John and Katie Winters

360 WEALTH MGT. -ESTATE PLAN SUPPLEMENTS
December 03, 2012

PREPARED BY:
William Wilkinson, CFP ChFC, CLU, CASL, AIF
28170 N. Alma School Parkway
Suite 208
Scottsdale, AZ 85262
(480) 588-8522

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Disclaimer

The following report is a diagnostic tool intended to review your current financial situation and suggest potential planning ideas and concepts that may be of benefit. The purpose of the report is to illustrate how accepted financial and estate planning principles may improve your current situation.

This report is based upon information and assumptions provided by you (the client). This report provides broad and general guidelines on the advantages of certain financial planning concepts and does not constitute a recommendation of any particular technique. The consolidated report is provided for informational purposes as a courtesy to you. We recommend that you review your plan annually, unless changes in your personal or financial circumstances require more frequent review. All reports should be reviewed in conjunction with your fact summary and this Disclaimer page.

The term "plan" or "planning," when used within this report, does not imply that a recommendation has been made to implement one or more financial plans or make a particular investment. Nor does the plan or report provide legal, accounting, financial, tax or other advice. Rather, the report and the illustrations therein provide a summary of certain potential financial strategies. The reports provide projections based on various assumptions and are therefore hypothetical in nature and not guarantees of investment returns. You should consult your tax and/or legal advisors before implementing any transactions and/or strategies concerning your finances.

Additionally, this report may not reflect all holdings or transactions, their costs, or proceeds received by you. It may contain information on assets that are not held at the broker/dealer with whom your financial representative is registered. As such, those assets will not be included on the broker/dealer’s books and records. Prices that may be indicated in this report are obtained from sources we consider reliable but are not guaranteed. Past performance is no guarantee of future performance and it is important to realize that actual results may differ from the projections contained in this report. The presentation of investment returns set forth in this report does not reflect the deduction of any commissions. Projected valuations and/or rates of return may not take into account surrender charges on products you might own. They will reflect any fees or product charges when entered by the advisor/ representative. Deduction of such charges will result in a lower rate of return.

It is important to compare the information on this report with the statements you receive from the custodian(s) for your account(s). Please note that there may be minor variations due to calculation methodologies. If you have any questions, please contact your financial representative. Also, your account(s) may not be covered by FDIC or SIPC. FDIC and SIPC coverages apply only to certain assets and may be subject to limitations. Questions about coverage that may apply should be directed to the asset provider or sponsor.

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Tools such as the Monte Carlo simulation will yield different results depending on the variables inputted, and the assumptions underlying the calculation. For those reports that perform a Monte Carlo analysis, the term 'Monte Carlo' will be included in the report title. The assumptions with respect to the simulation include the assumed rates of return and standard deviations of the portfolio model associated with each asset. The assumed rates of return are based on the historical rates of returns and standard deviations, for certain periods of time, for the benchmark indexes comprising the asset classes in the model portfolio. Since the market data used to generate these rates of return change over time your results will vary with each use over time.

Monte Carlo Analysis is a mathematical process used to implement complex statistical methods that chart the probability of certain financial outcomes at certain times in the future. This charting is accomplished by generating hundreds of possible economic scenarios that could affect the performance of your investments.

The Monte Carlo simulation uses at most 1000 scenarios to determine the probability of outcomes resulting from the asset allocation choices and underlying assumptions regarding rates of return and volatility of certain asset classes. Some of these scenarios will assume very favorable financial market returns, consistent with some of the best periods in investing history for investors. Some scenarios will conform to the worst periods in investing history. Most scenarios will fall somewhere in between.

The outcomes presented using the Monte Carlo simulation represent only a few of the many possible outcomes. Since past performance and market conditions may not be repeated in the future, your investment goals may not be fulfilled by following advice that is based on the projections.

I/We have received and read this Disclaimer page and understand its contents and, therefore, the limitations of the report. Furthermore, I understand that none of the calculations and presentations of investment returns are guaranteed.

Client(s): ______________________________ ______________
John Winters Date

______________________________ ______________
Katie Winters Date

Advisor: ______________________________ ______________
William Wilkinson, CFP ChFC, CLU, CASL, AIF Date

Charitable Gifting

Prepared for John and Katie Winters

Charitable giving provides personal satisfaction to the donor along with estate and income tax deductions to reduce taxes.

From a financial planning perspective, lifetime charitable gifts are generally done to achieve income tax deductions and slow the growth of an estate. At death, if an estate plan is so arranged that the heirs will receive a satisfactory net inheritance then estate assets can also be left to charities via bequest. Charitable bequests are eligible for an estate tax deduction and must be made by the estate owner in the will.

Advantages of Charitable Giving
* Immediate reduction in estate size
* Income Tax Deduction if made during lifetime
* Sense of satisfaction for good works
* Special charitable trusts exist that offer the above benefits and still provide the donor with income from the gifted asset.

Many people prefer using charitable gifts to reduce their estate tax liability because they believe their dollars are better spent and allocated by a charity or foundation than a wasteful or inefficient government department. Additionally, and especially with a foundation, the donor can better control which people/causes the money will help.

Mechanics of Charitable Giving
Charitable gifts can take three general forms:

* Direct gifts to a specified charity (lifetime gifts or bequests)
* Charitable foundation created. Heirs can be employed by the foundation to help manage it and imbue a sense of community involvement in the younger generations. Foundations are only appropriate for very large donations.
* Special charitable trusts

Charitable Gifts Using Life Insurance
As an alternative to leaving cash or other estate assets to a charity, many donors find life insurance to be a convenient charitable gift. Charities will purchase a life policy on a donor, and the donor makes annual income tax-deductible gifts each year to the charity to pay for the premiums. This is a popular technique because unlike bequests at death, the annual donation is income tax deductible, and the heirs do not resent losing part of their inheritable estate. Additionally, the fact that relatively small premium dollars can create much larger death benefits also attracts clients.

A donor could also own a policy on his/her own life and name the charity as beneficiary. Because the beneficiary could be changed before death, the donor does not receive any income tax deduction on the premiums. For this reason, many people prefer the charity own the policy, and they donate the annual premium each year.

