Multistate Tax Commission – Project Regarding Partnership or Pass-Through Entity Income Ultimately Realized by an Entity That Is Not Subject to Income Tax

Executive Committee, May 10, 2012
TABLE OF CONTENTS (REFERENCING DOCUMENTS INCLUDED IN MARCH 7, 2012 MTC UNIFORMITY COMMITTEE PRESENTATION)


John Hancock Life Insurance Company

II. 2011 SEC filing showing, pages 9-10, John Hancock Life Insurance Company (domicile Michigan) owns directly or indirectly through one or more LLCs: John Hancock Distributors, LLC (domicile Delaware); John Hancock Investment Management Services, LLC (domicile Delaware); John Hancock Advisers, LLC (domicile Delaware), and John Hancock Funds, LLC (domicile Delaware).

III. 1999 SEC filing showing, page 12, the following two corporations within the John Hancock affiliated group: John Hancock Advisers, Inc. (domicile Delaware) and John Hancock Funds, Inc. (domicile Delaware).

Hartford Life Insurance Company

IV. 2010 SEC filing showing, pages 14-15, Hartford Life and Annuity Insurance Company (domicile Connecticut) owns Hartford Financial Services, LLC (domicile Delaware), which owns HL Investment Advisors, LLC (domicile Connecticut), which owns Hartford Investment Financial Services, LLC (domicile Delaware).

- Same organization chart, page 14, showing Hartford Hedge Fund Company, LLC (domicile Delaware) owned by Hartford Life Insurance Company (domicile Connecticut).

V. 1999 SEC filing showing, page 17, a similar organization structure as referenced supra in 2010 (see #IV): Hartford Life & Accident Insurance Company (domicile Connecticut) owns Hartford Financial Services, LLC (domicile Delaware), which owns HL Investment Advisors, LLC (domicile Connecticut), which owns Hartford Investment Financial Services Company (domicile Delaware) – which, however, is NOT listed as an LLC.

Pennsylvania Mutual Life Insurance Company

VII. 2011 SEC filing showing, pages 21-22, **Penn Mutual Life Insurance Company** (Penn Mutual) owns **Independence Square Properties, LLC**, which owns **Janney Montgomery Scott LLC**.

VIII. 2005 “Report of Examination” filed with the Pennsylvania and Virginia insurance agencies, showing page 24, the same organizational relationship as to **Penn Mutual, Independence Square Properties LLC**, and **Janney Montgomery Scott LLC** in 2011 (see #VII).

IX. 2000 SEC filing showing, pages 26-27, **Penn Mutual** owns **Independence Square Properties, Inc.** (not LLC, as is shown in 2005 and 2011, see #’s VII, VIII), which owns **Janney Montgomery Scott LLC**.

X. 1999 SEC filing showing, pages 29-30, **Penn Mutual** owns **Independence Square Properties, Inc**, which owns **Janney Montgomery Scott Inc.** (not LLC, as is shown in 2000, 2005 and 2011, see #’s VII, VIII, IX).
More Firms Enjoy Tax-Free Status

By JOHN D. MCKINNON

StoneMor Partners LP, the publicly traded firm that specializes in running cemeteries, expects to see handsome profits in coming years as baby boomers age and die. But unlike its largest rivals, its corporate tax bill from the federal government will be zero.

StoneMor is among the many businesses organized so they don’t pay a penny in federal corporate income tax. And yet such firms don’t employ an army of accountants to shield profits in complex tax shelters. Their enviable tax position is perfectly legal and has been encouraged by Congress and state governments. Known as pass-throughs, these firms pass along profits to investors who pay taxes on those sums through their individual returns.

This exception has been around for decades, and has been broadened repeatedly in recent years as a way to spur entrepreneurship. Millions of small businesses have organized this way, but so too have some behemoths like private-equity giant Blackstone Group LP, construction firm Bechtel Group Inc. and pipeline firm Kinder Morgan.

The percentage of U.S. corporations organized as nontaxable businesses has grown from about 24% in 1986 to about 69% as of 2008, according to the latest-available Internal Revenue Service data. The percentage of all firms is far higher when partnerships and sole proprietors are included.

