

provided to the non-owner under the arrangement.

Proposed Effective Date

These proposed regulations will have the same applicability date as that set forth in § 1.61–22(j) of the 2002 proposed regulations. Thus, these proposed regulations will apply to split-dollar life insurance arrangements entered into after the date final regulations are published in the **Federal Register** and to arrangements entered into on or before that date that are materially modified after that date.

In addition, taxpayers may rely on these proposed regulations for equity split-dollar life insurance arrangements entered into on or before the date final regulations are published in the **Federal Register** if the conditions in § 1.61–22(j)(2)(i) of the 2002 proposed regulations are met. For taxable years beginning after December 31, 2002, however, parties to an equity split-dollar life insurance arrangement may rely on these proposed regulations only if the value of all economic benefits taken into account by the parties is determined in accordance with these proposed regulations. These proposed regulations also conform to the early reliance rules in § 1.83–6(a)(5)(ii)(B) and § 1.301–1(q)(4)(ii) of the 2002 proposed regulations to that set forth in the preceding sentence.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory flexibility assessment is not required. It has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. Chapter 5) does not apply to these regulations, and because these regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written or electronic comments (a signed original and eight (8) copies) that are submitted timely to the IRS. The Treasury Department and IRS specifically request comments on the clarity of the proposed rules and how

they may be made easier to understand. All comments will be available for public inspection and copying.

A public hearing has been scheduled for July 29, 2003, beginning at 10 a.m. in the IRS Auditorium in the Internal Revenue Building, 1111 Constitution Avenue, NW., Washington, DC. Thus, the public hearing concerning these proposed regulations will be held on a date sooner than the usual 120 days after the date of publication of proposed regulations in the **Federal Register**. The IRS and the Treasury Department believe that this shorter period is sufficient for taxpayers to comment on these proposed regulations because the issue addressed by these proposed regulations is narrowly focused and taxpayers have already submitted comments on this issue in connection with the 2002 proposed regulations.

All visitors must present photo identification to enter the building. Because of access restrictions, visitors will not be admitted beyond the immediate entrance area more than 30 minutes before the hearing starts. For information about having your name placed on the building access list to attend the hearing, see the **FOR FURTHER INFORMATION CONTACT** section of this preamble.

The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons who wish to present oral comments at the hearing must submit written comments and an outline of the topics to be discussed and the time to be devoted to each topic (signed original and eight (8) copies) by July 8, 2003. A period of 10 minutes will be allotted to each person for making comments. An agenda showing the schedule of speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Drafting Information

The principal author of these proposed regulations is Elizabeth Kaye of the Office of Associate Chief Counsel (Income Tax and Accounting). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 1.61–22, as proposed on July 9, 2002, at 67 FR 45423, is amended as follows:

1. The text of paragraph (d)(3)(ii) is added.

2. Paragraph (j)(2)(iii) is added.

The additions read as follows:

§ 1.61–22 Taxation of split-dollar life insurance arrangements.

* * * * *

(d) * * *

(3) * * *

(ii) *Valuation of economic benefits—*

(A) *In general.* In the case of a split-dollar life insurance arrangement described in paragraph (d)(3)(i) of this section, the value of the economic benefits provided to a non-owner for a taxable year under the arrangement equals—

(1) The cost of current life insurance protection provided to the non-owner as determined under paragraph (d)(3)(ii)(B) of this section;

(2) The amount of policy cash value to which the non-owner has current access within the meaning of paragraph (d)(3)(ii)(C) of this section (to the extent that such amount was not actually taken into account for a prior taxable year); and

(3) The value of any economic benefits not described in paragraph (d)(3)(ii)(A)(1) or (2) of this section provided to the non-owner (to the extent not actually taken into account for a prior taxable year).

(B) *Valuation of current term life insurance protection.* In the case of a split-dollar life insurance arrangement described in paragraph (d)(3)(i) of this section, the amount of the current life insurance protection (including paid-up additions thereto) provided to the non-owner for a taxable year equals the excess of the average death benefit of the life insurance contract over the sum of the total amount payable to the owner under the split-dollar life insurance arrangement and the portion of the policy cash value actually taken into account for the current taxable year or for any prior taxable year. The total amount payable to the owner is increased by the amount of any outstanding policy loan. The cost of current life insurance protection provided to the non-owner in any year equals the amount of the current life insurance protection provided to the non-owner multiplied by the life insurance premium factor designated or