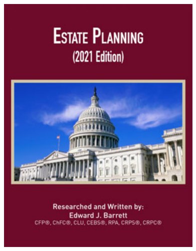
Welcome to our Virtual Super CE Event:
Wealth Transfer Planning/Estate Planning



We will begin shortly…
(event begins promptly at 3:00PM Eastern Time)

VIRTUAL SUPER CE PROGRAM

PRESENTED BY:

Edward J. Barrett
CFP®, ChFC®, CLU®, CEBS®, RPA®, CRPC®, CRPS®, CPFA®

Founder and CEO
Broker Educational Sales & Training, Inc.
800-345-5669 www.brokered.net

Virtual Super CE Program

- **Webinar Presentation:**
  - Wealth Transfer Planning
    - No CE Credit

- Self-study/Correspondence Course: Estate Planning (2021):
  - State Insurance CE credit (varies with state)
    - Exam 50/100 question Exam
  - CE credit for Professional Designations:
    - CFP = 10 credits
    - CIMA/CPWA/RMA = 5/10 credits
  - Electronic Exam
    - Must receive a passing grade of 70% or higher

VIRTUAL WEBINAR

WEALTH TRANSFER PLANNING

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Agenda

- Overview of the Federal Wealth Transfer Tax System
- Basic Estate Planning Documents
- Estate Planning For Married Couples
- Advanced Wealth Transfer Strategies
- State Death Taxes

OVERVIEW OF THE WEALTH TRANSFER TAX SYSTEM

The Great Wealth Transfer*

$68 T Total Transfer

Heirs $58 T

Charity $10 T

"Advisors need to expand their communications and expertise. If not investors may choose to move to a provider that offers more comprehensive wealth management."[1]

Source: *[1] Cerulli Associates; **U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2018: Shifting Demographics of Private Wealth**

Federal Wealth Transfer Tax System

> Federal Estate Tax
  - Chapter 11 IRC §§ 2001 to 2210
> Federal Gift Tax
  - Chapter 12 IRC §§ 2501 to 2524
> Federal Generation Skipping Transfer (GST) Tax
  - Chapter 13 IRC §§ 2701 -2704

Federal Estate Tax (FET)

> A progressive tax created by the WW I Emergency Revenue Act of 1916.
  - IRC § 2001 imposes a FET on the estate of every decedent who's a citizen or resident of the U.S. and whose estate value exceeds a certain dollar threshold.
> The maximum FET rate is 40%
  - There are 12 different estate tax brackets 18% - 40%
> The Applicable (Basic) Exclusion Amount
  - $11.7 million (S) / $23.4 million (MFJ) (indexed with C-CPI-U).
  - The AEA is equivalent to a tax savings of $4,625,800 (Unified Credit Amount) for an individual.
> IRS Form 706 – must be filed nine (9) months after death of person

Federal Gift Tax

- The federal gift tax is an excise tax created in 1924 on an individual's lifetime transfer of property.
  - A gift is defined as a transfer of property (at FMV) from a donor (person making the gift-the giver) to a donee (person receiving the gift-recipient) for less than full and adequate consideration. No step-up in basis.
- The maximum federal gift tax rate is 40%, imposed on the donor [IRC § 2502(C)].
- The federal gift exemption is $11.7 million per individual / $23.4 (MFJ) (indexed with C-CPI-U).
- IRS 709 Gift Tax Return – must be filed in the year of the gift (above $15,000) or gift made in trust. Attached to IRS Form 1040

Federal Gift Tax Annual Exclusion

- The annual exclusion of gifts is $15,000 per donee in 2021 (IRC § 2501), provided the gifts are present (not future) interest in property (IRC § 2503). Gifts are not cumulative.
  - Doubled w/gift splitting – using one spouse's funds and having the non-donor spouse consent to treat gifts made as being made one-half by each of the spouses. Must report and file on 709.
- An individual can gift away an unlimited amount for educational and medical purposes if made directly to the institutions.

Note: **Connecticut is the only state with a gift tax ($7.100,000 exemption in 2021**). NY and MN enacted gift tax on gifts made within 3 years of death.

