

shall conduct a study of organizations described in section 501(c)(8) of the Internal Revenue Code of 1986 and which received gross annual insurance premiums in excess of \$25,000,000 for the taxable years of such organizations which ended during 1984. Not later than January 1, 1988, the Secretary of the Treasury shall submit to the Committee on Ways and Means of the House of Representatives, the Committee on Finance of the Senate, and the Joint Committee on Taxation the results of such study, together with such recommendations as he determines to be appropriate. The Secretary of the Treasury shall have authority to require the furnishing of such information as may be necessary to carry out the purposes of this paragraph.

“(3) SPECIAL RULES FOR EXISTING BLUE CROSS OR BLUE SHIELD ORGANIZATIONS.—

“(A) IN GENERAL.—In the case of any existing Blue Cross or Blue Shield organization (as defined in section 833(c)(2) of the Internal Revenue Code of 1986 as added by this section)—

“(i) no adjustment shall be made under section 481 (or any other provision) of such Code on account of a change in its method of accounting for its 1st taxable year beginning after December 31, 1986, and

“(ii) for purposes of determining gain or loss, the adjusted basis of any asset held on the 1st day of such taxable year shall be treated as equal to its fair market value as of such day.

“(B) TREATMENT OF CERTAIN DISTRIBUTIONS.—For purposes of section 833(b)(3)(B), the surplus of any organization as of the beginning of its 1st taxable year beginning after December 31, 1986, shall be increased by the amount of any distribution (other than to policyholders) made by such organization after August 16, 1986, and before the beginning of such taxable year.

“(C) RESERVE WEAKENING AFTER AUGUST 16, 1986.—Any reserve weakening after August 16, 1986, by an existing Blue Cross or Blue Shield organization shall be treated as occurring in such organization’s 1st taxable year beginning after December 31, 1986.

“(4) OTHER SPECIAL RULES.—

“(A) The amendments made by this section shall not apply with respect to that portion of the business of Mutual of America which is attributable to pension business.

“(B) The amendments made by this section shall not apply to that portion of the business of the Teachers Insurance Annuity Association-College Retirement Equities Fund which is attributable to pension business.

“(C) The amendments made by this section shall not apply to—

“(i) the retirement fund of the YMCA,

“(ii) the Missouri Hospital Plan,

“(iii) administrative services performed by municipal leagues, and

“(iv) dental benefit coverage provided by a Delta Dental Plans Association organization through contracts with independent professional service providers so long as the provision of such coverage is the principal activity of such organization.

“(D) For purposes of this paragraph, the term ‘pension business’ means the administration of any plan described in section 401(a) of the Internal Revenue Code of 1954 [now 1986] which includes a trust exempt from tax under section 501(a), any plan under which amounts are contributed by an individual’s employer for an annuity contract described in section 403(b) of such Code, any individual retirement plan described in section 408 of such Code, and any eligible deferred compensation plan to which section 457(a) of such Code applies.”

[The due date for the report referred to in section 1012(c)(2) of Pub. L. 99-514, set out above, extended to

July 1, 1992, by Pub. L. 101-508, title XI, § 11831(b), Nov. 5, 1990, 104 Stat. 1388-559.]

TERMINATION OF CERTAIN EXCEPTIONS FROM RULES RELATING TO EXEMPT ORGANIZATIONS WHICH PROVIDE COMMERCIAL-TYPE INSURANCE

Pub. L. 105-277, div. J, title IV, § 4003(g), Oct. 21, 1998, 112 Stat. 2681-910, provided that: “Rules similar to the rules of section 1.1502-75(d)(5) of the Treasury Regulations shall apply with respect to any organization described in section 1042(b) of the 1997 Act [section 1042(b) of Pub. L. 105-34, set out below].”

Pub. L. 105-34, title X, § 1042, Aug. 5, 1997, 111 Stat. 939, provided that:

“(a) IN GENERAL.—Subparagraphs (A) and (B) of section 1012(c)(4) of the Tax Reform Act of 1986 [Pub. L. 99-514, set out as an Effective Date note above] shall not apply to any taxable year beginning after December 31, 1997.

