

Sale to Trust

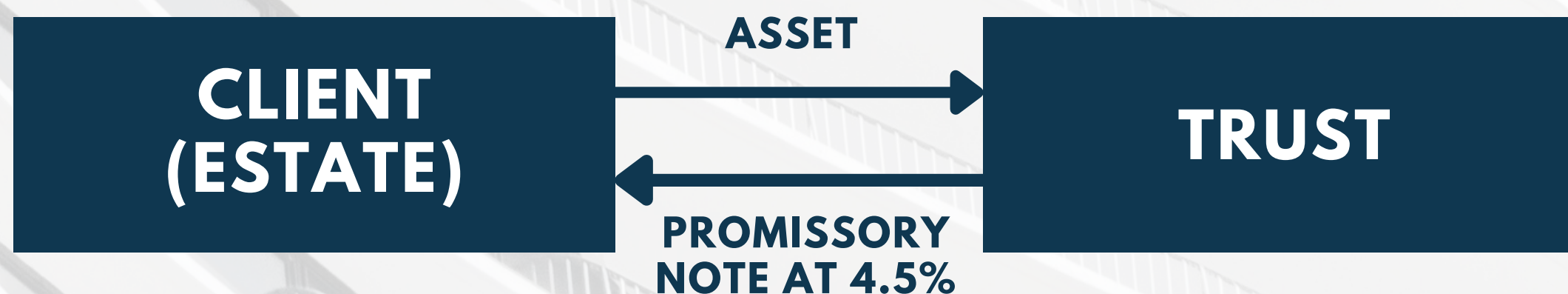
ESTATE PLANNING

AVOID ESTATE TAXES ON FUTURE GROWTH

The tax code allows individuals to sell an unlimited amount of assets to trusts for their family, without owing gift taxes on the transfer. The client sells the assets in return for a promissory note from the trust. This strategy is commonly referred to as an “estate freeze” technique, because the client’s taxable estate is “frozen” at the value of the promissory note plus interest, **with all future growth in excess of this amount passing estate tax-free to beneficiaries of the trust.**

HOW TAX-FREE MANAGEMENT BUYOUTS WORK

1. Client has or creates defective grantor trust, which is identical to the client for income tax purposes, meaning any transactions between the client and the trust are inherently tax-exempt.
2. Trust is seeded with at least 10% of the value of the asset that will be sold.
3. Client appraises the asset and sells to the trust for the appraised value in return for a promissory note at the mid-term or long-term AFR rate, which is typically repaid over a ten to fifteen year period.
4. Client receives tax-exempt principal and interest payments from the trust.



-SEE CASE STUDY ON NEXT PAGE-

SALES TO TRUST WORK WELL FOR CLIENTS WHO:

- *Want to minimize estate taxes.*
- *Want to keep assets in trust for future generations (children and grandchildren)*
- *Have assets that produce income that can service the principal and interest payments.*
- *Are comfortable not directly owning or controlling the asset that has been sold to trust.*
- *Expect future growth of the asset(s) to be meaningfully higher than the Applicable Federal Rate (AFR).*