GST Tax

- The GST tax is imposed on direct transfers to beneficiaries more than one generation, and on transfers involving trusts having beneficiaries more than one generation below that of the transferor.
  - A "skip person" is a natural person in a generation that is **two or more generations** below the transferor [IRC § 2613(a)(1)]. Transfers directly to or in trust for an unrelated party (non-lineal descendants) who are more than **37.5 years younger** than the transferor are also considered [IRC § 2651(d)(2)].
- The GST tax is in addition to any gift/estate taxes that apply to the transfer and is assessed at the maximum transfer tax rate (40%).
- The GST exemption amount is $11.7 million / $23.4 million for married couple; indexed with C-CPI-U.
- Reported on IRS Form 709 Gift Tax Return.

GST Tax (con't)

- The GST Tax is applied if one of the following events occur:
  - Direct Skip
  - Taxable Distribution
  - Taxable Termination
- GST Exclusions:
  - GST annual gift exclusion ($15,000)
  - GST Exemption $11.7/$23.4 in 2021
  - Transfers for Educational and Medical Benefits (unlimited if paid directly)

In the year 2025…

- Sunset (12/31/2025) of the Federal Estate, Gift, and GST Tax Exemptions.
  - Absent congressional action, AEA will return back to $5,000,000 (indexed with inflation) in 2026.

BASIC
ESTATE PLANNING DOCUMENTS

Basic Estate Planning Documents

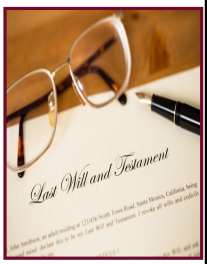
- The Will (The Last Will & Testamentary Trust)
- Trusts
  - Revocable (Living) Trust
  - Irrevocable Trust
- Power of Attorney
- Incapacitation (End-of-Life) Planning Documents

"Only 42% of U.S. adults currently have estate planning documents such as a living will or living trust. For those with children under the age of 18, only 36% having an end-of-life plan in place."[1]

Source: [1]Caring.com:https://www.caring.com/caregivers/estate-planning/

The Will

- The basic document of any estate plan.
- Types of Wills:
  - Formal Wills (attestation clause/two witnesses)
  - Holographic Wills (handwritten and not attested)
  - Oral (nun-cupative) will (spoken rather than written)
  - Electronic Wills (NC, IN, AZ, FL, and UT)
- Last Will and Testamentary Trust (at death)



A Valid Will

- To be a valid will:
  - The testator must be at least 18 years old and of sound mind;
  - The Will must have at least one substantive provision and must appoint at least one executor (guardian for children);
  - The Will must be dated and must be signed in front of two witnesses.
  - There is no requirement that a will be recorded or filed with any governmental agency.

Revocation and Alteration of Will

> How to Revoke a Will:
- By execution of a new Will
- By destruction of the old Will (burning it/tearing it up);
- By the inclusion of a codicil;
- By subsequent marriage or divorce of the testator.

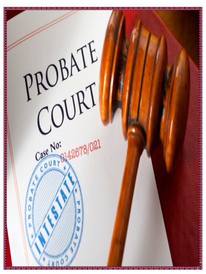
> All wills (and Testamentary Trusts) must go through Probate

Probate

> The legal process administered through state courts that helps in the orderly distribution of the deceased's assets.

> The probate court must determine if it should be admitted to probate and given legal effect (Testate)
- As a general rule, a will has no legal effect until it is probated.

> In general, the probate process involves collecting the decedent's assets, liquidating liabilities, paying necessary taxes, and distributing property to heirs.



Reasons To Avoid Probate

> Four Reasons
- Cost
- Time (Delay)
- Loss of Control
- Loss of Privacy

> Intestate – dying without a valid will

Photo: http://flickr.com/photos/penner/2450784866

Dying Intestate

- State laws of intestate succession will determine how deceased's property is distributed.
- The state appoints an administrator for the estate.
- The state determines the guardian of dependents.
- The state determines how the tax burden (if any) will be paid from the estate.
- If no family can be found, the deceased's property escheats to the state.

