



COVENANT TRUST



INTRODUCING COVENANT TRUST

Covenant Trust's founding was based on the need for independent, expert fiduciary services. This need was seen by our founders, and was also expressed to them by area financial advisors and members of the bar. The area of trusts is dynamic and complex, which can be intimidating and perplexing for those unfamiliar with the landscape.

That's where Covenant Trust can help. We're familiar with the territory and can guide you successfully from where you are to where you want to be. Covenant provides a variety of services: we can guide an estate through probate by acting as execu-

tor of a will, or we can serve as trustee for a variety of trusts--from basic testamentary trusts, to irrevocable life insurance trusts, to charitable trusts, to complex dynastic asset protection trusts, or as a consultant to a captive insurance company. Covenant Trust's goal is to help its clients succeed, by providing individualized fiduciary services to each client the way we would want to receive the same service: in the most efficient, effective and caring manner possible. Covenant also wishes to act as a resource to advisors and planners in the legal and financial community in the area of trust and estate administration.

Covenant Trust is a regional company, founded by people who live in East Tennessee and Southwest Virginia. Covenant is supported by individuals and organizations which, combined, provide decades of experience and expertise in the provision of fiduciary services and the related tax, accounting, and legal issues that surround trust and estate administration. 

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MEET OUR PEOPLE

Covenant is managed by Todd Bernhard, Jeff Blackburn, Wade Farmer, Tommy Greer, and Eric Ratliff. Together they bring decades of experience and expertise in the areas of Accounting, Banking, Business, Fiduciary Services, Law and Tax. Their vision and leadership provide guidance and stability to Covenant Trust.



Covenant's primary Trust Officer in the Tennessee office is David A. Greene. David graduated *summa cum laude* from the University of Tennessee, with a

degree in Accounting and a collateral in Finance. He then earned his Law Degree from Washington and Lee University School of Law, concentrating his course work in tax law, corporate law and estate planning. David has experience in estate planning and administration as well as individual and fiduciary tax compliance.

Myra O'Dell manages Covenant's back office operations. Myra holds a Bachelors in Business Administration and Mathematics and an MBA from Milligan College.

She is a CFP® and is experienced in financial operations.



More info is available on the website:

www.covenanttrustllc.com/about.html



FLEETING

At this time

in history, an unusual confluence of factors have combined to create one of the most favorable estate planning environments we've had for decades, or are likely to have again in the foreseeable future—especially for high net worth families. Planners who are able to assist their clients in taking advantage of the fleeting opportunity will likely be admired and rewarded for years to come when the effort put forth in planning bears fruit. What are these converging factors? Why is the opportunity fleeting, and how long will it last? What difference does it really make to clients?

High Exclusion Amount

At present, the Federal exemption for estate and generation skipping transfer tax purposes, and the exclusion amount for gift taxes is \$5.12 million—an all-time high. Combined, a wealthy couple can pass \$10.24 million free of federal transfer taxes. But the tax law that enacted this favorable exclusion did so only temporarily—unless Congress takes further action, the exclusion returns to \$1 million on January 1, 2013, its lowest since 2001.

Low Marginal Rates

The estate, gift and GST rate at present is 35%. While this is equal to the highest marginal income tax bracket, it is historically low for transfer tax purposes. This rate also expires at the end of 2012, and will return to 55% in 2013 without congressional intervention in the meantime.

Extremely Low AFRs

As a result of the sluggish economy, applicable federal rates (AFRs) are also at or near historical lows. This creates the opportunity to maximize the leverage available from making discounted sales and gifts using intentionally defective grantor trusts, grantor retained annuity trusts and charitable lead annuity trusts. AFRs will stay low as long as the economy struggles, but they change monthly, so planners should not depend on such low rates indefinitely.

Depressed Asset Values

Another result of the downtrodden economy is that asset values are, in many cases, artificially low. While that's generally not good news, it is advantageous for purposes of maximizing wealth transfer to future generations.

