

# Golden Bullets

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## SAVING TAXES WITH LIFE INSURANCE: THINGS TO CONSIDER

The federal government has implemented lots of rules that affect the tax characteristics of life insurance. My clients are likely to have tax concerns and objectives that have a direct or indirect connection to life insurance.

The federal tax code is a patchwork that requires an experienced guide to arrive at a particular client's destination. In fact, sometimes the journey requires several experts—life insurance professional, accountant and attorney.

The Internal Revenue Code is explicit in the tax advantages that it gives to life insurance. For example:

- **Section 72** confirms that the cash value buildup and lifetime distributions from certain kinds of life insurance policies are tax-advantaged.
- **Section 101** says that the death benefit of life insurance policies is usually income tax free. It also says that certain kinds of accelerations of the death benefit—for chronic illness or terminal illness—are also income tax free.
- **Section 162** describes one of the limited circumstances under which an employer can provide the premium for an employee's life insurance policy that may generate a tax deduction for the employer.
- **Section 1035** lists the types of life insurance-related exchanges that qualify for income tax deferral treatment.

On the other hand, the Code lays out some traps for taxpayers who don't pay close enough attention to the life insurance tax rules:

- **Section 264** says that the premium for key person life insurance is NOT tax deductible.
- **Section 409A** sets forth some pretty specific requirements for a business owner to implement a tax-favored deferred compensation arrangement—including deferred compensation with life insurance as a key component.
- **Sections 2033, 2035 and 2042** of the Code work together to cover circumstances under which the death benefit of a life policy will be included in the insured taxable estate.

Do you have questions about taxes? Do you wonder whether your financial plans are configured in a tax-efficient way? I do my best to understand all my clients' goals—including tax objectives—and help them implement plans that are optimized for them.

***AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR OTHER FINANCIAL SECURITY ISSUES OF CONCERN.***

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