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Navigating the Intricacies of Estate Planning

This information is not intended as a recommendation or to provide tax or legal advice. Discuss your specific situation with a qualified tax or legal advisor.

PERSONAL FINANCIAL PLANS & LEAVING YOUR LEGACY

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Legacy planning, at its core, is an inspirational blend of life and death, personal bonds and communal ties, profound love, and enduring values. It calls for us to venture into uncharted territory and contemplate our mortality, a theme we instinctively avoid or even fear.

But consider this... What does it truly mean to leave behind a legacy? What role do today's estate planning decisions play in shaping your footprint on this earth long after you're gone?

The answers aren't obvious. The notion of legacy is a complex puzzle, a mosaic of decisions, actions, and intentions. It might appear simple on the outside, but once we start peeling back the layers, an intriguing labyrinth of choices and consequences unfolds. So, let's start this journey together so we can discover how you can carve out a legacy that stands the test of time

What Is Your Legacy?

In its most basic form, estate planning is about what you leave behind. In American culture, we tend to focus on the money we leave behind. But the truth is that our legacy extends far beyond our money. It includes the history of our relationships with those that matter most to us. It includes the memory of our values and what we demonstrated mattered most to us. It includes how we supported those we loved in their own journey. It includes our acts of kindness, generosity, and compassion. It is about an emotional legacy, whether it be one of strife and angst, or love and forgiveness. It is how we role model for our children, and maybe grandchildren, a life well lived and how to finish life well.

If you buy into this expanded definition of estate planning, then legacy planning is more about what you do during your life than the money you leave behind. It is about your efforts to build, and sometimes repair, your relationships with your spouse, children, grandchildren, and extended family. It is about your willingness to mentor others as you pass on your wisdom that comes from your own life struggles and experience. It is about being supportive of others in their own journey and recognizing that everyone has the right to forge their own path. It is about expressing your values through generosity, giving not only money but also investing your time, talents, and wisdom for causes you care about. It is about showing your children how life can be both meaningful and joyful, even as we struggle and experience the inevitable losses that come with age.

Your legacy is about more than money, but from an estate planning standpoint, money is such a big part of what we leave behind. For that reason, you can use one of two strategies when it comes to estate planning: personal or tactical.

Personal Estate Planning

When you take a personal strategy to estate planning, you're looking at estate planning decisions through the prism of how they will personally affect your children and/or beneficiaries. This type of planning often raises difficult questions such as:

- How do I want to be remembered?
- What do I believe is a life well lived?
- How do I imagine my children spending the money I give them?
- How might the money I leave my children empower them to follow their heart and pursue their dreams?
- Will the money I leave my children deprive them of the chance to build their own strength and resilience?
- How much of who I am today came from starting with nothing and having to work for everything I have? Do I want my children and grandchildren to have a similar opportunity?
- How much money do my kids really need?
- Why do I want to leave my children a financial legacy when I die?
- Do I want to leave a portion of my estate to select charities?

These questions are personal and often difficult. They take time to process—time you might prefer spending another way. They require you to be honest and vulnerable with yourself, your spouse or significant other, and your planning team. This level of intimacy makes many people uncomfortable, which is part of the challenge and the burden of having money.

Tactical Estate Planning

You can also choose to not think about these questions. The estate planning industry has figured out how to avoid them by shifting these decisions from personal to tactical, enabling you to simply focus on limiting your tax burden. After all, paying less tax is something everybody can get behind. The planning strategies to reduce them are not personal, and the benefit is easy to measure. In this scenario, you would have a different set of questions to ask yourself, including:

- Are there ways to make my money do more for me?
- What are the tax implications of gifting to my children?
- What are the best ways to proactively manage risk?

So, why wrestle with personal questions if you feel that you can accomplish your estate planning goals with the tactical ones? It's a personal decision you'll need to make based on what you know today about yourself, your situation, your children, your grandchildren, and your charitable desires.

WHAT'S THE NEXT STEP ON YOUR LEGACY JOURNEY?