How To Avoid Probate

- Joint ownership of property
  - Joint Tenants w/ Rights of Survivorship (JTWRS)
  - Tenancy by Entirety (only between married couples)
  - Community property with rights of survivorship
    - AZ, CA, ID, LA, NV, NM, TX, WA, and WI
  - Tenancy in Common (will not avoid probate, no rights of survivorship)
- Savings bonds / POD /TOD accounts
- Beneficiary designation accounts
  - Life insurance
  - Annuities
  - Qualified retirement plans
- A Pour-Over Will / Revocable (Living) Trust

Revocable (Living) Trust

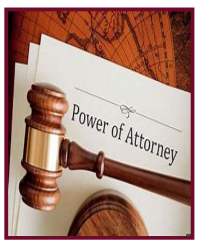
- Aka, a Living Trust, can help assets pass outside of probate, yet allows your client (the grantor) to retain control of the assets during his/her lifetime.
- Grantor names himself/herself as trustee (or co-trustee) and retain ownership and control over the trust, its terms and assets during their lifetime, but make provisions for a successor trustee to manage them in the event of their incapacity or death.
  - At death, becomes Irrevocable (pours over to the A-B-C Trusts)
- Although it helps avoid probate, it is usually still subject to estate taxes.
  - During your client's lifetime it is treated like any other asset they own.

Irrevocable Trust

- A legal entity created to own and control assets on behalf of third parties (grantor/settlor)
- Grantor (settlor), transfers assets into the trust either during life (inter-vivos) or at death (testamentary).
  - The benefit: Removes all incidents of ownership, effectively removing the trust's assets from the grantor's taxable estate.
- The assets held in the trust can include, but not limited to, a business, investment assets, and life insurance.
- Grantor should not be the trustee. A corporate trustee is often named from the outset and assumes responsibility for the trust
- Trust Decanting Laws

Power Of Attorney

- POAs give one individual (agent) rights to execute legal and business transactions in the name of another (the Principal)
- Types of POAs
  - Special (specific) power of attorney
  - General power of attorney, and
  - Limited power of attorney
- POA Formats:
  - Springing POA
  - Durable POA
  - Non-durable POA
- Medical and Financial POA (state law)
- All POAs terminate on the death of the Principal.



Incapacitation Planning

- Advanced Medical Directives ("decisional incapacity"):
  - Health Care Proxy - names agent to make medical decisions on your behalf (State specific). Must be signed by two witnesses (generally, ages 18 and older); and
  - Living Will – names an agent to make end-of-life decisions.
  - AMDs after COVID-19 (need to be updated)
- The Patient Self-Determination Act of 1990
  - Promoted the use of AMDs mandating that all Medicare certified institutions provide written information regarding patient's rights to formulate AMDs.
- Physician Order of Life Sustaining Treatment (POLST)
  - A "portable" physician order form (bright color) that describes an individual's wishes regarding life sustaining treatment identified in the above directives.

Source: POLST paradigm https://polst.org/about-the-national-polst-paradigm/what-is-polst/

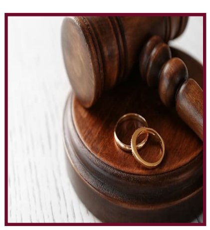
Other Planning Documents

- HIPAA (1996) Release Designation Form
- Do Not Resuscitate Orders (DNAs)
- Organ Donor Cards
- Five Wishes Document – “the living will with a heart and soul”
  - https://fivewishes.org/
- Client Contact Authorization Form

ESTATE PLANNING FOR MARRIED COUPLES

Who Is A Married Couple?

- For federal tax purposes the terms “spouse,” husband,” and “wife” are defined as:
  - “…an individually lawfully married to another individual. “Husband and wife” is defined as two individuals lawfully married to each other. “ [Windsor, 133S. CT 2675 (2013); Obergefell v. Hodges, 135 S. Ct. 2584 (2015]



Unlimited Marital Deduction IRC §2056

> Under IRC § 2056 the Unlimited Marital Deduction
  - Allows the unlimited transfer of assets between spouses either outright or in trust.
  - Requirements: The decedent must be legally married at time of his or her death; the surviving spouse must survive the decedent; the surviving spouse must be a U.S. Citizen (or place property in a QDOT); interest passing to surviving spouse must be included in the decedent's estate; the interest must "pass" to the surviving spouse.
  - Special rules for non-U.S. citizen spouse.

