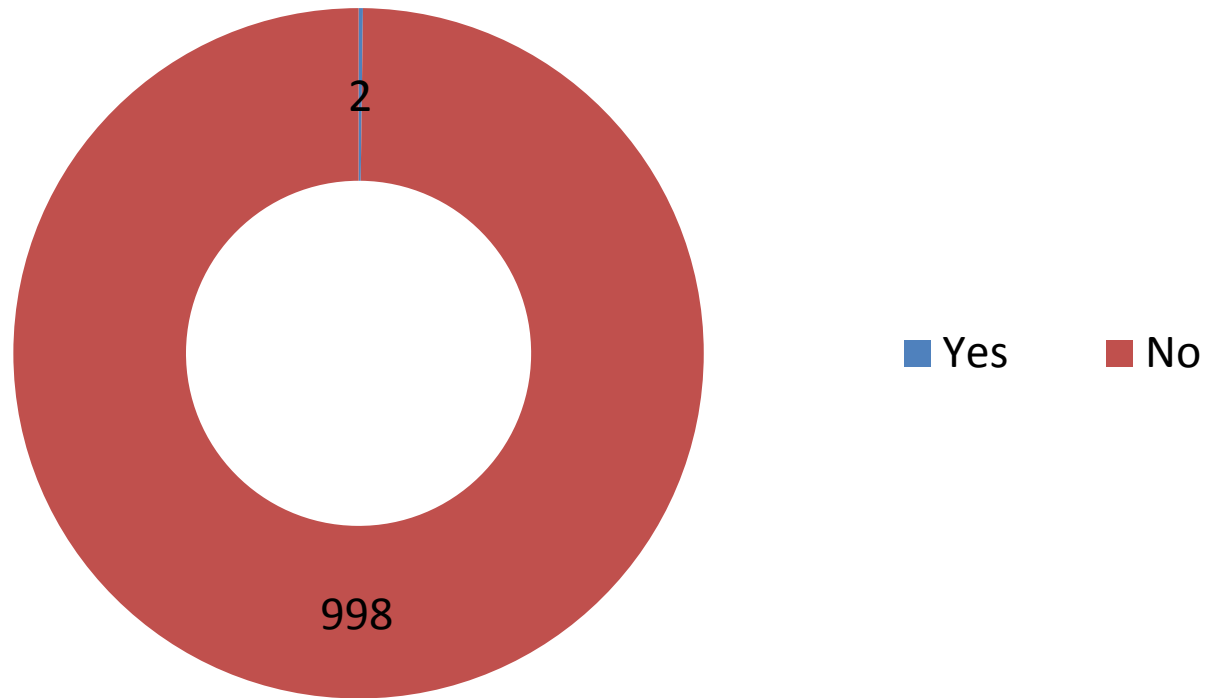


Understanding Minnesota Estate Tax: Smart Ways to Leave More for Your Family

Federal Estate Tax

Federally Taxed



Federal Exemption Amounts

- Unified Credit
 - 2016: \$5.45 million
 - Inflation adjusted annually
 - Can be used for lifetime or testamentary gifts
 - Unused unified credit can be transferred to your spouse at your death – “Portability”
 - Portability Example
 - 40% tax rate

Minnesota Exemption Amounts

- 2016: \$1.6 million
- 2017: \$1.8 million
- 2018 and later: \$2.0 million
- No scheduled inflation adjustments after 2018
- Unused exemption amount cannot be transferred to your spouse at your death
 - Example
- 10-16% tax rate

State Estate Taxes

- Delaware - \$5,450,000
- Hawaii - \$5,450,000
- Maine - \$5,450,000
- Illinois - \$4,000,000
- New York - \$3,125,000
- Vermont - \$2,750,000
- Washington - \$2,054,000
- Connecticut - \$2,000,000
- Maryland - \$2,000,000
- Minnesota - \$1,600,000
- Rhode Island - \$1,500,000
- Massachusetts - \$1,000,000
- Oregon - \$1,000,000
- Washington D.C. - \$1,000,000
- New Jersey - \$675,000

State Inheritance Taxes

- Nebraska - \$10,000
- Maryland - \$1,000
- Kentucky - \$500
- New Jersey - \$500
- Iowa - None
- Pennsylvania - None

Note: These amounts may vary based on the class of the individual who receives the inheritance.

