

**Estate**  
**TAX**  
**Analysis**

For

**Robert Reynolds**

and

**Margaret Reynolds**

Presented by:

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# Important Notes

These pages depict certain estate planning options. These options may include simple wills, marital trusts, family trusts, credit shelter trusts, living trusts, grantor retained trusts, charitable remainder trusts, special business entities, life insurance (with or without a trust), taxable and charitable gifts. Inclusion of one or more of these options does not constitute a recommendation of that option over any other option(s). This illustration simply shows the effect of the option shown on your estate and potential estate taxes, based on certain assumptions detailed in the illustration.

This report provides only broad, general guidelines, which may be helpful in shaping your thinking about and discussing your estate planning needs with your professional advisors. The quality of this report is dependent upon the accuracy of data furnished by you. No legal or accounting advice is being rendered by this report or through any other oral or written communications. This report provides estimates based on our general understanding of current tax laws. Unless otherwise indicated, the tax aspect of the federal Generation-Skipping Transfer Tax (GSTT) is not reflected. The GSTT is similar to an additional level of estate tax on certain transfers to grandchildren, or individuals two or more generations removed from the transferor, whether by direct gift or where such transfers may occur through trust or other arrangements where such persons may be beneficiaries. Please discuss legal and accounting matters directly with your counselors in each of those areas.

Calculations contained in this report are estimates only. Actual results may vary substantially from the figures shown. All rates of return are hypothetical and are not a guarantee of future performance of any asset, including insurance or other financial products. All inflation rates are estimates provided by you. This analysis is based on information provided by you. It should be kept in mind that property passes by deed first, next by contract, and then by will. To implement any planning option it may be necessary to change ownership or designated beneficiary before your revised will and any planning options will be effective.

Because your estate planning concerns and goals may change in the future, periodically monitoring actual results and making appropriate adjustments are essential components of your program.

During the course of planning, gifting strategies may be proposed that include the acquisition of insurance and other financial products. When this occurs, additional information about the specific product, including a prospectus when required will be provided for your review.

You should consult your own tax and legal advisor before utilizing any planning option shown so that it can be evaluated based on your own needs and circumstances. Nothing contained in this report is intended to be used on any tax form or to support any tax deduction. Only your tax advisor should provide you with that type of information.

**IRS CIRCULAR 230 NOTICE:** To ensure compliance with requirements imposed by the IRS, this notice is to inform you that any U. S. federal tax advice contained in this presentation is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed in this presentation.

# Executive Summary

*for Robert Reynolds, age 61, and Margaret Reynolds, age 61*

## Current Situation

This analysis uses the information you provided.

Liquid Assets	\$1,233,705	
Retirement Plans	\$492,000	
Business	\$4,000,000	
Residences	\$1,115,000	
<b>Your total value if death occurred today:</b>		<b>\$6,840,705</b>

## Effects of Current Situation

Using the estimated rates of return you provided, the combined gross estate in 2016 would be	\$12,704,248	
Assuming Robert dies in 2016, Estimated taxes, expenses, probate, and debts	\$806,697	
Assuming Margaret dies in 2021, Estimated taxes, expenses, probate, and debts	\$8,280,140	
Income tax on income in respect of decedent <sup>1</sup>	\$294,458	
Shrinkage	\$9,381,295	
Total to family after both deaths	<b>\$7,351,865</b>	
Total distribution to family and charity		<b>\$7,351,865</b>
Portion of the estate in 2021		<b>45%</b>

## Proposed Strategy

The proposed strategy, without the recommended new life insurance, would increase the portion going to the family to	<b>\$7,507,089</b>
The proposed strategy, including the recommended new life insurance, would increase the portion going to the family to	<b>\$10,328,805</b>

<sup>1</sup> Heirs must pay the tax on income in respect of decedent, usually associated with inheriting qualified retirement plan assets and annuities.

# Executive Summary (cont.)

*for Robert Reynolds, age 61, and Margaret Reynolds, age 61*

## Major Differences

The major differences between your current situation and the proposed strategy are as follows:

Scenario 1: Current Situation	Scenario 2: Proposed AB Trust with Life Insurance
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The complete analyses of scenarios being compared should be reviewed for differences. The chart below shows the differences in these two scenarios:

Scenario Name	Current Situation	Proposed AB Trust with Life Insurance
<b>Life Insurance</b>		
Life Insurance Policy - Robert's Existing Whole Life Policy		
Payor		
Payors	Robert, eligible for exclusions	Robert
Life Insurance Policy - Proposed Wealth Replacement Policy	Not included	Exists
<b>Transactions</b>		
Transaction - Transfer Policy To Trust	Not included	Exists
<b>Estate Assumptions</b>		
Robert's Will		
Will Provisions	All To Spouse	Marital And Family Trust
Use Living Trust	No	Yes
Marital Trust	Not included	Exists
Family Trust	Not included	Exists
Margaret's Will		
Will Provisions	All To Spouse	Marital And Family Trust
Use Living Trust	No	Yes
Marital Trust	Not included	Exists
Family Trust	Not included	Exists

The Assumptions page and the Additional Details page can provide more details for the items included within a scenario.

## Summary

Your Proposed Plan with new life insurance could provide the following after both deaths.

Irrevocable Life Insurance Trust	\$3,457,536
Trust B	\$1,283,359
Net Distributions to Heirs	\$5,896,467
less: Income Tax on Income in Respect of Decedent	(\$308,557)
<b>Total to Family</b>	<b>\$10,328,805</b>

# Assumptions

## Your Current Plan

Assets and assumptions for a 08/30/2007 analysis of the estate of **Robert Reynolds**, age 61, and **Margaret Reynolds**, age 61  
State Inheritance Tax based on the maximum federal credit for state death taxes.

This analysis assumes that Robert dies in 9 years and Margaret dies 5 years later.

### Salaries

Employer	Employee	Current Salary	Frequency	Inflation Rate
CEO Salary from ABC, Inc.	Robert	\$12,000	Monthly	2.000%

### Checking, Savings, CDs

Account Name	Owner	Current Balance	Balance As Of	Interest Rate	
Joint Checking	Margaret, Robert	\$25,000	Feb. 08, 2006	1.000%	This asset is the Cash Account
Money Market Savings	Margaret, Robert	\$55,000	Feb. 08, 2006	3.000%	

### Mutual Funds

Name/ Symbol	Owner	Account Balance	Balance As Of	Basis	Rates		
					Qual. Div.	Cap. Gains	App.
Eaton Vance Tax-Managed Div Inc B (EBDIX)	Margaret, Robert	\$72,600	Jun. 30, 2007	\$26,000	0.000% <sup>1</sup>	0.000% <sup>1</sup>	8.000%
Vanguard 500 Index Adm (VFIAX)	Margaret, Robert	\$138,430	Jun. 30, 2007	\$30,000	0.000% <sup>1</sup>	0.000% <sup>1</sup>	6.000%
American Performance Balanced (APBAX)	Margaret, Robert	\$27,260	Jun. 30, 2007	\$20,000	0.000% <sup>1</sup>	0.000% <sup>1</sup>	6.000%
Mutual Fund Portfolio	Margaret, Robert	\$68,000	Aug. 30, 2007	\$25,000	1.000% <sup>1</sup>	0.000% <sup>1</sup>	7.000%

### Tax Exempt Mutual Funds

Name/ Symbol	Owner	Account Balance	Balance As Of	Basis	Rates		
					Qual. Div.	Cap. Gains	App.
Eaton Vance NC Muni B (EVNCX)	Margaret, Robert	\$39,800	Jun. 30, 2007	\$40,000	4.000% <sup>1</sup>	1.000% <sup>1</sup>	0.500%

### Stocks

Name/ Symbol	Owner	Current Value	Balance As Of	Basis	Rates	
					Div. Rate	App. Rate
Robert's Stock Trade Account	Robert	\$495,000	Aug. 30, 2007	\$125,000	1.000% <sup>1</sup>	4.000%
COCA-COLA CO (KO)	Margaret	\$270,050	Aug. 27, 2007	\$180,000	2.000% <sup>1</sup>	6.000%
GLAXOSMITHKLINE PLC (GSK)	Robert	\$18,053	Aug. 23, 2007	\$25,000	2.000% <sup>1</sup>	7.000%

<sup>1</sup> Dividends are assumed to be reinvested in similar investments.

# Assumptions (cont.)

## Your Current Plan

### Incentive Stock Options

Name/ Symbol	Owner	Shares Granted	Exercise Price	Expiration Date	Dividend Rate	Appreciation Rate
ISO	Robert	1000	\$5	Jan. 01, 2010	0.000% <sup>1</sup>	5.000%

### Retirement Plans

Name	Owner	Current Balance	Balance As Of	Growth Rate	Owner Contrib'ns	Employer Contrib'ns
Robert's 401k	Robert	\$355,000	Feb. 08, 2006	6.000%	3.000%	1.000%

### IRAs

Name	Owner	Current Balance	Balance As Of	Growth Rate	Type
Robert's IRA	Robert	\$85,000	Feb. 08, 2006	6.000%	Deductible
Margaret's Roth IRA	Margaret	\$52,000	Feb. 08, 2006	6.000%	Roth

### Business Property

#### ABC, Inc.

Owner	Current Value	Balance As Of	Cost Basis	Appreciation Rate
Robert	\$4,000,000	Feb. 08, 2006	\$400,000	6.000%

Business Form	% of Total Bus. Value	Income	Income Frequency	Monthly Expenses	Annual Expenses	Inflation Rate
S Corporation	100%	n/a	n/a	n/a	n/a	n/a

### Residences

#### Primary Residence

Owner	Current Value	Balance As Of	Cost Basis	Appreciation Rate
Margaret, Robert	\$850,000	Feb. 08, 2006	\$800,000	4.000%

#### Personal Loan Secured by this Asset

Balance as of	Mortgage Balance	Payment	Frequency	Interest Rate
Feb. 08, 2006	\$500,000	\$4,200	Monthly	8.000%

#### 16 Seabreeze Drive

Owner	Current Value	Balance As Of	Cost Basis	Appreciation Rate
Margaret	\$265,000	Feb. 08, 2006	\$235,000	4.000%

### Life Insurance-Individual

Robert's Existing Whole Life Policy				
Face Amount:	\$358,000	Insured:		Robert
Monthly Premium:	\$400	Owner:		Robert
		Beneficiary:		Trust
		Premium Payer:		Robert

<sup>1</sup> Dividends are assumed to be reinvested in similar investments.

# Assumptions (cont.)

## Your Current Plan

### Essential Living Expenses

Description	Amount	Frequency	Tax Deductible	Percent Continuing after First Death	Percent Continuing after First Disability	Percent Continuing after First Retirement
<b>Basic Living Expenses</b>	\$3,000	Monthly	No	100%	100%	80%
Already started and ending after the illustration						
<b>Vacation Fund</b>	\$2,500	Semiannual	No	100%	100%	100%
Already started and ending after 2 years						
<b>Property Taxes</b>	\$4,000	Annual	Yes	100%	100%	100%
Already started and ending after the illustration						
<b>Charitable Contributions</b>	\$300	Monthly	Yes	100%	100%	100%
Already started and ending after the illustration						
<b>Medical/Prescriptions</b>	\$300	Quarterly	Yes	100%	100%	120%
Already started and ending after the illustration						
<b>Retirement Fun Money</b>	\$1,000	Monthly	No	100%	100%	100%
Starting when Robert retires and ending after the illustration						

### Debt

Liability Name	Owner	Current Balance	Balance As Of	Interest Rate
Loan for Primary Residence	Margaret, Robert	\$500,000	Feb. 08, 2006	8.000%

# Summary of Values

## Your Current Plan

### Assets

For estate planning purposes, assets can be categorized by their availability to pay taxes and expenses at death. Availability of assets depends on two things:

1. Ownership—the title to the asset determines how it passes at death.
2. Type of Asset—certain assets can be converted to cash more quickly than others.

