

Case Strategy: *Tax-Efficient NIMCRUT*

WRIGHT

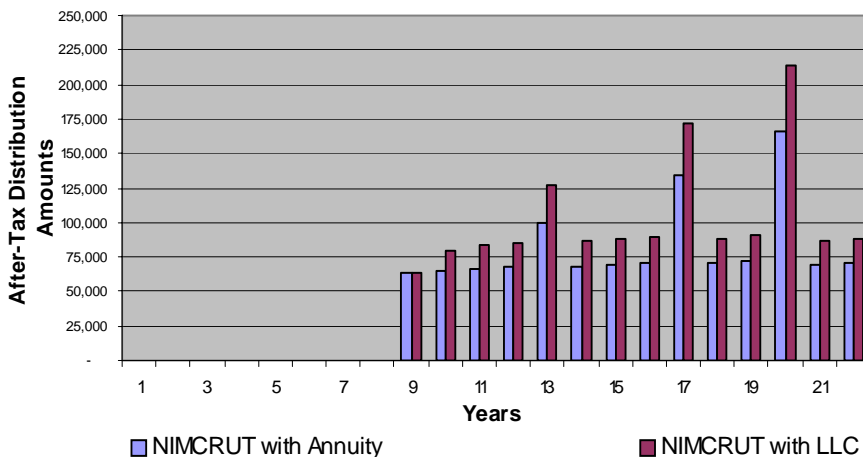


Richard and Ruth Wright, both age 65, have the following objectives for their Charitable Remainder Trust (CRT):

1. Diversify and avoid capital gain tax on the sale of \$1,000,000 of real property.
2. Obtain current income tax savings from a charitable deduction.
3. Defer income for several years (eight years at a minimum).
4. After deferral, receive a flexible, tax-efficient, inflation-protected income. They will occasionally seek additional lump sum distributions.
5. After receiving what they need to support their lifestyle, they seek to maximize the benefits to charity.
6. Supplemental planning will provide benefits to their children.

For clients with similar objectives, the professional advisors serving Richard and Ruth have often used a NIMCRUT investment strategy using variable deferred annuities. However, seeking a tax-efficient alternative, the advisors explore the use of a single-member limited liability company (LLC) as an investment management entity. This alternative will not only permit income deferral but also the characterization of a portion of Richard and Ruth's distributions as dividends and capital gain. For comparison purposes, both investment strategies will distribute the same amount on a before-tax basis. However, the results of the advisors' after-tax analysis are summarized in the chart.

Comparison of After-Tax Distributions



Based on the analysis, Richard and Ruth decide to use the LLC because of the higher after-tax cash flow. Regardless of the investment choice selected, Richard and Ruth receive an income tax charitable deduction of \$243,000 and the charity ultimately receives \$2,463,000 in assets.

Assumptions:

- AFR = 4.6%. Payout rate = 7.0%.
- LLC Strategy Return = 1% ordinary income; 1% dividends; 6% realized long term capital gains.
- Annuity Strategy Return = 8% ordinary income.
- Marginal Federal and state income tax rate = 38.25%.
- Marginal Federal and state dividend and capital gain tax rates = 19.25%.
- Selling Expenses = \$70,000.
- Assumes the property is neither subject to a mortgage nor currently used by the client's family.

Cumulative Cash Flow Summary

| | Annuity Strategy | LLC Strategy | % Change |
|----------------------|------------------|--------------|-----------|
| Before-Tax Cash Flow | \$1,871,000 | \$1,871,000 | No Change |
| After-Tax Cash Flow | \$1,155,000 | \$1,442,000 | 24.8% |

This example is hypothetical and for educational use only. The situations, tax rates or return numbers do not represent any actual clients or investments. There is no assurance that the rates depicted can or will be achieved. Actual results will vary. Please consult with legal and tax counsel about the suitability of this plan before proceeding.