

falls before April 4, 1961, the election provided by section 818(c) may be made for such year by filing the statement and an amended return for such taxable year (and all subsequent taxable years for which returns have been filed) before July 4, 1961. The statement shall indicate whether the exact or the approximate method of revaluation has been adopted. The statement shall also set forth sufficient information as to mortality and morbidity assumptions; interest rates; the valuation method used; the amount of the reserves and the amount and type of insurance in force under all contracts for which reserves are computed on a preliminary term basis; and such other pertinent data as will enable the Commissioner to determine the correctness of the application of the revaluation method adopted and the accuracy of the computations involved in revaluing the reserves. The election to use either the exact revaluation method or the approximate revaluation method shall, except for the purposes of section 801, be adhered to in making the computations under part I for the taxable year for which such election is made and for all subsequent taxable years.

(f) *Scope of election.* An election made under section 818(c) and paragraph (b) of this section to use either the exact or the approximate method of revaluing the company's life insurance reserves shall be binding for the taxable year for which made, and, except as provided in paragraph (g) of this section, shall be binding for all succeeding taxable years, unless consent to revoke the election is obtained from the Commissioner. However, for taxable years beginning prior to April 4, 1961, a company may revoke the election provided by section 818(c) without obtaining consent from the Commissioner by filing, before July 4, 1961, a statement that the company desires to revoke such election. An amended return reflecting such revocation must accompany the statement for all taxable years for which returns have been filed with respect to such election.

(g) *Special rule for 1958.* If an election is made for a taxable year beginning in 1958 to use the approximate revaluation method described in section 818(c)(2) and paragraph (b)(2) of this

section the company may, for its first taxable year beginning after 1958, elect to change to the exact revaluation method described in section 818(c)(1) and paragraph (b)(1) of this section without obtaining the consent of the Commissioner. In such case, the election to change shall be made in a statement attached to the company's income tax return for such taxable year and filed not later than the date prescribed by law (including extensions thereof) for filing the return for such year. The statement shall indicate that the company has elected to change from the approximate to the exact revaluation method for such taxable year and shall include such information and data referred to in paragraph (e) of this section as will enable the Commissioner to determine the correctness and accuracy of the computations involved.

[T.D. 6558, 26 FR 2787, Apr. 4, 1961; 26 FR 3276, Apr. 18, 1961]

#### § 1.818-5 Short taxable years.

(a) *In general.* Section 818(d) provides that if any return of a corporation made under part I, subchapter L, chapter 1 of the Code, is for a period of less than the entire calendar year, then section 443 (relating to returns for a period of less than 12 months) shall not apply. This section further provides certain rules to be used in determining the life insurance company taxable income for a period of less than the entire calendar year.

(b) *Returns for periods of less than the entire calendar year.* A return for a short period, that is, for a taxable year consisting of a period of less than the entire calendar year, shall be made only under the following circumstances:

(1) If a company which qualifies as a life insurance company is not in existence for the entire taxable year, a return is required for the short period during which the taxpayer was in existence. For example, a life insurance company organized on August 1, is required to file a return for the short period from August 1 to December 31, and returns for each calendar year thereafter. Similarly, if a company which qualifies as a life insurance company

completely dissolves during the taxable year it is required to file a return for the short period from January 1 to the date it goes out of existence. All items entering into the computation of taxable investment income and gain or loss from operations for the short period shall be determined on a consistent basis and in the manner provided in paragraph (c) of this section.

(2) A return must be filed for a short period resulting from the termination by the district director of a taxpayer's taxable year for jeopardy. See section 6851 and the regulations thereunder.

A company which was an insurance company for the preceding taxable year (but not a life insurance company as defined in section 801(a) and paragraph (b) of §1.801-3) and which for the current taxable year qualifies as a life insurance company shall not file a return for the short period from the time during the taxable year that it first qualifies as a life insurance company to the end of the taxable year. Similarly, an insurance company which was a life insurance company for the preceding taxable year but which for the current taxable year does not qualify as a life insurance company shall not file a return for the short period from the beginning of the taxable year to the time during the taxable year that it no longer qualifies as a life insurance company.

(c) *Computation of life insurance company taxable income for short period.* (1) If a return is made for a short period, section 818(d)(1) provides that the taxable investment income and the gain or loss from operations shall be determined on an annual basis by a ratable daily projection of the appropriate figures for the short period. The appropriate figures for the short period shall be determined on an annual basis by multiplying such figures by a fraction, the numerator of which is the number of days in the calendar year in which the short period occurs and the denominator of which is the number of days in the short period.

