



Life Settlement Taxation Worksheet

For use by individual policy sellers with insurable interest. Not for use by life settlement investors.

A. Calculation of Total Life Settlement Gain

1	Life Settlement Proceeds		
2	Cumulative Premiums Paid (for policies that were or will be converted, do <u>not</u> include term premiums paid prior to conversion)		
3	Cumulative withdrawals or dividends taken from policy		
4	Life Settlement Basis (Line A2 minus A3)		
5	Line A1 minus Line A4. Total Life Settlement Gain (If line A4 greater than line A1 then gain is Zero - stop here - there is no taxable gain.)		

B. Calculation of Ordinary Income Portion

1	Enter the Cash Surrender Value (plus policy loans).		
2	Enter the life settlement basis from Line A4		
3	Ordinary Income Portion (Line B1 minus Line B2. If Line B2 is greater than or equal to B1 enter -0- and you have no ordinary income).		
4	Enter ordinary income tax rate. Maximum federal income tax rate is 37%. Add state and local income tax rate if applicable.		
5	Multiply Line B3 by B4. This is the ordinary income tax attributable to the settlement.		

C. Calculation of Capital Gain Portion

1	Enter the amount from Line A5.		
2	Enter the amount from Line B3. Do not enter less than zero.		
3	Subtract C2 from Line C1. Do not enter less than zero. This is the taxable capital gain income.		
4	Enter the capital gains tax rate. The maximum federal long-term capital gains rate is 20%. Add state and local income tax rate if applicable.		
5	Capital gains tax. Multiply Line C3 by C4.		

D. Total Tax

1	Add lines B5 and C5. This amount represents the estimated total income tax resulting from the life settlement transaction. See Important Notes.		
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Important Notes:

- This is an estimate only for non-MEC policies. There may be Alternate Minimum Tax and other tax implications. Maximum rates do not include 3.8% Medicare tax. Please consult your tax advisor.
- U.S. Treasury Circular 230 Notice: Any U.S. federal tax advice included in this communication is not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal tax penalties.

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