Wealth With Purpose

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5 Strategies to Reduce Your Estate Taxes in Washington State

Thank you for your interest in *"5 Strategies to Reduce Your Estate Taxes in Washington State".*

Based on your individual circumstances, these strategies may help reduce your Washington state estate tax liability. Our clients have used them to their benefit for many years.

Each chapter describes a different planning tool to minimize estate taxes.

Your situation is unique, so if you have questions about how these strategies could help ensure your legacy makes the impact you intend, please reach out to us!

The Team at Alterra Advisors

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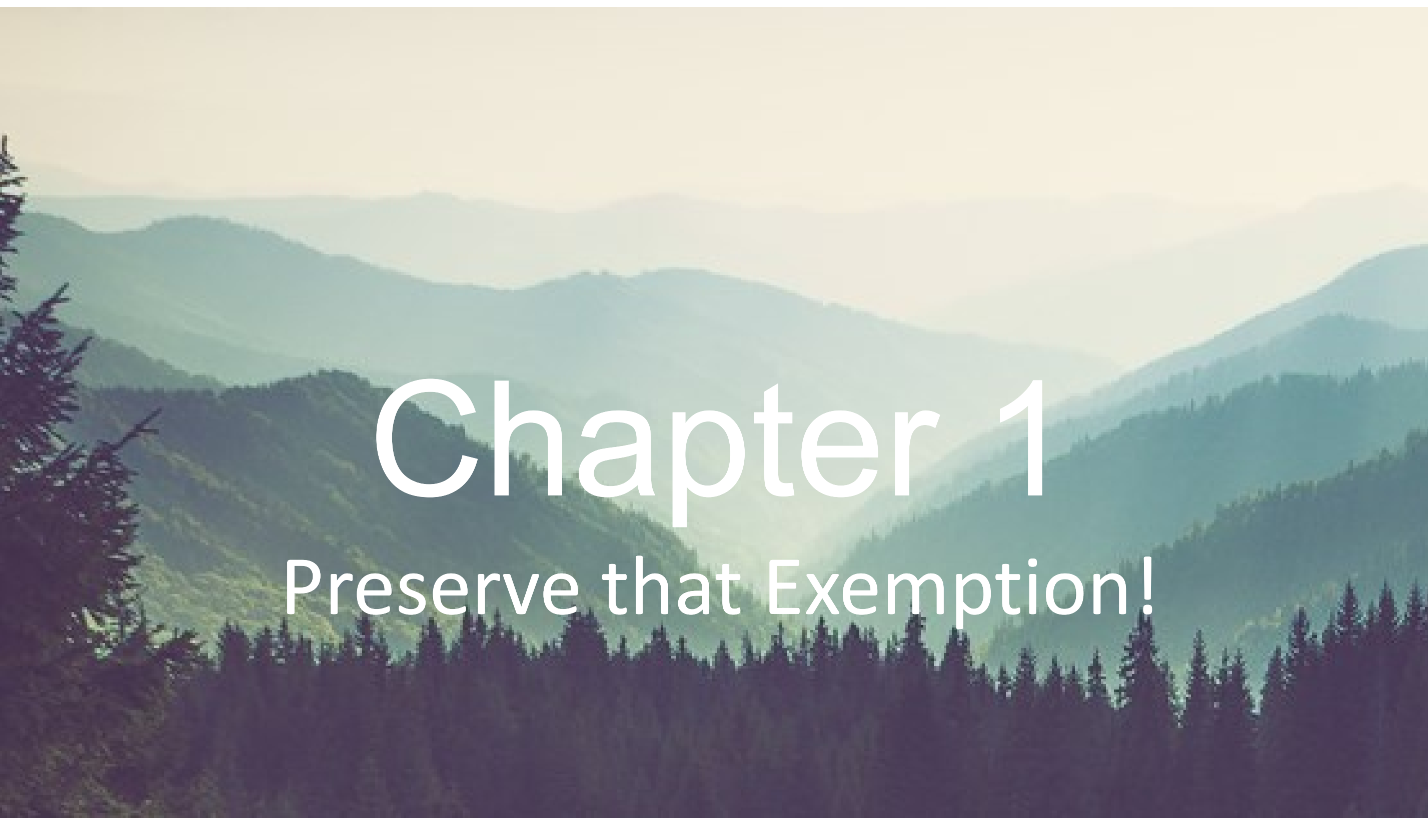

Chapter 1

Preserve that Exemption!

