

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:TEGE:EB:HW
PLR-151402-05

Date:
March 06, 2006

Legend

Company X =

Company Y =

Dear :

This is in response to your letter dated October 5, 2005 requesting a ruling concerning the federal income tax treatment of benefits received under a life insurance contract rider.

You represent that Company X is a stock life insurance company and a calendar-year taxpayer that is subject to tax under section 801 of the Internal Revenue Code (the Code). Company X is a member of an affiliated group of corporations filing life/nonlife consolidated federal income tax returns. The parent of this affiliated group is Company Y.

An individual is considering purchasing a term life insurance policy issued by Company X with a Critical Illness Rider attached. Neither the policy nor the Critical Illness Rider has any cash value.

The Critical Illness Rider will pay a one-time lump sum benefit (Critical Illness Rider Benefit) of up to \$250,000 to the policy owner during the insured's life time if the insured is diagnosed by a physician as having a qualifying covered condition. Only one Critical Illness Rider Benefit payment is permitted during the insured's lifetime. The Critical Illness Rider Benefit will be reduced by 50% when the insured reaches 65. Benefits

paid under the Critical Illness Rider will reduce the death benefit payable under the policy by an equal amount.

The covered conditions are defined in the Critical Illness Rider to include only cancer, heart attack (myocardial infarction), kidney failure, loss of limb(s), major organ transplant, paralysis, and stroke (cerebrovascular accident).

Section 104(a)(3) of the Code provides that, except in the case of amounts attributable to (and not in excess of) deductions allowed under section 213 (relating to medical, etc. expenses) for any prior taxable year, gross income does not include amounts received through accident or health insurance (or through an arrangement having the effect of accident or health insurance) for personal injuries or sickness (other than amounts received by an employee, to the extent such amounts (A) are attributable to contributions by the employer which were not includible in the gross income of the employee, or (B) are paid by the employer).

Section 105(a) of the Code provides that, except as otherwise provided in section 105, amounts received by an employee through accident or health insurance for personal injuries or sickness shall be included in gross income to the extent such amounts (1) are attributable to contributions by the employer which were not includible in the gross income of the employee, or (2) are paid by the employer.

Section 105(b) of the Code provides that, except in the case of amounts attributable to (and not in excess of) deductions allowed under section 213 for any prior year, gross income does not include amounts referred to in section 105(a) if such amounts are paid to the taxpayer to reimburse the taxpayer for expenses incurred by him for the medical care of the taxpayer, his spouse and dependents.

Section 105(c) of the Code provides that gross income does not include amounts referred to in section 105(a) to the extent such amounts constitute payments for the permanent loss or loss of use of a member or function of the body or the permanent disfigurement, of the taxpayer, his spouse, or a dependent and are computed with reference to the nature of the injury without regard to the period the employee is absent from work.

The Critical Illness Rider will be treated as accident or health insurance for purposes of sections 104(a)(3) and 105(a) of the Code.

Accordingly, based on the representations made and the authorities cited above, we conclude as follows:

- (1) Benefits received under the Critical Illness Rider will be excludable from the recipient's gross income under section 104(a)(3) of the Code to the extent they are attributable to the recipient's after-tax contributions.

- (2) Benefits payable under the Critical Illness Rider are neither reimbursements of medical expenses of the recipient nor computed with reference to the nature of the recipient's injury. Accordingly, benefits received by an employee under the Critical Illness Rider are includible in the employee's gross income under section 105(a) of the Code to the extent that they are attributable to contributions of his or her employer that were not includible in his or her gross income or are paid by the employer.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the Taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Harry Beker, Chief
Health & Welfare Branch
Office of Division Counsel/Associate
Chief Counsel (Tax Exempt &
Government Entities)