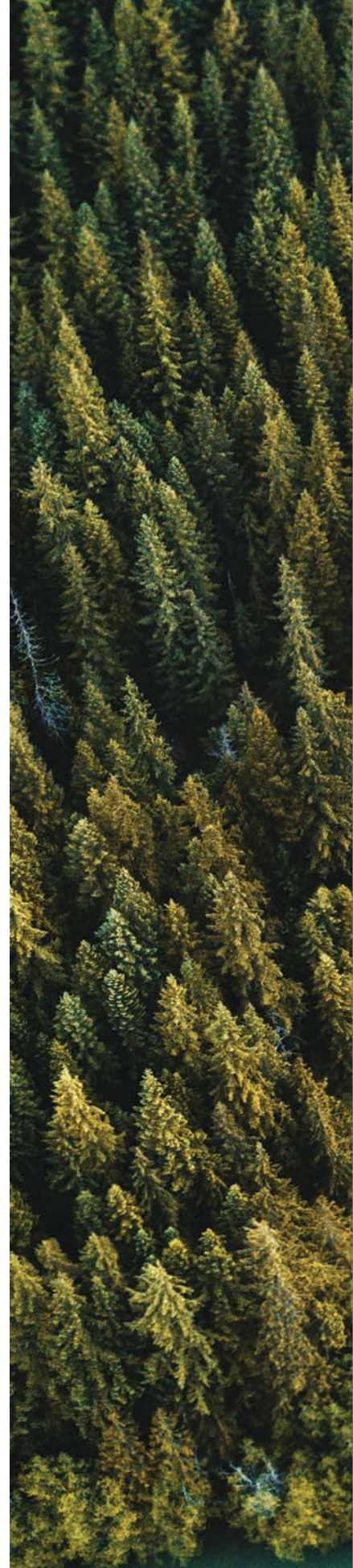


Morgan Stanley

# Wealth Transfer



**Wealth transfer.** Your legacy is the opportunity to pass on the material rewards of your life in the way that best fulfills your goals and reflects your values. Touching the future in this way can only be accomplished by thoughtful planning. Many techniques and structures are available to preserve and pass on wealth. Planning is the process of aligning them to reflect not only your financial circumstances, but also the vision and commitments that drive your success.





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**ESTATE OF MIND**

Estate planning begins with careful thinking about your goals and where your money will go next.

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**PASS IT ON**

If your wealth is the product of a business you have built and still own, you will confront a wider range of estate planning issues and opportunities. Strategic thinking of a different order is key to realizing and passing on value.

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**LEGACY OF VALUES**

Giving back through charitable contributions and philanthropic involvement can be among life's most rewarding work. It also creates the opportunity to unite your family around shared values and common commitments.

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**REST ASSURED**

Life insurance is often thought of as a lifestyle preservation tool. Used strategically, it can help fulfill a range of estate planning objectives, from reducing the impact of federal estate taxes to facilitating philanthropic goals.



# Planning Documents Begin With Your Last Will and Testament

Your will establishes who will receive your assets and in what manner after your death. Of special importance, when you have legal responsibility for minors, it may determine who assumes the role of guardian upon your death. However, it's not the only document to be concerned with. It is important to have a qualified attorney draft all these documents and to review them with your accountant and other advisors so you have a full understanding of their immediate and long-term financial impact.

## HEALTH CARE PROXY

Appoints an agent to make health care decisions on your behalf if you become incapacitated

## LIVING WILL

Declares your preferences with respect to health care matters, including whether you want to have extraordinary measures taken to prolong your life, guiding your family and medical professionals as they determine what treatments are appropriate for you if you become incapacitated

## TESTAMENTARY TRUST

Trust established by your last will and testament at your death, which controls how your assets are managed and ultimately distributed, and can also be used to facilitate estate tax planning

## DURABLE POWER OF ATTORNEY

Appoints an agent to make financial decisions for you if you are incapacitated or unavailable



## LIVING TRUST

Holds title to assets for you while you are still alive that a trustee (either you or another individual or corporate trustee) manages for your benefit during your life; can continue after death and function as a will substitute; assets titled to the trust at the time of your death may not be subject to probate

# Estate of Mind

Estate planning begins with careful thinking about your goals and where or to whom your wealth will go at your death.

The need for estate planning, particularly among individuals and families whose assets are significant and complex, is widely misunderstood and often neglected. Estate planning involves asking and answering questions not only about your assets but about your life and values, often with the guidance of a trusted advisor. Through the planning process, you have an important opportunity to think through your goals for your wealth, map out ownership transitions and work with your attorney to detail those decisions in well-crafted documents.

Documenting your decisions is important. Regardless of your circumstances, you should make a last will and testament (will), and you may want to set up various types of trusts. Moreover, you should draft documents to provide guidance to those responsible for your affairs if you become ill or injured. This step is of personal as well as legal importance, because your family may be called on to make difficult decisions on your behalf at a very emotional time. ►

If anything, the process of planning and documenting becomes even more important if you are in a permanent relationship but not married. In these circumstances, uncertainties can become magnified and contentious—and especially difficult for your partner.

An important part of the planning process is selecting the individuals and

institutions that will carry out your instructions. While these decisions are often among the last in the planning process, their importance cannot be overstated. Executors, trustees and the others you name are likely to have a lasting impact on your legacy—perhaps for generations.

Ideally, estate planning is a recurring process that you revisit as life evolves and

you revise your goals for the future. Each change is a chance to work with your advisor and attorney, refine your strategy and codify your answers in key documents that will control the distribution of your assets—and the shape and content of your legacy.

## ESTATE PLANNING / KNOW YOUR RIGHTS

# Legacy Planning and Unmarried Couples

Nonmarried couples frequently do not have the same rights by law as married couples.

If you are part of a permanent relationship but not married, you and your partner may need to be more aggressive in planning for the management and disposition of your assets, both during your lifetimes and at death. In addition, “basic” estate planning strategies employed by married couples may take on greater importance for you:

**YOUR WILL.** Consult with an attorney to draft a will for you that expresses your wishes regarding how your property should be distributed after your death and who

should be appointed as executor/personal representative to handle the distribution of the property. Otherwise, the default state laws regarding how your property will be distributed if you do not have a will would apply, and it is very likely your partner would be excluded.

Note: State law regarding the applicability of no contest clauses varies. For instance, Florida prohibits the use and many states require that the will include a small gift in order for the no contest clause to apply. We strongly recommend excluding this topic.

### MEDICAL DURABLE POWER OF ATTORNEY.

A health care proxy (also known as a medical durable power of attorney) allows an individual to name anyone to act on his or her behalf to make these decisions.

