



SOCIETY OF ACTUARIES

Article from:

Taxing Times

May 2012 – Volume 8 Issue 2

Taxing TIMES

2012 SECTION LEADERSHIP

Chairperson

Kristin A. Schaefer, FSA, MAAA

Vice Chairperson

Mary Elizabeth Caramagno, FSA, MAAA

Secretary/Treasurer

Daniel Theodore, FSA, MAAA

Council Members

Ame R. T. Biggart, FSA, MAAA

Stephanie Burmester, ASA, MAAA

Ann M. Delaney, ASA, MAAA

Brenna Gardino, ASA, MAAA

Samantha Knackmuhs, FSA, MAAA

Carol Meyer, FSA, MAAA

Board Partner

Larry Bruning, FSA, MAAA

NEWSLETTER STAFF

Editor

Christian J. DesRochers

Associate Editors

Brian G. King

Frederic J. Gelfond

Gregory Stephenson

Assistant Editors

Ranae D'Amato

Preeti Parasharami

Editorial Board

John T. Adney

Samuel A. Mitchell

Kory J. Olsen

Arthur Schneider

Bruce D. Schobel

Daniel Stringham

SOA STAFF

Jacque Kirkwood

Staff Editor

e: jkirkwood@soa.org

Christy Cook

Lead Section Specialist

e: ccook@soa.org

Meg Weber

Staff Partner

e: mweber@soa.org

Julissa Sweeney

Graphic Designer

e: jsweeney@soa.org

Published by the Taxation Section Council of the Society of Actuaries

This newsletter is free to section members. Current issues are available on the SOA website (www.soa.org).

To join the section, SOA members and non-members can locate a membership form on the Taxation Section Web page at <http://www.soa.org/tax>.

This publication is provided for informational and educational purposes only. The Society of Actuaries makes no endorsement, representation or guarantee with regard to any content, and disclaims any liability in connection with the use or misuse of any information provided herein. This publication should not be construed as professional or financial advice. Statements of fact and opinions expressed herein are those of the individual authors and are not necessarily those of the Society of Actuaries.

© 2012 Society of Actuaries. All rights reserved.

FROM THE EDITOR TO OUR READERS

By Christian DesRochers

In this issue, we address a diverse variety of topics covering developments in the taxation of life insurance products and companies since our last issue. There were a number of rulings that are addressed. Under the facts of PLR 201152014, a partnership of banks was formed to pool and manage the banks' bank-owned life insurance (BOLI) contracts and, in the process, exchange some or all of them for new contracts. The Ruling addresses both the eligibility of the LLC to be taxed in that manner, as well as a number of the tax consequences flowing from the LLC's tax treatment as a partnership. There are two articles addressing TAM 201149021, which is one in an ongoing series of rulings dealing with the definition of "insurance" under the Internal Revenue Code. We chose to cover the topic because, although it is a property and casualty case, it deals with the definition of insurance, which also has implications for life insurance companies. Another issue that is addressed is the treatment of controlled foreign corporation reserves (CFC) under section 954(i), which permits foreign life insurers to obtain a ruling from the IRS to use local regulatory reserves in determining foreign personal holding company income. The ruling, PLR 201151008, is the fourth one issued to life insurers on the topic. Without a ruling, a CFC must compute its tax reserves under the section 807 rules. We also have a discussion of policyholder dividends and dividend accruals that also addresses the recently decided Massachusetts Mutual Case. In addition, we feature analyses of proposed regulations, including those addressing the *Foreign Account Tax Compliance Act (FATCA)* released by the Treasury and IRS in February 2012, as well as the treatment of qualified longevity annuity contracts under the Required Minimum Distribution (RMD) rules. All in all, this issue offers a wide range of articles on many different topics.

As we have done in the past, when an article is too long to include in *Taxing Times*, we publish it as a supplement. Accompanying this edition, we present another supplement. In this case, we present two articles related to the concept of material changes under the tax law, and their impact on the administration of life insurance contracts under sections 7702 and 7702A. The first, and by far the most comprehensive, article is, "They Go Bump in the Night: Life Insurance Policies and the Law of Material Change," by John Adney and Craig Springfield. In their article, John and Craig provide a comprehensive (and weighty) discussion of the concept of a "material change" under the Internal Revenue Code. The second, "Administrative Aspects of the Material Change Rules: Meeting the Challenge," is an article that Brian King and I co-authored as a follow-up to John and Craig's article that addresses administrative implications of the discussion in their article.

In the last issue, our lead article was headlined, “Partial Exchange Guidance Keeps Improving.” The title was meant to be complimentary to the guidance process, and not a criticism of prior efforts. At *TAXING TIMES*, we are striving to be informative and to offer a range of views in the articles we present. However, in this case, we could have been clearer in the title of the article.

TAXING TIMES could not succeed except for all the hard work of the people who contribute their time to produce it. I’d like to thank all of the authors and editorial staff who helped to assemble this issue. ◀

Christian DesRochers, FSA, MAAA, is an executive director, Insurance and Actuarial Advisory Services, with Ernst & Young LLP and may be reached at Chris.DesRochers@ey.com.