

# Talk Track

## Advisor Enablement Scenarios

To help advisors drive meaningful conversations with their end-clients utilizing various Vanilla outputs. These questions and considerations can be used by advisors to ask their clients when discussing their estate.

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- ② Financial Team
- ③ Beneficiaries Overview
- ④ Fiduciaries Overview
- ⑤ Waterfall
- ⑥ Transfer Taxes
- ⑦ Estate Diagram
- ⑧ Advanced Strategies

# ① Family Tree

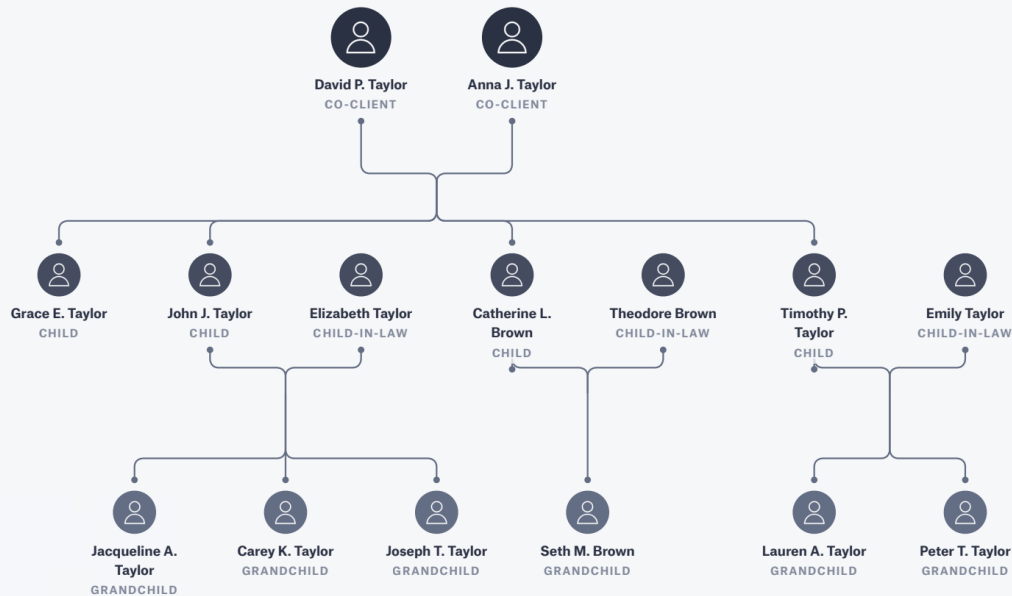
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# Family Tree

Overview

## Family Tree

Your family tree should be updated periodically to reflect any changes to your family structure.



### KEY QUESTIONS

- Is this family tree up to date?
- Is anyone missing from your immediate family?  
Direct descendants? Do you have a blended family?
  - If there is a blended family, how do you think about treating your heirs? Equally or differently? Does a spouse differ than your children's parent take priority or do your children?
- Will all family members, close relatives and friends be considered as part of the disposition of your assets?
- Might there be any sensitivity with regard to some relationships among family members? (ie. conflicts, financial dependence, blended families)
- If there are children, are they considered a minor (most states set this at 18 years old, but there are exceptions)?

### COMMON PITFALLS/ POTENTIAL OPPORTUNITIES TO ADD FURTHER VALUE

Generally, family members become beneficiaries of your assets. The key people in your life who you name in your will become the guardians for minor children. They may also become the fiduciaries appointed in your estate plan to manage and distribute assets for your beneficiaries.

### ADDITIONAL RESOURCES

- [Family Tree In-Depth Walkthrough](#)
- [How to Add A Family Member Beneficiary](#)

# ② Financial Team

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# Financial Team

Overview

## Your Team

Your unique goals, preferences and family dynamics are what matters to us. We tailor an integrated team based on your individual needs— strategies to help invest assets, transfer wealth, manage risk, maximize philanthropic impact, reduce family conflict and enhance your lifestyle.

### Smith, Pettis, Falldin & Co Wealth Management

ROLE	NAME	PHONE NUMBER	EMAIL ADDRESS
Financial Advisor	Steve Smith	(555) 555-5555	email@info.com

### External Advisors

ROLE	NAME	PHONE NUMBER	LOCATION
Attorney	Jane Hamilton	(555) 555-5555	New York, New York
CPA	Joel Alonso	(555) 555-5555	New York, New York

### KEY QUESTIONS

- Is this everyone who is involved?
- Would you like to share this information with the broader family (i.e. in case of an emergency)?
- Should there be any introductions made for your next-gen relationships?
- This can be used in case of emergency to highlight the people involved along with their roles with contact information

### COMMON PITFALLS/ POTENTIAL OPPORTUNITIES TO ADD FURTHER VALUE

- Who do you want to continue managing investments for your beneficiaries? Investment advisors or Trustees. This is an opportunity to review roles
- Is the financial team up to date? Make sure the financial team is connected with beneficiaries and aligns with the wishes of your client
- Does your client have a letter of wishes? This may be more relevant for high net worth/complex clients. This is a non-binding letter that would outline the settlor's intentions. Within it, the attorney/advisor/CPA and financial team would be discussed.
  - Call to action: letter of wishes is to be reviewed with children. This is an opportunity to strengthen relationships with beneficiaries
- This slide can be provided to beneficiaries such as children. Call to action: share this information and see what types of questions arise to help address

