This memo presents two alternative draft statues for the committee’s consideration. Both drafts incorporate the committee’s suggestions from the annual meeting, as well as input from the working group. The first alternative draft is intended to apply to insurance companies only. The second alternative draft is intended to apply more broadly to other non-income taxpayers that have at least a 50% ownership interest in a partnership or disregarded entity. Highlighted items are items that the committee might wish to further discuss. The reference to Section 501 non-profits in Alternative Draft 1 was triggered by the committee’s discussion of the issue in reference to what is now Alternative Draft 2. The thought occurred to me that insurance companies may very well own 501 entities and therefore the committee might wish to consider whether this language should be included in Alternative 1 as well as Alternative 2.

**ALTERNATIVE DRAFT 1**

**Insurance Companies Only**

When [50 per cent or more of the capital interests or profit interests in] an entity that is engaged in a trade or business other than an insurance trade or business and that would otherwise be treated as a partnership or disregarded entity for purposes of [insert applicable state tax or taxes], [other than an entity that is recognized as a non-profit entity under Section 501 of the Internal Revenue Code], is owned, directly or indirectly, by an insurance company the net income [or alternative tax base] that passes through to such insurance company shall be taxed to the partnership or disregarded entity as if the partnership or disregarded entity were a corporation subject to tax under chapter [insert state statute] To the extent applicable, income that is taxable to the partnership or disregarded entity pursuant to this section, and any related tax attributes and activities,
shall be included and taken into account in a combined report filed under [insert state statute].

**ALTERNATIVE DRAFT 2**

**Insurance Companies and Other Entities**

When [50 per cent or more of the capital interests or profit interests in] an entity that would otherwise be treated as a partnership or disregarded entity for purposes of [insert applicable state tax or taxes] is owned, directly or indirectly, by an ownership entity, other than an entity that is recognized as a non-profit entity under Section 501 of the Internal Revenue Code, that is not of a type subject to [insert applicable tax or taxes] under [insert state statute], the net income [or alternative tax base] that passes through to such ownership entity shall be taxed to the partnership or disregarded entity as if the partnership or disregarded entity were a corporation subject to tax under chapter [insert state statute]. To the extent applicable, income that is taxable to the partnership or disregarded entity pursuant to this section, and any related tax attributes and activities, shall be included and taken into account in a combined report filed under [insert state statute],