

117TH CONGRESS  
1ST SESSION

# H. R. 5734

To amend the Internal Revenue Code of 1986 to establish a system for the taxation of catastrophic risk transfer companies to ensure sufficient capital to cover catastrophic insurance losses, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

OCTOBER 26, 2021

Mr. HIMES (for himself, Mrs. MURPHY of Florida, Mr. LUETKEMEYER, and Mr. LAHOOD) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on the Judiciary, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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## A BILL

To amend the Internal Revenue Code of 1986 to establish a system for the taxation of catastrophic risk transfer companies to ensure sufficient capital to cover catastrophic insurance losses, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Catastrophic Risk  
5 Transfer Act of 2021” or the “CART Act”.

1 **SEC. 2. TAXATION OF CATASTROPHIC RISK TRANSFER**  
 2 **COMPANIES.**

3 (a) IN GENERAL.—Subchapter M of chapter 1 of the  
 4 Internal Revenue Code of 1986 is amended by adding at  
 5 the end the following new part:

6 **“PART V—CATASTROPHIC RISK TRANSFER**  
 7 **COMPANIES**

“Sec. 860M. Catastrophic risk transfer companies.

“Sec. 860N. Taxation of catastrophic risk transfer companies.

“Sec. 860O. Taxation of security holders of catastrophic risk transfer company;  
 limitations applicable to dividends received from catastrophic  
 risk transfer company.

“Sec. 860P. Dividends paid by catastrophic risk transfer company after close  
 of taxable year.

8 **“SEC. 860M. CATASTROPHIC RISK TRANSFER COMPANIES.**

9 “(a) GENERAL RULE.—For purposes of this subtitle,  
 10 the term ‘catastrophic risk transfer company’ means any  
 11 domestic corporation which—

12 “(1) is—

13 “(A) created or organized under the laws  
 14 of a State which has enacted a State law which  
 15 enables the organization and licensure of a spe-  
 16 cial purpose insurer (whether or not designated  
 17 as such under such State law) which is capable  
 18 of carrying out the activities described in para-  
 19 graph (2), and

20 “(B) regulated and licensed as such a spe-  
 21 cial purpose insurer by the State commissioner

1 of insurance or other State official charged with  
2 regulation of insurance within the State,

3 “(2) the principal purpose of which is the car-  
4 rying out of the activities of catastrophic risk trans-  
5 fer, but only if—

6 “(A) substantially all of such activities re-  
7 late to business other than general annuity  
8 business, and

9 “(B) such activities are limited to—

10 “(i) issuing equity and debt securities,

11 “(ii) owning qualified investments,

12 and

13 “(iii) entering into one or more insur-  
14 ance or reinsurance agreements covering  
15 catastrophic risks from persons who are  
16 not related to such corporation at any time  
17 during the period beginning with the date  
18 such agreements are entered into and end-  
19 ing with the last day of the period such  
20 agreements are in effect, and

21 “(3) is authorized by the State commissioner of  
22 insurance or other State official charged with regula-  
23 tion of insurance within the State to carry out the  
24 activities of catastrophic risk transfer.

1       “(b) LIMITATIONS.—A corporation shall not be con-  
2 sidered a catastrophic risk transfer company for any tax-  
3 able year unless—

4               “(1) it files with its return for the taxable year  
5 an election to be a catastrophic risk transfer com-  
6 pany or has made such election for a previous tax-  
7 able year,

8               “(2) at least 90 percent of its gross income is  
9 derived from—

10                       “(A) investment income from qualified in-  
11 vestments, and

12                       “(B)(i) reinsurance premiums received  
13 from a regulated insurance company, or

14                       “(ii) insurance premiums from—

15                               “(I) a governmental agency,

16                               “(II) a company the assets of which  
17 exceed \$100,000,000, or

18                               “(III) a company that is transferring  
19 a sufficiently large pool of a single type of  
20 underlying risk that the insurance of such  
21 pool of risk would on a stand-alone basis  
22 constitute operation of an insurance busi-  
23 ness under part II of subchapter L, and

24               “(3) the limit of the insurance or reinsurance  
25 being provided is fully collateralized.

