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# Estate Summary

## Simple Will

In the absence of a simple will, state law will pass property to certain relatives of a deceased party. The state will also appoint a guardian for minor children. The court may also require a fiduciary bond to be posted by the administrator of the estate, at a cost to the estate.

A simple will allows a person to select the executor of an estate, bequeath specific items or a specific amount to individuals or organizations, and to select the guardian for minor children.

The following illustrates the estate tax consequences with only a simple will in place.

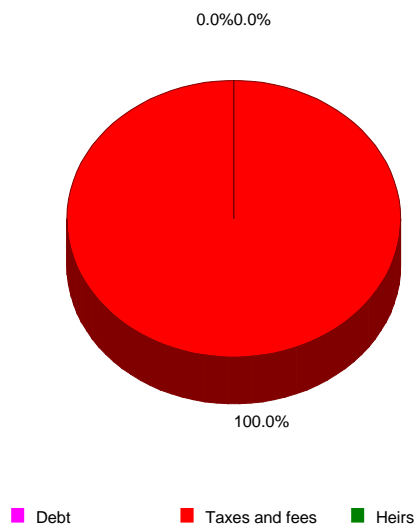
### At 's death in 2012

Gross estate	\$0
Debt	0
Taxes <sup>1</sup> and fees	- 5,000
	0
Assets to spouse	0
Amount to CST	0
<b>Amount to Others</b>	<b>\$0</b>

### At 's death in 2017

Gross estate	\$0
Debt	0
Taxes and fees	- 5,000
ILIT	0
	- 5,000
Assets to heirs	- 5,000
CST amount to heirs	0
<b>Total to Heirs</b>	<b>-\$5,000</b>

### At 's death in 2017



<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

# Estate Summary

## Simple Will

In the absence of a simple will, state law will pass property to certain relatives of a deceased party. The state will also appoint a guardian for minor children. The court may also require a fiduciary bond to be posted by the administrator of the estate, at a cost to the estate.

A simple will allows a person to select the executor of an estate, bequeath specific items or a specific amount to individuals or organizations, and to select the guardian for minor children.

The following illustrates the estate tax consequences with only a simple will in place.

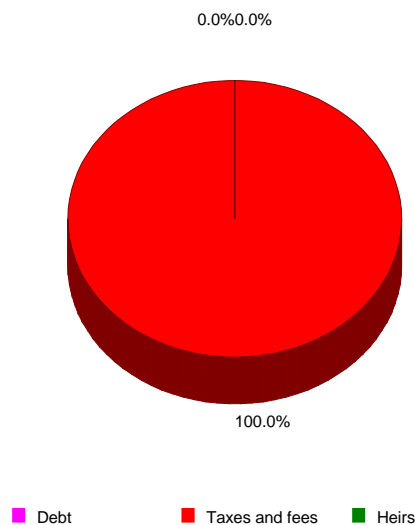
### At 's death in 2012

Gross estate	\$0
Debt	0
Taxes <sup>1</sup> and fees	- 5,000
	- 5,000
Assets to partner	- 5,000
<b>Amount to Others</b>	<b>\$0</b>

### At 's death in 2017

Gross estate	- \$5,000
Debt	0
Taxes and fees	- 5,000
ILIT	0
	0
<b>Total to Heirs</b>	<b>-\$10,000</b>

### At 's death in 2017



<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

# Estate Summary

## Simple Will

In the absence of a simple will, state law will pass property to certain relatives of a deceased party. The state will also appoint a guardian for minor children. The court may also require a fiduciary bond to be posted by the administrator of the estate, at a cost to the estate.

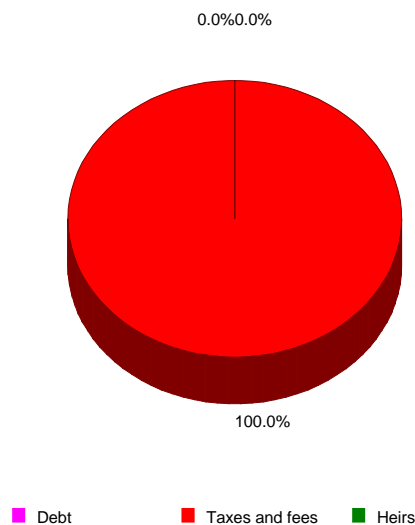
A simple will allows a person to select the executor of an estate, bequeath specific items or a specific amount to individuals or organizations, and to select the guardian for minor children.

The following illustrates the estate tax consequences with only a simple will in place.

### At 's death in 2012

Gross estate	\$0
Debt	0
Taxes <sup>1</sup> and fees	- 5,000
ILIT	0
<b>Total to Heirs</b>	<b><u><u>- \$5,000</u></u></b>

### At 's death in 2012



---

<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

# Estate Analysis Simple Will

's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Joint Ownership			
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
Non - Joint Ownership			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets</b>			<b>0</b>
Life insurance owned by			0
<b>Gross Estate</b>			<b>0</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
Amount to			0
<b>Taxable Estate</b>			<b>- 5,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
Amount to credit shelter trust			0
<b>Estate after Taxes</b>			<b>\$0</b>

<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

*Continued...*

# Estate Analysis Simple Will

## 's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Joint Ownership			
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
Non - Joint Ownership			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets Inside       Estate</b>			<b>0</b>
Life insurance proceeds payable to Assets from 's estate			0 0
<b>Total Assets</b>			<b>0</b>
Asset growth rate assumed after first death			0.00%
Asset value at second death			0
Insurance owned by			0
<b>Gross Estate</b>			<b>0</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
<b>Taxable Estate</b>			<b>- 5,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
Irrevocable life insurance trust			0
Credit shelter trust amount to heirs			0
<b>Total to Heirs</b>			<b>- \$5,000</b>

<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

# Estate Analysis Simple Will

's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Joint Ownership			
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
Non - Joint Ownership			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets</b>			<b>0</b>
Life insurance owned by			0
<b>Gross Estate</b>			<b>0</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
<b>Taxable Estate</b>			<b>- 5,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
<b>Estate after Taxes</b>			<b>-\$5,000</b>

---

<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

*Continued...*

# Estate Analysis Simple Will

## Estate Taxes at Second Death

's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Joint Ownership			
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
Non - Joint Ownership			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets Inside       Estate</b>			<b>0</b>
Life insurance proceeds payable to Assets from 's estate			0 - 5,000
<b>Total Assets</b>			<b>- 5,000</b>
Asset growth rate assumed after first death		0.00%	
Asset value at second death			- 5,000
Insurance owned by			0
<b>Gross Estate</b>			<b>- 5,000</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
<b>Taxable Estate</b>			<b>- 10,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
Irrevocable life insurance trust			0
<b>Total to Heirs</b>			<b>-\$10,000</b>

<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

# Estate Analysis Simple Will

's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets</b>			<b>0</b>
Life insurance owned by			0
<b>Gross Estate</b>			<b>0</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
<b>Taxable Estate</b>			<b>- 5,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
Irrevocable life insurance trust			0
<b>Total to Heirs</b>			<b>- \$5,000</b>

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<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

# Estate Summary Credit Shelter Trust

Under current law, a person may usually pass any size estate to a spouse without incurring federal estate tax. When the surviving spouse dies, the combined estate is subject to tax. There is a credit available that exempts a certain portion of an estate from federal tax. The amount of this credit varies depending on the year of death. For deaths that occur in 2006-2008 the first \$2,000,000 of an estate is not taxed. When the estate is passed to a spouse at the first death, the credit is not used. To preserve this credit amount, many couples use a credit shelter trust. This trust is not taxed at either death and the surviving spouse can have access to the trust.

