Genshaft v. Commissioner, 64 T. C. 282 (1975)

Employees must include in their gross income the economic benefit received from employer-paid split-dollar life insurance premiums.

Summary

In Genshaft v. Commissioner, the U. S. Tax Court ruled that the Genshafts, officers of a family-owned corporation, must report as income the economic benefit derived from life insurance policies maintained under a split-dollar arrangement. The corporation paid all premiums, and the court held that the value of the insurance protection provided to the employees' beneficiaries was taxable. The court applied Revenue Ruling 55-713 to value this benefit, as the policies were effectively continuations of those established before the ruling's revocation date. This case clarifies the tax treatment of economic benefits from employer-funded life insurance and the application of revenue rulings to pre-existing arrangements.

Facts

Superior's Brand Meats, Inc. , purchased life insurance policies on Arthur and David Genshaft between 1957 and 1959. In 1964, the company modified these policies into a split-dollar arrangement, with the corporation as the owner and beneficiary to the extent of the cash surrender value, and the Genshafts' chosen beneficiaries receiving the remainder. The corporation paid all premiums. In 1966, the old policies were terminated and replaced with new ones with similar terms but higher premiums due to the insureds' increased ages. The Genshafts did not report any income from this arrangement for the tax years 1968 and 1969.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the Genshafts' income taxes for 1968 and 1969, asserting that they received taxable economic benefits from the split-dollar life insurance policies. The Genshafts petitioned the U. S. Tax Court, arguing that they were not subject to taxation under Revenue Ruling 55-713 due to a grandfather clause in Revenue Ruling 64-328. The Tax Court ruled against the Genshafts, holding that they must include the economic benefit in their gross income, but applied Revenue Ruling 55-713 to value the benefit.

Issue(s)

1. Whether the Genshafts must include in their gross income the economic benefit received from the maintenance of certain whole life insurance policies under a split-dollar arrangement.
2. Whether Revenue Ruling 55-713 or Revenue Ruling 64-328 applies to determine the value of the economic benefit.

Holding

1. Yes, because the economic benefit conferred by the insurance protection provided to the Genshafts' beneficiaries constitutes gross income under section 61 of the Internal Revenue Code.
2. Revenue Ruling 55-713 applies, because the new policies were effectively continuations of those established before the revocation date of Revenue Ruling 64-328.

Court's Reasoning

The Tax Court reasoned that under section 61 of the Internal Revenue Code, the economic benefit from employer-paid life insurance premiums is taxable when the proceeds are payable to the employee's chosen beneficiary. The court rejected the Genshafts' argument that Revenue Ruling 64-328 did not apply, finding that the new policies were not "purchased" after the ruling's effective date but were continuations of the old policies. The court applied Revenue Ruling 55-713 to value the benefit, subtracting the increase in cash surrender value from the total premium paid. The court emphasized that revenue rulings are advisory and not binding, but followed 55-713 due to the factual continuity of the policies. The court also distinguished this case from others involving interest-free loans, focusing on the insurance element rather than the investment aspect of the policies.

Practical Implications

This decision clarifies that employees must report as income the economic benefit from employer-paid split-dollar life insurance, even if they do not pay any premiums. For similar cases, practitioners should analyze whether new policies are continuations of old ones to determine the applicable revenue ruling for valuation. This ruling affects how employers structure compensation packages, potentially leading to changes in how split-dollar arrangements are used. Businesses may need to reconsider such arrangements due to the tax implications for employees. Later cases have applied this ruling, while others have distinguished it based on whether policies were truly new or continuations of existing arrangements.