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17th ANNUAL INTERGENERATIONAL ESTATE PLANNING CONFERENCE

November 29, 2022

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INTERGEN

Meet Marcus and Kim Lockwood

- Live in Bronxville (home owned jointly)
- Married for 24 years
- **Getting divorced**; amicably so far…
- Estate, financial and retirement plans are in place – need to be unwound

Kim, 58 and Marcus, 61

INTERGEN

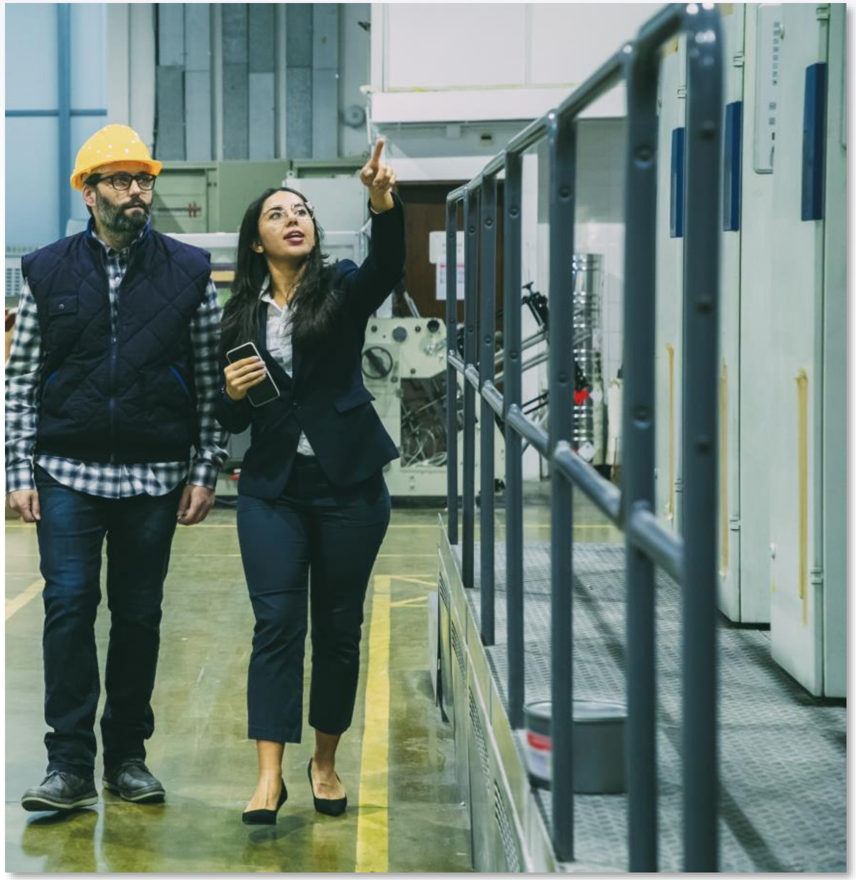
The Business

- LLC originally owned by Marcus' family
- Started as a propane business in Brooklyn in 1958
- Relocated to Tarrytown, in 2020
  - New Building purchased for $10 mil in Marcus and Kim's names
  - $8 mil mortgage
  - Currently renting the land

Marcus and Kim 'think' the business is worth $35 million

INTERGEN

The Kids: Marcia, Age 32



- Kim's daughter from a previous relationship
- Columbia University Grad; Thesis on fuel cell technology
- Chemical Engineer
- Worked at GE Energy before joining MK Fuel
- Developed a new clean energy fuel cell patent
- New facility built to develop fuel cell technology – contracts are being negotiated

The Kids

- Marcus and Kim have two children together
- Son Ted, 23
- Daughter Carol, 21
- Interested in music, art and social issues
- Not involved in the family business

INTERGEN

Kim's Mother, Joyce

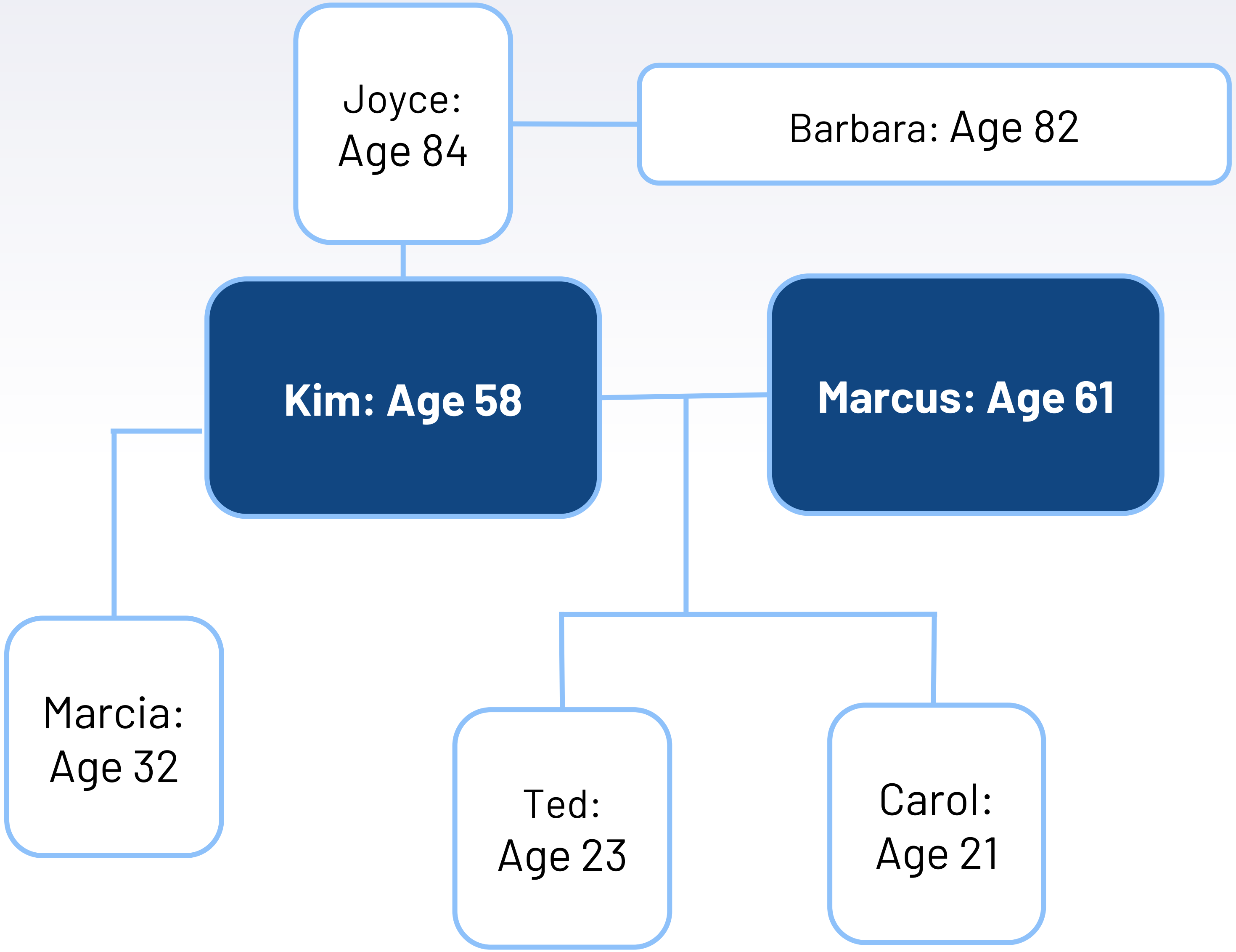
Age 84

- Divorced, physically healthy
- Showing signs of aging

Lives with Barbara, Age 82

- Joyce's significant other for 10 years
- Live in Condo in Joyce's name
  - Value: $250,000, mortgage $100K
- Joyce has NYS Partnership Long Term Care Insurance policy with a daily benefit amount of $275 and a maximum benefit of $300K

Family Tree



INTERGEN

The Divorce

Marcus

- Will continue to run MK Fuel
- Supports Marcia's (stepdaughter) growing role in the company and development of the patent
- Concerned about splitting up the jointly-owned assets

INTERGEN

The Divorce

Kim

- Once they started having problems, took a job at the Guggenheim
- Concerned about dividing up the assets
    - To have a secure income for life
    - To get her fair share
    - To leave a legacy for the 3 kids
    - To support her mother Joyce

INTERGEN

Asset Overview: Marcus and Kim

Net Worth

- $60 mil total asset level
- **Current Annual Income**:
  - $2 mil distributed to Marcus and Kim from business
  - Current investment income $500,000

INTERGEN

Brooklyn Building

- MK Fuel's original location (founded in 1958)
- Building + Land value: $10 mil
- Divorce Plan: Sell It

INTERGEN

Other Jointly-Held Assets

Jointly Held

Bronxville Primary Residence	$5 mil
Vacation Condo in Miami	$3 mil
Non-Qualified Assets	$5.53 mil
Personal property	$2 mil
Total Real Estate Assets	$18 mil

INTERGEN

Asset Overview: Marcus

- 401(k) $2.5 mil
- Rollover IRA $950,000

- Life Insurance
  - Second to Die Policy
  - Term Insurance Policy

INTERGEN

Asset Overview: Kim

Rollover IRA	$65,000
Inherited Roth IRA	$630,000
Roth IRA	$85,000

- Life Insurance
  - Second to Die Policy
  - Term Insurance Policy

INTERGEN

Liabilities - Joint

- Vacation Condo ($435,000)
- Mortgage ($435,000)

- Total Long-Term Liabilities ($435,000)

INTERGEN

Asset Overview

Estate and Business Planning

The couple created Spousal Lifetime Access Trusts (SLATs)

SLAT 1	Trust created by Marcus for Kim
	Funded with $12MM of company stock
SLAT 2	Trust created by Kim for Marcus
	Funded with $6MM of marketable securities

Planning Concerns

- **Concerned** about the impact on the three children and their legacy
- **Unsure** of how much MK Energy business is worth, concerned about preserving its value and future growth
- **Worried** about splitting assets equitably in divorce
- **Concerned** about their income stream, retirement plans, tax liability and insurance

The Lockwood's Goals

- Come up with a plan for the divorce and build a team to carry it out
- Maximize wealth, minimize tax and risk
- Secure financial future for each spouse following divorce
- Create a business succession plan for Marcus and Marcia
- Provide for Kim and her mother Joyce
- Create a legacy for Ted, Carol and Marcia

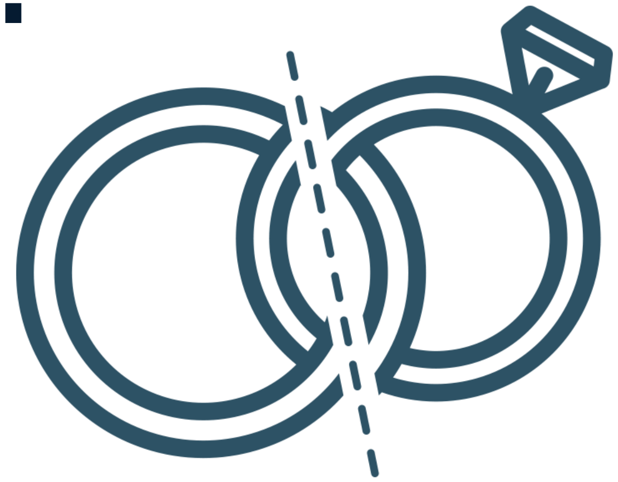
INTERGEN

The Lockwood's Have Hired Our Team Of Advisors

- What are the planning considerations for Marcus and Kim?
- How will our team meet these goals and provide for multi-generations of the family?

Above All, This Couple Wants To Know:

HOW CAN THE DIVORCE BE EQUITABLE IN BUSINESS AND LIFE?



First Republic

First Republic Wealth Planning Analysis

Kim and Marcus-An Intergen Case Study

Lisa Siegel
Senior Managing Director
Bonnie Leibowitz, CFP®
Managing Director

11/29/2022

Challenges for Kim

- Generate enough post-divorce income to maintain current lifestyle

- Current level of liquid assets isn't sufficient to produce required income

- Business income? What does Kim need/expect from profits?

INTERGEN

Challenges for Marcus

- Should have enough income from business (compensation and profits)
- Does he give up all liquid assets in the divorce settlement?
- If Kim gets income from the business, how is it structured?

INTERGEN

Joint Challenges

- What do they want to leave the children?
- How might that affect their investment plan?
- Will Marcia be treated differently?

Why should clients look to plan for their settlement?

- Creating own Path – Divorce Court, Mediation, Collaborative Divorce
- More likely to get an outcome that the parties can accept and honor
- Better understanding of current and future finances
- Can negotiate more efficiently
- Minimize attorney fees and reduce the time to get a divorce
- Minimize taxes
- Better for the children

Pre-divorce planning – Know what you own

Organize Financial Paperwork

- Gather, organize and value assets – including cost basis and business interests
- Create a balance sheet – accurate titling

Housing

- Own or rent
- Is there a mortgage Home Equity Lines
- Schooling?

Liabilities

- Whose debt?
- Secured/Unsecured
- Tax/Divorce Debt

Create a Budget

- Need for Maintenance/Alimony
- Pendente Lite/Temporary Support
- Prepare a cash flow projection

Tax Returns

- Copies of tax returns going back at least 3 years
- Personal, business and trust returns

Estate Planning Documents

- Review existing plan
- Wills, Trusts, Powers of Attorney, HIPAA,
- Health Care Directives, Beneficiary Designations

Insurance Policies

- Review existing policies
- Medical, dental, visions, life, disability, auto, homeowner's

Hidden Assets

- Think about hidden assets
- New accounts in the names of children, phony debts
- Consider hiring a Forensic Accountant

Kim's Purpose of Wealth

- Kim needs to produce income
- Assume $500K annually in Living Expenses
- Retain an estate for the children?

INTERGEN

Marcus's Purpose of Wealth

- Marcus has sufficient income from the business
- Does he monetize the business at some point?
- Marcus will need a retirement plan at some point
  - His existing retirement allocation should be reviewed but likely does not need to change

Pre-Divorce

Net Worth Statement (Pre-Divorce)

ASSETS	Kim	Marcus	Joint	Total
NON-QUALIFIED ASSETS				
Cash Alternatives				
Checking/Savings	—	$230,000	—	$230,000
Checking/Savings	—	—	$800,000	$800,000
Taxable Investments				
Joint Taxable Investment	—	—	$4,500,000	$4,500,000
Total Non-Qualified Assets	**—**	**$230,000**	**$5,300,000**	**$5,530,000**
RETIREMENT ASSETS				
Qualified Retirement				
Kim's Rollover IRA	$65,000	—	—	$65,000
Marcus' 401(k)	—	$2,500,000	—	$2,500,000
Marcus' Rollover IRA	—	$950,000	—	$950,000
Roth IRAs				
Kim's Inherited Roth IRA	$630,000	—	—	$630,000
Kim's Roth IRA	$85,000	—	—	$85,000
Total Retirement Assets	**$780,000**	**$3,450,000**	**—**	**$4,230,000**
Total Liquid Assets	**$780,000**	**$3,680,000**	**$5,300,000**	**$9,760,000**
BUSINESS INTERESTS				
MK Fuel, LLC (65.72% of $35,000,000)	—	$23,002,000	—	$23,002,000
Total Business Interests	**—**	**$23,002,000**	**—**	**$23,002,000**

REAL ESTATE ASSETS	Kim	Marcus	Joint	Total
Business Building - Brooklyn	—	—	$10,000,000	$10,000,000
Primary Resident	—	—	$5,000,000	$5,000,000
Vacation Condo - Miami	—	—	$3,000,000	$3,000,000
Total Real Estate Assets	**—**	**—**	**$18,000,000**	**$18,000,000**
PERSONAL ASSETS				
Personal Property	—	—	$2,000,000	$2,000,000
Total Personal Assets	**—**	**—**	**$2,000,000**	**$2,000,000**
Total Assets	**$780,000**	**$26,682,000**	**$25,300,000**	**$52,762,000**

LIABILITIES	Kim	Marcus	Joint	Total
LONG TERM LIABILITIES				
Vacation Condo Mortgage	—	—	($435,000)	($435,000)
Total Long Term Liabilities	**$0**	**$0**	**($435,000)**	**($435,000)**
Total Liabilities	**$0**	**$0**	**($435,000)**	**($435,000)**

	Kim	Marcus	Joint	Total
Total Net Worth	**$780,000**	**$26,682,000**	**$24,865,000**	**$52,327,000**

Out of Estate Balance Sheet

SLAT 1 (Donor: Marcus)

Name	Value
MK Fuel, LLC (34.28% of $35,000,000)	$11,998,000
Total	**$11,998,000**

SLAT 2 (Donor : Kim)

Name	Value
Kim's Marketable Securities	$6,000,000
Total	**$6,000,000**

Separate/Marital property & Equitable Distribution

Separate property and Marital property

ASSETS	Marital Property[1]	Kim	Marcus	Trust/SLATS
Checking/Savings	$230,000	—	—	—
Checking/Savings	$800,000	—	—	—
Taxable Investments				
Joint Taxable Investment	$4,500,000	—	—	—
Marketable securities (SLAT 2)[2]	—	—	—	$6,000,000
Total Non-Qualified Assets	**$5,530,000**	**—**	**—**	**$6,000,000**
Kim's Rollover IRA	$65,000	—	—	—
Marcus' 401(k)	$2,500,000	—	—	—
Marcus' Rollover IRA	$950,000	—	—	—
Roth IRAs				
Kim's Inherited Roth IRA	—	$630,000	—	—
Kim's Roth IRA	$85,000	—	—	—
Total Retirement Assets	**$3,600,000**	**$630,000**	**—**	**—**
Total Liquid Assets	**$9,130,000**	**$630,000**	**—**	**—**
MK Fuel, LLC[3]	$13,002,000	—	$10,000,000	$11,998,000
Total Business Interests	**$13,002,000**	**—**	**$10,000,000**	**$11,998,000**
Business Building - Brooklyn	$10,000,000	—	—	—
Primary Residence	$5,000,000	—	—	—
Vacation Condo - Miami	$3,000,000	—	—	—
Total Real Estate Assets	**$18,000,000**	**—**	**—**	**—**

ASSETS	Marital Property	Kim	Marcus	Trust/SLATS
Personal Property	$2,000,000	—	—	—
Total Personal Assets	**$2,000,000**	**—**	**—**	**—**
Total Assets	**$42,132,000**	**$630,000**	**$10,000,000**	**$17,998,000**
LIABILITIES	**Marital Property**	**Kim**	**Marcus**	**Trust/SLATS**
LONG TERM LIABILITIES				
Vacation Condo Mortgage	($435,000)	—	—	—
Total Long Term Liabilities	**($435,000)**	**$0**	**$0**	**$0**
Total Liabilities	**($435,000)**	**$0**	**$0**	**$0**
Total Net Worth	**$41,697,000**	**$630,000**	**$10,000,000**	**$17,998,000**

Footnotes:

1. **Marital Property** :All marital properties will be subject for equitable distribution.
2. **Marketable Securities (SLAT 2)** : marketable securities is in SLAT 2 (Donor: Kim).
3. **MK Fuel, LLC:**

Marital Property

Marital Property" as all property acquired by either or both spouses commencing from the date of the marriage and continuing until the execution of a separation agreement or the commencement of a matrimonial action, regardless of the name or title in which the property is held.

