

# How To Prepare Your

# 1956 U. S. Life Insurance Company Income Tax Return

## On Form 1120L

(References are to the Internal Revenue Code)

If taxpayer is a new insurance company qualifying under section 818, see separate Schedule NC (Form 1120L).

### GENERAL INSTRUCTIONS

**A. Companies required to file a return.**—Every domestic life insurance company and every foreign life insurance company carrying on an insurance business within the United States (if with respect to its United States business it would qualify as a life insurance company), which is engaged in the business of issuing life insurance and annuity contracts (either separately or combined with health and accident insurance) or noncancellable contracts of health and accident insurance and of which the life insurance reserves, plus unearned premiums and unpaid losses on noncancellable life, health, or accident policies not included in life insurance reserves, comprise more than 50 percent of its total reserves, adjusted in each case for policy loans as required by section 801, shall file a return on this form.

If a receiver, trustee in bankruptcy, or assignee has possession of or holds title to all or substantially all the property or business of a corporation, whether or not the property or business is being operated, he must make a return of income for the corporation in the same manner and form as corporations are required to make such returns. (See sec. 6012.) If a life insurance company disposes of its life insurance business and life insurance reserves under a reinsurance agreement with another company, but continues its corporate existence for the purpose of winding up and liquidating its affairs, it will not be taxable as a life insurance company after the effective date of such agreement.

**B. Period covered.**—The return shall be for the calendar year ended December 31, 1956, and the taxable income computed on the calendar year basis in accordance with the provisions of section 843.

**C. Accounting methods.**—A return on this form shall be filed using the cash or accrual method of accounting, except that whichever method is adopted in filing the company's first return must be followed until the consent of the Commissioner is received to change the method.

**Rounding off to whole-dollar amounts.**—If you wish, the money items on your return or accompanying schedules required by such return may be shown as whole-dollar amounts. This means that you eliminate any amount less than 50 cents, and increase any amount from 50 cents through 99 cents to the next highest dollar. Your choice as to whether you round off to whole-dollar amounts may not be changed after the due date for filing your return.

**D. Time and place for filing.**—The return for 1956 must be sent to the District Director of Internal Revenue for the district in which the company's principal place of business or principal office or agency is located, on or before March 15, 1957.

**E. Signature and verification.**—The return must be signed either by the president, vice-president, treasurer, assistant treasurer or chief accounting officer, or by any other corporate officer authorized to sign. A receiver, trustee, or assignee must sign any return which he is required to file on behalf of a corporation. The statement at the bottom of page 1 of the return is required to be signed by any person, firm, or corporation who prepared the taxpayer's return. If the return is prepared by a firm or corporation, it should be signed in the name of the firm or corporation. The statement is not required if the return is prepared by a regular, full-time employee.

**F. Payment of tax.**—The tax must be paid in full when the return is filed or in two installments, 50 percent on or before the 15th day of the third month and 50 percent on or before the 15th day of the sixth month following the close of the taxable year.

A declaration of estimated tax must be made by every corpora-

tion which is subject to income tax under subchapter L of chapter 1 (relating to insurance companies), if its income tax for the taxable year can reasonably be expected to exceed \$100,000 plus the amount of any estimated credits against tax. (See Form 1120-ES.) In the case of affiliated corporations filing a consolidated return, see consolidated return regulations prescribed under section 1502.

**G. Failure to file, etc.**—Substantial additions to the tax are imposed for failing to file a return, for late filing, and for filing a false or fraudulent return.

**H. Information at source.**—Every insurance company making payments in the course of its trade or business of (1) interest, rents, commissions, or other fixed or determinable income of \$600 or more during the calendar year 1956 to an individual, a partnership, or a fiduciary, or (2) salaries or wages of \$600 or more shall make returns on Forms 1096 and 1099, except that the making of such return will not be required with respect to salary or wage payments included on Form W-2, provided copies of withholding statements on Form W-2 are furnished. If a portion of such salary or wage payments was reported on a Withholding Statement (Form W-2), only the remainder must be reported on Form 1099.

The returns on Forms 1096 and 1099 shall also include dividend payments totaling \$10 or more during the calendar year 1956 to each shareholder who is an individual (citizen or resident of the United States), a resident fiduciary, or a resident partnership any member of which is a citizen or resident.

**I. Information by corporations.**—1. *Contemplated dissolution or liquidation.*—Every corporation shall, within 30 days after the adoption by the corporation of a resolution or plan for the dissolution of the corporation or for the liquidation of the whole or any part of its capital stock, render a correct return on Form 966 setting forth the terms of such resolution or plan. (See sec. 6043.)

2. *Distribution in liquidation.*—Every corporation making distributions in liquidation of the whole or any part of its capital stock shall also make returns on Forms 1096 and 1099L, as required by instructions on Form 1096, for the calendar year 1956.

**J. Stock ownership in foreign corporations.**—In addition to the schedule required by Specific Instruction 2, a corporation owning any stock of a foreign corporation must attach a statement showing the name and address of each company and the total number of shares of each class of outstanding stock owned during the taxable year. If the corporation owned 5 percent or more in value of the outstanding stock of a foreign personal holding company, attach a statement setting forth in complete detail the information required by section 551 (d).

**K. Annual statement.**—A copy of the annual statement for life insurance companies adopted by the National Convention of Insurance Commissioners for the year 1956, as filed with the Insurance Department of the State, Territory, or District of Columbia, which shows the reserves used in computing the net income reported on the return, together with copies of Schedule A (real estate) and Schedule D (bonds and stocks), must accompany the return. Similar copies for the preceding year must also be furnished, if not filed for such year. In the case of a foreign life insurance company carrying on a life insurance business within the United States, the copies submitted shall be those relating to the United States business of the company.

