

105TH CONGRESS
1ST SESSION

H. R. 2258

To amend the Internal Revenue Code of 1986 to provide for fair treatment of small property and casualty insurance companies.

IN THE HOUSE OF REPRESENTATIVES

JULY 24, 1997

Mr. THOMAS (for himself, Mr. MATSUI, Mr. ENGLISH of Pennsylvania, Mr. CALVERT, and Mr. SENSENBRENNER) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide for fair treatment of small property and casualty insurance companies.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Small Property and Casualty Insurance Company Equity
6 Act of 1997”.

7 (b) AMENDMENT OF 1986 CODE.—Except as other-
8 wise expressly provided, whenever in this Act an amend-
9 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference
 2 shall be considered to be made to a section or other
 3 provision of the Internal Revenue Code of 1986.

4 **SEC. 2. SMALL COMPANY DEDUCTION.**

5 (a) Section 832(c) is amended by striking “and” at
 6 the end of paragraph (12), by striking the period at the
 7 end of paragraph (13) and inserting “; and”, and by
 8 adding at the end thereof the following new paragraph:

9 “(14) the small insurance company deduction
 10 allowed by subsection (h).”

11 (b) Section 832 is amended by adding at the end
 12 thereof the following new subsections:

13 “(h) SMALL INSURANCE COMPANY DEDUCTION.—In
 14 the case of taxable years beginning after December 31,
 15 1997—

16 “(1) IN GENERAL.—There shall be allowed as a
 17 deduction for the taxable year 60 percent of so much
 18 of the tentative taxable income for such taxable year
 19 as does not exceed \$3,000,000 (hereinafter in this
 20 section referred to as the ‘small insurance company
 21 deduction’).

22 “(2) PHASEOUT BETWEEN \$3,000,000 AND
 23 \$15,000,000.—The amount of the small insurance
 24 company deduction determined under paragraph (1)
 25 for any taxable year shall be reduced (but not below

1 zero) by 15 percent of so much of the tentative tax-
2 able income for such taxable year as exceeds
3 \$3,000,000.

4 “(3) SMALL INSURANCE COMPANY DEDUCTION
5 NOT ALLOWABLE TO COMPANY WITH ASSETS OF
6 \$500,000,000 OR MORE.—

7 “(A) IN GENERAL.—The small insurance
8 company deduction shall not be allowed for any
9 taxable year to any insurance company which,
10 at the close of such taxable year, has assets
11 equal to or greater than \$500,000,000.

12 “(B) ASSETS.—For purposes of this para-
13 graph, the term ‘assets’ means all assets of the
14 company.

15 “(C) VALUATION OF ASSETS.—For pur-
16 poses of this paragraph, the amount attrib-
17 utable to—

18 “(i) real property and stock shall be
19 the fair market value thereof, and

20 “(ii) any other asset shall be the ad-
21 justed basis of such asset for purposes of
22 determining gain on sale or other disposi-
23 tion.

1 “(D) SPECIAL RULE FOR INTERESTS IN
2 PARTNERSHIPS AND TRUSTS.—For purposes of
3 this paragraph—

4 “(i) an interest in a partnership or
5 trust shall not be treated as an asset of the
6 company, but

7 “(ii) the company shall be treated as
8 actually owning its proportionate share of
9 the assets held by the partnership or trust
10 (as the case may be).

11 “(i) TENTATIVE TAXABLE INCOME.—For purposes
12 of subsection (h)—

13 “(1) IN GENERAL.—The term ‘tentative taxable
14 income’ means taxable income determined without
15 regard to the small insurance company deduction.

16 “(2) EXCLUSION OF ITEMS ATTRIBUTABLE TO
17 NONINSURANCE BUSINESSES.—The amount of the
18 tentative taxable income for any taxable year shall
19 be determined without regard to all items attrib-
20 utable to noninsurance businesses.

21 “(3) NONINSURANCE BUSINESSES.—

22 “(A) IN GENERAL.—The term “non-
23 insurance business” means any activity which is
24 not an insurance business.

1 “(B) CERTAIN ACTIVITIES TREATED AS IN-
2 SURANCE BUSINESSES.—For purposes of sub-
3 paragraph (A), any activity which is not an in-
4 surance business shall be treated as an insur-
5 ance business if—

6 “(i) it is of a type traditionally carried
7 on by insurance companies for investment
8 purposes, but only if the carrying on of
9 such activity (other than in the case of real
10 estate) does not constitute the active con-
11 duct of a trade or business, or

12 “(ii) it involves the performance of ad-
13 ministrative services in connection with
14 plans providing property or casualty insur-
15 ance benefits.

16 “(C) LIMITATION OF AMOUNT OF LOSS
17 FROM NONINSURANCE BUSINESS WHICH MAY
18 OFFSET INCOME FROM INSURANCE BUSI-
19 NESS.—In computing the taxable income of any
20 insurance company subject to tax imposed by
21 section 831, any loss from a noninsurance busi-
22 ness shall be limited under the principles of sec-
23 tion 1503(c).

24 “(j) SPECIAL RULE FOR CONTROLLED GROUPS.—

1 “(1) SMALL INSURANCE COMPANY DEDUCTION
2 DETERMINED ON CONTROLLED GROUP BASIS.—For
3 purposes of subsections (h) and (i)—

4 “(A) all insurance companies which are
5 members of the same controlled group shall be
6 treated as 1 insurance company, and

7 “(B) any small insurance company deduc-
8 tion determined with respect to such group
9 shall be allocated among the insurance compa-
10 nies which are members of such group in
11 proportion to their respective tentative taxable
12 incomes.

13 “(2) NONINSURANCE MEMBERS INCLUDED FOR
14 ASSET TEST.—For purposes of subsection (h)(3), all
15 members of the same controlled group (whether or
16 not insurance companies) shall be treated as 1
17 company.

18 “(3) CONTROLLED GROUP.—For purposes of
19 this subsection, the term ‘controlled group’ means
20 any controlled group of corporations (as defined in
21 section 1563(a)); except that subsections (a)(4) and
22 (b)(2)(D) of section 1563 shall not apply.

23 “(4) ADJUSTMENTS TO PREVENT EXCESS DET-
24 RIMENT OR BENEFIT.—Under regulations prescribed
25 by the Secretary, proper adjustments shall be made

1 in the application of this subsection to prevent any
2 excess detriment or benefit (whether from year-to-
3 year or otherwise) arising from the application of
4 this subsection.”

5 **SEC. 3. EFFECTIVE DATE.**

6 The amendments made by this Act shall apply to tax-
7 able years beginning after December 31, 1997.

○