Preserve That Exemption!

Strategy #1 - Create a Credit Shelter Trust in your will to make your exemptions ”portable” to your spouse.

- Credit Shelter Trusts allow married couples to take full advantage of their individual state and federal estate tax exemptions. They are created upon a married individual's death and funded with all or a portion of that person’s estate as outlined in the will. Any remaining assets not placed in the trust pass directly to the surviving spouse.

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Preserve That Exemption!

- A key benefit to a Credit Shelter Trust is that the surviving spouse maintains access to trust assets during his or her lifetime. He or she can access funds as needed for Health, Education, Maintenance, or Support – sometimes called HEMS.

  When the surviving spouse dies, all trust assets are transferred to remaining beneficiaries without any estate taxes levied.

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Preserve That Exemption!

- A Washington Credit Shelter Trust is created by your will to receive assets when the first spouse dies, typically to preserve the $2.193 million exemption that would be lost by passing everything directly to the surviving spouse.

- If you are married, this effectively creates "portability" of your exemption. Many wills in Washington State have this provision included.

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Chapter 2

Give It Away Along The Way

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Strategy #2 – Gift as much as possible during your lifetime.

- Washington state has no tax or limit on gifts made during your life, so giving more while you're alive can reduce estate taxes after you pass.
- You gain the added benefit of seeing your family and causes you care about enjoy your gift.

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Give It Away Along The Way

- At the federal level, the US government in 2021 allows an individual to give up to $15,000 each year free of tax plus an added $12.06 million over their lifetime free of any gift tax.

- To increase the impact of lifetime giving, many make gifts to an irrevocable trust. Using the right strategies, you can grow these gifts income tax free and pass them to your loved ones' estates tax free, as well.

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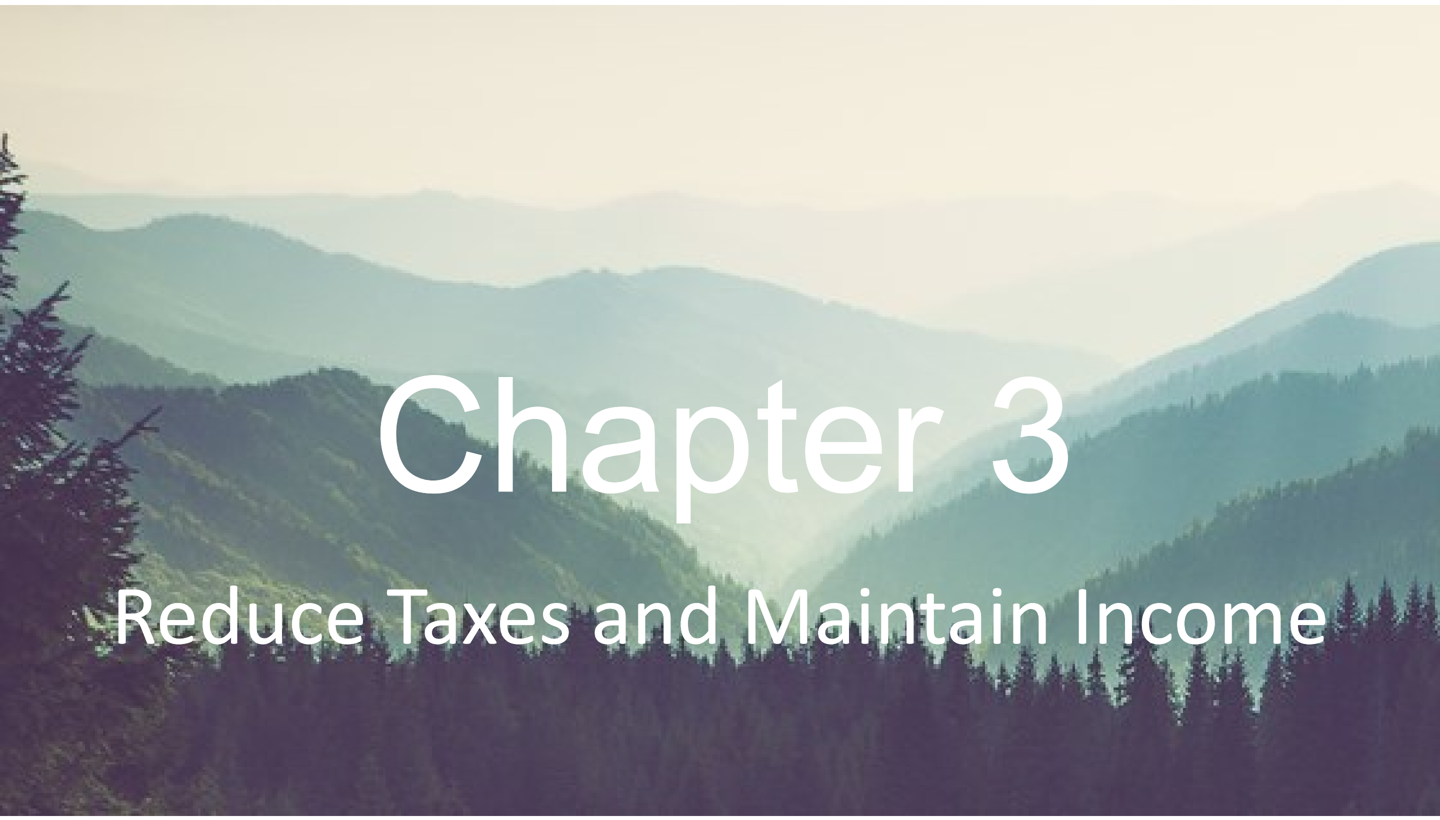