Rules for Non-Citizen Spouses

> Annual gifting to non-citizen spouse is limited to $159,000 (in 2021)

> The federal applicable exclusion amount is only $60,000 (not indexed)

> A marital deduction is permitted, however, for property passing to a "qualified domestic trust" of which the non-citizen spouse is a beneficiary.
  - Created by will or living trust or the executor or surviving spouse may elect before the date on which the tax return is due.

QDOT

> Basic requirements of a QDOT are:
  - Must have at least one trustee who is an individual U.S. citizen or a domestic corporation.
  - The executor of the estate must make an irrevocable QDOT election to qualify for the marital deduction on the federal estate tax return (Form 706) within 9 months from the date of death.
  - No requirement for estate taxes to be paid prior to transferring assets to the QDOT

> An ILIT will not subject a non-citizen surviving spouse to QDOT.

Trusts That Qualify for Marital Deduction

- Types of trusts that may qualify for the Marital Deduction
  - Marital Trust ("A" Trust)
  - General Power of Appointment Trust (GPA)
  - Qualified Terminal Interest Property Trust (QTIP)
  - A Reverse QTIP Trust
  - Clayton QTIP
- Property that is not a nondeductible terminable interest, must be included in the surviving spouse's taxable estate.

QTIP Trust

- The Qualified Terminable Interest Property Trust, a marital deduction trust, is an exception to the "terminable interest" rule.
  - Allows the decedent to designate the recipient of the remainder interest in trust assets when the surviving spouse dies (the "C" Trust).
- QTIP requirements:
  - The surviving spouse has a lifetime right to all of the trust's income, which must be payable to the surviving spouse annually or more often;
  - No person has a power during the surviving spouse's life to appoint any part of the property to any person other than to the surviving spouse;
  - The surviving spouse is the sole lifetime beneficiary of the trust; and
  - The decedent's executor makes an election to treat all or a specific portion of the trust property as qualified terminable interest property [IRC § 2056 (b)(7).]

DSUEA (Portability Rules)

- The Deceased Spouse Unused Exemption Amount (Portability rules) introduced in TRA of 2010 to make estate planning simple [IRC § 2010(c)(4)]. ATRA of 2012 made it permanent [Section 303].
  - Allows a surviving spouse to "inherit" the DSUEA. The "last deceased spouse" is the spouse to whom the survivor was married at the time of the gift or estate transfer.
- The executor must make an election on a timely filed estate tax return (IRS Form 706) , even if an estate tax return would not otherwise need to be filed. Once made, the election is irrevocable (after due date and extension).
  - Applies only for the Estate, and Gift tax exemption it does not apply to the GST exemption and it is not indexed with inflation
- Rev. Proc. 2017-34 provides for a two year extension.

Planning After TCJA of 2017

Outright to Spouse	"A" (Marital) Trust	"B"(By-Pass / Credit Shelter) Trust
• Portability (not indexed) • Included in the estate of surviving spouse • Income tax basis step-up • Subject to potential creditors • State estate tax • "one-way street" • Disclaimer Trust (IRC § 2518 to be "qualified")	• Unlimited Marital Deduction (IRC Sec.2056) • Included in the estate of surviving spouse • QTIP Trust ("C" Trust) • Single Trust structure • Income tax basis step up	• Irrevocable at first death • Maximizes the AEA • Surviving spouse can access (H,E,M and W) • Creditor Protection • GST planning • Not included in the estate of surviving spouse • Subject to higher income tax rates

"B" Trust with Life Insurance

> If, surviving spouse does not need income, the surviving spouse can allow the trustee to purchase life insurance on his or her life within the trust.

> Potential benefits:
- Leverage and increase amount of wealth
- Step-up cost basis on the life insurance death proceeds
- Any tax-deferred accumulation of policy values should not generate any income tax (no Medicare surtax 3.8%).
- Uninsurable: Annuity with Enhanced Death Benefit

Disclaimer Trust

> Allows the beneficiary the legal rights to disclaim or refuse all, or any part, of a gift. [IRC § 2518]. Allows surviving spouse to fund By-pass Trust.
- Property goes to the person specified in the trust or will to receive it if the primary beneficiary cannot or does not take possession.

> Requirements:
- Refusal must be in writing;
- Such writing must be received by the transferor or holder of title within 9 months after creating the interest; and
- Interest must pass without any direction on the part of the person making the disclaimer.

