Item 1

OUTLINE OF BILL (H.R. 4245) RELATING TO THE TAXATION OF LIFE INSURANCE COMPANIES

PREPARED FOR THE USE OF

THE SENATE COMMITTEE ON FINANCE

BY THE

STAFF OF THE JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

UNITED STATES
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GENERAL TAX STRUCTURE PROVIDED FOR LIFE INSURANCE COMPANIES BY H.R. 4245

The bill imposes the regular 52-percent corporate income tax (30 percent on the first $25,000) on what is defined as "life insurance company taxable income." This is composed of three parts: Taxable investment income; one-half of the current underwriting income; and the other half of underwriting income when it is distributed to shareholders or made available to them. In addition a flat 25-percent tax is imposed on capital gains.

Step 1—Taxable investment income

Taxable investment income consists of interest, dividends, rents and other forms of investment income, less investment expenses, a special deduction for small business equal to 5 percent of net investment income (up to a maximum of $25,000), a deduction for investment income earned on pension plan reserves and a deduction for interest paid. However, the principal deduction is that for investment income needed with respect to life insurance reserves. This deduction involves the determination of an interest rate to be applied to a company's life insurance reserves. The interest rate provided by this bill is halfway between the actual earnings rate of the company and the rate it assumed in computing its own reserves (or the industry average assumed rate for the prior year, if higher). This deduction rate is then applied to the company's own reserves, after these reserves are adjusted to reflect the level they would have been at had this deduction rate been used in prior years.

Step 2—One-half of underwriting gain (or whole loss)

Under step 2 the life insurance company first determines its overall gain or loss from operations and then its step 1 tax base is deducted from this figure. The result is underwriting gain or loss. The gain from operations take into account both premium income and investment income. Deductions against this are allowed for claims paid to policyholders and beneficiaries, operating expenses, investment expenses, and additions made during the year to life insurance reserves. In addition, deductions are allowed for dividends paid to policyholders, an amount equal to 10 percent of the additions to life insurance reserves with respect to nonparticipating insurance and an amount equal to 2 percent of premium income from group insurance business (subject to certain restrictions).

If the gain from operations less taxable investment income results in an underwriting gain, one-half of this amount is added to the tax base determined under step 1. If the result is an underwriting loss, the *entire* loss (but reduced for policyholder dividends and the 10 percent and 2 percent deductions referred to above) reduces the tax base otherwise determined under step 1.

Step 3—Tax on portion of underwriting income not previously taxed at time of distribution or when made available to stockholders

Under step 3 provision is made for taxing the half of the underwriting gain not taxed under step 2. It is included in the company's tax base at the time it is distributed to stockholders, or made available to them, or to the extent the amount so accumulated over a period of years exceeds 25 percent of life insurance reserves or 60 percent of the net premiums for the taxable year.

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SUMMARY OF RECOMMENDATIONS

MADE IN

THE HEARINGS ON THE TAXATION OF LIFE INSURANCE COMPANIES

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

PREPARED BY THE STAFF

OF THE

JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION

APRIL 8, 1959

UNITED STATES
GOVERNMENT PRINTING OFFICE
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SUMMARY OF TESTIMONY ON THE TAXATION OF LIFE INSURANCE COMPANIES

I. BY SUBJECT MATTER

("A's" and "B's" are to references in No. II below)

A. The Policy and Other Contract Liability Deduction

1. In phase 1, favor substitution of individual company's earned rate for the year or its average earnings rate for last 5 years, for formula in bill in determining the "deduction rate":

A–1. Mr. Deane C. Davis, president, National Life Insurance Co. of Vermont (accompanied by W. James Preble, actuary).
A–2. Mr. Carrol M. Shanks, president, Prudential Insurance Co. of America (accompanied by W. Chodorcoff and Louis R. Menagh).
A–3. Mr. Richard C. Guest, vice president, Massachusetts Mutual Life Insurance Co. (accompanied by Charles Brierley).
A–4. Mr. Charles A. Taylor, president, the Life Insurance Co. of Virginia.
A–5. Mr. Edward J. Schmuck, vice president and general counsel Acacia Mutual Life Insurance Co. (accompanied by Lloyd K. Crippen and William Simpson).
A–6. Mr. D. N. Warters, president, Bankers Life Co., Des Moines, Iowa (accompanied by William Rae).
A–7. Mr. H. Lewis Rietz, executive vice president, Great Southern Life Insurance Co.
A–8. Mr. John A. Lloyd, president of the Union Central Life Insurance Co. of Cincinnati, Ohio (accompanied by Carl DeBuck and W. Lee Shield).
A–10. Mr. Henry S. Beers, president, Aetna Life Insurance Co., Hartford, Conn.
A–16. Mr. Robert E. Slater, vice president of the John Hancock Mutual Life Insurance Co. (accompanied by B. Franklin Blair, actuary of Provident Mutual).
A–18. Mr. Bruce Batho, vice president and comptroller of the Life Insurance Co. of Georgia.
A–19. Mr. Guy H. Amerman, vice president and actuary of Continental American Life Insurance Co. of Wilmington, Del. (favored 1-year rate but not opposed to 5-year average).
A–24. Mr. Manton Eddy, vice president and secretary, Connecticut General Life Insurance Co.
A–31. Mr. William F. Poorman, president, Central Life Assurance Co., Des Moines, Iowa.

A–35. Mr. K. H. Easley, secretary of the Amicable Life Insurance Co. of Waco Tex. (as an alternative to use of single-year earnings rate).

A–39. Mr. John J. Magovern, Jr., vice president and counsel, Mutual Benefit Life Insurance Co. of Newark, N. J.

A–41. Mr. Claris Adams, executive vice president and general counsel of the American Life Convention.

A–42. Mr. Albert L. Hall, vice president and general counsel, Berkshire Life Insurance Co., Pittsfield, Mass.

A–47. Mr. Daniel J. Lyons, vice president, Guardian Life Insurance Co. of America.

B–4. Mr. T. A. Bradshaw, president of the Provident Mutual Life Insurance Co. of Philadelphia (suggests 3- or 5-year average).

B–5. Mr. Willis H. Satterthwaite, vice president and counsel of the Penn Mutual Life Insurance Co.

B–17. Mr. Theodore A. Stemmermann, vice president and actuary of the Home Life Insurance Co., New York, N. Y.

B–22. Mr. Clarence J. Myers, president of New York Life Insurance Co.

B–23. Mr. Charles J. Zimmerman, president of the Connecticut Mutual Life Insurance Co., Hartford, Conn.

B–31. Mr. Orville F. Grahane, vice president and general counsel of the Paul Revere Life Insurance Co. of Worcester, Mass.

B–32. Mr. J. Wythe Walker, president of the Union Life Insurance Co., Little Rock, Ark.

B–39. Mr. Guy L. Evans, field underwriter of the Mutual of New York of Pueblo, Colo.

B–42. Mr. Sterling Holloway, chairman of the board of Continental Life Insurance Co., Fort Worth, Tex.

B–47. Mr. J. Richard Clarke, Boise, Idaho, agent for the Mutual Life Insurance Co. of New York.

B–59. American Farm Bureau Federation.

B–61. Mr. T. C. McCullough, president of the Union National Life Insurance Co., Baton Rouge, La.

B–65. Mr. Harry W. Colmery, counsel, Kansas Life Insurance Executives' Association.

2. In phase 1, oppose substitution of individual company 5-year earnings rate for formula in bill:

A–43. Dr. Roy E. Moor, professor of economics, Williams College, Williamstown, Mass.

B–44. Mr. Richard M. Sellers, executive vice president, Commonwealth Life Insurance Co., Louisville, Ky. (or recommend at least that during first 4 years formula in bill be available as an alternative).

3. In determining the assumed rate to be used in determining the "deduction rate," use only the assumed rate of the individual company and not the industry average:

A–33. Mr. W. H. Painter, Sr., executive vice president, United Fidelity Life Insurance Co., Dallas, Tex.

A–36. Mr. W. W. Wilson, Jr., president, Colorado Life Convention, and president, U.S. American Life Insurance Co., Denver, Colo.

A–46. Mr. George S. Harris, assistant secretary and investment officer of the Chicago Metropolitan Mutual Assurance Corp. (accompanied by Carl Tiffany).

B–13. Mr. George E. Richardson, president of the HBA (Hospital Benefit Assurance) Life Insurance Co. of Phoenix, Ariz.

B–71. First National Life Insurance Co. of Phoenix, Ariz.

4. The deduction rate in phase 1 should be based exclusively on each company's own assumed rate, and not in any part on its earnings rate or the industry average assumed rate:

B–21. Mr. Guilford Dudley, Jr., on behalf of the Life & Casualty Insurance Co. of Tennessee.

5. Want the deduction rate under phase 1 for mutual assessment companies to be 3 percent:

B–11. Mr. Robert C. Sneed, representing the Texas Association of Mutual Life Insurance Officials (a trade organization composed of managing officers of mutual assessment life insurance companies).

6. Permit a company to deduct depreciation, real estate taxes and expenses on company-owned space occupied by its investment department as far as phase 1 of the bill is concerned:

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

7. In determining the earnings rate under phase 1 for purposes of the deduction rate, real property and stock should be valued on their adjusted basis rather than on the basis of their fair market value:

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

8. In the case of the deduction for interest paid a deduction should be allowed not only for contracts but also for obligations with respect to which interest is payable:

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

B. The Treatment of Qualified Pension Plans, Individual Annuities, and Supplemental Contracts

1. Favor exemption provided by bill for qualified pension plans without comment as to broadening of exemption:

A–1. Mr. Deane C. Davis, president, National Life Insurance Co. of Vermont (accompanied by W. James Preble, actuary).

A–3. Mr. Richard C. Guest, vice president, Massachusetts Mutual Life Insurance Co. (accompanied by Charles Brierley).

A–49. Mr. Charles A. Siegfried, second vice president, Metropolitan Life Insurance Co.
B–12. Mr. Carl J. Schmidt, vice president and general manager, the Arizona Water Co.
B–20. Mr. W. K. Boardman, of Ketchikan, Alaska.
B–22. Mr. Clarence J. Myers, president of New York Life Insurance Co.

2. Expand the exemption for insured qualified pension plans to exempt one or more of the following: (*a*) Investment income attributable to pension surplus; (*b*) pension income included in phase 2; and (*c*) capital gains attributable to pension income:

A–2. Mr. Carrol M. Shanks, president, Prudential Insurance Co. of America (accompanied by W. Chodorcoff and Louis R. Menagh) ((*a*) not specified).
A–6. Mr. D. N. Warters, president, Bankers Life Co., Des Moines, Iowa (accompanied by William Rae).
A–10. Mr. Henry S. Beers, president, Aetna Life Insurance Co., Hartford, Conn. (Indicated broadening needed without specifying features.)
A–16. Mr. Robert E. Slater, vice president of the John Hancock Mutual Life Insurance Co. (accompanied by B. Franklin Blair, actuary of Provident Mutual).
A–24. Mr. Manton Eddy, vice president and secretary, Connecticut General Life Insurance Co. (refers to phase 2 and there would provide an extra 2-percent deduction for increase in reserves for qualified pension plans).
B–7. Mr. Rupert Warren, vice president of Trico Products Corp. ((*b*) not specified).
B–14. Mr. Robert L. Hogg, vice chairman of the board of the Equitable Life Assurance Society of the United States.
B–24. Mr. A. W. Koehler, secretary-manager of the National Association of Motor Bus Operators (only (*c*) specified).
B–26. Mr. William M. Dudley, field underwriter of the Home Life Insurance Co. of New York, Lynchburg, Va. (specific features not indicated).
B–39. Mr. Guy L. Evans, field underwriter of the Mutual of New York of Pueblo, Colo. (specific features not indicated).
B–47. Mr. J. Richard Clarke, Boise, Idaho, agent for the Mutual Life Insurance Co. of New York (specific features not indicated).
B–60. Mr. Murray W. Latimer, industrial relations consultants.

3. Make the exclusion for investment income attributable to qualified pension plans available immediately rather than over the 3-year period beginning with 1959:

A–24. Mr. Manton Eddy, vice president and secretary, Connecticut General Life Insurance Co. (make up any revenue loss by shortening the period of time for payment with respect to change in accounting methods).
B–24. Mr. A. W. Koehler, secretary-manager of the National Association of Motor Bus Operators.
B–59. American Farm Bureau Federation.
B–60. Mr. Murray W. Latimer, industrial relations consultants.

4. Remove the exemption in the bill for investment income attributable to reserves of qualified pension plans:

A–15. Mr. Devereaux F. McClatchey, general counsel of the National Association of Life Companies (accompanied by Mr. DeWitt Roberts, executive secretary).

A–25. Mr. John A. Copeland, president, Progressive Life Insurance Co.

A–26. Mr. Leonard H. Savage, president, Standard Life & Accident Insurance Co. of Oklahoma City.

A–40. Mr. R. T. Stuart, Jr., president, Mid-Continent Life Insurance Co., Oklahoma City.

A–50. Mr. James H. Horn, vice president, Southern United Life Insurance Co., Montgomery, Ala.

B–13. Mr. George E. Richardson, president of the HBA (Hospital Benefit Assurance) Life Insurance Co. of Phoenix, Ariz.

5. Provide an exemption for individual annuities and supplementary contracts similar to that provided for qualified pension plans:

A–16. Mr. Robert E. Slater, vice president of the John Hancock Mutual Life Insurance Co. (accompanied by B. Franklin Blair, actuary of Provident Mutual).

B–4. Mr. T. A. Bradshaw, president of the Provident Mutual Life Insurance Co. of Philadelphia.

B–5. Mr. Willis H. Satterthwaite, vice president and counsel of the Penn Mutual Life Insurance Co.

B–47. Mr. J. Richard Clarke, Boise, Idaho, agent for the Mutual Life Insurance Co. of New York.

6. Change the definition of pension plan reserves to include: (*a*) Contracts with employers under plans where the employer contributions were deductible under revenue laws prior to the 1939 Code; (*b*) contracts entered into with tax-exempt employers; (*c*) "agents" in the case of contracts for employees of life insurance companies; and (*d*) Canadian plans which fall under the provisions of Canadian tax law which approximate sections 401 to 404 of the code:

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice persident and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

C. The Treatment of Tax-Exempt Interest and Intercorporate Dividends Received

1. Allow a broader deduction for tax-exempt interest, and intercorporate dividends received but only under phase 2:

A–4. Mr. Charles A. Taylor, president, the Life Insurance Co. of Virginia.

A–7. Mr. H. Lewis Rietz, executive vice president, Great Southern Life Insurance Co. (tax-exempt interest only).

A–18. Mr. Bruce Batho, vice president and comptroller of the Life Insurance Co. of Georgia.

A–19. Mr. Guy H. Amerman, vice president and actuary of Continental American Life Insurance Co. of Wilmington, Del.
B–16. Mr. John T. Acree, Jr., president of the Lincoln Income Life Insurance Co. of Louisville, Ky. (also vice president of the Life Insurers Conference, although not speaking for them).

2. Favor broadening of tax treatment of both tax-exempt interest and intercorporate dividends received (without specifically limiting these deductions to phase 2):

A–10. Mr. Henry S. Beers, president, Aetna Life Insurance Co., Hartford, Conn.
A–35. Mr. K. H. Easley, secretary of the Amicable Life Insurance Co. of Waco, Tex. (also includes partially tax-exempt interest).
A–41. Mr. Claris Adams, executive vice president and general counsel of the American Life Convention.
B–31. Mr. Orville F. Grahame, vice president and general counsel of the Paul Revere Life Insurance Co. of Worcester, Mass.

3. Propose more favorable treatment of tax-exempt interest (without specifically limiting deduction to phase 2):

A–13. Mr. Harold J. Cummings, president, Minnesota Mutual Life Insurance Co., St. Paul, Minn. (accompanied by Walter J. Rupert, vice president).
A–21. Mr. W. I. Boone, president of the Kansas Farm Life, Kansas Bureau, Insurance Co.
A–32. Mr. Ray E. Lee, vice president, Austin Life Insurance Co.
A–33. Mr. W. H. Painter, Sr., executive vice president, United Fidelity Life Insurance Co., Dallas, Tex.
B–4. Mr. T. A Bradshaw, president of the Provident Mutual Life Insurance Co. of Philadelphia.
B–6. Mr. Austin J. Tobin, chairman of the Conference on State Defense and executive director of the Port of New York Authority.
B–28. Mr. Joseph F. Clark, executive director, Municipal Finance Officers' Association of the United States and Canada.
B–41. Mr. G. H. Poindexter, president, Coastal States Life Insurance Co.
B–43. The Honorable John Marshall Butler, Senator from Maryland.
B–53. Mr. W. L. Newton, executive vice president, Kentucky Central Life & Accident Insurance Co, Anchorage, Ky.
B–56. Mr. Haydon Burns, mayor, Jacksonville, Fla.
B–59. American Farm Bureau Federation.
B–61. Mr. T. C. McCullough, president of the Union National Life Insurance Co., Baton Rouge, La.
B–62. Mr. Patrick Healy, Jr., executive director of the American Municipal Association (specifically requests more generous treatment under both phases 1 and 2).
B–63. Mr. Bernard F. Hillenbrand, executive director, National Association of County Officials (specifically requests more generous treatment under both phases 1 and 2).
B–64. Mr. Stanford Z. Rothschild, Sr., president, Sun Life Insurance Co. of America, Baltimore, Md.

B-65. Mr. Harry W. Colmery, Kansas Life Insurance Executives' Association.

4. Propose more favorable treatment of intercorporate dividends received under phases 1 and 2:

B-50. Mr. Joseph M. Bryan, senior vice president, Jefferson Standard Life Insurance Co.

5. Oppose any extension of benefits accorded tax-exempt interest:

A-44. Dr. George E. Lent, professor of business economics, Dartmouth College, Hanover, N.H.

D. Small Business Tax Relief

1. Favor increasing the small-business deduction from 5 percent to something like 25 percent but still keeping the $25,000 ceiling:

A-8. Mr. John A. Lloyd, president of the Union Central Life Insurance Co. of Cincinnati, Ohio (accompanied by Carl DeBuck and W. Lee Shield).
A-32. Mr. Ray E. Lee, vice president, Austin Life Insurance Co.
A-37. Mr. William Benton Carssow, Sr., general counsel, Texas Legal Reserve Officials' Association, Austin, Tex. (favors a 7-percent deduction and a ceiling of $35,000).
A-40. Mr. R. T. Stuart, Jr., president, Mid-Continent Life Insurance Co., Oklahoma City.
B-16. Mr. John T. Acree, Jr., president of the Lincoln Income Life Insurance Co. of Louisville, Ky. (also vice president of the Life Insurers Conference, although not speaking for them).
B-65. Mr. Harry W. Colmery, counsel, Kansas Life Insurance Executives' Association.

