Internal Revenue Service

Number: **202621001**
Release Date: 5/22/2026

Index Number: 130.00-00, 130.01-00, 130.02-00

Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:ITA:B05
PLR-112871-25

Date:
February 20, 2026

Legend:

Parent Company	=
Insurance Company	=
Annuity Company	=
Assignment Company	=
State 1	=
State 2	=
State 3	=
Claimant	=
Date 1	=
Date 2	=
Date 3	=
Amount A	=
Amount B	=
Amount C	=
Variable A	=
Variable B	=
Variable C	=
Annuity Contract	=
Index	=

Dear :

This is in response to your Date 1 ruling request, and supplemental submission dated Date 2, submitted on behalf of a group of affiliated corporations (collectively, “The Companies”) regarding the application of § 130 of the Internal Revenue Code (“Code”) to the transaction described below.

FACTS

The Companies represent the facts as follows:

Parent Company, organized and operated under the laws of State 1, is treated as a corporation for federal income tax purposes. Parent Company files a consolidated federal income tax return with its affiliated corporations on an accrual accounting, calendar-year basis.

Insurance Company and Annuity Company are stock life insurance companies organized and operated under the laws of State 1 and State 2, respectively. Both qualify as life insurance companies under § 816(a) and join in the filing of a consolidated federal income tax return with Parent Company. Insurance Company and Annuity Company issue structured settlement annuity contracts in states where they meet state licensing requirements. For purposes of the discussion below “Carrier” refers to either Insurance Company or Annuity Company.

Assignment Company is a corporation domiciled in State 3. Assignment Company is an indirect, wholly owned subsidiary of Parent and joins in the filing of a consolidated federal income tax return with Parent Company.

Assignment Company conducts a business of assuming liabilities from third-party defendants to make periodic payments to third-party claimants pursuant to structured settlement agreements between such parties. In connection with that business, Assignment Company purchases structured settlement annuity contracts from Carrier as “qualified funding assets” to support Assignment Company’s obligations to make periodic payments to third-party claimants.

Claimant is an individual pursuing a claim against a defendant relating to a motor vehicle accident. On Date 3, Claimant was riding a bicycle when he was struck by a garbage truck. Claimant is entitled to damages for personal injuries as a result of the incident. Claimant is negotiating the terms of a structured settlement agreement (“settlement agreement”) for such damages and is considering incorporating a requirement in that settlement for the defendant to make periodic payments to Claimant in the manner described in a single premium structured settlement indexed annuity contract (Annuity Contract). Specifically, Claimant is considering a settlement agreement that will provide a 20-year payout preceded by a 10-year deferral period.

The proposed settlement agreement will obligate the defendant to make periodic payments to Claimant that are excludable from Claimant's gross income pursuant to § 104(a)(1) or (2). The settlement agreement will provide that the dollar amount of each periodic payment must be determined as described in the Annuity Contract.

Pursuant to the proposed settlement agreement, the defendant will assign its payment liabilities thereunder to Assignment Company and will pay Assignment Company a lump sum for accepting the assignment. Assignment Company will deduct a fee from that amount and use 100 percent of the remaining sum (Amount C) to purchase the Annuity Contract from Carrier as a qualified funding asset.

The Annuity Contract provides for periodic payments made annually for the life of a claimant, a specified period of years, or for the claimant's life with a specified number of years guaranteed. The dollar amount of the annual payments may increase or decrease according to a specified formula that references the performance of a market index (the Index).[1]

Regardless of the performance of the Index, however, the payments will never be less than a minimum dollar amount that is guaranteed when the Annuity Contract is issued. The Annuity Contract provides a guaranteed floor, defined as Amount A, for the periodic payments along with the potential for higher payments based on the performance of the Index. Amount A is determined when Carrier issues the Annuity Contract and is based on Amount C and other actuarial factors. Increases, if any, in the Annuity Contract's annual payments over and above Amount A are determined using Variable C, which is calculated with reference to the formula included in the Annuity Contract. Each year, Variable C is multiplied by Amount A to determine that year's payment. The Annuity Contract's governing terms provide that Variable C will never be less than Amount B, so that the periodic payment in a year will never be less than Amount A. This is intended to provide Claimant a steady stream of income he can count on receiving every year, without having to forgo access to market-based returns that could increase the payments and thereby help offset the potentially erosive effects that inflation could have on the purchasing power of Claimant's income stream.

The Annuity Contract's formula that determines the amount of each annual payment will provide the following effects:

- The annual payment will increase relative to the prior year's payment if the rate of return on the Index after certain adjustments (Variable A) exceeds a threshold rate determined under the formula (Variable B); and

---

[1] If the Index is discontinued or if the calculation of the Index is substantially changed, Companies are authorized to substitute an alternative index and will notify the affected person.

- The annual payment will decrease relative to the prior year's payment (but not below Amount A) if Variable A does not at least equal Variable B.

The mechanics of the formula in the Annuity Contract are similar to those under other indexed annuity contracts, which take into account the positive, but not negative, returns on a specified index, subject to adjustments known as "participation rates" and "cap rates". The Annuity Contract's formula includes those adjustment features and incorporates Variable B, which may be unique to the Contract.

