



Baystate Financial Planning

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SHIFTING WEALTH

RETAINING CONTROL

PLANNING OBJECTIVES

1. “I have already transferred significant wealth to my children, but I wish that I had not.”

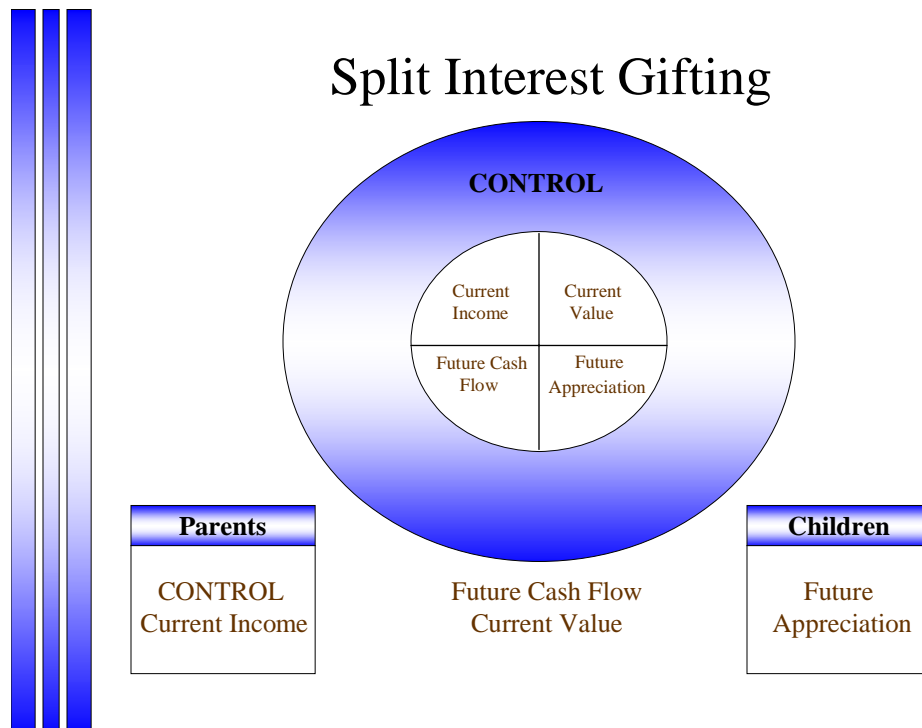
2. “I would prefer that my children were more motivated, instead of being ‘trust fund babies’ – relying on the wealth transferred to them.”

3. Find all tax efficiencies wherever possible:
 - a. Minimize income taxes;
 - b. Minimize capital gains taxes; and
 - c. Minimize estate taxes.

4. Provide asset protection for the client, spouse, children, and grandchildren so that creditors cannot access assets (or income).

THE OPTIMAL ESTATE PLAN

- You retain full **CONTROL** over all of the assets
 - You have access to any or all of the current and future **INCOME**
- You have the ability to restrict access to income by children/grandchildren
- Current and/or Future **VALUE** of assets is shifted outside of your taxable estate
- Creditor (Predator) Protection available for current and future generation owners



SHIFTING NEW ACQUISITIONS

EXAMPLE

- Disney floated a **BOND** to produce The Lion King
- Very commercially successful venture with movies, sequels, Broadway Show, lunch boxes, T-Shirts, and other promotional products
- **BOND**holders received back their original investment, plus interest
- **STOCK**holders received all of the remaining value

SHIFTING NEW ACQUISITIONS

- **PARENTS are the BONDholders**

They loan funds to entities created for the benefit of spouse
and/or children and grandchildren,
in perpetuity

