

# **ESTATEVIEW**

## **COMPREHENSIVE PLANNING STRATEGIES**

**PREPARED FOR**  
**Carl and Louise Sample**

**PRESENTED BY**  
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\* This letter is provided for informational purposes only and should not be considered legal, tax, or financial advice. We are not responsible for any actions taken based on the information provided in this letter.

This illustration was prepared by Gassman, Crotty & Denicolo on October 19, 2024, and assumes residential property worth \$3,000,000 growing at 3.75% and Business and Investment assets of \$19,500,000 growing at 8.00%.

Assumes Carl lives until 2035 and Louise lives until 2044.

Note from Gassman, Crotty & Denicolo:

## INTRODUCTION TO THE FEDERAL ESTATE TAX SYSTEM

NOTE: This explanation and attached projections are in rough draft form, and have not been tailored to the individual situation of the clients. They are provided for illustration purposes only, and do not constitute a complete or necessarily accurate depiction of the present or future expected scenarios. We nevertheless believe that this sample explanation and its accompanying charts may be useful to facilitate understanding the estate tax system and how optional planning scenarios can affect Carl and Louise's estate tax liability and family.

Under the federal estate tax system, the value of a decedent's assets are determined, to include individually owned real and personal property, the proportionate share of jointly owned property, and the value of the decedent's rights in certain trusts, and any "incidents of ownership" held in life insurance policies on the decedent's life will be included in the total.

Deductions from the gross estate include funeral and administration expenses, the value of assets passing to qualified charities or a surviving spouse who must be a U.S. citizen to qualify an outright disposition for the marital deduction – but if not a U.S. citizen, then a lifetime income trust called a Qualified Domestic Trust (QDOT) will work. The unlimited marital deduction also applies to a trust that pays all income to a surviving spouse called a QTIP Trust – which can also be a QDOT if the surviving spouse is not a U.S. citizen.

Every U.S. citizen is entitled to a personal unified estate and gift tax exemption which may be used during life to offset taxable gifts with any exemption remaining at death to offset estate tax liability. An Estate Tax Form 706 must be filed within 9 months of death if the decedent's total assets exceed the exemption amount, even if the net assets after liabilities are below the exemption amount.

No estate tax is due if the value of an estate minus allowable deductions is less than the decedent's remaining available estate tax exemption. However, filing Form 706 may still be necessary in order to report deductions or apply an available exemption against a potentially taxable gross estate or to make elections such as applying a deceased spouse's unused exemption (DSUE) or to elect to apply the alternate valuation date (if it results in lower overall valuation) as of six months after the date of death.

The illustrations under this letter do not take into account the IRS's position that a trust that holds assets that are not subject to estate tax will normally not receive a new fair market value income tax basis for its assets, meaning that there may be income tax costs to the heirs of an estate who are the beneficiaries of such a trust. There are planning techniques that address such risk that are not discussed in this letter.

Further, some of the ways that the techniques under this letter may be used could be challenged by the IRS or "backfire" depending on how the strategy is used, the

amount of discounts taken, the rate of return on investments, and how long a person lives. There is no substitute for having an experienced tax planning professional or professionals and appropriate skilled and licensed lawyers design and draft proper documents for an estate plan, and for having a skilled and experienced Certified Public Accountant understand the plan and provide appropriate tax returns, financial statements and other services that are consistent therewith.

Once a plan is put into place it should be reviewed periodically and adjusted appropriately from year to year.

### Federal Unified Estate and Gift Tax Exemption

Under current law, the federal unified estate and gift tax exemption is annually indexed for the Chained Consumer Price Index, which is lower than the Consumer Price Index and much lower than the actual rate of inflation. In 2024 each individual's exemption is \$13,610,000 per person. Additionally, a deceased spouse's unused exemption (DSUE) may be added to the surviving spouse's available personal exemption. This "portability" feature is elected on a timely filed Form 706 to entitle the surviving spouse to combine the Deceased Spouse's Unused Exemption (DSUE) with their personal \$13,610,000 (net of the survivor's prior taxable gifts, adjusting for future annual inflationary adjustments).

For example, if Spouse A only used \$1,000,000 of his or her \$13,610,000 exemption either through lifetime taxable transfers or against his or her taxable estate, then surviving Spouse B may use Spouse A's unused \$12,610,000 in addition to Spouse B's full \$13,610,000 exemption, thereby giving Spouse B the ability to shelter \$26,220,000 against future taxable gifts or against Spouse B's future estate at death. The DSUE that transfers to the surviving spouse does not increase with inflation.

If the first dying spouse's gross assets are less than the estate tax exemption amount then the estate and surviving spouse have up to five years after the date of death of the first dying spouse to file a Form 706 Estate Tax Return that elects for the portability allowance to pass to the surviving spouse.

The Internal Revenue Code has provided relief to estates making late portability elections of DSUEs without requiring any user fee or a private letter ruling. This simplified method permits an extension of time under § 301.9100-3 of the Procedure and Administrative Regulations for the surviving spouse to make a portability election under I.R.C. § 2010(c)(5)(A) up to five years after a proper election should have been made on Form 706 from a deceased spouse's estate.

If a surviving spouse remarries, any properly elected DSUE is not necessarily lost. Rather, a surviving spouse may combine their own personal unused exemption with a properly elected DSUE from their last dying spouse in a new marriage to shelter lifetime taxable gifts or future estate tax liability. However, if the new spouse predeceases them, then the newly deceased spouse's unused exemption is applied.

Lifetime gifts exceeding an annual gift exclusion (currently set at \$18,000 per Donee as of 2024, and further explained below) reduce a person's lifetime \$13,610,000 exemption on a pro rata basis.

### Annual Gifting

An individual may make certain annual gifts to other non-exempt persons or irrevocable trusts without incurring gift tax. The annual excludable amount is indexed for inflation, and is presently set at \$18,000 per Donee recipient (for 2024). Spouses may elect (on a Gift Tax Return Form 709) to combine their annual excludable gifts, permitting a couple to make a gift in the amount of \$36,000 per Donee recipient. The individual or couple may make gifts to as many different people or properly drafted trusts as they wish each year, and often desire to follow an annual gifting schedule the same Donee recipients.

Gifts are commonly made to irrevocable Gifting Trusts also known as "Crummey Power Trusts" where beneficiaries have a temporary right to withdraw, in order to qualify contributions to be treated as if they were transferred to individuals. The "Crummey Power" is named after a 1968 Ninth Circuit U.S. Court of Appeals case *D. Clifford Crummey v. Commissioner of Internal Revenue* which established that a beneficiary's right to withdraw contributions to the trust constitutes a gift of a present interest even when the beneficiary waives his or her right. A "Crummey Notice" should be given to the beneficiary or guardian advising of the right to withdraw contributions for a limited time. Subsequent cases have held that beneficiaries who do not receive notice of contributions may still qualify if there was a legal right to make a withdrawal, especially if the beneficiary had general knowledge from the past that contributions were being made.