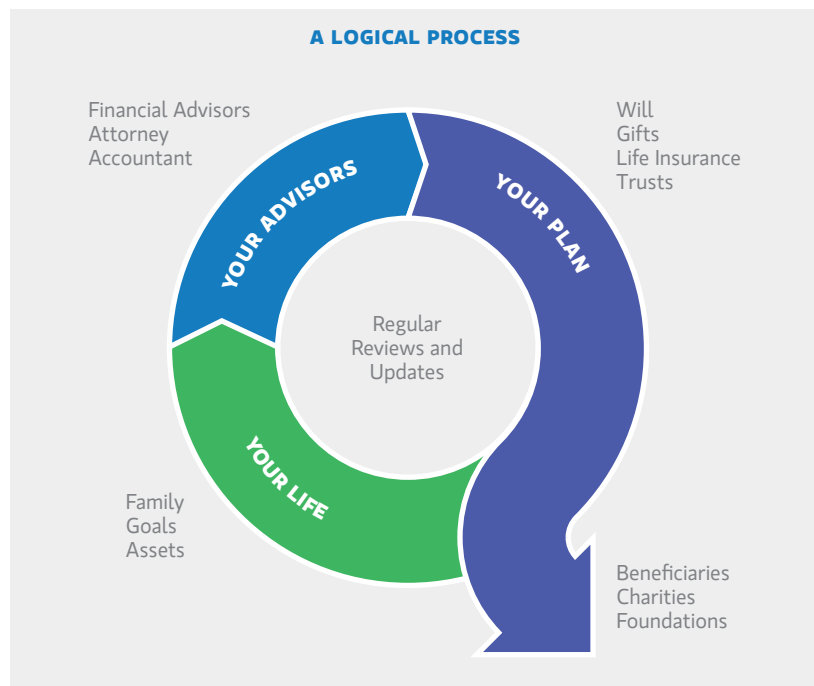
In the absence of a health care proxy, family members may have authority to make medical decisions on behalf of an ill partner.

**GUARDIANSHIP OF CHILDREN.** Appointing

a guardian in your last will and testament helps ensure that the person you prefer assumes responsibility for a minor child upon your death. Keep in mind that appointing a guardian does not override the rights of a biological parent.

**LIFE INSURANCE.** If both you and your partner already have life insurance, then these policies can be transferred to separate irrevocable life insurance trusts with the survivor and/or children as the trust beneficiaries. If the insured dies within three years of transferring a life insurance policy to a trust, the death benefit will be included in the insured’s estate. You should review the beneficiary designations of all life insurance policies, even those not transferred to a trust.

**DOMESTIC PARTNERSHIP AGREEMENT.** This agreement is a legal contract outlining the distribution of assets upon termination of the relationship prior to death.



## ESTATE PLANNING / SELECTING YOUR TEAM

# Assigning Complex Responsibilities

Implementing your estate plan will become the responsibility of the individuals, institutions or both that you name in the documents that establish it.

**EXECUTORS AND TRUSTEES.** The executor of your estate (also known as a personal representative in some states) is a person or institution named in your will to carry out its instructions. The executor is appointed by a probate court. After appointment, the executor helps inventory possessions and determine their value. In addition, the executor helps to pay bills and debts, prepare final tax returns and ultimately distribute estate assets according to your will.

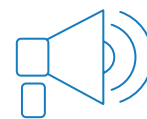
- 1 Does your current estate plan protect any government assistance being received by a child with special needs?
- 2 Does your spouse, son or daughter (or possibly your son-in-law or daughter-in-law) have the ability to carefully manage substantial inherited assets?
- 3 Has your current estate plan been updated to reflect recent tax law changes that may affect the way you protect and transfer assets?
- 4 Is there a possibility that your children from a previous marriage would be disinherited should your surviving spouse remarry?
- 5 Does your estate plan provide for an income stream for your spouse and/or children?
- 6 Do you have a plan in place that ensures continuity of management for your assets should you become incapacitated due to illness or injury?
- 7 If you were to die today, would your assets be properly managed and distributed? How would they be taxed?
- 8 If you own a business, do you have a strategy in place for the smooth transition and continuous operation of your business?

A **trustee** is the person or institution named in your estate planning documents to oversee the assets in your trust, all trust-related financial and investment management, and administration and reporting.

Serving in either of these capacities is likely to require a substantial commitment of time and involve complex decisions—and it may place the executor or trustee squarely in the middle of complex and emotional family situations. Moreover, the role of the executor or trustee brings with it potentially unlimited financial liability for mistakes. While it may be appealing to choose a family member or trusted friend for these roles, it is often more appropriate to name an institution—a **corporate trustee**—with sound experience and the resources to assume these responsibilities. That institution can serve as co-executor or co-

trustee alongside an individual you appoint, or assume complete fiduciary responsibility for implementing your will or trusts. Also important in the case of a trust, a corporate trustee can provide the continuity and longevity required to oversee a trust that may last decades or even generations.

**APPOINTING A GUARDIAN.** Through your will, you have the opportunity to name a conservator or guardian to be responsible for the care and well-being of anyone for whom you have legal responsibility—perhaps an incapacitated parent or a minor child. In the absence of your instructions, the court will choose a conservator or guardian who might not be a person you would have selected. Moreover, the court will continue to supervise the relationship as long as the conservatorship is in effect.



#### DON'T KEEP IT SECRET

The more your family and heirs know about your estate plan in advance, the better. They can be confident that you have thought through key issues, and you have a chance to smooth rough edges and potential hurt feelings. You can also make sure that individuals with important responsibilities understand your intent and their roles.



Even though recent legislation maintains a high federal estate tax exemption, your beneficiaries could be faced with a substantial federal estate tax bill. Proper planning can help reduce the federal estate tax liability—and also help ensure that liquidity is available to meet this obligation. Lack of planning can result in a forced sale of assets to raise cash, and that may significantly reduce the current and future value of your estate.

## Your tax bill for a given estate size\*

\* These numbers assume a single taxpayer at 2024 federal estate tax rates with no charitable planning.

\$0  
\$5MM

\$0  
\$10MM

\$2,501,800  
\$20MM







# The Numbers Game

## What You Need to Know About Estate Taxes and Shifting Laws

### Federal Estate Taxes: A Moving Target

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The federal gift and estate tax exemption has shifted over the years, either due to changes in the law or annual inflation adjustments. The current federal gift and estate tax exemption is \$10 million, indexed for inflation to \$13.61 million in 2024, and is scheduled to automatically sunset on December 31, 2025, causing it to revert to \$5 million, indexed for inflation from 2010, unless there is a change in the law.

**STATE ESTATE TAXES.** In addition to federal estate taxes, some states impose state estate taxes, inheritance taxes or both. You should consult with your attorney and accountant to discuss

planning for a potential state estate or inheritance tax.

**PAYING FEDERAL ESTATE TAX.** One issue related to estate taxes that has not changed is the timing of payment of the federal estate tax. Any federal estate tax due must be paid in cash within nine months of the date of death. Proper planning, however, can offset this burden in two ways:

- By increasing the liquidity available to pay for future federal estate tax liability.
- By implementing sound tax and financial strategies that reduce federal estate tax liability.

