

Employer Owned Life Insurance
Letter for business owners that are currently clients.



[Date]

[Client Name]
[Address]
[City, State, Zip Code]

Subject: Important Information Regarding Income Tax on Business Owned Insurance

[Dear Client:]

Based on our past discussions, you are well aware that successful businesses like yours frequently purchase life insurance on the lives of the business owners and on the lives of other key employees. The purposes can range from funding buy-sell agreements to key person protection.

You may not be aware, however, that based on changes made to the Federal Tax Code in 2006, life insurance death benefits paid to an employer may be subject to income tax. To avoid taxation, employer owned life insurance, purchased or materially changed after August 17, 2006, must meet specific exceptions and comply with the IRS "notice and consent" procedure.

Although we have met in the past, your business insurance needs have not been recently reviewed. The IRS recently issued a new bulletin, Notice 2009-48, that addresses some of the open questions created when the tax code was changed in 2006. I am unaware of any changes you have made in your insurance portfolio since then. If your business has purchased life insurance on your life, the life of a business partner or the lives of any of your employees, the death benefit paid may be subject to income tax unless a specific exception is met and notice requirements are addressed at the time of purchase or change.

In addition, beginning with tax years ending after November 17, 2007, employers are required to file a report with their tax return regarding life insurance subject to the EOLI "Notice and Consent" requirements.

As an employer, if life insurance has been purchased on the lives of your employees or other owners, you should consider the impact of these rules regarding "Employer Owned Life Insurance" on your current and future plans.

I will give you a call sometime next week to set up a time to discuss this concern. If you have any questions, you may call me as well.

Best regards,

[Advisor Name]

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