UHY LLP Certified Public Accountants

ESTATE PLANNING

GUIDE TO ENSURING YOUR LEGACY

The next level of service

An independent member of UHY International

WHY PLAN?

You've worked hard over the years to build your net worth, which is why it is important to pass along as much of it as possible to future generations. Estate planning is a vital part of your overall financial planning that can protect your hard-earned estate.

Our firm's National Personal, Estate and Fiduciary Planning Group can help you preserve your wealth and establish a plan to ensure your assets are transferred when you want, how you want, and to whom you want. There are diverse methods for accomplishing these goals, including wills, trusts, charitable giving, family wealth transfer and a wide variety of advanced planning techniques.

To enhance your experience, we will work with you to establish an all-inclusive estate plan that will help you reach all of your goals. By utilizing our knowledge, you will be able to capitalize on your estate by reducing your tax liability to a minimum while allowing you to transfer your wealth to those you love.

Working with us will allow you to protect the financial security of your family by letting you control your future estate transfers to the next generation for them to enjoy.

THE FUTURE OF ESTATE TAXES

Currently, the federal government permits up to $11.7 million per person to be transferred to heirs at death without the imposition of any estate taxes for 2020. This is adjusted each year for inflation. This includes everything you own (investments, real estate, personal items, collectibles, automobiles, life insurance, etc.).

Most American estates will not have an estate tax if proper planning is done. Larger estates (those over $23.4 million) are able to preserve more with other planning techniques. Without proper planning, a taxable estate of more than this will be subject to a 40 percent tax bracket. This is why it is imperative to plan ahead to maximize the amount you plan to pass on to future generations. The lifetime exemption is due to revert back to $5 million (adjusted for inflation) on January 1, 2026.

Portability of Estate Exemption

Even if your estate is below the $11.7 million at the first spouse to die, you may want to file a 706 estate tax return. The reason for this is the surviving spouse can then add the unused portion of the decedent's exemption and add it to their own. Thus allowing them up to $23.4 million at the second death. The only way to accomplish this is to timely file a 706 return by the due date.

THE BASICS

The key to basic estate planning is to first meet with your existing advisors and review your personal net worth statement. At this stage, you should be looking at how the assets are titled; sole ownership, joint or trust.

Revocable Living Trusts
Using this technique will help keep your estate out of probate court. It also provides your trustee with financial guidance for your assets if you are incapacitated or after your death. You still control the assets while you are alive and the trust begins when you either become incapacitated or after your death. The trust is revocable, which allows you to make changes as your circumstances change.

Last Will and Testament
Generally, this document indicates that if there are any assets that are not part of your living trust, they should then be transferred into the trust at the time of death. This is commonly referred to as a "pour-over provision".

Durable Power of Attorney
This designation allows specific individuals or an institution to make decisions on your behalf and take control of your assets in case you become incapacitated and are unable to perform your normal responsibilities. This includes financial decisions, ability to make gifts, buy/sell assets, pay bills, etc.

Medical Durable Power of Attorney
This document will allow those designated to make medical decisions with your doctors in the event that you are unable to make them yourself. Those selected should have a complete understanding of your wishes if something should happen to you.

General Gifting
Annual gifts to beneficiaries qualify for the annual gift tax exclusion. The 2021 annual exclusion remains the same at $15,000 per person. Gifts made on behalf of a beneficiary directly to schools for education or to doctors and hospitals for medical expenses are not included when computing the $15,000 exemption. This exemption is also indexed for inflation. Sometimes gifts are done in conjunction with your spouse to increase the amount that you may give each year. If you exceed this amount you start using your $11.7 million exemption that you have during life or at death.

Asset Allocation
As your estate grows and the total gets closer to the $11.7 million cap, you should begin looking at asset allocations between you and your spouse. If you are a married couple, with proper planning, you can allocate assets among you and your spouse so that a total of $23.4 million can be passed on to your children without any estate taxes. There is also an ability to use a deceased spouse's unused exemption with the portability rules. This might allow someone with unequal estates to still make use of the full exemption.

