

## **EXECUTIVE BENEFIT TAX UPDATE**

**JANUARY 2003**

### **For Friends & Clients of NCR Executive Benefit Services...**

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Happy New Year and best wishes for a prosperous 2003! Many important tax and benefit issues remain on the “radar screen” this year for the Treasury and Congress. As was mentioned here last quarter, Congress was considering legislation that would have ramifications for split-dollar and nonqualified deferred compensation plans.

None of these proposals made it out of committee last year – but some of them have already resurfaced in 2003 as the new Congress goes to work. With the Republican gains in both chambers, a “no nonsense” direction is likely to be taken – i.e. egregious practices eliminated and offshore loopholes closed – with conservatively designed plans largely unaffected.

President Bush’s tax and budget proposals will require that Congress find additional sources of revenue to minimize the impact of whatever revenue is “lost” through approved tax cuts and changes. Because of this, I will continue to monitor the situation in Washington and will alert you in future issues as to what is happening.

- ◆ **Split-Dollar Insurance Update** – Although nothing specific to split-dollar has yet become law, the regulatory course charted in IRS Notice 2002-8 is continuing to look like the end result desired by the government. Generally, there will be two forms of split-dollar going forward: equity and non-equity. **Non-equity** is another name for endorsement and refers to arrangements where the employer owns the contract and cash values – only death benefits are being split with participants. The reporting of income for the economic benefit provided will continue as it has in the past (with the possibility of uniform reportable rates).
- ◆ **Equity split-dollar** (formerly known as collateral assignment) is being changed significantly. These transactions will now be taxed essentially as interest-free loans – with the cumulative amount of premiums advanced by the Company as the principal of the loan. The loan rate used is also being mandated by Treasury and will be based on the applicable federal rates used elsewhere in the tax code.

In summary, split-dollar will continue to be an excellent and cost-efficient way for companies to provide permanent life insurance benefits to key employees. Split-dollar never was intended as a direct way to provide deferred compensation – and now even incidental deferred compensation will be less attractive to provide via split-dollar.

If you need more information, please contact me to discuss these issues. I want to be your preferred resource for key employee compensation, benefits and tax information.