



NORTHERN
TRUST

SHINING LIGHT THROUGH THE DARKNESS

*(Planning in the Shadow of Uncertainty,
Social Distancing, and Fear)*

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June 2020



Fallout from the COVID-19 Pandemic & Response

Global economy has stalled
(Recession by Proclamation)

Asset values have fallen

Interest rates at historical lows

CARES Act: \$2.7T cost
(more to come)

Liquidity at a premium

Market volatility will be high for
an uncertain period of time

Uncertain timing for recovery
(Economic and Medical)

Unpredictable and sudden mortality
risks have spiked

Social distancing provides
challenges to advice & execution



Clients Are Feeling:

Fear
Anxiety
Frustration
Anger

Transfer wealth at
depressed asset values

Planning that leverages the
historically low interest rates

Strategies that transfer wealth
but allow retained cash flow

Likely higher income tax rates
in the future

Techniques that can defer
payments as long as possible

Provide flexibility and the ability
to abandon or change the plan

Need structures that provide access
to the “gifted” asset, if needed

Prepare for unexpected and
premature deaths

“Distance planning” is mandatory
when timely advice is most needed



Historical Stress Events and Recovery

US equity drawdown and recovery



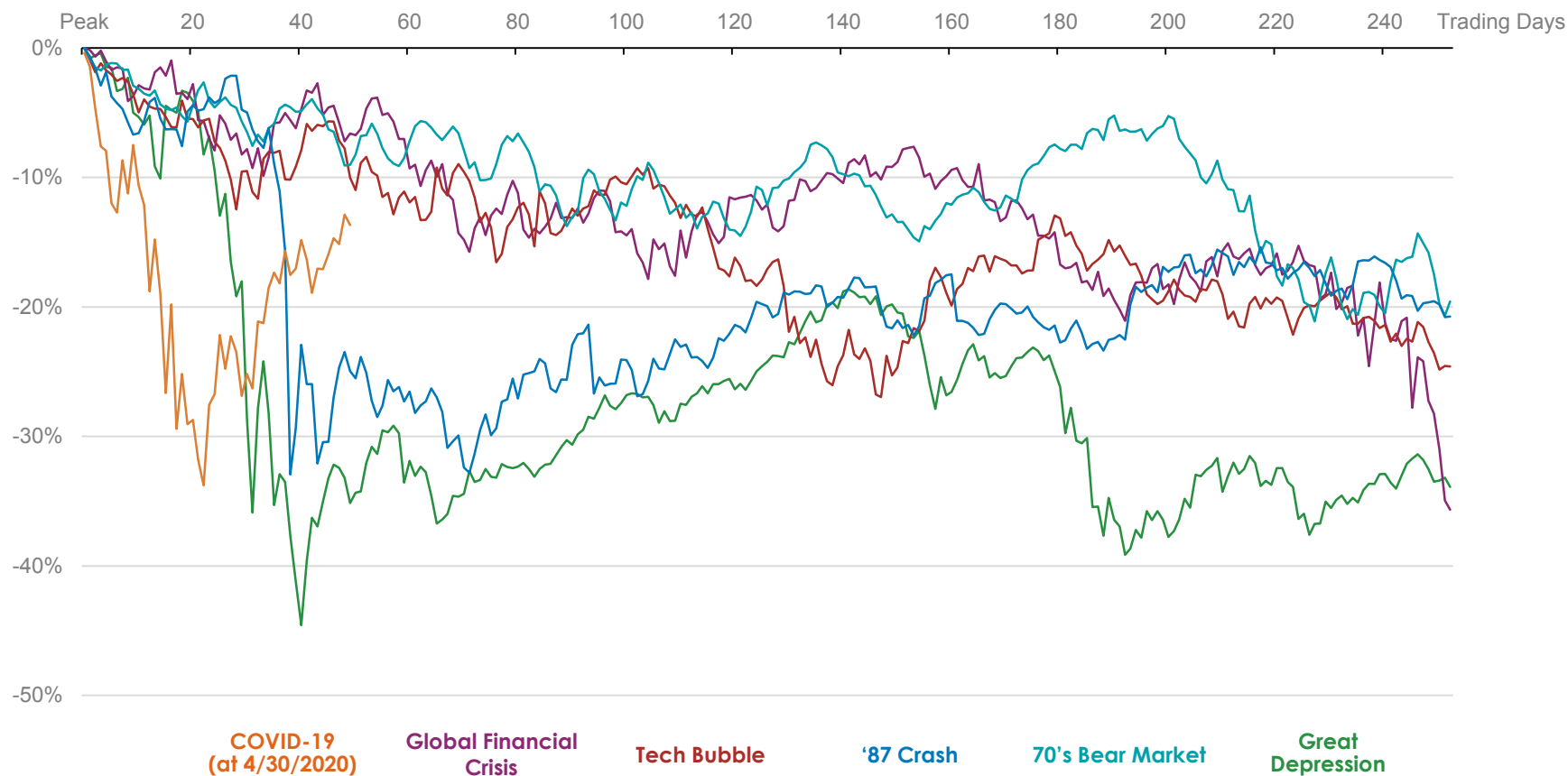
	Global Financial Crisis	Tech Bubble	'87 Crash	70's Bear Market	Great Depression	COVID-19 Max Drawdown (As of 4/30/20)
Event Length	4 Yrs., 6 Mos.	6 Yrs., 2 Mos.	1 Yr., 9 Mos.	3 Yrs., 6 Mos.	16 Yrs., 5 Mos.	?
Time to Max Drawdown	1 Yr., 5 Mos.	2 Yrs., 1 Mo	2 Mos.	1 Yr., 9 Mos.	2 Yrs., 8 Mos.	23 Days
Max Drawdown	-55%	-47%	-33%	-45%	-86%	-34%

Sources: Northern Trust Research, Bloomberg. Drawdowns are calculated using daily return data on the S&P 500 Total Return Index. Peak-to-trough time frames for these stress events are as follows: Global Financial Crisis (10/9/2007 to 3/9/2009), Tech Bubble Burst (9/4/2000 to 10/9/2002), 1987 Market Crash (8/25/1987 to 10/19/1987), 1970s Bear Market (1/11/1973 to 10/3/1974), and The Great Depression (9/16/1929 to 6/1/1932).



Historical Stress Events – First Year

US equity drawdown



Sources: Northern Trust Research, Bloomberg, Morningstar. Drawdowns are calculated using daily return data on the S&P 500 Total Return Index.



Recovery from Historical Stress Events

Annualized US equity return from bottom

	Global Financial Crisis	Tech Bubble	'87 Crash	70's Bear Market	Great Depression
Max Drawdown	-55%	-47%	-33%	-45%	-86%
Time to Recovery	3 Yrs., 1 Mo.	4 Yrs., 1 Mo.	1 Yr., 7 Mos.	1 Yr., 9 Mos.	13 Yrs., 9 Mos.
1-Year Return	73%	36%	29%	44%	121%
5-Year Return	25%	17%	17%	17%	30%
10-Year Return	18%	8%	19%	16%	11%

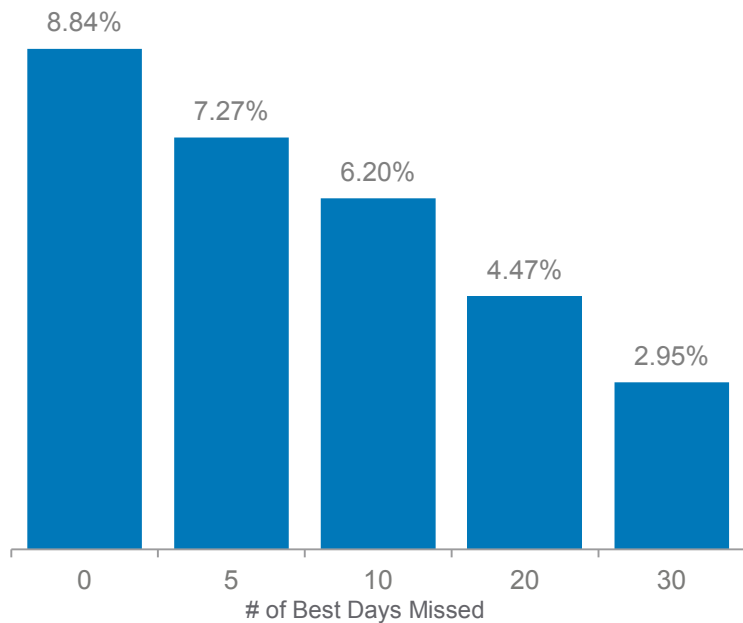
Sources: Northern Trust Research, Bloomberg. Annualized returns calculated from daily return data on the S&P 500 Total Return Index. Troughs for these stress events are as follows: Global Financial Crisis (3/9/2009), Tech Bubble Burst (10/9/2002), 1970s Bear Market (10/3/1974), 1987 Market Crash (10/19/1987) and The Great Depression (6/1/1932).



Cost of Timing the Market

Risk of missing the best days for the S&P 500 for the last 30 years

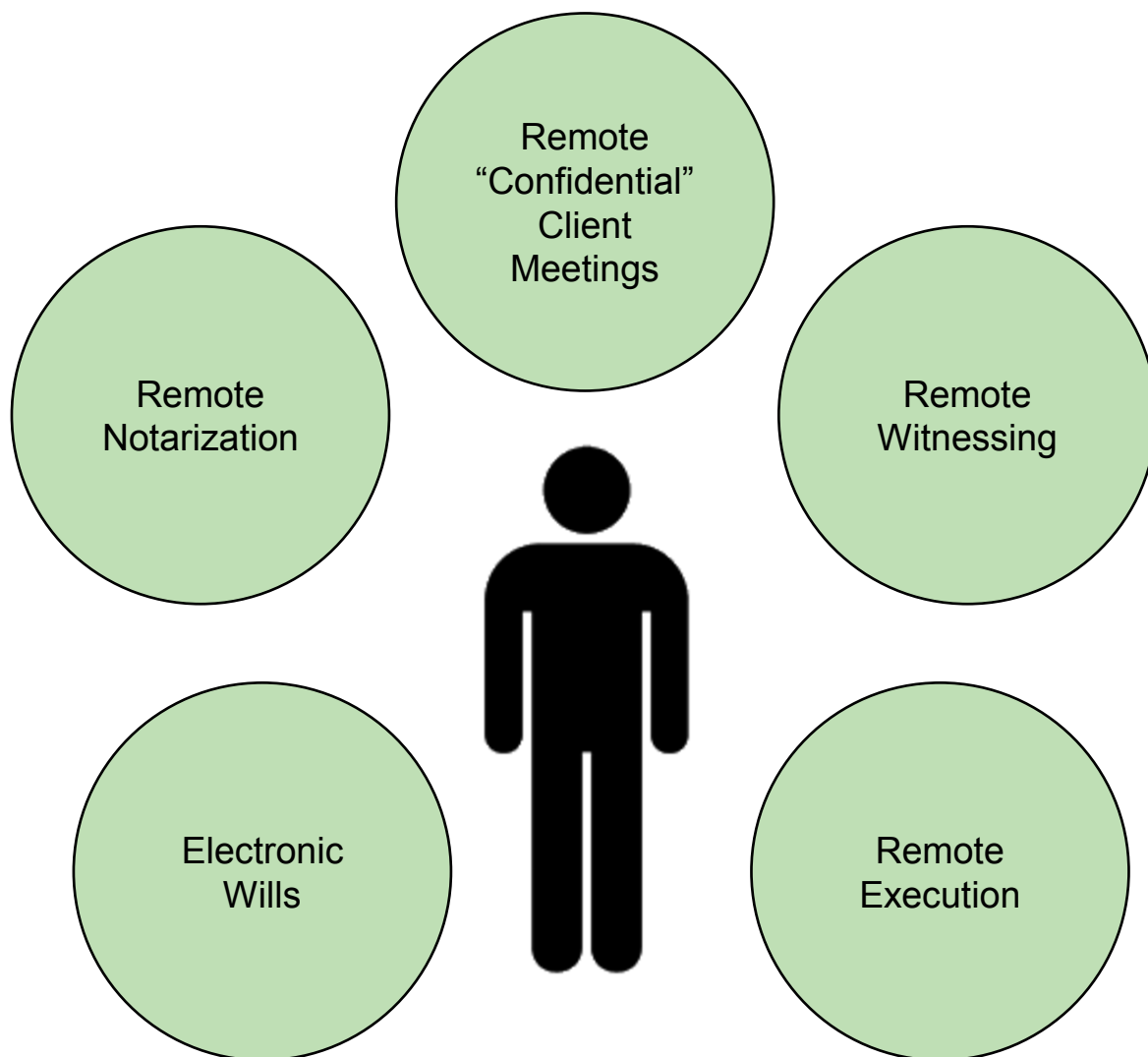
Annualized Return



Growth of \$1



Sources: Northern Trust Research, Bloomberg. Charts show the annualized compound return and growth of \$1 using daily return data on the S&P 500 Index over the past 30 years ending 03/20/2020 assuming the (0,5,10,20,30) best returning days are excluded from the sample.



Reviewing, Confirming or Amending

Wills & Revocable Trusts

- Asset values and formula funding provisions
- Fiduciary appointments & successors
- Co-trustee appointment today on revocable trust

Health Care Proxies & Living Wills

- Language re: intubation
- Appointments & successors

Durable Powers of Attorney

- Authorizing agent to act remotely

HIPAA releases

"Irrevocable" Trusts

- Turning grantor trust status off (or on)
- Non-judicial modifications or decanting
- Exercise of power by trust protector
- Exercise of powers of appointment



Preserving Capital or Increasing Cash Flow, As Needed...

