



General Information

Glossary

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GLOSSARY

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A

active participant

a person is an active participant in a defined benefit pension if the individual is not excluded under the pension's eligibility provisions, even if the person declined participation in the pension, failed to make a mandatory contribution to the pension, or has failed to perform the minimum service required to accrue a benefit under the pension. A person is generally an active participant in a defined contribution arrangement if any employer contribution or forfeiture is allocated to the person's account during the current tax year. An individual who is an "active participant" in a qualified retirement arrangement may have his or her IRA deduction reduced or eliminated, depending on the level of the individual's compensation. An individual is not disqualified from taking an IRA deduction because the individual's spouse is an active participant, within certain AGI (adjusted gross income) limits

accumulated earnings tax

a federal tax that may be imposed upon the undistributed earnings of corporations that are deemed to have accumulated retained earnings in excess of certain limits permitted by federal tax law

advance medical directive

an umbrella term that includes living wills, health care powers of attorney, medical directives, and instructions for organ donations

alternate valuation date

a date other than the date of death (generally six months after death) that an executor may elect as the valuation date for estate assets

alternative minimum tax (AMT)

a federal tax on so-called tax preference items that may be imposed on individual taxpayers when such tax is greater than the regularly calculated federal income tax



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annual exclusion

a provision of the federal gift tax law that exempts up to \$15,000 per year (for 2018) per donee from the gift tax, provided the gift is of a present interest in property

applicable credit amount

the gift tax and estate tax applicable credit amounts are unified as one. The applicable credit amount in 2018 is \$4,425,800

applicable exclusion amount

another term for the federal gift and estate tax “exemption equivalent” or the amount of transfers sheltered from tax by the unified credit in any given year; the lifetime gift tax applicable exclusion and the estate tax applicable exclusion amount in 2018 is \$11,200,000

articles of incorporation

a document filed with a state to incorporate a business under the laws of that state

B

balance sheet

a financial statement that reflects the financial condition of a business on a given date in terms of assets, liabilities, and owners’ equity

basis

the acquisition cost of an asset; usually the purchase price of the asset, or the basis carrying over from another; “adjusted” basis is the original basis reduced by basis recovery items such as depreciation

bequest

a transfer of property made by will



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blockage discount

a discount which may apply to the value of stock to reflect that a large block of stock on the market at one time will tend to depress the price

business valuation

the process of determining the worth of a business

buy-sell agreement

a contractual arrangement which provides for the disposition of a business owner's share of the business at the time of the owner's death, disability, retirement or at some other time certain

bypass trust

an estate strategy (also called a credit shelter trust, family trust, or B trust in "AB" plans where the A trust funds the marital deduction); used to minimize the combined estate taxes payable by spouses whereby, at the death of the first spouse, the estate is divided into two parts and one part is placed in trust usually to benefit the surviving spouse without being taxed at the surviving spouse's death, while the other part passes outright to the surviving spouse or is placed in a marital deduction trust

C

C corporation

an incorporated business that is taxed under Subchapter C of the Internal Revenue Code; also called a regular or ordinary corporation



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cafeteria arrangement

(a.k.a. Section 125 arrangement, flexible benefits plan)

a benefits arrangement that, when established to meet the Code Section 125 requirements, allows employees to choose from a “compensation menu” that includes both taxable and nontaxable benefits without rendering the nontaxable items subject to income taxation

capital gain

profit from the sale, exchange, or other disposition for consideration of a capital asset (sale price minus basis)

capital replacement (a.k.a. wealth replacement)

a method of employing life insurance in combination with a charitable remainder trust and an irrevocable life insurance trust so that a donor can make a gift to charity while potentially maintaining the value of property which will pass to the donor’s heirs

cash-balance pension arrangement

a type of hybrid defined benefit pension in which participants are credited with a percentage of their pay each year, along with interest on these amounts; when participants become entitled to receive benefits, they can take their accounts in a lump-sum payment or as an annuity

catch-up contributions (age 50 and over)

participants age 50 and over are permitted to make contributions to retirement accounts and IRAs that exceed the regular contribution limits

charitable deduction

a tax deduction available to taxpayers who make charitable contributions

charitable gift annuity

an arrangement whereby the donor makes a gift to charity and receives back a guaranteed lifetime (or two-lifetime) payments in an amount based on the age(s) of the annuitant(s) at the time the gift is made