### ADDITIONAL RESOURCES

- [Create a Financial Team Directory](#)

# ③ Beneficiaries Overview

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# Beneficiaries Overview

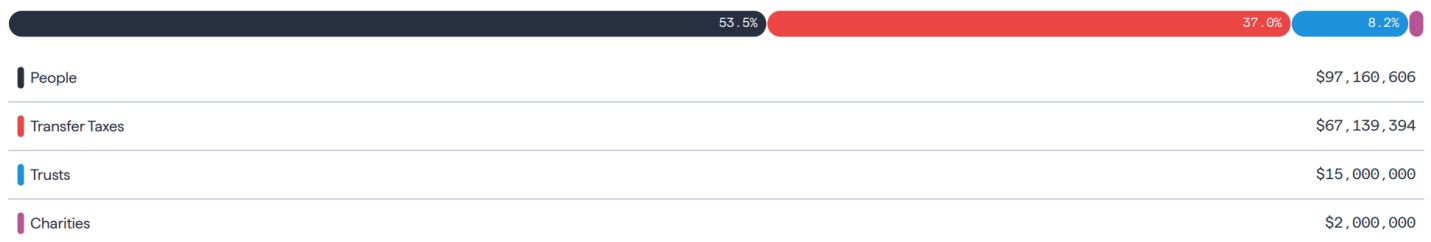
Estate Planning

## Distribution Summary

People, Trusts, and Charities

BENEFICIARY	TOTAL
• Timothy P. Taylor	\$24,265,151
• Catherine L. Brown	\$24,265,151
• John J. Taylor	\$24,265,151
• Grace E. Taylor	\$24,265,151
• Pot Trust	\$15,000,000
• Donor Advised Fund	\$2,000,000
• Carey K. Taylor	\$100,000

Total Distributions



### KEY QUESTIONS

- Do these beneficiaries match your wishes?
- What goals/values do you want to instill in your beneficiaries? Does your plan reflect this?
  - Do you have philanthropic desires?
  - Do you want to minimize estate taxes?
- Have there been any changes in your relationships that might impact your beneficiary designations? E.g. marriage, divorce, children, death, etc.
- Are there any new people to add, or beneficiaries to remove/amend?
  - This is an opportunity for potential conversations with those individuals who will (and will not) be receiving assets and why
- Are beneficiaries receiving the correct shares/allocation?
  - Have you passed down enough or too much to each beneficiary?

# Beneficiaries Overview

Overview

## Beneficiary Designations

### Retirement Accounts and Annuities

BENEFICIARY	PRIMARY / CONTINGENT	BENEFICIAL INTEREST	ACCOUNT	ACCOUNT OWNER
David P. Taylor	Primary	100%	Anna J. Taylor IRA	Anna J. Taylor
Anna J. Taylor's Revocable Trust	Contingent	100%	Anna J. Taylor IRA	Anna J. Taylor
Anna J. Taylor	Primary	100%	David P. Taylor IRA	David P. Taylor
David P. Taylor's Revocable Trust	Contingent	100%	David P. Taylor IRA	David P. Taylor

### Transfer on Death and Payable on Death Accounts

BENEFICIARY	PRIMARY / CONTINGENT	BENEFICIAL INTEREST	ACCOUNT	ACCOUNT OWNER
Anna J. Taylor	Primary	100%	David P. Taylor	David P. Taylor
Grace E. Taylor	Contingent	25%	David P. Taylor	David P. Taylor
Timothy P. Taylor	Contingent	25%	David P. Taylor	David P. Taylor
John J. Taylor	Contingent	25%	David P. Taylor	David P. Taylor
Catherine L. Brown	Contingent	25%	David P. Taylor	David P. Taylor

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### KEY QUESTIONS

- Have you laid out primary and contingent beneficiaries as you wish?
- Are there any new people to add, or beneficiaries to remove/amend?
  - This is an opportunity for potential conversations with those individuals who will (and will not) be receiving assets and why
- If there are "None" or "Unknown" designations, speak to your client about this to confirm.

### GENERAL DISCUSSION TOPICS

- Any terms or special instructions that should be noted for anyone in particular?
  - Are you comfortable with beneficiaries receiving these assets outright?
- Are there any circumstances your beneficiaries may have that require additional planning? E.g. Special Needs Trust, etc.



# Beneficiaries Overview

## COMMON PITFALLS/ POTENTIAL OPPORTUNITIES TO ADD FURTHER VALUE

- Ensure beneficiaries are aware of the assets they will inherit
  - Connect with Next Gen ahead of transitions (some reports indicate that over 2/3 of Next Gen fire their parents' advisors)
- Documents only have a primary beneficiary
  - Consider naming additional backup/contingent beneficiaries
- An Irrevocable Life Insurance Trust (ILIT) is the owner of a life insurance policy, but the beneficiary designations are to spouse/people (not to ILIT)
  - Review the beneficiary designations of an ILIT and update as necessary to ensure the policy death benefit remains outside the taxable estate
- Consider adding a charity as a beneficiary if you are philanthropically inclined
- If there are several retirement or TOD/POD accounts, consider consolidation to simplify the estate planning process
  - If there are several accounts held elsewhere, consolidation makes investment planning easier (also a potential wallet share expansion opportunity)

