

CURRENT PLANNING

PREPARED FOR
John R. Kathrein: CURRENT PLAN

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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 November 2, 2025, and assumes residential property worth \$700,000 growing at 4.00% and Business and Investment assets of \$28,070,000 growing at 7.80%.

Assumes John lives until 2044.

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 the projections below are in rough draft form and have not been tailored to the individual client situations. They are provided for illustrative purposes only, and do not constitute a complete or necessarily accurate depiction of the client's 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 John's estate tax liability and family.

Under the federal estate tax system, the value of a decedent's assets is 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 assumes that the surviving spouse will not have the benefit of any unused estate tax exemption of the first dying spouse under the portability rules which will sometimes allow a surviving spouse to have a larger estate tax exemption on the second death.

ASSUMPTIONS

Client	
Name	John Kathrein
Age	72
Sex	Male
Tobacco User?	No
Lifetime Gift Exclusion Used	\$0
Projected Year of Death	2044
Annual Savings	\$0 → \$0 → \$0
Transition Ages	Age 75 → Age 75
Savings Structure	3-Tier: Initial → Tier 2 → Rest of Life
Portability	
Assume no portability?	Yes
Exemption Adjustment	
Exemption Adjustment Option:	Assume Exemption drops 50% in 2030
Business and Investments	
Current Value	\$28,070,000
Annual Growth Rate	7.80%
Annual Investment Costs Rate	0.40%
Annual Investment Tax Rate (as % of assets)	2.00%
Personal Residence and Property	
Current Value	\$700,000
Annual Growth Rate	4.00%
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
Additional Income for Installment Sale Trust (Reduces Net Yearly Savings/Outgo)	\$0

Number of Years of Additional Income for Installment Sale Trust	0
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ILLUSTRATION 1 - NO PLANNING

This illustration assumes no annual gifting.

The first row shows John's assets in 2025.

The second row illustrates John's projected estate values at his death in 19 years leaving \$77,720,260 worth of personal assets exposed to federal estate tax.

In this illustration the estate will be eligible to utilize a total exemption of \$12,670,000.

John's net estate of \$65,050,260 is subject to federal estate tax. Assuming a 40.00% federal estate tax rate, the federal estate tax would be \$26,020,104 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
(19 YEARS)**

Today

John Kathrein		
Residence \$700,000	Investments \$28,070,000	
Annual Growth Rate 4.00%	Annual Additions \$0	Annual Growth Rate 7.80% less 0.40% fees and 2.00% tax



Upon Death
(in Year 19)

John's Estate	
Residence \$1,474,794	Investments \$76,245,465
Exemption/Portability: (\$12,670,000)	
Net Taxable Estate: \$65,050,260	

