

CURRENT PLANNING

PREPARED FOR
Jesus and Frances Rodriguez

PRESENTED BY
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Covert | Law

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* This letter is provided for informational purposes only and should not be considered legal, tax, or financial advice. We are not responsible for any actions taken based on the information provided in this letter.

This illustration was prepared by Neil R. Covert, Attorney at Law on October 31, 2025, and assumes residential property worth \$2,500,000 growing at 4.85% and Business and Investment assets of \$18,500,000 growing at 7.85%. Use of these assumptions is mandatory. We may not use either conservative or aggressive growth models. We are only permitted to project future federal estate tax liability based upon historical models. Actual historical models result in considerably more accuracy.

Florida has no state inheritance tax.

Assumes Jesus lives until 2047, and Frances lives until 2052.

Disclaimer: Please note that this letter is based upon several assumptions which may be refined by your planner in our comprehensive module. Please ask your planner for further information.

INTRODUCTION TO THE FEDERAL ESTATE TAX SYSTEM

NOTE: This explanation and attached projections are in rough draft form and have not been tailored to the individual situation of the clients. They are provided for illustration purposes only, and do not constitute a complete or necessarily accurate depiction of the present or future expected scenarios. We nevertheless believe that this sample explanation and its accompanying charts may be useful to facilitate understanding the estate tax system and how optional planning scenarios can affect Jesus and Frances's estate tax liability and family.

Under the federal estate tax system, the value of a decedent's assets are determined, to include individually owned real and personal property, the proportionate share of jointly owned property, and the value of the decedent's rights in certain trusts, and any "incidents of ownership" held in life insurance policies on the decedent's life will be included in the total.

Deductions from the gross estate include funeral and administration expenses, the value of assets passing to qualified charities or a surviving spouse who must be a U.S. citizen to qualify an outright disposition for the marital deduction – but if not a U.S. citizen, then a lifetime income trust called a Qualified Domestic Trust (QDOT) will work. The unlimited marital deduction also applies to a trust that pays all income to a surviving spouse called a QTIP Trust – which can also be a QDOT if the surviving spouse is not a U.S. citizen.

Every U.S. citizen is entitled to a personal unified estate and gift tax exemption which may be used during life to offset taxable gifts with any exemption remaining at death to offset estate tax liability. An Estate Tax Form 706 must be filed within 9 months of death if the decedent's total assets exceed the exemption amount, even if the net assets after liabilities are below the exemption amount.

No estate tax is due if the value of an estate minus allowable deductions is less than the decedent's remaining available estate tax exemption. However, filing Form 706 may still be necessary in order to report deductions or apply an available exemption against a potentially taxable gross estate or to make elections such as applying a deceased spouse's unused exemption (DSUE) or to elect to apply the alternate valuation date (if it results in lower overall valuation) as of six months after the date of death.

The illustrations under this letter do not take into account the IRS's position that a trust that holds assets that are not subject to estate tax will normally not receive a new fair market value income tax basis for its assets,

meaning that there may be income tax costs to the heirs of an estate who are the beneficiaries of such a trust. There are planning techniques that address such risk that are not discussed in this letter.

Further, some of the ways that the techniques under this letter may be used could be challenged by the IRS or “backfire” depending on how the strategy is used, the number of discounts taken, the rate of return on investments, and how long a person lives. There is no substitute for having an experienced tax planning professional or professionals and appropriate skilled and licensed lawyers design and draft proper documents for an estate plan, and for having a skilled and experienced Certified Public Accountant understand the plan and provide appropriate tax returns, financial statements and other services that are consistent therewith.

Once a plan is put into place it should be reviewed periodically and adjusted appropriately from year to year.