Gifts below the current \$18,000 individual or \$36,000 joint spousal threshold will not affect the lifetime exemption amount of \$13,610,000. Gifts between spouses who are U.S. citizens are always estate and gift tax free, regardless of amount.

Annual gifting may be combined with various estate planning techniques to minimize allowable transfers that avoid federal estate tax. Individual or joint gifts of values exceeding the current annual exclusion amount of \$18,000 or \$36,000 to an individual Donee require reporting on a Gift Tax Return (Form 709), where cumulative taxable gifts are subtracted from the Donor(s)' lifetime exemption amount available.

In other words, each individual is currently entitled to a maximum \$13,610,000 exemption from gift or estate taxes. In each year that an individual makes taxable gifts exceeding the current \$18,000 per Donee excludable amount, the excess value of those gifts are subtracted from the beginning balance of \$13,610,000 on Form 709 which is filed with the IRS. Whatever balance remains unused at death becomes the amount available to shelter an individual's federal estate tax liability.

There are several ways to strategically utilize the first dying spouse's exemption to maximize the estate tax shield applied to the surviving spouse's estate. The

illustrations produced by this software demonstrate how certain estate planning techniques may impact an estate plan and a family's legacy.

NOTE: If Congress does not extend the current estate exemption legislation by 2026, then a living person's unused exemption will be proportionately reduced (based on the new lower lifetime exemption, minus any amounts previously utilized), but not less than zero. In other words, there will be no Congressional "claw back" for an individual's use of previous allowable exemption amounts that exceed a new lower threshold.

Illustrations in this program can show the impact of various strategies under the assumption that the current exemption of \$13,610,000 will continue to be indexed for inflation AND whether the exemption will be reduced by approximately one half of what they would have otherwise been in 2026, when the current estate legislation is scheduled to "sunset."

In the event that one spouse dies before 2025 and leaves a portability allowance, then any such portability allowance will not be reduced if the surviving spouse later qualifies to use it.

This illustration also assumes that the surviving spouse will be able to use any portability allowance that may be passed by the first dying spouse, and therefore assumes that the surviving spouse will not remarry someone who dies before him or her.

## ASSUMPTIONS

Clients		
Name	Carl Sample	Louise Sample
Age	58	56
Sex	Male	Female
Tobacco User?	No	No
Lifetime Gift Exclusion Used	\$0	\$0
Projected Year of Death	2035	2044
Net Annual Savings/Outgo	\$50,000 per year	\$250,000 per year
Savings Transition Age	65	72
Rest of Life	(\$250,000) per year	\$100,000 per year
Portability		
Assume no portability?	No	
Exemption Adjustment		
Exemption Adjustment Option:	Assume Exemption drops 50% in 2026	
Business and Investments		
Current Value	\$19,500,000	
Annual Growth Rate	8.00%	
Annual Investment Costs Rate	0.10%	
Annual Investment Tax Rate (as % of assets)	1.60%	
Personal Residence and Property		
Current Value	\$3,000,000	
Annual Growth Rate	3.75%	
Qualified Personal Residence Trust (QPRT)		
Number of QPRTs	1	
Percentage of Residence Value to QPRT(s)	100.00%	
QPRT Residence Value	\$3,000,000	
QPRT 1 - § 7520 Rate	4.40%	
QPRT 1 - Term	9	
QPRT 1 - Exemption Used	\$1,852,825	
QPRT 1 - Annual Rent % After Possessory Term	8.00%	
QPRT 1 - Valuation Discount Rate	N/A	
Bypass Trust		
Bypass Trust Value	\$10,060,000	
Gifting		
Initial Gifting Trust Value	\$0	
Exempt Gifts per year	2 Donees	
Number of Years	10	

Subsequent Gifts per year	5 Donees
Percentage of Gifts to Gifting Trust	100.00%
<b>Installment Sale</b>	
Year One Gift Amount	\$1,206,469
Year One Gift Discount Rate	0.00%
Year One Gift After Discount	\$1,206,469
Sale Value before Discount	\$16,756,510
Discount Rate	28.00%
Sale Value after Discount	\$12,064,688
Total Sale Value	\$12,064,688
Note Amount	\$12,064,688
Note Interest Rate	4.06%
Note Payment Amount	\$489,826
Type of Note	Conventional
Note Term in Years	20
Year to Toggle Off Grantor Status	N/A
Additional Income for Installment Sale Trust (Reduces Net Yearly Savings/Outgo)	\$0
Number of Years of Additional Income for Installment Sale Trust	30
Note Discount On Death	10.00%
Annual Guarantee Fee Type (% or \$)	Percent
Annual Guarantee Fee (% of Note)	0.00%
Annual Guarantee Fee Paid to Gift Trust?	True
<b>Rates</b>	
Consumer Price Index Growth Rate	3.71%
Real Inflation	4.01%

Estate Tax Rate	40.00%
Adjust for Real Inflation	No
<b>Charity</b>	
Charity or CLAT?	CLAT
Charity Name	
Percent of Residue to CLAT	100.00%
Percent of CLAT to Charity	60.00%
Number of Years	20



## ILLUSTRATION 1 - NO PLANNING

This first illustration assumes no annual gifting.

The first row shows Carl and Louise's assets in 2024.

The second row illustrates the assumption that Carl's death occurs first and reflects the increase in asset values as of the date of the first death. This row shows all assets transferred to the surviving spouse to defer potential federal estate tax until the second death.

Many couples will allow this to occur, utilizing the deceased spouse's unused exemption (DSUE).

In this illustration the surviving spouse will be eligible to utilize a total exemption of \$24,020,000 (\$10,060,000 from Carl's projected DSUE + \$13,960,000 from Louise's projected available exemption).

The third row illustrates Louise's projected estate values at their death in 20 years leaving \$74,601,887 worth of personal assets exposed to federal estate tax.

Applying Carl's DSUE of \$10,060,000 leaves Louise's net estate of \$50,581,887 subject to federal estate tax. Assuming a 40.00% estate tax rate, the estate tax would be \$20,232,755 and is normally owed 9 months after the surviving spouse's date of death.

For estates substantially comprised of large closely held businesses, an executor may be entitled to make an election under I.R.C. § 6166 to defer the payment of estate taxes up to five years with interest-only payments, thereafter making equal payments over the following ten years. Such an election alleviates an estate's illiquidity and may avoid the need to sell assets at a disadvantageous time triggering a loss.

