News from Senator

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FOR IMMEDIATE RELEASE: CONTACT: WALT RIKER
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Dole Calls on Insurance Industry to Address Basic Tax Issues

WASHINGTON--

Senator Robert J. Dole (R.-Kans.), chairman of the Senate Committee on Finance, today called on the life insurance industry to address basic tax policy issues, including effective tax rates, when the industry discusses any possible modification of the life insurance company tax laws.

In a letter to Richard S. Schweiker, former Secretary of Health and Human Services and newly appointed president of the American Council of Life Insurance, Senator Dole stated that the policy goal of any revision of the tax laws "should be equalization of effective tax rates among various industries except where overriding public policy dictates otherwise."

In releasing the letter, Senator Dole noted that insurance products "benefit many people in our society and they should be encouraged." However, the Senator added that some attention must be given to appropriate distinctions between insurance products and other savings vehicles if they are to be taxed differently.

"I have recently spoken out on the subject of the effective rate of tax paid by banks. In the hue and cry over withholding, some people seem to have missed my point. Our tax system has to be fair and perceived as fair by the American people if we expect to have a workable system based upon voluntary compliance. We in the legislative branch have an obligation to review the laws to make sure that all income earners pay their fair share of taxes. There are indications that banks and other financial intermediaries such as insurance companies, in fact, have low effective tax rates. These rates may or may not be fair, but we certainly have an obligation to review the facts to see if any changes in the law are warranted."

A copy of Senator Dole's letter follows:

February 28, 1983

The Honorable Richard S. Schweiker
President
American Council of Life Insurance
1850 K Street, N.W.
Washington, D.C. 20006

Dear Dick

As you know, last year I asked the staffs of the Finance Committee and Joint Tax Committee to prepare a report on insurance company taxation to provide background information for the Finance Committee on the major policy issues involved in insurance company taxation, the most important technical issues, and possible options for revision of Subchapter L of the Internal Revenue Code.

In contemplation of the expiration of some of the provisions included in the Tax Equity and Fiscal Responsibility Act, I understand you are devoting substantial time and effort to a more permanent tax structure for life insurance companies. I would like to express my hope that you will address, at the outset,

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general issues of tax policy as they should apply to life insurance companies and the products they sell, rather than merely choosing a tax revenue level and addressing how that amount should be divided among various segments of the insurance industry. More specifically, I would be interested in your views on how to calculate as accurately as possible the true income of your companies, and what additional tax incentives may be justified in light of the substantial tax advantages accorded to life insurance products.

There may be good arguments for integrating corporate and individual taxes, but it seems to me that there is little likelihood of that happening in the near future. And, if we are going to have a corporate income tax, our goal should be equalization of effective tax rates among various industries except where overriding public policy dictates otherwise.

An analysis of the proper measure of income and comparisons of effective tax rates must not ignore the tax-preferred nature of life insurance products at the customer level compared to other products with significant savings elements. There is unquestionably an important savings element in permanent life insurance and deferred annuities. In recent years, the investment element of these products has received increasing emphasis as these products are sold more in competition with other savings vehicles rather than primarily as economic protection against dying too soon or outliving one's assets.

The tax system for these products, however, differs markedly from that which applies to most investments. The general rule is that amounts credited to the account of a customer are fully deductible by the payor and currently includable in the customer's income. The Internal Revenue Code, however, limits a life insurance company's deduction for amounts characterized as policyholder dividends, but there is no current inclusion of these amounts in the customer's income.

As the products sold by life insurance companies become more investment oriented, we must face the question of to what extent should the tax treatment at both the company and customer levels differ from the general rule. Unless a rational distinction can be made between permanent life insurance and deferred annuities sold by life insurance companies and savings vehicles sold by other financial institutions, it is difficult to defend a high level of deductibility at the company level for policyholder dividends and "excess" interest in addition to preferential tax treatment for purchasers of your products.

As the staff progresses in its report, I will expect them to study these issues as well as more technical questions.

I would like your comments and your help. If we are going to have any chance of revising the insurance company tax laws in a manner that will make them simpler, fair to the insurance industry, and consistent with good public policy, we will need your assistance.

I hope you will work with us in analyzing the relevant issues and, when a consensus is reached, in fashioning an appropriate statutory revision.

Very truly yours,

BOB DOLE
Chairman