GREAT PLAINS
Trust

IN THIS ISSUE

Top Five Pitfalls to Fairness in your Estate Plan

-things to consider in keeping things fair.

For many families, equal treatment is a priority in estate planning to show uniform affection and foster feelings of fairness. It can also go a long way toward preventing conflicts and family friction. Despite the best of intentions, however, there are a few common pitfalls that can lead to unintentional disparity:

1) Lifetime gifts: You should consider whether or not to take lifetime gifts into account in deciding how much to leave each loved one at death. This is a personal decision and different for each family, but one that should not be overlooked. Similarly, consider how you intend to treat lifetime transactions - are they a loan, gift, or "advancement" on a loved one's inheritance? Equally important is how best to communicate your intent.

2) Caregiver compensation: Some families choose to compensate caregivers through the estate-planning process. For example, if one child takes primary responsibility for caring for an aging parent, financially or otherwise, that child may receive a bigger share of the estate. Her/his share could include reimbursement for expenses related to care, compensation for services or lost wages, or simply serve as a "thank you." These can be tricky, but important, considerations in determining fair treatment.

IRA Announcements:

IRA and Roth IRA contributions for 2022 need to be postmarked by 4/18/23. The year for the IRA contribution should always be noted on the check.

IRS Form 5498 reporting 2022 contributions will be mailed out in May of 2023.

2023 IRA and Roth IRA contribution limits have been increased from \$6,000 to \$6,500 (\$7,000 to \$7,500 if over age 50 by 12/31/2023.)

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Meg's Money Moments

Education Planning: Section 529 Plans

A Section 529 Plan, or Qualified Tuition Program (QTP), helps families save for future education costs. 529s offer significant benefits, including the ability to make contributions regardless of the donor's income, tax-free earnings growth, and tax-free withdrawals when used for qualified education expenses. For distributions after December 31, 2017, these expenses include a $10,000 tax-free distribution per year for tuition at an elementary or secondary school and unlimited distributions for qualified college education expenses. If withdrawals are not used for qualified education expenses, the income portion is included in the gross income of the beneficiary and generally subject to a 10% penalty tax.

There are two types of 529 Plans: Prepaid Tuition Plans and College Savings Plans. The following table illustrates the major differences between the two types.

Prepaid Tuition Plan	College Savings Plan
Inflation-based performance	Market-based performance
Suitable for risk-averse investor	Suitable for risk-tolerant investor
May offer state-guaranteed return on assets	No state-guaranteed return on assets
Usually restricted enrollment options	Open enrollment
May restrict out-of-state tuition costs and, if less than in-state, may not refund the difference	Available for out-of-state tuition costs without any refund difference
Covers tuition and mandatory fees only	Covers tuition and mandatory fees, books, required supplies, room and board (students attending at least half-time)

Gift Tax Implications for 529 Plans

An individual can contribute to a 529 Plan up to the annual exclusion amount ($17,000 for 2023) without any tax implications to the donor or recipient. In addition, donors are eligible to deposit up to five times the annual exclusion amount through an accelerated, or ratable, contribution. For example, in 2023, a donor is permitted to make one $85,000 contribution ($17,000 multiplied by five) and treat the contribution as if it was made equally over five years. And, if the donor splits that gift with a spouse, a one-time contribution of $170,000 may be made.

These contributions are removed from the donor's gross estate, and thus can be a significant estate-planning tool. However, if the donor does not outlive the five-year period, the contribution is prorated annually; for example, if the donor dies after three years, $34,000 (or $17,000 multiplied by two) would be included in the donor's estate.

529 Plans and the SECURE 2.0 Act

Effective for distributions made after December 31, 2023, beneficiaries of 529 College Savings Plans will be allowed to rollover up to $35,000 from their 529 account to a Roth IRA, under certain conditions. Rollovers are subject to Roth IRA annual contribution limits, and the 529 account must have been open for more than 15 years.

For questions about 529 Plans or to discuss your financial planning needs, contact Meg at: 913-647-1304.

Top Five Pitfalls to Fairness in your Estate Plan (continued)

3) *Per stirpes* vs. representation: Estate plans generally split assets among children and grandchildren by one of two methods: 1) *per stirpes*: at each child's death, that child's share will be split into equal shares for her/his own children, and 2) by representation: each child and the children of a deceased child all receive equal shares. Regardless of which method you prefer, it is important to understand how your Plan works to achieve your desired result and avoid unintended disparities.

