A Tasting Menu

The 49th Annual Notre Dame Tax & Estate Planning Institute

September 20-22, 2023

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A Tasting Menu

The 49th Annual Notre Dame Tax & Estate Planning Institute

September 20-22, 2023

By: Jerome M. Hesch, Director of the Institute

with Brad Dillon, Alan S. Gassman, and Martin M. Shenkman

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About This Year's Institute

- The 49th Annual Notre Dame Tax & Estate Planning Institute will take place on September 20-22, 2023, in South Bend, Indiana. We have lined up an impressive panel of speakers who will, as always, address numerous practical topics, relevant for a broad range of clients, even clients not exposed to the estate tax.
- We are pleased to announce that we are returning to an in-person format at our traditional venue at the Century Center in downtown South Bend. We know that many of you have been eager to share the camaraderie that our popular in-person learning format offers, and we are looking forward to seeing you in South Bend in September.
- For more information go to the link below or just search "Notre Dame Estate Tax Institute"

https://law.nd.edu/for-alumni/alumni-resources/tax-and-estate-planning-institute/

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- Register online for the 49th Annual Notre Dame Tax & Estate Planning Institute, September 20-22, 2023

http://law.nd.edu/estateplanning

Mitigating the “Burn” of Grantor Trust Status

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SEPTEMBER 20-22, 2023

Brad Dillon

Mitigating the “Burn” of Grantor Trust Status

- Grantor trusts can provide extraordinary benefits to clients over the long run
  - The more the trust compounds its returns on a tax-free basis, the more the grantor’s estate is depleted by the payment of income taxes (the “burn”)
- Grantor trusts can provide extraordinary financial and psychological pain for clients over the long run

Mitigating the "Burn" of Grantor Trust Status

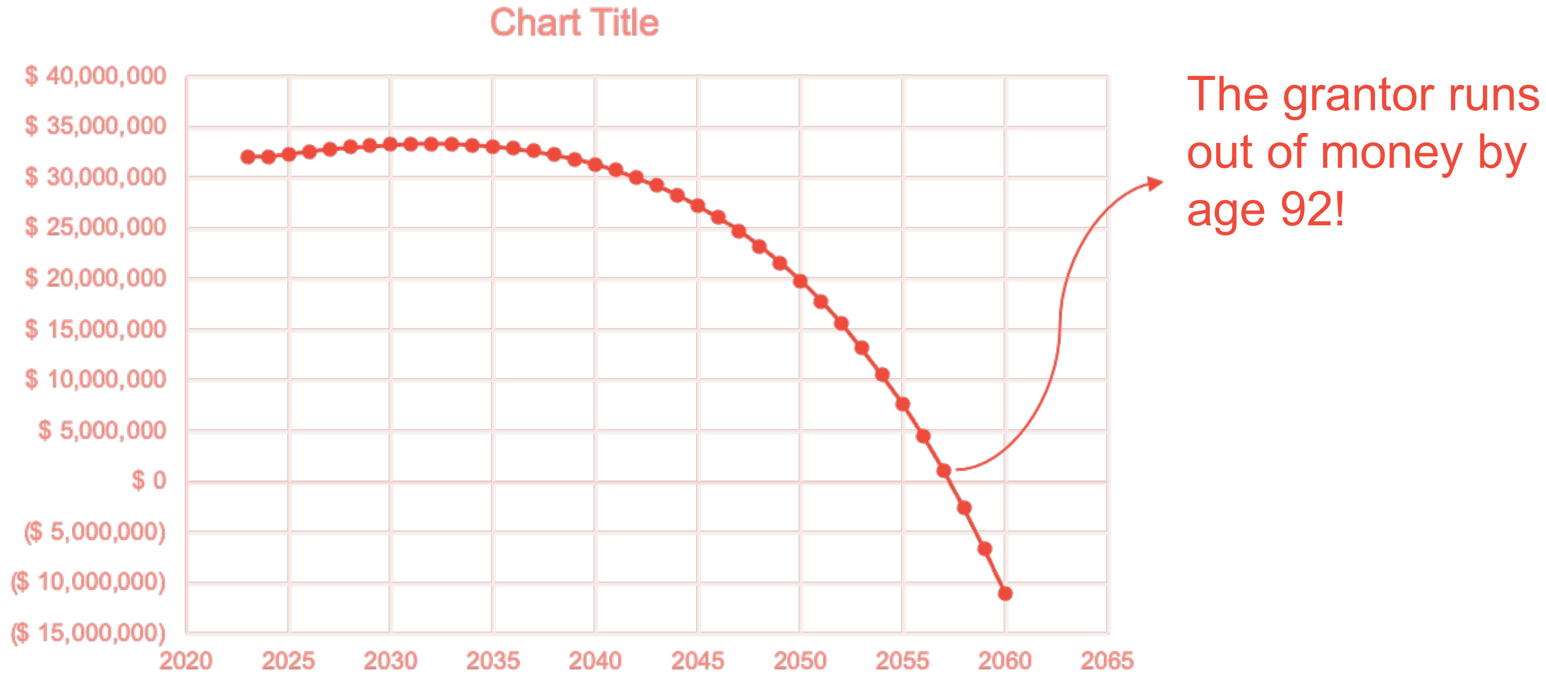
- The "long run" is longer than the client's presumed life expectancy
  - The 2010CM (already nearly 14 years old) mortality tables are often inaccurate for our clients, since, among other factors, wealthier individuals often have better access to healthcare and tend to live longer
- Unless there are compelling reasons to the contrary, any financial modeling should project the results out to the client's 90s to more accurately account for the client's true life expectancy

Mitigating the “Burn” of Grantor Trust Status - Example

- Assumptions
  - 58 y/o client
  - $45M of net wealth
  - Uses current exemption ($12.92M, no discount) to fund a grantor trust f/b/o his children
  - Modest spend rate of 2%
  - Modest inflation rate of 3%
  - Assume modest income taxes of 2% of assets
  - Project model for 37 years until age 95

Mitigating the “Burn” of Grantor Trust Status – Example, cont.

