

SUPPORTING STATEMENT
Internal Revenue Service
Tax Treatment of Salvage and Reinsurance
OMB # 1545-1227

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Section 832(b)(3) of the Internal Revenue Code defines the “underwriting income” of a nonlife insurance company as premiums earned less losses incurred and expenses incurred. Section 832(b)(5) as amended by section 11305 of the Revenue Reconciliation Act of 1990, requires insurance companies to take estimated salvage recoverable into account in the computation of losses incurred. Section 1.832-4(d) of the Income Tax Regulations allows a nonlife insurance company that reports on its annual statement undiscounted unpaid losses reduced by an amount of estimated salvage recoverable in certain circumstances to increase for federal income tax purposes those undiscounted unpaid losses by the estimated salvage recoverable. The final regulations require a yearly disclosure to state regulatory authorities of the estimated salvage recoverable that is subject to this gross-up rule in the regulations.

Treasury Decision (TD) 8390 provided final regulations relating to the treatment of salvage and reinsurance in computing the deduction for losses incurred of insurance companies other than life insurance companies. Changes to the applicable law were made by the Revenue Reconciliation Act of 1990. The regulations are necessary to provide these insurance companies with guidance needed to comply with these changes.

2. USE OF DATA

This disclosure will be used by the Internal Revenue Service to assure that the estimated salvage recoverable is reflected yearly in losses reported on the annual statement.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

The collection of information does not involve the use of automated electronic or other technological collection techniques.

4. EFFORTS TO IDENTIFY DUPLICATION

The information obtained through this collection is unique and is not already available for use or adaptation from another source.

5. METHODS TO MINIMIZE BURDEN ON SMALL BUSINESSES OR OTHER SMALL ENTITIES

There are no small entities affected by this collection.

6. CONSEQUENCES OF LESS FREQUENT COLLECTION ON FEDERAL PROGRAMS OR POLICY ACTIVITIES

The consequences are that the IRS will be unable to verify proper tax reporting and will need to collect this data through other means. This will compromise the Agency's ability to enforce tax compliance and ensure proper tax reporting by taxpayers. This could result in tax penalties to the taxpayers and inconsistent reporting of data. Tax compliance is a vital part of the government's ability to meet its' mission and serve the public.

7. SPECIAL CIRCUMSTANCES REQUIRING DATA COLLECTION TO BE INCONSISTENT WITH GUIDELINES IN 5 CFR 1320.5(d)(2)

There are no special circumstances requiring data collection to be inconsistent with Guidelines in 5 CFR 1320.5(d)(2).

8. CONSULTATION WITH INDIVIDUALS OUTSIDE OF THE AGENCY ON AVAILABILITY OF DATA, FREQUENCY OF COLLECTION, CLARITY OF INSTRUCTIONS AND FORMS, AND DATA ELEMENTS

On March 15, 1991, the Federal Register proposed amendments (FI-104-90) to the Income Tax Regulations (56 FR 11127) under section 832 of the Internal Revenue Code of 1986. A public hearing was not requested and none was held. Several written comments were received. After consideration of all the written comments, the proposed amendments were adopted as final regulations (T.D. 8390) and published in the Federal Register on January 28, 1992 (57 FR 3130).

On January 2, 1997, the IRS published in the Federal Register a notice of proposed rulemaking (REG-209839-96, 1997-1 C.B. 780 [62 FR 72]) proposing amendments to the Income Tax Regulations (26 CFR part 1) under section 832(b) of the Internal Revenue Code. The IRS received many written comments on the proposed regulations. On April 30, 1997, the IRS held a public hearing on the proposed regulations. After consideration of all written and oral comments regarding the proposed regulations, those regulations were adopted as revised as final regulations (TD 8857), and published in the Federal Register on January 6, 2000 (65 FR 701).

In response to the Federal Register Notice dated May 30, 2018 (83 F.R. 24846), we received no comments during the comment period regarding these regulations.

9. EXPLANATION OF DECISION TO PROVIDE ANY PAYMENT OR GIFT TO RESPONDENTS

There are no special circumstances requiring data collection to be inconsistent with Guidelines in 5 CFR 1320.5(d)(2).

10. ASSURANCE OF CONFIDENTIALITY OF RESPONSES

Generally, tax returns and tax return information are confidential as required by 26 USC 6103. Information is to be supplied to a state regulatory authority that would control the confidentiality of the information.

