Wealth Structuring:

Why Two Individual Trust and Life Insurance Policies are Optimal vs. One Joint Trust and Survivorship Policy

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Two Individual Trusts Create Greater Flexibility to Account for Changes in the Future

Spouse 1
New Irrevocable Intentionally Defective Grantor Trust (IDGT)

Owning

- **New Life Insurance Policy**
- **Any other business or investments chosen**

Beneficiaries

- **Spouse 2-Primary**
- **Children**
- **Grandchildren**
- **Charities**

Spouse 2
New Irrevocable Intentionally Defective Grantor Trust (IDGT)

Owning

- **New Life Insurance Policy**
- **Any other business or investments chosen**

Beneficiaries

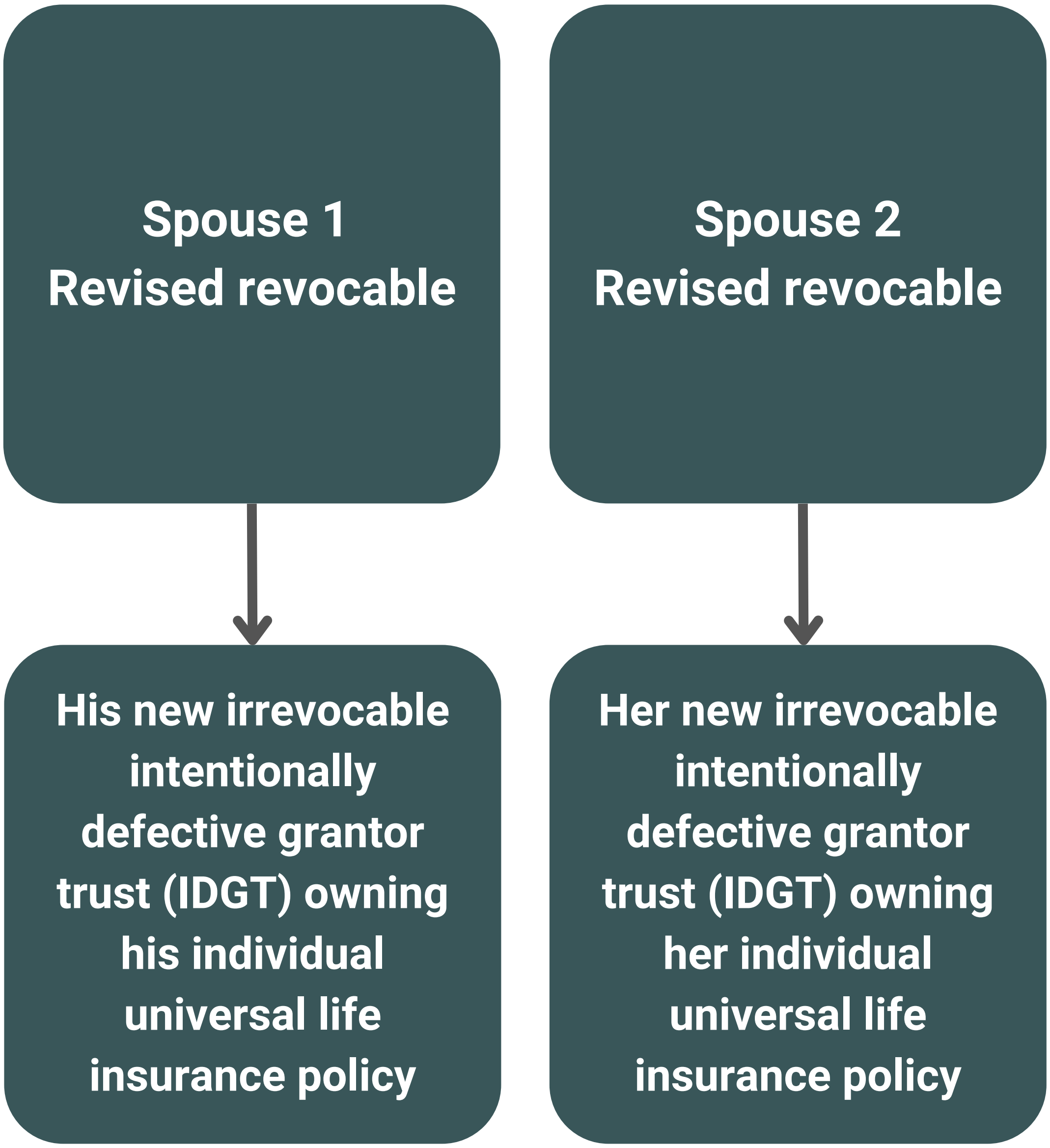
- **Spouse 2-Primary**
- **Children**
- **Grandchildren**
- **Charities**

Advantages over the survivorship design:

- The policy or cash values could be distributed back out to each spouse. Even in the event of death or divorce so long a the term spouse is used and not a specific spouse.
- No new trusts should need to be created unless there are extraordinary needs. Under the survivorship design there is less flexibility ad in the future there may be a desire to create additional unnecessary trusts.
- Should there be no need for trusts in the future, the trusts could not dump out contents to each spouse.
- Easily get around prohibitive reciprocal trust doctrine by creating additional powers in one trust and timing them apart.
- Individual life policies are ideal and can even create economic advantages over survivorship policies if spouse deaths are greater than 5 years apart.

Revocable and Irrevocable Trust Coordination

Make changes to existing revocable trust to account for the new irrevocable living trusts.



