

## Transferring wealth? It's a matter of trust

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Thanks to some creative estate planning tools, it's possible to have your cake and eat it too, where tax and the transfer of assets are concerned. By combining the characteristics of two types of trusts—irrevocable and grantor—into one, families can leave significant assets to their offspring. Consider this:

1. An **IRREVOCABLE TRUST** is structured to escape future taxation on an estate.
2. A **GRANTOR TRUST** is protected from income tax. All items of trust income, deduction, and credit against tax are reported on the individual's tax return and transactions between grantor and grantee are not reportable as taxable events.

**Put them together in an irrevocable grantor trust and you arrive at a kind of "tax nirvana" where both income and estate taxes are minimized.**

Several types of irrevocable grantor trusts, each with its own structure and benefits, offer a choice that's tailor made for individual circumstances.

### **The situation: Selling a business**

- The owner of a business wants to transfer that business to her son, who presently runs the company
- The owner wants to retain cash-flow to fund her retirement
- The owner would incur a large capital gain by selling the business directly to her son
- The business value is too great for her to gift to her son without paying gift
- The business owner wants to be fair to all her children

### **The solution: Sale to a "Defective" Grantor Trust**

- The owner sells the business to an irrevocable grantor trust in exchange for

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an installment note

- No taxable gain results from the sale; neither is there a tax effect to interest payments on the note
- Over a period of time, the note is paid off, while the owner receives retirement income
- Her son will control the business, even if the trust retains the business stock

### **The situation: Transferring a stock windfall**

- An individual owns a concentrated stock position, and the stock is expected to rapidly appreciate
- The individual wants to transfer the short-term appreciation on the stock to his children

### **The solution: Grantor Retained Annuity Trust (GRAT)**

- The stock owner transfers his stock to a three-year Grantor Retained Annuity Trust (GRAT)
- The GRAT pays the owner an annuity, in the form of stock, for three years  
The annuity is disregarded for income tax purposes
- The owner pays no gift tax up front
- At the end of three years, the trust appreciation is distributed to the children, free of gift tax

### **The situation: Keeping a vacation home in the family**

- A couple owns an appreciating vacation residence, which the entire family enjoys and wants to keep for future generations

### **The solution: Qualified personal residence trust**

- Each spouse contributes one-half interest in the residence to separate Personal Residence Trusts

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- The couple continue to use the residence for a term of years, and at the end of the term, ownership passes to the children
- During that time, the couple is required to pay, but may deduct, house-related expenses
- Although a taxable gift results when the trusts are formed, its value is far less than the value of the residence. That's because the value of the gift is reduced by the value of the couple's retained use of the home and the partial-interest valuation discount

### **The situation: Supporting a charity**

- An individual wants to fund a charitable bequest over a period of years
- The individual's key asset is an income-generating business (an S corporation), which he hopes to leave to his grandchildren

### **The solution: Charitable lead trust**

- The individual establishes a Charitable Lead Trust and funds it with non-voting shares of his company stock
- This trust supports the named charity over a term of years, using cash flow from the business
- At the end of the term, the trust assets transfer to his grandchildren
- The owner retains control of his business during the trust term
- He is also entitled to an income tax charitable deduction for the full value of the charity's gift at the time he establishes and funds the trust

Do these win-win examples sound too good to be true? We can help you explore your options and create an estate plan that will accomplish your future goals and meet your present needs. With so many possibilities for irrevocable grantor trusts, there's certain to be one to match your individual circumstances. Please call a Miller Canfield attorney to schedule a meeting to discuss your situation - and available solutions.