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Stillman BANK

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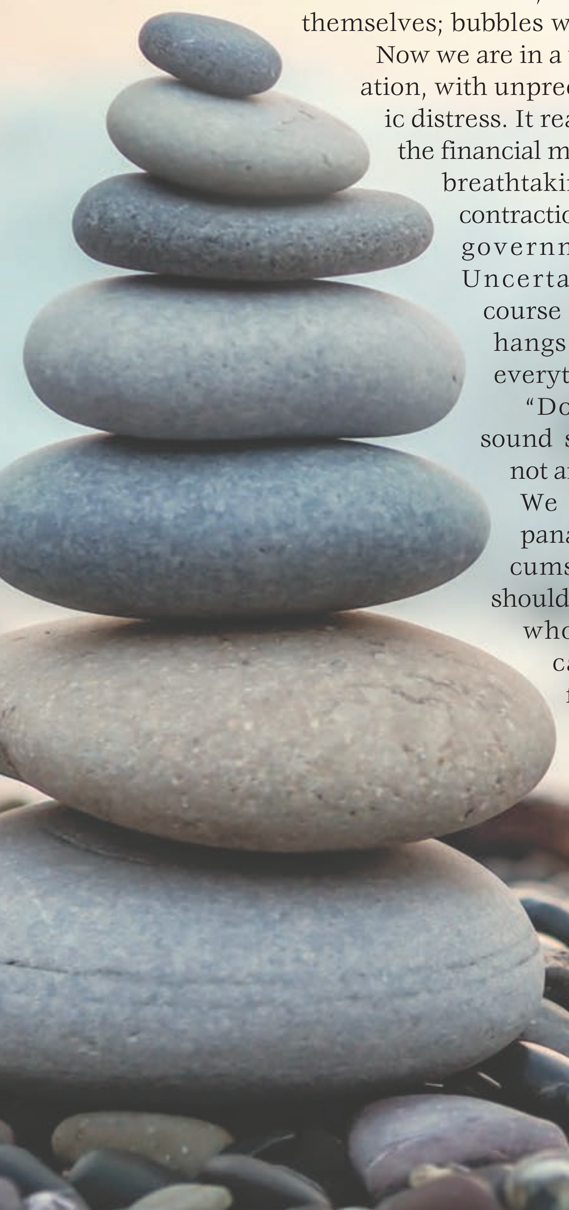
Steady hands

"This time it's different."

That's a phrase we usually associate with market tops. Just before the internet investment bubble burst, for example, we heard rosy economic forecasts and excellent rationalizations for inflated stock values. As we know, markets will right themselves; bubbles will burst.



Now we are in a very different situation, with unprecedented economic distress. It really is different for the financial markets. We've seen breathtaking global market contraction. Unprecedented government reactions. Uncertainty about the course of the pandemic hangs in the air over everything.

"Don't panic" may sound soothing, but it is not an investment plan. We can't offer you a panacea for these circumstances, and you should beware of anyone who says that they can. Events may force fundamental changes in our global financial infrastructure. They will take time to unfold. In the meantime, we invite you to work with us to ride out this financial storm.

We do have faith that the markets will, ultimately, stabilize again. We don't know how long that will take.

Whether you already have an account or trust with us, or that relationship is still in our future, we invite you to talk with us about your concerns. We are here for you.

Stay ready

We can't know when stock prices will reach their low point, just as we can't predict when the corner will be turned on the pandemic. But when that low point is reached, stocks may represent the investment opportunity of a lifetime. The Federal Reserve and governments at all levels will be working overtime to restore the economy. In time, if they succeed, that will be reflected in the stock market indices.

Rapid trading, trying to get into and out of the market during periods of extreme volatility, may be hazardous to your wealth. A longer-term focus has a higher probability of success. In that regard, if you continue with a program of saving for your retirement, such as in a 401(k) plan, you will be purchasing more assets at lower cost.

Staying optimistic during a crisis such as a pandemic is hard. It is a test. But America has come through worse tests and lived to prosper.

