Estate Planning Summary

for

John Doh and Darla

Prepared 9/25/2020

Disclosure

This estate planning illustration is an overview designed to be educational in nature. It is based on assumptions and information provided by the client. It is intended to illustrate the application of various business and estate planning concepts for consideration by insurance and financial professionals along with their clients and advisors. It is not intended to convey any legal, tax, investment or accounting advice nor to provide full disclosure. Any comments about tax treatment simply reflect an understanding of current interpretations of tax laws as they relate to the planning technique. Tax laws are also subject to possible changes in the future. Any final determination as to the merits of a particular strategy must be made by the client in conjunction with his/her tax and legal counsel. Consult with a professional advisor for specific advice and information in this area.

Some of the concepts depicted in the following discussion are intended to demonstrate the hypothetical operation of life insurance funding concepts. Wherever concepts of this type are discussed, any figures mentioned are not intended to represent a particular product or company. A reduction in an insurer's dividend rate or internal rate of return on policy values may increase the number of years premiums must be paid out-of-pocket. The use of policy values to pay premiums will reduce the policy's cash value and death benefit. If policy values are insufficient to pay the premium, additional out-of-pocket premiums may be required to prevent the policy from lapsing. Loans against a life insurance policy's cash value will also accrue interest at the current rate. If a specific product is being considered, a complete, basic Illustration must be provided by the agent and reviewed by the client.

Wherever the top capital gains rate is stated to be 20% in the following material, be aware that the Medicare Surtax of 3.8% can raise the total federal tax rate on capital gains to 23.8% for some taxpayers. Similarly, wherever the top income tax rate is stated to be 37%, be aware that the Medicare Surtax can raise that rate to 40%.

This material may include a discussion of tax related topics. This discussion was prepared to assist in the promotion or marketing of the transactions or matters addressed in this material. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding IRS penalties that may be imposed upon the taxpayer. Taxpayers should always seek and rely on the advice of their own independent tax professionals.

Any assumed rates of return/growth on non-insurance values in this material are purely hypothetical, provided for illustrative purposes only and are not representative of any particular product nor a guarantee of performance. Any applicable fees, charges or expenses are not taken into account. Actual experience will vary.

The Pension Protection Act of 2006 provides that an employer owned life insurance policy may be subject to income taxation in the event the life insurance proceeds exceed the employer's basis in the policy. The income taxation of the death benefit may be avoided if 1) a valid exception applies because the insured is a member of an exempted class (“highly compensated employees”) or the policy is exempt by its use (stockholder redemption) and 2) certain notice & consent requirements are satisfied. In all cases in this text we assume that the valid exception and notice & consent requirements are met.

Calculation Assumptions

Gift Splitting Used?:	No
Liquidate Assets at Second Death?:	No
Payment Timing:	End
Income Tax Rates	
Client Income Tax Rate:	28.00%
Heirs Income Tax Rate:	28.00%
Growth Rates	
Portfolio(s):	5.00%
Credit Shelter:	0.00%
Reverse QTIP:	0.00%

	John	Darla
Portfolio Beginning Balance:	$0	$0
Prior Taxable Gifts:	$0	$0
Unified Credit Used on Prior Gifts:	$0	$0
Charitable Deductions:	$0	$0
Probate Expenses:	0.00%	0.00%

Liquidation Order:

- Portfolio
- Liquid Assets
- Stock Options
- Non-Liquid Assets
- Business Interests
- Real Estate
- Qualified Plans

Net Worth Summary (2020)

Pertinent Information

- John, who will be age 70 at the end of 2020, has an estate that includes the following:

	Current Value
Joint Account (Jointly Owned)	$2,500,000
His Cash	3,000,000
His House	1,750,000
CDs	812,500
Stock Portfolio	950,000
Johns 401k	3,500,000
Darlas 401k	251,236
Beach House	925,366
Portfolio (see Note below)	2,000,000
Total	$15,689,102

- Darla, who will be age 69 at the end of 2020, has an estate that includes the following:

	Current Value
Joint Account (Jointly Owned)	$2,500,000
Her Cash	4,000,000
Portfolio (see Note below)	0
Total	$6,500,000

Total Estate(s): $22,189,102
(Total reflects any life insurance includable in the estate)

Insurance Assets	Owner	Insured	Death Benefit	Beneficiary
John Insurance	John	John	$2,000,000	Estate

- Non-probate assets will not be used to fund testamentary trusts.
- Current wills: For assets passing under the will, John and Darla have simple wills which provide an outright bequest to each other if the other is living, otherwise to their heirs.
- For any subsequent gifting techniques, it is assumed that there are no outstanding liabilities on the gifted property.
- John and Darla have 1 child.
- Probate and administrative expenses are assumed to be 0.00% at first death and 0.00% at second death.
- Settlement costs include state death taxes (where applicable). A breakdown of the federal estate tax and state estate or inheritance tax is included on the last page of the presentation.

Net Worth Summary (2020)

Portfolio

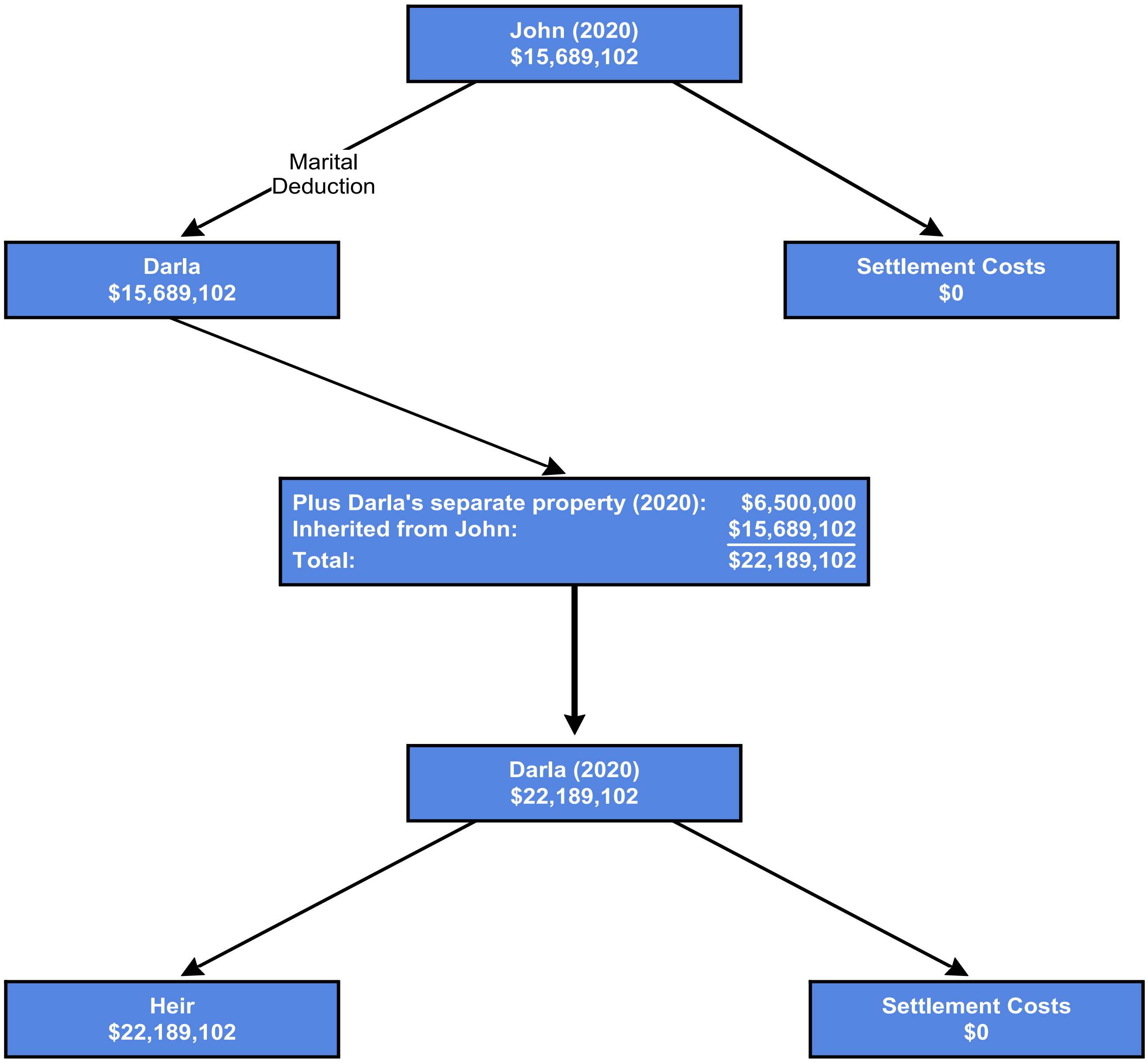
- If a "Portfolio" asset is listed above or on a subsequent page, it is simply the net after tax Required Minimum Distributions (unless assumed to be used for living expenses), life insurance payable to a surviving spouse or included in the surviving spouse's estate, and/or any other income payments being made back to the estate owner (such as CRT’s, GRAT’s, etc.).