## ADDITIONAL RESOURCES

- [What Can Go Wrong if Your Estate Plan Isn't Current?](#)
- [Add a Beneficiary on the Balance Sheet](#)
- [How to Add a Family Member Beneficiary](#)

# ④ Fiduciaries Overview

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# Fiduciaries Overview

Estate Planning | Estate Plan

## Fiduciaries Inside Taxable Estate, cont.

### Anna J. Taylor's Revocable Trust

FIDUCIARY	DATE OF DOCUMENT EXECUTION	ROLE	DESIGNATION	NOTES
Anna J. Taylor	10/1/2019	Trustee	Primary	--
David P. Taylor	10/1/2019	Trustee	First Successor	--
Florida Bank & Trust, N. A.	10/1/2019	Trustee	Second Successor	--

### Timothy P. Taylor Separate Trust Created by Anna J. Taylor's Revocable Trust

FIDUCIARY	DATE OF DOCUMENT EXECUTION	ROLE	DESIGNATION	NOTES
Florida Bank & Trust, N. A.	--	Trustee	Primary	--

### Catherine L. Brown Separate Trust Created by Anna J. Taylor's Revocable Trust

FIDUCIARY	DATE OF DOCUMENT EXECUTION	ROLE	DESIGNATION	NOTES
Florida Bank & Trust, N. A.	--	Trustee	Primary	--

### John J. Taylor Separate Trust Created by Anna J. Taylor's Revocable Trust

FIDUCIARY	DATE OF DOCUMENT EXECUTION	ROLE	DESIGNATION	NOTES
Florida Bank & Trust, N. A.	--	Trustee	Primary	--

Estate Planning | Estate Plan

## Fiduciaries Inside Taxable Estate, cont.

### Revocable Trusts and Wills

#### David P. Taylor's Will

FIDUCIARY	DATE OF DOCUMENT EXECUTION	ROLE	DESIGNATION	NOTES
Anna J. Taylor	10/1/2019	Personal Representative	Primary	--
Timothy P. Taylor	10/1/2019	Personal Representative	First Successor	--
Catherine L. Brown	10/1/2019	Personal Representative	Second Successor	--

#### Anna J. Taylor's Will

FIDUCIARY	DATE OF DOCUMENT EXECUTION	ROLE	DESIGNATION	NOTES
David P. Taylor	10/1/2019	Personal Representative	Primary	--
Timothy P. Taylor	10/1/2019	Personal Representative	First Successor	--
Catherine L. Brown	10/1/2019	Personal Representative	Second Successor	--

# Fiduciaries Overview

## KEY QUESTIONS

- Do these fiduciaries and their designations match your wishes?
- Why did you pick these fiduciaries?
- Are the fiduciaries aware of the responsibilities involved (e.g. legal, administrative, etc.)? Can they fulfill them?
- What are important characteristics for your fiduciaries to have?
- Do you still have good relationships with each fiduciary?
- Have you considered how old the fiduciaries are today as well as how old they may be in the future when needed? Does this change your view of them?
- Have you discussed your estate plan with your fiduciaries? Have you considered any potential conflicts of interest among the fiduciaries?
- Are there any changes you would like to make?

## COMMON PITFALLS/ POTENTIAL OPPORTUNITIES TO ADD FURTHER VALUE

- Documents that only have one fiduciary
  - Consider naming additional backup fiduciaries
- Consider potential conflicts of interest among the fiduciaries (i.e. there is more than one person in a role, so they have shared responsibilities)
  - E.g. If one child is chosen versus other siblings, this may result in conflict
  - E.g. in the case of an even number of decision makers, there may be a disagreement. It may make sense to have a tie-breaker role from an independent person
- Confirm with any nominated corporate fiduciary that they would accept your estate
  - E.g. Many larger banks and trust companies aren't interested in smaller estates (less than \$5 or \$10 million) and won't take them on, leaving the beneficiaries in a difficult position
- Choosing non-US fiduciaries for US assets can create tax issues/complications to deal with

## ADDITIONAL RESOURCES

- [The Advisor's Guide to Naming the Right Fiduciary Trustee for an Estate](#)
- [What Are the Different Types of Fiduciaries and How Should You Choose Them?](#)
- [Trustee Roles and Responsibilities](#)
- [Titles and Key Roles](#)
- [Estate Planning Glossary: Trustee](#)