We are a fiduciary

Today's investors have more choices than ever for managing their investments—including doing it themselves. In the internet age, access to extensive information and sophisticated tools can make everyone feel like an expert.

But not everyone really *is* an expert.

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We are fiduciaries, which makes us different from other investment managers. That status does not make us infallible, nor does it come with a crystal ball for seeing into the future. But it does mean these things:

- We are subject to special legal duties of fidelity and loyalty to our clients. When it comes to trust management, we are required by law to put the interests of trust beneficiaries ahead of our own;
- Trust assets must, by law, be kept separate from the bank's assets;
- We are subject to audit and regulatory supervision;
- Our fees are linked to the size of the accounts that we manage, not to the number of transactions we generate. That means our investment advice can be truly unbiased;
- In managing trust assets, we must take into account the interests of both present and future beneficiaries, which is an unusual investment perspective. This approach is not risk free, but it tends to be risk averse;
- Because investment management is a core part of our business, we are professionally staffed and equipped for the job.

If you would like to learn more about "fiduciary duties," we will be pleased to meet with you at your convenience. ☐

A guide to our trust services

Here is an overview of trust service, for those who would like to see how they may achieve family financial security.

The basics, made easy

Trusts are not as mysterious as most people seem to think, and technological advances have made trust-based financial planning accessible to more and more families. That's one reason why discussions of trusts seem to be popping up in the popular press more and more.

The basics of a trust arrangement are not hard to follow:

1. You, the grantor, or donor, transfer money and/or property to the care of a trustee.

2. The trustee takes legal title to the money or property but receives none of the privileges or benefits of ownership.

3. The trustee is required to invest, manage, and distribute the trust assets for the beneficiaries whom you name, according to your instructions. You and your attorney spell out those instructions in a formal trust agreement—or, if you're leaving your assets in what's known as a testamentary trust, in your Last Will and Testament.

A trust can do almost anything that you want it to. Perhaps that's what makes trusts so mystifying to most people. There's no such thing as a "typical trust."

Living trust. A revocable living trust provides asset management and financial protection in case of disability of the grantor (and the grantor's spouse, if there is one). This may be the easiest way to "try out" trust service, to see how it may work for you and your family. If it doesn't work out, the arrangement may simply be cancelled at any time.

Everyday trusts

Several types of irrevocable trusts have become routine elements of the wealth management arsenal.

Gifts-to-minors trusts. Set aside funds for heirs that they will receive when they become adults. These trusts have typically been used to take advantage of the annual exclusion from the federal gift tax.

Marital trust. Provides lifetime financial security for a surviving spouse. For most families, this trust's marital deduction from estate taxes is no longer needed. Rather, such a trust is useful because it provides the surviving spouse with a lifetime of professional investment management.

QTIP trust. For blended families, a Qualified Terminable Interest Property Trust will provide a life income for a surviving spouse and an inheritance for others at the survivor's death (typically children of an earlier marriage).

Family trust. As recently as a decade ago, a "credit shelter trust" might have been used in order to maximize the amount a family could shield from federal and state death taxes. With the enlarged federal exemption, most families no longer need such protection. Hence, these trusts have been renamed "family trusts," and provide for flexible management and distribution of family wealth over time.

Testamentary trust for heirs. Provide an inheritance in an irrevocable trust, adding an element of creditor protection, as well as expert asset management for the bequest. With such a trust, a windfall may be transformed into a lifelong source of financial security.

Special needs trust. With proper planning (qualified legal guidance is a must), a trust can provide extra support and some of life's comforts without disqualifying a disabled person from receiving government assistance.

Advanced applications

When taxes are on the line, we go to the more complex types of trusts.

QDOTs. Anything that a married person leaves directly to his or her spouse will qualify for the estate-tax marital deduction—unless that spouse is not a U.S. citizen. In that event, a special marital trust (the Qualified Domestic Trust) is required to preserve the marital deduction.

Charitable remainder trusts. Life income may be provided to a private beneficiary, either in the form of an annuity or a unitrust interest. A qualified charity receives the trust property when the trust ends. Income, estate, and gift tax deductions are available.

