

Public Law 86-69

AN ACT

Relating to the taxation of the income of life insurance companies.

June 25, 1959
[H. R. 4245]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Life Insurance Company Income Tax Act of 1959".

SEC. 2. REVISION OF PART I OF SUBCHAPTER L.

(a) Part I of subchapter L of chapter 1 of the Internal Revenue Code of 1954 (relating to life insurance companies) is amended to read as follows:

"PART I—LIFE INSURANCE COMPANIES

"Subpart A. Definition; tax imposed.

"Subpart B. Investment income.

"Subpart C. Gain and loss from operations.

"Subpart D. Distributions to shareholders.

"Subpart E. Miscellaneous provisions.

"Subpart A—Definition; Tax Imposed

"Sec. 801. Definition of life insurance company.

"Sec. 802. Tax imposed.

"SEC. 801. DEFINITION OF LIFE INSURANCE COMPANY.

"(a) **LIFE INSURANCE COMPANY DEFINED.**—For purposes of this subtitle, the term 'life insurance company' means an insurance company which is engaged in the business of issuing life insurance and annuity contracts (either separately or combined with health and accident insurance), or noncancellable contracts of health and accident insurance, if—

"(1) its life insurance reserves (as defined in subsection (b)), plus

"(2) unearned premiums, and unpaid losses (whether or not ascertained), on noncancellable life, health, or accident policies not included in life insurance reserves, comprise more than 50 percent of its total reserves (as defined in subsection (c)).

"(b) **LIFE INSURANCE RESERVES DEFINED.**—

"(1) **IN GENERAL.**—For purposes of this part, the term 'life insurance reserves' means amounts—

"(A) which are computed or estimated on the basis of recognized mortality or morbidity tables and assumed rates of interest, and

"(B) which are set aside to mature or liquidate, either by payment or reinsurance, future unaccrued claims arising from life insurance, annuity, and noncancellable health and accident insurance contracts (including life insurance or annuity contracts combined with noncancellable health and accident insurance) involving, at the time with respect to which the reserve is computed, life, health, or accident contingencies.

"(2) **RESERVES MUST BE REQUIRED BY LAW.**—Except—

"(A) in the case of policies covering life, health, and accident insurance combined in one policy issued on the weekly premium payment plan, continuing for life and not subject to cancellation,

Life Insurance
Company Income
Tax Act of 1959.
68A Stat. 255; 70
Stat. 36.
26 USC 801-820.

"(B) in the case of policies issued by an organization which meets the requirements of section 501(c)(9) other than the requirement of subparagraph (B) thereof, and

26 USC 501.

"(C) as provided in paragraph (3),
in addition to the requirements set forth in paragraph (1), life insurance reserves must be required by law.

"(3) **ASSESSMENT COMPANIES.**—In the case of an assessment life insurance company or association, the term 'life insurance reserves' includes—

"(A) sums actually deposited by such company or association with State or Territorial officers pursuant to law as guaranty or reserve funds, and

"(B) any funds maintained, under the charter or articles of incorporation or association (or bylaws approved by a State insurance commissioner) of such company or association, exclusively for the payment of claims arising under certificates of membership or policies issued on the assessment plan and not subject to any other use.

For purposes of this part, the rate of interest assumed in calculating the reserves described in subparagraphs (A) and (B) shall be 3 percent.

"(4) **DEFICIENCY RESERVES EXCLUDED.**—The term 'life insurance reserves' does not include deficiency reserves. For purposes of this subsection and subsection (c), the deficiency reserve for any contract is that portion of the reserve for such contract equal to the amount (if any) by which—

"(A) the present value of the future net premiums required for such contract, exceeds

"(B) the present value of the future actual premiums and consideration charged for such contract.

"(5) **AMOUNT OF RESERVES.**—For purposes of this subsection, subsection (a), and subsection (c), the amount of any reserve (or portion thereof) for any taxable year shall be the mean of such reserve (or portion thereof) at the beginning and end of the taxable year.

"(c) **TOTAL RESERVES DEFINED.**—For purposes of subsection (a), the term 'total reserves' means—

"(1) life insurance reserves,

"(2) unearned premiums, and unpaid losses (whether or not ascertained), not included in life insurance reserves, and

"(3) all other insurance reserves required by law.

The term 'total reserves' does not include deficiency reserves (within the meaning of subsection (b)(4)).

"(d) **ADJUSTMENTS IN RESERVES FOR POLICY LOANS.**—For purposes only of determining under subsection (a) whether or not an insurance company is a life insurance company, the life insurance reserves, and the total reserves, shall each be reduced by an amount equal to the mean of the aggregates, at the beginning and end of the taxable year, of the policy loans outstanding with respect to contracts for which life insurance reserves are maintained.

"(e) **GUARANTEED RENEWABLE CONTRACTS.**—For purposes of this part, guaranteed renewable life, health, and accident insurance shall be treated in the same manner as noncancellable life, health, and accident insurance.

"(f) **BURIAL AND FUNERAL BENEFIT INSURANCE COMPANIES.**—A burial or funeral benefit insurance company engaged directly in the manufacture of funeral supplies or the performance of funeral services shall not be taxable under this part but shall be taxable under section 821 or section 831.

“(g) VARIABLE ANNUITIES.—

“(1) IN GENERAL.—For purposes of this part, an annuity contract includes a contract which provides for the payment of a variable annuity computed on the basis of recognized mortality tables and the investment experience of the company issuing the contract.

“(2) ADJUSTED RESERVES RATE; ASSUMED RATE.—For purposes of this part—

“(A) the adjusted reserves rate for any taxable year with respect to annuity contracts described in paragraph (1), and

“(B) the rate of interest assumed by the taxpayer for any taxable year in calculating the reserve on any such contract, shall be a rate equal to the current earnings rate determined under paragraph (3).

“(3) CURRENT EARNINGS RATE.—For purposes of this part, the current earnings rate for any taxable year with respect to annuity contracts described in paragraph (1) is the current earnings rate determined under section 805(b)(2) with respect to such contracts, reduced by the percentage obtained by dividing—

“(A) the amount of the actuarial margin charge on all annuity contracts described in paragraph (1) issued by the taxpayer, by

“(B) the mean of the reserves for such contracts.

“(4) INCREASES AND DECREASES IN RESERVES.—For purposes of subsections (a) and (b) of section 810, the sum of the items described in section 810(c) taken into account as of the close of the taxable year shall, under regulations prescribed by the Secretary or his delegate, be adjusted—

“(A) by subtracting therefrom an amount equal to the sum of the amounts added from time to time (for the taxable year) to the reserves for annuity contracts described in paragraph (1) by reason of appreciation in value of assets (whether or not the assets have been disposed of), and

“(B) by adding thereto an amount equal to the sum of the amounts subtracted from time to time (for the taxable year) from such reserves by reason of depreciation in value of assets (whether or not the assets have been disposed of).

“(5) COMPANIES ISSUING VARIABLE ANNUITIES AND OTHER CONTRACTS.—In the case of a life insurance company which issues both annuity contracts described in paragraph (1) and other contracts, under regulations prescribed by the Secretary or his delegate—

“(A) the policy and other contract liability requirements shall be considered to be the sum of—

“(i) the policy and other contract liability requirements computed by reference to the items which relate to annuity contracts described in paragraph (1), and

“(ii) the policy and other contract liability requirements computed by excluding the items taken into account under clause (i); and

“(B) such additional separate computations, with respect to such annuity contracts and such other contracts, shall be made as may be necessary to carry out the purposes of this subsection and this part.

“(6) TERMINATION.—Paragraphs (1), (2), (3), (4), and (5) shall not apply with respect to any taxable year beginning after December 31, 1962.

"SEC. 802. TAX IMPOSED.**"(a) TAX IMPOSED.—**

"(1) **IN GENERAL.**—A tax is hereby imposed for each taxable year beginning after December 31, 1957, on the life insurance company taxable income of every life insurance company. Such tax shall consist of—

"(A) a normal tax on such income computed at the rate provided by section 11(b), and

26 USC 11.

"(B) a surtax, on so much of such income as exceeds \$25,000, computed at the rate provided by section 11(c).

"(2) **TAX IN CASE OF CAPITAL GAINS.**—If for any taxable year beginning after December 31, 1958, the net long-term capital gain of any life insurance company exceeds the net short-term capital loss, there is hereby imposed a tax equal to 25 percent of such excess.

"(3) **SPECIAL RULE FOR 1959 AND 1960.**—If any amount is subtracted from the policyholders surplus account under section 815(c)(3) for a taxable year beginning in 1959 or 1960 on account of a distribution in 1959 or 1960 (not including any distribution treated under section 815(d)(2)(B) as made in 1959 or 1960), the tax imposed for such taxable year on the life insurance company taxable income shall be the amount determined under paragraph (1) reduced by the following percentage of the amount by which the tax imposed by paragraph (1) is (without regard to this paragraph) increased, on account of the amount so subtracted, by reason of section 802(b)(3)—

"(A) in the case of a taxable year beginning in 1959, 66 $\frac{2}{3}$ percent; and

"(B) in the case of a taxable year beginning in 1960, 33 $\frac{1}{3}$ percent.

The preceding sentence shall not apply with respect to any payment treated as a distribution under section 815(d)(3).

"(b) **LIFE INSURANCE COMPANY TAXABLE INCOME DEFINED.**—For purposes of this part, the term 'life insurance company taxable income' means the sum of—

"(1) the taxable investment income (as defined in section 804) or, if smaller, the gain from operations (as defined in section 809),

"(2) if the gain from operations exceeds the taxable investment income, an amount equal to 50 percent of such excess, plus

"(3) the amount subtracted from the policyholders surplus account for the taxable year, as determined under section 815.

"Subpart B—Investment Income

"Sec. 804. Taxable investment income.

"Sec. 805. Policy and other contract liability requirements.

"Sec. 806. Certain changes in reserves and assets.

"SEC. 804. TAXABLE INVESTMENT INCOME.**"(a) IN GENERAL.—**

"(1) **EXCLUSION OF POLICYHOLDERS' SHARE OF INVESTMENT YIELD.**—The policyholders' share of each and every item of investment yield (including tax-exempt interest, partially tax-exempt interest, and dividends received) of any life insurance company shall not be included in taxable investment income. For purposes of the preceding sentence, the policyholders' share of any item shall be that percentage obtained by dividing the policy and other contract liability requirements by the investment yield; except that if the policy and other contract liability requirements exceed

the investment yield, then the policyholders' share of any item shall be 100 percent.