“(b) SPECIAL RULES.—In the case of an organization to which section 501(m) of the Internal Revenue Code of 1986 applies solely by reason of the amendment made by subsection (a)—

“(1) no adjustment shall be made under section 481 (or any other provision) of such Code on account of a change in its method of accounting for its first taxable year beginning after December 31, 1997, and

“(2) for purposes of determining gain or loss, the adjusted basis of any asset held on the 1st day of such taxable year shall be treated as equal to its fair market value as of such day.

“(c) RESERVE WEAKENING AFTER JUNE 8, 1997.—Any reserve weakening after June 8, 1997, by an organization described in subsection (b) shall be treated as occurring in such organization’s 1st taxable year beginning after December 31, 1997.

“(d) REGULATIONS.—The Secretary of the Treasury or his delegate may prescribe rules for providing proper adjustments for organizations described in subsection (b) with respect to short taxable years which begin during 1998 by reason of section 843 of the Internal Revenue Code of 1986.”

RULES PROVIDING ADJUSTMENTS FOR CERTAIN TAXPAYERS AFFECTED BY SECTION 1012 OF PUB. L. 99-514

Pub. L. 100-647, title I, § 1010(b)(3), Nov. 10, 1988, 102 Stat. 3451, provided that: “The Secretary of the Treasury or his delegate may prescribe rules providing proper adjustments for taxpayers which become subject to subchapter L of chapter 1 of the 1986 Code by reason of the amendments made by section 1012 of the Reform Act [Pub. L. 99-514, enacting this section and amending section 501 of this title] with respect to short taxable years which begin during 1987 by reason of section 843 of such Code.”

§ 834. Determination of taxable investment income

(a) General rule

For purposes of section 831(b), the term “taxable investment income” means the gross investment income, minus the deductions provided in subsection (c).

(b) Gross investment income

For purposes of subsection (a), the term “gross investment income” means the sum of the following:

(1) The gross amount of income during the taxable year from—

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

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

(C) the alteration or termination of any instrument or agreement described in subparagraph (B), and

(D) gains from sales or exchanges of capital assets to the extent provided in subchapter P (relating to capital gains and losses).

(2) The gross income during the taxable year from any trade or business (other than an insurance business) carried on by the insurance company, or by a partnership of which the insurance company is a partner. In computing gross income under this paragraph, there shall be excluded any item described in paragraph (1).

(c) Deductions

In computing taxable investment income, the following deductions shall be allowed:

(1) Tax-free interest

The amount of interest which under section 103 is excluded for the taxable year from gross income.

(2) Investment expenses

Investment expenses paid or accrued during 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 one-fourth of 1 percent of the mean of the book value of the invested assets held at the beginning and end of the taxable year plus one-fourth of the amount by which taxable investment income (computed without any deduction for investment expenses allowed by this paragraph, for tax-free interest allowed by paragraph (1), or for dividends received allowed by paragraph (7)), exceeds 3¾ percent of the book value of the mean of the invested assets held at the beginning and end of the taxable year.

(3) Real estate expenses

Taxes (as provided in section 164), and other expenses, paid or accrued during 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.

(4) Depreciation

The depreciation deduction allowed by section 167.

(5) Interest paid or accrued

All interest paid or accrued within 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 subtitle.

(6) Capital losses

Capital losses to the extent provided in subchapter P (sec. 1201 and following) plus losses from capital assets sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders. Capital assets shall be considered as

sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders to the extent that the gross receipts from their sale or exchange are not greater than the excess, if any, for the taxable year of the sum of dividends and similar distributions paid to policyholders, losses paid, and expenses paid over the sum of the items described in subsection (b) (other than paragraph (1)(D) thereof) and net premiums received. In the application of section 1212 for purposes of this section, the net capital loss for the taxable year shall be the amount by which losses for such year from sales or exchanges of capital assets exceeds the sum of the gains from such sales or exchanges and whichever of the following amounts is the lesser:

(A) the taxable investment income (computed without regard to gains or losses from sales or exchanges of capital assets); or

(B) losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders.

(7) Special deductions

The special deductions allowed by part VIII (except section 248) of subchapter B (sec. 241 and following, relating to dividends received). In applying section 246(b) (relating to limitation on aggregate amount of deductions for dividends received) for purposes of this paragraph, the reference in such section to "taxable income" shall be treated as a reference to "taxable investment income".