2. Favor increasing small business relief but do not specify form:

A-21. Mr. W. I. Boone, president of the Kansas Farm Life, Kansas Bureau Life Insurance Co.
A-24. Mr. Manton Eddy, vice president and secretary, Connecticut General Life Insurance Co.
A-35. Mr. K. H. Easley, secretary of the Amicable Life Insurance Co. of Waco, Tex.
A-48. Mr. Melvin C. Reese, Jr., Association of Arizona Insurance Companies (perhaps $25,000 for all).
B-13. Mr. George E. Richardson, president of the HBA (Hospital Benefit Assurance) Life Insurance Co. of Phoenix, Ariz.
B-51. Mr. Jack C. Vaughn, president, Spartan National Life Insurance Co., Dallas, Tex.

3. Favor making the full $25,000 of reduction in taxable investment income available to all:

A-46. Mr. George S. Harris, assistant secretary and investment officer of the Chicago Mutual Assurance Co. (accompanied by Carl Tiffany).

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B–61. Mr. T. C. McCullough, president of the Union National Life Insurance Co., Baton Rouge, La.

4. For new companies provide a minimum policy and other contract liability deduction in phase 1 of 87.5 percent. New companies would be those licensed to write life insurance for not more than the last 9 years:

A–30. Mr. W. A. Verlander, executive vice president and treasurer, American Heritage Life Insurance Co., Jacksonville, Fla.

OTHER PROVISIONS AFFECTING BOTH PHASES 1 AND 2

1. Would allow a credit against the Federal tax, or other relief, for part or all of State premium taxes paid:

A–12. Mr. Francis V. Keesling, Jr., first vice president and general counsel, West Coast Life Insurance Co.

A–41. Mr. Claris Adams, executive vice president and general counsel of the American Life Convention.

A–48. Mr. Melvin C. Reese, Jr., president, Association of Arizona Insurance Companies.

B–4. Mr. T. A. Bradshaw, president of the Provident Mutual Life Insurance Co. of Philadelphia.

B–21. Mr. Guilford Dudley, Jr., on behalf of the Life & Casualty Insurance Co. of Tennessee.

B–48. Mr. George J. Brugger, Denver, Colo., representative of the Provident Mutual Life Insurance Co. of Philadelphia.

B–51. Mr. Jack C. Vaughn, president, Spartan National Life Insurance Co., Dallas, Tex.

B–65. Mr. Harry W. Colmery, counsel, Kansas Life Insurance Executives' Association.

2. Expand the definition of reserves for purposes of the phase 1 and phase 2 tax bases to include reserves: (*a*) of an actuarial nature which are not required by State law but are required by State insurance departments; (*b*) not of an actuarial character (such as security valuation reserves) required by a State insurance department:

B–30. Mr. Carl A. Hulbert, commissioner of the Department of Insurance of the State of Utah.

3. Although under the bill losses on bonds, debentures, etc., are capital losses, it is stated that losses on mortgages should be considered as bad debts:

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

F. POLICYHOLDER DIVIDENDS

1. In computing an underwriting loss which may be offset against phase 1 taxable investment income, allow policyholder

dividends as a deduction to the extent of 50 percent of the loss which would occur if they were allowed in full:

A–1. Mr. Deane C. Davis, president, National Life Insurance Co. of Vermont (accompanied by W. James Preble, actuary).

A–2. Mr. Carrol M. Shanks, president, Prudential Insurance Co. of America (accompanied by W. Chodoroff and Louis R. Menagh).

A–3. Mr. Richard C. Guest, vice president, Massachusetts Mutual Life Insurance Co. (accompanied by Charles Brierley).

A–6. Mr. D. N. Warters, president, Bankers Life Co., Des Moines, Iowa (accompanied by William Rae) (percent not specified).

A–16. Mr. Robert E. Slater, vice president of the John Hancock Mutual Life Insurance Co. (accompanied by B. Franklin Blair, actuary of Provident Mutual).

A–31. Mr. Wiliam F. Poorman, president, Central Life Assurance Co., Des Moines, Iowa.

A–39. Mr. John J. Magovern, Jr., vice president and counsel Mutual Benefit Life Insurance Co. of Newark, N.J.

A–42. Mr. Albert L. Hall, vice president and general counsel, Berkshire Life Insurance Co., Pittsfield, Mass.

A–47. Mr. Daniel J. Lyons, vice president, Guardian Life Insurance Co. of America.

B–17. Mr. Theodore A. Stemmermann, vice president and actuary of the Home Life Insurance Co. of New York, N.Y.

B–22. Mr. Clarance J. Myers, president of New York Life Insurance Co.

B–23. Mr. Charles J. Zimmerman, president of the Connecticut Mutual Life Insurance Co., Hartford, Conn.

B–26. Mr. William M. Dudley, field underwriter of the Home Life Insurance Co. of New York, Lynchburg, Va. (percent not specified).

B–29. Mr. James L. Neville, president of the Salt Lake Association of Life Underwriters (percent not specified).

B–33. Mr. Stanley Falk of Little Rock, Ark., agent for the Mutual Life Insurance Co. of New York.

B–39. Mr. Guy L. Evans, field underwriter of the Mutual of New York of Pueblo, Colo. (percent not specified).

B–47. Mr. J. Richard Clarke, Boise, Idaho, agent for the Mutual Life Insurance Co. of New York (percent not specified).

2. In computing an underwriting loss which may be offset against phase 1 taxable investment income, allow policyholder dividends as a deduction *in full* to the extent of the first $50,000 of an underwriting loss attributable to dividends, and to the extent of 50 percent of any remaining loss attributable to these dividends:

A–3. Mr. Richard C. Guest, vice president, Massachusetts Mutual Life Insurance Co. (accompanied by Charles Brierley).

3. To the extent negatives under phase 2 are not allowable as reductions in the phase 1 tax base, they should be available in the form of carrybacks or carryforwards as offsets against phase 2 gains of other years:

A–24. Mr. Manton Eddy, vice president and secretary, Connecticut General Life Insurance Co.

4. Oppose, in computing an underwriting loss which may be offset against phase 1 taxable investment income, the allowance of policyholder dividends as a deduction:

A–4. Mr. Charles A. Taylor, president, the Life Insurance Co. of Virginia.

A–8. Mr. John A. Lloyd, president of the Union Central Life Insurance Co. of Cincinnati, Ohio (accompanied by Carl DeBuck and W. Lee Shield).

A–33. Mr. W. H. Painter, Sr., executive vice president, United Fidelity Life Insurance Co., Dallas, Tex.

A–43. Dr. Roy E. Moor, professor of economics, Williams College, Williamstown, Mass.

A–44. Dr. George E. Lent, professor of business economics, Dartmouth College, Hanover, N.H.

A–46. Mr. George S. Harris, assistant secretary and investment officer of the Chicago Metropolitan Mutual Assurance Corp. (accompanied by Carl Tiffany) (opposed to extent dividends represent investment income).

5. Favor providing more time for policyholder dividends which are to be allowed as deductions under phase 2:

B–40. Mr. William A. Lyon, president, National Association of Mutual Savings Banks.

6. Questions the desirability of the deduction of policyholders dividends:

A–48. Mr. Melvin C. Reese, Jr., president, Association of Arizona Insurance Companies.

7. Recommends that policyholder dividends first be reduced by the amount of any taxable investment income remaining after payment of tax, and that only any excess policyholder dividends over this amount be allowed as deductions under phase 2:

A–36. Mr. W. W. Wilson, Jr., president, Colorado Life Convention, and president, United States American Life Insurance Co., Denver, Colo.

B–58. Mr. Charles H. Connally, Southwestern Life Insurance Co., Dallas, Tex.

8. Favors a special deduction in phase 2 for nonparticipating policies to offset investment income element in policyholder dividend deduction:

A–37. Mr. William Benton Carssow, Sr., general counsel, Texas Legal Reserve Officials' Association, Austin, Tex.

9. Prevent the denial of policyholder deductions in the opening where they had by error been claimed in the prior year:

B–72. Mr. Laurens Williams.

G. Negatives Arising From Policyholder Dividends and 10 Percent and 2 Percent Deductions

1. For small insurance companies with underwriting losses, favor full allowance of policyholder dividend deduction, 10 percent deduction for increases in nonparticipating reserves and 2 percent deduction for group insurance premiums.

B–46. Mr. Paul E. Keller, president, Benefit Association of Railway Employees, Chicago, Ill.

2. The limitations, where there is an underwriting loss, with respect to the 10 percent deduction for increases in nonparticipating reserves, the 2 percent deduction for group insurance premiums and the deduction for policyholders dividends should be "smoothed out" and applied over a 10-year period instead of on a year-by-year basis.

B–57. Mr. Millard Bartels, chairman, insurance executive committee, the Travelers Insurance Co., Hartford, Conn.

H. The 10-Percent Deduction for Nonparticipating Policies and the 2-Percent Deduction for Group Insurance

1. Allow underwriting losses either in their entirety or in part, as offsets against phase 1 taxable investment income to the extent they arise (*a*) from the 10-percent deduction for additions to nonparticipating reserves or (*b*) from the 2-percent deduction from group insurance:

A–2. Mr. Carrol M. Shanks, president, Prudential Insurance Co. of America (accompanied by W. Chodorcoff and Louis R. Menagh).

A–3. Mr. Richard C. Guest, vice president, Massachusetts Mutual Life Insurance Co. (accompanied by Charles Brierley) ((*b*) only).

B–60. Mr. Murray W. Latimer, Industrial Relations Consultants ((*b*) only).

2. Suggests as an alternative to the nonparticipating policy deduction of 10 percent of reserves a deduction of 5 percent of the current premiums from such policies (excluding policies for less than 5 years):

B–15. Mr. Jarvis Farley, secretary-treasurer and actuary of Massachusetts Indemnity & Life Insurance Co.

B–16. Mr. John T. Acree, Jr., president of the Lincoln Income Life Insurance Co. of Louisville, Ky. (also vice president of the Life Insurers Conference, although not speaking for them).

B–21. Mr. Guilford Dudley, Jr., on behalf of the Life & Casualty Insurance Co. of Tennessee (suggested as only rule, not as an alternative).

B–31. Mr. Orville F. Grahame, vice president and general counsel of the Paul Revere Life Insurance Co. of Worcester, Mass.

B–61. Mr. T. C. McCullough, president of the Union National Life Insurance Co., Baton Rouge, La.

B–65. Mr. Harry W. Colmery, counsel, Kansas Life Insurance Executives' Association.

3. Favor 10 percent deduction for additions to nonparticipating reserves:

B–38. Mr. Frank P. Samford, president, Liberty National Life Insurance Co., Birmingham, Ala.

4. Increase from 10 percent to 12 percent the deduction for additions to nonparticipating reserves:

A–26. Mr. Leonard H. Savage, president, Standard Life & Accident Insurance Co. of Oklahoma City.
A–32. Mr. Ray E. Lee, vice president, Austin Life Insurance Co.
A–40. Mr. R. T. Stuart, Jr., president, Mid-Continent Life Insurance Co., Oklahoma City.
A–41. Mr. Claris Adams, executive vice president and general counsel of the American Life Convention (states 10 percent is too low).
B–42. Mr. Sterling Holloway, chairman of the board of Continental Life Insurance Co., Fort Worth, Tex.

5. Oppose the 10 percent deduction for additions to nonparticipating reserves:

A–44. Dr. George E. Lent, professor of business economics, Dartmouth College, Hanover, N.H.

6. Expand the 2 percent deduction for group insurance to cover individual accident and health insurance:

A–15. Mr. Devereaux F. McClatchey, general counsel of the National Association of Life Companies (accompanied by Mr. DeWitt Roberts, executive secretary).
A–37. Mr. William Benton Carssow, Sr., general counsel, Texas Legal Reserve Officials' Association, Austin, Tex.
B–46. Mr. Paul E. Keller, president, Benefit Association of Railway Employees, Chicago, Ill.

7. Questions the desirability of the 2-percent and 10-percent deductions under phase 2:

B–4. Mr. T. A. Bradshaw, president of the Provident Mutual Life Insurance Company of Philadelphia.

I. Other Deductions Under Phase 2

1. Favors a special deduction under phase 2 for stock companies since they tend to make smaller additions to reserves than mutual companies:

A–41. Mr. Claris Adams, executive vice president and general counsel of the American Life Convention.

2. Questions the desirability of the 50-percent reduction in the phase 2 tax base:

A–44. Dr. George E. Lent, professor of business economics, Dartmouth College, Hanover, N.H.

3. Favors a deduction for additions to security valuation reserves:

B–65. Kansas Life Insurance Executives' Association.

J. Operations Loss Carryback and Carryforward

1. Allow a 15-year loss carryover for newly organized companies:

A–3. Mr. Richard C. Guest, vice president, Massachusetts Mutual Life Insurance Co. (accompanied by Charles Brierley).
A–37. Mr. William Benton Carssow, Sr., general counsel, Texas Legal Reserve Officials' Association, Austin, Tex.
B–16. Mr. John T. Acree, Jr., president of the Lincoln Income Life Insurance Co. of Louisville, Ky. (also vice president of the Life Insurers Conference, although not speaking for them).
B–61. Mr. T. C. McCullough, president of the Union National Life Insurance Co., Baton Rouge, La.
B–65. Mr. Harry W. Colmery, counsel, Kansas Life Insurance Executives' Association.

2. Allow operations loss carryforwards from 1955, 1956 and 1957:

A–25. Mr. John A. Copeland, president, Progressive Life Insurance surance Co. (number of years not specified).
A–28. Mr. S. E. McCreless, president, American Hospital & Life Insurance Co. of San Antonio, Tex. (accompanied by Gene T. Archer).
B–42. Mr. Stirling Holloway, chairman of the board of Continental Life Insurance Co., Fort Worth, Tex.
B–55. Mr. James E. Dunne II, president, International Life Insurance Co., Austin, Tex. (allow carryforward from 1953).
B–65. Mr. Harry W. Colmery, counsel, Kansas Life Insurance Executives' Association (number of years prior to 1958 not specified).

3. Allow carrybacks of losses to years before 1958:

B–46. Mr. Paul E. Keller, president, Benefit Association of Railway Employees, Chicago, Ill.

4. Allow a special 5-year carryforward of accumulated losses incurred before 1958 where a company had accumulated losses from the date of its inception to December 31, 1957:

B–55. Mr. James E. Dunne II, president, International Life Insurance Co., Austin, Tex.

5. Allow a 10- or 15-year loss carryforward for small companies:

A–40. Mr. R. T. Stuart, Jr., president, Mid-Continent Life Insurance Co., Oklahoma City.

6. Allow a 10-year carryforward of operations losses:

A–26. Mr. Leonard H. Savage, president, Standard Life & Accident Insurance Co. of Oklahoma City.

A–32. Mr. Ray E. Lee, vice president, Austin Life Insurance Co. (number of years not specified).

B–57. Mr. Millard Bartels, chairman, insurance executive committee, the Travelers Insurance Co., Hartford, Conn.

7. Allow the operations loss deduction as a direct deduction against the combined tax bases of phases 1, 2, and 3:

B–57. Mr. Millard Bartels, chairman, insurance executive committee, the Travelers Insurance Co., Hartford, Conn.

8. Allow a special 8-year loss carryforward for new companies and make this available for 8 years prior to 1958. A new company would be one licensed to write life insurance for not more than the last 9 years:

A–30. Mr. W. A. Verlander, executive vice president and treasurer, American Heritage Life Insurance Co., Jacksonville, Fla.

K. Other Comments on Phase 2

1. State that the proposed bill fails to give adequate consideration to the situation of stock companies in the process of mutualization. Recommended that if gain from operations is to remain as a part of the tax base (phase 2) a deduction also should be permitted for payments (other than dividends) to stockholders under a mutualization program committed for by the company prior to the effective date of this legislation:

A–11. Mr. Paul E. Martin, administrative vice president of the Ohio National Life Insurance Co. (accompanied by William J. Schmid, general counsel).

B–45. Mr. Edwin W. Henne, president, Farmers & Traders Life Insurance Co., Syracuse, N.Y.

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

2. In the case of companies with capital and surplus of not over $5 million, it was proposed that no tax be imposed under phase 2 until a company's capital and surplus exceeds 25 percent of its life insurance reserves, or 60 percent of its net premiums, whichever is greater:

B–36. Mr. Frank H. Rawlings, vice president and general counsel of the Century Life Insurance Co., Fort Worth, Tex.

B–66. Mr. H. C. Evans, president, Universal Life & Accident Insurance Co., Bloomington, Ind.

B–67. Mr. George W. E. Smith, State Security Life Insurance Co., Anderson, Ind.

3. The "return premiums" by which the gross premiums are reduced should include premium refunds made on cancellation of policies or changes to lower premium plans:

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

4. Favor postponement of tax on half of underwriting gains until time of distribution:

B–38. Mr. Frank P. Samford, president, Liberty National Life Insurance Co., Birmingham, Ala.

5. Provide for the gradual application of the phase 2 tax over a 5-year period:

A–26. Mr. Leonard H. Savage, president, Standard Life & Accident Insurance Co. of Oklahoma City.
A–40. Mr. R. T. Stuart, Jr., president, Mid-Continent Life Insurance Co., Oklahoma City.
B–54. Mr. Arthur J. Cade, executive vice president, Old Republic Life Insurance Co., Chicago, Ill.

6. Postpone the effective date of the phase 2 tax for 1 year:

A–22. Mr. Scott W. Lucas, speaking for Mr. Earl O'Keefe, president, Western National Life Insurance Co. of Texas.

7. Mutual companies should not be taxed under phase 2:

B–5. Mr. Willis H. Satterthwaite, vice president and counsel of the Penn Mutual Life Insurance Co.

