SAGE HILL
Advisory & Management

Sage Hill Estate Planning Review, Implementation & Management Protocol

PLANNING STRATEGIES DESIGN

PREPARED FOR:

CLARK AND BARBARA JONES
(Sample Hypothetical Sage Hill Case)

JUNE, 2010

PRESENTED BY:
SAGE HILL ADVISORY & MANAGEMENT, LLC

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Personal Data

Clients	Birth Dates	Age in 2006	Life Expectancy (Avg. per tables)
Clark	6/7/1939	67	14
Barbara	8/15/1940	66	19

Married - 3/28/1959

Children/Occupation			Spouse/Occupation	Number of Grandchildren	Grandchildren
Drew/Real Estate Management	7/9/1960	46	Amy/Homemaker	3	Adam - 19, Kyle - 17, Kristen -14
Kelli/Homemaker	9/29/1962	44	John/Physician	2	Jamie - 16, Tyson - 13
Ashley/Teacher	1/3/1966	40	Jordan/Construction	2	Megan - 17, Brandon - 15
Cole/Engineer	6/20/1968	38	Brenda/Homemaker	1	Clay - 13

Work Address

Office Location
1968 Redbirch Cove
Sandy, UT 84093
801-232-1323

Home Address

Home in Orrinda
1234 Fallen Tree Lane
Orinda, CA 94526
925-555-1212
Fax 925-555-1210

Other Residence

Tahoe Vacation Home
25 Lake Street
Tahoe, CA 98005
555-789-1234

Estimate of Net Worth

LIQUID ASSETS	
Cash and Equivalents	**$1,296,000**
Municipal Bonds	**$2,650,000**
Securities	**$9,584,000**
Life Insurance	**$76,000**
	$13,606,000
ILLIQUID ASSETS	
Retirement Plans	**$3,400,000**
Crescent	**$3,200,000**
Adams Ave	**$2,850,000**
Ramada	**$3,450,000**
Boardwalk	**$4,900,000**
Park Place	**$7,300,000**
Path of Progress	**$7,500,000**
Strip Mall	**$10,500,000**
	$43,100,000
PERSONAL USE ASSETS	
Personal Residence	**$2,000,000**
Vacation Home Tahoe	**$1,500,000**
Furnishings	**$350,000**
Cars	**$125,000**
Boats	**$200,000**
	$4,175,000
TOTAL ASSETS	**$60,881,000**
LESS LIABILITIES	**$0**
ESTIMATED NET WORTH	**$60,881,000**

Objectives

1. Update our legal documents to appropriately reflect our wishes.

2. Provide an annual cash flow of $400,000 per year, growing at 3.0% per year, plus taxes and gifts for life.

3. Reduce or eliminate capital gains tax where possible upon the sale of RE Properties 1, 2, 3. When sold, will use passive investments with the proceeds.

4. Retain Real Estate Properties 4, 5, 6, 7, in the family as long as possible. Prop 4 and 5, are great, 6 is exploding in value, and 7 is a cash cow. Also would like to retain the vacation home for the future generations.

5. Begin making additional gifts to our children (in trust). These gifts should not be harmful to our children's financial development or maturation process. We will oversee this, while alive, and wish a continuation of this philosophy re: distributions to future generations. (See Family Financial Philosophy)

6. Begin to make gifts, during our lifetimes, to several charitable organizations of our choice, as an alternative to paying these amounts in taxes.

7. Reduce estate taxes legally and effectively. If possible, we would rather the portion that normally goes to the IRS be reallocated to our family and charities of our choice.

8. Upon death(s), consider distributions to both heirs and charity: roughly 70%-80% to children and future generations and the balance to charity. Investigate the viability of setting up a Charitable Foundation.

9. Provide for grandchildren in the most tax effective manner. Consider education, medical and first home expenses, plus some amounts available for each grandchild, consistent with our family financial philosophy, with the balance held in an ongoing trust.

10. After both of our deaths, the remainder of our estate to flow to our heirs as effectively as possible, with each child having a major influence over distributions to their family. Where possible, also avoid taxes on these assets upon the deaths of our children.

