


Estate Planning
Demystifying Estate Taxes

George Harris, EA
2101 N Country Club, Ste 105
Tucson, AZ 85716
520-320-1041
george@1stChoiceTaxServices.com



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Everyone has an Estate Plan!

- Developed & implemented to fit their unique needs & situation.
- Mandated by the general laws of AZ intestate succession regardless of your wishes.

Benefits of Estate Planning

- ▶ Tax Savings
- ▶ Asset Distribution
- ▶ Avoid Probate
- ▶ Asset Protection / Control
- ▶ Beneficiary Protection
- ▶ Asset Management
- ▶ Ease of Administration
- ▶ Privacy

Estate Planning Tools

- ▶ Last Will & Testament
- ▶ Living Will
- ▶ Living Trust
- ▶ Irrevocable Trust
- ▶ "Pour Over" Will
- ▶ Durable POA
- ▶ Medical POA
- ▶ Lifetime Gifts
- ▶ Charitable Contributions

Ways to Transfer Property

- ▶ Legal Transfers
 - JT-WROS
 - CP-WROS
 - POD
 - TOD
- ▶ Contractual Transfers
 - Named Beneficiary
 - Trust
- ▶ Transfers thru Probate
 - All else

Types of Trusts

- Grantor Trusts
- Living Trusts
- Revocable Trust
- Irrevocable Trust
- Intervivos Trusts
- Testamentary Trust
- Simple Trust
- Complex Trusts
- Charitable Trusts
- A/B TRUST
- Bypass Trust
- Family Trust
- Survivors Trust
- Descendants Trust
- Decedents Trust
- Real Estate Trust
- Education Trust
- Special Needs

Estate or Trust ?

- ***Grantor Trusts***
- Living Trusts
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- ***Irrevocable Trust***
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- ***Simple Trust***
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- Survivors Trust
- Descendants Trust
- Decedents Trust
- Real Estate Trust
- Education Trust
- ***Special Needs***

Grantor Trusts

- A trust that gives the grantor sufficient control over it's income, assets, or trust document so that they are considered it's owner for tax purposes.
- It's a valid legal trust under state law.
- It's disregarded as a separate entity for *tax purposes*.
- Income and expenses are reported on Grantor's 1040.
- Form 1041 & "*Grantor Trust Statement*" usually only required for professionally managed trusts.
- All "Living Trusts" are grantor trusts.

Irrevocable Trust

- ▶ A trust in which the grantor relinquishes sufficient control over it's income, assets, and/or trust document so that it is considered a separate entity for tax purposes.
- ▶ Living Trusts become irrevocable at death.
- ▶ 1041 is required annually.
- ▶ K-1 distributes taxable income & deductions to the beneficiaries who receive distributions.
- ▶ Any undistributed income is taxed at the trust level.

Simple vs. Complex Trust

- ▶ **Simple Trust:** A trust that is;
 - Required to distribute all of its income annually
 - Has no charitable beneficiaries
 - Makes no distributions of principal (corpus)
 - Allowed a \$300 exemption.*
- ▶ **Complex Trust:** A trust that is not a simple trust.
 - Allowed a \$100 exemption*

*Final year exemption = \$ 0
 Estate exemption = \$ 600
 Special Needs Trust = \$ 3,650

What's new for 2010

2010 Decedents	2011 2012 Decedents
<ul style="list-style-type: none"> ▶ Estate tax eliminated ▶ Modified carryover basis rules apply <ul style="list-style-type: none"> ◦ \$1.3 m step up on elected assets ◦ Addl. \$3m for surviving spouse ▶ New 2011 Rules apply unless elect out on 706 	<ul style="list-style-type: none"> ▶ \$5m Lifetime exclusion ▶ No limit to step up in basis ▶ Max tax rate = 35% ▶ Surviving Spouse can use any of deceased spouse's unused exclusion. <i>(Election must be made on deceased spouse's 706)</i>

What's new for 2010 contd.

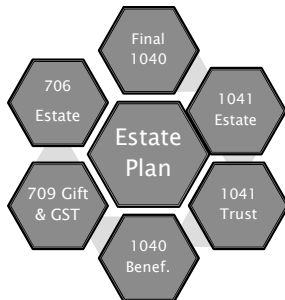
Gift & GST Tax

2013 & After

- ▶ \$1m Lifetime exclusion
- ▶ Max tax rate = 35%
- ▶ Unified with new Estate Tax rules.



Income & Transfer Tax Returns



Income Tax Returns

Form 1040 - Individual

Form 1041 Estate/Trust

▶ 1040 - Individual Income Tax Return

- ▶ Final 1040
 - Includes income, deductions, & credits only through D.O.D.
 - Follows most other normal full-year filing requirements and credit qualifications.

