7)(A)) and unearned premiums of section 833 organizations (see instructions) . . . . .	<b>4a</b>				
	<b>b</b> Enter 90% of unearned premiums attributable to insuring certain securities . . . . .	<b>4b</b>				
	<b>c</b> Discounted unearned premiums attributable to title insurance . . . . .	<b>4c</b>				
	<b>d</b> Enter 80% of all other unearned premiums (see instructions) . . . . .	<b>4d</b>				
	<b>e Total.</b> Add lines 4a through 4d . . . . .	<b>4e</b>				
<b>5</b>	Subtract line 4e from line 3 . . . . .			<b>5</b>		
<b>6</b>	Transitional adjustments under section 832(b)(7)(D) (see instructions) . . . . .			<b>6</b>		
<b>7</b>	<b>Premiums earned.</b> Add lines 5 and 6. Enter here and on Schedule A, line 1 . . . . .			<b>7</b>		

# Focus on life companies – Treatment of premium revenue

## Practice Part 5

Considering IRC section 803 and the JCT Blue Book guidance, determine taxable premium for X Life using the information developed in Parts 1-4.



# Focus on life companies – Treatment of premium revenue

## Solution Part 5

# Focus on life companies – Treatment of premium revenue

## Part 5 Solution

Book Premium Revenue#	\$558,000
Reverse book Adv. Prem. Change*	+25,000
<u>Reverse book non-cash adjustments*</u>	(25,000)
Taxable Premium Revenue	<u>+2,000</u>
	\$570,000

# This amount is net of reinsurance

\* Sch M, book – tax differences

Not taxable income, no related deduction, i.e., loading

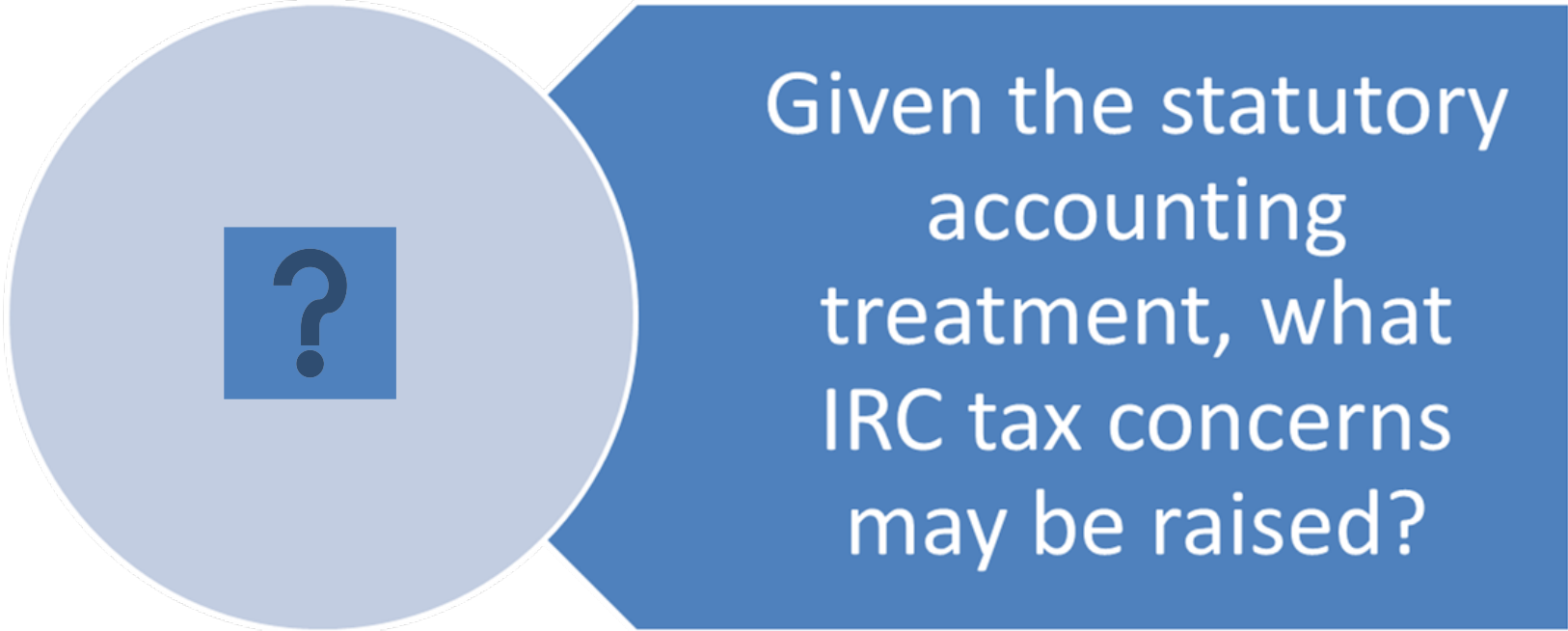
Focus on life companies –  
Treatment of premium  
acquisition costs

# Focus on life companies – Treatment of premium acquisition costs

## Statutory Accounting Treatment

- SSAP 71 provides guidance applicable to premium acquisition costs for insurance contracts.
- Ground rules -
  - New and Renewal contracts
  - Includes costs that vary with and are primarily related to acquisition of contract
  - Expensed as incurred. Reduces surplus.
- Where found – A/S Exhibit 1, Part 2 and Exhibit 2.

# Focus on life companies – Treatment of premium acquisition costs



Given the statutory accounting treatment, what IRC tax concerns may be raised?

# Focus on life companies – Treatment of premium acquisition costs

- IRC section 848 enacted in 1990
- Sometimes referred to as the “DAC Tax”
- Modified a Supreme Court decision regarding capitalization of certain policy acquisition expenses and settled the age old question - *“to capitalize or not to capitalize”*

# Focus on life companies – Treatment of premium acquisition costs



## Congress applied a “proxy” approach

- The amount capitalized is not based on actual acquisition expenses (such as agent commissions or underwriting expenses)
- Instead, a set percentage of contract premiums is capitalized and deducted ratably over a stated recovery period.

# Focus on life companies – Treatment of premium acquisition costs

- Set percentages of “net premiums” for specified insurance contracts
  - Life Insurance and other contracts – 9.2% of net premiums
  - Annuity contracts – 2.09%
  - Group contracts – 2.45%
- Same rates apply to reinsurance thereof



# Focus on life companies – Treatment of premium acquisition costs

## Specified Net Premiums

- Direct business - premiums determined in same manner as IRC section 803(b) (think premium revenue)
- Excludes policyholder dividends treated as premiums
- Reinsurance premiums - determined on a “net consideration” basis. Generally requires information sharing, agreement among parties to reinsurance agreement

# Focus on life companies – Treatment of premium acquisition costs

## Capitalized Expenses

- Capitalized premiums are generally capped at “general deductions”
- Special rules applicable to reinsurance with foreign company
- Negative capitalization is permitted

# Focus on life companies – Treatment of premium acquisition costs

## Amortization

- Generally 180 month period, half year convention
- Exception –
  - 60 month amortization applies to first \$5 million of capitalized expenses
  - Phased out dollar for dollar for amounts > \$10 million
  - Phase out applied on controlled group basis
  - Not applicable to capitalization related to reinsurance

# Focus on life companies – Treatment of premium acquisition costs

## Practice Part 1

At what amount of capitalized specified non-reinsurance related premium is all capitalized premium amortized over a 120 month period?

# Focus on life companies – Treatment of premium acquisition costs

<b>Schedule G Policy Acquisition Expenses</b> (section 848) (see instructions)		(a) Annuity	(b) Group life insurance	(c) Other
1	Gross premiums and other consideration . . . . .	1		
2	Return premiums and premiums and other consideration incurred for reinsurance . . . . .	2		
3	<b>Net premiums.</b> Subtract line 2 from line 1 . . . . .	3		
4	Net premium percentage . . . . .	4		
5	Multiply line 3 by line 4 . . . . .	5		
6	Combine line 5, columns (a), (b), and (c), and enter here. If zero or less, enter -0- on lines 7 and 8 . . . . .			6
7	Unused balance of negative capitalization amount from prior years . . . . .			7 ( )
8	Combine lines 6 and 7. If zero or less, enter -0- . . . . .			8
9	General deductions (attach statement) . . . . .			9
10	Enter the lesser of line 8 or line 9 . . . . .			10
11	Deductible general deductions. Subtract line 10 from line 9. Enter here and include on page 1, line 18 . . . . .			11
12	If the amount on line 6 is negative, enter it as a positive amount. If the amount on line 6 is positive, enter -0- . . . . .			12
13	Unamortized specified policy acquisition expenses from prior years . . . . .			13
14	Deductible negative capitalization amount. Enter the lesser of line 12 or line 13 . . . . .			14
15a	Tentative 60-month specified policy acquisition expenses. Enter amount from line 10, but not more than \$5 million . . . . .	15a		
b	Limitation . . . . .	15b	\$10,000,000	
16	Phase-out amount. Subtract line 15b from line 10. If zero or less, enter -0- . . . . .	16		
17a	Current year 60-month specified policy acquisition expenses. Subtract line 16 from line 15a. If zero or less, enter -0- . . . . .	17a		
b	Enter 10% of line 17a . . . . .			17b
18a	Current year 180-month specified policy acquisition expenses. Subtract line 17a from line 10 . . . . .	18a		
b	Enter 3.34% of line 18a . . . . .			18b
19	Enter the applicable amount of amortization from specified policy acquisition expenses capitalized in prior years and deductible this year. Attach statement . . . . .			19
20	<b>Deductible policy acquisition expenses.</b> Add lines 14, 17b, 18b, and 19. Enter here and on page 1, line 16 . . . . .			20

# Focus on life companies – Treatment of premium acquisition costs

## Practice Part 2

Looking back at the Schedule G, what flaw is apparent in determining the capitalized expenses eligible for the 60-month amortization?

# Focus on life companies – Treatment of premium acquisition costs

Year 1			
		DAC Rates	Capitalized Premiums
<b>Net Direct Premiums</b>			
Life	5,000,000	9.20%	460,000
Group Life	900,000	2.45%	22,050
Annuity	400,000	2.09%	<u>8,360</u>
Investment income	<u>100,000</u>		
Gross income	6,400,000		
Gross deductions	<u>(1,500,000)</u>		
T.I. before DAC	4,900,000		
DAC Capitalization*	490,410		490,410
DAC Amortization*	<u>(49,041)</u>	(60 month, 1/2 Year)	
subtotal DAC	441,369		
T.I. post DAC Impacts	5,341,369		
Impact of DAC	9.01%		

\*Sch M, Book-Tax Difference

Year 2			
		DAC Rates	Capitalized Premiums
<b>Net Direct Premiums</b>			
Life	5,000,000	9.20%	460,000
Group Life	900,000	2.45%	22,050
Annuity	400,000	2.09%	<u>8,360</u>
Investment income	<u>100,000</u>		
Gross income	6,400,000		
Gross deductions	<u>(1,500,000)</u>		
T.I. before DAC	4,900,000		
DAC Capitalization*	490,410		490,410
DAC Amortization CY	(49,041)	(60 month, 1/2 Year)	
DAC Amortization PY	<u>(98,082)</u>	(12 months, Yr 1)	
subtotal DAC	343,287		
T.I. post DAC Impacts	5,243,287		
Impact of DAC	7.01%		

# Focus on life companies – Treatment of premium acquisition costs

Year 3			
		DAC Rates	Capitalized Premiums
<b>Net Direct Premiums</b>			
Life	5,000,000	9.20%	460,000
Group Life	900,000	2.45%	22,050
Annuity	400,000	2.09%	<u>8,360</u>
Investment income	<u>100,000</u>		
Gross income	6,400,000		
Gross deductions	<u>(1,500,000)</u>		
T.I. before DAC	4,900,000		
DAC Capitalization*	490,410		490,410
DAC Amortization CY	(49,041)	(60 month, 1/2 Year)	
DAC Amortization PY	<u>(196,164)</u>	(Yrs 1 and 2)	
subtotal DAC	245,205		
T.I. post DAC Impacts	5,145,205		
Impact of DAC	5.00%		

Year 4			
		DAC Rates	Capitalized Premiums
<b>Net Direct Premiums</b>			
Life	5,000,000	9.20%	460,000
Group Life	900,000	2.45%	22,050
Annuity	400,000	2.09%	<u>8,360</u>
Investment income	<u>100,000</u>		
Gross income	6,400,000		
Gross deductions	<u>(1,500,000)</u>		
T.I. before DAC	4,900,000		
DAC Capitalization*	490,410		490,410
DAC Amortization CY	(49,041)	(60 month, 1/2 Year)	
DAC Amortization PY	<u>(294,246)</u>	(Yrs 1,2 and 3)	
subtotal DAC	147,123		
T.I. post DAC Impacts	5,047,123		
Impact of DAC	3.00%		



# Focus on life companies – Treatment of premium acquisition costs

**Illustration: "Rise and Fall" of DAC impact on taxable income**

Tax Year	Capitalized	Yr 1	Yr 2	Yr 3	Yr4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Yr 1	490,410	49,041	98,082	98,082	98,082	98,082	49,041				
Yr 2	490,410		49,041	98,082	98,082	98,082	98,082	49,041			
Yr 3	490,410			49,041	98,082	98,082	98,082	98,082	49,041		
Yr 4	490,410				49,041	98,082	98,082	98,082	98,082	49,041	
Yr 5	490,410					49,041	98,082	98,082	98,082	98,082	49,041
Totals		49,041	147,123	245,205	343,287	441,369	441,369	343,287	245,205	147,123	49,041
Unamortized		441,369	784,656	1,029,861	1,176,984	1,226,025	784,656	441,369	196,164	49,041	0

Capitalization based upon 60-month, small company exception, not the default 180 month amortization period.