ILLUSTRATION 1 - NO PLANNING  
(20 YEARS)

Today

Carl & Louise Sample		
Residence \$3,000,000	Investments \$19,500,000	
Annual Growth Rate 3.75%	Annual Additions \$50,000	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax



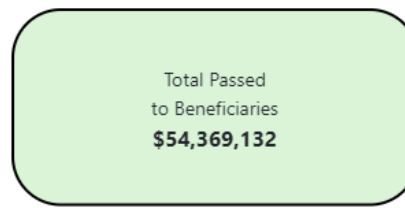
Upon 1st Death  
(in Year 11)

Louise Sample		
Residence \$4,497,699	Investments \$37,514,789	
Annual Growth Rate 3.75%	Annual Additions \$385,271	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax



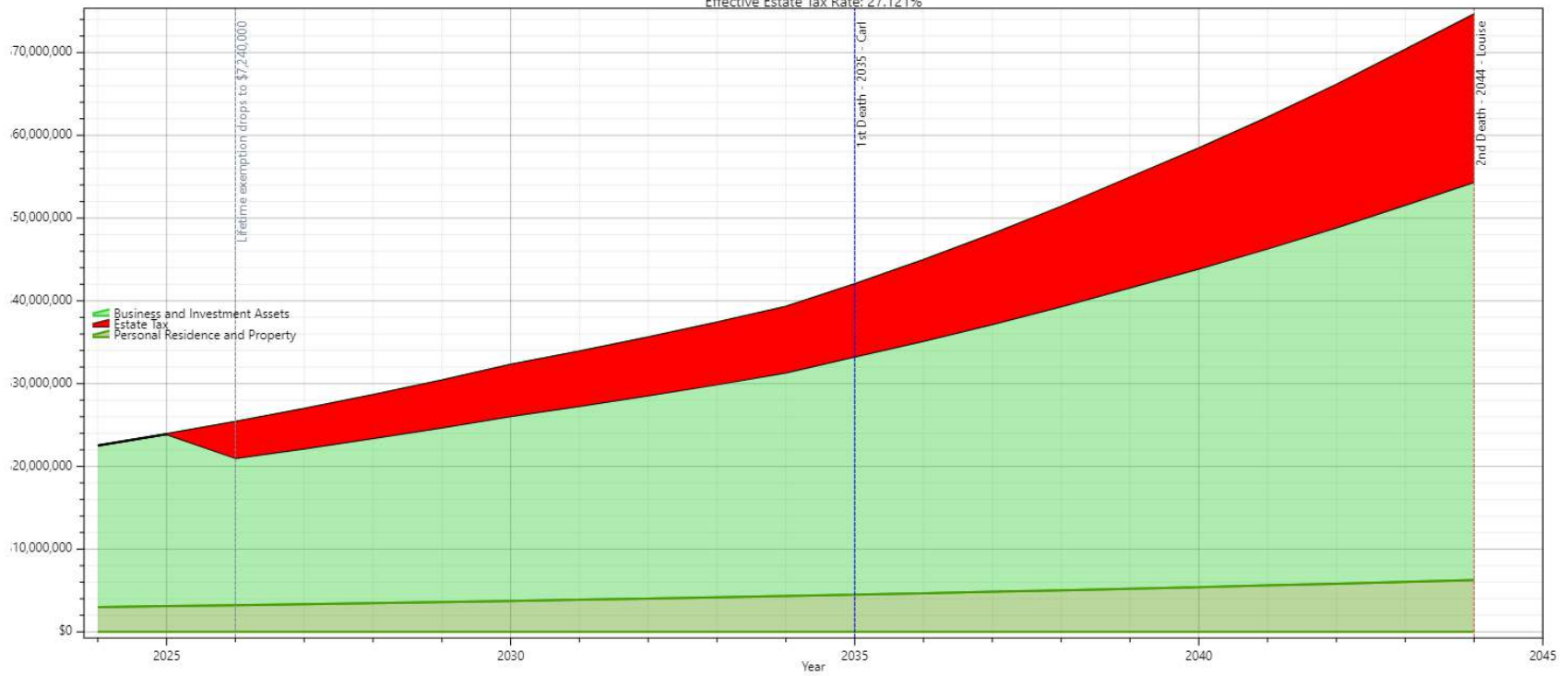
Upon 2nd Death  
(in Year 20)

Louise's Estate	
Residence \$6,264,456	Investments \$68,337,431
Exemption/Portability: (\$24,020,000)	
Net Taxable Estate: \$50,581,887	



### ILLUSTRATION 1 - NO PLANNING (20 YEARS)

Carl Sample & Louise Sample  
Effective Estate Tax Rate: 27.121%



## ILLUSTRATION 2 - BYPASS TRUST

An irrevocable Bypass Trust, also known as a "Family Trust" or "Credit Shelter Trust" may provide lifetime income to a surviving spouse while shielding the trust assets from federal estate tax at the death of the surviving spouse. The Bypass Trust may also allow principal distributions for the surviving spouse's health, education, maintenance, and support (known as the HEMS standard). The Bypass Trust may be funded according to provisions in the Decedent's Will or by a procedure whereby the surviving spouse disclaims certain assets which then pass into the Bypass Trust for the beneficiaries' remainder interest.

The amount of assets used to fund the Bypass Trust often utilize the Decedent's maximum available estate exemption, with the excess amount funding a Marital Trust over which the surviving spouse would have full discretion, and thus will be includable in the surviving spouse's estate.

Assets remaining in the Bypass Trust upon the second spouse's death may be allocated to a separate Generation Skipping Trust (GST) to benefit individuals who are more than one generation younger than the original Grantor (including a grandchild or any other individual at least 37.5 years younger than the Grantor). However, without proper planning, transfers to a "skip generation" beneficiary could trigger a stacked 40% GST tax on top of any estate taxes. Your experience estate planning professional will be able to discuss further options for utilizing the separate GST exemption in addition to any available estate tax exemption ported between spouses.

In this illustration, the Bypass Trust is funded in the amount of \$10,060,000 upon the first death. The deceased spouse's estate tax exemption is used to the extent of \$10,060,000 by funding of the Bypass Trust shown in the second column, at Carl's death in 2035

Under this scenario, the Bypass Trust grows to \$17,434,013 based upon the assumed 6.30% rate of return, and will not be subject to federal estate tax at the second death.

Applying a 40.00% estate tax rate, funding the Bypass Trust saves \$2,949,605 in federal estate tax.

Because Carl Sample had \$10,060,000 in exemption when he died, and only \$10,060,000 went to the Bypass Trust, the portability allowance that can pass to Louise Sample was \$0 and will be usable by her unless she remarries someone who dies before her, in which event that next dying spouse's portability, if available, would apply.