Separate Property

- The categories of Separate Property immune from equitable distribution pursuant to statute are:

  i. property acquired before the marriage or after the commencement of an action for a divorce or an annulment;

  ii. property acquired by bequest, devise or descent, or a gift to a party other than from the party's spouse;

  iii. compensation for personal injuries;

  iv. property acquired in exchange for separate property or the increase in value of separate property, except to the extent that said appreciation is due to the direct or indirect contributions or efforts of the other spouse; and

  v. property determined to be treated as separate property by a written agreement of the parties in the form prescribed by statute.

- The parties by written agreement may remove from the category of marital property those assets they decide to treat as separate property, even though they would otherwise be categorized as marital assets but for the written agreement.

Appreciation of Separate Property

- The statute provides that the increase in value of separate property is also separate property, except to the extent that the appreciation is due in part to the contributions or efforts of the other spouse.

Equitable Distribution

Having determined what is marital property and what is separate property and what are the values of each, the next task is to analyze the factors which determine the **percentage distribution** of marital property which should be made to each of the respective parties.

"**Equitable distribution**" does not mean equal distribution; rather, it is equitable distribution that is mandated by the statute. This may or may not be an equal division of marital property, depending upon the circumstances.

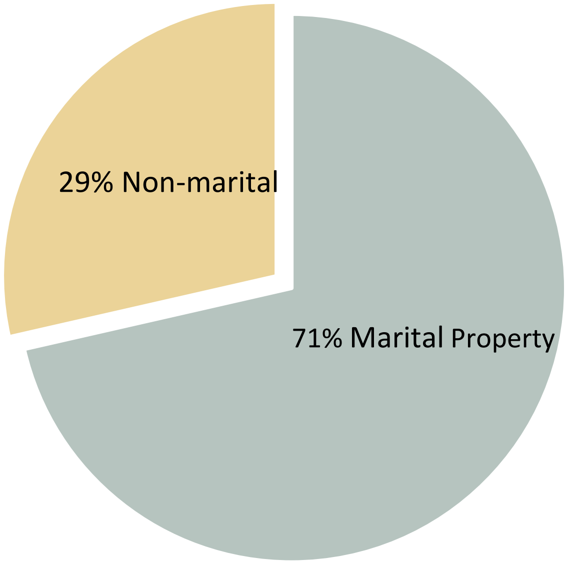
The statute sets forth 14 factors to be considered by a court in the distribution of marital assets:

1. income and property of each party at the time of the marriage and at the time of the commencement of the action;
2. duration of the marriage and the age and health of both parties;
3. need of a custodial parent to occupy or own the marital residence and to use or own its household effects;
4. loss of inheritance and pension rights upon dissolution of the marriage as of the date of dissolution;
5. loss of health insurance benefits upon dissolution of the marriage;
6. any award of maintenance as it affects each of the parties;
7. any equitable claim to, interest in, or direct or indirect contribution made to the acquisition of marital property by the party not having title, including joint efforts for expenditures and contributions and services as a spouse, parent, wage earner and homemaker, and to the career or the career potential of the other party;
8. liquid or nonliquid character of marital property;
9. probable future financial circumstances of each party;
10. impossibility or difficulty of evaluating any component asset or any interest in a business, corporation or profession, and the economic desirability of retaining said asset or interest intact and free from any claim or interference by the other party;
11. tax consequences to each party;
12. wasteful dissipation of assets by either spouse;
13. any transfer or encumbrance made in contemplation of a matrimonial action without a fair consideration; and
14. the so-called "wild card" factor—"any other factor that the court shall expressly find to be just and proper."[68]

NY DRL § 236B

MK FUEL, LLC

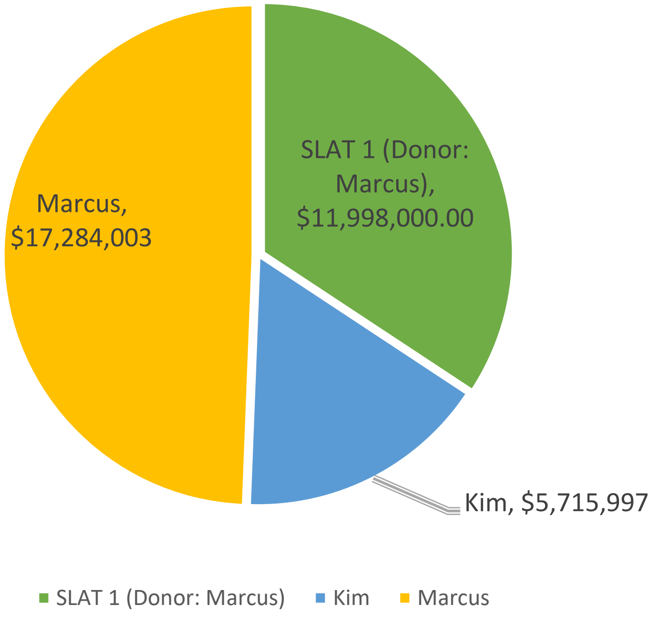
71% Appreciation Ratio (25M/35M)



$35M Total

Kim's Shares:	
Marital Business Interest	$23,002,000
$23M X 71.43%	$16,331,420
Kim's Share X 35.00%	**$5,715,997**
Marcus's Shares:	
Marital Business Interest	$23,002,000
- Kim's Share	($5,715,997)
Marcus's Shares:	**$17,286,003**

$35M Total



Spousal Support/Maintenance

Maintenance Awards

Maintenance awards are based upon the pre-separation family standard of living, among other considerations.

There are 15 factors to be considered in awarding post-divorce maintenance:

1. the age and health of the parties;
2. the present or future earning capacity of the parties, including a history of limited participation in the workforce;
3. the need of one party to incur education or training expenses;
4. the termination of a child support award before the termination of the maintenance award when the calculation of maintenance was based upon child support being awarded which resulted in a maintenance award lower than it would have been had child support not been awarded;
5. the wasteful dissipation of marital property, including transfers or encumbrances made in contemplation of a matrimonial action without fair consideration;
6. the existence and duration of a premarital joint household or a pre-divorce separate household;
7. acts by one party against another that have inhibited or continue to inhibit a party's earning capacity or ability to obtain meaningful employment. Such acts include but are not limited to acts of domestic violence as provided in section four hundred fifty-nine-a of the social services law;
8. the availability and cost of medical insurance for the parties;
9. the care of children or stepchildren, disabled adult children or stepchildren, elderly parents or in-laws provided during the marriage that inhibits a party's earning capacity;
10. the tax consequences to each party;
11. the standard of living of the parties established during the marriage;
12. the reduced or lost earning capacity of the payee as a result of having foregone or delayed educa-tion, training, employment or career opportunities during the marriage;
13. the equitable distribution of marital property and the income or imputed income on the assets so distributed;
14. the contributions and services of the payee as a spouse, parent, wage earner and homemaker and to the career or career potential of the other party; and
15. any other factor which the court shall expressly find to be just and proper.

NY DRL § 236b(6)€1)

Post Divorce - Kim

Kim’s Net Worth Statement

ASSETS	Kim	Total
NON-QUALIFIED ASSETS		
Cash Alternatives		
Checking/Savings (Joint)	$400,000	$400,000
Checking/Savings (Marcus')	$115,000	$115,000
Taxable Investments		
Proceeds from Sales of Real Property	$3,050,000	$3,050,000
Taxable Investment (Joint)	$2,250,000	$2,250,000
Total Non-Qualified Assets	**$5,815,000**	**$5,815,000**
RETIREMENT ASSETS		
Qualified Retirement		
IRA (Marcus' Rollover IRA)	$475,000	$475,000
Kim's Rollover IRA	$32,500	$32,500
QDRO IRA - Marcus' 401(k)	$1,250,000	$1,250,000
Roth IRAs		
Kim's Inherited Roth IRA	$630,000	$630,000
Kim's Roth IRA	$42,500	$42,500
Total Retirement Assets	**$2,430,000**	**$2,430,000**
Total Liquid Assets	**$8,245,000**	**$8,245,000**

BUSINESS INTERESTS	Kim	Total
MK Fuel, LLC	$5,715,997	$5,715,997
Total Business Interests	**$6,000,000**	**$6,000,000**
REAL ESTATE ASSETS		
Business Building - Brooklyn	$10,000,000	$10,000,000
Total Real Estate Assets	**$10,000,000**	**$10,000,000**
PERSONAL ASSETS		
Personal Property	$1,000,000	$1,000,000
Total Personal Assets	**$1,000,000**	**$1,000,000**
Total Assets	**$24,960,997**	**$24,960,997**
Total Liabilities	**$0**	**$0**
Total Net Worth	**$24,960,997**	**$24,960,997**

Assumption (Kim)

Assumptions	Details			
Age in 2022	Kim (58)			
Children	Marcia (32), Carol (23) and Ted (21)			
Retirement	2028			
End of Plan	2059			
State of Residence for Income Tax Purposes	NY			
Rates of Return	Account	Rate of Return		
	Checking/ Savings	0.00%		
	Proceeds from Sales of Real Property	4.01%		
	Taxable Investment (Joint)	4.01%		
	IRA (Marcus' Rollover IRA)	4.01%		
	Kim's Rollover IRA	4.01%		
	QDRO IRA - Marcus' 401(k)	4.01%		
	Kim's Inherited Roth IRA	4.01%		
	Kim's Roth IRA	4.01%		
	Business Building - Brooklyn (100%)	0.00%		
	Personal Property	0.00%		
Inflation	2.56%			
Income Flows	Income Item	Annual Amount	Growth Rate	Years
	New Career Salary/ Bonus	$50,000	2.56%	2022-2028
	Business Building CRT Distribution	$600,000	0.00%	2022-2042
	Business Distribution	$340,000	0.00%	2022-2059
	Investment Income	$90,225		

Assumption (Kim)

Assumptions	Details				
Social Security	Beneficiary	Age Collection Begins	Benefit Amount	Growth Rate	
	Kim	Full Retirement Age (FRA)	$17,500	2.56%	
Planned Distributions	Assumed Required Minimum Distributions begin from your qualified retirement accounts at your age 72 Please refer to the Planned Distributions report for further details.				
Total Expenses (excluding liabilities & taxes)	Expense Item	Annual Amount	Growth Rate	Years	
	Living Expenses	$500,000	2.56%	2022-2059	
Business Building CRT	Item	Beginning Balance	Trust Growth Rate	Benefit Amount	Years
	CRT	$10,000,000	4.01%	$600,000	2022-2042

Cash Flow Summary (Kim)

Probability of Success	
High	82% - 100%
Medium	70% - 81%
Low	0% - 69%

Your Goals	Current Situation	Reduce business distribution to $300k/y
Lifestyle		
Income	Business Distribution - $340,000	Business Distribution - $300,000
	New Career Salary/Bonus - $50,000	New Career Salary/Bonus - $50,000
	CRT Distribution - $600,000	CRT Distribution - $600,000
	Investment Income - $90,000	Investment Income - $90,000
Expenses	$919,263	$900,783
Savings	$0	$0
Retirement	**80% Probability**	**73% Probability**
Retirement Age	65	65
Living Expenses	$500,000 / year	$500,000 / year

Cash Flow (Kim)

Year	Age	Income Flows	Investment Income	Planned Distributions	CRT Distribution	Total Inflows	Total Expenses	Total Outflows	Net Cash Flow	Total Portfolio Assets
2023	59	$390,000	$90,000	$0	$600,000	$1,080,000	$919,263	$919,263	$160,737	$8,606,437
2024	60	$391,280	$90,000	$0	$600,000	$1,081,280	$933,483	$933,483	$147,797	$8,969,429
2025	61	$392,593	$90,000	$0	$600,000	$1,082,593	$947,880	$947,880	$134,713	$9,333,894
2026	62	$393,939	$90,000	$0	$600,000	$1,083,939	$963,564	$963,564	$120,375	$9,698,634
2027	63	$395,320	$90,000	$0	$600,000	$1,085,320	$978,181	$978,181	$107,139	$10,064,766
2028	64	$396,736	$90,000	$0	$600,000	$1,086,736	$992,922	$992,922	$93,814	$10,432,253
2029	65	$340,000	$90,000	$0	$600,000	$1,030,000	$980,258	$980,258	$49,742	$10,770,405
2030	66	$340,000	$90,000	$0	$600,000	$1,030,000	$993,925	$993,925	$36,075	$11,108,449
2031	67	$362,531	$90,000	$0	$600,000	$1,052,531	$1,015,486	$1,015,486	$37,045	$11,461,019
2032	68	$363,108	$90,000	$0	$600,000	$1,053,108	$1,029,814	$1,029,814	$23,294	$11,813,976
2033	69	$363,700	$90,000	$0	$600,000	$1,053,700	$1,044,232	$1,044,232	$9,468	$12,167,260
2034	70	$364,307	$90,000	$0	$600,000	$1,054,307	$1,058,752	$1,058,752	($4,445)	$12,520,797
2035	71	$364,929	$90,000	$0	$600,000	$1,054,929	$1,073,444	$1,073,444	($18,515)	$12,874,620
2036	72	$365,567	$90,000	$95,369	$600,000	$1,150,936	$1,130,504	$1,130,504	$20,432	$13,186,951
2037	73	$366,222	$90,000	$98,245	$600,000	$1,154,467	$1,147,625	$1,147,625	$6,842	$13,496,036
...	...	...	...	...	...	...	...	...	...	...
2042	78	$369,754	$90,000	$114,149	$0	$573,903	$1,157,176	$1,157,176	($583,273)	$14,466,792
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2057	93	$383,472	$90,000	$158,494	$0	$631,966	$1,424,858	$1,424,858	($792,892)	$7,585,019
2058	94	$384,585	$90,000	$158,005	$0	$632,590	$1,440,603	$1,440,603	($808,013)	$6,828,035
2059	95	$385,726	$90,000	$157,116	$0	$632,842	$1,457,613	$1,457,613	($824,771)	$6,025,343

Cash Flow - Income Flows (Kim)

Year	Age	Business Distribution	Kim's Salary	Social Security	Income Flows
2023	59	$340,000	$50,000	$0	$390,000
2024	60	$340,000	$51,280	$0	$391,280
2025	61	$340,000	$52,593	$0	$392,593
2026	62	$340,000	$53,939	$0	$393,939
2027	63	$340,000	$55,320	$0	$395,320
2028	64	$340,000	$56,736	$0	$396,736
2029	65	$340,000	$0	$0	$340,000
2030	66	$340,000	$0	$0	$340,000
2031	67	$340,000	$0	$22,531	$362,531
2032	68	$340,000	$0	$23,108	$363,108
2033	69	$340,000	$0	$23,700	$363,700
2034	70	$340,000	$0	$24,307	$364,307
2035	71	$340,000	$0	$24,929	$364,929
2036	72	$340,000	$0	$25,567	$365,567
2037	73	$340,000	$0	$26,222	$366,222
2038	74	$340,000	$0	$26,893	$366,893
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...	...	...	...	...	...
2057	93	$340,000	$0	$43,472	$383,472
2058	94	$340,000	$0	$44,585	$384,585
2059	95	$340,000	$0	$45,726	$385,726

Assets (Kim)

Year	Age	Investment Assets	Cash Assets	Retirement Assets	Total Portfolio Assets	M Fuel, LLC	Personal Property	Total Assets
2023	59	$5,583,042	$515,000	$2,508,395	$8,606,437	$5,715,997	$1,000,000	$15,322,434
2024	60	5,864,494	515,000	2,589,935	8,969,429	5,715,997	1,000,000	15,685,426
2025	61	6,144,149	515,000	2,674,745	9,333,894	5,715,997	1,000,000	16,049,891
2026	62	6,420,679	515,000	2,762,955	9,698,634	5,715,997	1,000,000	16,414,631
2027	63	6,695,063	515,000	2,854,703	10,064,766	5,715,997	1,000,000	16,780,763
2028	64	6,967,124	515,000	2,950,129	10,432,253	5,715,997	1,000,000	17,148,250
2029	65	7,206,023	515,000	3,049,382	10,770,405	5,715,997	1,000,000	17,486,402
2030	66	7,440,834	515,000	3,152,615	11,108,449	5,715,997	1,000,000	17,824,446
2031	67	7,686,032	515,000	3,259,987	11,461,019	5,715,997	1,000,000	18,177,016
2032	68	7,927,311	515,000	3,371,665	11,813,976	5,715,997	1,000,000	18,529,973
2033	69	8,164,439	515,000	3,487,821	12,167,260	5,715,997	1,000,000	18,883,257
2034	70	8,401,608	510,555	3,608,634	12,520,797	5,715,997	1,000,000	19,236,794
2035	71	8,648,287	492,040	3,734,293	12,874,620	5,715,997	1,000,000	19,590,617
2036	72	8,925,290	492,040	3,769,621	13,186,951	5,715,997	1,000,000	19,902,948
2037	73	9,199,811	492,040	3,804,185	13,496,036	5,715,997	1,000,000	20,212,033
2038	74	9,478,498	485,462	3,837,454	13,801,414	5,715,997	1,000,000	20,517,411
2039	75	9,768,361	465,054	3,869,656	14,103,071	5,715,997	1,000,000	20,819,068
2040	76	10,069,848	430,503	3,900,637	14,400,988	5,715,997	1,000,000	21,116,985
2041	77	10,383,424	381,204	3,930,724	14,695,352	5,715,997	1,000,000	21,411,349
2042	78	10,507,505	0	3,959,287	14,466,792	5,715,997	1,000,000	21,182,789
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...	...	...	...	...	...	...	...	...
2057	93	3,421,273	0	4,163,746	7,585,019	5,715,997	1,000,000	14,301,016
2058	94	2,660,228	0	4,167,807	6,828,035	5,715,997	1,000,000	13,544,032
2059	95	1,851,907	0	4,173,436	6,025,343	5,715,997	1,000,000	12,741,340

