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The background of the slide features a large, dark blue sphere on the left and a curved, lighter blue line on the right, creating a sense of depth and movement.

Fundamentals of Irrevocable Life Insurance Trusts

A Basic Overview of Life Insurance and Irrevocable Life Insurance Trusts in Estate Planning

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Hello, and welcome. Thanks for joining us for today's discussion.

The title of today's presentation is "Fundamentals of Irrevocable Life Insurance Trusts,"
and it's designed as a basic overview of how life insurance and Irrevocable Life Insurance Trusts... also known as ILITs... can be used as a potential part of the Estate Planning process.

Important Notes

This presentation is designed to help increase the understanding of basic concepts related to Irrevocable Life Insurance Trusts. This presentation is designed to provide a general overview, and is not intended to be a complete or comprehensive review of trusts, estate tax or the estate planning process.

Examples used throughout this presentation are intended to be broad overviews designed to convey concepts. Nothing contained herein should be construed as advice or a recommendation. This is merely educational information. All of the examples and outcomes are hypothetical and are not intended to represent any specific persons' situation or assure any particular outcome.

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Before we begin, here are some important notes about today's conversation.

Remember that this presentation is not a comprehensive review of life insurance, Trusts, or Estate Planning.

This presentation is designed to provide a general overview of a few different concepts that financial professionals should be familiar-with before engaging in Estate Planning conversations with their clients.

It's also important to note that this content is NOT intended provide tax or legal advice.

For legal, accounting or tax advice regarding any specific situation, please consult the appropriate professional.

Let's get started.

Topics

(click on any item to learn more)

- [1. Estate Tax Background](#)
- [2. History of Estate Tax Exclusion Limits](#)
- [3. History of Gifting Limits: Annual & Lifetime Limits](#)
- [4. The Irrevocable Life Insurance Trust \(ILIT\)](#)
- [5. Putting It All Together: A Common Use Of An ILIT](#)



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Here's our agenda of topics covered in this presentation.

You might notice that this is a hyper-linked agenda.

What does ***that*** mean?

It means that you can click on any of the topics and "jump" directly to that topic.

Because of this hyper-linked agenda, you don't have to cover each topic sequentially.

If there's a particular topic you'd like to focus on, you can "jump" directly to that topic.

It also enables you to more easily cover these topics one-topic-at-a-time, over a period of time.

It also enables you to easily cover the topics in any sequence you'd like.

Today I'm going to walk you through all six topics so that you can have a feel for the entirety of the content.

Let's begin with the first topic... ***"Estate Tax Background"***

1. Estate Tax Background



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Before we get into any of the details of how life insurance and Irrevocable Life Insurance Trusts can work as part of an overall Estate Plan, it's helpful to know a little bit about the history of Estate Tax.

As you may know, there have been some important changes in Estate Tax law over the years.

Let's take a look at some of that history.

Estate Tax Background

Some people commonly face the three potential types of tax below:

- Income Tax: Tax paid on income as it is earned
- Capital Gains Tax: Tax on investment growth
- Estate Tax: Tax on the things owned and transferred at the time of death



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There are potentially three types of tax that some people commonly face. They are:

- Income Tax, which is the tax paid on income as it is earned. Think about paychecks at work. Income taxes are typically withheld from each paycheck, and at the end of the year an income tax return is submitted to "true-up" with the government. If too much was withheld, the result is typically a tax refund. If the amount withheld isn't enough, more taxes may be due at the end of the year.
- The second type of tax we'll talk about is Capital Gains Tax, which is the tax on investment growth. Any time an asset or investment is sold after it has increased in value, it typically triggers what's known as Capital Gains Tax. If the asset is sold within 12 months of the date it was purchased, tax is normally paid at "ordinary income tax rates"... the same tax rates used for calculating income taxes. If the asset or investment is sold more than 12 months after it was purchased, a different tax rate is used... called the "Long-Term Capital Gains Tax rates"... which are normally lower than the "ordinary income tax rates."
- The third type of tax we'll discuss today is called Estate Tax, which is a tax on the things owned and transferred to beneficiaries at the time of death.

Let's talk a little more about how Estate Taxes actually work, from the perspective of a high-level overview.

Estate Tax Background

How Does Estate Tax Work?

Generally speaking, in its simplest terms, when someone dies:

1. Add-up the value of everything they own
2. Subtract any available deductions and exclusions
3. Multiply the balance by the applicable estate tax rates



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Although there's a lot involved in calculating Estate Tax, in its most simple terms, it basically works like this:

When someone dies, we...

1. Add-up the value of everything that was owned by their estate...
2. Then subtract any available deductions and exclusions. This is one area where calculating Estate Taxes can get complicated. Today we won't "get into the weeds" about deductions and exclusions... we'll keep our conversation at a fairly high level...
3. After everything is added-up, and deductions & exclusions have been subtracted, multiply the balance by the applicable Estate Tax rates.

Again, let me emphasize that this is a very simplistic overview of the process, but should be sufficient to help convey the concepts I'll talk about today.

Estate Tax Background

How Does Estate Tax Work?

An over-simplified example:

1. Assume net worth at death of \$30 million:	\$30 million
2. Assume deductions and exclusions of \$25 million:	<u>- \$25 million</u>
Taxable Estate:	= \$5 million
3. Assume a marginal Estate Tax rate of 40%:	<u>x 40%</u>
Estate Tax:	= \$2 million
\$2M Estate Tax as a Percentage of \$30M Estate Value:	= 6.67%

This is a hypothetical example using hypothetical estate values, exclusions, deductions and marginal estate tax rates and is not intended to represent any particular situation. Numbers have been rounded for simplicity.



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Let's take this over-simplified overview and translate it into an example.

To begin, let's pretend we have an estate that, at death, is assumed to be worth \$30 million.

I know that \$30 million may seem like a lot of value, but as this discussion unfolds you'll gain an understanding as to why I'm assuming \$30 million in this example.

Next, let's assume deductions and exclusions totaling \$25 million.

I know that may also seem like a very large number, but as you'll see soon, it's consistent with today's Estate Tax structure.

When we subtract the \$25 million of deductions from the \$30 million estate value, the result is a \$5 million taxable estate.

Now let's multiply that \$5 million "net" taxable estate by the Estate Tax rate. Please understand that a lot more goes into calculating Estate Taxes than multiplying by a single Estate Tax rate.

By way of caveats, when I multiply by a 40% Estate Tax rate, that's simply an approximation based on many factors, and not representative of any particular situation. Also, Estate Tax rates can change at almost any time, as they have changed numerous times in the past. So please understand that today's Estate Tax rates also may not be representative of future Estate Tax rates.

Back to our example...

When we multiply our hypothetical \$5 million "net taxable estate" by our hypothetical 40% Estate Tax rate, the net result is \$2 million of Estate Tax.

That, too, may seem like an awfully large amount of tax, but let's put it into perspective.

When an estate with a gross value of \$30 million pays Estate Tax of \$2 million, less than 7% of the gross estate has been lost to Estate Tax.

So, although we assumed a hypothetical Estate Tax rate of 40% in this example, the overall impact in this particular scenario was that less than 7% of the estate value lost to Estate Taxes.

Therefore, even though nobody really wants to write a check to the IRS for \$2 million, in this particular example, the consequences aren't as severe as one might think.

