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# Trust UPDATE

**Stillman**  
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## The three core benefits of having a living trust

*What do Oprah Winfrey, Google co-founder Sergey Brin, and the billionaire Koch brothers have in common?*

**T**his disparate group of people, along with an estimated 3,000 other wealthy families, has created family offices to manage their wealth.

A “family office” is a private company dedicated to the financial management of a single family, handling investments and trust administration. Some family offices manage the affairs of several families. There is no single model for the operation of family offices, which may range from a minimal staff dedicated to managing investments to a larger group of employees focused on seeking out opportunities for direct investments in real estate and growing businesses. Family offices also have been known to take on administrative and life-style services.

According to a recent article in *The Wall Street Journal* (“Family Offices” *Blitz the Street*, March 9, 2017, page 1), family offices have grown in popularity in recent years. Because running a family office can easily reach \$1 million or more in annual operating costs, families with fortunes of \$250 million or more are the most likely candidates. What’s the attraction?

- **Professional asset management without conflicts of interests.** The employees of the family office have no hidden agendas, no object other than service to the family.
- **Direct control.** There are a minimum number of management layers between the family and their investments.

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## Why is a living trust better than a conventional investment account?

- ◆ A trust may provide for full, personal financial management in the event of illness or incapacity.
- ◆ At the owner's death, trust assets may pass directly to beneficiaries, avoiding the delays of probate.
- ◆ A living trust may be designed to continue to exist beyond the owner's lifetime so as to support named beneficiaries.
- ◆ A trust may be structured to minimize estate taxes.

• **Financial privacy.** Generally, the family office does not bear the family's name. Oprah Winfrey, for example, created "OW Management, LLC." Charles and David Koch named theirs "1888 Management LLC."

• **Freedom from regulators.** The Securities and Exchange Commission (SEC) does not supervise family offices. This fact eliminates compliance costs.

Family offices in the U.S. now manage an estimated \$1.2 trillion in assets. Their success has attracted the attention of major Wall Street firms.

## A few steps down the wealth ladder

There is an alternative wealth management strategy available to families whose fortune has not yet reached the quarter-billion dollar level. It's called our *revocable living trust* service. Your attorney will draw up the trust agreement, which will name us as the trustee and you (and your spouse, as appropriate, and any others you choose) as the trust beneficiaries. We will handle management of the trust assets and so much of your financial management as you care to delegate to us.

The core benefits of the living trust, somewhat parallel to those of the family office, are:

• **Professional asset management without conflicts of interests.** We are subject to the legal constraints of "fiduciary duties." That's a subject worthy of an entire article, but suffice it to say that we are required to place the interests of trust beneficiaries ahead of our own interest.

• **Financial privacy.** The terms of a trust are not normally a matter of public record, as the terms of a will must be. We often read how a celebrity's will leaves assets to a pre-existing trust, the terms of which are not disclosed.

• **Probate avoidance.** The financial security generated by a trust need not pause for an instant merely because the trust creator has died.

The trust has an independent legal existence, and, therefore, it may avoid the delays and costs of probate.

You may notice that we did not mention that the living trust service is free from regulatory scrutiny. It most assuredly is not. Working with government banking authorities constitutes a substantial portion of our daily business. However, we believe that the government's supervisory role adds to the peace of mind of our clients, and so we do not begrudge the burden.

## To get started

To set up a living trust with us, you give us your instructions in a trust agreement, prepared by your attorney, and transfer the stocks, bonds, investable cash or other assets that you wish to place in your trust. Because the trust agreement is revocable, you can cancel the arrangement if ever you find it unsatisfactory. You also remain free to add assets, withdraw assets, or modify the terms of the trust.

Can resourceful management and responsive financial services eliminate all threats to financial security? Not quite. Always there remains an element of luck. But as a wise person has said, you can't hope to be lucky. You have to prepare to be lucky.

We look forward to assisting you in your preparations. □

## Five reasons to take advantage of our living trust service



Planning to set up a living trust? Here's why you should place your trust in our care.

**1. Reliability.** We understand the special responsibilities of a trustee. All trust funds in our care are safeguarded by both internal and external audits.

**2. Experience.** Trusteeship is our business.

**3. Responsiveness.** Financially successful individuals and their families expect personal attention and responsive service. We deliver.

**4. Objective investment guidance.** Unlike investment advisors who are compensated mainly by sales commissions, we earn our reasonable trustee's fee by providing our trust clients with unbiased, personalized guidance.

**5. Convenience.** From bill-paying to retirement planning, we can provide or obtain just about any convenience or special service that our trust clients desire.