Marcus' Net Worth Statement

ASSETS	Marcus	Total
NON-QUALIFIED ASSETS		
Cash Alternatives		
Checking/Savings (Joint)	$400,000	$400,000
Checking/Savings (Marcus')	$115,000	$115,000
Taxable Investments		
Proceeds from Sales of Real Property	$3,050,000	$3,050,000
Taxable Investment (Joint)	$2,250,000	$2,250,000
Total Non-Qualified Assets	**$5,815,000**	**$5,815,000**
RETIREMENT ASSETS		
Qualified Retirement		
IRA (Kim's Rollover IRA)	$32,500	$32,500
Marcus' 401(k)	$1,250,000	$1,250,000
Marcus' Rollover IRA	$475,000	$475,000
Roth IRAs		
Marcus' Roth IRA	$42,500	$42,500
Total Retirement Assets	**$1,800,000**	**$1,800,000**
Total Liquid Assets	**$7,615,000**	**$7,615,000**

BUSINESS INTERESTS	Marcus	Total
MK Fuel, LLC	$17,284,003	$17,284,003
Total Business Interests	**$17,284,003**	**$17,284,003**
PERSONAL ASSETS		
Personal Property	$1,000,000	$1,000,000
Total Personal Assets	**$1,000,000**	**$1,000,000**
Total Assets	**$25,899,003**	**$25,899,003**

LIABILITIES	Marcus	Total
Total Liabilities	**$0**	**$0**

Total Net Worth	**$25,899,003**	**$25,899,003**

Assumption (Marcus)

Assumptions	Details			
Age in 2022	Marcus (61)			
Children	Carol (23) and Ted (21)			
Retirement	2027			
End of Plan	2056			
State of Residence for Income Tax Purposes	NY			
Rates of Return	Account	Rate of Return		
	Checking/ Savings	0.00%		
	Proceeds from Sales of Real Property	4.01%		
	Taxable Investment (Joint)	4.01%		
	IRA (Kim's Rollover IRA)	4.01%		
	Marcus' 401(k)	4.01%		
	Marcus' Rollover IRA	4.01%		
	Personal Property	0.00%		
	MK Fuel, LLC	0.00%		
Inflation	2.56%			
Income Flows	Income Item	Annual Amount	Growth Rate	Years
	Business Distribution	$970,000	0.00%	2022-2056
	Salary	$300,000	2.56%	2022-2026
Social Security	Beneficiary	Age Collection Begins	Benefit Amount	Growth Rate
	Kim	Full Retirement Age (FRA)	$35,000	2.56%
Planned Savings	Saving Account	Annual Amount	Growth Rate	Years
	Marcus 401(k)	$27,500 (Maximum)	1%	2022-2026
Planned Distributions	Assumed Required Minimum Distributions begin from your qualified retirement accounts at your age 72			
	Please refer to the Planned Distributions report for further details.			
Total Expenses (excluding liabilities & taxes)	Expense Item	Annual Amount	Growth Rate	Years
	Living Expenses	$500,000	2.56%	2022-2059

Cash Flow Summary (Marcus)

Probability of Success		
■	High	82% - 100%
■	Medium	70% - 81%
■	Low	0% - 69%

Your Goals	Current Situation	Reduce Business distribution to $800k/y & Increase living expense to $550k/y
Lifestyle		
Income	Business Distribution - $970,000	Business Distribution - $800,000
	Salary - $300k/y	Salary - $300k/y
Total Expenses	$1,053,797	$1,037,072
Savings	$27,500	$27,500
Retirement	**100% Probability**	**75% Probability**
Retirement Age	66	66
Living Expenses	$500,000 / year	$550,000 / year

Cash Flow Report (Marcus)

Year	Age	Income Flows	Planned Distributions	Total Inflows	Total Expenses	Planned Savings	Total Outflows	Net Cash Flow	Total Portfolio Assets
2023	62	$1,270,000	$0	$1,270,000	$1,053,797	$27,500	$1,081,297	$188,703	$8,115,913
2024	63	$1,277,680	$0	$1,277,680	$1,076,924	$28,500	$1,105,424	$172,256	$8,621,466
2025	64	$1,285,557	$0	$1,285,557	$1,100,022	$29,000	$1,129,022	$156,535	$9,132,071
2026	65	$1,293,635	$0	$1,293,635	$1,198,438	$29,500	$1,227,938	$65,697	$9,572,813
2027	66	$970,000	$0	$970,000	$1,064,364	$0	$1,064,364	($94,364)	$9,841,667
2028	67	$1,011,775	$0	$1,011,775	$1,096,184	$0	$1,096,184	($84,409)	$10,135,041
2029	68	$1,012,844	$0	$1,012,844	$1,114,853	$0	$1,114,853	($102,009)	$10,425,965
2030	69	$1,013,941	$0	$1,013,941	$1,134,085	$0	$1,134,085	($120,144)	$10,714,510
2031	70	$1,015,066	$0	$1,015,066	$1,153,896	$0	$1,153,896	($138,830)	$11,000,757
2032	71	$1,016,220	$0	$1,016,220	$1,173,808	$0	$1,173,808	($157,588)	$11,284,300
2033	72	$1,017,403	$100,649	$1,118,052	$1,237,009	$0	$1,237,009	($118,957)	$11,517,194
2034	73	$1,018,617	$104,442	$1,123,059	$1,257,888	$0	$1,257,888	($134,829)	$11,739,762
2051	90	$1,044,717	$179,015	$1,223,732	$1,658,157	$0	$1,658,157	($434,425)	$13,154,065
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2055	94	$1,052,667	$187,208	$1,239,875	$1,758,547	$0	$1,758,547	($518,672)	$12,547,150
2056	95	$1,054,783	$186,806	$1,241,589	$1,783,027	$0	$1,783,027	($541,438)	$12,322,046

Cash Flow – Income Flows (Marcus)

Year	Age	Business Distribution	Salary/Bonus	Social Security	Income Flows
2023	62	$970,000	$300,000	$0	$1,270,000
2024	63	$970,000	$307,680	$0	$1,277,680
2025	64	$970,000	$315,557	$0	$1,285,557
2026	65	$970,000	$323,635	$0	$1,293,635
2027	66	$970,000	$0	$0	$970,000
2028	67	$970,000	$0	$41,775	$1,011,775
2029	68	$970,000	$0	$42,844	$1,012,844
2030	69	$970,000	$0	$43,941	$1,013,941
2031	70	$970,000	$0	$45,066	$1,015,066
2032	71	$970,000	$0	$46,220	$1,016,220
2033	72	$970,000	$0	$47,403	$1,017,403
2034	73	$970,000	$0	$48,617	$1,018,617
...	...	...	...	...	...
...	...	...	...	...	...
...	...	...	...	...	...
2053	92	$970,000	$0	$78,592	$1,048,592
2054	93	$970,000	$0	$80,604	$1,050,604
2055	94	$970,000	$0	$82,667	$1,052,667
2056	95	$970,000	$0	$84,783	$1,054,783

Assets (Marcus)

Year	Age	Investment Assets	Cash Assets	Retirement Assets	Total Portfolio Assets	Trusts and Other Entities	Other Assets	Total Assets
2023	62	$5,701,233	$515,000	$1,899,680	$8,115,913	$17,284,003	$1,000,000	$26,399,916
2024	63	6,102,108	515,000	2,004,358	8,621,466	17,284,003	1,000,000	26,905,469
2025	64	6,503,338	515,000	2,113,733	9,132,071	17,284,003	1,000,000	27,416,074
2026	65	6,829,819	515,000	2,227,994	9,572,813	17,284,003	1,000,000	27,856,816
2027	66	7,103,695	420,636	2,317,336	9,841,667	17,284,003	1,000,000	28,125,670
2028	67	7,388,553	336,227	2,410,261	10,135,041	17,284,003	1,000,000	28,419,044
2029	68	7,684,834	234,218	2,506,913	10,425,965	17,284,003	1,000,000	28,709,968
2030	69	7,992,996	114,074	2,607,440	10,714,510	17,284,003	1,000,000	28,998,513
2031	70	8,288,759	0	2,711,998	11,000,757	17,284,003	1,000,000	29,284,760
2032	71	8,463,550	0	2,820,750	11,284,300	17,284,003	1,000,000	29,568,303
2033	72	8,683,981	0	2,833,213	11,517,194	17,284,003	1,000,000	29,801,197
...	...	...	...	...	...	...	...	...
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...	...	...	...	...	...	...	...	...
2054	93	10,814,048	0	1,928,025	12,742,073	17,284,003	1,000,000	31,026,076
2055	94	10,729,020	0	1,818,130	12,547,150	17,284,003	1,000,000	30,831,153
2056	95	10,617,815	0	1,704,231	12,322,046	17,284,003	1,000,000	30,606,049

Economic Factors

Know Your Client

- What is the purpose of wealth; i.e., their objectives?
- What is the investment time horizon?
- What is their risk tolerance?
- What is their sophistication?

INTERGEN

Risk Tolerance

- Most investors don’t understand their risk tolerance until they lose money
  - Risk is expressed in volatility of prices, not permanent loss of capital

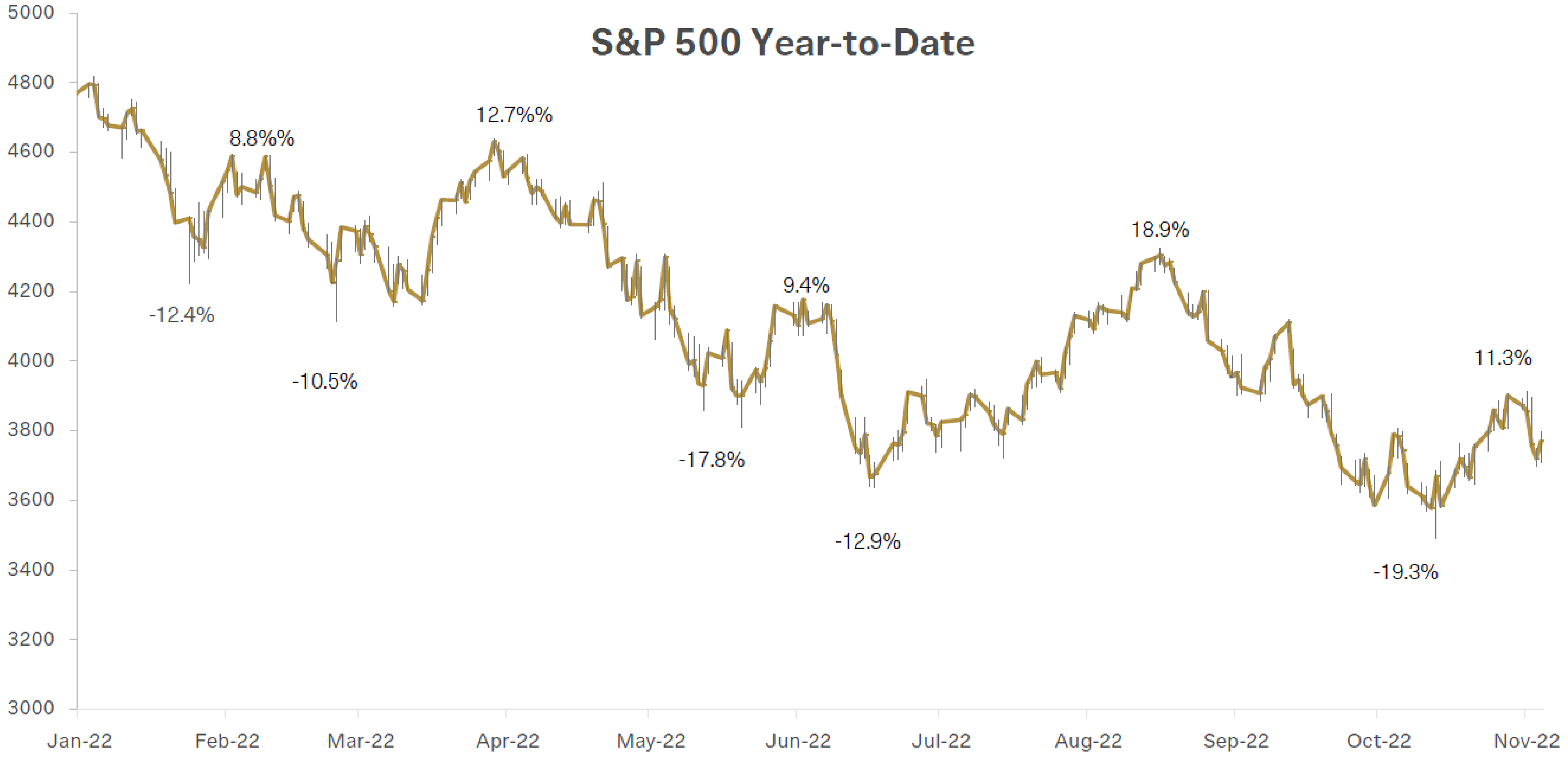
- Maximum drawdown, probability of depleting assets, sequence of return and liquidity risk all important as well.

Time Horizon

- Time horizon for investments for wealthier families is generally lifetime PLUS children's lifetimes
- Retirement plan is required to be distributed over life expectancy

INTERGEN

S&P 500 exhibiting a pattern of bear market rallies



Source: First Republic Investment Management, Bloomberg. Data as of November 4, 2022.

2022 Year-End Outlook

- Inflation will stay stubbornly high; Fed will keep upward pressure on rates
- Margins expanded with inflation, will come down; expect a recession in Europe by end of the year
- Fed hiking cycle will keep volatility high
- Consider remaining underweight equities, keep excess cash, look for opportunities to upgrade portfolios
- Cautious until reality sets in with lower earnings per share and revenue estimates

How First Republic can help clients

- **First Republic Private Wealth Management Services**

  - Financial Planning- Cash Flow Projections, Retirement Planning and Estate Planning

  - Investment management of assets including retirement assets.

  - First Republic Trust Company can serve as trustee over any trusts created pursuant to the settlement

- **First Republic Bank Services**

  - Provide financing for property transfers (buy-outs) and purchases

  - Banking services – separating joint accounts to individual accounts

Lisa Siegel

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Lisa Siegel is a Senior Managing Director and Advanced Planner at First Republic Investment Management.

Ms. Siegel joined First Republic in 2017. Ms. Siegel works with individuals and families (both US and foreign), engaging them in a comprehensive planning process to understand the goals and aspirations they have for their wealth and to provide them with unbiased, personalized strategies to meet their objectives. Her areas of focus include estate and multi-generational planning, business continuity and succession planning and risk management.

As a former practicing estate planning attorney, CPA and PFS, Ms. Siegel brings more than 25 years of experience in wealth protection and wealth transfer planning to her role. Prior to joining First Republic in 2017, she was a Senior Vice President and Wealth Planner at HSBC Private Bank. Prior to that, Ms. Siegel was a Senior Vice President and Senior Wealth Planner at Wells Fargo Private Bank. Ms. Siegel practiced law as a trusts and estates attorney for approximately 10 years and practiced as a CPA for approximately 10 years as well. Additionally, Ms. Siegel has significant experience in planning for divorce and international estate planning.

Ms. Siegel earned her Juris Doctor from Nova Southeastern University, her Masters of Laws (in taxation) from New York University and her Bachelor of Science degree in Accounting from the University of Florida. Ms. Siegel is a member of the Estate and Gift Taxation Committee of the NYC Bar Association, the Estate Planning Council of New York City and STEP. Ms. Siegel is admitted to the Florida and New York Bars and is a member of their bar associations and the New York Society of Certified Public Accountants. She also holds the prestigious credential of a Personal Financial Specialist (PFS™) from the AICPA.

Wealth Management Experience: Since 1992

Bonnie Leibowitz, CFP

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Bonnie Leibowitz is a Managing Director and Advanced Planner with First Republic Investment Management.

Ms. Leibowitz joined First Republic in 2019. Ms. Leibowitz works with individuals, families and business owners, engaging them in the comprehensive financial planning process. Her areas of focus include estate and multi-generational planning, business continuity and succession planning and divorce planning.

Ms. Leibowitz joined First Republic in 2019. Prior to joining First Republic, she was a Vice President and Senior Wealth Strategist at PNC Wealth Management. Prior to that, Ms. Leibowitz was a Manager and Wealth Planner at Deloitte and Wells Fargo Private Bank as a Wealth Planner. Earlier in her career, Ms. Leibowitz practiced law as a tax, trusts and estate attorney with the New Jersey based firm Brach Eichler and later in New York with the firm of McLaughlin and Stern.

Ms. Leibowitz is admitted to the New Jersey and New York Bars and holds the Certified Divorce Financial Analyst® designation from the Institute for Divorce Financial Analysts.

Ms. Leibowitz holds the Certified Financial Planner™ designation from the Certified Financial Planner Board of Standards, Inc.

Ms. Leibowitz earned her Juris Doctor from Rutgers Law School-Newark, her Masters of Laws (in taxation) from New York University Law School, her Masters of Business Administration from Rutgers Business School with a concentration in Finance, and her Bachelor of Arts in Mathematics and Philosophy from Boston College.

Wealth Management Experience: Since 2011

Disclaimer

The following report is a diagnostic tool intended to review your current financial situation and suggest potential planning ideas and concepts that may be of benefit. The purpose of the report is to illustrate how accepted financial and estate planning principles may improve your current situation.

This report is based upon information and assumptions provided by you (the client). This report provides broad and general guidelines on the advantages of certain financial planning concepts and does not constitute a recommendation of any particular technique. The consolidated report is provided for informational purposes as a courtesy to you. We recommend that you review your plan annually, unless changes in your personal or financial circumstances require more frequent review. All reports should be reviewed in conjunction with your fact summary and this Disclaimer page.

The term "plan" or "planning," when used within this report, does not imply that a recommendation has been made to implement one or more financial plans or make a particular investment. Nor does the plan or report provide legal, accounting, financial, tax or other advice. Rather, the report and the illustrations therein provide a summary of certain potential financial strategies. The reports provide projections based on various assumptions and are therefore hypothetical in nature and not guarantees of investment returns. You should consult your tax and/or legal advisors before implementing any transactions and/or strategies concerning your finances.

