2021
WEALTH PLANNING GUIDE

PROBITY ADVISORS, INC®

Plan.
Execute.
Achieve.

Plan.
Execute.
Achieve.

2021 WEALTH PLANNING GUIDE

10,000 North Central Expressway
Suite 1326 • Dallas, TX 75231

www.probityadvisors.com

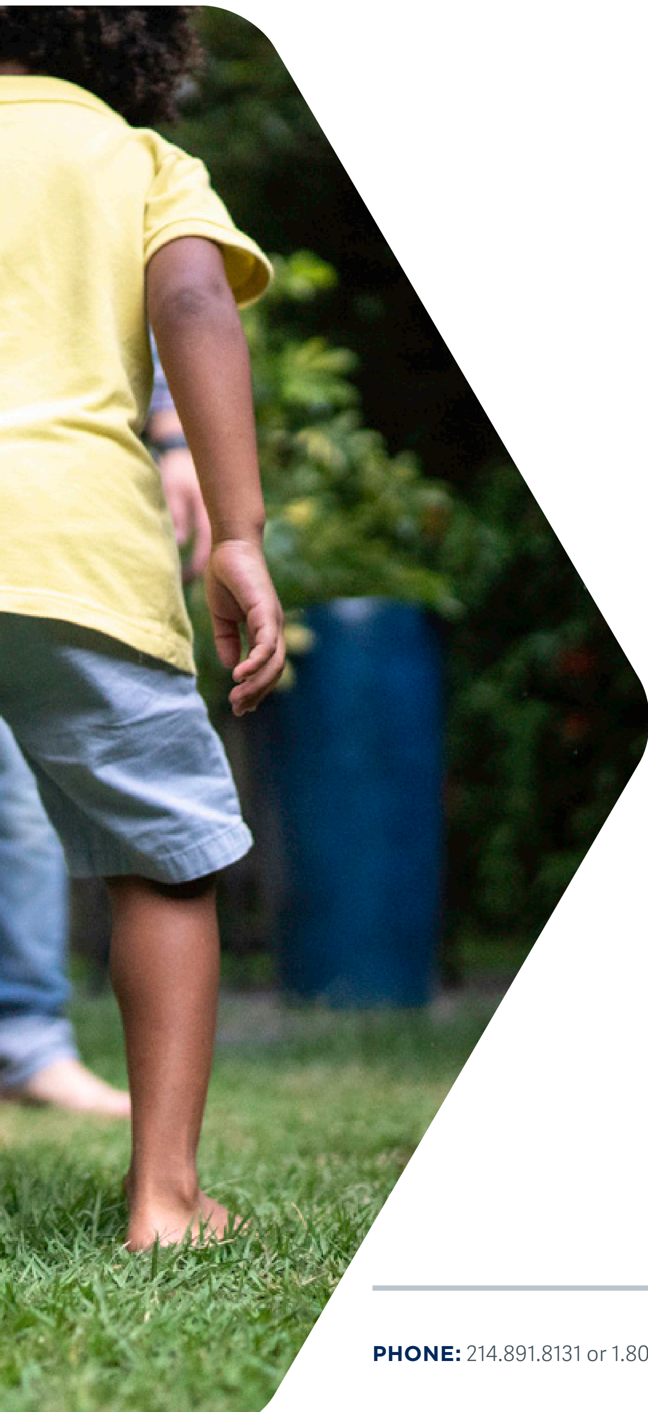


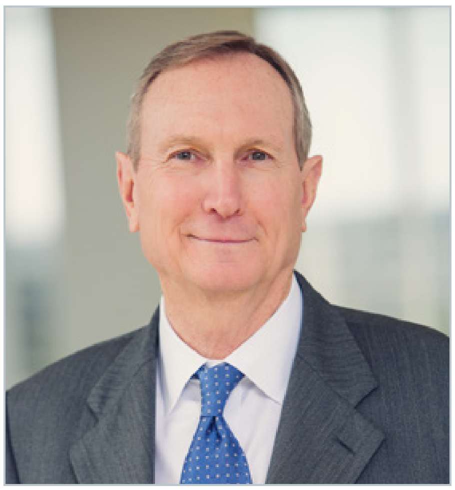
TABLE OF CONTENTS

PHONE: 214.891.8131 or 1.800.818.2663

2021 WEALTH PLANNING GUIDE

LETTER TO OUR FRIENDS & CLIENTS

Plan.
Execute.
Achieve.