	Robert	Margaret	Joint	Total
<b>Liquid Assets</b>				
Joint Checking			\$25,000	\$25,000
Money Market Savings			\$55,000	\$55,000
Robert's Stock Trade Account	\$495,000			\$495,000
COCA-COLA CO		\$270,050		\$270,050
GLAXOSMITHKLINE PLC	\$18,053			\$18,053
Eaton Vance Tax-Managed Div Inc B			\$72,600	\$72,600
Vanguard 500 Index Adm			\$138,430	\$138,430
American Performance Balanced			\$27,260	\$27,260
Mutual Fund Portfolio			\$68,000	\$68,000
Eaton Vance NC Muni B			\$39,800	\$39,800
Life Insurance Cash Values	\$24,512			\$24,512
<b>Retirement Plans</b>				
Robert's 401k	\$355,000			\$355,000
Robert's IRA	\$85,000			\$85,000
Margaret's Roth IRA		\$52,000		\$52,000
<b>Business</b>				
ABC, Inc.	\$4,000,000			\$4,000,000
<b>Residences</b>				
Primary Residence			\$850,000	\$850,000
16 Seabreeze Drive		\$265,000		\$265,000
<b>Total Values Today</b>	<b>\$4,977,565</b>	<b>\$322,050</b>	<b>\$1,276,090</b>	<b>\$6,840,705</b>

### Values from Prior Planning

Your prior planning affects the values your heirs will receive if you were to die today.

Life Insurance on Robert <sup>1</sup>	\$358,000
<b>Prior Planning Total</b>	<b>\$358,000</b>

### Total Value if Death Today

The summary of your values today equals the Total Values Today of \$6,840,705 less Life Insurance cash values of \$24,512 plus Values from Prior Planning of \$358,000

<b>Total Value if Death Today<sup>2,3,4</sup></b>	<b>\$7,174,193</b>
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<sup>1</sup> May be in the estate if death today based on ownership and beneficiary designations.

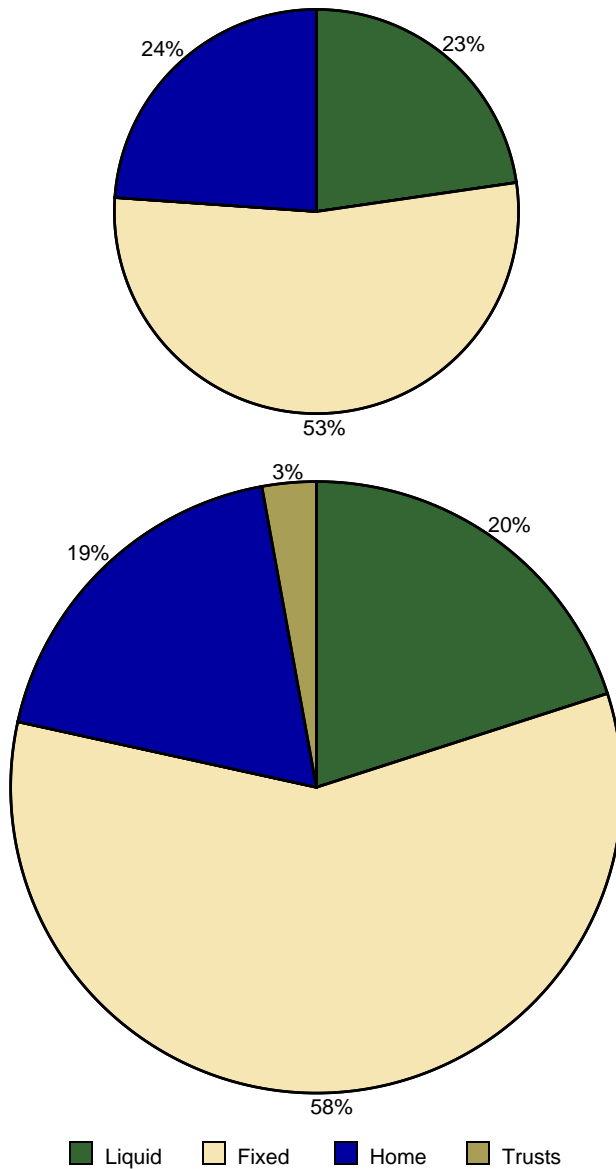
<sup>2</sup> Life Insurance cash values of \$24,512 not included in the "Death Today" value.

<sup>3</sup> Includes values that may not be part of taxable estate.

<sup>4</sup> Your stock options if exercised today could increase your net worth.

# Your Estate...

Your Current Plan



Today: \$7,174,193



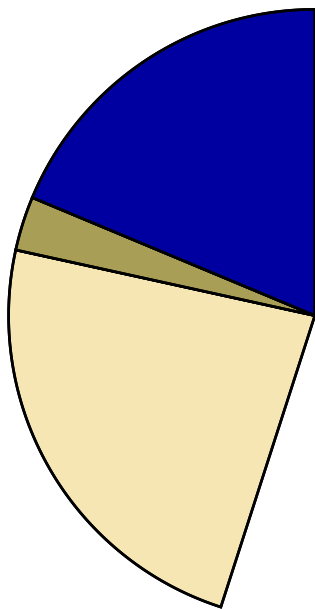
In 14 years:  
\$16,325,055

## To whom do you want to leave your estate?

# At Your Death

Your Current Plan

## Before Your Heirs Get Anything...



Remaining Estate<sup>1</sup>  
 \$7,351,865  
 45%

Taxes, Expenses, Probate, Debts<sup>2</sup>  
 \$8,973,190  
 55%

## The Tax Man Gets His!

<sup>1</sup> Includes the values from prior planning and existing life insurance.

<sup>2</sup> The sum of taxes, expenses, debt, and probate and administrative fees, as shown by the flowchart that follows.

# Current Planning

# Current Planning

## *Current Will Assumptions*

This analysis assumes that Robert dies in 9 years and Margaret dies 5 years later. Not all property is transferred by your will. Property owned jointly with survivorship rights passes to the surviving joint owner. Life insurance proceeds are paid to your named beneficiary. This analysis applies the provisions below to the extent possible. State Inheritance Tax is based on the maximum federal credit for state death taxes.

### Robert's Current Plan

Your will leaves everything outright to Margaret after providing for any other planning options.

### Margaret's Current Plan

Your will leaves everything outright to Robert after providing for any other planning options.

# Your Current Plan

## Projected Growth of Assets

This analysis assumes that Robert dies in 9 years and Margaret dies 5 years later. The growth of your assets until death considers your income as well as the portion of existing assets used to provide the spending patterns detailed in the assumptions.

End of Year	Expected Income	Total Outgoing Payments	Change in Assets	End of Year Asset Values	Robert's Assets	Margaret's Assets
			<i>Values Today</i>	<b>\$6,816,193</b>	<b>\$5,591,098</b>	<b>\$1,225,095</b>
2007	\$96,167	\$177,434	\$198,140	\$7,458,599	\$6,202,561	\$1,256,038
2008	360,996	278,914	406,208	7,971,216	6,605,937	1,365,279
2009	345,547	295,668	406,871	8,480,799	7,016,423	1,464,376
2010	354,184	308,610	432,029	9,015,680	7,448,681	1,566,998
2011	250,540	429,000	950,689	10,043,168	8,046,789	1,996,379
2012	224,482	316,409	434,360	10,545,495	8,411,456	2,134,040
2013	166,383	298,569	555,050	11,103,453	8,857,261	2,246,192
2014	174,066	288,254	606,802	11,713,704	9,348,311	2,365,393
2015	182,229	288,220	652,329	12,368,896	9,893,431	2,475,465
			<b>Values at Robert's death after 9 years</b>		<b>\$9,893,431</b>	<b>\$2,475,465</b>

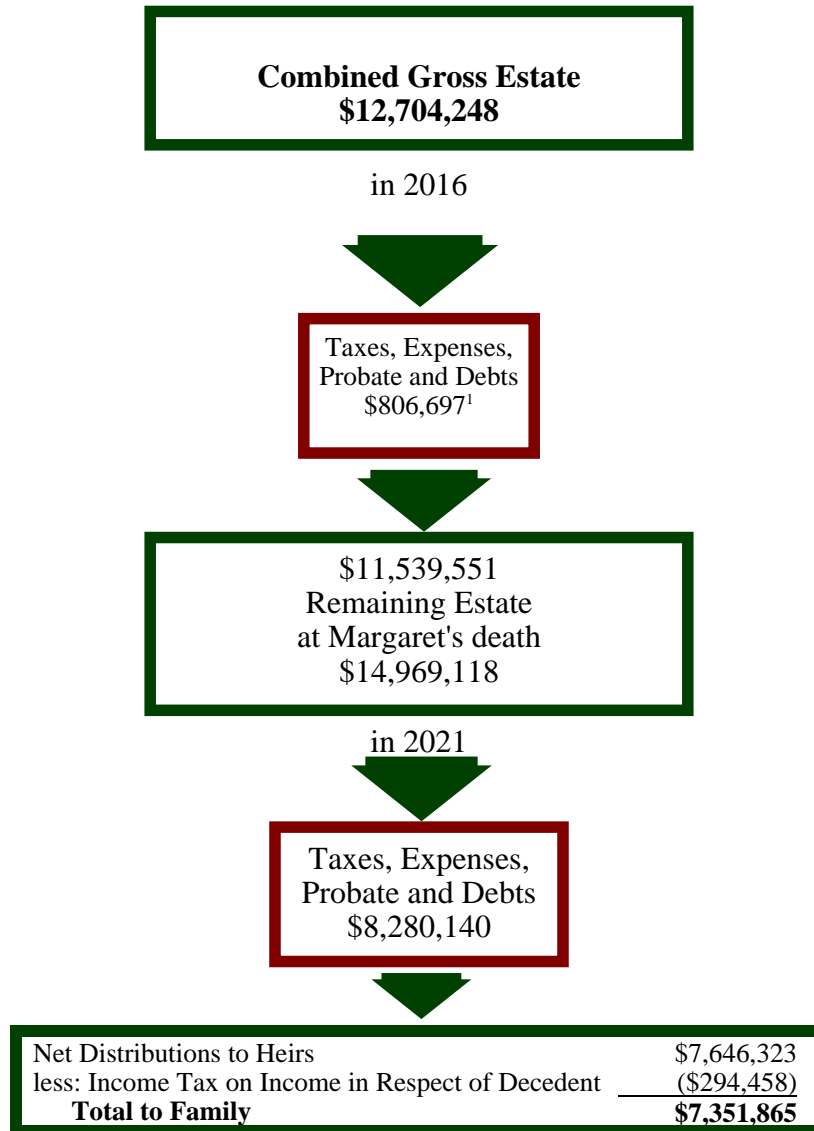
### Adjustments at Robert's Death

Cash Flow Adjustment	-	\$11,516	-\$11,132
Life Insurance in Estate <sup>1</sup>	-	\$358,000	
<b>Estate Total in 2016</b>		<b>\$10,239,915</b>	<b>\$2,464,333</b>
<b>Combined Estate Total</b>		<b>\$12,704,248</b>	

<sup>1</sup> Incidents of ownership or beneficiary designation cause inclusion of death proceeds in the estate.

# Your Current Plan

*Robert Dies in 2016, Margaret Dies in 2021*



<sup>1</sup> Total debts of \$408,105 were used for estate tax calculations but only \$0 of the debts were actually paid. The balance of the debts were transferred to the surviving spouse.