Current Estate Tax Situation

- It is assumed that the inflation rate for the applicable exclusion is 2.00%.

- Note: With respect to state death taxes, the state death tax is assumed to be calculated for the state of residence. Therefore, no consideration is given to assets owned in other states that may have a state death tax.
- The estate values for the year of death are the initial estate values plus any projected additions and assumed growth rates, minus projected deletions or losses.
- This analysis assumes “portability” of any unused Applicable Exclusion Amount (AEA). At the death of a married estate owner, any unused gift/estate AEA (exemption) may be carried over and added to the unused AEA of the surviving spouse. An estate tax return must be filed in a timely manner for the deceased spouse, and the executor must elect to allocate the unused AEA to the surviving spouse. Indexing does not apply to the unused AEA received from deceased spouse. The surviving spouse may only use the unused exemption of use of his/her previously deceased spouse.

Both Spouses Die within One Year (Assume No Appreciation)



Note: Amount Currently Available to Fund Credit Shelter Trust: $9,437,866

Current Will and Asset Arrangement

Pertinent Information

- John, who will be age 70 at the end of 2020, has an estate that includes the following:

	Current Value	Growth & Income	End of Year	Future Value	End of Year	Future Value
Joint Account (Jointly Owned)	$2,500,000	10.00%	2024	$4,026,275	2025	$4,428,902
His Cash	3,000,000	10.00%	2024	4,831,530	2025	5,314,683
His House	1,750,000	10.00%	2024	2,818,393	2025	3,100,232
CDs	812,500	3.00%	2024	941,909	2025	970,166
Stock Portfolio	950,000	0.00%	2024	950,000	2025	950,000
Johns 401k	3,500,000	0.00%	2024	3,091,523	2025	2,961,627
Darlas 401k	251,236	0.00%	2024	221,915	2025	212,591
Beach House	925,366	0.00%	2024	925,366	2025	925,366
Portfolio (see Note below)	0	5.00%	2024	2,347,847	2025	2,465,239
Total	$13,689,102			$20,154,758		$21,328,806

- Darla, who will be age 69 at the end of 2020, has an estate that includes the following:

	Current Value	Growth & Income	End of Year	Future Value	End of Year	Future Value
Joint Account (Jointly Owned)	$2,500,000	10.00%	2024	$4,026,275	2025	$4,428,902
Her Cash	4,000,000	10.00%	2024	6,442,040	2025	7,086,244
Portfolio (see Note below)	0	5.00%	2024	0	2025	100,238
Total	$6,500,000			$10,468,315		$11,615,384

Total Estate(s):	$20,189,102			$30,623,073		$32,944,190

(Total reflects any life insurance includable in the estate)

Insurance Assets	Owner	Insured	Death Benefit	Beneficiary
John Insurance	John	John	$2,000,000	Estate

- Non-probate assets will not be used to fund testamentary trusts.
- Current wills: For assets passing under the will, John and Darla have simple wills which provide an outright bequest to each other if the other is living, otherwise to their heirs.
- For any subsequent gifting techniques, it is assumed that there are no outstanding liabilities on the gifted property.
- John and Darla have 1 child.
- Probate and administrative expenses are assumed to be 0.00% at first death and 0.00% at second death.
- Settlement costs include state death taxes (where applicable). A breakdown of the federal estate tax and state estate or inheritance tax is included on the last page of the presentation.

Current Will and Asset Arrangement

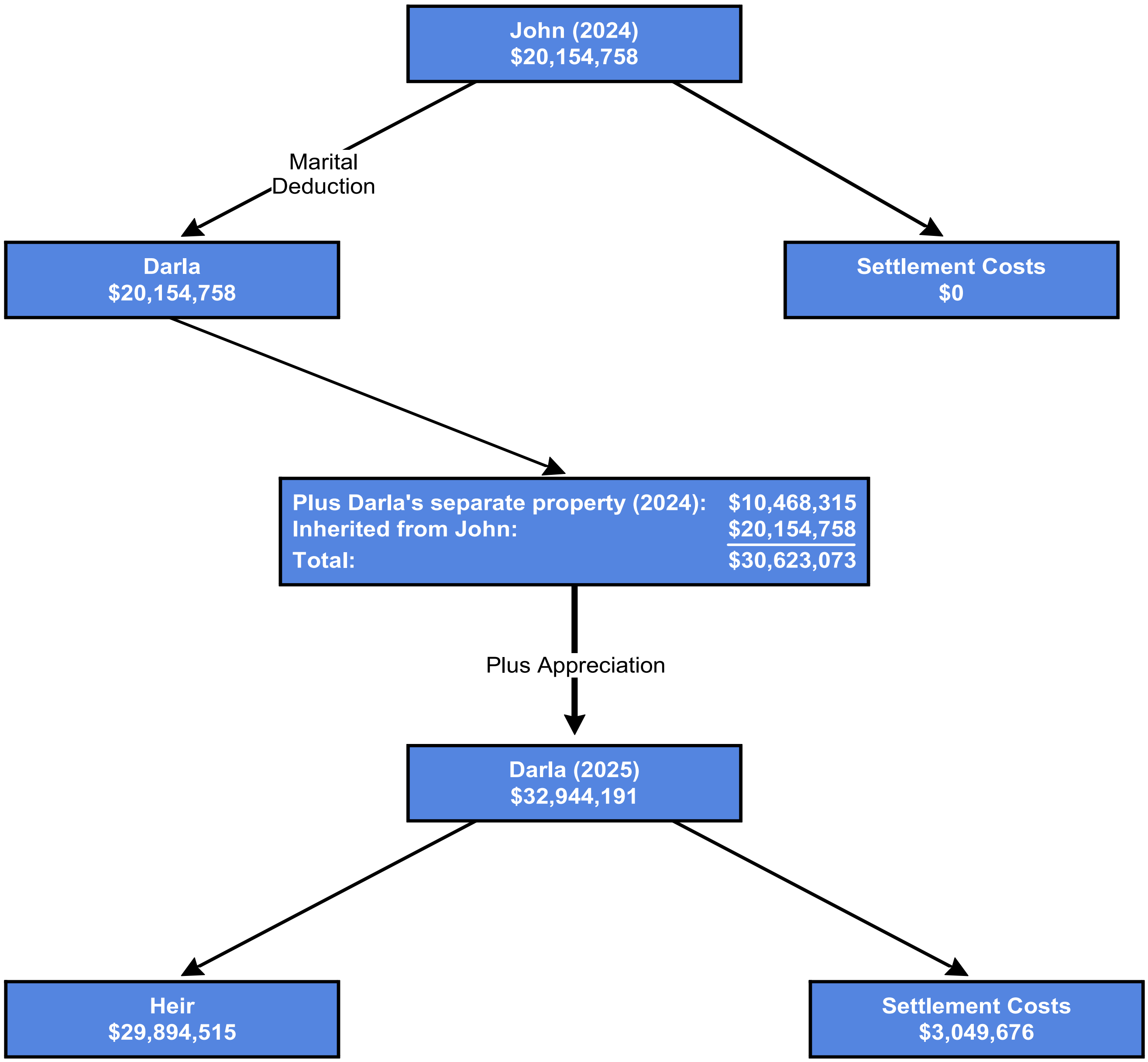
Portfolio

- If a "Portfolio" asset is listed above or on a subsequent page, it is simply the net after tax Required Minimum Distributions (unless assumed to be used for living expenses), life insurance payable to a surviving spouse or included in the surviving spouse's estate, and/or any other income payments being made back to the estate owner (such as CRT’s, GRAT’s, etc.).

Current Estate Tax Situation

- It is assumed that the inflation rate for the applicable exclusion is 2.00%.
- It is assumed that John dies in 2024 and the applicable exclusion amount is $12,530,000. Darla dies in the year 2025 and the applicable exclusion amount is $12,790,000. It is also assumed that the estate tax rate is 40.0%.
- Note: With respect to state death taxes, the state death tax is assumed to be calculated for the state of residence. Therefore, no consideration is given to assets owned in other states that may have a state death tax.
- The estate values for the year of death are the initial estate values plus any projected additions and assumed growth rates, minus projected deletions or losses.
- This analysis assumes “portability” of any unused Applicable Exclusion Amount (AEA). At the death of a married estate owner, any unused gift/estate AEA (exemption) may be carried over and added to the unused AEA of the surviving spouse. An estate tax return must be filed in a timely manner for the deceased spouse, and the executor must elect to allocate the unused AEA to the surviving spouse. Indexing does not apply to the unused AEA received from deceased spouse. The surviving spouse may only use the unused exemption of use of his/her previously deceased spouse.

Current Will and Asset Arrangement



Credit Shelter Trust

Pertinent Information

- John has a projected estate of $20,154,758 for the year 2024.
- Darla has a projected estate of $32,944,191 for the year 2025.
- John's will leaves his estate outright to Darla.
- John's non-probate assets also pass outright to Darla.

Goals and Objectives

- Reduce the projected estate settlement costs of $3,049,676.

