WRNewswire
An AALU Washington Report

Thursday, 6 March 2014 **WRN# 14.03.06**

The *WRNewswire* is created exclusively for AALU Members by insurance experts led by Steve Leimberg, Lawrence Brody, Linas Sudzius and AALU Staff. The *WRNewswire* provides timely reports and commentary on tax and legal developments important to AALU members, clients and advisors, delivered to your inbox as they happen.

TOPIC: Survey of the "Tax Reform Act of 2014"

CITE: Section-by-Section Summary of the Tax Reform Act of 2014; JOINT COMM. ON TAXATION, *Estimated Revenue Effects of the Tax Reform Act of 2014* (Feb. 21, 2014); *AALU WRNewswire* WRN# 14.02.27 (Feb. 27, 2014).

SUMMARY: This *WRNewswire* bulletin builds upon the analysis of the "Tax Reform Act of 2014" or the so-called "Camp Discussion Draft" ("**Camp Draft**" or "**Draft**") provided in *AALU WRNewswire* WRN# 14.02.27, *Tax Reform Discussion Draft Contains Provisions Negatively Impacting Life Insurance*. This bulletin does not provide an exhaustive analysis of the Camp Draft, but rather describes the overall framework for reform set out in the Draft and discusses some of its key elements—with a survey of the most germane elements of the Draft for the AALU membership. Additional technical and practical analysis of certain aspects of the Draft will be provided in one or more forthcoming *AALU WRMarketplace* bulletin(s).

ANALYSIS:

General Overview. The Camp Draft contains seven titles: (1) tax reform for individuals; (2) alternative minimum tax ("**AMT**") repeal; (3) business tax reform; (4) establishment of a participation exemption system for the taxation of foreign income; (5) tax exempt entity reforms; (6) tax administration and compliance reforms; and (7) the imposition of various excise taxes.

The Draft is designed to address several identified practical problems and public policy concerns. Generally, the Internal Revenue Code ("**IRC**" or "**the Code**") is viewed as overly dense and complex. In addition, some view the existing Code as wasteful, detrimental to economic growth, and inequitable in certain areas. Accordingly, the Camp Draft seeks to make the Code simpler and fairer for both individuals and businesses. The plan purports to generate $3.4 trillion in additional economic growth, which would create 18 million new jobs. It does so by reducing the number of marginal income tax rate brackets and lowering the top income tax rate for 99% of individual filers and through a number of provisions aimed to reduce the costs of corporate income tax compliance—including the establishment of a new 25% top rate for corporate filers.

Two of the primary overarching goals for the draft were: (1) revenue neutrality; and (2) distributional neutrality. Analysis by the Joint Committee on Taxation ("**JCT**") reflects that each of these goals has, with some room for debate, been achieved. First, JCT scored the draft under its traditional, "static" methodology and estimated that it would raise $3 billion over ten years. Certain analysts have suggested that due to various phase-ins and timing mechanisms of the Draft, revenue neutrality would only be sustainable in the first decade after enactment and the plan could therefore increase deficits in subsequent decades. However, JCT may release a second estimate, scored under a "dynamic" methodology and accounting for behavioral economic effects which could show that the long-term impact of the draft on economic output could offset any concerns about revenue loss in out decades. Second, JCT distributional analysis—which was conducted to measure the comparative effects of the Draft on various income earners—shows, again with room for interpretation, that the Draft would achieve distributional neutrality over a ten-year period, although lower and middle-income taxpayers (*i.e.,* adjusted gross income ("**AGI**") of $100K or less) may not enjoy significant tax savings until the out years of the ten-year window.

What follows is a survey of the most germane elements of the Draft for the AALU membership—in the context of our members' roles as both life insurance professionals and business owners. We note that additional technical analysis of certain aspects of the Draft will be providing in one or more forthcoming *AALU WRMarketplace* bulletins.

