

INTERNAL REVENUE SERVICE
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JANUARY 8, 1999

Liquidator of the Estate =

Company A =

Parent B =

Date B =

State C =

Reinsurer D =

Date E =

Court F =

Year G =

Law H =

Dear

This is in response to the ruling request of Date B, as supplemented, submitted by the Acting Director of Insurance of State C as Liquidator of the Estate of Company A regarding the federal tax treatment under the Internal Revenue Code of certain transactions described below.

Company A is a State C stock life insurance company which is owned 100 percent by Parent B. Company A, its subsidiaries, and Parent B and Parent B's other subsidiaries filed a life/non-life consolidated return for Year G, but have not filed a return since that date.

In Year G, Company A developed financial difficulties. On Date E, by an Agreed Order of Liquidation with a Finding of Insolvency (the Order), Court F of State C placed Company A and its subsidiaries into receivership. The Court also appointed the

Liquidator of the Estate to take possession of the property, business and affairs of the company to liquidate Company A. Company A's liquidation has not yet been completed.

The Order ruled specifically that Company A was insolvent. The Order further provided that the rights and liabilities of the creditors, policyholders, and stockholders of Company A became fixed as of the date of the Order. The Order went to explicitly cancel

all direct policies or contracts of insurance heretofore issued by Company A...except those policies or contracts of insurance which are "covered policies" within the meaning of the State C Law H..., or the obligations, or any part thereof, of which the State C Life and Health Guaranty Association [the Association], or any similar organization in any other state, is obligated to assure payment of, which shall remain in full force and effect until cancelled, or until they expire, in accordance with their terms.

A "covered policy" is defined under State C law as any policy or contract within the scope of the Life and Health Guaranty Association Article of the Insurance Code. The relevant provisions generally provide coverage and limitation guidelines to persons who were policyholders of Company A prior to the date of the Order. The State C Insurance Code applies to policyholders domiciled in State C. The provisions further state that all premiums due for coverage after entry of an order of liquidation of an insolvent insurer shall belong to and be payable at the direction of the State C Association, and that the State C Association shall be liable for unearned premiums due to policy or contract owners arising after the entry of such order.

Notice was given to the policyholders that premiums for post-Order coverage should be submitted directly to the State C Association. Any premiums sent or delivered to the Liquidator of the Estate by the policyholders for post-Order coverage were forwarded to the appropriate state guaranty associations.

As part of the State C Association's role in the liquidation of Company A, the Association was required by State C statute to (1) guarantee, assume or reinsure or cause to be guaranteed, assumed, or reinsured the covered policies of covered persons of the insolvent insurer; (2) assure payment of the contractual obligations of the insolvent insurer to covered persons; (3) provide such monies, pledges, notes, guarantees, or other means as are reasonably necessary to discharge such duties, or (4) with respect to only life and health insurance policies, provide benefits and coverages in accordance with the statutory rules of State C. The Liquidator of the Estate has represented that the effect of the State C statutes, in combination with the cancellation of all uncovered contracts and policies under the Order, was that Company A no longer had any rights, obligations, or other responsibilities with respect to the covered contracts under Date E. The Liquidator of the Estate further represents that all premiums were to be paid to the appropriate state guaranty associations which were

likewise liable for any benefits or claims due or payable after Date E, according to their respective state statutes.

The Liquidator of the Estate asked for rulings with respect to the federal tax consequences to other parties. We decline to provide the requested rulings.

However, the Liquidator of the Estate has also requested a ruling that any insurance premiums paid for coverage subsequent to its Year G taxable year are not included in the income of the Estate of Company A. Based on the facts submitted and the representations made, we hereby hold that insurance premiums paid for coverage under contracts or policies issued by Company A subsequent to Year G are not includible in the income of Company A.

No opinion is expressed as to the federal tax treatment of the Estate of Company A under other provisions of the Code and income tax regulations which may also be applicable thereto. We also are not ruling as to the federal tax consequences to any other parties.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this letter should be attached to the federal income tax return to be filed by Company A for the first taxable year following Year G.

Sincerely yours,
Assistant Chief Counsel
(Financial Institutions & Products)

By: SIGNED Donald J. Drees, Jr.
Donald J. Drees, Jr.
Senior Technician Reviewer
Branch 4