

Irrevocable Life Insurance Trust Tax Considerations Include:

- If an existing life insurance policy is given to the trust, the value of the policy is subject to gift tax, but only if it exceeds the annual gift tax exclusion. The value of the policy is generally based on the policy's interpolated terminal reserve value, a value that is usually close to the cash surrender value.
- If death occurs within three years of giving an existing life insurance policy to the trust, the value of the death proceeds will be brought back into the estate for federal estate tax purposes.
- Annual gifts made to the trust for premium payment purposes must be subject to the Crummey withdrawal powers in order to qualify for the annual gift tax exclusion (\$15,000 in 2019). Alternatively, gifts will be subject to the federal gift tax, but qualify for the unified federal estate and gift tax lifetime exemption equivalent (\$11,400,000 in 2019).
- The death benefit payable to the trust will not be included in the insured's taxable estate, assuming the insured held no incidents of ownership in the policy at death.
- Death benefits are generally received free of federal income tax.