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Advance Premium Increments and "Split Dollar" Arrangements

William J. Soter

The question as to whether prepayment of life insurance premiums will be advantageous to the policyholder is explored in this article, emphasis being placed upon the new Revenue Ruling which provides guidelines for the reporting of increments earned on prepaid premiums. The author then directs his attention to an analysis of the federal income taxation consequences incident to "split dollar" life insurance policies and to a discussion of the present and potential problem areas created by these plans.

I. Advance Premium Increments

HOLDERS of annuity and life insurance policies frequently prepay premiums in order to receive a discount from the insurance company. In essence, the discount results in tax-free interest income to the policyholder. This discount, usually four to four and one-half percent, is compounded annually, with the result that the larger the payments, the greater the savings. In short, the company is paying "interest" to those who prepay premiums, since the company will have immediate use of the deposits.

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A. *Establishment of Reporting Guidelines*

For years, the Internal Revenue Service asserted that the excess of stated premiums over the discounted premiums was not taxable income to the policyholder, even though he usually retained the right to withdraw all of the unearned premiums during his lifetime.[1] Further, if the policyholder died prior to the earning of the respective premiums, the unearned portion was added to the

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[1] I.T. 3513, 1941-2 CUM. BULL. 75, amplified by Rev. Rul. 65-24, 1965-1 CUM. BULL. 31 to include the aspect of nontaxability of advance premiums made on life insurance policies. There are basically two types of plans offered by insurance companies regarding the withdrawal of discounted premiums. One permits withdrawal at any time, while the other permits withdrawal only upon surrender of the entire policy.

other death benefits flowing from the policy, and the entire amount was received tax-free by the policy beneficiaries.[2]

Four months after stating that the discount was nontaxable, the Internal Revenue Service reversed its position and decided that any increment in value of any life insurance policy or annuity contract credited under an advance payment arrangement will be taxable if the increment is applied to the payment of any premium or if the increment is made available for withdrawal by the policyholder.[3]

Revenue Ruling 66-120 was published to provide guidelines for the reporting of increments earned on prepaid premiums.[4] The Ruling contains a transitional rule which provides that with respect to deposits made on or before July 8, 1965, the new position applies only to increments credited or made available for withdrawal subsequent to the first premium due date occurring after July 31, 1965. Thus, increments on any discounted premium agreement entered into prior to July 8, 1965, will be nontaxable even though applied to the payment of a premium falling due after July 31, 1965. This nontaxable status will be denied if the increments are withdrawn or are otherwise disbursed (*e.g.*, upon death of the insured). The transitional period does not apply to increments actually withdrawn because such increments have always been taxable.[5]

B. *Application and Scope of Rev. Rul. 66-120*

Prior to setting forth specific examples illustrating the application of the new position, Rev. Rul. 66-120 defined the terms "advance premiums," "prepaid premiums," and "premium deposit

[2] INT. REV. CODE OF 1954, § 101(a)(1) [hereinafter cited as CODE]. For a discussion concerning the income tax consequences flowing from the investment aspect of life insurance, with particular emphasis on the failure of the present laws to fully tax interest on the savings or investment portion of a life insurance contract, see Irenas, *Life Insurance Interest Income Under the Federal Income Tax,* 21 TAX L. REV. 297 (1966).

[3] Rev. Rul. 65-199, 1965-2 CUM. BULL. 20. Upon death of the insured, payment of the increment (or interest on the discounted payments) will be taxable income to the recipient even though the policy proceeds will generally be exempt from income taxation. CODE § 101(a)(1) states that there is no tax on "amounts received . . . under a life insurance contract, if such amounts are paid by reason of the death of the insured."

It seems logical that a payment of discounted premiums on death of the insured would resemble a withdrawal of the discounted premiums, with the result that any interest included thereon would be taxable income under Rev. Rul. 65-199, 1965-2 CUM. BULL. 20.

[4] Rev. Rul. 66-120, 1966 INT. REV. BULL. No. 20, at 8.

