

TABLE OF CONTENTS

Chapter 1	INTRODUCTION TO FEDERAL TRANSFER TAXES	1
	Introduction.....	1
	Marginal Rates	1
	Unified Transfer Tax System	2
	Economic Growth and Tax Relief Reconciliation Act of 2001	2
	De-Unification of the Unified Credit	2
	Reduction in Estate, Gift and GST Tax Rates & Repeal of Estate and GST Tax	3
	Additions to GST Tax Rules	3
	Carryover Basis.....	3
	Conclusion	3
Chapter 2	FEDERAL ESTATE TAX	5
	Introduction.....	5
	Types of Property and Property Interests Subject to Federal Estate Tax	5
	Property Owned by Decedent.....	6
	Jointly-Owned Property	6
	Life Insurance	7
	Certain Property for Which Marital Deduction Was Previously Allowed.....	8
	Certain Property Transferred by Decedent During Decedent's Lifetime	8
	Property Controlled By Decedent — Powers of Appointment.....	11
	Valuation for Federal Estate Tax Purposes	13
	General Rule	13
	Alternate Valuation Date.....	14
	Federal Estate Tax Deductions	15
	Estate Tax Marital Deduction	15
	Estate Tax Charitable Deduction	18
	Deduction for Expenses, Claims, Debts, Taxes and Losses.....	19
	Deduction for State Death Taxes	22
	Unified Credit	23
	Allowance of Unified Credit.....	23
	Effect of EGTRRA	23
	Adjustment to Credit for Certain Pre-1977 Gifts.....	24
	Limitations	24
	Decoupling: The States' Response to EGTRRA	24
	Calculation of Federal Estate Tax	25
	Computation of Federal Estate Tax.....	25
	Effect of EGTRRA on Computation of Federal Estate Tax.....	26
	Payment of Federal Estate Tax	26
	General Rule	26
	Installment Payments of Federal Estate Tax Allowed for Certain Estates	26

	Income Tax Consequences of Inherited Property	27
	Step-Up in Basis	27
	Modified Carryover Basis Rule Under EGTRRA	28
Chapter 3	FEDERAL GIFT TAX.....	31
	Introduction.....	31
	Transfers Subject to the Federal Gift Tax	31
	“Gift” for Federal Gift Tax Purposes	31
	Less Than Full and Adequate Consideration	36
	Indirect Gifts	37
	Net Gifts.....	39
	Valuation for Federal Gift Tax Purposes.....	39
	General Rule	39
	Valuation of Specific Types of Property for Gift Tax Purposes.....	40
	Discounts & Restrictions Affecting Valuation.....	40
	Federal Gift Tax Exclusions	40
	Gift Tax Annual Exclusion	40
	Unlimited Exclusion for Tuition Expenses and Medical Expenses	42
	Federal Gift Tax Deductions.....	43
	Unlimited Gift Tax Marital Deduction	43
	Unlimited Gift Tax Charitable Deduction.....	44
	Gift Splitting	45
	General Rule	45
	Requirements	45
	Joint and Several Liability	45
	Nature, Scope and Calculation of Federal Gift Tax.....	45
	Nature.....	45
	Scope.....	46
	Calculation	46
	Payment of Gift Tax, Gift Tax Returns & Statute of Limitations	47
	Liability.....	47
	Gift Tax Return	47
	Practical Effects of Lifetime Gifts	49
	Transferred Property (Including Appreciation and Income)	
	Removed From Estate.....	49
	Gift Tax Out of Donor’s Estate if Donor Survives at Least Three Years.....	49
	Tax Exclusive Gift Tax v. Tax Inclusive Estate Tax.....	49
	Taking Advantage of Gift Tax Exclusions Can Significantly Reduce Taxes..	50
	Income on Transferred Property Generally Taxed At a Lower Rate	50
	Basis Not Increased Except Portion of Gift Tax Paid On Appreciated Gift...	50
Chapter 4	FEDERAL GENERATION-SKIPPING TRANSFER TAX	53
	Introduction.....	53
	Some GST Terminology	54
	Transferor and Transferee.....	54
	Skip Person and Non-Skip Person	54
	Determining Generation Assignment	54
	Generation Assignment for Relatives	54
	Generation Assignment for Nonrelatives.....	57

