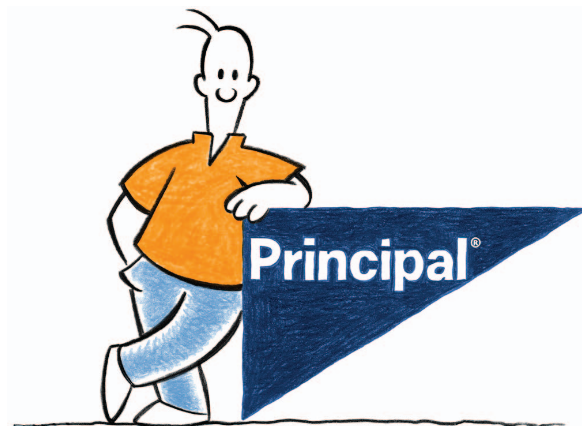
Estate and Business

Planning Guide

Planning Opportunities Under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010
Also known as The Tax Reform Act of 2010 (TRA 2010)



Introduction

The immediate reaction to the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (TRA 2010) on the part of some will be that higher exemptions, lower rates and portability mean they can tear up complicated wills and trusts, cancel life insurance policies and live the simple life.

Unfortunately, it's not that easy.

The two major headline items under TRA 2010 are:

- It increases the lifetime gift-tax exemption from $1 million in 2010 to $5 million ($10 million for married couples) in 2011 and 2012. The $5 million gift-tax exemption creates significant wealth transfer and insurance-planning opportunities for many individuals.
- TRA 2010 expires after 2012. While the law provides a higher exemption and other significant benefits for taxpayers, these benefits are temporary and cannot be relied upon for long-term planning. The window of opportunity may be short.

Although estate tax changes are the big news, the short-term extension of lower tax rates on income, dividends and capital gain is an important point that should not be overlooked. While lower rates provide welcome relief, the sharp increase set to occur in 2013 should be considered in long-term planning for businesses, retirement income and executive compensation.

For a more detailed review of the specific provisions of TRA 2010, see our other publications:

- Legislative Update: New Federal Transfer Tax Rules
- Legislative Update: New Federal Income Tax Rules
- White Paper: Wealth Transfer Provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

This planning guide discusses estate and business planning opportunities under TRA 2010 and is divided into the following sections:

- Table of Key Changes under TRA 2010 3
- Broad Planning Considerations 4
- Planning Opportunities under TRA 2010 7
- Impact of TRA 2010 on Existing Strategies. 13
- Client Planning Checklist 15

Key Changes under TRA 2010

EXEMPTION INCREASE	RATE DECREASE
• Exemptions for the estate, gift and generation-skipping transfer tax (GSTT) are increased to $5 million. • All exemptions revert to $1 million in 2013. (GSTT is indexed for inflation.)	• The top rate for the estate, gift and generation-skipping transfer tax is decreased to 35%. • The top rate for each reverts to 55% in 2013.
REUNIFICATION	**BASIS STEP-UP RESTORED**
• Estate and gift taxes are reunified and GSTT rates and exemptions are matched to the reunified estate and gift tax rates and exemptions. • Unification continues on even after 2012, but at a $1 million exemption and higher rates.	• Estates of taxpayers who died in 2010 must choose between either a basis step-up or paying no estate tax. • After 2010, the basis step-up for assets included in the estate is restored and continues on after 2012.
INDEXING ADDED	**PORTABILITY ADDED**
• The exemption is indexed for inflation beginning in 2012. • Indexing expires after 2012, except for the GSTT exemption.	• The unused exemption of a deceased spouse is now available to the surviving spouse, subject to certain restrictions. • Portability expires after 2012.
GRATS AND DISCOUNTS	**INCOME TAX CUTS EXTENDED**
• Despite much discussion, TRA 2010 does not impose new restrictions on grantor retained annuity trusts (GRATs) and valuation discounts. • Budget issues could pressure Congress to impose restrictions at any time.	• Most Bush-era tax cuts, including lower rates for ordinary income, capital gain and dividends, were extended. • These tax cuts expire after 2012.

