



Toledo
Community
Foundation

Inspiring and Connecting Thoughtful Giving

Toledo Community Foundation

toledocf@toledocf.org

300 Madison Avenue
Suite 1300
USA

Toledo, Ohio 43604
P. 419.241.5049
F. 419.242.5549

About Your Foundation

Since 1973, **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 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.

[← BACK TO FRONT PAGE](#)

[PRINT THIS ARTICLE](#)

[SHARE](#)



Smart Moves for Low Interest Rates

(c) 2010 Dow Jones & Company, Inc.



Low interest rates may not bode well for your bond portfolio, but they are a rare boon for your estate plan.

A key IRS interest rate determining wealth transfers is down to 1.8% for December, "the lowest rate on record," says Mitchell Drossman, national director of wealth-planning strategies at U.S. Trust. This is very favorable for techniques geared toward reducing or eliminating the gift and estate tax, and creating some sizable deductions, he says.

Exactly how much these devices will save you depends on what gift and estate taxes will be in the future. Whatever their levels, anything that limits Uncle Sam's reach will be welcome. Here are five to consider.

Lend to an Heir

Intra-family loans are practically giveaways these days and can be a useful way to pass money on to your heirs. In order for the loan to be an estate-planning strategy, the borrower has to invest the money in something that earns enough to repay the loan and generate a profit.

Interest rates on noncommercial loans are based on the 1.8% IRS rate, but for short- and medium-term loans they are dramatically lower: 0.32% for loans of up to three years, and 1.53% for three-to- nine-year loans. For terms longer than nine years, the rate is 3.53%.

"With these low rates, loans are a no-brainer," says Jere Doyle, a tax attorney and senior vice president at Bank of New York Mellon.

Say you loan your child \$1 million for one year, and the money earns 5%. At year end, your child repays you \$1 million plus \$3,200 in interest, pays capital gains on \$50,000 and pockets \$39,300. That's assuming a 15% capital gains tax rate. "It's a strategy to let money grow in the hands of your children, on their balance sheet rather than the parents'," says Doyle.

Fund a GRAT

The success of a grantor-retained annuity trust, a simple tool to pass on wealth while avoiding gift and estate taxes, is measured by how much the assets can appreciate over the IRS's rate -- often referred to as a hurdle rate. With the rate at 1.8%, assets should have no problem clearing the hurdle, says Lisa Osofsky, a tax advisor at law firm WeiserMazars LLP.

Here are the nuts and bolts. You fund a GRAT with invested assets, and the trust pays you an annuity for a term you choose. At the end of the term, whatever is left above the IRS rate goes to beneficiaries of the

trust, with zero tax.

"The best part about the GRAT is you don't lose anything," Doyle says. If you die within the term, the assets get included in your estate, and it would be as if the GRAT never existed. If the assets in the trust don't appreciate, "the only thing you've lost is what you paid your attorney to draft the documents," he adds.

To reduce the chances of dying during the trust term, most folks set them up for three-to-five-year periods. But Congress has been considering setting a 10-year minimum on GRATs -- "so we're talking to clients about a window of opportunity now," Osofsky says.

Give Away Property

For older folks who want to pass their properties to charity, consider guaranteeing to give the property to a charity during your lifetime in exchange for a fat up-front tax deduction. "When you have a low interest rate, it makes the value of what you have retained less, and what you have given away is valued more -- so it inflates the charitable deduction," Drossman says.

Consider a 70-year-old homeowner with a house valued at \$1 million. Based on an IRS formula, at an interest rate set at 6%, where it was in July of 2006, the homeowner would have been able to claim a \$449,537 charitable deduction for donating the remainder interest to charity, Drossman says. In contrast, today the deduction would be \$702,071, he says.

Form a Trust for Charity

Charitable lead trusts are funded with assets earmarked for charity. The creator of the trust gets an up-front tax deduction for the amount transferred to the trust. If the trust is arranged to go into effect after the creator's death, the estate gets the deduction.

The charity receives annual payments for the term of the trust. At the end of the trust's term, beneficiaries are paid what remains in the trust above the IRS's hurdle rate, free of estate taxes.

Profit from a Defect

The description may give you some pause -- intentionally defective grantor trusts -- but these are a good way to get appreciating assets out of your estate and into your heirs' hands. (The trust is considered defective because the person who sets it up retains some control of the assets.) While there is a gift-tax consequence, it is minor compared with the potential advantage to your beneficiaries, Doyle says.

Here's how it works: You transfer, say, \$1 million into the trust. So that you don't trigger a massive gift tax, you receive a \$1 million promissory note bearing an IRS interest rate (the same as for intra-family loans).

For the IRS to allow this arrangement, the trust must have some assets. So prior to this transaction, you would fund the trust with about \$100,000 and pay gift taxes on that amount, or cover it with your \$1 million gift-tax exemption.

The benefit? The trust freezes the \$1 million from an estate-tax standpoint -- after your death, the \$1 million plus interest will return to your estate. In the meantime, "any appreciation on the assets in the trust is out of your estate and is for the benefit of your kids," Doyle says. Your children inherit the capital gains.

While beneficiaries are responsible for paying taxes on any capital gains after your death, you can spare them that tax bill and further reduce your estate. At any time during your lifetime, you can have the trustee realize capital gains in the trust, and you can pay them.

Assume your \$1 million in the trust has grown to \$2.5 million. The \$1.5 million gain could be realized within the trust, and you would pay about \$300,000 (assuming a 15% federal capital gains tax and a 5% state tax).

"This way, \$2.5 million stays in the trust, and you are indirectly putting another \$300,000 into that trust that you won't have to pay gift taxes on," Doyle says. That's a chunk of change worth guarding from the taxman.

For Barron's subscription information call 1-888-BARRONS ext. 685 or inquire online at <http://www.barronmag.com/subscription/subscription.html>.

© Factiva, Inc. All rights reserved.

[Terms of Use](#)

[← BACK TO FRONT PAGE](#)

[Unsubscribe](#)

This newsletter is provided by the above listed firm which is a registered investment adviser ("RIA"), qualifies for an exemption or exclusion from registration requirements, or does not fall within the definition of an RIA under the Investment Advisers Act of 1940 (the "Act") or any applicable state laws. Any subsequent, direct communication by the firm with a prospective client shall be conducted by a representative that is registered, qualifies for an exemption or exclusion from registration in the state where the prospective client resides, or is not defined as an investment adviser representative under the Act or any applicable state laws. This newsletter contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in financial markets involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

POWERED BY **hnw**