



Duane E. Lee, II
Cannon Financial Institute,
CFP®, AIFA CWS®, CTFA®,
CRSP®,
Executive Vice President
649-4 South Milledge Ave.
Athens, GA 30604
706-353-3346
dlee@cannonfinancial.com
www.cannonfinancial.com

Advanced Estate Planning



Inside Workbook:

Beyond the Basics	2
Estate Taxes	3
Minimizing Estate Taxes	5
The Dynasty Trust	6
Estate Freeze	7
Estate Freeze--The Family Limited Partnership (FLP)	8
Charitable Giving	9
Charitable Giving--The Donor-Advised Fund	10
Asset Protection--The Offshore/Foreign Trust	11

Prepared for:
Duane's Instructor Corner

Beyond the Basics



Virtually everyone needs a basic estate plan. A basic estate plan typically includes:

- One or more health-care directives
- A durable power of attorney
- A will
- A living trust

You may need to go beyond the basics if:

- You have net worth over the current federal gift and estate tax exemption (\$5,120,000 in 2012)* or the death tax exemption in your state
- You own a family business or farm
- You plan to make significant donations to charity
- You need to shield your assets from your own future creditors, an ex-spouse, or your heirs' future creditors or ex-spouses
- Your spouse would be unable to handle personal or financial affairs on his/her own
- You have children who are minors and/or have special needs
- You want to provide for grandchildren and/or later generations
- You have property in more than one state
- You have other complex or special issues

***Unless Congress enacts further legislation, the federal gift and estate tax exemption is scheduled to decrease to \$1 million in 2013.**

A balancing act

Advanced estate planning strategies may have tradeoffs:

- Implementation costs
- Relinquishment of financial benefits
- Loss of control over property



Estate Taxes

What are estate taxes?

One of the oldest forms of taxation, estate taxes are imposed in many forms:

- **Estate tax**--applies to property transferred at death
- **Gift tax**--applies to property transferred during life
- **Generation-skipping transfer tax**--applies to transfers of property during life and at death to someone who is more than one generation below the transferor
- **Inheritance tax**--an alternate form of estate tax imposed by some states on heirs who receive property



Taxes can take a big bite out of your estate if you don't plan in advance. To get an idea of how big that bite can be from federal gift and estate taxes alone, take a look at the following chart.

Top Federal Gift and Estate Tax Rates

Year	Rate
2010	35%*
2011	35%
2012	35%
2013	55%**

*Estates of persons who died in 2010 can opt out of the estate tax, in which case, special rules apply.

**Unless Congress enacts further legislation, the top estate tax rate is set to increase to 55% in 2013.

Estate Taxes

How much will you owe?

If your estate will be worth more than the exemption amount, you may end up paying estate taxes. To find out how much you might owe, complete the following worksheet.



Line 1. Current value of gross estate \$ _____

Line 2. Add prior year gifts + _____

Line 3. Subtract debts < _____ >

Line 4. Subtract funeral and estate administration
expenses (estimate 3% of gross estate) < _____ >