Key Tax Provisions

Your estate planning needs and the strategies you may ultimately adopt are likely to be based on these key provisions of federal estate tax law.

THE FEDERAL ESTATE TAX EXEMPTION.

This exemption entitles you to transfer assets at death to anyone you choose free of federal estate tax. This exemption is tied to the federal gift tax exemption, which is designed to prevent you from avoiding all estate taxes by giving away assets during your lifetime. Consequently, any portion of the federal gift tax exemption you use during your lifetime will reduce the federal estate tax exemption available at your death.

THE UNLIMITED MARITAL DEDUCTION.

You may be able to defer federal estate and gift taxes by taking advantage of the marital deduction. This deduction allows you to pass an unlimited amount of property to your spouse, free of estate and gift taxes (assuming the spouse is a U.S. citizen). However, at the death of the surviving spouse, taxes will become due on the value of his or her estate, which may include assets received from the other spouse.

THE GENERATION-SKIPPING TRANSFER TAX EXEMPTION. If you wish to transfer assets to grandchildren, or even great-grandchildren, you face the potential imposition of yet another transfer

Federal Gift and Estate Tax Limits for Individuals

LIMITATION	2024
Annual Exclusion for Gifting	\$18,000
Generation-Skipping Tax (GST) Exemption	\$13,610,000
Applicable Federal Estate and Gift Tax Exemption Amount	\$13,610,000
Annual Exclusion for Present Interest Gifts From U.S. Citizen to Non-U.S. Spouse	\$185,000
Maximum Gift, Estate and GST Rate	40%

tax—the federal generation-skipping transfer (GST) tax. This tax is equal to the top federal estate tax rate—40% for 2024—and it is imposed on the value of the transferred asset. There is, however, a GST tax exemption that allows you to transfer assets to “skip” persons (that is, people who are at least two generations below the person transferring wealth or unrelated persons 37.5 years younger) without incurring any GST tax. This exemption is equal to the federal estate tax exclusion—\$13.61 million. The GST tax exemption is often used in connection with certain types of trusts, such as a life insurance trust or a “dynasty” trust.

Many of the traditional planning techniques — such as gifting and trusts — are as important and valuable in this time of uncertainty as they ever have been.



## SEVEN TACTICS THAT COULD REDUCE TAXES

- 1 Make sure that both you and your spouse make full use of your federal estate tax exclusion.
- 2 Establish a gifting program.
- 3 Donate assets to charities.
- 4 Consider transferring your life insurance policies to a trust.
- 5 Consider whether to transfer a residence to a trust.
- 6 Form a family limited partnership to hold appropriate assets and use as a gifting vehicle.
- 7 Leverage your generation-skipping transfer tax exemption.

### Reducing Your Taxable Estate

If you are a single person and your total net worth exceeds \$13.61 million, (or if you are a married couple and your net worth exceeds \$27.22 million) you may be able to reduce the size of your estate for the purposes of transfer taxation by using one of several strategies.

**GIFTING STRATEGIES.** Gifting is one of the most basic and inexpensive strategies for reducing federal estate taxes. Gifting assets during your lifetime reduces your estate in the amount of the value of the assets. It also avoids federal estate tax on any subsequent appreciation and income earned on the property. If you can afford to make gifts, you may want to establish a disciplined program to avoid triggering taxes inadvertently or using a portion of your exemption inadvertently.

**GIFTING TO FAMILY.** Lifetime gifts to family members or other individuals can reduce your estate while providing personal satisfaction. You are entitled to transfer up to \$18,000 per person in 2024 without incurring any federal gift tax, and spouses who elect to split gifts may give up to \$36,000. Of perhaps greater planning significance is the \$13.61 million gift tax exemption in effect through 2024, which may create many planning opportunities.

**GIFTING TO CHARITIES.** Gifts to qualified charities are exempt from federal estate

and gift tax while also removing these gifts from your estate. In addition, charitable gifts made during your life may qualify for current charitable income tax deductions. As with gifting to family, gifts to charities during your lifetime and at death can reduce your estate both by the value of the gift itself and by any subsequent appreciation.

### Three Ways to Pay Estate Taxes

**(1) CASH.** Most estates do not include significant cash reserves, since the average investor is unwilling to sacrifice growth or income potential in order to maintain excessive liquidity. If there happens to be sufficient cash and all of it is used to cover the federal tax liability, your family could inherit only nonliquid assets.

**(2) LIQUIDATION.** Assets in your estate, including securities, real estate or business interests, can be liquidated, but your legal representative has no control over market conditions at the time of the sale. A forced sale may result in financial loss if market conditions are not favorable.

**(3) LIFE INSURANCE.** A properly structured life insurance trust that holds title to life insurance policies on your life may provide liquidity to the named beneficiaries to purchase assets from your estate and allow your executor to pay any federal estate tax due.



### Know Your Net Worth

Your net worth will be the most significant factor in determining the federal estate tax liability faced by your beneficiaries. If it exceeds \$13.61 million, that is a sign that you likely have important planning decisions to make. Many individuals underestimate their net worth when asked, so it is important to do the actual analysis.

Ultimately, your goal is to prepare a personal balance sheet by adding your assets and subtracting your liabilities. Assets typically include checking and savings accounts, stocks, bonds, real estate, closely held businesses, limited partnerships, life insurance policies, jewelry, artwork and other personal valuables.

# Life Goes On

With a the help of trusts, your wealth can continue to benefit your family, friends or charitable causes well beyond your lifetime.

At its core, the trust concept is a simple one. You transfer the title of an asset — a stock portfolio, the family homestead, an art collection or virtually any other property — to the trustee, who holds, manages and distributes that asset for the benefit of the beneficiaries according to the instructions you provide in the document creating the trust. In accepting title to the asset, the trustee assumes a legal obligation to precisely follow your instructions, always acting in the best interests of the trust beneficiaries you designate.

Many of your goals, concerns and commitments are likely to extend years into the future. Through one or more trusts, you can continue to support those you care about, have an impact on institutions and endeavors that reflect your values, and positively influence the lives of family members you may never know, long after your lifetime. While a trust affords you, as grantor, many potential benefits, perhaps the most important is the confidence that your assets will continue to be used in a way that accurately reflects your aspirations and affections — perhaps for generations to come. ►



**BIRTH OF A CHILD  
OR GRANDCHILD**

**BUSINESS SALE  
OR SUCCESSION**

**RETIREMENT  
PLANNING**

**COLLEGE SAVING**

**INHERITANCE**

**TAX LAW CHANGES**

**MARRIAGE**

**SERIOUS ILLNESS**

**FAMILY DISABILITY  
OR SPECIAL NEEDS**





A Trust Glossary

GRANTOR

The person establishing and funding the trust.

