

# How to Protect Your Estate (Estate Planning)

## From Getting 'Whacked' Like James Gandolfini's

By John Persinos | 11/15/15 (The Street)

When [he died in 2013](#) at the untimely age of 51, actor James Gandolfini bequeathed a [financial disaster](#) to his heirs. Gandolfini hadn't properly prepared his estate, an oversight that's all too common.

The man famous for playing mob boss Tony Soprano left about 80% of his \$70 million estate unprotected against estate taxes, with federal and state rates that will add up to a combined 55%.

Don't be a "wise guy" to *your* family. Make sure you've put in place a plan to provide for your children and grandchildren far into the future. To protect your financial legacy, that means minimizing your estate tax bill.

### Charitable Lead Trust

A charitable lead trust provides a stream of income for a designated number of years to the specified charity. At the conclusion of the time period, the property held in trust reverts back to the donor or to the donor's designated beneficiary.

When the donor makes the gift under a charitable lead trust, he immediately receives a federal income tax deduction equal to the present value of the future income stream. However, the donor is taxed every year on the value of the income interest that is payable to the charity.

The donor may set up a charitable lead trust during his lifetime, or stipulate in his will that it be established at death, with the property returning years later to his designated heirs. If the donor's will establishes the trust at death, the estate claims an estate tax deduction instead of an income tax deduction.

Your goal under a charitable lead trust is simple: to reduce taxes on the estate that you leave upon death. This is accomplished by donating to charities from the estate until all taxes are reduced. Once this is achieved, the estate is subsequently transferred to your beneficiaries, who will face lower taxes.



## Charitable Remainder Unitrust

If you want to increase your income, lower your taxes, and create a charitable legacy, you can pull off this estate planning "hat trick" by setting up a Charitable Remainder Unitrust (CRUT).

Under a CRUT, you commit to passing assets to a charity, but give yourself the flexibility to earn income from the donated assets while you're still living.

The major goal of a CRUT is to sell a highly appreciated asset without paying capital gains taxes on the profits. But along with the tax savings on capital gains, a CRUT delivers other benefits, such as boosting income and diversifying portfolios. Moreover, a charitable deduction provides immediate income tax savings.

The owner of the appreciated asset is the "donor." The charity to which the donor wishes to gift the asset is called the "charitable beneficiary." The charitable beneficiary must always be an IRS-approved charity.

The "trustee" of the CRUT can be the donor, a charity, an independent trust company or another person designated by the donor. Anyone who receives income from the asset under the terms of the CRUT is called an "income beneficiary." Donors can be income beneficiaries.

The trust must name the trustee, the charitable beneficiary, the percentage to be paid to income beneficiaries and the term of the trust. The trust must also specify the annual percentage to be paid out to the donor. This amount must be between 5% and 50%. The percentage calculated must also provide for a minimum charitable deduction of 10% of the amount transferred to the CRUT.

Prior to any sale, the donor transfers the asset or assets into the trust. Any type of asset can be contributed to a CRUT: stocks, bonds, real estate, collectibles, etc. Then, the trustee, who also can be the donor, sells the asset, reinvesting the proceeds in any financial instrument deemed appropriate.

The trust's term can extend for the life of the donor, or for the life of the donor and another individual, typically a spouse. The term's parameters also can be set according to years, up to 20 years.



The trustee continues to manage the trust throughout its term, making investment choices and distributions to the income beneficiaries. Upon the death of the income beneficiaries, or upon reaching the term's preset time limitation, all the funds remaining in the trust are disbursed to the charitable beneficiary.

The tax-savings are significant and two-fold: 1) an immediate income tax deduction for the present value of the future gift, and 2) no capital gains taxes.

Pick the type of trust that works best for your situation.

Feel free to consult us or your wealth manager for the right financial plan.

Also consult a broker, who should be able to tailor the right plan for you. **Charles Schwab**, **TD Ameritrade** and **T. Rowe Price** all provide estate planning services.



[www.sautterinvest.ch](http://www.sautterinvest.ch)

Follow us on Twitter: @sautterlas65