8. Opposed to phase 2:

A–9. Mr. Johnson D. Hill, Jr., executive vice president, Atlas Life Insurance Co. (accompanied by C. H. Menge).
A–32. Mr. Ray E. Lee, vice president, Austin Life Insurance Co.
A–35. Mr. K. H. Easley, secretary of the Amicable Life Insurance Co. of Waco, Tex.
A–48. Mr. Melvin C. Reese, Jr., president, Association of Arizona Insurance Companies.
A–50. Mr. James H. Horn, vice president, Southern United Life Insurance Co., Montgomery, Ala.
B–34. Mr. C. B. Whiteside, vice president of the Merchants National Bank of Fort Smith, Ark. (automobile finance department).
B–35. Mr. G. E. Wainscatt, president, Midland Empire Life Insurance Co., Atchison, Kans.

9. Indicates that term "net gain from operations" was selected to avoid confusion with the terms "net profit" or "net income":

B–68. Mr. W. Bruce, Chief Insurance Examiner, Department of Insurance, State of California.

L. Phase 3 Suggestions

1. Under phase 3 permit the distribution (or addition to shareholders surplus account free of tax) of capital and surplus accumulated prior to 1959, to the extent of 2 percent a year:

A–7. Mr. H. Lewis Rietz, executive vice president, Great Southern Life Insurance Co.

A–22. Mr. Scott W. Lucas, speaking for Mr. Earl O'Keefe, president, Western National Life Insurance Co. of Texas (without any limitations).
A–32. Mr. Ray E. Lee, vice president, Austin Life Insurance Co. (without any limitation).
A–33. Mr. W. H. Painter, Sr., executive vice president, United Fidelity Life Insurance Co., Dallas, Tex. (without any limitation).
A–36. Mr. W. W. Wilson, Jr., president, Colorado Life Convention, and president, U.S. American Life Insurance Co., Denver, Colo.).
A–40. Mr. R. T. Stuart, Jr., president, Mid-Continent Life Insurance Co., Oklahoma City.
B–42. Mr. Sterling Holloway, chairman of the board of Continental Life Insurance Co., Fort Worth, Tex.
B–54. Mr. Arthur J. Cade, executive vice president, Old Republic Life Insurance Co., Chicago, Ill. (to the extent of 5 percent a year).
B–65. Mr. Harry W. Colmery, counsel, Kansas Life Insurance Executives' Association (with an annual limitation of 5 or 10 percent).

2. Under phase 3, permit the distribution free of tax of capital and surplus contributed after 1958:

A–7. Mr. Lewis Rietz, executive vice president, Great Southern Life Insurance Co.
A–26. Mr. Leonard H. Savage, president, Standard Life & Accident Insurance Co. of Oklahoma City (without limitation as to when contributed).
A–36. Mr. W. W. Wilson, Jr., president, Colorado Life Convention, and president, U.S. American Life Insurance Co., Denver, Colo.
B–42. Mr. Sterling Holloway, chairman of the board of Continental Life Insurance Co., Fort Worth, Tex.

3. Under phase 3, permit the distributions free of tax of funds in complete redemption of callable preferred stock which was outstanding on January 1, 1959:

B–36. Mr. Frank H. Rawlings, vice president and general counsel of the Century Life Insurance Co., Fort Worth, Tex.

4. Provide for the application of phase 3, gradually over a period of 5 years:

A–38. Mr. Frank Jordan, counsel, the Sureway Life Insurance Co. of South Carolina, Columbia, S.C.
B–54. Mr. Arthur J. Cade, executive vice president, Old Republic Life Insurance Co., Chicago, Ill.

5. Provide as an alternative that taxpayers may apply the phase 3 tax in 1958:

B–61. Mr. T. C. McCullough, president of the Union National Life Insurance Co., Baton Rouge, La.
B–70. Monumental Life Insurance Co. of Baltimore, Md.

6. Remove the limitation in phase 3 which restricts tax-free accumulations to 25 percent of life insurance reserves or 60 percent of current premiums, or alternatively, if the limitation is retained substitute for the 60 percent of premiums test a ceiling based on 5 percent of insurance in force:

A–22. Mr. Scott W. Lucas, speaking for Mr. Earl O'Keefe, president, Western National Life Insurance Co. of Texas.

7. In phase 3 tighten the requirements which result in a tax when the balance in the policyholder surplus account reaches 25 percent of reserves or 60 percent of premiums, whichever is higher.

A–44. Dr. George E. Lent, professor of business economics, Dartmouth College, Hanover, N.H.

8. Instead of applying the phase 3 tax whenever a company no longer qualifies as a life insurance company, apply it when a company ceases doing *new* business as a life insurance company or ceaes to qualify for 3 consecutive years:

A–22. Mr. Scott W. Lucas, speaking for Mr. Earl O'Keefe, president, Western National Life Insurance Co. of Texas.

9. Eliminate phase 3:

A–15. Mr. Devereaux F. McClatchey, general counsel of the National Association of Life Companies (accompanied by Mr. DeWitt Roberts, executive secretary) (but tax profits of specialty companies and windfall of others).

A–35. Mr. K. H. Easley, secretary of the Amicable Life Insurance Co. of Waco, Tex.

A–38. Mr. Frank Jordan, counsel, the Sureway Life Insurance Co. of South Carolina, Columbia, S.C.

A–46. Mr. George S. Harris, assistant secretary and investment officer of the Chicago Metropolitan Mutual Assurance Corp. (accompanied by Carl Tiffany).

A–48. Mr. Melvin C. Reese, Jr., president, Association of Arizona Insurance Companies.

A–50. Mr. James H. Horn, vice president, Southern United Life Insurance Co., Montgomery, Ala. (but tax profits of specialty companies and windfalls of others).

B–21. Mr. Guilford Dudley, Jr., on behalf of the Life & Casualty Insurance Co. of Tennessee.

B–34. Mr. C. B. Whiteside, vice president of the Merchants National Bank of Fort Smith, Ark. (automobile finance department).

B–35. Mr. G. E. Wainscatt, president, Midland Empire Life Insurance Co., Atchison, Kans.

B–52. Mr. Berne K. Jensen, Boise, Idaho.

B–54. Mr. Arthur J. Cade, executive vice president, Old Republic Life Insurance Co., Chicago, Ill.

M. Capital Gain Problems

(For this also see qualified pensions above)

1. Treat capital gains credited by contract to reserves of a policy as a part of investment income (a problem in the case of variable annuities):

B–2. Mr. Robert A. Crichton, Variable Annuity Life Insurance Co. of America, Washington, D.C.

2. Set the capital gains tax up as an alternative tax in the same manner as for other corporate taxpayers:

B–4. Mr. T. A. Bradshaw, president of the Provident Mutual Life Insurance Co. of Philadelphia.

3. Make provision for the deduction of capital losses in excess of capital gains but in a manner which does not permit abuse:

A–3. Mr. Richard C. Guest, vice president, Massachusetts Mutual Life Insurance Co. (accompanied by Charles Brierley).

B–57. Mr. Millard Bartels, chairman, insurance executive committee, the Travelers Insurance Co., Hartford, Conn. (Provision for a deductible security valuation reserve was suggested as an alternative.)

4. Opposed to the tax on capital gains:

A–50. Mr. James H. Horn, vice president, Southern United Life Insurance Co., Montgomery, Ala.

5. The exception to the rule providing for the nonrecognition of capital gain attributable to the period before December 31, 1958, should not apply to any property which has been held by the life insurance company on or before December 31, 1958. As to property acquired since that date, the exception should not apply to property which has a basis determined by the basis of property held by the company prior to 1959 (such as property acquired prior to that date in exchange for like property):

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

Prevent the taxing of capital gains on the disposition of property acquired or deemed acquired before December 31, 1958, where the property had a substituted basis, especially where "boot" is involved:

B–71. Mr. Laurens Williams.

Prevent the taxation of capital gains realized after 1958 on pre-1959 sales:

B–71. Mr. Laurens Williams.

N. Preliminary Term Adjustment Problem

1. Suggests that provision be made for another approximate revaluation method in converting reserves from a preliminary term basis to a net level premium basis which is not based on $1,000 units of life insurance:

B–15. Mr. Jarvis Farley, secretary-treasurer and actuary of Massachusetts Indemnity & Life Insurance Co.

2. In the case of a conversion of life insurance reserves from a preliminary term basis to the net level premium basis under the exact revaluation method, the word "morbidity" should be added to the word "mortality" to cover noncancellable or guaranteed renewable accident and health insurance:

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

3. In the case of the election to convert from a preliminary term basis to a net level premiums basis under either the exact or approximate revaluation method, taxpayers should be permitted to use either method for 1958 without being required to adhere to such method for subsequent years:

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

O. Transition Rules

1. Adoption of a transition rule to the new formula:

A–4. Mr. Charles A. Taylor, president, the Life Insurance Co. of Virginia.

A–9. Mr. Johnson D. Hill, Jr., executive vice president, Atlas Life Insurance Co. (accompanied by C. H. Menge).

A–20. Mr. Russell H. Matthias, general counsel, State Farm Life Insurance Co. of Bloomington, Ill. (accompanied by Robert C. Perry, first vice president).

B–16. Mr. John T. Acree, Jr., president of the Lincoln Income Life Insurance Co. of Louisville, Ky. (also vice president of the Life Insurers Conference, although not speaking for them).

B–21. Mr. Guilford Dudley, Jr., on behalf of the Life & Casualty Insurance Co. of Tennessee.

B–31. Mr. Orville F. Grahame, vice president and general counsel of the Paul Revere Life Insurance Co. of Worcester, Mass.

B–53. Mr. W. L. Newton, executive vice president, Kentucky Central Life & Accident Insurance Co., Anchorage, Ky.

B–61. Mr. T. C. McCullough, president of the Union National Life Insurance Co., Baton Rouge, La.

B–65. Mr. Harry W. Colmery, counsel, Kansas Life Insurance Executives' Association.

P. Suggestions Related to Specific Situations

1. Broaden the exemption under 501(c)(9) to remove the requirement that 85 percent or more of the receipts must consist of amounts received from the employer or the employees:

A–17. Mr. William B. Elson, Jr., counsel, Swift & Co. Employees Benefit Association (accompanied by C. H. Lang, Michael Verderosa, Joseph Aramowitz, representing the association and Mr. Joseph B. Meegan, of the Back to the Yards Social Action Club of Chicago).

2. Suggest the definition of a life insurance company should be based on a percentage of premiums which are life insurance premiums rather than the percent of reserves which are life insurance reserves:

A–44. Dr. George E. Lent, professor of business economics, Dartmouth College, Hanover, N.H.

3. Want it to be made clear that the definition of a life insurance company includes a life insurance department of a mutual savings bank:

B–40. Mr. William A. Lyon, president, National Association of Mutual Savings Banks.

4. Recommend excluding from "life insurance company taxable income" income derived from sources outside of the United States and Canada:

B–49. Mr. Raymond H. Belknap, president, the U.S. Life Insurance Co. in the city of New York.

5. Permit life insurance companies to establish deductible reserves for bad debt losses on mortgage loans:

A–22. Mr. Scott W. Lucas, speaking for Mr. Earl O'Keefe, president, Western National Life Insurance Co. of Texas.

6. Expand the definition of deficiency reserves (which are excluded from life insurance reserves) to include amounts which a company had to set aside in its reserves to cover low premium rates agreed to in the case of old mutual assessment contracts it has taken over:

A–32. Mr. Ray E. Lee, vice president, Austin Life Insurance Co.

7. Instead of defining "deficiency reserves" in terms of aggregate premiums on life insurance and annuity contracts define them in terms of the aggregate of reserves on individual contracts.

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

8. Suggested that the sale in 1958 of a block of industrial insurance at a loss should not result in a tax:

A–45. Mr. Vester T. Hughes, Jr., American Life Insurance Co. of Birmingham, Ala.

9. In the case of Canadian life insurance companies doing business in the United States permit, as an alternative method, the portion of a distribution to shareholders attributable to U.S. business to be determined on the basis of the ratio of the company's U.S. total insurance liabilities to the company's total insurance liabilities. Also, provide allocation rules to be applied in the case of the mutualization of a foreign company:

B–69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively.

Q. General Suggestions

1. The 1942 formula is undesirable and should not be continued:

A–5. Mr. Edward J. Schmuck, vice president and general counsel, Acacia Mutual Life Insurance Co. (accompanied by Lloyd K. Crippen and William Simpson).

B–4. Mr. T. A. Bradshaw, president of the Provident Mutual Life Insurance Co. of Philadelphia.

B–5. Mr. Willis H. Satterthwaite, vice president and counsel of the Penn Mutual Life Insurance Co.

B–10. Mr. Eugene M. Thoré of the Life Insurance Association of America (a similar letter was received from Claris Adams, executive vice president and general counsel of the American Life Convention).

B–22. Mr. Clarence J. Myers, president of New York Life Insurance Co.

2. Continue the 1942 formula for 1958 and give the bill further study:

A–34. Mr. James P. Swift, vice president and general counsel, Southwestern Life Insurance Co. (accompanied by Charles H. Connolly) (or provide for the collection of $500 million for this year in any other manner which does not involve a phase 2 tax)

B–18. Mr. Alvin Wunderlich, Jr., president of the National Burial Insurance Co., Memphis, Tenn.

3. (*a*) Oppose the bill and (*b*) favor a variant of the 1955 stopgap formula:

A–9. Mr. Johnson D. Hill, Jr., executive vice president, Atlas Life Insurance Co. (accompanied by C. H. Menge) ((*a*) only).

A–15. Mr. Devereaux F. McClatchey, general counsel of the National Association of Life Companies (accompanied by Mr. DeWitt Roberts, executive secretary).

A–23. Mr. Forrest G. Ray, vice president and secretary of the Guaranty Income Life Insurance Co. of Baton Rouge, La., on behalf of the National Association of Life Companies.

A–25. Mr. John A. Copeland, president, Progressive Life Insurance Co.

A–46. Mr. George S. Harris, assistant secretary and investment officer of the Chicago Metropolitan Mutual Assurance Corp. (accompanied by Carl Tiffany).

A–48. Mr. Melvin C. Reese, Jr., president, Association of Arizona Insurance Companies.

A–50. Mr. James H. Horn, vice president, Southern United Life Insurance Co., Montgomery, Ala.

B–1. A. H. Cadwallader, Jr., San Antonio, Tex. ((*a*) only).

B–3. Edmund L. Zalinski, executive vice president of the Life Insurance Co. of North America.

B–21. Mr. Guilford Dudley, Jr., on behalf of the Life & Casualty Insurance Co. of Tennessee.

B–41. Mr. G. H. Poindexter, president, Coastal States Life Insurance Co.

B–61. Mr. C. T. McCullough, president of the Union National Life Insurance Co., Baton Rouge, La.

4. Fear heavy taxes on life insurance will decrease the funds available for the mortgage money market:

A–27. Mr. A. Maceo Walker, president of the Universal Life Insurance Co., appearing for the National Insurance Associaciation (accompanied by N. H. Bennett and Jesse Hill, Jr.).

B–8. Mr. Carl I. Mitnick, president of the National Association of Home Builders.

B–25. Mr. Samuel E. Neel, general counsel of the Mortgage Bankers' Association of America.

5. Request a specific statement in bill that the regulation of insurance companies and their reserves is to be left up to State insurance commissions and not in any respect to be under the Internal Revenue Service.

B–30. Mr. Carl A. Hulbert, commissioner of the Department of Insurance of the State of Utah.

6. Concerned with competitive problem between mutual and stock companies:

B–48. Mr. George J. Brugger. Denever, Colo., representative of the Provident Mutual Life Insurance Co. of Philadelphia.

7. Suggestion not specific, but generally concerned with heavy burden:

A–14. Mr. John A. Kendrick, representing the Quaker City Life Insurance Co.

A–29. The Honorable Hastings Keith, Congressman from Massachusetts.

B–19. Mr. Lawrence Carter Reeves, manager of the Home Life Insurance Co. of New York.

B–27. Mr. William R. Gardner, general agent of the John Hancock Mutual Life Insurance Co., Richmond, Va.

B–37. Mr. W. K. R. Holm, Jr., the Holm Agency, the Connecticut Mutual Life Insurance Co. of Providence, R.I.

II. BY ORDER OF APPEARANCE

A. Those Who Testified

1. Mr. Deane C. Davis, president, National Life Insurance Co. of Vermont (accompanied by W. James Preble, actuary) (p. 61)

(*a*) He would determine the "deduction rate" under phase 1 on the basis of the earnings rate of the company for the year in question or on the basis of the average earnings rate of the company over the current and 4 preceding taxable years instead of basing the deduction rate one-half on a company's own earnings rate and one-half on an assumed rate (either the company's or the industry's for the prior year, whichever is higher). He indicated that the substitution of a 1-year earnings figure would result in a revenue loss of $85 million while the substitution of the 5-year average would result in a revenue loss of $35 million. The $35 million would be increased to $45 or $50 million, however, if the second amendment he proposed is not adopted.

(*b*) He recommended that policyholder dividends be allowed in computing an underwriting loss which may be offset against taxable investment income under phase 1, but only to the extent of 50 percent of the loss which would otherwise arise. He pointed out that the Treasury estimated that the full allowance of policyholder dividends would result in a revenue loss of $70 million and, therefore, that his proposal would result in a revenue loss of approximately $35 million.

(*c*) In reply to a question he indicated that he favored the exemption for pension income.

2. Mr. Carrol M. Shanks, president, Prudential Insurance Co. of America (accompanied by W. Chodorcoff and Louis R. Menagh) (p. 92)

(*a*) He would determine the "deduction rate" under phase 1 on the basis of the average earnings rate of the company over the current and 4 preceding taxable years instead of basing the deduction rate one-half on the company's own earnings rate and one-half on an assumed rate (either the company's or the industry's for the prior year, whichever is higher). He estimated that this change would cost $43 million in revenue.

(*b*) He suggested that the bill be amended to give at least a 50-percent deduction for any negative obtained under step 2. He indicated that this amendment would reduce the revenue by $35 million.

(*c*) He suggested that the exclusion for pension fund be expanded to provide for the elimination of capital gains taxes on insured pension funds and also to provide in phase 2 for the elimination of any gains attributable to the pension funds.

(*d*) He would revise the bill to make the 2-percent deduction for group insurance (2 percent of premiums from this business) available even though there was an underwriting loss under step 2 with the result that this deduction could be offset against taxable investment income.

3. Mr. Richard C. Guest, vice president, Massachusetts Mutual Life Insurance Co. (accompanied by Charles Brierley) (pp. 149 and 682)

(*a*) He would determine the "deduction rate" under phase 1 on the basis of the average earnings rate of the company over the current and 4 preceding taxable years instead of basing the deduction rate one-half on the company's own earnings rate and one-half on an assumed rate (either the company's or the industry's for the prior year, whichever is higher).