IRREVOCABLE TRUST

A trust that is typically used to remove assets from the grantor's taxable estate. Caution: "Irrevocable" means that you permanently give up rights to trust assets and that you may not alter the terms of the trust. (You may, however, be able to change the trustee.)

REVOCABLE LIVING TRUST

A flexible estate planning tool created during your lifetime that can hold title to assets outside of probate at death and to provide for asset and financial management should you become incapacitated. You can make changes to this type of trust at anytime during your life as long as you have the cognitive ability to do so.

TESTAMENTARY TRUST

A trust established under your will that does not become effective until your death.

Why a Trust?

Many types of trusts exist, and they can be customized to achieve a wide range of personal, tax, financial and estate planning needs. Among the benefits and advantages a trust may offer are:

**CONTROL.** As *grantor*, you work with your attorney to draft the language that governs the trust, including how assets are to be managed, used and distributed. You also name the trustee, who will control the operation of the trust as well as the beneficiaries. You decide how to fund the trust and structure it to provide wealth management benefits during your lifetime and after your death.

**CONTINUITY.** Trusts can provide you and your beneficiaries with uninterrupted management of your assets. With a trust, your personal and financial affairs can be maintained for you should you become incapacitated or simply decide to delegate these responsibilities.

**PROTECTION.** Assets transferred to certain trusts may be protected from family disputes, spendthrifts and creditors.

**THE AVOIDANCE OF PROBATE.** Probate is the court-supervised process of transferring assets by your will at death. Because it can create delays, probate may make it difficult to effectively manage property and financial assets in volatile markets when prompt action and flexibility could be important. Probate is also a matter of public record, exposing your family's financial affairs to potential scrutiny. Assets you own in your

individual name will generally be subject to the probate process. However, some types of assets may not be subject to probate: life insurance, retirement plans, IRAs, jointly owned assets and assets held in trust. Trusts avoid the time delays and publicity of probate.

PROMPT TRANSFER OF ASSETS.

By avoiding probate, a trust can distribute assets to beneficiaries promptly and efficiently, or begin to provide financial support almost immediately.

**TAX SAVINGS.** Assets transferred to most irrevocable trusts are not included in your gross estate; however, prior taxable gifts made to the trust that used a portion of your federal estate and gift exemption will reduce your available federal estate tax exemption at death. Some types of trusts can also provide you with significant income tax deductions. Keep in mind, though, that gifts made to irrevocable trusts will count against your federal gift and estate tax exemption amount or will incur federal gift tax if the gift exceeds your available estate tax exemption.

**PROFESSIONAL ASSET MANAGEMENT.** If the trustee you choose is affiliated with an asset management organization, your trust assets can receive full-time, experienced investment management oversight.

A Sampling of What Trusts Can Do

YOUR GOAL	CONSIDER
Federal Estate tax planning	Credit shelter trust
	Charitable trust
	Qualified personal residence trust (QPRT)
Provide support for children	Minor's trusts
Financially support surviving U.S. citizen spouse	Qualified terminable interest property trust (QTIP)
Transfer most growth and appropriation of assets without gift tax liability	Grantor retained annuity trust (GRAT)



# Choosing a Trustee

Your choice of trustee is one of the most important planning decisions you will make. Your trustee will be responsible for a wide range of duties, many of which are complex and technical—and take both time and an eye for detail. These responsibilities are likely to include:

- Managing accounting functions such as quarterly reporting, allocation of receipts and expenses, tax returns, and segregation of income and principal.
- Disbursing payments to beneficiaries.
- Collecting income.
- Overseeing investments, either by investing independently or by hiring a reputable outside manager.
- Maintaining a fiduciary commitment to act solely in the best interests of the trust beneficiaries.

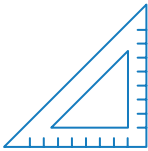
Many people choose family members for the trustee role. In theory, it makes good sense, because a family member probably knows you well and understands your wishes. In practice, however, the demands of administering a trust can become cumbersome and time consuming, and the risks can be significant—sometimes including considerable financial liabilities. When the trustee is also a member of the family, dealing with special requests and delicate family dynamics can place the trustee in an awkward position.

You may be best-served by having a seasoned professional or corporate trustee to shoulder these responsibilities.

A corporate trustee is a firm that specializes in overseeing trusts. Trust officers or specialists at the firm are required to know the rules related to trusts and trust investments. As fiduciaries, they are required by law to conduct the trust according to your instructions and to ensure that assets are managed in the best interests of trust beneficiaries.

You may serve as a co-trustee or name others as co-trustees. In these cases, the corporate trustee not only provides deep expertise, but also helps to preserve continuity of trust management if a co-trustee becomes incapacitated or dies. In addition, a corporate trustee is prepared to manage trust assets through multiple generations.

In practice, the demands of administering a trust can become cumbersome and the risks can be significant.




## TRUSTS AND BASIC ESTATE PLANNING

You need not be wealthy to consider adding a trust to your financial structure. For example, a revocable trust can be a useful estate planning tool for almost any couple because the assets in the trust are not subject to probate. Not only does that help keep your financial affairs private, but it can also ensure a steady availability of funds.

Other kinds of trusts become more important as your wealth grows. For example, a “credit shelter trust” enables a married couple to reduce overall federal estate taxes by ensuring that they each make effective use of their \$13.61 million exemption (for 2024) from federal estate tax.

### BENEFITS OF VARIOUS TYPES OF TRUSTS

Ensures that the exemption from federal estate taxes is used appropriately
Supports charitable organizations while offering tax benefits and estate planning advantages
May remove the value of your home from your estate while you continue to live in it
Allows greater flexibility and control than direct gifts, and possible tax savings
Provides lifetime income for surviving spouse while allowing for control of ultimate distribution of assets by grantor
Locks in asset value on date of transfer to trust, and passes appreciation to beneficiary federal estate tax-free



Well-Defined  
Expectations

Clear Roles and  
Responsibilities

Strategic  
Planning

# Pass It On

If your wealth is the product of a business you have built and still own, you will confront a wider range of estate planning issues and opportunities. Strategic thinking of a different order is key to realizing and passing on value.

If you own a business, passing it to younger generations or a nonfamily partner—tax efficiently and with minimal disruption—becomes a major priority. Hasty and unplanned transitions are among the greatest risks to business value.

In your planning, you may face some significant challenges, including: family conflicts, poorly prepared or uninterested

family members, the desire to withdraw cash or an aversion to debt.

