Reading:	Odomirok - Chapter 26			(taxes - 2017.Fall Q21) a-Question
Model:	2017.Fall #21			
Problem Type:	income tax *(includes calculating tax-basis income)*			

Given

random

		CY	CY-1
written premium	WP	399	374
unearned premium	UEP	72	57
paid loss	PL	223	221
loss reserves (undiscounted)	L^U	108	96
loss reserves (discounted)	L^D	99	79
interest on tax-exemplt municipal bonds	B	20	26
dividend income *	D		

* Starting 2021.Spring, the dividend income portion is no longer covered in the syllabus.

corporate tax rate: *	21%
ownership of dividend-paying corporation:	na

* The tax rate was changed from 35% to 21% beginning with the 2021.Spring syllabus

Find   income tax for CY

Other

Notation

RTI	= Regular <u>Taxable</u> Income *(same as TBI, Tax-Basis Income)*
RIT	= Regular Income Tax
AMTI	= Alternative Minimum <u>Taxable</u> Income *<== removed from 2021.Spring*
AMIT	= Alternative Minimum Income Tax *<== removed from 2021.Spring*

Main	**tax**	=	TBI	x	21%	TBI is calculated
Formula	(or RIT)	=	149.00	x	21%	below.
		=	<u>31.29</u>			

Step 1: calculate RTI *(same as TBI, Tax-Basis Income)*

	TBI	=	TBEP	+	InvInc	-	TBIL	=	149.00	*<== see steps 1 a,b,c below*

1a | TBEP | = | WP | - | 80% | x | chg(UEP) |
		=	399	-	80%	x	(	72	-	57	)
		=	399	-	80%	x	15
		=	<u>387.00</u>

1b **InvInc:** this is simplified for 2021..Spring because dividend income is not covered in the new version of Odomirok

bond value	20	
taxable rate of municipal tax-exempt bond:	25%	*<== changed from 15% to 25% for 2021.Spring*
taxable portion of municipal tax-exempt bond:	**5.0**	

1c | TBIL | = | PL | + | chg(L^D) |
| | | = | 223 | + | (| 99 | - | 79 |) |
| | | = | <u>243.00</u> |

Combining Steps 1a,b,c gives:

TBI	=	TBEP	+	InvInc	-	TBIL
	=	387	+	5	-	243
	=	<u>149.00</u>				