[5] *Ibid.*

funds" to mean the discounted value of the corresponding contract premiums not yet due under a specific individual life insurance or annuity policy.[6] This broad definition would appear to cover most advance payments, although deposits to interest-bearing funds, which are made under an agreement to pay policy premiums from the fund whenever such premiums are not paid from some other source, are not included. Such deposits are amounts held under an agreement to pay interest, which has always been taxable when received, credited, made available for withdrawal, or accrued. Furthermore, the new Rulings do not apply to individual single premium policies.[7]

Revenue Ruling 66-120 provides than an amount is "available for withdrawal if the taxpayer's control of its receipt is not subject to substantial limitations or restrictions"[8] in accordance with the general rules pertaining to constructive receipt of income.[9] An example of a substantial restriction would be a requirement that the policy must be surrendered if the increments are withdrawn. Conversely, the restriction would be absent if the increment may be withdrawn only on withdrawal of all of the unapplied advance premium.

The examples set forth in Rev. Rul. 66-120 are helpful in determining the reportable gross income pertaining to increments earned on amounts deposited with insurance companies as advance premiums. The Ruling uses four examples, all of which employ the following basic facts: P (policyholder), a calendar year taxpayer,

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[6] *Ibid.*

[7] Rev. Rul. 66-120, 1966 INT. REV. BULL. NO. 20, at 9. While the definition is broad, it does not include a single premium policy. The Ruling distinguished a single premium policy and an annual premium policy by giving the following illustration:

> A takes out a $10,000 single premium whole-life policy on his life, for which he pays a single premium of $5,050. At the same time he takes out a $10,000 20-payment-life policy on his life and pays the insurer $5,724.25, which represents the first annual premium of $405 plus the discounted value ($5,319.25) of the remaining 19 premiums of $405 each. A dies 10 months later. The insurer of the single premium policy pays $10,000 to the beneficiary. The insurer of the 20-payment-life policy pays $10,000 to the beneficiary and $5,319.25 plus interest thereon to the date of death to the estate of A (or to the beneficiary of the policy, depending on the terms of the advance premium agreement). Rev. Rul. 66-120, 1966 INT. REV. BULL. NO. 20, at 9 n.1.

The advantage of the single premium policy is that the policy has an immediate cash surrender value and builds up interest which is not taxed. Interest on loans to carry such policies would not be deductible. CODE § 264(a)(2).

[8] Rev. Rul. 66-120, 1966 INT. REV. BULL. NO. 20, at 9.

[9] Treas. Reg. § 1.451-2 (1957), as amended, T.D. 6723, 1964-1 CUM. BULL. 73 [hereinafter cited as Reg.].

takes out a policy with a yearly premium of $1,000 payable on November 14th of each year. In 1964, P pays the first premium in full ($1,000) and also prepays the next three years' premiums through a deposit of $2,775.10 with the insurance company to be used together with increments earned on the deposit (assuming a four-percent rate compounded annually from the date of deposit) for the payment of three successive annual $1,000 premiums beginning with the one due on November 14, 1965.

The $2,775.10 advance payment is broken down as follows: $961.54 for the premium due on November 14, 1965; $924.56 for the premium due on November 14, 1966; and $889.00 for the premium due in 1967.[10] Without setting forth the details of all four examples,[11] and except where the transitional rule is applicable, P will be taxable on the annual increments in the year they are available for withdrawal. If a given withdrawal is subject to substantial restrictions, the increments will be taxable in the year that they are applied to pay the particular premium.[12] The insurance company must file an information return for all years subsequent to 1965 in which the annual taxable increment is ten dollars or more.[13] In addition to the information returns, the insurance company must obtain the identification number of each payee. Pre-

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[10] Rev. Rul. 66-120, 1966 INT. REV. BULL. NO. 20, at 10. The annual increments would be as follows: (1) in 1964, $3.21 (on the 1965 deposit), $3.08 (on the 1966 deposit), and $2.96 (on the 1967 deposit), making a total 1964 increment of $9.25; (2) in 1965, $35.25 (1965 deposit), $37.11 (1966 deposit), and $35.68 (1967 deposit), making a total 1965 increment of $108.04; (3) in 1966, $35.25 (1966 deposit) and $37.11 (1967 deposit), making a total 1966 increment of $72.36; and (4) in 1967, $35.25 (1967 deposit). *Ibid.*

[11] In example 1, note 10 *supra*, although the policyholder has the right to withdraw, he does not exercise it. Consequently, neither the 1964 increments nor the increments used to pay premiums due prior to July 31, 1965, are taxable. This means that a portion of the 1965 increment ($6.29, as it works out) is taxable in 1965. Also, the 1966 increment of $72.36 is taxable in 1966, and the 1967 increment of $35.25 is taxable in 1967. In example 2, note 10 *supra*, the policyholder withdraws all unapplied deposits; thus, the entire amounts are taxable in the respective years of withdrawal irrespective of the transitional rule. Example 3, note 10 *supra*, illustrates the taxability of increments that are not withdrawn or available for withdrawal but are actually applied to the payment of premiums. Example 4, note 10 *supra*, illustrates the tax effect where the policyholder retains the right to withdraw three-fourths (rather than all) of the increment. Rev. Rul. 66-120, 1966 INT. REV. BULL. NO. 20, at 9.