Old-line U.S. public companies generally remain taxable, and many complain that they must pay higher effective rates than foreign competitors. They are eagerly seeking a cut in the 35% U.S. corporate-tax rate, now one of the highest in the world. But increasingly they find themselves at odds politically with the growing breed of nontaxable firms.

By some estimates, more than 60% of U.S. businesses with profits of $1 million are structured as pass-throughs, the highest rate among developed countries. Their popularity is one big reason why federal corporate tax collections amounted to just 1.3% of GDP in 2010, well below their mark of 2.7% in 2006 and far beneath their peak of 6.1% in 1952.

Almost everyone in Washington appears to agree that the Byzantine corporate tax code needs a revamp. But on this point, the business community is split, presenting perhaps the biggest obstacle to any overhaul.

Many Democrats as well as some Republicans are willing to consider taxing the largest pass-throughs. It is a matter of fairness, they argue, and would also raise new revenue to help offset the cost of cutting tax rates.

On the other side, a Republican-backed coalition including building contractors, beer distributors, auto dealers and funeral directors argues that changing the rules will inhibit entrepreneurship, as well as hit their pocketbooks.
Various proposals for overhauling the tax code threaten to hit the untaxed entities to some degree, by curbing the business tax breaks they receive. And pass-throughs—unlike taxable corporations—would receive no benefit from a drop in the corporate rate.

<table>
<thead>
<tr>
<th></th>
<th>Taxable Corporation</th>
<th>Pass-through</th>
<th>MLP</th>
<th>Revenue, billion</th>
<th>Tax Base, billion</th>
<th>Tax, billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>$25</td>
<td>$55</td>
<td>$23</td>
<td>$627</td>
<td>$60</td>
<td>$9.75</td>
</tr>
</tbody>
</table>

Treasury Secretary Timothy Geithner has kicked the issue squarely back to lawmakers. "Congress has to revisit this basic question about whether it makes sense for us as a country to allow certain businesses to choose whether they're treated as corporations for tax purposes or not," Mr. Geithner said at a Senate Finance Committee hearing last year.

Pass-throughs are especially prevalent in industries such as agriculture, mining, construction, finance, real estate, professional services and entertainment. Businesses in these sectors often have relatively few owners and can rely on private financing to flourish. By contrast, public companies, with some exceptions, must organize as taxable entities.

Analysts noted the tax advantage of pass-throughs when pipeline giant Kinder Morgan announced in October that it would buy rival El Paso Corp. in one of 2011’s biggest tie-ups. Kinder Morgan holds nearly all of its assets in Kinder Morgan Energy Partners LP, a so-called master limited partnership, a nontaxable entity. El Paso, though, for various business reasons, has kept a large percentage of its assets in the standard taxable corporate form. A Kinder Morgan spokesman said energy MLPs were authorized by Congress "to promote the development of energy infrastructure" in the U.S.

KKR, the big private-equity concern, reported that it earned a total of about $1.3 billion in 2010 through its pass-through ownership structure. KKR paid about $74 million in corporate tax, largely through a taxable subsidiary. If KKR were instead organized as a single taxable corporation, it would have paid about $523 million in corporate tax, counting both federal and state taxes, the company said. That means its pass-through structure saved it about $449 million.

Some but not all of that tax savings disappears when the individual taxes paid by the owners also are considered. Even so, KKK’s current pass-through structure saves at least $277 million in taxes overall, compared to a taxable corporate structure, when all taxes are considered.

Many large pass-throughs are private, and few details have emerged about their tax status. Construction giant Bechtel Group, for instance, has become a frequent target for congressional critics who say it is inappropriately taking advantage of pass-through rules designed for smaller companies. The company declines to comment on how it is organized for tax purposes.

Nontaxed companies go by a smorgasbord of appellations, from Subchapter S corporations to limited liability companies and master limited partnerships, to even more specialized forms. A common example would be a limited liability partnership, such as a law or accounting firm, which distributes profits to its partners. The firm itself typically doesn’t pay taxes. Instead, the federal government gets its cut by taxing partners’ income. The late Donald Alexander, an IRS commissioner in the 1970s, called this "tax nirvana."

