

ESTATE PLANNING DISCOUNTING/FREEZE/CHARITABLE TECHNIQUES

Situation

The client is the CEO of a closely held company in which he owns a 20% interest. In addition, he owns a significant amount of assets in both real estate and other investments. The client has indicated intent to give a significant amount to charity. Also, he wished to optimize the amount passing to his family and pay the minimum in estate and income taxes.

Client Snap Shot

Male, age 62
Married with 3 children
Net Worth of \$38,000,000+

Strategy/Concept/Recommendations

1. Charitable intent:

Strategy:

- a. Charitable Lead Annuity Trust (CLAT) was established.
- b. 2% interest in the closely held company (valued at \$3,000,000) was gifted to the trust.
- c. The trust will pay a 5% annual annuity of \$150,000 to the client's charity.

Results:

- Client received a first year charitable deduction of \$1,320,000, generating income tax savings of \$528,000+.
- \$9,091,115 will be available outside of the estate to the children after ten years.
- Estate tax savings of \$593,831.

2. Minimize Estate Tax

Strategy:

- a. Family Limited Partnership (FLP) was established.
- b. 18% interest in the closely held company (valued at \$27,000,000) was transferred to the FLP resulting in a 30% discount and a corresponding discounted value of the FLP interests of \$18,900,000.
- c. An Intentionally Defective Dynasty Grantor Trust (IDGT) was established and a cash gift of \$250,000 was made to the trust.
- d. The client sold the limited partnership interests in the FLP on the installment basis to the IDGT for \$18,900,000.
- e. The IDGT purchased \$10,000,000 of life insurance on the client to provide liquidity for estate taxes.
- f. The client established three separate Remainder Purchase Marital (RPM) trusts and transferred various properties (valued at \$4,900,000) to the trusts and gifted a lifetime interest in each to his spouse.
- g. Client sold the remainder interest in the RPM's to the IDGT at the discounted value of \$2,700,000.

Results:

- Estate tax liability was immediately reduced by \$6,803,830.
- At life expectancy, the anticipated estate tax was reduced by \$58,502,661.
- Asset growth in the trust and outside the estate is estimated to be \$1.67 Billion at life expectancy of client.
- Significant value was transferred to the children as the income tax liability of the assets in the trust was paid by the client, allowing the trust to obtain significant growth
- Prevented future estate taxation of the family's holding at future generations.
- Developed succession plan for 3rd generation sibling holdings, as well as liquidation strategy for real estate with common ownership.