Administration Seeks Taxes on Life Insurance, Estates to Fund Health Care

http://www.insurancenewsnet.com/article.asp?a=1&id=106169

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May 12, 2009 Tuesday 04:43 PM EST

531 words

Administration Seeks Taxes on Life Insurance, Estates to Fund Health Care

Caroline J Saucer

WASHINGTON

An Obama administration budget blueprint proposes raising $58 billion in new taxes to support new health care initiatives, in part by setting new tax and disclosure requirements on life insurance transactions and by modifying estate-tax rules.

As outlined in the U.S. Treasury's General Explanations of the Administration's Fiscal Year 2010 Revenue Proposals -- known as the Greenbook -- the life insurance provisions would raise $12.7 billion over the next 10 years. The changes would have the effect of "closing domestic tax loopholes and increasing domestic compliance," Treasury said.

One change would have tax and disclosure implications for life settlement transactions, to enforce greater tax compliance. A second would limit dividends-received deductions claimed by life insurers when a company's separate account assets, liabilities, and income are segregated from those of the company's general account in order to support variable life insurance and variabl e annuity contracts. A third would expand pro rate interest expense disallowance for corporate-owned life insurance, effectively disallowing more deductions.

The fiscal year 2010 budget resolution adopted by Congress includes an Obama administration plan to create a $634 billion health care reserve fund over 10 years, financed by a variety of tax increases (BestWire, Feb. 26, 2009).

The Treasury document received a less-than-warm welcome from Frank Keating, president and chief executive officer of the American Council of Life Insurers. "At all times, but 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 is unwise public policy," Keating said in a statement.

According to the Treasury Department, the estate and gift tax provisions involve "targeting valuation games played by those facing estate and gift taxes that allow them to undervalu e transferred property."

The technical changes would add a new reporting requirement to enforce compliance. They would require that the basis of the property in the hands of the recipient be no greater than the value of that property as determined for estate or gift tax purposes.

The federal estate tax would be frozen at current levels under a provision in the fiscal year 2010 budget resolution agreed to by the White House and congressional Democrats. The resolution allocates $72 billion to match President Barack Obama's estate tax reform proposal. It would permanently extend the 2009 level of 45%, with exemptions of $3.5 million exemption for individuals and $7 million for couples, indexed for inflation (BestWire, April 29, 2009).

As currently scheduled for the 2010 tax year, the estate and generation-skipping transfer taxes will be repealed while the gift tax rate will fall to 35%. In 2011, all three taxes are set to revert to pre-2001 levels, with an exem p tion of $1 million, a 55% rate, and a 5% surtax on large estates. Without any change, the estate tax is set to see a one-year moratorium in 2010 before the 55% rate and $1 million exemption returns in 2011.

(By Sean P. Carr, senior associate editor, BestWeek: Sean.Carr@ambest.com)

May 13, 2009

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