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charitable lead trust

an arrangement whereby the charity receives an income from a trust for a period of years, then the remainder is paid to noncharitable beneficiaries (generally either the donor or the donor's heirs)

charitable remainder annuity trust

a charitable trust arrangement whereby the donor or other beneficiary is paid annually a fixed amount of at least 5% but not more than 50% of the initial fair market value of property placed in the trust, for life or for a period of up to 20 years; the remainder interest is irrevocably payable only to qualified charitable organizations upon the death of the donor or other income beneficiaries, and the value of the charitable remainder interest must be at least 10% of the net fair market value of all property transferred to the trust, as determined at the time of the transfer

charitable remainder unitrust

a charitable trust arrangement whereby the donor or other beneficiary is paid annually an amount equal to a fixed percentage of at least 5% but not more than 50% of the annually revalued trust assets, for life or for a period of up to 20 years; the remainder interest is irrevocably payable only to qualified charitable organizations upon the death of the donor or other income beneficiaries; and the value of the charitable remainder interest must be at least 10% of the net fair market value of all property transferred to the trust, as determined at the time of the transfer

closely held corporation

a corporation owned and usually controlled by one or a few shareholders; stock is not publicly traded

codicil

a legal document which supplements and changes an existing will, generally restricted to minor changes to the original will



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collateral assignment method (split dollar)

a policy ownership arrangement under a split-dollar arrangement using life insurance where the employee (or a third party) owns the policy and names a personal beneficiary but assigns it to the employer as collateral for the repayment of the employer's premium advances under the policy

community property

property acquired during marriage in which each spouse is deemed by law to own 50%. Nine states recognize community property—they are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin

constructive dividend

a distribution by a corporation which, though not in the form of a dividend, is deemed to be a camouflaged distribution of earnings and profits to the shareholder

constructive receipt doctrine

a federal tax rule holding that when a taxpayer has an unrestricted right to receive a pecuniary benefit, that benefit is considered to have been received for income tax purposes whether or not it was actually received

corporation

a form of business entity authorized under state law which has a legal existence separate from its owner(s), provides limited liability for its owner(s), and ownership of which is shown through shares, or stock, in the corporation

Coverdell Education Savings Account (formerly education IRA)

a trust or custodial account in which contributions are not tax-deductible but earnings can grow federal income tax free if distributions are used for certain elementary, secondary, or post-secondary education expenses



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cross-purchase buy-sell agreement

an arrangement whereby the other owners agree to purchase a deceased or disabled owner's business interest; the buyout may be funded by life insurance or disability insurance on the owners where each owner buys a policy on every other owner

Crummey power

the power of a trust beneficiary to demand a distribution from the trust of amounts contributed to the trust, limited as to amount and duration of the exercise period

custodianship

generally means an ownership arrangement in which property management rights are given to a custodian for the benefit of a child beneficiary under the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act; a custodian's duties resemble those of a trustee, although the custodian does not take legal title to the trust property and custodianship ends when the minor reaches a termination age specified by state law

D

death benefit only arrangement

a type of deferred compensation arrangement in which an employer agrees to pay only a death benefit to a deceased employee's heirs rather than the customary retirement benefit (and perhaps ancillary benefits) associated with conventional deferred compensation

deferred compensation arrangement

a nonqualified incentive compensation arrangement established by employers to provide retirement income and perhaps death and disability benefits to selected executives and key employees