ILLUSTRATION 2 - BYPASS TRUST  
(FUNDED YEAR 11)

Today

Carl & Louise Sample		
Residence \$3,000,000	Investments \$19,500,000	
Annual Growth Rate 3.75%	Annual Additions \$50,000	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax



Upon 1st Death  
(in Year 11)

Louise Sample		
Residence \$4,497,699	Investments \$27,454,789	
Annual Growth Rate 3.75%	Annual Additions \$385,271	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

Bypass Trust	
Initial Funding Upon 1st Death \$10,060,000	
Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax	



Upon 2nd Death  
(in Year 20)

Louise's Estate	
Residence \$6,264,456	Investments \$50,903,418
Exemption/Portability: (\$13,960,000)	
<b>Net Taxable Estate: \$43,207,874</b>	

Bypass Trust	
Value \$17,434,013	

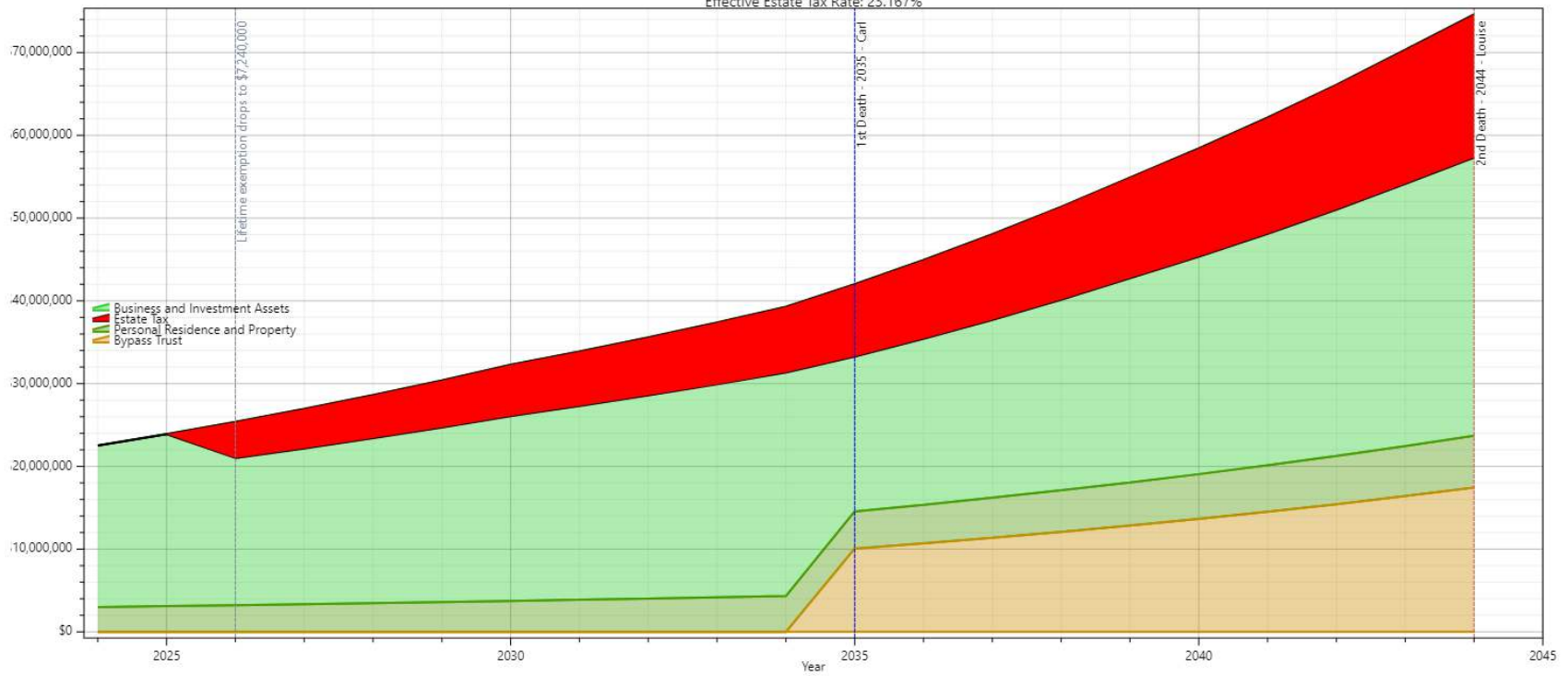


Estate Tax <b>\$17,283,150</b>	
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Total Passed to Beneficiaries <b>\$57,318,738</b>
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## ILLUSTRATION 2 - BYPASS TRUST (FUNDED YEAR 11)

Carl Sample & Louise Sample  
Effective Estate Tax Rate: 23.167%



### **ILLUSTRATION 3 - QPRT**

This illustration shows estate tax savings from using one or more Qualified Personal Residence Trusts.

A Qualified Personal Residence Trust (QPRT) is an irrevocable trust created when the owner of a primary residence and/or vacation home makes a gift transferring the property's title to the trust. Thus, the value of the home and its future appreciation is removed from the owner's estate, while the owner retains the right to reside in the home for a term of years. Since the transfer does not represent a gift of a present interest, the value of the property cannot be reduced by the annual exclusion (\$18,000 in 2024).

The QPRT represents an IRS-sanctioned exception to the general rule that Grantors are prohibited from the use or enjoyment of property that qualifies as a gift. To comply with IRS rules, the trust term is set to a specific period of time that is expected to be shorter than the owner's life expectancy. At the end of the term, title passes to the trust beneficiaries, and the owner begins paying fair market rent to them if the owner desires to continue residing in the home. These rental payments do not constitute taxable gifts.

This technique freezes the value of the home when it is transferred into the trust, and the gift is discounted according to actuarial assumptions applied to the remainder interest transferred to beneficiaries using IRS mortality tables and the Sec. 7520 rate in effect. The higher the 7520 rate, the lower the gift value, and thus the higher the potential estate tax savings.

When the term of the Trust is over, we show that Carl pays rent based on 8% of the value of the property held in QPRT 1 each year, beginning in year 9 (2033) and ending with Carl dies in year 11 (2035). We are showing that Louise pays rent for the use of the property interest owned under QPRT 2 beginning in year 0 (2024) and until Louise's death in year 20 (2044).

The total rent paid, plus the growth on the amounts received at the 8% growth rate, comes to \$1,341,985 in QPRT 1 and \$0 in QPRT 2. This does not take account of the fact that QPRT 1 will be subject to income tax on its investment income after Carl's death.

ILLUSTRATION 3 - QPRT

Today

Carl & Louise Sample		
Residence In QPRT	Investments \$19,500,000	
Annual Growth Rate 3.75%	Annual Additions \$50,000	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

QPRT
Home Value \$3,000,000
Cash From Rent \$0

Upon 1st Death  
(in Year 11)

Louise Sample		
Residence In QPRT	Investments \$28,533,245	
Annual Growth Rate 3.75%	Annual Additions \$385,271	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

Bypass Trust
Initial Funding Upon 1st Death \$8,207,175
Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

QPRT
Home Value \$4,497,699
Cash From Rent \$774,370

Upon 2nd Death  
(in Year 20)

Louise's Estate	
Residence In QPRT	Investments \$52,772,385
Exemption/Portability: (\$13,960,000)	
<b>Net Taxable Estate: \$38,812,385</b>	