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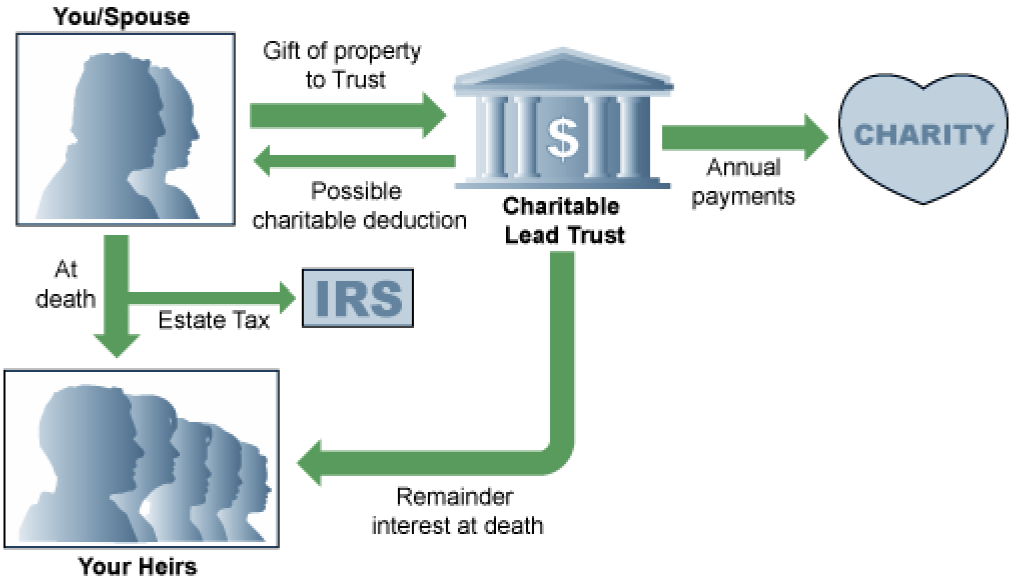
Charitable Lead Trust (CLT)

Prepared for John and Katie Winters



A CLT allows you to gift assets to heirs at a discounted gift value, and provide a consistent annual gift to a charity.

A Charitable Lead Trust (CLT) is an irrevocable split interest trust where one party (a charitable organization) receives an income stream from the trust and another party (typically the grantor's children) receives the remaining trust assets at the end of the income period.

Mechanics of a CLT
There are two basic types of CLTs:
* Grantor CLT where the grantor (or spouse) receives the remaining trust assets after the income period.
* Non-Reversionary CLT where someone other than the grantor or spouse (typically children) receive the remainder assets after the income period. This type of CLT is considered a gift to the remainder recipient. However, the value of the gift for gift tax purposes is reduced by the present value of the income interest received by the charity.

The benefits and tax ramifications are slightly different for each type.

Advantages of a Grantor CLT
1. The grantor can claim an income tax deduction equal to the present value of the promised income stream to charity. This type of CLT is effective for people seeking income tax deductions rather than estate tax deductions.

2. A charitable organization receives a steady flow of funds for the specified period. For a Grantor CLT, the income period is for a specified term of years.

Advantages of a Non-Reversionary CLT
1. Value of the asset (and any future growth) is immediately removed from the grantor's estate. This is especially advantageous if assets are contributed that are expected to appreciate rapidly. The potential estate tax savings can be significant.

2. The value of the gift to the grantor's heirs is reduced for gift tax purposes by the present value of the income stream that goes to charity.

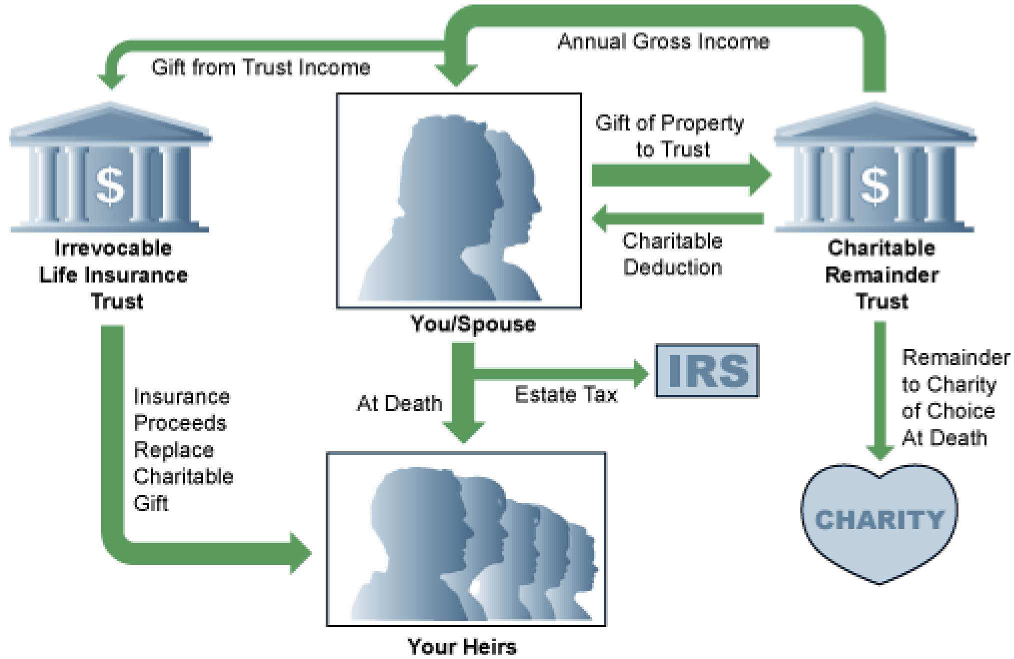
3. A charitable organization receives a steady flow of funds for the specified period. For a non-reversionary CLT, the income period can be for a specified term of years or for the life of the grantor.

Example
Phil has $1 million worth of assets he expects to appreciate considerably in the future. He would like his children to inherit the asset. Phil estimates that if he holds onto the asset, it could be worth $4 million in 15 years and create about $2 million in estate taxes. He decides to gift the asset to his children now and avoid the estate tax bill.

To save even more taxes, Phil decides to use a CLT. He gifts the $1 million of assets into the CLT with a $70,000 annual payout for 15 years to his favorite charity. (Actual valuation would depend on the currently published IRS discount rate.) Because of the charity's income interest, the IRS might value the gift to his children at $400,000. Phil's unified credit covers the gift tax on $400,000. If the assets grow by more than 7%, Phil's children may receive much more than $1 million in 15 years even though the gift only cost Phil tax on $400,000. The charity receives a significant gift, Phil's children will ultimately receive the assets, and Phil paid gift tax on $400,000 rather than estate tax on potentially $4 million.

Charitable Remainder Trust (CRT)

Prepared for John and Katie Winters



A Charitable Remainder Trust or a CRT is an agreement between you and a trustee to hold assets for a term. The term may be for the lifetime of you, your spouse and/or other beneficiaries or for a set period of time not to exceed 20 years.

During the term of the CRT, the trustee will distribute a sum certain (a charitable remainder annuity trust or a CRAT) or a fixed percentage (5%-50%) of the trust assets (a charitable remainder unitrust or a CRUT) determined by you to a non-charitable beneficiary (the "income recipient") determined by you. At the end of the term, the CRT's remaining assets will be distributed to the charity or charities that you have selected.

Benefits of a CRT include:

- **Reduction in estate size.** The gift to a CRT immediately is removed from your estate thus creating estate tax savings. As long as you and/or your spouse are the income recipients, no gift taxes are due.

- **Income tax deduction.** You receive a charitable income tax deduction based on the amount of money expected to remain in the trust at the end of the term. The value of the income tax deduction is based on the (i) income amount (higher income amount and/or longer income period means less for the charity and less deduction); (ii) the age of the income recipient (older recipient results in larger deductions); and (iii) the Internal Revenue Service interest rates in effect at time of the gift. Note that the law provides that at a minimum, 10% of the value of the property initially transferred into the trust must pass to the charity to qualify as a CRT.