Family Financial Philosophy

PURPOSE
This document expresses the values and intentions of both of us, regarding the accumulation, use, preservation, and distribution of our estate. We wish it to serve as a basis of planning for our professional advisors and for the subsequent guidance to our trustees. Furthermore, it will clearly articulate to our children and others why we have distributed our estate in the manner we have chosen. We will update this document as warranted by changing circumstances.

PRIMARY SOURCES OF WEALTH
Our estate has been developed primarily by building and growing a real estate business through strong personal initiative, careful analysis and hard work, real estate development and management. We have tried to be financially responsible, worked hard and have enjoyed the fruits of our labor. We also believe that good common sense investing for the long-term has helped us to increase our estate.

GENERAL PHILOSOPHY
Thus far, our wealth has been concentrated in real estate. This has simplified the need to venture into other investment areas. However, we have sold some, and it is our plan to sell more properties in the near future, so investment planning will then be even more of a concern. We intend to preserve our wealth through sound investment diversification, with an emphasis on long-term growth, tax minimization, and a reliance on professional guidance.

A primary motivation for estate planning is to reduce the amount of various taxes that will have to be paid. In achieving this objective, we would like to assure a safety net for our children, grandchildren, and future generations, without dumping money in their laps which could adversely affect their personal initiative and work ethic. We feel that we have paid (more than) our share of taxes over the years. Through current planning, we are limiting the adverse impact of various types of taxes. We are also interested in providing for charities, if this can be done by redirecting taxes to this area, without hurting our children's inheritance or ourselves.

Among those things we value most are honesty, integrity, responsibility for our actions, and respect for others. Among those associations we value most are family, friendships, and business relationships. Among those activities and character traits we value most are personal initiative and achievement, hard work, education, individual responsibility, volunteerism, community involvement, recreation, and leisure. At this point in our lives, we are starting to become comfortable with relinquishing ownership of a portion of our assets, as long as we retain access to sufficient income to maintain our financial independence.

We believe our children will take what we leave them (in trust) and be motivated to grow and preserve it. They are doing very well and we are very proud of their development. We want to help them achieve a higher level of success than they already have thus far. At the same time, we are concerned that if we give our children, grandchildren and future generations too large of an inheritance, or provide it too early, it may become a disincentive for their personal achievement and perhaps even reduce their sense of self-worth.

We have seen and read too many examples of this unfortunate consequence. We believe they will develop far more positive values if they are required to provide for their own financial needs and security. We feel more comfortable gifting assets to our children gradually.

Although we certainly prefer leaving assets to our family rather than to the IRS, it is our goal that our children not rely on inherited wealth for their financial success, but rather rely on their own innate abilities and skills. We feel that they will become stronger as a result of this self reliance. At the same time, however, we want to have a substantial portion of our estate pass to our family, as a safety net (in trust), upon our deaths. We truly hope and believe that our posterity will be motivated to benefit from what we leave them and even increase its value and influence.

AREAS OF FINANCIAL INTEREST

We feel our first responsibility is to ourselves; to secure our own financial independence for our respective lifetimes and preserve our ability to maintain our desired lifestyle.

To the extent that there is excess, our second level of financial interest is to our children, grandchildren, and beyond. We have provided and will continue to provide them with the best education possible and will continue to nurture their development as they grow to become financially responsible and mature adults. While we are alive, we will seek opportunities to assist them in their growing knowledge and ability regarding fiscal stewardship.

We feel a third category of financial interest is to charities, as a way of giving back to others. We are also thankful for the rich environment that our church and community have provided us for rearing our children.