Charitable lead trusts. Flip the roles in a charitable remainder trust, so that the charity receives an income for a term of years, and the assets revert back to the family when the term expires. Similar tax savings are possible.

GRITs. A grantor-retained income trust may be used to apply leverage to the federal gift tax exemption, for families with larger amounts of wealth.

Dynasty trusts. To avoid the federal generation-skipping transfer tax, a dynasty trust may be used for multigenerational protection from transfer taxes. Many states have modified or abolished the rules against private perpetual trusts.

Work with the right trustee

The most important factor affecting the success of any trust arrangement is the choice of trustee to implement the plan. This is a core part of our business. We are a "corporate fiduciary." That phrase means that we are a business organization that is permitted, under the law, to serve as trustee and administer investment programs for individuals, families, businesses, and endowments.

For this service we are compensated by reasonable annual fees, tied to the market value of the funds in our care. Our operations are subject to a variety of internal and external audits and oversight.

Most importantly, we enthusiastically accept and operate under a code of fiduciary responsibility. That means we must, by law, put the interests of our customers ahead of our own.

For more information about how trusts may help you to make the most of what you own, please schedule a free consultation with one of our officers. ☐

What trusts can accomplish

The most important thing that a trust does is make financial resources available to beneficiaries when needed. When a corporate fiduciary such as ourselves is trustee, another automatic benefit is professional investment management. But that is just the start of potential benefits. Among the other objectives that trusts may target:

- **income tax savings;**
- **estate tax savings;**
- **gift tax savings;**
- **protection from creditors;**
- **capital appreciation;**
- **retirement income management;**
- **support for a special needs person;**
- **education funding;**
- **probate avoidance; and**
- **implementation of philanthropic initiatives.**

Deferred, and not deferred

The IRS issued *Notice 2020-17* in March, allowing taxpayers to defer their tax payments this year until July 15. However, the deadline for filing tax returns initially was left unchanged. That drew pushback from tax preparers, who argued that the IRS did not seem to appreciate how difficult it is at the moment for tax professionals to work with their clients.

Accordingly, the early advice was superseded by *Notice 2020-18*, which pushes the filing deadline for 2019 returns to July 15, 2020. The new *Notice* removes the caps of $1 million for individuals and $10 million for corporations on the amount of deferrable tax obligation.

However, this forbearance is specifically limited to the income tax. It does not affect estate tax liabilities, or the obligation to file an estate tax return within nine months of the decedent's death. Such filings may prove especially challenging now, because with the drop in the stock market many more estates will qualify for electing the alternate valuation date to determine estate tax values.

New IRS webpages

The IRS has established www.irs.gov/coronavirus to provide information specifically related to the pandemic. News releases, statements, and guidance will be collected there. The initial statement concerned health savings accounts and high-deductible health plans. "Health plans that otherwise qualify as HDHPs will not lose that status merely because they cover the cost of testing for or treatment of COVID-19 before plan deductibles have been met."

The IRS also noted that, as in the past, any vaccination costs continue to count as preventive care and can be paid for by an HDHP.

Guidance was also provided for the "Families First Coronavirus Response Act," which was signed by President Trump on March 18. Key elements:

- ***Paid Sick Leave for Workers.*** For COVID-19-related reasons, employees receive up to 80 hours of paid sick leave and expanded paid childcare leave when employees' children's schools are closed or childcare providers are unavailable.
- ***Complete Coverage.*** Employers receive 100% reimbursement for paid leave pursuant to the Act. Health insurance costs are also included in the credit. Employers face no payroll tax liability. Self-employed individuals receive an equivalent credit.
- ***Fast Funds.*** Reimbursement will be quick and easy to obtain. An immediate dollar-for-dollar tax offset against payroll taxes will be provided. Where a refund is owed, the IRS will send the refund as quickly as possible.

Finally, the IRS created https://www.irs.gov/businesses/gig-economy-tax-center to collect in one place the links relevant to self-employed gig workers and those who use digital platforms in their employment. ☐