Line 5. Subtract amount going to spouse. < _____ >

Line 6. Subtract amount going to charity < _____ >

Line 7. Subtract exemption amount
(see chart below) < _____ >

Line 8. Taxable estate
(subtotal lines 1 through 7) \$ _____

Line 9. Applicable estate tax rate
(see chart on page 3) X _____

Line 10. Estimated estate tax owed
(multiply line 8 by line 9). \$ _____

Exemption Equivalent Amounts

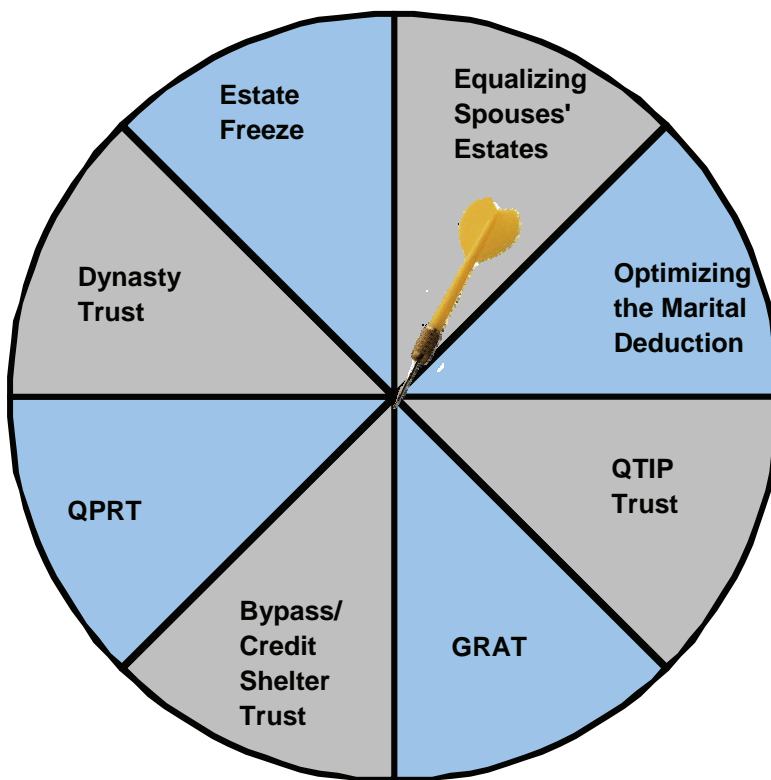
Year	Gift Tax Exemption Equivalent Amount	Estate Tax Exemption Equivalent Amount
2010	\$1 million	\$5 million*
2011	\$5 million	
2012	\$5,120,000	
2013	\$1 million**	

*Estates of persons who died in 2010 can opt out of the estate tax, in which case, special rules apply.

**Unless Congress enacts further legislation, the gift and estate tax exemption is set to decrease to \$1 million in 2013.

Minimizing Estate Taxes

Death and taxes--the only two certainties in life, as they say. But with proper planning, you can minimize estate taxes at your death.



The Dynasty Trust

A dynasty trust (also known as a legacy or perpetual trust) is a trust that can continue to exist for approximately 100 years, and is designed to provide for children, grandchildren, great grandchildren, and even future generations.



Why can't a trust last forever?

Trusts originated in England hundreds of years ago--a time when land and property were forfeited by the losing side in a conflict. Trusts allowed nobles to keep their property because the trustee did not take sides. But since property in a trust could possibly be tied up forever, a law was created to limit the life of a trust to 21 years after the death of the last surviving beneficiary. This law became known as the "rule against perpetuities." (Some states have repealed their rules against perpetuity laws. Trusts in these states can, in theory, last forever.)

Limits on the dynasty

Because money in a dynasty trust is not subject to the federal estate tax as generation after generation enjoys income from the trust, Congress enacted the generation-skipping transfer (GST) tax. This is a separate tax that is imposed when the trust is funded.

But Congress also included a significant exemption in the law. This exemption allows each person to fund a trust with up to \$5,120,000 GST tax free (in 2012)*.

*Unless Congress enacts further legislation, the GST tax exemption is set to decrease to \$1 million (adjusted for inflation) in 2013.

Who thought of the dynasty trust?

The dynasty trust came into being in the twentieth century. During this time, the great industrialists such as Ford, Rockefeller, and Carnegie, who had amassed great fortunes, asked their lawyers to devise a way to preserve their wealth and keep it in their families.