> All amounts disclaimed will be exempt from FET up to the AEA. Assets placed in trust will not receive a step-up in basis at the death of surviving spouse.

ADVANCED
WEALTH TRANSFER STRATEGIES

"There is nothing sinister in arranging one's affairs as to keep taxes as low as possible. Commissioner v. Newman, 159F2d 848, 850-51 (2nd Cir. 1947). Avoidance of tax is not a criminal offense. Internal Revenue Service Manual 9.1.3.3.2.1"

Advanced Wealth Transfer Strategies

> Take advantage of the tax code by leveraging Gift and GST exemptions during lifetime (inter-vivos) with the following advanced planning techniques:
  - Grantor retained interest trusts (GRITs, GRATs, GRUTs QPRTs);
  - Valuation discounts for closely held business interests (FLPs, LLCs). Gifts of fractional interests (discounts);
  - Sales to intentionally "defective" grantor trusts (IDGTs) with use of an Installment Note/Self-Cancelling Installment Note (SCINs) /Private Annuity (PA);
  - Life Insurance Planning (w/ILIT); and
  - Charitable Planning

Source: Romney Bloomberg (2012)"I Dig It" Trust Gives Heirs Tripe Benefit, https://www.bloomberg.com/news/articles/2012-09-27/romney-i-dig-it-trust-gives-heirs-triple-benefithttps: https://www.wealthmanagement.com/wealth-planning/unlocking-mitt-romney-s-family-trust

Grantor Retained Trusts

> Powerful wealth transferring tool in which the grantor retains an income interest for a term of years, while remainder interest is distributed to younger generations (split-interest), either outright or in continuing trusts (Dynasty Trusts).
  - The grantor's retained right of income for a certain period of time determines the discounted valuation of the gifts to the remainder beneficiaries for gift tax purposes. If grantor dies during the term, reverts back to his/her estate.

> GRITs, GRATs, GRUTs, and QPRTs

> Great leverage with low interest rates (AFRs) and assets with depressed market value.

AFR Rates

The 7520 Rate for February 2021 is 0.6%; Jan 0.6%, Dec. 04%.

	Annual	Semi-Annual	Quarterly	Monthly
Short-Term	**0.12%**	**0.12%**	**0.12%**	**0.12%**
Mid-Term	**0.56%**	**0.56%**	**0.56%**	**0.56%**
Long-Term	**1.46%**	**1.45%**	**1.45%**	**1.45%**

Source: IRS; https://www.irs.gov/businesses/small-businesses-self-employed/section-7520-interest-rates-for-prior-years

GRAT Calculator*

Gift Amount	GRAT Date	§ 7520 Rate	Growth Rate	Term	Annuity Factor	Disburse ment	Gift Value	Remainder
$1,000,000.00	2/1/2021	0.6	7	10	9.6778	$103,329.27	$3.29	$539,507.89
$1,000,000.00	2/1/2021	0.6	10	10	9.7835	$103,329.27	$3.29	$946,940.03

Please note the calculators are for illustration only no legal or financial decisions should be made using them.

Source: *http://rogerhealy.com/GRATCalculator.aspx

Intentionally Defective Grantor Trust

- An irrevocable trust (IDGT-"I Dig It") designed to have the following characteristics:
  - Transfer property to the trust are completed gifts for federal gift tax purposes.
  - The trust assets will not be included in the taxable estate of the grantor(s).
  - The income of the trust is taxed to the grantor, who is treated as the "owner" of the trust for FIT purposes (Grantor Trust).
- How it Works: Prior to sale, the grantor seeds the trust with gift of cash between 10%-20% of the sale price (appraised value) of the asset, then grantor (seller) transfers property to the IDGT, and in return receives an installment note for the remaining 80%-90% of FMV of the asset transferred. The interest rate should be no less than the AFR.

Irrevocable Life Insurance Trust (ILIT)

- Irrevocable Trust that owns a life insurance policy (outside the estate of the insured) pays premium and is designed to be the owner and beneficiary of the life insurance on the insured's life.
- In order for this strategy to work:
  - The insured must not retain any powers over the trust which would cause the trust assets to be included in his or her estate for estate tax purposes [IRC § 2036],
  - The policy cannot be payable to the insured's estate, and the insured must have no "incidents of ownership" over the life insurance policy [IRC § 2042], and
  - The policy must not have been transferred to the trust within three years of the insured's death [IRC § 2035].
- ILIT is considered a grantor trust [IRC § 677(a)(3)].

