TAXATION OF LIFE INSURANCE COMPANIES

COMPARISON OF ITEMS ENTERING INTO TAX COMPUTATIONS UNDER H.R. 4245, THE 1955 FORMULA AND THE 1942 FORMULA

PREPARED FOR THE USE OF THE

SENATE COMMITTEE ON FINANCE

BY THE STAFF OF

THE JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

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PART ONE—UNDER THE BILL

A. With all taxable income

$900		of net investment income (all taxable)
700		policy and other contract liability deduction
200		taxable investment income

B. With $100 of tax-exempt income

$1,000		of investment yield
100		tax-exempt income
900		of net investment income
	$700	unadjusted policy and other contract liability deduction
	70	adjustment $\left\{\frac{700}{1000}\times\$100\right\}$ for the tax-exempt interest
630		
270		taxable investment income

(NOTE.—They have the same net investment income but the taxable investment income of the taxpayer with the tax-exempt interest is $70 higher.)

PART TWO—UNDER THE AMENDMENT THE TREASURY IS NOW PROPOSING

A. With all taxable income

$900	of net investment income (all taxable) First, determine a preliminary policy deduction of $700. Then determine percent this is of investment yield (net investment income in this case). This is 77.8 percent.
700	take 77.8 percent of $900
200	taxable investment income

B. With $100 of tax-exempt income

$1, 000	of investment yield
100	tax-exempt income
900	of net investment income First, determine a preliminary policy deduction of $700. Then determine the percent this is of investment yield. This is 70 percent.
630	take 70 percent of net investment income ($900)
270	taxable investment income (NOTE.—They do not have even the same percentage deduction.)

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