

Irrevocable Life Insurance Trusts

What Is an Irrevocable Life Insurance Trust?

While there are many different types of trusts, an irrevocable life insurance trust is a trust with the primary purpose of owning a life insurance policy in order to remove life insurance proceeds from the taxable estate and, as a result, avoid paying estate taxes on those proceeds.

While life insurance proceeds usually pass to the beneficiary free of federal income tax, they are subject to federal estate tax if included in the insured's estate at death. If the estate exceeds a certain value, this means that a portion of the life insurance proceeds, if included in the taxable estate, could go to pay federal estate taxes instead of being available to the beneficiaries:

If you die in:	And the value of your estate exceeds:	Your taxable estate is subject to tax rates from/to:
2018	\$11,180,000 (as indexed for inflation)	18%/40%
2019	\$11,400,000 (as indexed for inflation)	18%/40%

The objective of an irrevocable life insurance trust is to remove life insurance proceeds from the taxable estate so that the beneficiaries receive the entire amount, undiminished by estate taxes.