"(2) **TAXABLE INVESTMENT INCOME DEFINED.**—For purposes of this part, the taxable investment income for any taxable year shall be an amount (not less than zero) equal to the sum of the life insurance company's share of each and every item of investment yield (including tax-exempt interest, partially tax-exempt interest, and dividends received), reduced by—

"(A) the sum of—

"(i) the life insurance company's share of interest which under section 103 is excluded from gross income,

"(ii) the deduction for partially tax-exempt interest provided by section 242 (as modified by paragraph (3)) computed with respect to the life insurance company's share of such interest, and

"(iii) the deductions for dividends received provided by sections 243, 244, and 245 (as modified by paragraph (5)) computed with respect to the life insurance company's share of the dividends received; and

"(B) the small business deduction provided by paragraph (4).

For purposes of the preceding sentence, the life insurance company's share of any item shall be that percentage which, when added to the percentage obtained under the second sentence of paragraph (1), equals 100 percent.

"(3) **PARTIALLY TAX-EXEMPT INTEREST.**—For purposes of this part, the deduction allowed by section 242 shall be an amount which bears the same ratio to the amount determined under such section without regard to this paragraph as (A) the normal tax rate for the taxable year prescribed by section 11, bears to (B) the sum of the normal tax rate and the surtax rate for the taxable year prescribed by section 11.

"(4) **SMALL BUSINESS DEDUCTION.**—For purposes of this part, the small business deduction is an amount equal to 10 percent of the investment yield for the taxable year. The deduction under this paragraph shall not exceed \$25,000.

"(5) **APPLICATION OF SECTION 246(b).**—In applying section 246(b) (relating to limitation on aggregate amount of deductions for dividends received) for purposes of this subsection, the limit on the aggregate amount of the deductions allowed by sections 243(a), 244, and 245 shall be 85 percent of the taxable investment income computed without regard to the deductions allowed by such sections.

"(6) **EXCEPTION.**—If it is established in any case that the application of the definition of taxable investment income contained in paragraph (2) results in the imposition of tax on—

"(A) any interest which under section 103 is excluded from gross income,

"(B) any amount of interest which under section 242 (as modified by paragraph (3)) is allowable as a deduction, or

"(C) any amount of dividends received which under sections 243, 244, and 245 (as modified by paragraph (5)) is allowable as a deduction,

adjustment shall be made to the extent necessary to prevent such imposition.

"(b) **GROSS INVESTMENT INCOME.**—For purposes of this part, the term 'gross investment income' means the sum of the following:

"(1) **INTEREST, ETC.**—The gross amount of income from—

"(A) interest, dividends, rents, and royalties,

“(B) the entering into of any lease, mortgage, or other instrument or agreement from which the life insurance company derives interest, rents, or royalties, and

“(C) the alteration or termination of any instrument or agreement described in subparagraph (B).

“(2) **SHORT-TERM CAPITAL GAIN.**—In the case of a taxable year beginning after December 31, 1958, the amount (if any) by which the net short-term capital gain exceeds the net long-term capital loss.

“(3) **TRADE OR BUSINESS INCOME.**—The gross income from any trade or business (other than an insurance business) carried on by the life insurance company, or by a partnership of which the life insurance company is a partner. In computing gross income under this paragraph, there shall be excluded any item described in paragraph (1).

Except as provided in paragraph (2), in computing gross investment income under this subsection, there shall be excluded any gain from the sale or exchange of a capital asset, and any gain considered as gain from the sale or exchange of a capital asset.

“(c) **INVESTMENT YIELD DEFINED.**—For purposes of this part, the term ‘investment yield’ means the gross investment income less the following deductions—

“(1) **INVESTMENT EXPENSES.**—Investment expenses for the taxable year. If any general expenses are in part assigned to or included in the investment expenses, the total deduction under this paragraph shall not exceed the sum of—

“(A) one-fourth of one percent of the mean of the assets (as defined in section 805(b)(4)) held at the beginning and end of the taxable year,

“(B) the amount of the mortgage service fees for the taxable year, plus

“(C) whichever of the following is the greater:

“(i) one-fourth of the amount by which the investment yield (computed without any deduction for investment expenses allowed by this paragraph) exceeds $3\frac{3}{4}$ percent of the mean of the assets (as defined in section 805(b)(4)) held at the beginning and end of the taxable year, reduced by the amount described in subparagraph (B), or

“(ii) one-fourth of one percent of the mean of the value of mortgages held at the beginning and end of the taxable year for which there are no mortgage service fees for the taxable year.

“(2) **REAL ESTATE EXPENSES.**—The amount of taxes (as provided in section 164), and other expenses, for the taxable year exclusively on or with respect to the real estate owned by the company. No deduction shall be allowed under this paragraph for any amount paid out for new buildings, or for permanent improvements or betterments made to increase the value of any property.

26 USC 164.

“(3) **DEPRECIATION.**—The deduction allowed by section 167. The deduction under this paragraph and paragraph (2) on account of any real estate owned and occupied for insurance purposes in whole or in part by a life insurance company shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this sentence) as the rental value of the space not so occupied bears to the rental value of the entire property.

26 USC 167.

26 USC 611.

"(4) DEPLETION.—The deduction allowed by section 611 (relating to depletion).

"(5) TRADE OR BUSINESS DEDUCTIONS.—The deductions allowed by this subtitle (without regard to this part) which are attributable to any trade or business (other than an insurance business) carried on by the life insurance company, or by a partnership of which the life insurance company is a partner; except that in computing the deduction under this paragraph—

"(A) There shall be excluded losses—

"(i) from (or considered as from) sales or exchanges of capital assets,

"(ii) from sales or exchanges of property used in the trade or business (as defined in section 1231(b)), and

"(iii) from the compulsory or involuntary conversion (as a result of destruction, in whole or in part, theft or seizure, or an exercise of the power of requisition or condemnation or the threat or imminence thereof) of property used in the trade or business (as so defined).

"(B) Any item, to the extent attributable to the carrying on of the insurance business, shall not be taken into account.

"(C) The deduction for net operating losses provided in section 172, and the special deductions for corporations provided in part VIII of subchapter B, shall not be allowed.

26 USC 1231.

26 USC 172, 241-248.

"SEC. 805. POLICY AND OTHER CONTRACT LIABILITY REQUIREMENTS.

"(a) IN GENERAL.—For purposes of this part, the term 'policy and other contract liability requirements' means, for any taxable year, the sum of—

"(1) the adjusted life insurance reserves, multiplied by the adjusted reserves rate,

"(2) the mean of the pension plan reserves at the beginning and end of the taxable year, multiplied by the current earnings rate, and

"(3) the interest paid.

"(b) ADJUSTED RESERVES RATE AND EARNINGS RATES.—

"(1) ADJUSTED RESERVES RATE.—For purposes of this part, the adjusted reserves rate for any taxable year is the average earnings rate or, if lower, the current earnings rate.

"(2) CURRENT EARNINGS RATE.—For purposes of this part, the current earnings rate for any taxable year is the amount determined by dividing—

"(A) the taxpayer's investment yield for such taxable year, by

"(B) the mean of the taxpayer's assets at the beginning and end of the taxable year.

"(3) AVERAGE EARNINGS RATE.—

"(A) IN GENERAL.—For purposes of this part, the average earnings rate for any taxable year is the average of the current earnings rates for such taxable year and for each of the 4 taxable years immediately preceding such taxable year (excluding any of such 4 taxable years for which the taxpayer was not an insurance company).

"(B) SPECIAL RULES.—For purposes of subparagraph (A)—

"(i) the current earnings rate for any taxable year beginning before January 1, 1958, shall be determined as if this part (as in effect for 1958) and section 381 (c) (22) applied to such taxable year, and

26 USC 381.

“(ii) the current earnings rate for any taxable year of any company which, for such year, is an insurance company (but not a life insurance company) shall be determined as if this part applied to such company for such year.

“(4) ASSETS.—For purposes of this part, the term ‘assets’ means all assets of the company (including nonadmitted assets), other than real and personal property (excluding money) used by it in carrying on an insurance trade or business. For purposes of this paragraph, the amount attributable to—

“(A) real property and stock shall be the fair market value thereof, and

“(B) any other asset shall be the adjusted basis (determined without regard to fair market value on December 31, 1958) of such asset for purposes of determining gain on sale or other disposition.

“(c) ADJUSTED LIFE INSURANCE RESERVES.—

“(1) ADJUSTED LIFE INSURANCE RESERVES DEFINED.—For purposes of this part, the term ‘adjusted life insurance reserves’ means—

“(A) the mean of the life insurance reserves (as defined in section 801(b)), other than pension plan reserves, at the beginning and end of the taxable year, multiplied by

“(B) that percentage which equals 100 percent—

“(i) increased by that percentage which is 10 times the average rate of interest assumed by the taxpayer in calculating such reserves, and

“(ii) reduced by that percentage which is 10 times the adjusted reserves rate.

“(2) AVERAGE INTEREST RATE ASSUMED.—For purposes of this part, the average rate of interest assumed in calculating reserves shall be computed—

“(A) by multiplying each assumed rate of interest by the means of the amounts of such reserves computed at that rate at the beginning and end of the taxable year, and

“(B) by dividing (i) the sum of the products ascertained under subparagraph (A), by (ii) the mean of the total of such reserves at the beginning and end of the taxable year.

“(d) PENSION PLAN RESERVES.—

“(1) PENSION PLAN RESERVES DEFINED.—For purposes of this part, the term ‘pension plan reserves’ means that portion of the life insurance reserves which is allocable to contracts—

“(A) purchased under contracts entered into with trusts which (as of the time the contracts were entered into) were deemed to be (i) trusts described in section 401(a) and exempt from tax under section 501(a), or (ii) trusts exempt from tax under section 165 of the Internal Revenue Code of 1939 or the corresponding provisions of prior revenue laws;

“(B) purchased under contracts entered into under plans which (as of the time the contracts were entered into) were deemed to be plans meeting the requirements of section 401(a) (3), (4), (5), and (6), or the requirements of section 165(a) (3), (4), (5), and (6) of the Internal Revenue Code of 1939;

“(C) provided for employees of the life insurance company under a plan which, for the taxable year, meets the requirements of section 401(a) (3), (4), (5), and (6); or

“(D) purchased to provide retirement annuities for its employees by an organization which (as of the time the con-

26 USC 401, 501.

53 Stat. 67.

26 USC 401.

53 Stat. 67.

26 USC 401.

26 USC 501.

53 Stat. 33.

tracts were purchased) was an organization described in section 501(c)(3) which was exempt from tax under section 501(a) or was an organization exempt from tax under section 101(6) of the Internal Revenue Code of 1939 or the corresponding provisions of prior revenue laws.

