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## **Estate Planning Services for ALPC Agents**

Estate planning involves every aspect of your client's life. You need to consider what can happen to their health and their family. That means you need to think about future needs and interests when they grow older; how they can best take care of themselves, the causes they support, and the people closest to them.

### **A plan to accumulate and distribute wealth for your client's legacy.**

A good financial plan accounts for accumulating wealth as well as distributing it — a step that's often overlooked. In addition, if your client owns a business, estate planning also involves ensuring that their business will be in good hands after they retire or when they die. There's a lot to consider about the legacy they desire to leave.

### **Some of our Estate Tax Analysis services include:**

1. Free Estate Tax Analysis Fact Finder
2. Recommendations on types of legal documents (wills, trusts and power of attorney)
3. Life insurance: Second-to-Die Products, Irrevocable Life Insurance Trusts (ILIT)
4. Gifting strategies
5. Charitable giving (trusts)
6. Family partnerships

**FOLLOWING PAGES INCLUDE A SAMPLE "ESTATE TAX ANALYSIS" THAT CAN BE CREATED CLIENT SPECIFIC AT NO COST TO YOU OR YOUR CLIENT**



# Estate Tax Concepts



for  
**Mr Valued Client**  
and **Mrs Valued Client**

**Valued Producer**

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# Important Notes

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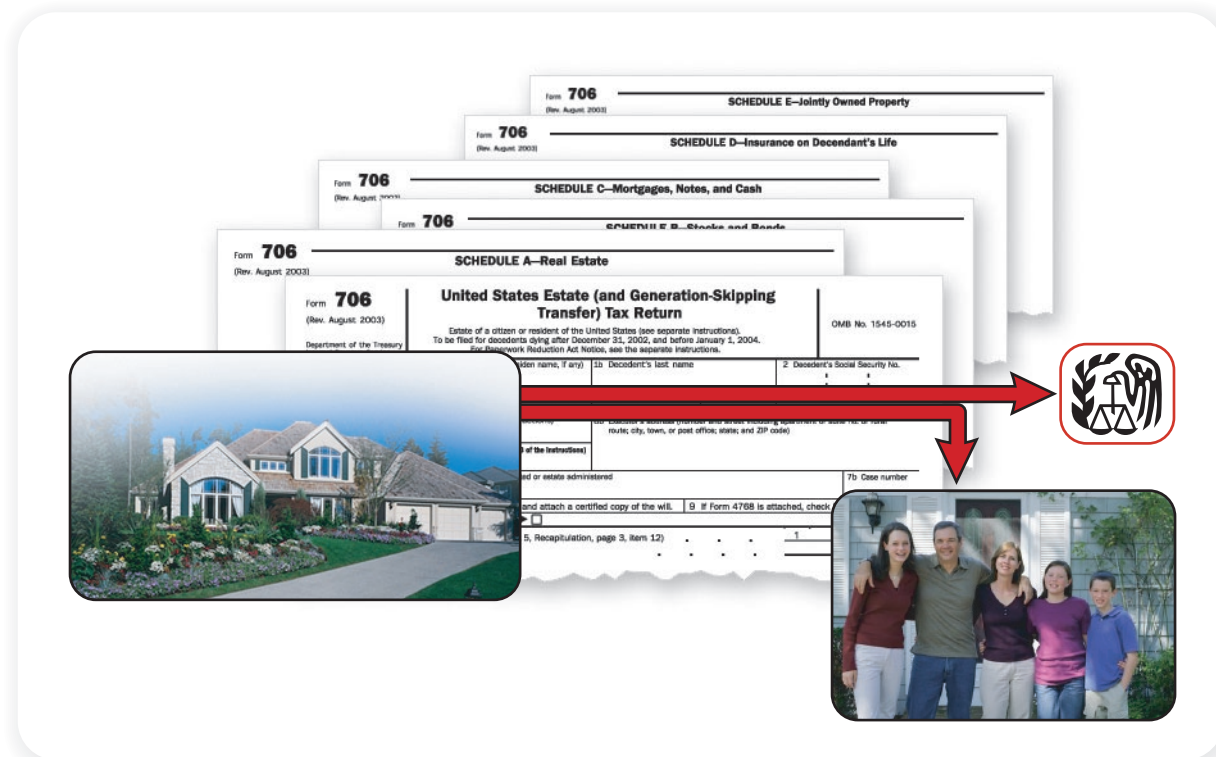
Although care is taken in preparing this material and presenting it accurately, neither Transamerica nor its representatives make any representation or warranty as to the accuracy or effectiveness of the concepts presented in this material.

# You've worked a lifetime to accumulate your estate.



All assets in which you have an interest, plus all assets owned by you at your death, are included in your estate for estate tax purposes (assets in an irrevocable life insurance trust, including life insurance proceeds in which you had no incidents of ownership, will generally *not* be included in your taxable estate). Estate taxes and other transfer costs generally must be paid before the balance of your estate is distributed to your heirs.

# At your death, the federal government imposes an estate tax on all property passing from you to your heirs.



Form 706 is the IRS Estate Tax Return form that lists a person's assets that are subject to estate taxes. The return is due within nine months of death and the tax payment that accompanies it must be made in cash. The payment made with this form can exceed half of your estate.

The same government office that estimates that the average Form 1040 (the Income Tax Return Form) can be completed in minutes also estimates that the average completion time for Form 706 is over 33 hours.<sup>1</sup> The form has 21 schedules for describing assets in detail.

<sup>1</sup> Source: Office of Management and Budget, Paperwork Reduction Project (1545-0015), Washington, DC 20503.

**Estate taxes are due in cash within 9 months of death and are progressive.**



## **The more you own, the more you owe!**

Federal estate tax rates are progressive—the larger the estate, the higher the tax rate. If estate taxes are payable, they start at 41% and can increase to 55%.<sup>1</sup> The more you own, the more you owe.

<sup>1</sup> If current legislation is kept in place, these values represent federal estate tax rates in 2011 and beyond. Under current legislation, the top marginal federal estate tax rate is 46% for 2006, 45% for 2007-2009, and no estate taxes are scheduled for 2010.

## Marginal rates can reach as high as 55%

Year	Taxable Estates Over Applicable Exclusion Amount	Highest Estate Tax Rate
2006	\$2,000,000	46%
2007	\$2,000,000	45%
2008	\$2,000,000	45%
2009	\$3,500,000	45%
2010	Tax Repealed	Tax Repealed
2011 or later	\$1,000,000	55%

### How much of your estate will go to your heirs?

Taxes are due on the taxable estate. For 2010, estates of less than have no tax due, as the applicable credit is equal to any tax due on estates up to this amount. Estates of more than are taxed at progressive marginal rates. In 2010 the maximum rate for estate tax becomes . It is reduced by 1% in each of the following years until it is 45% for years 2007 to 2009.