- **ENTITIES are the STOCKholders**

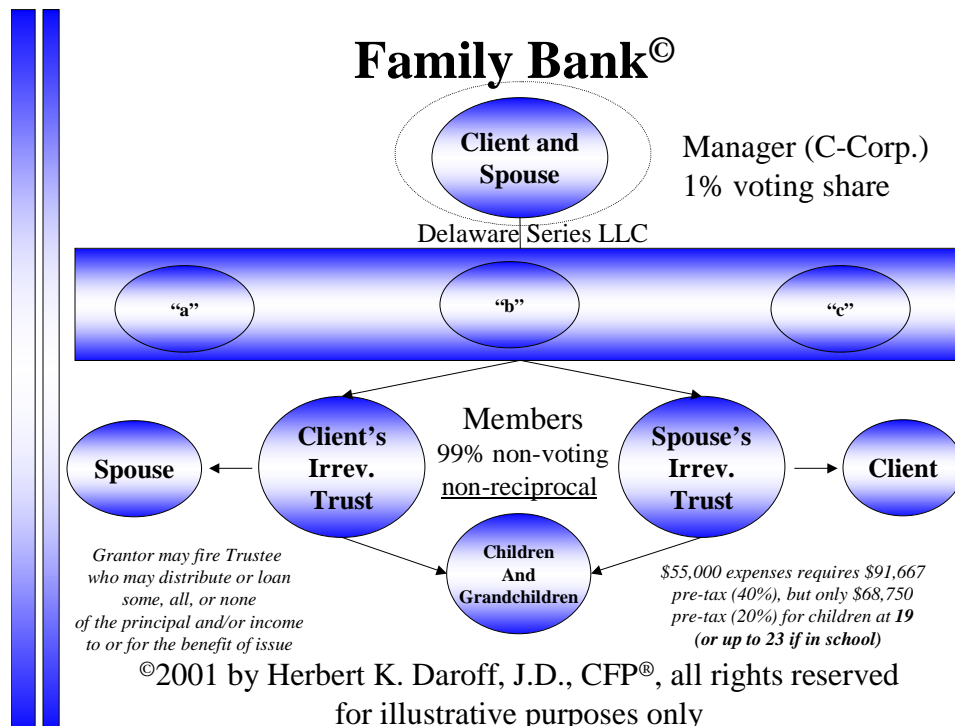
These entities (i.e., dynasty trusts holding Family Series LLC member interests)
receive the value over the return of loaned principal, plus interest

If you are the DONOR of the trust,
then your spouse and issue can be the “spray” beneficiaries of your trust.

If your spouse is the DONOR,
then you and your issue can be the “spray” beneficiaries.

You can transfer assets to her under the unlimited marital deduction
(if both are U.S. citizens)

If your parents are the DONORS,
then you and your issue can be the “spray” beneficiaries.



TRANSFERRING EXISTING HOLDINGS

- This is much more difficult than acquiring new assets because of the transfer limits (\$12,000/year per donor per donee; plus \$1,000,000 per donor)
- However, there are planning techniques that allow those limits to be leveraged
- In addition, there are techniques that enable you to SELL assets to children/grandchildren, or entities for their benefit, without incurring capital gains

Split Interest Gifting The Key to Estate Planning

to Charities	to Family
Charitable Remainder Unitrusts (CRUT); or Annuity Trusts (CRAT)	Sale to ESOP
Charitable Lead Unitrusts (CLUT; or Annuity Trusts CLAT)	Sale to Intentionally Defective Grantor Trust
Private Foundations	Grantor Retained Annuity Trusts (GRAT)
	Private Annuities
	Self-Cancelling Installment Notes
	Qualified Personal Residence Trusts (QPRT)
	Family Limited Partnerships; or Limited Liability Companies

for example: Jackie Onassis used testamentary CLAT to gift memorabilia to Kennedy Library

for example: Sam Walton used a Family LP to transfer non-voting stock in Wal-Mart

for example: Malcolm Forbes who kept complete control and used life insurance to pay estate taxes

CAPITAL GAINS AND ESTATE TAXES ARE **VOLUNTARY**

- In 2008 (and possibly through 2010), there is a ZERO capital gains rate for anyone in a 10% or 15% federal income tax bracket
 - One problem is the expansion of the “Kiddie” Tax.
 - Children are in their parents’ tax bracket until they are age 19 (used to be age 14, then raised to 18 in 2007) or until up to age 23 if still full-time students.
 - CHARITABLE “split-interest” planning allows you to sell low basis assets that have significant capital appreciation

Help Yourself -- While Helping Your Favorite Charity

Before you enter into any financial transaction, consider the following questions:

1. What's in it for me?
2. How will this affect my heirs?
3. How much will be lost to federal and state taxes?
4. Will there be any benefit to my community?

