Trust UPDATE

Stillman BANK

November 2012

Need an investment pro on your side?

Step one: Find an advisor that is institutionally committed to listening.

One of the ironies of the information age for investors is that more seems to lead to less. The more facts, theories, trends and projections that flow from our myriad sources of daily information, the less confident many feel about making investment decisions. The result is that more and more affluent families are seeking financial and investment guidance from professionals.

Interestingly, folks are not necessarily looking for the "hot hand," the very highest investment return. Surveys of the affluent usually find that the most important characteristic in an investment advisor is being "trustworthy." Also high on the list, "understands my situation" and "keeps me informed."

These characteristics describe our services for investors very well.

Three factors that make every client unique

We tailor our services to our clients because we feel that we must. Everyone who turns to us for informed, unbiased guidance has a unique combination of investment goals and time frames, tax concerns and personal circumstances.

Goal setting. How-to-invest books will tell you that every investor has a goal: growth, income or some combination of the two. Real life is more complicated. Frequently, several goals coexist within the heart and mind of one-and-the same investor:

In five years I'll need to start paying Sarah's college bills . . . in ten years we want to buy a B&B . . . and in 20 years we'd like a retirement fund that's equivalent to at least a million in today's dollars.

Because our clients tend to have an assortment of goals, each with a different time frame,

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Our investment services compared

Feature	Custody account	Investment management account	Living trust
Recordkeeping	X	X	X
Safekeeping of securities	X	X	X
Development of an asset allocation strategy		X	X
Continuing portfolio supervision		X	X
Personal financial management upon client's incapacity			X
Account may survive the client for support of named beneficiaries			X
Potential for probate avoidance			X

we don't even try to pigeonhole them. Instead, we accept the fact that each client requires custom-tailored investment guidance.

Tax considerations. Studies of investment performance often ignore the damage inflicted by income taxes. After the IRS takes its share from dividends, federal and corporate bond interest, and realized capital gains, theoretically high returns can sink to unsatisfactory lows. In order to make our clients' investment portfolios truly productive, we pay close attention to their income brackets and other tax considerations.

Even age can be a factor in tax planning. When talking with a client age 38, one does not hesitate to suggest taking a large capital gain in order to purchase a somewhat more promising security. If the client is age 83, however, one must recognize that the client may prefer to avoid taking large gains unless the reason is truly compelling. After all, appreciated securities do take on a new, stepped-up basis at the owner's death. If the heirs decide to sell thereafter, they can realize all pre-death growth in value tax free.

Personal needs and circumstances. In addition to possessing a personal assortment of investment goals, each of our clients presents us with a unique set of financial and family circumstances. Some may have special income needs because they are helping out aged parents or struggling children. Others may need especially low-risk investment programs because they already face high financial risks as entrepreneurs.

What's more, personal needs and circumstances determine the nature and scope of the services that we provide. For reasons ranging from business pressures to prolonged illness, some clients may wish us to shoulder full responsibility for their investment programs. Many feel more comfortable with what amounts to a working partnership. And some prefer to do considerable investment research themselves, relying on us mainly for an informed "second opinion," plus routine account services such as recordkeeping, purchase and sale of securities, and redemption of matured or called bonds.

Put us to the test

"Good numbers" undoubtedly have helped us win new clients from time to time, but it's good performance in a broader sense that enables us to keep clients. If you have been meaning to talk with us one of these days, why not schedule a meeting this month?

Chances are, we can outline services that will meet your personal requirements as if they were tailor-made for you. Because, in fact, they will be. ☐

A capsule guide to our investment management services

Our services are, in essence, powerful financial planning tools. One of the great strengths of trust planning is the ability to tailor the plan to respond flexibly to current and future financial needs.

