Morgan Stanley

Legacy & Estate Planning Playbook

December 2025

Table of Contents

CHAPTER 1

Introduction to Estate Planning

Effective Planning Can Make a Difference

Legacy planning is the process of creating a vision of how you would like to provide for people and causes you care about, while balancing your current goals. This can include estate planning, next generation education, philanthropic goals, and maintaining family harmony.

Estate planning is the strategy designed to preserve, manage, and distribute your assets in line with your vision both <u>during and after</u> your lifetime, while helping to minimize taxation.

An Estate Plan Can.....

- Preserve your assets and aid you in preparing for the unexpected in the event of incapacitation or pre-mature passing
- Help you define and plan for your goals and help your entire family feel confident in a path forward
- Support you in investing in the people and causes you care about through clear articulation
- Reduce unnecessary administrative expenses, taxes, and family conflicts when you pass away

An Estate Plan Should.....

- Consider the impact of federal, state and local income, gift and estate taxes
- Provide liquidity needed for federal and state estate taxes and expenses, if any
- Specify philanthropic wishes
- Protect privacy and avoid distribution delays
- Reduce the likelihood of family disputes

Structuring Your Plan Requires Forethought

Setting expectations early and often can help with any transitions and prepare your family for the future.

Estate Planning can be an uncomfortable topic for some, but thoughtful planning can keep you and your family on the same page as your situation evolves.

Estate Structure
Your estate plan can help your entire family feel confident in a path forward.

Preparing for the Unexpected
Insurance can help play a role in protecting your family and creating liquidity.

Philanthropic Goals
A clear articulation of the causes you support can help define your legacy.

The Process & The Players

What Is the Process?

Get organized
Think about your goals and understand your financial situation so you can create a realistic vision of your legacy.

Build your team
Identify an accountant, estate attorney, tax advisor, and financial advisor who can help you understand your options.

Consider your choices
As you go through this process, you will have to make a lot of decisions. Walk through them one by one and remember you have your team to help.

Document your plan
Once you have determined your path forward, work with your estate attorney to document your plan and enlist the rest of your team to begin implementation.

Communicate
As you determine what you want your legacy to look like, maintain an open dialogue with your family and your team to help everyone remain on the same page.

Who Should You Involve?

Accountant
Advises you on tax tactics and strategies that are specific to your financial situation.

Attorney
Safeguards you and your family's interests. Can objectively and unemotionally deal with complex issues that may arise.

Financial Advisor
Helps you understand your assets and your cash flow needs. Identifies strategies to help you with your long-term objectives, like retirement and legacy planning.

Agents or Fiduciaries
You may elect to ask friends or family members to play a role in ensuring your legacy. This may include trustees, guardians, healthcare proxies, executors and more. In some cases, you may also consider electing a corporate trustee. These roles are generally created in documents you execute (i.e., wills, trusts).

Understanding the Federal Estate & Gift Tax Exemption

Overview of Current Federal Laws

	2025	2026
Gift (Lifetime) and Estate Tax Exemption	• $13.99MM (individual) • $27.98 (married couple)	• $15 MM (individual)[1] • $30 MM (married couple) [1]
Generation Skipping Transfer Tax Exemption	• $13.99MM	• $15 MM[1]
Top Gift, Estate, GST, and Income Tax Rates	• Transfer Tax: 40% • Income Tax: 37% • Additional Medicare Tax: 0.9%	• Transfer Tax: 40% • Income Tax: 37% • Additional Medicare Tax: 0.9%
Top Long Term Capital Gains and Qualified Dividends Rate	• 20% • Net Investment Income Tax: 3.8%	• 20% • Net Investment Income Tax: 3.8%
Qualified Charitable Distributions (from IRA)	• Yes, for Individuals over 70.5	• Yes, for Individuals over 70.5
Gift Tax Annual Exclusion	• $19,000 per person to an unlimited number of individuals	• $19,000 per person to an unlimited number of individuals

Federal Gift & Estate Tax

To understand why and how to implement estate planning strategies, it's important to understand the Federal gift and estate tax regime.

Each U.S. person* is entitled to transfer, via gifts, during life or bequests at death a certain amount of assets free of Federal gift or estate tax. **In 2025, the Federal gift and estate tax exemption is $13,990,000 per individual and $27,980,000 for married couples.** This amount is based on $10,000,000, indexed for inflation, so it adjusts annually.

The Federal gift and estate tax exemptions are unified, meaning that any use of the gift tax exemption during life reduces the amount of estate tax exemption available at death. If transfers made during life or at death exceed the donor's Lifetime Exemption, the excess may be subject to tax at a rate as high as 40%.

In addition to the Lifetime Exemption, each person may make a gift of up to $19,000 per year (as of 2025) (the "Annual Exclusion") to as many individuals as they like, either outright or in trust, without tapping into their Lifetime Exemption. This means that a married couple who elects to split gifts may gift up to $38,000 per year (as of 2025) to as many individuals as they like.

[1] Lifetime Gift and Estate Tax Exemption and GST Tax Exemption will be indexed for inflation in year 2027 and on.

*For purposes of this presentation, U.S. person means a U.S. citizen or person domiciled in the U.S. For Federal transfer tax purposes, a person is domiciled in the U.S. if the person is living in the U.S. with no present definite intention of living elsewhere. Determining whether a person is domiciled in the U.S. is a facts and circumstances test

Changes in Legislation Can Impact Estate Planning

The Tax Cuts and Jobs Act & One Big Beautiful Bill Act

How did the tax cuts & jobs act (TCJA) affect estate planning?[1]

The Tax Cuts and Jobs Act (TCJA) was signed into law in December 2017, doubling the federal estate and gift tax exemption from $5 million to $10 million, indexed for inflation. This led to a $13.99 million per person, or $27.98 million per married couple, federal estate and gift tax exemption in 2025. Without congressional action by December 31, 2025, the federal estate and gift tax exemption would have reverted to pre-TCJA levels, indexed for inflation, projected to be in the $7 million range per person or $14 million per married couple.

Where are we now, after the passing of the One Big Beautiful Bill Act?[2]

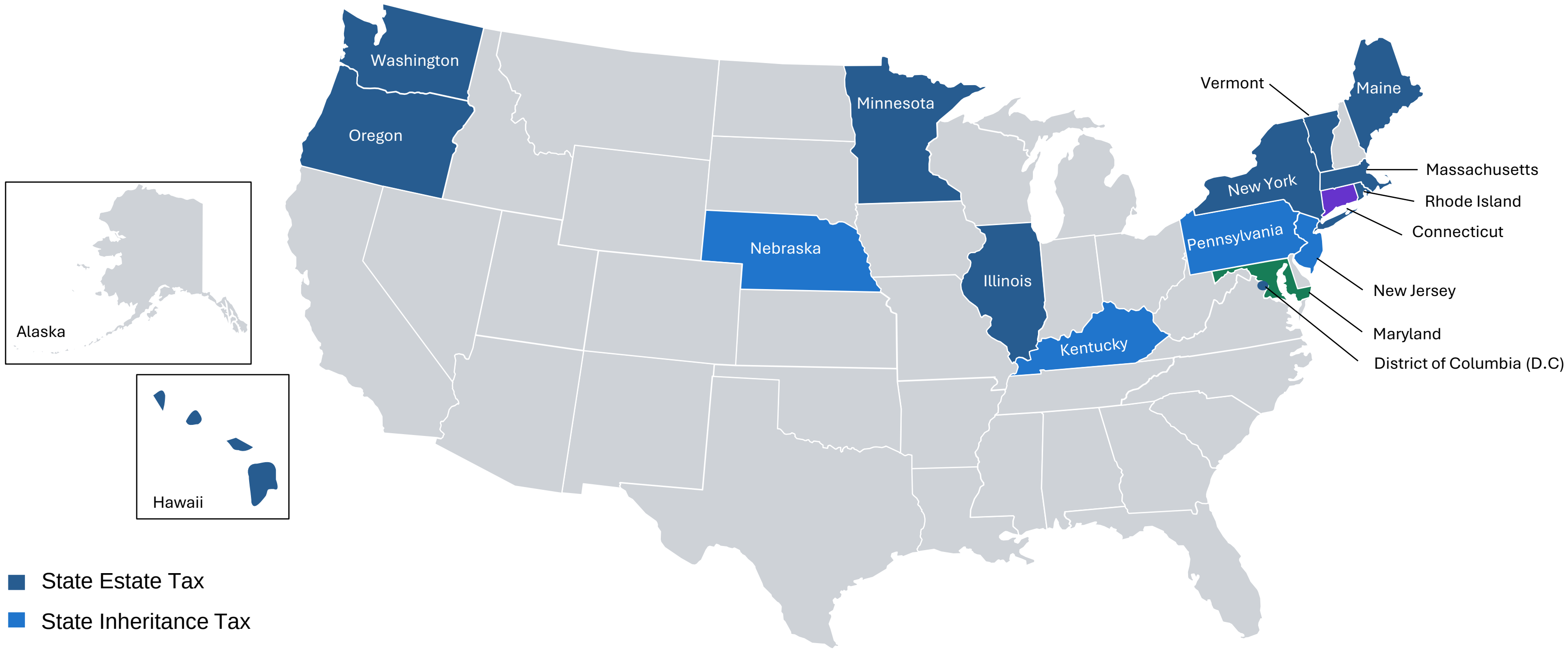
The One Big Beautiful Bill Act (OBBBA) was signed into law on July 4th, 2025, making permanent the increases to the federal and estate gift tax exemptions set forth in the tax cuts and jobs act. Starting in 2026, the federal estate and gift tax exemption will be increased to $15 million per individual and $30 million per married couple, and these amounts will be indexed for inflation each year beginning in 2027. The generation-skipping transfer tax (GST) exemption will be aligned with an exemption of $15 million beginning in 2026 as well, and will also be indexed for inflation beginning in 2027.

[1]Public Law 115-97, commonly known as "The Tax Cuts and Jobs Act"
[2]Public Law 119-21, commonly known as "One Big Beautiful Bill Act"
NOTE: The strategies set forth herein are shown for educational purposes only, are not tailored to any specific client, and do not constitute a recommendation to employ any strategy identified. To that end, they do not capture all possible outcomes but are advisor when considering the utility and appropriateness of any strategies identified herein. Please see the additional Important Disclosures at the end of this presentation. based on limited set of assumptions. If the assumptions upon which they are based are not realized, the efficacy of the strategy may be materially different from that which is reflected in the illustration. Accordingly, clients must consult their tax

State Estate & Inheritance Tax

Your estate may also be subject to a state estate or inheritance, if you pass away a resident of particular states.

Estate Taxes are taxes on the privilege of transferring property to your heirs, in which case, the estate of the deceased is liable for the tax. An Inheritance Tax, by contrast is a tax on the privilege of receiving property from the deceased, in which the living heir pays the inheritance tax.



- State Estate Tax
- State Inheritance Tax
- State Gift Tax
- Both State Estate & State Inheritance Tax

Source: https://smartasset.com/taxes/all-about-the-estate-tax

Increases in Wealth Can Increase Complexity

FOUNDATIONAL ESTATE PLANNING & INCOME TAX PLANNING	HIGH NET WORTH STRATEGIES	ULTRA-HIGH NET WORTH STRATEGIES
All Wealth Levels	**Up to $15MM (Single)/$30MM (Married) Total Net Worth**	**Above $15MM (Single)/$30MM (Married) Total Net Worth**
• Last Will & Testament or Revocable Living Trust/Pour Over Will • Durable Financial Power of Attorney • Durable Healthcare Power of Attorney/Healthcare Directive • Beneficiary Designation • Asset Titling • Liability Protection • Annual Exclusion Gifting • Direct Payments of Medical Expenses/Tuition • Charitable Tax Deduction • Qualified Charitable Distribution • Donor Advised Fund (DAF)	• For married couples who have a taxable estate, a Revocable Living Trust or Will that creates a Credit Shelter Trust and/or Marital Trust, or Incorporates Disclaimer Planning • Irrevocable Life Insurance Trusts (ILIT) • Grantor Retained Annuity Trusts (GRAT) • Sale to Irrevocable Grantor Trusts (IDGT) • Charitable Remainder Trusts (CRT)	• Gifting Lifetime Exemption Early • Irrevocable Trusts • Qualified Personal Residence Trusts (QPRT) • Dynasty Trusts • Private Foundations

CHAPTER 2

Foundational Estate Planning

Basic documents, concepts, and strategies for all wealth levels

Four Crucial Estate Planning Documents

LAST WILL & TESTAMENT AND/OR REVOVABLE LIVING TRUST

Names a representative whom you want to handle your affairs/assets after you pass and states how you want your assets distributed. The Trustee of a revocable trust can manage assets in the trust before and/or after you pass away. Whether a client's main estate planning document is a Will or Revocable Living Trust, if assets will pass to minor children, the document should include language creating a Descendants Trust.