INTERMEDIATE PLANNING

At this point you may be thinking, "I should be all set now that I have my wills, trusts, medical and durable powers of attorney completed and have properly allocated my spouse's assets between the two of us." But that may not be the case. If your total estate value between you and your spouse is in excess of $23.4 million, there are some additional planning opportunities that you may want to consider to further reduce your estate taxes.

Irrevocable Life Insurance Trust (ILIT)

This trust will hold life insurance on the originator of the trust for the benefit of the family. If done properly, the insurance proceeds will not be included as part of your estate. Gifts are usually made to the trust to cover the required premiums. As the name implies, the trust is irrevocable and cannot be changed. It is imperative to fully understand the trust document before signing it.

Grantor Retained Annuity Trusts (GRAT)

These are used to transfer some assets at discounted values while maintaining an income stream. The asset transferred is a gift of a future interest, which allows for the amount of the gift to be less than the current fair market value. The trust pays an annuity to the grantor for a specific period of time. The asset is then transferred to the beneficiary after the time period.

Qualified Personal Residence Trusts

This type of trust allows the grantor to utilize a residence for a stipulated period of time. After the period expires, the residence is transferred to the end beneficiary. Again, since this is a future gift, there is a discount taken on the value of the gift.

Section 529 Plans

Designed to assist with college funding, these plans allow transfers of money into a trust for the benefit of children and grandchildren. Even though these would be considered a future gift, these plans qualify for an annual exclusion. These trusts may be transferred from one child to another depending on the circumstances of the family.

Qualified Terminable Interest Property Trust

As part of your living trust, this comes into play with young marriages with small children or if there is a second marriage. The trust provides for the benefit of your spouse during their lifetime. At their death, the remainder goes to the children you name. This helps to prevent your children from being disinherited due to remarriage by your spouse.

Stretch (Inherited) IRAs

With the recent changes in the tax laws, the old Stretch IRAs are no longer allowed. Where you once could start withdrawing from your inherited IRA over your remaining life expectancy, now you must withdraw the full amount within 10 years. Unlike the prior law which required a minimum distribution each year, you can now decide when to take a distribution. The catch is the IRA must be fully distributed within the 10 year period. There are still some tax planning opportunities here such as taking nothing in high tax years or taking more when you are in a lower tax bracket. The rollover by a surviving spouse into their IRA is still allowed even under the new laws.

Family Limited Partnership (FLP) or Limited Liability Company (FLLC)

If an individual has a large amount of assets that they wish to currently share with others, forming a FLP or FLLC may be may be a way to do this without giving up complete control of the assets. In many cases, gifts or purchases of an interest in the entity may allow for discounts as well.

ADVANCED STRATEGIES

After you have done most of the intermediate planning and there is still a potential estate tax liability that you would like to reduce or eliminate, there are several advanced estate planning methods that you can consider.

Intentionally Defective Grantor Trusts (IDGT)

These trusts are designed to transfer investments to other family members while still being taxed on the income generated. These trusts are somewhat similar to a GRAT in that the grantor will receive an income stream and be taxed on the income of the IDGT. The biggest difference is that instead of gifting the asset to the trust (as in a GRAT), it is sold to the trust. However, since you still own the trust, it's like selling it to yourself. At the sale, you do not pay taxes or use any portion of your gift exemption. Normally these trusts are initially funded with some gift amount which does reduce your exemption.

Private Annuity

A private annuity is similar to an installment sale in that the purchaser buys an asset and pays for it over time. The payments are predetermined at the time of sale, but unlike the installment sale, a private annuity does not establish a set period of time for payments. Instead, the payments continue until the seller's death at which time all payments cease. Also unlike an installment sale, the full amount of the gain is recognized at the time of sale.