OPPORTUNITY

Valuation Discounts & Defined Value Clauses

For years the IRS has attempted—with some measure of success—to put the kibosh on planners taking valuation discounts for transferred interests in Family Limited Partnerships and LLCs. The courts have generally approved discounts in situations where the taxpayer went through the established procedures, with requisite documentation. Some clients may nevertheless be nervous about the specter of the IRS auditing a transfer which was made subject to a valuation discount. Fortunately for taxpayers, several recent cases have upheld the use of Defined Value clauses, effectively depriving the IRS of an incentive to audit. The clause provides that a donor will provide a certain defined value of the property to descendants, with the remainder to charity. If the IRS then successfully challenges the discount applied to the transferred property, the difference is paid to the charity and not subject to additional tax because of the charitable deduction.

So What?

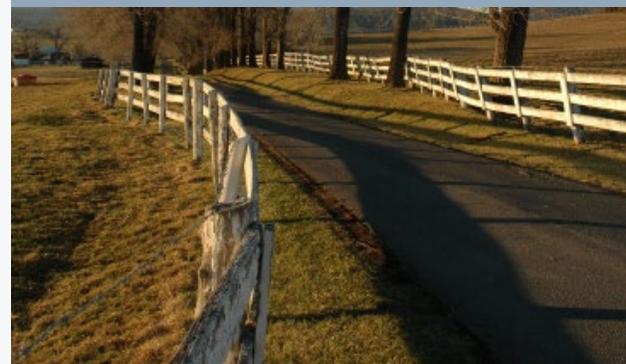
Because of the confluence of these and other factors, many planners believe that wealthy individuals and families can pass greater wealth at lower transfer tax cost now, and for the next 10 months, than at any time in the remainder of their lives. Taking advantage of these factors by utilizing all of the tools at the estate planner's disposal, including gifts and sales to trusts of various types, grantor-trust status for income tax purposes, valuation discounts and defined value clauses, could yield millions in savings for high-net-worth clients. For clients of more modest means, it could mean the difference between a sizeable tax bill at death, or passing an entire estate free of federal tax. Maximizing the utility of such trusts in a jurisdiction that allows for dynasty trusts and does not impose a fiduciary income tax, such as South Dakota, could shield a family's assets from transfer taxation for generations. Opportunity is there, but it is fleeting. Take advantage. You don't want to explain to your clients that the opportunity is gone. 

TAKING ADVANTAGE OF THESE FACTORS COULD YIELD MILLIONS IN SAVINGS OR PASSING AN ENTIRE ESTATE FREE OF FEDERAL TAX.

OUR ADVANTAGES

Covenant provides expert fiduciary services, including personal trust services (administration of Revocable Living Trusts, Life Insurance Trusts, Testamentary Trusts, Asset Protection Trusts, and Charitable Trusts, among others), estate administration (both probate and as trustee of a will-substitute trust), and consultation on planning issues. Among Covenant's Advantages are the following:

- Covenant Trust is a local company, dedicated to serving the needs of clients locally. We are not managed from a corporate office in a big city, so we will continue to serve our community here in East Tennessee.
- Because of its heritage and oversight, Covenant, though new, has access to decades of experience and expertise in the field. As a result, Covenant is able to handle traditional trust assets with care and skill, and is also positioned to administer non-traditional assets in trust as well.
- The advantages of Covenant's South Dakota charter are described further on page 4.
- Covenant is committed to providing service that is excellent as well as cost-effective. Our clients benefit from this in the form of highly competitive fee structures. 



COVENANT TRUST

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SOUTH DAKOTA ADVANTAGE

Covenant's South Dakota charter provides clients with access to favorable trust law. Among the advantages of South Dakota are the availability of perpetual trusts; no state tax burden; favorable asset protection laws; strict privacy laws; ability to delegate functions (such as authority over distributions or investments) normally filled by a trustee to family or another advisor; and flexible trust laws enabling trust reform and modification. 

A TEAM APPROACH

Clients often have long-standing relationships with various professionals such as bankers and financial advisors. Covenant has chosen not to take an active role in investing assets. We strive for excellence in the area of fiduciary service, and we enjoy working with others who do excellent work in their respective fields. This puts us in a unique position to work together with our clients' bankers, wealth managers and others and create win-win scenarios for the client and all members of the professional team. 