[12] If the taxpayer actually withdraws the increments, he will, of course, also be subject to tax. This was so even under the old rules. *Ibid.*

[13] CODE § 6049; Reg. § 1.6049-1, as amended, T.D. 6677, 1963-2 CUM. BULL. 599. The information will probably be supplied on Form 1099. Increments so reported are to be included in determining the aggregate amount paid by the policyholder for the contract.

sumably, this would apply equally to taxpayers under existing agreements.[14]

Upon surrender or maturity of the contract, the basis for determining gain or loss should include the aggregate premiums paid by the policyholder for the contract and all taxable increments on the discounted premiums pertaining to post-July 8, 1965, agreements. Nontaxable portions (prior to July 8, 1965) should not be part of the basis.

The question of whether the prepayment of life insurance premiums is advantageous focuses upon the discount afforded by the insurer. Certainly, if the rate remains the same (*i.e.*, four and one-half percent), prepaying life insurance premiums will not be as advantageous as before. But this device continues to afford significant benefits, particularly if the insurer increases the discount rate. The policyholder will receive a discount which should result in a savings of premium dollars, even with the built-in tax on the increments. Prepayment also assures liquidity and guarantees that interest rates for future years will remain constant.

II. "SPLIT DOLLAR" ARRANGEMENTS

The discussion of "split dollar" plans is limited generally to the corporate employer-employee relationship[15] and specifically to the income tax treatment of such arrangements.

Generally, in a "split dollar" — or split premium — arrangement, the employer and employee join in purchasing an insurance contract on the life of the employee. The employer pays that portion of the annual premium of a permanent cash value insurance policy on the employee's life which is equal to the annual increase in the cash surrender value, and the employee pays the remainder of the annual premium. Upon the employee's death (or when the policy is surrendered), the employer will receive the cash surrender value of the policy, and the employee's beneficiary will receive the remainder of the policy proceeds.[16] Furthermore, if the policy is a

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14 Rev. Rul. 66-120, 1966 INT. REV. BULL. NO. 20, at 8.

15 Although all of the Revenue Rulings pertain to the corporate employer-employee relationship, "split dollar" plans can be used by other parties. For example, partnerships can use the "split dollar" arrangement as part of a buy-out arrangement, or it can be used by a sole proprietor to provide a market for his business after his death. Also, individuals with estate tax problems can generate funds to meet death tax expenses.

16 To understand "split dollar" plans, it is helpful to know that each premium payment actually contains two portions. The first portion is known as the "pure insurance" or "risk" element, payable to the beneficiary upon the insured's death. The second portion is the "cash" or "savings" or "investment" element, commonly known

participating one, a dividend will usually be payable. The dividend may be used either to reduce the premium obligation or to purchase additional term insurance to level the coverage on the employee's life.[17] Despite the Service's new position, "split dollar" insurance remains an attractive employee insurance benefit.

A. Enactment of Ruling on Contributions to Premium

Prior to November 14, 1964, the Internal Revenue Service deemed the employer's contributions to premium to be interest-free loans to the employee, with the result that the latter realized no taxable income. Upon the death of the insured, the policy beneficiaries received the proceeds tax-free.[18]

In 1962, the Treasury Department requested Congress to enact legislation designed to tax certain "split dollar" plans. Congress, in turn, suggested that the Department conduct a further study of the area and particularly of Rev. Rul. 55-713.[19] The Treasury subsequently published Rev. Rul. 64-328,[20] which is divided into three basic parts. First, "split dollar" arrangements no longer will be considered to be interest-free loans from the employer to the employee. The typical "split dollar" arrangement confers an economic benefit on the employee, the value of which must be included in his gross taxable income. The value of current life insurance protection in excess of the premiums paid by the employee will now be taxable income. Second, the Ruling provides that no deduction will be allowed to the employer on premium payments made under a "split dollar" arrangement.[21] The third part affirms

as the cash surrender value part of a particular policy. The "cash" element earns interest at a guaranteed rate and is similar to a bank savings account. A third part of the payment is attributable to the amount necessary to cover the insurer's overhead and profit margin, but this is not important for purposes of this article. The House Ways and Means Committee has compared "split dollar" plans with minimum deposit insurance, whereby the policyholder borrows part of the premium that is equal to the year's increase in cash surrender value. The interest increase in the investment account builds up tax-free. Further, the interest is not taxable when it is paid out upon the death of the insured by virtue of CODE § 101(a).

