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INSIGHTS

ESTATE PLANNING OPTIMIZATION FOR THE TRANSFER OF WEALTH

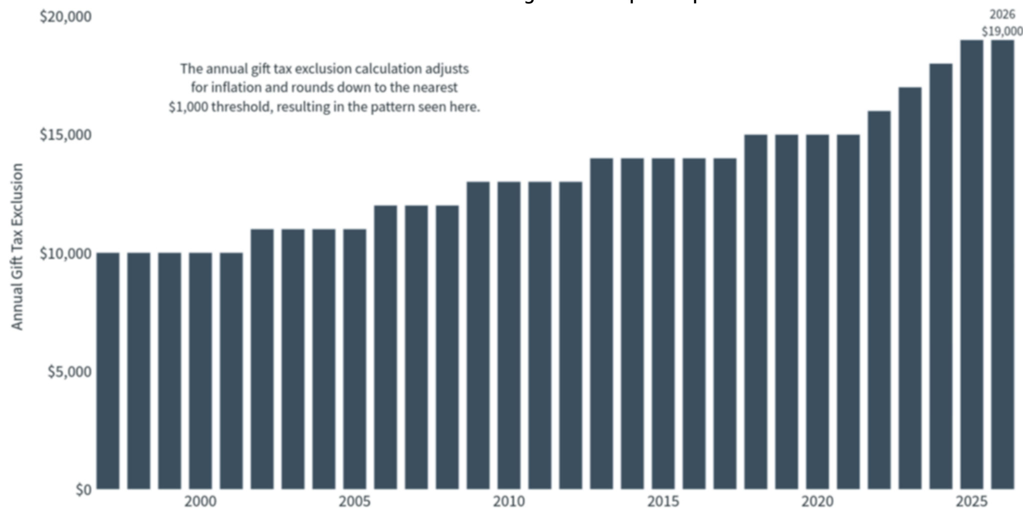
Even though estate planning is important for all families, most do not have a plan in place. What considerations are there and how do they fit into the broader financial picture?

For many, the wealth they have accumulated over a lifetime is more than just about money. It represents years of hard work, discipline, and sacrifice to ensure a comfortable retirement, take care of their families, and more. Yet, one of the most important and often overlooked questions in financial planning is not how to grow wealth, or even how to spend it, but how to pass it on efficiently and intentionally. Without a structure in place, wealth that took decades to build can be eroded by taxes, legal complications, and unintended distributions.

Advanced estate planning addresses this challenge by creating a coordinated approach designed to maximize the efficient transfer of assets to the people and causes that matter most. At its core, estate planning serves two broad purposes. First, it supports non-financial goals, such as meeting the needs of dependents, protecting assets from creditors, and ensuring that assets pass to the right people in the right way. Second, it optimizes financial goals such as managing tax obligations, maintaining liquidity, and preserving the value of business interests. The most effective plans integrate both types of goals and treat wealth transfer as a long-term and continuous process.

Establishing the Right Framework for Wealth Transfers

Before exploring specific strategies, it is worth understanding the foundational decisions that shape every estate plan. These begin with three important questions: what assets are being transferred, to whom are they being transferred, and when will this transfer occur? Every estate plan begins with creating a picture of who will benefit from the assets being transferred. Each beneficiary type may call for different planning strategies, particularly when balancing the needs of a surviving spouse against the long-term interests of children or future generations. Identifying beneficiaries early in the process helps ensure assets reach the right people in the most effective way.



Sources: Clearnomics, IRS, Tax Foundation.

The timing of asset transfers is another key consideration. Some assets pass directly to beneficiaries upon death, while others may be strategically distributed over time. For example, by making "completed gifts" over one's lifetime, a donor can take advantage of annual gift exclusions to increase the amount of tax-free transfers. Executed over time, this approach can remove a significant portion of taxable estate value and allows for greater intention over how and when beneficiaries receive their inheritance.

Transfer Strategies for Different Goals

With an understanding of these foundational elements, the next step is identifying goals that can be achieved through estate planning and mapping them to the options available. Here are some examples:

1. Reducing the taxable value of the gross estate

For individuals seeking to minimize estate taxes while transferring future appreciation to the next generation, they can reduce the value of their gross estate and ensure their beneficiaries receive distributions through irrevocable trusts.

A common example is a Grantor-Retained Annuity Trust, or GRAT, where the grantor transfers assets into the trust and receives annuity

continued on page 2

payments over a set term. If the grantor survives the trust term, the remaining assets pass to beneficiaries outside of the taxable estate, though care needs to be taken as gift taxation can apply.

2. Achieving philanthropic goals

For families with philanthropic goals, an option for reducing estate value is a Charitable Remainder Trust, or CRT. This allows the grantor to designate beneficiaries to receive the income interest for a set term and have the remainder go to a designated charity. In addition to removing assets from the gross estate, this method provides a gift tax and income tax deduction for the charitable remainder interest.

CRTs work well with highly appreciated assets that may generate capital gains tax, such as real estate or concentrated stock. Within the trust, the proceeds are reinvested in a diversified portfolio, and the beneficiary receives an income stream for life or a specified term. This approach converts a low-yield, high-gain asset into a tax-advantaged income stream while achieving philanthropic aims.

3. Managing business interests

For families with business interests or other illiquid assets, additional planning around liquidity, governance, and continuity is essential.

Buy-sell agreements specify how ownership transfers if an owner passes away or becomes incapacitated, preventing disputes and ensuring that the business can continue operating.

Key-person life insurance can provide liquidity to cover ongoing business operations or fund a buyout without requiring a forced sale of the business.

Family Limited Partnerships, or FLPs, allow senior family members to create different classes of ownership and transfer ownership interests to the next generation while retaining control as general partner. Because limited partnership interests lack control and marketability, they may be eligible for valuation discounts allowing families to transfer more value within the gift and estate tax exemption limits. Asset protection is an additional benefit, shielding family members from the claims of outside creditors. This structure is especially valuable in the context of a family business, where continuity of management is as important as tax efficiency.

Planning for Wealth Transfers Is a Continuous Process

Like all financial planning activities, estate planning is a lifelong process that requires monitoring and adjustments as circumstances and fiscal policies change.

A common example of changing circumstances is the growth of families. An estate plan that is optimized for a young family will naturally need to be revisited as that family ages and grows. When multiple future generations are involved, the complexity of wealth transfers to those beneficiaries also increases.

The Generation-Skipping Transfer Tax (GSTT) is relevant in these situations since it was implemented to ensure that transfers are taxed at each generation, and thus applies to transfers to recipients that are two or more generations younger than the donor. With careful planning, a donor can reduce or avoid this additional transfer tax through various transfer techniques.

Finally, policy changes can reshape outcomes over time. Federal estate and gift tax exemptions have shifted significantly across administrations, from as low as $675,000 in 2001 to a high of $15 million per individual today. This was put in place by the 2017 Tax Cuts and Jobs Act when it doubled the exemption, and the One Big Beautiful Bill made these higher thresholds permanent.

State-level rules add another layer of complexity, since some states impose their own estate or inheritance taxes with different exemption thresholds than the federal level. Residency and domicile decisions can therefore have meaningful financial consequences for some families. It is important to stay current on any policy changes that ultimately affect the estate tax calculation.

All of these strategies work best when they are integrated with one another and with broader lifetime gifting and philanthropic goals. And, as with all areas of financial planning, the key to success is to start as early as possible, and to continuously refine your plan with the help of trusted advisors so it aligns with your goals.

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