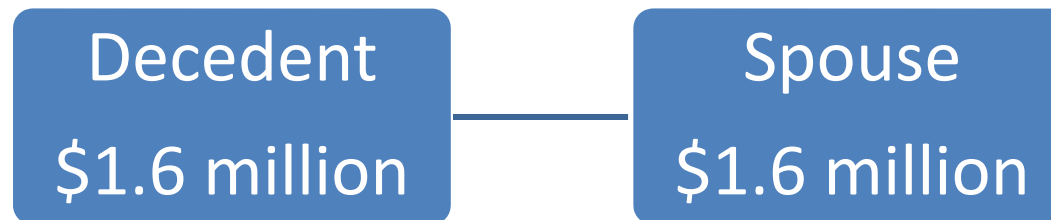
Ways to Reduce Estate Taxes

Part 5—Recapitulation. Note. If estimating the value of one or more assets pursuant to the special rule of Reg. section 20.2010-2T(a)(7)(ii), enter on both lines 10 and 23 the amount noted in the instructions for the corresponding range of values. (See instructions for details.)

| Item no. | Gross estate | | Alternate value | Value at date of death |
|----------|---|----|-----------------|------------------------|
| 1 | Schedule A—Real Estate | 1 | | |
| 2 | Schedule B—Stocks and Bonds | 2 | | |
| 3 | Schedule C—Mortgages, Notes, and Cash | 3 | | |
| 4 | Schedule D—Insurance on the Decedent's Life (attach Form(s) 712) | 4 | | |
| 5 | Schedule E—Jointly Owned Property (attach Form(s) 712 for life insurance) | 5 | | |
| 6 | Schedule F—Other Miscellaneous Property (attach Form(s) 712 for life insurance) | 6 | | |
| 7 | Schedule G—Transfers During Decedent's Life (att. Form(s) 712 for life insurance) | 7 | | |
| 8 | Schedule H—Powers of Appointment | 8 | | |
| 9 | Schedule I—Annuities | 9 | | |
| 10 | Estimated value of assets subject to the special rule of Reg. section 20.2010-2T(a)(7)(ii) | 10 | | |
| 11 | Total gross estate (add items 1 through 10) | 11 | | |
| 12 | Schedule U—Qualified Conservation Easement Exclusion | 12 | | |
| 13 | Total gross estate less exclusion (subtract item 12 from item 11). Enter here and on line 1 of Part 2—Tax Computation | 13 | | |
| Item no. | Deductions | | Amount | |
| 14 | Schedule J—Funeral Expenses and Expenses Incurred in Administering Property Subject to Claims | 14 | | |
| 15 | Schedule K—Debts of the Decedent | 15 | | |
| 16 | Schedule K—Mortgages and Liens | 16 | | |
| 17 | Total of items 14 through 16 | 17 | | |
| 18 | Allowable amount of deductions from item 17 (see the instructions for item 18 of the Recapitulation) | 18 | | |
| 19 | Schedule L—Net Losses During Administration | 19 | | |
| 20 | Schedule L—Expenses Incurred in Administering Property Not Subject to Claims | 20 | | |
| 21 | Schedule M—Bequests, etc., to Surviving Spouse | 21 | | |
| 22 | Schedule O—Charitable, Public, and Similar Gifts and Bequests | 22 | | |
| 23 | Estimated value of deductible assets subject to the special rule of Reg. section 20.2010-2T(a)(7)(ii) | 23 | | |
| 24 | Tentative total allowable deductions (add items 18 through 23). Enter here and on line 2 of the Tax Computation | 24 | | |