[17] A dividend payable under an insurance policy represents the policyholder's portion of the insurer's earnings over the guaranteed rate of interest declared by the insurer.

[18] Rev. Rul. 55-713, 1955-2 CUM. BULL. 23. See CODE § 101(a).

[19] 1955-2 CUM. BULL. 23. See H.R. REP. NO. 749, 88th Cong., 1st Sess. 62 (1963) and S. REP. NO. 830, 88th Cong., 2d Sess. 78 (1964).

[20] 1964-2 CUM. BULL. 11.

[21] Rev. Rul. 64-328, 1964-2 CUM. BULL. 11, at 15. To substantiate its position on this point, the Service cited CODE § 264(a)(1); G.C.M. 7997, IX-1 CUM. BULL. 210 (1930); Wyoming Nat'l Bank, B.T.A. Mem. Dec. ¶ 33055 (1933); and Omaha Elevator Co., 6 B.T.A. 817 (1927).

Rev. Rul. 55-713 to the extent that, upon the employee's death, receipt of the policy proceeds will be tax-free to the respective policy beneficiaries.

The rationale of Rev. Rul. 64-328 apparently is that the employer is paying more than its share of the premium and that the excess should be income to the employee. The Service took the position that the earnings on the employer's deposits generate income that should be taxed to the employee since the income provides him with an economic benefit.[22]

B. Ownership Systems of "Split Dollar" Policies

Revenue Ruling 64-328 discusses the two principal forms of ownership of "split dollar" policies: the endorsement system and the collateral assignment system. The Service made it clear that

> the substance is, whether the endorsement or collateral assignment system is used, . . . the employer provides the funds representing the investment element in the life insurance contract, which would, in arm's length dealings, entitle it to the earnings accruing to the element . . . . The earnings on the investment element in the contract are applied to provide current life insurance protection to the employee from year to year, without cost to the employee, to the extent that the earnings are sufficient to do so.[23]

The employee usually is not expected to repay the loans except out of the proceeds of the policy; thus, the Service takes the position that, in substance, the same economic benefit exists under either system.

Under the endorsement system of ownership, the employer owns the policy and is primarily responsible for the payment of the premiums. The employee then reimburses the employer for the latter's portion of the premium. As owner of the policy, the employer has a contract right to any dividends which would be payable under the terms of the policy.[24] In the collateral system, the employee is the record owner of the policy and is responsible for the payment of the premiums. The employer loans to the employee amounts equal to the year's increase in the cash surrender value of the policy, and the employee assigns the policy to the employer to secure the loan, thereby creating a debtor-creditor relationship.[25]

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[22] Rev. Rul. 64-328, 1964-2 CUM. BULL. 11, 13, 15.

[23] *Ibid.*

[24] Rev. Rul. 64-328, 1964-2 CUM. BULL. 11, 12.

[25] *Ibid.* As record owner, the employee would be entitled to the policy dividends.

Revenue Ruling 64-328[26] contains a transitional rule. The tax-free treatment afforded by Rev. Rul. 55-713[27] continues to apply to "split dollar" policies purchased on or before November 13, 1964, whereas the taxing provisions of Rev. Rul. 64-328 apply to policies purchased on or after November 14, 1964.[28]

C. *Tax Treatment of Policy Dividends*

Revenue Ruling 64-328 dealt with a nonparticipating policy and thus did not consider the tax treatment of policy dividends.[29] Revenue Ruling 66-110[30] was published in early 1966 to amplify Rev. Rul. 64-328. The 1966 Ruling was considered important by the Internal Revenue Service because the ordinary "split-dollar" policy contains a term dividend option (commonly known as the fifth-dividend option) under which all or a portion of each annual dividend is used to purchase annual term insurance in an amount equal to the year's cash value of the policy.[31] The effect of the option is to level the coverage on the employee's life and to keep level the amount that the employee's beneficiary will receive.[32] In short, the dividend is an integral part of the aggregate economic benefits received by the employee.

