SSG COMPANIES

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The Wealth Plan

Mr and Mrs Valued Client

John G. Griffin, CLU
Chartered Financial Consultant

August 20, 2025

SSG COMPANIES
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August 20, 2025

Mr and Mrs Valued Client
New Solora Holdings, Inc.
City, State USA

Dear Mr Client:

We are very pleased to present you with this completed final copy of your Wealth Plan. This plan represents the culmination of several months of comprehensive analysis of your current financial situation, numerous planning meetings which took place with your other financial advisors, and several review meetings with you.

The strategies which we are recommending are interrelated. As such, any deviation in the implementation should be carefully evaluated since it may alter the results intended to achieve. It is also important to note the projections in your plan reflect our best estimates and do not represent a guarantee of future results.

We want to emphasize the strategies were designed with your current specific goals in mind. In the coming weeks, we will be implementing those strategies contained in the various strategy sections. A checklist and timeline for the implementation of those strategies will be developed and made a part of this Plan.

However, the planning process is not static. Thus, we should meet annually to review your financial status and the effectiveness of your financial plan during the coming years. You may also develop additional financial goals for which we may provide assistance.

Sincerely,

SSG COMPANIES

John G. Griffin, CLU
Chartered Financial Consultant

JG:jb
Enclosures

Disclaimer

The Wealth Plan is a proprietary planning tool developed by SSG Companies to analyze and evaluate certain wealth planning strategies and concepts available to high-net-worth individuals.

SSG Companies is not in the business of providing investment advisory advice and no strategy illustrated in The Wealth Plan should be construed as providing investment advisory guidance but is for illustration purposes only to demonstrate how strategies of that nature can interact with an overall Wealth Plan. SSG Companies does not provide investment products as a part of The Wealth Plan and products of that nature must be procured elsewhere.

SSG Companies, as a matter of policy, does not give tax, accounting, regulatory or legal advice to its clients. The effectiveness of any of the strategies described will depend on your individual situation and on several complex factors. You should consult with your other advisors on the tax, accounting, and legal implications of these proposed strategies before any strategy is implemented.

Any discussion in this presentation relating to tax, accounting, regulatory, or legal matters is based on our understanding as of the date of this presentation. Rules in these areas are constantly changing and are open to varying interpretations.

Disclaimer for Planning and Consulting

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Table of Contents

Existing Plan

The Wealth Plan for Mr & Mrs Client

Personal Balance Sheet - **After Planning**

Balance Sheet	Mr & Mrs Client Personal BS		
January 1, 2025	**Book Value**	**Market Value**	**Estate Tax Value**
	Sum of Book Value Annu	Sum of Market Value	Sum of Estate Tax V
101 Cash	5,723,961	5,723,961	5,723,961
Cash and Security Equivalents	5,723,961	5,723,961	5,723,961
103 Accounts Receivable	100,000	1,003,763	1,003,763
Reserve for Doubtful Accounts	(903,763)	-	-
Solora II	100,000	100,000	100,000
Solora Road Housing	429,538	429,538	429,538
Solora Ridge Housing II	474,225	474,225	474,225
104 Closely Held Companies	13,655,913	27,177,249	27,177,249
Solora Residential, Inc.	45,452	47,346	47,346
Solora Land & Cattle	61,028	30,514	30,514
Solora Nursery, LLC	810,170	911,124	911,124
Solora Holdings, LLC	5,708,850	7,613,604	7,613,604
Solora Realty, LLC	(675)	1,147	1,147
Solora Real Estate Services, LLC	605,022	605,022	605,022
106 Real Estate	5,647,261	5,647,261	5,647,261
Lake House	850,000	850,000	850,000
Austin	305,466	305,466	305,466
Residence	3,704,644	3,704,644	3,704,644
Beach House	225,000	225,000	225,000
Bay House	441,599	441,599	441,599
Beach Land	120,552	120,552	120,552
115 Retirement Plans (IRD)	1,107,133	1,107,133	1,107,133
IRA Cash and Security	1,107,133	1,107,133	1,107,133
120 Planning Entity	43,902,850	43,902,850	12,640,266
Solora Ventures, LP Voting Shares	878,057	878,057	878,057
Solora Ventures, LP Non-Voting Shares	43,024,793	31,733,072	470,488
N/R-The Solora GST Exempt Trust LP	-	11,291,721	11,291,721
205 Notes Payable	(2,583,914)	(2,583,914)	(2,583,914)

Existing Plan

Mr Client - August 2025

CLIENT ESTATE

Death proceeds pass to spouse tax free.

Estate Tax Exemption

Taxable Estate

Wealth Plan Solutions

Wealth Plan Solutions

Mr Client - August 2025

Wealth Plan Solutions

Review of Personal Balance Sheet –

- The review of the personal balance sheet gives us an overview of the assets and asset types which are in your taxable estate and give us a clue as to how those assets might be structured to obtain the maximum discounts which we could get by structuring them in holding entities which will provide for management control, asset protection and valuation discounting;
- Texas is in the Fifth Circuit - there have been more valuation cases found on behalf of the taxpayer in the Fifth Circuit than any other jurisdiction;
- Based upon Financial Statement received, the following observations are the breakdown of the assets on the personal financial statement:
  - Personal assets
  - Homes
  - Cash
  - IRA's and Retirement Plans
  - Real Estate
  - Closely Held Companies
  - Business interests
  - Partnerships
- Updating your personal financial statement is extremely important for us to be able to model out the impact of the various strategies we will be considered.

Assemble the Team who will Work on the Engagement

1. Planning firm – SSG Companies
   - overall responsibility for the design of the wealth transfer plan;
   - responsibility for putting together an overall budget for the planning engagement which includes the negotiation of the fee arrangements with each of the team members;
   - the coordination of the work to be done by each of the team members during the design phase, and;
   - the overall implementation of all phases of the planning work to be done;

2. Valuation Firm –

- This firm is responsible for the overall valuation of the entities that will be used in the planning process;
- They will be consulted as to the best means of obtaining the valuation discounts during the organization process;

3. Legal –
   - It is important the attorneys working on the engagement be thoroughly knowledgeable about the drafting and use of Beneficiary Controlled Grantor Trusts;
   - It is important the attorneys be well versed in the use of limited partnerships;

4. Accounting –
   - We will coordinate with your accounting firm any changes that should be made in your tax reporting;
   - We will consult with your accountants as to the entities which have been formed and the resultant changes in your financial statement;
5. Appraisal Firms –
   - For each asset area needed, an appraisal firm will be interviewed and chosen based upon the relative merits of their proposals;
     - Real Estate –
     - Businesses –
     - Overall valuations -

Organization Work to be Done

1. Form a Texas Limited Partnership as a Family Holding Entity –
   - Texas statutes provide for:
     - Greater degree of management control over partnership assets – you can require a 100% vote to remove or change a general partner;
     - Greater valuation discounts can be obtained by requiring a 100% vote for liquidation, thus making the partnership rather hard to break up in the event of a hostile limited partner;
     - More valuation cases have been fought and won using Texas limited partnerships than virtually any other entity in any other state;
     - Place the general partnership interest into an entity (such as a limited liability company) which will give the owners of that entity some limited liability, whereas ownership of a general partnership interest in your individual names gives you unlimited liability;

- We would separate the limited partnership into two separate Texas limited partnerships which will allow us to separate the ownerships of the underlying assets and entities to gain greater discounts and splitting the assets.

2. Additional assets to be placed in a separate limited partnership;

Valuation Work

- SSG would consult with a Valuation Expert to Determine How to Enhance the Valuation Discounts (valuation of the assets is the chief means the IRS uses to attack wealth transfer plans, so this is one of the most important parts of the planning engagement.)
- SSG would engage a valuation firm which has had extensive experience in this field to consult on the formation of the above organizational items to determine by Mr &Mrs Client to increase the valuation discounts;
- SSG will finalize the organizational aspects of the plan;
- SSG would negotiate the fee schedule to be charged for the valuation work to be done;
- Engage appraisal firms to provide appraisals of the underlying assets which are to be valued in the holding entities (the Texas limited partnerships)
- The underlying appraisals will be used to firm up the overall valuations done on the holding entities;
- Use of a real estate appraisal firm which will value real properties;
- These appraisals will form the basis for the eventual valuation of the holding entities themselves and will be discounted themselves on an asset level valuation;
- SSG would negotiate the fee schedule for the appraisal work to be done with each firm;
- The Valuation Firm will then provide an overall valuation of the holding entities
- They will use the underlying asset appraisals as a starting point in providing an overall valuation study which will be used when we file a gift tax return to start the statute of limitations running on the transfer of the limited partnership units;
- The valuation will cover the following:
- Underlying assets – each asset class has its own discount that can be applied. For example, even cash and marketable securities has a discount factor that can be applied;
- Mid-level entity discounts on those entities which directly hold the assets;

- Overall holding entity discounts for the holding entities;
- We cannot stress how important this overall process is;

Trust Work

1. Creation of Dynastic Grantor Trust

    - We would use two separate trusts – both of which would be fairly identical – to use in the planning arrangement. This would allow us to preserve the maximum discounts when we do the initial transfers and conform with the grantor provisions of the Internal Revenue Code.
    - The trusts would be set up by a settlor – someone other than beneficiaries of the trusts which would have an interest in setting up trusts for you. This could possibly be Mrs Client but may be some other person with whom you have a close relationship;
    - Then this would allow Mr Client as the following:
        - Trustee of the trust;
        - An initial beneficiary of the trust;
        - Grantor of the trust;
        - Special power of appointment over the eventual distribution of the trust assets through his will;
    - Typically, the trusts will be generation skipping to allow for an avoidance of inclusion in the children's taxable estates upon his death;
    - In addition, the ultimate beneficiaries of the trusts will be heirs of Mr Client, thus avoiding any assets getting out of the family line;
    - In addition, I would recommend one of your children be named as co-trustee of these trusts to aid their operational efficiency;

2. Possible merger of the current life insurance trusts with the Beneficiary Controlled Grantor Trusts

    - Possibly, it might be beneficial to merge the current life insurance trusts into these trusts this can be reviewed at a later date;

3. A Trust to receive Unified Credit Gift from Mr Client & Mrs Client Richardson to the family
4. There are certain operational companies which will require active management to maintain their profitability.;

Use of the Unified Credit

1. Both you and your wife can join in using your combined unified credit for this purpose;
2. Due to the change in Tax Law, the current unified credit amount of $11,200,000 is slated to go away in 2025, thus it is important to contemplate a gift of this nature now;
3. In addition, we will need someone to provide a guaranty of the notes from the beneficiary controlled grantor trusts (BCGT), and these assets in his name would provide for this nicely;

Sales Transactions to the Trusts

Using the valuation studies, we would make a sale of the limited partnership units to the trusts for the discounted values in those valuation studies

1. The sales transaction will be valued at the valuation discounted amounts;
2. A note or notes will be used for the same value, using short term, mid-term or long term Applicable Federal Rates;
3. There will be no gifts to the trusts;
4. We would need to have a guarantor to the promissory notes in the trusts who would provide a guaranty of approximately 10% of the note amounts.

Guarantor of the Notes

Additionally, the sales transactions will require a guarantor of the notes, and we will need to find someone who can act in that capacity;

- The added value of the operating companies will provide Mr Client's children with some of the needed net worth to make the guaranty valid;
- This guaranty will be 10% of the discounted value of the sales transactions to the Grantor Trusts;
- Using the trust which will receive the unified credit gift, the Trustee of that trust can enter into a guaranty of the sales transaction for amount of 10% of the sales transaction;

Using Income Tax Liabilities as a Means of Further Reduction of the Taxable Estate

- By constructing the wealth transfer plan we have outlined, the income tax liabilities of the income flow through the trusts will fall on Mr Client's personal

income tax return and will be used to reduce the principal amounts of the notes receivable, thus further reducing the taxable estate;

- Income tax liabilities can thus be used to reduce the taxable estate of the Client;

Policy Analysis and Review

Using our proprietary Policy Analysis and Review, we will be able to review the current ownership and beneficiary designations, compare your current life insurance products to those which are presently available, and enhance the policy provisions of those contracts.

