

## WHY ADVANCED PLANNING?

Proper estate planning may require more than the use of just a Will, a Living Trust and Powers of Attorney. You may need to consider advanced estate planning techniques if:

- You are single and your assets exceed \$1,000,000; or
- You are married and have executed and funded revocable living trusts, but your combined assets exceed \$1,000,000; or
- You own appreciated assets and want to avoid capital gains taxes when you sell them; or
- You want to make charitable donations or establish a foundation for a charitable purpose; or
- You have a business or valuable real estate that you want to preserve for your family; or
- You have family members or beneficiaries with disabilities or special needs.

These situations may result in the imposition of estate taxes, generation skipping taxes, capital gains taxes and long term care costs. Utilizing advance estate planning techniques can minimize or even eliminate these problems.

## IRREVOCABLE LIFE INSURANCE TRUSTS

If you own a life insurance policy payable on account of your death, the cash value and proceeds of that policy are considered to be an asset in your taxable estate, and may be subject to estate taxes at rates of 46%. If, however, the insurance policy is owned by an Irrevocable Life Insurance Trust (“ILIT”), the proceeds are **not** an asset in your taxable estate and are **not** subject to estate taxation.

ILIT insurance proceeds can be used to protect family businesses and real estate from forced sales by making estate tax free money available to pay taxes, fund buy-sell agreements, and other expenses incurred on account of your death.

## GIFTING PROGRAMS

An easy way to reduce your estate tax liability is to initiate a lifetime gifting program. You can make annual gifts up to \$12,000 to as many individuals as you desire. Unlimited gifts can be made for educational and medical expenses, if they are made directly to the provider. College Savings (“529”) Plans allow you to make gifts and still retain control the assets.

Consider making gifts of stocks or other appreciated assets to a charity, since they do not pay capital gains taxes when the assets are sold. Appreciated assets are

those which are worth more now than when you first bought them (i.e. - stocks and real estate). If **you** sell these assets you will pay a capital gain tax.

## CHARITABLE TRUSTS

Charitable Trusts are very useful estate and retirement planning tools, especially if you own appreciated assets. Charitable Trusts can shield your appreciated assets from capital gain taxation, minimize or eliminate your estate taxes, provide you with more income and with income tax deductions, while preserving your assets for your family and for charity.

A Charitable Remainder Trust (“CRT”) provides income to you or another beneficiary for a period of time, with the remainder passing to charity. The value of the remainder is deductible from your estate, thus reducing or eliminating your estate tax liability.

A Charitable Lead Trust (“CLT”) provides income to charity for a period of time, with the remainder passing to a named beneficiary at a reduced value for estate tax purposes. In certain situations, the estate taxes on the amount received by a beneficiary can be reduced to zero.

An ILIT can be used to replace a charitable gift with tax free money. In the end, everyone (except the IRS) enjoys significant benefits: you, your family and the charity.

## FAMILY LIMITED PARTNERSHIPS

A Family Limited Partnership is an agreement between parents and their children which enables the transfer of a business to the children at a discounted value, while allowing the parents to retain control of the business. The gifted business interest and future appreciation on the gift are removed from the parent's taxable estate, thus reducing estate tax liability. Similar results can be achieved using corporations and limited liability companies.

## SPECIAL NEEDS TRUSTS

Special Needs Trusts protect assets set aside for incapacitated persons from being consumed by long term care costs. The average monthly cost of long term nursing care in Michigan is \$6,362.00. A Special Needs Trust can ensure that an incapacitated person will qualify for Medicaid and Social Security Disability assistance without having to first "spend down" the assets available for their support.

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This brochure is not intended to give specific legal or tax advice. For specific information about planning your estate, contact one of our attorneys at Estate Planning & Elder Law Services, P.C.

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# ADVANCED ESTATE PLANNING TECHNIQUES



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