

MEMO# 16999

January 23, 2004

INSTITUTE LETTER URGING TREASURY AND IRS TO ALLOW VARIABLE ANNUITIES TO INVEST EXCLUSIVELY IN TREASURY SECURITIES

[16999] January 23, 2004 TO: TAX MEMBERS No. 3-04 VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 2-04 RE: INSTITUTE LETTER URGING TREASURY AND IRS TO ALLOW VARIABLE ANNUITIES TO INVEST EXCLUSIVELY IN TREASURY SECURITIES The attached Institute letter urges Treasury and the IRS to amend Treas. Reg. 1.817-5 to allow variable annuity contract assets to be invested exclusively in Treasury securities. The letter notes that, under Treas. Reg. 1.817-5(b)(3), variable life insurance contract assets are currently allowed to be invested exclusively in Treasury securities, and that there is no policy or statutory reason why variable annuities must – or should – be treated differently. The letter points out that Treasury inflation-protected securities (TIPS) were first issued following the promulgation of these regulations, and that allowing individuals the opportunity to purchase economic protection against inflation risk is consistent with the Congressional intent behind Section 817(h) and the tax advantages for annuities. The letter concludes that Treasury and the IRS should treat variable life insurance and variable annuity contracts the same, and allow individuals to allocate contract assets entirely to Treasury obligations. David Orlin Assistant Counsel Note: Not all recipients receive the attachment. To obtain a copy of the attachment, please visit our members website (<http://members.ici.org>) and search for memo 16999, or call the ICI Library at (202) 326-8304 and request the attachment for memo 16999. Attachment (in .pdf format)

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