The concept gained momentum in the 1950s when Congress created the Subchapter S corporation, a relatively strictly defined designation aimed at encouraging start-ups and diluting the influence of corporate giants. It got a boost in the 1970s, when Hamilton Brothers Oil Co. persuaded Wyoming’s legislature to approve a new form called the Limited Liability Company or LLC.
Starting in the late eighties, when the IRS recognized LLCs as partnerships for tax purposes, other states quickly followed suit. By 2008, about 1.9 million LLCs were filing tax returns with the IRS. "I tell friends my biggest business error was not getting a royalty" on the idea, said A.J. Miller, the former Hamilton executive who led the effort.

Reagan-era tax cuts made the structures more attractive because corporate rates suddenly were significantly higher than individual rates. Top individual rates have since risen and now are at 35%, the same as top corporate rates.

But organizing as a pass-through for tax purposes is still attractive for most businesses, because it eliminates one layer of taxation. Corporate profits are typically taxed twice, first at the corporate level and secondly when they are paid out to individuals as dividends and capital gains. Investors in pass-throughs, therefore, often benefit from larger sums being distributed.

Congressional officials knew they were encouraging businesses to become pass-throughs. Even so, “there were a hell of a lot more pass-throughs created than I think we expected,” says J. Roger Mentz, a former Reagan Treasury official who helped guide the 1986 Act through Congress.

In 1987, amid a rush by businesses to convert to the pass-through form, Congress declared that publicly traded companies should also be taxable corporations. But it carved out a few exceptions that seemed narrow at the time. One was for companies in the energy and natural resources field. Another was for real estate. Still another was for certain financial firms.

Despite occasional recent threats by some lawmakers to try to block private-equity firms from using the pass-through technique, Blackstone Group and KKR took advantage of the rules for publicly traded partnerships a few years ago. In 2011, two more well-known financial firms, Carlyle Group LP and Oaktree Capital Management LP, filed to go public in the same manner.

Todd Molz, general counsel of Oaktree, said the industry's moves are appropriate, because they prevent another layer of taxation on earnings. Businesses owned by private-equity firms often pay corporate taxes. Shareholders of the private-equity firms pay tax on their payouts. So imposing a levy on the investment firm itself would create a third layer of tax on the same activity, he said.

Since 2004, StoneMor, based in Levittown, Pa., has been organized as a master limited partnership. That means it doesn't pay corporate-level taxes even though it is publicly traded and has grown to become one of the industry's larger firms. StoneMor filings indicate that the firm is structured to take advantage of the real-estate and financial exceptions.

The firm's chief aim in converting to an MLP was to encourage investors to look at its cash flow and yield, the way MLP's usually are valued, rather than by typical corporate measures of profitability, said Tim Yost, a company vice president. "This isn't a tax-avoidance" maneuver, he said. StoneMor's market capitalization recently hovered around $450 million, up from $120 million at the end of 2006.

Company materials tout StoneMor's "predominantly tax free" structure, and tax benefits for investors. But StoneMor has to pay some corporate tax through subsidiaries, for income such as casket sales that doesn't qualify for one of the MLP exceptions. And company officials note their investors pay taxes on their share of the profits.
The structure is so potentially valuable that one of StoneMor’s directors has sought to replicate it with other companies, and has obtained a patent on an investment-fund strategy that involves converting corporations to master limited partnerships.

StoneMor’s largest rivals in the death-care industry, as the firms dub themselves, are organized as traditional taxable corporations. Industry analysts say too much of their income comes from funeral services, which doesn’t fit into any of the exceptions for publicly traded partnerships. Two of them, Service Corporation International and Carriage Services Inc., paid total tax rates of more than 40% each on their 2010 profits, counting federal and state corporate levies, according to their financial filings. They both declined to comment.

The administration has been working for months on a business-tax overhaul, but has yet to release it.