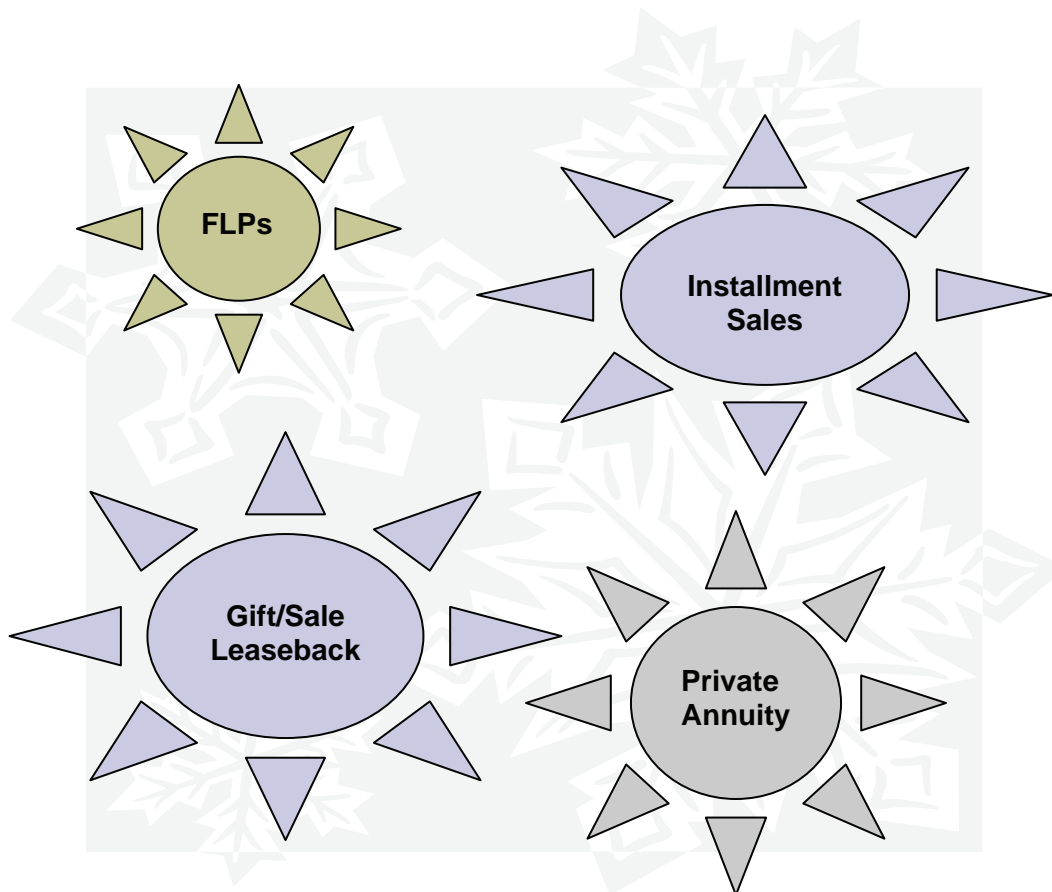
Estate Freeze

An estate freeze is a technique that transfers the future growth of capital property to your heirs. The primary value of an estate freeze is tax deferral.



IRS thaws many estate freeze techniques

Congress has enacted "anti-freeze" legislation in an effort to thwart perceived abuses. However, some estate techniques remain effective.



Estate Freeze--The Family Limited Partnership (FLP)



The keys to an FLP

A properly implemented FLP can be the optimal way to transfer wealth to the next generation while accomplishing business-oriented objectives.

One key to a successful FLP is to follow the tax guidelines for structuring the FLP--carefully drafting the FLP agreement and not claiming excessively large valuation discounts for gift tax purposes.

Another key is to respect the FLP entity once it is created. Among other things, that means:

Another benefit of an FLP--asset protection

Because the limited partners have no right to force the liquidation of FLP assets, personal creditors of the limited partners can reach FLP assets only if the creditor gets a charging order from the court. The charging order allows the creditor to reach only FLP assets that are distributed to the limited partners. The general partner can choose not to make distributions to the limited partner in such cases, forcing the creditor to wait, or perhaps settle for a substantially smaller sum.

- Do not transfer personal assets, such as your home and car, to the FLP.
- Transfer all business assets to the FLP.
- Open FLP bank and, if applicable, brokerage accounts.
- Have the general partner(s) alone act for the FLP.
- Have the general partner(s) alone sign checks, contracts, etc.



Charitable Giving

One of the greatest opportunities that comes with financial success is the ability to give to charity. And because the federal estate tax rates have dropped and the federal estate tax exemption has increased, you may be able to direct more of your money to your favorite charities.



Ways you can give

- ♥ Outright gifts during life
- ♥ Bequests at death
- ♥ Charitable remainder trusts
- ♥ Charitable lead trusts
- ♥ Charitable annuities
- ♥ Community foundations
- ♥ Private foundations
- ♥ Donor-advised funds

According to the Giving USA Foundation, Americans donated \$290.89 billion in 2010.