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deferred gift annuity

an arrangement whereby the starting date of the payments from a charitable gift annuity may be deferred for at least one year, thereby increasing both the annuity amount and the charitable deduction

defined benefit pension arrangement

a qualified retirement arrangement which promises either a stated benefit at retirement or a benefit which is determined according to a fixed formula

defined contribution arrangement

a qualified retirement arrangement which provides for the employer and/or employee to make annual contributions; the amount of each employee's retirement benefit ultimately depends on the investment performance of that particular employee's account rather than the employer's promise to pay a stated benefit as in a defined benefit pension

direct skip

an event which triggers the generation-skipping transfer tax when a grantor bypasses his or her children completely and gives assets either outright or in trust for the benefit of grandchildren, more remote descendants, or other "skip" person(s)

direct rollover

a method of transferring funds directly from one IRA to another, or from one qualified retirement plan to another or to an IRA, which avoids the withholding tax on rollovers that pass through the hands of the participant or IRA owner

disability buy-out agreement

a buy-sell agreement in which the business or the other owners agree to purchase the business interest of an owner who becomes disabled

durable power of attorney

a legal document which allows one person (the principal) to authorize another person (the attorney-in-fact or agent) to act on the principal's behalf with respect to specified types of



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property, and which may remain in effect during a subsequent disability or incompetency of the principal

durable power of attorney for health care (a.k.a. health care proxy)
a legal document which grants decision-making powers related to health care to an agent; generally provides for removal of a physician, the right to have the incompetent patient discharged against medical advice, the right to medical records, and the right to have the patient moved or to engage other treatment

E

economic benefit doctrine

a federal tax rule holding that when an employer provides an economic benefit to an employee, that benefit is includable in the employee's gross income even if not received in cash

education IRA (officially renamed Coverdell Education Savings Account)

a trust or custodial account in which contributions are not tax-deductible but earnings can grow federal income tax-free if distributions are used for certain elementary, secondary, or post-secondary education expenses

employer-pay-all or noncontributory arrangement (split dollar)

a split-dollar arrangement where the employer advances the entire premium for life insurance on the employee's life

endorsement method (split dollar)

a life insurance policy ownership arrangement under a split-dollar arrangement in which the employer owns the policy and an endorsement to the policy spells out the employee's rights



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entity attribution rules

federal tax rules that may cause the ownership of stock by an entity such as a trust, estate, partnership, or corporation to be attributed to—or deemed owned by—the beneficiaries or beneficial owners of the entity. This attribution of ownership can have significance because the income tax consequences of certain transactions are dependent on stock ownership such as a distribution by the corporation in redemption of stock

entity-purchase buy-sell agreement

an arrangement whereby the business entity (corporation or partnership) agrees to purchase a deceased or disabled owner's business interest; usually funded by business-owned life insurance

equity split dollar

an arrangement in which the employer's share of the cash value and death benefit of life insurance on an employee's life is confined to its aggregate net premium payments; any cash value in excess of the employer's premiums inures to the benefit of the other party (employee or third party)

ERISA

the acronym for the Employee Retirement Income Security Act of 1974, a federal law that established minimum standards for certain employee benefit arrangements, especially qualified employer retirement arrangements

estate tax marital deduction

a federal estate tax deduction for all property passing between spouses at death, where the recipient-spouse is a U.S. citizen, provided such transfers are not of a terminable interest

estate trust

a special kind of trust qualifying for the estate tax marital deduction which allows trust income to be accumulated rather than paid out annually to the surviving spouse, but upon such spouse's death, principal and accumulated interest are payable to the spouse's estate



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executive bonus (Section 162) arrangement

an arrangement whereby the employer pays a bonus each year to selected employees for the purchase of personally owned life insurance or other products, either in cash or through direct premium payments

executor

the person nominated by an individual to carry out the terms of the individual's will, and appointed to do so by the probate court or by state statutes

F

fair market value (FMV)

the price at which a willing buyer would buy, and a willing seller would sell, neither being under any compulsion and both having reasonable knowledge of the pertinent facts

family attribution rules

federal tax rules that may cause the ownership of stock by one family member to be attributed to another for purposes of determining the income tax consequences of a distribution by the corporation in redemption of stock

family limited liability company (FLLC)

a limited liability company used in the family setting to achieve goals related to the transfer of family wealth in a tax-minimizing way to younger generations, business succession management, and/or personal income tax reductions

family limited partnership (FLP)

a limited partnership used in the family setting to achieve goals related to the transfer of family wealth in a tax-minimizing way to younger generations, business succession management, and/or personal income tax reductions



