17 T.C. 1068 (1951)

Premiums received by a title insurance company are fully taxable as income when received, even if a portion is allocated to a state-mandated reinsurance reserve; furthermore, a corporation using the accrual method can deduct state taxes paid on behalf of its shareholders in the year the tax liability accrues, not just when paid.

Summary

Philadelphia Title Insurance Co. disputed the Commissioner's assessment of deficiencies, arguing that amounts set aside for a reinsurance reserve were not taxable income and that shareholder taxes could only be deducted when paid. The Tax Court held that title insurance premiums are taxable when received, regardless of reserve allocations, and that an accrual-basis corporation can deduct shareholder taxes in the year they accrue. This case clarifies the tax treatment of title insurance premiums and provides guidance on the deductibility of state taxes paid on behalf of shareholders under the accrual method of accounting.

Facts

Philadelphia Title Insurance Co. was incorporated in Pennsylvania in 1945 and began transacting title insurance business. Under Pennsylvania law, the company was required to establish and maintain a reinsurance reserve fund, setting aside a percentage of each premium received. The company excluded these reserve amounts from its gross income on its tax returns. The company also accrued and deducted Pennsylvania shares tax on its returns, even though the taxes were not actually paid until the following year.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the company's income and excess profits taxes for 1945 and 1946. The Commissioner increased income by the amounts credited to the reinsurance reserve and disallowed the deduction for the accrued Pennsylvania shares tax, arguing it could only be deducted when paid. The Tax Court reviewed the Commissioner's determination.

Issue(s)

1. Whether amounts credited to a reinsurance reserve by a title insurance company under Pennsylvania law are properly included in the company's taxable income.
2. Whether a corporation using an accrual method of accounting can deduct Pennsylvania shares tax imposed on its shareholders, but paid by the corporation, in the year the tax liability accrues, or only in the year the tax is actually paid.

Holding

1. No, because the entire amount of premiums paid to a title insurance company for policies guaranteeing titles are earned when paid and constitute taxable income. The reserves set up under Pennsylvania law do not constitute allowable deductions from gross income.
2. Yes, because Section 23(d) of the Internal Revenue Code allows a corporation to deduct taxes imposed on its shareholders that are paid by the corporation, and Section 23(c) allows for the deduction of

