

## Trusts save \$1000's

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"Some people say that whatever we have left after taxes to pass on to the children is more than we started with, and as long as the children aren't involved in the business, they can afford that luxury," said Ford.

But, he recalled a case where 52 head of dairy cattle

were put on the block in order for the children to come up with slightly less than \$100,000 to meet the estate settlement obligations. As a result, the children lost an integral part of their productive farm operation, and suffered a financial hardship until they could replace the cattle they were forced to sell.

This type of estate settlement ordeal, Ford said, is like raising an elephant in the basement. "By the time it's grown, you either have to tear down the house or dismember the elephant to get it out. You can't sell off the livestock, equipment, and inventory to meet the tax obligations or the farm is no longer operational."

To avoid this dilemma, Ford said that a trust can be set up to maximize the

marital deduction exemption. He recommended that the following statement be included in the estate plan:

"In the event of my death, pay out an amount of property to my wife (or, husband), when taken into consideration everything she owns jointly, that would exactly qualify the marital deduction, paid in dollars or in kind." The rest of the estate would then be placed in trust for the surviving spouse's use until death. It then would pass on to the children without being taxed a second time.

By doing this, Ford pointed out, the surviving

spouse is saved the ordeal of hearing differing opinions from children, relatives, salesmen, and other well-meaning people, on what to do with the property. "It's a trying time for a widow or widower—it's a time when they are least likely to be equipped in making a decision because of the trauma of dealing with death."

Ford summed up his feelings on the value of a trust as an estate planning tool when he spoke of a case involving a farm couple we'll call Mr. and Mrs. Corn.

Mr. and Mrs. Corn had a successful farming operation somewhere in Pennsylvania. When Mr. Corn died, the couple was somewhat prepared for they had a will.

When the Corn's bought their farm in 1952, it cost them \$20,000. Over the year's, the farm saw new equipment and more cattle call it home.

When Mr. Corn died, the gross value of his estate came to \$1,145,000, including the value of the real estate, livestock, inventory, cash on hand, life insurance, market securities, and interest.

In settling the estate, Mr. Corn's executor took off the necessary tax exemptions for Mrs. Corn, including rights-of-survivorship and marital deduction, and now the taxable estate came to \$551,000.

Mr. Corn's estate taxes amounted to \$191,000.

Since Mr. and Mrs. Corn did not have the legal tool, the trust, working for them, the remainder of the estate,

after taxes, passed totally to Mrs. Corn. When she died the following year, the estate taxes due on her estate came to \$360,000, since there was no longer any marital deductions or rights of survivorship.

Ford pointed out that if the Corn's had set up a proper trust, it could have made a difference in the amount of taxes the estate had to pay. Although the trust would not effect the estate taxes on Mr. Corn, Mrs. Corn's tax costs would have been reduced from \$360,000 to \$182,000, a savings of \$178,000.

Elvin Byler, a Lancaster attorney also recommends a trust for easing the sting of inheritance taxes. He said that a trust can be set up to pay all the earnings of the whole value of the estate to the surviving spouse, while setting up half of it for the children.

Or, he added, the trustee (the person appointed to manage the funds) could be instructed to pay the principal, any interest accrued by the property in the estate, to the spouse to meet the maintenance needs. "You can set it up with the right to withdraw \$5000 each year, and what's left in the estate still won't be taxed when the surviving spouse dies."

Byler told of a farm family's experience with the powers of a trust. He said that the husband died leaving assets of \$120,000. Half of the assets had been put into a trust, and half of them went to his wife. The farm itself, worth \$88,000,

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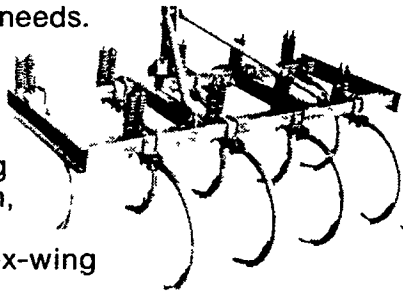
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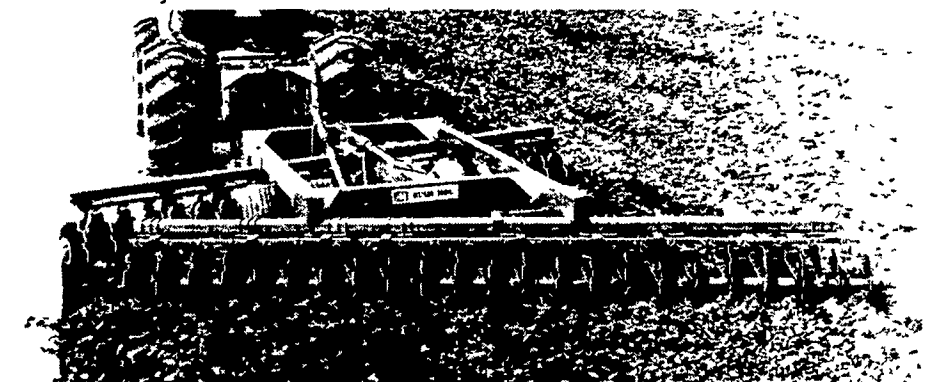
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