



**Survive And Thrive in 2009...**

**Estate Planning Tools  
for Today's Uncertain Times**

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# Gratitude and Kudos to:

- Virchow, Krause & Company, LLP
- Robert S. Keebler, CPA, MST  
([www.virchowkrause.com](http://www.virchowkrause.com))
- Wealthcounsel, LLC  
([www.wealthcounsel.com](http://www.wealthcounsel.com))



“It is all the same to us.”

# Estate Planning: Tools of The Trade

1. Roth IRA Conversion Planning
2. Capital Gain & Loss Planning
3. Grantor Retained Annuity Trust (GRAT) Planning

# 1. Roth IRA Conversion Planning

- Market is at lowest point in years
- Roth conversion at a low point in market can yield substantial future financial benefits

# Possible Scenarios for Converting Roth IRA

- Scenario #1:
  - Jill converts \$250,000 in regular IRA to a Roth IRA today
  - Market recovers 15% in 2009 =  $\$250,000 \times 115\% = \$287,500$
  - Jill avoided paying income taxes on the additional \$37,500 in her account **forever**
- Scenario #2
  - Jill converts \$100,000 to a Roth IRA and pays \$25,000 in income taxes, using funds in her Roth IRA to pay the tax
  - Roth IRA doubles in value in 10 years (7.2% growth)

# Roth IRA OR Not?

	<u>Do Nothing</u>	<u>Roth IRA Conversion</u>
Current IRA value	\$100,000	\$100,000
Less: Income tax on conversion (25%)	<u>0</u>	<u>(25,000)</u>
Net current IRA value	\$100,000	\$75,000
Growth percentage	<u>200%</u>	<u>200%</u>
Future value of IRA	\$200,000	\$150,000
Less: Income tax on withdrawal (30%)	<u>(60,000)</u>	<u>0</u>
<b>Net After-Tax Distribution</b>	<b><u>\$140,000</u></b>	<b><u>\$150,000</u></b>

## 2. Capital Gain & Loss Planning

- In a down market, may benefit from realizing losses on underperforming stocks
- Low cap gains rate of 0-15% (long term gains) **may not last long** (hint, hint...)

# Realize Gains or Not?

ASSUME: Dave, Age 60, married, has following sources of income and itemized deductions

## Income

Interest Income	\$ 5,000
Qualified Dividends	\$10,000
IRA Distributions	\$40,000
<b>TOTAL</b>	<b><u>\$55,000</u></b>

## ITEMIZED DEDUCTIONS

Real Estate Taxes	\$ 3,500
Home Mortgage Interest	\$ 8,500
Charitable Deductions	\$ 1,000
<b>TOTAL</b>	<b>\$13,000</b>

# Realize Gains or Not?

ASSUME: Dave, Age 60, married, has the following securities

	Current Value	Cost Basis	Unrealized Gain/Loss
Stock A	\$ 50,000	\$ 75,000	( \$ 25,000)
Stock B	\$100,000	\$ 25,000	\$ 75,000
Stock C	\$ 75,000	\$ 80,000	( \$ 5,000)
Stock D	\$ <u>75,000</u>	\$ <u>60,000</u>	\$ <u>15,000</u>
<b>TOTAL</b>	\$300,000	\$240,000	\$ 60,000

# Realize Gains or Not?

ASSUME: Dave decides to sell ALL of Stock A, Stock C and Stock D and only sell half of Stock B. The summary of David's tax liability is:

<u>Income</u>	<u>Current</u>	<u>Additional Stock Sales</u>
Interest	\$ 5,000	\$ 5,000
Qualified Dividends	\$10,000	\$10,000
IRA Distributions	\$40,000	\$40,000
Long Term Capital Gains	\$ <u>    0</u>	\$22,500
Adjusted Gross Income (AGI)	\$55,000	\$77,500
Less: Itemized Deductions	(13,000)	( 13,000)
Less: Personal Exemptions	( 7,000)	( 7,000)
<b>TAXABLE INCOME</b>	<b>\$35,000</b>	<b>\$57,500</b>
<b>FEDERAL INCOME TAX</b>	<b>\$ 2,948</b>	<b>\$ 2,948</b>