- **Potentially more living income.** Your cash flow may be higher due to the income tax deduction and the income interest from the CRT. Many grantors gift highly appreciated and non-income producing property to a CRT. Because it is a charitable trust, the CRT can sell the asset without capital gains tax. The proceeds then are reinvested into income producing property to pay the income interest. In this way, a CRT may be used to unlock income from a non-income producing asset without having to lose asset value because of capital gains.

- **Significant gift to charities.** Any assets remaining in the CRT at termination of the term pass to the specified charities. If the CRT is able to earn a growth rate greater than the amount due to the income recipient, the trust assets will grow over time. The potential windfall for charities may be tremendous. In fact, many large charities have special departments for helping donors create a CRT.

- **Increased net to heirs.** Many grantors use a portion of the CRT income to purchase life insurance. This allows the grantor to offset estate taxes on his or her other assets and increase the net amount distributable to heirs.

Severable derivations on the standard CRT exist. Some of the more popular ones are:

- **NIM-CRUT** - Net Income With Make-up Charitable Remainder Unitrust where the Trustee distributes the lesser of the fixed percentage amount and the CRT's actual net income. Any deficiencies (i.e., where net income is less than the fixed percentage) are made up in later years when the actual income exceeds the fixed percentage.

- **FLIP-CRUT** - where a NIM-CRUT converts to a standard CRT on a triggering event such as the sale of unmarketable assets used to fund the CRT.

Credit Shelter Trust (CST)

Prepared for John and Katie Winters

A Credit Shelter Trust allows a married couple to minimize their estate taxes while still allowing the surviving spouse to have access to the entire estate.

The Credit Shelter Trust (CST) is also referred to as Bypass Trust or B Trust in an A-B Trust Plan. The CST is appropriate for clients who expect to face estate taxes, and is an alternative to using the unlimited marital deduction for all assets in order to reduce total estate taxes.

When using the unlimited marital deduction on all property of the first to die, the two estates are essentially merged into one larger estate that will be subject to estate tax at the second death. At the survivor's death, his/her estate can claim his/her unified credit to offset a portion of the taxes.

The exemption equivalent in 2012 is $5.12 million. A couple can protect over $10 million from estate taxes using a CST in 2012. Current law lowers the exemption equivalent to $1 million beginning in the year 2013. If the current law remains unchanged, then a couple passing away in 2013 or later could protect $2 million from estate taxes using a CST instead of just $1 million by leaving all assets directly to the surviving spouse.

In order to use both unified credits, estate assets can be left to non-spousal heirs at the first death as well as the second death. The disadvantage of leaving assets directly to non-spousal heirs at the first death is that the surviving spouse does not receive that money. Many people are uncomfortable with that and fear the spouse may someday need that money. The CST solves this dilemma.

Mechanics of a CST

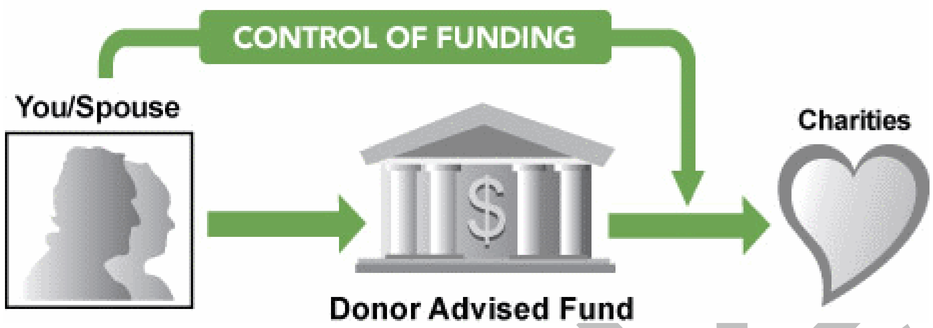
The CST is funded with assets from the estate of the first to die. During the surviving spouse's lifetime, he/she can receive income from the CST assets and, subject to certain limitations, even invade principal if needed. At the survivor's death, trust assets are generally not included in the survivor's estate, and are passed to the non-spousal heirs as outlined in the trust. Thus, the surviving spouse is not put at financial risk, and yet the trust assets are not counted as part of his/her estate.

The first to die typically puts an amount of assets into the CST equal to the exemption equivalent in the year of death. Any more assets than that, and estate taxes would be due although some planners recommend paying some taxes at the first death in order to avoid a higher estate tax marginal rate upon the death of the surviving spouse. By funding a CST with assets up to the exemption amount, the couple successfully uses both unified credits and minimizes total estate taxes.

A CST can only be funded with assets individually owned by the first to die. Therefore, each half of the married couple should own enough assets in his/her name to fund a CST upon death. If one person does not own enough assets to fully fund a CST, a retitling of specified assets is needed.

Donor Advised Fund (DAF)

Prepared for John and Katie Winters



A donor advised fund is a contractual arrangement with a sponsoring charity through which donors make irrevocable charitable contributions. Donors and their designees, are not required, but retain the right to recommend grants to qualifying charities in amounts and frequency of their choosing, according to their contractual agreement with the sponsoring charity.

A donor advised fund is easy to establish and maintain and does not require a custom drafted legal agreement. It is a separate account, owned and controlled by the sponsoring charity.

Mechanics

- A lifetime transfer to a donor advised fund is treated, for both property law and tax purposes, as a direct transfer to the sponsoring public charity.
- Typically, donations to a donor advised fund are tax deductible up to 50% of adjusted gross income for cash and up to 30% of AGI for appreciated securities held more than one year with a five-year carryover. Gifts of appreciated publicly traded stock are generally deductible at fair market value, but gifts of non-marketable property are limited to tax cost.
- The sponsoring charity may be a community foundation, another type of large public charity, such as a hospital or educational institution, or a public charity created by and associated with a major financial institution.
- Because the sponsoring organization owns the donor advised fund account, all earnings of the account appear on the tax return of the sponsoring organization. So there’s no need to file a separate tax return for the new entity.
- Upon the death of the donor, successor advisors may continue to make grants to charities.

Advantages

- One key element of a donor advised fund is the ability of the donor and/or his designees to name family members and friends as “account advisors”, thereby promoting family philanthropy.
- The names of individual donors/advisers can be kept confidential, if desired, and grants can be made anonymously.
- A donor advised fund also offers flexibility in the amount, frequency and timing of donations to programs and charities of special interest.
- Donor advised funds can be an excellent alternative to private foundations because of the ease of administration.

Considerations

There are important differences among donor advised funds, differences beyond fee structure and available investment options. Depending on your situation and charitable objectives, important factors to consider are:

- Whether the fund will accept non-traditional assets such as closely held stock or partnership interests
- The number of individuals who may serve as advisors during your lifetime or after your death
- The presence or absence of requirements to make distributions to the sponsoring charity
- Whether expert advice on grant recommendations is available from the sponsoring charity
- Minimums for contributions and additions

Example

Mary West and her husband Ted have two daughters. Their usual AGI is $200,000; however, Mary also will receive a bonus of $50,000.

By contributing her bonus to a donor advised fund and naming her family members as fund advisors, Mary begins to cultivate a family tradition of giving. Since her contribution grows tax-free, the potential for future grant-making increases.