<u>Life Insurance Reforms</u>. Several of the life insurance-related reforms of the Camp Draft were detailed in *AALU WRNewswire* WRN# 14.02.27. However, the significant provisions of Subtitle F of Title III of the Draft are summarized below.[i]

- As an introductory matter, it is important to note that the Ways & Means Committee's explanatory brochure notes that the Draft "does not change the current tax law incentives for individuals who purchase life insurance products . . . including continuing the long-standing practice of *exempting* '***inside build-up***.'" (Emphasis added).

  While the Committee's recognition of the importance of life insurance products to the financial security and long-term savings of individuals and businesses is indisputably positive and reflects on the industry's steadfast advocacy, the AALU objects to the characterization of inside build-up as a "long-standing exemption." In fact, the Code does not provide for an income tax exemption for inside build-up, nor does it establish a preferential rate of taxation for gains recognized from an insurance contract. Thus, while the AALU applauds the spirit of the Committee's statement, the fact remains that inside build-up is taxed appropriately and in accordance with tax policy norms and is not the recipient of any special treatment under federal tax law that would justify characterization as an "exemption" or "tax expenditure."

  We also note that the COLI pro-rata interest disallowance provision described below is, in effect, a tax penalty on a business's ownership of life insurance *allocable to the inside build-up* of its insurance contract. Thus, one could characterize that provision—as the AALU does—as an indirect attack on inside build-up.

- The Draft would ***expand the pro-rata interest expense disallowance for COLI policyholders.*** Under the proposal, the exception to the pro-rata interest expense disallowance rule set forth in IRC § 264(f) would no longer apply with regard to officers, directors, or employees, and thus *only* would apply to contracts insuring 20% owners of the business holding the contract. The provision would be effective for insurance contracts issued after 2014, with any material increase in the death benefit or other material changes made to existing contracts after 2014 resulting in their treatment as newly-issued contracts. **JCT Estimate: $7.3 billion.**

- The formula for computing insurance companies' ***dividends-received deduction*** ("**DRD**") would be modified. The DRD is currently in place to provide relief for the triple taxation of corporate dividends distributed to an insurance company by a subsidiary or company in which the insurer is a shareholder. The proposal would result in the reduction of the DRD, which would increase the tax burden associated with the receipt of corporate dividends. **JCT Estimate: $4.5 billion.**

- The Draft would ***remove a current exception from transfer-for-value rules***, triggering taxation of death benefits in circumstances that include certain indirect acquisitions of life insurance policies through corporate mergers and acquisitions. Under the provision, the current exceptions to taxation as a transfer for value for carryover basis transfers and transfers to the person whose life is insured (or to a partner of the insured, or a partnership or corporation in which the insured is a partner or shareholder) would not apply if the acquirer of the life insurance contract has no substantial family, business, or financial relationship with the insured apart from the acquirer's interest in the contract (*i.e.*, the acquirer must include the amount of the payment on the death of the insured, reduced by the acquirer's basis in the contract—typically the consideration and subsequent premiums paid by the insurer). The provision would be effective for transfers after 2014. **JCT Estimate: $200 million** (Note that this estimate accounts for both the modification of transfer-for-value rules and life settlement reporting reforms, discussed below).

- The Draft would change the rules for ***tax reporting of life settlement transactions*** by requiring a taxpayer who purchases an interest in an existing life insurance contract with death benefits of $500K or greater to report: (1) the purchase price and identity of the buyer, seller, and issuer to both the Internal Revenue Service and the seller; and (2) the identity of the buyer, seller, issuer, and the policy number to the issuing insurance company. The insurance company would be subject to reporting requirements upon payment of policy benefits to the buyer. Presumably, this provision would facilitate tracking of non-exempt transfers for value under the proposed transfer for value modification described above. **JCT Estimate: $200 million** (Note that this estimate accounts for both the modification of transfer-for-value rules, discussed above, and life settlement reporting reforms).

