Internal Revenue Service
Revenue Ruling

Rev. Rul. 66-110

1966-1 C.B. 12

Sec. 61
Sec. 72

Caution: Amplified by Rev. Rul. 78-420

Caution:Amplified by Rev. Rul. 67-154

IRS Headnote

Policyholder dividends paid to an employer on life insurance policies purchased under a so-called `split dollar' arrangement of the type considered in Revenue Ruling 64-328, C.B. 1964-2, 11, are to be aggregated with the other benefits received by the employee under the arrangement for purposes of determining the amount includible in the employee's gross income.

The current published premium rates charged by an insurer for individual 1-year term life insurance available to all standard risks may be used for determining the cost of insurance in connection with individual policies issued by the same insurer and used for `split dollar' arrangements or held by trusts qualified under section 401(a) of the Internal Revenue Code of 1954, where those rates are lower than the rates set forth in Revenue Ruling 55-747, C.B. 1955-2, 228.

The table of premiums set forth in Revenue Ruling 55-747 is extended to age 81.

Revenue Rulings 64-328 and 55-747 are amplified.

Full Text

Rev. Rul. 66-110

Advice has been requested regarding the proper income tax treatment of policyholder dividends paid on life insurance policies purchased under so-called `split dollar' arrangements of the types considered in Revenue Ruling 64-328, C.B. 1964-2, 11.

Revenue Ruling 64-328 holds that the typical `split dollar' arrangement confers an economic benefit on the employee, the value of which must be included in the gross income of the employee. In that ruling, current insurance protection is the only benefit which the employee receives and consequently only the value of that benefit is referred to as being includible in the employee's income. However, the employee may receive other benefits, such as cash dividends or additional life insurance, the value of which would likewise be includible in the employee's gross income. The amount includible in the employee's gross income each year is equal to the excess of the total value of all the benefits received under the arrangement for such year, over the amount, if any, provided by the employee for that year.

Revenue Ruling 64-328 considers two major types of `split dollar' arrangements, the endorsement system and the collateral assignment system. That ruling indicates that while the two systems differ in form, in substance they result in the same economic benefit to the employee. Accordingly, the treatment to be accorded the additional benefits received by the employee on account of policyholder dividends under a `split dollar' arrangement would be the same whether the endorsement system or the collateral assignment system is used.

If the policyholder dividend is distributed to the employee, the amount of the dividend must be aggregated with the other benefits received by the employee under the arrangement for purposes of determining the amount includible in the employee's gross income. Similarly, if the dividend is used to purchase for the employee additional 1-year term insurance, or paid-up life insurance (in which the employee has a nonforfeitable interest) for a period of more than 1 year, the employee receives an additional economic benefit, the value of which is equal to the amount of the dividend. If, in the case where the dividend is used to purchase additional paid-up life insurance for a period of more than 1 year, the employer retains the right to the cash surrender value of such additional insurance, the annual value of the additional insurance coverage is includible in the employee's gross income in the same manner as set forth in Revenue Ruling 64-328; the value of the benefit to be so included each year may be determined in the manner set forth in that ruling.

Revenue Ruling 64-328 states further that the cost of life insurance protection per $1,000, as shown in the table contained in Revenue Ruling 55-747, C.B. 1955-2, 228, may be used to compute the 1-year term cost of the insurance protection to which an employee is entitled from year to year under a `split dollar' arrangement with his employer. Revenue Ruling 55-747 states that the rates set forth therein may be used to determine the cost of current life insurance protection required to be included in the income of an employee who is furnished insurance protection under a trust qualified under section 401(a) of the Code. Such cost is includible in the employee's gross income in accordance with section 72(m)(3) of the Code. In any case where the current published premium rates per $1,000 of insurance protection charged by an insurer for individual 1-year term life insurance available to all standard risks are lower than those set forth in Revenue Ruling 55-747, such published rates may be used in place of the rates set forth in that Revenue Ruling for determining the cost of insurance in connection with individual policies issued by the same insurer and used for `split dollar' arrangements or held by trusts qualified under section 401(a) of the Code.

Advice has also been requested as to the 1-year term premiums to be used at ages 76 through 81 in cases similar to those where the rates set forth in Revenue Ruling 55-747 are applicable. The 1-year term premiums for $1,000 of life insurance protection for these ages, computed on the same basis as the premiums shown in Revenue Ruling 55-747, are as follow:

Age	Premium
76	$ 79.63
77	86.57
78	94.09
79	102.23
80	111.04
81	120.57

Revenue Rulings 55-747 and 64-328 are hereby amplified.