Estate Tax Statistics from 2021

State	# of Estates Paying Estate Taxes	Estate Taxes Paid	Estate Tax Per Taxable Estate
California	519	\$3.6 Billion	\$6.9M
Florida	349	\$2.5 Billion	\$7.1M
New York	221	\$2.3 Billion	\$10.4M
Texas	194	\$1.1 Billion	\$5.6M
Pennsylvania	79	\$907M	\$11.4M
Ohio	55	\$533M	\$9.6M
Georgia	42	\$498M	\$11.8M

State	# of Estates Paying Estate Taxes	Estate Taxes Paid	Estate Tax Per Taxable Estate
N. Carolina	55	\$459M	\$8.3M
Virginia	53	\$438M	\$8.2M
Massachusetts	73	\$344M	\$4.7M
Colorado	52	\$315M	\$6.0M
Nebraska	18	\$314M	\$17.4M
Tennessee	33	\$280M	\$8.5M
Wisconsin	31	\$258M	\$8.3M

Total 2021 Estate Tax From The Top 14 States: \$13.8 Billion

Source: ThinkAdvisor; 11/2/22 – "15 States Where The Most Estate Taxes Were Paid In 2021" by Michael S. Fischer

Link to article here: [15 States Where The Most Estate Taxes Were Paid In 2021](#)



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To give you some additional perspective, here's a chart that I've broken into 2 parts. It shows the total 2021 Estate Tax from the 14 states that paid the most in total estate taxes.

Why 2021 instead of 2022?

Because there's a lot that goes into calculating estate tax. In general, estate taxes aren't due to be paid until 9 months after the person has died.

Therefore, at the time of this writing in March of 2023, we don't know the total amount of estate tax paid by people that died in 2022... and we won't know that number for a little while.

If you'd like to read article, I've referenced the title below the charts, and have also included a link that you can click-on directly from the PowerPoint deck that'll take you directly to the article.

Notice that California leads the pack in two ways...

First of all, California had 519 estates that paid Estate Taxes in 2021. That's far-and-away more than any other state.

Secondly, Californians paid \$3.6 billion in total Estate Taxes in 2021, which was more than a billion dollars more than Florida... the state in second place.

But what I find interesting is this: At \$6.9 million per estate, California **did NOT have** the highest Estate Tax per taxable estate.

If you go down the list just a little further you'll see that New Yorkers only had 221 taxable estates, but the average Estate Tax per estate was \$10.4 million.

Pennsylvania averaged even more at \$11.4 million per estate.

Much to my surprise, Georgians paid even more with an average of \$11.8 million per estate, nearly doubling California's average tax per-estate.

But even more surprisingly, the state with the highest Estate Tax per taxable estate was **Nebraska** at a whopping \$17.4 million per taxable estate!

With only 18 taxable estates in Nebraska in 2021, it's \$314 million is less than 10% of the total \$3.6 billion of Estate Tax paid in California, but the per-estate Estate Tax in Nebraska was approximately 5-times-higher than California.

I share this chart to give you some perspective on what Estate Taxes look like across the various states in the aggregate, and also to give you some perspective on the Estate Taxes paid by individual estates.

A general take-away here is that, for the states listed, the average Estate Tax per-estate ranges from about \$4 million to about \$17 million per-estate.

Therefore you can see, when Estate Taxes are an issue for a particular estate, they can be a significant issue.

Source:

[https://www.thinkadvisor.com/2022/11/02/15-states-where-the-most-estate-taxes-were-paid-in-](https://www.thinkadvisor.com/2022/11/02/15-states-where-the-most-estate-taxes-were-paid-in-2021/?kw=15%20States%20Where%20the%20Most%20Estate%20Taxes%20Were%20Paid%20in%202021&utm_source=email&utm_medium=enl&utm_campaign=financialplanninginsider&utm_content=20221102&utm_term=tadv)

[2021/?kw=15%20States%20Where%20the%20Most%20Estate%20Taxes%20Were%20Paid%20in%202021&utm_source=email&utm_medium=enl&utm_campaign=financialplanninginsider&utm_content=20221102&utm_term=tadv](https://www.thinkadvisor.com/2022/11/02/15-states-where-the-most-estate-taxes-were-paid-in-2021/?kw=15%20States%20Where%20the%20Most%20Estate%20Taxes%20Were%20Paid%20in%202021&utm_source=email&utm_medium=enl&utm_campaign=financialplanninginsider&utm_content=20221102&utm_term=tadv)

Estate Tax Background

Do You Like Estate Taxes?



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So that always leads me to ask one of my favorite estate planning questions...
Do you like Estate Taxes?

The knee-jerk response I get from most people is:
"NO... I don't like Estate Taxes!"

Let me see if I can convince you to reconsider that knee-jerk response.

Estate Tax Background

What's an alternative to Estate Tax at Death?

Capital Gains Tax at Death

- Tax on the untaxed increase-in-value of everything in the estate
- Subtract "*what was paid for it*" from "*the value at death*"
- Pay tax on the difference between the two
- The challenge: Documenting "*what was paid for it*"



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When you think about whether-or-not you like Estate Taxes, you need to be aware of the alternative to Estate Taxes.

Generally speaking, the alternative to Estate Taxes at death is **Capital Gains Tax at death**.

Let's briefly take a high-level overview of how ***Capital Gains Tax at death*** works.

Essentially, Capital Gains Tax at death is a tax on the yet-untaxed increase-in-value of everything in the estate.

The simplistic overview of the calculation is to start with the value of the asset or investment at the time of death.

Subtract what was paid for the asset or investment.

Then pay tax on the difference between the two numbers.

The challenge with paying Capital Gains Tax at death is **documenting what was paid for the asset or investment**.

In today's world, what was paid for many investments is closely tracked by the broker-dealers that offer the investments.

But what about other assets, such as things inherited from prior generations.

This could include things like valuable art works, "fine China" that's been passed-down through the generations, and many other collectibles.

Houses are another example that can be difficult to track.

First of all, the house may have been purchased so long ago that nobody even remembers what was paid for it.

And even if the decedent remembered what was paid for the house, do the children or the executor know?

And even if someone can remember the purchase price, can the documents be located to support that purchase price?

It wouldn't be a surprise if the executor and the children don't know where these documents are.

And what about the cost of the roof that was replaced?

And what about the furnace, air conditioner and water heater that were replaced?

What about the flooring and windows that were replaced?

Typically all of those things are included in the "cost" of the house for tax purposes.

Does anybody know where those receipts are?

Typically not.

So, as you can see, calculating Capital Gains Tax at death can be fraught with difficulties.

Estate Tax Background

One of the Benefits of Estate Tax:

Estate Tax doesn't really care "*what was paid for it.*"

What matters most is "*the value at the date of death.*"

This can make calculating "*Estate Tax at death*" easier than calculating "*Capital Gains Tax at death.*"

As a result, in this respect "Estate Tax at death" may be a simpler calculation than "Capital Gains Tax at death."



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On the other side of the coin, let's compare one of the big benefits of Estate Tax:

Estate Tax calculations don't take into consideration "what was paid for the asset."

Estate Tax calculations really only need to know "the value of the asset on the date of death."

Because nobody needs to research or document what was paid for an asset, it can make this part of calculating "Estate Tax at death" easier than calculating "Capital Gains Tax at death."

As a result, in this respect , calculating "Estate Tax at death" may be easier than calculating "Capital Gains Tax at death."

So let's talk a little bit about why this part of our discussion is relevant.

Estate Tax Background

Estate Tax at Death vs. Capital Gains Tax at Death

Historically the tax code imposes one or the other, but not both.

The Question Is:

How does Capital Gains Tax at death go away...
while keeping Capital Gains Tax for living investors?



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Throughout time, generally speaking, it's very rare for "*Capital Gains Tax at death*" and "*Estate Tax at death*" to coexist.

Historically the tax code imposes one or the other, but not both.

Keep in mind that, even if the IRS wants to eliminate "*Capital Gains Tax at death*," they can't just eliminate Capital Gains Tax entirely. Capital Gains Tax is still necessary for living investors that are buying-and-selling assets and investments.