Generation Assignment for Trusts	57
Types of Generation-Skipping Transfers	58
Generally	58
Direct Skip	58
Taxable Termination	59
Taxable Distribution	59
GST Exemption and Exclusions	59
GST Exemption	59
GST Tax Exclusion for Annual Exclusion Gifts	60
GST Tax Exclusion for Education Expenses and Medical Expenses	61
Valuation for GST Tax Purposes	62
General Rule	62
Value of Direct Skip Property Included in Transferor's Gross Estate	62
Taxable Terminations Occurring At Death	62
Reduction For Consideration Provided by Transferee	62
Calculation of GST Tax	62
Nature	62
Calculation	62
Rules For Allocating GST Exemption	64
General Rule	64
Deemed (Automatic) Allocation Rules	65
Retroactive Allocation	68
Estate Tax Inclusion Period (ETIP) Rules	69
Relief For Late Elections and Substantial Compliance	70
Severance of Trust With Inclusion Ratio Greater Than Zero	71
Background	71
Severance of Trusts for GST Purposes	71
Related Transfer Tax Provisions	74
Payment of GST Tax on Direct Skip Treated as Gift	74
Related Income Tax Provisions	74
Benefits of GST Tax Planning	75
Leveraging GST Tax Exclusions During Life	75
Leveraging GST exemption During Life	75
Dynasty Trusts	76
Chapter 5 VALUATION OF ASSETS FOR ESTATE, GIFT AND	
GENERATION- SKIPPING TRANSFER TAX PURPOSES	79
Introduction	79
Fair Market Value	79
General Definition	79
Actual and Comparable Sales	80
Valuation Date and Alternate Valuation Date	81
Valuation Date	81
Alternate Valuation Date	81
Specific Valuation Rules for Certain Assets	82
Stocks and Bonds	82
Business Interests	83
Valuation of Notes	86

	Valuation of Cash on Hand or on Deposit	87
	Household and Personal Effects	87
	Annuities, Life Estates, Remainders and Other Actuarial Values	87
	Valuation of Real Estate.....	90
	General Rule	90
	Commercial Real Estate.....	90
	Residential Real Estate	91
	Vacant Land	92
	Leases and Options	92
	Fractional Interest Discounts	92
	Special Use Valuation	94
	Business Interests Discounts.....	97
	Minority Interest Discounts	97
	Lack of Marketability Discounts	99
	Discount for Built-In Capital Gains.....	100
	Blockage Discount.....	100
	Valuation Discounts for Closely-Held Businesses After Hackl.....	101
	Chapter 14 Valuation Rules Regarding Certain Rights and Restrictions.....	101
	Buy-Sell Agreements and Other Sale Restrictions:	
	IRC § 2703 and Treas. Reg. § 20.2031-2(h).....	101
	Treatment of Certain Restrictions and Lapsing Rights: IRC § 2704.....	104
	Valuation Freezes	104
	Negotiated Securities Accounts	106
	Minimizing Valuation Risks in Lifetime Transfers	110
	Procter and Valuation Formulas.....	110
	Other Techniques to Minimize Valuation Risks	112
	Protective Limited Power of Appointment	113
Chapter 6	FEDERAL INCOME TAXATION OF TRUSTS AND ESTATES	117
	Introduction.....	117
	Working Definitions.....	117
	Taxable Income.....	118
	Fiduciary Accounting Income	118
	Distributable Net Income.....	120
	Grantor Trusts v. Non-Grantor Trusts.....	122
	Simple Trusts	122
	Complex Trusts.....	122
	Estates	123
	Computation of the Tax	123
	General.....	123
	Taxable Income.....	124
	Gross Income and Exclusions From Gross Income.....	124
	Deductions	124
	Taxation of Simple Trusts, Complex Trusts and Estates	127
	Simple Trusts and Their Beneficiaries.....	127
	Taxation of Complex Trusts and Estates and Their Beneficiaries	127
	Throwback Tax	129
	Grantor Trusts.....	129

