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as that allowed mutual insurance companies subject to the tax imposed by section 821; see section 822(c)(6) and the regulation thereunder. Insurance companies, other than mutual fire insurance companies described in section 831(a)(3)(A) and the regulations thereunder, are also allowed a deduction for dividends and similar distributions paid or declared to policyholders in their capacity as such. Similar distributions include such payments as the so-called unabsorbed premium deposits returned to policyholders by factory mutual insurance companies. The deduction is otherwise the same as that allowed mutual insurance companies subject to the tax imposed by section 821; see section 822(f)(2) and the regulations thereunder.

(b) Among the items which may not be deducted are income and profits taxes imposed by the United States, income and profits taxes imposed by any foreign country or possession of the United States (in cases where the company chooses to claim to any extent a credit for such taxes), taxes assessed against local benefits, decrease during the year due to adjustments in the book value of capital assets, decrease in liabilities during the year on account of reinsurance treaties, dividends paid to shareholders in their capacity as such, remittances to the home office of a foreign insurance company by the United States branch, and borrowed money repaid.

(c) In computing taxable income of insurance companies, losses sustained during the taxable year from the sale or other disposition of property are deductible subject to the limitation contained in section 1211. Insurance companies are entitled to the alternative taxes provided in section 1201.


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Treatment of salvage and reinsurance in computing “losses incurred” deduction, taxable years beginning before January 1, 1990 (temporary).

(a) In computing “losses incurred” the determination of unpaid losses at the close of each year must represent actual unpaid losses as nearly as it is possible to ascertain them.

(b) Every insurance company to which this section applies must be prepared to establish to the satisfaction of the district director that the part of the deduction for “losses incurred” which represents unpaid losses at the close of the taxable year comprises only actual unpaid losses stated in amounts which, based upon the facts in each case and the company’s experience with similar cases, can be said to represent a fair and reasonable estimate of the amount the company will be required to pay. Amounts included in, or added to, the estimates of such
losses which in the opinion of the dis-


tribute director are in excess of the ac-
tual liability determined as provided in
the preceding sentence will be dis-
allowed as a deduction. The district di-


tribute director may require any such insurance
company to submit such detailed infor-
mation with respect to its actual expe-


rience as is deemed necessary to estab-


lish the reasonableness of the deduc-
tion for “losses incurred”.


(c) That part of the deduction for

“losses incurred” which represents an
adjustment to losses paid for salvage
and reinsurance recoverable shall, ex-
cept as hereinafter provided, include
all salvage in course of liquidation, and
all reinsurance in process of collection
not otherwise taken into account as a
reduction of losses paid, outstanding at
the end of the taxable year. Salvage in
course of liquidation includes all prop-
erty (other than cash), real or personal,
tangible or intangible, except that
which may not be included by reason of
express statutory provisions (or rules
and regulations of an insurance depart-
ment) of any State or Territory or the
District of Columbia in which the com-
pany transacts business. Such salvage
during the taxable year with re-
nceivable. Cash re-
ceived during the taxable year with re-


cuing to items of salvage or reinsur-
ance shall be taken into account in
computing losses paid during such tax-


able year.


(d) This section is effective for tax-

able years beginning before January 1,
1990.

[T.D. 8266, 54 FR 38970, Sept. 22, 1989; T.D.
8293, 55 FR 9425, Mar. 14, 1990]

§ 1.846–0 Outline of provisions.
The following is a list of the headings

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(2) Examples.

(3) Increase in discounted unpaid losses
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(b) Applicable discount factors.

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(b) Applicable discount factors.

(1) In general.

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ice.

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(b) Eligible line of business.

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846(e) election.

§ 1.846–3 Fresh start and reserve strengthening.

(a) In general.

(b) Applicable discount factors.

(1) Calculation of beginning balance.

(2) Example.

(c) Rules for determining the amount of re-
serve strengthening.

(1) In general.

(2) Accident years after 1985.

(i) In general.

(ii) Hypothetical unpaid loss reserve.

(iii) Accident years before 1986.

(iv) In general.

(ii) Exceptions.

(iii) Certain transactions deemed to be re-
insurance assumed (ceded) in 1986.

(d) Section 845.

(e) Treatment of reserve strengthening.

(f) Examples.

§ 1.846–4 Effective dates.

(a) In general.

(b) Section 338 election.

[T.D. 8433, 57 FR 40843, Sept. 8, 1992; 57 FR
10, 2006; T.D. 9377, 73 FR 3873, Jan. 23, 2008]