FINANCIAL EXPERTS NETWORK

Estate Planning Masterclass:

Advanced Wealth Transfer Strategies

Wednesday, March 26, 2025
12:00 PM to 2:00 PM EST
(120 minutes)

Moderated by: Tom Dickson

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Estate planning software

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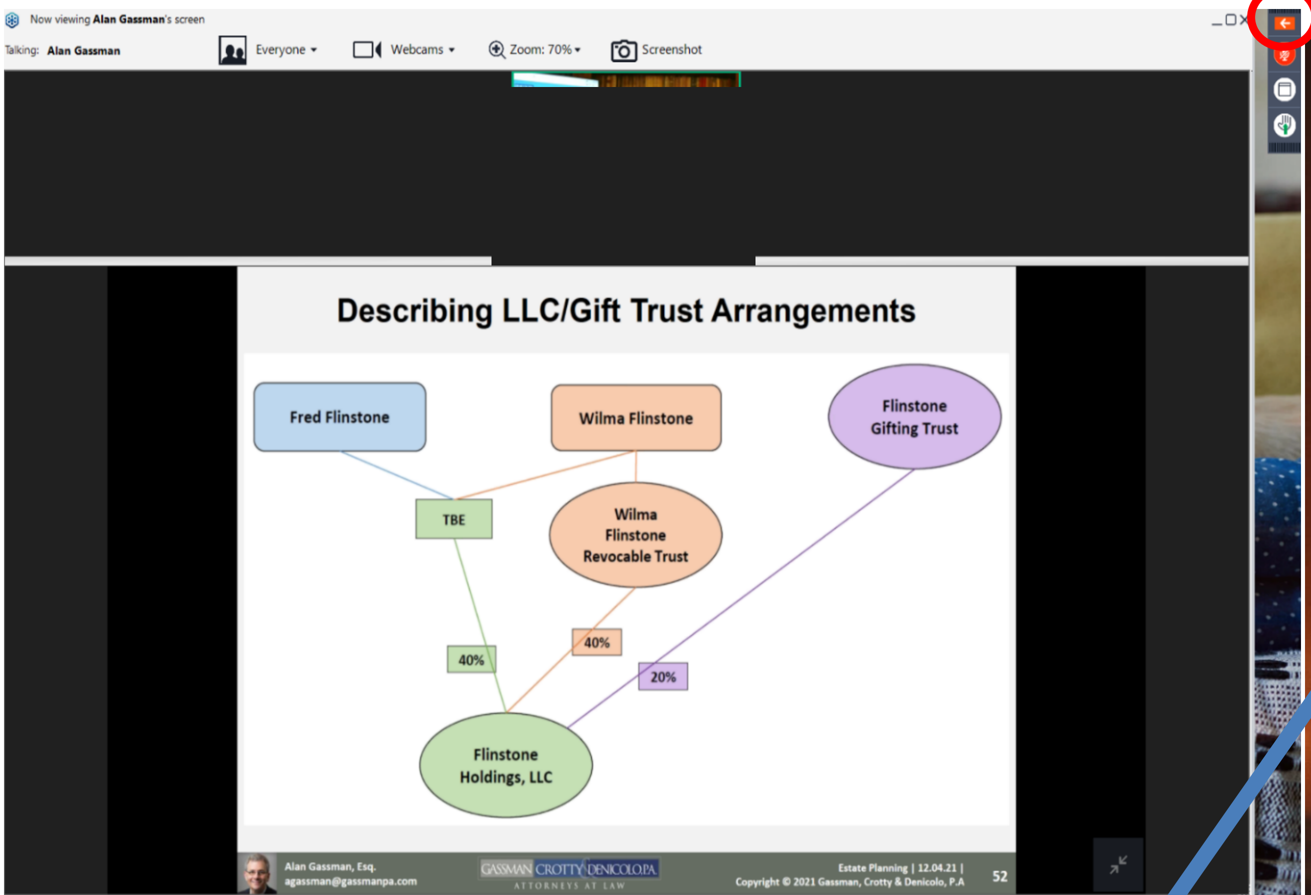

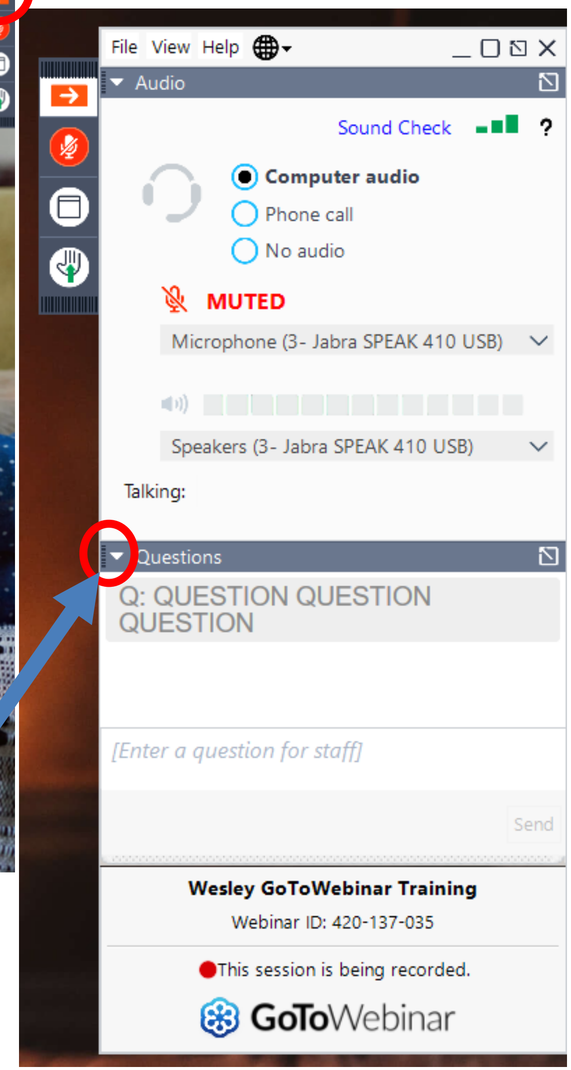

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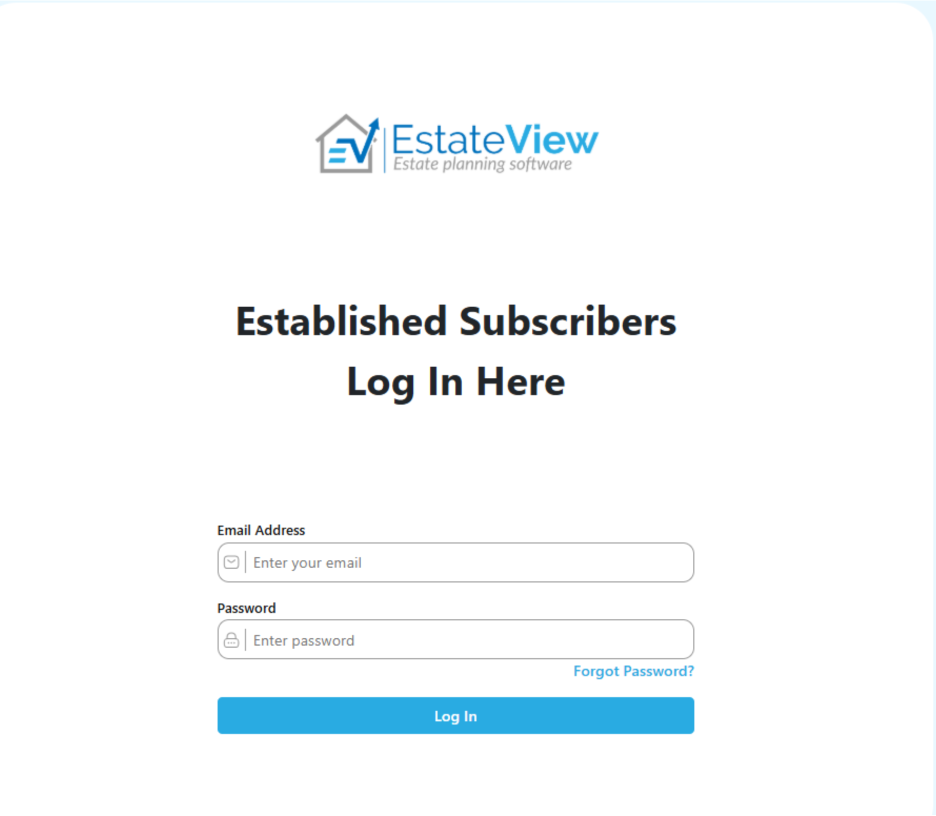

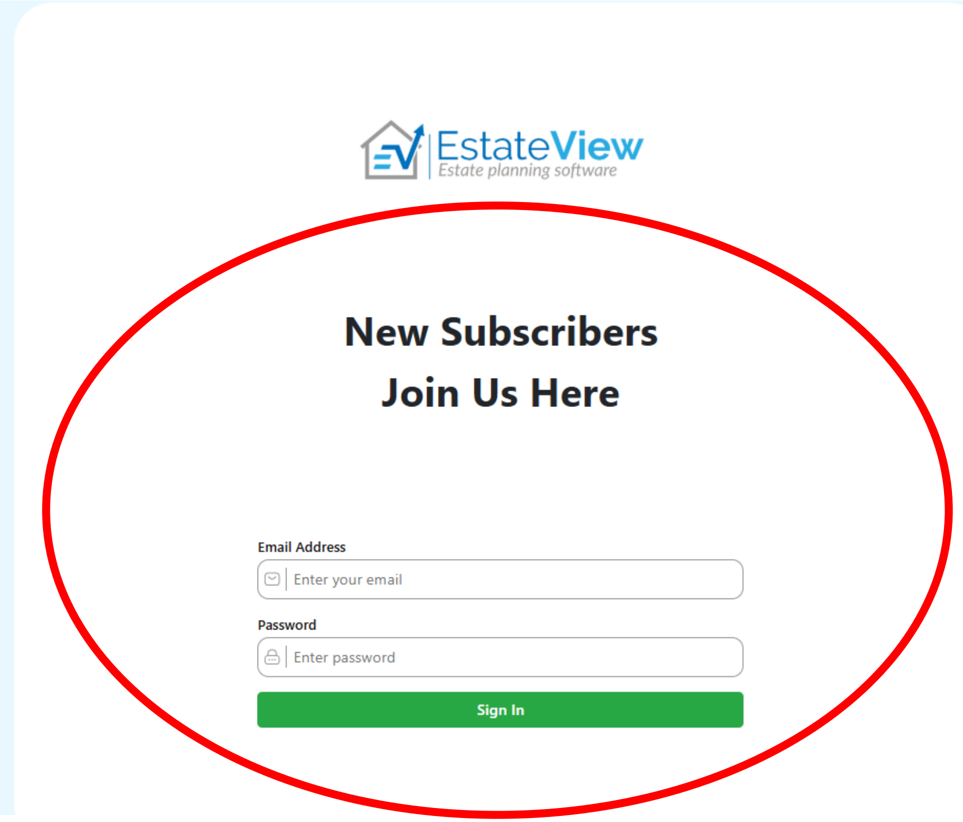

Today's Agenda

- Lifetime Gifting Strategies: FLPs and FLLCs
- Charitable Giving Techniques
  - Donor-Advised Funds
  - Charitable Remainder Trusts (CRTs)
  - Charitable Lead Trusts (CLTs)
  - Foundations: Pros and Cons
- The Role of GRATs and IDGTs
- Spousal Lifetime Access Trusts (SLATs)

Housekeeping

- See Addendum for more on:
  - FLPs in Trusts
  - DAFs
  - Family Foundations
- Advisor Requests; i.e. YOUR Requests

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Family Limited Partnerships (FLPs)

- Understanding Tax Implications for Gifting vs. Inheritance

Scenario 1: Gifted FLP Interests (Lifetime Transfer)

Example:

Parents gift 50% of a $10M FLP to their children.

Parents’ original cost basis = $4M (for 100%).

Children’s cost basis = $2M (carryover basis on their 50% interest).

If FLP is later sold at $10M FMV, children pay capital gains on $3M appreciation each.

Source: IRS Section 1015 (Carryover Basis Rules).

Example:

- Parents pass away, leaving 100% of a $10M FLP to their children.
- FMV at death = $10M, so children receive a step-up in basis.
- New cost basis = $10M (eliminating predeath capital gains).
- If sold for $10M, no capital gains tax is due.
- Source: IRC Section 1014 (StepUp Basis for Inherited Assets).

Key Takeaways and Optimal Strategy

Gifting FLP Interests: Retains original cost basis, creating taxable gains on later sale.

Inheriting FLP Interests: Provides a step-up in basis, eliminating past gains.

Best Strategy: If minimizing capital gains is a priority, waiting for inheritance provides tax advantages.