**L. List of attached schedules.**—Attach a list of the schedules accompanying the return, giving for each a brief title and the schedule number. Place name and address of company on each schedule.

## SPECIFIC INSTRUCTIONS

## The Following Instructions Are Numbered To Correspond With Line Numbers on the Second Page of the Return

**1. Interest.**—Enter interest received or accrued from all sources during the taxable year. The gross amount of interest reported as gross income shall be decreased by the amortization of premium and increased by the accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidences of indebtedness, determined (1) in accordance with the method regularly employed, if reasonable, or (2) in accordance with regulations prescribed by the Secretary or his delegate. (Attach statement showing method and computation.)

**2. Dividends.**—Enter on line 2 (a) the amount received or accrued as dividends from a domestic corporation which is subject to taxation under Subtitle A, except dividends on certain preferred stock of a public utility, dividends received from a corporation entitled to the benefits of section 931, and from a corporation organized under the China Trade Act, 1922. Enter on line 2 (b) dividends received on certain preferred stock of a public utility which is subject to taxation under Subtitle A. Enter on line 2 (c) dividends from foreign corporations. Enter on line 2 (d) dividends from all other corporations, including dividends on share accounts in Federal savings and loan associations issued on or after March 28, 1942. Enter on line 1 (c) dividends on share accounts in Federal savings and loan associations issued prior to March 28, 1942. Submit schedule, itemizing all dividends received during the year, stating the names of the corporations declaring the dividends and amounts received from each.

**3. Rents and royalties.**—Enter the gross amount received from these sources.

**4. Income from trade or business other than insurance business.**—Enter the gross income from any trade or business (other than an insurance business) carried on by the life insurance company, or by a partnership of which the life insurance company is a member.

**5. Leases, etc.**—Enter the gross amount of income received from the entering into (or the alteration or termination) of any lease, mortgage or other instrument or agreement from which the life insurance company derives interest, dividends, rents or royalties.

**7. Interest wholly exempt from tax.**—Enter the amount of interest which is wholly exempt from taxation under the provisions of section 103.

**8. Investment expenses.**—Enter expenses paid or incurred which are properly chargeable to investment expenses, the total amount of which, if there be any allocation of general expenses to investment expenses, should not exceed one-fourth of 1 percent of the mean of the invested assets reported on line 12, Schedule H, plus, in cases where the taxable income computed without any deduction for (1) investment expenses and (2) tax-free interest, exceeds 3¼ percent of the book value of such mean of the invested assets, one-fourth of such excess. Submit a schedule showing the nature and amount of the items included herein, the minor items being grouped in one amount. (See section 803 (c) (2).)

**9. Taxes.**—Enter taxes paid or accrued exclusively upon real estate owned by the company as provided in section 164. (For limitation on deduction, see Instruction 14 (b).)

**10. Real estate expenses.**—Enter all ordinary and necessary building expenses, such as fire insurance, heat, light, labor, etc., and the cost of incidental repairs which neither materially add to the value of the property nor appreciably prolong its life, but keep it in an ordinarily efficient operating condition. Do not include any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or any amount expended on foreclosed property before such property is held forth for rental purposes. (For limitation on deduction, see Instruction 14 (b).)

**11. Depreciation.**—The amount deductible on account of depreciation is an amount reasonably measuring a portion of the investment in depreciable property which, by reason of exhaustion, wear and tear, or obsolescence, is properly chargeable against the operations of the year. In any event the deduction is limited to the depreciation on the property that is used, and to the extent used, for the purpose of producing the income specified in section 803 (b). The amount of depreciation should be determined upon the basis of the original cost (not replacement cost) of the property, and the probable number of years remaining of its expected useful life.

(a) *Straight line method.*—The most common method of computing depreciation is the "straight line" method. It allows for the recovery of cost in equal annual amounts over the life of the property, with only salvage value remaining at the end of its useful life. To compute the deduction, add the cost of improvements to the cost (or other basis) of the asset and deduct both the estimated salvage value and the total depreciation allowed or allowable in past years. Divide the result by the number of years of useful life remaining to the asset; the quotient is the depreciation deduction.

(b) *Declining balance method.*—Under this method a uniform rate is applied each year to the remaining cost or other basis of property (without adjustment for salvage value) determined at the beginning of such year. For property acquired before January 1, 1954, or used property whenever acquired, the rate of depreciation under this method may not exceed one and one-half times the applicable straight line rate.

(c) *Special rules for new assets acquired after December 31, 1953.*—The cost or other basis of an asset acquired after December 31, 1953, may be depreciated under methods proper in the past; or, it may be depreciated under any of the following methods provided (1) that the asset is tangible, (2) that it has an estimated useful life of three years or more, and (3) that the original use of the asset commenced with the taxpayer and commenced after December 31, 1953. If an asset is constructed, reconstructed, or erected by the taxpayer, so much of the basis of the asset as is attributable to construction, reconstruction, or erection after December 31, 1953, may be depreciated under methods proper in the past; or, it may be depreciated under any of the following methods provided the asset meets qualifications (1) and (2) above.

(1) *Declining balance method.*—This method may be used with a rate not in excess of twice the applicable straight line rate.

