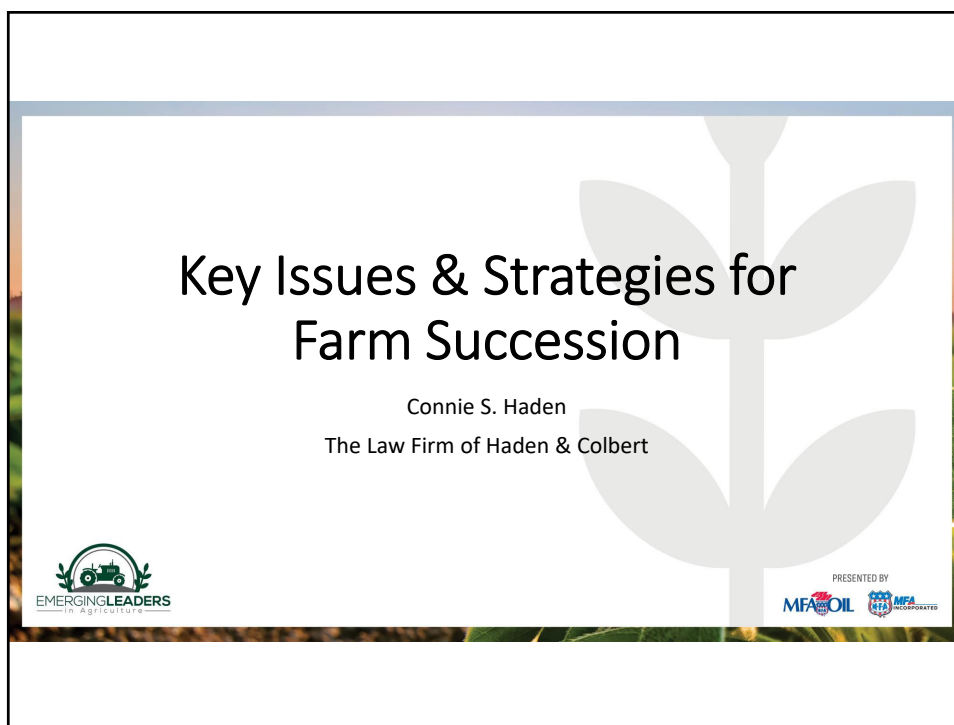




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TAXES: Where are We and Where are We Going?

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FEDERAL ESTATE/GIFT TAX

- \$12.06 Million per person indexed for inflation
- More than \$24 Million for couple
- Estate Tax Rate above exemption: 40%
- Can be given during life, at death, or a combination
- Sunsets on January 1, 2026

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WHERE ARE WE GOING?

- Estate/Gift Tax Exemption going down?
- Estate Tax Rate going up?
- Retroactive?
- Consider Inflationary Pressure
- Consider Portability

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BASIS

- The value of property at the time you bought it or received it
- **Appreciation:** rise in value of an asset from receipt to disposition
- **Stepped-up Basis:** If transfer property at death, recipients receive a basis of the value of the property at the date of death
- **Transferred Basis:** If transfer property during life, recipients receive the previous owner's basis in the property
- Why does it matter? Capital Gains Tax

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BASIS: Example

- Buy a farm in 1980 for \$100,000. The farm is now worth \$500,000.
- If I **SELL** the farm during my lifetime: I owe capital gains tax on \$400,000
- If I **GIFT** the farm to my children during my **lifetime**: I do not owe capital gains tax, but my children will owe capital gains tax on the difference between \$100,000 and what they sell it for if/when they sell farm
- If I **GIVE** the farm to my children at my **death**: my children will have a basis of \$500,000 in the farm. If children sell the farm, will not owe capital gains tax

