SCM SURGEONS Capital Management
Preserving more of your earnings

UNDERSTANDING ESTATE TAXES

Quick Guide

About Surgeons Capital Management






Surgeons Capital Management (SCM) is a private wealth management firm that works solely with surgeons and surgical practices. Our focus is in providing wealth and investment management, estate planning strategies, asset protection, and credit protection strategies to our clients.

- Because we work exclusively with surgeons and professional groups, we can provide some additional benefits and programs that are only available to our client surgeons — often at lower cost.
- Recognizing your time constraints, we are available to work around the clock, seven days a week.
- We are there for you when you need us, not when it's convenient for us. We can meet with you virtually, or in person — whatever your preference.

We seek to understand your highly specialized and complex financial needs and, using tax-advantaged planning strategies, we strive to provide lasting value to you and your family.

SURGEONS CAPITAL MANAGEMENT

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CAUTION: This guide is intended to introduce some of the basic issues and steps involved in estate planning. It is not intended to be all-inclusive. There are many issues and topics to be addressed in a complete estate plan, and working with a qualified professional is strongly recommended.

There is an old expression that says, "You can't take it with you." One of the reasons that expression is true has to do with your federal and state governments. If you are lucky enough to have a large estate, one of the biggest transfers at your death may be to the tax collector. You can discuss ways to reduce these taxes with a qualified estate planner. This may include use of trusts as well as conveying or gifting certain assets.

As important as it is to reduce taxes, these strategies should never come before having your assets go to satisfy your other desires. It is all right if you want to set up your estate in such a way that results in paying more tax than you might otherwise have to, yet allow you and your spouse complete control of your assets or to benefit someone in particular. No matter what anyone tells you, it is your money.

Basics of Estate Taxes

The federal government has set up a tax system to collect a certain amount when you die if you leave an estate over a certain amount. This tax was originally intended to prevent extremely wealthy families from holding on to their fortunes from generation to generation instead of turning assets back to the government to help run the country. With rising real estate and pension values and more people owning life insurance policies, a lot of Americans find themselves among this "elite" group. The tax rates on estates can be as high as 40% in 2018, potentially making the federal government one of your major beneficiaries when you die with a sizable estate.

Generally, if you have more than the applicable exclusion amount ($11.4 million in 2019 and $11.18 million in 2018) in your estate, you may have to pay an estate tax. For tax purposes, your taxable estate is defined as your estate (including assets that are not part of probate, such as pensions, joint property, life insurance, and IRAs) less expenses, certain deductions, and exemptions.

IMPORTANT NOTE: If you are trustee in a trust where you can appoint assets back to yourself (or pay your creditors), the entire value of this trust may be included in your estate.

IMPORTANT NOTE: Estate taxes have nothing to do with the income taxes that you have to pay every April 15.

In determining your taxable estate, you are generally allowed to deduct any debts the estate has (excluding estate tax), any expenses paid to the executor, attorneys, or accountants in settling the estate, state death taxes (state estate, inheritance, legacy, or succession taxes), and qualified charitable donations.

Any property transferred to a spouse is deducted from your taxable estate. This is called the "Unlimited Marital Deduction." In many cases, this is how you can postpone estate tax until the surviving spouse dies. There are a few limitations on this deduction, so if you are thinking of leaving assets to your spouse in a trust or otherwise restricting his or her use of the assets, ask your attorney or other estate planning professional if you will be jeopardizing this important deduction.

IMPORTANT NOTE: The Unlimited Marital Deduction does not apply to transfers to a spouse who is not a U.S. citizen. Special rules have to be followed. If this applies to your spouse, find an attorney who is knowledgeable in this area of estate planning.

Basis Step-up

The basis of property acquired from a decedent is generally the same as the value placed on the property for federal estate tax purposes, and can be the fair market value on the date of the decedent's death, an alternate valuation date if elected, or special-use valuation if elected. For example, eligible business-use property included in a family-owned or closely-held business may be valued based on the activity for which it is used rather than on its highest and best use—this is referred to as the "special-use valuation."

Estate-Applicable Credit Amount

The estate-applicable credit amount essentially allows you to transfer a certain amount of assets at death free of estate tax. The amount of assets you can transfer is known as the "Applicable Exclusion Amount" and is $11.4 million in 2019 ($11.18 million in 2018).

For lifetime transfers—i.e., gifts—the applicable exclusion amount is $11.4 million in 2019 ($11.18 million in 2018).