(8) 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 insurance company, or by a partnership of which the insurance company is a partner; except that for purposes of this paragraph—

(A) any item, to the extent attributable to the carrying on of the insurance business, shall not be taken into account, and

(B) the deduction for net operating losses provided in section 172 shall not be allowed.

(9) Depletion

The deduction allowed by section 611 (relating to depletion).

(d) Other applicable rules

(1) Rental value of real estate

The deduction under subsection (c)(3) or (4) on account of any real estate owned and occupied in whole or in part by a mutual insurance company subject to the tax imposed by section 831 shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this paragraph) as the rental value of the space not so occupied bears to the rental value of the entire property.

(2) Amortization of premium and accrual of discount

The gross amount of income during the taxable year from interest and the deduction pro-

vided in subsection (c)(1) shall each be decreased to reflect the appropriate amortization of premium and increased to reflect the appropriate accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidences of indebtedness held by a mutual insurance company subject to the tax imposed by section 831. 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.

No accrual of discount shall be required under this paragraph on any bond (as defined in section 171(d)) except in the case of discount which is original issue discount (as defined in section 1273).

(3) Double deductions

Nothing in this part shall permit the same item to be deducted more than once.

(e) Definitions

For purposes of this part—

(1) Net premiums

The term “net premiums” means gross premiums (including deposits and assessments) written or received on insurance contracts during the taxable year less return premiums and premiums paid or incurred for reinsurance. Amounts returned where the amount is not fixed in the insurance contract but depends on the experience of the company or the discretion of the management shall not be included in return premiums but shall be treated as dividends to policyholders under paragraph (2).

(2) Dividends to policyholders

The term “dividends to policyholders” means dividends and similar distributions paid or declared to policyholders. For purposes of the preceding sentence, the term “paid or declared” shall be construed according to the method regularly employed in keeping the books of the insurance company.

(Aug. 16, 1954, ch. 736, 68A Stat. 261, § 822; Mar. 13, 1956, ch. 83, § 3(a)(3)–(8), 70 Stat. 47, 48; Pub. L. 87–834, § 8(b), Oct. 16, 1962, 76 Stat. 991; Pub. L. 88–272, title II, § 228(b)(2), Feb. 26, 1964, 78 Stat. 99; Pub. L. 89–809, title I, § 104(i)(5), Nov. 13, 1966, 80 Stat. 1562; Pub. L. 94–455, title XIX, §§ 1901(a)(105), (b)(1)(P)–(S), 1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1782, 1792, 1834; renumbered § 834 and amended Pub. L. 99–514, title X, § 1024(a)(3), (c)(7), (8), Oct. 22, 1986, 100 Stat. 2405, 2407; Pub. L. 115–97, title I, § 13001(b)(2)(I), Dec. 22, 2017, 131 Stat. 2096.)

AMENDMENTS

2017—Subsec. (b)(1)(D). Pub. L. 115–97 struck out “sec. 1201 and following,” before “relating to capital gains and losses”.

1986—Pub. L. 99–514, § 1024(a)(3), renumbered section 822 of this title as this section.

Subsec. (a). Pub. L. 99–514, § 1024(c)(7), amended subsec. (a) generally. Prior to amendment, subsec. (a), definitions, read as follows: “For purposes of this part—

“(1) The term ‘taxable investment income’ means the gross investment income, minus the deductions provided in subsection (c).

“(2) The term ‘investment loss’ means the amount by which the deductions provided in subsection (c) exceed the gross investment income.”

Subsec. (d). Pub. L. 99–514, § 1024(c)(8), substituted “section 831” for “section 821” in pars. (1) and (2), and inserted “except in the case of discount which is original issue discount (as defined in section 1273)” at end of last sentence in par.

1976—Subsec. (c)(2). Pub. L. 94–455, § 1901(b)(1)(P), struck out “partially tax-exempt interest and” before “dividends received allowed by”.

Subsec. (c)(5). Pub. L. 94–455, § 1901(a)(105)(A), struck out “(other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer)” after “purchase or carry obligations”.

Subsec. (c)(6)(A). Pub. L. 94–455, § 1901(b)(1)(Q), struck out “or to the deduction provided in section 242 for partially tax-exempt interest” after “exchanges of capital assets”.

Subsec. (c)(7). Pub. L. 94–455, § 1901(b)(1)(R), struck out “partially tax-exempt interest and to” after “and following, relating to”.