Federal Unified Estate and Gift Tax Exemption

Under current law, the federal unified estate and gift tax exemption is annually indexed for the Chained Consumer Price Index, which is lower than the Consumer Price Index and much lower than the actual rate of inflation. In 2024 everyone’s exemption is \$13,990,000 per person. Additionally, a deceased spouse's unused exemption (DSUE) may be added to the surviving spouse's available personal exemption. This "portability" feature is elected on a timely filed Form 706 to entitle the surviving spouse to combine the Deceased Spouse's Unused Exemption (DSUE) with their personal \$13,990,000 (net of the survivor's prior taxable gifts, adjusting for future annual inflationary adjustments).

For example, if Spouse A only used \$1,000,000 of his or her \$13,990,000 exemption either through lifetime taxable transfers or against his or her taxable estate, then surviving Spouse B may use Spouse A's unused \$12,990,000 in addition to Spouse B's full \$13,990,000 exemption, thereby giving Spouse B the ability to shelter \$26,980,000 against future taxable gifts or against Spouse B's future estate at death. The DSUE that transfers to the surviving spouse does not increase with inflation.

If the first dying spouse's gross assets are less than the estate tax exemption amount then the estate and surviving spouse have up to five years after the date of death of the first dying spouse to file a Form 706 Estate Tax Return that elects for the portability allowance to pass to the surviving spouse.

The Internal Revenue Code has provided relief to estates making late portability elections of DSUEs without requiring any user fee or a private letter ruling. This simplified method permits an extension of time under § 301.9100-3 of the Procedure and Administrative Regulations for the surviving spouse to make a portability election under I.R.C. § 2010(c)(5)(A) up to five years after a proper election should have been made on Form 706 from a deceased spouse's estate.

If a surviving spouse remarries, any properly elected DSUE is not necessarily lost. Rather, a surviving spouse may combine their own personal unused exemption with a properly elected DSUE from their last dying spouse in a new marriage to shelter lifetime taxable gifts or future estate tax liability. However, if the new spouse predeceases them, then the newly deceased spouse's unused exemption is applied.

Lifetime gifts exceeding an annual gift exclusion (currently set at \$19,000 per Donee as of 2025 and further explained below) reduce a person's lifetime \$13,990,000 exemption on a pro rata basis.

Annual Gifting

An individual may make certain annual gifts to other non-exempt persons or irrevocable trusts without incurring gift tax. The annual excludable amount is indexed for inflation and is presently set at \$19,000 per Donee recipient (for 2025). Spouses may elect (on a Gift Tax Return Form 709) to combine their annual excludable gifts, permitting a couple to make a gift in the amount of \$38,000 per Donee recipient. The individual or couple may make gifts to as many different people or properly drafted trusts as they wish each year and often desire to follow an annual gifting schedule the same Donee recipient.

Gifts are commonly made to irrevocable Gifting Trusts also known as "Crummey Power Trusts" where beneficiaries have a temporary right to withdraw, to qualify contributions to be treated as if they were transferred to individuals. The "Crummey Power" is named after a 1968 Ninth Circuit U.S. Court of Appeals case *D. Clifford Crummey v. Commissioner of Internal Revenue* which established that a beneficiary's right to withdraw contributions to the trust constitutes a gift of a present interest even when the beneficiary waives his or her right. A "Crummey Notice" should be given to the beneficiary or guardian advising of the right to withdraw contributions for a limited time. Subsequent cases have held that beneficiaries who do not receive notice of contributions may still qualify if there was a legal right to make a withdrawal, especially if the beneficiary had general knowledge from the past that contributions were being made.

Gifts below the current \$19,000 individual or \$38,000 joint spousal threshold will not affect the lifetime exemption amount of \$13,990,000. Gifts between spouses who are U.S. citizens are always estate and gift tax free, regardless of amount.

Annual gifting may be combined with various estate planning techniques to minimize allowable transfers that avoid federal estate tax. Individual or joint gifts of values exceeding the current annual exclusion amount of \$19,000 or \$38,000 to an individual Donee require reporting on a Gift Tax Return (Form 709), where cumulative taxable gifts are subtracted from the Donor(s)' lifetime exemption amount available.

