



Select Options for Preserving a Family Business for Children

	Family Limited Partnership	Private Annuity	Self-Canceling Installment Note	Grantor Retained Annuity Trust	Lifetime Gifts
Provides liquidity?	No	Yes	Yes	Yes	No
Minimizes federal gift tax?	<ul style="list-style-type: none"> To the extent of the annual gift tax exclusion and the lifetime gift tax exemption Value of gifts may be discounted 	Yes, to the extent the fair value of the business does not exceed the present value of the annuity	Generally, yes	Yes, to the extent the fair value of the business does not exceed the present value of the annuity	To the extent of the annual gift tax exclusion and the lifetime gift tax exemption
Minimizes federal estate tax?	Shifts future appreciation to children	Yes, but not to the extent payments are received back into your estate	Yes, but not to the extent payments are received back into your estate	Yes, but not to the extent payments are received back into your estate	Shifts future appreciation to children
Minimizes federal income tax?	Shifts FLP income to children, who may be in lower tax brackets	<ul style="list-style-type: none"> Generally, payments are return of basis and/or interest (ordinary income) You pay income tax on interest income 	<ul style="list-style-type: none"> Payments are return of basis, capital gain, and/or interest (ordinary income) You pay income tax on interest income 	<ul style="list-style-type: none"> You pay no income tax on annuity payments You pay taxes on all income earned by the trust 	Yes
Minimizes federal capital gains tax?	Yes, but children do not receive a "step	No, generally, for exchanges made after	Capital gain can be reported over	Yes, but children do not receive a	Yes, but children do not receive a



	up" in cost basis for gifted interests	October 18, 2006	the period payments are received	"step up" in cost basis	"step up" in cost basis
Lets you retain control of the business?	Yes	No	No	Yes	No
Provides lifetime income?	To extent you receive FLP income	Yes	Yes	Yes	No
Protection against creditors?	<ul style="list-style-type: none"> • Yes, if general partner is a corporation • Limited partners have no personal liability for business debts 	Payments received are subject to creditors	Payments received are subject to creditors	Payments received are subject to creditors	<ul style="list-style-type: none"> • Your creditors cannot reach gifted interests • Gifted interests are subject to your children's creditors
Any risk?	No	<ul style="list-style-type: none"> • You may die before receiving full payment • The buyer's obligation is unsecured 	You may die before receiving full payment	No	No
Formalities?	Many	<ul style="list-style-type: none"> • Transfer title • Execute agreement 	<ul style="list-style-type: none"> • Transfer title • Execute note 	<ul style="list-style-type: none"> • Transfer title • Execute trust 	Transfer title
Costly?	Yes	Can be costly	Can be costly	Can be costly	No

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Final Page - Disclaimer