

Insuring Divorce Settlement and Child Support Payments Against Disability

Taxation of Benefits

How the benefits are taxed should be discussed with a qualified tax professional (your CPA or a tax attorney).

We know premiums for personal disability income insurance are not income tax deductible to the insured and the benefits are received income tax free. The Divorce Settlement Disability Policy may be treated the same way (although because it's a new product there are no IRS rulings specific to this policy).

If the Payor continues to make the divorce settlement payments to the Recipient, the portion of the payments that are considered spousal support would be income tax deductible to the Payor and taxable as income to the Recipient. So...the Payor could collect the insurance benefits income tax free, use them to pay the spousal support and receive an income tax deduction for the spousal support.

The policy also provides benefits to pay non-deductible payments such as child support, medical insurance, tuition etc. Since the insurance benefit is not taxable as income, there is no income tax consequence from paying these expenses with the insurance benefit.

There is established case law allowing the Payor to include as alimony the premiums for life insurance, if the purpose of the life insurance is to insure the Payor's unpaid obligations, as stipulated by the divorce decree, and the beneficiary is the Recipient. Therefore, there is reason to believe the premiums for the Divorce Settlement Disability Policy could be treated the same way.

DSI is not licensed to give tax advice. We are merely bringing to your attention the possibility of favorable tax treatment related to this policy. You should discuss this with your CPA or your Tax Attorney, prior to making decisions regarding the taxation of premiums and benefits.

*DSI is not engaged in the practice of law. **This summary is not intended to be nor should be construed as legal or tax advice.** You should consult with the appropriate legal or tax professional regarding all legal and tax questions. To the best of our knowledge, this summary is based upon the most recent information available to us at the time of the creation of this summary. It is not intended to be complete or compare all contract provisions, and does not reflect contract language, which may vary between carriers. Provisions and availability of certain policy benefits and riders may vary by state. Refer to actual insurance policies for additional information.*

To the best of our knowledge, this summary illustrates how the insurance company administers the portion of definitions described. The actual definitions written in the contracts issued by the carrier will determine how benefits are actually paid. The definitions and carrier interpretations take precedence over any representations made in this proposal.