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# Waterfall

Estate Planning

## Waterfall At death of David P. Taylor

Total Family Wealth

### \$181,300,000

BENEFICIARY OR OWNER	ADDITIONAL INFO	ESTATE UPON DEATH IN 2024		ESTATE UPON DEATH IN 2026	
<b>Anna J. Taylor</b>		\$56,500,000	31.2%	\$62,393,750	33.7%
David P. Taylor		\$10,000,000		\$11,025,000	
David P. Taylor IRA		\$2,700,000		\$2,976,750	
Anna J. Taylor's Assets	Outright	\$42,600,000		\$47,069,000	
Anna J. Taylor IRA		\$1,200,000		\$1,323,000	
<b>Anna J. Taylor's Revocable Trust</b>		\$20,000,000	11.0%	\$22,050,000	11.9%
<b>David P. Taylor's Revocable Trust</b>		\$68,300,000	37.7%	\$75,403,250	40.7%
Marital Trust		\$59,690,000		\$73,133,250	
Family Trust		\$8,610,000		\$2,270,000	
<b>The 2012 Taylor Family Trust</b>		\$15,000,000	8.3%	\$16,537,500	8.9%
<b>Donor Advised Fund</b>		\$1,000,000	0.6%	\$1,000,000	0.5%
Share of David P. Taylor's Revocable Trust		\$1,000,000		\$1,000,000	
<b>Pot Trust</b>		\$20,500,000	11.3%	\$8,000,000	4.3%
David P. Taylor's ILIT	Remains in Trust	\$20,500,000		\$8,000,000	
<b>Totals</b>		<b>\$181,300,000</b>		<b>\$185,384,500</b>	

### KEY QUESTIONS

- If projections show you are switching from a non-taxable to taxable estate in the future, this is a good conversation to have with your client. This is especially relevant in the context of the sunset in 2026.
- Are these beneficiaries and amounts per your wishes?
- Walk the client through any federal and/or state estate taxes after the passing of the first spouse, and subsequently after the passing of the second spouse.
- Did you use any federal/state/GST exemptions we have not tracked yet?
- Does the Deceased Spouse's Unused Exemption (DSUE) apply?
- Are there any specific assets that you want to leave to certain beneficiaries, such as a home?
- Have you discussed what each beneficiary will be receiving in the future?
- Are there any special needs or circumstances that require additional planning?
- Are you interested in, or have you committed to any charitable legacies at your death?

# Waterfall

## COMMON PITFALLS/ POTENTIAL OPPORTUNITIES TO ADD FURTHER VALUE

- If projections illustrate potential estate taxes, additional planning may be appropriate today to move assets outside the taxable estate
- “Additional Info” column - highlight the “flavor” of distribution
  - E.g. “Remains in Trust” designation → are there distributions at specific ages? Note that this may be called out within the provision notes of estate plan diagrams. Does this match their wishes?
- Are any assets subject to intestacy? If not, this is a call out to consider dispositive documents

## ADDITIONAL RESOURCES

- [How to Use First to Pass](#)
- [Federal Estate Tax in Vanilla](#)

# ⑥ Transfer Taxes

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# Transfer Taxes

Estate Planning

## Estimated Transfer Tax At death of David P. Taylor

TAYLOR FAMILY ESTATE	ESTATE UPON DEATH IN 2024	ESTATE UPON DEATH IN 2026
<b>Assets Inside of Taxable Estate</b>	\$85,750,000	\$94,590,625
State Estate Tax	\$0	\$0
Charitable Gifts	\$1,000,000	\$1,000,000
Spousal Gifts	\$76,140,000	\$91,320,625
<b>Taxable Estate Less State Estate Tax &amp; Charitable Gifts &amp; Spousal Gifts</b>	\$8,610,000	\$2,270,000
Remaining Federal Lifetime Exemption	\$8,610,000	\$2,270,000
Federal Taxable Estate	\$0	\$0
Federal Estate Tax Rate	40%	40%
Federal Estate Tax	\$0	\$0
<b>Total Estimated Transfer Taxes</b>	\$0	\$0
<b>Net Assets Inside Taxable Estate to Beneficiaries</b>	\$84,750,000	\$93,590,625
<b>Net Assets Outside of Taxable Estate to Beneficiaries</b>	\$35,500,000	\$24,537,500
<b>Total to Non-charitable Beneficiaries</b>	\$120,250,000	\$118,128,125
<b>Total to Charities</b>	\$1,000,000	\$1,000,000

State of Residency: Washington | Client Exemption Used: \$5,000,000 | Co-Client Exemption Used: \$5,000,000 | Growth Rate: 5% | Client Year of Death: 2026 | Spouse Year of Death: 2040

### KEY QUESTIONS

- This slide may be best received by more analytical clients. Explain how estate tax is calculated and what the federal/state exemption amounts are
  - Does your client understand (or wish to understand) how taxes are calculated?
- If you are showing projections and they indicate that the client is switching from a non-taxable to a taxable estate in the future:
  - Review whether any estate planning needs to be implemented before the change occurs
  - Discuss any potential future federal and/or state estate taxes that might be incurred