In other words, everyone is currently entitled to a maximum \$13,990,000 exemption from gift or estate taxes. In each year that an individual makes taxable gifts exceeding the current \$19,000 per Donee excludable amount, the excess value of those gifts is subtracted from the beginning balance of \$13,990,000 on Form 709 which is filed with the IRS. Whatever balance remains unused at death becomes the amount available to shelter an individual's federal estate tax liability.

There are several ways to strategically utilize the first dying spouse's exemption to maximize the estate tax shield applied to the surviving spouse's estate. The illustrations produced by this software demonstrate how certain estate planning techniques may impact an estate plan and a family's legacy.

NOTE: If Congress does not extend the current estate exemption legislation by 2030, then a living person's unused exemption will be proportionately reduced (based on the new lower lifetime exemption, minus any amounts previously utilized), but not less than zero. In other words, there will be no Congressional "claw back" for an individual's use of previous allowable exemption amounts that exceed a new lower threshold.

Illustrations in this program can show the impact of various strategies under the assumption that the current exemption of \$13,990,000 will continue to be indexed for inflation AND whether the exemption will be reduced by approximately one half of what they would have otherwise been in 2030, when the current estate legislation is scheduled to "sunset."

If one spouse dies before 2025 and leaves a portability allowance, then any such portability allowance will not be reduced if the surviving spouse later qualifies to use it.

This illustration also assumes that the surviving spouse will be able to use any portability allowance that may be passed by the first dying spouse and therefore assumes that the surviving spouse will not remarry someone who dies before him or her.

ASSUMPTIONS

Clients		
Name	Jesus Rodriguez	Frances Pou
Age	66	66
Sex	Male	Female
Tobacco User?	No	No
Lifetime Gift Exclusion Used	\$0	\$0
Projected Year of Death	2047	2052
Annual Savings (Initial)	\$400,000 → \$0 → \$0	\$0 → \$0 → \$0
Transition Ages	Age 75 → Age 75	Age 75 → Age 75
Savings Structure	3-Tier: Initial → Tier 2 → Rest of Life	3-Tier: Initial → Tier 2 → Rest of Life
Portability		
Assume no portability?	No	
Exemption Adjustment		
Exemption Adjustment Option:	CPI adjustments only	
Business and Investments		
Current Value	\$18,500,000	
Annual Growth Rate	7.85%	
Annual Investment Costs Rate	0.40%	
Annual Investment Tax Rate (as % of assets)	2.00%	
Personal Residence and Property		
Current Value	\$2,500,000	
Annual Growth Rate	4.85%	
Bypass Trust		
Bypass Trust Value	\$27,660,000	
Rates		
Consumer Price Index Growth Rate	2.96%	
Real Inflation	3.71%	
Federal Estate Tax Rate	40.00%	
State Estate Tax	Not Enabled	
Adjust for Real Inflation	No	

ILLUSTRATION 1 - NO PLANNING

This first illustration assumes no annual gifting.

The first row shows Jesus and Frances's assets in 2025.

The second row illustrates the assumption that Jesus's death occurs first and reflects the increase in asset values as of the date of the first death. This row shows all assets transferred to the surviving spouse to defer potential federal estate tax until the second death.

Many couples will allow this to occur, utilizing the deceased spouse's unused exemption (DSUE).

In this illustration the surviving spouse will be eligible to utilize a total exemption of \$59,690,000 (\$27,670,000 from Jesus's projected DSUE + \$32,020,000 from Frances's projected available exemption).

The third row illustrates Frances's projected estate values at their death in 27 years leaving \$98,508,700 worth of personal assets exposed to federal estate tax.

Applying Jesus's DSUE of \$27,670,000 leaves Frances's net estate of \$38,818,700 subject to federal estate tax. Assuming a 40.00% federal estate tax rate, the federal estate tax would be \$15,527,480 and is normally owed 9 months after the surviving spouse's date of death.

