

## **Terms and Topics in Federal Income Taxation of Insurance Companies (second edition) and its supplement on Principles-Based Reserves**

The following is a list of terms and topics addressed in Federal Income Taxation of Insurance Companies (second edition) and its special supplement on the tax treatment of principles-based reserves. The chapters, and major topics addressed in each chapter, of the book are indicated in bold. Each topic has one or more terms listed in alphabetical order. You can apply these terms and topics in a precision word search using Westlaw's FITAX-IC database.

### **Chapter 1 Why are there separate tax rules for insurance companies?**

#### **Unique characteristics of insurance companies**

Income-first economics [of insurance coverage]  
Financial intermediaries [insurance companies as]  
McCarran Ferguson Act  
State insurance regulation  
Statutory accounting  
Subchapter L

#### **Tax policy goals**

Converging marketplace  
Tax neutrality

### **Chapter 2 What is insurance?**

#### **Definition of insurance**

Commonly accepted notions of insurance  
Insurance risk  
Law of large numbers  
Risk distribution  
Risk shifting

#### **Self-insurance**

Self-insurance reserves

#### **Captives**

Brother-sister  
Captive insurance (also captive, captive insurer)  
Economic family theory  
Parent-subsidiary  
Related party risk  
Unrelated risks (also significant unrelated risks)

**Financial enhancements**

Adequate capital (also adequately capitalized)  
 Guarantees  
 Hold-harmless agreement  
 Inadequate capitalization  
 Indemnification (also indemnity agreement)  
 Undercapitalization

**Group Captives**

Assessable mutual insurance company  
 Group Captive

**Other arrangements and contracts**

Reciprocal flood insurance exchange  
 Retroactive insurance  
 Retrospective insurance  
 Retrospective credit  
 Retrospective rate credit

**Bail and Surety Bonds**

Bail bond  
 Surety bond

**Warranty & extended service contracts**

Express limited warranties  
 Extended service contracts  
 Home warranty contracts  
 Vehicle service agreements  
 Warranty contracts

**Commercial-type insurance**

Charitable risk pool  
 Health maintenance organizations (also HMOs)  
 Incidental health insurance (also incidental insurance)  
 Insurance pools  
 Tax-exempt organizations

**Chapter 3 What is an insurance company?****Definition of insurance company**

Investment activities  
 Primary and predominant business activity  
 Producer owned reinsurance companies (also PORCs)  
 Underwriting activities

**Certain entities that provide insurance related services**

Health maintenance organizations (also HMOs)

Warranty coverage [definition of insurance company]

Welfare benefit plan [definition of insurance company]

**Definition of life insurance company**

Qualification ratio

Total reserves

**Termination of an insurance company**

Dissolution

Termination

**Insurers in liquidation or rehabilitation**

Insolvent (also insolvency)

Liquidation

Priority of claims of insolvent insurers

Rehabilitation

**Chapter 4 Life insurance company taxable income (also LICTI)****Life insurance gross income**

Premiums

Advance premiums

Assessments

Deposits

Income derived from the disposition of property

Reserve decreases

**Prepayment charges**

Call premiums

**Life insurance deductions**

General deductions

Claims and benefits accrued

Dividends received

Losses incurred

Operations loss deduction

Policyholder dividends

Reimbursable dividends

Small life insurance company deduction

**Modifications to selected deductions**

Amortizable bond premium

Capital loss carryback  
 Charitable contributions  
 Net operating loss  
 Policyholder dividends

**Accrued benefits and losses incurred**

Claims and benefits accrued  
 Death benefits  
 IBNR losses  
 Losses incurred  
 Matured endowments

**Operations loss deduction**

Loss from operations  
 Operations loss carrybacks  
 Operations loss carryovers  
 Operations loss deduction

**Small life insurance company deduction**

Small life insurance company deduction  
 Tentative LICTI

**Accounting rules**

Accrual accounting  
 Deferred and uncollected premiums (also unpaid premiums)  
 Generally accepted accounting principles (also GAAP)  
 NAIC (also National Association of Insurance Commissioners)  
 Solvency

**Bond discount and premium**

Bond premium  
 Market discount  
     Grandfathered market discount  
 Original issue discount  
     Advance interest [policyholder loan]

**Accounting periods**

Calendar year  
 Short taxable year

**Chapter 5 Reinsurance transactions and DAC**

**Indemnity reinsurance**

Ceding commission [indemnity reinsurance]  
 Coinsurance  
 Financing arrangement