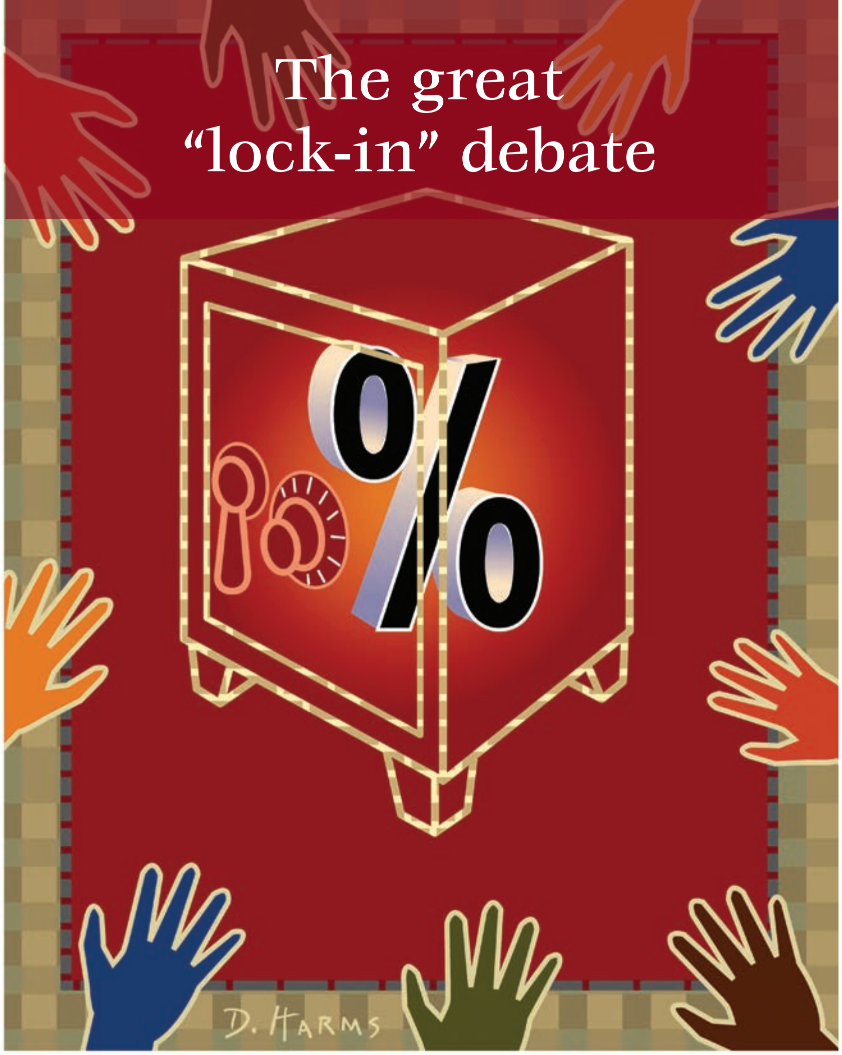
Portfolio supervision. Serious investing is a full-time job. Our investment advisory and investment management services put experienced investment professionals on your side. The officer assigned to your account will work with you to establish an investment strategy suited to your personal goals and circumstances. Asset allocation planning will be employed to optimize your portfolio, reducing investment risk through a process of disciplined diversification.

Lifetime financial management. The next step in comprehensive financial protection employs a revocable living trust. We begin by developing an investment policy for the trust based upon your requirements. We will implement that plan, providing continuous portfolio supervision and distributing or reinvesting trust income as directed. As trustee, we can move beyond the investment sphere, arranging to pay household bills and taxes on your behalf. A revocable trust provides financial protection in the event of incapacity, and it has important estate planning advantages as well.

IRA rollovers. Anyone who will receive a lump sum distribution from an employer's retirement plan would be well advised to take a careful look at an IRA rollover for the funds. A rollover preserves valuable tax privileges and can enhance your retirement capital.

Philanthropy. Thoughtfully designed trusts can provide financial protection for you and your family and substantial support for your favored charity. Trust income can be paid to an individual (you, your spouse, another person) for life, or for a specific number of years. The income can be a fixed-dollar amount, or it can vary as the value of the trust rises and falls over the years. Alternatively, the charity might have the right to receive trust income for a number of years, with the balance of the trust assets staying in your family. Each of these strategies will provide valuable income, estate and gift tax advantages, which will need to be explored with your tax advisors.

