



IRREVOCABLE INSURANCE TRUST

- Plan
 - An Irrevocable Insurance Trust is a separate legal and tax entity and the assets of the Trust, including life insurance proceeds, are usually not included in your estate for tax purposes. This Trust owns a life insurance policy on your life (and possibly your spouse's life) so that upon death, the life insurance proceeds would not be taxed in either your estate or possibly your spouse's estate. Your heirs will receive the entire life insurance proceeds free from estate tax.
- Advantage
 - The Irrevocable Insurance Trust may be used for the following purposes: (1) Provide liquidity for the payment of estate taxes without creating greater estate tax liability; (2) replace assets given to charity or used to pay estate tax; and (3) fund your estate needs at death or equalize distributions to your children.
- Disadvantages
 - The Trust is irrevocable and you cannot retain any rights over the trust property. You cannot be the Trustee. Life insurance proceeds will be included in your estate if you die within three years of the Trust's receipt of an existing insurance policy transferred into the Trust. This three year inclusion rule does not apply if the Trust applies for a new life insurance policy on your life.
 - Minimum paperwork required yearly. Each year a letter must be written to the beneficiaries notifying them that a gift has been made to the trust and that they have the right to withdraw this amount within say, 30 days (known as the Crummey power). If the money is withdrawn by the beneficiary, there will not be sufficient funds to pay the premium.