

## **ENGINEERED CAPITAL GAINS TRANSACTION**

### **The Numbers - California Chart 1**

	<u>Transaction</u>	<u>Straight Sale</u>
<b>Cost Basis</b>	<b>\$100,000</b>	<b>\$100,000</b>
<b>Sale Price</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>
<b>Capital Gain</b>	<b>\$900,000</b>	<b>\$900,000</b>
<b>Current Federal Capital Gain Tax (based on income level above \$400,000)</b>	<b>23.8%</b>	<b>23.8%</b>
<b>Actual Current Federal Capital Gain</b>	<b>\$214,200</b>	<b>\$214,200</b>
<b>California State Gain Tax *</b>	<b>10%</b>	<b>10%</b>
<b>Actual California Gain Tax</b>	<b>\$68,580</b>	<b>\$68,580</b>
<b>Total Gain Tax</b>	<b>\$282,780</b>	<b>\$282,780</b>
<b>Gain Tax Paid</b>	<b>Zero</b>	<b>\$282,780</b>
<b>Amount Available for Investment</b>	<b>\$1,000,000</b>	<b>\$717,220</b>
<b>Amount in Estate at Death</b>	<b>Zero</b>	<b>\$717,220</b>
<b>Asset Amount at Risk</b>	<b>Zero</b>	<b>\$717,220</b>
<b>The Magic Number</b>	<b>\$282,780</b>	<b>Not available</b>

**\* This is an approximation. State Codes can have an effect on the actual dollar amount.**

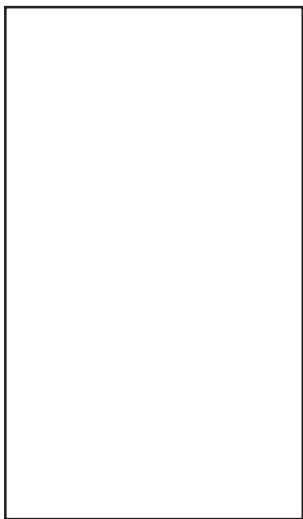
# **ENGINEERED CAPITAL GAINS TRANSACTION**