The great “lock-in” debate



All during 2012, wealthy families have been getting planning alerts from their estate planning advisors. This year the federal estate tax exemption and the gift tax exemption are both set at $5.12 million. Under current law (which almost nobody favors), they both go to $1 million on January 1, 2013. In addition, the tax rates will rocket skyward, including a 55% top rate and a 5% surtax for certain estates.

A gift of $5.12 million this year “locks in” the higher exemption amount before it evaporates. For a top-bracket taxpayer, that translates to a savings of $2,472,000. That is a meaningful incentive to take action.

On the other hand, there is a chance that Congress will head off the draconian increase in estate taxes, just as it did in 2010, the last time we approached a tax cliff. No one can say with confidence what Congress will do. There is support for eliminating federal taxes on estates and gifts entirely. The President has proposed a return to the 2009 transfer tax regime, with a $3.5 million estate exemption and just a $1 million gift exemption. One possible outcome is a temporary freeze on all taxes, including the income tax changes, while Congress works on comprehensive tax reform in the spring.

Recent surveys reveal that of those who might benefit from making large gifts in 2012, only 10% have done so. For those with very large estates, a savings of $2.4 million might not be enough to justify upsetting an existing estate plan. Those with smaller estates might be unwilling to part with a substantial fraction of their wealth, given today’s economic volatility. Some may be waiting until December to pull the trigger on gift strategies, hoping for a more certain tax code.

The table below reveals the potential estate taxes for different estates, based upon which direction Congress finally takes. The final column shows the tax savings possible from a $2 million taxable gift in 2012, assuming that current law goes into effect. Such a gift potentially will lock in tax savings on $1 million of gift or estate transfers. All figures are in millions. ☐

Estate taxes in 2013

Estate size (millions)	Freeze ($5.12 million exemption)	President’s proposal ($3.5 million exemption)	Current law ($1.0 million exemption)	Potential tax savings of 2012 gift of $2 million
$3.0	None	None	$0.945	$0.490
$5.0	None	$0.675	$2.450	$0.550
$10.0	$1.708	$2.925	$5.200	$0.550
$20.0	$5.208	$7.425	$11.000	$0.600

Source: M.A. Co.

Annual exclusion grows slightly

Gifts of up to $13,000 to any one person in 2012 are free from federal gift taxes, and no gift tax return is required. This is the "annual gift tax exclusion." Wealthy parents and grandparents can use the annual exclusion to move significant amounts of wealth to younger generations over time without taxes, cutting future estate taxes as well.

For example Grandmother and Grandfather have eight grandchildren. They each may give each of the grandchildren $13,000 in 2012, 16 annual exclusion gifts, for a total of $208,000 in tax-free transfers.

Next year, the annual exclusion gets an inflation adjustment, to $14,000. So next year the couple may give the grandchildren $224,000, again free of gift taxes. Over just four years, nearly $1 million may be removed from the grandparents' future taxable estate.

Annual exclusion gifts need not be outright gifts, but may be made in trust to create a permanent financial resource. A trust may be especially valuable when the donee is a minor. Although a number of stringent tax requirements must be met, such trusts can have some flexibility built into them. See your estate planning advisors to learn more.

Eighty years ago, the annual exclusion was $5,000. Later it was reduced to $3,000, and there were no inflation adjustments for many years. If the $5,000 exclusion had kept up with inflation, it would have grown to over $82,000 today.

IRS releases stats on gift tax returns

The year 2010 saw quite a bit of giving, according to a recent IRS report. Based upon a sampling of gift tax returns filed in 2011 for the 2010 tax year:

- 219,544 gift tax returns were filed.
- 208,562 of the returns, representing $29 billion in transfers, were nontaxable.
- 209,107 annual gift tax exclusions were claimed, worth $9.2 billion.
- Only 10,982 of the gift tax returns, just over 5%, showed that taxes were payable.
- The taxable returns represented $21.8 billion in transfers. 84% of the dollar value of the taxable transfers was from transfers of $1 million or more.

In 2010 the federal gift tax lifetime exemption was only $1 million, compared to $5.12 million for 2012. Next year, under current law, the exemption returns to $1 million. ☐