Additionally, this report may not reflect all holdings or transactions, their costs, or proceeds received by you. It may contain information on assets that are not held at the broker/dealer with whom your financial representative is registered. As such, those assets will not be included on the broker/dealer’s books and records. Prices that may be indicated in this report are obtained from sources we consider reliable but are not guaranteed. Past performance is no guarantee of future performance, and it is important to realize that actual results may differ from the projections contained in this report. The presentation of investment returns set forth in this report does not reflect the deduction of any commissions. Projected valuations and/or rates of return may not take into account surrender charges on products you might own. They will reflect any fees or product charges when entered by the advisor/ representative. Deduction of such charges will result in a lower rate of return.

It is important to compare the information on this report with the statements you receive from the custodian(s) for your account(s). Please note that there may be minor variations due to calculation methodologies. If you have any questions, please contact your financial representative. Also, your account(s) may not be covered by FDIC or SIPC. FDIC and SIPC coverages apply only to certain assets and may be subject to limitations. Questions about coverage that may apply should be directed to the asset provider or sponsor.

The information contained in this report is not written or intended as financial, tax or legal advice. The information provided herein may not be relied on for purposes of avoiding any federal tax penalties. You are encouraged to seek financial, tax and legal advice from your professional advisors.

Tools such as the Monte Carlo simulation will yield different results depending on the variables inputted, and the assumptions underlying the calculation. For those reports that perform a Monte Carlo analysis, the term 'Monte Carlo' will be included in the report title. The assumptions with respect to the simulation include the assumed rates of return and standard deviations of the portfolio model associated with each asset. The assumed rates of return are based on the historical rates of returns and standard deviations, for certain periods of time, for the benchmark indexes comprising the asset classes in the model portfolio. Since the market data used to generate these rates of return change over time your results will vary with each use over time.

Monte Carlo Analysis is a mathematical process used to implement complex statistical methods that chart the probability of certain financial outcomes at certain times in the future. This charting is accomplished by generating hundreds of possible economic scenarios that could affect the performance of your investments.

Disclaimer

The Monte Carlo simulation uses at most 1000 scenarios to determine the probability of outcomes resulting from the asset allocation choices and underlying assumptions regarding rates of return and volatility of certain asset classes. Some of these scenarios will assume very favorable financial market returns, consistent with some of the best periods in investing history for investors. Some scenarios will conform to the worst periods in investing history. Most scenarios will fall somewhere in between. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE RESULTS SIMILAR TO THOSE SHOWN. ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THE PROJECTED (OR HYPOTHETICAL) RETURNS BEING PRESENTED.

The outcomes presented using the Monte Carlo simulation represent only a few of the many possible outcomes. Since past performance and market conditions may not be repeated in the future, your investment goals may not be fulfilled by following advice that is based on the projections.

First Republic Private Wealth Management includes First Republic Investment Management, Inc., an SEC-registered Investment Advisor, First Republic Securities Company, LLC, Member FINRA/SIPC, First Republic Trust Company and First Republic Trust Company of Delaware LLC.

Investment, Insurance and Advisory Products and Services are Not FDIC Insured, Not Guaranteed, and May Lose Value.

The performance figures presented do not reflect the deduction of advisory fees. Your return will be reduced by advisory fees and any other expenses such as brokerage charges or custodial fees which may be incurred in the management of the account. First Republic Investment Management's advisory fees are described in Part 2 of our Form ADV. Representative Example of Compounded Effect of Investment Advisory Fee:

A 1.00% management fee deducted from a portfolio quarterly (0.25% per quarter) would result in the following cumulative compound reduction of the portfolio time-weighted rate of return.

Years	.50%	.75%	1.00%	1.25%	1.50%	Years	.50%	.75%	1.00%	1.25%	1.50%
1	0.50%	0.75%	1.00%	1.26%	1.51%	6	3.04%	4.60%	6.18%	7.78%	9.40%
2	1.00%	1.51%	2.02%	2.53%	3.04%	7	3.56%	5.39%	7.24%	9.13%	11.05%
3	1.51%	2.27%	3.04%	3.82%	4.59%	8	4.08%	6.18%	8.32%	10.50%	12.72%
4	2.02%	3.04%	4.08%	5.12%	6.17%	9	4.60%	6.98%	9.41%	11.89%	14.42%
5	2.53%	3.82%	5.12%	6.44%	7.77%	10	5.12%	7.78%	10.50%	13.29%	16.15%

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EMPIRE VALUATION CONSULTANTS

Business Valuation for MK Fuel

Daniel Cooper, CFA
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INTERGEN

M K Fuel, LLC (“MK LLC” or “MK”)

What are the equitable distribution valuation steps related to MK LLC?

- Step 1: Value MK LLC in ‘98 (i.e., date of the marriage)
- Step 2: Value MK LLC in mid ‘22 (Kim is entitled to half the interim appreciation)
- Step 3: Current Value (for potential gifting of equity to Marcia)

Which valuation approaches could be used?

- Income Approach, Market Approach, and/or Cost Approach

MK LLC's 1998 value?

Income Approach

- DCF: Forecasting cash flows to discount based on "then current" budgets (note: impossible if MK did not prepare forecasts in '98).

- Earn Cap: If no budgets, then capitalization of income is an option (e.g., using an average of 1996's and 1997's earnings as proxy for future).

INTERGEN

MK LLC's 1998 value?

Market Approach

- Guideline Transactions: Given MK was a "pure play" fossil fuel business in '98 (similar to many other gas companies), then a multiple of '97's earnings is an option.
- Guideline Companies: MK could be compared to public companies of a similar nature; however, this may be complicated by the fact that most public companies are significantly larger than MK. **Conclusion: $10 million**

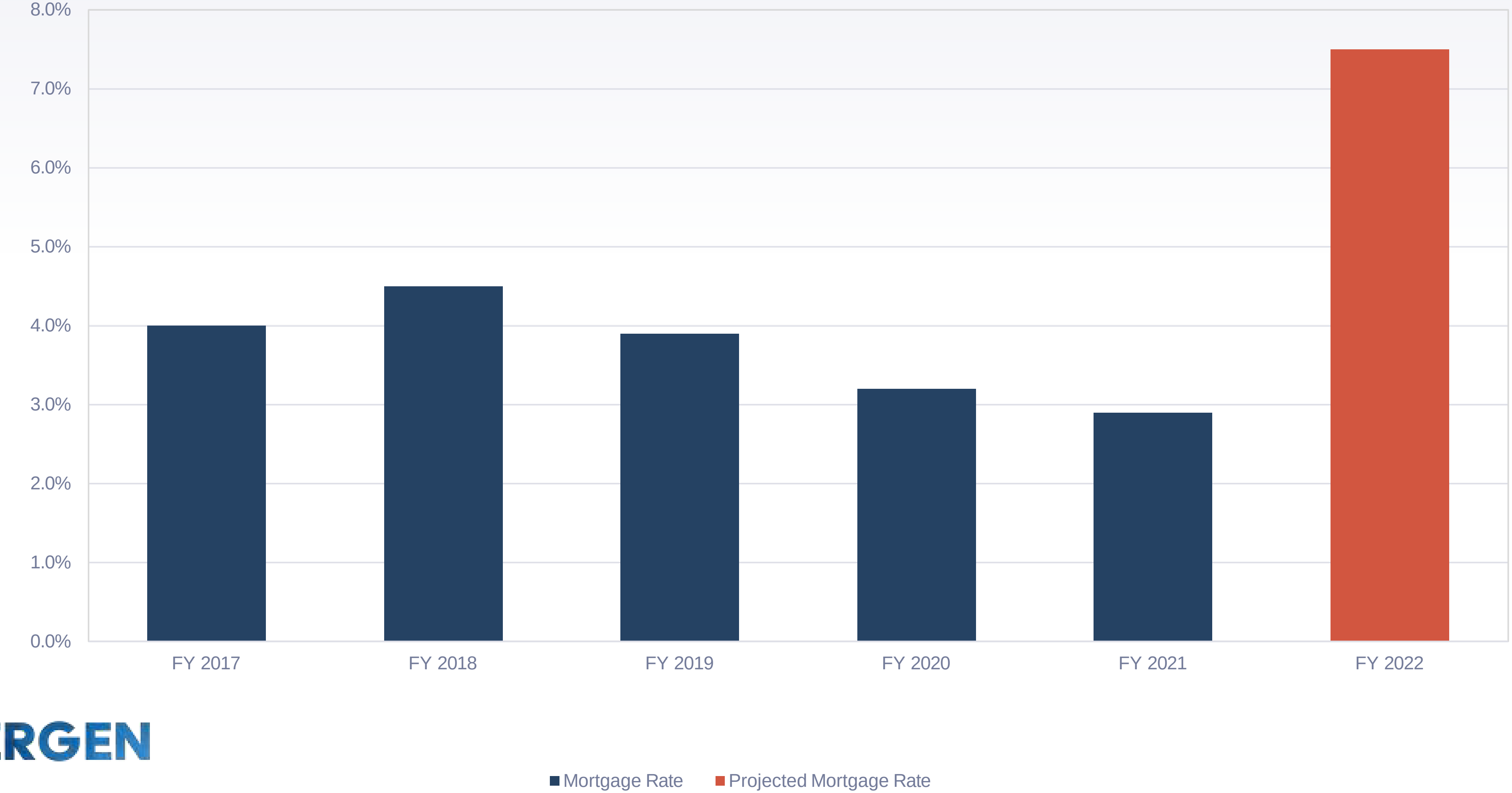
MK's Current Value?

Prospective Income Approach

- Outlining appropriate cash flows to discount (based upon MK's projected income statements).
- These cash flows are present valued by selecting a discount rate (likely to be a quite high) given: (i) "early-stage" risks on the fuel cell side; and (ii) rising interest rates, which are hitting all companies.
- Conclusion: $35 milllion

INTERGEN

MK's Selected Discount Rate…



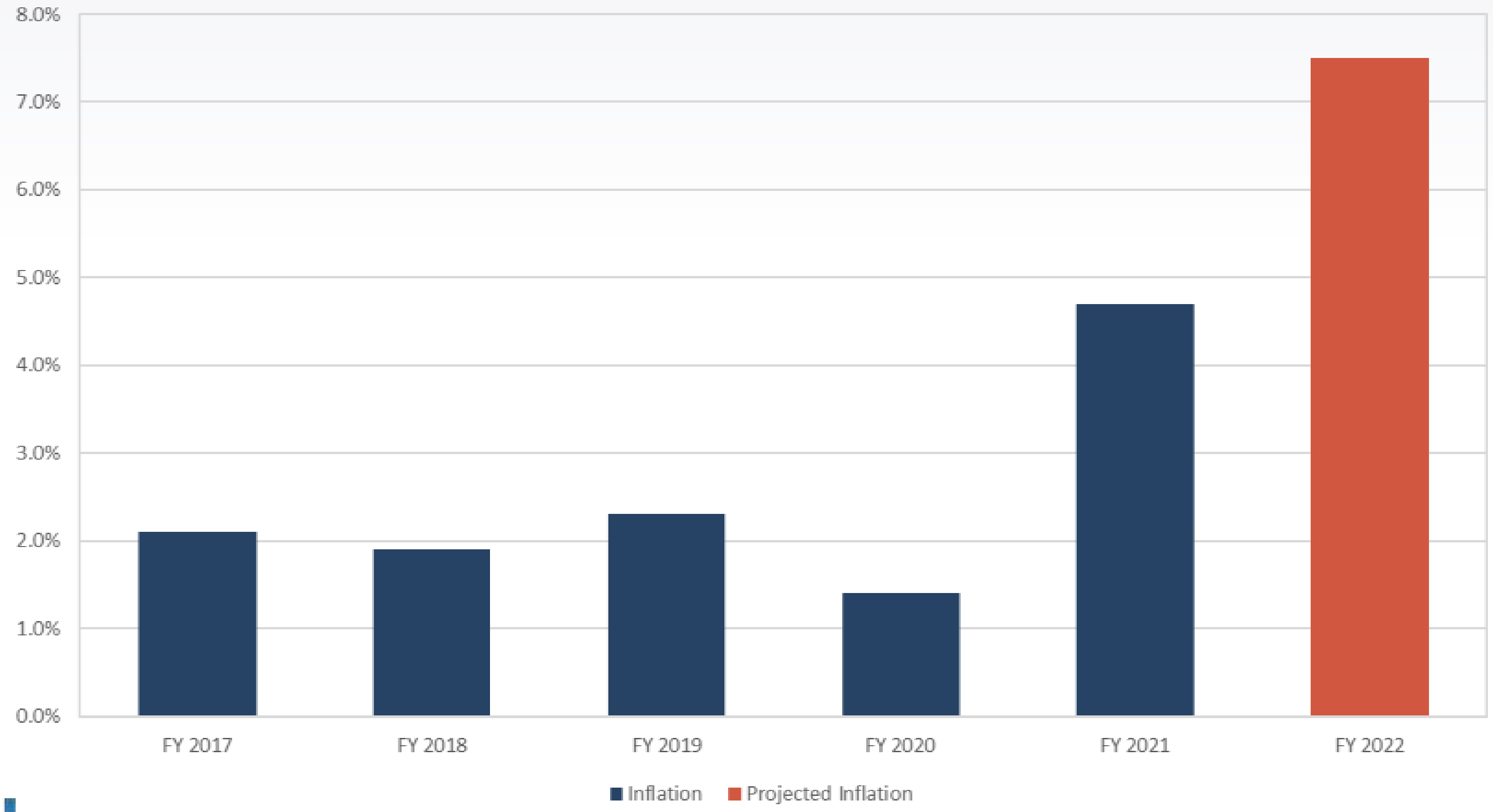
INTERGEN

What's Impacting MK's Value?

Inflation and Interest Rates

- The pandemic caused the moderate level of inflation to drop.
- The years 2017-19 saw inflation close to the Fed's target.
- This stimulus caused a spike in prices during '21, especially the cost of fuel.
- A further jump in '22 caused the Fed. to increase interest rates.

Trends in Inflation



INTERGEN

Divorce Valuation – Discounts

Applicability of DLOM in divorce (in theory)

- New York considers professional degrees and enhanced earning capacity as marital assets. In divorce disputes, New York may apply marketability discounts against the marketable value (100%) of a given business.

Applicability of a DLOM in MK Fuel (in practice)

- MK LLC's units are not saleable like an interest in a public company.
- Therefore, the appraiser's work (both in Step 1 in 1998 and in Step 2 in '22) will likely reflect a marketability discount when estimating the value of Marcus' remaining 62.5% of the Company.

Recapitalizing Units

What Does Recapitalization Mean?

- Multiple classes of units in MK LLC (non-voting, convertible preferred, and voting).
- The voting units have are a small % value yet have control of management etc.

Preferred, Voting And Non-voting - Summary For Valuation:

- Convertible Preferred valued based on rights (higher dividends mean higher value).
- Non-voting allows an incremental discount (for inability to influence decisions).
- Allows MK's economic value to be transferred to the next generation (potentially more than 50% of the economic value to Marcia) while preserving discounts.
- Allows Marcus to retain voting control and still be in charge of the company.

INTERGEN

Discounts for Estate Planning

MKLLC is Small (Compared To Other Fuel Cell Companies)

- All else equal, a stake in MK with several million in sales supports a DLOM higher than if it were bigger (based on medians from study data).

MKLLC is Not Being Sold Soon:

- MKLLC has a bigger DLOM given the plan to either gift it to Marcia, or monetize the business, but not in the short-term.
- In summary, MKLLC is growing and so it is a good time to gift the non-voting units to Marcia before the firm value increases significantly.

Kim's Assets (Post-Divorce)

What Did She Get?

- Presumed she gets several million in liquid assets (cash, fixed income, and equities) along with several million in private assets.
- Assuming she wants to pass along assets, an option is to place some of the private assets (e.g., the Miami vacation condo) and some liquid assets into an LLC*
- Use the LLC as an efficient wealth transfer vehicle to benefit Marcia, Ted, and Carol.

*Investment holding company that is an LLC (could also be a family limited partnership).

INTERGEN

How to Value the LLC?

Asset Approach **(MOST LIKELY)**

- Adjusted Book Value Method focuses on individual asset values (e.g., potentially some structured notes, stocks,& fixed income
- For private assets/buildings (e.g., the Miami condo) it would based on fair market value per a real estate appraisal

Discounts By Asset Class:

#1 . Bonds lower

#2. Equities/Structured Notes – potentially slightly higher discounts

#3. Private Assets/Real estate (especially if not rented out to tenants) will have the highest discount out of all the asset classes.

INTERGEN

All-in LLC Discounts

- Discounts (both asset and the entity level DLOM):
- Discounts combined (lack of control & marketability) are often 25% to 35%. If the real estate or private assets were worth more, then closer to 35%.
- Again, the types of assets put into the LLC impact the appropriate discounts.

Higher discounts at entity level are driven by:

- Lower expected distributions.
- Ownership rights, including information access.
- Ease or difficulty of sale/transfer.

QUESTIONS??

INTERGEN

Estate Planning for the Lockwood (Fractured) Family

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Jacob Verchereau


Bethany Van Pelt


Robert Bosman

2023 Estate and Gift Tax

- Federal Gift, Estate and GST Tax Exemption
  - $12,920,000 per person
  - Sunset 12/31/25 > reduction to inflation-adjusted $5,000,000
  - Portability of Estate + Gift, not GST Exemptions

- NYS Estate Tax Exemption = $6.11 MM
  - No Gift or GST Tax in NY – opportunity for large gifts
  - However, gifts made within 3 years of death are clawed back
  - No State Portability – Use it or lose it exemption

INTERGEN

New York State Estate Tax

New York has a "cliff" at 105% of the lifetime exemption

Example A: Taxpayer has a taxable estate valued equal to (or less than) the current New York State estate tax exemption (a/k/a the Basic Exclusion Amount) of $6,110,000. At his or her death in 2022, the applicable credit will cover the entire tax:

$0.00 estate tax due

Example B: Taxpayer has a taxable estate valued at $6,415,500, just $305,000 more in value. The taxpayer's estate is 5% over the $6,110,000, and therefore subject to the "cliff." As a result, an estate worth $6,415,500 will pay $571,005 in estate tax! Only $5,844,495 passes to heirs, which is $265,505 less than a taxable estate of $6,110,000.