DURABLE FINANCIAL POWER OF ATTORNEY

Appoints the person (your agent) whom you want to make financial decisions on your behalf with respect to property titled in your name if you are unavailable or no longer able to make them for yourself. This document may take effect immediately upon execution or on the occurrence of a future event. A power of attorney terminates at your death, as does any authority granted to your agent.

DURABLE HEALTHCARE POWER OF ATTORNEY/ HEALTHCARE PROXY

Identifies the person (your health care agent), whom you want to make health care decisions on your behalf when you are no longer able to make them for yourself.

LIVING WILL/ HEALTHCARE DIRECTIVE

This document is used to express your intent or preferences regarding healthcare matters, including the withholding or withdrawal of life sustaining medical treatment and artificial nutrition and hydration. It can provide guidance to the agent you name in your Healthcare Proxy or to your medical providers if you do not have a healthcare agent.

Under the Health Insurance Portability and Accountability Act (HIPAA), a privacy waiver may be required to enable physicians and hospitals to share medical information with your health care agent in an emergency. This waiver may be a separate instrument, but it is often included in the Health Care Directive.

Additional Foundational Concepts

ASSET TITLING

The way an asset is owned and how it is titled determines how it will transfer upon death. Assets owned Joint Tenants with Rights of Survivorship (JTWROS) pass automatically to the surviving joint owner by title and do not go through probate. Assets owned Tenants by Entirety is a form of ownership used by spouses in certain states and pass directly to the surviving spouse avoiding probate. Tenants in Common (TIC) is a form of ownership whereby the property passes to the estate of the non-living owner and passes through probate. Any assets owned in individual accounts without a beneficiary designation will pass through probate. Assets owned by a trust pass directly to trust beneficiaries bypassing probate.

BENEFICIARY DESIGNATIONS

There are certain accounts that bypass the probate process through what is called a beneficiary designation, in which they transfer direct to the beneficiaries outlined. The types of accounts with beneficiary designations include: qualified plans, IRAs, annuities, life insurance, transfer of death (TOD), and pay of death (POD).

LIABILITY PROTECTION

Liability protection is an aspect of estate planning that helps safeguard an individual's assets from potential claims and lawsuits. Individuals often seek to protect their assets against claims of negligence or recklessness, claims of professional malpractice, shareholder derivative lawsuits against corporate officers or directors, or a spouse in divorce. Individuals may not have recourse against lawful creditors' claims in many situations, but there are proactive steps individuals may want to consider and discuss with their legal and tax advisors in order to protect their assets, particularly where no current creditor's claims exist and/or the individual is not aware of any basis for the assertion of a claim.

LIFE INSURANCE

Life Insurance can be a key part of your estate planning and can help create liquidity upon one's passing. Common pay-out uses include: (1) payment of final expenses (funeral, probate fees, attorney fees, etc.); (2) paying off debt or replacing income of the deceased; (3) future education costs for children or grandchildren; (4) Federal or State estate tax payment; (5) inheritance; and (6) charitable contributions. Your insurance needs will vary based on your personal and financial circumstances and may consist of a combination of term and permanent life insurance.

Types of Asset Ownership

Real Property

	Outright	Joint Tenancy with Rights of Survivorship	Tenancy By Entirety (Limited to Spouses)	Tenancy in Common	Community Property (Limited to Spouses)	Community Property with Rights of Survivorship (Limited to Spouses)(1)
Number of Owners	1	2+	2	2+	2	2
Must All Owners Hold Equal Interests?	N/A	Yes	Yes	No	Yes	Yes
Is Consent of Other Owner(s) Required to Transfer Interest?	N/A	Yes(2)	Yes(2)	No	Yes	Yes
Is There Creditor Protection?	No	No(3)	Yes(4)	No	No	No
Does this Property Pass Automatically at the Death of Surviving Owner(s)	No	Yes	Yes	No	Facts will Determine	Yes
Interest Passes at Death to	Decedent's Estate(5)	Surviving Owner(s)	Surviving Spouse	Decedent's Estate	Decedent's Estate	Surviving Spouse
Amount included in Gross Estate	100%	Depends in facts and circumstances	50%	Decedent's fractional share	50%	50%

1. As of 2025, six states offer this titling option: Alaska, Arizona, California, Idaho, Nevada, and Wisconsin.
2. An owner may sell his/her interest in the property; however, ownership is then converted to tenancy in common.
3. A joint tenant's interest may be pursued by such joint tenant's creditors
4. Depending on the state involved, property may be protected from creditors. There is no protection if both parties are liable for any debt. Not all states recognize this form of ownership and protection may vary depending on state law.
5. Such property will pass in accordance with the Decedent's testamentary instrument. It also may be possible for such property to pass according to a beneficiary designation such as "transfer on death". Some jurisdictions also have transfer on death property deeds.

Ownership Regimes in the U.S. for Married Couples

U.S. states generally use one of two property law systems that govern the ownership of property in a marriage. Known as community property and common law property, these legal systems offer a different criteria for determining which property is owned jointly by both spouses, and which property is owned separately by one or the other.

The difference between the two systems have significant implications in tax and estate planning matters and in the division of property in divorce. While all married couples should understand these implications, it is particularly important for those with significant assets, for those moving from a state with one regime to the other, and/or for those who want to review or arrange their estate plan.

Community Property States

In a community property state, spouses have an undivided one-half interest in most property acquired through marriage, regardless of how it is titled. The general exceptions are for property that is:

- ✓ Acquired before marriage
- ✓ Given to either spouse
- ✓ Inherited by either spouse
- ✓ Acquired with the separate property or separate credit of one of the spouses (i.e., acquired using property that was inherited)
- ✓ Excluded by prenuptial or other agreement
- ✓ Acquired when legally separated and not living together

Common Law Property States

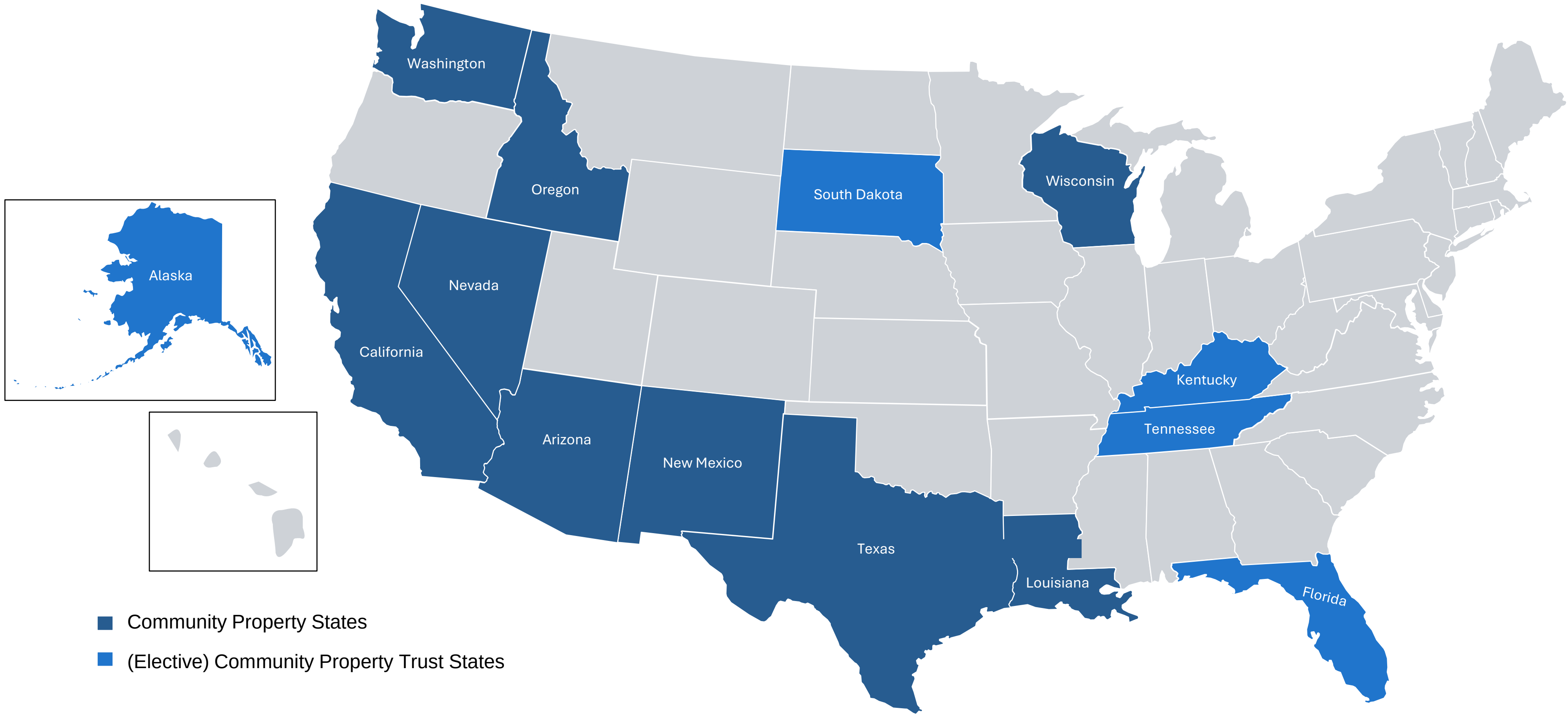
The common law property system is one in which spousal ownership of property is determined by how the title to the asset is held. Thus, married couples who wish property to be considered otherwise have several options. This includes maintaining separate accounts for individually owned assets and/or titling any assets gained over the course of the marriage to make their intention clear.

In most common law states, individuals have two joint ownership options:

- ✓ Tenants in common
- ✓ Joint tenants with rights of survivorship

Certain states offer a third option to married couples, which is tenants by entirety.

Community Property States



Source: https://smartasset.com/taxes/all-about-the-estate-tax and https://www.daytonestateplanninglaw.com/what-is-a-community-property-trust/

Difference Between Wills & Revocable Living Trusts

	Will	Revocable Trust
Definition	A Will is a document which disposes of your property at death in accordance with your wishes and names an "executor" to carry out your directions. For the Will to be effective, it must be signed with certain formalities, as determined by state law, and its validity must be proven in a judicial process known as Probate upon your death.	A "revocable" trust is a trust that you, as donor, create during your life and that you can change or terminate at any time. The donor (grantor) is typically the trustee and sole beneficiary. The trust agreement usually contains directions regarding the management of the trust assets under different circumstances.
Flexibility	A Will can be revoked or changed at any time during life by an amendment called a Codicil or by a later Will.	A Revocable Living trust can be changed or terminated during life, but after your death it typically becomes irrevocable.
When does it become effective?	It only takes effect after your death and upon approval of the court.	It becomes effective during your lifetime, once it is signed and funded.
What Happens if You Become Incapacitated?	A Will does not provide direction in the event of incapacitation during your lifetime.	If the grantor of a revocable living trust becomes incapacitated, the successor trustee will administer the trust assets in accordance with the terms of the trust. A funded revocable living trust can be used in lieu of a court-supervised guardianship/conservatorship.
Privacy	A Will document is subject to Probate, which is a public process.	Trusts bypasses the probate process which offers more privacy for assets and beneficiaries.
Process & Cost	Generally simple to set up and low cost.	Can be more complex to set up and typically costs more than the creation of a Will.