Through proper preparation, a married couple for 2010 may use the Applicable Credit Amount to transfer up to in assets (or more with appreciation) to their children or other beneficiaries free of federal estate taxes.

In 2010 the federal estate tax will be fully repealed for one year. However, due to a "sunset provision" in EGTRRA 2001, the new law is voided in 2011 and the law effective prior to EGTRRA 2001 is restored.

## **Federal estate taxes can be the largest transfer costs. Additional transfer costs due at death may include:**

- **Debts**
- **State Death Taxes**
- **Funeral Expenses**
- **Probate Fees**
- **Legal and Administrative Fees**
- **Income Taxes**

## **How much could these add to the cost of transferring your estate?**

Transfer costs are all the taxes and expenses involved with transferring your estate to your family. In addition to estate taxes, many other transfer costs may be incurred during the process of settling your estate.

# There are steps you can take now to transfer more of your estate to your heirs.

**Step 1: Identify your estate transfer costs.**

**Step 2: Use available tax breaks to reduce transfer costs.**

**Step 3: Determine the best method of paying the remaining costs.**

Using wealth preservation strategies before death can reduce estate transfer costs. Estate taxes can seldom be completely eliminated, but they can often be greatly reduced.

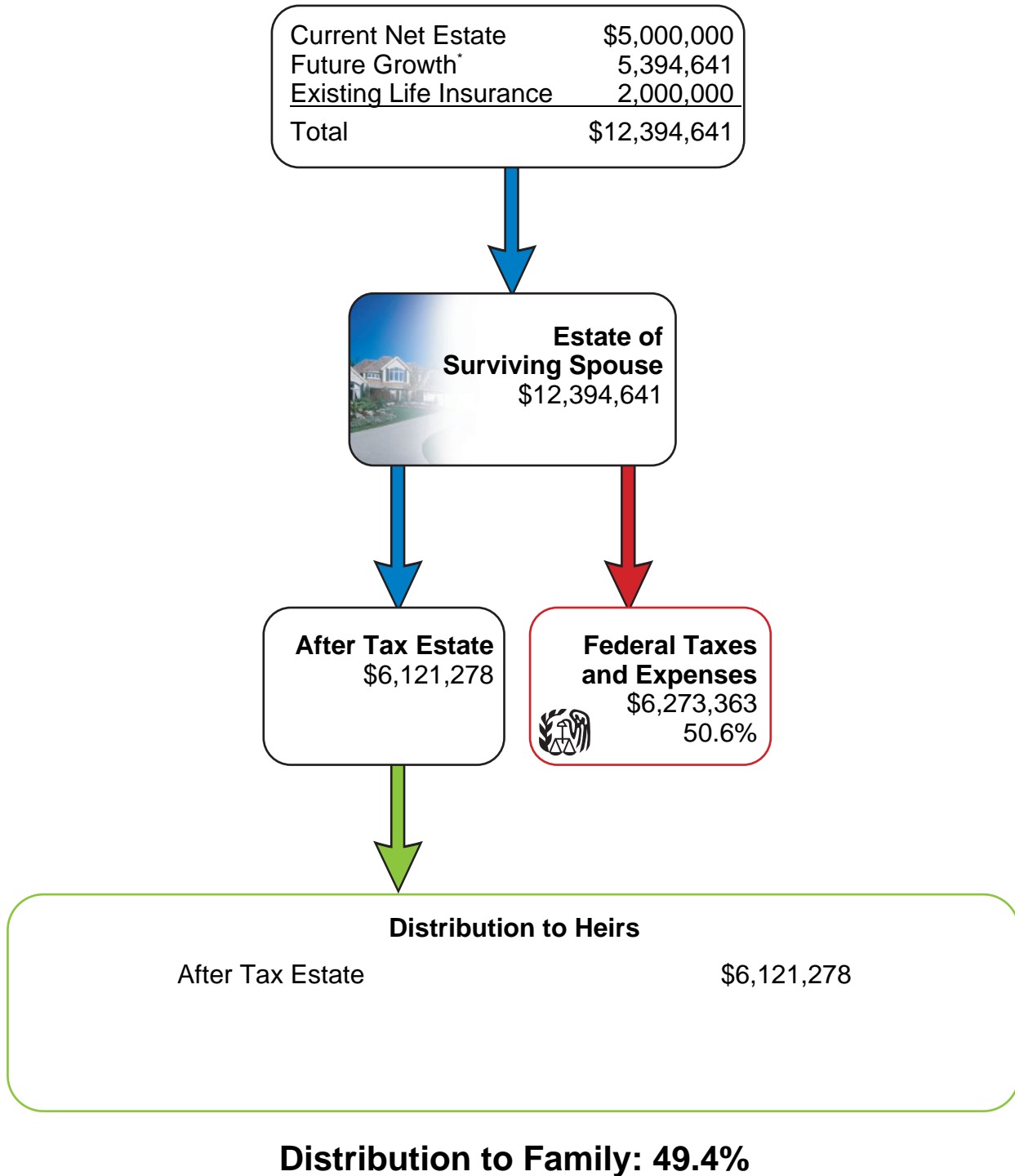
The first step is to identify the problem—the estate transfer costs. Until you identify these costs, you can't do anything about them.

The second step is to use available tax breaks to reduce these transfer costs. Every individual can use one applicable credit that can minimize federal estate taxes, but taking proper action is necessary to ensure efficient use of this credit.

Your life insurance may be arranged so that it is not taxed in your estate, increasing its effectiveness. The use of lifetime gifts can pass assets to your family that might otherwise be taxed in your estate. Every available tax break should be examined to see how well it meets your overall goals. After identifying the problem and reducing the transfer costs as much as possible, while maintaining your lifestyle requirements, the final step is to determine the least expensive method of paying these remaining costs.