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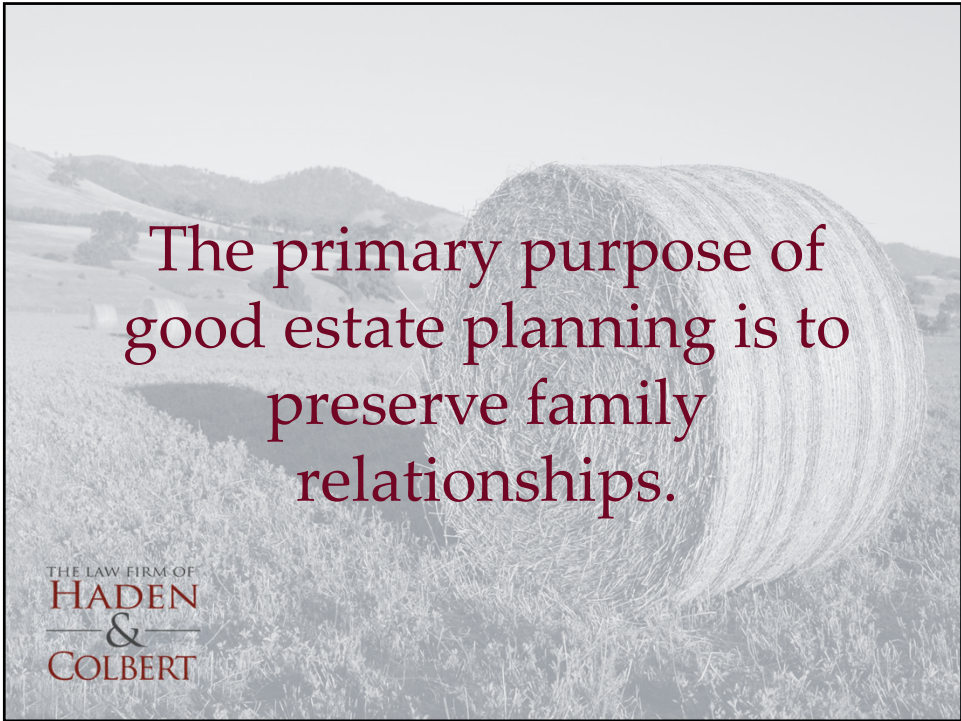
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WHERE ARE WE GOING?

- Elimination of Stepped-Up Basis?
- Taxation of Unrealized Gain at Death?
- Proposed Exemptions: \$1M plus primary residence (up to \$500,000)?
- Exemption for Farms that Stay in the Family?

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The primary purpose of
good estate planning is to
preserve family
relationships.

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Things to Think About

- Trusts
- Divorce
- Long Term Care
- Business Arrangements

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Funding Your Trust

- Real Estate – Deed
- Checking Account – Pay on Death
- Savings Account - Retitle
- Certificate of Deposit - Retitle
- Business – Assign or Transfer on Death
- Life Insurance – Beneficiary Designation
- Retirement Account – Beneficiary Designation
- Vehicle – Transfer on Death

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One Trust or Two?

- In the past, Husband and Wife each had a Trust
- No longer necessary to take advantage of each spouse's estate tax exemption
- Higher estate tax exemption
- Portability

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One Trust or Two?

- Ease of Administration
- Protection for Remarriage
- Protection for Long-Term Care Expenses – be careful
- Basis Step-Up
- Re-titling Assets
- Second Marriage

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LIFETIME TRUSTS

- PURPOSE: Protection of Beneficiaries
- Protect from Creditors
- Protect from Ex-Spouses
- Reduce or Eliminate Estate Tax for Beneficiaries
- Flexibility vs. Control
- Also called: Heritage Trusts, Dynasty Trusts, GST Trusts

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RETIREMENT ACCOUNTS IN TRUST

- BE CAREFUL!
- Typically, if you make retirement accounts payable to a trust, the funds must be distributed to the beneficiary within 5 years.
- Careful planning will allow the distribution of funds from retirement accounts to be stretched over **10 years**

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SPECIAL NEEDS TRUSTS

- PURPOSE: Provide for Beneficiary without disqualifying them from public benefits
- The special needs beneficiary cannot be in control
- Distributions are for the sole benefit of the special needs beneficiary

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IRREVOCABLE TRUSTS

- USED FOR SPECIFIC PURPOSES
- Reduce Size of Estate
- Asset Protection
- Long Term Care Expenses
- CONTROL vs. PROTECTION

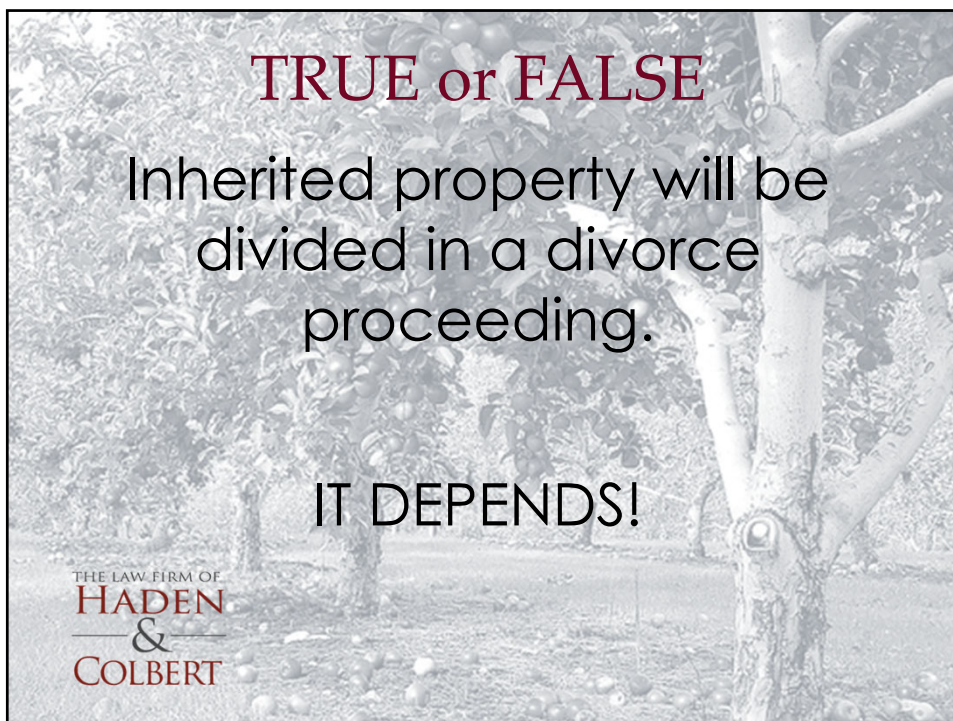
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WHAT ABOUT DIVORCE?

