# **TAXES:** ARE THEY HOLDING YOU BACK FROM SELLING YOUR HOUSE?

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# Meet The Hosts

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Market and economic conditions could change in the future producing materially different returns. Money Manager’s investment strategies may be subject to various types of risk including, but not limited to, market risk, credit risk, interest rate risk and inflation risk. In addition, strategies with international capabilities are subject to risks including, but not limited to, currency fluctuations, economic instability and political instability.

# Agenda

- Introductions
- Legal basics
  - What is a trust?
  - The kind of trust we're talking about today – and why
- The problem & a possible solution
  - The case for property in a CRT
  - Tax benefits
  - Wealth management benefits
- How your realtor makes a difference
- Questions & Answers

# What is a Trust?

Agreement to hold property under a Trust Agreement.

Common Type: Revocable Living Trust

Trustee holds property for you until your death. Distributes to chosen beneficiaries.

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# Two Trust Varieties – Revocable Trusts

AVOID PROBATE COURT

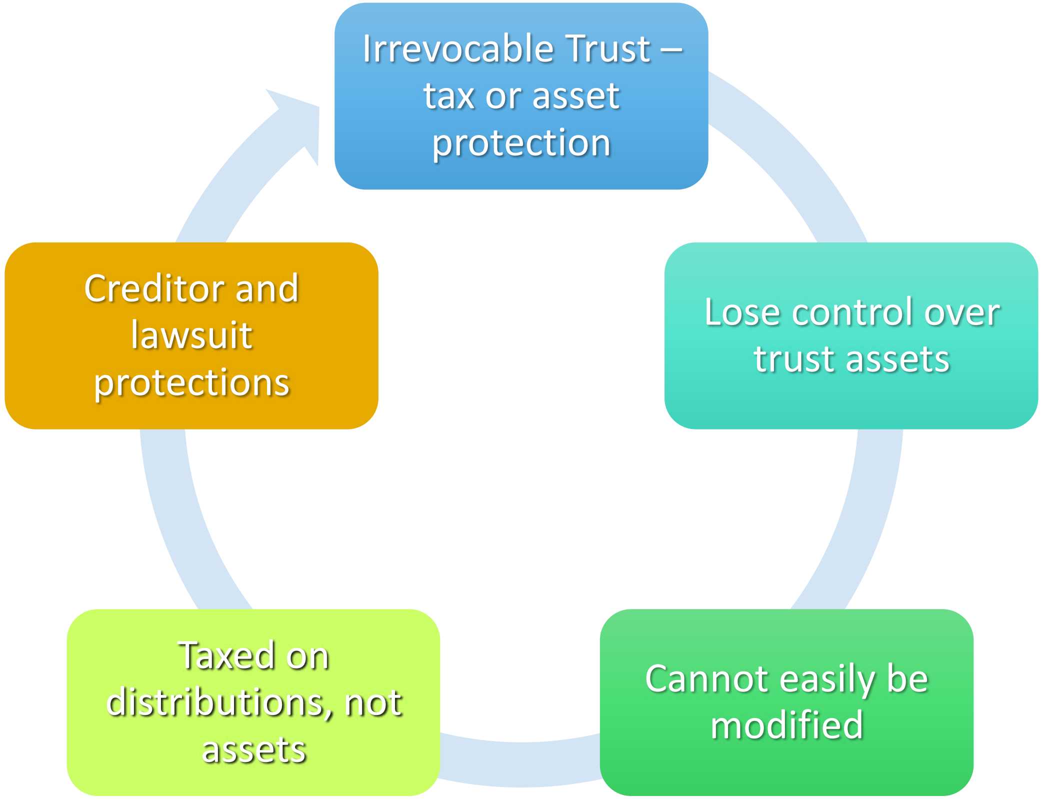
YOU STILL CONTROL THE TRUST ASSETS

CAN BE MODIFIED AFTER CREATION

STILL TAXED ON TRUST ASSETS

NO PROTECTED FROM LAWSUITS OR CREDITORS

# Two Trust Varieties – Irrevocable Trusts




Our office creates 18 different types of trusts. If you have specific questions, please contact us for more information.