Chapter 3

Reduce Taxes and Maintain Income

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Strategy #3 – Implement trust vehicles.

- If you still need income from your assets but want to move them out of your estate to minimize taxes, adding certain trust vehicles can help. Here are two options:
  - IDIT – Intentionally Defective Irrevocable Trust
  - GRAT – Grantor Retained Annuity Trust

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Reduce Taxes and Maintain Income

- Selling an asset to an Intentionally Defective Irrevocable Trust (IDIT) moves the asset out of your estate but provides income during your life.
- Assets are sold to the trust in exchange for a promissory note. In return, you receive loan payments from the trust.
- You pay income tax on trust earnings along the way, but the value, including future growth, is now outside of your estate is not subject to taxes when passed to your beneficiaries.

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Reduce Taxes and Maintain Income

- A Grantor Retained Annuity Trust (GRAT) can also help move assets out of your estate and provide income during your life.
- A GRAT can help freeze the value of estate assets by shifting the future appreciation to the next generation.
- Assets are placed in an irrevocable trust for a certain period of time. During this time, the Grantor receives an annuity payment each year. When the trust expires, beneficiaries receive the asset tax free.

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Chapter 4

Protect Highly Appreciating Assets & Maintain Access

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Strategy #4 – Protect highly appreciating assets.

- A Beneficiary Intentionally Defective Trust (BDIT) is a variation on the IDIT that keeps you, the seller, as a beneficiary of the trust, allowing access to funds for health, maintenance, and support. These can be effective for a business or other highly appreciating asset.
- This is a third-party settled trust, designed to give you the seller – who is both a trustee and initial primary beneficiary – control and enjoyment of trust assets during your life and avoid estate taxes at your passing.

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Chapter 5

Make Your Trust Last for Generations

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Strategy #5 – Re-domicile trust assets.

- Let’s consider South Dakota. You can live in Washington and establish a trust in South Dakota.
- Trusts are governed by law in the state where it is domiciled. South Dakota has some of the most appealing and flexible trust laws in the nation, alongside Delaware, Nevada, Tennessee, New Hampshire.

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Make Your Trust Last for Generations

- Assets placed in trust in South Dakota have the benefit of no state income taxes, no generation skipping taxes, and an unlimited duration, meaning they can exist for generations. Washington trusts have a 150-year limit.
- For large estates, this can reduce estate and gift taxes, and preserve wealth for many generations of loved ones.

