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## 1. What are advanced estate planning techniques?

The term advanced estate planning techniques usually refers to any estate plan technique other than using a Family and a Marital Trust to protect the first spouse to die's tax exempt amount, or gifts over the \$11,000, indexed for inflation, annual exclusion.

## 2. What are the specific techniques that constitute advanced estate planning?

The following is a listing of the most frequently used advanced estate planning techniques:

- **Irrevocable Life Insurance Trusts:** An Irrevocable Life Insurance Trust, or ILIT, is used to hold life insurance on family members so that when the insured dies, the insurance is **not** taxable in the decedent's estate.

- **Charitable Remainder Trusts:** A charitable remainder trust, or CRT, is a special form of trust that pays no income taxes on income it receives. Clients with appreciated property frequently create a CRT and transfer the property to the CRT for sale and reinvestment without the current payment of capital gain taxes. The client receives income from the CRT for life or if they wish a fixed number of years.

- **Family Limited Partnerships:** Family limited partnerships, or FLPs, are used for several estate planning reasons. As far as the reduction of estate or gift taxes, taxpayers transfer property into the FLP, and make gifts of limited partnership interests. The FLP might reduce the value of the decedent's estate, or donor's gifts, by as much as 50%, depending upon the type of property contributed. The FLP is also a very effective management technique in that parents can transfer limited partnership interests to children, rather than partial interests in the property contributed to the FLP, and retain absolute control of the property because the parents control the general partner.

- **Limited Liability Companies:** (See the discussion of FLPs) Limited liability companies, or LLCs, have the same estate planning characteristics as the FLP. One difference is that the general partner in an FLP is liable for partnership liabilities, but no member of an LLC is liable for entity liabilities. For this reason LLCs make good general partners for an FLP.

- **Private Foundations:** A private foundation is a special type of trust or corporation that is formed to be exempt from income taxation. The estate of a decedent is allowed an unlimited estate tax deduction for property left to a properly planned private foundation.

Many clients will leave property that would otherwise be subject to estate tax at the death of the surviving spouse to the family's private foundation. This eliminates all estate taxes and the heirs are able to carry on charitable work in the name of the parents and we paid for it.

- **Partnership Capital Freeze:** Partnership capital freeze refers to a technique designed to enable parents to keep the cash flow from a business or investment partnership, yet have any increase in the value of the business or investments accrue to children or trusts for the children's benefit.

**Opportunity Shifting:** This refers to an estate planning technique that is intended to have the benefits of an investment, whether in an active business or a passive investment, accrue to junior generations to avoid increasing the parents' estates. As an example, if parents are planning on investing in a new business venture, they may loan the money to a trust for children and the trust for the children will invest in the business. There may need to be some "seed" money in the trust. The parents will be paid a salary for their efforts, but the value of the business will not be included in the parents' estates because the value of the business was "shifted" to the trust for the benefit of the children.

- **Estate tax Skipping Trust Planning (Dynasty Trusts):** Generation skipping transfer tax planning, "GST" planning, consists of methods to avoid having children's inheritances subjected to estate taxes at the deaths of the children prior to the grandchildren receiving their inheritance. Each taxpayer has a \$1,000,000 GST exemption, indexed for inflation, that can be placed in a trust that will continue on for generations with no estate taxes imposed after the parents have died. This type of a trust provides tremendous savings for future generations.

- **Charitable Lead Trust:** A Charitable Lead Trust can be used to pass property to heirs without incurring any gift or estate tax. In general a CLT receives property then pays an income streams to charity for a set number of years. You or your estate receives a charitable deduction. At the end of the trust term the assets in the trust pass to your heirs.

In most cases, more than one of the advanced estate planning techniques are combined to produce the results the client wants. There are other techniques besides the ones mentioned in this brochure. We are providing you with this brochure to provide you with some information on some of the advanced estate tax planning techniques that may be able to reduce the estate tax burden on your heirs. If you would like more detail on any of the listed items, please ask me for one of our brochures discussing that particular technique.