- Results from EstateView



Mitigating the “Burn” of Grantor Trust Status – Strategy #1

1. Turning Off Grantor Trust Status – easier said than done

    - Grantor’s spouse cannot be trustee

    - Grantor’s spouse cannot be a beneficiary

    - No one can have the power to add beneficiaries to the trust

    - Trustee cannot have power to lend trust property w/o security and interest

    - Trustee cannot have power to use income to pay premiums

    - Non-fiduciaries cannot have the power to vote stock or control investments when corporation’s holdings are “significant”

    - The grantor cannot hold a substitution power

    - Fiduciary obligations – could be solved by auto termination

Mitigating the "Burn" of Grantor Trust Status – Strategy #2

2. Reimbursement Provisions – often impractical

- Only 6 states have reimbursement statues on the books (CO, CT, DE, FL, NH, NY) but 12 others have statutes preventing creditor's reach if grantor is reimbursed (AZ, ID, IL, IA, KY, MD, MA, MT, NC, PA, TX, VA)

-Pursuant to Rev. Rul. 2004-64, reimbursement provisions must be discretionary, never mandatory, and no pre-arranged plan to reimburse

- Use the power too often, and you may invite creditor claims

- Use the power too often, and you may invite 2036 inclusion

- Tension between trustee's duties to beneficiaries

Mitigating the “Burn” of Grantor Trust Status – Strategy #3

3. Investment Strategies

   - Offload income-producing assets
   - Use income to purchase life insurance or PPLI
   - Invest trust assets in investments that will provide a loss, deduction, or credit for the grantor
   - Invest trust assets in municipal bonds or U.S. Treasury bonds to minimize the income tax burden

Mitigating the "Burn" of Grantor Trust Status – Strategy #4

4. For sales to IDGTs, charge a larger interest rate on the note

   - AFR is a floor, not a ceiling
   - Higher rates mean more interest to the grantor, which helps mitigate the burn
   - Consider refinancing notes that were issued during the ultra-low interest rate years
   - Use a SCIN to placate the beneficiaries – the higher rate should be calculated to cover the risk premium

Mitigating the “Burn” of Grantor Trust Status – Other Strategies

5. Reduce Valuation Discounts
   - Discounts are less meaningful than other factors in successful estate freeze transaction
   - May result in lower audit risk

6. Add Grantor as beneficiary; SPATs and Hybrid DAPTs
   - Depends on geography

7. Contingent automatic termination provisions

8. SLATs

Revenue Ruling 2023-2

Alan S. Gassman, and
Martin M. Shenkman

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SEPTEMBER 20-22, 2023

Background

- An article in 2002 argued that there could be a step-up in basis on assets held in a grantor trust that was not included in the grantor's estate. Blattmachr, Gans and Jacobson (Journal of Taxation 2002), The IRS Had Taken Inconsistent Positions: CCA 200937028 and PLR 201245006.
- Senator Bernie Sanders introduced a bill that would expressly deny the Section 1014 step-up on such assets ("the 99.5 Percent Act" -- S. 994).
- The question remains which of the Code Sections applies to the determination of basis of assets in such a trust?
  - 1012 (Purchase)
  - 1014 (Passing from or Acquired from a Decedent); or
  - 1015 (Gifted) Applies?

Section 1014

- Section 1014(a) Says: “the basis of property in the hands of a person acquiring the property from a decedent or to whom the property passed from a decedent shall… be— (1) the fair market value of the property at the date of the decedent’s death….”
- Section 1014(b) Says: For purposes of subsection (a), the following property shall be considered to have been acquired from or to have passed from the decedent:
- (1) Property acquired by bequest, devise, or inheritance, or by the decedent’s estate from the decedent; (2) Property transferred by the decedent during his lifetime in trust to pay the income for life to or on the order or direction of the decedent, with the right reserved to the decedent at all times before his death to revoke the trust; (3) property transferred by the decedent during his lifetime in trust to pay the income for life to or on the order or direction of the decedent with the right reserved to the decedent at all times before his death to make any change in the enjoyment thereof through the exercise of a power to alter, amend, or terminate the trust;***
- (9) Property acquired from the decedent by reason of death, *** if by reason thereof the property is required to be included in determining the value of the decedent’s gross estate under chapter 11 of subtitle B or under the Internal Revenue Code of 1939. ***This paragraph shall not apply to— (A) annuities described in section 72; (B) property to which paragraph (5) would apply if the property had been acquired by bequest; and (C) property described in any other paragraph of this subsection.

Revenue Ruling 2023-2

- **Issue**: Is there a basis adjustment under § 1014 of the Internal Revenue Code (Code) to the assets of a trust on the death of the individual who is the owner of the trust under chapter 1 of the Code (chapter 1) if the trust assets are not includible in the owner's gross estate pursuant to chapter 11 of the Code (chapter 1?1).
- **IRS Conclusion**: There is no basis step up on assets held in such a grantor trust. If the taxpayer funds an irrevocable trust with asset in a transaction that is a completed gift for gift tax purposes, the basis of asset is not adjusted to its fair market value on the date of the grantor's death under §1014 because the asset was not acquired or passed from a decedent as defined in § 1014(b). Accordingly, under this revenue ruling's facts, the basis of Asset immediately after death is the same as the basis of the asset immediately prior to death.

