

Publications

Restrictive New IRS Ruling Affects Tax-Free Exchanges of COLI – A Trap for Unwary Employers?

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Many companies have substantial amounts of corporate-owned life insurance (“COLI”) on their books. Typically, the policies were purchased to fund future liabilities for deferred compensation, retiree health or other significant corporate liabilities. When the policies do not perform as expected, companies may shop around for better ones. In this regard, section 1035 of the Internal Revenue Code (“Code”) allows tax-free exchanges of life insurance as long as the policy is on the same insured and the coverage is generally the same.

On March 3, the Internal Revenue Service issued Rev. Rul. 2011-9 (“Ruling,” copy attached) to explain how Code section 264(f) nevertheless may result in adverse tax consequences from such a transaction. Please see the attached memo for further information.

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[Rev. Rul. 2011-9Download](#)