WORTH MAGAZINE
ESTABLISHED 1992

MAKE
Wall Street's biggest bonuses—who made what and why. Plus: Investing in Cuba after the embargo and now.

GROW
Top 10 tax deductions. Why your taxes will go up in 2010—and how you can save money when they do.

LIVE
The best books, airports, cigars. Also: 10 billionaires trying to save the planet.

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE

BREAKING FREE—HOW WEALTH CAN HELP SAVE THE PLANET, FROM CUBA TO GREEN BILLIONAIRES

WORTH.COM

05

VOLUME 19 | EDITION 02

Fairfield County, CT | **Leading Wealth Advisor**

LLBH Private Wealth Management
Kevin Burns, Partner, Bill Loftus, Partner,
Bill Lomas, CFP®, Partner,
Jim Pratt-Heaney, CIMA®, Partner

"Why is it a good time to use intra-family loans and sales in estate planning?"

By Bill Loftus

Historically low interest rates and asset valuations make this possibly the best opportunity we will see in a generation to employ intra-family loans and sales. In fact, we consider them one of the last great gains in estate planning.

To illustrate just how effectively intra-family loans and sales can preserve your legacy, I am going to create a scenario for a family of five: Mom, Dad, three married children. We will present this family with a pair of challenges:

1. If the parents own a home worth, say, around $3 million, how can they use the home to create wealth for their children, to minimize taxes, and to preserve family relationships?

2. Let us also say the mother has a dynasty trust. How can this family use that trust to create a legacy for the family's grandchildren?

For starters, we will also assume the parents have exhausted their gift tax exemptions. With that option off the table, an LLC would be created that would hold the property. Next, 50 percent of the property would be sold to the three children within the LLC, and then the parents would take back a note.

To meet federal requirements, a strategy like this would have to operate like a real sale or real loan, and here is where the historically low interest rate comes in. In March 2010, the applicable federal rate, calculated monthly by the IRS, had a rate of 0.64 percent for three years, 2.69 percent for three to nine years, and 4.35 percent for nine-plus years. Additionally, over time, these parents can forgive some principal or interest on the loan as long as it is done under the gift tax laws.

The LLC must be treated as a separate business entity. Accordingly, a separate bank account must be established for the LLC and the parents would have to pay fair market value rent to continue to use the property.

Over time Mom and Dad could make partial sales or grants of their LLC interest or shares to the children, so they would have a minority interest in the property at the time of their subsequent deaths. As they sold an interest in the LLC (as opposed to interest in the underlying property), they would be able to discount the $3 million property value by as much as 20 percent. And let us say they made improvements in the property and increased its market value to $5 million. The bottom line in this scenario is that this family's tax savings could exceed $2 million on the $5 million value of the home.

