

beyond the exemption amount is left to charity, there will be no federal estate tax due.

But there is another option you might want to consider. Estate planning is one of the few situations in life in which you can actually give something away and keep it too. This can be accomplished by using an advanced estate planning technique involving **charitable giving** and a **wealth replacement life insurance trust**. Here's an example:

Ethan and Beth—in addition to having other assets worth exactly the exemption amount—have accumulated a significant stock portfolio over their many years of marriage that is currently valued at about \$2 million. Their **basis**, or the amount they have put into the purchase of the stocks, is only \$200,000. If they were to sell these stocks at their \$2 million value, they would realize a **gain** of \$1.8 million. The **capital gains tax** of 15% on the \$1.8 million would be \$270,000, reducing their estate to about \$1.73 million. This amount would then be available to generate income for Ethan and Beth.

They could instead use the \$2 million to establish a **charitable remainder trust** that would provide Ethan and Beth with a lifetime income. At their deaths, the remainder interest would pass to the charity. They would save money by getting a charitable deduction and removing the value of the stock from both of their estates.

To complete the cycle of giving something away *and* keeping it, Ethan and Beth could establish a wealth replacement life insurance trust for the benefit of their children, in order to replace the \$2 million given to charity. The charitable income tax deduction could provide

Ethan and Beth with sufficient cash to help pay the premiums necessary to sustain the life insurance.

Review Your Estate Plan Regularly

Because of its complex nature, estate planning often requires consultation with trusted professionals. Additionally, regular review of your estate plan is essential, particularly in view of continually changing tax laws, as well as your own assets and life circumstances.

It may be time for a review of your estate plan when the following occur:

- Tax laws change.
- Change in marital status occurs.
- Children or grandchildren are added to your family.
- Your net worth changes significantly.
- You move to another state or country (tax laws differ by state, as well as outside the U.S.).
- You have any circumstances requiring special consideration, such as a disabled spouse or child, or perhaps a parent who requires custodial care.

Seek Professional Advice

Questions abound in estate planning, especially for business owners and those with substantial wealth. Estate planning is an involved process, requiring the knowledge of experienced professionals; it is often the work of a team consisting of your financial services professional, attorney, accountant, insurance professional, and trust officer. The earlier you start to plan, the more likely you are to have a comprehensive plan that will provide for your heirs for many years to come.



Name, Designation(s)
Title

Company Name
Street Address
City, State Zip Code
Phone Number
Fax Number
E-mail Address

Estate Planning

Preserving Assets— Minimizing Taxes



If you think your assets are too small to require an estate plan, you may want to reconsider. Having an estate plan makes good sense from a variety of perspectives. An estate plan can accomplish the following:

- Ensure that assets are distributed according to your wishes.
- Help minimize estate taxes and court costs, as well as improve the distribution to beneficiaries.
- Protect your young children or grandchildren from receiving a large sum of money without any planning or direction. You can also decide whether to nominate a **guardian** for your child in the event that an untimely accident claims both parents' lives.
- Enable you to choose an **executor** whom you trust, who also knows your wishes, knows your family, and has knowledge of the contents of your estate, rather than a court-appointed executor.
- Allow your business to continue after your death with a **successor** of your choosing, thereby reducing the chance of a forced sale.

When a Will Isn't Enough

Many individuals are under the impression that a **will** is a sufficient means of estate planning. Having a will is a great first step, but it may be legally insufficient to facilitate the attainment of all your estate planning goals and objectives. An estate plan should include the following:

- A valid, up-to-date will.
- A **durable power of attorney**.
- A **living will** or **health care proxy**.
- Instructions to your executor regarding the disposition of your assets and any other requests.
- An inventory of your estate.

- **Life insurance** to provide cash for your survivors to help fund the payment of debts and estate taxes.

Additionally, you may want to consider a trust, depending on the size of your estate and your particular goals.

If you have a basic estate plan, then you're in better shape than the majority of Americans. Here are some additional estate planning considerations you may wish to review with your planning team.

Employer-Provided Benefits

Without proper planning, income and retirement benefits from your employer can significantly impact your estate plan and cost your heirs more than necessary. It is important that you review your employer-provided benefits (particularly any executive benefits) with your estate planning team, so you can take the necessary steps to mitigate the tax burden on your heirs. Some issues to examine include the following:

- **Qualified Retirement Plan Benefits.** If there is money in a qualified retirement plan when you and your spouse die, the tax implications can be serious. When the money in your qualified retirement plan is finally distributed to your heirs, the government could take a substantial percentage in taxes. This includes payment of federal and state income taxes, as well as estate taxes.
- **Executive Benefits.** If your employer offers special benefit plans, such as **deferred compensation** or **split-dollar life insurance**, there are other issues that should be considered. Under a deferred compensation plan, benefits payable to your beneficiaries are subject to federal estate and income taxation. Even if the money is paid to your spouse, and it escapes federal estate taxes at your death, it could inflate the value of your spouse's estate. Also, if you receive deferred compensation income in retirement, the payments

can, in effect, increase your estate at a time when you may otherwise be trying to decrease its size.

If you are involved in a split-dollar life insurance agreement with your employer, it is essential to review ownership and beneficiary provisions to make sure your split-dollar arrangement does not create an estate tax problem.

For Business Owners

If you own a business, there are special considerations regarding the disposition of your business interests. A business owner is usually concerned about the ongoing success of his or her company. These are some of the important business questions you will need to review. Do you plan to transfer your business to someone else before or after you die? Will the new owner be a family member, an employee, or another business? How will the value of the business be determined? How will a possible purchase be funded?

Tax Considerations for You and Your Family

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) began what many hope will be the gradual phaseout of estate taxes. Estate taxes are scheduled to phase out by the year 2010, but then the legislation "sunset," meaning lawmakers will have to vote to continue the estate tax repeal. Until then, estate taxes are decreasing, while exemptions are increasing.

Year	Top Estate Tax Rate	Exemption
2008	45%	\$2 million
2009	45%	\$3.5 million
2010	repealed	N/A
2011*	55%	\$1 million

**If Congress has taken no action by the year 2011, the estate tax rate reverts to pre-EGTRRA levels, and the exemption amount will be \$1,000,000.*

Each individual may exclude assets up to the current **applicable exclusion amount** (\$2 million in 2008) from federal estate taxes. This exemption, under the provisions of EGTRRA, will increase to \$3.5 million in 2009 and then be repealed in 2010, according to the schedule as shown on page 3.

While you might think that the value of your estate will certainly fall below the exemption amount, remember that *all* property and assets will likely be included, unless otherwise provided for by a will or a trust.

Beneficiary Options

One option is to consider leaving the majority of your estate to your spouse and children. At the time of your death, your spouse is entitled to receive the entire proceeds of your estate free of tax. You'll need to plan appropriately if this is your strategy, because when your spouse dies, his or her estate (the combination of both partners' assets) will be fully subject to federal estate taxes, unless he or she happens to die in the year 2010—the year the estate tax is repealed.

If your entire estate, or a portion of it, is left to your children, your estate tax exemption may apply, and that amount can be passed at death free of federal estate taxes. Once the value of your estate exceeds this exemption amount, the federal estate tax applies. Gifts to your grandchildren may be subject to the **generation-skipping transfer tax (GST)**, so you may want to consult a tax professional for additional guidance.

Charitable Giving: Have Your Cake and Eat It Too

One simple way to avoid paying federal estate taxes is to leave your assets, or at least some portion of your assets, to a charity. If all wealth