The Variable B formula is aimed at providing a guaranteed floor for periodic payments with the potential for increases based on the positive performance of an index and is designed to accomplish this by allocating a portion of Variable A from previous years to increase funds Carrier has available to purchase hedging instruments. Variable B is intended to result in higher participation rates and higher cap rates when determining potential increases in the periodic payments based on the performance of the Index. Thus, when the Index performs well, it is anticipated that the periodic payments made pursuant to the Annuity Contract will be more likely to increase at a higher rate than other indexed annuities.

The Annuity Contract may include a deferral period, meaning the periodic payments would not start until the end of a specified number of months or years after such contract is issued. In that case, the calculation of Amount A will include an additional interest component that takes the deferral period into account.

If there is no deferral period before the payments begin, Variable C for the initial periodic payment will equal Amount B, so that the first payment will equal Amount A. Each year thereafter, Variable C will be determined using the formula and multiplied by Amount A to calculate that year's payment, subject to the guarantee that Variable C will never be less than Amount B and therefore the annual payment will never be less than Amount A.

If there is a deferral period before the payments begin, the same process will be followed to determine Variable C each year, but the payments will not actually start until the end of the deferral period. This means the first annual payment could be higher (but never lower) than Amount A.

The Companies also make the following representations:

1. The Annuity Contract will be treated as a structured settlement annuity contract under applicable state law.

2. Assignment Company will assume a liability to make periodic payments as damages on account of personal injury or sickness (in a case involving physical

injury or physical sickness) from a person who is a party to the settlement agreement.

3. Claimant will be unable to accelerate, defer, increase, or decrease the periodic payments paid under the Annuity Contract or the settlement agreement.

4. Assignment Company's obligation to Claimant will be no greater than the defendant's obligation under the settlement agreement.

5. The periodic payments made under the settlement agreement will be excludable from Claimant's gross income under § 104(a)(2).

6. The Annuity Contract will be issued by Carrier to fund the periodic payments to Claimant pursuant to an assignment of a liability to make periodic payments as damages on account of personal injury or sickness (in a case involving physical injury or physical sickness).

7. The settlement agreement will provide that the dollar amount of each periodic payment and the duration of the payments must be determined as described in the Annuity Contract.

8. Assignment Company will designate the Annuity Contract as being taken into account under § 130 with respect to the assignment of liability.

9. Assignment Company will purchase the Annuity Contract from Carrier not more than 60 days before or after the date of the assignment of liability to make periodic payments.

REQUESTED RULINGS

The Companies have requested the following rulings:

1. The periodic payments that will be made under the Annuity Contract are "fixed and determinable as to amount and time of payment" within the meaning of § 130(c)(2)(A).

2. The Annuity Contract will not fail to be a "qualified funding asset" within the meaning of § 130(d) solely by reason of the periodic payments fluctuating in amount as described in the Companies' ruling request and Annuity Contract.

LAW AND ANALYSIS

Section 104(a)(2) of the Code generally excludes from gross income the amount of any damages received (whether by suit or agreement and whether as lump sums or as periodic payments) on account of personal physical injury or physical sickness.

Section 130(a) provides that any amount a party receives for agreeing to a qualified assignment is not included in gross income to the extent that such amount does not exceed the aggregate cost of any qualified funding assets.

Section 130(c) defines a "qualified assignment" as any assignment of liability to make periodic payments as damages (whether by suit or agreement) on account of personal injury or sickness (in a case involving physical injury or physical sickness) provided that, among other conditions: such periodic payments are fixed and determinable as to the amount and time of payment.

Section 130(d) provides the requirements an annuity must meet to qualify as a "qualified funding asset," including the requirements that (1) such annuity contract or obligation is used by the assignee to fund periodic payments under any qualified assignment; (2) the periods of the payments under the annuity contract or obligation are reasonably related to the periodic payments under the qualified assignment; and (3) the amount of any such payment under the contract or obligation does not exceed the periodic payment to which it relates.

Periodic payments can be fixed and determinable as to the amount and time of payment even if the payments are calculated pursuant to a formula based on the performance of a stock index or a mutual fund portfolio. The terms of the Annuity Contract include the Index, which provides an objective formula for computing the amount of each periodic payment that will be made to Claimant. Further, each payment will never be less than Amount A.

Consequently, we conclude that for purposes § 130(c)(2)(A), the periodic payments that will be made pursuant to the Annuity Contract are fixed and determinable as to amount and time of payment. Moreover, the Annuity Contract will not fail to be a qualified funding asset within the meaning of § 130(d) solely by reason of the provisions authorizing indexed payments that may fluctuate in amount and the potential increase in the periodic payments.

RULINGS

Accordingly, based strictly on the information submitted and the representations made, our office concludes:

1. The periodic payments that will be made under the Annuity Contract are fixed and determinable as to amount and time of payment within the meaning of § 130(c)(2)(A).

2. The Annuity Contract will not fail to be a qualified funding asset within the meaning of § 130(d) solely by reason of the provisions for indexed benefits or because the periodic payments may fluctuate in amount.

CAVEATS

Except as expressly provided in rulings 1 and 2 above, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Specifically, no ruling on the taxability of the periodic payments to Claimant has been requested, and therefore no ruling is being issued to Claimant under § 104(a)(2) or any other provision of the Code. This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

The rulings contained in this letter are based upon information and representations submitted by the Companies and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely.

Gerald Semasek
Senior Technician Reviewer, Branch 5
Office of Associate Chief Counsel
(Income Tax and Accounting)

CC: