Obama Signs Partial Annuitization Law

By Editor Test *Tue, Sep 28, 2010*

H.R. 5297, which President Obama signed into law yesterday, contained a section allowing VA owners to annuitize part of their contract without first exchanging it for two new contracts. The rule takes effect January 1, 2011.

Here's the text of Section 2113 of H.R. 5297, which takes effect January 1, in its entirety:

SEC. 2113. SPECIAL RULES FOR ANNUITIES RECEIVED FROM ONLY A PORTION OF A CONTRACT.

(a) In General- Subsection (a) of section 72 of the Internal Revenue Code of 1986 is amended to read as follows:

'(a) General Rules for Annuities-

'(1) INCOME INCLUSION- Except as otherwise provided in this chapter, gross income includes any amount received as an annuity (whether for a period certain or during one or more lives) under an annuity, endowment, or life insurance contract.

'(2) PARTIAL ANNUITIZATION- If any amount is received as an annuity for a period of 10 years or more or during one or more lives under any portion of an annuity, endowment, or life insurance contract–

'(A) such portion shall be treated as a separate contract for purposes of this section,

'(B) for purposes of applying subsections (b), (c), and (e), the investment in the contract shall be allocated pro rata between each portion of the contract from which amounts are received as an annuity and the portion of the contract from which amounts are not received as an annuity, and

'(C) a separate annuity starting date under subsection (c)(4) shall be determined with respect to each portion of the contract from which amounts are received as an annuity.'.

(b) Effective Date- The amendment made by this section shall apply to amounts received in taxable years beginning after December 31, 2010.

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