



Family
Office
Exchange



Conducting an Estate Settlement “Inspection”

A discussion

March 8, 2022

“Being prepared for loss is never the same as being ready for it.”

- R. K. Milholland

Benefits of an Estate Settlement “Inspection”

- ✓ Helps family office management get their arms around “who, what, how, when?”
- ✓ Helps expose gaps
- ✓ Helps the family office to be proactive
- ✓ Helps family members understand the impact of the senior generation’s estate on their planning
- ✓ Provides a family meeting tool
- ✓ Gives senior family members a tool to discuss their legacy and charitable planning
- ✓ Encourages younger generations to do their planning
 - For example:
 - Build a model for them that they can react to and ask questions before visiting an estate planning attorney
 - Provide education on pre-marital agreements
 - Provide assistance helping younger family members build their personal balance sheet
- ✓ Gives sr. family members a platform to discuss charitable planning, especially the Family Foundation
- ✓ Leads to a discussion regarding continuity: If family members are running or are going to be involved in the Family Office, what is the succession plan?

Preparation is Key

- **Conduct a Visual Inspection**

- Balance Sheet
- Flowcharts & Diagrams. Also, Helpful to create a Timeline.

For example: What entities exist and what do they hold? Who is the current income tax owner? How do they operate? (cashflow, distributions, etc.)

- **Check the Wiring**

- Does the estate plan work as intended? Are there any hazards? Exposed wires?
- Note: It is critical to inspect the income tax AND the estate planning wiring. There are several cross-over points which require an in-depth knowledge of trust taxation.

For example:

- Extension Cords: Intrafamily loans between family members, trusts, and other entities
- Family LLC interests - voting shares
- Liquidity to pay estate tax

- **Conduct a Fire Drill**

- Is the necessary documentation easily accessible? Is anything missing? (Core estate planning documents, prior gift tax returns, Crummey notices, life insurance policies, etc.)
- Complete a mock 706
- Review Basis Step-Up
- Understand the process and timing for tax filings, estate and generation skipping transfer tax due (if applicable)

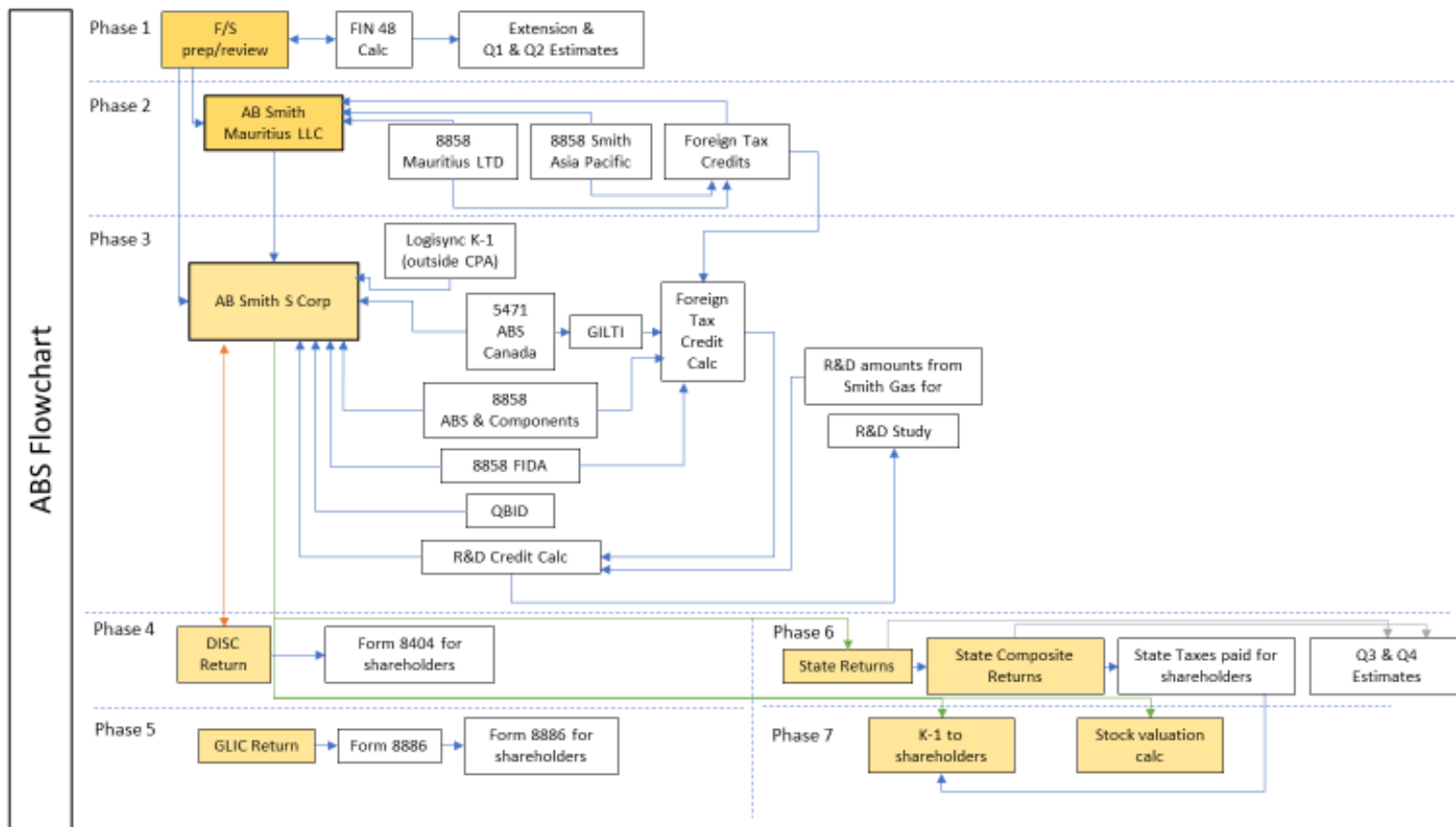
Estate Settlement is not a question of if....it's a question of when.