1       “(c) SPECIAL RULE FOR SERIES ISSUANCES.—If a  
2 catastrophic risk transfer company (within the meaning  
3 of subsection (a)), or a protected cell of such company,  
4 issues a series or class of securities which primarily has  
5 recourse to, or is primarily linked to, a designated reinsur-  
6 ance agreement and pool of collateral or assets, such series  
7 or class shall be treated as a separate corporation for pur-  
8 poses of this title (other than determining whether the re-  
9 quirements of subsection (a) are met).

10       “(d) FAILURE TO SATISFY GROSS INCOME TEST.—

11               “(1) DISCLOSURE REQUIREMENT.—A cata-  
12 strophic risk transfer company which fails to meet  
13 the requirement of paragraph (2) of subsection (b)  
14 for any taxable year shall nevertheless be considered  
15 to have satisfied the requirement of such paragraph  
16 for such taxable year if—

17                       “(A) following the catastrophic risk trans-  
18 fer company identification of the failure to meet  
19 such requirement for such taxable year, a de-  
20 scription of each item of its gross income de-  
21 scribed in such paragraph is set forth in a  
22 schedule for such taxable year filed in the man-  
23 ner provided by the Secretary, and

1           “(B) the failure to meet such requirement  
2           is due to reasonable cause and not due to will-  
3           ful neglect.

4           “(2) IMPOSITION OF TAX ON FAILURES.—If  
5           paragraph (1) applies to catastrophic risk transfer  
6           company for any taxable year, there is hereby im-  
7           posed on such company a tax in an amount equal to  
8           the excess of—

9           “(A) the gross income of such company  
10          which is not derived from sources referred to in  
11          subsection (b)(2), over

12          “(B) one-ninth of the gross income of such  
13          company which is derived from such sources.

14          “(e) DEFINITIONS.—For purposes of this part—

15          “(1) CATASTROPHIC RISK.—

16          “(A) IN GENERAL.—The term ‘cata-  
17          strophic risk’ means a risk of loss which has a  
18          low likelihood of occurring but which will be  
19          large in amount.

20          “(B) SPECIAL RULES.—For purposes of  
21          subparagraph (A)—

22          “(i) in the case of direct insurance, a  
23          risk of loss shall not be treated as large in  
24          amount unless such loss would exceed  
25          \$25,000,000 if it occurs, and

1           “(ii) in the case of mortality risk, the  
2           risk of loss transferred may be taken into  
3           account under subparagraph (A) only if it  
4           involves a pool of mortality or longevity  
5           risks.

6           “(2) INVESTMENTS AND INCOME.—

7           “(A) QUALIFIED INVESTMENT.—The term  
8           ‘qualified investment’ means—

9           “(i) cash,

10           “(ii) interests in money market funds,

11           and

12           “(iii) investment-grade debt securities  
13           and funds primarily holding such debt se-  
14           curities.

15           “(B) INVESTMENT INCOME.—The term  
16           ‘investment income’ means interest that is ac-  
17           crued or received on, distributions in connection  
18           with, or proceeds from the disposition of, quali-  
19           fied investments.

20           “(3) REGULATED INSURANCE COMPANY.—The  
21           term ‘regulated insurance company’ means any com-  
22           pany which is licensed to engage in the business of  
23           insurance in a State and which is subject to State  
24           law which regulates insurance (within the meaning  
25           of section 514(b)(2) of the Employee Retirement In-

1 come Security Act of 1974, as in effect on the date  
2 of the enactment of this section).

3 “(4) RELATED PERSON.—A person shall be  
4 treated as related person to another person if such  
5 person bears a relationship to such other person de-  
6 scribed in section 267(b) or 707(b).