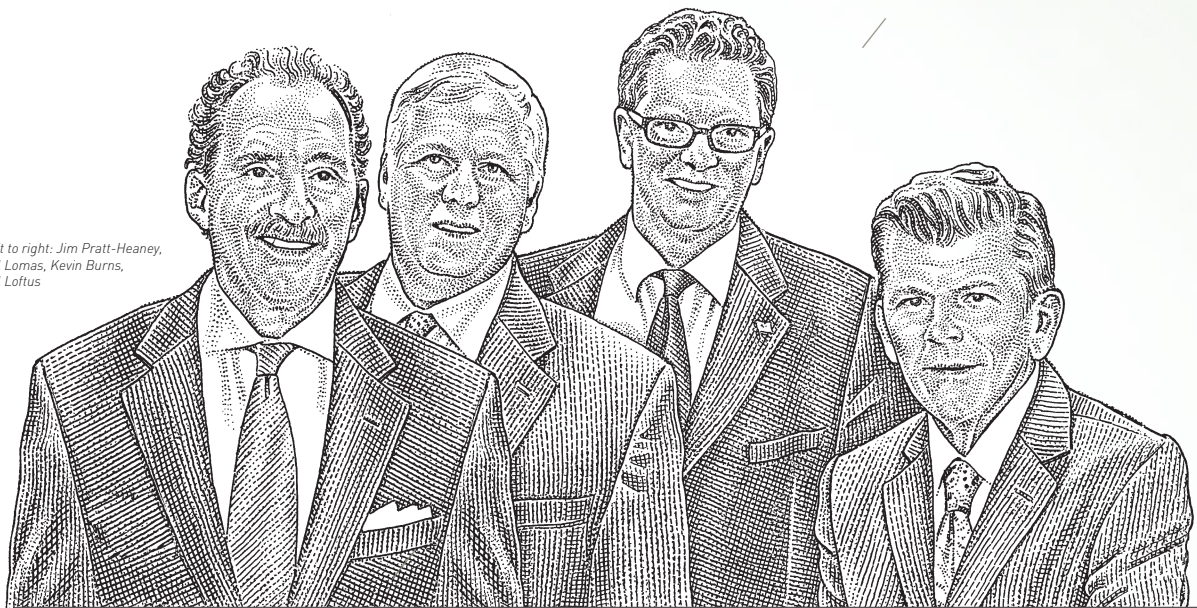
To meet challenge number two for this family of five and to create a separate nest egg for the grandchildren, a multigenerational irrevocable life insurance trust (ILIT) would acquire an $11 million life insurance policy on the mom by borrowing a certain amount a year from her dynasty trust. When the mom passes, an $11 million net death benefit would be paid to the ILIT. **Any death benefit remaining, after repayment of the loan to the dynasty trust, would be held in the ILIT and eventually pass to the grandchildren tax free.**

So, the proverbial bottom line in this scenario is that the plan saved just over $2 million in taxes by not gifting the house outright and it created a tax-free benefit to the grandchildren—all for the cost of some minor legal expenses.

"The bottom line in this scenario is that this family's tax savings could exceed $2 million on the $5 million value of the home."
– Bill Loftus

How to reach Bill Loftus

I look forward to discussing how I can help you reach your financial goals. I can be reached directly at 800.700.5524.



Left to right: Jim Pratt-Heaney, Bill Lomas, Kevin Burns, Bill Loftus

About LLBH Private Wealth Management

After 15 years teaching, Jim Pratt-Heaney joined EF Hutton in 1986. He became a vice president at Smith Barney before moving to Merrill Lynch in 1998. He is a certified investment manager analyst and leads LLBH's asset management. Bill Lomas started with Paine Webber in 1981, spent 18 years as a senior vice president at Prudential Securities and Smith Barney and joined Merrill Lynch in 1998. Mr. Lomas, a Certified Financial Planner and chartered retirement planning specialist, leads LLBH's holistic investment planning process. Kevin Burns, whose career began at PaineWebber in 1981, became a senior vice president at Oppenheimer & Co. and Smith Barney before joining Merrill Lynch in 2000. He leads LLBH's new client asset acquisition and client service and contact operation. In 1986, Bill Loftus joined Merrill Lynch then spent 10 years as a senior vice president at Smith Barney before returning to Merrill Lynch in 1998. He leads LLBH's corporate executive advanced wealth planning, lending and alternative investments.

Assets Under Management
$600 million (team)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$10 million (for investment services)

Largest Client Net Worth
$100 million

Financial Services Experience
120 years (combined)

Compensation Method
Asset-based

Primary Custodian for Investor Assets Pershing

Professional Services Provided
Planning, investment advisory, money management, advanced wealth transfer planning and corporate services

Association Memberships
Investment Management Consultants Association

Website
LLBHpwm.com

Email
bloftus@llbhpwm.com

LLBH Private Wealth Management | 33 Riverside Drive, 5th Floor, Westport, CT 06880 | 800.700.5524

Kevin Burns
Partner

Bill Loftus
Partner

Bill Lomas, CFP®
Partner

Jim Pratt-Heaney, CIMA®
Partner

LLBH Private Wealth Management
33 Riverside Drive
5th Floor
Westport, CT 06880
Tel. 800.700.5524

Email: bloftus@llbhpwm.com
www.LLBHpwm.com

REPRINTED FROM

Worth®
THE EVOLUTION OF FINANCIAL INTELLIGENCE