For estates substantially comprised of large closely held businesses, an executor may be entitled to make an election under I.R.C. § 6166 to defer the payment of estate taxes up to five years with interest-only payments, thereafter, making equal payments over the following ten years. Such an election alleviates an estate's illiquidity and may avoid the need to sell assets at a disadvantageous time triggering a loss.

ILLUSTRATION 1 - NO PLANNING
(27 YEARS)

Today

Jesus & Frances Rodriguez		
Residence \$2,500,000	Investments \$18,500,000	
Annual Growth Rate 4.85%	Annual Additions \$400,000	Annual Growth Rate 7.85% less 0.40% fees and 2.00% tax



Upon 1st Death
(in Year 22)

Frances Pou		
Residence \$7,086,725	Investments \$68,663,860	
Annual Growth Rate 4.85%	Annual Additions \$0	Annual Growth Rate 7.85% less 0.40% fees and 2.00% tax



Upon 2nd Death
(in Year 27)

Frances's Estate	
Residence \$8,980,236	Investments \$89,528,464
Exemption/Portability: (\$59,690,000)	
Net Taxable Estate: \$38,818,700	

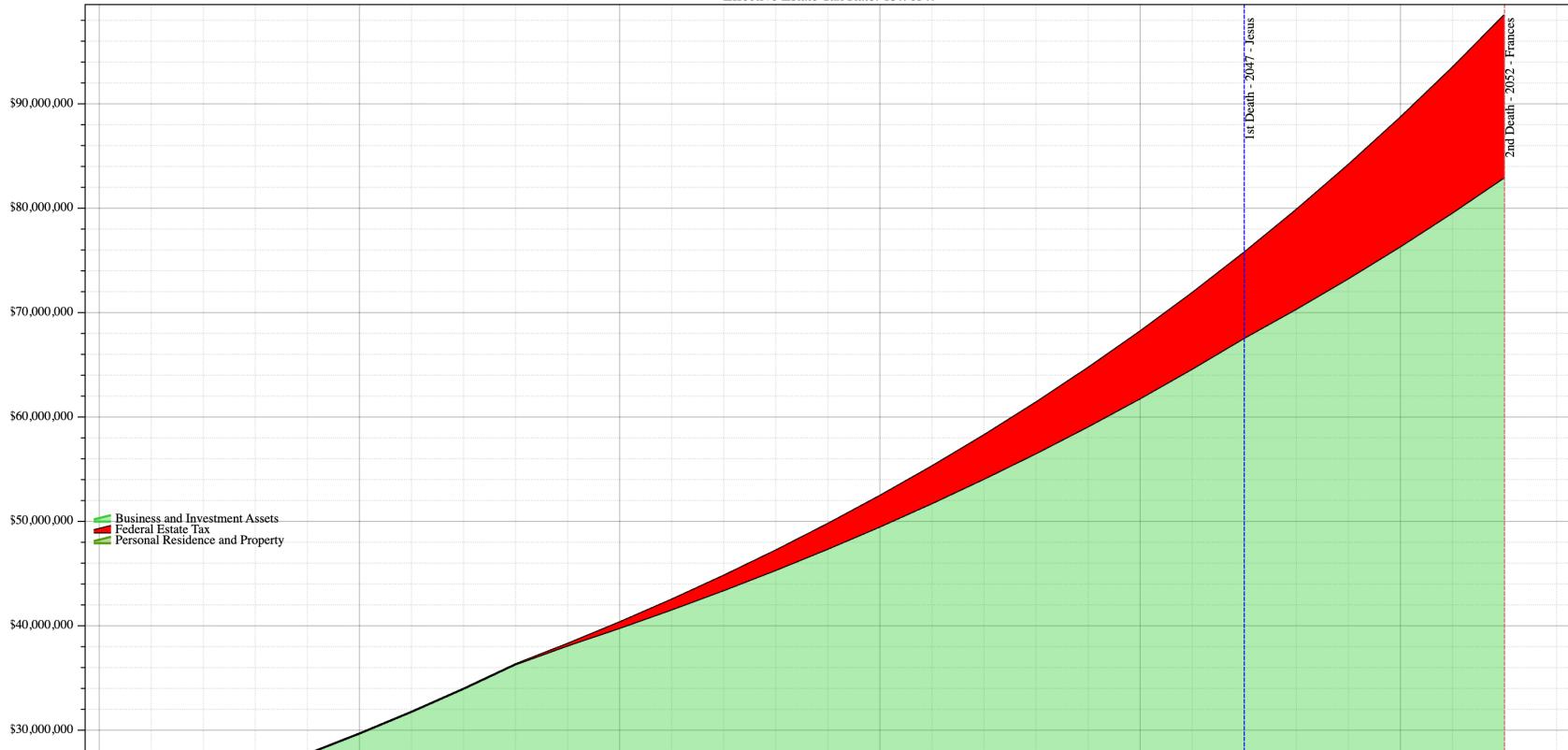


Estate Tax \$15,527,480
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Total Passing to Beneficiaries \$82,981,220
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ILLUSTRATION 1 - NO PLANNING (27 YEARS)

Jesus Rodriguez & Frances Pou
Effective Estate Tax Rate: 15.763%



**ILLUSTRATION 1 - NO PLANNING
(27 YEARS)**

Jesus Rodriguez Life Expectancy is 19 Years

Frances Pou Life Expectancy is 22 Years