## *Polling Question #6*

**The federal income tax definition of insurance comes from which of the following?**

1. IRC Section 7702
2. Treasury Regulation 1.816
3. Judicial Interpretation
4. Black's Law Dictionary

# Session II

## Welcome back!

Focus on life companies –  
Treatment of policy  
liabilities

# Focus on life companies – Treatment of policy liabilities

## Policyholder Reserves

- The liability of an insurance company that will be sufficient to meet the Company's obligation under its policy contracts and for various contingencies:
  - Loss from investments
  - Commission liability
  - Claim liability
  - Expense liability
  - Unearned premium liability
- Most significant deduction of life insurers

# Focus on life companies – Treatment of policy liabilities

## Annual Statement, Page 3:

<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>		
	1 Current Year	2 Prior Year
1. Aggregate reserve for life contracts \$ .....939,940,065 (Exh. 5, Line 9999999) less \$ ..... included in Line 6.3 (including \$ ..... Modco Reserve) .....	939,940,065	616,330,722
2. Aggregate reserve for accident and health contracts (including \$ ..... Modco Reserve) .....		
3. Liability for deposit-type contracts (Exhibit 7, Line 14, Col. 1) (including \$ ..... Modco Reserve) .....		
4. Contract claims:		
4.1 Life (Exhibit 8, Part 1, Line 4.4, Col. 1 less sum of Cols. 9, 10 and 11) .....	5,574,895	
4.2 Accident and health (Exhibit 8, Part 1, Line 4.4, sum of Cols. 9, 10 and 11) .....		

## Annual Statement, Exhibit 5:

<b>EXHIBIT 5 - AGGREGATE RESERVE FOR LIFE CONTRACTS</b>					
1	2	3	4	5	6
Valuation Standard	Total	Industrial	Ordinary	Credit (Group and Individual)	Group
0199998. Reinsurance ceded					
0199999. Life Insurance: Totals (Net)					
0200001. 51N6 FRII DEF 7% .....	1,120,413,504	XXX	1,120,413,504	XXX	
0200002. FLEI FRII DEF 1% .....	2,224,752,054	XXX	2,224,752,054	XXX	
0200003. FLEI FRII DEF 1.5% .....	91,202,156	XXX	91,202,156	XXX	
0200004. FLEI FRII DEF 2% .....	54,044,004	XXX	54,044,004	XXX	
0299997. Totals (Gross) .....	3,490,411,718	XXX	3,490,411,718	XXX	
0299998. Reinsurance ceded .....	2,550,786,863	XXX	2,550,786,863	XXX	
0299999. Annuities: Totals (Net) .....	939,644,735	XXX	939,644,735	XXX	
0300001. 2000 Table, 4.0% .....	33,674		33,674		
0300002. 2012 IAR Table, 3.25% .....	46,600		46,600		
0300003. 2012 IAR Table, 3.5% .....	130,623		130,623		
0300004. 2012 IAR Table, 3.75% .....	73,317		73,317		
0300005. 2012 IAR Table, 4.00% .....	119,232		119,232		
0399997. Totals (Gross) .....	389,446		389,446		
0399998. Reinsurance ceded .....	104,116		104,116		
0399999. SCWLC: Totals (Net) .....	285,330		285,330		
0499998. Reinsurance ceded					
0499999. Accidental Death Benefits: Totals (Net)					
0599998. Reinsurance ceded					
0599999. Disability-Active Lives: Totals (Net)					
0699998. Reinsurance ceded					
0699999. Disability-Disabled Lives: Totals (Net)					
0799998. Reinsurance ceded					
0799999. Miscellaneous Reserves: Totals (Net)					

# Focus on life companies – Treatment of policy liabilities

## **IRC requirements of a deductible policyholder reserve.**

- “Computed or estimated on the basis of recognized mortality or morbidity tables and assumed rates of interest”
- Set aside to mature or liquidate future unaccrued claims arising from life insurance, annuity, and noncancellable accident and health contracts involving life, accident, or health contingencies.
- Required by law

# Focus on life companies – Treatment of policy liabilities

**The reserve generally fit into one of the categories of IRC Sec 807(c):**

- Life Insurance Reserves
- Unearned Premium and unpaid loss reserves
- Amount necessary to satisfy obligations under insurance contracts that don't involve life contingencies
- Dividend accumulations and other amounts held at interest
- Advance Premiums (offsets earned premium Schedule M)
- Special group life reserves



# Focus on life companies – Treatment of policy liabilities

## Internal Revenue Code Section 807

### (d) METHOD OF COMPUTING RESERVES FOR PURPOSES OF DETERMINING INCOME

#### (1) DETERMINATION OF RESERVE

- A. In general** For purposes of this part (other than section 816), the amount of the life insurance reserves for any contract (other than a contract to which subparagraph (B) applies) shall be the greater of—
- i. the net surrender value of such contract, or
  - ii. 92.81 percent of the reserve determined under paragraph (2).
- B. Variable contracts** For purposes of this part (other than section 816), the amount of the life insurance reserves for a variable contract shall be equal to the sum of—
- i. the greater of—
    - I. the net surrender value of such contract, or
    - II. the portion of the reserve that is separately accounted for under section 817, plus
  - ii. 92.81 percent of the excess (if any) of the reserve determined under paragraph (2) over the amount in clause (i).

# Focus on life companies – Treatment of policy liabilities

## Tax Determination

- Starting point is the NAIC statutory reserve (reserve prescribed by 26 or more states)
- Generally the amount of the tax basis reserve for each contract is the greater of net surrender value (“NSV”) or 92.81% of the NAIC statutory reserve.
- Calculated on a policy by policy level
- Cannot exceed the “statutory cap”
- **Deficiency reserves** are nondeductible

# Focus on life companies – Treatment of policy liabilities

- IRC 807 Reserve Methods
  - For Life = CRVM = Commissioners’ Reserve Valuation Method prescribed by NAIC in effect on the date of the issuance of the contract.
  - For Annuity = CARVM = Commissioners’ Annuities Reserve Valuation Method
    - CRVM and CARVM including “Actuarial Guidelines”.
  - For other contracts, if no NAIC method, then use a method that is consistent with CARVM and CRVM.

# Focus on life companies – Treatment of policy liabilities

- NSV is contractual cash value (if any) reduced by surrender charges but disregarding market value adjustment on surrender (exception for “modified guaranteed contracts” under IRC section 817A)
  - Beware issues in cash value definition
  - For pension plan contracts, NSV is based on “policyholder’s fund”
- Deficiency reserves are additional reserves held because net premium exceeds gross premium
  - Deficiency reserves are included in statutory cap

# Focus on life companies – Treatment of policy liabilities

<b>Form 1120-L</b> Department of the Treasury Internal Revenue Service	<b>U.S. Life Insurance Company Income Tax Return</b> For calendar year 2019 or tax year beginning _____, 2019, ending _____, 20____ ▶ Go to <a href="http://www.irs.gov/Form1120L">www.irs.gov/Form1120L</a> for instructions and the latest information.	OMB No. 1545-0123 <div style="font-size: 2em; font-weight: bold; text-align: center;">2019</div>
<b>A</b> Check if: 1 Consolidated return (attach Form 851) <input type="checkbox"/> 2 Life-nonlife consolidated return <input type="checkbox"/> 3 Schedule M-3 (Form 1120-L) attached <input type="checkbox"/>	<b>Please print or type</b>	<b>B</b> Employer identification number  <b>C</b> Date incorporated  <b>D</b> Check applicable box if an election has been made under section(s): <input type="checkbox"/> 953(c)(3)(C) <input type="checkbox"/> 953(d)
<b>E</b> Check if: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return		
<b>Income</b> (line 6 is reserved)	<b>1</b> Gross premiums, etc., less return premiums, etc. Enter balance . . . . . <b>2</b> Net decrease, if any, in reserves (Schedule F, line 12) . . . . . <b>3a</b> Decrease in reserves under section 807(f) . . . . . <b>b</b> Income from Reserve Transition Relief (see instructions) . . . . . <b>4</b> Investment income (Schedule B, line 6) (see instructions) . . . . . <b>5</b> Net capital gain (Schedule D (Form 1120), line 18) . . . . . <b>7</b> Other income (attach statement) . . . . . <b>8</b> Life insurance company gross income. Add lines 1 through 7 . . . . .	<b>1</b> <b>2</b> <b>3a</b> <b>3b</b> <b>4</b> <b>5</b> <b>7</b> <b>8</b>
<b>n deductions.)</b>	<b>9</b> Death benefits, etc. . . . . <b>10</b> Net increase, if any, in reserves (Schedule F, line 12) . . . . . <b>11a</b> Increase in reserves under section 807(f) . . . . . <b>b</b> Deduction from Reserve Transition Relief (see instructions) . . . . .	<b>9</b> <b>10</b> <b>11a</b> <b>11b</b>

# Focus on life companies – Treatment of policy liabilities

## Change in reserves: Impact to LICTI\*

- The net increase (decrease) in reserves that is reflected on **Page 1** is calculated on Schedule F (Page 3)
- We will follow the structure of **Schedule F** to calculate our net increase (decrease) in reserves

*\*Please note that as we are discussing life insurance reserves, they are a **liability** and depending on whether the reserves (liability) are increasing or decreasing will determine whether there is an impact to income or deductions. This being said, let's discuss how this "increase" or "decrease" is calculated.*

# Focus on life companies – Treatment of policy liabilities

## Schedule F Increase (Decrease) in Reserves (section 807) (see instructions)

		(a) Beginning of tax year	(b) End of tax year
1	Life insurance reserves . . . . .	1	
2	Unearned premiums and unpaid losses . . . . .	2	
3	Supplementary contracts . . . . .	3	
4	Dividend accumulations and other amounts . . . . .	4	
5	Advance premiums . . . . .	5	
6	Special contingency reserves . . . . .	6	
7	Add lines 1 through 6 . . . . .	7	
8	Increase (decrease) in reserves under section 807. Subtract line 7, column (a), from line 7, column (b) . . . . .		8
9a	Tax-exempt interest . . . . .	9a	
b	Increase in policy cash value of section 264(f) policies as defined in section 805(a)(4)(F) . . . . .	9b	
c	Add lines 9a and 9b . . . . .	9c	
10	<b>Policyholders' share percentage</b> . . . . .		10 30%
11	Policyholders' share of tax-exempt interest and the increase in policy cash value of section 264(f) policies as defined in section 805(a)(4)(F). Multiply line 9c by line 10 . . . . .		11
12	<b>Net increase (decrease) in reserves.</b> Subtract line 11 from line 8. If an increase, enter here and on page 1, line 10. If a decrease, enter here and on page 1, line 2 . . . . .		12

# Focus on life companies – Treatment of policy liabilities

## Practice Part 1

X Life reported \$8,500,000 of life insurance reserves as of 12/31/2018. Determine X Life's tax basis policyholder reserve?

Policy	NAIC statutory reserve	NSV
Policy 1	2,500,000	1,000,000
Policy 2	5,000,000	4,500,000
Policy 3	1,000,000	1,250,000
<b>Total:</b>	<b>8,500,000</b>	<b>6,750,000</b>



# Focus on life companies – Treatment of policy liabilities

## Part 1 Solution

X Life reported \$8,500,000 of life insurance reserves as of 12/31/2018. Determine X Life's tax basis policyholder reserve?

Policy	NAIC statutory reserve (a)	NSV	Tax basis @ 92.81% of (a)
Policy 1	2,500,000	1,000,000	2,320,250
Policy 2	5,000,000	4,500,000	4,640,500
Policy 3	1,000,000	1,250,000	928,100
<b>Total:</b>	<b>8,500,000</b>	<b>8,145,000</b>	<b>7,888,850</b>

# Focus on life companies – Treatment of policy liabilities

- IRC Sec. 807(f): Change in reserve “basis”
  - Rule, similar to change of accounting method rule but automatic, addresses reserve strengthening and weakening, abbreviated Form 3115
  - Post TCJA a change in reserve basis is treated as an automatic Sec 481(a) adjustment
    - Increase in reserves is taken in year 1
    - Decrease in reserves is spread over 4 years
    - Net changes by section 807(c) classifications
  - See Rev. Proc. 2019-10 and Rev. Rul. 2020-19

## *Polling Question #7*

**The only bird that can fly backward is the mockingbird.**

1. True
2. False

Focus on non-life  
companies – Taxable  
income and form 1120PC

# Focus on non-life companies – Taxable income and form 1120PC

**Any “insurance” company that does not qualify as a “life” insurance company under IRC Sec 816, includes:**

- Property & Casualty
- Title
- Professional Liability
- Mortgage and Financial Guaranty
- Blue Cross/Blue Shield
- Warranty

# Focus on non-life companies – Taxable income and form 1120PC

## Taxable income determined under Part II of Subchapter L

- Primary benefit is the ability to claim deductions today for unpaid loss reserves that otherwise lack “economic performance”
- Primary detriment is a reduction of tax benefits related to otherwise tax favored investment income.