(2)(i) In computing taxable investment income for a short period, the investment yield, the policy and other contract liability requirements, the policyholders' share of each and every item of investment yield, and the com-

pany's share of any item of investment yield shall be determined on an annual basis.

(ii) For purposes of determining the investment yield on an annual basis, each item of gross investment income under section 804(b) and each item of deduction under section 804(c) shall be annualized in the manner provided in subparagraph (1) of this paragraph. In any case in which a limitation is placed on the amount of a deduction provided under section 804(c), the limitation shall apply to the item of deduction computed on an annual basis.

(iii) The policy and other contract liability requirements shall be determined on an annual basis in the following manner:

(a) The interest paid (as defined in section 805(e) and §1.805-8) for the short period shall be annualized in the manner prescribed in subparagraph (1) of this paragraph.

(b) The current earnings rate for the taxable year in which the short period occurs shall be determined by dividing the taxpayer's investment yield, as determined on an annual basis under subdivision (ii) of this subparagraph, by the mean of the taxpayer's assets at the beginning and end of the short period. For purposes of section 805, any reference to the current earnings rate for the taxable year in which the short period occurs means the current earnings rate as determined under this subdivision.

(c) The adjusted life insurance reserves shall be determined as provided in section 805(c), and the pension plan reserves shall be determined as provided in section 805(d).

(iv) The policyholders' share of each and every item of investment yield (as defined in section 804(a)) shall be that percentage obtained by dividing the policy and other contract liability requirements, determined under subdivision (iii) of this subparagraph, by the investment yield, determined under subdivision (ii) of this subparagraph.

(v) The taxable investment income for the short period shall be an amount (not less than zero) equal to the life insurance company's share of each and every item of investment yield, as determined under subdivision (ii) of this

subparagraph, reduced by the items described in section 804(a)(2) (A) and (B). In determining these reductions under section 804(a)(2)(A) the amount of the respective items shall be the amount that is determined on an annual basis under subdivision (ii) of this subparagraph. The small business deduction, under section 804(a)(2)(B) shall be an amount (not to exceed \$25,000) equal to 10 percent of the investment yield, determined under subdivision (ii) of this subparagraph, for the short period.

(vi) Except as provided in this paragraph, the determination of taxable investment income under subpart B, part I, subchapter L, chapter 1 of the Code, shall be made in accordance with all the provisions of that subpart.

(3)(i) In computing gain or loss from operations for a short period, the share of each and every item of investment yield set aside for policyholders, the life insurance company's share of each and every item of investment yield, the items of gross amount, and the items of deduction shall, except as modified by this subparagraph, be determined on an annual basis in the manner provided in subparagraph (1) of this paragraph. In any case in which a limitation is placed on the amount of a deduction provided under section 809, the limitation shall apply to the item of deduction computed on an annualized basis.

(ii) For purposes of sections 809 and 810, the investment yield shall be determined in the manner provided in subparagraph (2)(ii) of this paragraph. The share of any item of investment yield set aside for policyholders shall be that percentage obtained by dividing the required interest as determined under section 809(a)(2), by the investment yield, as determined in this subparagraph, except that if the required interest exceeds the investment yield then the share of any item of investment yield set aside for policyholders shall be 100 percent.

(iii) The items of gross amount and the items of deduction, other than the operations loss deduction under section 809(d)(4), shall be determined on an annual basis. See subdivision (iv) of this subparagraph for the manner in which the net decrease or net increase in reserves under section 810 shall be annualized.

(iv) For purposes of determining either a net decrease in reserves under section 810(a) or a net increase in reserves under section 810(b), the sum of the items described in section 810(c) as of the end of the short period shall be reduced by the amount of the investment yield not included in gain or loss from operations for the short period by reason of section 809(a)(1). The amount of investment yield excluded under section 809(a)(1) has been determined upon an annualized basis while the sum of the items described in section 180(c) at the end of the short period has been determined on an actual basis. In order to place these on the same basis, the amount of investment yield not included in gain or loss from operations by reason of section 809(a)(1), determined under subdivision (ii) shall, for purposes of section 810(a) and section 810(b), be reduced to an amount which bears the same ratio to the full amount as the number of days in the short period bears to the number of days in the entire calendar year. The net decrease or the net increase of the items referred to in section 810(c) for the short period shall then be determined, as provided in section 810(a) and section 810(b), respectively, and the result annualized.