■ CARES Act Options

- ◆ No 10% early withdrawal penalty up to \$100,000 from retirement accounts (incl. IRAs)
 - ▶ Income tax liability can be paid over a 3-year period
 - ▶ Option to “recontribute” funds within 3 years without contributions limits
- ◆ Increase in loans from qualified retirement accounts from \$50,000 to \$100,000
- ◆ No RMDs for 2020 for all employer plans and IRAs
 - ▶ Includes inherited IRAs
 - ▶ Individuals do NOT need to meet COVID-19 qualifying criteria

Qualifying individuals include those diagnosed with COVID-19, family members diagnosed, or experience adverse financial consequences as a result of COVID-19, including quarantines, layoffs, business closures, or child care responsibility issues.

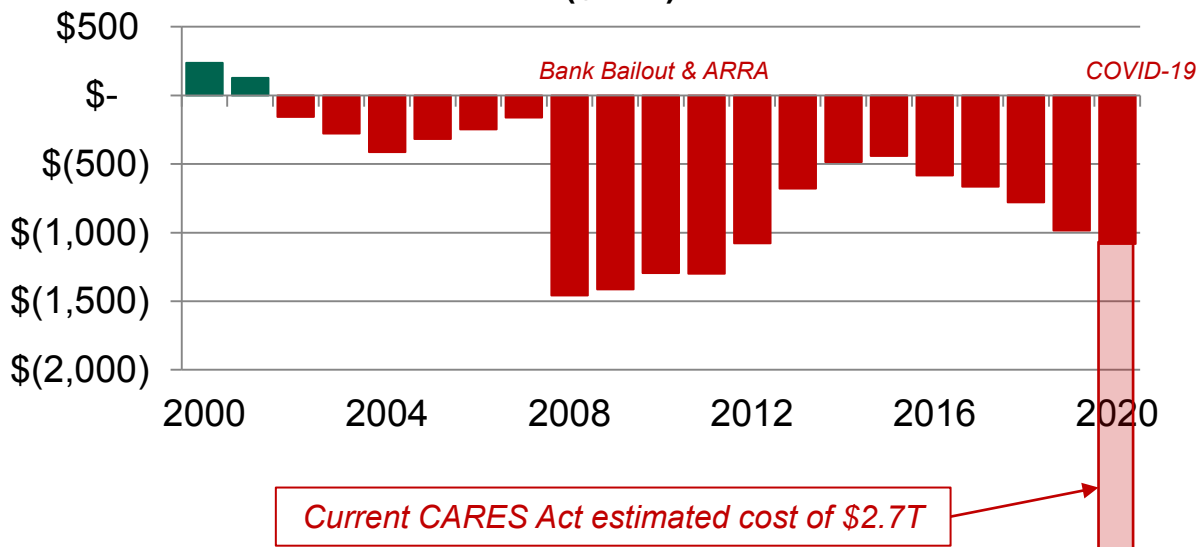
■ Other Options

- ◆ Securities-based lending instead of liquidation
 - ▶ Very low interest rates
 - ▶ Tax deductible to the extent of net investment income
- ◆ Trust Considerations
 - ▶ Loans to beneficiaries
 - ▶ Power to adjust from principal to income (or vice versa)
 - ▶ Unitrust conversion

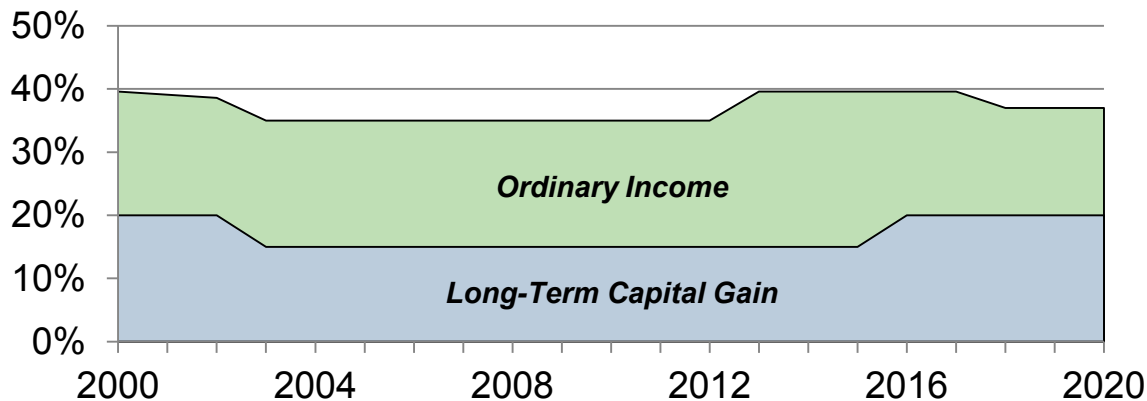


Likely Higher Tax Rates Tomorrow

**U.S. Fed. Govt. Budget Surplus/Deficit
(\$ Bil.)**



Highest Marginal Income Tax Rate

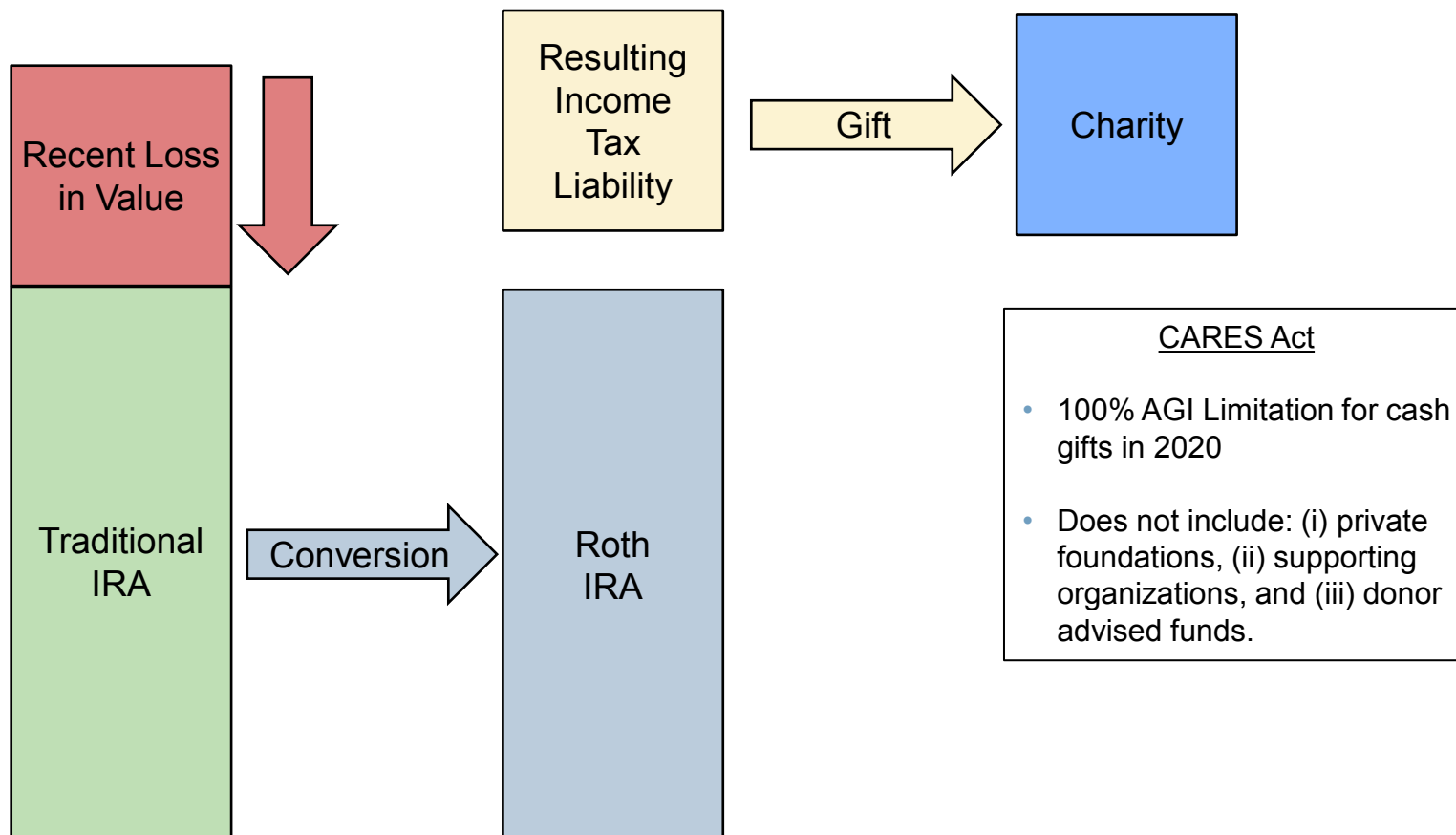


Source: Office of Management and Budget. Income tax rates do not include the 3.5% net investment income tax.



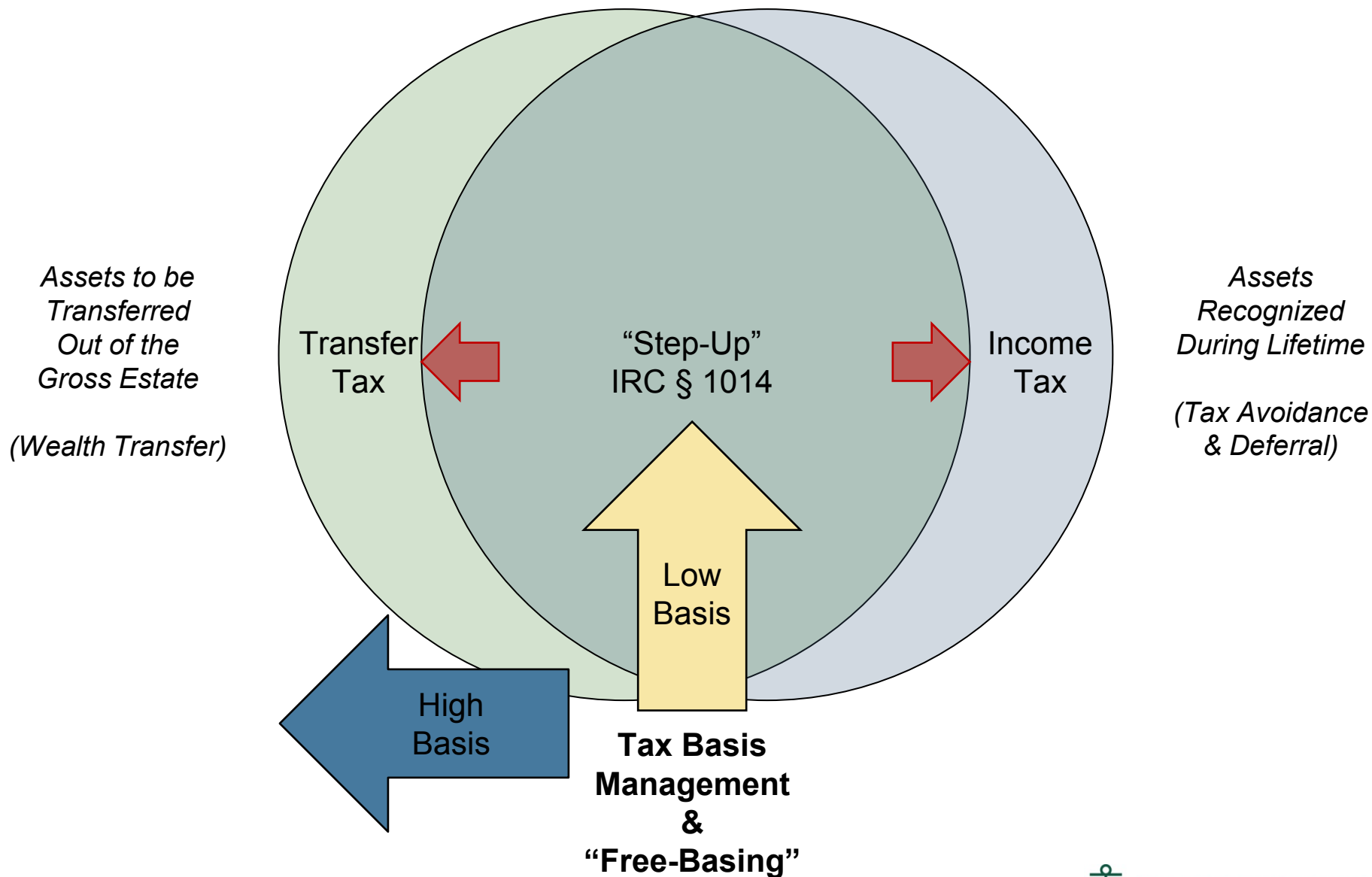
Roth Conversion Now and Charitable Giving Today

Out of the gross estate...



