

and which point is the terminal point of the fourteenth call in the deed dated 24 February 1950 from the City Council of Charleston to West Virginia Pulp and Paper Company); thence north 48 degrees 28 minutes 30 seconds west 2,999.27 feet, along lands of the West Virginia Pulp and Paper Company to a point which is distant 11.42 feet north 68 degrees 33 minutes east from an iron pipe; thence north 69 degrees 00 minutes east a distance of 104.71 feet to a point common to this tract, lands leased by the city of Charleston to the North Carolina Terminal Company, and lands of the South Carolina State Ports Authority; thence along lands of the South Carolina State Ports Authority north 86 degrees 45 minutes 50 seconds east 15.58 feet, north 88 degrees 32 minutes 20 seconds east 50.00 feet, south 87 degrees 23 minutes 40 seconds east 50.00 feet, south 82 degrees 42 minutes 40 seconds east 50.00 feet, south 76 degrees 46 minutes 40 seconds east 50.00 feet, south 70 degrees 20 minutes 40 seconds east 50.00 feet, south 64 degrees 09 minutes 40 seconds east 50.00 feet, south 30 degrees 44 minutes 40 seconds east 24.55 feet, north 86 degrees 54 minutes 06 seconds east 374.48 feet, south 48 degrees 27 minutes 10 seconds east 599.77 feet, south 41 degrees 32 minutes 50 seconds west 25.00 feet, south 48 degrees 27 minutes 10 seconds east 1,494.83 feet to a point on the eastern edge of the concrete dock; thence along the eastern edge of the concrete dock south 41 degrees 31 minutes 30 seconds west approximately 483.0 feet to the point of beginning and containing 30.75 acres, more or less.

Approved March 2, 1956.

Public Law 429

CHAPTER 83

AN ACT

March 13, 1956
[H. R. 7201]

Relating to the taxation of income of insurance companies.

Life Insurance
Company Tax Act
for 1955.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act be cited as the "Life Insurance Company Tax Act for 1955".

SEC. 2. REVISION OF FORMULAS FOR TAXING INCOME OF LIFE INSURANCE COMPANIES.

68A Stat. 255.
26 USC 801 et
seq.

Part I of subchapter L of chapter 1 of the Internal Revenue Code of 1954 is hereby amended to read as follows:

"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. 803. Income and deductions.
- "Sec. 804. Reserve and other policy liability deduction.
- "Sec. 805. Special interest deduction.

"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.

Post, p. 633.

“**SEC. 802. TAX IMPOSED FOR 1955.**

“(a) **TAX IMPOSED.**—A tax is hereby imposed for each taxable year beginning in 1955 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—

68A Stat. 11.
26 USC 11.

“(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 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.

68A Stat. 320.
26 USC 1201.

“(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.

68A Stat. 11.
26 USC 11.

“(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.

68A Stat. 72.
26 USC 242.

“(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.

68A Stat. 320.
26 USC 1201.

“(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.

68A Stat. 73.
26 USC 243-245.

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 $3\frac{3}{4}$ 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

68A Stat. 47.
26 USC 164.

68A Stat. 51.
26 USC 167.
68A Stat. 207.
26 USC 611.

68A Stat. 325.
26 USC 1231.

68A Stat. 63.
26 USC 172.
68A Stat. 72.
26 USC 241 et
seq.

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.

“Subpart B—1942 Formula

“Sec. 811. Tax imposed.

“Sec. 812. Reserve and other policy liability deduction.

“Sec. 813. Adjustment for certain reserves.

Post, p. 633.

“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. 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).

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

“(1) minus the reserve and other policy liability deduction allowed by section 812,

“(2) minus the special interest deduction, if any, allowed by section 805, and

“(3) plus the amount of the adjustment for certain reserves provided in section 813.

For purposes of the normal tax, the life insurance company taxable income shall be reduced by the deduction provided in section 242 for partially tax-exempt interest.

68A Stat. 11.
26 USC 11.

68A Stat. 72.
26 USC 242.

“(c) **RULE FOR COMPUTATION OF SPECIAL INTEREST DEDUCTION.**—In computing the special interest deduction under section 805 in the case of any taxable year with respect to which a tax is imposed under this section—

“(1) in lieu of the reduction of the net investment income provided in paragraphs (3) (A) and (4) (A) of section 805 (a), the net investment income shall be reduced by the amount of the adjustment for certain reserves provided in section 813, and

“(2) in lieu of subtracting the amount provided in paragraph (2) of section 805 (b), subtract 50 percent of the amount of the adjustment for certain reserves provided in section 813.