(*b*) He favors the continuation of an exemption of investment income to the extent attributable to insured pension plans.

(*c*) He would allow the deduction of an underwriting loss against taxable investment income under step 1 to the extent of 50 percent if it is attributable to policyholder dividends.

(*d*) He also recommended a special small company allowance of an extra 50 percent of any underwriting loss up to an amount not exceeding $50,000 of taxable income to the extent attributable to a policyholder dividend.

(*e*) He proposed that the 2-percent deduction for group insurance be made available where there was an underwriting loss which could be offset against taxable investment income under phase 1. He suggested that this deduction should be treated as closely as possible as if it were a reserve.

(*f*) In the case of recently organized companies or newly organized companies, he suggested that the loss carryover feature be extended to 15 years from the date of organization.

(*g*) He suggested that the committee, presumably in the future, give consideration to the development of a more adequate means of allowing for the offset of capital losses.

4. Mr. Charles A. Taylor, president, the Life Insurance Co. of Virginia (p. 178)

(*a*) He would determine the "deduction rate" under phase 1 on the basis of the average earnings rate of the company over the current and 4 preceding taxable years instead of basing the deduction rate one-half of the company's own earnings rate and one-half on an assumed rate (either the company's or the industry's for the prior year, whichever is higher).

(*b*) Under phase 2 of the bill he would not reduce the deductions attributable to tax-exempt interest or the 85 percent of the intercorporate dividends received which are free of tax.

(*c*) He suggested the adoption of a transition rule for a limited period of time in going from the 1955 stopgap law to the new formula provided by the bill.

(*d*) In questioning he indicated that he approved of the present feature of the bill which does not permit the carryback to phase 1 of an underwriting loss attributable to policyholder dividends.

5. Mr. Edward J. Schmuck, vice president and general counsel, Acacia Mutual Life Insurance Co. (accompanied by Lloyd K. Crippen and William Simpson) (p. 193)

(*a*) He joined in the suggestion made by other witnesses that it would be desirable to eliminate entirely the assumed interest rate from the phase 1 formula in determining the deduction rate. He also joined in the recommendation that the deduction rate be computed on the basis on the average of the individual company's own earned for the current year and 4 preceding taxable years.

(*b*) He explained why in his view the 1942 formula was a bad formula which should not be continued.

6. Mr. D. N. Warters, president, Bankers Life Co., Des Moines, Iowa (accompanied by William Rae) (p. 197)

(*a*) He would determine the "deduction rate" under phase 1 on the basis of the average earnings rate of the company over the current and 4 preceding taxable years instead of basing the deduction rate one-half on the company's own earnings rate and one-half on an assumed rate (either the company's or the industry's for the prior year, which ever is higher).

(*b*) In determining an underwriting loss which may be offset against taxable investment income he would allow some deduction for dividends paid to policyholders.

(*c*) He would expand the exemption for investment income attributable to qualified pension plans by exempting in addition to the amounts represented by pension plan reserves, other liability items for pension funds (for example, due and unpaid pension payments, dividend earnings yet to be paid, incurred and unpaid taxes, etc., and part of the mandatory security valuation reserve). He would also provide an exclusion for investment income attributable to surplus which is properly allocable to the pension plans. As an approximate rule he suggested that, on a conservative basis, it could be assumed that funds of at least 6 percent in addition to pension fund reserves are held by life insurance companies for these reserves and, therefore, that to this extent an additional exemption should be provided. He also suggested that there be excluded from phase 2 any increase in so-called surplus applicable to pension business. He would also eliminate the portion of any capital gain from tax to the extent of the ratio of pension reserves, other pension liabilities and pension surplus to total company assets. He estimated that the changes he recommended with respect to pension plans would reduce revenues by $7 million in 1959, $13 million in 1960, and $20 million in 1961.

7. Mr. H. Lewis Rietz, executive vice president, Great Southern Life Insurance Co. (p. 205)

(*a*) He supported the suggested 5-year individual company average earnings rate as an amendment in phase 1.

(*b*) He supported the full deduction of tax-exempt interest in phase 2, that is, no reduction in deductions otherwise available under this phase of the bill.

(*c*) He expressed concern over the fact that under phase 3 of the bill present surplus funds can be paid out to stockholders only after the distribution of all earnings from 1959 on. He recognized that permitting an immediate transfer of all existing capital and surplus to the taxpayers before the imposition of any tax under phase 3 would defeat the purpose of this portion of the bill. He proposed, therefore, that a gradual payout of existing surplus be accomplished by transferring each year to the shareholder's surplus account (the tax-paid account which comes out first) 2 percent of the company's paid-in capital, special surplus funds, unassigned surplus, mandatory security valuation reserve, contingency reserves, and any amounts set aside from surplus to increase actuarial reserves as of December 31, 1958.

(*d*) He proposed that any amounts contributed by shareholders either as capital or as surplus, whether at the time of the formation of a company or during a later period should be added to the shareholder's surplus account (the tax-paid account). (Presumably he is referring to amounts contributed after 1958.)

8. Mr. John A. Lloyd, president of the Union Central Life Insurance Co. of Cincinnati, Ohio (accompanied by Carl DeBuck and W. Lee Shield) (p. 223)

(*a*) He suggested as worthy of the committee's consideration the proposal to use the 5-year average earnings of a company in computing its deduction rate rather than basing it one-half on an assumed rate and one-half on the current earnings rate.

(*b*) He expressed strong opposition to the allowance of a deduction for policyholder dividends in the case of an underwriting loss which may be offset against taxable investment income under phase 1.

(*c*) (And in this he speaks for the American Life Convention) He urged that the 5-percent deduction for small business with the $25,000 ceiling be revised upward to a 25-percent deduction but still maintaining the $25,000 ceiling. He indicated that the revenue effect of this would be from $2.5 million to perhaps $4 million.

9. Mr. Johnson D. Hill, Jr., executive vice president, Atlas Life Insurance Co. (accompanied by C. H. Menge) (p. 232)

(*a*) He indicated that he was unalterably opposed to H.R. 4245 in its present form and in the absence of any substantial changes in it would strongly urge that the bill be defeated.

(*b*) He objected to the bill on the grounds that it discriminated against stock companies, particularly in that phase 2 affected stock companies while phase 3 affected only such companies.

(*c*) He recommended a transition from the 1955 stopgap to the new bill.

10. Mr. Henry S. Beers, president, Aetna Life Insurance Co., Hartford, Conn. (p. 248)

(*a*) He would determine the "deduction rate" under phase 1 on the basis of the average earnings rate of the company over the current and 4 preceding taxable years instead of basing the deduction rate one-half on the company's own earnings rate and one-half on an assumed rate (either the company's or the industry's for the prior year, whichever is higher). He estimated that this change would cost $44 million with $37.4 million going to the mutual companies and $6.6 million going to the stock companies.

(*b*) He recommended a change in the tax treatment of tax-exempt interest to make it "completely tax exempt," that is not to reduce deductions for the portion of the income representing tax-exempt interest.

(*c*) He recommended a change in the tax treatment of dividends received in the case of those eligible for the 85 percent dividends received deduction. In this case, also, he presumably would not make any reductions in the deductions otherwise available.

(*d*) He approved of the treatment in the bill for reserves of qualified pension plans but indicated that he understood that these provisions needed some technical corrections. He favored the gradual elimination of the tax in the case of investment income attributable to these reserves over a 3-year period.

11. Mr. Paul E. Martin, administrative vice president of the Ohio National Life Insurance Co. (accompanied by William J. Schmid, general counsel) (p. 281)

He suggested that the proposed bill fails to give adequate consideration to the situation of stock companies in the process of mutualization. He recommended that if gain from operations is to remain as a part of the tax base (phase 2) a deduction also should be permitted for payments (other than dividends) to stockholders under a mutualization program committeed for by the company prior to the effective date of this legislation.

12. Mr. Francis V. Keesling, Jr., first vice president and general counsel, West Coast Life Insurance Co. (p. 285)

(*a*) He suggested that the Federal Government might give a partial credit for State premium taxes on life insurance companies in a manner similar to the partial credit now allowed for State death taxes by section 2011 of the Internal Revenue Code. He would make this adjustment in phase 2 of the bill.

(*b*) He suggested that phase 1 of H.R. 4245 be enacted now but that phases 2 and 3 be held up until the "bugs" are worked out.

13. Mr. Harold J. Cummings, president, Minnesota Mutual Life Insurance Co., St. Paul, Minn. (accompanied by Walter J. Ruppert, vice president) (p. 304)

He suggested that the treatment accorded tax-free interest be revised and that the deductions allocable to this tax-exempt income not be reduced as provided by the bill.

14. Mr. John A. Kendrick, representing the Quaker City Life Insurance Co. (p. 332)

It was stated that while the industry average increase in tax under the bill would be about 70 percent, the increase in tax for the Quaker City Life Insurance Co. would be about 600 percent. It was suggested that the entire formula should be reappraised and that some consideration should be given for individual exceptions to companies like Quaker City Life Insurance Co. that may be penalized by excessive tax increases.

15. Mr. Devereaux F. McClatchey, general counsel of the National Association of Life Companies (accompanied by Mr. DeWitt Roberts, executive secretary) (p. 335)

(*a*) Two alternative recommendations were made. First it was recommended that this bill be junked and that the 1955 stopgap formula be reenacted as permanent legislation with adjustments in the rate so the tax will reflect accurately the true profits of the industry. Alternatively, a substantial revision of the bill was proposed. This is described below.

(*b*) It was proposed that the 1955 stopgap-type of formula be adopted but with 10 percent of the income being taxed up to an income level of $250,000, with 15 percent being taxed on the next $1,250,000 and with 22 percent of any excess being taxed.

(*c*) It has recommended that the exemption for qualified pension plans be removed.

(*d*) If a phase 2 tax is to be imposed it was suggested that companies be enabled to carry over the deduction from part 1 upon the basis of the maximum rate applicable, that is, the 10, 15, or 22 percent rate proposed above.

(*e*) It was recommended that the special 2 percent deduction for group insurance be extended to cover individual accident and health insurance.

(*f*) It was recommended that part 3 be stricken in its entirety.

(*g*) To tax the exceptional profits of specialty companies and the windfalls that might occasionally occur in individual companies, it was suggested that a section be provided which will guarantee an appropriate tax from such companies. It was suggested that this can probably best be done by relating operating gains to taxable investment income.

16. Mr. Robert E. Slater, vice president of the John Hancock Mutual Life Insurance Co. (accompanied by B. Franklin Blair, actuary of Provident Mutual) (p. 372)

(*a*) He recommended that the policy and other contract liability deduction be based upon the individual company's actual earnings rate for the taxable year or for that year and the 4 prior years and not take into account, in any respect, the assumed rate of interest of the company or of the industry.

(*b*) He suggested that 50 percent of the policyholder dividends now disallowed in computing an underwriting loss be allowed as an offset against taxable investment income under phase 1.

(*c*) He suggested that the exemption now provided for income credited to qualified pension plans should be broadened to include all qualified pension plans; an exemption from taxation should be provided for all investment income allocated to the pension line of business; capital gains and losses allocated to pension plans should be exempted in the same manner as investment income allocated to these lines of business; and amounts allocable to pension plans should be excluded from tax under phase 2 of the bill.

(*d*) He recommended that individual annuities, including supplementary contracts with life contingencies, should be given similar treatment to that accorded contracts under qualified pension plans.

17. Mr. William B. Elson, Jr., counsel, Swift & Co. Employees Benefit Association (accompanied by C. H. Lang, Michael Verderosa, Joseph Aramowitz, representing the association and Mr. Joseph B. Meegan, of the Back to the Yards Social Action Club of Chicago) (p. 387)

The Swift & Co. Employees Benefit Association, since 1921 has been taxed as a life insurance company. It does not presently qualify under section 501(c)(9) for the exemption provided therein for life, sickness, accident, or other benefits provided in the case of employer benefit associations because the exemption is limited to organizations receiving less than 15 percent of their income from sources other than contributions by the employer and employee. This organization receives more than 15 percent of its income from investment income. Because the bill raises the tax imposed with respect to this company from $26,000 to an estimated $478,000 it is recommended that section 501(c)(9), providing an exemption for voluntary employees' beneficiary associations be amended to remove the requirement which provides that 85 percent or more of the income must consist of amounts received from employees or the employer.

18. Mr. Bruce Batho, vice president and comptroller of the Life Insurance Co. of Georgia (p. 404)

(*a*) He recommended that the policy and other contract liability deduction be based upon the actual rate of interest earned by the individual company, on either an annual or a 5-year average basis, and that no reliance be placed upon the assumed rate of either the individual company or the average of the industry.

(*b*) He recommended that phase 2 be amended to provide a deduction for interest on tax-exempt bonds and for the 85 percent of dividends received without the decreasing of deductions to the full extent that such investments do not exceed the company's funds which are other than policy reserves. He did not recommend any change in the tax treatment of tax-exempt interest in connection with phase 1 in view of the fact that this does not purport to be a tax on total income and because it is similar in nature to the 1942 formula and the subsequent stopgap laws which provided similar adjustments for tax-exempt interest.

19. Mr. Guy H. Amerman, vice president and actuary of Continental American Life Insurance Co., of Wilmington, Del. (p. 411)

(*a*) He opposed the use of the assumed rate in determining the policy and other contract liability deduction, and favored instead basing this deduction solely upon the earnings rate of the company for the year in question. He indicated that he did not object, however, to the use of a 5-year average earnings rate.

(*b*) In view of the fact that the bill taxes life insurance companies on total income, he believed that they should have the same deductions under phase 2 for tax-exempt interest and dividends received as other corporations.

20. Mr. Russell H. Matthias, general counsel, State Farm Life Insurance Co., of Bloomington, Ill. (accompanied by Robert C. Perry, first vice president) (p. 417)

He urged that consideration be given to providing a transitional period of not less than 5 years during which the taxes imposed would gradually change over from those required under the 1955 stopgap law to those required by H.R. 4245. The formula suggested would compute the tax for the next 5 years as follows:

(*a*) for 1958, 175 percent of the tax under the stopgap formula, or 50 percent of that under H.R. 4245, whichever is larger;

(*b*) for 1959, 200 percent of the tax under the stopgap formula, or 60 percent of that under H.R. 4245, whichever is larger;

(*c*) for 1960, 225 percent of the tax under the stopgap formula, or 70 percent of that under H.R. 4245, whichever is larger;

(*d*) for 1961, 250 percent of the tax under the stopgap formula, or 80 percent of that under H.R. 4245, whichever is larger; and

(*e*) for 1962, 275 percent of the tax under the stopgap formula, or 90 percent of that under H.R. 4245, whichever is larger.

21. Mr. W. I. Boone, president, the Kansas Farm Life, Kansas Bureau, Insurance Co. (p. 420)

(*a*) Full allowance should be given to tax-exempt interest on municipal securities.

(*b*) Small companies should not be placed in jeopardy by excessive tax burdens.

22. Mr. Scott W. Lucas, speaking for Mr. Earl O'Keefe, president, Western National Life Insurance Co. of Texas (p. 445)

(*a*) He recommended the removal of section 815(d)(4) which places a limitation on tax-free accumulations of policyholders' surplus under phase 3 to 25 percent of the life insurance reserves or 60 percent of the net premiums for the taxable year. If a limitation is to retained, however, he would substitute for the 60 percent of premiums test a ceiling based on 5 percent of the company's insurance in force.

(*b*) He recommended that section 815(d)(2) be modified. This paragraph provides that if for any taxable year a company no longer qualifies as a life insurance company, then the entire amount in its policyholders' surplus account is to become taxable under phase 3. He recommended that the amount in the policyholders' surplus account instead should be taxable under this provision only if the company ceases doing *new* business as a life insurance company or fails to qualify as a life insurance company for three successive years.

(*c*) He recommended that under phase 3 it should be possible to make a tax-free distribution of pre-1959 earnings before a tax is paid on distributions from the policyholders' surplus account.

(*d*) He recommended that life insurance companies should be permitted to establish a reserve for bad debt losses on mortgage loans.

(*e*) He recommended that the effective date of phase 2 of the bill be postponed for 1 year.

23. Mr. Forrest G. Ray, vice president and secretary of the Guaranty Income Life Insurance Co. of Baton Rouge, La., on behalf of the National Asociation of Life Companies, Inc. (p. 451)

He opposed the adoption of H.R. 4245 and supported as a substitute the "total investment income" approach sponsored by the National Association of Life Companies. The proposed substitute would make permanent the 1955 stopgap law with two modifications. In lieu of the percentages of 87.5 percent and 85 percent of net investment income deducted under the stopgap law, the proposed would provide a deduction of 90 percent on the first $250,000 of net investment income, 85 percent on the next $750,000, and 78 percent on all investments income over $1 million. The second modification would create a new category of income called "speciality company income." A speciality company would be one whose net gains from operations after dividends to policyholders exceeds three times its net investment income and nonlife insurance income. In the case of such a company, 25 percent of this excess would be considered as speciality company income and subject to tax at the regular corporate rates.

24. Mr. Manton Eddy, vice president and secretary, Connecticut General Life Insurance Co. (p. 476)

(*a*) He recommended that to the extent negatives under phase 2 are not allowable as reductions in the phase 1 tax base, they should be available in the form of carrybacks or carryforwards as offsets against phase 2 gains of other years.

(*b*) He suggested that if the qualified pension plan exclusion under phase 1 could be made available immediately instead of over a 3-year period, the revenue loss involved might be made up by requiring the additional revenue resulting from the change to the accrual system of accounting to be paid in one sum, or in two or three installments, instead of over a 10-year period.

(*c*) He urged an additional allowance in phase 2 of 2 percent of the increase in reserves for qualified pension plans, providing, however, that in the event these contingency funds are reduced in the future the amount withdrawn is to be added to the gains in phase 2 and subject to tax at that time.

(*d*) He recommended that the 5-year average interest rate should be substituted for the average which is now in the bill and which is based in part on an industry average.

(*e*) He recommended further relief for small and young companies.

25. Mr. John A. Copeland, president, Progressive Life Insurance Co. (p. 448)

He opposed the bill and recommended in its place an investment income approach under which the taxable portion of net investment income begins at 10 percent and increases to 15 percent and then to 20 percent as the size of the net investment income increases. He indicated that under the bill companies which had incurred expenses to expand their business prior to 1958 who recovered these expenses in the form of income after that date would be injured. He also opposed the exclusion for investment income attributable to the reserves of qualified pension plans.