Revenue Ruling 2023-2

- **<u>IRS Reasoning/Analysis</u>**:
- For property to receive a basis adjustment under § 1014(a), the property must be acquired or passed from a decedent.
- For property to be acquired or passed from a decedent for purposes of § 1014(a), it must fall within one of the seven types of property listed in § 1014(b). The grantor trust assets do not fall within any of the seven types of property listed in § 1014(b).
- First, upon A's death, Asset was not "bequeathed," "devised," or "inherited" within the meaning of § 1014(b)(1).
- A "bequest" is the act of giving property (usually personal property or money) by will. Black's Law Dictionary (11th ed. 2019). The Supreme Court defined "bequest" as a "gift of personal property by will" for purposes of the predecessor provision of § 102 that, as today, excluded gifts, bequests, devises, or inheritance from gross income for income tax purposes.

Revenue Ruling 2023-2 - continued

- **IRS Reasoning/Analysis**:
- For. A "devise" is the act of giving property, especially real property, by will. Black's Law Dictionary (11th ed. 2019). Volume 97 of the Corpus Juris Secundum notes that although "bequest" and "bequeath" strictly refer to a gift by will of personal property, the words may be given a broader meaning to include real property which, under the narrower definition, would be a devise. See 97 C.J.S. Wills § 1861 (2022).
- An "inheritance" is property received from an ancestor under the laws of intestacy or property that a person receives by bequest or devise. Black's Law Dictionary (11th ed. 2019).
- In Bacciocco v. United States, 286 F.2d 551, 554-55 (6th Cir. 1961), the court found that property transferred in trust prior to the decedent's death is not bequeathed or inherited because it did not pass either by will or intestacy.

IRS Deemed Ownership Position and Rev. Rul. 2023-2

- Section 671 Provides, in part: Where it is specified in this subpart that the grantor or another person shall be treated as the owner of … a trust, there shall then be included in computing the taxable income and credits of the grantor or the other person those items of income, deductions, and credits against tax of the trust which are attributable to … the trust….
- Note it does not say the trust and its assets are treated as owned by the grantor.
- But Rev. Rul. 85-13 and Example 5 of Reg. 1.1001-1(c) say: the grantor is "considered the owner of all the trust property for Federal income tax purposes…." But on account of the fiction that the grantor owns the assets in a grantor trust, the assets, perhaps, should be treated as passing through probate.
- Rev. Rul. 2023-2 says that it does not apply to a sale by the grantor to the trust or to a situation where there is debt on the property.

What to Do?

- If the estate takes the position of step-up disclose it clearly. Alternatively, consider the approach of paying income taxes when sale occurs and amending that return with full disclosure seeking a refund.
- Have the grantor borrow cash and buy the assets back from the trust before death (or substitute the grantor’s high basis assets for low basis assets in the trust). There will be no income tax recognition. Rev. Rul. 85-13. Then the taxpayer can pick and choose which to buy back which is better than a step up/step down under Section 1014.

Using Installment Sales to Non-Grantor trusts to Defer Reporting the Gain from the Sale of Business Interests

Jerome M. Hesch

Director

49th Annual Notre Dame Tax & Estate Planning Institute

September 20-22, 2023

Installment sale to a related party that is a non-grantor trust

- Consider creating a complex trust (the trust is not a grantor trust) that is a separate taxpayer for income tax purposes.
- Use the installment sale of an appreciated asset to the complex trust for both:
- a. estate planning, and
- b. income tax deferral for the gain realized upon the future sale of an appreciated asset for cash.

Senior owns a 25% interest in an LLC operating business treated as a tax partnership. The other 75% is owned by unrelated members.

- The LLC buyout agreement currently values Senior's 25% interest at $16,000,000. Senior, age 69, intends to retire after reaching age 72. At retirement, Senior will be paid in cash under the LLC's buyout agreement
- Senior anticipates paying the income taxes on the gain realized under the buyout agreement when her 25% interest is redeemed by the LLC.

Senior estimates that the value of her 25% interest will appreciate by the time she retires.

- Senior's basis is $2,000,000. Presently, her built-in capital gain is $14,000,000, all attributable to goodwill.
- Senior sells the 25% interest to a non-grantor, related party trust for an interest-only, 20-year $16,000,000 promissory note. Senior realizes a $14,000,000 capital gain but does not report the gain until note principal payments are made at note maturity in 20 years.

Because the non-grantor trust acquired the asset by purchase, its cost basis is $16,000,000.

- The trust's holding period begins at the date of purchase.
- If the trust later sells the 25% interest for $18,000,000, its realized gain is only $2,000,000.
- Can Senior's $14,000,000 gain realized on the prior installment sale to the related party trust continue to be deferred under the installment method if the related party purchaser resells the asset for cash?

The 2-year resale limitation

- *Section 453(e).* If a seller who sells an appreciated asset to a "**related party**" (*the first sale*), defers the reporting of the realized gain under the installment method, and the related party resells the purchased asset any time within the next two years (*the second sale)*, the gain the seller previously deferred under the installment method is immediately accelerated upon the second sale.
- If the related party purchaser waits for 24 months and one day to resell the asset purchased from the related party seller, the gain on the first sale can continue to be deferred under the instalment method.

Who is a related party

- §453(f)(1)(B) incorporates §267(b). For purposes of §267(b), §267(c)(4) provides that only brothers and sisters are related parties.
- Therefore, *nieces and nephews are not related parties.*

Limitations on the use of the installment method of accounting

- Payment of **deficiency interest** under § 453A for installment sales in excess of $5,000,000.
- **Example:** Senior sells an asset with a zero basis to a third party for a $7,000,000 installment note, realizing a $7,000,000 capital gain. The gain on the first $5,000,000 of the installment sale is not subject to this interest charge.

annual deficiency interest cannot be deducted

- The taxes on a $2,000,000 capital gain (the excess over $5,000,000) would be $500,000. Each year Senior will have to pay deficiency interest at a rate of 7.18%* on the $500,000 of taxes deferred under the installment method. $35,900 deficiency interest on the deferred income taxes.
- *The September2023 long-term AFR of 4.18% plus 3.0%.

