

**MEMO# 20789**

January 18, 2007

# **IRS Issues Ruling Regarding Tax Treatment of Holders of Variable Annuity Contracts Funded by RICs**

[20789]

January 18, 2007

TO: TAX MEMBERS No. 2-07

VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 2-07 RE: IRS ISSUES  
RULING REGARDING TAX TREATMENT OF HOLDERS OF VARIABLE ANNUITY CONTRACTS  
FUNDED BY RICS

The Internal Revenue Service ("IRS") has issued Rev. Rul. 2007-7 (attached) regarding the federal income tax treatment of the holder of a variable annuity or life insurance contract that is funded by an interest in a regulated investment company ("RIC"). The IRS has held that the holder of such a contract is not treated as the owner of an interest in a RIC that funds the variable contract solely because interests in the same RIC are also available to investors described in Treas. Reg. § 1.817-5(f)(3). If all the beneficial interests in the RIC are held by one or more segregated asset accounts of the insurance company, or by investors described in Treas. Reg. § 1.817-5(f)(3), and public access to the RIC is available exclusively to such investors or through the purchase of a variable contract, the holder of a variable contract is not treated as the owner of an interest in the RIC.

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[Attachment](#)

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