- The Draft would ***modify the computation of life insurance tax reserves***. Under current law, life insurance companies are permitted to deduct net increases in reserves, while net decreases in reserves are includable in gross income. For purposes of calculating net changes in reserves, companies currently use the greater of the prevailing state assumed interest rate (the highest assumed interest rate used in at least 26 states) and the applicable federal rate. The proposal would require companies to use the average federal rate over the 60 months ending before the beginning of the then-current calendar year plus 3.5 percentage points as the applicable discount rate. In addition, the Draft would repeal the current law provision that enables life insurance companies to account for an adjustment in computing reserves over a ten-year period. The proposal would require life insurers to account for such an adjustment in the tax year in which the adjustment occurs. **JCT Estimate: $27 billion.**

- ***Deferred acquisition cost tax rules*** ("**DAC**") would be modified by the Draft. Under current law, life insurance companies are permitted to spread the expenses associated with earning a stream of premium income over a period of ten years in lieu of deducting those expenses immediately. The expenses are derived from expense ratios for three categories of insurance contracts—annuities, group life insurance contracts, and all other specified contracts. The expenses that must be spread are the *lesser of*: (1) a specified percentage of the net premiums received on each of a company's three categories of insurance contracts *or* (2) the company's general deductions. For annuity contracts, the specified percentage is 1.75%; for group life insurance contracts, the specified percentage is 2.05%; and for all other specified insurance contracts, the specified percentage is 7.7%. Under the proposal, the number of categories across which expenses would be spread would be reduced from three to two (group contracts and other specified contracts) and the percentage of net premiums spread would be 5% for group contracts and 12% for other specified contracts. **JCT Estimate: $11.7 billion.**

- The ***net operating loss*** ("**NOL**") carryback and carryforward rules applicable to life insurance companies would be modified to conform to the general NOL rules. Under the proposal, life insurers could carry NOLs back for up to two tax years (down from three tax years) and forward for up to 20 tax years (up from 15 tax years). **JCT Estimate: $300 million.**

- The ***deduction for life insurance-related income applicable to small companies***, which currently applies to companies with fewer than $500 million in assets and allows such companies to deduct 60% of their first $3 million in life insurance-related income, would be repealed. **JCT Estimate: $300 million.**

Individual Tax Reform. The individual tax reform provisions of the Draft include, *e.g.*, simplification and reduction of marginal income tax brackets; repeal or modification of dozens of individual tax credits, deductions, exclusions, and exemptions; modification of several educational tax incentives; various employment tax modifications; and a number of employer-provided and individual retirement plan reforms. Below is a selection of the most significant among these reforms.

- The ***seven current marginal income tax brackets would be reduced to two***—a 10% bracket applicable to the first $36,250 of taxable income for single filers and the first $72,500 of income for joint filers and a 25% bracket applicable to taxable income in excess of $36,250 for single filers and $72,500 for joint filers. Income would be measured for inflation under a new "chained" consumer price index ("**Chained CPI**")—which many economists feel accounts for inflation more accurately—but could result in less favorable inflation adjustments for individual taxpayers. The provisions above, taken together with the associated provisions described immediately below, would reduce revenue receipts by $498.7 billion over a ten-year period.

- The Draft would impose a ***10% surtax on high-income*** taxpayers, *i.e.,* those individuals with a modified adjusted gross income ("**MAGI**") of $400K for single filers and $450K for joint filers (also indexed under the Chained CPI method). In effect, this surtax creates a third marginal rate bracket of 35% for the top 1% of income earners. An individual's MAGI is calculated by adding to one's AGI a number of above-the-line deductions and exclusions, including—the standard deduction (which would be consolidated and increased to $11K for single filers and $22K for joint filers), all itemized deductions *except any deduction for charitable contributions*, the foreign earned income exclusion, a deduction for tax-exempt interest, deductions for employer contributions to employee benefit plans to the extent excludable from gross income, the deduction for health insurance premiums for self-employed individuals, and the exclusion for Social Security benefits—and then subtracting any qualified domestic manufacturing income ("**QDMI**"), which is comprised of a lengthy list of enumerated gross receipts, but generally means net income attributable to domestic manufacturing receipts.

We note that the investment income of taxpayers subject to this 10% surtax would remain subject to the 3.8% Net Investment Income ("**NII**") tax that was imposed under the Affordable Care Act. For further reading on the calculation and application of the NII, *see AALU WRMarketplace* 12-31, *U.S. Supreme Court Upholds the Individual Mandate and Medicaid expansion provisions of the Health Care Reform Legislation, Allowing Implementation of New Tax Provisions* (July 7, 2012).

