

Estate Planning for Japanese and Nikkei

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Seminar Overview

1. **Legal Principles**
 - Federal Estate Tax
 - California Probate Procedures
2. **Estate Planning Alternatives –
Advantages and Disadvantages**
3. **Planning Opportunities**

Federal Estate Tax

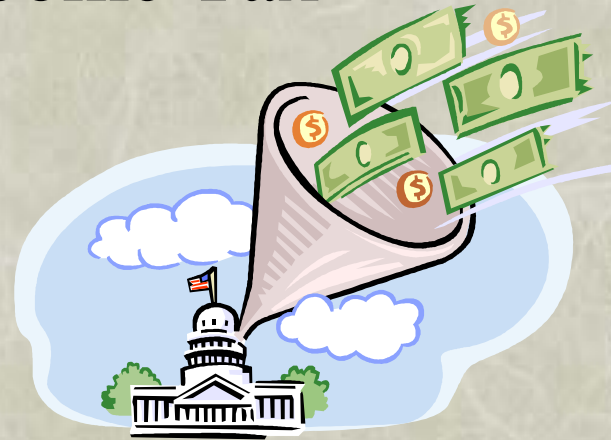
1. Separate from Income Tax

2. Tax on Assets

3. Applies to:

U.S. Citizens and Residents: all property worldwide

Non-Resident Aliens: U.S. property only



Federal Estate Tax Cont.

4. Estate Tax Rates:

<i>Taxable amount over</i>	<i>Taxable amount not over</i>	<i>Rate of tax on excess over amount in column A Percent</i>
\$0	\$10,000	18
\$10,000	\$20,000	20
\$20,000	\$40,000	22
\$40,000	\$60,000	24
\$60,000	\$80,000	26
\$80,000	\$100,000	28
\$100,000	\$150,000	30
\$150,000	\$250,000	32
\$250,000	\$500,000	34
\$500,000	\$750,000	37
\$750,000	\$1,000,000	39
\$1,000,000	\$1,250,000	41
\$1,250,000	\$1,500,000	43
\$1,500,000	\$2,000,000	45
\$2,000,000	48

Federal Estate Tax Cont.

5. Exemptions:

Annual Gift: \$12,000/Year (Per Donee)

*Does not include education expenses.

Lifetime Exclusion (Per Donor)

2006	\$2,000,000
2007	\$2,000,000
2008	\$2,000,000
2009	\$3,500,000
2010	No Estate Tax
2011 (And beyond)	\$1,000,000

Marital: Any distribution to surviving spouse

Federal Estate Tax Cont.

6. Step-up in tax basis to full fair market value on all assets owned at date of death.

*No Capital Gains Tax

California Probate

The background of the slide features a soft-focus image of a mountain range in shades of brown and tan. On the right side, a dark, thin branch of a willow tree hangs down, adorned with numerous small, dark, round berries or buds.

1. Supervised by Superior Court

- Takes approximately one year
- Public Record

2. Process

- File Petition for Appointment of Personal Representative and Probate of Will
- Provide Notice to Creditors
- File Inventory listing all Assets
- File Personal Representatives Report and Petition for Distribution

California Probate Cont.

3. Costs

- Filing Fees

Under \$500,000	\$ 274.50
\$500,000 - \$750,000	\$ 346.00
\$750,000 – 1,000,000	\$ 456.00
\$1,000,000 - \$1,500,000	\$ 621.00
\$1,500,000 - \$2,000,000	\$1,171.00
\$2,000,000 - \$2,500,000	\$2,271.00
\$2,500,000 - \$3,500,000	\$2,821.00
Over \$3,500,000	\$3,921.00 plus .22%

4. Shortens Statute of Limitations on some Claims

- Four months after appointment of personal representative
- Effective if there is concern over a will contest

No Estate Planning

❖ Advantages

- Inexpensive

❖ Disadvantages

- Must be probated
- Government chooses who receives property
- Government chooses who will be administrator
- Government chooses who will be guardian of minor children
- Distribution of assets at age 18
- Significant adverse estate consequences in large estates

Joint Tenancy

❖ Advantages

- Inexpensive
- Simple
- Can avoid probate if one joint tenant survives

❖ Disadvantages

- Cannot get property back without consent
- Subject to creditors of all joint tenants
- Only effective if one joint tenant survives
- Can cause disputes among children



