WP 90X

90 MINUTES OF EXTRAORDINARY EDUCATION

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Welcome to

Intergenerational Split-Dollar: Learning from Levine

Tuesday, May 14, 2024 | 8:00 -9:30 am PT

Available Via Video Conference

NASBA CPE Credit: 1 hour for CPAs

CFP Credit: 1 hour

Learning Objectives & Agenda

- Learning Objectives
  - Review Split-Dollar Life Insurance planning and ideal client profiles
    - When and where it is appropriate
  - Explore nuances of the Levine case and associated insurance planning and design
  - Gain an understanding of IRS guidelines and allowances
  - Examine future use and appropriate applications

- Agenda
  - Ideal client profile and overview
  - Economic benefit regime vs. §7872 loan regime
  - How it works and steps involved
  - Panel discussion
    - Levine case overview
  - Case study

Meeting Reminders & CE Credit

- Q&A
  - Please type your questions into the **Q&A** feature in your Zoom toolbar
    - Please **do not** use the chat function

- Polling questions
  - In order to maintain compliance for CE and/or CPE credit, we must ask at least three polling questions during the webinar
  - Each question will allow two minutes to receive your answer

- If you are interested in receiving CE and/or CPE credit for attending this webinar, please look for and complete the survey that will be sent to you
  - CE and/or CPE certificates will be emailed to you within 30 days of the webinar and completion of the survey
  - For any additional questions, please reach out to Kristin@wealthpoint.net

Ideal Client Profile

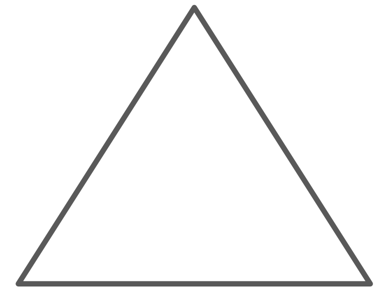
- Wealthy individual who has desire to preserve their financial legacy for their heirs
- Faced with an estate tax problem
  - Concerned with gift, estate and generation-skipping taxes
  - May have previously used all their unified credit or would like to allocate it for a different purpose
- A client who is comfortable with moderate risk
  - Uncertainty surrounding tax treatment of strategy

OVERVIEW

G1 –
Grantor/Payor/Lender

G2 –
Insured

G3 –
Beneficiaries



IDGT –
Policy Owner

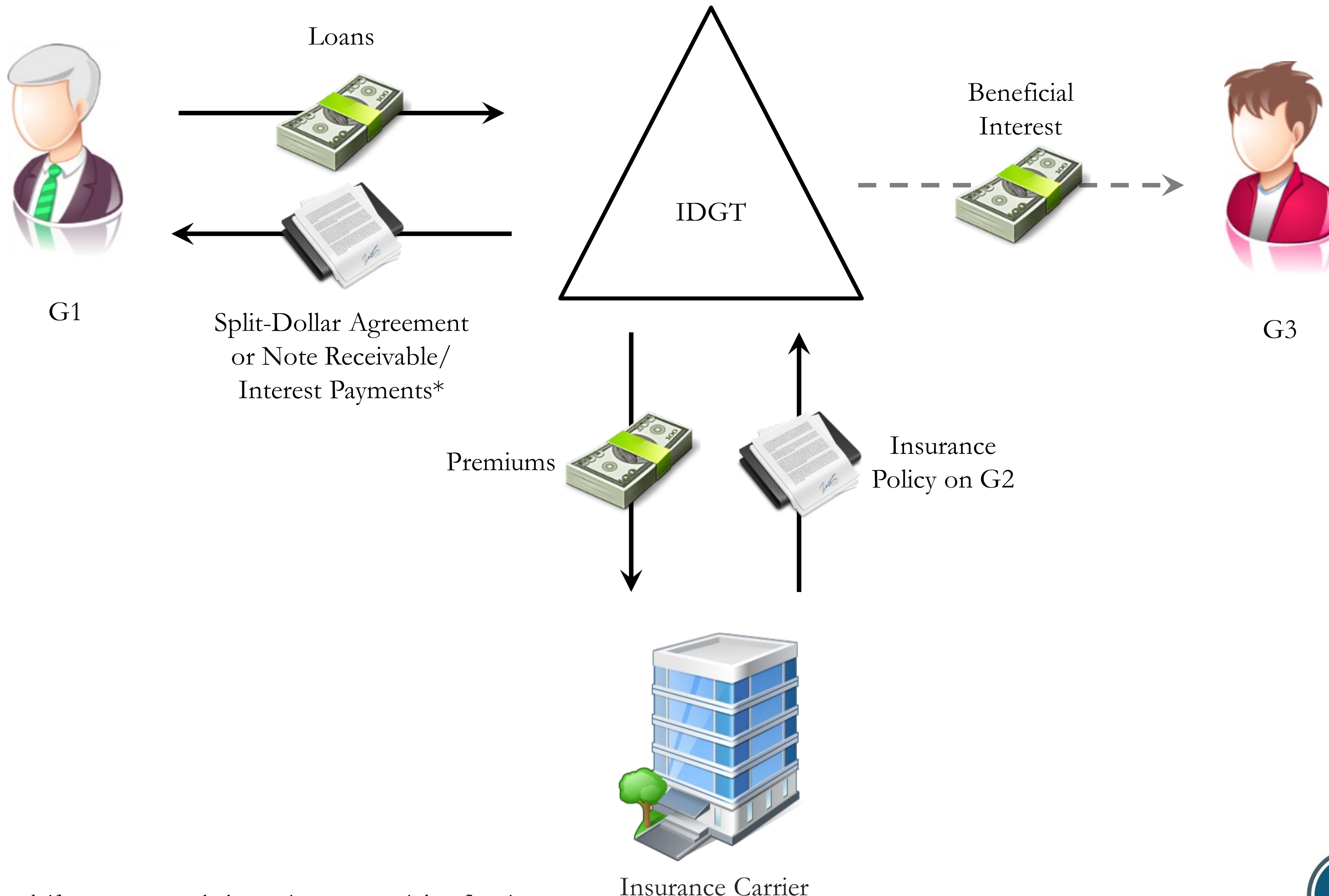
- Intergenerational Split-Dollar uses multiple generations to purchase an insurance policy
  - Grandparent will be the payor or lender for the policy (G1)
  - Child will be the insured (G2)
  - Grandchildren will be the beneficiaries (G3)
- Primary objective is to utilize insurance leverage to maximize net to heirs and minimize gift and estate taxes
- Policy can be owned in an IDGT to remove the proceeds from the owner's estate
- Structured under the Economic Benefit Regime or §7872 Loan Regime
  - Decision depends on client situation and interest rate environment

