DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

OFFICE OF THE CHIEF COUNSEL

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The Honorable Mike Braun
United States Senator
115 North Pennsylvania Street, Suite 100
Indianapolis, IN 46204

Attention:

Dear Senator Braun:

I'm responding to your inquiry of August 21, 2024, on behalf of your constituent, . contacted your office about life insurance policies he and his brother bought from on the life of their mother.

said he and his brother have been paying for the life insurance policies, which are for $, for more than years. They each have paid more than $ for the policies, and the cost to keep them active is more than $ per year. They recently received a letter from that described as "stating the IRS had new rules that stated we [and his brother] can't pay over $ per year." contacted and they told him in one conversation that he wouldn't have to pay more than the amount stated by the IRS, and in another conversation, that the company would charge the amount needed to keep the policies active. suggested that either he should not have to pay premiums on the contracts, since the amount he paid for each contract exceeds the amount the death benefit, or that premiums should be limited to $ per year, as stated in the letter he received.

Although I do not have detailed information about these policies and haven't seen the letter received, I can provide the following general information on the taxation of life insurance policies.

Generally, for federal income tax purposes, a policyholder does not pay taxes on increases to the cash value of life insurance unless they receive a distribution under the contract, and the beneficiary will receive any death benefit tax-free. To qualify as “life insurance” for federal income tax purposes, a policy generally must meet the requirements of section 7702 of the Internal Revenue Code.

Section 7702 applies only to policies issued after 1984. To meet the requirements of section 7702, a contract must either:

1. Meet the cash value accumulation test (CVAT) or
2. Meet the guideline premium test (GPT) and fall within the cash value corridor.

The GPT, described in section 7702(c), limits the amount of premiums that are paid on a contract intended to qualify as a life insurance contract. The payment of premiums above this limit causes a contract to fail to qualify as a life insurance contract under section 7702, unless premiums paid during the year above the limit are returned at the end of the year in the manner described in section 7702(f)(1)(B). A contract falls within the cash value corridor, described in section 7702(d), if the contract’s death benefit at any time is not less than the applicable percentage of the cash surrender value. The applicable percentage appears in the table included in section 7702(d) and varies with the age of the insured.

The legislative history of section 7702 shows that Congress enacted these statutory requirements due to concern that some insurance products were becoming too investment oriented. The actuarial tests of section 7702 regulate the relationship between premiums, death benefits, and the cash value of a life insurance policy. Specifically, section 7702 ensures that a certain amount of insurance protection exists relative to the contract’s cash value and limits future benefits that the insurer may provide under a life insurance contract by limiting the amount of premiums that policyholders can pay into a contract per year.

I hope this information is helpful. The information we provided relates to the federal taxation of life insurance policies. The department of insurance for the state in which the policies were issued may be able to help with concerns about the insurance company’s premiums. If you have any questions, please call me at or at .

Sincerely,

Office of the Associate Chief Counsel
(Financial Institutions & Products)