Client Guide

Estate Planning

Advanced Markets

Lifetime Gifting

A simple way to transfer wealth and enhance your legacy

One of the best ways to enhance your legacy and minimize your exposure to transfer taxes is by implementing a gifting strategy combined with an Irrevocable Life Insurance Trust (ILIT). Gifting combined with ILITs also allows you to meet other planning goals such as avoiding probate, increasing creditor protection, and giving you greater control and flexibility over how your assets will be distributed. A lifetime gifting strategy, when combined with life insurance, may also increase the total amount passed on to your heirs.

Understanding US transfer taxes

The United States federal government imposes tax on the transfer of wealth above certain amounts. There are three distinct types of "transfer taxes" that may apply:

Estate tax

Tax on the transfer of property at death.

Gift tax

Tax on the transfer of property during life.

Generation-Skipping Transfer (GST) tax

Tax on the transfer of property (during life or at death) to individuals who are more than one generation removed from the donor – commonly referred to as "skip persons" (e.g., a grandchild).

State estate tax

In addition to federal taxes, a number of states impose a state level estate tax or inheritance tax. Check with your financial professional to determine if you may be subject to one of these taxes based on where you live or own property.

INSURANCE PRODUCTS		
Not FDIC Insured	Not Bank Guaranteed	May Lose Value
Not a Deposit	Not Insured by Any Government Agency	

Transfer taxes are only due when total gifts made during life or at death exceed certain limits.[1]

Lifetime exemption

You can give away a certain amount of money or property during life or at death without incurring any gift or estate tax. This amount is commonly referred to as the "lifetime exemption" and in 2021 is $11,700,000 for individuals and $23,400,000 for married couples. Transfers made in excess of this exemption are taxable at a 40% rate.

GST tax exemption

The GST tax exemption, which applies to gifts and bequests to grandchildren and other "skip persons," is also $11,700,000 per individual. Transfers that exceed this exemption are taxable at a 40% rate.

Annual exclusion gifts

In addition to your lifetime exemption, you can also give up to $15,000 a year (for 2021) to as many individuals as you would like. Spouses have the ability to combine their annual exclusions amounts to give a total of $30,000 per person per year. The total amount you can give on an annual basis without tapping into your lifetime exemption may be significant. For example, if you have six identified trust beneficiaries, you can give $90,000 ($15,000 x 6 individuals).

The clock is ticking

Under current law, the **Lifetime** and **GST Exemptions will be reduced to $5M** (indexed for inflation) in **2026.**[2]

Maximizing your legacy with life insurance

Implementing a gifting plan to fully utilize your available exemptions can help to significantly minimize or eliminate your exposure to estate taxes. One very effective strategy is to make gifts to an ILIT using annual exclusion gifts and/or some of your lifetime exemption and have the ILIT trustee use the gifted funds to purchase life insurance.

Step 1

Your attorney drafts an irrevocable life insurance trust (ILIT).[3]

Step 2

You fund the trust by making annual exclusion gifts of $15,000 for each beneficiary of the trust. You may also decide to use your lifetime exemption to gift larger amounts to the trust.

Step 3

The ILIT trustee purchases a life insurance policy on your life. The ILIT is the owner and the beneficiary of the policy. The policy's premiums will be paid with the gifted funds.

Step 4

At your death, the ILIT receives the death benefit free from estate taxes. By funding the trust with insurance, you not only remove the gifted assets from your estate, but the policy's death benefit creates an income-tax free pool of money, potentially increasing the overall benefit you pass on.

Client Snapshot

How life insurance can help

Income tax-free death benefit[4]
Death benefit is received income-tax free and can be used to help pay estate taxes (if any) and/or help secure a legacy for your beneficiaries

Access to tax-free income[5]
Cash value that accumulates inside a permanent life insurance policy can be accessed tax-free and distributed to beneficiaries

Competitive rate of return[6]
The death benefit on the life insurance generally provides a competitive rate of return as compared to other investment options through life expectancy

Benefits of trust planning

Gifts may be made directly to beneficiaries or in trust. When gifted to a trust, the assets will be excluded from estate taxes and the trust structure provides additional benefits, including:

1. Enhanced inheritance protection

- **Greater control** over timing of distributions (e.g. at ages 35/40/45, discretionary income/principal only)
- **Increased flexibility** over distributions (e.g. distributions may be limited to income or for a specific purpose)
- **Ability to preserve funds** for multiple generations
- **Assets may be professionally managed**

2. Flexibility and access

- **Spousal lifetime access provisions** can provide your spouse with access to funds inside of the trust
- **A multigenerational trust** allows trust assets to pass to grandchildren and future generations without paying GST taxes

3. Easy funding

- **Ability to use annual exclusion gifts** ($15k per beneficiary in 2021)
- **Increased lifetime exemptions** ($11,700,000 in 2021) makes it easy to fund larger premium gifts without incurring tax

4. Increased creditor protection

- **Protection of trust assets** from future creditors who may try to go after you or your estate
- **Protection from beneficiaries' creditors**, such as ex-spouses, other third-party creditors, or in a bankruptcy situation
- **Spendthrift language can protect** a beneficiary from reckless spending and preserve trust assets

Client Snapshot

Gifting can reduce estate taxes, maximize your legacy for loved ones, help avoid the probate process and protect against potential creditors' claims. However, the real power of lifetime giving becomes apparent when it is combined with purchasing life insurance in an ILIT. Life insurance often enhances the value of the gift and provides a lasting legacy to future generations.

Contact your *financial professional* to see how the power of gifting and life insurance can work for you.

1. Note, these numbers are indexed for inflation annually.

2. The IRS has clarified that there will be no "clawback" of exemption used before 2026.

3. Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.

4. Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration.

5. Loans and withdrawals will reduce the death benefit and the cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Withdrawals in excess of the cost basis (premiums paid) will be subject to tax and certain withdrawals within the first 15 years may be subject to recapture tax. Additionally, policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59 1/2. Withdrawals are available after the first policy year.

6. The IRR on death benefit is equivalent to an interest rate at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the net death benefit of the policy.

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