Vanilla®

Estate Planning: Advanced Strategies

Courtesy of Vanilla, The Estate Advisory Platform
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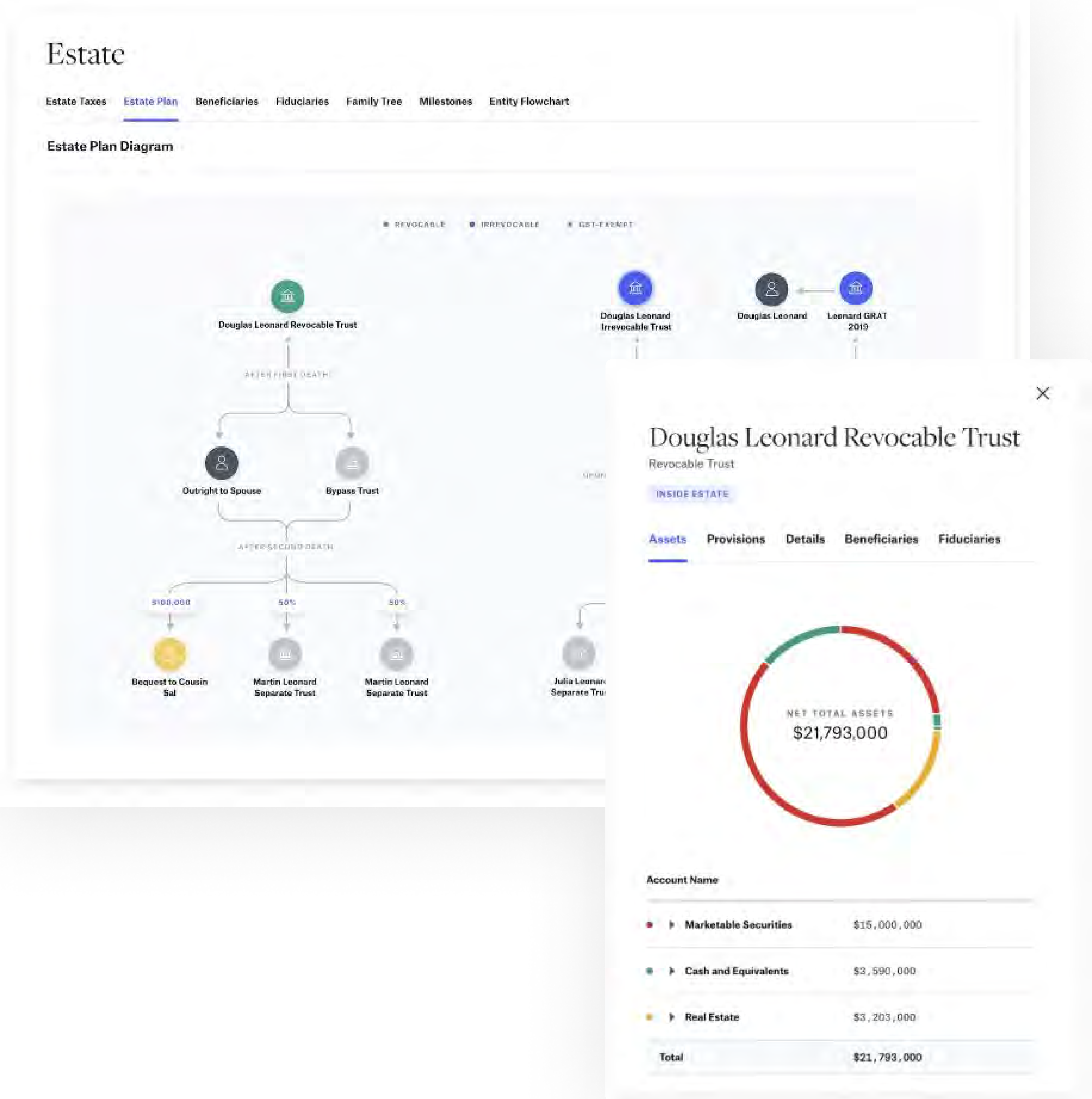
The Estate Advisory Platform

We make estate planning simple.

Our mission is to empower everyone to create a meaningful legacy. With Vanilla, advisors and clients work together to craft a full picture of their wealth and build each and every client’s legacy using powerful estate strategy and tax planning tools, estate maps, document services, and more.