Difference Between Revocable & Irrevocable Trusts

Trust Type	Definition	Practical Benefits
REVOCABLE TRUST	• Can change the terms of the trust, transfer assets to or from the trust, or revoke the trust while you're alive. • Assets are considered part of your estate for some purposes and may be ***subject to both state estate or inheritance taxes (if applicable) and federal estate taxes*** at the time of death.	• A revocable trust allows assets to bypass the often lengthy and costly probate process, enabling quicker distribution to beneficiaries. Additionally, because trusts typically remain confidential, details of asset distribution are not subject to public record as they would be with a will. • Since the grantor retains control over the trust during their lifetime and can amend or revoke it as needed, if the grantor becomes incapacitated, a successor trustee can immediately step in to manage assets without court involvement.
IRREVOCABLE TRUST	• The grantor permanently transfers ownership and control of assets to a trust, **relinquishing the ability to revoke, alter, or terminate the trust without beneficiary consent or a court order** • Once transferred, the assets are no longer considered part of the grantor's personal estate.	• May provide the trust's assets protection from creditors or legal judgments of the grantor or beneficiary because neither the grantor nor the beneficiaries own the assets. • The strategic use of irrevocable trusts may help preserve access to government benefits, especially for individuals with disabilities. Sophisticated gifting strategies can also be managed via irrevocable trusts.

Choosing an Executor and/or Trustee

Executor

An executor is responsible for managing the affairs and administration of a deceased person's estate. Often the executor is a trusted family member, but it can be a professional.

Responsibilities are Largely Chronological and Include

- ✓ Submitting the Will to probate court
- ✓ Notifying all relevant parties of the death
- ✓ Court appoints an estate representative
- ✓ Identifying and gathering all assets
- ✓ Paying the decedent's debts from the estate
- ✓ Calculating and paying taxes from the estate
- ✓ Distributing remaining estate assets to the beneficiaries
- ✓ Working with the court to close the estate

Trustee

A trustee can be trusted friend or relative or a professional trustee. The individual should have the time, ability and experience to manage assets, keep records, pay bills, make distributions, prepare tax returns and assume fiduciary responsibilities. *Speak to your Financial Advisor to understand if a corporate trustee makes sense and to learn more about Morgan Stanley Trust Services*.

For a Trustee, Responsibilities May Include

Investment management - overseeing the selection of trust assets to provide liquidity and income in various market conditions and maintaining the portfolio.

Sound judgment - distributing income and principal for qualified purposes and being responsive to requests from your beneficiaries.

Tax management - preparing trust tax returns and executing tax-loss harvesting or other tax management investment strategies, as appropriate.

Annual Exclusion Gifting

The annual gift tax exclusion is the amount an individual can gift to as many recipients as they choose in a calendar year without tapping into their Lifetime Exemption amount. In 2025, this amount is: $19,000 per person per recipient[(1)].

If you're married, your annual exclusion amount doubles to $38,000 per recipient if you elect to split gifts in a given calendar year.

Gifts can be in the form of cash, stock, or other assets, and can be given outright to the recipient or in trust for the benefit of the recipient (specific provisions must be included in the trust).

By utilizing the Annual Exclusion each year, a donor can remove a significant amount of assets from their estate while also providing a source of funds for loved ones.

Not all gifts count towards your annual exclusion, below are some examples:

- Gifts to IRS-approved charities
- Gifts to your spouse (if they're a U.S. citizen)
- Gifts to cover tuition, if paid directly to the educational institution (excludes books, supplies, or room & board)
- Gifts to cover medical expenses, if paid directly to the medical facility

1. IRS.gov/estate-and-gift-taxes

Annual Exclusion Gifting: Hypothetical Illustration

By gifting up to the annual gift tax exclusion annually, without dipping into your Federal Estate and Gift Tax Exemption, it can help to reduce your taxable estate over time.

Assumptions

- Number of donees: 4
- Donees' annual after-tax return on gifts: 5.00%
- Single annual exclusion (2025): $19,000
- Annual exclusion inflation adjustment: 3.00%
- Donor's hypothetical federal estate tax bracket: 40.00%
- Take advantage of gift splitting with U.S. Citizen spouse: yes

Year	Annual Exclusion Gift to Each Donee	Total Value of All Annual Exclusion Gifts	Potential Federal Estate Tax Savings	Cumulative Gifts w/ Growth	Cumulative Potential Federal Estate Tax Savings
1	$38,000	$144,000	$57,600	$144,000	$57,600
2	$38,000	$144,000	$57,600	$295,200	$118,080
3	$40,000	$152,000	$60,800	$461,960	$184,784
4	$40,000	$152,000	$60,800	$637,000	$254,823
5	$42,000	$160,000	$64,000	$828,911	$331,564
6	$42,000	$160,000	$64,000	$1,030,356	$412,143
7	$44,000	$168,000	$67,200	$1,249,874	$499,950
8	$44,000	$176,000	$70,400	$1,488,368	$595,347
9	$46,000	$176,000	$70,400	$1,738,786	$695,515

- **Benefits**: **(1)** Gifts up to $19K per donee or $38K by a married couple per year who elect to split gifts may be made (a) outright to individuals, (b) to UTMA accounts, (c) to *Crummey* trusts, or (d) to IRC 2503(c) trusts, while preserving the federal estate tax exemption for use at death. **(2)** Gifts made to an IRC 2503(c) Trust qualify for the Annual Exclusion and the GST Tax Annual Exclusion, without the use of any federal estate or gift tax exemption amount.**(3)** Payments of medical expenses directly to providers and payments of tuition directly to educational institutions may be made on behalf of an individual, in any amount, without the use of federal estate or gift tax exemption amounts.

- **Considerations: (1)** Donor loses access to the gifted funds.
(2) Donee must have present right to gift, or if made to an UTMA account or to an IRC 2503(c) Trust, the donee must have access at age 21, at least for a period of time.

Hypothetical example is for illustrative purposes only. Not representative of any specific investment.

CHAPTER 3

Foundational Income Tax Considerations

Charitable Giving (Public Charities) & Donor Advised Funds (DAF)

Charitable Giving

"Giving is not just about making a donation, it is about making a difference" - Kathy Calvin

Identifying WHO you want to support:
It may help to think about philanthropic dollars in three buckets.

Core: Organizations, causes or themes tied to your primary passions.

Community: Causes you want to support because of where you live or your network (e.g., your alma mater, a local art museum, a friend's nonprofit, etc.).

Impulse Gifts: Time-sensitive causes you don't see coming and can't plan for (e.g., disaster relief or fundraising events).

Identifying HOW you want to support:

- Traditional cash or check donations made directly to an organization.
- Donating appreciated stock directly to an organization.
- Qualified Charitable Distribution (QCD): Donating directly to a qualified charity from your Individual Retirement Account (IRA) for individuals age 70.5 or older up to $108,000 per year (in 2025).
- Donor Advised Fund (DAF): a charitable giving vehicle that allows you to receive an income tax deduction in the year of the gift and designate organizations for grants at a later date.
- Leaving a bequest in your will or designating a charity as the beneficiary of a retirement account.

Charitable Tax Deduction

A person may make gifts to charitable organizations and may receive income, gift and/or estate tax charitable deductions. The organization may be a public charity, a private foundation, or a hybrid of the two. Gifts to public charity are treated favorably for income tax purposes compared to gifts to a private foundation.

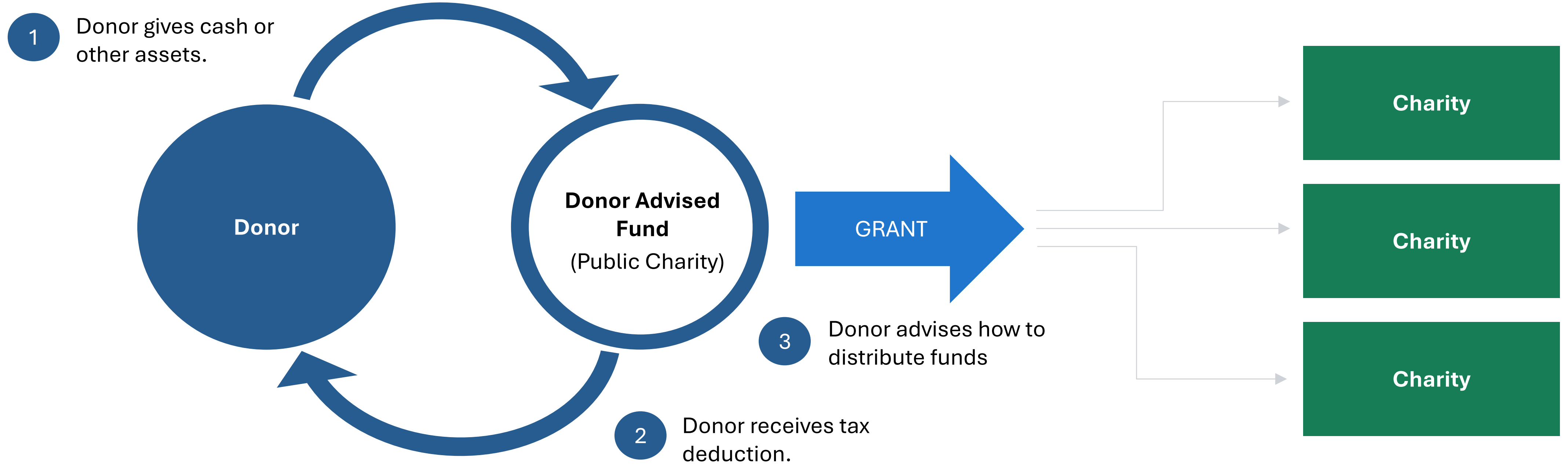
	Public Charity Amount of Deduction	AGI Limitation (Public Charity)	Private Foundation Amount of Deduction	AGI Limitation (Private Foundation)
Cash[1]	Fair Market Value	60%	Fair Market Value	30%
Ordinary income or short-term capital gain property	Lesser of Fair Market Value or Cost	50%	Lesser of Fair Market Value or Cost	30%
Long-term capital gain property (other than qualified appreciated stock)	Fair Market Value[2]	30%	Lesser of Fair Market Value or Cost[2]	20%
Long-term capital gain - "qualified appreciated stock"	Fair Market Value	30%	Fair Market Value[3]	20%

In general, either the donor's cost basis or the Fair Market Value (FMV) of property given to a U.S. tax-exempt charitable organization may be deducted for income tax purposes subject to a limitation expressed as a percentage of the donor's adjusted gross income (AGI). The amount of the deduction and the applicable AGI limitation are a function of the type of property given (cash vs. short-term or long-term capital gain property) and the classification of the charitable organization as a public charity or private foundation. Gifts in excess of the limitations can be carried forward and used as a deduction in any of the five years following the year of the gift. Below displays the summary of some basic rules.

[1]Footnotes link: Charitable Giving Overview

Donor Advised Funds (DAF)

A Donor Advised Fund (DAF) is a charitable giving vehicle administered by a sponsoring organization. DAFs are structured as 501(c)(3) organizations created with the intent of managing charitable donations on behalf of individuals, families, and organizations. The charity manages all the administrative duties, but the donor recommends how the funds are used over time.



If you have philanthropic interests, it may be beneficial to fund a donor-advised fund in peak income years, so that you receive the immediate tax deduction but can continue to spread your giving out over time.

Note: Ask your Financial Advisor about Morgan Stanley's Donor Advisor Fund (MS GIFT) to facilitate charitable giving with strategic advice and portfolio solutions.

