The Estate Planning Workbook

Structured sale payments, Crummey gifts and an irrevocable life insurance trust

A fill-in workbook for a seller, the seller's estate attorney and CPA. From The Waterfall Strategy by Hans Goldstein, EA. Education only, not legal, tax or investment advice. Every trust, gift and insurance decision here should be made with an estate attorney licensed in your state.

How to use it. Fill in Parts 1 to 4 in pencil before your first estate-attorney meeting. Bring Part 5 and Part 6 to that meeting. Part 7 shows every page filled in for an illustrative couple.

The 2026 numbers this workbook uses (verified October 2026):

- Federal estate and gift exemption: **$15,000,000 per person** for 2026 (IRC §2010(c)(3) as amended by P.L. 119-21, July 4, 2025; Rev. Proc. 2025-32 §2.14). Indexed for inflation from 2027.
- Top federal estate and gift tax rate: **40%** above the exemption (IRC §2001(c)).
- Generation-skipping (GST) exemption: **$15,000,000 per person** for 2026 (IRC §2631(c); Rev. Proc. 2025-32 §2.14).
- Annual gift exclusion: **$19,000 per recipient, per giver** for 2026 (IRC §2503(b); Rev. Proc. 2025-32 §4.42(1)).
- Federal estate tax return and payment due: **9 months** after death (IRC §6075(a)).

The dream, and the honest version. Frank and Diane, both 68, live in Texas and are worth $45,000,000. They sell an apartment building for **$10,000,000** (basis $2,000,000, gain $8,000,000). Over the years it threw off **$10,500,000 of suspended passive losses** on Form 8582 ("coupons"). They take a 5-year installment note at 4.5%. Each year the tax law frees coupons in step with the gain reported (IRC §469(g)(3)), so the coupons cover the gain and the interest too. Result in this extreme example: **$0 federal income tax on $11,350,000 received.** The same sale for cash, with no coupons, would cost about $2,054,000.

Then the estate. At $45,000,000 they are $15,000,000 over the $30,000,000 couple's line: **$6,000,000** of estate tax at 40%. Out of the note payments they gift about **$90,000 a year** (inside $342,000 of yearly gift room) to an ILIT that owns a $6,000,000 survivorship policy. The premium is an assumption for illustration, not a quote. When the second of them dies, the policy pays the estate tax, outside the estate (IRC §§2042, 101(a)). Money the IRS never got pays for money the IRS never gets.

Yes, this is extreme. Most people get part of it. It needs coupons about 1.3 times the gain, a short note, no state income or estate tax, good enough health for the policy, and a fully taxable sale of the whole activity. Coupons that cover half the gain cut the tax on the sale roughly in half. A smaller policy covers part of the estate tax. Interest in each payment is still taxed. Losses offset only passive gain (raw land held for investment is not passive).

A 1031 alone ignores the estate problem. The step-up at death erases income tax on the gain. It does not touch estate tax, which is 40% above $15,000,000 per person ($30,000,000 for a couple). If part of your plan is a 1031 exchange, run Part 2 anyway. This workbook is the second half: the installment slice pays the premiums.

Illustration on assumed facts, not tax, legal or investment advice. Hans is a licensed insurance agent and may earn a commission on a policy or an installment sale. Have your CPA and estate attorney run your numbers.

Part 1. Estate snapshot

List what each of you owns today. Use today's value. Include the structured sale note at its **unpaid principal** (that is the presumed estate-tax value; Treas. Reg. §20.2031-4).

Asset	Owner (H / W / joint / trust)	Value today	Notes
Home			
Other real estate			
Business interests not yet sold			
Brokerage and bank accounts			
IRAs, 401(k)s, other retirement accounts (income in respect of a decedent)			
Structured sale note: unpaid principal			
Cash received at closing, after tax			
Life insurance you own (death benefit)			
Other			
Total assets			
Less: mortgages and other debts			
Net estate (A)			

The note's built-in income tax. The unpaid gain in the note does not get a step-up at death (IRC §§691(a)(4), 1014(c)). Your heirs pay income tax on it as payments arrive.

Line	Amount
Unpaid principal of the note	
x Gross profit ratio (gain / contract price, from Form 6252)	
= Unpaid gain your heirs will be taxed on (IRD)	

Exemption already used and other facts.

