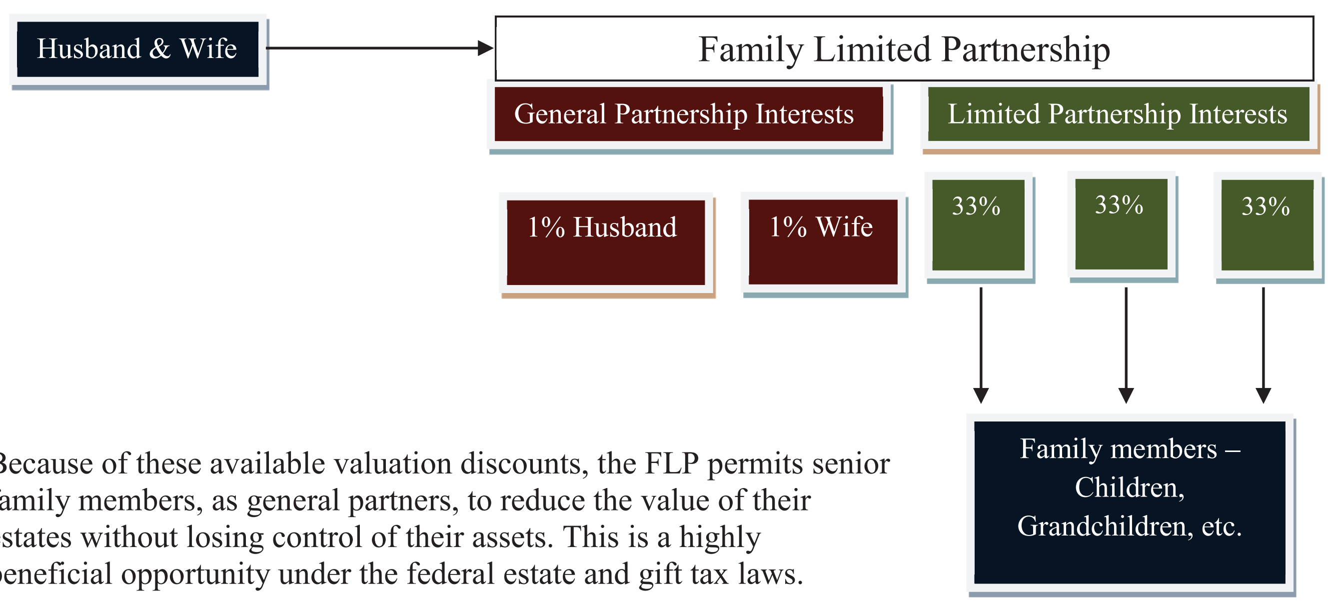
Wealth Transfer Strategies

There are many strategies that may be utilized to accomplish an efficient transfer of wealth from one generation to the next. Some are designed to reduce or eliminate your exposure to federal transfer taxes (estate, gift & generation skipping taxes), some are designed to control the timing of the transfer, some are designed to add a layer of creditor protection to family assets. The specific strategy that is appropriate for you will depend on many factors including family dynamics, the makeup of your estate assets, and most importantly the financial and personal goals you have for your family. A number of these strategies are discussed below.

FAMILY LIMITED PARTNERSHIPS

Family Limited Partnerships can be an effective vehicle for the management, accumulation, preservation and transfer of family wealth. There are many advantages that may be gained by implementing an FLP including an increased level of creditor protection for family assets and a reduction in federal transfer taxes (estate, gift & generation skipping taxes). While there are many ways an FLP may be utilized, a common strategy involves the following steps:

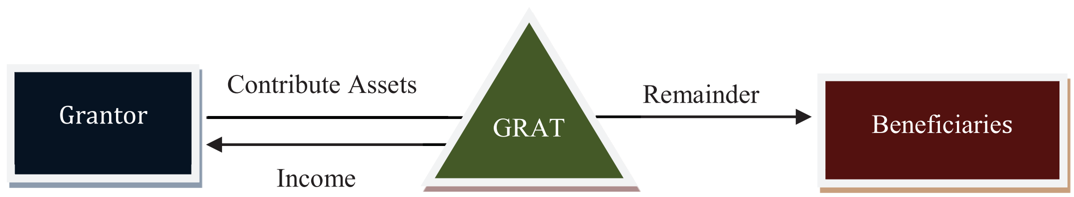
> Assets are gifted to the FLP which is then divided into general partnership interests (which provide the owner with control over FLP investments) and limited partnership interests (no control). The limited partnership interests are then gifted to family members. While the gift is a gift for federal gift tax purposes, the value of the asset gifted may be reduced based on available minority and lack of marketability discounts.



Because of these available valuation discounts, the FLP permits senior family members, as general partners, to reduce the value of their estates without losing control of their assets. This is a highly beneficial opportunity under the federal estate and gift tax laws.

Grantor Retained Annuity Trust (GRAT)

A Grantor Retained Annuity Trust (GRAT) is a tax efficient, well established, technique for transferring assets (including business interests) to the next generation. In a Grantor Retained Annuity Trust (GRAT) the donor transfers an asset to an irrevocable trust in return for an annuity interest, typically for a term of years. The annuity is a fixed amount based on a percentage of the asset transferred and must be paid at least annually. At the end of the term period the asset is distributed to the named beneficiary. For gift tax purposes the value of the gift on the date of the transfer is equal to the current value of the transferred asset minus the value of the retained annuity interest measured by using the IRS Sec. 7520 rate. In order for the GRAT to be successful the rate at which the asset appreciates inside the GRAT needs to be greater than the IRS assumed rate of growth (IRC Sec. 7520). Should the grantor pass way during the term of the GRAT the property is brought back into their gross estate.