**Estate snapshot:**

# Assets and deductions

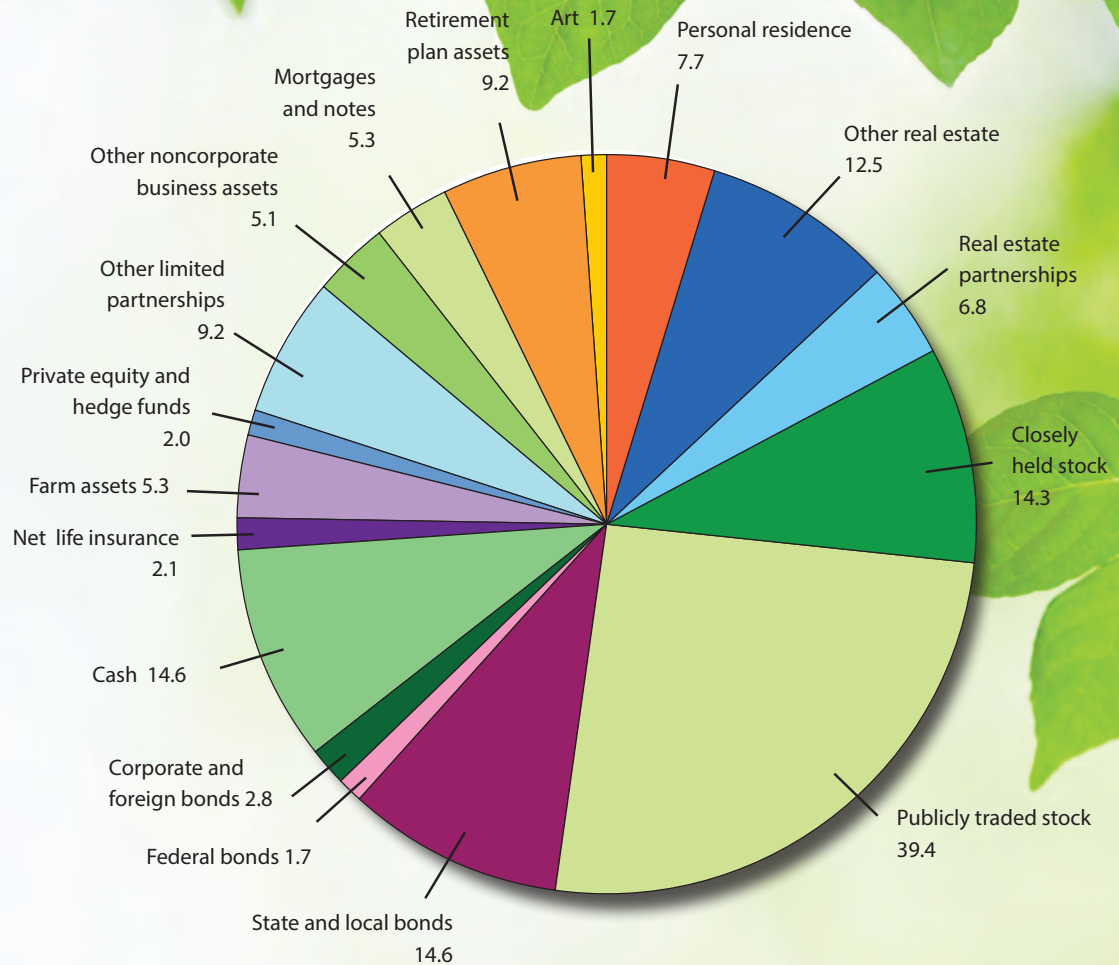
The IRS in February released its analysis of the 2013 federal estate tax filings. There were 11,309 returns, reporting some \$161 billion of asset values. The single largest estate asset was publicly traded stock, at \$39.4 billion. The single largest item of estate tax deduction was for bequests to surviving spouses, at \$53.9 billion. The breakdowns for each category may be seen in the pie charts at right.

Gross taxable estates came to \$97.2 billion in 2013, for which there was a tentative estate tax of \$38.2 billion.