TEMPORARY
• TRA 2010 is temporary and expires after 2012. • TRA 2010 creates continued tax uncertainty and a short window of opportunity.

Broad Planning Considerations

The temporary nature of TRA 2010 creates a planning dichotomy between *high-net-worth* individuals, those who will in all likelihood face estate taxes unless Congress chooses to permanently repeal the estate tax, and those who might be described as *affluent*, for whom a $5 million exemption will substantially reduce or even eliminate estate taxes, but who will continue to face estate taxes if the higher exemption is not made permanent.

High net worth

We define *high-net-worth* individuals as those who are almost certain to face estate taxes without permanent repeal *and* who believe they can make substantial lifetime gifts without jeopardizing their own financial security. To quantify, this generally means individuals with a projected net worth of at least $5 million (or $10 million for couples). Depending on age, lifestyle and asset profile, the number could be significantly higher or, in some cases, lower.

For these wealthiest individuals, the $5 million exemption creates an opportunity to transfer large amounts of wealth to future generations with little or no transfer taxation. However, because the increased gift exemption is temporary, such individuals should consider making gifts before the end of 2012. See the Lifetime Gifting sidebar on page 8 for a discussion of technical issues.

For these individuals, life insurance, irrevocable life insurance trusts (ILITs) and most other traditional planning strategies will continue to make sense. By leveraging traditional strategies with the $5 million exemption and valuation discounts (which Congress chose not to restrict), large amounts of wealth can be transferred free of estate and gift taxes. When it is also considered that many asset values have not yet recovered from the recent recession and that the applicable federal rates (AFR) used in valuing many such transactions remain near historic lows, high-net-worth individuals may be seeing a once-in-a-lifetime opportunity to transfer wealth on a tax-favorable basis.

High-net-worth individuals may be seeing a once-in-a-lifetime opportunity to transfer wealth on a tax-favorable basis.

Affluent

We define *affluent* individuals as those for whom a $5 million exemption would minimize or even eliminate federal estate taxes, but who will continue to face estate taxes if the higher exemption is not made permanent and feel that substantial gifts could impair their financial security. To quantify, this generally means individuals with a projected net worth of less than $5 million or couples with less than $10 million.

For high-net-worth individuals, it's full speed ahead with traditional planning!

For the affluent, TRA 2010 presents a conundrum. If an affluent individual assumes during his or her planning process that the exemption will stay at $5 million and it does not, estate taxes may pose a significant threat to the financial security of that person's spouse, children, business or other legacy. However, making substantial lifetime gifts could put such an individual's financial security at risk.

For these individuals, life insurance can be particularly valuable because it offers an effective and potentially inexpensive hedge against ongoing legislative uncertainty. Tax-saving wills and ILITs also will continue to be key planning strategies. The higher gift-tax exemption may simplify premium funding strategies, but lifetime gifts may be restricted by financial security concerns. Some may feel less pressure to engage in wealth transfers if they believe Congress eventually will increase the exemption permanently.

The role of life insurance

Life insurance has long been recognized as an efficient way to provide liquidity to pay estate taxes. Survivorship policies, which pay a benefit upon the death of the survivor, are particularly well-suited for married couples, as taxes are typically deferred until the death of the second spouse.

In recent years, convertible term — term life insurance with a feature permitting the owner to later convert to a permanent policy — has been popular because it permits individuals to lock in insurability. It also minimizes costs for a policy individuals may decide they do not need if Congress permanently reduces estate taxes.

Combining permanent insurance adequate to cover the minimum expected estate tax liability with enough convertible term to cover higher-tax scenarios offers another flexible approach to locking in insurability while protecting against estate tax uncertainty.

Combining permanent insurance with convertible term life insurance may offer a cost-efficient and flexible approach to locking in insurability while protecting against estate tax uncertainty.

Because TRA 2010 is temporary, both strategies are likely to remain popular. Policy provisions should be reviewed carefully for limitations on convertibility. For example, unlike the Principal Financial Group®, not all insurance carriers permit two single-life policies to be converted to a survivorship policy.