For example, consider a couple with three children: A, B and C. At death of both parents, Child B is deceased and survived by two children of his own. This is what the children and grandchildren will receive under each method:

> a) *Per stirpes*: Child A and Child C will each receive a 1/3 share; Child B's two children will split his 1/3 share such that each grandchild receives a 1/6 share.
>
> b) Representation: Child A, Child C, and Child B's 2 children will all receive equal shares such that each child and grandchild receive a ¼ share.

4) TOD (Transfer on Death) and beneficiary designations: Correctly completing so-called "paperwork," including titles and beneficiary designations, is critical to your Plan. Although sometimes overlooked, these forms take precedence over a Will or Trust. You must 1) carefully follow your attorney's instructions in completing them and 2) keep them up to date. Failure to do so can lead to significant inequity.

> Example: Mr. A has a Plan designed to leave all assets to his two children in equal shares; 80% of these assets are in his IRA. Several years ago, Mr. A named his second wife - with whom he shares no children - as the sole primary beneficiary on the IRA. Although Mr. A is now divorced from his second wife, he did not change the IRA beneficiary designation. At his death, the IRA, equal to 80% of his estate, will pass to his ex-wife.
>
> Example: Mrs. B, a widow, has a Trust which leaves everything in equal shares to her three grown children. 50% of her estate consists of farmland she owns in Kansas. She did not transfer the land to her Trust and when Mr. B died, she retitled the land in the names of herself and her oldest son as joint owners. When she passes: her oldest son will receive 66.6 % of her estate (the land, worth 50% of the assets, plus 1/3 of the remaining assets); her two younger children will each receive 16.6% (1/3 of the assets other than the land). This is nowhere near the equal treatment she intended.

5) Trusts vs. outright distributions: You should carefully consider whether to distribute your love one's shares outright or in trust. The key is to be intentional about choosing what will work best for each recipient, work closely with your attorney to make it happen correctly, and carefully consider how to communicate any differential treatment to your heirs.

The sheer volume of documents involved, in addition to the legal language, can make these pitfalls difficult to spot. We are happy to review your Plan, including your Great Plains titles and beneficiary designations, at no additional cost to you. Please call Great Plains Trust if we can help.

New for 2023:
Tax and Estate Planning Updates.

1) On December 29, 2022, President Biden signed the SECURE (Setting Every Community Up for Retirement Enhancement) 2.0 Act, a follow-up package to the original Secure Act of 2019. This new Act includes new rules for retirement plan contributions and administration; some are effective for 2023 while others are not effective until 2024-25 or 2033. New rules effective this year include:

- The starting age for RMDs (required minimum distributions) has increased to 73 for 2023; this new age applies to anyone who turns 72 after December 31, 2022. Thereafter, it is set to increase to age 75 as of 2033 for anyone who turns 74 after December 31, 2032.
- Catch-up contributions to 401(k)s, 403(b)s, and 457(b) workplace plans have increased for some participants with certain restrictions. Employers also may now match after-tax contributions to Roth 401(k) plans.
- Early withdrawals from a retirement account can now be made without penalty for individuals with a terminal illness (certified by a physician).
- The new life expectancy tables used to determine RMD amounts from IRAs and Qualified retirement plans, which became effective in 2022, still stand.

2) The federal gift and estate tax exclusion amount for 2023 has increased to $12,920,000 per individual, or a combined $25,840,000 per married couple. Unless Congress acts otherwise, this amount is still scheduled to decrease to $5,000,000, adjusted for inflation, in 2026.

3) The annual federal gift tax exclusion has increased to $17,000 for individuals, and $34,000 for a married couple, for 2023. This is the amount allowed per recipient per calendar year without having to use the lifetime exclusion amount or pay gift tax.

We encourage you to check with your attorney or tax professional to see how these new rules apply specifically to your situation.

GREAT PLAINS
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Our Mission

To be a premier provider of wealth management and trust services to families across generations. We shall deliver responsive, reliable, and informed service combined with a commitment to achieving the stated goals of our clients and their families. We shall, at all times, deal honestly and respectfully with all clients and associates.

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