Bypass Trust
Value \$14,223,061

QPRT
Home Value \$6,264,456
Cash From Rent \$1,341,985

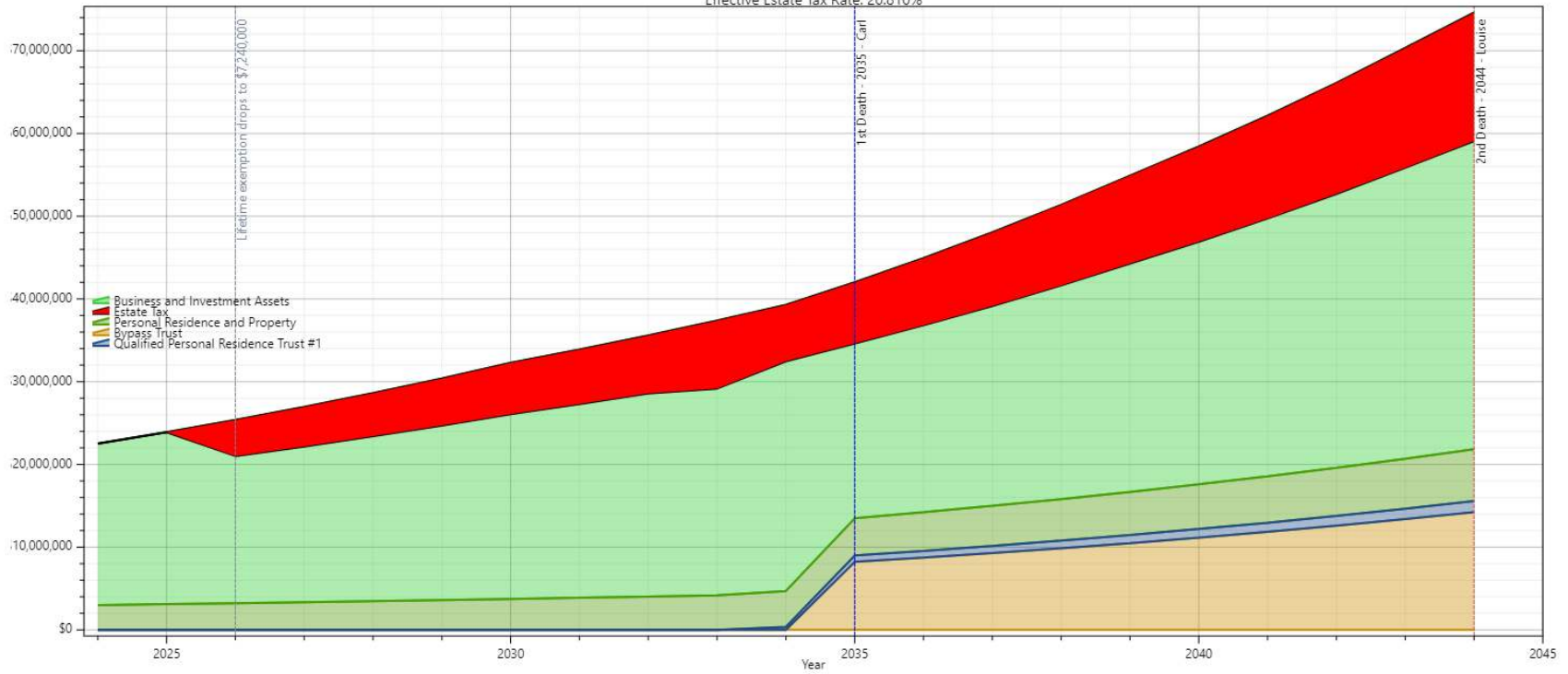
Estate Tax <b>\$15,524,954</b>
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Total Passed to Beneficiaries <b>\$59,076,933</b>
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### ILLUSTRATION 3 - QPRT

Carl Sample & Louise Sample  
Effective Estate Tax Rate: 20.810%



## **ILLUSTRATION 4 - ANNUAL GIFTING**

This illustration shows the use of annual gifting.

Under current law (2024) individuals do not need to report gifts up to \$18,000 per year, per Donee, or joint gifts up to \$36,000 per year, per Donee made by married spouses. There is no limit on the number of Donee recipients in a single year.

Gifts may be given directly to recipients or through the use of a Gifting Trust, whereby a Trustee controls the investments and distributions to beneficiaries. A Gifting Trust may protect beneficiaries from claims of their creditors, divorcing spouses, or simply from making inappropriate financial decisions with their cash gifts.

This example shows Carl and Louise jointly making non-reportable gifts of \$18,000 each per child, or grandchild, totaling \$36,000 per year. This illustration reflects projected increases in annual gifts with CPI inflationary adjustments, totaling \$4,793,428 in 20 years.

Applying a 40% estate tax rate, the combined savings from the annual gifting for both Carl and Louise is \$1,917,371.

ILLUSTRATION 4 - ANNUAL GIFTING  
(2 DONEES)

Today

Carl & Louise Sample		
Residence In QPRT	Investments \$19,500,000	
Annual Growth Rate 3.75%	Annual Additions \$50,000	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

QPRT
Home Value \$3,000,000
Cash From Rent \$0

Gifting Trust(s)
Value \$0
Annual Gifts \$72,000
Annual Growth Rate 8.00% less 0.10% fees

Upon 1st Death  
(in Year 11)

Louise Sample		
Residence In QPRT	Investments \$26,939,668	
Annual Growth Rate 3.75%	Annual Additions \$385,271	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

Bypass Trust
Initial Funding Upon 1st Death \$8,207,175
Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

QPRT
Home Value \$4,497,699
Cash From Rent \$774,370

Gifting Trust(s)
Value \$1,593,577
Annual Gifts \$135,000
Annual Growth Rate 8.00% less 0.10% fees

Upon 2nd Death  
(in Year 20)

Louise's Estate	
Residence In QPRT	Investments \$47,959,234
Exemption/Portability: (\$13,960,000)	
<b>Net Taxable Estate: \$33,999,234</b>	