Source: IRS Publication 559, Tax Court Case: Estate of Gallenstein v. Commissioner (1992).

1. Structural Differences

Feature	FLP (Family Limited Partnership)	FLLC (Family Limited Liability Company)
Ownership	Two-tier structure: **General Partners (GPs)** & **Limited Partners (LPs)**	Owned by **Members**, with one or more **Managers**
Management Control	**GPs control decision-making**; LPs have passive ownership	**Manager(s) control operations**; Members have voting rights based on structure
Liability Protection	**GPs have unlimited liability**; LPs have liability protection	**All members have limited liability**
Governance	Governed by a **Limited Partnership Agreement**	Governed by an **Operating Agreement**
Dissolution Rules	More restrictive; typically requires GP consent to transfer LP interests	More flexible; interests are easier to transfer/sell
IRS Scrutiny	FLPs often face **higher IRS scrutiny** under **IRC Section 2036 (Retained Interest Rules)**	FLLCs generally face **less IRS scrutiny**

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2. Tax & Estate Planning Considerations

Tax Factor	FLP	FLLC
Estate Tax Benefits	Yes – valuation discounts apply *(25-45%)	Yes – valuation discounts apply *(25-35%)
Gift Tax Discounts	Yes – due to lack of control & marketability	Yes – similar discounts apply
Income Tax Treatment	Pass-through taxation (partnership tax rules)	Pass-through taxation (LLC tax rules)
Capital Gains Tax	FLP interests retain basis; limited step-up if gifted before death	Similar to FLP, but allows more flexible basis step-up options
Asset Protection	Strong, but GP has personal liability unless the entity is a limited liability limited partnership (LLLP) or has a company as the general partner	Stronger, as all members have limited liability

* Valuation discounts can significantly exceed 35% in some circumstances

3. The modern LLC

If formed in a modern LLC jurisdiction:

Modern LLC jurisdictions include Nevada, Delaware, South Dakota, Wyoming, Alaska and Florida.

CHARITABLE GIVING TECHNIQUES

DAFs and Private Foundation

Case Study (Use EstateView)

Scenario: Client has an estate of $5-6 million. He wishes to maintain control over principal and income over his lifetime, for his own use, but at death to create a structure to manage assets and make distributions to several charities, (not yet chosen) on an ongoing/long term basis – How can this be done?   And at the same time minimize the tax liability both at transfer (death) and after?

Client Goals and Key Considerations

- Maintain control over principal and income during life
- Ensure ongoing charitable distributions after death
- Minimize estate and gift tax liability
- Compare strategies for tax efficiency and control

Strategy 1: Charitable Remainder Trust (CRT) + ILIT

How It Works:

- Client transfers assets into a CRT and receives an income stream for life.
- At death, remaining assets go to charity tax-free.
- To replace wealth for heirs, an ILIT (Irrevocable Life Insurance Trust) is used.

Tax Benefits:

✅ **Income Tax Deduction**: Client receives an **immediate charitable deduction** when funding the CRT, based on the present value of the remainder interest going to charity.

✅ **Defer/Avoid Capital Gains Tax**: CRT assets (e.g., appreciated stocks, real estate) can be **sold within the trust without capital gains tax**, increasing the available income.

✅ **Estate Tax Exemption**: Assets in the CRT are **removed from the taxable estate.**

✅ **Wealth for Heirs**: Life insurance $$ in the ILIT **pass estate- and income-tax-free** to beneficiaries.

Best For: Clients who want income during life and maximize tax efficiency.

Note: Loss of access to capital in an emergency and the impact of inflation.

Strategy 2: Revocable Trust + Foundation/DAF

How It Works:

- Client holds assets in a Revocable Living Trust (RLT) and retains full control.
- At death, assets transfer to a Private Foundation or Donor Advised Fund.
- Family can continue managing charitable distributions.

Tax Benefits:

✓ Step-up in basis at death, reducing capital gains for heirs.

✓ Estate tax savings by moving assets to charity.

✓ Immediate tax deduction if contributions occur before death.

✓ Longterm family involvement in philanthropy.

Best For: Clients who want full control now and structured long-term giving.

Key Benefits of a Donor Advised Fund

MORE Information in the Addendum

✅ Immediate Tax Deduction: Deduct contributions in the year given, even if grants are made later.

✅ Tax-Free Growth: Investments within the DAF grow tax-free, increasing the impact of donations.

✅ Flexible Giving: Recommend grants to charities at any time while funds continue to grow.

✅ Variety of Asset Donations: Accepts cash, stocks, real estate, and private business interests.

✅ Privacy Option: Donors can remain anonymous if desired.

✅ Low cost and easy to use

What is a Private Foundation?

MORE Information in the Addendum

A nonprofit organization created and funded by an individual, family, or corporation.

Primary purpose is to make charitable grants to public charities or individuals.

Provides greater control over charitable giving than donor advised funds.

Subject to IRS rules: Requires annual reporting and compliance.

Comparison & Recommendation

Strategy	Lifetime Control	Income for Client	Tax Benefits	Ongoing Charity Management	Complexity
CRT + ILIT	Limited (trust irrevocable)	Yes (CRT payout)	Avoids capital gains & estate tax	Charity receives lump sum	Moderate
RLT + Foundation/DAF	Full control	No direct income	Estate tax deduction & step-up basis	Ongoing family involvement	Higher (for foundation)

Recommendation:

- If the client **wants income during life** and **major tax advantages**, the **CRT + ILIT** strategy is better.
- If they **want full control now** and **long-term charitable involvement**, a **Revocable Trust + Foundation/DAF** is ideal.

Sources: IRS Sections 664, 1014, and 2042; IRS Publication 950; Estate of Murphy v. Commissioner.

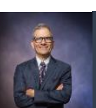
Key Takeaways and Best Strategy Selection

✓ CRT and ILIT is best for clients seeking income during life and tax-efficient giving.

✓ RLT and Foundation/DAF works well for clients wanting full control and long-term family involvement.

✓ Both strategies minimize estate taxes and maximize charitable impact.

✓ Choosing the right structure depends on family goals, tax considerations, and control preferences.



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Charitable Remainder Trusts (CRTs)

A **Charitable Remainder Trust (CRT)** is a **tax-exempt irrevocable trust** that allows individuals to convert highly appreciated assets (like real estate, stocks, or business interests) into **a lifetime income stream**, receive **immediate tax benefits**, and ultimately support one or more **charitable organizations**.

How Does a CRT Work? (1 of 2)

Funding the Trust:
The donor transfers assets (cash, appreciated securities, real estate, etc.) into the CRT. Once the assets are in the trust, they are **no longer part of the donor's estate**.

Income Stream for the Donor:
The trust pays an income stream to the donor (or other named beneficiaries) for life or a set term (up to 20 years).

- Two types:
  - **Charitable Remainder Annuity Trust (CRAT)** – pays a fixed dollar amount annually.
  - **Charitable Remainder Unitrust (CRUT)** – pays a fixed percentage of the trust's assets, revalued annually.

How Does a CRT Work? (2 of 2)

3. Tax Advantages:

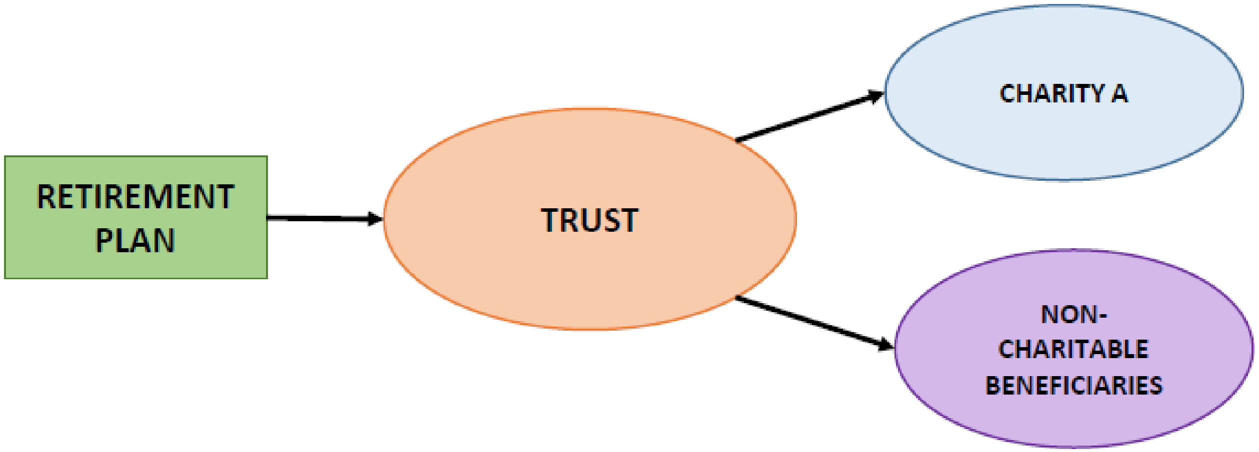
- **Immediate income tax deduction** for the present value of the remainder interest going to charity.
- **No capital gains tax** at the time of the sale of appreciated assets inside the trust.
- **Reduces the donor's taxable estate**.

4. Remainder to Charity: After the income term ends (usually at the donor's death), the **remaining trust assets go to the named charitable organization(s)**.

Who is a CRT Best Suited For? Clients who…

- Own highly appreciated assets (e.g., real estate, business interests, or low-basis stocks) and want to avoid capital gains taxes upon sale.
- Want to diversify out of a concentrated asset position without an immediate tax hit.
- Desire ongoing income during retirement or for a specified term.
- Are charitably inclined, especially those who want to leave a lasting legacy.
- Want to reduce estate taxes and remove assets from their taxable estate.
- Prefer a structured charitable giving strategy with immediate tax benefits.

Payable to Trust, Which in Turn Pays to Charity and Non-Charitable Beneficiaries



Devise to charity must be made no later than September 30 of the year following the year of the owner's death in order to allow the trust to qualify as a "See-Through Trust" for RMD purposes.

The devise to charity should be specified in terms of a fractional devise (rather than a pecuniary devise) in order to avoid gains on funding the charitable devise.

Consider if the 3.8% N.I.I.T. tax will apply.

Consider whether charitable donation should be made in the same tax year or in the tax year after a liquidation of the retirement plan in order to "match" the charitable deduction and the income from liquidation of the retirement plan.

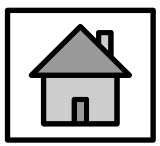
Section 642(C)(1) allows a charitable deduction to be carried back one year to offset income in the year prior to the year in which the amount is actually paid to charity.

Excess to Charity Charitable Remainder Trust(s)

ASSETS

ANN SMITH (Has Exemption Plus DSUE of $15 million)	
Home	$3,000,000
IRA	$20,000,000
TOTAL:	**$23,000,000**

ALTERNATE A

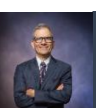


Assets → KIDS

IRA → $12,000,000 (60% of IRA) → KIDS

IRA → $8,000,000 (40% of IRA) → CHARITY

ZERO ESTATE TAX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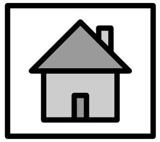
EstateView Estate planning software

ALTERNATE B



Assets

KIDS

IRA

Goes to 40% charitable deduction CRAT.

CRAT
(assume 7520 rate of 5.4%.)

CRAT

Pays approximately $1 million per year in annuity payments for 20 years plus trustee fees.

DESCENDANTS

Remainder in Year 20 (would be worth $13,382,766 at 6% rate of return) or $0 at 1.5% rate of return.