“(2) SPECIAL TRANSITIONAL RULE.—For purposes of this part, the amount taken into account as pension plan reserves shall be—

“(A) in the case of a taxable year beginning after December 31, 1957, and before January 1, 1959, zero;

“(B) in the case of a taxable year beginning after December 31, 1958, and before January 1, 1960, 33½ percent of the amount thereof (determined without regard to this paragraph);

“(C) in the case of a taxable year beginning after December 31, 1959, and before January 1, 1961, 66⅔ percent of the amount thereof (determined without regard to this paragraph); and

“(D) in the case of a taxable year beginning after December 31, 1960, 100 percent of the amount thereof.

“(e) INTEREST PAID.—For purposes of this part, the interest paid for any taxable year is the sum of—

“(1) INTEREST ON INDEBTEDNESS.—All interest for the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from taxation under this chapter.

“(2) AMOUNTS IN THE NATURE OF INTEREST.—All amounts in the nature of interest, whether or not guaranteed, for the taxable year on insurance or annuity contracts (including contracts supplementary thereto) which do not involve, at the time of accrual, life, health, or accident contingencies.

“(3) DISCOUNT ON PREPAID PREMIUMS.—All amounts accrued for the taxable year for discounts in the nature of interest, whether or not guaranteed, on premiums or other consideration paid in advance on insurance or annuity contracts.

“(4) INTEREST ON CERTAIN SPECIAL CONTINGENCY RESERVES.—Interest for the taxable year on special contingency reserves established pursuant to section 8(d) of the Federal Employees' Group Life Insurance Act of 1954 (5 U.S.C. § 2097(d)).

68 Stat. 740.

“SEC. 806. CERTAIN CHANGES IN RESERVES AND ASSETS.

“(a) ADJUSTMENTS TO MEANS FOR CERTAIN TRANSFERS OF LIABILITIES.—For purposes of this part, if, during the taxable year, there is a change in life insurance reserves attributable to the transfer between the taxpayer and another person of liabilities under contracts taken into account in computing such reserves, then, under regulations prescribed by the Secretary or his delegate, the means of such reserves, and the mean of the assets, shall be appropriately adjusted, on a daily basis, to reflect the amounts involved in such transfer. This subsection shall not apply to reinsurance ceded to the taxpayer or to another person.

“(b) CHANGE OF BASIS IN COMPUTING RESERVES.—If the basis for determining the amount of any item referred to in section 810(c) as of the close of the taxable year differs from the basis for such determination as of the beginning of the taxable year, then for purposes of this subpart the amount of such item—

“(1) as of the close of the taxable year shall be computed on the old basis, and

“(2) as of the beginning of the next taxable year shall be computed on the new basis.

"Subpart C—Gain and Loss From Operations

"Sec. 809. In general.

"Sec. 810. Rules for certain reserves.

"Sec. 811. Dividends to policyholders.

"Sec. 812. Operations loss deduction.

"SEC. 809. IN GENERAL.

"(a) EXCLUSION OF SHARE OF INVESTMENT YIELD SET ASIDE FOR POLICYHOLDERS.—

"(1) AMOUNT.—The share of each and every item of investment yield (including tax-exempt interest, partially tax-exempt interest, and dividends received) of any life insurance company set aside for policyholders shall not be included in gain or loss from operations. For purposes of the preceding sentence, the share of any item set aside for policyholders shall be that percentage obtained by dividing the required interest by the investment yield; except that if the required interest exceeds the investment yield, then the share of any item set aside for policyholders shall be 100 percent.

"(2) REQUIRED INTEREST.—For purposes of this part, the required interest for any taxable year is the sum of the products obtained by multiplying—

"(A) each rate of interest required, or assumed by the taxpayer, in calculating the reserves described in section 810(c), by

"(B) the means of the amount of such reserves computed at that rate at the beginning and end of the taxable year.

"(b) GAIN AND LOSS FROM OPERATIONS.—

"(1) GAIN FROM OPERATIONS DEFINED.—For purposes of this part, the term 'gain from operations' means the amount by which the sum of the following exceeds the deductions provided by subsection (d):

"(A) the life insurance company's share of each and every item of investment yield (including tax-exempt interest, partially tax-exempt interest, and dividends received); and

"(B) the sum of the items referred to in subsection (c).

"(2) LOSS FROM OPERATIONS DEFINED.—For purposes of this part, the term 'loss from operations' means the amount by which the sum of the deductions provided by subsection (d) exceeds the sum of—

"(A) the life insurance company's share of each and every item of investment yield (including tax-exempt interest, partially tax-exempt interest, and dividends received); and

"(B) the sum of the items referred to in subsection (c).

"(3) LIFE INSURANCE COMPANY'S SHARE.—For purposes of this subpart, the life insurance company's share of any item shall be that percentage which, when added to the percentage obtained under the second sentence of subsection (a) (1), equals 100 percent.

"(4) EXCEPTION.—If it is established in any case that the application of the definition of gain from operations contained in paragraph (1) results in the imposition of tax on—

"(A) any interest which under section 103 is excluded from gross income,

26 USC 103.

"(B) any amount of interest which under section 242 (as modified by section 804(a) (3)) is allowable as a deduction, or

26 USC 242.

"(C) any amount of dividends received which under sections 243, 244, and 245 (as modified by subsection (d) (8) (B)) is allowable as a deduction,

26 USC 243-245.

adjustment shall be made to the extent necessary to prevent such imposition.

“(c) GROSS AMOUNT.—For purposes of subsections (b) (1) and (2), the following items shall be taken into account:

“(1) PREMIUMS.—The gross amount of premiums and other consideration (including advance premiums, deposits, fees, assessments, and consideration in respect of assuming liabilities under contracts not issued by the taxpayer) on insurance and annuity contracts (including contracts supplementary thereto); less return premiums, and premiums and other consideration arising out of reinsurance ceded. Except in the case of amounts of premiums or other consideration returned to another life insurance company in respect of reinsurance ceded, amounts returned where the amount is not fixed in the contract but depends on the experience of the company or the discretion of the management shall not be included in return premiums.

“(2) DECREASES IN CERTAIN RESERVES.—Each net decrease in reserves which is required by section 810 or 811(b) (2) to be taken into account for purposes of this paragraph.

“(3) OTHER AMOUNTS.—All amounts, not included in computing investment yield and not includible under paragraph (1) or (2), which under this subtitle are includible in gross income.

Except as included in computing investment yield, there shall be excluded any gain from the sale or exchange of a capital asset, and any gain considered as gain from the sale or exchange of a capital asset.

“(d) DEDUCTIONS.—For purposes of subsections (b) (1) and (2), there shall be allowed the following deductions:

“(1) DEATH BENEFITS, ETC.—All claims and benefits accrued, and all losses incurred (whether or not ascertained), during the taxable year on insurance and annuity contracts (including contracts supplementary thereto).

“(2) INCREASES IN CERTAIN RESERVES.—The net increase in reserves which is required by section 810 to be taken into account for purposes of this paragraph.

“(3) DIVIDENDS TO POLICYHOLDERS.—The deduction for dividends to policyholders (determined under section 811(b)).

“(4) OPERATIONS LOSS DEDUCTION.—The operations loss deduction (determined under section 812).

“(5) CERTAIN NONPARTICIPATING CONTRACTS.—An amount equal to 10 percent of the increase for the taxable year in the reserves for nonparticipating contracts or (if greater) an amount equal to 3 percent of the premiums for the taxable year (excluding that portion of the premiums which is allocable to annuity features) attributable to nonparticipating contracts (other than group contracts) which are issued or renewed for periods of 5 years or more. For purposes of this paragraph, the term ‘reserves for nonparticipating contracts’ means such part of the life insurance reserves (excluding that portion of the reserves which is allocable to annuity features) as relates to nonparticipating contracts (other than group contracts). For purposes of this paragraph and paragraph (6), the term ‘premiums’ means the net amount of the premiums and other consideration taken into account under subsection (c) (1).

“(6) GROUP LIFE, ACCIDENT, AND HEALTH INSURANCE.—An amount equal to 2 percent of the premiums for the taxable year attributable to group life insurance contracts and group accident and health insurance contracts. The deduction under this paragraph for the taxable year and all preceding taxable years shall not exceed an amount equal to 50 percent of the premiums for the taxable year attributable to such contracts.

"(7) ASSUMPTION BY ANOTHER PERSON OF LIABILITIES UNDER INSURANCE, ETC., CONTRACTS.—The consideration (other than consideration arising out of reinsurance ceded) in respect of the assumption by another person of liabilities under insurance and annuity contracts (including contracts supplementary thereto).

"(8) TAX-EXEMPT INTEREST, DIVIDENDS, ETC.—

"(A) LIFE INSURANCE COMPANY'S SHARE.—Each of the following items:

"(i) the life insurance company's share of interest which under section 103 is excluded from gross income,

26 USC 103.

"(ii) the deduction for partially tax-exempt interest provided by section 242 (as modified by section 804(a)

26 USC 242.

(3)) computed with respect to the life insurance company's share of such interest, and

"(iii) the deductions for dividends received provided by sections 243, 244, and 245 (as modified by subparagraph (B)) computed with respect to the life insurance company's share of the dividends received.

26 USC 243-245.

"(B) APPLICATION OF SECTION 246(b).—In applying section 246(b) (relating to limitation on aggregate amount of deductions for dividends received) for purposes of subparagraph (A) (iii), the limit on the aggregate amount of the deductions allowed by sections 243(a), 244, and 245 shall be 85 percent of the gain from operations computed without regard to—

26 USC 246.

"(i) the deductions provided by paragraphs (3), (5), and (6) of this subsection,

"(ii) the operations loss deduction provided by section 812, and

"(iii) the deductions allowed by sections 243(a), 244, and 245,

26 USC 243-245.

26 USC 243-245.

but such limit shall not apply for any taxable year for which there is a loss from operations.

"(9) INVESTMENT EXPENSES, ETC.—Investment expenses to the extent not allowed as a deduction under section 804(c) (1) in computing investment yield, and the amount (if any) by which the sum of the deductions allowable under section 804(c) exceeds the gross investment income.