# Focus on non-life companies – Taxable income and form 1120PC

- IRC Sec 832 – Insurance company taxable income is the sum of:
  - Investment income
  - Underwriting income
    - Premiums earned, less
    - Losses and expenses incurred
  
- Expenses incurred include:
  - All expenses shows on the Annual Statement, with the exception of unpaid losses (no double counting).
  - Unpaid loss adjustment expenses are included in unpaid losses (IRC Sec 832(b)(6)).

# Focus on non-life companies – Taxable income and form 1120PC

## Form 1120-PC

- [Pg 1](#)
- [Pg 2](#)
- [Pg 3](#)
- [Pg 4](#)
- [Pg 5](#)
- [Pg 6](#)
- [Pg 7](#)
- [Pg 8](#)
- [Pg 9](#)



# Focus on non-life companies – Treatment of premium revenue

# Focus on non-life companies – Treatment of premium revenue

## Statutory Accounting Treatment

- SSAP 53 provides the general guidance
- Terminology
  - **Gross Written Premium** – amount charged to policyholder
  - **Net Written Premium (“NWP”)** – Gross less returns
  - **Unearned Premium Reserve (“UPR”)**– Liability representing the unexpired portion of the NWP
  - **Earned Premium** – NWP adjusted for change in UPR
- Recognition Method – Generally, revenue earned pro rata over the contract period, beginning at the effective date

# Focus on non-life companies – Treatment of premium revenue

## Premium Revenue – Book

- + Net Written Premium\*
- Ceded
- + Assumed
- + PY Unearned Premium Reserve #
- CY Unearned Premium Reserve #
- = Statutory Earned Premium

\* Net of return premiums

# Unearned premium is after impact of reinsurance

# Focus on non-life companies – Treatment of premium revenue

<b>STATEMENT OF INCOME</b>		
		1 Current Year
<b>UNDERWRITING INCOME</b>		
1. Premiums earned (Part 1, Line 35, Column 4).....		31,177,122

<b>UNDERWRITING AND INVESTMENT EXHIBIT</b>				
PART 1 - PREMIUMS EARNED				
Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
35. TOTALS	30,620,101	<del>18,166,295</del>	12,609,274	31,177,122

<b>UNDERWRITING AND INVESTMENT EXHIBIT</b>					
PART 1A - RECAPITULATION OF ALL PREMIUMS					
Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (a)	2 Amount Unearned (Running More Than One Year from Date of Policy) (a)	3 Earned But Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
35. TOTALS	12,609,274	0	0	0	12,609,274

<b>UNDERWRITING AND INVESTMENT EXHIBIT</b>						
PART 1B - PREMIUMS WRITTEN						
Line of Business	1 Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written Cols. 1+2+3-4-5
		2 From Affiliates	3 From Non-Affiliates	4 To Affiliates	5 To Non-Affiliates	
35. TOTALS	40,044,260	0	0	0	9,424,159	30,620,101

## *Polling Question #8*

**Which of the following results in a GAAP-Stat difference?**

1. Accretion of market discount
2. Recognition of unrealized gains on bonds
3. Value of equity securities
4. Depreciation of fixed assets

# Focus on non-life companies – Treatment of premium revenue

## Practice, Part 1

Ins Co. collected gross direct premium of \$30 million. Of this amount, 30% was ceded to an foreign affiliate. Ins Co. assumed \$4 million of business from other companies. None of the collected premium was returned to policyholders. Determine the net written premium.

# Focus on non-life companies – Treatment of premium revenue

## Part 1, Solution

# Focus on non-life companies – Treatment of premium revenue

## Practice, Part 2

At the end of the calendar year, Ins Co's unearned premium liability was \$2.5 million. The prior year unearned premium liability was \$1.6 million. Determine the impact this information has on the solution to Part 1.



# Focus on non-life companies – Treatment of premium revenue

## Part 2, Solution

# Focus on non-life companies – Treatment of premium revenue

## Practice, Part 3

Ins Co. received \$2 million from insured in December. The effective date of the contract is January 1. The prior year balance of advance premium was zero.

Present the statutory accounting entry to reflect this receipt of cash.

# Focus on non-life companies – Treatment of premium revenue

## Part 3, Solution

# Focus on life companies – Treatment of premium revenue

## Premium Revenue – Book

+	Gross Written Premium*	\$30,000,000
-	Ceded	(9,000,000)
+	Assumed	4,000,000
+	PY Unearned Premium Reserve #	1,600,000
-	<u>CY Unearned Premium Reserve #</u>	<u>(2,500,000)</u>
=	Statutory Earned Premium	\$24,100,000

\* No return premiums to consider

# Unearned premium is after impact of reinsurance

# Focus on non-life companies – Treatment of premium revenue

- Tax basis ***Earned premiums*** defined as gross premiums written during year, net of return premiums & amounts paid for reinsurance, plus or minus change in ***unearned premiums/UPR*** (IRC section 832(b)(4))
- **CAUTION:** Treas. Reg. 1.832-4 provides tax definitions for the components noted above
- Tax basis earned premium includes any reserves for life insurance contracts (IRC section 832(b)(4))

# Focus on non-life companies – Treatment of premium revenue

- Treas. Reg. 1.832-4:
  - Only amounts received on insurance contracts considered
  - Gross premiums written includes accrual for amounts under retrospectively rated contracts and “earned but unbilled” amounts, a.k.a. ‘EBUB’
  - Advance premium receipts treated as gross written premium and included with unearned premiums for tax

# Focus on non-life companies – Treatment of premium revenue

- Treas. Reg. 1.832-4:
  - Premium received in installments may result in acceleration the entire contract premium if:

$$\frac{\text{Premium counted as GWP}}{\text{Total Contract Premium}}$$



$$\frac{\text{Expenses deducted}}{\text{Total Contract Expenses}}$$

“Expense Ratio Limitation”

See Rev. Proc. 2002-46, which provides a safe harbor for policy acquisition expenses

## Focus on non-life companies – Treatment of premium revenue

End result of the earned premium regulations is that taxable premium is not solely based upon the annual statement exhibits. Must “go behind” the numbers to examine the nature of the accounting entry in relation to the definitions in the regulations.



## *Polling Question #9*

**Which Code section contains the definition of an insurance company for purposes of the IRC?**

1. Section 7701
2. Section 842
3. Section 821
4. Section 816

Focus on non-life  
companies – Treatment  
premium acquisition costs

# Focus on non-life companies – Treatment of premium acquisition costs

## Statutory Accounting Treatment

- SSAP 71 provides guidance applicable to premium acquisition costs for insurance contracts.
- Ground rules -
  - New and Renewal contracts
  - Includes costs that vary with and are primarily related to acquisition of contract
  - Expensed as incurred. Reduces surplus.
- Where found – A/S, U/I, Part 3.

# Focus on non-life companies – Treatment of premium acquisition costs



Congress applied a “proxy” approach

- The amount capitalized is not based on actual acquisition expenses (such as agent commissions or underwriting expenses)
- Instead, a set percentage is applied to the unearned premium reserve liability

# Focus on non-life companies – Treatment premium acquisition costs

- IRC section 832(b)(4) – Reduce statutory UPR to 80-percent of statutory value
- Generally, 20-percent of any increase in UPR increases tax basis earned premium, 20-percent of decrease in UPR decreases tax basis earned premium
- Recall – Advance premium treated as UPR
- Form 1120PC, Schedule E

# Focus on non-life companies – Treatment premium acquisition costs

## **Practice, Part 1**

Using the information from the previous section that discussed the Treatment of Premium Revenue, compute the tax basis earned premium as adjusted for the tax treatment of premium acquisition costs.

# Focus on non-life companies – Treatment of premium acquisition costs

## Premium Revenue – Tax

+	Gross Written Premium*	\$30,000,000
-	Ceded	(9,000,000)
+	Assumed	4,000,000
+	PY UPR (Stat @ 80%)	1,280,000
-	<u>CY UPR (Stat @ 80%)</u>	<u>(2,00,000)</u>
=	Statutory Earned Premium	\$24,280,000

\* No return premiums to consider.

# Focus on non-life companies – Treatment premium acquisition costs

## Practice, Part 2

Ins Co. received \$2 million from insured in December. The effective date of the contract is January 1. The prior year balance was zero.

Recall - The Earned Premium Treas. Regs treat advance premium as gross written premium.

Determine the impact of this information on the calculation of taxable earned premium. Recall that advance premiums are 100% unearned.



# Focus on non-life companies – Treatment of premium acquisition costs

## Premium Revenue – Tax

+	Gross Written Premium	\$30,000,000
+/-	Change in Advance Premium	2,000,000
-	Ceded	(9,000,000)
+	Assumed	4,000,000
+	PY ADV UPR @ 80%	None
-	CY ADV UPR @ 80%	(1,600,000)
+	PY UPR (Stat @ 80%)	1,280,000
-	CY UPR (Stat @ 80%)	<u>(2,00,000)</u>
=	Statutory Earned Premium	\$24,680,000

# Focus on non-life companies – Treatment of premium acquisition costs

## Premium Revenue – Tax

Form 990-B (2019)

Page 4

<b>Schedule E</b>		<b>Premiums Earned – Section 832 (see instructions)</b>	
<b>1</b>	Net premiums written . . . . .	<b>1</b>	
<b>2</b>	Unearned premiums on outstanding business at the end of the preceding tax year:		
<b>a</b>	Enter 100% of life insurance reserves included in unearned premiums (section 832(b)(7)(A)) and unearned premiums of section 833 organizations. See instructions . . . . .	<b>2a</b>	
<b>b</b>	Enter 90% of unearned premiums attributable to insuring certain securities . . . . .	<b>2b</b>	
<b>c</b>	Discounted unearned premiums attributable to title insurance . . . . .	<b>2c</b>	
<b>d</b>	Enter 80% of all other unearned premiums. See instructions . . . . .	<b>2d</b>	
<b>e</b>	<b>Total.</b> Add lines 2a through 2d . . . . .	<b>2e</b>	
<b>3</b>	<b>Total.</b> Add lines 1 and 2e . . . . .	<b>3</b>	
<b>4</b>	Unearned premiums on outstanding business at the end of the current tax year:		
<b>a</b>	Enter 100% of life insurance reserves included in unearned premiums (section 832(b)(7)(A)) and unearned premiums of section 833 organizations. See instructions . . . . .	<b>4a</b>	
<b>b</b>	Enter 90% of unearned premiums attributable to insuring certain securities . . . . .	<b>4b</b>	
<b>c</b>	Discounted unearned premiums attributable to title insurance . . . . .	<b>4c</b>	
<b>d</b>	Enter 80% of all other unearned premiums. See instructions . . . . .	<b>4d</b>	
<b>e</b>	<b>Total.</b> Add lines 4a through 4d . . . . .	<b>4e</b>	
<b>5</b>	Subtract line 4e from line 3 . . . . .	<b>5</b>	
<b>6</b>	Transitional adjustments under section 832(b)(7)(D) (see instructions) . . . . .	<b>6</b>	
<b>7</b>	<b>Premiums earned.</b> Add lines 5 and 6. Enter here and on Schedule A, line 1 . . . . .	<b>7</b>	

## *Polling Question #10*

**Which super power would you choose?**

1. Fly
2. Super fast
3. Strong
4. Unbreakable
5. Read Minds
6. Eyesight and hearing

# Focus on non-life companies – Treatment of policy liabilities

# Focus on non-life companies – Treatment of policy liabilities

## Nonlife operating cycle --

- Accidents and weather happen. Insured submits claim documentation. Company records liability (**case basis** reserve) – immediately recognizes expense.
  - If estimated liability is the amount paid results in balance sheet only impact.
  - Payment of the liability impacts the income statement **only** to the extent the payment varies from the liability
- Companies also record a reserve liability for claims that the company suspects have occurred but are yet to be reported (IBNR)

# Focus on non-life companies – Treatment of policy liabilities

## What are Loss reserves?

- A company's estimate of its liability for the unpaid costs of insured events **that have occurred**.
- Because these amounts are an estimate, they are adjusted regularly and these adjustments affect a company's income statement, as well as its balance sheet.
- Any changes in reserve estimates will directly change incurred losses (an expense account), thereby adding to the volatility of a company's financial statements.
- Loss reserves are typically one of the most significant estimates made by management when preparing financial statements.

# Focus on non-life companies – Treatment of policy liabilities

## Losses Incurred and Loss Adjustment Expenses Incurred (LAE)

Statutory Accounting permits recognition of an expense. Expense is calculated as the sum of the amount paid during the year **plus** the end of the year balance of unpaid liability (case basis and IBNR) **less** the beginning of the year balance of unpaid liability (Amount paid plus/minus change in the liability.)