# All to Surviving Spouse

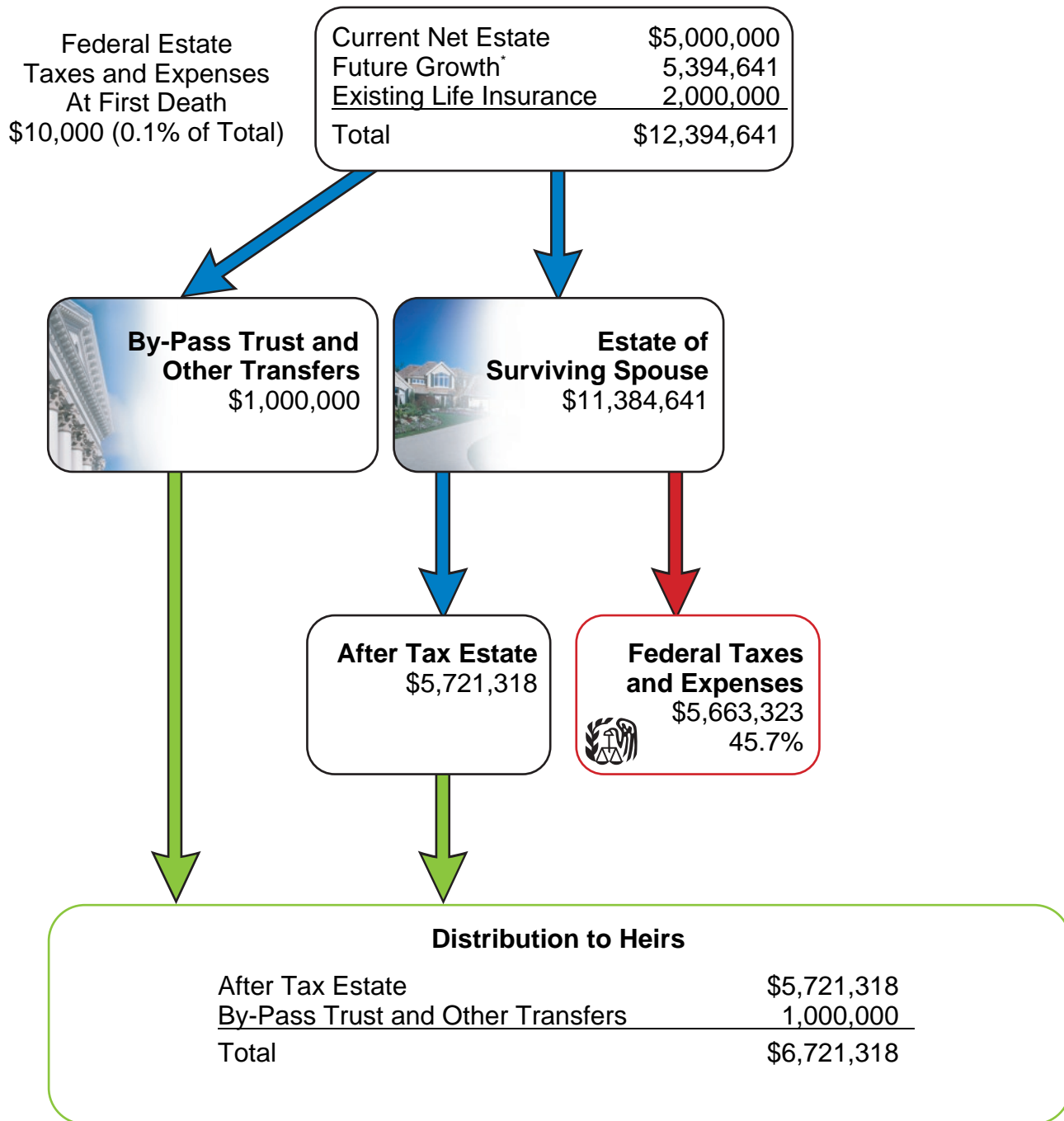
Assumes Mr Valued and Mrs Valued Die in 2025



\*These calculations are based on projected estate values 15 years from today growing at 5% per year.

# By-Pass Trust and Other Transfers

Assumes Mr Valued and Mrs Valued Die in 2025

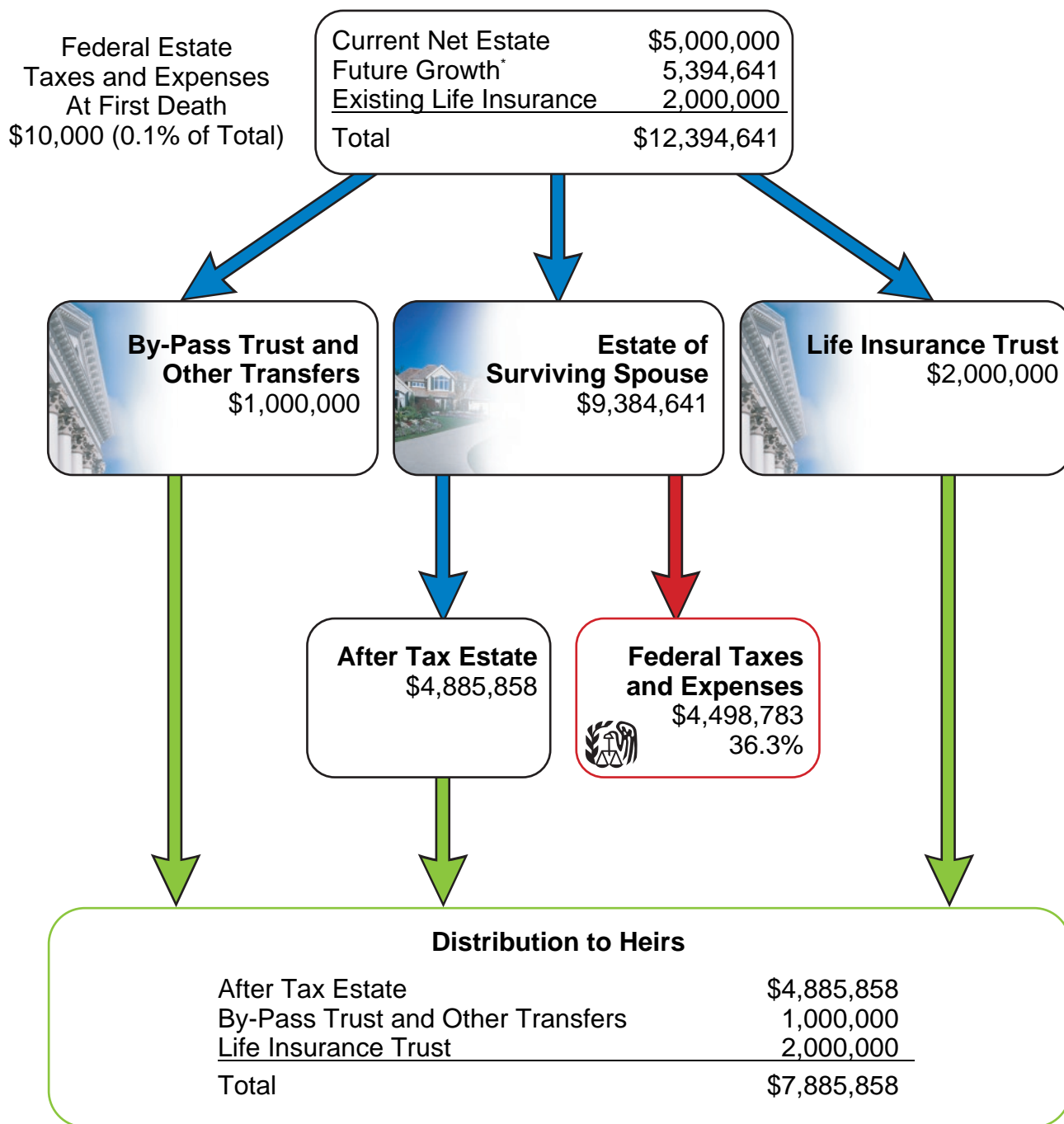


**Distribution to Family: 54.2%**

\*These calculations are based on projected estate values 15 years from today growing at 5% per year. Actual results may vary. Assumes properly structured trusts.

