Where a key person life insurance policy is owned by and payable to an employer corporation, are premiums paid by the corporation taxable to the key person?

No.[[1]](#footnote-1)

In *Casale*, the insured was president of the corporation and owned 98 percent of its stock. The corporation was both owner and beneficiary of a retirement income contract on the president’s life, which the corporation had purchased to hedge its obligation to the insured under a deferred compensation agreement. The Tax Court held that premiums paid by the corporation were taxable income to the insured. The Second Circuit reversed, however, on the grounds that the corporation’s separate entity could not be ignored and that the insured had received no current economic benefit that would constitute taxable income. The IRS has agreed to follow the Second Circuit’s decision as precedent in dealing with similar cases.[[2]](#footnote-2)

However, see *Goldsmith v. U.S.* (Q 3553).[[3]](#footnote-3)

1. *Casale v. Comm.*, 247 F.2d 440 (2d Cir. 1957); Rev. Rul. 59-184, 1959-1 CB 65. [↑](#footnote-ref-1)
2. Rev. Rul. 59-184, supra. See also: *Lacey v. Comm.*, 41 TC 329 (1963), *acq*., 1964-2 CB 6. [↑](#footnote-ref-2)
3. *Goldsmith v U.S.*,78-1 USTC ¶9312 (Ct. Cl. 1978). [↑](#footnote-ref-3)