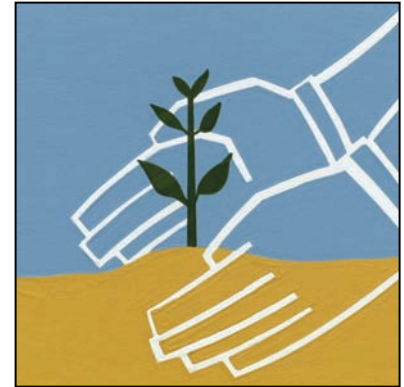
Ten top-notch charities

1. Matthew 25: Ministries
2. MAP International
3. Globus Relief
4. Direct Relief International
5. Medical Teams International
6. San Francisco Food Bank
7. American Endowment Foundation
8. The Community Foundation for Greater Atlanta
9. Food Bank of the Rockies
10. Food Bank of Lincoln

According to Charity Navigator

Charitable Giving--The Donor-Advised Fund

Donor-advised funds help donors who want their charitable interests to be carried out in perpetuity by offering a more cost-effective and convenient alternative to a private foundation.



Comparison of key features

	Donor-Advised Funds	Private Foundations
Start-up Costs	None	Significant
Income Tax Deduction for Cash Donations	50% of AGI	30% of AGI
Income Tax Deduction for Appreciated Assets	30% of AGI	20% of AGI
Excise Tax	None	Up to 2%
Tax Reporting Requirements	None	Annual federal and state returns
Annual Expenses	Generally low	Can be significant
Grant Requirements	None	Must distribute 5% of assets annually
Donor Duties	Donor may recommend investments and grants	Donor manages assets, selects grantees, and handles all administrative matters
Privacy	Grants can be made anonymously	Grants made are public record

Asset Protection--The Offshore/Foreign Trust

High-risk professionals and business owners may be concerned about protecting their accumulated wealth from potential future litigation, political instability, and fiscal upheaval. The laws of offshore jurisdictions, such as the Cook Islands, Nevis, Belize, Antigua, and Turks and Caicos allow such individuals to accomplish their asset protection and privacy objectives using an entity called an offshore, foreign, or asset protection trust.

How they work

As long as an individual transfers assets to a trust in a foreign country for legal and proper purposes before a creditor has filed or threatened to file a lawsuit, and the individual has not made himself/herself insolvent by doing so, a U.S. court will have difficulty undoing the trust and reclaiming the assets for creditors who subsequently file suit.

If the creditor receives a judgment from a U.S. court, the foreign jurisdiction is unlikely to enforce the judgment.

The creditor would have the right to pursue a claim in the foreign jurisdiction, but may be discouraged from doing so because of the added expense and risk of being unable to collect on any judgment.



The ultimate safety valve

This type of trust can hold bank and brokerage accounts, foreign real estate, and business interests, among other things, allowing a diverse group of overseas assets to be consolidated within a single entity, resulting in more efficient management and control. However, the individual using this strategy must also be willing to tolerate inconvenience, complexity, and additional cost.

For the trust to be valid, there must be a genuine transfer of legal ownership of the assets in the trust to the trustee.



Duane E. Lee, II
Cannon Financial Institute,
CFP®, AIFA CWS®, CTFA®,
CRSP®,
Executive Vice President
649-4 South Milledge Ave.
Athens, GA 30604
706-353-3346
dlee@cannonfinancial.com
www.cannonfinancial.com

At Cannon Financial Institute, Inc., the program materials and instructor presentations are intended to provide program participants with ideas and guidance in the areas of planning, administration, and management. They are intended to stimulate thought and discussion. The materials and the instructor comments do not constitute, and should not be treated as, legal or other professional advice regarding the use of any particular planning technique, audit or compliance measure, policy, procedure or other such application of the information provided, or the tax consequences associated with it. Although every effort has been made to ensure the accuracy of the materials and the comments at the program, Cannon Financial Institute, Inc., and each instructor, individually, do not assume responsibility for any participant's reliance on the written or oral information disseminated during the program. Each program participant should independently verify all statements made in the materials and comments made at the program before applying them to a particular fact situation. Each participant should independently determine the tax, nontax, legal and fiduciary liability consequences of using any particular information before recommending that technique to their institution, its management, its board of directors, a client or implementing it on a client's behalf. The materials and the instructor comments should not be utilized as a substitute for professional service in specific situations. If legal, accounting or other expert assistance is required, the services of such a professional should be sought.

Prepared by Broadridge ICS,
Inc. Copyright 2012