The $5,000,000 threshold applies to each taxpayer and is based only on the installment sales that occurred in each tax year

- Husband and wife are separate taxpayers for the Federal income tax purposes even though they file a joint income tax return.
- § 453A only applies to the sales that occur in each year.
- Senior (W) gifts half of her 25% interest to her husband (H).

Now have $16,000,000 of installment sales with no exposure to the § 453A deficiency interest charge.

- H and W each sell their interests in an appreciated asset for two $5,000,000 promissory notes during 2023 and two additional $3,000,000 installment sales on January 1, 2024.
- Using the long-term AFR of 4.18%, the annual interest on $16,000,000 is $668,800.

The redemption (a second sale) occurs more than 24 months after the Jan. 2024 sales

- During February 2026, Senior retires, and the trust receives $18,000,000 in cash upon the redemption of its 25% interest in the LLC.
- The § 453(e) two-year waiting period is not violated.
- The trust reports and pays tax on a $2,000,000 long-term capital gain as the cost for the 25% interest was $16,000,000.

Senior and her spouse continue to defer reporting the $14,000,000 gain realized on the installment sales for another 20 years using the installment method.

- Trust's 25% interest is redeemed for $18,000,000 cash more than two years after the first sale. With a $16,000,000 cost, the trust's capital gain is only $2,000,000.
- So, there has been an estate freeze as all the Seniors have are promissory notes for $16,000,000

Income tax treatment to the trust

- Income tax on trust’s gain is 23.8% Federal and 5.0% state. 28.8% x $2,000,000 = $576,000.
- $18,000,000 cash less $576,000 taxes = net cash of $17,424,000 in the trust.
- Taxes on the $14,000,000 gain realized upon Senior’s installment sales to the trust continues to be deferred for the remaining note term.

As “income in respect of a decedent” (IRD), there is no step-up in basis at death for the note. §1014(c).

- What is the trust left with after it pays the income taxes on a $2,000,000 gain and pays the annual interest on the $16,000,000 of promissory notes?

Example Continued

Sale proceeds	$ 18,000,000
Less:taxes on $2,000,000 gain	- $576,000
Net cash after taxes	$ 17,424,000
Less: interest payment on notes	- $ 668,800
Net cash after interest payment	$16,755,200

Example Continued

6% income on $16,755,200 =	$1,005,312
Less: interest deduction	- 668,800
Taxable income	$336,512
Less: Trust's income tax at a 45.8% tax rate	- $154,122
Net cash to spend	$182,390

The trust can use the $182,390 to pay the annual premiums on a life insurance policy

- No need to make $17,000 annual exclusion gifts. No need to use the gift tax exemption.
- **As a complex trust, can the trust assign its income to trust beneficiaries in lower income tax brackets**
- Cannot assign income if a grantor trust.

Given the income tax advantages of a non-grantor trust, Senior can use a non-grantor trust created by another person

- If Senior is not the creator of the trust, Senior is not limited by the above. Suppose Senior's parent creates a non-grantor trust for the benefit of Senior, Senior's spouse and Senior's descendants and funds the trust with a taxable gift. With no Crummey demand rights, annual exclusions are not available.

Impact of Rising Interest Rates on Planning

Alan S. Gassman, and Martin M. Shenkman

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Interest Rate Environment Impacts Planning

- The higher the required interest rate, the more valuable an income interest is. In a traditional trust that pays income to a current beneficiary and remainder to another, that income or current beneficiary interest is more valuable.
- As interest rates have risen remainder interests, e.g., after a surviving spouse's income interest in a QTIP, may be worth less as a higher discount rate will be applied.
- Might this mean that some clients should re-examine their plans considering the change in interests? But rates will change in the future so how flexible those plans are may be more important.

Higher Interest Rates and GRATs

- GRATs work best to shift value in a low interest rate environment as the retained interest is less. But what really makes a GRAT valuable is a bump in value after the GRAT is funded. So, while GRATs may be less efficient, they should not be dismissed. The so-called 99 year GRAT might not make any sense as that is a play on interest rates being higher on death and is that likely to occur in light of the run up in rates already? If GRATs are used perhaps the shortest term, e.g. 2 years, is preferable since rates might be lower when the GRAT matures. The practice of using longer term GRATs in a low interest environment to lock in those low rates obviously would no longer make sense in a high interest rate environment.

Higher Interest Rates and QPRTs

- QPRTs work best in a high interest rate environment and home prices are at or near all time highs so perhaps now is a time to reconsider QPRTs. This might be done to use exemption that would otherwise be lost in 2026 when the exemption is cut by half.

Interest Rates and Charitable Remainder Trusts

- For high interest rates, there are techniques that are not impacted by the section 7520 rate, specifically the Charitable Remainder Unitrust. If using a charitable remainder trust, when the section 7520 rate is below 5.0%, the **unitrust** yields a larger charitable income tax deduction. When the section 7520 rate is more than 5.0% the **annuity trust** yields a larger charitable income tax deduction.
- **Example:** Senior, age 70, funds a Charitable Remainder Trust for life with a $1,000,000 asset invested at a 5.0% rate of return. The Charitable Remainder Annuity Trust pays a fixed annuity equal to 5.0% of the $1,000,000 contributed to the CRAT or $50,000 annually. The Charitable Remainder UniTrust pays an annual amount equal to 5.0% of the trust principal at the beginning of each year.

