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FROM THE CHAIR

By Christian DesRochers

While the origins of the phrase "may you live in interesting times" is subject to some debate, there is little debate that those of us involved in the taxation of life insurance companies and products are living in interesting times, and will be for the foreseeable future. On the product side, last year saw private letter rulings released on annuity and long-term care combination products, longevity insurance and mutual fund living benefits. The Department of the Treasury (Treasury) 2009-2010 Priority Guidance Plan includes product-related issues including partial exchanges and partial annuitization of annuity contracts, the age 100 issue under section 7702, and annuity and long-term care combination products under sections 72 and 7702B. As we have in past even-numbered years, we will once again present the Product Tax Seminar on September 13 and 14 in Washington, D.C. This is an opportunity to hear speakers from industry and government talk about emerging life and annuity product tax issues. Unlike past years, however, we will be presenting the "Boot Camp" introductory topics as a series of webinars over the summer months leading up to the meeting. We hope that this will let us reach a wider audience, as well as generate additional interest in attendance at the seminar.

The dominant tax topic for 2010 is likely to be the emergence of principle-based reserves (PBR) and its implications for life insurance company taxation. The treatment of life insurance reserves has always been a significant element in the federal income taxation of life insurance companies. First, the amount of life insurance reserves determines if an insurance company is taxed as a life insurance company. Second, they are used to identify reserves that are required to be recomputed for tax purposes under the specific rules set forth in section 807(d). As long as premiums are treated as income, reserves will continue to be a key element in the determination of taxable income. Although the tax rules applicable to life insurance companies have gone through significant changes over the years, it has been a fundamental concept that a life insurer should not be taxed on income that is set aside to meet future contingent benefit liabilities. This is not changed by the introduction of PBR; however, the very elements that make PBR appealing—including the reliance on actuarial judgment and the use of more sophisticated financial modeling tools—create challenges in a tax valuation system.

Actuarial Guideline 43 (AG 43), effective for year-end 2009 for variable annuity contracts issued in 1981 and later, replaces Actuarial Guidelines 34 and 39, applicable to variable annuity minimum death benefits and living benefits, respectively. AG 43, or VACARVM as it was previously known, has been the subject of extensive discussions between the Treasury, the Internal Revenue Service (IRS) and the life insurance industry. Interim guidance, which should have been released before this edition went to print, is a first attempt to deal with the issues raised by the AG 43 valuation method. Tax issues related to the development of VACARVM, and the emergence of PBR have already been the topic of several articles in previous issues of *TAXING TIMES*. Now that companies have "gone live" with AG 43, we can expect that discussions will continue as the Treasury, IRS and taxpayers gain additional perspective on the effects of AG 43. We will continue to address the topic through *TAXING TIMES*, as well as webinar programs to provide our members with the insights on the emerging issues.

The Taxation Section is committed to providing both high quality and timely programming during the year. We provide speakers and programs for a number of Society of Actuaries' meetings and assist in reviewing educational materials. We also hope to gain additional insights into the needs of our members through periodic surveys. However, *TAXING TIMES* remains our principal way of communicating with our members. In his column, Brian King discussed the expansion of the editorial board. Watching the effort that goes into each issue, I am very appreciative of the dedication of the many authors who provide content, as well as Brian, Christine and the editorial board for their hard work in developing the final product.

I hope to see many of our readers at programs throughout the year. We always welcome new volunteers, so if you have an interest in a program, or writing an article, please let me know.

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