Premier Insurance Contracts, Inc
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Advanced Estate Planning

Beyond the Basics

Virtually everyone needs a basic estate plan. A basic estate plan typically includes:

- One or more health-care directives
- A durable power of attorney
- A will
- A living trust

You may need to go beyond the basics if:

- You have net worth over the current federal gift and estate tax exemption ($11,400,000 in 2019) or the death tax exemption in your state
- You own a family business or farm
- You plan to make significant donations to charity
- You need to shield your assets from your own future creditors, an ex-spouse, or your heirs' future creditors or ex-spouses
- Your spouse would be unable to handle personal or financial affairs on his or her own
- You have children who are minors and/or have special needs
- You want to provide for grandchildren and/or later generations
- You have property in more than one state
- You have other complex or special issues

A balancing act

Advanced estate planning strategies may have tradeoffs:

- Implementation costs
- Relinquishment of financial benefits
- Loss of control over property

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Estate Taxes

What are estate and other transfer taxes?

One of the oldest forms of taxation, transfer taxes are imposed in many forms:

- **Estate tax** — applies to property transferred at death
- **Gift tax** — applies to property transferred during life
- **Generation-skipping transfer tax** — applies to transfers of property during life and at death to someone who is more than one generation below the transferor
- **Inheritance tax** — an alternate form of estate tax imposed by some states on heirs who receive property

Taxes can take a big bite out of your estate if you don't plan in advance. To get an idea of how big that bite can be from federal gift and estate taxes and the generation-skipping transfer (GST) tax, take a look at the following tables.

Highest Federal Transfer Tax Rates

	2017	2018	2019
Gift and Estate Tax	40%	40%	40%
GST Tax	40%	40%	40%

Federal Exclusion/Exemption Amounts

	Gift and Estate Tax Exclusion	GST Tax Exemption
2017	$5,490,000	$5,490,000
2018	$11,180,000	$11,180,000
2019	$11,400,000	$11,400,000

For 2011 and later years, the gift and estate tax exclusion is portable; any portion that is left unused by a deceased spouse can be transferred to the surviving spouse.

After 2025, the gift and estate tax exclusion and the GST tax exemption are scheduled to revert to pre-2018 levels and cut by about one-half.

How much will you owe?

If your estate will be worth more than the exclusion amount, you may end up paying estate taxes. To find out how much you might owe, complete the following worksheet.

1. Current value of gross estate	$ ____________
2. Add prior year gifts	+ ____________
3. Subtract debts	< ____________ >
4. Subtract funeral and estate administration expenses (estimate 3% of gross estate)	< ____________ >
5. Subtract amount going to spouse	< ____________ >
6. Subtract amount going to charity	< ____________ >
7. Subtract exemption amount (see table above)	< ____________ >
8. Taxable estate (subtotal lines 1 through 7)	$ ____________
9. Applicable estate tax rate (see table above)	x ____________
10. Estimated estate tax owed (multiply line 8 by line 9)	$ ____________