Interest Rates and Charitable Remainder Trusts

- Character of charitable remainder trust
- §7520 rate
- Charitable income
- tax deduction
- CRAT 6.0% $541,975
- CRAT 4.0% $464,750
-
- CRUT 6.0% $508,910
- CRUT 4.0% $502,810

- The crossover point is when the Section 7520 rate is 5.0%
- The charitable income tax deduction for the CRUT is not impacted by the section 7520 rate, while the charitable income tax deduction for the CRAT is impacted by the Section 7520 rate. Use the CRUT when the Section7520 rate is below 5.0%. Use the CRAT when the Section 7520 rate is above 5.0%

Higher Interest Rates and CLATs

- Charitable lead annuity trusts (CLATs) are optimal in a low interest rate environment as the interest that has to pass to charity during the CLAT term is lower and a greater remainder should pass to the family member remainder beneficiaries. With higher interest rates the opposite is true and CLATs may be less advantageous in some instances.
- With the uncertainties of the estate tax rate and the projected exemption some clients might still like the flexible approach of funding a zero'd out CLAT for the taxable portion of their estates as a mechanism to include in their wills until they see what occurs in 2026. If the exemption is not decreased by half for some the estate tax will remain irrelevant but if it is a disclaimer to a CLAT may give beneficiaries an option to reduce or eliminate estate tax until other planning can be evaluated.

Remainder Interest in a Residence or Farm

- An elderly client might gift their home or farm to a charity and retain the right to live in that residence or farm for the remainder of their life. In a low interest rate environment, the value of that retained interests would be valued at less so that the value of the remainder, and hence the charitable deduction would have been valued at more. Now that rates have risen the opposite is true and client's pursuing this strategy will realize a lower charitable contribution deduction.
- Consider, as with the comment about GRATs above, there may be non-tax reasons to pursue such a strategy so don't dismiss the technique just because rates are higher. For example, gifting a remainder to charity may protect an intended charitable gift the client wishes to make from the risk of being changed by elder financial abuse, etc.

Higher Interest Rates and Intra-Family Loans

- When rates were at historic lows many wealth taxpayers simply loaned money to children and let them invest and earn/retain the difference. With interest rates so much higher that concept may no longer make sense. Also, with stock markets at such lofty heights the potential for that type of arbitrage may no longer be viable.

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Summaries & Details | Timelines & Charts

GRAT Summaries

Alter Summary Columns

Term	Years After Payment Term	Payment Terms	Value After Any Discounts	§ 7520 Rate	Gift Value	Annuity Amount	Remainder Value	Probability Grantor Survives Term	Estate Tax Savings
10	0	Increasing	$1,000,000.00	2.00%	$0.00	$44,124.35	$533,250.90	87.92%	$213,300.36
10	0	Increasing	$1,000,000.00	5.00%	$0.00	$53,548.69	$226,989.90	87.92%	$90,795.96
10	0	Increasing	$1,000,000.00	8.00%	$0.00	$64,240.79	$0.00	87.92%	$0.00
10	11	Increasing	$850,000.00	2.00%	$0.00	$37,505.70	$1,575,136.43	87.92%	$696,395.13
10	11	Increasing	$850,000.00	5.00%	$0.00	$45,516.39	$1,027,197.47	87.92%	$462,031.79
10	11	Increasing	$850,000.00	8.00%	$0.00	$54,604.67	$405,549.76	87.92%	$162,219.90

GRAT Details

Alter Detail Columns Below

GRAT 1 | GRAT 2 | GRAT 3 | GRAT 4 | GRAT 5 | GRAT 6

Export to Excel

Show Every 1 Year(s): - 1 +

Year	Year #	Grantor Age	Beginning Value	Growth	Addl Income	Annuity Amount	End Value	Estate Tax Savings From Trust Assets	Estate Tax Savings From Burn	Total Estate Tax Savings	Probability Survival To Year	Probability Of Death
2024	1	61	$1,000,000.00	$70,000.00	$0.00	$44,124.35	$1,025,875.65	$0.00	$0.00	$0.00	99.12%	0.94%
2025	2	62	$1,025,875.65	$71,811.30	$0.00	$52,949.22	$1,044,737.73	$0.00	$0.00	$0.00	98.18%	1.00%
2026	3	63	$1,044,737.73	$73,131.64	$0.00	$63,539.06	$1,054,330.31	$0.00	$0.00	$0.00	97.18%	1.06%
2027	4	64	$1,054,330.31	$73,803.12	$0.00	$76,246.87	$1,051,886.56	$0.00	$0.00	$0.00	96.12%	1.13%
2028	5	65	$1,051,886.56	$73,632.06	$0.00	$91,496.25	$1,034,022.37	$0.00	$0.00	$0.00	94.99%	1.22%
2029	6	66	$1,034,022.37	$72,381.57	$0.00	$109,795.50	$996,608.44	$0.00	$0.00	$0.00	93.77%	1.31%
2030	7	67	$996,608.44	$69,762.59	$0.00	$131,754.60	$934,616.44	$0.00	$0.00	$0.00	92.46%	1.41%
2031	8	68	$934,616.44	$65,423.15	$0.00	$158,105.51	$841,934.08	$0.00	$0.00	$0.00	91.05%	1.51%
2032	9	69	$841,934.08	$58,935.39	$0.00	$189,726.62	$711,142.85	$0.00	$0.00	$0.00	89.54%	1.61%
2033	10	70	$711,142.85	$49,780.00	$0.00	$227,671.94	$533,250.90	$213,300.36	$0.00	$213,300.36	87.92%	1.72%

Fit Full | 100% | – | + | 100% | Fit Width

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Add New QPRT (or Duplicate below)

Summaries & Details | Timelines & Charts

QPRT Options

QPRT 1 Duplicate Delete

Basic / Advanced

Transfer Date	08/31/2023
§ 7520 Rate	2.00%
Grantor Age	70
Term	10
Value of Home	$2,000,000
Home Value Growth Rate	4.03%
Gift Tax Rate (%)	40.00%
Estate Tax Rate (%)	40.00%
Mortality Table	Table 2010CM (** Required **)

Click Advanced for the following:

- Split-Interest QPRT & Valuation Discounts
- Annual Rent After QPRT Term
- Results Past Term of QPRT
- Joint-Survivor QPRT

