Case Designs

Annuity Lead Super Trust

May Marsden, has significant assets, a large income and her trust planner suggests she create a trust for the benefit of her family.
She takes $1 million of stock with cost basis of $500,000 and funds a term of 15 years lead trust. At the end of 15 years, the trust will distribute to family.

Because she wants to maximize the potential benefits to family, the trust pays an annuity of 2% of the initial value annuity for the first 14 years and then 120% of the initial value ($1,200,000) in year 15. With a total payment to charity of $1,480,000, she receives an income tax deduction of $946,613. Her taxable gift of $53,387 is covered by a portion of her gift exemption.

After the 15 years of maximum growth in the trust, the charity and family approximately divide the benefits. With the payment in year 15 of $1,200,000 to charity, there is a balance of $1,449,127 for family.

Since this is a grantor lead trust, May is subject to income taxes on the distribution to charity. However, she chooses to invest the initial tax savings on the deduction. Even with a substantial tax payment, largely at capital gain rates, the net remaining benefit at the end of the 15 years is $424,520. Not only has May transferred over $1.4 million to family with a taxable gift of only $53,387, she has also benefited from a net income tax savings of $424,520, valued at the end of the trust term.

The Executive Trust Officer earned $19,000

Bargain Sale Of Home

Bill and Sue Doran bought a lovely home in a very good neighborhood 20 years ago. They now are retiring and would like to sell their home and move to a new property in a retirement community. The home they bought 20 years ago for $300,000 now has a fair market value of $1.5 million.

The trust planner recommends they enter into discussions with their favorite charity about the possible purchase of the home. They would like to sell the home, receive sufficient funds to buy a new property and enjoy additional liquidity for their retirement security. Since they have not used their $500,000 exclusion on their home, they are interested in receiving $800,000 or more in cash.

After extensive discussions, the charity indicates that it would be willing to pay $1 million for the home. This would enable Bill and Sue to claim a charitable deduction for the $500,000 excess value. This appreciated-property-type deduction is usable to 30% of adjusted gross income this year, with a carry forward for an additional five years.

Bill and Sue receive $1 million in cash. This equals two-thirds of the total value of the property. With the allocation of two-thirds of the $300,000 basis, or $200,000, plus their $500,000 exclusion for the sale of their principal residence, their adjusted basis is $700,000. They then have a taxable long-term capital gain of $300,000. The tax at 15% is $45,000 on this amount.

However, in their 30% income tax bracket, the potential tax savings over the six years on the $500,000 gift equal $150,000. They are therefore able to receive $1 million plus have potential additional net tax savings of $105,000.

Bill and Sue enjoy the convenience of selecting the time for the sale, working with the charity's staff and benefiting from a sale with substantial cash transfer and no net tax cost. In addition, they feel good about making a major gift to their favorite charity and appreciate the recognition.

The Executive Trust Officer earned $12,000

Business Expatriating Trust

John, who lives in the Northern reaches of an unidentified Midwest state adjacent to the Canadian border, was involved in the timberland industry his entire career. He acquired a parcel of approximately 300 acres of timber. Since he was operating a corporation involved in various aspects of the timber industry, he purchased the timberland with corporate cash.

When John passed away, he transferred one-third of the corporation to each of his three children.

Arnold, Bill and Clara owned the property for over 30 years, and merely maintained it through minor cutting.

As they were ready to retire, they wisely sought out a trust planner, from Illinois.

The timber was now between 40 and 50 years in age and the value of the property had increased dramatically.

However, the three children had different goals. Two of them wanted to be cashed out and one wanted to continue to own the corporation and to use the cash proceeds to engage in other business transactions.

Both the corporation and the timber were offered for sale. Predictably, the bids came in for the timber and not for the corporate entity. The top bid was just in excess of $5 million for the timber and land.

The C corporation sold the timber and land for $5 million. After payment of tax at the federal and state corporate rate, approximately $3 million remained. Clara then took her distribution in cash, and paid tax at capital gains rates in the amount of $200,000 on complete redemption of her stock.