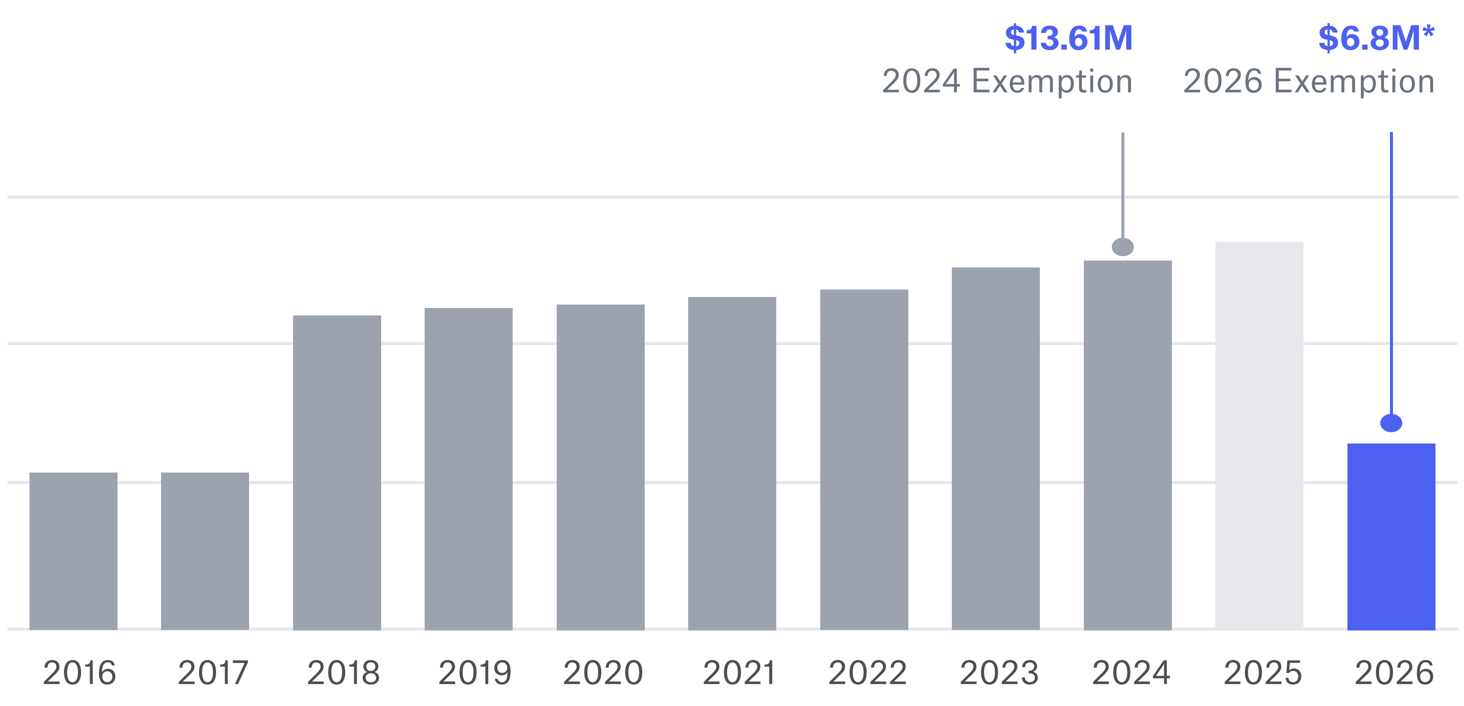


2026 Exemption Sunset

Your Federal Estate Tax exemption allows you to shield a portion of your taxable estate from the Federal Estate Tax. Any taxable transfers that exceed your available exemption amount at your death are subject to a 40% tax.

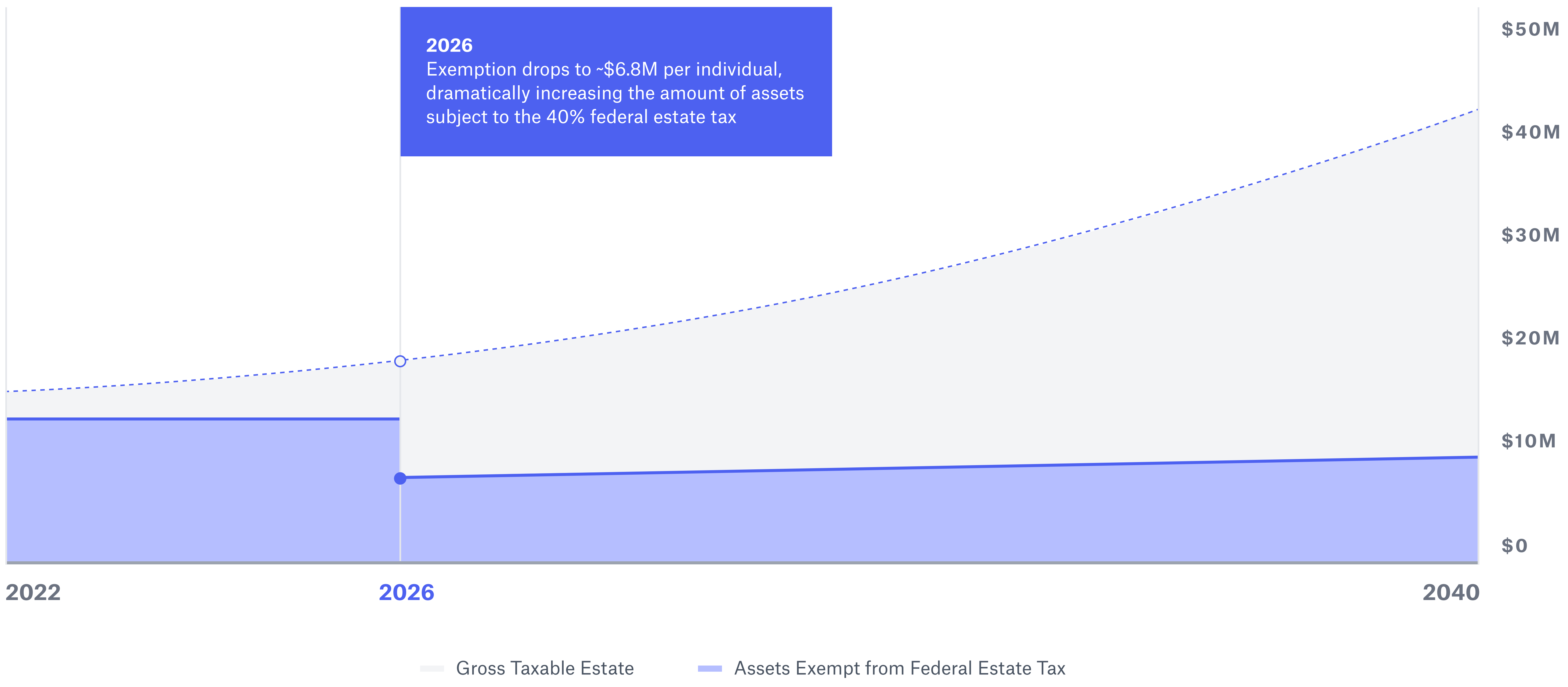
- Currently, the federal exemption amount is at a historical high of $13.61M per individual.
- Without legislative change, the increased exemption amount is scheduled to sunset in 2026 to $5M, indexed for inflation.
- Implementing strategic planning before 2026 may allow the ability to capture significant tax savings.

History of Federal Exemption (Per Individual)



* Estimated inflation adjustment

The amount of assets subject to estate tax for an individual with $15M



In the example above an individual with $15M and full remaining exemption ($13.61M) is able to shield most of their estate from estate taxes if they died before 2026. In 2026, when the exemption drops from $13.61M to $6.8M, the amount of their assets subject to estate tax would increase dramatically.

