

EXECUTIVE BENEFIT TAX ALERT

MARCH 2002

For Friends and Clients of NCR Executive Benefit Services...

I don't think it is a coincidence that the timing of this tax alert is closely aligned with the "ides of March"... Even in the current Enron / Arthur Andersen environment, some creative minds in the insurance business are still trying to find a current tax deduction when buying permanent life insurance.

The latest fad hitting the marketplace is a twist on the 419 plan ideas that have failed miserably in Tax Court over the past five years. The specific code section being used is 419A(f)(6) and these plans are being sold as "419 DBO plans." Promoters of this "more conservative" approach will tell clients and advisors that their new idea is *less aggressive* than the previous versions. They *think* this new design will work (remember, these are the same people that thought the old ideas worked too!) – but even if it doesn't, why not have the benefit of the idea until it is explicitly shut down by Congress or the Tax Court?

Well, how about not doing it because it is just plain WRONG! It's the old spirit of the law vs. the letter of the law issue again, and these ideas give the spirit of the law a black eye. This all reminds me of an old saying, "Pigs get fat, and hogs get slaughtered." Life insurance already enjoys bona-fide tax shelter status under the Internal Revenue Code, with many appropriate uses – but if it is being sold to you as tax-deductible using smoke and mirrors, stay away from it!

Please call me if you'd like to talk about any of these issues, if you have heard about this latest idea, or if you just have a general question. I am happy to help you address this issue with any of your accounting, legal, or financial advisors that may bring it up. My goal is to be your resource for key employee compensation and benefit planning and information.

As the old sergeant of the precinct on *Hill Street Blues* used to say before sending the cops out on the street, "let's be careful out there..."