# Focus on non-life companies – Treatment of policy liabilities

Annual Statement (Yellow Book), page 4, lines 2 (losses) and 3 (LAE):

<b>STATEMENT OF INCOME</b>		
<b>UNDERWRITING INCOME</b>	<b>1</b> Current Year	<b>2</b> Prior Year
1. Premiums earned (Part 1, Line 35, Column 4).....	518,063,301	481,192,027
<b>DEDUCTIONS:</b>		
2. Losses incurred (Part 2, Line 35, Column 7).....	282,267,302	242,300,990
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1).....	44,477,595	41,798,563
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2).....	172,006,079	159,943,994
5. Aggregate write-ins for underwriting deductions.....	0	0
6. Total underwriting deductions (Lines 2 through 5).....	498,750,976	444,043,547
7. Net income of protected cells.....		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7).....	19,312,325	37,148,480

\* For tax purposes, “Losses incurred” includes the change in unpaid LAE.



# Focus on non-life companies – Treatment of policy liabilities

## Unpaid Losses

- Tracked by accident year (AY) and line of business (LOB)
  - Auto
  - Workers' comp
  - Homeowners
  - Commercial
- Schedule P, of the Annual Statement provides detail
- Liability may be net of salvage and subrogation recoverable

# Focus on non-life companies – Treatment of policy liabilities

## SCHEDULE P - PART 1D - WORKERS' COMPENSATION (EXCLUDING EXCESS WORKERS' COMPENSATION)

(\$000 omitted)

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding-Direct and Assumed
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21	22			
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	Direct and Assumed	Ceded			
1. Prior.....	6,520	3,274	1,112	161			91	81	37			4,245	20
2. 2009.....	551	20	198	7			52		9		6	784	5
3. 2010.....	903	39	357	11			84		16		1	1,310	6
4. 2011.....	1,063	456	395	26			105		36		5	1,118	5
5. 2012.....	410		857	38			181	3	47		7	1,454	5
6. 2013.....	725		1,559	54			263	6	61			2,547	9
7. 2014.....	2,526	168	2,118	97			285	16	95		3	4,745	16
8. 2015.....	2,179		3,792	165			389	36	178		12	6,338	22
9. 2016.....	3,785	485	5,467	184			662	75	293		43	9,463	56
10. 2017.....	5,082		7,164	335			1,242	181	739		192	13,710	127
11. 2018.....	10,374		13,414	3,138			2,121	666	3,302		48	25,407	413
12. Totals.....	34,120	4,442	36,433	4,215	0	0	5,476	1,064	4,813	0	316	71,120	686

# Focus on non-life companies – Treatment of policy liabilities

## How do you calculate tax basis?

Tax follows the statutory formula: *paid plus or minus the change in the unpaid liability*, discounted for the time value of money (TVM).

- Unpaid losses and LAE are discounted for the TVM
- Salvage and subrogation must be accrued and discounted for TVM

# Focus on non-life companies – Treatment of policy liabilities

**IRC Sec 846:** “The amount of the discounted unpaid losses as of the end of any taxable year shall be the sum of the discounted unpaid losses (as of such time) separately computed under this section with respect to unpaid losses in each line of business attributable to each accident year.”

- Tax basis (discounted) unpaid loss reserves:
  - Interest rate and loss payment pattern used to compute discount factor, and
  - Undiscounted unpaid loss reserves
- Any statutory discount is reversed before applying IRS discount factor

# Placeholder for banner

For the First Taxable Year Beginning After December 31, 2017					
Long-Tail Lines of Business					
Accident Year	Private Passenger Auto Liability/Medical	Products Liability - Claims-Made	Products Liability - Occurrence	Workers' Compensation	Long-Tail Composite
2018	95.6745	85.8982	87.8191	88.0401	92.7568
2017	95.2920	86.3600	89.1417	86.5393	91.7292
2016	95.2520	88.1407	89.8860	85.4517	91.4469
2015	94.8920	83.8076	91.1924	83.9662	90.2933
2014	94.2325	85.0889	89.8810	83.4129	88.7546
2013	94.2824	86.4184	89.9309	82.8905	88.6421
2012	94.5205	87.8040	90.8527	83.2567	88.6258
2011	95.0550	89.0388	91.8072	84.1036	89.1661
2010	95.6473	90.2969	92.1992	84.7150	90.3858
2009	97.7282	91.5785	94.4133	86.5946	92.1457
<b><u>Taxpayer Not Using the Composite Method</u></b>					
2008	98.5513	92.8838	95.7739	87.8065	93.4541
2007	98.5513	94.2124	97.1571	89.0414	94.7812
2006	98.5513	95.5629	98.5513	90.2995	96.1195
2005	98.5513	96.9299	98.5513	91.5813	97.4421
2004	98.5513	98.2868	98.5513	92.8867	98.5513
2003	98.5513	98.5513	98.5513	94.2154	98.5513
2002	98.5513	98.5513	98.5513	95.5661	98.5513
2001	98.5513	98.5513	98.5513	96.9334	98.5513
2000	98.5513	98.5513	98.5513	98.2913	98.5513
Years before					
2000	98.5513	98.5513	98.5513	98.5513	98.5513
<b><u>Taxpayer Using the Composite Method</u></b>					
Years before					
2009	98.5513	94.7288	96.6903	91.2579	95.0968

# Focus on non-life companies – Treatment of policy liabilities

- Application of Loss reserves discounting
  - Use IRS provided discount factors by LOB and AY
  - Identify the undiscounted unpaid loss reserve amounts by using information in the annual statement (Sch P)
  - Do the math (undiscounted reserve value multiplied by the applicable discount factor), or let the tax return software do the work.
- Similar treatment for accrued Salvage & Subrogation, which acts like a contra liability account

# Focus on non-life companies – Treatment of policy liabilities

2018 Accident Year	Company Y Annual Statement, Sch P		Workers Compensation ASB Parts 1D		
	Column 23 Anticipated Salvage	Column 24 Total Losses and LAE	Grossed-up Unpaid Loss Reserves	IRS Table Discount Factor	Discounted Total by Accident Year
<b>Prior / Composite</b>					
2009					
2010					
2011					
2012					
2013					
2014					
2015					
2016					
2017					
2018					
<b>Totals</b>					

# Focus on non-life companies – Treatment of policy liabilities

<b>Schedule F</b>		<b>Losses Incurred</b> (section 832) (see instructions)	
<b>1</b>	Losses paid during the tax year (attach reconciliation to annual statement)		<b>1</b>
<b>2</b>	Balance outstanding at the end of the current tax year for:		
<b>a</b>	Unpaid losses on life insurance contracts	<b>2a</b>	
<b>b</b>	Discounted unpaid losses	<b>2b</b>	
<b>c</b>	<b>Total.</b> Add lines 2a and 2b		<b>2c</b>
<b>3</b>	Add lines 1 and 2c		<b>3</b>
<b>4</b>	Balance outstanding at the end of the preceding tax year for:		
<b>a</b>	Unpaid losses on life insurance contracts	<b>4a</b>	
<b>b</b>	Discounted unpaid losses	<b>4b</b>	
<b>c</b>	<b>Total.</b> Add lines 4a and 4b		<b>4c</b>
<b>5</b>	Subtract line 4c from line 3		<b>5</b>
<b>6</b>	Estimated salvage and reinsurance recoverable at the end of the preceding tax year		<b>6</b>
<b>7</b>	Estimated salvage and reinsurance recoverable at the end of the current tax year		<b>7</b>
<b>8</b>	Losses incurred (line 5 plus line 6 less line 7)		<b>8</b>
<b>9</b>	Tax-exempt interest subject to section 832(b)(5)(B)	<b>9</b>	
<b>10</b>	Dividends-received deduction subject to section 832(b)(5)(B) (Schedule C, line 27)	<b>10</b>	
<b>11</b>	The increase in policy cash value of section 264(f) policies, as defined in section 805(a)(4)(F)	<b>11</b>	
<b>12</b>	<b>Total.</b> Add lines 9, 10, and 11		<b>12</b>
<b>13</b>	Reduction of deduction under section 832(b)(5)(B). Multiply line 12 by applicable percentage (see instructions)		<b>13</b>
<b>14</b>	<b>Losses incurred deductible under section 832(c)(4).</b> Subtract line 13 from line 8. Enter here and on Schedule A, line 26		<b>14</b>

Form **1120-PC** (2018)



## *Polling Question #11*

**Reinsurance ceded has the effect of increasing the amount of earned premium?**

1. True
2. False

Tax favored investment  
income and the concept of  
“double benefit”

# Tax favored investment income and the concept of “double benefit”

## Concept of a “double benefit”

- Because part of every dollar of life or non-life insurer’s investment income is “supports” policyholder reserves, which in turn are deductible, insurer should be required to reduce deductions to prevent a double benefit (compare IRC section 265)
- Tax-exempt interest & dividends received deduction (“DRD”), allocated between policyholders’ share & company’s share

# Tax favored investment income and the concept of “double benefit”

## Non-life companies

- Section 832(b)(5)(B). Reduction of deduction. The amount which would (but for this subparagraph) be taken into account under subparagraph (A) shall be **reduced by an amount equal to the applicable percentage**
- 2019: the applicable percentage is **25%**

# Tax favored investment income and the concept of “double benefit”

## Life companies

- **IRC Section 807(a)&(b) paraphrased.** Increase or decrease in gross income resulting from the change in reserves is, **reduced by the amount of the policyholders' share of . . .** tax exempt interest and income from an increase in certain cash surrender value contracts
- **IRC section 805(a)(4) paraphrased.** There shall be allowed the dividends received deduction as modified by the **life insurance company's share** of the dividends received

# Tax favored investment income and the concept of “double benefit”

## IRC Section 812 “Company’s share”

- **(a) Company’s share.** For purposes of section 805(a)(4), the term “company’s share” means, with respect to any taxable year beginning after December 31, 2017, **70 percent**.
- **(b) Policyholder’s share.** For purposes of section 807, the term “policyholder’s share” means, with respect to any taxable year beginning after December 31, 2017, **30 percent**.

# Tax favored investment income and the concept of “double benefit”

## Non-life companies – Form 1120PC

<b>Schedule F</b>		<b>Losses Incurred</b> (section 832) (see instructions)					
<b>9</b>	Tax-exempt interest subject to section 832(b)(5)(B) . . . . .	<b>9</b>					
<b>10</b>	Dividends-received deduction subject to section 832(b)(5)(B) (Schedule C, line 27) . . . . .	<b>10</b>					
<b>11</b>	The increase in policy cash value of section 264(f) policies, as defined in section 805(a)(4)(F) . . . . .	<b>11</b>					
<b>12</b>	<b>Total.</b> Add lines 9, 10, and 11 . . . . .					<b>12</b>	
<b>13</b>	Reduction of deduction under section 832(b)(5)(B). Multiply line 12 by applicable percentage (see instructions)					<b>13</b>	

# Tax favored investment income and the concept of “double benefit”

## Life companies – Form 1120L

<b>Schedule A</b> Dividends, Inclusions, Dividends-Received Deduction, and Other Special Deductions (see instructions)			
<b>10</b>	Gross dividends-received deduction. Add lines 1 through 9 . . . . .	<b>10</b>	
<b>11</b>	Company share percentage . . . . .	<b>11</b>	0.7
<b>12</b>	Prorated amount. Line 10 times line 11 . . . . .	<b>12</b>	

<b>Schedule F</b> Increase (Decrease) in Reserves (section 807) (see instructions)			
<b>8</b>	Increase (decrease) in reserves under section 807. Subtract line 7, column (a), from line 7, column (b) . . . . .	<b>8</b>	
<b>9a</b>	Tax-exempt interest . . . . .	<b>9a</b>	
<b>b</b>	Increase in policy cash value of section 264(f) policies as defined in section 805(a)(4)(F)	<b>9b</b>	
<b>c</b>	Add lines 9a and 9b . . . . .	<b>9c</b>	
<b>10</b>	<b>Policyholders' share percentage</b> . . . . .	<b>10</b>	30%
<b>11</b>	Policyholders' share of tax-exempt interest and the increase in policy cash value of section 264(f) policies as defined in section 805(a)(4)(F). Multiply line 9c by line 10 . . . . .	<b>11</b>	



# Tax favored investment income and the concept of “double benefit”

## Summarized

- Permanent loss of a portion of tax-benefit related to tax-exempt interest and dividends received deduction (and increase in 264(f) CSV increase).
- Mechanics of adjustment different for life and non-life companies
- Makes “proratable” investments less attractive

## *Polling Question #12*

**Which schedule of the Form 1120-PC is a graphic depiction of IRC section 832(b)(4)?**

1. Schedule A
2. Schedule B
3. Schedule D
4. Schedule E

Topics not addressed

# Topics not addressed

Just a sampling...

- NOL Rules Differ
- Affiliated groups/consolidated return issues
- Life policy product qualification
- Reinsurance agreements
- Impact of the IRC section 338(h)(10) election
- Pre-TCJA versions of rules discussed (applicable with amended returns and carrybacks)

A wise Learner once said....

**Focus on what you learned,  
not what you didn't!**

## *Polling Question #13*

**This has been the BEST ITC course I have ever attended.**

1. True
2. Definitely True
3. True –not even close!
4. Best? Best is a gross understatement!!!

# Appendix A, IRS forms

**Form 1120L**

**Form 1120-PC**

Department of the Treasury  
Internal Revenue Service

For calendar year 2019 or tax year beginning \_\_\_\_\_, 2019, ending \_\_\_\_\_, 2019  
Go to [www.irs.gov/Form1120L](http://www.irs.gov/Form1120L) for instructions and the latest information.