Example

Fair Market Value of Contributed Asset:	$5,000,000
Income Earned by Trust:	3%
Growth Rate of Trust Principal:	3%
§7520 Rate:	1.4%
Payout Percentage:	10.786%
Trust Term:	10 Years
Results:	
Taxable Gift:	$0
Annual Income to Grantor:	$539,304
Remainder Passing to Beneficiaries:	$1,868,822

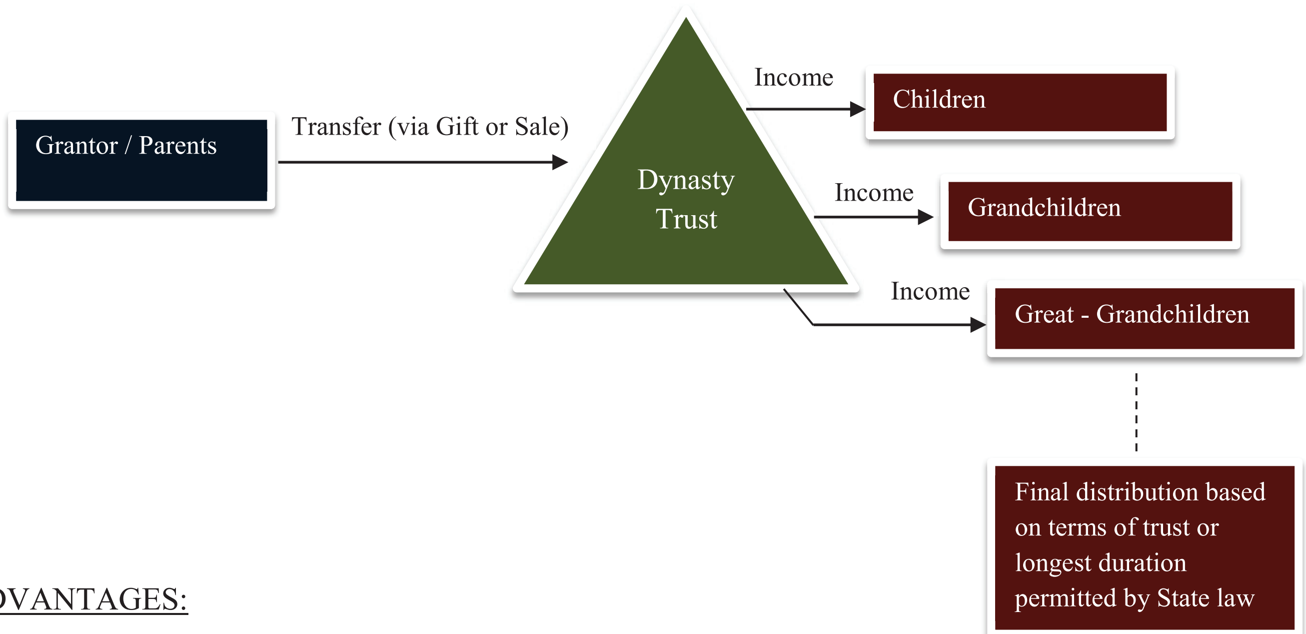
In this example the grantor will not use up any of their lifetime gift tax exemption yet will be able to transfer $1,868,822 to their chosen beneficiary. As long as the grantor survives the 10 year term of the trust, 100% of the asset transferred will be excluded from the grantor's estate.

ADVANTAGES:

- Removes future appreciation of an asset from the grantor's estate
- Works well for assets that are expected to appreciate substantially over a short period of time.
- The grantor pays any income taxes incurred by the trust, essentially making a gift-tax free gift to the eventual beneficiaries.
- Very effective wealth transfer technique when used in combination with asset discounting strategies such as family limited partnerships.

Dynasty Trust

The term "Dynasty Trust" describes a trust that is designed to benefit future generations beyond the grantor's children. In a typical ILIT the grantors will be a husband and wife and the trust beneficiaries will be their children. The main difference with a Dynasty Trust is that instead of having a lump sum passed on to children at the death of the last surviving spouse, a Dynasty Trust will distribute income to each succeeding generation (the amount and type of income will vary depending on the terms of the trust) until State law requires distribution of the trust principal. Dynasty Trusts may be drafted to include provisions that protect trust assets from creditors, including a divorced spouse of a beneficiary. By applying the grantor's generation skipping transfer tax exemption against gifts to the trust, the grantors can avoid the GSTT. The GSTT exemption can be leveraged when the trust purchases life insurance and the grantors apply their exemption to annual gifts to the trust used to pay premiums.



ADVANTAGES:

• Avoids the federal estate and generation skipping transfer taxes.
• The trust can include provisions that protect the principal from creditors.
• The trust may provide financial benefits for an unlimited number of future generations (depending on which state the trust is in).
• When funded with life insurance, a Dynasty Trust can leverage smaller lifetime gifts into a substantial inheritance for future generations.