Self-Cancelling Installment Sale

This method is used with a sale of an asset in an installment sale. However, the unpaid loan balance is cancelled and not paid at death of the seller. This normally requires a premium on the interest rate being paid due to the cancellation feature.

Generation-Skipping Trusts (GST)

Once you have assisted your children with other wealth transfers or if they have accumulated enough of their own wealth, it is time to begin thinking about the next generation. This is where a generation-skipping trust may come into play. Since your children may have sufficient wealth of their own (and by giving them more will just increase their estate taxes), you may wish to establish a GST for the benefit of your grandchildren. These trusts are designed to do what they say – skip a generation (your children) and go directly to your grandchildren. There are limits and one must be careful on how this is done.

Asset Protection Trusts

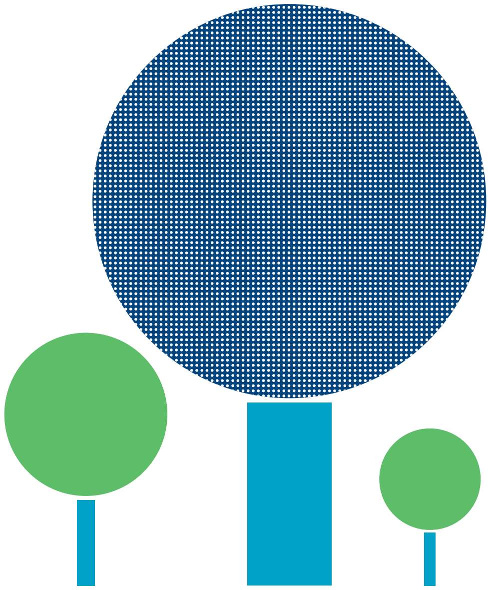
Asset protection trusts are established to help protect assets from either outsiders or lawsuits that have not yet occurred. These trusts are designed to benefit your family while protecting the assets within them. They require delicate planning along with proper implementation.

Directed Dynasty Trusts

Similar to GST trusts, these trusts are traditionally established to provide a benefit for future generations, including those in existence and those yet to come. These must be established in proper jurisdictions where longer-term trusts are allowed. Normally, each generation is entitled to income from the trust but the principal is designed to continue indefinitely.

Planning for Non-Citizen Spouses

Although it does not occur often, there may be a circumstance where either you or your spouse is not a US citizen. In these cases, a special trust can be established for the benefit of the non-US spouse to obtain a larger exemption to help minimize the estate taxes that might otherwise be due. These trusts are easy to establish and administer but need to be done as part of the overall planning.



CHARITABLE PLANNING

Charitable planning is an area where a grantor can make a decision to either pay money to the federal and state government or make a contribution to a charity (or charities) instead. The grantor can then receive a deduction on their estate return or a current income tax deduction, depending on when and how it is done.

Charitable Lead Trusts

After contributing an asset that will generate an annual annuity payment to a charity, the asset will then be transferred to another beneficiary or back to you after a period of time. These trusts can have income make-up provisions if the asset is expected to produce income in the future.

Charitable Remainder Trusts

These trusts are similar to the lead trusts, except the annuity stream is paid to a beneficiary with the remaining balance paid to the charity after the term of the trust. The same net income make-up provisions can be part of this plan as well. Both the lead and remainder trusts also have some income tax benefits.

Private Foundation

An individual with a large asset base can contribute assets today into the foundation, receive a charitable deduction on their current year personal income tax return, and have the funds paid out to charities over a future time table. This would be in lieu of having it all paid to the charity right away.

Specific Bequests at Death

This is used when there is a special charity that you may have been involved with during your life, such as a school, hospital, organization, etc., and would like to make a larger contribution but not until after your death.

Charitable Support Organizations

These foundations are established to support other charitable organizations while keeping the contributed assets received separate from both the charity itself and any other charitable group that it is supporting.