Irrevocable Life Insurance Trusts

Irrevocable life insurance trusts which hold the current life insurance on your life will be reviewed with an eye towards coordination and simplicity. They may be merged (depending upon terms) with any current trust work which is done.

Underlying Limited Liability Companies

These limited liability companies will provide the following:

1. Divide assets by class;
2. Provide additional asset protection;
3. Allow for steeper discounts than would be available otherwise;

In addition, by splitting up the ownership of these limited liability companies between two separate limited partnerships, we would be given greater discounts than otherwise.

For the most part, we will not need to create additional underlying entities due to the nature of those partnerships which you currently own which provide these benefits.

Filing a Gift Tax Return with Disclosure of the Transaction

One of the goals of this planning will be to avoid the potential argument concerning the valuation discounts we anticipate taking on the Family Limited Partnership. By filing a gift tax return and disclosing the transaction and the values used in the transaction, we will be able to set a time period for the challenge on those valuation discounts used.

The IRS has a three-year statute of limitations on a challenge to the valuations used on a gift tax return. This will set a time limit on this potential contest.

Wealth Plan Solutions

Mr Client - August 2025

The Family Foundation

This foundation will be either a private foundation or a foundation under a public charitable foundation trust. This foundation will be the receptacle of the charitable bequest made under the terms of your will upon your death which will allow us to significantly reduce your taxable estate.

Use of Charitable Bequest in the Will to Reduce Taxable Estate

- A charitable bequest upon death of both Mr Client and Mrs Client will be made to reduce the overall taxable estate with a certain amount of remaining assets in Mr Client & Mrs Client Richardson's taxable estate;
- This amount will be determined by the executor in the will, but will be determined by modeling out the ongoing benefits of the planning work done;

Charitable bequests made upon your death are unlimited and can be a tool which can reduce the overall taxable estate, thus reducing the taxes and expenses levied upon your death. Your executor will utilize a flexible clause in your will to make this bequest.

We will model how this charitable bequest might work in your overall estate plan.

Wills

The wills will take advantage of all the tax benefits available, but also do the following:

1. Executor will be responsible for the estate administration;
2. The full amount of the unified credit left upon your death will be utilized;
3. The wills will be coordinated with the trust planning outlined;

Revocable Living Trusts

The wills will take advantage of all the tax benefits available, but also do the following:

1. To avoid unnecessary attention to the eventual probate transactions, a revocable living trust will be set up to avoid probate and the disclosure of confidential information;
2. The trust will not provide any tax benefits and all income derived from the trust will be on the tax return;
3. The trust can be changed at any point in time during your lifetime;
4. The trust can provide a means of managing your assets should you become incapacitated;
5. Upon death, the trust becomes irrevocable and is typically coordinated with your will to provide for the disposition of your estate;

Wills, Maximizing the Marital Deduction and Powers of Appointment

The Wealth Plan

Wills, Maximizing the Marital Deduction and Powers of Appointment

Mr Client - August 2025

CLIENT ESTATE

For the married couple, the following distribution pattern in your will provides most, if not all, of the planning necessary for your will.

Death proceeds pass to spouse tax free.

Credit Shelter portion passes to heirs tax free.

Wills, Maximizing the Marital Deduction and Powers of Appointment

Mr Client - August 2025

Discussion Points
Wills, Maximizing the Marital Deduction and Powers of Appointment

Few of us like to think about our end of days, but it is important to have your affairs in order ensure your loved ones are cared for and your assets are distributed or maintained in the way you intend.

There are two main vehicles for protecting your assets and providing for your loved ones after your death - wills and trusts:

1. A will is a legal document that allows you to name a guardian for your child and specify who will inherit your property after you die. Without a will, you will have no say in what happens to your property.
2. A trust enables you to create a separate legal entity to protect your property and assets from probate, taxes and public scrutiny. Trusts may be established while you are living or upon your death as set forth in your will. The type of trust you establish will determine how much control you have over the property placed within it.

Even if you have a will, it is important to understand your estate will still go through probate. Probate is the legal process an estate passes through to make sure property is distributed in accordance with a will or according to the laws of the state if there is no will. The probate process usually takes about a year to complete as the validity of the will must be established, all heirs, creditors and those who have a vested interest in the deceased's property must be alerted of the decedent's passing and any disputes over the will must be resolved in probate court.

The Use of the Marital Deduction in your Will

The marital deduction is perhaps the best-known estate tax reducer. It also is among the most misused planning devices. While powerful, the marital deduction also can trigger higher taxes or other headaches.

The marital deduction is straightforward. The estate executor totals the value of all assets owned by the deceased to arrive at the gross estate. From this is subtracted the value of all property left to the surviving spouse. The marital deduction and the charitable contribution deduction are the major deductions in determining the taxable estate.

There is no limit to the amount of the marital deduction. A married person easily can eliminate estate taxes by leaving the entire estate to his or her surviving spouse. Many people do just that, and it can be a mistake.

In addition to the deductions, every person has a lifetime credit, also called the estate tax exemption equivalent. The credit allows an individual to avoid estate taxes on amounts up to the unified credit amount on all property left to non-spouses.

The marital deduction only defers taxes, it does not eliminate them. All the property transferred

to the surviving spouse is taxed at the spouse's death if it remains in his or her estate.

When the entire estate is left to the surviving spouse, the lifetime exemption amount of the first spouse is lost.

It was not used by the estate of the first spouse to die, and it cannot be transferred to the surviving spouse. The surviving spouse has only one lifetime exemption to shield what is now the combined estate of both spouses. The surviving spouse also must do all the estate and tax planning for the combined estates.

Loss of the life exemption is not a problem is if the combined estates are less than the Unified Credit, but it can create unnecessary taxes for larger estates. Remember the value of the estate at the time of the surviving spouse's death determines the tax burden. An estate might be less than the exempt amount when it is inherited but be above the exempt amount when the surviving spouse passes away. Also, the estate tax law will change in coming years.

Another problem with making full use of the unlimited marital deduction is the person you ultimately want to have property might not receive it. Many people assume their surviving spouses will leave their estate to the children of the marriage. Other people desire some or all of the wealth eventually be given to certain charities.

Those wishes might not be fulfilled if property is left outright to the surviving spouse. To qualify for the marital deduction, property generally must be given to the surviving spouse without restrictions. While the spouses might have agreed when the will was signed, things can change. The surviving spouse might remarry and change priorities. He or she might decide the children can take care of themselves and the wealth is better left to other relatives, friends, or charities. The surviving spouse also might favor one child over the others.

Another problem is the surviving spouse might not be able to manage the estate. While professional advisors can help, the surviving spouse might terminate them, be unable to evaluate whether they are doing a good job or come under the influence of an undesirable manager.

There are several ways to deal with these potential problems without impoverishing the surviving spouse.

A popular solution is the Qualified Terminable Interest Property trust (QTIP trust). The trust qualifies for the marital deduction.

In a QTIP trust, the surviving spouse must receive all income generated by the trust property for life, paid at least annually. The surviving spouse also can receive distributions of principal if needed to pay for necessities. After the surviving spouse's death, the property passes to the remainder beneficiaries of the trust, who usually are the children of the couple.

The QTIP trust only defers taxes. The amount remaining in the trust is included in the estate of the surviving spouse. Using the trust, however, ensures the estate of the first spouse is not taxed.

The trust remainder will be disposed of as the trust creator intended, and the surviving spouse will have sufficient assets.

Another solution is the credit shelter or A/B trust.

The Credit Shelter trust normally has the surviving spouse as beneficiary for life. The spouse who created the trust can set lifetime payments however is desired. The surviving spouse can receive primarily income, supplemented by principal payments for specific purposes. Or payments can be a fixed amount or a percentage of the trust. The trustee can be given discretion to set or increase the distributions.

Payments to the remainder beneficiaries also are flexible. The trust property can be distributed to them after the surviving spouse passes, or the annual payments can continue under a formula or at the trustee's discretion.

The credit shelter trust is offset by the lifetime estate tax exemption amount. The remainder of the estate can be left to the surviving spouse under the marital deduction. This ensures the entire estate can be used to support the spouse, the estate escapes estate taxes, the exempt amount is used, and the amount in the trust eventually is disposed of as desired.

These days it is important not to put too much property in the credit shelter trust. It used to be the trust automatically was funded with assets equal to the estate tax exemption amount. With today's higher exempt amount, the trust could take all or most of many estates. The result is the surviving spouse would receive few or no assets outright and must depend on the trust for income. It is better to state either a specific amount or a percentage of the estate to fund the credit shelter trust.

The Irrevocable Life Insurance Trust

The Wealth Plan

Irrevocable Life Insurance Trust

Mr Client - August 2025

CLIENT

NET ESTATE

Death proceeds are loaned to estate or assets are purchased to inject liquidity **into estate on a tax free basis.**

Payment of Estate Taxes

Client Heirs

Irrevocable Life Insurance Trust

Mr Client - August 2025

Discussion Points

- An Irrevocable Life Insurance Trust (ILIT) is commonly used to provide life insurance proceeds to replace assets lost to estate taxes and charitable contributions or to provide liquidity to pay estate taxes.
- The name of the trust indicates the type of investment made by the trustee, a life insurance policy.
- Typically, the business will provide the premium contributions. This covers the vast majority of the total premiums which are to be paid by the trust. Should you die prior to the repayment of these funds, the funds will be repaid from the death benefit.
- Mortality costs are paid through the ILIT with funds provided by annual gifts from you.
- This strategy allows you to take advantage of tremendous leverage between the amount of your annual gifts and the ultimate benefit to your heirs.
- If the trust documents are written properly and the funding of the trust is done correctly, the gifts are excluded from gift taxes and the insurance proceeds are not included in your taxable estate.
- For these gifts to qualify for the annual gift tax exclusion, they must be gifts of a present interest. Thus, the children must be granted a demand right at the time the annual gifts are made to the trust. This demand right is commonly called a “Crummey” right.
- Essentially, the beneficiaries of the trust have a right to withdraw the gift made to the trust in their name within a specific period of time.
- Once the initial gifts are made to the ILIT, the trustee should purchase a life insurance policy on your lives.
- A joint and last to die life insurance policy has the advantage of relatively inexpensive joint mortality rates. These rates can be utilized in determining the economic benefit costs to be gifted to the trust.
- The insurance should be purchased from a life insurance company that meets minimum financial rating criteria.
- There are additional premium finance options available which will do away with the need for using the annual gift tax exclusion or the unified credit to fund the trust. These would include: (1) split dollar financing with a company or individual; or (2) premium financing using a bank or individual.
- At the death of the surviving spouse, the proceeds can be held in trust or distributed to the beneficiaries.

Irrevocable Life Insurance Trust

Mr Client - August 2025

Life insurance is a critical tool in estate tax planning. Life insurance proceeds create needed liquidity to pay taxes and expenses, as well as provide for cash for beneficiaries. Yet, if life insurance is not owned correctly and the premiums are not paid in the most efficient manner, its benefits are greatly reduced.

The Irrevocable Life Insurance Trust ("ILIT"): The benefits of incorporating an ILIT into your overall Wealth Plan are:

- An ILIT avoids a federal estate tax on life insurance proceeds on the death of the insured.
- An ILIT shelters those proceeds from federal estate tax for a number of generations.
- An ILIT allows premium payments to qualify for the annual gift tax exclusion.
- An ILIT permits a trustmaker to make "gifts with strings attached."
- An ILIT shelters the life insurance proceeds from the claims of the beneficiaries' creditors.

A Brief Description of the Strategy

Many people believe life insurance is exempt from federal estate tax. Nothing could be further from the truth. If an individual owns life insurance directly, the death proceeds will be subject to federal estate tax. Under the Internal Revenue Code, a person who receives life insurance proceeds generally does not have to pay any income tax on the proceeds. There are exceptions, but this is the general rule.