$571,005 estate tax due

Plan For The Cliff Using Lifetime Gifts (Subject to 3-year Clawback, or Draft in Charitable or Marital Deductions)

Income Taxes
Combined Federal & New York Rates

Maximum Income Tax Rate

- Federal: 37%
- NYS: 9.65 – 10.90% (2022)
- NYC: 3.6%
- Net Investment Inc. Tax: 3.8%
- Combined: 55.3% NYC
  51.7% Upstate

Federal Sunset 12/31/25 = 39.6%

Maximum Capital Gains Tax Rate

- Federal: 20% (28% on collectibles)
- NYS: 9.65%-10.90% (2022)
- NYC: 3.6%
- Net Investment Inc. Tax: 3.8%
- Combined: 38.3% NYC
  34.7% Upstate

INTERGEN

$12.92 Million Gift and Estate Tax Exemption
$25.84 Million for Married Couples

REASONS TO USE IT NOW:

1. Reduction to $5 mil. (adjusted) in 2025
2. Remove future appreciation
3. Utilize Grantor Trust "Burn"
4. Interest rates continue to rise (GRAT's, Note Sales)
5. FLP/LLC Discounts may be disallowed
6. No portability of GST Exemption
7. No NYS Gift Tax, and 3-year clawback
8. Can use LLC's, SLATS's, BDIT's, etc. to retain use + control

INTERGEN

Interest Rate Arbitrage

	Nov. 2021	Nov. 2022
▪ Short Term AFR =	.22%	4.1%
▪ Mid Term AFR =	1.08%	3.97%
▪ Long Term AFR =	1.86%	3.92%
▪ 7520 Rate =	1.4%	4.8%

INTERGEN

Tax Planning & Interest Rates

Lower Rates Favor

- GRATs
- Sales to IDGT
- CLATs
- Private Annuities
- Split-Dollar Life Insurance
- SLATs
- BDITs

Higher Rates Favor

- QPRTs
- GRITs
- CRATs
- Graegin Loans
- Farmland Alternative Valuation

Generally Neutral

- CRUTs
- CLUTs

INTERGEN

The Lockwood's Estate Planning Challenges

1) Dividing assets through Divorce
2) Unwinding SLATs – already funded
3) Business continuity and succession
4) Creating an income Stream for Kim to maintain her lifestyle after leaving MK Fuel
5) Creating a "fair and balanced" legacy for the children

Spousal Lifetime Access Trust (SLAT's)

SLAT ADVANTAGES:

- Use current $12.92 million Gift and GST exemptions of each spouse
- Remove assets for NYS estate tax (3-year rule)
- Gift & note sale to "Grantor" trust
- Family "Dynasty" Trusts- In perpetuity in Delaware, Nevada, etc.
- Full Control and access to funds during the spouse's lifetime

SLAT CHALLENGE:

What happens when the marriage doesn't last a lifetime?

Accessing Trust Assets in Divorce

Considerations:

1. Who are the beneficiaries?
2. On what basis can the trustee make distributions?
3. Is there a spendthrift provision?
4. Does a beneficiary have control powers?
5. Who is the trustee?

INTERGEN

Consider the History…

Have distributions been relied on to fund Marcus and Kim's lifestyle, or were they irregular and uneven?

Does their marital property transferred into an irrevocable trust lose its character as marital property?

Do the planning documents for this couple address what happens in the event of divorce?

INTERGEN

Trust Decanting Can Be A Powerful Tool:

Decanting Can Be a Tremendous Tool For:

1. Dealing with changed circumstances
2. Correcting mistakes
3. Facilitating tax benefits
4. Optimizing a trust's administration

Decanting Has Been Used For:

1. Limiting a beneficiary's rights
2. Eliminating a beneficiary
3. Changing trustees
4. Changing investment limitations or directions

INTERGEN

Life Insurance
Policy Reviews And Using Irrevocable Life Insurance Trusts

- In many divorce proceedings, life insurance plays an integral role

- Critical to review life insurance policies periodically to ensure they are performing as intended

INTERGEN

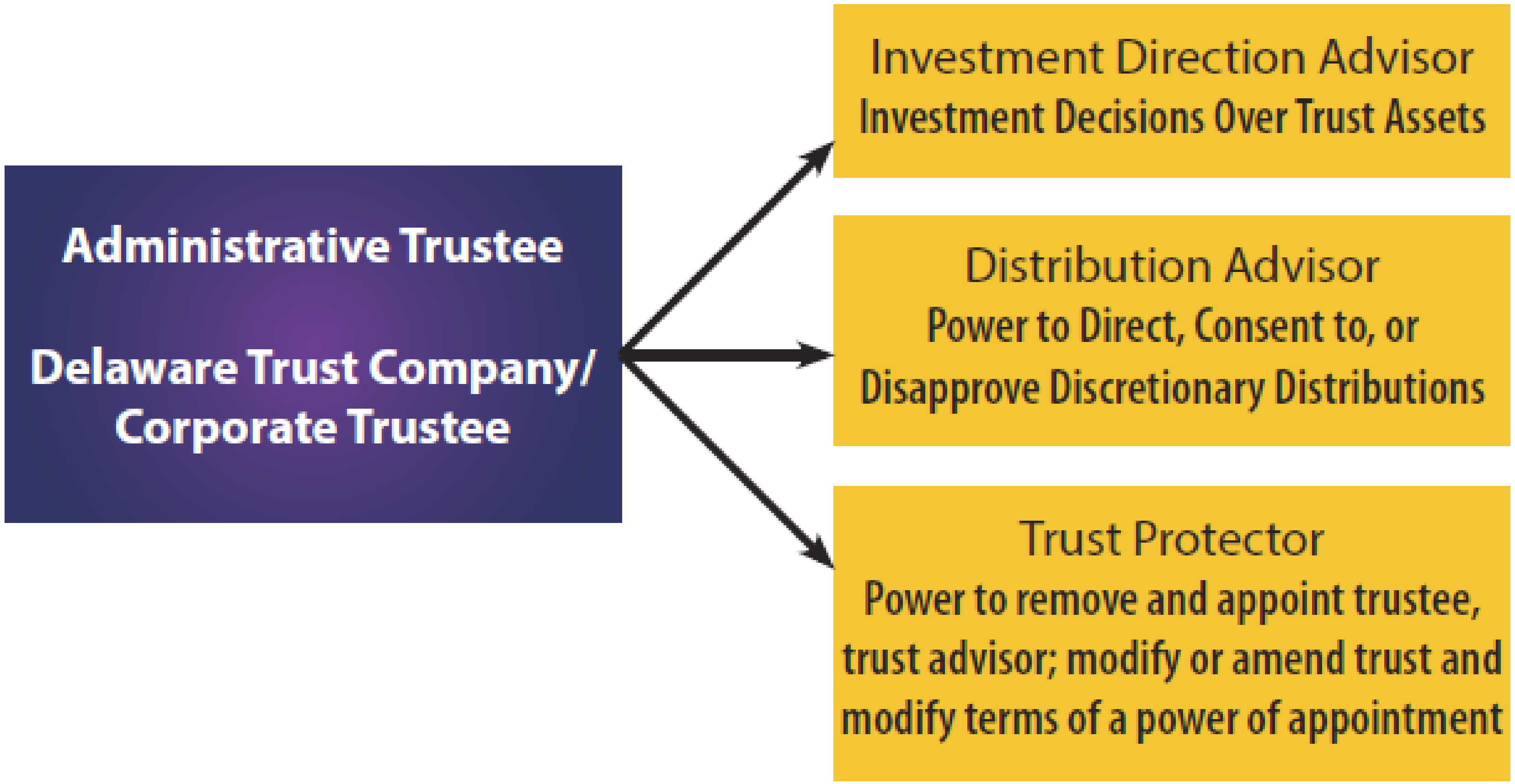
Marcus and Kim's Trusts

The Delaware Self-Settled Directed Trust

- Current asset protection
- Multi-Generational Estate Tax Protection – Dynasty Provisions
- Client can be added as beneficiary if necessary
- Client can continue to manage assets through an LLC
- Retain family control

INTERGEN

Delaware Directed Trust



Delaware Asset Protection Trust (DAPT) – In Divorce

- DAPT generally limits the ability of an individual's creditors to reach trust assets
- DAPT allows trust creator to remain a trust beneficiary
- People who can pursue claims are limited: Does not include spouse if client marries after creating trust
- Allowing independent corporate trustee broad discretion to make distributions to class of beneficiaries recommended

Marcus and Kim Should Have A Trust Protector

- Irrevocable isn't so irrevocable anymore
- Avoid trust company interference in family business
- Adjust for future tax law changes
- Avoid loss of basis step-up
- Modify trust in the event of divorce

INTERGEN

SLATS in Divorce

- Internal Revenue Code §682
- Until 2019, alimony payments were taxable income to the recipient and deductible by the payor.   That was changed by the Tax Cuts and Jobs Act. Beginning on January 1, 2019, alimony payments are no longer deductible by the payor and are not includible in the gross income of the recipient.
- This includes alimony pursuant to a divorce or separation agreement AND, because of Internal Revenue Code §677(a)(1), SLATS signed and funded before January 1, 2019.
- §682 does not sunset!

INTERGEN

SLATS in Divorce (cont.)

- Under Internal Revenue Code §677(a)(1), a grantor is treated as the owner of any portion of a trust if the income may be distributed to the grantor or the grantor's spouse.
- Under the "spousal unity rule" (Internal Revenue Code §672(e)(1)), the grantor is treated as holding any power or interest held by an individual who was the grantor's spouse at the time the power or interest was created.
- A grantor trust remains a grantor trust **even after a divorce.**
- And §682 now means that the grantor continues to be taxed on the income being paid to his former spouse/beneficiary of the SLAT.

Potential Solutions:

- Terminate the trust through the divorce
- Modifying the trust in favor of other beneficiaries
- Disclaimer (but that could have gift tax consequences if the trust is more than 9 months old)
- Decanting
- Use the trust as part of the equitable distribution

Additional Solutions to Consider

- **Other Possible Solutions:**
  - Equalizing the trusts with other assets
  - Including a tax reimbursement provision in a separation agreement

INTERGEN

Other Assets to Consider: $10 Mil Property, $200K Basis

- **Marcus and Kim Plan to Sell the Brooklyn Property**
  - Sell and pay the tax (~34%)
  - 1031 Exchange
  - Qualified Opportunity Zone
  - Charitable Remainder Trust

INTERGEN

Create an Income Stream for Kim

- **Brooklyn Property presents an Option to Use a Charitable Remainder Trust**
  - Irrevocable Trust
  - Generates income stream for donor or other beneficiaries
  - Remainder assets donated to charity (or charities)

INTERGEN

Two Kinds of Capital

Assets + Income = Total Financial Capital

Personal Financial Capital

Personal Social Capital

Lifestyle (Consumed)

Inheritance

Self-Directed (Gift)

Government-Directed (Tax)

INTERGEN

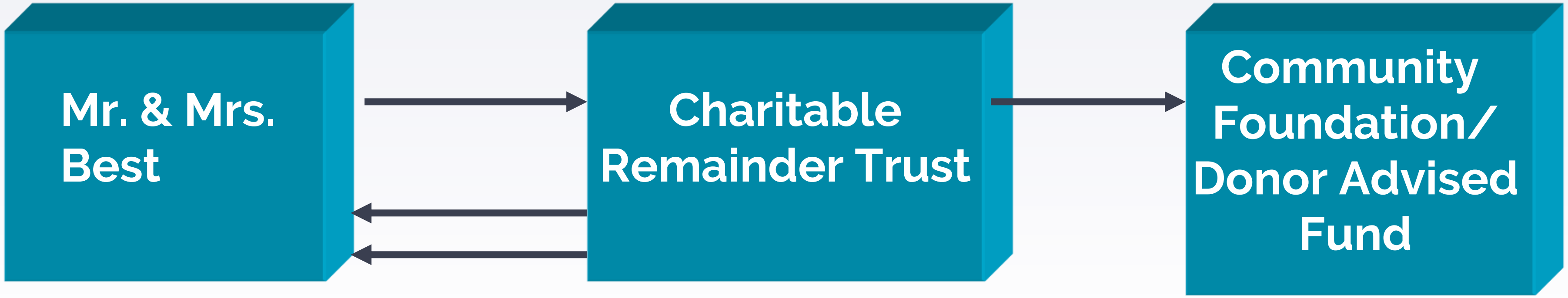
Assets Contributed to Charity

- **Traditional**
  - Cash
  - Publicly Traded Securities
- **More Complex**
  - Real Estate
  - Closely Held Corporations
  - Restricted Securities
  - Tangible Personal Property
  - Partnerships, LLCs, FLPs, S Corps

Charitable Remainder Trusts (CRT)

- Irrevocable trust
- Income stream to non-charitable beneficiary (usually the donor, spouse or children)
- Current income tax deduction
- At end of trust, remainder passes to charity
- Multiple Tax Benefits
  - Liquidate appreciated assets tax free

CRT



How it Works:

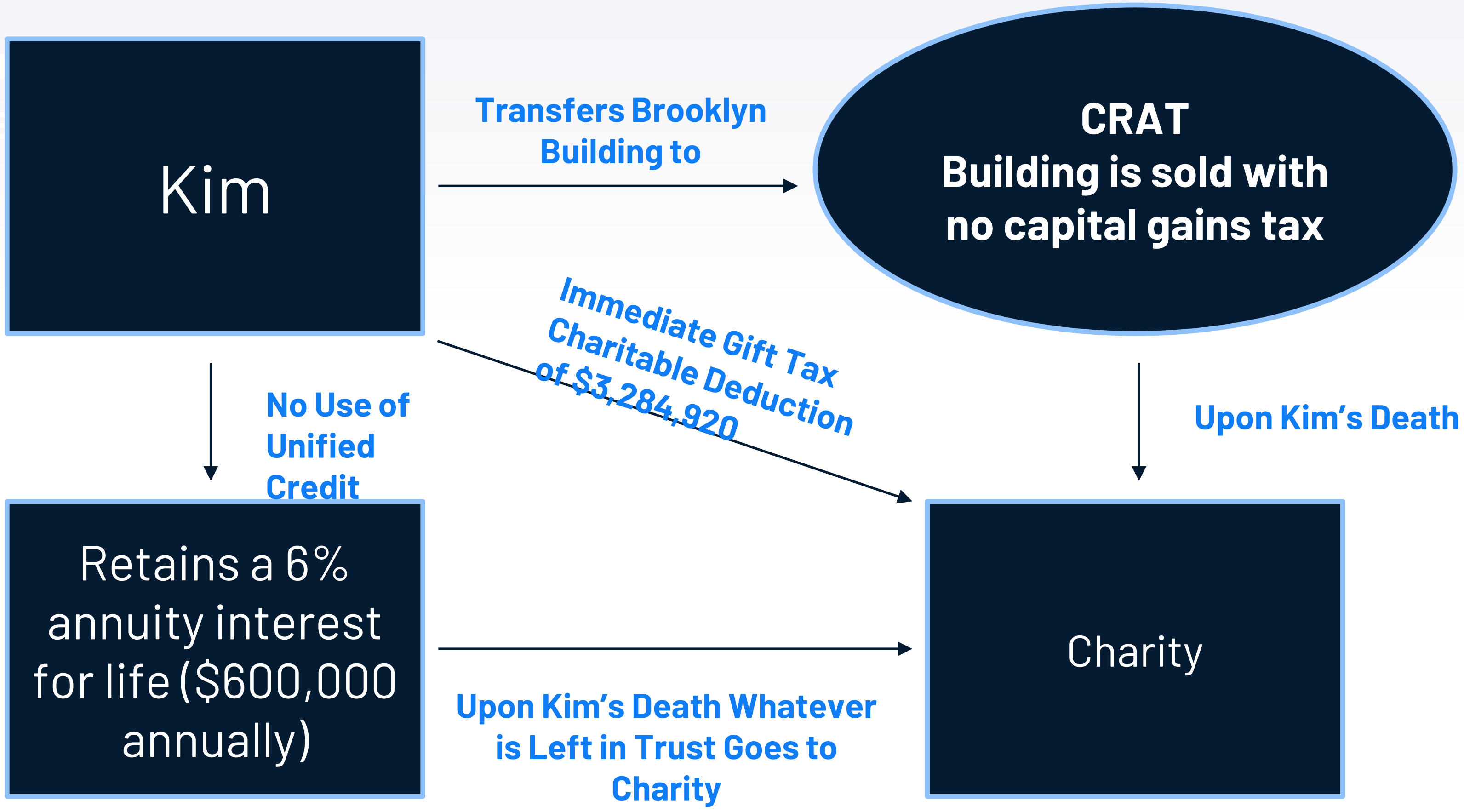
- **Must Comply with IRC ' 664 Regs.**
- **Two Classes of Beneficiaries**
    - Individual Income Beneficiaries
    - Charitable Remainder Beneficiary
- **Unitrust or Annuity Trust Payouts**
- **Life, Lives, or a Term of Years**
- **Payout Rates:**
    - 5% Minimum Payout Rate
    - 50% Maximum Payout Rate
    - Typical payout rate is 5% to 8%

What it Can Do:

- **Income Tax Savings from Deduction**
- **Capital Gains Tax Avoidance**
- **Increase Capital at Work**
- **Increase Lifetime Cash Flow**
- **Increase Benefit to Heirs**
    - May Require other Planning (ILIT)
- **Estate Taxes Reduced or Eliminated**
- **Increase Future Charitable Gifts**

INTERGEN

CRAT



Kim
Transfers Brooklyn Building to
CRAT
Building is sold with no capital gains tax
Immediate Gift Tax Charitable Deduction of $3,284,920
No Use of Unified Credit
Upon Kim's Death
Retains a 6% annuity interest for life ($600,000 annually)
Upon Kim's Death Whatever is Left in Trust Goes to Charity
Charity

Gifts of Complex / Illiquid Assets

- Pose challenges for the donor and trustees of charitable trusts
- Not typically income producing
  - Tangible Personal Property, Real Estate, Restricted Securities, Closely Held Stock
- Lack of income prior to liquidation makes it impossible to meet Unitrust payout requirements
- Resolved by substituting NIMCRUT or FLIPCRUT for standard charitable CRUT

Private Foundation

- A private foundation is a nongovernmental, nonprofit organization set up by an individual, a family or a group of individuals, for a purpose such as philanthropy.
- Established to aid social, educational, religious or other charitable activities, primarily through grantmaking.
- Can be used to support the Arts.