Bypass Trust
Value \$14,223,061

QPRT
Home Value \$6,264,456
Cash From Rent \$1,341,985

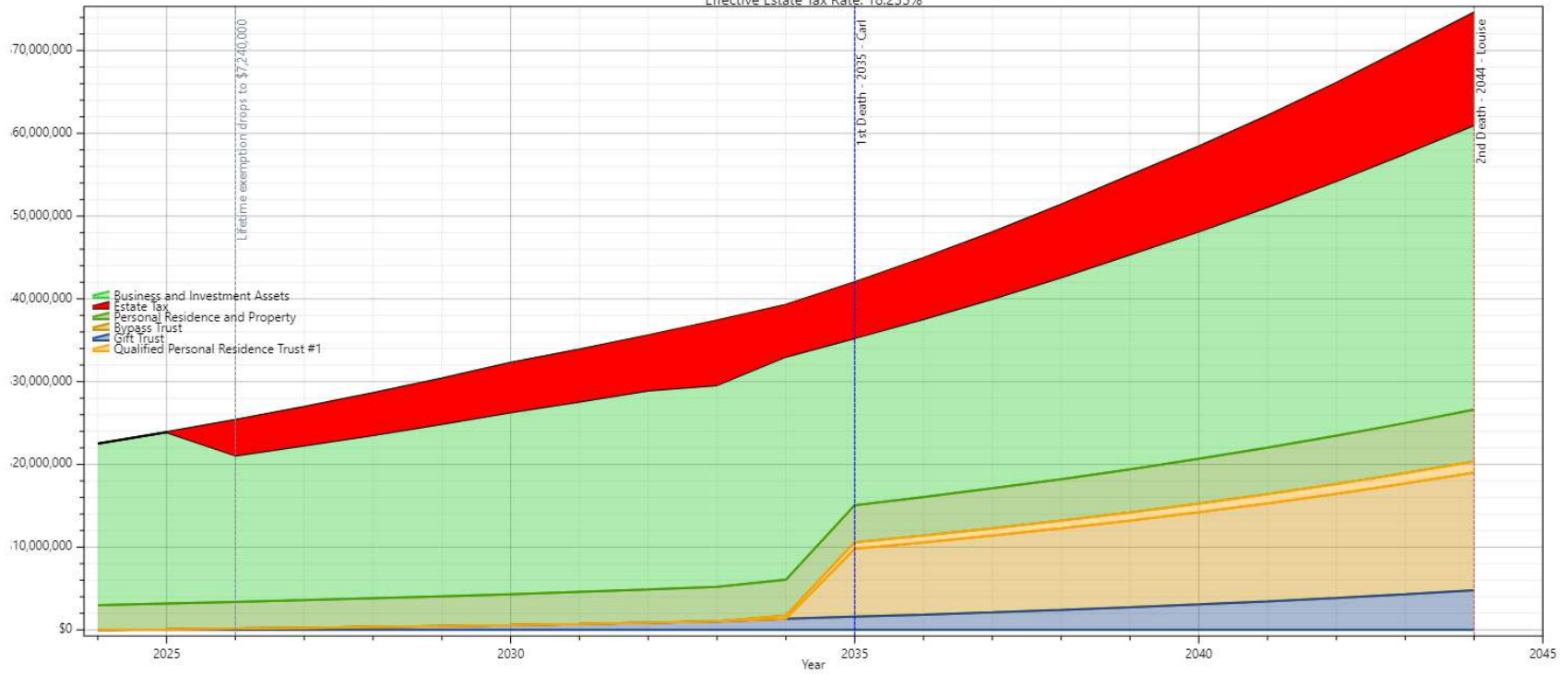
Gifting Trust(s)
Value \$4,793,428

Estate Tax <b>\$13,599,694</b>
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Total Passed to Beneficiaries <b>\$60,982,470</b>
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#### ILLUSTRATION 4 - ANNUAL GIFTING (2 DONEES)

Carl Sample & Louise Sample  
Effective Estate Tax Rate: 18.235%



## **ILLUSTRATION 5 - DISCOUNTED GIFTING**

Valuation discounts may apply when certain ownership interests are transferred, such as interests in family limited partnerships (FLPs) or limited liability companies (FLLCs) holding businesses or investments. There are advantages to gifting partial ownership interests in lieu of cash. When less than 50% business interests are gifted, the asset may be entitled to a valuation discount due to minority interests lacking management control and lacking outside marketability of a partial interest in a closely-held family business.

The amount of the discount entails a subjective case-by-case determination; however, a 30% discount is often justified. Valuation discounts provide an opportunity to transfer more assets (and the future appreciation) out of the Donor's estate.

For example, if Carl and Louise transferred \$1,000,000 worth of assets into an FLP or FLLC and then made a gift of a 10% minority interest or non-voting interest from the entity, this nominal transfer of \$100,000 out of their estate might only utilize the discounted amount of \$100,000 of their lifetime exemption, assuming a 0% valuation discount.

This example shows Carl and Louise jointly making non-reportable gifts of \$18,000 each per child, or grandchild, totaling \$72,000 per year. Applying a 0% discount to their gifts and projected increases in annual gifts adjusted for inflation removed a total of \$4,793,428 from their taxable estates.

The estate tax savings from the discount feature, based upon gifting \$72,000 per year during Carl and Louise's lifetime, and later gifting \$36,000 per year of gifting during Louise's survivorship, is \$0.

ILLUSTRATION 5 - DISCOUNTED GIFTING  
(0% DISCOUNT)

Today

Carl & Louise Sample		
Residence In QPRT	Investments \$19,500,000	
Annual Growth Rate 3.75%	Annual Additions \$50,000	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

QPRT
Home Value \$3,000,000
Cash From Rent \$0

Gifting Trust(s)
Value \$0
Annual Gifts \$72,000
Annual Growth Rate 8.00% less 0.10% fees

Upon 1st Death  
(in Year 11)

Louise Sample		
Residence In QPRT	Investments \$26,939,668	
Annual Growth Rate 3.75%	Annual Additions \$385,271	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

Bypass Trust
Initial Funding Upon 1st Death \$8,207,175
Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

QPRT
Home Value \$4,497,699
Cash From Rent \$774,370

Gifting Trust(s)
Value \$1,593,577
Annual Gifts \$135,000
Annual Growth Rate 8.00% less 0.10% fees

Upon 2nd Death  
(in Year 20)

Louise's Estate	
Residence In QPRT	Investments \$47,959,234
Exemption/Portability: (\$13,960,000)	
<b>Net Taxable Estate: \$33,999,234</b>	