CHARITY

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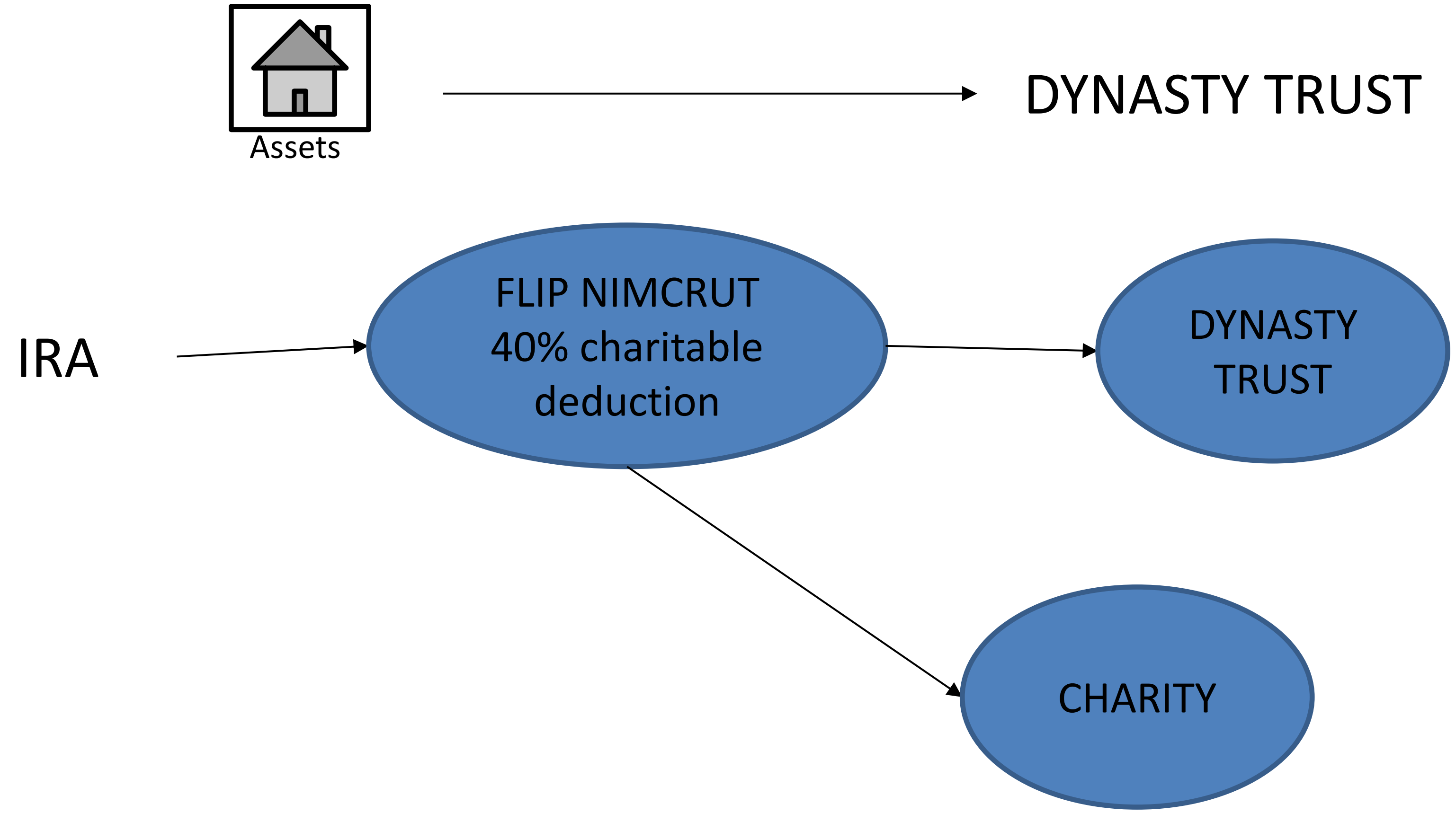
ALTERNATE C


Assets
DYNASTY TRUST
IRA
FLIP NIMCRUT
40% charitable
deduction
DYNASTY
TRUST
CHARITY

Can You Communicate This?

What is a Charitable Remainder Trust (CRT), and how does it work?

What Are the Benefits of using a CRT?

Who Is the Strategy For?

Charitable Lead Trusts (CLTs): Overview and Planning Benefits

- An introduction to CLTs for estate and philanthropic planning

What is a Charitable Lead Trust (CLT)?

An irrevocable trust that provides payments to a charity for a set period, with the remainder going to heirs or other beneficiaries.

Used to reduce estate and gift taxes while fulfilling philanthropic goals.

Can be structured to make annual payments to one or more qualified charities

Types of Charitable Lead Trusts

1. Charitable Lead Annuity Trust (CLAT):

Pays a fixed dollar amount to charity annually.

2. Charitable Lead Unitrust (CLUT):

* Almost never used

Pays a fixed percentage of the trust’s value (recalculated annually).

✅ Both can be structured as grantor or nongrantor trusts depending on income tax goals.

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Benefits of Using a CLT

- Reduces estate and gift taxes through charitable deductions.
- Allows appreciation to pass to heirs with minimized transfer tax.
- Provides ongoing support for favorite charitable causes.
- Useful for clients who want to 'give now, transfer later.'
- Potential income tax deduction (for grantor trusts).

Who Should Consider a CLT?

- High net worth individuals with estate tax exposure.
- Clients with philanthropic goals and desire to leave assets to family.
- Donors planning to fund a private foundation or support annual giving.
- Individuals with low-basis assets seeking to shift appreciation.
- Families interested in legacy and multigenerational planning.

CLAT Level Annual Annuity:

Trust Type:	Term
Transfer Date:	10/2020
§7520 Rate:	0.40%
FMV of Trust:	$800,000
Growth of Trust:	5.00%
Payment Period:	Annual
Payment Timing:	End
Term:	20

First Annual Payment: $41,702.00
Present Value of Annuity: $800,000.00
Remainder Interest/ Taxable Gift: $0.00
Charitable Deduction for Annuity Interest: $800,000.00

Year	Beginning Principal	5.00% Growth	Payment	Remainder
1	$800,000.00	$40,000.00	$41,702.00	$798,298.00
2	$798,298.00	$39,914.90	$41,702.00	$796,510.90
3	$796,510.90	$39,825.55	$41,702.00	$794,634.45
4	$794,634.45	$39,731.72	$41,702.00	$792,664.17
5	$792,664.17	$39,633.21	$41,702.00	$790,595.38
6	$790,595.38	$39,529.77	$41,702.00	$788,423.15
7	$788,423.15	$39,421.16	$41,702.00	$786,142.31
8	$786,142.31	$39,307.12	$41,702.00	$783,747.43
9	$783,747.43	$39,187.37	$41,702.00	$781,232.80
10	$781,232.80	$39,061.64	$41,702.00	$778,592.44
11	$778,592.44	$38,929.62	$41,702.00	$775,820.06
12	$775,820.06	$38,791.00	$41,702.00	$772,909.06
13	$772,909.06	$38,645.45	$41,702.00	$769,852.51
14	$769,852.51	$38,492.63	$41,702.00	$766,643.14
15	$766,643.14	$38,332.16	$41,702.00	$763,273.30
16	$763,273.30	$38,163.67	$41,702.00	$759,734.97
17	$759,734.97	$37,986.75	$41,702.00	$756,019.72
18	$756,019.72	$37,800.99	$41,702.00	$752,118.71
19	$752,118.71	$37,605.94	$41,702.00	$748,022.65
20	$748,022.65	$37,401.13	$41,702.00	$743,721.78
Summary:	$800,000.00	$777,761.78	$834,040.00	$743,721.78

$743,721 passes to children with no transfer taxes

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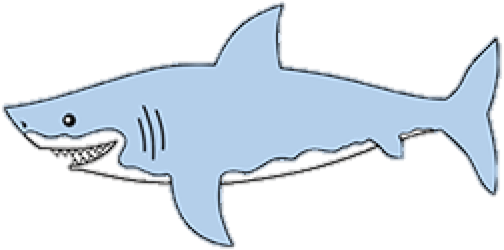
CLAT 20% Annual Increase:

Trust Type:	Term
Transfer Date:	9/2020
§7520 Rate:	0.40%
FMV of Trust:	$800,000
Growth of Trust:	5.00%
Payment Period:	Annual
Payment Timing:	End
Term:	20
Vary Annuity Payments?	Yes
Annual Annuity Payment Growth:	20.00%

First Annual Payment:	$4,568.00
Present Value of Annuity:	$800,000.00
Remainder Interest/ Taxable Gift:	$0.00
Charitable Deduction for Annuity Interest:	$800,000.00

Shark-Fin Charitable Lead Annuity Trust

Interest Rate:	0.4%
Term of Years:	20
Contribution to Trust:	$800,000.00
Investment Growth Rate:	$5.0%
Payment Period:	Annual
Value of Annuity:	$800,000.00
Value of Remainder/Taxable Gift:	$0.00



ECONOMIC SCHEDULE

Year	Opening Balance	5.0% Growth	Annuity	Closing Balance
1	$800,000	$40,000	$1,000	$839,000
2	$839,000	$41,950	$1,000	$879,950
3	$879,950	$43,998	$1,000	$922,948
4	$922,948	$46,147	$1,000	$968,095
5	$968,095	$48,405	$1,000	$1,015,500
6	$1,015,500	$50,775	$1,000	$1,065,275
7	$1,065,275	$53,264	$1,000	$1,117,538
8	$1,117,538	$55,877	$1,000	$1,172,415
9	$1,172,415	$58,621	$1,000	$1,230,036
10	$1,230,036	$61,502	$1,000	$1,290,538
11	$1,290,538	$64,527	$1,000	$1,354,065
12	$1,354,065	$67,703	$1,000	$1,420,768
13	$1,420,768	$71,038	$1,000	$1,490,806
14	$1,490,806	$74,540	$1,000	$1,564,347
15	$1,564,347	$78,217	$1,000	$1,641,564
16	$1,641,564	$82,078	$1,000	$1,722,642
17	$1,722,642	$86,132	$1,000	$1,807,774
18	$1,807,774	$90,389	$1,000	$1,897,163
19	$1,897,163	$94,858	$1,000	$1,991,021
20	$1,991,021	$99,551	$846,713	$1,243,859

$1,243,859 to children

Amount passing to children with no gift or estate tax exposure under level annual payments, 20% increasing annual payments and Shark Fin.

CLAT Trust	Distribution at end of 20 years.
Level annual payments	$743,721
20% increasing payments	$1,036,360
Shark Fin	$1,213,859

Because CLATs have no minimum annual payments, unlike the 5% minimum for charitable remainder trusts, there is no statutory prohibition on using varying minimum payments as long as the present value of all fixed payments can be determined (i.e. all payments must be guaranteed).

Can You Communicate This?

What is a Charitable Lead Trust (CLT), and how does it work?

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GRATs and IDGTs

What is a GRAT?

A GRAT is an irrevocable trust that pays the grantor an annuity for a fixed term, then transfers remaining assets to beneficiaries.

Authorized under IRC §2702, GRATs allow zero or minimal taxable gifts if structured properly.

Used to freeze asset value for estate tax purposes while shifting future appreciation to heirs.

Mechanics of a GRAT (IRC §2702 and Regs)

1. Grantor contributes appreciating assets to the GRAT.

2. Grantor receives an annuity for a fixed term

- (commonly 2-10 years per Treasury Reg. §25.2702 -3(d)(3)).

3. At the end of the term, remaining value transfers to beneficiaries free of gift tax if GRAT outperforms §7520 rate.

Funding GRATs with Stock – Paying the Annuity

When funding a GRAT with non-dividend-paying stock, the annuity is typically paid through:

- In-kind distribution of stock (allowed by IRS).
- Sale of stock by the trust to generate cash.

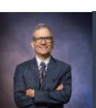
Important: GRAT must have sufficient liquidity or sale provisions to meet annuity obligations (IRC §2702(b)).

IRS Section 7520 Rate and GRAT Success

GRAT success depends on actual investment performance exceeding the IRS-assumed growth rate (7520 rate).

§7520 rate is published monthly by the IRS and represents the hurdle rate for tax-free appreciation.

If assets grow faster than the 7520 rate, excess value passes to heirs with minimal or no gift tax.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Ideal Clients for GRATs

- High-net-worth individuals with volatile or high-growth assets (e.g., pre-IPO stock, concentrated equity).
- Clients seeking estate tax reduction and who can survive the GRAT term (per IRC §2702(a)(1)).
- Those looking to leverage low-interest rate environments for wealth transfer.

