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Income and Estate Tax Planning Toolkit

Estate Planning Strategies
Family Office Resources

OVERVIEW

EXECUTIVE SUMMARY

Family Office Resources is a differentiating capability within Wealth Management and serves as "virtual" team members for Financial Advisors in the creation of customized strategies for ultra-high net worth families. The goal of the group is to provide Financial Advisors and clients with holistic solutions that integrate structural, behavioral and investment decisions.

Family Office Resources works closely with clients to thoroughly explore factors relevant to existing or future estate structures and strategies, and educates clients on general tax and estate planning strategies given specific objectives, philosophies, concerns, income needs as well as other considerations.

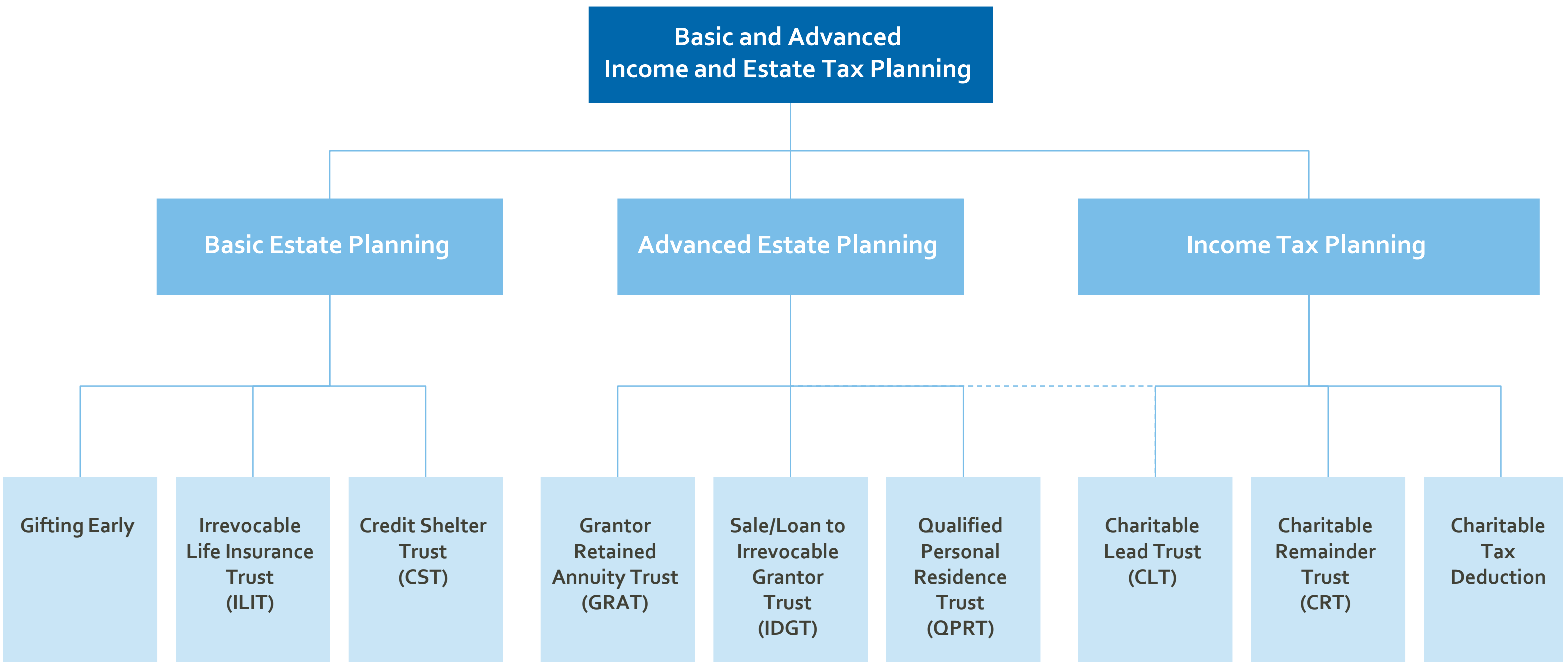
The goal of *Income and Estate Tax Planning Toolkit* is to help clients develop a general understanding of the tax and estate planning techniques. The presentation dedicates one chapter to each technique. Each chapter comprises three complementary sections: ***summary of considerations***, ***graphic illustration***, and ***custom example***.