To avoid inclusion in an individual's estate, therefore, any life insurance used in your estate planning should be held in an ILIT or some other type of trust. In so doing, the policy proceeds will pass to your designated beneficiaries (other than your estate). Provided you do not retain any rights or powers over the policy (called "incidents of ownership"), the proceeds will be excluded from your estate for tax purposes. In general, you should not be either a trustee or beneficiary of the ILIT as acting in this function would result in your having retained an incident of ownership with respect to the policy.

Summary Of How An ILIT Works:

- The need for life insurance is established by analyzing the liquidity and estate planning goals of a family.
- The family's life insurance expert gathers preliminary medical information and schedules physicals to determine insurability.
- After determining insurability, the ILIT is prepared; the Trustmaker, or Trustmakers—if a joint ILIT is to be created by a husband and wife—signs the ILIT.

- The Trustee signs applications for the life insurance.
- The Trustee applies for taxpayer identification number for the trust and opens bank account in name of trust.
- The Trustmaker(s) make a gift to the ILIT which the Trustee deposits in the trust's bank account.
- The Trustee notifies the beneficiaries of their limited right to withdraw their share of the gift from the ILLIT.
- The beneficiaries waive their right to withdraw, or the time for exercising withdrawal lapses.
- The Trustee pays the life insurance premium; the policy is issued showing the trust as the owner and the beneficiary.

The Specifics of This Strategy

Irrevocable trusts are used extensively in sophisticated estate planning because they remove assets from an individual's estate and allow a certain degree of control by their maker. Properly designed and implemented, they allow a surprisingly high degree of flexibility coupled with significant estate planning benefits.

Individual and Joint ILITS

An ILIT with one Trustmaker is called an individual trust. An ILIT with two or more Trustmakers is called a joint trust. Individual trusts are used by unmarried Trustmakers who want to avoid federal estate tax on their life insurance proceeds. Because unmarried Trustmakers do not have the benefit of the marital deduction, ILITs are extremely important if their estates exceed their unified credit exclusion. An individual ILIT is also used by married Trustmakers who want to make sure proceeds from insurance policies are not included in their estates upon death.

In some cases, an individual ILIT is created for the husband and another is created for the wife. Each ILIT owns and is the beneficiary of policies on the life of the respective Trustmaker. No matter which Trustmaker dies first, the proceeds can be used to care for the surviving spouse, children, and other beneficiaries. When the other spouse dies, the proceeds will be available to pay federal estate tax and care for the other beneficiaries. Both policies' proceeds will be free from federal estate taxation.

Individual ILITs are also used when the Trustmaker has existing life insurance policies that he or she would like to transfer to an ILIT. Prudent planning dictates the use of new policies of life insurance when an ILIT is being created.

A joint ILIT generally owns a second-to-die (last survivor) policy on the lives of both spouses. This policy pays when the second spouse dies, so it is often a good arrangement when the purpose of the life insurance is to pay estate taxes upon the death of the second spouse to die.

The Advantages Of A Second-To-Die Policy Are:

- The premium payments on this type of policy are generally significantly lower than those for two individual policies. Premiums are based on the joint life expectancy of the insured's.
- The proceeds will be available to pay federal estate tax regardless of which spouse dies first.

Determining whether an individual ILIT or a joint ILIT should be used for a married couple is based on the circumstances of each situation. However, if a married couple's motive is to use life insurance purely for the payment of estate taxes, a joint ILIT is the better planning method. If the life insurance is to be used not only for the payment of federal estate tax but also for the benefit of the surviving spouse and other beneficiaries, then an individual trust is preferred.

Annual Exclusion Gifts To An ILIT

Contributions to an irrevocable trust are considered gifts to the beneficiaries of the trust, and are therefore taxable. Ideally, the maker would use the $15,000 annual estate and gift tax exclusion (or the unified credit for larger gifts) to help offset any gift taxes. If there is more than one beneficiary of the trust, the maker could give up to the annual exclusion amount per beneficiary. Under ordinary circumstances, however, the gift is not eligible for the gift tax exclusion because the beneficiaries do not actually have the free use of the gift presently. The amount of the gifts would instead reduce the maker's the remaining Lifetime Exemption, or if that is insufficient, they would then be subject to gift tax.

In order to qualify gifts to an ILIT for the annual gift tax exclusion, the beneficiaries must have a "present interest" in the amount given to the trust. A present interest can be created by giving the beneficiaries the right to withdraw the gifted property from the trust under a provision known as a withdrawal right, sometimes called a Crummey power.

In a famous court case in the late 1960s (Crummey v. Commissioner), the courts decided if an irrevocable trust's beneficiary is given the right to withdraw a gift made to the trust for a reasonable period of time after the gift is made, the gift will qualify for the annual exclusion. The number of annual exclusions that are allowed for a gift to an ILIT are equal to the number of beneficiaries who have a demand right. A demand right can be given to children and grandchildren; if there are two trustmakers, then they could join in the use of their annual exclusion amount per beneficiary given to the ILIT.

The "5 and 5" Conundrum

The right to withdraw assets means the demand right beneficiary has a power of appointment during the time in which he or she can withdraw the assets. The Internal Revenue Code stipulates the release or lapse of the power of appointment results in a gift of a "future interest to the other trust beneficiaries" to the extent the released amount exceeds the greater of $5,000 or 5 percent

of the sums subject to the release. This provision is commonly called the “5 and 5” limit. This means if a beneficiary does not exercise his or her right to withdraw, that beneficiary is making gifts to the other beneficiaries equal to the value of the amount that was given up. If this amount exceeds the greater of $5,000 or 5% of the total assets in the trust, then the beneficiary is considered to have made a gift of a future interest to the other beneficiaries. The amount of this gift reduces the beneficiary’s Lifetime Exemption amount. Consequently, many people have wanted to fund irrevocable living trusts up to the new $15,000 annual limit but found it would create tax problems for the beneficiaries.

There are solutions to this 5 and 5 conundrum. One of them, which is used by most sophisticated practitioners, involves creating separate trusts for each of the demand right beneficiaries. Providing the trust beneficiary with a separate trust assures the value of the gifts will be included in the estate of the beneficiary. However, the life insurance proceeds do not have to be included in the state of the beneficiary. Whether they are or not depends on the terms of the ILIT.

Selecting Who Can or Should Be Trustees

The candidates for trustee of an ILIT are relatively self-evident in many situations. First, those candidates who would not make good ILIT trustees should be eliminated. The Trustmaker cannot act as a Trustee of an ILIT. Doing so would give the Trustmaker too much control, and the value of the life insurance proceeds would be includable in his or her estate.

Similarly, a conservative approach might be, exclude the Trustmaker’s spouse from eligibility to act as Trustee. While technically a spouse may act as Trustee, the risk of the IRS finding too much control is being exercised is high. Despite this, however, in many instances where the spouse, as Trustee, is considered an “adverse party in interest” to the Trustmaker, the ability for the IRS to succeed in asserting the Trustmaker spouse has too much control is negated.

Even though the Trustmaker and the Trustmaker’s spouse have been eliminated, there are still many attractive candidates. One of the best is their accountant because he or she is well equipped to handle the duties required. An ILIT requires detailed administration, and most accountants, by inherent skills, can be relied upon to meticulously follow the correct procedures.

A bank trust department is another extremely good candidate for the position of the initial ILIT Trustee. Like accountants, bank trust departments can be relied upon to proceed meticulously with the business of administering the ILIT. They are specifically structured to deal with trustees. Generally, if the ILIT holds only life insurance policies and a nominal amount of cash, the fee charged by most bank trust departments is reasonable for the tasks performed and the liability assumed. Other advisors can make good trustees too. However, it is important the advisor be detail-oriented and equipped to administer the ILIT. Desire is not enough. Attention to detail, good bookkeeping practices, good follow-up, and existing systems and procedures are absolute requirements for an advisor who takes on the job of ILIT Trustee.

Family members can certainly be used, as can friends of the Trustmaker. However, they must be capable of meeting the criteria set forth above. If a Trustmaker feels uncomfortable with naming

a bank or an accountant as sole Trustee, or insists on naming a friend, a relative, or an inexperienced advisor, it is almost always better to add an accountant or a bank trust department as a Co-trustee. Two heads are better than one, and that is especially true in trusteeships.

The watchword for ILIT Trustees is “detail.” An ILIT Trustee must be able to effectively and accurately administer a technical trust. Much depends on having a trustee who is aware procedure reigns supreme in effectively maintaining an ILIT.

Using The Life Insurance Proceeds To Pay Death Taxes

One of the more confusing aspects of an ILIT is how the ILIT’s life insurance proceeds can be used to pay the death taxes of the insured. An ILIT cannot pay the death taxes created by the insured’s estate directly. If the ILIT does so, the payment is considered a gift. The ILIT must use an alternative method for paying the taxes.

The ILIT should be drafted to permit the Trustee to make loans to the Trustmaker’s living trust or probate estate. If the loan method is used, the transaction will be recharacterized as a gift. Interest must be paid, and the indebtedness should be evidenced by a promissory note. An alternative to making a loan is to have the ILIT buy property from the Trustmaker’s revocable trust or probate estate. Under current law, all of the property included in the Trustmaker’s estate receives a step-up in basis at death. If the ILIT purchases property that has a step-up in basis for a purchase price equal to the stepped-up value, there will be no taxable gain. There is taxable gain only to the extent the purchase price of the property is greater than the step-up in basis. The net effect is the estate has cash and the ILIT now owns property. Since the beneficiaries of the revocable living trust and the ILIT are almost always identical, in essence there has been no real change in economic position of the beneficiaries.

The Use Of Existing Life Insurance Policies

The proceeds from an insurance policy are includable in the estate of a decedent if the decedent possessed “incidents” of ownership either at death or within three years of death. This means if a Trustmaker transfers a life insurance policy into an ILIT he or she currently owns, and if he or she dies within three years, the life insurance proceeds will be subject to estate tax. This is the primary reason new policies should be purchased by the trustee of the ILIT; the three-year rule of inclusion is eliminated.

Another potential problem arises when using existing life insurance to fund an ILIT. Many times, the life insurance has a substantial cash value. If it does, then the value of the policy is treated as a gift to the ILIT. If the value exceeds $15,000 ($30,000 for a second-to-die policy) multiplied by the number of demand right beneficiaries, then the excess will reduce the Trustmaker’s Lifetime Exemption amount. If this has been used, then a gift tax will be due.

While there are some methods that can reduce the adverse impact of using existing life insurance policies, none of them are particularly effective. If it is economically viable and if the maker is insurable, it is almost always better to purchase new life insurance.

Dispositive Provisions

An ILIT can be drafted to leave property to children, grandchildren, and others in many different ways. Generally, the provisions are created to leave property to beneficiaries are tailored to meet the individual needs of each beneficiary in the same way. In fact, it is quite common for a Trustmaker to divide the life insurance proceeds equally, but have different conditions for making distributions of income and principal of each beneficiary's share.

Generation-Skipping Considerations

The federal gift and estate tax system is structured so property will be taxed at each generation of a family as the property is transmitted from generation to generation. Gifts made by an individual to children during life, and bequests at death, are normally subject to tax before receipt by the children. Similarly, property received by children from their parents, which they do not consume during their lifetimes, will again be subject to tax when it is transmitted to their own children. Thus, in the normal course of events, and ignoring certain exemptions under the gift and estate tax laws, property will be taxed twice on its way down from an individual to his or her grandchildren, and again repeatedly as it is passed down to each subsequent generation.

In the past, wealthy people often could avoid paying more than one gift or estate tax by placing property in a trust for the benefit of their children, grandchildren, and even great grandchildren. To eliminate this planning loophole, Congress in 1986 passed a new federal generation-skipping transfer tax ("GST tax"). Thus, any property which escapes the gift or estate tax at a given generation level may be subject to the GST tax, which is imposed on the transferred property at a flat 55% rate.