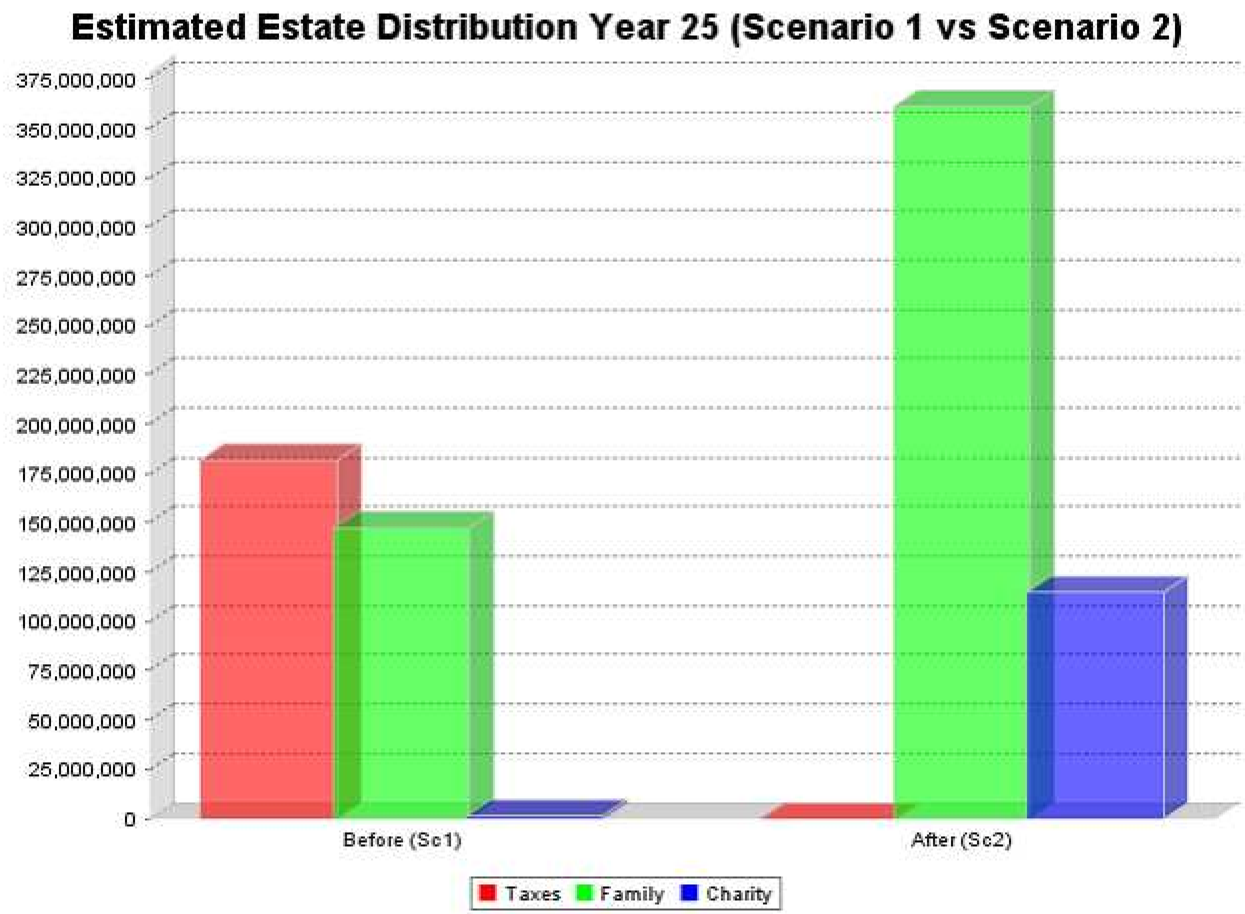
FAMILY LEGACY

During our remaining years, we want to maintain the flexibility to change the terms of distributions to our children as we follow their personal growth. Because our assets are substantial and, hopefully, far more than would be needed by our children, we are also interested in making assets available for our grandchildren, and future generations, consistent with the philosophy articulated in this document.

CHARITABLE THINKING

We understand that it is possible to reduce taxes by making charitable gifts. We would like to do this (where advantageous) and leave a portion of our estate to charitable causes.

Estate Distribution Comparison



Observations

1. With your current Simple Wills and the titling of your assets, you are losing the advantages of the Estate Tax Exemption of the first spouse to die. There could also be major confusion should one of you be placed on life support.

2. Your current estate documents provide for an outright distribution of assets to your family immediately upon the second death. This is in sharp contrast with your objectives and philosophy.

3. Your annual cash flow need of $400,000 is exceeded significantly each year. The amount of excess continues to increase your future estate-tax liability. Based on these projections, you will have more assets than you can spend during your lifetimes.

4. If your Real Estate Properties 1, 2, 3 are sold outright as planned, you will be required to pay approximately $1,916,596 in up front capital gains taxes upon the sale.

