



Tax Reduction Letter

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Revenue Ruling 66-262

Section 264. Certain Amounts Paid in Connection with Insurance Contracts

July 1966

No deduction is allowable for premiums paid for insurance policies covering accidental disability or death of a taxpayer's employees where the taxpayer is the beneficiary thereunder.

Advice has been requested as to whether certain insurance premiums are deductible as ordinary and necessary business expenses under the following circumstances.

The taxpayer, a professional baseball club, carries several very large insurance policies protecting itself against the accidental disability or death of any of its players, its coaches, and manager. In addition, the league, of which the taxpayer is a member, has a catastrophe plan for aiding member clubs if they suffer an accident resulting in the death or disability of seven or more players. To aid member clubs in replacing players lost in such an accident, the league carries an insurance policy for which each member club is required to contribute a share of the premium. Each club is a beneficiary under the policy if a covered accident occurs involving its players. The policy provides payment for each player who suffers death or disability so long as death or disability of seven or more players results from a single accident.

Section 264 (a) of the Internal Revenue Code of 1954 provides that no deduction shall be allowed for premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer, when the taxpayer is directly or indirectly a beneficiary under the policy. Following the rationale of *Commissioner v. Estate of Marshal L. Noel*, 380 U.S. 678, 14 L. Ed. 2d 159, 85 S. Ct. 1238 (1965), Ct. D. 1893, C.B. 1965-2, 371, insurance covering accidental death is encompassed in the term "life insurance." Accordingly, the portion of the premiums attributable to the accidental death insurance is not deductible.

The portion of the premiums attributable to the disability insurance is also not deductible. Section 265 of the Code provides, in part, that no deduction shall be allowed for any expenses which are allocable to exempt income. Section 104 (a) (3) of the Code provides that amounts received through accident or health insurance for personal injuries or sickness, with exceptions not here material, are not includible in gross income. This section applies to employer corporations as well as to individual employees.