# Your Current Plan

## Flowchart Calculations

	At First Death in 2016	At Second Death in 2021
<b>Remaining Estate</b>		
Margaret's Assets using Assumed Growth Rates plus Other Funds (Net Inheritance)	\$2,464,333	\$14,969,118
<b>equals Remaining Estate</b> includes IRA Rollover of \$1,333,572	<b>\$11,539,551</b>	<b>\$14,969,118</b>
<b>Total Net Taxes Due</b>		
Federal Estate Tax before Credits	\$107,520	\$7,366,768
less Applicable Credit	\$345,800	\$345,800
State Tax	\$0	\$1,660,391
less State Tax Credit	\$0	\$1,660,391
<b>equals Total Net Taxes Due</b>	<b>\$0</b>	<b>\$7,020,968</b>
<b>Taxes, Expenses, Probate, Debts</b>		
Probate and Administrative Fees	\$398,592	\$683,777
Final Expenses	\$0	\$0
Total Net Taxes Due	\$0	\$7,020,968
plus Liabilities Paid Off	\$0	\$575,395
<b>Total Taxes, Expenses, Probate and Debts</b>	<b>\$806,697</b>	<b>\$8,280,140</b>
Income Tax on Income in Respect of Decedent	\$0	\$294,458
<b>Additional Funds Needed</b>		
Total Taxes, Expenses, Probate and Debts	\$806,697	\$8,280,140
Income Tax on Income in Respect of Decedent	\$0	\$294,458
<b>equals Additional Funds Needed<sup>1</sup></b>	<b>\$806,697</b>	<b>\$8,574,597</b>

<sup>1</sup> This includes total debts of \$408,105 but \$408,105 of the debts were transferred to the surviving spouse. If Additional Funds Needed at first death were provided, funds needed at second death could be reduced. The method of providing these funds can alter the amount needed.

# Your Current Plan

## Sources of Cash

To maintain cash flow each year it may be necessary to withdraw a portion of the earnings or even liquidate one or more assets. Based on the information you supplied, each of your assets has been prioritized as to which asset would be used first, which would be last, and with all others in between. This same priority list is used at Margaret's death to determine which assets would be used for any additional liquidity needs. The following assets are utilized in your Current Plan:

### Priority Ordering

<b>Asset</b>	<b>Limit Uses to</b>
Joint Checking	Unrestricted
Money Market Savings	Unrestricted
Eaton Vance NC Muni B	Unrestricted
Vanguard 500 Index Adm	Unrestricted
American Performance Balanced	Unrestricted
Robert's Stock Trade Account	Unrestricted
Eaton Vance Tax-Managed Div Inc B	Unrestricted
COCA-COLA CO	Unrestricted
GLAXOSMITHKLINE PLC	Unrestricted
Mutual Fund Portfolio	Unrestricted
Robert's 401k	Retirement
Robert's IRA	Retirement
Margaret's Roth IRA	Retirement
ISO	Unrestricted
Primary Residence	Do Not Use
16 Seabreeze Drive	Do Not Use
ABC, Inc.	Do Not Use
Beach House	Do Not Use

### Cash Flow Transactions

#### Future Purchase

Beach House - Purchase price of \$600,000; starting when Robert retires. A new loan will be created for this purchase to cover 80% of the purchase price.

#### Qualified Retirement Plan Distributions

Annual distributions of \$100,000 deposited in Eaton Vance Tax-Managed Div Inc B; started when Robert turned 60.

# Additional Planning

# Additional Planning

## *Proposed Will Assumptions*

This analysis assumes that Robert dies in 9 years and Margaret dies 5 years later. Not all property is transferred by your will. Property owned jointly with survivorship rights passes to the surviving joint owner. Life insurance proceeds are paid to your named beneficiary. This analysis applies the provisions below to the extent possible. State Inheritance Tax is based on the maximum federal credit for state death taxes.

### **Robert's Proposed Plan**

A marital trust and a family trust are used to transfer the estate.

#### **Trust for Spouse**

Trust A for Margaret will be created in an amount equal to the marital deduction.

#### **Trust for Family**

Trust B will be created using an amount equal to the Applicable Credit Amount if available. The trust corpus is assumed to grow or earn 5% annually between your death and Margaret's death.

#### **Living Trust**

A Living Trust has been established to help reduce probate fees.

#### **Changes to Existing Insurance Policies**

Robert's Existing Whole Life Policy: Policy ownership and beneficiary will be changed to an Irrevocable Life Insurance Trust (ILIT).

### **Margaret's Proposed Plan**

A marital trust and a family trust are used to transfer the estate.

#### **Trust for Spouse**

Trust A for Robert will be created in an amount equal to the marital deduction.

#### **Trust for Family**

Trust B will be created using an amount equal to the Applicable Credit Amount if available. The trust corpus is assumed to grow or earn 5% annually between your death and Robert's death.

#### **Living Trust**

A Living Trust has been established to help reduce probate fees.

# Proposed Expenses and Gifts

## Your Proposed Plan

This analysis of the proposed plans of Robert and Margaret assumes that the following plans for expenses and gifts replace your current plans. Expenses are referring to expenses that are consumed, that is, they are not used to purchase other assets and are in addition to expenditures shown elsewhere in this proposed plan.

### Essential Living Expenses

Description	Amount	Frequency	Percent Continuing after First Death	Percent Continuing after First Disability	Percent Continuing after First Retirement
Basic Living Expenses	\$3,000	Monthly	100%	100%	80%
Already started and ending after the illustration					
Vacation Fund	\$2,500	Semiannual	100%	100%	100%
Already started and ending after 2 years					
Property Taxes	\$4,000	Annual	100%	100%	100%
Already started and ending after the illustration					
Charitable Contributions	\$300	Monthly	100%	100%	100%
Already started and ending after the illustration					
Medical/Prescriptions	\$300	Quarterly	100%	100%	120%
Already started and ending after the illustration					
Retirement Fun Money	\$1,000	Monthly	100%	100%	100%
Starting when Robert retires and ending after the illustration					

# Effects of Additional Planning

## Projected Growth of Assets

This analysis assumes that Robert dies in 9 years and Margaret dies 5 years later. The growth of your assets until death considers your income as well as the portion of existing assets used to provide the spending patterns detailed in the assumptions.

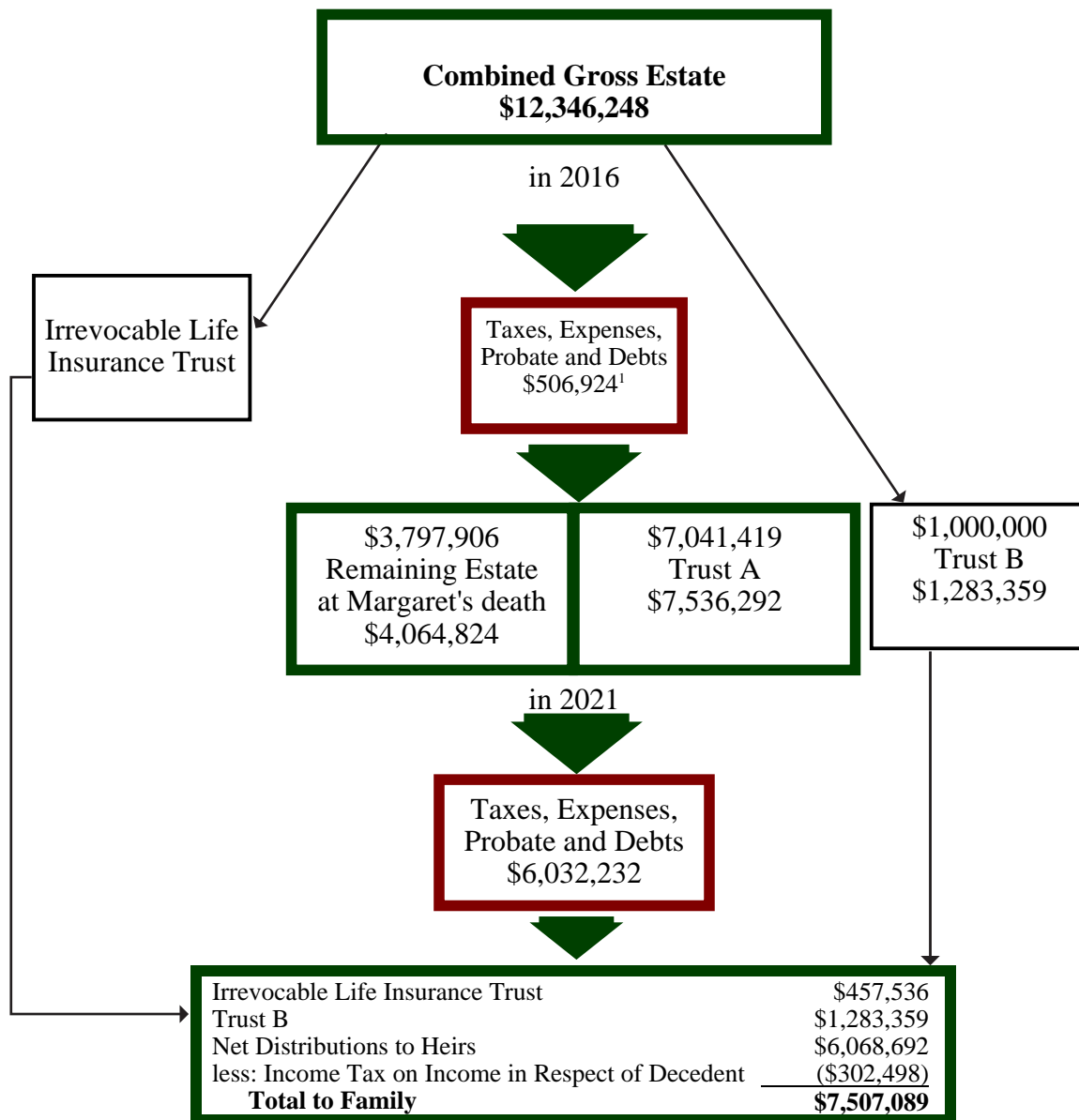
End of Year	Expected Income	Total Outgoing Payments	Change in Assets	End of Year Asset Values	Robert's Assets	Margaret's Assets
			<i>Values Today</i>	<b>\$6,816,193</b>	<b>\$5,591,098</b>	<b>\$1,225,095</b>
2007	\$96,167	\$177,434	\$198,140	\$7,458,599	\$6,202,561	\$1,256,038
2008	360,996	278,914	406,208	7,971,216	6,605,937	1,365,279
2009	345,547	295,668	406,871	8,480,799	7,016,423	1,464,376
2010	354,184	308,610	432,029	9,015,680	7,448,681	1,566,998
2011	250,540	429,000	950,689	10,043,168	8,046,789	1,996,379
2012	224,482	316,409	434,360	10,545,495	8,411,456	2,134,040
2013	166,383	298,569	555,050	11,103,453	8,857,261	2,246,192
2014	174,066	288,254	606,802	11,713,704	9,348,311	2,365,393
2015	182,229	288,220	652,329	12,368,896	9,893,431	2,475,465
			<b>Values at Robert's death after 9 years</b>		<b>\$9,893,431</b>	<b>\$2,475,465</b>

### Adjustments at Robert's Death

Cash Flow Adjustment	-	\$11,516	-\$11,132
<b>Estate Total in 2016</b>	<b>\$9,881,915</b>		<b>\$2,464,333</b>
<b>Combined Estate Total</b>		<b>\$12,346,248</b>	

# Effects of Additional Planning

*Robert Dies in 2016, Margaret Dies in 2021*



<sup>1</sup> Total debts of \$408,105 were used for estate tax calculations but only \$0 of the debts were actually paid. The balance of the debts were transferred to the surviving spouse.

