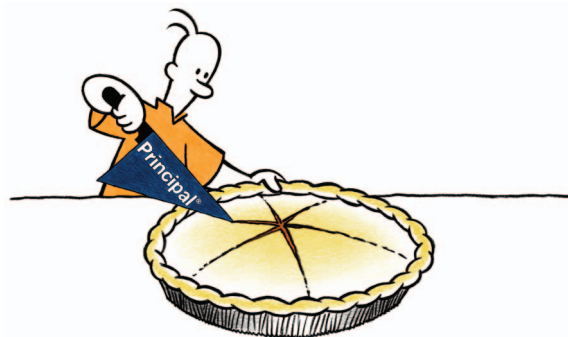


Wealth Transfer

# Make a Plan for the Distribution of Your Estate

Presented to:

Presented by:



# What would happen if you passed away today?

No matter how young or old we are, the possibility of an untimely death is always present. It never comes at the right time, and most people are unprepared for it.

When we do not prepare for death, our families bear the consequences. We need to remember that we have obligations to our heirs, even after we die. Unfinished personal business creates hardships for the loved ones we leave behind.

## What is estate planning?



*Have you prepared for all three phases?*

# Estate taxes

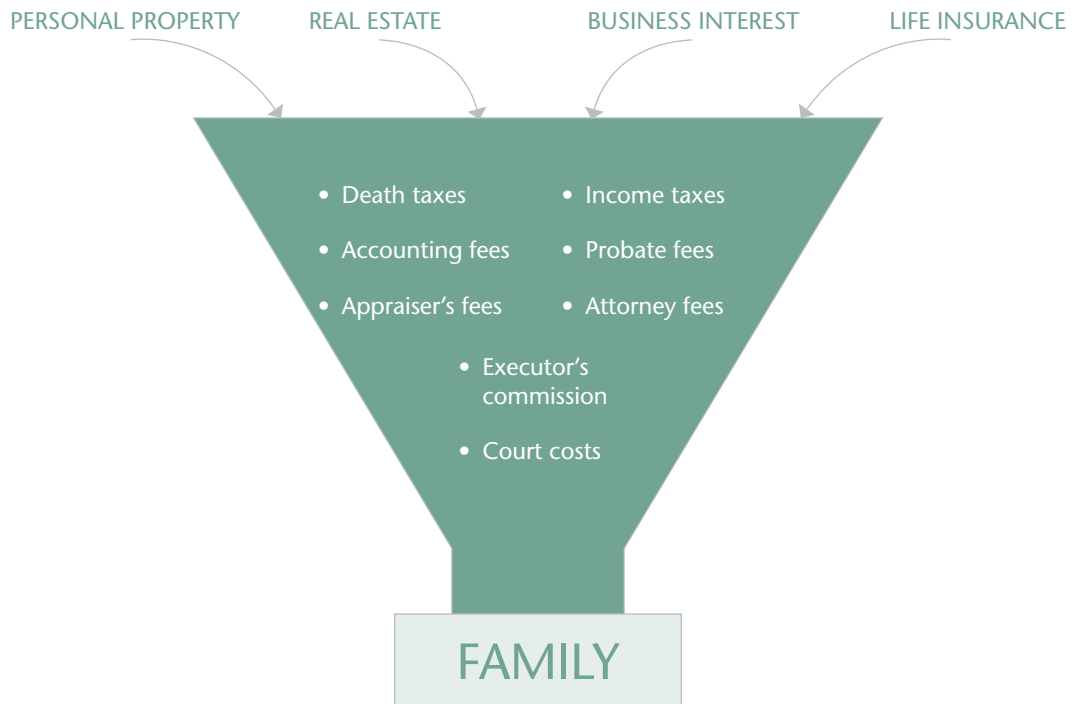
Your estate represents a lifetime of effort. Without proper planning, your estate may have to be liquidated in order to pay tax liabilities — as if you'd never really owned it.

The government has given estate taxation great consideration as a way to increase tax revenue. You may spend 30, 40 perhaps 50 years putting it together, and estate taxes may take it apart overnight.

But, you didn't build it up just to pay taxes!

## What will happen to your estate at death?

In most cases, it passes through the estate settlement cost funnel.



*Proper estate planning can get more to your family.*

# Estate taxes and your creditors

There is a mistaken impression that when estate taxes or creditor obligations are due, you are required to pay the Internal Revenue Service or creditors that amount. In fact, our government and creditors do not just want a percentage of what you own, they want the cash equivalent. And, they want it in nine months or sooner.

Needless to say, this may create quite a problem. Would it be difficult to convert 40 to 50 percent of your estate to cash in just nine months? It's probably not impossible, but it would likely result in substantial losses due to "force sale" negotiations and, of course, sales commissions and expenses. Just imagine the losses that would be suffered if you were not around to help in the liquidation.

Does it make more sense to liquidate 40 to 50 percent of your estate in nine months, or use eight to 10 percent of your assets to preserve the remaining 90 percent plus?