Both the federal and state governments offer opportunities for you to help yourself, help your heirs, and help your community while *saving taxes*.

Take, for example, selling an asset that has grown substantially in value (i.e., has low cost basis and significant capital appreciation). This may be your house on the Vineyard. Even with the \$250,000 (or \$500,000 for a couple) step-up in cost basis for the sale of a primary or second residence, you may still have a substantial capital gain.

Depending on the size of your estate and the level of your taxable income, the federal and state treasuries could be the largest beneficiary of your estate.

EXAMPLE

Selling Appreciated Assets

Hypothetical Example *

	Outright Sale 7%	NIM/ CRUT 7%	NIM/CRUT with wealth replacement
Value	\$1,000,000	\$1,000,000	\$1,000,000
Basis	(0)	(0)	(0)
Gain	\$1,000,000	\$1,000,000	\$1,000,000
TAX @ 20%	(200,000)	(0)	(0)
NET	\$ 800,000	\$1,000,000	\$1,000,000
Tax Deduction	\$ 0	\$ 253,520	\$ 253,520
Tax Savings @ 40%	\$ 0	\$ 101,408	\$ 101,408
Initial Cash Flow	\$ 56,000	\$ 70,000	\$ 70,000
Insurance Premium	\$ 0	\$ 0	(14,000)
Net Cash Flow	\$ 56,000	\$ 70,000	\$ 56,000
Estate Tax @ 46%	(368,000)	(0)	(0)
Net to Family	\$ 432,000	\$ 0	\$1,000,000

Based on Section 7520 rate of 5.4% in January 2006

*** not representing any specific product**

survivorship life insurance (male 67 and female 66, if pfd non-smokers)
the charitable remainder could be your own Family Foundation with children
and grandchildren, as trustees, receiving compensation, if eligible

	Outright Sale during lifetime	Gift to Charitable Trust	Charitable Trust with Replacement
YOU (donor)	Lifetime income of \$56,000	Lifetime income of \$70,000 AND Income Tax Deduction of \$250,000+	Lifetime income of \$56,000
HEIRS	\$432,000	\$0	\$1,000,000
TAXES	(568,000)	\$0	\$0
CHARITY	\$0	\$1,000,000	\$1,000,000

For some who are leaving their heirs other assets,
the “Gift to the Charitable Trust”
without the replacement element may be an acceptable choice.

For others,
you could “have your cake and eat it, too”
with the replacement option.

Herbert K. Daroff, J.D., CFP®

He is an attorney by education and a
CERTIFIED FINANCIAL PLANNER™ practitioner by profession.

Mutual Funds magazine (8/2001) recognized Herb as
One of the Top Advisers in the Northeast,
Worth magazine (7-8/2002) included him in
The 250 Best Financial Advisers; and
Medical Economics magazine (11/2004) listed him in
The 150 Best Financial Advisers for Doctors.

Herb's creativity, experience, and
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with clients and their personal advisors.

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The contents of this presentation are intended for education purposes only.

The presentation provides a brief summary based on our understanding and interpretation of current law.
All tax references are to federal tax law only, unless otherwise stated.
This presentation includes changes made by the 2001 Tax Act.
All these changes are to expire at the end of 2010.

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- (2) gathering necessary and sufficient objective and subjective data given the client's goals, needs, and priorities; and
- (3) evaluating that data and determining alternative strategies consistent with the mutually agreed upon scope
of the engagement and the data collected.

**Herbert K. Daroff, J.D., CFP® is a Registered Investment Advisor in Massachusetts
doing business as BAYSTATE FINANCIAL PLANNING.**