

[Date]

[Client Name]

[Client Address]

[City, State, Zip Code]

Re: Taxation Advisory for the [Name of Trust] Irrevocable Life Insurance Trust

Dear [Client Name],

This letter provides a summary of the tax considerations regarding your Irrevocable Life Insurance Trust (ILIT). The primary purpose of this trust is to exclude life insurance proceeds from your taxable estate while providing liquidity for your beneficiaries.

1. Estate Tax Treatment

Provided the trust is structured correctly and you do not retain "incidents of ownership," the death benefit paid to the ILIT upon your passing should not be included in your gross estate for federal estate tax purposes. Please note that if you transfer an existing policy into the trust, you must survive the transfer by at least three years for this exclusion to apply.

2. Gift Tax and Crummey Powers

Contributions made to the trust to pay premiums are considered taxable gifts. To utilize your annual gift tax exclusion, the trust includes "Crummey" withdrawal powers. This allows beneficiaries a limited window to withdraw contributions, qualifying the gift as a present interest. It is vital that written "Crummey Notices" are sent to beneficiaries every time a contribution is made.

3. Income Tax Status

Most ILITs are drafted as "Grantor Trusts" for income tax purposes. This means that any income generated by trust assets (if applicable) is reported on your personal tax return. However, life insurance death benefits are generally received by the trust free of federal income tax.

4. Generation-Skipping Transfer (GST) Tax

If the trust is intended to benefit multiple generations, we must ensure that your GST tax exemption is properly allocated to the transfers made to the trust to avoid additional taxation on future distributions.

5. Compliance and Formalities

To maintain these tax benefits, the trust must operate as a distinct legal entity. This includes obtaining a separate Taxpayer Identification Number (TIN), maintaining a separate bank

account, and ensuring that you do not use personal funds to pay premiums directly to the insurance carrier.

This summary is for informational purposes and does not constitute a formal tax opinion. We recommend reviewing these details with your tax preparer annually.

Sincerely,

[Your Name/Firm Name]

[Title]