(2) *Sum of the years-digits method.*—Under this method annual allowances for depreciation are computed by applying changing fractions to the taxpayer's cost or other basis of property (reduced by estimated salvage value). A deduction for each year is computed by multiplying the cost or other basis of the asset (reduced by estimated salvage value) by the number of years of useful life remaining (including the year for which the deduction is computed) and dividing the product by the sum of all the digits corresponding to the years of the estimated useful life of the asset. In the case of a five-year life this sum would be 15 (5 plus 4 plus 3 plus 2 plus 1). For the first year 5-15th of the cost reduced by estimated salvage value would be allowable, for the second year 4-15th, etc.

(3) *Other methods.*—A taxpayer may use any consistent method which does not result in accumulated allowances at the end of any year greater than the total of the accumulated allowances which would have resulted from the use of the declining balance method. This limitation applies only during the first two-thirds of the useful life of the property.

If a deduction is claimed on account of depreciation, a schedule should be filed with the return showing: (1) description of the property; (2) date of acquisition of the property; (3) the cost or other basis of the asset; (4) the amount of depreciation allowed and allowable in prior years; (5) the method under which the depreciation allowance is being claimed; (6) rate of depreciation, and expected useful life; and (7) depreciation allowance this year. In case obsolescence is included, state separately amount claimed and basis upon which it is computed. Cost or value of land is not subject to depreciation, and when land and building were purchased for a lump sum the cost of the buildings subject to depreciation must be established.

The adjusted property accounts and the accumulated depreciation shown in the schedule should be reconciled with those accounts as reflected on the books of the taxpayer. For limitation on deduction, see Instruction 14 (b) below.

**12. Depletion of mines, oil and gas wells, timber, etc.**—If a deduction is claimed on account of depletion, procure from the District Director: Form M (mines and other natural deposits), Form O (oil and gas), or Form T (timber); fill in and file with return.

**13. Trade or business deductions.**—Enter the total of deductions attributable to any trade or business, the income from which is included in the life insurance company's gross investment income under section 803 (b) (2) and is shown on line 4, page 2 of the return. Do not include (a) losses from sales or exchanges of capital assets, (b) sales or exchanges of property used in the trade or business and (c) losses from the compulsory or involuntary conversion of property used in the trade or business. The deductions to be entered on line 13 will be disallowed to the extent attributable to the carrying on of the insurance business.

**14. Total deductions.**—(a) Enter the total of lines 7 to 13, inclusive.

(b) *Limitation on deductions relating to real estate owned and occupied.*—The deductions included on lines 9 to 11 on account of real estate owned and occupied in whole or in part by the company shall be limited to an amount which bears the same ratio to such deductions (computed without regard to section 803 (d)) as the rental value of the space not so occupied bears to the rental value of the entire property. (Submit detailed schedule.)

(c) *Items not deductible.*—No deduction is allowable for the amount of any item or part thereof allocable to a class of exempt income, other than interest. Items directly attributable to such exempt income shall be allocated thereto, and items directly attributable to any class of taxable income shall be allocated to such taxable income. If an item is indirectly attributable to both taxable income and exempt income, a reasonable proportion thereof, determined in the light of all the facts and circumstances in each case, shall be allocated to each. Apportionments must in all cases be reasonable. A taxpayer receiving any exempt income, other than interest, or holding any property or engaging in any activity the income from which is exempt shall submit with its return as a part thereof an itemized statement, in detail, showing (1) the amount of each class of exempt income, and (2) the amount of items allocated to each such class (the amount allocated by apportionment being shown separately).

**18. Reserve and other policy liability deduction.**

Section 804 provides a new rule for determining the "reserve and other policy liability deduction" for the purpose of subpart A of part I of subchapter L of the 1954 Code. Subject to the limitations provided in subsection (b), subsection (a) defines the term "reserve and other policy liability deduction" (for the purposes of the subpart) as meaning the sum of the amounts determined by applying the following percentages to the excess of the net investment income over the net investment income allocable to non-life insurance reserves (determined under subsection (d)):

(1) 87½ percent of so much of the excess as does not exceed \$1 million; and

(2) 85 percent of so much of the excess as exceeds \$1 million.

Subsection (b) provides that the deduction for reserve and other policy liabilities shall not exceed an amount which is equal to the sum of the following:

(A) Two times the required interest on life insurance reserves (determined under sec. 805 (c) (1));

(B) The required interest on reserves for deferred dividends (determined under sec. 805 (c) (2));

(C) The amount of interest paid (as defined in sec. 805 (d));

(D) The dividends to policyholders paid or declared (other than dividends on non-life insurance contracts referred to in subsection (d) (2) (A) of sec. 804); and

(E) In the case of a mutual assessment life insurance company or association the maximum deduction is to be an amount equal to two times whichever of the following is the lesser:

(i) The amount of the net investment income on life insurance reserves described in subparagraph (A) or (B) of section 801 (b) (3); or

(ii) 3 percent of the life insurance reserves so described. The above sum must be reduced by the amount of the adjustment for policy loans provided in section 804 (b) (2). For the purposes of (D) above the dividends to policyholders shall be construed as those paid, or those declared, according to the

method of accounting regularly employed in keeping the books of the insurance company.

Section 804 (b) (2) provides for the application of an adjustment which will reduce the amount computed under paragraph (1) by an amount equal to the mean of the aggregates (at the beginning and end of the taxable year) of the outstanding policy loans with respect to contracts for which life insurance reserves are maintained, multiplied by the average rate of interest applicable to life insurance reserves.

Section 804 (b) (3) permits an insurance company, whose reserve and other policy liability deduction has been limited by subsection (b) (1), to take as a deduction an amount corresponding to the dividends received deductions provided in sections 243, 244, and 245 of the 1954 Code. Specifically, subparagraph (A) of section 804 (b) (3) provides that where section 804 (b) (1) reduces the reserve and other policy liability deduction allowed by section 804, an insurance company will be allowed, in computing life insurance taxable income under section 802 (b) an additional deduction corresponding to the dividends received deduction computed under the provisions of subparagraph (B) of section 804 (b) (3).