"(10) SMALL BUSINESS DEDUCTION.—A small business deduction in an amount equal to the amount determined under section 804(a) (4).

"(11) CERTAIN MUTUALIZATION DISTRIBUTIONS.—The amount of distributions to shareholders made in 1958 and 1959 in acquisition of stock pursuant to a plan of mutualization adopted before January 1, 1958.

"(12) OTHER DEDUCTIONS.—Subject to the modifications provided by subsection (e), all other deductions allowed under this subtitle for purposes of computing taxable income to the extent not allowed as deductions in computing investment yield.

Except as provided in paragraph (3), no amount shall be allowed as a deduction under this subsection in respect of dividends to policyholders.

"(e) MODIFICATIONS.—The modifications referred to in subsection (d) (12) are as follows:

"(1) INTEREST.—In applying section 163 (relating to deduction for interest), no deduction shall be allowed for interest in respect of items described in section 810(c).

26 USC 163.

26 USC 166.

"(2) BAD DEBTS.—Section 166(c) (relating to reserve for bad debts) shall not apply.

26 USC 170.

"(3) CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.—In applying section 170—

"(A) the limit on the total deductions under such section provided by the first sentence of section 170(b) (2) shall be 5 percent of the gain from operations computed without regard to—

"(i) the deduction provided by section 170,

"(ii) the deductions provided by paragraphs (3), (5), (6), and (8) of subsection (d), and

"(iii) any operations loss carryback to the taxable year under section 812; and

26 USC 170.

"(B) under regulations prescribed by the Secretary or his delegate, a rule similar to the rule contained in section 170(b) (3) shall be applied.

26 USC 171.

"(4) AMORTIZABLE BOND PREMIUM.—Section 171 shall not apply.

26 USC 172.

"(5) NET OPERATING LOSS DEDUCTION.—The deduction for net operating losses provided in section 172 shall not be allowed.

26 USC 242.

"(6) PARTIALLY TAX-EXEMPT INTEREST.—The deduction for partially tax-exempt interest provided by section 242 shall not be allowed.

26 USC 243-245.

"(7) DIVIDENDS RECEIVED.—The deductions for dividends received provided by sections 243, 244, and 245 shall not be allowed.

"(f) LIMITATION ON CERTAIN DEDUCTIONS.—

"(1) IN GENERAL.—The amount of the deductions under paragraphs (3), (5), and (6) of subsection (d) shall not exceed \$250,000 plus the amount (if any) by which—

"(A) the gain from operations for the taxable year, computed without regard to such deductions, exceeds

"(B) the taxable investment income for the taxable year.

"(2) APPLICATION OF LIMITATION.—The limitation provided by paragraph (1) shall apply first to the amount of the deduction under subsection (d) (6), then to the amount of the deduction under subsection (d) (5), and finally to the amount of the deduction under subsection (d) (3).

"(g) LIMITATIONS ON DEDUCTION FOR CERTAIN MUTUALIZATION DISTRIBUTIONS.—

"(1) DEDUCTION NOT TO REDUCE TAXABLE INVESTMENT INCOME.—The amount of the deduction under subsection (d) (11) shall not exceed the amount (if any) by which—

"(A) the gain from operations for the taxable year, computed without regard to such deduction (but after the application of subsection (f)), exceeds

"(B) the taxable investment income for the taxable year.

"(2) DEDUCTION NOT TO REDUCE TAX BELOW 1957 LAW.—The deduction under subsection (d) (11) for the taxable year shall be allowed only to the extent that such deduction (after the application of all other deductions provided by subsection (d)) does not reduce the amount of the tax imposed by section 802(a) (1) for such taxable year below the amount of tax which would have been imposed by section 802(a) as in effect for 1957, if this part, as in effect for 1957, applied for such taxable year.

"(3) APPLICATION OF SECTION 815.—That portion of any distribution with respect to which a deduction is allowed under subsection (d) (11) shall not be treated as a distribution to shareholders for purposes of section 815; except that in the case of any distribution made in 1959, such portion shall be treated as a dis-

tribution with respect to which a reduction is required under section 815(e)(2)(B).

"SEC. 810. RULES FOR CERTAIN RESERVES.

"(a) **ADJUSTMENT FOR DECREASE.**—If the sum of the items described in subsection (c) as of the beginning of the taxable year exceeds the sum of such items as of the close of the taxable year (reduced by the amount of investment yield not included in gain or loss from operations for the taxable year by reason of section 809(a)(1)), the excess shall be taken into account as a net decrease referred to in section 809(c)(2).

"(b) **ADJUSTMENT FOR INCREASE.**—If the sum of the items described in subsection (c) as of the close of the taxable year (reduced by the amount of investment yield not included in gain or loss from operations for the taxable year by reason of section 809(a)(1)) exceeds the sum of such items as of the beginning of the taxable year, the excess shall be taken into account as a net increase referred to in section 809(d)(2).

"(c) **ITEMS TAKEN INTO ACCOUNT.**—The items referred to in subsections (a) and (b) are as follows:

"(1) The life insurance reserves (as defined in section 801(b)).

"(2) The unearned premiums and unpaid losses included in total reserves under section 801(c)(2).

"(3) The amounts (discounted at the rates of interest assumed by the company) necessary to satisfy the obligations under insurance or annuity contracts (including contracts supplementary thereto), but only if such obligations do not involve (at the time with respect to which the computation is made under this paragraph) life, health, or accident contingencies.

"(4) Dividend accumulations, and other amounts, held at interest in connection with insurance or annuity contracts (including contracts supplementary thereto).

"(5) Premiums received in advance, and liabilities for premium deposit funds.

In applying this subsection, the same item shall be counted only once.

"(d) **ADJUSTMENT FOR CHANGE IN COMPUTING RESERVES.**—

"(1) **IN GENERAL.**—If the basis for determining any item referred to in subsection (c) as of the close of any taxable year differs from the basis for such determination as of the close of the preceding taxable year, then so much of the difference between—

"(A) the amount of the item at the close of the taxable year, computed on the new basis, and

"(B) the amount of the item at the close of the taxable year, computed on the old basis,

as is attributable to contracts issued before the taxable year shall be taken into account for purposes of this subpart as follows:

"(i) if the amount determined under subparagraph (A) exceeds the amount determined under subparagraph (B), $\frac{1}{10}$ of such excess shall be taken into account, for each of the succeeding 10 taxable years, as a net increase to which section 809(d)(2) applies; or

"(ii) if the amount determined under subparagraph (B) exceeds the amount determined under subparagraph (A), $\frac{1}{10}$ of such excess shall be taken into account for each of the 10 succeeding taxable years, as a net decrease to which section 809(c)(2) applies.

"(2) **TERMINATION AS LIFE INSURANCE COMPANY.**—Except as provided in section 381(c)(22) (relating to carryovers in certain corporate readjustments), if for any taxable year the taxpayer is not a life insurance company, the balance of any adjustments

under this paragraph shall be taken into account for the preceding taxable year.

“(3) EFFECT OF PRELIMINARY TERM ELECTION.—An election under section 818(c) shall not be treated as a change in the basis for determining an item referred to in subsection (c) to which this subsection applies. If an election under section 818(c) applies for the taxable year, the amounts of the items referred to in subparagraphs (A) and (B) of paragraph (1) shall be determined without regard to such election. If such an election would apply in respect of such item for the taxable year but for the new basis, the amount of the item referred to in subparagraph (B) shall be determined on the basis which would have been applicable under section 818(c) if the election applied in respect of the item for the taxable year.

“(e) CERTAIN DECREASES IN RESERVES OF VOLUNTARY EMPLOYEES’ BENEFICIARY ASSOCIATIONS.—

“(1) DECREASES DUE TO VOLUNTARY LAPSES OF POLICIES ISSUED BEFORE JANUARY 1, 1958.—For purposes of subsections (a) and (b), in the case of a life insurance company which meets the requirements of section 501(c)(9) other than the requirement of subparagraph (B) thereof, there shall be taken into account only 11½ percent of any decrease in the life insurance reserve on any policy issued before January 1, 1958, which is attributable solely to the voluntary lapse of such policy on or after January 1, 1958. In applying the preceding sentence, the decrease in the reserve for any policy shall be determined by reference to the amount of such reserve as of the beginning of the taxable year, reduced by any amount allowable as a deduction under section 809(d)(1) in respect of such policy by reason of such lapse. This paragraph shall apply for any taxable year only if the taxpayer has made an election under paragraph (3) which is effective for such taxable year.

“(2) DISALLOWANCE OF CARRYOVERS FROM PRE-1958 LOSSES FROM OPERATIONS.—In the case of a life insurance company to which paragraph (1) applies for the taxable year, section 812(b)(1) shall not apply with respect to any loss from operations for any taxable year beginning before January 1, 1958.

“(3) ELECTION.—Paragraph (1) shall apply to any taxpayer for any taxable year only if the taxpayer elects, not later than the time prescribed by law (including extensions thereof) for filing the return for such taxable year, to have such paragraph apply. Such election shall be made in such manner as the Secretary or his delegate shall prescribe by regulations. Such election shall be effective for the taxable year for which made and for all succeeding taxable years, and shall not be revoked except with the consent of the Secretary or his delegate.

“SEC. 811. DIVIDENDS TO POLICYHOLDERS.

“(a) DIVIDENDS TO POLICYHOLDERS DEFINED.—For purposes of this part, the term ‘dividends to policyholders’ means dividends and similar distributions to policyholders in their capacity as such. Such term does not include interest paid (as defined in section 805(e)).

“(b) AMOUNT OF DEDUCTION.—

“(1) IN GENERAL.—Except as limited by section 809(f), the deduction for dividends to policyholders for any taxable year shall be an amount equal to the dividends to policyholders paid during the taxable year—

“(A) increased by the excess of (i) the amounts held at the end of the taxable year as reserves for dividends to policyholders (as defined in subsection (a)) payable during the

year following the taxable year, over (ii) such amounts held at the end of the preceding taxable year, or

“(B) decreased by the excess of (i) such amounts held at the end of the preceding taxable year, over (ii) such amounts held at the end of the taxable year.

For purposes of subparagraphs (A) and (B), there shall be included as amounts held at the end of any taxable year amounts set aside, before the 16th day of the third month of the year following such taxable year (or, in the case of a mutual savings bank subject to the tax imposed by section 594, before the 16th day of the fourth month of the year following such taxable year), for payment during the year following such taxable year.