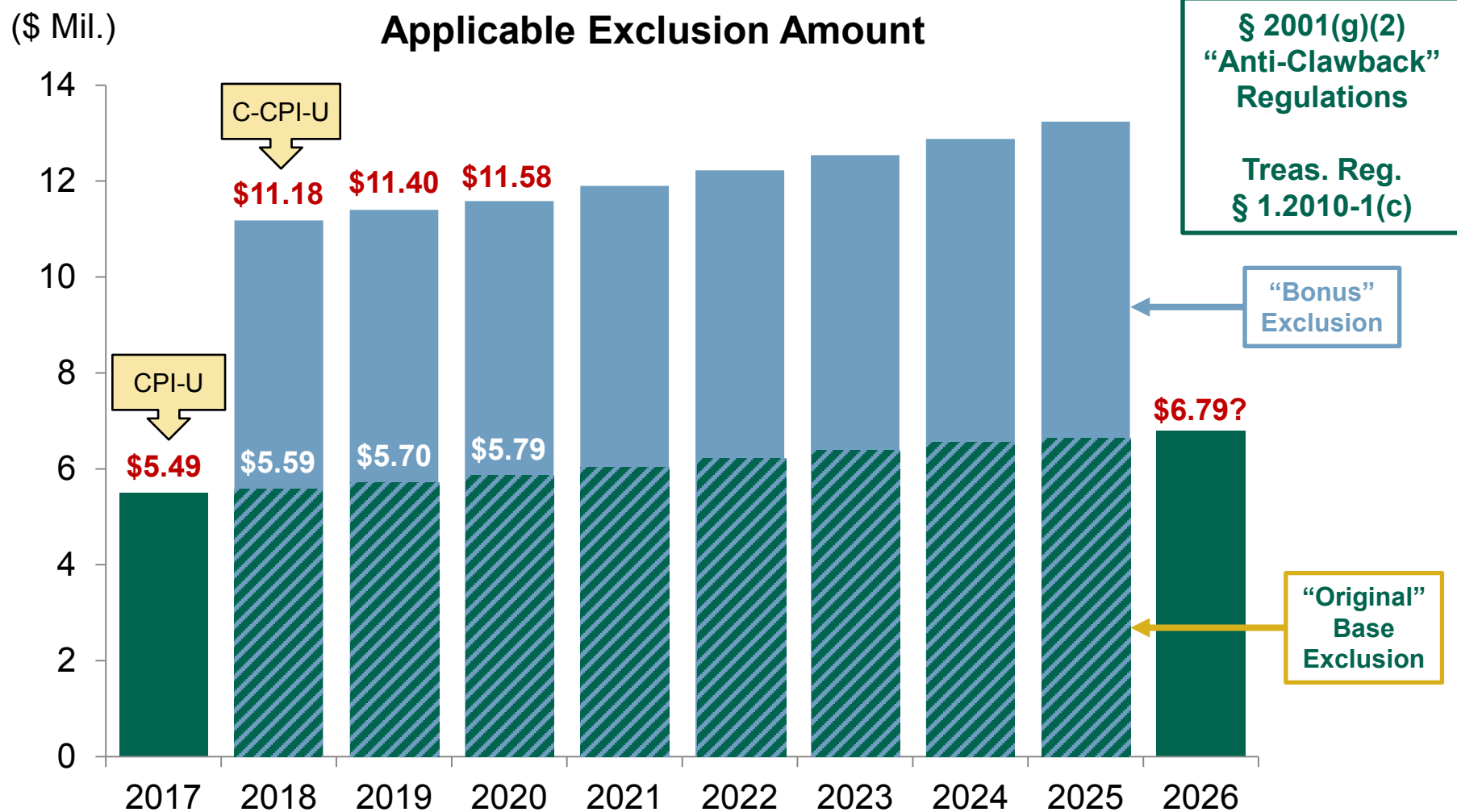


The Temporary TCJA Transfer Tax Landscape: Venn Diagram





2012 All Over Again?





To Gift or Not to Gift: That's the Question...

Up to Wealthy

\$0 to ~\$11.58 Mil.

- ❑ Limit taxable gifts
- ❑ Preserve Applicable Exclusion
- ❑ Take advantage of free “step-up” in basis
- ❑ Limit valuation discounts
- ❑ Transfers of wealth in excess of the Applicable Exclusion via “zeroed-out” techniques
- ❑ Transfer high basis assets to IDGTs with “swap” power

“Middle Class” Wealthy

~\$11.58 Mil. to ~\$40.0 Mil.

- ❑ Taxable gifts in excess of the “Original” Applicable Exclusion depend on whether taxpayer can afford to make such gift
- ❑ Careful consideration of “split-gift” election (or NOT) in certain years
- ❑ Spousal Lifetime Access Trusts
- ❑ Retained cash flow techniques (i.e., preferred partnership freezes)
- ❑ Trusts that provide maximum “flexibility”

Ultra-Wealthy

Above ~\$40.0 Mil.

- ❑ Large taxable gifts to use “Original” and “Bonus” Applicable Exclusion
- ❑ Transfer to IDGTs (with “swap” power)
- ❑ Valuation discount planning
- ❑ “Zeroed-out” techniques, leveraging taxable gifts (i.e., installment sale)
- ❑ “Free-basing” with marital deduction and estate reduction planning with surviving spouse

Consider:

Applicable Exclusion gifts of cash (or marketable securities), and
Exercise of “swap” power in the future.

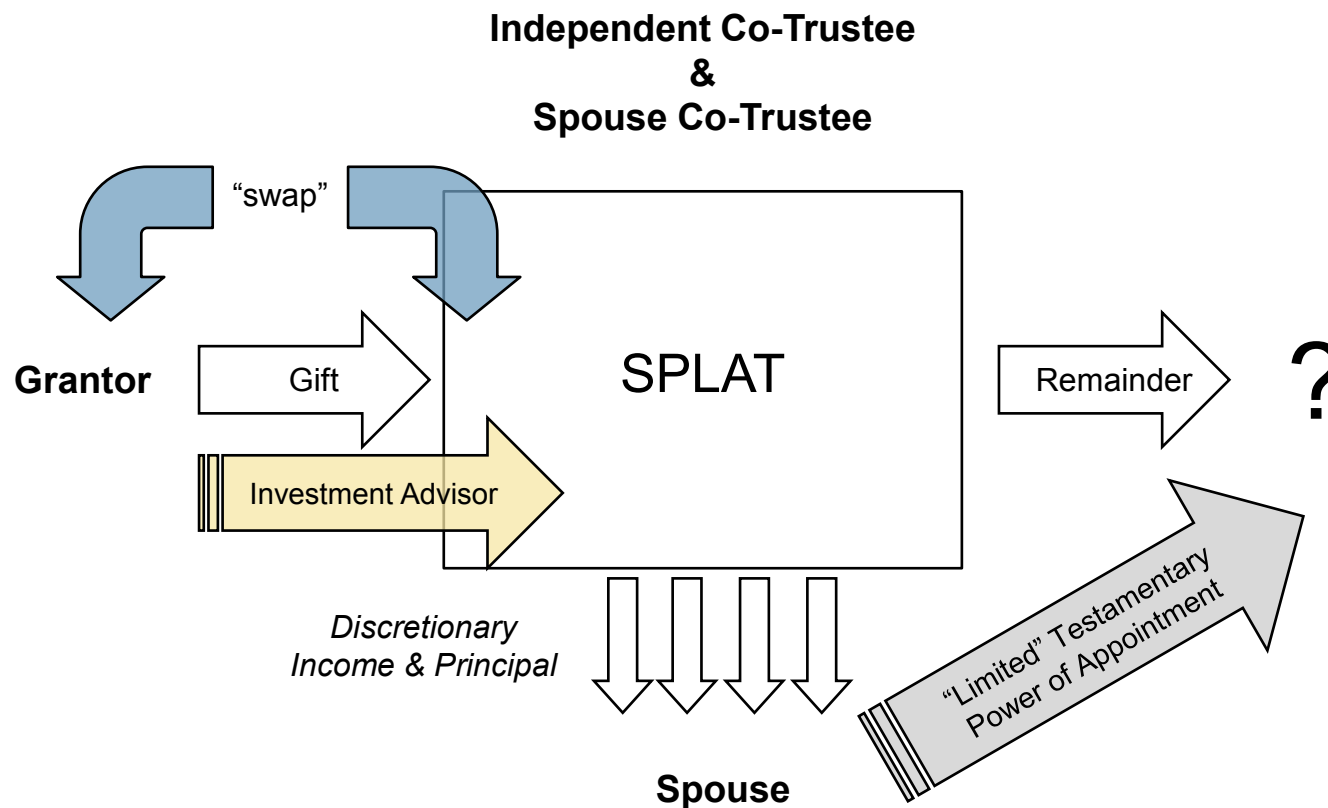




Spousal Lifetime Access Trusts, Grantor Trusts & Flexibility



Spousal Lifetime Access Trust





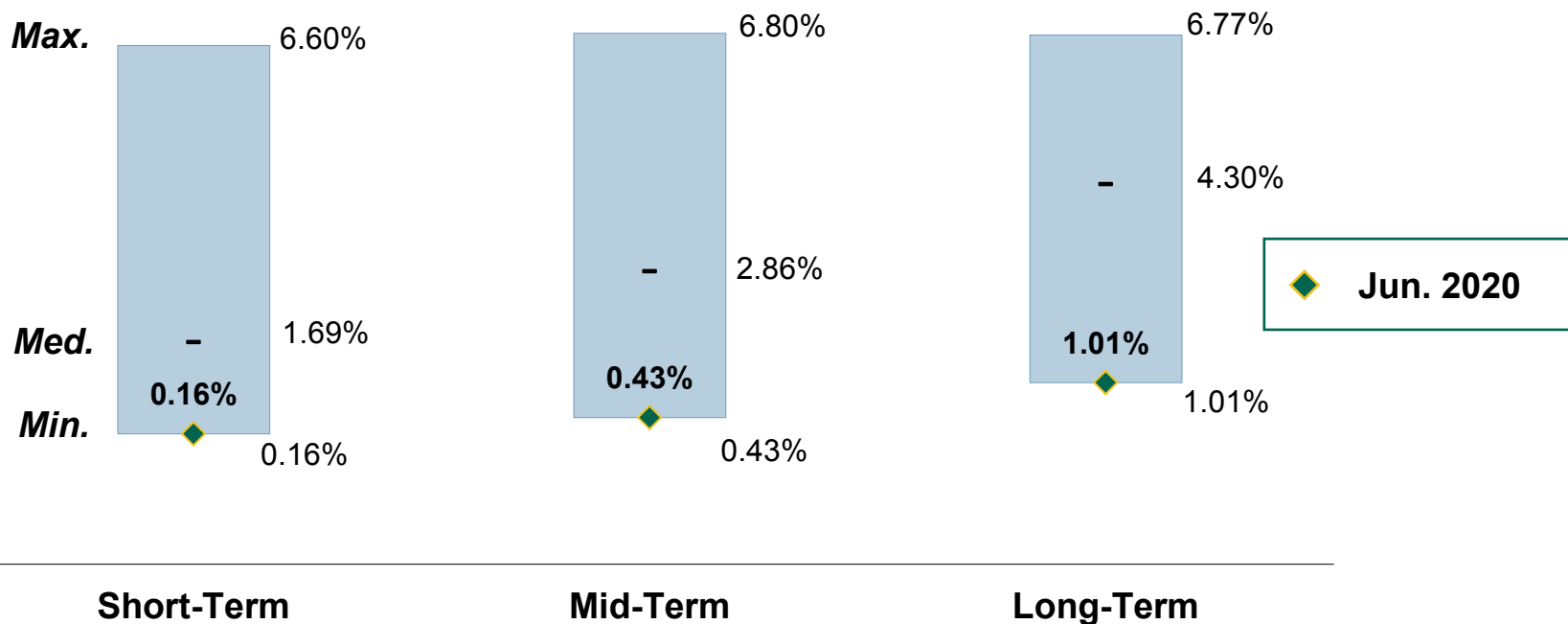
Intra-Family Loans & Sales to IDGTs



Long-Term AFRs Is At Historical Low

Applicable Federal Rates

Jan. 1998 – Jun. 2020



- Refinancing may require consideration.
- Consider prepaying debt and replace with new promissory note.
- Remember term of note should not be longer than life expectancy of holder.



The Valuation of Promissory Notes in the Future?

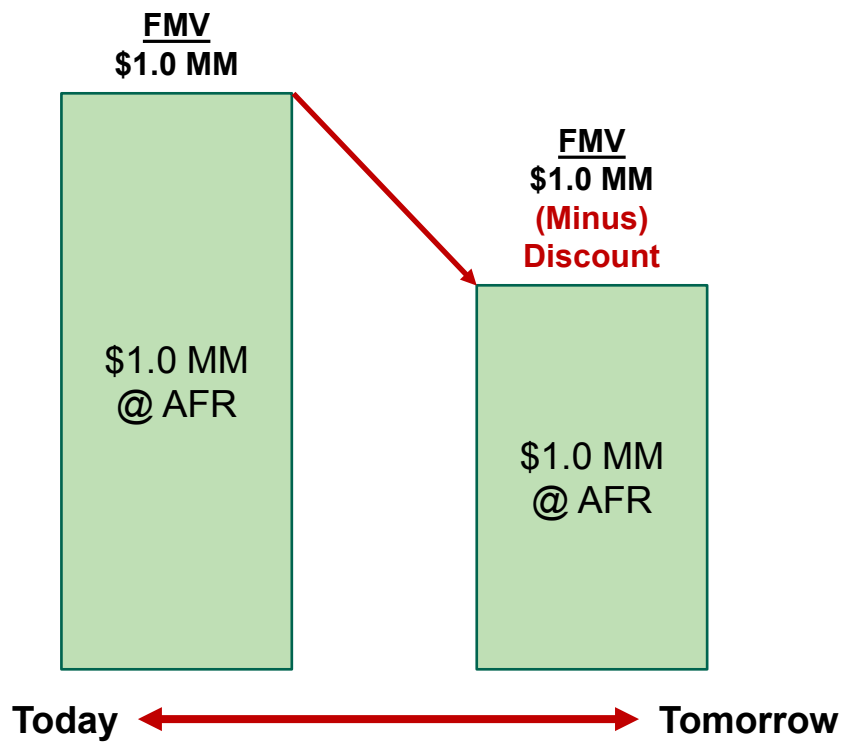
“In the case of an entity engaged in an active trade or business, at least 60 percent of whose value consists of the nonpassive assets of that trade or business, and to the extent that the liquidation proceeds are not attributable to passive assets within the meaning of section 6166(b)(9)(B), such proceeds may include such a note or other obligation if such note or other obligation is adequately secured, requires periodic payments on a non-deferred basis, is issued at market interest rates, and has a fair market value on the date of liquidation or redemption equal to the liquidation proceeds.” Prop. Treas. Reg. 25.2704-3(b)(iv).

■ Loans and Installment Sales Today

- ◆ Applicable federal rate (long-term, not short or mid-term);
- ◆ 10% (or less) equity;
- ◆ No prepayment penalty; and
- ◆ Adequate security not required.