Marital Deduction Example – No Planning

Death 1: No tax

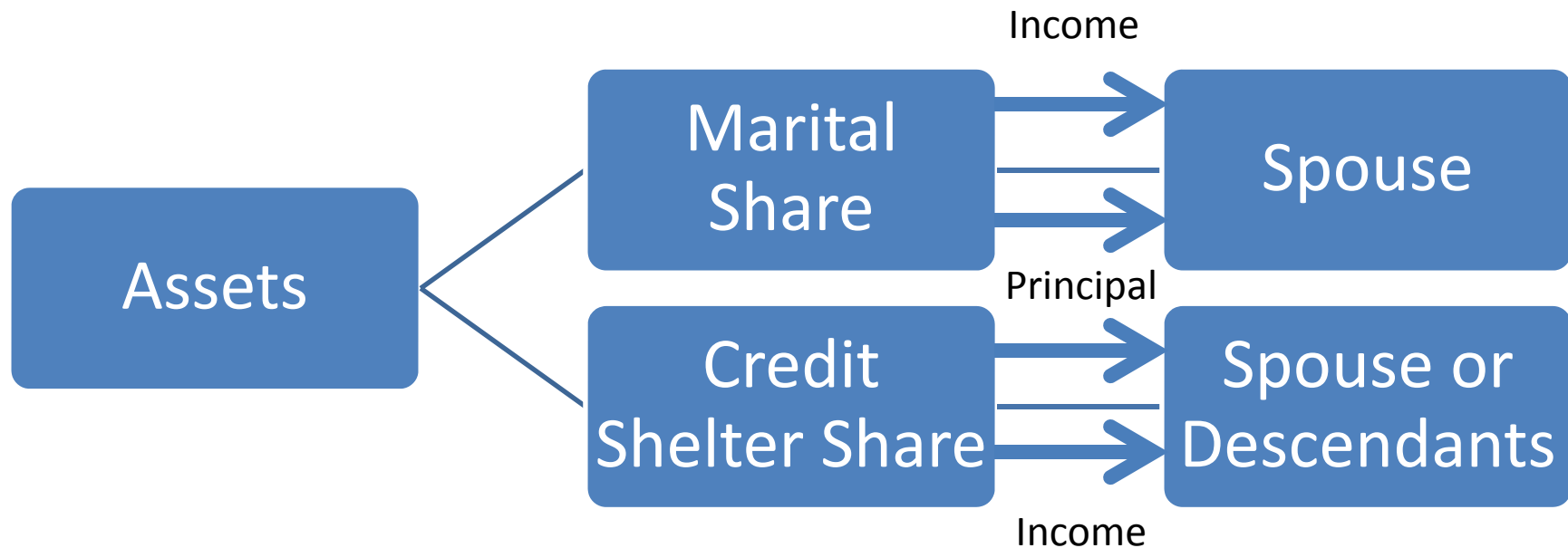


Death 2: \$172,000 in
Minnesota estate tax

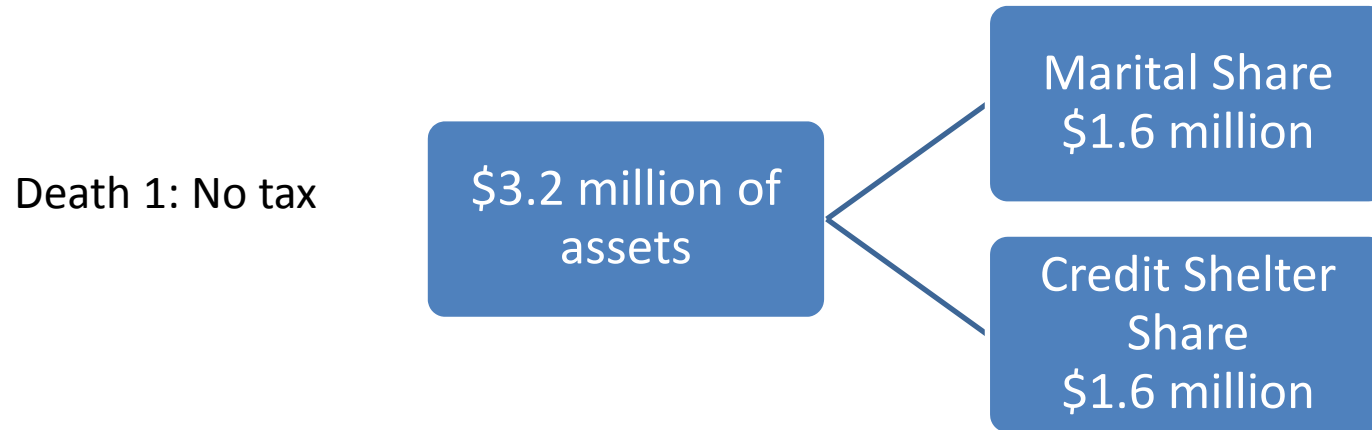


Estate Planning – Marital Deduction

Trust Planning to Utilize Both Spouse’s Exemption Amounts



Marital Deduction Example – Credit Shelter Trust Planning



Death 2: No tax

Marital Share
\$1.6 million