- Under current law, long-term capital gains and qualified dividends are taxed at a top rate of 20% plus the NII for taxpayers exceeding the relevant MAGI threshold. Short-term capital gains and non-qualified dividends are taxed as ordinary income in the tax year in which they are received. The Draft would ***repeal the special rate structure for capital gains and dividends*** and permit individuals to claim a 40% above-the-line deduction in the amount of any adjusted net capital gain (*i.e.*, the sum of net capital gain and qualified dividends less net collectibles gain). Put differently, adjusted net capital gain will be taxed as ordinary income, but the newly created deduction allows the taxpayer to pay a lower effective rate. However, taxpayers subject to the 10% surtax will not experience a meaningful reduction in tax on net capital gain in comparison to current law.

- Subtitle E of Title I of the Draft includes 22 specific ***modifications to individual tax deductions, exclusions, and exemptions*** commonly referred to as "tax expenditures." Amongst these reforms are a number of modifications to current provisions of the Code that were the subject of substantial advocacy because of their widespread impact. For example:

    - The ***exclusion of capital gain from the sale of a principle residence*** would be further restricted to taxpayers that own and use a home for his or her principal residence for a period of five out of the previous eight years (increased from the current requirement of two out of the previous five years). A taxpayer would be permitted to take advantage of the exclusion once every five years (as opposed to once every two years under current law).

    - A taxpayer's ***deduction for mortgage interest*** paid with respect to a principal and second residence would be phased-down from the current $1 million limitation on acquisition indebtedness to $500K in acquisition indebtedness over a four-year period. The modification would apply to newly purchased homes.

- Numerous changes would be made to the rules applicable to ***charitable contributions***, including an extension of the time limitation placed on filing for a deduction and modifications on the calculation of AGI limitations and adjusted basis, among others.

- The ***deduction for state and local taxes***, a significant itemized deduction for nearly all taxpayers who itemize, would be permitted only to the extent that such taxes were paid or accrued in carrying on a trade or business or producing income.

- The ***deduction for medical expenses***—currently available for a taxpayer's out-of-pocket medical expenses exceeding 10% of AGI—would be repealed.

- The ***overall limitation on itemized deductions***, or the so-called "Pease limitation"—which currently reduces most itemized deductions by 3% of the amount by which AGI exceeds threshold income amounts pegged to filing status, but up to a maximum reduction of 80% of overall itemized deductions—would be repealed.

- In addition, of note for AALU members, is a provision that would ***require consistent basis reporting between a decedent's estate and a person acquiring property*** from a decedent. The provision would require that the basis of property received by the beneficiary or giftee not exceed the fair market value of property as reported by the estate for estate tax purposes. Any underpayment of tax due to an understatement of basis would result in a 20% tax penalty.

AMT Repeal. Title II of the Draft would entirely ***repeal the AMT regime***. AMT credit carryforwards would be partially refundable in tax years 2014 through 2018, but would be fully refundable in tax year 2019 and beyond. Measured over a ten-year period, repeal of the individual AMT would reduce revenue receipts by $1.33 trillion, whereas corporate AMT repeal would reduce revenues by $110 billion.

Compensation Provisions. Subtitle I of Title III of the Draft includes several provisions affecting executive compensation, some of which would be damaging to the nonqualified deferred compensation marketplace. The provisions of the Subtitle are summarized below:

- The Draft would make a ***significant negative change to the current tax treatment of deferred compensation arrangements*** by imposing tax on employees' nonqualified deferred compensation as soon as there is no substantial risk of forfeiture of that compensation (*i.e.*, receipt of the compensation is not subject to future performance of services). The provision would be effective for amounts attributable to services performed after 2014. For amounts attributable to services performed through 2014, the current law rules would continue to apply to existing nonqualified deferred compensation arrangements until the last tax year beginning before 2023, when such arrangements would become subject to the provision.