White House and Treasury spokesmen declined to comment. Some lawmakers have called for curtailing business tax deductions, with the additional revenue redeployed to help lower corporate tax rates. A few lawmakers—mostly Democrats—have floated the idea of imposing a tax on the largest pass-throughs.

But small-business groups and their allies in Congress, particularly Republicans, have pushed back on the idea of raising taxes on pass-throughs, warning that such a move could slow job creation. And the larger pass-through companies retain significant lobbying and political clout.

Most Republicans say they favor reducing both corporate and individual tax rates. "I don't know how you deal with the [corporate] rate without dealing with also the pass-through entities," Rep. Vern Buchanan (R., Fla.), whose own businesses are organized as pass-throughs, said at a House hearing in June. "It all has to be looked at."

Write to John D. McKinnon at john.mckinnon@wsj.com

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JOHN HANCOCK LIFE INSURANCE CO (USA) SEPARATE ACCOUNT H

FORM 485BPOS
(Post-Effective Amendment (investment company, rule 485(b)))

Filed 05/02/11

Address 601 CONGRESS STREET
          BOSTON, MA 02210
Telephone 617-663-3000
CIK 0000753892
Fiscal Year 12/31
(1) The remaining 5% equity of PT Asuransi Jiwa Manulife Indonesia is indirectly held by The Manufacturers Life Insurance Company.

(2) MFC Global Fund Management (Europe) Limited changed its name to Manulife Asset Management (Europe) Holdings Limited effective January 6, 2011.

(3) MFC Global Investment Management (Japan) Limited changed its name to Manulife Asset Management (Japan) Limited effective January 11, 2011.

This chart displays voting shares. All entities are 100% controlled unless otherwise indicated.
JOHN HANCOCK LIFE INSURANCE CO (U.S.A.) SEPARATE ACCOUNT Q

FORM 485BPOS
(Post-Effective Amendment (investment company, rule 485(b)))

Filed 04/29/99

Address 601 CONGRESS STREET
BOSTON, MA 02210
Telephone 617-663-3000
CIK 0001012969
Fiscal Year 12/31.

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John Hancock Advisers, Inc. (one of the wholly-owned subsidiaries of The Berkeley Financial Group) directly owns the following entities:

- John Hancock Funds, Inc. (Delaware)
- John Hancock Advisers International, Ltd. (England) (99.9% of voting securities owned)
- Transamerica Fund Management Company (Delaware)
- Patriot Group, Inc. (Massachusetts)

**John Hancock Advisers International (Ireland) Ltd. (Ireland)**

**LEVEL FIVE**

John Hancock Funds, Ltd. (one of the wholly-owned subsidiaries of John Hancock Advisers, Inc.) directly owns John Hancock Insurance Agency, Inc.

(Massachusetts)
HARTFORD LIFE INSURANCE CO
SEPARATE ACCOUNT SEVEN

FORM 485BPOS
(Post-Effective Amendment (investment company, rule 485(b)))

Filed 05/03/10

Address     HARTFORD LIFE INSURANCE
            200 HOPMEADOW STREET
            SIMSBURY, CT 06089
Telephone   860-843-5910
CIK         0000809013
Fiscal Year 12/31
HARTFORD LIFE INSURANCE CO
SEPARATE ACCOUNT SEVEN

FORM 485BPOS
(Post-Effective Amendment (investment company, rule 485(b)))

Filed 12/15/99

Address  HARTFORD LIFE INSURANCE
          200 HOPMEADOW STREET
          SIMSBURY, CT 06089
Telephone  860-843-5910
CIK  0000809013
Fiscal Year  12/31
HARTFORD LIFE INSURANCE CO SEPARATE ACCOUNT TEN

FORM 485BPOS
(Post-Effective Amendment (investment company, rule 485(b)))

Filed 04/15/98

Address 200 HOPMEADOW ST
SIMSBURY, CT 06089
Telephone 860-843-5910
CIK 0000821581
Fiscal Year 12/31
PENN MUTUAL VARIABLE ANNUITY ACCOUNT III

FORM 485APOS
(Post-Effective Amendment (investment company, rule 485(a)))

