

Crummey Power

CONCEPT APPLIED:

Estate owners who establish an irrevocable life insurance trust:

- make annual gifts to the trust to pay premiums on a life insurance policy the trust holds, and
- use Crummey powers to qualify these gifts for the annual gift tax exclusion.

HOW IT WORKS:

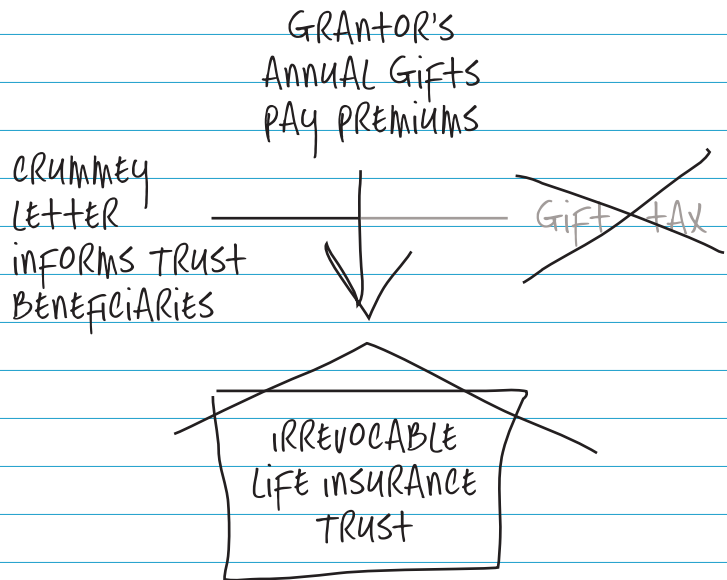
The grantor creates an irrevocable life insurance trust and makes annual contributions (usually in an amount equal to the annual gift tax exclusion, to avoid gift taxes). Once the grantor transfers the money, the trustee informs each beneficiary of their right to withdraw the contribution over a limited period of time (usually 30 days). Typically, the beneficiary does not make a withdrawal from the trust. The Crummey power lapses, the gift qualifies for the exclusion, and the trustee uses the contributions to pay the life insurance premiums.

WHY IS IT USEFUL?

By qualifying the contribution for the gift tax annual exclusion, the Crummey power effectively avoids federal gift taxation of the contributions that are needed to pay premiums on a life insurance policy held in trust.

50 WORDS OR LESS

Crummey powers are trust terms that grant beneficiaries the power to withdraw transfers from the trust. This right qualifies the transfers for the annual gift tax exclusion (\$18,000 in 2024).



When the BENEFICIARIES ARE ALLOWED TO
WITHDRAW the TRANSFER, EVEN THOUGH they
DON'T, the GIFT TAX EXCLUSION APPLIES.

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