

IRC Section 72 (U)

IRC Section 72(U) addressed the tax treatment of annuity contracts owned by non-natural persons (i.e. corporations, partnerships, certain trusts, etc.). In case of such a contract, the income on the contract for any taxable year is treated as ordinary income received or accrued by the owner in that year.

Therefore, if a non-natural person, (i.e. ABC Retailer or ABC Self- Insured) owns:

(1) a deferred annuity (i.e. an annuity wherein the payments do not begin within one year of the date of deposit) or

(2) an immediate annuity which does not have substantially equal payments, the owner of the annuity would be taxed on the inside build-up of the annuity during the deferral period.