So the question is: If the IRS chooses to impose *Estate Tax at death*, and therefore they don't want *Capital Gains Tax at death* to be applicable at the same time, how do they eliminate Capital Gains Tax at death while keeping Capital Gains Tax for living investors?

That's a good question... let's explore that aspect of tax policy to see if we can find some possible answers.

Estate Tax Background

Step-Up in Basis at Death

- In simple terms, the amount paid for an asset is often referred-to as its **"Cost Basis"**
 - ✓ Although more factors could be involved in calculating the Cost Basis of an asset, the increase in the value of an asset can generally be measured by subtracting the Cost Basis from the current market value of the asset
- When **"Step-Up In Basis"** occurs at death, the Cost Basis for an asset is **"Stepped-Up"...** In other words, the Cost Basis is "adjusted" to equal **"the value of the asset on the date of death"**
- If the asset is subsequently sold by the beneficiaries for a value equal-to or less-than **"the value of the asset on the date of death,"** there is presumed to be **"no taxable gain"** and, therefore, no Capital Gains Tax would be imposed



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To understand how *Capital Gains Tax at death* can be eliminated while *Capital Gains Tax for living investors* can be kept intact, we need to understand a concept known as Step-Up In Basis... and more specifically, Step-up in Basis **at death**.

In simple terms, the amount paid for an asset is commonly referred-to as its **"Cost Basis."**

In the vein of full disclosure, more factors could be involved in calculating Cost Basis than simply the initial cost of the asset or investment. But let's keep this conversation as simple as possible so that we can focus on the concept.

The increase in value of an asset or investment can generally be measured by subtracting the Cost Basis from the current market value of the asset.

When "Step-Up In Basis" occurs at death, the Cost Basis for the asset is, as we like to say in investment terms, "Stepped-Up."

In other words, the Cost Basis is "adjusted" so that it equals "the value of the asset on the date of death."

Therefore, if the asset is subsequently sold by the beneficiaries for a value equal-to or less-than "the value of the asset on the date of death," the asset is being sold for less than its Cost Basis, therefore there's presumed to be no taxable gain and, therefore, no Capital Gains Tax would be imposed.

This concept of *Step-Up In Basis at death* is a really important concept because it creates a way that Capital Gains Tax can be eliminated at death, while Capital Gains Tax for living investors that buy-and-sell assets is still in-effect.

By eliminating Capital Gains Tax at death with *Step-Up In Basis at death*, the IRS can impose ***Estate Tax at death*** without simultaneously imposing ***Capital Gains Tax at death***.

Estate Tax Background

Step-Up in Basis at Death

- For example, assume you purchased an asset for \$10,000 long ago
- Assume the asset appreciated in value, and is now worth \$100,000
- If you sold the asset before death, you would have a \$90,000 gain that would be subject to tax (*capital gains tax in this example*)
 - $\$100,000 \text{ value} - \$10,000 \text{ cost basis} = \$90,000 \text{ of growth}$
- If, on the other hand, you died before selling the investment, the cost basis would be "Stepped-Up"... adjusted to \$100,000
 - $\$100,000 \text{ value} - \$100,000 \text{ cost basis} = \$0 \text{ of growth... NO CAPITAL GAINS TAX}$

This is a hypothetical example using hypothetical investment values and is not intended to represent any particular situation. Numbers have been rounded for simplicity.



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Let's walk through an example that demonstrates how this **Step-Up In Basis at death** might work.

As we waded into this example, remember that this is a hypothetical example using hypothetical investment values, and this example is not intended to represent any particular situation. Also, all of the hypothetical values have been rounded for the sake of simplicity to help convey the essence of the concept of "Step-Up In Basis."

Let's assume you purchased an asset for \$10,000 sometime long ago. Further assume that the asset has appreciated in value... let's pretend it's now worth \$100,000.

If you sold the asset, prior to dying, you would have a \$90,000 gain that would be subject to tax.

How did I arrive at \$90,000?

I simply subtracted "*the \$10,000 you paid for it*" from "*the \$100,000 you sold it for.*"

On the other hand... if you died **before** selling the investment, the cost basis would be "Stepped-Up...
It would be "adjusted" to the value of the asset at the time of death.
In this case, \$100,000.

Therefore, if you subtract the "adjusted" Stepped-Up cost basis from the value at the time of death, you get:
\$100,000 of value minus \$100,000 of "adjusted" cost basis, which equals \$0 of growth.
Since this "adjustment" or "step-up" of the cost basis increased the cost basis to \$100,000, for tax purposes there is no capital gain and, therefore, no capital gains tax.

So this example is emblematic of what would happen to cost basis IF step-up in basis at death was in-effect.

Estate Tax Background

Step-Up in Basis at Death

- If there were no Estate Taxes in-effect (*due to something like Estate Tax repeal*), it's possible that Capital Gains Tax will be owed when someone dies
 - ✓ In this case Capital Gains Tax might be due, but not Estate Tax
- Alternatively, when Estate Taxes are in effect, assets typically receive a "Step-Up In Basis at death," virtually eliminating Capital Gains Tax at death
 - ✓ In this case Estate Tax may be due, but not Capital Gains Tax
- This creates the harmony between Estate Tax and Capital Gains Tax, and explains how one or the other is normally due, but typically not both.



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So let's summarize what we've learned in this section about the background of Estate Taxes.

Just keep-in-mind that the conclusions we'll settle-on here are general in nature, and tax laws may not always work this way.

However, generally speaking, at times where there are no estate taxes in-effect (*due to something like estate tax repeal*), it's possible that there won't be a "step-up in basis at death," therefore it's possible that capital gains tax will be owed when someone dies.

And, generally speaking, when ***that happens***, capital gains tax might be due, but not estate tax.

Alternatively, when estate taxes ***are*** in-effect, assets typically receive a "step-up in basis at death," virtually eliminating capital gains tax at death.

And, generally speaking, when ***that happens***, estate tax may be due, but not capital gains tax.

It's this approach that creates a kind of harmony between "Estate Tax at death" and "Capital Gains Tax at death," and explains how one or the other is normally due, but typically not both.



If you'd like to return to the main menu, you can simply tap or click on the button in the center of the screen.

However, if you'd like to continue and learn about "The History of Estate Tax Exclusion Limits," feel free to continue to the next slide.

2. The History of Estate Tax Exclusion Limits



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In the second section of this discussion we'll review the history of estate tax exclusion limits.

- > You'll learn a bit about "What estate tax exclusion limits are,"
- > you'll get a feel for the general role they play in calculating estate taxes, and...
- > you'll see how these estate tax exclusion limits have evolved over the last 40 years.

History of Estate Tax Exclusion Limits

- Historically, Estate Taxes have been accompanied by an *Estate Tax Exclusion*
- The *Estate Tax Exclusion* makes it so that small estates don't typically incur any estate tax... only large estates do
- *Estate Tax Exclusion* limits have traditionally had a per-person limit
 - ✓ With proper planning, spouses can combine these limits



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Historically, estate taxes aren't assessed against everything you own when you die. There's typically an amount of every decedent's estate that is protected from estate taxes by an estate tax exclusion... an amount of each decedent's estate that gets to be excluded from estate taxes.

This approach protects small estates from incurring the consequences of estate taxes, and creates an environment where only the larger estates owe estate taxes.

Historically the estate tax exclusion limits have had a per-person limit.

Each person, upon dying, had an amount of their estate that could be sheltered from estate tax.

But what about married couples?

Whose estate tax exclusion limit applies to married couples?

The exclusion limit that applies to the first spouse to die?

Or the exclusion limit that applies to the second spouse to die?

