

Basics of Estate Planning and the Tools Available for Family Forests

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The
Consultant SUMMER 1999

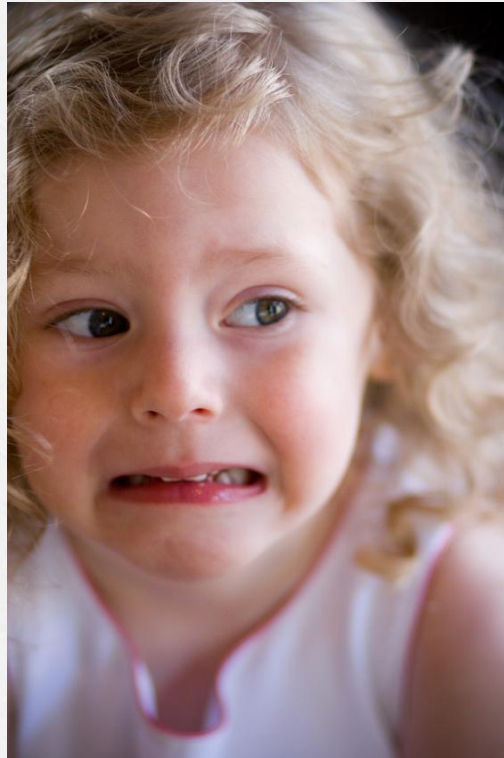
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There are two camps when
you talk about estate
planning:

Those who are scared



or don't want to talk
about death



And those who see
opportunity



And a chance to provide for
the future

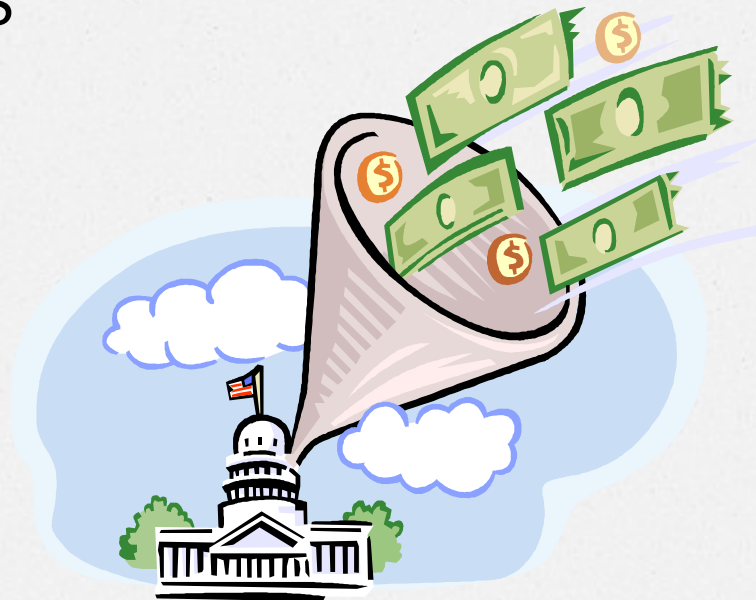






Why are you here?

- o I don't want my hard-earned money going to the IRS



Why are you here?

- o I don't want my hard-earned money going to the IRS
- o I want my family to be taken care of when I die
- o I spent a lot of money and time in those woods and I want the land to stay in forests
- o Nothing else to do 😊

Why I'm here

- o Interested in keeping land in forests
- o Interested in keeping your money out of the fed's pockets
- o I love talking taxes 😊

Agenda

Why plan?

Why not?

