JONES LAW OFFICE

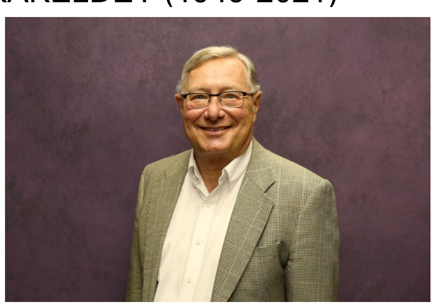
Happy Spring

From the Attorneys and Staff at Jones Law Office!

We have compiled a Spring newsletter with information that we think may be of interest to our clients.

As always, we are here to assist you with all of your estate and business planning needs.

Highlights



What's Next?

The Covid-19 Pandemic has wreaked havoc on our society in innumerable ways. But now that we seem to be moving, albeit very slowly, back toward normalcy, the conversation has shifted to the question of how will the Government recoup all of the stimulus expended for pandemic relief and the related costs? The most obvious answer is to collect more taxes and a popular way to generate tax revenue is taxing lifetime gifts and/or estates upon death.

Currently in Minnesota, estate tax is imposed when an individual owns more than $3 million of assets at death ($6 million for married couples). The Federal Government imposes tax if an individual has $11.7 million of assets at death. ($23.4 for married individuals).

The following is a list of proposed changes in federal law that may affect your estate plan:

Lower Exemption Amounts and Higher Estate Tax: Proposals would reduce the current estate tax exemption from $11.7 million to $3.5 million. The gift tax exemption would be reduced from $11.7 million in 2021 to $1 million. In addition, transfers in excess of the exemption amounts would be taxed at progressive rates (45%-65%; current is a flat rate of 40%).

Limitations on Gift Tax Exclusion for Annual Gifts. The proposals seek to allow use of the annual exclusion (currently $15,000 per year) for outright gifts of cash or marketable securities. However, the annual exclusion would be limited for gifts to trusts and for gifts that cannot be immediately liquidated by the donee, such as interests in family business entities that may be subject to sale restrictions.

Elimination of Valuation Discounts. Currently, the value of an interest in a family business, such as a corporation, limited liability company or limited partnership, may be discounted for gift and estate tax purposes. The proposals would require those interests to be valued without regard to such discounts.

Elimination of Step-up in Basis. Step up in basis allows heirs to receive a "step-up" in basis to market value at date of death. Proposals have been made to eliminate the "step-up", in which case heirs would inherit assets with the existing basis of the asset and upon sale pay capital gains tax.

Limitation on Use of Dynasty Trusts. Under the laws of South Dakota and several other states, trusts may be established to last forever, preventing the trust assets from being taxed as they pass from one generation to the next. The proposals would change the so-called generation-skipping transfer tax by applying it to any trust established to last more than fifty years.

The proposed effective date for these possible changes is unknown, but it could be as soon as January 1, 2022, or the date of enactment of the new law.

While the future of estate tax law is uncertain, there are things you can do now to eliminate or minimize estate taxes upon your death. However, strategies that are currently available may no longer be an option after the date a new estate tax law is enacted so it is important to act now.

Keeping it Simple

A question from a potential client that makes all good estate planning attorneys cringe is:

"How much for a simple Will"?

Typically, this potential client is looking for a basic, and most likely inexpensive, document and not for an estate plan. However, rarely do clients realize the implications of a "simple Will" if simple is not what they need. Certainly, in some cases, simple, Will-based plans may be appropriate. But for others, these plans result in lengthy, and expensive, probate and estate administrations.

Why is simplicity the goal for so many clients? It is understandable that clients want a plan that they understand; and they don't want to leave their children with a complicated, complex estate to administer. However, clients should know that an improperly simplistic plan can defeat their goals and be a disservice to their family and estate.

Every estate is different. Jones Law Office's estate planning attorneys, Stacey and Kristin, work with each client to create the most efficient estate plan to achieve their goals, whether that is a "simple Will" or something more sophisticated.