Estate Planning – Charitable Deduction

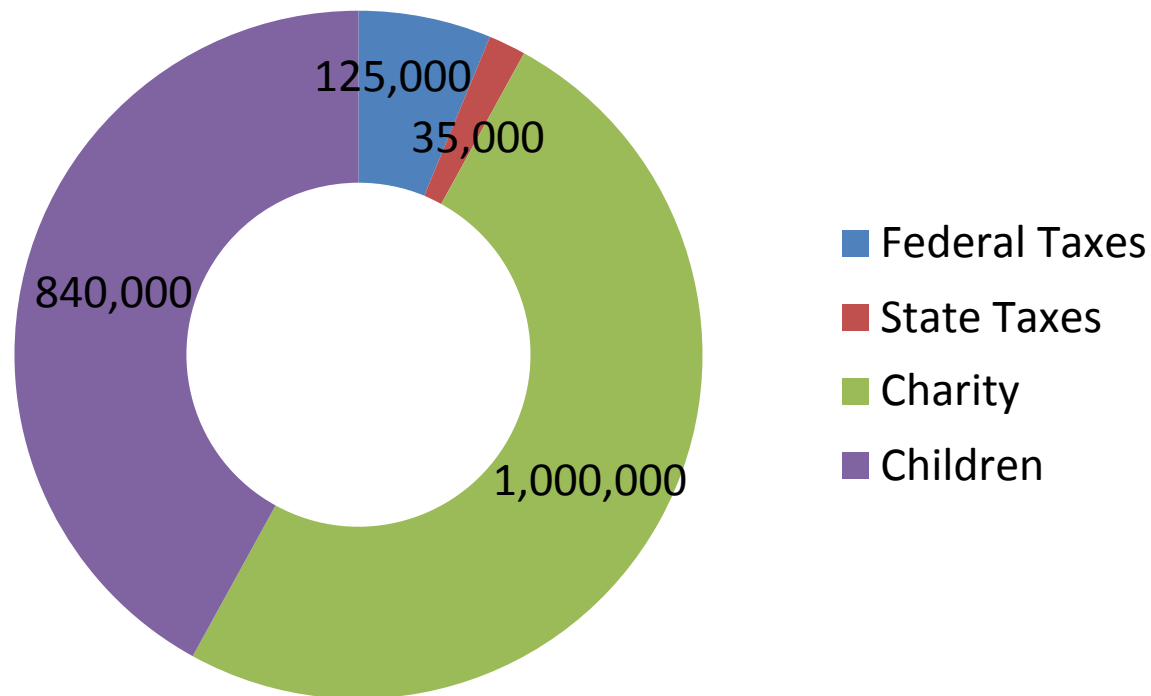
- Outright Gifts
 - Reduce estate on a dollar-for-dollar basis
 - Unlimited
 - Good assets to gift
 - Qualified assets (traditional IRAs, 401(k)s, etc.)
 - Appreciated assets (during life)

Charitable Giving-Outright Qualified Asset Example

- Two estate assets
 - Stock portfolio: \$1 M
 - Traditional IRA: \$1 M
 - 50% to charity, 50% to children