# Effects of Additional Planning

## Flowchart Calculations

	At First Death in 2016	At Second Death in 2021
<b>Irrevocable Life Insurance Trust (ILIT)</b>		
Death Proceeds Available	\$358,000	\$457,536
<b>Trust A</b>		
with Growth at assumed growth rates	\$7,041,419	\$7,536,292
<b>Remaining Estate</b>		
Margaret's Assets using Assumed Growth Rates plus Other Funds (Net Inheritance)	\$2,464,333 \$1,333,572	\$4,064,824
<b>equals Remaining Estate</b> includes IRA Rollover of \$1,333,572	<b>\$3,797,906</b>	<b>\$4,064,824</b>
<b>Total Net Taxes Due</b>		
Federal Estate Tax before Credits	\$345,800	\$5,686,626
less Applicable Credit	\$345,800	\$345,800
State Tax	\$0	\$1,212,353
less State Tax Credit	\$0	\$1,212,353
<b>equals Total Net Taxes Due</b>	<b>\$0</b>	<b>\$5,340,826</b>
<b>Taxes, Expenses, Probate, Debts</b>		
Probate and Administrative Fees	\$98,819	\$116,011
Final Expenses	\$0	\$0
Total Net Taxes Due	\$0	\$5,340,826
plus Liabilities Paid Off	\$0	\$575,395
<b>Total Taxes, Expenses, Probate and Debts</b>	<b>\$506,924</b>	<b>\$6,032,232</b>
Income Tax on Income in Respect of Decedent	\$0	\$302,498
<b>Additional Funds Needed</b>		
Total Taxes, Expenses, Probate and Debts	\$506,924	\$6,032,232
Income Tax on Income in Respect of Decedent	\$0	\$302,498
less Irrevocable Life Insurance Trust (ILIT)	\$358,000	\$457,536
<b>equals Additional Funds Needed<sup>1</sup></b>	<b>\$148,924</b>	<b>\$6,334,730</b>

<sup>1</sup> This includes total debts of \$408,105 but \$408,105 of the debts were transferred to the surviving spouse. If Additional Funds Needed at first death were provided, funds needed at second death could be reduced. The method of providing these funds can alter the amount needed.

# Effects of Additional Planning

## Sources of Cash

To maintain cash flow each year it may be necessary to withdraw a portion of the earnings or even liquidate one or more assets. Based on the information you supplied, each of your assets has been prioritized as to which asset would be used first, which would be last, and with all others in between. This same priority list is used at Margaret's death to determine which assets would be used for any additional liquidity needs. The following assets are utilized in your Proposed Plan:

### Priority Ordering

<b>Asset</b>	<b>Limit Uses to</b>
Joint Checking	Unrestricted
Money Market Savings	Unrestricted
Eaton Vance NC Muni B	Unrestricted
Vanguard 500 Index Adm	Unrestricted
American Performance Balanced	Unrestricted
Robert's Stock Trade Account	Unrestricted
Eaton Vance Tax-Managed Div Inc B	Unrestricted
COCA-COLA CO	Unrestricted
GLAXOSMITHKLINE PLC	Unrestricted
Mutual Fund Portfolio	Unrestricted
Robert's 401k	Retirement
Robert's IRA	Retirement
Margaret's Roth IRA	Retirement
ISO	Unrestricted
Family Trust	Unrestricted
Primary Residence	Do Not Use
16 Seabreeze Drive	Do Not Use
ABC, Inc.	Do Not Use
Beach House	Do Not Use

### Cash Flow Transactions

#### Future Purchase

Beach House - Purchase price of \$600,000; starting when Robert retires. A new loan will be created for this purchase to cover 80% of the purchase price.

#### Qualified Retirement Plan Distributions

Annual distributions of \$100,000 deposited in Eaton Vance Tax-Managed Div Inc B; started when Robert turned 60.

# Payment Alternatives

## Ways to Pay Estate Costs

### Use Cash



- There may not be that much cash available
- Cash is subject to estate taxes

### Liquidate



- Quick sales are often at less than fair price
- Could a buyer be found?
- Family may want to keep the assets

### Borrow the Money



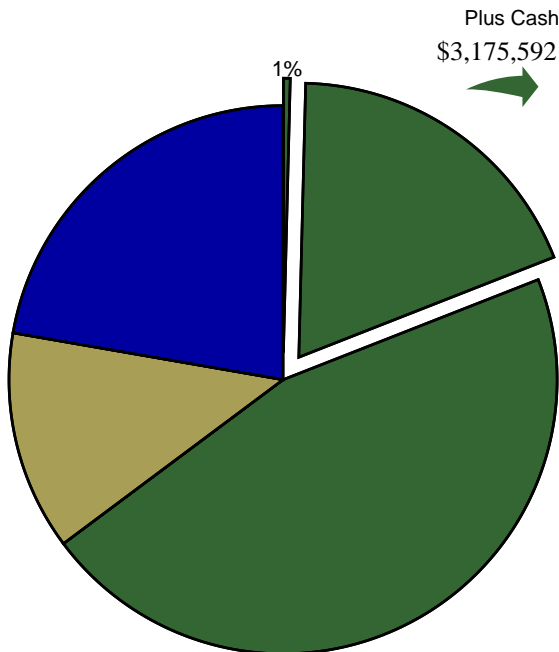
- The money will have to be repaid with interest
- Could a lender be found?

OR—Pay now and pay the expenses  
at a reduced cost

# A Solution

## Your Proposed Plan

With a combination of careful planning to reduce future estate taxes and probate expenses, and a life insurance policy from For Evaluation Purposes Only to address the remaining expenses, your estate can pass intact. Expenses are paid with discounted dollars.



Your Heirs Get Theirs  
\$10,328,805

A scan of a United States Estate (and Generation-Skipping Transfer) Tax Return (Form 706). A large red 'PAID' stamp is overlaid on the form. The form includes sections for decedent information, executor information, and a detailed table of tax calculations. The table includes lines for gross estate, deductions, taxable estate, and credits.

The Tax Man Gets His!  
Taxes, Expenses, & Probate  
\$6,175,592

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

# Proposed New Life Insurance

## *Additional Planning and New Life Insurance*

This analysis of the proposed plans of Robert and Margaret assumes that the following new life insurance is acquired.

### New Life Insurance

Proposed Wealth Replacement Policy

Face Amount:	\$3,000,000	Insured:	Survivor
Monthly Premium:	\$2,000	Owner:	ILIT
		Beneficiary:	ILIT
Premium Gift:	Exclusion	Premium Payer:	Robert
		Eligible for Annual Exclusion?	Yes
		Number of Exclusions:	2.00

Insurance owned outside the estate usually refers to insurance not owned by a decedent and not payable to the decedent's estate, but other factors may have to be taken into consideration.

Insurance is included in the estate when the incidents of ownership or the beneficiary designation causes the death proceeds to be included in the taxable estate. A change in ownership or beneficiary designation may be needed to exclude the proceeds from estate taxation. Transfer of a policy by the policy owner within three years of death will cause the death proceeds to be included in the gross estate. If a transferred policy has a cash value, a gift tax return may be required and gift taxes may be ignored.

If life insurance intended to address estate taxes is included in the estate, the insurance itself becomes a taxable item, reducing its value. Life insurance that is not included in the gross estate passes to the beneficiaries undiminished by estate taxes.

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

# Effects of Planning and New Life Insurance

## Projected Growth of Assets

This analysis assumes that Robert dies in 9 years and Margaret dies 5 years later. The growth of your assets until death considers your income as well as the portion of existing assets used to provide the spending patterns detailed in the assumptions.

End of Year	Expected Income	Total Outgoing Payments	Change in Assets	End of Year Asset Values	Robert's Assets	Margaret's Assets
			<i>Values Today</i>	<b>\$6,816,193</b>	<b>\$5,591,098</b>	<b>\$1,225,095</b>
2007	\$96,167	\$187,434	\$196,101	\$7,448,560	\$6,197,541	\$1,251,019
2008	360,997	302,914	381,415	7,936,494	6,588,576	1,347,918
2009	345,547	323,008	377,130	8,416,465	6,984,256	1,432,209
2010	357,933	336,167	400,222	8,923,358	7,402,434	1,520,924
2011	249,553	453,819	912,620	9,919,809	7,923,430	1,996,379
2012	223,194	346,042	397,726	10,384,214	8,250,174	2,134,040
2013	165,227	326,365	519,453	10,904,395	8,665,313	2,239,082
2014	172,915	314,421	571,722	11,476,117	9,191,909	2,284,208
2015	181,789	304,871	624,406	12,100,523	9,759,052	2,341,471
			<b>Values at Robert's death after 9 years</b>		<b>\$9,759,052</b>	<b>\$2,341,471</b>

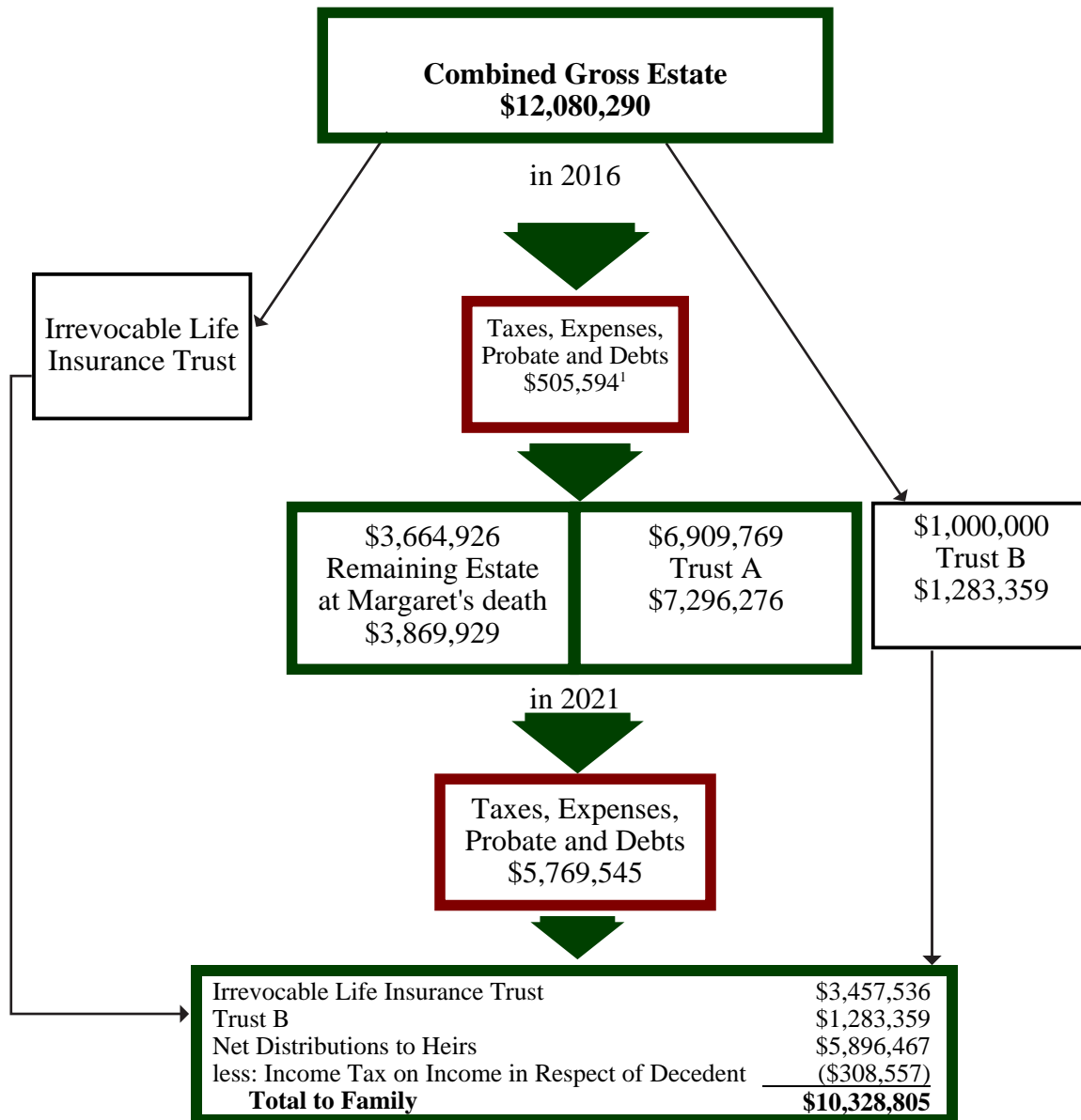
### Adjustments at Robert's Death

Cash Flow Adjustment	-	\$10,117	-\$10,117
<b>Estate Total in 2016</b>	<b>\$9,748,936</b>		<b>\$2,331,354</b>
<b>Combined Estate Total</b>		<b>\$12,080,290</b>	

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

# Effects of Planning and New Life Insurance

*Robert Dies in 2016, Margaret Dies in 2021*



<sup>1</sup> Total debts of \$408,105 were used for estate tax calculations but only \$0 of the debts were actually paid. The balance of the debts were transferred to the surviving spouse.