The deduction computed under subparagraph (B) of section 804 (b) (3) is to be an amount which bears the same ratio to the total intercorporate dividends received deductions provided in sections 243, 244, and 245 as the net investment income, reduced as provided in this subparagraph, bears to the total net investment income.

**19. Special interest deduction.**—Schedule C on page 3 should be used to compute the amount of the special interest deduction. The special interest deduction is allowed in instances in which the relationship between adjusted net investment income and required interest is such that the adjusted net investment income is less than 105 percent of the required interest. The term "adjusted net investment income" is defined as the net investment income computed without any deduction for wholly tax exempt interest minus 50 percent of the net investment income allocable to non-life insurance reserves. The term "required interest" means the total of—

(1) The sum of amounts obtained by multiplying (a) each rate of interest assumed in computing the life insurance reserves by (b) the means of the amounts of the adjusted reserves computed at that rate at the beginning and end of the taxable year;

(2) The reserve for deferred dividends multiplied by each rate of interest assumed in computing such reserve, and

(3) Interest paid or accrued.

If the adjusted net investment income is 105 percent or more of the required interest, the special interest deduction is stated as zero. If the adjusted net investment income is 100 percent or less of the required interest, the special interest deduction is determined as an amount equal to 50 percent of the amount by which net investment income allocable to life insurance reserves exceeds the reserve and other policy liability deduction. If the adjusted net investment income is more than 100 percent but less than 105 percent of the required interest, the special interest deduction is computed by multiplying the amount by which net investment income allocable to life insurance reserves exceeds the reserve and other policy liability deduction by ten times the difference between 105 percent and the actual percentage established. The percentage established by comparing adjusted net investment income to the required interest should be carried to at least the nearest one-tenth of a percentage point with the result that the multiplication by ten of the difference between 105 percent and such percentage will be productive of a more accurately graduated figure than would be possible were no such fractional percentage to be allowed.

**Tax computation.**—Separate Schedule NC is an additional tax computation schedule provided for companies qualifying as new companies under section 818. This schedule is to be used by such new companies in instances where the maximum limitation provided in section 804 (b) on the reserve and other policy liability deduction applies. The tax of such new companies is the tax computed on Schedule NC or on the regular tax computation schedule on Form 1120 L, whichever is less.

In the various tax computation schedules, it should be noted that the subtraction of \$5,500 must not result in a surtax figure less than zero.

## SCHEDULE F.—COMPUTATION OF DIVIDENDS RECEIVED DEDUCTION

Line 1.—The deductions provided in line 1 of Schedule F are as follows: (a) 85 percent of the amount received as dividends (except dividends on certain preferred stock of public utilities) from a domestic corporation subject to income tax. Amounts received as dividends from mutual savings banks, cooperative banks, and domestic building and loan associations and allowed as a deduction to such banks or building and loan associations shall not be treated as dividends. In the case of dividends received from a regulated investment company, see section 854 regarding limitations on amount deductible; (b) 62.115 percent of the amount received as dividends on the preferred stock of a public utility which is subject to income tax and is allowed a

deduction, as provided in section 247, for dividends paid; and (c) 85 percent of dividends received from certain foreign corporations. See section 245 for qualifications and limitations on the amount of this deduction.

Dividends received from a corporation described in section 246 (a) (China Trade Act Corporation, etc.) should be entered on line 2 (d), page 2.

Lines 2-9.—These lines are to be completed only in the event that the maximum limit applies in the computation of the reserve and other policy liability deduction (see line 7, Schedule B).

## SCHEDULE G.—DATA FOR RESERVE AND OTHER POLICY LIABILITY DEDUCTION FOR THE SUCCEEDING TAXABLE YEAR

*Data for succeeding taxable year.*—The following data shall be furnished in Schedule G by every life insurance company for the computation of the figure, for the succeeding year, to be proclaimed by the Secretary to determine the reserve and other policy liability deduction.

*Lines 1 to 5, inclusive.—Reserves.*—List data pertaining to life insurance reserves. Describe fully the nature of the reserve, the method of computation, the interest rate used, and the amount of each such reserve at the beginning and end of the taxable year. Include mortality and morbidity reserves on noncancellable life, health, or accident contracts. Do not include pro rata unearned premiums or unpaid losses on cancellable accident and health contracts. For reserves computed on a modified basis, such as Illinois Standard, or Select and Ultimate, list 107 percent of the amount of such reserves. (For definition of life insurance reserves, see section 801 (b) and the regulations thereunder.) (For reserves computed on a modified basis, see section 801 (b) and the regulations thereunder.)

*Line 9.—Reserve earnings rate.*—Reserve earnings rate means a rate computed by adding 2.1125 percent (65 percent of 3¼ percent) and 35 percent of the average rate of interest assumed in computing life insurance reserves.

*Line 11.—Reserve for deferred dividends.*—Enter an amount equal to 2 percent of the reserve held at the end of the taxable year for deferred dividends the payment of which is deferred for a period of not less than 5 years from the date of the policy contract. Do not include in such reserve dividends payable during the following taxable year.

*Line 12.—Interest paid or accrued.*—Enter the amount of interest paid or accrued during the taxable year on the company's indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which

is wholly exempt from taxation, and all amounts in the nature of interest, whether or not guaranteed, paid or accrued within the taxable year on insurance contracts (or contracts arising out of insurance contracts) which do not involve, at the time of payment or accrual life, health, or accident contingencies. Interest on dividends held on deposit and surrendered during the taxable year should be included in this item. Do not include any interest on deferred dividends which were included on line 11.

