

103<sup>D</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 5064

To amend the Internal Revenue Code of 1986 to revise the limitation applicable to mutual life insurance companies on the deduction for policyholder dividends and to exempt small life insurance companies from the required capitalization of certain policy acquisition expenses.

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## IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 20, 1994

Mr. FILNER (for himself, Mr. BECERRA, Mr. BERMAN, Mr. BROWN of California, Ms. MCKINNEY, Mrs. MINK, Mr. SANDERS, Mrs. UNSOELD, Ms. VELÁZQUEZ, Ms. WATERS, and Mr. OWENS) 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 revise the limitation applicable to mutual life insurance companies on the deduction for policyholder dividends and to exempt small life insurance companies from the required capitalization of certain policy acquisition expenses.

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.**

4 This Act may be cited as the “Insurance Tax Fair-  
5 ness Act of 1994”.

1 **SEC. 2. REVISION OF LIMITATION ON DEDUCTION OF POL-**  
2 **ICYHOLDER DIVIDENDS BY MUTUAL LIFE IN-**  
3 **SURANCE COMPANIES.**

4 (a) IN GENERAL.—Paragraph (2) of section 808(c)  
5 of the Internal Revenue Code of 1986 (relating to reduc-  
6 tion in case of mutual companies) is amended to read as  
7 follows:

8 “(2) LIMITATION IN CASE OF MUTUAL COMPA-  
9 NIES.—

10 “(A) IN GENERAL.—In the case of a mu-  
11 tual life insurance company, the amount al-  
12 lowed as a deduction under paragraph (1) for  
13 any taxable year shall not exceed the lesser of—

14 “(i) 90 percent of the policyholder  
15 dividends paid or accrued by such company  
16 during such taxable year, or

17 “(ii) 30 percent of the life insurance  
18 company taxable income of such company  
19 for such taxable year (determined without  
20 regard to any deduction for policyholder  
21 dividends).

22 In no event shall the limitation under this sub-  
23 paragraph for any taxable year be less than  
24 \$35,000,000.

25 “(B) TREATMENT OF STOCK COMPANIES  
26 OWNED BY MUTUAL LIFE INSURANCE COMPA-

1 NIES.—Solely for purposes of this paragraph, a  
2 stock life insurance company shall be treated as  
3 a mutual life insurance company if stock pos-  
4 sessing—

5 “(i) at least 80 percent of the total  
6 combined voting power of all classes of  
7 stock of such stock life insurance company  
8 entitled to vote, or

9 “(ii) at least 80 percent of the total  
10 value of shares of all classes of stock of  
11 such stock life insurance company,

12 is owned at any time during the calendar year  
13 directly (or through the application of section  
14 318) by one or more mutual life insurance com-  
15 panies).”.

16 (b) REPEAL OF SECTION 809.—

17 (1) Section 809 of such Code is hereby re-  
18 pealed.

19 (2) Subparagraph (B) of section 807(a)(2) of  
20 such Code is amended to read as follows:

21 “(B) the amount of the policyholders’  
22 share of tax-exempt interest.”.

23 (3) Subparagraph (B) of section 807(b)(1) of  
24 such Code is amended to read as follows:

1           “(B) the amount of the policyholders’  
2           share of tax-exempt interest.”.

3           (4) Subparagraph (A) of section 812(b)(3) of  
4           such Code is amended by striking “sections 808 and  
5           809” and inserting “section 808”.

6           (5) Subsection (c) of section 817 of such Code  
7           is amended by striking “(other than section 809)”.

8           (6) Subsection (c) of section 842 of such Code  
9           is amended by striking paragraph (3) and by redesi-  
10          gnating paragraph (4) as paragraph (3).

11          (c) EFFECTIVE DATE.—

12           (1) IN GENERAL.—Except as provided in para-  
13          graph (2), the amendments made by this section  
14          shall apply to taxable years beginning after Decem-  
15          ber 31, 1993.

16           (2) RECOMPUTATION UNDER SECTION 809(f)  
17          NOT AFFECTED.—The amendments made by this  
18          section shall not affect the application of section  
19          809(f) of the Internal Revenue Code of 1986 (as in  
20          effect before its repeal by subsection (b)) in respect  
21          of any taxable year beginning before January 1,  
22          1994.

23           (3) LIMITATION ON LOSS CARRYBACKS.—In the  
24          case of a life insurance company subject to the limi-  
25          tation under section 808(b)(2) of such Code, no cap-

1       ital loss arising in a taxable year beginning after De-  
2       cember 31, 1993, may be carried to a taxable year  
3       beginning before January 1, 1994.

4   **SEC. 3. SMALL LIFE INSURANCE COMPANIES EXEMPT**  
5                   **FROM REQUIRED CAPITALIZATION OF CER-**  
6                   **TAIN POLICY ACQUISITION EXPENSES.**

7       Section 848 of the Internal Revenue Code of 1986  
8       (relating to capitalization of certain policy acquisition ex-  
9       penses) is amended by adding at the end the following new  
10      subsection:

11       “(k) EXEMPTION FOR SMALL LIFE INSURANCE COM-  
12      PANIES.—This section shall not require any small life in-  
13      surance company (as defined in section 806) to capitalize  
14      any specified policy acquisition expenses for any taxable  
15      year beginning after December 31, 1993.”.

16   **SEC. 4. SENSE OF CONGRESS RELATING TO USE OF IN-**  
17                   **CREASED REVENUES.**

18       It is the sense of the Congress that any increase in  
19      revenues to the Treasury resulting from the amendments  
20      made by this Act shall be dedicated to the funding of—

21           (1) programs benefiting the nutrition, early  
22           education, housing, and family support of the Na-  
23           tion’s children, and

24           (2) additional health benefits.

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