# Transfer Taxes

## COMMON PITFALLS/ POTENTIAL OPPORTUNITIES TO ADD FURTHER VALUE

- This is an opportunity to talk about your overall planning strategy. Are estate taxes an issue today or in the future (ie. post 2026 sunset)? Are there taxes at first death and/ or second death?
- In particular, you can discuss deferral-based vs. avoidance-based planning:
  - Deferral-based planning aims to delay the payment of estate taxes until the death of the surviving spouse by utilizing the unlimited marital deduction. This is represented by the Spousal Gifts row, where assets are transferred to the surviving spouse at first death. However, no federal estate taxes are due at this time and are instead deferred until the death of the surviving spouse. Common strategies include outright transfers to the surviving spouse and transfers to a marital trust. Since the surviving spouse also inherits any unused federal exemption through portability, a deferral based strategy can often significantly reduce, or even eliminate, federal estate taxes at second death.
  - Avoidance-based planning aims to reduce or eliminate estate taxes so that assets (and future growth on those assets) are not part of the taxable estate at the time of death. Examples include 1) an outright gift to a recipient utilizing the annual exclusion 2) gifting to charity during your lifetime or at death 3) utilizing irrevocable trusts to transfer assets (and future growth on those assets) outside the taxable estate
- Discussion topic: State estate tax on second death. Many states don't have portability, so avoidance-based planning (using a state exemption bypass trust) can be more effective than only deferral-based planning.
  - Only two states - Maryland and Hawaii - have portability. This allows the first to die to transfer the state estate tax exemption (if not used) to the surviving spouse, just like they can for deferral-based planning using the federal exemption.
- However, for clients who live outside Maryland and Hawaii and have state estate tax obligations:
  - Deferral still works to avoid estate tax at first death, as you are delaying the payment of estate tax, using the federal and state unlimited marital deduction. However, unlike federally, the first to die loses the state estate tax exemption without additional planning, since there's no way for the surviving spouse to inherit the unused exemption, like they can federally.
  - Example: clients live in WA state. First spouse dies and leaves everything to the surviving spouse. The household has a net worth of \$10M. First to die has a taxable estate of \$5M. There is no state estate tax at first death as everything is covered by the unlimited marital deduction, but first to die's \$2.193M WA estate tax exemption is lost as WA does not have portability. When the surviving spouse subsequently dies, the full \$10M is now subject to WA estate tax and only second to die's WA exemption can be used to offset this value from tax.
  - By adding avoidance based planning with a bypass trust, and using our same facts from above, first to die would leave \$2.193M in a bypass trust and the excess of \$2.807M covered by the federal and state unlimited marital deduction. Still no tax at first death, but now when the surviving spouse dies, their taxable estate is only \$7.807M as the \$2.193M in the bypass trust is excluded from any further estate tax. Clients removed this value of \$2.193M and any appreciation on it from further estate tax by using first to die's exemption at first death.

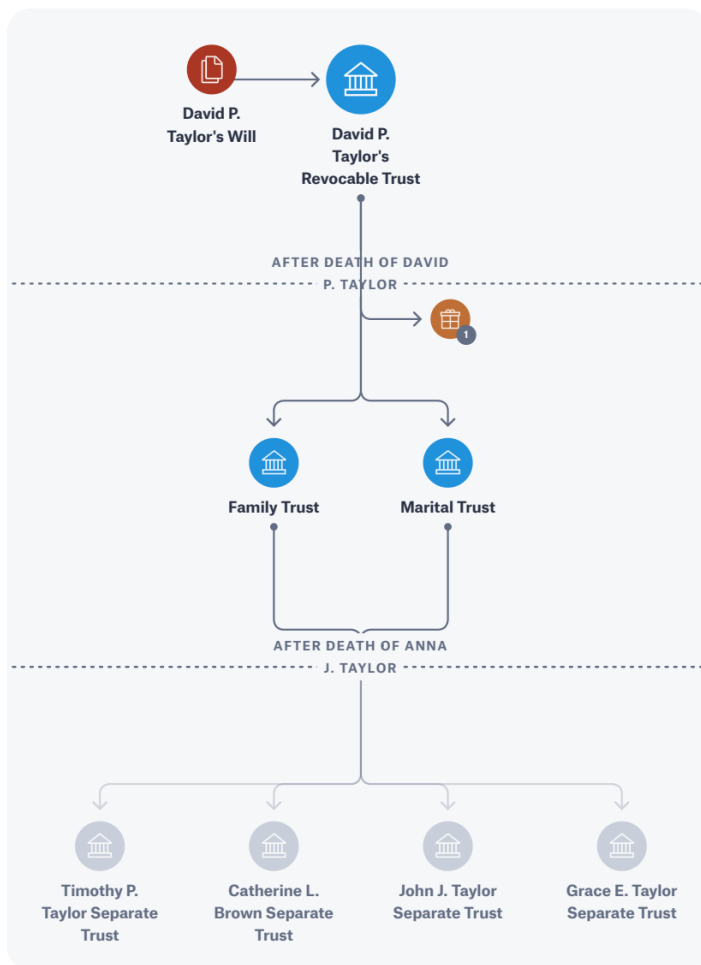
### ADDITIONAL RESOURCES

- [Review the Knowledge Base article on Transfer Tax Detail](#)
- [Review the Knowledge Base article on State Estate Taxes](#)
- [Transfer Tax Detail](#)

# ⑦ Estate Diagram

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# Estate Diagram



## KEY QUESTIONS

- Walk through the flow of assets from the first passing and subsequently the second passing (assuming a client and spouse relationship setup).
- What are your intentions for when your spouse passes? Does your plan match your intentions?
- Do you want to control distributions at your spouse's death?
  - If there is an outright distribution to the spouse, is it clear the surviving spouse can do anything with the assets at first death? This is different from a trust structure, which can accommodate more control over what happens after death of spouse while still providing for spouse
- Opportunity to discuss potential trust structures. For example, we commonly see a Marital Trust/ Bypass Trust or Survivors Trust. If planning was done differently, revisit why it was originally structured a certain way
  - Has your client considered or implemented the creation of sub-trusts at first death, such as a marital/bypass trust? Discuss the pros and cons of different trust structures (access to income, principal, control and flexibility, costs)
- Discretionary versus mandatory distributions
  - Discretionary means the Trustee(s) has the discretion to decide whether or not to make distributions to beneficiaries (if so, they decide how much and when). These decisions are guided by the terms of the trust.
  - Mandatory means the Trustee(s) administer distributions that are specifically outlined in the Trust document. Certain amounts must be distributed based on defined times or milestones.
- If particular ages are specified in dispositive documents for beneficiaries before receiving access to assets, is this still according to your wishes?