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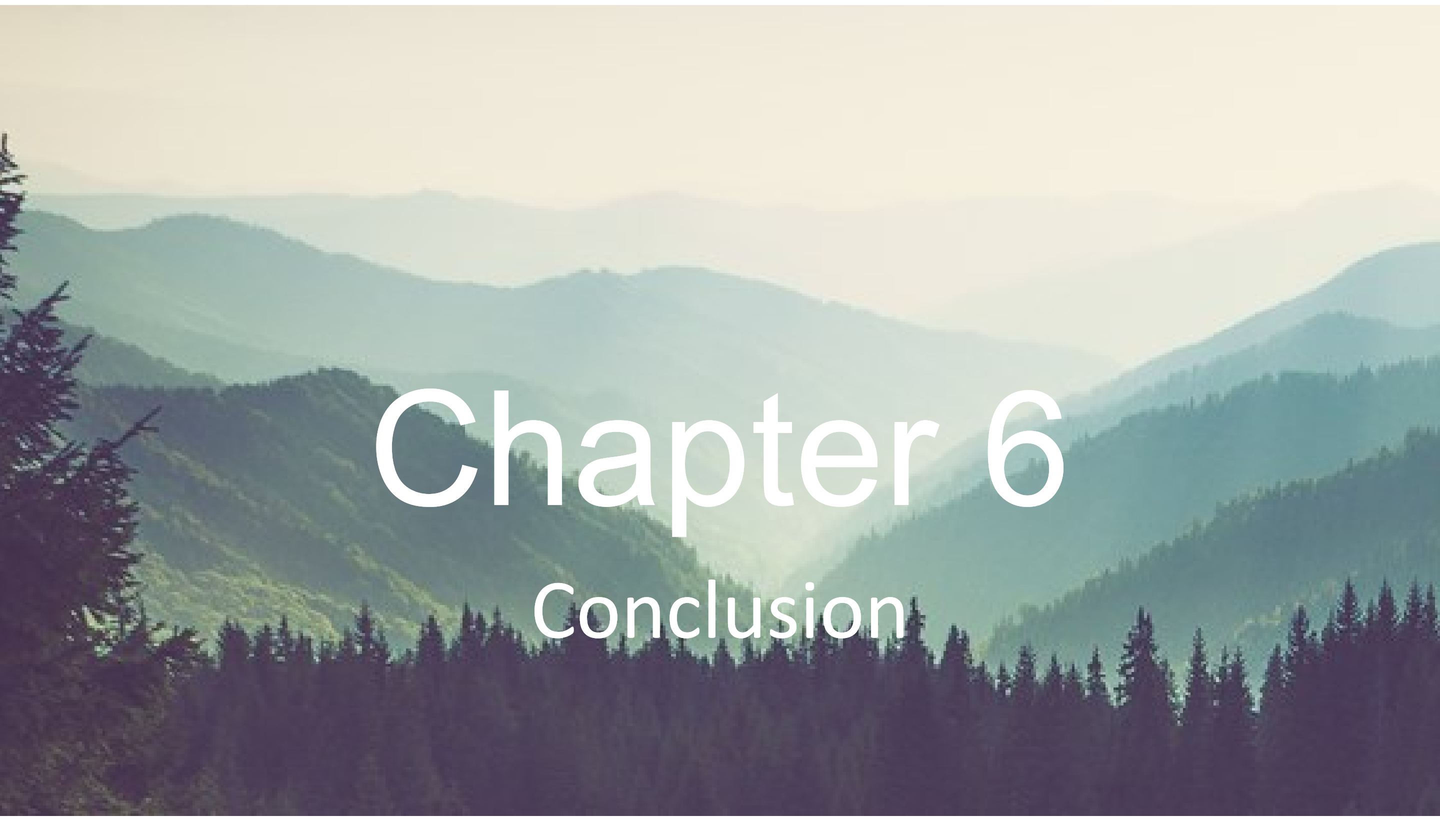

Chapter 6

Conclusion

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Our biggest impact often comes from joining forces with CPAs and attorneys to help clients navigate the tax laws and optimize strategies, specifically in estate and tax planning. While estate taxes can be a burden, there are many strategic opportunities at your fingertips!

With an $12.06 million federal estate tax exemption (set to go back to $5 million on January 1, 2026 or sooner if revised legislation is passed) and historically low interest rates, many of the tools used for tax sheltering strategies are more effective today than ever before.

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Conclusion

Whether you live in Washington or not, there are significant opportunities for families to use these strategies and create a lasting impact on their future…without having to pick up and move.

Please contact us if you have any questions about these strategies. We're happy to help you reach your goals and assure your legacy makes the impact you intend.

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