	Definition of “Grantor”	129
	Adverse Party	129
	Independent Trustee	129
	Related or Subordinate Party	130
	Grantor Trust Rules.....	130
	Person Other Than Grantor Treated As Owner	131
	Grantor Trust at Death	132
	Duties and Forms To File.....	132
	Identification Number	132
	Notice of Fiduciary Relationship.....	133
	Final Income Tax Return	133
	Fiduciary Income Tax Return	133
	Income in Respect of a Decedent	136
	In General	136
	Taxation of IRD	136
	Income Tax Deduction For Estate Tax Paid Attributable To IRD	137
Chapter 7	ANNUAL EXCLUSION GIFT PLANNING.....	141
	Introduction.....	141
	Benefits of Annual Exclusion Gifts	141
	Federal Transfer Tax Savings.....	141
	State Transfer Tax Savings.....	143
	Income Shifting.....	143
	Non-Tax Benefits	143
	Annual Exclusion Gifts to Custodial Accounts	144
	Background.....	144
	Tax Consequences.....	145
	Advantages and Disadvantages.....	145
	Annual Exclusion Gifts In Trust	146
	Generally.....	146
	Gifts to IRC § 2503(c) Minor’s Trusts.....	146
	Gifts to Crummey Trusts.....	149
Chapter 8	PLANNING FOR THE MARITAL DEDUCTION.....	157
	Introduction and History	157
	Introduction.....	157
	History of the Marital Deduction.....	158
	Definitions.....	158
	Pecuniary, Fractional Share, Residuary and Hybrid Gifts and Bequests.....	159
	Basic Marital Deduction Planning	161
	Outright Disposition	161
	Disposition to Trust.....	161
	Deferring Tax	161
	Basis Considerations.....	161
	Qualifying for the Marital Deduction	162
	Interest Must be Includible in Decedent’s Gross Estate	162
	Decedent is Survived by a Surviving Spouse Who is a U.S. Citizen	162
	Interest Must “Pass” to the Surviving Spouse	162
	Interest Must be Deductible.....	162

Value of Property Interest	163
Terminable Interest Rule and Its Exceptions	163
Limited Survivorship Exception	163
General Power of Appointment Trust	163
Life Insurance or Annuity Payments with General Power of Appointment ...	164
Estate Trust	165
Qualified Terminable Interest Property Trust	165
Non-U.S. Citizen Surviving Spouse	176
Selecting Marital Deduction Trusts – QTIP v. GPOA	178
Advantages of a QTIP Trust over a GPOA Trust	178
Advantages of a GPOA Trust over a QTIP Trust	179
Common Marital Deduction Formula Provisions	179
Unlimited Marital Deduction Formula Clauses	179
True Pecuniary Marital Deduction Formula	179
Fractional Share Marital Formula	182
Fairly Representative Pecuniary Marital Formula	186
Reverse Pecuniary Marital Deduction Formula	188
Minimum Worth Marital Deduction Formula	189
Double Pecuniary Drafting	190
General Guidelines for Selecting a Marital Deduction Formula	191
Pecuniary Marital Formula	191
Fractional Share Marital Formula	191
Optimal Marital Deduction with the Applicable Exclusion Amount	191
Planning Points When Not Using the Optimal Marital Deduction	192
Selected Funding and Drafting Issues	192
Adverse Impact of the Suspension of the Estate and Generation-Skipping Transfer Tax on Marital Deduction Allocation Formulas	192
Income in Respect of a Decedent	193
IRC § 691(c) Deduction	195
Income Earned During Administration	195
Estate of Hubert	196
Creating and Funding GST Trusts (The Reverse QTIP Election)	199
Savings Clauses	201
Funding Examples	203
20% Increase in Value of the Estate Before Funding	203
20% Decrease in Value of the Estate Before Funding	204
Comparison of Characteristics of Funding Formulae	205
Post-Mortem Planning	206
Partial QTIP Election	206
Disclaimer Provisions	207
The Gift Tax Marital Deduction	207
Requirements	208
Exceptions to the Terminable Interest Rule	208
Non-Citizen Spouse	210
Chapter 9 PLANNING WITH THE APPLICABLE EXCLUSION AMOUNT	213
Introduction	213
History of the Unified Tax System	213

