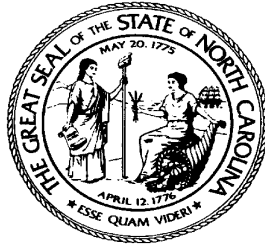


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## North Carolina Department of Revenue

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### **DIRECTIVE**

**Subject:** Allocation of Premium Income From Group Life Insurance Policies  
**Tax:** Gross Premium Tax  
**Law:** G.S. 105-228  
**Issued By:** Corporate, Excise, and Insurance Tax Division  
**Date:** January 23, 2008  
**Number:** CD-08-1

This directive clarifies the Department of Revenue's position on the appropriate allocation of life insurance premium income from individual and group life insurance policies.

#### **Background**

It is common for corporations to insure the lives of their employees. In many cases, the corporation both owns the policy and is the beneficiary of the policy. One business practice employed by both North Carolina corporations and multi-state corporations doing business in North Carolina is to establish a trust or other entity outside of North Carolina for multiple reasons including the purchase of employer-owned life insurance. This insurance is typically either a group life insurance policy or multiple individual life insurance policies issued reflecting the trust or other entity as policyholder or policy owner. The insurance covers insureds located in multiple states including North Carolina and can be issued by an insurance company domiciled in North Carolina or an insurance company domiciled outside of North Carolina with authority to do business in North Carolina.

#### **Issues**

What is the appropriate method of allocating premium income from group and individual life insurance policies for North Carolina gross premium tax purposes?

Should any distinction be made between the allocation of premium income from a group life insurance policy and premium income from individual life insurance policies?

Does the allocation exception in G.S. 105-228.5(b1)(1) apply with respect to premium income from life insurance policies issued to owners, including trusts, located outside North Carolina but covering North Carolina risks?

### **Applicable Statutory Authority**

G.S. 105-228.5(a) levies a tax on insurers. Pursuant to G.S. 105-228.5(b)(1), the tax imposed on an insurer is "...measured by gross premiums from business done in this State during the preceding calendar year."

In determining the amount of gross premiums from business in this State, G.S. 105-228.5(b1) provides that "... all gross premiums received in this State, credited to policies written or procured in this State, or derived from business written in this State shall be deemed to be for contracts covering persons, property, or risks resident or located in this State...." Gross premiums that are properly reported and properly allocated as being received from business done in some other nation, territory, state, or states are not included in the gross premiums from business in this State. (G.S. 105-228.5(b1)(1))

In the case of life insurance contracts, G.S. 105-228.5(b1) provides that gross premiums from business done in this State "...means all premiums collected in the calendar year, other than for contracts of reinsurance, for policies the premiums on which are paid by or credited to persons, firms, or corporations resident in this State, or in the case of group policies, for contracts of insurance covering persons resident within this State...."

### **Conclusion**

Gross premiums from individual and group policies providing coverage for individuals living in this State are taxable by this State and should be allocated to North Carolina regardless of the address of the policyholder, policy owner, or beneficiary. No distinction is made between the allocation of premium income from a group life insurance policy and premium income from individual life insurance policies. The determining factor is residence of the insured. The allocation exception in G.S. 105-228.5(b1)(1) does not apply with respect to premium income from life insurance policies issued to owners, including trusts, located outside North Carolina but covering North Carolina risks.

### **Questions**

Questions regarding this Directive may be directed to the Corporate, Excise, and Insurance Tax Division at 919-733-8510 or by mail at P.O. Box 871, Raleigh, NC 27602-0871.