Arnold transferred his shares of stock into a charitable remainder unitrust for himself and his wife. The unitrust sold the stock for $1 million cash to the corporation. Arnold bypassed the gain, thus saving approximately $200,000 of federal and state capital gains tax, and received a charitable income tax deduction. The income tax deduction saved Arnold an additional $100,000 in tax. Thus, Arnold enjoyed tax savings of approximately $300,000

The Executive Trust Officer earned $64,000

Education Trust For Seven Grandchildren

Lester and Karin Holmgren, of Pottsville, Pennsylvania have seven grandchildren. They desire a very flexible plan that will also encourage their grandchildren to be diligent in pursuing their college education.

Lester and Karin hold a fairly substantial block of appreciated stock.

A trust planner, from nearby Allentown, suggests they make transfers of stock each year for four years and then use the charitable deduction from the gift plan to reduce their other income. They plan to transfer stock valued at $200,000 in year one, $180,000 in year two, $160,000 in year three and $140,000 in year four.

They also note that the grandchildren are currently age four to eleven and will not need payouts for a period of eight years. At that time, two students will be in college. However, by trust years twelve or thirteen, there may be three or more at one time in college. In addition, they want the trustee to have the discretion to make distributions to the students who are making satisfactory progress in college.

This advanced education unitrust achieves all of their objectives. It is permissible to make additions to the unitrust in years two, three and four.

The annual exclusions will be sufficient to cover distributions to any student in a given year, particularly since they are creating the trust with joint property and thus have two exclusions each year per student.

The bypass of capital gain, income tax savings and the bracket benefit are very substantial. Their total tax savings are over $400,000. In addition, over $1.1 million after tax is available for the students. All seven students will be able to attend very fine colleges and even graduate and professional schools with this level of funding. Finally, after the term of twenty years is completed, over $1 million will be distributed to a charity.

The Executive Trust Officer earned $23,000

An Environmentally Sound Sale

Alex and Bob attended the same college in Indiana. After working in different companies for several years, they decided to start a new company to produce environmental devices.

Thirty years ago, Bob believed it would be beneficial to develop devices to measure industrial pollution levels. Alex and Bob worked hard over the years and built a small high-technology company. The company produces several devices for measuring industrial pollution.

As the Environmental Protection Agency has increased requirements for limiting pollution, the demand for the company's products also has increased. The business has grown and now has over 70 employees.

A large company is interested in acquiring Alex and Bob's C corporation. Since they now are age 62 and plan to retire during the next three years, they have entered into negotiations for purchase of the company.

Bob and his wife Sue have always had a close relationship with their local charities. They explored options with their CPA and discovered that he had little to offer other than recommending an installment sale.

Similarly, their attorney recommended selling and retaining an advisory role.

They were referred to a trust planner, from Indianapolis, who told them it would be possible for them to sell tax-free **AND** create an insurance trust that will provide a very substantial tax-free inheritance for their two children.

During the negotiations, Bob and Sue transferred their stock into a charitable remainder unitrust. The unitrust will make payments to them for their two lives and then the principal will be transferred to their favorite charities. Since Bob and Sue also have a large pension plan and own their home, they decide to transfer all of their stock into the charitable trust.

The charitable trust then offers the stock for sale to the large company. The trust receives $2 million from the large company for the stock.

Since their cost basis in the stock was $1,000, Bob and Sue bypass the gain and save almost $300,000 in capital gains tax. They also receive an income tax deduction of $700,000. Since this is an appreciated tax deduction, their deduction will be limited to 30% of their adjusted gross income each year. Fortunately, the deduction may be stretched over as many as six years.

Bob and Sue are pleased with the plan. They bypassed all of the capital gain, and enjoy substantial tax deductions. In addition to the IRA income that will start next year, Bob and Sue will receive approximately $120,000 annually from the charitable remainder unitrust.

Finally, the additional income after tax provided them with more than sufficient resources to fund the insurance trust for the inheritance of their two children.

The Executive Trust Officer earned $83,000

Company Exit Strategy

An un-named husband and wife, residing in New Jersey, started a children's clothing company 30 years ago.

They now are both age 65 and are interested in retiring. Two of their four children are currently involved in the business.

The company is now valued at approximately $5 million. The company is producing a substantial profit each year and holds approximately $800,000 in reserves. Since these reserves are well in excess of the $250,000 permitted amount for accumulated earnings tax purposes, it is necessary each year to justify the retention of the larger sum.