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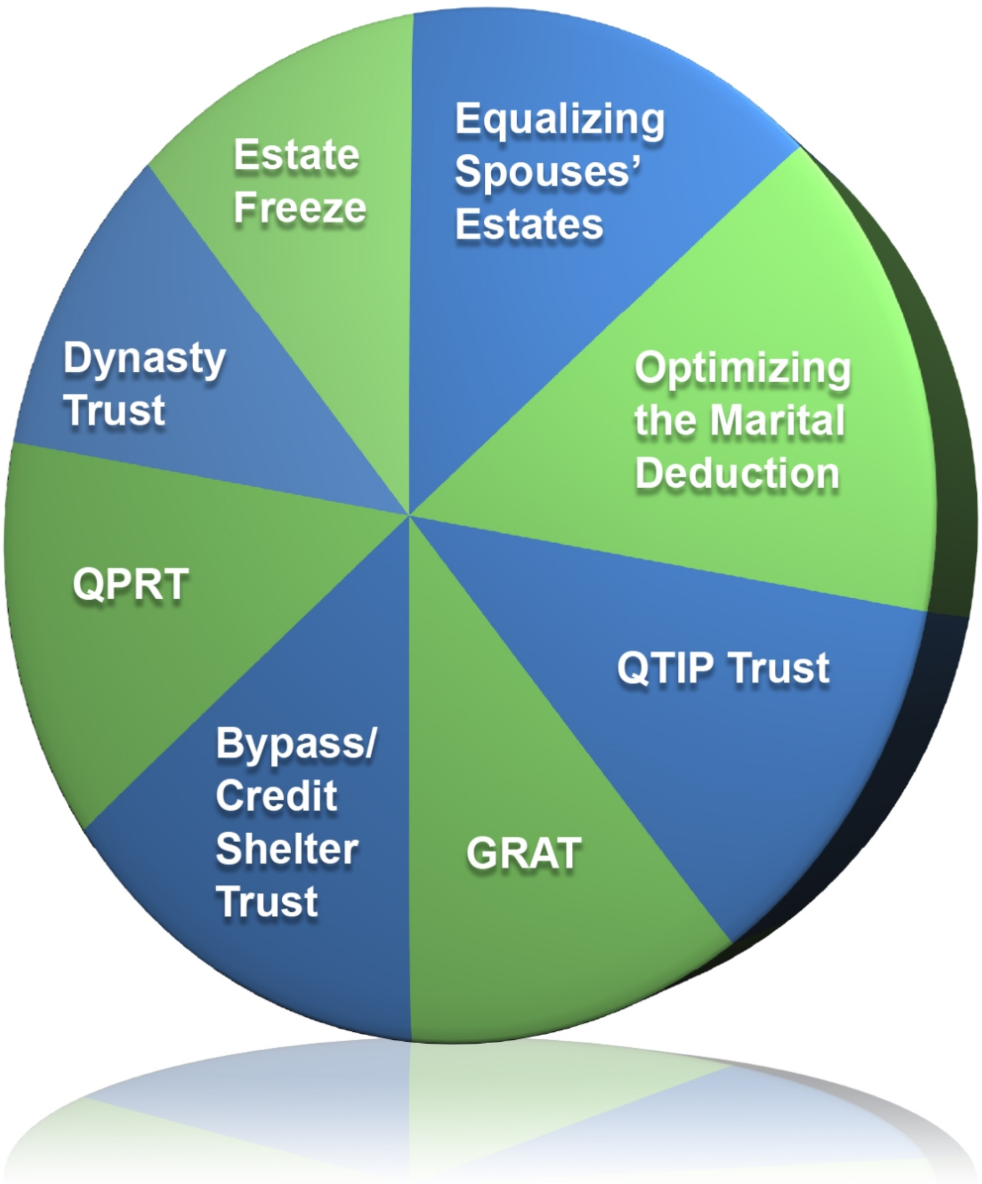
Minimizing Estate Taxes

Death and taxes — the only two certainties in life, as they say. But with proper planning, you can minimize estate taxes at your death.



Where did the dynasty trust come from?

The dynasty trust came into being in the 20th century. During this time, the great industrialists such as Ford, Rockefeller, and Carnegie, who had amassed great fortunes, asked their lawyers to devise a way to preserve their wealth and keep it in their families.

The Dynasty Trust

> ***A dynasty trust (also known as a legacy or perpetual trust) is a trust that can continue to exist for approximately 100 years, and is designed to provide for children, grandchildren, great-grandchildren, and even future generations.***

Why can't a trust last forever?

Trusts originated in England hundreds of years ago — a time when land and property were forfeited by the losing side in a conflict. Trusts allowed nobles to keep their property because the trustee did not take sides. But since property in a trust could possibly be tied up forever, a law was created to limit the life of a trust to 21 years after the death of the last surviving beneficiary. This law became known as the "rule against perpetuities." (Some states have repealed their rules against perpetuity laws. Trusts in these states can, in theory, last forever.)

Limits on the dynasty

Because money in a dynasty trust is not subject to the federal estate tax as generation after generation enjoys income from the trust, Congress enacted the generation-skipping transfer (GST) tax. This is a separate tax that may be imposed when the trust is funded, when certain distributions are made from the trust, and when certain interests in a trust terminate.

But Congress also included a significant exemption in the law. This exemption allows each person to fund a trust with up to $11,400,000 GST tax free (in 2019).

Estate Freeze

> ***An estate freeze is a technique that transfers the future growth of capital property to your heirs. The primary value of an estate freeze is tax reduction.***

IRS thaws many estate freeze techniques

Congress has enacted "anti-freeze" legislation in an effort to thwart perceived abuses. However, some estate techniques remain effective.

Estate Freeze — The Family Limited Partnership (FLP)

Parents can freeze their estates by transferring discounted partnership interests to their children and thus reducing the value of the parents' estates.

