

Estate Planning Concepts

IRREVOCABLE LIFE INSURANCE TRUSTS

Basic Concepts

(What you need to know)

by

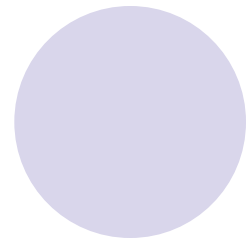
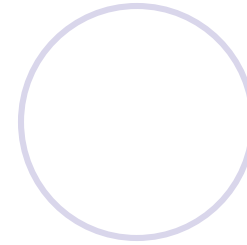
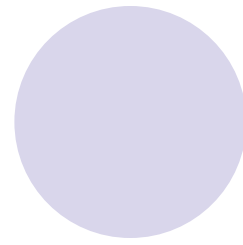
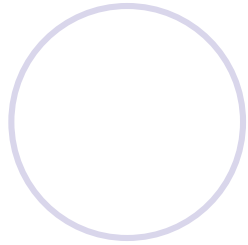
**RALPH MINTO, JR.
ATTORNEY AT LAW**

Trusts and ILITs



- Credit shelter trust - use unified credit at first death.
- Avoid outright transfer to non-spouse beneficiary.
- Survivor receive income and some principal.

Trustee



Fiduciary Relationship

- Trustee Must Follow Trust Provisions
- Holds the Property to Benefit Beneficiary
- Invests Trust Property
- Protects Trust Property



Irrevocable Trust



- Excluded from probate and estate.
- Cannot benefit grantor.
- Leverage with life insurance on grantor or spouse.

How is it funded?



ILIT Funding

- Annual Exclusion Gift & Split Gift

- \$10,000 per donor per recipient each year (individual or trust)

- Split gift - \$20,000 per Year

- **One time gift of unified credit.**



The Crummey Gift

- **Tax inclusive (estate tax) versus tax exclusive (gift tax)**
- **Future gift vs. present gift**
- **Usually open for 30 days**
- **Available per beneficiary**



Question

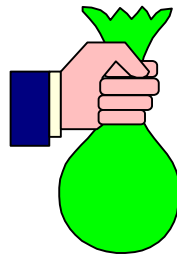
John and Julie have a \$3,700,000 estate.
They have 3 children.

Using the Split Gift concept, how much can they give away each year to each donee and not violate the annual gift tax exclusion rule?