Projected Tax Liability

Year	Amount Passing Outside of Surviving Spouse's Estate	Surviving Spouse's Gross Estate	-	Projected Exemption Available (Federal)	=	Taxable Value of Estate	Estate Tax 40%
2025	\$0	\$21,000,000		\$27,980,000		\$0	\$0
2030	\$0	\$29,682,177		\$33,700,000		\$0	\$0
2035	\$0	\$40,336,389		\$39,000,000		\$1,336,389	\$534,555
2040	\$0	\$52,446,013		\$45,120,000		\$7,326,013	\$2,930,405
2045	\$0	\$68,196,001		\$52,200,000		\$15,996,001	\$6,398,400
2047	\$0	\$75,750,585		\$55,340,000		\$20,410,585	\$8,164,234
2050	\$0	\$88,682,024		\$57,870,000		\$30,812,024	\$12,324,810
2052	\$0	\$98,508,700		\$59,690,000		\$38,818,700	\$15,527,480

Projected Value of Estate Based on 7.85% Compound Rate of Return

Year	Personal Residence and Property	+	Business and Investment Assets	+	Gifting Trust	+	Bypass Trust	+	Installment Sale Trust	+	QPRT 1	+	QPRT 2	=	Total Combined Assets
2025	\$2,500,000		\$18,500,000		\$0		\$0		\$0		\$0		\$0		\$21,000,000
2030	\$3,167,978		\$26,514,199		\$0		\$0		\$0		\$0		\$0		\$29,682,177
2035	\$4,014,434		\$36,321,954		\$0		\$0		\$0		\$0		\$0		\$40,336,389
2040	\$5,087,056		\$47,358,957		\$0		\$0		\$0		\$0		\$0		\$52,446,013
2045	\$6,446,273		\$61,749,728		\$0		\$0		\$0		\$0		\$0		\$68,196,001
2047	\$7,086,725		\$68,663,860		\$0		\$0		\$0		\$0		\$0		\$75,750,585
2050	\$8,168,661		\$80,513,363		\$0		\$0		\$0		\$0		\$0		\$88,682,024
2052	\$8,980,236		\$89,528,464		\$0		\$0		\$0		\$0		\$0		\$98,508,700