The ILIT Comeback

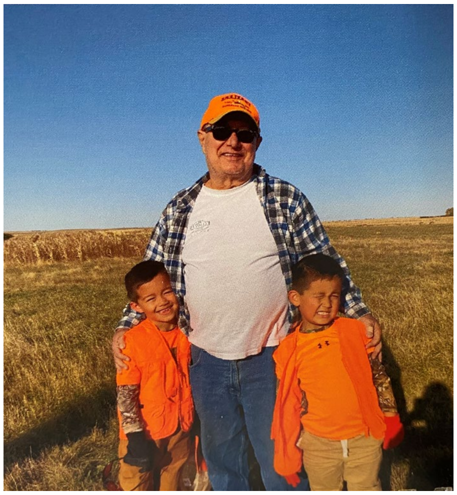
ILITs (Irrevocable Life Insurance Trusts) seem to have gone out of favor in recent years, as the estate tax exemption has climbed to historic highs. Many people don't *need* to remove their life insurance policies out of their estates, because their estates don't meet the high estate tax threshold. But as we brace for proposed changes to estate tax laws, most likely in the form of reduced exemption amounts, ILITs are making a comeback as a planning strategy.

Life insurance is income tax free, but not estate tax free. If you own a life insurance policy and your estate is taxable, your heirs won't pay income tax on the death benefit, but the death benefit will be subject to estate tax.

Life insurance is includible in your estate if you are the owner of the policy even if the insured is someone else. To remove the death benefit from your taxable estate, you need to remove the policy from your estate while you're living. One option is to transfer ownership of the policy to your child(ren). Most clients don't like the idea of this, however, because if your child(ren) own the policy, the cash value is now subject to creditors of your child(ren), including spouses. To avoid the risk of listing your child(ren) as the owner of the policy, the owner of the policy can be an ILIT for the benefit of your spouse and/or surviving child(ren) and protect the cash value from creditors.

With an ILIT strategy, you transfer your existing life insurance policy to, or obtain a new life insurance policy in the name of, an Irrevocable Life Insurance Trust. The Trust is the owner, you/your spouse are the insured, and the Trust is the beneficiary of the policy. You make a gift of the annual exclusion amount to the Trust to pay the premium to keep the policy in force, and the death benefit remains outside of your estate. Upon your death, the life insurance proceeds are distributed to your beneficiaries per the terms of the Trust, free from income and estate tax.

JONES LAW OFFICE REMEMBERS
RICHARD HENRY KAKELDEY



Richard (Dick) Kakeldey passed away on Thursday, February 18th with his wife by his side.

Dick was born in Fairmont, Minnesota in 1949. He married his high school sweetheart, Terry, in 1969.

Dick earned his B.S. in Political Science and African Studies from the University of Northern Colorado. He then earned his J.D. from William Mitchell College of Law in 1978.

Dick began practicing law in Mankato, Minnesota. In 2016, Dick also started practicing law in South Dakota and split his time between their home in Pierre, South Dakota and Mankato until his death.

Dick taught Business Law as an adjunct faculty member at Minnesota State University for 15 years. Dick invested much of his time in his community and was involved in many organizations, including: ISJ/Mayo Foundation, Mankato Area Foundation, Leave a Legacy, among many others. Creating and maintaining relationships, whether through his work as an attorney or any avenue of his life, was of great importance to Dick.

Dick loved his family and friends. He was not afraid to express his pride in them and honor their importance in his life. Dick was passionate about learning. In particular, he enjoyed sharing his knowledge of wine, philosophy, religion and history, with those around him.

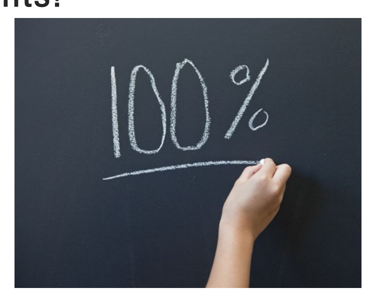
One of his greatest passions was his grandchildren: Oliver, Sebastian and Finnegan. Spending time in South Dakota, hunting, fishing, sock fighting and "trouble making", with them brought him great joy.