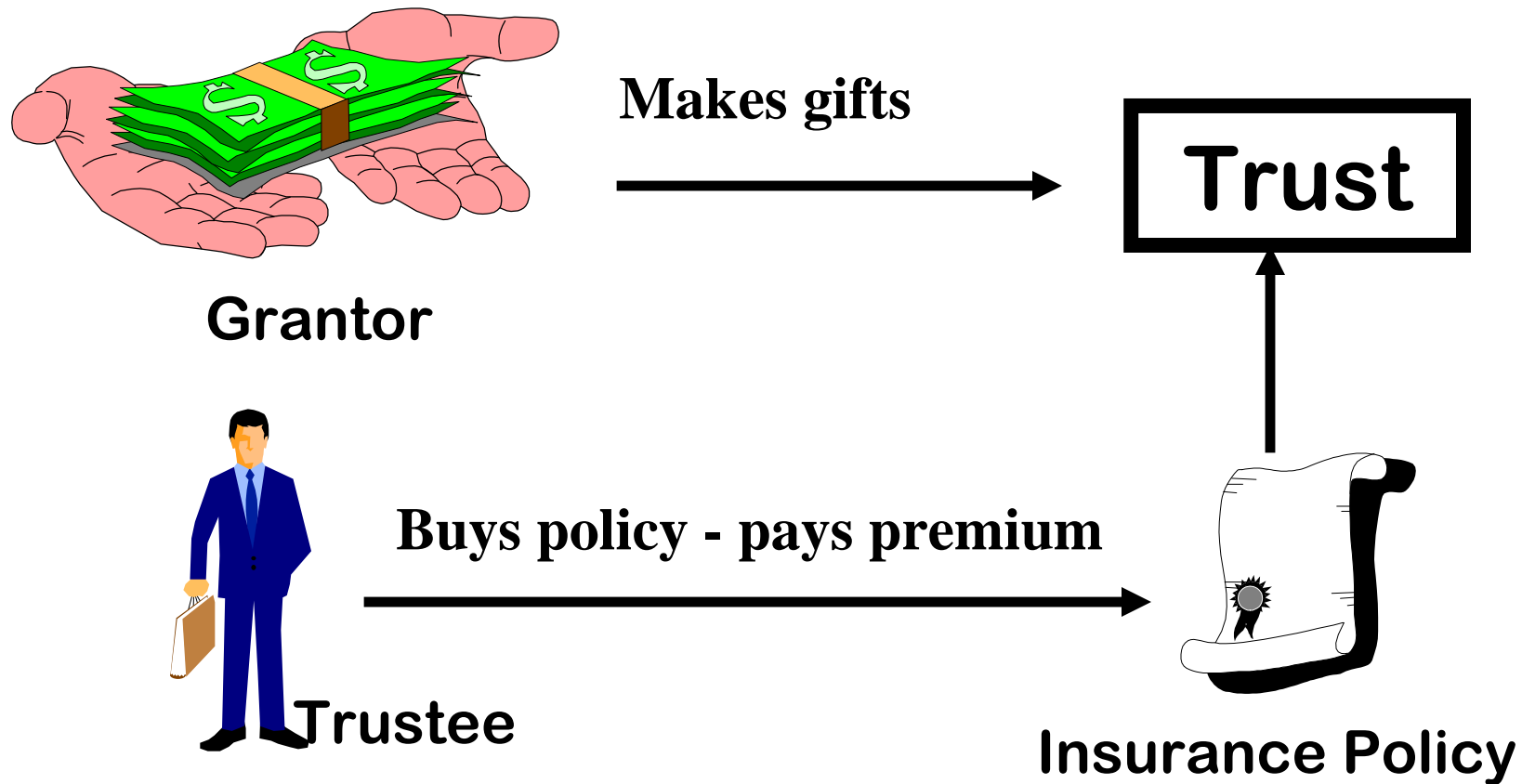
Sidebar: Exempt gifts

Totally exempt if paid directly to provider:

- Education Expenses
- Medical Services
- Support



ILIT (During Life)





Question

An ILIT Must Be Drafted And Signed Before
Applying For The Life Insurance Policy?

True Or False

ILIT (At Death)



Heirs



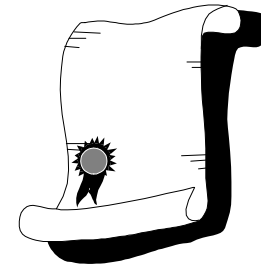
Trustee makes
income and
principal
distributions



Trustee

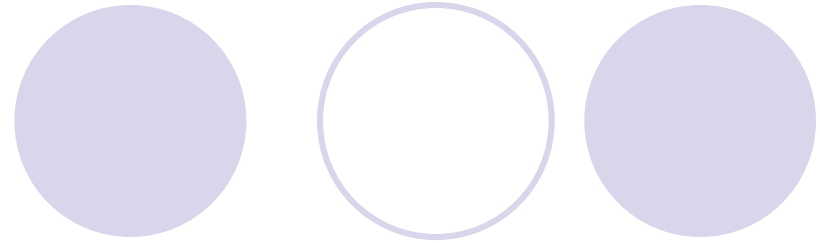
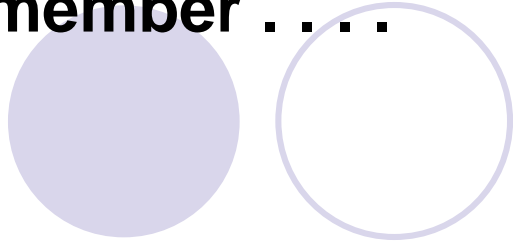
Trust