Saving Time and Streamlining Estate Settlement – Are these documents maintained and easily accessible?

“Inspection” Checklist

- Letter of wishes
- Title to a burial plot. Family plots or mausoleums may be in a relative's possession
- Locations of keys to safe deposit boxes as well as passwords and combinations to in-home safes, home alarm systems, personal computer, etc.
- Any and all records of bank accounts, including checkbooks and cancelled checks
- Mortgages, deeds, and insurance information for real property
- Statements from brokerage firms
- Stock or bond certificates
- Insurance policies
- Recent statement for company retirement plan and supplemental benefits
- Loan documents, debts
- Income tax returns from the past three years – federal and state
- Any prior gift tax returns (Form 709)
- A list of all credit card accounts
- Any information relating to valuable assets (jewelry, collections, art, etc.), such as location, insurance coverage, appraisals, etc.
- Title and/or registration to automobiles, boats, and recreational vehicles including insurance coverage
- Other personal property owned (season tickets, oil & gas interests, frequent flyer miles/credit card points, etc.)
- Information on ownership of a private company, partnership interests, LLCs including buy/sell agreements, balance sheet, inventory

Visual Diagram Sample (Tax Entities)



John and Marion Smith
Balance Sheet (Approximate)

January 2022



	John	John Rev. Living Trust	Marion	Marion Rev. Living Trust	Joint	Total in Estate
CASH AND CASH EQUIVALENTS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash, CD's & Money Market Accounts	-	-	-	-	-	-
MARKETABLE SECURITIES	-	350,229,000	-	18,030,000	-	368,259,000
Brokerage Accounts	-	-	-	-	-	-
	-	-	-	-	-	-
	-	350,229,000	-	18,030,000	-	368,259,000
TAX DEFERRED ACCOUNTS	11,074,000	-	-	-	-	11,074,000
John IRA (Benef: Charity)	-	-	-	-	-	-
	11,074,000	-	-	-	-	11,074,000
TOTAL INVESTMENT ASSETS	11,074,000	350,229,000	-	18,030,000	-	379,333,000
OTHER ASSETS	-	545,000,000	-	-	-	545,000,000
Smith Co. (S Corporation)	-	5,200,000	-	-	-	5,200,000
Real Estate LLC Interests	-	-	-	-	-	-
	-	545,000,000	-	-	-	545,000,000
FAMILY-OWNED BUSINESS	-	265,000	-	-	-	265,000
Family LLC (John 1%; Trusts: 33% Each)	-	-	-	-	-	-
	-	265,000	-	-	-	265,000
REAL ESTATE	-	-	-	-	9,450,000	9,450,000
Primary Residence	-	-	-	-	10,600,000	10,600,000
Secondary Residence	-	-	-	-	-	-
	-	-	-	-	20,050,000	20,050,000
PERSONAL ASSETS	-	-	-	-	4,000,000	4,000,000
Jewelry, Auto, Furniture, etc.	-	-	-	-	-	-
	-	-	-	-	4,000,000	4,000,000
TOTAL NON-INVESTMENT ASSETS	-	550,465,000	-	-	24,050,000	574,515,000
TOTAL NET WORTH	11,074,000	900,694,000	\$ -	18,030,000	24,050,000	\$ 953,848,000
Death Benefits	-	-	-	-	-	-
Owner: ILIT, Insured: Marion and John, Beneficiary: ILIT	-	-	-	-	-	-
CSV \$3,126,000; \$12,000,000 Death Benefit	-	-	-	-	-	-
	-	-	-	-	-	-
TOTAL DEATH BENEFITS	-	-	-	-	-	-
TOTAL	\$ 11,074,000	\$ 900,694,000	\$ -	\$ 18,030,000	\$ 24,050,000	\$ 953,848,000