They engage a trust planner from New Jersey to structure their exit strategy and retirement plan.

They recapitalize the company into 1,000 voting shares and 20,000 non-voting shares of common stock. They then create a two-life charitable remainder trust. This trust will pay 6% to them for their lifetimes..

The $800,000 in liquid assets plus accumulated profits over the next five years will be sufficient to cover the anticipated $2.5 million target of their retirement.

Each year, there will be an appraisal to determine the number of shares that equal the $500,000 contribution they will be making to an equity index annuity.

The Executive Trust Officer earned $103,000

FLIP CRUT

Roger Rainey, a Massachusetts investor, owns a $1 million commercial building. At the age of 70, he is ready to retire from the property management business. He therefore is contemplating a sale of the building. However, Roger's cost basis is only $100,000 and thus he is facing a potentially very large tax bill when he decides to sell. Roger would like to sell the property with little or no tax and accomplish some retirement planning as well.

Roger knows real estate but this is the time to call his friend Bill, a trust planner.

Bill outlines two distinct plans for Roger and Roger elects the sale and unitrust option. Based upon his current financial goals, he transfers 70% of the building into a FLIP CRUT. He continues to own the remaining 30% of the building. Soon thereafter, the building is sold to a third party for $1 million. The CRUT will receive $700,000 and Roger will receive $300,000.

Because 30% of the building was sold personally by Roger, the $300,000 is subject to capital gains tax. Specifically, Roger will have $270,000 of capital gains ($300,000 - $30,000 prorated cost basis). However, the $700,000 will not be subject to any tax upon sale. In fact, it will generate a $320,000 charitable tax deduction that will offset all of Roger's $270,000 of capital gains. Assuming he can use his charitable tax deduction, this results in a zero tax sale for Roger. Finally, Roger will receive a lifetime income stream from his $700,000 CRUT and therefore satisfy his retirement planning goals.

The Executive Trust Officer earned $28,000

Grantor Lead Trust:

Harold Magee, Kearny, New Jersey, age 67, is a very generous American. He is the stereotypical major donor that charities love to find. Coming from a wealthy and philanthropic background, Harold has given approximately $15 million to national and local charities over his lifetime. In addition, he currently sits on the boards of several charities and loves his role as a volunteer and donor.

With a $20 million estate, Harold's estate plan is very comprehensive and reviewed annually. Not surprisingly, Harold is always contemplating new gifts and tax-wise planning. In fact, during the past two years, Harold has been tinkering with the idea of creating a charitable lead trust to benefit one of his favorite charities. Harold loves the idea and the tax benefits associated with the gift. However, due to his busy schedule, he just has not found the time to complete the gift.

Fortunately, Harold's attorney knew a trust planner from the nearby town of Belleville and called him in for a conference.

Although very wealthy, Harold has anxiety over the current state of the economy and asks if there is any way he could "get the money back" at the end of the trust term?

With CLATs, the lowest AFR produces the largest charitable income tax deduction. Because the AFR for February 2009 is a mere 2.0% (available until April 30, 2009), it is a great time to create a CLAT. Harold transfers a $1 million portfolio of stocks with both gains and losses into a 5-year 5% payout CLAT by April 30; Harold's charitable deduction is $235,675. With an AGI of $800,000 in 2009, this deduction is just below his 30% limit for the year. (If Harold funds the lead trust later in the year, the deduction is still very substantial, even with slightly higher AFRs.)

Therefore, assuming a 40% federal and state combined income tax rate, Harold could save income taxes of over $90,000 **<u>by completing the gift now while interest rates are so low.</u>**

Lastly, $250,000 will be distributed to charity as a result of Harold's CLAT. He is amazed with this enormous benefit and decides that his CLAT will benefit his three favorite charities equally. In the end, Harold is completely happy with his plan. He turned falling stock markets and interest rates into a golden opportunity to help charity and him.

The Executive Trust Officer earned $48,000

Capital Campaign

James Johasic, of Bucks County, Pennsylvania, has an estate of $4 million and has served as a volunteer on his university's alumni committee for many years. The university is conducting a capital campaign and has asked James for a gift of $400,000. He owns an appreciated parcel of development land worth $400,000 and is considering giving that land to the university.