Projected Amount of Estate Tax Exemption

Year	First Spouse's Exemption	+	Second Spouse's Exemption	-	Life Insurance Premiums over Gift Exemption	=	Total Exemption Available (Federal)
2025	\$13,990,000		\$13,990,000		\$0		\$27,980,000
2030	\$16,850,000		\$16,850,000		\$0		\$33,700,000
2035	\$19,500,000		\$19,500,000		\$0		\$39,000,000
2040	\$22,560,000		\$22,560,000		\$0		\$45,120,000
2045	\$26,100,000		\$26,100,000		\$0		\$52,200,000
2047	\$27,670,000		\$27,670,000		\$0		\$55,340,000
2050	\$27,670,000		\$30,200,000		\$0		\$57,870,000
2052	\$27,670,000		\$32,020,000		\$0		\$59,690,000

Life Expectancy

Name	Sex	Tobacco User?	Age	Life Expectancy
Jesus	Male	<input type="checkbox"/>	66	An additional 19 years (total age 85)
Frances	Female	<input type="checkbox"/>	66	An additional 22 years (total age 88)

ILLUSTRATION 2 - BYPASS TRUST

An irrevocable Bypass Trust, also known as a "Family Trust" or "Credit Shelter Trust" may provide lifetime income to a surviving spouse while shielding the trust assets from federal estate tax at the death of the surviving spouse. The Bypass Trust may also allow principal distributions for the surviving spouse's health, education, maintenance, and support (known as the HEMS standard). The Bypass Trust may be funded according to provisions in the Decedent's Will or by a procedure whereby the surviving spouse disclaims certain assets which then pass into the Bypass Trust for the beneficiaries' remainder interest.

The amount of assets used to fund the Bypass Trust often utilize the Decedent's maximum available estate exemption, with the excess amount funding a Marital Trust over which the surviving spouse would have full discretion and thus will be includable in the surviving spouse's estate.

Assets remaining in the Bypass Trust upon the second spouse's death may be allocated to a separate Generation Skipping Trust (GST) to benefit individuals who are more than one generation younger than the original Grantor (including a grandchild or any other individual at least 37.5 years younger than the Grantor). However, without proper planning, transfers to a "skip generation" beneficiary could trigger a stacked 40% GST tax on top of any estate taxes. Your experience estate planning professional will be able to discuss further options for utilizing the separate GST exemption in addition to any available estate tax exemption ported between spouses.

In this illustration, the Bypass Trust is funded in the amount of \$27,660,000 upon the first death. The deceased spouse's estate tax exemption is used to the extent of \$27,660,000 by funding of the Bypass Trust shown in the second column, at Jesus's death in 2047. Under this scenario, the Bypass Trust grows to \$36,064,930 based upon the assumed 5.45% rate of return and will not be subject to federal estate tax at the second death.

We will be using a Bypass Trust in Jesus and France's basic estate planning documents effective as of December 2025. Applying a 40.00% federal estate tax rate, funding **the Bypass Trust saves \$3,361,972** in federal estate tax.

Because Jesus Rodriguez had \$27,670,000 in exemption when he died, and only \$27,660,000 went to the Bypass Trust, the portability allowance that can pass to Frances Pou was \$10,000 and will be usable by her unless she remarries someone who dies before her, in which event that next dying spouse's portability, if available, would apply.

**ILLUSTRATION 2 - BYPASS TRUST
(FUNDED YEAR 22)**

Today

Jesus & Frances Rodriguez		
Residence \$2,500,000	Investments \$18,500,000	
Annual Growth Rate 4.85%	Annual Additions \$400,000	Annual Growth Rate 7.85% less 0.40% fees and 2.00% tax



Upon 1st Death
(in Year 22)

Frances Pou		
Residence \$7,086,725	Investments \$41,003,860	
Annual Growth Rate 4.85%	Annual Additions \$0	Annual Growth Rate 7.85% less 0.40% fees and 2.00% tax

Bypass Trust
Initial Funding Upon 1st Death \$27,660,000
Annual Growth Rate 7.85% less 0.40% fees and 2.00% tax



Upon 2nd Death
(in Year 27)