The following illustrates the use of a credit shelter trust.

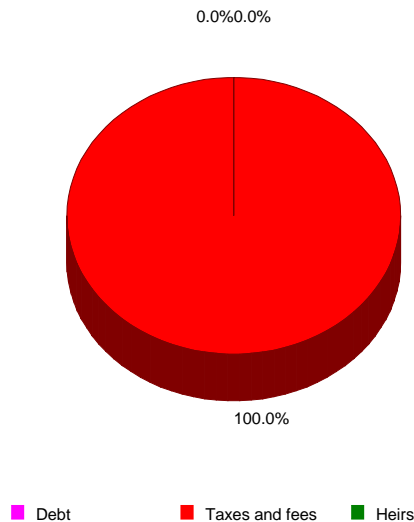
### At 's death in 2012

Gross estate	\$0
Debt	0
Taxes <sup>1</sup> and fees	- 5,000
	0
Assets to spouse	0
Amount to CST	0
<b>Amount to Others</b>	<b>\$0</b>

### At 's death in 2017

Gross estate	\$0
Debt	0
Taxes and fees	- 5,000
ILIT	0
	- 5,000
Assets to heirs	- 5,000
CST amount to heirs	0
<b>Total to Heirs</b>	<b>-\$5,000</b>

### At 's death in 2017



<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

# Estate Analysis

## Credit Shelter Trust

's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Joint Ownership			
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
Non - Joint Ownership			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets</b>			<b>0</b>
Life insurance owned by			0
<b>Gross Estate</b>			<b>0</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
Amount to			0
<b>Taxable Estate</b>			<b>- 5,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
Amount to credit shelter trust			0
<b>Estate after Taxes</b>			<b>\$0</b>

<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

*Continued...*

# Estate Analysis

## Credit Shelter Trust

's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Joint Ownership			
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
Non - Joint Ownership			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets Inside       Estate</b>			<b>0</b>
Life insurance proceeds payable to Assets from 's estate			0 0
<b>Total Assets</b>			<b>0</b>
Asset growth rate assumed after first death			0.00%
Asset value at second death			0
Insurance owned by			0
<b>Gross Estate</b>			<b>0</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
<b>Taxable Estate</b>			<b>- 5,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
Irrevocable life insurance trust			0
Credit shelter trust amount to heirs			0
<b>Total to Heirs</b>			<b>-\$5,000</b>

<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

# Estate Summary

## Credit Shelter and Irrevocable Life Insurance Trusts

All assets in an estate are subject to taxation. One way to have assets pass to heirs is to change ownership so that the assets are passed to the intended beneficiaries outside of the estate. A credit shelter trust is one way to reduce estate taxes, therefore, passing more to heirs. Life insurance trusts are another way to increase the amount of your estate that passes to your heirs. The trust is irrevocable and serves as both the owner and beneficiary of the life insurance policy. Generally the grantor makes annual gifts to the trust and the trustee pays the premiums.

The following illustrates the use of both a credit shelter and irrevocable life insurance trust.

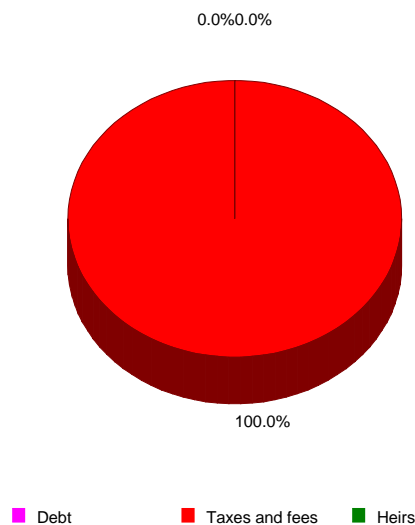
### At 's death in 2012

Gross estate	\$0
Debt	0
Taxes <sup>1</sup> and fees	- 5,000
	0
Assets to spouse	0
Amount to CST	0
<b>Amount to Others</b>	<b>\$0</b>

### At 's death in 2017

Gross estate	\$0
Debt	0
Taxes and fees	- 5,000
ILIT <sup>2</sup>	0
	- 5,000
Assets to heirs	- 5,000
CST amount to heirs	0
<b>Total to Heirs</b>	<b>-\$5,000</b>

### At 's death in 2017



<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

<sup>2</sup> The Life Insurance illustrated above assumes an annual premium of \$0 that is payable for 0 years.

# Estate Analysis

## Credit Shelter and Irrevocable Life Insurance Trusts

's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Joint Ownership			
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
Non - Joint Ownership			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets</b>			<b>0</b>
Life insurance owned by			0
<b>Gross Estate</b>			<b>0</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
Amount to			0
<b>Taxable Estate</b>			<b>- 5,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
Amount to credit shelter trust			0
<b>Estate after Taxes</b>			<b>\$0</b>

<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

*Continued...*

# Estate Analysis

## Credit Shelter and Irrevocable Life Insurance Trusts

### 's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Joint Ownership			
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
Non - Joint Ownership			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets Inside       Estate</b>			<b>0</b>
Life insurance proceeds payable to Assets from 's estate			0 0
<b>Total Assets</b>			<b>0</b>
Asset growth rate assumed after first death			0.00%
Asset value at second death			0
Insurance owned by			0
<b>Gross Estate</b>			<b>0</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
<b>Taxable Estate</b>			<b>- 5,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
Irrevocable life insurance trust <sup>2</sup>			0
Credit shelter trust amount to heirs			0
<b>Total to Heirs</b>			<b>-\$5,000</b>

<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

<sup>2</sup> The Life Insurance illustrated above assumes an annual premium of \$0 that is payable for 0 years.

# Estate Summary

## Irrevocable Life Insurance Trust

All assets in an estate are subject to taxation. One way to have assets pass to heirs is to change ownership so that the assets are passed to the intended beneficiaries outside of the estate. Life insurance trusts are a way to increase the amount of your estate that passes to your heirs. The trust is irrevocable and serves as both the owner and beneficiary of the life insurance policy. Generally the grantor makes annual gifts to the trust and the trustee pays the premiums.

The following illustrates the use of an irrevocable life insurance trust.

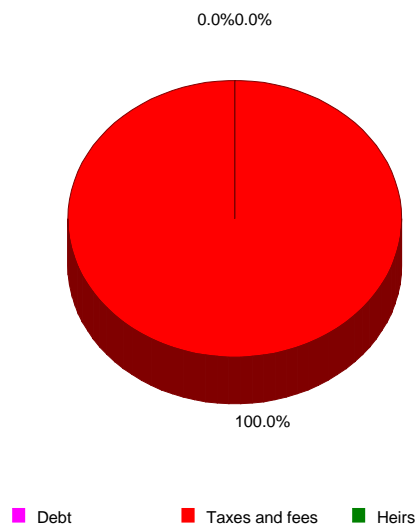
### At 's death in 2012

Gross estate	\$0
Debt	0
Taxes <sup>1</sup> and fees	- 5,000
	- 5,000
Assets to partner	- 5,000
<b>Amount to Others</b>	<b>\$0</b>

### At 's death in 2017

Gross estate	- \$5,000
Debt	0
Taxes and fees	- 5,000
ILIT <sup>2</sup>	0
	0
<b>Total to Heirs</b>	<b>-\$10,000</b>

### At 's death in 2017



<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

<sup>2</sup> The Life Insurance illustrated above assumes an annual premium of \$0 that is payable for 0 years.

