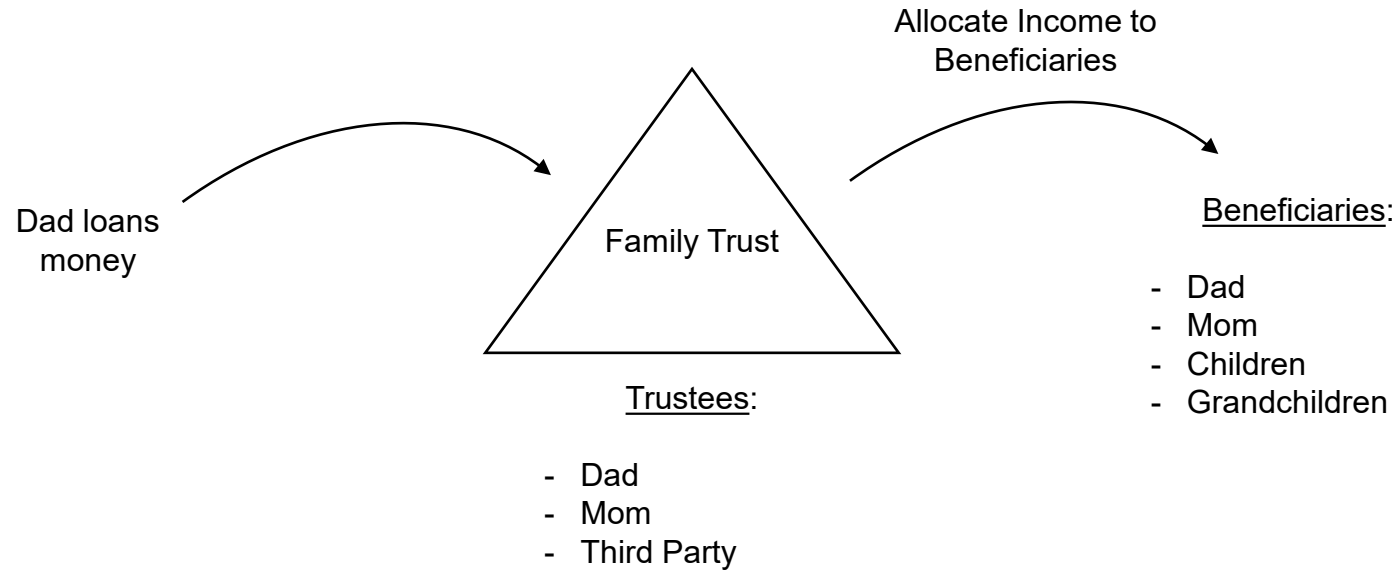


# PRESCRIBED RATE LOAN WITH A TRUST



## GENERAL OVERVIEW

- Typically, the Dad, Mom, children and grandchildren are included as beneficiaries of the Trust.
- Must realize any gains on transfer of assets with accrued gains to the Trust.
- Interest at prescribed rate (currently, 1%) must be paid by the Trust by January 30 each year.
- Income earned in the Trust can be distributed to lower income beneficiaries (including spouses and children and grandchildren of any age).
- Trust generally has a useful life of 21 years.

	<b>Without Prescribed Rate Loan Planning</b>	<b>Prescribed Rate Loan to Family Trust</b>
Investment Assets	\$300,000	\$300,000
Rate of Return	5%	5%
Investment income	\$15,000	\$15,000
Estimated Tax Payable	\$8,029.50	\$1,605
Yearly Tax Savings:		\$6,424.5*

- The Trust must pay \$3,000 in interest to Dad, who pays tax of \$1,605.90 on the \$3,000 in interest income. The Trust distributes the \$12,000 to lower-income beneficiaries, who pay no additional tax, assuming no other income (the Trust gets a deduction for the interest paid to Dad), for a total tax bill of \$1,605 on the \$15,000 (as opposed to a total bill of \$8,029.50).