STRATEGIQ
FINANCIAL GROUP, LLC

Charitable Giving Fund

PROGRAM

Who Bought the Farm?

...well the IRS could have, with taxes paid by the family!

Let us explain. One of our clients, as part of the planning process, revealed to us that his mother was receiving income from a trust, that was created on her behalf in the 60's when her father died. The sole asset that went into the trust was a farm that, at the time, was valued at $200,000. Our client was concerned about his mother's overall financial security. He was unsure about the potential windfall issues affecting him and the other heirs upon the death of his mother, the termination of the trust and the distribution of the property to him and three other family members.

His mother retained us to help her, and upon further investigation, we discovered that the farm was recently valued around $6,400,000. She was receiving less than 2% in distributions from net crop income from a farm management company hired by the local bank trustee. The client's mother passed away shortly after we started the planning, and our client (son) arranged a family conference call where we detailed some of the issues and some basic options to consider, along with potential consequences.

One option that was presented was to keep the farm and split the net income. The family did not consider that option attractive based upon the low level of income for the land value, as well as the farmland being illiquid.

Another option that we discussed was to sell the farm and split the proceeds. One consequence to this was that the family would have to report approximately $6,200,000 of capital gains, and conservatively about $1,400,000 in taxes. The family did not realize that any appreciation in the value of the farm from the 60's inside of the trust passed these gains to them. That was an expensive option, but created liquidity for them.

The third option that we introduced and actually recommended was to have each family member create a specially- designed charitable remainder trust (CRT) based upon such family member's own financial circumstances. The trust would help offset and reduce the capital gains tax on the sale of the farmland and help create some liquid capital. Each of the family members liked this option and agreed to implement it. After comparing notes among family members, our firm coordinated the efforts of four attorneys in four states to create four CRTs with a term of 15 years that would pay income each year to each family member. The ending balance would be paid to their individual Donor Advised Fund (DAF). The farm was sold at auction for an amount in excess of $8,200,000. The family saved capital gain taxes on one third of the $8,000,000 gain and reduced taxes on the balance. So, the IRS could not buy the farm!

For more information about our Charitable Giving Fund Program contact:

StrategIQ® Financial Group, LLC
888-363-7147
info@sfgweb.com
sfgweb.com