Thoughtfully share your legacy with tax-efficient tools

A self-canceling installment note (SCIN) can be used to finance the sale of a business or other property. With the note, a seller, perhaps a parent or grandparent, transfers property to the buyer, such as a child or grandchild, with minimal gift and estate tax consequences. The buyer makes payments in installments for a specified period of time. However, if the seller dies before receiving all installments, the note is automatically canceled, and the seller's estate cannot collect any remaining balance.

This strategy can help affluent individuals minimize their family's tax liability, particularly if the property or assets in question are expected to increase in value. The seller is taxed for any gains on the property as payments are received, however any future appreciation belongs to the buyer and will be taxed at their, hopefully lower, rate upon later sale. Utilizing this strategy during your lifetime can mean significant tax savings for your beneficiaries rather than leaving those assets to remain part of your taxable estate.

INTRA-FAMILY LOANS

For individuals with the financial ability and desire to provide loans for family members, intra-family loans can be a beneficial option for both parties. These loans can be provided at an interest rate lower than the applicable federal rate (AFR), set monthly by the IRS, meaning a cost savings for your loved one. The interest rate for intra-family loans must be at or greater than the stated AFR for the term of the note, otherwise there could be gift tax consequences etc.

Alongside your CPA and estate attorney, your financial advisor can work closely with you to determine the most tax-efficient way to share your legacy and craft the estate plan that best aligns with your goals.

THE BENEFITS OF SELF-CANCELING INSTALLMENT NOTES AND INTRA-FAMILY LOANS

Minimize your family's tax liability

Remove appreciating assets from your estate

Help your loved ones pursue their goals with a cost-effective loan

Strategically share your legacy with loved ones

NEXT STEPS

Before incorporating these strategies into your estate plan, consider the goals you have for your legacy and any other factors that might come into play.

- What assets do you have, including property or a business, that could incur significant taxes for your beneficiaries?
- What property do you own that could be transferred in your lifetime? Do you expect it to appreciate?
- Have a conversation with those closest to you about the vision you have for your legacy.

All in the family

SELF-CANCELING INSTALLMENT NOTES AND INTRA-FAMILY LOANS CAN HELP YOU SHARE YOUR LEGACY WITH THE PEOPLE WHO MEAN THE MOST

Looking for ways to minimize his estate, Kevin, 78, wished to pass his considerable real estate holdings to his daughter. However, he was worried that such a bequest would trigger significant taxes for her.

Kevin's financial advisor, Claire, saw an opportunity to utilize a self-canceling installment note (SCIN). Kevin's daughter used the note to finance the purchase of the real estate property from her father. For the duration of the note, which in this case was 15 years, Kevin's daughter would make payments in installments. However, if he passed away sooner than 15 years – which Kevin believed was likely – the note would be canceled and the appreciated property would be awarded to his daughter outright. And, the transferred property and any income it has produced would be removed from his estate.

Kevin also expressed an interest in helping his grandson purchase his first home. Working alongside a CPA, Claire helped him set up an intra-family loan. With it, Kevin loaned his grandson the cash to purchase the house at an interest rate below the applicable federal rate and without having to complete the lengthy paperwork for a mortgage.

Leveraging these resourceful estate planning techniques, Claire helped Kevin to minimize his family's tax liability while sharing his wealth and legacy with the people he loved most.

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