However, he is concerned that his nephews and nieces would not then receive the $400,000 as part of their inheritance. Fortunately, his trust planner suggests that James replace the $400,000 through an irrevocable insurance trust.

James then deeds the development land to the charity. Based upon a qualified appraisal, he receives a charitable deduction of $400,000. In his 35% tax bracket, his tax savings are $140,000 over four years. James transfers the $35,000 in tax savings each year for four years to the trust. Each of his four nephews and nieces holds a Crummey power that allows them respectively to withdraw one-fourth of the trust premium for a period of 30 days. After the 30 days passes, the power lapses and the funds may be used to acquire the insurance policy.

Since the irrevocable insurance trust is excluded from his estate and the life insurance will both increase in value and pay nontaxable proceeds to the nephews and nieces, James has created the "four-tax-benefit" plan.
He bypasses the capital gain
He receives an income tax deduction on the gift.
The ILIT is free of both income and estate taxes.
This plan allows James to make a major gift to the university's capital campaign and still provide a generous inheritance to nephews and nieces.

James was impressed enough with the trust planner that he further decided to create a $1,500,000 charitable trust for his church.

The Executive Trust Officer earned $94,000

Increasing Payout Grantor Lead Trust

Jerry Hoetzel, a Muncie, Indiana businessman has had a very successful year. His professional work from the past several years has resulted in a very large income this year. As a result, he desires a substantial charitable income tax deduction, but would like to retain the asset.

He has dealt with a local Indiana trust planner before and wisely decides to call her again

Jerry funds a grantor charitable annuity lead trust with payouts to charity for a term of eight years. The trust invests in municipal bonds. At the end of the eight years, the bonds will be returned to Jerry.

In order to maximize the benefits, the trust pays an annuity equal to 2% of the initial value for the first two years, 4% the next two, 6% the next two and 8% the final two years. Because the bonds are tax-exempt, the excess income in the early years is used to acquire more municipal bonds.

Even if bond interest rates should change or bonds are called during the duration of the trust, the high probability is that the trust principal will be retained for the donor. At the end of the eight years, Jerry Jones receives $1,023,233. However, he benefited from an income tax deduction of $333,612 when the trust was created. Finally, with the tax-free municipal bond income distributed to charity or accumulated in the trust, there is no additional income taxation to Jerry.

The Executive Trust Officer earned $22,000

IRA to Three-Life Unitrust

Ann Deveraux, of Palantine, Illinois has three children and an estate of $2.1 million. She has an IRA that has grown to $1.2 million, and other property valued at $900,000. Ann would like to provide some principal to the children and then income for life. One of her three children has a long history of poor money management. Ann wants to treat her three children equally, but believes that this child will benefit from lifetime income.

The trust planner creates a four-life unitrust that is unfunded. The charitable remainder is over 10%, so the trust is a qualified unitrust. She changes the beneficiary of her IRA to the trustee of the unitrust. When she passes away, the $1.2 million IRA is distributed to the trustee of the unitrust for the three lives of the children.

The children receive the balance of the estate outright, with each child receiving over $250,000. Each of the three children then receives one-third of the unitrust income. Over the lives of the children, the $1 million unitrust will pay approximately $2.5 million of income. Each child will receive about $800,000 of income during his or her lifetime. After all three children have passed away, approximately $2.4 million will be available for charity.

The Executive Trust Officer earned $59,000

IRA Trust

Sam and Anna Perez, of Midlothian, Virginia, raised four children. Sam passed away last year and Anna rolled over Sam's IRA. She now has an estate of $1.6 million. $800,000 is in her IRA and the balance in her home, CDs and mutual funds.

The broker recommends that she take her IRA that is, essentially, a ticking tax time bomb and create an IRAtrustTM. She changes the beneficiary designation of her IRA to the trustee of the IRAtrustTM. When Anna passes away, the $800,000 IRA is transferred to the IRAtrustTM, saving all of the income tax on the IRA.

It is invested for a term of 15 years and pays out just over $800,000 to the children during that time. After 15 years, approximately $1 million will be distributed to Anna's favorite charity.

Each of the four children will receive almost $200,000 from the balance of the estate. Over a period of 15 years, each child will also receive $200,000 of income. Anna especially likes the way the plan is balanced. Each child receives principal when she passes away and then income for a term of years. Anna believes that this is a desirable plan for the children and will also eventually help her favorite charity.