- The Draft would ***repeal the exceptions to the $1 million deduction limitation for commissions and performance-based compensation.*** The provision also would revise the definition of "covered employee" to include the CEO, the chief financial officer, and the three other highest paid employees, realigning the definition with current SEC disclosure rules. Under the modified definition, once an employee qualifies as a covered person, the deduction limitation would apply for Federal tax purposes to that person so long as the corporation pays remuneration to such person (or to any beneficiaries). The provision would be effective for tax years beginning after 2014.
- The Draft would provide that ***a tax-exempt organization would be subject to a 25% excise tax on compensation in excess of $1 million paid to any of its five highest paid employees*** for the tax year. The excise tax would apply to all remuneration paid to a covered person for services, including cash and the cash value of all remuneration (including benefits) paid in a medium other than cash, except for payments to a tax-qualified retirement plan, and amounts that are excludable from the executive's gross income. Once an employee qualifies as a covered person, the excise tax would apply to compensation in excess of $1 million paid to that person so long as the organization pays him or her remuneration. The excise tax also would apply to excess parachute payments paid by the organization to such individuals. Under the provision, an excess parachute payment generally would be a payment contingent on the employee's separation from employment with an aggregate present value of three times the employee's base compensation or more. The provision would be effective for tax years beginning after 2014.
- The Draft would ***clarify rules with respect to incentive stock option plans and employee stock purchase plans to deny a deduction*** under any provision of the Code ***for a transfer of stock to an individual*** under such plans. The provision would be effective for stock transferred after February 26, 2014.
- The Draft would ***repeal the exclusion for employee achievement awards***, so that such awards would constitute taxable compensation to the recipient. The provision also would repeal the restrictions on employer deductions for such awards. The provision would be effective for tax years beginning after 2014.
- The Draft would ***repeal the exclusion for net unrealized appreciation in distributed employer securities***. The distributee generally would have income in the amount of the

value of the distributed securities. The provision would be effective for distributions after 2014.

<u>Individual and Employer-Sponsored Retirement Plan Reforms</u>. Subtitle G of Title I of the Draft would impose meaningful reforms on the rules associated with individual retirement accounts ("**IRAs**") as well as employer-sponsored and governmental retirement plans. These provisions, which would substantially alter our current system of tax-deferred retirement planning, are summarized below.

- The Draft would ***generally cut by half current limits on employee pre-tax contributions to 401(k) plans*** and provide that an employee would be eligible to contribute the remaining half on an after-tax basis to a Roth account. Alternately, an employee could contribute the entire amount on an after-tax basis to a Roth account. Employer plans would generally be required to offer Roth accounts and employer contributions would continue to be made to traditional accounts. The provision would also apply to Sections 403(b) and 457 plans, but not to employers with fewer than 100 employees. Employers could choose to have Roth accounts in a SIMPLE IRA. If an employer with a SIMPLE IRA elects to limit traditional employee contributions to half the annual contribution limits, the employee contribution limits to the SIMPLE IRA would be increased to the 401(k) limits. The provision generally would be effective for plan and tax years after 2014.

  We note that the Committee explains that this provision is intended to help Americans achieve greater retirement security. This is because many people saving in traditional 401(k) plans do not consider the taxes that will be due upon distribution—while the entire balance in a Roth account provision is distributed free of tax. However, cutting in half employees' pre-tax contribution limits could have the effect of substantially reducing employees' retirement savings.

- Effective after 2014, the Draft would provide that ***inflation adjustments would be suspended until 2024*** for (1) the maximum benefit under a defined benefit plan; (2) the maximum combined contribution by an employer and employee to a defined contribution plan; (3) the maximum elective deferrals with respect to each type of Simplified Employee Pension ("**SEP**"), SIMPLE IRA, and defined contribution plan (*i.e.*, Sections 401(k), 403(b), and 457(b)); and catch-up contributions. Thereafter, inflation indexing would recommence based off of the frozen level.