“**SEC. 812. RESERVE AND OTHER POLICY LIABILITY DEDUCTION.**

“(a) **GENERAL RULE.**—For purposes of this subpart, the term ‘reserve and other policy liability deduction’ means an amount computed by multiplying the net investment income by a figure, to be determined and proclaimed by the Secretary or his delegate for each taxable year with respect to which a tax is imposed by section 811. This figure shall be based on such data with respect to life insurance companies for the preceding taxable year as the Secretary or his delegate considers representative and shall be computed in accordance with the following formula: The ratio which a numerator comprised of the aggregate of the sums of—

“(1) 2 percent of the reserves for deferred dividends,

“(2) interest paid, and

“(3) the product of—

“(A) the mean of the adjusted reserves at the beginning and end of the taxable year, and

“(B) the reserve earnings rate,

bears to a denominator comprised of the aggregate of the excess of net investment incomes (computed without the deduction for wholly-exempt interest allowed by section 803 (c) (1)) over the adjustment for certain reserves provided in section 813.

“(b) **DEFINITIONS.**—For purposes of subsection (a)—

“(1) **RESERVES FOR DEFERRED DIVIDENDS.**—The term ‘reserves for deferred dividends’ has the same meaning as when used in section 804 (c) (4).

“(2) **INTEREST PAID.**—The term ‘interest paid’ has the meaning given to such term by section 805 (d).

“(3) **ADJUSTED RESERVES.**—The term ‘adjusted reserves’ means 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.

“(4) **RESERVE EARNINGS RATE.**—The term ‘reserve earnings rate’ means a rate computed by adding 2.1125 percent (65 percent of $3\frac{1}{4}$ percent) to 35 percent of the average rate of interest assumed in computing life insurance reserves. Such average rate shall be calculated by multiplying each assumed rate of interest by the means of the amounts of the adjusted reserves computed at that rate at the beginning and end of the taxable year and dividing the sum of the products by the mean of the total adjusted reserves at the beginning and end of the taxable year.

“(c) **MAXIMUM DEDUCTION.**—The reserve and other policy liability deduction allowed by subsection (a) of this section shall in no case exceed an amount equal to the amount which would be determined under subsection (b) of section 804 if such subsection applied with respect to the taxable year.

“SEC. 813. ADJUSTMENT FOR CERTAIN 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’ means, for purposes of this subpart, an amount equal to $3\frac{1}{4}$ 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 section, 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.

“Subpart C—Miscellaneous Provisions

“Sec. 816. Foreign life insurance companies.

“Sec. 817. Denial of double deductions.

“Sec. 818. Certain new insurance companies.

“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).”

SEC. 3. ADJUSTMENTS TO INVESTMENT INCOME OF INSURANCE COMPANIES OTHER THAN LIFE.

(a) **MUTUAL INSURANCE COMPANIES (OTHER THAN LIFE).**—The following provisions of part II of subchapter L of chapter 1 of the Internal Revenue Code of 1954 are hereby amended as follows:

(1) Paragraph (2) of section 821 (a) is amended by striking out “interest, dividends, rents,” and inserting in lieu thereof “the items described in section 822 (b) (other than paragraph (1) (D) thereof)”.

(2) Section 821 (c) is amended by striking out “interest, dividends, rents,” and inserting in lieu thereof “the items described in section 822 (b) (other than paragraph (1) (D) thereof)”.

(3) Section 822 (b) is amended to read as follows:

“(b) **GROSS INVESTMENT INCOME.**—For purposes of subsection (a), the term ‘gross investment income’ means the sum of the following:

“(1) The gross amount of income during the taxable year from—

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

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

“(C) the alteration or termination of any instrument or agreement described in subparagraph (B), and

“(D) gains from sales or exchanges of capital assets to the extent provided in subchapter P (sec. 1201 and following, relating to capital gains and losses).

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

(4) Paragraph (3) of section 822 (c) is amended to read as follows:

68A Stat. 260.
26 USC 821-823.

68A Stat. 320.
26 USC 1201 et
seq.

68A Stat. 47.
26 USC 164.

“(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.”

68A Stat. 321.
26 USC 1212.

(5) Paragraph (6) of section 822 (c) is amended by striking out “the sum of interest, dividends, rents, and net premiums received. In the application of section 1211” and inserting in lieu thereof “the sum of the items described in subsection (b) (other than paragraph (1) (D) thereof) and net premiums received. In the application of section 1212”.

(6) Section 822 (c) is amended by adding at the end thereof the following new paragraphs:

“(8) 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 insurance company, or by a partnership of which the insurance company is a partner; except that for purposes of this paragraph—

“(A) any item, to the extent attributable to the carrying on of the insurance business, shall not be taken into account, and

“(B) the deduction for net operating losses provided in section 172 shall not be allowed.

68A Stat. 63.
26 USC 172.
68A Stat. 207.
26 USC 611.

“(9) DEPLETION.—The deduction allowed by section 611 (relating to depletion).”