Well, with proper planning, spouses can typically combine their limits so that neither spouse's estate tax exclusion is lost.

Today we don't have the space to delve into the strategies that enable spouses to combine their estate tax exclusions... just be aware that spouses DO have the ability, with proper planning, to combine their estate tax exclusions.

History of Estate Tax Exclusion Limits

Historical Estate Tax Exclusion Limits:

Year(s)	Per-Person Estate Tax Exclusion Amount	Per-Couple Estate Tax Exclusion Amount	Maximum Marginal Estate Tax Rate	Year	Per-Person Estate Tax Exclusion Amount	Per-Couple Estate Tax Exclusion Amount	Maximum Marginal Estate Tax Rate
1982-1997	\$600,000	\$1,200,000	55%	2013	\$5,250,000	\$10,500,000	40%
1998	\$625,000	\$1,250,000	55%	2014	\$5,340,000	\$10,680,000	40%
1999	\$650,000	\$1,300,000	55%	2015	\$5,430,000	\$10,860,000	40%
2000-01	\$675,000	\$1,350,000	55%	2016	\$5,450,000	\$10,900,000	40%
2002-03	\$1,000,000	\$2,000,000	50%, 49%	2017	\$5,490,000	\$10,980,000	40%
2004-05	\$1,500,000	\$3,000,000	48%, 47%	2018	\$11,180,000	\$22,360,000	40%
2006-08	\$2,000,000	\$4,000,000	46%, 45%, 45%	2019	\$11,400,000	\$22,800,000	40%
2009	\$3,500,000	\$7,000,000	45%	2020	\$11,580,000	\$23,160,000	40%
2010	Estate Tax Repeal: Option to pay Estate Tax or Capital Gains Tax			2021	\$11,700,000	\$23,400,000	40%
2011	\$5,000,000	\$10,000,000	35%	2022	\$12,060,000	\$24,120,000	40%
2012	\$5,120,000	\$10,240,000	35%	2023	\$12,920,000	\$25,840,000	40%

How The Federal Estate Tax Exemption Changed From 1997 to Today

Source: <https://www.thebalancemoney.com/exemption-from-federal-estate-taxes-3505630> by Julie Garber



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Now that we know, in general, that estate tax exclusion limits are designed to protect smaller estates from paying estate taxes, let's take a look at what has happened to the size of these estate tax exclusion limits over the last 40 years or so.

In this chart, which starts on the left side of the slide and continues on the right side of the slide, shows the per-person and per-couple exclusion amounts, and the maximum marginal estate tax rate applicable to those years.

As you look-over the chart I'm sure you can spot a few trends. The first trend you might notice is that the exclusion amounts have been increasing over time. Although some of those increases seem pretty linear, there are also some years where the increases were more significant. Take for example the \$1.5 million increase from 2008 to 2009; and the \$1.5 million increase from 2009 to 2011.

Also notice the significant increase from 2017 to 2018, when the limit more than doubled...
an increase of over \$10 million per couple!

That increase in 2018 created an environment where married couples, with proper planning, could combine their exclusion limits to shelter over \$22 million of their estate values, and that limit has been increasing annually as it adjusts for inflation.

Another trend you might notice is that the maximum estate tax rate, which was 55% in 1982, has slowly marched its way down to 40%... where it has settled for the last 10 years.

Does that suggest that the maximum marginal estate tax rate will remain at 40% in the future?

That's something we simply can't predict.

History of Estate Tax Exclusion Limits

Historical Estate Tax Exclusion Limits:

Year(s)	Per-Person Estate Tax Exclusion Amount	Per-Couple Estate Tax Exclusion Amount	Maximum Marginal Estate Tax Rate	Year(s)	Per-Person Estate Tax Exclusion Amount	Per-Couple Estate Tax Exclusion Amount	Maximum Marginal Estate Tax Rate
1982-1997	\$600,000	\$1,200,000	55%	2013	\$5,250,000	\$10,500,000	40%
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1999	\$650,000	\$1,300,000	55%	2015	\$5,430,000	\$10,860,000	40%
2000-01	\$675,000	\$1,350,000	55%	2016	\$5,450,000	\$10,900,000	40%
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2006-08	\$2,000,000	\$4,000,000	46%, 45%, 45%	2019	\$11,400,000	\$22,800,000	40%
2009	\$3,500,000	\$7,000,000	45%	2020	\$11,580,000	\$23,160,000	40%
2010	Estate Tax Repeal: Option to pay Estate Tax or Capital Gains Tax			2021	\$11,700,000	\$23,400,000	40%
2011	\$5,000,000	\$10,000,000	35%	2022	\$12,060,000	\$24,120,000	40%
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How The Federal Estate Tax Exemption Changed From 1997 to Today

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Additionally, as you're spotting trends, notice that the per-couple exclusion limit has increased from just \$1.2 million in 1982 to today's level of \$25.8 million. That's a pretty astounding increase... more than 21 times higher today than it was in 1982.

History of Estate Tax Exclusion Limits

What if the Estate Tax Exclusion Limits "Sunset" in 2026?

- The Estate Tax Exclusion limits increased dramatically... more than doubled... from 2017 (\$10.98M/couple) to 2018 (\$22.36M/couple)
- This was part of a 10-year tax provision passed in 2016 that expires... sometimes called "*sunsets*"... at the end of 2025
 - ✓ If no alternative legislation is passed before 2026, the limits will "*sunset*" back to 2011's limit of \$10,000,000/couple adjusted for inflation
 - ✓ Expected to be approximately \$12,500,000/couple in 2026
 - ✓ If this tax provision "*sunsets*" (*and there's no assurance that it will*), it could potentially reduce the Estate Tax Exclusion Limits to approximately HALF of the pre-sunset levels



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So you noticed the huge increase in the estate tax exclusion limits from 2017 to 2018, where the limits more than doubled.

That increase was part of a 10-year tax provision passed in 2016 that expires at the end of 2025.

When a tax law expires like this, people often say that the tax law "*sunsets*."

The way this particular piece of legislation was written, if Congress doesn't pass alternative legislation before January 1 of 2026, these much-higher estate tax exclusion limits will "*sunset*" back to 2011's limit of \$5 million per-person, \$10 million per-couple, adjusted for inflation.

After those inflation adjustments, the post-sunset exclusion limit is expected to be approximately \$12 ½ million per-couple in 2026, potentially reducing the estate tax exclusion limits to approximately HALF of the pre-sunset levels.

History Of Estate Tax Exclusion Limits

What's The Impact if the Estate Tax Exclusion Limits "Sunset" in 2026?

- If a taxable estate is worth between roughly \$12.5M and \$26M, and death occurs on-or-before January 1, 2026, there may not be any Estate Tax payable
- But if death occurs after December 31, 2025 and the estate-taxable estate is worth between roughly \$12.5M and \$26M, there may be significant Estate Taxes owed if the Exclusion Limits "sunset" as currently scheduled
- And if a person dies after "sunset" with an estate worth more than \$26M, it could result in a significant increase in estate taxes for that estate



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That's potentially a significant reduction in the estate tax exclusion limits... but what does it all mean?

What's the impact of having these exclusion limits "sunset"?

Consider this:

- If a taxable estate is worth between roughly \$12.5 million and \$26 million, and the person dies on-or-before January 1, 2026, there may not be any estate tax.
- Conversely, if the limits sunset at the end of 2025 and death occurs AFTER December 31, 2025 for an estate that's worth between roughly \$12.5 million and \$26 million, there may be significant estate taxes owed
- And if a person dies after "sunset" with an estate worth more than \$26M, it could result in a significant increase in the estate taxes for that estate.

You can see that having a working knowledge of these estate tax exclusion limits, and the potential impact of these limits "sunsetting" at the end of 2025, can be very helpful to understanding how estate taxes work.