EXAMPLE OF THE IN FLOWS/OUT FLOWS OF A GRAT[2]

Year	Beginning Principal	10.00% Growth	0.00% Annual Income	Required Payments	Remainder
1	$ 1,000,000.00	$ 100,000.00	$ 0.00	$ 155,017.13	$ 944,982.87
2	$ 944,982.87	$ 94,498.29	$ 0.00	$ 186,020.55	$ 853,460.61
3	$ 853,460.61	$ 85,346.06	$ 0.00	$ 223,224.67	$ 715,582.00
4	$ 715,582.00	$ 71,558.20	$ 0.00	$ 267,869.60	$ 519,270.60
5	$ 519,270.60	$ 51,927.06	$ 0.00	$ 321,443.52	$ 249,754.14
Summary	**$ 1,000,000.00**	**$ 403,329.61**	**$ 0.00**	**$ 1,153,575.47**	**$ 249,754.14**

5 *years*
Assumptions GRAT term

4.4 %
IRS hurdle rate

$1,000,000
Valuation of contributed assets

10 %
Annual principal growth

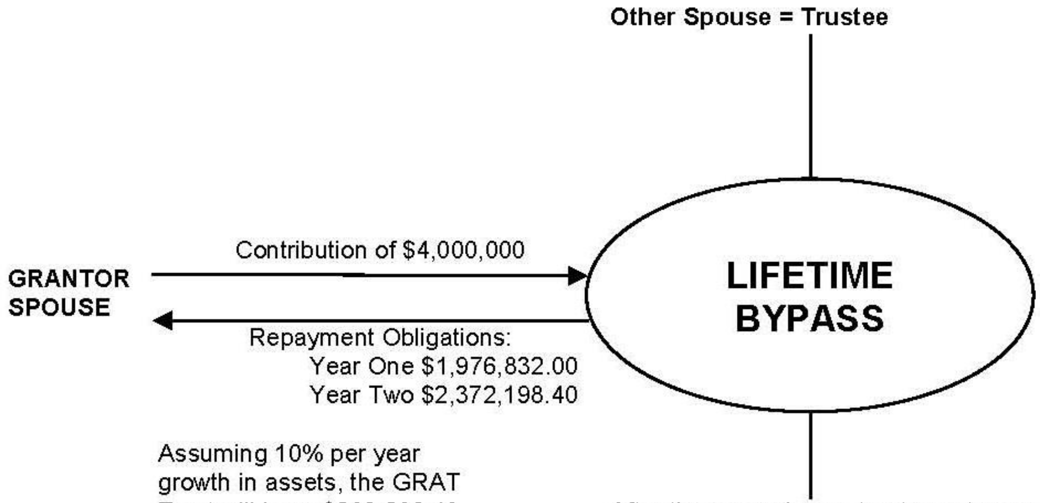
20 %
Annual annuity increase

Source: J.P. Morgan Wealth Management

Lifetime By-Pass GRAT
(Grantor Retained Annuity Trust)

One spouse can fund a trust on a tax advantaged basis to benefit the other spouse and their descendants.

Based upon a two year GRAT with payments of 49.4208% of original contribution at the end of year one, and 59.305% of original contribution at the end of year two, the value of a gift caused by a $4,000,000 contribution is approximately $1,000.



Assuming 10% per year growth in assets, the GRAT Trust will have $293,286.40 after two years.

Assuming 15% per year growth in assets, the GRAT Trust will have $644,444.80 after two years.

After the second year, trust assets can be held for the lifetime benefit of Trustee Spouse and Descendants.

Assets not accessible to creditors of the Trustee/Beneficiary Spouse, or the descendants.

Annuity payments payable to the Grantor/Spouse who is a Florida resident should be protected from creditors under Florida Statute Section 222

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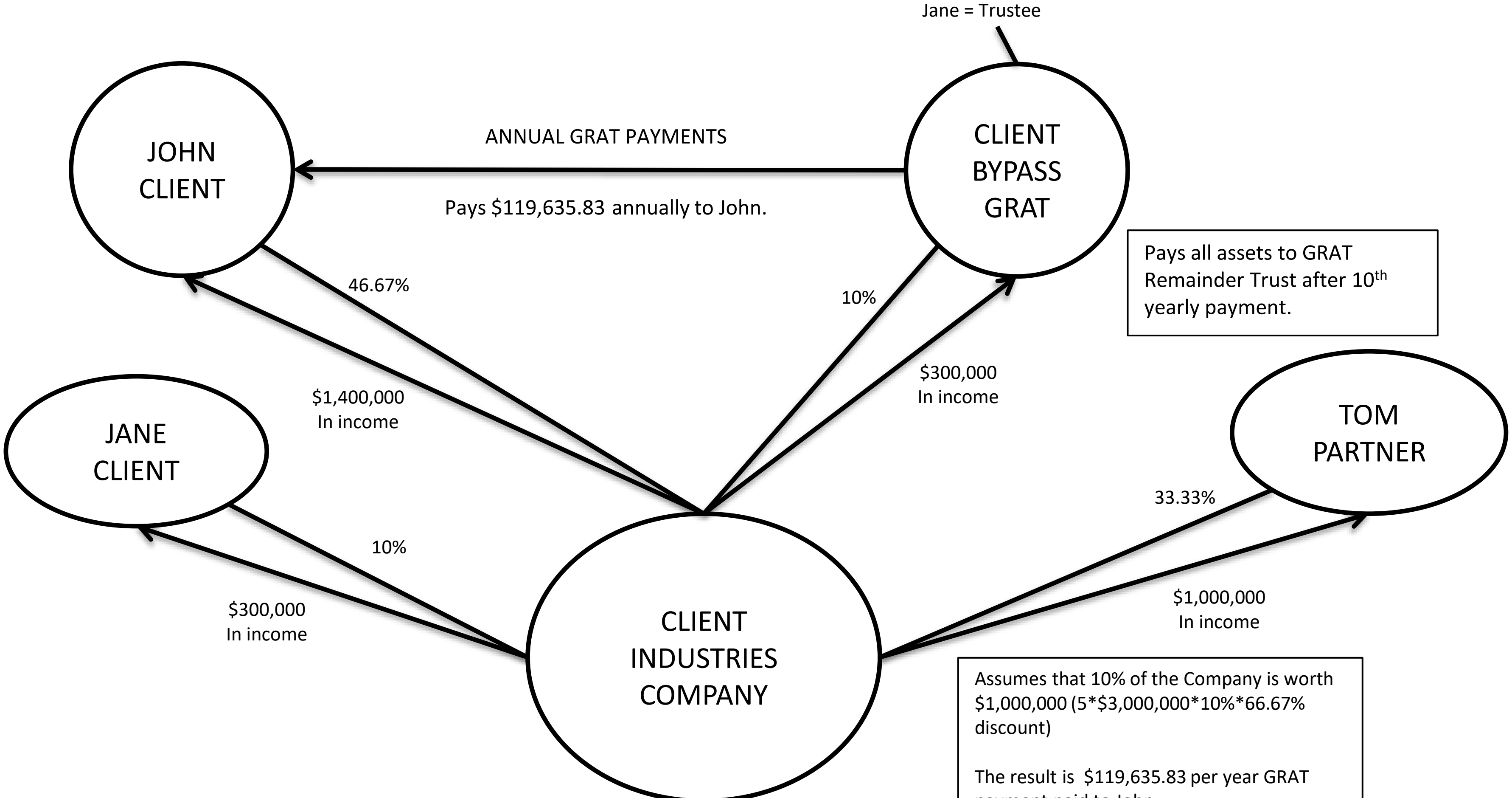
Client – GRAT Chart



Assumes that 10% of the Company is worth $1,000,000 (5*$3,000,000*10%*66.67% discount)

The result is $119,635.83 per year GRAT payment paid to John.

The above are based upon the prior Applicable Federal Rates.

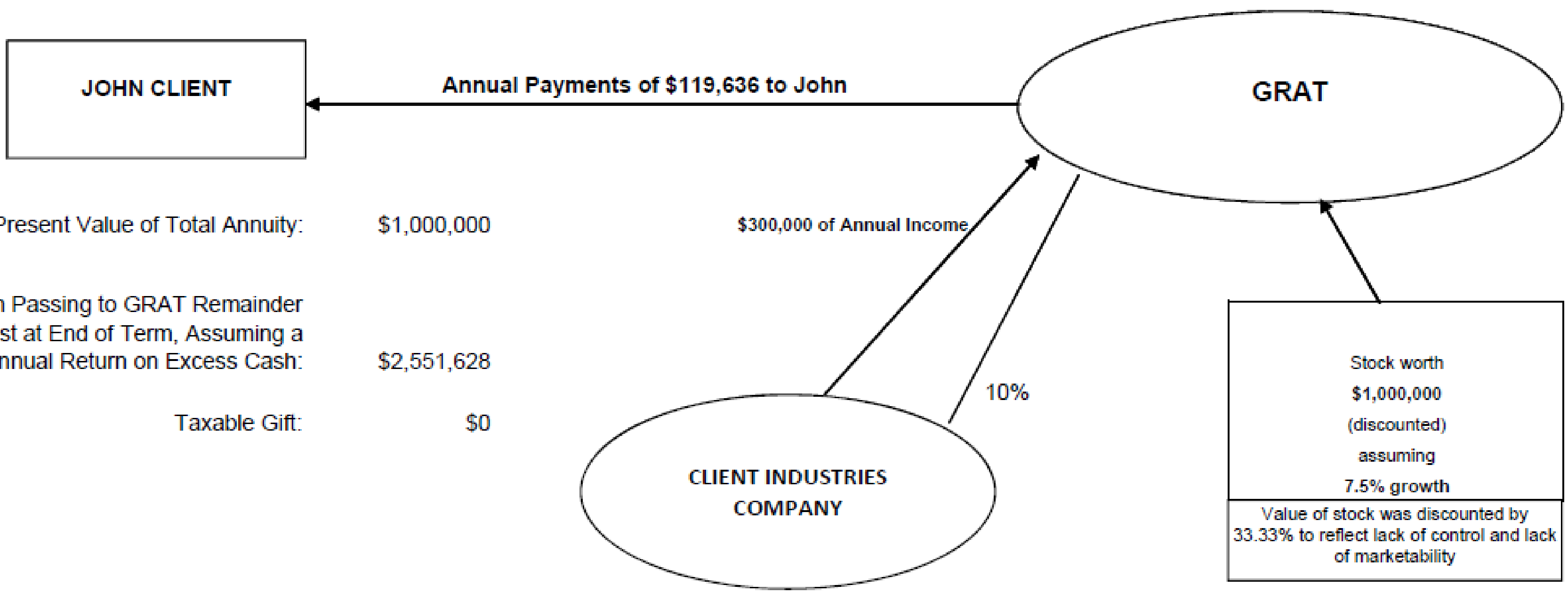
$3,000,000 in Annual Income

For the purposes of this chart, the Company is valued at $15,000,000 based on approximate annual income of $3,000,000. Assuming a 33.33% discount, a 10% interest in the Company is worth $1,000,000

CLIENT- GRAT CHART

$1,000,000 CONTRIBUTION--ZERO TAXABLE GIFT--LEVEL ANNUAL ANNUITY PAYMENT

Year	Annual Annuity	Percentage of Income Earned By Client Industries Company	Excess Cash--Assuming a 7.5% Annual Return
1	$119,636	$300,000	$180,364
2	$119,636	$300,000	$374,256
3	$119,636	$300,000	$582,689
4	$119,636	$300,000	$806,755
5	$119,636	$300,000	$1,047,626
6	$119,636	$300,000	$1,306,562
7	$119,636	$300,000	$1,584,918
8	$119,636	$300,000	$1,884,151
9	$119,636	$300,000	$2,205,827
10	$119,636	$300,000	$2,551,628 plus 10% share of Company



Present Value of Total Annuity: $1,000,000

Cash Passing to GRAT Remainder Trust at End of Term, Assuming a 7.5% Annual Return on Excess Cash: $2,551,628

Taxable Gift: $0

Feature	GRAT
Income Tax Deduction	❌ No
Gift Tax Benefits	✅ Yes – Minimized or eliminated
Estate Tax Benefits	✅ Yes – Transfers appreciation out of estate
Charitable Component	❌ None

Can You Communicate This?

What is a Grantor Retained Annuity Trust (GRAT), and how does it work?

What Are the Benefits of using a GRAT?

Who Is the Strategy For?

Understanding Intentionally Defective Grantor Trusts (IDGTs)

What They Are, How They Work, and Who Should Use Them

What is an Intentionally Defective Grantor Trust (IDGT)?

- An IDGT is an irrevocable trust designed to be a grantor trust for income tax purposes but outside the estate for estate tax purposes.
- 'Defective' refers to the intentional flaw that causes the grantor to pay income taxes on the trust's earnings.
- This allows the trust assets to grow income tax-free, enhancing wealth transfer.
- Commonly used for estate freezing and wealth shifting strategies.

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How Does an IDGT Work?

1. The grantor creates and funds the IDGT (via gift or sale).

2. The trust is structured to be outside the estate for transfer tax purposes.

3. The grantor pays income tax on trust earnings (benefiting beneficiaries).

4. The trust assets grow without reduction for income taxes.

5. At death, trust assets pass to beneficiaries free of estate tax.

Popular Strategy: Sell a business or real estate interest to the IDGT in exchange for a promissory note.

Who Should Use an IDGT?

- High Net Worth individuals seeking to reduce estate tax exposure.
- Business owners planning to freeze asset values and shift future appreciation.
- Families wishing to preserve wealth for future generations.
- Clients comfortable with paying income tax on behalf of their heirs.
- Individuals planning to sell appreciating assets without triggering capital gains at sale.