Dick is survived by his wife of 51 years, Terry, his daughters Anna (John) Kakeldey Cooney, grandchildren Oliver, Sebastian and Finnegan of Minnetonka and Abigail (Ben Nikolas) Kakeldey of Minneapolis. Dick is also survived by his sisters, Ruthann (George) Jones, Ramona Kunard, Rosalyn (Jim) Grabianowski, Linda (John) Hoover; sister-in-law, Janet Kakeldey; and numerous nieces and nephews.

REMINDER:
We are excited to offer an Estate Plan Maintenance Program to our Clients!

Participation in the program entitles you to the following valuable benefits:

- Review of your estate plan and letter each year from your attorney
- Estate plan check-up meeting every three years
- Updated Statutory Short Form Power of Attorney documents at no cost
- Reasonable phone calls to your attorney regarding your estate plan
- Assistance with Trust Funding
- Word processing changes to your documents at no cost (i.e., change trustee)
- Assurance that your plan will work when you need it most!



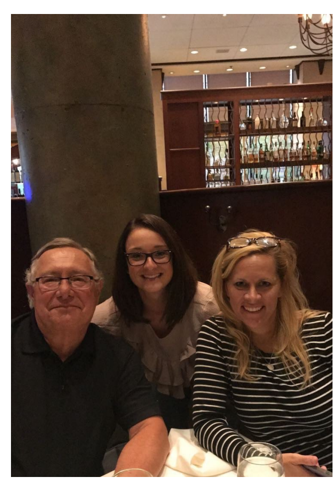
BUY THE SHOES, TAKE THE TRIP, BUT DO YOUR ESTATE PLANNING FIRST!

As we go to publication with this newsletter and pay tribute to our friend, colleague, mentor and co-counsel, Richard H. Kakeldey (Dick), I am reminded of the importance of proper planning and proper playing. Yes, I said *proper playing*. If we have learned one thing from the COVID-19 Pandemic, it is to be appreciative of the little things and enjoy our lives because we never know when the simple things will be taken away, or life itself will be taken away. Our colleague, Dick, loved being an attorney and it was every fiber of his being and he was able to work up until the day he passed away. Dick would have probably been very proud of that fact and the fact that he was helping families plan for the next generation up until his last day here on earth. He was also proud of the relationships he formed along the way. If you were a client of Dick's, you were like family and he often hunted, fished, and traveled with clients that became friends along the way. Dick truly did enjoy the journey and made time to enjoy "play time". His passing has reminded me that even though he loved working and helping people, it is important to play and help our own souls. In the last few years, he purchased a home in South Dakota and quickly made new friends that became like family there and he loved working and playing there as much as he loved being in Mankato to work and play.

Life is short and the years seem to be clicking by faster all the time. Many clients put off their planning because they think they have time. We all *think* we have time, but the truth is we never really know when it's "*Our Time"*. We see many families come into our office without a plan in place when someone passes away and it is difficult for them to make decisions. They are wondering, what would Mom or Dad have done or wanted? And sometimes they are so paralyzed by confusion and grief that they don't do anything – for a long time. When you have a plan in place, your children and heirs don't have to wonder what would Mom or Dad have wanted. They know. The plan says what they wanted. The plan can be carried out quickly and efficiently, without confusion and grief slowing the process down. Without a Will or Plan, the State of Minnesota dictates where your assets go and how. This might work great for your neighbor, but if you have any special situations such as minor children or grandchildren, this could be a disaster. You may have wanted to include charities or special friends and relatives, but without a plan that just is not possible.

Life is all about balance, right? Well, have fun, buy the shoes (or whatever makes you happy) and take the trip; but first do your estate planning! We would love to meet with you and discuss your individual situation and help you make a plan that suits your family. In the meantime, stay healthy and happy.

Stacey R. Edwards Jones
Attorney/Owner



Dick, Kristin, & Stacey

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