26 USC 594.

“(2) CERTAIN AMOUNTS TO BE TREATED AS NET DECREASES.—If the amount determined under paragraph (1)(B) exceeds the dividends to policyholders paid during the taxable year, the amount of such excess shall be a net decrease referred to in section 809(c)(2).

“SEC. 812. OPERATIONS LOSS DEDUCTION.

“(a) DEDUCTION ALLOWED.—There shall be allowed as a deduction for the taxable year an amount equal to the aggregate of—

“(1) the operations loss carryovers to such year, plus

“(2) the operations loss carrybacks to such year.

For purposes of this part, the term ‘operations loss deduction’ means the deduction allowed by this subsection.

“(b) OPERATIONS LOSS CARRYBACKS AND CARRYOVERS.—

“(1) YEARS TO WHICH LOSS MAY BE CARRIED.—

“(A) IN GENERAL.—The loss from operations for any taxable year (hereinafter in this section referred to as the ‘loss year’) beginning after December 31, 1954, shall be—

“(i) an operations loss carryback to each of the 3 taxable years preceding the loss year,

“(ii) an operations loss carryover to each of the 5 taxable years following the loss year, and

“(iii) subject to subsection (e), if the life insurance company is a new company for the loss year, an operations loss carryover to each of the 3 taxable years following the 5 taxable years described in clause (ii).

“(B) SPECIAL TRANSITIONAL RULES FOR CARRYBACKS.—A loss from operations for any taxable year beginning before January 1, 1958, shall not be an operations loss carryback to any taxable year beginning before January 1, 1955. A loss from operations for any taxable year beginning after December 31, 1957, shall not be an operations loss carryback to any taxable year beginning before January 1, 1958.

“(C) APPLICATION FOR YEARS PRIOR TO 1958.—For purposes of this section, this part (as in effect for 1958) and section 381(c)(22) shall be treated as applying to all taxable years beginning after December 31, 1954, and before January 1, 1958.

Post, p. 139.

“(2) AMOUNT OF CARRYBACKS AND CARRYOVERS.—The entire amount of the loss from operations for any loss year shall be carried to the earliest of the taxable years to which (by reason of paragraph (1)) such loss may be carried. The portion of such loss which shall be carried to each of the other taxable years shall be the excess (if any) of the amount of such loss over the sum of the offsets (as defined in subsection (d)) for each of the prior taxable years to which such loss may be carried.

"(c) COMPUTATION OF LOSS FROM OPERATIONS.—In computing the loss from operations for purposes of this section—

26 USC 243-246.

"(1) The operations loss deduction shall not be allowed.

"(2) The deductions allowed by sections 243 (relating to dividends received by corporations), 244 (relating to dividends received on certain preferred stock of public utilities), and 245 (relating to dividends received from certain foreign corporations) shall be computed without regard to section 246(b) as modified by section 809(d)(8)(B).

"(d) OFFSET DEFINED.—

"(1) IN GENERAL.—For purposes of subsection (b)(2), the term 'offset' means, with respect to any taxable year, an amount equal to that increase in the operations loss deduction for the taxable year which reduces the life insurance company taxable income (computed without regard to section 802(b)(3)) for such year to zero.

"(2) OPERATIONS LOSS DEDUCTION.—For purposes of paragraph (1), the operations loss deduction for any taxable year shall be computed without regard to the loss from operations for the loss year or for any taxable year thereafter.

"(e) RULES RELATING TO NEW COMPANIES.—

Post, p. 139.

"(1) NEW COMPANY DEFINED.—For purposes of this part, a life insurance company is a new company for any taxable year only if such taxable year begins not more than 5 years after the first day on which it (or any predecessor, if section 381(c)(22) applies or would have applied if in effect) was authorized to do business as an insurance company.

"(2) LIMITATIONS ON 8-YEAR CARRYOVER.—

"(A) IN GENERAL.—For purposes of subsection (b)(1)(A)(iii), a life insurance company shall not be treated as a new company for any loss year if at any time during such year it was a nonqualified corporation. If, at any time during any taxable year after the loss year, the life insurance company is a nonqualified corporation, subsection (b)(1)(A)(iii) shall cease to apply with respect to such loss for such taxable year and all subsequent taxable years.

"(B) NONQUALIFIED CORPORATION DEFINED.—For purposes of subparagraph (A), the term 'nonqualified corporation' means any corporation connected through stock ownership with any other corporation, if either of such corporations possesses at least 50 percent of the voting power of all classes of stock of the other such corporation. For purposes of subparagraph (A), a corporation shall be treated as becoming a nonqualified corporation at any time at which it becomes a party to a reorganization (other than a reorganization which is not described in any subparagraph of section 368(a)(1) other than subparagraphs (E) and (F) thereof).

26 USC 368.

26 USC 1-1552,
6001-7852.

"(f) APPLICATION OF SUBTITLE A AND SUBTITLE F.—Except as provided in section 809(e), subtitle A and subtitle F shall apply in respect of operations loss carrybacks, operations loss carryovers, and the operations loss deduction under this part in the same manner and to the same extent as such subtitles apply in respect of net operating loss carrybacks, net operating loss carryovers, and the net operating loss deduction.

"Subpart D—Distributions to Shareholders

"Sec. 815. Distributions to shareholders.

"SEC. 815. DISTRIBUTIONS TO SHAREHOLDERS.

"(a) GENERAL RULE.—For purposes of this section and section 802(b)(3), any distribution to shareholders after December 31, 1958, shall be treated as made—

"(1) first out of the shareholders surplus account, to the extent thereof,

"(2) then out of the policyholders surplus account, to the extent thereof, and

"(3) finally out of other accounts.

For purposes of this section, the term 'distribution' includes any distribution in redemption of stock or in partial or complete liquidation of the corporation, but does not include any distribution made by the corporation in its stock or in rights to acquire its stock, and does not (except for purposes of paragraph (3) and subsection (e)(2)(B)) include any distribution in redemption of stock issued before 1958 which at all times on and after the date of issuance and on and before the date of redemption is limited as to dividends and is callable, at the option of the issuer, at a price not in excess of 105 percent of the sum of the issue price and the amount of any contribution to surplus made by the original purchaser at the time of his purchase.

"(b) SHAREHOLDERS SURPLUS ACCOUNT.—

"(1) IN GENERAL.—Each stock life insurance company shall, for purposes of this part, establish and maintain a shareholders surplus account. The amount in such account on January 1, 1958, shall be zero.

"(2) ADDITIONS TO ACCOUNT.—The amount added to the shareholders surplus account for any taxable year beginning after December 31, 1957, shall be the amount by which—

"(A) the sum of—

"(i) the life insurance company taxable income (computed without regard to section 802(b)(3)),

"(ii) in the case of a taxable year beginning after December 31, 1958, the amount (if any) by which the net long-term capital gain exceeds the net short-term capital loss,

"(iii) the deduction for partially tax-exempt interest provided by section 242 (as modified by section 804(a)(3)), the deductions for dividends received provided by sections 243, 244, and 245 (as modified by section 809(d)(8)(B)), and the amount of interest excluded from gross income under section 103, and

"(iv) the small business deduction provided by section 809(d)(10), exceeds

"(B) the taxes imposed for the taxable year by section 802(a), determined without regard to section 802(b)(3).

"(3) SUBTRACTIONS FROM ACCOUNT.—

"(A) IN GENERAL.—There shall be subtracted from the shareholders surplus account for any taxable year the amount which is treated under this section as distributed out of such account.

"(B) DISTRIBUTIONS IN 1958.—There shall be subtracted from the shareholders surplus account (to the extent thereof) for any taxable year beginning in 1958 the amount of distributions to shareholders made during 1958.

"(c) POLICYHOLDERS SURPLUS ACCOUNT.—

26 USC 242-245,
103.

"(1) IN GENERAL.—Each stock life insurance company shall, for purposes of this part, establish and maintain a policyholders surplus account. The amount in such account on January 1, 1959, shall be zero.

"(2) ADDITIONS TO ACCOUNT.—The amount added to the policyholders surplus account for any taxable year beginning after December 31, 1958, shall be the sum of—

"(A) an amount equal to 50 percent of the amount by which the gain from operations exceeds the taxable investment income,

"(B) the deduction for certain nonparticipating contracts provided by section 809(d)(5) (as limited by section 809(f)), and

"(C) the deduction for group life and group accident and health insurance contracts provided by section 809(d)(6) (as limited by section 809(f)).

"(3) SUBTRACTIONS FROM ACCOUNT.—There shall be subtracted from the policyholders surplus account for any taxable year an amount equal to the sum of—

"(A) the amount which (without regard to subparagraph (B)) is treated under this section as distributed out of the policyholders surplus account, and

"(B) the amount (determined without regard to section 802(a)(3)) by which the tax imposed for the taxable year by section 802(a)(1) is increased by reason of section 802(b)(3).

"(d) SPECIAL RULES.—

"(1) ELECTION TO TRANSFER AMOUNTS FROM POLICYHOLDERS SURPLUS ACCOUNT TO SHAREHOLDERS SURPLUS ACCOUNT.—

"(A) IN GENERAL.—A taxpayer may elect for any taxable year for which it is a life insurance company to subtract from its policyholders surplus account any amount in such account as of the close of such taxable year. The amount so subtracted, less the amount of the tax imposed with respect to such amount by reason of section 802(b)(3), shall be added to the shareholders surplus account as of the beginning of the succeeding taxable year.

"(B) MANNER AND EFFECT OF ELECTION.—The election provided by subparagraph (A) shall be made (in such manner and in such form as the Secretary or his delegate may by regulations prescribe) after the close of the taxable year and not later than the time prescribed by law for filing the return (including extensions thereof) for the taxable year. Such an election, once made, may not be revoked.

"(2) TERMINATION AS LIFE INSURANCE COMPANY.—

"(A) EFFECT OF TERMINATION.—Except as provided in section 381(c)(22) (relating to carryovers in certain corporate readjustments), if—

"(i) for any taxable year the taxpayer is not an insurance company, or

"(ii) for any two successive taxable years the taxpayer is not a life insurance company,

then the amount taken into account under section 802(b)(3) for the last preceding taxable year for which it was a life insurance company shall be increased (after the application of subparagraph (B)) by the amount remaining in its policyholders surplus account at the close of such last preceding taxable year.

"(B) EFFECT OF CERTAIN DISTRIBUTIONS.—If for any taxable year the taxpayer is an insurance company but not a life in-

insurance company, then any distribution to shareholders during such taxable year shall be treated as made on the last day of the last preceding taxable year for which the taxpayer was a life insurance company.