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Flowchart: Sale of Business/Real Estate to an IDGT

1. Grantor funds IDGT with ~10% seed gift

↓

2. Grantor sells business/real estate (<$5M)

↓

3. IDGT issues promissory note at applicable federal rate

↓

4. Grantor pays tax on trust income (not a gift)

↓

5. Appreciation accumulates tax-free for heirs

Current and Recent Applicable Federal Rates (2024-2025)

MONTH	SHORT TERM	MID-TERM	LONG-TERM
March 2024	4.66%	4.09%	4.35%
April 2024	4.83%	4.25%	4.40%
May 2024	4.91%	4.37%	4.50%
June 2024	5.06%	4.61%	4.73%
July 2024	5.00%	4.44%	4.56%
August 2024	4.89%	4.29%	4.47%
September 2024	4.52%	3.98%	4.32%
October 2024	4.17%	3.67%	4.06%
November 2024	3.96%	3.67%	4.11%
December 2024	4.25%	4.14%	4.48%
January 2025	4.28%	4.20%	4.48%
February 2025	4.29%	4.47%	4.80%
March 2025	4.26%	4.41%	4.76%

Can use lowest of last three months on a "sale or exchange" under IRC Section 1274(d)(2). See IRC Section 7872(f)(2)

$1,000,000 PROMISSORY NOTE/SCIN/PRIVATE ANNUITY/GRAT ALTERNATIVES

MARCH 2025 / CLIENT AGE 70

Alternatives: (For March 2025 allowable Applicable Federal Rates and March 2025 Section 7520 Rate of 5.4%)

CLIENT (AGE 70) ← **TRUST (PURCHASER)**

- <3 Year Interest Only Installment Note @ 4.26% - **Payment = $42,600 per year***
- 9 Year Interest Only Installment Note @ 4.20% - **Payment = $42,000 per year***
- >9 Year Interest Only Installment Note @ 4.48% - **Payment = $44,800 per year***
- 15 Year Interest Only SCIN @ 9.0641% - **Payment = $90,641 per year***
- Private Annuity Level Annual Payment - **Payment = $104,354 per year**
- 3 Year Level Payment GRAT @ 5.4% - **Payment = $369,959 per year**
- 3 Year GRAT @ 5.4% - **Initial Payment = $306,861 and Increases Annually by 20%****

* Notes would have no penalty for prepayment – minimum payments are shown above.

Self-cancelling installment Notes must balloon before life expectancy as measured at time of Note being made. Client's life expectancy is 15.4 years under IRS tables. The SCIN calculations above are based on a 15-year note term.

** This GRAT assumes that each annuity payment will increase by 20% each year. **All GRATs assume no taxable gift on funding**
If interest rates increase in the future, consider the use of a 20-year interest only note at the 4.48% long-term AFR, locking in a 4.48% rate for the next 20 years.

Note: Lowest allowable semi-annual compounding Applicable Federal Rates for March 2025 are:

Short-Term – 4.26%
Mid-Term – 4.20%
Long-Term – 4.48%

Usable through March 31, 2025 for a "sale or exchange"

Benefits of Using an IDGT

- ✅ Trust assets grow income-tax free for the beneficiaries.
- ✅ Grantor's payment of income taxes is not considered a gift.
- ✅ Removes appreciation from taxable estate.
- ✅ Highly effective when paired with a sale to the IDGT.
- ✅ Useful for estate freeze strategies.

Key Considerations and Risks

Trust must be properly structured to ensure it's defective for income tax but not for estate tax.

The grantor must be willing and able to pay income tax on trust earnings – may toggle off

Complex to implement—requires experienced legal and tax advisors.

IRS scrutiny is possible if valuations or note terms aren't appropriate.

Summary: Why Use an IDGT?

IDGTs offer powerful estate tax minimization and wealth transfer potential.

Ideal for clients with appreciating assets and estate tax concerns.

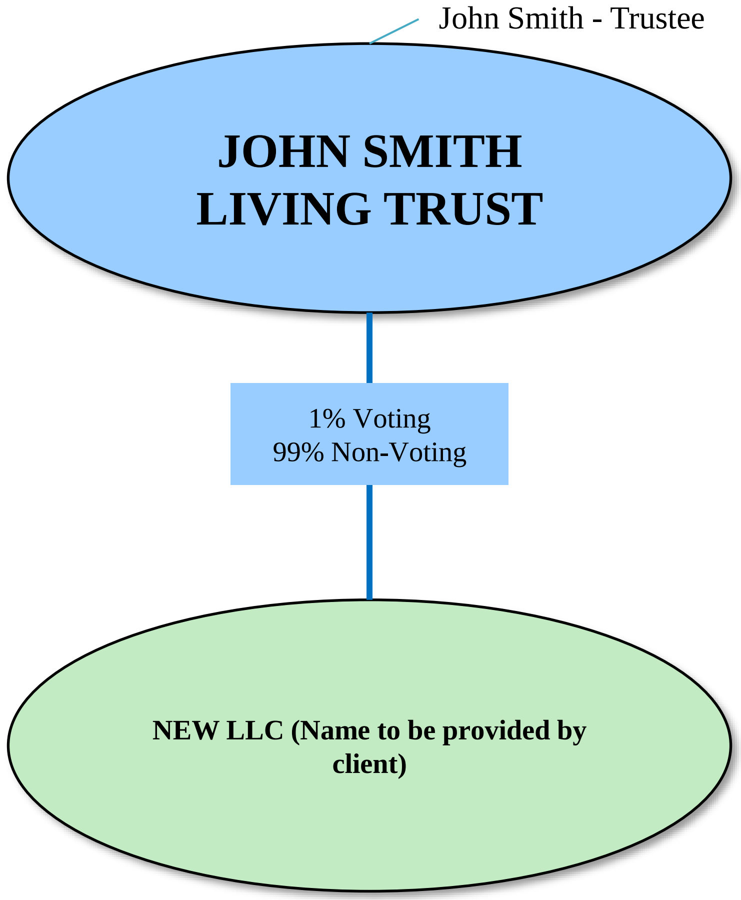
When executed correctly, they provide income tax efficiency and long-term planning flexibility.

Consult a qualified estate planner and CPA to explore if an IDGT is right for your situation.

Typical Investment Portfolio Installment Sale

Step 1:

- Form a new LLC.
- John Smith Living Trust will own 1% Voting Membership Interest and a 99% Non-Voting Membership Interest in the New LLC.
- The new LLC will have $ 10,000,000 worth of equities and bonds.



Investments (Equities and Bonds): $10,000,000

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Step 2:

- Form a Spousal Limited Access Trust ("SLAT").
- Jane Smith and Mary Taylor will be the Co-Trustee of the SLAT.
- The SLAT will open a $10,000 Nevada Account to be signed on by Mary Taylor and maybe a Nevada-based Merrill Lynch account.
- Jane Smith will sign on an account under the SLAT at Merrill Lynch that will receive a $700,000 seed capital gift of stocks and bonds.

Jane Smith and Mary Taylor- Co-Trustees

SMITH SPOUSAL LIMITED ACCESS TRUST

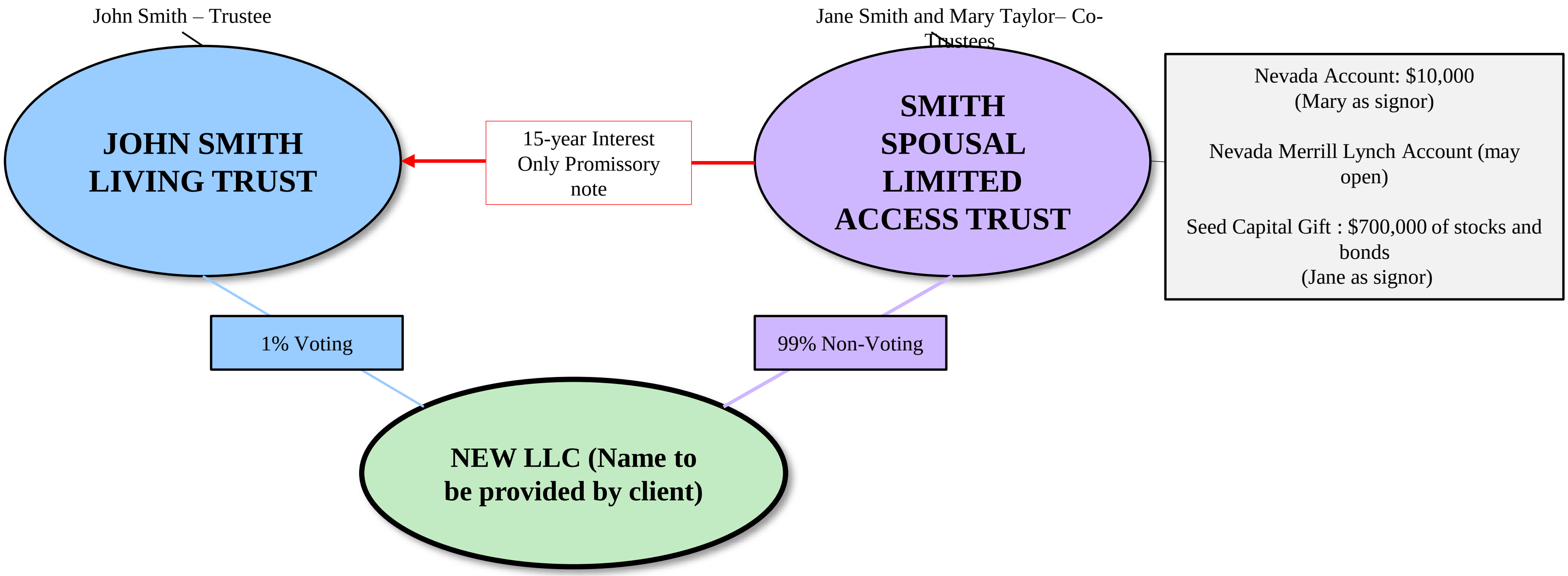
Nevada Account: $10,000
(Mary as signor)

Nevada Merrill Lynch Account (may open)

Seed Capital Gift : $700,000 of stocks and bonds
(Jane as signor)

Step 3:

- Jane Smith and Mary Taylor, as Co-Trustees, buy the 99% Non-Voting Membership Interest in new LLC in exchange for a 15-year interest only promissory note bearing interest at the long-term applicable federal rate, paying interest of approximately $300,000 a year to John Smith.
- Each year, stocks and bonds worth the amount of interest owed will be transferred from SLAT to John Smith as payments.
- Eventually, the new LLC will start making pro rata distributions 99% to the SLAT account signed on by Jane and 1% to John to enable him to make the interest payments.



Investments (Equities and Bonds): $10,000,000

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Strawberry Installment Sale Of Profitable S Corporation Forever

BEFORE PLANNING

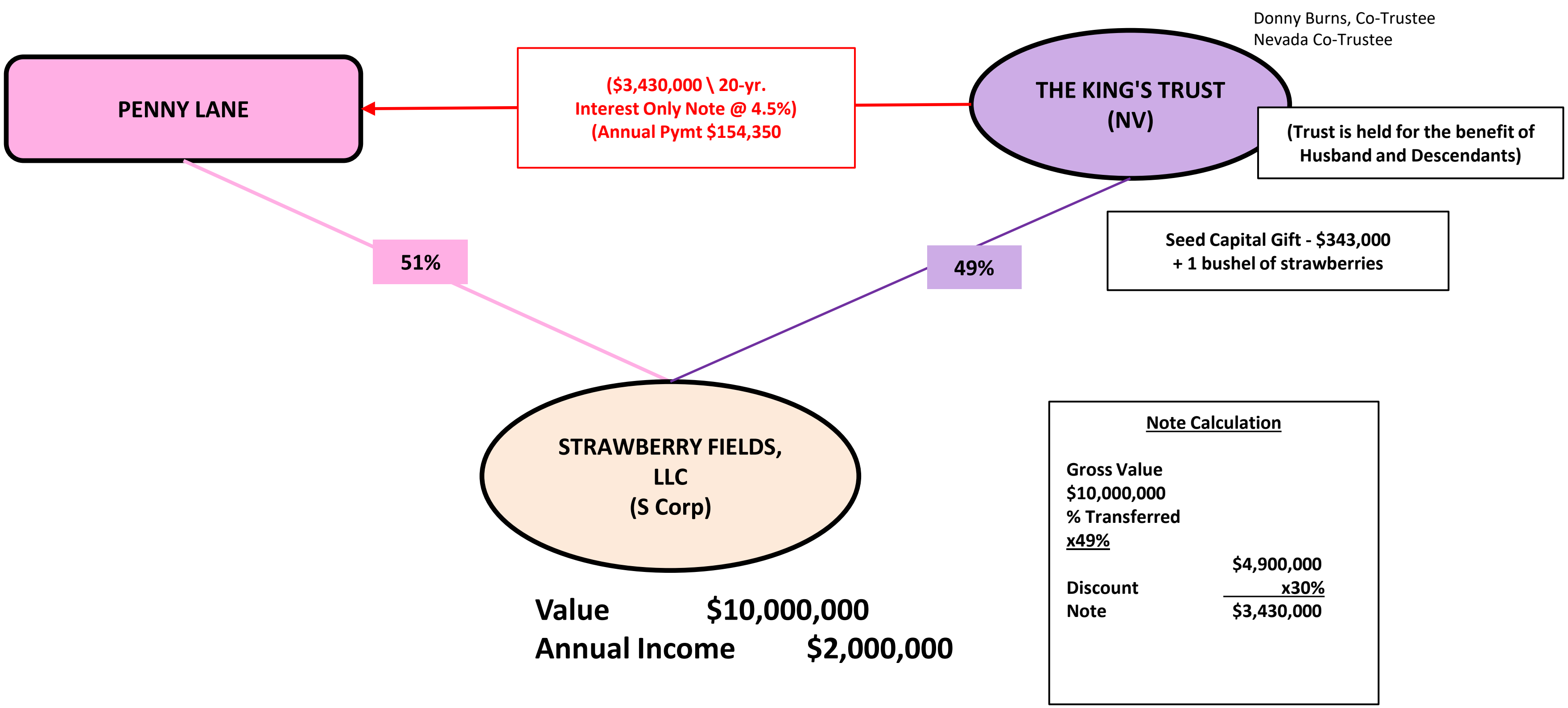
PENNY LANE

100%

STRAWBERRY FIELDS, LLC
(S Corp)

Value	**$10,000,000**
Annual Income	**$2,000,000**

AFTER PLANNING



TEN YEARS AFTER [1]

Donny Burns, Co-Trustee
Nevada Co-Trustee

PENNY LANE

**($3,430,000 \ 20-yr.
Interest Only Note @ 4.5%)
(Annual Pymt $154,350**

**THE KING'S TRUST
(NV)**

**(Trust is held for the benefit of
Husband and Descendants)**

51%

49%

Penny's Yearly Dividend	$1,020,000
Income Tax Paid	($800,000)
Net	$220,000
Note Payment Rec'd	$154,350
TOTAL:	$374,350

Penny receives $1,020,000 each year as dividends.