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federal estate tax

a tax imposed by the U.S. government on the transfer of property at death

federal gift tax

a tax imposed by the U.S. government on gratuitous transfers of property during the life of the donor

fifth dividend option

a life insurance dividend option sometimes utilized under a split-dollar arrangement whereby policy dividends are used to purchase one-year term insurance in the amount of the cash value increase in the policy each year to help make up for the decline in the employee's share of the death benefit through split-dollar arrangements or borrowing

five-and-five power

a right given to a trust beneficiary to withdraw annually up to \$5,000 or 5% of the trust corpus, whichever is greater

fixed assets

the real property, plant and equipment of a business

funded deferred compensation agreement

a deferred compensation arrangement under which the employer sets aside specific assets to meet its future obligations

funded irrevocable life insurance trust

an irrevocable life insurance trust which holds not only the life insurance policy, but also other property from which the premium payments may be made without annual transfers to the trust

future interest

an ownership interest in property in which unlimited possession or enjoyment of property is delayed until some future time



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G

gain on sale of capital asset

the appreciation in the value of a capital asset (i.e., the difference between sales proceeds and cost basis) that is taxed as a (short-term or long-term) capital gain when the asset is sold or exchanged

general partner

a partner who is jointly and severally liable for debts incurred by the partnership, and who may legally bind the partnership; subject to unlimited liability for partnership obligations

general power of appointment

the right of an individual over property often held in trust where the individual could have required the distribution of such property to the individual or the individual's estate, creditors, or estate's creditors

generation-skipping transfer tax

a tax imposed by the U.S. government to eliminate the ability of estate owners to avoid estate taxes by skipping a generation of heirs

gift

a transfer of property that is gratuitous, complete and voluntary

gift splitting

a gift tax-saving technique available to a married couple whereby one spouse makes a gift to a third party and the other spouse elects to split the gift for tax purposes, thereby doubling the annual exclusion and/or applicable credit amounts and possibly creating taxable gifts for both spouses for federal gift and estate tax purposes

gift tax marital deduction

a deduction that applies to gifts between spouses to eliminate any gift tax on such transfers, provided the donee-spouse is a U.S. citizen and the gifts are not of a terminable interest



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GRAT (grantor retained annuity trust)

a trust that pays the grantor a fixed payment annually; the value of the grantor's retained interest can be taken into account in reducing the value of the gift to the remaindermen, if the GRAT requirements are met

GRUT (grantor retained unitrust)

a trust that pays the grantor a fixed percentage of the trust assets as revalued annually; the value of the grantor's retained interest can be taken into account in reducing the value of the gift to the remaindermen, if the GRUT requirements are met

gross estate

generally includes the value of all property which the decedent owned, had an interest in, or controlled at the time of death; includes property that avoids probate such as joint tenancy property with rights of survivorship and life insurance proceeds paid to a named beneficiary

group carve-out program

an employer may carve out one or more employees from a group-term life insurance program, and provide them with supplemental or alternative coverage under individual life insurance policies

group-term life insurance program

an employer may provide employees with life insurance coverage through an IRC Section 79 group-term policy, the first \$50,000 of which generally produces no taxable income to the employee

incidents of ownership

includes a variety of rights and powers that an insured decedent may have held over a life insurance policy; the possession of one or more of these incidents of ownership within three years of death will bring the policy death proceeds into the insured's gross estate



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income in respect of a decedent (IRD)

income earned by a decedent or income to which the decedent had a right prior to death, but which was not properly includible in the decedent's gross income prior to death

income statement

a financial statement that shows a business's operating results for a period of time; also called a profit and loss statement

individual retirement account or annuity (IRA)

an individual plan which allows workers and their spouses to save for retirement on a tax-deferred basis; contributions to traditional IRAs are deductible for some IRA participants; see also Roth IRA

intestacy

when a person dies without a valid will, that person is said to have died intestate and the person's property will be distributed under state succession statutes, generally of the state in which the person was domiciled at death

irrevocable life insurance trust

a trust which holds a life insurance policy and in which the grantor completely gives up all rights in the property transferred to the trust and retains no rights to revoke, terminate, or modify the trust in any material way; beneficiaries usually hold Crummey powers that give them withdrawal rights over the trust corpus