■ Promissory Notes Will Need to Be:

- ◆ Adequately secured;
- ◆ Requires periodic payments on a non-deferred basis;
- ◆ Issued at market interest rates; and
- ◆ Has a fair market value equal to the liability.



***Long-Term GRATs
Back-Loaded Grantor CLATs
Deferred & Increasing Private Annuities***

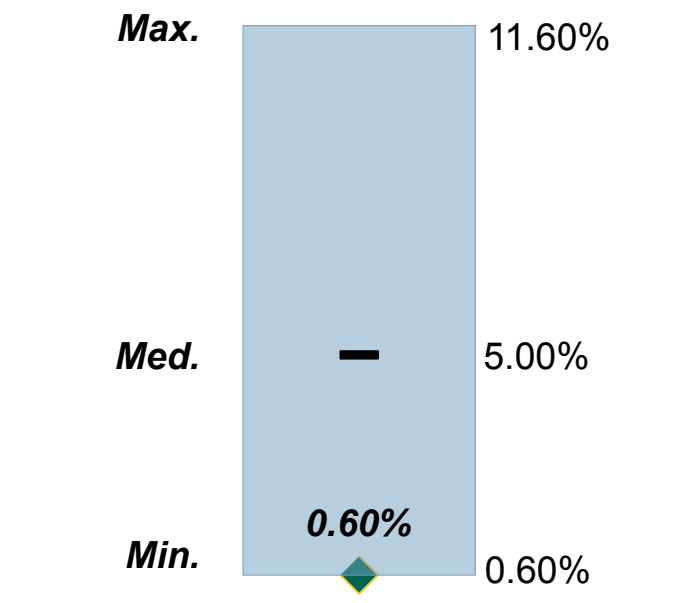


Historically Low 7520 Rate

Section 7520 Rate

(Since Inception)

Mar. 1989 – Jun. 2020



7520 Rate

June 2020



100 Years? 365 Years?

Estate Tax Inclusion is LESSER of:

- FMV of GRAT assets; or
- Amount of Principal to Pay Annuity in PERPETUITY

$$= \frac{\text{Annuity Payment}}{\text{7520 Rate at Death}}$$

100 Year GRAT

Annuity	\$ 133,273.05
7520 Rate	0.6%
Years	100
PV of Grantor's Retained Interest	\$ 10,000,000
Annuity Factor	75.0339257
Life Factor	0.450203554
Remainder Factor	0.549796446

7520 Rate at Death	\$ 20.2036-1(c)(2) Inclusion
1.0%	\$ 13,327,305
2.0%	\$ 6,663,652
3.0%	\$ 4,442,435
4.0%	\$ 3,331,826
5.0%	\$ 2,665,461
6.0%	\$ 2,221,217
7.0%	\$ 1,903,901

GRAT Asset Value	
Years	Annual Return 7%
5	\$ 13,259,099
10	\$ 17,830,153
15	\$ 24,241,294
20	\$ 33,233,250
25	\$ 45,844,934

365 Year GRAT

Annuity	\$ 67,617.18
7520 Rate	0.6%
Years	365
PV of Grantor's Retained Interest	\$ 10,000,000
Annuity Factor	147.8914141
Life Factor	0.887348485
Remainder Factor	0.112651515

7520 Rate at Death	\$ 20.2036-1(c)(2) Inclusion
1.0%	\$ 6,761,718
2.0%	\$ 3,380,859
3.0%	\$ 2,253,906
4.0%	\$ 1,690,429
5.0%	\$ 1,352,344
6.0%	\$ 1,126,953
7.0%	\$ 965,960

GRAT Asset Value	
Years	Annual Return 7%
5	\$ 13,636,669
10	\$ 18,737,284
15	\$ 25,891,162
20	\$ 35,924,845
25	\$ 49,997,605



What About Very Long-Term GRATs?

50 Year GRAT

Annuity	\$ 232,092.69
7520 Rate	0.6%
Years	50
PV of Grantor's Retained Interest	\$ 10,000,000
Annuity Factor	43.08623336
Life Factor	0.2585174
Remainder Factor	0.7414826

7520 Rate at Death	§ 20.2036-1(c)(2) Inclusion
1.0%	\$ 23,209,269
2.0%	\$ 11,604,635
3.0%	\$ 7,736,423
4.0%	\$ 5,802,317
5.0%	\$ 4,641,854
6.0%	\$ 3,868,212
7.0%	\$ 3,315,610

GRAT Asset Value	
Years	Annual Return 7%
5	\$ 12,690,813
10	\$ 16,464,817
15	\$ 21,758,053
20	\$ 29,182,090
25	\$ 39,594,687

60 Year GRAT

Annuity	\$ 198,956.95
7520 Rate	0.6%
Years	60
PV of Grantor's Retained Interest	\$ 10,000,000
Annuity Factor	50.26213003
Life Factor	0.30157278
Remainder Factor	0.69842722

7520 Rate at Death	§ 20.2036-1(c)(2) Inclusion
1.0%	\$ 19,895,695
2.0%	\$ 9,947,847
3.0%	\$ 6,631,898
4.0%	\$ 4,973,924
5.0%	\$ 3,979,139
6.0%	\$ 3,315,949
7.0%	\$ 2,842,242

GRAT Asset Value	
Years	Annual Return 7%
5	\$ 12,881,368
10	\$ 16,922,635
15	\$ 22,590,722
20	\$ 30,540,507
25	\$ 41,690,491

70 Year GRAT

Annuity	\$ 175,372.92
7520 Rate	0.6%
Years	70
PV of Grantor's Retained Interest	\$ 10,000,000
Annuity Factor	57.02134671
Life Factor	0.34212808
Remainder Factor	0.65787192

7520 Rate at Death	§ 20.2036-1(c)(2) Inclusion
1.0%	\$ 17,537,292
2.0%	\$ 8,768,646
3.0%	\$ 5,845,764
4.0%	\$ 4,384,323
5.0%	\$ 3,507,458
6.0%	\$ 2,922,882
7.0%	\$ 2,505,327

GRAT Asset Value	
Years	Annual Return 7%
5	\$ 13,016,993
10	\$ 17,248,483
15	\$ 23,183,365
20	\$ 31,507,345
25	\$ 43,182,158



Long-Term GRATs with a Bonus Exclusion Gift

\$10 Mil. Contribution - \$4.21 Mil. Retained Annuity = \$5.79 Mil. Taxable Gift

50 Year GRAT

Annuity	\$ 97,711.02
7520 Rate	0.6%
Years	50
PV of Grantor's Retained Interest	\$ 4,210,000
Annuity Factor	43.08623336
Life Factor	0.2585174
Remainder Factor	0.7414826

7520 Rate at Death	\$ 20.2036-1(c)(2) Inclusion
1.0%	\$ 9,771,102
2.0%	\$ 4,885,551
3.0%	\$ 3,257,034
4.0%	\$ 2,442,776
5.0%	\$ 1,954,220
6.0%	\$ 1,628,517
7.0%	\$ 1,395,872

GRAT Asset Value	
Years	Annual Return 7%
5	\$ 13,463,607
10	\$ 18,321,494
15	\$ 25,134,933
20	\$ 34,691,133
25	\$ 48,094,198

60 Year GRAT

Annuity	\$ 83,760.88
7520 Rate	0.6%
Years	60
PV of Grantor's Retained Interest	\$ 4,210,000
Annuity Factor	50.26213003
Life Factor	0.30157278
Remainder Factor	0.69842722

7520 Rate at Death	\$ 20.2036-1(c)(2) Inclusion
1.0%	\$ 8,376,088
2.0%	\$ 4,188,044
3.0%	\$ 2,792,029
4.0%	\$ 2,094,022
5.0%	\$ 1,675,218
6.0%	\$ 1,396,015
7.0%	\$ 1,196,584

GRAT Asset Value	
Years	Annual Return 7%
5	\$ 13,543,830
10	\$ 18,514,236
15	\$ 25,485,487
20	\$ 35,263,026
25	\$ 48,976,532

70 Year GRAT

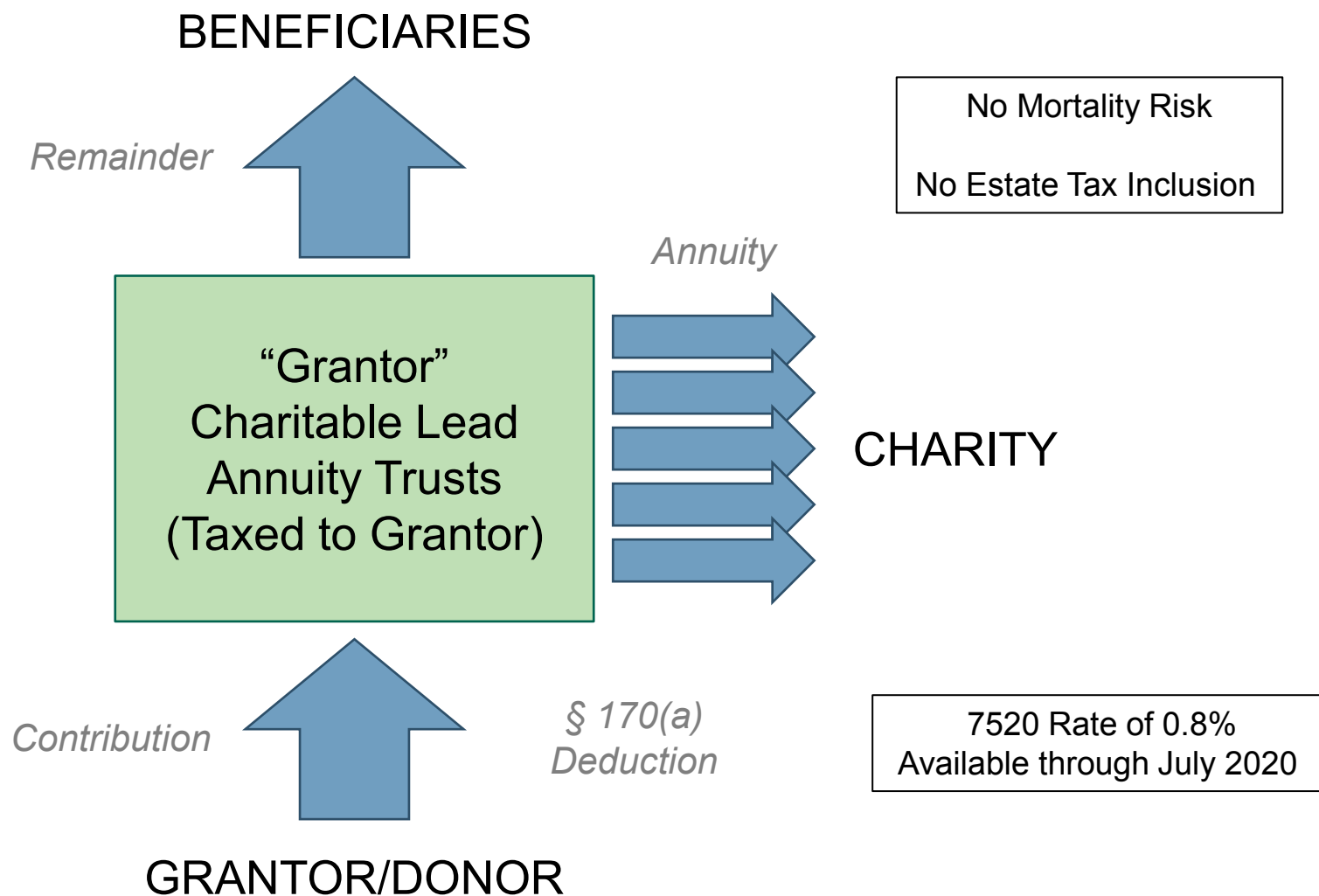
Annuity	\$ 73,832.00
7520 Rate	0.6%
Years	70
PV of Grantor's Retained Interest	\$ 4,210,000
Annuity Factor	57.02134671
Life Factor	0.34212808
Remainder Factor	0.65787192

7520 Rate at Death	\$ 20.2036-1(c)(2) Inclusion
1.0%	\$ 7,383,200
2.0%	\$ 3,691,600
3.0%	\$ 2,461,067
4.0%	\$ 1,845,800
5.0%	\$ 1,476,640
6.0%	\$ 1,230,533
7.0%	\$ 1,054,743

GRAT Asset Value	
Years	Annual Return 7%
5	\$ 13,600,929
10	\$ 18,651,418
15	\$ 25,734,989
20	\$ 35,670,065
25	\$ 49,604,524



“Intentionally Defective” Grantor Charitable Lead Trusts





- IRS Forms for Charitable Lead Trusts
- Guaranteed Annuity
 - ◆ Determinable amount
 - ◆ Paid periodically
 - ◆ Not less than annually
- Payment Requirements
 - ◆ Not subject to any minimum or maximum payout
 - ◆ May provide for an annuity amount that is
 - ▶ Fixed dollar
 - ▶ Increases during the annuity period
 - ▶ Provided that the value of the annuity is ascertainable at the time the trust is funded





Possible Guaranteed Annuities (\$10 Mil. for 20 Yrs. @ 0.6%)

