"B" Trust Funding

Problem:

You have a widowed prospect whose family will be faced with federal or state tax bills or settlement costs upon their death. The client has been shown a life insurance policy as a possible means to fund the estate costs, but is reluctant to use his or her personal assets to pay life insurance premium. Or perhaps your prospect is already using his/her gift tax annual exclusion for other purposes. During the fact-finding process you were informed that your prospect has a beneficial interest in a "B" trust (also known as credit shelter trust, bypass trust, or family trust) established under the terms of the estate documents of their deceased spouse. Furthermore, you learned the widowed spouse does not need the income from the trust to maintain his/her standard of living.

Prospect:

- Widowed client who desires to have funds available at death, outside of his/her taxable estates, to help pay final expenses and taxes.
- Client who is already using his/her annual exclusion gifts for other purposes.
- Client who has a beneficial interest in an existing "B" trust that does not need the trust assets to maintain his/her standard of living, and who want to maximize the legacy to the remainder beneficiaries of the trust.
- Client who is not the trustee of the "B" trust, or is willing to resign as trustee, and whose interest in the trust will not cause him/her to have an incident of ownership in a trust owned policy.
- Client who is looking for a means to reduce or eliminate income taxes incurred by the "B" trust.

Solution:

Quite often a widowed spouse does not need the income or principal in the "B" trust to maintain their standard of living. In many cases the objective is to let the assets in the "B" trust grow since the assets will not be included in the surviving spouse's estate. However, as good as a "B" trust is at shielding assets from estate taxes, the trust does not shield the earnings from income tax. Because of this "B" trust assets can be an ideal source of funds to purchase life insurance on the life of the surviving spouse. And by doing so, the surviving spouse can help maximize the amount left to the trust beneficiaries.

Benefits of Purchasing Life Insurance With "B" Trust Funds:

- **No Gifting.** Enables the surviving spouse to acquire life insurance, outside of their taxable estate, without using either his/her gift tax annual exclusion, or applicable exclusion amounts.
- **Favorable Tax Treatment.** Reduced trust income taxes through tax deferred growth of the cash value inside the life insurance policy; and at death the policy proceeds are generally received tax-free (under IRC §101(a)).
- **Access to Cash Value.** During the lifetime of the widowed spouse the trustee can access the trust assets (including the cash value of the life insurance policy) for the benefit of the spouse.[1]

Call our Advanced Marketing team to find out if your client may benefit from "B" trust funding.

[1] Withdrawals and/or policy loans reduce cash values and death benefit, may affect any guarantee against lapse, and may have tax consequences. This concept is often structured as a single premium MEC and consequently policy distributions will be taxable to the extent of gain and an additional 10% federal income tax penalty may apply. To avoid this tax result the trustee can structure the premium to avoid MEC status.

QUESTIONS? CALL ADVANCED MARKETING

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