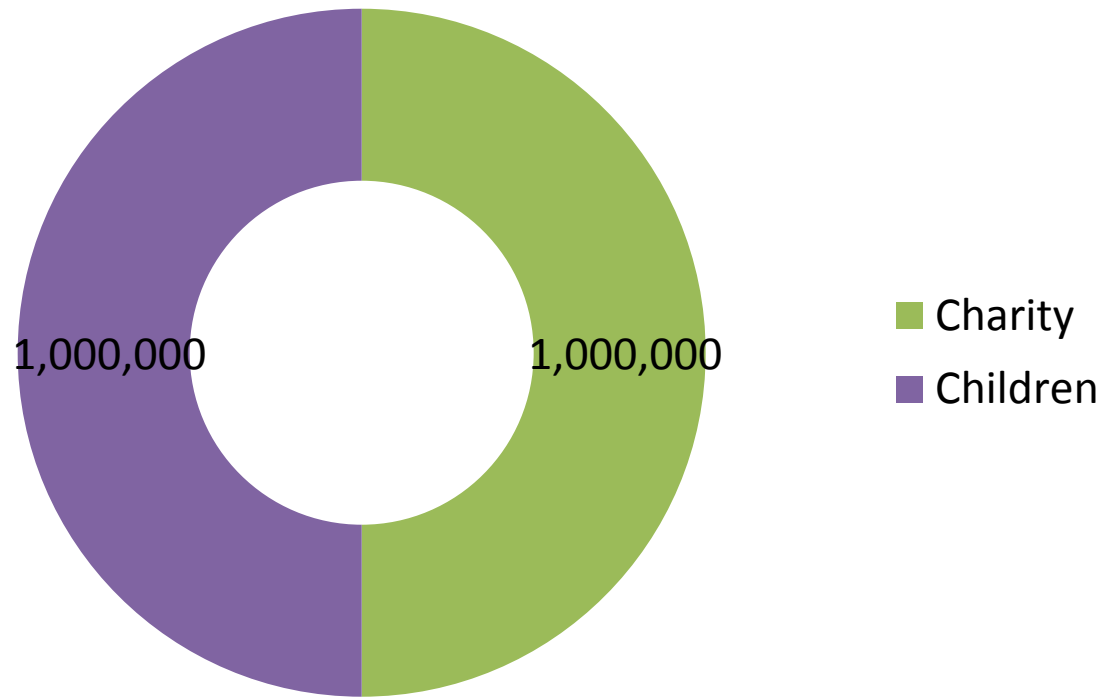
Charitable Giving-Outright Qualified Asset Example

- Assume each beneficiary gets 50% of each asset



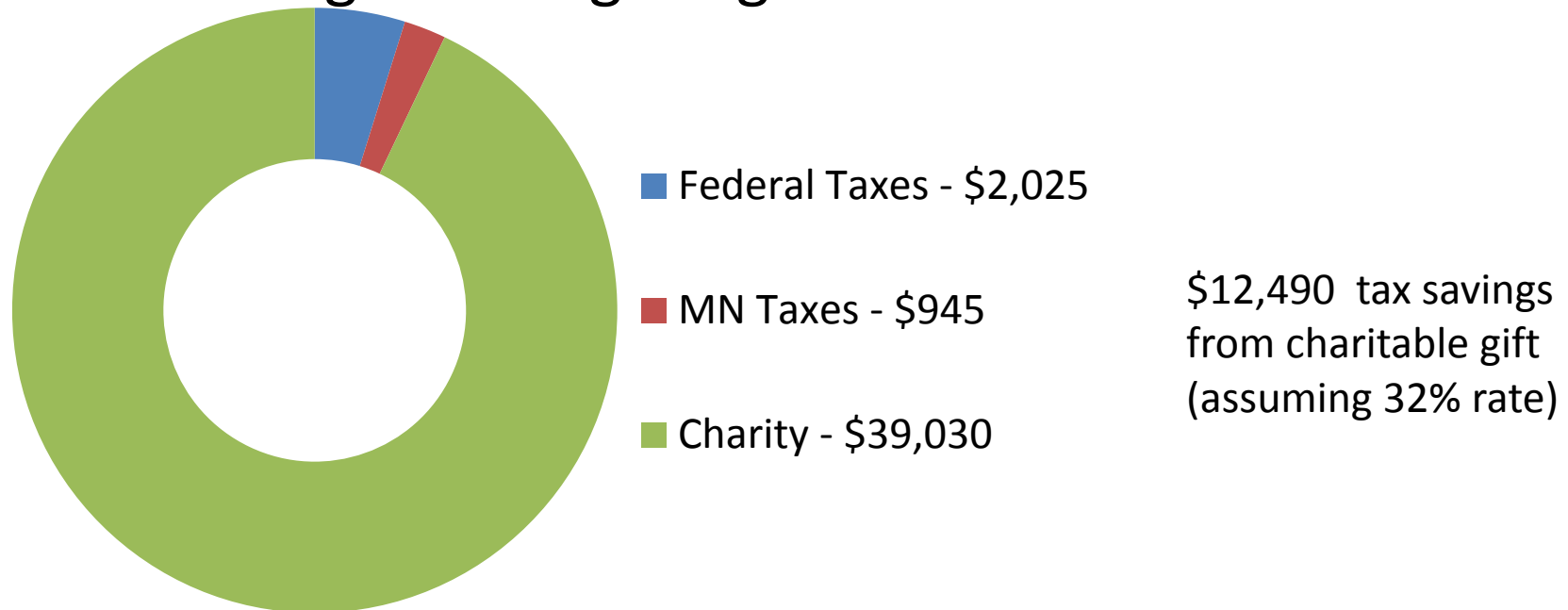
Charitable Giving-Outright Qualified Asset Example