5. If both of your deaths occurred within 10 years (except for the years 2010), all of your liquid assets would be used and non-liquid assets would have to be sold to pay the estate-tax liability, which is due in cash within 9 months of death.

6. Your life insurance is currently owned personally, thus causing these proceeds to be unnecessarily taxed in your estate.

7. Once your assets pass to your children, any significant amounts remaining in their estates will also be reduced by estate taxes.

8. The charitable gifts of cash you are currently making do not provide the tax savings and leverage that can be obtained through gifting appreciated assets and using special types of charitable trusts.

9. Using only the annual exclusion and the lifetime exemption gift amounts do not significantly reduce the tax liability owed at your deaths due to the size and projected growth of your estate.

10. There is no plan currently in place that helps to create either personal initiative and financial responsibility or charitable hearts within your children and grandchildren.

Recommendations

1 . ABC TRUST
An ABC Trust, with appropriate titling of assets, would help avoid probate, preserve both of your lifetime exemptions and also pass assets to your family consistent with your objectives and philosophy. Living Wills will aid your family in carrying out your health care objectives.

2 . FAMILY LIMITED PARTNERSHIP (FLP)
Several Family Limited Partnerships (FLPs) will be needed, in order to transfer real estate properties and securities to each respective partnership in exchange for partnership interests. Then discounted partnership interests can be transferred to various trusts to be discussed. The transferred partnership interests can receive valuation discounts for tax purposes due to a lack of marketability and lack of control, while you control the entire amounts.

3 . QUALIFIED PERSONAL RES IDENCE TRUST (QPRT)
The Vacation home ownership can be divided and placed into two Qualified Personal Residence Trusts. Each trust value represents half the value of the Tahoe home. With separate trusts, a split-interest discount of 15% can also be used for valuation purposes. At the end of the trust terms (12 years for Clark's trust and 15 years for Barbara's trust), the Tahoe home passes to the children outside of the taxable estate.

4 . GRANTOR RETAINED ANNUITY TRUST (GRAT)
A family partnership is illustrated (FLP 1) with Real Estate Property 7. The partnership pays out income from the rental properties to the interest holders in the first year with equal distributions in each subsequent year. Any excess income in subsequent years is reinvested in the partnership's securities portfolio. Two Grantor Retained Annuity Trusts are then established and 50% of the partnership interest is transferred into each GRAT. Each trust has a term of 10 years. At the end of the trust term, the partnership interest transfers to the children or remains in trust for them.

5 . WEALTH PRESERVATION TRUST (WPT)
A Wealth Preservation Trust is established and Real Estate Properties 1, 2, and 3, worth $9,800,000, are transferred into it. The trust (Charitable Remainder UniTrust) is projected to earn 7% and pays an income equal to 6% of the trust value, recalculated annually, for life. A charitable deduction is taken, with up to five additional years carryover of the unused deduction. Upon the deaths of both, the trust assets pass to the Family Charitable Foundation (discussed later) and then to the charities of choice. Life insurance is obtained on the lives of Clark and Barbara, payable to a trust for children and grandchildren, which replaces assets going to charity. The net result is more to you, more to your family, plus a substantial amount to charity - all paid for by the IRS.

6 . RETIREMENT PLAN MAXIMIZER (RPM)
Accelerated distributions are taken by Clark and Barbara, taxes are paid, and the net amount is gifted to a trust for the heirs. Insurance is obtained by the trust with these gifts, which will pass to the heirs' trust free of all taxes. These proceeds will significantly exceed the net amount otherwise available, after tax, from the retirement plan assets.

7 . IRREVOCABLE (CRUMMEY) TRUST
An Irrevocable (Crummey) Trust is established into which cash gifts are made by utilizing annual exclusions under a 'Crummey' provision. The trust then loans the money to a Multigenerational Trust to obtain survivorship life insurance on both of your lives.

8 . INTENTIONALLY DEFECTIVE IRREVOCABLE TRUST (IDIT)
This type of trust can be used very effectively to freeze the growth of your Path of Progress property (RE #6). This is done by placing the property in FPL #2, then selling your LP interest to the newly formed IDIT set up on a Multigenerational basis (discussed later) for your children, grandchildren and beyond. These LP interests are sold, at a discount, to the trust in exchange for a note. This note will be interest only, at 6%, for 15 years, with a balloon payment due at that time. The note is subsequently placed in FLP #3, along with $4,237,428 in securities and then the LP interests are transferred to two GRATS, one for Clark and one for Barbara.