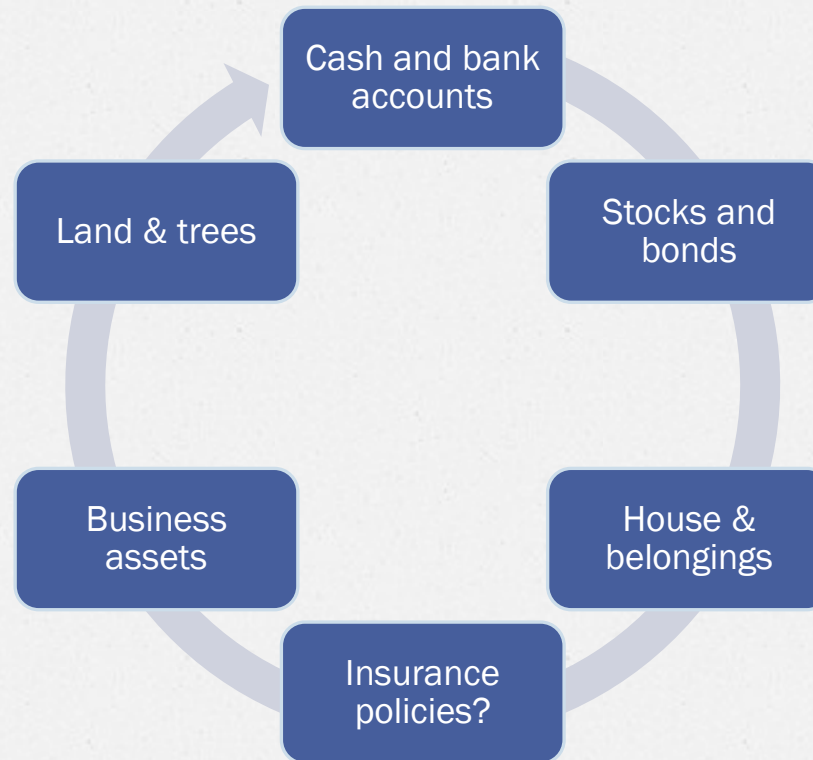
How to get
started

How to lower
estate tax

The disclaimers...

- o Tax law is very complex
- o Often hinges on details
- o Always changing
- o NOT tax advice

What exactly is my estate?



Why is estate planning important?

- o Long planning horizon for forests
 - o Illiquid asset
- o Appreciation of woodland assets above inflation
 - o Surprise when valued after death
- o Describes what happens to your property when you are gone

Why people don't plan

- o “I don't have enough assets to worry about”
- o “Planning costs too much”
- o “I don't want to think about dying”
- o “I don't want to worry my kids by talking about my death”

“I don’t have enough assets to worry about”

- o Are you land rich and cash poor?
 - o how would you know the answer to this?
- o Land and timber are appreciating assets

“Planning costs too much”

- o Valid argument but what is the alternative?
- o 33% of estates surveyed in 1998 study paid federal estate tax

“I don’t want to think about dying”

- o It is often quoted that two things in life are certain, death and taxes.
- o Death is inevitable, we will all die one day. It is best that you have your family prepared for life afterward with as little hassle as possible
- o This is the hardest part, opening the dialogue

“I don’t want to worry my kids”

- Chances are they’ve thought about it but are uncomfortable bringing it up.
- Find a time to discuss with your family. Everyone will benefit.

How do I get started?

- o Determine your goals
 - o Continuity of forest management
 - o Keep in family
 - o Direction for management
 - o Restrictions on use (what are the implications of this?)
 - o Minimize transfer costs
 - o Provide for dependents and heirs

How do I get started?

- o Form your planning team
 - o Consulting forester
 - o Tax planning attorney
 - o Accountant
 - o Executor



How do I get started?

- o Collect information
 - o Value of your assets
 - o Future appreciation
 - o Basis of assets

Valuing your assets

- o Value = quantity x price
- o Inventory & current market prices
- o Assets valued at fair market value on date of death (in general)
 - o Fair market value – price which property would change hands between willing buyer and willing seller neither under any compulsion to buy or sell and both having reasonable knowledge of all relevant facts

More on valuation

- o Estimate price appreciation by looking at price trends and using knowledge of market (consultant handy for this)
- o Basis is simply what you have invested in the property (what did you pay for it plus any additional expenses during ownership)

Who do you want to inherit your property?

- o Spouse
- o Children
- o Grandchildren
- o Siblings
- o Nieces & Nephews
- o Friends
- o Charitable or Conservation Organizations
- o Your college?



Talk Talk Talk!

- o Communication is key
- o Talk to heirs
- o Understand (without judging) the choices they are likely to make

Prepare a will

- o Properly executed legal document directing how to handle your assets
- o Need solid legal advice
- o *Without one, considered intestate*



Have a management plan!

- Tells heirs what your plans were
- Allows for continuity of management

How do I get started?

- o Determine your goals
- o Form your planning team
- o Collect the information
- o Talk Talk Talk
- o Prepare a will
- o Have a management plan

How to lower estate value?

- o Use both exemptions (\$5 million each)
- o Gifts
- o Charitable contributions
- o Special-use valuation
- o Many other tools, talk to your attorney!

Special-Use Valuation

- Allows land to be valued at its current use rather than highest and best use
- Up to \$1,020,000 reduction in value

Special-Use Valuation

- o Must transfer to qualified heir
- o Used as farm for 5 of past 8 years
- o Must have participated in farm activity
- o Value of property must be at least 25% of total estate
- o Combined value of real & other business property at least 50% of gross estate

Recapture of tax benefits

- o Special use rules apply to heir for 10 years
- o Triggered when:
 - o Property sold to unqualified heir
 - o Property no longer in qualified use
 - o Lack of participation by heir

Recapture consists of tax benefit plus penalty

Keep in mind...

- Tax minimization
- Take into account all consequences, legal, financial as well as tax

Bottom Line

- Planning is critical
- Essential to open lines of communication
- Understand your options

Parting words

- o “...nobody owes any public duty to pay more than the law demands. Taxes are enforced extractions, not voluntary contributions.”
- o -Judge Learned Hand, 1934

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