Year	Level	120%	150%	"Shark-Fin"
1	\$ 532,097	\$ 58,762	\$ 1,675	\$ 1,000
2	\$ 532,097	\$ 70,514	\$ 2,512	\$ 1,000
3	\$ 532,097	\$ 84,617	\$ 3,769	\$ 1,000
4	\$ 532,097	\$ 101,541	\$ 5,653	\$ 1,000
5	\$ 532,097	\$ 121,849	\$ 8,480	\$ 1,000
6	\$ 532,097	\$ 146,218	\$ 12,719	\$ 1,000
7	\$ 532,097	\$ 175,462	\$ 19,079	\$ 1,000
8	\$ 532,097	\$ 210,554	\$ 28,619	\$ 1,000
9	\$ 532,097	\$ 252,665	\$ 42,928	\$ 1,000
10	\$ 532,097	\$ 303,198	\$ 64,392	\$ 1,000
11	\$ 532,097	\$ 363,838	\$ 96,588	\$ 1,000
12	\$ 532,097	\$ 436,606	\$ 144,881	\$ 1,000
13	\$ 532,097	\$ 523,927	\$ 217,322	\$ 1,000
14	\$ 532,097	\$ 628,712	\$ 325,983	\$ 1,000
15	\$ 532,097	\$ 754,455	\$ 488,975	\$ 1,000
16	\$ 532,097	\$ 905,346	\$ 733,462	\$ 1,000
17	\$ 532,097	\$ 1,086,415	\$ 1,100,193	\$ 1,000
18	\$ 532,097	\$ 1,303,698	\$ 1,650,289	\$ 1,000
19	\$ 532,097	\$ 1,564,437	\$ 2,475,434	\$ 1,000
20	\$ 532,097	\$ 1,877,325	\$ 3,713,150	\$ 11,250,744
Total	\$ 10,641,931	\$ 10,970,140	\$ 11,136,101	\$ 11,269,744

*Present
Value
of
\$10 Mil.*

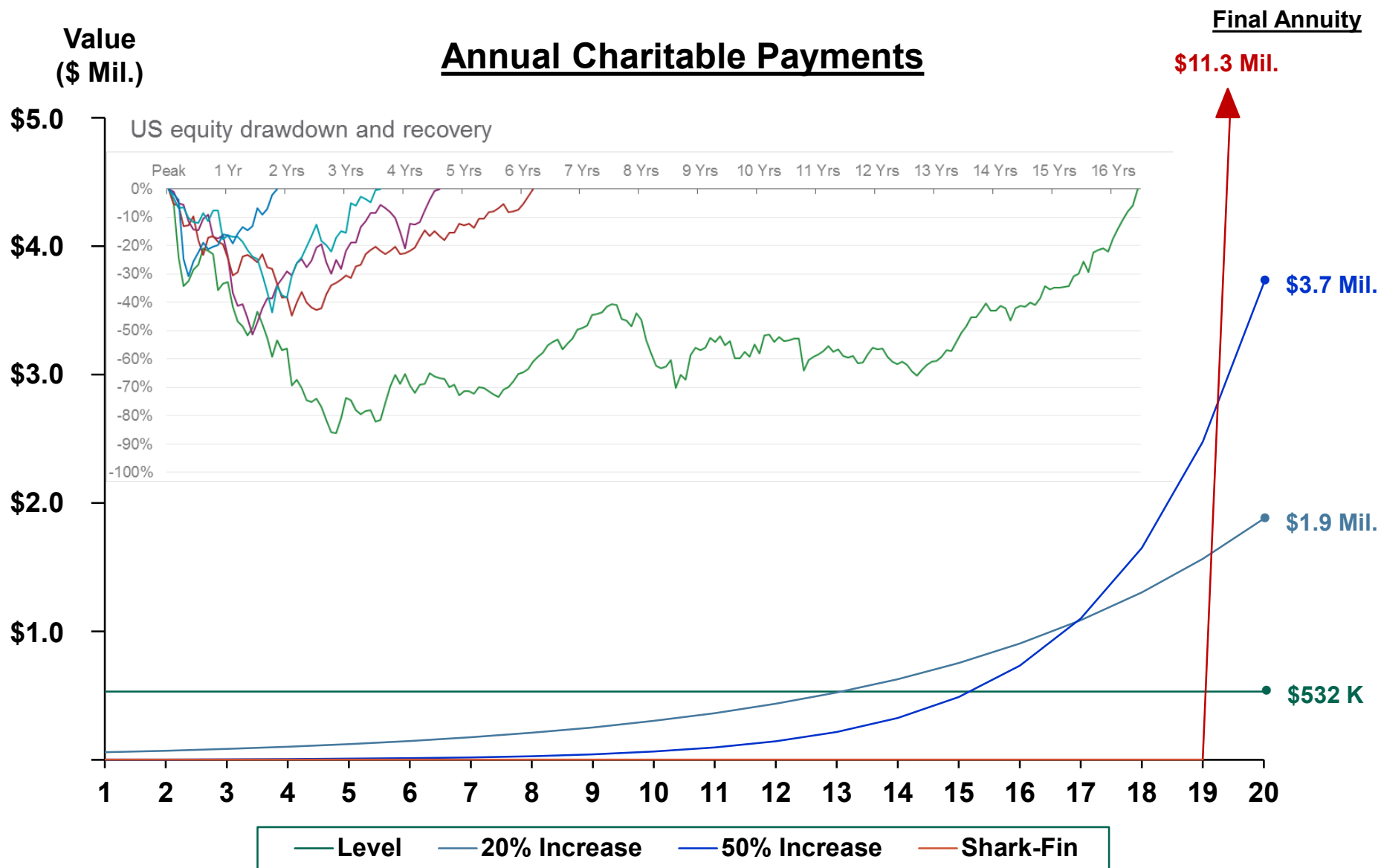
*(Gift or Estate
Tax Deduction)*

*(Income Tax
Deduction if
Grantor CLAT)*





Back-Loading: Allows for Volatility and More Wealth Transfer





Return Will Determine Value to Children at End of 20 Years

Ending Remainder Value to Children (\$10 Mil. Contribution)

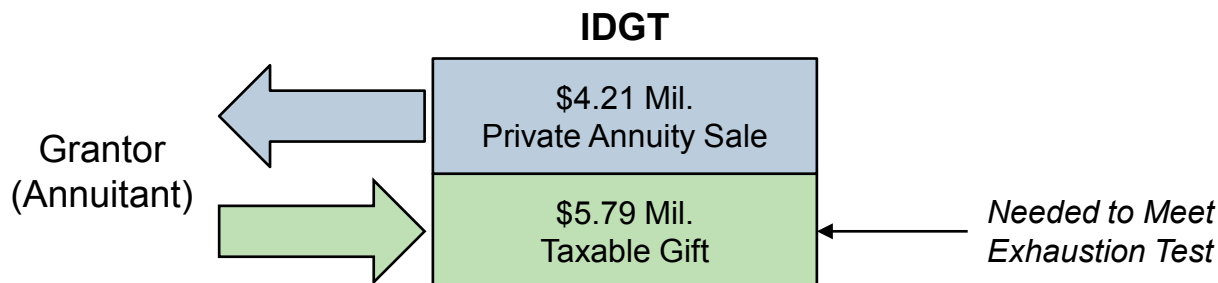
Return	Level	20% Increase	50% Increase	Shark-Fin
3%	\$ 3,763,478	\$ 5,433,705	\$ 6,217,069	\$ 6,784,498
5%	\$ 8,938,696	\$ 12,553,797	\$ 14,165,685	\$ 15,250,167
7%	\$ 16,883,284	\$ 23,116,846	\$ 25,759,068	\$ 27,406,105

Aggregate Amount Paid to Charity Over Term

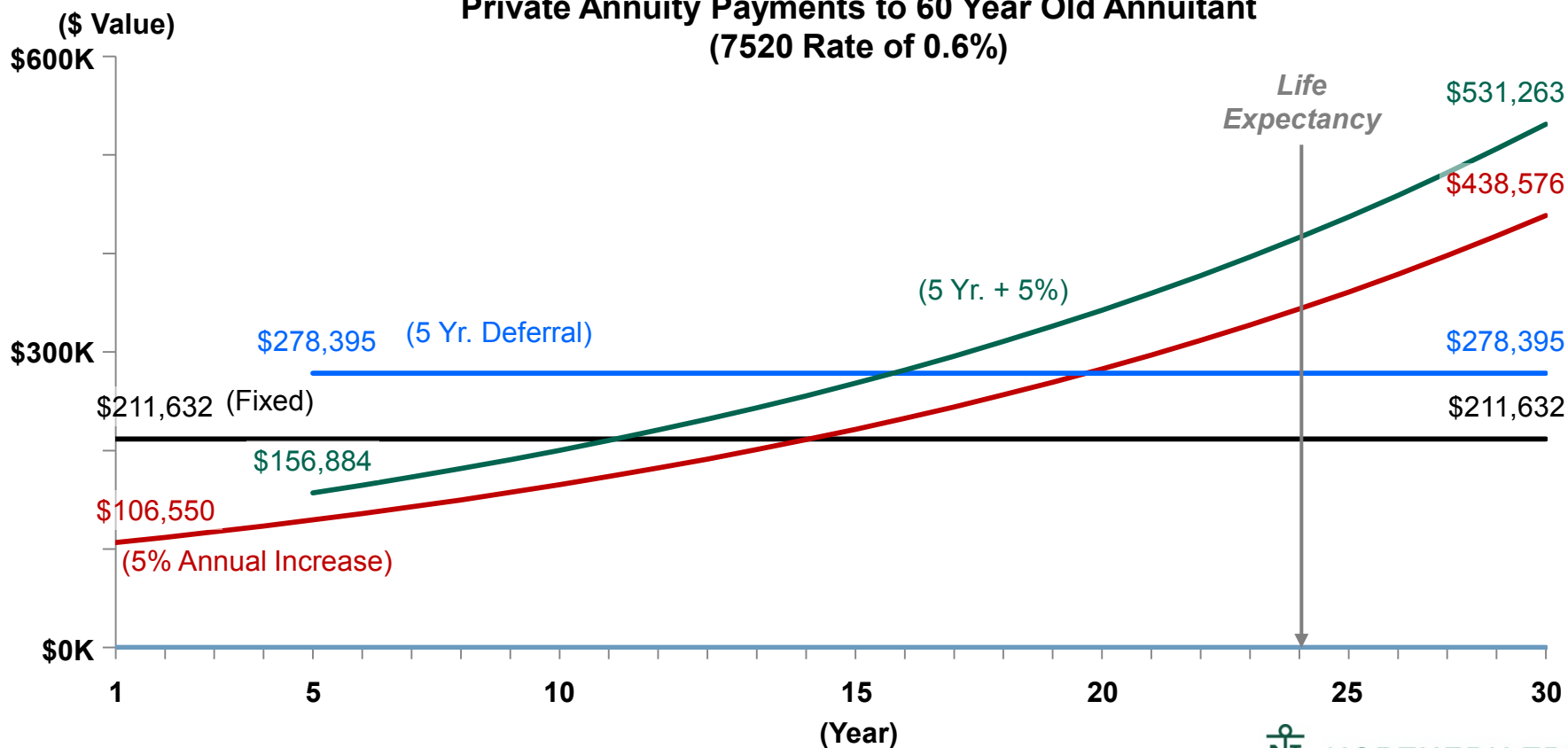
	Level	20% Increase	50% Increase	Shark-Fin
Charity	\$ 10,641,931	\$ 10,970,140	\$ 11,136,101	\$ 11,269,744



Private Annuities



**Private Annuity Payments to 60 Year Old Annuitant
(7520 Rate of 0.6%)**

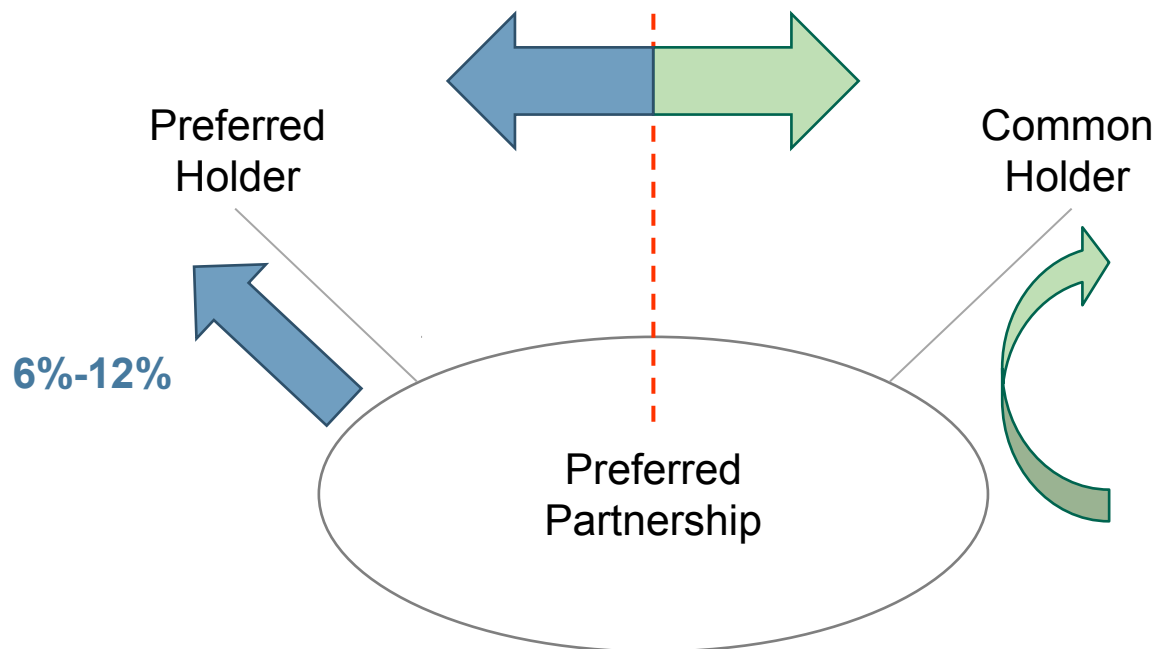




Preferred Partnerships: Qualified or Non-Qualified



Preferred & Common: Retain or Transfer?