Simple Will

❖ Advantages

- Can choose executor and guardian
- Can choose beneficiaries

❖ Disadvantages

- Must be probated
- Distribution of assets at age 18
- Adverse estate tax consequences for married couple



Will with Testamentary Trust

❖ Advantages

- Can choose trustees, executors and guardians
- Can choose beneficiaries
- Can defer distribution
- Some asset protection

❖ Disadvantages

- Must be probated
- Probate will last the entire term of the trust
- Annual accountings must be filed with the court



Revocable Living Trust

❖ Advantages

- Choose trustees, executors and guardians
- Choose beneficiaries
- Defer distribution
- Avoids probate
- Significant estate tax savings for married couples

❖ Disadvantages

- Additional cost to set up
- Requires additional administration between first and second death



How a Trust Works

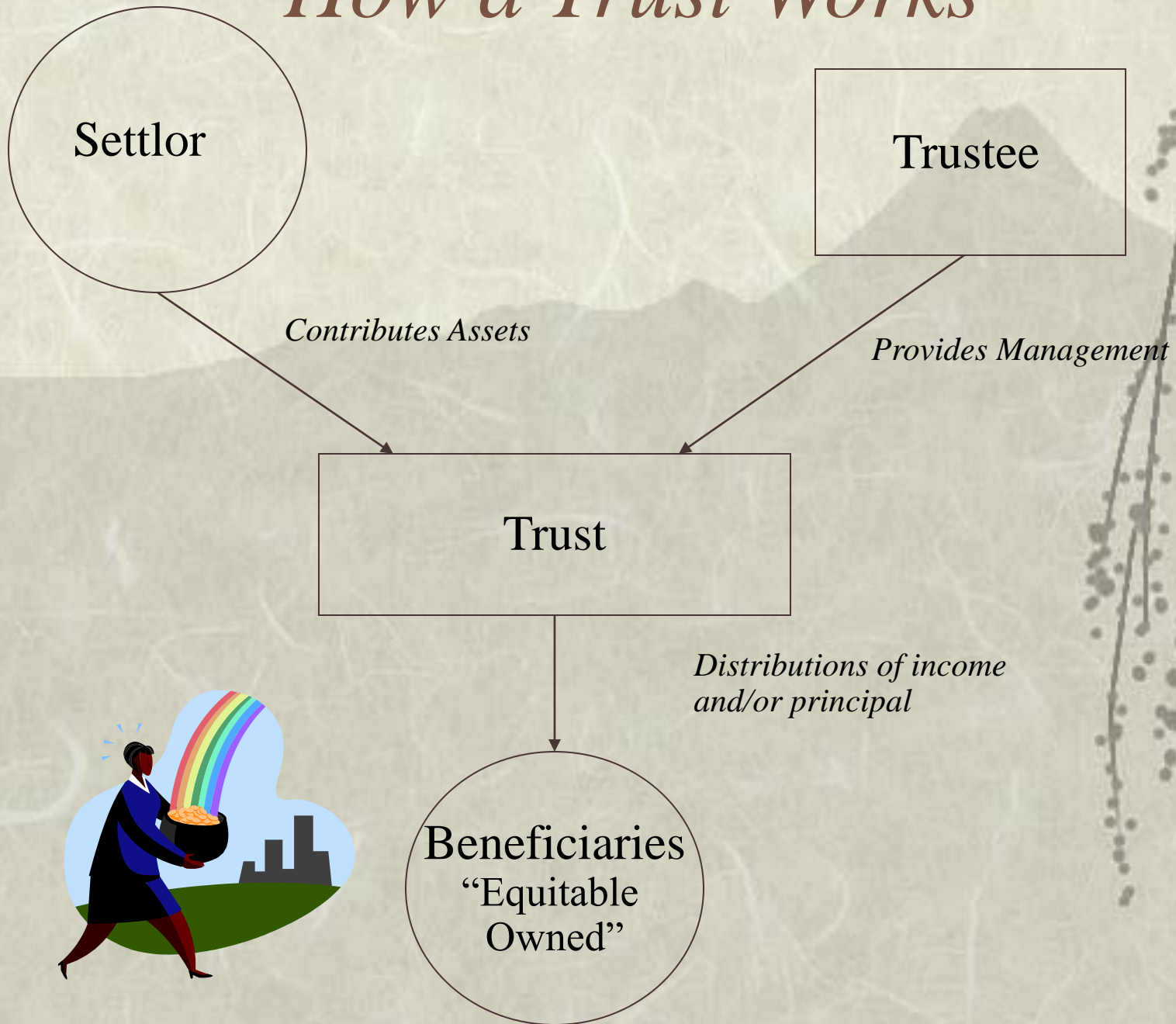
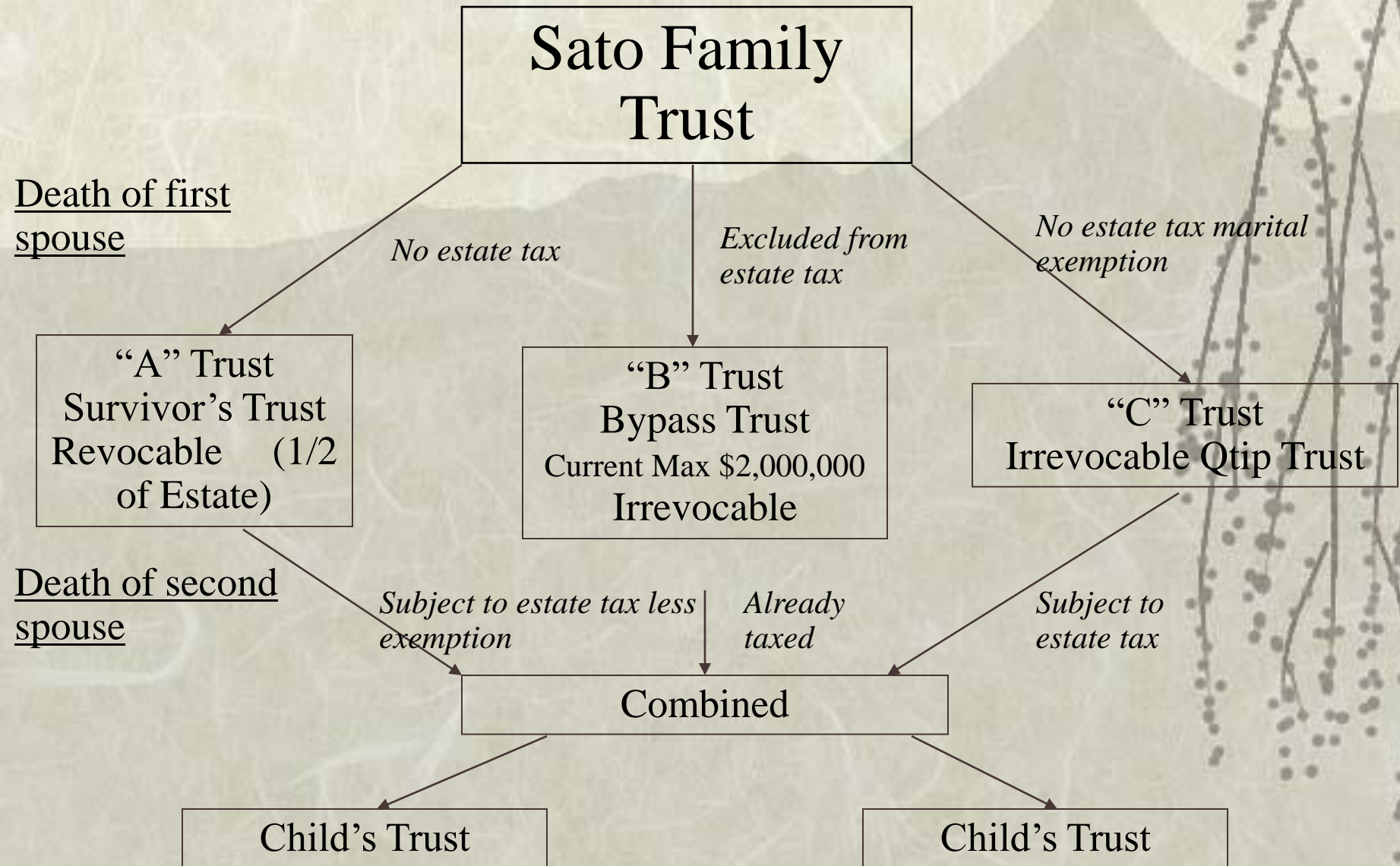


