Protecting Your Health and Wealth

A MONTHLY RESOURCE FOR PROTECTING YOUR ASSETS
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JERRY HILL,
BENEFLEX FINANCIAL GROUP HTTP://WWW.BENEFLEXFINANCIAL.COM

How Your Family Partnership Can Save Big Tax Dollars

For years, the wealthy have been using estate-planning techniques that are unfamiliar to many people who could benefit from the same techniques. For example, if estate taxes are a concern, read how you can use a simple device, the Family Partnership, to slice your tax bill.

Let's say that you and your spouse own a farm with a $1 million value. If left in your estate, this could get burdened with estate taxes up to 47% of the value. Wouldn't it be nice if we could "shrink" the value for estate tax purposes? The Family Partnership can do this as follows.

You have an attorney draw up a family partnership document, which creates a family partnership (just like you had the attorney draw up a living trust document, which created a living trust). The farm now gets deeded to the family partnership. This is a non-taxable event. In return for donating the farm to your family partnership, you and your spouse receive 100 partnership "units" in return to evidence your ownership in the partnership. Think of these units as shares.

Each year, you begin gifting some of these partnership units to your children (e.g. each unit has a value of $11,000, so you and your spouse can gift two units to each child and take advantage of the annual exclusion). But here's the best part. For estate tax purposes, the farm inside the family partnership is worth only $700,000 (rather than $1 million). Why is this?

The IRS allows a valuation discount. The partnership units that you have given away to your children are not worth $11,000 each. These are virtually not saleable to anyone and your children have no control over the farm. Additionally, no one wants such a small interest in the farm because they would also have no control. This is called the marketability discount and minority interest discount. As a result, the farm value for estate tax purposes is now only $700,000! You have just wiped out $300,000 of estate value, a potential estate tax savings of $141,000 by forming a family partnership.

This is a simple example of a very useful technique. If you would like to know more, please check off on the coupon and we will send you a more detailed article on this widely used technique for saving estate taxes.

IRS Revenue Ruling Creates A Tax-Efficient Way to Manage Your Estate

It's unusual for the IRS to give taxpayers a break. But a recent ruling by the IRS clarifying some outstanding estate planning concerns presents a rare gift to individuals seeking a tax-efficient way of managing their estate.

In a July 2004 "revenue ruling" related to irrevocable grantor trusts, the IRS stated that the grantor of the trust can pay the annual income taxes on behalf of the trust or the trust's beneficiaries and not have the payment considered a taxable gift.

This ruling has several estate-planning benefits. First, because the grantor can pay the taxes on behalf of the trust, more money can stay and grow within the trust. Over a long period of time, the compounding power of this savings may result in significant growth of the trust's assets. Second, the grantor now gets another option for moving money out of his or her estate without the worry of additional taxation.

How does it work? Let's say that you establish a grantor trust with $1 million in assets – the maximum amount you can give away in your lifetime free of gift taxes. Traditionally, the trust

would pay any taxes owed on the income it receives from its investments. Or, if a beneficiary is receiving money from the trust, the beneficiary will owe taxes on the total amount of distributions received during the year. Thanks to the IRS ruling, a grantor can now pay the taxes owed by the trust or any beneficiaries without it being considered an additional gift and subject to further taxation.

Previously, individuals who wished to pay taxes on behalf of a trust or its beneficiaries had the added worry of having the trust's assets included back in the grantor's estate, thereby negating any estate planning benefit that the trust would provide to the grantor. The recent IRS ruling states that as long as the trustee has the ability (though not the obligation) to repay any taxes that were paid on behalf of the trust by the grantor, then the trust's assets will in general not be counted as part of the grantor's estate.

It is important, however, to have the correct language in the trust document in order to take advantage of this ruling. There are a number of estate planning attorneys who can help you in this regard. By working with an experienced professional, you could discover estate planning strategies that help you and your heirs save money on gift and estate taxes.

Please complete the attached reply coupon to request an appointment.

Source: July 14, 2004, Forbes.com, *The IRS Grants a Wish*

Insurance That Pays All Your Premiums Back

Imagine if you paid your homeowners insurance all of your life and never made a claim. Eventually, your insurance company sent you a check with a note that said: "Here's your money back because you never made a claim."

I don't know any homeowners insurance companies that will send your money back, but there are long term care companies that will. It's called "return of premium" and refunds your premiums if you do not use the insurance. This feature is not available in all States.

Being over 60, you either own long term care insurance or you have thought about getting it. You might procrastinate getting this important coverage because you may feel that your money will be wasted if you don't use the insurance (although the same holds true for your car insurance and homeowners insurance, you would never think of not having these policies).

Your solution is the return of premium feature. It's an optional feature offered by only a few long term care insurance companies.

The typical feature works like this. At death, the company returns all premiums paid less any amounts paid to you as claims. During your life, you do pay additional premium for this feature but if you don't use the policy, all premiums paid are returned to your estate.

This is a brief summary of the return of premium feature. If you do not already have long term care insurance, we will send you a written description of this feature and information on the companies which offer it. Please check and return the enclosed coupon. If your State does not offer this feature, there are other special features such a restoration of benefits or care management that may be available.◆

Valuable FREE information:

<u>**Mail this back to**</u>:	**Jerry Hill** **Beneflex Financial Group** **11811 East Freeway Ste.545** **Houston, TX 77029** **800-926-9107**

Please send me information on these items mentioned in your newsletter:

- ❑ I am interested in all ways to eliminate estate taxes and would like to find out if a family partnership would help my family.
- ❑ I never heard of insurance that pays its premiums back and would like to read about that
- ❑ My family has a trust that generates income and I would like to know if the revenue ruling mentioned can save us taxes

I think these people would like to receive your newsletter and an invitation to your next public presentation:

Name ____

Address ____

Name ____

Address ____

Name ____

Address ____

Name ____

Address ____

(*Please provide names and addresses with zip codes.*)