Question	Spouse 1	Spouse 2
Taxable gifts already reported on Form 709 (exemption used)		
Unused exemption from a late spouse (portability, Form 706 filed?)		
State of domicile		
Other states where you own real estate		
Does any of those states have an estate or inheritance tax? (Part 5 list)		

Part 2. Estate tax estimate

Line	What	Amount
A	Net estate (Part 1)	
B	Federal exemption available: $15,000,000 per person for 2026 (Rev. Proc. 2025-32 §2.14), $30,000,000 for a married couple using both, less exemption already used	
C	Amount over the exemption: A minus B (not below zero)	
D	**Federal estate tax estimate: C x 40%** (IRC §2001(c))	
E	State estate tax estimate (ask your attorney; Part 5 list)	
F	Heirs' income tax on the note's unpaid gain: Part 1 IRD x your heirs' rate (federal 23.8% top for 2026 long-term gain, IRC §§1(h), 1411) less the §691(c) deduction	
G	**Total due at death or soon after: D + E + F**	
H	Cash available within 9 months without selling the note or the business (IRC §6075(a))	
I	**Liquidity gap: G minus H**	

Shortcut for line F with the estate over the exemption: about 54 cents of combined federal estate and income tax per dollar of unpaid gain (40% + 23.8% x 60%, IRC §§2001(c), 691(c)(4); model run, October 2026). Line F is a CPA computation; this is a ballpark.

The line only keeps up with inflation. The exemption is indexed from 2027, roughly 2.5% a year. If your money only keeps pace, you never catch the line. If it beats inflation, the gap closes every year and compounds. Run lines A through D a second time at age 90, not only today. Example, married couple, age 60 today, line $30,000,000 growing 2.5% to about **$62.9M at 90**: a **$15M** couple growing 6% reaches about **$86.2M** and owes about **$9.3M** of federal estate tax; growing 8%, about **$150.9M** and **$35.2M** (future dollars; model run, October 2026, current law, steady growth, no spending). Under $15M with slow growth, buy, borrow, die and the step-up may be enough. A single person has half the line.

Part 3. Gifting capacity

Who can receive annual-exclusion gifts through the trust? Usually children and grandchildren who hold Crummey withdrawal rights. Your attorney decides who qualifies.

#	Name	Relationship	Age	Crummey powerholder?	Grandchild or younger (GST "skip person")?
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					

Line	Calculation	Amount
J	Number of powerholders	
K	Number of givers (1 single, 2 married)	
L	**Yearly gift room: J x K x $19,000** (2026, Rev. Proc. 2025-32 §4.42(1))	
M	Yearly premium from the insurance illustration	
N	Room left over (L minus M), or shortfall (uses lifetime exemption; Form 709)	

Crummey notice log (keep one line per gift, every year)

Rev. Rul. 81-7 requires that each beneficiary know about the withdrawal right and have a reasonable chance to use it. Keep this log with the trust records.

Date of gift	Amount	Beneficiary	Notice sent (date, how)	Acknowledgment received	Window closes	Withdrawn?	Premium paid (date)

Part 4. Matching worksheet: payments to premiums

Your structured sale payment dates and amounts are set **before closing** and can't be changed later. Set each payment to arrive at least 45 days before the premium is due: 5 days to make the gift, a 30-day withdrawal window (a common choice, set by your attorney), and 10 days to spare.

Year	Payment date	Payment	Income tax on it (CPA)	Net payment	Gift to ILIT	Notices sent	Window closes	Premium due	Premium	Left for you
1										
2										
3										
4										
5										
6										
7										
8										
9										
10										
11 to 20										

Check each row: net payment covers the gift plus what you live on; window closes before the premium date; gift is not more than line L unless your attorney planned a larger gift.

Part 5. Trap checklist

Tick each one with your attorney and CPA.