She pays income tax of $800,000 for a net of $220,000.

She receives the note payment of $154,350 for a total of $374,350, instead of receiving $1,454,250/year

**STRAWBERRY FIELDS,
LLC
(S Corp)**

Value $10,000,000
Annual Income $2,000,000

Annual Trust Cash Flow

Stock in Strawberry Fields, LLC	$980,000
Note Payment	
($154,350)	
Net Cash Flow	$825,650

Trust Balance Sheet

Stock in Strawberry Fields, LLC	$9,800,000
Assets:	
Value of Invested Cash Flow at 7% after 10 years	$11,407,550
	$21,207,550
Liabilities:	
(Note Payable)	($3,430,000)
Net Equity	$17,777,550
TOTAL ESTATE TAX SAVINGS YEAR 10	$7,111,020

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EstateView Estate planning software

AFTER PLANNING – TWENTY YEARS LATER
(Business Sells for $30,000,000)

PENNY LANE

51%

THE KING'S TRUST (NV)

49%

RITA METERMAID TRUST

ELEANOR RIGBY TRUST

LUCY DIAMOND TRUST

Results to Penny on sale:

Sale Proceeds -	$15,300,000
Income Tax Paid –	($7,500,000)
Net Amount -	$11,800,000

STRAWBERRY FIELDS, LLC
(S Corp)

Sold $30,000,000

Trust Balance Sheet

Proceeds from Sale	$14,700,000
Value of Invested Cash Flow at 7% (after repayment of promissory note to Penny Lane)	$30,417,928
Net Equity	$45,117,928
	x40%
TOTAL ESTATE TAX SAVINGS	$18,047,171

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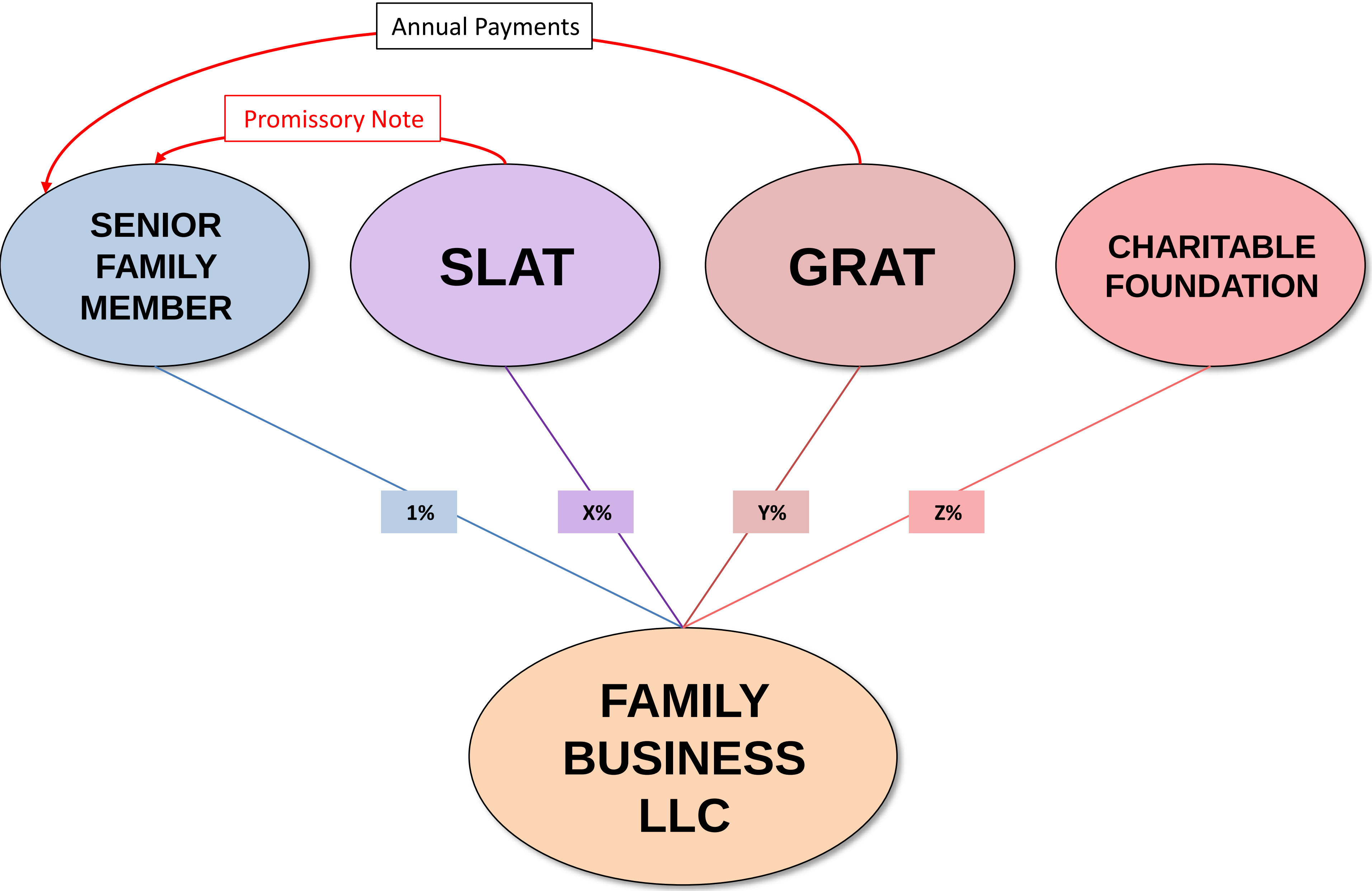
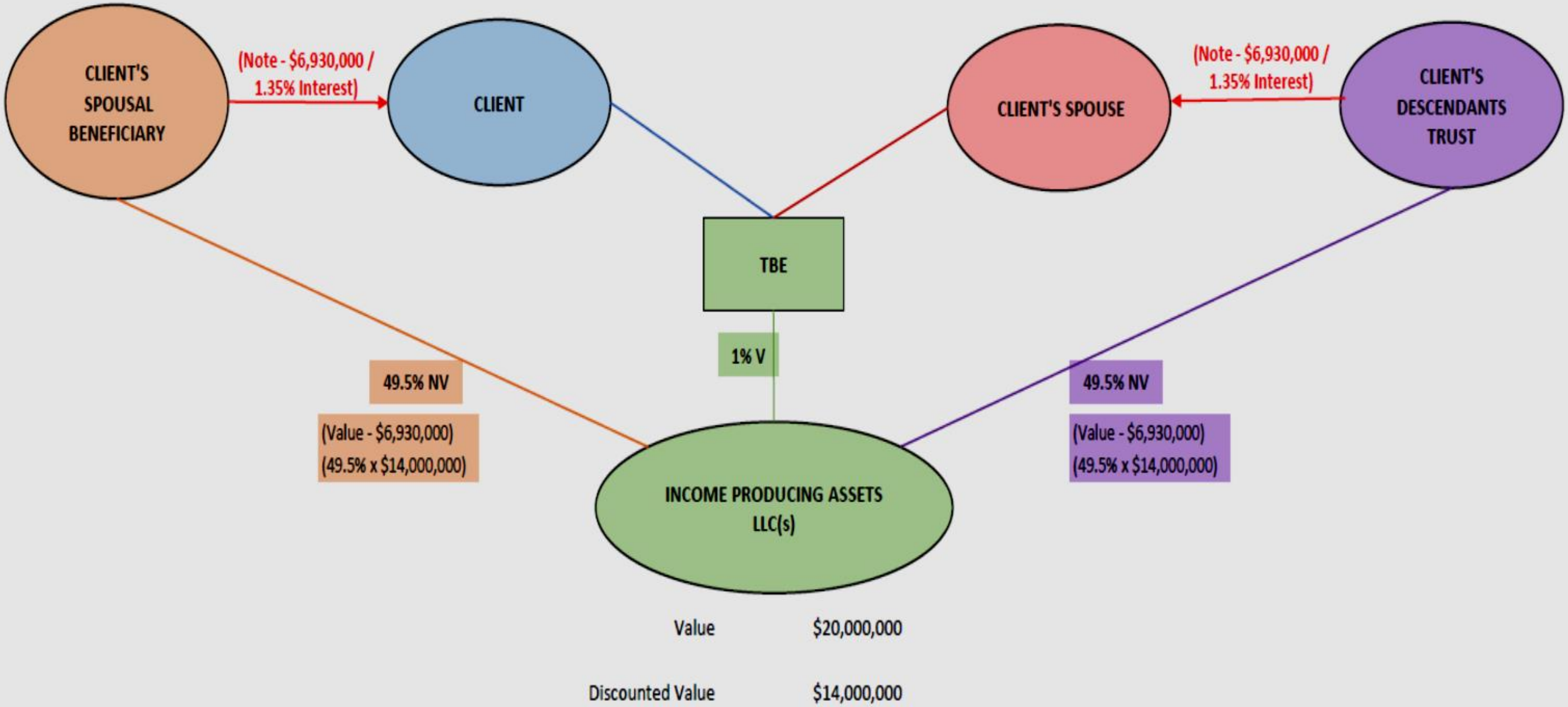
EstateView Estate planning software

