2 T.C. 708 (1943)

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For insurance companies other than life or mutual, the Convention Form approved by the National Convention of Insurance Commissioners is the standard for computing gross income for federal income tax purposes, regardless of whether it reflects all actual transactions.

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Summary

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New Hampshire Fire Insurance Company and Granite State Fire Insurance Company disputed deficiencies in their income taxes. The primary issue was whether they should strictly adhere to the Convention Form in computing their gross income, as required by the Insurance Commissioner, or make adjustments not recognized by the Convention Form. Additional issues involved a loss on the purchase and resale of stock and the accrual of income related to impounded premiums. The Tax Court held that the Convention Form governs the computation of income for insurance companies, even if it means excluding certain transactions. Other holdings addressed stock losses and premium accrual timing.

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Facts

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New Hampshire Fire Insurance Co. and Granite State Fire Insurance Co., both incorporated in New Hampshire, reinsured portions of their risks with companies not admitted to do business in New Hampshire (unadmitted companies). In their annual reports to the Insurance Commissioner, they used the Convention Form, which doesn't recognize transactions with unadmitted companies. New Hampshire Fire Insurance Co. also purchased its own stock from agents at a price exceeding market value and had income from impounded premiums in Missouri rate cases. The Insurance Commissioner required strict adherence to the Convention Form.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in the income taxes of New Hampshire Fire Insurance Co. and Granite State Fire Insurance Co. for various years. The companies petitioned the Tax Court for review. Several issues were raised, including the proper method of computing gross income, a loss on stock purchase, and income accrual. Other issues were waived.

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Issue(s)

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1. Whether, in computing their gross income, the petitioners should follow exactly the Convention Form, as provided by statute and required by the insurance commissioners, or should make certain adjustments under its accepted usage and custom but not recognized by that form.

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2. Whether New Hampshire Fire Insurance Co. sustained a loss upon the purchase and resale of its own capital stock.

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3. Whether New Hampshire Fire Insurance Co. properly accrued income and expenses in 1935 by reason of certain impounded “Missouri-rate” premiums.

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Holding

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1. Yes, because Congress intended to adopt the Convention Form as the standard for determining the tax on insurance companies other than life or mutual.

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2. No, because the excess price paid over market value was not an element of cost in computing loss on subsequent sale.

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3. Yes, because the petitioner had reasonable certainty in 1935 that it would receive a determinable amount of the impounded premiums, justifying accrual of income and expenses.

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Court’s Reasoning

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The court reasoned that section 204 (b)(1) of the Revenue Acts of 1936 and 1938 explicitly bases gross income computation on the Convention Form. The court emphasized that laws must be interpreted in light of the commonly understood meaning of their language in the relevant trade or business. The legislative history of the tax statute showed that Congress was aware of the complexities of insurance taxation and intended to align the statute with the industry’s standard reporting method, the Convention Form. The court quoted Dr. Adams’s testimony before the Senate Finance Committee, highlighting the intent to use the

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