*Line 16.—Adjustment for unearned premiums and unpaid losses on non-life insurance reserves.*—In the case of a life insurance company writing contracts other than life insurance, annuity, and noncancellable health and accident insurance contracts (including life insurance or annuity contracts combined with noncancellable health and accident insurance), the term "adjustment for certain reserves" as defined in section 813 means an amount equal to 3¼ percent of the unearned premiums and unpaid losses on such other contracts which are not included in life insurance reserves (as defined in section 801 (b)). For purposes of this adjustment, such unearned premiums shall not be considered to be less than 25 percent of the net premiums written during the taxable year on such other contracts.

*Line 2, page 1.—Credit for income taxes paid to a foreign country or United States possession.*—If, in accordance with section 901, a credit is claimed by a domestic corporation on line 2, page 1, on account of income, war-profits and excess-profits taxes paid or accrued to a foreign country or a possession of the United States, Form 1118 should be submitted with the return, together with the receipt for each such tax payment. In case credit is sought for taxes accrued but not paid, the form must have attached to it a certified copy of the return on which each such accrued tax was based, and the District Director may require a bond on Form 1119 as a condition precedent to the allowance of a credit for such accrued taxes. A foreign company is not entitled to claim this credit.

## EXCERPTS FROM THE LIFE INSURANCE COMPANY TAX ACT FOR 1955 AS AMENDED BY PUBLIC LAW 784

### “SEC. 801. DEFINITION OF LIFE INSURANCE COMPANY.

“(a) LIFE INSURANCE COMPANY DEFINED.—For purposes of this subtitle, the term ‘life insurance company’ means an insurance company which is engaged in the business of issuing life insurance and annuity contracts (either separately or combined with health and accident insurance), or noncancellable contracts of health and accident insurance, if—

“(1) its life insurance reserves (as defined in subsection (b)), plus

“(2) unearned premiums and unpaid losses on noncancellable life, health, or accident policies not included in life insurance reserves, comprise more than 50 percent of its total reserves (as defined in subsection (c)).

“(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 arising from life insurance, annuity, and noncancellable health and accident insurance contracts (including life insurance or annuity contracts combined with noncancellable health and accident insurance) involving, at the time with respect to which the reserve is computed, life, health, or accident contingencies.

“(2) RESERVES MUST BE REQUIRED BY LAW.—Except—

“(A) in the case of policies covering life, health, and accident insurance combined in one policy issued on the weekly premium payment plan, continuing for life and not subject to cancellation, and

“(B) as provided in paragraph (3), in addition to the requirements set forth in paragraph (1), life insurance reserves must be required by law.

“(3) ASSESSMENT COMPANIES.—In the case of an assessment life insurance company or association, the term ‘life insurance reserves’ includes—

“(A) sums actually deposited by such company or association with State or Territorial officers pursuant to law as guaranty or reserve funds, and

“(B) any funds maintained, under the charter or articles of incorporation or association (or bylaws approved by a State insurance commissioner) of such company or association, exclusively for the payment of claims arising under certificates of membership or policies issued on the assessment plan and not subject to any other use.

“(4) AMOUNT OF RESERVE.—For purposes of this subsection, subsection (a), and subsection (c), the amount of any reserve (or portion thereof) for any taxable year shall be the mean of such reserve (or portion thereof) at the beginning and end of the taxable year.

“(c) TOTAL RESERVES DEFINED.—For purposes of subsection (a), the term ‘total reserves’ means—

"(1) life insurance reserves,

"(2) unearned premiums and unpaid losses not included in life insurance reserves, and

"(3) all other insurance reserves required by law.

"(d) ADJUSTMENTS IN RESERVES FOR POLICY LOANS.—For purposes only of determining under subsection (a) whether or not an insurance company is a life insurance company, the life insurance reserves, and the total reserves, shall each be reduced by an amount equal to the mean of the aggregates, at the beginning and end of the taxable year, of the policy loans outstanding with respect to contracts for which life insurance reserves are maintained.

"(e) BURIAL AND FUNERAL BENEFIT INSURANCE COMPANIES.—A burial or funeral benefit insurance company engaged directly in the manufacture of funeral supplies or the performance of funeral services shall not be taxable under this part but shall be taxable under section 821 or section 831.

"SEC. 802. TAX IMPOSED FOR 1955 AND 1956.

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

"(d) DEDUCTIONS FOR PARTIALLY TAX-EXEMPT INTEREST.—

"(1) COMPUTATIONS UNDER SUBSECTION (a).—For purposes of computing the normal tax under subsection (a), there shall be allowed as a deduction an amount which bears the same ratio to the amount of the deduction provided by section 242 for partially tax-exempt interest as (A) the sum of the life insurance taxable income and the net investment income allocable to non-life insurance reserves bears to (B) the net investment income.

"(2) COMPUTATIONS UNDER SUBSECTION (c) (2) (A).—In computing the normal tax for purposes of subsection (c) (2) (A), there shall be allowed as a deduction an amount which bears the same ratio to the amount of the deduction provided by section 242 for partially tax-exempt interest as (A) the life insurance taxable income bears to (B) the net investment income.