“(3) TREATMENT OF CERTAIN INDEBTEDNESS.—If—

“(A) the taxpayer makes any payment in discharge of its indebtedness, and

“(B) such indebtedness is attributable to a distribution by the taxpayer to its shareholders after February 9, 1959, then the amount of such payment shall, for purposes of this section and section 802(b) (3), be treated as a distribution in cash to shareholders, but only to the extent that the distribution referred to in subparagraph (B) was treated as made out of accounts other than the shareholders and policyholders surplus accounts.

“(4) LIMITATION ON AMOUNT IN POLICYHOLDERS SURPLUS ACCOUNT.—There shall be treated as a subtraction from the policyholders surplus account for a taxable year for which the taxpayer is a life insurance company the amount by which the policyholders surplus account (computed at the end of the taxable year without regard to this paragraph) exceeds whichever of the following is the greatest—

“(A) 15 percent of life insurance reserves at the end of the taxable year,

“(B) 25 percent of the amount by which the life insurance reserves at the end of the taxable year exceed the life insurance reserves at the end of 1958, or

“(C) 50 percent of the net amount of the premiums and other consideration taken into account for the taxable year under section 809(c) (1).

The amount so treated as subtracted, less the amount of the tax imposed with respect to such amount by reason of section 802 (b) (3), shall be added to the shareholders surplus account as of the beginning of the succeeding taxable year.

“(e) SPECIAL RULE FOR CERTAIN MUTUALIZATIONS.—

“(1) IN GENERAL.—For purposes of this section and section 802 (b) (3), any distribution to shareholders after December 31, 1958, in acquisition of stock pursuant to a plan of mutualization shall be treated—

“(A) first, as made out of paid-in capital and paid-in surplus, to the extent thereof,

“(B) thereafter, as made in two allocable parts—

“(i) one part of which is made out of the other accounts referred to in subsection (a) (3), and

“(ii) the remainder of which is a distribution to which subsection (a) applies.

“(2) SPECIAL RULES.—

“(A) ALLOCATION RATIO.—The part referred to in paragraph (1) (B) (i) is the amount which bears the same ratio to the amount to which paragraph (1) (B) applies as—

“(i) the excess (determined as of December 31, 1958, and adjusted to the beginning of the year of the distribution as provided in subparagraph (B)) of the assets over the total liabilities, bears to

“(ii) the sum (determined as of the beginning of the year of the distribution) of the excess described in clause (i), the amount in the shareholders surplus account, plus the amount in the policyholders surplus account.

“(B) ADJUSTMENT FOR CERTAIN DISTRIBUTIONS.—The excess described in subparagraph (A) (i) shall be reduced by the aggregate of the prior distributions which have been treated under subsection (a) (3) as made out of accounts other than the shareholders surplus account and the policyholders surplus account.

“Subpart E—Miscellaneous Provisions

“Sec. 817. Rules relating to certain gains and losses.

“Sec. 818. Accounting provisions.

“Sec. 819. Foreign life insurance companies.

“Sec. 820. Optional treatment of policies reinsured under modified coinsurance contracts.

“SEC. 817. RULES RELATING TO CERTAIN GAINS AND LOSSES.

“(a) TREATMENT OF CAPITAL GAINS AND LOSSES, ETC.—In the case of a life insurance company—

26 USC 1231.

“(1) in applying section 1231(a), the term ‘property used in the trade or business’ shall be treated as including only—

26 USC 167.

“(A) property used in carrying on an insurance business, of a character which is subject to the allowance for depreciation provided in section 167, held for more than 6 months, and real property used in carrying on an insurance business, held for more than 6 months, which is not described in section 1231(b) (1) (A), (B), or (C), and

26 USC 1231,
1221.

“(B) property described in section 1231(b) (2), and

“(2) in applying section 1221 (2), the reference to property used in trade or business shall be treated as including only property used in carrying on an insurance business.

“(b) GAIN ON PROPERTY HELD ON DECEMBER 31, 1958, AND CERTAIN SUBSTITUTED PROPERTY ACQUIRED AFTER 1958.—

“(1) PROPERTY HELD ON DECEMBER 31, 1958.—In the case of property held by the taxpayer on December 31, 1958, if—

“(A) the fair market value of such property on such date exceeds the adjusted basis for determining gain as of such date, and

“(B) the taxpayer has been a life insurance company at all times on and after December 31, 1958,

the gain on the sale or other disposition of such property shall be treated as an amount (not less than zero) equal to the amount by which the gain (determined without regard to this subsection) exceeds the difference between the fair market value on December 31, 1958, and the adjusted basis for determining gain as of such date.

26 USC 1016.

“(2) CERTAIN PROPERTY ACQUIRED AFTER DECEMBER 31, 1958.—In the case of property acquired after December 31, 1958, and having a substituted basis (within the meaning of section 1016 (b))—

26 USC 1223.

“(A) for purposes of paragraph (1), such property shall be deemed held continuously by the taxpayer since the beginning of the holding period thereof, determined with reference to section 1223,

“(B) the fair market value and adjusted basis referred to in paragraph (1) shall be that of that property for which the holding period taken into account includes December 31, 1958,

“(C) paragraph (1) shall apply only if the property or properties the holding periods of which are taken into account were held only by life insurance companies after December 31, 1958, during the holding periods so taken into account,

“(D) the difference between the fair market value and adjusted basis referred to in paragraph (1) shall be reduced (not less than zero) by the excess of (i) the gain that would have been recognized but for this subsection on all prior sales or dispositions after December 31, 1958, of properties referred to in subparagraph (C), over (ii) the gain that was recognized on such sales or other dispositions, and

“(E) the basis of such property shall be determined as if the gain which would have been recognized but for this subsection were recognized gain.

“(3) PROPERTY DEFINED.—For purposes of paragraphs (1) and (2), the term ‘property’ does not include insurance and annuity contracts (and contracts supplementary thereto) and property described in paragraph (1) of section 1221.

26 USC 1221.

“(c) LIMITATION ON CAPITAL LOSS CARRYOVERS.—A net capital loss for any taxable year beginning before January 1, 1959, shall not be taken into account.

“(d) GAIN ON TRANSACTIONS OCCURRING PRIOR TO JANUARY 1, 1959.—For purposes of this part, there shall be excluded any gain from the sale or exchange of a capital asset, and any gain considered as gain from the sale or exchange of a capital asset, resulting from sales or other dispositions of property prior to January 1, 1959. Any gain after December 31, 1958, resulting from the sale or other disposition of property prior to January 1, 1959, which, but for this sentence, would be taken into account under section 1231, shall not be taken into account under section 1231 for purposes of this part.

26 USC 1231.

“(e) CERTAIN REINSURANCE TRANSACTIONS IN 1958.—For purposes of this part, the reinsurance in a single transaction, or in a series of related transactions, occurring in 1958, by a life insurance company of all of its insurance contracts of a particular type, through the assumption by another company or companies of all liabilities under such contracts, shall be treated as a sale of a capital asset.

“SEC. 818. ACCOUNTING PROVISIONS.

“(a) METHOD OF ACCOUNTING.—All computations entering into the determination of the taxes imposed by this part shall be made—

“(1) under an accrual method of accounting, or

“(2) to the extent permitted under regulations prescribed by the Secretary or his delegate, under a combination of an accrual method of accounting with any other method permitted by this chapter (other than the cash receipts and disbursements method).

Except as provided in the preceding sentence, all such computations shall be made in a manner consistent with the manner required for purposes of the annual statement approved by the National Association of Insurance Commissioners.

“(b) AMORTIZATION OF PREMIUM AND ACCRUAL OF DISCOUNT.—

“(1) IN GENERAL.—The appropriate items of income, deductions, and adjustments under this part shall be adjusted to reflect the appropriate amortization of premium and the appropriate accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidences of indebtedness held by a life insurance company. Such amortization and accrual shall be determined—

“(A) in accordance with the method regularly employed by such company, if such method is reasonable, and

“(B) in all other cases, in accordance with regulations prescribed by the Secretary or his delegate.

“(2) SPECIAL RULES.—

“(A) AMORTIZATION OF BOND PREMIUM.—In the case of any bond (as defined in section 171(d)) acquired after Decem-

26 USC 171.

26 USC 171.

ber 31, 1957, the amount of bond premium, and the amortizable bond premium for the taxable year, shall be determined under section 171(b) as if the election set forth in section 171(c) had been made.

“(B) CONVERTIBLE EVIDENCES OF INDEBTEDNESS.—In no case shall the amount of premium on a convertible evidence of indebtedness include any amount attributable to the conversion features of the evidence of indebtedness.

“(c) LIFE INSURANCE RESERVES COMPUTED ON PRELIMINARY TERM BASIS.—For purposes of this part (other than section 801), at the election of the taxpayer the amount taken into account as life insurance reserves with respect to contracts for which such reserves are computed on a preliminary term basis may be determined on either of the following bases:

“(1) EXACT REVALUATION.—As if the reserves for all such contracts had been computed on a net level premium basis (using the same mortality assumptions and interest rates for both the preliminary term basis and the net level premium basis).

“(2) APPROXIMATE REVALUATION.—The amount computed without regard to this subsection—

“(A) increased by \$21 per \$1,000 of insurance in force (other than term insurance) under such contracts, less 2.1 percent of reserves under such contracts, and

“(B) increased by \$5 per \$1,000 of term insurance in force under such contracts which at the time of issuance cover a period of more than 15 years, less 0.5 percent of reserves under such contracts.

If the taxpayer makes an election under either paragraph (1) or (2) for any taxable year, the basis adopted shall be adhered to in making the computations under this part (other than section 801) for the taxable year and all subsequent taxable years unless a change in the basis of computing such reserves is approved by the Secretary or his delegate, except that if, pursuant to an election made for a taxable year beginning in 1958, the basis adopted is the basis provided in paragraph (2), the taxpayer may adopt the basis provided by paragraph (1) for its first taxable year beginning after 1958.