You can tap or click on the button in the middle of the screen if you'd like to return to the main menu.

Or you can continue to the next slide if you'd like to learn about the history of gifting limits, which includes a discussion of annual gifting limits as well as lifetime gifting limits.

3. The History of Gifting Limits: *Annual Limits vs. Lifetime Limits*



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Gifting plays an integral role in legacy planning in a number of different ways.

We don't have the space to examine ALL of the ways in which gifting strategies can be used.

However, we'll learn about the differences between annual gifting and lifetime gifting, the opportunities and the restrictions.

You'll see that there are limits to how much can be given away annually and during lifetime.

You'll learn about some of the implications of these limits, and how to work within them.

So let's talk about gifting.

Annual & Lifetime Gifting Limits

- Gifting limits are designed to discourage significant transfers of wealth prior to death

WHY?

- Gifting significant values during lifetime could enable people to reduce or avoid potential Estate Taxes
- The tax code provides for two types of gift limits:
 - Annual gift limits
 - Lifetime gift limits



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You might be thinking to yourself: "I didn't even know there were limits on the gifts I can make!"

So WHY do we have limits on the amount of gifts people can give?

These gifting limits are designed to discourage significant transfers of wealth prior to death.

Why does the government want to limit these transfers-of-wealth during a person's lifetime?

Well, if the government allowed people to make unlimited gifts of wealth during their lifetimes, it could enable people to give-away so much of their wealth that they could reduce... or potentially completely eliminate... estate taxes, which would render the estate tax system rather ineffective... if not completely useless.

But the tax code isn't designed so that you can't give gifts at all. After all, what about birthday gifts, graduation gifts, wedding gifts and the many other gifts that are given throughout the year?

The tax code enables those gifts, but only up to certain limits. There are annual gift limits and there are lifetime gift limits, and in some ways they work together.

Let's learn more about these gifting limits.

Annual & Lifetime Gifting Limits

Annual Gift Limits

Each person is allowed to annually give a limited amount to any other person... related or unrelated... without being subject to gift tax, and without using any of their Lifetime Gift Exclusion

This Annual Gift Limit enables people to give holiday gifts, birthday gifts, graduation gifts, wedding gifts, etc., without needing to file a Gift Tax Return

- ✓ Generally speaking, a gift tax return only needs to be filed if the gifts to any specific individual exceed the ANNUAL gifting limits



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We'll begin our gifting discussion by talking about annual gift limits.

First of all, know that there's such a thing as an IRS Form 709.

Many tax practitioners refer to it as "the gift tax return."

Any time a gift is made that exceeds the annual or lifetime gift limits, a Form 709 should be filed to record the gift.

For gifts that are less than the annual or lifetime gift limits, no tax reporting needs to occur.

The annual gift limits are designed so that each person can annually give a limited amount **any other person**, whether that person is related or not, without needing to file a Form 709 gift tax return, **AND** without using-up any of their lifetime gift exclusion.

This last part about "not using-up any of their lifetime gift exclusion" will make more sense in a few minutes when we talk about lifetime gifts in a bit more detail.

It's this annual gift limit that enables people to give holiday gifts, birthday gifts, graduation gifts, wedding gifts, and other gifts each year without needing to file a Form 709 gift tax return. Generally speaking, a gift tax return only needs to be filed if the gifts to any specific individual exceed the **annual** gifting limits.

Annual & Lifetime Gifting Limits

Lifetime Gift Limits

- For many years the lifetime gift limits have generally equaled the estate tax exclusion limits. Therefore, the current lifetime gift limit for 2023 is roughly \$12.9 million per-person, which translates to about \$25.8 million per-couple.
- Annual gifts in-excess-of the Annual Gifting Limits reduce the Lifetime Gift Limits and the Estate Tax Exclusion Limits by the amount of the excess
- For example, if a gift was made that exceeded the Annual Gift Limits by \$5,000,000, the applicable Lifetime Gift Limits and Estate Tax Exclusion Limits of the person giving the gift would each be reduced by \$5,000,000
- If, on the date of death, an Estate Tax Exclusion Limit (*2 spouses combined*) was originally \$25 million, after subtracting the \$5,000,000 gift, an Estate Tax Exclusion Limit of \$20 million would remain



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Now let's talk about "lifetime gift limits."

When do they come into play, and how do lifetime gifts interact with annual gifts?

Let's learn a little more about that.

For starters, it's helpful to know that for many years the lifetime gift limits have generally equaled the estate tax exclusion limits.

Therefore, the current lifetime gift limit for 2023 is roughly \$12.9 million per-person, which translates to about \$25.8 million per-couple when a couple properly combines their lifetime gift limits.

So how do annual gift limits and lifetime gift limits work together?

Any time a gift is made that exceeds the annual gift limit, the lifetime gift limits (*and the estate tax exclusion limits*) are generally reduced by the amount that the gift exceeded the annual limit.

That may seem like complicated jargon, so let me simplify the explanation with an example.

If a gift was made that exceeded the annual gift limits by \$5 million, the lifetime gift limit and the estate tax exclusion limit of the person giving the gift would each be reduced by \$5 million.

Building on that example, if the lifetime gift limit and the estate tax exclusion limit, for a husband and wife combined, was originally \$25 million, and a gift exceeded their annual gift limit by \$5 million, then the lifetime gift limit and their estate tax exclusion limit would both be reduced by \$5 million. After subtracting the \$5 million, their remaining lifetime gift limit and the estate tax exclusion limit would be reduced from \$25 million to \$20 million.

Knowing how these annual gift limits, lifetime gift limits and estate tax exclusion limits work together, it's not uncommon for wealthy people to optimize their gifting by using their annual gift limits to minimize the impact to their lifetime gift limits and their estate tax exclusion limits as much as possible.

We'll talk more about how to optimize the annual gift limits in a few minutes.

History of Annual Gifting Limits

YEAR(S)	PER-PERSON ANNUAL GIFT LIMIT	PER-COUPLE ANNUAL GIFT LIMIT
1997 – 2001	\$10,000	\$20,000
2002 – 2005	\$11,000	\$22,000
2006 – 2008	\$12,000	\$24,000
2009 – 2012	\$13,000	\$26,000
2013 – 2017	\$14,000	\$28,000
2018 – 2021	\$15,000	\$30,000
2022	\$16,000	\$32,000
2023	\$17,000	\$34,000

- For example, in 2023, \$17,000 can be given as a gift to as many different people as a person wants to give-to.
- In a spousal situation, the spouses can combine to give \$34,000-per-year to as many people as they want.
- If parents had 5 children, they could combine their gifts to give \$34,000 to each child every year... a grand total of \$170,000 per year... \$1,700,000 over 10 years... without using any of their lifetime exclusions!
- And if each child was married, gifts to the children and their spouses could double that to \$3,400,000 over 10 yrs.

Source: How Much Is The Annual Gift Tax Exclusion by Julie Garber

<https://www.thebalancemoney.com/annual-exclusion-from-gift-taxes-3505637#toc-how-the-annual-gift-tax-exclusion-works>



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But first, let's get a feel for what the annual gift limits have looked like over the years, on a per-person basis and on a per-couple basis.

Back in 1997 the annual limit was just \$10,000 per-person.

A couple could combine their gift limits and, together, they could give \$20,000 per-year to anyone they want.

Over time this annual gift limit has increased.

In 2023 the limit is \$17,000 per-person, which translates to \$34,000 per couple if they correctly combine their annual limits.

So, interestingly as an observation, in the same time frame that the estate tax exclusion limits have increased 5-fold, the annual gift limits haven't even doubled!