Ignoring these challenges can jeopardize the future of your business. You can, however, increase the likelihood of a successful transition with a strategic analysis of your business and its value, an honest assessment of talent and, most important, careful planning. ►

# SUCCESSION PLANNING SUCCESS FACTORS

Adapted from “Succession Planning Toolkit”  
at [www.fidi.com](http://www.fidi.com)

Effective  
Management  
of Conflicts

Management of  
Relationships

On-Time  
Action

Balance of  
Interests

Encouragement  
of Employees

Tactical Planning

External Board  
Members

Awareness  
of Problems

Dialogue  
Between  
the Parties

Shareholder  
Agreements





# Giftg Your Business to Family Members

One way to ensure that your business remains in your family is to transfer it to family members during your lifetime. This step will give you the opportunity to evaluate family members in management roles while you retain control and can make adjustments. Giftg strategies frequently incorporate family limited partnerships (FLPs) and grantor retained annuity trusts (GRATs).

## FAMILY LIMITED PARTNERSHIPS.

The FLP generally has two types of ownership interests: general partnership interests and limited partnership interests. General partners manage and control the FLP, while limited partners have no power to participate in the day-to-day management of the FLP. With this strategy, you might establish an FLP and then transfer the ownership of your business to this new entity in exchange for all its ownership interests. Later, you can gift or transfer some or all of the limited partnership interests to younger family members.

You cannot establish an FLP for purely tax-related reasons. There are, however, tax benefits that come in the form of valuation discounts for federal estate and gift tax purposes when you gift your limited partnership interests to younger family members. Consult with your legal or tax advisor about the appropriate ownership structure and the corresponding tax

consequences of giftg your business. Another transfer tax benefit involves federal estate tax valuation and comes into play after the death of a founding family member. The federal estate tax value of limited partnership interests owned by senior-generation family members at death also may be reduced by any applicable valuation discounts.

## GRANTOR RETAINED ANNUITY TRUSTS.

A GRAT may allow you to transfer your business but retain a payment stream of fixed annuity payments for a specific term. At the end of the term, any remaining trust property is transferred to the younger generation free of estate and gift taxes. The gift is equal to the value of the transferred business interest reduced by the present value of the annuity payments you would receive.

In addition, some of the appreciation in the business interest after the property has been placed in the trust could potentially escape federal gift and estate tax when the

GRAT terminates. However, the grantor of the trust must survive the trust term to obtain the federal gift and estate tax savings. If the grantor dies during the term of the trust, the gifted assets will be included in the grantor's estate.

### Consider an FLP to:

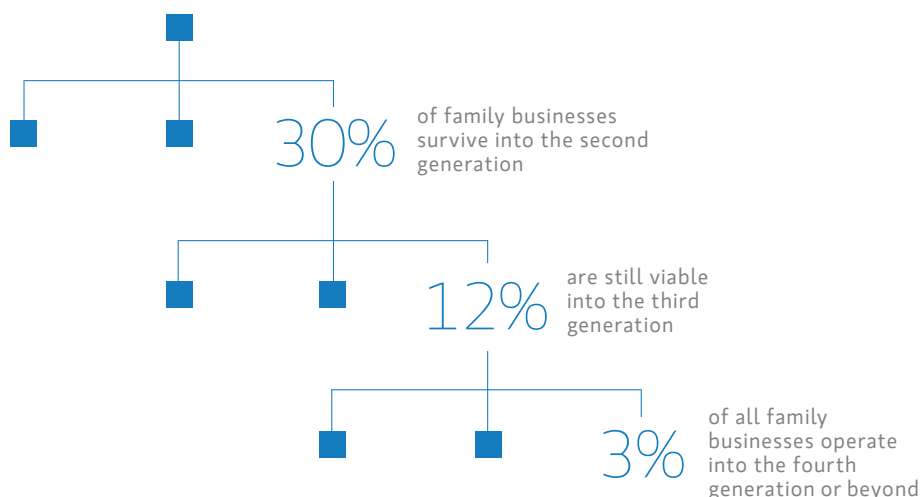
Provide an efficient vehicle for managing family investments.

Restrict the transfer of partnership interests outside the family.

Possibly enhance creditor protection where the general partner is a corporation or limited liability company (LLC).

Facilitate giftg by dividing the business into shares.

Without a thoughtful and up-to-date succession plan, you run the risk of placing your family and your company in a particularly difficult position. Depending on its value, your beneficiaries may be forced to sell the business to gain the liquidity needed to pay federal estate taxes. Such situations typically result in a sale price well below the actual value of the business. Moreover, whatever aspirations you may have had for the business become forever unattainable.



Source: Joseph Astrachan, Ph.D., editor, Family Business Review, 2009



Source: [http://sbinfocanada.about.com/cs/buysellabiz/a/succession1\\_2.htm](http://sbinfocanada.about.com/cs/buysellabiz/a/succession1_2.htm)

## SUCCESSION PLANNING / MAKING IT A SALE

# Selling Your Business During Your Lifetime

Selling your business, either to a family member or unrelated party, may hold valuable advantages for you. Regardless of the exit strategy you choose, it is important to do some estate planning beforehand.



**INSTALLMENT SALE.** An intrafamily installment sale could be used to reduce your federal estate tax and pass assets to beneficiaries—while you continue to benefit from the sales proceeds during your lifetime. In this approach, you might sell assets to the next generation in exchange for an installment note. While the value of the note would be included in your gross estate for federal estate tax purposes, its value is frozen as of the date of the sale, so subsequent appreciation in the value of the business is transferred tax-free to the next generation.

### SELLING OUTSIDE OF YOUR FAMILY.

Potential nonfamily buyers of your business include management, employees and strategic or financial investors. The decision to sell to management or employees is typically driven by a mix of considerations. On the strategic side, it may be crucial to maintain a “women- or minority-owned” business status, or you may seek a tax-advantaged exit through an employee stock ownership plan. On the emotional side, you may want to reward employees for their loyalty and efforts in building up the business.

Selling to strategic investors may enhance the valuation of the business, especially if there are easily identifiable revenue and/or cost synergies, or other strong strategic considerations—for

example, access to a new market or technology important to the buyer.

Financial buyers, such as private equity funds, typically place a high value on mature, stable companies with strong competitive position, cash flow and balance sheets. These groups acquire companies with an eye toward exiting the investment within the next three to five years. Their goal: to boost returns by improving all aspects of the business—including balance sheet, operations and management—before exiting.

A robust and competitive sales process would ideally involve all these categories of buyers and is likely to generate very different offers. Variables could include:

- Amount of pretax and after-tax proceeds.
- Timing of payout—upfront or earn-out.
- Nature of proceeds—cash or stock.
- Complexity, timing and cost of the transaction.

An investment banking advisor could offer important insight in structuring a transaction that best meets your needs and objectives.

Selling to strategic investors may enhance the valuation of the business.

### BUY-SELL AGREEMENTS

These valuable estate planning tools can provide for the orderly succession of a family business and for the liquidity needed for payment of a deceased owner's estate settlement costs and taxes. What's more, under certain circumstances, a buy-sell agreement can establish the purchase price as the taxable value of an owner's business interest, avoiding unexpected federal estate tax consequences at the owner's death.