Assumes (1) $15M total assets in 2023 with 6% growth per year until 2040 (2) Full remaining exemption (3) Exemption inflates 2% per year

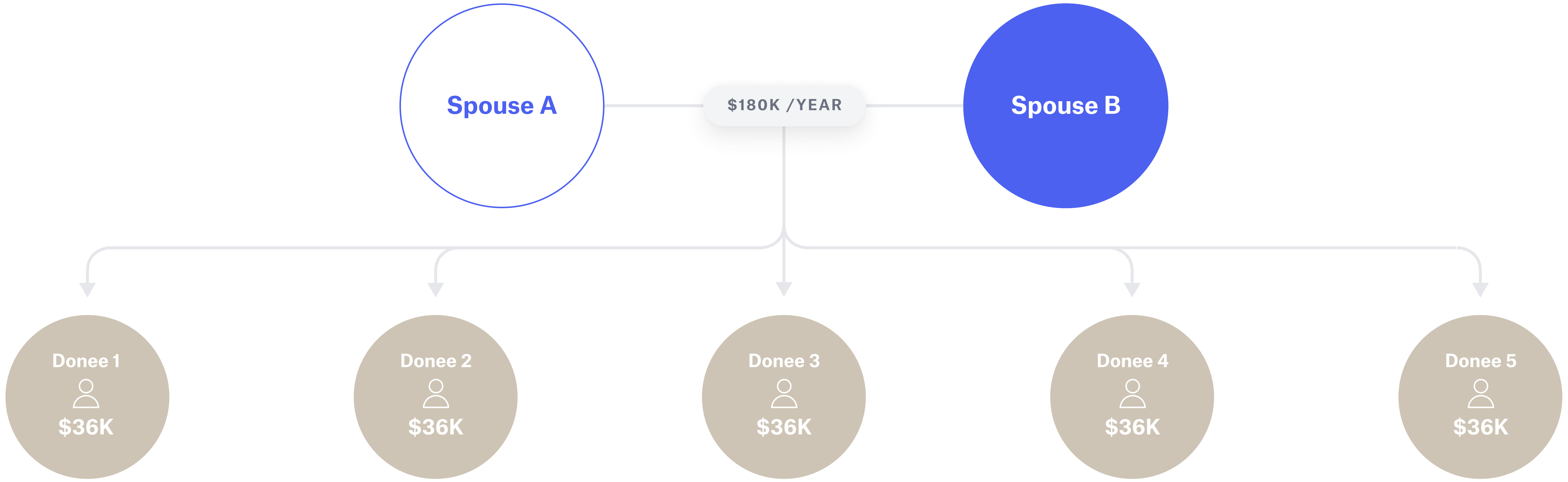
Example Illustration

Annual Gifting

A person is allowed to transfer a given amount (currently $18,000) to another person over the course of each year, federal gift tax-free. This “annual exclusion” amount is allowed per recipient, and spouses can elect to split gifts of their combined annual exclusion amounts.

Annual Gifting

- An annual gifting plan can reduce the size of one’s taxable estate
- Multiple people can make annual exclusion gifts to the same recipient. For example, a married couple with five children can transfer a total of $180,000 to their children in 2024, gift tax-free ($18,000 × 2 spouses × 5 children)
- Annual gifts do not consume one’s lifetime federal exemption



	2024	2026	2030	2040
Without Annual Gifting				
Taxable Estate	$30,000,000	$33,708,000	$42,555,573	$76,210,551
Estate Tax Liability	$1,112,000	$7,667,200	$10,726,229	$22,808,220
With Annual Gifting				
Annual Gifts Total	$180,000	$180,000	$200,000	$240,000
Assets Subject to Estate Tax	$2,600,000	$18,594,952	$25,250,936	$51,343,353
Estate Tax Liability	$1,040,000	$7,437,981	$10,100,375	$20,537,341
Tax Savings	$72,000	$229,219	$625,855	$2,270,849

Assumes (1) A total of 5 donees (children, grandchildren, relatives, etc.). (2) Each donee gifted $36K per year ($18K from each spouse). (3) 6% growth per year until 2040. (4) Full exemption remaining. (5) Assumes exclusion increases every 5 years.

Example Illustration

Spousal Lifetime Access Trust (SLAT)

In a SLAT, one spouse makes a lifetime gift of assets to an irrevocable trust for the benefit of the other spouse. This trust is structured so that the primary beneficiary spouse can access the trust assets, but the SLAT will avoid federal estate taxation upon the death of both spouses.

Spousal Lifetime Access Trust (SLAT)

- Allows the donor spouse to use their remaining exemption amount (currently a maximum of $13.61M), before it sunsets in 2026 to $5M (adjusted for inflation)
- Removes SLAT assets from the taxable estate of the donor spouse, though they may retain limited indirect access
- The primary beneficiary spouse (and other family members, if desired) can benefit from the SLAT assets
- Future appreciation of SLAT assets avoids estate taxation

Without SLAT | With SLAT

	2024	2026	2030	2040
Without SLATs				
Total Assets	$30,000,000	$33,708,000	$42,555,573	$76,210,551
Federal Exemption	$27,220,000	$14,540,000	$15,740,000	$19,190,000
Assets Subject to Estate Tax	$2,780,000	$19,168,000	$26,815,573	$57,020,551
Estate Federal Tax Liability	$1,112,000	$7,667,200	$10,726,229	$22,808,220
Net-to-heirs	$28,888,000	$26,040,800	$31,829,344	$53,402,330
With SLATs				
Total Assets	$30,000,000	$33,708,000	$42,555,573	$76,210,551
SLAT for Client	$13,610,000	$15,292,196	$19,306,045	$34,574,186
SLAT for Spouse	$13,610,000	$15,292,196	$19,306,045	$34,574,186
Assets Subject to Estate Tax	$2,780,000	$3,123,608	$3,943,483	$7,062,178
Estate Federal Tax Liability	$1,112,000	$1,249,443	$1,577,393	$2,824,871
Net-to-heirs	$28,888,000	$32,458,557	$40,978,180	$73,385,679
Tax Savings	$0	$6,417,757	$9,148,836	$19,983,249

Assumes (1) $30M total assets in 2023 with 6% growth per year until 2040. (2) Married couple with full remaining exemption ($27.22M in 2024). (3) Exemption sunsets in 2026 to $6.8M and inflates 2% per year thereafter.

