

Think about this: “1035 exchange/s 101”

**“No gain or loss shall be recognized on the exchange of certain insurance policies according to Internal Revenue Code Section 1035”.**

It is to the policy owner's advantage to elect a non-taxable exchange under Section 1035(a) of the Internal Revenue Code when an existing insurance contract is being surrendered and a new contract is purchased. A 1035 exchange is a replacement. If the rules are followed, no taxable gain is recognized and the net cash value of the old contract is carried over to the new contract.

**Qualification guidelines:**

- The insured must be the same under both contracts
- The policyowner must be the same under both contracts
- A life insurance contract may be exchanged for another permanent life insurance contract
- An endowment contract may be exchanged for another endowment or an annuity contract
- An annuity contract may be exchanged for another annuity
- The entire existing contract must be exchanged. Partial exchanges are not allowed
- The policy owner may not take possession of the cash value and then transfer it to the new policy. Any cash received by the policy owner is taxable to the full extent of any gain in the surrendered policy
- An outstanding policy loan could cause gain and so, the loan must be paid off prior to the exchange
- 1035 exchange proceeds must be received within 6 months of the date of the new policy.
- Regulations require a written statement from both the agent and the client, including completion of any state required replacement form/s. The client also needs to sign the company surrender form from which the funds have to be transferred.

This exchange is a great tool that offers policy owners the opportunity to make changes in their financial planning as circumstances change, and exchange one policy for another without immediate tax consequences. It just has to be done correctly.

**\*\*Please note each case is subject to its own rules under current tax law and regulation.**

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