TAX PLANNING REGARDING THE OWNERSHIP OF LIFE INSURANCE

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Life insurance has become an integral part of many estate plans for individuals and family businesses. Although the general tax treatment of life insurance proceeds on an insured’s death is commonly known, the tax consequences that result from changing the ownership of a life insurance policy are often overlooked or not properly understood. This article discusses the many different aspects of ownership, including shared ownership, taxable benefit issues, the consequences of a disposition or a change in ownership of a life insurance policy, and policy loans. This article also reviews four planning issues involving the capital dividend stop-loss rules—the substituted-share rule, the roll-and-redeem strategy, the 50 percent solution, and non-grandfathered situations.

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