Wealth preservation and family transfers

Without proper planning, transferring family wealth can be a taxing issue. Generally speaking, moving wealth from one generation to another while minimizing income, gift, and estate taxes is the primary objective. To do so, one needs to know how the IRS taxes assets passed on to heirs either during life or at death. The traditional planning scenario has been to leave money and other assets to heirs when you die; however, the current planning strategy is to give away as much as possible during life to take advantage of lifetime-transfer benefits and to reduce the size of your estate. The challenge is to use the credits and deductions available and to use gift-transfer techniques to your advantage.

The following tax-wise considerations will be valuable to you for preserving family wealth and transferring it to succeeding generations or to Georgia Tech. Knowing about these opportunities is essential to sound planning.

Transfer techniques

Family limited partnership
The family limited partnership is an arrangement that can facilitate gift-making to heirs during life and still maintain control over the assets placed in the family limited partnership. It is used to consolidate and preserve family assets such as a family business or real estate. Parents are usually general partners, and limited partnership interests are transferred to children and possibly grandchildren at discounted values. This allows for effective management of assets into the future and avoids gift and estate taxes.

Charitable lead trust
A charitable lead trust provides income distributions to charity annually; and at the end of the trust period the principal returns to the grantor’s children or grandchildren.

Minimize taxes and maximize assets transferred

Pete Ticconi
Senior Director, Gift Planning

This Issue

Wealth preservation and family transfers
- How the transfer-tax system can benefit you ....... 1
- Transfer techniques ........................................... 1
- CRT is ideal vehicle for children’s future, supporting the Institute ........................................ 2
- Esphys’ gift plan balances priorities ......................... 3
- Lehrers fund endowed chair with a variety of gifts .............................................................. 4

Send for our complimentary booklet, Ways to Give.
It isn’t often that a college club sport can be credited with changing someone’s life, but that’s just what happened to Chris Ratcliffe, IM 1977.

“I chose Georgia Tech because it had an ROTC program,” says Ratcliffe, owner and partner in J. McMillan and Associates, a maker of aerospace test equipment. “ROTC was a big thing in the early ’70s, so I did it for two years. At the beginning of my junior year, I got out of ROTC, but all my friends were still there. So I started thinking about playing ice hockey or rugby, because I had played both before. All I needed for rugby was a pair of cleats, so I chose rugby. That turned out to be a decision that would affect the course of my life.

Ratcliffe—who has held leadership positions at Measurement Systems Inc. and Marconi Avionics—says he can trace the major positive events in his life back to a single conversation in 1975 on the steps of the Student Center with Ralph Fitch, an acquaintance from another rugby team. Two players on that team whom he met through Fitch eventually helped him get his first job out of college at Lockheed Aircraft Co., now Lockheed-Martin, where he worked in International Marketing selling C-130s.

Before that first job opportunity, Ratcliffe says he also owes many happy marriage to his wife, Karen, to that same 1975 Student Center conversation. He met his future wife through a mutual friend, and he came to know this friend through none other than rugby player Ralph Fitch.

In appreciation of Georgia Tech and the relationships he formed there, Ratcliffe has arranged to establish a testamentary charitable remainder unitrust, or CRT, that will pay income for a fixed number of years to his two sons: Jackson, 17, and Connor, 16. Ultimately, the CRT will provide significant unrestricted support to Georgia Tech.

In addition to Georgia Tech, the Ratcliffes have also provided for Children’s Healthcare of Atlanta, St. Pius X High School, and the Schenck School in their estate plan.

As far as the impact his Tech gift will have, Ratcliffe says that while he would love to see the Institute use the funds to build a better rugby field (the team currently uses the Burger Bowl), he and his wife felt it was best to make their commitment unrestricted because Tech’s leadership will be in a much better position to make that decision many years down the road.

Unrestricted testamentary gifts like the Ratcliffes’ ensure that Georgia Tech will have maximum flexibility to take advantage of emerging opportunities for decades to come. Generally producing significant transfer-tax savings. You are, in essence, letting Georgia Tech have the income from the assets held for a period of years. Lead trusts can be funded with cash, marketable securities, closely held securities, or income-producing real estate and can be created during your lifetime or through your estate at death.