- Assume the charity gets the IRA and the children get the stock portfolio



Charitable Giving-Outright Appreciated Asset Example

- 300 shares of 3M stock
 - Fair market value: \$140
 - Purchase price (2000): \$95
 - Selling stock – gifting cash



Charitable Giving-Outright Appreciated Asset Example

- 300 shares of 3M stock
 - Fair market value: \$140
 - Purchase price (2000): \$95
 - Gifting appreciated stock



■ Charity - \$42,000

\$13,440 tax savings from
charitable gift (assuming
32% rate)

Charitable Giving-In Trust

Charitable Remainder Trust

- Non-charitable recipient or recipients get an income stream
 - Term of years (up to 20 years)
 - Lifetime of one person
 - Joint lifetime of two or more people
- Charity gets the remainder

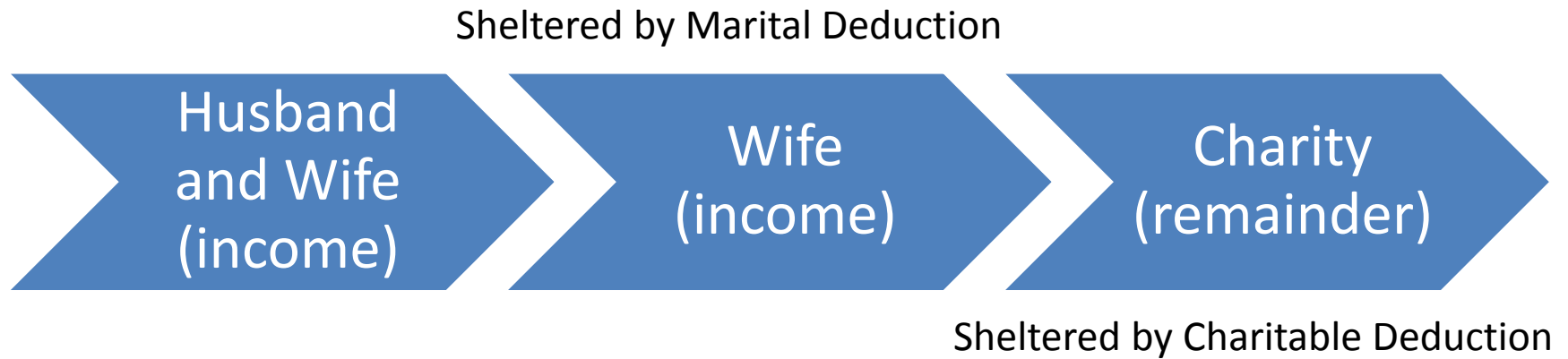
Charitable Giving-In Trust

Charitable Remainder Trust Example

- Keith (70) and Ashley (65)
- \$1,000,000 in stock to charitable remainder unitrust
- 5% trust payout rate
- Joint lifetimes