# Estate Analysis

## Irrevocable Life Insurance Trust

's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Joint Ownership			
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
Non - Joint Ownership			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets</b>			<b>0</b>
Life insurance owned by			0
<b>Gross Estate</b>			<b>0</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
<b>Taxable Estate</b>			<b>- 5,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
<b>Estate after Taxes</b>			<b>-\$5,000</b>

<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

Continued...

# Estate Planning Analysis

## Irrevocable Life Insurance Trust

's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Joint Ownership			
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
Non - Joint Ownership			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets Inside       Estate</b>			<b>0</b>
Life insurance proceeds payable to Assets from 's estate			0 - 5,000
<b>Total Assets</b>			<b>- 5,000</b>
Asset growth rate assumed after first death			0.00%
Asset value at second death			- 5,000
Insurance owned by			0
<b>Gross Estate</b>			<b>- 5,000</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
<b>Taxable Estate</b>			<b>- 10,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
Irrevocable life insurance trust <sup>2</sup>			0
<b>Total to Heirs</b>			<b>-\$10,000</b>

<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

<sup>2</sup> The Life Insurance illustrated above assumes an annual premium of \$0 that is payable for 0 years.

# Estate Summary

## Irrevocable Life Insurance Trust

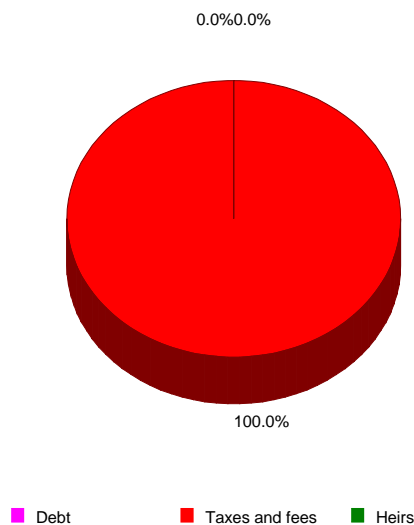
All assets in an estate are subject to taxation. One way to have assets pass to heirs is to change ownership so that the assets are passed to the intended beneficiaries outside of the estate. Life insurance trusts are a way to increase the amount of your estate that passes to your heirs. The trust is irrevocable and serves as both the owner and beneficiary of the life insurance policy. Generally the grantor makes annual gifts to the trust and the trustee pays the premiums.

The following illustrates the use of an irrevocable life insurance trust.

### At 's death in 2012

Gross estate	\$0
Debt	0
Taxes <sup>1</sup> and fees	- 5,000
ILIT <sup>2</sup>	0
<b>Total to Heirs</b>	<b><u><u>- \$5,000</u></u></b>

### At 's death in 2012



<sup>1</sup> The federal estate tax estimates shown are based on estate and gift tax provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Unless Congress changes the law, these provisions will be in effect only through 12/31/2010, after which prior law will be reinstated.

<sup>2</sup> The Life Insurance illustrated above assumes an annual premium of \$0 that is payable for 0 years.

# Estate Analysis

## Irrevocable Life Insurance Trust

's Estate

	Value today	Assumed annual growth rate	Value in 5 years
<b>Assets</b>			
Retirement plans	\$0	0.00%	\$0
Cash	0	0.00%	0
Other assets	0	0.00%	0
Residence	0	0.00%	0
<b>Total Assets</b>			<b>0</b>
Life insurance owned by			0
<b>Gross Estate</b>			<b>0</b>
<b>Less</b>			
Debt			0
Final expenses			5,000
Administration fees			0
Probate fees			0
State estate tax deduction			0
<b>Taxable Estate</b>			<b>- 5,000</b>
Federal estate tax <sup>1</sup>			0
State tax			0
Irrevocable life insurance trust <sup>2</sup>			0
<b>Total to Heirs</b>			<b>- \$5,000</b>

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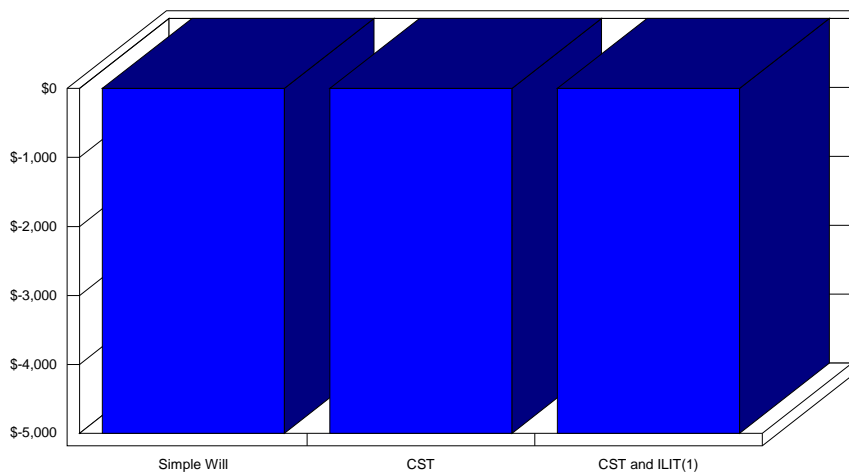
# Estate Options

There are many options available that allow you to pass the maximum amount of assets to your heirs, while minimizing the amount of estate taxes that must be paid. Choosing which options are best depends upon your personal situation. Most of these options are complicated and must be established carefully.

The following illustrates the amounts that will pass to heirs using a simple will, adding a credit shelter trust and then adding an irrevocable life insurance trust.

## Amount to Heirs

	Simple Will	Credit Shelter Trust	Credit Shelter Trust and ILIT <sup>1</sup>
At 's death in 2012	\$0	\$0	\$0
At 's death in 2017	-\$5,000	-\$5,000	-\$5,000
<b>Total</b>	<b>-\$5,000</b>	<b>-\$5,000</b>	<b>-\$5,000</b>



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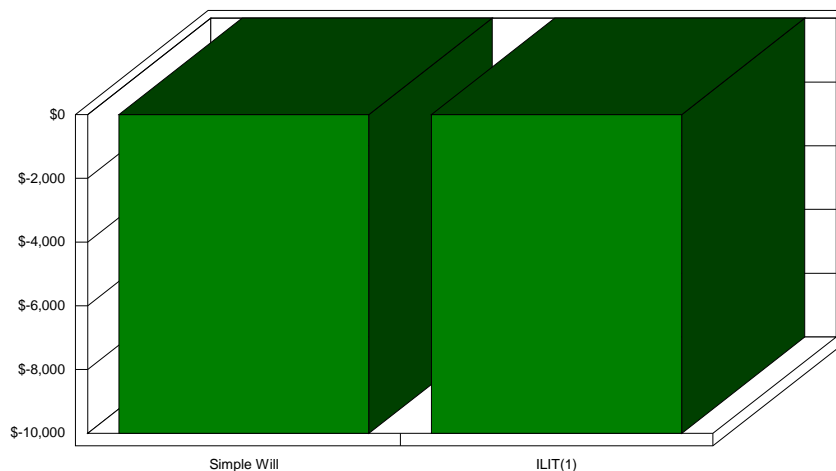
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The following illustrates the amounts that will pass to heirs using a simple will and then adding an irrevocable life insurance trust.

