Reading: Odomirok - Chapter 26   (Taxes - 17F.21) 1a-Question
Model: 2017.Fall #21
Problem Type: income tax *(includes calculating tax-basis income)*

Given

practice 1

		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 <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)	=	978.50	x	21%	below.
		=	205.49			

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

TBI	=	TBEP	+	InvInc	-	TBIL	=	978.50	*<== see steps 1 a,b,c below*

1a

TBEP	=	WP	-	80%	x	chg(UEP)			
	=	3,590	-	80%	x	(	650	-	570)
	=	3,590	-	80%	x	80			
	=	3,526.00							

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

interest on tax-exempt municipal bonds	250	
tax rate on bond interest:	25%	*<== changed from 15% to 25% for 2021.Spring*
taxable portion of interest:	62.5	

1c

TBIL	=	PL	+	chg(L^D)			
	=	2,150	+	(	840	-	380)
	=	2,610.00					

Combining Steps 1a,b,c gives:

TBI	=	TBEP	+	InvInc	-	TBIL
	=	3,526	+	63	-	2,610
	=	978.50				

Model: 2017.Fall #21

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

Given

practice 2

		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-exemplt 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 <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)	=	2,502.00	x	21%	below.
		=	525.42			

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

	TBI	=	TBEP	+	InvInc	-	TBIL	=	2,502.00	*<== see steps 1 a,b,c below*

1a	TBEP	=	WP	-	80%	x	chg(UEP)				
		=	7,970	-	80%	x	(	1,590	-	1,030	)
		=	7,970	-	80%	x	560				
		=	7,522.00								

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

interest on tax-exempt municipal bonds	400	
tax rate on bond interest:	25%	*<== changed from 15% to 25% for 2021.Spring*
taxable portion of interest:	**100.0**	

1c	TBIL	=	PL	+	chg(L^D)				
		=	4,380	+	(	1,790	-	1,050	)
		=	5,120.00						

Combining Steps 1a,b,c gives:

	TBI	=	TBEP	+	InvInc	-	TBIL
		=	7,522	+	100	-	5,120
		=	2,502.00				