

Insights for Entrepreneurs

Part Two: Early-Stage Trust and Estate Planning

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

Do I Need to Focus on Estate Planning This Soon?

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

Here's why: When your business succeeds, one of the greatest challenges you may eventually face is how best to transition wealth to future generations. As the value of a business grows, so does your potential exposure to estate and gift taxes. Under current law, you have a lifetime estate tax, gift tax and generation-skipping tax of \$5.49 million, or roughly \$11 million for a married couple. After that, the wealth you gift or leave to your heirs is subject to a 40% federal estate tax. Fortunately, establishing a plan early in the life cycle of the business may provide opportunities to sidestep many of these taxes by creatively distributing ownership interests to family members and other beneficiaries at a time when valuation levels are low. Thoughtful planning early on can lead to more efficient and successful transitions when you eventually decide to exit the business, or even to pass ownership to younger generations of your family.

Historical Federal Estate, GST and Gift Tax Exemptions

Calendar Year	Estate Tax Exemption	GST Tax Exemption	Lifetime Gift Tax Exemption	Maximum Estate Tax Rate
2010	\$5,000,000 or \$0*	\$5,000,000	\$1,000,000	35% or 0%*
2011	\$5,000,000	\$5,000,000	\$5,000,000	35%
2012	\$5,120,000	\$5,120,000	\$5,120,000	35%
2013	\$5,250,000	\$5,250,000	\$5,250,000	40%
2014	\$5,340,000	\$5,340,000	\$5,340,000	40%
2015	\$5,430,000	\$5,430,000	\$5,430,000	40%
2016	\$5,450,000	\$5,450,000	\$5,450,000	40%
2017	\$5,490,000	\$5,490,000	\$5,490,000	40%

*If carryover basis and no estate tax was chosen in 2010.

INSIGHTS FOR ENTREPRENEURS

What Basic Planning Documents Should I Have in Place?

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

What Types of Insurance Should I Consider?

Many business owners purchase “key man” insurance, the purpose of which is to help the company survive the blow of losing the person who makes the business work. The company can use

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

YOU MAY ALSO WANT TO CONSIDER:
Whole Life, Universal Life and Variable Life Insurance: Permanent life insurance coverage often used to fulfill long-term estate planning needs.

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

THE INSIGHTS FOR ENTREPRENEURS SERIES COVERS THE FOLLOWING ADDITIONAL TOPICS:

Choosing a Business Structure

Overview of Wealth Planning Structures

The Public Sale of Privately Held Businesses

Family-Owned Business Succession Strategies

Philanthropic Strategies and Structures

Understanding Equity Compensation

FOR FURTHER INFORMATION

If you wish to discuss which estate planning strategies and structures are best suited to your personal and business goals, please speak to your Private Wealth Advisor. He or she can schedule a meeting with a Morgan Stanley Tax, Trust and Estate specialist.

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