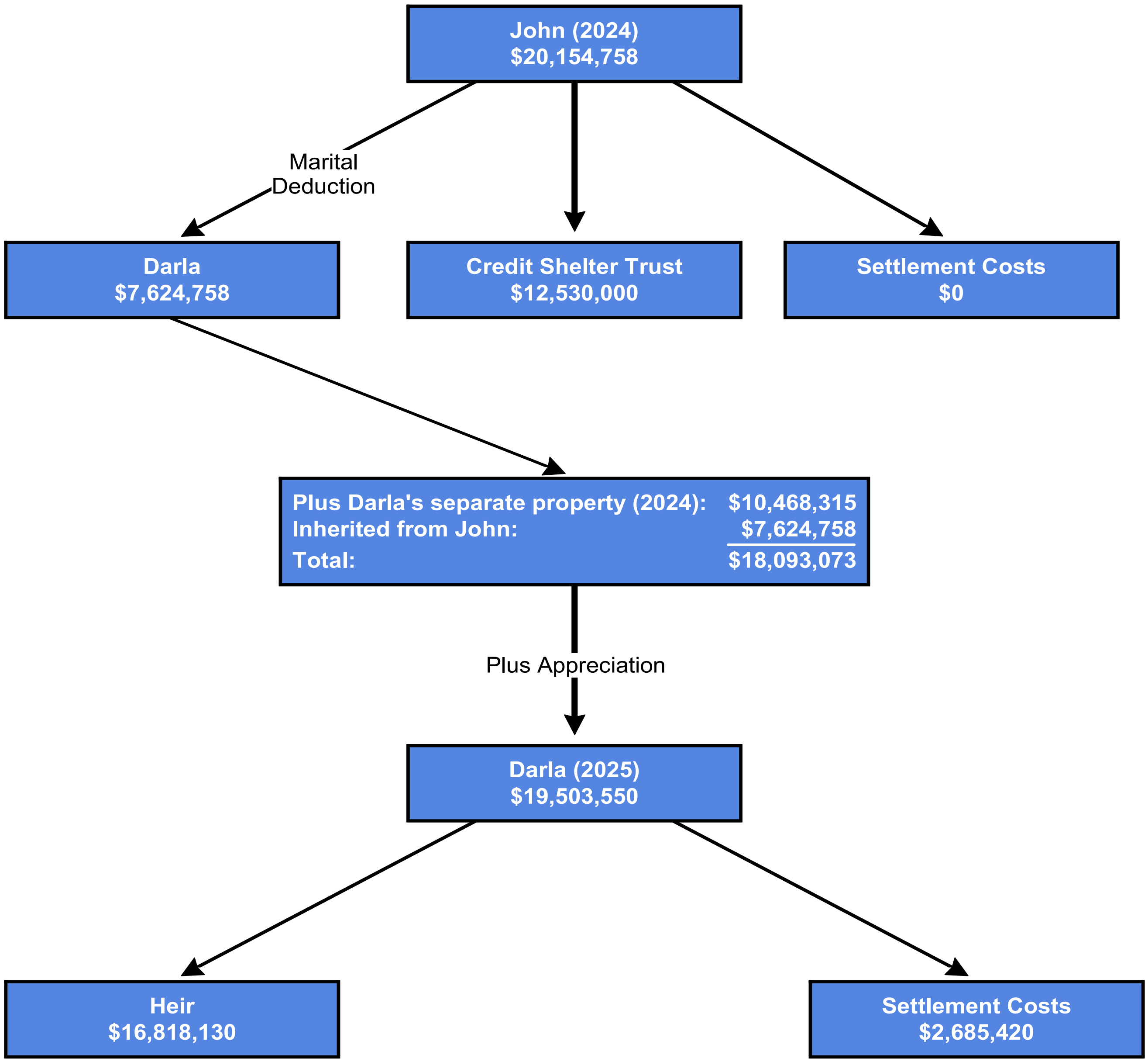
Proposed Arrangement

- Under current estate tax law assumptions, $12,530,000 could be used to fund a credit shelter trust in 2024. The amount actually placed in the trust will be limited by available assets and reduced by any unified credit used by prior gifts.
- John establishes a new will that would provide for maximum funding of a credit shelter trust to minimize estate taxes at Darla's death.
- In addition to the Federal Estate Tax, many states impose a State Estate or Inheritance Tax. The State Tax is deductible for Federal Estate Tax purposes and factored into the illustrated settlement costs.
- If desired, non-probate assets could be restructured (i.e., retitle jointly owned assets, change QRP beneficiary, etc.) to provide John and Darla with more flexibility in transferring those assets via lifetime gifts or testamentary bequests.
- Note: Retitling jointly owned assets into the names of either or both spouses may affect the ability of creditors to reach those assets and may affect the division and distribution of property upon a subsequent divorce.
- Note: Qualified retirement proceeds are not the ideal asset to fund a unified credit or marital trust for the following reasons: 1) In many retirement plans, spousal written consent is required to change the beneficiary and 2) it eliminates the possibility of a spousal IRA rollover, and generally results in an earlier and more accelerated payout to the surviving spouse and subsequent beneficiaries.

Results and Benefits

- The credit shelter trust would allow John to control the ultimate disposition of the trust principal upon Darla's subsequent death.
- Estate tax at John's death is zero ($0) because the unified credit would be utilized to pay the estate tax on the $12,530,000 passing to the credit shelter trust (shown on the next page).
- Any amount passing to the credit shelter trust in excess of the State Tax Exemption amount will cause a State Estate or Inheritance tax to be payable at John's death.
- The projected estate settlement costs should be reduced as the credit shelter trust (and its appreciation) should not be included in Darla's subsequent estate.
- The projected estate settlement costs would now be reduced from $3,049,676 to $2,685,420, a savings of $364,256.

Projected Effect of Adding Credit Shelter Trust



Note: Credit Shelter Trust Value in 2025 (assuming 0.00% appreciation rate): $12,530,000

Marital QTIP Trust

Pertinent Information

- John has a projected estate of $20,154,758 for the year 2024. Darla has a projected estate of $19,503,550 for the year 2025.
- John's will provides for a credit shelter trust with his residuary estate passing outright to Darla.
- The projected estate settlement costs are $2,685,420.

Goals and Objectives

- John would like some assurance that the property passing tax-free via the Marital Deduction to Darla will subsequently be passed on to the Heir.

