A WINDOW OF OPPORTUNITY

A Checklist of Proactive Strategies for a Volatile Economy

While it is natural to react to market turmoil with caution and emotion, it is important to stay focused on your family's long-term economic future.

How do you navigate today's challenging economic landscape, stay focused on long-term goals and still take advantage of time-limited opportunities? The answer lies in maximizing the potential of a unique confluence of events that has created a very favorable environment for sophisticated wealth management strategies.

Yes, markets are tumultuous, but the drop in asset values could provide real opportunity. Plus, exceedingly low interest rates, combined with certain current tax laws, could potentially enable you to pass on significant wealth at a discount, free of transfer tax. So, as we head into year-end, we have prepared a checklist of some timely opportunities you might consider.

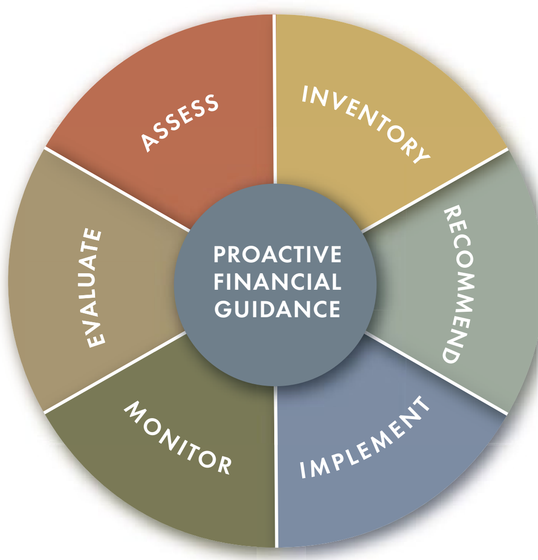
GIFTING STRATEGIES

Several changes in tax law in recent years have created unprecedented opportunities for lifetime giving, not only to generations of loved ones but also to philanthropic causes.

- **A $5 million exemption** is currently in place for both the gift tax and the generation-skipping transfer tax. As a result, married couples can now transfer up to $10 million – to children or grandchildren, for example – without paying a dime of tax. Be aware, however, that these generous $5 million exemptions are scheduled to be reduced to $1 million at the beginning of 2013.
- **Dynasty trusts,** where permitted by local law, allow you to pass wealth to successive future generations – one after another – without the imposition of transfer tax. Keep in mind, however, that once you transfer assets to a dynasty trust, you can't take them back; instead, the terms of the trust will govern their future disposition.
- **IRA owners 70½ or older** may make lifetime charitable contributions up to $100,000 directly from their traditional IRAs this year without paying tax on any portion of the otherwise taxable distributions. Only contributions to qualified charities are eligible, and any distributions will count toward satisfying the current year's minimum distribution requirements. Act now. It is uncertain whether Congress will extend this provision beyond December 31, 2011.

TAKE ADVANTAGE OF THE LOW INTEREST RATE ENVIRONMENT

This fall, interest rates important to wealth transfer planning are at historic lows. For example, in October, the "applicable federal rate" or AFR (the minimum rate required to prevent an intra-family loan from being treated as a gift) for a 20-year loan was 2.95%. And the "7520 rate," the rate used by the IRS to value transfers of annuity and remainder interests, as well as interests for life or a term of years, was 1.4%.



- **Grantor Retained Annuity Trusts (GRATs)** allow you to give your assets to a trust but retain the right to payments for a fixed term. After the fixed term, any remaining assets are distributed to your children, or to trusts for your children, tax-free. Typically, GRATs are considered successful when the assets appreciate in value more than the 7520 rate – a bar that is set relatively low in this environment.
- **Charitable Lead Annuity Trusts (CLATs)** provide for a stream of payments to a charity for a period of years with the remainder going to the family. Assuming you fund the trust with currently depressed-value assets, the recovery value of the underlying assets would benefit your family.
- **Intra-family** loans can be attractive while the AFR is extremely low. If the family member can invest the funds well, he or she will benefit from any appreciation over the AFR.

INVESTING FOR THE LONG TERM

Taking advantage of timely opportunities is important, but it is equally vital that you stay focused on your family's long-term economic future, despite market fluctuations. We can work with you to review your current financial situation, making sure your wealth management strategies best meet your long-term objectives while effectively managing your tax liabilities.

- **Recognizing gains from highly appreciated stock** held more than one year should be considered, given that the tax rate on long-term capital gains (as well as on qualified dividends) is capped at 15% – at least until 2012. Another reason: beginning in 2013, a 3.8% surtax will be applied to investment income above a certain threshold.
- **"Warehousing" losses** on securities as capital loss carryforwards in order to shelter gains if tax rates increase should also be considered.
- **Roth IRA conversions** made in 2011 should be revisited. If the value of the account has declined significantly, it may be wise to recharacterize to avoid the tax on the original amount. (Note that you cannot reconvert to a new Roth IRA before January 1, 2012.) If you did not convert to a Roth IRA already, current depressed market values may make this an opportune time to do so.

TURN A DIFFICULT ECONOMY INTO A POSITIVE FOR YOUR FAMILY'S FUTURE WELL-BEING

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