



advancedSales

Private Premium Financing

An effective way
for affluent clients
to fund an ILIT

Private premium financing offers your clients both leverage and a way to transfer large premium amounts without incurring gift tax—making it a popular way to fund life insurance premiums.

The Mechanics

What is private premium financing?

Simply put, it's a technique that allows you to fund large amounts of cash into trusts without using the federal gift tax exemption or paying gift taxes. Private premium financing is accomplished using an "interest only" balloon note on which only interest is paid until the entire principal is due.

Three steps

- 1 The insured loans the premiums to the ILIT through a balloon note.
- 2 The ILIT pays the premiums for the policy during the insured's lifetime.
- 3 Upon the insured's death, the policy's death benefit is used to pay off the balloon note to the insured's estate and to fund the trust.

The Market

Who benefits from private premium financing?

High net-worth clients with the following needs:

- Want to “save” the \$1-million federal gift tax exemption for another use
- Already used their \$1-million federal gift tax exemption
- Wish to fund an ILIT with significant premium dollars and pay no gift tax
- Want to create a dynasty trust
- Want the asset protection features of a trust
- Seek leverage through the purchase of life insurance

The Multiple Advantages

Why use private premium financing?

Minimal or no gift tax Your clients may preserve wealth by using life insurance to minimize or avoid gift taxes.

Beneficiaries receive loan repayment There is no third-party lender to repay; therefore, your clients’ heirs will receive the life insurance policy as well as the loan balance they paid, after deducting the estate tax.

Simple administration Unlike conventional loans, there are no third-party loan costs, collateral requirements, or loan call risks. All control is vested with the “friendly” trustee of the ILIT.

Tax-free transaction The loan interest income is not subject to income tax under IRS Rev. Rul. 85-13 if the ILIT is a grantor trust for income tax purposes.

For more information on the benefits of private premium financing for your high net-worth clients, contact your Lincoln Financial Distributors® representative.

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