Note: To the extent their revocable trusts would create separate irrevocable trusts it might be good to review the revocable trusts and coordinate them with the new irrevocable trusts we are recommending so that there aren't more trusts than are necessary and the language of the irrevocable trusts incorporates and anticipates funding in the future from the revocable trusts possibly.

Tax Planning

Each grantor spouse has the ability to interact with the trust to achieve tax advantages that otherwise are not possible such as optimizing tax planning by swapping assets between the estate and trust for cost basis planning in trust and step up in basis planning in the estate.

Swap assets from the balance sheet for assets in the trust for fair market value **without causing income taxation**. Excess earnings or growth in trust avoid estate taxation. Assets on balance sheet receive step up in basis

Spouse 1

Sell: Sale of income producing business shares in exchange for a note from the trust **without causing income taxation.** Excess growth or income in trust avoids estate taxation.

Shares

Notes

New Intentionally Defective Grantor Trust (IDGT)

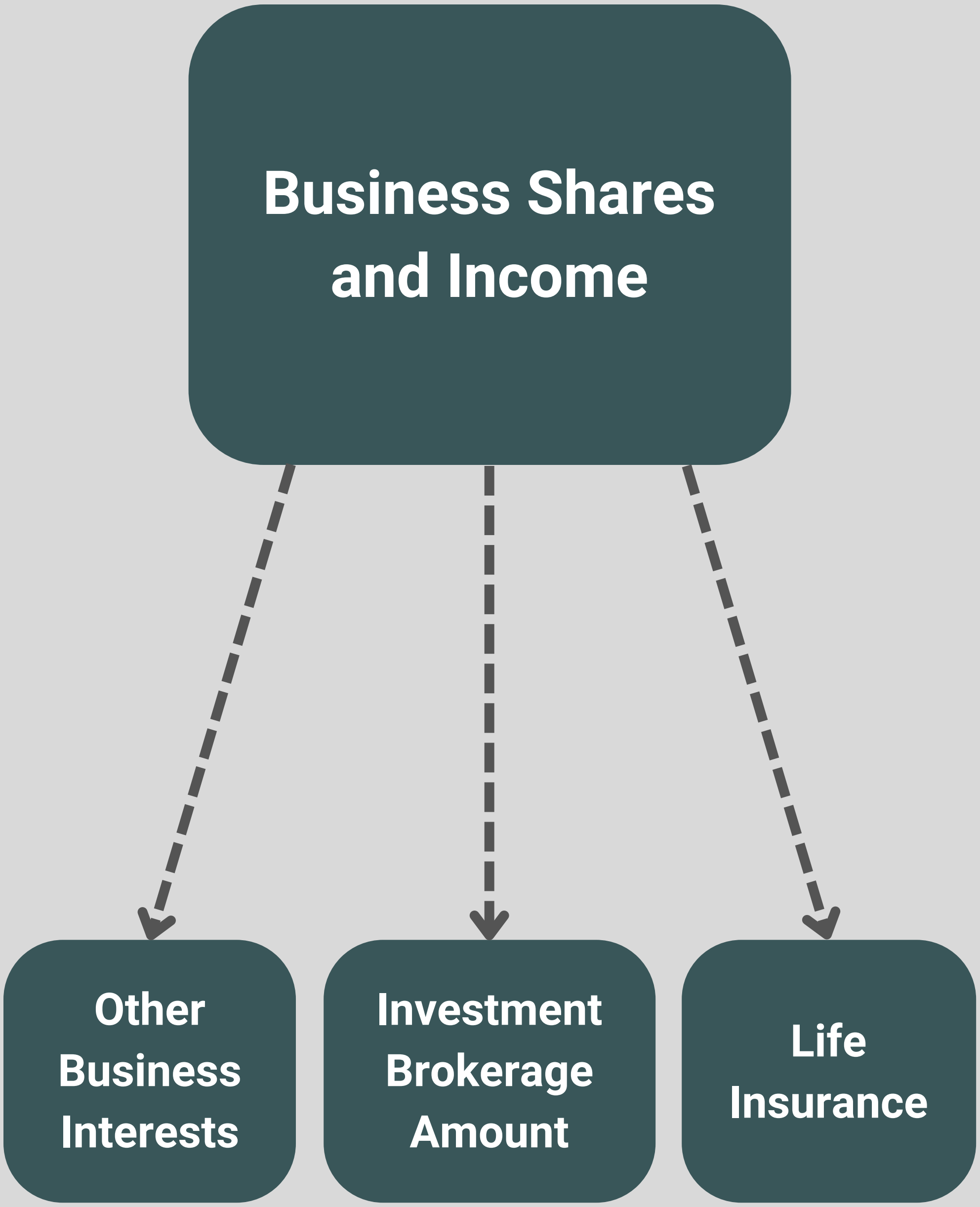
Spousal lifetime Access Provisions for noncontributory Jane

During lifetime or at death discretionary Income to spouse, children, charities or others.

Other Permissible Beneficiaries: Children, Charities, & Institutions

How Assets Can be Managed and Coordinate within the Trust

Intentionally Defective Grantor Trust (IDGT):



Trust Income- Business Income is owned by the trust and held in a trust checking account.

Trust Assets- Trustee can use funds in the trust to apply towards life insurance premiums, brokerage account, the business purposes or make distributions to beneficiaries depending on the powers and discretion given in the trust agreement.

Taxes- The Trust applies for its own tax ID number though the income taxes flow through to the Grantors tax return. The Grantor should have the power to stop being responsible for income taxes if he or she surrenders the powers that made the trust income taxable to him or her. The trust or trust beneficiaries would then be responsible.