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LLBH Private Wealth Management LLC
Kevin Burns, Partner, Bill Loftus, Partner
Bill Lomas, CFP®, CIMA®, CRPC®, Partner
Jim Pratt-Heaney, CIMA®, Partner

"How can I build a lasting legacy through philanthropy?"

By Bill Lomas

Over the past 15 years Brian Warren and his partners have built an incredibly successful technology company. After years of reinvesting in the business, the partners have embarked on a strategy of paying out substantial dividends every other year. We met with Brian and his wife, Lisa, to discuss recommendations for their upcoming dividend distribution.

During our discussions, they indicated an interest in making a substantial gift to their alma mater. The university had proposed that they make annual gifts over the next five years to provide scholarships.

We advised them of several options that would permit them to realize their philanthropic aims while enjoying significant tax benefits. Given the upcoming dividend would be taxed as ordinary income, they were interested in learning about tax savings and the mechanics of the charitable structure.

One option is the charitable lead annuity trust (CLAT), funded for the benefit of a charity. Annual payments are made to the charity for a specified term, with any remainder in the CLAT going to named beneficiaries. The grantor receives a charitable deduction equal to the present value of the charitable payments, based on the applicable federal rate (AFR currently at 3.5 percent for terms of more than 10 years). The grantor receives a charitable deduction in that amount to shelter income, and the beneficiaries receive the residual assets' appreciation after the CLAT terms are satisfied. Importantly, the remainder interest that goes to the beneficiary will be free of estate and gift taxes. During the term of the CLAT the grantor is responsible for all taxes generated by investments inside the trust, so many grantors look to tax-free or tax-advantaged investments.

How powerful is this combination of income tax shelter and estate tax avoidance? Let us assume that a taxpayer, in the maximum 35 percent federal bracket, places $5 million in a CLAT. The donor would receive a charitable deduction of approximately $1.75 million, which can offset ordinary income. The entire $5 million would then be invested. Assuming an AFR rate of 3.5 percent, the trust would be required to pay out approximately $11 million to charities over a 30-year life. Any growth in excess of the 3.5 percent discount rate (which can be substantial) would be passed on to the named beneficiaries.

Another popular philanthropic structure is the private family foundation (PFF). The PFF provides tax benefits and a platform for families to ban together to make charitable donations that represent their collective wishes. Some families employ heirs at the foundation, providing a training ground for future stewardship of family wealth. Contributions to family foundations provide an immediate tax deduction of up to 30 percent of adjusted gross income for any money contributed to a foundation (20 percent for appreciated property). Appreciated assets contributed to a foundation avoid capital gains, and assets that appreciate in the foundation are not subject to income or capital gains taxes. When you contribute assets to the foundation, you have irrevocably transferred it out of your estate, thus saving on inheritance taxes. In general, private family foundations should not be considered for estates less than $5 million because upfront legal costs may make it cost prohibitive.

