

TAXATION OF LIFE-INSURANCE COMPANIES

JULY 9, 1956.—Ordered to be printed

Mr. BYRD, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 11995]

The Committee on Finance, to whom was referred the bill (H. R. 11995) to provide that the 1955 formula for taxing income of life-insurance companies shall also apply to taxable years beginning in 1956, having considered the same, report favorably thereon without amendment, and recommend that the bill do pass.

PURPOSE

The bill would amend the Internal Revenue Code of 1954 by applying the tax imposed by section 802 on the income of life insurance companies to taxable years beginning in 1956. Under present law this section imposes the tax only for taxable years beginning in 1955.

REASON FOR THE BILL

When the bill, H. R. 7201 (Public Law 429 of the 84th Cong.), which provided the tax formula for 1955, was considered by your committee last year, the Secretary of the Treasury endorsed the bill as a 1-year stopgap with the understanding that the Department of the Treasury would submit a recommendation for permanent legislation during this Congress. It is now apparent that the Treasury will not be able to offer a definite legislative alternative in this session of the Congress. If such an alternative were submitted, it would require careful study, including public hearings, and it would not be possible to adequately consider a major revision in the life insurance company income tax formula either during the remainder of this session or prior to March 15, 1957.

It is clear, therefore, that since the Treasury Department's alternative will not be available as a possible method of taxation for this year, legislation is needed at this time. Present law, while providing a special tax formula for the year 1955 provided that the tax for 1956

would revert to prior law, specifically, to the formula enacted in 1942 and now contained in sections 811, 812, and 813 of the Internal Revenue Code of 1954. While the 1942 formula would increase the revenue to be collected from life insurance companies, it would involve a shift of tax burden among the companies.

In general, the formula contained in Public Law 429 has been recognized as an improvement over previous temporary formulas and it should be extended for the year 1956. By the end of this calendar year companies must declare dividends to be paid in 1957. Considerable difficulty was involved at the end of last year, in the absence of a positive tax formula when the companies were in the position of not knowing what their tax liability would be.

EXPLANATION OF THE BILL

Section 802 (a) of the Internal Revenue Code of 1954 imposes a tax on the income of life insurance companies for taxable years beginning in 1955. Section 802 (c) imposes, also for taxable years beginning in 1955, an alternative tax on certain life insurance companies having nonlife insurance business. Your committee's bill would amend subsections (a) and (c) of section 802 by inserting "1955 or 1956" in place of "1955".

Section 811 imposes tax under a different formula for taxable years beginning after December 31, 1955. This date is amended to December 31, 1956.

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1954

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Subchapter L. Insurance Companies

PART I—LIFE INSURANCE COMPANIES

Subpart A. 1955 formula.
Subpart B. 1942 formula.
Subpart C. Miscellaneous provisions.

Subpart A—1955 Formula

Sec. 801. Definition of life insurance company.
[Sec. 802. Tax imposed for 1955.]
Sec. 802. Tax imposed for 1955 and 1956.
Sec. 803. Income and deductions.
Sec. 804. Reserve and other policy liability deduction.
Sec. 805. Special interest deduction

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SEC. 802. TAX IMPOSED FOR 1955 AND 1956.

(a) TAX IMPOSED.—A tax is hereby imposed for each taxable year beginning in 1955 *or 1956* on the income of every life insurance com-

pany. Except as provided in subsection (c), such tax shall consist of a normal tax (computed under section 11 (b)) and a surtax (computed under section 11 (c)) on the sum of—

(1) the life insurance taxable income (as defined in subsection (b)), plus

(2) the non-life insurance taxable income (as defined in subsection (f)).

(b) **LIFE INSURANCE TAXABLE INCOME DEFINED.**—For purposes of this subpart, the term “life insurance taxable income” means the net investment income (as defined in section 803 (c)), minus the sum of—

(1) the net investment income allocable to non-life insurance reserves (determined under section 804 (d)),

(2) the reserve and other policy liability deduction (determined under section 804), and

(3) the special interest deduction, if any, allowed by section 805.

(c) **ALTERNATIVE TAX IN THE CASE OF COMPANIES HAVING NON-LIFE INSURANCE RESERVES.**—

(1) **IN GENERAL.**—In the case of a life insurance company which has non-life insurance reserves, the tax imposed by subsection (a) of this section for any taxable year beginning in 1955 or 1956 shall be the tax computed under such subsection (or under section 1201 (a) if applicable) or the tax computed under paragraph (2) of this subsection, whichever is the greater.

(2) **ALTERNATIVE 1 PERCENT TAX ON NON-LIFE INSURANCE BUSINESS.**—The tax referred to in paragraph (1) is a tax equal to the sum of the following:

(A) A partial tax consisting of a normal tax (computed under section 11 (b)) and a surtax (computed under section 11 (c)) on the life insurance taxable income.

(B) A partial tax consisting of—

(i) 1 percent of the amount which bears the same ratio to the gross investment income (reduced by the deduction for wholly-exempt interest allowed by section 803 (c) (1) as the non-life insurance reserves bear to the qualified reserves (determined under section 804 (c)), plus

(ii) 1 percent of the excess of the amount by which the net premiums on contracts meeting the requirements of section 804 (d) (2) (A) exceed the dividends to policyholders on such contracts. For purposes of this clause, net premiums, and dividends to policyholders, shall be computed in the manner provided in section 823.

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SUBPART B—1942 FORMULA

Sec. 811. Tax imposed.

Sec. 812. Reserve and other policy liability deduction.

Sec. 813. Adjustment for certain reserves.

SEC. 811. TAX IMPOSED.

(a) **TAX IMPOSED.**—A tax is hereby imposed, on the life insurance company taxable income of every life insurance company, for each taxable year beginning after **December 31, 1955** *December 31, 1956*. Such tax shall consist of—

- “(1) a normal tax on such income computed under section 11
- (b), and
- “(2) a surtax on such income computed under section 11 (c).