CHAPTER 4

High Net Worth Trust Structures

Credit Shelter (Bypass) & Marital (QTIP) Trusts

High Net Worth Trust Structure Overview

When foundational estate planning documents are being put in place, married couples with taxable estates may want to implement tax planning to ensure that each individual fully utilizes his or her federal estate tax exemption and ideally defers any federal estate taxes due until the death of the surviving spouse.

It's important to execute and implement estate planning documents, which typically include, **at a minimum**, a **Will, Durable Power of Attorney** for financial management, and advance health care directive.

Additionally, a **Revocable Living Trust** may be part of the estate plan for incapacity planning during life, privacy protection, to avoid cumbersome state probate procedures, and when the grantor of the revocable trust has real estate in multiple states.

Whether a client's main estate planning document is a Will or revocable living trust, if assets will pass to minor children, the document should include language creating a **Descendants Trust**.

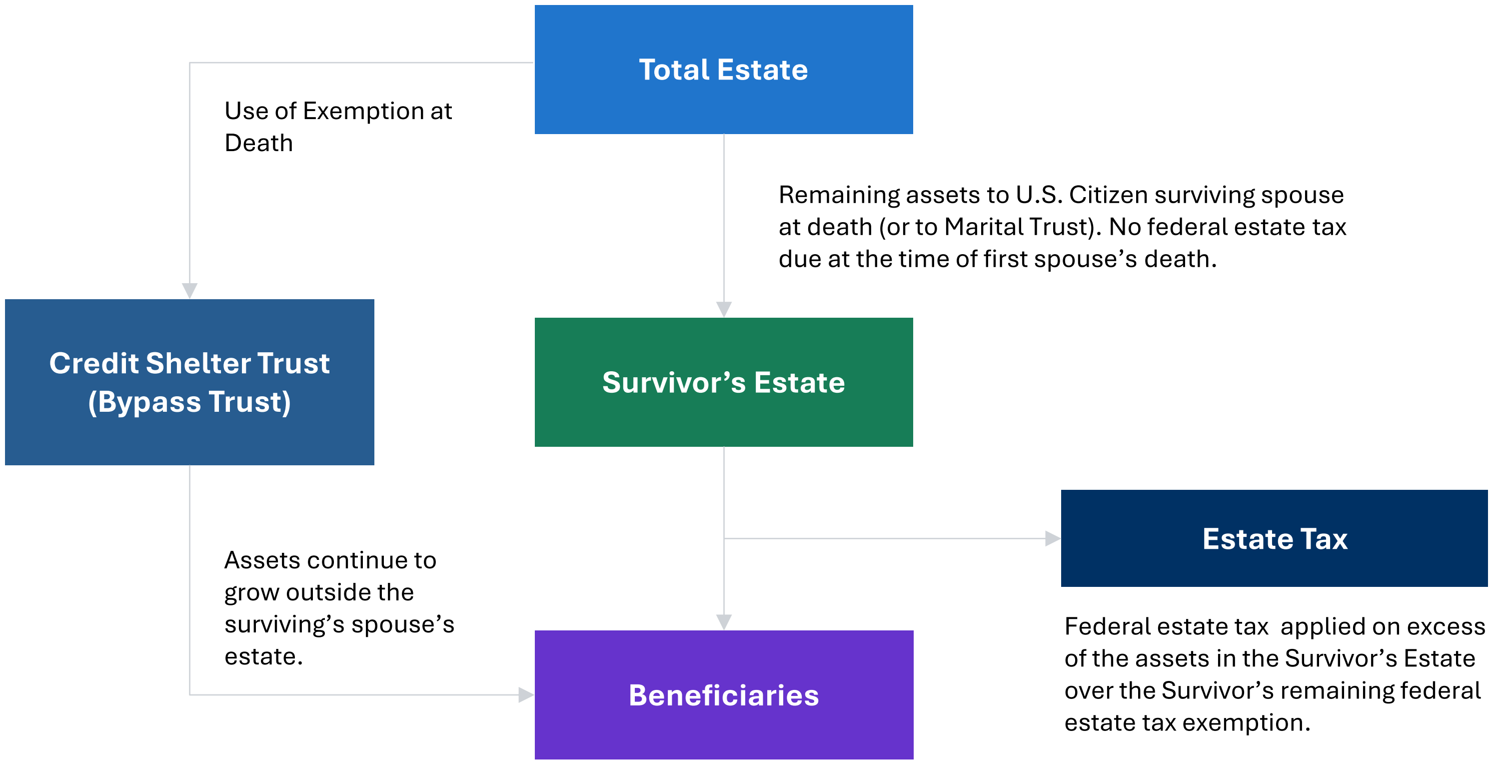
Additionally, if the client is married and has a taxable estate, consideration should be given to including language establishing a **Credit Shelter Trust** (also known as a family trust or bypass trust) and a **Marital Trust** in the document.

A **Credit Shelter Trust is funded with** an amount of assets equal to the **Decedent's remaining federal estate tax exemption**. The provisions of the credit shelter trust may provide for income and principal distributions to the surviving spouse and/or other individuals.

If structured appropriately, a **Marital Trust defers** the federal **estate tax** until the **Surviving Spouse's Death**.

Credit Shelter Trust (Bypass Trust)

A Credit Shelter Trust is created in the Will or Revocable Living Trust of the first spouse to die and is designated to be funded on that person's death with assets having a value equal to such spouse's remaining available federal estate tax exemption. The objective is to **maximize the amount that can pass free of federal estate tax and Generation Skipping Transfer ("GST") tax to individuals.**

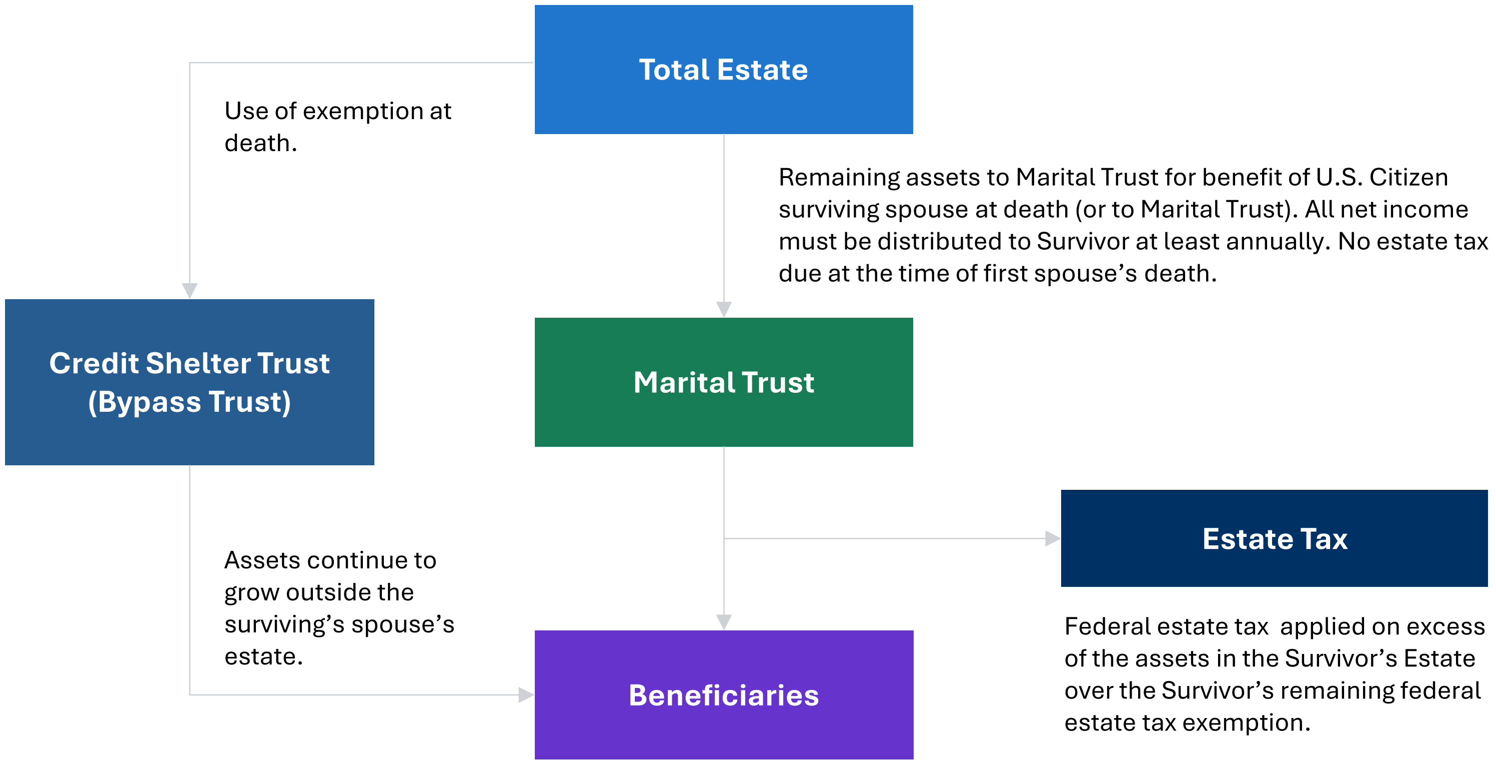


- **Benefits**: **(1)** At the surviving spouse's death, the trust assets (including the appreciation) are not includible in his/her estate and will pass to the named beneficiaries, free of federal estate tax. **(2)** May provide creditor protection for the beneficiaries

- **Considerations: (1)** Trusts have administrative burdens, such as income tax filings and accountings. **(2)** Credit Shelter Trust assets will only be available to the surviving spouse and others as specified in the trust provisions. The trust terms can give the trustee discretion to determine when, and to what extent, to make distributions of trust property to beneficiaries; further, an independent trustee can have broader distribution authority than a beneficiary who serves as trustee. **(3)** Assets used to fund the Credit Shelter Trust will not receive an adjustment in basis to fair market value on the death of the surviving spouse.

Marital Trust/QTIP

Once the Credit Shelter Trust is funded, the remaining assets can be placed into a marital trust. The objective here is to provide for the U.S. citizen surviving spouse, defer payment of the federal estate tax until the surviving spouse's death, and allow the first to die to maintain control over the ultimate disposition of the trust assets following the spouse's death.