7 **“SEC. 860N. TAXATION OF CATASTROPHIC RISK TRANSFER**  
8 **COMPANIES.**

9 “(a) REQUIREMENTS APPLICABLE TO CATA-  
10 STROPHIC RISK TRANSFER COMPANIES.—The provisions  
11 of this part (other than subsection (c) of this section) shall  
12 not be applicable to a catastrophic risk transfer company  
13 for a taxable year unless—

14 “(1) the deduction for dividends paid during  
15 the taxable year (as defined in section 561) equals  
16 or exceeds 90 percent of its catastrophic risk trans-  
17 fer company taxable income for the taxable year de-  
18 termined without regard to subsection (b)(2)(C), and

19 “(2) as of the close of the taxable year, the cat-  
20 astrophic risk transfer company has no earnings and  
21 profits accumulated in any taxable year to which the  
22 provisions of this part (or the corresponding provi-  
23 sions of prior law) did not apply to it.

24 “(b) METHOD OF TAXATION OF COMPANIES.—

1           “(1) IMPOSITION OF TAX ON CATASTROPHIC  
2 RISK TRANSFER COMPANIES.—There is hereby im-  
3 posed for each taxable year upon the catastrophic  
4 risk transfer company taxable income of every cata-  
5 strophic risk transfer company a tax computed as  
6 provided in section 11, as though the catastrophic  
7 risk transfer company taxable income were the tax-  
8 able income referred to in section 11.

9           “(2) CATASTROPHIC RISK TRANSFER COMPANY  
10 TAXABLE INCOME.—The catastrophic risk transfer  
11 company taxable income shall be the taxable income  
12 of the catastrophic risk transfer company adjusted  
13 as follows:

14           “(A) The net operating loss deduction pro-  
15 vided in section 172 shall not be allowed.

16           “(B) The deductions for corporations pro-  
17 vided in part VIII (except section 248) in sub-  
18 chapter B (section 241 and following, relating  
19 to the deduction for dividends received, etc.)  
20 shall not be allowed.

21           “(C) The deduction for dividends paid (as  
22 defined in section 561) shall be allowed.

23           “(D) The taxable income shall be com-  
24 puted without regard to section 443(b) (relating

1 to computation of tax on change of annual ac-  
2 counting period).

3 “(E) The taxable income shall be com-  
4 puted without regard to section 454(b) (relating  
5 to short-term obligations issued on a discount  
6 basis) if the company so elects in a manner pre-  
7 scribed by the Secretary.

8 “(F) There shall be deducted an amount  
9 equal to the tax imposed by subsection (d)(2) of  
10 section 860M for the taxable year.

11 “(G) There will be allowed as a deduction  
12 loss adjustment expenses and expenses of—

13 “(i) modeling firms, claims reviewers,  
14 loss reserve specialists, attorneys, account-  
15 ants, actuaries, indenture trustees (includ-  
16 ing reinsurance trustees and paying  
17 agents), independent directors, administra-  
18 tors of the catastrophic risk transfer com-  
19 pany, rating agencies of any securities  
20 issued by the catastrophic risk transfer  
21 company, reset and calculation agents, re-  
22 porting agencies, data providers, model es-  
23 crow agents, securities listings, and securi-  
24 ties listing agents, and

1                   “(ii) other professionals or service  
2                   providers, or other out-of-pocket costs in-  
3                   curred with issuing securities, reasonably  
4                   related thereto.

5                   “(3) SECTION 311(b) NOT TO APPLY TO CER-  
6                   TAIN DISTRIBUTIONS.—Section 311(b) shall not  
7                   apply to any distribution by a catastrophic risk  
8                   transfer company to which this part applies, if such  
9                   distribution is in redemption of its stock or securi-  
10                  ties upon the demand of the holder.

11                  “(4) TIME CERTAIN DIVIDENDS TAKEN INTO  
12                  ACCOUNT.—For purposes of this title, any dividend  
13                  declared by a catastrophic risk transfer company  
14                  during any calendar year and payable to security  
15                  holders of record on a specified date in such a year  
16                  shall be deemed—

17                         “(A) to have been received by each security  
18                         holder on December 31 of such calendar year,  
19                         and

20                         “(B) to have been paid by such company  
21                         on December 31 of such calendar year (or, if  
22                         earlier, as provided in section 860P).