# By-Pass Trust and Life Insurance Trust

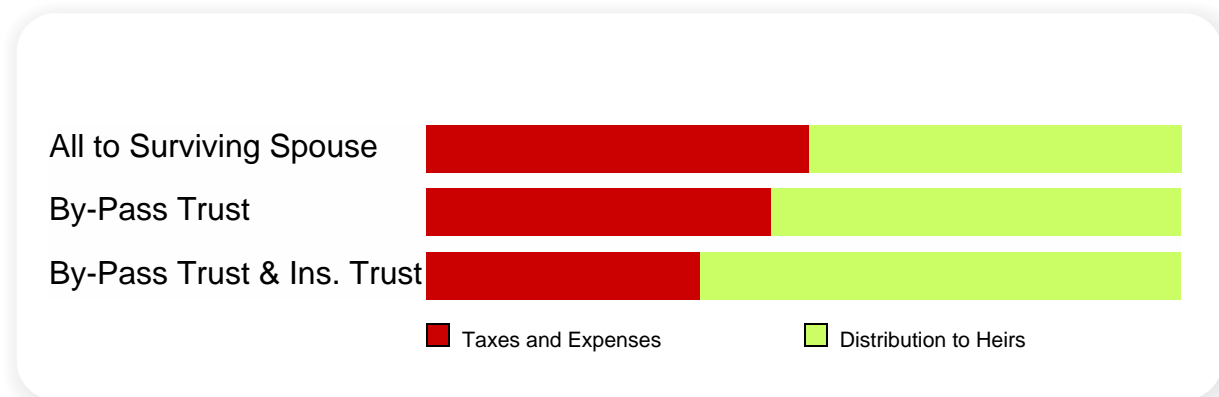
Assumes Mr Valued and Mrs Valued Die in 2025



**Distribution to Family: 63.6%**

\*These calculations are based on projected estate values 15 years from today growing at 5% per year. Actual results may vary. Assumes properly structured trusts. Gift tax implications of transferring an existing life insurance policy to an ILIT must be considered.

# Proper preparation helps reduce taxes and increase your family's inheritance.



Based on the flow chart "All to Surviving Spouse," these values reflect a simple will leaving everything to the surviving spouse. The chart shows the distributions to the family at the surviving spouse's death of \$6,121,278.

A By-Pass Trust is established by your will, funded with up to \$1,000,000. Trust income can be given to your spouse, but ultimately the trust's assets will pass to your designated heirs. The applicable credit is equal to the federal estate taxes due on the first \$1,000,000 of your estate, so the By-Pass Trust can be used to take advantage of this credit at your death.<sup>1</sup> The assets in the By-Pass Trust will not be taxed in the estate of your spouse either. Thus, the By-Pass Trust allows up to \$1,000,000 of assets to be passed to your family free of estate taxes. A By-Pass Trust is sometimes referred to as a credit shelter trust or a family trust. The chart shows the distribution to the family at the surviving spouse's death using a By-Pass Trust of \$6,721,318.

Based on the flow chart "By-Pass Trust, Other Transfers, and Life Insurance Trust," this option uses both the applicable credit By-Pass Trust and the Life Insurance Trust to reduce the federal estate taxes. Note that the transfer of a life insurance policy to a trust may result in some gift taxation, based on the cash value of the policy at the time of transfer. The chart shows the distribution to the family at the surviving spouse's death using a By-Pass Trust and Insurance Trust of \$7,885,858. Consult your tax attorney.

<sup>1</sup> The applicable exclusion will gradually increase to \$3,500,000 in 2009. Thus, as it increases, the amount that could be placed in the By-Pass Trust will also increase. In 2025, the By-Pass Trust may be funded with \$1,000,000, and this amount will be exempt from estate taxes.

# How would you pay this bill now?



## Estate Taxes and Expenses

Date Due: 9 Months

Total Net Estate in 2025	\$12,394,641
Estate Tax	\$4,404,937
Additional Expenses	\$103,846
Total Due In Cash	\$4,508,783

## How will your family pay it at your death?

Your estate doesn't actually receive a bill for estate taxes and expenses, but if it did, it might look like the bill above. Like other bills, estate taxes and expenses must be paid on a timely basis. Your family can enjoy only what is left after this bill is paid.

# How would you pay this bill now?



## Use Cash

- It's unlikely that there will be enough cash to pay taxes and other expenses.
- Cash is subject to estate taxes.
- Using cash may leave your family with little or no liquidity.



## Liquidate

- A quick sale or liquidation often yields far less than market value.
- It may be difficult to find a buyer in time.
- Your family may not want to sell special assets.
- Assets are subject to estate taxes.



## Borrow the Money

- The borrowed money must be repaid with interest.
- It may be difficult to find a lender in time.
- It may be difficult to negotiate favorable rates and items.



## Borrow from the Government (IRC Section 6166)

- Your estate may not qualify.
- Deferral is available only for the estate tax on business and farm assets.
- There will be an IRS lien on the assets.
- The IRS may require a bond to guarantee payment.

## There is another choice!

# The Insurance Solution

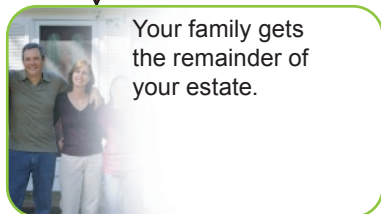
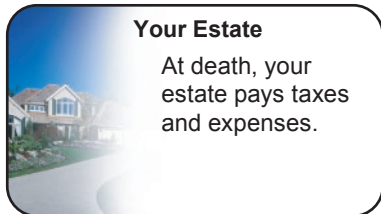
- **It creates liquidity at the precise time it is needed.**
- **It can help pay estate transfer costs.**
- **It can permit your family to inherit more of what you've worked a lifetime to accumulate.**

Life insurance proceeds can provide the liquidity needed to pay all of your estate transfer costs. These funds can be available to pay administrative costs and estate taxes (which are due within nine months of death) without forcing the executor to sell estate assets to raise the necessary cash. Premium payments are made during your lifetime so that the death proceeds will be available to pay some or all of the estate's transfer costs on a timely basis.

