

# How to Create Tax-Free Income by Banking on Yourself

*There is one overlooked strategy that can be used like your own little private bank and create tax-free income at the same time.*

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What if you could create your own bank and be able to go to that bank to take a loan as needed tax free without ever having to pay the loan back? Sounds too good to be true one would think, but there is a way of creating just that very thing by using an [Index Universal Life](#) insurance policy or IUL. This type of life insurance policy can link your cash value to an index like the S&P 500 with out the risk. Your account will participate in a percentage of the index gains yet when the index falls you will not loose any value.



Stuart Chamberlin, President at Chamberlin Financial

Tax-free income can be obtained from the IUL by taking tax-free loans against the cash value. These loans work similarly to home equity loans in the sense that the investor does not pay income tax on the money borrowed. Unlike a home equity loan, though, the investor does not have to pay back the loan balance during their lifetime. This is pertinent to tax codes 7702 and 72(e).

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Rule No.1: Never lose money.  
Rule No.2: Never forget rule  
No.1.”

*Warren Buffett*

We expect [taxes](#) to move up rather than down from here over time so having a source of income tax free during [retirement](#) is crucial going forward. When evaluating an IUL policy you need to work with an advisor who can properly design the

policy to obtain the most tax benefit from it.

You can actually dump a large sum into an IUL but in doing so you would be creating a modified endowment or a MEC and that would adversely affect your tax-free distributions. So the way to do it as an example using 250k would be to spread it over five annual payments of 50k each thus avoiding creating a MEC. There are some companies that allow you to deposit your lump some premium into a deposit account earning 2% interest on your premium while waiting to be applied to the policy.

To get the best understating of how you can benefit from an IUL you need a custom illustration created based your objective by an adviser well versed in this subject.

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