23                  The preceding sentence shall apply only if such divi-  
24                  dend is actually paid by the company prior to the

1 15th day of the 9th month of the following calendar  
2 year.

3 “(c) EARNINGS AND PROFITS.—

4 “(1) DISTRIBUTIONS TO MEET REQUIREMENTS  
5 OF SUBSECTION (a)(2).—Any distribution which is  
6 made in order to comply with the requirements of  
7 subsection (a)(2)—

8 “(A) shall be treated for purposes of this  
9 subsection and subsection (a)(2) as made from  
10 earnings and profits which, but for the distribu-  
11 tion, would result in a failure to meet such re-  
12 quirements (and allocated to such earnings on  
13 a first-in, first-out basis), and

14 “(B) to the extent treated under subpara-  
15 graph (A) as made from accumulated earnings  
16 and profits, shall not be treated as a distribu-  
17 tion for purposes of subsection (b)(2)(C) and  
18 section 860P.

19 “(2) CATASTROPHIC RISK TRANSFER COM-  
20 PANY.—For purposes of this subsection, the term  
21 ‘catastrophic risk transfer company’ includes a do-  
22 mestic corporation which is a catastrophic risk  
23 transfer company determined without regard to the  
24 requirements of subsection (a).

1       “(d) PROCEDURES SIMILAR TO DEFICIENCY DIVI-  
2   DEND PROCEDURES MADE APPLICABLE.—

3               “(1) IN GENERAL.—If—

4                       “(A) there is a determination that the pro-  
5                       visions of this part do not apply to a cata-  
6                       strophic risk transfer company for any taxable  
7                       year (hereafter in this subsection referred to as  
8                       the ‘non-CART year’), and

9                       “(B) such catastrophic risk transfer com-  
10                      pany meets the distribution requirements of  
11                      paragraph (2) with respect to the non-CART  
12                      year,

13                      then, for purposes of applying subsection (a)(2) to  
14                      subsequent taxable years, the provisions of this part  
15                      shall be treated as applying to such catastrophic risk  
16                      transfer company for the non-CART year. If the de-  
17                      termination under subparagraph (A) is solely as a  
18                      result of the failure to meet the requirements of sub-  
19                      section (a)(2), the preceding sentence shall also  
20                      apply for purposes of applying subsection (a)(2) to  
21                      the non-CART year and the amount referred to in  
22                      paragraph (2)(A)(i) shall be the portion of the accu-  
23                      mulated earnings and profits which resulted in such  
24                      failure.

25               “(2) DISTRIBUTION REQUIREMENTS.—

1           “(A) IN GENERAL.—The distribution re-  
2           quirements of this paragraph are met with re-  
3           spect to any non-CART year if, within the 90-  
4           day period beginning on the date of the deter-  
5           mination (or within such longer period as the  
6           Secretary may permit), the catastrophic risk  
7           transfer company makes 1 or more qualified  
8           designated distributions and the amount of  
9           such distributions is not less than the excess  
10          of—

11                   “(i) the portion of the accumulated  
12                   earnings and profits of the catastrophic  
13                   risk transfer company (as of the date of  
14                   the determination) which are attributable  
15                   to the non-CART year, over

16                   “(ii) any interest payable under para-  
17                   graph (3).

18           “(B) QUALIFIED DESIGNATED DISTRIBUTION.—For purposes of this paragraph, the  
19           term ‘qualified designated distribution’ means  
20           any distribution made by the catastrophic risk  
21           transfer company if—  
22           transfer company if—

23                   “(i) section 301 applies to such dis-  
24                   tribution, and

1           “(ii) such distribution is designated  
2           (at such time and in such manner as the  
3           Secretary shall by regulations prescribe) as  
4           being taken into account under this para-  
5           graph with respect to the non-CART year.

