MARION
CONSULTING, LLC

Preserving wealth, enriching legacy

Generation Skipping Tax Exemption

$10,680,000 Estate Tax Exemption "USE IT or LOSE IT!"

IMPORTANT NOTICE

The continual process of change in Federal and State tax law, as well as changes in personal and financial circumstances require that estate planning documents be reviewed periodically.

The benefits of a Revocable Living Trust are common knowledge these days. Most people with an estate exceeding $1,000,000 either already have or are aware that they should implement a Revocable Living Trust! The most common oversight in the typical estate plan is that the plan usually provides for outright distribution of assets to adult children once they reach a given age (i.e. 25, 30, 35). CHECK YOUR TRUST FOR THIS IMPORTANT PARAGRAPH DISTRIBUTION PROVISION. Starting January 1, 2013 an outright distribution will trigger the loss of the $10,250,000 estate tax exemption (indexed for inflation) highlighted in this outline.

Rather than an outright distribution of trust assets to adult children the assets could be maintained in trust, in separate shares for each adult child for his/her lifetime. The adult child could be trustee of his/her own trust. The trust assets would be available for use by the adult child during all of his/her lifetime. The trust assets would, however, be protected in many ways as outlined below. (Also, see attached "The Inheritor's Trust")

Problems with Outright Distributions to Adult Children

1. Outright inheritance will be subject to a second estate tax at the death of a child since the inheritance is included in the child's estate. If the parents and the child are both in a 40% estate tax bracket, the second estate tax will result in only 36% of the original inheritance being passed to grandchildren compared to 100% with the GSTE!. See Exhibit I and Exhibit II

2. Outright inheritance, while considered separate property under California law, often becomes commingled with community property funds thus subjecting the inherited assets to possible division under California community property laws if the child should later divorce.

3. Outright inheritance becomes subject to the child's current and future creditors, including malpractice claims and liability lawsuits.

Benefits Available If Inheritance Is Maintained in Trust

The Tax Reform Act of 1986 created new Generation Skipping transfer tax provisions. A revocable living trust can be amended to provide for these new "generation-skipping" provisions. The generation-skipping provisions would provide that any inheritance be transferred and maintained in trust for the benefit of the children and future generations in a manner which provides significant protection in a variety of areas.

1. Advantages

   a. Up to $10,680,000 (2014) of the estate of a married couple will be exempt from:
   Children's estate tax (potential tax savings over $9,175,112 assuming 3% growth, see Exhibit II)Grandchildren's estate tax (potential tax savings over $11,526,387 assuming 3% growth, see Exhibit II)Generation-skipping transfer tax.

   b. Asset protection from:

   Children's divorce
   Bankruptcy
   Creditors, including malpractice claims and liability lawsuits.

2. Typical Trust TermsChildren are typically granted the following rights:

   a. Income. Through direct distributions of income or accumulations as addition to principal.
   b. Principal distributions for the child's proper health, support, maintenance and education in the child's accustomed manner of living.
   c. Power to appoint the trust estate upon the child's death to almost anyone.

3. Child Retains Control of Inheritance
   Child can be his/her own trustee. As his/her own trustee, the child has sole discretion and control over:
   a. Investment decisions over trust assets.
   b. Distributions of income and principal among trust beneficiaries

4. Adult Children with Substantial Estates

   Many of our clients have been successful at building large estates in their own right, and have implemented estate planning strategies to reduce and manage their own future estate tax liability. These adult children with substantial estates should be especially careful to review the devastating tax result of "outright" inheritance received from their parents. Utilizing the parents $10,680,000 tax exemption is particularly meaningful in these circumstances.

   While the adult child may still be the primary beneficiary of the parents' estate, careful planning will protect the inheritance from a 40% estate tax bracket, divorce, bankruptcy, creditors, malpractice claims and liability lawsuits. Thus, the adult child will have the power to appoint these inherited assets to almost anyone estate tax free.

   There are no other estate tax planning opportunities available that provide as much tax benefit and practical asset protection for your children and grandchildren. Further investigation will reveal that the minimal legal and administrative requirements offer tremendous value and flexibility to families who are interested in preserving and distributing wealth within the family.

   The following Exhibits will illustrate the substantial estate tax savings available with the use of properly drafted trust documents. Exhibit I assumes no growth on trust assets, Exhibit II assumes 3% growth on trust assets.