Your Estate Today

Series No. 4: Will I Have To Pay Gift Tax If I Transfer My Insurance To A Trust?

Clients often establish irrevocable trusts to purchase life insurance policies. This is the ideal scenario because the trust is the initial owner of the policy. Therefore there will be no Federal Estate tax applied to the insurance proceeds and no gift tax consequences. Sometimes, however, the client already had an insurance policy in place and wants to transfer that existing policy to a new trust.

Assuming the client survives the three year look back period, he will have made a taxable gift in the amount of the cash value of the policy. For term policies, that value is $0. For whole life insurance, the gift tax value equals the policy's "interpolated terminal reserve value" plus any premiums the donor paid before making the gift that cover the period extending past the gift date. Thus, if the donor pays the premium annually and transfers the policy to the trust nine months later, 25% of the premium is added to the interpolated terminal reserve amount to determine the policy's value for gift tax purposes.

The insurance company should provide the interpolated terminal reserve value as of the date the policy is transferred to the trust on Form 712, *Life Insurance Statement,* which CPAs should attach to the gift tax return. Don't rely on verbal assurances by the insurance agent or the agent's in-force ledger regarding the policy's value.

This discussion is provided in the spirit of public education, not as legal advice. If you require legal advice for a particular situation, you should consult an attorney.

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