Navigating the path to successful estate planning can be complex, but you don't have to do it alone. Our seasoned specialists will use their vast experience to help you design a living legacy that reflects your aspirations for the future. We're here to assist you as you contemplate the multifaceted legacy you want to leave behind, both in financial and non-monetary terms.

Call us today to discuss your estate plan 1-888-831-4033. LET'S TALK

IS YOUR ESTATE PLAN ROBUST ENOUGH TO PROTECT YOUR WEALTH AND LEGACY?

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When building an estate plan, the primary focus is typically on how to transfer assets to heirs in order to best set them up to feel secure and comfortable. This could mean splitting everything up equally, but sometimes that's not the case. No matter how you divide your assets, ideally, the estate plan should create a positive outcome. After all, your children will be better off with more assets, won't they? But you might be surprised at how easy it is to force an unintended negative outcome on your loved ones.

Your most valued asset is your family, so you don't want your children to look back and say, "I really wish my parent would have done this instead." To make sure that doesn't happen, it generally means doing something that can be uncomfortable for many of us: talking about your wealth with your heirs.

Unforced errors in your legacy planning can occur for several reasons, but most stem simply from a lack of communication and a lack of understanding of your heirs' financial situations. The following are just a few examples of how you may be forcing unintended consequences on your heirs when your assets transition with your estate—and how to navigate these situations to help safeguard your legacy.

Passing Unequal Tax Liability to Your Heirs

When you pass on assets, you are also passing on any taxes and required minimum distributions (RMDs) associated with that account, so you need to consider the tax implications of gifting to your children. Unless your children all pay tax at the exact same rate (they likely don't), each of their inheritances will come with a different tax liability, and therefore what they actually end up with in their pockets, after-tax, will be different too. This means your children in a higher tax bracket will get to keep less of their inheritance than your children in lower tax brackets. If giving each of your heirs an equal share of your assets is important to you, be sure to consider that when you determine how to split your assets in your estate plan.

Vacation Homes Could Bring Stress, Not Relaxation

If you own a cottage, cabin, lake home, timeshare, condo or any other kind of vacation property, it's likely you hope that your children will be able to enjoy it as a part of your legacy for years to come. After all, you shared countless memories there as a family and would hope that these traditions continue long after you're gone.

While wanting to protect those traditions and memories is a fine motive and hope for your children, it's worth having a conversation with them to ensure that they share the same intent for their future. Depending on the circumstances, the vacation home that holds fond memories for your children can quickly become a burden. What if they aren't ready or willing to take on the management and maintenance of the property? What if one or more of your children wants to keep the property and the others do not? Situations like these can lead to the property needing to be sold at a discount and leaving none of your kids in a happy spot.

If you are considering leaving a vacation home to your children, be sure to have candid conversations with them to ensure that it's something they want and are prepared to handle.

Selling Assets at Fire Sale Prices

Illiquid assets are those that are hard to value and hard to sell, including things like farmland, real estate, collectibles, and other alternative investments. If you plan to leave these kinds of assets, it's up to your heirs to keep or sell them. Remember: Your infatuation and expertise with these items may not be the same as your heirs. And even if they say they are interested in it now, that interest can, and often does, change after you've passed.

If they ultimately decide to sell the illiquid asset, keep in mind that these often occur at an auction or at a fire sale price, leaving your heirs with less than you had envisioned. Even though you love these assets, if you know that your children might not want to hold onto them, you may want to consider selling them while you, the most informed party, can work to ensure you receive the fair market value for these items.

Create an Estate Plan to Help Safeguard Your Legacy

An effective estate plan not only transfers assets to your heirs, but it also aligns the personal, emotional and financial situations of all parties involved. It's not just about what you give—it's also about what your heirs receive.

To create an effective estate plan that protects your financial legacy, it's essential to have an open conversation with your heirs to make sure that your intended financial objectives are in alignment with how they plan to utilize the assets once received.

