

NAFEP

The program described in this brochure is offered and supported by independent associates of The National Association of Financial and Estate Planning (NAFEP). NAFEP was created for the purpose of developing the best financial, estate and business planning tools available in the country today. It has a unique and prestigious Board of Advisors to guide the Association with expert advice and consulting in estate planning, business planning, the law, taxation, accounting and finance (see the "NAFEP" brochure for more details).

NAFEP develops various estate and business programs, and then teaches its associate members how to implement them for their clients. Associates who successfully complete NAFEP training and testing receive the NAFEP Certified Estate Advisor® (CEA®) designation and certificate. They also have the full research and consulting resources of NAFEP to support them as they implement their clients' special strategies and tools. The associates then work with a knowledgeable attorney for final client planning recommendations and legal document creation.

NAFEP handles more estate planning clients in one year than most estate planning attorneys see in a life time. And many NAFEP clients have their own attorneys and CPAs review their NAFEP estate plan. This independent evaluation has happened thousands of times, and provides an intensive level of peer review to help ensure no flaws are inherent in NAFEP programs. This broad client experience and peer review ensures the highest quality and service.

For More Info On NAFEP-
See Our Site on the World Wide Web:
www.nafep.com

NAFEP Products & Services

- ✓ Premier I Living Trust. Basic Family Trust.
- ✓ Premier II Life Estate Trust. Asset Protection Family Trust.
- ✓ Premier III Childrens Trust. Irrevocable Fund For Heirs.
- ✓ Premier V Life Insurance Trust. Estate Tax Planning.
- ✓ Premier VI Private Annuity/Trust. Capital Gains Deferral.
- ✓ Premier VII Family Foundation Trust. Family Charity.
- ✓ Premier VIII Private Foundation. Family Charity.
- ✓ FLP Trust. Family Limited Partnership, Estate Tax Planning.
- ✓ Limited Liability Company. Business Entity For All 50 States.
- ✓ C And Sub S Corporations. Business Entity For All 50 States.
- ✓ Nevada Corporations. Special Limited Liability For All 50 States.
- ✓ Miscellaneous. Advanced Gift & Estate Tax Planning, Wills, Power Of Attorney, Medical Power Of Attorney, Advance Medical Directive And Guardianship Appointment For Minors.



NAFEP programs are offered in your area by:

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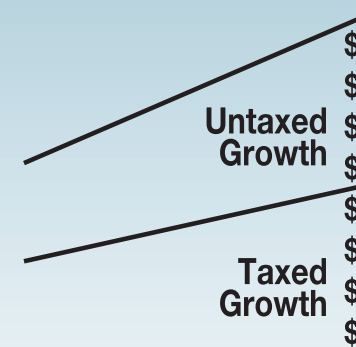
Private Annuity/Trust

PREMIER VI

- Deferring
- Capital Gains
- Taxes
- *and Avoiding*

Gift and Estate

Taxes



NOTE: The program described in this brochure was developed by the legal counsel for the National Association of Financial and Estate Planning (NAFEP), and is offered and supported by its associate members.

A WAY OUT

Individuals who own securities, real estate, businesses or other appreciated assets often are stymied in selling the assets because of the capital gains tax. Capital gains taxes are owed on the profit from the sale of any asset held longer than one year. The federal capital gains rate is 15% on most sales of significant size. State taxes can tack 5% to 10% more onto that. The net result can easily reach 20%.

There is a double whammy when significant depreciation has been taken on the asset. Not only will there be capital gains taxes to pay, but the depreciation may require recapturing. Depreciation recapture subjects the full depreciation dollar amount to a special income tax rate of 25%. An installment sale will defer the capital gains tax but not the recapture tax. Many installment sales are abandoned because the immediate recapture taxes were greater than the down payment the seller would have received.

Both capital gains and depreciation recapture taxes must be paid in full in the taxable year of the sale. The associate members of NAFEP offer a plan to reduce the capital gains and depreciation recapture tax bite through long term deferral of the tax. The tax treatment of the plan has been thoroughly documented by specific IRS publications, court cases and legal reference texts*. This plan is known as the Premier VI Private Annuity/Trust.

Private Annuity Strategy. The Private Annuity does not eliminate the taxes, but rather defers them for long term, often for decades, and with no penalty or interest for doing so. The deferral takes place because the property owner receives his sale proceeds in a life time income stream from a private annuity contract. Capital gains and recapture taxes are paid as the income stream is received.

Nothing is given away to charity as happens with the competing strategy known as a charitable remainder trust. The Private Annuity allows all the principal and accrued interest to be paid to the property seller, whereas the charitable remainder trust pays income (interest) only. In most cases the Private Annuity yields more bottom line dollars to the property seller than the charitable remainder trust does.