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TRUE or FALSE

Inherited property will be divided in a divorce proceeding.

IT DEPENDS!

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Protection from Divorce

- Inherited Property: NOT divided in Missouri
 - Other states have different laws
- Jointly Titled Property: WILL be divided

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Protection from Divorce

- Consider Adding Restrictions to Governing Documents of Organizations (Corporation, LLC, Partnerships, etc.)
- Lifetime Trusts
- PRE-NUPS!!!

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BUSINESS ARRANGEMENTS

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Possible Business Structures

- Individual (Sole Proprietorship)
- Partnerships (Formal or Informal)
- Limited Partnership
- Limited Liability Company
- Corporations

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Choosing a Business Structure

- Simplicity
- Liability Protection
- Taxes
- Government Payments

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TRUE or FALSE

If I have a farm LLC (Limited Liability Company), I can eliminate liability for our operation.

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FALSE!!

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Managing Risk: Incorporation

Incorporating your operation can help shield your personal assets from liability incurred on the farm, and vice versa

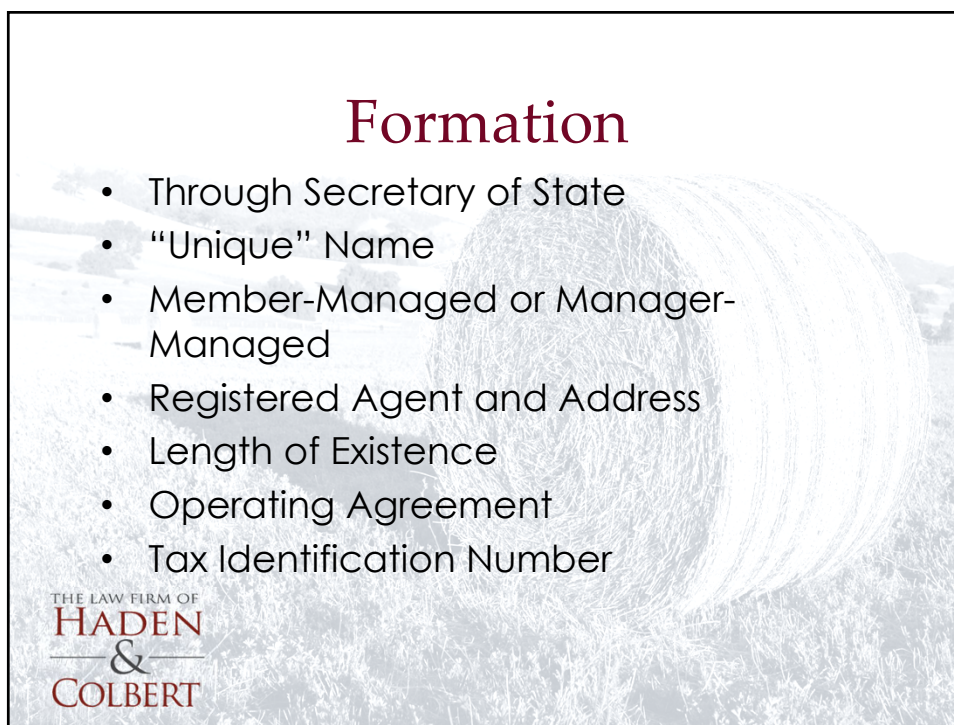
Incorporation separates your business and personal assets into separate pools that can limit recovery for a plaintiff

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You Must Observe Formalities

- Keep Personal Funds Separate
- Keep Minutes
- Document Major Decisions
- File Appropriate Tax Returns
- If you don't treat it like a separate business, neither will a court
- Know how it is owned

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Operating Entity

Separate the ownership of
the underlying assets from
the business of farming

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Buy-Sell Agreements

- Restrict Ownership
- Right to Purchase
 - Right to Buy
 - Option to Buy
- Method of Valuation (FMV, Fixed Price, Discounted, Other)
- Financing
 - Spread out over period of time
 - Interest Rate
- Key Person Life Insurance

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EACH PLAN IS
UNIQUE

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