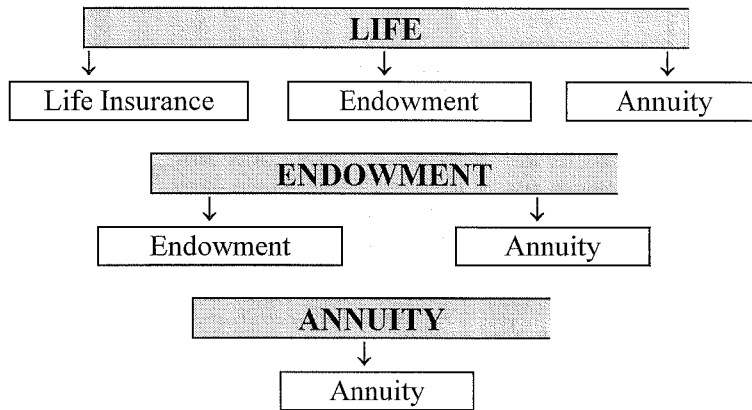


## 1035 TAX FREE EXCHANGES

Section 1035 of the Internal Revenue Code provides that certain exchanges of insurance certificates can receive favorable treatment. If the exchange qualifies as a tax-free exchange, the cost basis of the original certificate would be carried over to the new certificate, thereby postponing the recognition of any gain.

### Acceptable Exchanges

The following are non-taxable exchanges allowed under 1035 guidelines:



### 1035 Guidelines

To ensure that clients are protected from taxable situations, follow these rules in making exchanges:

- The new certificate must have the same insured, annuitant, and owner as the old certificate.
- To defer the entire gain, the *entire* cash surrender value of existing certificates must be applied to the new certificate. Any cash received by the client or loans outstanding at the time of exchange may be subject to taxation in the year of receipt.
- Certificate owners must not *actually* or *constructively* receive cash values from exchanged certificates. The existing certificate must be assigned to Sons of Norway.

## **Transactions Ineligible for 1035 Exchanges**

The following are not allowable under 1035 guidelines:

- Cash surrender proceeds of an existing certificate cannot be used to increase face amounts on an existing universal life certificate.
- Cash surrender proceeds of an existing certificate cannot be placed into another existing certificate. Rollover of funds into an existing Sons of Norway certificate will not qualify as a 1035 exchange. **The assignment must be made in conjunction with a new application for insurance.**

## **Tax Statements**

When a 1035 Exchange occurs, the certificate owner and the IRS will receive a 1099R form indicating an exchange has been made. A "6" will appear under the "category of distribution" section, indicating the 1035 Exchange is a non-taxable event and requires no reporting of income.

## **1035 Exchange of a Non-Sons of Norway Certificate for a Sons of Norway Certificate**

This can only be done on those that qualify for 1035 Tax Free Exchanges.

- Submit completed 1035 Exchange Form (refer to website), including signatures from the proper owners.
- Providing a recent account statement for the policy being exchanged will improve the processing time.
- Submit appropriate replacement forms as required in your jurisdiction.
- Submit with the application at least two month's premium to put the new certificate in force.
- If the new certificate is approved other than as applied for, written acceptance by the insured will be required before initiating the 1035 Exchange.
- Advise clients to continue paying premiums on certificates being replaced. Sons of Norway will not make premium payments or apply for automatic premium loans to pay premiums on certificates assigned to them.
- It may take up to 90 days to receive the funds.
- Headquarters will complete routine follow ups until the funds are received.

## **1035 Exchange of a Sons of Norway Certificate for another Sons of Norway Certificate**

The following procedure should be followed at the time the new application is completed.

- Indicate on the application and the Full Surrender Request Form (refer to website) that a 1035 Exchange is desired.
- Submit appropriate replacement forms as required in your jurisdiction.