### VALUATION DISCOUNT

You may be able to discount the value of the business for federal gift tax purposes. When you give interests in your business to family members, the value of those interests may be reduced due to lack of marketability and/or lack of control. A minority interest discount is appropriate when the owner does not have a controlling interest in the business. (Be sure to consult with a qualified appraiser when determining valuation discounts.)

# Legacy of Values

Giving back through charitable contributions and philanthropic involvement can be among life's most rewarding work. It also creates the opportunity to unite your family around shared values and common commitments.

You can pass on the values that have guided you through life by creating a charitable legacy benefiting organizations and institutions that are important to you. The knowledge that your support of these charitable institutions will continue after your lifetime can be particularly satisfying.

Of equal importance may be the opportunity presented by philanthropy

to engage family members in endeavors of special significance to you. By creating a family foundation or contributing to a donor-advised fund, for example, you can begin working now with children and grandchildren toward shared charitable goals. These family members will then be able to carry on a tradition of giving and service that may be your most enduring legacy. ►







## CONTRIBUTE TO A DONOR-ADVISED FUND

### LEAVE

control of the fund to any individual and pass on the tradition of giving

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### GIVE

and receive a current-year federal income tax deduction

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### DECIDE

which charities will receive grants

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### GROW

the fund with professional management, no taxes and low administrative fees

## Making Direct Charitable Gifts

A direct gift to a favorite charity can produce a federal income tax deduction if the gift is made during your lifetime, or can reduce your gross estate for federal estate tax purposes if the gift is made at your death.

Keep in mind, however, that you generally have no control over how the gift is used nor can you receive any other financial benefits from this gifting strategy.

**LIFE INSURANCE.** Life insurance provides significant leverage when gifting it to charity, making it possible to contribute a significant amount at a relatively small cost. You can either:

**1. PURCHASE A LIFE INSURANCE POLICY** and name a charity as the beneficiary. This approach is appropriate if you want the right to revoke a gift. You would receive an estate tax charitable deduction for that portion of the death benefit going to the charity.

**2. GIVE A CHARITY AN EXISTING POLICY** and you lose the right to revoke the gift, but you may be entitled to a charitable

income tax deduction, subject to adjusted gross income (AGI) limits, equal to the policy's fair market value or the net premiums paid, whichever is less.

**3. GIVE THE CHARITY CASH** to pay premiums for an insurance policy on your life. The charity would own the policy and be entitled to receive the death benefit. You may be entitled to a charitable income tax deduction for the gift of cash, subject to AGI limits.

**GIFTS OF TANGIBLE ASSETS.** You may decide to give tangible assets, such as art and jewelry, to charity. If highly appreciated, the asset can be a substantial gift while providing considerable tax benefits to you. Charitable deductions for these assets are based on whether a gift is related to the purpose of the charity to which it is given. You may be entitled to a charitable income tax deduction for the fair market value of the asset if the gift is related to the charity's mission. Giving an art museum a valuable painting, for example, could qualify for such a deduction if the artwork is currently displayed as part of the museum's collection. Otherwise, the deduction may be limited to your cost basis.

Federal Estate tax deductions are allowed for the fair market value of the asset, regardless of whether the gift is related to the charity's mission. The Federal estate tax deduction is allowed

if a donor makes a gift of tangible assets through a will or revocable trust.

**GIFTS OF REAL ESTATE.** If you give a personal residence directly to a charity, you may be eligible for a charitable income tax deduction equal to the fair market value of the real estate, subject to AGI limits. However, if the property has been owned less than one year, the charitable income tax deduction will be equal to your cost basis, plus any improvements you have made.



### CONSIDERING A GIFT OF A PERSONAL RESIDENCE?

- 1 Are you currently using this property?
- 2 Does the property meet your investment objectives?
- 3 Would a large capital gains tax be due if you sell the property?

## Charitable Trusts and Funds

Charitable trusts and funds are sometimes called “split interest” vehicles because they are used to designate a current beneficiary and a remainder beneficiary.

As donor, you can name yourself as current beneficiary—for example, receiving income from the trust during your lifetime. The remainder beneficiary receives the assets left in the trust at the end of its term, often designated as the death of the donor. There are four main types of charitable trusts and funds:

### CHARITABLE GIFT ANNUITY.

A charitable gift annuity provides you with guaranteed distributions for life in

exchange for making a direct gift to a charity. Distributions are paid in the form of an annuity, so each payment will be for the same amount. Part of each payment is a return to you of your gift, so only a portion is taxable as ordinary income. Regardless of when you begin receiving income, you can take a charitable income tax deduction in the year you make the gift, but the deductible amount is reduced by the value of the annuity you retain.

**CHARITABLE REMAINDER TRUST (CRT).** A charitable remainder trust is a tax-exempt trust that enables you to give to charity, diversify assets and receive annual payouts. If you continue to hold onto appreciated assets for fear of paying high capital gains, you can transfer the assets to a CRT and possibly avoid immediate capital gains on the transfer. In addition, the trust would provide you with an annual payout stream. At the end of the

payout term, the remainder of the assets in the trust would be left to charity.

Creating a CRT could provide you with a federal income tax deduction. The deduction would be based on the fair market value of the gift, less the present value of your payout stream. The amount of the deduction would also be influenced by the nature of the gift, the type of charity receiving the gift and your AGI. There may be federal income tax due on the annual payouts you receive.

#### **CHARITABLE LEAD TRUST (CLT).**

Essentially the opposite of a CRT, this

trust pays income to the charity. At the end of the trust's term, the remaining assets are usually transferred to the donor's beneficiaries. The value of your initial gift to the trust—hence, your gift tax deduction—is determined by a government-set rate, which is based on interest rates at the time the trust is established, the term of the trust and the payout to charity.

**POOLED-INCOME FUNDS.** A pooled-income fund allows donors to “pool” cash or securities in the form of smaller gifts to create one large gift for charity.

The charity then reinvests these assets as a pool, similar to traditional mutual funds. The fund's annual income is paid to the donors or their beneficiaries, based on each donor's share of the pool. Upon the death of a donor or the donor's beneficiary, the remaining share of the pool is transferred to the charity. As a donor to a pooled-income fund, you would generally be entitled to a charitable income tax deduction for the amount the charity is expected to receive upon your death.

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PHILANTHROPY / FLEXIBILITY AND CONTROL

## Additional Ways to Give

**PLANNED GIVING STRATEGIES.** Since the early 1900s, Congress has encouraged philanthropy within the private sector by granting favorable tax treatment to most charitable contributions made by individuals. Today, these charitable contributions are far and away the biggest source of annual donations. Planned giving arrangements not only ensure that your favorite charity or institution receives a portion of your estate, but they also provide you and your family with a tax-efficient way to leave a lasting legacy.