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

# Effects of Planning and New Life Insurance

## Flowchart Calculations

	At First Death in 2016	At Second Death in 2021
<b>Irrevocable Life Insurance Trust (ILIT)</b>		
Death Proceeds Available	\$358,000	\$3,457,536
<b>Trust A</b>		
with Growth at assumed growth rates	\$6,909,769	\$7,296,276
<b>Remaining Estate</b>		
Margaret's Assets using Assumed Growth Rates plus Other Funds (Net Inheritance)	\$2,331,354 \$1,333,572	\$3,869,929
<b>equals Remaining Estate</b> includes IRA Rollover of \$1,333,572	<b>\$3,664,926</b>	<b>\$3,869,929</b>
<b>Total Net Taxes Due</b>		
Federal Estate Tax before Credits	\$345,800	\$5,428,288
less Applicable Credit	\$345,800	\$345,800
State Tax	\$0	\$1,143,464
less State Tax Credit	\$0	\$1,143,464
<b>equals Total Net Taxes Due</b>	<b>\$0</b>	<b>\$5,082,488</b>
<b>Taxes, Expenses, Probate, Debts</b>		
Probate and Administrative Fees	\$97,489	\$111,662
Final Expenses	\$0	\$0
Total Net Taxes Due	\$0	\$5,082,488
plus Liabilities Paid Off	\$0	\$575,395
<b>Total Taxes, Expenses, Probate and Debts</b>	<b>\$505,594</b>	<b>\$5,769,545</b>
Income Tax on Income in Respect of Decedent	\$0	\$308,557
<b>Additional Funds Needed</b>		
Total Taxes, Expenses, Probate and Debts	\$505,594	\$5,769,545
Income Tax on Income in Respect of Decedent	\$0	\$308,557
less Irrevocable Life Insurance Trust (ILIT)	\$358,000	\$3,457,536
<b>equals Additional Funds Needed<sup>1</sup></b>	<b>\$147,594</b>	<b>\$3,078,103</b>

<sup>1</sup> This includes total debts of \$408,105 but \$408,105 of the debts were transferred to the surviving spouse. If Additional Funds Needed at first death were provided, funds needed at second death could be reduced. The method of providing these funds can alter the amount needed.

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

# Effects of Planning and New Life Insurance

## Sources of Cash

To maintain cash flow each year it may be necessary to withdraw a portion of the earnings or even liquidate one or more assets. Based on the information you supplied, each of your assets has been prioritized as to which asset would be used first, which would be last, and with all others in between. This same priority list is used at Margaret's death to determine which assets would be used for any additional liquidity needs. The following assets are utilized in your Proposed Plan with New Insurance:

### Priority Ordering

<b>Asset</b>	<b>Limit Uses to</b>
Joint Checking	Unrestricted
Money Market Savings	Unrestricted
Eaton Vance NC Muni B	Unrestricted
Vanguard 500 Index Adm	Unrestricted
American Performance Balanced	Unrestricted
Robert's Stock Trade Account	Unrestricted
Eaton Vance Tax-Managed Div Inc B	Unrestricted
COCA-COLA CO	Unrestricted
GLAXOSMITHKLINE PLC	Unrestricted
Mutual Fund Portfolio	Unrestricted
Robert's 401k	Retirement
Robert's IRA	Retirement
Margaret's Roth IRA	Retirement
ISO	Unrestricted
Family Trust	Unrestricted
Primary Residence	Do Not Use
16 Seabreeze Drive	Do Not Use
ABC, Inc.	Do Not Use
Beach House	Do Not Use

### Cash Flow Transactions

#### Future Purchase

Beach House - Purchase price of \$600,000; starting when Robert retires. A new loan will be created for this purchase to cover 80% of the purchase price.

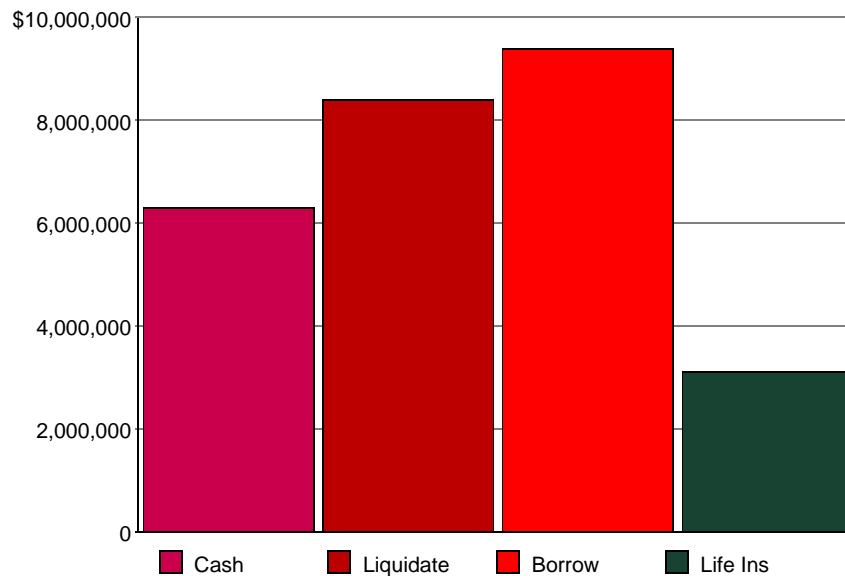
#### Qualified Retirement Plan Distributions

Annual distributions of \$100,000 deposited in Eaton Vance Tax-Managed Div Inc B; started when Robert turned 60.

Premiums may vary based on many factors, including the age, sex, and health of the insured. This presentation is not valid unless accompanied by an illustration of proposed policy values.

# A Comparison of Funding Alternatives

## Your Proposed Plan with New Life Insurance



These values do not reflect the time value of money. Some numbers show the amount at death, some show the sum of payments that begin at death, and life insurance shows the sum of premiums beginning now. See the following page for the net present value of these amounts.

Cash	\$6,334,730
Liquidate Assets	At a liquidation ratio of 75%, \$8,446,307 of assets need to be sold to net \$6,334,730 cash.
Borrow	At 8%, 10 annual payments of \$944,062 would equal \$9,440,616.
Life Insurance plus Cash	Total premium payments of \$40,800 over the next 14 years plus additional cash of \$3,078,103 for a total of \$3,118,903.

Assumes that Robert dies in 9 years and Margaret dies 5 years later.

# A Comparison of Funding Alternatives

*Net Present Value Calculated at 5% Over 14 Years*

	Total Cost	Net Present Value	Cost of One Dollar
Cash	\$6,334,730	\$3,199,469	\$1.00
Liquidate Assets	\$8,446,307	\$4,265,959	\$1.33
Borrow	\$9,440,616	\$3,681,841	\$1.15
Life Insurance plus Cash	\$3,118,903	\$1,586,347	\$0.50

Total Cost does not reflect the time value of money. Some numbers show the amount at death, some show the sum of payments that begin at death, and life insurance shows the sum of premiums beginning now. The Net Present Value shows the relative value in today's dollars.

Calculations are based on total taxes, expenses, and probate expenses of \$6,334,730 less existing life insurance death proceeds of \$358,000. Assumes Robert dies in 2016 and Margaret dies in 2021.

Life insurance illustrated is assumed to have incidents of ownership and beneficiary designations outside the estate of the insured(s).

For Evaluation  
Purposes Only can  
provide a solution at  
a reduced cost!



# Action Plan

## *Putting Your Plan into Effect*

Check When Completed	Action	Who Is Responsible	Target Date
_____	Establish and/or review life insurance trust(s)	Attorney, Robert and Margaret	___ / ___ / ___
_____	Complete application for new life insurance policy	Trustee, Robert and Margaret	___ / ___ / ___
_____	Medical exam	Robert	___ / ___ / ___
_____	Medical exam	Margaret	___ / ___ / ___
_____	Schedule gifts to irrevocable life insurance trust	Robert and Margaret	___ / ___ / ___
_____	Review and change ownership or beneficiaries to reflect will provisions	Attorney, Robert and Margaret	___ / ___ / ___
_____	Deliver life insurance policies	Agent	___ / ___ / ___
_____	Annual review of the plan	Agent, Attorney, Robert and Margaret	___ / ___ / ___

# Estate Tax Repeal

## **Tax Relief Act of 2001<sup>1</sup>**

A controversial aspect of this Act is future repeal of the estate tax. The Act is a compromise between substantial estate tax reductions and full repeal. However, there were concerns that the cost of full repeal would use too much of the money needed for other tax cuts and spending priorities. The resulting compromise uses a slow phase-in through the year 2009 with a full repeal of the estate tax in 2010.

## **"Sunset Provisions"**

The Act contains a "sunset provision" that repeals this Act as of December 31, 2010. Consequently, the estate tax, gift tax, and generation-skipping transfer tax in effect in 2001 will become the law once again on January 1, 2011. Unless there is future legislation the Tax Relief Act will only be effective through the year 2010.

## **Phase-In Rates and Schedules**

Starting in 2002 the maximum rate for estate tax, gift tax, and generation-skipping transfer tax becomes 50%. It is reduced by 1% in each of the following years until it is 45% for years 2007 to 2009. The gift tax rate continues after 2009 at a maximum amount equal to the maximum income tax rate, which would be 35%.

Immediate estate, gift and generation-skipping transfer relief starts in 2002 when \$1,000,000 becomes an applicable exclusion for these taxes. For gift tax purposes it remains at \$1,000,000. For estate taxes and generation-skipping transfers it increases in 2004 to \$1,500,000; in 2006 to \$2,000,000; and in 2009 to \$3,500,000. This exclusion reduces the amounts subject to these taxes until repeal in 2010. Of course, the law in 2001 becomes the law again in 2011 unless Congress intervenes.

## **Many Other Significant Provisions**

One of many new provisions of this complex tax act deals with the elimination of step-up basis for inherited property. This means that property inherited after estate tax repeal in 2010 may be subject to capital gains taxes when sold. Each estate will be allowed a \$1.3 million exclusion of increased basis and an additional \$3 million exclusion for the surviving spouse. To assist the IRS, the executors and trustees will have significant new reporting requirements. These new provisions require special planning for the closely-held business owner. The Act contains many other provisions.