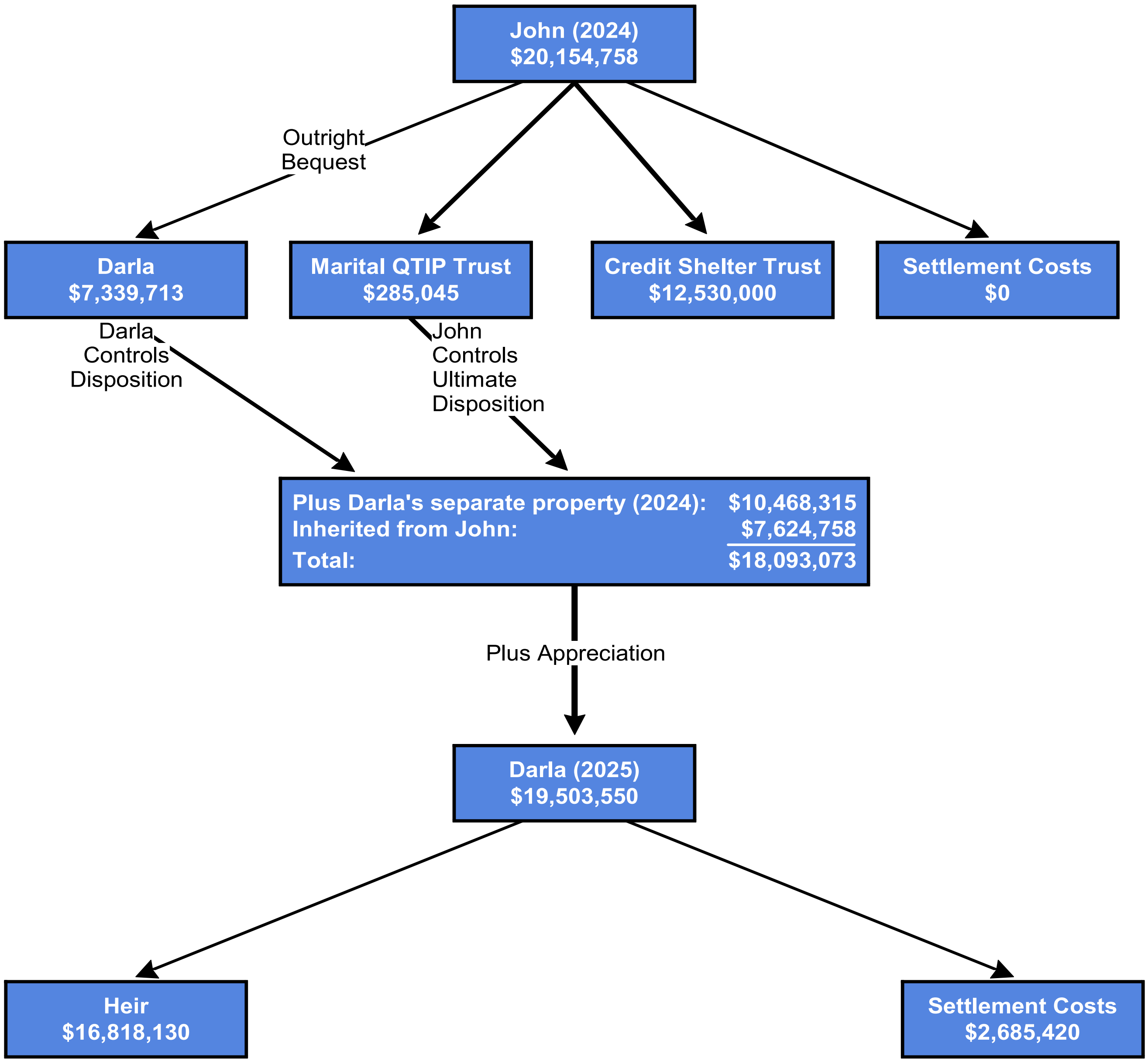
Proposed Arrangement

- John's will provides for a marital deduction trust rather than an outright marital bequest.
- The marital trust would be structured as a Qualified Terminable Interest Property (QTIP) trust.
- The QTIP trust allows property passing to the trust to qualify for the marital deduction.
- It also allows (if desired) John to control the ultimate disposition of the trust principal upon the death of Darla (surviving spouse).
- Thus, at Darla's death, her interest in the trust would terminate, and the remaining trust principal must pass to the remainder interest beneficiaries designated by John -- namely, the Heir.
- Darla must receive all trust income each year and is the only person who may be allowed to invade trust principal during her lifetime.

Results and Benefits

- The trust may limit any potential invasion of trust principal by creditors, an ex-spouse, or due to the subsequent incompetence of the surviving spouse.
- The trust principal will be included in Darla's subsequent estate and will pass to the Heir.
- Note: There is no projected estate settlement cost savings via the marital QTIP trust. The trust is for non-tax purposes (protection of trust assets for surviving spouse and Heir, etc.).

Projected Effect of Adding Marital QTIP Trust



Note: Credit Shelter Trust Value in 2025 (assuming 0.00% appreciation rate): $12,530,000

Qualified Personal Residence Trust, Transfer Year: 2020

Pertinent Information

- John (age 70) owns a residence with fair market value of $1,750,000 and no mortgage.

Goals and Objectives

- John is very concerned about the shrinkage of his estate at death due to the estate tax.
- John is willing to consider a future interest gift, but is reluctant to make a large current gift.

Proposed Arrangement

- Consider a future interest gift of the residence via Qualified Personal Residence Trust.
- The trust allows a considerably larger gift than actually reported for gift tax purposes.
- Assume a 3 year trust and a 0.40% IRS Section 7520 Rate.
- John retains the use and enjoyment of the residence for the 3 year trust period.
- Trust will contain a provision that will allow the residence to revert back to John's estate if he does not survive the trust term (will pass to Darla via the Marital Deduction).
- Note: This should allow a gift valuation reduction for the probability of death during the term of the trust.

Taxable Gift Calculation

Present value of grantor's retained interest (without reversion):	$16,044
Present value of reversionary interest:	$106,750
Present value of grantor's retained interest:	$122,794
Present value of remainder interest (Gift):	$1,277,206

Results and Benefits

- John reported a gift of just $1,277,206 (actuarial value of remainder interest) and in 3 years will have removed $2,329,250 from the estate (assume 10.00% appreciation on $1,750,000 residence for the duration of trust.)
- If John does survive the 3 year period, the beneficiary would then own the residence. Thus, John must then pay reasonable rent to the beneficiary for use of residence.
- Rental payments, in effect, result in further estate reduction without gift tax considerations.
- If John does not survive the 3 year period, residence reverts back to the estate. The gift amount ($1,277,206) is then restored. Thus, there is no loss of the Applicable Exclusion Gift Amount or any gift taxes paid.
- Note: The trust document must provide that neither John nor Darla can buy the residence during the trust term.

Qualified Personal Residence Trust, Transfer Year: 2020

Minority Interest QPRT

The Grantor transfers a minority interest in the residence to an Irrevocable Trust structured for each remainder interest beneficiary. The Grantor retains the use of the residence for the Trust Period, and minority interest in the residence then passes to the remainder beneficiary.

John
Gift of Personal Residence

Pre-Discounted Value:	$1,750,000
Minority Discount:	($350,000)
Fair Market Value:	$1,400,000
Gift Value:	$1,277,206

Qualified Personal
Residence Trust
$1,750,000
Residence

Continued use
of residence

John
3 Years

Assume 10%
Appreciation
for 3 Years

Remainder Interest Beneficiary Heir(2022):	$2,329,250
Amount Removed from John's Estate(2024):	$2,818,393

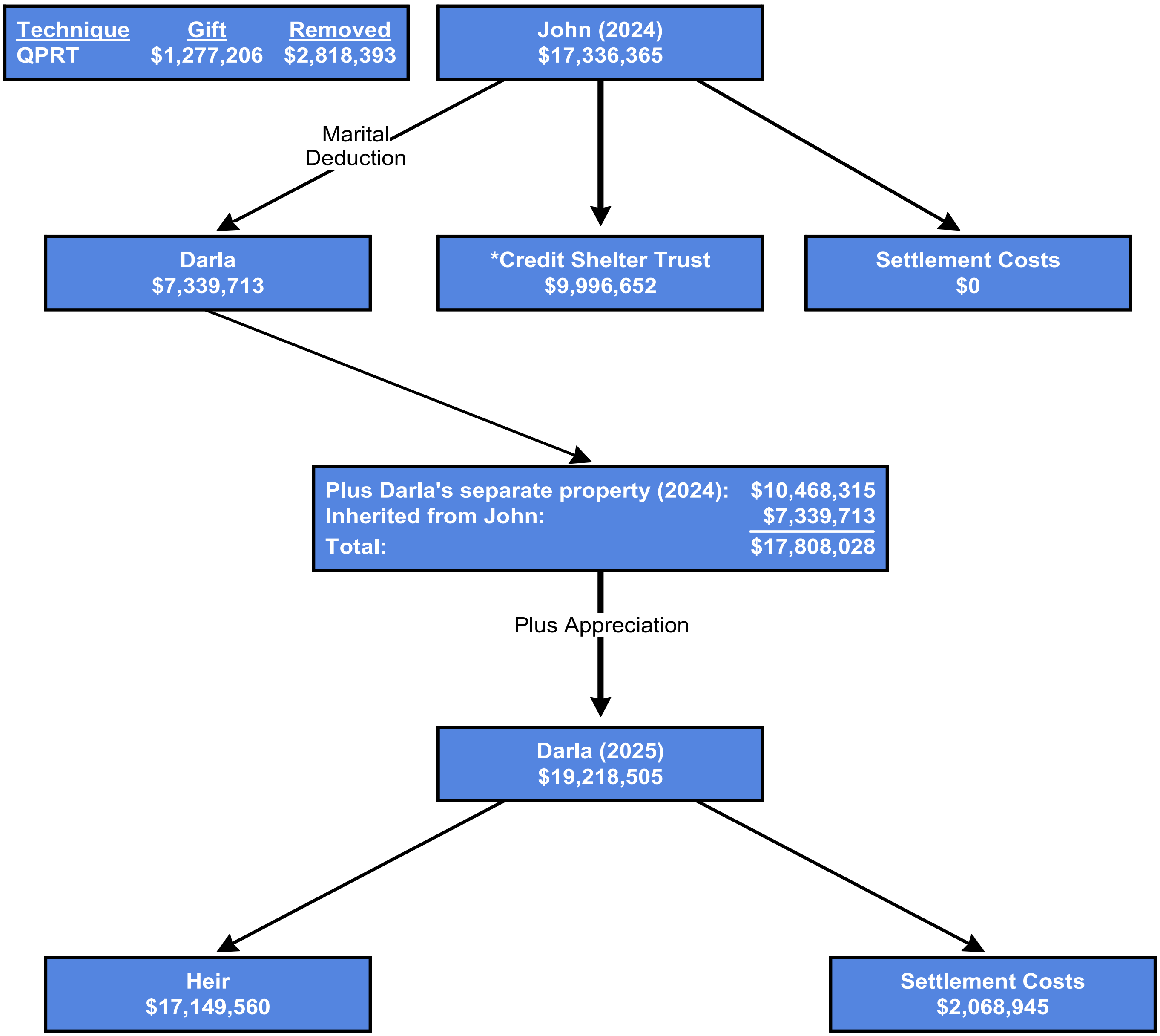
Note: If the gift is to one QPRT for the Heir, the IRS may take the position that this gift is to one trust and does not qualify for a minority interest discount.

Note: If the grantor only has one remainder interest beneficiary, then minority interest could be gifted in year one. The balance of the residence may be gifted to newly created QPRTs in subsequent years and still qualify for a minority interest discount.

Note: There is a possible GST Tax if a child dies during the term of the Trust since the Pre-Deceased Child Rule is not applicable (child was alive when the Trust was established). However, the GST tax could be avoided if other children are named as QPRT remainder interest beneficiaries. John could then make equalizing distributions to deceased child's family under the will.