#### **PRIVATE FAMILY FOUNDATION.**

Private foundations are usually set up by individuals or families wishing to make substantial gifts to charity while maintaining ultimate control of how grants are made. When you establish a private family foundation (either during life or at death), you contribute assets to the foundation and choose the trustees or directors who will make the grants to worthy charities. You and family members may play an active role in the management of the foundation.

You may be able to realize significant federal income, gift and estate tax deductions for making substantial contributions to a private family foundation. Some lifetime gifts offer matching federal income and gift tax deductions. Testamentary gifts offer a dollar-for-dollar federal estate tax deduction. For these potential benefits, however, you must be willing to bear

the legal and accounting costs associated with the creation and maintenance of a foundation.

**DONOR-ADVISED FUNDS.** A donor-advised fund offers somewhat less flexibility than a private foundation, but is much simpler and less expensive to manage. In addition, under certain circumstances, the donor-advised fund may provide greater tax benefits. You make an irrevocable, nonrefundable contribution of cash or securities to the fund. You then recommend that the fund's administrator make grants to particular organizations in specific amounts when you choose. The administrator does not have to follow those recommendations, although in practice, the administrator will take your advice unless there is a compelling reason not to. You can also appoint a family member or friend to continue making grants from a donor-advised fund after your death.

Assets in a donor-advised fund are typically managed by an experienced professional. This type of investment management provides you with the opportunity to increase the value of your contributions to the fund, resulting in potentially larger grants to nonprofit organizations. You are likely to be entitled to a charitable income tax deduction for the amount contributed to a donor-advised fund, subject to AGI limits. Any unused portion may be carried forward for up to five years.




#### **PHILANTHROPY AS A FAMILY ENTERPRISE**

For many successful families, one universally accepted value is generosity in relation to the larger community—often through philanthropy. Still, even families who share similar values express them in different ways, sometimes resulting in conflict.

A mission statement can help unify the family. Just like creating a business plan, all successful philanthropic initiatives require a clear structure with a well-thought-out mission, objectives and accountability mechanisms. As an example, a family could provide that two-thirds of the family's charitable giving should be allocated to the shared priorities; the other one-third can be discretionary and spent on a personal initiative, helping to create a sense of personalization and minimizing discord. Large families whose philanthropic interests vary broadly can create working groups focused on specific causes. This allows philanthropically like-minded individuals within a family to work together on shared priorities.

Planned giving arrangements provide you and your family with a tax-efficient way to leave a lasting legacy.



A photograph of a woman with long dark hair, smiling and looking towards an older woman whose profile is visible on the left. The woman in the center is wearing a white top and a yellow and white striped cardigan. They appear to be in a bright, outdoor setting, possibly a garden or patio, with greenery and a blurred figure in the background.

Life insurance has a range of well-understood benefits, but it also has a role to play in estate planning that extends above and beyond core lifestyle protection.



**PAY FUNERAL AND  
MEDICAL COSTS**

**GENERATE LIQUIDITY  
FOR ESTATE TAXES AND  
SETTLEMENT COSTS**

**PROVIDE INCOME  
TO FAMILY MEMBERS**

**“EQUALIZE”  
YOUR ESTATE**

**FUND A BUSINESS  
SUCCESSION PLAN**

# Rest Assured

Life insurance is often thought of as a lifestyle preservation tool. Used strategically, it can also help fulfill a range of federal estate planning objectives, from reducing the impact of estate taxes to facilitating philanthropic goals.

Many people think about life insurance in the context of protection rather than planning, but life insurance—along with other types of insurance—has an important role to play in virtually any financial plan. It can become a core funding mechanism for sophisticated strategies designed to meet highly specialized goals.

The key is understanding insurance, not in isolation, but as part of an integrated plan. Considering it from this standpoint, you are likely to see insurance as much more than a buy-it-and-forget-it proposition. Rather than just a basic risk management tool, it offers assurance that, in your absence, critical financial strategies can be executed and personal goals will be met. ►

Insurance products are offered in conjunction with Morgan Stanley's licensed insurance agency affiliates.



#### FAMILY FOUNDATIONS AND IRREVOCABLE LIFE INSURANCE TRUSTS

A natural complement to a private family foundation is the irrevocable life insurance trust (ILIT), which would allow you to give the same amount to children as you give to a private foundation.

Here is an example of how this strategy could work: A donor funds a private family foundation at death with \$6 million. During life, using a portion of the donor's \$13.61 million applicable federal estate tax exclusion amount for 2024, the donor could make a gift to an ILIT equal to a one-time premium payment of about \$850,000 to purchase a life insurance policy with a death benefit of approximately \$7 million for the beneficiary of the ILIT. That way, both charity and family can benefit equally. Life insurance proceeds can be designated to individuals and charities to accomplish various estate planning goals.

Note: The premium amount and death benefit shown here are for illustrative purposes and don't represent any specific insurance policy.

## The Irrevocable Life Insurance Trust

Maximizing the effectiveness of life insurance requires that death benefits not be included as part of your taxable estate.

If you are the owner of a life insurance policy, the IRS may include proceeds from the policy in your estate, which could trigger or increase federal estate taxes. You may be able to remove the life insurance proceeds from your taxable estate by transferring ownership of the policy to an irrevocable life insurance trust (ILIT). Because you no longer own the policy, benefits are not considered as part of your taxable estate.

You can establish an ILIT to take ownership of an existing policy or to purchase a new policy. If an existing policy is contributed to the trust, the grantor must live for three years in order to avoid federal estate tax inclusion. You make annual or one time gifts to the trust and the trustee pays the premium on the life insurance policy. You name the trust as beneficiary of the policy and your beneficiaries are also beneficiaries of the trust. Upon death, the trustee of the ILIT distributes the death benefit it receives to the trust's beneficiaries—free of federal income and estate taxes.

#### THREE RULES OF IRREVOCABLE LIFE INSURANCE TRUSTS

- 1 The trust owning the policy must be irrevocable and you must forgo the right to make any changes to the policy once it is in place.
- 2 A third party must serve as trustee.
- 3 If you transfer an existing policy to the trust, you must live for three years following the transfer, or policy proceeds will be included in your taxable estate.

## Insurance and Your Estate Plan

Life insurance has a range of well-understood benefits, but it also has a role to play in estate planning that extends above and beyond core lifestyle protection. In your estate planning, for example, life insurance can provide:

**LIQUIDITY FOR ESTATE SETTLEMENT COSTS AND ESTATE TAXES.** Life insurance is one of the four sources of funds that are typically used to pay federal estate taxes. The prompt availability of funds is important because your estate cannot be settled with

outstanding debts, and federal estate taxes must be paid within nine months of your death, in cash.

**FUNDS FOR MEDICAL AND FUNERAL COSTS.** The high cost of medical and assisted living care is often passed to a decedent's family or estate. In addition, funeral expenses may also be absorbed by family members. Life insurance is one way to provide funds to pay these debts.

