Multiple Asset Locations

Portfolio Management
for Financial Advisors

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Reasons for having multiple asset locations stem from the fact that there are two principal forms of taxation:

1. **Tax on Income and Investment Returns**

EXAMPLE: various forms of special tax treatment encourage citizens to save money for education and retirement

2. **Tax on Generational Wealth Transfers**

! NOTE !

Estate and gift sections of the tax code allow individuals to establish various forms of fiduciary structures for the purpose of transferring wealth from one person to another

Family Wealth Disposition Flow

Family Wealth Disposition Flow identifies 4 distinct phases to the disposition process:

PHASE 1: Relates to where the investor’s wealth originated. Was it either created by the investor or the investor was a beneficiary?

PHASE 2: Relates to the ways the investor can invest or dispose of the wealth:

- keep assets in his name (invest in taxable, tax exempt, tax deferred account)
- transfer the wealth through charitable or non charitable giving

PHASE 3: Relates to tax implications of any transaction

PHASE 4: Deals with ownership of the investor’s wealth at a future point in time. There are 4 parties with claim on these assets:

- government as taxing authority
- charities or other beneficiaries
- member of the investor’s family
- the original investor’s estate

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Evaluating Wealth Planning Solutions - Criteria

TERM	Is the holding vehicle structured to last in perpetuity, for life, or for a specific period?
ACCESS	How much access does the investor have to the underlying assets?
CONTROL	Who controls the investment management options?
VALUATION	Are there particular opportunities for valuation discount?
TAX EFFICIENCY	Does the structure help enhance a strategy's tax efficiency?

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Applying the Criteria to Specific Wealth Planning Solutions

PERSONAL ACCOUNTS

- The term of the personal account is the life of the account owner
- The owner has total access to and control over the assets
- No opportunities for valuation discounts
- Personal account structure is not considered tax efficient as the returns earned in a personal account are taxed at the individual's marginal tax rate

VARIABLE LIFE INSURANCE POLICIES

- The term of a variable life policy is the life of the policy holder that the policy is supposed to cover
- Some policies allow owners to take loans against the policy
- There are statutory diversification requirements, the underlying portfolio can only invest in strategies and vehicles approved by the insurance carrier
- No valuation discounts
- They are considered tax efficient as the investment return are compounded on a tax deffered basis

Applying the Criteria to Specific Wealth Planning Solutions

TAX-DEFERRED PENSION VEHICLES

- An example of such vehicle is U.S. resident individual retirement account (IRA)
- The term of an IRA is generally the life of the individual who owns the account. After the individual dies, the assets go to the individual's estate
- Owners have significant control of the investments within the account
- No significant opportunities to benefit from valuation discount
- They are tax efficient as the investment income accumulates in the portfolio in a tax deferred manner.
- However, it can be tax inefficient if the account has significant assets in it upon the account holder's death (these assets would be subject to income and estate tax)

Applying the Criteria to Specific Wealth Planning Solutions

FOUNDATIONS

An entity created for the purpose to allow its funds to accumulate and be distributed over time to fund particular purpose

- Foundations typically have indefinite term
- Access for benefactors is limited to the payment of management fees or the eimbursement of certain expenses
- The benefactor has significant management control over the foundation in terms of disbursement and deployment of assets
- Valuation discounts generally are not applicable because the value of the assets can be deducted from benefactor’s income
- It is highly tax efficient, as it’s investment income is tax exempt

THANK YOU!