

Internal Revenue Service

Department of the Treasury

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Person to Contact:

Telephone Number:

Refer Reply To:
CC:INTL:BR1-PLR-118089-99
Date:
February 22, 2000

Legend

Taxpayer =

Dear :

This responds to your letter dated November 9, 1999, as supplemented by your letter dated December 22, 1999, in which you requested a ruling and closing agreement that premiums received by Taxpayer on policies of insurance or reinsurance of United States risks are exempt from the insurance excise tax imposed by section 4371 of the Internal Revenue Code pursuant to the Income Tax Convention between the United States and the Federal Republic of Germany (the "Convention").

The ruling contained in this letter is based upon information and representations submitted by Taxpayer and accompanied by penalty of perjury statements executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for ruling, it is subject to verification on examination.

Taxpayer, a property and casualty insurance company that is a resident of the Federal Republic of Germany, represents that it is engaged in an active trade or business in Germany and that the premium income it receives from U.S. insureds is derived in connection with, or is incidental to, that trade or business. Therefore, Taxpayer contends that it qualifies for benefits under Article 28(1)(c) of the Convention.

Section 3.06 of Rev. Proc. 92-39, 1992-1 C.B. 360, 361, provides that the Internal

Revenue Service will consider premiums received by a foreign insurer or reinsurer to be derived in connection with, or incidental to, the active conduct of a trade or business in Germany if for the company's preceding taxable year the average of the following three ratios exceeds 25 percent and each ratio is equal to at least 20 percent:

1. The ratio of the average value that the assets of the insurer or reinsurer used or held for use in the active conduct of a trade or business in Germany during the taxable year bears to the value of all of its assets. For 1998, Taxpayer represents that the average value of assets the taxpayer held in Germany for use in the active conduct of a trade or business was \$*** and that the average value of assets held worldwide was \$***. Therefore, the ratio of assets held for use in Germany to assets worldwide was *** percent. This ratio is based on the most conservative representations made by Taxpayer.

2. The ratio that gross premiums received by the insurer or reinsurer for policies on risks situated in Germany bear to total gross premiums received by the insurer or reinsurer. For 1998, Taxpayer represents that gross premiums received by the taxpayer on risks in Germany was \$*** and that gross premiums received on worldwide risks was \$***. Therefore, the ratio of gross premiums on risks in Germany to total gross premiums was *** percent.

3. The ratio that the insurer or reinsurer's payroll and commission expenses paid to employees and agents for services performed in Germany bears to the insurer or reinsurer's worldwide payroll and commission expenses. For 1998, Taxpayer represents that the taxpayer's payroll and commission expense for services performed in Germany was \$*** and that worldwide payroll and commission expenses was \$***. Therefore, the ratio of payroll and commission expense for services performed in Germany to payroll and commission expense for worldwide services was *** percent.

The average of the three ratios is *** percent. Accordingly, the taxpayer satisfies the requirements of Article 28(1)(c) of the Convention.

Pursuant to paragraph 8(a) of the enclosed agreement, Taxpayer's liability for Federal excise tax, as agreed upon, including liability resulting from reinsurance of U.S. risks with persons not entitled to exemption under the Convention or another Convention, will commence on January 1, 2000. The letter of credit required by paragraph 5(a) of the enclosed agreement, in the amount of \$***, must be in effect within 30 days of the date the agreement is finally signed on the Commissioner's behalf.

Any person otherwise required to remit the Federal excise tax on foreign insurance or reinsurance policies issued by Taxpayer pursuant to section 46.4371-1(a) of the Excise Tax Regulations may rely upon a copy of this letter and/or a copy of the approved Closing Agreement as authority that they may consider premiums paid to Taxpayer on and after January 1, 2000, as exempt under the Convention from the United States

Federal excise tax.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent by any other taxpayer. Furthermore, this ruling does not address the issue of whether Taxpayer is an insurance company or whether premiums paid to Taxpayer are deductible under section 162 of the Code.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

M. Grace Fleeman
Assistant to the Branch Chief, Branch 1
Office of Associate Chief Counsel
(International)

Enclosure (1)

cc:

CLOSING AGREEMENT OF FINAL
DETERMINATION COVERING
SPECIFIC MATTERS

Under section 7121 of the Internal Revenue Code,

TIN # _____ and the Commissioner of Internal Revenue make the following closing agreement:

WHEREAS, the business profits article (Article 7) of the United States-Germany Income Tax Convention (the "Convention") exempts insurance or reinsurance premiums paid to a resident of Germany from the Federal excise tax imposed by section 4371 *et seq.* of the Internal Revenue Code of 1986, as amended (the "Code") only to the extent that the German insurer or reinsurer does not reinsure such risks with a person not entitled to exemption from such tax under the Convention or another convention (Article 2(1)(a) of the Convention) and only if the insurer or reinsurer qualifies under Article 28 of the Convention;