Example Illustration

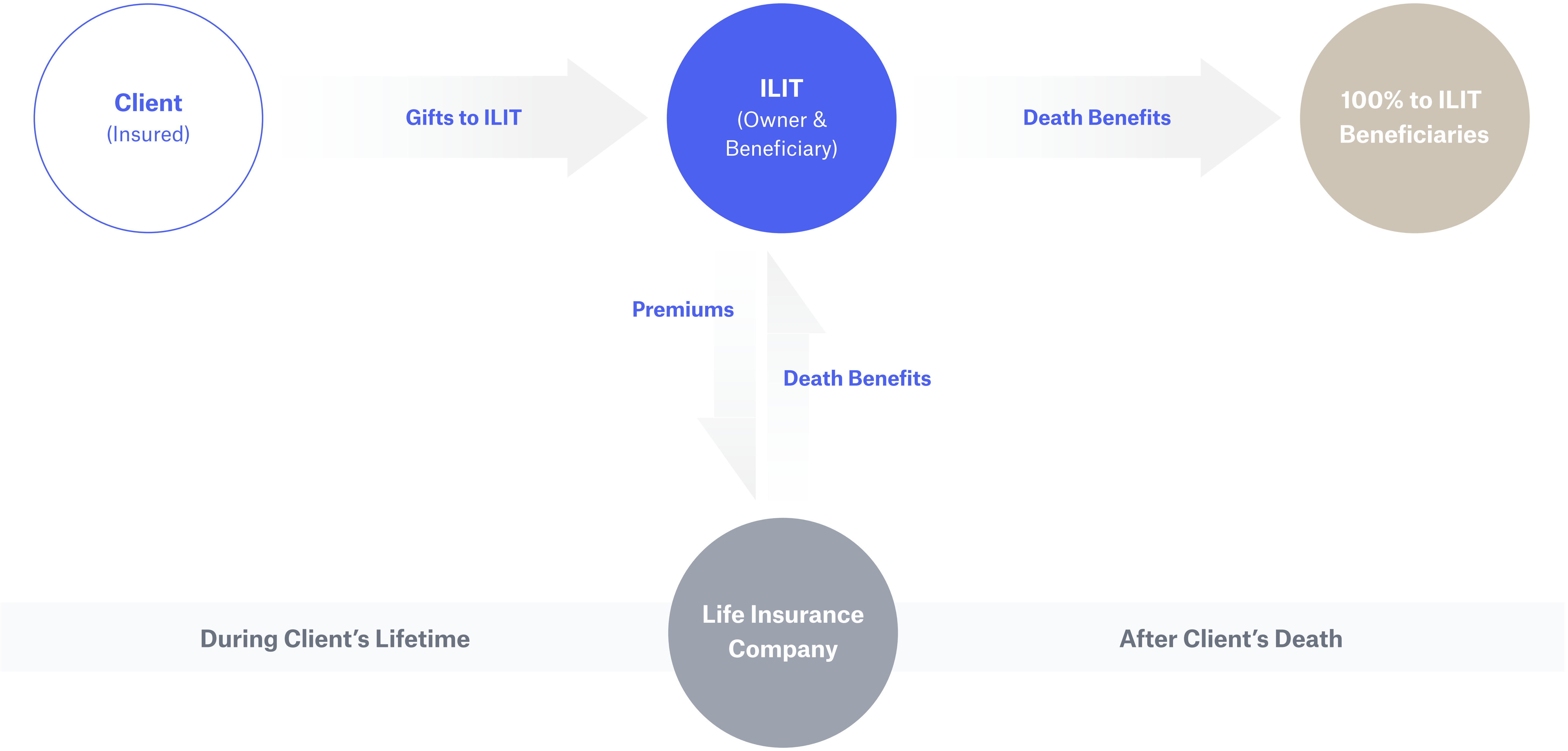
Irrevocable Life Insurance Trust

ILITs are irrevocable trusts that can shield life insurance death benefits from federal estate tax. When structured properly, an ILIT allows proceeds of policies insuring one's life to avoid inclusion in their federal taxable estate upon death. This can provide liquidity and a tax-free transfer to one's beneficiaries. If a person's estate will owe federal estate tax upon their death, life insurance proceeds sheltered in an ILIT can be used to help offset the impact of taxes on beneficiaries.

Irrevocable Life Insurance Trust (ILIT)

- Prevents the death benefit of a life insurance policy from being included in the gross estate
- Either new policies can be purchased or existing policies can be transferred (survivorship requirements apply)
- Some lifetime exemption may be used either in transferring an existing policy into the ILIT or in transferring assets into the ILIT to pay premiums, but it may be possible to leverage the annual exclusion amount
- ILITs can receive gifts from other sources besides life insurance
- Properly structured ILITs can provide liquidity to cover estate tax costs and other debts

Example Illustration



$3,000,000 Death Benefit	without ILIT	with ILIT
Included in Gross Estate	$3,000,000	$0
Potential Estate Tax Liability	$1,200,000	$0
Passing to Heirs	$1,800,000	$3,000,000