11. JUSTIFICATION OF SENSITIVE QUESTIONS

A privacy impact assessment (PIA) has been conducted for information collected under this request as part of the “Business Master File (BMF)” system and a Privacy Act System of Records notice (SORN) has been issued for this system under IRS 24.046-Customer Account Data Engine Business Master File. The Internal Revenue Service PIAs can be found at <http://www.irs.gov/uac/Privacy-Impact-Assessments-PIA>.

Title 26 USC 6109 requires inclusion of identifying numbers in returns, statements, or other documents for securing proper identification of persons required to make such returns, statements, or documents and is the authority for social security numbers (SSNs) in IRS systems.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

1) Method of reporting gross premiums written — In general, an insurance company reports gross premiums written for the earlier of the taxable year that includes the effective date of the insurance contract or the year in which the company receives all or a portion of the gross premium for the insurance contract. The effective date of the insurance contract is the date on which the insurance coverage provided by the contract commences. The burden associated with reporting gross premiums is accounted for on the annual tax return (i.e., Form 1120-PC – OMB # 1545-0123).

2) In computing the amount of unabsorbed premium deposits which a mutual fire or flood insurance company described in section 831(a)(3)(B) would be obligated to return to its policyholders at the close of its taxable year, the company must use its own schedule of unabsorbed premium deposit returns then in effect. A copy of the applicable schedule must be filed with the company's income tax return for each taxable year for which a computation based upon such schedule is made. In addition, a taxpayer making such a computation must provide the following information for each taxable year for which the computation is made:

“(i) The amount of gross premiums received during the taxable year, and the amount of premiums paid for reinsurance during the taxable year, on the policies described in section 831(a)(3)(B) and on other policies;

(ii) The amount of insurance written during the taxable year under the policies described in section 831(a)(3)(B) and under other policies, and the amount of such insurance written which was reinsured during the taxable year. The information required under this subdivision shall only be submitted upon the specific request of the district director for a statement setting forth such information, and, if required, such statement shall be filed in

the manner provided by this subparagraph or in such other manner as is satisfactory to the district director;

(iii) The amount of premiums earned during the taxable year on the policies described in section 831(a)(3)(B) and on other policies and the computations by which such amounts were determined, including sufficient information to support the taxpayer's determination of the amount of unearned premiums on premium deposit plan and other policies at the beginning and end of the taxable year, and the amount of unabsorbed premium deposits at the beginning and end of the taxable year on policies described in section 831(a)(3)(B).”

The information required by this subparagraph shall be set forth in a statement attached to the taxpayer's income tax return for the taxable year for which such information is being provided. Such statement shall include the name and address of the taxpayer, and shall be filed not later than the date prescribed by law (including extensions thereof) for filing the income tax return for the taxable year. The burden associated with computing the amount of unabsorbed premium deposits is accounted for on the annual tax return (i.e., Form 1120-PC – OMB # 1545-0123).

3) Section 1.832-4(d) of this regulation allows nonlife insurance companies to increase unpaid losses on a yearly basis by the amount of estimated salvage recoverable if the company complies with the yearly disclosure requirement. This disclosure is to be made yearly to the state insurance regulatory authority. We estimate that approximately 2,500 such disclosures will be made and that it will take approximately 2 hours to complete a disclosure. The total burden for this requirement is 5,000 hours yearly.

OMB Collection	Authority	Form	Annual Responses	Hours per Response	Total Burden
IRS 1545-1227	IRC 832		2,500	2	5,000
	IRS TOTAL		2,500		5,000

Please continue to assign OMB number 1545-1227 to these regulations.

1.832-4

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

To ensure more accuracy and consistency across its information collections, IRS is currently in the process of revising the methodology it uses to estimate burden and costs. Once this methodology is complete, IRS will update this information collection to reflect a more precise estimate of burden and costs.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

After consultation with various functions within the Service, we have determined that the cost of developing, printing, processing, distribution and overhead for the Form is nominal.

15. REASONS FOR CHANGE IN BURDEN

There is no change in the paperwork burden previously approved by OMB.

This submission is being made for renewal purposes.

16. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION

There are no plans for tabulation, statistical analysis and publication.

17. REASONS WHY DISPLAYING THE OMB EXPIRATION DATE IS INAPPROPRIATE

IRS believes that displaying the OMB expiration date is inappropriate because it could cause confusion by leading taxpayers to believe that the regulation sunsets as of the expiration date. Taxpayers are not likely to be aware that the Service intends to request renewal of OMB approval and obtain a new expiration date before the old one expires.

18. EXCEPTIONS TO THE CERTIFICATION STATEMENT

There are no exceptions to the certification statement.

Note: The following paragraph applies to all the collections of information in this submission:

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number. Books or records relating to a collection of information must be retained if their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.