



OFFICE OF THE CHIEF COUNSEL

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

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UIL: 7702.00-00, 7702A.00-00

The Honorable Byron Donalds
Member, U.S. House of Representatives
1039 SE Ninth Avenue, Suite 308
Cape Coral, Florida 33990

Attention:

Dear Representative Donalds:

I'm responding to your March 28, 2024 inquiry on behalf of your constituent, [REDACTED]. He asked about the qualification rules for life insurance contracts and modified endowment contracts under the Internal Revenue Code (IRC) sections 7702 and 7702A. He wants to know about charges for qualified additional benefits (QABs).

I cannot comment on [REDACTED] contract with [REDACTED] issued [REDACTED]. However, I can provide general information about life insurance contracts and modified endowment contracts.

Section 7702

Under section 7702(a), any contract entered into after December 31, 1984 is a life insurance contract under the IRC if the contract is life insurance under applicable law, and passes either test listed below:

1. The cash value accumulation test or
2. Both the guideline premium and cash value corridor tests.

Section 7702(a) hasn't changed since Congress enacted it in 1984.

The Guideline Premium Test

The guideline premium test described in section 7702(c) limits the amount of premiums that are paid under a contract intended to qualify as a life insurance contract. The payment of premiums above this limit causes a contract to fail to qualify as a life insurance contract under section 7702, unless premiums paid during the year in excess of the limit are returned at the end of the year in the manner described in section 7702(f)(1)(B).

Cash Value Corridor Test

A contract satisfies the cash value corridor test of section 7702(d) if the death benefit under the contract at any time is not less than the applicable percentage of the cash surrender value. The applicable percentage is found in the table included in section 7702(d) and varies with the age of the insured. There has been no change to section 7702(d) since its enactment in 1984.

Section 7702A

Under section 7702A, a contract that is entered into on or after June 21, 1988 is a modified endowment contract if it meets the requirements of section 7702 but fails to meet the 7-pay premium test set forth in section 7702A(b). A contract fails to meet the 7-pay premium test if the accumulated amount of premiums paid for the contract at any time during the first seven years exceeds the amount of premiums that would have been paid at that time if the contract provided for seven equal annual premiums sufficient to fund the future benefits.

Qualified Additional Benefits

The IRS issued Rev. Rul. 2005-6, 2005-1 C.B. 471 for the treatment of charges for QABs. It states that charges for QABs are subject to the expense charge rule of section 7702(c)(3)(B)(ii) to determine if a contract qualifies as a life insurance contract or a modified endowment contract.

If your constituent would like a ruling specific to his situation, he may request a letter ruling as explained by Rev. Proc. 2024-1, 2024-1 I.R.B. 1.

I hope this information is helpful. If you have any questions, please contact
or at .

Sincerely,

Branch Chief, Branch 4
(Financial Institutions & Products)