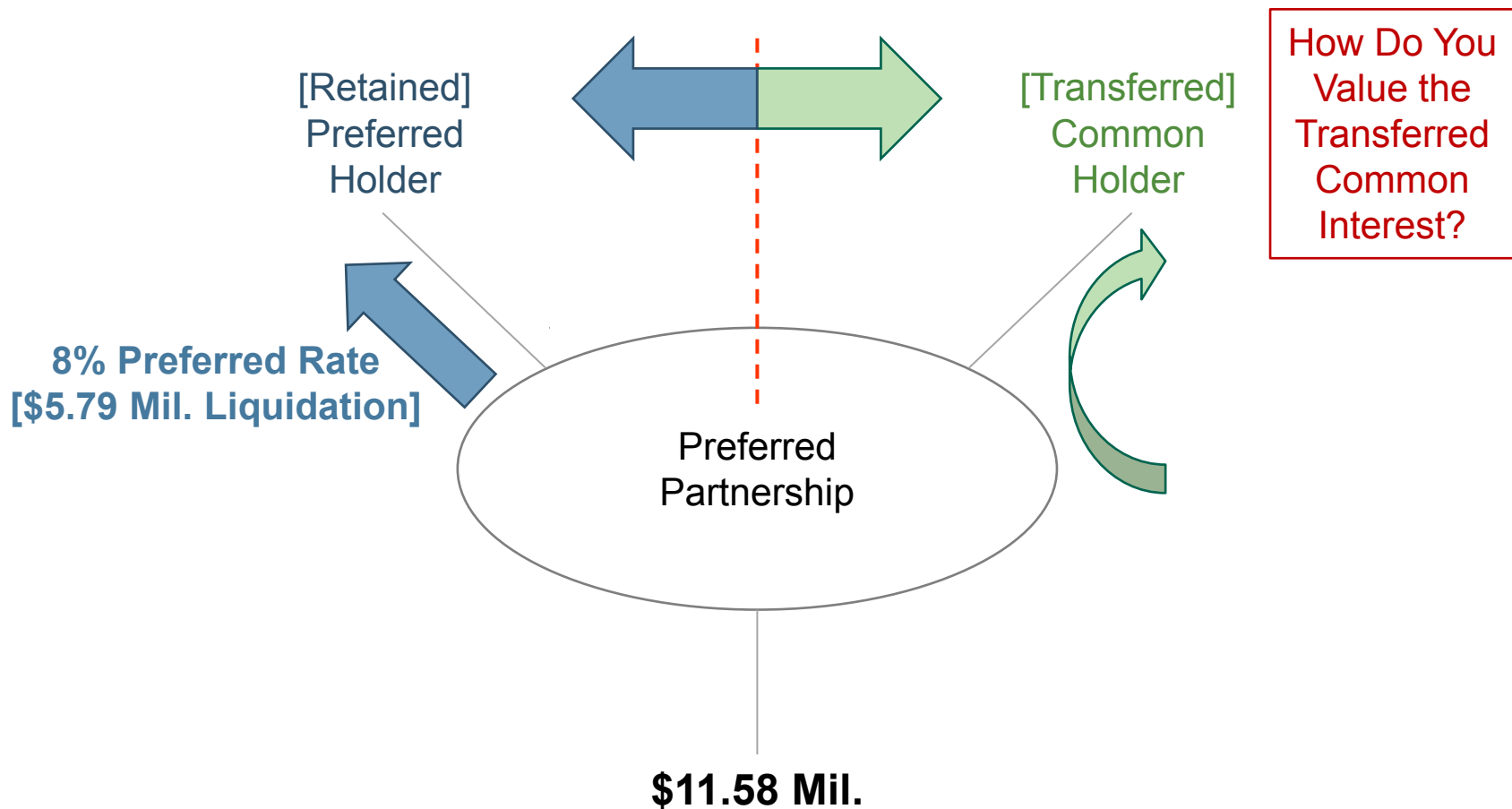


- Fixed Liquidation Value
- Annual Distribution at Fixed Rate/Amount
- Tax Items Preferentially Allocated
- Retain (Traditional), § 2701 Applies
- Transfer (Reverse), Normal Gift Tax Rules

- All Value in Excess of Preferred
- No Fixed Annual Distribution
- Residual Tax Items
- If Retain, Normal Gift Tax Rules
- If Transfer, § 2701 Applies



"Forward Freeze" Preferred Partnership Transaction





Forward Freeze: Subtraction Method (Valuing Common Interest)

■ Step 1: Determine

- ◆ Value of all family-held interests

■ Step 2: Subtract

- ◆ Value of senior equity interests

■ Step 3: Allocate

- ◆ Among the transferred interests

■ Step 4: Determine

- ◆ Value of the gift

Section 2701

Not liquidation value
No minority interest discount

Zero OR
Value of
“Qualified Payment” Interest

Minority interest discount
Lack of marketability discount
Subordination discount

Qualified Payment
Annual
Cumulative
Fixed Rate

Rev. Rul. 83-120

No ability to
inflate value above
liquidation



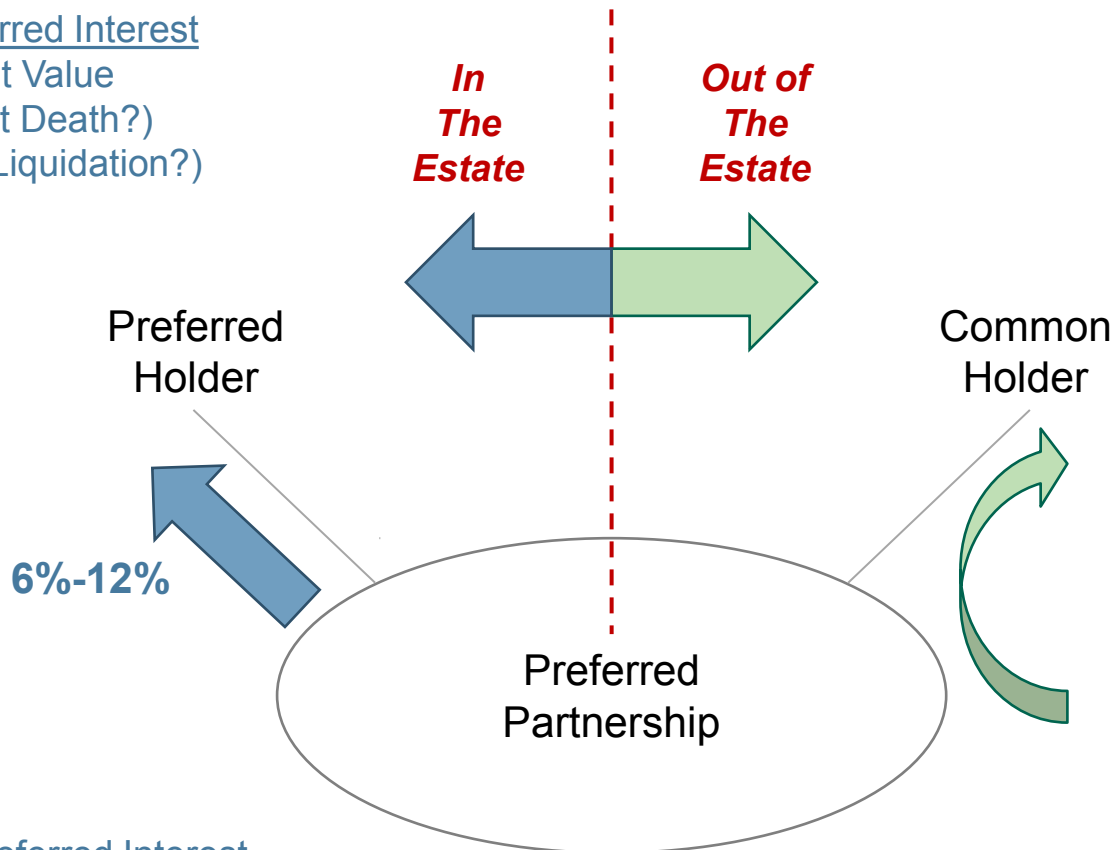


Retain Preferred/Transfer Common: Qualified or Non-Qualified

Estate Tax

Qualified Preferred Interest

Fair Market Value
(Liquidated at Death?)
(Cost-of-Living Liquidation?)



Non-Qualified Preferred Interest

Fair Market Value (Liquidated?)
less
Reg. § 25.2701-5(a)(3) Adjustment

Gift Tax

Common Interest

Family Interests
less
Qualified Interest
less
Discounts

Common Interest

Family Interests
less
Zero





Maximizing the “Step-Up” in Basis



Some Assets Benefit from “Step-Up”—Some Do Not

“Step-Up” Important
[Higher Valuation]



Asset Type

Creator-Owned Copyrights, Trademarks, Patents & Artwork

“Negative Basis” Commercial Real Property LPs

“Bonus Depreciation” Qualified Property under § 168(k)

Oil & Gas Investments

Artwork, Gold & Other “Collectibles”

Low Basis Stock

Roth IRA Assets

Qualified Small Business Stock (QSBS)

High Basis Stock

Fixed Income

Cash

Passive Foreign Investment Company (PFIC) Shares

Stock at a Loss

Qualified Opportunity Zone (QOZ) Investments

Traditional IRA & Qualified Plan Assets

Tax Characteristic

Ordinary Transforms to Long-Term

Recapture & >100% Long-Term

§ 1245 Recapture

§ 1245 Recapture

28% Long-Term

20% Long-Term

Tax Free & No Surcharge

§ 1202 Gain [50, 60, 75 or 100%] Exclusion

Minimal Gain

Typically Minimal Gain

Basis = Face Value

No “Step-Up”

Capital Loss Erased

Converts to IRD

100% IRD

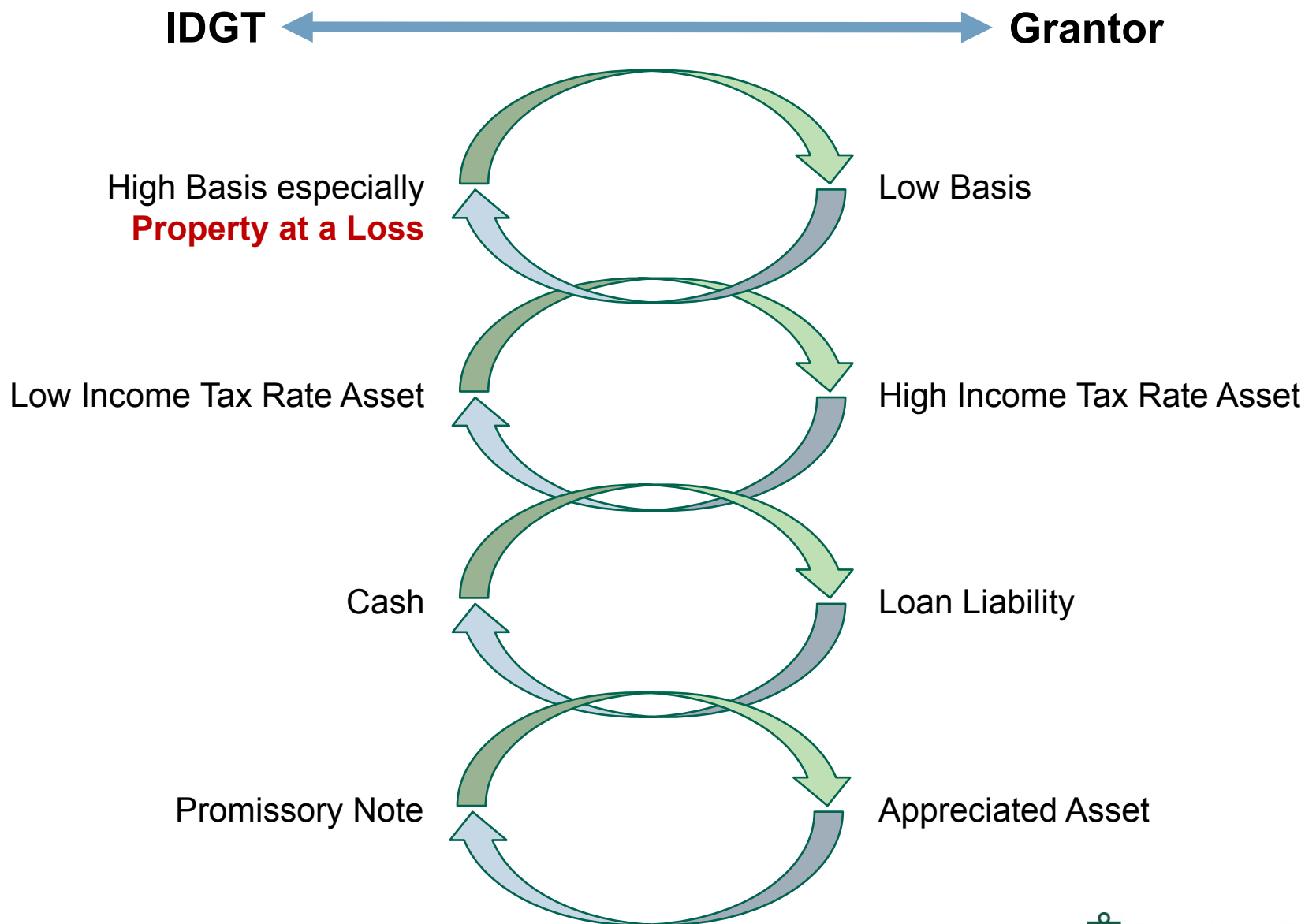
“Step-Up” not Important
[Lower Valuation]



NORTHERN TRUST



Tax Basis Management Basics: Grantor Trust Swapping?