The higher lifetime gift exemption may simplify premium funding strategies and may minimize gift-tax issues where individuals wish to restructure ownership of existing policies or roll out of split-dollar arrangements. Continued lower income tax rates may simplify planning for business insurance.

With the potential for higher income taxes and ongoing market volatility, life insurance also offers a tax-efficient way to preserve wealth for future generations. Of course, regardless of federal estate tax exposure, life insurance will continue to be a valuable tool for addressing state estate or inheritance taxes, survivor protection, equalization of inheritances and business-related arrangements.

Where to start

While the law has changed, planning basics have not. Death and taxes are still certain, but insurability isn't.

For many individuals, a real possibility exists that a higher exemption may in the future fully shield them from estate taxes. However, economic and fiscal uncertainties make it unwise to completely rely on Congress to make the $5 million exemption permanent. Unless and until estate taxes are permanently repealed, advisors should begin by helping individuals understand their estate tax exposure and locking in insurability now.

The Principal® offers an excellent tool for easily projecting potential estate tax exposure under the full range of tax scenarios considered most likely; find it at **www.principal.com/estatetax**. The purpose of the calculator is to provide a simple projection; therefore, it does not address state estate or inheritance taxes. However, both should be considered. With an understanding of potential estate tax exposure, individuals can consider estate distribution goals, liquidity and insurance needs and premium funding strategies.

Meanwhile, all individuals, regardless of wealth, should *once again* review wills and trusts to ensure distribution plans have not been adversely affected by the latest changes. In the past, many wills and trusts defined bequests in terms of the federal estate tax exemption without any expectation the exemption would approach $5 million. As recently as 2001, the exemption was only $675,000.

In 2011, if a spouse with a $1 million estate dies with a will that passes to the credit shelter trust an amount up to the full exemption — now $5 million — the surviving spouse might receive nothing outright. An outdated document could unintentionally disinherit a spouse.

Finally, individuals should not let uncertainty regarding the estate tax delay work on traditional planning issues such as estate distribution, nomination of guardians and personal representatives, estate equalization, business buy-sell and succession and asset protection that are not estate-tax driven. Advisors should use this law change as an opportunity to reach out to clients and help them move forward the planning that will ensure loved ones are cared for and legacies achieved.

Planning Opportunities under TRA 2010

Outright gifts

The higher gift-tax exemption under TRA 2010 presents a substantial opportunity to transfer wealth and reduce long-term estate tax exposure for individuals willing and able to make lifetime gifts. A current gift removes future appreciation and income from the taxable estate and may "lock in" the current $5 million exemption against future reductions in that amount. (See sidebar Lifetime Gifting on page 8.)

While an outright gift of cash or other assets is possible, such a gift provides no leverage and the donor cannot control how the gift is used — or misused. Also, outright gifts may be subject to the creditors of the donee or, in a divorce, the spouse of the donee.

ILITs

ILITs are trusts designed to hold life insurance policies and to make policy proceeds available for estate liquidity needs while excluding policy death benefits from the insured's estate. Because insurance owned by an ILIT can offer an effective and reliable hedge against ongoing legislative uncertainty, ILITs may be more valuable than ever.

ILITs may be more valuable than ever as a hedge against ongoing legislative uncertainty.

A simple gifting strategy is to make a cash gift to an ILIT and to leverage that gift with life insurance. An ILIT funded with a survivorship universal life policy is a popular and proven estate planning tool that will continue to offer many married couples a low premium and a death benefit payable exactly when needed.

Given legislative uncertainty and the opportunity to heavily fund policies using the higher gift-tax exemption, advisors should consider if cash-value-oriented policies will make sense for some individuals. Properly structured, such policies may offer not only estate liquidity, but also attractive after-tax internal rates of return on both death benefits and cash-surrender values.

ILITs can be structured so that family members, though not the insured, can access policy cash values. Thus, while survivorship policies are commonly used for married individuals, a single life policy will typically be most appropriate where access to cash value is a consideration. Individuals should understand the trade-offs between various product options and that excessive withdrawals may reduce death benefits or even cause the policy to lapse.