## **Continued Need for Planning**

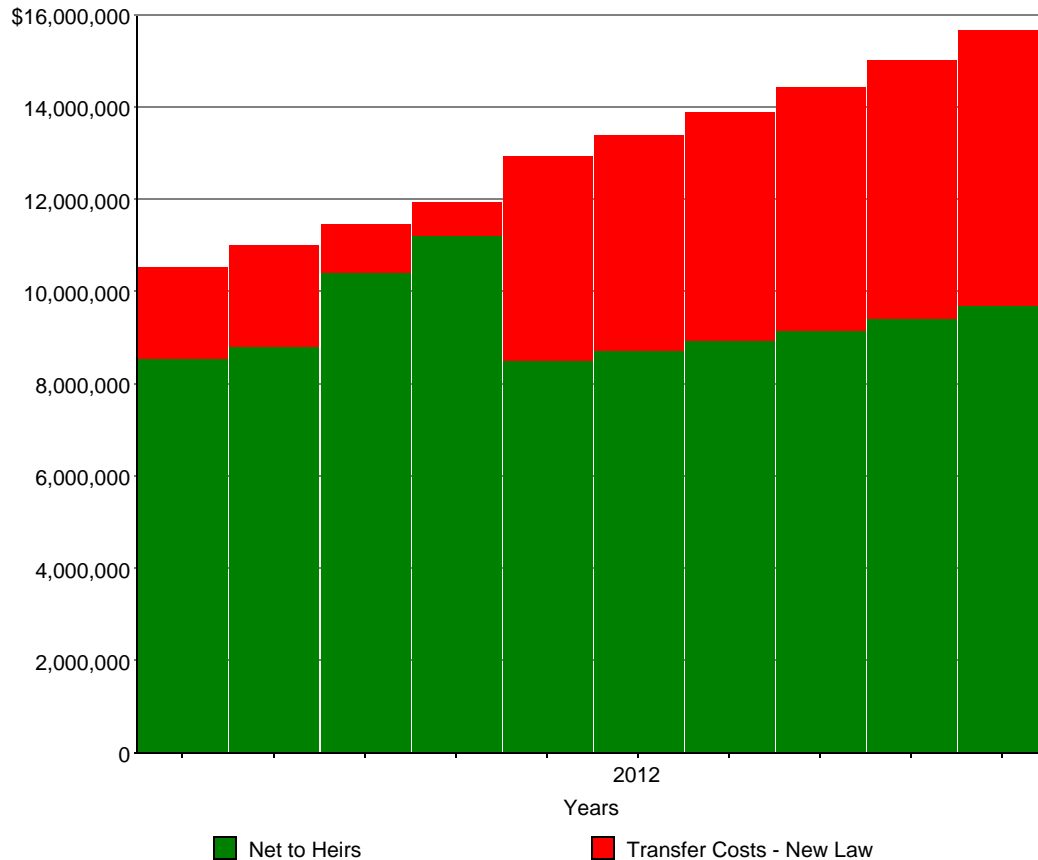
The complexities of this new legislation and the uncertainties of many of its provisions require careful planning with your tax and legal advisors.

<sup>1</sup> The Economic Growth and Tax Relief Reconciliation Act of 2001 as adopted by Congress May 26, 2001 and signed by the President June 7, 2001.

# Needs Over Time

## Tax Relief Act of 2001 "Sunset Provisions" <sup>1</sup>

### Proposed Plan



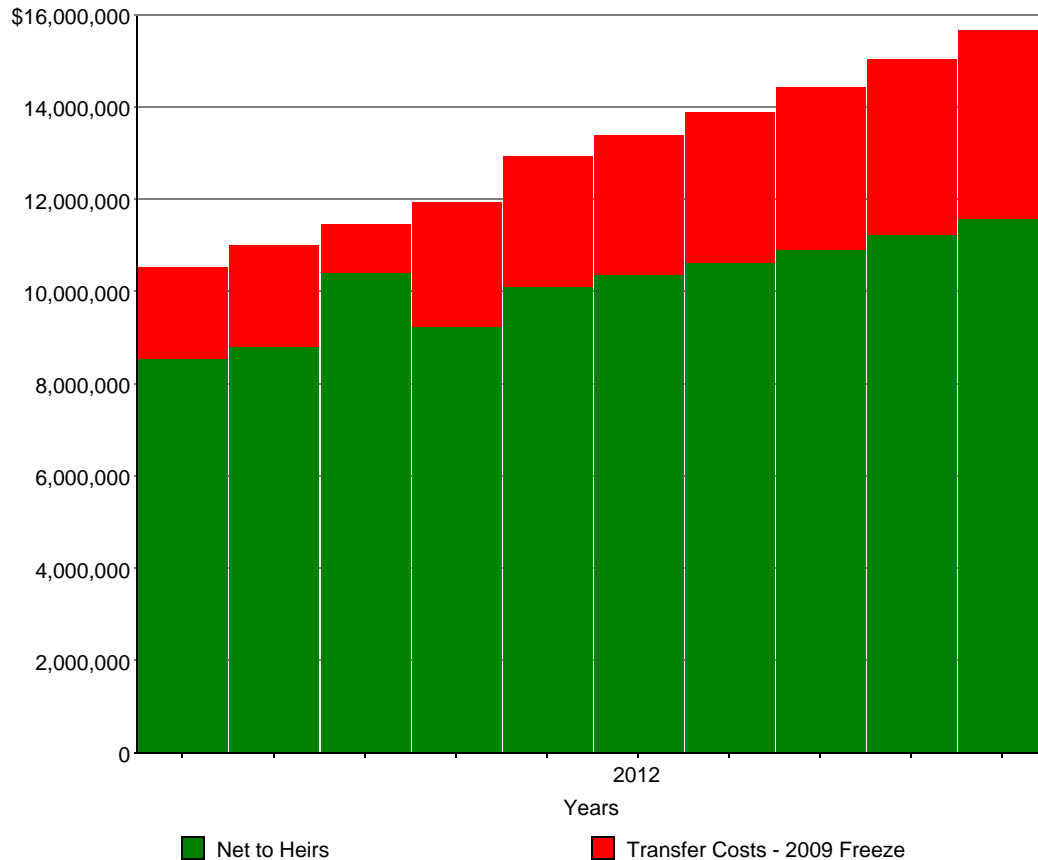
The new law reduces the maximum rate and increases the applicable exclusion limits through 2009 with no estate tax in year 2010. A "sunset provision" voids the new law in 2011 and restores the law effective in 2001. This graph shows the effect of this law on your estimated estate if you and your spouse die in the year shown. Calculations assume the same planning techniques illustrated for your proposed plan.

<sup>1</sup> The Economic Growth and Tax Relief Reconciliation Act of 2001 as adopted by Congress May 26, 2001 and signed by the President June 7, 2001.

# Needs Over Time—Hypothetical

Congress "Freezes" Rates and Limits in 2009<sup>1</sup>

## Proposed Plan



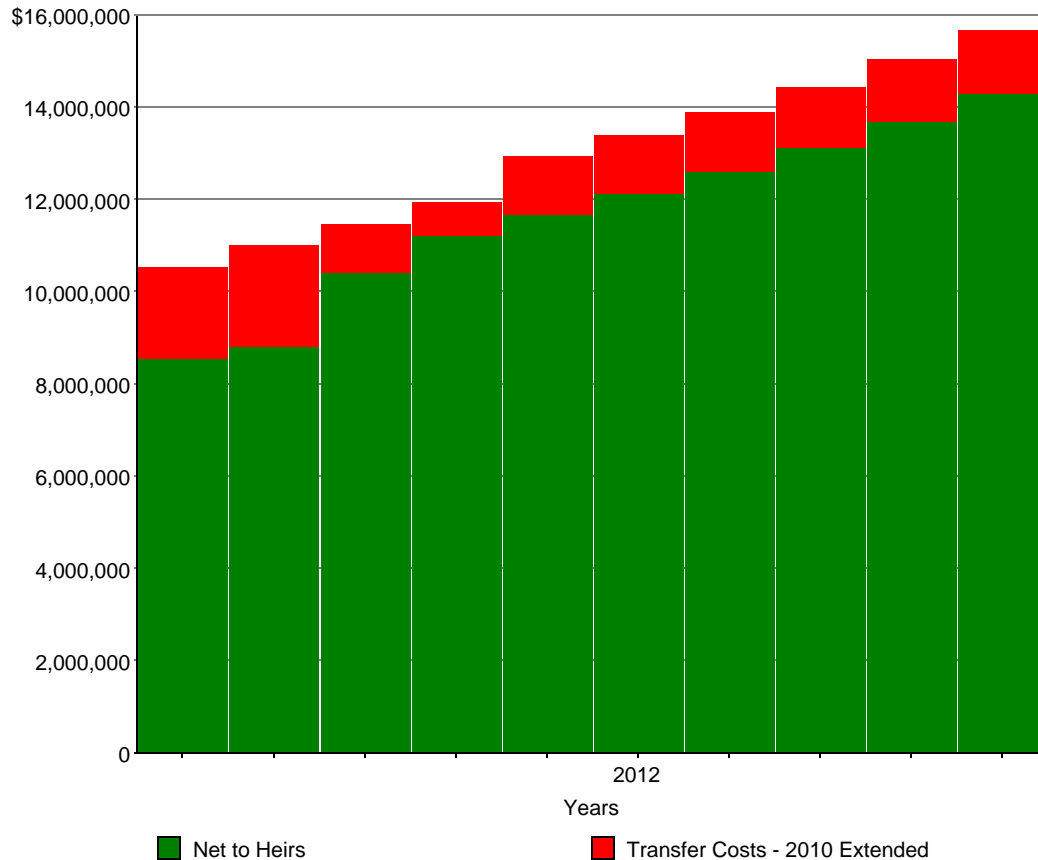
The new law reduces the maximum rate and increases the applicable exclusion limits through 2009 with no estate tax in year 2010. Although Congressional action will be required, calculations assume that the repeal of estate taxes for the year 2010 will be continued for the following years. This graph shows the effect of these assumptions on your estimated estate if you and your spouse die in the year shown. Calculations assume the same planning techniques illustrated for your proposed plan.

<sup>1</sup> The Economic Growth and Tax Relief Reconciliation Act of 2001 as adopted by Congress May 26, 2001 and signed by the President June 7, 2001.

# Needs Over Time—Hypothetical

*Future Congressional Approval to Extend Tax Relief Act of 2001<sup>1</sup>*

## Proposed Plan



The new law reduces the maximum rate and increases the applicable exclusion limits through 2009 with no estate tax in year 2010. Congressional action will be required to completely eliminate estate taxes for years after 2010. To avoid the complete elimination of the estate tax but to prevent a return to the 2001 rates, a possible compromise may be to "freeze" the 2009 rates and exclusions. This graph shows the effect of these assumptions on your estimated estate if you and your spouse die in the year shown. Calculations assume the same planning techniques illustrated for your proposed plan.

<sup>1</sup> The Economic Growth and Tax Relief Reconciliation Act of 2001 as adopted by Congress May 26, 2001 and signed by the President June 7, 2001.

# Marital Trust

## How It Works

"*Marital Trust*" is a term which can refer to any of several trusts. For example, Trust A and the QTIP Trust are both types of marital trusts. The Qualified Domestic Trust, or QDOT, is also a type of marital trust established for non-U.S. citizen spouses with specific provisions regarding citizenship.

Under current law, at the death of the first spouse, the estate can utilize an unlimited marital deduction. Regardless of the size of the decedent's estate, the estate can generally be planned using the unlimited marital deduction so that no federal estate taxes are due at the death of the first spouse.

The major characteristics of a Marital Trust are:

- The Marital Trust is usually established in the will or revocable living trust (except in QDOT) to take advantage of the marital deduction.
- At the first death, the property is placed in the trust in such a way that the property is subject to estate taxation at the death of the surviving spouse (except in a QDOT).
- The spouse usually has access to some or all of the trust assets in addition to receiving income from the trust at least annually.
- The spouse is given a life estate with a general power of appointment over the trust estate. (This is not true of a QTIP trust, which is a specific type of marital trust.)