(4) The portion of the life insurance company taxable income described in section 802(b) (1) and (2) (relating to taxable investment income and gain or loss from operations) shall be determined on an annual basis by treating the amounts ascertained under subparagraph (2) of this paragraph as the taxable investment income, and the amount ascertained under subparagraph (3) of this paragraph as the gain or loss from operations, for the taxable year.

(5) The portion of the life insurance company taxable income described in section 802(b) (1) and (2) for the short period shall be the amount which bears the same ratio to the amount ascertained under section 818(d) (2) and subparagraph (4) of this paragraph as the number of days in the short period bears to the number of days in the entire year.

(d) *Special rules.* (1) For purposes of determining the average earnings rate

(as defined in section 805(b)(3)) for subsequent taxable years, the current earnings rate for the taxable year in which the short period occurs shall be the rate determined under paragraph (c)(2) of this section.

(2) For purposes of determining an operations loss deduction under section 812, the loss from operations for the short period shall be the loss from operations determined under paragraph (c)(5) of this section.

[T.D. 6558, 26 FR 2788, Apr. 4, 1961]

**§ 1.818-6 Transitional rule for change in method of accounting.**

(a) *In general.* Section 818(e) prescribes the rules to be followed in recomputing the taxes of a life insurance company for the taxable year 1957 in cases where the method of accounting required to be used in computing the company's taxes for 1958 under section 818(a) and paragraph (a) of § 1.818-2 is different from the method used in 1957.

(b) *Recomputation of 1957 taxes.* (1) For purposes of recomputing its taxes for 1957, a life insurance company must ascertain the net amount of those adjustments which are determined (as of the close of 1957) to be necessary solely by reason of the change to the method of accounting required by section 818(a) and paragraph (a) of § 1.818-2 in order to prevent amounts from being duplicated or omitted. Thus, for example, life insurance companies not on the accrual method of accounting for the year 1957 shall accrue, as of December 31, 1957, those items of gross investment income under section 803(b) and those items of deduction under section 803(c), as in effect for 1957, which would have been properly accruable for the year 1957 if the company had been on the accrual method of accounting.

(2) In the case of a change in the over-all method of accounting, the term "net amount of those adjustments" means the consolidation of adjustments (whether the amounts thereof represent increases or decreases in items of income or deductions) arising with respect to balances in the various accounts on December 31, 1957. In the case of a change in the treatment of a single material item, the amount of the adjustment shall be determined

with reference only to the net dollar balances in that particular account.

(3)(i) The amount of the taxpayer's tax for 1957 shall be recomputed (under the law applicable to 1957, modified as provided in section 818(e) (4) and paragraph (e) of this section) by taking into account an amount equal to one-tenth of the net amount of the adjustments determined under subparagraph (1) of this paragraph. The increase or decrease in tax attributable to the adjustments for such year is the difference between the tax for such year computed with the allocation of one-tenth of the net amount of the adjustments to such taxable year over the tax computed without the allocation of any part of the adjustments to such year.

(ii) The amount of increase or decrease (as the case may be) referred to in section 818(e) (2) or (3) and paragraphs (c) or (d) of this section, shall be the amount of the increase or decrease in tax ascertained in the manner described in subdivision (i) of this subparagraph, multiplied by 10.

(c) *Treatment of decrease.* Section 818(e) (2) provides that for purposes of subtitle F of the Code, if the recomputation under paragraph (b) (3) (ii) of this section results in a decrease, the amount of such decrease shall be treated as a decrease in the tax imposed for 1957; except that for purposes of computing the period of limitation on the making of refunds or the allowance of credits with respect to such overpayments, the amount of such decrease shall be treated as an overpayment of tax for 1959. No interest shall be paid, for any period before March 16, 1960, on any overpayment of the tax imposed for 1957 which is attributable to such decrease.

(d) *Treatment of increase—(1) In general.* Section 818(e) (3) (A) provides that for purposes of subtitle F of the Code, other than section 6016 (relating to declarations of estimated income tax by corporations) and section 6655 (relating to failure by corporations to pay estimated income tax), if the recomputation under paragraph (b) (3) (ii) of this section results in an increase, the amount of such increase shall be treated as a tax imposed for 1959. Such tax