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Top 10 Ways to Transfer Wealth

By the Wealth Management Team at
Baker Ave

Baker Avenue Asset Management is an independent registered Investment advisor headquartered in San Francisco with offices in New York, Boston, and Dallas. In addition to managing customized investment solutions for our clients, Baker Ave also teams with other trusted financial partners to deliver tax and estate planning and other wealth management services.

Top 10 Ways to Transfer Wealth

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Top 10 Ways to Transfer Wealth

TOP 10 WAYS TO TRANSFER WEALTH

SIMPLE GIFTS

When President Obama signed the Tax Relief Act into law last December, the new legislation paved the way for individuals and families to give away an unprecedented amount of money without triggering any IRS penalty. Through 2012, the lifetime gift exclusion rises from \$1 million to \$5 million, with a 35 percent tax rate on anything over that amount. The change means individuals can give up to \$5 million tax-free; couples, twice that. For the same period, the estate tax allows a \$5 million exemption. Estate attorneys and financial planners advise their clients to act now—before the generous new limits disappear. Here are 10 strategies for doing just that.

1) The new \$5 million gift-tax threshold set for each individual encourages outright gifting.

Take advantage of these generous limits to provide responsible adult children and grandchildren with portfolios of their own. However it may not be healthy for adults, especially young adults in formative years of learning the financial ropes of life, to live under the wing of trustees.

2) The new legislation makes irrevocable life insurance trusts, already a key estate planning technique, even more attractive.

Funding a trust using the new \$5 million threshold, which then pays for life insurance premiums, creates a multiplier effect. Another aspect of their appeal is that life insurance trusts settle exactly how much each heir will receive. All planning should be reviewed when tax laws change but the irrevocable life insurance trust “doesn’t have to be revisited every time Congress acts.”

3) Many estate attorneys and planners expected a tax change to grantor retained annuity trusts, or GRATs, and were pleased that the new legislation left this planning tool untouched.

The GRAT helps shift future appreciation of contributed assets to children at a minimal tax cost. To work, the assets transferred to the trust must appreciate at a higher rate than an IRS-set hurdle rate. Today’s low interest rate environment means a low investment performance bar to cross; the February IRS rate was 2.8 percent.

IRREVOCABLE LIFE INSURANCE TRUSTS

GRANTOR RETAINED ANNUITY TRUSTS

INCOME TAX PAYMENTS

4) Don't overlook the value of paying the annual income tax for the gains and taxable earnings of assets held in grantor trusts.

While not a particularly complex strategy, it will prove valuable over time. None of the income tax payments are considered gifts.

DYNASTY TRUSTS

5) The substantial gift-tax exemption aids planning for future generations through dynasty trusts, also known as generation-skipping trusts.

Families who establish dynasty trusts in Delaware could shield their assets from estate taxes for up to 500 years. "For people who are very wealthy, this is a boon. Moving the assets now also protects all future appreciation from taxes.

*DISCOUNTING
APPRECIATED ASSETS*

6) The higher lifetime gift-tax exemption provides a great opportunity to look at assets you can discount such as businesses, family limited partnerships and real estate.

Say, for example, that a business is valued at \$7.5 million, but for gift purposes you can discount that value to \$5 million—you can apply the full gift-tax exclusion while gaining a higher actual value.

*QUALIFIED PERSONAL
RESIDENCE TRUSTS*

7) Thanks to the higher gift-tax exemption, the qualified personal residence trust, or QPRT, benefits even more people than it used to.

For clients with substantial value tied up in residential property who intend their children to own it eventually, the higher exemption lets them allocate a larger amount to the QPRT. The contribution requires making a taxable gift, but the higher gift allowance provides a bigger exemption.

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DEFECTIVE GRANTOR TRUSTS

8) Avoid gift and estate taxes with the defective grantor trust.

If you seed a defective grantor trust with, say, \$1 million, then sell assets worth up to nine times that amount with the trust issuing a note to the grantor, any gains in the trust assets in excess of the note's interest grow tax-free.

ROTH IRA CONVERSIONS

9) Proposed income-tax hikes in the future make the next two years an ideal time to convert traditional IRAs to Roth IRAs.

With the top income tax rate capped at 35 percent today, you can likely secure a lower tax bill now.

ANNUAL GIFTS

10) Don't neglect the relatively modest but still significant annual \$13,000 tax-free gifts.

No matter what it means to you, it can mean a lot to the recipient. This sum, as well as education and health-related expenses paid directly to schools or health care providers, should continue since such gifts and payments don't count toward the estate tax exemption, making it a use-it-or-lose-it gift.

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