26. Mr. Leonard H. Savage, president, Standard Life & Accident Insurance Co. of Oklahoma City (p. 506)

(*a*) He recommended that a transition period be provided for the application of phase 2 of the bill. Under his suggestion this phase would not be applicable in 1958, would be 20 percent applicable in 1959, increasing 20 percent each year until it became 100 percent effective in the fifth year.

(*b*) He recommended that the loss carryforward for life insurance companies be extended to 10 years.

(*c*) He recommended that all companies be permitted to redeem capital or surplus contributions in excess of the amounts required by the organization without incurring additional taxes under phase 3.

(*d*) He urged that the 10 deduction for additions to nonparticipating business reserves be increased to 12 percent.

(*e*) He opposed the exclusion for investment income allocable to qualified pension plan reserves and also opposed the suggestions made in the hearings as to the extension of this exemption.

27. Mr. A. Maceo Walker, president of the Universal Life Insurance Co., appearing for the National Insurance Association (accompanied by N. H. Bennett and Jesse Hill, Jr.) (p. 514)

He indicated that the association supported the net investment approach in lieu of the approach followed by the bill. His concern was that the bill, by substantially increasing taxes of companies like those in his association, would make less funds available for mortgage activity and thus restrict availability of decent housing.

28. Mr. S. E. McCreless, president, American Hospital & Life Insurance Co., of San Antonio, Tex. (accompanied by Gene T. Archer) (p. 519)

He recommended that losses of the 3 years prior to 1958 be available as carryforwards to 1958 and later years.

29. The Honorable Hastings Keith, Congressman from Massachusetts (p. 29)

He expressed concern as to the heavy burden imposed on the life insurance companies, on the grounds that the shift which this caused toward social security was inflationary. He also was concerned as to the effect this would have on decreases in savings and resulting losses of capital funds. In view of this he asked for sympathetic consideration of the amendments proposed by the companies.

30. Mr. W. A. Verlander, executive vice president and treasurer, American Heritage Life Insurance Co., Jacksonville, Fla. (p. 531)

(*a*) He recommended that an 8-year loss carryforward be made available for new life insurance companies. New life insurance companies would be defined as those licensed to write life insurance for not more than 9 years prior to the year of the loss in question.

(*b*) He would make the loss carryforward of 8 years effective with respect to the 8 years immediately prior to 1958. In other words, such losses could be carried forward to 1958 and subsequent years, subject to the 8-year limitation.

(*c*) He recommended that a specific deduction of 87.5 percent of net investment be allowed new life insurance companies in lieu of the deduction for investment yield on adjusted life insurance reserves as provided by the bill. This would be a minimum deduction allowed any new company whose deduction as otherwise determined did not exceed this amount. A new life insurance company for this purpose would be the same as the definition appearing in (*a*) above.

31. Mr. William F. Poorman, president, Central Life Assurance Co., Des Moines, Iowa (p. 536)

(*a*) He supported a 5-year average earned rate in phase 1 in lieu of the combined rate provided by the bill.

(*b*) He recommended that negatives under phase 2 to the extent attributable to policyholder dividends should be available to offset taxable investment income under phase 1. In this connection he indicated that as far as small mutual companies were concerned, a carryover of such negatives to another year but available only under phase 2 would do little or no good.

32. Mr. Ray E. Lee, vice president, Austin Life Insurance Co. (p. 543)

As his first choice, he recommended the elimination of phase 2 but with the retention of phases 1 and 3. He would modify phase 1 to "solve problems identified to the committee in this hearing." He would also modify phase 3 to permit company surplus accumulated prior to the effective date of the bill to be freely available to stockholders without prior payment of tax under phase 3 with respect to any other amount. If phase 2 is retained, he would favor the following amendments: Increasing the deduction for small business to 25 percent of the first $100,000; providing a period longer than 5 years for the loss carryover; exempting from income tax the interest yield on tax-exempt securities; and increasing the 10-percent deduction for increases in nonparticipating reserves to 12 percent.

In addition, if phase 2 is retained, he indicated his company had a special problem relating to the definition of deficiency reserves which under the bill are not treated as life insurance reserves. He stated that in 1954 and 1955 his company assumed liability for nearly $23 million of mutual assessment insurance as consideration for issuing legal reserve term contracts to the holders of these mutual assessment policies. The Austin Life Insurance Co. received the mortuary funds of each company and, under the arrangement agreed to, the policyholders of the old mutual assessment contracts were permitted to continue paying the same amount of premiums as provided under their mutual assessment policies. The Austin Life Insurance Co. set up a reserve equal to the present value of a temporary life annuity in an amount which would provide for the annual payment of the part of the premium the policyholder would not pay. Now, a substantial amount of the reserve for the premium deficiency is being released each year (in the order of $250,000). Although Texas does not subject this amount to its premium income tax, it appears that it would be classified as premiums for purposes of phase 2 under the bill and subject to tax at this time although attributable to the prior periods.

33. Mr. W. H. Painter, Sr., executive vice president, United Fidelity Life Insurance Co., Dallas, Tex. (p. 547)

(*a*) He suggested that permitting companies to use an industry-wide average rate as one factor in determining the deduction rate, instead of the individual company rate, was discriminatory and he indicated that he was glad that an amendment correcting the situation had been proposed, thus placing all companies on the same basis.

(*b*) He expressed opposition to the suggestion that policyholder dividends should be taken into account in any negative offset against phase 1 taxable investment income.

(*c*) He expressed opposition to the provision of the bill under phase 3 which provides that already existing surplus cannot be taken down until after tax has been paid on any balance in the policyholders' surplus account.

(*d*) In the case of tax-exempt interest he suggested that no company should be required to pay an income tax on this portion of their incomes since no one else is required to do so.

34. Mr. James P. Swift, vice president and general counsel, Southwestern Life Insurance Co. (accompanied by Charles H. Connolly) (pp. 550 and 565)

He is concerned with the impact of step 2 of the bill as now written. His concern is that this phase of the bill has its primary application to stock companies. He suggests that there is discrimination here which is caused by the deduction for policyholder dividends. He suggests that the legislation be removed from the status of a "crash program" by permitting the Treasury to collect $500 million on 1958 business under either the 1955 stopgap law with adjustments in the amount of the tax for specialty companies or the enactment of H.R. 4245 without step 2 or allowing the 1942 formula to become applicable for that one year. He then suggests that the Treasury be given until September 1, or some reasonable and specific date, to come up with an acceptable formula to be enacted for 1959 business.

35. Mr. K. H. Easley, secretary of the Amicable Life Insurance Co. of Waco, Tex. (p. 570)

He would eliminate phases 2 and 3 and make certain modifications in phase 1. In this respect he would make the small business deduction more generous for the small company; provide a more generous deduction for tax-exempt securities, partially tax-exempt securities and dividends from corporate stock; and provide for the use of each company's individual earned rate under phase 1, or an average of its earned rate over a 5-year period.

36. Mr. W. W. Wilson, Jr., president, Colorado Life Convention and president, U.S. American Life Insurance Co., Denver, Colo. (p. 574)

(*a*) He recommended that phase 1 be amended to tax companies on the excess of their net interest earnings over the interest required to maintain their own policy obligations.

(*b*) He recommended that phase 2 be amended to disallow the deduction of dividends to policyholders and allow instead a percentage reduction for increases in reserves on participating business as is allowed under the bill on nonparticipating business.

(*c*) He recommended that phase 3 of the bill be amended to permit capital or surplus held by a company on December 31, 1958, which were contributed by stockholders and are in excess of the amount paid to that date in dividends to stockholders be placed in the shareholders surplus account. He would also permit any subsequent contributions to surplus made by stockholders to go directly to this account.

37. Mr. William Benton Carssow, Sr., general counsel, Texas Legal Reserve Officials' Association, Austin, Tex. (pp. 580 and 584)

(*a*) He recommended a 15-year loss carryforward provision.

(*b*) He recommended that the 2-percent accident and health premium deduction now available for group business be extended to business of the same type done on an individual basis.

(*c*) He urged that the 5 percent deduction for small business be increased to 7 percent and that the maximum limitation be raised from $25,000 to $35,000.

(*d*) He recommended that a nonparticipating premium deduction commensurate to the profit portion of dividends in participating business be allowed. He suggested that an industrywide average would be acceptable.

38. Mr. Frank Jordan, counsel, the Sureway Life Insurance Co. of South Carolina, Columbia, S.C. (p. 584)

He considered phase 3 of the bill to be discriminatory because of the ceiling of 25 percent of reserves or 60 percent of net premium income. He stated that multiple line insurance companies in view of the ceiling of 25 percent of reserves would be unaffected by phase 3 while he indicated that specialty companies which must rely on the alternative ceiling of 60 percent of the current year's premiums for the most part would reach the ceiling in 2 or 3 years and from that time on pay a straight 52 percent tax on their net gains from operations. He favored striking phase 3 from the bill, but if this is not to be done he asked for a transition period before this phase became fully applicable. Under this transition rule he would not apply phase 3 for the calendar year 1959, would make it 25 percent effective in 1960, 50 percent effective in 1961, 75 percent effective in 1962 and fully effective in 1963.

39. Mr. John J. Magovern, Jr., vice president and counsel, Mutual Benefit Life Insurance Co. of Newark, N.J. (p. 589)

He indicated that if full exclusion is to be allowed for tax-exempt interest on the grounds that this is required on constitutional grounds, then the 1942 revenue goal of $500 million should be revised downward proportionately. He suggested that if this is done it will be possible to substitute an individual company 5-year average interest rate in phase 1 at a cost of about $45 million and also permit policyholder dividends to the extent of 50 percent as offsets when they create a negative against step 1 at a cost of $35 million without appreciably lowering revenues below the 1942 goal as adjusted downward to take into account the broader exclusion for tax-exempt interest. The revenue effect of these three changes, including the tax-exempt interest exclusion, would be $445 million, which he suggests is sufficiently close to the assumed target of $462 million, namely, the 1942 formula adjusted downward for the broader exclusion for tax-exempt interest.

40. Mr. R. T. Stuart, Jr., president, Mid-Continent Life Insurance Co., Oklahoma City (p. 619)

(*a*) He recommended that the small business deduction should be based at least on 25 percent on the first $100,000 of net investment income rather than 5 percent of the first $500,000.

(*b*) He recommended the removal of the exemption for investment income attributable to qualified pension plan reserves.

(*c*) He recommended a transition period of 5 years before phase 2 would become fully effective.

(*d*) For small stock companies he recommended a loss carryforward of at least 10 and possibly 15 years.

(*e*) He recommended that the 10 percent deduction for increases in reserves with respect to nonparticipating policies should be increased to a minimum of 12 percent.

(*f*) Under phase 3 he recommended that prior accumulated surplus on which taxes had already been paid should be available for distribution to shareholders without any tax being imposed on the policyholder's surplus account transfers at that time.

41. Mr. Claris Adams, executive vice president and general counsel of the American Life Convention (p. 625)

(*c*) He suggested that the 10 percent deduction for nonpar reserves average earnings rate for the formula now in the bill.

(*b*) He recommended the continuation of the exclusion of investment income allocable to reserves of qualified pension plans.

(*c*) He suggested that the 10 percent deduction for nonpar reserves in phase 2 if anything is a little on the low side.

(*d*) Since mutual companies tend to set up their reserves on a $2\frac{1}{2}$-percent basis and stock companies tend to set theirs upon a 3- or $3\frac{1}{2}$-percent basis, the former receive larger deductions under phase 2 than do the stock companies. He considers this a discrimination which should be rectified.

(*e*) He recommended that tax-exempt interest and the intercorporate dividends received credit should be given a more generous tax treatment than under the bill.

(*f*) He spoke in favor of some allowance being made for premium taxes imposed by the States.

42. Mr. Albert L. Hall, vice president and general counsel Berkshire Life Insurance Co., Pittsfield, Mass. (p. 632)

(*a*) He subscribed to the use of the company's own actual earned rate for the taxable year in lieu of the formula in the bill but indicated that if this was not practical he concurred in the suggested use of the 5-year average.

(*b*) He recommended that policyholder dividends be allowed to create or increase a negative, to the extent of 50 percent, which may be offset against taxable investment income under phase 1.

(*c*) He indicated that he did not favor permitting negatives which may not be offset against taxable investment income to be carried over and offset against phase 2 income in other years.

43. Dr. Roy E. Moor, professor of economics, Williams College, Williamstown, Mass. (p. 641)

(*a*) He opposed the substitution of the 5-year earnings rate under phase 1 for the formula now in the bill.

(*b*) He opposed the suggestion which has been made which would permit policyholder dividends to be deducted in negatives which may be offset against taxable investment income.

44. Dr. George E. Lent, professor of business economics, Dartmouth College, Hanover, N.H. (p. 646)

(*a*) He opposed further extention of the benefits accorded tax-exempt interest under the bill.

(*b*) He opposed allowing policyholder dividends as a deduction which can reduce phase 1 income.

(*c*) He questioned the desirability of the 10-percent deduction under phase 2 for additions to nonparticipating reserves.

(*d*) He questioned the desirability of the 50-percent deduction in underwriting gain subject to tax under phase 2.

(*e*) He suggested that the definition of a life insurance company be reexamined and thought that instead of basing this definition on a percent of reserves of a company devoted to life insurance, it should perhaps be based upon a percentage of premiums devoted to life insurance.

(*f*) In connection with phase 3, he suggested tightening the requirements which result in a tax when the balance in policyholder surplus account exceeds 25 percent of reserves or 60 percent of premiums, whichever is higher.

45. Mr. Vester T. Hughes, Jr., American Life Insurance Co., of Birmingham, Ala. (p. 655)

He was concerned with a special transaction which the American Life Insurance Co. entered into in 1958. In that year it had $80 to $90 million of industrial insurance on its books. He stated that the company had spent an estimated $22 million in generating this business, plus having established reserves of $3,200,000, or in total had spent or set aside $25,200,000. Since it had received $18 million in premium income on this business, its loss to date on it has been $7.2 million. In 1958 it sold this business for a total consideration of $3,400,000, with the result that the company realized a loss of approximately $3,800,000. The company's concern is that this transaction not result in a tax under the bill. If it is classified as a capital transaction, since no capital gains tax applies with respect to the year 1958, under the bill there would be no tax. However, if this is not viewed as a capital transaction, the decrease in reserves of $3.2 million (transferred to the purchaser) would generate income which would subject the company to a tax of approximately $884,000. He recommended that one of the following five alternative procedures be followed with respect to this transaction:

(*a*) It could be made clear in the bill that a 1958 transaction of this type was a capital transaction which does not give rise to tax since no capital gains tax is imposed for 1958.

(*b*) It could be made clear in the bill that a transaction of this type whenever it occurs gives rise to capital gains treatment.

(*c*) It could be provided that a transaction of this type gives rise to no tax but instead to a capital loss carryover.

(*d*) It could be assumed that while the decrease in the reserve resulted in operations income the expenses incurred with respect to the business in prior years plus the transfer of the reserve to the purchaser resulted in operations deductions under phase 2. Under this procedure it is stated they would be an operations loss carryover of $3.8 million.

(*e*) The item could be treated as resulting in operations income and operating deductions but the deductions could be allowed only to the extent of any income generated in the transaction.

46. Mr. George S. Harris, assistant secretary and investment officer of the Chicago Metropolitan Mutual Assurance Corp. (accompanied by Carl Tiffany) (p. 663)

He spoke in favor of an investment income approach with a special rule being applied to cover the so-called specialty companies. He recommended that the deduction for small business be made an across-the-board deduction of $25,000; he questioned the desirability in phase

1 of permitting the use of the industry average interest rate; he suggested that policyholder dividends under phase 2 to the extent that they represent a return of interest or mortality savings should not be deductible although they should to the extent they represent loading; and he opposed phase 3 of the bill on the ground that it militates against the use of surplus for development and growth and locks up existing surplus.

47. Mr. Daniel J. Lyons, vice president, Guardian Life Insurance Co. of America (p. 665)

(*a*) He recommended that under phase 1 of the bill an individual company's 5-year average be substituted for the present formula.

(*b*) He recommended that the limitation on the deduction of dividends to policyholders in the case of negatives be modified so as to allow the deduction of such amounts up to 50 percent of the amounts now disallowed.

48. Mr. Melvin C. Reese, Jr., president, Association of Arizona Insurance Companies (p. 671)

(*a*) He recommended that the percentage deduction rate under the small business deduction be much higher than the 5 percent provided or be a flat amount for all companies such as the $25,000 figure.

(*b*) Rather than use a combined assumed rate and earnings rate in determining the policy and other contract liability deduction under phase 1, he would follow the suggestion of the National Association of Life Companies which imposes a tax on 10 percent of the first $250,000, 15 percent of the next $1,250,000, and 20 percent on all income above that level.

(*c*) He questioned the desirability of phases 2 and 3 and suggested instead a tax on specialty companies.

(*d*) Under phase 2 he questioned the desirability of the deduction of policyholder dividends and states that the 10 percent deduction or additions to reserves for nonparticipating insurance does not offset this advantage for the mutual companies.

(*e*) He believes that consideration should be given to the premium taxes levied by States.

49. Mr. Charles A. Siegfried, second vice president, Metropolitan Life Insurance Co. (p. 673)

He spoke in favor of the exemption for reserves funds attributable to qualified pension plans.

50. Mr. James H. Horn, vice president, Southern United Life Insurance Co., Montgomery, Ala. (p. 678)

(*a*) He would delete the capital gains tax.

(*b*) He would delete phase 2 from the bill.

(*c*) He would delete the provisions which impose the present provision in phase 1 for determining the deduction for reserves and prescribe instead an industry average percentage application by the Treasury.

(*d*) He would delete the provisions which grant an additional deduction for investment yield on reserves of insured pension plans.

(*e*) He would delete phase 3.

(*f*) He would provide a special tax applicable to windfall income and specialty line companies through the use of a formula which relates investment income to excess gain from operations.

B. Those Who Submitted Statements

1. Mr. A. H. Cadwallader, Jr., San Antonio, Tex. (p. 113)

He opposed the passage of the proposed bill on the grounds that the large increase in taxes will ultimately be borne by policyholders.