Note: If desired, the Grantor could provide the spouse with a life estate in the residence after the 3-year period ends. The gift tax calculation would not change.

Projected Effect of Adding QPRT (2020)



Note: Credit Shelter Trust Value in 2025 (assuming 0.00% appreciation rate): $9,996,652
* Credit Shelter Amount is reduced by any lifetime gifts in excess of the annual exclusion. Retirement benefits, jointly owned property and assets with named beneficiaries are not available to fund Credit Shelter Trust, unless restructured.

Short Term Maximum Annuity Rolling GRAT, Transfer: 2020

Pertinent Information

- John owns $3,000,000 of an asset (His Cash) which he believes should appreciate by 10.00% per year.

Goals and Objectives

- John (age 70) would like to contribute the $3,000,000 to a 2-year maximum annuity GRAT and to utilize the annuity payout for a new GRAT each year until 4 GRATs have been implemented.

Proposed Arrangement

- Structure the initial 2-year term certain annuity payout so that John's entire $3,000,000 interest in the asset (His Cash) plus interest at the IRC Section 7520 Rate (assume 0.40%) will be included in the annuity payout.
- Repeat the same GRAT structure each year until 4 have been completed.
- The $1,508,978 annuity payout may be satisfied from distributions of trust principal.

Taxable Gift Calculation for a Term Certain GRAT

(End of Year One)

Initial value of 2-year asset transferred to GRAT:	$3,000,000.00
Less present value of retained annuity interest ($1,508,978)	$2,999,999.96
Present value of remainder interest (Gift):	$0.04

Results and Benefits

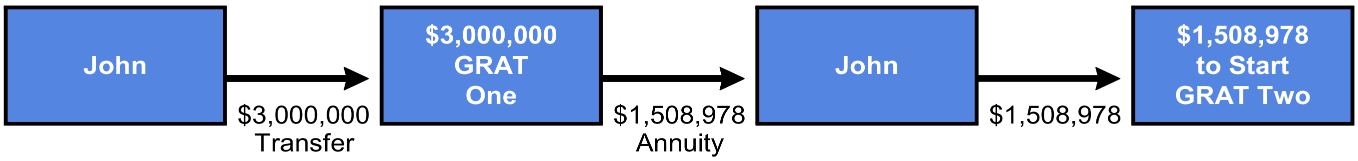
- As a grantor trust, John(grantor) is deemed to own the trust principal for income tax purposes. Therefore, all trust income would be taxable to the grantor. However, there is no capital gain when trust principal is distributed for the annuity payout (Revenue Ruling 85-13).
- If the trust asset grows by more than the assumed 0.40% IRC Section 7520 Rate, the trust would return the excess amount to the children after the 2-year period.
- If the trust asset grows by 10.00% per year over 2 years, the remainder interest that the beneficiaries would receive from the first GRAT is $461,146. See the Rolling GRAT Illustration for the amounts received from subsequent GRATs.
- Note: John must survive the trust period, otherwise the GRAT will be included in his estate at death with credit for any gift taxes paid or unified credit applicable to the GRAT. (TAM 200210009)
- Note: Changes in the IRC §7520 rate and the rate of return over the 5-year period will have direct effects on the results shown.

Short Term Maximum Annuity Rolling GRAT, Transfer: 2020

Rolling GRATS is a term used to describe when the grantor uses the annuity payout to fund a new GRAT every year.

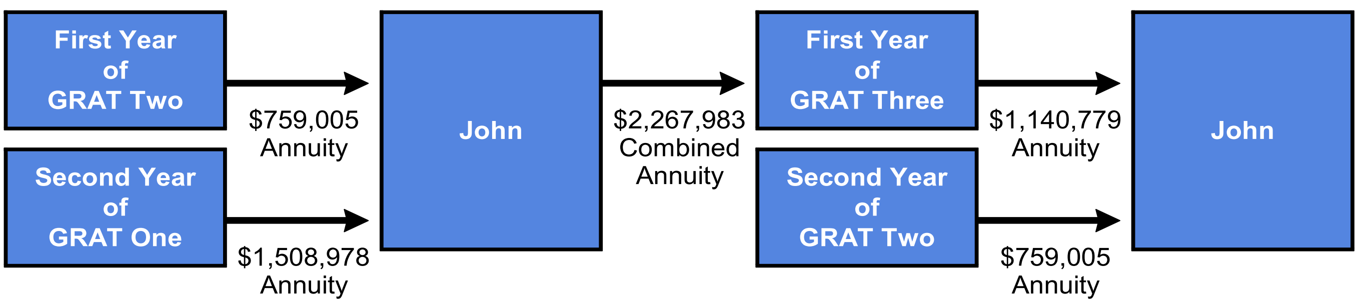
- Assume John transfers $3,000,000 to a 2-year maximum annuity GRAT earning 10.00%. At the end of the first year, John contributes the $1,508,978 annuity from the initial GRAT to a new comparable GRAT. In subsequent years John will use each annuity payout to fund a new GRAT until 4 have been implemented.

Rolling GRATS - End of Year One



- After year one, there will be two existing GRATS. In each subsequent year, one GRAT will mature and a new GRAT will commence. Except for the last year, there will always be two active GRATs.

Rolling GRATS - End of Year Two

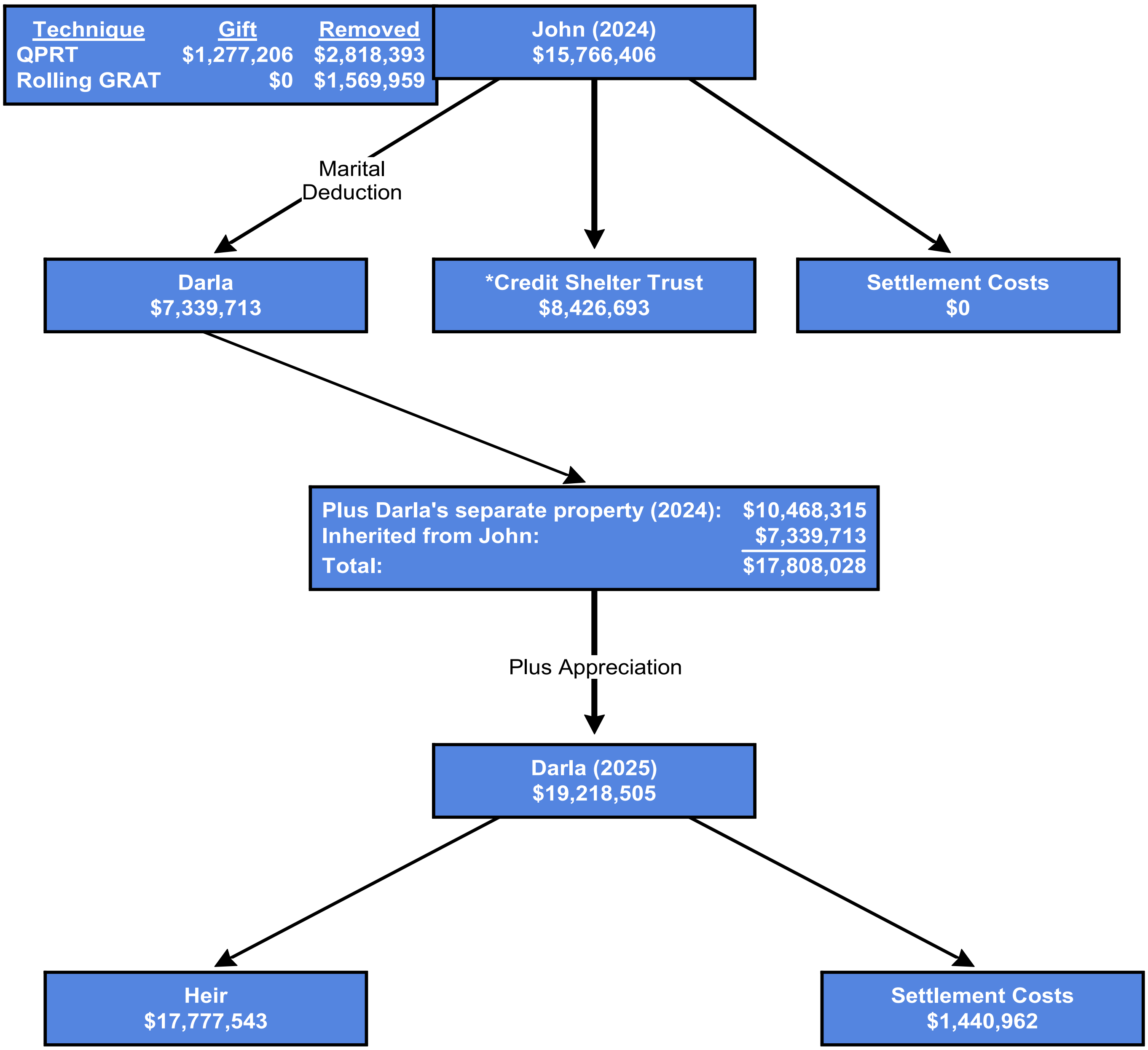


- Each year, John should receive two annuity payments that he will contribute to a new GRAT. For year two, the second annuity payout for GRAT one will be $1,508,978 and the first annuity payout from GRAT two will be $759,005.
- As the first GRAT matures, $461,000 (assuming 10.00% return) will pass to the remainder beneficiary. See the Rolling GRAT Illustration for the amounts received from subsequent GRATs.
- Over the 5-year period the cumulative remainder value of the 4 individual 2-year GRATS would be $1,333,747.
- If the assets from each completed 2-year GRAT subsequently appreciates by the same 10.00%, the total value of the 4 completed GRATS and subsequent 10.00% appreciation would be $1,569,959.
- Note: John must survive the trust period, otherwise the GRAT will be included in his estate at death with a credit for any gift taxes paid or unified credit attributable to the GRAT.