ILIT Funding

- Annual gift exclusion that lapses and is then used to pay life insurance premiums (qualifies for present interest).
  - Crummey notices sent to the beneficiaries of the ILIT (30 days)
  - "in-terrorem" clause a trust provision stating that if a beneficiary litigates a distribution of the trust, the beneficiary's interest will be revoked
- Lifetime Gift exemption $11.7/$23.4 million (avoids on-going "Crummey" notices). Leverage w/GST exemption and Dynasty Trusts

ILIT Planning

- Most cost effective way to guarantee liquidity to pay estates taxes due.
  - ILIT uses the death proceeds to buy illiquid (appreciative assets) out of the deceased's estate.
- Advanced life insurance strategies:
  - Insurance as an asset class (tax-free growth/income and death benefits)
  - State estate tax in decoupled states (Survivorship life)
  - IRA Relocation to Life Insurance
  - Charitable Wealth Replacement Trust with Life Insurance
  - Liquidity for Roth IRA conversion at first death (Single life)
  - Spousal Lifetime Access Trusts (SLATs) – trustee may make discretionary distributions of the trust income or principal to beneficiaries including the non-grantor spouse.
  - Premium Financing –an asset leveraging strategy for HNW clients
- IRS Form 706 Schedule D must report deceased's life insurance policies (IRS Form 712)

Dynasty Trusts

- An Irrevocable Trust, also known as a "mega trust" or multi-generational trust: Think of it as a "family savings account"
  - Designed to remain in existence for multiple generations without the imposition of an estate tax or GST tax as the property passes from generation to generation
- Can run as long as state law permits. Rules Against Perpetuities (SD, DE, NV).
- Protected trust assets (i.e., divorces, creditors, fraud and personal injury plaintiffs). No estate tax on assets that remain in the trust.
- Uniquely designed to maximize GST tax exemption (great leverage with life insurance).

Asset Protection Planning

- Spendthrift Trusts
  - A trust that prevents, to the extent allowable under applicable state law, creditors of beneficiaries from gaining access to trust assets prior to the distribution to the beneficiary.
  - In a life insurance policy with a spendthrift provision, the death benefit belongs to the insurance company. Since the insurer not the beneficiary owns the total benefit it is not subject to the beneficiary's creditors pay out benefits over a given period on a regular basis, as opposed to a lump sum
- Domestic Asset Protection Trusts (DAPTs)
  - An irrevocable trust with an independent trustee who has discretion to make distributions to a class of beneficiaries that includes the settlor.
  - The primary goal of a DAPT is asset protection but they may also be used for state income tax savings (NING, DING, WING). Alaska DAPT.

Income Taxation of Estates and Trusts

- NIIT imposes a 3.8% surtax on estates and trusts (IRS Form 8960 line 21, Schedule G Form 1041). The lesser of:
  - The undistributed net investment income (NII) for such taxable year, or;
  - The excess of adjusted gross income (as defined in IRC § 67(e)) for such taxable year over the dollar amount at which the highest tax bracket in IRC § 1(e) begins for such taxable year.

If Taxable Income Is Between	The Tax Due Is:
$0 - $2,650	10% of taxable income
$2,651 - $9,550	$265 + 24% of the amount over $2,650
$9,551 - $13,050	$1,921 + 35% of the amount over $9,550
$13, 050 +	$3,146 + 37% of the amount over $13,050

Charitable Trusts

- A charitable gift is a transfer of money or property to a charitable or other qualified recipient for which the donor generally is permitted to take a tax deduction.
  - Cash gifts “to” charity and DAFs 60% of AGI*; Gifts of LTC gain property 30% of AGI; and Gifts of LTCG property to Private Foundations 20% of AGI.
- The donor can carry the excess over to each of the five (5) succeeding taxable years [IRC §170(b)(1)(B). But each year cannot be greater than 50% of the donor’s AGI.
- The TCJA of 2017 increased the standard deduction ($12,550/$25,100 in 2021) and removed a number of itemized deductions and repeal of Pease Rule. (Bunching).