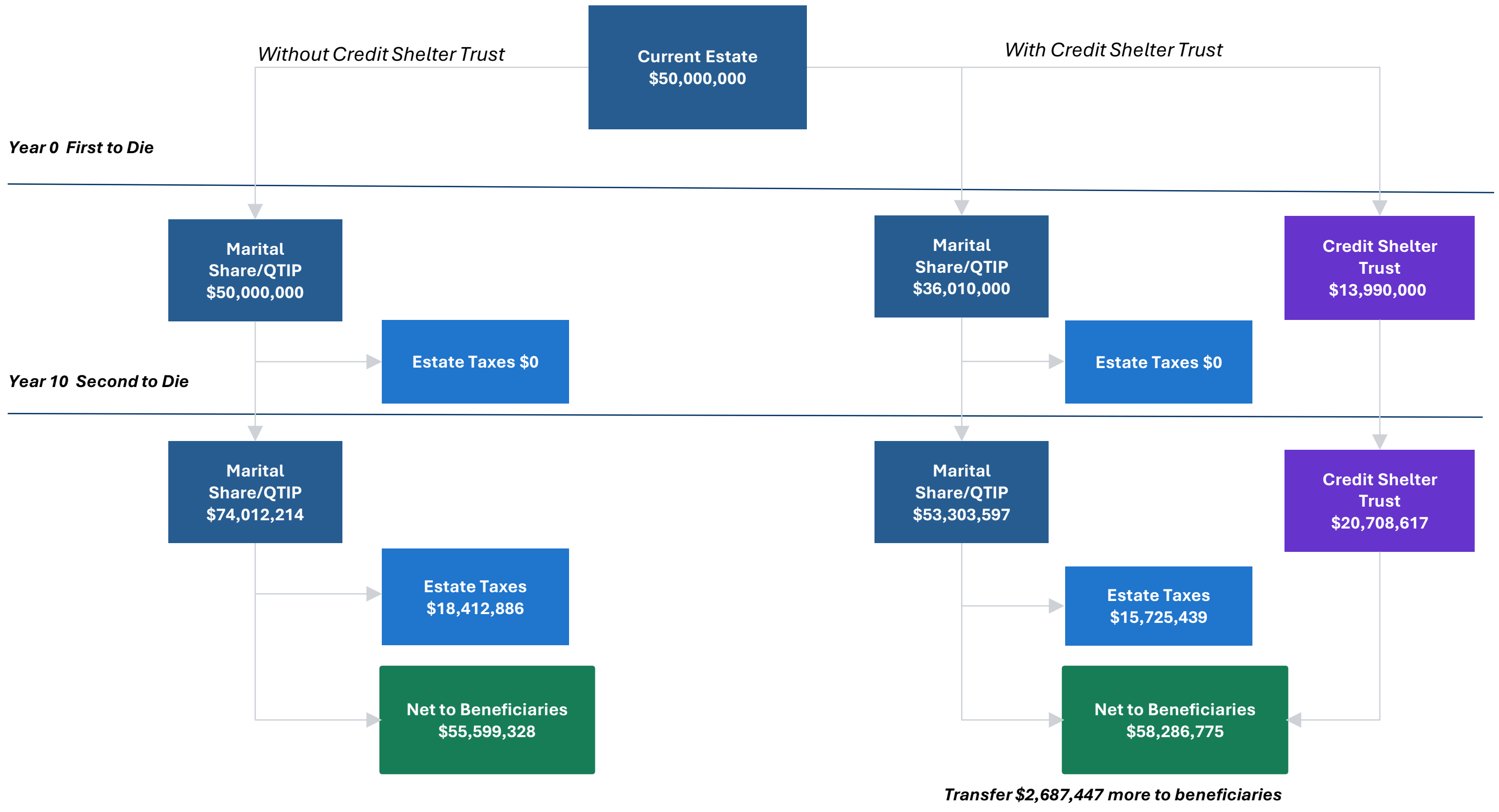


- **Benefits**: **(1)** If the Marital Trust elects and qualifies for the marital deduction, the assets will not be subject to federal estate tax at the first spouse's death. **(2)** The surviving spouse must receive a lifetime income interest in the trust and may have access to the principal. **(3)** Through the terms of the trust, the first spouse to die determines who will receive trust assets following the death of the surviving spouse (this may be important where the first spouse to die wishes to "disinherit" the surviving spouse's next spouse or in the case of a second marriage if the first spouse to die wishes to ensure that his/her children from a first marriage will receive the inheritance). **(4)** May provide creditor protection for the surviving spouse.

- **Considerations: (1)** The Marital Trust assets and all appreciation thereon will be included in the surviving spouse's estate, where it may be subject to all federal estate tax. **(2)** Assets may receive an adjustment in basis to fair market value at the deaths of the first spouse and the second spouse. **(3)** Distributions of trust principal will only be available to the surviving spouse as provided in the trust provisions - the trust terms may authorize the trustee to determine when, and to what extent, to make principal distributions to the surviving spouse. **(4)** Trusts have administrative burdens, such as income tax filings and accountings.

Credit Shelter & Marital Trust/QTIP Illustration

In the following example a Credit Shelter Trust is funded with $13.99MM upon the death of the first spouse. The Credit Shelter is not subject to the estate tax at the death of either spouse.



Assumptions

Lifetime Exemption of the First Spouse	13,990,000
Lifetime Exemption of the Second Spouse	13,990,000
Credit Shelter Amount	13,990,000
Estate Tax %	40%
Annual Investment Net Return	4%

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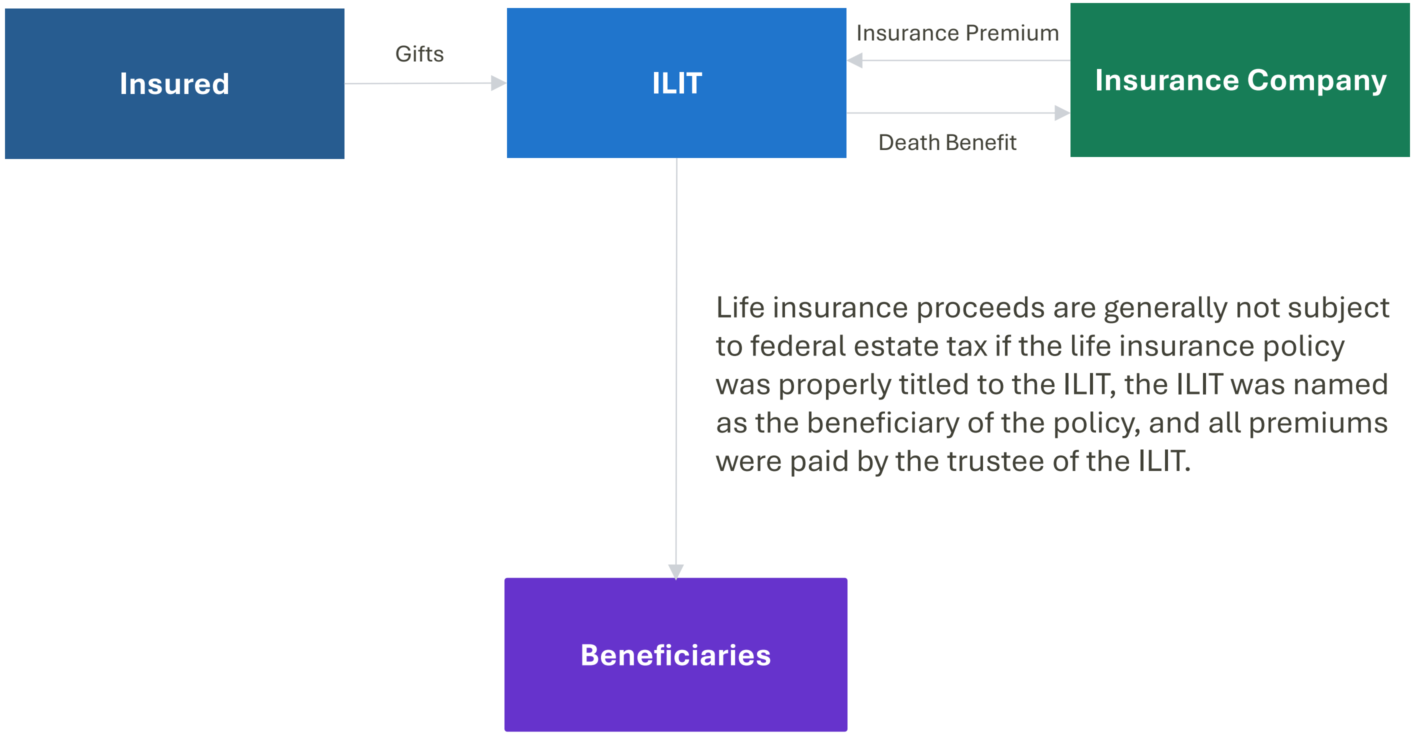
CHAPTER 5

High Net Worth Gifting Strategies

Irrevocable Life Insurance Trust (ILIT), Irrevocable Grantor Trusts,
Grantor Retained Annuity Trusts (GRAT)

Irrevocable Life Insurance Trusts (ILIT)

The primary objective of an ILIT is to **pass life insurance proceeds to individuals free of federal estate tax**. Typically, individuals structure ILIT contributions, which are used to pay the insurance policy premiums, in such a way that they qualify for the federal annual gift tax exclusion.



Life insurance proceeds are generally not subject to federal estate tax if the life insurance policy was properly titled to the ILIT, the ILIT was named as the beneficiary of the policy, and all premiums were paid by the trustee of the ILIT.

- **Benefits: (1)** The ILIT can provide family members with a source of liquidity to pay estate tax upon the insured's death. **(2)** The ILIT should receive any insurance death benefits free of federal income tax. **(3)** The assets of the ILIT, including the insurance death benefits generally will not be includible in the grantor's estate. **(4)** Distributions from the ILIT generally can be made to beneficiaries free of federal estate and gift taxes. **(5)** The ILIT can be structured so that contributions to the ILIT (which the trustees presumably will use to pay insurance premiums) will qualify for the federal annual gift tax exclusion. **(6)** Assets held in the ILIT may be protected from the beneficiaries' creditors, including ex-spouses.

- **Considerations: (1)** ILIT assets will only be available to trust beneficiaries as provided in the trust document. **(2)** As an irrevocable trust, the grantor cannot decide to terminate the ILIT and take back the trust assets. **(3)** If the grantor transfers, via gift, existing insurance policies on his/her life to the ILIT, the grantor must live 3 years thereafter or any such policies will be included in the grantor's estate for federal estate tax purposes at the grantor's death. **(4)** If the ILIT purchases the insurance policy, then the policy is excluded from the grantor's estate from inception.

Irrevocable Life Insurance Trust (ILIT) Illustration

The following hypothetical illustrates the rate of return on a $10,000,000 death benefit.

This hypothetical sample pricing is for a policy insuring the lives of a healthy male and female, both age 60, with survivorship coverage.

- The death benefit under survivorship is not paid until the death of the second spouse.
- The last row in the table reflects the normal life expectancy of the second spouse to die.
- The earlier the death occurs, the higher the internal rate of return (IRR) will be to the beneficiary.
- Life insurance proceeds are generally exempt from federal income taxes (and potentially federal estate taxes if structured properly).

Year	Age	Annual Premium	Cumulative Premiums Paid	Death Benefit	IRR on Death Benefit
5	65	$100,000	$500,000	$10,000,000	124.0%
10	70	$100,000	$1,000,000	$10,000,000	40.4%
15	75	$100,000	$1,500,000	$10,000,000	21.6%
20	80	$100,000	$2,000,000	$10,000,000	13.7%
25	85	$100,000	$2,500,000	$10,000,000	9.5%
30	90	$100,000	$3,000,000	$10,000,000	6.9%
32	92	$100,000	$3,200,000	$10,000,000	6.2%

The above table serves as a high-level analysis, assuming an annual premium of $100,000 and a death benefit of $10,000,000. In this hypothetical example, should the death occur in Year 30 (when the insureds are age 90), the corresponding internal rate of return on the death benefit is 6.9%. As the example illustrates, the later death occurs, the lower the internal rate of return on the death benefit.