With the Private Annuity the property owner (seller) places the appreciated asset into a trust, rather than directly selling it to the buyer. The trust belongs to and is controlled by the seller's family. Its beneficiaries are the heirs or children of the property seller. The trust "purchases" the asset from the seller. Instead of a cash purchase the trust pays the seller with an annuity contract. The annuity contract is a private arrangement issued by the trust itself and is not a commercial annuity from an insurance company.

The annuity makes the seller an "annuitant" and that is how we will refer to the seller after this. The annuity contract is a promise to make payments to the annuitant for the balance of the annuitant's life. The payments can be made to either a single person or in a joint last-to-die arrangement to a married couple. Often the first payment on the annuity is deferred, maybe for many years down the road, such as when the annuitant has reached retirement age. But the annuitant has the option of beginning the annuity payments right away.

Usually the annuitant has located a "real" buyer for the assets and has negotiated a fair market price for it. If not, that may be done by the trustee after the asset goes into the trust. In any case the sale is not completed until the asset has been placed in the trust. When the transactions are complete the asset has been sold twice; first from the annuitant to the trust, and paid for by an annuity, and second from the trust to the "real" buyer in either a cash or installment sale.

For reasons too lengthy to explain in this brochure, neither the sale by the annuitant to the trust nor the sale from the trust to the outside buyer are taxable events at that time. When the annuitant begins to receive annuity payments some of each payment will be subject to a fraction of the original capital gains taxable amount. The taxable amount will be spread out in equal payments over the balance of the annuitant's life expectancy. For example, if the annuitant has a 20 year life expectancy at the point the annuity payments begin, then the annuitant will pay 1/20th of the capital gains (and recapture) tax each year. The rate of the tax will be whatever the rate is in each year that a 1/20th payment is received by the annuitant. There will be neither penalty nor interest to pay on any deferred taxes. The annuitant will never pay more total tax dollars than he would if he paid the taxes up-front (assuming the tax rates stay the same or decline).

If the annuitant lives to the exact life expectancy that the annuity was based on the annuitant will end up paying all the capital gains on the sale. But the first payment may be ten, twenty or more years after the annuity sale. Then the annuity payments spread the capital gains taxes over another ten, twenty or more years. This means that the payment of capital gains taxes could be spread out over a total time span of as much as fifty years with no penalty or interest on the deferral. This allows the trust to use the entire cash proceeds, including the unpaid taxes, to invest in any worthwhile investment. The unpaid and deferred taxes remain in the trust to work alongside the rest of the sale proceeds to produce a much larger amount of income.

The following example compares the annuity transaction to a straight forward taxed sale. To get an apples vs. apples comparison we are assuming that the proceeds from the taxed sale are used to purchase a commercial annuity bearing the same interest rate as the Private Annuity. This comparison is based on a 6.0% rate of return in both cases.

Comparison With A Taxed Sale

Taxed Sale	Annuity Deferral
Selling Price 1,000,000	1,000,000
Basis 200,000	200,000
Profit (800,000)	800,000
C.G. Taxes 194,400 ¹	Deferred ¹
Net Investment Cash (805,600)	930,000 ²
Deferral Period 20 Yr. (6.0% Growth)	20Yr. (6.0% Growth)
Annuitant Present Age 45	45
Annual Payout 228,314	307,010
After Tax Life Payout 3,540,493 ¹	4,541,729 ¹
	1,564,613 Advantage

¹Assuming 15% federal and 9.3% state capital gains, plus 25% ordinary income tax rates.

²Plus \$70,000 "reserve" held in trust.

Under this strategy there is a great deal of flexibility in the type investment that the trust can engage in (unlike the restrictions on a charitable remainder trust). The proceeds can be invested in financial products, securities, and real estate. Any trust income that the trustee thinks is not needed to pay on the annuity contract can be paid to the beneficiaries at any time.

Other advantages of the private annuity arrangement are:

1. The full value of the original appreciated asset is immediately removed from the estate of the annuitant and therefore escapes all gift and estate taxes.
2. The trust assets do not have to go through probate when the annuitant dies.
3. The trust can make a cash sale to the "real" buyer. It is not forced to make an installment sale as a means of deferring capital gains taxes.
4. If the capital gains tax rate is reduced in the future the balance of the capital gains will be taxed at the lowered rate.

As illustrated above, the Premier VI Private Annuity/Trust has the ability to generate substantially more money over the long run than a direct and taxed sale. It is also superior to the charitable remainder trust and installment sales in many respects. A NAFEP associate member can provide more information on this program. Also, ask a NAFEP member for the 8 page companion publication to this brochure.

* NAFEP associate members can provide your tax advisor with the IRS publications, case law and reference text material that relate to private annuities. Ask for the NAFEP "Private Annuity Legal Package."