

**RETIREMENT** | Use a private annuity trust to boost your income and save on taxes, too. *By Mary Beth Franklin*

# On your way to EASY STREET

**F**ACING retirement, George and Karen Howard wanted to generate income by selling George's boyhood home, in California's San Joaquin Valley, which they had been renting out. But the couple faced a big stumbling block: a tax bill of nearly \$110,000 on the appreciated property, based on the 15% federal tax rate on long-term capital gains plus an additional 9.3% levied by California.

Then the Howards, who live in Dos Palos, Cal., learned about a strategy that let them boost their income and stretch the tax bill over their lifetime. They set up a private annuity trust for the benefit of their two grown children, then sold the house and surrounding 17 acres to the trust for about \$500,000. The trust, in turn, sold the property to a third party.

Rather than receive a lump sum from the sale, the Howards will get about \$2,800 a month from the trust for the rest of their lives. The trust's assets can be invested in stocks, bonds, mutual funds or other real estate.

That payment, which is based on the property's sale price, the couple's joint life expectancy and the assumed interest rate determined by the IRS, is nearly triple the amount the Howards were receiving in rent. Although they can't receive more than \$2,800 a month, they can borrow from the trust. "It will allow us both to retire on easy street," says George, 67, a retired farmer and part-time rural mail carrier. Karen, 62, is a full-time mail carrier who plans to retire at the end of this year.

And instead of paying nearly

\$110,000 in capital-gains taxes up front, they will pay about \$4,200 a year over 25 years (their joint life expectancy). The portion of their monthly income that represents their cost basis in the property is tax-free, and the balance is taxed as ordinary income.

**A waiting game.** Although the Howards decided to take annuity payments immediately, younger investors who use this strategy, such as Michael Stahl, often prefer to wait, deferring payments—and taxes—until they're closer to retirement.

Michael, 42, and his wife, Jennifer, 40, plan to create a private annuity trust for the benefit of their 6-year-old daughter, Kristina, when they sell their home near San Diego. Because the Stahls have lived in the house for less than a year, they don't qualify for the usual tax exemption of \$250,000 per individual, or \$500,000 per couple, on the sale of the house. Their expected gain of \$465,000 would be taxed as



JOE SCHMELZER

● Jennifer and Michael Stahl, with daughter Kristina, will defer a big tax bill when they sell their house.

## Top-Yielding Money-Market Accounts

Taxable mutual funds	30-DAY YIELD TO JULY 13	MIN. INVEST.	WEB ADDRESS (WWW.)	TOLL-FREE NUMBER
1. Treasurer's Fund/Domestic Price/CI B*	3.15%	\$ 3,000	gabelli.com	800-422-3554
2. Treasurer's Fund/US Treasury/CI B*	3.10	3,000	gabelli.com	800-422-3554
3. Scudder MM Premium/AARP*	3.03	25,000	aarp.scudder.com	800-253-2277
4. Transamerica Premier Cash Reserves*	2.95	1,000	transamerica.com	800-892-7587
NATIONAL AVERAGE	2.57%			

Tax-free mutual funds	30-DAY YIELD TO JULY 13	TAX. EQ. YIELD 25%/35% BRACKET	MIN. INVEST.	WEB ADDRESS (WWW.)	TOLL-FREE NUMBER
1. Alpine Municipal*	2.29%	3.1%/3.5%	\$2,500	alpinefunds.com	888-785-5578
2. Vanguard Tax-Exempt	2.19	2.9/3.4	3,000	vanguard.com	800-662-7447
3. Tax-Exempt MF of America*	2.15	2.9/3.3	1,000	americanfunds.com	800-421-0180
4. Alpine Municipal/Advisor*	2.04	2.7/3.2	2,500	alpinefunds.com	888-785-5578
NATIONAL AVERAGE	1.72%	2.3%/2.6%			

Deposit accounts	RECENT ANN. YIELD	MIN. AMOUNT	WEB ADDRESS (WWW.)	TOLL-FREE NUMBER
1. Superior Savings of New England (N.Y.)	3.50%	\$10,000	superiorsavings.com	877-728-3758
2. UmbrellaBank.com (Ala.)†	3.40	1,000	umbrellabank.com	866-242-0065
3. Resource Bank (Va.)	3.36	10,000	resourcebankonline.com	877-726-5463
4. Security State Savings Bank (Nev.)	3.34	1,000	bankplace.com	888-703-5414
NATIONAL AVERAGE	2.42%			

Data to July 13. \*Fund is waiving a portion of expenses. †Internet only. Sources: Money Fund Report, iMoneyNet Inc., One Research Dr., Westborough, MA 01581; 508-616-6600; www.imoney.net.com; Bankrate.com.