*CARES Act AGI Limit for cash charitable contributions has been temporary repealed.

Consolidated Appropriations Act 2021

- Expansion of the Above-the-line Charitable Deduction:
  - Extends the $300 **cash** charitable gift for individuals who does not itemize and $600 for a married couple, for contribution made in 2021. Does not include contributions to a supporting organization, DAFs or most Private Foundations.
- Extension of No AGI Limits
  - An individual who or married taxpayer who itemizes his or her charitable contributions is allowed to claim a deduction for cash contributions equal to up to 100% of his or her AGI, computed without any NOL carryback to the taxable year.
- Increase in tax penalties for underpayment
  - A 50% penalty applies to any tax underpayments attributable to an overstated charitable contributions by an individual who does not optimize his or her deductions

Charitable Remainder Trusts (CRTs)

- An irrevocable split interest trust consisting of an income interest and a remainder interest.
- Two Types of CRTs
  - Charitable Remainder Annuity Trust (CRAT) – the beneficiaries receive a stated (fixed) amount of the initial trust assets each year (minimum 5%). Additional contributions are prohibited.
  - Charitable Remainder Unitrust (CRUT) – the income beneficiaries receive a stated percentage (minimum 5%) of the trust’s assets each year. The distribution will vary from year to year depending on the investment performance of the trust assets and the amount withdrawn. Additional contributions are permitted the “Surtax”

Charitable Lead Annuity Trusts

- A CLAT, is a split interest trust consisting of an income interest and a remainder interest (Grantor/Non-Grantor Trusts).
  - During the term of the trust, the "retained" income interest is paid out to a named charity. Donor receives an income tax deduction equal to the value of the income streamed promised to charity (20%/30% limit).
  - At the end of the trust term, the "remainder" interest is paid to non-charitable beneficiaries that have been designated in the trust document.
- The lower interest rates (AFRs) utilized in a CLAT result in a larger gift or estate tax deduction for the annuity interest going to the charity and a smaller value for any gift of the remainder interest going to a non-charitable beneficiary.
- Utilized to avoid the Medicare 3.8% surtax

STATE DEATH TAXES

State Death Taxes

- Estate Tax - EGTRRA phased-out the federal credit for state death ("sponge") taxes paid and replaced it with a deduction beginning in 2005. ATRA of 2012 made permanent the state tax deduction
  - Currently, 12 states and the D.C. impose an estate tax. Washington state's 20 percent rate is the highest estate tax rate in the nation;
  - If state estate taxes are due, it would be best to pay from Marital Trust.
- Inheritance Tax - a tax on the right of the heirs to receive property from the deceased's estate
  - Six states have an inheritance tax (IA, KY, MD, NE, NJ, PA).
  - NE has the highest top rate of 18%, MD imposes the lowest top rate at 10% (the only state that imposes both an inheritance and an estate tax). All six states exempt spouses, and some fully or partially exempt immediate relatives "Class (schedule) A" beneficiaries.

State Estate Taxes

State	2021 Exemption	2021 Top Tax Rate	State	2021 Exemption	2021 Top Tax rate
CT	$7,100,000	10% to 12%	MN	$3,000,000	13% to 16%
D of C	$4,000,000	0.8% to 16%	NY	$5,930,000	3.06% to16%
HI	$5,490,000	10% to 20%	OR	$1,000,000	10% to 16%
IL	$4,000,000	0.8% to 16%	RI	$1,595,156	0.8% to 16%
ME	$5,900,000	0.8% to 12%	VT	$5,000,000	16%
MA	$1,000,000	0.8% to 16%	WA	$2,193,000	10% to 20%
MD	$5,000,000	0.8% to 16%			

Source: Tax Foundation; https://taxfoundation.org/state-estate-tax-inheritance-tax-2020/

States with Inheritance Taxes

State	Type of Death Tax	2021 Exemption	2021 Top Tax Rate
Iowa	Inheritance Tax	Up to $25,000	5% - 15%
Kentucky	Inheritance Tax	Up to $1,000	0% - 16%
Nebraska	Inheritance Tax	Up to $40,000*	1% - 18%
Pennsylvania	Inheritance Tax	Up to $3,500	4.5% - 15%
Maryland	Inheritance Tax	$0	0% - 10%
New Jersey	Inheritance Tax	Up to $25,000	0% - 16%

Source: Tax Foundation; https://taxfoundation.org/state-estate-tax-inheritance-tax-2020.
*Nebraska has three beneficiary classes: $40,000 exemption Class 1, $15,000 exemption Class 2, and $10,000 exemption Class 3.

