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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

SCOTT FAMILY

Estate Planning Example

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FACTS OF THE CASE

- Taxable Estate
- Do not like to pay taxes
- Inflated land value because of development potential
- Parents trust and respect their children
- Parents have alternative sources of retirement cash flow, willing to give up land rent to children
- Family is capable of understanding complex tax planning
- Family was willing to let us stay with them through the plan until transfer is complete

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EXPLANATION OF IDIT

- Intentionally Defective Irrevocable Trust (IDIT)
- Irrevocable trust that is considered a grantor trust
- Grantor trust as long as defective provisions are in place
 1. Right of grantor to replace property with other property of equal value
 2. Appoint special trustee and grant them powers to revoke the grantor trust status
- Grantor reports income from trust and pays the income tax
- Trust is disregarded for transactions between trust and grantor
- For federal estate and Gift tax law the property in the trust is not included in the grantor's estate

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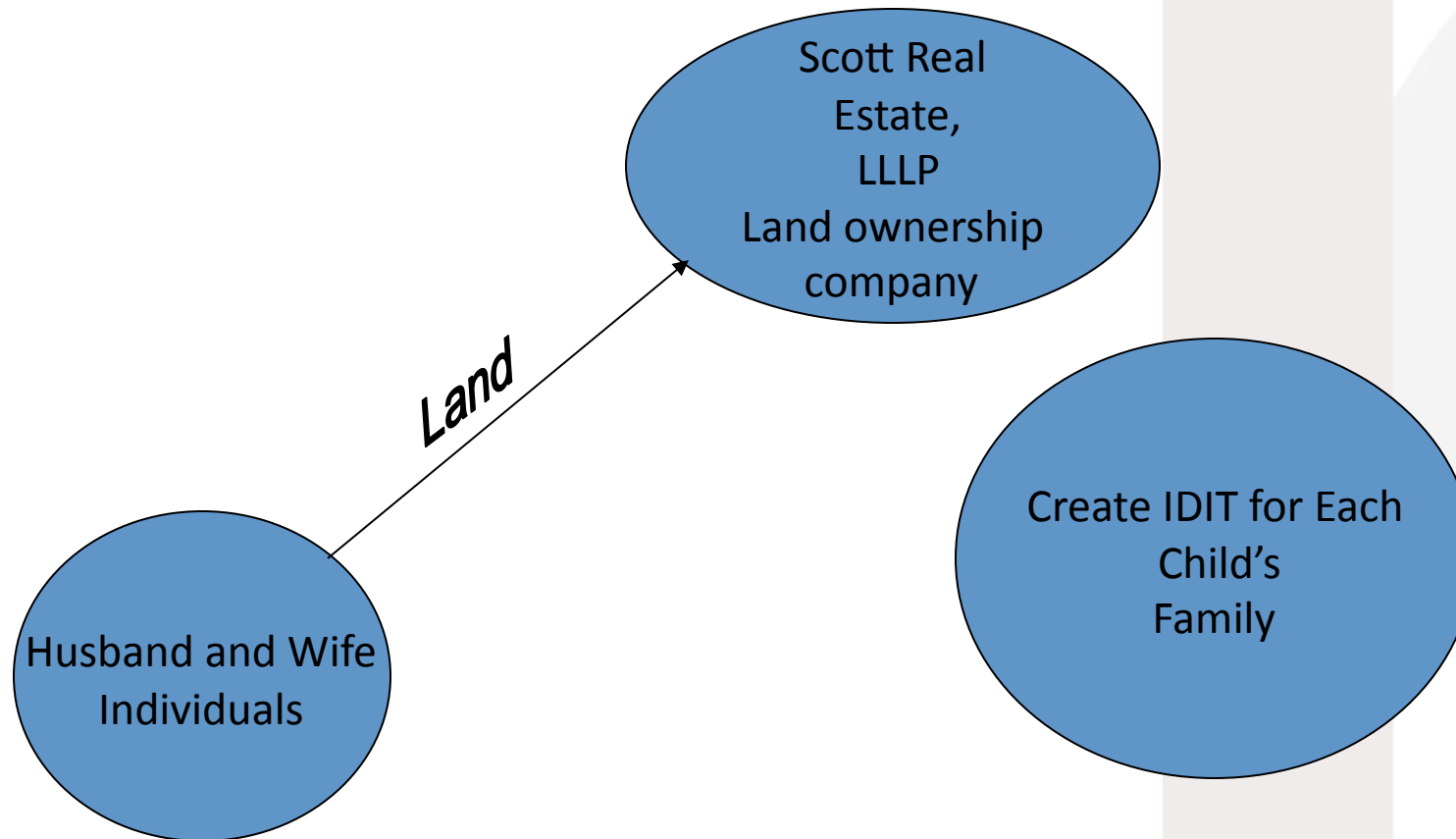
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EXPLANATION OF IDIT

- The grantor paying the income taxes on trust income is like making a tax-free gift (over and above the annual exclusion gifts you show) every year. This is A powerful aspect of the IDIT approach. It's not only an estate freeze, it's an estate "shrinker".
- "Seed money" of at least 10% of the partnership interest purchase price needs to be funded to the trusts before the sale.

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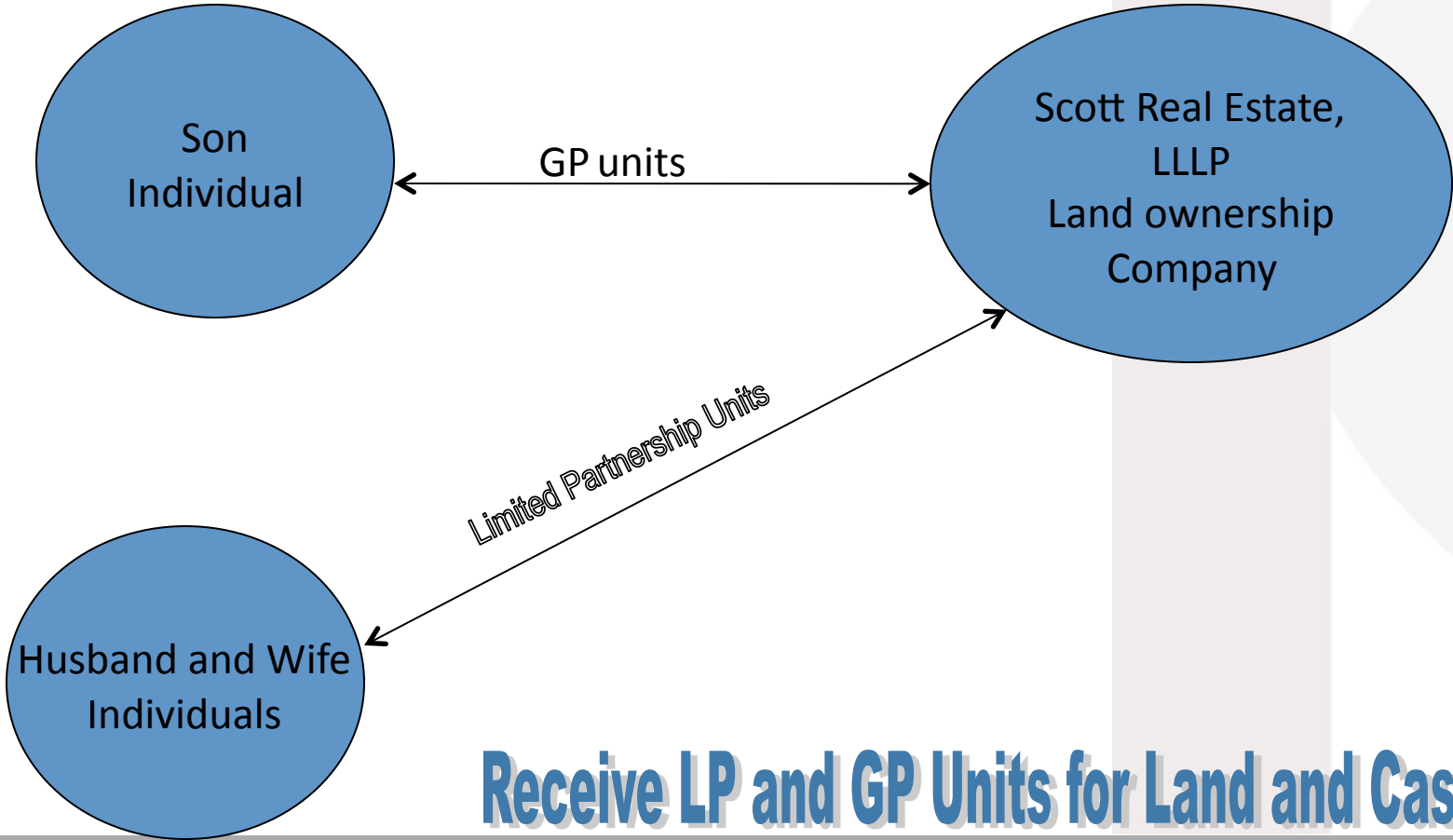


Contribute Land to LP and Create IDITS



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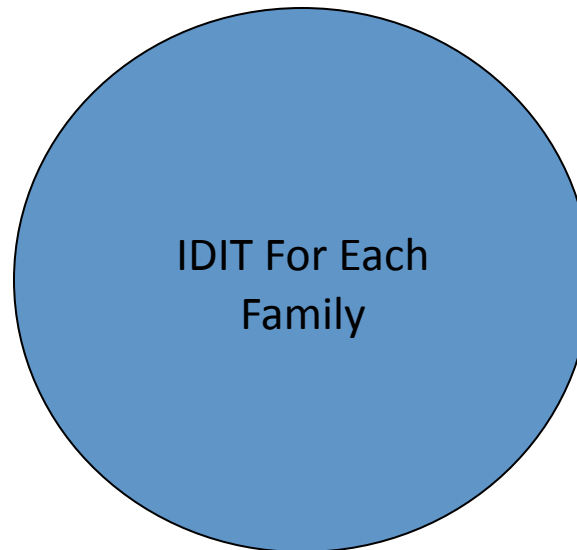


Receive LP and GP Units for Land and Cash



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Create IDIT for Son & Daughter



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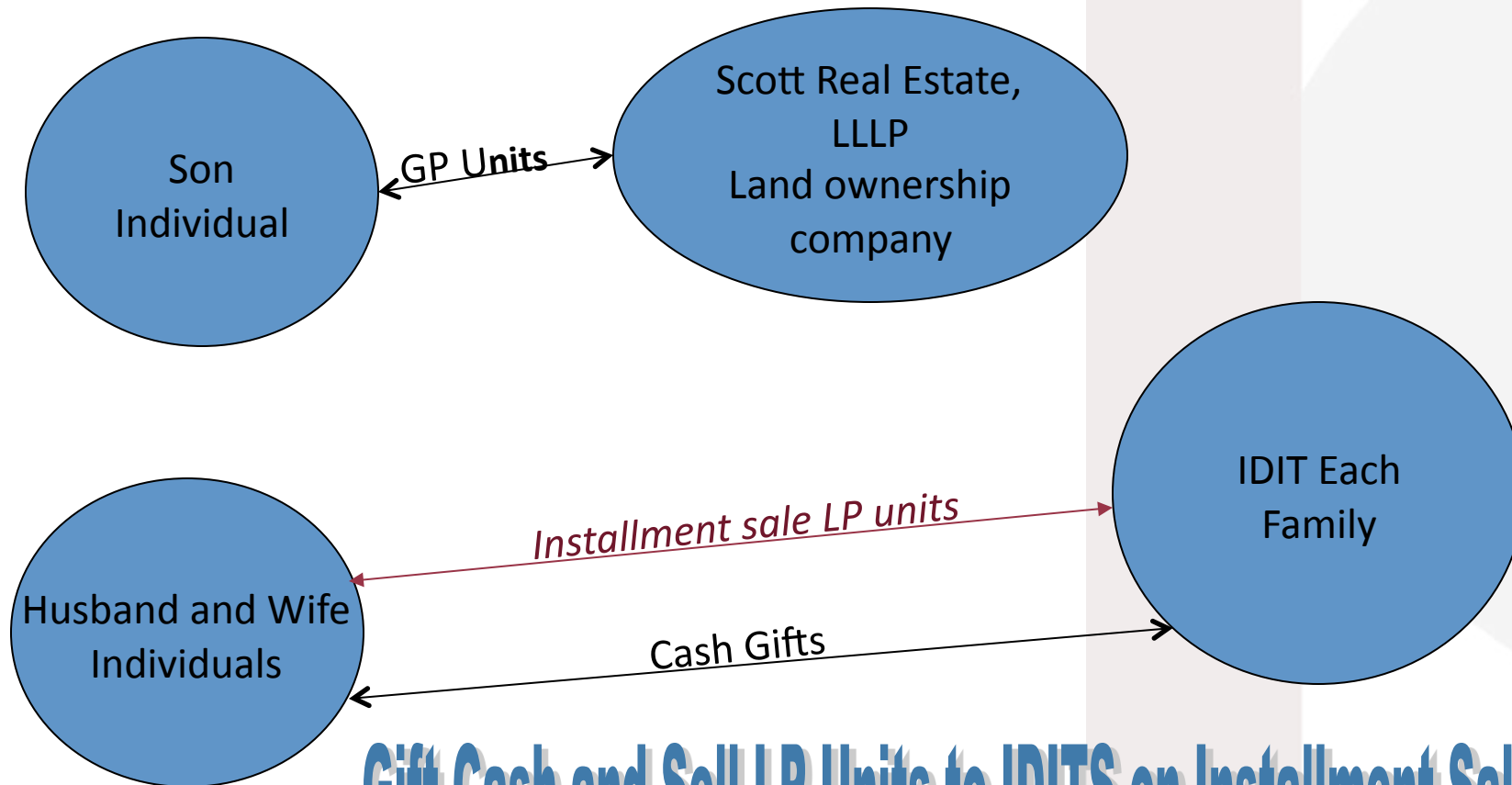
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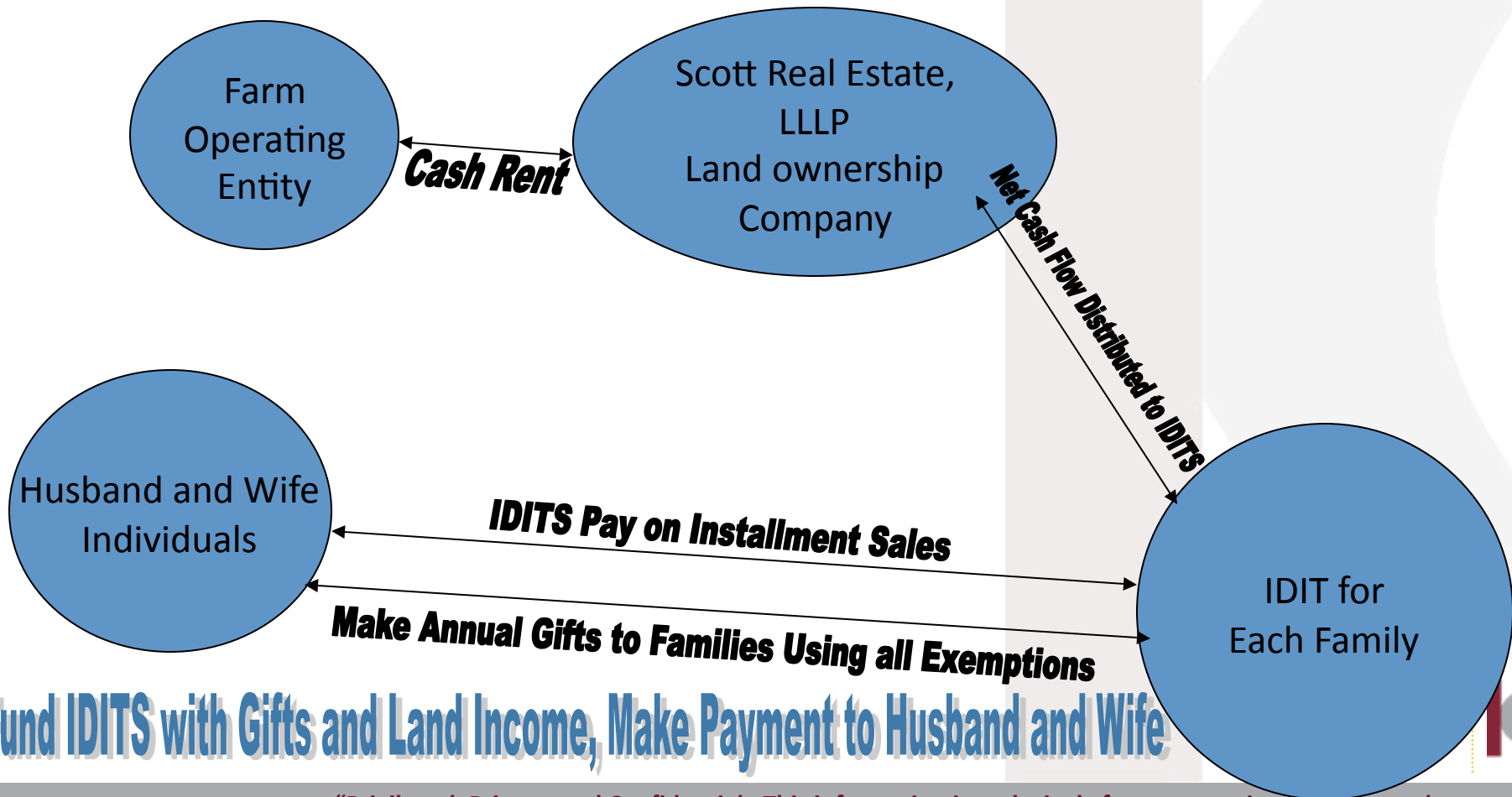


Gift Cash and Sell LP Units to IDITS on Installment Sale



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Advantages

- Freezes value of land
- Plan requires only one valuation by appraiser
- Utilizes all annual exclusions of family
- Reduces estate tax
- Growth of assets out of estate tax law
- Protects assets from creditors
- Plan completed by 2012



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Disadvantages

- More tax returns to file, partnership and trusts
- Pay attorney's, accountants and appraisers
- Formal family structure
- Eventually cash flow goes to benefit beneficiaries of trusts not parents, must provide for alternative source of funds for parents



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Husband and Wife

Revocable Trust Diagram

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Explanation of Revocable Trust

- Grantor Trust
- Property can be sold, given away, retitled during lifetime of grantor, trust can be revoked
- Grantor reports all income on assets
- Title all assets in name of trust
- Grantor trust becomes the main vehicle to leave assets to heirs

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ASSETS

NOTES RECEIVABLE
RESIDENCE
BANK ACCOUNT
VEHICLE
PARTNERSHIPS
CORPORATION STOCK

ESTIMATED VALUE \$??????????

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ASSET STRUCTURE

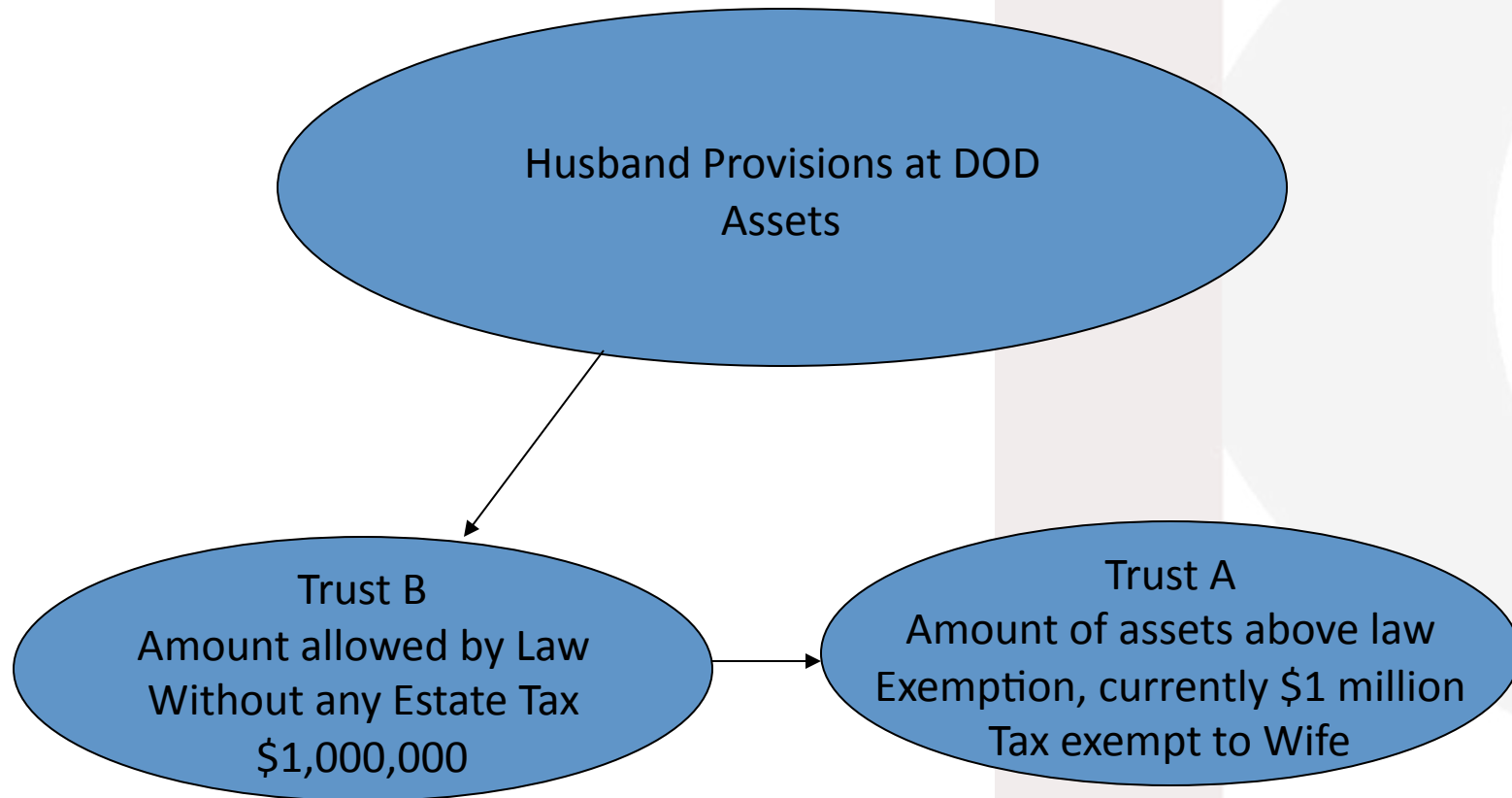
Husband's Trust No 1
Husband and Wife Trustees
One-half assets
\$???????

Wife's Trust No 1
Wife and Husband Trustees
One-half assets
\$???????



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TRUST PROVISIONS



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TRUST B PROVISIONS

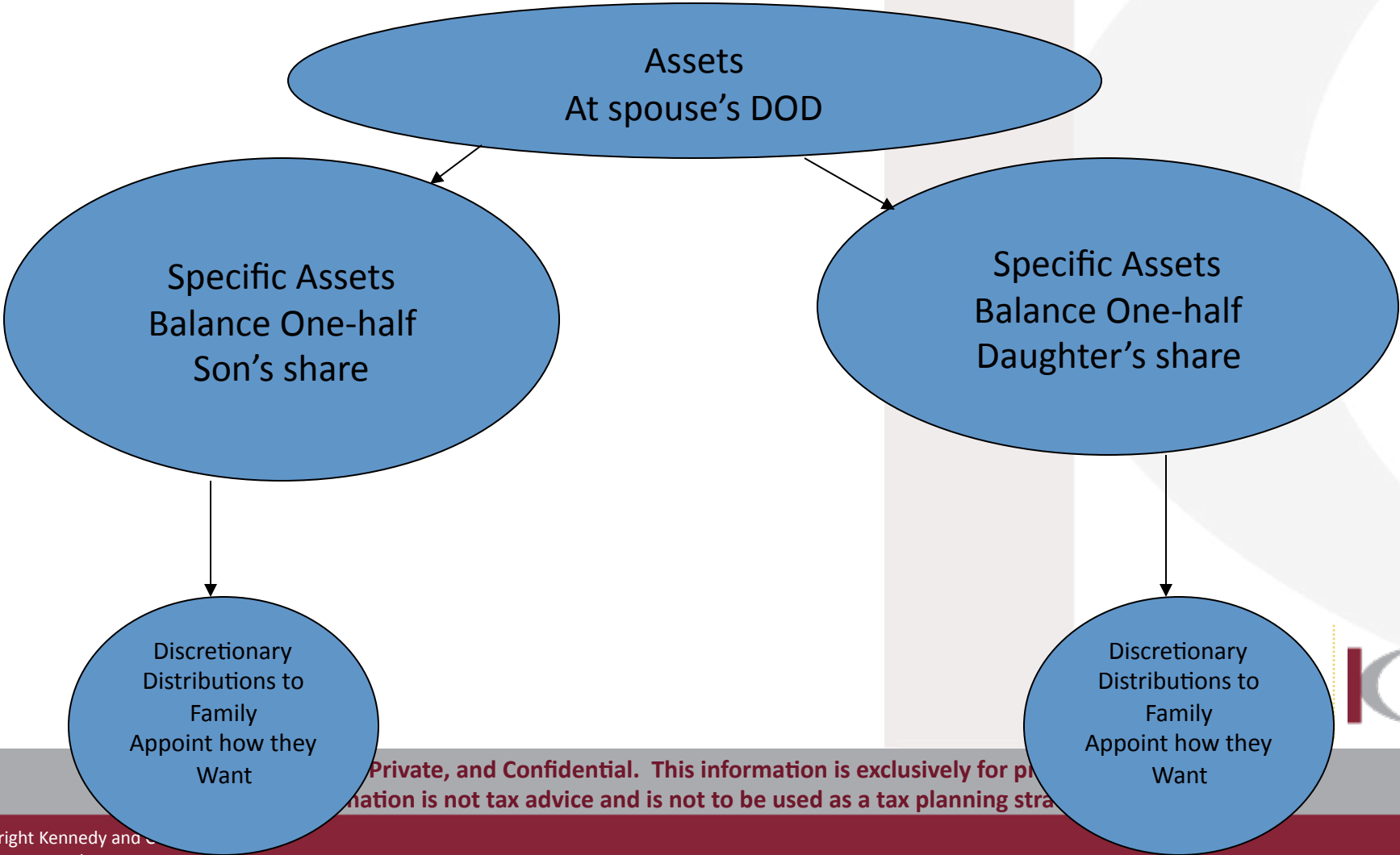
Assets

Family Trustees – Wife and Child
Independent Trustee – selected by Wife and Child
Beneficiaries are discretionary – Wife, children and
Grandchildren (spouses not included)
Wife while living has a limited power of appointment
Limited appointment is to children or children's family



