



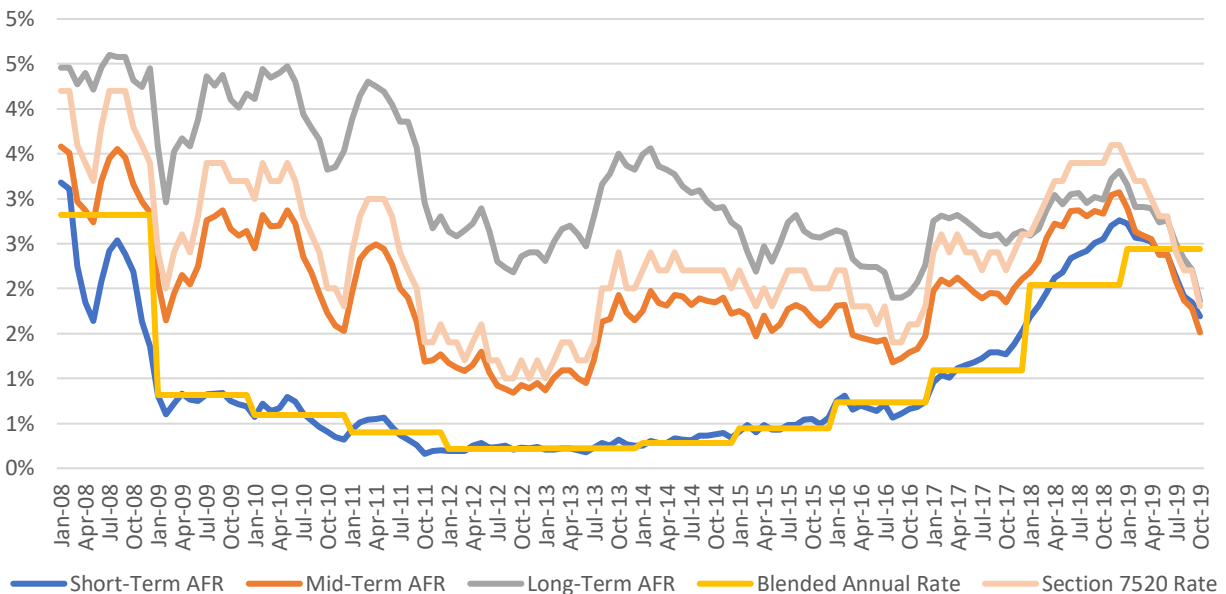
Interest Rates on the Fall, Planning Opportunities on the Rise!

The Applicable Federal Rate (AFR) and Section 7520 Rate have been falling throughout 2019 due to the lowering of short-term rates by the Federal Reserve and Treasury Bond market yields coming down. Low interest rates can make many income, gift and estate tax planning techniques more effective.

Below are the AFRs and Section 7520 rate declared by the U.S. Treasury for the month of October 2019:

	Period of Compounding			
	Annual	Semi-Annual	Quarterly	Monthly
Short-Term AFR (Term loans not more than 3 years)	1.69%	1.68%	1.68%	1.67%
Mid-Term AFR (Term loans over 3, not more than 9 years)	1.51%	1.50%	1.50%	1.50%
Long-Term AFR (Over 9 years)	1.86%	1.85%	1.85%	1.84%
Blended Annual Rate (Demand Loan)	2.42% (for 2019; average of January and June Short-Term AFR)			
Section 7520 Rate (Present value of annuity, interest for life or term of years, or remainder or reversionary interest)	1.8% (120% of the Mid-Term AFR rounded to nearest 0.2%)			

Below is a historical view of these interest rates:





Below is a high-level summary of techniques that become more opportunistic with lower interest rates:

Opportunity #1: **Split Dollar Loan Arrangements**

Split dollar term loans typically lock in the AFR for the loan's term based on the AFR in effect the month it is made. Locking in low interest rates on split dollar term loans helps to transfer more value to key employees, or trust/estate beneficiaries, and reduce any related income or transfer tax consequences.

- If the term loan is interest bearing with interest accrued, lower AFRs mean lower interest accrual over the term resulting in lesser amounts owed to the employer-lender or grantor-lender and more value transferred to the executive free of income tax or trust/estate beneficiaries free of estate tax. That is, more equity transferred by the employer to, and accessible by, the executive and his/her family; or more equity available to trust/estate beneficiaries and a smaller accrued receivable subject to estate tax in the grantor's estate.
- If the loan is between an employer and employee, and is non-interest bearing (below market interest), lower AFRs mean lower imputed income and less tax cost to the executive.¹ If the loan is between a grantor and grantor trust, and is interest bearing with interest paid, lower AFRs mean lesser amounts needed to be gifted to the trust for interest payments.
- Moreover, the employer or grantor can advance one loan sufficient to prefund all future premiums to lock in the current AFR on the whole loan for the entire term. Initial proceeds in excess of the first-year premium can be deposited to the carrier's Premium Deposit Account (PDA), if available, where it will earn interest and automatically be allocated to premiums in years 2+. Locking in the current AFR on one loan to fund all future premiums can help create more predictability regarding future benefits and any related income or transfer tax consequences as well as simplify administration of the arrangement.

Lion Street's Design Team has an abundance of resources and expertise to support Owner Firms in designing split dollar cases.

- [Click here](#) to access a sample employer-employee split dollar loan illustration using InsMark's Loan-Based Split Dollar Software.
- [Click here](#) to access a sample grantor-grantor trust split dollar loan illustration using Lion Street's Loan-to-ILIT ROI Analyzer.
- [Click here](#) to access a sample dual loan financing illustration using Lion Street's Dual Loan Financing Analyzer.

¹ Pursuant to Reg. § 1.7872-15, the amount, timing and character of any imputed transfer related to forgone interest depends on the type of split dollar loan and the relationship between the parties. Due to the complexities and varying tax consequences of certain types of split dollar loans, clients should seek tax and legal advice from a qualified practitioner accordingly.



- [Click here](#) to access the table of contents for InsMark's Documents on a Disk which contains specimen documents.
- [Click here](#) to download our Reincarnation of Equity Split Dollar presentation, originally presented by Michael Fontanini at the 2018 AALU Annual Conference.
- [Click here](#) to download our Many Flavors of Split Dollar Life Insurance presentation, originally presented by Michael Fontanini and Josh Husbands of Holland and Knight at the 2019 AALU Annual Conference.
- [Click here](#) to download our Loan Regime Split Dollar and Its Current Applications in Employment-Related Situations presentation, presented by Michael Fontanini and Don Curristan of EBS West on an AALU national webinar in June 2019 and again by Michael Fontanini at the 2019 Forum Max meeting.

Opportunity #2: **Installment Sale to an Irrevocable Grantor Trust (i.e. Sale to IDIT, IDGT, BDIT, etc.)**

Separate email forthcoming with information on this technique

Opportunity #3: **Grantor Retained Annuity Trusts**

Separate email forthcoming with information on this technique

Opportunity #4: **Charitable Lead Annuity Trusts**

Separate email forthcoming with information on this technique

Opportunity #5: **Charitable Gift of a Remainder Interest in a Personal Residence**

Separate email forthcoming with information on this technique