26 USC 443.

“(d) SHORT TAXABLE YEARS.—If any return of a corporation made under this part is for a period of less than the entire calendar year (referred to in this subsection as ‘short period’), then section 443 shall not apply in respect of such period, but—

“(1) the taxable investment income and the gain or loss from operations shall be determined, under regulations prescribed by the Secretary or his delegate, on an annual basis by a ratable daily projection of the appropriate figures for the short period,

“(2) that portion of the life insurance company taxable income described in paragraphs (1) and (2) of section 802(b) shall be determined on an annual basis by treating the amounts ascertained under paragraph (1) as the taxable investment income and the gain or loss from operations for the taxable year, and

“(3) that portion of the life insurance company taxable income described in paragraphs (1) and (2) of section 802(b) for the short period shall be the amount which bears the same ratio to the amount ascertained under paragraph (2) as the number of days in the short period bears to the number of days in the entire calendar year.

“(e) TRANSITIONAL RULE FOR CHANGES IN METHOD OF ACCOUNTING.—

“(1) IN GENERAL.—If the method of accounting required to be used in computing the taxpayer's taxes under this part for the taxable year 1958 is different from the method used in computing its taxes under this part for 1957, then there shall be ascertained

the net amount of those adjustments which are determined (as of the close of 1957) to be necessary solely by reason of the change to the method required by subsection (a) in order to prevent amounts from being duplicated or omitted. The amount of the taxpayer's tax for 1957 shall be recomputed (under the law applicable to 1957, modified as provided in paragraph (4)) taking into account an amount equal to $\frac{1}{10}$ of the net amount of the adjustments determined under the preceding sentence. The amount of increase or decrease (as the case may be) referred to in paragraph (2) or (3) shall be the amount of the increase or decrease ascertained under the preceding sentence, multiplied by 10.

"(2) TREATMENT OF DECREASE.—For purposes of subtitle F, if the recomputation under paragraph (1) results in a decrease, the amount thereof shall be a decrease in the tax imposed for 1957; except that for purposes of computing the period of limitation on the making of refunds or the allowance of credits with respect to such overpayment, the amount of such decrease shall be treated as an overpayment of tax for 1959. No interest shall be paid, for any period before March 16, 1960, on any overpayment of the tax imposed for 1957 which is attributable to such decrease. 26 USC 6001-7852.

"(3) TREATMENT OF INCREASE.—

"(A) IN GENERAL.—For purposes of subtitle F (other than sections 6016 and 6655), if the recomputation under paragraph (1) results in an increase, the amount thereof shall be treated as a tax imposed by this subsection for 1959. Such tax shall be payable in 10 equal annual installments, beginning with March 15, 1960. 26 USC 6001-7852.

"(B) SPECIAL RULES.—For purposes of subparagraph (A)—

"(i) No interest shall be paid on any installment described in subparagraph (A) for any period before the time prescribed in such subparagraph for the payment of such installment.

"(ii) Section 6152(c) (relating to proration of deficiencies to installments) shall apply. 26 USC 6152.

"(iii) In applying section 6502(a)(1) (relating to collection after assessment), the assessment of any installment described in subparagraph (A) shall be treated as made at the time prescribed by such subparagraph for the payment of such installment. 26 USC 6502.

"(iv) Except as provided in section 381(c)(22), if for any taxable year the taxpayer is not a life insurance company, the time for payment of any remaining installments described in subparagraph (A) shall be the date (determined without regard to any extension of time) for filing the return for such taxable year. Post, p. 139.

"(4) MODIFICATIONS OF 1957 TAX COMPUTATION.—In recomputing the taxpayer's tax for 1957 for purposes of paragraph (1)—

"(A) section 804(b) (as in effect for 1957) shall not apply with respect to any amount required to be taken into account by such paragraph, and

"(B) the amount of the deduction allowed by section 805 (as in effect for 1957) shall not be reduced by reason of any amount required to be taken into account by such paragraph.

"(f) DENIAL OF DOUBLE DEDUCTIONS.—Nothing in this part shall permit the same item to be deducted more than once under subpart B and once under subpart C.

"SEC. 819. FOREIGN LIFE INSURANCE COMPANIES.

"(a) CARRYING ON UNITED STATES INSURANCE BUSINESS.—A foreign life insurance company carrying on a life insurance business within the United States, if with respect to its United States business it would qualify as a life insurance company under section 801, shall be taxable on the United States business of such company in the same manner as a domestic life insurance company.

"(b) ADJUSTMENT WHERE SURPLUS HELD IN UNITED STATES IS LESS THAN SPECIFIED MINIMUM.—

"(1) IN GENERAL.—In the case of any company described in subsection (a), if the minimum figure determined under paragraph (2) exceeds the surplus held in the United States, then—

"(A) the amount of the policy and other contract liability requirements (determined under section 805 without regard to this subsection), and

"(B) the amount of the required interest (determined under section 809(a)(2) without regard to this subsection), shall each be reduced by an amount determined by multiplying such excess by the current earnings rate (as defined in section 805(b)(2)).

"(2) DEFINITIONS.—For purposes of paragraph (1)—

"(A) The minimum figure is the amount determined by multiplying the taxpayer's total insurance liabilities on United States business by—

"(i) in the case of a taxable year beginning before January 1, 1959, 9 percent, and

"(ii) in the case of a taxable year beginning after December 31, 1958, a percentage for such year to be determined and proclaimed by the Secretary or his delegate.

The percentage determined and proclaimed by the Secretary or his delegate under clause (ii) shall be based on such data with respect to domestic life insurance companies for the preceding taxable year as the Secretary or his delegate considers representative. Such percentage shall be computed on the basis of a ratio the numerator of which is the excess of the assets over the total insurance liabilities, and the denominator of which is the total insurance liabilities.

"(B) The surplus held in the United States is the excess of the assets held in the United States over the total insurance liabilities on United States business.

For purposes of this paragraph and subsection (c), the term 'total insurance liabilities' means the sum of the total reserves (as defined in section 801(c)) plus (to the extent not included in total reserves) the items referred to in paragraphs (3), (4), and (5) of section 810(c).

"(c) DISTRIBUTIONS TO SHAREHOLDERS.—

"(1) IN GENERAL.—In applying sections 802(b)(3) and 815 for purposes of subsection (a), the amount of the distributions to shareholders shall be determined by multiplying the total amount of the distributions to shareholders (within the meaning of section 815) of the foreign life insurance company by whichever of the following percentages is selected by the taxpayer for the taxable year:

"(A) the percentage which the minimum figure for the taxable year (determined under subsection (b)(2)(A)) is of the excess of the assets of the company over the total insurance liabilities; or

“(B) the percentage which the total insurance liabilities on United States business for the taxable year is of the company's total insurance liabilities.

“(2) DISTRIBUTIONS PURSUANT TO CERTAIN MUTUALIZATIONS.—In applying section 815(e) for purposes of subsection (a) —

“(A) the paid-in capital and paid-in surplus referred to in section 815(e) (1) (A) of a foreign life insurance company is the portion of such capital and surplus determined by multiplying such capital and surplus by the percentage selected for the taxable year under paragraph (1); and

“(B) the excess referred to in section 815(e) (2) (A) (i) (without the adjustment provided by section 815(e) (2) (B)) is whichever of the following is the greater:

“(i) the minimum figure for 1958 determined under subsection (b) (2) (A), or

“(ii) the surplus described in subsection (b) (2) (B) (determined as of December 31, 1958).

“(d) NO UNITED STATES INSURANCE BUSINESS.—Foreign life insurance companies not carrying on an insurance business within the United States shall not be taxable under this part but shall be taxable as other foreign corporations.

“SEC. 820. OPTIONAL TREATMENT OF POLICIES REINSURED UNDER MODIFIED COINSURANCE CONTRACTS.

“(a) IN GENERAL.—

“(1) TREATMENT AS REINSURED UNDER CONVENTIONAL COINSURANCE CONTRACT.—Under regulations prescribed by the Secretary or his delegate, an insurance or annuity policy reinsured under a modified coinsurance contract (as defined in subsection (b)) shall be treated, for purposes of this part (other than for purposes of section 801), as if such policy were reinsured under a conventional coinsurance contract.

“(2) CONSENT OF REINSURED AND REINSURER.—Paragraph (1) shall apply to an insurance or annuity policy reinsured under a modified coinsurance contract only if the reinsured and reinsurer consent, in such manner as the Secretary or his delegate shall prescribe by regulations—

“(A) to the application of paragraph (1) to all insurance and annuity policies reinsured under such modified coinsurance contract, and

“(B) to the application of the rules provided by subsection (c) and the rules prescribed under such subsection.

Such consent, once given, may not be rescinded except with the approval of the Secretary or his delegate.

“(b) DEFINITION OF MODIFIED COINSURANCE CONTRACT.—For purposes of this section, the term ‘modified coinsurance contract’ means an indemnity reinsurance contract under the terms of which—

“(1) a life insurance company (hereinafter referred to as ‘the reinsurer’) agrees to indemnify another life insurance company (hereinafter referred to as ‘the reinsured’) against a risk assumed by the reinsured under the insurance or annuity policy reinsured,

“(2) the reinsured retains ownership of the assets in relation to the reserve on the policy reinsured,

“(3) all or part of the gross investment income derived from such assets is paid by the reinsured to the reinsurer as a part of the consideration for the reinsurance of such policy, and

“(4) the reinsurer is obligated for expenses incurred, and for Federal income taxes imposed, in respect of such gross investment income.

"(c) SPECIAL RULES.—Under regulations prescribed by the Secretary or his delegate, in applying subsection (a)(1) with respect to any insurance or annuity policy the following rules shall (to the extent not improper under the terms of the modified coinsurance contract under which such policy is reinsured) be applied in respect of the amount of such policy reinsured:

"(1) PREMIUMS AND GROSS INVESTMENT INCOME.—The premiums (to the extent allocable to the participation of the reinsurer therein) received for the policy reinsured shall be treated as received by the reinsurer and not by the reinsured. The gross investment income (to the extent allocable to the participation of the reinsurer therein) derived from the assets in relation to the reserve on the policy reinsured shall be treated as gross investment income of the reinsurer and not of the reinsured. The gross investment income so treated shall be considered as derived proportionately from each of the various sources of gross investment income of the reinsured.

"(2) CAPITAL GAINS AND LOSSES.—The gains and losses from sales and exchanges of capital assets, and gains and losses considered as gains and losses from sales and exchanges of capital assets, of the reinsured shall (to the extent of the participation therein by the reinsurer under the terms of the modified coinsurance contract) be treated as gains and losses from sales and exchanges of capital assets of the reinsurer and not of the reinsured.

"(3) RESERVES AND ASSETS.—The reserve on the policy reinsured shall be treated as a part of the reserves of the reinsurer and not of the reinsured, and the assets in relation to such reserve shall be treated as owned by the reinsurer and not by the reinsured.