Regardless of estate taxes, ILITs can be designed to provide a flexible, comprehensive distribution strategy and to protect policy cash values and proceeds from the incapacity, creditors and youthful indiscretions of the trust beneficiaries.

Reposition existing insurance

The increased gift-tax exemption can be used to correct existing estate planning problems. For example, if an existing life insurance policy is owned by the insured, the policy death benefit will generally be included in the taxable estate of the insured.

In many cases, current planning considerations will dictate changing ownership of the policy so that the death benefit will not be included in the estate of the insured. The increased lifetime gift exemption offers a simple way to correct ownership issues and to top up an underfunded policy without incurring gift taxes. Of course, an ownership change should be accompanied by a review to confirm the continued appropriateness of the policy.

Important: Consider the three-year estate inclusion rule under §2035 of the Internal Revenue Code. Also remember that transfers of a policy, even if not subject to gift taxes, can trigger income tax recognition or a transfer for value, particularly where an outstanding loan exists against the policy or the policy is owned by a business or pursuant to a buy-sell agreement.

Lifetime Gifting

The new $5 million gift-tax exemption creates planning opportunities, but there is a concern about what happens if the amount drops in the future. Most observers assume that Congress intended to grandfather for estate tax purposes lifetime gifts of the higher amount. However, some commentators believe that as the law is actually written, lifetime gifts that exceed the exemption available at the time of the donor's death will be "clawed back" into the taxable estate.

Income and appreciation accrued after the gift is made would be excluded from the taxable estate, but a donor would not have "locked in" today's higher exemption for estate tax purposes. Note that this interpretation of the law is not universal and the issue could be resolved if Congress chooses to make the $5 million exemption permanent or adopts technical corrections to the law. As always, individuals should consult with their tax advisors before taking action.

As a practical matter, making large lifetime gifts means relinquishing control. Many individuals are understandably reluctant to do so, notwithstanding the potential tax benefits of excluding future income and appreciation from the taxable estate. The ability to lock in the $5 million exemption, which may otherwise be lowered in the future, might be enough incentive for some to overcome the reluctance to gift. Therefore, this is not an entirely academic issue.

In a related issue, advisors should recall that under the unified estate and gift-tax system, estate taxes are calculated after lifetime gifts are pulled back into the taxable estate (with credit given for taxes previously paid or credit previously used). The purpose of this calculation method is to ensure that both lifetime gifts and amounts passed at death are taxed at the same, unified rate.

One effect of this calculation: A primary potential benefit of making lifetime gifts is to exclude from the estate future growth on the gift. Of course, lifetime gifts receive carry-over basis instead of a basis step-up, which must be considered in selecting assets for gifting. Even if Congress makes the $5 million exemption permanent, individuals should consider the potential advantages and disadvantages of making lifetime gifts.

Split-dollar roll-out

Split-dollar arrangements, both private and employer-funded, have long been used to fund large life insurance premiums while minimizing income and/or gift taxes. While effective, split-dollar arrangements can become less attractive as economic benefit costs (or interest payments) rise over time, so it is important to consider exit strategies from the beginning of the planning process.

When the policy is owned by an ILIT, the exit strategy must address potential income and gift-tax issues. The increased gift exemption under TRA 2010 may simplify split-dollar exit strategies. In a private split-dollar arrangement, the lender (typically a parent or grandparent) can use the increased gift exemption to simply forgive the loan to the ILIT.

The increased gift exemption under TRA 2010 may simplify split-dollar exit strategies.

In an employer-sponsored split-dollar arrangement, the higher exemption can facilitate a strategy that may avoid income and unexpected gift taxes that might otherwise be incurred if the employer simply were to forgive the loan. The employee can use the increased gift exemption to make gifts to the trust to enable the trust to repay the loan from the employer.

As part of any roll-out, policies should be reviewed for proper funding, performance and continued suitability. Additional gifts can be made to fully fund the policy. The need for new private split-dollar arrangements may be reduced by the higher exemption amounts (at least for 2011 and 2012), which may simplify many insurance purchases.