Short Term Maximum Annuity Rolling GRAT, Transfer: 2020

Year	Beginning GRAT Balance	GRAT Growth	Ending GRAT Balance	Payouts to New GRAT	Excess to Benef.	Taxable Gift	Payment back to Estate
2020	$3,000,000	$300,000	$3,300,000	$1,508,978	$0	$0.04	$0
2021	$3,300,000	$330,000	$3,630,000	$2,267,983	$461,146	$0.02	$0
2022	$3,168,854	$316,885	$3,485,739	$1,899,784	$231,953	$0.03	$0
2023	$3,253,786	$325,378	$1,482,807	$0	$348,623	$0.03	$2,096,357
2024	$1,134,184	$113,418	$292,024	$0	$292,024		$955,578
Total:		$1,385,682			$1,333,747		$3,051,935

Projected Effect of Adding Rolling GRAT (2020)



Note: Credit Shelter Trust Value in 2025 (assuming 0.00% appreciation rate): $8,426,693
* Credit Shelter Amount is reduced by any lifetime gifts in excess of the annual exclusion. Retirement benefits, jointly owned property and assets with named beneficiaries are not available to fund Credit Shelter Trust, unless restructured.

Creating a Family Legacy using Life Insurance, Transfer Year: 2020

Pertinent Information

- John and Darla own an asset (Joint Account) with a balance of $5,000,000.
- John owns $2,000,000 of life insurance.
- John and Darla are interested in creating a bigger legacy for their family.

Goals and Objectives

- Review strategies for the payment of Federal Estate Tax in an economical manner.
- The balance of the settlement costs may be paid via liquidation of existing estate assets.
- John and Darla would like to provide their family with an additional $3,500,000 of additional assets after they are gone. These additional funds will be available to help maintain their standard of living.
- Find a source of additional funds to fund a family legacy.

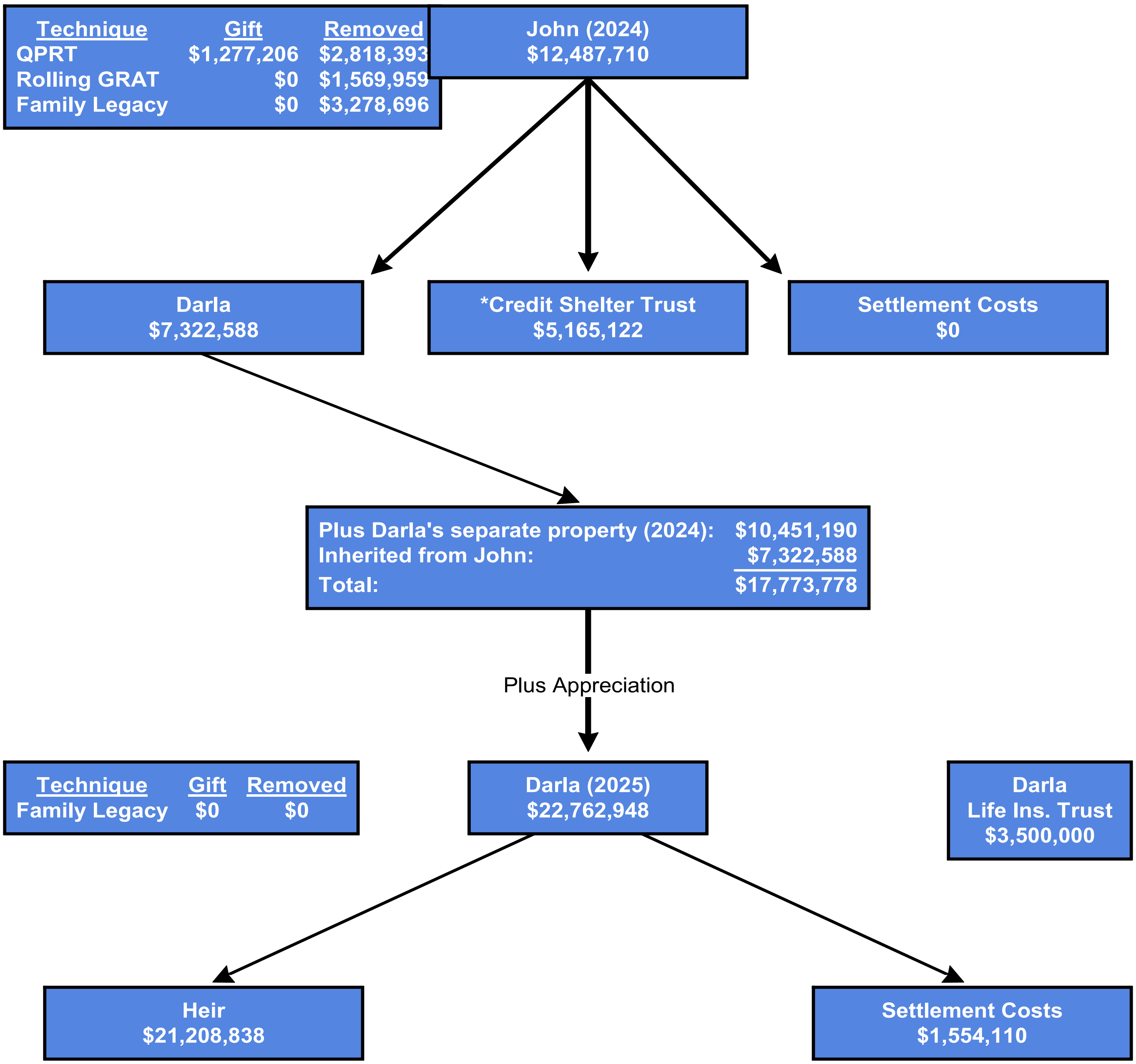
Proposed Arrangement

- Create a new asset to help provide the additional funds needed.
- Consider additional survivorship life insurance or single life coverage to be owned by irrevocable trust.
- Structure life insurance to keep death proceeds out of both spouse's estates via life insurance trust. John and Darla are hopeful that using a trust will provide additional protection against mismanagement, potential bankruptcy, potential divorce or other liabilities.

Results and Benefits

- John and Darla create a new life insurance asset that provides the cash at the exact time needed to help fund the enhanced family legacy.
- The annual premium outlay may be a small percentage of total life insurance coverage; it will be paid for using existing assets.
- Life insurance death proceeds should be not included in either spouse's estate.
- Note: Premium payments may have gift tax consequences.
- Note: This technique does not reflect an actual life insurance product offered by an insurance company. The client must consult the actual illustration for details, assumptions and disclosures regarding premiums and values which are contratually guaranteed by any proposed life insurance policy. Underwriting is not guaranteed.

Projected Effect of Adding Family Legacy (2020)



Note: Credit Shelter Trust Value in 2025 (assuming 0.00% appreciation rate): $5,165,122

* Credit Shelter Amount is reduced by any lifetime gifts in excess of the annual exclusion. Retirement benefits, jointly owned property and assets with named beneficiaries are not available to fund Credit Shelter Trust, unless restructured.

Sale/Gift of Non-Income Producing Asset to a Grantor Trust (2020)

Pertinent Information

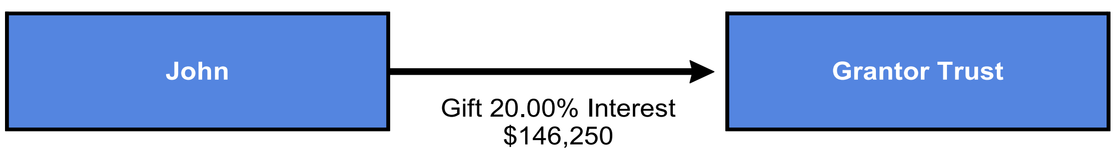
- John owns an interest in a $812,500 capital asset.
- John believes that the capital asset could increase in value by 3.00% per year over the next 4 years.
- It is assumed that the capital asset produces 0.00% income plus 3.00% appreciation.