- ☐ **We gift cash after each payment arrives, never the note or the payment right.** Giving or assigning an installment obligation is a disposition that can make the deferred gain taxable at once (IRC §453B(a); IRS Pub. 537, "Gift"). Transfers to your own revocable or other grantor trust are the narrow exception (Rev. Rul. 74-613), and structured sale documents generally bar assignment anyway.
- ☐ **We know the note is income in respect of a decedent.** No step-up (IRC §1014(c)); heirs pay income tax as payments arrive (IRC §691(a)(4)); a deduction for the estate tax on it softens this (IRC §691(c)). Heirs can't sell the payments without triggering the tax (IRC §691(a)(2)).
- ☐ **The payee after our death is named and matches our plan.** Set in the structured sale documents. Ask whether a trust or a charity can be named.
- ☐ **The trust buys a new policy.** A policy we transfer in is pulled back into the estate if we die within 3 years (IRC §2035(a)).
- ☐ **We are not trustees and hold no rights over the policy.** Incidents of ownership put it back in the estate (IRC §2042(2); Treas. Reg. §20.2042-1(c)).
- ☐ **The trust may, but is not required to, lend to or buy assets from our estate.** A duty to pay estate taxes makes the proceeds taxable (Treas. Reg. §20.2042-1(b)(1)).
- ☐ **Crummey notices go out in writing for every gift, and the window closes before the premium is paid** (Rev. Rul. 81-7; log in Part 3).
- ☐ **Withdrawal rights are drafted for the 5-and-5 lapse rule.** A lapse above the greater of $5,000 or 5% of trust assets is a gift by the beneficiary (IRC §2514(e), §2041(b)(2)). Ask about "hanging" powers.
- ☐ **GST exemption is allocated if grandchildren can benefit.** Annual-exclusion gifts to most family trusts are not automatically GST-exempt (IRC §2642(c)(2)); allocate on a timely Form 709 ($15,000,000 GST exemption per person, 2026, Rev. Proc. 2025-32 §2.14; automatic rules in IRC §2632(c)).
- ☐ **Gift tax returns are filed when needed:** gift-splitting (IRC §2513), GST allocation, or gifts above line L.
- ☐ **Liquidity is planned.** Estate tax is due in 9 months (IRC §6075(a)); the note pays on its schedule and pledging it counts as a payment (IRC §453A(d)).
- ☐ **State taxes are checked.** 2026 estate tax lines: Oregon $1,000,000 (ORS 118.010); Rhode Island $1,838,056 (R.I. ADV 2025-27); Massachusetts $2,000,000 (M.G.L. c.65C §2A); Washington $3,000,000 from July 1, 2026 (Wash. DOR); Minnesota $3,000,000 (Minn. Stat. §291.016); Illinois $4,000,000 (35 ILCS 405/2); Maryland $5,000,000 plus inheritance tax (Md. Tax-Gen. §§7-309, 7-204); Vermont $5,000,000 (32 V.S.A. §7442a); Hawaii $5,490,000 (HRS §236E-6); Maine $7,160,000 (Maine Revenue Services); New York $7,350,000 with a cliff (N.Y. Tax Law §952); Connecticut $15,000,000, with the only state gift tax (CT DRS CT-706/709 instructions, rev. 06/2026); D.C. $4,873,200 for 2025 (D.C. OTR; confirm 2026). Inheritance taxes: Pennsylvania, New Jersey, Kentucky, Nebraska, Maryland. Iowa's ended January 1, 2025 (Iowa Code §450.98). New York and Minnesota add back taxable gifts made within 3 years of death (N.Y. Tax Law §954(a)(3); Minn. Stat. §291.016 subd. 2). California has none.
- ☐ **If we still own a business or farmland, we checked §6166 and §2032A before selling.** A sale generally ends both (IRC §6166(b)(1); §2032A cap $1,460,000 for 2026, Rev. Proc. 2025-32 §4.41).

ILIT or an irrevocable trust that owns the real estate? Ask this first

Both move wealth out of your estate. They do it in different ways, and the choice can cost or save your heirs the step-up.

	ILIT (trust owns a life insurance policy)	**Irrevocable real-estate trust (gift, or sale to a grantor trust)**
What leaves your estate	The death benefit	The property and its future growth
Step-up at death	**Kept** on the real estate you still own	**Lost.** Heirs inherit your old basis and the deferred gain (Rev. Rul. 2023-2)
Your suspended losses	Still yours to use on a sale	Usually stuck with the property; a gift does not free them (IRC §469(j)(6))
Control	You keep the buildings, loans and decisions	A trustee controls the property
Lenders and deeds	Nothing changes	Deeds change; a due-on-sale clause may need lender consent

	ILIT (trust owns a life insurance policy)	Irrevocable real-estate trust (gift, or sale to a grantor trust)
Insurability	You must qualify for the policy	Nearly anyone can use it
Biggest risk	Policy lapses if premiums stop; transfer of an existing policy and death within 3 years (IRC §2035)	Low-basis property plus an income tax bill your heirs inherit

The ILIT fits when you are over the line (or growing toward it), want to keep the real estate and its step-up, have losses to cash in, and can qualify for the policy. A real-estate trust fits high-basis, fast-growing property or an uninsurable owner who is ready to give up control. Many big estates use both. Your estate attorney decides the mix.