J

joint tenancy (or joint tenancy with right of survivorship)

an arrangement whereby two or more persons own property jointly, all owners hold an equal interest in all of the property, and surviving co-owners succeed to the interest of a deceased co-owner



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K

Keogh arrangement (HR-10 arrangement)

a qualified retirement arrangement maintained by a self-employed person (sole proprietor or partner)

key employee life insurance

insurance on the life of a key employee purchased to help protect an employer from economic loss caused by the death of the employee

L

limited liability company (LLC)

a form of business entity that provides limited liability for its members, combined with the advantages of flexible management and operations, and flexibility in selection of tax status for federal income taxation

limited partnership

a partnership with one or more general partners and one or more limited partners

living will

a document which allows an individual to provide advance directives for end of life issues including specifying medical treatments to be administered or withheld

long-term capital gain

gain on the sale of a capital asset held for more than 12 months (for most types of capital assets)

long-term care insurance

insurance which generally covers nursing home costs, home health care costs, and custodial care required due to a chronic illness or condition



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lump-sum distribution

a benefit payment arrangement under a qualified retirement arrangement wherein the participant receives the full benefit within one taxable year generally after death, disability, attainment of age 59½, or separation from service; eligible for favored tax treatment for certain grandfathered recipients born before 1936

M

marital deduction

a tax deduction which shelters from federal gift and estate tax most property transferred from one spouse to another, provided the spouse receiving the property is a U.S. citizen

Medicaid

a government medical assistance program for individuals and families who qualify for benefits because their incomes and assets fall below defined limits

medical directive

a document which sets forth an individual's wishes with regard to the termination of life support under various circumstances

Medicare

the government's medical insurance program for persons age 65 and older

minimum required distribution (MRD)

a minimum annual amount that must be taken from an IRA or qualified pension or profit sharing arrangement after age 70½ (or actual retirement in the case of certain qualified plan participants); also known as required minimum distribution (RMD)

minority discount

a discount to the value of a minority owner's interest, usually due to the limited market for a sale of the interest



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modified endowment contract (MEC)

a life insurance policy in which premiums paid have exceeded the federal tax law limit, thereby making the policy subject to special tax rules that are less favorable than those normally applicable to life insurance policies

money purchase pension

a defined contribution qualified retirement arrangement in which employer contributions are based on a percentage of each employee's salary; the employer is required to make annual contributions

P

partial interest

life estates, remainder interests, reversionary interests, and annuity interests in property where the beneficial ownership of property is split between two or more persons

partnership

an association of two or more persons to carry on a business as co-owners for profit, usually under a formal, written partnership agreement

personal holding company

a corporation in which more than half of its stock is owned by five or fewer individuals, and where at least 60% of its adjusted ordinary gross income comes from investments and certain personal service contracts

pooled income fund

a trust arrangement which accepts gifts of cash or certain properties from persons who want to provide support for the charitable organization; gifts made to the fund are commingled and invested by the trustee and units of participation are credited to the donor; income is then paid to the donor proportionate to the donor's share of fund earnings



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[pourover provision](#)

a provision in a will which directs that the remainder of the probate estate, after payment of taxes and costs, pass to a trust, usually one which had been established prior to death

[present interest](#)

the right of a gift recipient to have immediate possession or enjoyment of the gifted property

[probate](#)

the judicial determination of the validity of a will and the distribution of estate assets

[profit and loss statement](#)

a financial statement that shows a business's operating results for a period of time; also called an income statement

[profit sharing arrangement \(discretionary arrangement\)](#)

a defined contribution qualified retirement approach under which the amount of an employee's retirement benefit depends on the amount in the employee's account at retirement; the distinguishing factor from other defined contribution arrangements is that the employer is not obligated to make contributions each year, but contributions must be substantial and recurring

[proprietorship, sole](#)

an unincorporated business owned and usually managed by one person; the business has no separate legal existence apart from the owner