**2019**

**A** Check if:

**1** Consolidated return (attach Form 851)

**2** Life-nonlife consolidated return

**3** Schedule M-3 (Form 1120-L) attached

**Please print or type**

Name \_\_\_\_\_

Number, street, and room or suite no. If a P.O. box, see instructions. \_\_\_\_\_

City or town, state or province, country, and ZIP or foreign postal code \_\_\_\_\_

**B** Employer identification number \_\_\_\_\_

**C** Date incorporated \_\_\_\_\_

**D** Check applicable box if an election has been made under section(s):  
 953(c)(3)(C)  953(d)

**E** Check if: **(1)**  Final return **(2)**  Name change **(3)**  Address change **(4)**  Amended return

<b>Income</b> (line 6 is reserved)	<b>1</b> Gross premiums, etc., less return premiums, etc. Enter balance	<b>1</b>
	<b>2</b> Net decrease, if any, in reserves (Schedule F, line 12)	<b>2</b>
	<b>3a</b> Decrease in reserves under section 807(f)	<b>3a</b>
	<b>b</b> Income from Reserve Transition Relief (see instructions)	<b>3b</b>
	<b>4</b> Investment income (Schedule B, line 6) (see instructions)	<b>4</b>
	<b>5</b> Net capital gain (Schedule D (Form 1120), line 18)	<b>5</b>
	<b>7</b> Other income (attach statement)	<b>7</b>
	<b>8</b> Life insurance company gross income. Add lines 1 through 7	<b>8</b>
<b>Deductions</b> (See instructions for limitations on deductions.)	<b>9</b> Death benefits, etc.	<b>9</b>
	<b>10</b> Net increase, if any, in reserves (Schedule F, line 12)	<b>10</b>
	<b>11a</b> Increase in reserves under section 807(f)	<b>11a</b>
	<b>b</b> Deduction from Reserve Transition Relief (see instructions)	<b>11b</b>
	<b>12</b> Deductible policyholder dividends under section 808	<b>12</b>
	<b>13</b> Assumption by another person of liabilities under insurance, etc., contracts	<b>13</b>
	<b>14</b> Dividends reimbursable by taxpayer	<b>14</b>
	<b>15a</b> Interest ▶ _____ <b>b</b> Less tax-exempt interest expense ▶ _____ <b>c</b> Balance ▶ _____	<b>15c</b>
	<b>16</b> Deductible policy acquisition expenses (Schedule G, line 20)	<b>16</b>
	<b>17</b> Reserved for future use	<b>17</b>
<b>18</b> Other deductions (see instructions) (attach statement)	<b>18</b>	
<b>19</b> Add lines 9 through 18	<b>19</b>	
<b>20</b> Subtotal. Subtract line 19 from line 8	<b>20</b>	
<b>21a</b> Dividends-received and other special deductions (Schedule A, line 22)	<b>21a</b>	
<b>Plus: b.</b> Net operating loss deduction (see instructions) (attach statement)	<b>21b</b>	
<b>21c</b>	<b>21c</b>	
<b>22</b> Gain or (loss) from operations. Subtract line 21c from line 20	<b>22</b>	
<b>23</b> Life insurance company taxable income (LICTI). Enter line 22 here	<b>23</b>	
<b>24</b> Phased inclusion of balance of policyholders surplus account (see instructions)	<b>24</b>	
<b>25</b> Taxable income. Add lines 23 and 24 (see instructions)	<b>25</b>	
<b>26</b> Total tax (Schedule K, line 10)	<b>26</b>	
<b>27</b> 2019 Net 965 tax liability paid from Form 965-B, Part II, column (k), line 3	<b>27</b>	
<b>Tax, Refundable Credits, and Payments</b>	<b>28a</b> 2018 overpayment credited to 2019	<b>28a</b>
	<b>c</b> 2019 estimated tax payments	<b>28c</b>
	<b>d</b> Less 2019 refund applied for on Form 4466	<b>28d</b>
	<b>e</b> Less 2019 refund applied for on Form 4466	<b>28e</b>
	<b>f</b> Tax deposited with Form 7004	<b>28f</b>
	<b>g</b> Credits: <b>(1)</b> Form 2439 ▶ _____ <b>(2)</b> Form 4136 ▶ _____	<b>28g</b>
	<b>h</b> U.S. income tax paid or withheld at source (attach Form 1042-S)	<b>28h</b>
	<b>i</b> 2019 Net 965 tax liability from Form 965-B, Part I, column (d), line 3	<b>28i</b>
	<b>j</b> Refundable credit from Form 8827, line 5c	<b>28j</b>
	<b>28k</b>	<b>28k</b>
<b>29</b> Estimated tax penalty. Check if Form 2220 is attached <input type="checkbox"/>	<b>29</b>	
<b>30</b> Amount owed. If line 28k is smaller than the total of lines 26, 27, and 29, enter amount owed	<b>30</b>	
<b>31</b> Overpayment. If line 28k is larger than the total of lines 26, 27, and 29, enter amount overpaid	<b>31</b>	
<b>32</b> Enter amount from line 31: <b>Credited to 2020 estimated tax</b> ▶ _____ <b>Refunded</b> ▶ _____	<b>32</b>	

**Sign Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer \_\_\_\_\_ Date \_\_\_\_\_ Title \_\_\_\_\_

May the IRS discuss this return with the preparer shown below? See instructions.  Yes  No

**Paid Preparer Use Only**

Print/Type preparer's name \_\_\_\_\_ Preparer's signature \_\_\_\_\_ Date \_\_\_\_\_ Check  if self-employed PTIN \_\_\_\_\_

Firm's name ▶ \_\_\_\_\_ Firm's EIN ▶ \_\_\_\_\_

Firm's address ▶ \_\_\_\_\_ Phone no. \_\_\_\_\_





**Schedule A Dividends, Inclusions, Dividends-Received Deduction, and Other Special Deductions** (see instructions)

Dividends subject to proration		(a) Dividends and inclusions	(b) %	(c) Deductions (a times (b))
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)	1	50	
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)	2	65	
3	Dividends on certain debt-financed stock of domestic and foreign corporations	3	see instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities	4	23.3	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities	5	26.7	
6	Dividends from less-than-20%-owned foreign corporations and certain foreign sales corporations (FSCs)	6	50	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs	7	65	
8	Dividends from wholly owned foreign subsidiaries and certain FSCs	8	100	
9	Dividends from certain affiliated companies	9	100	
10	Gross dividends-received deduction. Add lines 1 through 9	10		
11	Company share percentage	11		0.7
12	Prorated amount. Line 10 times line 11	12		
<b>Dividends not subject to proration</b>				
13	Affiliated company dividends	13	see instructions	
14	Foreign-source portion of dividends received from a specified 10%-owned foreign corporation (excluding hybrid dividends) (see instructions)	14	100	
15	Dividends from foreign corporations not included on line 3, 6, 7, 8, or 14 (including hybrid dividends)	15		
16	Section 965(a) inclusion	16	see instructions	
17a	Subpart F inclusions derived from the sale by a controlled foreign corporation (CFC) of the stock of a lower-tier foreign corporation treated as a dividend (attach Form(s) 5471) (see instructions)	17a	100	
b	Subpart F inclusions derived from hybrid dividends of tiered corporations (attach Form(s) 5471) (see instructions)	17b		
c	Other inclusions from CFCs under subpart F not included on line 16, 17a, 17b, or 18 (attach Form(s) 5471) (see instructions)	17c		
18	Global intangible low-taxed income (GILTI) (attach Form(s) 5471 and 8992)	18		
19	Other corporate dividends	19		
20	<b>Total dividends and inclusions.</b> Add lines 1 through 19, column (a). Enter here and on Schedule B, line 2	20		
21	Section 250 deduction (attach Form 8993)	21		
22	<b>Total deductions.</b> Add lines 12, 13, 14, 16, 17a, and 21, column (c). Enter here and on page 1, line 21a	22		

**Schedule B Investment Income** (see instructions)

1	Interest (excluding tax-exempt interest)	1
2	Total dividends and inclusions (Schedule A, line 20, column (a))	2
3	Rents	3
4	Royalties	4
5	Leases, terminations, etc.	5
6	Investment income. Add lines 1 through 5. Enter here and on page 1, line 4	6



**Schedule F Increase (Decrease) in Reserves** (section 807) (see instructions)

	(a) Beginning of tax year	(b) End of tax year
<b>1</b> Life insurance reserves . . . . .	<b>1</b>	
<b>2</b> Unearned premiums and unpaid losses . . . . .	<b>2</b>	
<b>3</b> Supplementary contracts . . . . .	<b>3</b>	
<b>4</b> Dividend accumulations and other amounts . . . . .	<b>4</b>	
<b>5</b> Advance premiums . . . . .	<b>5</b>	
<b>6</b> Special contingency reserves . . . . .	<b>6</b>	
<b>7</b> Add lines 1 through 6 . . . . .	<b>7</b>	
<b>8</b> Increase (decrease) in reserves under section 807. Subtract line 7, column (a), from line 7, column (b) . . . . .	<b>8</b>	
<b>9a</b> Tax-exempt interest . . . . .	<b>9a</b>	
<b>b</b> Increase in policy cash value of section 264(f) policies as defined in section 805(a)(4)(F) . . . . .	<b>9b</b>	
<b>c</b> Add lines 9a and 9b . . . . .	<b>9c</b>	
<b>10</b> Policyholders' share percentage . . . . .	<b>10</b>	30%
<b>11</b> Policyholders' share of tax-exempt interest and the increase in policy cash value of section 264(f) policies as defined in section 805(a)(4)(F). Multiply line 9c by line 10 . . . . .	<b>11</b>	
<b>12</b> Net increase (decrease) in reserves. Subtract line 11 from line 8. If an increase, enter here and on page 1, line 10. If a decrease, enter here and on page 1, line 2 . . . . .	<b>12</b>	

**Schedule G Policy Acquisition Expenses** (section 848) (see instructions)

	(a) Annuity	(b) Group life insurance	(c) Other
<b>1</b> Gross premiums and other consideration . . . . .	<b>1</b>		
<b>2</b> Return premiums and premiums and other consideration incurred for reinsurance . . . . .	<b>2</b>		
<b>3</b> Net premiums. Subtract line 2 from line 1 . . . . .	<b>3</b>		
<b>4</b> Net premium percentage (see instructions) . . . . .	<b>4</b>		
<b>5</b> Multiply line 3 by line 4 . . . . .	<b>5</b>		
<b>6</b> Combine line 5, columns (a), (b), and (c), and enter here. If zero or less, enter -0- on lines 7 and 8 . . . . .	<b>6</b>		
<b>7</b> Unused balance of negative capitalization amount from prior years . . . . .	<b>7</b>	( )	
<b>8</b> Combine lines 6 and 7. If zero or less, enter -0- . . . . .	<b>8</b>		
<b>9</b> General deductions (attach statement) . . . . .	<b>9</b>		
<b>10</b> Enter the lesser of line 8 or line 9 . . . . .	<b>10</b>		
<b>11</b> Deductible general deductions. Subtract line 10 from line 9. Enter here and include on page 1, line 18 . . . . .	<b>11</b>		
<b>12</b> If the amount on line 6 is negative, enter it as a positive amount. If the amount on line 6 is positive, enter -0- . . . . .	<b>12</b>		
<b>13</b> Unamortized specified policy acquisition expenses from prior years . . . . .	<b>13</b>		
<b>14</b> Deductible negative capitalization amount. Enter the lesser of line 12 or line 13 . . . . .	<b>14</b>		
<b>15a</b> Tentative 60-month specified policy acquisition expenses. Enter amount from line 10, but not more than \$5 million . . . . .	<b>15a</b>		
<b>b</b> Limitation . . . . .	<b>15b</b>	\$10,000,000	
<b>16</b> Phase-out amount. Subtract line 15b from line 10. If zero or less, enter -0- . . . . .	<b>16</b>		
<b>17a</b> Current year 60-month specified policy acquisition expenses. Subtract line 16 from line 15a. If zero or less, enter -0- . . . . .	<b>17a</b>		
<b>b</b> Enter 10% (0.10) of line 17a . . . . .	<b>17b</b>		
<b>18a</b> Current year 180-month specified policy acquisition expenses. Subtract line 17a from line 10 . . . . .	<b>18a</b>		
<b>b</b> Enter 3.34% (0.0334) of line 18a . . . . .	<b>18b</b>		
<b>19</b> Enter the applicable amount of amortization from specified policy acquisition expenses capitalized in prior years and deductible this year. Attach statement . . . . .	<b>19</b>		
<b>20</b> Deductible policy acquisition expenses. Add lines 14, 17b, 18b, and 19. Enter here and on page 1, line 16 . . . . .	<b>20</b>		



**Schedule K Tax Computation** (see instructions)

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)) . . . . .	<input type="checkbox"/>	
2	Income tax . . . . .		2
3	Base erosion minimum tax amount (attach Form 8991) . . . . .		3
4	Add lines 2 and 3 . . . . .		4
5a	Foreign tax credit (attach Form 1118) . . . . .	5a	
b	Credit from Form 8834 (attach Form 8834) . . . . .	5b	
c	General business credit (attach Form 3800) . . . . .	5c	
d	Credit for prior year minimum tax (attach Form 8827) . . . . .	5d	
e	Bond credits from Form 8912 . . . . .	5e	
6	<b>Total credits.</b> Add lines 5a through 5e . . . . .		6
7	Subtract line 6 from line 4 . . . . .		7
8	Foreign corporations—tax on income not effectively connected with U.S. business . . . . .		8
9	Other taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611 <input type="checkbox"/> Other (attach statement) . . . . .		9
10	<b>Total tax.</b> Add lines 7 through 9. Enter here and on page 1, line 26 . . . . .		10

**Schedule L Part I—Total Assets** (see instructions)

		(a) Beginning of tax year	(b) End of tax year
1	Real property . . . . .	1	
2	Stocks . . . . .	2	
3	Proportionate share of partnership and trust assets . . . . .	3	
4	Other assets (attach statement) . . . . .	4	
5	<b>Total assets.</b> Add lines 1 through 4 . . . . .	5	

**Part II—Total Assets and Total Insurance Liabilities** (section 842(b)(2)(B)(i)) (see instructions)

**Note:** The information provided in Part II should conform with the "Assets" and "Liabilities, Surplus, and Other Funds" sections of the NAIC Annual Statement.