Death Benefit



Insurance Policy

Remember



Simple Will

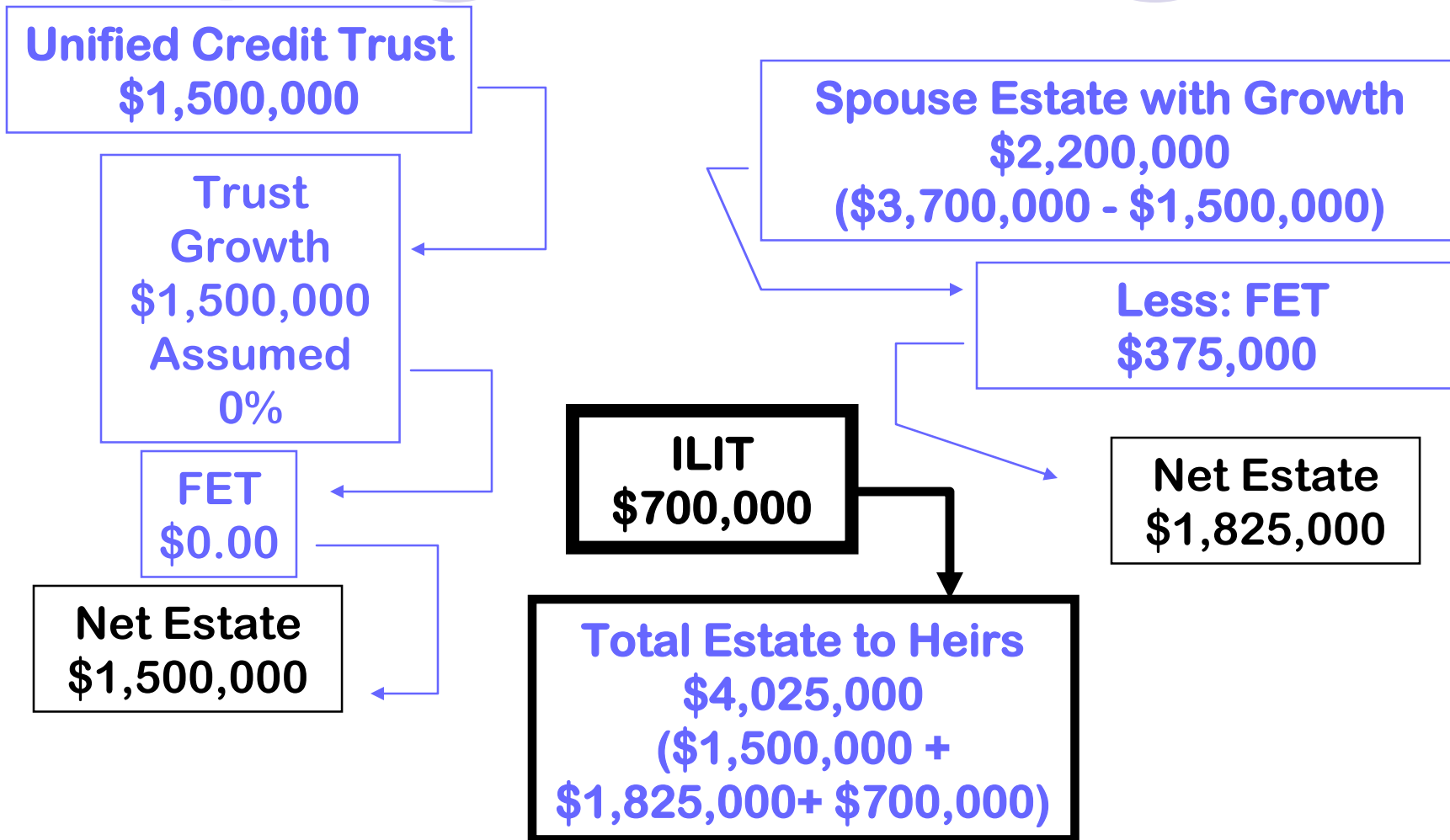
All to Surviving Spouse

**Net Estate to Heirs
\$2,600,000
(\$1,100,000 in FET)
On a \$3,700,000
Estate**

Revocable Trust w/
Credit Shelter Trust

**Total Estate to Heirs
\$3,375,000
(\$375,000 in FET)
On a \$3,700,000
Estate**

Adding the ILIT



Your Client Prefers?

Simple Will

**Net Estate to Heirs
\$2,600,000**

Credit Shelter Trust

**Total Estate to Heirs
\$3,375,000**

Credit Shelter Trust & ILIT

**Total Estate to Heirs
\$4,025,000**



Question

In force Insurance Policies Transferred To
An ILIT Immediately Avoid Estate Taxes?

True Or False



Question

Having A Life Insurance Policy In An ILIT
Avoids Estate Taxes?

True Or False

A Final Thought

**Estate Tax is the only voluntary tax
in the Internal Revenue Code!**

