

# 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. 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 Advisors—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.

### Planning Ideas for Estates Under \$10 Million

Let's face it, most people no longer owe estate tax. With an estate tax free amount of \$5 million indexed for inflation, \$10million for couples, less than two-tenths of one percent of Americans will owe estate tax. This brings estate planning for most people back to the most important issues, and often the most ignored: family dynamics. On the tax front, income tax issues, including cost basis step up, have risen to the forefront of the tax planning spectrum. Nonetheless, some of the decisions are more complex than ever, partially because of the unknowns of what a person's estate will be at the time of their death, and what the law will be at that time.

**Family Dynamics.** Sadly this area is often underexplored because it is more difficult than showing that an idea saves taxes. We have to talk about the real essence of estate planning which has to do with your comfort level with the heirs. This can be both negative and positive. Unfortunately people tend to use examples of fear of reckless spending by heirs "wasting" the inheritance and ways of controlling that, which is an important issue when it applies. But more often people think their children "hung the moon" which means the negative approach will likely not apply. Better to discuss relationships, with each other, heirs, and their relationship with money. If you experience positive responses, discuss those positives. If this raises negatives, explore the negatives. Wealthy successful children may require as much or more planning than spendthrift children. Certainly issues that often rise to the forefront of the conversation include the following:

- ◆ Wealthy children (who may let it go another generation or more)
- ◆ Asset Protection
- ◆ Divorce Protection
- ◆ Tax Law Change Protection
- ◆ Defined Uses
- ◆ Spendthrifts
- ◆ Disabilities
- ◆ Addicts
- ◆ Minors
- ◆ Pets
- ◆ Philanthropic Causes

**Taxes.** The sure tax area for most is the cost basis issue, how to obtain the step up in basis, an issue that paled in the past to avoiding estate tax. In today's estate plan, the average American is better off not gifting significant assets during life, instead deferring the transfer until death, estate inclusion causes cost basis adjustment. Basis generally "steps up" at death to the fair market value at the time, regardless of whether the estate owes tax or not. When left to a surviving spouse, generally the marital deduction will apply, eliminating estate tax risk, but still getting the step up in basis. Then again the same property receives a basis step up at the death of the surviving spouse. This "double step up in basis" is also causing many to wonder whether they should keep the traditional A-B trust in place or opt for a simpler solution, including the use of portability. While the analysis of this decision for you as a potentially taxable client is a whole discussion unto itself, consider a few reasons to lean toward the A-B trust for the larger plans. One reason is we don't know what the law will be when we die, much less when our surviving spouse dies, and a bird in the hand is worth two in the bush. Locking in the use of the exemption at the first spouse's death locks it in rather than leaving the final treatment to a point further down the line. A second reason is that growth on the assets from the first spouse's death to the second would take place outside of the surviving spouse's estate. If you are accumulating wealth rather than spending down wealth, this should be considered. A third reason is that generation skipping transfer tax exemption is not portable, and puts the \$5-10 million couple in a lesser tax planning position. Pro-portability we could say one reason is its simplicity, which is an important factor to many people. Second, it is easier with difficult assets like retirement plans and sometimes personal residences. Third, portability gives couples the much sought after second basis step up. While there is no one right decision here, a broad array of factors should be considered, and the issue should be reviewed every few years or when assets change or tax law changes are made.

A final area of more complex planning includes potential changes to existing estate plans. These may include identifying assets that would benefit from "step up" and taking them out of structures like corporations and partnerships, so as to avoid problems of inside versus outside basis. Likewise partnerships and corporations that previously served to provide valuation discounts may no longer benefit from some of the restrictions causing those discounts. Existing irrevocable trusts into which gifts were made may benefit from swapping out assets for estate inclusion of low cost basis assets. Or, it may be beneficial to have a protector or formula grant a general power of appointment to beneficiaries over specific assets or amounts of money so that irrevocable trusts not included in the beneficiaries' estate could be partially included to effect a basis step up. Add to this Incomplete Non-Grantor Trusts to maintain estate tax inclusion while shifting income taxation into a more favorable tax-haven state and we can conclude that while the impact of estate tax has decreased, the need for planning certainly has not.

Seek the counsel of an experienced team of estate planning professionals to help you to think through your specific situation and craft a plan that suits your unique needs.

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**We value our relationships with area attorneys. As an independent and locally owned company in the Lehigh Valley, it is our priority to provide the local, personal service, which you and your clients have come to expect. If you are an attorney looking for a professional consultation on an estate or tax planning matter, our team of knowledgeable advisors is here to help. [valleynationalgroup.com/attorney-center](http://valleynationalgroup.com/attorney-center)**



## 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”, a weekly radio program airing on *WDIY 88.1 FM—Lehigh Valley Community Public Radio*

**wdiy 88.1**  
LEHIGH VALLEY **npr**  
COMMUNITY PUBLIC RADIO  
93.7 FM WEST 93.9 FM EAST



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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 Advisors 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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