



Harris Financial Solutions, Inc.
Build, Protect and Preserve

Administrator: A person appointed by a court to oversee the distribution of the assets and the payment of expenses and debts in the estate of an individual who has died without a will or has left a will that does not name an executor.

Agent: A person given the power or authority to make and carry out decisions on behalf of another individual, who is the one who gives that authority (the "principal").

Amendment: A document which makes changes in or additions to an existing document other than a will such as a trust.

Annuity: A contract entered into, most typically with an insurance company, under which invested funds are repaid to the investor over time, either starting soon after the funds are invested (an "immediate annuity") or starting at a later time (a "deferred annuity"), together with a specified rate of interest (a "fixed annuity") or a rate of interest that is subject to change over time (a "variable annuity"), generally under circumstances in which the withdrawal of the invested funds, either general or above a certain portion, prior to certain points in time is either prohibited or made subject to financial penalties ("surrender charges"). Because income accumulates in the annuity until it is later paid out, taxation of income is deferred until the time of distribution.

Basis: The value of an asset at the time of acquisition which is used in calculating capital gains or losses for income tax purposes.

Beneficiary: A person or organization who or which receives property from another, by gift or under the terms of a will or trust.

Bond: The written obligation of a court-appointed fiduciary (such as an executor, administrator, guardian or conservator) to faithfully carry out the duties of his or her office. The amount of a bond is set by the court based on the amount of property within the fiduciary's control. A document nominating someone to later act, such as a will or power of attorney, can waive such obligation.

Capital Gain: The increase in value from the sale or the exchange of a capital asset, such as stock or real estate. Capital gains are taxed separately and at different rates from "ordinary income."

Codicil: A document by which a person who has previously made a will makes changes to its terms, with the will remaining effective subject to those changes.

Conservator: A person, similar to a guardian, who is appointed by a court to take over and to manage the financial affairs of another individual, who has been determined by the court to be legally incompetent.

Contingent: Dependent or based upon the occurrence of some act or event, such as the death of someone else. Thus, the holder of a "contingent interest" in property may or may not ever become the owner.

Descendant: A person who is a blood relative in a later generation, for example children, grandchildren and grandchildren.



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Gift Tax: A tax imposed on an individual who makes a lifetime gift of property to another but only if and to the extent that such gifts are not exempted under the terms of the tax laws and exceed certain exclusions, including a donor-to-recipient "annual exclusion" that is subject to change over time. Moreover, a person who makes lifetime gifts which would otherwise be subject to gift tax can elect to apply part of the exclusion that would otherwise apply in determining estate tax liability upon his or her death, and thus avoid the gift tax by reducing the amount of the estate tax exemption he or she will have available upon death.

Gift: A voluntary transfer of property to another without receiving any money, goods or services in return.

Grantor: An individual who gives property or gives a right to property to one or more others under the terms of a trust. "Settlor" and "Trustor" are other words that have the same meaning.

Guardian: A person who is appointed by a court to care for another individual and to oversee another's property, who due to incompetence is unable to manage their own affairs.

Health Care Directive: A document (or, in many instances, a portion of a power of attorney for health care) in which a person expresses his or her wishes regarding medical treatments in the event of becoming incapacitated and directs which types of care may or may not be permissibly provided in certain situations.

Heir: A person who inherits, or would be entitled to inherit, the right to receive distribution of all or some of the property of someone who dies, in accordance with the laws of intestate succession, either because the person who died did not have a will or because his or her will is set aside as invalid.

Income: The interest, dividends and other income generated by assets held by an individual, trust or estate, less certain debts, expenses and ordinary losses.

Individual Retirement Account {IRA}: A bank or investment account held by an individual pursuant to the terms of the Internal Revenue Code which provide that the taxation of income contributed into or earned by the account will not be subject to taxation until it is later withdrawn, provided that income is not later withdrawn until the holder of the account reaches a minimum retirement age after a certain age, certain required minimum distributions ("RMDs") must be taken from the account. The amount of money that can be contributed annually to an IRA is regulated by law and regulation. Numerous regulations govern IRAs. The tax deferral of IRAs also applies to certain other types of retirement accounts, such as 401(k) plans, 403(b) plans, SIMPLE IRA plans, SEP plans and profit-sharing plans, which are subject to their own separate laws and regulations.

Inter Vivos: Occurring and becoming effective during one's lifetime. Thus, an "inter vivos trust" can become effective as soon as it has been established.

Intestate: To die without a will, such that the property making up the estate of the deceased individual is distributed by the "laws of intestate succession," which effectively make a will for that person in



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accordance with the laws of the state of that person's residence at death, based on what the states suppose that people would most likely want.

Irrevocable Life Insurance Trust: A trust that owns one or more policies of insurance upon the life or lives of a person (or married couple). The trust pays the premiums to keep the insurance in force, collects the death benefits when the insured die, and distributes the money according to the terms of the trust. Since the person who establishes an "ILIT" does not own the insurance, the insurance policies are (subject to certain legal restrictions) exempt from claims of his or her creditors, and the life insurance proceeds payable upon his or her death are not included in his or her taxable estate.