## Top-Yielding Certificates of Deposit

6-month	RECENT ANN. YIELD	MIN. AMOUNT	WEB ADDRESS (WWW.)	TOLL-FREE NUMBER
1. Corus Bank (Ill.)	3.88%	\$10,000	corusbank.com	800-989-5101
2. Bank of Internet (Cal.)†	3.83	1,000	bofi.com	877-541-2634
3. Imperial Capital Bank (Cal.)	3.82	2,000	imperialcapitalbank.com	800-455-4485
4. BankDirect (Tex.)†	3.80	10,000	bankdirect.com	877-839-2737
NATIONAL AVERAGE	2.42%			

1-year	RECENT ANN. YIELD	MIN. AMOUNT	WEB ADDRESS (WWW.)	TOLL-FREE NUMBER
1. Corus Bank (Ill.)	4.16%	\$10,000	corusbank.com	800-989-5101
2. GMAC Bank (Del.)†	4.10	500	gmacbank.com	866-246-2265
3. M&T Bank (N.Y.)	4.09	5,000	mandtbank.com	800-528-6532
4. State Farm Bank (Ill.)†	4.04	500	statefarm.com	877-734-2265
NATIONAL AVERAGE	2.82%			

5-year	RECENT ANN. YIELD	MIN. AMOUNT	WEB ADDRESS (WWW.)	TOLL-FREE NUMBER
1. Intervest National Bank (N.Y.)†	4.80%	\$ 2,500	intervestnatbank.com	212-218-8383#
2. Quantum National Bank (Ga.)†	4.75	500	quantumbank.com	800-533-6922
3. Eastern Savings Bank (Md.)	4.75	1,000	eastersavingsbank.com	800-787-2265
4. Advanta Bank (Utah)†	4.65	10,000	advantabankcorp.com	800-788-2632
NATIONAL AVERAGE	3.74%			

Data to July 14. †Internet only. #Not a toll-free number. Source: © 2005 Bankrate.com, a publication of Bankrate Inc., 11760 US Highway 1, N. Palm Beach, FL 33408; 800-327-7717, ext. 274; www.bankrate.com.

## Yield Benchmarks

Bonds & Treasuries	YIELD	MONTH-AGO	YEAR-AGO
U.S. series EE savings bonds*	3.50%	2.25%	2.84%
U.S. series I savings bonds	4.80	3.67	3.39
Six-month Treasury bills	3.53	3.23	1.65
Five-year Treasury notes	4.02	3.88	3.57
Ten-year Treasury notes	4.21	4.11	4.38

Data to July 20. \*EE savings bonds purchased after May 1, 2005, have a fixed rate of interest. Bonds purchased before May 1, 1995, earn a minimum of 4% or a market-based rate. Bonds bought between May 1, 1995, and May 1, 2005, earn a market-based rate from date of purchase. SOURCE FOR TREASURIES: International Financing Review.

## UPDATES

For the latest savings yields and loan rates, visit [kiplinger.com/finances/yields](http://kiplinger.com/finances/yields).

ordinary income, and the combined federal and state tax bite of 44% would consume more than \$200,000 of their profit.

Michael and Jennifer plan to delay the start of their annuity—and their need to start paying the tax bill—for as long as possible, although payments must begin by the time Michael turns 70½. “Anything that can help me minimize my taxes is great,” says Michael, a professional real estate investor.

A private annuity trust “is like an interest-free loan from Uncle Sam,” says David Reyes, a certified estate adviser with Reyes Consulting, in San Diego. Whatever is left in the trust after the second owner dies passes to the beneficiaries free of estate taxes and without going through probate.

**Tap your gains.** The California land rush has made private annuity trusts popular there for several years. Now the trusts are spreading to other parts of the country, says Tom Ambrose, of Ambrose Financial, a wealth advisory firm in Chadds Ford, Pa. ([www.mypatplan.com/tambrose](http://www.mypatplan.com/tambrose)). The trusts allow sellers to capture their real estate gains and diversify into other investments without having to pay the tax bill all at once.

Anyone who wishes to sell highly appreciated assets, such as stocks and art, is concerned about the immediate income-tax liability and doesn't need a lump-sum payment should consider a private annuity trust, says Reyes. A trust can also be appropriate for people concerned about estate taxes.

Such trusts are generally not suitable for younger people who need more income than an annuity would allow, or for homeowners selling a primary residence who qualify for the tax exemption on capital gains. To get an idea of your potential tax savings, request a free illustration at Reyes's Web site, [www.privateannuitytrust.net/davidreyes](http://www.privateannuitytrust.net/davidreyes). Set-up fees range from \$5,000 to \$10,000. **K** —Research: ELIZABETH KOUNTZE