What Is an Irrevocable Life Insurance Trust?

While there are many different types of trusts, the primary purpose of an irrevocable life insurance trust is to remove life insurance proceeds (death benefit) from the taxable estate and, as a result, avoid paying estate taxes on those proceeds.

While life insurance proceeds usually pass to the beneficiary free of federal income tax, they are subject to federal estate tax if included in the insured's estate at death. So, if the estate exceeds a certain value, a portion of the life insurance proceeds (if included in the taxable estate), could go to pay federal estate taxes instead of being available to the beneficiaries:

If you die in:	And the value of your estate exceeds:	Your taxable estate is subject to tax rates from/to:
2006	$2 million	18%/46%
2007	$2 million	18%/45%
2008	$2 million	18%/45%
2009	$3.5 million	18%/45%
2010	Federal estate tax repealed*	No tax*
2011 or later	$1 million*	18%/55%*

* The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA 2001 repeals the estate tax for one year –2010. Under that law, the federal estate tax continues, but with increasing unified credits and decreasing top estate tax rates, until 2010 when it is repealed only for that year. Without future Congressional action, the 2001 federal estate tax rules will be reinstated in 2011, but with a $1 million exemption equivalent (as scheduled to increase prior to the Act).

The objective of an irrevocable life insurance trust is to remove life insurance proceeds from the taxable estate so that the beneficiaries receive the entire amount, undiminished by estate taxes.

Please feel free to contact me. I will be happy to answer any questions regarding the worth or effectiveness of your current insurance coverages. ~ Victor Posod ~

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