Beginning January 1, 2011, estates of decedents survived by a spouse may elect to pass any of the decedent's unused exemption to the surviving spouse. This election is made on a timely filed estate tax return for the decedent with a surviving spouse. See the instructions to Form 706 for additional information.

The value of assets excluded from estate tax were (are) as follows in 2010 through 2019:

Year	Value of Excluded Assets
2010	Estate tax repealed
2011	$5,000,000
2012	$5,120,000
2013	$5,250,000
2014	$5,340,000
2015	$5,430,000
2016	$5,450,000
2017	$5,490,000
2018	11,200,000
2019	11,400,000

SUGGESTION: Your estate plan should consider the increases in the applicable exclusion amount. Revisit wills and trust documents to determine if changes are required. Married couples should ensure that they have enough assets in their own names in order to take full advantage of the exclusion amounts, since even though an unused estate exemption is portable (transferable with an election to the surviving spouse) the GST exemption is not portable and any unused amount expires at the decedent's death. Further, there may be bona fide reasons to utilize a decedents entire estate tax exemption at death and where portability (transfer of a decedent's unused amount to a surviving spouses), for example to fund a trust to provide income and principal needs for a surviving spouse's and children's future needs, to protect assets from creditors, and to protect assets in the event of future marriages that may fail resulting in assets awards to unintended parties.

Transfer Tax Rate Schedule

In 2019 there is a flat rate of 40% on the amount of assets exceeding the exemption (same in 2018).

Year of Death	Applicable Credit
2010	Estate tax repealed based on election chosen by executor
2011	$1,730,800
2012	$1,772,800
2013	$2,045,800
2014	$2,081,800
2015	$2,117,800
2016	$2,125,800
2017	$2,141,800
2018	$4,417,800
2019	$4,505,8011

IMPORTANT NOTE: Consult with your tax professional for an exact calculation of your estate tax liability.

How Big Is Your Estate?

Although there are some general strategies to follow for all people, if you have money and property valued at more than the applicable exclusion amount ($114 million in 2019 and $11.18 million 2018) when you die, there are some extra steps you will need to take today. Thus, the first step is to estimate the value of your estate.

What Is Included in Your Estate?

The assets and debts that you leave behind are collectively called your "estate." The value of your estate is calculated on the date of your death (or, in some cases, six months later). Your estate includes the fair market value of all assets you own outright and one-half the value of property owned jointly with your spouse. Any joint property you own with anyone else is included in your estate either (1) at full value (if you cannot prove your original contribution) or (2) at your share of the value (if you can prove your contribution). A life insurance policy in which you hold certain rights is also included.

You have to include the value of IRAs, 401(k) accounts, and even money people owe you (such as loans you made or money you earned and haven't received yet). You are allowed to reduce this amount by debts such as medical bills, mortgages, and bona fide personal loans; taxes due; charitable transfers; exemptions; and certain deductions, such as the unlimited marital deduction.

What Is Your Estate Worth?

Add up everything you own and subtract everything you owe. The amount left over is your "net worth." Certain adjustments are then made to determine your estate net worth.

See the *What's Your Estate Worth?* worksheet to help you with this calculation.

IMPORTANT NOTE: If you have made taxable gifts in the past, e.g., given an amount in any single year that exceeds the annual gift tax exclusion ($15,000 in 2019 unchanged from $15,000 in 2018), you may need to adjust your estate calculations. As you review this worksheet with your attorney, he or she can assist you to make sure you have included all your assets, liabilities, and taxable gifts.

Steps You Should Take in Planning Your Estate

Following are the basic steps you should undertake in planning your estate:

- Talk to your partner about your wishes for your assets and family upon your death, and the process to be undertaken. Commit to this process as a joint effort.
- Estimate the value of your estate. Each person should do this separately.
- Identify a guardian for minor children and name alternates.
- Identify executors (with alternates) for your estate.
- Make a list of people who will depend on you after your death and determine how much they will need to live on. Make sure your plan adequately provides for them.
- Decide how to give away your assets when (a) you and your spouse die together, and also (b) one survives. Name alternate beneficiaries in case the people you select die before you. See the "Estate Wishes" worksheet.
- Determine which assets are held in joint names, have beneficiaries, or are community property, as the form of property ownership can override the will.
- Decide if you want to make gifts to people while you are still alive. Can you afford to part with these assets?
- Figure out which assets will be tied up in a probate hearing. Does your family have enough to live off of while the courts review your estate?
- If there are children from a prior marriage, keep this in mind when determining to whom to leave your property.
- Review the people you designated to inherit money and property when you die. Would any of these people have trouble managing their inheritances? Consider trust alternatives if there is a concern here.
- Find an attorney to help draft a will, trusts, and other important legal documents. Both you and your partner should have a separate will.
- Make certain that, if appropriate, assets going to children are protected in trust, especially if minor children will be inheriting property.
- There are special considerations if your spouse is not a citizen of the United States. You'll need to find an attorney who is knowledgeable in this area of estate planning.