WHEREAS, section 3.02 of Rev. Proc. 92-39 provides that the person required to remit the tax may consider the premium exempt if, prior to filing the return for the taxable period, such person has knowledge that the German insurer or reinsurer has in effect a closing agreement to be liable as a United States taxpayer for Federal excise tax due under section 4371 *et seq.* of the Code on premiums from policies reinsured with reinsurers that are not entitled to exemption from the excise tax under the Convention or any other convention and on premiums paid or accrued when the German insurer or reinsurer did not qualify under the Convention for exemption from the excise tax

imposed by section 4371 *et seq.* of the Code;

WHEREAS, the German insurer or reinsurer represents that it is and will continue to be eligible for benefits under the Convention; and

WHEREAS, the German insurer or reinsurer (hereinafter referred to as "the Taxpayer") wishes to have its policies of insurance or reinsurance considered exempt from tax under the Convention;

IT IS HEREBY DETERMINED AND AGREED THAT:

(1) Taxpayer shall, for purposes of this closing agreement, be liable as a United States Taxpayer for the Federal excise tax due under section 4371 *et seq.* of the Code on premiums from policies reinsured with reinsurers that are not entitled to exemption from the excise tax under the Convention or any other convention and from policies issued or outstanding when Taxpayer did not qualify under the Convention for exemption from the excise tax imposed by section 4371 *et seq.* of the Code.

(2)(a) Returns of Federal excise tax due under and pursuant to this closing agreement and section 4371 *et seq.* of the Code shall be made by Taxpayer, or by Taxpayer's authorized representative on Taxpayer's behalf, by filing Form 720, Quarterly Federal Excise Tax Return, for each return period covered by this closing agreement.

(b) If Taxpayer reinsures, in whole or in part, a policy of insurance or reinsurance with any person(s) not entitled to exemption from the excise tax under the Convention or any other convention or if Taxpayer issues or has outstanding a policy or policies when the Taxpayer did not qualify under the Convention for exemption from the excise tax imposed by section 4371 *et seq.* of the Code, the tax reportable on the return, Form 720, shall be computed on the basis of the percentage of such policy reinsured or on the basis of the premium accrued or received during the time period when Taxpayer did not qualify for exemption under the Convention. For purposes of the preceding sentence, Taxpayer may consider a reinsurer to be entitled to exemption from the excise tax under the Convention or another convention if the reinsurer is a party to a closing agreement with the Internal Revenue Service under this Convention or another convention, or the reinsurer provides evidence that it is a resident of the United States or of a country with which the United States has in effect a convention that waives the excise tax without an explicit "anti-conduit" clause.

(c) Forms 720 shall be filed with the Director, Internal Revenue Service Center, Philadelphia, Pennsylvania 19255, U.S.A.

(d) Taxpayer, or Taxpayer's authorized representative, shall make the required Federal tax deposits of the Federal excise tax in such manner and at such times as are prescribed by regulations and explained in the instructions for Form 720.

(3) Taxpayer agrees that, for purposes of determining its Federal excise tax liability

pursuant to this closing agreement and for purposes of verifying Taxpayer's entitlement to benefits under the Convention, Taxpayer will maintain for a period of 6 years from the end of each taxable period to which this closing agreement applies accounts and records of items of insurance and reinsurance that will be made available upon written request by the Internal Revenue Service at the place mutually agreed upon by the Service and Taxpayer. Taxpayer will also maintain for 6 years and make available for inspection records to establish eligibility for Convention benefits. Taxpayer will be allowed 60 days, or other period of time determined as reasonable by the Assistant Commissioner (International), within which to make available its accounts and records.

(4) If it is determined that there is an underpayment in respect of any excise tax determined to be due pursuant to this closing agreement and section 4371 *et seq.* of the Code, the Internal Revenue Service shall issue a statement of notice and demand for the tax due plus any interest and applicable penalties. Notice of any underpayment shall be sent to the Taxpayer at the name and address shown on the Form 720, if a Form 720 was filed for the period for which an underpayment is determined by the Internal Revenue Service, or otherwise to the Taxpayer's registered address in Germany. Payment of all additional amounts due shall be made in accordance with the terms specified in the statement of notice and demand. Collection of such amounts not paid per notice and demand shall be in accordance with paragraph 5 hereof.

