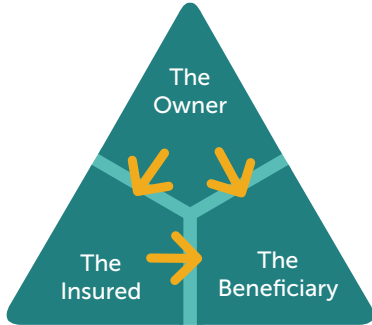


# Goodman Trap: The “Unholy Trinity” Taxation



The “unholy trinity” occurs when there are three different parties to a life insurance certificate; **the owner, the insured, and the beneficiary.** This situation can potentially expose the owner to taxation<sup>1</sup> of the death benefit proceeds upon the death of the insured.

## The two common situations seen on individual cases:

Owner	Insured	Beneficiary	Outcome
Spouse 1	Spouse 2	Their children	Upon the death of Spouse 2, a taxable gift of the death benefit proceeds is made by Spouse 1 to their children <sup>2</sup>
Child 1	Parent	Parent’s children	Upon the death of the Parent, a taxable gift of a portion of the benefit proceeds is made by Child 1 to each of their siblings

## The two common situations seen on business cases:

Owner	Insured	Beneficiary	Outcome
Business	Owner of Business	Owner’s Spouse of Business	Upon the death of the Owner, the death benefit proceeds made will be taxable as compensation or a dividend to the Owner’s Spouse <sup>3</sup>
Business	Key Employee (Non-Owner)	Spouse of Key Employee	Upon the death of the Key Employee, the death benefit proceeds made will be taxable as compensation to the Spouse of the Key Employee

One general rule of thumb to consider is that if the owner is not the same as the insured, having the same owner as the beneficiary may help to avoid potential tax consequences. However, as a fraternal, all Foresters Financial™ certificate beneficiaries must meet Foresters fraternal requirements. This may result in some situations where the beneficiary may not be acceptable. Please refer to Putting the spotlight on Beneficiaries for additional information.

<sup>1</sup> An Ownership change of an in-force certificate may result in a transfer of value or other tax consequences. Foresters, their employees and life insurance representatives, do not provide, on Foresters behalf, legal or tax advice. The information given here is merely a summary of our understanding of current laws and regulations. Advise your clients and prospective purchasers to consult their tax or legal advisor.

<sup>2</sup> See Goodman v. Comm., 156 F.2d 218 (2d Cir. 1946).

<sup>3</sup> See Golden v. Comm., 113 F.2d 590 (3rd Cir. 1940) and Revenue Ruling 61-134.

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