QPRT 2 Duplicate Delete

Basic / Advanced

Transfer Date	08/31/2023
§ 7520 Rate	5.00%
Grantor Age	70
Term	10

QPRT Summaries

Alter Summary Columns

Speaker	QPRT #	§ 7520 Rate	Grantor Age	2nd Life Age	Term	Value of Home	Ownership %	Valuation Discount %	Discounted Value	Probability Surviving Term	Gift %	Amount of Gift	Total Subject to Estate Tax	Annual Annuity After Sale	Estate Tax Savings
	1	2.00%	70	N/A	10	$2,000,000.00	100.00%	0.00%	$2,000,000.00	73.22%	60.07%	$1,201,324.69	$0.00	$100,527.09	$754,946.85
	2	5.00%	70	N/A	10	$2,000,000.00	100.00%	0.00%	$2,000,000.00	73.22%	44.95%	$899,019.50	$0.00	$160,066.41	$875,868.93
	3	8.00%	70	N/A	10	$2,000,000.00	100.00%	0.00%	$2,000,000.00	73.22%	33.92%	$678,303.83	$0.00	$219,647.39	$1,059,164.46
	4	2.00%	70	N/A	10	$2,000,000.00	100.00%	10.00%	$1,800,000.00	73.22%	60.07%	$1,081,192.22	$0.00	$90,474.38	$2,364,104.77
	5	5.00%	70	N/A	10	$2,000,000.00	100.00%	10.00%	$1,800,000.00	73.22%	44.95%	$809,117.55	$0.00	$144,059.77	$2,472,934.64
	6	8.00%	70	N/A	10	$2,000,000.00	100.00%	10.00%	$1,800,000.00	73.22%	33.92%	$610,473.45	$0.00	$197,682.65	$2,552,392.28

QPRT Details

Alter Detail Columns Below

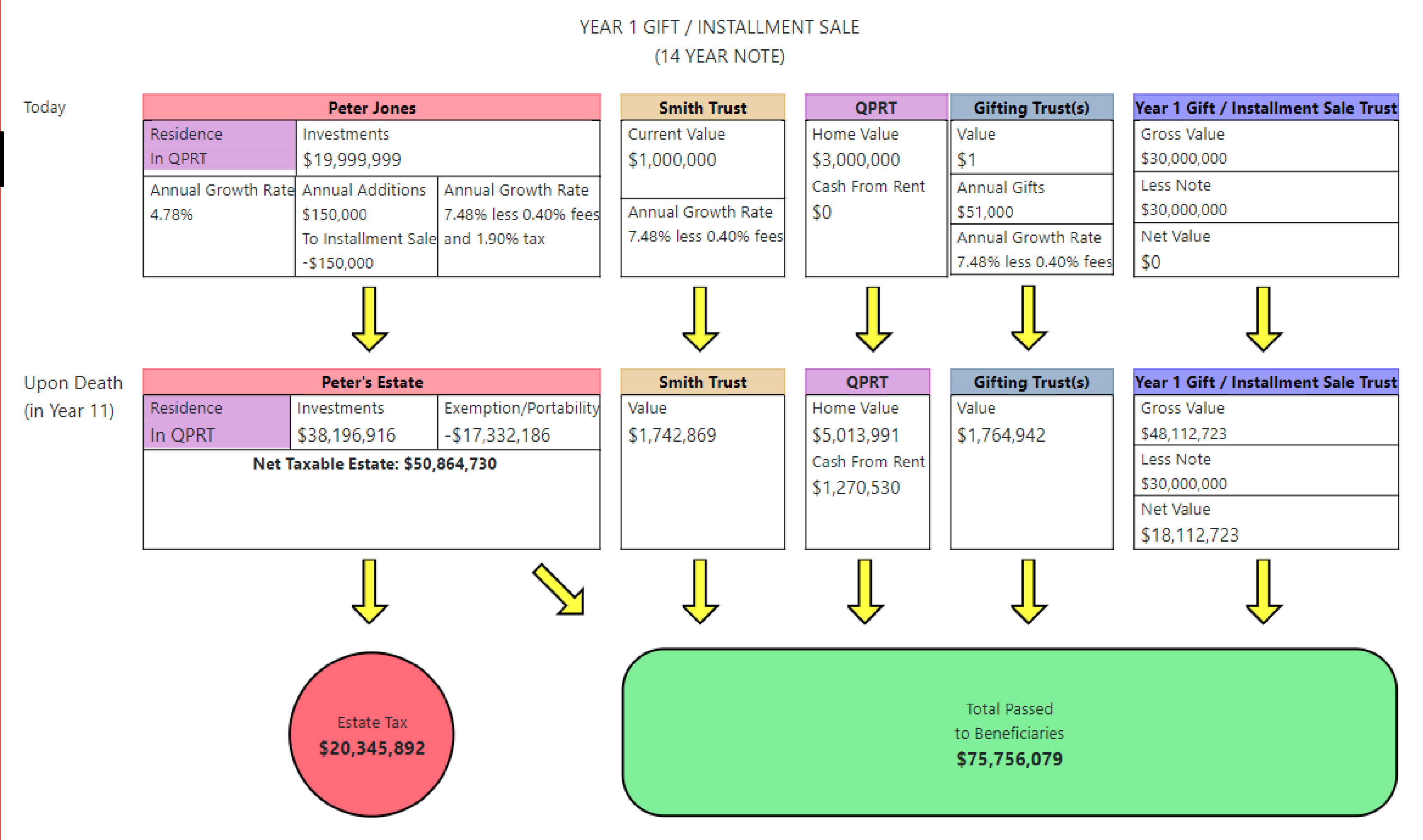
QPRT 1 | QPRT 2 | QPRT 3 | QPRT 4 | QPRT 5 | QPRT 6

