

TAX AND WEALTH ADVISOR ALERT: IRREVOCABLE LIFE INSURANCE TRUST, A TECHNIQUE TO ELIMINATE ESTATE TAXES ON LIFE INSURANCE PROCEEDS AND TO PROVIDE LIQUIDITY TO AN ESTATE PLAN

An Irrevocable Life Insurance Trust (ILIT) is a special kind of trust that is designed to own life insurance. The key characteristic of an ILIT is that it is irrevocable, meaning that it cannot be changed or dissolved once it is created. This characteristic is important because it allows the trust assets to be removed from the estate of the person who creates it, which can help to reduce estate taxes.

An ILIT requires at least one trustee to manage the trust and a beneficiary to receive the proceeds of the life insurance policy. The person who creates the trust, known as the grantor, will typically transfer a life insurance policy into the trust and pay the premiums on the policy. The beneficiary of the trust is typically the family of the grantor.

One of the main benefits of an ILIT is that the proceeds from the life insurance policy are not subject to estate taxes. This can help to reduce the overall tax burden on one's estate and ensure that more of the assets are passed on to one's intended beneficiaries.

Another benefit of an ILIT is that it can provide a source of liquidity for one's estate. The proceeds from the life insurance policy can be used to pay any outstanding debts, taxes, or other expenses that may arise after the grantor's death.

In order for an ILIT to be effective, it is important that the grantor does not retain any incidents of ownership over the life insurance policy. This includes foregoing the rights to change the beneficiary, borrow against the policy, or cancel the policy. If the grantor retains any of these rights, the life insurance policy will be considered part of the grantor's estate and subject to estate taxes.

In summary, an ILIT is a type of trust that is used to hold a life insurance policy and can help to reduce estate taxes by removing the policy from the grantor's estate. It requires a trustee to manage the trust and a beneficiary to receive the proceeds of the life insurance policy,

and it can provide a source of liquidity for the estate. It is important to keep in mind that the grantor should not retain any incidents of ownership over the life insurance policy for the ILIT to be effective. For more information about ILITs, contact Attorney [Carl D. Holborn](mailto:carl.holborn@wilaw.com) at carl.holborn@wilaw.com.