

Section 1035 Tax-Free Exchanges

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Prepared for:

What Is a Section 1035 Tax-Free Exchange?

Section 1035 of the Internal Revenue Code sets out the requirements under which property can be exchanged for “like” property without subjecting the exchange to current taxation.

Under certain conditions, the owners of life insurance, endowment and annuity contracts may find it advantageous to exchange older contracts for new contracts. By carefully following the requirements of **Section 1035**, such an exchange may be accomplished without subjecting cash values in excess of the policyowner’s basis in the contract to current income taxation.

Original Contract:	New Contract:
Life Insurance	A life insurance contract can be exchanged for a new life insurance, endowment or annuity contract on the life of the same person.
Endowment	Prior to its maturity date, an endowment contract can be exchanged for a new endowment or annuity contract.
Annuity	An annuity contract can be exchanged for a new annuity contract payable to the same person.

Before exchanging contracts, consult with an experienced agent or other professional advisor, who can assist you to:

1. Evaluate how policy provisions in the new contract might differ from those in the existing contract, including incontestability and suicide provisions.
1. Determine if the existing contract enjoys a favorable tax status that would not transfer to the new contract.
2. Be aware of any gain resulting from the exchange, which would be taxed as ordinary income.
3. Verify that you can qualify for the new contract before terminating the existing contract.