There is a very import exemption from the GST tax called the "GST exemption." The GST exemption allows every individual to shelter up to $5,600,000 of property from the GST tax. An ILIT that is created for the benefit of the Trustmaker's children and grandchildren can be used to leverage this exemption. This leverage occurs because the amount of the premiums given to the ILIT qualify for the GST exemption. If, for example, $1,000,000 of life insurance premiums buy $7,000,000 worth of life insurance protection, then the $1,000,000 premium is the standard used to determine the amount of GST exemption. The additional $6,000,000 of life insurance proceeds do not reduce the GST exemption and are not subject to federal estate tax or GST tax!

A generation-skipping ILIT is ordinarily structured to continue in existence for the maximum period of time permitted under applicable state law. Under the laws of most states, this legal maximum is limited by a doctrine known as the "Rule Against Perpetuities." This doctrine provides a trust may not postpone the "vesting of interests" beyond a period defined with reference to the lives of an ascertainable class of persons who were living at the time the trust was created. A vested interest is one which gives the beneficiary ownership and possession of the trust assets, and requires termination of the trust, either immediately or at some specified future time. A corollary of vesting is the vested beneficiary will be treated as the owner of the trust assets for federal transfer tax purposes, so the assets again will be postponed under the Rule

Against Perpetuities is usually described as 21 years after the death of the last to die of certain identified lives, called “lives in being.” This period averages about 90 years, depending on the age of the maker, the maker’s children, and whether or not grandchildren are living at the time the ILIT is signed.

During the term of the generation-skipping ILIT, children, grandchildren, and even great grandchildren can be the beneficiaries of the trust. There is no federal estate tax on any of the proceeds until such time as the Rule Against Perpetuities forces the trust to end. The proceeds will be subject to estate taxation upon the death of the final beneficiaries.

If a generation-skipping ILIT has as its only beneficiary’s grandchildren or great grandchildren and the only gifts made to it are $15,000 annual exclusion gifts, then each gift to the ILIT does not reduce the $5,600,000 GST exemption. This important exception to the GST tax rules allows an even more efficient way to pass life insurance proceeds free from GST tax.

An ILIT can be extended past the Rule Against Perpetuities. This type of trust is called a Dynasty Trust. For those people who wish to never have their assets subject to federal estate tax, a Dynasty Trust should be considered.

Planning Risks And Detriments

There are some potential detriments in using ILITs. The biggest risk is the trustee of the ILIT will not follow the administrative procedures necessary to insure the gifts to the ILIT will qualify for the $15,000 gift tax annual exclusion and the life insurance proceeds will be include in the maker’s estate. The trustee must take care to follow all of these rules.

The trustee must also be diligent in the choice of life insurance products and companies used to fund the trust. In most cases, there should be diversity among the life insurance companies chosen and the types of coverage.

These decisions should be reviewed annually to insure the ILIT’s funding always meets the objectives of the maker’s planning.

Finally, because an ILIT is irrevocable, considerable time and effort should be expended in the planning stage so that the terms of the ILIT fully satisfy the maker’s planning goals. The trust should be drafted by an expert attorney to absolutely insure that the ILIT is as flexible as it can be without endangering its estate tax-free status.

The Family Limited Partnership

Family Limited Partnership

Mr Client - August 2025

Contributes GP Units

Capitalize Partnership with Assets

Receive GP and LP

Partnership distributions as determined by general partner.

Optional general partner management fee.

Gross assets put into the FLP can be reduced for tax valuation purposes because the holders of LP interest are subject to liquidity, marketability & control constraints.

Family Limited Partnership

Mr Client - August 2025

Discussion Points

Create a Family Limited Partnership ("FLP") with Limited Partnership ("LP") and General Partnership ("GP") Interests.

- The Family Limited Partnership is a business entity which gives you, the general partner(s), the ability to give away assets and reduce the size of your estate while retaining control over those assets.
- Holders of Limited Partnership units have limited liability and no participation in investment or distribution decisions. Because of these limitations, limited partnership units are appraised and valued at a discount.
- Under IRC 721, no gain or loss is recognized when assets are transferred to a partnership.
- Because the Family Limited Partnership is a flow-through type of organization, tax liabilities incurred by the partnership are distributed equally to all limited partnership shareholders.
- Distributions of income or capital assets which you declare must be distributed equally to all shareholders.
- Because the assets represented by limited partnership units are discounted, gifts of LP units result in a gift and/or estate tax discount.
- The IRS has taken the position that FLPs cannot have tax-avoidance as one of your primary motivations. Thus, your partnership details may be audited to determine the appropriateness of the discount being used. The result of an audit would do no more than lower the partnership discount allowable for the partnership interests.

In addition to the many business reasons to create a Family Limited Partnership ("FLP"), there is one estate planning reason that is extremely worthwhile for using an FLP – the ability to give assets away and reduce the size of your estate while still maintaining control over the assets. Almost all of the people who ultimately make the decision to utilize an FLP do so in order to make gifts to their children and grandchildren without giving up any control over the management of the assets held by the FLP. In short, this strategy enhances management efficiency and preserves control in a systematic gift-giving program.

The Use Of An FLP Provides The Following Planning Advantages:

- The General Partners keep control of partnership investments and distributions which provides management control;
- Using valuation discounts, a reduction of federal estate taxation of partnership assets is obtained;
- Maintains the income levels of the General Partners;

- Splits income among family members; and
- Protects assets from future creditors.

The mixture of benefits which are most important or appealing to a individual varies. However, virtually all people who are interested in estate planning want to maintain control of their assets and protect them from creditors. These are compelling reasons for using an FLP.

Strategy Description

An FLP is a partnership consisting of two classes of partners who are usually family members or are entities, like trusts, created for the benefit of family members. The General Partners have 100% control and management of the partnership regardless of their percentage ownership. They are also 100% liable for the obligations, debts, and liabilities of the FLP, just as if they owned the assets outright.

The Limited Partners are family members or trusts created for the benefit of family members. The Limited Partners have no control or participation in the day-to-day management of the FLP regardless of their percentage ownership. Because of this lack of control, they do not have any personal liability exposure for any of the obligations, debts, or liabilities. A Limited Partner's exposure to loss is limited to the extent of his or her investment in the FLP.

Here Is A Summary Of How An FLP Generally Operates:

- A husband and wife transfer assets to the FLP in exchange for both a General Partnership interest ("GP") and a Limited Partnership ("LP") interest.
- The assets of the FLP are appraised by a qualified appraiser. The appraiser also values the LP interests based on the terms of the FLP Agreement (the "Agreement"). Discounts for lack of control and lack of marketability are applied; these discounts can range in value depending on the terms of the Agreement and the assets held in the FLP.
- The General Partners then manage the assets.
- The General Partners, who are also Limited Partners, may choose to give some or all their LP interests away. These gifts are usually made to family members, trusts created for family members, charities, or short-term trusts such as Grantor Retained Annuity Trusts. Alternatively, LP interests can be sold on favorable terms to family members or trusts created for family members such as a Grantor Trust. The value of the gifts of LP interests are subject to the discounts determined by the appraiser. These discounts leverage the donatives ability of the husband and wife so larger gifts can be made based on a lower value.
- No matter how small a percentage the General Partners own, they always have full control over the management of the FLP and the assets in it.

Family Limited Partnership

Mr Client - August 2025

Primary Objectives

- Allows property owners to centralize the management using an FLP.
- Assures the property owners have control over the management of the FLP property no matter how much or how little they own of the FLP itself.
- Assures family assets remain in the family and provides for the orderly transition of ownership of the assets from one generation to succeeding generations.
- Transfers substantial amounts of wealth to family members using discounted values, saving significant amounts of gift and estate tax.

Strategy Specifics

When individuals own business or investment assets of sufficient value where they will be subject to federal estate taxes, they are faced with the unappealing options of giving assets away at a substantial gift tax value, giving up control of the assets, and perhaps even giving up the income stream generated by the assets. In addition, those assets may be vulnerable to the attacks of future creditors.

By transferring these assets to one or more FLPs created especially for them, they can maintain control over both the assets themselves and the income from the assets, while still accomplishing the significant estate planning goal of reducing the size of the estate to minimize, and in some cases even eliminate, the potential for federal estate taxation.

Transferring assets to an FLP can result in a flexible and sensible gift giving program, a more rapid estate size and value reduction program, a more flexible income-splitting program, a means for better centralized management and administration of the assets, and a better creditor protection program than can be accomplished using other traditional planning tools and methods.

The Creation Of An FLP

While an FLP can be a complex planning strategy, its basics are relatively simple. Here is how an FLP is established:

The FLP will be administered under the terms of the Agreement. The Agreement should be drafted by a qualified attorney with experience in drafting FLPs. In addition to the Agreement, a summary or abbreviated form of the Agreement called a “Certificate of Limited Partnership” or “Articles of Limited Partnership” is prepared for the General Partner’s signature and filed with the appropriate state agency.

The filing, registration, or recording fees vary from state to state ranging from as little as $50 to more than $10,000. Therefore, it is crucial to select the right state in which to file and to ensure

the filing is done correctly to secure Limited Partnership status – otherwise, the FLP will be classified as a General Partnership with each partner having joint and several liabilities for the obligations, debts, and liabilities of the partnership.

Usually the husband and wife (or a trust, a corporation or a limited liability company controlled by them) are named as the General Partners of the FLP. All Limited Partnerships must have one or more General Partners and one or more Limited Partners. The General Partner(s), control 100% of the assets and the ordinary business affairs of the FLP. The Limited Partners have no vote or control over the FLP's assets nor control over its day-to-day operations. Limited Partners only have the limited rights granted to them by the state Limited Partnership Act under the terms of the Agreement.

The General Partner

The General Partner or Partners control the operation of the FLP regardless of their ownership percentage. Even as little as a .001% GP interest equals 100 percent control.

An individual can be a General Partner or several individuals can be the General Partners. The risk in using individuals as General Partners is the exposure to unlimited joint and several liabilities for the obligations, debts, and liabilities of the FLP. This may or may not be a problem depending upon the nature of the assets of the FLP. For example, the FLP owns assets that have risk exposure such as rental real estate, rental automobiles, or any other kind of asset that could potentially cause a personal injury, the liability exposure of the General Partner(s) can be substantial. On the other hand, if the FLP only owns intangible assets (such as stocks, bonds, mutual funds, savings accounts, certificates of deposit, money market accounts or funds) the liability exposure to a General Partner(s) is nonexistent.

Intangible assets are not liability-producing assets; therefore the General Partner will have no exposure to liability other than liabilities for debts incurred such as for borrowed funds or other credit arrangements. Furthermore, where individuals act as General Partner(s) and die or become incompetent, most state Limited Partnership Acts provide a Limited Partnership will terminate upon the death or insanity of all the General Partners. These problems can be avoided by using a revocable management trust as the General Partner.

A management trust is similar to a revocable living trust except it typically owns only the GP interests in the FLP. In the event of the death or disability of the Trustmaker, the management trust continues under the direction of the successor Trustee.

A corporation can also be a General Partner. Many individuals choose a corporation to be the General Partner of their FLP. Unlike individuals, corporations are artificial legal entities with perpetual existence that are not subject to the human frailties of death or disability. Thus, a corporate General Partner can give an FLP continuity for life. This is also true of a Limited Liability Company ("LLC"), which is a special type of partnership that is treated as a corporation for purposes of liability.

The Limited Partners

The Limited Partners can be individual family members. Most of the various state Limited Partnership Acts also allow the General Partners to own LP interests.

In sophisticated estate planning, various types of trusts are usually created to own LP interests. Here are some examples of the trusts that may own an LP interest:

Offshore Trusts. For those individuals who choose to create offshore trust planning, the LP interest of the domestic partnership is held by their offshore trust. This enhances the asset protection offered by an FLP as well as by the offshore trust.

Individual Irrevocable Trusts. It is very common to create individual irrevocable trusts for children, grandchildren, or other family members to hold LP interests. These trusts offer another layer of control over the LP interests and insure the beneficiaries receive distributions of income and principal from the FLP only as provided by the terms of the trust.