Finite reinsurance  
 Modified coinsurance  
 Reimbursable dividends  
 Yearly renewable term

**Assumption reinsurance**

Ceding commission [assumption reinsurance]

**Section 845**

Significant tax avoidance effect

**Deferred acquisition costs** (also DAC)

General deductions [DAC]  
 Net premiums [DAC]  
 Specified policy acquisition expenses

**Reinsurance arrangements** [DAC]

Capitalization shortfall  
 Consistency rules  
 Foreign capitalization amount  
 Negative capitalization amounts  
 Net negative consideration

**Chapter 6 Life insurance company reserves**

**Reserve rules**

Loading  
 Net premiums [reserves]

**Definition of life insurance reserves**

Combination contract  
 Future unaccrued claims  
 Life, accident or health contingencies  
     Life contingencies  
 Recognized actuarial factors  
     Assumed interest rates  
     Gross premium valuation  
     Nonmortality factors  
     Recognized mortality and morbidity tables  
 Required by law requirement

**Computation of reserves** [basic principles]

Actuarial factors [reserve valuation]  
 Mortality benefits  
 Mortality charge  
 Mortality rates

**Prescribed assumed interest rates**

Applicable Federal interest rate  
 Dynamic interest rate system  
 Prevailing State assumed interest rate

**Prescribed mortality and morbidity tables**

1980 C.S.O.  
 1994 group annuity reserving [table] (also GAR table)  
 2001 C.S.O.  
 Commissioners' standard tables  
 Gender specific (also gender-blended) [table]  
 Prevailing table  
 Select factors

**Continuous and curtate payment**

Continuous assumption  
 Curtate assumption

**Tax reserve methods**

Commissioners Reserve Valuation Method (also CRVM)  
     Segmentation method  
     Unitary reserves  
     Universal life contracts  
     Valuation of Life Insurance Policies Model Regulation (also Regulation  
     XXX)  
 Commissioners Annuity Reserve Valuation Method (also CARVM)  
 Expense allowance  
 Net level premium method  
 Prospective method  
 Retrospective method

**Supplemental benefits and substandard risks**

Substandard risks  
 Supplemental benefits

**Other reserve items**

Advance premiums  
 Cancelable accident and health insurance  
 Deposit administration contracts  
 Dividend accumulations  
 Funding agreements  
 Special contingency reserves  
 Unearned premiums not included in life insurance reserves  
 Unpaid losses not included in life insurance reserves

**Changes in the basis in computing reserves** [and other adjustments]

- Reserve strengthening
- Reserve weakening
- Retroactive adjustments [reserves]
- Tax benefit rule [reserves]

**Chapter 7 Separate Accounts****Variable contracts**

- Deferred annuity
  - Deferral period
- Definition of variable contract
- Investor control doctrine
- Rate guarantees [variable contracts]

**Diversification requirements**

- Adequately diversified [investments]
- Look-through rules
  - Double look-throughs
- Pension plan contracts
- Segregated asset account
- Sub-accounts

**Other rules** [diversification requirements]

- Impact of failing to satisfy the diversification tests
- When the diversification rules must be satisfied

**Applying Subchapter L to variable contracts**

- Impact of asset appreciation on reserves and other items
- Life insurance reserves [separate accounts]
- Proration [separate accounts]
- Separate (tax) accounting

**Modified guaranteed contracts**

- Modified guaranteed contracts under section 817A

**Chapter 8 Policyholder dividends****Policyholder dividends**

- Demutualization [distributions from]
- Distribution to policyholders in their capacity as such
- Fresh start rules [policyholder dividends]
- Policyholder dividend [definition and scope]
  - Discretion of corporate management
  - Excess interest
  - Experience-rated refunds

Premium adjustments  
 Return premium [distinguished from policyholder dividend]

**Section 809** [prior-law]

Differential earnings amount (also DEA)  
 Differential earnings rate (also DER)  
 Equity base  
 RDEA [Recomputed DEA]  
 Negative RDEA

**Chapter 9 Proration**

**Proration of tax-exempt interest**

Company's share  
 Constitutionality [proration of tax-exempt interest]  
 Gross investment income  
 Gross investment income's proportionate share of policyholder dividends  
 Net investment income  
 Policyholders' share  
     Policyholders' of tax exempt interest  
     Policy interest  
     Required interest  
 Tax-exempt interest [proration]

**Proration of dividends received** [See also proration/separate accounts]

Dividends received [proration]  
     100-percent dividends [proration]  
     Qualifying dividends [proration]

