



Using Distributions

FOR LIFE INSURANCE

Ned Upshaw and Leslie Upshaw

Presented by: Joseph Davis, CLU, ChFC | For Evaluation Purposes Only

215 Broad Street | Charlotte, North Carolina | 26292

Phone: 704-927-5555 | Mobile Phone: 704-549-5555 | Fax: 704-549-6666 | Email: joseph.davis@aol.com

Financial Services Corp. | Branch Office | 10250 Red Road | Charlotte, North Carolina 26292

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Important Notes

These pages depict certain wealth preservation strategies concerning possible methods for taking distributions from your qualified retirement plan. For purposes of this analysis, several of your qualified retirement plans may be aggregated and shown as one single plan.

This report provides only broad, general guidelines, which may be helpful in shaping your thinking about and discussing your wealth preservation needs with your professional advisors.

Each scenario shown illustrates your current situation or an alternative scenario and its possible effects on the financial situation you provided. Inclusion of one or more of these scenarios does not constitute a recommendation of that scenario over any other scenario.

Calculations contained in this analysis are estimates only based on the information you provided, such as the value of your assets today, and the rate at which the assets appreciate. Rates of return will vary over time, particularly for long-term investments. The actual values, rates of growth, and tax rates may be significantly different from those illustrated. These assumptions are only a “best guess.” It is unlikely that any one rate of return will be sustainable over a long period of time.

The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 as P.L. 112-240, also known as Tax Act of 2012 in this presentation.

Strategies may be proposed to support the purchase of various products such as insurance and other financial products. When this occurs, additional information about the specific product (including a prospectus, if required, or an insurer provided policy illustration) will be provided for your review.

IMPORTANT: The projections or other information contained in this report, and generated by this analysis tool (Qualified Plan Concepts) regarding the likelihood of various outcomes are hypothetical in nature, do not reflect actual results and are not guarantees of future results.

This tool and support materials are designed to provide general information on the subjects covered. It is not intended to provide specific legal or tax advice. You should discuss all strategies with your legal, tax, and financial advisors.

Understanding Distributions from Your Qualified Plan

Your Objectives

- Tax Deferral—Defer the payment of income taxes as long as allowed
- Security—Use your qualified plan to provide your family with continued distributions even after your death

The Government's View of Qualified Plans

- Tax advantaged "perks" to encourage retirement savings
- Qualified plans were never intended as a mechanism to pass wealth to future generations
- To discourage the use of qualified plans as wealth transfer vehicles, Congress created the required minimum distribution rules

Distribution Rules

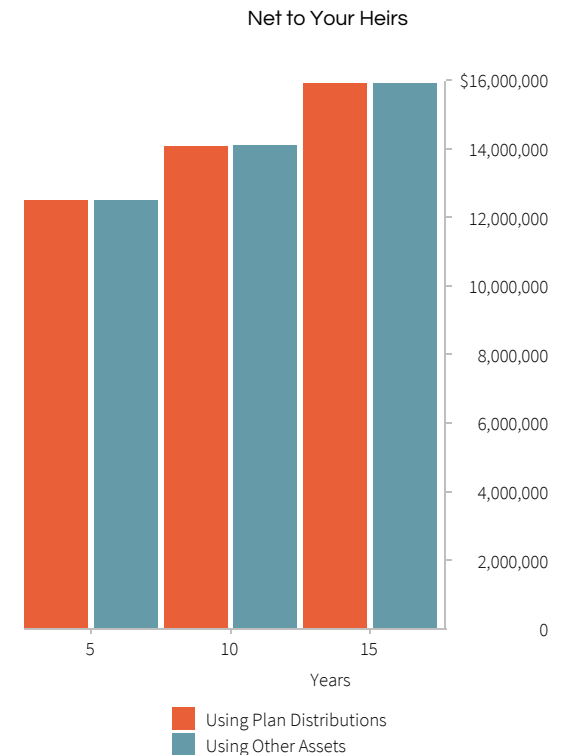
- Required Beginning Date (RBD)—No later than April 1st following age 70½ for traditional IRAs, SEPs, SIMPLEs. For qualified retirement plans, the RBD is the later of April 1 of the year following the year in which the owner reaches age 70½ or retires, if less than a 5% owner.
- Required Minimum Distributions (RMD)—The amount you must take from your plan each year
- Distributions of qualified plan balance at death are subject to ordinary income tax at beneficiary's tax rate

How do you use these rules to meet your objectives?