## Amount to Heirs

	Simple Will	ILIT <sup>1</sup>
At 's death in 2012	\$0	\$0
At 's death in 2017	-\$10,000	-\$10,000
<b>Total</b>	<b>-\$10,000</b>	<b>-\$10,000</b>



<sup>1</sup> The Life Insurance illustrated above assumes an annual premium of \$0 that is payable for 0 years.

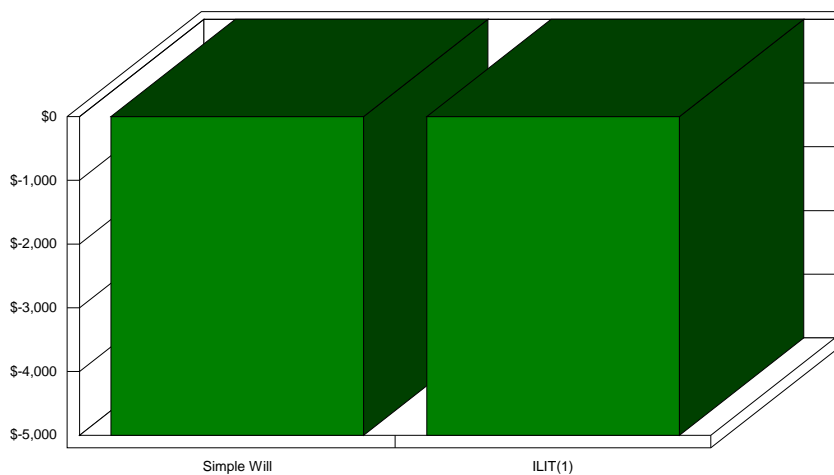
# Estate Options

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## Amount to Heirs

	Simple Will	ILIT <sup>1</sup>
At 's death in 2012	-\$5,000	-\$5,000



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# How Are Death Taxes Paid?

Death taxes are due and payable in cash within nine months after the taxpayer's death.

## Five Ways to Provide Money for Death Taxes

- **The executor may borrow the cash:** This only defers the problem, since the money will have to be repaid with interest. This includes installment payments to the government.
- **The taxpayer may pay in cash:** Rarely does a person accumulate large sums of cash. If he or she does, he or she probably will forego many profitable investment opportunities in order to keep the estate in a liquid position.
- **The taxpayer may sell stock market investments:** This may be a wise choice if the market is "up" when the stocks or bonds need to be converted to cash and the taxpayer has been investing long enough to accumulate the necessary amount.
- **The executor may liquidate other assets:** If there is not a ready market, however, the assets may be sold at a great loss.
- **The taxpayer can pay his or her estate settlement costs with life insurance.**

## Advantages of Life Insurance

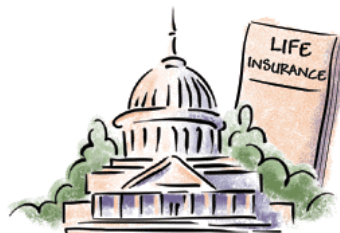
- The insured's heirs almost always get back more than he or she paid in.
- Payment of benefit is prompt.
- There is generally no income tax on the proceeds.
- Proceeds may be free of estate tax.
- Payments can be spread out rather than paid all at once.
- It avoids many of the problems of the other four methods set forth above.
- The proceeds are generally not subject to probate.
- Life insurance provides cash for a predictable and certain need which will arise at some unpredictable moment.

**Note:** Under the Tax Act of 2001, the federal estate tax is gradually phased out until its final repeal in the year 2010. If Congress does not act at that time to repeal it for the years following, it will automatically revert back to the rates in effect during the year 2001, with an exemption for the first \$1,000,000 of assets.

# Taxation of Life Insurance Proceeds

## Income Taxation

Death proceeds of a life insurance policy are almost always income tax free. See IRC Sec. 101.



## Federal Estate Taxation<sup>1</sup>

Proceeds of a life insurance policy will be included in your estate in two situations:

- If your estate is named as the beneficiary, or
- If you have incidents of ownership in the policy (for example, if you have the power to change beneficiaries, borrow against the cash values, surrender the policy, etc.). See IRC Sec. 2042.

## Transfers Within Three Years Prior to Death

If you make a gift of a life insurance policy and then die within three years, the full face amount of the policy will be included in your gross estate for estate tax purposes. See IRC Sec. 2035.

## Should You Cross-Own Policies?

Prior to 1982, married couples would frequently own the life insurance policies on each other's life. This technique often kept the insurance from being taxed when the first spouse died.

Since January 1, 1982, however, federal law has provided for an unlimited marital deduction. This means that any amount of assets transferred to one's spouse are not subject to estate or gift taxation. Therefore, any life insurance policies payable to the surviving spouse (no matter which spouse owns them) will not be taxed because of the unlimited marital deduction.

## The Problem

When the surviving spouse later dies, his or her estate will have been enlarged by the insurance proceeds collected at the death of the first spouse. Now there may be a substantial tax problem.

An irrevocable life insurance trust or ownership of the policies by children or grandchildren can remove the proceeds from the insured's estate, as well as the estate of the surviving spouse.

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# Irrevocable Life Insurance Trust for a Single Person

Since estate taxes<sup>1</sup> are imposed upon all the assets in the estate, many people prefer to pay the taxes by rearranging some of these assets instead of relying on their current income.

One method of achieving this goal is the irrevocable life insurance trust (ILIT). To prevent inclusion in the estate, an irrevocable trust cannot be revoked or amended by the grantor.

- **Funded irrevocable insurance trusts:** This trust has income-producing assets transferred into it, which will pay the premiums on the insurance policy from the income earned. Irrevocable life insurance trusts are typically not funded with a single, lump-sum payment because the gift taxes on the assets transferred are the same as the federal estate taxes on assets remaining in the estate. Also, if the trust is a “grantor trust” for income tax purposes, the income earned on the assets would still be included on the income tax return of the insured grantor. See IRC Sec. 677(a)(3).
- **Unfunded irrevocable insurance trusts:** Although this trust is not totally unfunded, it usually just owns an insurance policy and the grantor makes annual gifts to the trust with which the trustee can pay the premiums.

## Some Areas of Concern

- **Trust is irrevocable:** This means that the grantor cannot get anything out once it is put into the trust. Some suggest that a special power of appointment in the hands of the insured’s child would permit that child to appoint the trust assets back out to the insured or others. If the federal estate tax is repealed after 2010, this flexibility may be very desirable. The trustee would need to be authorized to reappoint trust assets without liability to the trust beneficiaries.
- **Annual gift tax exclusion may be lost:** Contributions to the trust are future interests instead of present interests. Future interests typically do not qualify for the \$12,000 (in 2007) annual gift tax exclusion. This concern can be overcome by granting to the beneficiaries a limited power to withdraw certain sums from the trust for a short time after the grantor makes the contribution. This is sometimes referred to as a Crummey provision after the case which decided the validity of this technique [*Crummey vs. U.S.*, 397 F.2d 82 (CA-9, 1968)]. The rules set forth in this case and subsequent rulings must be carefully followed. Crummey power holders should be actual trust beneficiaries; however, the tax court allowed contingent beneficiaries (e.g., children, grandchildren, etc.) to qualify in *Est. of Maria Cristofani vs. Comm.*, 97 T.C. 74 (1991).<sup>2</sup>

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Continued...

