

Tax Matters in the Insurance Industry

Stephen M. Andrews, CPA
Shareholder, Tax Services



TAX MATTERS

Insurance industry hot topics:

- Section 174 regulations
- Investment losses
- Other items

SECTION 174

- Specified Research & Experimental expenditures (SRE)
- Before the TCJA amendments
- For tax years beginning Jan. 1, 2022
- Notice 2023-63 published on September 8, 2023

SECTION 174

- Capitalization and amortization of SRE expenditures
- Scope of Section 174
- Software development
- Research under contract
- Disposition, retirement, or abandonment of property
- Long-term contracts
- Cost-sharing regulations

SECTION 174

- Requirement to capitalize and amortize
- Definition of SRE expenditures
- Identification and allocation of SRE expenditures
- Costs that are incident to SRE activities:
 - Labor Costs
 - Materials and supplies costs
 - Cost recovery allowances
 - Patent costs
 - Certain operation and management costs
 - Travel Costs
 - Costs NOT treated as SRE

SECTION 174

- Software Development
- Activities treated as software development:
 - Planning
 - Designing
 - Building a model
 - Writing source code
 - Testing
- Activities NOT treated as software development

SECTION 174

- Research Performed under contract
- Disposition, retirement, or abandonment of property
- Transactions in which corporation ceases to exist
- Interplay with Section 41 R&D credits

INVESTMENT LOSSES

- Valuation Allowance
 - More likely than not threshold (51%)
 - Must consider carryback and carryforward period
 - Schedule reversal pattern of deferred tax assets/liabilities
- Abnormal Losses
 - Negative cash flows from operations
 - Had to sell investments at a loss in order to pay claims or policyholder dividends

INVESTMENT LOSSES

- Evaluate Cash Flows from Operations

CASH FLOW		1	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal
		Current Year		
CASH FROM OPERATIONS			.....0	543,221
			.....0	(116,329)
			.....0	426,892
1.	Premiums collected net of reinsurance.....	309,980,099	.....	51,625
2.	Net investment income.....	41,820,504	.....	46,150
3.	Miscellaneous income.....	1,383,592	.....	26,250
4.	Total (Lines 1 through 3).....	353,184,195	.....0	176,694
5.	Benefit and loss related payments.....	186,453,000	.....0	300,719
6.	Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....		.....0	300,719
7.	Commissions, expenses paid and aggregate write-ins for deductions.....	166,092,823	.....	124,375
8.	Dividends paid to policyholders.....	2,055,000	.....	425,094
9.	Federal and foreign income taxes paid (recovered) net of \$.....2,046,000 tax on capital gains (losses).....	6,329,000	.....	156,720
10.	Total (Lines 5 through 9).....	360,929,823	.....	(102,522)
11.	Net cash from operations (Line 4 minus Line 10).....	(7,745,628)	.....	(11,548)
			.....	(303,507)
			.....	289,550
			.....	(159,461)

INVESTMENT LOSSES

- Evaluate Schedule D Part 4 & 5:

Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal
115,900,544	121,315,614	114,675,066	108,300,111	115,357,323	0	543,221
27,683,920	28,400,000	27,797,444		27,800,249		(116,329)
143,584,464	149,715,614	142,472,510	108,300,111	143,157,572	0	426,892
.						
821,875	100.00	770,250	828,750	770,250		51,625
6,743,750		6,697,600	6,714,500	6,697,600		46,150
1,076,250	50.00	1,050,000	1,050,000	1,050,000		26,250
1,377,888		1,201,194	1,322,328	1,201,194		176,694
10,019,763	XXX	9,719,044	9,915,578	9,719,044	0	300,719
10,019,763	XXX	9,719,044	9,915,578	9,719,044	0	300,719
2,602,500	XXX	2,478,125		2,478,125		124,375
12,622,263	XXX	12,197,169	9,915,578	12,197,169	0	425,094
.						
885,845	XXX	729,125	868,750	729,125		156,720
2,848,053	XXX	2,950,575	2,819,325	2,950,575		(102,522)
6,836,078	XXX	6,847,626	6,860,700	6,847,626		(11,548)
3,599,750	XXX	3,903,257	3,683,240	3,903,257		(303,507)
1,004,370	XXX	714,820	951,625	714,820		289,550
4,591,576	XXX	4,751,037	4,314,375	4,751,037		(159,461)

OTHER

- Employee Retention Credit
 - IRS moratorium on processing September 14, 2023
 - IRS withdrawal announcement October 19, 2023
- Tax Sharing Agreement – a contract allowing a parent company with subsidiaries to file a consolidated tax return that satisfies the tax liability of all entities together.
 - Consolidated tax return
 - Appoint an agent
 - Who is included
 - How and when tax settlement occurs

Questions?

Stephen M. Andrews, CPA
Thomas Howell Ferguson P.A.
850-841-9942
sandrews@thf-cpa.com