



Robert W. Wood

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Whitney Houston's Death and Taxes

Whitney Houston's untimely death clearly presents much larger questions than tax and estate planning ones. Nevertheless, the latter are nothing to sneeze at. In fact, it was only a few weeks ago that Whitney Houston herself was dealing with a legal mess involving the death of her own father. See [Whitney Houston Denies She's Broke; Wins Lawsuit vs. Step-Mom.](#)

Now there will be a much larger mess over Ms. Houston's estate. The smaller question involved Ms.

Houston's father, John Houston, who died in 2003. Whitney had lent him money years before.

The elder Houston was supposed to repay it, and one commonly-used mechanism was put in place to do that. Mr. Houston took out a life insurance policy on his own life and named his daughter as beneficiary. Upon John Houston's death in 2003, the remittance of the policy proceeds to Whitney should have been smooth.

It was also structured not to constitute income to Whitney for tax purposes. Unfortunately, that's where the good planning ended. Just as



Cinderella faced a step-mother, so did Houston, and that's where things got nasty.

Whitney's step-mother was none other than Barbara Houston. It didn't help that she was the forty-year younger woman who supposedly broke up John Houston's marriage to Whitney's mother, Cissy Houston. Whitney's collection of the policy proceeds angered her step-mother.

Barbara Houston wanted the funds to pay off the mortgage on the residence she had shared with Whitney's father so she sued Whitney. Whitney counter-sued and she and her step-mother Barbara became locked in a multiyear expensive legal battle. Whitney eventually won but only weeks ago, a victory she hardly had time to enjoy.

Is life insurance money free of income taxes? Is it estate tax-free? In both cases, the answer is not always.

However, properly set up, it is often possible to avoid having the insurance proceeds subject to income tax and even to estate tax. There are two independent sets of tax rules to navigate since the two taxes are distinct. You'll need professional help to do so. Some kinds of insurance don't qualify.

However, unlike so many tax rules, the tax rules governing insurance—and life insurance in particular—are surprisingly concrete. What about the rest of Whitney Houston's estate? Perhaps as a result of her well-publicized problems which may have even been exacerbated by this unfortunate family litigation, there has been speculation that she was in dire financial circumstances. See [Whitney Houston Denies She's Broke: Wins Lawsuit vs. Step-Mom](#).

Whether that's true may now be irrelevant. Still, as more Whitney Houston death news emerges, there are likely to be tax and estate planning lessons—and perhaps some bigger life lessons—for all of us.

For more, see:

[Whitney Houston autopsy completed](#)

[Beware New Estate Tax Election](#)

[It Pays To Plan For Future Estate Tax Changes – Forbes](#)

[Will Ohio Estate Tax Repeal Trigger More?](#)

*Robert W. Wood practices law with [Wood LLP](#), in San Francisco. The author of more than 30 books, including *Taxation of Damage Awards & Settlement Payments* (4th Ed. 2009 with 2012 Supplement, [Tax Institute](#)), he can be reached at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*