[publicly held corporation](#)

a corporation whose shares are traded on an established stock exchange or market



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Q

qualified domestic trust

a trust arrangement which allows property transferred to a surviving spouse who is not a U.S. citizen to qualify for a special exclusion in lieu of the regular marital deduction; and which ensures that, at the death of the surviving spouse who is not a U.S. citizen, the assets placed in such a trust will incur federal estate taxation since the tax was avoided at the first spouse's death

qualified personal residence trust (QPRT)

a qualified personal residence trust is a trust that, with certain exceptions, is prohibited from holding any property other than one personal residence, which may not be sold, transferred or put to any other use during the term of the trust; the trust may hold cash in a separate account for certain defined needs

qualified retirement arrangements

employer-sponsored retirement funding vehicles that qualify for favorable tax treatment when qualification requirements are met

qualified terminable interest property (QTIP)

property in a decedent's estate that, even though the surviving spouse's interest is subject to certain restrictions, can still qualify for the estate tax marital deduction (also includes property given to a spouse during life that qualifies for the gift tax marital deduction)

R

rabbi trust

a trust arrangement in which nonqualified deferred compensation plan assets are placed in an irrevocable trust out of the reach of the employer or any of the employer's successors, but are still subject to attachment by the general creditors of the employer



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remainder interest in personal residence or farm (gift of)

an arrangement whereby a donor gives a remainder interest in a personal residence or farm to charity, but reserves the right to live there for life (or for joint lifetimes)

required minimum distribution (RMD)

a minimum annual amount that must be taken from an IRA or qualified pension or profit-sharing arrangement after age 70½ (or actual retirement in the case of certain participants); also sometimes referred to as minimum required distribution (MRD)

restrictive bonus arrangement

a type of executive bonus arrangement in which the policy on the employee's life has a special endorsement that prohibits the employee from surrendering the policy or borrowing against it without the employer's consent

retained earnings

a business's accumulated net income after taxes from prior years, less any dividends distributed

retained powers or interests

the right to income from property, to possess the property, or to control the enjoyment of the property given to another

revocable living trust

a trust created during the grantor's lifetime that the grantor may alter, amend, or revoke; the trust will become irrevocable or terminate at the grantor's death

rollover

a method of delaying payment of taxes on certain distributions from a qualified retirement arrangement; accomplished by transferring all or part of the distribution to an IRA or to another qualified retirement arrangement



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Roth IRA

a type of retirement savings account in which contributions are not tax-deductible but earnings grow federal income tax-free and distributions are also federal income tax-free if certain requirements are met upon distribution

S

S corporation

a corporation that is taxed under Subchapter S of the Internal Revenue Code; enables the shareholders to be taxed similarly to partners in a partnership

salary continuation (deferred compensation) arrangement

a type of nonqualified deferred compensation in which the benefits are paid by the employer in addition to the employee's other compensation; the employee does not take a salary reduction or forego a salary increase to provide the deferred benefits

salary continuation (sick pay) arrangement

a formal arrangement established by an employer to pay disability benefits to disabled employees

salary reduction simplified employee pension (SARSEP)

employers with 25 or fewer eligible employees could establish a SARSEP through 12/31/1996, under which each eligible employee could elect to defer salary into the plan; new SARSEPs may not be established but contributions may still be made to existing plans

Section 125 arrangement

(cafeteria arrangement, flexible benefits program)

a benefits program that, when established to meet the IRC Section 125 requirements, allows employees to choose from a "compensation menu" that includes both taxable and nontaxable items without rendering the nontaxable items subject to income tax



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Section 162 arrangement (executive bonus arrangement)

an arrangement whereby the employer pays a bonus each year to selected employees for the purchase of personally owned life insurance or other products, either in cash or through direct premium payments

Section 303 redemption

when certain requirements are met, Section 303 of the Internal Revenue Code allows a shareholder's estate or heirs to sell to the deceased's closely held corporation enough stock to pay federal and state death taxes, costs of estate administration, and funeral expenses without the corporation's distribution being treated as a dividend for tax purposes

Section 401(k) plan

a qualified retirement plan established under IRC Section 401(k) whereby an employee is allowed to divert a portion of salary to an employer-sponsored account prior to taxation

Section 403(b) plan

a tax-favored retirement program available only to employees of public school systems or 501(c)(3) tax-exempt organizations

