



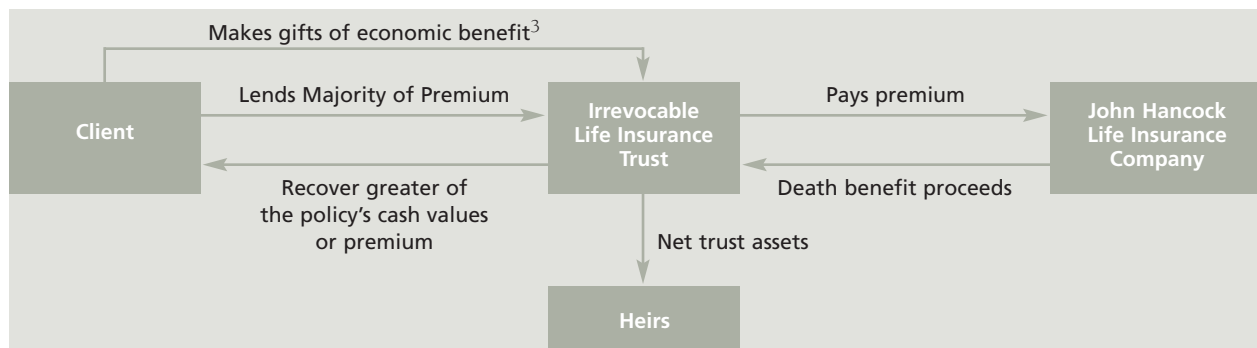
Private Split Dollar

A Planning Approach That Minimizes Gift Taxes

A Split Dollar arrangement is a plan in which a life insurance policy's premium, cash values and death benefit are split between two parties. This type of plan in its various forms has been used for years to help individuals to minimize income and gift taxes connected with the funding of large premiums, and/or to reduce the cash flow required to fund a much needed life insurance policy. Although the 2003 Final Split Dollar Regulations¹ changed the Split Dollar landscape in some important ways, a properly structured Split Dollar plan still remains a viable and important planning approach to consider.

How it Works

A private Split Dollar arrangement makes sense when your client (or his or her company) has the cash flow to fund a large life insurance need but needs to minimize the gift taxes connected with premium gifts made to an Irrevocable Life Insurance Trust (ILIT).² The value of the gift is the economic benefit portion of the premium. Here is how a private Split Dollar plan works:



Benefits of a Private Split Dollar Plan

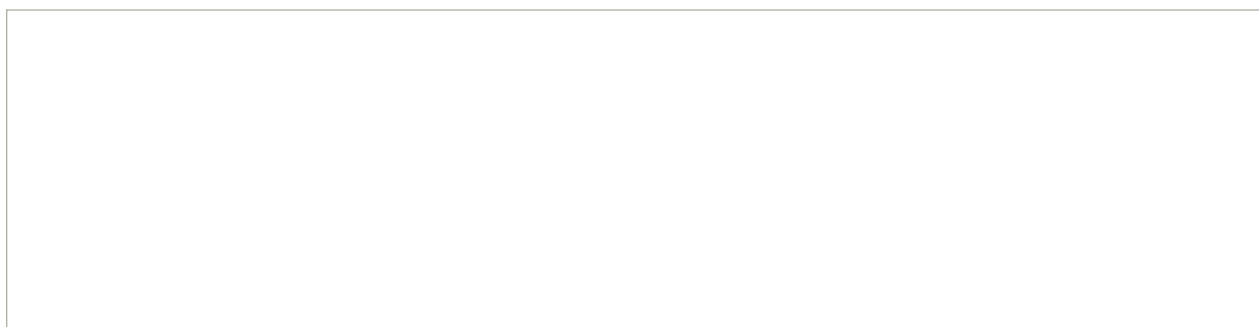
- **Estate liquidity.** Your client can secure the amount of liquidity needed while minimizing or eliminating gift taxes.
- **Minimal gift tax value.** Since the economic benefit rates that are used to measure the gift tax value of the arrangement can be very low, gift taxes can be minimized while the gift is leveraged.³
- **Planning flexibility.** Your clients can lock in insurability now at little or no gift tax cost.⁴ If the estate tax is repealed after 2010, your clients have the flexibility to terminate the arrangement and cancel or maintain the policy depending on their needs.
- **Cost recovery.** Your client (or the company) will be collaterally assigned the greater of the policy's net cash value or premiums paid when the plan is terminated at death, or during lifetime.

Considerations

- **Cash flow.** Cash flow is required to fund premiums.
- **Increasing economic benefit.** The economic benefit costs will increase over time, thereby increasing the annual gift tax value or cost of the arrangement.
- **Estate taxation.** The repayment of the premiums in a private Split Dollar plan may be included in your client's taxable estate.⁵
- **Lifetime termination of arrangement.** It is important to consider the funding options available for a lifetime termination of the plan, if necessary.
- **Final Split Dollar Regulations.** The 2003 Final Split Dollar Regulations dictate how a Split Dollar plan can be structured and describe the tax consequences of such plans.

Tools to Help

John Hancock has created many tools to help you illustrate the potential benefits of a Split Dollar plan, including a Comprehensive Client Guide, Sales Strategy, Client Profiles, and Success Strategies. Additionally, the John Hancock's JH Solutions software includes multiple split dollar applications that you can customize to meet your particular client's needs.



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- 1 See the Final Split Dollar Regulations, issued on September 11, 2003 by the IRS and Treasury.
- 2 Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.
- 3 The economic benefit is equivalent to only the "term" cost or economic value of the death benefit, derived from a government rate table referred to as Table 2001 in IRS Notice 2002-8 (The Notice), or an insurer's alternative term rate table, if applicable.
- 4 Annual exclusion gifts of \$12,000 per year can be made to any number of individuals and are indexed annually for inflation and subject to specific rules. See IRC §2503 (b). Gifts made between spouses are not subject to gift tax.
- 5 Your client must satisfy medical and financial underwriting requirements first.

Insurance products are issued by John Hancock Life Insurance Company (U.S.A.), 197 Clarendon Street, Boston, MA 02116.

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