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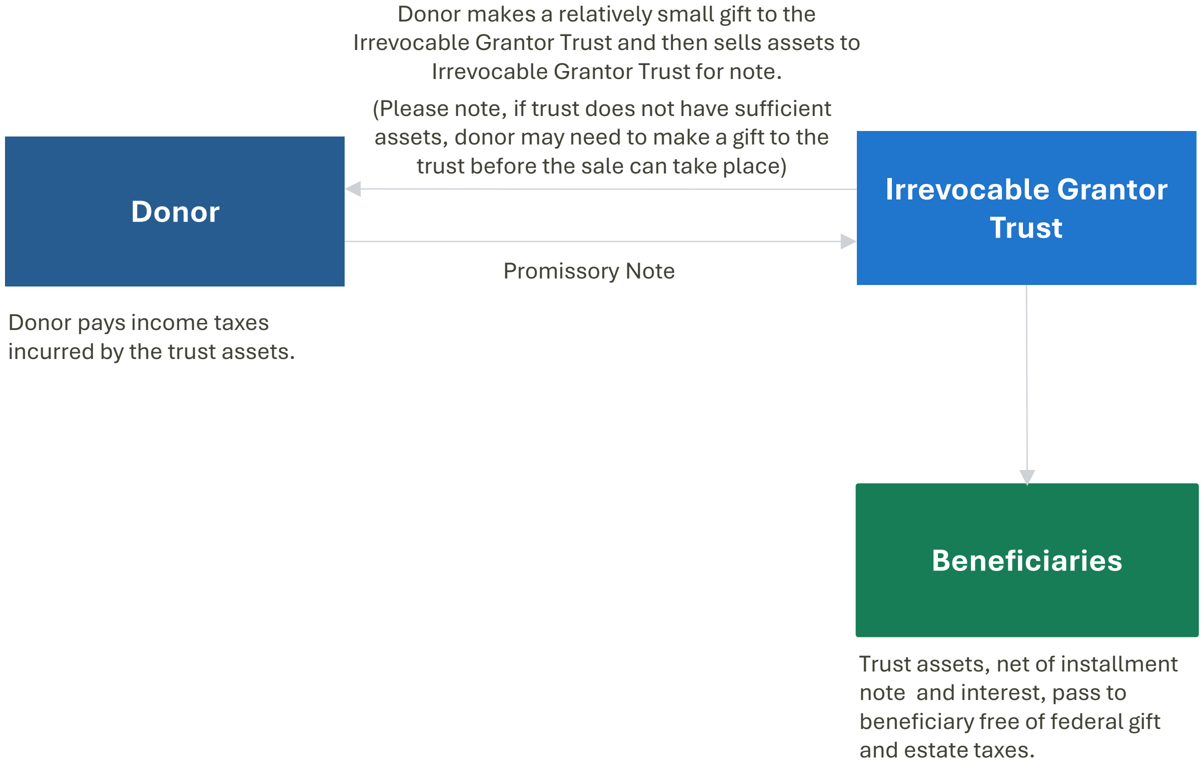
**The type of insurance product selected effects the outcome. Not all policies are guaranteed. Clients and their financial advisors should pay particularly close attention to guarantees when electing this type of estate planning technique.*

Sale/Loan to Intentionally Defective Irrevocable Grantor Trust

An Intentionally Defective Grantor Trust (IDGT) is any irrevocable trust that an individual (grantor) creates during life where the grantor is treated as the owner of the trust for federal income tax purposes, but not for federal estate or GST transfer tax purposes. The goal of the outlined strategy is to **transfer potential asset appreciation** to younger family members/individuals at a reduced federal gift tax cost.



- **Benefits: (1)** As the owner of the Intentionally Defective Grantor Trust (IDGT) for federal income tax purposes, the grantor will be liable for paying the trust's income tax, which allows trust assets to grow without depletion by federal income tax. **(2)** The grantor's payment of federal income tax out of his/her own assets is essentially a tax-free gift to the IDGT. **(3)** The grantor's estate will be reduced by his/her payment of the trust's income tax. **(4)** No gain is recognized by the grantor on the sale of appreciated assets to the IDGT. **(5)** The grantor will not recognize income on the note interest paid by the IDGT. **(6)** Trust assets generally will not be includible in the grantor's estate (but the promissory note will be includible). **(7)** Trust assets may be protected from the beneficiaries' creditors. **(8)** The grantor can achieve a tax-free transfer of wealth to trust beneficiaries to the extent the IDGT's combined rate of income and growth on the assets purchased from the grantor exceeds the applicable AFR on the promissory note (this technique works best when the AFR is low).

- **Considerations: (1)** The grantor's payment of the IDGTs income tax may become a drain on the grantor's personal assets. **(2)** The IDGT will pay its own income tax following the grantor's death. **(3)** The grantor cannot sell assets to the IDGT without making an initial gift to it unless the IDGT has sufficient assets of its own. **(4)** IDGT assets will only be available to trust beneficiaries as provided in the trust document. **(5)** As an irrevocable trust, the grantor cannot decide to terminate the IDGT and take back the trust assets. **(6)** The IRS may challenge the valuation of the assets sold to the IDGT. **(7)** The IDGT is required to repay the loan regardless of how the purchased assets perform.

Sale/Loan to Irrevocable Grantor Trust Illustration

The following example illustrates a taxable gift to the trust of $500,000 (using a corresponding amount of the grantor's remaining gift tax exemption) followed by a sale to the trust of assets having a value of $500,000 in exchange for a promissory note bearing sufficient interest over 9 years.

In this hypothetical illustration, the donor receives interest payments of $21,500 per year and the $500,000 loan principal at the end of the term. After repayment of the note, the trust has $942,416 of assets remaining.

Year	Beginning Principal	6% Growth	Annual Payment	Remainder
1	$1,000,000	$60,000	$21,500	$1,038,500
2	$1,038,500	$62,310	$21,500	$1,079,310
3	$1,079,310	$64,759	$21,500	$1,122,569
4	$1,122,569	$67,354	$21,500	$1,168,423
5	$1,168,423	$70,105	$21,500	$1,217,028
6	$1,217,028	$73,022	$21,500	$1,268,550
7	$1,268,550	$76,113	$21,500	$1,323,163
8	$1,323,163	$79,390	$21,500	$1,381,053
9	$1,381,053	$82,863	$521,500	$942,416

Hypothetical example is for illustrative purposes only. Not representative of any specific investment.

Term of Trust	9
Principal	$500,000
Seed	$500,000
AFR Rate	4.3%
Annual Investment Return	6.0%

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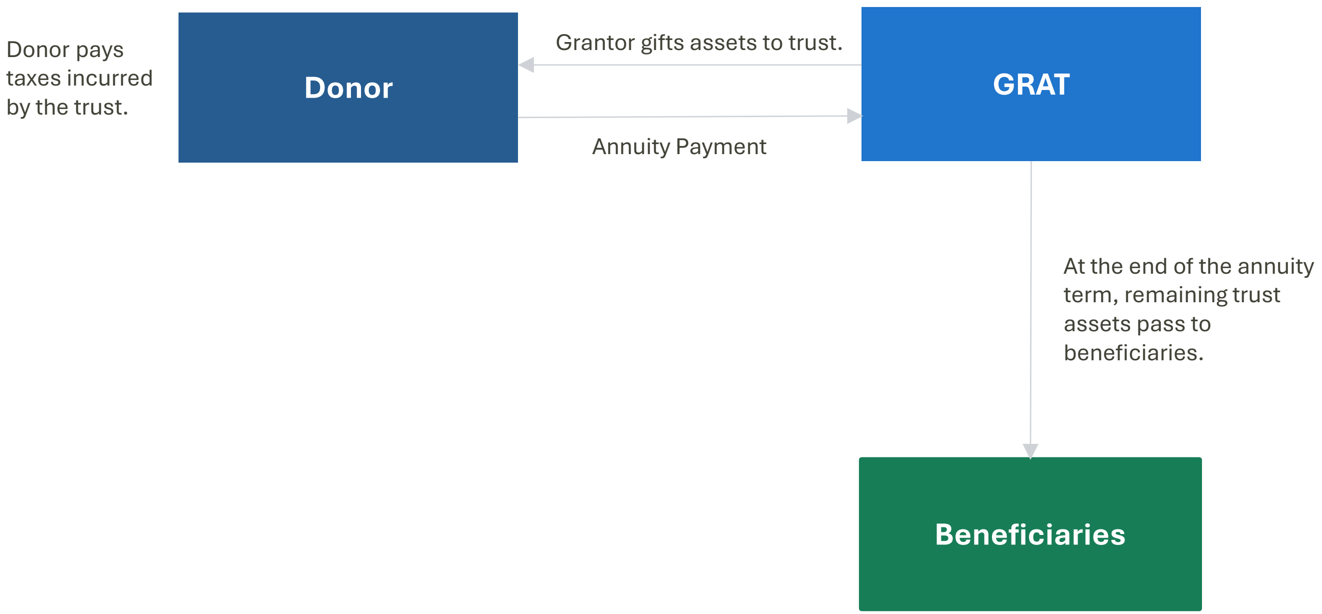
Grantor Retained Annuity Trust (GRAT)

OBJECTIVE: To transfer potential asset appreciation to individuals with the use of little to no federal estate and gift tax exemption.



- Benefits: **(1)** If the grantor survives the annuity payment term, then at such time, the remaining trust assets, if any, will pass to the trust beneficiaries free of federal estate and gift taxes - the grantor generally can achieve a transfer tax-free shift of wealth to the trust beneficiaries if the trust's combined rate of income and growth exceeds the applicable section 7520 interest rate (this technique works best when the section 7520 interest rate is low). **(2)** The grantor can choose an annuity payment amount and annuity payment term that produces a near-zero gift value. **(3)** If the gifted assets do not perform in excess of the applicable 7520 rate, the grantor has not wasted much, if any federal estate and gift tax exemption, which makes the technique ideal for gifting risky investments that have great appreciation potential.

- Considerations: **(1)** If the grantor dies before the end of the annuity payment term, some or all of the remaining trust property will be includible in his/her estate and may be subject to federal estate tax. **(2)** If the grantor survives the annuity payment term, the beneficiaries who receive the remaining trust assets will take the grantor's basis in such property for federal income tax purposes. **(3)** As an irrevocable trust, the grantor cannot decide to terminate the GRAT and take back the trust assets after the trust is funded. **(4)** Federal Generation Skipping Transfer Tax exemption cannot be efficiently allocated to the trust assets.

Grantor Retained Annuity Trust Illustration

Relative to a standard GRAT, so-called "rolling GRATS" may provide greater opportunity for compounding returns while reducing mortality risk through the creation of a series of sequential short-term GRATS with each subsequent GRAT being funded with an annuity payment from an earlier-created GRAT. The potential compounding benefit results from rolling GRAT keeping all principal (and interest, in some cases) "at work" over a longer period of time.

The following is an illustration of two sequential two-year rolling GRATS. In this hypothetical scenario, the remainder beneficiaries receive assets worth $20,164, or $2,566 more than they would with one three-year GRAT.

Assumptions:	
Rolling Period	3
Initial Value	$1,000,000
Section 7520 Interest Rate	5.2%
Annual Investment Return	6.0%

Key Outputs:	
"Remainder Trust" Ending Principal	$20,164
3-Year Flat GRAT Remainder	$17,598
Difference	$2,566

Hypothetical example is for illustrative purposes only. Not representative of any specific investment.

Rolling GRATS

Year	Principal	Growth	Annuity	Remainder
1	$1,000,000	$60,000	$539,316	$520,684
2	$520,684	$31,241	$539,316	$12,609
Year	Principal	Growth	Annuity	Remainder
2	$539,316	$32,359	$290,862	$280,813
3	$280,813	$16,849	$290,862	$6,800

Remainder Trust

Year	Principal	Growth	Remainder Added	Ending Principal
1	$0	$0	$0	$0
2	$0	$0	$12,608	$12,608
2	$12,608	$756	$6,800	$20,164

