

106TH CONGRESS  
1ST SESSION

# H. R. 264

To amend the Internal Revenue Code of 1986 to provide that an organization shall be exempt from income tax if it is created by a State to provide property and casualty insurance coverage for property for which such coverage is otherwise unavailable.

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## IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 1999

Mr. SHAW (for himself, Mr. MCCOLLUM, Mr. BILIRAKIS, Mr. MILLER of Florida, Mr. FOLEY, Mr. WEXLER, Mr. GOSS, Mrs. MEEK of Florida, Mr. CANADY of Florida, Mr. WELDON of Florida, Mr. BOYD, Mrs. THURMAN, Ms. BROWN of Florida, Mrs. FOWLER, Mr. DEUTSCH, Ms. ROSLEHTINEN, Mr. STEARNS, and Mr. MICA) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide that an organization shall be exempt from income tax if it is created by a State to provide property and casualty insurance coverage for property for which such coverage is otherwise unavailable.

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

1 **SECTION 1. EXEMPTION FROM INCOME TAX FOR STATE-**  
 2 **CREATED ORGANIZATIONS PROVIDING PROP-**  
 3 **ERTY AND CASUALTY INSURANCE FOR PROP-**  
 4 **ERTY FOR WHICH SUCH COVERAGE IS OTH-**  
 5 **ERWISE UNAVAILABLE.**

6 (a) IN GENERAL.—Subsection (c) of section 501 of  
 7 the Internal Revenue Code of 1986 (relating to exemption  
 8 from tax on corporations, certain trusts, etc.) is amended  
 9 by adding at the end the following new paragraph:

10 “(28)(A) Any association created before Janu-  
 11 ary 1, 1999, by State law and organized and oper-  
 12 ated exclusively to provide property and casualty in-  
 13 surance coverage for property located within the  
 14 State for which the State has determined that cov-  
 15 erage in the authorized insurance market is limited  
 16 or unavailable at reasonable rates, if—

17 “(i) no part of the net earnings of which  
 18 inures to the benefit of any private shareholder  
 19 or individual,

20 “(ii) except as provided in clause (v), no  
 21 part of the assets of which may be used for, or  
 22 diverted to, any purpose other than—

23 “(I) to satisfy, in whole or in part, the  
 24 liability of the association for, or with re-  
 25 spect to, claims made on policies written  
 26 by the association,

1 “(II) to invest in investments author-  
2 ized by applicable law, or

3 “(III) to pay reasonable and nec-  
4 essary administration expenses in connec-  
5 tion with the establishment and operation  
6 of the association and the processing of  
7 claims against the association,

8 “(iii) the State law governing the associa-  
9 tion permits the association to levy assessments  
10 on property and casualty insurance policy-  
11 holders with insurable interests in property lo-  
12 cated in the State to fund deficits of the asso-  
13 ciation, including the creation of reserves,

14 “(iv) the plan of operation of the associa-  
15 tion is subject to approval by the chief executive  
16 officer or other executive branch official of the  
17 State, by the State legislature, or both, and

18 “(v) the assets of the association revert  
19 upon dissolution to the State, the State’s des-  
20 ignee, or an entity designated by the State law  
21 governing the association, or State law does not  
22 permit the dissolution of the association.

23 “(B) Subparagraph (A) shall not apply to an  
24 association for any taxable year if the association’s  
25 surplus income for such year exceeds 5 percent of

1       the total insured value of properties insured by the  
2       association as of the close of the taxable year unless  
3       the association pays a tax equal to 35 percent of  
4       such excess for such year. Such tax shall be treated  
5       as imposed by chapter 42 for purposes of this title.”

6       (b) TRANSITIONAL RULE.—No income or gain shall  
7       be recognized by an association as a result of a change  
8       in status to that of an association described by section  
9       501(c)(28) of the Internal Revenue Code of 1986, as  
10      amended by subsection (a).

11      (c) EFFECTIVE DATE.—The amendment made by  
12      subsection (a) shall apply to taxable years beginning after  
13      December 31, 1998.

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