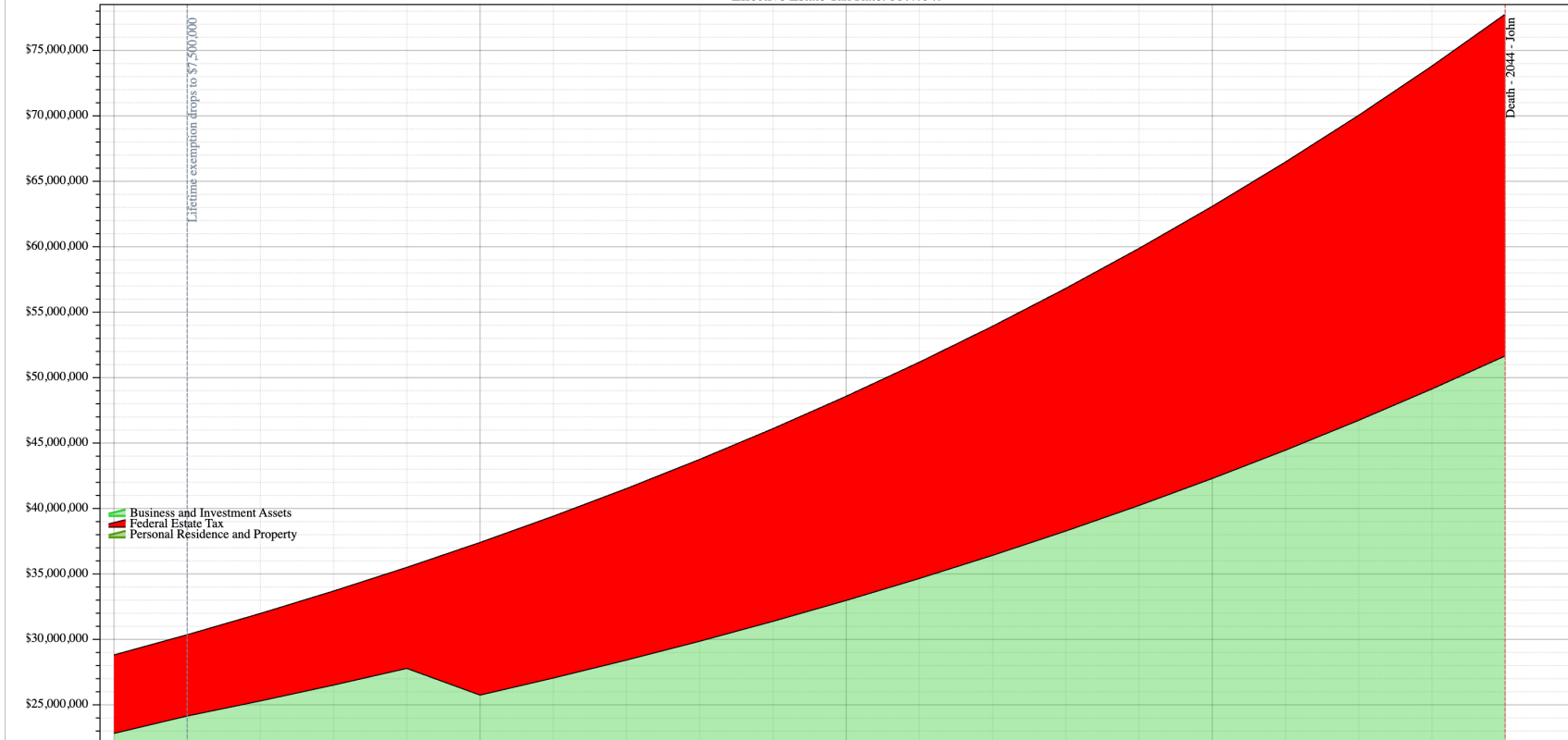


**Estate Tax
\$26,020,104**

**Total Passing
to Beneficiaries
\$51,700,156**

ILLUSTRATION 1 - NO PLANNING (19 YEARS)

John Kathrein
Effective Estate Tax Rate: 33.479%



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

John Kathrein Life Expectancy is 15 Years

Projected Tax Liability

Year	Amount Passing Outside of Estate	Gross Estate	-	Projected Exemption Available (Federal)	=	Taxable Value of Estate	Estate Tax 40%
2025	\$0	\$28,770,000		\$13,990,000		\$14,780,000	\$5,912,000
2030	\$0	\$37,364,485		\$8,420,000		\$28,944,485	\$11,577,794
2035	\$0	\$48,531,240		\$9,750,000		\$38,781,240	\$15,512,496
2040	\$0	\$63,041,183		\$11,280,000		\$51,761,183	\$20,704,473
2044	\$0	\$77,720,260		\$12,670,000		\$65,050,260	\$26,020,104

Projected Value of Estate Based on 7.80% 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	\$700,000		\$28,070,000		\$0		\$0		\$0		\$0		\$0		\$28,770,000
2030	\$851,657		\$36,512,828		\$0		\$0		\$0		\$0		\$0		\$37,364,485
2035	\$1,036,171		\$47,495,069		\$0		\$0		\$0		\$0		\$0		\$48,531,240
2040	\$1,260,660		\$61,780,522		\$0		\$0		\$0		\$0		\$0		\$63,041,183
2044	\$1,474,794		\$76,245,465		\$0		\$0		\$0		\$0		\$0		\$77,720,260

Projected Amount of Estate Tax Exemption

Year	Exemption	-	Life Insurance Premiums over Gift Exemption	=	Total Exemption Available
2025	\$13,990,000		\$0		\$13,990,000
2030	\$8,420,000		\$0		\$8,420,000
2035	\$9,750,000		\$0		\$9,750,000
2040	\$11,280,000		\$0		\$11,280,000
2044	\$12,670,000		\$0		\$12,670,000

Life Expectancy

Name	Sex	Tobacco User?	Age	Life Expectancy
John	Male	<input type="checkbox"/>	72	An additional 15 years (total age 87)