The Executive Trust Officer earned $31,000

Land Use

Carol Wilson bought 30 acres of development property 10 years ago for $60,000. It now has a fair market value of $300,000.

In discussions with her tax advisor, she says she would like to reduce the potential tax. If she were to sell and recognize the $240,000 gain, there could be a capital gains tax payable of $36,000. She would like to reduce this tax by at least 60%.

With the advice of her CPA, Carol deeded six of the 30 acres to her favorite charity. At $10,000 per acre, she received an appreciated property deduction of $60,000 and avoided the capital gains tax otherwise payable on the gifted property. The charity and Carol then jointly sold the property to a developer for a total of $300,000. On the sale portion of $240,000, the 20% basis results in a gain of 80%, or $192,000.

Tax at 15% on the gain is $28,800, while her tax savings at 30% on the $60,000 gift, equal $18,000. From her $240,000, she has a net tax cost of $10,800, leaving her with a net cash amount of $229,200. The gift of 20% did indeed reduce her capital gains tax by over 60%.

The Executive Trust Officer earned $12,000

Green Family Testamentary Lead Trust

Michael D, a lifelong Annapolis, Maryland resident, has a $12 million estate and plans to benefit four nephews and nieces. Because there are other inheritances from their parents, Michael would like to provide a substantial addition during their retirement years. Michael establishes an estate plan that transfers $10 million to a family limited partnership (FLP). With liquid assets in the FLP, the assumed discount is 27% in the estate. The FLP is therefore valued at $7,300,000.

The FLP with value of $7,300,000 is transferred to a testamentary lead trust for 15 years. The lead trust pays an annuity equal to 3% of the initial value for three years, 5% for three years, 7% for three years, 9% for three years and 11% for the final three years. The total distribution to charities will be $7,665,000. Because the trust grows significantly in the early years, the distribution to family from the lead trust will be $15,505,623. .

In the estate of Michael, the lead trust is first reduced in value by the FLP discount and then by a charitable deduction of $5,589,202.
Therefore, there is zero estate tax. Michael has transferred over $20 million in value to family, and provided $7.6 million to charities.

The Executive Trust Officer earned $117,000

Real Property Bargain Sale

Joseph Doerr, Palm Beach Gardens, Florida, purchased vacant land for $50,000 several years ago. The land was adjacent to the new community medical center building. Since the medical center would like to acquire the property for future expansion, Joseph had been discussing options with the medical center.

The property was currently valued at $200,000. With a cost basis of $50,000, there was approximately 25% basis and 75% gain in the property. The medical center was willing to pay $120,000 for the property.

Since Joseph and his family members have been patients at the medical center, they wanted to enter into a transaction that would benefit the center. He was willing to sell the $200,000 property for $120,000. This entitled Joseph to a charitable deduction of $80,000 for a gift of appreciated property. The basis was prorated and, with a 25% basis, or $30,000 on the sale portion of the $120,000, Joseph must report a long-term capital gain of $90,000.

His income tax rate was 30%, so the $80,000 deduction saves $24,000. At a 15% capital gains rate, he will pay a tax of $13,500 on the realized portion of the gain, while avoiding $9,000 in capital gains taxes on the gift portion. The net tax benefit produces an additional $10,500.

Joseph receives the $120,000 cash from the sale, plus an additional net tax savings of $10,500. The income tax savings may be spread over one to six years.

Sometime free advice can be fruitful, as two weeks alter the chairman of the hospital was so impressed, he asked her to handle their capital campaign and work directly with their wealthy benefactors.

In the last three years, she has **generated commission income of approximately $450,000** from that hospital and has acquired the same role in two additional hospital foundations.

Real Estate Trusts:

Bill and Kathryn Hansen bought development real estate on the outskirts, of Chantilly, Virginia ten years ago. Property development has slowly but steadily moved their direction and there now is a commercial center adjacent to their property. Local area developers are knocking on their door, desiring to purchase their property and to build new commercial facilities.

Bill is 52 and Kathryn is 50.

Their trust planner, a local resident, instructed them to create a net income plus makeup unitrust and transferring half of the property this year and half of the property next year.

