

Recent Changes Impacting NCFC Programs

F&I Reinsurance and Product Conference

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October 29, 2019

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Tax Reform for NCFCs



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What You Can Expect to Learn Today ...

By the end of this session, you will be able to:

- 1** Explain the changes the Tax Cuts and Jobs Act made to NCFC taxation
- 2** Become familiar with the reporting requirements of NCFC shareholders
- 3** Better understand the recently issued proposed PFIC regulations and their potential impact on NCFCs

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How We'll Spend Our Time Together ...

Topic	Timing
Introduction and Learning Objectives	9:20a – 9:25a
Discussion of Recent Changes	9:25a – 9:45a
Q&A	9:45a – 9:55a
Closing	9:55a – 10:00a

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Discussion of Recent Changes

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1. TWO MAJOR CHANGES

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U.S. Shareholder
definition changed

2

Qualified insurance company
exception modified

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2. SUBPART F TAXATION

CFC U.S. Shareholders subject to subpart F taxation

- If CFC also a PFIC, other shareholders subject to PFIC rules

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3. 25% TEST

25% qualified insurance liabilities test introduced as part of the qualified insurance company exception.

- Less than 25% of total assets – test is failed
- Requires balance sheet
 - Hierarchy order
 - UPR excluded
 - Trifurcation of the UPR
 - Discontinued use of GAAP reporting by many NCFCs
 - Efficient capital management

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4. PFIC TAXATION

The Basics and Two Types of Taxation:

1. If it occurs, use Form 8621
2. If there is a chance of occurrence, use a Protective Statement
3. Pay me now, using a QEF election
4. Pay me later, using standard PFIC taxation rules

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5. PROTECTIVE STATEMENT

Use of a Protective Statement to achieve a retroactive QEF election:

1. All NCFC shareholders should have considered making this election
2. More important now given recently proposed regulations

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6. PROPOSED REGULATIONS

1. Mimic the Code

- A. Silent on property and casualty (P&C)
- B. Were P&C reserves ever intended to be allowed?
- C. Future claims liabilities not considered "occurred losses?"

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6. PROPOSED REGULATIONS *(continued)*

2. Modify former proposed regulations

- A. Wages test
- B. The 50% “cliff vesting”
- C. Independent contractor expenses
- D. Officers / Employee expenses
- E. Reaction of the IRS to the Automotive NCFC Model

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A graphic for a poll question. It features a hand holding a megaphone on the left. Two dark blue speech bubbles are positioned to the right. The top bubble contains the text "WHAT DO YOU THINK?" and the bottom bubble contains "POLL QUESTION".

WHAT DO YOU THINK?

POLL QUESTION

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Poll Question

As an administrator-direct writer of a non-PFIC automotive NCFC, what should have been communicated to your clients in order for them to best handle tax reform?

- A. Tell them to file Form 8621 and consider making a QEF election
- B. Tell them to consider a Protective Statement after discussions with their tax advisor
- C. Tell them that PFIC taxation is not an issue and that no action is needed on their part
- D. No communication is needed

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Questions



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Summary

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We have maintained contact with the IRS/Treasury and will be available for meetings with them if such are deemed necessary to clarify the industry's positions.

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Thank You!

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