(7) Section 822 (d) (1) is amended by striking out “subsection (e) (3) or (4)” and inserting in lieu thereof “subsection (c) (3) or (4)”.

(8) Section 822 (e) is amended by striking out “interest, dividends, rents,” and inserting in lieu thereof “items described in subsection (b) (other than paragraph (1) (D) thereof)”.

(b) STOCK COMPANIES (OTHER THAN LIFE).—The following provisions of section 832 are hereby amended as follows:

(1) Paragraph (4) of subsection (b) is amended by striking out “section 806” and inserting “section 801 (b)”.

(2) Paragraph (5) of subsection (c) is amended by striking out “interest, dividends, rents, and net premiums received. In the application of section 1211” and inserting in lieu thereof “the items described in section 822 (b) (other than paragraph (1) (D) thereof) and net premiums received. In the application of section 1212”.

68A Stat. 321.
26 USC 1212.

(3) Paragraph (8) of subsection (c) is amended by inserting after “section 167” the following: “and the deduction allowed by section 611 (relating to depletion)”.

SEC. 4. ANNUAL ACCOUNTING PERIOD OF INSURANCE COMPANIES TO BE THE CALENDAR YEAR.

(a) Part IV of subchapter L of chapter 1 of the Internal Revenue Code of 1954 (relating to provisions of general application with respect to insurance companies) is hereby amended by adding at the end thereof the following new section:

68A Stat. 267.
26 USC 841, 842.

“SEC. 843. ANNUAL ACCOUNTING PERIOD.

“For purposes of this subtitle, the annual accounting period for each insurance company subject to a tax imposed by this subchapter shall be the calendar year.”

(b) The table of sections for such part IV is hereby amended by adding at the end thereof the following:

"Sec. 843. Annual accounting period."

SEC. 5. TECHNICAL AMENDMENTS.

The following provisions of the Internal Revenue Code of 1954 are hereby amended as follows:

(1) Section 316 (b) (1) (relating to definition of dividends) is amended to read as follows:

68A Stat. 98.
26 USC 316.

"(1) CERTAIN INSURANCE COMPANY DIVIDENDS.—The definition in subsection (a) shall not apply to the term 'dividend' as used in subchapter L in any case where the reference is to dividends of insurance companies paid to policyholders as such."

(2) Section 501 (c) (15) (relating to certain exempt mutual insurance companies) is amended by striking out "interest, dividends, rents," and inserting in lieu thereof "the items described in section 822 (b) (other than paragraph (1) (D) thereof)".

68A Stat. 163.
26 USC 501.

(3) Section 594 (a) (2) is amended by striking out "the taxable income (as defined in section 803)" and inserting in lieu thereof "the income".

68A Stat. 205.
26 USC 594.

(4) The first sentence of section 841 (relating to credit for foreign taxes) is amended by inserting "811," after "802,". Paragraph (1) of the second sentence of such section is amended to read as follows:

"(1) in the case of the tax imposed by section 802 or 811, the net investment income (as defined in section 803 (c)),".

(5) Section 842 (relating to computation of gross income) is amended by striking out "802 or 831" and inserting in lieu thereof "802, 811, or 831".

(6) Section 891 (relating to doubling of rates of tax in case of discrimination by a foreign country) is amended by inserting "811," after "802,".

(7) Section 1201 (a) (relating to alternative tax on capital gains) is amended by inserting "802 (a)," after "511,".

68A Stat. 320.
26 USC 1201.

(8) Section 1504 (b) (2) (relating to exceptions from consolidated return provisions) is amended by striking out "802 or 821" and inserting in lieu thereof "802, 811, or 821".

68A Stat. 370.
26 USC 1504.

(9) Paragraph (2) of section 4371 (relating to tax on policies issued by foreign insurers) is amended by striking out "807" and inserting in lieu thereof "816".

68A Stat. 521.
26 USC 4371.

SEC. 6. EFFECTIVE DATE.

The amendments made by this Act shall apply only to taxable years beginning after December 31, 1954.

SEC. 7. SAVINGS PROVISIONS.

In the case of any taxpayer subject to tax under section 802 or 807 of the Internal Revenue Code of 1954 (as such sections were in effect before the enactment of this Act), no addition to the tax shall be made under section 6655 of such Code (relating to failure by corporation to pay estimated tax) with respect to estimated tax for a taxable year beginning in 1955. In the case of any taxpayer subject to tax under section 821 of such Code (imposing a tax on certain mutual insurance companies), any addition to the tax under section 6655 of such Code with respect to estimated tax for a taxable year beginning in 1955 shall in no case be larger than such addition would have been if this Act had not been enacted.

68A Stat. 825.
26 USC 6655.

Approved March 13, 1956.