# Estate Diagram

## COMMON PITFALLS/ POTENTIAL OPPORTUNITIES TO ADD FURTHER VALUE

- Opportunity: A hypothetical Marital/Bypass structure can minimize estate taxes by moving assets outside of the estate after the first death. The appreciation is not subject to estate taxes at second death.
- Discuss the 2026 sunset (if potentially triggers future estate taxes)
  - Based on your current net worth level, your assets may grow past the 2026 sunset exemption amounts. Consider planning for this scenario (see the SLATs section for more information).
  - Opportunity to set up loved ones to pay less taxes in the future
- Portability - see the Transfer Taxes section for more details on state estate taxes

## ADDITIONAL RESOURCES

- [What is a Trust, and What are the Different Types of Trusts](#)
- [Types of Trusts](#)
- [Types of Wills and Trusts](#)
- [Estate Planning: Advanced Strategies](#)
- [General Terms](#)
- [A Guide to Trusts for Estate Planning](#)

# ⑧ Advanced Strategies

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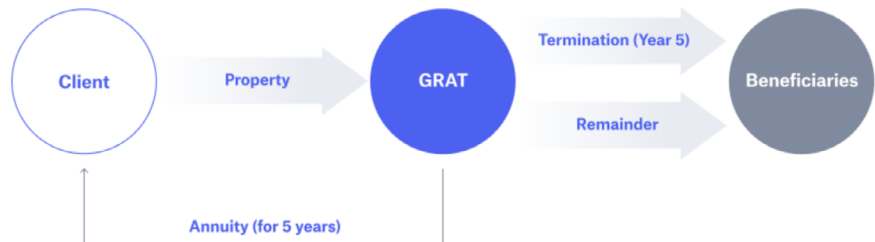
# Advanced Strategies: GRATs

## 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 outlives 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)

Assumes 5 year zeroed out GRAT (taxable gift \$33.91, Section 7520 rate of 4.6%) funded with a \$5m asset with 10% growth.

Example Illustration

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
<b>Total Payments to Grantor</b>					\$5,710,631
<b>Remainder to Heirs</b>					\$3,942,354
<b>Total</b>					\$9,652,985

### BEFORE IMPLEMENTING A NEW GRAT

- Are you a good candidate for this strategy?
- Are you utilizing the best suited assets for the GRAT strategy? (e.g. highly volatile, easy to value, concentrated positions, etc.)
- Have you considered a zeroed out GRAT?
  - The GRAT is structured so that there is no taxable gift. In other words, the present value of the annuity payments back to the grantor equals the value that is transferred to the GRAT. This can be a good idea if you've used your exemption for other gifts and don't have any left.
- What are the benefits of adding a GRAT to an estate planning strategy?
  - Adding a GRAT to an estate planning strategy offers several benefits, including minimizing gift taxes, transferring assets to beneficiaries with reduced tax consequences, achieving growth on assets outside of the estate, and providing a mechanism for asset protection and distribution according to the grantor's wishes.

# Advanced Strategies: GRATs

## IF YOU HAVE AN EXISTING GRAT IN PLACE

- Is the GRAT successful today?
- Have you considered swapping assets? This can potentially improve the performance (swapping for assets with higher potential growth).
- Administration issues - who is responsible?
  - Who is making annuity payments on time?
  - Are you on the same page regarding how the calculations are made? E.g. end of day pricing vs. average of High/Low prices

## COMMON PITFALLS/ POTENTIAL OPPORTUNITIES TO ADD FURTHER VALUE

- Managing the cost basis - when does it make sense to swap in high vs low basis assets?
- Think about liquidity of assets relative to the mandatory annuity payments

## ADDITIONAL RESOURCES

- [Grantor Trust vs Non-Grantor Trust: What's the Difference?](#)
- [Beneficiary Deemed Owner Trust \(BDOT\): What You Need to Know](#)
- [Using Legacy Planning Calculators](#)
- [Scenarios: How to add a GRAT](#)



# Advanced Strategies: SLATs

## Spousal Lifetime Access Trust

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

Assumes (1) \$30M total assets in 2024 with 6% growth per year until 2040. (2) Married couple with full remaining exemption (\$27.22M in 2024). (3) Exemption sunsets in 2026 to \$7.27M and inflates 2% per year thereafter.