So, in 2023... \$17,000 can be given as a gift to as many different people as you want to give gifts to.

In a spousal situation they can combine to give up to \$34,000 per-person per-year.

When you broaden your perspective a bit, you notice that if parents had 5 children, they could combine their gifts to give \$34,000 to each child every year.

That would be a grand total of \$170,000 per-year that could be gifted. Over a period of 10 years, that's a total of \$1.7 million of wealth that could be gifted without exceeding the annual gift limits and without using any lifetime gift or estate tax exclusion amounts!

And, to take it one step further, if each of the 5 children was married, the parents could combine their gifts to the children's spouses, too, which would double the 10-year gift capability to \$3.4 Million!

Add grandchildren to the equation and the number could be even higher.

So, regarding the annual per-person gift limits, I want your take-away to be that a small limit... like \$17,000 per-person per-year... can be used creatively to give away a lot of wealth, which has the potential to minimize estate tax implications.

History of Annual Gifting Limits

YEAR(S)	PER-PERSON ANNUAL GIFT LIMIT	PER-COUPLE ANNUAL GIFT LIMIT
1997 – 2001	\$10,000	\$20,000
2002 – 2005	\$11,000	\$22,000
2006 – 2008	\$12,000	\$24,000
2009 – 2012	\$13,000	\$26,000
2013 – 2017	\$14,000	\$28,000
2018 – 2021	\$15,000	\$30,000
2022	\$16,000	\$32,000
2023	\$17,000	\$34,000

Some Exceptions To The Annual Gift Tax Limits:

Generally, unlimited gifts can be made:

- To a spouse, provided that the spouse is a U.S. citizen
- To pay for certain medical expenses
- To pay for qualified education expenses

Source: *How Much Is The Annual Gift Tax Exclusion by Julie Garber*

<https://www.thebalancemoney.com/annual-exclusion-from-gift-taxes-3505637#toc-how-the-annual-gift-tax-exclusion-works>



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Lastly, regarding annual gifts, you should be aware that there are some exceptions to the annual gift limits.

Here are three popular exceptions you may want to be aware of:

1. Gifts to a spouse, provided that the spouse is a U.S. citizen;
2. Gifts to pay for certain medical expenses; and...
3. Gifts to pay tuition and other qualified education expenses

Gifts made under these exceptions do not reduce the annual gifts that can be made under the normal annual gift limits, and they don't impact the lifetime gift limits.

You may be wondering why it's important for us to review these gifting limitations.

It's because gifts are often used to pay life insurance premiums for legacy planning, and knowing how the gift limits work helps you to understand how you can work within these gift limits when using life insurance as part of legacy planning.



If you'd like to return to the main menu, you can click-on or tap the button in the middle of the screen.

Alternatively, if you'd like to learn about Irrevocable Life Insurance Trusts, you can continue to the next slide in the presentation.

4. The Irrevocable Life Insurance Trust (ILIT)



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Trusts come in many shapes and sizes, and are capable of accomplishing many different goals.

Today we're going to talk about one particular kind of trust: A Life Insurance Trust.

More specifically, we're going to talk about a life insurance Trust known as an **Irrevocable Life Insurance Trust**.

We often refer to Irrevocable Life Insurance Trusts by their acronym... we call them ILITs.

When you see how Irrevocable Life Insurance Trusts work, you'll begin to understand their role in legacy planning and estate tax planning.

So let's learn a little bit about ILITs.

The Irrevocable Life Insurance Trust (ILIT)

The Challenge with Life Insurance:

- If a life insurance policy is personally owned by an individual, the death benefit is included in the individual's taxable estate and potentially subject to Estate Taxes
- Although life insurance death benefits are generally *income-tax-free*, a portion of the death benefits could be lost to Estate Tax
- Can a life insurance policy exist outside of the estate so that the death benefits are not subject to estate taxes?



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Life insurance is often used to defray the impact of estate taxes by creating additional value that can replenish estate values lost to estate taxes. In essence, the life insurance can "***make the estate whole again.***"

But there's a challenge with life insurance in the world of estate planning.

Estate tax calculations are typically applied to everything a decedent's estate owns.

But if the decedent owns a life insurance policy, what part of that life insurance policy is typically included in the estate tax calculations?

This may come as a surprise to some of you, but the IRS includes the life insurance policy's death benefit in the estate tax calculation.

Therefore, if you purchase a life insurance policy to offset the impact of estate taxes, and if the decedent owned the policy when they died, it can be counter-productive because the life insurance solution can also become part of the estate tax problem because the life insurance death benefits can potentially be subject to estate taxes.

So, what many people don't realize, is that although life insurance death benefits are generally ***income-tax-free***, a portion of the death benefits could be lost to estate tax.

So the next question is: *"Can a life insurance policy exist **outside of the decedent's estate** so that the death benefits are **NOT** subject to estate taxes?"*

Let's see.

The Irrevocable Life Insurance Trust (ILIT)

How the ILIT Works:

- An ILIT is simply an Irrevocable Trust that typically only owns life insurance policies
- The ILIT is the owner and beneficiary of the life insurance policy
- Because the ILIT owns the life insurance policy, the policy is generally outside of the person's estate. Therefore the death benefit is typically not subject to Estate Tax.

Specific requirements must be met for a Trust to be an Irrevocable Life Insurance Trust (ILIT).
Structuring an ILIT should only be undertaken with the assistance of a legal advisor.



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The answer, as you might have imagined, is YES... **IF** you correctly use an ILIT.

An Irrevocable Life Insurance Trust is a separate taxable entity and, therefore, when properly structured, exists outside of the person's estate.

The key is that an ILIT can purchase and own life insurance policies, and then the life insurance policy is typically set-up so that the ILIT is also the beneficiary of the policy.

Because the ILIT is normally outside of the person's estate, and the ILIT owns the life insurance policy, the life insurance policy is generally outside of the person's estate. Therefore, the policy's death benefit is typically not subject to estate tax.

Although this overview makes ILITs seem relatively simple, they're not. They're complex, and there are specific requirements that must be met for a Trust to be and ILIT.

Creating and structuring an ILIT should only be undertaken with the assistance of a legal advisor that has experience drafting ILITs.

The Irrevocable Life Insurance Trust (ILIT)

How the ILIT Works at the Time of Death:

- When the person dies, the life insurance policy death benefits are paid into the ILIT
- The ILIT Trustee distributes the ILIT assets (*primarily the life insurance death benefits*) to the ILIT beneficiaries according to the decedent's wishes, which are described in the ILIT Trust documents



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So now that we have a general overview of how ILITs work, let's take a look at what actually happens when person dies. There's actually more to this than many people think.

When ILITs and life insurance policies are properly structured along the lines of what we've described here, and the insured person dies, the life insurance policy death benefits are paid to the beneficiary, which is the ILIT, so the death benefits are paid into the ILIT.

Then what happens?

The ILIT Trustee distributes the ILIT assets (*which are primarily comprised of the life insurance death benefits*) to the ILIT beneficiaries according to the decedent's wishes, which are described in the ILIT Trust documents.

The Irrevocable Life Insurance Trust (ILIT)

Why Use an ILIT?

- Life insurance death benefits inside of the ILIT are often used to help offset the impact of Estate Taxes
- But life insurance owned inside of the estate can increase the size of the taxable estate by the amount of the death benefits, thereby increasing the Estate Taxes
 - ✓ In other words, the life insurance death benefits could be subject to Estate Tax, reducing the value of the life insurance death benefits
- A properly structured ILIT has the potential to provide the advantages of the life insurance death benefit without increasing the Estate Taxes



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There's certainly room to ask: Why use an ILIT? Or "When should an ILIT be considered?"

There are situations where an ILIT makes sense to consider.