6           “(C) EFFECT ON DIVIDENDS PAID DEDUC-  
7           TION.—Any qualified designated distribution  
8           shall not be included in the amount of dividends  
9           paid for purposes of computing the dividends  
10          paid deduction for any taxable year.

11          “(3) INTEREST CHARGE.—

12           “(A) IN GENERAL.—If paragraph (1) ap-  
13          plies to any non-CART year of a catastrophic  
14          risk transfer company, such catastrophic risk  
15          transfer company shall pay interest at the un-  
16          derpayment rate established under section  
17          6621—

18           “(i) on an amount equal to 50 percent  
19          of the amount referred to in paragraph  
20          (2)(A)(i), and

21           “(ii) for the period—

22           “(I) which begins on the last day  
23          prescribed for payment of the tax im-  
24          posed for the non-CART year (deter-

1                   mined without regard to extensions),  
2                   and

3                   “(II) which ends on the date the  
4                   determination is made.

5                   “(B) COORDINATION WITH SUBTITLE F.—  
6                   Any interest payable under subparagraph (A)  
7                   may be assessed and collected at any time dur-  
8                   ing the period during which any tax imposed  
9                   for the taxable year in which the determination  
10                  is made may be assessed and collected.

11                  “(4) PROVISIONS NOT TO APPLY IN THE CASE  
12                  OF FRAUD.—The provisions of this subsection shall  
13                  not apply if the determination contains a finding  
14                  that the failure to meet any requirement of this part  
15                  was due to fraud with intent to evade tax.

16                  “(5) DETERMINATION.—For purposes of this  
17                  subsection, the term ‘determination’ has the mean-  
18                  ing given to such term by section 860(e). Such term  
19                  also includes a determination by the catastrophic  
20                  risk transfer company filed with the Secretary that  
21                  the provisions of this part do not apply to the cata-  
22                  strophic risk transfer company for a taxable year.

23                  “(e) DEFINITIONS.—For purposes of this part—

1           “(1) the terms ‘dividend’ and ‘distribution’ shall  
2 include payments made to holders of debt securities,  
3 and

4           “(2) the term ‘security holder’ shall include  
5 holders of equity and debts securities issued by a  
6 catastrophic risk transfer company.

7 **“SEC. 8600. TAXATION OF SECURITY HOLDERS OF CATA-**  
8 **STROPHIC RISK TRANSFER COMPANY; LIMI-**  
9 **TATIONS APPLICABLE TO DIVIDENDS RE-**  
10 **CEIVED FROM CATASTROPHIC RISK TRANS-**  
11 **FER COMPANY.**

12           “(a) CHARACTER OF DIVIDENDS.—Each catastrophic  
13 risk transfer company shall identify in a statement issued  
14 to each security holder the portion of its dividends paid  
15 with respect to the year, under the rules of section 860N,  
16 which are attributable to the following types of income of  
17 the catastrophic risk transfer company:

18           “(1) Interest.

19           “(2) Tax-exempt interest.

20           “(3) Qualified dividend income, within the  
21 meaning of subparagraph (B) of section 1(h)(11) of  
22 this title.

23           “(4) Dividends other than qualified dividend in-  
24 come.

25           “(5) Capital gains.

1           “(6) Insurance or reinsurance premiums.

2           “(b) LOOK THROUGH FOR TAXATION OF DIVI-  
3   DENDS.—

4           “(1) GENERAL.—Except as provided in sub-  
5   section (n) of section 871 or subsection (f) of section  
6   881 of this title, each security holder shall be subject  
7   to taxation under this title on the dividends received  
8   from a catastrophic risk transfer company in the  
9   same manner as if such security holder had received  
10   the portions of each dividend identified on the state-  
11   ment provided under subsection (a) directly.