- During life
 - Current year charitable deduction: approximately \$370,000
 - At first death: No estate tax
 - At second death: No estate tax

Example of CRUT



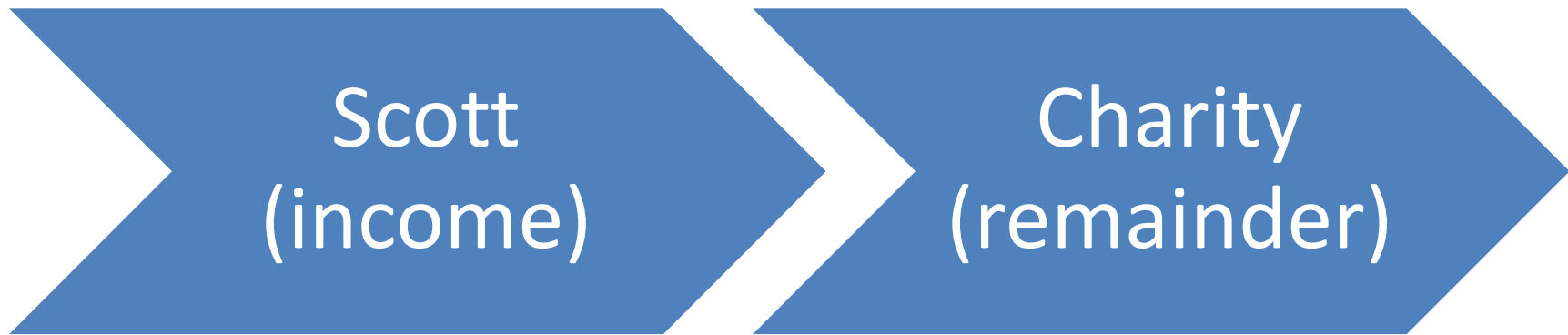
Charitable Giving-In Trust

Charitable Remainder Trust Example

- Keith and Ashley
 - Child: Scott (40)
- \$1,000,000 in stock to charitable remainder unitrust
- 5% trust payout rate
- Scott's lifetime

- At second death of Keith and Ashley
 - Stock included in estate: \$1,000,000
 - Estate tax charitable deduction: approximately \$450,000

Example of CRUT



Sheltered by Charitable Deduction

Estate Planning – Lifetime Gifting

- Federal Gift Tax
 - \$14,000 per recipient per year
 - \$28,000 per recipient per year if married and “gift-splitting” is elected
 - Anything in excess of these amounts uses unified credit (currently \$5.45 million)
- No Minnesota Gift Tax
 - BUT: Taxable gifts made within 3 years of death are added back to the Minnesota estate

Estate Planning – Lifetime Gifting

- Annual exclusion gifts
 - Make gifts of cash, stock, or other assets up to the annual exclusion amount
 - Remember that gifts of appreciated assets do not get a “step up” in basis at the donor (i.e. the giver’s death). Therefore, it may be beneficial to have the donor hold highly appreciated assets until death.

Estate Planning – Lifetime Gifting

- 529 Plans (with or without frontloading)
 - 529 plans are college savings vehicles
 - Can “frontload” the 529 plan by putting in 5 years of annual exclusion gifts and electing to have it treated as being ratably made over 5 years
- Med/Ed Exception
 - Can make payments directly to medical or educational institutions on behalf of another individual without using annual exclusion or unified credit

Estate Planning – Lifetime Giving

- Life insurance trusts
 - Can use life insurance policies to leverage the amount of inheritance beneficiaries receive by using annual exclusion amounts to pay policy premiums
 - Life insurance policy is not included in the decedent's estate if it is set up properly

Estate Planning – Lifetime Giving

- Gift in excess of annual exclusion gifts but under federal unified credit to minimize Minnesota estate taxes
 - Watch out for the 3 year pullback rule
 - Watch out for the trade-off between income and estate tax rates