Estate Distributions at Death Comparison

Using Plan Distributions Compared to Using Other Assets

QUALIFIED PLAN + OTHER ASSETS							
Using Plan Distributions for New Life Insurance				Using Other Assets for New Life Insurance			
Year	Age	Total Estate ¹	Taxes ²	Net to Heirs ¹	Total Estate ¹	Taxes ²	Net to Heirs ¹
2015	62	11,332,725	226,250	11,356,475	11,333,900	227,360	11,356,540
2016	63	11,649,683	274,059	11,625,624	11,652,478	276,681	11,625,797
2017	64	11,975,545	317,424	11,908,121	11,980,206	321,757	11,908,449
2018	65	12,310,626	356,510	12,204,116	12,317,354	362,700	12,204,654
2019	66	12,655,209	407,444	12,497,766	12,664,196	415,624	12,498,571
2020	67	13,009,573	454,344	12,805,229	13,021,017	464,650	12,806,367
2021	68	13,373,999	505,326	13,118,673	13,388,110	517,900	13,120,210
2022	69	13,748,777	560,509	13,438,268	13,765,776	575,499	13,440,277
2023	70	14,134,204	612,015	13,772,189	14,154,327	629,578	13,774,748
2024	71	14,528,907	674,385	14,104,522	14,550,121	692,485	14,107,636
2025	72	14,934,608	733,094	14,451,514	14,956,981	751,745	14,455,236
2026	73	15,351,563	788,238	14,813,325	15,375,107	807,432	14,817,675
2027	74	15,780,073	855,930	15,174,142	15,804,795	875,655	15,179,140
2028	75	16,220,445	920,287	15,550,158	16,246,351	940,528	15,555,823
2029	76	16,672,994	989,425	15,933,569	16,700,086	1,010,165	15,939,922



¹ See "Estate Distributions at Death" ledgers for detail.

² Represents total of Estimated Estate Taxes and IRD Income Taxes. See "Estate Distributions at Death" ledgers for details.

Lifetime Distributions

Using Plan Distributions for New Life Insurance, Expenses and Gifts

\$ Beginning Account Balance December 31, 2014: **\$200,000**

ALLOCATION OF DISTRIBUTIONS

Year	Life Exp. ¹	Earnings & Contributions ²	Actual Distributions ³	Income Taxes Paid ⁴	Prem. & Non-Prem. Gifts ⁵	Spending	Reinvested Distributions ⁶	End of Year Qualified Plan Balance	Total of All Other Assets ⁷	Life Ins. Surr. Cash Value	Qualified & All Other Assets ⁸
2015		9,844	3,400	0	2,400	1,000	0	206,444	11,127,300	0	11,332,725
2016		10,120	4,420	1,020	2,400	1,000	0	212,145	11,438,865	0	11,649,683
2017		10,391	4,726	1,326	2,400	1,000	0	217,810	11,759,153	0	11,975,545
2018		10,670	4,818	1,418	2,400	1,000	0	223,662	12,088,409	0	12,310,626
2019		10,961	4,845	1,445	2,400	1,000	0	229,778	12,426,885	0	12,655,209
2020		11,267	4,854	1,454	2,400	1,000	0	236,191	12,774,838	0	13,009,573
2021		11,587	4,856	1,456	2,400	1,000	0	242,923	13,132,533	0	13,373,999
2022		11,924	4,857	1,457	2,400	1,000	0	249,990	13,500,244	0	13,748,777
2023		12,277	4,857	1,457	2,400	1,000	0	257,410	13,878,251	0	14,134,204
2024	26.5	12,426	9,714	1,457	2,400	1,000	4,856	260,123	14,271,698	0	14,528,907
2025	25.6	12,541	10,161	2,914	2,400	1,000	3,847	262,503	14,675,153	0	14,934,608
2026	24.7	12,639	10,628	3,048	2,400	1,000	4,179	264,515	15,090,237	0	15,351,563
2027	23.8	12,717	11,114	3,188	2,400	1,000	4,526	266,118	15,517,289	0	15,780,073
2028	22.9	12,774	11,621	3,334	2,400	1,000	4,887	267,271	15,956,660	0	16,220,445
2029	22.0	12,808	12,149	3,486	2,400	1,000	5,262	267,931	16,408,709	0	16,672,994