## Irrevocable Life Insurance Trust for a Single Person

- **Non-exercise of withdrawal powers:** The failure of a beneficiary to withdraw the amounts permitted under the Crummey provision will cause a lapse of that power. Lapsed amounts in excess of the specified limit<sup>1</sup> are generally considered to be taxable gifts from the beneficiary. However, if the beneficiary is given a limited power to appoint the amount in excess of these limits (in his or her will), the power is deemed not to lapse and therefore no gift tax is due.

Another strategy to deal with this problem is referred to as a “hanging” power. It limits the amount which lapses each year to the larger of \$5,000 or 5% of the trust assets. Any amount in excess of this limit “hangs” or carries over to later years. The IRS has, in one situation, stated its opposition to this method. See TAM 8901004.

- **Three-year rule:** If an existing life policy is gifted by the insured to an irrevocable life insurance trust and the insured dies within three years of the transfer, the policy proceeds will be included in the insured’s estate. IRC Sec. 2035. On the other hand, if the trustee uses cash in the trust to purchase a new policy on the insured’s life and the insured dies within the three-year period, the proceeds will generally be excluded from his or her estate. Care should be taken to make certain that the insured has no incidents of ownership in the policy or control over the trustee.

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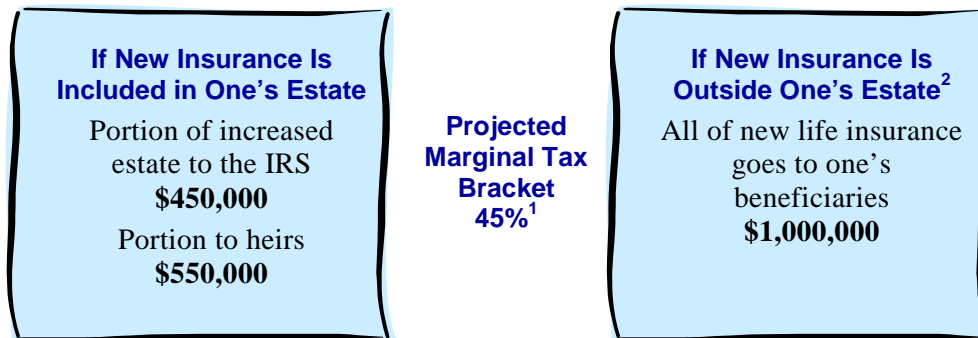
# Irrevocable Life Insurance Trust for a Single Person

Any increase in the taxable estate due to additional life insurance proceeds will be taxed at one's marginal estate tax bracket, unless the policies are owned outside the estate. Brackets range from 18% to 45% on taxable estates in excess of the applicable exclusion amount of \$2,000,000.<sup>3</sup>

## Example

### Assumptions:

Your estate at date of death: \$3,000,000  
 Recommended new insurance amounts: \$1,000,000  
 Potential estate with new insurance: \$4,000,000



Federal estate tax on	\$4,000,000	=	\$900,000
Federal estate tax on	\$3,000,000	=	<u>450,000</u>
Difference		=	\$450,000
<b>Additional amount to heirs</b>		<b>=</b>	<b>\$450,000</b>

**Note:** Taxes indicated above assume full applicable credit amount is available.

Under the Tax Act of 2001, the federal estate tax is gradually phased out until its final repeal in the year 2010. If Congress does not act at that time to repeal it for the years following, it will automatically revert back to the rates in effect during the year 2001, with an exemption for the first \$1,000,000 of assets.

<sup>1</sup> This is the current marginal tax bracket on a \$2,000,000 taxable estate (assuming death in 2007). The top bracket will reduce as follows: 46% in 2006; 45% from 2007 through 2009; and zero taxes in 2010. If Congress does not act at that time to repeal the federal estate tax for the years following, in the year 2011 the top bracket of 55% will automatically return.

<sup>2</sup> Typically, to keep insurance proceeds out of the estate, either adult beneficiaries or an irrevocable life insurance trust (ILIT) should own the policy.

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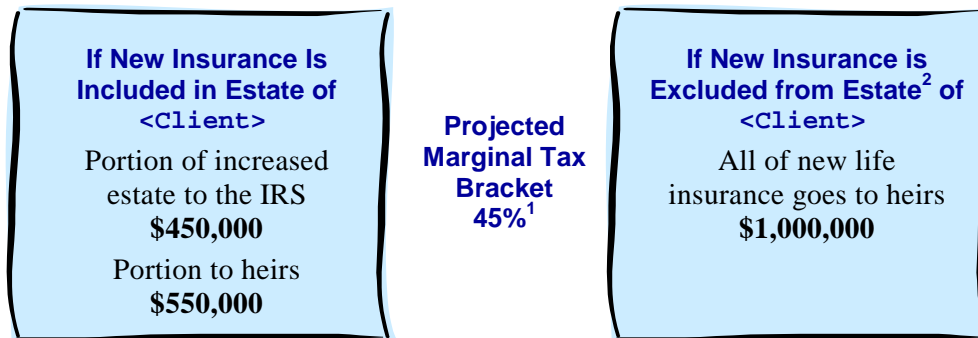
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# Irrevocable Life Insurance Trust for a Married Couple

Since estate taxes<sup>1</sup> are imposed upon all of the assets in the estate, many people prefer to pay the taxes by rearranging some of these assets instead of relying on their current income.

One method of achieving this goal is the irrevocable life insurance trust (ILIT). To prevent inclusion in the estate, an irrevocable trust cannot be revoked or amended by the grantor.

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## Additional Considerations