From a tax perspective, Mary and Ted offset their taxable income with a $50,000 income tax charitable deduction. Longer term, Mary has removed the $50,000 – as well as any associated future earnings – from her taxable estate.

Family Limited Partnership (FLP)

Prepared for John and Katie Winters

A Family Limited Partnership (FLP) is a legal partnership among family members. FLPs provide an excellent vehicle to centralize the management of assets, protect against creditors, reduce administration expenses of investment and expose younger family members to the investment and management of assets.

Mechanics of an FLP

An FLP has a general partner, typically a parent, who controls the management of the partnership and is liable for all partnership debts. The general partner may be a corporation or limited liability company owned by the parent and therefore shields the general partner from unlimited liability. The limited partners, typically children, have no control over management of the partnership assets, receive their pro-rata share of partnership income and are liable only to the extent of their investment in the partnership.

Valuation Discounts

Because the limited partnership interest carries no ability to control, the value of the interest is not equal to the value of the underlying assets. The theory is that if someone offered you a $10,000 piece of property, but you had no control over its use, you would not pay $10,000 for it. This is referred to as a minority interest discount. Likewise, the ownership and transfer of partnership interests may have restrictions attached. This is referred to as marketability discount and also may cause the value of the partnership interest to be less than the underlying value. Valuation discounts are very useful for wealthy taxpayers because they provide gift tax leverage; that is, more assets may be gifted under the annual exclusion or exemption equivalent than otherwise would be possible.

Example

Parent forms an FLP and transfers assets to it. Parent's wholly owned limited liability company is the general partner and Parent is the sole limited partner. The following year Parent decides to give annual exclusion gifts of limited partnership interests to his children. The FLP is appraised and the appraiser informs Parent that the value of a limited partnership interest should be discounted by 35% due to lack of control and marketability. Accordingly, Parent may gift limited partnership worth $66,000 to his children that, due to the family context, may be worth $88,000 to them.

Caution

Ever since IRS ruled that minority and marketability interests might be appropriate in the family context FLPs have been touted as vehicles to transfer wealth to younger generations at substantially reduced federal gift and estate tax costs. Over the last decade, IRS presented largely unsuccessful challenges, based on sham, step transaction theories, the disregard of the entity itself or the restrictions in the agreement, to disallow the discounts taxpayers were taking on gift and estate tax returns. Beginning in the late 1990s, however, IRS has succeeded in including underlying assets in the taxpayer's estate under Section 2036(a) of the Code based on an implied retention of the right to enjoy the income.

How the IRS prevails on this issue may depend on what circuit court is considering it. The bottom line is that FLPs are intensely factual cases. FLPs that hold assets for a real business purpose and with respect to which the formalities (formation and administration) are followed have a much better chance at success. FLPs are complex financial tools that when designed too aggressively may attract the attention of the IRS. Clients considering a FLP must do so with extreme caution and with the consult of qualified legal counsel.

Gifting

Prepared for John and Katie Winters

Systematic gifting is a simple way to transfer assets to your heirs, reduce your estate, and reduce your estate taxes.

The simplest way to avoid estate taxes at death is to give assets away during your lifetime. In order to prevent people from giving away entire estates and thereby avoiding estate tax entirely, gift taxes were added to the tax code. Fortunately, gift taxes do not apply to all gifts.

The Annual Exclusion allows all citizens to give up to $13,000 per year to any number of recipients (spouses can receive an unlimited value of gifts) without gift taxation. Any gifts over $13,000 to any one person in any year are taxable to the donor. A married couple can give up to $26,000 per year to any number of recipients.

Over time, the estate tax savings from a systematic gifting strategy can be tremendous.

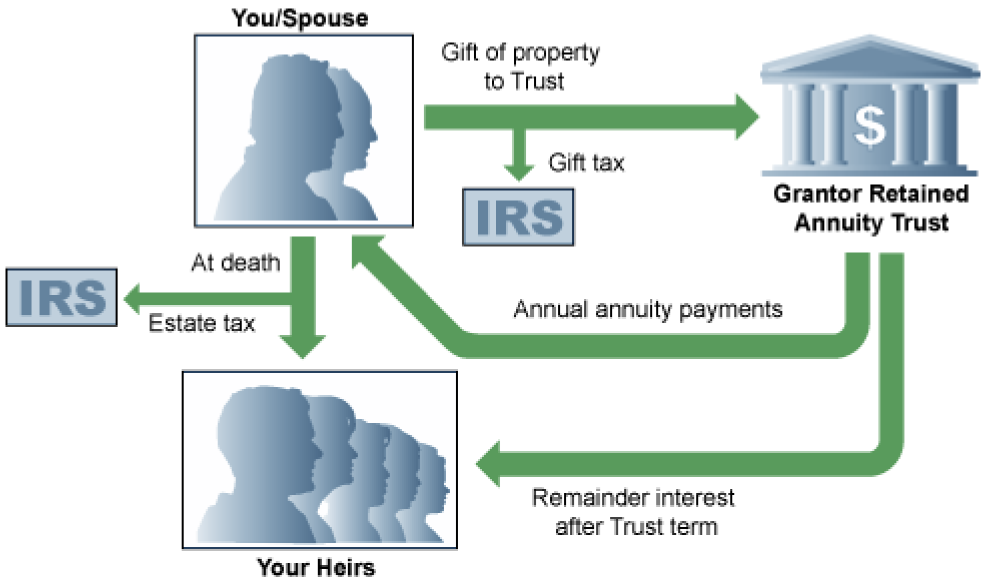
Example

The Prescotts, both age 60, are married, have 3 children and 5 grandchildren. They have a $15 million estate, and have no retirement or living expense worries. They know they face a potentially large estate tax bill upon their second death. Making annual exclusion gifts to just their 8 immediate heirs, the Prescotts can make total annual tax-free gifts of $208,000. If both live 20 years, they could remove over $4 million from their estate as well as any future growth on the gifted assets. This provides a potential estate tax savings of $1.4 million assuming a 35% estate tax rate.

Often, gifts of cash are used to purchase life insurance inside special trusts called Irrevocable Life Insurance Trusts/Crummey Trust to help offset any remaining estate taxes. If the gifts are not to be used to purchase insurance, it is wise to gift assets that are expected to appreciate rapidly so as to remove the asset as well as its future growth from the estate.

Grantor Retained Annuity Trust (GRAT)

Prepared for John and Katie Winters



Mechanics of a GRAT

A Grantor Retained Annuity Trust or a GRAT is an agreement between you and a trustee to hold assets for a term. During the term of the GRAT the trustee will distribute an annuity to you at a rate determined by you. At the end of the term, the GRAT's remaining assets will be distributed to the individuals or trusts you have named as remainder beneficiaries. Because you may serve as Trustee, creation of a GRAT allows you to retain control and use of your property but transfer the property's upside appreciation to the remainder beneficiaries tax-free.

The term of the GRAT may be for life or any period of time not less than two years that you determine at the inception of the GRAT. If you die during the GRAT term, the GRAT assets will be included in your estate for federal estate tax purposes.