		(a) Beginning of tax year	(b) End of tax year
1	Subtotals for assets . . . . .	1	
2	<b>Total assets</b> . . . . .	2	
3	Reserve for life policies and contracts . . . . .	3	
4	Reserve for accident and health policies . . . . .	4	
5	Liability for deposit-type contracts . . . . .	5	
6	Life policy and contract claims . . . . .	6	
7	Accident and health policy and contract claims . . . . .	7	
8	Policyholder's dividend and coupon accumulations . . . . .	8	
9	Premiums and annuity considerations received in advance less discount . . . . .	9	
10	Surrender values on canceled policies . . . . .	10	
11	Part of other amounts payable on reinsurance assumed . . . . .	11	
12	Part of aggregate write-ins for liabilities. (Only include items or amounts includible in "total insurance liabilities on U.S. business" as defined in section 842(b)(2)(B)(i)) . . . . .	12	
13	Separate accounts statement . . . . .	13	
14	<b>Total insurance liabilities.</b> Add lines 3 through 13 . . . . .	14	



**Schedule M Other Information** (see instructions)

		Yes	No			Yes	No
<b>1</b>	Check accounting method: <b>a</b> <input type="checkbox"/> Accrual <b>b</b> <input type="checkbox"/> Other (specify) ▶ _____			<b>8c</b>	The corporation may have to file <b>Form 5472</b> , Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter number of Forms 5472 attached. ▶ _____		
<b>2</b>	Check if the corporation is a: <b>a</b> <input type="checkbox"/> Legal reserve company—If checked Kind of company: <b>(1)</b> <input type="checkbox"/> Stock <b>(2)</b> <input type="checkbox"/> Mutual Principal business: <b>(1)</b> <input type="checkbox"/> Life Insurance <b>(2)</b> <input type="checkbox"/> Health and accident insurance <b>b</b> <input type="checkbox"/> Fraternal or assessment association <b>c</b> <input type="checkbox"/> Burial or other insurance company			<b>9</b>	Does the corporation discount any of the loss reserves shown on its annual statement? . . . . .		
<b>3</b>	Enter the percentage that the total of the corporation's life insurance reserves (section 816(b)) plus unearned premiums and unpaid losses (whether or not ascertained) on noncancelable life, health, or accident policies not included in life insurance reserves bears to the corporation's total reserves (section 816(c)) . . . ▶ _____ %. Attach a statement showing the computation.			<b>10a</b>	Enter the total unpaid losses shown on the corporation's annual statement: <b>(1)</b> For the current year: \$ _____ <b>(2)</b> For the previous year: \$ _____		
<b>4</b>	Does the corporation have any variable annuity contracts outstanding? . . . . .			<b>b</b>	Enter the total unpaid loss adjustment expenses shown on the corporation's annual statement: <b>(1)</b> For the current year: \$ _____ <b>(2)</b> For the previous year: \$ _____		
<b>5</b>	At the end of the tax year, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) . . . . . If "Yes," attach a statement showing <b>(a)</b> name and employer identification number (EIN), <b>(b)</b> percentage owned, and <b>(c)</b> taxable income or (loss) before NOL and special deductions of such corporation for the tax year ending with or within your tax year.			<b>11</b>	Enter the available net operating loss carryover from prior tax years. (Do not reduce it by any deduction on page 1, line 21b.) . . . ▶ \$ _____		
<b>6</b>	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? . . . . . If "Yes," enter name and EIN of the parent corporation. ▶ _____			<b>12a</b>	Enter the corporation's state of domicile. ▶ _____		
<b>7</b>	At the end of the tax year, did any individual, partnership, corporation, estate, or trust own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete <b>a</b> and <b>b</b> below. <b>a</b> Attach a statement showing name and identifying number. (Do not include any information already entered on line 6 above.) <b>b</b> Enter percentage owned. ▶ _____			<b>b</b>	Was the annual statement used to prepare the tax return filed with the state of domicile? . . . . . If "No," complete <b>c</b> below. <b>c</b> Enter the state where the annual statement used to prepare the tax return was filed. ▶ _____		
<b>8</b>	At any time during the year, did one foreign person own, directly or indirectly, at least 25% of <b>(a)</b> the total voting power of all classes of stock of the corporation entitled to vote, or <b>(b)</b> the total value of all classes of stock of the corporation? . . . . . If "Yes," enter: <b>a</b> Percentage owned and ▶ _____ <b>b</b> Owner's country. ▶ _____			<b>13</b>	Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement? See instructions . . . . . If "Yes," complete and attach Schedule UTP.		
				<b>14</b>	Does the corporation have gross receipts of at least \$500 million in any of the 3 preceding tax years? (See section 59A(e)(2) and (3).) . . . . . If "Yes," complete and attach Form 8991.		
				<b>15</b>	During the tax year, did the corporation pay or accrue any interest or royalty for which the deduction is not allowed under section 267A? See instructions . . . . . If "Yes," enter the total amount of the disallowed deductions . . . . . ▶ \$ _____		
				<b>16</b>	Did the corporation have an election under section 163(j) for any real property trade or business or any farming business in effect during the tax year? See instructions . . . . .		
				<b>17</b>	Is the corporation required to file Form 8990, Limitation on Business Interest Expense IRC 163(j), to calculate the amount of deductible business interest? See instructions . . . . .		



Department of the Treasury  
Internal Revenue Service

For calendar year 2019, or tax year beginning \_\_\_\_\_, 2019, ending \_\_\_\_\_, 20\_\_\_\_\_

**2019**

▶ Go to [www.irs.gov/Form1120PC](http://www.irs.gov/Form1120PC) for instructions and the latest information.

<b>A</b> Check if: 1 Consolidated return (attach Form 851) <input type="checkbox"/> 2 Life-nonlife consolidated return <input type="checkbox"/> 3 Schedule M-3 (Form 1120-PC) attached <input type="checkbox"/>	<b>Please print or type</b>	Name	<b>B</b> Employer identification number
		Number, street, and room or suite no. If a P.O. box, see instructions.	<b>C</b> Date incorporated
		City or town, state or province, country, and ZIP or foreign postal code	<b>D</b> Check applicable box if an election has been made under section(s):

**E** Check if: (1)  Final return (2)  Name change (3)  Address change (4)  Amended return  831(b)  953(c)(3)(C)  953(d)

<b>Tax Computation and Payments</b>	1	Taxable income (Schedule A, line 37)		<b>1</b>		
	2	Taxable investment income for electing small companies (Schedule B, line 21)		<b>2</b>		
	3	Check if a member of a controlled group (attach Schedule O (Form 1120))	<input type="checkbox"/>			
	4	Income tax		<b>4</b>		
	5	Enter amount of tax that a reciprocal must include		<b>5</b>		
	6	Base erosion minimum tax amount (attach Form 8991)		<b>6</b>		
	7	Add lines 4 through 6		<b>7</b>		
	8a	Foreign tax credit (attach Form 1118)		<b>8a</b>		
	b	Credit from Form 8834 (attach Form 8834)		<b>8b</b>		
	c	General business credit (attach Form 3800)		<b>8c</b>		
	d	Credit for prior year minimum tax (attach Form 8827)		<b>8d</b>		
	e	Bond credits from Form 8912		<b>8e</b>		
	f	<b>Total credits.</b> Add lines 8a through 8e		<b>8f</b>		
	9	Subtract line 8f from line 7		<b>9</b>		
	10	Foreign corporations—Tax on income not connected with U.S. business		<b>10</b>		
	11	Personal holding company tax (attach Schedule PH (Form 1120))		<b>11</b>		
	12	Other taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611 <input type="checkbox"/> Other (attach statement)		<b>12</b>		
	13	<b>Total tax.</b> Add lines 9 through 12		<b>13</b>		
	14	2019 Net 965 tax liability paid from Form 965-B, Part II, column (k), line 3		<b>14</b>		
	15a	2018 overpayment credited to 2019	<b>15a</b>			
b	Reserved for future use	<b>15b</b>				
c	2019 estimated tax payments (see instructions)	<b>15c</b>				
d	2019 Net 965 tax liability from Form 965-B, Part I, column (d), line 3	<b>15d</b>				
e	Less 2019 refund applied for on Form 4466	<b>15e</b>				
f	Enter the total of lines 15a through 15d less line 15e	<b>15f</b>				
g	Tax deposited with Form 7004	<b>15g</b>				
h	Credit by reciprocal for tax paid by attorney-in-fact under section 835(d)	<b>15h</b>				
i	Other credits and payments	<b>15i</b>				
j	Refundable credit from Form 8827, line 5c	<b>15j</b>				
16	Estimated tax penalty (see instructions). Check if Form 2220 is attached	<input type="checkbox"/>	<b>16</b>			
17	<b>Amount owed.</b> If line 15k is smaller than the total of lines 13, 14, and 16, enter amount owed		<b>17</b>			
18	<b>Overpayment.</b> If line 15k is larger than the total of lines 13, 14, and 16, enter amount overpaid		<b>18</b>			
19	Enter amount from line 18: <b>Credited to 2020 estimated tax</b> ▶ <b>Refunded</b> ▶		<b>19</b>			

**Sign Here** ▶ Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer	Date	Title	May the IRS discuss this return with the preparer shown below? See instructions <input type="checkbox"/> Yes <input type="checkbox"/> No
_____	_____	_____	

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶	Firm's EIN ▶			
	Firm's address ▶	Phone no.			

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 64270Q Form **1120-PC** (2019)



**Schedule A Taxable Income—Section 832** (see instructions)

<b>Income</b>	<b>1</b>	Premiums earned (Schedule E, line 7)	<b>1</b>		
	<b>2</b>	Dividends and inclusions (Schedule C, line 17)	<b>2</b>		
			<b>(a) Interest received</b>	<b>(b) Amortization of premium</b>	
	<b>3a</b>	Interest (including tax-exempt interest)			
	<b>b</b>	Interest exempt under section 103			
	<b>c</b>	Subtract line 3b from line 3a			
	<b>d</b>	Taxable interest. Subtract line 3c, column (b) from line 3c, column (a)	<b>3d</b>		
	<b>4</b>	Rents	<b>4</b>		
	<b>5</b>	Royalties	<b>5</b>		
	<b>6</b>	Capital gain net income (attach Schedule D (Form 1120))	<b>6</b>		
	<b>7</b>	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	<b>7</b>		
	<b>8</b>	Certain mutual fire or flood insurance company premiums (section 832(b)(1)(D))	<b>8</b>		
	<b>9</b>	Income on account of special income and deduction accounts	<b>9</b>		
	<b>10</b>	Income from protection against loss account (see instructions)	<b>10</b>		
<b>11</b>	Mutual interinsurers or reciprocal underwriters—decrease in subscriber accounts	<b>11</b>			
<b>12</b>	Reserved for future use	<b>12</b>			
<b>13</b>	Other income (attach statement)	<b>13</b>			
<b>14</b>	Gross income. Add lines 1 through 13	<b>14</b>			
<b>Deductions (See instructions for limitations on deductions.)</b>	<b>15</b>	Compensation of officers (attach statement) (see instructions)	<b>15</b>		
	<b>16</b>	Salaries and wages (less employment credits)	<b>16</b>		
	<b>17</b>	Agency balances and bills receivable that became worthless during the tax year	<b>17</b>		
	<b>18</b>	Rents	<b>18</b>		
	<b>19</b>	Taxes and licenses	<b>19</b>		
	<b>20a</b>	Interest ▶	<b>b</b> Less tax-exempt interest exp. ▶	<b>c</b> Bal. ▶	<b>20c</b>
	<b>21</b>	Charitable contributions	<b>21</b>		
	<b>22</b>	Depreciation (attach Form 4562)	<b>22</b>		
	<b>23</b>	Depletion	<b>23</b>		
	<b>24</b>	Pension, profit-sharing, etc., plans	<b>24</b>		
	<b>25</b>	Employee benefit programs	<b>25</b>		
	<b>26</b>	Losses incurred (Schedule F, line 14)	<b>26</b>		
	<b>27</b>	Reserved for future use	<b>27</b>		
	<b>28</b>	Other capital losses (Schedule G, line 12, column (g))	<b>28</b>		
	<b>29</b>	Dividends to policyholders	<b>29</b>		
	<b>30</b>	Mutual interinsurers or reciprocal underwriters—increase in subscriber accounts	<b>30</b>		
	<b>31</b>	Other deductions (see instructions) (attach statement)	<b>31</b>		
	<b>32</b>	<b>Total deductions.</b> Add lines 15 through 31	<b>32</b>		
	<b>33</b>	<b>Subtotal.</b> Subtract line 32 from line 14	<b>33</b>		
	<b>34a</b>	Special deduction for section 833 organizations (Schedule H, line 6)	<b>34a</b>		
<b>b</b>	Deduction on account of special income and deduction accounts	<b>34b</b>			
<b>c</b>	<b>Total.</b> Add lines 34a and 34b	<b>34c</b>			
<b>35</b>	<b>Subtotal.</b> Subtract line 34c from line 33	<b>35</b>			
<b>36a</b>	Dividends received and other special deductions (Schedule C, line 30)	<b>36a</b>			
<b>b</b>	Net operating loss deduction	<b>36b</b>			
<b>c</b>	<b>Total.</b> Add lines 36a and 36b	<b>36c</b>			
<b>37</b>	<b>Taxable income.</b> Subtract line 36c from line 35. Enter here and on page 1, line 1	<b>37</b>			