Another benefit of an FLP — asset protection

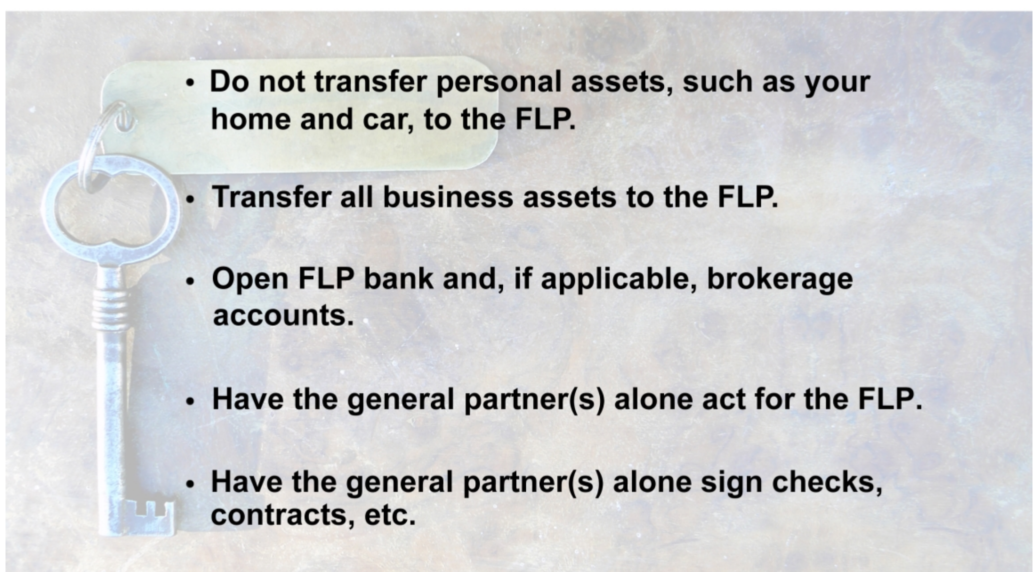
Because the limited partners have no right to force the liquidation of FLP assets, personal creditors of the limited partners can reach FLP assets only if the creditor gets a charging order from the court. The charging order allows the creditor to reach only FLP assets that are distributed to the limited partners. The general partner can choose not to make distributions to the limited partner in such cases, forcing the creditor to wait, or perhaps settle for a substantially smaller sum.

The keys to an FLP

A properly implemented FLP can be the optimal way to transfer wealth to the next generation while accomplishing business-oriented objectives.

One key to a successful FLP is to follow the tax guidelines for structuring the FLP — carefully drafting the FLP agreement and not claiming excessively large valuation discounts for gift tax purposes.

Another key is to respect the FLP entity once it is created. Among other things, that means:



Charitable Giving

One of the greatest opportunities that comes with financial success is the ability to give to charity. And because the federal estate tax rates have dropped and the federal estate tax exemption has increased, you may be able to direct more of your money to your favorite charities.

Ways you can give

- Outright gifts during life
- Bequests at death
- Charitable remainder trusts
- Charitable lead trusts
- Charitable annuities
- Community foundations
- Private foundations
- Donor-advised funds

Ten of the best charities everyone's heard of (according to Charity Navigator)

- Direct Relief
- MAP International
- Matthew 25: Ministries
- Samaritan's Purse
- Cystic Fibrosis Foundation
- The Conservation Fund
- The Carter Center
- Americares
- The Rotary Foundation of Rotary International
- Catholic Medical Mission Board

Charitable giving can be enhanced using charitable tax deductions.

Charitable Giving — The Donor-Advised Fund

Donor-advised funds help donors who want their charitable interests to be carried out in perpetuity by offering a more cost-effective and convenient alternative to a private foundation.

Comparison of Key Features

	Donor-Advised Funds	Private Foundations
Start-up Costs	None	Significant
Income Tax Deduction for Cash Donations	60% of AGI	30% of AGI
Income Tax Deduction for Appreciated Assets	30% of AGI	20% of AGI
Excise Tax	None	Up to 2%
Tax Reporting Requirements	None	Annual federal and state returns
Annual Expenses	Generally low	Can be significant
Grant Requirements	None	Must distribute 5% of assets annually
Donor Duties	Donor may recommend investments and grants	Donor manages assets, selects grantees, and handles all administrative matters
Privacy	Grants can be made anonymously	Grants made are public record

Asset Protection — The Offshore/Foreign Trust

High-risk professionals and business owners may be concerned about protecting their accumulated wealth from potential future litigation, political instability, and fiscal upheaval. The laws of offshore jurisdictions, such as the Cook Islands, Nevis, Belize, Antigua, and Turks and Caicos, allow such individuals to accomplish their asset protection and privacy objectives using an entity called an offshore, foreign, or asset protection trust.

How they work

As long as an individual transfers assets to a trust in a foreign country for legal and proper purposes before a creditor has filed or threatened to file a lawsuit, and the individual has not made himself or herself insolvent by doing so, a U.S. court will have difficulty undoing the trust and reclaiming the assets for creditors who subsequently file suit.

If the creditor receives a judgment from a U.S. court, the foreign jurisdiction is unlikely to enforce the judgment.

The creditor would have the right to pursue a claim in the foreign jurisdiction, but may be discouraged from doing so because of the added expense and risk of being unable to collect on any judgment.

The ultimate safety valve

This type of trust can hold bank and brokerage accounts, foreign real estate, and business interests, among other things, allowing a diverse group of overseas assets to be consolidated within a single entity, resulting in more efficient management and control. However, the individual using this strategy must also be willing to tolerate inconvenience, complexity, and additional cost.

For the trust to be valid, there must be a genuine transfer of legal ownership of the assets in the trust to the trustee.

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