Goals and Objectives

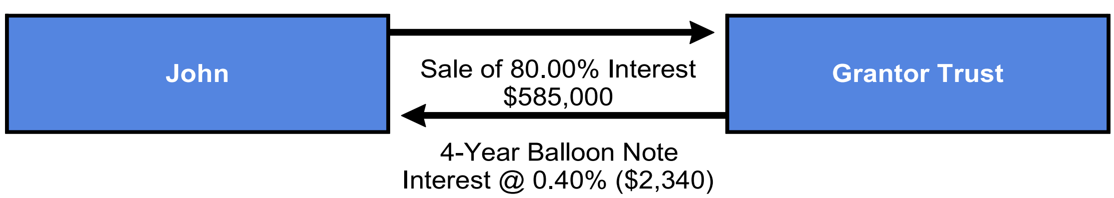
- John would like to keep any possible appreciation out of his estate.
- John may want to maximize the GST transfer via a gift to a Dynasty Trust.
- John will consider a gift of up to 20.00% of the value of the interest in the capital asset.
- There is concern over the capital gain tax on any sale of the capital asset.

Proposed Arrangement

- Consider establishing an irrevocable grantor trust with GST provisions (if desired) for the Heir.
- The trust would provide several retained benefit provisions, which should cause the trust to be treated as a grantor trust for income tax purposes (IRC Section 671-679). For example, a right given to the trust grantor to acquire trust assets by substituting other property of equivalent value should result in classification as a grantor trust (IRC Section 675 (4)(C)).
- As a grantor trust, this trust should be disregarded for income tax purposes (Revenue Ruling 85-13).
- For income tax purposes, John is treated as though he still owns trust principal (not true for gift and estate tax purposes).
- John would then gift 20.00% of the (discounted) $731,250 interest ($146,250) to the trust.
- John would file a gift tax return for the $146,250 gift and, if structured as a GST trust, allocate GST exemption.



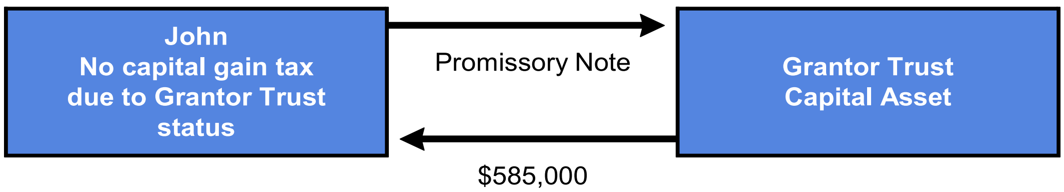
- John would then sell the remaining interest ($585,000) to the trust for a 80.00% 4 year balloon note with interest at the applicable IRC Section 1274 rate (assume 0.40%).



Sale/Gift of Non-Income Producing Asset to a Grantor Trust (2020)

Results and Benefits

- The reportable gift is just $146,250.
- $2,340 of the capital asset must be returned to John each year (from trust principal) for 4 years to satisfy the interest obligation under the sale.
- No capital gain would be recognized when $2,340 of trust principal is distributed for the 4 year interest payout, because of the grantor trust status (grantor is considered owner of trust principal for income tax purposes).
- After the $585,000 balloon note is paid off, $318,598 would remain in the trust for the beneficiaries.



Areas of Concern if Grantor Dies with Note Outstanding

- Potential Inclusion of Trust Principal in Grantor's Estate. If John dies while the promissory note is still outstanding, IRC Section 2036 (transfer with retained life estate) may be applied, which would result in inclusion of the capital asset in his estate. However, the concern over IRC Section 2036 should be reduced if the gift element of the transaction is a substantial part of the overall transfer. The risk may be eliminated if the trust refinances the promissory note with a third party lender prior to John's death. In addition, if IRC Section 2036 were applicable, the allocation of GST exemption would be ineffective due to the ETIP rule.

- Potential Income Tax Consequences. There is concern that the death of the grantor will cause the trust to lose its "grantor" status. The IRS may take the position that the loss of the grantor trust status causes a transfer (deemed sale) by the grantor to a non-grantor trust (Madorin vs. Commissioner 84 T.C. 667[1985]). This transfer may cause the grantor's estate to recognize a gain on the entire sales amount at the grantor's death. Any gain may be treated as income in respect of a decedent and subject to capital gain tax. However there may be no corresponding step-up in cost basis for the asset in the trust. This problem may be solved if trustee uses trust principal to repay the note prior to the grantor's death or borrows from a third party lender to pay off the note before the grantor's death.

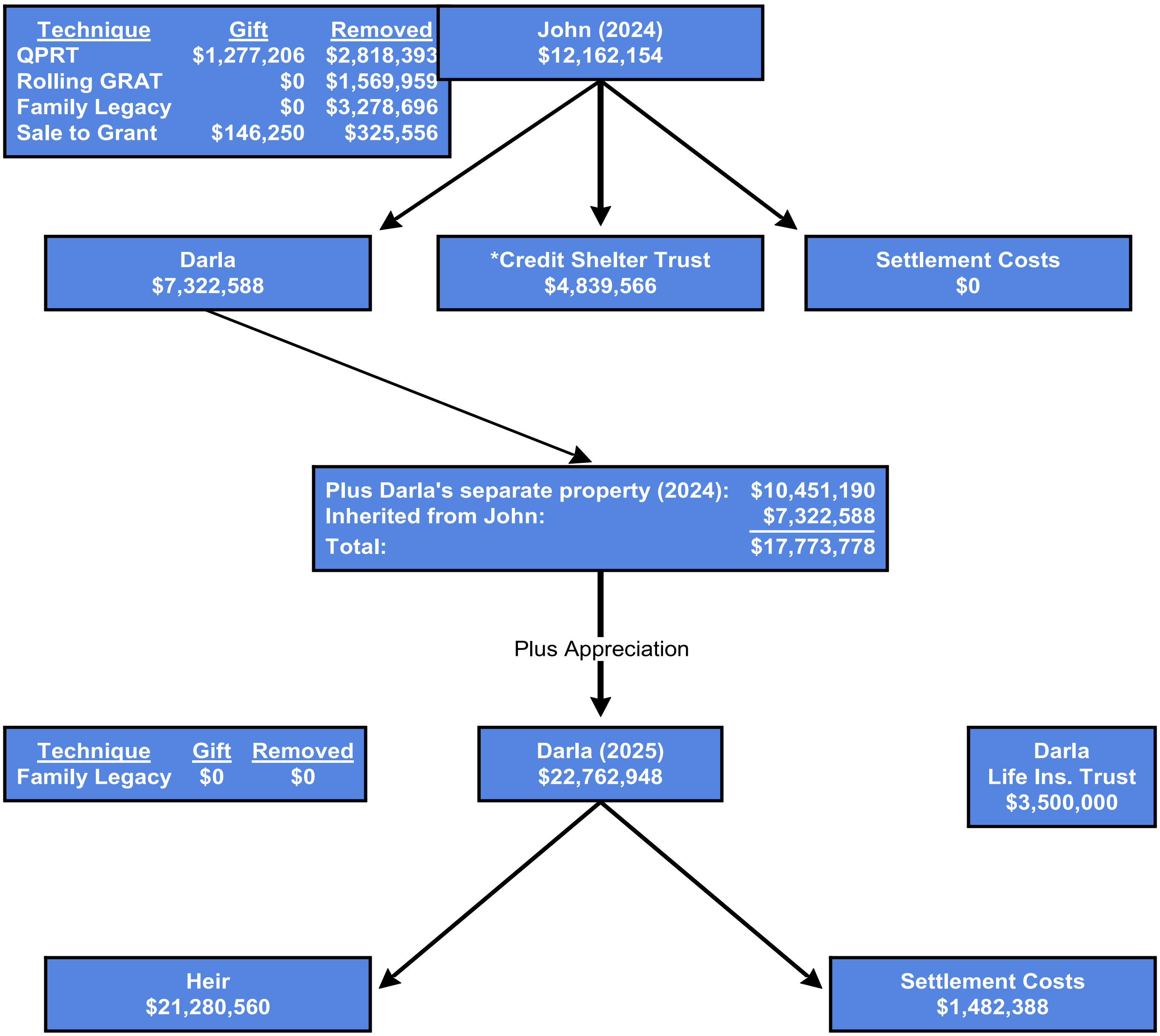
- If the grantor dies during the term of the trust, it is assumed that payments continue to the surviving spouse with the trust principal paid at the duration of the trust to the surviving spouse's estate.
- A sale to a grantor trust is a very complex procedure and may have uncertain tax consequences. You should consult your tax counsel before considering this arrangement.

Sale/Gift of Non-Income Producing Asset to a Grantor Trust (2020)

Year	Beginning Balance	Appreciation	Payment	Principal Liquidated for Payment	Loan Payoff	Ending Balance
1	$812,500	$24,375	$2,340	$2,600	$0	$834,275
2	$834,275	$25,028	$2,340	$2,600	$0	$856,703
3	$856,703	$25,701	$2,340	$2,600	$0	$879,804
4	$879,804	$26,394	$2,340	$587,600	$585,000	$318,598*

* To Remainder Beneficiary

Projected Effect of Adding Sale to Grantor Trust (2020)



Note: Credit Shelter Trust Value in 2025 (assuming 0.00% appreciation rate): $4,839,566
* Credit Shelter Amount is reduced by any lifetime gifts in excess of the annual exclusion. Retirement benefits, jointly owned property and assets with named beneficiaries are not available to fund Credit Shelter Trust, unless restructured.

