

February 21, 2022

The Clarity Formula® – Estate Planning



- 1.** Estate planning allows you to show how much you care about your loved ones and alleviate stress for you and your loved ones.
- 2.** A proper estate plan may help protect your legacy in the manner you desire, provide for your dependents and heirs, replace uncertainty with confidence and allow your loved ones to focus on grieving and healing.
- 3.** Annual gifting remains one of the most efficient ways to reduce the size of your estate.

February has long been a month associated with love. This makes it a great time to show how much you care about the people you love by creating an estate plan. If you already have an estate plan in place, now is an opportune time to check in on your plan to ensure it still meets your needs and desires.

Estate planning can alleviate stress for you and your loved ones by helping to protect your legacy in the manner you desire, provide for your dependents and heirs, replace uncertainty with confidence and allow your loved ones to focus on grieving and healing. The “Guide to Estate Planning” below will give you a brief highlight and help you familiarize yourself with many of the components of an estate plan.

Guide to Estate Planning

Level One (Must Haves)

Planning for and documenting the transfer of assets with minimized tax and transfer cost. Review upon life events (marriage, divorce, birth, adoption, etc.)

- A **will** appoints guardians for you children and spells out specifically how you want your property split.
- A **Living Trust** avoids probate, allows for privacy, and designates how assets are to be divided upon your death.
- A **Healthcare Power of Attorney** allows you to designate a Healthcare agent to make healthcare decisions in the event you are unable to make decisions for yourself.
- A **Financial / Property Power of Attorney** allows you to designate an agent to make financial decisions in the event you are unable to make decisions for yourself.
- Joint accounts transfer to a designated person upon death, it is important to **review co-ownership provisions and the titling of accounts.**
- Some assets (such as IRAs, Life Insurance, and Annuities) pass to your designated Beneficiaries. **It is very important to periodically review beneficiary designations and coordinate with the overall estate plan.**

Level Two (Considerations)

Further enhance the direction of assets, minimize Estate Taxes or increase Asset Protection

- The **Spousal Lifetime Access Trust (SLAT)** has become a popular estate planning strategy to take advantage of current lifetime gift tax exemptions (\$12.06MM each).
- **Grantor Retained Annuity Trusts (GRAT)** seek to pass assets to beneficiaries free of estate and gift tax that have appreciated over the IRS Section 7520 interest rate.
- Explore Charitable Trust, Donor-Advised Fund and Foundation Options.
- Since Life Insurance is not necessarily estate tax-free, consider establishing an **Irrevocable Life Insurance Trust.**
- Qualified Personal Residence Trust (QPRT)
- **Intra-Family Loans** can provide family members lower borrowing rates than traditional financing options.
- **Special Needs Trusts** ensure the proper passing of assets to ensure beneficiaries with special needs are not disqualified from entitled benefits.

Level Three (Advanced)

For Complex Estate Tax Issues or Liability Concerns

- **Domestic and Offshore Asset Protection Trusts** offer those in high liability fields of work and those with high estate tax brackets options to reduce liability.
- **Self-Cancelling Notes** allow the exchange of property for periodic payments based upon mortality.
- **Family Limited Partnerships and Family LLC's** provide legal, financial, and tax structure to family businesses.

■ Concept Check: Portability

Portability allows you to use you spouse's unused estate tax exclusion. While portability was made permanent for federal estate tax purposes, you should check if your resident state also allows for portability of a deceased spouse's unused estate exclusion. In the event your resident state does not allow for portability, it may make sense for both spouses to have assets in their respective name (or trust's name) up to the resident state's estate exclusion amount. Note that portability may require the filing of estate tax returns at first death even if there is not a taxable estate.

The chart below highlights the annual changes to many of the federal estate planning limits.

	2021	2022
Estate Exclusion	\$11,700,000	\$12,060,000
Maximum Estate Tax Rate	40%	40%
Lifetime Gifting Exemption	\$11,700,000	\$12,060,000
Maximum Gift Tax Rate	40%	40%
Annual Gift Exclusion	\$15,000	\$16,000
Annual Gifting Limit to U.S. Citizen Spouse	Unlimited	Unlimited
Annual Gifting Limit to Non-U.S. Citizen Spouse	\$159,000	\$164,000

Annual gifting (up to the annual gift exclusion) remains one of the most efficient ways to reduce the size of your estate. Annual gifting is advantageous for those who fear they will eventually have a taxable estate as well as those who are confident that they will not. In 2022, each individual donor can gift up to \$16,000 to a donee, meaning a couple could gift up to \$32,000. This can be done without the need to file a gift tax return and without reducing your lifetime gift tax exemption.

In addition to the annual gift exclusion, there are other types of gifts that do not erode one’s lifetime gift tax exemption. Tuition payments made directly to an educational institution and payments made directly to a health care provider for a person’s medical care do not constitute as gifts. Gifts of this type allow you to see the impact of your gift while you are living and can also help to significantly reduce the size of your estate.

If you have any questions that pertain to your specific situation, please do not hesitate to contact your advisor.

* This article is for information purposes only and should not be considered investment or legal advice. If you have specific investment or legal questions, please consult your financial advisor and/or lawyer.