### Benefits of a Marital Trust

- The surviving spouse receives all income generated in the Marital Trust.
- The surviving spouse may be able to withdraw any or all of the total principal of the Marital Trust.
- The surviving spouse may be able to completely terminate the Marital Trust at any time.
- The trust allows management of the assets by a trustee designated by the grantor (the first to die). Often this provides the grantor peace of mind knowing that the spouse will be provided professional management of the assets.
- The surviving spouse must receive all of the income from the Marital Trust even if he/she does not need the funds.
- During the surviving spouse's lifetime, the spouse must be the sole beneficiary.
- If the Marital Trust does not produce sufficient income, the spouse can require the trustee to sell assets and reinvest them to produce greater income.
- Fees may be associated with the administration of the Marital Trust and the preparation of the trusts tax returns.

# Family Trust

## How It Works

A Family Trust (also referred to as a By-pass Trust, Credit Shelter Trust, or Trust B in an A-B plan) allows a married couple to take full advantage of the Applicable Credit Amount available to each individual, thereby reducing their estate taxes and probate costs, and passing more of the estate to the heirs. The major characteristics of a Family Trust are:

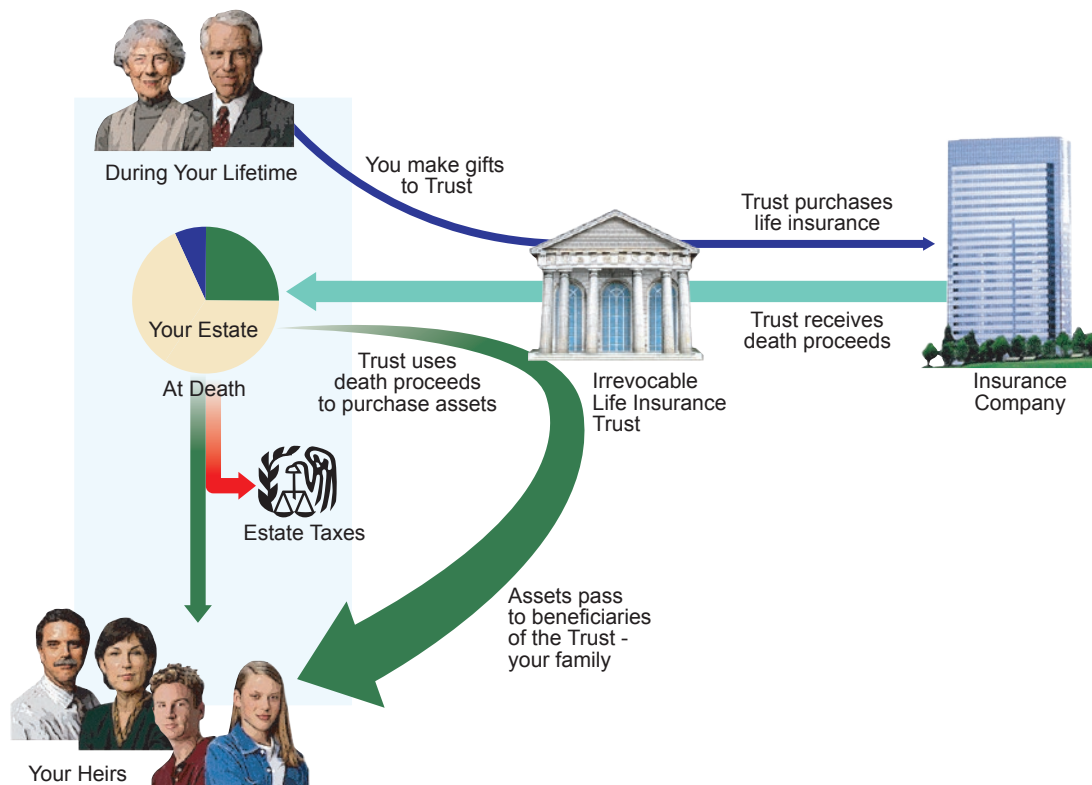
- At the first death, the will or revocable living trust provides for the establishment of a trust equal to the amount that could be passed tax free through the Applicable Credit Amount.
- The balance of the estate typically passes to the surviving spouse outright or in a trust which qualifies for the unlimited marital deduction.
- The surviving spouse and/or family members may receive income and principal from the Family Trust under certain standards.
- Care must be taken that no right be granted that causes the trust assets to be included in the surviving spouse's estate.
- If properly set up, at death of the surviving spouse, the assets remaining in the Family Trust should not be taxed in the estate of the surviving spouse.

### Benefits of a Family Trust

- The assets remaining in the Family Trust at the death of the surviving spouse can pass outright to the heirs or in trust for their benefit avoiding both estate taxation and probate expenses at the surviving spouse's death.
- Through proper planning, a married couple may use Credit Shelter Trusts to transfer assets to their children or other beneficiaries free of federal estate taxes. The Applicable Exclusion Amount will gradually start increasing from \$2,000,000 in 2006 to \$3,500,000 in 2009.
- In 2010 the federal estate tax will be fully repealed for one year. However, due to a "*sunset provision*" in TRA 2001, the new law is voided in 2011 and the law effective in 2001 is restored.
- The surviving spouse may be a beneficiary of the Family Trust.
- Provides peace of mind because the decedent may specify who will receive the remaining assets at the death of the surviving spouse.
- If a person selects a corporate fiduciary to serve as trustee, the beneficiaries receive professional asset management.
- The amount of the estate passing to the surviving spouse (in excess of what is put in the Family Trust) may qualify for the unlimited marital deduction and therefore passes federal estate tax free at the death of the first spouse.

# How a Life Insurance Trust Works

## Using an Irrevocable Life Insurance Trust



### **An Irrevocable Life Insurance Trust (ILIT) can be designed for many special purposes.**

Although there are numerous ways to create and fund these trusts, usually you make annual gifts to the trust. Based upon current withdrawal rights given to beneficiaries, these gifts are designed to qualify for the gift tax annual exclusion. The trust purchases life insurance on your life using the gifts to pay the premiums. The gifts will help to reduce your taxable estate.

At your death, the life insurance proceeds are paid to the trust as beneficiary. The irrevocable life insurance trust generally receives the policy proceeds free of income taxes (see IRC 101(a)), and with proper planning, the proceeds may be excluded from your estate for estate tax purposes. The trust may use the proceeds to purchase assets from your estate, or to make loans to your estate (provided that there is no obligation to make such loans). The executor uses this cash to help pay estate taxes and expenses. The assets purchased by the trust may then be distributed to the trust beneficiaries—your chosen heirs, or the trust may continue to hold the assets for the benefit of the beneficiaries as provided in the trust agreement.

# Life Insurance in Trust

## *How It Works*

In general, the proceeds of a life insurance policy pass free of probate unless the beneficiary of the policy is the insured person or the insured's estate. If the insured or the insured's estate is the beneficiary, the proceeds of the policy are payable to the insured's estate and are subject to the probate process.

The value of any policies owned by an individual at death are subject to estate taxes. If an individual possesses certain rights (known as incidents of ownership) over a policy insuring his or her own life, the value of the policy is generally included in the individual's gross estate for estate tax purposes at the individual's death.

Frequently, a couple will think they are safe from estate taxes if they own policies on each other. They may not be. Take for example the husband who is the owner and beneficiary of a policy on his wife. The wife dies first. The husband generally receives the proceeds of the life insurance policy free of income and estate taxes, but the funds remaining at his death become part of his gross estate for estate tax purposes. If the husband dies first, the value (not the death benefit, but the interpolated terminal reserve) of the policy would be includible in his estate.

Life insurance policies are often transferred to an irrevocable life insurance trust, in order to avoid the estate taxes that may result from owning a policy or from holding incidents of ownership in one. Other objectives may also be accomplished by such a transfer.

### **Pitfalls of Life Insurance in a Trust**

The grantor cannot terminate or change the terms of an irrevocable life insurance trust once it is established and he does not have access to the funds in it.

If the insured transfers an existing policy to the trustee and then dies within the next three years, the value of the policy is includible in the estate for estate tax purposes under the Three Year Rule of IRC Section 2035. To avoid this possible pitfall, the trustee of the life insurance trust often purchases a new policy using cash in the trust, so that the insured is not transferring a policy to the trust.

Frequently, the policy premiums for a policy in trust will be paid by the trustee with money received as a gift from the grantor. These transfers to the trust for premium payments may not qualify for the annual \$12,000 gift tax exclusion because they are considered to be gifts of "future interest" rather than a "present interest." To avoid this possible pitfall, the beneficiaries of the trust are given a limited power to withdraw funds (known as a "Crummey power"). Proper withdrawal rights generally make the gift a present interest and may allow the gift to qualify for the annual gift tax exclusion. Gifts to an irrevocable trust which do not qualify for the annual gift tax exclusion may trigger a gift tax or a reduction in the available Applicable Credit Amount for federal estate tax purposes. (Estate Taxes are repealed for 2010.)

The \$12,000 gift tax exclusion is adjusted annually for inflation. Adjustments will be rounded to the next lowest multiple of \$1,000.

# Asset Summary

## All Assets

Robert Dies in 2016, Margaret Dies in 2021

### Current Plan

End of Year	Beginning of Year Assets	Income	Retirement Plan Distributions	Total Cash Flow Required	Change in Asset Values	End of Year Assets <sup>1</sup>
2007	\$7,265,402	\$96,167	\$0	\$177,434	\$198,140	\$7,458,599
2008	7,458,599	260,996	100,000	278,914	406,208	7,971,216
2009	7,971,216	245,547	100,000	295,668	406,871	8,480,799
2010	8,480,799	254,184	100,000	308,610	432,029	9,015,680
2011	9,015,680	150,540	100,000	429,000	950,689	10,043,168
2012	10,043,168	160,075	64,407	316,409	434,360	10,545,495
2013	10,545,495	166,383	0	298,569	555,050	11,103,453
2014	11,103,453	174,066	0	288,254	606,802	11,713,704
2015	11,713,704	182,229	0	288,220	652,329	12,368,896
2016	12,368,896	172,775	48,671	581,368	196,896	12,623,563
2017	12,623,563	180,371	51,591	223,037	659,486	13,291,974
2018	13,291,974	190,160	54,683	228,902	694,680	14,002,595
2019	14,002,595	200,500	57,957	236,852	731,829	14,756,030
2020	14,756,030	211,423	61,424	245,260	771,043	15,554,659

<sup>1</sup> Assets equal total income less outgoing payments plus net effects of cash flow plus existing assets.

# Liability Summary

## All Liabilities

Robert Dies in 2016, Margaret Dies in 2021

### Current Plan

End of Year	Beginning of Year Total Liabilities	New Loans Added	Interest Charges	Total Payments To Principal and Interest	End of Year Total Liabilities
2007	\$484,454	\$0	\$16,083	\$21,000	\$479,537
2008	479,537	0	37,912	50,400	467,049
2009	483,589	0	36,875	50,400	453,524
2010	482,879	0	35,753	50,400	438,877
2011	471,814	0	73,812	100,107	952,826
2012	1,002,031	0	75,161	104,626	923,361
2013	952,993	0	72,716	104,626	891,451
2014	908,982	0	70,067	104,626	856,892
2015	872,551	0	67,199	104,626	819,465
2016	832,185	0	64,092	104,626	778,932
2017	830,362	0	60,728	104,626	735,034
2018	790,320	0	57,085	104,626	687,493
2019	748,659	0	53,139	104,626	636,006
2020	703,449	0	48,865	104,626	580,246

# Income Summary

## *Total Income Received*

Robert Dies in 2016, Margaret Dies in 2021

### Current Plan

End of Year	Salary	Other Income <sup>1</sup>	Social Security <sup>2</sup>	Earnings (Cash, Dividends)	Retirement Plan Distributions	Total Expected Income
2007	\$60,000	\$0	\$0	\$36,167	\$0	\$96,167
2008	146,880	23,714	0	90,403	100,000	360,996
2009	149,818	0	0	95,729	100,000	345,547
2010	152,814	0	0	101,370	100,000	354,184
2011	0	0	38,133	112,407	100,000	250,540
2012	0	0	42,847	117,228	64,407	224,482
2013	0	0	44,132	122,250	0	166,383
2014	0	0	45,456	128,609	0	174,066
2015	0	0	46,820	135,409	0	182,229
2016	0	0	29,853	142,921	48,671	221,445
2017	0	0	29,029	151,343	51,591	231,962
2018	0	0	29,899	160,260	54,683	244,843
2019	0	0	30,796	169,703	57,957	258,457
2020	0	0	31,720	179,703	61,424	272,847

<sup>1</sup> Other Income includes any estimated tax refunds for the prior year.