A GRAT may be structured so that its creation has no gift tax consequences. The value of the gift that results from the funding of a GRAT is determined by subtracting the value of the annuity from the value of the property transferred. Since you can manipulate the value of the annuity by selecting the term and rate, you can insure that the transfer results in a gift valued at zero. With no taxable gift at the creation of a GRAT, there is no downside to its use. If the value of the transferred property grows more than the amount required to pay your annuity, the excess growth will pass to the remainder beneficiaries free of gift tax. If the GRAT assets perform poorly, nothing is lost and the technique may be tried again.

A GRAT is a grantor trust for federal income tax purposes. This means that the grantor is taxed on all income and realized gains even if these amounts are greater than the annuity payments. This further enhances the GRAT's effectiveness as a family wealth shifting and tax saving technique since the grantor essentially is making a tax free gift of the income taxes.

Example

Greg Grantor transfers $5,000,000 of stock to a two-year GRAT. Greg sets the annuity amount sufficiently high so that no gift results from the funding. Greg names his daughter, Greta, as the remainder beneficiary. Assume that the value of the stock appreciates at an annual rate of 6.5%. Based on the assumptions the following results:

'Investment' in GRAT	$5,000,000
Gift on creation of GRAT	$0.00
Annual annuity payable to Greg (based on the applicable IRS rate)	$2,666,240
Total amount paid back to Greg over the life of the GRAT	$5,332,480
Amount distributable to Greta at end of year 2 free of tax	$165,339

Use of the GRAT as illustrated above does not deplete Greg's estate, but it does facilitate the removal of future growth and income. If the assets selected for the GRAT do not grow as expected, nothing is gained but nothing is lost. The technique may be repeated until favorable results occur.

Note that a Grantor Retained Unitrust (GRUT) operates similarly to a GRAT except that the retained annuity interest is stated as a percentage of GRUT assets each year rather than once at inception. If highly appreciable assets are used to fund a GRUT, the grantor's annuity will increase each year. This results in more appreciation being retained by the grantor and less being transferred to the remainder beneficiaries. Because the estate-planning goal is to shift as much appreciation as possible to the heirs, GRUTs are not as popular as GRATs.

Income in Respect of Decedent (IRD)

Prepared for John and Katie Winters

Income in Respect of Decedent (IRD) is income on which the decedent has yet to pay income tax, but which the decedent earned or had a right to receive prior to death. A simple example is a salesman earns a commission, and dies before the commission is paid. If the surviving spouse or any heir receives that commission, that is considered IRD and is taxable income to the recipient.

Another common example is a deferred compensation agreement where the recipient dies before all retirement payments are received. Any future payments to the surviving spouse or heirs are IRD and thus taxable income to the heirs when received. Perhaps the most common situation that creates IRD is tax-deferred retirement accounts (such as 401(k)s and IRAs) and tax-deferred annuities.

Most people understand that lifetime withdrawals from tax-deferred accounts are usually income taxable. Unfortunately, that rule does not change once the account owner dies. The beneficiary of the tax-deferred account must also pay income tax on any withdrawals. The Internal Revenue Code simply authorizes collection of the income tax they have been letting the owner defer - possibly for decades.

IRD And Double Taxation

So when children inherit a tax-deferred account, they inherit an asset that has a tax liability (potentially up to 40% or more) built into it.

To make matters worse, tax-deferred account balances are also included in the estate. If an estate is valued at more than the exemption equivalent amount ($5,120,000 in 2012), estate taxes will apply. Estate tax rates reach as high as 35% for estates over the exemption amount in the year 2012.

The end result is that wealthier clients will see their tax-deferred accounts subject to double taxation (estate and income), resulting in a potential reduction of over 55% before the children see a net withdrawal. There is an income tax deduction that helps to partially reduce the income tax, but the combined tax effect can still hit over 55%.

If you have sizable tax-deferred account balances and an estate over the exemption amount (potentially large enough to be subject to estate taxes), there are some estate planning strategies that may help you avoid double taxation and better transfer that wealth to your heirs.

Intentionally Defective Grantor Trust (IDGT)

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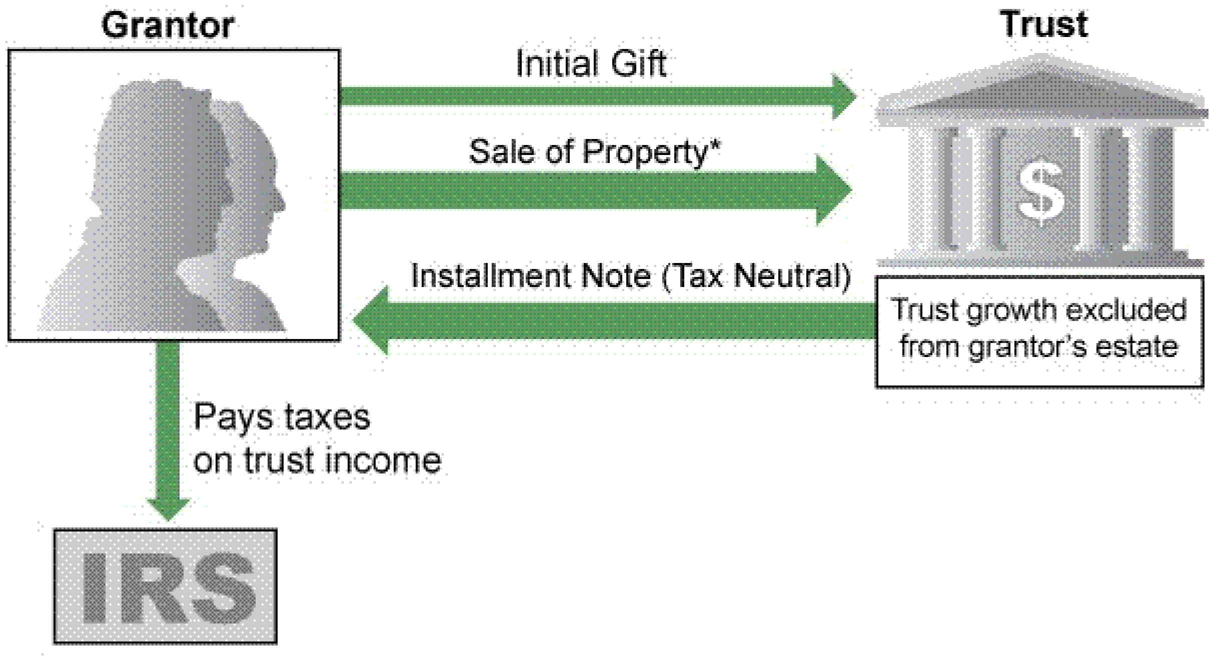


*The sale of property may be subject to a discount

For large estates, an Intentionally Defective Grantor Trusts or IDGT is a very effective tool in estate planning due to its unique structure. This type of trust is set up as an Irrevocable Trust that is rendered "defective" due to the intentional retention of interest that violates the Grantor Trust rules. The ensuing arrangement creates an optimal estate transference arrangement which allows the grantor to place assets outside the estate yet obliges the grantor to pay income taxes on these assets. This structure creates further "tax-free" gifting opportunities for the grantor. Since neither the trust nor its beneficiaries are responsible for any tax on the trust's income, the trust and its beneficiaries enjoy tax-free growth.