## **Life insurance can provide benefits at a reduced cost!**

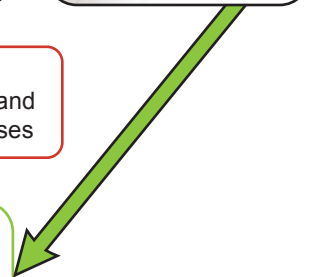
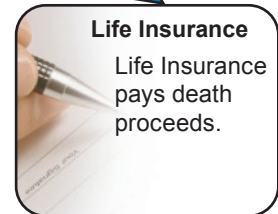
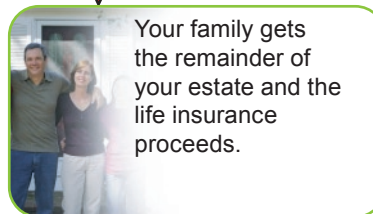
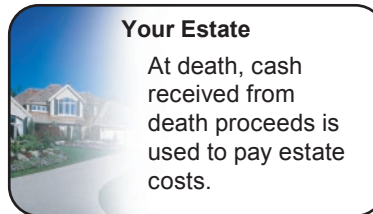
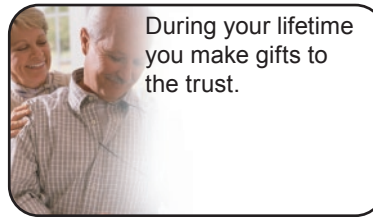
The cost of each dollar of life insurance death benefit is often significantly less than a dollar. This cost varies based on the age, sex, and health of the insured.

## Your Dollars



Use your dollars to pay transfer costs. Needed cash comes from the dollars you've worked a lifetime to accumulate.

## With Life Insurance

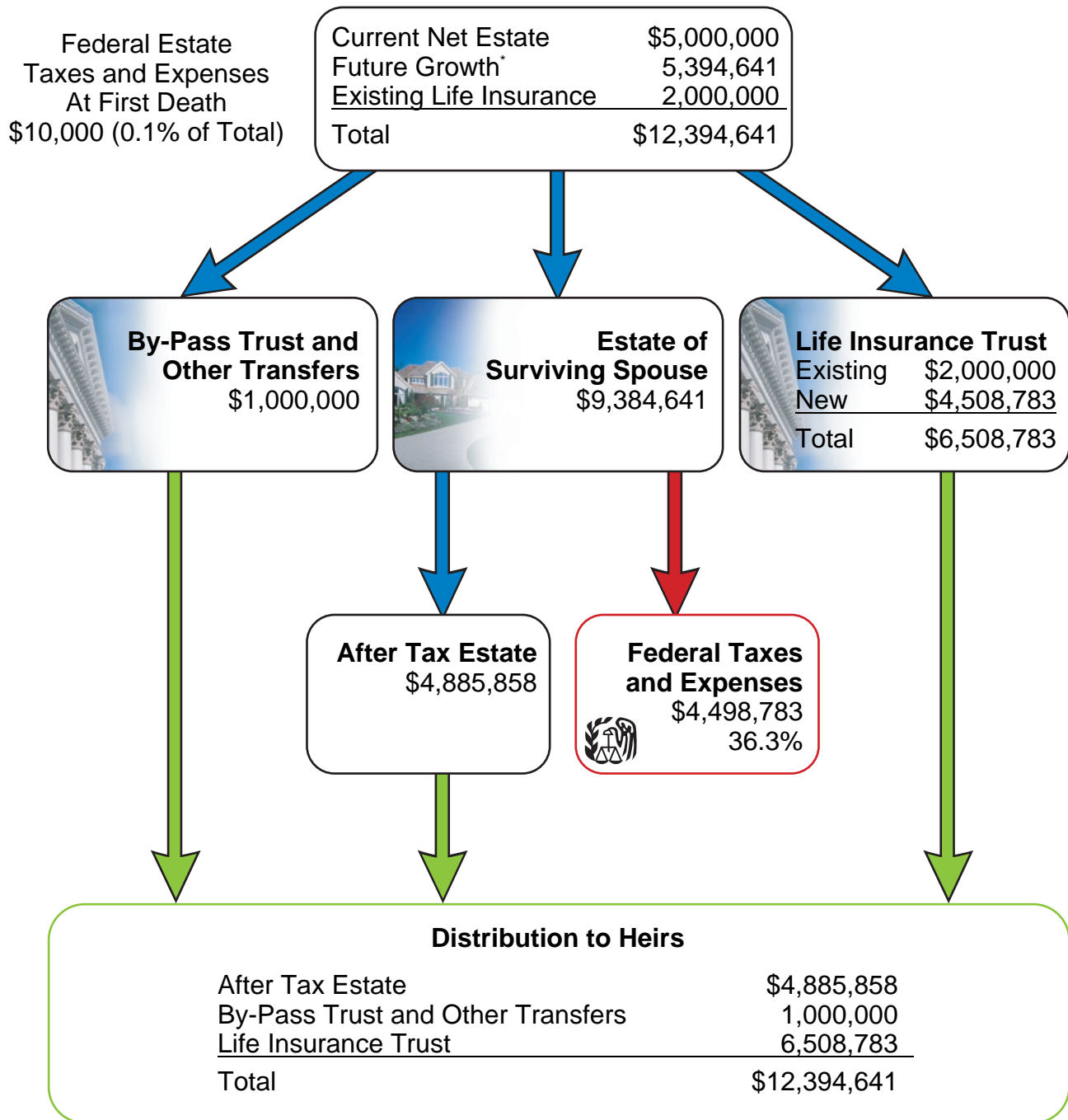


Insurance should be arranged so that it will not be included in your estate. The life insurance provides the needed dollars which can be used to help replace dollars lost to transfer costs. The proceeds could be used to purchase assets from the estate or loan money to the estate—giving the estate cash for transfer costs and getting estate assets to heirs.

**Life insurance provides dollars to help replace the wealth lost.**

# Life Insurance Trust Conserves Your Estate

*Assumes Mr Valued and Mrs Valued Die in 2025*



**Distribution to Family: 100.0%**


\*These calculations are based on projected estate values 15 years from today growing at 5% per year. Actual results may vary. Assumes properly structured trusts. Gift tax implications of transferring an existing life insurance policy to an ILIT must be considered.

# In Summary

- **Proper wealth preservation strategies can help reduce the estate transfer costs due at your death.**
- **The use of wealth preservation strategies can help increase your family's inheritance.**
- **By taking the proper steps, you can help protect what you've worked a lifetime to accumulate.**




# Review Your Strategy\*




**Check the ownership of assets**

- Examine joint ownership of assets
- Check community property and local laws that affect assets




**Examine existing contracts**

- Buy-sell agreements
- Trusts
- Life insurance policies and annuities
- Review beneficiary designations



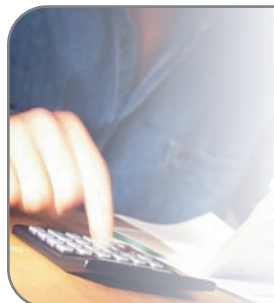
**Understand employer provided benefits**

- Medical coverage
- Disability insurance
- Group benefits
- Retirement plans
- Severance benefits



**Read your will**

- Identify assets controlled by your will
- Determine who gets what
- Is your will consistent with your desires?
- Review designations of fiduciaries



**Create a strategy**

- Restructure ownership of assets
- Create new trusts if needed
- Change life insurance owners and beneficiaries
- Revise your will

\* You should consult an attorney on all legal aspects of any strategy.

