Michael Lagos
(866) 444-4964
mlagos@lagosadvisors.com

Bob Langsam
(800) 825-9990
rlangsam@lagosadvisors.com

LAGOS WEALTH ADVISORS
BUILDING, PROTECTING AND PERPETUATING FAMILY WEALTH

Employer Owned Life Insurance ("EOLI")
PLR 20127017

By now everybody knows that when an employer purchases and owns coverage on the life of an employee (Employer Owned Life Insurance "EOLI") certain notice and consent requirements prior to issue must be met if the death benefits are to be received income tax-free.

Prior to issue the insured employee must be informed that the employer will own and be the beneficiary of coverage on his or her life to a maximum amount and that the employer may continue to own the coverage after employment ends.

Then the employee must acknowledge notice of these facts and give consent to the coverage ***in writing*** – *again all prior to issue*.

CPA's and Attorneys who aren't currently reviewing their business clients are providing a grave disservice. What could be simpler than asking a business person if the company owns life insurance on any employees? If so, then suggest you give the policies and related plan documents a quick look to avoid the potential tax penalty.

If the notice and consent requirements were not met then the ***only sure-fire fix*** is to surrender and reissue new coverage. But a recent *Private Letter Ruling* lends hope that the IRS may be reasonable if circumstances permit.

The taxpayer, a corporation, purchased policies on several owner-employees to fund an agreement that that it would repurchase the stock of the owner employees upon their death. Standard notice and consent forms were not signed in a timely manner, but the IRS agreed that within the documentation surrounding the transaction there was compliance with Section 101(j).

In this case, the stock redemption agreement, which was read and signed by the insureds spelled out that the corporation would be owner and beneficiary of specified amounts of coverage on each owner-employee. In addition, the agreement gave the corporation the right to continue ownership of the coverage if the employee didn't repurchase the contract if and when the arrangement and /or employment ended. The taxpayer was good to go.

Unfortunately the IRS did not go so far as to say that the insurance application was evidence of satisfactory notice and consent – understandably. While it would seem that all other requirements are addressed by a stand application's content and the insured's signature, *there is nothing that informs the insured that he employer is allowed to keep the coverage in force once the term of employment is ended* – even thought I might be understood.

Nonetheless, the ruling is worth consideration b legal counsel after the fact in those ownership redemption arrangements where all was not done by the book at the time of coverage. And, as always, a private letter ruling is directed only to the requesting taxpayer and can't be used or cited as a precedent in other cases.