▶ **Estate Income:** includes only income earned from probateable assets after D.O.D.

◦ May elect calendar or fiscal year.

▶ **Trust Income:** includes only trust titled assets.

◦ May be short tax year calendar year.

▶ **Filing Requirements:**

- Gross Income >= \$600
- Tax Liability > \$0
- NRA Beneficiary

▶ **Due Date:** 15th day 4th month.

Transfer Tax Returns

Form 709 - Gift / GST	Form 706 Estate
<ul style="list-style-type: none"> ▶ Individual return filed annually ▶ Filing Requirements <ul style="list-style-type: none"> ◦ > \$13,000 gift per individual per calendar year ◦ Future Interest ◦ Gift Splitting ◦ Partial Interest Charitable ◦ NRA Spouse ▶ Lifetime exclusion \$1m ▶ Tax Rate 35% max ▶ GST applies to donee 2 or more generations removed from donor 	<ul style="list-style-type: none"> ▶ One time return ▶ Due 9 mo. > DOD ▶ Credit Unified w/ 709 ▶ Lifetime Exemption \$5m ▶ Unlimited Spousal and Charitable deductions ▶ Tax Rate 35% max ▶ Form 706-NA

Information Needed

- ▶ Will and/or Trust Documents
 - Grantor/Decedent
 - Trustee / Personal Rep
 - Terms
- ▶ Inventory of Assets
 - How titled
 - Income earned / Expenses
- ▶ Distributions
- ▶ Beneficiaries

Primary Residence

- ▶ §121 Exclusion does NOT apply to Estates or Trusts

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- ▶ Residence receives Step up in Basis to FMV on DOD
- ▶ Investment Property can claim Capital Loss
- ▶ Personal Property can NOT

AZ Probate Exemption

- Personal Property of \$50k
- Real Property \$75k
- \$5k Wages (I.R.D.) claimed by surviving spouse.

Maude a 78 year old spinster dies Oct 31, 2011. She lives off of a small pension and SS and has not been required to file a tax return for years. Her will leaves everything to her sister Helen. At her death she owns:

Asset	Value	Title
B of A CK	\$5,000	Maude Only
CD \$200 Int pd 12/15	\$10,000	Maude Only
Mobile Home	\$70,000 fmv	Maude Only
Personal Prop	\$2,000	Untitled



1040 Final (1/1-10/31): Optional

1041 Estate (10/31-??): Only required if Mobile Home sold before titling in Helen's name.

John a 54 year old civil engineer dies unexpectedly in an auto accident on 2/15/11. He left no will. His ex-wife, Sally and their 2 children (John Jr. and Andrea) survive him. At his death he owned:

Asset	Value	Title
B of A CK & MM	\$25,000	John & Andrea JTWROS
ML Brokerage Acct	\$85,000	John Only
401K	500,000	Benef: John JR & Andrea
Personal Residence	\$300k fmv / \$100k mortg	John & Sally JTWROS
Personal Prop	\$2,000	Untitled



1040 Final (1/1-2/15/11)

- W-2
- Investment Income thru 2/15
- EIC???

1041 Estate (2/15-12/31/11 or 1/31/12)

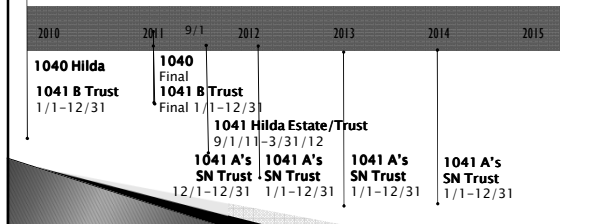
- ML Brokerage Acct 2/15-EOY

1041 Estate (1/1/12-12/31/12)

- ML Brokerage Acct

Hilda passes 9/1/2011. Upon her passing, the B trust is divided equally between their 2 children. The A trust is to be distributed 35% each to 2 children and 30% to a special needs trust for their disabled granddaughter Amanda (funded 12/1)

Asset	Value	Title
B of A CK & MM	\$25k	Hilda
ML Brokerage Acct	\$475k	A Trust
Hilda IRA @ ML	\$500k	Benef: A Trust
Personal Residence	\$1m fmv /\$0k mortg	A Trust
B Trust @ ML	\$1m fmv	B Trust



ASATS

Fri. Sept. 22 & 29
(1-5pm)
Knights of Columbus

- > Final 1040
- > Estates
- > Trusts
- > 8 Hrs. CPE
