SIMPLE ANNUITY EXAMPLE

FACTS:

$9,000 Cost for Annuity Contract

5 annual payments of $2,000

§ 72 Calculations

§ 72(a) "General" Rule; § 72(b) "Exception" regarding Exclusion Ratio

"Investment in the Contract" (as of annuity starting date) = $9,000
§ 72(c)(1)

"Expected Return under the Contract" = $10,000 ($2,000 X 5)
(as of annuity starting date) § 72(c)(3)(B)

"Exclusion Ratio" = $9,000 / $10,000 = 0.90 § 72(b)(1)

For each $2,000 annuity payment:

Amount <u>excluded</u> = $2,000 X 0.9 = $1,800 (i.e., cost recovery)

Income <u>inclusion</u> = $2,000 - $1,800 exclusion = $200