**Chapter 10 Property and casualty insurance companies**

**Underwriting income**

Expenses incurred  
 Gross premiums written  
 Premiums earned  
 Premiums paid for reinsurance  
 Return premiums  
 Statutory accounting rules  
 Underwriting and investment exhibit of the annual statement  
 Unearned premiums  
     20-percent haircut

**When are gross premiums written taken into account?**

Advance premiums [property and casualty insurers]  
 Cancellable accident & health contracts  
 Fluctuating risk contracts

Multi-year contracts  
Qualified life and noncancellable accident and health contracts

**Acquisition cost matching rules**

Acquisition cost matching test  
Premium acquisition expenses  
Safe harbor method [P&C acquisition cost matching rules]

**Retrospective rate credits and debits**

Retrospective rate credit  
Retrospective rate debit

**Losses incurred**

Fair and reasonable estimates  
Proration  
Salvage and subrogation  
Uncollectible reinsurance

**Surplus enhancements**

Premium deposits

**Stabilization reserves**

Extraordinary losses [P&C stabilization reserves]

**Discounted unpaid losses**

Fresh-start rules  
Payment patterns  
Provider incentive payments  
Title insurance companies [discounting under section 846]

**Salvage and subrogation**

Salvage  
Salvage recoverable  
    Coordination of benefits (also COB)  
Subrogation  
Tax benefit rule [salvage and subrogation]

**Special estimated tax payments** [section 847]

Special estimated tax payments  
Special loss discount amount

**Title insurance companies**

Unearned premiums [title insurers]

**Other property/casualty insurers**

Factory mutuals  
Interinsurers  
Perpetual policies  
Reciprocals

**Certain small companies** [P&C insurers]

Alternative tax [P&C insurers]  
Tax-exempt section 501(c)(15) insurance companies

**Chapter 11 Blue Cross / Blue Shield Organizations**

Section 833(b)  
Fresh start adjusted basis rule [BC/BS; also losses of terminated contracts]  
Material change in operations  
Material change in structure  
Other qualified organizations

**Chapter 12 Corporate taxation of insurance companies**

**Corporate status of insurance companies**

Subchapter C  
Subchapter S

**Distributions from the policyholder's surplus account**

Actual and constructive distributions  
Direct and indirect distributions  
Policyholders surplus account (also PSA)  
    Insolvency [impact on PSA]  
Shareholders surplus account (also SSA)

**Reorganizations**

Carryover rules  
Continuity of interest  
Merger

**Section 338(h)(10) transactions**

Applicable asset acquisitions  
Qualified stock purchase  
Residual method

**Save the charter transactions**

Complete liquidations  
D Reorganization  
Impact of section 815 [on save the charter transactions]

**Demutualizations and other mutual company conversions**

Demutualizations  
 Mutual holding company transactions  
 Recapitalization  
 Sponsored mutual holding company transactions

**Surplus notes**

Debt [Surplus notes]  
 Surplus notes issued by mutual insurers

**Life-nonlife consolidated return rules**

Affiliated group

**Includible life insurance companies**

Base period  
 Election [includible life insurance companies]  
 Eligibility requirements
 

- Active trade or business test
- Disproportionate asset acquisition test [Eligibility requirements]
- Five year existence and membership test
- Tax character test [Eligibility requirements]

 Investment adjustment rules  
 Tacking rules
 

- Asset requirement
- No disproportionate asset acquisition [tacking rules]
- No separation of loss and profitable activities
- Same tax character requirement [tacking rules]

**Consolidated Taxable Income**

Bumping rule  
 Capital gains and losses  
 Life subgroup income (also consolidated partial life insurance company taxable income)  
 Life subgroup losses  
 Nonlife subgroup income (also nonlife consolidated taxable income)  
 Nonlife subgroup losses

**Intercompany transactions**

Direct insurance [intercompany transactions]  
 Reinsurance [intercompany transactions]

**Supplement: Tax consequences of statutory principles-based reserves valuation****Background** [Principles-based reserves]

Principles-based reserves  
 Standard valuation law

Statutory reserves

**Principles-based reserves rules**

Conditional tail expectation (also CTE)

Deterministic reserve

Material tail risk

Stochastic method

**Tax treatment of life insurance reserves** [principles-based reserves]

Amortization of reserve changes under section 807(f) [principles-based reserves]

Computation of life insurance reserves [principles-based reserves]

Does a principles-based reserve qualify as a life insurance reserve [?]

Proposed AG VACARVM [principles-based reserves]

Proposed Life PBR [principles-based reserves]