- **Trust is irrevocable:** This means that the grantor cannot get anything out once it is put into the trust. Some suggest that a special power of appointment in the hands of the insured’s child would permit that child to appoint the trust assets back out to the insured or others. If the federal estate tax is repealed after 2010, this flexibility may be very desirable. The trustee would need to be authorized to reappoint trust assets without liability to the trust beneficiaries.
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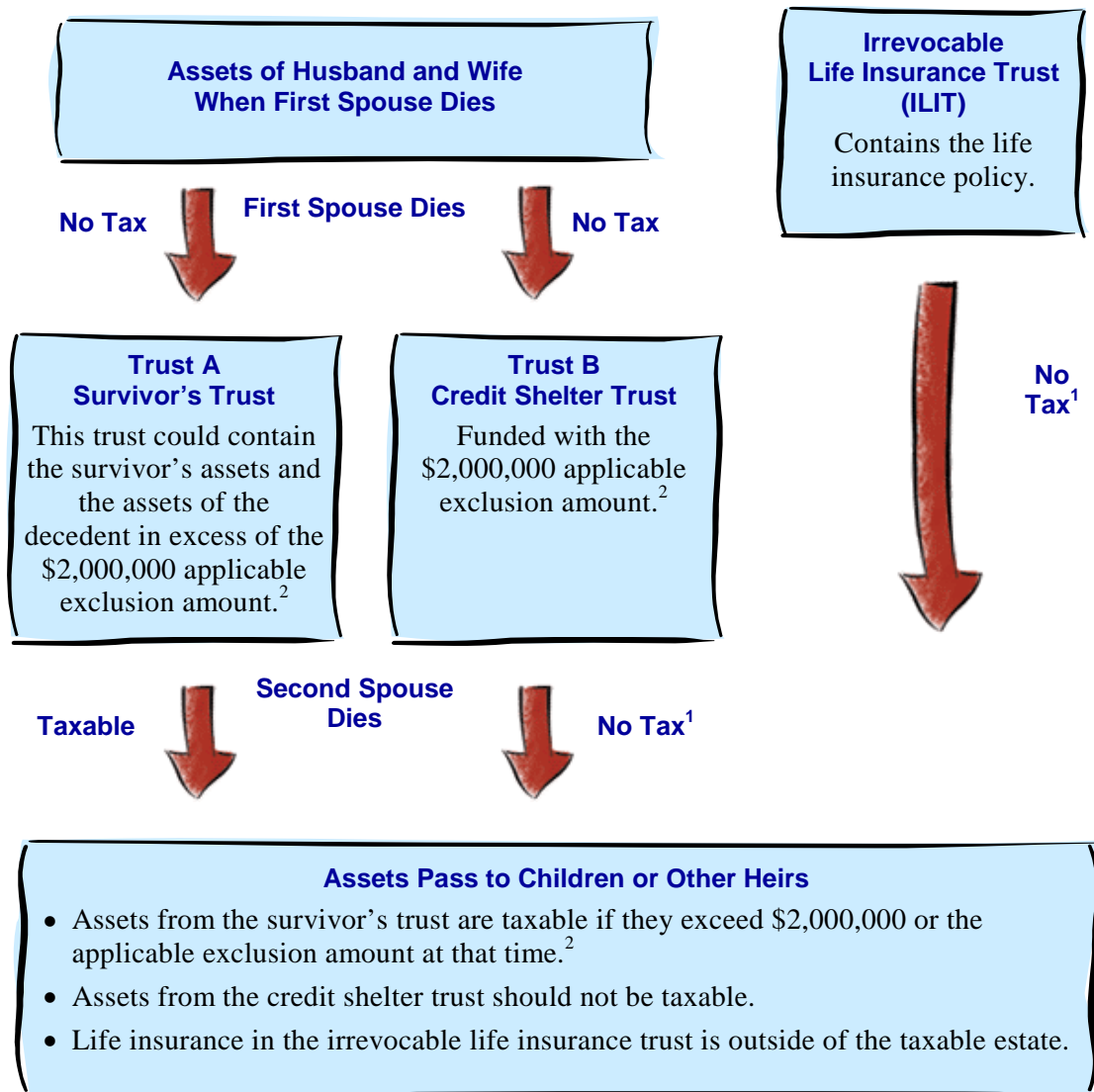
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- **Second-to-die policies:** Second-to-die or survivor life policies do not pay the proceeds until both spouses are deceased, which is when the death taxes generally become due. Premiums on a single second-to-die policy are generally lower than the combined premiums on two individual policies, allowing a couple to obtain a larger face amount of insurance. If the surviving spouse will need policy proceeds to live on, however, this type of policy should generally not be used.

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# Credit Shelter and Irrevocable Insurance Trusts

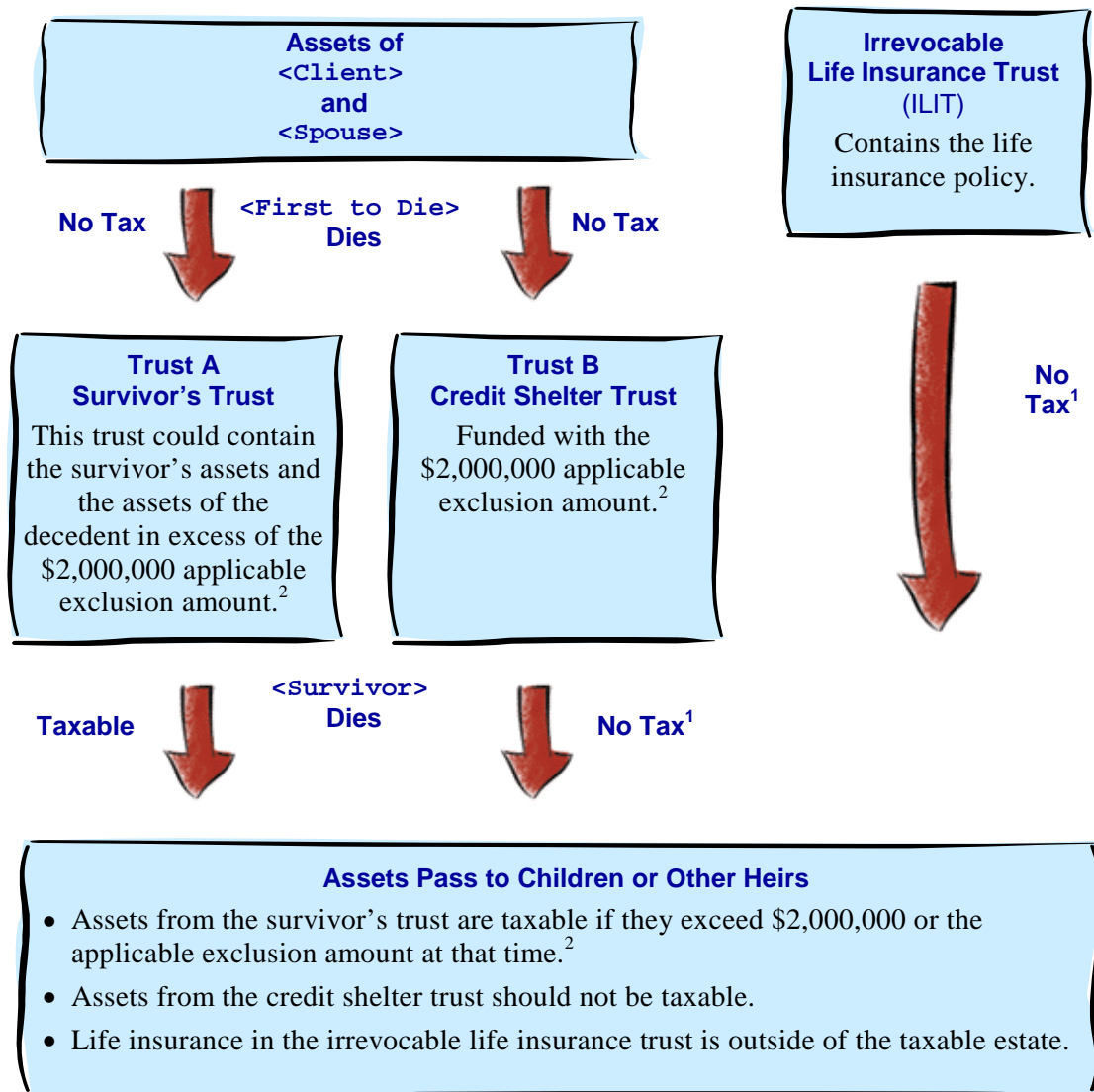


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<sup>1</sup> The tax savings from either the credit shelter trust or the irrevocable life insurance trust can be very substantial.

<sup>2</sup> The applicable exclusion amount is the dollar value of assets protected from federal estate tax by an individual's applicable credit amount. It is scheduled to change as follows: \$2,000,000 for 2006-2008; \$3,500,000 for 2009, zero federal estate tax for the year 2010; and \$1,000,000 for 2011 and thereafter (unless permanently repealed or otherwise modified).