The employee will be taxed on any policy dividend if: (1) it is paid to the employee in cash; (2) it is used to provide additional one-year term insurance; or (3) it is used to provide paid-up insurance for more than one year if the employee has a nonforfeitable interest. Thus, in addition to being taxed on current protection less the cost of payments, the employee will be taxed on policy dividends. The total cost to the employee is the amount of his premium payments plus the tax on the "economic benefit."

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26 1964-2 CUM. BULL. 11.

27 1955-2 CUM. BULL. 23.

28 Rev. Rul. 64-328, 1964-2 CUM. BULL. 11, 15. The Ruling concluded by stating that the value of current life insurance protection may be determined by tables published in Rev. Rul. 55-747, 1955-2 CUM. BULL. 228. These tables, commonly known as the "P.S. 58" rates, were first published in 1947 and are much higher than current tables used by life insurance companies.

29 Dividends are payable only under participating policies. Concerning "split dollar" plans, if a nonparticipating policy is used, an increasing term rider can be added so as to level the coverage on the employee's life.

30 1966 INT. REV. BULL. NO. 20, at 6.

31 See Rev. Rul. 66-110, 1966 INT. REV. BULL. NO. 20, at 7.

32 The investment part of the policy — or the amount which is payable to the employer upon the employee's death — increases each year in accordance with the employer's premium payments, and the death benefit payable to the employee's beneficiaries decreases proportionately. The exercise of the option maintains a death benefit level. The portion that is taxable is taxed under CODE § 72(m)(3).

Revenue Ruling 66-110 liberalized Rev. Rul. 64-328 by providing that the insurer may use his own published premium rates for individual policy one-year term life insurance available to cover all standard risks.[33] Since an insurer's rates are usually lower than the "P.S. 58" rates (tables determining value of current life insurance protection),[34] an employee's income can be reduced by using a table other than "P.S. 58." The broad language of Rev. Rul. 66-110 raises the question of whether the taxpayer can use the insurer's one-year term, fifth-dividend option rates or the insurer's group term rates. Both are usually lower than customary term rates. The probable intention of the Ruling is to permit use of the insurance company's customary individual term rates rather than one of the lower term rates which are available only if certain conditions are met (*e.g.*, group provisions).

D. *Present and Potential Problem Areas*

The Internal Revenue Service's new position concerning "split dollar" plans has created certain problem areas, some of which are minor and others of which could require further clarification or could even result in litigation. Following is a discussion of some of the presently existing and potential problems.

Recall that in 1955 the Service stated that interest-free loans by way of the employer's contribution to insurance policy premiums did not result in taxable income to the employee.[35] In 1961, the Tax Court in *J. Simpson Dean*[36] held that interest-free loans "result in no interest deduction for the borrower . . . nor interest income to the lender."[37] The Tax Court further held that an interest-free loan results in no taxable gain to the borrower.[38] However, the Service subsequently revoked its interest-free Ruling, and therefore the premise that such loans do not constitute a taxable transaction is presently supported only by the *Dean* case, even though the Service did not state that all interest-free loans would henceforth be attacked.[39] The suggestion has been made that an economic benefit

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[33] Rev. Rul. 66-110, 1966 INT. REV. BULL. NO. 20, at 7.

[34] Rev. Rul. 55-747, 1955-2 CUM. BULL. 228. For a discussion of these tables, see note 28 *supra*.

[35] Rev. Rul. 55-713, 1955-2 CUM. BULL. 23.

[36] 35 T.C. 1083 (1961).

[37] *Id.* at 1090.

[38] *Ibid.*

[39] For another indication of the Service's possible intention, see Proposed Treas. Reg. § 1.482-2, 31 Fed. Reg. 10395 (1966).

flows from an interest-free loan in the form of interest that the borrower would otherwise have to pay, less the tax benefit afforded by a deduction of that interest from the borrower's income.[40] If the borrower realizes income, then the lender would also realize income, to wit, the gross amount, if any, that the borrower would be allowed to deduct. It would be questionable whether the Service would permit the borrower an interest deduction without also taxing the amount of that deduction to the lender.