Because your beneficiaries will avoid taxes on any future appreciation, this could be a very effective “estate freeze” technique for assets that are anticipated to grow in the future.

Qualified personal residence trust
A qualified personal residence trust allows you to retain the use and control of a personal residence for a stated term of years and eventually pass the residence to children or grandchildren. Provided you survive the stated term of years, the tax benefits are similar to a grantor-retained annuity trust. Your taxable transfer is the discounted present value of this future gift to the family members who receive the residence.

Defective grantor trust
A defective grantor trust allows a donor to make irrevocable and completed gifts to family members through a trust while remaining responsible for the taxes due on both income and capital gain generated by the trust. Most tax advisors believe that under the current law payment of income tax and capital-gain tax is not considered an additional gift.

Intrafamily sale
Under this arrangement, you sell an appreciating asset or a remainder interest in an asset to one or more family members in exchange for an installment note. Such intrafamily sales represent a way to “freeze” the value of the asset because the note will not grow in value beyond any interest that accrues. Capital-gain tax in such an arrangement can be reduced if a long-term installment
note is used. Or you may consider transferring the note to a defective grantor trust.

Increase income and make a gift through a charitable remainder trust

Charitable remainder trust
A charitable remainder trust is an effective way to move out of appreciated investments, increase income, avoid immediate capital-gain tax, and ultimately make a charitable gift at the same time. Donors can diversify their investments and fund trusts with cash, marketable securities, closely held stock, and unencumbered real estate, as well as other assets. The charitable remainder trust is tax-exempt and can sell the assets without incurring capital-gain tax. You may arrange income distribution to yourself, your spouse, or others as you wish. Either variable or fixed income is possible. When the Georgia Tech Foundation is named as the sole remainder beneficiary, the Foundation will serve as trustee at no fee.

Private family foundation
A private family foundation (or alternative supporting organization or donor-advised fund) allows a donor to set aside funds for charitable purposes. You can make gifts by lifetime transfers or at death through a charitable lead or remainder trust. Family members can have an impact on society by being involved in the causes that are important to them.

We’re here to help
Wealth-preservation planning allows for the effective use and transfer of assets by and for your family as well as the charities that are meaningful to you. Deciding how much you need for yourself, how much to leave your heirs, how much tax will go to the IRS, and how to benefit charity leads to effective distribution of wealth using a variety of techniques chosen by you.

To help you with your planning, we would like you to have a complimentary copy of our booklet, Ways to Give. Simply return the enclosed reply card or contact a member of the gift planning staff:

Peter J. Ticconi Jr., Senior Director, peter.ticconi@dev.gatech.edu
Ann W. Dibble, Director, ann.dibble@dev.gatech.edu
Louis W. Rice III, J.D., Director, louis.rice@dev.gatech.edu
Lauren M. Kennedy, Development Associate, lauren.kennedy@dev.gatech.edu
Georgia D. Davidson, Paralegal, georgia.davidson@dev.gatech.edu
404-894-4678
www.gatech.plannedgifts.org

You should consult your attorney about the applicability to your own situation of the legal principles contained herein.

Esyps’ gift plan balances priorities

When Paul Espy entered Georgia Tech in 1960, he had already fallen in love with the School. He had been there several times to visit his older brother, G. B. Espy, ME 1957, and as he recalls, “I thought it was the greatest place on earth—and still do.”

Espy majored in chemical engineering at Tech, citing an “aptitude for math and chemistry.” Although the workload was challenging, he loved that too. He joined Beta Theta Pi, which, in his second year, led him to a fateful sorority party at Brenau College. There he met a charming freshman, Subie, whom he married after graduating in 1965.

The couple moved to New Orleans, where Paul attended Tulane Medical School and Subie taught the first and second grades at St. Andrews Episcopal School. From there the Espys spent a few years out west—Paul did his internship at the University of Utah in Salt Lake City and then served as a physician in a New Mexico Indian reservation hospital. The open spaces and breathtaking vistas almost tempted them to stay, but in 1975 they returned to Georgia, settling in Marietta.

