auto talk
Dan McCosh

U.S. pushing different fuel

GM's Methanol Marathon blasted off from the GM tech center last week in a cloud of eye-stinging fumes, a few days before another team of Chrysler engineers took Chrysler's methanol-powered car to Washington.

Both events mark a revival of interest in alternate fuels for the family bus, the kind of research that enjoyed a short-lived popularity during the mid-1970s energy crisis but today raises as much interest as organic gardening.

Methanol is a type of alcohol mainly used to thin shellac and as a fuel for model airplanes. Now it's rapidly gaining notoriety as the first fuel being taken seriously as an alternative to gasoline for passenger cars since interest in diesel fuel dwindled a few years ago.

It's relatively costly and nearly unavailable at the moment. But federal regulators have made the auto industry an offer it can't refuse, and now GM and Ford are expected to have production methanol-fueled cars on the road in approximately three years, with Chrysler only a little further behind.

METHANOL IS a variety of alcohol derived mainly from coal or natural gas — two of the most plentiful supplies of energy short of crude oil. It has been used off and on for racing cars since it has a few properties that work well in high-performance engines.

It also enjoyed a short popularity in World War II with the Germans, who also puttered with charcoal fumes and gas from decaying chickens after Allied troops created a regional energy crisis for that country by cutting off Mideast oil supplies.

Today, methanol is being pitched as a reasonably clean-burning fuel with the potential at least to supplement gasoline in quantity. California is buying a handful of methanol-fueled cars to test in the Los Angeles area, and GM is sponsoring a university design contest for the best-designed car burning the fuel.

NONE OF THIS is fueled by altruism.

The main interest to auto makers is the Alternative Motor Fuels Act of 1988. This includes some tricky arithmetic that allows automakers to average methanol-fueled cars in their corporate average fuel economy (CAFE) as if the cars were running at approximately 100 mpg, when in fact they get only approximately 12 mpg.

Under the act, if enough methanol-fueled cars are sold, a manufacturer can raise its CAFE average by up to 1.2 miles per gallon. This, of course, means that more low-mileage big cars can be sold without pushing the CAFE beyond legal limits.

In today's market, when customers are demanding big cars and big engines, while the corporate fuel averages are bumping against regulated limits, any relief is seen as a big incentive to new car sales.

The result is such a dramatic advantage for automakers selling methanol-fueled cars that both GM and Ford today are rushing to develop methanol-fueled cars by 1992, with Chrysler not far behind.

THE SUDDEN burst of government support for an alternate fuel is something of a mystery. California has been pushing alternate fuels as a hope for the future. But methanol, while it is relatively clean of smog-producing hydrocarbons, is rife with eye-stinging aldehydes. Likewise, the low energy content of the fuel means that it takes approximately twice as much to push a car a mile as gasoline does.

Lastly, the lack of availability means both manufacturing facilities, storage and distribution systems will have to be built.

Despite the drawbacks, it offers the potential of a source of liquid fuel that will last far into the next century, and some freedom from oil imports — although the Mideast is the likely source of methanol as well as gasoline.

Probably of more significance than a handful of research cars is that it's the first sign of a long-range look at the future of energy for transportation in years, and one not driven exclusively by a current crisis — a welcome shift in thinking after muddling through for the past 15 years or so.

Taxability of life insurance proceeds

type of insurance	policy owner	UPON DEATH			DURING LIFE		
		federal income tax	state inheritance tax †	estate tax	loan	annuity distribution	total surrender
term	insured	none	yes	yes			
	other than insured	none	none	none			
	life insurance trust	none	none	none			
cash value	insured	none	yes	yes	taxed		on excess of cash over premium
	other than insured	none	none	none	taxed		on excess of cash over premium
	life insurance trust	none	none	none	taxed		on excess of cash over premium
annuity	insured					only on interest	
	other than insured					only on interest	
	life insurance trust					only on interest	

† In some states, death benefits are not exempt from state inheritance tax.

Taxes may affect life insurance

By Sid Mittra

Part III

In this concluding column, we will discuss taxation of life insurance.

One of the most overrated and misinterpreted statements in the life insurance industry is that life insurance proceeds are tax free. This statement is not only misleading but, in certain instances, could be devestating.

A summary of the rules governing the taxability of life insurance proceeds is presented in the accompanying table. Clearly, the tax consequences significantly differ between distribution after death and during lifetime.

The table reveals that all life *insurance policy death benefit distributions* are exempt from federal income tax and, with few exceptions, from state inheritance taxes.

In addition, whether a policy's death benefit is subject to federal estate taxes depends on who owns the policy. Life insurance perceeds are included in the gross estate of the insured only if the insured owns the policy.

If someone other than the insured, such as a life insurance trust or an irrevocable trust, owns the policy, the proceeds will not be included in the gross estate of the insured for purposes of figuring federal estate taxes.

Distribution during life

Policy loan — The law permits *the tax-deferred accumulation of interest* as long as the growth takes place inside an insurance policy. However, if the accumulated interest is withdrawn in the form of a loan, it is taxed as ordinary income.

Annuity distribution — Both fixed and variable annuity contracts assume that periodic payments represent a combination of return of principal and distribution of interest. Consequently, when a life insurance company makes an annuity payment, the return of principal portion escapes federal income taxes. The interest portion is taxed as ordinary income.

Total surrender — When a policy is surrendered and life insurance coverage is cancelled, the cash value (surrender value) is returned to the *policyholder. In this case,* the difference between the total amount of money received (cash value plus loans outstanding) and the total premium paid is taxed as ordinary income.

Seminar: "Lump-Sum Distribution — Five Choices," "Medicare Tax — Myth vs. Facts," "Mutual Funds — Taxable vs. Tax-deferred" and "High Returns — Must you Sacrifice Safety?"

The seminar, sponsored by the Observer & Eccentric Newspapers and Coordinated Financial Planning, will be held 7-9 p.m. Tuesday, May 9, in the offices of Coordinated Financial Planning, Sheffield Office Park, 3250 W. Big Beaver, Suite 540, Troy.

For reservations, call 643-8838.