How it works:

Due to disparities in the estate tax and gifting laws a situation is created whereby the grantor is allowed to remove assets from his/her estate for estate planning yet retain an interest in these assets for income tax purposes. Careful drafting of the trust document is required to effectively create this unique trust. Then through gifts and installment payments the trust begins its estate transference arrangement.

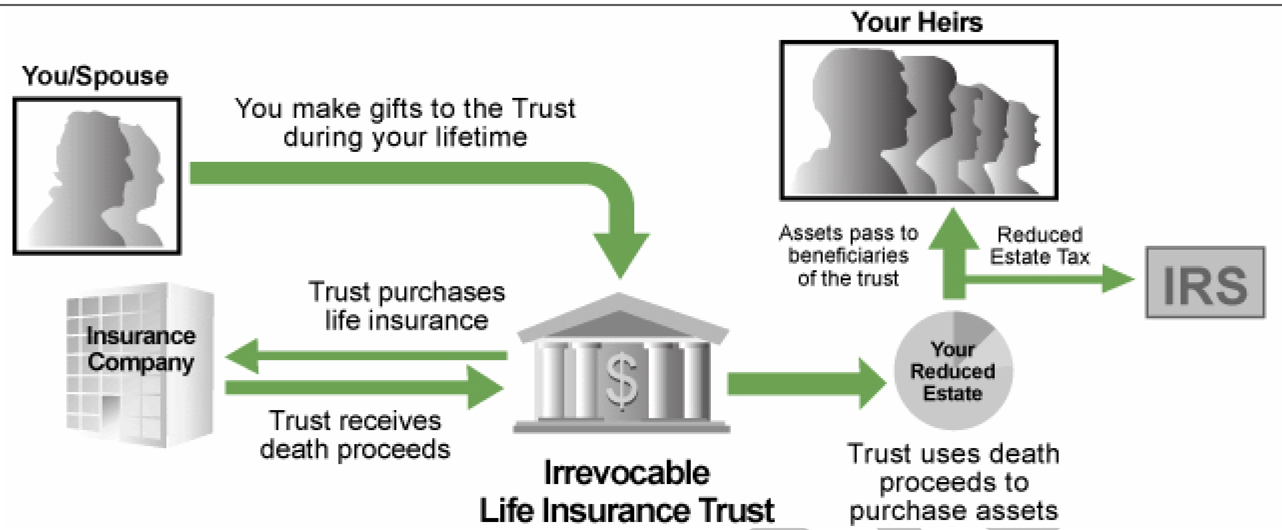
To start, the grantor will establish this trust then gift approximately 10% or more of the fair market value of the assets that will be "sold" to this trust. The gifting is required since the trust must have some liquidity in which to make initial interest payments to the grantor.

Once the gift has been made the grantor will "sell" an asset to the trust for a note. This note will signify an installment sale has been created between the trust and the grantor.

The grantor will initially start receiving interest payments from the trust. These payments will be "tax-neutral" since the IRS views this transaction as an occurrence between the grantor and their own assets; no second party is recognized. The installment sale is usually structured as interest only payments for a set amount of years and a balloon payment at the end.

Irrevocable Life Insurance Trust (ILIT)

Prepared for John and Katie Winters



An Irrevocable Life Insurance Trust (ILIT) creates a pool of money outside of the estate to offset estate taxes and provide more efficient wealth transfer between generations.

An ILIT is a very popular estate-planning tool designed to own life insurance outside the estate of the grantor(s). The trust makes life insurance death benefits available to pay estate taxes. This way, valuable estate assets do not need to be liquidated to generate cash, and family wealth is not eroded.

Mechanics of an ILIT

Typically, the grantor(s) create the ILIT which then purchases life insurance on the lives of the grantors. If the grantors are a married couple, survivorship (second-to-die) insurance is usually the product of choice because of its affordability and the likelihood (in many instances) that the greatest need for cash will occur upon second death. For an unmarried grantor, single life products are used.

The ILIT is the applicant, owner, and beneficiary of the life insurance policy. The grantor(s)' heirs are beneficiaries of the ILIT, and the grantor(s) are typically the insured(s). The trustee must not be the grantor(s) but can be a trusted individual or an institution. It is very important that all incidents of ownership of the life policy belong to the trust and not to the insured(s) so as to avoid estate inclusion at the insured(s) death.

The trust should have its own checking account, and the trustee writes premium checks from that account. The ILIT generally receives the money to fund that account through annual gifts from the grantor(s). These gifts are typically excluded from gift taxes by the annual gift tax exclusion if the trust provides the beneficiaries with special withdrawal rights called "Crummey Powers".

Upon the Death of the Insured(s)

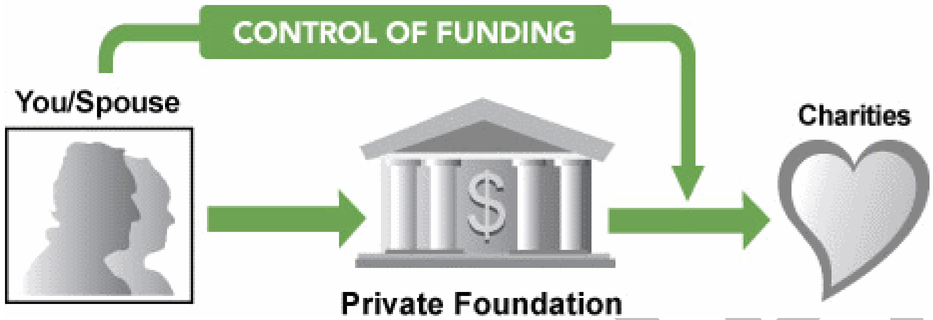
At the grantor(s)' death, the ILIT, as beneficiary of the policy, receives the death benefit. The ILIT, operating for the benefit of the children, can purchase desired assets from the grantor(s)' estate thus enabling the children to own those assets while also providing the estate with cash for estate taxes. The ILIT could also loan money to the estate to pay estate taxes. This way, the estate can avoid forced liquidations. In essence, the ILIT uses the death proceeds to provide liquidity to the estate so as to avoid a forced liquidation of estate assets to non-family members.

In a classic ILIT, once money is gifted into the trust, it cannot be recovered by the grantor(s). Many grantor(s) are comfortable with this loss of access, but for those grantor(s) who desire some level of access to trust assets, other options should be considered.

For the creation of any type of ILIT, a qualified estate-planning attorney is required.

Private Foundation

Prepared for John and Katie Winters



A private foundation allows you to make gifts to an unlimited number of charities over time and to involve family members in the decision-making process.

Private foundations may be organized as non-profit corporations or as wholly charitable trusts, but the key requirement for either structure is that all of the assets be dedicated to charitable purposes. Assets contributed to a foundation cannot be withdrawn.

