

November 27, 1996

Corporate Income Tax -- Apportionment Formula: Reinsurance Premiums. IF MORE THAN ONE-THIRD OF THE PREMIUMS RECEIVED BY AN INSURANCE COMPANY OR A UNITARY GROUP OF INSURANCE COMPANIES ARE PREMIUMS RECEIVED FOR REINSURANCE, THE REINSURANCE PREMIUMS WILL BE INCLUDED IN THE APPORTIONMENT FORMULA.

Advice has been requested as to the inclusion of premiums received for reinsurance in calculating the apportionment formula of an insurance company or a unitary group of companies.

The income of an insurance company or unitary group of insurance companies is apportioned to Nebraska pursuant to a one-factor formula consisting of a fraction, the numerator of which is direct premiums received on property or risks in Nebraska and the denominator of which is direct premiums received on property or risks everywhere. Premiums for reinsurance are normally not included.

When more than one-third of the premiums received by a company or a unitary group of insurance companies consist of premiums received for reinsurance accepted, then the premiums received for reinsurance will be included in the apportionment formula. All transactions between corporate members of the same group will be eliminated prior to making the determinations outlined in this ruling.

The denominator is the sum of direct premiums received on property and risks everywhere, plus premiums received for reinsurance accepted with respect to property and risks everywhere. The numerator is the sum of direct premiums received for insurance upon property and risks in the State of Nebraska, plus premiums received for reinsurance accepted in respect to property and risks sourced in the State of Nebraska.

Premiums received for reinsurance accepted will be sourced to Nebraska if it can be established or reasonably be assumed that the underlying risks are in Nebraska. In the case of reinsurance accepted for which the location of the underlying risk can neither be established nor reasonably assumed, premiums received will be sourced to the state of commercial domicile of the ceding company with the following exception. If more than half of the ceding company's premiums written are direct premiums, reinsurance premiums received with respect to quota-share shall be sourced in proportion to the ceding company's Annual Statement -- Schedule T allocation of its direct premiums written. Schedule T is part of the annual statement prescribed by the National Association of Insurance Commissioners, which is required to be filed annually with the various state insurance departments. Quota-share reinsurance is reinsurance of a certain percentage of all or certain parts of the business of the reinsured.

APPROVED:



M. Berri Balka  
State Tax Commissioner

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