

The background of the slide features a grayscale photograph. In the upper left, a portion of a round analog clock is visible. To its right, a set of keys with a large, ornate metal ring and a braided cord lies on a surface. Below these items, there are several sheets of paper, some of which appear to be legal documents or contracts, with faint, illegible text and lines visible. A solid blue horizontal band is superimposed over the middle of the image, containing the main title.

Pass It On!

Estate Planning Basics

This presentation is designed to provide general information on the subjects covered; it is not intended to provide specific tax or legal advice and cannot be used to avoid tax penalties or to promote, market, or recommend any tax plan or arrangement. Please note that [Agent/Agency Name] and their representatives do not give legal or tax advice. Consult your tax advisor or attorney regarding your specific situation.
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Why Plan?



After paying a lifetime of income taxes, capital gains taxes, sales taxes, living expenses, etc., what's left over becomes part of your estate.



Current estate and gift tax exemptions can be taken advantage of now, and effectively locked in.



As your assets accumulate and appreciate, your estate grows in value.



Planning now can significantly reduce or potentially eliminate exposure to estate taxes in the future.

Let's take a closer look ...

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The Federal Estate Tax *(circa 2024)*

(States may also impose an estate or inheritance tax)



Applies to the fair market value of all assets owned at death (the "gross estate"), less the federal estate tax exemption (currently \$13.61 million per taxpayer).



Federal estate tax rate is 40%, and taxes are due nine months from the date of death; however, for most married couples, nine months after the surviving spouse has passed.



Estate tax and gift tax systems are "unified," so tax applies whether you die with it or give it away.

Source: IRS Publication What's New - Estate and Gift Tax

Gifting Tools

- ✓ Each taxpayer may gift up to \$18,000 per year to any recipient, with no gift tax due and no gift tax credit used up.
- ✓ Although a larger gift can trigger gift tax consequences, the gifted asset, and all future appreciation, are removed from the estate of the gift maker.
- ✓ Gifts can be made directly to recipients or in trust.
- ✓ Some kinds of gifts allow a discount on the value of the gift, for tax purposes. (See an attorney for recommendations.)
- ✓ Some trusts allow removal from the estate, while delaying the ultimate access to the asset.

Estate Planning Trusts

Credit Shelter Trust

Passes assets to family members other than the spouse, up to amount of the unified credit.

Marital Trust

Passes remaining assets to a surviving spouse.

Generation-Skipping Trust

Assets pass to grandkids in order to avoid estate tax on middle generation.

Combining these trusts maximizes the amount sheltered from estate taxes for a married couple.

There is generally no gift tax on gifts between U.S. citizen spouses.

Other Common Tools

Will:

Directs assets to a named person or entity, providing it doesn't pass by "contract" (beneficiary designations) or by law (joint ownership with right of survivorship).

Wills (and assets passing by will) usually must be reviewed by a judge to be approved (i.e., probate).

**To avoid the cost and delays of probate, use joint ownership and beneficiary designations whenever possible.*



Other Common Tools

Durable Power of Attorney:

Authorizes someone else to act and make financial and legal decisions on behalf of the person giving the power.

Medical Directive:

Authorizes someone else to make medical decisions on behalf of the person giving the power.

Both forms must be signed, dated, and witnessed or notarized (per state law).



Paying Estate Taxes



LIQUIDATE ASSETS:

- *Selling off assets can provide the needed liquidity. However, a "forced sale" (in order to meet the nine-month due date) commonly results in fewer proceeds than anticipated.*
- *Illiquid assets, such as a business or real estate, may be very difficult to turn into cash.*
- *Borrowing money to pay estate taxes can place survivors in a difficult position on future cash flow and may further diminish the inheritance.*

Paying Estate Taxes



LIFE INSURANCE:

- *A very common source for the needed liquidity to pay estate taxes.*
- *Avoids a sale of assets, thus preserving the estate for heirs.*
- *Can be an individual (one life) or survivorship (two lives/one death benefit) policy.*

If the deceased owns his or her own policy, the death benefit becomes part of the taxable estate. Trusts or third-party ownership are commonly used to avoid this.

Final Thoughts

- ✓ An effective estate plan is created by an attorney, and relies on the tools discussed, including gifting, the use of trusts, and life insurance to provide liquidity.
- ✓ Periodic review of plan documents and life insurance policies is crucial in order to ensure an effective estate plan. Verify your ownership and beneficiary designations, and be sure that your life insurance will cover all estate taxes on an appreciating estate.
- ✓ Always draft estate planning documents with the help of an experienced estate planning attorney.



THANK YOU

[Presenter Info]

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