¹ Life expectancy is based on the Uniform Lifetime Table. See the Assumptions page for additional information.

² Assumes qualified plan earns 5.000% interest. Also includes Employer Contributions and Salary Reductions, if any.

³ Actual Distribution is the greater of the distribution required to generate the Desired Distributions (see Assumptions pages) or Required Minimum Distribution.

⁴ Taxes and any applicable penalties are paid at the start of the calendar year following the tax liability. See the Assumptions pages for information on distributions from a Traditional IRA with an original after-tax amount of \$0.

⁵ The premium amounts shown are an estimate based on your current age and sex. This is not an illustration of actual premium which may be charged. Any life insurance premiums shown assume traditional life insurance with guaranteed death benefits, cash values and premiums. If other policies are proposed which contain non-guaranteed values, they must be accompanied by an illustration which complies with state law requirements.

⁶ Actual Distributions less Taxes and Penalties, Premium and Non-Premium Gifts and Spending.

⁷ All Other Assets and Cumulative Reinvested Distributions are assumed to earn 4.000% interest and are taxed at a 30.00% income tax rate. Does not include the death benefit of life insurance.

⁸ Net of liability for income taxes and any penalties.

Lifetime Distributions

New Life Insurance, Expenses and Gifts Made from Other Assets

\$ Beginning Account Balance December 31, 2014: **\$200,000**

Year	Life Exp. ¹	Earnings & Contributions ²	Actual Distributions ³	End of Year Qualified Plan Balance	PAYMENT FROM OTHER ASSETS			Net to Other Assets ⁶	Total of All Other Assets ⁷	Life Ins. Surr. Cash Value	Qualified & All Other Assets ⁸
					Income Taxes Paid ⁴	Prem. & Non-Prem. Gifts ⁵	Spending				
2015		10,000	0	210,000	0	2,400	1,000	-3,400	11,123,900	0	11,333,900
2016		10,500	0	220,500	0	2,400	1,000	-3,400	11,431,978	0	11,652,478
2017		11,025	0	231,525	0	2,400	1,000	-3,400	11,748,681	0	11,980,206
2018		11,576	0	243,101	0	2,400	1,000	-3,400	12,074,252	0	12,317,354
2019		12,155	0	255,256	0	2,400	1,000	-3,400	12,408,939	0	12,664,196
2020		12,763	0	268,019	0	2,400	1,000	-3,400	12,752,998	0	13,021,017
2021		13,401	0	281,420	0	2,400	1,000	-3,400	13,106,690	0	13,388,110
2022		14,071	0	295,491	0	2,400	1,000	-3,400	13,470,285	0	13,765,776
2023		14,775	0	310,266	0	2,400	1,000	-3,400	13,844,061	0	14,154,327
2024	26.5	14,978	11,708	313,535	0	2,400	1,000	8,308	14,240,098	0	14,550,121
2025	25.6	15,117	12,247	316,404	3,512	2,400	1,000	5,335	14,644,251	0	14,956,981
2026	24.7	15,234	12,810	318,829	3,674	2,400	1,000	5,736	15,060,121	0	15,375,107
2027	23.8	15,329	13,396	320,761	3,843	2,400	1,000	6,153	15,488,053	0	15,804,795
2028	22.9	15,397	14,007	322,152	4,019	2,400	1,000	6,588	15,928,402	0	16,246,351
2029	22.0	15,438	14,643	322,946	4,202	2,400	1,000	7,041	16,381,533	0	16,700,086

¹ Life expectancy is based on the Uniform Lifetime Table. See the Assumptions page for additional information.