Part 6. Questions to bring

For the estate attorney

1. Given Parts 1 and 2, what is our estimated federal and state estate tax at each of our deaths, and in what order?
2. Should the ILIT own a policy on one of us or both of us (paid at the second death)?
3. Who should be trustee, and who should hold Crummey powers? How long should the withdrawal window be?
4. How will you handle withdrawal rights above $5,000 (hanging powers, 5-and-5 cap, separate shares)?
5. Will the trust benefit grandchildren? How and when will GST exemption be allocated?
6. Should the trust be a grantor trust, and what happens if that status ends?
7. Should we use any lifetime exemption now, beyond annual gifts?
8. Who should be named payee of the structured sale payments after our deaths: the surviving spouse, a marital trust, a family trust, a charity?
9. Does our state of domicile, or a state where we own property, tax our estate or our heirs?
10. If we still own the business or land, should any planning happen before the sale closes?

For the CPA

1. What is our gross profit ratio, and what will each payment's income tax be?
2. If one or both of us died in year 1, 5 or 10 of the schedule, what would the heirs' income tax on the remaining note be after the §691(c) deduction?
3. How much of each payment can we gift and still cover our spending and taxes?
4. Do we need to file Form 709 each year?

For the insurance advisor

1. What death benefit covers the estimated estate tax plus the heirs' tax on the note in the early years?
2. What is the premium, and can it change? Show illustrations at different assumptions.
3. Can the premium be paid over 10 years instead of for life, and what does that do to the gift each year?

For the structured sale provider

1. Can we choose the payment date and the schedule shape (level, front-loaded, deferred)?
2. Who can be named to receive payments after our deaths, and can that be a trust or a charity?
3. Can the beneficiary designation be changed later, and how?

Part 7. Worked example, filled in

Illustrative composite, model run (research/ilit_combo_20261007/model.py, October 2026). Not a real client. Premiums are assumptions, not quotes.

Tom and Ellen Reyes, both about 70, California. They sell a business for $16,000,000 (basis $2,000,000): $4,000,000 cash at closing and a $12,000,000 structured note paid over 20 years at 4.5%, **$922,514 a year.**

Part 1 (snapshot, at closing)

Asset	Value
Home, portfolio, two rentals	$24,000,000
Structured sale note: unpaid principal	$12,000,000
Cash at closing after income tax ($4,000,000 less $1,284,541)	$2,715,459
Net estate (A)	**$38,715,459**
Note's unpaid gain (IRD): $12,000,000 x 87.5% gross profit ratio	$10,500,000

Part 2 (estimate, if both died in year 1)

Line	Amount
A. Net estate at end of year 1 (model run)	$38,889,269
B. Exemption, couple, 2026 (Rev. Proc. 2025-32 §2.14)	$30,000,000
C. Over the exemption	$8,889,269
D. Federal estate tax at 40% (IRC §2001(c))	$3,555,708
E. State estate tax (California)	$0
F. Heirs' income tax on the note, after §691(c) (model run, 23.8%)	$1,573,083
G. Total	**$5,128,791**

Part 3 (gifting capacity)

Line	Amount
J. Powerholders: 3 children, 7 grandchildren	10
K. Givers	2
L. Yearly gift room: 10 x 2 x $19,000 (2026, Rev. Proc. 2025-32 §4.42(1))	$380,000
M. Premium on a $6,000,000 policy on both lives, assumed $15 per $1,000	$90,000
N. Left in the trust each year	$290,000

Part 4 (matching, first years)

Year	Payment date	Payment	Income tax	Net	Gift	Notices	Window closes	Premium due	Premium	Left for them
1	Jan 15	$922,514	$366,190	$556,324	$380,000	Jan 20	Feb 19	Mar 1	$90,000	$176,324
5	Jan 15	$922,514	$351,759	$570,755	$380,000	Jan 20	Feb 19	Mar 1	$90,000	$190,755
10	Jan 15	$922,514	$335,742	$586,772	$380,000	Jan 20	Feb 19	Mar 1	$90,000	$206,772
20	Jan 15	$922,514	$277,211	$645,303	$380,000	Jan 20	Feb 19	Mar 1	$90,000	$265,303

"Left for them" is what remains after the gift; the premium is paid by the trust out of the gift. Their other spending is covered by the $24,000,000 of other assets in this example.

The result (model run): what the heirs receive

Both gone at end of year	1	5	10	20
No plan	$33.76M	$34.43M	$34.93M	$35.16M
Gifts + ILIT	$39.79M	$40.63M	$41.51M	$42.40M
Difference	**$6.03M**	**$6.20M**	**$6.58M**	**$7.24M**

The trade-offs, once. The trust is irrevocable. Premiums are paid whether or not the policy is needed early; in this example $1.8 million of premiums over 20 years (assumed rate). The note itself stays in the estate with no step-up. Real numbers need real policy illustrations, an estate attorney and a CPA.

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