- The draft would ***coordinate the contribution limits for Section 403(b) plans and governmental Section 457(b) plans***. Under the provision, all defined-contribution plans would be subject to the annual contribution limits currently applicable to 401(k) plans and would not have additional limits for different classes of employees at certain types of employers. The provision would apply to plan years and tax years beginning after 2014.

- The Draft would ***eliminate the income eligibility limits for contributing to Roth IRAs and new contributions to traditional IRAs would be prohibited***. The inflation adjustment of the annual limit on Roth IRA contributions would be suspended until tax year 2024, at which time inflation indexing would recommence based off the frozen level. The provisions would be effective for tax years beginning after 2014.

- The Draft would ***repeal the current rule allowing re-characterization of Roth IRA contributions or conversions***, effective for tax years after 2014.

- The Draft would ***repeal the current exception to the additional 10% tax for distributions*** from retirement plans and IRAs occurring before the account holder reaches age 59 ½ which are used to pay for first-time homebuyer expenses. The provision would be effective for distributions after 2014.

- The Draft would ***prohibit employers from establishing new SEPs or SIMPLE 401(k) plans*** after 2014; however, employers could continue making contributions to existing plans. The SEP provision would be effective for tax years beginning after 2014 and the 401(k) would be effective for plan years after 2014.

- The Draft would ***modify distribution rules for IRAs and qualified plans to:***

    - Generally provide that for an employee who becomes a 5-percent owner after age 70 ½ but before retiring, the beginning date for required minimum distributions (RMDs) would be April 1 of the following year**.** ***For IRAs and employer-sponsored retirement plans that exist when the IRS owner or employee dies, distributions would be required within five years***, subject to certain exceptions. The provision would generally be effective for IRA owners or employees who die after 2014. The provision would not apply to certain qualified annuities that are binding annuity contracts in effect on the date of enactment and at all times thereafter.

    - Require the IRS to change its guidance to ***allow employees taking hardship distributions to continue making contributions*** to the plan. The provision would be effective for plan years beginning after 2014.

    - Allow employees ***whose plan terminates or who separate from employment*** while they have plan loans outstanding until the due date for filing their tax return for that year to contribute the loan balance to an IRA in order to avoid the loan being taxed as a distribution. The provision would apply to tax years beginning after 2014.

    - Apply the 10% additional tax on ***early distributions to participants in governmental Section 457 plans***. The provision would be effective for withdrawals after February 26, 2014.

Excise Taxes. Title VII of the Draft contains five excise taxes, the most significant for the life insurance industry being an ***excise tax on systemically important financial institutions*** ("**SIFIs**"). SIFIs were created in 2010 under the Dodd-Frank Act and include, generally: (1) bank holding companies with at least $50 billion in total consolidated assets; and (2) non-bank financial institutions designated by the Financial Stability Oversight Council ("**FSOC**") after consideration of a variety of risk factors identified by statute and rule. To date, three of the four non-bank financial institutions to receive SIFI designations are insurance companies (those thus far designated include Prudential Financial, MetLife, AIG, and GE Capital). SIFIs are subject to an additional layer of prudential regulation, which includes, for example, more stringent capital requirements, mandated development of resolution plans (so-called "living wills"), annual stress tests, and certain restrictions on activities imposed by the Federal Reserve.

However, some policymakers view SIFIs as the recipients of implicit subsidies due to their perceived "too big to fail" status and the associated possibility, or expectation, of future taxpayer funded rescues if needed to stave off an institutional failure that would bring with it systemic consequences. Thus, the Draft would impose a quarterly excise tax on SIFIs with an excess of $500 billion in total consolidated assets in the amount of 0.035% of those assets. The tax would generate $86.4 billion in new revenue according to the JCT's estimate.