Per Capita: The method of dividing an estate where an equal share is given to each of a named or described group of persons under circumstance in which the share of a pre-deceased beneficiary is distributed equally among the other members of the named or described group. For example, if an estate is given to someone's three children "in equal shares, per capita," and one of those beneficiaries has previously died, his or her share would be divided equally between the two surviving children.

Per Stirpes: The method of dividing an estate in which the share of a pre-deceased beneficiary is distributed to his or her descendants based on their generational proximity to the deceased beneficiary. For example, if an estate is given to someone's three children "in equal shares, per stirpes," and one of those beneficiaries has previously died, his or her share would go to his descendants.

Personal Representative: Another name for a court-appointed fiduciary, such as an executor or an administrator. States vary as to the nomenclature used.

Pour-Over Will: A will that provides for the transfer of assets to a trust (such as a living trust) at the death of the individual who created the will, to the extent that such person's assets were not already owned by the trust during such person's lifetime.

Power of Appointment: A power granted to a person under a will or living trust allowing that person to direct the distribution of assets during his or her life (a "lifetime power of appointment") or upon his or her death (a "testamentary power of appointment.")

Power of Attorney for Health Care: A document by which one person (the "principal") grants another person (the "agent") the authority to make and carry out decisions regarding health and personal care matters, including but not limited to end-of-life decisions and organ donation. Such authority ends when the person who grants it either revokes (cancels) it or dies, but the authority can extend to making decisions regarding autopsies and funeral arrangements. Its scope is much broader than that of a living will, which speaks only to end-of-life decisions. The agent under a power of attorney for property is authorized, but not required to act. Because of the inherent uncertainty of whether the agent will agree to act, outlive the principal and remain competent to act, it is wise to name successors.

Power of Attorney for Property: A document by which one person (the "principal") gives another person (the "agent") the authority to make and carry out decisions regarding financial matters. Such authority ends when the person who grants it either revokes (cancels) it or dies. The scope of the powers granted can vary significantly and with great significance, especially in determining whether the agent can make



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gifts, fund trusts, and take other steps necessary toward protecting the principal's assets from long-term care costs. The agent under a power of attorney for property is authorized, but not required, to act. Because of the inherent uncertainty of whether the agent will agree to act, outlive the principal and remain competent to act, it is wise to name successors.

Principal: As to documents, the person who gives authority to someone else (the "agent") to make and carry out decisions on his behalf, to the extent stated and limited in the document creating the agency. As to investments, and as to trusts and estates, the original amount of assets, plus capital gains and less certain debts, expenses and capital losses.

Probate Estate: All the property of a deceased person, which is to be distributed under a will or if the individual died without a will, through a state's intestacy laws.

Probate: The court-supervised process of administering the estate of a deceased or legally incompetent person.

Transfer on Death (TOD): A beneficiary designation made in an investment account pursuant to which all funds remaining in the account pass by operation of law to the named beneficiary upon the account holder's death. Property which is the subject of a "POD designation" passes upon death through that means, regardless of the terms of the account holder's will or trust, assuming that the beneficiary survives the account holder.

Trust Estate: The property placed within the trust, which is to be distributed by the trustee to beneficiaries at the time or times and in accordance with the terms and restrictions provide for that trust.

Trust: A special relationship in which one party, the trustee, holds property of an individual for the benefit of another party, the beneficiary; the trustee owns special fiduciary duties to the individual for whom the trustee is holding the property and to the beneficiary for whom the property is being held. A trust can provide for the management and distribution of property, subject to the terms established by the person who establishes and puts assets into the trust, over what can be a long period of time. For that reason, a trust can be a very powerful and flexible planning vehicle. There are numerous types of trusts to serve various purposes.

Trustee: A person or business entity (such as a financial institution licensed to administer trusts), who is given property by another to hold for the benefit of one or more beneficiaries. In the case of a revocable living trust, the person who makes the trust can, and typically does, appoint himself or herself as beneficiary. Two or more persons can serve together as co-trustees, if that is provided in a trust.

Unified Estate Gift Tax Exemption: The amount of assets otherwise subject to gift tax during a person's lifetime or estate tax upon his or her death which is not subject to taxation. For 2016, the exemption is \$5.45 million for an individual, or \$10.9 million for a married couple. The exemption amount is currently indexed to inflation, and Congress can change it by law.



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Will: A legal declaration of a person's wishes regarding the distribution of his or her property after death. State laws govern the requirements signing, witnessing and notarization that determine whether a document that purports to be someone's will, will be given legal effect. Property passing under a will is subject to probate.

Witness: A person who is present at an event or transaction and can testify to the actual occurrence; as to documents, a person who is not a notary public but was present when a document was signed and who certifies and confirms that it was.