



Deferred Inheritance Trust – A Powerful Family Planning Tool

The Deferred Inheritance Trust (IRS named a Charitable Lead Annuity Trust) may be one of the most underutilized *Family Wealth Planning* tools available. Very few professional advisors know much more about it than simply its name, and they have never proposed—much less established—one for any of their clients. In the proper setting, this Deferred Inheritance Trust is an exceptionally powerful planning tool.

Consider the following estate planning scenario:

Mary Smith, a widow, age 65, now owns the entire family farm. Her husband died, and through the Unlimited Marital Deduction passed his ownership of the farm on to her. The farm is valued at approximately \$2 million. Mary Smith is retired and lives in Florida while her son, Mike, continues to work the farm. Her other two children are not involved with the farm. The farm, as is common, has virtually no cost basis. The problem Mary faces is how to get the farm, intact, to Mike without being devastated by capital gains taxes or estate taxes while also giving the other children an equal inheritance.

Since Mary has substantial income from other investments, she does not need the rental income from the farm to support her lifestyle. In fact, she finds herself losing about a third of this unneeded, passive income each year to income taxes. In this estate transaction scenario, a Deferred Inheritance Trust is the ideal tool.

We transferred the farm into a 15 year, Deferred Inheritance Trust. Each year, for the next 15 years, the income from the farm will be gifted directly to Mary's favorite ministries completely bypassing her 50% AGI limitation on annual gifting. The cumulative benefit to Kingdom causes over the 15 years will be nearly \$2.4 million. At the end of the 15 years, the Deferred Inheritance Trust will terminate, and the farm will pass to her son Mike. The charitable Estate Tax deduction for the charitable gifts made is about \$1.4 million which is credited against the value of the farm. This leaves only \$600,000 of the \$2 million farm subject to Estate Taxes. Then, by using part of her Unified Estate Tax Credit of \$1,000,000, she is able to pass the entire farm onto her son completely Estate Tax free.

The other children were provided an equal inheritance by using an Enhanced Income Trust (IRS named a Charitable Remainder Trust) and a Wealth Replacement Trust (IRS named an Irrevocable Life Insurance Trust).

A multimillion dollar estate was passed on to the three children completely Estate Tax free. Mary still had more retirement income than she needed for the rest of her life. She gave to the ministries of her choice over \$2.4 million during her lifetime and over \$2.5 million at her death, at absolutely no cost to her or her children. It was truly a win-win-win situation!

If you, or those you know, have specific income-producing assets to pass to your heirs, a Deferred Inheritance Trust may be a most

worthwhile consideration. This is only one example of the powerful results that can be achieved when people begin to think and plan outside the box through Family Wealth Counseling.

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