News from Senator

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WASHINGTON--Senate Finance Committee Chairman Robert Dole (R.-Kans.) stated today that he has asked the staffs of the Finance Committee and Joint Committee on Taxation to review the impact of an IRS ruling on insurance company taxation, publicly reported this week, as part of an on-going study of tax provisions concerning life insurance companies.

"We have to be concerned about the impact of a complicated tax system on the sale of life insurance and annuity products. It would be unfortunate if the tax code, which should be neutral with respect to business decisions, has the effect of discouraging consumer-oriented products," Dole said. "I have asked the staff to analyze the impact this ruling will have on the so-called insurance industry "stop gap" bill and on consumers of life insurance products," Dole said.

As widely reported, the IRS ruling, issued to Massachusetts Mutual Life Insurance Company, would substantially reduce the attractiveness of high yield insurance contracts called "universal life insurance" by providing that a portion of interest credited will be treated as a policyholder dividend giving rise only to a limited tax deduction for the insurance companies selling universal life products. Some companies have argued that these amounts should be fully deductible. The industry proposal, introduced in response to an Administration proposal to eliminate a related insurance company loophole referred to as modified coinsurance, would provide a safe harbor of deductibility assuring that either 80 or 87.5 percent of all policyholder dividends would be deductible. However, full deductible treatment for universal life products would be protected only for periods prior to 1982.

"If adequate safeguards are enacted to assure that life insurance and annuities are purchased only for their intended purposes, economic protection against dying too soon or living too long, perhaps the IRS position could be considered too harsh," Dole said. Senator Dole, however, observed that "the IRS position will put greater pressure on the industry proposal and possibly cause a substantially increased revenue loss. Under these circumstances, it may be appropriate to look into other areas of life insurance taxation, including guidelines for determination of life insurance, treatment of distributions from annuities, revaluation of reserve liabilities and other areas," Dole noted.

"The IRS may or may not be right in its ruling. We will have to look at the impact on customers as well as insurance companies. But if relief is appropriate and there is substantial revenue impact involved, we will be forced to look at offsetting changes to avoid a net revenue loss," Dole concluded.