Example Illustration



	2024	2026	2030	2040
<b>Without SLATs</b>				
Total Assets	\$30,000,000	\$35,730,480	\$45,108,908	\$80,783,184
Federal Exemption	\$27,220,000	\$14,540,000	\$14,721,077	\$17,944,911
Assets Subject to Estate Tax	\$4,160,000	\$22,130,480	\$30,387,830	\$62,838,272
Estate Federal Tax Liability	\$1,664,000	\$8,852,192	\$12,155,132	\$25,135,309
Net-to-heirs	\$28,336,000	\$26,878,288	\$32,953,776	\$55,647,875
<b>With SLATs</b>				
Total Assets	\$30,000,000	\$35,730,480	\$45,108,908	\$80,783,184
SLAT for Client	\$13,610,000	\$15,387,927	\$19,426,903	\$34,790,625
SLAT for Spouse	\$13,610,000	\$15,387,927	\$19,426,903	\$34,790,625
Assets Subject to Estate Tax	\$4,160,000	\$4,954,627	\$6,255,102	\$11,201,935
Estate Federal Tax Liability	\$1,664,000	\$1,981,851	\$2,502,041	\$4,480,774
Net-to-heirs	\$28,336,000	\$33,748,629	\$42,606,867	\$76,302,410
<b>Tax Savings</b>	<b>\$0</b>	<b>\$6,870,341</b>	<b>\$9,653,091</b>	<b>\$20,654,535</b>

### BEFORE IMPLEMENTING A NEW SLAT

- Are you a good candidate for this strategy?
- Are you legally married? Is it a stable marriage? (see pitfalls below)
  - If you end up in a divorce, review the following with an attorney:
    - Whether the divorced spouse remains a beneficiary of the trust, depending on the document language
    - Whether the client retains access
- Do you have potential estate tax exposure based on current and/or future laws?
- Are you utilizing the best suited assets for the SLAT?
- If you are using a grantor SLAT, have you considered a sale to the SLAT in exchange for a promissory note? This is also known as a sale to an Intentionally Defective Grantor Trust (IDGT). See the next section for more details.

### IF YOU HAVE AN EXISTING SLAT IN PLACE

- Does your existing SLAT have the key divorce provisions you are comfortable with?

# Advanced Strategies: SLATs

## COMMON PITFALLS/ POTENTIAL OPPORTUNITIES TO ADD FURTHER VALUE

- Have a conversation with your client about what happens if you were to get divorced in the future.
  - Are you comfortable with the current divorce provisions? Speak to your attorney
- By creating and funding a SLAT now, you are potentially using your exemption now, which could be meaningful if the exemption drops due to future estate tax laws. For example, assuming the 2026 sunset does occur, the Federal exemption is set to decrease from \$13.61M per person to ~\$7M per person. Without proper planning, wealth exceeding this lower exemption could face a 40% Federal estate tax. This is also known as a “use it or lose it” approach. The strategy is meant to maximize current tax benefits in anticipation of future estate tax law changes. Assets in a SLAT, along with the future appreciation of those assets, are removed from your client’s taxable estate.
- Reciprocal Trust Doctrine:
  - If you are creating a new set of SLATs, is your attorney structuring the dual SLATs to be unique enough to meet legal requirements?
  - If you have existing SLATs in place, has your attorney confirmed if the SLATs are unique enough to meet the legal requirements?

## ADDITIONAL RESOURCES

- [Estate Planning Glossary: SLAT](#)
- [How Do You Bake Some Flexibility into Preparing for the Sunset?](#)
- [What is a Spousal Lifetime Access Trust \(SLAT\), and How Does it Work?](#)
- [What are Some Things You Need to be Careful of with a SLAT?](#)
- [Using Legacy Planning Calculators](#)
- [Scenarios: How to add a SLAT](#)

# Advanced Strategies: Sale to an Intentionally Defective Grantor Trust (IDGT)

## KEY QUESTIONS

- If you are using a grantor SLAT, have you considered a sale to the SLAT in exchange for a promissory note? This is also known as a sale to an Intentionally Defective Grantor Trust (IDGT).
- A sale can offer access in the future for the donor spouse from interest payments. And, through repayment of the loan, the donor spouse can receive their principal back.
  - Suppose that Gary sets up a SLAT for the benefit of his wife, Marie. Gary gifts seed money of \$1M into the SLAT. Gary then sells to the SLAT assets worth \$9M in exchange for a promissory note. The promissory note requires the trustee to make interest or interest and principal payments back to Gary at regular intervals with the remaining principal being due at a certain time as outlined in the promissory note. This gives Gary a regular stream of income back on account of the interest payments, and the utmost flexibility in that he can receive the \$9M of principal back as well.
- Sale of Apple stock example
  - Same example as above, except Gary sells his Apple stock valued at \$9M to the SLAT. Gary thinks the stock is going to appreciate rapidly in the coming years. Same situation as above where Gary gifts seed money into the SLAT, and then sells the Apple stock to the trustee of the SLAT in exchange for a promissory note. Gary gets interest payments back and will receive the \$9M principal back as well. However, any appreciation on the Apple stock is now occurring outside of Gary's taxable estate and is removed from any future estate tax. So, if hypothetically speaking, the Apple stock tripled in value during the term of the promissory note, the SLAT would have \$18M of appreciation removed from estate taxes (\$9M original value times 3x appreciation = \$27M value less \$9M loan repayment = \$18M appreciation outside estate).
- It can also be used for a "wait and see" approach to finalizing the gift to the SLAT. If it appears the exemption may be reduced, the donor spouse can forgive the note. This essentially finalizes the gift and reduces the administrative burden.
  - Using our same facts, Gary gifts the seed money to the SLAT and sells the \$9M of assets to the trustee of the SLAT in exchange for a promissory note. At the time Gary does this, the federal exemption is \$13.61M and he has his full exemption remaining. The new administration that gets elected into office, decides they are going to reduce the estate tax exemption to \$5M. Before the exemption is reduced, Gary can forgive the repayment of the note by simply telling the trustee that it no longer needs to be repaid. This becomes a gift and uses \$9M of Gary's exemption before the reduced exemption takes effect.
- A SLAT is often structured as a grantor trust. The grantor is responsible for paying the income taxes. This means that the SLAT assets are allowed to grow without being reduced by income taxes owed, and it also allows for the sale to the SLAT opportunities discussed above.