**INCOME FOR FAMILY MEMBERS.** Proceeds from life insurance can be used by your spouse, children, grandchildren or other family members who need continued financial support.

**FUNDS TO "EQUALIZE" YOUR ESTATE.** If you intend to leave particular assets to specific

recipients, depending on the value of the assets, you may feel that you are not treating your beneficiaries equitably on a dollars-and-cents basis. For example, it may make sense to leave your business to one child rather than another. If your business represents the bulk of your estate, you could use life insurance to leave assets of comparable value to your other child.

**FUNDING FOR A BUSINESS SUCCESSION PLAN.** Life insurance can be used to either fund the transfer or the continuous management of your business, providing flexibility, if the goal is to sell your business to an outsider, and financial stability if your intention is to transfer it to a family member or colleague. ■



## Survivorship Life Insurance

Using your unlimited marital deduction in conjunction with life insurance creates other estate planning opportunities.

If you and your spouse are U.S. citizens, you can leave any amount of assets to your

surviving spouse free of gift or estate tax. Federal estate taxes are merely postponed or deferred, however, until the death of the surviving spouse. One way to lessen the federal estate tax burden is by purchasing survivorship—or “second-to-die”—life insurance. As its name suggests, this type of insurance covers two lives with proceeds payable only after the second death. Survivorship life insurance may offer a number of advantages:

- Funds are available at the second death,

when deferred estate tax may be due.

- Premium payments are generally lower than for two separate life insurance policies.
- Medical underwriting standards may be eased on either you or your spouse because proceeds are paid at the second death.
- Coverage is usually based upon the age of the younger policy owner, which means there is a longer period of coverage for the surviving spouse.

## LIFE INSURANCE / PHILANTHROPIC PURSUITS

## Wealth Replacement and Philanthropy

Combining a life insurance trust with a charitable remainder trust allows you to replace the wealth that will eventually be transferred to a charity.

Assume that you would like to leave your wealth to a charity. By contributing to a charitable remainder trust (CRT), you receive an immediate federal income tax deduction, reduce the value of your taxable estate, and generate an income

stream. Upon your death, the assets in the trust pass to the charity. If, at the same time that you establish the CRT, you also create an irrevocable life insurance trust to take ownership of an existing life insurance policy or to purchase a new life insurance policy, and name family members as trust beneficiaries, you have replenished the value of your estate transferred to the CRT, while possibly moving that value beyond the reach of federal income and estate taxes.

You can also use life insurance to replace wealth that you may contribute to a family foundation during your lifetime, or that will be used to fund the foundation upon your death.



### AN INTERESTING TRADE

Assets, such as annuities, individual retirement accounts (IRAs) and municipal bonds are subject to federal estate taxes at the account holder's death. If you are seeking to reduce your own federal estate tax liability and leave a greater legacy to your beneficiaries, you may want to consider asset repositioning strategies—especially if you do not plan to use any of these investments to fund your retirement income needs.

Asset repositioning can be accomplished with all or part of your current or expected retirement income stream. One option to consider is to use these assets or the income they generate to purchase a life insurance policy owned by a properly structured irrevocable life insurance trust, where the proceeds may be paid federal income and estate tax-free.

This strategy enables you to remove the value of the policy from your taxable estate but continue to retain control over how the proceeds of the policy are distributed and, perhaps, even used.

## LIFE INSURANCE / PROTECTING LIFESTYLE AND LEGACY

## Disability Income and Long-Term-Care Insurance

A severe injury or prolonged illness can pose a significant threat to your family's lifestyle and to the value of your estate.

If the income you generate is responsible for some or all of your family's financial security, you may want to consider purchasing disability insurance. Disability insurance replaces a portion of

lost income that results when an illness or injury prevents you from working. It can help avoid forced liquidation of assets to pay medical and living expenses, protecting both your standard of living and your estate.

Similarly, a prolonged illness in retirement can deplete your estate if you are not prepared to provide for necessary care—for example, daily living assistance or nursing home care. Long-term-care insurance helps pay for the cost of long-term care, and many policies cover in-home care as well as nursing home care. Long-term-care policies require an annual premium for life.



### **RISK MANAGEMENT**

The ups and downs of the markets are just one kind of risk—but so is not protecting my assets and my family. How do I protect what I care about most?

### **EDUCATION FUNDING**

Will I be able to pay for a good education for my children—and my grandchildren?

### **LIQUIDITY**

I can predict some expenses, but others I know I can't. How can I plan to have the cash I need?

### **RETIREMENT**

When I retire, it will affect just about everything that matters: my lifestyle, my company, my family. Is there a way to plan for retirement that takes it all into account?

### ESTATE PLANNING

Making sure my estate goes to the people and organizations I care about is a priority. How do I transform my assets into a legacy?

### INTEGRATED PLANNING

Decisions about assets and liabilities need to be made within the framework of important life goals. What steps are also the most tax efficient? How can a strategic approach to cash management and lending simplify my financial life and maximize the value of what I own?

### BUSINESS STRATEGIES

How do I manage my personal wealth with so much tied up in my company?

### INVESTMENT MANAGEMENT

I have so many goals and priorities. How can one investment strategy balance them all?

### CHARITABLE PURSUITS

The charities I support are like extended family. How do I maximize the good I can accomplish?

Please read important disclosures on the back cover of this brochure

# A Culture of Excellence

Over the years, you will make many financial decisions. One in particular is likely to have a lasting impact on your well-being and that of your family: the choice of a financial advisor.

Thoughtful decision-making usually begins with a lot of questions. As you get answers and information, you can develop a framework for evaluating different choices and strategies. Little by little, you gain both the knowledge and the confidence to make decisions and create a wealth plan that helps you achieve your goals.

You will find your Morgan Stanley Financial Advisor to be a source of objective information and ideas as you begin to assess how to best manage your wealth. Over the course of many years, our firm and Financial Advisors have developed an in-depth understanding of the challenges, goals, preferences, styles and strategies

that distinguish wealthy investors. This experience is combined with access to a wide array of tools designed to help you maximize what you have and accomplish your specific goals—whether you are preparing for the cost of educating children, managing risk in your portfolio or finding ways to increase the impact of your charitable contributions.

Your Financial Advisor is an advocate within our firm, an intelligent editor who selects and aligns the many capabilities of Morgan Stanley for you, delivering resources to you in the way that is appropriate for how you invest and what you want to achieve.



Building, protecting and passing on a legacy involves much more than investing wisely. It requires a careful analysis of your objectives, intelligent structuring of your assets and an integrated, strategic approach to planning and implementation. Your wealth can continue to accomplish the financial objectives for your family and philanthropic organizations for many years, and perhaps for multiple generations. Simply understand the ground rules, seek out knowledgeable resources and act on your vision of the future.



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Many estate techniques share the common risk of the loss of control of the assets once the gift of the assets is complete. 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 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 advisor when considering the utility and appropriateness of any strategies identified herein.

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