

# Insights for Entrepreneurs

## Part Two: Early-Stage Trust and Estate Planning

Working as part of an integrated team, your Morgan Stanley Private Wealth Advisor can help you make well-informed personal wealth management decisions at every stage of your company's development. Our goal is to provide you with the information, insight and resources needed to help you reach your personal and professional goals. We are here to help you answer the key questions that arise at the intersection of your business strategy and your personal wealth management.

### Historical Federal Estate, GST and Gift Tax Exemptions

Calendar Year	Lifetime Unified Estate and Gift Tax Exemption	GST Tax Exemption	Maximum Estate Tax Rate
2011	\$5,000,000	\$5,000,000	35%
2012	\$5,120,000	\$5,120,000	35%
2013	\$5,250,000	\$5,250,000	40%
2014	\$5,340,000	\$5,340,000	40%
2015	\$5,430,000	\$5,430,000	40%
2016	\$5,450,000	\$5,450,000	40%
2017	\$5,490,000	\$5,490,000	40%
2018	\$11,180,000	\$11,180,000	40%
2019	\$11,400,000	\$11,400,000	40%
2020	\$11,580,000	\$11,580,000	40%
2021	\$11,700,000	\$11,700,000	40%
2022	\$12,060,000	\$12,060,000	40%
2023	\$12,920,000	\$12,920,000	40%

### Do I Need to Focus on Estate Planning This Soon?

In the early stages of your company's growth, it can be difficult to focus on anything other than running your business. Personal financial planning is often overlooked and estate planning appears to be a distant concern at best. Those early stages, however, is also a particularly important and productive time to conduct in-depth estate planning.

Here's why: When your business succeeds, one of the greatest challenges you may eventually face is how best to transition wealth to future generations. As the value of a business grows, so does your potential exposure to estate and gift taxes. Under current law, you have a lifetime unified gift and estate tax exemption, and generation-skipping tax exemption of \$12.92 million per person in 2023, or \$25.84 million for a married couple. After that, the wealth you gift or leave to your heirs is subject to a 40% federal estate tax. Fortunately, establishing a plan early in the life cycle of the business may provide opportunities to help mitigate these taxes by creatively distributing ownership interests to family members and other beneficiaries at a time when valuation levels are low. Thoughtful early planning can lead to more efficient and successful transitions when you eventually decide to exit the business, or even to pass ownership to younger generations of your family.

## INSIGHTS FOR ENTREPRENEURS

### What Basic Planning Documents Should I Have in Place?

- Basic Will: Outlines distribution of assets upon death
- Revocable Living Trust: Avoids probate and distributes assets upon death
- Durable Power of Attorney (POA): Appoints an agent to act on your behalf during your lifetime, until you choose for that POA to terminate
- Health Care Directive: Appoints an agent to make health care decisions on our behalf if you are unable to do so yourself
- Irrevocable Life Insurance Trust: Removes life insurance proceeds from your estate

### What Types of Insurance Should I Consider?

Many business owners purchase “key man” insurance, the purpose of which is to help the company survive the blow

of losing the person who makes the business work. The company can use the insurance proceeds for expenses until it can find a replacement person, or, if necessary, pay off debts, distribute money to investors, pay severance to employees and close the business down in an orderly manner. In a tragic situation, key man insurance gives the company some options other than immediate bankruptcy.

#### YOU MAY ALSO WANT TO CONSIDER:

Permanent Life Insurance coverage (whole life, universal life, indexed universal life and variable universal life) is often used to help fulfill estate planning needs.

Property and Casualty Insurance to protect against losses to property and other tangible assets. The types of coverage may vary depending upon the type of business engaged in and the potential liability exposure.

### THE INSIGHTS FOR ENTREPRENEURS SERIES COVERS THE FOLLOWING ADDITIONAL TOPICS:

Choosing a Business Structure

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Overview of Wealth Planning Structures

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The Public Sale of Privately Held Businesses

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Family-Owned Business Succession Strategies

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Philanthropic Strategies and Structures

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Understanding Equity Compensation

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