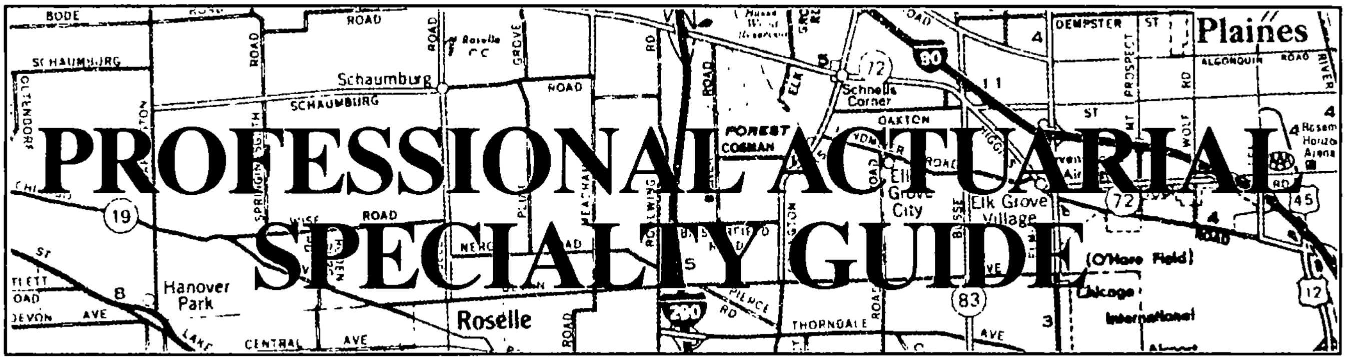
SOCIETY OF ACTUARIES



PROFESSIONAL ACTUARIAL SPECIALTY GUIDE

COMMITTEE ON CONTINUING EDUCATION

UNITED STATES TAXATION – LIFE INSURANCE UPDATE

Development of Current Tax Law

The year 1990 was marked by a major tax increase for life insurance companies with the passage of the Omnibus Budget Reconciliation Act of 1990.

Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508), including House Reports Nos. 101-881 and 101-964. Code section 848. Act sections 11301-11303.

The new law requires that certain expenses which were previously deducted as accrued must be capitalized and amortized over a ten year period. The amount of such deferred acquisition costs (DAC) is defined by adding percentages of net premium, including single and renewal premium, for certain types of business. This is viewed as a proxy for an exact determination of deferrable acquisition costs. Different percentages apply to annuities, group life, and other coverages, and there is a special treatment for small companies. Tax-qualified product premiums are excluded from the deferred base. The tax applies also to life insurance business of casualty insurance companies. The casualty company treatment of unearned premium reserves is extended to life insurance companies on accident and health business other than non-cancellable (or guaranteed renewable). The DAC provision in the alternative minimum tax is repealed for 1991 and later (and for 1990 as well for small companies).

Level: Intermediate

SOA Product Development Section newsletter: *Product Development News*, "Tax Notes," Palmer, John J., Issue 27 (January, 1991)

This provides a clear concise summary of the 1990 Tax Act provisions on deferred acquisition costs (DAC). It discusses the treatment of various types of premium payments. It looks at the tax as an interest-free loan to the government and measures the impact on pricing. It ponders the future with Congress and lingering outstanding tax issues.

Level: Intermediate Pages: 3

This Actuarial Specialty Guide Update on United States Taxation was developed in cooperation with the Professional Actuarial Specialty Guides Committee on Continuing Education by:
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