GST Trust for Sam	GST Trust for Joseph	GST Trust for Kelly	Irrevocable Life Insurance Trust	Spousal Lifetime Access Trust	Smith Family Foundation	Total Outside Estate
\$ -	-	-	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	6,300,000	14,500,000	20,800,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	6,300,000	14,500,000	20,800,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
8,756,000	8,756,000	8,756,000	-	-	-	26,268,000
-	-	-	-	-	-	-
8,756,000	8,756,000	8,756,000	-	-	-	26,268,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
8,756,000	8,756,000	8,756,000	-	-	-	26,268,000
8,756,000	8,756,000	8,756,000	-	6,300,000	14,500,000	47,068,000
-	-	-	12,000,000	-	-	12,000,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	12,000,000	-	-	12,000,000
-	-	-	12,000,000	-	-	12,000,000
\$ 8,756,000	\$ 8,756,000	\$ 8,756,000	\$ 12,000,000	\$ 6,300,000	\$ 14,500,000	\$ 59,068,000

John	\$ 923,793,000
Marion	30,055,000
TOTAL ASSETS INSIDE ESTATE	\$ 953,848,000

Family LLC (99% Non-Voting) in GST Trust	\$ 26,268,000
Irrevocable Life Insurance Trust	12,000,000
Spousal Lifetime Access Trust (2012 SLAT)	6,300,000
Smith Family Foundation	14,500,000
TOTAL ASSETS OUTSIDE ESTATE	\$ 59,068,000

Current State (John and Marion are both Living)

Assets Inside of John and Marion's Taxable Estate

John & Marion

\$ 953,848,000

John

Joint Assets	\$	12,025,000
IRA to Charity		11,074,000
Revocable Trust Assets		900,694,000
TOTAL	\$	923,793,000

Marion

Joint Assets	\$	12,025,000
Beneficiary Designated Assets		0
Revocable Trust Assets		18,030,000
TOTAL	\$	30,055,000

Assets Outside of John and Marion's Taxable Estate (and Future Generations Too)

Established by John and Marion During Life

★ John Smith Spousal Lifetime Access Trust (2012 SLAT)

\$6,300,000

- Net income and principal to John, at Trustee discretion, for health, education, maintenance, and support
- John has a testamentary limited power of appointment to Descendants
- Upon John's passing, distribute Trust assets to GST Trusts below

Initial Trustee: John Smith

Successor Trustee: To be appointed by Adult Children

LEGEND

Life Insurance funded at Marion's Passing

Funded During Marion and John's Lifetime

★ No Estate Tax in Sam, Joseph or Kelly's Estates or in their Descendant's Estates.

Jack Smith's Estate (John's Father)

★ Family LLC (99% Non-Voting) in GST Trust

\$26,268,000

Held according to the provisions of the GST Trusts below

★ Irrevocable Life Insurance Trust

\$12,000,000 (Death Benefit)

Upon Marion's death, divide Trust assets into separate equal trust shares and distribute as according to the provisions below.

Designed as Dynasty Trusts to avoid taxation of assets in Sam, Joseph, and Kelly's estate as well as the estates of their Descendants.

Co-Trustees: Sam Smith with Professional Independent Trustee

Power to remove and replace Professional Trustee: Majority of Adult Income Beneficiaries

★ Smith Family Foundation

\$14,500,000 (Current)

Directors: Marion Smith, Sam Smith, Joseph Smith and Kelly Smith

Officers: Same as Above

Purpose: To provide educational opportunities and health care for those in need.

From Jack Smith (John's Father)

★ Jack S. Smith Trust **atd April 26, 1993**

\$18,750,000

(18% Interest in Smith Distributors, Inc.)