But there are also situations where an ILIT may not make sense.

Let's begin by reviewing why an ILIT would be considered.

For starters, the life insurance death benefits inside of the ILIT are often used to help offset the impact of estate taxes, which has the potential to be very beneficial for legacy planning.

But, as we've discussed, life insurance owned inside of the estate can increase the size of the taxable estate by the amount of the death benefits.

Therefore, life insurance owned inside of the estate can actually increase estate taxes. In other words, the life insurance death benefits owned inside of the estate could be subject to estate tax, reducing the value of the life insurance death benefits to accomplish their objectives.

But a properly structured ILIT has the potential to provide the advantages of the life insurance death benefit without increasing the estate taxes.

In estate tax planning situations, these ILIT benefits can be very attractive.

The Irrevocable Life Insurance Trust (ILIT)

When *WOULDN'T* an ILIT be used?

1. An ILIT is a Trust, and Trusts normally have additional administrative requirements and costs
 - ✓ Not using an ILIT can avoid these administrative costs and requirements
2. If estate values are below the Estate Tax Exclusion Limits, life insurance could potentially be owned personally, instead of owned by the ILIT
 - ✓ In this instance the life insurance would be inside of the person's estate, but still not make the estate big enough to trigger an Estate Tax liability



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But ILITs are not "one-size-fits-all," and they're certainly not appropriate for every situation. So you might ask yourself: "Are there situations where an ILIT *might not be useful*?"

Remember that an ILIT is a Trust, and Trusts normally have additional administrative requirements and costs.

If the benefits of an ILIT aren't necessarily advantageous in a particular situation, **NOT using and ILIT** can avoid these administrative costs and requirements.

Secondly, if estate values are below the Estate Tax Exclusion Limits, in many cases the life insurance can potentially be owned personally, instead of being owned by an ILIT.

Now, I'm sure you're asking yourself: *But what about personally-owned death benefits being included in the estate, and potentially subjecting the death benefits to estate taxes?*

Let's take an example:

If a couple's estate is valued at less than \$5 million, and they wanted to purchase a \$1 million life insurance policy, they could own the policy personally and it would only raise the estate value to \$6 million.

If their combined estate tax exclusion limit is more than \$6 million, the inclusion of the \$1 million life insurance policy inside of their estate didn't generate an apparent estate tax problem, and the \$1 million life insurance death benefits would likely not be eroded by estate tax.

The Irrevocable Life Insurance Trust (ILIT)

How do Premiums get into an ILIT?

- The most common way to put money into an ILIT is to make cash gifts to the ILIT
- The cash from the gifts can be used to make the premium payments for the life insurance policy owned by the ILIT
- There are very specific administrative requirements around cash gifts to ILITs, so these gifts should only be made with the guidance of a legal professional



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As you continue to build your knowledge of ILITs, additional questions may begin to surface.

For example, if an ILIT is a separate taxable entity, where does the ILIT get money from?

After all, the ILIT needs to pay premiums on the life insurance policy it owns... where does it get the money to pay those premiums?

The most common way to put money into an ILIT is to utilize a few other tools we learned about earlier... the annual and lifetime gift limits.

Making monetary gifts to the ILIT provides the cash necessary for the ILIT to pay the premiums for the life insurance policy the ILIT owns.

Be careful, though.

There are very specific administrative requirements around cash gifts to ILITs, so these gifts should only be made with the guidance of a legal professional.

The Irrevocable Life Insurance Trust (ILIT)

How do Premiums get into an ILIT?

- The annual limit on gifts to the ILIT are determined in large part by the number of ILIT beneficiaries
- If the annual gift limit is \$17,000 per-person (for 2023), and there are four ILIT beneficiaries, the Grantor can gift to the ILIT:

$4 \times \$17,000 = \$68,000$ per year
without using any of their lifetime exclusion!

In this situation,
spouses could combine their annual gift limits
to give \$136,000 to the ILIT per year



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So how much money can be gifted to an ILIT?

The annual limit on gifts to an ILIT are determined in large part by the number of ILIT beneficiaries.

For example, if we look at the 2023 annual gift limit of \$17,000 per-person, and if there are four ILIT beneficiaries, the Grantor can gift \$17,000 to each beneficiary, for a grand total of \$68,000 per-year, without exceeding their annual gift limits... Which means they wouldn't need to use any of their lifetime exclusion.

To take this situation one step further, spouses could combine their annual gifts. In this example that would allow them to gift up to \$136,000 per-year to the Trust, and the Trust could use that money to pay premiums on a pretty large life insurance policy.

So, when you're considering incorporating an ILIT into a legacy planning solution, it may be important to know how many ILIT beneficiaries there will be... it could be critical to structuring the life insurance policy within the ILIT.

If the annual gift limits aren't sufficient to gift all of the necessary premiums to the ILIT, a portion of the lifetime gift limits could be considered, too.



If you'd like to return to the main menu, click-on or tap the button in the middle of the screen.

Or, if you'd like to see how these elements you've learned about come-together in a common use of ILITs for legacy planning, just continue to the next slide.

5. Putting It All Together:

A Common Use of the Irrevocable Life Insurance Trust (ILIT)



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So far we've learned a lot about the history of estate taxes, the history of estate tax exclusion limits, annual & lifetime gifting limits, and a bit about how Irrevocable Life Insurance Trusts work.

Now let's put it all together to see how these elements work in unison for legacy planning.

A Common Use of the Irrevocable Life Insurance Trust (ILIT)

Offsetting the Impact of Estate Tax

- If someone is confident that their estate will owe significant Estate Taxes when they die, they may want to offset the impact of the Estate Taxes
- Life insurance policies inside of an ILIT can help



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We've mentioned it a few times along the way... the most common use of an ILIT is to offset the impact of estate taxes.

For example, if someone is confident that their estate values will exceed the estate tax exclusion limits in-effect at the time they die, then they're likely to be confident that their estate could potentially owe estate taxes when they die, and they may want to offset the impact of those estate taxes.

And this is where life insurance policies inside of an ILIT can help.

But let's learn a little more about the actual sequence of events that take place that enable the death benefits inside of the ILIT to alleviate the impact of estate taxes.

A Common Use of the Irrevocable Life Insurance Trust (ILIT)

Offsetting the Impact of Estate Tax

It's a common misnomer that the ILIT pays the estate taxes using the life insurance death benefits inside of the ILIT

- But that's simply not the case...
- The decedent's estate pays the estate taxes, and...
- The ILIT is outside of the decedent's estate, therefore...
- The ILIT itself does not directly pay any Estate Taxes



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In legacy planning and estate planning parlance, we often say
"We're using an ILIT to pay the estate tax."

Therefore it's not uncommon for people to think that
"the ILIT pays the estate taxes," as if the ILIT writes a check to the IRS to pay the estate taxes on behalf of the decedent's estate.

But in reality, that's simply not how it happens.

Instead, the decedent's estate pays the estate taxes.

And remember... the ILIT is NOT in the decedent's estate...
the ILIT is outside of the decedent's estate, therefore...
The ILIT itself does NOT directly pay any estate taxes...

So you might be inclined to ask:

"If the ILIT isn't paying the estate taxes, how is the ILIT helpful?"

A Common Use of the Irrevocable Life Insurance Trust (ILIT)

Offsetting the Impact of Estate Tax

- In reality, the ILIT assets are distributed to the Trust beneficiaries... commonly the decedent's children
- But the children are not responsible for paying the Estate Taxes, either... the decedent's estate is!



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In reality, the ILIT assets are distributed to the ILIT beneficiaries... which are commonly the decedent's children.

But the children aren't responsible for paying the decedent's estate taxes, either... the decedent's estate is responsible for paying the estate taxes.