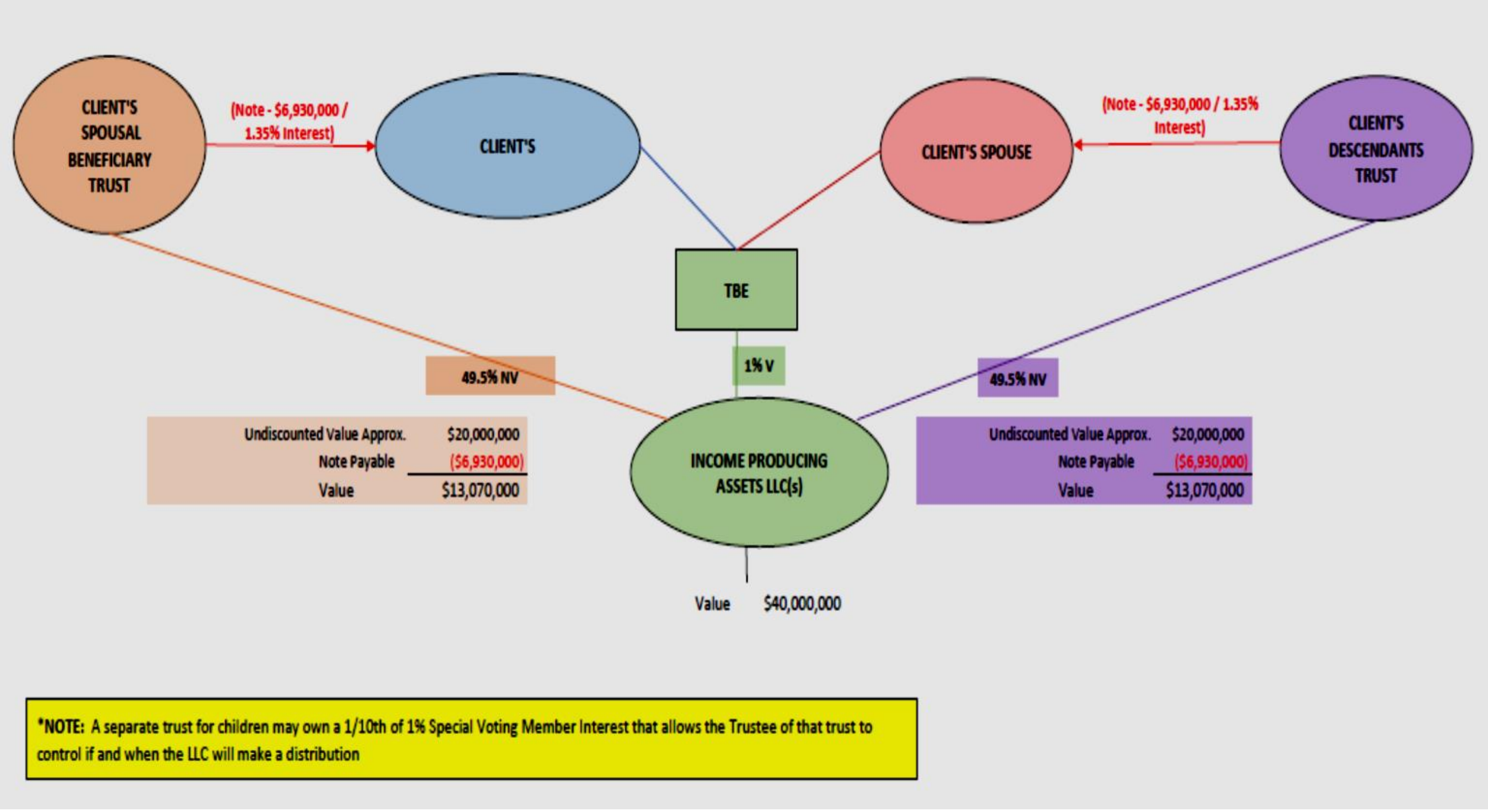

Annual Payments
Promissory Note
SENIOR FAMILY MEMBER
SLAT
GRAT
CHARITABLE FOUNDATION
1%
X%
Y%
Z%
FAMILY BUSINESS LLC

Installment Sale (1 Of 2)

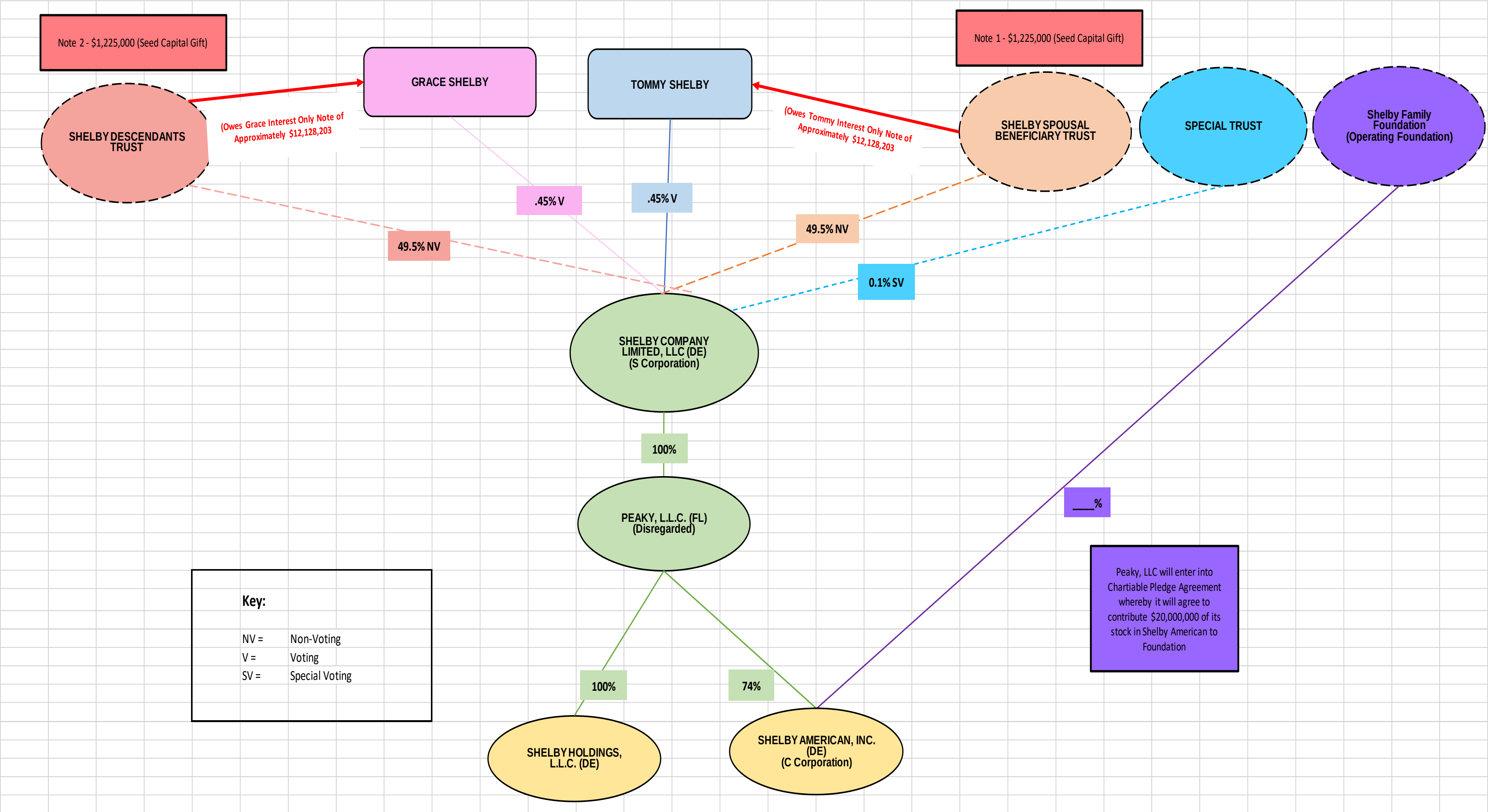


*NOTE: A separate trust for children may own a 1/10th of 1% Special Voting Member Interest that allows the Trustee of that trust to control if and when the LLC will make a distribution

Installment Sale – 10 Years Later (2 Of 2)



Installment Sale to Intentionally Defective Grantor Trust (IGDT) / Donation to Charity



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Can You Communicate This?

What is IDGT, and how does it work?

What Are the Benefits of using a IDGT?

Who Is the Strategy For?

SLATs

What is a SLAT?

- SLAT = Spousal Limited Access Trust or Spousal Lifetime Access Trust
- An irrevocable trust established by one spouse for the benefit of the other spouse and descendants under which the beneficiary spouse can receive limited distributions during his or her lifetime.
- The trust will not be subject to creditor claims if appropriately drafted.
- Not subject to estate taxes on death of either spouse.

Terminology

- Grantor Spouse = The spouse who establishes and funds the SLAT.

- Beneficiary Spouse = The spouse that is a beneficiary of the SLAT during both spouses' lifetimes.

The Step Transaction Doctrine

Spouse 1 and Spouse 2 are married and are each worth $7,500,000.

Spouse 1 would like to use his or her entire estate tax exemption amount by funding a SLAT.

Spouse 1 is the primary breadwinner in the family.

Spouse 2 transfers his or her assets to Spouse 1 so that Spouse 1 can make the gift.

Will the Step Transaction Doctrine cause one-half of the gift to be considered as having been made by Spouse 2?

The Step Transaction Doctrine

Possible Solutions:

The first transfer occurs in late 2022 and the second transfer occurs in 2025.

Spouse 1 gives Spouse 2 a $7,500,000 promissory note in exchange for the assets and actually pays interest each year. The promissory note is legally binding because Spouse 1 agrees to close all cabinets in the house for at least a month after opening them. **NOTE –** The payment of interest from one spouse to another causes taxable income to be incurred by the recipient, even on a joint income tax return, and the interest will probably not be deductible by the paying spouse. Can Spouse 2 be a beneficiary of a SLAT and split the gift for gift tax purposes in case there is a valuation issue? - Discuss gift splitting and the standard of expectation as to Spouse 2 benefitting from the SLAT.

"Use the Ascertainable Standard or a stricter standard and assure that the beneficiary spouse is expected to have access to sufficient resources outside of the trust in question (so that it is highly unlikely that the Trustee would exercise the power and distribute trust property to that spouse)."

***See*, "**Qualifying Trust Transfers for Split-Gift Treatment July/August 2007" Florida Bar Journal article by William R. Swindle and Revenue Ruling 56-439, *Robertson v. Commissioner*, 26 T.C.246 (1956), ACQ. 1956-2 C.B. 8, *Wang v. Commissioner,* T.C. Memo 1972-143 and PLR 200345038.

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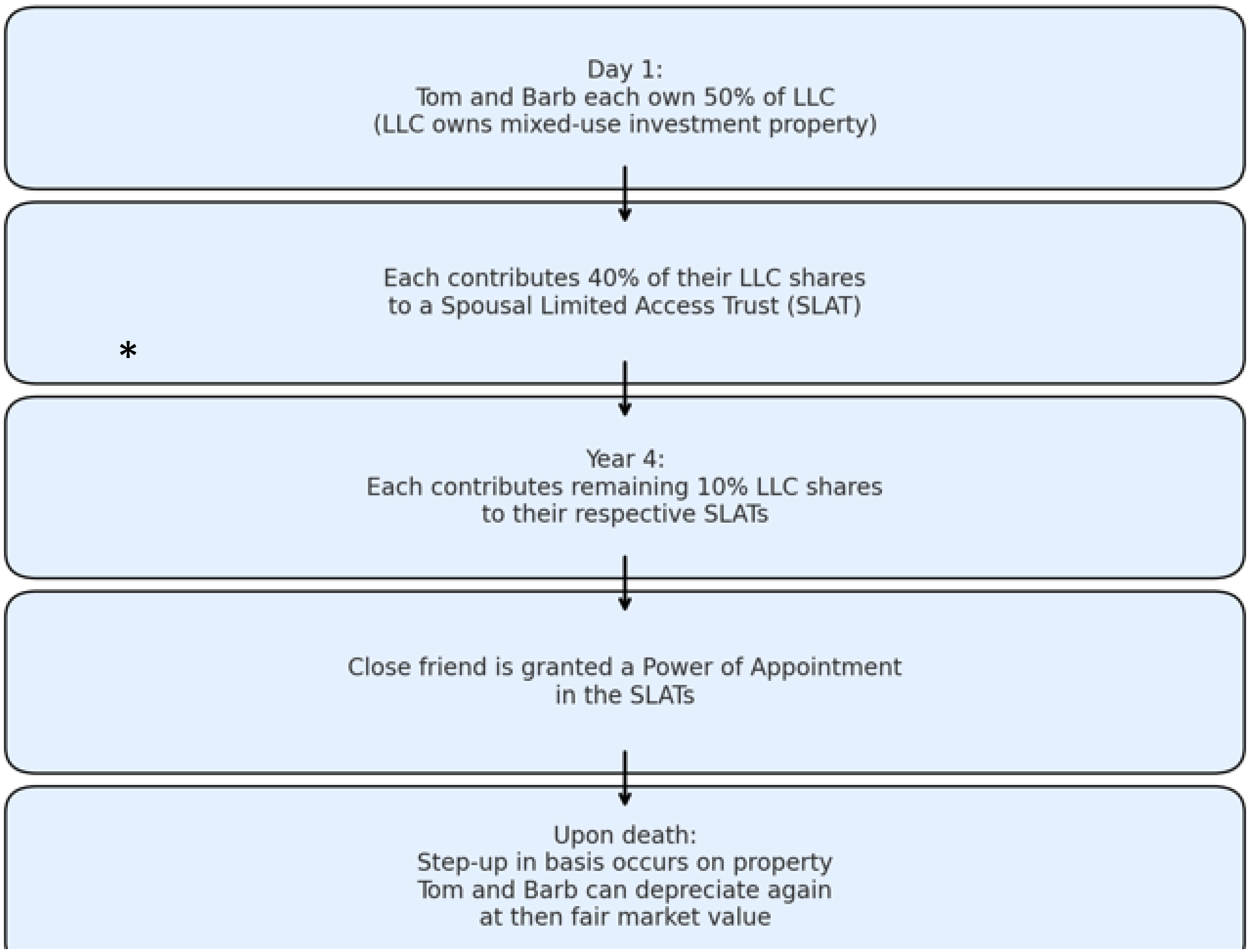
Flowchart: Using SLATs for Step-Up and Redepreciation of Investment Property



* Reciprocal SLATs may cause estate tax inclusion on the death of each spouse and income tax basis step up

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Can You Communicate This?