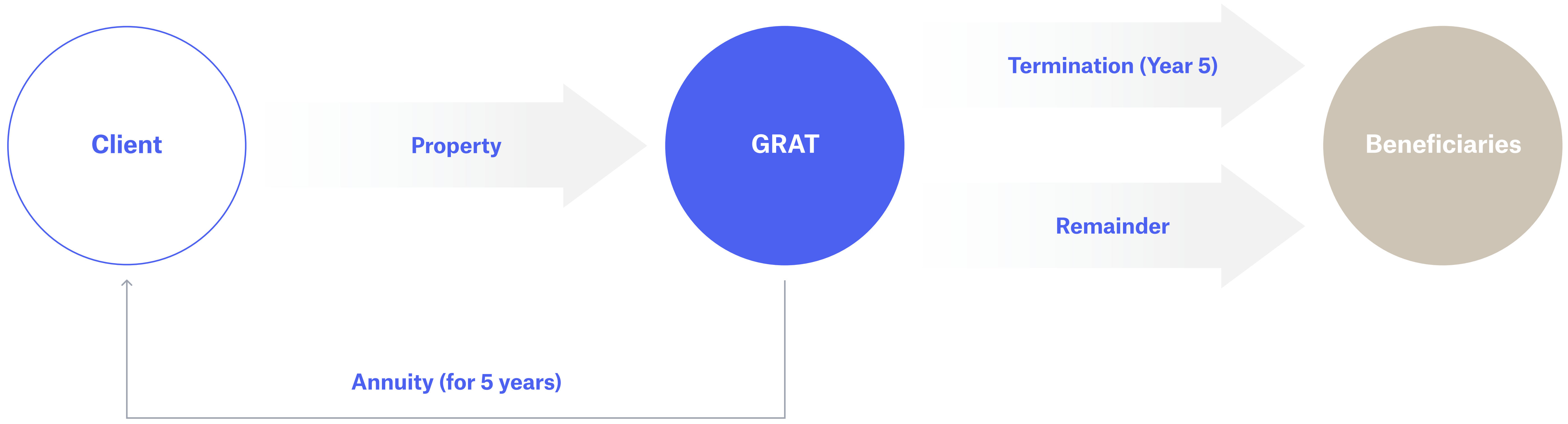
Grantor Retained Annuity Trust

GRATs can allow a grantor to transfer the appreciation of high-growth assets outside of their federally taxable estate without using much or any of their federal lifetime exemption.

In a GRAT transaction, assets are transferred to an irrevocable trust in exchange for an annuity payment to the grantor for a designated term of years. If a GRAT is structured so that the net amount given to the trust is valued at zero, and the annuity is paid in full, no federal transfer tax is due on the transaction.

Grantor Retained Annuity Trust (GRAT)

- The value of the grantor's annuity interest offsets the value of the gift to the trust
- If the grantor out lives the trust's term, the assets and any appreciation will pass to the trust's beneficiaries
- If the grantor dies during the trust's term, the transferred assets may be included in the grantor's taxable estate (as if the strategy were not implemented at all)



Year	Starting Balance	Growth	Income	Annuity Payment	Remainder
1	$5,000,000	$500,000	$500,000	$1,142,126	$4,857,874
2	$4,857,874	$485,787	$485,787	$1,142,126	$4,687,322
3	$4,687,322	$468,732	$468,732	$1,142,126	$4,482,661
4	$4,482,661	$448,266	$448,266	$1,142,126	$4,237,067
5	$4,237,067	$423,707	$423,707	$1,142,126	$3,942,354
Total Payments to Grantor					$5,710,631
Remainder to Heirs					$3,942,354
Total					$9,652,985

Assumes (1) January 2023. (2) 5 Year Term. (3) Zeroed Out GRAT. (4) $5M asset. (5) 10% growth. (6) 10% yield. (7) Taxable Gift = $33.91.

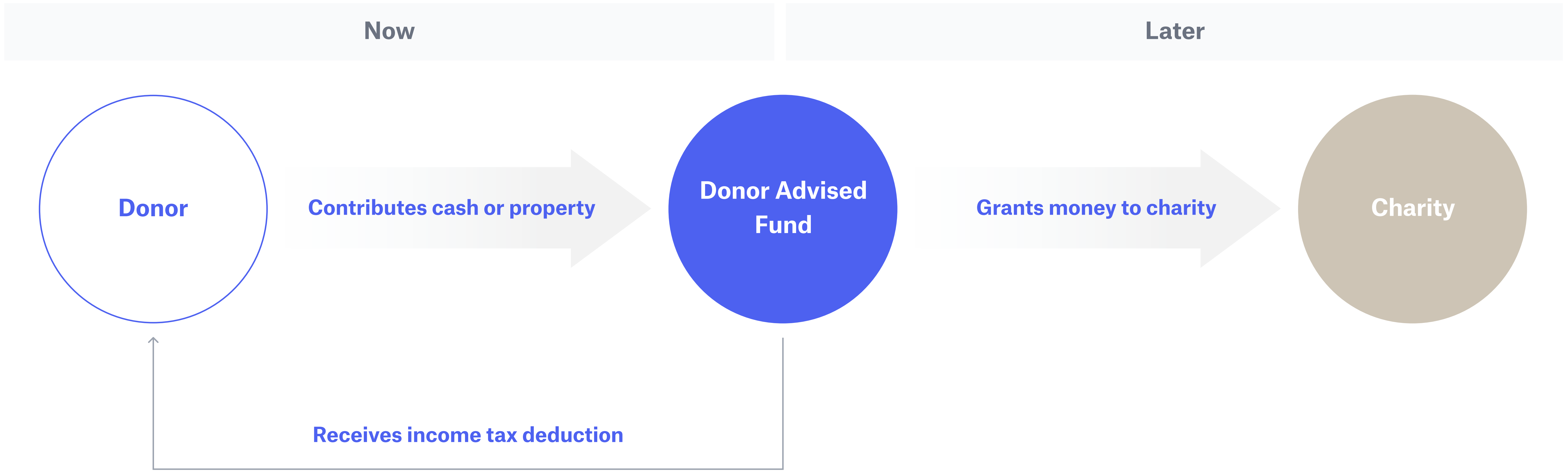
Example Illustration

Donor Advised Fund (DAF)

A DAF is an investment account that's earmarked for the exclusive benefit of public charities. As a person funds a DAF, they can take a charitable income tax deduction each year they gift. However, assets can remain in the DAF until one directs distributions to the ultimate charitable beneficiaries. Accordingly, one can manage the timing of their deductions and a charity's access to the gifts separately.