Section 412(e)(3) plan

a type of defined benefit pension plan that is fully insured, i.e., funded entirely by individual life insurance and annuity contracts issued by an insurance company

Section 457 arrangement

a program that provides an exclusion from gross income for a certain portion of deferred salary by a participant under the program of a state or local government, a tax-exempt organization (excluding churches), or of elective deferral compensation of an independent contractor of such government or organization (e.g., a physician providing independent services to a hospital)



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Section 1035 exchange

Section 1035 of the Internal Revenue Code provides that no gain or loss shall be recognized on the exchange of (1) a life insurance policy for another life insurance policy, an endowment contract, an annuity contract or qualified long-term care contract; (2) an endowment contract for another endowment contract that provides for regular payments that begin no later than the date payments would have begun under the contract exchanged, or for an annuity contract or qualified long-term care contract; (3) an annuity contract for an annuity contract; or (4) a qualified long-term care contract for another qualified long-term care contract. In all four cases, the owner and insured before the exchange must be the same owner and insured after the exchange

Section 2503(c) trust for minor

a trust designed to comply with Section 2503(c) of the Internal Revenue Code so that a gift made to such a trust for the benefit of a minor will qualify for the gift tax annual exclusion

Section 6166

a section of the Internal Revenue Code that allows for a 14-year spreadout of the federal estate tax for estates that qualify (certain estates that include a closely held business or farm)

secular trust

a trust arrangement in which nonqualified deferred compensation plan assets are placed in trust to provide the employee with security for the employer's promise to pay future benefits, but without tax deferral of contributions to the trust; in some cases, double taxation can occur where the employee is taxed on current contributions and the employer is denied a current tax deduction

short-term capital gain

gain on the sale of a capital asset held for one year or less



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SIMPLE retirement arrangement

the Savings Incentive Match Plan for Employees (SIMPLE) is a type of tax-favored employer retirement program funded by a combination of employee salary deferrals and matching employer contributions; may take the form of a SIMPLE IRA or SIMPLE 401(k)

simplified employee pension (SEP)

an employer-funded retirement approach under which an employer makes contributions to an employee's individual retirement account or annuity (IRA); paperwork and plan administration costs are minimized

sole proprietorship

an unincorporated business which is owned and usually managed by one person; the business has no separate legal existence apart from the owner

special use valuation of farm and business real estate

subject to certain conditions, an executor may elect to value real property devoted to farming or a closely held business use, and which is included in the decedent's gross estate, on the basis of the property's current use value as a farm or in a closely held business rather than its "highest and best use" (e.g., as the site of a suburban office park)

split-dollar arrangement funded with life insurance

a method of purchasing life insurance whereby the premium payments and policy benefits are divided disproportionately in some predetermined way, usually between a business and an employee or sometimes between two individuals

split-dollar rollout

after split-dollar life insurance has been in effect for some time, the arrangement is terminated and policy values are rolled out to reimburse the employer for its aggregate premium advances



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split-funded qualified retirement arrangement

a funding arrangement for a qualified retirement program whereby part of the benefits are funded through life insurance and part through an investment account managed by the trustee

spousal IRA

an IRA in which an additional contribution may be made for a spouse by a worker whose spouse has little or no earned income for the year

spousal portability

a surviving spouse may use the applicable exclusion amount for federal estate taxes not used by the deceased spouse's estate

stepped-up basis

the higher income tax basis that becomes available to an heir following the death of the former property owner, usually equal to the fair market value of the property on the date of death (or alternate valuation date) as finally determined for federal estate tax purposes

stock redemption buy-sell agreement

an arrangement whereby a corporation agrees to purchase a deceased shareholder's interest; the buyout is funded by life insurance on the lives of the owners; the corporation owns the policies and is the beneficiary of each policy

survival clause

a will provision which states that the surviving spouse must outlive the decedent by up to but not exceeding six months in order to inherit property under the will

survivor supplemental retirement income funded with life insurance

utilizing a life-income option annuity election from an employer's retirement plan in combination with a separate life insurance policy on the retiring worker's life to maximize retirement income while both spouses are alive