So you might say:

"I still don't get it..."

If the ILIT pays the death benefit to the children, but the children aren't responsible for paying the estate taxes, how does the money from the ILIT help pay estate taxes?"

A Common Use of the Irrevocable Life Insurance Trust (ILIT)

Offsetting the Impact of Estate Tax

- Often the decedent's estate doesn't have enough liquidity to pay the Estate Tax
- Sometimes the estate is largely comprised of fixed assets (such as real estate or business holdings) that are either:
 - a) Difficult to liquidate; or...
 - b) The surviving family would prefer not to liquidate



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Often the decedent's estate is comprised of illiquid assets.

It's not uncommon for a wealthy estate to be comprised of fixed assets, such as real estate or a family-owned business, that are either:

A. Difficult to liquidate; or...

B. The surviving family would prefer not to liquidate

As a result, the decedent's estate often has enough value to pay the estate taxes, but doesn't have enough liquidity to pay the estate taxes.

A Common Use of the Irrevocable Life Insurance Trust (ILIT)

Offsetting the Impact of Estate Tax

One of two things will typically happen:

1. If the decedent's estate has fixed, illiquid assets, the ILIT beneficiaries (*typically the children*) can purchase assets from the estate
 - a) The children give the decedent's estate liquid cash in exchange for illiquid assets

OR...



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Therefore, to enable the estate taxes to be paid, one of two things will typically happen. Either:

1. If the decedent's estate is comprised mostly of fixed, illiquid assets, the ILIT beneficiaries (*which are typically the decedent's children*) can use the death benefits they received from the ILIT to purchase the illiquid assets from the estate.

When this happens, the children are essentially giving the decedent's estate liquid cash in exchange for the illiquid assets that are in the estate.

At the end of the transactions,

- the estate has the liquidity it needs to pay the estate taxes, and...
- the children own the real estate, business assets, and any other illiquid assets that they purchased.

So that's one potential outcome...

What's another potential outcome?

A Common Use of the Irrevocable Life Insurance Trust (ILIT)

Offsetting the Impact of Estate Tax

One of two things will typically happen:

2. If the decedent's estate has sufficient liquidity, the decedent's estate can pay the Estate Tax
 - a) The children keep the death benefits from the ILIT as part of their inheritance... offsetting the Estate Tax paid by the decedent's estate



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Not every decedent's estate lacks liquidity, so the ILIT beneficiaries don't need to purchase assets from the decedent's estate to provide the liquidity the decedent's estate needs for paying the estate taxes.

When the decedent's estate has sufficient liquidity to pay the estate tax, paying the estate tax reduces the after-tax value of the decedent's estate.

So the children can simply keep the death benefits they received from the ILIT as part of their inheritance.

The children's inheritance from the decedent's estate will be reduced by the amount of the estate taxes that the decedent's estate pays, but that reduction in their inheritance will be offset by the life insurance death benefits the children received from the ILIT.

This part of our discussion gives you have an idea of how ILITs are commonly used in legacy planning.



Now you have a working knowledge of the history of estate taxes, the history of estate tax exclusion limits, how annual & lifetime gifting work.

And you have an understanding of the basics of Irrevocable Life Insurance Trusts and how they can be used in legacy planning.

If you'd like to return to the main menu, you can simply click-on or tap the button in the middle of the screen.

Alternatively, if you'd like to see an interesting perspective on how ILITs could be used to prepare for the possibility that the estate tax exclusion limits will "sunset" at the end of 2025, you can simply proceed to the next slide.

Important Notes

This presentation is designed to help increase the understanding of basic concepts related to Irrevocable Life Insurance Trusts. This presentation is designed to provide a general overview, and is not intended to be a complete or comprehensive review of trusts, estate tax or the estate planning process.

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Here are some important notes about today's conversation.
You should take a few minutes to thoroughly read and understand these important notes.

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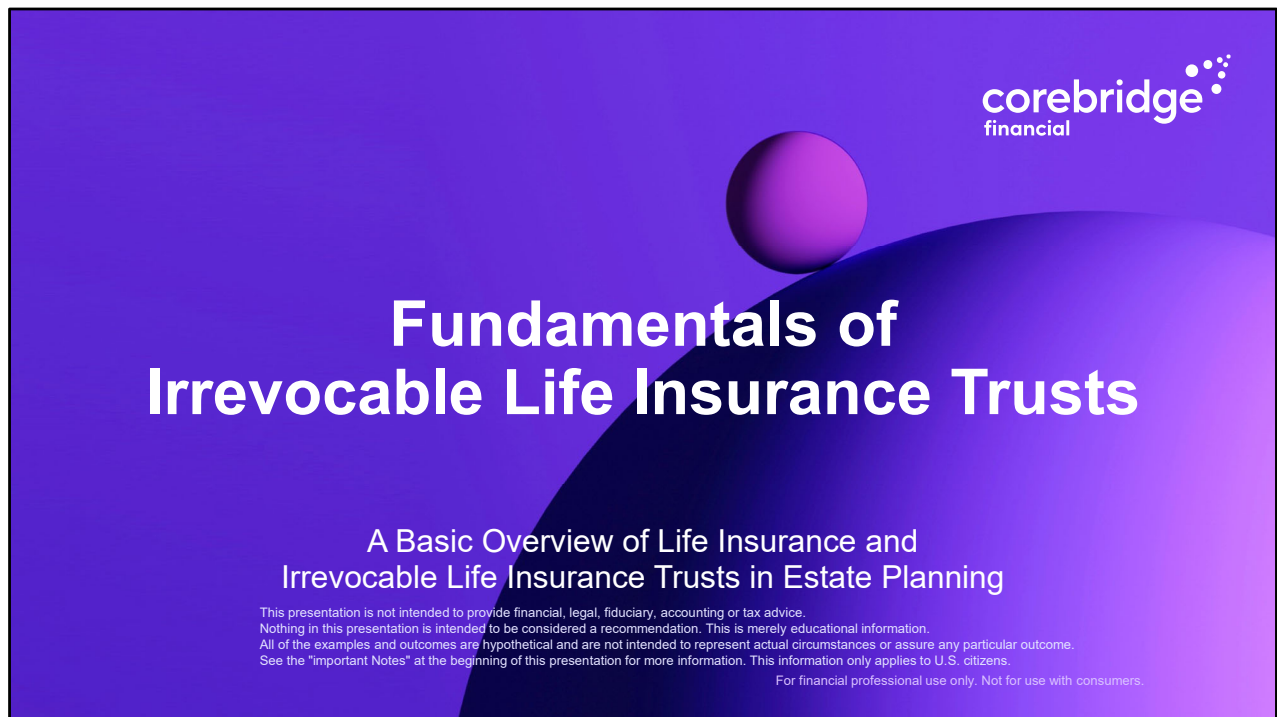
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Here are some additional important notes about today's conversation.

You should take a few minutes to thoroughly read and understand these important notes.



Thanks for joining me for this lengthy-but-informative discussion about legacy planning and the fundamentals of Irrevocable Life Insurance Trusts.

Naturally this is not an all-encompassing review of the many facets of legacy planning, estate taxes, gifting and Trusts.

However, if you can master the content in this presentation, you'll have a level of **conversational competence** that will likely make you more comfortable when these discussions come up.

On behalf of all of my Corebridge Financial colleagues, I'd like to thank you for everything you do to help your clients achieve and protect their lifetime of financial security.

We'll continue providing you with the products, the services, and the people that are the hallmark of our reputation here at Corebridge Financial.

If you have any questions about anything in this presentation, please reach-out to us through your BGA, MGA or your Corebridge RVP.

Thanks for joining me, and have a great day.



Cover slide for presentations.