Frances's Estate	
Residence \$8,980,236	Investments \$53,463,534
Exemption/Portability: (\$32,030,000)	
Net Taxable Estate: \$30,413,770	

Bypass Trust
Value \$36,064,930

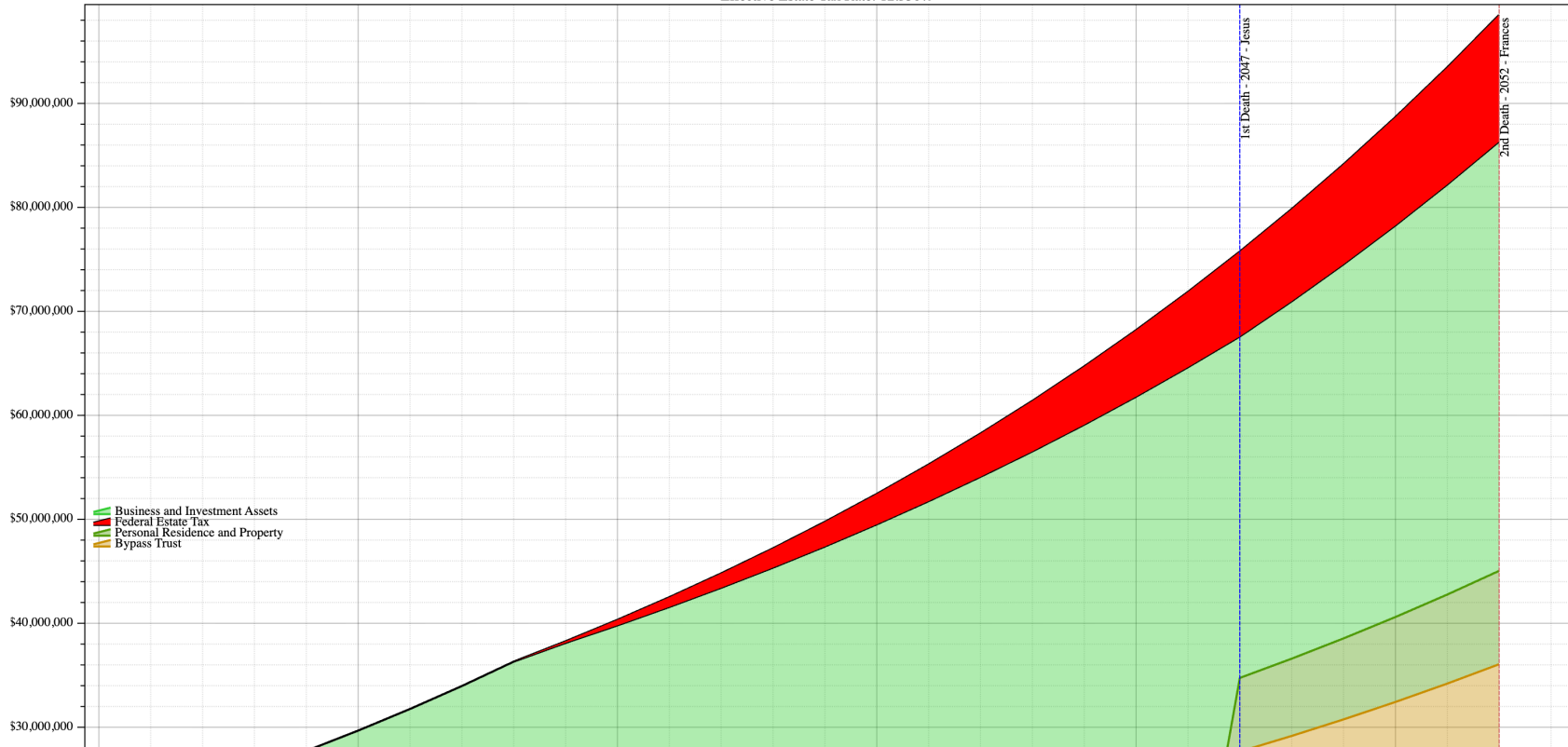


**Estate Tax
\$12,165,508**

Total Passing
to Beneficiaries
\$86,343,192

ILLUSTRATION 2 - BYPASS TRUST (FUNDED YEAR 22)