2. Mr. Robert A. Crichton, Variable Annuity Life Insurance Co. of America, Washington, D.C. (p. 113)

He indicated that variable annuity policies provide that policyholder reserves are created by net premiums accumulated at a rate which reflects the actual investment experience of the company. The rate is determined on the basis of investment income, plus capital gains and losses (realized or unrealized), less an amount representing an expense factor. These reserves are based not upon a predetermined or assumed rate of interest but upon the actual investment experience of the company. The bill would impose a capital gains tax on all of the company's capital gains even though a portion of these are allocated to policyholders' reserves (which would not be true in the case of other life insurance companies). He, therefore, suggests, the addition of a sentence to the bill providing "that portion of capital gains credited by contract to the reserves of a policy will be deemed to be additions to life insurance reserves and will be a part of investment income."

3. Edmund L. Zalinski, executive vice president of the Life Insurance Co. of North America (p. 114)

He opposed the bill and requested that the Mills-Curtis 1955 stopgap formula be continued for another year, perhaps amended to include a provision (which can be taken from the present bill) to tax credit life insurance companies and other forms of short-term life insurance.

4. Mr. T. A. Bradshaw, president of the Provident Mutual Life Insurance Co. of Philadelphia (p. 114)

He indicates that it is highly important that the 1942 formula be repealed. With respect to H.R. 4245, he would make the following modifications:

(*a*) The bill should recognize the burden of State taxes by allowing a reduction in the Federal tax equivalent to all or a part of the State premium taxes.

(*b*) The income on reserves held for individual annuities and settlement options should be eliminated from the corporate tax base.

(*c*) The deduction rate should be based exclusively on a company's actual earned rate or alternatively on the average of its earned rate over the preceding 3 or 5 years.

(*d*) The law should allow as a deduction from the tax base under phase 1 some portion, say 50 percent of any underwriting loss attributable to the policyholder dividend deductions.

(*e*) A number of other features of the bill were believed to require careful consideration and possible modification. These included the treatment of tax-exempt interest, the imposition of a flat 25 percent tax on net long-term capital gains which differs somewhat from the treatment accorded other types of taxpayers and the deduction of 2 percent of group insurance premiums and 10 percent of the increase in reserves for nonparticipating contracts which seem to create a competitive disadvantage for companies whose tax is based entirely on net investment income under phase 1.

(*f*) Concern was also expressed with the heavy tax burden which this bill involves.

5. Mr. Willis H. Satterthwaite, vice president and counsel of the Penn Mutual Life Insurance Co. (p. 118)

(*a*) He expressed the view that the 1942 formula should not be revived.

(*b*) He believed that the deduction rate in determining taxable investment income under phase 1 should be based solely on the individual company's earned interest rate and not upon rates which have been assumed in determining the company's reserve requirement.

(*c*) He recommended that the deduction of investment income attributable to qualified pension plans should be extended to investment income attributable to individual annuities and settlement options.

(*d*) He did not believe that mutual companies should be taxed under phase 2.

6. Mr. Austin J. Tobin, chairman of the Conference on State Defense and executive director of the Port of New York Authority (p. 121)

The statement is concerned solely with the tax treatment in the bill of interest from State and municipal bonds. He stated that in his opinion the bill is unobjectionable from the constitutional viewpoint since it merely prevents a duplicate deduction for State and municipal bond interest. However, he believes that it would be desirable to provide for a duplicate deduction because this would be likely to very substantially broaden the market for State and municipal bonds. He also expressed the view that most of this interest differential would accrue to the benefit of the States and municipalities.

7. Mr. Rupert Warren, vice president of Trico Products Corp. (p. 123)

He was concerned with the taxation of group life insurance and pension funds. He indicated he was concerned by the apparently discriminatory taxes applicable under present law to his plantwide group life insurance and pension plan, as compared with those applicable to trusteed plans. He expressed the view that the bill as passed by the House should be changed to exclude from the tax base all investment income, including capital gains and losses, attributable to the operation of pension plans. He also suggested that the deduction for contingency additions in relation to group insurance operations should be applicable uniformly to mutual and stock companies.

8. Mr. Carl T. Mitnick, president of the National Association of Home Builders (p. 124)

He pointed out that since World War II life insurance companies had made available some $35 billion in home mortgage loans. In view of this, he asked for careful deliberation with respect to any tax measure which might cause any shift in these investment funds.

9. Mr. Henry F. Rood, senior vice president, Lincoln National Life Insurance Co. (pp. 179 and 606)

This is a memorandum setting forth reasons why a policyholder's protective fund may be required (like the 10-percent and 2-percent deductions in the House bill). Such funds represent an apportionment of surplus over and above statutory reserves. He states the need for them may be due to (1) sudden catastrophes such as epidemics, wars, or depressions when mortality rates soar or capital losses are heavy; (2) long-term changes in trends such as higher expenses caused by inflation or the decline in interest rates resulting either from general business conditions or from a controlled economy. The memorandum then cites examples of where such funds were needed.

The size of the policyholder's protective fund needed by a company according to the memorandum will vary according to: (1) The size of the company, (2) the interest rate used in computing reserves, (3) the amount of group and accident and sickness business, and (4) level of premium rates, and (5) the proportion of participating and nonparticipating insurance.

Statistics presented show that in 1928 and again in 1957 when the companies had an opportunity to accumulate the capital and surplus needed in the judgment of the management that stock companies held amounts equal to about 15 or 16 percent of the reserves and mutuals about 8 to 9 percent of reserves. This might appear to suggest a differential between stocks and mutuals of only about 7 percent. However, he states that since many stock companies issue both participating and nonparticipating business the 7-percent differential between stock and mutual companies does not represent the full additional amount needed for nonparticipating policies. The reason given for the difference in the size of reserves in the case of participating and nonparticipating policies is that dividends to policyholders can be reduced under participating policies. Based upon the experience of five companies as to dividend reductions from 1929 scales in the period 1930–45, he concluded that in such period dividend variations were the equivalent of a 9.1-percent variation in reserves. A second method of comparison, however, showed a use of dividends equivalent to a 15.2-percent addition in reserves. Based upon these two different methods he concludes that a 12-percent differential in reserves for nonparticipating business would be appropriate.

10. Mr. Eugene M. Thoré of the Life Insurance Association of America. (A similar letter was received from Claris Adams, executive vice president and general counsel of the American Life Convention.) (Pp. 124, 420, 524)

He indicated that the Life Insurance Association of America had recently adopted a resolution favoring the general pattern of the bill but also recommending certain modifications presented by association witnesses at the hearings. He stated that it had come to their attention that some companies were advocating that the 1942 act be permitted to apply to the tax year 1958 to provide more time for the consideration of the pending bill. He indicated that his association opposed a return to the 1942 act for six stated reasons. He stated that the action in 1950 wherein the Senate on April 13, 1950, passed a bill applicable to life insurance companies for the tax years 1949–50 constituted a precedent which could be followed this year.

11. Mr. Robert C. Sneed, representing the Texas Association of Mutual Life Insurance Officials (a trade organization composed of managing officers of mutual assessment life insurance companies) (p. 126)

The mutual assessment companies state that as a result of the way the bill is drafted they may not receive a policy and other contract liability deduction. At least 60 percent of all assessments or premium income of these companies must be placed in a "mortuary or relief fund" while the remainder is placed in an "expense fund." The mortuary or relief fund belongs to the policyholders. Under Texas law it may be invested only in the same securities as legal investments for reserve funds of stock life insurance companies, and comply with the definitions in H.R. 4245 of a "life insurance reserve." However, policies of mutual assessment companies do not specifically provide for an assumed interest rate (although most concerns in setting rates or frequency of assessments rely upon an assumed interest factor). However, all investment income of mortuary or relief funds must be placed in such funds for the exclusive benefit of the policyholders. To overcome this problem, it is suggested that section 804(c) be amended by adding a new paragraph applicable to assessment companies providing that in the case of these companies they are entitled to deduct from gross investment income in determining investment income an amount equal to 3 percent of life insurance reserves.

12. Mr. Carl J. Schmidt, vice president and general manager, the Arizona Water Co. (p. 127)

The company adopted a pension plan a few years ago, selecting a group annuity plan insured by a large insurance company. It points out that under present law these pension plan reserves have been subject to a tax assessed against the insurance company. It further points out that this tax does not apply to uninsured plans. Therefore, since H.R. 4245 improves this tax situation, the company approves of this feature of the bill and urges its adoption.

13. Mr. George E. Richardson, president of the HBA (Hospital Benefit Assurance) Life Insurance Co. of Phoenix, Ariz. (p. 128)

He questioned the merits of the bill on two bases: First he said it had been introduced and rushed so quickly that few had a chance to understand it. Second, he considered it unfair in the following three provisions to smaller or newer companies, most of which are stock companies:

(*a*) The deduction for small business of 5 percent of investment income up to a maximum of $25,000 a year. He suggests that too much of the relief under this provision is available to what he considers the larger companies and too little to what he considers the small companies.

(*b*) One of the factors in arriving at the deduction rate is the assumed rate. The bill permits companies to use either their own assumed rate or the industry average assumed rate, whichever is higher. He states that most of the larger companies which are mutuals set their policies on a reserve basis of 2 to 2½ percent while stock companies, such as their own, use a 3 percent rate. He states that as a result permitting the use of the industry average, where this is above the company's own rate, provides more relief for the mutual companies than for the stock companies.

(c) He states that the exemption for investment income attributable to qualified pension plan reserves which becomes fully effective over a transition period of 3 years, will primarily benefit the larger companies since only such companies are interested in writing such insurance.

14. Mr. Robert L. Hogg, vice chairman of the board of the Equitable Life Assurance Society of the United States (p. 106)

His statement is concerned with the tax treatment of insured qualified pension plans. He approved of the provision in the House bill exempting from tax investment income allocable to qualified pension reserves. However, to give complete equality with trusteed plans he recommended the following amendments:

(a) Investment income allocable to pension surplus should be exempt;

(b) capital gains and losses to the extent attributable to pension plans should be exempt;

(c) pension operations should not create a tax liability under phase 2.

15. Mr. Jarvis Farley, secretary-treasurer and actuary of Massachusetts Indemnity & Life Insurance Co. (pp. 129 and 433)

He was concerned with the fact that the 10-percent deduction for nonparticipating insurance is based upon 10 percent of "reserves." He suggested that the reserve is not a reliable measure of the degree of long-term risk involved since in the case of long-term policies it gives undue weight to the investment element of the policy. As a result, he stated that companies which write a relatively larger proportion of long-term protection policies not involving large investments are treated unfairly by this type of a deduction. As a result, he suggested as an alternative to the 10-percent deduction in the House bill a deduction of 5 percent of net premiums for the taxable year attributable to certain nonparticipating contracts. He suggested that it might be desirable to exclude policies which are not characterized by long-term risk.

He was also concerned with a technical provision in the bill (sec. 818(c)) which provides that where a company computes its life insurance reserves on a preliminary term basis, it may elect to convert them to a net level premium basis under one of two prescribed methods. One is an exact revaluation and the other a computation according to a prescribed formula in the bill which is expressed in units of $1,000 of insurance adjusted by a percent of life insurance reserves. He stated that this second method, or approximation formula, is not applicable in the case of reserves held against benefits not expressed in units of $1,000 of insurance, with the result that a company with substantial amounts of such reserves would be unable to use the approximate revaluation method. He suggested spelling out in the statute an alternative approximate revalution method not keyed to units of $1,000 of insurance or permitting the Secretary to define by regulation alternative approximate methods which may be used.

16. Mr. John T. Acree, Jr., president of the Lincoln Income Life Insurance Co. of Louisville, Ky. (also vice president of the Life Insurers Conference, although not speaking for them (p. 131)

He suggested the bill should be modified to give relief in the following areas:

(*a*) The small-business deduction of 5 percent with a maximum deduction of $25,000 should be increased to 25 percent but the same ceiling retained.

(*b*) The net operating loss carryforward for a life insurance company in the early years of its organization should be available for a 15-year period instead of a 5-year period.

(*c*) Some transition period should be provided where there is a substantial increase in tax.

(*d*) Although the 10-percent deduction under phase 2, based upon the increase in nonparticipating reserves, is generally acceptable, it is inadequate in the case of certain of the companies in his conference. For this reason he suggested as an alternative the allowance of 5 percent of premiums on nonparticipating contracts of a duration of 5 years or more.

(*e*) The deduction for tax-free interest and dividends subject to the 85-percent dividends received credit should be expanded. In this respect he referred particularly to phase 2, but stated there is also some merit in his opinion in a broadening of the phase 1 deduction for these items. He stated that the cost of this suggestion applied only to phase 2 would be $6.5 million, based upon 1958 business.

17. Mr. Theodore A. Stemmermann, vice president and actuary of the Home Life Insurance Co., New York, N.Y. (p. 133)

He suggested that the bill should be amended at least in the two following respects:

(*a*) The deduction rate under phase 1 should be determined exclusively on the company's own earned interest rate either for the current year or the average of the last 5 years whenever that rate exceeds the company's required reserve interest rate.

(*b*) Policyholder dividends should be allowed as a deduction in computing an underwriting loss, and, therefore, as an offset against taxable investment income, at least to the extent of 50 percent.

18. Mr. Alvin Wunderlich, Jr., president of the National Burial Insurance Co., Memphis, Tenn. (p. 135)

He stated that in the case of his company the 1958 tax liability under the 1942 law would be $88,000, while under the bill, H.R. 4245, the tax would be $212,000, an increase of 242 percent. In view of this, he suggests that the 1942 law be made applicable for 1958 and that the bill be reviewed very carefully during 1959.

19. Mr. Lawrence Carter Reeves, manager of the Home Life Insurance Co. of New York (p. 135)

He pointed out that mutual insurance companies have 63 percent of the total life insurance in force and 58 percent of the total gain from operations, but under the proposed bill will pay 70 percent of the

Federal taxes. He states that this is discriminatory and asks that the law be revised so as not to be discriminatory and not to impose a 70 percent increase taxes on an industry in a single year.

20. Mr. W. K. Boardman, of Ketchikan, Alaska (p. 135)

He states that the tax on investment income as it applies to insured pension reserves under present law is discriminatory against insured plans and, therefore, that this tax should be removed. In view of this, he recommends support for the provision in the life insurance bill which provides an exemption for investment income from qualified pension plans gradually becoming effective over a 3-year period.

21. Mr. Guilford Dudley, Jr., on behalf of the Life & Casualty Insurance Co. of Tennessee (p. 136)

He recommends the investment income approach as exemplified by the 1955 stopgap formula as a subsititute for the bill but instead of the 85-percent (or 87½-percent) deduction allowed each company under that stopgap formula allow a deduction for each company based upon its own actual reserve requirements. However, if the committee does not accept the investment income approach as the sole basis for taxation, the following specific amendments are proposed:

(*a*) The deduction rate for the policy and other contract liability deduction, instead of being an average of a company's earnings rate and the higher of its own assumed rate (or the industry average assumed rate) should be each company's own assumed rate, based upon an average of its assume rate requirements for a period of several years.

(*b*) In phase 2, the 10-percent deduction for the increase in reserves on nonparticipating business should be changed to a deduction of 5 percent of nonparticipating premiums received.

(*c*) A 5-year transition period before the new bill becomes fully effective is recommended. It is suggested that the tax be computed under the 1942 formula and under the proposed bill for each of these 5 years and that for 1958 the company pay the amount under the 1942 law, if less than that under the proposed bill, plus one-fifth of the difference between the two. For 1959, it would pay two-fifths of the difference, etc., for each year until for 1962 the company would pay the full amount under the proposed bill.

(*d*) It is suggested that a credit (instead of merely a deduction) be allowed against Federal tax equal to 25 percent of the amount of premium taxes which each life insurance company pays to the various States.

(*e*) It is suggested that phase 3 of the proposed bill be deleted entirely.

22. Mr. Clarence J. Myers, president of New York Life Insurance Co. (p. 141)

He indicates that his company approves of the general structure of H.R. 4245, but considers its tax burden to be excessive. However, his company considers the bill to be a sounder basis of taxation than the 1942 formula which would become the tax base in the absence of new legislation. He recommends 2 modifications in the bill as passed by the House. The first would determine the deduction rate under phase 1 on the basis of each company's earnings rate during the 5-year period ending with the current tax year rather than basing this rate partially on the company's own assumed rate or the industry average assumed rate. Second, he believes that the bill should be amended by deleting entirely the limitation on the deductibility of dividends to policyholders in computing an underwriting loss. However, any partial relaxation, he pointed out, would reduce the extent of discrimination. He suggests that a way of achieving this relaxation would be to allow a deduction of 50 percent of any underwriting loss to the extent attributable to policyholder dividends. He approves of the deduction in the bill for investment yield on pension plan reserves.

23. Mr. Charles J. Zimmerman, president of the Connecticut Mutual Life Insurance Co., Hartford, Conn. (p. 145)

He stated that the House committee has brought out a bill which, overall, is sound from a technical standpoint but imposes too heavy a burden upon life insurance companies. He suggests that the bill be amended by using a 5-year individual company average in computing the reserve interest deduction, instead of basing this deduction rate partially on the assumed rate of the individual company or the assumed rate of the industry, whichever is higher. He would also amend the bill to allow mutual companies to deduct policyholder dividends where there is an underwriting loss.

24. Mr. A. W. Koehler, secretary-manager of the National Association of Motor Bus Operators (p. 147)

He endorsed the provisions of the bill relating to a deduction for investment income attributable to pension plan reserves. He urged, however, that the deduction be made effective immediately rather than in successive steps between now and 1961. He also urged that the provision be modified to insure the exemption of capital gains attributable to qualified pension funds.

25. Mr. Samuel E. Neel, general counsel of the Mortgage Bankers' Association of America (pp. 148 & 610)

He indicated that the association is concerned about the proposal to increase substantially the Federal income taxes paid by life insurance companies because of the vital part played by life insurance companies in providing funds for financing the Nation's homes. He feared that a substantial tax increase will raise the cost of life insurance and hence diminish the popularity of life insurance as a medium of savings. Second, he feared that an increase in tax on life insurance companies will force the pension accounts of these companies into tax-sheltered areas of trusteed operations from which the mortgage market receives little benefit and third, he feared that an increase in taxes would divert a significant volume of life insurance investment from taxable obligations, including mortgages, to tax-exempt securities.

