

Case #1: Small business owner

Facts:

This business owner runs a small manufacturing company with stable market but narrow margins. He has moved to out sourced contract employees and has zero W-2 employees. At age 51 he can see the business surviving with small but steady growth. The entity structure is Sub-S Corporation. The company set up a profit sharing qualified plan but was never funded. He is spending \$18,000 after tax per year for Life insurance.

Problem

He has no retirement money set aside. He is worried that the only funds that will be available for him at retirement will be from the proceeds of a sale of the business. This is troublesome to him because he is aware that the sale of the business will produce significant income tax liability and the net proceeds would not give him a decent livable income flow. He is also fearful of the sale coming in the form of cash (owe taxes) and payout from new owner over time. This happened to a friend of his after 4 years into the buy-out. The guy now in his 70's has to go back to work!

Outcome

Improved cash flow with an immediate \$35,000 tax deduction. Reduced his after tax Life insurance premium to \$3,500 but kept intact the full amount of life insurance he was paying \$18,000 out of his pocket for!

This year's savings in personal cash flow will equal \$14,500 for premium and \$35,000 income tax deduction or \$12,950 at 37% bracket for a total of **\$27,450!** If he lowers his income takeout from the company and makes minor adjustments a sizable amount could be contributed to the profit sharing plan for his retirement. Of course he could just enjoy spending the \$2,287 a month on a new boat instead?

Case # 2: The Reluctant Doctors Group

Facts: A group of 5 doctors doing well in their practice. Three of them had different advisors and two of them the same one was used. They were quite reluctant to listen to any outside information and felt they were “*all set*”. We were referred to one of them at the insistence of his new CPA. They finally agreed to meet based on the concept that this would be nothing more than a “second opinion” for them. *How ironic is that!* Upon review we discovered even though they were making contributions to pension plans for their members, they were using a less efficient qualified plan.

Problem: CPA Advisor was aware of the missed opportunities for his new client in the Physician Group. He wanted him to be able to gain more benefits now.

Outcome: By making adjustments to their plan and contributions moved to the maximum allowed by law, the group experienced a \$600,000 tax savings. Doctors also moved most of their personal life insurance into the plan creating \$5,000,000 in Life Insurance Benefit for each Doctor participant with no out of pocket premiums from each.

There is a way to find out what we can do for you. We need the facts of your situation. You can download the checklist and email contents as instructed in download. You will get a courteous prompt response.

[Second Opinion Checklist & Kit download.](#)

Case # 3: Business Owner (“The Happy Camper”)

Facts: 41 year old small business owner with an S-corp. structure. The company has 8-W-2 employees. There is a current Qualified Plan in place but it has been “frozen”. Owner is paying life insurance premiums out of pocket with after tax income in the amount of \$18,000, annually. The plan does have some assets from contributions in earlier years that can be used to enhance the current situation.

Problem: Wants more tax deductions. Currently has locked up assets in a plan that is not producing current benefits. Needs the life insurance but can’t afford the big premium in this economic cycle. Wants to keep coverage but lower the costs significantly. Has advice to drop what he has a buy new term insurance instead.

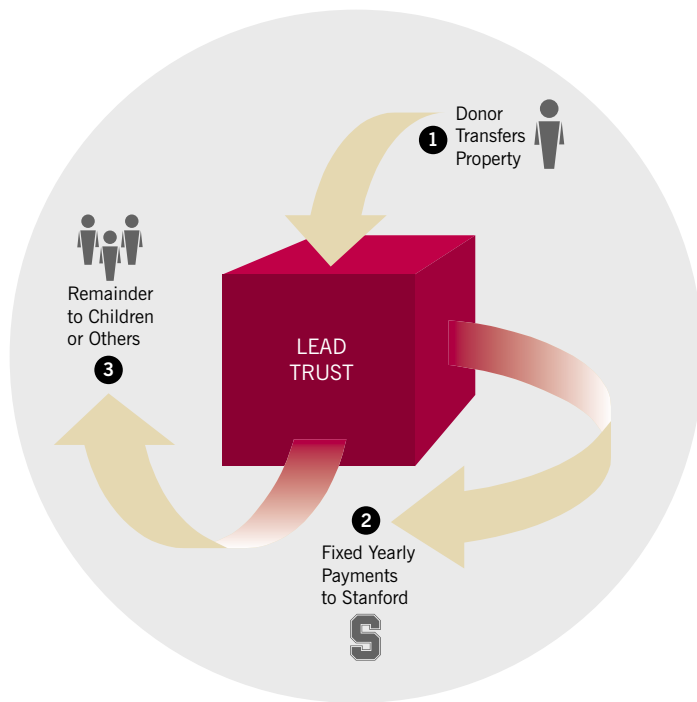
Outcome: By the use of advanced planning and available tactics within IRS Rules we were able to do the following for this client:

- Have his needed life insurance premium paid for in the plan. (Keeps entire death benefit amount)
- Created an immediate \$42,000 tax savings
- Applied a little known technique to create additional \$200,000 in tax deductions
- Produced an ongoing income stream of \$84,000 per year that is not subject to any self employment or payroll tax.
- Saved annual life insurance out of pocket cost of \$18,000.

Now you can see why we call him “The Happy Camper”

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HOW DOES IT WORK?

