434.01. Can an annuity contract or life insurance contract be exchanged for another contract containing a long-term care rider in a nontaxable exchange?

Yes. The IRC provides that the following exchanges are nontaxable:

(1) the exchange of a life insurance policy for another life insurance policy, for an endowment or annuity contract, or for a qualified long-term care insurance contract;

(2) the exchange of an endowment contract for an annuity contract, for an endowment contract under which payments will begin no later than payments would have begun under the contract exchanged, or for a qualified long-term care insurance contract;

(3) the exchange of an annuity contract for another annuity contract; and

(4) the exchange of a long-term care insurance contract for another qualified long-term care insurance contract.[[1]](#footnote-1)

As a result of the Pension Protection Act of 2006, for exchanges after 2009, life, annuity, endowment, and qualified long-term care insurance contracts may now be exchanged for qualified long-term care insurance contracts.[[2]](#footnote-2) In addition, the presence of a qualified long-term care insurance contract as a rider on an annuity or life insurance policy does not cause it to fail to qualify for the purposes of such exchanges. In other words, a taxpayer can exchange an annuity without a long-term care insurance contract rider for an annuity with such a rider, and still qualify for nonrecognition treatment.[[3]](#footnote-3)

1. . IRC Sec. 1035(a). [↑](#footnote-ref-1)
2. . IRC Sec. 1035(a). [↑](#footnote-ref-2)
3. . IRC Sec. 1035(b)(2), IRC Sec. 105(b)(3). [↑](#footnote-ref-3)