## Credit Shelter and Irrevocable Insurance Trusts



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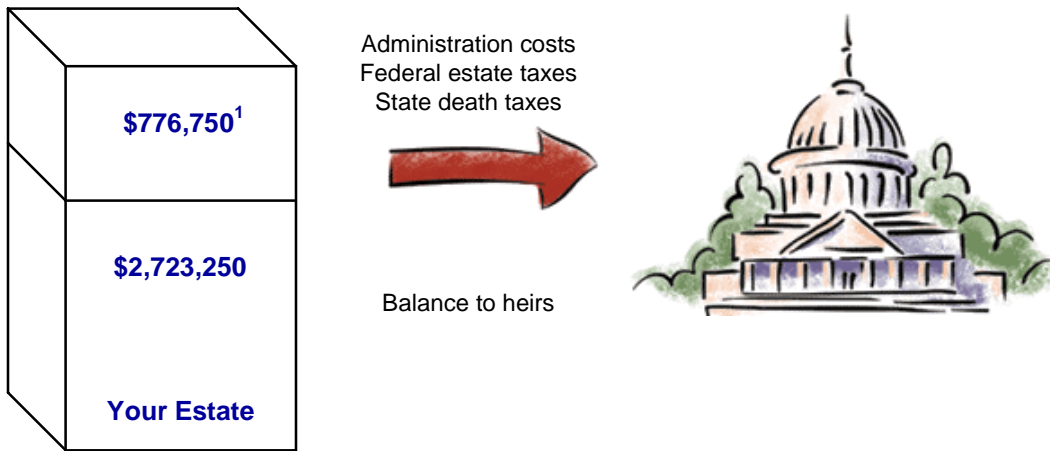
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# Paying Estate Costs with Estate-Tax-Free Dollars

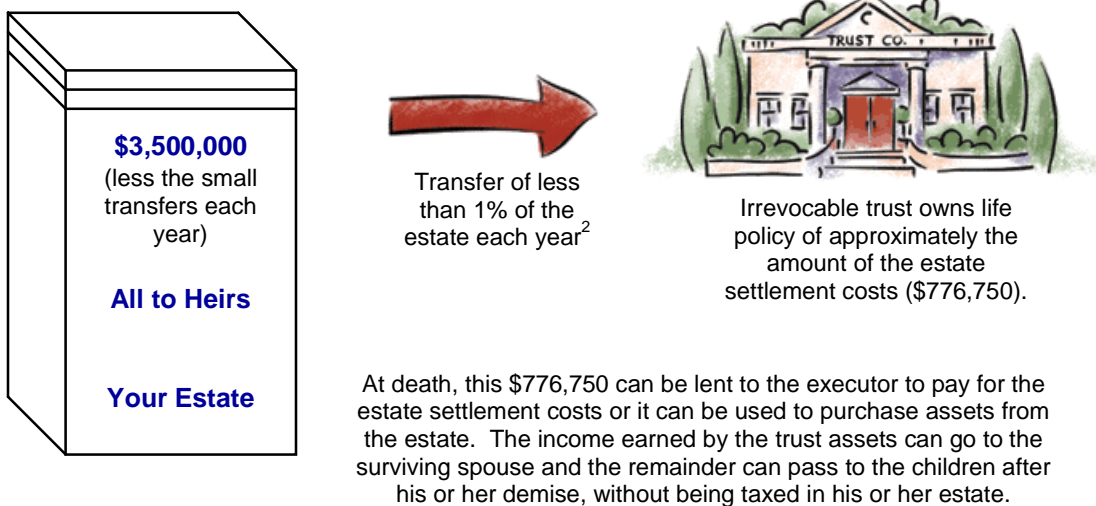
Since estate taxes are imposed upon the value of the assets in one's estate, many people prefer to pay for these taxes by repositioning these assets, rather than trying to solve the problem entirely from their current earnings.

The following method of systematically transferring small amounts of capital from the estate appeals to many estate owners.

Assume an estate of \$3,500,000, with death occurring in 2007.



*With a little planning,  
the entire estate may be kept intact.*



<sup>1</sup> Under the Tax Act of 2001, the federal estate tax is gradually phased out until its final repeal in the year 2010. If Congress does not act at that time to repeal it for the years following, it will automatically revert back to the rates in effect during the year 2001, with an exemption for the first \$1,000,000 of assets.

<sup>2</sup> Assumes approximate cost of a permanent type life insurance policy on a 50-year-old male. Actual amount will vary.

## Using Life Insurance to Pay Estate Costs

Shortly after a death occurs the executor of the estate is responsible for paying the costs of settling the deceased's estate. These costs include probate administration fees, state inheritance or estate taxes, attorney's fees, federal estate taxes, executor's commissions, and appraisal fees.

Many people use life insurance proceeds to pay these expenses. If life insurance is purchased outside one's estate (for example, by adult children or an irrevocable life insurance trust), it need not be subject to either income or estate taxation. Transfer of the premiums from the estate will further reduce the taxable estate.

### A Hypothetical Comparison

**Assumptions:**

Single person (or 2nd spouse to die)  
 Current estate size: \$3,000,000  
 Estate growth rate: 7.2%  
 Estimated years until death: 10

Face amount of insurance: \$800,000<sup>1</sup>  
 Annual insurance premium: \$25,000  
 Number of years until paid up: 8

Plan A - Without Life Insurance			Plan B - With Life Insurance				
Yr.	Taxable Estate Plus Growth	Federal Estate Tax <sup>2</sup>	Yr.	Taxable Estate Plus Growth	Less Insurance Premium	Net Taxable Estate	Federal Estate Tax <sup>2</sup>
2007	\$3,216,000	\$547,200	2007	\$3,216,000	\$25,000	\$3,191,000	\$535,950
2008	3,447,552	651,398	2008	3,420,752	25,000	3,395,752	628,088
2009	3,695,776	88,099	2009	3,640,246	25,000	3,615,246	51,861
2010	3,961,872	0	2010	3,875,544	25,000	3,850,544	0
2011	4,247,126	1,630,919	2011	4,127,783	25,000	4,102,783	1,551,531
2012	4,552,919	1,799,105	2012	4,398,183	25,000	4,373,183	1,700,251
2013	4,880,730	1,979,402	2013	4,688,053	25,000	4,663,053	1,859,679
2014	5,232,142	2,172,678	2014	4,998,792	25,000	4,973,792	2,030,586
2015	5,608,856	2,379,871	2015	5,331,905	0	5,331,905	2,227,548
2016	6,012,694	2,601,982	2016	5,715,803	0	5,715,803	2,438,692
Assets after estate taxes: \$3,410,712 Plus life insurance: \$0 <b>Total to heirs: \$3,410,712</b>			Assets after estate taxes: \$3,277,111 Plus life insurance: \$800,000 <sup>3</sup> <b>Total to heirs: \$4,077,111</b>				

Arrangements	Assets at Death	Federal Estate Tax	Amount to Heirs	Additional Assets to Heirs
1. No Insurance	\$6,012,694	\$2,601,982	\$3,410,712	\$0
2. Insurance in the Estate	6,515,803	2,878,692	3,637,111	226,399
3. Insurance outside the Estate	6,515,803	2,438,692	4,077,111	666,399

<sup>1</sup> Life insurance amount and premiums will vary with insurance company, type of policy, and age and health of insured.

<sup>2</sup> Under the Tax Act of 2001, the federal estate tax is gradually phased out until its final repeal in the year 2010. If Congress does not act at that time to repeal it for the years following, it will automatically revert back to the rates in effect during the year 2001, with an exemption for the first \$1,000,000 of assets.

<sup>3</sup> Assumes life insurance is excluded from the estate.