Advantages Over Ordinary Charitable Giving

- Funds can remain invested for tax-free growth and grants can be recommended to virtually any IRS-qualified public charity
- Tax-deductible contributions can be made to the DAF before choosing what charities to support
- Easy to fund with a wide range of assets, including appreciated investments
- Less administrative burden than private foundations



Example Illustration

Charitable Remainder Trust (CRT)

A CRT is a “split-interest” irrevocable trust that provides an income stream to the grantor (or other noncharitable beneficiaries) for a specified period of time, after which the trust assets are distributed to one or more charities.

In the year of funding, the grantor can take an income tax deduction for the present value of the remainder interest that will pass to charity.

Advantages Over Ordinary Charitable Giving:

- Annual payments can be structured as a fixed annuity amount (CRAT) or a unitrust amount (CRUT) for a lifetime(s) or a term of no longer than 20 years
- The trust is a charitable entity, and as such isn't taxable to the grantor
- Allows the grantor to transform the sale of a highly-appreciated asset — which would incur large capital gains in a single year — into an income stream that could be more easily offset by capital losses
- Assets owned by the CRT are excluded from the grantor’s federally taxable estate

1. Grantor transfers appreciated assets to the trust, and takes an income tax deduction in the year of funding.

2. Trustee sells the trust assets, paying no capital gains tax, and reinvests the proceeds.

3. Trustee makes annual payments to Grantor for life.

4. At Grantor’s death, assets remaining in the trust pass to the designated charity.

Example Illustration

Qualified Personal Residence Trust (QPRT)

QPRTs can allow a grantor to transfer a residence or vacation property to beneficiaries in a tax-efficient manner. For estate tax purposes, this trust freezes the value of the home at the time of the transfer, potentially removing the value of the home and potential future appreciation from the grantor's taxable estate. In a QPRT, a home or vacation property is transferred to the trust and the grantor retains the right to use the home for a number of years. The grantor must survive the selected term to obtain the potential estate tax benefits, so a grantor should consider their health, how long they think they'll live, and how large of a gift they want to make in selecting the term.

Qualified Personal Residence Trust (QPRT)

- The retained use of the home reduces the value of the gift, potentially saving taxes. Generally, the longer the term, the lower the gift value.
- If the grantor survives the trust's term, then the current value plus all future appreciation on the home is outside the grantor's estate.
- If the grantor dies during the trust's term, then the value of the home is included in the grantor's estate as though the trust had never been implemented.

Assumes (1) 5% AFR. (2) Grantor age 65 at time of transfer. (2) 10 Year Term. (3) $2M home. (5) 8% growth. (7) Taxable Gift = $1,008,467.
Example Illustration

Year	Starting Value	Growth	Ending Value
1	$2,000,000	$160,000	$2,160,000
2	$2,160,000	$172,800	$2,332,800
3	$2,332,800	$186,624	$2,519,424
4	$2,519,424	$201,554	$2,720,978
5	$2,720,978	$217,678	$2,938,656
6	$2,938,656	$235,092	$3,173,749
7	$3,173,749	$253,900	$3,427,649
8	$3,427,649	$274,212	$3,701,860
9	$3,701,860	$296,149	$3,998,009
10	$3,998,009	$319,841	$4,317,850
Total Gift Tax Exemption Used			$1,008,467
Total Value to Beneficiaries			$4,317,850

Dynasty Trusts

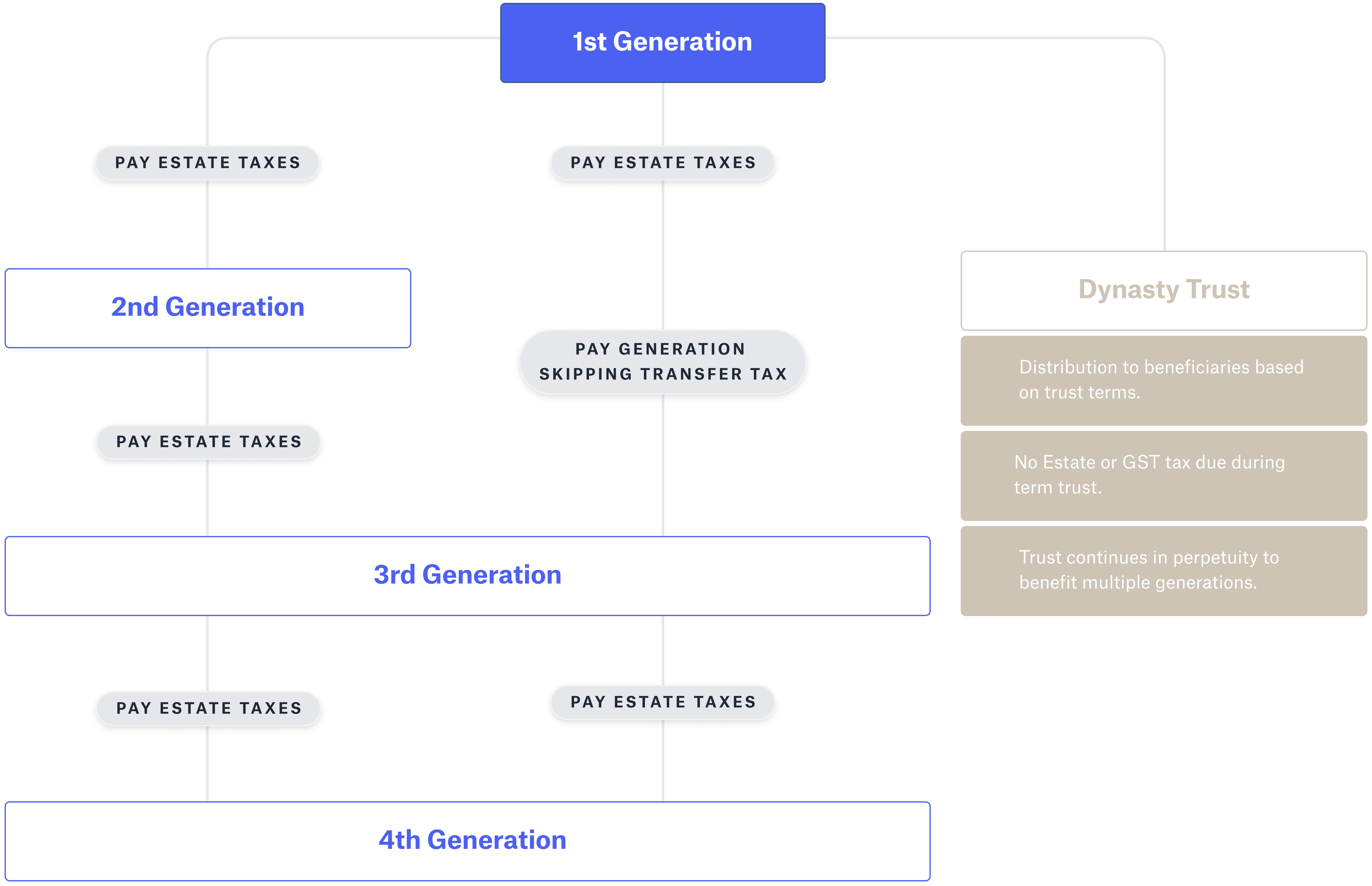
A dynasty trust is a type of trust that is designed to continue in perpetuity. The assets stay within the trust and remain outside of the taxable estates of the original grantor(s) and all beneficiaries. By allowing the trust to exist for an extended period of time, the trust can benefit multiple generations of beneficiaries. Dynasty trust planning can be incorporated into any type of trust structure. By structuring the trust properly, it is possible to pass wealth from generation to generation without incurring any transfer tax (i.e. estate, gift, or generation skipping taxes).