Qualified Sub-Chapter S Trust (QSST)

- Net income to Jack at least quarterly
- Principal invasion for Jack for support in his standard of living
- Limited testamentary power of appointment for Jack to Marion, Jack's descendants, and spouses of Jack's descendants
- Upon Jack's death, un-appointed assets shall be held in separate equal trusts for Children on diagram to follow

Initial Trustee: John

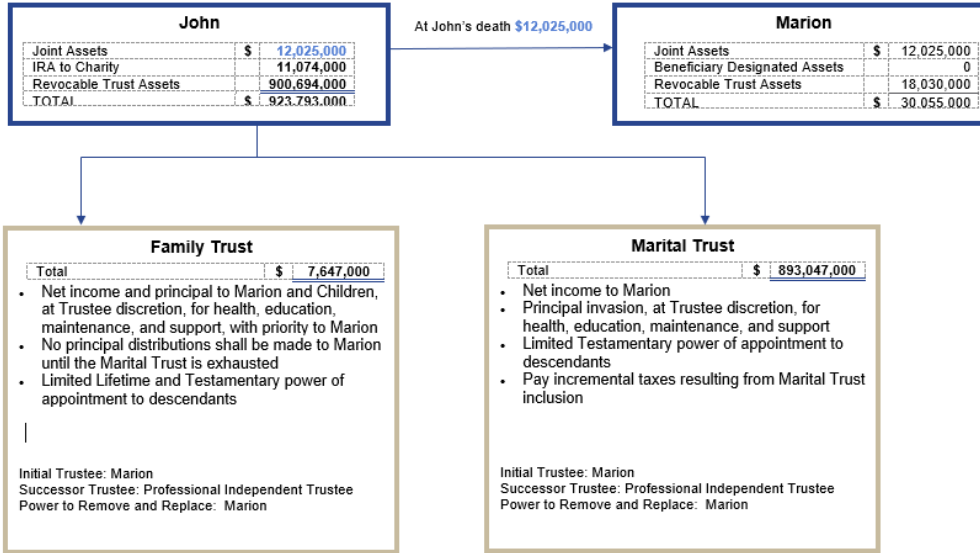
Successor Trustee: Marion

Power to Remove and Replace: John

Future State (John predeceases Marion)

Assets Outside of John and Marion's Taxable Estate (and Future Generations Too)

Assets Inside of John and Marion's Taxable Estate



Also, upon John's passing the Jack S. Smith Trust established by John's father separates into separate equal trust shares for John and Marion's 3 Children

Established by John and Marion During Life

★ John Smith Spousal Lifetime Access Trust (2012 SLAT)

\$6,300,000

- Net income and principal to John, at Trustee discretion, for health, education, maintenance, and support
- John has a testamentary limited power of appointment to Descendants
- Upon John's passing, distribute Trust assets to GST Trusts below

Initial Trustee: John Smith

Successor Trustee: To be appointed by Adult Children

★ Family LLC (99% Non-Voting) in GST Trust

\$26,268,000

Held according to the provisions of the GST Trusts below

★ Irrevocable Life Insurance Trust

\$12,000,000 (Death Benefit)

Upon Marion's death, divide Trust assets into separate equal trust shares and distribute as according to the provisions below.

Designed as Dynasty Trusts to avoid taxation of assets in Sam, Joseph, and Kelly's estate as well as the estates of their Descendants.

Co-Trustees: Sam Smith with Professional Independent Trustee

Power to remove and replace Professional Trustee: Majority of Adult Income Beneficiaries

Smith Family Foundation

\$14,500,000 (Current)

Directors: Marion Smith, Sam Smith, Joseph Smith and Kelly Smith

Officers: Same as Above

Purpose: To provide educational opportunities and health care for those in need.

LEGEND

Life Insurance funded at Marion's Passing

Funded During Marion and John's Lifetime

No Estate Tax in Sam, Joseph, or Kelly's Estates or in their Descendant's Estates.

Jack Smith's Estate (John's Father)

From Jack Smith (John's Father) Jack S. Smith Trust ~~did~~ April 26, 1998 Divides into 3 Trust Shares

★ Sam Smith Trust

\$4,687,500

(6% Smith Distributors, Inc.)

- Net income to Sam at least quarterly
- Principal invasion for Sam for support and education
- Limited testamentary power of appointment for Sam to his spouse and his descendants
- Upon Sam's death, un-appointed assets shall be distributed outright to his descendants, per stirpes

Initial Trustee: Kelly

★ Joseph Smith Trust

\$4,687,500

(6% Smith Distributors, Inc.)

