

Supporting Statement

26 CFR 1.832-4

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.

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

We have attempted to eliminate duplication within the agency wherever possible.

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

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. 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 a number of 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 June 2, 2015 (80 F.R. 31458), we received no comments during the comment period regarding these regulations.

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

No payment or gift has been provided to any respondents.

10. ASSURANCE OF CONFIDENTIALITY OF RESPONSES

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

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 PIA's 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.

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

As suggested by OMB, our Federal Register notice dated June 2, 2015, requested public comments on estimates of cost burden that are not captured in the estimates of burden hours, i.e., estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information. However, we did not receive any responses from taxpayers on this subject. As a result, the IRS believes there are no start-up cost's associated with this collection.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

There are no start-up cost's associated with this collection.

15. REASONS FOR CHANGE IN BURDEN

There is no change in the paperwork burden previously approved by OMB. We are making this submission to renew the OMB approval.

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

We believe 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 the OMB approval and obtain a new expiration date before the old one expires.

18. EXCEPTION TO THE CERTIFICATION STATEMENT ON OMB FORM 83-I

There are no exceptions to the certification statement.

Note: The following paragraph applies to all of 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 as long as 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.