



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

For Immediate Release

Wednesday, Jan. 14, 2004

Grassley Staff Release Discussion Draft on Corporate-owned Life Insurance

WASHINGTON – Staff of Sen. Chuck Grassley, chairman of the Committee on Finance, today released a discussion draft of a proposal to reform tax policy on corporate-owned life insurance. Grassley hopes to have the committee address the issue within the next few weeks. Public comment on the proposal is welcome. Please send it by Jan. 26, 2004, to the attention of the majority staff director.

STAFF DISCUSSION DRAFT ON CORPORATE-OWNED LIFE INSURANCE

Overview. Death benefits paid from COLI contracts that do not meet the requirements of the new amendment will be taxable.

Exceptions. Death benefits from COLI are not taxable if:

1. The deceased individual was an employee within 12 months of death; or
2. The death benefits are payable to the employee's family, beneficiary, trust, estate or are used to purchase an equity interest in the employer (such as a buy-sell agreement) or
3. The employee is a key person – defined as either a “highly compensated employee” under §414(q) or is a “highly compensated individual” under §105(h)(5) with a salary in the top 35% for the employer, or is a director of the company.

Additional Requirements:

1. Notice and Consent. In all cases, the employee must receive written notice of the insurance coverage including that the coverage may continue after the insured terminates his or her employment with the employer; and that the employer will be the beneficiary of any proceeds. The employee must consent in writing.
2. Reporting Requirements. The employer must comply with a new reporting requirement that submits the following to the IRS with respect to COLI:
 - a. the number of employees of the employer at the end of the year;

- b. the number of employees insured under the program at the end of the year,
- c. the total amount of insurance in force at the end of the year, and
- d. the name, address and taxpayer identification number of the employer and the type of business in which the employer is engaged.

Effective Date.

The changes will be effective for policies issued after the date of enactment. An exception is included for any contract issued after the date of enactment pursuant to an exchange described in section 1035 of the IRC for a contract issued prior to that date.