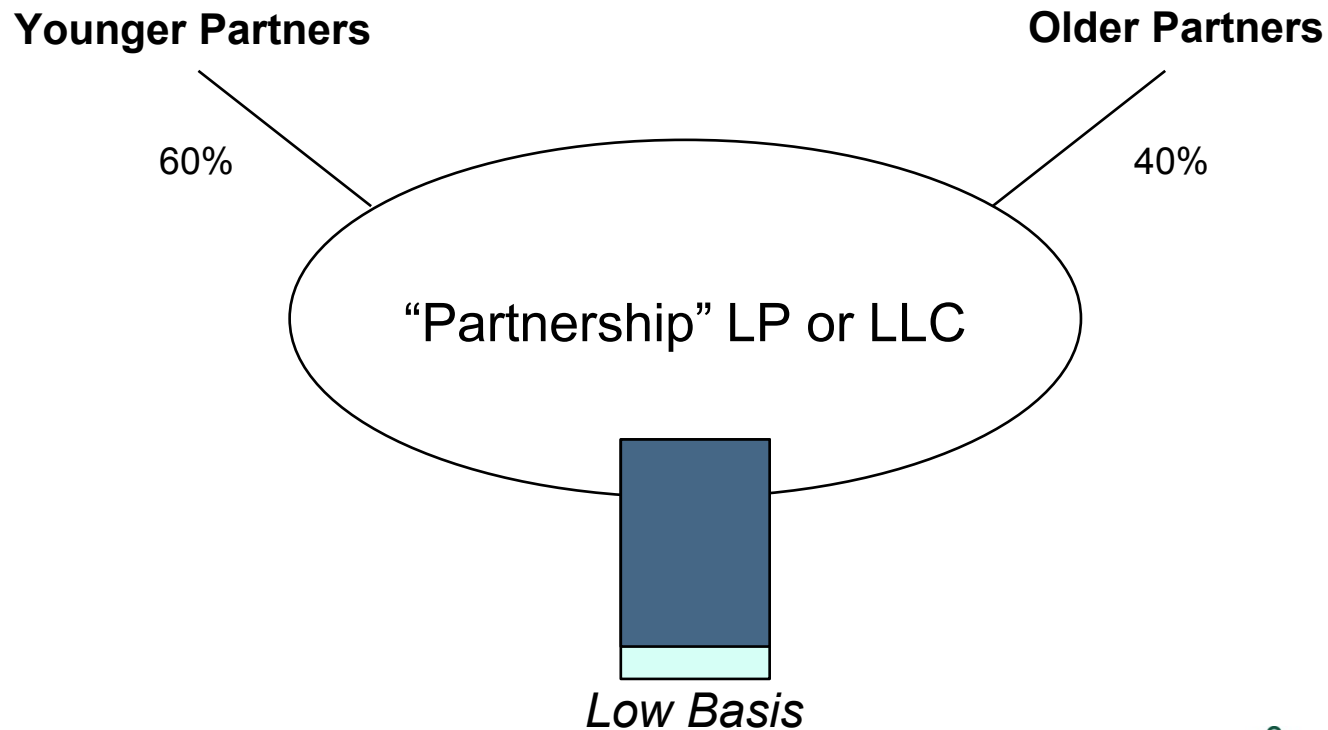




Eliminating Valuation Discounts On Pre-Existing FLP Interests Included in the Gross Estate



Eliminating Valuation Discounts on Pre-Existing FLPs





Eliminating Valuation Discounts on Pre-Existing FLPs

Younger Partners

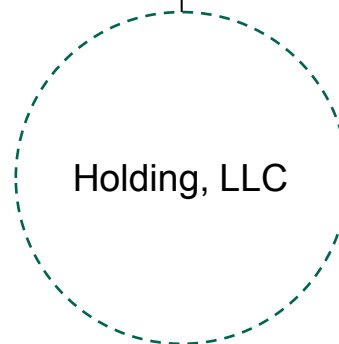
100%



Holding, LLC

Older Partners

100%

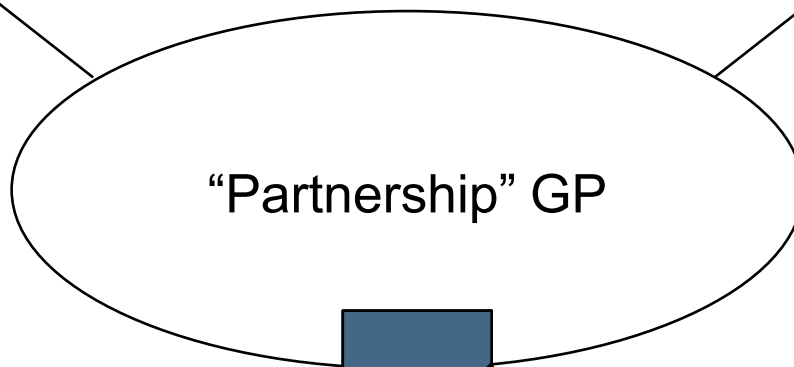


Holding, LLC

Disregarded Entities

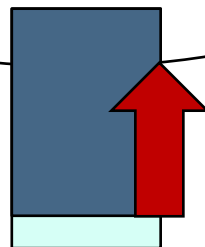
60%

40%



"Partnership" GP

*"Convert" to
General Partnership*



Low Basis

**Section
754
Election**

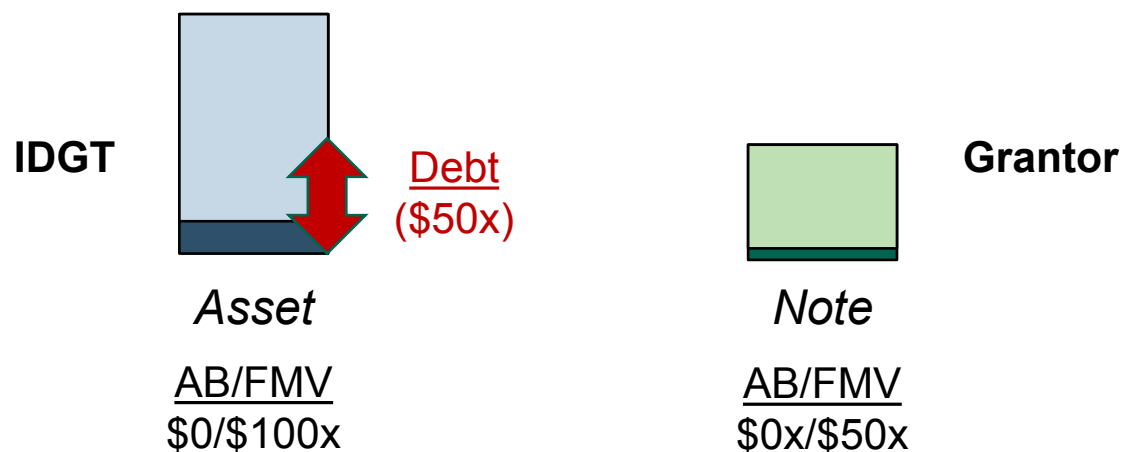


*Eliminating Outstanding Installment Notes,
Avoiding Gain At Death, and
Getting A “Step-Up” On The IDGT Property*





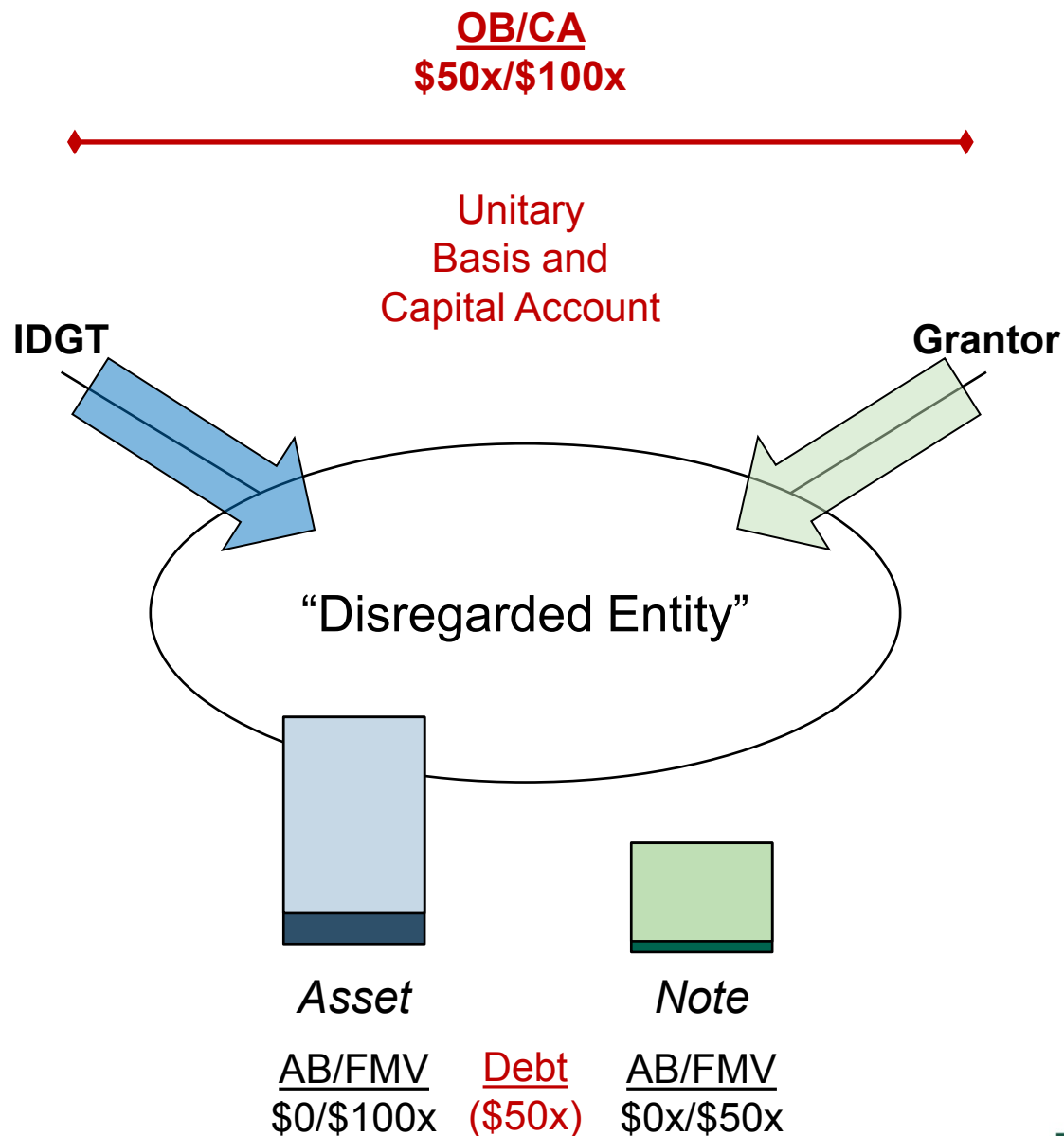
Installment Sale to IDGT and Outstanding Note