	Unified Credit Against Estate Tax	214
	Definitions.....	214
	Use of Applicable Exclusion at Death.....	214
	Unified Credit Against Gift Tax.....	215
	The Applicable Exclusion and the Determination of Gift Tax	215
	Benefits of Lifetime Use of the Applicable Exclusion Amount	216
	The Applicable Exclusion and the Marital Deduction	216
	The Family Trust.....	217
	During Spouse’s Life	217
	At the Surviving Spouse’s Death	218
	Planning Options to Avoid the Negative Effects of State Decoupling	220
	Introduction.....	220
	Selection of Trustees.....	223
	Non-Tax Considerations	223
	Tax Considerations.....	228
Chapter 10	EDUCATION AND MEDICAL EXPENSES	239
	Introduction.....	239
	Brief Overview of GST Tax.....	239
	Unlimited Exclusion for Tuition Expenses and Medical Expenses Under IRC § 2503(e)	240
	General.....	240
	Definitions.....	240
	GST Tax Advantages	241
	Use of Trusts	241
	Advantages and Disadvantages of Exclusion for Tuition Expenses and Medical Expenses	243
	Qualified Tuition Programs.....	243
	Introduction.....	243
	Definitions.....	244
	Contribution Rules	245
	Distribution Rules	246
	Federal Gift and GST Tax Treatment	247
	Rollovers and Changes of Beneficiary.....	247
	Federal Estate Tax Treatment	248
	Effect on Financial Aid.....	248
	Advantages and Disadvantages.....	248
	Coverdell Education Savings Accounts.....	249
	General.....	249
	Contribution Rules	250
	Distribution Rules	250
	Federal Income Tax Treatment	251
	Federal Gift Tax and GST Tax Treatment.....	251
	Federal Estate Tax Treatment	252
	Effect on Financial Aid.....	252
	Advantages and Disadvantages.....	252
	Comparison of Section 2503(e) Exclusions, Section 529 QTPs, and Coverdell ESAs.....	252

Chapter 11	LIFE INSURANCE	255
	Estate Tax Inclusion Rules.....	255
	Insurance Proceeds Payable to the Insured’s Estate	255
	Incidents of Ownership	256
	Incidents of Ownership in Corporate Owned Insurance.....	257
	The Three-Year Rule - IRC § 2035(d)(2)	259
	Gifts of Life Insurance.....	260
	Donees of Life Insurance: Individual vs. Trust.....	260
	Valuation of Life Insurance for Gift Tax Purposes	262
	Viatical and Life Settlements.....	264
	Product Utilization.....	264
	Why Sell a Policy? Changing Circumstances.....	265
	The Mechanics of a Viatical or Life Settlement	265
	Federal Taxation.....	267
	Estate Planning Applications of Life Settlements	268
	Best Practices Now Requires Analysis and Utilization of a Life Settlement in Certain Situations.....	273
	Split Dollar Life Insurance	274
	The History of the Taxation of Split Dollar Life Insurance Plans	274
	Split Dollar Regulations.....	275
	Use of Insurance in Buy-Sell Agreements.....	285
Chapter 12	PLANNING FOR IRAS, QUALIFIED PLANS AND OTHER RETIREMENT BENEFITS	289
	Introduction.....	289
	Types of Retirement Plans	290
	Qualified Plans and Non-Qualified Plans	290
	Defined Benefit Plans and Defined Contribution Plans	290
	Characteristics and Features of Qualified Plans	291
	Plan Qualification Requirements: An Overview.....	294
	Not-for-Profit Corporations, School and Church Sponsored Plans	295
	Workplace Individual Retirement Plans	297
	Individual Retirement Accounts	298
	Roth 401(k) and Roth 403(b) Contributions.....	301
	The Economic Advantages of Tax Deferred Savings.....	304
	The Income Tax Treatment of Distributions from Qualified Plans and IRAs	305
	Types of Distributions.....	305
	General Rule of Taxation as an Annuity Under IRC § 72	307
	Lump Sum Distributions from Qualified Plans	307
	Distributions from IRAs	309
	Rollovers and Transfers of IRAs and Qualified Retirement Plan Assets	312
	Penalties Applicable to Qualified Plans and Individual Retirement Accounts....	316
	Penalty for Excess Contribution to IRA	316
	Penalty for Early (Premature) Distribution from Qualified Plan or IRA.....	317
	Penalty for Failing to Make a Required Distribution from a Qualified Plan or IRA	319
	Prohibited Transactions	319
	The Income Taxation of Non-Qualified Plans	320