## **Chart 2**

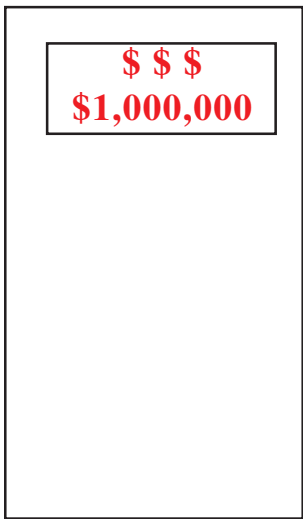
**Client**



**DNGT**

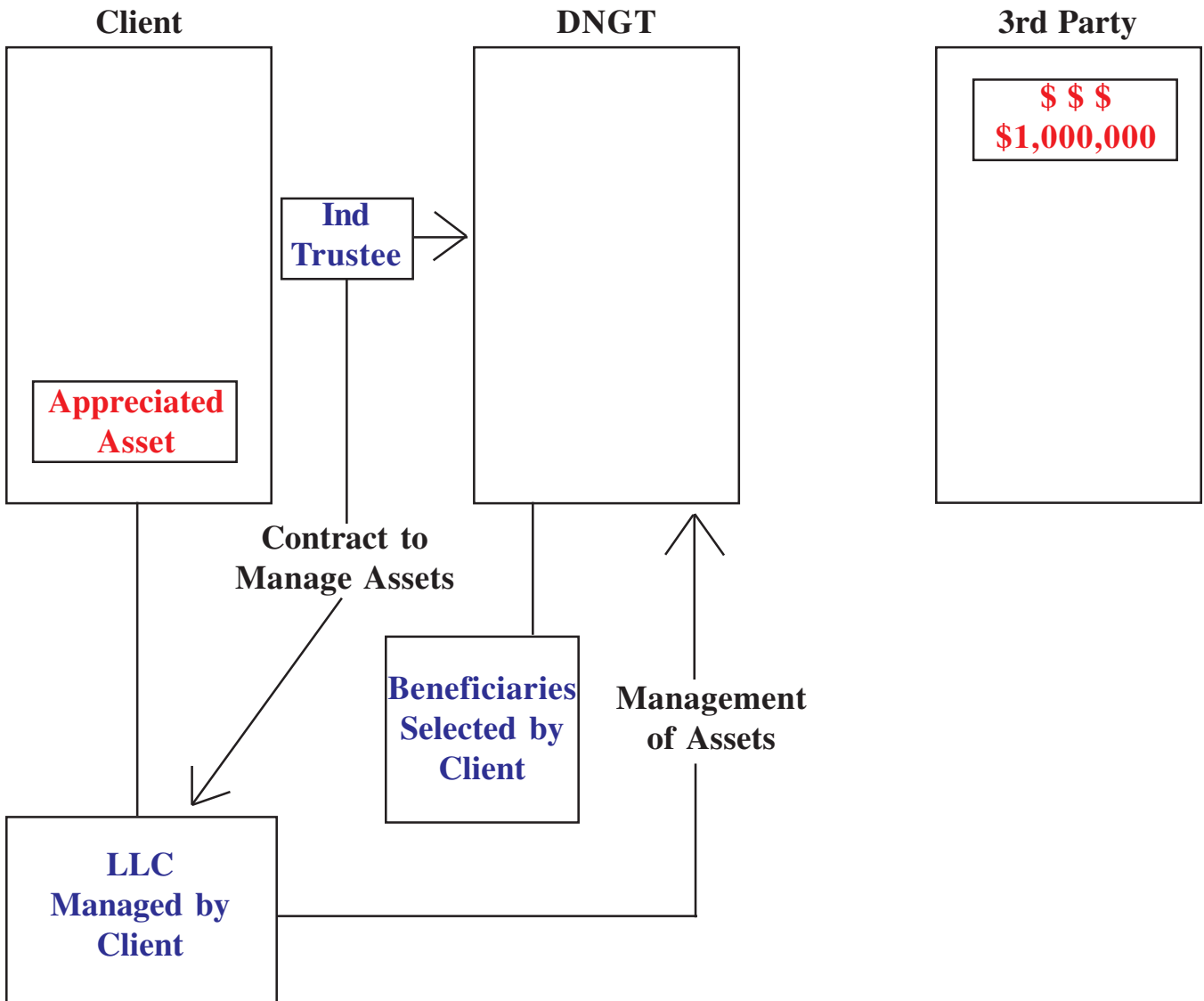


**3rd Party**



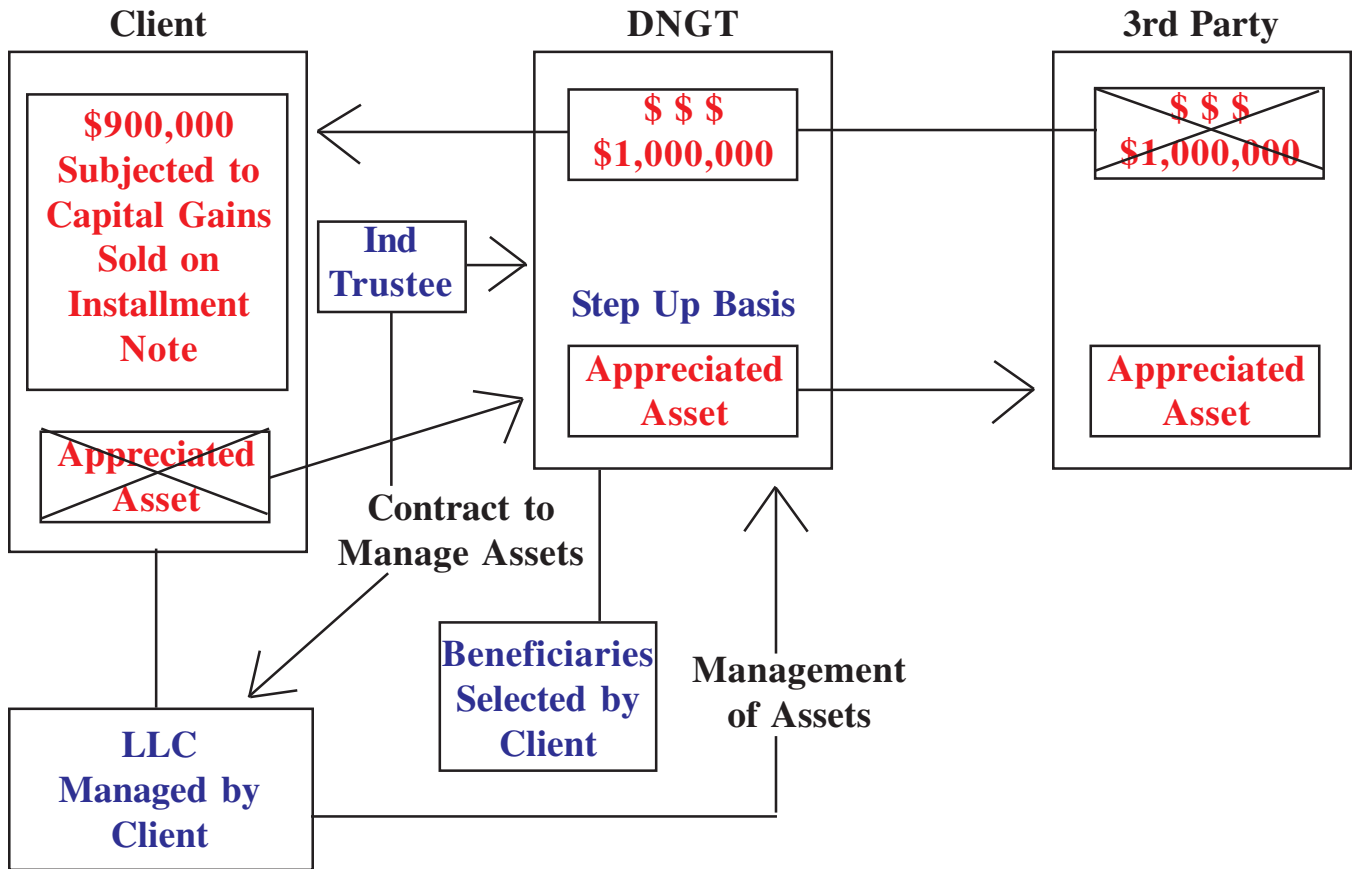
# ENGINEERED CAPITAL GAINS TRANSACTION

## Chart 3



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Chart 4



## Capital Gains Tax Chart

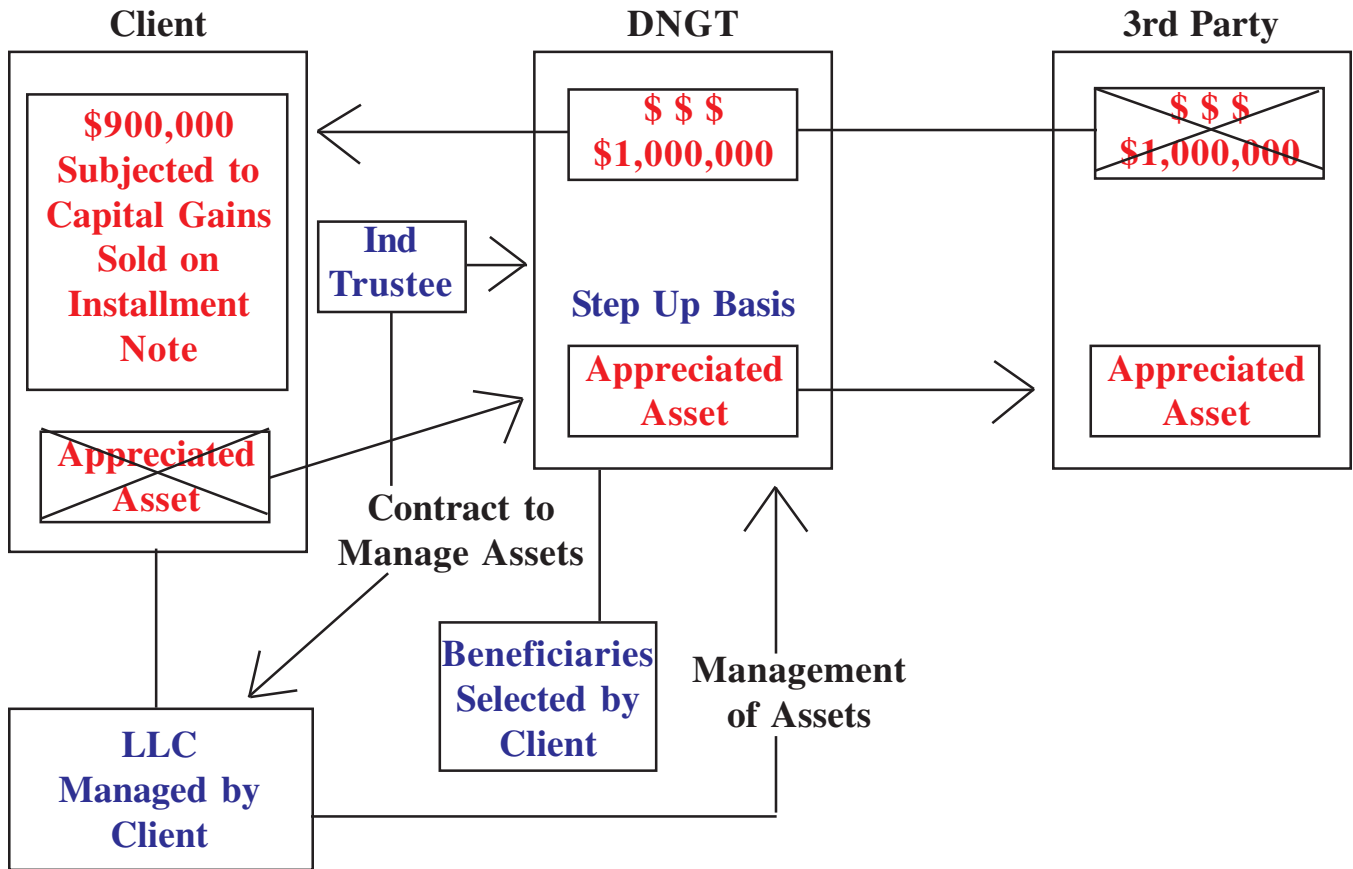
<u>Line 37 (AGI)</u>	<u>Tax Status</u>	<u>Rate</u>
From \$0 - \$36,251	Single	Zero
Over \$36,252 - \$199,999	Single	15% <b>Break Point</b>
Over \$200,000 - \$399,999	Single	15% + 3.8%
Over \$400,000	Single	20% + 3.8%
From \$0 - \$72,501	Joint	Zero
Over \$72,502 - \$249,999	Joint	15% <b>Break Point</b>
Over \$250,000 - \$449,999	Joint	15% + 3.8%
Over \$450,000	Joint	20% + 3.8%

DNGT purchases appreciated asset from client using an Installment Note that causes line 37 of client's 1040 to drop below break point.

**Savings \$900,000 x 8.8% = \$79,200 in Capital Gains Taxes.**

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Chart 5



Let's assume that the Installment Note with interest pays out in 11 years. We have established in Chart #1 that the magic number - the starting amount that under these sets of circumstances will be available to invest is \$282,780 (the amount that would otherwise be paid to the IRS as capital gains tax). Let's further assume that this can be invested at a four (4) % return which equals approximately \$5,600 a year x 11 years = \$61,600 in investment income. Over an 11 year period that would give us an average investment each year of \$141,390.

**Recap**

Magic Number - Capital Gains Tax Due		\$282,780
Rate Adjustment Through Installment Sale	\$79,200	
Investment Income	<u>\$61,000</u>	
	\$140,200	
Total Earned/Saved Through Using the Engineered Process		<u>&lt;\$140,200</u>
Making the True Capital Gains Tax Paid Over 11 Years		\$142,590