<sup>2</sup> Benefits may be reduced for earnings from current work prior to full retirement age (FRA). FRA for Robert is age 66 and FRA for Margaret is age 66.

# Net Adjustments for Cash Flow

## Adjustments

Robert Dies in 2016, Margaret Dies in 2021

### Current Plan

End of Year	Expected Income	New Loan Proceeds	Net Assets Used for Cash Flow	Annual Shortfall	Total Outgoing Payments
2007	\$96,167	\$0	\$81,267	---	\$177,434
2008	360,996	0	0	---	278,914
2009	345,547	0	0	---	295,668
2010	354,184	0	0	---	308,610
2011	250,540	0	178,461	---	429,000
2012	224,482	0	91,927	---	316,409
2013	166,383	0	132,186	---	298,569
2014	174,066	0	114,188	---	288,254
2015	182,229	0	105,991	---	288,220
2016	221,445	0	359,923	---	581,368
2017	231,962	0	0	---	223,037
2018	244,843	0	0	---	228,902
2019	258,457	0	0	---	236,852
2020	272,847	0	0	---	245,260

# Qualified Plan Summary

## *Effects on Cash Flow*

Robert Dies in 2016, Margaret Dies in 2021

### Current Plan

End of Year	Deposits	Growth	Required Minimum Distribution	Actual Distributions	Account Balance
2007	\$102,400	\$15,574	\$0	\$0	\$653,510
2008	105,875	36,877	0	100,000	696,262
2009	105,993	39,518	0	100,000	741,772
2010	106,113	42,329	0	100,000	790,214
2011	100,000	45,114	0	100,000	835,328
2012	100,000	49,904	0	64,407	920,824
2013	100,000	58,809	0	0	1,079,634
2014	100,000	68,604	0	0	1,248,238
2015	100,000	79,004	0	0	1,427,242
2016	0	88,029	48,671	48,671	1,466,600
2017	0	90,457	51,591	51,591	1,505,466
2018	0	92,854	54,683	54,683	1,543,637
2019	0	95,208	57,957	57,957	1,580,888
2020	0	97,506	61,424	61,424	1,616,970

# Gift Summary

## Total Gifts

Robert Dies in 2016, Margaret Dies in 2021

## Current Plan

End of Year	Life Insurance Premium Gifts	Non Premium Gifts	Taxable Gifts	Exclusion Gifts	Charitable Gifts	All Gifts
2007	\$0	\$3,000	\$0	\$0	\$3,000	\$3,000
2008	0	7,416	0	0	7,416	7,416
2009	0	7,638	0	0	7,638	7,638
2010	0	7,868	0	0	7,868	7,868
2011	0	8,104	0	0	8,104	8,104
2012	0	8,347	0	0	8,347	8,347
2013	0	8,597	0	0	8,597	8,597
2014	0	8,855	0	0	8,855	8,855
2015	0	9,121	0	0	9,121	9,121
2016	0	9,394	0	0	9,394	9,394
2017	0	9,676	0	0	9,676	9,676
2018	0	9,966	0	0	9,966	9,966
2019	0	10,265	0	0	10,265	10,265
2020	0	10,573	0	0	10,573	10,573

# Gift Details

## Total Gifts

Robert Dies in 2016, Margaret Dies in 2021

### Current Plan

End of Year	Non-Premium Exclusion Gifts	Life Ins Premium Exclusion Gifts	Total Annual Exclusion Gifts	Non-Premium Taxable Gifts	Life Ins Premium Taxable Gifts	Total Annual Taxable Gifts	Charitable Gifts
2007	\$0	\$0	\$0	\$0	\$0	\$0	\$3,000
2008	0	0	0	0	0	0	7,416
2009	0	0	0	0	0	0	7,638
2010	0	0	0	0	0	0	7,868
2011	0	0	0	0	0	0	8,104
2012	0	0	0	0	0	0	8,347
2013	0	0	0	0	0	0	8,597
2014	0	0	0	0	0	0	8,855
2015	0	0	0	0	0	0	9,121
2016	0	0	0	0	0	0	9,394
2017	0	0	0	0	0	0	9,676
2018	0	0	0	0	0	0	9,966
2019	0	0	0	0	0	0	10,265
2020	0	0	0	0	0	0	10,573

# Income and Gift Tax Summary

## Annual Details

Robert Dies in 2016, Margaret Dies in 2021

### Current Plan

End of Year	Income Taxes Due for Prior Year	Income Taxes Refund for Prior Year	Withholding for Year	FICA Withholding	Gift Taxes Due for Prior Year	Taxes Payments and Withholdings
2007	\$0	\$0	\$24,444	\$4,590	\$0	\$29,034
2008	0	23,714	59,839	8,175	0	68,014
2009	16,540	0	61,036	8,217	0	85,793
2010	29,354	0	62,256	8,261	0	99,872
2011	32,937	0	0	0	0	32,937
2012	49,205	0	0	0	0	49,205
2013	29,632	0	0	0	0	29,632
2014	17,531	0	0	0	0	17,531
2015	15,658	0	0	0	0	15,658
2016	12,720	0	0	0	0	12,720
2017	51,430	0	0	0	0	51,430
2018	55,286	0	0	0	0	55,286
2019	61,166	0	0	0	0	61,166
2020	67,443	0	0	0	0	67,443

# Lifestyle Expenses Summary

## Outgoing Payments

Robert Dies in 2016, Margaret Dies in 2021

### Current Plan

End of Year	Living Expenses	Education	Other Specific Needs	Loan Payments	Retirement Plan Contributions	Lifestyle Expenses
2007	\$23,600	\$0	\$0	\$21,000	\$101,800	\$146,400
2008	51,294	0	0	50,400	104,406	206,100
2009	50,181	0	0	50,400	104,495	205,075
2010	48,954	0	0	50,400	104,584	203,939
2011	191,156	0	0	100,107	100,000	391,263
2012	57,778	0	0	104,626	100,000	262,404
2013	59,512	0	0	104,626	100,000	264,137
2014	61,297	0	0	104,626	100,000	265,923
2015	63,136	0	0	104,626	100,000	267,762
2016	463,622	0	0	104,626	0	568,248
2017	66,981	0	0	104,626	0	171,607
2018	68,990	0	0	104,626	0	173,616
2019	71,060	0	0	104,626	0	175,686
2020	73,192	0	0	104,626	0	177,818

# Outgoing Payments Summary

## Outgoing Payments

Robert Dies in 2016, Margaret Dies in 2021

### Current Plan

End of Year	Lifestyle Expenses	Gifts Not Including Life Insurance	Life Insurance Premiums	Tax Payments and Withholdings	Discretionary Spending	Outgoing Payments
2007	\$146,400	\$0	\$2,000	\$29,034	\$0	\$177,434
2008	206,100	0	4,800	68,014	0	278,914
2009	205,075	0	4,800	85,793	0	295,668
2010	203,939	0	4,800	99,872	0	308,610
2011	391,263	0	4,800	32,937	0	429,000
2012	262,404	0	4,800	49,205	0	316,409
2013	264,137	0	4,800	29,632	0	298,569
2014	265,923	0	4,800	17,531	0	288,254
2015	267,762	0	4,800	15,658	0	288,220
2016	568,248	0	400	12,720	0	581,368
2017	171,607	0	0	51,430	0	223,037
2018	173,616	0	0	55,286	0	228,902
2019	175,686	0	0	61,166	0	236,852
2020	177,818	0	0	67,443	0	245,260

# Additional Details

## *Your Proposed Strategy*

Calculations assume that Robert dies in 9 years and Margaret dies 5 years later. Robert is age 61 and Margaret is age 61.

Robert is eligible for Social Security benefits. Robert's Social Security benefits are estimated based on the information contained in the Social Security Benefit statement you provided. Robert plans to take Social Security retirement benefits starting at age 65.

Margaret is eligible for Social Security benefits. Margaret's Social Security benefits are estimated based on the information contained in the Social Security Benefit statement you provided. Margaret plans to take Social Security retirement benefits starting at age 65.

Robert is a U.S. Citizen and Margaret is a U.S. Citizen.

### **Tax Rates**

The tax rates assumed for the proposed strategy are also used for the current situation so that the comparisons illustrate the effects of taxes on the estimated taxable income and the differences in the estate taxes. The objective of this presentation is to consider how the proposed strategy may affect the expenses and estate taxes at death.

### **Income Tax Rates**

Federal Income Tax Rate: 35%  
State Income Tax Rate: 7%

### **Change in Income Tax Rates** (starting when Robert retires)

Federal Income Tax Rate: 28%  
State Income Tax Rate: 7%

### **Other Rates**

Capital Gains Tax Rate: 15%  
Income Tax Rate for Income in Respect of a Decedent: 35%  
General Inflation Rate: 3%  
Inflation Rate for Federal Indexed Values: 3%

An IRC Sec. 7520 rate of 5% is used to calculate the remainder interests for trusts, annuities and income in respect of decedent.

Income designated as Capital Gains Income is assumed to qualify for long-term capital gains treatment.

Calculations of short-term capital gains, adjusted net capital gain or qualified 5-year gain is beyond the scope of this analysis.

### **Prior Taxable Gifts**

#### **Robert:**

Prior Taxable Gifts: \$0  
Gift Taxes Paid: \$0  
Applicable Credit Used: \$0

#### **Margaret:**

Prior Taxable Gifts: \$0  
Gift Taxes Paid: \$0  
Applicable Credit Used: \$0

# Additional Details

## *Your Proposed Strategy (cont.)*

### **Growth Rates for Gifts, Bequests and Life Insurance Proceeds**

Growth Rates for Transfers to Others: 5%

Growth Rates for Transfers to Charities: 5%

Rates for Life Insurance Proceeds in Trust: 5%

### **Probate and Expenses**

#### **Robert:**

Final Expenses: \$0

Probate Fees (% Gross Estate): 4%

Probate Fees: \$0

Administrative Fees (% Assets): 1%

Administrative Fees: \$0

Additional Expenses: \$0

Additional Taxes: \$0

#### **Margaret:**

Final Expenses: \$0

Probate Fees (% Gross Estate): 4%

Probate Fees: \$0

Administrative Fees (% Assets): 1%

Administrative Fees: \$0

Additional Expenses: \$0

Additional Taxes: \$0

### **Stock Options**

Stock options have been illustrated to estimate their effects on your overall assets. It is not possible to predict the performance of any stock. The taxation of stock options can vary greatly based on the exact provisions of the grant, the vesting schedule, the market price when first exercisable, how long you held the options, when you exercised the options, and when you sold the acquired shares. Incentive stock options are assumed to meet all of the limitations described in IRC Sec. 422. All shares are assumed to be held one year after exercise of the option. Options exercised at the end of two years or later are assumed to meet the IRS two year requirement. You should consult your tax or legal advisor before taking any action concerning your stock options.