	Minimum Required Distributions from Qualified Plans and IRAs	321
	Introduction.....	321
	Distributions During Life.....	322
	The “Designated Beneficiary”	325
	Distributions After Death.....	330
	Estate and Gift Taxation of Qualified Plans and IRAs	338
	General Rule - Estate Taxation	338
	Grandfather Provisions For Estate Tax Exclusion under IRC § 2039	338
	Income Tax Deduction for Estate Taxes Paid Under IRC § 691(c)	340
	General Rule for Gift Taxation of Qualified Plans and IRAs	342
	Automatic QTIP Treatment for Annuities	343
	Waiver of Rights Under Retirement Equity Act of 1984 (“REA”).....	343
	Planning for Distributions of Qualified Plans and IRAs at Death	343
	Maximizing Deferral.....	343
	Marital Deduction Qualification Issues	350
	Marital Deduction and GST Formulas.....	355
	Tax Apportionment Issues	358
	Charitable Gifts with Qualified Plans and IRAs.....	359
	Non-Tax Issues In Estate Planning For Qualified Plans and IRAs.....	360
Chapter 13	PLANNING FOR STOCK OPTIONS AND EMPLOYER	
	STOCK OWNERSHIP PLANS.....	387
	Introduction.....	387
	Incentive Stock Options.....	388
	General Description	388
	ISO Requirements.....	388
	Alternative Minimum Tax.....	389
	Estate Planning for ISOs.....	390
	Nonqualified Incentive Stock Options.....	391
	General Rule	391
	Income Tax Consequences on Grant and Exercise of NISOs.....	391
	Gift of NISO	391
	Valuation of NISO for Gift Tax Purposes.....	392
	Estate Planning for NISOs.....	392
	Stock Appreciation Rights	393
	General Description	393
	Taxation of SARs.....	393
	Estate Planning for the SARs.....	394
	Employee Stock Ownership Plans.....	394
	General Description	394
	Distribution Requirements	394
	Planning Considerations	394
	Succession Planning for Closely Held Businesses	395
Chapter 14	PLANNING FOR BUSINESS INTERESTS.....	399
	Succession Planning for Business Interests	399
	Factors to Consider	400
	Alternatives for Transferring Ownership.....	400
	S Corporation Planning.....	404

	Eligibility for S Corporation Status	405
	Estates and Trusts as S Corporation Shareholders.....	406
	Qualifying as an ESBT and the Income Tax Ramifications of ESBT Status ...	408
	Qualifying as a QSST and the Income Tax Ramifications of QSST Status...	409
	Death of an S Corporation Shareholder.....	411
	Stock Redemptions -- IRC § 303.....	412
	The Stock is Included in Decedent’s Estate.....	412
	35% Requirement	412
	Maximum Redemption Amount.....	414
	Time Period During which Redemption Must Occur	414
	Extension of Time for Payment of Estate Tax -- IRC § 6166.....	414
	The 35% Requirement	414
	Interest in a Closely Held Business	415
	Nature of the IRC § 6166 Relief.....	415
	Making the IRC § 6166 election.....	416
	Acceleration of Estate Tax Payment	416
	Graegin Loans.....	417
Chapter 15	THE USE OF FAMILY LIMITED PARTNERSHIPS & FAMILY LIMITED LIABILITY COMPANIES IN ESTATE PLANNING	421
	Introduction.....	421
	Brief Overview of FLPs and LLCs.....	422
	Non-Tax Reasons for Using FLPs and Family LLCs	422
	Provides a Vehicle to Transfer Assets while Retaining	
	Control over Distributions to Family Members.....	423
	Protection from Creditors and Failed Marriages	423
	Consolidate Ownership.....	424
	One Level of Federal Income Taxation.....	424
	Facilitate Gifts.....	424
	Investment Advantages	425
	Flexibility.....	425
	Decreases Probate Burdens.....	425
	Tax Reasons for Using FLPs and Family LLCs	425
	Tax Reasons for Creating Discount FLPs/LLCs.....	426
	Tax Reasons for Creating Frozen FLPs/LLCs	427
	Inclusion of FLP/LLC Interests Under IRC § 2036: The Strangi Decision	428
	Facts	429
	Strangi I & II.....	429
	Strangi III.....	430
	Strangi IV.....	431
	Formation Issues.....	432
	Avoiding the Investment Company Rules.....	433
	Avoiding the IRS’s Gift on Formation Argument.....	435
	Formation Issues Post-Strangi	437
	Operational Concerns	439
	IRS Attacks Under the “Business Purpose Doctrine,” IRC §§ 2703 and 2704 ...	441
	Business Purpose Doctrine	442
	IRS Attacks Under IRC § 2703	443