Diagram of a Revocable Living Trust



Use a Limited Liability Company (LLC) to Hold Assets

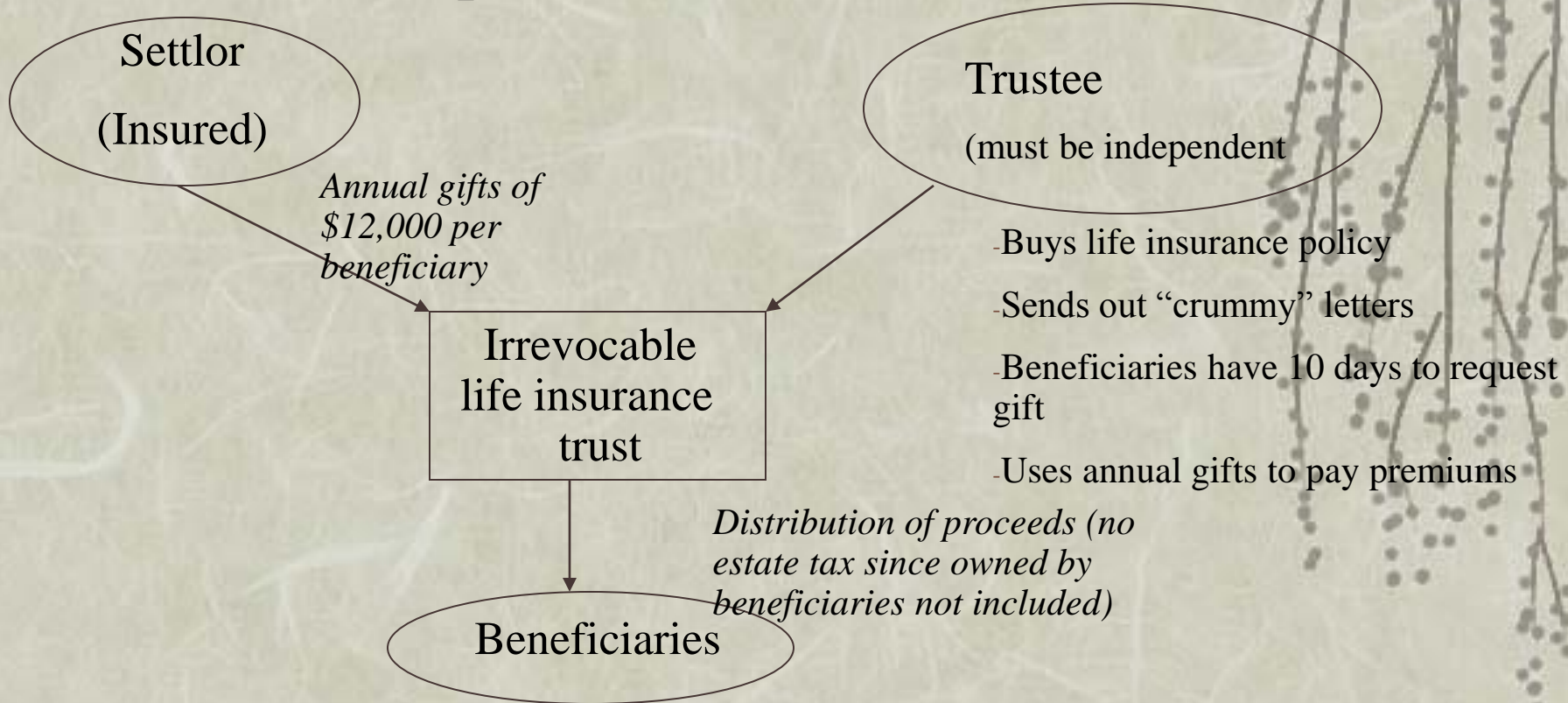
Set up LLC to Hold Assets (Particularly Real Estate)

- Obtain Liability Protection
- Make use of annual gift exclusion
 - Can give membership interests (shares)
 - Still maintain control of LLC
 - Transfers future appreciation
- Take advantage of minority interest discounts and lack of marketability discounts at death
- LLC must file its own tax return and pay a California minimum tax of \$800/year