(5)(a) As security for payment of tax, Taxpayer shall cause an irrevocable letter of credit to be issued by a United States bank that is a member of the Federal Reserve System, or by a United

States branch or agency of a foreign bank that is on the National Association of Insurance Commissioners list of banks from which letters of credit may be accepted, in favor of the Internal Revenue Service in the amount of \$ or such amount as may from time to time be mutually agreed upon by Taxpayer and the Service. Such letter of credit must be in effect within 30 days of the date that the closing agreement is signed for the Commissioner of Internal Revenue.

(b) The Service may issue a statement of notice and demand with respect to:

(i) Any tax shown on a Form 720 (original, amended, or substitute for return) that is not paid with such return; or

(ii) Any proposed additional excise tax liability sustained by the Internal Revenue Service Regional Director of Appeals having jurisdiction over such matter, if the time for filing a protest of such proposed liability has expired, provided that the statement of notice and demand has been issued as provided in paragraph 4 hereof.

(c) If, after the conditions in paragraph 5(b) hereof have been met, the tax, interest, and any applicable penalties, are not paid in accordance with the terms of the statement of notice and demand, collection of such amounts will be made by resorting to such letter of credit, to the extent thereof, before any levy or proceeding in court for collection is instituted against Taxpayer.

(d) If such letter of credit is drawn upon, it must be reinstated to \$ within 60 days after

the date drawn upon.

(6)(a) Solely by reason of the execution by Taxpayer and the Commissioner of this closing agreement, any person otherwise required to remit the federal excise tax on foreign insurance or reinsurance premiums pursuant to section 46.4374-1(a) of the Excise Tax Regulations may consider premiums paid to Taxpayer after the effective date of this agreement as exempt under the Convention from the Federal excise tax.

(b) Taxpayer agrees that the Commissioner, or his or her authorized delegate, may disclose Taxpayer's name as an insurer or reinsurer that qualifies for exemption from the excise tax under the Convention by publication or otherwise.

(7)(a) This closing agreement shall include, as an attachment hereto, a statement from the local tax office ("Finanzamt") with which the insurer or reinsurer files its German tax returns, with an English translation, certifying that Taxpayer is a resident of Germany as defined in the Convention and a statement from Taxpayer, with an English translation, that Taxpayer is not disqualified from receiving benefits under the Convention by reason of Article 28 of the Convention. Taxpayer shall submit such information in its statement as will establish its entitlement to benefits under the Convention.

(b) The statement from the Finanzamt shall be effective for a period of 3 calendar years beginning with the year of receipt. Taxpayer agrees to renew the certificate of residency every

three years, and its own certification of eligibility for benefits under the Convention every year, on or before the expiration date of the original certificate. Taxpayer agrees to provide an original and one copy of the recertification along with a photocopy of this closing agreement to:

Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224, U.S.A.
Attn: CC:INTL:1

Taxpayer also agrees to promptly notify the Competent Authority of Germany and the Internal Revenue Service of any change that may result in its disqualification from receiving Treaty benefits.

(8)(a) This closing agreement shall be effective as of January 1, 2000. This agreement shall thereafter continue in effect unless terminated as provided in subparagraph (b) of this paragraph.

(b) This agreement may be terminated by either Taxpayer or the Commissioner by giving the other written notice of the notifying party's intent to terminate. The decision to terminate is solely at the discretion of the party giving such notice. This agreement shall be terminated on the last day of the return period immediately following the return period within which the written notice of termination is given.

(c) Taxpayer hereby agrees to file a return, Form 720, marked "Final Return" for the taxable period within which this agreement terminates pursuant to paragraph (8)(b) hereof and to

furnish a duplicate of such "Final Return" to:

Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224, U.S.A.
Attn: CC:INTL:1

(d) Taxpayer agrees that the letter of credit issued pursuant to paragraph 5 hereof shall remain in effect for a period of not less than 60 days after the "Final Return" has been filed in accordance with subparagraph (c) hereof, or until the examination of Taxpayer's returns is completed and any additional tax due has been paid, whichever is later.

WHEREAS, the determinations set forth above are hereby agreed to by said taxpayer:

NOW THIS CLOSING AGREEMENT WITNESSETH, that the said taxpayer and said Commissioner of Internal Revenue hereby mutually agree that the determinations set forth shall be final and conclusive, subject, however, to reopening in the event of fraud, malfeasance, or misrepresentation of material fact, and provided that any change or modification of applicable statutes or tax conventions will render this agreement ineffective to the extent that it is dependent upon such statutes or tax conventions.

IN WITNESS WHEREOF, the above parties have subscribed their names to these presents, in triplicate.

Signed this _____ day of _____ 1999.

By: _____

Title: _____

By: _____

Title: _____

Commissioner of Internal Revenue

By: _____

Associate Chief Counsel (International)

(Date)

By: _____

Assistant Commissioner (International)

(Date)