**Schedule B Part I – Taxable Investment Income of Electing Small Companies (section 834) (see instructions)**

		(a) Interest received	(b) Amortization of premium		
<b>Income</b>	<b>1a</b> Interest (including tax-exempt interest) . . . . .				
	<b>b</b> Interest exempt under section 103 . . . . .				
	<b>c</b> Subtract line 1b from line 1a . . . . .				
	<b>d</b> Taxable interest. Subtract line 1c, column (b), from line 1c, column (a) . . . . .			<b>1d</b>	
	<b>2</b> Dividends and inclusions (Schedule C, line 17) . . . . .			<b>2</b>	
	<b>3</b> Rents . . . . .			<b>3</b>	
	<b>4</b> Royalties . . . . .			<b>4</b>	
	<b>5</b> Gross income from a trade or business, other than an insurance business, and from Form 4797 . . . . .			<b>5</b>	
<b>6</b> Income from leases described in sections 834(b)(1)(B) and 834(b)(1)(C) . . . . .			<b>6</b>		
<b>7</b> Capital gain net income from Schedule D (Form 1120), line 18 . . . . .			<b>7</b>		
<b>8</b> Gross investment income. Add lines 1d through 7 . . . . .			<b>8</b>		
<b>Deductions</b>	<b>9</b> Real estate taxes . . . . .			<b>9</b>	
	<b>10</b> Other real estate expenses . . . . .			<b>10</b>	
	<b>11</b> Depreciation (attach Form 4562) . . . . .			<b>11</b>	
	<b>12</b> Depletion . . . . .			<b>12</b>	
	<b>13</b> Trade or business deductions as provided in section 834(c)(8) (attach statement) . . . . .			<b>13</b>	
	<b>14</b> Interest . . . . .			<b>14</b>	
	<b>15</b> Other capital losses (Schedule G, line 12, column (g)) . . . . .			<b>15</b>	
	<b>16</b> Total. Add lines 9 through 15 . . . . .			<b>16</b>	
	<b>17</b> Investment expenses (attach statement) . . . . .			<b>17</b>	
	<b>18</b> Total deductions. Add lines 16 and 17 . . . . .			<b>18</b>	
	<b>19</b> Subtract line 18 from line 8 . . . . .			<b>19</b>	
<b>20</b> Dividends received and other special deductions (Schedule C, line 30) . . . . .			<b>20</b>		
<b>21</b> Taxable investment income. Subtract line 20 from line 19. Enter here and on page 1, line 2 . . . . .			<b>21</b>		

**Part II – Invested Assets Book Values**

**Note:** Complete only if claiming a deduction for general expenses allocated to investment income.

		(a) Beginning of tax year	(b) End of tax year
<b>22</b>	Real estate . . . . .	<b>22</b>	
<b>23</b>	Mortgage loans . . . . .	<b>23</b>	
<b>24</b>	Collateral loans . . . . .	<b>24</b>	
<b>25</b>	Policy loans, including premium notes . . . . .	<b>25</b>	
<b>26</b>	Bonds of domestic corporations . . . . .	<b>26</b>	
<b>27</b>	Stock of domestic corporations . . . . .	<b>27</b>	
<b>28</b>	Government obligations, etc. . . . .	<b>28</b>	
<b>29</b>	Bank deposits bearing interest . . . . .	<b>29</b>	
<b>30</b>	Other interest-bearing assets (attach statement) . . . . .	<b>30</b>	
<b>31</b>	Total. Add lines 22 through 30 . . . . .	<b>31</b>	
<b>32</b>	Add columns (a) and (b), line 31 . . . . .		<b>32</b>
<b>33</b>	Mean of invested assets for the tax year. Enter one-half of line 32 . . . . .		<b>33</b>
<b>34</b>	Multiply line 33 by 0.0025 . . . . .		<b>34</b>
<b>35</b>	Income base. Line 1b, column (a), plus line 8 less the sum of line 1b, column (b), and line 16 . . . . .	<b>35</b>	
<b>36</b>	Multiply line 33 by 0.0375 . . . . .	<b>36</b>	
<b>37</b>	Subtract line 36 from line 35. Don't enter less than zero . . . . .	<b>37</b>	
<b>38</b>	Multiply line 37 by 0.25 . . . . .		<b>38</b>
<b>39</b>	Limitation on deduction for investment expenses. Add lines 34 and 38 . . . . .		<b>39</b>



**Schedule C Dividends, Inclusions, Dividends-Received Deduction, and Other Special Deductions**  
(see instructions)

Income		Dividends and Inclusions	
		(a) Subject to section 832(b)(5)(B)	(b) Dividends and inclusions
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		
3	Dividends on certain debt-financed stock of domestic and foreign corporations		
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		
6	Dividends from less-than-20%-owned foreign corporations and certain foreign sales corporations (FSCs)		
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs		
8	Dividends from wholly owned foreign subsidiaries and certain FSCs		
9	Dividends from certain affiliated companies		
10	Foreign-source portion of dividends received from a specified 10%-owned foreign corporation (excluding hybrid dividends) (see instructions)		
11	Dividends from foreign corporations not included on line 3, 6, 7, 8, or 10 (including any hybrid dividend)		
12a	Subpart F inclusions derived from the sale by a controlled foreign corporation (CFC) of the stock of a lower-tier foreign corporation treated as a dividend (attach Form(s) 5471) (see instructions)		
12b	Subpart F inclusions derived from hybrid dividends of tiered corporations (attach Form(s) 5471) (see instructions)		
12c	Other inclusions from CFCs under subpart F not included on line 12a, 12b, 13, or 15 (attach Form(s) 5471)		
13	Global intangible low-taxed income (GILTI) (attach Forms 5471 and 8992)		
14	Gross-up for foreign taxes deemed paid		
15	Section 965(a) inclusion		
16	Other dividends (attach statement)		
17	<b>Total dividends and inclusions.</b> Add lines 1 through 16. Enter here and on Schedule A, line 2, or Schedule B, line 2, whichever applies		
Deductions		Dividends Received and Other Special Deductions	
		(a) Subject to section 832(b)(5)(B)	(b) Total dividends received and special deductions
18	Multiply line 1 by 50% (0.50)		
19	Multiply line 2 by 65% (0.65)		
20	Deduction for line 3 (see instructions)		
21	Multiply line 4 by 23.3% (0.233)		
22	Multiply line 5 by 26.7% (0.267)		
23	Multiply line 6 by 50% (0.50)		
24	Multiply line 7 by 65% (0.65)		
25	Enter the amount from line 8		
26	<b>Total.</b> Add lines 18 through 25. (See instructions for limitation.)		
27	<b>Total.</b> Add line 26, column (a), and line 9, column (a). Enter here and on Schedule F, line 10		
28	Section 250 deduction (attach Form 8993)		
29	Section 965(c) participation exemption (see instructions)		
30	<b>Total deductions.</b> Add line 26, column (b), and lines 9, 10, 12a, 28, and 29, column (b). Enter here and on Schedule A, line 36a, or Schedule B, line 20, whichever applies		





**Schedule E Premiums Earned—Section 832 (see instructions)**

1	Net premiums written . . . . .	1	
2	Unearned premiums on outstanding business at the end of the preceding tax year:		
a	Enter 100% of life insurance reserves included in unearned premiums (section 832(b)(7)(A)) and unearned premiums of section 833 organizations. See instructions . . . . .	2a	
b	Enter 90% of unearned premiums attributable to insuring certain securities . . . . .	2b	
c	Discounted unearned premiums attributable to title insurance . . . . .	2c	
d	Enter 80% of all other unearned premiums. See instructions . . . . .	2d	
e	<b>Total.</b> Add lines 2a through 2d . . . . .	2e	
3	<b>Total.</b> Add lines 1 and 2e . . . . .	3	
4	Unearned premiums on outstanding business at the end of the current tax year:		
a	Enter 100% of life insurance reserves included in unearned premiums (section 832(b)(7)(A)) and unearned premiums of section 833 organizations. See instructions . . . . .	4a	
b	Enter 90% of unearned premiums attributable to insuring certain securities . . . . .	4b	
c	Discounted unearned premiums attributable to title insurance . . . . .	4c	
d	Enter 80% of all other unearned premiums. See instructions . . . . .	4d	
e	<b>Total.</b> Add lines 4a through 4d . . . . .	4e	
5	Subtract line 4e from line 3 . . . . .	5	
6	Transitional adjustments under section 832(b)(7)(D) (see instructions) . . . . .	6	
7	<b>Premiums earned.</b> Add lines 5 and 6. Enter here and on Schedule A, line 1 . . . . .	7	

**Schedule F Losses Incurred (section 832) (see instructions)**

1	Losses paid during the tax year (attach reconciliation to annual statement) . . . . .	1	
2	Balance outstanding at the end of the current tax year for:		
a	Unpaid losses on life insurance contracts . . . . .	2a	
b	Discounted unpaid losses . . . . .	2b	
c	<b>Total.</b> Add lines 2a and 2b . . . . .	2c	
3	Add lines 1 and 2c . . . . .	3	
4	Balance outstanding at the end of the preceding tax year for:		
a	Unpaid losses on life insurance contracts . . . . .	4a	
b	Discounted unpaid losses . . . . .	4b	
c	<b>Total.</b> Add lines 4a and 4b . . . . .	4c	
5	Subtract line 4c from line 3 . . . . .	5	
6	Estimated salvage and reinsurance recoverable at the end of the preceding tax year . . . . .	6	
7	Estimated salvage and reinsurance recoverable at the end of the current tax year . . . . .	7	
8	Losses incurred (line 5 plus line 6 less line 7) . . . . .	8	
9	Tax-exempt interest subject to section 832(b)(5)(B) . . . . .	9	
10	Dividends-received deduction subject to section 832(b)(5)(B) (Schedule C, line 27) . . . . .	10	
11	The increase in policy cash value of section 264(f) policies, as defined in section 805(a)(4)(F) . . . . .	11	
12	<b>Total.</b> Add lines 9, 10, and 11 . . . . .	12	
13	Reduction of deduction under section 832(b)(5)(B). Multiply line 12 by applicable percentage. See instructions . . . . .	13	
14	<b>Losses incurred deductible under section 832(c)(4).</b> Subtract line 13 from line 8. Enter here and on Schedule A, line 26 . . . . .	14	



**Schedule G Other Capital Losses** (see instructions)

**Note:** Capital assets sold or exchanged to meet abnormal insurance losses and to pay dividends and similar distributions to policyholders

1	Dividends and similar distributions paid to policyholders		<b>1</b>	
2	Losses paid		<b>2</b>	
3	Expenses paid		<b>3</b>	
4	<b>Total.</b> Add lines 1, 2, and 3		<b>4</b>	
<b>Note:</b> Adjust lines 5 through 8 to cash method if necessary.				
5	Interest received		<b>5</b>	
6	Dividends received and inclusions (Schedule C, line 17)		<b>6</b>	
7	Gross rents, gross royalties, lease income, etc., and gross income from a trade or business other than an insurance business including income from Form 4797 (include gains for invested assets only)		<b>7</b>	
8	Net premiums received		<b>8</b>	
9	<b>Total.</b> Add lines 5 through 8		<b>9</b>	
10	Limitation on gross receipts from sales of capital assets. Line 4 less line 9. If zero or less, enter -0-		<b>10</b>	

(a) Description of capital asset	(b) Date acquired	(c) Gross sales price	(d) Cost or other basis	(e) Expense of sale	(f) Depreciation allowed (or allowable)	(g) Loss ((d) plus (e) less the sum of (c) and (f))
11						
12	<b>Totals.</b> Column (c) must not be more than line 10. (Enter amount from column (g) in Schedule A, line 28, or Schedule B, line 15, whichever applies.)					

