



## Small Mutual Inflation Update

The investment income election for small property/casualty insurance companies (Internal Revenue Code Section 831(b)(2)) must be changed to reflect the inflationary impact since its enactment in 1986.

**NAMIC STRONGLY SUPPORTS** the expansion of Internal Revenue Code Section 831(b)(2) to reflect the inflationary impact since its enactment 29 years ago. There are many small property/casualty insurers organized as mutual companies. These companies were originally formed to offer insurance coverage to specific groups, often in rural areas.

### Background

There are many small property/casualty insurers organized as mutual companies. These companies were originally formed to offer insurance coverage to specific groups, often in rural areas, that may not have otherwise been able to obtain affordable coverage. Many of these small mutual companies serve farming communities and rely on the tax benefit to provide additional surplus and cash flow so that all available financial resources can be used solely for paying claims.

Since the Tax Reform Act of 1986, Section 831(b)(2) of the Internal Revenue Code has allowed property/casualty insurance companies with direct or net written annual premiums above \$350,000 but not exceeding \$1.2 million to elect to be taxed on their net investment income.

Once made, the election applies to all subsequent years and can only be revoked with consent of the Commissioner. However, a company must qualify each taxable year to be taxed under Section 831(b), otherwise it is taxed as a regular property/casualty company under Section 831(a).



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NAMIC is the largest and most diverse property/casualty trade association in the country, with 1,400 national, regional and local mutual insurance member companies serving more than 135 million auto, home, and business policyholders. These companies write in excess of \$196 billion in annual premiums, accounting for 50 percent of the automobile/ homeowners market and 31 percent of the business insurance market. More than 200,000 people are employed by NAMIC member companies.

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However, this election level has not been adjusted since the Code went into effect in 1986. For instance, what was once \$1.2 million in 1986, after 29 years of inflation, would now be \$2.2 million. Thus, while a company's annual costs have increased over the years with inflation, the investment income election level has not.

Because these small, mutual property/casualty insurance companies have such limited financial resources, all of their assets must be preserved for claims paying to ensure their important niche market is protected. Providing these small insurers with this tax election accomplishes that goal.

The Senate Finance Committee has already taken this issue up in 2015 by including this Update in a bi-partisan committee package of 17 non-controversial bills that passed out of committee in February 2015. The Update seeks to increase Section 831(b) investment income election under the Internal Revenue Code from the current \$1.2 million to \$2.2 million with an annual cost-of-living index for future years. The bill is led by Sens. Chuck Grassley (R-IA) and Joe Donnelly (D-IN).

Reps. Erik Paulsen (R-MN) and Ron Kind (D-WI) introduced companion legislation in the House, H.R. 1788, on April 14<sup>th</sup>.

Sens. Grassley, Tom Harkin (D-IA), Jay Rockefeller (D-WV), Amy Klobuchar (D-MN), and Roy Blunt (R-MO) introduced S. 1346 in July, 2013. Reps. Paulsen, Kind and Aaron Schock (R-IL) were the lead sponsors of this issue in the House and introduced H.R. 4647 in May, 2014.

For more information on small company inflation go to <http://www.namic.org/federal/fedissues.asp>, or contact



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