Create a New Asset to Fund the Estate Tax

Pertinent Information

- John has a projected estate of $12,162,154 for the year 2024, and Darla has a projected estate of $22,762,948 for the year 2025
- There is $2,000,000 of existing life insurance on John's life in an irrevocable life insurance trust.

Goals and Objectives

- Plan for the payment of the projected estate settlement costs in an economical manner.
- The life insurance trusts provide $2,000,000 of liquidity to pay tax.
- The balance of the settlement costs may be paid via liquidation of existing estate assets.

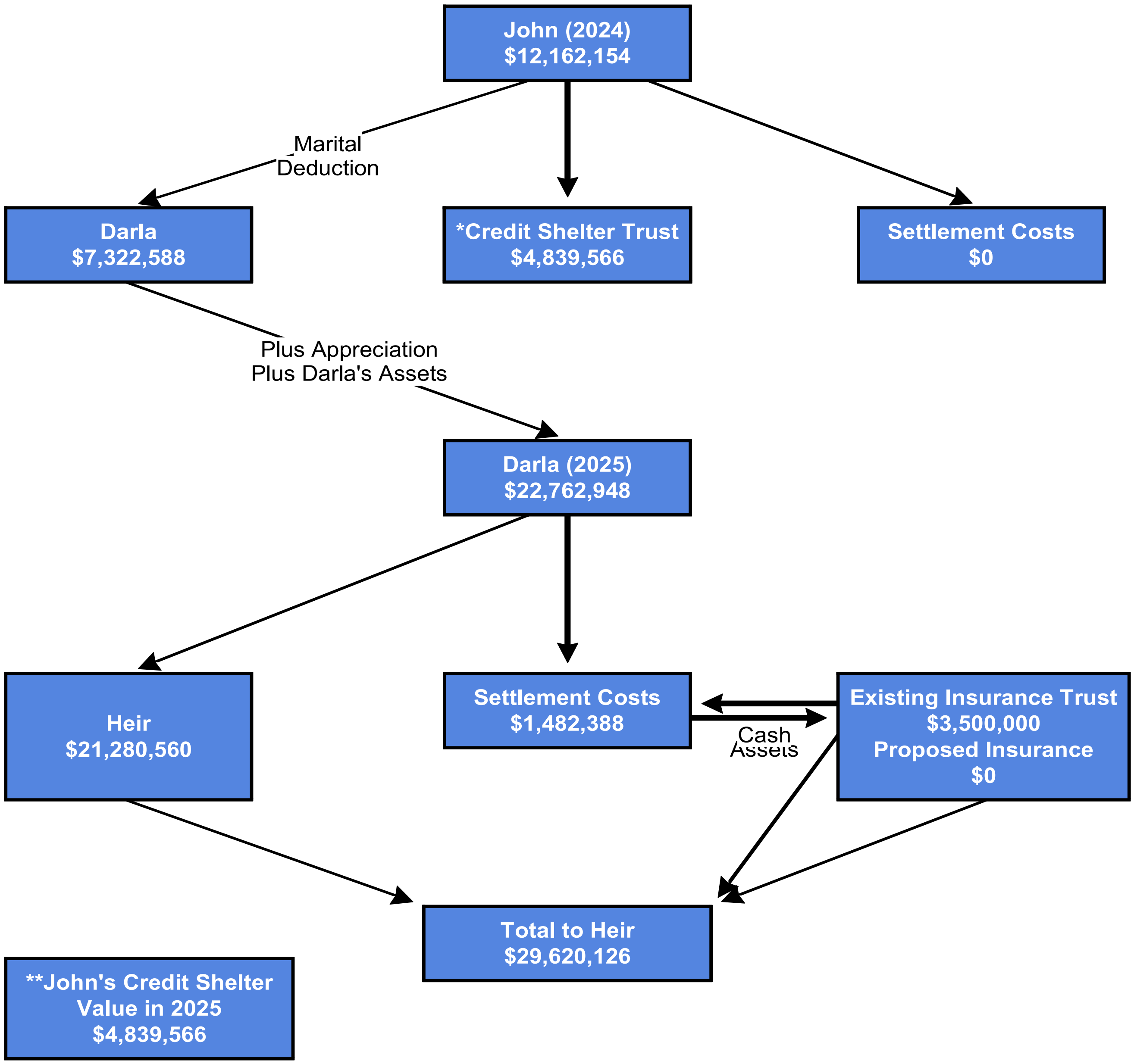
Proposed Arrangement

- Create a new asset to help fund the payment of estate taxes.
- Consider additional survivorship life insurance or single life coverage to be owned by an irrevocable trust.
- Structure life insurance to keep the death proceeds out of both spouses' estates via life insurance trust.

Results and Benefits

- Create a new asset (life insurance) which provides the cash at the exact time needed to help fund the payment of the settlement costs.
- Annual premium outlay may be a small percentage of total life insurance coverage.
- Life insurance death proceeds should not be included in either spouse's estate.
- Notwithstanding the time value of money, the total amount of life insurance premiums may be less expensive than the amount of the federal estate tax.
- Note: Premium payments may have gift tax consequences.
- Note: This technique does not reflect an actual life insurance product offered by an insurance company or approved for sale in any state or jurisdiction. Client must consult actual illustration for details, assumptions and disclosures regarding those premiums and those values which are contractually guaranteed in the policy.

Projected Effect of Creating a New Asset to Fund the Estate Tax

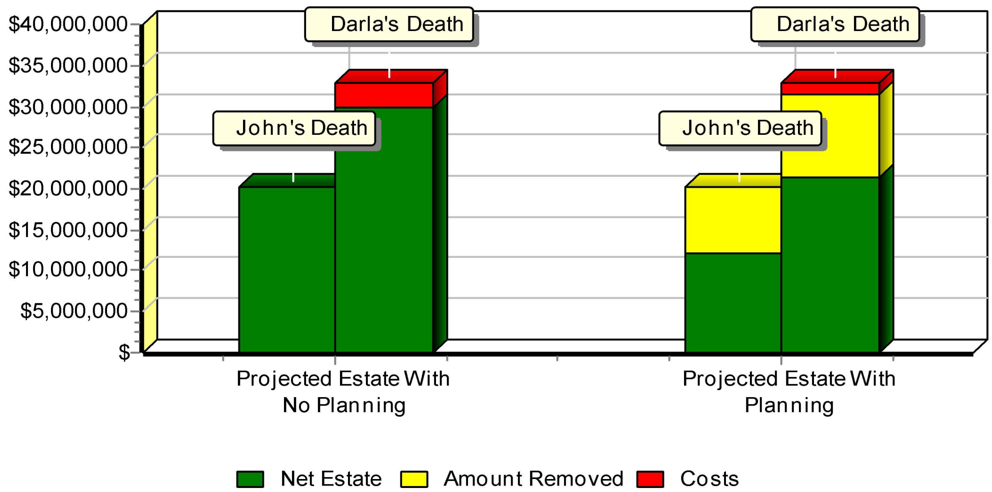


Note: The proposed life insurance shows the entire settlement cost being paid at the second death. If settlement costs at the first death are substantial, consideration should be given to single life coverage.

Analysis of Taxes at Death

At John's Death (2024)	No Planning	With Planning
Taxable Estate:	$20,154,758	$12,162,154
Amount Going to Surviving Spouse:	$20,154,758	$7,322,588
Credit Shelter Trust:	$0	$4,839,566
Available Federal Estate Exclusion:	$12,530,000	$7,690,434
Probate and Administrative Expenses:	$0	$0
Federal Estate Tax:	$0	$0
Total Settlement Costs:	$0	$0
At Darla's Death (2025)		
Taxable Estate:	$32,944,191	$22,762,948
Available Federal Estate Exclusion:	$12,790,000	$12,790,000
Deceased Spousal Unused Exclusion Amount:	$12,530,000	$6,266,978
Total Available Federal Exclusion:	$25,320,000	$19,056,978
Outstanding Liabilities:	$0	$0
Probate and Administrative Expenses:	$0	$0
Federal Estate Tax:	$3,049,676	$1,482,388
Income Tax at Death:	$0	$0
Total Settlement Costs:	$3,049,676	$1,482,388

Summary of Planning Results



	Future Estate with No Planning	Future Estate with Planning
John's Death		
Estate at Death:	$20,154,758	$12,162,154
Amount Removed from Estate via Planning:	0	(12,832,170)
Credit Shelter Trust:	0	4,839,566
Estate Settlement Costs:	0	0
Amount to Heirs:	0	0
Darla's Death		
Estate at Death:	$32,944,191	$22,762,948
Amount Removed from Estate via Planning:	0	(10,181,243)
Estate Settlement Costs		
Federal Estate Tax:	(3,049,676)	(1,482,388)
Total Costs:	(3,049,676)	(1,482,388)
Amount to Heirs:	29,894,515	21,280,560
Credit Shelter Trust Value:	0	$4,839,566
Life Insurance Trust:	$0	$3,500,000
Taxes and Costs Reduced by Planning:		$1,567,288
Life Insurance to Pay Estate Settlement Costs:		$1,482,388