3 SIMPLE, TAX-EFFICIENT WAYS YOUR CLIENTS CAN MAKE TRANSFERS

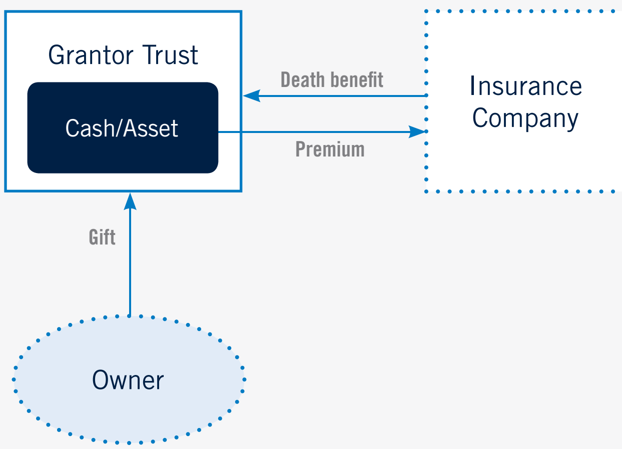
Your wealthy clients are looking for ways to make efficient transfers to family while paying as little tax as possible. There are three common—and simple—techniques they can use that employ a grantor trust and life insurance. Each helps to meet a specific objective:

1. Making a direct gift
2. Making a loan
3. Selling of an asset, outright or through an installment sale

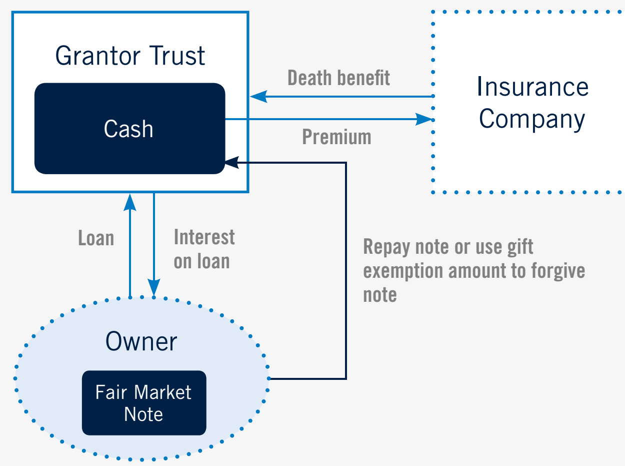
A **grantor trust** allows the creator of the trust to retain certain powers to control or direct assets of the trust so that the trust income is taxable to the grantor, but not included in the grantor's taxable estate.

Take a look:

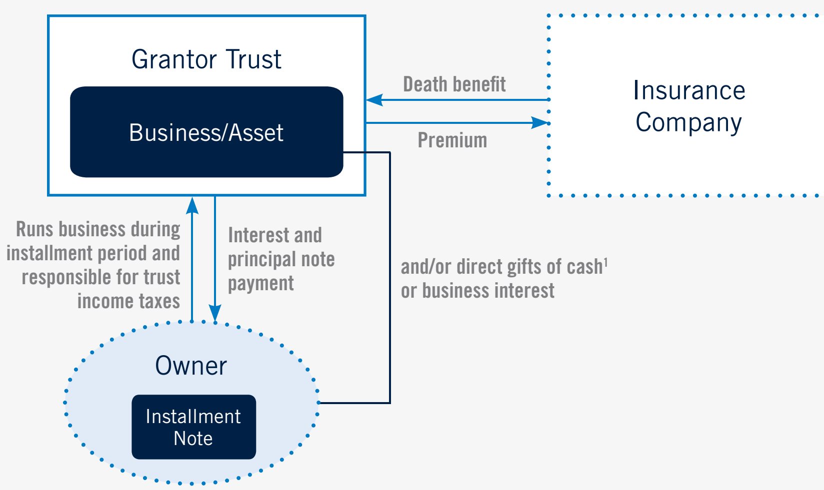
1 DIRECT GIFT TO A GRANTOR TRUST



2 LOAN TO A GRANTOR TRUST



3 INSTALLMENT NOTE SALE OF AN INCOME-PRODUCING ASSET OR BUSINESS INTEREST TO A GRANTOR TRUST



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[1]A gift of "seed," typically 10% of the trust balance, may be required. The client should always seek counsel from his or her attorney.