Filed 10/12/11

Address  PENN MUTUALS INDEPENDENCE PL C30  
           600 DRESHER RD  
           HORSHAM, PA 19044

Telephone  2159568835
CIK        0000702184
Fiscal Year 12/31
The Honorable Julia Chang Bloch (Ambassador)  Trustee of Penn Mutual
Edward G. Boehne  Trustee of Penn Mutual
Joan P. Carter  Trustee of Penn Mutual
William R. Cook  Trustee of Penn Mutual
Charisse R. Lillie  Trustee of Penn Mutual
Alan B. Miller  Trustee of Penn Mutual
Edmond F. Notebaert  Trustee of Penn Mutual
Robert H. Rock  Trustee of Penn Mutual
Anthony M. Santomero  Trustee of Penn Mutual

The business address of each of the Trustees and officers is The Penn Mutual Life Insurance Company, Philadelphia, PA 19172.

Item 26. **Persons Controlled By or Under Common Control with the Depositor or Registrant**

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Principal Business</th>
<th>State of Incorporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Pennsylvania Life and Annuity Company</td>
<td>Life Insurance and Annuities</td>
<td>Delaware</td>
</tr>
<tr>
<td>Independence Capital Management, Inc.</td>
<td>Investment Adviser</td>
<td>Pennsylvania</td>
</tr>
<tr>
<td>Penn Series Funds, Inc.</td>
<td>Investment Company</td>
<td>Maryland</td>
</tr>
<tr>
<td>Penn Janney Fund, Inc.</td>
<td>Investments</td>
<td>Pennsylvania</td>
</tr>
<tr>
<td>Penn Janney Advisory, Inc.*</td>
<td>Investment Adviser</td>
<td>Pennsylvania</td>
</tr>
<tr>
<td>Penn Janney GP LLC**</td>
<td>Investments</td>
<td>Delaware</td>
</tr>
<tr>
<td>Penn Janney Opportunities Fund LP***</td>
<td>Investments</td>
<td>Delaware</td>
</tr>
</tbody>
</table>
Independence Square Properties, LLC

Holding Company
Delaware

Holding Company
Delaware

Registered Broker-Dealer and Investment Adviser
Pennsylvania

Holding Company
Delaware

* Penn Janney Advisory, Inc. is 50% owned by Penn Mutual and 50% owned by Janney Montgomery Scott LLC.
** Penn Janney GP LLC is 49.5% owned by Penn Mutual, 49.5% owned by Janney Montgomery Scott LLC, and 1.0% owned by Richard Fox.
*** Penn Janney Opportunities Fund LLP is 49.5% owned by Penn Mutual, 49.5% owned by Janney Montgomery Scott LLC, and 1.0% owned by Penn Janney GP LLC.
**** Independence Square Properties, LLC is 95% owned by Penn Mutual and 5% owned by ISP Parker Hunter, which is 100% owned by Penn Mutual.

Independence Square Properties, LLC
Wholly-Owned Subsidiaries

Corporation
Walnut Q Corporation
Principal Business
Investments
State of Incorporation
Pennsylvania

Janney Montgomery Scott LLC
Principal Business
Registered Broker-Dealer and Investment Adviser
State of Incorporation
Delaware

Indepro Corporation
Wholly-Owned Subsidiaries

Corporation
Indepro Property Fund II Corporation
Principal Business
Investments
State of Incorporation
Delaware
Examination Warrant Number 05-LH-314Z

Report of Examination

of

The Penn Mutual Life Insurance Company
Horsham, Pennsylvania

As of December 31, 2005
On October 31, 2005, HTK Insurance Agency of Texas, Inc, a subsidiary of Hornor, Townsend and Kent, was dissolved.