## ADDITIONAL RESOURCES

- [Using Legacy Planning Calculators](#)

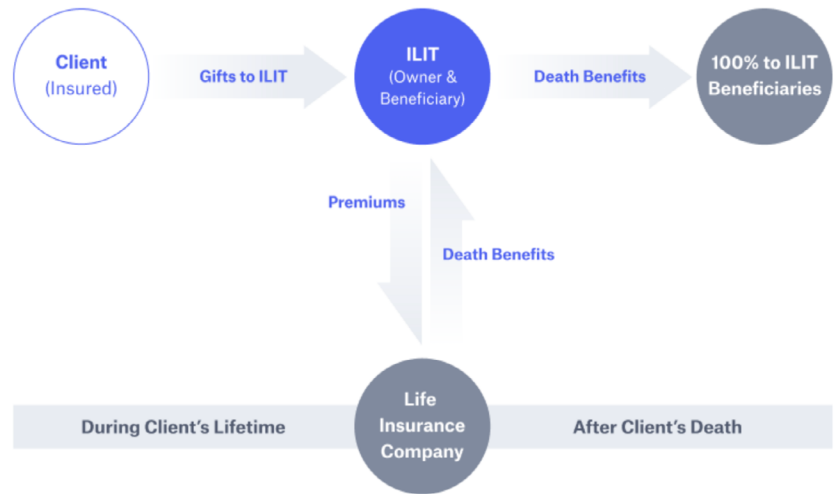
# Advanced Strategies: ILITs

## 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



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

EXAMPLE ILLUSTRATION

### BEFORE IMPLEMENTING A NEW ILIT

- Are you a good candidate for this strategy?
- Are you insurable? Are you considering purchasing new life insurance?
- Discuss potential liquidity considerations to avoid inopportune sale of illiquid assets.
- For a married couple, when do you want the death benefit proceeds to flow into the ILIT? For estate tax purposes with a traditional, non-blended family set up and A/B planning for example, taxes and liquidity needs typically occur at the second death. Therefore, a second to die policy often makes sense. If it's a blended family situation or one spouse is significantly younger than the other, a single life policy may make more sense to provide funds for children sooner than waiting for the surviving spouse to pass away.
- How are you going to get the policy into an ILIT? If it requires a new policy, are you insurable? Or, do you have cash/other assets to fund the ILIT if the ILIT is going to buy a new policy on you or buy an existing policy from you?
- If moving an existing life insurance policy into an ILIT, confirm whether you may need access to the cash value in the policy. Make sure a cash reserve is accessible elsewhere or through a different life insurance policy, especially during retirement years for living expenses that may arise.

# Advanced Strategies: ILITs

## IF YOU HAVE AN EXISTING ILIT IN PLACE

- Are there any assets or life insurance policies in the ILIT? Have you funded the ILIT you created?
- Administration issues - who is responsible for paying the premiums on any policies held in the ILIT and ensuring the policies remain in force?
- When was the ILIT set up? When was the policy added?
- Ask attorney: Does it authorize the ILIT fiduciary to deal with other fiduciaries without court approval? Review the authority of distributing assets according to the trust terms.
- Review who is listed as the beneficiary of the life insurance policy. For an ILIT owned policy, the beneficiary of the policy should also be the ILIT.
- Check in on the health of the insurance policy. How viable is it? Does it make sense to do an exchange?

## COMMON PITFALLS/ POTENTIAL OPPORTUNITIES TO ADD FURTHER VALUE

- Failing to complete Crummey letters - speak to your lawyer about the choice of fiduciary (e.g. corporate vs. individual trustee). Crummey letters ensure that beneficiaries are notified of their rights to withdraw gifts. This ensures that contributions to the trust qualify for the annual gift tax exclusion
- Opportunity to implement an ILIT: A common scenario is that a person has a life insurance policy but doesn't have an ILIT in place. The ILIT would be the owner and the beneficiary of the policy.
- Three year survival rule - if you gift a life insurance policy into an ILIT and die within three years of the transfer, the proceeds from the life insurance policy are included back in your taxable estate
- Premium financing - this is a leverage strategy to borrow money to cover the premium costs. This allows you to invest assets elsewhere and potentially earn a higher return.

## ADDITIONAL RESOURCES

- [Estate Planning Glossary: ILIT](#)
- [Scenarios: How to add an ILIT](#)
- [Why is Life Insurance Important for Liquidity in Estate Planning?](#)