# Realize Gains or Not?

**DAVE SOLD \$250,000 WORTH OF STOCK  
WITHOUT INCURRING  
A SINGLE DOLLAR  
OF ADDITIONAL INCOME TAX!!!**

### 3. GRAT Planning

- **One of the most powerful transfer tools available to planners today!**
- Special trust in which the trustmaker retains fixed annuity interest for a period of time (or life) with the remainder interest passing to trustmaker's beneficiaries

### 3. GRAT Planning

- **One of the most powerful transfer tools available to planners today!**
  - “Freezes” future return on the underlying assets in the trust to the lowest *legal* IRS rate, known as the 7520 rate.
  - Anything in excess over the 7520 rate passes to the beneficiaries designated in the trust (including your RLT)

### 3. GRAT Planning

- *One of the most powerful transfer tools available to planners today!*
- In a low interest environment like today, most efficient way to maximize unified credit and transfer significant assets to heirs

# GRAT Planning

Pauline creates a 10 year “zeroed out” GRAT (“zeroed out” means that for gift tax purposes, trust has a \$1 taxable gift)

## ASSUMPTIONS

- Funds with \$1,000,000 of non-voting stock in a closely-held family business (corporation or LLC or FLP or...)
- Entity has been formally valued and discounts have been applied such that total value is discounted 30%
- Stock grows at 8% rate during the ten year period
- IRS Section 7520 rate is 2.0% (see your packet)

# GRAT Planning

Year	Beginning Balance	Growth 8.00%	Distribution	Ending Balance
1	\$ 1,000,000	\$ 80,000	\$ (85,446)	\$ 994,554
2	\$ 994,554	\$ 79,564	\$ (85,446)	\$ 988,672
3	\$ 988,672	\$ 79,094	\$ (85,446)	\$ 982,320
4	\$ 982,320	\$ 78,586	\$ (85,446)	\$ 975,460
5	\$ 975,460	\$ 78,037	\$ (85,446)	\$ 968,050
6	\$ 968,050	\$ 77,444	\$ (85,446)	\$ 960,049
7	\$ 960,049	\$ 76,804	\$ (85,446)	\$ 951,406
8	\$ 951,406	\$ 76,113	\$ (85,446)	\$ 942,073
9	\$ 942,073	\$ 75,366	\$ (85,446)	\$ 931,993
10	\$ 931,993	\$ 74,559	\$ (85,446)	\$ 921,106

# GRAT Planning

## Result:

At the end of the ten year term,  
Pauline transferred over \$900,000 of  
wealth to her beneficiaries  
*free*  
of estate and gift taxes!!

# What Can Buckley Law Do for You?

- We WILL watch the rules...they ARE changing.
- We WILL inform you of changes, and provide options for your consideration.
- We can re-evaluation Tools for your tool kit...
  - GRATs (in low-interest environment, they sing...)
  - CLATs (in low-interest environment, they sing...)
  - Intentionally Defective Grantor Trusts (an irrevocable trust that keeps on giving, yet doesn't count against your estate)
  - Family Loans (Loan now, pay...when?...)
  - Use of \$13,000 (yes, it goes up) annual gift tax exclusion effective 1/1/09

# BOTTOM LINE

- “While the current market conditions may seem bleak, astute taxpayers have powerful tax planning options during this window of opportunity. With appropriate planning and timely implementation, many...tools...may help clients weather the economic fallout and even take advantage of the current low interest rate environment.”

Robert Keebler, CPA

# Seminar Evaluation

- Please complete the seminar evaluation so we know that it was productive for you. Please share how we could do better in the future.
- Would you have friends/family who would benefit from our services? Would you consider referring them to us for a courtesy meeting to discuss whether we can serve them as we served you?