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# Different Types of Trusts:

## Tools to meet specific needs

| Type of Irrevocable Trust | Purpose |
|---|---|
| Life Insurance Trust | Holds life insurance and avoids estate tax |
| Domestic Asset Protection Trust | Shields assets from creditors |
| Dynasty Trust | Protects children from creditors, divorce, and estate tax |
| Charitable Remainder Trust | Shields income/capital gain effects & provides annuity payments |
| Special Needs Trust | Protects government benefits for special needs beneficiary |

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# People in a Trust

| | |
|---|---|
| **Settlor (Trustor)** | Creates the Trust |
| **Beneficiary** | Receives money from the Trust NOW. |
| **Remainder Beneficiary** | Receives money from the Trust LATER. |
| **Trustee** | Controls property and distributions. Manager, not owner. |
| **Trust Protector** | Independent Trust Watcher. |

# The case for property in a CRT

- Much of your wealth is currently held in real estate
  - Quality of life goals in the Bay Area
  - Desire to hold tangible assets
  - Low interest-rate environment
  - Tax advantages of rental real estate
- Yet now things have changed...
  - You want cash to spend in retirement
  - You want to downsize, move
  - You're tired of being a landlord
- And you face a tax 'wall'
  - Combined Federal and CA taxes can exceed 40%
  - High income adds other costs

# Benefits of a Charitable Remainder Trust

## TAX BENEFITS

- Avoid capital gains tax on appreciation at sale
- Create substantial income tax deduction
- Avoid estate tax on selected assets

## PLANNING BENEFITS

- Increase after-tax cash flow
- Protect selected asset from creditors*
- Diversify your portfolio**
- Increase estate to heirs
- Direct your capital to reflect your values

* Asset protection plans should be developed and implemented well before problems arise. Due to the fraudulent transfer laws, asset transfers that occur close in proximity to the filing of a lawsuit or bankruptcy can be interpreted by the court as a fraudulent transfer. Proper structuring of these assets is imperative please seek proper legal and tax advice prior to engaging in re-titling/structuring of any assets. Please note that laws are subject to change and can have an impact on your asset protection strategy.

** Diversification does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.

## How a CRT Works: Step 1

Donor receives a partial income tax deduction

Donor gives appreciated real estate – or a *portion* of the property – to the trust.

NO DEBT!

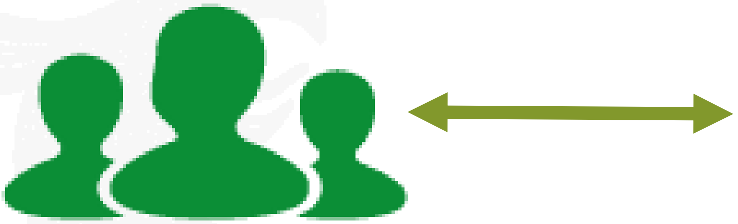
# How a CRT Works: Step 2

Donor can use the deduction to offset other income

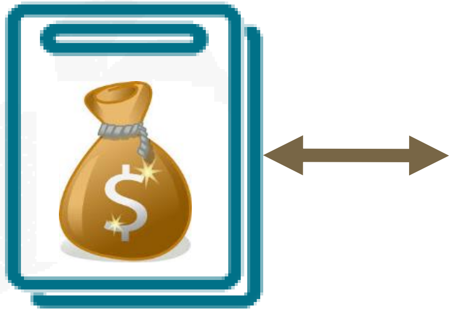
Client (Trustee) sells real estate inside the CRT

- Capital gain tax is 'deferred' until the proceeds are received by the beneficiary
- Property is no longer in the donor's estate

# How a CRT Works: Step 3



If desired, a portion of the property's value can remain outside the trust, subject to exclusion amount



Trustee (advisor) invests the proceeds in a well diversified, tax-appropriate portfolio

- Investment returns aren't taxed until distributed

# How a CRT Works: Step 4

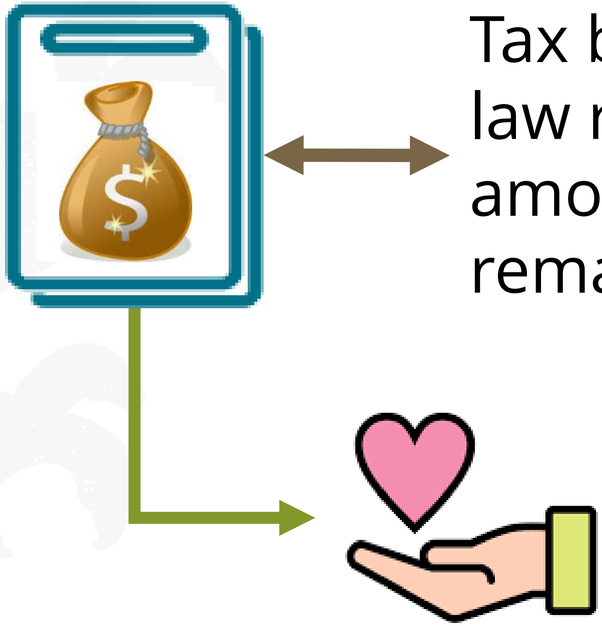
Personal taxes due on distributions

Trust pays an income stream to donor/ beneficiaries (life, term or both)

- Portfolio income taxed at applicable tax rate, depending on nature: LTCG, dividends, ordinary income, etc.
- Taxes deferred at sale remain in the trust, earning income, until distributed
- Certain limitations & rules apply

# How a CRT Works: Step 5

Donor passes away…



Tax benefits are designed to help charity. The law requires that the at least 10% of the initial amount (actuarial value) is reserved for the remainder beneficiaries = one or more charities.

