SLAT-Owned Life Insurance on Children

A Gift Tax-Efficient Strategy for High-Net-Worth Families

Fully Funded SLATs Create a Powerful Platform for Multi-Generational Insurance Planning

$13.99M

Federal lifetime gift and estate tax exemption per individual in 2026 (assumed permanent)

- Spousal Lifetime Access Trusts (SLATs) allow each spouse to transfer wealth out of their taxable estate while preserving indirect access through the beneficiary spouse.
- Once a SLAT is fully funded, the trust assets can be deployed strategically — including the purchase of life insurance on family members.
- Purchasing life insurance on children from within the SLAT creates a compounding, tax-sheltered wealth transfer with no additional gift tax cost.
- This strategy layers a proven insurance planning technique (ILIT) on top of an already-established trust structure.

Each SLAT Owns a Life Insurance Policy on a Child — No New Gift Required

Husband funds SLAT #1

▼

SLAT #1 benefits Wife (and descendants)

▼

SLAT #1 purchases life insurance on Child

Wife funds SLAT #2

▼

SLAT #2 benefits Husband (and descendants)

▼

SLAT #2 purchases life insurance on Child

- The **trust is both owner and beneficiary** of the policy — keeping the death benefit outside family members' taxable estates.
- Premiums are paid from **existing trust assets** — no new transfer by either grantor is required.
- The trustee exercises investment discretion to allocate trust assets into the insurance policy as a trust investment.

The Gift Was Already Made — Premium Payments Are Simply Trust Administration

- A taxable gift occurs when a donor **transfers property** to another person or entity. Once assets are placed inside an irrevocable trust, the grantor's gift is **complete and irrevocable**.
- Subsequent use of those trust assets — including paying life insurance premiums — is an **internal trust expenditure**, not a new transfer of property by the grantor.
- The IRS has long recognized this principle: reinvestment or expenditure of trust assets does not restart the gift tax analysis.
- **No Crummey notices are required** when premiums are paid from existing trust assets (as opposed to new annual contributions from the grantor).
- This is one of the most tax-efficient ways to fund a life insurance strategy — the premium dollars have already been "gifted" and are now working inside a tax-sheltered trust environment.

> *"A gift is complete when the donor has so parted with dominion and control as to leave in him no power to change its disposition."*
>
> **— Treas. Reg. § 25.2511-2(b)**

SLATs Have Recognized Insurable Interest in a Child's Life

- **Insurable interest** is a threshold legal requirement; the policy owner must have a recognized interest in the insured's life.
- The SLAT structure mirrors the established **ILIT** model, with the **trustee** applying for and owning the policy.
- Most states recognize a trust's insurable interest when beneficiaries include the insured's family members.
- Counsel must confirm insurable interest under the **governing state's insurance code** prior to application.

Ownership Model	Estate Inclusion Risk	Gift Tax on Premiums	Insurable Interest
Parent owns policy on child	Yes (if transferred within 3 yrs)	Possible annual gifts	Direct — parent/child
ILIT owns policy on child	No	Only if new contributions made	Trust/beneficiary relationship
SLAT owns policy on child	**No**	**No — trust assets already gifted**	**Trust/beneficiary relationship**

Grantor Trust Status Means the Grantor Pays Income Tax — A Hidden Additional Gift

Revenue Ruling 2004-64

The IRS confirmed that a grantor's payment of income tax on behalf of a grantor trust is **not a taxable gift** — it is simply the grantor's own tax liability.

- SLATs are typically structured as **grantor trusts** for income tax purposes, meaning the grantor (not the trust) pays income tax on trust earnings.
- This creates a powerful secondary benefit: every dollar of income tax the grantor pays on trust income is effectively an **additional tax-free wealth transfer** to the trust.
- As the trust grows and generates income, the grantor's estate is further depleted (reducing estate tax exposure) while the trust assets compound on a **pre-tax basis**.
- For a trust holding a life insurance policy, this means **cash value growth** inside the policy is income-tax-free to the trust, and the grantor's estate tax base continues to shrink.

This Structure Delivers Estate Tax Efficiency, Asset Protection, and Generational Wealth Transfer

Benefit	Description
No Additional Gift Tax	Premiums paid from existing trust assets — gift already completed at funding
Estate Tax Exclusion	Death benefit passes entirely outside both spouses' and children's taxable estates
Asset Protection	Trust-owned policies are shielded from creditors of both the grantor and the insured child
Income Tax Efficiency	Cash value grows income-tax-free; grantor trust status provides additional tax burn benefit
Generational Leverage	Life insurance death benefit multiplies the trust's wealth transfer to grandchildren and beyond
No Crummey Complexity	No annual notices or withdrawal rights needed when funding from existing trust assets

SLAT-Owned Life Insurance on Children Is a Sophisticated, Tax-Efficient Wealth Transfer Tool

- **Premiums from funded SLAT assets** aren't taxable gifts—the gift was completed when the trust was funded.
- Combines SLAT and ILIT features: spousal access, estate exclusion, and insurance leverage.
- **Grantor trust status** offers an additional tax-free transfer benefit.
- Assuming a permanent lifetime exemption, this helps families **deploy exemption dollars** into high-leverage life insurance.

Important Disclosures

- This presentation is for **educational and discussion purposes only** and does not constitute legal, tax, or financial advice.
- The information contained herein is based on current federal tax law and assumes the federal lifetime gift and estate tax exemption remains at $13.99 million per individual with no legislative change.
- Tax laws are subject to change. The applicability of any strategy depends on the specific facts and circumstances of each client's situation.
- Clients should consult with qualified legal counsel, a certified public accountant, and a licensed insurance professional before implementing any estate planning strategy.
- Life insurance products involve risk, including the risk of lapse. Policy performance is not guaranteed unless explicitly stated in the contract.
- **This is not an offer to sell or a solicitation to buy any insurance or investment product.**