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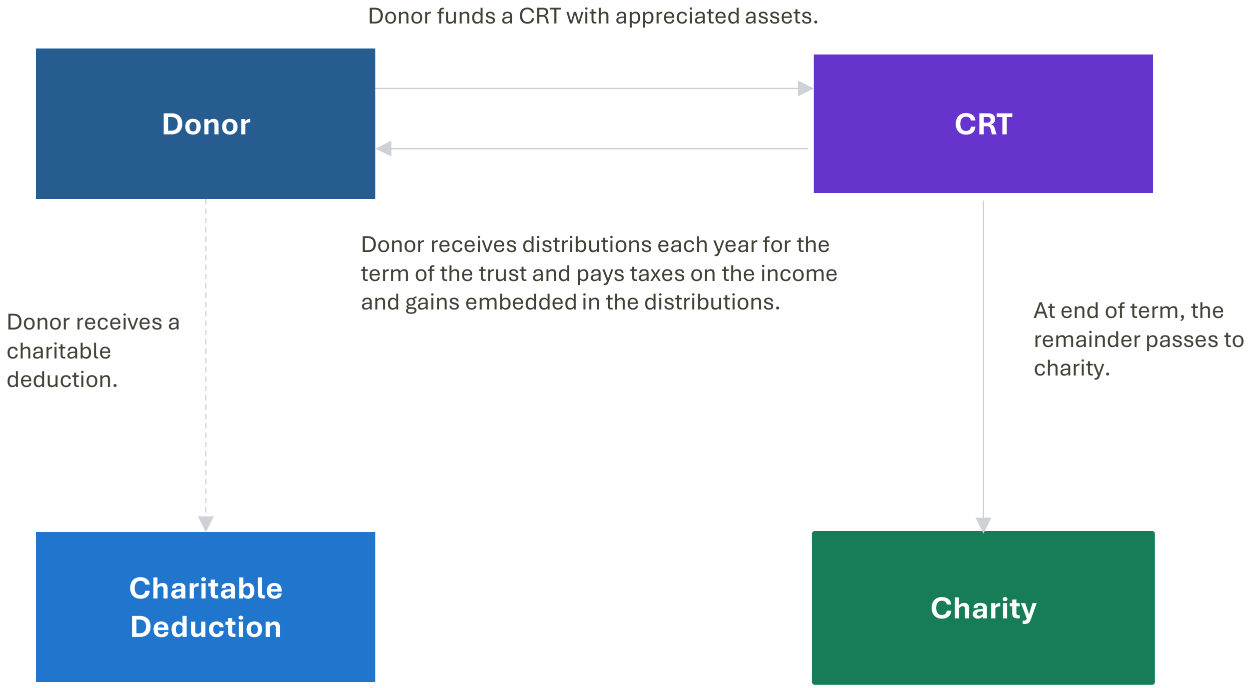
CHAPTER 6

High Net Worth Income Tax Considerations

Charitable Remainder Trusts (CRT)

Charitable Remainder Trusts (CRT)

OBJECTIVE: To diversify asset holdings, potentially defer capital gains tax and benefit charity by creating a trust that provides a payment stream to family members over a specified term and then distributes the remaining trust assets to charity at the end of the payment term.



- **Benefits**: **(1)** If the grantor creates the CRT during lifetime, the grantor will receive a federal charitable gift tax deduction and federal charitable income tax deduction, each being equal to the value of the property transferred to the CRT less the present value of grantor's/family's payment stream, computed by using the applicable section 7520 interest rate. **(2)** If the grantor creates the CRT at death, the grantor's estate will receive a federal charitable estate tax deduction computed as explained in (1) above. **(3)** The CRT is a tax-exempt entity so it can sell appreciated assets and achieve diversification and perhaps a higher yield without incurring income/capital gains - the CRT may provide family with a higher after-tax payment stream than it otherwise would have received if appreciated assets were sold outside of the CRT and subject to federal income tax. **(4)** Family members can defer the payment of capital gains tax on appreciated assets sold by the CRT at least until their receipt of annual payments from the CRT.

- **Considerations: (1)** At the end of the CRT payment term, the remaining trust assets will pass to charity and no longer be available to the grantor and his or her family. **(2)** CRT assets will only be available to the grantor and/or his or her family members in the form of a fixed payment stream over the specified payment term. **(3)** As an irrevocable trust, the grantor and his or her family cannot decide to terminate the CRT and take back the trust assets after the trust is funded. **(4)** A CRT is subject to the private foundation excise tax rules. **(5)** A CRT is not an eligible S corporation shareholder.

Charitable Remainder Trust (CRT) Illustration

The following is an illustration of a charitable remainder unitrust (CRUT) funded with $1,000,000 in appreciated assets (zero cost basis). The trust has a 5-year term and a 10% charitable deduction. The donor's personal account collects the unitrust distributions from the CRT.

In this hypothetical illustration, the charity receives a remainder of $136,800 at the end of the term, whereas the personal account has an ending value of $1,025,017.

Note that the numbers below are dependent on additional information such as the payment period and the number of months by which the valuation precedes payout.

CRT

Gross Principal	$1,000,000
Cost Basis	$0
7520 Rate	5.2%
Term of Trust	5
Unitrust Rate	38.82%
Annual Investment Gross Return	6.0%
CRUT Remainder	$136,800

Personal Account
(initial value reflects tax savings from charitable deduction)

Charitable Deduction	$100,005
Marginal Tax Rate	40.8%
Potential Tax Savings	$40,802
Investment Period	5
Capital Gains Tax Rate	23.8%
Annual Investment Gross Return	6.0%
Ending Portfolio Value	$1,025,017

Year	Beginning Principal	Growth	Total	Unitrust Amount	Remainder
1	$1,000,000	$60,000	$1,060,000	$388,235	$671,765
2	$671,765	$40,306	$712,071	$260,803	$451,268
3	$451,268	$27,076	$478,344	$175,198	$303,146
4	$303,146	$18,189	$321,335	$117,692	$203,643
5	$203,643	$12,219	$215,862	$79,061	$136,800

Year	Personal Account	Net Unitrust Payment	After Tax Growth	Total
1	$40,802	$295,835	$20,198	$356,835
2	$356,835	$198,732	$33,334	$588,901
3	$588,901	$133,501	$43,344	$765,746
4	$765,746	$89,681	$51,326	$906,753
5	$906,753	$60,244	$58,020	$1,025,017

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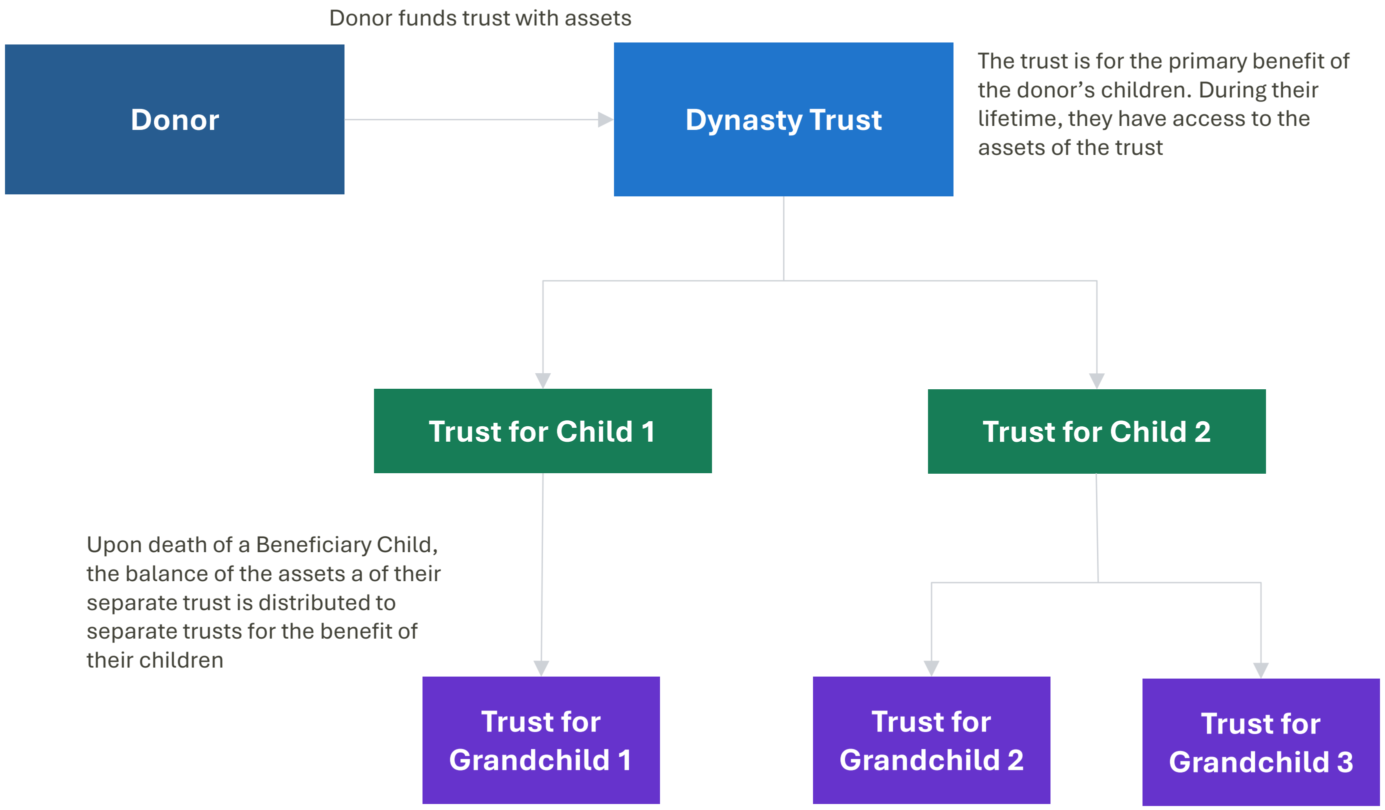
CHAPTER 7

Ultra-High Net Worth Trust Structures & Strategies

Spousal Lifetime Access Trust (SLAT), Qualified Personal Residence Trusts (QPRT), Dynasty Trusts

Dynasty Trust

OBJECTIVE: Aims to benefit multiple generations, potentially in perpetuity, without incurring federal estate tax and generation-skipping transfer ("GST") Federal tax. To be most effective, a Dynasty Trust must be created and governed in a jurisdiction that has modified or abolished the rule against perpetuities.

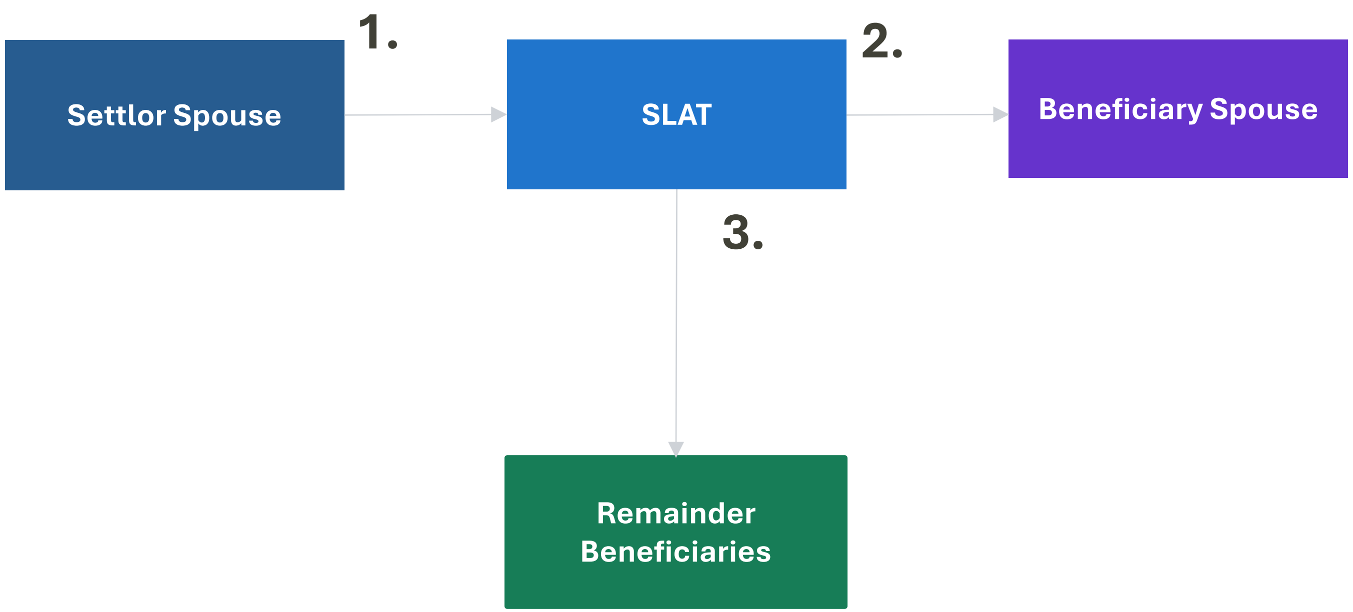


- **Benefits**: **(1)** Dynasty trusts allow assets and their appreciation to be excluded from federal estate, gift, and generation-skipping transfer (GST) taxes when properly structured, using applicable exemptions. **(2)** Assets held in a dynasty trust may be shielded from creditors, lawsuits, or divorce claims, as trust property is legally separate from beneficiaries' personal assets. **(3)** Professional trustees can manage investments and taxation across generations, and grantors can define long-term distribution rules and incentives to influence beneficiary behavior. **(4)** In favorable jurisdictions (e.g., Delaware, South Dakota), these trusts can last indefinitely, bypassing the traditional rule against perpetuities. Assets in a trust aren't subject to probate, which helps maintain privacy and avoid associated costs.