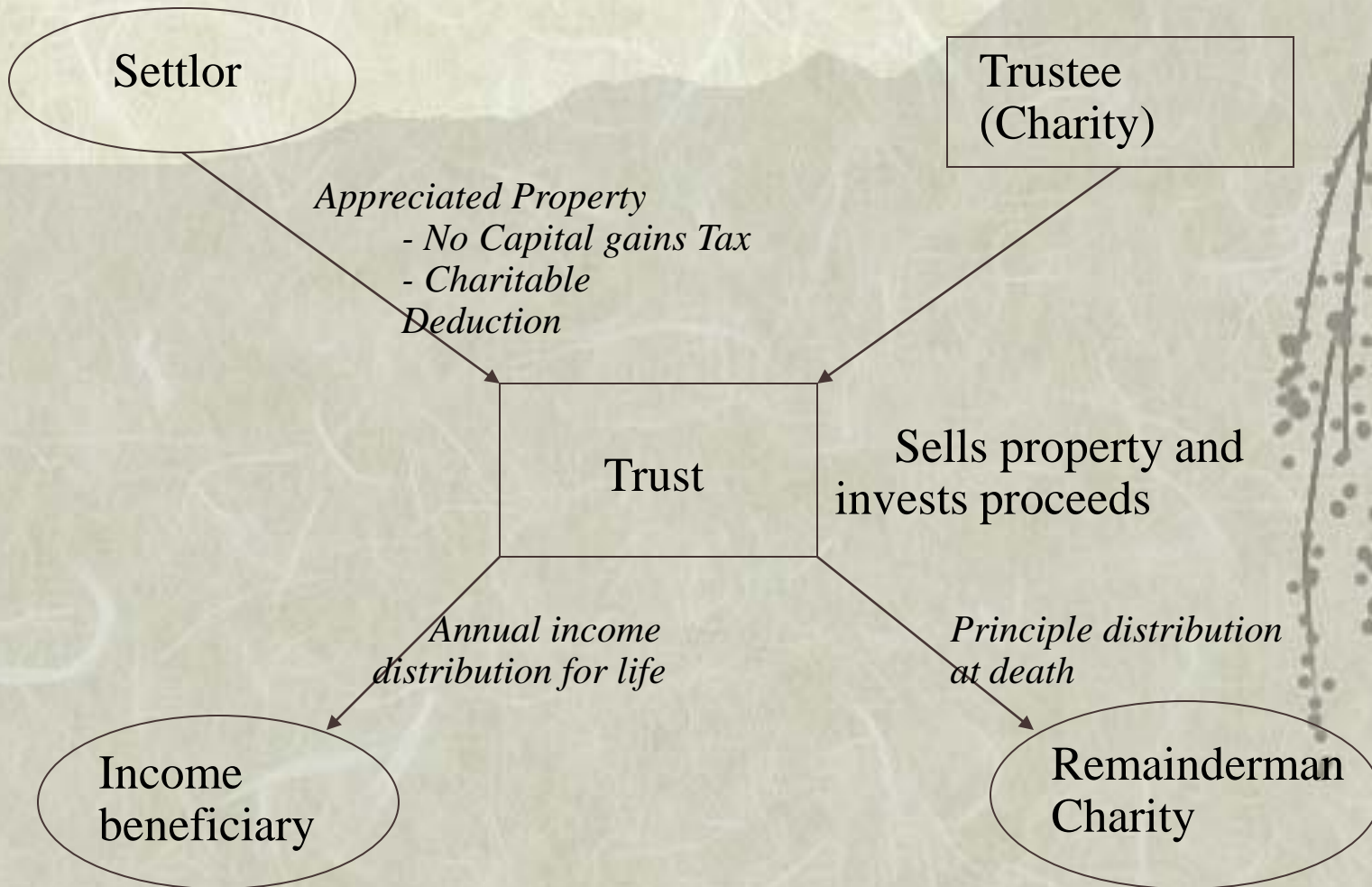


Use a Life Insurance Trust to Prepay Estate Taxes

- ❖ Life insurance proceeds are included in the taxable estate of the owner
- ❖ Can exclude proceeds with a life insurance trust



Charitable Remainder Trust



Disclaimer

This presentation is based on Federal Estate Tax Law in effect as of January, 2009. The law has changed and we have not updated this presentation.

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