Polling Question #1

- Set up like a traditional split-dollar plan
  - Owner of the policy is usually the IDGT
  - Grantor advances funds to the IDGT to pay premiums
  - Grantor reserves the right to be paid the greater of the total premiums advanced or the policy cash values
- Premium has two components
  - Economic benefit as measured by Table 2001
  - Remainder of premium
- IDGT may contribute the economic benefit portion
  - Alternatively, it can be an imputed gift from the Grantor

- Set up like a traditional split-dollar plan
  - Owner of the policy is usually the IDGT
  - Grantor lends funds to the IDGT to pay premiums
- Loan can be structured as a term or demand loan
  - Term loan requires the interest payments to be paid by the IDGT subject to the AFR on the promissory note
    - Short-term: < 3 years
    - Mid-term: 3 – 9 years
    - Long-term: 9+ years
  - Demand note will be based on the §7872 rate
    - Will fluctuate every year
- Arrangement is not intended to be permanent
- If Grantor dies with loan outstanding, the value of the note receivable is includible in the Grantor's estate for tax purposes

HOW IT WORKS



* Depends if strategy assumes the loan regime or economic benefit regime

1. IDGT is created to purchase the insurance policy on G2's life
    a. G1 will be the grantor
    b. G3 will be the beneficiaries
2. IDGT applies for coverage on G2
3. Grantor loans funds to the IDGT for the premium payments
    a. Receives Private Split-Dollar Agreement (economic benefit regime) or promissory note (loan regime) in return
        i. Lender is entitled to repayment equal to the greater of premiums paid or policy's cash value at the insured's passing under economic regime
4. IDGT pays insurance premiums
    a. IDGT is responsible for paying the economic benefit portion of the premium under economic benefit regime
5. In the event of the insured's death, the carrier will pay the death benefit to the IDGT
    a. IDGT will pay necessary cash to Grantor's estate per the split-dollar agreement or promissory note
    b. Any remaining proceeds will be held in the IDGT available for the beneficiaries

Polling Question #2

Panel Discussion

Levine Case Overview

- Overview of Levine family
  - Large real estate portfolio
  - Marion’s previous role as a lender
  - Taxable estate
  - Concern with basis adjustment
- Estate tax planning considerations
  - What had been done
  - Time limitations
  - G2 estate tax exposure – also with real estate (basis)
  - Family harmony concerns
- Why IGSD?
  - Excess liquidity
  - Current estate tax liability
  - G2 estate tax liability
  - Healthy insurable G2 with desire to benefit G3

LEVINE CASE OVERVIEW (CONT'D)

- Structure of plan
  - Power of attorney
  - South Dakota Trust (rule against perpetuities, income tax, premium tax)
  - Terms of South Dakota
  - Larsen crucial rule
- IRS challenges
  - Court reasoning with each
  - Valuation
- Conclusion
  - Family pleased with outcome

Polling Question #3

Case Study

Learning Objectives Achieved

- Learning objectives achieved:

  - ✓ Review Split-Dollar Life Insurance planning and ideal client profiles
  - ✓ Explores nuances of the Levine case and associated insurance planning and design
  - ✓ Gain an understanding of IRS guidelines and allowances
  - ✓ Examine future use and appropriate applications


Q&A

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Appendix

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- Business Income Statement, Cash Flow Statement and Balance Sheet – Current company financial statement information is provided by the client, as well as revenue and expense growth assumptions for future years. These assumptions are used to project future Net Income, and business valuation based upon an appropriate multiplier disclosed to the client.
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- Estate/Trust Cash Flow – Cash flows due to and from Trusts will be based on trust documents and financial information (tax returns, financial statements, etc.) obtained from the client.
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