State Trust Income Taxes

State	2021 Tax Rate	State	2021 Tax Rate	State	2021 Tax Rate
CA	13.30%	AR	6.90%	MA	5.10%
OR	9.90%	MT	6.90%	AL	5.00%
MN	9.85%	NE	6.84%	UT	5.00%
IA	8.98%	CT	6.70%	MS	5.00%
NJ	8.97%	DE	6.60%	OH	4.997%
VT	8.95%	WV	6.50%	KS	4.90%
D.C.	8.95%	LA	6.00%	NM	4.90%
N.Y. City	3.876%	GA	6.00%	CO	4.63%
NY	8.82%	KY	6.00%	AZ	4.54%
HI	8.25%	MO	6.00%	MI	4.25%
ME	7.95%	MD	5.75%	IL	3.75%
WI	7.65%	VA	5.75%	IN	3.30%
ID	7.40%	RI	5.75%	ND	3.22%
NE	6.84%	NC	5.75%	PA	3.07%
SC	7.00%	OK	5.25 %		

States with no trust income taxes: Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming. Tennessee taxes only dividend and interest income. Source: http://www.oshins.com/images/State_Income_Tax_Chart.pdf

In Closing…

- Identify your clients - take necessary steps (communicate) set-up an estate planning checkup meeting (document).
- All estate planning documents and plans must be reviewed and revised to meet the permanent nature of ATRA.
  - This includes by-pass trusts, revised formula clauses with floors and caps, and statements of intents, and so on.
  - Review all existing ILITs and insurance policies
- Ultra-high net worth clients should continue to plan aggressively.
- Don't forget to plan for State Death taxes

Electronic Exam

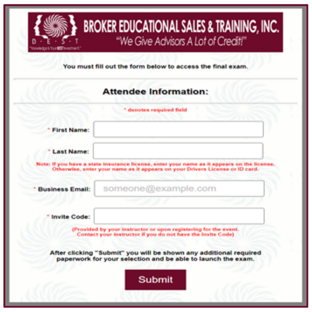
- Some states may require additional forms:
  - Disinterested Third-party Form
  - Personal Attestation Form
- Exam will be available for 10 business days to complete.
- Exam will be graded instantaneously (unlimited retakes)

Electronic Exam Link

https://selfstudyce.brokered.net/virtual/

Invite Code: 41340

Virtual Super CE – Step by Step



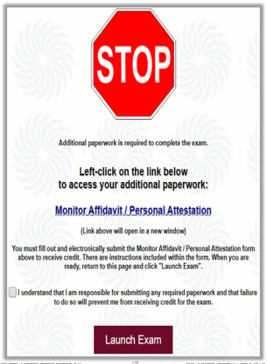
Virtual Super CE – Step by Step

Electronic Exam: Unmonitored States

AK	KS	ND	TN
AL	KY	NJ	TX
AZ*	LA	NV	UT
CA	MA*	NY	VT*
CO	MD	OH*	WA
DE	MI*	OK	WI*
FL*	MN	RI*	TN
ID	MS	PA	
IA	NE	SC	
IL	NC*	SD	

*Require a Personal Attestation form
All professional designations are open book, no monitor requirements

Virtual Super CE – Step by Step



Monitored Form

> Required monitored affidavit*:

AR	IN	VA
CT***	ME**	WV
DC	MO	WY***
GA	MT***	
HI	OR***	

Required monitored forms and instructions will be provided prior to taking the electronic exam; same requirements as on-line programs. Must be returned to BEST: fax or emailed.

**Maine up to 16 hours no monitor required; Over 16 hours monitor is required

*** Virtual Monitors will be allowed

Thank You
for attending the webinar

https://selfstudyce.brokered.net/virtual/

Exam Access Code: 41340