	IRS Attacks Under IRC § 2704	444
	Avoiding IRS Attacks on Annual Gift Tax Exclusion for Gifts of	
	FLP or Family LLC Interests.....	448
	Income Tax Provisions - Entities Taxed as Partnerships	450
	Taxation of the Entity.....	450
	Family Partnership Rules.....	451
	Allocation of Built-in Gain or Loss on Contribution.....	451
	Loss Limitations	451
	In-Kind Distributions.....	451
	Basis Adjustment	451
	Anti-Abuse Regulations Under IRC § 701	452
	Disguised Sale Rules	452
Chapter 16	CHARITABLE GIVING.....	455
	Introduction.....	455
	Income Tax Charitable Deduction	455
	Organizations for Which an Income Tax Deduction is Permitted	456
	Gifts of Partial Interests	456
	Limitations on Deductibility.....	458
	Substantiation Rules	461
	Estate and Gift Tax Charitable Deductions.....	463
	Deduction is Unlimited.....	464
	Split-Interests.....	464
	Outright Gifts to Charity.....	465
	Public Charities.....	465
	Private Foundations.....	465
	Donor Advised Funds	468
	Supporting Organizations	469
	Charitable Gift Annuities.....	470
	Use of IRC § 7520 Rate to Value Split-Interest Gifts.....	472
	Charitable Remainder Trusts	472
	Requirements for Charitable Estate, Gift and Income Tax Deductions.....	473
	Income, Gift and Estate Tax Consequences.....	479
	Other Considerations	482
	Charitable Remainder Trusts as Retirement Plan Beneficiary.....	486
	Naming the CRT as Beneficiary	486
	Tax Consequences.....	487
	Considerations	487
	Charitable Lead Trusts.....	488
	Requirements for Estate, Gift and Income Tax Charitable Deductions.....	489
	Valuing the Charitable Interest	489
	Income, Gift, Estate and GST Tax Consequences	491
	Other Considerations	495
	Pooled Income Funds	495
	Income Tax Consequences.....	496
	Gift Tax Consequences	496
	Estate Tax Consequences.....	496
Chapter 17	LEVERAGING THE LIFETIME TRANSFER OF ASSETS	499

Introduction.....	499
General Principles.....	500
Present Value.....	500
Applicable Federal Rates.....	500
IRC § 2702.....	501
Grantor Trust Status.....	502
Grantor Retained Annuity Trusts.....	503
Overview of Grantor Retained Annuity Trusts.....	504
Gift, Estate and Income Tax Consequences.....	506
Valuation of the Gift.....	508
Rolling GRATs.....	515
Allocation of GST Exemption to a GRAT.....	515
Sale of Remainder Interest in a GRAT.....	516
GRATs Without Mortality Risk.....	517
GRAT v. Direct Gift.....	521
Grantor Retained Unitrusts.....	522
Gift and Estate Tax Consequences.....	522
Why GRUTs Are Rarely Used.....	522
Sale to an Intentionally Defective Grantor Trust.....	523
Structure of the Transaction.....	523
Tax Consequences of a Sale to an Intentionally Defective Grantor Trust....	525
Sale to an IDGT vs. Grantor Retained Annuity Trust.....	533
Low-Interest Loans to Grantor Trusts.....	536
Overview of the Transaction.....	536
Estate Tax Consequences.....	536
Gift Tax Consequences.....	537
Income Tax Consequences.....	537
Comparison to GRATs and Sales to IDGTs.....	538
Private Annuities.....	538
Gift Tax Consequences.....	539
Estate Tax Consequences.....	540
Income Tax Consequences.....	541
Advantages of a Private Annuity.....	543
Disadvantages of a Private Annuity.....	543
Proposed Regulations Regarding Private Annuities.....	543
Self-Canceling Installment Notes.....	544
Estate Tax Consequences.....	544
Income Tax Consequences.....	544
Gift Tax Consequences.....	545
Grantor Retained Income Trusts.....	545
Gift, Estate and Income Tax Consequences.....	546
Tangible Property GRITs.....	547
Personal Residence Trusts.....	548
Overview of Personal Residence Trusts.....	548
Definition of Personal Residence.....	548
Personal Residence Trusts.....	550
Qualified Personal Residence Trusts.....	551