- **Considerations: (1)** Once established, a dynasty trust cannot be easily amended or revoked, making it difficult to respond to changed family circumstances, laws, or financial environments. **(2)** Setting up and maintaining the trust requires substantial legal, accounting, and administrative effort, often amounting to 0.5%–2% of trust assets annually. **(3)** Trusts pay income taxes at high bracket levels on retained income (e.g., 37% on income just above threshold), and do not benefit from a "step-up" in basis at inheritance, impacting tax outcomes.

Spousal Lifetime Access Trust (SLAT)

OBJECTIVE: A lifetime gift from one spouse to another through an irrevocable trust while both spouses are alive. The gift of the SLAT will be covered by the grantor spouse's applicable estate and gift tax exemption.

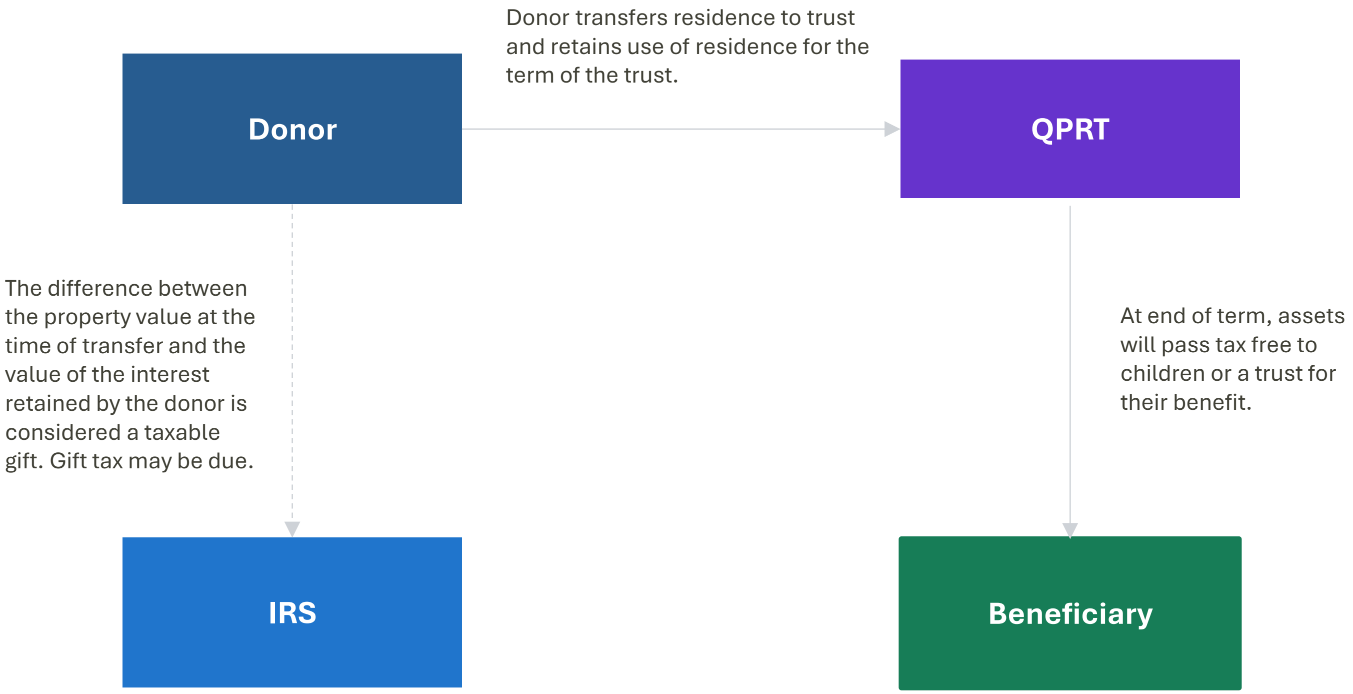


- **Benefits**: **(1)** A SLAT allows high-net-worth couples to take advantage of the historically high Lifetime Exemption Amounts, by gifting their full exemption early**.** **(2)** Assets transferred into a SLAT are removed from both the donor's and beneficiary spouse's taxable estates, reducing estate tax exposure, while future appreciation occurs outside of the taxable estate. **(3)** Although the donor surrenders control, the beneficiary spouse can receive income or principal distributions. **(4)** Assets held in a SLAT are generally shielded from creditors and legal claims against either spouse, provided the trust is properly structured **(5)** Upon the beneficiary spouse's death, remaining trust assets can pass to children or other named beneficiaries free of estate taxes, supporting legacy planning.

- **Considerations: (1)** Due to the irrevocable nature, once assets are transferred, the donor loses ownership and cannot modify or revoke the trust. **(2)** The effectiveness of a SLAT relies heavily on the stability of the marriage. **(3)** Trust assets do not receive a cost basis step-up when the beneficiary or donor dies, potentially leading to higher capital gains taxes for heirs. **(4)** Proper setup and maintenance of SLATs involve legal complexity, requiring careful drafting of distribution standards, trusteeship, and provisions to address future scenarios like divorce or remarriage.

Qualified Personal Residence Trust (QPRT)

OBJECTIVE: To transfer a primary residence or vacation home to younger family members at a reduced federal gift tax cost.



- Benefits: **(1)** The grantor may be able to transfer the home to the trust at a reduced federal gift tax cost. **(2)** If the grantor survives the QPRT term, the home (including any appreciation) will pass at that time to the trust beneficiaries free of federal estate tax and with no additional federal gift taxes. **(3)** The grantor can be allowed to remain in the home after the QPRT term if he or she pays a fair market rent to the designated trust beneficiaries - any rental payments will reduce the grantor's potential estate and not be treated as gifts.

- Considerations: **(1)** If the grantor dies before the end of the QPRT term, the home will be includible in his or her estate and subject to federal estate tax. **(2)** If the grantor survives the QPRT term, the trust beneficiaries who receive the home will take the grantor's basis in such asset for federal income tax purposes. **(3)** As an irrevocable trust, the grantor cannot decide to terminate the QPRT and take back the trust assets after the trust is funded. **(4)** If the grantor rents the residence after the end of the QPRT term, the rent may be taxable income to the trust beneficiaries who received the residence, unless ownership of the home continues in a grantor trust.

Qualified Personal Residence Trust (QPRT) Illustration

The following assumes that a QPRT is set up with property interest worth $5,000,000.

The taxable gift amount is calculated for several scenarios with various terms and section 7520 interest rates. The scenario comparison shows that the longer the term and/or the higher the IRS discount rate, the smaller the gift.

The donor's survival of the term is necessary for any transfer tax savings. Appreciation of the assets enhances the benefits of the technique. Qualified Personal Residence Trusts tend to not be attractive in low-interest rate environments absent the potential for meaningful appreciation in the personal residence's value.

Note: one would need to know the donor's age to compute the tax valuation discount on the retained interest.

Different terms, Same 7520 rates

Term	7520 Rate	Residence Value	Retained Interest	Taxable Gift
10	5.2%	$5,000,000	$2,032,200	$2,967,800
15	5.2%	$5,000,000	$2,775,550	$2,224,450
20	5.2%	$5,000,000	$3,416,150	$1,583,850

Same terms, Different 7520 rates

Term	7520 Rate	Residence Value	Retained Interest	Taxable Gift
15	4.0%	$5,000,000	$2,537,850	$2,642,150
15	5.0%	$5,000,000	$2,711,150	$2,288,850
15	6.0%	$5,000,000	$3,014,500	$1,985,500

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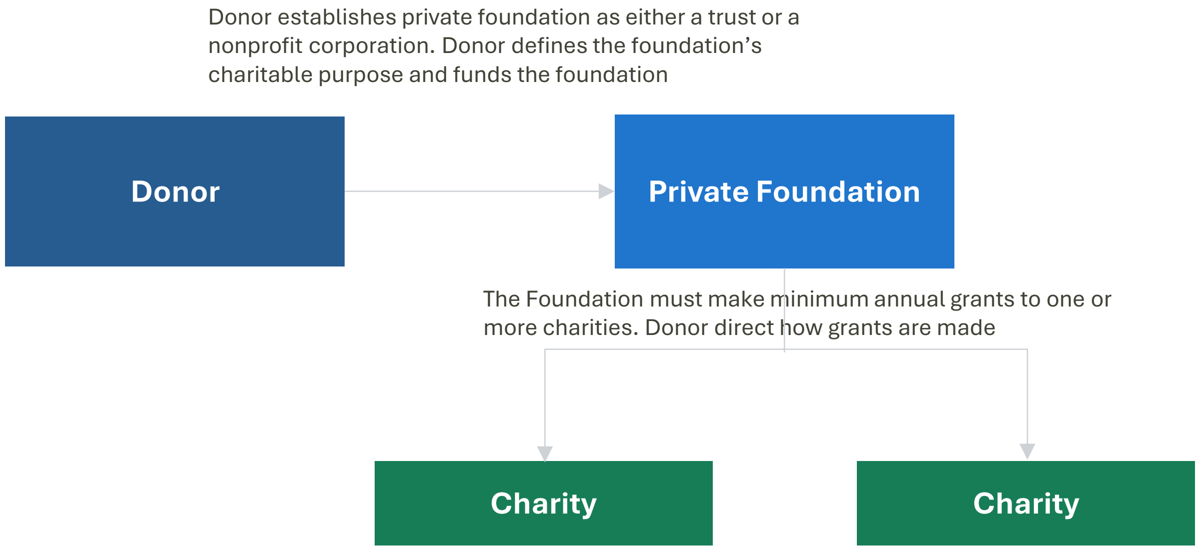
CHAPTER 8

Ultra-High Net Worth Income Tax Considerations

Private Foundations

Private Foundations

OBJECTIVE: Typically, individuals or families set up private foundations to make substantial gifts to charity while maintaining ultimate control over how grants are made, benefit from income, gift and estate tax deductions, and to involve family members in the legacy creation process as a way to teach fiscal responsibility and encourage philanthropy.



- Benefits: **(1)** Donors maintain full control over grantmaking, investment decisions, and governance—enabling personalized, strategic philanthropy. **(2)** Foundations can operate indefinitely, allowing philanthropic values and goals to endure across generations. **(3)** Immediate tax deductions for contributions—up to 30% of AGI for cash and 20% for appreciated securities. Ability to transfer appreciated assets without incurring capital gains tax. Contributions are removed from your taxable estate, potentially reducing estate taxes. **(4)** Assets within the foundation grow at a reduced tax rate, enhancing the endowment over time. **(5)** Foundation can support individuals, scholarships, and international causes—not just public charities.

- Considerations: **(1)** Requires formal legal setup, annual filings, governance structures, audit compliance, and often a substantial initial endowment (commonly $1M or more). **(2)** Tax filings (Form 990-PF) are publicly accessible and include details on donors, finances, and activities. **(3)** Foundations must pay an annual excise tax (typically 1.39%–2%) on net investment income. **(4)** Must distribute at least 5% of average net assets each year to maintain charitable status. **(5)** Trustees must actively manage decisions on investments, grants, and compliance; it's a significant time commitment.

Disclosures

This presentation was designed to illustrate the financial impact of a particular planning decision. The slides herein do not constitute a recommendation. Caution: many estate techniques share the common risk of the loss of control of the assets once the gift of the assets is complete.

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