Discussing your finances and end-of-life scenarios is tough, but having these conversations will ultimately lead to a better outcome for all. Your most valued asset is your family, and you want to ensure you have a plan in place to help protect them after you're gone. Consider the following:

- Have you discussed your estate plan with your heirs?
- What sort of restrictions are you intentionally or unintentionally imparting on your heirs?

THE PITFALLS OF MISALIGNED TRUSTS

Countless individuals turn to revocable trusts as shields, protecting their loved ones from the legal labyrinth of probate and ensuring the maximal impact of their legacy. On the surface, it is an impeccable strategy. However, when the inevitable happens, these trusts harden into an irrevocable form, and the terms of the trust can hold up the distribution of funds.

This transformation may inadvertently build a fortress of red tape around the funds, making access challenging. Therefore, the terms of your trust must align flawlessly with your intentions. This alignment acts as the foundation, ensuring your wishes are duly carried out, tailoring to your family's unique circumstances and your aspirations.

HOW OFTEN SHOULD I REVIEW MY ESTATE PLAN?

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Your financial plan shouldn't be something you just set and forget. As you advance in age and your wealth grows, your plan should be agile enough to adapt accordingly. The key here is flexibility. But this is about more than routinely assessing and adjusting your investment portfolio.

Your estate plan also needs regular revisiting. If left unchecked, it can become outdated with your current circumstances and miss potential opportunities. Regular evaluations ensure that your estate plan aligns with your changing life and financial situation, preserving its effectiveness and relevancy.

5 TIMES YOU SHOULD REEVALUATE YOUR ESTATE PLAN

It's a good idea to get in the habit of reviewing your estate plan every three or four years, but there are also events in your life that will have a major effect on your financial and estate plans. In addition to reviewing your estate plan every handful of years, you should also be reevaluating your plan after these five major milestones:

Marriage or Divorce

This one's a no-brainer, but it's still worth mentioning. There are already a number of financial considerations for you and your partner before you get married, but once you've tied the knot, it's important to think about what happens to your assets after one or both of you passes away—and whether your new spouse will be the beneficiary on all your accounts. Even though intestacy offers some protection to your spouse, it's important to ensure that they're listed on all aspects of your estate plan after you marry.

Similarly, if you end up going through a divorce, it's important to review your estate plan to see which items your ex-spouse needs to be removed from. And remember: Beneficiary designations trump whatever is stated in your will. So, just because your ex may be removed from your will, if they're still l isted as the beneficiary of your accounts, they'll be entitled to the assets in those accounts.

Birth of a Child

Whether it's your own child or your grandchild, a new baby in your family will likely impact how you want to distribute your estate. For parents, make sure you designate a guardian to care for your child in the event that something should happen to you and your spouse.

For grandparents, your to-dos are a little less dire but important, nonetheless. Maybe you want to help pay for their higher education by setting up a 529 plan. Maybe you want to set up a trust on their behalf so you can ensure they're financially stable. Maybe all you want to do is bequeath them some type of family heirloom. Either way, grandparents have things to think about too when a child is born.

Change in Your Career

Switching jobs may mean a significantly higher salary, which may make you more susceptible to estate taxes in the future. Make sure you revise your calculations and implement strategies that could reduce a future tax burden if it seems likely your estate could be taxable. If you have a life insurance policy through your former employer that you're currently using, check to see whether you can maintain the policy at your new job. If not, make plans to purchase a policy on your own or through your new employer if you still need coverage.

Additionally, a new job may mean new 401(k) and other retirement accounts. You'll need to decide what you want to do with your old accounts if you participate in your new company's retirement plan.

Death of a Beneficiary

Losing a loved one is always emotionally challenging, but it's critical to review your beneficiary designations when a loved one passes to ensure they're still up to date. Again, the person designated as the beneficiary on a life insurance policy or a retirement savings account will supersede whatever is written in your will.

Retirement

If you've been diligently preparing your finances for retirement, you're probably very familiar with where all your assets are. This is a natural time to review the beneficiary designations on all your accounts. In addition to helping you efficiently transfer your assets to your loved ones after you pass, having the right beneficiaries can also help preserve the assets you've been accumulating.