This past year has been described as challenging, tumultuous, and stressful, to say the least. I don't think many of us would have ever imagined living through this experience. However, some have also described this season as a time to slow down, to count our blessings, and to find joy in small moments.

In the midst of all of this uncertainty, one constant has been the value of personal and professional relationships. We want to thank each of our clients for your trust and confidence in us, for being a blessing in our lives, and for letting us be part of yours. We continue to be inspired by our clients' commitment to achieving long term financial goals, particularly throughout such turbulent times. Despite the heartache caused by the pandemic, many individuals and families have used this time to reevaluate what is important -- both personally and professionally. Our advisors have continued to help clients tackle financial planning and estate planning tasks for themselves and for their families, providing families with peace of mind and confidence about their financial future and their legacy.

We are filled with hope and optimism that we will soon be able to safely meet with more of you in person. With precautions to maintain the health and safety of our associates and our clients in place, our team of advisors, analysts, and client service professionals are continuing to serve our clients with a variety of financial planning and wealth management needs – both virtually and in-person. Helping you achieve your goals has always been ours, and we are available to address any questions or changes that may have arisen over the past year.

Best wishes for health and happiness on the road ahead.

Porter L. "Buddy" Ozanne, III, AEP®, ChFC®
President

2021 WEALTH PLANNING GUIDE

ESTATE OF MIND:

Wealth Planning in the Current Environment

ESTATE OF MIND: *Wealth Planning in the Current Environment*

With a new administration in the White House, there has been discussion around potential tax law changes that may affect estate planning. It remains to be seen what Congress will do; however, we advise our clients to review their estate plan, and if necessary, to optimize their plan in the current estate tax environment. We've outlined in this guide a range of estate planning structures and tools to help clients contemplate planning topics to discuss with family and with your financial advisor and attorney.

The Tax Cuts and Jobs Act (TCJA) of 2017 was the most extensive overhaul of the U.S. tax code in more than three decades. It made significant changes to the **lifetime exemption,** raising the amount that can be transferred from $5 million to $11.7 million for the 2021 tax year without incurring gift or estate taxes. That means that a married couple can gift more than $23 million combined without incurring a tax. Transfers in excess of the exemption amount are subject to a 40% tax. The increased exclusion will sunset at the end of 2025 (January 1, 2026) barring any legislative action. It is possible that the exemption amount will decrease to $5 million or lower, and it's possible that the top marginal tax rate will increase to 45%, depending on what Congress decides. The IRS has stated there would be no "claw back" of any wealth transfer that may occur during this time, and any gifted amounts will remain shielded from estate tax. Making lifetime gifts now in order to utilize the heightened exemption before it is reduced or eliminated can result in substantial estate tax savings for individuals and families.

Another possible tax law change on the horizon that may affect your estate plan is the end of **step-up in basis.** When an asset is passed on to a beneficiary, its value is typically more than what it was when the original owner acquired it. Currently, for federal income tax purposes, when a person leaves assets or property to an heir, the cost basis of the bequeathed asset receives a "step-up" in basis to its fair market value at the time of the original owner's death.

The step-up in basis excludes from taxation any appreciation in the property's value that occurred during the decedent's lifetime. For example, if someone purchased an asset such as stock or investment real estate for $1 million and that property then appreciated in value to $2 million at the date of death of the original owner, then the original owner's heir would receive the asset at the stepped-up basis of $2 million. Any capital gains tax paid in the future when the asset is sold would be based on the $2 million cost basis. If the step-up in basis is eliminated, then the heir would owe capital gains tax on the appreciation of the asset from its $1 million original purchase price. Informed planning with your advisor can help you and your family prepare for these potential changes to the tax code.

2021 WEALTH PLANNING GUIDE

ESTATE PLANNING TOOLS:

Using Trusts and Partnerships in Your Estate

ESTATE PLANNING TOOLS: *Using Trusts and Partnerships in Your Estate*

A trust is a fiduciary arrangement that allows the person setting up the trust, known as the grantor, trustor, or settlor, to specify exactly how their estate will be distributed to beneficiaries. Trusts can help protect assets from creditors, avoid probate, and save time, taxes, court fees, and public disclosure of family assets.