- Net income to Joseph at least quarterly
- Principal invasion for Joseph for support and education
- Limited testamentary power of appointment for Joseph to his spouse and his descendants
- Upon Joseph's death, un-appointed assets shall be distributed outright to his descendants, per stirpes

Initial Trustee: Sam

★ Kelly Smith Trust

\$4,687,500

(6% Smith Distributors, Inc.)

- Net income to Kelly at least quarterly
- Principal invasion for Kelly for support and education
- Limited testamentary power of appointment for Kelly to her spouse and her descendants
- Upon Kelly's death, un-appointed assets shall be distributed outright to her descendants, per stirpes

Initial Trustee: Joseph

SMITH ESTATE PLAN

2022

John & Marion	
\$ 953,848,000	

At John's death pay debts, expenses and income taxes

John	
Joint Assets	\$ 12,025,000
IRA to Charity	11,074,000
Revolocable Trust Assets	990,694,000
TOTAL	\$ 923,793,000

At John's death \$12,025,000

Marion	
Joint Assets	\$ 12,025,000
Beneficiary Designated Assets	0
Revocable Trust Assets	18,030,000
TOTAL	\$ 30,055,000

Other Important Roles

Health Care Power of Attorney
Initial: Spouse Successor: Sam Smith

Financial Durable Power of Attorney
Initial: Same Successor: Same

Smith Family Foundation
\$14,500,000 (Current)

Directors: Marion Smith, Sam Smith, Joseph Smith and Kelly Smith
Officers: Same as Above
Purpose: To provide educational opportunities and health care for those in need.

Final State - At Marion's Passing	
Assets from above	\$ 30,055,000
Assets transferred at death	12,025,000
Marital Trust Assets	893,047,000
Total	\$ 935,127,000
Less: Bequest to Foundation (20%)	187,025,000
Less: Estate Taxes	297,000,000
Plus: Family Trust Assets	7,647,000
Total to Children	\$ 458,749,000

Assumptions made in the Plan: 2022 Law

- \$12,060,000 federal estate tax exemption; 40% tax
- John predeceases Marion. During his lifetime, he used \$4,413,000 of his lifetime exemption and GST exemption
- Marion has \$6,180,000 of her estate tax exemption and GST exemption remaining when she passes away

Family LLC (99% Non-Voting) in GST Trust
\$26,268,000

Held according to the provisions of the GST Trusts below

John Smith Spousal Lifetime Access Trust (2012 SLAT)
\$6,300,000

- Net income and principal to John, at Trustee discretion, for health, education, maintenance, and support
- John has a testamentary limited power of appointment to descendants
- Upon John's passing, distribute Trust assets to GST Trusts below

Initial Trustee: John Smith
Successor Trustee: To be appointed by Adult Children

Family Trust
Total \$ 7,647,000

- Net income and principal to Marion and Children, at Trustee discretion, for health, education, maintenance, and support, with priority to Marion
- No principal distributions shall be made to Marion until the Marital Trust is exhausted
- Limited Lifetime and Testamentary power of appointment to descendants

Initial Trustee: Marion
Successor Trustee: Professional Independent Trustee
Power to Remove and Replace: Marion

Marital Trust
Total \$ 893,047,000

- Net income to Marion
- Principal invasion, at Trustee discretion, for health, education, maintenance, and support
- Limited Testamentary power of appointment to descendants
- Pay incremental taxes resulting from Marital Trust inclusion

Initial Trustee: Marion
Successor Trustee: Professional Independent Trustee
Power to Remove and Replace: Marion

Irrevocable Life Insurance Trust
\$12,000,000 (Death Benefit)

Upon Marion's death, divide Trust assets into separate equal trust shares and distribute as according to the provisions below.

Designed as Dynasty Trusts to avoid taxation of assets in Sam, Joseph, and Kelly's estate as well as the estates of their Descendants.