NEXT STEPS

Milestones mark significant moments of change in our lives.

Reviewing your estate plan during these times can help ensure that you and your loved ones are protected, no matter how your life changes. You don't have to do this alone. Interested in working with a professional?

Call us today to discuss your estate plan 1-888-831-4033. LET'S TALK

USE THE ANNUAL GIFT TAX EXCLUSION TO BOOST YOUR ESTATE TAX PLAN

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You want to make sure your loved ones can keep as much of their inheritance as possible. Nobody wants to see their legacy get chipped away by a large tax bill, but that's exactly what could happen to your estate without careful planning.

What Is the Gift Tax?

The first thing to know about the federal gift tax is that gift givers—not gift recipients—have to pay it. Thankfully, you won't owe the tax until you've given away more than $12.92 million in cash or other assets during your lifetime, as of 2023.

This means that under current law, for estates under $12.92 million ($25.85 million for a married couple) no gift tax would be assessed. However, the current law is set to expire in 2026, when the exclusion amount will drop back down to $5 million (adjusted for inflation). At that point, estates over $10 million for married couples would be subject to a 45% tax.

To put that into perspective, a married couple worth $15 million would pay almost $2.5 million in estate taxes. That is why families are now looking to make gifts during their lifetimes that will reduce their estate tax exposure. One good tool is the annual gift tax exclusion amount.

How Does the Annual Gift Tax Exclusion Work?

In 2023, the annual gift tax exclusion amount is $17,000 per person. This means that if you're married, you and your spouse can gift up to $34,000 to each of your children each year without increasing your estate tax exposure. If your children are married, you can also give $34,000 to their spouses, for a total of $68,000 per child.

This provides a meaningful way to get money out of your estate on an annual basis while benefiting your children right now. For example, a married couple with four children who are all married could gift $256,000 annually without incurring any gift tax, thereby reducing their potential estate tax by $128,000 each year. This is very real savings in estate tax.

Annual exclusion gifts can also be made to grandchildren. These can be in a trust or as contributions to 529 plans. Under current law, up to five years of annual exclusion gifts ($75,000) can be made in a single year to a 529 plan per beneficiary. This assumes no other gifts are made to that beneficiary in another form and that no additional gifts can be made to that beneficiary for the next five years.

What Happens If I Exceed the Annual Gift Tax Exemption?

If you exceed the annual gift exclusion, you'll need to report that gift with the IRS, but there are likely to be no lasting tax consequences for you. The reason is that $12.92 million lifetime gift exclusion amount.

Let's say you're single and want to gift your child $25,000 this year so they can put together enough money for a down payment on a house. Because you exceeded the annual gift tax exclusion by $9,000, you would have to report that with the IRS; you wouldn't have to pay any taxes on that $9,000. All that would likely happen is that your lifetime gift tax exclusion (the $12.92 million referenced earlier) would be reduced by $9,000. No significant tax consequences would come into play until you've used up your $12.92 million lifetime gift tax exclusion.

Do I Need to File a Gift Tax Return?

If you make a taxable gift (one in excess of the annual exclusion), you must file Form 709: U.S. Gift (and Generation-Skipping Transfer) Tax Return, even if you don't actually owe any gift tax because of the $12.92 million lifetime exemption.

The form is due by the tax filing deadline, typically April 15 of the year after you make the gift—the same deadline as Form 1040 (if you extend your 1040 to October 15, the extended due date applies to your gift tax return, too).

If you're married, you can't file a joint gift tax return. Each spouse must file a separate return if he or she makes any taxable gifts. You can, however, choose to "split" gifts with your spouse. Making a split gift allows you to take advantage of your annual gift tax exclusion plus your spouse's exclusion for a gift that is made entirely by you. Keep in mind, if you choose to make a split gift, you must file Form 709, and your spouse must consent to the arrangement.

