How is the purchaser of an existing immediate annuity contract taxed?

If the purchaser receives lifetime proceeds under the contract, the purchaser is taxed in the same way as an original owner would be taxed, but with the following difference: the purchaser’s cost basis is the consideration the purchaser paid for the contract, plus any premiums the purchaser paid after the purchase and less any excludable dividends and unrepaid excludable loans received by the purchaser after the purchase.

If the contract is purchased after payments commence under a life income or installment option, a new exclusion ratio must be determined, based on the purchaser’s cost and expected return computed as of the purchaser’s annuity starting date. The purchaser’s annuity starting date is the beginning of the first period for which the purchaser receives an annuity payment under the contract.[[1]](#footnote-1)

1. . Treas. Regs. §§1.72-4(b)(2), 1.72-10(a). [↑](#footnote-ref-1)