STRATEGIES TO TACKLE THE UNPREDICTABLE FUTURE

STRATEGY	HOW IT WORKS	TAX IMPLICATIONS
Basis Strategies		
Intra-Family Sale	The client sells income-producing accounts or property to a family member in exchange for a promissory note that charges interest at the low applicable federal rate (AFR).	Income from the account or property is taxed at the family member's lower rate. Appreciation in excess of the loan and interest passes to the family member free of gift and estate tax.
Swap Powers	The client exercises a swap or substitution power included in the client's irrevocable trust, then exchanges the low-basis property for higher-basis property.	Removing the property with a lower basis from the trust allows for a step-up in basis on that property at the client's death that otherwise would not have occurred if the property was in the irrevocable trust at death, thereby avoiding potentially large capital gains.
Grantor Retained Annuity Trust (GRAT)	The client transfers property to the trust and retains the right to payment of an annuity. After the term has expired, the remainder passes to noncharitable beneficiaries.	Enables the client to transfer appreciating accounts and property to beneficiaries using little or none of the client's gift tax exemption (depending on the value of the client's retained interest).
Installment Sale to Intentionally Defective Grantor Trust (IDGT)	The client gifts seed capital and sells appreciating or income-producing property to the IDGT. The client takes back an installment note with an interest rate based on the the AFR.	The client pays income tax on trust property. The trust is not included in the client's estate for estate tax purposes. Income and appreciation exceeding the required note payments pass to the beneficiaries, free of gift, estate, and generation-skipping transfer taxes (if so structured).
Sale of a Family Limited Partnership (FLP) to Intentionally Defective Grantor Trust (IDGT)	The client sets up an FLP or limited liability company with family members and they add marketable securities to pool them for investment purposes. The client, who owns the majority interest in the family entity, sells the client's interest to the IDGT for a note that charges interest at the applicable federal rate (AFR).	The client rather than the trust pays income tax on trust property. The trust is not included in the client's estate for estate tax purposes. No gain is recognized on the sale to the trust because it is a transfer to the grantor.
Irrevocable Life Insurance Trust (ILIT)	An existing policy is transferred to the trust, or a new policy is purchased by the trust. The client makes annual cash gifts to pay the policy premiums. At the client's death, the insurance death benefit is paid to the trust and distributed according to the trust terms.	Premium payments and the full death benefit of the policy are not included in the insured's taxable estate (avoiding estate tax). The insurance proceeds at the death of the insured are exempt from the beneficiary's income tax.
Spousal Lifetime Access Trust (SLAT)	The donor spouse gifts property to the trust for the benefit of the beneficiary spouse and potentially other beneficiaries (children or grandchildren). An independent trustee makes discretionary distributions.	The donor spouse is able to utilize the high lifetime exemption amount. The donor spouse rather than the trust pays income tax on trust property, allowing trust property to grow. Since the transfer to the SLAT is designed to not qualify for the marital deduction, the SLAT assets will not be included in the beneficiary spouse's gross estate.