"(e) ALTERNATIVE TAX ON CAPITAL GAINS.—In the case of a life insurance company which has non-life insurance reserves, the term 'excess' used in section 1201 (a) (relating to alternative tax on capital gains of corporations) means, for purposes of section 1201 (a), an amount which bears the same ratio to the excess described in such section as the non-life insurance

reserves (determined under section 804 (d)) bear to the qualified reserves (determined under section 804 (c)). For purposes of any such computation, a net capital loss for any taxable year beginning before January 1, 1955, shall not be taken into account.

"(f) NON-LIFE INSURANCE TAXABLE INCOME DEFINED.—For purposes of this subpart, the term 'non-life insurance taxable income' means the net investment income allocable to non-life insurance reserves (determined under section 804 (d))—

"(1) increased by an amount which bears the same ratio to the net capital gain as the non-life insurance reserves bear to the qualified reserves; and

"(2) decreased by an amount which bears the same ratio to the total of the deductions provided in sections 243, 244, and 245 as the non-life insurance reserves bear to the qualified reserves.

In computing a net capital gain for purposes of paragraph (1) of this subsection, a net capital loss for any taxable year beginning before January 1, 1955, shall not be taken into account.

"SEC. 803. INCOME AND DEDUCTIONS.

"(a) APPLICATION OF SECTION.—The definitions and rules contained in this section shall apply only in the case of life insurance companies.

"(b) GROSS INVESTMENT INCOME.—For purposes of this part, the term 'gross investment income' means the sum of the following:

"(1) The gross amount of income received or accrued from—

"(A) interest, dividends, rents, and royalties,

"(B) the entering into of any lease, mortgage, or other instrument or agreement from which the life insurance company derives interest, rents, or royalties, and

"(C) the alteration or termination of any instrument or agreement described in subparagraph (B).

"(2) The gross income from any trade or business (other than an insurance business) carried on by the life insurance company, or by a partnership of which the life insurance company is a partner. In computing gross income under this paragraph, there shall be excluded any item described in paragraph (1).

In computing gross investment income under this subsection, there shall be excluded any gain from the sale or exchange of a capital asset, and any gain considered as gain from the sale or exchange of a capital asset.

"(c) NET INVESTMENT INCOME DEFINED.—The term 'net investment income' means the gross investment income less the following deductions:

"(1) TAX-FREE INTEREST.—The amount of interest received or accrued during the taxable year which under section 103 is excluded from gross income.

"(2) INVESTMENT EXPENSES.—

"(A) Investment expenses paid or accrued during the taxable year.

"(B) If any general expenses are in part assigned to or included in the investment expenses, the total deduction under this paragraph shall not exceed—

"(i) one-fourth of 1 percent of the mean of the book value of the invested assets held at the beginning and end of the taxable year, plus

"(ii) one-fourth of the amount by which the net investment income (computed without any deduction for investment expenses allowed by this paragraph, or for tax-free interest allowed by paragraph (1)) exceeds 3¾ percent of the book value of the mean of the invested assets held at the beginning and end of the taxable year.

"(3) REAL ESTATE EXPENSES.—Taxes (as provided in section 164), and other expenses, paid or accrued during the taxable year exclusively on or with respect to the real estate owned by the company. No deduction shall be allowed under this paragraph for any amount paid out for new buildings, or for permanent improvements or betterments made to increase the value of any property.

"(4) DEPRECIATION.—The depreciation deduction allowed by section 167.

"(5) DEPLETION.—The deduction allowed by section 611 (relating to depletion).

"(6) TRADE OR BUSINESS DEDUCTIONS.—The deductions allowed by this subtitle (without regard to this part) which are attributable to any trade or business (other than an insurance business) carried on by the life insurance company, or by a partnership of which the life insurance company is a partner; except that for purposes of this paragraph—

"(A) There shall be excluded losses from—

"(i) sales or exchanges of capital assets,

"(ii) sales or exchanges of property used in the trade or business (as defined in section 1231 (b)), and



"(iii) the compulsory or involuntary conversion (as a result of destruction, in whole or in part, theft or seizure, or an exercise of the power of requisition or condemnation or the threat or imminence thereof) of property used in the trade or business (as so defined).

"(B) Any item, to the extent attributable to the carrying on of the insurance business, shall not be taken into account.

"(C) The deduction for net operating losses provided in section 172, and the special deductions for corporations provided in part VIII of subchapter B, shall not be allowed.

"(d) RENTAL VALUE OF REAL ESTATE.—The deduction under subsection (c) (3) and (4) on account of any real estate owned and occupied in whole or in part by a life insurance company shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this subsection) as the rental value of the space not so occupied bears to the rental value of the entire property.

"(e) AMORTIZATION OF PREMIUM AND ACCRUAL OF DISCOUNT.—The gross investment income, the deduction for wholly-exempt interest allowed by subsection (c) (1), and the deduction allowed by section 242 (relating to partially tax-exempt interest) shall each be decreased to reflect the appropriate amortization of premium and increased to reflect the appropriate accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidences of indebtedness held by a life insurance company. Such amortization and accrual shall be determined—

"(1) in accordance with the method regularly employed by such company, if such method is reasonable, and

"(2) in all other cases, in accordance with regulations prescribed by the Secretary or his delegate.

#### "SEC. 804. RESERVE AND OTHER POLICY LIABILITY DEDUCTION.

"(a) GENERAL RULE.—Except as provided in subsection (b), for purposes of this subpart the term 'reserve and other policy liability deduction' means the sum of the amounts determined by applying the following percentages to the excess of the net investment income over the net investment income allocable to non-life insurance reserves (determined under subsection (d)):

"(1) 87.5 percent of so much of such excess as does not exceed \$1,000,000; and

"(2) 85 percent of so much of such excess as exceeds \$1,000,000.