² Assumes qualified plan earns 5.000% interest. Also includes Employer Contributions and Salary Reductions, if any.

³ Actual Distribution is the greater of the distribution required to generate the Desired Distributions (see Assumptions page) or Required Minimum Distribution.

⁴ Taxes and any applicable penalties are paid at the start of the calendar year following the tax liability. See the Assumptions pages for information on distributions from a Traditional IRA with an original after-tax amount of \$0.

⁵ The premium amounts shown are an estimate based on your current age and sex. This is not an illustration of actual premium which may be charged. Any life insurance premiums shown assume traditional life insurance with guaranteed death benefits, cash values and premiums. If other policies are proposed which contain non-guaranteed values, they must be accompanied by an illustration which complies with state law requirements.

⁶ Actual Distributions from Plan less Taxes and Penalties, Premium and Non-Premium Gifts and Spending.

⁷ All Other Assets and Cumulative Net to Other Assets are assumed to earn 4.000% interest and are taxed at a 30.00% income tax rate. Does not include the death benefit of life insurance.

⁸ Net of liability for income taxes and any penalties.

Estate Distributions at Death

Using Plan Distributions for New Life Insurance, Expenses and Gifts

\$ Beginning Account Balance December 31, 2014: **\$200,000**

Year	Life Exp. ¹	Account Balance ²	All Other Assets ³	Total Estate ⁴	Estate Taxes ⁵	IRD Income Taxes ⁶	Net After Tax Estate	Life Insurance Death Benefit ⁷	Net to Heirs ⁸	Net to Heirs as % of Total Estate
2015		206,444	11,127,300	11,332,725	189,090	37,160	11,106,475	250,000	11,356,475	100%
2016		212,145	11,438,865	11,649,683	235,873	38,186	11,375,624	250,000	11,625,624	100%
2017		217,810	11,759,153	11,975,545	278,218	39,206	11,658,121	250,000	11,908,121	99%
2018		223,662	12,088,409	12,310,626	316,250	40,259	11,954,116	250,000	12,204,116	99%
2019		229,778	12,426,885	12,655,209	366,084	41,360	12,247,766	250,000	12,497,766	99%
2020		236,191	12,774,838	13,009,573	411,829	42,514	12,555,229	250,000	12,805,229	98%
2021		242,923	13,132,533	13,373,999	461,600	43,726	12,868,673	250,000	13,118,673	98%
2022		249,990	13,500,244	13,748,777	515,511	44,998	13,188,268	250,000	13,438,268	98%
2023		257,410	13,878,251	14,134,204	565,682	46,334	13,522,189	250,000	13,772,189	97%
2024	26.5	260,123	14,271,698	14,528,907	627,563	46,822	13,854,522	250,000	14,104,522	97%
2025	25.6	262,503	14,675,153	14,934,608	685,843	47,251	14,201,514	250,000	14,451,514	97%
2026	24.7	264,515	15,090,237	15,351,563	740,625	47,613	14,563,325	250,000	14,813,325	96%
2027	23.8	266,118	15,517,289	15,780,073	808,029	47,901	14,924,142	250,000	15,174,142	96%
2028	22.9	267,271	15,956,660	16,220,445	872,178	48,109	15,300,158	250,000	15,550,158	96%
2029	22.0	267,931	16,408,709	16,672,994	941,198	48,227	15,683,569	250,000	15,933,569	96%

¹ Life expectancy is based on the Uniform Lifetime Table. See the Assumptions page for additional information.

