Estate planning and wealth transfer

Irrevocable life insurance trust (ILIT)

The concept

An irrevocable life insurance trust (or ILIT) is a form of irrevocable trust that is typically used to purchase life insurance while keeping the death proceeds outside of the insured grantor's gross estate.

Benefits

This technique enables the grantor to leverage their annual gift tax exclusion and/or lifetime gift tax applicable exclusion through the purchase of life insurance without causing the death proceeds to be included in the grantor's gross estate. Furthermore, the death proceeds may be used for estate liquidity, estate equalization, wealth replacement or other life insurance needs while being creditor protected.

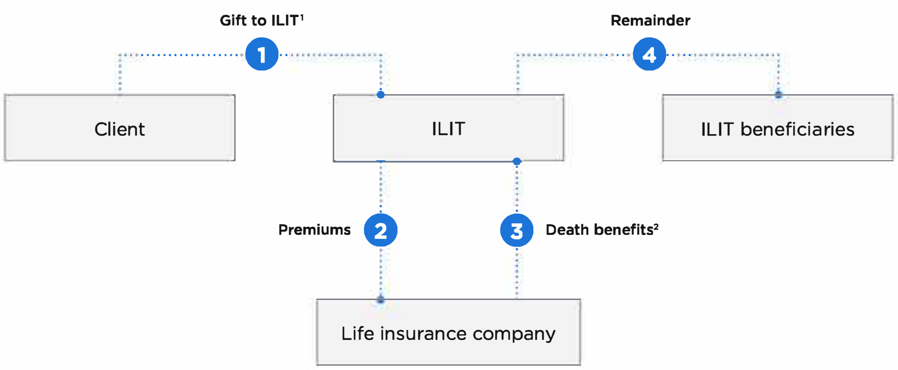
Tax considerations

- Crucial to keeping the death proceeds out of the grantor's estate is that the grantor not retain any right to modify, revoke or terminate the trust or have any incidents of ownership over the life insurance policy
- In addition, the grantor must neither be a trustee of the trust nor a beneficiary of the trust; this also means that the trust property must not be able to be used to meet the grantor's legal obligations
- The death proceeds are paid to the trust income and estate tax free

How it works

Steps

1. The grantor establishes an irrevocable trust under which the trustee is authorized to purchase life insurance on the life of the grantor
2. The grantor makes gifts to the trust using the grantor's annual gift tax exclusion and/or gift tax applicable exclusion
3. The trustee purchases insurance on the life of the grantor
4. Upon the grantor's death, the proceeds are received by the trustee and made available for application pursuant to the terms of the trust



[1] The trust language typically includes Crummey notice provisions that are designed to qualify gifts to the trust for the annual gift tax exclusion.

[2] If properly constructed, the ILIT may have access to cash values or accelerated death benefits during the grantor's life.