

# Trust Connection

*Building Lasting Relationships for the Benefit of our Mutual Clients*

## TRUST NEWS AND INFORMATION FROM YOUR TRUST REPRESENTATIVE OFFICE

Welcome to **Trust Connection**, a regular communication from Valley National Trust Services. The Trust Representative Office model provides a framework for cohesively connecting all of the client's key advisors: the Estate Planning Professional, the Financial Advisor and National Advisors Trust. Instead of encountering obstacles when working together, our "team approach" provides a solid trustee and investment management solution for clients' complex financial situations.

### IN THIS ISSUE:

#### Income Tax Planning For Trusts

December is here and that means that 2014 is just around the corner and tax season is just beyond. As always, the Valley National Financial Advisors family, including **Valley National Trust Services**, is focused on growth. As a Trust Representative Office of National Advisors Trust, we represent the largest federally-chartered trust company created by Registered Investment Advisors (RIAs). Our trust service model is built on the strength of the local support and responsiveness provided by you—the local estate planning professional, Valley National Advisers—the local and trusted investment advisor and National Advisors Trust serving as the trust administrator. This combined expertise allows us to excel in the services we provide delivering the best possible outcomes for our mutual clients.

#### **Income Tax Planning For Trusts: Do Estate Planners Need to Forum Shop?**

The Tax Policy Center estimates only .14% of estates will now pay a federal estate tax. But state income taxes are on the rise, currently ranging from 3% to more than 13%, depending upon the state and county. Families and their advisors need to be aware of how state income taxes affect a trust's investment return and whether such taxes can be reduced or avoided.

#### **Planning To Avoid the Tax**

With proper planning, it may be possible to minimize or avoid state income taxes. Conversely, without proper planning, the income of a trust might be subject to tax by more than one state.

In most states, resident trusts are taxable on accumulated ordinary income and capital gains. The key to avoiding the tax is to establish a trust that is NOT a resident of the grantor's home state. In some states this may be difficult, if not impossible, but in others it is as simple as naming a trustee in another state and having all trust administration conducted in that state.

The strategy can apply to both existing irrevocable trusts and trusts for the next generation that will become irrevocable upon the grantor's death.

#### **Locating the Trust**

Even in states such as New York and California, there are planning options that allow non-grantor trusts to escape taxation. The optimal choice may be a state, such as South Dakota, in which there are no taxes at all and no reporting

requirements. In 2012, the IRS approved a plan under which a tax payer established a trust in another state that was designed to (i) protect the trust assets from the grantor's creditors; and (ii) avoid the income tax imposed by the grantor's home state.

At the least, planning must be undertaken to avoid subjecting the income of a trust to tax by more than one state, and to avoid states that impose state taxes simply because the trust is administered there or because a trustee is a resident.

### The Dollar Benefit

Having a trust governed under the law of a state that does not impose income tax instead of a state with high income taxes can improve its investment performance by more than 100 basis points a year simply by eliminating the drag from the state tax. The result is thousands of dollars each year benefiting the trust beneficiaries instead of being paid to the state government in the form of taxes.

### Conclusion

Your clients count on you to draft the right estate plan. It is vital to understand the impact of state income taxes on a trust and whether your client's family can benefit from a trustee located in another state. Litigators have engaged in "forum shopping" for years. Now may be the time for estate planners to do the same. In many instances, simply choosing a trustee located in another state may be all that is necessary to achieve a substantial tax savings.

<sup>i</sup> [www.stblaw.com/google\\_file.cfm?](http://www.stblaw.com/google_file.cfm?)

<sup>ii</sup> [TrackedFile=4B46116602DDEFD896B179&TrackedFolder=585C1D235281AED996A07D5F9F9478AB5A90188899](https://www.trackedfile.com/TrackedFile=4B46116602DDEFD896B179&TrackedFolder=585C1D235281AED996A07D5F9F9478AB5A90188899)

<sup>iii</sup> *South Dakota is a pure no income/capital gains tax state for trusts and unlike Delaware does not require informational reporting.*

<sup>iiii</sup> *PLR 201310002*

<sup>iv</sup> *See Bases of State Income Taxation of Non Grantor Trusts at: [www.actec.org/public/Documents/Studies/Nenno\\_state\\_nongrantor\\_tax\\_survey\\_06\\_04\\_13.pdf](http://www.actec.org/public/Documents/Studies/Nenno_state_nongrantor_tax_survey_06_04_13.pdf)*

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## We Want To Hear From You!