Prior to investing in a 529 Plan, investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

GIFTING DOESN'T HAVE TO BE A TAX HEADACHE

If it seems like there is a lot to consider when you're planning your gifting and estate planning strategy, that's because there is. With the complexity of tax planning, you might be leaving money on the table. Working with trust and estate planning professionals that take your whole financial life into account can help limit your tax liability and maximize your gifts to loved ones. Work with a professional on your gifting strategy.

Call us today to discuss your tax plan 1-888-831-4033. LET'S TALK

WHEN A ROTH CONVERSION IS RIGHT FOR YOUR ESTATE—AND WHEN IT ISN'T

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The decision to execute a Roth conversion and generate taxable income is more complicated than it may seem at first—especially when you consider it in the context of your overall estate plan . You're essentially making a bet that paying tax today is better than having someone else pay any income and/or estate taxes on it in the future. You want to consider your options to make sure you are being tax-smart with your IRA. Before you decide to convert, be sure you and your financial advisor have answered the following three questions.

Will Your Roth Outlive You?

For estate planning purposes, the two main reasons for Roth conversions are to bequeath tax-free assets and reduce your taxable estate. Therefore, it's important to project your spending lifestyle relative to your net worth to understand how your assets may be spent down in retirement. This allows you to determine what assets are likely to be part of your remaining estate.

If you project you'll spend all your IRA assets in retirement, the decision to convert should primarily be based on marginal tax rates over your lifetime. For example, as retirement approaches, you will likely want to delay any conversions until after you've stopped working, as you'll likely be in a lower tax bracket at that time.

If you project that your Roth will outlive you, make sure the conversion tax hit is worth the eventual savings for whoever inherits the account. If your beneficiary will be in a higher tax bracket when the inheritance occurs, they may be better off if you incur the tax liability today at your lower tax rate. If, however, your beneficiary's tax rate when the inheritance occurs will be lower than your current tax rate, a conversion perhaps isn't worth it. In that situation, you might want to consider leaving those assets in a Traditional IRA; your beneficiary is better off paying tax on the withdrawals at their lower rate.

Is There a Plan to Maximize the Roth Benefit?

If you plan well, the benefits of a Roth conversion can span multiple lifetimes. It's important to communicate this to your spouse in order to further extend the account's tax-free growth.

Consider Jack's case: Jack is 63 when he converts his Traditional IRA to a Roth. He passes away at age 75 and names his wife Barbara (age 75) as the sole beneficiary. If she depletes the account, the benefits of tax-free growth end there.

Alternatively, since spousal beneficiaries of Roth IRAs can stretch distributions over their lifetimes, Barbara could choose to let the Roth account grow on a tax-free basis for the rest of her lifetime while taking minimal distributions. If she dies at age 92 and leaves the account to her daughter, Carol, as the sole beneficiary, Carol will inherit a nest egg that has benefited from 29 additional years of tax-free growth.

However, following the passage of the SECURE Act, by law, Carol is required to deplete the entirety of the account within 10 years of inheriting it. This means that some careful planning could be required to make sure Carol is able to maximize her payout within the rules of a Roth IRA inheritance.

Will Your Estate Benefit a Charity?

Charities are unique in that they generally don't pay any income taxes on donations received. Therefore, a Traditional IRA (not a Roth) is an ideal asset to leave to charity. When you own an IRA, it's like a joint account with Uncle Sam, since taxes are owed on every dollar distributed. But when the account is transferred to charity, Uncle Sam no longer gets a share—the charity receives the entire account.

Consequently, converting to a Roth and naming a charity as beneficiary would be a mistake. In this case, the Roth conversion created an unnecessary taxable event, paid tax to Uncle Sam, and reduced the amount received by the charity.

These three questions merely scratch the surface of other factors that may need to be considered. Keep in mind that your estate at age 45 is likely very different from the one you'll have at age 65 or 85—your accounts change, you spend/inherit assets, and you gain/lose family members.

Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA.

