

# *AALU's Washington Report*

*Premier analysis of federal legislative and regulatory developments for the nation's 2000 most advanced life insurance planners, focusing on business, estate, qualified and nonqualified retirement planning.*

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Subject: **Life Insurance Valuation Guidance Published**

Major References: [\*Proposed Regulations, revising Regs. §§ 1.79-1, 1.83-3, and 1.402\(a\)-1; Rev. Proc. 2004-16, Rev. Rul. 2004-20, Rev. Rul. 2004-21\*](#)

Prior AALU Washington Reports: 04-24; 03-135; 03-122; 03-121; 03-113; 03-99; 03-54; 03-13

MDRT Information Retrieval Index Nos.: 5400.00; 5610.00; 7400.00

***The Treasury and Internal Revenue Service released long awaited guidance today on the valuation of life insurance policies, particularly in the context of section 412(i) plans as well as other qualified retirement plans. (See our Bulletins Nos. 04-24, 03-135, 03-122, 03-121, 03-113, 03-99, 03-54, 03-13.)***

That guidance has been issued in the form of four separate publications -- (i) Proposed Regulations, revising Regs. §§1.79-1, 1.83-3 and 1.402(a)-1, (ii) Rev. Proc. 2004-16, (iii) Rev. Rul. 2004-20 and (iv) Rev. Rul. 2004-21.

These materials are designed to accomplish three basic ends as articulated by the Revenue Service:

1. Any life insurance contract transferred from an employer or a tax qualified plan to an employee must be taxed at full market value.
2. Employers will not be able to buy excessive life insurance -- policies under which the death benefits exceed similar benefits provided to the employee's beneficiaries under the terms of the plan with the balance of the excess death benefits reverting to the plan as a return on investment. The aim here is to deny employers the ability to claim what the Service views as excessively large tax deductions. Transactions such as this will be listed transactions for tax shelter reporting purposes.

3. Section 412(i) plans cannot use differences in life insurance contracts to discriminate in favor of highly paid employees.

As soon as we have had the opportunity to review this guidance in detail, we will be reporting to you with a more thorough analysis.

Any AALU member who wishes to obtain a copy of the Proposed Regulations, Rev. Proc. 2004-16, Rev. Rul. 2004-20 and Rev. Rul. 2004-21, may do so through the following means: (1) use hyperlink above next to “major reference,” (2) log onto the AALU website at [www.aalu.org](http://www.aalu.org), enter the *Members Portal* with your social security number and select *Current Washington Report* for linkage to source material; (we are no longer using the Fax-on-Demand system) or (3) write to AALU, Attention [DeLane Jones](#), 2901 Telestar Court, Falls Church, Virginia 22042-1205, and include a reference to this Washington Report No. 04-27.



Preserving and expanding opportunities for advanced life insurance planning through effective federal legislative and regulatory advocacy, information on key developments, and forums to help top practitioners increase their expertise and become more politically involved for the benefit of their clients.