Subsec. (d)(2). Pub. L. 94–455, §§ 1901(a)(105)(B), (b)(1)(S), 1906(b)(13)(A), struck out in subpar. (B) “or his delegate” after “Secretary” and substituted in provisions preceding subpar. (A) “and the deduction provided in subsection (c)(1)” for “, the deduction provided in subsection (c)(1), and the deduction allowed by section 242 (relating to partially tax-exempt interest)” and in provisions following subpar. (B) “No accrual” for “For taxable years beginning after December 31, 1962, no accrual”.

1966—Subsecs. (e), (f). Pub. L. 89–809 redesignated subsec. (f) as (e). Former subsec. (e), dealing with foreign mutual insurance companies other than life or marine, was struck out.

1964—Subsec. (d)(2). Pub. L. 88–272 provided that for taxable years beginning after Dec. 31, 1962, no accrual of discount shall be required under par. (2) on any bond.

1962—Pub. L. 87–834, § 8(b)(1), substituted “Determination of taxable investment income” for “Determination of mutual insurance company taxable income” in section catchline.

Subsec. (a). Pub. L. 87–834, § 8(b)(1), defined “taxable investment income” and “investment loss” for purposes of this part, and struck out provisions which defined “mutual insurance company taxable income” for purposes of section 821 of this title, which provisions are now contained in section 821(b) of this title.

Subsec. (c). Pub. L. 87–834, § 8(b)(2), (3), substituted “taxable investment income” for “mutual insurance company taxable income” in opening provisions and in pars. (2) and (6)(A), and inserted sentence in par. (7) providing that in applying section 246(b) (relating to limitations on aggregate amount of deductions for dividends received) for purposes of par. (7), reference in such section to “taxable income” shall be treated as a reference to “taxable investment income”.

Subsec. (e). Pub. L. 87–834, § 8(b)(2), substituted “taxable investment income” for “mutual insurance company taxable income”.

Subsec. (f). Pub. L. 87–834, § 8(b)(4), added subsec. (f). Provisions of subsec. (f) were formerly contained in section 823 of this title.

1956—Subsec. (b). Act Mar. 13, 1956, § 3(a)(3), principally included royalties, and the income from a trade or business other than the insurance business carried on by the insurance company in “gross investment income”.

Subsec. (c). Act Mar. 13, 1956, § 3(a)(4), (5), (6), clarified the deduction for real estate expenses in par. (3), substituted in par. (6) “the sum of the items described in subsection (b) (other than paragraph (1)(D) thereof) and net premiums received. In the application of section 1212” for “the sum of interest, dividends, rents, and net premiums received. In the application of section 1211”, and inserted pars. (8) and (9).

Subsec. (d)(1). Act Mar. 13, 1956, §3(a)(7), substituted “subsection (c)(3) or (4)” for “subsection (e)(3) or (4)”.

Subsec. (e). Act Mar. 13, 1956, §3(a)(8), substituted “items described in subsection (b) (other than paragraph (1)(D) thereof” for “interest, dividends, rents,”.

EFFECTIVE DATE OF 2017 AMENDMENT

Amendment by Pub. L. 115-97 applicable to taxable years beginning after Dec. 31, 2017, see section 13001(c)(1) of Pub. L. 115-97, set out as a note under section 11 of this title.

EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by Pub. L. 99-514 applicable to taxable years beginning after Dec. 31, 1986, see section 1024(e) of Pub. L. 99-514, set out as a note under section 831 of this title.

EFFECTIVE DATE OF 1976 AMENDMENT

Amendment by section 1901(a)(105), (b)(1)(P)–(S) of Pub. L. 94-455 effective for taxable years beginning after Dec. 31, 1976, see section 1901(d) of Pub. L. 94-455, set out as a note under section 2 of this title.

EFFECTIVE DATE OF 1966 AMENDMENT

Amendment by Pub. L. 89-809 applicable with respect to taxable years beginning after Dec. 31, 1966, see section 104(n) of Pub. L. 89-809, set out as a note under section 11 of this title.

EFFECTIVE DATE OF 1962 AMENDMENT

Amendment by Pub. L. 87-834 applicable with respect to taxable years beginning after Dec. 31, 1962, see section 8(h) of Pub. L. 87-834, set out as a note under section 501 of this title.