	Gift, Estate and Income Tax Consequences.....	553
	Sale of Remainder Interest in a Marital Trust.....	555
	Gift Tax Marital Deduction.....	555
	Marital Trust Remainder Sale Considerations.....	556
	Income Marital Trust.....	557
	Annuity Marital Trust.....	559
	Valuation Issues.....	559
	IRC § 2702 and Gradow.....	562
	Funding The Purchase Price.....	563
	Timing of Transaction.....	563
	Reporting the Marital Trust Remainder Sale.....	564
	Sale of Remainder Interest in a Charitable Trust.....	564
	Gift Tax Charitable Deduction.....	565
	Valuation Issues.....	566
	Income Tax Charitable Deduction.....	566
	Reporting the Charitable Trust Remainder Sale.....	567
	Charitable Lead Annuity Trusts.....	567
	Overview of Charitable Lead Annuity Trusts.....	567
	Estate and Gift Tax Consequences.....	568
	GST Tax Consequences.....	568
Chapter 18	ETHICAL CONSIDERATIONS FOR ESTATE PLANNING	
	PROFESSIONALS.....	573
	Introduction.....	573
	Resources for Ethical Guidance.....	574
	Model Rules of Professional Conduct (and Comments).....	574
	Model Code of Professional Responsibility.....	574
	American College of Trust and Estate Counsel (“ACTEC”)	
	Commentaries to the Model Rules.....	574
	Report of Ethics 2000 Commission.....	574
	Published Formal and Informal Opinions.....	574
	State and Federal Cases.....	575
	Other Codes of Conduct.....	575
	Clients Under a Disability.....	575
	Relevant Issues.....	575
	Model Rule 1.14.....	575
	Revealing Confidences of a Disabled Client.....	576
	Recommending Appointment of Guardian.....	576
	Take Least Restrictive Measure.....	577
	Drafting Estate Planning Documents for an Incompetent Client.....	577
	Joint Representation, Conflicts and Confidentiality.....	578
	Introduction.....	578
	Model Rule 1.7.....	579
	Disclosure of Confidences in Joint Representation.....	579
	Attorney Entitled to Disclose.....	579
	Attorney Not Entitled to Disclose.....	580
	ACTEC Position – Attorney Entitled to Disclose.....	580
	Attorney Obligated to Disclose.....	581

Parent-Child Joint Representation	581
Representing Families.....	581
Engagement Letters	582
Ethical and Malpractice Concerns in the Formation of FLPs and FLLCs.....	583
Standard of Care; Professional Expertise	584
Conflicts of Interest.....	584
Engagement Letters	584
Practicing Before the IRS - Circular 230.....	585
Introduction.....	585
History	585
What Circular 230 Says	587
Permissibility of Attorney Signing Confidentiality Agreement	598
General.....	598
Prohibition Against Signing Agreements	599
Payment of Legal Fees by Third Parties.....	599
General Rule	599
Model Rule 1.8(f)	599
Payment of Personal Legal Fees by Corporation.....	600
Drafting Attorney as Fiduciary or Counsel for Fiduciary.....	601
General.....	601
Attorney Acting as Executor and Attorney for Estate	601
Obligations of Attorney When Maintaining Original Documents.....	602
General.....	602
Implied Understanding	603
Obligation to Inform Beneficiaries/Executor.....	603
Additional Obligations.....	603
Other Estate Planning Documents	603
Multi-Disciplinary Practice	604
General.....	604
New York Takes the Lead	604
Other States.....	605
Conclusion	605
Payment of Referral Fees to Attorneys.....	606
General.....	606
Model Rule 1.7	606
Potential Conflict	607
Referral Fee From Trust Company	607
Other Referral Fee Situations	607
Multi-Disciplinary Jurisdictions	608
Conclusion	608
Use of E-mail to Transmit Confidential Information.....	609
General.....	609
E-mail Permitted Means of Communication	609
ABA View.....	609
Special Considerations.....	610
Chapter 19 PROFESSIONAL LIABILITY	615
Introduction.....	615