Mechanics

- Most private foundations are grant-making foundations that make financial contributions to public charities selected by their trustees, board, or grant-making committee.
- Some private foundations are operating foundations that directly fulfill a charitable function by providing some service to the public, e.g., operating a museum or soup kitchen.
- Private foundations are exempt from income tax, but must pay a 2% excise tax on net investment income, including capital gains; excise tax may be reduced to 1% under certain circumstances.
- Typically, donations to a private foundation are tax deductible up to 30% of adjusted gross income for cash and up to 20% of AGI for appreciated securities held more than one year with a five-year carryover. Gifts of appreciated publicly traded stock are generally deductible at fair market value, but gifts of non-marketable property are limited to tax cost. An unlimited estate tax charitable deduction may be available for transfers made at death.
- Private foundations are required to pay out at least 5% of the prior year's net asset value, based on a monthly average. Distributions in excess of the minimum carry over to satisfy the minimum distribution requirement in future years.

Corporation vs. Trust

- For private foundations organized as non-profit corporations, family members may serve on the board as directors of the foundation.
- A private foundation organized as a trust may have an individual and/or corporate trustee, often with an advisory committee (family members) that selects charities to which grants are made.

Advantages

- One major attraction of a private foundation is the control it offers. If the foundation is formed during your lifetime, the donor may serve as sole trustee, may control a board of trustees or directors through veto power, or may appoint family members, friends, and associates to a board with full removal power.
- Many donors conclude that a private foundation is the ideal vehicle to promote family philanthropy. Hands-on involvement by donor and/or family members is common. And by being actively involved in the grant-making process, a donor's children learn not only about philanthropy, but are introduced to portfolio management and the importance of budgeting and cash flow management.
- A private foundation also offers income and estate tax savings: an income tax deduction is available for all lifetime gifts made by you or others; and contributions of publicly-traded stock, for example, can significantly reduce estate tax liability.
- A private foundation may be used with other charitable giving vehicles, such as charitable trusts. For example:
    1. A charitable remainder trust (CRT) can first make payments to you or a family member for life, with the remainder funding a private foundation.
    2. A charitable lead trust (CLT) could first fund a private foundation via annual payments over a term of years, with the remainder going to children or grandchildren.

Caution

- A private foundation can be administratively very complex. In addition to minimum distribution requirements and excise taxes, the IRS also imposes rules on self-dealing, excess business holdings, jeopardizing investments and excess expenditures, all with associated penalty taxes.
- A private foundation must file detailed and public tax returns on grants, investment fees, and trustee/director and staff names and salary. This may pose a problem if maintaining the donors' privacy is a concern.

Example

Hal and Martha are the parents of three school-aged children – Kendra, Jason and Holly. Their estate has a current value of $10 million. They feel strongly about giving back to the community and want to pass this passion on to their children.

After evaluating their options, Hal and Martha decide to establish a $1 million grant-making family foundation, the mission of which is to broaden educational alternatives in the local community. Hal and Martha will serve as board members, with Kendra, Jason and Holly as junior board members.

Hal and Martha will receive an income tax deduction of $1 million or up to 30% of their AGI in the year of contribution, with a five-year charitable contribution carryover. The assets held in the private foundation grow income tax free, subject only to a 1-2% excise tax on net investment income.

Qualified Domestic Trust (QDOT)

Prepared for John and Katie Winters

A Qualified Domestic Trust (QDOT) is set up in order to preserve the marital deduction when a surviving spouse is not a United States citizen. Without the benefit of the unlimited marital deduction these assets could become subject to estate taxes on the first death.

The marital deduction allows the unlimited transfer of assets between spouses at death. The result is that the surviving spouse does not have to pay any tax on the estate of the first to die, provided the surviving spouse is a citizen of the United States.

The problem is that a marital deduction is not allowed for a surviving spouse who is not a US citizen and who does not become a citizen by the time the estate tax return is filed. However, the marital deduction can be used if the assets are transferred into a Qualified Domestic Trust (QDOT).

Mechanics of a QDOT

There are several requirements for a trust to qualify as a QDOT:

- At least one trustee must be a U.S. citizen or a U.S. corporation.
- The executor must elect on the decedent's estate tax return to treat the trust as a QDOT.
- The trust must meet Treasury regulations regarding the collection of any tax.
- No distribution can be made from the trust, except for income, unless the trustee who is a U.S. citizen or corporation has the right to withhold estate taxes from the distribution.

At the death of the surviving spouse, the current value of the assets in the QDOT is subject to estate taxes as though they were included in the estate of the first spouse to die. These assets are not included in the surviving spouse's estate.

Other taxable events include distributions of principal and termination of the trust's QDOT status.

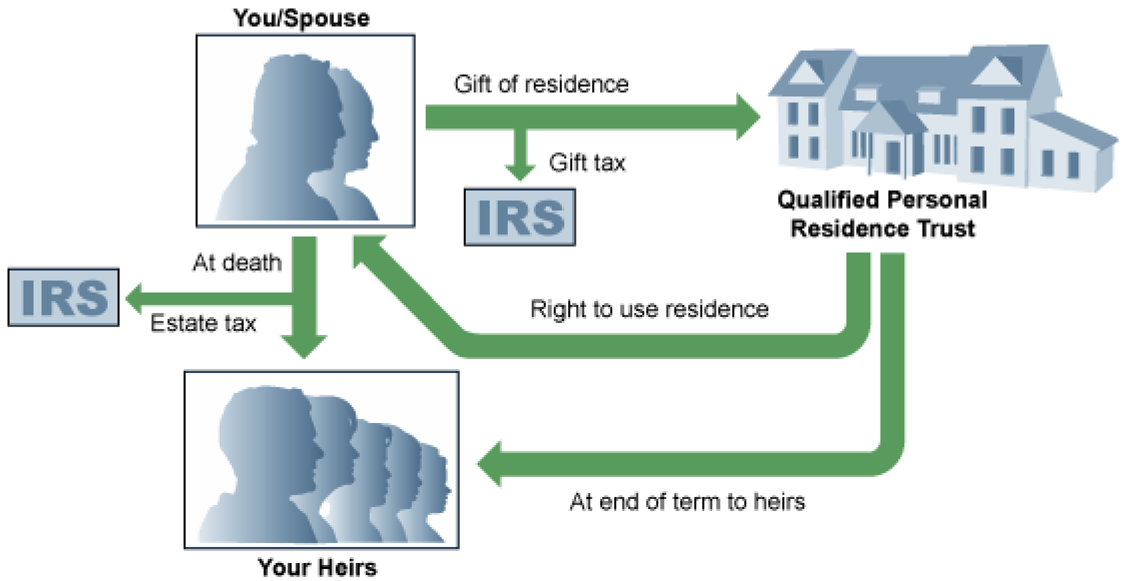
Benefits include:

- The deferral of estate tax by qualifying for federal estate marital deduction
- Retirement Plan Distribution Planning: There are several options to enable transfers to a non-U.S. citizen spouse to qualify for the marital deduction at death. If the spouse is the decedent's primary beneficiary, he or she may keep the decedent's retirement plan assets in the decedent's account or roll them over to a traditional IRA, and

    1. pay a deferred estate tax on a portion of each payment as received, or
    2. transfer the taxable portion of each payment to a qualified domestic trust (QDOT) created by the decedent's will or trust, by the decedent's spouse after the decedent's death, or by the decedent's estate executor.
    3. another option is to name a QDOT as the decedent's primary beneficiary, if allowed by the decedent's retirement plan. Or, if the decedent's spouse is the beneficiary, he or she can roll over the retirement assets into a QDOT that is also a traditional IRA (QDOT-IRA) to qualify for the marital deduction.