EFFECTIVE DATE OF 1956 AMENDMENT

Amendment by act Mar. 13, 1956, applicable only to taxable years beginning after Dec. 31, 1954, see section 6 of act Mar. 13, 1956, set out as a note set out under section 316 of this title.

§ 835. Election by reciprocal

(a) In general

Except as otherwise provided in this section, any mutual insurance company which is an interinsurer or reciprocal underwriter (hereinafter in this section referred to as a “reciprocal”) subject to the taxes imposed by section 831(a) may, under regulations prescribed by the Secretary, elect to be subject to the limitation provided in subsection (b). 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.

(b) Limitation

The deduction for amounts paid or incurred in the taxable year to the attorney-in-fact by a reciprocal making the election provided in subsection (a) shall be limited to, but in no case increased by, the deductions of the attorney-in-fact allocable, in accordance with regulations prescribed by the Secretary, to the income received by the attorney-in-fact from the reciprocal.

(c) Exception

An election may not be made by a reciprocal under subsection (a) unless the attorney-in-fact of such reciprocal—

(1) is subject to the tax imposed by section 11;

(2) consents in such manner as the Secretary shall prescribe by regulations to make available such information as may be required during the period in which the election provided in subsection (a) is in effect, under regulations prescribed by the Secretary;

(3) reports the income received from the reciprocal and the deductions allocable thereto under the same method of accounting under which the reciprocal reports deductions for amounts paid to the attorney-in-fact; and

(4) files its return on the calendar year basis.

(d) Credit

Any reciprocal electing to be subject to the limitation provided in subsection (b) shall be credited with so much of the tax paid by the attorney-in-fact as is attributable, under regulations prescribed by the Secretary, to the income received by the attorney-in-fact from the reciprocal in such taxable year.

(e) Benefits of graduated rates denied

Any increase in the taxable income of a reciprocal attributable to the limits provided in subsection (b) shall be taxed at the highest rate of tax specified in section 11(b).

(f) Adjustment for refund

If for any taxable year an attorney-in-fact is allowed a credit or refund for taxes paid with respect to which credit or refund to the reciprocal resulted under subsection (d), the taxes of such reciprocal for such taxable year shall be properly adjusted under regulations prescribed by the Secretary.

(g) Taxes of attorney-in-fact unaffected

Nothing in this section shall increase or decrease the taxes imposed by this chapter on the income of the attorney-in-fact.

(Added Pub. L. 87-834, §8(c), Oct. 16, 1962, 76 Stat. 996, §826; amended Pub. L. 94-455, title XIX, §1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834; Pub. L. 95-600, title III, §301(b)(10), Nov. 6, 1978, 92 Stat. 2822; renumbered §835 and amended Pub. L. 99-514, title X, §1024(a)(3), (c)(9), Oct. 22, 1986, 100 Stat. 2405, 2407; Pub. L. 100-647, title I, §1010(f)(2), (3), Nov. 10, 1988, 102 Stat. 3454.)

AMENDMENTS

1988—Subsec. (a). Pub. L. 100-647, §1010(f)(2), substituted “section 831(a)” for “section 821(a)”.

Subsec. (f). Pub. L. 100-647, §1010(f)(3), substituted “subsection (d)” for “subsection (e)”.

1986—Pub. L. 99-514, §1024(a)(3), renumbered section 826 of this title as this section.

Subsec. (d). Pub. L. 99-514, §1024(c)(9)(A), redesignated subsec. (e) as (d) and struck out former subsec. (d), special rule, which read as follows: “In applying section 824(d)(1)(D), any amount which was added to the protection against loss account by reason of an election under this section shall be treated as having been added by reason of section 824(a)(1)(A).”

Subsec. (e). Pub. L. 99-514, §1024(c)(9), redesignated subsec. (f) as (e), substituted “Benefits of graduated rates” for “Surtax exemption” in heading, and amended text generally. Prior to amendment, text read as follows: “Any increase in taxable income of a reciprocal attributable to the limitation provided in subsection (b) shall be taxed without regard to the surtax exemption provided in section 821(a)(2).” Former subsec. (e) redesignated (d).

Subsecs. (f) to (h). Pub. L. 99-514, §1024(c)(9)(A), redesignated subsecs. (f) to (h) as (e) to (g), respectively.