Grantor Retained Annuity Trusts. A Grantor Retained Annuity Trust ("GRAT") is often used in estate planning for high net worth individuals and their families. When LP interests are given to a GRAT, the Trustmaker retains the right to the income from the Limited Partnership for the term of the GRAT. When the GRAT ends, then the LP interests can pass to the beneficiary either outright or in trust. A GRAT allows an even greater discount for purposes of making gifts of LP interests.

Grantor Trust. A Grantor Trust is an irrevocable trust used in estate planning when an owner of an appreciating asset wishes to transfer that asset free of estate and gift taxes via an installment sale. This trust acts as a "grantor trust" for income tax purposes but does not result in the assets held by the trust being included in the Trustmaker's estate.

Assets Transferred To An FLP

Just about any business asset, can be contributed to an FLP. In addition, the stock of a closely-held "C" Corporation may be owned by an FLP. "S" Corporation stock cannot be held by an FLP. If an FLP owns at least 80% of all classes of the outstanding stock of a corporation, the corporation will be a subsidiary of the FLP.

Most investment assets may also be put into an FLP. Almost any kind of real estate, tangible personal property, or intangible personal property (such as stocks, bonds, mutual funds or other securities) may be owned by an FLP.

Generally, under Section 721 of the Internal Revenue Code, no gain or loss is recognized when assets are transferred to a partnership. One notable exception to this general rule is in a situation where primarily marketable securities are transferred by one of the partners. If several of the partners own a variety of marketable securities and they transfer primarily marketable securities

to the partnership, the partnership will closely resemble an investment company or what is more commonly known as a mutual fund. In a situation such as this, the IRS can argue the partnership was formed primarily to allow the partners to diversify their investment portfolios.

If the IRS finds this is the case, it can tax the various partners on any realized gain they would have been required to recognize had they sold the securities at a profit. However, had selling the securities resulted in a realized loss, the loss could not be recognized upon the transfer to an FLP. This exception to the general rule of a tax-free transfer to a partnership is usually not a problem with an FLP because typically a husband and wife are the only transferors of assets to the FLP. This exception does not apply if only one partner is transferring primarily marketable securities to the FLP. This exception applies where two or more partners are transferring a variety of marketable securities to a partnership that will own a diversified portfolio of securities. A husband and his wife are considered one transferring partner for purposes of this special rule.

Assets Inappropriate For Transfer To An FLP

Some assets do not belong in an FLP and should not be transferred into an FLP:

Individual Retirement Accounts, Annuities, and Qualified Retirement Plans. IRAs and qualified retirement plans cannot be owned by an FLP. Annuities will lose their tax-favored status if transferred to an FLP.

"S" Corporation Stock. Subchapter "S" of the Internal Revenue Code does not permit the stock of an "S" Corporation to be owned by a partnership. Therefore, unless the termination of the "S" election is desired, the stock of an "S" Corporation cannot be owned by an FLP. An "S" Corporation may, however, transfer assets it wishes to protect to an FLP, and then lease them back from the FLP.

Stock of a Professional Corporation or Professional Association. Most, if not all, states have adopted statutes that allow professionals like doctors, dentists, chiropractors, lawyers, and accountants to incorporate or associate their practices. Most of those states also require the stock of these professional corporations or professional associations must be owned only by the appropriate licensed practitioners. Therefore, the stock of a professional corporation or professional association cannot be owned by an FLP. Similar to the "S" Corporation, the assets of a professional corporation or professional association may be transferred to an FLP and then be leased back from the FLP.

High Risk Assets. High risk assets are assets such as cars, airplanes, boats and other vehicles or vessels, or any asset which could cause a personal injury. These assets should not be put into an FLP. These "hot" assets may be put into a separate FLP or subsidiary FLP, LLC, or corporation owned by an FLP to provide some asset protection.

Negative Equity Assets. Another type of asset to avoid is one with negative equity. An example would be an asset with a mortgage debt that exceeds the asset's cost basis.

Transferring this type of asset to an FLP will create taxable income to the transferor equal to the excess of the mortgage over the property's cost basis.

Planning Risks and Detriments

FLPs are complex legal agreements which offer massive estate planning advantages. They must, however, be structured very carefully to be fully effective. The IRS has taken the position FLPs cannot have as one of their primary motivations the avoidance of tax. While this position is without merit--Americans can structure their affairs to take maximum advantage of tax laws to minimize taxes--it is important to understand there must be other recognized purposes upon which an FLP is established.

There is some risk the IRS will look into this issue and prudent drafting must be accomplished as a preventive measure. FLPs also have continuing administrative fees and expenses. They require a yearly income tax return, accounting, and annual filing fees. Because discounting of limited partnership values is an integral part of FLP planning, it is imperative an independent appraiser with excellent experience and credentials values the partnership assets and interests. Inaccurate appraisals are the most common reason the IRS attacks FLPs.

FLPs offer tremendous estate and gift tax planning opportunities. Their ability to aid in asset protection is also invaluable. An FLP implemented effectively can successfully help you and your family to better manage, control, and transfer your assets.

Grantor Trust

The Grantor Trust

Mr Client - August 2025

Mr Client
Gift and sale of assets to Grantor

Gift of a small portion of Non-Voting member interests or LP units

Assets are excluded for estate tax purpose, but earnings of Grantor Trust assets are taxable for income taxes.

Trust could have dynastic powers and generation skipping tax benefits.

Assets and income are distributed to heirs according to trust provisions.

Heirs Receive income and principal according to terms of Grantor Trust.

The Grantor Trust

Mr Client - August 2025

Description

The Grantor Trust

- This is a Trust which is set up by the Client/Grantor for the benefit of family members.
- The beneficiaries of the Grantor Trust can be the children of the grantor or it can be a Generation Skipping Trust.
- Transactions with the Grantor Trust are income tax neutral to the Client/Grantor.

Description of the Grantor Trust used with Gift/Sale Transaction

- The Client sets up a Grantor Trust for the benefit of members of his family, children and/or grandchildren and/or generation skipping.
- The Client/Grantor makes a “seed money” gift of approximately 10% of the eventual trust assets under the Safe Harbor provisions provided by the Internal Revenue Service. Or, the client can provide a continuing guaranty to provide the coverage needed.
- The Client/Grantor sells Limited Partnership (LP) units in his Family Limited Partnership (FLP) to the Grantor Trust in exchange for a note. The sale of the LP units is not a taxable gain to the Client/Grantor under the Grantor Trust provisions.
- Interest payments which are made under the terms of the note, are income tax neutral under the Grantor Trust provisions.
- The note in the Client’s estate has the effect of “freezing” the value of the estate for tax purposes while moving appreciation of those assets down to future generations.

The Grantor Trust

Mr Client - August 2025

Discussion Points

- The Trust provides a means of having access to the income from your property until your death;
- The Trust will allow you to have your assets available to you for your use and enjoyment until your death;
- The Trust will protect your property from creditors and liability claimants, including spouses in case of divorce;
- The Trust will allow you to save substantially on your estate and gift taxes;
- The Trust will allow you to use dynastic (generation skipping) planning.
- Any sales utilizing a note to the Client will be treated as they would be with the traditional Grantor Trust. The note may also create income in respect of decedent (IRD) in your estate, generating an income tax liability. This is another reason the installment note should be paid off either during life or with life insurance proceeds at death. Alternatively, you can leave the note to your family foundation to avoid the income tax liability.

Selling property on an installment basis to a Grantor Trust is a unique and effective estate freezing technique. In certain circumstances, incorporating this installment sale strategy into an individual's estate plan proves to be a superior alternative to transactions traditionally involved Grantor Trusts.

Background: The Basics Of A Grantor Trust

A Grantor Trust is an irrevocable trust that treats the Grantor as the owner of the trust for income tax purposes but does not treat the Grantor as the owner of the trust for estate and gift tax purposes. This is due to inconsistencies between the income and estate and gift tax laws under the current Internal Revenue Code (the "Code").

For income tax purposes the Grantor Trust is considered a "grantor trust." This is because the Grantor retains certain administrative powers with respect to the Grantor Trust that requires all items of income, losses, and credits, etc., to be reported by the Grantor directly. Despite this "grantor trust" status for income tax purposes, gifts and transactions between the Grantor Trust are not recognized for federal income tax purposes: such transactions are considered "completed" and thus are not subject to estate and gift taxes.

Use of Trust Counterintuitive

The ability to improve or enhance a gift by placing it in a trust is often summarily dismissed without adequate and intelligent analysis of the benefits the recipient would be losing. Rejection comes in many ways, often in the form of a perceived flaw in the trust concept, such as the belief

the beneficiary would have to relinquish control in order to obtain the tax benefits which trusts offer.

Loss of control can be avoided by structuring the trust in a manner that the assets held by the trust are controlled outside of the trust by entities which maintain that control.

Moreover, virtually all concerns can easily be remedied in the trust design.

"Use" Concept: Ready Access To and Use of the Income and Corpus of the Trust

The basic philosophy is that a transfer of property in trust improves the value of the property to the trust beneficiaries. The corollary of that thesis is, distributions from the trust, in the absence of a compelling reason to make distributions, such as onerous income tax consequences, should be avoided.

The consequence of making distributions would be to move wealth from a tax and creditor protected environment into one exposed. For dynastic trusts, the adverse effect of such leakage would be greatly magnified.

The trustee should be encouraged to acquire assets that are expected to appreciate for the "use" of the beneficiaries, rather than making distributions to fund the individual's personal acquisition of the assets. The right to "use" the trust assets may be for any purpose and need not be limited by an ascertainable standard without coming within the general power of appointment definition contained in IRC § 2041 even though the decision to allow the use is in the hands of a person acting in the dual capacity of beneficiary and trustee.

Rather than being a power of appointment, use of the trust assets would be akin to a life estate.

Using A Grantor Trust As An Estate Freezing Technique

The installment sale to a Grantor Trust strategy is best suited for situations where the Trustmaker(s) wish to sell an appreciating asset on an installment basis. In its simplest form, the sale is usually evidence by an installment note payable over an agreed upon term at a reasonable rate of interest. Care must be taken to ensure the transaction does not result in an unintended gift, and thus, the sale price of the asset must be equal to the fair market value of the asset as of the date of the sale.

Leveraging The Sale To The Grantor Trust

To enhance the benefits of this installment sale strategy, individuals sometimes create a Family Limited Partnership (FLP) and sell the Limited Partnership (LP) interests to the Grantor Trust. The benefits of structuring the transaction in this mannerare twofold:

1. the Trustmakers can retain complete control over the assets held by the FLP, and;

2. the LP interests being sold to the Grantor Trust can receive a discount, thus lowering the overall purchase price.

In short, here is how the use of the FLP as part of the installment sale works:

- The Trustmakers contribute property (cash, marketable securities, real property, etc.) to an FLP and in return receive both GP interests and LP interests. The formation of the FLP is a tax-free event. It is important to ensure the FLP has a legitimate business purpose, such as consolidating the management of the family's wealth, etc., for the FLP to be considered a viable profit seeking business entity.
- After the FLP is formed, the Trustmakers sell the LP interests to the Grantor Trust on an installment basis. The purchase price is equal to the fair market value of the LP interest (based on a discount being applied) as determined by a qualified appraisal made by a qualified and reputable appraisal firm. The installment note should bear an interest rate at least equal to the then prevailing interest rate prescribed under the Internal Revenue Code, known as the "Applicable Federal Rate." This interest rate will vary, depending on whether a short-term (0-3 years), mid-term (3-9 years), or long-term (9 and above years) term is used for the note.
- Prior to the sale, the Trustmaker must capitalize the Grantor Trust with enough assets, other than the assets being sold, to give the Grantor Trust economic substance. The general rule is the Grantor Trust must have equal to 10% of the purchase price prior to the installment sale commencing.
- Thereafter, the Trustee of the Grantor Trust (someone other than the Trustmaker) purchases the LP interests on an installment basis.

