

103<sup>D</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 1242

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

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## IN THE HOUSE OF REPRESENTATIVES

MARCH 4, 1993

Mr. THOMAS of California (for himself, Mr. MATSUI, Mr. SUNDQUIST, Mr. PACKARD, Mr. BUNNING, Mr. COX, Mr. JACOBS, Mr. MINETA, and Mr. HANCOCK) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

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

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

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

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Small Property and Casualty Insurance Company Equity  
6 Act of 1993”.

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

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

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

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

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

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

13 “(h) SMALL INSURANCE COMPANY DEDUCTION.—In  
14 the case of taxable years beginning after December 31,  
15 1992—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21                   “(3) NONINSURANCE BUSINESSES.—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 The amendments made by this Act shall apply to tax-  
7 able years beginning after December 31, 1992.

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