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T

Table 2001 rates

rates provided by the IRS to compute the taxable economic benefit to the employee in a split-dollar arrangement, or for life insurance that is part of a qualified retirement arrangement

tangible personal property

physical property such as antiques, autos, boats, artworks, collections, books, jewelry and other property that is not real property

target benefit arrangement

a type of defined contribution arrangement in which the annual employer contribution is based on the amount required (determined on the basis of actuarial projection) to accumulate a fund that will pay a target benefit at the employee's normal retirement age

tax-sheltered annuity (a.k.a. 403(b))

a retirement or tax-deferred program available only to employees of public education organizations or 501(c)(3) tax-exempt organizations

taxable distribution

any distribution from a generation-skipping trust to a skip person which is neither a direct skip nor a taxable termination

taxable termination

an arrangement whereby the transferor places assets in a trust which pays income to his or her child for life with the remainder passing to grandchildren or later descendants after the child is deceased. The law treats the child's death in this situation as a taxable event which triggers the generation-skipping transfer tax

tenancy by the entirety

a form of property ownership allowed in some states whereby a husband and wife own property together as one entity; neither party has any right in the property as an individual



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tenancy in common

a property ownership arrangement in which two or more persons own property jointly (owners may hold unequal interests in the property); there is no right of survivorship when a tenant in common dies; thus, the decedent's interest in the property is disposed of by will or intestacy laws

terminable interest

a spouse's property interest that would expire due to the passage of time, the occurrence of some future event, or the failure of some future event to occur; such a limited interest will usually disqualify the property in question for the marital deduction

testamentary capacity

requires that a person must be of sound mind and of the minimum legal age to execute a valid will

testator

a person who makes a will

transfer for value rule

a federal income tax rule which states that, if ownership of a life insurance policy was transferred for a valuable consideration, a portion of the death proceeds may be includible in gross income rather than qualifying for the usual income tax exemption of death proceeds

trust

a legal entity created by a grantor under which a trustee takes legal title to and manages property transferred to the trust for the benefit of trust beneficiaries

trusteed cross-purchase buy-sell agreement

the use of a third party ("trustee") to hold the life insurance policies that fund a cross-purchase agreement, and to see that the terms of the agreement are fulfilled at an owner's death; in the case of partnerships, may be used to avoid a multiplicity of policies when several owners



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are involved. For other types of business entities, a trustee cross-purchase agreement may trigger application of the transfer-for-value rule at the death of each business owner (except the last survivor)

U

unfunded deferred compensation arrangement

a nonqualified deferred compensation arrangement under which the employee has only an unsecured contractual right to receive benefits in the future; there is either no reserve set aside to pay promised benefits or, if any reserve is so established, it remains a general asset of the employer subject to the claims of creditors

unfunded life insurance trust

an irrevocable life insurance trust that holds a life insurance policy but usually no other property, thus requiring the trustee to use annual transfers from the grantor or to tap cash values in order to pay the policy premiums

unified credit

a combined credit against the federal gift and estate taxes available to all taxpayers

Uniform Gifts to Minors Act (UGMA)

provides a simple and inexpensive method of making a gift to minors by means of a custodianship arrangement

Uniform Transfers to Minors Act (UTMA)

these laws provide donors with a means to transfer property to minors via a custodian; has replaced the UGMA in most states



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W

wait-and-see buy-sell agreement

a special type of buy-sell agreement between the owners of a business and the business itself, in which, typically, the business entity has a first option to purchase a deceased owner's interest; the surviving owners then have a second option to purchase any portion of the interest not already acquired by the business; and finally, the business entity is required to purchase any remaining interest not already sold under the two options

wealth replacement (a.k.a. capital replacement)

a method of using life insurance in combination with a charitable remainder trust and an irrevocable life insurance trust so that a donor can make a current gift to charity while potentially maintaining the value of property that will pass to his or her heirs; life insurance replaces the assets used to fund the charitable remainder trust

will

a written declaration by an individual of his or her intentions for the disposition of assets after death; generally must satisfy formal legal requirements (such as having a specified number of witnesses) in order to be valid

will contest

the challenge of a will's validity by heirs in probate court