**Schedule H Special Deduction and Ending Adjusted Surplus for Section 833 Organizations** (see instructions)

1	Healthcare claims incurred during the tax year and liabilities incurred during the tax year under cost-plus contracts		<b>1</b>	
2	Expenses incurred during the tax year in connection with the administration, adjustment, or settlement of healthcare claims or in connection with the administration of cost-plus contracts		<b>2</b>	
3	<b>Total.</b> Add lines 1 and 2		<b>3</b>	
4	Multiply line 3 by 0.25		<b>4</b>	
5	Beginning adjusted surplus		<b>5</b>	
6	<b>Special deduction.</b> If you checked "No" on line 13 of Schedule I, enter -0- here; you can't take the special deduction. All others subtract line 5 from line 4. If zero or less, enter -0-. Enter amount here and on Schedule A, line 34a. See instructions for limitation		<b>6</b>	
7	Net operating loss deduction (Schedule A, line 36b)		<b>7</b>	
8	Net exempt income:			
a	Adjusted tax-exempt income		<b>8a</b>	
b	Adjusted dividends-received deduction		<b>8b</b>	
9	Taxable income (Schedule A, line 37)		<b>9</b>	
10	<b>Ending adjusted surplus.</b> Add lines 5 through 9		<b>10</b>	





**Schedule I Other Information** (see instructions) (continued)

		Yes	No			Yes	No
15	Does the corporation have gross receipts of at least \$500 million in any of the 3 preceding tax years? (See section 59A(e)(2) and (3)) If "Yes," complete and attach Form 8991.			17	Did the corporation have an election under section 163(j) for any real property trade or business or any farming business in effect during the taxable year? See instructions		
16	During the tax year, did the corporation pay or accrue any interest or royalty for which the deduction is not allowed under section 267A? See instructions If "Yes," enter the total amount of the disallowed deductions \$			18	Is the corporation required to file Form 8990, Limitation on Business Interest Expense Under Section 163(j), to calculate the amount of deductible business interest? See instructions		

**Schedule L Balance Sheets per Books**

Note: All filers are required to complete this schedule.

Assets	Beginning of tax year		End of tax year	
	(a)	(b)	(c)	(d)
1 Cash				
2a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				
4 U.S. Government obligations				
5 Tax-exempt securities (see instructions)				
6 Other current assets (attach statement)				
7 Loans to shareholders				
8 Mortgage and real estate loans				
9 Other investments (attach statement)				
10a Buildings and other depreciable assets				
b Less accumulated depreciation	( )		( )	
11a Depletable assets				
b Less accumulated depletion	( )		( )	
12 Land (net of any amortization)				
13a Intangible assets (amortizable only)				
b Less accumulated amortization	( )		( )	
14 Other assets (attach statement)				
15 <b>Total assets</b>				
<b>Liabilities and Shareholders' Equity</b>				
16 Accounts payable				
17 Mortgages, notes, bonds payable in less than 1 year				
18 Insurance liabilities (see instructions)				
19 Other current liabilities (attach statement)				
20 Loans from shareholders				
21 Mortgages, notes, bonds payable in 1 year or more				
22 Other liabilities (attach statement)				
23 Capital stock: a Preferred stock				
b Common stock				
24 Additional paid-in capital				
25 Retained earnings—appropriated (attach statement)				
26 Retained earnings—unappropriated				
27 Adjustments to shareholders' equity (attach statement)				
28 Less cost of treasury stock	( )		( )	
29 <b>Total liabilities and shareholders' equity</b>				



**Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return**

**Note:** Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more. See instructions.

<b>1</b> Net income (loss) per books . . . . .		<b>7</b> Income recorded on books this year not included in this return (itemize)	
<b>2</b> Federal income tax per books . . . . .		<b>a</b> Tax-exempt interest \$ .....	
<b>3</b> Excess of capital losses over capital gains		<b>8</b> Deductions in this tax return not charged against book income this year (itemize)	
<b>4</b> Income subject to tax not recorded on books this year (itemize) .....		<b>a</b> Depreciation \$ .....	
<b>5</b> Expenses recorded on books this year not deducted in this return (itemize)		<b>b</b> Charitable contributions \$ .....	
<b>a</b> Depreciation \$ .....		<b>9</b> Add lines 7 and 8 . . . . .	
<b>b</b> Charitable contributions \$ .....		<b>10</b> Income (Schedule A, line 35, or Schedule B, line 19, if applicable)—line 6 less line 9	
<b>c</b> Travel and entertainment \$ .....			
<b>6</b> Add lines 1 through 5 . . . . .			

**Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (line 26, Schedule L)**

<b>1</b> Balance at beginning of year . . . . .		<b>5</b> Distributions: <b>a</b> Cash . . . . .	
<b>2</b> Net income (loss) per books . . . . .		<b>b</b> Stock . . . . .	
<b>3</b> Other increases (itemize) .....		<b>c</b> Property . . . . .	
.....		<b>6</b> Other decreases (itemize) .....	
.....		<b>7</b> Add lines 5 and 6 . . . . .	
<b>4</b> Add lines 1, 2, and 3 . . . . .		<b>8</b> Balance at end of year (line 4 less line 7)	



# Appendix B

## Comparison of Sub L pre and post TCJA

# Life premium revenue

## Pre-2018

Tax basis premium revenue (life and annuity consideration) is determined on a cash method of accounting. Accordingly, certain accrual basis adjustment made in the statutory calculation of earned premium are reversed.

For example, adjustments for advance premiums and deferred and uncollected premiums are reversed in arriving at taxable income. (Note – Although there is an adjustment in arriving at earned premium, adjustments to the determination of tax basis liabilities offset an increase in taxable income.)

## Post 2017

No change.

# Acquisition cost – Tax DAC

## Pre-2018

IRC section 848 provides rules for the calculation of a proxy deferred acquisition cost (Tax DAC).

Percentage of specified policy premiums used as a proxy for capitalization of general expenses.

Life = 7.7%; Annuity 1.75%; Group Life 2.05%

Capitalized amount amortized, generally over 120 months.

Special rules for reinsurance and the first \$5 million of capitalized expenses.

## Post 2017

Concept retained with modifications.

Percentage of specified policy premiums increased.

Life=9.2%; Annuity 2.09%; Group Life 2.45%

Amortization period extended to 180 months.

Special rules for reinsurance and the first \$5 million of capitalized expenses retained.

Effective for tax year beginning after December 31, 2017.

Transition rule – Pre-2018 capitalized amounts run-off using old law rules



# Tax favored investment income – Proration adjustment

## Pre-2018

Because of a perceived double counting of the benefit related to tax-favored investment income (municipal interest or equity dividends), life companies are required to annually calculate company share and policyholder share percentages. Only the company share produces a benefit for the company. Generally, for general account purposes, the company share is not sufficient to support attractive after tax yields on tax favored investment income.

Separate accounts generally produced higher company shares.

## Post 2017

Formula in section 812 is repealed/replaced.

As changed, the company share is fixed at 70%. Accordingly, only 30% of the tax benefit for tax favored investment income is lost to the policyholder share.

Effective for tax years beginning after December 31, 2017.

Transition rule – None.

# Tax basis of life contract liabilities

## Pre-2018

Generally, the tax basis of life contract liabilities is the greater of the contract's net surrender value or the federally prescribed reserve, but no greater than the liability reported in the annual statement.

The federally prescribed reserve required the use of a methodology, mortality/morbidity table, and interest per the Internal Revenue Code, which are determined as of the date of issuance.

Calculations performed at a contract level.

## Post 2017

Concept of net surrender value as a floor and the annual statement value as cap retained.

Federally prescribed reserve concept repealed; however, tax basis calculation still required.

Generally, the tax basis of a life contract is now tied more closely to the permitted NAIC liability value determined as of the balance sheet date times 92.81 percent.

Effective for tax years beginning after December 31, 2017.

*Transition Rule* – Tax basis liabilities determined under prior law as of December 31, 2017 shall be recalculated using the modifications applicable to calendar year 2018, any adjustment shall be spread over an 8 year period beginning in 2018.

# Change in tax basis of life contract liabilities

## Pre-2018

Generally, most changes, including some that were errors, in the determination of the tax basis in life contract liabilities are spread into taxable income over a 10 year period, beginning in the year after the year of change. IRC section 807(f).

## Post 2017

10 year spread provision repealed.

Replaced with treatment as normal IRC section 481 accounting method change. Automatic approval.

Effective for tax years beginning after December 31, 2017.

*Transition Rule* – Any 807(f) adjustment continues to be spread under the provisions of prior law.

# Small life company deduction

## Pre-2018

IRC section 806 allows a deduction equal to 60% of life insurance company taxable income, but not to exceed \$1.8 million.

Deduction phased out for life insurance taxable income greater than \$3 million. No deduction allowed if life insurance taxable income exceeds \$15 million.

Must have fair value of assets less than \$500 million on controlled group basis.

## Post 2017

Repealed.

Effective for tax years beginning after December 31, 2017.

# Policyholder surplus account

## Pre-2018

Pre-1984 law permitted taxable income deferrals into the policyholder surplus account of stock life insurance companies. Provisions repealed in 1984. No increases in the policyholder surplus accounts permitted after 1984.

Certain corporate actions triggered taxation of some or all of any balance in the policyholder surplus account. Absent such actions, any balance in the account maintained tax deferred status indefinitely.

## Post 2017

Repealed.

Effective for tax years beginning after December 31, 2017.

*Transition Rule* – Any balance in the policyholder surplus account is brought into income 1/8th per year beginning in 2018. No deductions allowed. Tax on 1/8th amount in addition to any other tax liability for the year.

# Other provisions – Net Operating Losses (“NOL deduction”)

## Pre-2018

IRC section 172 - 2-year carryback and 20-year carryover.

Generally, NOL deduction allowed to fully offset regular taxable income.

## Post-2017

No change for non-life insurance companies.

For all other companies: Carryback eliminated, carryforward indefinite. Deduction limited to 80% of taxable income before NOL deduction.

Effective for tax years beginning after December 31, 2017.

Note – CARES Act temporary revisions allow 5-yr carryback and suspend 80% limitation for tax years 2018 – 2020.

# Non-life earned premiums

## Pre-2018

Tax basis earned premium equals net written premium plus/minus 80% of the change in the unearned premium reserve. Treasury Regulations 1.832-4 defines the elements of earned premium, which generally negatively impact the treatment of advance premium and installment premium.

Revenue Procedure 2002-46 provides a safe harbor for the deduction related to premium acquisition expenses. This safe harbor includes the acceleration of premium acquisition expenses (“pro form PAE”) related to advance premium and installment premium that are treated as net written premium.

## Post 2017

No change.

# Tax favored investment income – Proration adjustment

## Pre-2018

Because of a perceived double counting of the benefit related to tax-favored investment income, 15 percent of the benefit otherwise afforded to municipal interests and the dividends received deduction is added back via a reduction in the amount otherwise allowable as a deduction for losses incurred.

## Post 2017

As changed, proration percentage increases from 15 percent to 25 percent.

Percentage now based upon a formula tied to the highest corporate tax rate.

Effective for tax years beginning after December 31, 2017.

Transition rule – None.



# Losses incurred – Tax basis of unpaid losses

## Pre-2018

Tax basis losses incurred are determined by applying a discount factor, which is generally determined by applying a federally prescribed interest rate to an industry based loss payment pattern. Payment patterns determined in “determination” years – 5 year intervals (2017).

Taxpayers permitted to make an election to use company based payment patterns in place of industry payment patterns. Payment patterns determined annually.

## Post 2017

*Interest Rate* - Determined on the basis of the “corporate bond yield curve as defined in section 430(h)(2)(D)(i)). 60-month average, similar to prior law.

*Payment patterns* - Short-term pattern unchanged. Long-term pattern is lengthened from 15 years to a maximum of 24 years.

*Company Election*. Repealed

Effective for tax years beginning after December 31, 2017.

*Transition Rule* – Tax basis reserves determined under prior law as of December 31, 2017 shall be recalculated using the discount factors applicable to calendar year 2018, any adjustment shall be spread over an 8 year period beginning in 2018.

# Special loss deduction – Section 847

## Pre-2018

Taxpayers are permitted to claim an additional tax deduction that is equal to the impact of discounting under IRC section 846 provided special estimated tax payment are made. This provision results in a reduction in federal taxable income, but no decrease in cash tax payments to the government.

## Post 2017

Section 847 is repealed.

Effective for tax years beginning after December 31, 2017.

Transition Rule (House Bill)– Full reversal of the special deduction and application of special estimated tax payments. Any excess special estimated tax payments are treated as normal estimated tax payments under IRC section 6655.

# Salvage and subrogation

## Pre-2018

Taxpayers are required to accrual the value of anticipated salvage and subrogation. This amount is then subject to discount, applying discount factors computed separate from those applied to unpaid loss reserves.

## Post 2017

No provision.

Note changes to IRC section 846 impact discounting of Salvage and Subrogation

# Net Operating Losses (“NOL deduction”)

## Pre-2018

IRC section 172 - 2-year carryback and 20-year carryover.

Generally, NOL deduction allowed to fully offset regular taxable income.

## Post 2017

No change for non-life insurance companies.

For all other companies: Carryback eliminated, carryforward indefinite. Deduction limited to 80% of taxable income before NOL deduction.

Note – CARES Act temporary revisions allow 5-yr carryback and suspend 80% limitation for tax years 2018 – 2020.