



Features of Loan-Based Private Split Dollar

Important Note: All aspects of Loan-Based Private Split Dollar must be reviewed and approved by a client's legal and tax counsel before the arrangement is utilized for any purpose.

Loan-Based Private Split Dollar ("LB-PSD") (cast between parents and irrevocable trusts)

- ◆ LB-PSD complies with the Final Split Dollar Regulations issued in September 2003.
- ◆ LB-PSD obtains its data through an electronic link to insurance company's illustration systems via InsMark's exclusive Button File.
- ◆ LB-PSD illustrates loans for policy premiums from parent (typically) to an "intentionally defective" irrevocable life insurance trust.
- ◆ With LB-PSD, gifts to the trust are scheduled to offset any loan interest due by the trust.

Note: The lender is assumed to be the grantor of the trust and, due to grantor trust rules, there is no income tax due by the lender on such loan interest received, i.e., the Lender and the trust are a single income tax entity. (IRC Section 671 and 675, IRS Reg. 1.671-2(c) and Rev. Rul. 85-13.) Thus, if gifts for loan interest are made, they are returned at once as non-taxable loan interest.

- ◆ LB-PSD can illustrate accrued loan interest. This is particularly valuable if gifts needed for loan interest exceed the amount of available annual gift exclusions and/or lifetime gift exemptions.
- ◆ LB-PSD illustrates long-term loans (more than 9 years).
- ◆ **Note:** As discussed in the report, upon specific approval from the licensed insurance company, the illustration module can be configured to interest bearing demand loans.
- ◆ LB-PSD will not produce an illustration dated in any month in which the user has not first visited InsMark's website to download the Applicable Federal Rates in effect for that month.
- ◆ LB-PSD illustrates loan interest *at least* at the Applicable Federal Rate established under IRC Sections 7872 and 1274(d).

Note: Use of interest-bearing loans (as opposed to interest-free loans) eliminates any impact from the Original Issue Discount ("OID") rules of IRC Sections 1271-1275. When applicable, these rules produce a *gift of future interest* to the trust of the difference between the face amount of each loan and the present value of that loan discounted at the Applicable Federal Rate. Frequently, this can result in loss of a portion of the lifetime gift exemption equal to 60% to 70% of each loan. In large cases, it can trigger gift taxes.

Note: The policy involved in estate planning transactions between parents and a trust is typically a survivor life policy. One serious shortfall of a survivor life policy subject to a split dollar arrangement is soaring economic benefit rates at advanced ages -- particularly after one of the insureds dies. The Applicable Federal Rate is unaffected by this condition.

- ◆ LB-PSD can illustrate a single loan to the trust placed in a Premium Reserve Account to be used to “feed” a policy with sufficient annual premiums to avoid MEC classification. This allows a long-term Applicable Federal Rate to be locked down for the term of the loan.

Note: The Premium Reserve Account can be illustrated as a taxable or tax exempt account or a period-certain single premium immediate annuity – with the latter generating an additional sale.

- ◆ LB-PSD illustrations are accompanied by a multi-page Preface that is illustration-specific in its details.
- ◆ LB-PSD presents numerical data in Summary and Lender/Trust-specific formats.
- ◆ Special numerical columns in the LB-PSD reports can be included that illustrate additional policy loans funding loan interest payments or loan repayments.
- ◆ LB-PSD contains InsMark’s unique InsScribe[®] System which automatically generates illustration-specific Flow Charts and Graphs.
- ◆ LB-PSD summarizes the effect on the parent’s overall gifting limits.
- ◆ LB-PSD includes a comprehensive PowerPoint show useful for producer and adviser education.
- ◆ LB-PSD includes a comprehensive electronic Guide to Marketing.
- ◆ LB-PSD includes significant specimen documents.