

Hello future.®

# WEALTH TRANSFER FOR DUMMIES: THE NEW ESTATE TAX LAW

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# Agenda

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- Estate tax uncertainty
- Changes in tax laws for 2011-2012
- Importance of having a plan
- Key components of an estate plan
- Creating your estate plan



## Who knows...

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1. What will tax laws be in 2013?
2. When you will pass on?
3. What the total value of your estate, everything you own, and all your investments in total will be the day you pass on?

If you **know** the answer to all of these, you may not need to worry about estate planning.



## Who knows...

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1. When tax laws will change again?
2. When you will pass on?
3. What the total value of your estate, everything you own and, all your investments in total will be the day you pass on?



If you **don't know**, you probably need to consider an estate plan.



# Key estate tax laws today

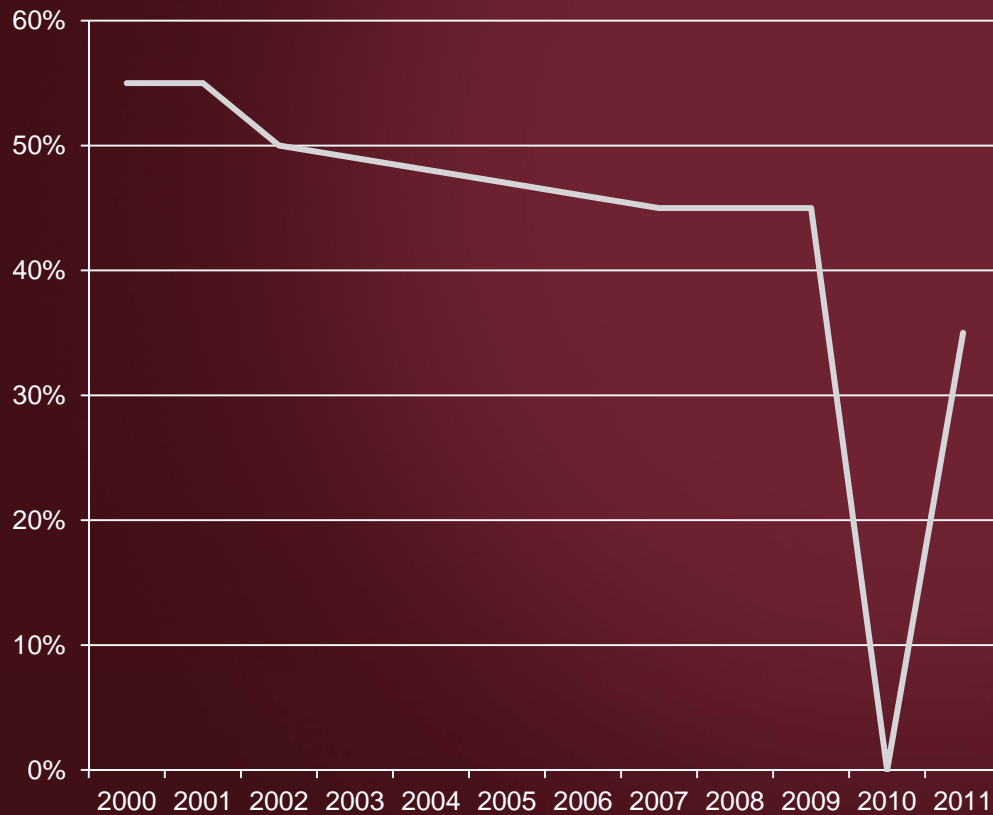
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- Estate tax exemption and lifetime gifting = **\$5 million** per individual for estate, gift, and generation-skipping taxes
- The maximum estate tax rate = **35%**  
*applies to assets over and above the exemption amount*
- The annual exclusion for tax-free gifts = **\$13,000** per donor, per recipient in 2011



# Estate tax rate changes

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<http://www.irs.gov/pub/irs-soi/ninetyestate.pdf>



## But who knows...

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### What happens in 2013 and beyond?

#### **If additional changes are not made, estate taxes will revert to:**

- Estate tax exemption = \$1 million per individual for estate, gift, and generation-skipping taxes.
- The maximum estate tax rate = 55%.  
*applies to assets over and above the exemption amount*

#### **Key Estate Tax laws 2011–2012**

- Estate tax exemption = \$5 million per individual for estate, gift, and generation-skipping taxes.
- The maximum estate tax rate = 35%.  
*applies to assets over and above the exemption amount*
- The annual exclusion for tax-free gifts = \$13,000 per donor, per recipient.



# Who knows when you will pass on?

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Are you willing to risk not having a plan?  
You know who did?



Elvis Presley



Sonny Bono



# Who knows what your estate will be worth the day you pass?

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home



investments



savings



retirement accounts



# Where is the danger?

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I don't have \$5 million, so I shouldn't worry.