CORPORATE ORGANIZATION STRUCTURE

CORPORATE RECORDS

MINUTES

Minutes of the meetings of the Board of Trustees and its various appointed committees were reviewed for the years under examination. These minutes revealed excellent attendance and active participatory oversight of the Company’s operations and compliance with governing Bylaws and regulations.
PENN MUTUAL VARIABLE ANNUITY ACCOUNT III

FORM 485BPOS
(Post-Effective Amendment (investment company, rule 485(b)))

Filed 04/24/00

Address  
PENN MUTUALS INDEPENDENCE PL C30
       600 DRESHER RD
       HORSHAM, PA 19044
Telephone  2159568835
CIK  0000702184
Fiscal Year  12/31
Item 26. Persons Controlled By or Under Common Control with the Depositor or Registrant

Penn Mutual Wholly-Owned Subsidiaries

Principals Business
Life Insurance and Annuities
Investment Adviser
Investments
Holding Company
Trust Company

Independence Square Properties, Inc. Wholly-Owned Subsidiaries

Corporation
Penn Glenside Corporation
Penn Wayne Corporation
St. James Realty Corporation
Investors' Mortgage Corporation
Christie Street Properties, Inc.
Indepro Corporation
Economic Resources Associates, Inc.
WPI Investment Company

Principal Business
Real Estate Investment
Real Estate Investment
Real Estate Investment
Real Estate Investment
Real Estate Investment
Real Estate Investment
Real Estate Investment

State of Incorporation
Delaware
Pennsylvania
Pennsylvania
Pennsylvania
Pennsylvania
Pennsylvania
Pennsylvania
Delaware
Delaware
Delaware
Item 27. Number of Contract Owners

As of March 31, 2000, there were:

44 -- owners of qualified individual variable annuity contracts;

0 -- owners of qualified group variable annuity contracts; 0 -- owners of certificates issued under qualified group variable annuity contracts; and

13 -- owners of nonqualified individual variable annuity contracts.
PENN MUTUAL VARIABLE ANNUITY ACCOUNT III

FORM 485BPOS
(Post-Effective Amendment (investment company, rule 485(b)))

Filed 04/27/99

Address  
PENN MUTUALS INDEPENDENCE PL C30
600 DRESHER RD
HORSHAM, PA 19044

Telephone  2159568835
CIK  0000702184
Fiscal Year  12/31
Penn Mutual Wholly-Owned Subsidiaries

PRINCIPAL BUSINESS

The Penn Insurance and Annuity Company
Life Insurance and Annuities
Investment Adviser
Investments
Holding Company
Trust Company

STATE OF INCORPORATION

Delaware
Pennsylvania
Pennsylvania
Pennsylvania

INDEPENDENCE SQUARE PROPERTIES, INC.
WHOLLY-OWNED SUBSIDIARIES

PRINCIPAL BUSINESS

Penn Glenside Corporation
Real Estate Investment
Real Estate Investment
Real Estate Investment
Real Estate Investment

Penn Wayne Corporation
Real Estate Investment

St. James Realty Corporation
Real Estate Investment

Investors' Mortgage Corporation
Real Estate Investment

Christie Street Properties, Inc.
Real Estate Investment

INDEPRO CORPORATION
Real Estate Investment

Economic Resources Associates, Inc.
Real Estate Investment

WPI Investment Company
Real Estate Investment

Hornor, Townsend & Kent, Inc.
Regarding Broker-Dealer and Investment Adviser

Penn Tallahassee Corporation
Real Estate Investment

STATE OF INCORPORATION

Pennsylvania
Pennsylvania
Pennsylvania
Pennsylvania
Pennsylvania
Delaware
Delaware
Delaware
Pennsylvania
Florida
ITEM 27. NUMBER OF CONTRACT OWNERS

As of March 31, 1999, there were 13 contracts being registered under this Registration Statement outstanding.

ITEM 28. INDEMNIFICATION

Section 6.2 of the By-laws of The Penn Mutual Life Insurance Company provides that, in accordance with the provisions of the Section, the Company shall indemnify trustees and officers against expenses (including attorneys' fees), judgments, fines, excise taxes and amounts paid in settlement actually and reasonably incurred in connection with actions, suits and proceedings, to the extent not prohibited by law, and may provide other indemnification to the extent not prohibited by law. The By-laws are filed as Exhibit 6(b) to Post-Effective