A second problem is whether the employer should be permitted to deduct the portion of his premium payment that is taxable to the employee. The tax is ostensibly imposed because of the receipt of additional compensation. Tax law generally permits a deduction for compensation paid no matter what form the payment takes.[41] The authorities cited by the Internal Revenue Service to negate any deduction are questionable since the controverted insurance policies involved were all either payable to the employer or subject to its control.[42] Code section 264(a)(1) appears to rule out a deduction under such circumstances. However, what if the employee owns the policy? Section 264(a)(1) provides that no deduction shall be allowed for "premiums paid on any life insurance policy covering the life of any officer or employee . . . when the taxpayer is directly or indirectly a beneficiary under such policy." It may be argued that the employer's payment is attributable to the insurance that is recoverable entirely by the employee's beneficiaries so that the employer is not a beneficiary of that part of the proceeds; consequently, section 264(a)(1) would not be applicable and the deduction should be allowed.

One rebuttal argument would be that the section disallows a deduction for a taxpayer "directly or indirectly a beneficiary under such policy."[43] The employer would, of course, be a "beneficiary" even though he shares in a different and clearly distinguishable part of the policy proceeds.

A third problem could arise if a closely held corporation maintains a "split dollar" policy. The problem would be whether the cash surrender value of the policy (which would be an asset of the corporation) represents an unreasonable accumulation of earn-

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[40] Schlifke, *Taxing as Income the Receipt of Interest-Free Loans*, 44 TAXES 545, 550 (1966).

[41] CODE § 162(a).

[42] Rev. Rul. 64-328, 1964-2 CUM. BULL. 11.

[43] CODE § 264(a)(1).

ings and profits, thereby subjecting the corporation to the penalty tax of Code section 531. It is generally considered that straight key man insurance policies, distinguishable from "split dollar" plans, are not subject to the penalty tax. In the former, the corporation, by protecting itself against loss of a key employee, will receive all the death benefits flowing from the policy. In short, there is a business purpose — to hire and train a new employee to replace the deceased key employee. In the "split dollar" arrangement, the corporation will recover only what it has paid in premiums plus the guaranteed rate of interest.

The fourth and final problem area to be considered is prompted by Code section 72(e)(1)(B),[44] which appears to be at variance with Rev. Rul. 66-110.[45] This section provides that dividends on life insurance policies are tax-free until they exceed aggregate premiums paid by the policy owner.[46] Under the collateral system (where the employee owns the policy), the employee has a contractual right to the dividends which seemingly should be exempt from tax. However, the Internal Revenue Service overlooks the contract as being merely "form," holding that in substance the employee is not paying the premiums. The Service has thus carved an exception out of section 72(e)(1)(B) by stating that it is inapplicable where the premiums are paid by one other than the insured.

"Split dollar" plans are still attractive and are to be recommended whenever the circumstances are appropriate.[47] Even with the new tax status, such plans are still less expensive for the em-

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44 Other problem areas include the following: (1) How is the policy dividend to be taxed if it is left on deposit and not used? The employee probably will not be taxed unless he has some control over the fund such as the right to withdraw the dividend. See Reg. § 1.61-7(d). (2) What if the theory of imputed interest (rather than economic benefit) were used to tax the employee on the amount of employer advances? In 1964, Congress amended § 264, limiting the deductibility on financed insurance. 78 Stat. 55. The tax effect to the employee could be tremendously burdensome, particularly in later years when the cash value is high compared to the insurance coverage. (3) Since the employee usually pays most of the premiums in early years, will he be entitled to a carryover of contributions in excess of the value of benefits to later years when his contributions are low? The answer to the latter problem is uncertain. An affirmative response by the Internal Revenue Service would appear fair. But Rev. Rul. 64-328, 1964-2 CUM. BULL. 11 seems to indicate that each year will be dealt with separately, thereby denying any carryover.

45 Rev. Rul. 66-110, 1966 INT. REV. BULL. No. 20, at 6.

46 See also Reg. § 1.72-11(b).

47 Any "split dollar" plan presupposes that the cash position of the employer's business will not be hampered by the advances.

ployee than if he had to buy the insurance himself.[48] Despite the 1964 and 1966 Revenue Rulings, the desired effect of "split dollar" plans — to afford a key employee high insurance protection when he needs it most — still exists and provides a valuable fringe benefit.

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[48] Other features of "split dollar" plans are: (1) no prior Internal Revenue Service approval is required; (2) an employer can select the employee(s) to be covered; (3) such plans are good for morale; (4) the employer's capital will seldom be impaired; and (5) the employer can usually reach the cash surrender value by exercise of the policy loan provisions.