# The Next Step

## 1. Gather needed information

- Client's goals and objectives
- Assets: type, value, ownership, projected growth, etc.
- All deeds, wills, existing contracts or trust agreements

## 2. Analyze situation

- Are the client's goals being met?
- Look at potential changes and how they affect goals

## 3. Get recommendations from advisors

- Potential methods of reducing the taxable estate
- Most effective arrangement of insurance
- How to pay the remaining taxes
- Maintain client's objectives and lifestyle requirements

## 4. Put your strategy into effect

- Restructure ownership of assets<sup>1</sup>
- Create new trusts if needed<sup>1</sup>
- Change life insurance owners and beneficiaries
- Revise your will<sup>1</sup>
- Change beneficiary designations

<sup>1</sup> Should be done by your attorney.

# Supporting Details

for  
**Mr Valued Client**  
and  
**Mrs Valued Client**

# Estate Calculation Details

*Assumes Mr Valued and Mrs Valued Die in 2025*

## Assumptions

Client Name:	Mr Valued Client	Current Estate Value	\$5,000,000
Spouse Name:	Mrs Valued Client	Growth Rate of All Assets	5%
Prior Gifts:		Years to Project	15
Mr Valued	\$0	Transfer Costs	1%
Mrs Valued	\$0	Total Existing Life Insurance	\$2,000,000
Calculate Insurance amount needed.		Total New Life Insurance	\$4,508,783

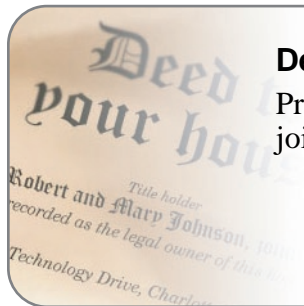
## Flow Chart Calculations

	All To Spouse	By-Pass Trust	By-Pass & Life Insurance Trust	By-Pass & Life Insurance Trust with New Life Insurance
<b>Current Estate</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>
plus Future Growth (5% for 15 years)	5,394,641	5,394,641	5,394,641	5,394,641
plus Existing Insurance Inside Estate	2,000,000	2,000,000	0	0
<b>Future Gross Estate</b>	<b>\$12,394,641</b>	<b>\$12,394,641</b>	<b>\$10,394,641</b>	<b>\$10,394,641</b>
minus Probate and Admin (1%)	0	10,000	10,000	10,000
minus By-Pass Trust	0	1,000,000	1,000,000	1,000,000
<b>Total Deductions</b>	<b>\$0</b>	<b>\$1,010,000</b>	<b>\$1,010,000</b>	<b>\$1,010,000</b>
<b>Distribution to Spouse</b>	<b>\$12,394,641</b>	<b>\$11,384,641</b>	<b>\$9,384,641</b>	<b>\$9,384,641</b>
minus Probate and Admin (1%)	103,946	93,846	93,846	93,846
<b>Tentative Tax Base</b>	<b>\$12,290,695</b>	<b>\$11,290,795</b>	<b>\$9,290,795</b>	<b>\$9,290,795</b>
Federal Tax Before Credits	6,515,217	5,915,277	4,750,737	4,750,737
minus Applicable Credit	345,800	345,800	345,800	345,800
Total Net Taxes	6,169,417	5,569,477	4,404,937	4,404,937
<b>Total Net Taxes, Probate, and Admin</b>	<b>\$6,273,363</b>	<b>\$5,663,323</b>	<b>\$4,498,783</b>	<b>\$4,498,783</b>
<b>Estate Transferred to Heirs</b>	<b>\$6,121,278</b>	<b>\$5,721,318</b>	<b>\$4,885,858</b>	<b>\$4,885,858</b>
plus By-Pass Trust	0	1,000,000	1,000,000	1,000,000
plus Insurance Outside Estate	0	0	2,000,000	6,508,783
<b>Total Distribution to Heirs</b>	<b>\$6,121,278</b>	<b>\$6,721,318</b>	<b>\$7,885,858</b>	<b>\$12,394,641</b>

# Resources


for  
**Mr Valued Client**  
and  
**Mrs Valued Client**

# How Property Passes at Death




**Deed**  
Property owned jointly with survivorship rights passes to the surviving joint owner.

*Deed  
your house  
Title holder  
Robert and Mary Johnson, John  
recorded as the legal owner of this house  
Technology Drive, Charlotte*




**Contract**  
A life insurance policy is an example of a contract that pays death benefits to a named beneficiary.

*Hand holding a pen signing a document*



**Will**  
All remaining property is distributed according to the terms of the will.

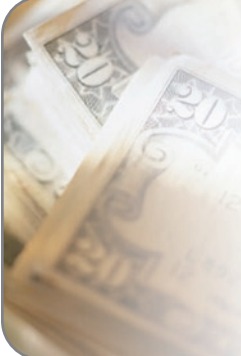
*Last Will and Testament  
AND TESTAMENT  
Hand holding a pen signing a document*



**Law**  
If you have no will, the remaining property is distributed according to state law.

*Gavel on a wooden block*

# How Families Pay Estate Taxes




**Cash on Hand**

**Advantages**

- It's easy to use.
- It's always available.
- No interest costs.

**Concerns**

- Who has that amount of cash?
- Cash is subject to estate tax.
- May be better uses for cash.
- Your creditors may want it.




**Savings**

**Advantages**

- It's easy to use.
- It's always available.
- No interest costs.

**Concerns**

- Not enough time to save it.
- Income tax may impede growth.
- Cash is subject to estate tax.
- May be better uses for cash.
- Your creditors may want it.



**Liquidating Assets**

**Advantages**

- No need to save during life.
- No interest costs.

**Concerns**

- Can't find a buyer.
- Can't get full value.
- Buyer doesn't have all the money.
- Sale takes too long.
- Assets are subject to estate tax.
- Family may want to keep the asset.
- There is a cost to sell assets.

# How Families Pay Estate Taxes (cont.)

## Borrowing

### Advantages

- No immediate outlay.
- Uses other people's money.
- Single sum transfer.

### Concerns

- Can't find a lender.
- Interest charges can be high.
- Can you pay back the principal?
- Loan payments impede lifestyle.
- Lien on assets.



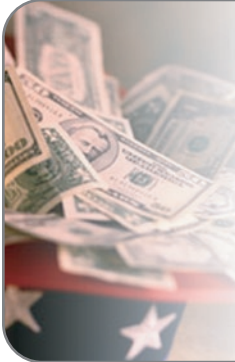
## IRC Section 6166: Borrowing from the Government

### Advantages

- No immediate outlay.
- Uses government's money.
- Interest only for 4 years.
- Principal and interest for 10 years.