Dynasty trusts

Dynasty trusts permit wealth to be excluded from transfer taxes over multiple generations by making use of the generation skipping transfer tax (GSTT) exclusion. Dynasty trusts can be funded with life insurance as well as other assets.

Previously, the GSTT exemption exceeded the gift exemption. Thus, by making a lifetime gift equal to the full GSTT exemption, a donor generally would incur gift taxes on the portion of the gift that exceeded the lifetime exclusion. Under TRA 2010, the GSTT and gift exemptions are both $5 million; thus, in 2011 and 2012, dynasty trusts can be funded with lifetime gifts equal to the full $5 million GSTT exemption without incurring gift taxes.

With proper allocation of the GSTT exemption, assets in the dynasty trust and appreciation thereon are exempt from future estate, gift and GSTT taxes, essentially forever. *Note the gift-tax issue discussed in the Lifetime Gifting sidebar on page 8.* Dynasty trusts also can be designed to protect trust assets from creditors of the beneficiaries. It may be possible to enhance the benefits of a dynasty trust by funding it with some of the leveraged gift techniques discussed on the next page.

Leveraged gifts

For the wealthiest individuals, the real benefit of the increased lifetime exemption may be the ability to amplify the effectiveness of other wealth transfer techniques. For example, the decision by Congress not to impose new restrictions on valuation discounts presents an opportunity. The new $5 million exemption can be used to make a gift of an income-producing asset. If discounts on the gift are warranted, the value removed from the estate may be significantly more than $5 million.

The gift can be leveraged further by using the income from that asset to pay life insurance premiums. The life insurance and any income and appreciation accrued on the asset after the gift can be excluded from the taxable estate.

The real benefit of the increased lifetime exemption may be the ability to amplify the effectiveness of other wealth transfer techniques.

Sale to IDIT

Another strategy to leverage the $5 million exemption is a sale to an intentionally defective insurance trust (IDIT). The rule of thumb for IDIT sales is to pre-fund the trust with "seed money" equal to 10 percent of the value of the assets to be sold.

A married couple with a $10 million exemption available might be able to justify a sale of assets worth $100 million. If that sale price reflects a depressed market value subject further to justifiable valuation discounts (e.g., lack of control), the value removed from the estate could be substantially higher than $100 million. If the IDIT is designed as a dynasty trust and the GSTT exclusion is allocated, these trust assets can be shielded from transfer taxes potentially for generations.

With current low AFRs, the income generated by the asset sold to the IDIT may exceed that needed to service the note, leaving substantial cash flow to pay life insurance premiums. By owning the policy in the IDIT, gift-tax restrictions can be avoided and Crummey powers made unnecessary. If excess trust income is directed into life insurance, future income and appreciation can be tax-deferred and the IDIT can provide the family with long-term income tax efficiency, too.

Trust assets can be shielded from transfer taxes potentially for generations.

Spousal ILITs

A spousal ILIT can offer a beneficiary spouse access to income and principal.

As discussed earlier, TRA 2010 presents a dilemma for some individuals. It might be desirable to attempt to lock in the $5 million exemption (by making lifetime gifts) before its scheduled reversion to $1 million in 2013; however, many individuals cannot make substantial lifetime gifts without impairing their financial security. Spousal ILITs may offer a solution for some married individuals.

A properly designed spousal ILIT can offer a beneficiary spouse access to the income and some of the principal of the trust without causing trust assets to be included in the spouse's estate at death. Thus, an individual could make a $5 million gift to an ILIT created for his or her spouse as primary beneficiary. The ILIT could be designed to provide the beneficiary spouse with some of the income and principal of the ILIT while excluding the value of assets in the ILIT from the taxable estate of that spouse. If each spouse makes a $5 million gift to an ILIT for the benefit of the other spouse, together, both spouses will continue to have access to the full $10 million (i.e., direct access to the $5 million in the trust for which he or she is beneficiary and indirect access to the $5 million in the trust for whom the other spouse is beneficiary), while having locked in the full $10 million of exclusions. After the death of a spouse, assets of the trust for which he or she was named beneficiary would be distributed to successor beneficiaries according to the terms of the trust.