Donor Advised Funds

For smaller gifts to charities, where it may be too costly or complicated to establish a trust or foundation, you may want to contribute to a donor advised fund. A donor advised fund is normally established at a financial institution. Money from your estate can be contributed to the fund and later distributed to your favorite charities over a number of years instead of all at one time.

ESTATE PLANNING QUESTIONNAIRE

Basic Information

Taxpayer Name____Date of Birth______________

SSN____Status of Health____________

Spouse Name____Date of Birth______________

SSN____Status of Health___________

Residence

Permanent Home Address (for tax purposes)

Street____

City____State________Zip_________

Business Address

Street____

City____State________Zip_________

Other Residence

Street____

City____State________Zip_________

Period of residence in present state:____

Prior residences (states):____

Citizenship Status

Taxpayer: U.S._____ Other____

Spouse: U.S._____ Other____

Children, Grandchildren & Other Dependents

Name & Relationship____________________ Date of Birth__________

Street____________________

City____________________ State________ Zip________

Name & Relationship____________________ Date of Birth__________

Street____________________

City____________________ State________ Zip________

Name & Relationship____________________ Date of Birth__________

Street____________________

City____________________ State________ Zip________

Name & Relationship____________________ Date of Birth__________

Street____________________

City____________________ State________ Zip________

Marital History

Marital Status (circle one): Single Divorced Widow Married Date of Marriage______

Prior Marriages (include date of divorce & alimony/support obligations):

Husband____________________

____

Wife____________________

____

Other Assets & Important Documentation

(Please be sure to provide a copy of wills and trusts, along with amendments)

Amount of prior taxable gifts (copy of 709 forms)____________________

Value of out of state property (please indicate state)____________________

Amount of irrevocable trusts (including insurance trusts)____________________

Amount of qualified plans or IRAs (list each separately, with beneficiary):

Name____________________

Primary Beneficiary____________________ Secondary Beneficiary____________________

Name____________________

Primary Beneficiary____________________ Secondary Beneficiary____________________

Name____________________

Primary Beneficiary____________________ Secondary Beneficiary____________________

SUMMARY OF ASSETS & LIABILITIES

Assets	Taxpayer	Spouse	Community/Joint
Cash & Bank Accounts	________	________	________________
Mortgages & Notes Receivable	________	________	________________
Stocks	________	________	________________
Bonds	________	________	________________
Mutual Funds	________	________	________________
Real Estate	________	________	________________
Business Interest Investments	________	________	________________
Miscellaneous	________	________	________________
Annuities	________	________	________________
Qualified Employer Plans	________	________	________________
IRAs	________	________	________________

Liabilities

Mortgages	________	________	________________
Notes Payable	________	________	________________
Credit Cards	________	________	________________
Other Loans	________	________	________________

Total Net Worth	________	________	________________

Other Information

Funeral & Admin Expenses	________	________	________________
Debts & Losses	________	________	________________
Qualified Family Business Amount	________	________	________________
Life Insurance	________	________	________________
Lifetime Transfers - Gifts Made	________	________	________________

Estate Planning Objectives (check all that apply):

____Minimize Estate Tax ____Provision for Spouse at Death ____Provision for others at Death

____Gift Programs for Spouse/Children ____Gifts to Charities ____Other

CHECKLIST OF ITEMS FOR REVIEW

In order to better assist you with the estate planning process, listed below is a checklist of some items that you should pull together for our review.

______ Copies of personal income tax returns

______ If any closely held companies, copies of their returns, financial statements and any valuations

______ Copies of any gift tax returns filed

______ Copies of any prior estate planning done such as living trusts, will, irrevocable trust, etc.

______ If you are a beneficiary of a trust, provide a copy of the trust

______ If your spouse is deceased, a copy of their filed trust and any estate tax return (Form 706)

______ A copy of your personal net worth statement, if one has been prepared

______ If you have a pension plan or IRA, provide a copy of the beneficiary status

For a complete listing of our US offices, please visit: https://uhy-us.com/location