Co-Trustees: Sam Smith with Professional Independent Trustee
Power to remove and replace Professional Trustee: Majority of Adult Income Beneficiaries

Sam (41)
\$167,772,000 (Sum of Boxes Below)

Joseph (48)
\$167,772,000 (Sum of Boxes Below)

Kelly (45)
\$167,772,000 (Sum of Boxes Below)

Trusts for Children and Descendants (Funded Upon Marion's Passing From Estate Assets)

★ **GST Exempt Trust**
\$13,827,000 = \$4,609,000 Each (rounded)

- Net income and principal, at Trustee discretion, for Child and their Descendants for health, education, maintenance, and support, taking into consideration other available resources. Priority shall be given to Child.
- Additional principal distributions may be made to Child, at Independent Trustee discretion, for the purchase of a residence, establishment of a business, first wedding expenses, and Child's best interests
- Limited testamentary power of appointment for Child
- Upon Child's death, un-appointed assets shall be held in Trust for his or her Descendants according to the same distribution provisions. If no Children, then assets shall be distributed to the GST Exempt Trusts for his or her Siblings.

Initial Co-Trustees: Child with Professional Independent Trustee
Successor: Professional (Independent) Trustee
Power to Remove and Replace Professional Trustee: Majority of Adult Income Beneficiaries

★ **GST Non-Exempt Trust**
\$445,627,000 = \$148,307,000 Each (rounded)

- Same income and principal distribution provisions as GST Exempt Trust
- Testamentary General Power of Appointment for each Child
- If a Child predeceases the distribution of his or her Trust, assets shall be held in separate equal trusts for the benefit of his or her Children who shall be subject to the same distribution provisions. If no Children then to the GST Non-Exempt Trusts for his or her Siblings.

Initial Trustee: Child
Successor: Professional (Independent) Trustee
Power to Remove and Replace: Child, then Majority of Adult Income Beneficiaries

Trusts for Children (Currently Funded. Assets are Outside of Marion's Taxable Estate)

★ **Life Insurance Trust**
\$4,000,000 Each

Life Insurance Funded at Marion's Passing

- Net income and principal, at Trustee discretion, for Child for health, education, maintenance, and support, taking into consideration other available resources. Priority shall be given to Child.
- Additional principal distributions may be made to Child, at Independent Trustee discretion, for the purchase of a residence, establishment of a business, first wedding expenses, and Child's best interests

Initial Co-Trustees: Sam Smith with Professional (Independent) Trustee
Power to Remove and Replace Professional Trustee: Majority of Adult Income Beneficiaries

★ **GST Trusts for Sam, Joseph, and Kelly**
\$8,756,000 (33% Family LLC above) + \$2,100,000 (2012 SLAT above) = \$10,856,000 Each

- Net income and principal, at Trustee discretion, for Child and their Descendants for health, education, maintenance, and support, taking into consideration other available resources. Priority shall be given to Child.
- Additional principal distributions may be made to Child, at Independent Trustee discretion, for the purchase of a residence, establishment of a business, first wedding expenses, and Child's best interests
- Limited testamentary power of appointment for Child
- Upon Child's death, un-appointed assets shall be held in trust for his or her Descendants according to the same distribution provisions.

Co-Trustees: Child with Professional (Independent) Trustee
Successor: Professional (Independent) Trustee
Power to Remove and Replace Professional Trustee: Majority of Adult Income Beneficiaries

Charity

Smith Family Foundation

\$14,500,000 (Current) + \$11,074,000 (IRA Upon John's passing) + \$187,025,000 (Upon Marion's Passing) = \$212,599,000 Total

LEGEND

- Life Insurance funded at Marion's Passing
- Funded During Marion and John's Lifetime

★ No Estate Tax in Sam, Joseph, or Kelly's Estates or in their Descendant's Estates.

- **Review the Communication Plan**

- Is there a communication plan in place? Does the family know about it? Make sure everyone understands.
- Identify who is on the core professional advisory team and consider at least one annual “All Hands On Deck” meeting with advisors
- The more communication – the better
- Consider a letter of wishes, communicating about the division of personal property, funeral arrangements, etc.
- Set Expectations surrounding estate settlement process

Maintenance and Good Housekeeping are Essential

- If needed - order gift tax returns, shore-up Crummey notices,
- Consider exercising powers of appointment, review disclaimer options, etc.
- Take action on identified tax planning opportunities
- Continue to consider how to best record and share family history, lessons, and values

Connects the dots and allows for thoughtful discussion and decision-making around:

- Income Tax Planning Opportunities
- Estate Planning Opportunities
- Potential Improvements
- Family Education
- Peace of Mind



As a tax partner and a leader within Plante Moran's family office services group, Mandy works closely with her clients to help them with their comprehensive planning needs. Working with clients nationwide, Mandy is sought out by affluent families, family offices, and other professional advisors for her in-depth knowledge of estate, gift, and trust taxation.



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