

105TH CONGRESS  
2D SESSION

# H. R. 4361

To amend the Internal Revenue Code of 1986 to provide that an organization shall be exempt from income tax if it is created by a State to provide property and casualty insurance coverage for property for which such coverage is otherwise unavailable.

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## IN THE HOUSE OF REPRESENTATIVES

JULY 30, 1998

Mr. SHAW (for himself, Mr. BILIRAKIS, Mr. BOYD, Mr. CANADY of Florida, Mr. DEUTSCH, Mrs. FOWLER, Mr. GOSS, Mr. HASTINGS of Florida, Mr. MCCOLLUM, Mrs. MEEK of Florida, Mr. MICA, Mr. MILLER of Florida, Ms. ROS-LEHTINEN, Mr. STEARNS, Mrs. THURMAN, Mr. WELDON of Florida, and Mr. WEXLER) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide that an organization shall be exempt from income tax if it is created by a State to provide property and casualty insurance coverage for property for which such coverage is otherwise unavailable.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. EXEMPTION FROM INCOME TAX FOR STATE-**  
2 **CREATED ORGANIZATIONS PROVIDING PROP-**  
3 **ERTY AND CASUALTY INSURANCE FOR PROP-**  
4 **ERTY FOR WHICH SUCH COVERAGE IS OTH-**  
5 **ERWISE UNAVAILABLE.**

6 (a) IN GENERAL.—Subsection (c) of section 501 of  
7 the Internal Revenue Code of 1986 (relating to exemption  
8 from tax on corporations, certain trusts, etc.) is amended  
9 by adding at the end the following new paragraph:

10 “(28)(A) Any association created before Janu-  
11 ary 1, 1998, by State law and organized and oper-  
12 ated exclusively to provide property and casualty in-  
13 surance coverage for property located within the  
14 State for which the State has determined that cov-  
15 erage in the authorized insurance market is limited  
16 or unavailable at reasonable rates, if—

17 “(i) no part of the net earnings of which  
18 inures to the benefit of any private shareholder  
19 or individual,

20 “(ii) except as provided in clause (v), no  
21 part of the assets of which may be used for, or  
22 diverted to, any purpose other than—

23 “(I) to satisfy, in whole or in part, the  
24 liability of the association for, or with re-  
25 spect to, claims made on policies written  
26 by the association,

1                   “(II) to invest in investments author-  
2                   ized by applicable law, or

3                   “(III) to pay reasonable and nec-  
4                   essary administration expenses in connec-  
5                   tion with the establishment and operation  
6                   of the association and the processing of  
7                   claims against the association,

8                   “(iii) the State law governing the associa-  
9                   tion permits the association to levy assessments  
10                  on property and casualty insurance policy-  
11                  holders with insurable interests in property lo-  
12                  cated in the State to fund deficits of the asso-  
13                  ciation, including the creation of reserves,

14                  “(iv) the plan of operation of the associa-  
15                  tion is subject to approval by the chief executive  
16                  officer or other executive branch official of the  
17                  State, by the State legislature, or both, and

18                  “(v) the assets of the association revert  
19                  upon dissolution to the State, the State’s des-  
20                  ignee, or an entity designated by the State law  
21                  governing the association, or State law does not  
22                  permit the dissolution of the association.

23                  “(B) Subparagraph (A) shall not apply to an  
24                  association for any taxable year if the association’s  
25                  surplus income for such year exceeds 5 percent of

1 the total insured value of properties insured by the  
2 association as of the close of the taxable year unless  
3 the association pays a tax equal to 35 percent of  
4 such excess for such year. Such tax shall be treated  
5 as imposed by chapter 42 for purposes of this title.”

6 (b) TRANSITIONAL RULE.—No income or gain shall  
7 be recognized by an association as a result of a change  
8 in status to that of an association described by section  
9 501(c)(28) of the Internal Revenue Code of 1986, as  
10 amended by subsection (a).

11 (c) EFFECTIVE DATE.—The amendment made by  
12 subsection (a) shall apply to taxable years beginning after  
13 December 31, 1997.

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