Equitable Life Insurance Company of Iowa v. Commissioner of Internal Revenue, 73 T. C. 447 (1979)

Life insurance reserves must be computed using recognized mortality or morbidity tables and assumed interest rates, set aside to liquidate future unaccrued claims, and required by state law to qualify for federal tax treatment as such.

Summary

Equitable Life Insurance Company of Iowa challenged the Commissioner's determination of tax deficiencies, arguing that additional reserves for life insurance policies and reserves for nonqualified pension plans should qualify as life insurance reserves under section 801(b) of the Internal Revenue Code. The court held that the additional reserves for life insurance policies qualified as life insurance reserves because they were computed using recognized tables and were subject to state insurance department oversight, thus required by law. However, reserves for the nonqualified pension plans (Equifund B and C) did not qualify because they were not required by Iowa law and did not involve outstanding life insurance or annuity contracts until certain conditions were met.

Facts

Equitable Life Insurance Company of Iowa established additional reserves to supplement basic reserves for life insurance policies issued in the 1930s and 1940s due to outdated mortality tables and lower interest rates than assumed. These additional reserves were approved by the Iowa Insurance Commissioner. The company also maintained reserves for two nonqualified pension plans, Equifund B and C, for part-time life insurance salesmen and general agents, respectively. These reserves were not tied to specific insurance policies or annuity contracts until the participant retired, became disabled, or died.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Equitable Life's federal income tax for the years 1964 through 1972. Equitable Life petitioned the United States Tax Court, contesting the treatment of its additional life insurance reserves and pension plan reserves. The Tax Court held in favor of Equitable Life regarding the additional life insurance reserves but against it on the pension plan reserves.

Issue(s)

1. Whether additional reserves established by Equitable Life for life insurance policies that provided an annuity option qualify as life insurance reserves under section 801(b) of the Internal Revenue Code.
2. Whether reserves established by Equitable Life for nonqualified pension plans (Equifund B and C) qualify as life insurance reserves under section 801(b) of the

Internal Revenue Code.

Holding

1. Yes, because the additional reserves were computed using recognized mortality tables and assumed interest rates, set aside to liquidate future unaccrued claims, and were required by law as they were subject to the control of the Iowa Insurance Department.
2. No, because the reserves for the nonqualified pension plans were not required by Iowa law and were not tied to outstanding life insurance or annuity contracts until certain conditions were met.

Court’s Reasoning

The court analyzed section 801(b) of the Internal Revenue Code, which defines life insurance reserves as amounts computed using recognized mortality or morbidity tables and assumed rates of interest, set aside to mature or liquidate future unaccrued claims, and required by law. For the additional life insurance reserves, the court relied on the fact that they were approved by the Iowa Insurance Commissioner and could not be reduced without his consent, citing Mutual Benefit Life Insurance Co. v. Commissioner and Lincoln National Life Insurance Co. v. United States. The court distinguished Union Mutual Life Insurance Co. v. United States, which involved reserves not required by state law. For the pension plan reserves, the court found that they did not qualify because they were not required by Iowa law and did not involve outstanding life insurance or annuity contracts until certain conditions were met, citing Jefferson Standard Life Insurance Co. v. United States.

Practical Implications

This decision clarifies the criteria for life insurance reserves to qualify for federal tax treatment, emphasizing the importance of state insurance department oversight and the need for reserves to be tied to outstanding life insurance or annuity contracts. Life insurance companies must ensure that any additional reserves are approved by the state insurance department to qualify as life insurance reserves. The decision also highlights the distinction between reserves for life insurance policies and those for nonqualified pension plans, which cannot be treated as life insurance reserves unless they meet the statutory requirements. This ruling has implications for how life insurance companies structure their reserves and report them for tax purposes, and it may influence future cases involving the treatment of reserves under federal tax law.