Overview of Business Tax Reform Structure. Title III of the Draft contains an expansive business tax reform proposal, which incorporates several of the Subtitles summarized above. A basic overview of the business tax reform structure proposed in the Draft is as follows:

- The Draft would ***phase-in a new corporate income tax structure*** that would result in a flat 25% rate by tax year 2019. The current corporate regime employs a graduated marginal rate system with a top tax rate of 35%. This reduced rate would apply to "C Corporations," but would not apply pass-through entities or "S Corporations," which would be taxed under the new individual rate structure. The JCT estimates this structural simplification and rate reduction to reduce revenue receipts by $680.3 billion over ten years.
- Subtitle B of Title III contains 40 specific reforms to current law business-related exclusions and deductions. Among the most significant are:
    - ***Repeal of the accelerated cost recovery system*** ("**MACRS**") for depreciable property, which would be replaced with rules similar to the alternative depreciation system ("**ADS**")—which requires longer recovery periods and the use of the straight-line depreciation method.
    - ***Reform of NOL deduction rules***, which would permit corporations to deduct an NOL (carryover or carryback) to the extent of 90% of the corporation's taxable income. The proposal would repeal existing special carryback rules for certain liability losses, bad debts losses of commercial

banks, excess interest losses relating to corporate equity transactions, and certain farming losses.

- o ***Require amortization of research and experimental expenditures,*** which are deducted entirely and immediately under current law—subject to the existence of a taxpayer research credit.
- o ***Require amortization of advertising expenses***, which are currently deductible as ordinary and necessary business expenses. The proposal would be phased in over five tax years and would permit for a 50% deduction of advertising expenses in the current tax year, requiring the remaining 50% to be amortized over a ten-year period.
- o ***Repeal of like-kind exchanges,*** which under current law are permitted with deferred recognition of gain or loss to the extent that the property exchanged is held for productive use in the taxpayer's trade or business. Based on an initial analysis of the Draft's legislative text, it appears that repeal of the like-kind exchange rules under IRC § 1031 would not affect the rules for exchanges of insurance policies under IRC § 1035.

- Subtitles C–E of Title III contain numerous reforms affecting ***business credits*** (many of which impact the oil, gas, nuclear power, coal, and renewable energy industries), ***accounting methods***, and the tax treatment of non-insurance ***financial instruments*** (derivatives contracts, hedging transactions, and various debt instruments).
- Subtitle G addresses ***pass-through entities*** (or "S Corporations") and contains several provisions with little revenue effect aimed at: (i) encouraging C Corporations to elect S Corporation status, and (ii) providing existing pass-through entities with greater flexibility with which to conduct their operations.
- Finally, the Draft contains numerous other provisions not addressed in this bulletin, including provisions affecting: partnership taxation, the taxation of foreign income, the taxation and regulation of real estate investment trusts ("**REITS**"), the tax treatment of passive and mobile income, the taxation of unrelated business tax income ("**UBIT**"), tax-exempt entity status, and tax administration and compliance. Certain of these provisions may receive attention in subsequent communications as the Draft is further analyzed.

TAKEAWAYS: As we have reported in prior communications, the Camp Draft should be viewed as a serious expression of policy preferences on the part of Chairman Camp and others in the House Republican caucus. Given the abundance of provisions affecting the life insurance industry, it is important to provide a strong response that includes extensive education on these provisions. Accordingly, the AALU will continue to communicate with our membership on a regular basis as we implement our action plan.

In the interim, we encourage each of our members to submit your comments on the Camp Draft to taxreform@aalu.org. The AALU's Legislative Affairs team monitors this inbox and looks forward to obtaining feedback from the membership. In addition, registration is open for the 2014 AALU Annual Meeting—including our annual Capitol Hill Club on May 6th. We look forward to taking full advantage of this year's CHC day by educating a wide range of lawmakers on life insurance-related elements of the Camp Draft. In the interim, AALU members are encouraged to work with the AALU staff to schedule in-district meetings with legislators. For more information, contact Brendan Gleason of the AALU staff (gleason@aalu.org; 202-742-4631).

***WRNewswire* #14.03.06 was written by the AALU Staff.**

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NOTES:

[i] JCT revenue estimates are provided for each of the life insurance-related provisions included in the Draft. Several other provisions described throughout the bulletin contain revenue estimates, but many do not. A complete analysis of the revenue effects of each provision of the Draft is appended to this bulletin. *See* JOINT COMM. ON TAXATION, *Estimated Revenue Effects of the Tax Reform Act of 2014* (Feb. 21, 2014).