First, the appreciated-property charitable deduction of approximately $60,000 each year may be fully utilized, since their income is $200,000 and 30% of that limit would be $60,000.

Second, the property logically would be developed in two phases. By selling half this year and half next year, they maximize their total return.

Third, their trustee may then transfer the proceeds into **equity index annuities** for the ten years. At that time, they will have over $1.7 million in the trust and the trustee may then begin making retirement income payments of over $86,000 annually to Bill and Kathryn.

During their two lives, the total income paid out will be over $4.4 million. With their income tax savings and the bypass of capital gain, they are very pleased with the retirement unitrust plan.

Finally, after the last of them passes on, a separate life insurance trust will create a gift of almost $3 million will be made to their favorite charities.

The Executive Trust Officer earned $34,000

Bay-front property:

Harold and Harriet K. live in a beautiful $1 million home, on the bay at Point Pleasant, New Jersey and are both 64 years of age.

They purchased the home 20 years ago for $200,000. However, the home is too large for just the two of them now. Therefore, Harry and Harriet want to sell their home, downsize to a smaller home, and invest some of the proceeds for retirement. Furthermore, they want a zero tax sale solution.

Harry and Harriet qualify for the $500,000 home exclusion because they have owned and occupied the home for two of the past five years. Indeed, they have owned and occupied the home for the past 20 years. However, Harry and Harriet have $800,000 of potential capital gain. In other words, the $500,000 home exclusion would not provide a zero tax sale, since $300,000 would be subject to tax.

Instead of an outright sale, Harry and Harriet elect a sale and unitrust strategy that was presented to them. With this plan, they transfer approximately 23% of the home into a unitrust and retain the remaining 77%. With respect to the 23% of the home, or $230,000, Harry and Harriet will bypass up to $184,000 of capital gain, receive a $94,962 charitable deduction and receive lifetime income of approximately $291,443.

With respect to the 77% of the home, or $770,000, Harry and Harriet will receive this amount in cash. This sale is subject to capital gains tax. However, after applying the home exclusion and prorating the $200,000 cost basis, Harry and Harriet will have only $116,000 of capital gain to report.

They can use the $94,962 charitable deduction; Harry and Harriet will not owe any tax at all because the tax savings of $33,263 ($94,963 x 35%) will completely offset the capital gain tax of $17,400 ($116,000 x 15%). Therefore, Harry and Harriet have a zero tax solution plus the benefits of retirement income and charitable giving.

The Executive Trust Office earned $37,000

Tandem Trust

Grace Olsen, of Swartswood Lake, New Jersey has an estate of $4 million.

Approximately $1.5 million is in an IRA and the balance is in stocks and real estate. She is a surviving spouse with four children.

She would like to pass some principal when she passes away, income for a period of time and then a distribution of deferred principal.

If possible, she would like to save the income tax on the $1.5 million IRA and avoid any estate taxation on the entire $4 million estate.

Her advisor suggests a tandem trust. When she passes away, the IRA will pass to an IRAtrustTM for a term of ten years. This trust will not pay the ordinary income tax on the IRA and will also produce a substantial charitable deduction of $823,542. Over the ten years, the IRAtrustTM will pay approximately $1 million in income to family members.

Approximately $2.5 million of the estate is transferred into a family limited partnership.

When she passes away, the limited partnership units will be distributed to a charitable lead trust for a term of ten years. The lead trust will pay 8.65% on the underlying assets, or 12.36% on the assets after a 30% FLP discount. The lead trust payout over ten years will be $1,854,000 to charity. At the end of the ten years, the lead trust value of $1,637,213 will be distributed to children. However, the underlying assets at that point are now valued at $2,338,875.

This plan provides the children with a substantial inheritance when Grace passes away. They receive $277,143 plus over $1 million from their father's bypass trust at that time.

During the ten-year term they receive over $1 million in income. At the expiration of the ten years, the assets from the lead trust with value greater than $2.3 million will be distributed to the children. Each of the four children will receive a total inheritance in excess of approximately $1 million.

The trust planner shows Grace how the plan can reduce estate tax to zero, save the income tax on the entire IRA, move approximately $1 million per child through an inheritance and provide a very substantial distribution to her favorite charities.

The Executive Trust Officer earned $68,000