



## Convert Your Life Insurance from a Tax Loser to a Tax Winner

**E**nriching the IRS with your life insurance dollars at the expense of your family makes my blood boil. Turning the insurance tax table on the IRS makes me one happy camper. It took years of pain before I became a perpetually (well, almost always) happy camper.

I'm talking about dollars—big dollars. Most business owners pour their life insurance dollars down two unnecessary holes. The first hole, while they are alive, by overpaying their premiums, carrying the wrong kind of insurance, having the policy owned by the wrong person or entity (instead of the right kind of trust or partnership) and a host of other mistakes. Fortunately, we usually can correct these unhappy mistakes while you are alive.

The second hole robs you of up to 55 percent of the death benefit in the form on estate taxes, paid either at your death (if you are the insured) or the death of your surviving beneficiary spouse. Sorry guys, but once you go to the big business in the sky, it's too late to change the tax consequences of life insurance.

Recently, I got a call from a long-time column reader, a 53-year-old, second-generation business owner (call him Sam) whose founder dad had died suddenly. No illness, no

warning. Mom, on the other hand, was terminally ill. The good news was there was just over \$2 million in life insurance on dad, with about \$1 million in the family C corporation, and the other \$1 million in a new bank account opened for mom. But Sam was shocked when the family lawyer told him that Sam and his two sisters would net only about \$760,000 after all taxes when mom passed on.

After receiving a small mound of paper, I confirmed that the lawyer was right. Worse yet, the cash surrender value of the policies totaled \$715,200. Not even a \$50,000 net profit to the family after paying premiums for almost 35 years.

Not only that, but the sisters were accusing Sam (the executor of dad's estate) of shenanigans. Each had hired her own lawyer. It was a mess.

It was easy to get the sisters and their lawyers to back off when we clearly were able to show them that they were the victims of poor (really dumb) tax planning.

I asked Sam to do some digging for me. Turns out that mom and dad were healthy (they took annual physicals) just four years earlier. What follows is typical of what can be done with proper life insurance planning—and it's easy to do.

Dad could have used a combination of his CSV and the money in his profit sharing plan (\$550,000 was in the plan when dad died) to buy \$4 million of insurance on his life or \$8.75 million of second-to-die on mom and dad's lives, or some combination of the two.

Sam changed his wealth transfer plan to do what dad didn't do: he

turned about \$1.5 million in taxable life insurance into more than \$6 million in tax-free coverage without increasing his out-of-pocket premium cost. You can, too. Warning: this is not a slam dunk. Either you or your spouse—preferably both—must be insurable.

Here's a basic three-step procedure to maximize your family's after-tax life insurance dollars: 1) Write down the total face value of your policies (say \$1 million, but please substitute your own real number). That number—\$1 million—is the amount that must go to your family, all taxes paid. 2) Whether your policies are new or very old, have an independent third party "kick the tires" of all policies to determine that you are with the right companies, have the right kind of policies and are paying the premiums in the most tax-advantaged way. 3) Final ownership must be (to make the proceeds tax-free) in a) an irrevocable life insurance trust, b) a subtrust or c) a family limited partnership.

Remember, life insurance is the easiest asset—if you make a mistake—to give the IRA a big payday when you finally check out. It is also—when you do it right—the most tax-advantaged wealth creation investment you can make.

To help get you started, send for Analyze Existing Insurance, strategy No. 17 or case study No. 1 (\$19 each or \$34 for both). Write to Book Division, Blackman Kallick Bartelstein, LLP, 300 South Riverside Plaza, Chicago, IL 60606. Or if you think you might be heading for a mess, call Irv Blackman or Brian Whitlock at 312/207-1040. **MF**

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