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AVIVA

Estate Planning

Enhancing your estate

Client reference guide



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There is a perception today that estate planning means planning only for the distribution of property at your death. In reality, the purpose of estate planning should be for you to enhance your estate during your accumulation years, to maintain your financial security during your retirement years, and to provide for the most efficient transfer of property at your ultimate death. With proper planning, these goals can usually be met while at the same time avoiding the conflict and delays inherent in the estate distribution process, and reducing expenses.

Estate Planning



The federal estate tax

One of the largest expenses associated with settling an estate may be the federal estate tax. While tax reduction should not be the primary goal in your estate planning, there are some very important planning opportunities you can utilize that may reduce the amount of estate tax due as well as provide a mechanism for the payment of tax. If the assets in an estate total \$5 million or less, no federal estate tax will be due for individuals dying in 2011 and 2012.

It is currently scheduled to revert in 2013, with the exemption amount dropping back down to just \$1 million, unless Congress passes estate tax changes prior to that time.

While none of us can predict exactly what the estate tax may be in the future, if you have an estate that exceeds the current exemption amount, you should take a good look at how the tax, combined with state estate or inheritance taxes and other estate expenses such as costs of probate, can substantially reduce the amount of assets passing to your heirs.

An Estate Tax Example

Assume Charlie dies in 2011 or 2013 with a gross estate valued at \$6 million.

	2011	2013
Gross Estate	\$6,000,000	\$6,000,000
Less: Final debts and expenses	- 210,000 (3.5%)	- 210,000 (3.5%)
Probate costs	- 300,000 (5.0%)	- 300,000 (5.0%)
Taxable Estate	<u>\$5,490,000</u>	<u>\$5,490,000</u>
Federal Estate Tax Due	\$1,902,300	\$2,660,300
Less: Estate Tax Credit (2011)	-1,730,800	- 345,800
Net Federal Estate Tax Due	<u>- 171,500 (2.9%)</u>	<u>- 2,314,500 (38.6%)</u>
Balance Left to Charlie's Heirs	<u>\$5,828,500 (97.1%)*</u>	<u>\$5,828,500 (61.4%)*</u>

* After federal estate taxes, other costs, but before payment of any state estate and/or inheritance tax due.

Minimizing the impact of estate taxes

There are several ways you can minimize some of these taxes. One way is to make lifetime non-taxable gifts which will slowly reduce the amount of your estate which may be subject to tax when you die. Currently, the maximum amount you may give away tax-free each year to another person is \$13,000 (as indexed for 2011 And 2012), and you may gift this amount to an unlimited number of individuals each year. Your spouse may gift an equivalent amount, thereby doubling the amount of tax-free gifts that can be made to another person in any one year.

Another way to minimize the amount of estate tax due at your death is by using a combination of trusts called a family (or credit shelter) trust and a marital trust, commonly referred to as an A-B trust arrangement. Under this structure, when the first spouse dies, a portion of his/her estate equal to the estate tax exemption amount for that year (\$5,000,000 for 2011 and \$5,120,000 for 2012) would be placed in the family trust. It can be structured so the surviving spouse receives the income from this trust for his/her life. The balance of the estate is placed in the marital trust, which qualifies for the unlimited marital deduction so no federal estate tax is due. When the survivor dies, the assets in the marital trust will be included in that spouse's estate, but all the assets in the family trust pass to the heirs, completely sheltered from further estate tax.

A third way to reduce the amount of estate tax due at death is through the use of an irrevocable life insurance trust. You can set up a trust and gift dollars to the trustee, who purchases a life insurance policy on your life inside the trust. Each year you can make a gift of the premium into the trust (gift-tax free up to the annual exclusion amount, currently \$13,000 per

donee or \$26,000 for married couples) and the trustee pays the premium. When you die, the death proceeds are paid to the trust and the trustee manages those dollars for the benefit of your heirs. If structured properly, the proceeds of the life insurance policy will not be includable in your estate for federal estate tax purposes on your death.

Additional methods of minimizing estate taxes include making charitable gifts, utilizing private annuities, and entering into installment sales with family members with respect to particular assets in your estate.

Professional Assistance

Estate planning is a complex matter and should not be entered into lightly. Any planning should be done with the assistance of professionals, and should not be done until after a careful analysis has been made of your personal and financial situation, taking into consideration all the available options.

Federal Estate and Gift Tax Credit

The unified estate and gift tax credit will shelter lifetime and/or death time transfers during 2011 and 2012 of up to \$5 million. Beginning in 2013 and continuing thereafter, the unified credit drops to \$1 million per person.

Year	Unified Credit	Exemption Equivalent	Top Tax Rate
2011	\$1,730,800	\$5,000,000	35%
2012*	\$1,730,800	\$5,120,000	35%
2013	\$345,800	\$1,000,000	55%

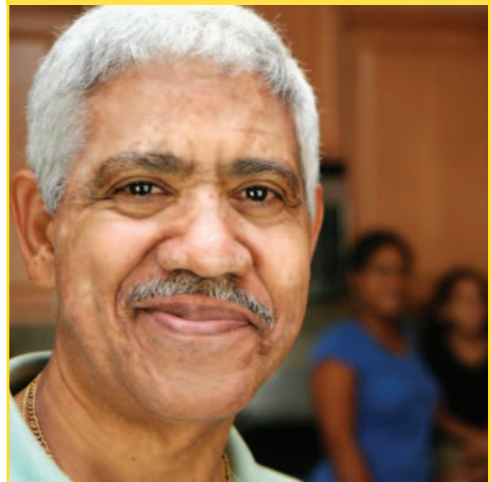
* Unified credit indexed for inflation



Conclusion

There is a perception today that estate planning means planning only for the distribution of property at your death. In reality, the purpose of estate planning should be for you to enhance your estate during your accumulation years, to maintain your financial security during your retirement years, and to provide for the most efficient transfer of property at your ultimate death. With proper planning, these goals can usually be met while at the same time avoiding the conflict and delays inherent in the estate distribution process, and reducing expenses.

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