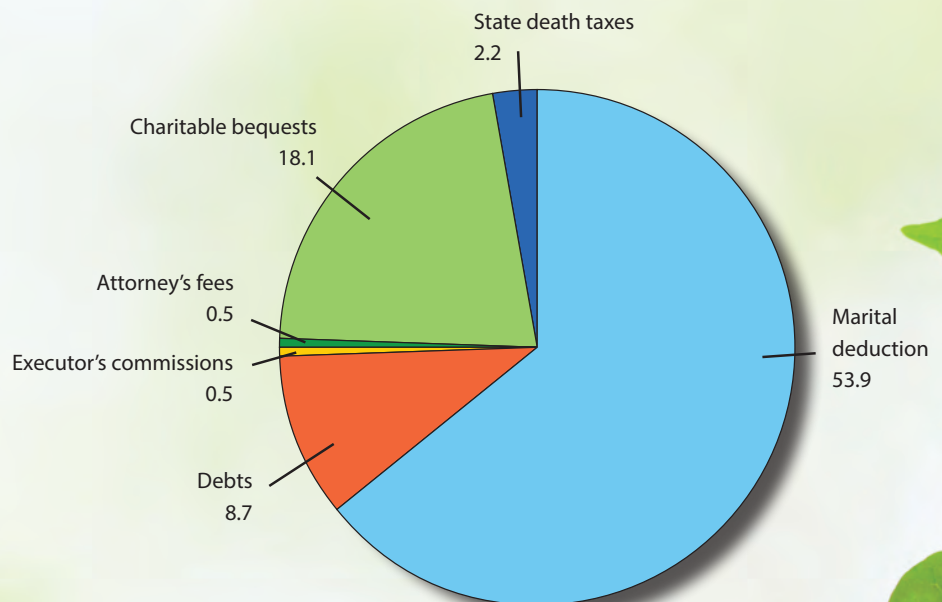
After allowing for a unified credit of \$23.4 billion and credit for gift taxes paid during life, the net estate tax came to \$16.6 billion.

More than half of the estate tax returns that year were nontaxable, representing 46% of reported assets. The usual reasons for nontaxability include the marital deduction and the charitable deduction. There were also 546 estate tax returns that claimed the Deceased Spousal Unused Exclusion Amount (DSUEA). Some of these may not have otherwise been required to file an estate tax return. □

**Estate assets, 2013**  
Billions of dollars



**Estate tax deductions, 2013**  
Billions of dollars



Source: IRS Statistics of Income

## Unclaimed refunds!

The Internal Revenue Service announced in March that unclaimed federal income tax refunds totaling more than \$1 billion may be waiting for an estimated 1 million taxpayers. These are individuals who did not file a 2013 federal income tax return. To collect the money, taxpayers must file a 2013 tax return with the IRS no later than this year's tax deadline, Tuesday, April 18.

"We're trying to connect a million people with their share of \$1 billion in unclaimed refunds for the 2013 tax year," said IRS Commissioner John Koskinen. "People across the nation haven't filed tax returns to claim these refunds, and their window of opportunity is closing soon. Students and many others may not realize they're due a tax refund. Remember, there's no penalty for filing a late return if you're due a refund."

The IRS estimates the midpoint for potential refunds for 2013 to be \$763; half of the refunds are for more than \$763 and half are for less.

## Deduction shot down

When Joe Izen filed his 2010 federal income tax return, he claimed a standard deduction. He also claimed deductions on Schedules C and E. The IRS disallowed those business expense deductions, and in 2012 sent a deficiency notice for taxes and penalties of over \$140,000.

Izen took his case to the Tax Court. In 2014 he amended that petition, alleging for the first time that he had made a substantial charitable donation on December 31, 2010. In 2007 Izen had purchased a 50% interest in a 1969 model Hawker-Siddeley DH125-400A private jet for \$21,000. The jet remained in storage for three years. Izen claimed he donated his share of the jet to the Houston Aeronautical Heritage Society, and that by that time the value had grown to \$338,000.

On April 14, 2016, Izen filed Form 1040X, an amended 2010 tax return. He claimed the \$338,000 charitable deduction, and included some documentation regarding the alleged transfer and the value of the jet.

Unfortunately, Izen could not produce a "contemporaneous written acknowledgment" of his donation from the organization receiving his gift, which is required for a gift of property worth more than \$500. The letters he provided were not up to the tax code's standards.

The IRS could have challenged the suspicious increase in the jet's value, or the lateness of the claim of the donation. Instead, it argued that the paperwork was insufficient to support the deduction, and the Tax Court agreed. □



**You can't afford to take chances with your retirement money.**

**Ask us about IRA rollovers, our investment services for retirees, and how to handle your IRA in your estate.**



**David Bogner**  
Vice President & Trust Officer  
(815) 332-8864  
davidb@stillmanbank.com



**Jeffrey Hartle**  
Vice President  
(815) 332-8843  
jeffh@stillmanbank.com

**Stillman**  
BANK

Trust & Asset Management  
8492 E. State Street • Rockford, IL 61108  
815-332-8100

www.stillmanbank.com