The danger is that if either spouse were to die or become incompetent, or if marital troubles were to arise, a spouse might lose his or her indirect access to the $5 million in the trust for the benefit of the other spouse. Life insurance can hedge the risk of death though not the other risks.

By funding each ILIT with a policy on the life of its grantor, the beneficiary of the trust can be assured that life insurance proceeds will become available at the same time as he or she loses indirect access to the other trust. **Important:** Estate inclusion of ILIT assets may result if the insured is deemed to control or own the policy, the beneficiary's rights to trust income or principal are too great or the trusts fall under the reciprocal trust design. Careful drafting is critical.

Accumulation and diversification

The recent economic turmoil highlighted for many business owners and other individuals the risk of concentrating too much wealth in a business or other potentially volatile asset. Many individuals and businesses are still rebuilding. After a two-year extension under TRA 2010, tax rates on income, dividends and capital gains are set to increase substantially unless Congress acts.

In the face of potentially higher taxes, life insurance cash values can provide a tax-efficient, long-term cash accumulation tool, and policy death benefits may stabilize the value of bequests. The stable values of fixed products (or the diversification of variable) can be particularly attractive to a business owner whose wealth is highly concentrated in a business.

Portability

The portability feature provided by TRA 2010 is intended to simplify estate planning for married couples by eliminating the need to use tax-saving wills (or trusts) and to divide asset ownership between spouses. A surviving spouse may use the carried-over exemption at death or for additional gifting. While portability is helpful, many individuals will find that tax-sensitive estate planning documents are still desirable and necessary.

While portability is helpful, many individuals will find that tax-sensitive estate planning documents are still desirable and necessary.

Assets left outright to the surviving spouse could be dissipated before reaching the intended beneficiaries because of poor wealth management, a subsequent remarriage or mental incapacity. In a second marriage, many individuals will simply be unwilling to leave assets outright to their spouse.

Many of these risks can be minimized by placing assets in a credit shelter trust that provides income and support for the surviving spouse without giving the spouse absolute control while removing future appreciation from the estate. In any case, portability is set to expire in 2012 so it cannot currently be relied upon for long-term planning. Ultimately, even if portability becomes permanent, it may be used as a “save” where other planning was deficient, but not a tool that informed individuals choose intentionally.

Indexing

TRA 2010 provides for inflation indexing of the estate, gift and GSTT exemptions. Most taxpayers experience inflation indexing in the form of annual increases to the Social Security wage base or income-tax brackets in which annual increases are relatively small because the base amount is relatively small.

Therefore, the size of potential indexing increases of the exemption may be larger than expected at first glance. For example, if the $5 million exemption is adjusted by 2.5 percent in 2012, the exemption increase would be $125,000. (In the 10-year period from 2000 through 2009, the Consumer Price Index exceeded 2.5 percent in all years but two.) If inflation adjustments averaged roughly 2.5 percent annually, the $5 million exemption would increase by more than $1 million after 10 years.

If Congress chooses to make both indexing and the $5 million exemption permanent, many estates will be sheltered from estate tax. For the wealthiest individuals, the indexing feature would provide ever-increasing exemption amounts that could be used to fund future gifts and insurance premiums.

Impact of TRA 2010 on Existing Strategies

A business valuation can help business owners determine if exit strategies are on track.

Buy-sell and exit planning

TRA 2010 extends for two years lower tax rates on income, dividends and capital gains. Lower rates can simplify buy-sell arrangements and exit planning where a sale of the business is envisioned. The higher exemption may simplify gift-oriented exit planning strategies in which estate taxes are a bigger concern than the owner's financial security.

Owners should obtain a business valuation to see if exit strategies are on track after the recession. Buy-sell agreements should be reviewed to see if the structure continues to make sense and funding is adequate.

Inheritance equalization

The net worth of many business owners consists mostly of the business. In an instance in which some children participate in the business and others do not, life insurance can offer a tool to provide for a fair division of assets while making sure that control and ownership remain with the children working in the business. The increased exemption may simplify premium funding and minimize estate tax considerations. But remember: The law is scheduled to expire after 2012.