Export to Excel

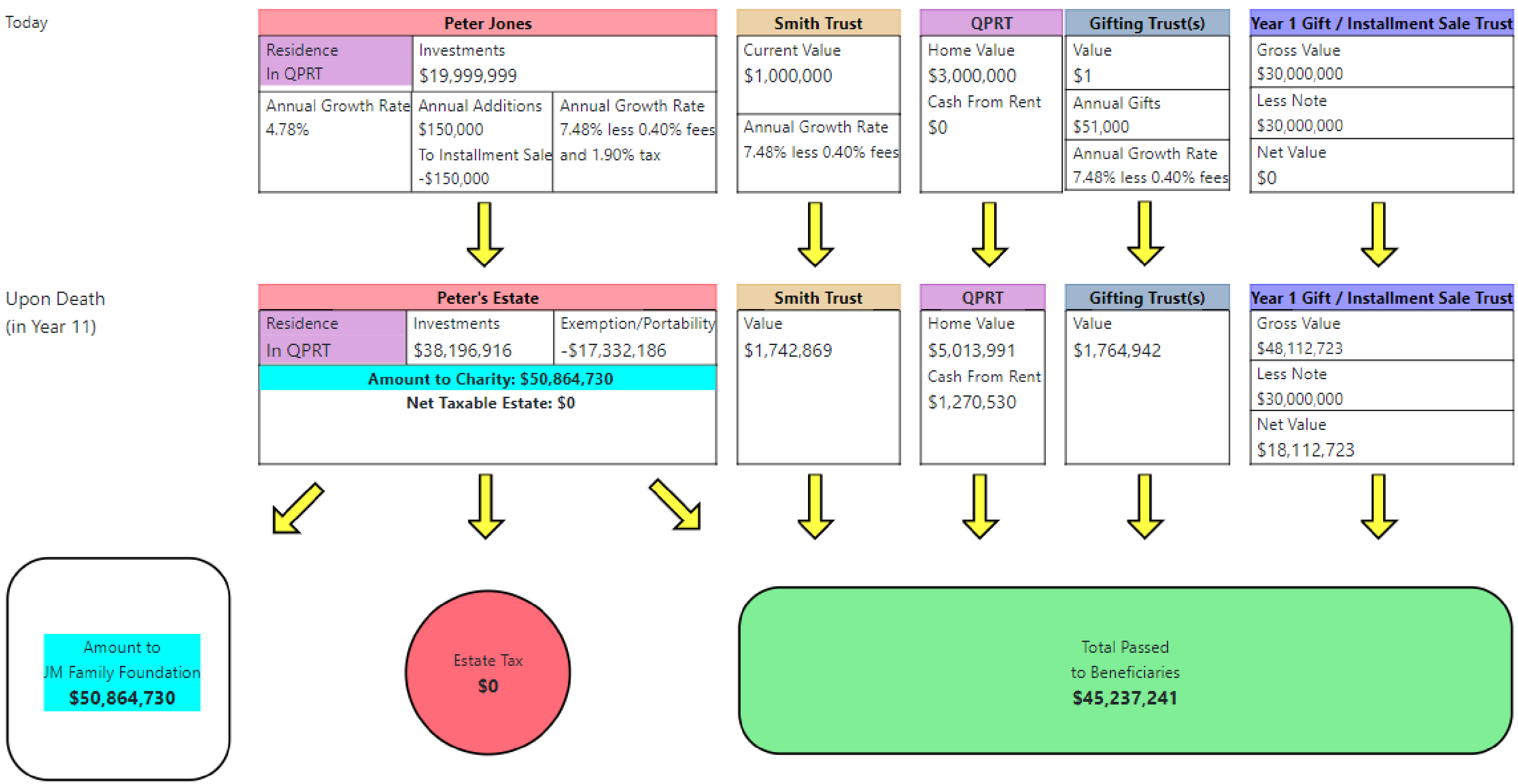
Show Every 1 Year(s): 1

Year	Year #	Age	2nd Life Age	Probability Survival To Year	Probability Of Death	Beginning Value	Rent Amount Due	Growth	End Value	Total Rent Paid	Assets Subject To Estate Tax	Assets Passing Outside Estate	Estate Tax Savings
2024	1	71	0	98.04%	2.09%	$2,000,000.00	$0.00	$80,600.00	$2,080,600.00	$0.00	$2,080,600.00	$0.00	$0.00
2025	2	72	0	95.95%	2.24%	$2,080,600.00	$0.00	$83,848.18	$2,164,448.18	$0.00	$2,164,448.18	$0.00	$0.00
2026	3	73	0	93.70%	2.40%	$2,164,448.18	$0.00	$87,227.26	$2,251,675.44	$0.00	$2,251,675.44	$0.00	$0.00
2027	4	74	0	91.30%	2.57%	$2,251,675.44	$0.00	$90,742.52	$2,342,417.96	$0.00	$2,342,417.96	$0.00	$0.00
2028	5	75	0	88.73%	2.73%	$2,342,417.96	$0.00	$94,399.44	$2,436,817.41	$0.00	$2,436,817.41	$0.00	$0.00
2029	6	76	0	86.00%	2.91%	$2,436,817.41	$0.00	$98,203.74	$2,535,021.15	$0.00	$2,535,021.15	$0.00	$0.00
2030	7	77	0	83.09%	3.09%	$2,535,021.15	$0.00	$102,161.35	$2,637,182.50	$0.00	$2,637,182.50	$0.00	$0.00
2031	8	78	0	80.00%	3.30%	$2,637,182.50	$0.00	$106,278.45	$2,743,460.95	$0.00	$2,743,460.95	$0.00	$0.00
2032	9	79	0	76.70%	3.48%	$2,743,460.95	$0.00	$110,561.48	$2,854,022.43	$0.00	$2,854,022.43	$0.00	$0.00
2033	10	80	0	73.22%	3.68%	$2,854,022.43	$0.00	$115,017.10	$2,969,039.53	$0.00	$0.00	$2,969,039.53	$707,085.94
2034	11	81	0	69.54%	3.86%	$2,969,039.53	$0.00	$119,652.29	$3,088,691.83	$0.00	$0.00	$3,088,691.83	$754,946.85