² See Lifetime Distributions - With Gifts of New Life Insurance.

³ Includes All Other Assets and Cumulative Reinvested Distributions.

⁴ Includes Account Balance plus All Other Assets, less Estimated Estate and Probate Expenses assumed at 0.00%.

⁵ The Estate Tax is calculated on the Total Estate less estimated liability for ordinary income taxes and any penalties. Assumes portability of any unused Applicable Exclusion Amount at first spouse's death. See the Assumptions pages for additional information.

⁶ A portion of distributions following death are considered Income in Respect of a Decedent (IRD). Ordinary income taxes, estimated at 30.00%, are due on these amounts. See the Assumptions pages for information on distributions from a Traditional IRA with an original after-tax amount of \$0.

⁷ Existing and new life insurance not includable in estate (see Assumptions pages).

⁸ Total Estate less all taxes plus Life Insurance Death Benefit less Estimated Estate and Probate Expenses assumed at 0.00%. Values for "Non-Premium Gifts" are on the page "Lifetime Distributions - No New Life Insurance".

Estate Distributions at Death

New Life Insurance, Expenses and Gifts Made from Other Assets

\$ Beginning Account Balance December 31, 2014: **\$200,000**

Year	Life Exp. ¹	Account Balance ²	All Other Assets ³	Total Estate ⁴	Estate Taxes ⁵	IRD Income Taxes ⁶	Net After Tax Estate	Life Insurance Death Benefit ⁷	Net to Heirs ⁸	Net to Heirs as % of Total Estate
2015		210,000	11,123,900	11,333,900	189,560	37,800	11,106,540	250,000	11,356,540	100%
2016		220,500	11,431,978	11,652,478	236,991	39,690	11,375,797	250,000	11,625,797	100%
2017		231,525	11,748,681	11,980,206	280,082	41,675	11,658,449	250,000	11,908,449	99%
2018		243,101	12,074,252	12,317,354	318,941	43,758	11,954,654	250,000	12,204,654	99%
2019		255,256	12,408,939	12,664,196	369,678	45,946	12,248,571	250,000	12,498,571	99%
2020		268,019	12,752,998	13,021,017	416,407	48,243	12,556,367	250,000	12,806,367	98%
2021		281,420	13,106,690	13,388,110	467,244	50,656	12,870,210	250,000	13,120,210	98%
2022		295,491	13,470,285	13,765,776	522,310	53,188	13,190,277	250,000	13,440,277	98%
2023		310,266	13,844,061	14,154,327	573,731	55,848	13,524,748	250,000	13,774,748	97%
2024	26.5	313,535	14,240,098	14,550,121	636,048	56,436	13,857,636	250,000	14,107,636	97%
2025	25.6	316,404	14,644,251	14,956,981	694,792	56,953	14,205,236	250,000	14,455,236	97%
2026	24.7	318,829	15,060,121	15,375,107	750,043	57,389	14,567,675	250,000	14,817,675	96%
2027	23.8	320,761	15,488,053	15,804,795	817,918	57,737	14,929,140	250,000	15,179,140	96%
2028	22.9	322,152	15,928,402	16,246,351	882,540	57,987	15,305,823	250,000	15,555,823	96%
2029	22.0	322,946	16,381,533	16,700,086	952,035	58,130	15,689,922	250,000	15,939,922	95%

¹ Life expectancy is based on the Uniform Lifetime Table. See the Assumptions page for additional information.

² See Lifetime Distributions - With Gifts of New Life Insurance.

³ Includes All Other Assets and Cumulative Net to Other Assets.

⁴ Includes Account Balance plus All Other Assets, less Estimated Estate and Probate Expenses assumed at 0.00%.

⁵ The Estate Tax is calculated on the Total Estate less estimated liability for ordinary income taxes and any penalties. Assumes portability of any unused Applicable Exclusion Amount at first spouse's death. See the Assumptions pages for additional information.