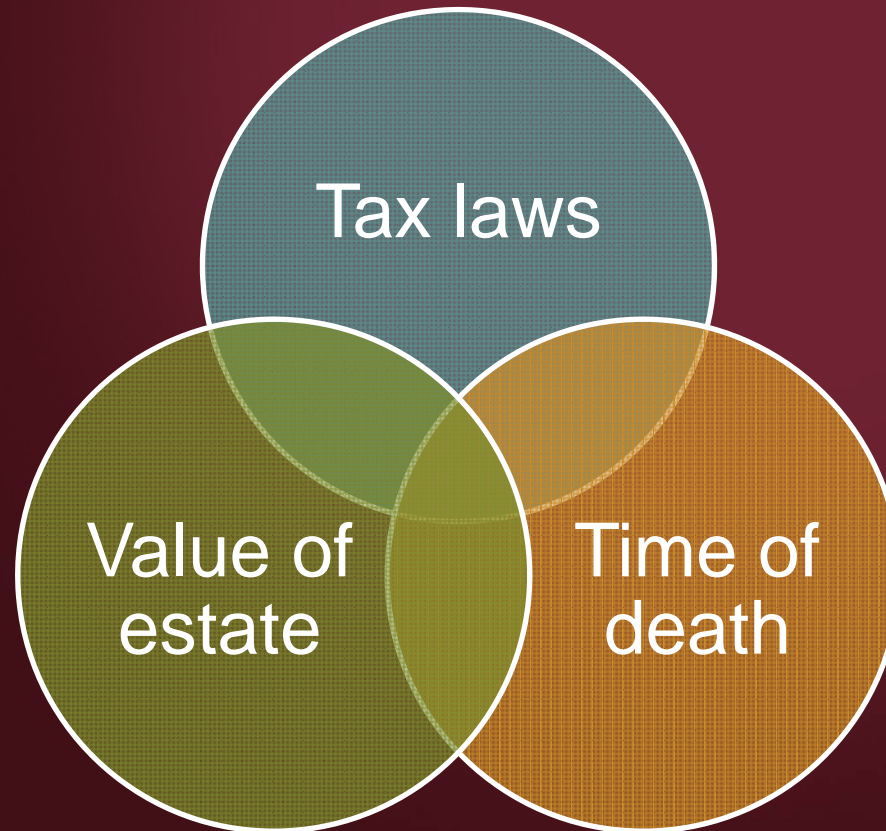




# Mitigate uncertainty with a plan

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## Planning can build confidence.





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# How can an estate plan help?



# Key components of an estate plan

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- ✓ Will
- ✓ Power of Attorney
- ✓ Healthcare directive and long-term care plan
- ✓ Estate size and exposure strategies
- ✓ Gifting
- ✓ Trusts





# Wills

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- A will may be the single most important piece of your estate plan.
- A properly structured will enables you to:
  - Transfer assets to beneficiaries or a trust
  - Designate an executor
  - Establish a trust for the benefit of others
  - Name a guardian for minors
- Dying “intestate,” or without a will
  - Loss of control of estate asset distribution
  - Can be costly to heirs





# Power of attorney

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- Power of attorney
  - Name someone to act on your behalf
    - Make decisions for you
    - Implement your plan if you are unable to do so





# Healthcare directive and long-term care plan

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- Healthcare directive
  - Intended specifically for healthcare decisions
- Long-term care plan





# Trusts

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- Trusts place specific parameters on how certain assets are distributed and which assets are included in the estate.

They can be set up to:

- Provide income to spouse or beneficiaries
- Remove assets from the estate
- Hold assets like life insurance to enhance a legacy
- Be revocable or irrevocable





# Trusts

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## Revocable trusts:

- Terms can be changed by the grantor

- May avoid probate expenses but not estate taxes

## Irrevocable trusts:

- Cannot be changed

- Remove assets from a person's estate

- Can help to reduce estate taxes



# Gifts and bequests

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- Gifts — made during your lifetime
  - Remove assets from your taxable estate
  - Give you direct control over who receives what and when
  - The annual gift tax exclusion is \$13,000 (2011)





# Current laws

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**An example using 2011 and 2012 amounts:  
Mary and Robert have a \$10,000,000 estate value**

---

Robert dies:

\$10,000,000 goes to Mary

Robert's exemption amount is portable and can be used by Mary

Mary dies:

|              |              |
|--------------|--------------|
| Estate value | \$10,000,000 |
|--------------|--------------|

|                         |               |
|-------------------------|---------------|
| Mary's exemption amount | -\$10,000,000 |
|-------------------------|---------------|

---

|                      |     |
|----------------------|-----|
| Total taxable estate | \$0 |
|----------------------|-----|

|                   |     |
|-------------------|-----|
| Estate tax at 35% | \$0 |
|-------------------|-----|

**Total estate value \$10,000,000**



# Why additional planning may be needed

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An example using 2013 amounts:

Mary and Robert have a \$10,000,000 estate value

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Robert dies:

\$9,000,000 goes to Mary

the remaining \$1,000,000 (Robert's exemption amount)  
placed in a trust outside of estate

Mary dies:

|                         |               |
|-------------------------|---------------|
| Estate value            | \$9,000,000   |
| Mary's exemption amount | – \$1,000,000 |

---

|                      |             |
|----------------------|-------------|
| Total taxable estate | \$8,000,000 |
| Estate tax at 55%    | \$4,400,000 |

**Total estate value \$4,600,000**



# Estate planning and wealth transfer

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## Thoroughness counts!



