

ADVISOR TRAINING MINISTRY
COURSE NUMBER: PTS 100B

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Understanding and Using the Traditional Planning Tools

TAYLOR UNIVERSITY



Introduction to Traditional Planning Tools

Dynasty Trust
Family Limited Partnership/LLC
Grantor Retained Annuity Trust
Intentionally Defective Grantor Trust
Irrevocable Life Insurance Trust
Qualified Personal Residence Trust



Dynasty Trust

CHARACTERISTICS

- An irrevocable trust
- Gets its name because it holds family wealth for multiple generations
- Many states have abolished the laws against perpetuities
- Trusts using these state laws can literally go on forever and never terminate
- Beneficiaries have right to income and use of trust assets, but no ownership
- Trustee controls the trust, not beneficiaries
- Often ILITs are designed to be Dynasty Trusts



Dynasty Trust

APPLICATIONS

- When avoiding estate and GST taxes is desired
- When client wants heirs to enjoy benefits of wealth, but not to own it
- To insure that future generations will be cared for according to the client's wishes

BEST ASSETS FOR USE

- Any asset is appropriate for a Dynasty Trust



Family Limited Partnership / Limited Liability Company

CHARACTERISTICS

- The FLP has a general partner, usually 1%, and limited partner(s), usually 99%
- The general partner makes all administrative decisions for the entire partnership
- The limited partner(s) only have an equity position, but no control whatsoever



Family Limited Partnership / Limited Liability Company

APPLICATIONS

I. Protection of Wealth

- ✓ FLP makes assets very difficult for creditors to attach
- ✓ If they do get a charging order, they may end up with only phantom income to pay taxes on
- ✓ It forces the creditors to the negotiating table



Family Limited Partnership / Limited Liability Company

APPLICATIONS

2. Control of Wealth

- ✓ As GP, the entire wealth of FLP can be controlled by one person
- ✓ GP can divest himself of considerable wealth without losing control of the assets



Family Limited Partnership / Limited Liability Company

APPLICATIONS

3. Transfer of Wealth

- ✓ Because of the lack of control and marketability, major valuation adjustments are possible
- ✓ Limited partnership interests are very easy to transfer to heirs and charity
- ✓ GP can transfer large blocks of wealth to heirs tax free



Family Limited Partnership / Limited Liability Company

BEST ASSETS FOR USE

- Assets hard to divide (i.e. real estate)
- Assets that can be exposed to the claims of creditors
- Assets that have a legitimate business use (business or investment)
- No S Corp. stock



Grantor Retained Annuity Trust

CHARACTERISTICS

- Grantor retains an annuity income from trust for a term of years
- The annuity payment is fixed for the term of years
- The annuity payment being retained reduces the value of the asset being transferred
- If grantor dies during term of trust, the entire asset comes back into his estate as if the trust had never been set up
- There are no income tax benefits of any kind



Grantor Retained Annuity Trust

APPLICATIONS

- To pass specific assets on to heirs at specified period of time
- When client has an income producing asset in which he needs/wants to retain income for a period of time
- Buying term insurance eliminates the risk of premature death prior to termination of trust

BEST ASSETS FOR USE

- S. Corp. stock
- Rental real estate
- Any income producing asset
- Highly appreciating asset (with or without income)



Intentionally Defective Grantor Trust

CHARACTERISTICS

- An irrevocable trust
- Income of trust taxed to the client
- An asset sold to IGT is not a completed sale for tax purposes
- The client (and spouse) use their annual exclusions and/or lifetime exclusions to make tax-free transfers of initial capital contributions
- The distribution of the assets in trust are totally at the discretion of client when he sets up the trust
- All assets sold to IGT are completed gifts for gift and estate tax purposes and consequently outside the taxable estate



Intentionally Defective Grantor Trust

APPLICATIONS

- When a client wishes to freeze the value of a rapidly growing asset and get it to the heirs
- When a client wants to postpone payment of capital gain taxes on the sale of an asset to IGT
- When a client wants to further reduce the estate size by paying income taxes on assets owned by heirs

Best Assets for Use

- Highly appreciating asset
- Other income producing and appreciating assets no longer needed by client



Irrevocable Life Insurance Trust

CHARACTERISTICS

- An irrevocable trust
- Life Insurance is applied for by the trust and the client makes annual gifts to the trust
- The client (and spouse) use their annual exclusions and/or lifetime exclusions to make tax-free transfers
- The distribution of the assets in trust are totally at the discretion of client when he sets up the trust
- If \$15,000 is used for the annual exclusion, “hanging powers” or sub-accounts must be used in the trust
- The Crummey letters must be sent out annually



Irrevocable Life Insurance Trust

CHARACTERISTICS

- All assets in this trust are outside the estate of the client for estate tax purposes

APPLICATIONS

- Replacing value of assets to the heirs that have been gifted to the charitable entities
- To discount the cost of estate taxes
- To provide cash for the purchase of assets the heirs want to reacquire from the foundation



Irrevocable Life Insurance Trust

BEST ASSETS FOR USE

- Life Insurance
- Other income producing or appreciating assets no longer needed by client



Qualified Personal Residence Trust

CHARACTERISTICS

- Client retains the right to use home for specific term of years
- The retained right to use the property reduces the value of the asset being transferred
- If client dies during the term of trust, the entire asset comes back into his estate
- Reversionary vs. Non-reversionary provision
- The residence can no longer be repurchased from the trust and the replacement assets passed on to the heirs
- Fair market rent not part of \$15,000 annual exclusion
- Can only do two QRPT per person



Qualified Personal Residence Trust

APPLICATIONS

- When a family wants to pass residence on to heirs
- To pass value of home to heirs with an adjustment in valuation

BEST ASSETS FOR USE

- 1st residence
- 2nd residence



Using the Tools and Assets Worksheets

List of all the Charitable and
Traditional Planning Tools

List of the Typical Assets Found
on Affluent Balance Sheets

Connect Which Tools Work Best
with Which Assets:



Stocks and Mutual Funds (Growth)

Issues To Be Considered

High/Low Basis?
Market Rising/Falling?
Basis Exceeds Current Value?
Inadequate Current Income?

Client's Objectives

Convert Growth to Income
Avoid Capital Gains Tax
Remove Wealth from Estate
Retain Control of Assets

The Tools

Charitable Lead Annuity Trust (Non-Grantor)
Charitable Lead Annuity Trust (Grantor)
Charitable Lead Unitrust
Charitable Remainder Unitrust (Standard)
Charitable Remainder Unitrust (Flip)
Charitable Remainder Unitrust (Net Income w/Makeup)
Charitable Remainder Annuity Trust
Intentional Grantor Trust
Grantor Retained Annuity Trust
Dynasty Trust
Family Limited Partnership/LLC
Irrevocable Life Insurance Trust
Life Estate Agreement
Qualified Personal Residence Trust
Family Foundation (Private)
Family Foundation (Supporting Organization)
Family Foundation (Donor Advised Fund)
Testamentary Bequest



Questions and Answers

