

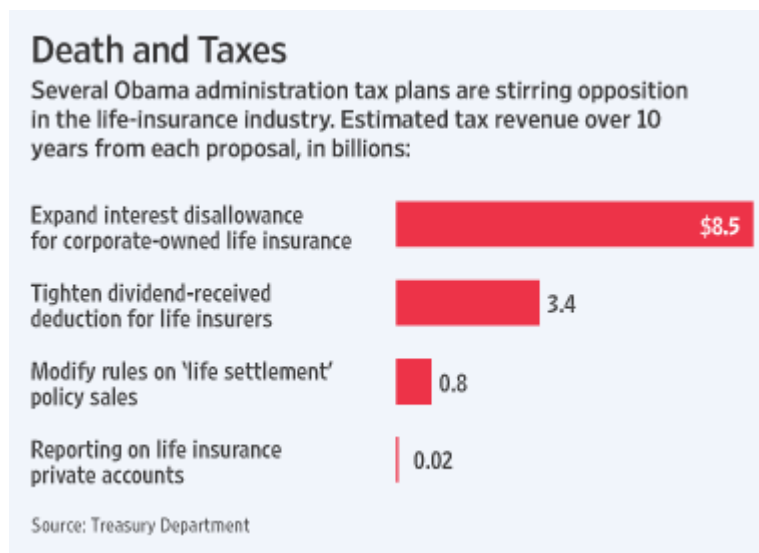
MAY 18, 2009

# New Tax Proposals Target Life Insurers

By [JOHN D. MCKINNON](#)

WASHINGTON -- The Obama administration is seeking \$12.8 billion in new tax revenue from life insurers over the next decade, even as the federal government offers the struggling sector bailout funds.

The provisions in the Treasury Department tax plan released last week would restrict several products that have drawn attention from regulators in recent years because of the way they use life-insurance policies as vehicles for minimizing taxes on investments.



The proposals would restrict several tax breaks received by purchasers of insurance or insurance companies themselves, and also require more information reporting in some cases. Industry representatives say the changes would hit sales in at least one significant area of the business, corporate-owned life insurance.

Several industry trade groups, including the American Council of Life Insurers and the Association for Advanced Life Underwriting, wrote last week to leading lawmakers, expressing opposition to the proposals. "Especially during a financial and economic downturn, increasing taxes on products and on an industry that encourages American consumers and businesses to plan for the future and effectively manage risk is unwise public policy," they said.

Insurance industry representatives also argue that now is a bad time to seek more taxes from the industry, given companies' recent losses on investments. The Treasury has given several big life insurers, such as [Hartford Financial Services Group](#) Inc. and [Lincoln National](#) Corp., preliminary approval to receive billions in federal aid.

A Treasury official said the tax proposals are unrelated to the federal capital infusions, adding that the insurers applied for that money months ago. The proposed tax changes generally would take effect in 2010 or 2011.

The official said the proposals are aimed at restoring fairness to the tax code. "Our proposals are designed to make sure when it comes to paying taxes, everyone pays their fair share," she said. She noted that some of the proposals are aimed at purchasers of insurance, not the companies themselves.

The insurance industry's opposition underscores the challenge the Obama administration faces as it tries to raise revenue to narrow federal budget deficits and cover the cost of major policy initiatives, including a big health-care overhaul. The administration has proposed changes that would generate a total of more than \$400 billion in new tax revenue. Several provisions affecting U.S. multinationals have already stirred opposition.

The most significant proposal on insurers involves a product called corporate-owned life insurance, or COLI, where businesses take out insurance on employees' lives. Industry representatives defend COLI as a reliable way to fund ongoing employee benefits. But critics have long charged that COLI is a tax dodge that lets ordinary investments grow tax-free under the guise of insurance, where payouts and gains on premiums generally aren't taxed.

The administration is proposing that with some exceptions, companies using COLI would face limits on deductions for interest expenses on any borrowing.

Ken Kies, a lobbyist who has represented insurers, said COLI accounts for a significant share of new life-insurance contracts, and imposing a big penalty on companies using this product could kill off the business.

A Treasury official said the COLI proposal would "curtail an inappropriate tax arbitrage." Officials rejected the idea that the changes would doom the industry, and said there were exceptions in the proposal to protect small businesses with COLI products.

Another proposal would limit the tax deductions that life insurers can take for dividends they receive from investments in other companies' stock. Unlike individuals, companies generally are entitled to a deduction for dividends they receive, to avoid double taxation of the income. But the Treasury contends that life insurers shouldn't be able to deduct all their dividends because many are effectively received on behalf of policyholders.

A third proposal would increase reporting requirements and also limit some tax breaks relating to so-called life settlements. Recently, investors -- including some big banks --

have been buying up insurance contracts from older people, betting that the payout when the policyholders die will exceed the cost. Many of the deals have been structured as partnerships with the policyholder, in order to minimize taxes.

**Write to** John D. McKinnon at [john.mckinnon@wsj.com](mailto:john.mckinnon@wsj.com)

*Printed in The Wall Street Journal, page A3*

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved