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ADVANCED ESTATE PLANNING TOPICS

You've worked hard your whole life to provide for your family and make your loved ones more secure. Without advanced estate planning strategies, much of the significant assets you have accumulated may end up with the IRS and state taxing authorities.

Our firm regularly assists successful families with such sophisticated planning strategies as Family Limited Partnerships or Limited Liability Companies, Personal Residence Trusts, Irrevocable Life Insurance Trust, Dynasty Trusts and a wide range of charitable gifting techniques to reduce Federal Estate Taxes, Gift Taxes and Generation Skipping Transfer Taxes.

Family Limited Partnerships
A Family Limited Partnership (FLP) is a form of a limited partnership among members of a family. The main advantages of forming and funding an FLP involve estate and gift tax savings and asset protection. An FLP also allows you to retain control over the transferred assets while enjoying these advantages.

Once the FLP is established and your assets are transferred to it, you can make gifts of limited partnership interests to your children or other beneficiaries. This accomplishes several different estate planning objectives simultaneously.

First, the value of each limited partnership interest which you give away decreases the value of your taxable estate and, consequently, any tax which your heirs would have to pay upon your death. The gifts are made using the annual gift tax exclusion, so you do not have to pay any gift tax on the transfer.

Second, the value of the partnership interests transferred to your beneficiaries is far less than the corresponding value of the assets in the partnership. Since limited partners do not have the ability to direct or control the day-to-day operation of the partnership, a minority discount can be applied to reduce the value of the limited partnership interests which you are gifting. Furthermore, because the partnership is a closely-held entity and not publicly-traded, a discount can be applied based upon the lack of marketability of the limited partnership interest. This allows you to leverage the FLP as a vehicle to transfer more wealth to your beneficiaries, while retaining control of the underlying assets. Lastly, a properly-structured FLP can have creditor protection characteristics since the general partners are not obligated to distribute earnings of the partnership.

Dynasty – Wealth Protection Trusts
A Dynasty Trust is an irrevocable trust that leverages a person's estate, gift and generation-skipping transfer tax exemptions for as many generations as applicable state law permits. Whereas most attorneys draft trusts to provide for mandatory distributions to the grantor's children at staggered ages (e.g., one-third at age 25, one-half of the balance at age 30, and the balance at age 35), a Dynasty Trust is drafted to encourage the trustees of the trust to keep the assets in trust for the benefit of the beneficiaries and to

allow the beneficiaries to “use” the trust property rather than receive it outright where it will be subject to estate taxes, creditors and divorcing spouses.
Whether your estate is large or small, a Dynasty Trust can provide significant estate planning benefits. Do you want your grandchildren’s inheritance, however modest or great, to be protected from abusive creditors, lawsuits, or future divorces? Do you want multiple generations of your descendants to receive their inheritance federal estate tax-free? If you answer, “yes” to either of these questions, then you should seriously consider implementing a Dynasty Trust to protect your family.

Irrevocable Life Insurance Trusts (Wealth Replacement Trusts)
There is a common misconception that life insurance proceeds are not subject to Federal Estate Taxes. While the proceeds are received by your loved ones free of any income taxes, they are countable as part of your taxable estate and therefore your loved ones can lose about half of its value to estate taxes.

An Irrevocable Life Insurance Trust is created specifically for the purpose of owning your life insurance policy. A properly established and administered trust holds the policy outside of your estate and keeps the proceeds from being taxable to your estate. The proceeds from the insurance policy can then be used to provide your estate with the liquidity to pay estate taxes, pay off debts, pay final expenses and provide income to a surviving spouse or children. The ILIT will be the policy owner and beneficiary. Once your trust is established, you use your annual gift tax exclusion to make cash gifts to your trust. Your beneficiaries forgo the present gift (in lieu of the future proceeds) and the trustee uses the remaining gift to pay the premium on the life insurance policy.

There are many options available when setting up an ILIT. For example, ILITs can be structured to provide income to a surviving spouse with the remainder going to your children from a previous marriage. You can also provide for distribution of a limited amount of the insurance proceeds over a period of time to a financially irresponsible child.

Our firm is dedicated to helping clients make educated, informed decisions about their assets and will work with you and your team of financial advisors and CPAs to implement a highly sophisticated estate plan.