This has the effect of "freezing" the value of the assets for transfer tax purposes and the Trustmaker has transferred the assets to their heirs in an enhanced fashion -- as the purchase price is based on a discounted value of the LP units.

Caveat – Ensuring The Sale Is Considered A Bona Fide Transaction

It is critical to ensure the purchase price negotiated between the entities reflects the fair market value of the assets being sold. For example, in the above scenario, it is prudent to have the LP interests appraised by a qualified appraiser prior to the sale to ensure an accurate value is what is used for the purchase price. If an accurate value is not used, the consequences might be the Internal Revenue Service (Service) might argue the purchase price is too low and therefore the difference between the two values as a gift under the "bargain sale" rules. This would, in turn, subject the gift to federal gift tax and, in some cases, to Generating Skipping Transfer (GST) tax.

A second element of critical importance is ensuring the Grantor Trust is properly capitalized prior to the installment sale commencing. The general rule is the Grantor Trust should be capitalized

with assets other than the assets being sold that equal 10% of the value of the purchase price. For example, in the above scenario, the Trustmaker ought to fund the Grantor Trust with assets other than LP interests equal to 10% of the purchase price. The reason capitalizing the Grantor Trust with assets other than those being sold is to provide the Grantor Trust with enough equity to preclude the assertion the Grantor Trust is servicing the debt owed under the installment note with income solely generated by the assets the Grantor Trust is purchasing.

It should be noted in capitalizing the trust, many individuals use their Lifetime Exemption ($5,250,000*2 per individual) to avoid any gift tax due on contribution. Thus, if done correctly, there need not be any gift tax due upon creation of the Grantor Trust.

Additional Benefits

By engaging in this transaction, the Trustmaker has effectively “frozen” the value of the assets for estate planning purposes. The Trustmaker has also mitigated their exposure to capital gains or ordinary income tax they would incurred had they sold the assets directly. A subtle advantage of using this technique rests in the fact the Grantor Trust is considered a “grantor trust” for income tax purposes, and thus, the payment of the tax due on the items of income earned by the trust is a “gift” to the beneficiaries of the Grantor Trust.

If the installment note is retired prior to the Trustmaker’s death, no capital gain will be recognized. While the proceeds of the note will be includible in the Trustmaker’s estate, all the appreciation in the assets incurred post sale will not be included. Thus, even if the installment note is outstanding at the time of the Trustmaker’s death, the most included in the Trustmaker’s estate would be the face value of the note. Consequently, the Trustmaker’s estate may be subject to a capital gains tax equal to the difference between the face value of the note and the Trustmaker’s basis in the FLP.

In addition to the above, the use of this technique is also more effective where the Trustmaker’s are hindered by cash flow requirements, as the debt service under the installment note is usually significantly less than what would otherwise be required under a similar transaction involving a GRAT.

The use of the Grantor Trust also serves to exclude appreciate on the assets in excess of the debt service from GST taxes. Because the initial gift to the Grantor Trust is not considered a taxable event, and the sale is considered a bona fide transaction, as the assets held by the Grantor Trust appreciate (which in this instance takes the form of any amount accrued by the Grantor Trust that are more than the annual debt owed under the note), such appreciation will pass to the Grantor Trust beneficiaries free from GST taxation.

Grantor Trust Used with Gift/Sales Transaction

The Wealth Plan

Grantor Trust Used with Gift/Sales Transaction

Mr Client - August 2025

Mr Client
Gift and sale of assets
to Grantor Trust

Gift of a small portion of Non-Voting member interests or LP units

Sale of balance of Non-Voting member interests or LP units

Note for the Discounted Value of interests sold to the Trust

Interest is paid annually, and principal is repaid in the future as the Trust is able

Assets are excluded for estate tax purpose, but earnings of Grantor Trust assets are taxable for income taxes.

Trust could have dynastic powers and generation skipping tax benefits.

Assets and income are distributed to heirs according to trust provisions.

Heirs Receive income and principal according to terms of Grantor Trust.

Grantor Trust Used with Gift/Sales Transaction

Mr Client - August 2025

Discussion Points

Sell Limited Partnership (LP) Units or S Corporation nonvoting stock to the Grantor Trust Via Installment Note Requiring Interest Only Payments

- The Grantor Trust provides your heirs with a low cost means of acquiring assets from your estate through an installment sale.
- First contribute a percentage of LP units to the Grantor Trust to give the entity economic viability. The trust then acquires additional LP units through a low interest, installment sale. Your heirs benefit from the excess rate of return of the FLP assets over the cost of the installment note.
- Since the trust is a "grantor" trust, income tax liability reverts to you. In effect, you are paying the taxes on earnings which will pass to your heirs. This tax payment, however, can be viewed as an outright gift to your heirs without gift tax consequences.
- The trust pays you interest on the note. The trust obtains cash to pay this amount from distributions from the LP units, which you declare.
- Since you are the General Partner(s) of the LP, you remain in total control of the assets represented by the FLP units held by the Grantor Trust.
- The initial contribution to the Grantor Trust is taxable if it exceeds your annual exclusion and/or your remaining unified credits.
- If the surviving spouse dies before the note is repaid, there is a risk the IRS may attempt to include the entire value of the trust's assets in the estate. This risk can be minimized by paying off the note prior to death.
- The note may also create income in respect of decedent (IRD) in your estate, generating an income tax liability. This is another reason the installment note should be paid off either during life or with life insurance proceeds at death. Alternatively, you can leave the note to your family foundation to avoid the income tax liability.

Selling property on an installment basis to a Grantor Trust is a unique and effective estate freezing technique. In certain circumstances, incorporating this installment sale strategy into an individual's estate plan proves to be a superior alternative to transactions traditionally involved Grantor Trusts.

The Basics Of A Grantor Trust

A Grantor Trust is an irrevocable trust which treats the Trustmaker as the owner of the trust for income tax purposes but does not treat the Trustmaker as the owner of the trust for estate and gift tax purposes. This is due to inconsistencies between the income and estate and gift tax laws under the current Internal Revenue Code.

For income tax purposes the Grantor Trust is considered a "grantor trust." This is because the

Grantor Trust Used with Gift/Sales Transaction

Mr Client - August 2025

Trustmaker (i.e., the grantor) retains certain administrative powers with respect to the Grantor Trust that requires all items of income, losses, and credits, etc., to be reported by the Trustmaker directly. Despite this "grantor trust" status for income tax purposes, however, gifts and transactions between the Trustmaker and the Grantor Trust are not recognized for federal income tax purposes: such transactions are considered "completed" and thus are not subject to estate and gift taxes.

Using A Grantor Trust as An Estate Freezing Technique

The installment sale to a Grantor Trust strategy is best suited for situations where the Trustmaker(s) wish to sell an appreciating asset on an installment basis. The sale is usually evidence by an installment note payable over an agreed upon term at a reasonable rate of interest. Care must be taken to ensure the transaction does not result in an unintended gift, and thus, the sale price of the asset must be equal to the fair market value of the asset as of the date of the sale.

Leveraging the Sale To The Grantor Trust

To enhance the benefits of this installment sale strategy, individuals sometimes create a Family Limited Partnership (FLP) and sell the Limited Partnership (LP) interests to the Grantor Trust. The benefits of structuring the transaction in this manner are twofold:

1. The Trustmakers can retain complete control over the assets held by the FLP and
2. The LP interests being sold to the Grantor Trust can receive a discount, thus lowering the overall purchase price.

In short, here is how the use of the FLP as part of the installment sale works:

- The Trustmakers contribute property (cash, marketable securities, real property, etc.) to an FLP and in return receive both GP and LP interests. The formation of the FLP is a tax-free event. It is important to ensure the FLP has a legitimate business purpose, such as consolidating the management of the family's wealth, etc., for the FLP to be considered a viable profit seeking business entity.
- After the FLP is formed, the Trustmakers sell the LP interests to the Grantor Trust on an installment basis. The purchase price is equal to the fair market value of the LP interest (based on a discount being applied). The installment note should bear an interest rate at least equal to the then prevailing interest rate prescribed under the Internal Revenue Code, known as the "Applicable Federal Rate." This interest rate will vary, depending on whether a short-term (0-3 years), mid-term (3-9 years), or long-term (9 and above years) term is used for the note.
- Prior to the sale, the Trustmaker must capitalize the Grantor Trust with enough assets, other than the assets being sold, to give the Grantor Trust

economic substance. The general rule is the Grantor Trust must equal to 10% of the purchase price prior to the installment sale commencing.

- Thereafter, the Trustee of the Grantor Trust (someone other than the Trustmaker) purchases the LP interests on an installment basis.

This has the effect of "freezing" the value of the assets for transfer tax purposes and the Trustmaker has transferred the assets to their heirs in an enhanced fashion -- as the purchase price is based on a discounted value of the LP units.

Caveat – Ensuring the Sale Is Considered A Bona Fide Transaction

It is critical to ensure the purchase price negotiated between the entities reflects the fair market value of the assets being sold. It is prudent to have the LP interests appraised by a qualified appraiser prior to the sale to ensure an accurate value is what is used for the purchase price. The consequences might be the IRS argue the purchase price is too low and therefore the difference between the two values as a gift under the "bargain sale" rules. This would subject the gift to federal gift tax and, in some cases, to Generating Skipping Transfer ("GST") tax.

A second element of critical importance is ensuring the Grantor Trust is properly capitalized prior to the installment sale commencing. The reason capitalizing the Grantor Trust with assets other than those being sold is to provide the Grantor Trust with enough equity to preclude the assertion the Grantor Trust is servicing the debt owed under the installment note with income solely generated by the assets the Grantor Trust is purchasing.

It should be noted in capitalizing the trust, many individuals use their Lifetime Exemption ($5,600,000*2 per individual) to avoid any gift tax due on contribution. If done correctly, there need not be any gift tax due upon creation of the Grantor Trust.

Additional Benefits

By engaging in this transaction, the Trustmaker has effectively "frozen" the value of the assets for estate planning purposes. The Trustmaker has also mitigated their exposure to the capital gains or ordinary income tax they would have otherwise incurred had they sold the assets directly. A subtle advantage of using this technique is the Grantor Trust is considered a "grantor trust" for income tax purposes, and the payment of the tax due on the items of income earned by the trust is a "gift" to the beneficiaries of the Grantor Trust.
If the installment note is retired prior to the Trustmaker's death, no capital gain will be recognized. While the proceeds of the note will be includible in the Trustmaker's estate, all the appreciation in the assets incurred post sale will not be included. Thus, even if the installment note is outstanding at the time of the Trustmaker's death, the most that would be included in the Trustmaker's estate would be the face value of the note. Consequently, the Trustmaker's estate may be subject to a capital gains tax equal to the difference between the face value of the note and the Trustmaker's basis in the FLP.

In addition to the above, the use of this technique is also more effective where the Trustmaker's are hindered by cash flow requirements, as the debt service under the installment note is usually significantly less than what would otherwise be required under a similar transaction involving a GRAT.

The use of the Grantor Trust also serves to exclude appreciate on the assets in excess of the debt service from GST taxes. Because the initial gift to the Grantor Trust is not considered a taxable event, and the sale is considered a bona fide transaction, as the assets held by the Grantor Trust appreciate (which in this instance takes the form of any amount accrued by the Grantor Trust that are in excess of the annual debt owed under the note), such appreciation will pass to the Grantor Trust beneficiaries free from GST taxation.

Gifting of the Unified Credit

Gifting of the Unified Credit

Mr Client - August 2025

Discussion Points

Gifting of the Unified Credit

What is the Unified Credit (UC)?

The unified credit is a dollar amount ($5,600,000 per person in 2018) credited against the gift tax computed. The credit exempted of taxable gifts from the gift tax (the dollar amount exempted referred to as the "gift tax applicable exclusion amount").

Any gifts made over the gift tax applicable exclusion amount are taxed at a 40% rate. The credit is referred to as "unified" because the current $5.6 million credit applies to the gift tax (section 2505), the GST tax (section 2641) or the estate tax (section 2010).