HOW TO GENERATE INCOME IN RETIREMENT WITH CHARITABLE REMAINDER TRUSTS

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What if you could sell off a highly appreciated asset, avoid capital gains taxes and create a steady stream of retirement income for yourself or your loved ones? It may sound too good to be true, but those are just a few of the benefits of establishing a charitable remainder trust (CRT).

Traditionally, trusts are created for estate planning purposes, but the truth is, many trusts can provide benefits that you actually get to experience during your lifetime. One such trust is a CRT—a tax-exempt, irrevocable trust that's meant to reduce your taxable income. CRTs are becoming more and more popular because they can potentially reduce your liability for certain taxes, allow you to support your favorite charities and/or causes, and even create a steady stream of retirement income.

How Do Charitable Remainder Trusts Work?

A charitable remainder trust is a type of "split-interest" giving vehicle, which means the assets in the trust are split between two beneficiaries: the initial beneficiary (you or someone else you name) and a charitable organization. While there are actually a couple different kinds of CRTs (more on that below), they both generally function the same way.

1. First, the grantor (person establishing the trust) contributes assets into the trust. This can be anything from cash, to shares of stock, to property, and even artwork. Typically, you'll want to contribute something that can appreciate in value, and even then, it's more beneficial for the asset to have already greatly appreciated.

   From there, the terms of the trust are set. This is where you decide how much annual income you want yourself or your beneficiaries to receive from the trust (at least 5% of the fair market value of the assets in the trust, but no more than 50%), how long you want to have the trust (any set number of years up to 20, or the remainder of your life), and how much you anticipate donating to the charity/charities of your choice when the trust expires (at least 10% of the fair market value; though, since whatever's left in the trust at the time of expiration is donated to charity, this final dollar amount could end up being more or less than what you anticipated).

2. Then, once those assets have been contributed and the terms have been set, the trustee (entity administering the trust) determines the fair market value (FMV) of the assets and essentially takes over ownership of them. The trustee sells off a portion of the assets to cover your income stream, and the cash from that sale is paid out to you. Also, if the trust allows it, instead of selling a portion of the assets, the trustee could make the payment in-kind (i.e. distributing the asset instead of cash).

3. Finally, when the trust expires, any remaining funds are transferred to the charity or charities you name as beneficiaries.

Charitable Remainder Unitrust (CRUT)

Charitable remainder unitrusts are one of the two types of CRTs. The basic structure and function remain the same, but CRUTs work just a little differently.

With CRUTs, the income stream that you or your beneficiaries receive from the trust is a set percentage of the FMV of the remaining trust funds, and the FMV gets revalued every year. This is a huge benefit if you plan on placing assets like stocks or properties into the trust, because those assets could appreciate over time. If that happens, you could end up making more money from the trust every year.

For example, let's say you contribute shares of stock worth $300,000 into a CRUT, you name yourself as the beneficiary, and you wish to receive an annual income of 15% of the remaining assets in the CRUT. You'll receive $45,000 of income from the trust in that first year. At the end of the year, the FMV of those shares is revalued, and maybe the markets are on fire, and the value of your shares actually jumps up to $350,000. If that happens, over the course of that second year, you'll receive $52,500 in income from the trust.

Also, CRUTs allow you to make additional contributions into the trust even after it has been established. This is a great benefit if you find yourself with additional highly appreciated assets. You could make continuous contributions to your CRUT and generate a greater stream of income in retirement—and leave more to your favorite charities.

Charitable Remainder Annuity Trust (CRAT)

Unlike CRUTs, charitable remainder annuity trusts pay out a set dollar amount every year—not simply a percentage. So, if we go back to our previous example and you're contributing shares of stock worth $300,000 into a CRAT, instead of choosing to receive 15% annually, you would simply choose to receive $45,000 annually—regardless of how well or poorly that stock is performing.

CRATs make a lot of sense when you want that income to remain consistent—for example, if you're relying on the income from your CRAT as a steady source of money in retirement. Because you do have to pay taxes on the income from your CRAT, maintaining a consistent amount can also give you more control over which tax bracket you're in. The same can't be said for CRUTs, where if your annual income goes up due to the value of your trust assets increasing, then you could be catapulted into a higher tax bracket.

