

Life insurance remains a powerful estate planning tool for nontaxable estates

June 2, 2016

For years, life insurance has played a critical role in estate planning, providing a source of liquidity to pay estate taxes and other expenses. Today, estate taxes are no longer a concern for many families because the Federal estate tax exemption amount stands at \$5.45 million (although in New Jersey the NJ estate tax exemption amount is a much lower \$675,000). But even for nontaxable estates, life insurance continues to offer significant estate planning benefits.

Replacing income and wealth

If you die unexpectedly, life insurance can protect your family by replacing your lost income. However, it can also be used to replace wealth in a variety of contexts. For example, suppose you have charitable intentions and own highly appreciated real estate or other assets. You wish to dispose of the assets without generating current capital gains tax liability. One option is to contribute the assets to a charitable remainder trust ("CRT").

As a tax-exempt entity, the CRT can sell the assets and reinvest the proceeds without triggering capital gains tax. In addition, you and your spouse will enjoy an income stream and charitable income tax deductions. Typically, distributions you receive from the CRT are treated as a combination of ordinary taxable income, capital gains, tax-exempt income and tax-free return of principal under a tier system.

After you and your spouse die, the remaining trust assets pass to charity, reducing the amount of wealth available to your children or other heirs. You can use life insurance (a cost-effective second-to-die policy, for example) to replace that lost wealth.

Treating children equally

If much of your wealth is tied up in a family business, treating your adult children fairly can be a challenge. It makes sense to leave the business to those children who work in it, but what if your remaining assets are insufficient to provide an equal inheritance to children who *don't* work in the business? For many families, the answer is to purchase a life insurance policy to make up the difference.

We, in conjunction with your insurance advisor, can help you determine which type of life insurance policy is right for your situation.

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