### Concerns

- Estate may not meet requirements.
- Not available for non-business assets.
- Miss a payment and loan is due.
- IRS lien on business or farm.
- Can you pay back the principal?
- Installments can outlast the business.



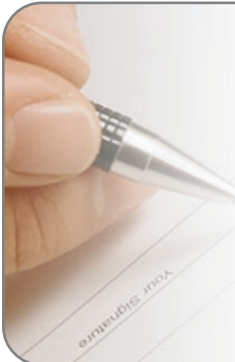
## Life Insurance

### Advantages

- Benefits are paid income tax free. (See IRC 101(a).)
- Tax-deferred cash accumulations.
- Flexible outlay options.

### Concerns

- Requires annual premiums.
- Must take a medical exam to qualify.
- If benefits are estate tax free, you can't own it.



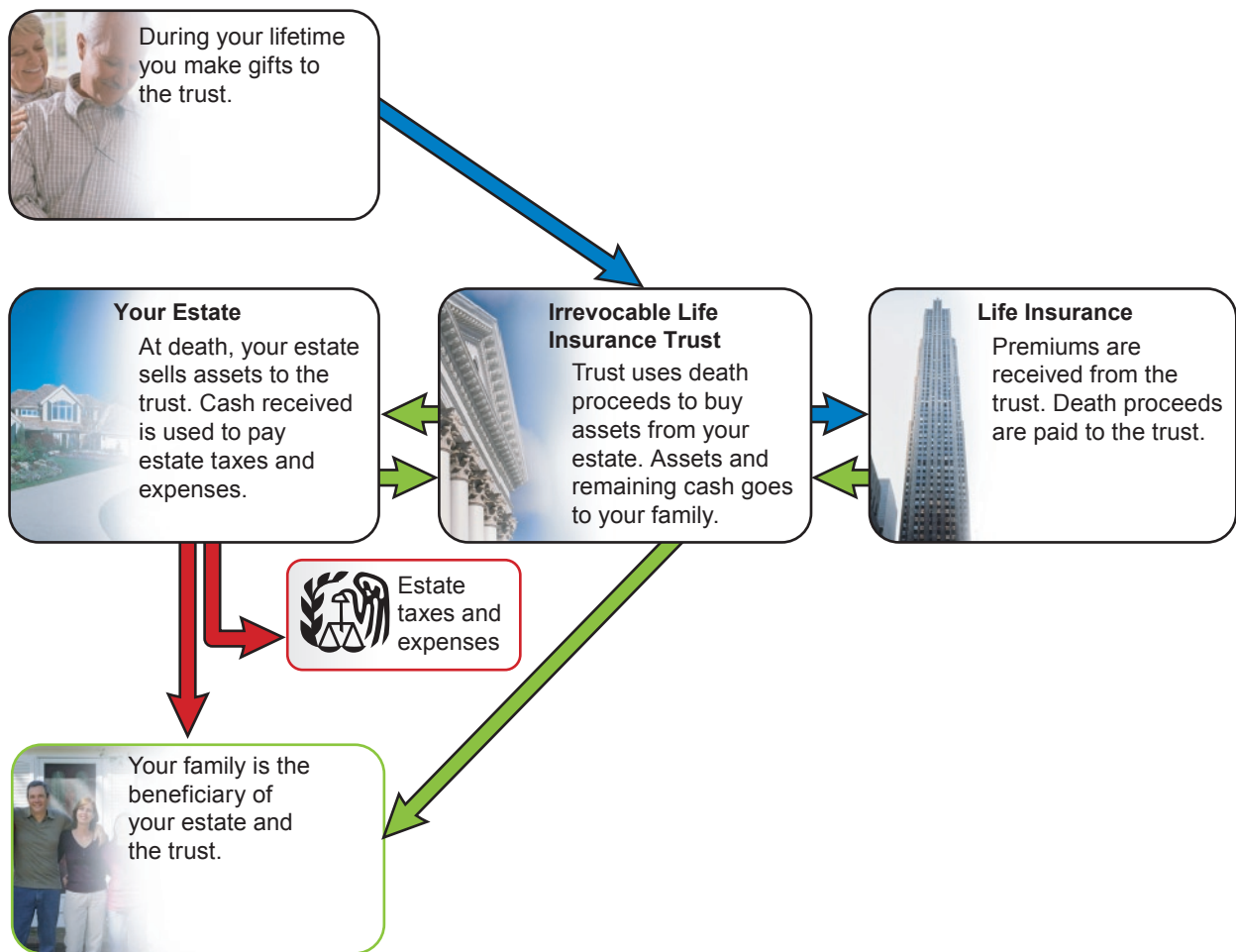


# Why Use a Trust?

- 1. Allows greater flexibility**
- 2. May provide more investment options**
- 3. Saves the expense of guardians**
  - Trustee acts on behalf of minor beneficiaries
  - May save expenses of guardianship
- 4. Provides desired restrictions and limitations**
  - Rules for use of trust funds
  - May keep life insurance out of probate estate
- 5. May reduce or eliminate estate taxes**
  - May remove some assets (including life insurance proceeds) from the taxable estate
  - May reduce or eliminate estate taxes at spouse's death

Note: There are several types of trusts, including the revocable living trust and the irrevocable life insurance trust. Different trusts meet different needs. Consult with your legal/tax advisor to determine whether a particular type of trust would be beneficial for you.

# How an Insurance Trust Works



Your estate is taxed before your family receives your assets. An irrevocable trust, properly established and funded with life insurance, is not taxed at your death. The trust can buy assets from your estate for cash. The estate uses the cash to pay estate taxes and expenses. Your heirs, as trust beneficiaries, inherit the trust assets.

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

A controversial aspect of this Act is the 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

In 2010 the maximum rate for estate tax, gift tax, and generation-skipping transfer tax becomes . 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 started in 2002 when \$1,000,000 became the 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 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

