

LIFE COMPANIES INCLUDING ACCIDENT AND HEALTH INSURANCE TAX RETURN

CDI FS-002 (REV 11/2004)

FOR CALENDAR YEAR 2004**TAX DUE DATE APRIL 1, 2005****ATTACHMENT "A"****Assumptions:**

<u>YEAR OF TAX</u>	<u>ANNUITY DEPOSITS PAID BY PH</u>	<u>OUT OF POCKET CASH FROM PH</u>	<u>GROSS INVESTMENT INTEREST/ DIVIDENDS</u>	<u>ADM. AND OTHER FEES DEDUCTED FROM PH ACCOUNT BY CO.</u>	<u>YEAR END ACCOUNT VALUE</u>
Year One	500.00		50.00	(100.00)	450.00
Year Two	500.00		100.00	(100.00)	950.00
Year Three	500.00		200.00	(100.00)	1,550.00
Year Four	500.00	1,000.00	300.00	(100.00)	3,250.00
Years 5 to 20	8,000.00		19,350.00	(1,600.00)	
Total at 20 Yr.	<u>10,000.00</u>	<u>1,000.00</u>	<u>20,000.00</u>	<u>(2,000.00)</u>	<u>29,000.00</u>

\$29,000.00 is applied to purchase of annuity on January 1, year 21.

FRONT-END BASIS

1. Premium taxes paid on \$500 deposit by policyholder/insured (PH) each year from year 1 to year 20.
2. Premium taxes paid on \$1,000 in year 4 for out of pocket cash from the policyholder.
3. Total premiums subjected to premium taxes is \$11,000. (\$10,000 annuity deposits and \$1,000 out of pocket as paid by the policyholder.)
4. \$29,000 applied to purchase an annuity contract at the beginning of year 21 does not affect the tax base
5. Surrender charge reported as return premium. This amount can not be larger than the amounts actually paid by the policyholder (PH), as annuity deposit, and out of pocket expenses. For example, if a surrender occurs at the end of year 1, with 10% surcharge, only \$405 is return premium. $[(\$450 - (\$450 \times 10\% = \$45))] = \405 .

BACK-END BASIS

1. No premium taxes paid for years 1 - 20 until annuitization of contract at the beginning of year 21.
2. **\$31,000 is taxable in year 21 for premium taxes.** (\$10,000 = annuity; \$1,000 = out of pocket as paid by the policyholder; \$20,000 = interest, dividends, and investment.)
3. Surrender fees are not taxable if entire account value is surrendered prior to annuitization.
4. \$29,000 applied to purchase annuity at start of year 21. **This is not the taxable amount.** See #2 for taxable amount for premiums taxes.