


Wealthspire FOS Wealth Strategy Team in Action: Client Stories

BACKGROUND


Marilyn and Arnold are in their 60s with three adult children. Marilyn is a managing partner at a large law firm, whose annual compensation is over \$8M per year. Their personal portfolio includes private equity funds and they have some concentrated positions they are looking to diversify. They live in a high income tax state. Marilyn plans to retire in five years, so they want to make sure that they have enough cash flow to maintain their current lifestyle without dipping excessively into their accumulated wealth. Though they have each exhausted their available gift and GST exemptions, they would still like to transfer this accumulated wealth to their children in a tax-efficient manner. They are also interested in lowering their income tax bill and have a donor advised fund for their charitable goals.

HOW WE HELPED


Marilyn and Arnold's Wealthspire FOS Team worked with the Advisor Team and the clients' attorneys to accomplish their objectives as follows:

 *Creation of ING Trust to Reduce Income Tax:* First, we suggested that Marilyn and Arnold consider creating a New Hampshire Incomplete Non-Grantor Trust ("ING Trust") to save on state income taxes. Marilyn and Arnold engaged a local attorney, and we worked alongside them on the drafting and the filing of a private letter ruling with the IRS. Marilyn transferred private equity funds to the ING Trust.

Value to Client: The New Hampshire ING Trust will reduce income tax because the income on the ING Trust assets are not subject to the high state income tax where Marilyn and Arnold reside.

 *Creation of Flip CRUT to provide for donor advised fund and supplement post-retirement income:* Next, we suggested that Marilyn and Arnold consider creating a lifetime Flip Charitable Remainder Unitrust ("flip CRUT"). The Flip CRUT was designed to pay the grantors the lower of 1) the trust's net income or 2) 15% of the trust assets each year, and in five years, the Flip CRUT will pay the grantors 15% of the trust assets annually. Marilyn and Arnold transferred two highly appreciated positions to the CRUT. Because CRUTs are tax exempt, the Flip CRUT was able to sell the concentrated positions without paying a capital gains tax and invest the proceeds in a more diversified portfolio. As the Flip CRUT pays annual distributions out to Marilyn and Arnold, those distributions are taxed to them, but the large capital gains tax would be deferred over their lifetimes as they receive annual distributions.

Value to Client: The Flip CRUT enabled Marilyn and Arnold to diversify those two large appreciated positions while spreading the capital gains tax hit over a long period of time. The Flip CRUT will also provide for larger distributions in five years after Marilyn retires to help supplement their post-retirement income. When both of them are gone, whatever remains in the Flip CRUT will be distributed to their donor advised fund.

 *Additional wealth transfer planning:* Finally, they set up and gifted a highly appreciating stock to a Grantor Retained Annuity Trust ("GRAT"). Because interest rates were low at the time, the GRAT easily outperformed the IRS hurdle rate, enabling Marilyn and Arnold to transfer \$360K of wealth to their children estate or gift tax-free. We also worked with their estate planning attorney to structure a sale of another highly appreciating asset to an existing GST exempt Spousal Lifetime Access Trust (a "SLAT" for the benefit of Arnold and their descendants intended to continue for multiple generations). Marilyn sold the asset to the SLAT in exchange for a low interest promissory note. As long as the annual growth in the SLAT's assets is higher than the annual interest rate it has to pay back to Marilyn on the promissory note, that excess remains in the SLAT estate and gift tax-free.

Value to Client: Additional estate tax savings and a full approach to all of their estate planning goals.