OLD NORTH STATE TRUST, LLC

Tax Planning Must Be Personalized to Client's Unique Goals

The recently concluded tax season has been a reminder that every family's needs are unique, and that tax planning must go hand in hand with concern for each individual's practical needs. In short: one financial formula does not fit all clients.

The best way to explain what this means is to use some examples. The point is to show how deep understanding of each client's situation, married with deep understanding of the tax laws, can meet a complex set of priorities.

One of our clients entrusted Old North State Trust to help him structure his very large estate in a way that would accomplish several objectives.

First, he wanted to ensure that his surviving spouse was well taken care of, without having to pay estate taxes. This was complicated by the fact that the couple was in a second marriage.

Second, both the husband and the wife wanted to put their assets to charitable work after their deaths.

Another goal was to minimize the tax consequences of the wife's gifts to her children from separate assets she holds in her own name.

Finally, she wanted to structure a business succession plan so that each of her children would get a specific portion of a closely held firm that she controls.

Here are some of the strategies we recommended to meet these objectives.

The client did not want to leave his assets to his spouse outright, for various reasons. One of these was, if he had willed his estate to the current spouse, no estate taxes would have been payable from his estate, but the tax bill would come due upon the surviving spouse's death. So instead, we created what's called a CRUT: a charitable remainder unitrust.

This kind of trust provides income during the beneficiary's lifetime. And because it isn't narrowly tied to the owner's death, as a simple will would be, the beneficiary could be the estate's owner himself (the "grantor" to the trust) or the spouse and/or children. The income is distributed at a set percentage of the trust's value, based on the market value of the assets it holds.

Eventually, after the death of the last beneficiary, the trust pays out to a charity or charities, according to the owner's wishes.

The result: This trust was completely estate tax-free at the grantor's death, and will also be tax-free at the surviving spouse's death. The grantor got an income tax deduction when he established the trust, and it provided an income stream for his beneficiaries. The final perk was that the trust took care of the grantor's charitable intent, to support causes that were important to him.

At the same time, we are managing the separate assets that the spouse holds in her own name. We have helped her to make annual (non-taxable) gifts to her children. We also assisted with her estate planning. That included setting up another trust to continue providing for her children after her death.

Meanwhile, we help her with her tax returns each year, and offer assistance with the management of her business. For example, we have helped her get insurance coverage on the business. We also offered advice and practical help in how to allocate the portions of the business she wants to leave to each child. Because some important business matters lie outside our own areas of expertise, we partnered with insurance professionals to find the best health insurance coverage for her children.

And speaking of partnerships with outside experts: we have even worked with an attorney to help our client work out a speeding ticket!

While these clients' situation is complex, and the solutions highly technical, the point is simple. Any financial planning, especially when it involves multiple generations, estates and trusts, should be carefully personalized for each client. Picking a package of investments off a shelf, or signing a boilerplate will, is rarely the best way for any family to achieve its long-term goals.