"(4) EXPENSES.—The expenses (to the extent reimbursable by the reinsurer) incurred with respect to the policy reinsured and with respect to the assets referred to in paragraph (3) shall be treated as incurred by the reinsurer and not by the reinsured.

"(5) DIVIDENDS TO POLICYHOLDERS.—The dividends to policyholders paid in respect of the policy reinsured shall be treated as paid by the reinsurer and not by the reinsured. For purposes of the preceding sentence, the amount of dividends to policyholders treated as paid by the reinsurer shall be the amount paid, in respect of the policy reinsured, by the reinsurer to the reinsured as reimbursement for dividends to policyholders paid by the reinsured. This paragraph shall apply also in respect of an insurance or annuity policy reinsured under a conventional coinsurance contract.

"(6) REIMBURSEMENT FOR 1957 FEDERAL INCOME TAX.—Any amount paid in 1958 or any subsequent year by the reinsurer to the reinsured as reimbursement for Federal income taxes imposed for a taxable year beginning in 1957 or any preceding taxable year shall not be taken into account by the reinsured as an item under section 809(c) or by the reinsurer as a deduction under section 809(d).

"(7) RULES PRESCRIBED BY THE SECRETARY.—Such other rules as may be prescribed by the Secretary or his delegate.

In applying the rules provided by paragraphs (1), (2), (3), (4), (5), and (6) and the rules prescribed under paragraph (7), an item shall be taken into account as income only once under subpart B and only once under subpart C by both the reinsured and the reinsurer, and an item shall be allowed as a deduction only once under subpart B and only once under subpart C to both the reinsured and the reinsurer."

SEC. 3. TECHNICAL AMENDMENTS AND PROVISIONS.

(a) CREDIT AND EXCLUSION FOR DIVIDENDS RECEIVED BY INDIVIDUALS FROM LIFE INSURANCE COMPANIES.—

(1) Section 34(c) of the Internal Revenue Code of 1954 (relating to denial of credit for dividends received by individuals) is amended by striking out paragraph (1) and redesignating paragraphs (2) and (3) as (1) and (2), respectively.

26 USC 34.

(2) Section 116(b) of such Code (relating to denial of exclusion for certain dividends) is amended by striking out paragraph (1) and redesignating paragraphs (2) and (3) as (1) and (2), respectively.

26 USC 116.

(3) The amendments made by this subsection shall apply to dividends received after December 31, 1958, in taxable years ending after such date.

(b) CREDIT FOR FOREIGN TAXES.—Section 841 of such Code is amended by striking out "811," in the first sentence, and by striking out paragraph (1) and inserting in lieu thereof the following:

26 USC 841.

"(1) in the case of the tax imposed by section 802, the life insurance company taxable income (as defined in section 802(b)), and".

(c) CARRYOVERS.—

(1) Section 381(c) of such Code (relating to items of distributor or transferor corporations taken into account) is amended by adding at the end thereof the following new paragraph:

26 USC 381.

"(22) SUCCESSOR LIFE INSURANCE COMPANY.—If the acquiring corporation is a life insurance company (as defined in section 801(a)), there shall be taken into account (to the extent proper to carry out the purposes of this section and part I of subchapter L, and under such regulations as may be prescribed by the Secretary or his delegate) the items required to be taken into account for purposes of part I of subchapter L (relating to life insurance companies) in respect of the distributor or transferor corporation."

Ante, p. 112.

(2) Section 381 of such Code is amended by adding at the end thereof the following new subsection:

26 USC 381.

"(d) OPERATIONS LOSS CARRYBACKS AND CARRYOVERS OF LIFE INSURANCE COMPANIES.—

"For application of this part to operations loss carrybacks and carryovers of life insurance companies, see section 812(f)."

(d) ADJUSTMENTS TO BASIS.—

(1) Section 1016(a)(3) of the Internal Revenue Code of 1954 (relating to adjustments to basis) is amended by striking out "and" at the end of subparagraph (A), by adding "and" at the end of subparagraph (B), and by inserting after subparagraph (B) the following new subparagraph:

26 USC 1016.

"(C) since February 28, 1913, and before January 1, 1958, during which such property was held by a person subject to tax under part I of subchapter L (or the corresponding provisions of prior income tax laws), to the extent that paragraph (2) does not apply."

Ante, p. 112.

(2) Section 1016(a) of such Code is amended by inserting after paragraph (16) the following new paragraph:

26 USC 1016.

"(17) in the case of any evidence of indebtedness referred to in section 818(b) (relating to amortization of premium and accrual of discount in the case of life insurance companies), to the extent of the adjustments required under section 818(b) (or the corresponding provisions of prior income tax laws) for the taxable year and all prior taxable years;"

26 USC 1232.

(e) BONDS AND OTHER EVIDENCES OF INDEBTEDNESS.—Section 1232 (a) (2) (C) of such Code (relating to bonds and other evidences of indebtedness) is amended to read as follows:

“(C) DOUBLE INCLUSION IN INCOME NOT REQUIRED.—This section shall not require the inclusion of any amount previously includible in gross income.”

(f) CONFORMING CHANGES IN CROSS REFERENCES.—

26 USC 842,
1504, 891.

(1) Sections 842 and 1504(b) (2) of such Code are each amended by striking out “, 811,”. Section 891 of such Code is amended by striking out “811,”.

26 USC 1201.

(2) Section 1201 of such Code is amended by striking out “802(a),” in subsection (a), and by adding at the end of the section the following new subsection:

“(c) LIFE INSURANCE COMPANIES.—

“For alternative tax in case of life insurance companies, see section 802(a) (2).”

26 USC 4371.

(3) Paragraph (2) of section 4371 of such Code (relating to tax on policies issued by foreign insurers) is amended by striking out “816” and inserting in lieu thereof “819”.

26 USC 6501.

(g) LIMITATIONS ON ASSESSMENT AND COLLECTION.—Section 6501(c) of such Code (relating to exceptions to limitations on assessment and collection) is amended by adding at the end thereof the following new paragraph:

“(6) TAX RESULTING FROM CERTAIN DISTRIBUTIONS OR FROM TERMINATION AS LIFE INSURANCE COMPANY.—In the case of any tax imposed under section 802(a) (1) by reason of section 802(b) (3) on account of a termination of the taxpayer as an insurance company or as a life insurance company to which section 815(d) (2) (A) applies, or on account of a distribution by the taxpayer to which section 815(d) (2) (B) applies, such tax may be assessed within 3 years after the return was filed (whether or not such return was filed on or after the date prescribed) for the taxable year for which the taxpayer ceases to be an insurance company, the second taxable year for which the taxpayer is not a life insurance company, or the taxable year in which the distribution is actually made, as the case may be.”

26 USC 6655.

(h) ESTIMATED TAX FOR 1958.—In the case of any taxpayer subject to tax under section 811 of the Internal Revenue Code of 1954 (as such section was in effect before the enactment of this Act), no addition to the tax shall be made under section 6655 of such Code (relating to failure by corporation to pay estimated tax) with respect to estimated tax for a taxable year beginning in 1958.

26 USC 6072.

(i) INCOME TAX RETURNS FOR 1958.—Every life insurance company subject to the tax imposed by section 802(a) of the Internal Revenue Code of 1954 (as amended by section 2 of this Act) shall, after the date of the enactment of this Act and on or before September 15, 1959 (in lieu of at the time prescribed by section 6072(b) of such Code), make a return for its taxable year beginning in 1958 with respect to the tax imposed by such section (as amended by section 2 of this Act). The return required by this subsection for such taxable year shall constitute the return for such taxable year for all purposes of the Internal Revenue Code of 1954; and no return for such taxable year, with respect to the tax imposed by part I of subchapter L of chapter 1 of such Code (as in effect prior to the effective date of the amendment made by section 2 of this Act), filed on or before the date of the enactment of this Act shall be considered for any of such purposes as a return for such taxable year. All payments made on or before the date of the enactment of this Act with respect to the tax for such

taxable year imposed by part I of subchapter L of chapter 1 of such Code (as in effect prior to the effective date of the amendment made by section 2 of this Act), to the extent that such payments have not been credited or refunded, shall be deemed to be payments made on September 15, 1959, on account of the tax for such taxable year imposed by section 802(a) of such Code (as amended by section 2 of this Act). The provisions of section 6152(a)(1) of such Code shall not apply with respect to the tax for such taxable year imposed by section 802(a) of such Code (as amended by section 2 of this Act).

26 USC 6152.

SEC. 4. EFFECTIVE DATE.

Except as otherwise provided in this Act, the amendments made by this Act shall apply only with respect to taxable years beginning after December 31, 1957.

Approved June 25, 1959.

Public Law 86-70

AN ACT

To amend certain laws of the United States in light of the admission of the State of Alaska into the Union, and for other purposes.

June 25, 1959
[H. R. 7120]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Alaska Omnibus Act".

Alaska Omnibus Act.

FEDERAL JURISDICTION

SEC. 2. (a) Section 4 of the Act of July 7, 1958 (72 Stat. 339), providing for the admission of the State of Alaska into the Union, is amended by striking out the words "all such lands or other property, belonging to the United States or which may belong to said natives", and inserting in lieu thereof the words "all such lands or other property (including fishing rights), the right or title to which may be held by said natives or is held by the United States in trust for said natives".

48 USC note
prec. 21.

(b) Section 6(e) of said Act is amended by striking out the word "legislative" and inserting in lieu thereof the word "calendar".

72 Stat. 340.
48 USC note
prec. 21.

TERMINATION OF APPLICATION OF CERTAIN FEDERAL LAWS

SEC. 3. Any Territorial law, as that term is defined in section 8(d) of the Act of July 7, 1958 (72 Stat. 339, 344), providing for the admission of the State of Alaska into the Union—

48 USC note
prec. 21.

(a) which provides for the regulation of commerce within Alaska by an agency of the United States, and

(b) the application of which to the State of Alaska is continued solely by reason of such section 8(d), shall cease to apply to the State of Alaska on June 30, 1961, or on the effective date of any law enacted by the Legislature of the State of Alaska which modifies or changes such Territorial law, whichever occurs first.

SUGAR ACT

SEC. 4. Section 101 of the Sugar Act of 1948, as amended (7 U.S.C., supp. V, sec. 1101), is further amended by adding thereto a new subsection, to be designated subsection "(o)" and to read as follows: "(o) The term 'continental United States' means the 49 States and the District of Columbia."

61 Stat. 922.