Grantor retained annuity trusts

GRATs are popular wealth-transfer tools that can be used independently, but are often employed to provide funding for exit strategies from premium financing and split-dollar life insurance arrangements. Despite much discussion, Congress chose not to reduce GRAT utility by restricting short-term GRATs or imposing a minimum remainder requirement; thus, GRATs will continue to be useful wealth-transfer tools. Note that Congress can choose to impose restrictions at any time, so interested individuals may be well-advised not to delay.

Valuation discounts

Valuation discounts (e.g., minority interest, lack of control or lack of marketability) to reflect the impaired market value of various types of ownership interests in closely held businesses and other assets have been a key tool to reduce the gift tax value of transferred assets. Despite much discussion, Congress chose not to impose additional restrictions on valuation discounts; thus, they will continue to be useful in wealth-transfer planning.

Planning ideas using valuation discounts are discussed in the sections on Leveraged Gifts and Sale to IDIT. Congress can choose to impose additional restrictions at any time, so interested individuals may be well-advised not to delay. Valuation discounts are the subject of ongoing scrutiny by the Internal Revenue Service, so careful planning is required.

Executive benefits

As the economy stabilizes and hopefully begins to recover, targeted nonqualified executive benefit packages can provide a cost-effective way to recruit, retain and motivate a business's most valuable employees. Temporary extension of income tax cuts provides welcome relief, but compensation planning should take into account potentially higher future income tax rates and consider the advantages and disadvantages of using tax-favored investment vehicles.

Conclusion

Recent events prove that predicting future tax law changes is a risky business. Until almost the eve of 2010, most observers were confident that Congress would not allow the federal estate tax to expire. After the law expired, many assumed a compromise would be quickly reached and the tax re-imposed.

As the year waned without action, it became plausible to believe that Congress would be unable to reach a compromise before 2011 and the estate tax would revert to a $1 million exemption and a top rate of 55 percent. Instead, on Dec. 17, 2010, President Obama signed into law TRA 2010 with its extensive, though temporary, benefits for taxpayers.

The economic and fiscal uncertainties facing the country may or *may not* dictate that transfer and income tax rates will remain at current levels. Individuals should consider seizing opportunities presented today while maintaining as much flexibility as possible to adjust to future rule changes.

Client Planning Checklist

- Project potential estate taxes
- Consider potential liquidity needs
  - Retirement income
  - Survivor income needs
  - Projected federal and state transfer taxes
- Lock in insurability
  - Consider ownership structure
  - Consider funding strategies
- Review wills and trusts
  - Coordinate with new federal exemptions
  - Consider state estate and inheritance taxes
- Review existing life insurance policies
  - Appropriate ownership
  - Appropriate design
  - Policy performance
  - Adequate funding
  - Consider rolling out existing split dollar arrangements
- Review existing wealth transfer strategies
  - Can complicated, risky or failing existing strategies be replaced with lifetime gifts?
  - GRATs/Sale to IDIT
    - Is the strategy likely to fail due to assets underperforming the 7820 rate/AFR?
    - Should a rescue be considered?
- Business owners
  - Obtain updated business valuation
  - Review or create exit planning strategies
  - Review buy-sell agreements and funding
  - Consider implementing executive compensation arrangements

WE'LL GIVE YOU AN EDGE®

Principal National Life Insurance Company and Principal Life Insurance Company, Des Moines, Iowa 50392-0002, www.principal.com

While this communication may be used to promote or market a transaction or an idea that is discussed in the publication, it is intended to provide general information about the subject matter covered and is provided with the understanding that The Principal is not rendering legal, accounting, or tax advice. It is not a marketed opinion and may not be used to avoid penalties under the Internal Revenue Code. You should consult with appropriate counsel or other advisors on all matters pertaining to legal, tax, or accounting obligations and requirements.

Principal National (except in New York) and Principal Life are issuing insurance companies of the Principal Financial Group®, Des Moines, IA 50392.

Not FDIC or NCUA insured
May lose value • Not a deposit • No bank or credit union guarantee Not insured by any Federal government agency

BB10386 | 03/2011 | t11021702nc