



## Have You Added Employer-Owned Life Insurance Policies Recently? If so, You Need to Let Your Accountant Know

The Pension Protection Act of 2006 added IRC Section 101(j) to the Internal Revenue Code relating to taxation of employer-owned life insurance and additional reporting requirements. While purchasing life insurance may not generally trigger a discussion with your accountant, the new rules create a possible taxable event to a business and require annual tax reporting.

Employer-owned life insurance policies are defined as follows:

- The business owns the policy,
- Is directly or indirectly the beneficiary of the policy, and
- The employee is the one insured.

The new requirements **apply only to life insurance policies issued or materially changed after August 17, 2006**. Policies issued prior to that date are not subject to the new rules.

Prior to the 2006 addition, death benefits from a life insurance policy were not taxable. With the revisions to 101(j), only the amount of death benefits equal to the premiums paid by the employer will be tax free upon the insured's death. However, taxation can be avoided if one of the following exceptions is met:

- The insured is a director or highly compensated employee,
- The insured was employed by the business within twelve months of death,
- Death benefits are payable to the insured's heirs, or
- Death benefits are used to purchase an interest in the business.

In addition to qualifying for an exception, businesses need to follow additional procedures to receive the entire proceeds tax free. First, written notice about the life insurance policy must be given to the insured employee. Then, the employee must consent to the notice in writing prior to the issuance of the policy. Finally, notice must be given to the IRS by filing form 8925, "Report of Employer-Owned Life Insurance Contracts", with the business' federal tax return. The following information needs to be included on the form:

- The total number of employees.
- The number of employees insured by the business.
- The total amount of employer-owned life insurance.
- An indication of whether or not the business has valid written consent from each insured employee.

Like all other tax forms, adequate records must be kept to support the information reported on Form 8925. Make sure to keep all written notices and consent forms on file along with your other insurance related documents.

For additional guidance about the revised employer-owned life insurance rules, please contact our office as well as your insurance agent.

### Reporting Requirements for Employer-Owned Life Insurance

- Policies issued after August 17, 2006
- Business owns and is beneficiary on policy on employee's life
- Benefits will be taxable unless eligible for specific exemption and business follows documentation requirements
- Business must file newly created form 8925 with its business tax return