# Effect of Life Insurance Transfers on Federal Estate Taxes

This calculation assumes that the sunset provision of the Economic Growth and Tax Relief Reconciliation Act of 2001 will take effect.

**Assumptions:**

Current net estate (less life insurance): \$0  
Estimated estate growth rate: 0.00%  
Estimated year of death: 0  
Current life insurance inside the estate: \$0  
Amount of current life insurance available to transfer outside the estate: \$0  
Proposed new life insurance: \$0

	<b>With Life Insurance Inside Estate</b>	<b>With Life Insurance Outside Estate</b>
Potential estate size at death	\$0	\$0
Federal estate taxes	\$0	\$0
<b>Savings with life insurance outside of estate</b>		<b>\$0</b>

Payment of premiums on policies outside the estate will further reduce the estate size.

# Gifts of Life Insurance Policies

## Valuation (market value) of Policies

Type of Policy	Value for Gift Tax Purposes
<b>Whole life</b>	The interpolated terminal reserve plus unearned premium
<b>Whole life (paid up)</b>	Present cost of comparable policy at present age
<b>New policy</b>	The gross premium just paid
<b>Term policy</b>	The unearned premium

## Federal Tax Status of Gifted Policies – Three Situations

Assumes husband (insured) is now deceased.

Owner/Applicant (Original Owner)	Person Assigned to	Person Who Paid Premiums	Federal Gift/Estate Tax Status	Cases or Rulings
<b>Husband</b>	Anyone within three years prior to death	Husband or employer-paid premiums	Full face amount includable in gross estate	IRC Sec. 2035(d)
<b>Husband</b>	Anyone more than three years prior to death	Husband or employer paid premiums	Premiums paid in excess of \$12,000 are taxable gifts <sup>1</sup>	IRC Sec. 2035(d)
<b>Wife, children or irrevocable trust</b>	No transfer of policy in this situation	Husband, wife, child or irrevocable trust	Proceeds not includable in estate	<i>Estate of Joseph Leder</i> , 90-1 USTC Para. 60,001 (10 <sup>th</sup> Cir. 1989); <i>Estate of Eddie L. Headrick vs. Comm.</i> , 90-2 USTC Para. 60,049 (6 <sup>th</sup> Cir. 1990); <i>Estate of Frank M. Perry, Sr. vs. Comm.</i> , 91-1 USTC Para. 60,064 (5 <sup>th</sup> Cir. 1991).

Every precaution should be taken in establishing and funding irrevocable insurance trusts if the desired tax benefits are to be realized. If there is any connection between the insured and the insurance policy, the IRS may try to establish that the trustee is merely an agent of the insured.

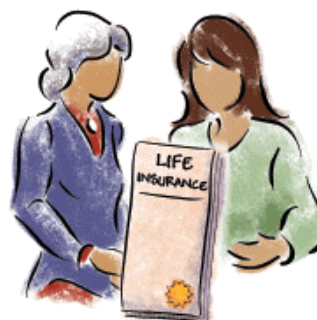
**Note:** Under the Tax Act of 2001, the federal estate tax is gradually phased out until its final repeal in the year 2010. If Congress does not act at that time to repeal it for the years following, it will automatically revert back to the rates in effect during the year 2001, with an exemption for the first \$1,000,000 of assets.

<sup>1</sup> The annual gift tax exclusion (\$12,000 in 2007) is indexed for inflation in increments of \$1,000. If the policy is assigned to the wife, the unlimited marital deduction will probably defer any gift tax. See IRC Sec. 2523(a). If a policy has more than one owner, premiums paid or deemed paid by another person are gifts of a future interest and are not eligible for the annual gift tax exclusion.

# Adult Children's Insurance Trust

When life insurance is owned by the insured, it is generally included in his or her gross estate (or the estate of his or her spouse).<sup>1</sup>

In order to avoid the loss of up to 45%<sup>2</sup> of the insurance proceeds for additional estate taxes, many people take steps to have these proceeds excluded from their taxable estates.



## Most Common Methods

The most common methods used to exclude life insurance from one's taxable estate are:

- An irrevocable life insurance trust, and
- Ownership of the policies by adult children.

## Potential Problems

The irrevocable life insurance trust requires special care to make certain that the money contributed for the payment of the premiums qualifies for the annual gift tax exclusion.

In order to qualify for the annual gift tax exclusion, the gift must be a present interest. This is generally difficult to accomplish in an irrevocable trust unless the beneficiaries are given the right to withdraw the funds each time the grantor contributes to the trust. This right is sometimes called a Crummey provision. The trustee must notify the beneficiaries each time they have such a right to withdraw funds.

Also, if the contributions exceed a certain limit<sup>3</sup> per year per beneficiary and the beneficiary fails to withdraw the funds, the tax code states that a lapse has occurred and may subject the beneficiaries to a gift tax problem. Careful drafting of the trust can generally avoid this problem.<sup>4</sup>

Even with these inconveniences, the irrevocable life insurance trust is a very valuable estate planning tool, especially when there is a desire to provide income for a surviving spouse or the insured's children are still minors.

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<sup>1</sup> If the surviving spouse is the beneficiary, there may not be an estate tax due at the first death because of the unlimited marital deduction. However, the policy proceeds would then be part of the surviving spouse's estate to the extent they were not consumed prior to his or her demise.

<sup>2</sup> This is the current marginal tax bracket on a \$2,000,000 taxable estate (assuming death in 2007). The top bracket will reduce as follows: 46% in 2006; 45% from 2007 through 2009; and zero taxes in 2010. If Congress does not act at that time to repeal the federal estate tax for the years following, in the year 2011 the top bracket of 55% will automatically return.

<sup>3</sup> The limit is the greater of \$5,000 or 5% of the value of the assets subject to the power.

<sup>4</sup> In certain situations, the tax status of gifts to an irrevocable life insurance trust is unclear. Individuals planning an irrevocable trust are advised to consult an attorney on the steps needed to avoid having the IRS conclude that gifts to the trust are not gifts of a present interest and thus be ineligible for the annual gift tax exclusion.

*Continued...*

## Adult Children's Insurance Trust

When children are adults, the same tax result can often be reached without the need for a trust document.

- Existing life insurance policies can be transferred to an adult child named as the owner and beneficiary. If, however, there is more than one child, there may be problems of multiple owners on the policy:
  - A gift of an existing life insurance policy to more than one owner will always be a gift of a future interest, as no single owner can exercise any right or access any policy values without the consent of all co-owners.
  - With multiple owners, the annual gift tax exclusion will not apply to the transfer of ownership nor to any premiums subsequently paid by the transferor.
- If only one child is named as owner, and two or more children are named as beneficiaries, there will be a gift tax on the portions passing to the non-owner beneficiaries at the insured's demise. As a further complication, the child named as owner could change beneficiaries at any time.

As an alternative, cash can be given to the children to purchase a new life insurance policy.

One potential problem is that some of the children may elect not to use the funds to solve estate liquidity problems by withholding the insurance proceeds from the executor.

### *A Possible Solution*

The estate owner can encourage his or her children to set up a revocable living insurance trust with the children acting as grantors. The trustees could then apply for insurance on the estate owner's life.

After the insured's demise, the trust could be permitted to lend money to the executor of the estate or purchase assets from the estate. This procedure provides cash proceeds where they are needed most without increasing the size of the taxable estate.

The children generally follow the desires of the estate owner when they know that this trust is only part of the inheritance which they could receive.