The amount of UC allowed against the tax on gifts made in any calendar year cannot exceed the dollar amount of credit applicable to the period in which the gifts were made, reduced by the sum of the amounts of UC allowed the donor against gifts made in all prior calendar periods and reduced further by the rule explained in the next paragraph (but in no event can the allowable credit exceed the amount of the tax). The unused exemption of a deceased spouse may be transferred to the surviving spouse to increase the gift or estate applicable exclusion amount for the surviving spouse.

The UC was enacted by the Tax Reform Act of 1976. Under prior law, separate exemptions were provided for estate and gift taxes. The gift tax specific exemption was $30,000 for each donor (or $60,000 if the donor's spouse joined in making the gift). The exemption was not applied automatically, as in the case of the UC, but had to be elected by the donor, and once used was gone. The law provides that as to gifts made after September 8, 1976, and before January 1, 1977, if the donor elected to apply any of his lifetime exemption to such gifts, his UC is reduced by an amount equal to 20% of the amount allowed as a specific exemption. (The UC is not reduced by any amount allowed as a specific exemption for gifts made prior to September 9, 1976).

Under 2010 TRA, a donor can make gifts, without incurring a gift tax liability, up to the difference between the current year's applicable exclusion amount and the prior taxable gifts.

When is the "split-gift" provision available?

When a husband or wife makes a gift to a *third* person, it may be treated as having been made one-half by each if the other spouse consents to the gift.

Planning Point: The split-gift provision enables a spouse who owns most of the property to take advantage of the other spouse's annual exclusions and UC. Thus, a spouse, with the other spouse's consent, can give up to $30,000 (2 × $15,000 annual exclusion in 2018) a year to each donee free of gift tax, and, in addition, will have both their unified credits to apply against gift tax imposed on gifts in excess of the annual exclusion. Moreover, by splitting the gifts between

husband and wife, they will fall in lower gift tax brackets.

Where spouses elect to use the “split-gift” provision, the consent applies to all gifts made by either spouse to third persons during the calendar year. By consenting to gift splitting, a spouse may assume joint and several liability for any gift tax assessed on the gift.

Why use the Unified Credit Currently?

The history of the value of the lifetime or UC has been varied over the years. The credit was as small as $1,000,000 in 2010 and rose in value to $5,600,000 in 2018. There have been discussions the UC should be reduced yet again.

What does that mean to you and your heirs?

While the UC may go up and down, the current value of the credit lends itself to being used currently and getting the appreciation of those assets which are in your estate out of your estate at present. In addition, if the gift is made with an asset which can be discounted, then the overall value of the gifted asset would be much higher.

In any event, a current gift of the UC will remove the appreciation of those assets gifted out of the taxable estate of the donor along with any discount received on the asset.

Policy Analysis & Review

Discussion Points

After careful analysis of your present life insurance program, we want to stress to you the following points to you:

- The Life Insurance Program should be a part of the overall Wealth Planning Strategy and should be coordinated with the various other strategies which are currently being utilized in the Wealth Plan.
- It is extremely important the owner and beneficiary designations of the life insurance policies comport with the balance of the overall Wealth Plan to provide the most effective utilization of the life insurance benefits within the Wealth Plan.
- Various agreements which are used in conjunction with the life insurance products should be coordinated with the overall Wealth Plan to maintain the integrity of the overall planning while at the same time providing the most leverage in the use of the life insurance program. These agreements need to be reviewed and analyzed periodically to maintain their viability with current tax law, changes in the client's circumstances, and to update them from time to time with the most update in planning strategies.
- A careful review of the product performance is necessitated since many of the products produced by carriers today have a significant portion of their product performances tied to the current performance of the life insurance carrier. This means from time to time; the product needs to be review to determine whether or not the product's performance is keeping pace with the original projections provided in the planning process. Having reviewed the product performance, it is important for the client to determine whether the product continues to be viable in the overall condition in the Wealth Plan.
- A careful review and analysis of the present life insurance program considering the proposed strategies contained within this Wealth Plan has been determined and corresponding recommendations have been made to more carefully coordinate the life insurance program with the overall Wealth Plan Strategies.
- During the planning process it is often necessary to move the ownership of life insurance policies from one entity to another entity. During the transfer, it is important the "transfer for value" rules are not violated, thereby, making the death proceeds of the life insurance policy income taxable. Section 101 of the Internal Revenue Code maintains the income tax free nature of the death proceeds unless this rule has been violated.
- In addition to the income tax free nature of the proceeds, it is often misunderstood the death proceeds of life insurance policies are also estate tax free. This is not the case. For us to make the death proceeds of a life insurance policy free from estate tax, we must remove any "incidence of

ownership" according to Section 2042 of the Internal Revenue Code to maintain the estate tax-free nature of these proceeds as well. A careful analysis of this has been done during the planning process.

- Finally, a list of recommendations and comparison of benefits and cost has been included in a section of this Wealth Plan for your review.

Life Insurance Analysis

Too many times, the life insurance portion of the planning process is handled without taking into consideration its overall effect in the Wealth Plan and is not coordinated with the Wealth Plan, and therefore it will provide liquidity to the estate, but will create an additional tax in doing so.

The Use of A Coordinated Life Insurance Program:

- The overall life insurance program is coordinated with the balance of the Wealth Plan to maximize its effectiveness.
- The life insurance program is set up in such a manner to maximize the tax-free nature of the death proceeds of the life insurance program. It is important to understand that life insurance is a tax advantaged financial tool.
- A coordinated life insurance program will maximize the leverage available to the Client; a coordinated life insurance program will provide an effective means of liquidity at the time which is necessary in the overall Wealth Plan.
- Once the various strategies which will be discussed is decided upon, we will make certain the life insurance program is matched up with those strategies.

The mixture of these benefits are most important to the overall planning processing, and if they are not taken into account, the life insurance program can become ineffectual in the planning process. However, when the life insurance program is properly utilized, it can become one of the most tax advantage strategies which are utilized in the overall Wealth Plan.

Life Insurance Analysis Description

The current life insurance program has been analyzed to determine its effectiveness in the current estate plan, as well as, the proposed Wealth Plan which is contained in the document. The overall effectiveness of its coordination with the current plan, the owner and beneficiary designation and how they comport with the balance of the plan, a review of the agreements which are associated with the life insurance program and a review of the present product performance has been utilized to determine the effectiveness of the present life insurance program.

By careful review, we have determined some changes which are to be made in the life insurance program which are contained in the pages which follow. These changes have been carefully

noted to coordinate them with the proposed Wealth Plan to provide the maximum amount of leverage. In addition, recommendations have been made concerning the agreements which should be used in conjunction with the life insurance products and their effectiveness in the overall planning process. These agreements are an essential part of the planning process and should not be neglected in the planning process.

In addition, types of products which should be utilized in the planning process have been determined and recommendations have been made accordingly. Many times, product performance is effective by the type of product which is utilized therefore adding additional expenses to the product which are not necessary.

Recommendations

The following Policy Analysis and Review provides an overview of the present life insurance program and gives us a means of determining how the coverage fits in with overall current estate plan, and how effective the coverage will be in the proposed Wealth Plan.

Based upon our findings, we have made the following recommendations:

1. Based upon the information that has been provided to us by the insurance carriers, we have determined that most of the coverage will not carry with the current premium scheme beyond age 76 to 88. The bulk of the coverage will only carry itself at current premium levels to age 76. This is not in keeping of guaranteeing that the coverage be available until life expectancy to provide the liquidity needed for the Wealth Plan;
2. The current coverage does not contain death benefit guarantees which would keep the policies inforce, no matter what interest rates, mortality and administration costs do in the future. Guaranteed death benefit contracts should be evaluated in the light of their availability;

To determine if guaranteed death benefit coverage is available, we would recommend informal underwriting be done to assess the availability of this type of coverage, and then determine if it is suitable and cost effective compared to the current coverage in place.

Premium Financing Arrangements

Premium Financing Arrangements

Mr Client - August 2025

Discussion Points

Create a Premium Financing Plan with a Grantor Trust (could be the ILIT).

- Premium Financing, simply stated, is borrowing money from a bank or an individual to pay premiums on a large life insurance policy designed to provide liquidity at death and preserve assets for your heirs.
- Premium Financing is a strategy that uses a life insurance policy to potentially create or increase the amount of money you can pass on to your children and grandchildren.
- Premium Financing can help you create funds to pass on to younger family members without giving up all control of your assets and can reduce annual gifting.

An Efficient Way of Transferring Assets

Life insurance can be an efficient way to transfer assets to younger family members for two important reasons:

- Potential for Growth
  - Policy death benefits usually exceed the total premiums paid
  - The difference between total premiums and death benefits represents additional assets that are paid to policy beneficiaries
- Tax Benefits
  - Life insurance death benefits are generally income tax free
  - Policy death benefits can also be structured to avoid estate taxes

How Does the Strategy Work?

Premium Financing has five steps:

1. Create an ILIT
2. Apply for a loan from a Premium Financing Lender
3. The Trustee of your ILIT uses the loan proceeds to purchase a life insurance policy insuring your life
4. Each year, depending on the arrangement, the Trustee either pays interest on the loan or the interest is accrued and added to the balance of the loan
5. At your death, the ILIT uses part of the policy proceeds to repay the remaining loan balance; all remaining proceeds go to the ILIT

Premium Financing Arrangements

Mr Client - August 2025

Potential Premium Financing Advantages

- Policy premiums can grow into larger and generally income tax free death benefits.
- The ILIT can be structured to protect policy death benefits from estate taxes.
- You generally retain control of your assets (though you may have to pledge some assets as collateral); you do not have to liquidate assets to pay insurance premiums.
- You may be able to avoid taxable gifts. If there are enough trust beneficiaries, you can potentially qualify an amount equal to the interest payments as annual exclusion gifts.

Some of the Premium Financing Disadvantages

- Interest Rate Risk--interest rates fluctuate over time; if interest rates become too high:
  - Additional collateral required
  - Possibility of default and surrender of the policy
  - Reduction of net death benefit to ILIT beneficiary
  - Collateral Requirements
  - A personal guarantee and/or the pledge of additional assets
  - Letter of Credit may be required
- Arrangement Fees
  - Fees required to process loan
  - Fees cannot be financed
  - May require gift to ILIT

The Master Wealth Plan

The Wealth Plan for Mr & Mrs Client

Personal Balance Sheet - **Before Planning**

Balance Sheet		
January 1, 2025	**Book Value**	**Market Value**
	Sum of Book Valu	Sum of Market Valu
101 Cash	5,723,961	5,723,961
Cash and Security Equivalents	5,723,961	5,723,961
103 Accounts Receivable	100,000	1,003,763
Reserve for Doubtful Accounts	(903,763)	-
Solora II	100,000	100,000
Solora Road Housing	429,538	429,538
Solora Ridge Housing II	474,225	474,225
104 Closely Held Companies	57,558,763	71,080,099
Solora Residential, Inc.	45,452	47,346
Solora Building, Inc	1,957,142	13,499,569
Solora Building LA, LLC	4,468,924	4,468,924
Solora Land & Cattle	61,028	30,514
Solora Nursery, LLC	810,170	911,124
Solora Holdings, LLC	5,708,850	7,613,604
Solora Realty, LLC	(675)	1,147
Solora Real Estate Services, LLC	605,022	605,022
Solora Square North, LLC	10,600,000	10,600,000
Solora Townhomes, LP	4,118,400	4,118,400
Solora Place Housing West, Ltd	9,721,800	9,721,800
Solora Clay	15,449,550	15,449,550
Solora H3	4,013,100	4,013,100
106 Real Estate	5,647,261	5,647,261
Lake House	850,000	850,000
Austin	305,466	305,466
Residence	3,704,644	3,704,644
Beach House	225,000	225,000
Bay House	441,599	441,599
Beach Land	120,552	120,552
N/R-The Solora GST Exempt Trust LP	-	-
205 Notes Payable	(2,583,914)	(2,583,914)
Net Worth	**67,553,204**	**81,978,303**