Adequate Representation	616
General	616
Model Rule 1.1 (Competence).....	616
Model Code.....	616
How to Protect Yourself.....	617
Multi-Jurisdictional Issues.....	617
Liability for Actions of Non-Attorney Assistants.....	617
General.....	617
Model Rule 5.3	618
Liability for Action of Assistants.....	618
Obligation of Attorney to Inform Client of Unsettled Nature of the Law	619
Obligations of Attorney to Stay Current.....	619
Model Rule 1.4(b).....	619
Williams v. Ely.....	619
Other States.....	620
Duty of Attorney and Others to Non-Client Third Parties.....	621
General.....	621
Strict Privity Doctrine	621
Changing Trend to Impose Liability.....	622
Third-Party Claims in Estate and Trust Administration	624
Ramifications of Cases Imposing Liability.....	626
Third-Party Claims Against Accountants	626
Attorney for Fiduciary – Who is the Client?	628
General.....	628
Majority Position	628
Minority Position	629
Tests to Determine Duty	629
Agreement of the Parties.....	630
Continuing Obligations of Attorney After Representation Ends.....	631
General.....	631
Duty to Monitor Affairs of the Client to Ensure that the Estate Plan is not Frustrated by Subsequent Actions.....	631
Attorneys Beware.....	632
Model Rule 1.4 and Dormant Representation	632
Newsletters.....	632
Liability for Client’s Failure to Execute Documents.....	633
Attorney’s Obligation to Have Documents Executed — Issue.....	633
Model Rules 1.3.....	633
No Duty Imposed on Attorney.....	633
Required Diligence by Attorney.....	634
Other Malpractice Actions.....	635
Faulty Witnessing of Will	635
Execution of Wrong Documents.....	635
Marriage Subsequent to Will	635
Tax Planning Mistakes	635
Liability for Providing Asset Protection Services	635
The Interrelationship of Professional Ethics Rules with Malpractice Actions....	636

Chapter 20	FIDUCIARY LIABILITY	639
	Introduction.....	639
	Duty to Diversify	639
	General.....	639
	Measuring the Loss.....	641
	Retaining Investment Advisor	641
	Statutory Exception to Duty to Diversify	641
	Direct Authorization to Retain Assets	641
	Duty of Loyalty and Self-Dealing	642
	General.....	642
	Restatement (Second) of the Law — Trusts	643
	Defenses to Self-Dealing	643
	Liability of the Trustee.....	644
	Duty to Deal Fairly With Multiple Beneficiaries.....	644
	General.....	644
	Restatement (Third)	644
	Specific Conflicts Among Beneficiaries	644
	Uniform Prudent Investor Act.....	646
	Unitrust Provision	646
	Court Direction	646
	Payment of Trust Funds to Beneficiary Whose Interest is	
	Terminated or to Non-Beneficiary	647
	General.....	647
	Restatement (Third)	647
	Specific Situations of Mispayment	648
	Use of Exculpatory Provisions	649
	General.....	649
	Public Policy	650
	Strict Construction	650
	Abuse of Discretion	650
	Unauthorized Practice of Law	651
	General.....	651
	Estate Planning Kits and “How to” Books	651
	Providing Estate Planning Advice	652
	Attorney Abetting in Unauthorized Practice of Law	653
Chapter 21	COMPREHENSIVE WEALTH MANAGEMENT™	655
	Overview of Comprehensive Wealth Management	655
	The Need for A Comprehensive Wealth Advisor	655
	Clients Want Their Issues Addressed. The Techniques Are Secondary	655
	Comprehensive Wealth Management	656
	Helping Clients Create and Grow Wealth.....	656
	Investments	656
	Tax Efficiency	657
	Utilizing Leverage.....	657
	Guidance on Protecting and Preserving Wealth Already Created and Amassed ...	657
	Portfolio Management	657
	Risk Management Tools	658

Direction in Taking Distributions and Making
Distributions of Wealth During Life..... 659
Distributions and Transitions of Wealth Coming to Our Clients..... 659
Distributions of Wealth Made By Our Clients..... 661
Planning for Establishing and Maintaining A Wealth Legacy Following Death ... 662
Proper Asset Structure or Ownership 662
Distribution Intentions for Spouse, Descendents and Others 662
Plan Implementation 663
Summary 663

Appendices

Appendix A - Estate Planning Questionnaire..... 665
Appendix B - Abbreviations / Acronyms Glossary 689