

Private Annuity

CONCEPT APPLIED:

Using a private annuity to exchange a sizable income-producing asset for a lifetime income lets a property owner enjoy important tax benefits. If properly structured, the asset is excluded from the owner's estate.

HOW IT WORKS:

Proper business valuation is essential, and there are risks. The buyer risks the annuitant living beyond expectancy, which would increase the purchase price. Because annuity payments are unsecured, the annuitant risks the buyer becoming unable to make ongoing payments.

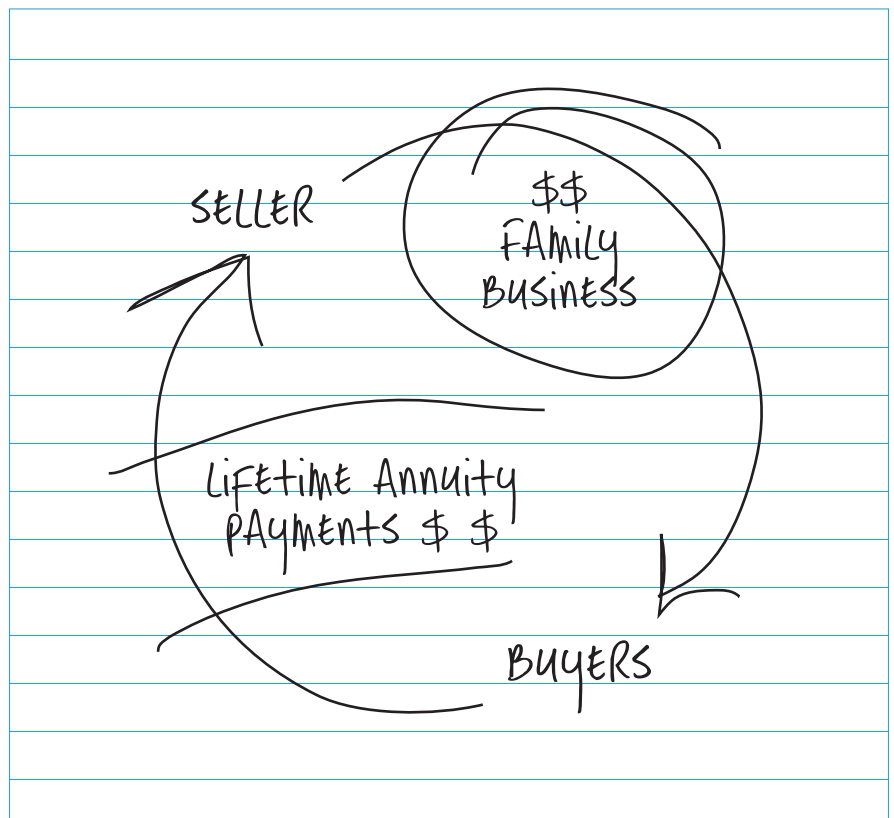
Each payment the owner receives is part tax-free return of basis in the property, part capital gain, and part interest.

WHY IS IT USEFUL?

The tax benefits make private annuities attractive, offering a way to transfer assets to family members without gift or estate taxes. For property with a low basis, the owner can recognize capital gains over a period of many years while enjoying the security of lifetime payments.

50 WORDS OR LESS

Two or more individuals enter into a contract transferring an asset (for example, a family business or real estate) to children (or other beneficiaries) in exchange for lifetime annuity payments of equal value, usually paid out of income generated by the business or other asset.



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