Trusts can be a valuable mechanism for preserving and protecting assets while accomplishing a variety of financial and estate planning goals. Many families also use trusts to keep the details of family assets private. There are many types of trusts, each corresponding to different goals. Here is an overview of some of the different types of trusts that may be helpful for you to discuss with your advisors. Individuals may wish to take advantage of the current elevated lifetime exemptions and transfer assets to a trust and out of their estate prior to the 2025 sunset date.

There are essentially two basic types of trusts. A **living trust** in which the grantor or settlor is still alive, and a **testamentary trust** that doesn't take effect until after one's death. Living trusts can be either revocable or irrevocable. With a **revocable trust,** the grantor can make changes if needed. An **irrevocable trust** typically cannot be changed, modified, or canceled.

Living Trust

A living trust is a legal document that places your assets — bank accounts, real estate, investments, and valuable personal property — in a trust for your benefit during your lifetime, and spells out where you'd like your assets to go upon your death. You remain in control of the assets in your living trust, and the trust can be changed or revoked entirely according to your wishes. In the event you become seriously ill or incapable of handling your own personal finances, a trustee can be authorized to manage your financial affairs. Upon your death, a successor trustee will step in to manage the assets in the trust without going through probate.

Testamentary Trust

Unlike a living trust, a testamentary trust goes into effect upon the death of the grantor. It specifies how the assets of an individual are distributed. These trusts are often used for minor children or children with special needs where the grantor specifies conditions under which the beneficiary may receive distributions from the trust.

Irrevocable Life Insurance Trust

An irrevocable life insurance trust (ILIT) is a trust that is funded with a life insurance policy. An ILIT allows proceeds from the death benefit of a life insurance policy to transfer to a beneficiary or beneficiaries outside of the grantor's estate and thus not be subject to state and federal estate taxation. The insurance proceeds can be paid out immediately to one or to all beneficiaries, or the grantor can specify how and when beneficiaries receive distributions.

Spousal Lifetime Access Trust

A Spousal Lifetime Access Trust (SLAT) is an irrevocable trust where one spouse, called the donor or grantor spouse, makes a gift into a trust to benefit the other spouse, the beneficiary spouse, which removes the assets, along with any future appreciation, from both spouses' taxable estates. SLATs are attractive estate planning tools for married couples who wish to retain control over the assets should they be needed in the future but also to transfer assets out of their estates to take advantage of the current tax environment. Each spouse may create a SLAT for the benefit of the

other, however, care must be taken to avoid the reciprocal trust doctrine. If spouses create two identical or substantially similar SLATs for the benefit of each other, the SLATs may be ignored for federal tax purposes.

Dynasty Trust

A dynasty trust is any trust that lasts longer than one generation below that of the grantor. It's intended to pass wealth to future generations without incurring transfer taxes, such as estate and gift taxes or generation skipping transfer tax. The beneficiaries of a dynasty trust can enjoy the income from the trust; however, they may gain control but not ownership over the assets themselves.

Charitable Remainder Trust

A charitable remainder trust (CRT) is a gift of cash or other property to an irrevocable trust. The grantor receives an income stream from the trust for a specified term, usually for life, and then the remaining trust assets are donated to designated charities at the end of the trust term. A CRT is used by individuals who wish to pursue philanthropic goals, save taxes, and receive an income stream.

Generation-Skipping Trust

This type of irrevocable trust allows estates to avoid paying estate tax multiple times. The beneficiaries of the trust are typically the grantor's grandchildren -- skipping the grantor's children. With a Generation Skipping Trust (GST), the estate tax is only assessed once, when the assets such as cash, investments, and property are transferred into the trust. Any income generated by the assets in the trust can be enjoyed by both the skipped generation and/or the subsequent generation, depending on the terms of the trust.

Special Needs Trust

A special needs trust is designed to provide for a special needs dependent – such as a child, sibling, or parent – without compromising their eligibility to receive income-restricted benefits provided by Social Security, Medicare, or Medicaid. Proceeds from this type of trust are commonly used for medical expenses, payments for caretakers, transportation costs, and other permitted expenses not covered by government benefits.

Our advisors can help you determine how trusts may help you accomplish your estate planning goals.

THE ROLE OF FAMILY PARTNERSHIPS

The family limited partnership ("FLP") and family limited liability company ("FLLC") are two types of corporate entities that may be used in estate planning. For some families, it may be practical to form one of these to hold investment or business assets. Both provide a vehicle to transfer wealth while retaining control, protection from creditors and unintended heirs, consolidation of ownership, and one level of taxation.