Planning for MK Fuel: Beneficiary Defective Inheritor's Trust ("BDIT")

- Leverages the benefits of an Irrevocable Delaware Trust while maintaining control and access for Marcus

- BDIT assets are protected from creditors and are not subject to estate, gift or generation-skipping transfer taxes for any future generations while the assets remain in trust

BDIT – Structure

- BDIT is established by a parent, grandparent, friend (any third party) with a $5,000 gift to the trust
- No other gifts are made to the BDIT after this initial contribution
- Primary beneficiary is the business owner (Marcus) who is given the power to withdraw initial $5,000 contribution
- Lapse of withdrawal power causes BDIT income to be taxed to Marcus (grantor for income tax purposes) IRC 678.

Unique Advantages of BDIT

- **Feel the “Burn”** – Income taxed to beneficiary business owner (Marcus), reducing his taxable estate rather than BDIT’s assets

- Marcus can utilize trust assets and control investments as **Investment Adviser** (excluding life insurance)

- Marcus can control distributions of trust assets as **Distribution Adviser** if limited to an ascertainable (HEMS) standard (not cash value of life insurance)

- An Independent Trustee provides continuity and full administrative support – can distribute for any purpose

INTERGEN

Unique Advantages of BDIT

- Marcus can have a limited power of appointment over trust assets (not life insurance)

- Can leave the business to Marcia

- Marcus sells MK Fuel to the BDIT for a Promissory Note

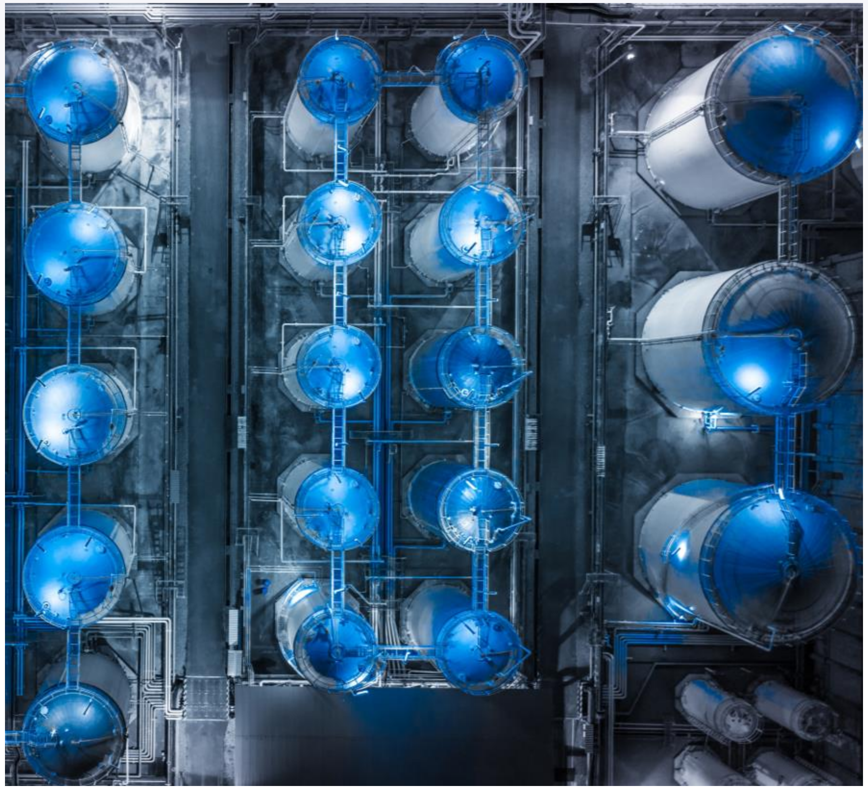
- Interest payments to Marcus on promissory note from sale of business are not taxable because Marcus is considered the grantor of BDIT for tax purposes

INTERGEN

Unique Advantages of BDIT

- Estate Tax "Freeze" – Sale of business removes all future appreciation of the business from Marcus' estate and for <u>all</u> future generations

- Does not require use of Marcus' GST exemption – business was sold not gifted to BDIT



INTERGEN

Results

1. Retain Control and Use of Assets
2. Enhanced Asset Protection
3. Minimize Estate Tax – Discount value and freeze it
4. All Future Growth protected from Estate Tax, Creditors
5. Tax on Trust Income Paid by the Grantor
6. Multi-generational Tax, Divorce and Lawsuit Protection for Children & Grandchildren

17th ANNUAL

INTERGENERATIONAL ESTATE PLANNING CONFERENCE

COFFEE BREAK & STRETCH.

Our Program Resumes in 15 minutes.

Remarks from Our Breakfast Sponsor

Frank Melia, Division Manager
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PIERRO, CONNOR & STRAUSS, LLC
Trusted Counsel

Corporate Planning for M.K. Fuel

Louis Pierro, Founding Partner
Pierro, Connor & Strauss, LLC

INTERGEN

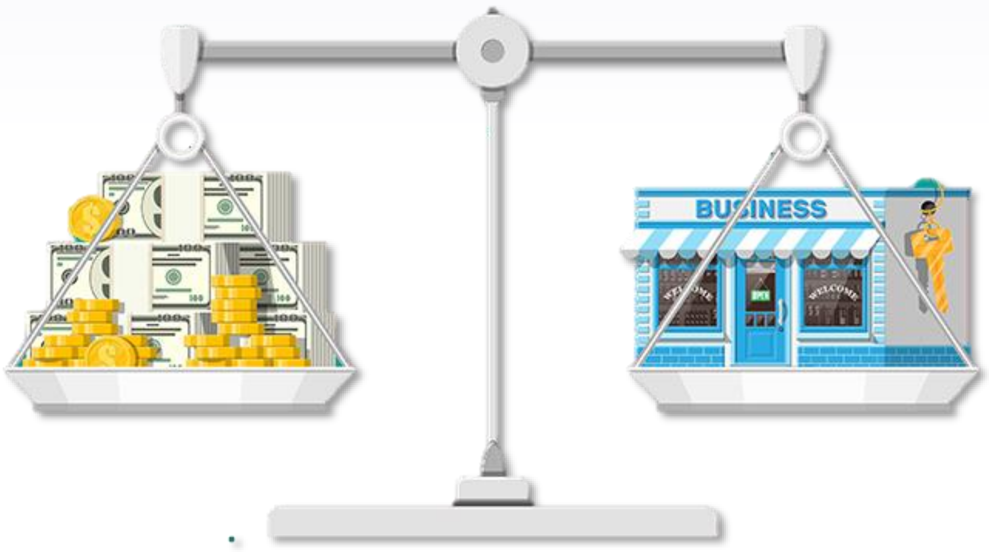
Ownership of MK Fuel LLC

- The Company interests are owned 50% by Kim's SLAT and 50% by Marcus outright.
- Marcus wishes to continue to own and operate the business with Marcia
- Kim wishes to receive FMV for her interests as part of the divorce and wishes to ensure Marcia's role in the Company.

Options for Kim's Buyout

Option 1 – Company Purchase

- Restructure LLC interests to create voting and non-voting interests and to create a convertible preferred non-voting class
- Kim's 50% interest becomes half preferred non-voting and half non-voting common
- Marcus retains his 50% interest (which is now 100% of the voting interests)



INTERGEN

Option 1 Continued

- Kim retains the 25% convertible preferred non-voting interests which carry a liquidation preference, so she receives distributions of profit from the Company every year
- Once the preference is paid in an amount equal to Kim's buy-out amount from the divorce, interests revert to non-voting common interests
- Kim uses LPOA in SLAT to give Marcia the 25% non-voting common interests
- Once the preferred non-voting interests convert to non-voting common, Kim can use LPOA to give those interests to Marcus

Options for Kim's Buyout

Option 2 – Marcus Purchase

- Restructure LLC interests to voting and non-voting interests.
- Kim's interests become ½ voting and ½ non-voting.
- Marcus purchases the ½ voting interests through a promissory note a with down payment and payments over time equal to Kim's buyout. Note is secured with life insurance on Marcus, security agreement in assets of Company, including patent.
- Kim uses LPOA to give Marcia non-voting interests.

INTERGEN

Options for Kim's Buyout

Option 3 - Hybrid

- Exchange $6 mil of liquid assets in Marcus' SLAT for $6 mil of Company interests in Kim's SLAT.

- Remaining interests in Kim's SLAT can be purchased by Marcus using a promissory note or restructured to include non-voting interests to be given to Marcia through LPOA.

Tarrytown Building

- The new building was purchased in Marcus and Kim's names.
- Transfer ownership of the building to a newly formed LLC owned by Marcus.
- Lease between new LLC and MK Fuel to generate funds in LLC and to separate liability of the operating company the from real estate company
- Marcus can leave new LLC interests to Ted and Carol

INTERGEN

MK Fuel After Interest Transfers

- Create a buy-sell agreement for MK Fuel between Marcus and Marcia
- Prevent either party from selling to outside third parties without consent

  CAVEAT – Marcus has drag-along rights

  Marcia has tag-along rights
- Upon Marcus' death, Marcia to purchase Marcus' interests
  - Use of life insurance on Marcus
  - Testamentary gift of partial interests
  - SAR/deferred comp credits

INTERGEN

Incentivize Marcia

- Incentive to Marcia to grow MK Fuel
- Embed in buy-sell agreement an SAR plan so growth of the Company (or the new technology division) is credited to Marcia and becomes a credit to the purchase price due when Marcus dies or retires
- Create key-person deferred comp plan with insurance for Marcia

INTERGEN

EISNERAMPER

INTERGEN:

Tax Planning for Individuals & Businesses 2022-2023

NOVEMBER 29, 2022

Goals of Intergenerational Planning

- Minimize current income taxes through individual and business planning
- Accumulate wealth at the lowest tax cost; make smart investments
- Transfer wealth to younger generations while minimizing gift, estate and income taxes
- Safeguard family assets

How Will 2022 Changes Affect the Family and Their Business?

- Dems get the Senate the Republicans get the House-Good news for taxpayers hopefully nothing happens!!!!!
- Market took a big hit; consider tax loss harvesting on bond portfolio
- Recession and inflation
- Higher interest rates: opportunities?
- School loan forgiveness – Next stop Supreme Court?
- PPP loans forgiven
- More IRS employees

- ERC expanded and third-party companies see an opportunity, but the IRS is not stupid (as per Oct 19 news release, 300 IRS employees being trained)
- States enacted pass-through entity level taxes to combat SALT (State and Local Tax) limitation and NYC follows
- States take the Wayfair case to new level and set up workaround for public law 82-272 exemption
- Inflation Reduction Act-Corp AMT 15%, 1% excise tax on stock redemptions by public companies and R & D credit for payroll taxes increased to $500K. $250K against 6.2%
- Social security tax and $250K against the 1.45% Medicare tax.

Inflation Adjustments for 2023

- Social Security wage base goes from $147,000 to $160,200
- 401(k) goes from $20,500 to $22,500 with catchup going from $6,500 to $7,500 for employees 50 and over.
- IRA contributions increase to $6,500 and $7,500
- Rate tables expanded
- Standard deduction goes to $27,700 for joint, $13,850 singles and MFS and $20,800 for HOH
- AMT exemption goes up to $81,300 for singles and gets phase-out beginning at $578,150 and $126,500 for joints and phase-out at $1,156,300
- Qualified transportation fringe goes up to $300 per month
- FSA goes up to $3,050 with $610 carryovers
- Estate and gift tax equivalent credit amount goes to $12,920,000
- Annual gift tax exclusions goes to $17,000

MK Fuel LLC

- **ERC (Employee Retention Credit).** Although the business sales have increased, they may still have been affected by government shutdowns. Have three years from the filing of the returns to apply. Can be as much as $26K per eligible employee.
- **Accrual to cash basis.** Since MK's sales are under $26 million they may consider switching from accrual to cash basis. Advantageous when their receivables are more than their payables.
- **Transfer of ownership to children.** Before the company increases in value, it may be a good time to transfer some ownership to the children. Would need to address Marcia, Marcus's stepdaughter, who is involved in the business, and how to equalize with other children.
- **Marcia to set up own company.** Can purchase assets (IP, etc.) from MK and start building up value. May qualify for the NYS Excelsior program.
- **IRC 1202 option (will discuss later).**
- **Retirement plans.** Because of Marcus's age, consider setting up a defined benefit plan to maximize what can be contributed to a retirement plan. This will help attract employees and save taxes. For NYS as well as in some other states adopted a provision to mandate employers to set up IRA related retirement plans. NYS 's provision would apply to employers in business for 2 years and with 10 or more employees. Needs to be in place by 1/1/23, but it is effective immediately. Waiting for further guidance and how it applies to NYS employers.
- **Research and Development Credits.** Would need to evaluate taking the R&D tax credit not only for this year but could file amended returns for prior years. The deduction for R&D expenses will now need to be capitalized and amortized over five years starting in 2022. We were hoping for an amendment that never happened. This provision was originally passed to offset the 21% C corporation rate..

MK Fuel LLC: Additional Considerations

- **Elect PTE with New York State.** This election would allow companies (not sole proprietorships) to effectively pay the owner's personal NYS taxes at the Company level and obtain a federal tax deduction and avoid the SALT limitation. This may open the door for investment partnerships.
  - As a single-member entity LLC, MK Fuel cannot pay NYS personal taxes attributed to profit to be paid at the entity level. Marcus should either sell or gift an interest in MK Fuel to Marcia in order to qualify by making MK Fuel taxed as a partnership. However, the election had to be made by 9/15/22 so Marcus is out of luck for 2022. NYC has adopted this regime for eligible companies retroactive to 1/1/22, provided they already registered with NYS for the PTE.
- **Sales tax issues.** As the result of Wayfair, state tax law changes and economic nexus rules, MK needs to determine if they have any exposure for sales taxes relating to sales to any state. In addition, some states such as Washington, Oregon and Ohio have Business Privilege Taxes, where companies are not protected under Public Law 86-272.
- **Qualified Business Activity Income (QBAI).** The sale of the renewable energy products will qualify MK Fuel to take advantage of the QBAI deduction which reduces income by 20% and deducted on the individual owner's personal tax return. It is important to note that payments paid to owners are not taken into consideration for purposes of the wage limitation.
- **Business income not subject to the Net Investment Income Tax.** Currently, owners of businesses are not subject to the 3.8% Medicare taxes.

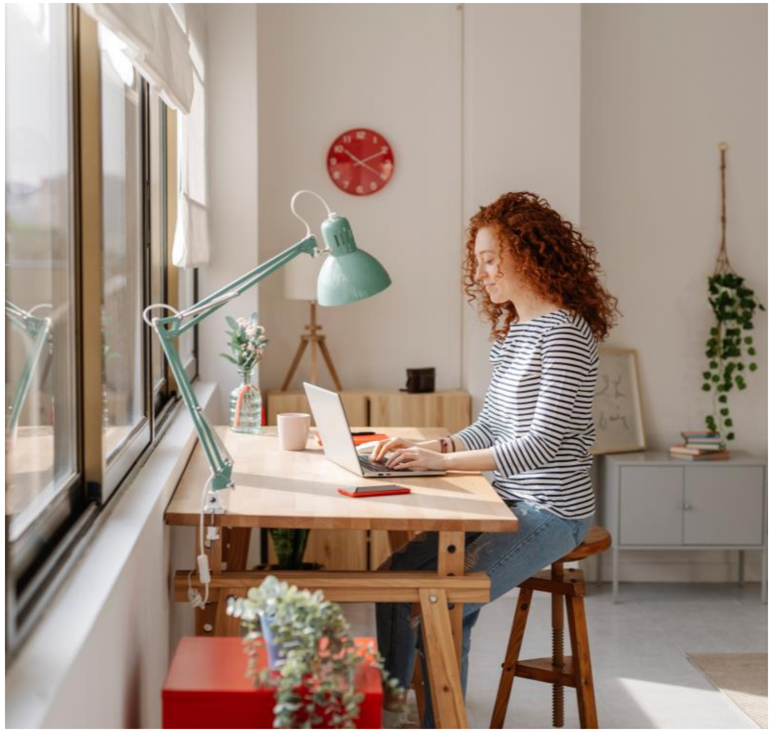
MK Fuel LLC: Additional Considerations

- **Business interest expense limited** to 30% of adjusted taxable income (IRC 163(j)).
- **Bonus depreciation.** Can still deduct 100% of eligible tangible property purchased for 2022. This will be reduced to 80% in 2023, 60% in 2024, 40% in 2025 and 20% in 2026. Section 179 (expense allowance) still available and increases every year. In 2022, the limitation is $1,080,000.
- **NYS Investment Tax Credit.** MK Fuel would be eligible to take a 4% Investment Tax Credit on eligible machinery and equipment used in their manufacturing business. If they increase their number of employees that can also get additional investment tax credits. Not eligible if they take the IRC 179 Expense deduction. Property includes R & D property.
- **NYS Manufacturer's real property Tax Credit.** 20% of the eligible real property taxes paid during the year. MK would be eligible as long as they lease the property from a third party or own it directly. If they owned it individually would be SOL. Ask Dave Maybaum.

MK Fuel LLC: Planning for Brooklyn Property

- Always like holding on to real estate as an inflation hedge.
- **Sale of property.** Qualifies for long term capital gains treatment Usually 20% federal tax rate for high income taxpayers. To the extent there was depreciation there would recapture at the federal 25% tax rate. If passive will be subject to the 3.8% net income tax. No preferential tax rate for NYS.
- **Like-kind exchange (IRC 1031).** Can defer the gain if reinvested the full amount of the net sale proceeds into another similar investment property. Any cash taken out would be taxed.
- **Reinvest the gain into a Qualified Opportunity Zone investment.** Gain would be recognized by 2026. However, any appreciation would not be subject to tax if held for more than 10 years. NYS no longer follows the federal treatment.
- **Contribute to CRUT (Charitable Remainder Unitrust) or CRAT (Charitable Remainder Annuity Trust).** Get a charitable deduction and a stream of income over a period of years. Sale of the asset would be tax-free. The stream of income would be taxable as either capital gains or ordinary rates.
- **Structure the LLC to be taxed as partnership.** Keeps eligibility for the partners to take advantage for the PTE regime.
- **Transfer of the Brooklyn property in a divorce settlement.** Can result in NYS/NYC transfer taxes. Needs to be addressed prior to divorce and not in the agreement!
- **Refinance property.** Take mortgage proceeds out tax-free.

