



One Resource Group
13548 Zubrick Road
Roanoke, IN 46783
888-467-6755
Life_Sales@ORGCorp.com



Life Insurance 1035 Exchanges





Life Insurance 1035 Exchanges

What is it?

From time to time, you may consider replacing or exchanging your life insurance policy for another life insurance contract or annuity contract. Exchanging your life insurance policy means that you replace it with another policy issued by the same company or a different one. You may want to exchange your life insurance policy if, for instance, your present life insurance company becomes insolvent or if you can get a better rate of return or lower premium with another policy. The rules governing taxation of life insurance contract exchanges are spelled out in Internal Revenue Code Section 1035. In general, under Section 1035, you can exchange one life insurance contract for another without having to immediately pay income taxes; no gain or loss is immediately recognized. But, you must be careful to follow the rules to qualify for favorable tax treatment under Section 1035.

What types of contracts qualify under Section 1035?

The following are a few of the transactions that qualify under Section 1035:

- A life insurance contract exchanged for a life insurance contract (both contracts must be on the life of the same insured)
- A life insurance contract exchanged for an endowment contract
- A life insurance contract exchanged for an annuity contract
- A life insurance contract exchanged for a qualified long-term care contract

The following transactions are among those that do not qualify under Section 1035:

- An annuity contract exchanged for a life insurance contract
- An endowment contract exchanged for a life insurance contract
- An annuity contract exchanged for an endowment contract

What if you have a loan outstanding on the policy you're exchanging?

Generally, if your loan will be cancelled (discharged) in the course of the exchange transaction, then the amount of the loan is treated as ordinary income to the extent the loan proceeds exceed your basis in the contract and is taxable as such. However, if you exchange a policy that is subject to an outstanding loan for another policy that is also subject to an outstanding loan for the same amount, then the transaction should be tax free, if all other elements of Section 1035 are met.

IMPORTANT DISCLOSURES

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.



One Resource Group
13548 Zubrick Road
Roanoke, IN 46783
888-467-6755
Life_Sales@ORGCorp.com