Qualified Personal Residence Trust (QPRT)

Prepared for John and Katie Winters



A Qualified Personal Residence Trust (QPRT) allows you to remove a personal residence from your estate at a reduced gift tax value, save estate taxes, and still enjoy use of the property.

A QPRT is an irrevocable trust whereby a grantor can transfer a personal residence to heirs during his or her lifetime at a reduced gift tax value while still enjoying use of the property.

QPRT Mechanics

The grantor transfers the property into an irrevocable trust specifying the number of years the grantor retains the right to use the property. The grantor also specifies the person(s) who receive the property once the term ends (the remaindersperson or remainderpersons). Gift taxes are due at the time of the gift to the QPRT, but because the remainderperson(s) do not receive the property until some time in the future, the value of the gift is reduced for gift tax purposes.

The longer the retained interest of the grantor, the larger the gift value discount will be. However, if the grantor dies during the retained interest period, the full value of the house is brought back into the estate for estate tax purposes thus nullifying any tax benefit. So the tax benefit of a long retained interest period has to be balanced against the increased chance of dying during the period.

If the grantor outlives the retained interest period, he/she can still use the property by paying fair market rent to the remainderperson(s). This is an excellent way for a wealthy parent to transfer even more money to the children free of gift and estate taxes.

Advantages

- Gift Tax Savings - Residential assets are transferred to heirs at a discounted value
- Estate Tax Savings - The residence and any future appreciation is removed from estate
- Grantor continues to use the residence

Example

Greg Grantor, age 60, transfers his $1 million family vacation home to a QPRT, sets his retained interest term as 15 years, and names his only child, Gretta, as remainder person. Because Gretta must wait 15 years to receive the house, the value of the gift for tax purposes might be reduced from $1 million to $295,000 using government discount rates. (The actual discount would vary, depending on currently published rates.) Greg is able to save much more of his unified credit exemption than if he gifted the house outright - and he still enjoys use of the house.

Compare this technique to:

- Outright Gift: Gift value for gift tax purposes would be $1 million, thus Greg would use much more of his unified credit and would lose immediate use of the house.
- Bequest At Death: Value of house could rise to $2 million or more by time of death thus increasing his estate and his potential estate taxes. If the residence is expected to appreciate significantly the potential transfer tax savings of a QPRT could be enormous.

Qualified Terminable Interest Property (QTIP)

Prepared for John and Katie Winters

QTIPs allow you to make your assets available to your surviving spouse and yet still allow you to control the disposition of the assets upon the second death.

The unlimited marital deduction is often used to reduce taxes at first death. By using the unlimited marital deduction, assets are placed into the estate of the survivor, along with control of the ultimate disposition of those assets.

For many couples, this is not an issue. But for some people, the disposition of the assets upon the second death could be a sensitive issue. Consider a marriage where one spouse is in a second marriage and has children from both the second marriage and the prior marriage. If the first to die is the individual with two families, and he/she leaves all assets to the surviving spouse via the unlimited marital deduction, the surviving spouse may then leave all assets at his/her death to the second family and disinherit the first family. A QTIP solves this dilemma.

Mechanics of a QTIP
Upon the first death, selected assets are contributed to a QTIP trust. QTIP assets qualify for the unlimited marital deduction, and thus create no estate tax at the first death. During life, the surviving spouse receives any income generated by the trust (trust assets must be income producing property). Upon the survivor's death, the remaining trust assets are transferred to heirs according to the wishes of the first to die. Thus, the current spouse is not disinherited, and any chance of the first family being disinherited is removed.

Who Could Benefit?

Clients who may benefit from a QTIP trust include:

* Clients with prior marriages and who want to make sure certain assets are received by certain heirs
* Clients with infirm or elderly spouses
* Clients who fear that a surviving spouse may remarry (often a concern with spouses who are much younger)

Revocable Living Trust (RLT)

Prepared for John and Katie Winters

Revocable Trusts can offer professional asset management and avoidance of probate, while you retain full control over the assets.

Revocable Trusts, also called Living Trusts, can be used for better management and control of assets during life and at death. Because the trusts are revocable, the grantor is not committed to the trust if the situation changes.

Mechanics of Revocable Trusts

The grantor creates a revocable trust, names the trustee and the beneficiaries, and contributes property to the trust. The grantor or a third party can act as the trustee. Property can be added or removed from the trust at any time, and the terms of the trust can be amended or the trust can be terminated at any time by the grantor. Upon the grantor's death, the trust becomes irrevocable and trust assets are transferred to trust beneficiaries as defined in the trust document.

Because the grantor can revoke the trust, trust assets are included in the grantor's gross estate for estate tax purposes. Also, all income and deductions attributable to the trust property flow back to the grantor. On the other hand, retained control means that contributing assets to the trust will not trigger gift tax. However, a gift will occur if the grantor gives up power to revoke or amend the trust.

Advantages of Revocable Trusts

There are no estate or income tax advantages gained by establishing a revocable trust. However, there can be some real financial and administrative advantages, including:

- Avoiding the time and expense of probate - Probate can take several months or years.
- Avoiding probate in multiple states - Revocable trusts can be used to hold assets in multiple states and avoid probate in multiple places.
- Privacy - Probate proceedings are public record while trusts are not.
- Relief from financial responsibility - A professional trustee likely has asset management skills and tools that the grantor does not possess.
- Revocable - If grantor is unhappy, the assets can be removed from trust.

Unlimited Marital Deduction (UMD)

Prepared for John and Katie Winters

This allows a married couple to postpone all estate taxes until the second death. For larger estates this may result in higher taxes at the second death.

The U.S. tax code limits the amount of assets one can transfer to another (either during life or after death) without triggering transfer taxes. There are some exceptions to this rule - the largest being the unlimited marital deduction that allows spouses to give each other (during life or after death) an unlimited amount of assets without transfer taxation.

Consequently, many estate plans and wills specify that the first to die will leave all or nearly all of his/her assets to the surviving spouse. This way, no wealth is lost to estate taxes at the first death. Those assets, of course, will be subject to estate tax upon the death of the survivor.

The unlimited marital deduction makes estate planning rather simple for those estates that will not be subject to estate tax. But for larger estates, the unlimited marital deduction may increase taxes at the second death. Remember, the unlimited marital deduction does not avoid estate taxation; it just postpones taxation.

Larger estates should consider more advanced estate planning techniques such as creating special trusts like the Credit Shelter Trust and using the unlimited marital deduction on only a portion of all estate property. The marital deduction is limited in those cases where the surviving spouse is not a U.S. citizen.

It is wise to consult an estate attorney or advisor about the advantages and disadvantages of the unlimited marital deduction, portability, and credit shelter trusts in order to see which technique(s) might be best for any specific estate.