12           “(2) DIVIDEND INCOME.—In computing any de-  
13   duction under section 243 with respect to the por-  
14   tion of a dividend identified on the statement under  
15   subsection (a) as dividend income referenced in  
16   paragraphs (3) or (4) of such subsection, such por-  
17   tion shall be treated as received from a corporation  
18   which is not a 20-percent owned corporation.

19           “(3) CAPITAL GAIN INCOME.—The portion of a  
20   dividend identified on the statement under sub-  
21   section (a) as capital gain income referenced in  
22   paragraph (5) of such subsection shall be treated by  
23   the security holders as a gain from the sale or ex-  
24   change of a capital asset held for more than 1 year.

1 **“SEC. 860P. DIVIDENDS PAID BY CATASTROPHIC RISK**  
2 **TRANSFER COMPANY AFTER CLOSE OF TAX-**  
3 **ABLE YEAR.**

4 “(a) GENERAL RULE.—For purposes of this chapter,  
5 if a catastrophic risk transfer company—

6 “(1) declares a dividend on or before the later  
7 of—

8 “(A) the 15th day of the 9th month fol-  
9 lowing the close of the taxable year, or

10 “(B) in the case of an extension of time  
11 for filing the company’s return for the taxable  
12 year, the due date for filing such return taking  
13 into account such extension, and

14 “(2) distributes the amount of such dividend to  
15 security holders in the 12-month period following the  
16 close of such taxable year and not later than the  
17 date of the first dividend payment of the same type  
18 of dividend made after such declaration,

19 the amount so declared and distributed shall, except as  
20 provided in subsection (b) and to the extent the company  
21 elects in such return in accordance with regulations pre-  
22 scribed by the Secretary, be considered as having been  
23 paid during such taxable year.

24 “(b) RECEIPT BY SECURITY HOLDER.—Amounts to  
25 which subsection (a) applies shall be treated as received

1 by the security holder in the taxable year in which the  
2 distribution is made.”.

3 (b) EXEMPTION FROM WITHHOLDING TAXES ON  
4 NONRESIDENT ALIENS AND FOREIGN CORPORATIONS.—

5 (1) NONRESIDENT ALIENS.—Section 871 of the  
6 Internal Revenue Code of 1986 is amended by redesh-  
7 ignating subsection (n) as subsection (o) and by in-  
8 serting after subsection (m) the following:

9 “(n) EXEMPTION FOR QUALIFIED INVESTMENT IN-  
10 COME DIVIDENDS OF CATASTROPHIC RISK TRANSFER  
11 COMPANIES.—

12 “(1) IN GENERAL.—Except as provided in para-  
13 graph (2), no tax shall be imposed under paragraph  
14 (1)(A) of subsection (a) on any qualified investment  
15 income dividend received from a catastrophic risk  
16 transfer company which meets the requirements of  
17 section 860M(a) for the taxable year with respect to  
18 which the dividend is paid.

19 “(2) EXCEPTIONS.—Paragraph (1) shall not  
20 apply—

21 “(A) to any qualified investment income  
22 dividend received from a catastrophic risk  
23 transfer company by a person to the extent  
24 such dividend is attributable to investment in-  
25 come received by such company on indebtedness

1 issued by such person or by any corporation or  
2 partnership with respect to which such person  
3 is a 10-percent shareholder,

4 “(B) to any qualified investment income  
5 dividend with respect to stock of a catastrophic  
6 risk transfer company unless the person who  
7 would otherwise be required to deduct and with-  
8 hold tax from such dividend under chapter 3 re-  
9 ceives a statement (which meets requirements  
10 similar to the requirements of subsection  
11 (h)(5)) that the beneficial owner of such stock  
12 is not a United States person, and

13 “(C) to any qualified investment income  
14 dividend paid to any person within a foreign  
15 country (or any such dividend payment ad-  
16 dressed to, or for the account of, persons within  
17 such foreign country) during any period de-  
18 scribed in subsection (h)(6) with respect to such  
19 country.

