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FORS FINANCIAL
CONSULTING®

Live Life Well Planned

Are life insurance proceeds income taxable?

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In general, life insurance proceeds paid to you because of the death of the insured are not subject to federal income tax. To qualify for such favorable tax treatment, the life insurance contract must meet certain IRS requirements.

However, proceeds may be taxable in limited cases. For instance, if you receive the insurance proceeds in installments and interest is paid, the interest portion of the payment generated after the insured's death is treated as taxable income. This is taxed at your ordinary income rate. The part of the installment payment that is classified as investment in the contract is not taxable, however.

If a life insurance policy is sold or otherwise transferred for valuable consideration before the insured's death, the proceeds (except to the extent of that consideration) are generally taxable to the beneficiary, unless an exception applies. This transaction is complicated, so be sure to seek professional assistance before proceeding.

Note: Different federal income tax rules may apply to accelerated death benefits (i.e., due to a terminal or chronic illness) and to other types of life insurance benefits paid before the insured's death (e.g., cash withdrawals, policy loans, dividends).

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

The information provided is not intended to be a substitute for specific individualized tax planning or legal advice. We suggest that you consult with a qualified tax or legal professional.

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