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# Creating your estate plan

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- ✓ Establish your goals
- ✓ Take inventory
- ✓ Plan for tax efficiency
- ✓ Increase your legacy
- ✓ Document and review your plan regularly



# Establish your goals

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- Consider your intentions for your assets
- Who should receive them?
  - How should they be distributed?
  - When should beneficiaries receive them?
  - Do you have dependents with special needs?
  - Do you plan to leave gifts to loved ones or charities?



# Take an inventory

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- Document all of your assets, including:
- Savings and Investments
  - Life insurance benefits
  - Retirement plans and benefits
  - Real estate
  - Business interests
  - Personal items such as automobiles, jewelry, and collectibles



# Plan for tax efficiency

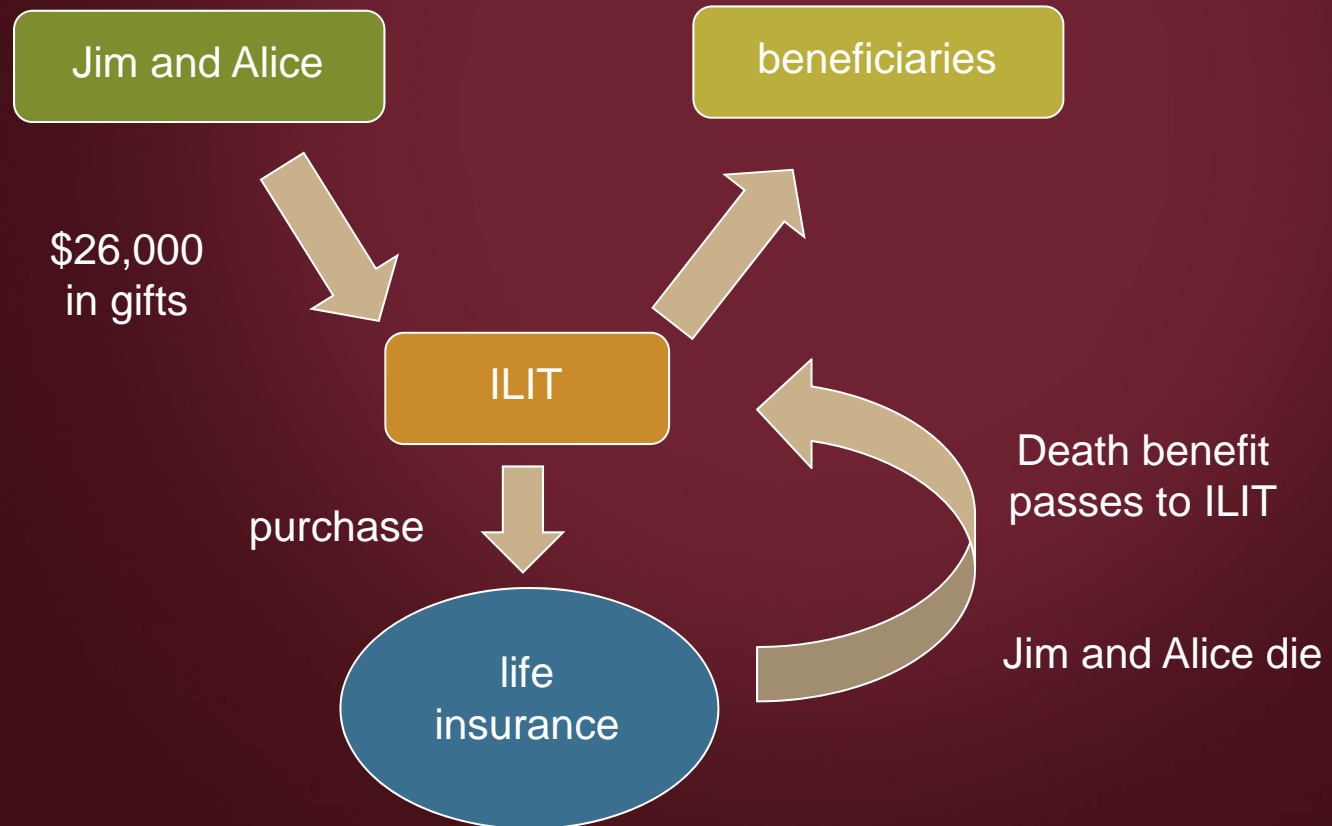
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- Taxes can impact your overall estate — take control.
- Consider gifting to reduce the value of your estate.
    - especially consider items that may have significant appreciation in the future (investments, real estate)
  - Place assets in trusts to remove them from the estate.



# Plan for tax efficiency

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# Document and review your plan regularly

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- Take advantage of experts — financial advisors, attorneys, CPAs
- Set up and properly structure your will
- Tell your family that you have a plan and where to find it
- Review your plan on a regular basis — things change and so should your plan.



# The power of being prepared

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## WE BELIEVE...

You can make the most out of your assets.

You can decide how your assets are used, today and tomorrow.

You have the opportunity to save your assets from the largest tax they may ever face.

You deserve an estate plan that changes as your life, the economy, and tax laws change.



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