MK Fuel LLC: Employees Working From Home



- Many of the Company's employees have been telecommuting from homes in different states. Will MK Fuel be treated as doing business in those states?
- Each state has an economic nexus provision. Just having an employee work in different state may not raise it to the level of being considered doing business in that state.
  - May still be subject to minimum taxes.
  - New Jersey will not treat the company as doing business in New Jersey.
  - New York State will treat those employees as working from home for the convenience of the employer and still treat them as if they are working in New York.

MK Fuel LLC: What About a 1202 Deduction?

- **Convert to a C-Corp?** Since Marcus wants to sell the business within five years, we may suggest having the LLC become a C corporation. If the business is considered a small business and they hold onto the stock for five years, they can avoid paying tax on the higher of 10X their investment or $10 million. However, his gain would be limited based on the value of the stock when it is converted. May be a better option for Marcia.
- **IC-DISC planning for foreign sales.** Marcus / Marcia / children could set up an IC-DISC owned by a family partnership and take advantage of the lower rates on their foreign source sales and take advantage of the PTE regime.

Marcus and Kim: Individual Planning

- **Should Marcus and/or Kim consider changing domicile to Florida?** As the result of technology and company's management, Marcus could work from the Miami home. If he spends more than 183 days out of NYS and can endure the heat, he could save taxes on his non-NYS source income. There would also be no NYS estate taxes except for any real property owned in New York State.
- **Consider rolling over retirement accounts to a ROTH and pay the taxes now.** Since the market is down, they may have an opportunity to avoid taxation on the future appreciation of their retirement funds. After five years they can take out the money tax-free and no longer need to take an RMD. The taxes paid will reduce their estates. Can divide up the retirement assets as a property settlement in divorce. Non-spouse beneficiaries need to withdraw over ten years.
- **Shift income to family members.** Need to explore shifting income to children to take advantage of their lower brackets. However, this is tempered by social security taxes.
- **Gift their residence into a Qualified Personal Resident Trust (QPRT).** Removes any appreciation from their estate. I don't think this will work well in divorce without some planning with both residences.
- **Gift some of their liquid assets into a Grantor Retained Annuity Trust (GRAT).** This may remove appreciation from assets from their estates.
- **Insurance planning.** Consider private placement insurance policies as an investment vehicle that could avoid income and estate taxes.
- **Alimony**- No longer deductible or taxable as income. This was a permanent change. However, NYS decoupled!!!

Marcus and Kim: Individual Planning

- **Social Security.** Since Kim and Marcus were married for over ten years, the lower income spouse could collect one half of the other spouse's Social Security benefits.
  - Divorced spouses may collect from their previous spouse's social security if they were married for ten years.
  - When one spouse dies, the other spouse may collect the other spouse's social security if it is higher.

- **Co-op taxes.** The TCJA of 2017 reduced the real estate and income tax deduction to $10K. However, there was an issue whether the real estate taxes passing through to individuals under IRC 216 were also limited. Commentators felt that this had to be addressed via a technical correction, but the IRS has privately indicated that the limitation applies. First taxpayer in our firm has been audited. The Build Back Better Act would have specifically treated co-op real estate taxes as part of the limitation effective 1/1/21, but it still left open whether the prior years are covered or not! Bill did not pass.

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Mitchell Sorkin is a Tax Partner with over 45 years of expertise in wealth and business management, as well as personal financial, corporate, individual, trust, estate, partnership, investment, and international planning. His clients include high net worth individuals, import and export businesses, personal service firms, distributors, and manufacturers.

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Mitchell is a frequent writer and lecturer on domestic and international taxation, business management, and wealth management topics.

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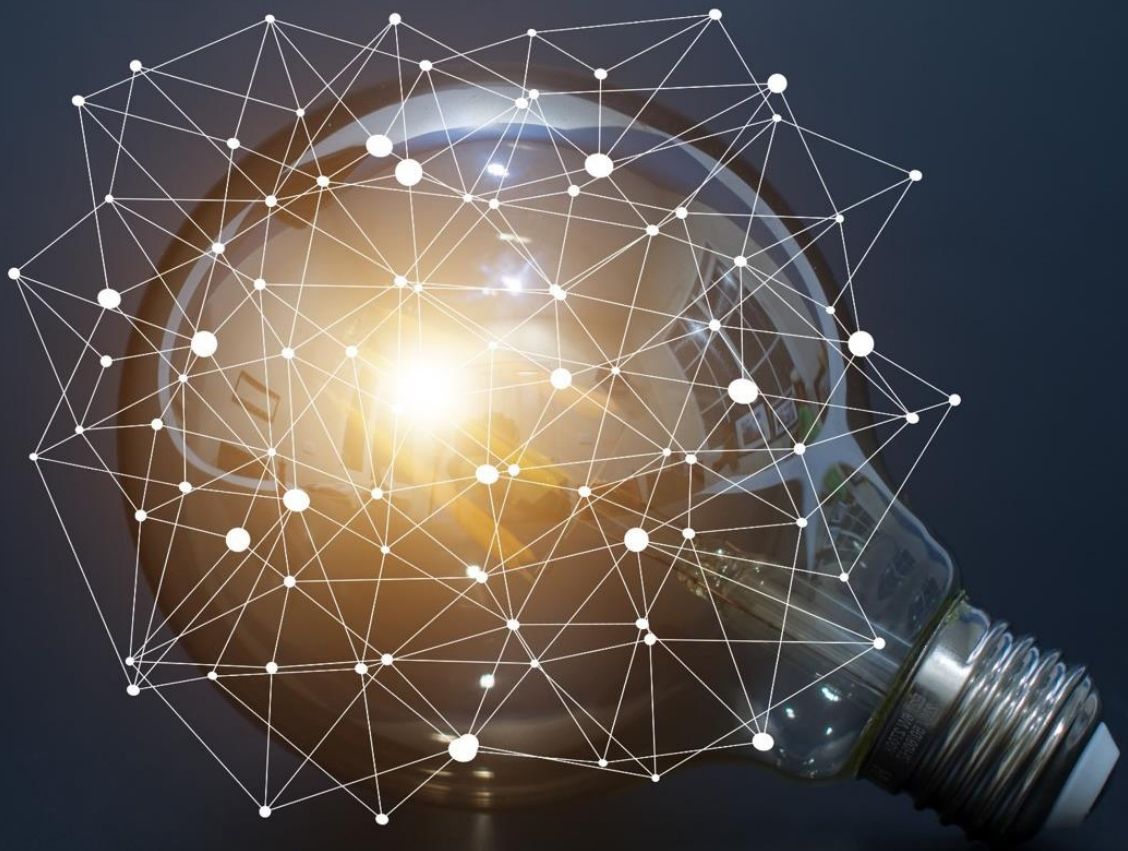
- New York State Society of Certified Public Accountants

Questions?



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CAVEAT

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Lee Slavutin is not authorized to give tax or legal advice. Consult your own personal attorney, legal or tax counsel for advice on specific legal and tax matters.

CRN202510-3240049

Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse and may result in a tax liability if the policy terminates before the death of the insured.

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INSURANCE RISKS

- Protect income for Kim
- Business succession
- Estate equalization

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PROTECT INCOME FOR KIM

- Key person insurance on Marcus and Marcia
- Policies will be owned by business
- Product - most likely term insurance
  - Conversion option
- Tax rule - EOLI
  - Notice and Consent Form to employee
  - Form 8925

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BUSINESS SUCCESSION

- Transfer of business interest from Marcus to Marcia
- Gifts of business interest
  - Outright gift
  - GRAT
- Buyout agreement
  - Issue – insurance proceeds may inflate the value of the business
  - *Blount, 11th Circuit 2005*
  - *Connelly, Eastern District of Missouri, September 2021*

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ESTATE EQUALIZATION

- Insurance on Marcus
- Owned by ILIT – Ted and Carol are the beneficiaries
- Product
  - Permanent insurance
  - Age 61
  - Guaranteed universal life – comeback in high interest environment?
- Funding of insurance
  - Gifts – lifetime exemption $12.9 million in 2023
  - Split dollar
  - Premium finance

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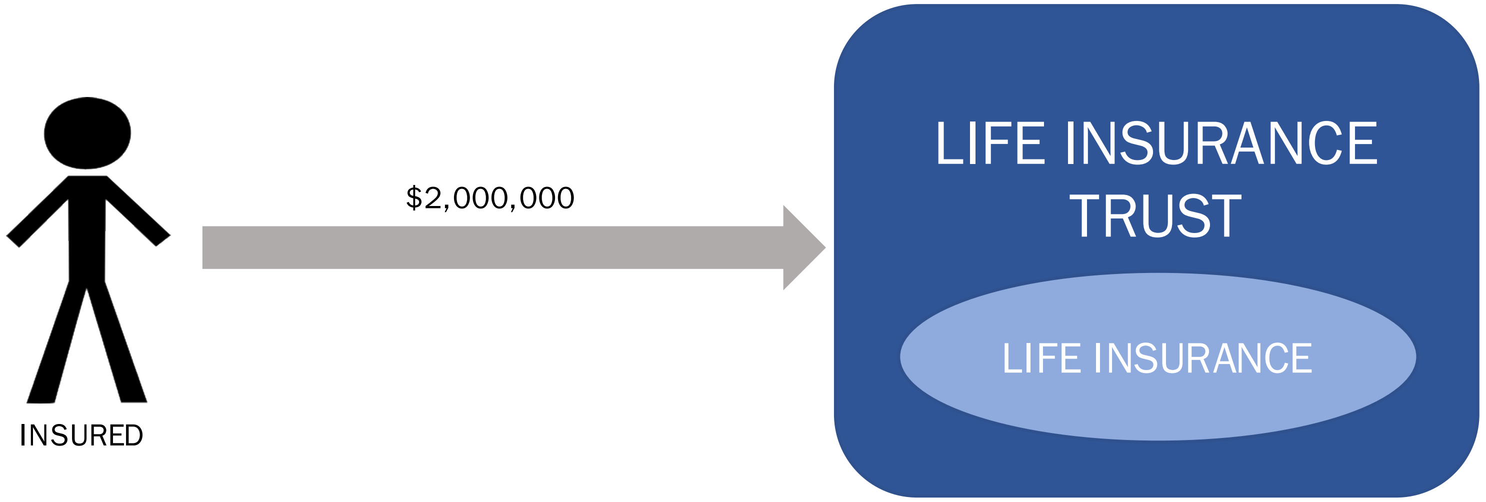
GIFTS: PRE-FUND LIFE INSURANCE



- Protects insurance from estate tax
- Protects insurance from creditors

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AVOIDING MEC RULES

- When funding insurance policy premiums upfront, planners should be aware of the modified endowment contract (MEC) rules.
  - A MEC can have adverse tax consequences when taking money out of the policy’s cash value.
  - The death benefit remains income tax free

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SPLIT DOLLAR PLAN

- In split-dollar, a donor transfers premiums to a trust; upon termination of the arrangement, the donor is repaid the premium amounts or the cash value.
- Split dollar plans can be structured as an economic benefit plan or a loan.
- Employment split-dollar agreements may have income tax ramifications as well as gift tax ramifications.

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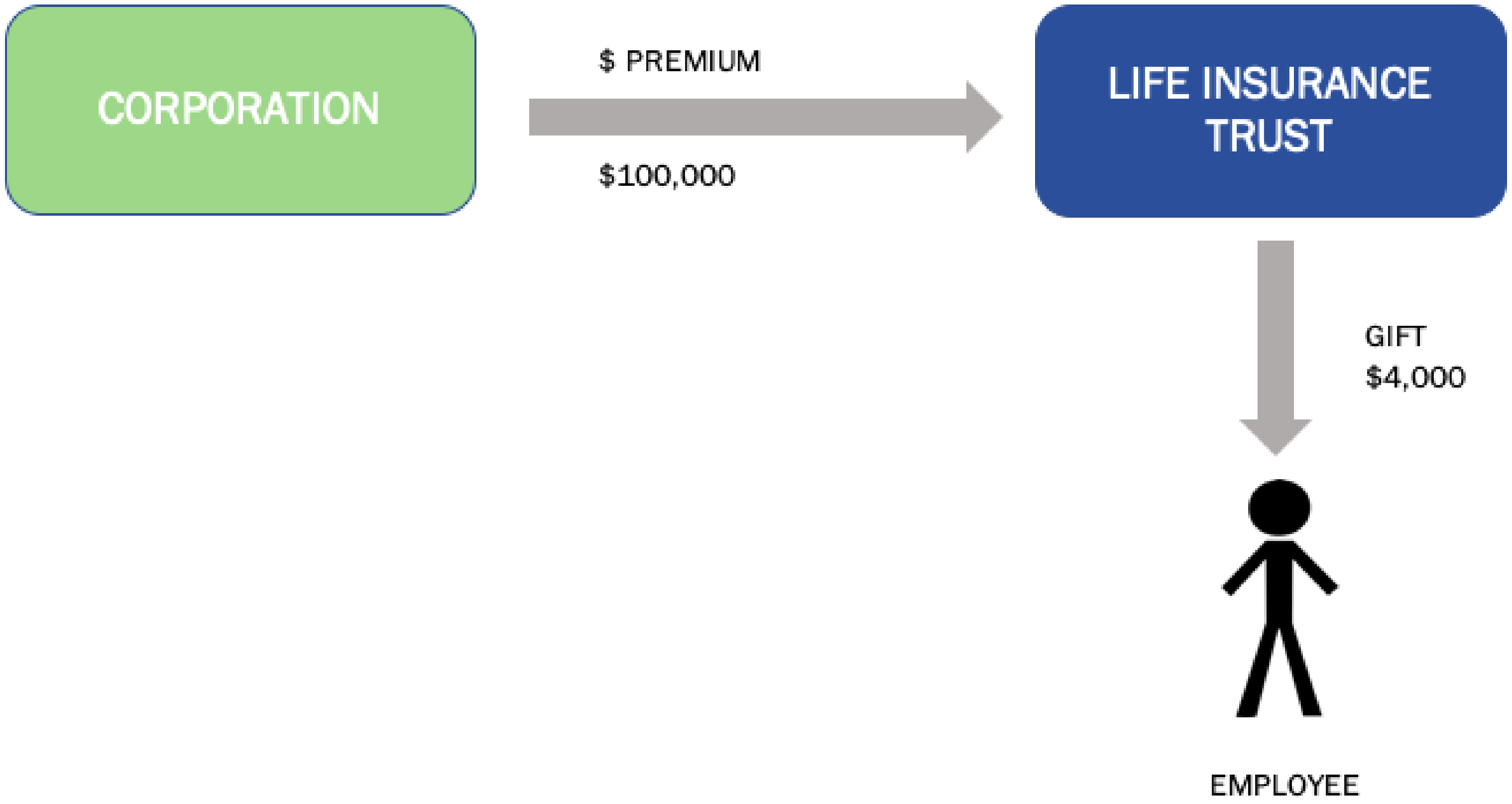
SPLIT DOLLAR PLAN: ECONOMIC BENEFIT TYPE



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SPLIT DOLLAR PLAN

Practical Takeaway:

- Life insurance premiums are generally NOT deductible by the corporation for income tax purposes.
  - There are 3 situations where life insurance premiums may be a deductible business expense:
    - Retirement plan contributions
    - Group term life insurance
    - Employee bonus/compensation

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PREMIUM FINANCE PLAN

- In premium financing arrangements, a trust owns the policy and borrows money from a bank.
- Each year the premiums are funded by a loan, and loan interest has to be paid and increases annually.
- In an increasing interest rate environment, premium financing becomes less popular.