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PREMIUM PAYING STRATEGIES AT-A-GLANCE

A snapshot of financing techniques commonly used with large life insurance premiums:

	Private Split Dollar (Family Split Dollar)	Private Financing (Intra-Family Loans/ "Renting the Asset")	Premium Financing[1]	Combining Techniques
Description	The trust grantor, frequently a parent or parents, pay(s) the annual term costs portion of the premium or Table 2001 rates[2] and the trust pays difference	Intra-family loan transaction[3]	A third-party lender provides a loan for purchasing life insurance	Combining premium financing with private financing to minimize loan interest costs and address limitations on liquidity and a lifetime exit strategy
Lender	Grantor	Grantor	Bank	Grantor and bank
Loan Interest Rate or Annual Cost of Financing	The value of the gift is calculated based on the "economic benefit" cost, which is either the term rate or Table 2001 rates[2]	Applicable Federal Rate (AFR) Short-term (0 – 3 years), Mid-term (3 – 9 years), and Long-term (9+ years)	LIBOR (Intercontinental Exchange London Interbank Offered Rate) or Prime + Spread	Rates linked to each type of loan arrangement
Gift Tax Impact	Minimizes gift taxes because loans are not gifts			
How It Works	The grantor as the lender provides liquidity to pay large premiums on a needed policy	The grantor as the lender provides liquidity to pay large premiums on a needed policy	Bank or other third-party lender provides liquidity to pay large premiums on a needed policy	Provides liquidity from both the grantor and a third-party lender, while minimizing loan interest costs
Benefits	Minimizes gift tax costs	Minimizes gift tax costs and "recycles" family money	No need to liquidate taxable assets to fund a large life insurance need	Minimizes gift taxes and reduces the need to liquidate taxable assets to fund premiums
Collateral	Policy	Not required	Policy and/or other liquid assets	Collateral requirements of third-party lender only
Potential Generation-Skipping Transfer Tax (GSTT)	GSTT exemption should be allocated to the gift of economic benefit	GSTT exemption should be allocated to gifts of loan interest, if any made	GSTT exemption should be allocated to gifts of interest	GSTT exemption should be allocated to gifts of interest
Exit Strategy	Lifetime exit required	Typically built into the transaction design so that the return of the asset, or a sinking fund of cash, accounts for the repayment of the loan	Lifetime exit required and should be stress-tested	Lifetime exit required with third-party lender

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Contact Your Prudential Life Wholesaler for more information.
Discover how Prudential's Advanced Markets team can help you close your next case.
We can help you to design illustrations that are based on your clients' specifics.

Call us at 1-800-800-2738, Option 4.

[1] Prudential is a product provider only. Prudential has not endorsed any specific premium financing program and is not a party to any premium financing program. Prudential is responsible only for what is set forth in the life insurance policy. Prudential has not provided tax or legal advice for premium financing. Your client must obtain the advice of his or her own tax and legal counsel who is experienced in financial transactions such as this before entering into the financing of a life insurance policy. Though Prudential may have made your client aware of the concept of premium financing, it has not made any recommendation or suggestion to borrow money to purchase a life insurance policy, nor has it been involved in the specific financing arrangement your client and your client's tax and legal advisors may choose.

[2] Instead of loan interest, which is based on the cumulative loan principal balance, the economic benefit cost (which is based on the death benefit amount and annual change in age) is used. Under the Final Split Dollar Regulations of 2002, the calculation of the annual economic benefit rates for single life policies involves the use of the government Table 2001 rates, or the insurer's alternative term rates, whichever are lower. The latter can be used provided that the insurance company issuing the policy makes such rates known to prospective purchasers of their term insurance and that the insurer "regularly" sells its alternative term product. See IRS Notice 2002-8. Economic benefit costs can be quite low at younger ages, especially when a survivorship policy is used. However, the economic benefit rates increase over time as the insured ages. It may make sense to consider private split-dollar arrangements, initially, and then switch to a privately financed loan when the economic benefit rates become prohibitive.

[3] Arms-length transactions between family members and/or a trust. An adequate rate of interest, or fair market rate, will be based on the AFR published monthly by the federal government.

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Guarantees are based on the claims-paying ability of the issuing insurance company.

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