"(b) MAXIMUM DEDUCTION.—

"(1) IN GENERAL.—The reserve and other policy liability deduction shall in no case exceed that amount which is equal to the sum of the following:

"(A) the amount equal to 2 times the amount determined under paragraph (1) of section 805 (c) (relating to required interest on life insurance reserves);

"(B) the amount determined under paragraph (2) of section 805 (c) (relating to required interest on reserves for deferred dividends);

"(C) the amount of the interest paid (as defined in section 805 (d));

"(D) the dividends to policyholders paid or declared (other than dividends on contracts meeting the requirements of subsection (d) (2) (A)); and

"(E) in the case of a mutual assessment life insurance company or association, the amount equal to 2 times whichever of the following is the lesser: (i) the amount of the net investment income on life insurance reserves described in subparagraph (A) or (B) of section 801 (b) (3), or (ii) 3 percent of the life insurance reserves so described,

reduced by the amount of the adjustment for policy loans provided in paragraph (2) of this subsection. For purposes of subparagraph (D) of the preceding sentence, the term 'paid or declared' shall be construed according to the method of accounting regularly employed in keeping the books of the insurance company.

"(2) REDUCTION FOR CERTAIN POLICY LOANS.—The adjustment described in paragraph (1) of this subsection shall be an amount equal to—

"(A) the mean of the aggregates, at the beginning and end of the taxable year, of the outstanding policy loans with respect to contracts for which life insurance reserves are maintained, multiplied by

"(B) the average rate of interest applicable to life insurance reserves.

For purposes of subparagraph (B) of the preceding sentence, the term 'average rate of interest applicable to life insurance reserves' means the ratio obtained by dividing the sum obtained under paragraph (1) of section 805 (c) by the sum obtained under paragraph (1) (B) of section 805 (c).

"(3) DIVIDENDS RECEIVED DEDUCTION WHERE MAXIMUM LIMIT APPLIES.—

"(A) If paragraph (1) of this subsection reduces the reserve and other policy liability deduction allowed by this section or section 812 for the taxable year, then in computing life insurance taxable income under section 802 (b), and in computing life insurance company taxable income under section 811 (b), there shall be allowed an additional deduction in an amount determined under subparagraph (B).

"(B) The amount of the additional deduction referred to in subparagraph (A) shall be the amount which bears the same ratio to the total of the deductions provided in sections 243, 244, and 245 as the net investment income reduced by the sum of—

"(i) the net investment income allocable to non-life insurance reserves (or, for purposes of section 811 (b), the amount of the adjustment for certain reserves provided in section 813), and

"(ii) 100/85 of the maximum limitation determined under paragraphs (1) and (2) of this subsection, bears to the net investment income.

"(c) QUALIFIED RESERVES DEFINED.—For purposes of this subpart, the term 'qualified reserves' means the sum of the following:

"(1) The life insurance reserves (as defined in section 801 (b)), plus 7 percent of that portion of such reserves as are computed on a preliminary term basis.

"(2) The non-life insurance reserves (as defined in subsection (d) (2)).

"(3) The amounts (discounted at the rates of interest assumed by the company) necessary to satisfy the obligations under insurance and annuity contracts (including contracts supplementary thereto), but only if (A) such obligations when satisfied will reflect an increment in the nature of interest, and (B) such obligations do not involve (at the time with respect to which the computation is made under this paragraph) life, health, or accident contingencies.

"(4) The amounts held at the end of the taxable year as reserves for dividends to policyholders, the payment of which dividends is deferred for a period which expires not earlier than 5 years from the date of the policy contract. This paragraph does not apply to dividends payable during the year following the taxable year.

"(5) Dividend accumulations, and other amounts, held at interest in connection with insurance or annuity contracts (including contracts supplementary thereto).

"(6) Premiums received in advance, and liabilities for premium deposit funds.

In applying this subsection the same item shall be counted only once. For purposes of this section (other than paragraph (4) of this subsection), the amount of any reserve (or portion thereof) for any taxable year shall be the mean of such reserve (or portion thereof) at the beginning and end of the taxable year.

"(d) NET INVESTMENT INCOME ALLOCABLE TO NON-LIFE INSURANCE RESERVES.—

"(1) ALLOCATION RATIO.—For purposes of this subpart, the net investment income allocable to non-life insurance reserves is that amount which bears the same ratio to the net investment income as such reserves bear to the qualified reserves.

"(2) NON-LIFE INSURANCE RESERVES DEFINED.—For purposes of this subpart, the term 'non-life insurance reserves' means the sum of the unearned premiums and the unpaid losses (whether or not ascertained)—

"(A) on contracts other than life insurance, annuity, and noncancellable health and accident insurance contracts (including life insurance or annuity contracts combined with noncancellable health and accident insurance), and

"(B) which are not included in life insurance reserves (as defined in section 801 (b)).

For purposes of this paragraph, such unearned premiums shall not be considered to be less than 25 percent of the net premiums written during the taxable year on such other contracts.

"(3) ADJUSTMENTS WITH RESPECT TO CERTAIN NON-LIFE INSURANCE CONTRACTS.—For purposes of this subpart, if—

"(A) any computation under this subpart is made by reference to a contract meeting the requirements of paragraph (2) (A) of this subsection, and

"(B) part of the reserves for such contract are life insurance reserves,

then, under regulations prescribed by the Secretary or his delegate, proper adjustment shall be made in the amount taken into account with respect to such contract for purposes of such computation.

