

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.

- **Fractional Ownership Discounts:** Fractional ownership planning refers to the technique of dividing the ownership of a parcel of real property, and some personal property, between two or more owners. The transfer tax value of the divided ownership is such that a willing buyer, the test of value for gift and estate tax purposes, will pay less for a one half interest, or other fraction, than a pro rata one half of the total value of the property. As an example, 50% of a \$1,000,000 property may have an estate or gift tax value as low as \$200,000, rather than the pro rata \$500,000.

I am providing you with this brochure to ensure that you are advised of the various 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.

ESTATE PLANNING LIBRARY

Number One

Advanced Estate Planning Techniques

AN OVERVIEW

Compliments of:

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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 under 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. Taxpayers 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.
- **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 60%, 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 are the general partners.

- **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.
- **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 prepared 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.

- **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 appreciation in the value of the business or investments accrue to children or trusts for the children's benefit.
- **Opportunity Shifting:** Opportunity shifting 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.
- **Generation Skipping Transfer Tax Planning (Dynasty Trusts):** Generation skipping transfer tax planning, or 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