Family Limited Partnerships

An FLP is a partnership agreement that exists between family members who are actively involved in a trade or business. FLPs have two types of partners: general partners and limited partners. Typically, parents or grandparents will be general partners in their FLP and will transfer limited-partnership interests to the next generation (or to trusts for their benefit). When this occurs, the assets are removed from the general partners' estates, thus saving on future estate taxes. However, the general partners retain control of the enterprise or assets, whereas limited partners have little control over the management of the partnership.

Limited Liability Company

An FLLC or LLC is formed by family members to conduct business. The FLLC can be controlled either by its members or by managers who are selected by the members. One difference is that FLLCs protect all members against liability while FLPs only protect limited partners. Both FLPs and FLLCs avoid the "double taxation" problem associated with corporations where taxes are assessed at both the corporate level and then again at the individual level, and instead enjoy "pass through" taxation where each partner is taxed on his or her share of the income. Both qualify for the annual gift tax exclusion and lifetime gift tax exemption.

FLPs and FLLCs can be useful mechanisms in estate planning, and an advisor can help you determine if one might benefit you and your family.

2021 WEALTH PLANNING GUIDE

TAKING CARE OF BUSINESS:

Managing Your 401(k)

TAKING CARE OF BUSINESS: *Managing Your 401(k)*

Research shows that the average American employee switches jobs nearly 12 times before retiring. Since a workplace savings plan often represents a big piece of your retirement savings, below are some options that should be discussed with an advisor when changing jobs.

OPTION 1: Keep your 401(k) with your Former Employer

Most companies will allow a former employee to keep retirement savings in their plans where the money can continue to grow tax-deferred. However, your withdrawal and/or loan options may be limited, and if your former employer changes their plan, you could face some red tape trying to get access to your funds.

OPTION 2: Roll the Money Over Into an IRA

A Rollover IRA is a retirement account that allows you to move money from your former employer-sponsored retirement plan into an IRA which may offer a wider range of investment choices. If you are under age 59 ½, the money can be withdrawn penalty-free for a qualifying first-time home purchase or higher education expenses.

OPTION 3: Roll Over Your 401(k) Into a New Employer's Plan

One benefit of this option is that it may make it easier to manage your retirement savings by having only one account, but check the investment options available with your new employer's 401(k), the cost, and the new plan's rules. If you choose option 2 or option 3, be sure to request a a direct rollover from your old account into your new IRA, 401(k), or 403(b).

OPTION 4: Cash Out

This option should be avoided unless you have a critical, immediate need for cash. If you withdraw before age 59 ½, the money will generally be subject to both ordinary income taxes and a 10% early withdrawal penalty. If you must access the money and if your former employer allows partial withdrawals, you may want to consider withdrawing only what you need until you can find other sources of cash — or roll the account into an IRA where you could do a partial withdrawal.

2021 WEALTH PLANNING GUIDE

AT A GLANCE:

Your Financial Wellness Checklist

- ☐ Review your Probity Advisors, Inc. Investment Profile, which includes your investment preferences, your risk profile, and your personal information, and call our office with any changes
- ☐ Review your estate plan, including your will, trusts, and power of attorney appointment(s)
- ☐ Conduct a beneficiary review of all of your accounts to ensure there are no changes or updates needed
- ☐ Review your digital estate plan to ensure your heirs have access to any online accounts or digital property
- ☐ If you have children or grandchildren, consider contributing to or opening a 529 college savings account
- ☐ Review your insurance needs and assess whether you are adequately insured
- ☐ Plan for any charitable contributions you wish to make
- ☐ Maximize tax effectiveness by gifting highly appreciated assets
- ☐ Consider having a family meeting to coordinate and communicate financial and estate matters
- ☐ Take your Required Minimum Distribution if you are age 72 or above
- ☐ Communicate with business partners, employees, and anyone who may need to understand your business succession plan
- ☐ Meet with your advisor to ensure you are on track to achieving your financial goals

PROBITY ADVISORS, INC®

HELPING YOU ACHIEVE YOUR GOALS
HAS ALWAYS BEEN OURS.

PROBITY ADVISORS, INC®

10,000 North Central Expressway
Suite 1326 • Dallas, TX 75231

www.probityadvisors.com