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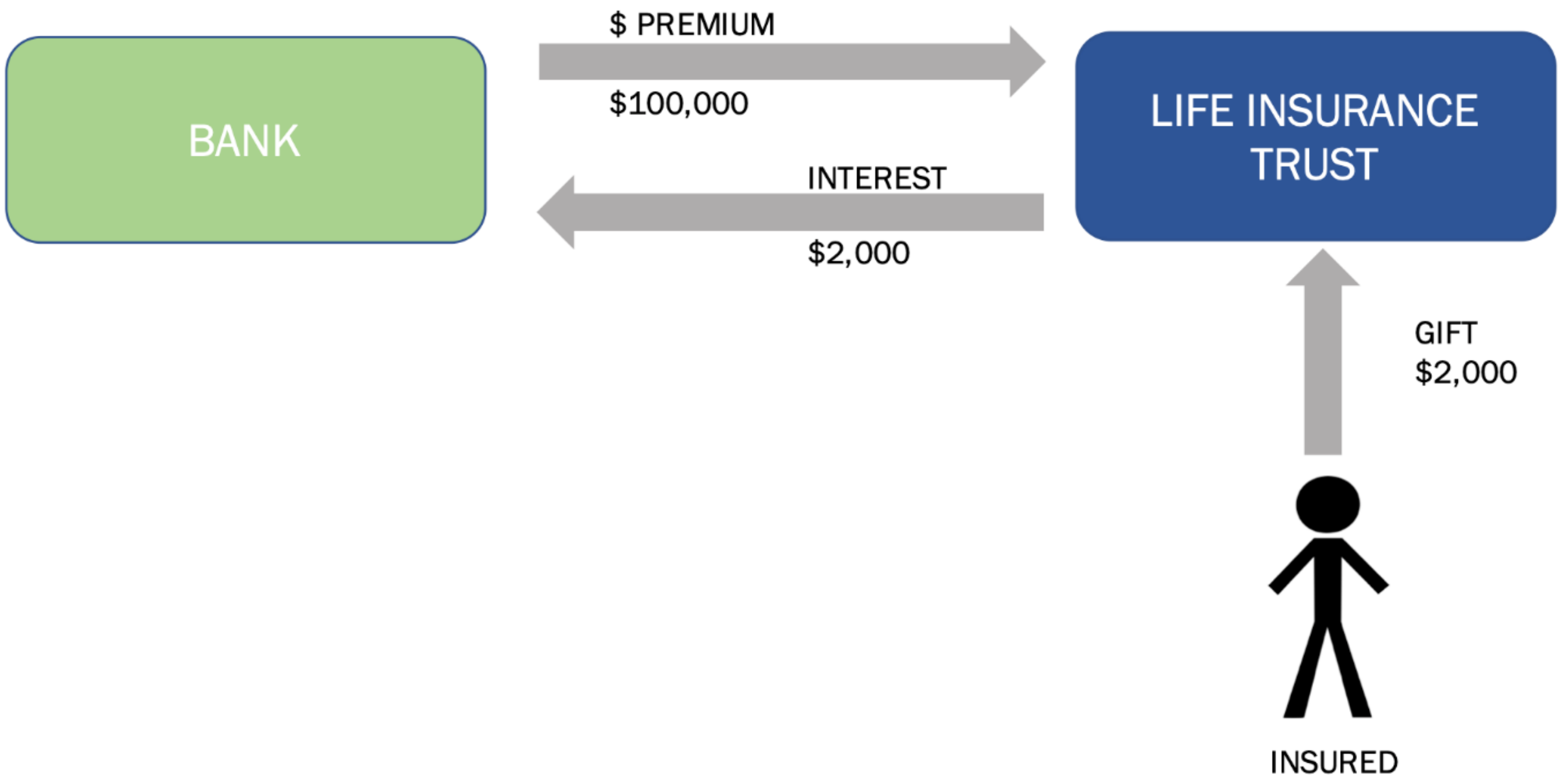
PREMIUM FINANCE PLAN



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DUE DILIGENCE ISSUES

- Audit existing policies
- Financial rating of insurance company
- Which product is suitable?
- Tax traps to avoid

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LIFE INSURANCE POLICY AUDIT

- Reasons for a life insurance policy audit:
  - Update beneficiary designations
  - Policy performance
- Financial strength of the life insurance company – Comdex Score over 90
  - A Comdex ranking is a composite score averaging the ratings of the major insurance rating organizations. The range for Comdex rankings is from 1 to 100. Higher scores are better. Financial strength ratings, such as the Comdex ranking, are like your insurance company's report card. www.EBIX.com
  - Obtain the Comdex score from an insurance agent or broker

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POLICY INVENTORY

Insurance Company	Policy Number	Policy Owner	Beneficiary	Policy Type	Death Benefit	Annual Premium	Cash Value	Year Issued	Policy Anniversary Date	Outstanding Loan

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TYPES of LIFE INSURANCE

TERM LIFE INSURANCE

- Conversion option

PERMANENT LIFE INSURANCE

WHOLE LIFE

- Guaranteed cash value
- Guaranteed death benefit
- Dividends can increase cash values and death benefits

UNIVERSAL LIFE

- Flexible premium

VARIABLE LIFE

- Choice of investment subaccounts

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TAX TRAPS TO AVOID IN BUSINESS PLANNING

- EOLI
- Transfer for value
- Buy/sell agreement – insurance causes inflation of business value
- Income tax deduction for premium payment

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LONG TERM CARE INSURANCE

- Premiums for standalone long term care insurance have increased significantly
- Hybrid life insurance/long term care policies provide 3 benefits:
  - Premium is guaranteed.
  - Policy has cash value, so that premiums can be recovered in part or in full.
  - Policy also provides a death benefit.

LONG TERM CARE INSURANCE

- **Example:** Male, age 49
  - Single premium payment = $50,000.
  - Monthly long term care benefit = $3,562.
  - Long term care benefit period = 6 years.
  - Inflation protection = 3% simple.
  - Cash value in year 10 = $40,000.

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Elder Law & Special Needs Planning Considerations

Peter J. Strauss, Esq., Senior Partner
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INTERGEN

Caring for the Older Generation

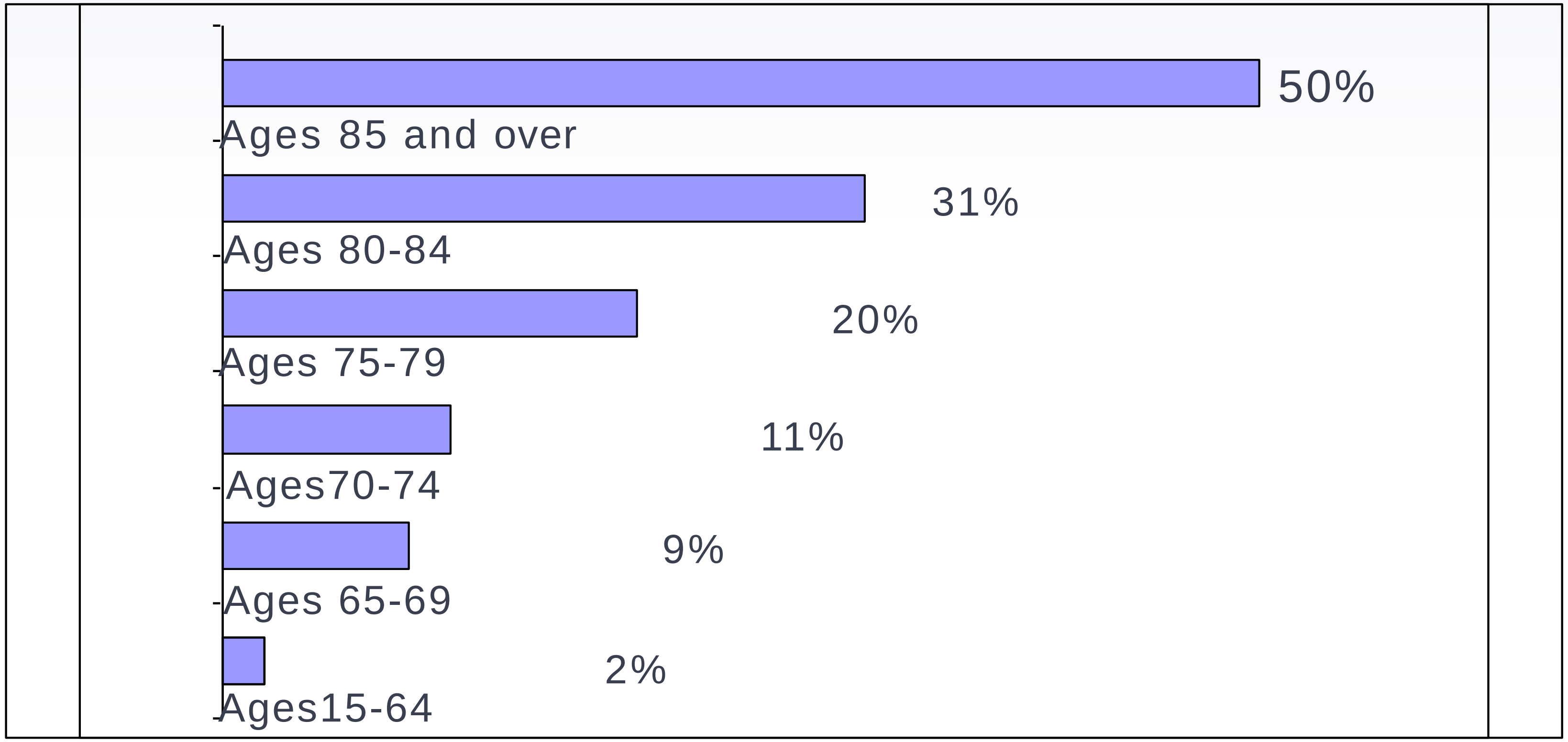
- Joyce is in good health – but shows signs of memory loss
- Financial and healthcare decision-making may be needed
- Paying for her long-term care costs is a concern
- Joyce's relationship with Barbara – she wants to get married, but should she?

Good News, Bad News

While an increase in life expectancy and the growth of our older population is positive, there is a **negative side**.

- 50% of persons over age 85 need significant assistance in daily functioning.
- Chronic disease such as arthritis, hearing impairment, hypertension, heart disease and stroke become more prevalent as persons age.
- The **increasing prevalence of dementia** among older Americans is a major factor; it is estimated that Alzheimer's disease is the cause of 70% of all dementia.

The Need for Help With Everyday Activities Increases with Age (Primarily Because Of Cognitive Issues)



INTERGEN

Planning Ahead:Take Control

The failure to execute advance directives for *health care decision-making* and *property management* will result in loss of individual control and autonomy.

Key Question:

Can Joyce, if she has diminished capacity, engage in advance planning?

How can we ensure her wishes will be honored by medical providers?

INTERGEN

Critical Advance Directives: The Core 5

- Durable Power of Attorney
  - Include gifting powers and power to create trusts
  - Statutory Gift Rider eliminated as of new law effective June 2020
- Health Care Proxy
- Health Care Directive ("Living Will")
- Trust
- Pour over will

These are critical not just for Joyce but for Marcus and Kim as well!

And suppose Marcus and Kim had a child with disabilities?

INTERGEN

Consequences if Joyce and Barbara Marry

Considerations

- Not Clear: Barbara's income + assets but assume liquid assets of 500K
- Different Medicaid laws apply depending on marriage status and need
- Ethical issues if you are representing Joyce; any duty to Barbara?
- Prenuptial agreement?

INTERGEN

Options for Joyce to Pay for LTC

- Private Pay – her income and assets
- Long-Term Care Insurance or Life Insurance Hybrids purchased by Kim

  and/or Marcus for Joyce at an earlier age

  Note: Joyce has a good NYS Partnership LTC policy
- Reverse mortgage: equity of $225K
- Move to congregate care retirement community
- Medicaid

INTERGEN

Benefits of Marriage for Joyce

- Emotional, physical and social support
- Potential higher Social Security income based on Barbara's account
- Potential share of Barbara's IRAs and pension plan accounts after Barbara's death
- Possible income tax savings
- Obligation of Barbara to support Joyce

"...research is unequivocal that people aging alone experience worse physical and mental health outcomes and shorter life spans."

"More in US Living Alone in Later Life," New York Times, 11.27.22

Disadvantages of Marriage

- Joyce has an obligation to support if Barbara's health declines and she needs Medicaid
- Thus, the obligation of support puts the community spouse at risk.
- However, since Joyce's assets are below the Community Spouse Resource Allowance (see slide **180**) of $148,620, she is protected.
- Since Joyce has $60K, her assets are protected

INTERGEN

Option for Joyce:
Medicaid - Payor of Last Resort

- Medicaid, not Medicare, covers the cost of long-term care
- Community Medicaid or Skilled Nursing facility care (Chronic Care)
- Transfer of asset penalty rules are different
- If married and Joyce applies for Medicaid, Barbara's assets are countable in determining Joyce's eligibility
- If Joyce transfers assets to Barbara, those assets do not result in any waiting period for Medicaid
  - If Joyce transfers assets to Barbara, those assets are exempt (ie not countable) by Medicaid.

  Assets could be sheltered using spousal refusal

INTERGEN

Spousal Refusal

Barbara's assets, including assets transferred to Barbara, are "deemed" to belong to Joyce

If Barbara signs a "Spousal Refusal Statement," Medicaid may not deem (count) those assets in determining Joyce's eligibility

However, the spousal refusal imposes an implied contract by Barbara to repay Medicaid for the cost of Joyce's care

Since Barbara has 500K of liquid assets, she is at risk for a support lawsuit brought by the local Medicaid agency

2022/23 Medicaid Eligibility Numbers

Monthly Income	
Individual (at home)	$934 (+$20)[1]
Couple (both at home)	$1,367 (+$20)[1]
Minimum Monthly Maintenance Needs Allowance (MMMNA)[2]	$3,435
Resources	
Individual	$16,800
Couple (both at home)	$24,000
Comm. Spouse ResourceAllowance	$74,820 (or the spousal share of 1/2 combined resources up to a maximum of $130,380)

Higher in 2023

$1,563 (+$20)

$2,106 (+$20)

$26,134

$37,906

$80,955

$148,620

Joyce's Planning for Medicaid
(It's all legal!)

- Income $2,800/ Month
- Assets
  - Bank Account: $60K
  - Condo $250,000 ($100K Mortgage)
  - Joyce's IRA = $350K
  - NYS Partnership LTC Insurance Policy
    - Daily Benefit = $275 (Max benefit $300K)

INTERGEN

Medicaid Home Care Example

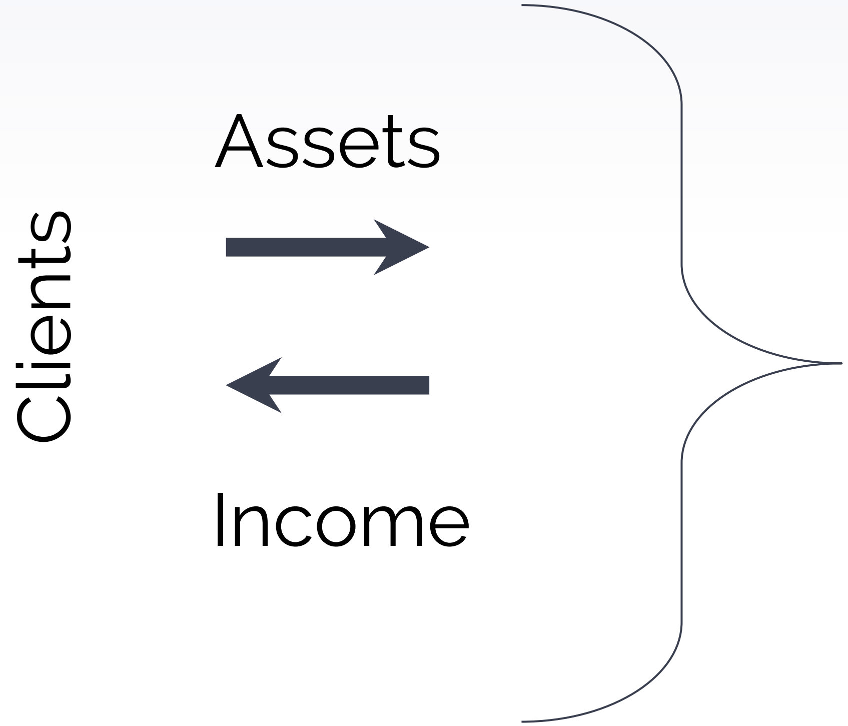
- Step 1 – Joyce creates and funds a Medicaid Asset Protection Trust with her home and a portion of her cash assets
  - IRA is an exempt resource when in pay-out status
- Step 2 – Joyce creates an account in a Pooled Trust and assigns $1,217 of income per month ($2,800 - $1,583 allowed in 2023)

Medicaid Home Care Example

- Step 3 – Joyce applies for Medicaid
- What is exempt?
  - IRA in payout status
  - Assets = $26,134 starting Jan. 1, 2023
  - Home – her primary residence
  - Allowable Income = $1,583
- Medicaid Trust and Pooled Trust funded- income and asset protected
- No Waiting Period Under Current Rules for Community Medicaid
  - New Transfer of Asset Penalty Rules in 2024 of 30 months

INTERGEN

Medicaid Asset Protection Trust (MAPT)



- Trustee – manages trust assets
  - Barbara cannot be trustee for Joyce if married. Kim CAN be trustee.
- Beneficiaries
  - Joyce – income for life and right to use real property
  - Remaindermen – Barbara and other family can inherit when trust ends
  - No right of recovery!

MAPT

- Home
- Bank Accounts
- Stocks & Bonds
- Annuities
- Life Insurance
- Business
- Real Estate

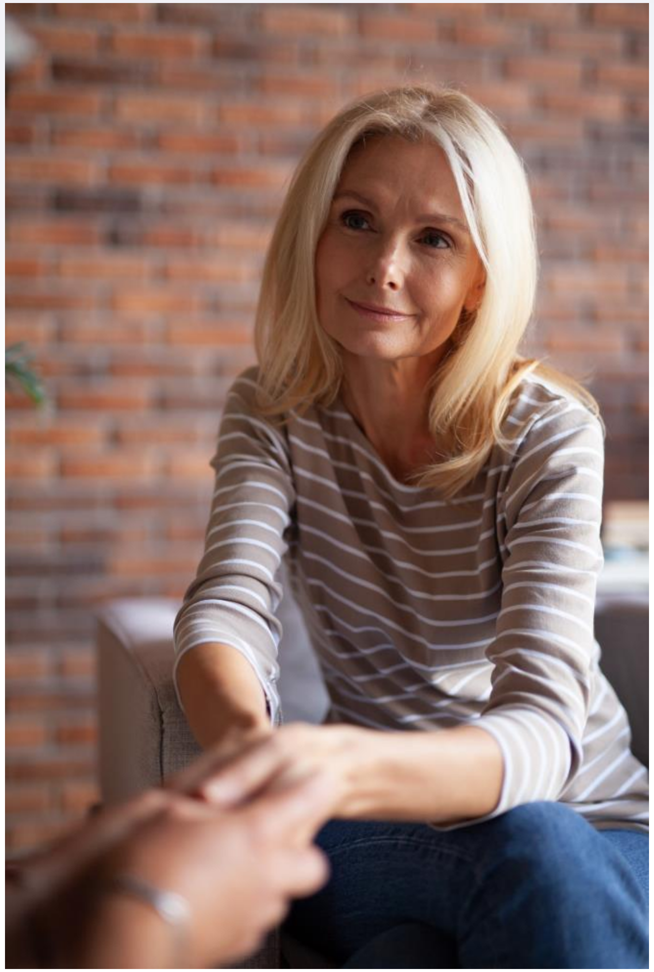
Medicaid Asset Protection Trust

- Income payable to Joyce if she wants it
- Principal can NOT be given back to Joyce directly, but
- Principal can be given to Barbara or other family

INTERGEN

Alternate LTC Financing Solution: Kim Establishes a Third Party SNT

- Created and funded for the benefit of Joyce and funded by Kim
- Properly drafted, the trust will not be considered an asset to Joyce which would make her ineligible for Medicaid
- Trust assets may be used as the trust directs at the discretion of the trustee – flexible, easy to administer
- Must be a discretionary trust, not a support trust



INTERGEN

Conclusion

1. Marcus and Kim need to include the Core 5 in their estate plans to implement all plans discussed today, especially in lieu of their divorce

2. Clients always need to consider the needs of aging parents and grandchildren with disabilities

3. Future divorce, marriage and capacity to make legal decisions must always be considered in estate planning

INTERGEN

THANK YOU

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INTERGEN

Wrap Up and Questions

PIERRO, CONNOR & STRAUSS, LLC
Trusted Counsel

THANK YOU!

Please complete the brief survey with your feedback.

See you next year for the

18th ANNUAL

INTERGENERATIONAL ESTATE PLANNING CONFERENCE