

Transferring Wealth

Creating a Legacy Through Estate Planning

EVERYONE SHOULD HAVE AN ESTATE PLAN

An estate consists of all the assets you leave behind when you die. There are certain issues that, if not planned for, create a burden on those who are left behind, such as financial burdens, transfer of asset issues, and care of minors.

In distributing your estate, you can choose between heirs, charity or the IRS. An estate plan allows you to direct how and to whom your accumulated assets are distributed after your death. A sound plan should be designed to accomplish personal, family and charitable objectives.

THE ESTATE PLANNING PROCESS

Estate planning covers many complex areas including wills, trusts, insurance, accounting and taxes.

1) *Carefully choose your estate planning team* —

Engage the efforts and expertise of your CPA, attorney, trust officer, and RBC Wealth Management® Financial Consultant.

2) *Gather information* — Complete a questionnaire stating your assets and liabilities, designated heirs, and desired goals and objectives.

3) *Analyze the data to determine strategies* — Help your team of advisors understand more about you and your financial objectives through evaluation of your financial information and personal objectives.

4) *Decide and implement solutions* — Your estate planning team provides strategies and identifies solutions for your review and consideration. Choose the appropriate plan, execute documents and review investments regularly.

5) *Review the plan periodically* — Make sure that major life events, such as changes in marital status, beneficiaries or net worth, are reflected in your estate plan.

Estate Tax and Gift Tax Applicable Exclusion Amounts

Year	Estate Tax Exclusion	Estate Tax Rate	Generation Skipping Tax (GST) Exemption	Gift Tax Lifetime Exclusion	Gift Tax Annual Exclusion	Annual Gift Tax Exclusion (Non-Citizen Spouse)
2006	\$2,000,000	46%	\$2,000,000	\$1,000,000	\$12,000	\$120,000
2007	\$2,000,000	45%	\$2,000,000	\$1,000,000	\$12,000	\$125,000
2008	\$2,000,000	45%	\$2,000,000	\$1,000,000	\$13,000	\$128,000
2009	\$3,500,000	45%	\$3,500,000	\$1,000,000	\$13,000	\$133,000
2010	Estate Tax = \$0 Carryover Basis	Top individual rate under the bill (35% - gift tax only)	Not Applicable	\$1,000,000	\$13,000	\$134,000
2011	\$1,000,000	55%	\$1,120,000 *	\$1,000,000	\$13,000	TBD



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*GST Exemption is adjusted for inflation with 2003 as the base year.

Source: Internal Revenue Service

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THE TAXING SITUATION

Provisions of EGTRRA gradually increased the estate tax exemption (Applicable Exclusion Amount) and gradually reduced the estate tax rate through 2009 and replaced the estate tax with a carryover basis system in 2010. Prior to 2010, in general, the basis of estate property was its fair market value on the date of the decedent's death. In 2010, the basis of estate property is the lesser of the asset's fair market value on the date of death or the decedent's (carryover) basis. However, two special basis adjustments may apply. The first adjustment allows estates to exempt up to \$1.3 million of appreciation or gain on property that is passed to any beneficiary. The second adjustment allows estates to exempt up to \$3 million of appreciation or gain on property that passes to a surviving spouse.

Many wills and trusts were drafted in contemplation of transfer taxes, so they contain provisions that allocate or direct the distribution of assets based on formulas or other directions in order to minimize these taxes. In particular, wills and trusts created for married couples frequently employ a formula (formula funding) to minimize potential federal estate tax by referencing and utilizing the federal estate tax exclusion amount of the first spouse to die. If there is no federal estate tax, interpretation of these provisions becomes ambiguous.

In 2009, the estate tax exemption was \$3.5 million and the top estate tax rate was 45%. With no new legislation the rules prior to EGTRRA will apply beginning in 2011, returning the estate tax exemption to \$1 million and the top estate tax rate to 55%. The following chart shows the gradual changes to estate tax policy enacted by provisions of EGTRRA.

WHERE THERE'S A WILL...

You've worked hard to accumulate and protect your wealth. You deserve the right to determine how your assets are distributed after your death. The most basic component of a successful estate plan is a properly drafted will. A will allows you to distribute property and assets to beneficiaries of your choosing. Property passing through your will is subject to probate.

Choosing an executor, also known as estate administrator or personal representative, is one of the most important estate planning decisions you will make. Your executor administers your estate and distributes your assets as you direct in your will. An executor can be an individual and/or a professional or corporate administrator, such as a bank trust department. Before choosing someone to serve as your executor, give serious consideration to how well he or she might be able to handle the duties and responsibilities of the job.

The Probate Process

Probate is a procedure that transfers property or assets from the estate of someone who has died to the proper beneficiaries. Probate ensures that all estate taxes and liabilities of the deceased are paid.

Probate expenses may range from one or two percent to four or five percent of the estate.

