



Planning Opportunities with Permanent Life Insurance under American Tax Relief Act of 2012

- **Tax Deferral and Tax Avoidance will become increasingly popular.** Permanent life insurance has the ability to not only offer tax-free death benefits but also tax deferral and tax-free access to cash values. If properly structured in a trust life insurance death proceeds can also avoid estate taxes.
- **The IRR offered by life insurance may prove to be a viable alternative to non-performing assets.** The internal rate of return or IRR on the death benefit can be competitive investment alternatives for older clients with non-performing assets in their portfolios like CDs, Muni-Bonds and Money Market accounts. By liquidating some of this dead money and leveraging it into a tax-free death benefit, these clients could leave their heirs with a much larger windfall.
- **Charitably inclined clients may opt to donate appreciated securities vs. cash to charities to avoid the 23.8% Cap Gains rates.** The client may wish to use cash instead to purchase life insurance as a wealth replacement vehicle for the donated assets and use the new charitable deduction to help offset the cost of the life insurance.
- **The increased tax rates may increase the popularity of non-qualified deferred comp plans.** Deferring income for high wage earners until retirement when their incomes are less may prove to be advantageous. Permanent life insurance will remain a prevalent choice to informally fund such arrangements.
- **Making permanent the \$5M Estate/Gift Tax exemption will assist in funding ILITs without the hassle of having to use annual Crummey powers.** This may likely increase the use of life insurance inside ILITs due to the relatively simple admin issues as compared to other alternatives like GRATs, SLATs and CLATs.
- **Estates under \$5M may still have death taxes.** Several states have their own estate and inheritance taxes with much lower exemption limits. Combine this with the potential probate costs and many clients may still find the need for estate liquidity offered by life insurance.

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