Overview

- Generational wealth transfer in continued trust
- Federal Estate, Gift, and GST Tax-exempt
- Choice of situs for favorable laws
- Asset protection

Important Considerations to Discuss with an Attorney

- Structure and funding of trust
- Cost basis, income, and estate tax considerations
- Choice of Situs
- Fiduciary selection



Example Illustration

Valuation Discount

Valuation discounts are an estate planning tool used to reduce the value of an asset for transfer tax purposes. This allows the owner to reduce either the amount of tax paid as a result of the gift or the amount of their lifetime exemption that must be used.

For example, it is possible to reduce the valuation of assets for tax purposes by changing the form of ownership from personal ownership to entity ownership. If one transfers assets into a Limited Liability Company (LLC) or a Family Limited Partnership (FLP) in exchange for an ownership interest, then the value that's relevant for taxes is the value of the entity interest that they own, not the value of the underlying assets owned by the LLC/FLP. Discounts for lack of marketability may be available for the LLC/FLP units. These same discounts apply to closely held corporation interests.

Example	Federal Gift	Estate Tax Exposure
Assets (FMV*)	$10,000,000	$4,000,000
FLP Funding w/Assets	$10,000,000	--
Discount**	30%	--
FLP Valuation	$7,000,000	$2,800,000
Potential Tax Savings	--	$1,200,000

* Fair Market Value
** Lack of Marketability/Lack of Control

Example Illustration

Overview

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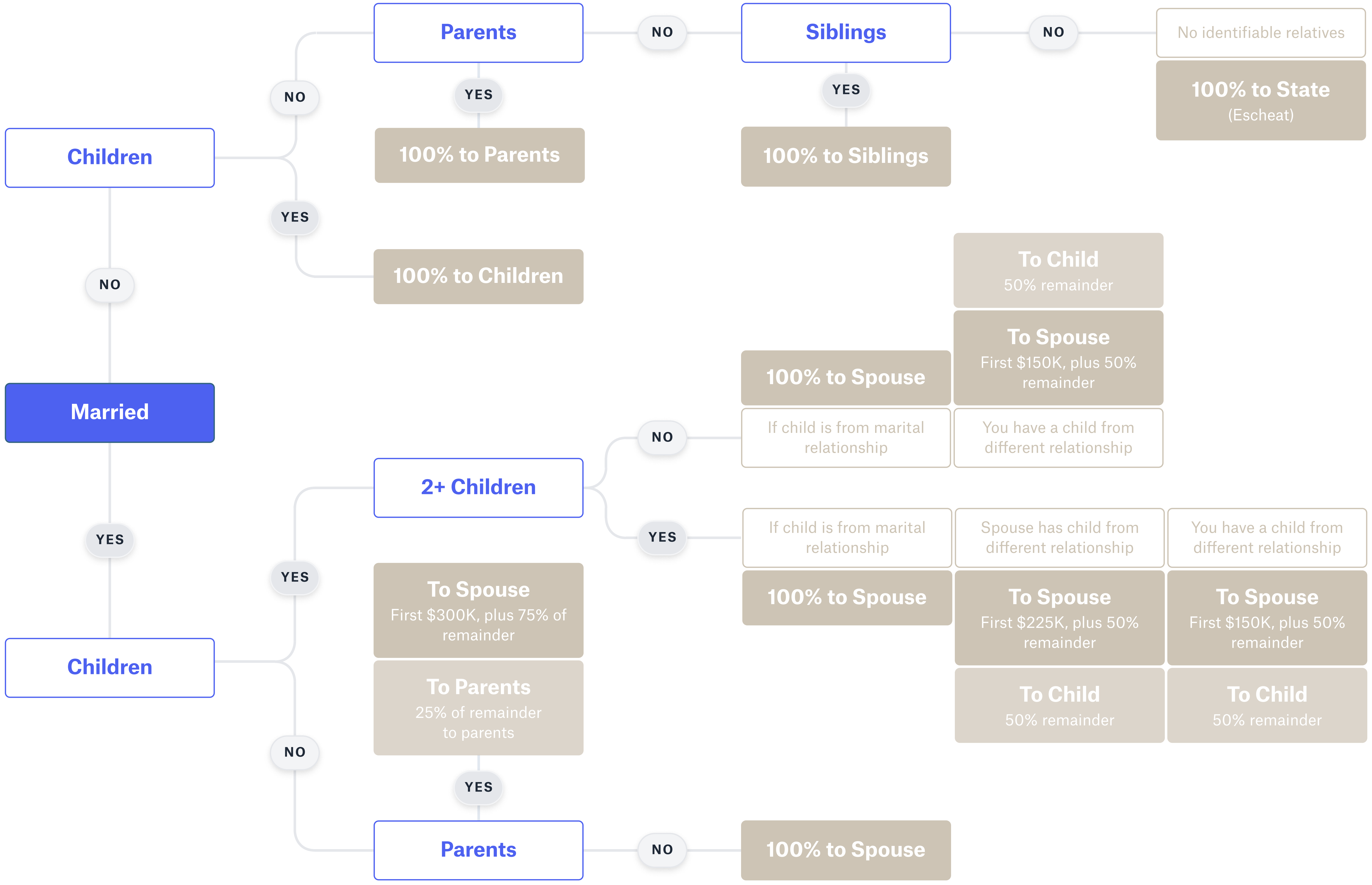
Intestacy