The effect of this recommendation is to discount, then freeze, and then transfer this highly profitable property to your heirs virtually tax free.

9 . CHARITABLE LEAD ANNUITY TRUST (CLAT)
RE properties 4 & 5 are placed in FLP #4. LP interests are then gifted to a CLAT. The trust makes annual payments to your Family Foundation with subsequent distribution to charities of choice. At the end of the term, the Partnership Interests pass to the children.

1 0 . MULTIGENERATIONAL TRUST (MGT)
A Grantor style Multigenerational trust is formed (see IDIT) and funded with a gift of $1,600,000 in marketable securities, placed in FLP #5 with a 25% discount (thus a taxable gift of $1,200,000), utilizing the Generation Skipping Tax exemption.
Since the trust is set up under grantor rules, you (as grantor) personally pay the tax on any realized capital gain and income earned by the trust. This can provide an additional tax-free benefit to the trust. You can revoke this provision at any time after the first year.
The trust also obtains and owns the life insurance policies discussed in the recommendations. Part of the annual premium will be borrowed from the Irrevocable (Crummey) Trust with an interest rate of 5%, and the balance will be paid with assets in this trust.
Upon the death of the surviving spouse, the MGT then repays the loan with proceeds of life insurance.

1 1 . TESTAMENTARY CHARITABLE LEAD ANNUITY TRUST (TEST-CLAT)
A 20 year Testamentary Charitable Lead Annuity Trust is established upon the death of the surviving spouse. It is formed with practically all of the estate's remaining assets, leaving some assets to be distributed to your heirs and to pay estate administration costs. The estate receives a charitable deduction which can be equal to the assets transferred to the trust. The trust pays an annuity equal to

approx. 7% of the trust value at death to the Family Charitable Foundation, and from there to the charities of choice. At the termination of the trust, the assets of the trust pass to the children.

1 2 . FAMILY CHARITABLE FOUNDATION (SUPPORTING ORGANIZATION)

Three charitable techniques have been suggested, resulting in the reallocation of many millions of dollars of taxes to both the family, as well as to the charities of choice. Rather than have these charitable amounts pass in one lump sum, much more benefit can be derived by current and future generations with a family charitable foundation, growing tax free, from which discretionary distributions can be made to selected charities over an extended period of time. This process has helped many financially successful families to become socially involved, to make a significant positive difference in their respective communities, and also to positively affect the lives of family members.

Assets flowing from techniques 5, 9, and 11, listed above, can be directed to this foundation, while members of the family serve as Advisors and/or Directors, in concert with a Public Foundation, to disburse future charitable grants from this fund.

Example of Tactic Detail ("Intentionally Defective" Irrevocable Trust…*when structured properly, despite the common title used in estate planning practice, a very legitimate strategy to save significant estate and gift tax, while providing a stream of income to the senior generation.)*

The Process

1 A Family Limited Partnership (FLP) is formed with a 2% General Partnership (GP) interest and 98% Limited Partnership (LP) interest. Assets are transferred to the FLP, with each of you receiving one half of the GP/LP shares.

2,3 LP interests are sold by each of you to an Intentionally Defective Irrevocable Trust (IDIT) set up for the benefit of your children, grandchildren, etc. The sale price is discounted by 40%, due to the LP interests you each have and the underlying illiquid real estate asset. You each obtain notes receivable for the discounted value, paying 5% interest only, with a balloon payment due in 15 years.

4,5,6,7 The notes are then combined with Securities Portfolio assets and placed in another FLP. You each then transfer your respective 49% LP interest in the FLP into separate GRATS, set up for 10 years and then payable to the children.

