

Nashville Business Journal

OCTOBER 14-20, 2005

Research the art of giving and avoid a heavy tax sting

While a will is important to clearly establish your wishes regarding your assets after you're gone, there are other steps you can take to transfer wealth to beneficiaries during your lifetime, which will ease the tax bite, keep your personal finances private and make sure you're in control of what happens to your money.

Gifts

You can give \$11,000 annually (up to \$12,000 in 2006) to whomever you like and to as many people as you like - tax free. The amount you gift is unlimited provided no one person receives more than \$11,000.

Married couples can combine their annual gift exclusion through an option called "gift splitting" that allows one spouse to gift \$22,000 to an individual, provided the other spouse is willing to apply his or her annual gift exclusion to the gift.

These annual gifts, which can be in cash, stock or other assets, are tax free and don't have to be reported to the IRS except in the case of gift splitting, where you would have to file a gift tax return. Your financial management professional should be consulted in order to determine which of your assets should be transferred, as some are definitely more advantageous than others.

Something else to remember is the lifetime gift exclusion. Every person has a \$1 million lifetime gift exclusion which allows him or her to gift assets over the \$11,000 limit. So, if you give \$200,000 to your son or daughter this year, the first

\$11,000 is tax-free and the remaining \$189,000 is subtracted from your lifetime exemption of \$1 million, thus leaving you with another \$811,000 in exemptions for your lifetime.

Keep in mind that these transfers can effect how much you can transfer at death free of estate and inheritance taxes. Tennessee has separate gift tax rules that must be considered as well - another reason to consult a professional.

The advantages of gifting larger sums is twofold: First, you can remove the assets and their appreciation from your estate, thus saving your heirs from the tax burden; and second, it allows you to see how your beneficiaries will handle these assets while you're still in a position to make decisions regarding the remainder of your estate.

Medical bills and tuition

Pay your beneficiary's tuition at qualified institutions and pay qualified medical bills, including insurance premiums.

There are no limits to how generous you can be and it's never taxed provided you pay the money directly to the organization and not to your beneficiary. They get the value of an education (or proper health care) while you're reducing the size of your taxable estate.

Establish a trust

One of the best ways to ensure that your assets are allocated the way you would like is to establish a trust. Trust accounts can be powerful financial tools for distributing wealth and minimizing taxes. One of the more effective options is a Grantor



**GUEST
COMMENTARY**

DERRICK JONES

Retained Annuity Trust (GRAT).

When you establish a GRAT, you do so for a limited time (10 years, for example). During those 10 years, payments are distributed to you at a rate you determine. At the end of the term, your beneficiaries receive the remaining assets with no additional gift tax liability.

The key is to transfer assets into the GRAT that will appreciate faster than the IRS assumes they will, thus a period of low interest rates really benefits the grantor.

Just make sure when establishing your GRAT that the term is less than your life expectancy. If you don't outlive your GRAT, the tax benefits are significantly reduced.

Other advantageous vehicles for transferring wealth during life are charitable remainder trusts and family limited partnerships. Both provide many benefits even beyond favorable tax treatment.

These are just a few ways families can share their wealth without Uncle Sam taking too big of a bite. You should always consult a licensed professional to determine the most prudent course for distributing your assets.

Derrick Jones is managing director of wealth management services for Nashville Bank & Trust. www.nashvillebankandtrust.com

LOANS • CHECKING • PRIVATE BANKING • WEALTH MANAGEMENT • TRUST SERVICES

4525 Harding Road

Suite 300

615-515-1700

www.nashvillebankandtrust.com

Hours: 9 a.m. - 4 p.m., Mon. - Fri.



**NASHVILLE
BANK
&
TRUST®**

Member FDIC