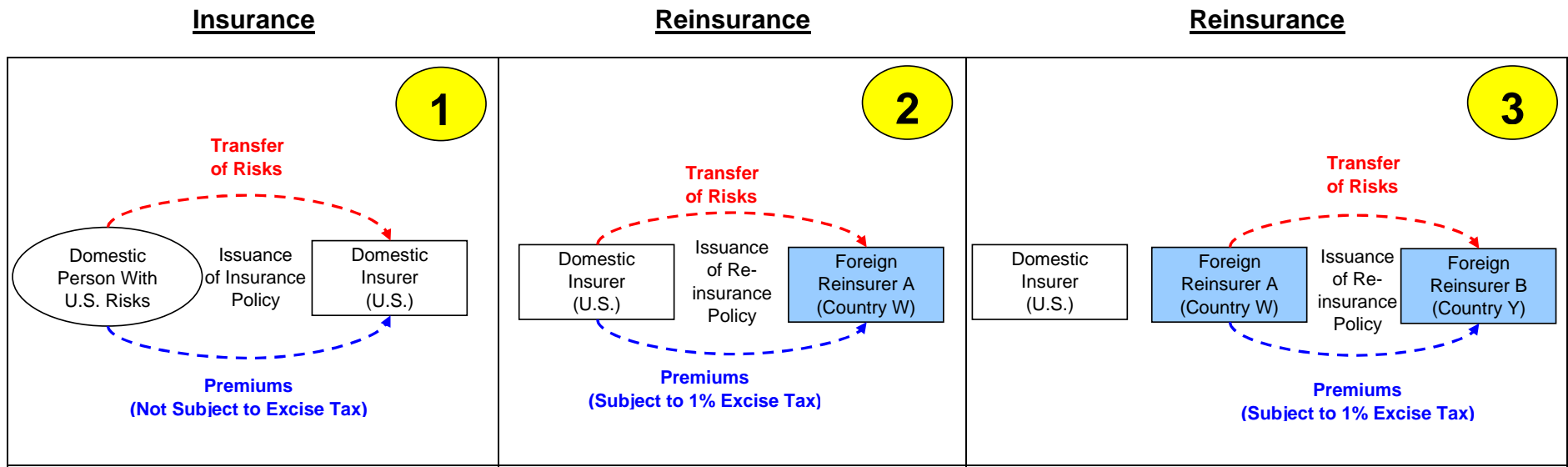


**Section 4371 Excise Tax on
Outbound Reinsurance &
Foreign-to-Foreign Reinsurance**



Foreign Reinsurer A, a foreign corporation incorporated in Country W, issues policies of reinsurance to Domestic Insurer, a U.S. corporation, that cover casualty insurance contracts issued to or for, or in the name of, an insured as defined in section 4372(d). Foreign Reinsurer A enters into a reinsurance agreement with Foreign Reinsurer B, incorporated in Country Y, whereby Foreign Reinsurer B agrees to indemnify Foreign Reinsurer A against all or part of the loss that Foreign Reinsurer A may sustain under the policies it has issued to Domestic Insurer. Country W and Country Y have income tax treaties with the United States that do not exempt insurance premiums from the excise taxes imposed by section 4371.

Section 4371 imposes an excise tax on each policy of insurance, indemnity bond, annuity contract, or policy of reinsurance issued by any foreign insurer or reinsurer. Section 4371(1) imposes such excise tax at the rate of 4 cents on each dollar, or fractional part thereof, of the premium paid on the policy of casualty insurance or the indemnity bond, if issued to or for, or in the name of, an insured as defined in section 4372(d). Section 4371(2) imposes such excise tax at the rate of 1 cent on each dollar, or fractional part thereof, of the premium paid on the policy of life, sickness, or accident insurance, or annuity contract. Section 4371(3) imposes such excise tax at the rate of 1 cent on each dollar, or fractional part thereof, of the premium paid on the policy of reinsurance covering any of the contracts taxable under paragraph (1) or (2) of section 4371.

Section 4372(a), for purposes of Section 4371, defines the term "foreign insurer or reinsurer" as an insurer or reinsurer who is a nonresident alien individual, or a foreign partnership, or a foreign corporation. Section 4372(d)(1) defines the term "insured" to include a domestic corporation or partnership, or an individual resident of the United States, that is insured against, or with respect to, hazards, risks, losses, or liabilities wholly or partly within the United States. The reinsurance premiums paid by Domestic Insurer to Foreign Reinsurer A covering casualty insurance contracts issued by Domestic Insurer are subject to the one-percent excise tax imposed by section 4371(3), because the policies of reinsurance cover contracts described in section 4371(1). The premiums paid by Foreign Reinsurer A to Foreign Reinsurer B are also subject to the one-percent excise tax imposed by section 4371(3) based on the same analysis.