⁶ A portion of distributions following death are considered Income in Respect of a Decedent (IRD). Ordinary income taxes, estimated at 30.00%, are due on these amounts. See the Assumptions pages for information on distributions from a Traditional IRA with an original after-tax amount of \$0.

⁷ Existing and new life insurance not includable in estate (see Assumptions pages).

⁸ Total Estate less all taxes plus Life Insurance Death Benefit less Estimated Estate and Probate Expenses assumed at 0.00%. Values for "Non-Premium Gifts" are on the page "Lifetime Distributions - No New Life Insurance".

Qualified Plan Taxation

Potential Taxes for Retirement Plans

Take Distributions Too Soon (Before Age 59½)

- Ordinary Income Taxes
- 10% Early Distribution Penalty for Pre 59½ distributions, unless an exception applies

Required Minimum Distributions

You must begin taking qualified plan distributions by the later of age 70½, or retirement and IRA distributions by age 70½. Severe penalties—50% excise tax on the required distribution not taken—if you don't!

Estate Taxes

What's left of the unused balance in your retirement plan is included in your estate and if your estate is sufficiently large, may be subject to estate taxes.

One Last Income Tax

Any amount in excess of your basis left in your retirement account at death is considered "income in respect of a decedent" and is taxable when received by your heirs as ordinary income. This is not a penalty tax—it simply replaces the ordinary income taxes the account owner would have paid upon distribution of the account balance.

The Quandary

Taxed when you take it. Penalty if you take it too soon. Penalty if you don't take enough or don't take it soon enough. Potential estate taxes on what's left. Income tax when your heirs get it.

Only proper analysis of your situation can help you determine what to do.

IRD for Qualified Plans

Tax on Income in Respect of a Decedent. Estate and IRD calculations assume Ned and Leslie both die in 2015.

Instead of paying income taxes on the qualified plan balances during the account owner's lifetime, the total monies distributed from any qualified retirement plan (including IRAs) at the death of the retiree are subject to one last income tax, a tax on Income in Respect of Decedent (IRD).

All qualified plan assets are aggregated to determine the taxable amount. The beneficiaries of the plan pay this income tax when they receive the balances from the plan account.

For income tax purposes, beneficiaries may deduct "the amount of federal estate taxes attributable to the qualified plan distribution." (from IRC Sec. 691)

This deduction is determined by calculating and comparing the federal estate tax payable with and without the qualified plan assets.

The values presented in the calculations on this page for the "Federal estate tax before credits" are calculated on the Total Estate amount located on the "Estate Distributions at Death" report page. The value for the "Qualified plan amount at death" is the Account Balance amount located on the "Estate Distributions at Death" page of this report.



With the Qualified Plan

\$4,478,890	Federal estate tax before credits
<u>- \$4,289,800</u>	Applicable Unified Credit ¹
\$189,090	Federal tax with plan (Amount to Compare)



Without the Qualified Plan

\$4,396,312	Federal estate tax before credits
<u>- \$4,289,800</u>	Applicable Unified Credit ¹
\$106,512	Federal tax without plan (Amount to Compare)



Deductions for Federal Estate Taxes Attributed to Qualified Plans

\$189,090	Federal estate tax with qualified plan assets
<u>- \$106,512</u>	Federal estate tax without qualified plan assets
\$82,578	Income tax deduction for IRD purposes



Income Tax on Income in Respect of Decedent

\$206,444	Qualified plan amount at death
<u>- \$82,578</u>	Deduction for estate tax attributed to QP
\$123,867	Taxable income from qualified plan
<u>30.00%</u>	Assumed income tax rate at death
\$37,160	Income tax on Income in Respect of Decedent

¹ The Tax Act of 2012 provides for an Applicable Exclusion Amount of \$5,000,000 and a Basic Unified Credit Amount of \$1,945,800, indexed for inflation after 2011. Unused exclusion amounts may be passed to the surviving spouse ("portability") provided an election is made on a timely filed estate tax return of the deceased spouse (DSUEA). The Applicable Unified Credit Amount is the Basic Unified Credit plus 40% of the DSUEA used at death, if any.