Probate can also be time-consuming if there are complications. Therefore, many individuals plan their estate to avoid probate and save their family members a good deal of money, time and frustration.



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TRUSTS, PROPERTY OWNERSHIP, AND BENEFICIARY DESIGNATIONS

Because the probate process can be time consuming, expensive and subject to public scrutiny (when a will is probated, it becomes public record), many people try to avoid the probate process entirely. Here are just a few ways to bypass the probate process:

Creation of a Trust — A trust agreement is a legally binding document, prepared by an attorney, which creates a trust and establishes the rules that control the trust's management.

While trusts aren't for everyone, a trust can provide a variety of options and flexibility, including control, privacy, continuity, and potential tax savings.

Here are some of the most common types of trusts:

- Revocable Living Trust
- Credit Shelter Trust
- Marital Deduction Trust
- Irrevocable Trust
- Charitable Remainder Trust (CRT)
- Irrevocable Life Insurance Trust (ILIT)

Two popular planning strategies utilizing trusts:

- **Revocable Living Trust and "Pour-over" Will** — Establish a revocable living trust during your lifetime and register all of your assets in the name of the trust. These assets avoid probate and are protected in the event you become incapacitated during your lifetime. In your will, you can direct that any assets not held in your revocable living trust be "poured over" into the trust at your death to be managed along with the other trust assets.

- **Credit Shelter/Marital Deduction (A/B) Trust**

Plan — The purpose of an A/B Trust Plan is to reduce estate taxes assessed by the IRS if death occurs in a year when there is an estate tax. This exemption equivalent amount funds the Credit Shelter Trust. The remaining assets fund a Marital Deduction Trust or pass to the spouse outright. Any married person may leave an unlimited amount of assets to their spouse (assuming they are a U.S. citizen) at death, so the result is no federal estate tax on the first death and a reduced taxable estate at the second death.

Property Ownership — Certain forms of property ownership designation can assist in avoiding the probate process.

- **Joint Ownership With Rights of Survivorship** — Property you and your spouse own as joint tenants with rights of survivorship passes to your spouse outside of probate at your death.
- **Community Property** — If your state has a community property law, you and your spouse each own a one-half interest in assets acquired during your marriage. However, community property does not pass automatically to your spouse. When one spouse dies, the survivor continues owning his/her half of the assets. The deceased spouse needs a will or trust to transfer his or her community property share.

Beneficiary Designations — Life insurance policy proceeds, qualified retirement plan benefits, individual retirement accounts and annuities can go directly to beneficiaries instead of through probate. Check to make sure your beneficiary designations are current.



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GIVING IT AWAY

You don't have to wait until your death to make tax-saving transfers. In fact, a well-planned program of lifetime gifts to family, friends, and charity can save estate and gift taxes, preserve more of your assets for your family and other heirs, and ensure your property goes to the people you want to have it.

Annual Gift Tax Exclusion — Individuals may give any number of people up to \$13,000 each in cash or assets (\$26,000 if your spouse joins in making the gift) without triggering gift taxes.

Lump Sum Giving — You may choose to give assets or cash to a family member or other heirs in one lump sum. If the gift is within the lifetime gift tax exclusion amount of \$1,000,000 you will pay no gift tax.

Exclusions for Medical and Tuition Payments — Current law allows you an unlimited exclusion for certain tuition and medical payments made on behalf of others. To qualify for this exclusion, you must make the payments directly to the educational institution or medical facility. Payments for medical insurance also qualify for the medical exclusion. Payments for dormitory fees, books, supplies and similar school expenses do not qualify for the tuition exclusion.

Giving to Minors — Transferring assets to minors can help to ensure your children and grandchildren have the financial resources needed to go to college, buy their first home, start a business, or begin their own investment and estate planning. If you are uncomfortable giving large sums of cash or assets to them outright, some options include a 529 College Savings Plan, IRC Section 2503 (c) Trusts, or UTMA/UGMA accounts.



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Generation-skipping Transfers — Generation skipping transfers are transfers directly from you, or from a trust you create, to a person two or more generations younger than you (such as a grandchild). The generation skipping transfer (GST) tax applies to both direct skip transfers, indirect transfers, and distributions made from a trust. This tax has been repealed for 2010.

Charitable Giving — Charitable gifts can be made either outright or in a trust, such as a Charitable Remainder Trust. Charitable giving can provide income, gift, and estate tax savings as well as help further the work of organizations you believe in.

WHEN TO REVIEW YOUR ESTATE PLAN

Personal and family changes can make yesterday's well-devised estate plan inadequate today. You should be aware of life events that may signal the need for revision:

- Substantial increase or decrease in your estate
- Marriages
- Births
- Divorces
- Deaths
- Moves out of state
- Business changes
- Tax Law changes
- Retirement

To discuss appropriate strategies for transferring your wealth, contact your Financial Consultant.

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