The Solora GST Exempt Trust Promissory Note for Solora Ventures, LP

Sale Amount	5,645,860	*Start Date*	6/1/2025		
Interest Rate	5.00%	*Payments*	Annual	*First Pay Due*	6/1/2026
Years	9	*Interest Only*	Yes	*Principal Due*	6/1/2034

Payment #	Beginning Date	Balance	Payment	Principal	Interest	Due Date
1	06/01/25	5,645,860	(282,293)	0	282,293	06/01/26
2	06/01/26	5,645,860	(282,293)		282,293	06/01/27
3	06/01/27	5,645,860	(283,066)	0	283,066	06/01/28
4	06/01/28	5,645,860	(282,293)		282,293	06/01/29
5	06/01/29	5,645,860	(282,293)	0	282,293	06/01/30
6	06/01/30	5,645,860	(282,293)		282,293	06/01/31
7	06/01/31	5,645,860	(283,066)	0	283,066	06/01/32
8	06/01/32	5,645,860	(282,293)		282,293	06/01/33
9	06/01/33	5,645,860	(5,928,153)	5,645,860	282,293	06/01/34
	06/01/34					

The Solora GST Exempt Trust Promissory Note for Solora Ventures, LP

Sale Amount	5,645,860	*Start Date*	6/1/2025		
Interest Rate	5.00%	*Payments*	Annual	*First Pay Due*	6/1/2026
Years	9	*Interest Only*	Yes	*Principal Due*	6/1/2034

Payment #	Beginning Date	Balance	Payment	Principal	Interest	Due Date
1	06/01/25	5,645,860	(282,293)	0	282,293	06/01/26
2	06/01/26	5,645,860	(282,293)		282,293	06/01/27
3	06/01/27	5,645,860	(283,066)	0	283,066	06/01/28
4	06/01/28	5,645,860	(282,293)		282,293	06/01/29
5	06/01/29	5,645,860	(282,293)	0	282,293	06/01/30
6	06/01/30	5,645,860	(282,293)		282,293	06/01/31
7	06/01/31	5,645,860	(283,066)	0	283,066	06/01/32
8	06/01/32	5,645,860	(282,293)		282,293	06/01/33
9	06/01/33	5,645,860	(5,928,153)	5,645,860	282,293	06/01/34
	06/01/34					

The Wealth Plan for Mr & Mrs Client

Personal Balance Sheet - **After planning**

Balance Sheet

January 1, 2037	**Book Value**	**Market Value**	**Estate Tax Value**
	Sum of Book Value Anni	Sum of Market Valu	Sum of Estate Tax Valu
103 Accounts Receivable	527,363	1,431,126	1,431,126
Reserve for Doubtful Accounts	(903,763)	-	-
Solora II	142,576	142,576	142,576
Solora Road Housing	612,418	612,418	612,418
Solora Ridge Housing II	676,131	676,131	676,131
104 Closely Held Companies	19,470,066	38,748,259	38,748,259
Solora Residential, Inc.	64,804	67,503	67,503
Solora Land & Cattle	87,011	43,506	43,506
Solora Nursery, LLC	1,155,109	1,299,045	1,299,045
Solora Holdings, LLC	8,139,455	10,855,179	10,855,179
Solora Realty, LLC	(962)	1,635	1,635
Solora Real Estate Services, LLC	862,617	862,617	862,617
106 Real Estate	8,051,644	8,051,644	8,051,644
Lake House	1,211,897	1,211,897	1,211,897
Austin	435,521	435,521	435,521
Residence	5,281,937	5,281,937	5,281,937
Beach House	320,796	320,796	320,796
Bay House	629,615	629,615	629,615
Beach Land	171,878	171,878	171,878
115 Retirement Plans (IRD)	1,578,507	1,578,507	1,578,507
IRA Cash and Security	1,578,507	1,578,507	1,578,507
120 Planning Entity	62,594,966	39,541,036	1,722,388
Solora Ventures, LP Voting Shares	1,251,899	1,251,899	1,251,899
Solora Ventures, LP Non-Voting Shares	61,343,067	38,289,137	470,488
N/R-The Solora GST Exempt Trust LP	-	-	-
205 Notes Payable	(2,583,914)	(2,583,914)	(2,583,914)
Charitable Bequest Payable			-
Net Worth	**96,088,535**	**93,216,560**	**55,397,912**

The Wealth Plan for Mr & Mrs Client

Solora Ventures, LP

Balance Sheet

Account Name	Current Year Market Value	Market Value 2037
01 Asset	43,902,850	62,594,966
104 Closely Held Companies	43,902,850	62,594,966
Solora Square North, LLC	10,600,000	15,113,065
Solora Townhomes, LP	4,118,400	5,871,854
Solora Place Housing West, Ltd	9,721,800	13,860,962
Solora Clay	15,449,550	22,027,364
Solora H3	4,013,100	5,721,721
Net Worth	**43,902,850**	**62,594,966**

The Wealth Plan for Mr & Mrs Client

The Solora GST Exempt Trust

Balance Sheet

Account Name	Current Year Market Value	Market Value 2037
01 Asset	23,053,930	58,913,882
120 Planning Entity	23,053,930	58,913,882
Solora Ventures, LP	23,053,930	58,913,882
02 Liabilities	(11,291,721)	-
208 Planning Notes Payable	(11,291,721)	-
NP1 - Mr The Solora GST Exempt Trust	(5,645,860)	-
NP2 - Mrs The Solora GST Exempt Trust	(5,645,860)	-
Net Worth	**11,762,209**	**58,913,882**

The Wealth Plan for Mr & Mrs Client

Current Strategy Comparison

January 1, 2025	Current Planning	Valuation Discount Strategies	Freeze & UC Gift Planning Strategies	Discounted Liquidity / Wealth Replacement
First to Die Mr				
Taxable Non-IRD Assets	40,435,585	30,685,398	21,981,363	21,981,363
Taxable IRD Assets	553,567	553,567	553,567	553,567
Unified Credit Available	5,400,000	5,400,000	-	-
Charitable Bequest				-
Life Insurance In Estate	-	-	-	-
Taxable Estate	35,589,152	25,838,964	22,534,930	22,534,930
Marital Trust	35,589,152	25,838,964	22,534,930	22,534,930
Taxable Estate	**-**	**-**	**-**	**-**
Estate Tax	-	-	-	-
Deductions on IRD Assets				
Income Tax	-	-	-	-
Administration Expense	204,946	204,946	204,946	204,946
Life Ins Out of Estate	4,075,000	4,075,000	4,075,000	4,075,000
Assets Moved out of Taxable Estate	-	9,750,187	18,454,222	18,454,222
Taxes and Expenses FTD	**204,946**	**204,946**	**204,946**	**204,946**
Charitable Bequest	**-**	**-**	**-**	**-**
Net Estate FTD	**44,859,206**	**44,859,206**	**44,859,206**	**44,859,206**
Savings by Use of Strategy	**-**	**-**	**-**	**-**
Last to Die Mrs				
Taxable Estate from FTD	35,589,152	25,838,964	22,534,930	22,534,930
Taxable Non-IRD Assets	40,435,585	30,685,398	21,981,363	21,981,363
Taxable IRD Assets	553,567	553,567	553,567	553,567
Unified Credit Available	5,400,000	5,400,000	-	-
Charitable Bequest				-
Life Insurance In Estate	-	-	-	-
Taxable Estate	**71,178,303**	**51,677,929**	**45,069,859**	**45,069,859**
Estate Tax	28,471,321	20,671,172	18,027,944	18,027,944
Deductions on IRD Assets				
Income Tax	221,427	221,427	221,427	221,427
Administration Expense	382,892	382,892	382,892	382,892
Life Ins Out of Estate	2,550,000	2,550,000	2,550,000	2,550,000
Assets Moved out of Taxable Estate	-	9,750,187	18,454,222	18,454,222
Taxes and Expenses LTD	**29,075,639**	**21,275,490**	**18,632,262**	**18,632,262**
Charitable Bequest	**-**	**-**	**-**	**-**
Net Estate LTD	**50,052,664**	**48,102,626**	**47,441,819**	**47,441,819**
Savings by Use of Strategy	**-**	**7,800,150**	**2,643,228**	**-**
Total Estate upon Both Deaths				
Total Taxes and Expenses	**29,280,585**	**21,480,435**	**18,837,207**	**18,837,207**
Charitable Bequest	**-**	**-**	**-**	**-**
Net Estate Total	**59,322,718**	**67,122,868**	**69,766,096**	**69,766,096**
Savings by Use of Strategy	**-**	**7,800,150**	**2,643,228**	**-**
Net To Heirs Increase				**10,443,378**

The Wealth Plan for Mr & Mrs Client

Future Strategy Comparison

December 29, 2036	Current Planning	Valuation Discount Strategies	Freeze & UC Gift Planning Strategies	Discounted Liquidity / Wealth Replacement
First to Die Mr				
Taxable Non-IRD Assets	57,345,992	43,444,556	26,909,703	26,909,703
Taxable IRD Assets	789,253	789,253	789,253	789,253
Unified Credit Available	5,400,000	5,400,000	-	-
Charitable Bequest				-
Life Insurance In Estate	-	-	-	-
Taxable Estate	52,735,245	38,833,810	27,698,956	27,698,956
Marital Trust	52,735,245	38,833,810	27,698,956	27,698,956
Taxable Estate	**-**	**-**	**-**	**-**
Estate Tax	-	-	-	-
Deductions on IRD Assets				
Income Tax	315,701	315,701	315,701	315,701
Administration Expense	290,676	290,676	290,676	290,676
Life Ins Out of Estate	4,075,000	4,075,000	4,075,000	4,075,000
Assets Moved out of Taxable Estate		13,901,436	30,436,289	30,436,289
Taxes and Expenses FTD	**606,378**	**606,378**	**606,378**	**606,378**
Charitable Bequest	**-**	**-**	**-**	**-**
Net Estate FTD	**61,603,868**	**61,603,868**	**61,603,868**	**61,603,868**
Savings by Use of Strategy	**-**	**-**	**-**	**-**
Last to Die Mrs				
Taxable Estate from FTD	52,735,245	38,833,810	27,698,956	27,698,956
Taxable Non-IRD Assets	57,345,992	44,233,810	26,909,703	26,909,703
Taxable IRD Assets	789,253	789,253	789,253	789,253
Unified Credit Available	5,400,000	5,400,000	-	-
Charitable Bequest				-
Life Insurance In Estate	-	-	-	-
Taxable Estate	**105,470,491**	**78,456,873**	**55,397,912**	**55,397,912**
Estate Tax	42,188,196	31,382,749	22,159,165	22,159,165
Deductions on IRD Assets				
Income Tax	315,701	315,701	315,701	315,701
Administration Expense	290,676	290,676	290,676	290,676
Life Ins Out of Estate	2,550,000	2,550,000	2,550,000	16,550,000
Assets Moved out of Taxable Estate		13,112,182	30,436,289	30,436,289
Taxes and Expenses LTD	**42,794,574**	**31,989,127**	**22,765,542**	**22,765,542**
Charitable Bequest	**-**	**-**	**-**	**-**
Net Estate LTD	**70,625,917**	**67,529,928**	**65,618,659**	**79,618,659**
Savings by Use of Strategy	**-**	**10,805,447**	**9,223,584**	**-**
Total Estate upon Both Deaths				
Total Taxes and Expenses	**43,400,951**	**32,595,504**	**23,371,920**	**23,371,920**
Charitable Bequest	**-**	**-**	**-**	**-**
Net Estate Total	**79,494,539**	**90,299,986**	**99,523,571**	**113,523,571**
Savings by Use of Strategy	**-**	**10,805,447**	**9,223,584**	**-**
Net To Heirs Increase				**34,029,031**

Wealth Plan Distribution - Proposed

Mr & Mrs Client Estate