PROS AND CONS OF CHARITABLE REMAINDER TRUSTS

Establishing a CRT can offer up some great benefits for you, your loved ones and the charities of your choosing.

Pros

Charitable remainder trusts can be a great way for you to spread realization of the capital gain on highly appreciated assets over a number of years while still retaining access to the funds from the sale of those assets. These types of trusts also provide a steady source of annual income, which may be something you end up relying on in retirement. If you don't name yourself as the initial beneficiary, that income stream could be used to benefit a spouse or even your children.

Finally, if you're philanthropically inclined, CRTs offer a great way to give back a portion of your estate to the organizations you support. You can take a partial income tax charitable deduction when you fund the trust, and this calculation is based on the remaining amount you plan to distribute to the charity of your choice when the trust expires. For example, when the terms of the trust are established, if it appears that you will leave 20% of the trust to charity, you can immediately take a partial income tax charitable deduction on the amount you are expected to donate (in this case, 20% of the FMV of the trust assets). And because those assets have been removed from your estate, you'll even lower the estate tax liability they would typically incur.

Cons

There are, however, some potential drawbacks to establishing a CRT. By placing assets into the trust, you give up a lot of the control you would typically have if you had divvied up the assets via a will or some other method. And since the trust is irrevocable, the terms cannot be altered—once they're set, they're set.

Also, while these types of trusts are technically tax-exempt, they do still incur a tax liability. You must still pay taxes on the annual income you receive from the trust, and, if that income pushes you into a higher tax bracket, you may have to pay even more in income taxes. Additionally, if the trust sells the asset, you don't have to realize the capital gain upfront, but whenever a distribution is paid to you, the "carry-over gain" (for lack of a better term) gets paid out to you as well. For example, if the trust realizes a capital gain of $100,000 from the sale of a stock and distributes $10,000 to you each year. The first ten payments to you will be taxed as capital gains until the full $100,000 gain has been distributed. The exception is if the trust generates "worse" income (such as interest taxable as ordinary income). That then gets distributed to you first, and the remainder of the distribution is taxed as a gain. It's a "worst first" distribution method, tax-wise.

Finally, if you fund the trust with something that has fluctuating value like stocks or property, it's possible that over the lifetime of the trust, the value of those assets drops. This could affect how much income you receive from the trust, and it's even possible that there's nothing left over to donate to charitable organizations once the trust expires.

SHOULD I ESTABLISH A CHARITABLE REMAINDER TRUST?

While there are great benefits to setting up a CRT, it's ultimately a decision that will be up to your specific situation. Do you have highly appreciated assets? Do you want to delay having to pay capital gains tax on the sale of those assets? Are you charitably inclined? If you can answer "yes" to those questions, a CRT may be something to think about.

A experienced financial advisor can help you determine if a CRT is right for you. **1-888-831-4033**

HOW TO AVOID ESTATE TAXES WITH AN IRREVOCABLE LIFE INSURANCE TRUST

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Along with a carefully constructed estate plan, a life insurance policy can be a great way to provide for your family and beneficiaries after you pass away. And one of the biggest advantages of a life insurance policy is the tax benefits it can offer.

Generally, the death benefits of a life insurance policy are not subject to income taxes. But just because death benefits are often exempt from income taxes does not necessarily mean that the beneficiary will avoid a tax bill entirely. If you own the policy at the time of passing, the death benefits will be included as part of your estate. This means that those benefits may be subject to estate taxes. However, there is a way for you to distribute death benefits from your life insurance policy without incurring an estate tax liability: establish an irrevocable life insurance trust.

What Is an Irrevocable Life Insurance Trust (ILIT)?

An ILIT is a type of irrevocable trust that's specifically designed to hold and own life insurance policies. Here's how it works: You establish the trust and contribute your life insurance policy as a trust asset. At the time of your passing, the death benefits of the policy are transferred to the trustee, and the trustee then distributes those benefits according to the terms of the trust.