What is SLAT, and how does it work?

What Are the Benefits of using a SLAT?

Who Is the Strategy For?

Advisor Requests

- Keep 'em coming

Your Request

NEW: QPRT (Qualified Personal Residence Trust) – how it works and optimal use cases. See webinar replay

NEW: Challenges and drawbacks of each trust type, not just benefits.

NEW: "Underutilized Basis Planning Strategies Basis step-up with a Power of Appointment given to an elderly relative-are these assets subject to the POA holders creditors, in their estate?

JEST Trusts

GST Tax Planning strategies

Lease property with an option instead of selling the low basis real estate

Combining LLCs and SLATs to get a step-up in basis (754 election)

Separating RE from a business for asset protection A building to a Family Operating Foundation and pay children management fees

Real Estate that goes upside down put in an S-Corp vs a Partnership (section 108)

Capital Gain exclusion when house owned by a Dynasty Trust "

Can you discuss rights of estate creditors to RLT assets after Grantor's death where trust terms state the Trustee may pay from the trust assets legally enforceable claims against the grantor, or his estate and the payments are discretionary with the Trustee.

- If all assets are in the trust, including life insurance proceeds that are paid to the trust – can the executor file with the probate court to have the estate deemed insolvent and the trustee exercise its discretion to not pay debts of decedent?

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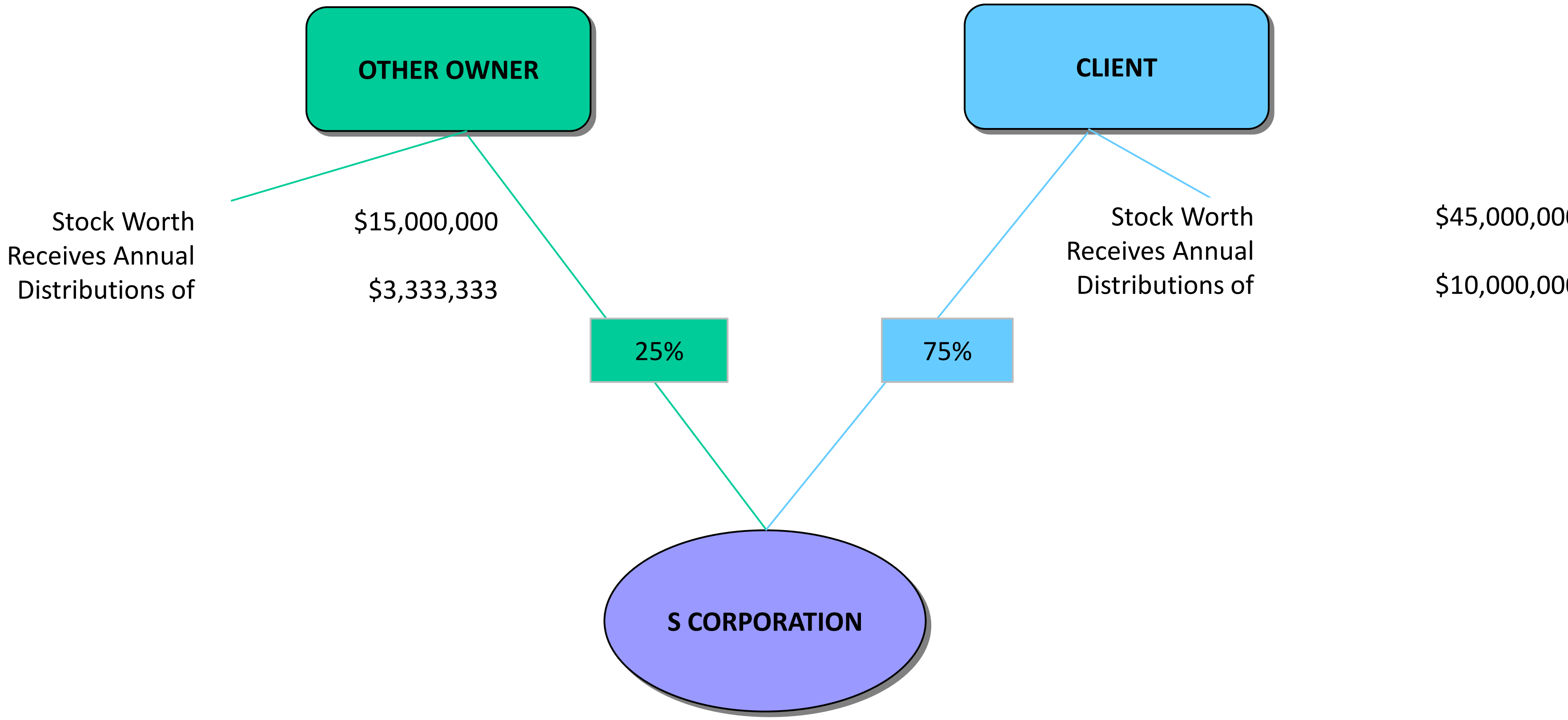
BEFORE PLANNING

S Corp Owner Planning



Value for Discussion: $60,000,000
Annual Distributions: $13,333,333

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S Corp Owner Planning

AFTER PLANNING

These Trusts will be disregarded for income tax purposes and clients will pay income tax on income while living.

CLIENT

CLIENT'S SPOUSE

HOME
Value $3,500,000

Promissory Note
$12,000,000
at 4.35% Interest
Annual Payments
of $522,000

OTHER OWNER

Stock Worth $15,000,000

Receives Annual Distributions of $ 3,333,333

TRUST FOR DESCENDANTS

Stock Worth $6,000,000
Receives Annual Distributions of $1,333,333
Can transfer money to family and charity.

SPOUSAL LIMITED ACCESS TRUST

Seed Capital Gift
$1,200,000

Stock Worth $12,000,000
Receives Annual Distributions of $2,666,666

Can make distributions to family members, spouse, and charity.
Charitable distributions will cause income tax deductions for client while living.

CLIENT'S REVOCABLE TRUST

Cash	$15,000,000
Cars	$4,000,000
Canadian Real Estate	$6,000,000

Stock Worth $27,000,000

Receives Annual Distributions of $6,000,000

Total gifting in 2024 $7,200,000

25%

10%

20%

45%

S CORPORATION

$2,666,666 - $522,000 = $2,144,666 per yr.

$2,144,666 x 10 = $21,446,660 at 0% rate of return

$21,446,660
\+ $12,000,000
($12,000,000)

$21,446,660 – Value in 10 years

On death, if spouse survives, the credit exemption amount remaining (approximately $6,000,000) can fund a credit shelter trust and the rest can go to a lifetime QTIP Trust to pay all income to spouse for life and remainder can then pass to charity on her death.

If no surviving spouse, then the amount that goes estate tax free can be held in trust and amounts in excess of this can go to a solely charitable trust. The non-charitable trust can buy the company stock after death for a low interest note so that there will be plenty of cash flow for the non-charity trust to use to benefit family members and charity.

Value for Discussion: $60,000,000

Annual Distributions: $13,333,333

- Additional Reference Materials

Addendum

Should FLP Interests Be Placed in a Trust?

- Minimizing Estate Taxes and Enhancing Wealth Protection

Benefits of Placing FLP Interests in a Trust

- Keeps FLP Interests Out of Taxable Estate: Avoids 40% estate tax if assets exceed exemption.
- Utilizes Valuation Discounts: Transfers FLP interests at 25-35% lower taxable value.
- Asset Protection: Shields FLP assets from creditors, divorce claims, and lawsuits.
- Preserves Family Control: Ensures structured wealth transfer over generations.
- Avoids Generation Skipping Transfer (GST) Tax: Dynasty Trusts allow multigen tax-free transfers.
- Source: IRS Publication 950, IRC Sections 27012704.


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Best Trusts for Holding FLP Interests

- Intentionally Defective Grantor Trust (IDGT): Transfers appreciation outside estate.
- Spousal Lifetime Access Trust (SLAT): Keeps FLP interests out of estate while providing spousal income.
- Dynasty Trust: Ensures FLP interests pass tax-free for multiple generations.
- Charitable Remainder Trust (CRT): Converts FLP interests into an income stream while benefiting a charity.
- Source: IRS Sections 2036 and 2042.

Potential Pitfalls and IRS Scrutiny

- Retained Control = Estate Tax Inclusion: Excessive control over FLP can trigger estate tax (IRC Sec. 2036).
- Legitimate Business Purpose Required: IRS challenges FLPs set up solely for tax avoidance.
- Gift Tax May Apply: Transferring FLP interests to a trust could be a taxable gift if above lifetime exemption.
- Source: Tax Court Cases: Strangi v. Commissioner (2003), Powell v. Commissioner (2017).

Key Takeaways and Best Practices

- ✓ YES, if you want to:
- Reduce estate tax exposure
- Utilize valuation discounts
- Protect assets from creditors and lawsuits
- Ensure multigenerational tax-free wealth transfer

- ❌ NO, if you:
- Need full access to FLP income
- Retain too much control (IRS estate inclusion risk)
- Have estate value below exemption limits

- Sources: IRS Publication 950, IRC Sections 2036, 27012704, Estate of Powell v. Commissioner (2017).

Understanding Donor Advised Funds (DAFs)

- A Flexible Charitable Giving Strategy

What is a Donor Advised Fund (DAF)?

- A charitable giving vehicle that allows donors to contribute assets, receive a tax deduction, and recommend grants over time.
- Donations are irrevocable but can be distributed to charities at the donor's discretion.
- Managed by sponsoring organizations (e.g., community foundations, financial firms like Fidelity Charitable, Schwab Charitable).

Key Benefits of a Donor Advised Fund

✅ Immediate Tax Deduction: Deduct contributions in the year given, even if grants are made later.

✅ Tax-Free Growth: Investments within the DAF grow tax-free, increasing the impact of donations.

✅ Flexible Giving: Recommend grants to charities at any time while funds continue to grow.

✅ Variety of Asset Donations: Accepts cash, stocks, real estate, and private business interests.

✅ Privacy Option: Donors can remain anonymous if desired.

Potential Downsides of a Donor Advised Fund

❌ Irrevocable Gift: Once contributed, funds cannot be withdrawn for personal use.

❌ Limited Control: Donors can recommend grants, but final approval lies with the DAF sponsor.

❌ Fees Apply: Some DAF providers charge administrative and investment management fees.

Who Should Consider a Donor Advised Fund?

✓ High Net Worth individuals seeking immediate tax deductions with long-term giving flexibility.

✓ Individuals selling a business or highly appreciated assets wanting to offset capital gains taxes.

✓ Families wanting to establish a charitable legacy without the complexity of a private foundation.

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Starting a Private Foundation: Pros and Cons

- Key Considerations for Philanthropic Individuals

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Pros of Starting a Private Foundation

✅ Full Control: Founder and board decide where and how funds are distributed.

✅ Legacy and Family Involvement: Foundation can continue for generations, involving family members.

✅ Expanded Charitable Impact: Can support multiple causes and provide long-term grants.

✅ Tax Advantages: Donations are tax-deductible; foundation assets grow tax-free.

✅ Flexible Giving: Can provide scholarships, grants, and direct support beyond public charities.

✅ Investment Growth Potential: Foundation assets can be invested and grow over time.

Cons of Starting a Private Foundation

❌ High Administrative Burden: Requires recordkeeping, tax filings, and compliance with IRS regulations.

❌ Minimum Distribution Requirement: Must distribute at least 5% of assets annually.

❌ Excise Taxes: Subject to a 1.39% excise tax on net investment income.

❌ Higher Costs: Legal fees, accounting, and operational costs can be expensive.

❌ Less Immediate Tax Benefit: Compared to donor advised funds, deduction limits are lower.

❌ Public Scrutiny: Financials and grants are public records, reducing privacy.

Key Considerations Before Starting a Foundation

- Do you want full control over grant making and investments?
- Are you willing to handle IRS compliance and administrative work?
- Would a donor advised fund (DAF) provide a simpler alternative?
- Do you plan to involve future generations in philanthropy?
- Will your foundation meet the 5% annual distribution rule?

Alternative: Donor Advised Funds (DAFs)

- Less administrative burden: No IRS compliance or tax filings required.
- Lower startup costs: No need for legal setup or operating expenses.
- Immediate tax deductions: Higher deduction limits than private foundations.
- More privacy: Grant recommendations can be made anonymously.
- Best for individuals who want flexibility without longterm obligations.


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Sources and Final Thoughts

- IRS Section 501(c)(3) Regulations
- IRS Publication 4221PF (Compliance Guide for Private Foundations)
- Private foundations offer greater control and long-term impact but come with higher costs and compliance responsibilities.
- For simpler charitable giving, a donor advised fund may be a better alternative.