

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
 , ID No.

Telephone Number:

Refer Reply To:
CC:FIP:B04
PLR-138536-15

Date:
May 18, 2016

Legend

Taxpayer =

State A =

Dear :

This is in reply to your letter dated November 20, 2015, requesting consent to Taxpayer's revocation of its election under section 831(b)(2)(A)(ii) of the Internal Revenue Code, effective for the taxable year beginning January 1, .

FACTS

Taxpayer was formed to provide affordable fire insurance to farmers located in State A. Taxpayer continues to operate as a mutual insurance company with a mission of providing comprehensive property and casualty insurance products for farmers and homeowners at affordable rates. Taxpayer elected to be taxed only on its taxable investment income pursuant to section 831(b).

Taxpayer is embarking on a growth initiative to increase its number of policyholders and its premium revenue. Taxpayer is taking several steps to do this initiative, including appointing new insurance agents to gain access and exposure to new customers and markets. Taxpayer has been a direct seller of its own insurance products previously and believes this change to appointing agents will allow it to grow and compete in the current insurance market. This business change will require Taxpayer to retain and generate sufficient capital to invest in these measures and ensure its future success.

LAW AND ANALYSIS

Section 831(a) imposes a tax for each taxable year on the taxable income of every insurance company other than a life insurance company.

Section 831(b) provides an alternative tax to the tax imposed by section 831(a) for certain insurance companies. The alternative tax for these companies is a tax computed for each year by multiplying the taxable investment income (defined in section 834(a)) of the company for the taxable year by the rates in section 11(b).

Section 831(b)(2)(A) provides that the alternative tax applies to every insurance company other than a life insurance company if (i) the company's net written premiums (or, if greater, direct written premiums) do not exceed \$1,200,000, and (ii) the company elects the application of section 831(b) (the alternative tax) for the taxable year.

Section 110(f)(1) of the Technical and Miscellaneous Revenue Act of 1988 added the flush paragraph following section 831(b)(2)(A)(ii), which states, "The election under clause (ii) shall apply to the taxable year for which made and for all subsequent taxable years for which the requirements of clause (i) are met. Such an election, once made, may be revoked only with the consent of the Secretary."

This clarification reflects Congress' intent that the election not be used as a means of eliminating tax liability (e.g., by making the election only for the years the taxpayer does not have net operating losses). The section 831(b) election is tax simplification for small companies. S. Rep. No. 445, 100th Congress, 2d Sess. 127 (1988).

Taxpayer represents that it is changing its current business model that will increase policyholders and premium income. Taxpayer will also change from direct marketing of its policies to using agents to market its policies. Taxpayer represents it is not revoking its election as a means of eliminating tax liability.

CONCLUSION

Consent is hereby granted to Taxpayer to revoke its section 831(b) election effective for tax year _____ provided that Taxpayer does not make an election under section 831(b) to be taxed on only its investment income for any of the first five years following the year to which the consent relates.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the material submitted in

support of the request for rulings and it is subject to verification on examination.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent. A copy of this letter must be attached to any federal income tax return to which it is relevant.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Rebecca L. Baxter
Senior Technician Reviewer, Branch 4
Office of Associate Chief Counsel
(Financial Institutions & Products)