***Potential \$50x Taxable Gain
Upon Conversion of
Grantor Trust to Non-Grantor Trust***

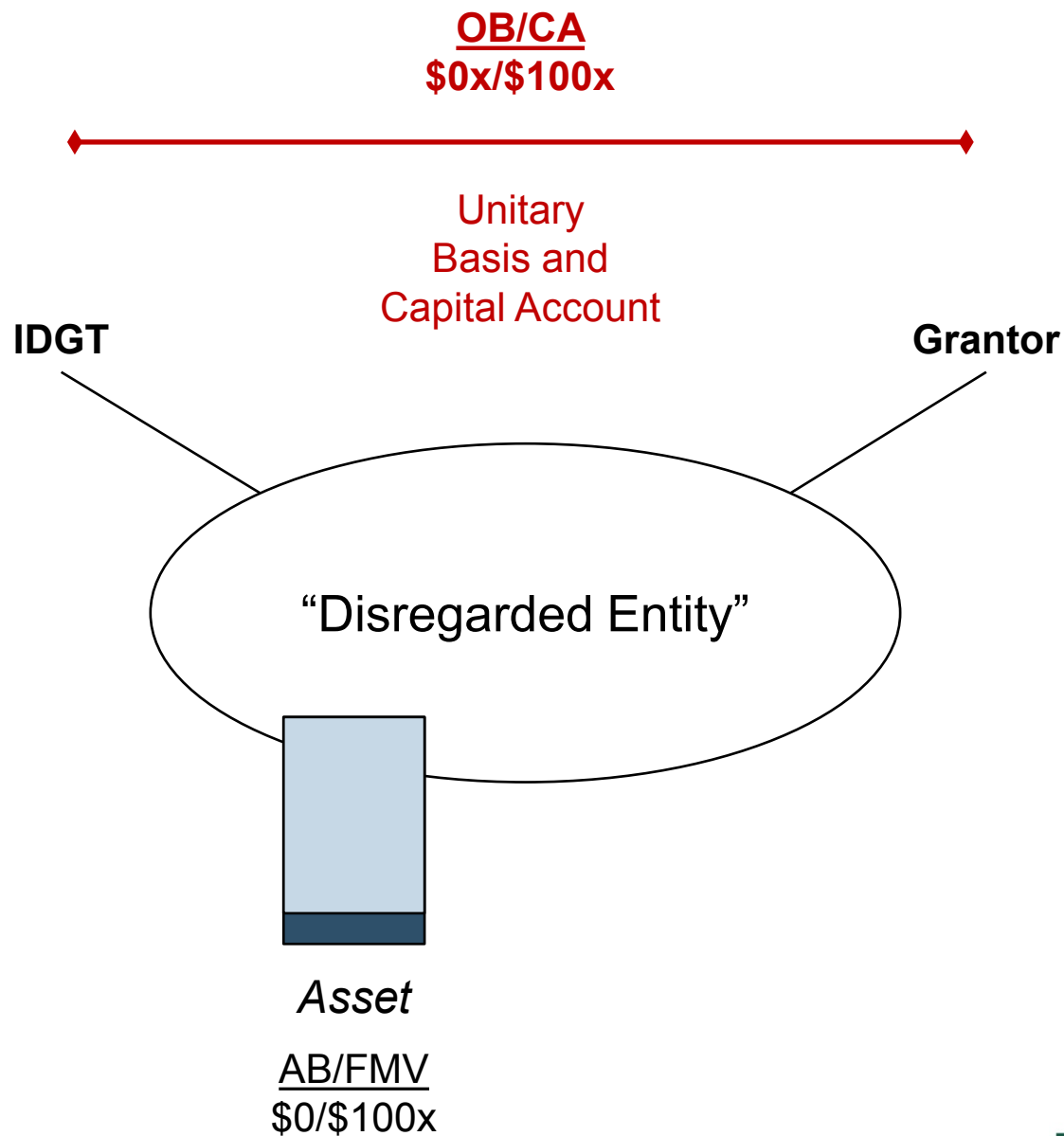


Contribution to Disregarded Entity



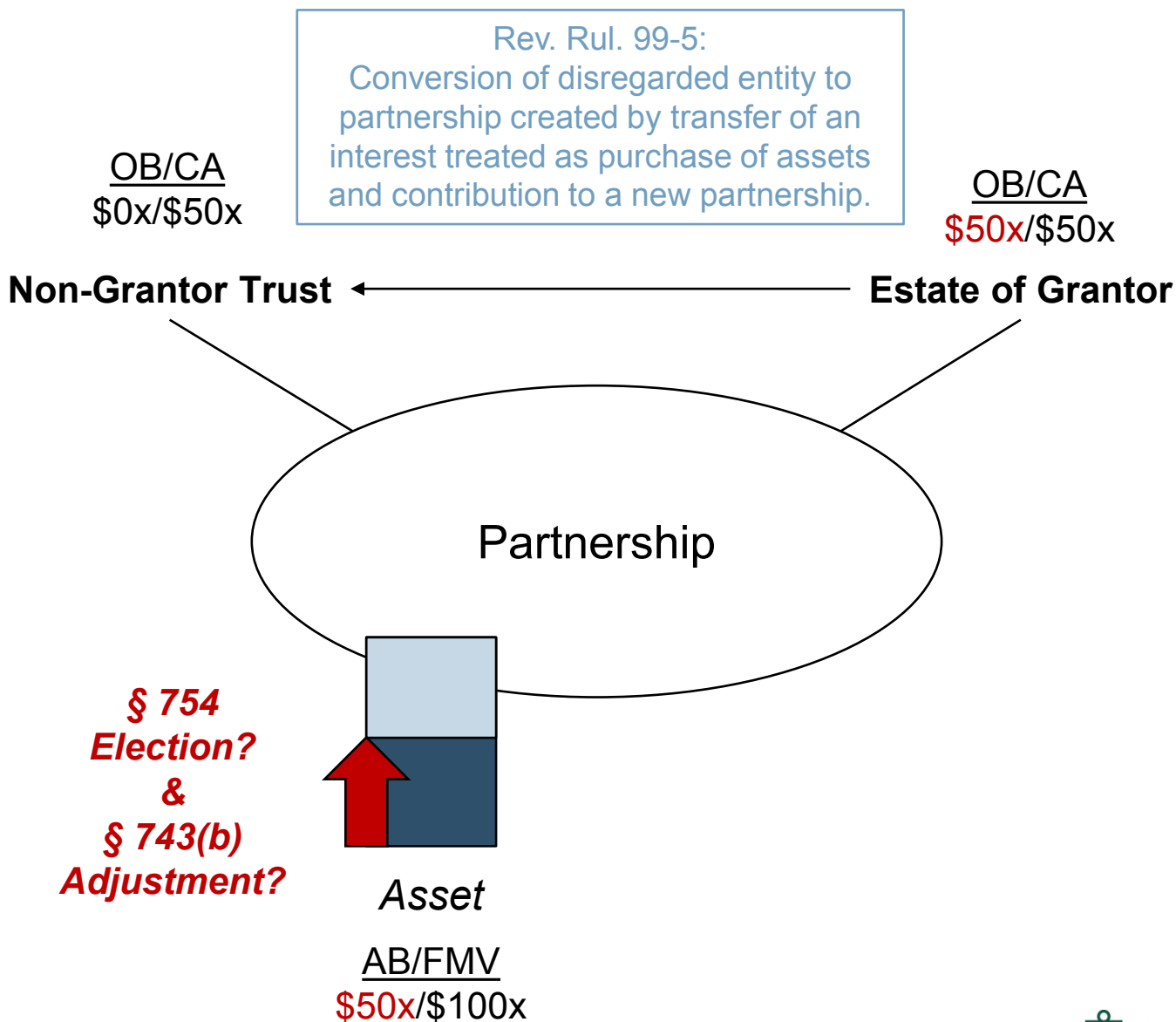


Debt Merges and Disappears





Conversion to Non-Grantor Trust & Partnership at Death





“Grantors” and “Grantor Trusts”

Planning With “Grantors” and “Grantor Trusts” (BDOTs)





Making a Trust a “Grantor Trust” as to Another Trust?

■ PLR 201633021

◆ Trust 1

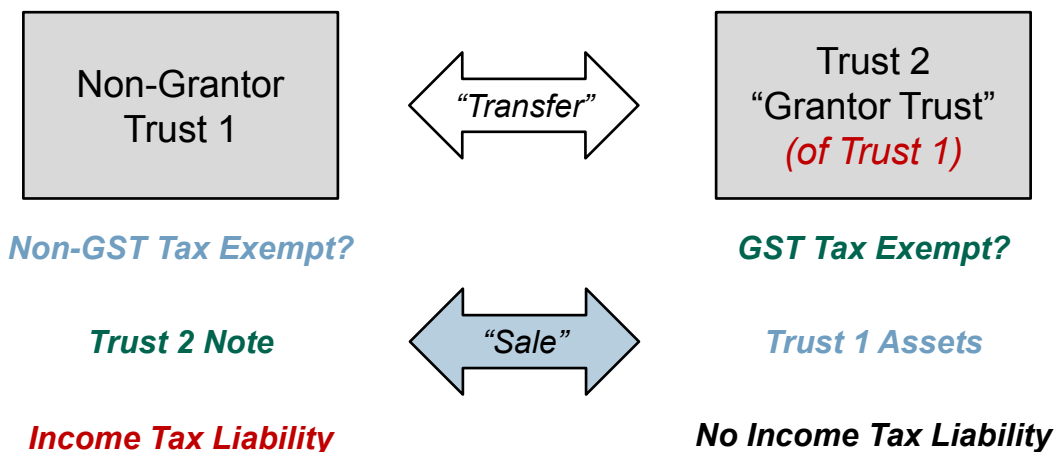
- ▶ Grantor deceased.
- ▶ F/B/O children, spouse, and issue.
- ▶ Trustee proposes to transfer assets to Trust 2.

◆ Trust 2

- ▶ F/B/O children, spouse, and issue.
- ▶ Trust 1 retains sole power to revest net income of Trust 2.
- ▶ Lapses on the last day of the calendar year.
- ▶ “Net income” includes income under § 643(b) and capital gain.

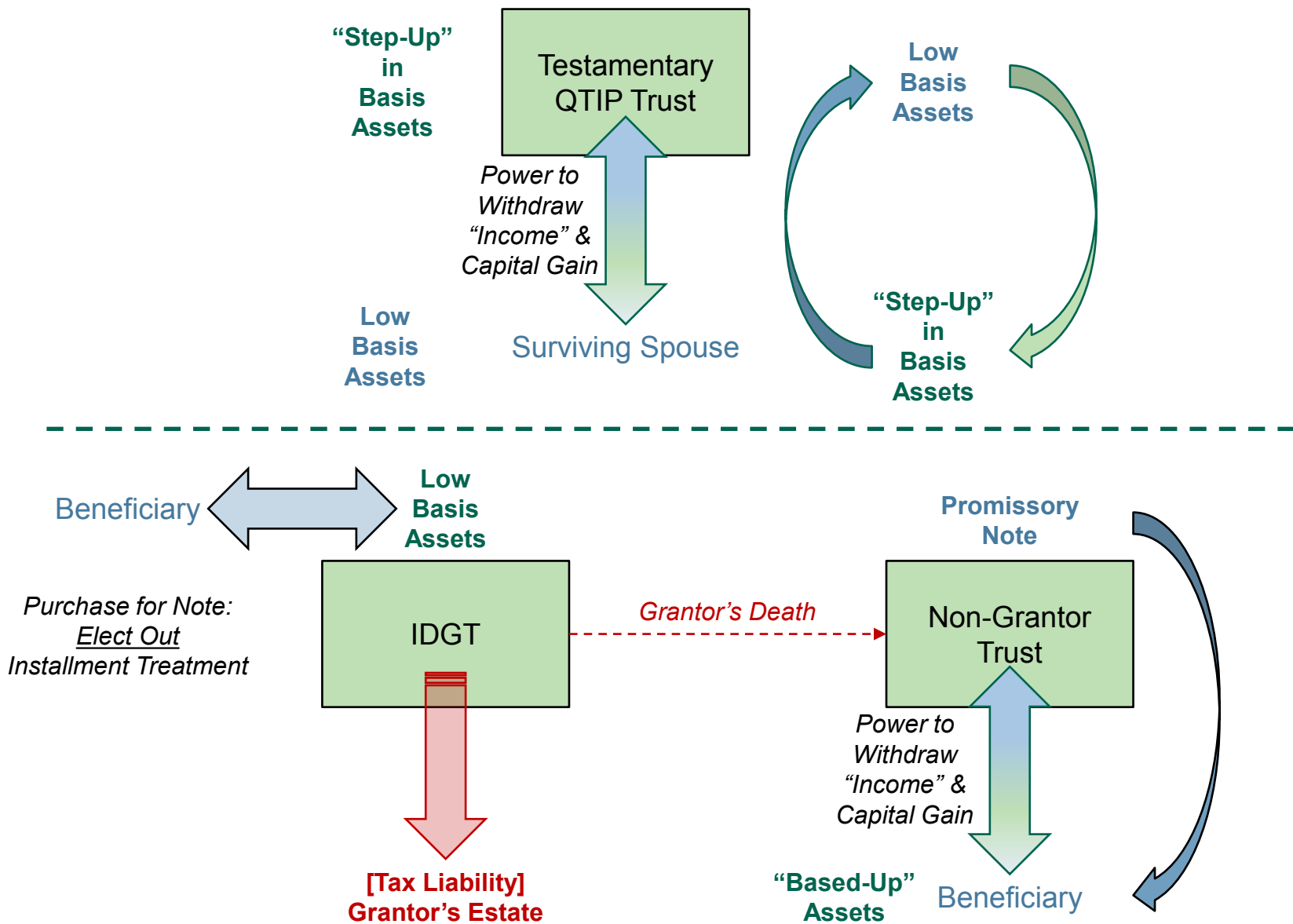
RULING:

Trust 1 will be treated as the owner of the portion of Trust 2 over which they have the power to withdraw under § 678(a).





Basis Opportunities with Grantor Trusts of a Beneficiary?





Spouse 1 Grantor Trust and Spouse 2 Grantor Trust

■ PLR 201927003

◆ Trust 1

- ▶ Created and funded by Spouse 1
- ▶ Grantor trust of Spouse 1 under § 675(4) [swap power]
- ▶ Trustee proposes to transfer assets to Trust 2.

◆ Trust 2

- ▶ Created and funded by Spouse 2
- ▶ Grantor trust of Spouse 2 under § 675(4) [swap power]

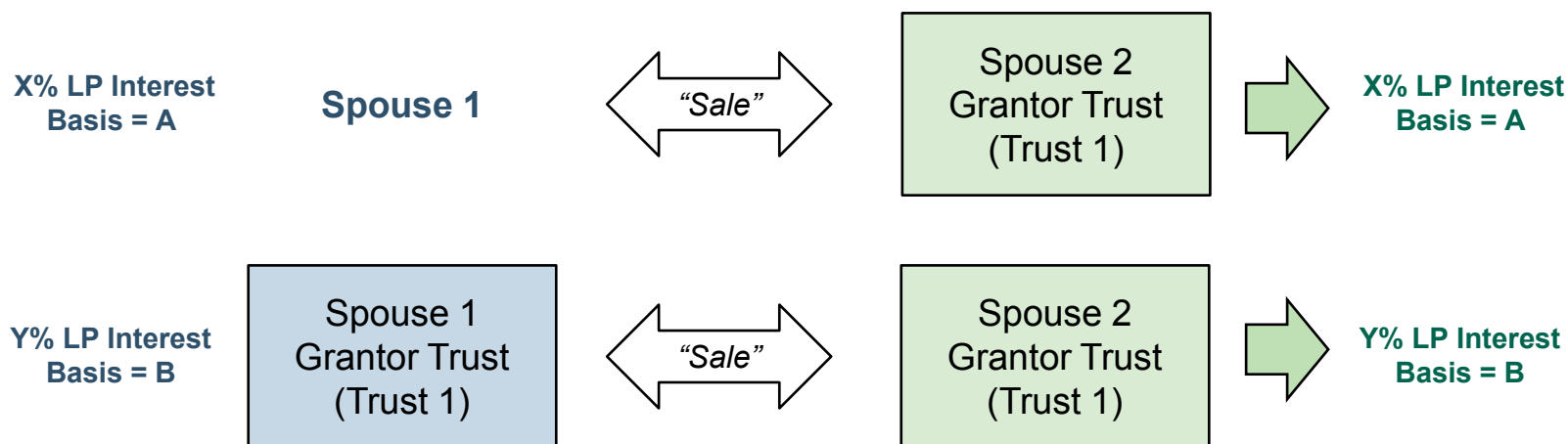
◆ Transaction

- ▶ Spouse 1 will sell LP interest in Partnership to Trust 2
- ▶ Trust 1 will sell LP interest in Partnership to Trust 2

RULING:

Spouse 1 will recognize no gain or loss on the sales by Spouse 1 and Trust 1.

Basis of property acquired by Trust 2 from Spouse 1 and Trust 1 will be the same as the basis in the property of Spouse 1 and Trust 1 under § 1041(b)(2)





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