Rather than owning the policy yourself, you instead name the trust as the owner. By making the trust the owner of your policy and naming the trust—not your estate or heirs—as the beneficiary, the policy is effectively removed from your estate, so beneficiaries of the trust won't be forced to pay estate taxes on the payout.

What Are the Benefits of an Irrevocable Life Insurance Trust?

Without question, the greatest benefit of establishing an ILIT is the potential to reduce or outright avoid your estate tax liability.

Although insurance proceeds received by your beneficiaries at the time of your death aren't generally subject to federal income tax, proceeds payable to your estate or heirs are included in the value of your total property owned at the time of your death. This total property is known as your "gross estate," and anything within your gross estate may be subject to federal and state estate tax.

Establishing an ILIT can allow you to better position the wealth you pass on to your family and heirs and reduce or even eliminate the amount owed in federal and/or state estate taxes. In 2023, the federal estate tax exemption is fairly high at $12.92 million. This means that a gross estate valued at anything less than $12.92 million is not subject to federal estate taxes.

However, many states have their own estate tax exemption, and that threshold is typically less than the federal exemption (for example, as of 2021, Massachusetts and Oregon have the lowest estate tax exemptions at only $1 million). This means that although you may be exempt from federal estate taxes, your estate could still be subject to state estate taxes when you pass.

An Irrevocable Life Insurance Trust can help relieve this tax burden in a couple ways:

First, by placing your life insurance policy in a trust, it's removed from your gross estate, so the payout of your policy isn't counted when adding up the value of your estate.

> *For example, let's say you live in Minnesota, where in 2021 the state estate tax exemption is $3 million. Your total estate (home, vehicles, jewelry, bank accounts, etc.) is valued at $2.5 million, and you have a life insurance policy that's set to pay out $500,000. In this case, your gross estate would be right at $3 million, meaning you would be exempt from federal estate taxes, but you'd have to pay estate taxes to the state of Minnesota, which would be about 13% of your total estate (or, about $390,000). If you had instead placed your life insurance policy inside an ILIT, that $500,000 payout would be removed from your gross estate, bringing the value down to $2.5 million and eliminating your estate tax burden altogether. And even if an ILIT can't help you avoid estate taxes, it can at least bring down the value of your estate, thus reducing the amount you'd owe in taxes.*

Second, by placing your policy inside an ILIT, you create an immediate source of liquid cash that can be used to pay for expenses. If your estate is large enough that you have to pay estate taxes no matter what, it can still be a smart move to have the death benefits from your life insurance policy transfer to the executor of your estate. That payout can then be used to help pay for various estate taxes and other settlement costs, which might also effectively bypass estate taxation. This method can be an affordable way to pay for any expenses that occur with the execution of your estate.

Is an Irrevocable Life Insurance Trust Right for Me?

Before considering an ILIT for your estate plan, it's important that you keep a few things in mind. Like any insurance policy, you still need to pay premiums to keep the policy active. When establishing the trust, you can add additional assets to help pay the premiums (this is called a "funded ILIT"), but this might also incur a gift tax liability, and any gift made to an irrevocable trust cannot be taken back. Otherwise, every year you must make additional deposits into the trust to cover the cost of the life insurance premiums (called an "unfunded ILIT").

Additionally, since an ILIT is an irrevocable trust, you will also lose day-to-day control over how the assets within the trust are used. The trustee will maintain the trust and administer the death benefits to your beneficiaries after you pass, but only in accordance with the terms of the trust, and the terms are laid out at the time the trust is established.

Guarantees are based on the claims paying ability of the issuing company.

SETTING UP AN ILIT HAS MANY BENEFITS

But it's also a complicated procedure. Because of the amount of expertise required, it's recommended that you work with your financial advisor or an experienced estate planning attorney. Planning ahead can help you fully utilize all the tax advantages a life insurance policy can offer you and your loved ones.

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