Additional Steps to Undertake if the Value of Your Estate is over $11.4 million in 2019

Following are additional steps if the value of your estate is over the applicable exclusion amount ($11.4 million in 2019 and $11.18 million in 2018):

- If your estate is very large, contact an estate planning specialist to get information on more sophisticated planning techniques.
- Consider leaving part of the inheritance to your spouse in a QTIP trust (Qualified Terminable Interest Property Trust) if you are not sure whether he or she will be able to manage the assets after your death (or you are concerned about who will get those assets upon your spouse's death).
- Make sure that each estate has enough assets to take advantage of the applicable credit amount of each spouse. Before you split assets, make sure that you feel comfortable having your spouse own assets outright.
- Beginning January 1, 2011, estates of decedents survived by a spouse may elect to pass any of the decedent's unused exemption to the surviving spouse. This election is made on a timely filed estate tax return for the decedent with a surviving spouse. See the instructions to Form 706 for additional information.
- Consider giving gifts, but don't give away assets unless all your financial needs are taken care of during your lifetime.
- Evaluate the benefit of shifting life insurance out of your estate and into an irrevocable life insurance trust to reduce the value of your estate; properly structured, the life insurance proceeds would be excluded from your taxable estate.
- Consider placing out-of-state real estate into a trust to simplify probate and potentially minimize state estate tax.

Estate Planning Checklist

- ☐ Identify your wishes for your loved ones after your death (your estate plan). See the section *Critical Decisions* and fill out the *Estate Wishes* worksheet. Consider if you want to make any lifetime gifts as well.
- ☐ Pinpoint which legal documents you will need to effectively put your plan into action. See the section *Important Legal Documents* to learn more.
- ☐ Review assets that pass outside your will to see if they contradict your estate plan. If so, consider changing beneficiary designations or re-titling assets. See the section *Important Legal Documents* to understand which assets your will does not control.
- ☐ Determine if you have enough assets to provide for your family after you die. If not, consider buying additional life insurance. If you need additional insurance, consider having a trust directly purchase the insurance for you to avoid estate taxation on the proceeds.
- ☐ Make an appointment with a lawyer and get documents prepared. Review each document carefully; once you feel comfortable that you understand what they say, sign the documents.
- ☐ Prepare your Letter of Instruction as soon as possible. See the section *Important Legal Documents*.♦

Worksheet: What's Your Estate Worth?

The major difference between your net worth when you are alive and your net worth when you die is the amount of the proceeds from life insurance you own. Since life insurance does not get paid until you die, you need to add the total proceeds from your life insurance to your net worth to determine what your estate is worth.

Determine what your estate is worth:	
1. Place your **Net Worth** amount here (see calculation below).	$_______
2. If you included life insurance cash value in your net worth amount, enter this number here (with some exceptions for Universal Life insurance).	$_______
3. Subtract line 2 from line 1.	$_______
4. Add up proceeds you will receive from all of your life insurance:*	
(a) Company-provided group life insurance	$_______
(b) Term life insurance outside of work	$_______
(c) All other life insurance	$_______
5. Total: add lines 4(a), 4(b) and 4(c).	$_______
6. **What's Your Estate Worth?** Add lines 3 and 5.	$_______
** Payable to your estate or in which you possess ownership benefits (e.g., the right to name beneficiaries of the policies).*	
Write the number from line 6 here:	$_______
If this number is less than the applicable exclusion amount ($11.4 million in 2019 and $11.18 million in 2018), you may not be subject to the Estate Tax.	
If this number is greater than the applicable exclusion amount ($11.4 million in 2019 and $11.18million in 20186), you may be subject to the Estate Tax and should read the appropriate sections above for important tax savings planning techniques and consult with an estate planning professional.	
Net Worth Calculation	
Add up everything you own and subtract everything you owe. The amount left is your **Net Worth.**	
1. Enter all the things you *own*	$_______
2. Enter all the money you *owe* to others	$_______
3. Subtract line 2 from line 1. This is your *Net Worth*.	$_______