## What will an eight percent growth rate do to assets?

The Rule of 72 tells us that at an eight percent growth rate, principal will double in nine years (72 divided by 8 = 9). Consider the effect of that growth rate on your tax liabilities:

	ESTATE SIZE	ESTATE TAX
Today	\$1,000,000	\$0
9 years	\$2,000,000	\$550,000
18 years	\$4,000,000	\$1,650,000
27 years	\$8,000,000	\$3,850,000

# Estates of famous persons

## ESTATES WHERE THE MARITAL DEDUCTION WAS USED

NAME	GROSS ESTATE	TOTAL SETTLEMENT COSTS	NET ESTATE	SHRINKAGE %
Stan Laurel	\$ 91,652	8,381	83,181	9%
Goodwin Knight	102,049	21,585	80,464	21%
W.C. Fields	884,680	329,793	554,887	37%
Nelson Eddy	472,715	109,990	362,725	23%
Dixie Crosby	1,332,571	781,953	550,618	59%
F.D. Roosevelt	1,940,999	574,867	1,366,132	30%
Humphrey Bogart	910,146	274,234	635,912	30%
Clark Gable	2,806,526	1,101,038	1,705,488	30%
Dean Witter	7,451,055	1,830,717	5,629,338	25%
Henry Kaiser Sr.	5,597,772	2,488,364	3,109,408	44%
Henry Kaiser Jr.	55,910,373	1,030,415	54,879,958	2%
Al Jolson	4,385,143	1,349,066	3,036,077	31%
Gary Cooper	4,984,985	1,530,454	3,454,531	31%
Myford Irvine	13,445,552	6,012,685	7,432,867	45%
Walt Disney	23,004,851	6,811,943	16,192,908	30%
Harry M. Warner	8,946,618	2,308,444	6,638,174	26%
William E. Boeing	22,386,158	10,589,748	11,796,410	47%

## ESTATES WHERE THE MARITAL DEDUCTION WAS NOT USED

NAME	GROSS ESTATE	TOTAL SETTLEMENT COSTS	NET ESTATE	SHRINKAGE %
William Frawley	92,466	45,814	46,632	49%
Gabby Hayes	111,327	21,963	89,364	20%
Hedda Hopper	472,661	165,982	306,679	35%
Marilyn Monroe	819,176	448,750	370,426	55%
Erle Stanley Gardner	1,795,092	636,705	1,158,387	35%
Cecil B. DeMille	4,043,607	1,396,064	2,647,543	35%
Elvis Presley	10,165,434	7,374,635	2,790,799	73%
J.P. Morgan	17,121,482	11,893,691	5,227,791	69%
John Rockefeller Sr.	26,905,182	17,124,988	9,870,194	64%
John Rockefeller Jr.	160,598,584	24,965,954	135,632,630	16%
Alwin C. Ernst, CPA	12,642,431	7,124,112	5,518,319	56%
Frederick Vanderbilt	76,838,530	42,846,112	33,992,418	56%
Howard Gould	67,535,386	52,549,682	14,985,704	78%

Source: Backroom Technician ©2007 Kettley Publishing Company.

# How are the death taxes paid?

Death taxes are due and payable in cash within nine months after the taxpayer's death.

## Five tax payment options

- **Borrow cash** – The executor may borrow the cash. This only defers the problem, since the money will have to be repaid with interest. This includes installment payments to the government.
- **Pay cash** – The taxpayer may pay in cash. Rarely do people accumulate large sums of cash, and if they do, they will probably forego many profitable investment opportunities in order to keep the estate in a liquid position.
- **Invest in the market** – The taxpayer may invest in the market. This may be a wise choice if the “market is up” when the stocks or bonds need to be converted to cash.
- **Liquidate assets** – The executor may liquidate assets. However, if there is not a ready market, the assets may be sold at a loss. A capital gain tax may be imposed on any post-1976 appreciation.
- **Use life insurance proceeds** – The taxpayer can pay his or her estate settlement costs with life insurance.

## Life insurance considerations

- Dollars are “discounted.” The taxpayer's heirs get back more through the death benefit than the amount paid in.
- Payment of benefit is prompt.
- There is no income tax or capital gain on the proceeds.
- It can be estate tax free if designed properly.
- Payments can be spread out rather than made all at once.
- It avoids all the disadvantages of the other four methods set forth above.
- The taxpayer must provide evidence of insurability to qualify for a life insurance policy.
- Cost of insurance.

# Estate conservation and transfer tools

There are numerous techniques to consider in order to successfully distribute your estate the way that *you* choose.

- Annual Gifts
- Asset Transfers (Annuities – IRAs)
- Buy/Sell Arrangement
- Bypass Trust
- Charitable Pooled Income Fund
- Charitable Remainder Annuity Trust (CRAT)
- Charitable Remainder Trust (CRT)
- Charitable Remainder Unit Trust (CRUT)
- Estate Freeze Techniques
- Family Limited Partnership
- Gift Annuity
- Irrevocable Life Insurance Trust
- Lifetime Unified Credit Use
- Minority Interest Discounts
- Premium Finance
- Qualified Terminal Interest Property Trust (QTIP)
- Will

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