Fit Full | 100% | – | + | 100% | Fit Width


YEAR 1 GIFT / INSTALLMENT SALE
(14 YEAR NOTE)
Today
Peter Jones
Residence
In QPRT
Investments
$19,999,999
Annual Growth Rate
4.78%
Annual Additions
$150,000
To Installment Sale
-$150,000
Annual Growth Rate
7.48% less 0.40% fees
and 1.90% tax
Smith Trust
Current Value
$1,000,000
Annual Growth Rate
7.48% less 0.40% fees
QPRT
Home Value
$3,000,000
Cash From Rent
$0
Gifting Trust(s)
Value
$1
Annual Gifts
$51,000
Annual Growth Rate
7.48% less 0.40% fees
Year 1 Gift / Installment Sale Trust
Gross Value
$30,000,000
Less Note
$30,000,000
Net Value
$0
Upon Death
(in Year 11)
Peter's Estate
Residence
In QPRT
Investments
$38,196,916
Exemption/Portability
-$17,332,186
Net Taxable Estate: $50,864,730
Smith Trust
Value
$1,742,869
QPRT
Home Value
$5,013,991
Cash From Rent
$1,270,530
Gifting Trust(s)
Value
$1,764,942
Year 1 Gift / Installment Sale Trust
Gross Value
$48,112,723
Less Note
$30,000,000
Net Value
$18,112,723
Estate Tax
$20,345,892
Total Passed
to Beneficiaries
$75,756,079

TESTAMENTARY CHARITY



TESTAMENTARY CHARITY

Today

Peter Jones

Residence In QPRT	Investments $19,999,999	
Annual Growth Rate 4.78%	Annual Additions $150,000 To Installment Sale -$150,000	Annual Growth Rate 7.48% less 0.40% fees and 1.90% tax

Smith Trust

Current Value $1,000,000

Annual Growth Rate 7.48% less 0.40% fees

QPRT

Home Value $3,000,000

Cash From Rent $0

Gifting Trust(s)

Value $1

Annual Gifts $51,000

Annual Growth Rate 7.48% less 0.40% fees

Year 1 Gift / Installment Sale Trust

Gross Value $30,000,000

Less Note $30,000,000

Net Value $0

Jpon Death
(in Year 11)

Peter's Estate

Residence In QPRT	Investments $38,196,916	Exemption/Portability -$17,332,186

Amount to CLAT: $50,864,730

Net Taxable Estate: $0

Smith Trust

Value $1,742,869

QPRT

Home Value $5,013,991

Cash From Rent $1,270,530

Gifting Trust(s)

Value $1,764,942

Year 1 Gift / Installment Sale Trust

Gross Value $48,112,723

Less Note $30,000,000

Net Value $18,112,723

Amount to CLAT
$50,864,730 (100%)
Amount to
JM Family Foundation
$25,432,365 (50%)
Remainder to Beneficiaries
$25,432,365 (50%)
(in year 20)

Estate Tax
$0

Total Passed
to Beneficiaries
$45,237,241 +
$25,432,365 =
$70,669,606

History of the IRS 7520

The IRS 7520 rate, also known as the Section 7520 rate, is a critical component of the United States tax code that plays a significant role in estate planning and tax calculations. This rate is used to determine the present value of certain types of property interests for federal tax purposes.

The history of the IRS 7520 rate dates back to the enactment of the Tax Reform Act of 1984. Prior to this act, estate and gift taxes were often calculated using market interest rates, which could be subject to manipulation and uncertainty. The Tax Reform Act of 1984 introduced Section 7520 of the Internal Revenue Code, which established a formula to determine the applicable federal rate (AFR) for various types of transactions, including those involving estate and gift tax valuations.

The Section 7520 rate is based on the market yields of U.S. government obligations and is intended to reflect the prevailing interest rate environment. It is published monthly by the Internal Revenue Service and is used to calculate the present value of certain types of interests, such as annuities, life estates, and remainder interests. By using a standardized rate, the IRS aimed to create a fair and consistent method for valuing these interests, preventing manipulation of interest rates for tax benefits.
The IRS 7520 rate has gone through fluctuations over the years, influenced by changes in the broader economic and financial landscape. When interest rates are higher, the 7520 rate tends to be higher as well, making the valuation of certain interests less favorable for estate and gift tax purposes. Conversely, when interest rates are lower, the 7520 rate decreases, potentially providing more favorable tax outcomes.

Estate planners, financial professionals, and individuals conducting estate and gift transactions closely monitor the monthly fluctuations of the IRS 7520 rate. This rate impacts strategies such as grantor retained annuity trusts (GRATs), charitable remainder trusts, and other estate planning tools.
In summary, the history of the IRS 7520 rate is rooted in the need for a consistent and fair method of valuing certain property interests for tax purposes. Its introduction in 1984 marked a significant step in creating transparency and accuracy in estate and gift tax calculations, and it continues to be a crucial factor in estate planning strategies to this day.

Conclusion and Additional Information

A Few More Words About the Institute

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SEPTEMBER 20-22, 2023

Conclusion

- Final comments from Jerome M. Hesch, Director of the Institute.

Additional information about the Institute

- The 49th Annual Notre Dame Tax & Estate Planning Institute will take place on September 20-22, 2023, in South Bend, Indiana. We have lined up an impressive panel of speakers who will, as always, address numerous practical topics, relevant for a broad range of clients, even clients not exposed to the estate tax.
- We are pleased to announce that we are returning to an in-person format at our traditional venue at the Century Center in downtown South Bend. We know that many of you have been eager to share the camaraderie that our popular in-person learning format offers, and we are looking forward to seeing you in South Bend in September.
- For more information go to the link below or just search "Notre Dame Estate Tax Institute"
- http://law.nd.edu/estateplanning