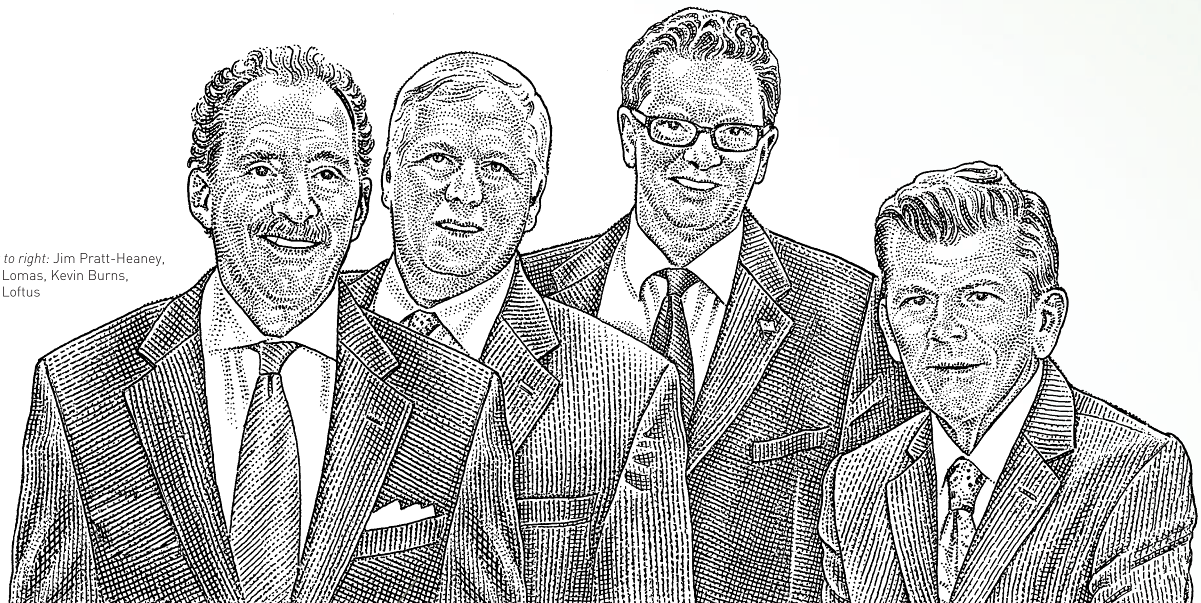
Private family foundations and charitable trusts offer significant tax benefits, platforms for family wealth governance, and the possibility of rewarding beneficiaries for their involvement. In the case of Brian and Lisa, and successful individuals like them, they present an opportunity for doing well by doing good.

"Private family foundations and charitable trusts . . . present an opportunity for doing well by doing good."

– Bill Lomas

How to reach Bill Lomas

I look forward to discussing how I can help you reach your financial goals. I can be reached directly at 800.700.5524.



Left to right: Jim Pratt-Heaney, Bill Lomas, Kevin Burns, Bill Loftus

About LLBH Private Wealth Management

After 15 years teaching, Jim Pratt-Heaney joined EF Hutton in 1986. He became a vice president at Smith Barney before moving to Merrill Lynch in 1998. He is a Certified Investment Manager Analyst and leads LLBH's asset management. Bill Lomas started with PaineWebber in 1981, spent 18 years as a senior vice president at Prudential Securities and Smith Barney and joined Merrill Lynch in 1998. Mr. Lomas, a Certified Financial Planner™ and Chartered Retirement Planning Counselor℠, leads LLBH's holistic investment planning process. Kevin Burns, whose career began at PaineWebber in 1981, became a senior vice president at Oppenheimer & Co. and Smith Barney before joining Merrill Lynch in 2000. He leads LLBH's new client asset acquisition and client service and contact operation. In 1986, Bill Loftus joined Merrill Lynch and then spent 10 years as a senior vice president at Smith Barney before returning to Merrill Lynch in 1998. He leads LLBH's corporate executive advanced wealth planning, lending and alternative investments.

Assets Under Management
$750 million (team)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$10 million (investment services)

Largest Client Net Worth
$500 million

Financial Services Experience
120 years (combined)

Compensation Method
Asset-based

Primary Custodian for Investor Assets Pershing

Professional Services Provided
Planning, investment advisory, money management, advanced wealth transfer planning and corporate services

Association Membership
Investment Management Consultants Association

Website
llbhpwm.com

Email
blomas@llbhpwm.com

LLBH Private Wealth Management LLC | 33 Riverside Avenue, 5th Floor, Westport, CT 06880 | 800.700.5524

Kevin Burns

Bill Loftus

Bill Lomas, CFP®, CIMA®, CRPC®

Jim Pratt-Heaney, CIMA®

LLBH Private Wealth Management LLC
33 Riverside Avenue
5th Floor
Westport, CT 06880
Tel. 800.700.5524

Email: blomas@llbhpwm
www.llbhpwm.com

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