Deliver to: Roland Baggs


# The "Daily Plan-It™"

SHUMATE BROKERAGE CORP.

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## *Helping Clients Take Advantage of a 'Down Market' with Planning Strategies*

The discussion on most cable TV news shows these days focuses on our suffering economy, falling home prices and spiraling stocks. As financial advisors, we understand why our clients are desperate to reduce the effect that the crisis has had on their assets.

That's why we created a six-part series offering multiple strategies on how to take advantage of a down market.

We'll discuss the advantages of gifting; family loans, family investment companies, grantor retained annuity trusts, intentionally defective grantor trusts, and charitable lead annuity trusts.

### Strategy 1: Gifting - As Simple As Writing A Check

One of the easiest ways of transferring assets is taking advantage of current gifting laws. Congress currently allows you to gift $12,000.00 per person per year. A husband and wife therefore can gift to a child $24,000.00 per year. Next year, the law changes to allow an individual to gift away $13,000.

People often think they have to establish some form of elaborate gifting process to take advantage of this law, but they don't. It is as simple as writing a check.

For example, mom and dad decide to gift $12,000 to each of their adult children. They write a check to each child, who in turn deposits the check in a bank. The gift is completed.

Such transfers can be made from parent to child or from grandparent to grandchild in a way that will reduce the tax burden on the giver's estate and help the recipient. The advantage is obvious.

### Stocks Can Be More Effective

Still, conveying publicly traded stock, or any asset that you think will appreciate, can be a more effective method of gifting than giving cash. The asset will appreciate outside of the giver's estate, reducing the giver's estate tax burden.

A downside of gifting is that you are giving away cash or assets that you could be using today. Naturally, you want to counsel clients to give only what they won't need.

Usually, gifting shares of stock to a child is a big advantage if the child is in a zero to low capital-gains tax rate. (Note: This assumes no kiddie tax issue.)

Remember that if dad gives stock to his son or daughter, then the son or daughter assumes dad's basis in the stock. If dad bought the stock when it was trading at $1 per share and later gifted it at a $100 per share, then his children would receive his basis.

When the children go to sell the stock, they would pay a capital gains tax based on what dad paid for the stock, not the value of the stock when they received it. This is contrary to what would happen if the children had inherited the stock.

As a planning tip, when the basis of the gift is greater than its fair market value, then stocks or other property should not be used for gifting.

We hope this information helps you and your clients. If you have a specific case or have a client with a question, please don't hesitate to have them call. As always, feel free to call us for further advice or to share your ideas.

Stay tuned for Part II of our series: ***Family Loans - Welcome to the Bank of Mom & Dad.***