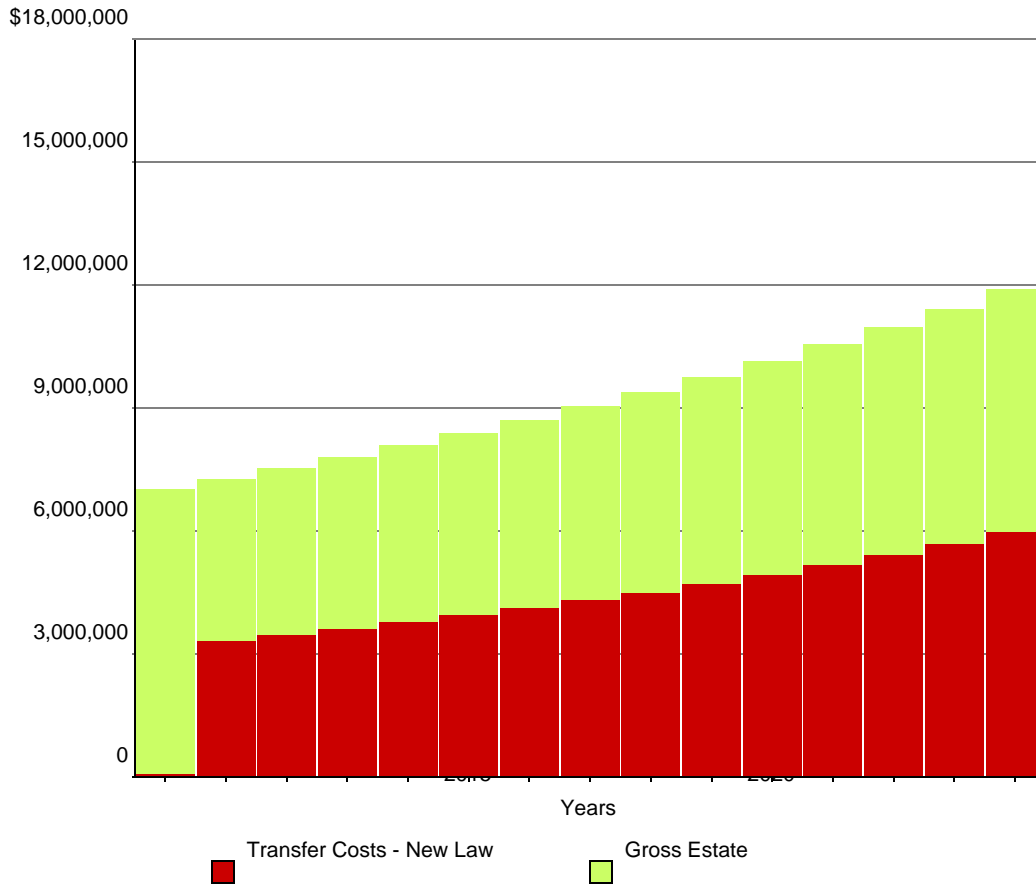
One of many new provisions of this complex tax act deals with the elimination of step-up basis for inherited property. This means that property inherited after estate tax repeal in 2010 may be subject to ordinary income or capital gains taxes when sold. Each estate will be allowed a \$1.3 million exclusion 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 considerations for the closely-held business owner. The Act contains many other provisions.

The complexities of this new legislation and the uncertainties of many of its provisions require careful review 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

*All to Surviving Spouse*



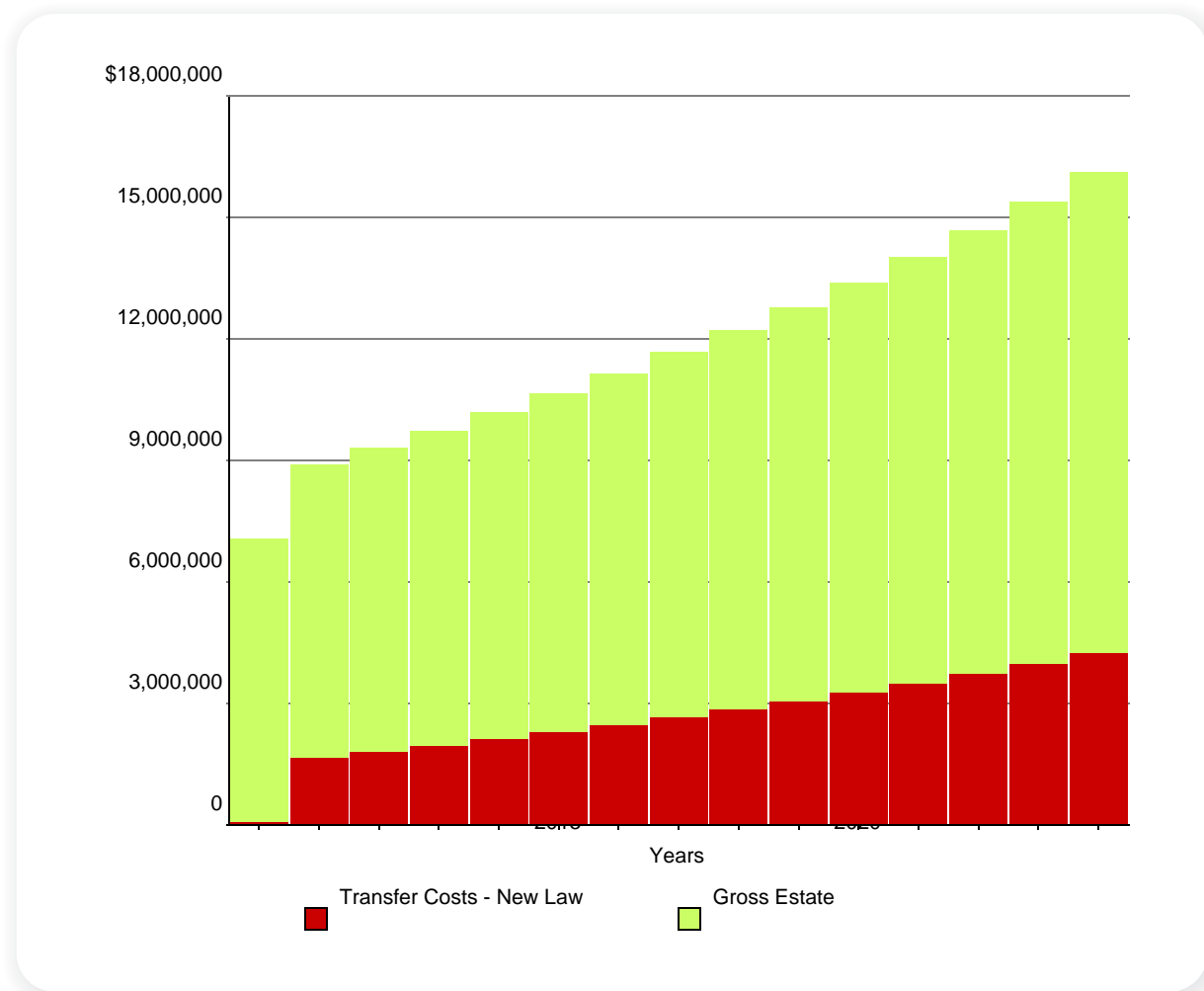
This graph shows the effect of this law on your estimated estate if you and your spouse die in the year shown. Calculations assume the same techniques used in the "All to Surviving Spouse" flow chart.

The Tax Relief Act of 2001<sup>1</sup> 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.

<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

*Using a Life Insurance Trust to Conserve Your Estate*



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 techniques used in the "Life Insurance Trust Conserves Your Estate" flow chart.

The Tax Relief Act of 2001<sup>1</sup> 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.

<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.