

The Weekly Scenario: Tax Update

October 22, 2021

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As you have likely heard, there are a number of proposed tax rules under Federal law that are working their way through Congress. One potential change could have a dramatic impact on people who own life insurance policies inside of irrevocable life insurance trusts.

The House Ways and Means Committee recently released an outline detailing possible tax increases designed to pay for the administration's infrastructure plan. Of the proposed modifications, one change would cause so-called "grantor" trusts to be included in the taxable estate of the person who made the gifts into the trust. Many life insurance trusts are considered "grantor" trusts and could fall within the scope of this proposed rule. While the details have not yet been released, it appears that the new rule would cause these trusts to be included in a person's taxable estate only if the person made gifts into the trust after the date the law is passed. This could cause problems for those who make cash gifts to their insurance trusts in order to fund insurance premiums.

One potential solution may be to make a large gift to an insurance trust now before the law becomes effective. The gift may be retained inside the trust and used to pay premiums in later years -- thereby avoiding future gifts to the trust that would violate the new rule.

Right now, this is only a proposal that is part of a larger outline released by the Ways and Means committee. To become law, the outline must first clear the House Ways and Means Committee, be voted on by the full House, have the same rule be proposed in, and voted on, in the Senate, and then have the final bill be signed by the President.

If the proposal does become law, then there may be little time for people to preserve the tax-free treatment that life insurance trusts are intended to provide.

As always, if you have any questions or would like to learn more, please contact Steve Shane at sshane@offitkurman.com or [301.575.0313](tel:301.575.0313).