Benefits of Using this Technique

- The FLP discounts the asset value.
- The IDIT enables the freezing of a rapidly growing value.
- Then the GRATS remove the remaining value from the taxable estate

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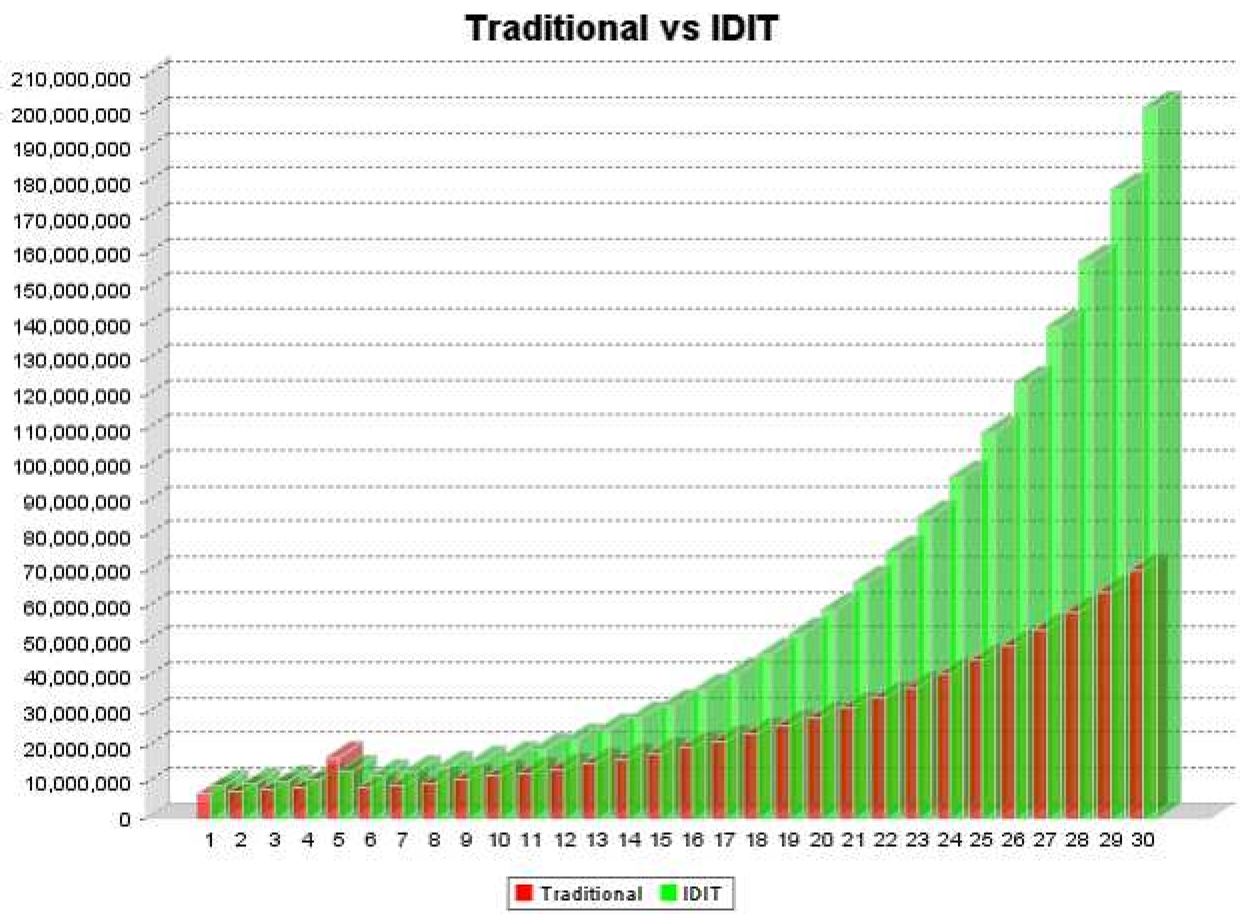
Net Wealth for Your Family
Before and After with IDIT



The Sage Hill Estate Planning Experience

As we hope the above sample illustrates, the Sage Hill client family experience is a thorough, thoughtful, individualized, comprehensive process. Our client relationships emphasize a communicative experience whereby our clients truly understand the strategic and tactical picture, gain awareness of their financial independence and understand how it will be maintained; while a manageable family philosophy is set in place with appropriate governance for future generations to benefit from.

Our relationship with you is focused on getting it done and is based upon the value provided for you and your family in an objectively delivered manner.