Valley National Trust Services invites you to take advantage of our many avenues of marketing and communication, within the Lehigh Valley and nationally, by:

- Submitting an article for an upcoming issue of Trust Connection
- Presenting joint seminars on Estate Planning and using trusts
- Joining us for a live discussion on "Your Financial Choices", our weekly radio program airing on WDIY 88.1 FM—Lehigh Valley Community Public Radio [www.yourfinancialchoices.com](http://www.yourfinancialchoices.com)

If you would like to explore any of these opportunities, please contact one of our Trust Representatives today!

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## About Our Firm

Valley National Financial Advisors is an independent one-stop financial services group of companies that offer personalized, comprehensive and coordinated financial services. Established in 1985, Valley National has developed a reputation for innovation, financial strength, and quality. Our financial professionals are experts in delivering financial needs-analysis, wealth accumulation, risk management and planning instruction and counsel in a professional, useful manner.

Valley National Advisers works within a planning structure that has as its single goal the best interests of each client. Each financial recommendation is based on personal interviews, data gathering, document review, and a thorough understanding of the client's financial goals. With a complete planning process, advisor recommendations are made with an understanding of the "big picture." We see a greater need for trusts with today's ever-changing estate tax environment and family dynamics. With National Advisers Trust Company, you stay involved and your client's benefit from low trustee fees. Contact us for more information on how we can support you in business succession planning or trust services.



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TRUST SERVICES PROVIDED BY NATIONAL ADVISORS TRUST COMPANY, FSB

Securities offered through Valley National Investments, Inc. MEMBER FINRA, SIPC



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# 2014 Trust Education Series

Free monthly webinars at our office in Bethlehem. Earn CE credits and have lunch on us. Join us on the third Wednesday of each month from 1 p.m. to 2 p.m.

## JANUARY 15

### **Wealth Preservation**

There are three basic techniques to protect from loss: insurance, statutory protection and asset placement. Before advising clients on funding their trusts, naming a beneficiary or buying insurance, advisors should be aware of how asset placement affects creditors' rights, tax basis issues and marriage dissolution issues as well as whether a client should consider a self-settled asset protection trust.

## FEBRUARY 19

### **Planning for International Couples**

There are three tax traps for international couples including the gift and estate tax limits that apply to non U.S. citizens and U.S. citizens leaving money to a non-U.S. citizen spouse. We will discuss these issues as well as the need and structure of a Qualified Domestic Trust (QDOT) designed to defer the federal estate tax when a U.S. citizen dies and leaves money to a spouse who is not a U.S. citizen.

## MARCH 19

### **Planning for Same Sex Couples**

The Supreme Court's landmark ruling in *United States v. Windsor*, marks a dramatic shift in our legal system's treatment of same-sex couples. *Windsor* returns the determination of spousal status to the states and ensures equal treatment for state-law-recognized same-sex spouses with respect to employee benefits matters, including pension survivor benefits, qualified domestic relations orders, the tax treatment of health and welfare benefits, plan rollovers, and more.

## APRIL 16

### **Where's Home *Part One*: How the Answer Affects Income, Property and Estate Taxes**

Most states impose or grant exemptions to taxes based upon a person's domicile or residence. But, how is it determined and how do clients prove they have relocated somewhere else? From Florida to Wisconsin, the answer to Where's Home can have longstanding effect on a client's taxes and those imposed upon his family long after death.

## JUNE 18

### **Where's Home *Part Two*: State Income Taxation on Trusts**

Most states impose a tax on the income of trusts. With proper planning, the tax may be minimized or avoided in many instances. Conversely, without proper planning, the income of a trust might be subject to tax by more than one state. Seven states do not tax the income of trusts. In this session we will explore whether a grantor can locate a trust in a state other than his or her home state including a review of PLR 201310002 in which the IRS determined that a self-settled asset protection trust was not a completed gift subject to federal gift tax but was a non-grantor trust as to income tax, thereby allowing the grantor to avoid income tax in his home state.

**Reserve space with Judianne at 610-868-9000 x116 or [jharris@valleynationalgroup.com](mailto:jharris@valleynationalgroup.com) or register online at [www.valleynationalgroup.com/attorney-center-webinar-registration](http://www.valleynationalgroup.com/attorney-center-webinar-registration).**