Bypass Trust
Value \$14,223,061

QPRT
Home Value \$6,264,456
Cash From Rent \$1,341,985

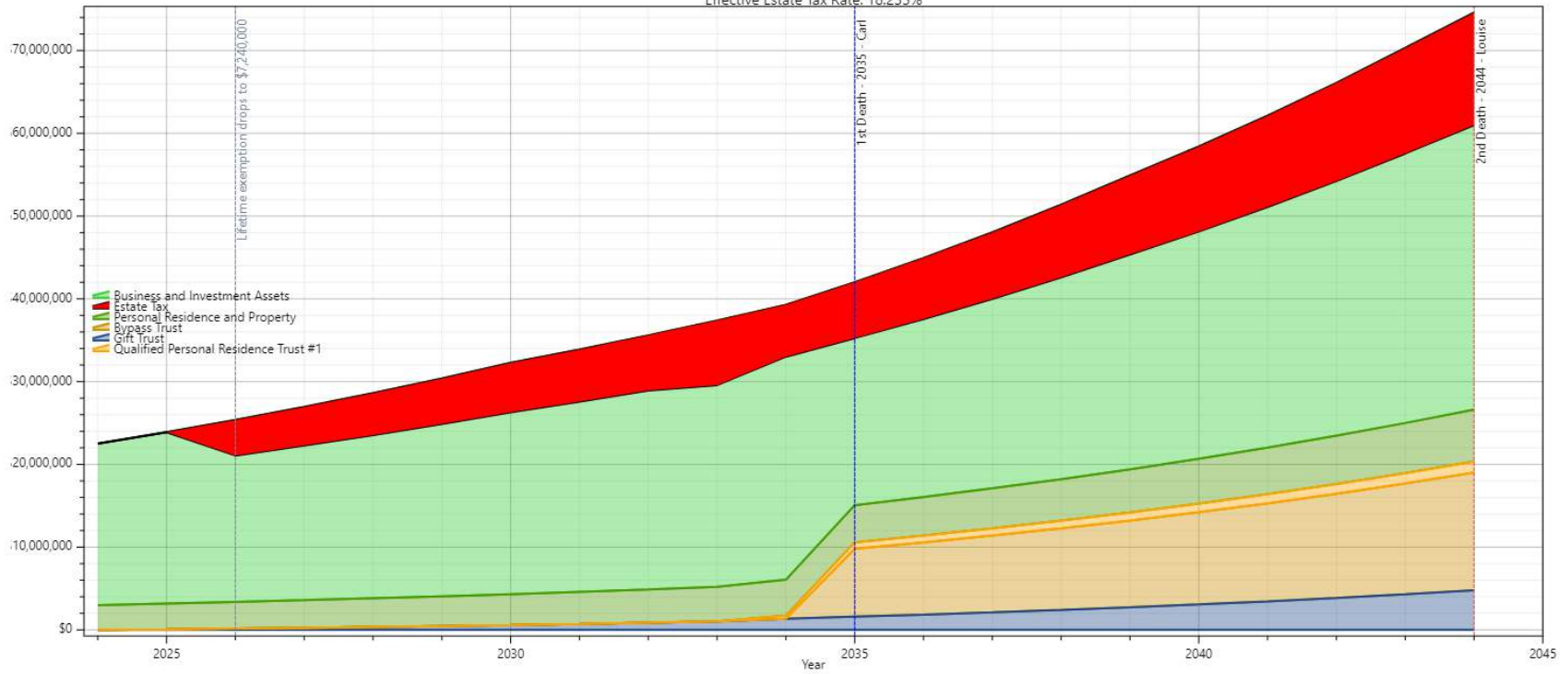
Gifting Trust(s)
Value \$4,793,428

Estate Tax <b>\$13,599,694</b>
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Total Passed to Beneficiaries <b>\$60,982,470</b>
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### ILLUSTRATION 5 - DISCOUNTED GIFTING (0% DISCOUNT)

Carl Sample & Louise Sample  
Effective Estate Tax Rate: 18.235%



## **ILLUSTRATION 6 - YEAR 1 GIFT / INSTALLMENT SALE**

One of the most effective tools available to reduce Estate Tax exposure is the Installment Sale to an irrevocable trust.

An "Irrevocable Sale Trust" is established to purchase assets from Carl and Louise in exchange for an installment note. The Trust is thereby excluded from their estate and the sale does not utilize any lifetime gift exemption since it is structured as a sale rather than a gift. Carl and Louise may choose to continue to pay income taxes attributable to the trust's taxable activity to further reduce their estate assets without their payment utilizing any of their lifetime Gift Tax exemption. However, Carl and Louise may toggle the income tax inclusion at any time so that the trust begins paying its income taxes at the trust level.

This illustration assumes that Carl and Louise will always pay the income taxes on the trust.

This illustration shows Carl and Louise making a \$1,206,469 year one gift to the trust, and shortly thereafter selling an ownership interest in an LLC or Family Limited Partnership in exchange for a Promissory Note.

The business interest worth \$16,756,510 is discounted by 28.00% resulting in a sale of \$12,064,688 asset. In addition, 50% of the explosive asset worth \$0 is sold to the trust to bring the total sale value to \$12,064,688. Selling the explosive asset to the Irrevocable Sale Trust in year one means the high-growth projected for this asset over the next 0 years will occur outside the taxable estate.

We are showing that you would make a \$1,206,469 year one capital gift to the trust, and shortly thereafter sell an ownership interest in an LLC or Family Limited Partnership in exchange for a Promissory Note.

In exchange for the transfer Carl and Louise receive a 4.06% note for the \$12,064,688 sales price. The note is structured to pay interest only with a balloon payment of the principal due in 20 years. Before or at its maturity the note may be refinanced, or potentially converted to a Self-Canceling Installment Note ("SCIN").

This illustration shows the sale occurring in 2024 and growth of assets through the 2nd death in 2044. At that time, the Irrevocable Sale Trust will hold \$36,884,961 of assets that can pass outside of the estate into trusts providing lifetime benefits to children or other beneficiaries without triggering estate tax upon their deaths.

The estate tax savings from this installment sale of discounted assets would be \$13,599,694 based upon the assumptions set forth herein.



ILLUSTRATION 6 - YEAR 1 GIFT / INSTALLMENT SALE  
(20 YEAR NOTE)

Today

Carl & Louise Sample		
Residence In QPRT	Investments \$1,537,021	Note \$12,064,688
Annual Growth Rate 3.75%	Annual Additions \$50,000	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

QPRT
Home Value \$3,000,000
Cash From Rent \$0

Gifting Trust(s)
Value \$0
Annual Gifts \$72,000
Annual Growth Rate 8.00% less 0.10% fees

Year 1 Gift / Installment Sale Trust	
Gross Value \$17,962,979	
Less Note \$12,064,688	Payment Amount \$489,826
Net Value \$5,898,292	

Upon 1st Death  
(in Year 11)

Louise Sample		
Residence In QPRT	Investments \$6,862,298	Note \$0
Annual Growth Rate 3.75%	Annual Additions \$385,271	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

Bypass Trust
Initial Funding Upon 1st Death \$7,000,706
Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

QPRT
Home Value \$4,497,699
Cash From Rent \$774,370

Gifting Trust(s)
Value \$1,593,577
Annual Gifts \$135,000
Annual Growth Rate 8.00% less 0.10% fees

Year 1 Gift / Installment Sale Trust	
Gross Value \$21,283,838	
Less Note \$0	
Net Value \$21,283,838	

Upon 2nd Death  
(in Year 20)

Louise's Estate		
Residence In QPRT	Investments \$13,165,087	Note \$0
Exemption/Portability: (\$13,960,000)		
Net Taxable Estate: \$0		

