The Irrevocable Life Insurance Trust Is Still A Good Planning Tool

An Irrevocable Life Insurance Trust ("ILIT") is an irrevocable trust set up for the purpose of owning life insurance that would allow death benefits to be received outside of one's estate without having to be included as part of the estate for inheritance tax purposes. Although there are several valid reasons for forming the trust, the most common reason historically has been to provide a source of cash outside the estate that could be used for paying inheritance tax, particularly in the context of a family owned business, rather than being forced to sale the family business so that funds could be generated to pay the inheritance tax.

There is some uncertainty about the state of inheritance tax today. Currently, no inheritance taxes are due for people who die in 2010 (unless legislation is enacted this year and made retroactive to January 1, 2010), and with the scheduled reverting back to only a $1,000,000 exemption on January 1, 2010, one may think it prudent to delay the formation of an ILIT.

The ILIT still has relevance today even with the uncertainty surrounding the inheritance tax situation. If your portfolio includes a family-held business or non liquid assets, such as real estate, an ILIT can be a valuable tool in your overall financial and estate planning. Your wealth planner along with your attorney and accountant can evaluate your entire situation to determine if this vehicle is appropriate for you. It is important that your advisor look at your whole financial situation rather than selling you a product out of context because the ILIT may not be appropriate for everyone.

In a family-held business it is common for some, but not all of the children to work in the business but upon death the owner wishes to treat all of his or her children equally. The ILIT can be a welcome source of cash to buy out the shares of children that do not participate in the business. We have seen far too many cases where the hard working child that has dedicated his adult life to the family business has been forced to sell his livelihood to pay his or her siblings for their share of the inheritance. Without insurance funds, the payout figure usually cannot be sustained from the normal business cash flow since much of the business value is tied up in equipment and goodwill. A forced liquidation also yields a much lower payout to all the beneficiaries. An ILIT eliminates this problem; it would allow funds to pay out to siblings not involved in the business and would allow the working child to carry on the business without interruption. It also keeps peace in the family and eliminates hard feelings that sometimes last a lifetime.

It is also best to consider an ILIT when you are young, healthy and insurable. The earlier you put the ILIT in play, the more affordable the insurance premium will be and the more death benefits the business will be able to afford. In addition, funds will be available for taxes when the government decides what those will be.

By: David E. Edsall, Estate Planning Attorney with Edsall Arrieta, LLP
www.EdsallArrieta.com