Assumptions

General Assumptions

Ned's DOB: August 15, 1953

Leslie's DOB: March 28, 1955

Contact Information:

658 Fern St.

Seattle, Washington 98506

Home Phone: 785-555-9642

Business Phone: 785-555-2983

Email Address: nlupshaw@comcast.net

Calculations assume that the value of All Other Assets (excluding life insurance) is equal to \$11,000,000. These assets are assumed to earn 4.000% interest. Hypothetical rates of return illustrated are not associated with any particular investment product. In some scenarios, new life insurance proceeds of \$250,000 are illustrated after the death of the participant.

Calculations assume an ordinary income tax rate of 30.00%.

Calculations include annual exclusion gifts of premiums to an Irrevocable Life Insurance Trust (ILIT).

The Account Balance and Other Assets are grown pro-rata based on the date entered.

Estate Assumptions

Assumes portability of any unused Applicable Exclusion Amount at first spouse's death.

Federal Inflation Rate for Applicable Exclusion Amount is 2.00%.

Traditional IRA/Qualified Plan Assumptions

Current Traditional IRA/Qualified Plan amount is \$200,000, which includes the employee cost basis amount of \$0, and assumes a growth rate of 5.000%. Calculations assume all non-deductible and after-tax contributions (also known as basis, investment in the contract, and non-taxable portion) are included in the original after-tax amount of \$0. Hypothetical rates of return illustrated are not associated with any particular investment product.

A portion of the distributions from the Traditional IRA/Qualified Plan that includes any after-tax amount may not be taxable. These illustrations assume there are no other Traditional IRA/Qualified Plan account balances for calculations that include any after-tax amount.

Elections: Distributions are at least the Required Minimum Distribution using the Uniform Lifetime Table.

Distribution Assumptions

Early retirement distributions are not exempt from the IRC Section 72(t) penalty.

Desired distributions from the Traditional IRA/Qualified Plan include:

Annual premiums of \$2,400 for new life insurance with a death benefit of \$250,000 on survivor assumed to be held outside the estate.

\$1,000 annually of additional spending.

Distributions from the Traditional IRA/Qualified Plan that does not include any after-tax amount are taxable. A portion of the distributions from the Traditional IRA/Qualified Plan that includes any after tax amount is not taxable. The non-taxable portion is the amount of the distribution that bears the same ratio to the total amount of the distribution received as the total remaining after-tax amount bears to the Traditional IRA/Qualified Plan account balance at the end of the year.

Distribution method illustrated is equal to spending, but not less than Required Minimum Distribution. Distribution calculations do not use a joint beneficiary. Required Minimum Distributions are based on the Uniform Lifetime Table.

Final Regulations

Required Minimum Distributions are calculated based on the Uniform Lifetime Table. If your beneficiary is your spouse (who is more than 10 years younger than you) distributions during your life may be calculated using the Joint and Last Survivor Table.

Compliance with Revenue Ruling 2002-62

Section 72(t) distributions are in compliance with the calculation methods stated in Revenue Ruling 2002-62. The following calculation methods may be illustrated under this ruling: 1) Extension of the existing Uniform Lifetime Table for use with the Life Expectancy Method. 2) Addition of annuity factor table for use with the Annuity Method. 3) Addition of interest rate (not more than 120% of the federal mid-term rate) for use with the Amortization and Annuity Methods.

Tax Act of 2012

The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 as P.L. 112-240, also known as Tax Act of 2012 in this presentation. Tax Act of 2012 applies to deaths and gifts made in 2013 and later. Tax Act of 2012 provides for 'portability' of a deceased spouse's unused Applicable Exclusion Amount. Unused exclusion amounts may be passed to the surviving spouse (election must be made on timely filed estate tax return.)