CLOSING THE INSURANCE TAX HAVEN LOOPHOLE

LEGISLATIVE SUMMARY:

To close the Insurance Tax Haven loophole and eliminate the competitive advantage for foreign-based insurers, legislation would allow the foreign-owned insurer two options.

The foreign-based insurer could choose to defer the deduction for any reinsurance premiums paid to a foreign affiliate (if the premium is not subject to U.S. tax) until the insured event occurs.

Or, to ensure that foreign-based insurers cannot be disadvantaged relative to U.S.-based insurers, legislation would allow foreign-owned groups to elect to be taxed similarly to an American company on the income from the business covered by these affiliate reinsurance transactions.

A foreign tax credit is provided for any foreign taxes paid on such income.

The target of the legislation, related-party reinsurance transactions, adds no additional capacity to the market. The proposal is consistent with our international trade agreements and tax treaties.

The proposal is estimated by the Joint Tax Committee staff to raise $8.9 billion over 10 years.

LEGISLATIVE TEXT CAN BE FOUND HERE.

Language to close the Insurance Tax Haven Loophole was included in H.R. 1 when House Ways and Means Chairman Dave Camp (R-MI) included the language to close the Insurance Tax Haven loophole in his tax reform bill (Subtitle H, Sec. 3701) in the 113th Congress – See page 729 of H.R. 1

It was also introduced as H.R. 6270 by the Ranking Democrat Neal (D-MA), House Committee on Ways and Means, and as S. 3424 by Senator Warner (D-VA) in the 114th Congress.

Joint Tax Score of H.R. 1 (technically the draft version, but it is the same bill). Starts at page 434.