26. Mr. William M. Dudley, field underwriter of the Home Life Insurance Co. of New York, Lynchburg, Va. (p. 239)

He stated that in his opinion the bill discriminates between mutual companies and stock companies and that if life insurance companies are to be encouraged to use higher interest rates on policy reserves it should be made mandatory to do so. Also, he expressed the view that mutual companies should be allowed deductions for policyholder dividends where they have underwriting losses. He further suggested revising the provisions on qualified pension plans so they receive the same tax treatment as trusteed plans do.

27. Mr. William R. Gardner, Richmond, Va., general agent of the John Hancock Mutual Life Insurance Co. (p. 241)

He suggested that to levy additional taxes on the life insurance companies is to further tax the public and to discourage savings which might help in the effort to retard the inflationary spiral. He stated that it is admitted that a revised method of levying an income tax on life insurance companies is needed but not in the form, or to the extent, now proposed.

28. Mr. Joseph F. Clark, executive director, Municipal Finance Officers Association of the United States and Canada (p. 122).

He noted that the House bill complies with the requirements of the Constitution by refraining from taxing income on State municipal bonds and found this effort laudable and comforting. Although the association does not attempt to influence legislation, he stated it has traditionally opposed the imposition of any tax on interest on State municipal securities in order to preserve the investment market for municipal bonds, offerings of which will increase in volume. He referred to the statements submitted by Mr. Austin J. Tobin, chairman of the Conference on State Defense and executive director of the Port of New York Authority, which recommended an enlargement of the exemption of income from investments in State and municipal securities. He suggested that this viewpoint commends itself to Congress and is pertinent for study by it during its consideration of the merits of the bill.

29. Mr. James L. Neville, president of the Salt Lake Association of Life Underwriters (p. 240)

He stated that this bill is unfair since the tax it would impose is about five times as great as that imposed on other forms of thrift. Also, he indicated that his association is concerned that the bill does not give full credit for dividends to policyholders where there is an underwriting loss.

30. Mr. Carl A. Hulbert, commissioner of the Department of Insurance of the State of Utah (p. 283)

He stated that he understood that amounts placed in reserves which are required by a State department of insurance may not be deductible if they are not reserves required by law. He suggests that this is unfortunate. He cites as an example of this the fact that the Utah law does not require companies to maintain any reserves whatsoever for annuities, disability benefits, or accidental death benefits although (apparently) the Utah Insurance Department does require reserves in such cases. He stated that there are at least half a dozen States that do not have statutes requiring reserves for these classes of insurance. He also stated that not all of the reserves needed are actuarial reserves. He cited as an example of this the security valuation reserve required by his department. He said that all reserves required by a State insurance department should be deductible for tax purposes and he feared that unless the bill is amended to specifically provide for this, these reserves may be ignored for Federal tax purposes.

He also said that it is highly probable that his State will have to increase the premium tax on insurance companies in the near future, and that the effect of the tax proposed by H.R. 4245 will make an attempted increase of this type more difficult. He requested that specific statutory language be inserted in H.R. 4245 which will insure that the right and duty of a State commissioner of insurance to regulate all reserves and otherwise control the financial operations of a company subject to its jurisdiction without challenge by the Treasury Department. He stated that it should be made perfectly clear that the Commissioner of Internal Revenue has no authority to question the existence of, or additions to, any reserve required by a State insurance department.

31. Mr. Orville F. Grahame, vice president and general counsel of the Paul Revere Life Insurance Co. of Worcester, Mass. (p. 241)

He supported the suggestions which have been made relative to tax-free interest and the dividends received credit, and the use of the individual companies own earned interest rate for the determination of the reserve deduction. He also supported the general pattern of H.R. 4245 but suggested two modifications; one calling for a transitional rule and the other a change in the 10 percent deduction.

He pointed out that under the 1955 stopgap law his company would have a tax of $431,000 for 1958 and under the 1942 law would have a tax of $731,000 for that year. However, under H.R. 4245 he anticipates that the tax for 1958 will be $1,356,800 with $1,024,600 coming from phase 1 and $332,200 from phase 2. He suggests that this increase in tax requires a transitional rule. One such rule suggested is an alternative of twice the stopgap law or the 1942 law, but with a maximum equal to the amount determined under H.R. 4245. As an alternative, he could support the suggestion of Mr. Matthias, who suggested a formula limiting the combined tax under phases 1 and 2 to percentages ranging from 175 to 275 percent of that under the 1955 stopgap formula for the period for 1958 to 1962, or percentages ranging from 50 percent to 90 percent of the tax burden imposed under H.R. 4245 for the same period, whichever is the larger.

He also recommended as an alternative to the allowance of 10 percent of the increase in nonparticipating reserves as a deduction under phase 2, the allowance of an amount equal to 5 percent of the premiums on nonparticipating contracts of a duration of 5 years or more.

32. Mr. J. Wythe Walker, president of the Union Life Insurance Co., Little Rock, Ark. (p. 239)

He urged that the "deduction rate" be changed in the manner recommended by the Life Insurance Association of America. With this modification he expressed the view that the bill would be reasonable both in its technical approach and in the tax imposed on life insurance companies.

33. Mr. Stanley Falk of Little Rock, Ark., agent for the Mutual Life Insurance Co. of New York (p. 240)

He stated that the bill imposed an unfair tax on the savings of millions of Americans who have their money invested in life insurance. He stated that the legislation does not give full credit for dividends to policyholders in the case of underwriting losses. He believe that this is discriminationary and that the bill should be amended to remove this limitation.

34. Mr. C. B. Whiteside, vice president of the Merchants National Bank of Fort Smith, Ark. (automobile finance department) (p. 240)

He stated that the bill is destructive to the life insurance business in Arkansas and that it will prejudice the continued growth of business in States such as Arkansas. He suggests that phases 2 and 3 of the bill are discriminatory and that phase 3 seemed designed to legislate companies out of business rather than to raise revenue.

35. Mr. G. E. Wainscatt, president, Midland Empire Life Insurance Co., Atchison, Kans. (p. 243)

He expressed opposition to phase 2 and particularly to phase 3 of the bill. He stated that these phases of the bill will primarily affect credit insurance companies such as his own and that they are discriminatory.

36. Mr. Frank H. Rawlings, vice president and general counsel of the Century Life Insurance Co., Fort Worth, Tex. (pp. 434 and 436)

He recommended two changes in the bill. The first provides that the term "distribution" for purposes of phase 3 of the bill is not to include funds expended in the complete redemption of callable preferred stock which was outstanding on January 1, 1959. Second, in the case of companies with capital and surplus not in excess of $5 million, he would provide an exemption from any tax under phase 2 until the company's accumulation of untaxed surplus exceeds 25 percent of its life insurance reserves or 60 percent of its net premiums, whichever is greater. Amounts not taxed as a result of this exemption under phase 3, would be added to the policyholder's surplus account (tax deferred account).

37. W. K. R. Holm, Jr., the Holm Agency, the Connecticut Mutual Life Insurance Co., Providence, R.I. (p. 245)

He opposed the bill on the grounds that it imposed too heavy a tax burden on insurance companies.

38. Mr. Frank P. Samford, president, Liberty National Life Insurance Co., Birmingham, Ala. (p. 421)

He favored retaining the 10-percent deduction under phase 2 for additions to reserves for nonparticipating insurance. He also favored the postponement of the tax on half of the underwriting income until this income was distributed to stockholders.

39. Mr. Guy L. Evans, field underwriter of the Mutual of New York, Pueblo, Colo. (p. 424)

He stated that the bill discriminates against mutual policyholders by failing to grant mutuals a tax deduction for their policyholder dividends where the companies have underwriting losses. He also stated that the bill should be amended to use a 5-year individual company average in computing the reserve interest deduction. He further recommended that the provisions relating to qualified pension plans be revised so that they would receive the same tax treatment as trusteed plans.

40. Mr. William A. Lyon, president, National Association of Mutual Savings Banks (p. 425)

He pointed out that under section 594 of the code life insurance departments of mutual savings banks are taxed at the rates of and in the manner provided in subchapter L with respect to life insurance companies. He requested that the committee in its report state affirmatively that nothing in the bill is intended to change the practice of treating life insurance departments of mutual savings banks as life insurance companies. In this respect he spoke particularly of section 817(b) of the bill which provides that any capital gain is to be determined by reference to the fair market value of the property on December 31, 1958, if on that date the fair market value exceeds the adjusted basis and the taxpayer has been a life insurance company at all times on and after that date.

He also was concerned with the last sentence of section 811(b)(1) of the bill. This states that in computing the deduction for dividends to policyholders there is to be included as amounts held (as reserves for dividends to policyholders) at the end of any taxable year "amounts set aside, before the 16th day of the third month of the year following such taxable year, for payment during the year following such taxable year." He indicated that in some cases it is physically impossible for the actuary of a savings bank life insurance fund to analyze the report of the 48 issuing banks and to make dividend recommendations to these banks before the last week of February. In view of this, he stated that it is not possible for the board of directors of the various banks in all cases to complete formal action setting aside reserves for dividends by the 15th of March. He asked that the last sentence of section 811(b)(1) be amended to allow any time for setting aside the reserve for dividends for which an extension of time is allowed for filing a return.

41. Mr. G. H. Poindexter, president, Coastal States Life Insurance Co. (p. 426)

He recommended the substitution of the investment income approach as exemplified by the 1955 stopgap law with a readjusted deduction rate to provide a greater tax yield as a substitute for the bill.

42. Mr. Sterling Holloway, chairman of the board of Continental Life Insurance Co., Fort Worth, Tex. (p. 427)

He recommended:

(*a*) The substitution of each individual company's 5-year average net interest earned rate for the formula in the bill.

(*b*) An increase from 10 to 12 percent in the deduction for increases in nonparticipating reserves.

(*c*) An amendment to provide a broader exemption for tax-exempt interest.

(*d*) An amendment under phase 3 to provide that any surplus contributed by shareholders in the future will be credited to the shareholder's surplus account and therefore available for distribution to the shareholders without any tax at the corporate level.

(*e*) An amendment which, under phase 3, would transfer to the shareholders' surplus account 2 percent per annum of the earned surplus accumulated prior to December 31, 1958.

(*f*) An amendment to provide that losses from operations for the years 1955–57, be allowed as a loss carryover deduction.

43. The Honorable John Marshall Butler, Senator from Maryland (pp. 516, 700)

He opposed the tax treatment in the bill for State and municipal bond interest on the grounds that it was unconstitutional.

44. Mr. Richard M. Sellers, executive vice president, Commonwealth Life Insurance Co., Louisville, Ky. (p. 437).

He opposed the substitution of the 5-year average earnings rate where the rate in the bill which is halfway between the individual company's earnings rate for the year and as assumed rate which is either the company's own assumed rate or the industry average assumed rate for the prior year, whichever is the higher. He indicated that the substitution of the 5-year average earnings rate would increase the tax of the Commonwealth Life Insurance Co. Should the Senate Finance Committee nevertheless adopt the 5-year average earnings rate, he recommended that an alternative to this be provided during the first 4 years which in effect is the formula now in the bill.

45. Mr. Edwin W. Henne, president, Farmers & Traders Life Insurance Co., Syracuse, N.Y. (p. 429).

He indicated that the Farmers & Traders Life Insurance Co. is in the process of mutualization under a plan approved on November 15, 1954. He indicated that as a result his company is in the same situation as the Ohio National Life Insurance Co. and therefore favored the proposed amendment submitted by that company. The amendment proposed by the Ohio National Life Insurance Co. in phase 2 under section 809(d) would have added an additional deduction providing that distributions to shareholders in payment of stock, pursuant to a plan of mutualization agreed upon prior to January 1, 1958, was to be deducted in arriving at gains from operations. The mutualization plan of the company in question is expected to require a period of about 10 years, with normal earnings, beginning in 1955.

46. Mr. Paul E. Keller, president, Benefit Association of Railway Employees, Chicago, Ill. (p. 428).

He suggested the following three changes be made in the bill:

(*a*) Section 809(g) be amended to provide that in the case of small insurance companies the limitation with respect to policyholder dividends, 10 percent deduction with respect to nonparticipating policies, and 2 percent deduction with respect to group insurance, be made available where there is an underwriting loss, as offsets against taxable investment income.

(*b*) The 2-percent deduction provided by section 809(d)(7) be amended to make this deduction available with respect to "individual" accident and health insurance as well as group insurance.

(*c*) He expressed concern as to the discrimination under the 1955 stopgap law whereby some small insurance companies were required to pay a Federal income tax although sustaining losses from operations. To correct this problem he would allow loss carrybacks to taxable years prior to January 1, 1958.

47. Mr. J. Richard Clarke, Boise, Idaho, agent for the Mutual Life Insurance Co. of New York. (p. 428)

He recommended the following modifications in H.R. 4245:

(*a*) Using a 5-year individual company average for computing the reserve interest deduction instead of basing the tax on industrywide averages.

(*b*) Allowing mutual companies deductions of any deficits that may arise where operating gains are smaller than taxable investment income.

(*c*) Revising the provisions with respect to qualified pension plans so that they receive the same tax treatment as trustee plans.

(*d*) Granting a deduction for investment income from individual annuities.

48. Mr. George J. Brugger, Denver, Colo., representative of the Provident Mutual Life Insurance Co. of Philadelphia. (p. 437)

He requested that H.R. 4245 be carefully reviewed in light of the serious questions and implications that it can have with respect to the national economy. He suggested that it should further be reviewed to be sure that mutual and nonparticipating companies are still competitively on the same basis. He also suggested that in view of the McCarran Act the aggregate tax imposed on life insurance companies, including State taxes, should be considered.

49. Mr. Raymond H. Belknap, president, the U.S. Life Insurance Co. in the city of New York. (p. 439)

He indicated that his company is one of the few American life insurance companies with extensive interests in 16 foreign countries. He stated that it is actively soliciting new business in Cuba, Panama, Colombia, Venezuela, and Puerto Rico, and has sizable amounts of existing business in the Philippines and Guatemala. Ten percent of its ordinary life insurance in force covers lives of the residents of the 16 foreign countries in which it does business. He proposed an amendment to the bill which would exclude from the concept of "life insurance company taxable income" (under sec. 802) net income derived from sources without the United States and Canada. In the case of his company he estimated that with respect to 1958 taxes this would result in a savings of about $50,000. He estimated that for the entire industry the loss of revenue would be about $500,000.

50. Mr. Joseph M. Bryan, senior vice president, Jefferson Standard Life Insurance Co. (p. 441)

He opposed the reduction in the policy and other contract liability deduction under phase 1 for 85 percent of intercorporate dividends received. He also objected to the reduction in the deductions with respect to this dividend income under phase 2.

51. Mr. Jack C. Vaughn, president, Spartan National Life Insurance Co., Dallas, Tex. (p. 443)

He was primarily concerned with the tax treatment of small life insurance companies and stated that they should be provided special tax consideration with respect to their investment income. He indicated that the 5-percent exclusion presently in the bill is grossly inadequate. He also stated that the heavy burden of taxes now imposed by the States should be taken into consideration in working out a Federal income tax for life insurance companies.

52. Mr. Berne K. Jensen, Boise, Idaho (p. 604)

He stated that he was representing a company writing credit life insurance in Washington, Oregon, California, Utah, Nevada, and Idaho. He indicated that he opposed step 3 of H.R. 4245.

53. Mr. W. L. Newton, executive vice president, Kentucky Central Life & Accident Insurance Co., Anchorage, Ky. (p. 601)

He recommended that the bill be amended to provide a 30-percent, rather than a 52-percent, tax rate for income under phases 2 and 3 of the bill. Although he stated that he could not see wherein the bill did not provide a full exemption for earnings from tax-exempt securities, nevertheless, he thought that it would be desirable to permit the deduction of tax-exempt interest without the "adjustment to prevent double deductions." He also recommended that provision be made for a transition period to soften the immediate impact of the new tax law.

54. Mr. Arthur J. Cade, executive vice president, Old Republic Life Insurance Co., Chicago, Ill. (p. 59)

He recommended that the committee amend the bill in the following respects:

(*a*) Eliminate phase 3 in its entirety.

(*b*) If phase 3 is not eliminated in its entirety, amend it to provide for its gradual application over a period of 5 years. He indicated that this could be done in the manner suggested by Mr. Frank Jordan in his testimony.

(*c*) Amend phase 2 of the bill to provide for its gradual application over a period of 5 years. Funds released from tax during this period under his recommendation would be placed in the shareholders (tax-paid) surplus account.

(*d*) Amend the bill to permit the partial distribution of existing surplus on a year-to-year basis without first requiring the payment of the entire tax liability which accrues under the policyholders surplus account, provided such partial distribution in any year does not exceed 5 percent of the existing surplus.

55. Mr. James E. Dunne II, president, International Life Insurance Co., Austin, Tex. (p. 593)

He stated that during the years 1954 through 1957 his company had an accumulated net loss from operations of $767,342.49. During the same period, however, it paid a Federal income tax of $20,480.60. Prior to 1954 it had an accumulated net loss from operations of $149,038.64 with the result that at the end of 1957 it had an accumulated net loss of $916,381.13. He recommended that any company with an accumulated net loss from operations from the date of its inception to December 31, 1957, be permitted to carry forward the accumulated net loss from operations for a period not to exceed 5 years commencing with the year 1958, as an offset against taxable income as a result of the operation of phases 1 and/or 2 of the bill. As an alternative to this he recommended that any company with a total net loss from operations for the 5-year period 1953 through 1957 be given an opportunity to offset such total net losses against taxable investment income as the result of the operation of phases 1 and/or 2 of the bill in the same manner as if these losses were carryforwards from years in which the bill was effective.

56. Mr. Haydon Burns, mayor, Jacksonville, Fla. (p. 593)

He requested that the Senate avoid impairing the municipal bond market and increasing the cost of municipal financing through the indirect repeal of section 103 of the Internal Revenue Code.