**"SEC. 805. SPECIAL INTEREST DEDUCTION.**

"(a) SPECIAL INTEREST DEDUCTION.—For purposes of the tax imposed by section 802 (and the tax imposed by section 811), there shall be allowed a special interest deduction determined as follows:

"(1) Divide the amount of the adjusted net investment income (as defined in subsection (b)) by the amount of the required interest (as defined in subsection (c)).

"(2) If the quotient obtained in paragraph (1) is 1.05 or more, the special interest deduction shall be zero.

"(3) If the quotient obtained in paragraph (1) is 1.00 or less, the special interest deduction shall be an amount equal to 50 percent of the amount by which—

"(A) the net investment income (reduced by the net investment income allocable to non-life insurance reserves), exceeds

"(B) the reserve and other policy liability deduction for the taxable year.

"(4) If the quotient obtained in paragraph (1) is more than 1.00 but less than 1.05, the special interest deduction shall be the amount obtained by multiplying—

"(A) the amount by which (i) the net investment income (reduced by the net investment income allocable to non-life insurance reserves) exceeds (ii) the reserve and other policy liability deduction for the taxable year, by

"(B) 10 times the difference between the figure 1.05 and the quotient obtained in paragraph (1).

"(b) ADJUSTED NET INVESTMENT INCOME.—For purposes of subsection (a) (1), the term 'adjusted net investment income' means—

"(1) the net investment income (computed without the deduction for wholly-exempt interest allowed by section 803 (c) (1)), minus

"(2) 50 percent of the net investment income allocable to non-life insurance reserves.

"(c) REQUIRED INTEREST.—For purposes of subsection (a) (1), the term 'required interest' means the total of—

"(1) the sum of the amounts obtained by multiplying—

"(A) each rate of interest assumed in computing the taxpayer's life insurance reserves, by

"(B) the means of the amounts of the taxpayer's life insurance reserves computed at such rate at the beginning and end of the taxable year, plus 7 percent of the portion of such reserves at such rate as are computed on a preliminary term basis;

"(2) the sum of the amounts obtained by multiplying—

"(A) each rate of interest assumed in computing the taxpayer's reserves for deferred dividends described in section 804 (c) (4), by

"(B) the means of the amounts of such reserves computed at such rate at the end of the taxable year; and

"(3) interest paid.

"(d) INTEREST PAID.—For purposes of subsection (c) (3), the term 'interest paid' means—

"(1) all interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest on which is wholly exempt from taxation under this chapter; and

"(2) all amounts in the nature of interest, whether or not guaranteed, paid or accrued within the taxable year on insurance or annuity contracts (or contracts arising out of insurance or annuity contracts) which do not involve, at the time of payment or accrual, life, health, or accident contingencies.

**"SEC. 816. FOREIGN LIFE INSURANCE COMPANIES.**

"(a) CARRYING ON UNITED STATES INSURANCE BUSINESS.—A foreign life insurance company carrying on a life insurance business within the United States, if with respect to its United States business it would qualify as a life insurance company under section 801, shall be taxable in the same manner as a domestic life insurance company; except that the determinations necessary for purposes of this subtitle shall be made on the basis of the income, disbursements, assets, and liabilities reported in the annual statement for the taxable year of the United States business of such company on the form approved for life insurance companies by the National Association of Insurance Commissioners.

"(b) NO UNITED STATES INSURANCE BUSINESS.—Foreign life insurance companies not carrying on an insurance business within the United States shall not be taxable under this part but shall be taxable as other foreign corporations.

**"SEC. 817. DENIAL OF DOUBLE DEDUCTIONS.**

"Nothing in this part shall permit the same item to be deducted more than once.

**"SEC. 818. CERTAIN NEW INSURANCE COMPANIES.**

"(a) GENERAL RULE.—If the taxable year begins not more than 9 years after the first day on which the taxpayer was authorized to do business as an insurance company, then—

"(1) for purposes of subpart A, the life insurance taxable income shall not exceed (A) the amount of the net gain from operations after dividends to policyholders, reduced by (B) (i) the net investment income allocable to non-life insurance reserves and (ii) the special reduction for dividends received provided by subsection (c); or

"(2) for purposes of subpart B, the life insurance company taxable income shall not exceed (A) the amount of the net gain from operations after dividends to policyholders, reduced by (B) the special reduction for dividends received provided by subsection (c).

For purposes of this subsection, the net gain from operations after dividends to policyholders shall be computed in the manner required for purposes of the annual statement approved by the National Convention of Insurance Commissioners, except that no reduction shall be made for any Federal income tax.

"(b) LIMITATION.—This section shall not reduce the tax for any taxable year below the amount which (but for this section) would be imposed by section 802 or section 811, as the case may be, computed without the applicable limitation on the reserve and other policy liability deduction contained in section 804 (b) or section 812 (c).

"(c) SPECIAL RULE FOR DIVIDENDS RECEIVED.—The reduction referred to in paragraph (1) (B) (ii) and in paragraph (2) (B) of subsection (a) shall be an amount computed under section 804 (b) (3), except that, for purposes of such computation, the maximum limitation referred to in section 804 (b) (3) (B) (ii) shall be—

"(1) in the case of a taxable year with respect to which tax is imposed by section 802, the amount by which (A) the net investment income (reduced by the net investment income allocable to non-life insurance reserves), exceeds (B) the life insurance taxable income (computed without regard to the reduction provided by this subsection); or

"(2) in the case of a taxable year with respect to which tax is imposed by section 811, the amount by which (A) the sum of the net investment income and the amount of the adjustment for certain reserves provided in section 813, exceeds (B) the life insurance company taxable income (computed without regard to the reduction provided by this subsection)."