

**§ 591. Deduction for dividends paid on deposits****(a) In general**

In the case of mutual savings banks, cooperative banks, domestic building and loan associations, and other savings institutions chartered and supervised as savings and loan or similar associations under Federal or State law, there shall be allowed as deductions in computing taxable income amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends or interest on their deposits or withdrawable accounts, if such amounts paid or credited are withdrawable on demand subject only to customary notice of intention to withdraw.

**(b) Mutual savings bank to include certain banks with capital stock**

For purposes of this part, the term “mutual savings bank” includes any bank—

- (1) which has capital stock represented by shares, and
- (2) which is subject to, and operates under, Federal or State laws relating to mutual savings bank.

(Aug. 16, 1954, ch. 736, 68A Stat. 204; Pub. L. 87-834, §6(f), Oct. 16, 1962, 76 Stat. 984; Pub. L. 97-34, title II, §245(a), Aug. 13, 1981, 95 Stat. 255.)

**Editorial Notes**

## AMENDMENTS

1981—Pub. L. 97-34 designated existing provisions as subsec. (a), inserted heading “In general”, and added subsec. (b).

1962—Pub. L. 87-834 included other savings institutions chartered and supervised as savings and loan or similar associations under Federal or State law, and authorized amounts paid as interest as a deduction.

**Statutory Notes and Related Subsidiaries**

## EFFECTIVE DATE OF 1981 AMENDMENT

Pub. L. 97-34, title II, §246(d), Aug. 13, 1981, 95 Stat. 256, provided that: “The amendments made by section 245 [amending this section and section 593 of this title] shall apply with respect to taxable years ending after the date of the enactment of this Act [Aug. 13, 1981].”

**[§ 592. Repealed. Pub. L. 94-455, title XIX, § 1901(a)(83), Oct. 4, 1976, 90 Stat. 1778]**

Section, act Aug. 16, 1954, ch. 736, 68A Stat. 205, authorized a deduction by mutual savings banks for repayment of loans made before Sept. 1, 1951, by the United States or any agency or instrumentality thereof, or any mutual fund established under the authority of the laws of any State.

**Statutory Notes and Related Subsidiaries**

## EFFECTIVE DATE OF REPEAL

Repeal effective with respect to taxable years beginning after Dec. 31, 1976, see section 1901(d) of Pub. L. 94-455, set out as an Effective Date of 1976 Amendment note under section 2 of this title.

**§ 593. Reserves for losses on loans****(a) Reserve for bad debts****(1) In general**

Except as provided in paragraph (2), in the case of—

(A) any domestic building and loan association,

(B) any mutual savings bank, or

(C) any cooperative bank without capital stock organized and operated for mutual purposes and without profit,

there shall be allowed a deduction for a reasonable addition to a reserve for bad debts. Such deduction shall be in lieu of any deduction under section 166(a).

**(2) Organization must meet 60-percent asset test of section 7701(a)(19)**

This section shall apply to an association or bank referred to in paragraph (1) only if it meets the requirements of section 7701(a)(19)(C).

**(b) Addition to reserves for bad debts****(1) In general**

For purposes of subsection (a), the reasonable addition for the taxable year to the reserve for bad debts of any taxpayer described in subsection (a) shall be an amount equal to the sum of—

(A) the amount determined to be a reasonable addition to the reserve for losses on nonqualifying loans, computed in the same manner as is provided with respect to additions to the reserves for losses on loans of banks under section 585(b)(2), plus

(B) the amount determined by the taxpayer to be a reasonable addition to the reserve for losses on qualifying real property loans, but such amount shall not exceed the amount determined under paragraph (2) or (3), whichever is the larger, but the amount determined under this subparagraph shall in no case be greater than the larger of—

(i) the amount determined under paragraph (3), or

(ii) the amount which, when added to the amount determined under subparagraph (A), equals the amount by which 12 percent of the total deposits or withdrawable accounts of depositors of the taxpayer at the close of such year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of such year (taking into account any portion thereof attributable to the period before the first taxable year beginning after December 31, 1951).

**(2) Percentage of taxable income method****(A) In general**

Subject to subparagraphs (B) and (C), the amount determined under this paragraph for the taxable year shall be an amount equal to 8 percent of the taxable income for such year.

**(B) Reduction for amounts referred to in paragraph (1)(A)**

The amount determined under subparagraph (A) shall be reduced (but not below 0) by the amount determined under paragraph (1)(A).

**(C) Overall limitation on paragraph**

The amount determined under this paragraph shall not exceed the amount necessary to increase the balance at the close of the