



# "Giving" Advice



**TOLEDO COMMUNITY  
FOUNDATION**  
300 MADISON AVENUE  
SUITE 1300  
TOLEDO, OHIO 43604

419-241-5049  
[TCF "GIVING" ADVICE  
NEWSLETTER](#)  
[Visit Our Website](#)

## ABOUT YOUR FOUNDATION

Since 1973, the **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, **Toledo Community Foundation** helps donors

[<Back to Front Page](#)

[Forward this Article>](#)

[Print This Article](#)

## Now May Be the Best Time to Give Away your Estate

Copyright 2008 Investor's Business Daily, Inc.  
All Rights Reserved  
Investor's Business Daily  
October 20, 2008

**By Donald Jay Korn**

Stocks and funds have joined real estate on the injured list. Many trade at much lower share prices than they did just weeks ago.

Those storm clouds have a potential silver lining. You can give away more assets while minimizing gift tax consequences.

If family gifts are in your estate plan, your first step is to use the annual gift tax exclusion. In 2008, that exclusion is \$12,000 per recipient.

For married couples, it is \$24,000 per recipient.

Suppose a hypothetical Ken and Eva Palmer want to give assets to their two children to reduce their taxable estates. In 2008, they can give up to \$24,000 to their daughter Maria and \$24,000 to their son Brett.

That would move \$48,000 from their estates. No gift tax will be due.

Say that the senior Palmers have large holdings of XYZ Co. stock. Earlier this year, it was trading at 80 a share. If they wanted to give away \$48,000 worth of XYZ stock to their kids, the Palmers would have transferred 600 shares.

Suppose that XYZ now trades at 48 a share. Instead of 600 shares, the Palmers can give away 1,000 shares, fully covered by their annual gift tax exclusions.

transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

So more shares can pass to the next generation tax-free. If XYZ rebounds, more growth will be out of the Palmers' estate.

But giving away \$48,000 a year might not make much of a dent in a very large estate.

"There is also a \$1 million lifetime gift tax exemption," said James Kronenberg, a principal and associate fiduciary counsel at Bessemer Trust. Married couples have \$2 million of this exemption.

This exemption applies to gifts beyond those covered by the annual gift tax exclusion. No gift tax will be due as long as such gifts are no more than \$1 million or \$2 million if given jointly by a married couple.

That's on top of the \$12,000 and \$24,000 annual gift exemption.

But such gifts do reduce your estate tax exemption. If Ken Palmer makes \$100,000 of gifts using his lifetime exemption, his estate tax exemption will be cut by \$100,000.

### **Great GRATs**

Beyond the annual and lifetime gift exclusions, there are other ways to reduce gift tax. Again, they work best when asset values are down.

One example is the grantor retained annuity trust (GRAT).

"GRATs appeal to people who are cautious about giving away wealth now," said Richard Kohan, partner with PricewaterhouseCoopers' Private Company Services practice.

At the outset, you set up an annuity-like stream of income. The trust pays you. A common goal at the start is this: Size those future payments, which include a certain amount of interest, so their present value equals the value of the assets you put into the trust.

The interest portion is based on what's known as the "7520" rate, published monthly by the IRS.

You also set the trust's lifetime or term at the start. Once the trust terminates, any assets left go to beneficiaries that you name.

If the trust has earned more than what's been paid to you, your beneficiaries get that. You would not have to pay gift tax. Beneficiaries never pay gift tax.

The 7520 rate reflects prevailing interest rates. The lower the IRS rate is, the smaller the payments you can take from the GRAT while leaving more, free of gift tax, to loved ones.

Interest rates are low now. For October, the applicable interest rate is 3.8 percent.

Further, if you set up a GRAT now, assets that pass to your beneficiaries have a chance to grow a lot. That's because they'd be starting from today's beaten-down levels.

So putting stocks and other devalued assets into a GRAT now can be a good move. If asset values recover during the trust term, the growth can be out of your estate.

"There is very little downside to a GRAT," Kohan said.

If the trust assets do not appreciate sufficiently to make a GRAT work, those assets come back to the grantor.

### **Doing It Again**

"We're suggesting re-GRATs to some clients now," Kronenberg said. Those are people now collecting a GRAT annuity.

Suppose a hypothetical Russell Jackson contributed \$1 million of XYZ stock to a two-year GRAT earlier this year, when the shares traded at 80 each.

Those shares are now trading at 48. It's unlikely they will show much appreciation during the trust term.

Jackson can substitute GRAT assets, Kronenberg says. If there is \$600,000 of XYZ shares in the trust now, Jackson can put \$600,000 in cash into the trust and reclaim the XYZ shares.

Then the depressed XYZ shares can be used to fund a new GRAT. The tax-free transfer to trust beneficiaries may be especially large if the shares regain lost value in the next few years.

[Copyright](#) © 2007 LexisNexis, a division of Reed Elsevier Inc. All rights reserved.

[<Back to Front Page](#)

[Unsubscribe to this e-newsletter.](#)

This email was sent to you by a community foundation affiliated with the Council on Foundations (COF) or Community Foundations of America (CFA) . If you are not an intended recipient of this e-mail, please notify the sender and then delete it. COF & CFA policy bars the use of bulk mail lists. If you believe you received this email outside of these policies, please let us know at [privacy@nmatpublisher.com](mailto:privacy@nmatpublisher.com). [Technical support](#) is available if you are having problems with this email. This information is provided as a service to you. Product references are not intended as a solicitation, but rather, to provide information and address issues raised. Unless otherwise indicated, all service marks are the property of COF & CFA. Copyright 2008 Council on Foundations & Community Foundations of America. All rights reserved.

POWERED BY  hnw