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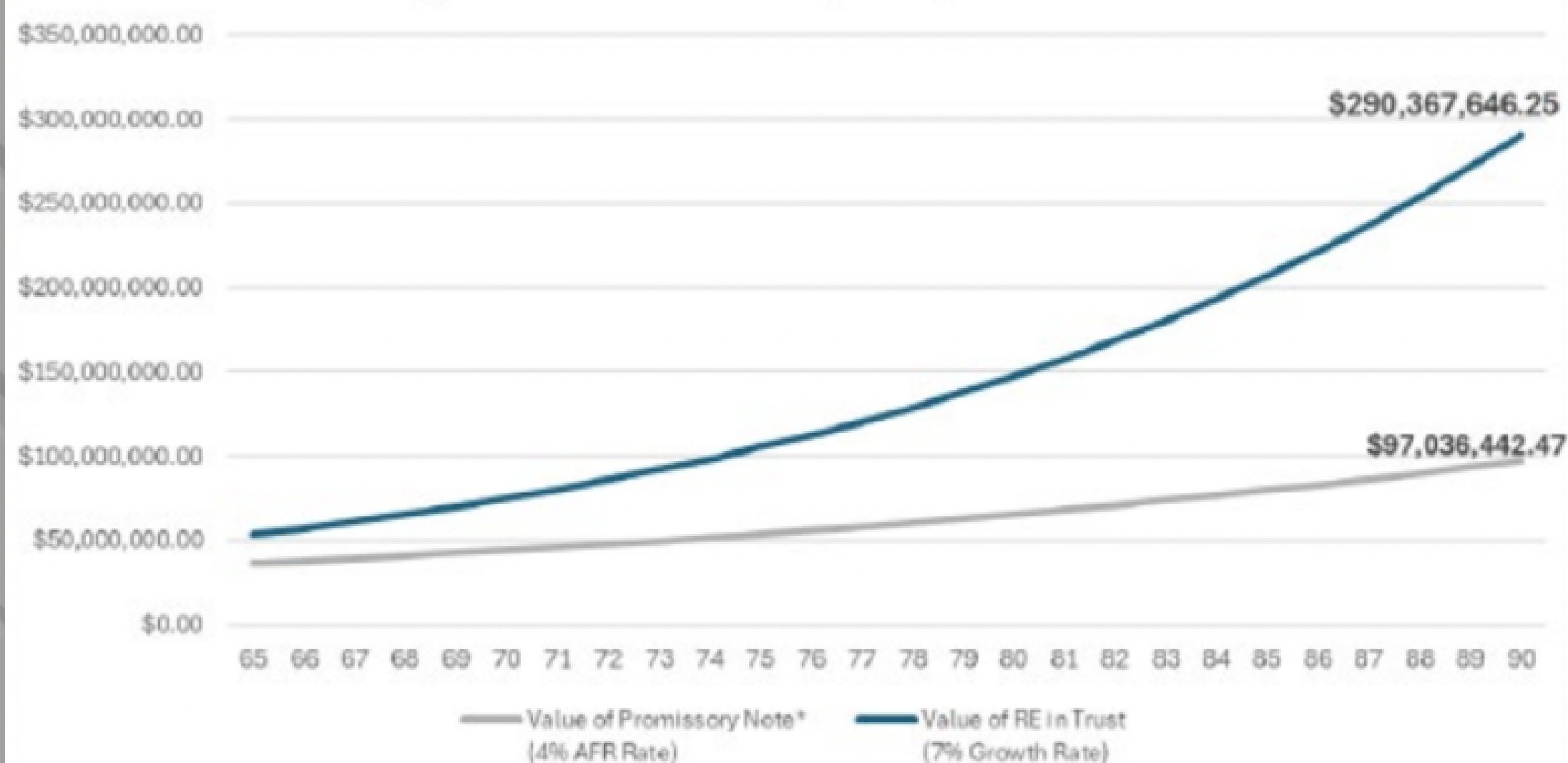
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ESTATE PLANNING

CASE STUDY: REAL ESTATE INVESTORS IN NY

Krishnan and Aruna are a couple in NY, who have a large portfolio of real estate. The couple has used their full lifetime exemption to move assets to trust for their daughters, but still have a taxable estate of over \$100,000,000. The couple wants to continue moving assets into trust for future generations, but also needs income for lifestyle and to pay income taxes for the existing grantor trusts. To achieve their planning goals, the couple decided to sell \$50M of real estate interests to an intentionally defective grantor trust (IDGT) in return for a promissory note at the mid-term AFR rate of 4%. The couple will pass all future growth above 4% on the \$50M of real estate to their daughters estate and income tax-free. **Over the client's life expectancy, this planning is expected to eliminate estate taxes on nearly \$200M.**

Shifting Future Growth to Trust, Exempt from Estate Taxes



WHAT DETERMINES THE BENEFITS?

The benefits of Sales to Trust are a function of many factors, including:

- *Size of the taxable estate (the larger the estate, the larger the taxes due)*
- *Future growth rate of the asset that is sold to trust (the higher the rate, the more growth can be shifted to trust)*
- *Applicable Federal Rates (the lower the rate, the more growth can be shifted to trust)*

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