20 Subparagraph (C) shall not apply to any dividend  
21 with respect to any stock which was acquired on or  
22 before the date of the publication of the Secretary’s  
23 determination under subsection (h)(6).

24 “(3) QUALIFIED INVESTMENT INCOME DIVI-  
25 DEND.—For purposes of this paragraph, the term

1 ‘qualified investment income dividend’ means the  
2 portion of any dividend distributed by a catastrophic  
3 risk transfer company—

4 “(A) which is attributable to investment  
5 income from qualified investments earned dur-  
6 ing a taxable year in which the catastrophic  
7 risk transfer company meets the requirements  
8 of subsection (b) of section 860M and sub-  
9 section (a) of section 860N, and

10 “(B) which is reported by the company as  
11 a qualified investment income dividend in writ-  
12 ten statements furnished to its security hold-  
13 ers.”.

14 (2) FOREIGN CORPORATIONS.—Section 881 of  
15 such Code is amended by redesignating subsection  
16 (f) as subsection (g) and by inserting after sub-  
17 section (e) the following:

18 “(f) EXEMPTION FOR QUALIFIED INVESTMENT IN-  
19 COME DIVIDENDS OF CATASTROPHIC RISK TRANSFER  
20 COMPANIES.—

21 “(1) IN GENERAL.—Except as provided in para-  
22 graph (2), no tax shall be imposed under paragraph  
23 (1)(A) of subsection (a) on any qualified investment  
24 income dividend received from a catastrophic risk  
25 transfer company which meets the requirements of

1 section 860M(a) for the taxable year with respect to  
2 which the dividend is paid.

3 “(2) EXCEPTIONS.—Paragraph (1) shall not  
4 apply any dividend described in section 871(n)(2).

5 “(3) QUALIFIED INVESTMENT INCOME DIVI-  
6 DEND.—For purposes of this paragraph, the term  
7 ‘qualified investment income dividend’ has the same  
8 meaning given such term by section 871(n)(3).”.

9 (c) CONFORMING AMENDMENT.—The table of parts  
10 for subchapter M of chapter 1 of the Internal Revenue  
11 Code of 1986 is amended by adding at the end the fol-  
12 lowing new item:

“PART V-CATASTROPHIC RISK TRANSFER COMPANIES.”.

13 **SEC. 3. STATE TAXATION OF REINSURANCE PREMIUMS OF**  
14 **CATASTROPHIC RISK TRANSFER COMPANIES.**

15 (a) PREVENTION OF DOUBLE TAXATION.—A taxing  
16 jurisdiction other than the State under the laws of which  
17 a catastrophic risk transfer company is created or orga-  
18 nized shall not impose a premium tax on any premiums  
19 paid to, or received by, such company on a policy of rein-  
20 surance.

21 (b) COORDINATION OF RATE OF PREMIUM TAX  
22 WITH TAX ON FOREIGN REINSURERS.—If a State allowed  
23 under subsection (a) imposes a premium tax on a cata-  
24 strophic risk transfer company on premiums on a policy  
25 of reinsurance, the amount of such tax shall not exceed

1 the tax which would have been imposed under section  
2 4371 of the Internal Revenue Code of 1986 if such pre-  
3 miums were paid to a foreign insurer or reinsurer.

4 (c) DEFINITIONS.—For purposes of this section—

5 (1) CATASTROPHIC RISK TRANSFER COM-  
6 PANY.—The term “catastrophic risk transfer com-  
7 pany” has the meaning given such term by section  
8 860M of the Internal Revenue Code of 1986.

9 (2) POLICY OF REINSURANCE.—The term “pol-  
10 icy of reinsurance” has the meaning given such term  
11 by section 4372(f) of such Code.

12 (3) TAXING JURISDICTION.—The term “taxing  
13 jurisdiction” means any of the several States, the  
14 District of Columbia, or any territory or possession  
15 of the United States, any municipality, city, county,  
16 or any other political subdivision within the terri-  
17 torial limits of the United States with the authority  
18 to impose a premium tax on a policy of reinsurance.

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