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82D CONGRESS 1st Session | SENATE | REPORT No. 731

# AMENDING SECTION 437 (C) OF THE INTERNAL REVENUE CODE

SEPTEMBER 12 (legislative day, SEPTEMBER 4), 1951.—Ordered to be printed

Mr. GEORGE, from the Committee on Finance, submitted the following

## REPORT

[To accompany H. R. 2562]

The Committee on Finance, to whom was referred the bill (H. R. 2562) amending section 437 (c) of the Internal Revenue Code, having considered the same, report favorably thereon without amendment and recommend that the bill do pass. By virtue of this act, the committee adopts the report of the Committee on Ways and Means which is as follows:

### GENERAL STATEMENT

The purpose of H. R. 2562 is to make a technical correction in the language of section 437 (c) of the Internal Revenue Code in order to remove an unintentional discrimination against marine insurance companies and mutual fire insurance companies issuing perpetual policies with respect to the inclusion of their reserves in the computation of their invested capital credit under the excess-profits-tax law. The discrimination presently contained in section 437 (c) was not intended by your committee and will be adjusted by enactment of H. R. 2562.

All marine insurance companies together with all insurance companies other than life or mutual (except marine) including mutual fire insurance companies exclusively issuing perpetual policies or policies for which the sole premium charged is a single deposit refundable upon cancellation or expiration of the policy are taxed under a uniform classification and grouping in accordance with the provisions of section 204 of the Internal Revenue Code.

In framing the Excess Profits Tax Act of 1950 your committee intended to give all insurance companies taxable under the provisions of section 204 of the code the same treatment with respect to the inclusion of their reserves in the computation of their equity capital. As presently worded, however, section 437 (c) and the other credit provisions of sections 437 and 439 of the code exclude marine insurance companies and mutual fire insurance companies issuing perpetual policies from all three of the basic credit provisions. H. R. 2562 corrects this oversight by amending section 437 (c) of the code to enable marine insurance companies and mutual fire insurance companies issuing perpetual policies to obtain the same invested capital credit as other insurance companies taxable under section 204.

The amendment made by H. R. 2562 will have the same effect as if it had been a part of section 437 (c) on January 3, 1951.

The Treasury Department favors the enactment of this legislation.

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## CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is inclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman):

### INTERNAL REVENUE CODE

SEC. 437. INVESTED CAPITAL CREDIT

(c) DEFINITION OF EQUITY CAPITAL.—The equity capital of the taxpayer as of any time shall be the total of its assets held at such time in good faith for the purposes of the business, reduced by the total of its liabilities at such time. For such purposes, the amount attributable to each asset shall be determined by ascertaining the adjusted basis thereof (or, in the case of money, the amount thereof) and the adjusted basis shall be the adjusted basis for determining gain upon sale or exchange. In the case of an insurance company [(other than mutual and other than life or marine)] *taxable under the provisions of section 204*, 50 per centum of its reserves required by law (other than reserves used in computing borrowed capital under section 439 (b) (2)) shall be considered as equity capital and it may include as equity capital its organization expenses. In the case of a bank (as defined in section 104) its reserves for bad debts shall not be treated as liabilities. In the case of assets subject to a mortgage or other lien, the amount of the indebtedness secured by such mortgage or lien shall be considered as a liability of the taxpayer whether or not the taxpayer assumed or agreed to pay such indebtedness.

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