57. Mr. Millard Bartels, chairman, insurance executive committee, the Travelers Insurance Co., Hartford, Conn. (p. 604)

He recommended the bill be corrected to afford reasonable protection against capital losses in excess of capital gains. He suggested that one way this could be done would be to permit the deduction of capital losses from taxable income with limitations to prevent abuses. Another way suggested would be to permit the accumulation of a securities valuation reserve similar to that required by State regulation that extended to include mortgages. Such account would be credited or charged with all capital gains and losses as they occur. A carryback and carryforward period of at least 10 years, he suggests, should also be considered. He also suggests that the bill should be modified to provide tax relief during periods when there are severe losses from operations due to adverse underwriting experience. He indicates that the present provisions for carrybacks and carryovers are ineffective because of the limitations with respect to the 10-percent deduction for nonparticipating reserves, the limitation with respect to policyholders dividends, and the limitation with respect to the deduction for 2 percent of group insurance premiums. He suggested that this problem could be remedied by transferring the operations loss deduction from phase 2 to make it a direct deduction against taxable income or the combined tax base of phase 1, 2, and 3. He further suggested that the limitations, where there is an underwriting loss, with respect to the 10-percent deduction for increases in nonparticipating reserves, the 2-percent deduction for group insurance premiums and the deduction for policyholder dividends instead of being applied on a year-by-year basis should be smoothed out over a period of at least 10 years.

58. Mr. Charles H. Connally, Southwestern Life Insurance Co., Dallas, Tex. (p. 564)

He stated that allowing a deduction in full under phase 2 for policyholder dividends where there is an underwriting gain provides a double allowance for policyholder dividends. He, therefore, concludes that the bill understates the underwriting gain of companies with participating business since it allocates policyholder dividends in full to underwriting gains to the extent of any such gains, whereas they should be allocated at least in part to the investment income for which no deduction is allowable with respect to these policyholder dividends.

He recommended that policyholder dividends first be offset against any taxable investment income remaining after payment of the 52-percent tax and that only policyholder dividends in excess of this amount be available as deductions in computing phase 2 income.

59. American Farm Bureau Federation (p. 610)

Three recommendations were made for changes in the bill:

(*a*) The definition of the "deduction rate" in phase 1 should be changed to the 5-year average reserve adjustment method.

(*b*) The provisions of the bill should be modified to provide more generous treatment with respect to tax-exempt interest.

(*c*) The full deduction on qualified pension reserves should be made effective immediately instead of being delayed until the calendar year 1961.

60. Mr. Murray W. Latimer, Industrial Relations Consultant (p. 683)

To put group annuity plans underwritten by insurance companies on a par with pension trusts he would modify the bill to provide:

(*a*) An exclusion from taxable income for all investment income and operating and capital gains attributable to pension business.

(*b*) The immediate availability of the exemption provided by the bill rather than waiting 3 years before it becomes fully effective.

(*c*) In the case of other group insurance he suggests that complete exclusion of investment income and underwriting gains is probably not necessary. In this case he believes it would be sufficient to permit the exclusion from taxable income of the 2 percent of group life and group accident and sickness premiums but only to the extent actually set aside as a contingency reserve for the benefit of policyholders and all dividends to group life and group accident and sickness policyholders even though such exclusion in phase 2 brings the taxable income below the amount determined under phase 1.

61. Mr. T. C. McCullough, president of the Union National Life Insurance Co., Baton Rouge, La. (p. 686)

He indicated that he was representing the views of all the companies domiciled in Louisiana and that their views are as follows: All of the Louisiana companies favor Federal taxation based upon investment income alone. If it should be impossible to tax investment income only, he suggested the following:

(*a*) The 5-year moving interest average,

(*b*) More favorable treatment for tax-exempt bonds,

(*c*) A transition period from the 1942 law to the new act,

(*d*) Liberalization of the small-business deduction by increasing the percentage to a flat $25,000 deduction,

(*e*) Increase the loss carryback to 15 years,

(*f*) In the case of phase 3 he would like to have the option of having the tax apply as of January 1, 1958, instead of January 1, 1959, at the election of each individual company,

(*g*) As an alternate to the deduction of 10 percent of the increase in nonparticipating reserves under phase 2 he would favor a deduction based on 5 percent of premiums from nonparticipating policies.

62. Mr. Patrick Healy, Jr., executive director of the American Municipal Association (p. 699).

He states that the American Municipal Association first misinterpreted the tax treatment of municipal bond interest received by life insurance companies under the bill. As the association now understands the provision, it believes that the bill in requiring a reduction of the policy and other contract liability deduction constitutes a denial of a portion of the exemption for State and local government bond interest and that this feature of the bill, in both phases 1 and 2, should be removed.

63. Mr. Bernard F. Hillenbrand, executive director, National Association of County Officials (p. 699)

He opposed the tax treatment provided for tax-exempt interest in the bill and supported the position taken by Mr. Patrick Healy, Jr., executive director of the American Municipal Association.

64. Mr. Stanford Z. Rothschild, Sr., president, Sun Life Insurance Co. of America, Baltimore, Md. (p. 687)

The purpose of this statement is to show that the bill can be amended to give life insurance companies the same exemption for tax-free interest as is accorded other investors without appreciable net loss revenue to the Treasury. He states that the revenue loss of $32.5 million which it has been estimated would arise from a further broadening of the exemption for tax-free interest will not occur (*a*) because such income is not taxable now and therefore produces no revenue to the Government, and (*b*) he suggests that if life companies are allowed the full exemption accorded other investors their increased activity in the tax-exempt field would push prices up, force yields down, and so make it easier for the States and their subdivisions to handle their own financing. This, in turn, he indicates, would lower the pressure on the Federal Government for aid and would reduce the drain on the Treasury.

65. Mr. Harry W. Colmery, counsel, Kansas Life Insurance Executives' Association (p. 611).

The following revisions of the bill were recommended:

(*a*) The small business deduction should be increased from 5 percent to 25 percent.

(*b*) The substitution of the 5-year average earned interest rate for the combined assumed rate and earned rate now in the bill.

(*c*) Full credit for, or exclusion of, tax-free interest should be provided for State and municipal bonds.

(*d*) The operations loss carryover should be extended from 5 years to 15 years.

(*e*) A 5-year transition period from the 1942 formula to the formula provided under the bill should be provided.

(*f*) As an alternate to the 10-percent deduction for additions to nonparticipating reserves a deduction should be available. This alternate should equal to 5 percent of nonparticipating premiums where the contracts are for 5 years or more.

(*g*) A deduction should be allowed for security valuation reserves required by State insurance departments.

(*h*) Taxpayers should be allowed to transfer tax-free to the shareholders surplus account (the tax-paid account) 5 percent or 10 percent annually of the company's surplus accumulated prior to January 1, 1958.

(*i*) A tax credit against taxes attributable to phase 2 for some part (probably 25 percent) of State premium taxes paid should be allowed.

(*j*) The recoupment of losses incurred before 1958 should be provided for by provision for loss carryovers from prior years.

66. Mr. H. C. Evans, president, Universal Life & Accident Insurance Co., Bloomington, Ind. (p. 702)

He recommended that small companies with capital and surplus not in excess of $5 million be exempt from the tax under phase 2 unless the capital and surplus of the company exceeds 25 percent of its life insurance reserves or 60 percent of its net premiums, whichever is greater.

67. Mr. George W. E. Smith, State Security Life Insurance Co., Anderson, Ind. (p. 703)

He recommended that small companies with capital and surplus not in excess of $5 million be exempt from the tax under phase 2 unless the capital and surplus of the company exceeds 25 percent of its life insurance reserves or 60 percent of the sum of its net premiums, whichever is greater.

68. Mr. W. Bruce, chief insurance examiner, Department of Insurance, State of California (p. 302)

He stated that the term "net gain from operations" to describe items 28 and 33 of the annual statement for life insurance companies was selected to prevent confusion with "net profit" or "net income."

69. Mr. Claris Adams and Mr. Eugene M. Thoré, executive vice president and general counsel of the American Life Convention and vice president and general counsel of the Life Insurance Association of America, respectively

The following changes were suggested in the bill:

(*a*) It was stated that the definition of "deficiency reserves" now in the bill is incorrect in defining these reserves in terms of aggregate premiums on life insurance and annuity contracts. Instead as indicated in the House report, the definition of "deficiency reserves" should be in terms of the aggregate of reserves on individual contracts.

(*b*) The bill should permit a company to deduct depreciation, real estate taxes, and expenses on company-owned space occupied by its investment department as far as phase 1 of the bill is concerned.

(*c*) It is pointed out that under the bill, losses on bonds, debentures, etc., are recognized as capital losses. It is stated that losses on mortgages, however, are considered as bad debts rather than capital losses and that it should be made clear that such mortgage losses are allowable as a deduction.

(*d*) In determining the earnings rate under phase 1, for purposes of the deduction rate, it is suggested that real property and stock be valued on its adjusted basis rather than on the basis of its fair market value.

(e) Four changes are suggested in the definition of pension plan reserves. Subparagraph (B) would be amended to include specifically contracts with employers under plans where the employer contributions were deductible under revenue laws prior to the 1939 Code. Second, contracts entered into with tax-exempt employers would be included. Third, the words "or agents" would be added to the provision covering contracts for employees of life insurance companies. Fourth, Canadian plans which fall under the provisions of Canadian tax law which most nearly approximate sections 401 to 404 of the code would be included within the definition.

(f) In the case of the deduction for interest paid in the case of the policy and other contract liability deduction it is suggested that an interest deduction should be allowed not only for contracts, but also for obligations, with respect to which interest is payable.

(g) Under the bill in phase 2, gross premiums are reduced by "return premiums." It is suggested that it should be made clear in either the bill or the report that return premiums include premium refunds made on cancellation of policies or changes to lower premium plans.

(h) In arriving at net gains from operations under phase 2 it is suggested that a deduction be allowed for payments to stockholders in retirement of stock under a mutualization plan entered into prior to the enactment of the bill.

(*i*) The bill provides for the nonrecognition of gain on the sale or other disposition of property acquired before December 31, 1958, up to the fair market value of the property on that date. An exception to this provision is made in the case of property having a substituted basis "but only if during the holding periods concerned the property or properties were held only by life insurance companies." It is suggested that it be made clear that in any event the exception does not apply to any property which has been held by the life insurance company on or before December 31, 1958. As to property acquired since that date it is suggested that the exception should not apply to property which has a basis determined by reference to the basis of property held by the company prior to 1959 (such as property acquired prior to that date in exchange for like property).

(*j*) In the case of life insurance reserves computed on a preliminary term basis which are converted to the net level premium basis under the exact revaluation method it is suggested that the word "morbidity" be added to the word "mortality," so that this method of conversion will cover noncancellable or guaranteed renewable accident and health insurance.

(*k*) In the case of the election available to a taxpayer converting from a preliminary term basis to a net level premiums basis to use either the exact of approximate revaluation methods, it is suggested that the provision be amended to permit the taxpayer if it desires to use either the exact or the approximate basis for 1958 without being required to adhere to such basis for subsequent years.

(l) In the case of Canadian life insurance companies doing business in the United States three amendments are suggested. Section 819, in general, determines the portion of a distribution to shareholders which is to be allocated against the U.S. business by making the division on the basis that the surplus on U.S. business bears to the total company surplus. As an alternative to this it was suggested that a company be permitted to allocate any distribution to shareholders in the ratio that its U.S. total insurance liabilities bears to the company's total insurance liabilities. The other two changes relate to the special rules for certain mutualizations. It was suggested that it is not intended that a foreign company have the advantage of reducing the U.S. taxable portion of a mutualization payment by the full amount of its paid-in capital and paid-in surplus. The suggestion provides that only a proportionate part of paid-in capital and paid-in surplus would be allowed for this purpose. The next change suggested provides specific allocation rules for mutualizations in the case of a foreign company. A foreign company will in effect be required to pay tax as though the surplus on its U.S. business at December 31, 1958, was either the amount held in the United States or the minimum prescribed by a special provision of the bill, whichever is the greater. It was suggested that the greater of these two amounts, therefore, be used in applying the rules for mutualizations.

70. Monumental Life Insurance Company, Baltimore, Md.

Because of a large taxable income for 1958 which was added to surplus and which it was planned to pay out in subsequent years, it recommended that phase three be made applicable with respect to 1958, at least with respect to the shareholders surplus account.

71. First National Life Insurance Co. of Phoenix, Ariz. (p. 81)

This company objects to the use of the industry average assumed rate in arriving at the deduction rate under phase 1.

72. Mr. Laurens Williams (p. 565).

He recommended changes in the bill to:

(*a*) Prevent denial of policyholder deductions in opening year where they had by error been claimed in the prior year.

(*b*) Prevent the taxing of capital gains on the disposition of property acquired or deemed acquired before December 31, 1958, where the property had a substituted basis, especially where "boot" is involved.

(*c*) Prevent the taxation of capital gains realized after 1958 on pre-1959 sales.

III. ALPHABETIZED LIST

STATEMENTS

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Harris, George S., assistant secretary and investment officer of the Chicago Metropolitan Mutual Assurance Co.; accompanied by Carl Tiffany, actuary	A–46
Healy, Patrick, Jr., executive director, American Municipal Association	B–62
Hill, Johnson D., Jr., executive vice president, Atlas Life Insurance Co., Tulsa, Okla.; accompanied by C. H. Menge, vice president and actuary	A–9
Hogg, Robert L., vice chairman of the board, the Equitable Life Assurance Society of the United States	B–14
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Horn, James H., vice president, Southern United Life Insurance Co., Montgomery, Ala	A–50
Hughes, Vester T., Jr., representing American Life Insurance Co., Birmingham, Ala	A–45
Hulbert, Carl A., commissioner of the Department of Insurance, State of Utah	B–30
Jordan, Frank, counsel, the Sureway Life Insurance Co. of South Carolina, Columbia, S.C	A–38
Keesling, Francis V., Jr., first vice president and general counsel, West Coast Life Insurance Co., San Francisco, Calif	A–12
Kendrick, John A., of the firm of Burton, Heffelfinger, McCarthy & Kendrick, Washington, D.C., appearing on behalf of Quaker City Life Insurance Co. of Philadelphia, Pa	A–14
Keith, Hon. Hastings, a Representative in Congress from the State of Massachusetts	A–29
Lee, Ray E., vice president, Austin Life Insurance Co., Austin, Tex	A–32
Lent, George E., professor of business economics, Dartmouth College, Hanover, N.H	A–44
Lindsay, David A., assistant to the Secretary of the Treasury, accompanied by Richard E. Slitor, economist, tax analysis staff, Treasury Department; and Raymond F. Conkling, attorney, Legislation and Regulation Division, Chief Counsel's Office, Internal Revenue Service	[1]
Lloyd, John A., president, the Union Central Life Insurance Co., Concinnati, Ohio; accompanied by Carl DeBuck, executive vice president, and W. Lee Shield, vice president	A–8
Lucas, Scott W., Western National Life Insurance Co. of Texas, Amarillo, Tex	A–22
Lyons, Daniel J., vice president, Guardian Life Insurance Co. of America, New York, N.Y	A–47
Magovern, John J., Jr., vice president and counsel, Mutual Benefit Life Insurance Co., Newark, N.J	A–39
Martin, Paul E., administrative vice president, the Ohio National Life Insurance Co.; accompanied by William J. Schmid, general counsel	A–11
Matthias, Russell H., general counsel, State Farm Life Insurance Co. of Bloomington, Ill.; accompanied by Robert C. Perry, first vice president	A–20
McClatchey, Devereaux F., general counsel, the National Association of Life Companies; accompanied by Mr. DeWitt Roberts, executive secretary, the National Association of Life Companies	A–15
McCreless, S. E., president, American Hospital & Life Insurance Co. of San Antonio, Tex.; accompanied by Gene P. Archer, vice president and actuary	A–28
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Moor, Roy E., professor of economics, Williams College, Williamstown, Mass	A–43
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Newton, W. L., executive vice president, Kentucky Central Life & Accident Insurance Co., Anchorage, Ky	B–53
Painter, W. H., executive vice president, United Fidelity Life Insurance Co., Dallas, Tex	A–33
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[1] Treasury material not included.

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Reese, Melvin C., Jr., president, Association of Arizona Insurance Companies	A–48
Rietz, H. Lewis, executive vice president, Great Southern Life Insurance Co., Houston, Tex	A–7
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Rothschild, Stanford Z., Sr., president, Sun Life Insurance Co. of America, Baltimore, Md	B–64
Samford, Frank P., president, Liberty National Life Insurance Co., Birmingham, Ala	B–38
Savage, Leonard H., president, Standard Life & Accident Insurance Co. of Oklahoma City, Okla	A–26
Schmuck, Edward J., vice president and general counsel, Acacia Mutual Life Insurance Co.; accompanied by Lloyd K. Crippen, vice president and actuary; and William Simpson, second vice president and associate actuary, Acacia Mutual Life Insurance Co	A–5
Sellers, Richard M., executive vice president, Commonwealth Life Insurance Co., Louisville, Ky	B–44
Shanks, Carrol M., president, Prudential Insurance Co. of America; accompanied by William Chodorcoff, vice president and comptroller; and Louis R. Menagh, executive vice president	A–2
Siegfried, Charles A., second vice president, Metropolitan Life Insurance Co	A–49
Slater, Robert E., vice president, John Hancock Mutual Life Insurance Co., Boston, Mass.; accompanied by B. Franklin Blair, actuary, Provident Mutual	A–16
Stuart, R. T., Jr., president, Mid-Continent Life Insurance Co., Oklahoma City, Okla	A–40
Swift, James P., vice president and general counsel, Southwestern Life Insurance Co.; accompanied by Charles H. Connolly, associate actuary	A–34
Taylor, Charles A., president, the Life Insurance Co. of Virginia, Richmond, Va	A–4
Tobin, Austin J., chairman of the Conference on State Defense and Executive Director of the Port of New York Authority	B–6
Vaughn, Jack C., president, Spartan National Life Insurance Co., Dallas, Tex	B–51
Verlander, W. A., executive vice president and treasurer, American Heritage Life Insurance Co., Jacksonville, Ala	A–30
Walker, Maceo, appearing for the National Insurance Association; accompanied by N. H. Bennett and Jesse Hill, Jr	A–27
Warters, D. N., president, Bankers Life Co., Des Moines, Iowa; accompanied by William Rae, actuary	A–6
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Bruce, W., chief insurance examiner, Department of Insurance, State of California, San Francisco, Calif., to F. V. Keesling, Jr., first vice president and general counsel, West Coast Life Insurance Co., San Francisco, Calif	B–68
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Crichton, Robert A., president, Variable Annuity Life Insurance Co. of America, Washington, D.C., to chairman	B–2
Cromartie, William A., attorney for Swift & Co. Employes Benefit Association, Chicago, Ill., to Hon. Clinton P. Anderson	A–17
Dudley, William M., field underwriter, Home Life Insurance Co. of New York, to chairman	B–26
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Mitnick, Carl T., president, National Association of Home Builders, Washington, D.C., to chairman	B–8
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