CASE STUDY

Managing the Pre-Liquid and Post Liquid Wealth for a Business Owner (Part One)

QUOTE OF THE DAY

It is not about what you earn . . . rather, it is about what you keep that counts in the end
- TMF

Making better decisions easier . . .
It is time to expect more from "wealth management" and it all starts today.

Our Who . . . about TailorMade
TailorMade is the advisor to the advisor to elite investment managers, other professionals and a select group of families and business owners around the country. We focus on private client matters at the intersection of estate, business, tax and asset protection knowing that an asset allocation pie chart rarely ever equates to a proper or comprehensive financial plan for a client. Our deep technical knowledge delivers a balance between the legal, tax, emotional and wealth aspects of our client goals. Individually connecting a customized "tailor-made" comprehensive planning solution that works both today and tomorrow is what we do.

In Brief . . .

THE CHALLENGE
A successful business owner is selling his practice with multiple locations. As part of the sale, both he and his wife will stay on for a period of years since they are not fully ready to retire and move onto the next phase of their lives.

THE ANALYSIS
Examining the length of time prior to the close, the clients were able to establish a few terms to help reduce their current state and federal tax bill. Although the clients will stay on for a period of years, they were concerned with future income sources and the best way to manage their assets in a tax efficient manner to provide both growth and income without fully invading their principal.

THE SOLUTION[1]
The sale was structured as a stock purchase versus an asset sale to maintain certain contracts and allow the clients to establish a Charitable Remainder Trust (CRT). Via a pre-sale gift, a portion of the practice would be owned by the CRT. The CRT was established as a FLIPCRUT which would provide some control/delay for the required income payments back to the clients. As it was also the clients' intention to own non-income producing assets inside the trust, removing the annual need for income via a make-up provision will provide greater investment options for the CRT. Finally, the establishment of the CRT provided the clients with a current tax deduction to offset the sale, while the portion gifted to the CRT would not be eroded by current state and federal taxes: ultimately increasing the amount available to provide the clients income over the next 20 years.

Objectives
- Reduce current tax bill form sale of business
- Provide the clients with a tax efficient future income stream through the CRT
- Retain control and access over the majority of their assets
- Systematically reduce the impact of taxes on overall family wealth

Summary of Services Provided
- Team based approach (Investment Advisor, CPA and Attorneys)
- Update/revision of current personal legal documents (Wills/Trusts/Directives/POAs)[2]
- Initial calculations on CRT viability, structure and terms[2]
- Post-sale planning to continue to invest in tax efficient investments
- Integration of current planning with future planning needs (Individualized Financial Plan)
- Periodic reviews to address any changes

Notes
1 - The terms of the CRT are based on a determined payout rate, term of years while using the AFR determined at the time of creation. The NPV of the charitable remainder represents the potential tax deduction in the calendar year the CRT is created.
2 - The client's accounting and/or legal advisors drafted the final documents and determined the final calculation used for the deduction as a result of The Pease Amendment (Phase outs).

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