The laws of the state in which you are domiciled at death will dictate the succession of your intestate property. Each state's laws operate differently, but many are based (at least in part) on the provisions outlined in the Uniform Probate Code (the "UPC").

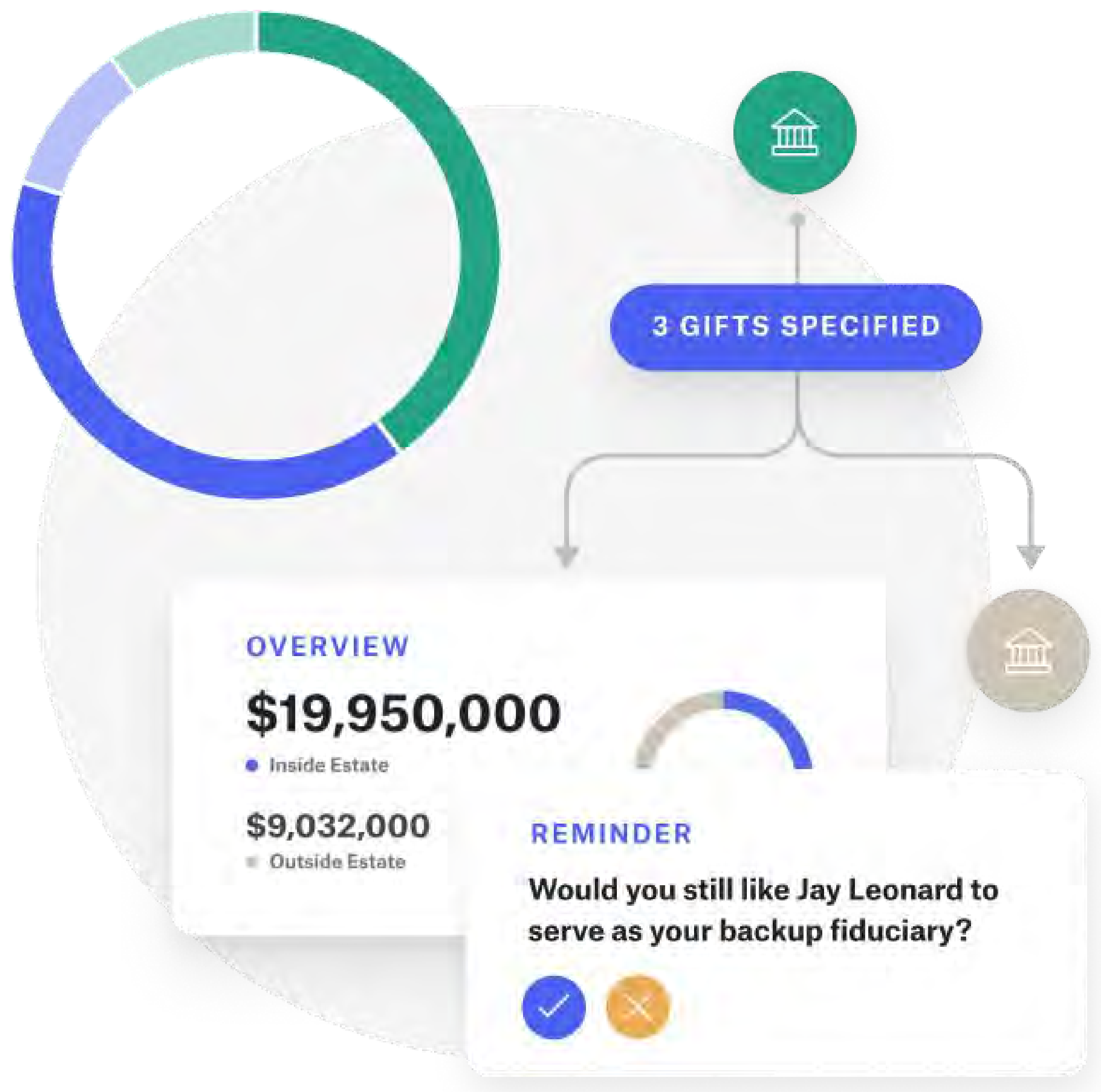
The UPC generally provides the following →



Example Illustration

Vanilla, the Estate Advisory Platform

100s of Advisory Firms use Vanilla to deliver differentiated advice, attract new advisors, and simplify how they help their clients craft their Living Legacy.



Craft Living Legacies with differentiated advice

Connect

Probate is often a long, costly, and emotionally exhausting process for your surviving family. Without a trust, it can take up to two years for assets to reach your beneficiaries. Probate can also cost your loved ones up to 7% of your taxable assets.

Retain

Proper estate planning safeguards your family's financial future. Your estate plan specifies how your assets should be distributed to your family, additional loved ones, and/or charities.

Grow

Certain households have enough assets to trigger estate taxes. Proper planning can assist in avoiding the 40% estate tax to ensure your loved ones keep as much as possible.

Deliver

An estate plan allows you to specify guardians for your minor children in the event of a catastrophe. Without an estate plan, minor children are appointed guardians by a court, and may enter foster care during the process.

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Thank you.

For more information visit:
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