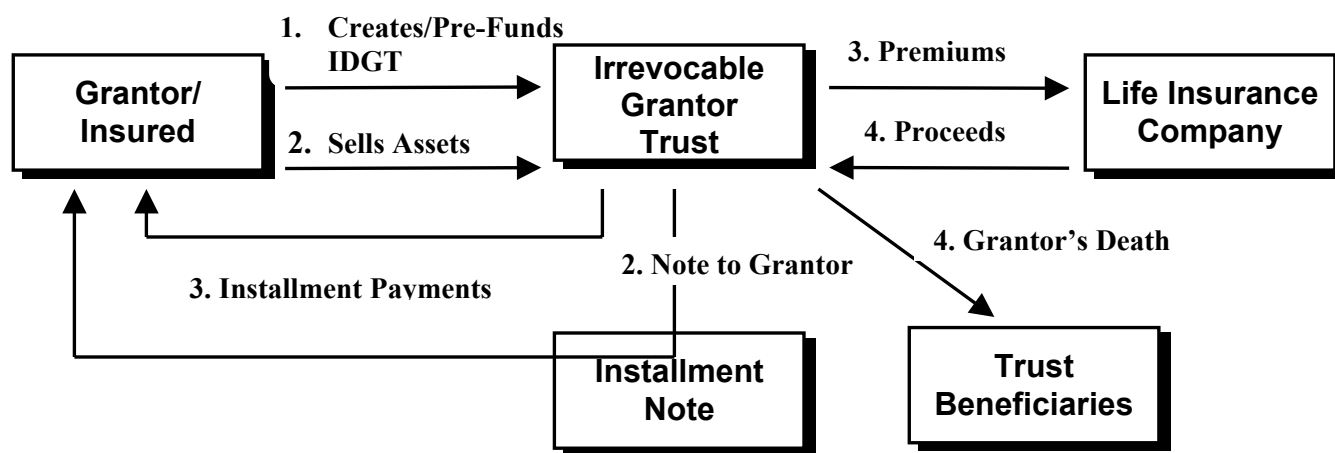


Sale to an IDGT (Intentionally Defective Grantor Trust)



- Grantor establishes an irrevocable trust structured as an IDGT. The IDGT ensures that the trust assets are excluded from the grantor's estate, but also gives him/her certain powers under IRC §§ 671-679 that cause the grantor to be treated as the "owner" of the trust for income tax purposes.

Prior to asset sale, the grantor funds the trust to support the position that the trust has economic independence. At a minimum, the trust should be pre-funded with assets or cash worth 10% of the value of the assets being sold to the trust.

- The grantor enters into a bona fide arms length sales agreement with the trust, transferring assets to the trust in return for an installment note. Ideally, the transferred assets should be rapidly appreciating income-producing assets such as limited partnership units, S corporation stock, real estate etc.

The sale transaction has no income tax consequences to the grantor i.e., no gain is recognized. . Nor is the grantor taxed on the installment payments for the note.

- During the term of the note, the desired result is that the assets held by the IDGT appreciate and generate income that is used to repay the loan. Generally the note is structured as an interest-only note for a term of years with a balloon payment at the end of the term. The interest rate is generally the appropriate applicable federal rate (AFR) at the time of the sale.

The grantor is taxed on the income generated by the trust. By paying this tax liability more funds remain in the trust to be invested generating further value for the heirs.

Trust funds in excess of the required interest payments can be used to purchase a life insurance policy on the grantor's life.

- At the grantor's death only the value of the installment note (if outstanding) will be in the grantor's estate, the trust assets and any appreciation pass estate tax free to the heirs.