Internal Revenue Service, Treasury

§ 1.832–6 Policyholders of mutual fire or flood insurance companies operating on the basis of premium deposits.

For purposes of determining his taxable income for any taxable year, a taxpayer insured by a mutual fire or flood insurance company under a policy for which the premium deposit is the same regardless of the length of the term for which the policy is written, and who is entitled to have returned or credited to his on the cancellation or expiration of such policy the unabsorbed portion of the premium deposit not required for losses, expenses, or establishment of reserves, may, if such amount is otherwise deductible under this chapter, deduct so much of his premium deposit as was absorbed by the company during the taxpayer’s taxable year. The amount of the premium deposit absorbed during the taxpayer’s taxable year shall be determined in accordance with the schedule of unabsorbed premium deposit returns in effect for the company during such taxable year. If the taxpayer is unable to determine the applicable rate of absorption in effect during his taxable year, he shall compute his deduction on the basis of the rate of absorption in effect at the end of the company’s taxable year which next preceded the end of the taxpayer’s taxable year. In such a case, an appropriate adjustment will be made upon the final determination of the rate of absorption applicable to the taxable year.


§ 1.832–7T 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