After three decades in a successful dermatology practice and having raised three children, today Paul is semi-retired. Recently, he and Subie began formulating their estate plans with the help of two Smith-Barney financial advisors and an attorney—all of them Yellow Jackets. The Espys identified three priorities: first, to support themselves comfortably throughout retirement; second, to be able to support their children, in particular their daughter and son-in-law who work as missionaries for inner-city, at-risk youth in Lexington, Kentucky; and third, to avoid giving the government more money than they are required. After months of careful deliberation, the Espys decided to establish a testamentary charitable remainder trust, which will provide income to their children for a number of years and then leave a generous gift to Georgia Tech. As Subie notes, “This is an important decision, and we have spent more than six months weighing our options.”

“With this gift,” Paul observes, “we will have the best of both worlds”—supporting a cutting-edge discipline at Georgia Tech, in perpetuity, and taking care of their family, which has grown to include six grandchildren.

The Espys’ gift will establish a permanent endowment to support the Parker H. Petit Institute of Bioengineering and Bioscience, an area that combines elements of Paul’s degree in chemical engineering and his life’s work in medicine. Paul is especially pleased to give back to his alma mater, because “I made a wise choice to attend Tech. My degree in engineering made me a highly competitive candidate for medical school—it gave me an edge.”

When Paul was asked about his favorite part of going to Georgia Tech, Subie jokingly interjected, “Me!” But in truth, Georgia Tech does have a deeper meaning for both of them, and they can think of no better way to honor that meaning than by making this gift.
In 1950, Robert Lehrer joined the faculty of Georgia Tech’s Department of Industrial Engineering and spent nearly three decades of distinguished teaching, research, and leadership there. Now, more than half a century after first coming to Tech, Lehrer isn’t finished giving back to the School on which he left such an indelible mark—he and his wife Patricia have made a series of gifts, both outright and testamentary, which will endow a chair in the H. Milton Stewart School of Industrial and Systems Engineering.

Born and raised in Ohio, Robert Lehrer attended Purdue University. After graduating in 1945, he served in the U.S. Navy. Then, with his former college classmate and new wife Patricia, he returned to his alma mater to pursue a PhD, which he completed in 1949. The following year, Lehrer was invited to join the faculty of one of Georgia Tech’s newest departments, Industrial Engineering, by the man who founded the program: Lieutenant Colonel Frank F. Groseclose.

Lehrer recalls that in the early years he “taught just about everything in the program” and watched as Groseclose began building the Industrial Engineering department from the ground floor. A quick study, Lehrer followed this example during a hiatus from Tech between 1957 and 1962, when he went to Northwestern University to set up an IE program and traveled to Mexico on a UNESCO project in which he established similar departments at two schools.

Back at Georgia Tech in the early 1960s, Lehrer served as associate director and then succeeded Groseclose as the director of the School of Industrial Engineering, a position he held until 1979. As he puts it, “I loved the challenge of working with talented students, but also of developing the school and building on what Groseclose had established.” He retired from Georgia Tech in 1981.

According to Bob, “Our goals in retirement and estate planning have been to ensure sufficient income and investments to ensure a healthy and comfortable retirement for our lifetimes and to provide for the security and well-being of our daughter, Joan. These goals could be met by reliance on our pension and other investments during our lifetimes, leaving our estate to our daughter at our deaths. But we also want to benefit Georgia Tech, after providing for our daughter during her lifetime. Not doing so would be wasteful of the full potential benefits that we could direct to Georgia Tech—and would be very inefficient in excessive tax obligations and forfeited investment earnings during our three lives.

“The Gift Planning group at Tech came to our rescue. They offer various ways to obtain benefits from giving to Tech that help us achieve our goals in an efficient and satisfying manner. The alternatives of most interest to us were a charitable remainder unitrust, charitable gift annuities, and outright giving. All offer significant tax advantages, and two of them also offer lifetime income with associated tax benefits.”

By directing their gifts toward an endowed chair, which will provide valuable funding for research, new initiatives, and working with graduate students in perpetuity, Bob and Pat Lehrer help ensure the continued success of Industrial Engineering at Tech. “I am so pleased about the School’s national and international reputation,” says Bob, “and I hope this gift will help it continue to grow and to maintain its place at the top of the field.”