A BRIEF HISTORY: LIFE INSURER FEDERAL TAXATION

Federal tax code provisions affecting life insurers and their policyholders are designed to help people protect themselves and those they love. Over the years, tax code changes have had both positive and detrimental impacts on the life insurance industry. But in the history of life insurer taxation, death benefits and cash value/inside buildup have never been taxed. **See how tax policy affecting policyholders and the industry has changed, with fundamental policies supporting financial protection beginning to erode in 1990:**

1861

First federal income tax imposed – life insurance companies and death benefits exempted. The law expired in 1873.

1913

The 16th Amendment paves the way for the Revenue Act of 1913, imposing income tax on net incomes of individuals and corporations. Life insurance death benefits and inside buildup are excluded from taxation.

1921-1957

Life insurance companies taxed utilizing the "free investment income" approach – taxes on the portion of profits attributable to investment activities.

1959

"Free investment income" approach changed to system under which each life insurance company had to determine its "taxable investment income" (which roughly corresponded to the "free investment income" tax base used through 1957) and its "gain from operations" (which roughly corresponded to the life insurance company's total profits). Life insurers were taxed on "taxable investment income" or their "gain from operations," but not both.

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1984

Congress overhauled the federal income tax treatment of life insurance companies. Life insurers were subject to all Subchapter C provisions like all other corporations. Also, life insurers had distinct provisions that applied to them under Subchapter L of the Internal Revenue Code.

1990

A significant new federal tax is imposed on life insurers' costs to write policies, reducing the deduction life insurers can take for acquiring new customers. It became known as the DAC tax.

2017

Congress enacts The Tax Cuts and Jobs Act (*TCJA*), lowering the highest marginal corporate tax rate from **35 percent to 21 percent.** However, the law also made changes to Subchapter L industry-specific provisions which negatively impacted life insurers. Congress will raise a total of **$24.6 billion** in federal taxes from the industry over 10 years, completely offsetting for life insurers the value of the corporate rate reduction over 10 years.