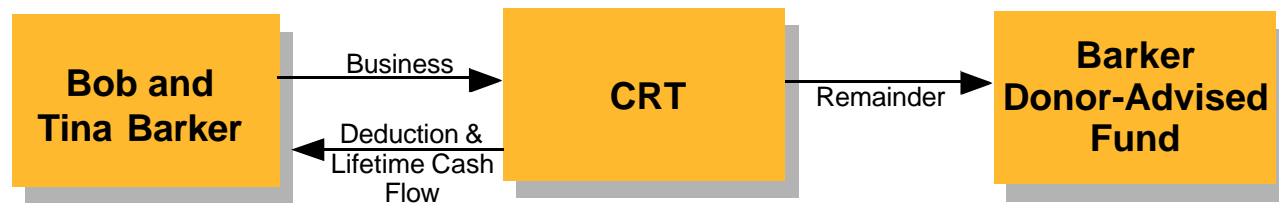


Case Strategy: *Sale of Business*

BARKER



Bob and Tina Barker, ages 64 and 62, own a small manufacturing business (a C-corporation) worth \$4 million with no basis. They have another \$3 million of assets, which includes their home, and draw a combined \$200,000 gross annual salary.

The Barkers wish to retire from their business. They want to ensure a steady stream of income during their retirement but would also like to provide a sizable inheritance to their two daughters and their families. Also important to the Barkers is the desire to leave some money to the local art museum and community hospital, where the Barkers have volunteered for many years. The Barkers are sure they can find a buyer who will pay \$4 million for their business. However, they have been reluctant to sell the company, because they would lose about \$770,000 of the sale proceeds to capital gain taxes.

The Barkers' financial advisor, John Smith, proposes a solution that will help them achieve all their objectives and defer most capital gains taxes. John recommends that the Barkers give 75 percent of their stock to a charitable remainder trust (CRT). The CRT's trustee will sell that stock for \$3 million, free of capital gain tax. The Barkers then personally sell the remaining stock to the same buyer for \$1 million thereby creating a personal cash reserve. The CRT provides the Barkers with the following benefits: deferral of capital gains on the \$3 million sale of the business, a lifetime cash flow and an immediate income tax deduction to offset some of the capital gain tax from the partial sale not made via the CRT.

With John's assistance, they will reinvest the total sale proceeds to provide a gross cash flow projected to average more than \$300,000 a year. The Barkers will use part of that income to purchase a \$2.65 million life insurance policy that will benefit their daughters and bypass federal estate tax.

When the CRT matures, its remaining assets will be distributed to the Barker Donor-Advised Fund to provide a permanent income stream for the museum and hospital.

	100% Stock Sale	Split CRT/Sale Plan	Advantages to Adding the CRT
Lifetime Spendable Cash Flow	\$4,256,000	\$4,966,000	Increases by 17%
(+) Total Benefit to Heirs	5,176,000	6,194,000	Increases by 20%
(=) Total Benefit to Family	9,431,000	11,160,000	Increases by 18%
Gov't-Directed Social Capital <i>(capital gains and estate taxes)</i>	2,778,000	695,000	Reduces Taxes by 75%
(+) Self-Directed Social Capital <i>(charitable gifts)</i>	—	3,886,000	No Charitable Gifts in 100% Stock Sale
(=) Total Benefit to Society	2,778,000	4,580,000	Increases by 65%
Total Family-Controlled Benefits <i>(family benefits and charitable gifts)</i>	\$9,431,000	\$15,046,000	Increases by 60%

Assumptions:

AFR= 5%. Payout rate = 7%.

48% marginal estate tax rate.

Total return = 1% dividends; 1% interest; 6% long-term capital gains.

Marginal Federal and state income tax rate = 38.25%.

Marginal Federal and state dividend and capital gain tax rate = 19.25%.

The Barker's combined estate tax exclusion will offset the assets not addressed in this plan.

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.