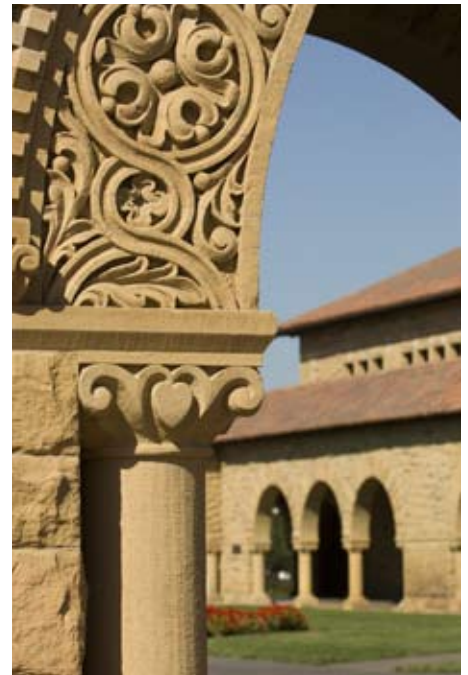
Richard Mita is in high income, gift, and estate tax brackets, and he has used all of his \$1 million gift tax exemption for lifetime gifts. He would like to make a substantial gift to Stanford, using assets that he wants to eventually go to his children. If he makes an outright gift now to his children, he will incur substantial gift tax. If he defers making his gift, and the assets meanwhile appreciate in value—as he expects they will—the eventual gift tax (or estate tax, if given by will) could be even higher, because the tax will be based upon the appreciated value of the assets at the time of the gift.

Instead of giving the assets directly to his children, Richard funds a CLAT with suitable assets (usually cash or assets that have a high likelihood of significant appreciation) currently valued at \$1 million. Paying a fixed 7.5 percent annuity (\$75,000) to Stanford for 20 years will result in a full \$1 million gift tax deduction, which “zeroes out” the value of the gift for tax purposes so that when the trust terminates, all the remaining assets will pass to the children free of gift and estate taxes. If the trust term were reduced to 15 years, the gift tax deduction would be \$846,300, meaning that there would be a taxable gift to the children in the amount of only \$153,700. At current gift tax rates, the maximum tax would be \$69,165. This reflects the fact that the children would receive their gift earlier and less would be paid out to Stanford. By further reducing the term to 10 years, the gift tax deduction would be \$617,380, meaning that there would be a taxable gift to the children in the amount of \$382,620. At current gift tax rates, the maximum tax would be \$172,179. (These figures assume a 4 percent IRS discount rate for the month in which the trust is funded.)

If the assets have grown at a steady 10 percent annual return (6 percent above the IRS discount rate we assumed in our example for calculating the tax deduction, above), the children will receive around \$2.4 million at the end of 20 years; \$1.8 million at the end of 15 years; or \$1.4 million at the end of 10 years. In each case, these amounts will be distributed to the children free of gift and estate tax. And of course, Stanford will have received a total of \$1,500,000, \$1,125,000, or \$750,000, respectively.



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IS A CHARITABLE LEAD ANNUITY TRUST RIGHT FOR YOU?

- Are you and/or your estate subject to gift and/or estate taxes?
- Do you want to make significant annual gifts to Stanford, perhaps in amounts larger than you can typically deduct from your income taxes?
- Do you have either cash or assets likely to appreciate significantly that you can part with now?
- Do you believe that investments will earn a compound annual return over the period of the trust that is more than the current IRS discount rate?
- Do you want to maximize your children's (or others') inheritance?
- Would you prefer your children (or others) wait a number of years for this inheritance?

If the answer to some or all of these questions is “yes,” a CLAT may be a good option for you. By having your heirs wait for a period of years to receive their gift, all the assets distributed from the trust at the end of that time will pass to them free of gift and estate taxes. Because their right to receive the remaining trust assets is established at the time the trust is created, there may be a current gift tax payable. By creating a CLAT, however, you are entitled to a significant tax deduction that will reduce—or even eliminate entirely—the gift tax, depending on the size of the annual payout to Stanford and the number of years the trust will make such payouts before the children or other designated beneficiaries get the remaining assets.

TAX BENEFITS OF A CHARITABLE LEAD ANNUITY TRUST

Income Tax

There are no income tax charitable deductions for this type of trust. But the income produced by the trust assets is no longer a part of your personal taxable income, and the annual payments to Stanford are deductible from the trust's taxable income. This may be especially advantageous if you tend to exceed your charitable deduction limit on your income taxes each year.

Gift Tax

Your gift tax charitable deduction is calculated based on the number of years the trust will make payments to Stanford, the payout rate chosen, and the IRS discount rate in the month the trust is funded. A lower IRS discount rate, a higher payout to Stanford, and a longer charitable term will result in a larger deduction, and in some cases will make the entire gift to your children tax free.

Estate Tax

If you make a CLAT gift while you are living, the transferred assets will be out of your estate, eliminating probate fees and inheritance taxes on those assets. You may also provide for a testamentary CLAT in your estate plans, which can substantially reduce—or even eliminate—the estate tax on the gift.

NOW YOU CAN SELL THE FARM



AND STILL RESIDE IN HOME SWEET HOME

Sell The Farm, Pay Zero Tax And Remain In The Residence

While it was the last thing on anyone's mind a generation ago, as an era of America's farming families approach retirement age they are faced with the very real question of whether to actually sell the farm.

It isn't an easy question. Beyond all of the emotional aspects of the discussion, there are some very real tax, estate and inheritance issues that weigh heavy in the decision.

It is not unusual for the farm to comprise a significant percentage of the estate value and, therefore, the inheritance for children.

When the children have no desire to continue the family tradition of farming and when leasing the farm will only generate 2% - 3% of the actual value, many families find themselves exploring other options.

In fact, many families are excited about a plan that makes it possible to sell the farm with no tax, continue to live in the farm residence and provide for the children's inheritance.

For complete information without obligation, call our Office.



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NOW YOU CAN SELL THE FARM



**AND STILL RESIDE
IN HOME SWEET HOME**

Did you know it's possible to sell the farm, retain the right to live in the farm residence and increase retirement benefits? To learn more about what to do when it is time to sell, call or write our office.



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