Jesus Rodriguez & Frances Pou
Effective Estate Tax Rate: 12.350%



**ILLUSTRATION 2 - BYPASS TRUST
(FUNDED YEAR 22)**

Jesus Rodriguez Life Expectancy is 19 Years

Frances Pou Life Expectancy is 22 Years

Projected Tax Liability

Year	Amount Passing Outside of Surviving Spouse's Estate	Surviving Spouse's Gross Estate	-	Projected Exemption Available (Federal)	=	Taxable Value of Estate	Estate Tax 40%
2025	\$0	\$21,000,000		\$27,980,000		\$0	\$0
2030	\$0	\$29,682,177		\$33,700,000		\$0	\$0
2035	\$0	\$40,336,389		\$39,000,000		\$1,336,389	\$534,555
2040	\$0	\$52,446,013		\$45,120,000		\$7,326,013	\$2,930,405
2045	\$0	\$68,196,001		\$52,200,000		\$15,996,001	\$6,398,400
2047	\$27,660,000	\$48,090,585		\$27,680,000		\$20,410,585	\$8,164,234
2050	\$32,433,359	\$56,248,665		\$30,210,000		\$26,038,665	\$10,415,466
2052	\$36,064,930	\$62,443,770		\$32,030,000		\$30,413,770	\$12,165,508

Projected Value of Estate Based on 7.85% Compound Rate of Return

Year	Personal Residence and Property	+	Business and Investment Assets	+	Gifting Trust	+	Bypass Trust	+	Installment Sale Trust	+	QPRT 1	+	QPRT 2	=	Total Combined Assets
2025	\$2,500,000		\$18,500,000		\$0		\$0		\$0		\$0		\$0		\$21,000,000
2030	\$3,167,978		\$26,514,199		\$0		\$0		\$0		\$0		\$0		\$29,682,177
2035	\$4,014,434		\$36,321,954		\$0		\$0		\$0		\$0		\$0		\$40,336,389
2040	\$5,087,056		\$47,358,957		\$0		\$0		\$0		\$0		\$0		\$52,446,013
2045	\$6,446,273		\$61,749,728		\$0		\$0		\$0		\$0		\$0		\$68,196,001
2047	\$7,086,725		\$41,003,860		\$0		\$27,660,000		\$0		\$0		\$0		\$75,750,585
2050	\$8,168,661		\$48,080,004		\$0		\$32,433,359		\$0		\$0		\$0		\$88,682,024
2052	\$8,980,236		\$53,463,534		\$0		\$36,064,930		\$0		\$0		\$0		\$98,508,700

Projected Amount of Estate Tax Exemption

Year	First Spouse's Exemption	+	Second Spouse's Exemption	-	Life Insurance Premiums over Gift Exemption	=	Total Exemption Available (Federal)
2025	\$13,990,000		\$13,990,000		\$0		\$27,980,000
2030	\$16,850,000		\$16,850,000		\$0		\$33,700,000
2035	\$19,500,000		\$19,500,000		\$0		\$39,000,000
2040	\$22,560,000		\$22,560,000		\$0		\$45,120,000
2045	\$26,100,000		\$26,100,000		\$0		\$52,200,000
2047	\$10,000		\$27,670,000		\$0		\$27,680,000
2050	\$10,000		\$30,200,000		\$0		\$30,210,000
2052	\$10,000		\$32,020,000		\$0		\$32,030,000

Life Expectancy

Name	Sex	Tobacco User?	Age	Life Expectancy
Jesus	Male	<input type="checkbox"/>	66	An additional 19 years (total age 85)
Frances	Female	<input type="checkbox"/>	66	An additional 22 years (total age 88)