Bypass Trust
Value \$12,132,247

QPRT
Home Value \$6,264,456
Cash From Rent \$1,341,985

Gifting Trust(s)
Value \$4,793,428

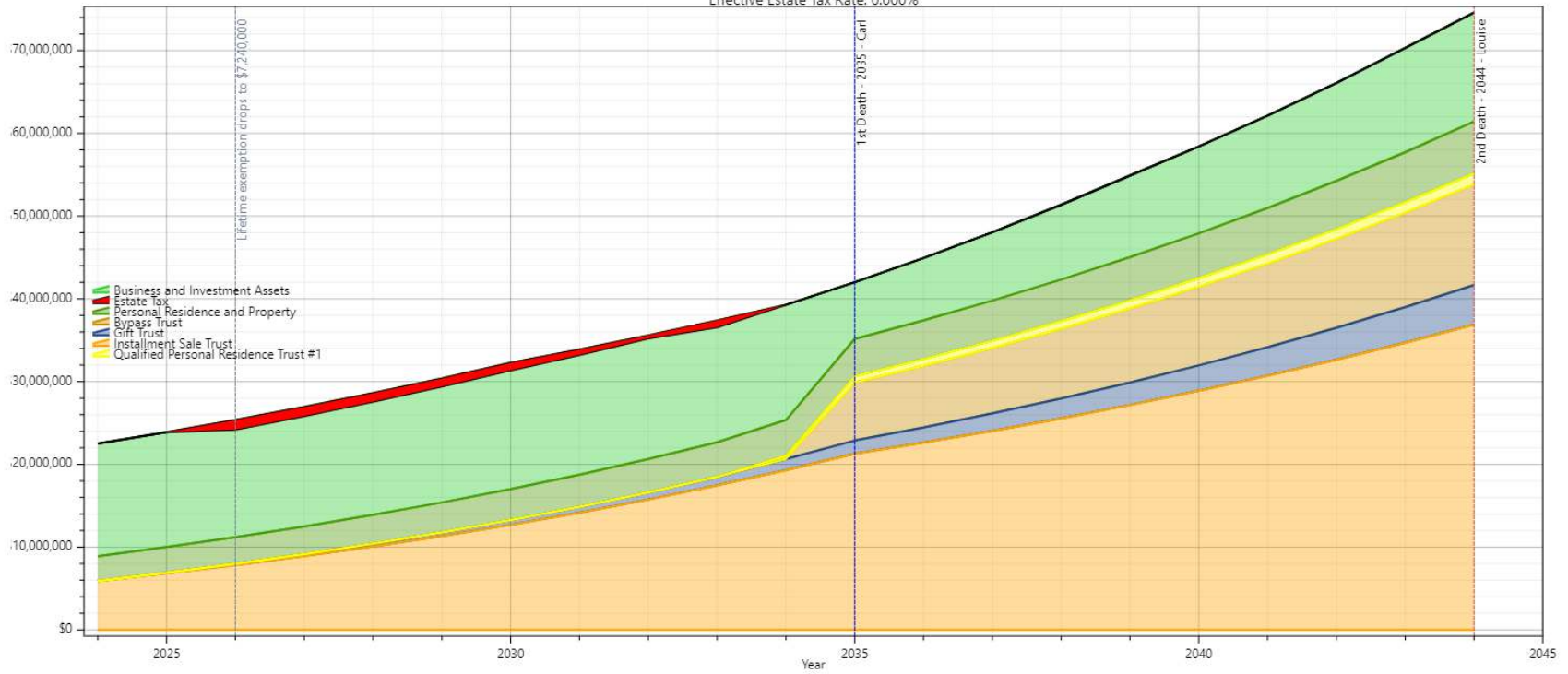
Year 1 Gift / Installment Sale Trust	
Gross Value \$36,884,961	
Less Note \$0	
Net Value \$36,884,961	

Estate Tax \$0
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Total Passed to Beneficiaries \$74,582,164
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# ILLUSTRATION 6 - YEAR 1 GIFT / INSTALLMENT SALE (20 YEAR NOTE)

Carl Sample & Louise Sample  
Effective Estate Tax Rate: 0.000%



## ILLUSTRATION 7 - TESTAMENTARY CHARITY

The next illustration shows that allowing a residuary estate to pass to a Charity, a Family Charitable Foundation, or Charitable Lead Annuity Trust (CLAT) will always result in zero estate taxes, but will reduce the total amount passing to non-charitable Beneficiaries.

Here we show Carl Sample and Louise Sample's residuary estate of \$0 that would otherwise be subject to 40% estate tax passing to a CLAT, resulting in \$0 Estate Tax.

Whether passing the residuary estate directly to charities, or by utilizing a CLAT, estate taxes will be zeroed-out. However, the advantage of utilizing a CLAT is that the assets continue to grow during the charitable payment term, resulting in potentially more remainder assets passing to family Beneficiaries after the end of the charitable payment term.

For example, if Carl Sample and Louise Sample's net taxable estate passed directly to one or more qualified Charities, the amount passing to non-charitable Beneficiaries would be \$74,582,164.

However, passing the \$0 residuary estate to a CLAT allows more time for the assets to grow tax-free while making annual payments to one or more charities totaling \$0 for a term of years (typically between 12 – 20) and is projected to yield an additional \$0 passing to family members at the end of the CLAT term.

To effectuate a testamentary CLAT Carl Sample and Louise Sample's Will and Trust documents would contain specific provisions directing the Personal Representative or Trustee to allocate the maximum assets that would offset the finally determined estate tax liability.

# ILLUSTRATION 7 - TESTAMENTARY CHARITY

Today

Carl & Louise Sample		
Residence In QPRT	Investments \$1,537,021	Note \$12,064,688
Annual Growth Rate 3.75%	Annual Additions \$50,000	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

QPRT
Home Value \$3,000,000
Cash From Rent \$0

Gifting Trust(s)
Value \$0
Annual Gifts \$72,000
Annual Growth Rate 8.00% less 0.10% fees

Year 1 Gift / Installment Sale Trust	
Gross Value \$17,962,979	
Less Note \$12,064,688	Payment Amount \$489,826
Net Value \$5,898,292	

Upon 1st Death  
(in Year 11)

Louise Sample		
Residence In QPRT	Investments \$6,862,298	Note \$0
Annual Growth Rate 3.75%	Annual Additions \$385,271	Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

Bypass Trust
Initial Funding Upon 1st Death \$7,000,706
Annual Growth Rate 8.00% less 0.10% fees and 1.60% tax

QPRT
Home Value \$4,497,699
Cash From Rent \$774,370

Gifting Trust(s)
Value \$1,593,577
Annual Gifts \$135,000
Annual Growth Rate 8.00% less 0.10% fees

Year 1 Gift / Installment Sale Trust	
Gross Value \$21,283,838	
Less Note \$0	
Net Value \$21,283,838	

Upon 2nd Death  
(in Year 20)

Louise's Estate		
Residence In QPRT	Investments \$13,165,087	Note \$0
Exemption/Portability: (\$13,960,000)		
Amount to CLAT: \$0		
Net Taxable Estate: \$0		

Bypass Trust
Value \$12,132,247

QPRT
Home Value \$6,264,456
Cash From Rent \$1,341,985

Gifting Trust(s)
Value \$4,793,428

Year 1 Gift / Installment Sale Trust	
Gross Value \$36,884,961	
Less Note \$0	
Net Value \$36,884,961	

Amount to CLAT \$0 (100%)
Amount to The Carl and Louise Sample Foundation \$0 (60%)
Remainder to Beneficiaries \$0 (40%) (in year 20)

Estate Tax \$0
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Total Passed to Beneficiaries \$74,582,164 + \$0 = \$74,582,164
Amount Sacrificed by Beneficiaries to Facilitate Charitable: \$0

# ILLUSTRATION 7 - TESTAMENTARY CHARITY

Carl Sample & Louise Sample  
Effective Estate Tax Rate: 0.000%