At death of last income beneficiary or conclusion of term, CRT assets pass to….

# Review: Benefits of a CRT

- Charitable deduction in the year the trust is funded.
- Tax Efficiency:
  - Spreading tax liability over the life of the annuity.
  - Avoid higher taxes by maintaining income under possible capital gains threshold over the life of the annuity.
- Reinvestment of the deferred taxes in a diversified portfolio.
- Lower overall risk by diversifying asset base.
- Creates a reliable income source to fit into retirement income plans.
- For the charitably inclined, a significant charitable contribution to the charity of your choice at the end of the annuity term.

# The 4 Biggest Issues

- Possessions Overwhelm
- Where to Live
- House Rich, Cash Poor
- Capital Gains Tax

# Possessions Overwhelm

## Personal Property

- Organize and distribute personal property
- Pack & unpack
- Schedule & supervise movers
- Clear-out hauling
- Estate Liquidation

# Where to Live

- Single Level Condos
- 55+ Communities
- Senior & Assisted Living Options
- Senior Placement Advisors
- Out-of-State Purchase
- Pre-sale down payment loans, “Forward” reverse mortgages

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# House-Rich, Cash-Poor

## “Move-in Ready”

- No cash upfront improvements
- No cap on funding
- Pay at close of escrow
- Licensed Contractors

## “As Is” Buyers, Investors

# Stress-free Relationship

**Maximize Property Value**

- Premium Prices
- Quality

**Clear Communication**

**Luxury Marketing**

**No Headaches**

# CASE STUDIES

- Ron
  - Pre-IPO stock
- Aaron
  - Apartment complex
- Sam & Maria
  - A retired couple
  - A highly appreciated residence
  - Needed more income to support their move to a retirement community

# Case Study I - Ron

Ron owned Pre-IPO Stock

Transferred Stock to Charitable Trust

Stock sold – deferred more than $6,000,000 of capital gain

Received lifetime annuity payments – rest to charity

# Case Study 2 - Aaron

- Aaron owns Apartment Complexes.
- Wants to give lifetime income to 8 nieces and nephews
- Splits 1 Apartment Complex between 8 Charitable Trusts (1 trust for each)
- Apartment Complex sold with no capital gain tax
- Money invested – income for life
- Rest given to charity

# Case Study: Sam & Maria

## SITUATION & NEED

- Sam & Maria had been retired for several years.
- Sam's health had deteriorated, and they wanted to move into a CCRC (Continuum-of-Care Retirement Community).
- They had decent retirement assets, but not enough to be able to afford the higher fees.
- Most of their wealth – $3.4 million – was locked up in their Menlo Park home of many years
  - House had increased in value from $600k to $3.4 m
  - Selling would have meant paying taxes on $2.3 m of capital gains

## WHAT HAPPENED…

- They donated 80% of the house to a CRT
  - Received $600k cash from home sale with no taxes due
  - Received charitable deduction that was used to offset taxes from a Roth conversion – decreasing their lifetime tax bill
- They now receive 10% of CRT value every year for life
  - In the first 2 years of the CRTs operations, they received an average of $26,750/month (pre-tax) income
  - This amount will decrease over time
- Charity will receive remaining value
  - This delighted Maria since she's on the board of a national non-profit
- Instead of paying a large tax bill upfront, the taxes are deferred and spread out over a lifetime of CRT payouts. The deferred taxes stay invested and grow over time.

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# Risks in a Charitable Remainder Trust

Lose control over the Trust assets.

Higher expenses. Trustee fees, asset management fees, tax return fees, etc.

Lose control over distributions. Cannot change income beneficiaries.

Trust fails if you die before the trust ends. (This is an imagined risk, because the result is the same as if no CRT is created…)

# GENERAL DISCUSSION

## Anita Gat
## Keller Williams

Certified seniors real estate specialist, helping boomers, seniors and families make effortless transitions through concierge downsizing, cosmetic home enhancements and real estate sales, including probate.

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Senior Transition Experts

## Elijah Keyes
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Certified Specialist in Estate Planning, Probate and Trust. Practicing for nearly 15 years in estate and tax planning. A skilled and compassionate advocate who can guide you and offer peace of mind.

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## Griffin Black, Inc.

Fiduciary Wealth Manager working with high achieving professionals and small business owners – in Silicon Valley and beyond. Helping families use their wealth to achieve their life's dreams while minimizing stress.

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