

Reading: Odomirok - Chapter 26

(taxes 2 - practice 01a) a-Question

Model: 2017.Fall #21

Problem Type: income tax (*includes calculating tax-basis income*)

Given

random

		CY	CY-1
written premium	WP	3,590	3,160
unearned premium	UEP	650	570
paid loss	PL	2,150	2,210
loss reserves (undiscounted)	L ^U	930	470
loss reserves (discounted)	L ^D	840	380
interest on tax-exempt municipal bonds	B	250	280
dividend income *	D	na	na

** 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 Taxable Income (*same as TBI, Tax-Basis Income*)

RIT = Regular Income **Tax**

AMTI = Alternative Minimum Taxable Income *<== removed from 2021.Spring*

AMIT = Alternative Minimum Income **Tax** *<== removed from 2021.Spring*

Main	tax	=	TBI	x	21%
Formula	(or RIT)	=	1,419.50	x	21%
		=	<u>298.10</u>		

TBI is calculated below.

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

	TBI	=	TBEP	+	InvInc	-	TBIL	=	<u>1,419.50</u>	<== see steps 1 a,b,c below	
1a	TBEP	=	WP	-	80%	x	chg(UEP)				
		=	5,340	-	80%	x	(1,070	-	710)
		=	5,340	-	80%	x	360				
		=	<u>5,052.00</u>								

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

bond value	270	
taxable rate of municipal tax-exempt bond:	25%	<== changed from 15% to 25% for 2021.Spring
taxable portion of municipal tax-exempt bond:	67.5	

1c	TBIL	=	PL	+	chg(L ^D)					
		=	3,150	+	(1,300	-	750)	
		=	<u>3,700.00</u>							

Combining Steps 1a,b,c gives:

TBI	=	TBEP	+	InvInc	-	TBIL
	=	5,052	+	68	-	3,700
	=	<u>1,419.50</u>				

Reading: Odomirok - Chapter 26

(taxes 2 - practice 01b) a-Question

Model: 2017.Fall #21

Problem Type: income tax (*includes calculating tax-basis income*)

Given

random

		CY	CY-1
written premium	WP	7,970	6,850
unearned premium	UEP	1,590	1,030
paid loss	PL	4,380	4,380
loss reserves (undiscounted)	L ^U	1,990	1,230
loss reserves (discounted)	L ^D	1,790	1,050
interest on tax-exempt municipal bonds	B	400	480
dividend income *	D	na	na

** 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 Taxable Income (*same as TBI, Tax-Basis Income*)

RIT = Regular Income **Tax**

AMTI = Alternative Minimum Taxable Income *<== removed from 2021.Spring*

AMIT = Alternative Minimum Income **Tax** *<== removed from 2021.Spring*

Main	tax	=	TBI	x	21%
Formula	(or RIT)	=	1,065.00	x	21%
		=	<u>223.65</u>		

TBI is calculated below.

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

	TBI	=	TBEP	+	InvInc	-	TBIL	=	<u>1,065.00</u>	<== see steps 1 a,b,c below
1a	TBEP	=	WP	-	80%	x	chg(UEP)			
		=	3,670	-	80%	x	(700 - 650)			
		=	3,670	-	80%	x	50			
		=	<u>3,630.00</u>							

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

bond value	260
taxable rate of municipal tax-exempt bond:	25%
taxable portion of municipal tax-exempt bond:	<u>65.0</u>

<== changed from 15% to 25% for 2021.Spring

1c	TBIL	=	PL	+	chg(L ^D)		
		=	2,170	+	(1,010 - 550)		
		=	<u>2,630.00</u>				

Combining Steps 1a,b,c gives:

TBI	=	TBEP	+	InvInc	-	TBIL
	=	3,630	+	65	-	2,630
	=	<u>1,065.00</u>				