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TRUST B PROVISIONS CONT'D



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TRUST A PROVISIONS

Assets in excess of exemption, \$1,000,000
Tax exempt to Spouse

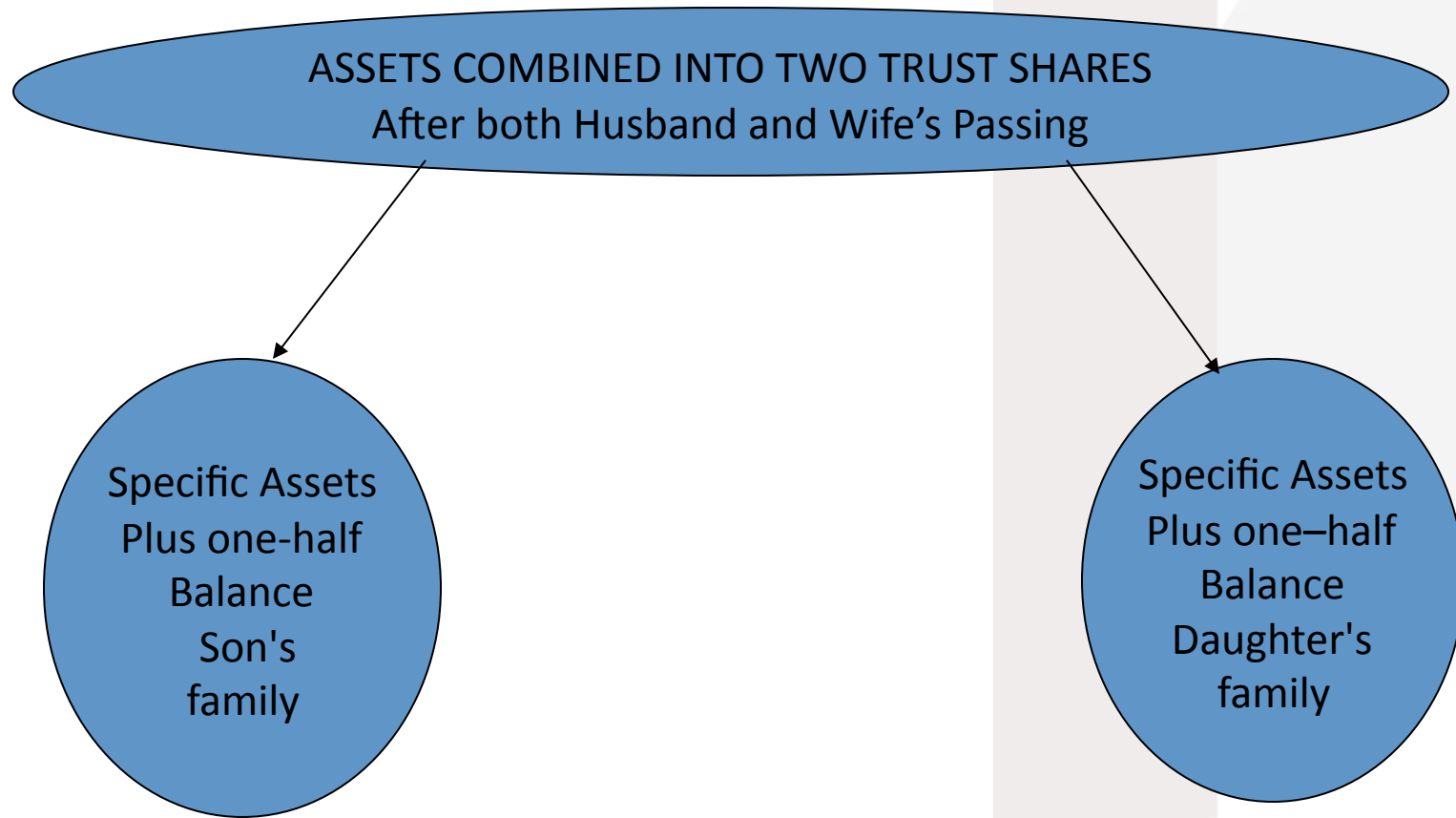
Trustees the same as B
Required to disburse income annually or principal to Spouse upon
Her request

Assets included in Spouse's estate
If assets are in Trust A at Spouse's death they are added
To Trust B



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SUMMARY OF HUSBAND AND WIFE'S TRUSTS



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Explanation of Revocable Trust

Advantages

1. No probate
2. Administratively less expensive at death
3. No public knowledge of estate

Disadvantages

1. Initial cost more than a simple will
2. More formal way to do business
3. Like going through a mini-probate proceeding to create and fund

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METHODS OF TRANSFER

- Bank account, by signing new signature card with trust name on it
- Certificate of deposit, by changing name or attaching stock or bond power
- Stock certificates, by changing name by transfer agent or attaching stock or bond power. If several stocks set up a street account with a broker and put all stocks in the account that is titled in the trust name, all street account assets will then be in the trust
- Bonds, same as stock certificates



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METHODS OF TRANSFER CONTINUED

- Brokerage or commodity accounts, name change on the account
- Real estate, prepare new deed to title in name of trust
- Royalties and working interests, send copy of recorded land or mineral deed to oil company asking them to prepare new division orders in name of trust

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METHODS OF TRANSFER CONTINUED

- Retirement accounts, name cannot be changed, beneficiary should normally be spouse and contingent beneficiary the trust
- US Treasury Securities, name change to the trust by sending the request to government
- Life insurance, ownership of insurance and beneficiary normally changed to trust ownership and trust beneficiary, request changes from insurance company
- Vehicles, change title to the trust
- Non title assets, use a miscellaneous bill of sale to transfer to trust, example cattle, farm equip, etc.



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