This presentation was designed to illustrate the financial impact of a particular planning decision. The slides herein do not constitute a recommendation. Caution: many estate techniques share the common risk of the loss of control of the assets once the gift of the assets is complete.

Important: The projections regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results.

NOTE: The strategies set forth herein are shown for educational purposes only, are not tailored to any specific client, and do not constitute a recommendation to employ any strategy identified. To that end, they do not capture all possible outcomes but are based on limited set of assumptions. If the assumptions upon which they are based are not realized, the efficacy of the strategy may be materially different from that which is reflected in the illustration. Accordingly, clients must consult their tax advisor when considering the utility and appropriateness of any strategies identified herein. Please see the additional Important Disclosures at the end of this presentation.

BASIC AND ADVANCED INCOME AND ESTATE TAX PLANNING



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TECHNIQUES BY WEALTH LEVEL

	INCOME TAX PLANNING	INCOME TAX AND ESTATE PLANNING		ESTATE PLANNING
	INCOME TAX PLANNING	SPLIT INTEREST GIFTS	PHILANTHROPY	WEALTH TRANSFER
All Wealth Levels	• Long-Term Capital Gains • Qualified Dividends • Options • Charitable Tax Deduction • Tax-advantaged Investment Vehicles		• Donor Advised Fund (DAF) • Public Charity	• Wills / Revocable Trusts • Health Care Documents • Financial Powers of Attorney • Annual Exclusion

$11MM+		• Charitable Remainder Trusts (CRT)
		• Charitable Lead Trusts (CLT)
				• Qualified Medical and Tuition Exclusions
				• Testamentary Credit Shelter Trust (CST)
				• Irrevocable Life Insurance Trusts (ILIT)
				• Leveraged Gifting
				  • Grantor Retained Annuity Trusts (GRAT)
				  • Sale to Irrevocable Grantor Trusts (IDGT)
				  • Qualified Personal Residence Trusts (QPRT)

$25MM+			• Private Foundation	• Lifetime Exemption • Irrevocable Trusts • Dynasty Trusts

Individuals and estates may want to consider life insurance and lending for liquidity for estate tax purposes and spending to maintain lifestyle.

OVERVIEW OF CURRENT LAWS

	2020	2021
GIFT (LIFETIME) AND ESTATE TAX EXEMPTION	• $11.58MM	• $11.7MM
GENERATION SKIPPING TRANSFER TAX EXEMPTION	• $11.58MM	• $11.7MM
TOP GIFT, ESTATE, GST AND INCOME TAX RATES	• Transfer Tax 40% • Income Tax 37% • Additional Medicare Tax 0.9%	• Transfer Tax 40% • Income Tax 37% • Additional Medicare Tax 0.9%
TOP LONG TERM CAPITAL GAINS AND QUALIFIED DIVIDENDS RATE	• 20% • Net Investment Income Tax 3.8%	• 20% • Net Investment Income Tax 3.8%
QUALIFIED CHARITABLE CONTRIBUTION (FROM IRA FOR THOSE OVER 70.5)	• Yes	• Yes
GRATs/FLP DISCOUNTING	• Unchanged	• Unchanged

"Portability" allows the unused estate tax credit of a deceased spouse to be portable; i.e., to be used by the surviving spouse during life or at death, rather than being lost or wasted. That said, portability may not be the optimal use of the estate tax exemption. Further, portability is not available for the generation-skipping transfer tax exemption. Please refer to slide 11 for more detail on this subject.

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TABLE OF CONTENTS

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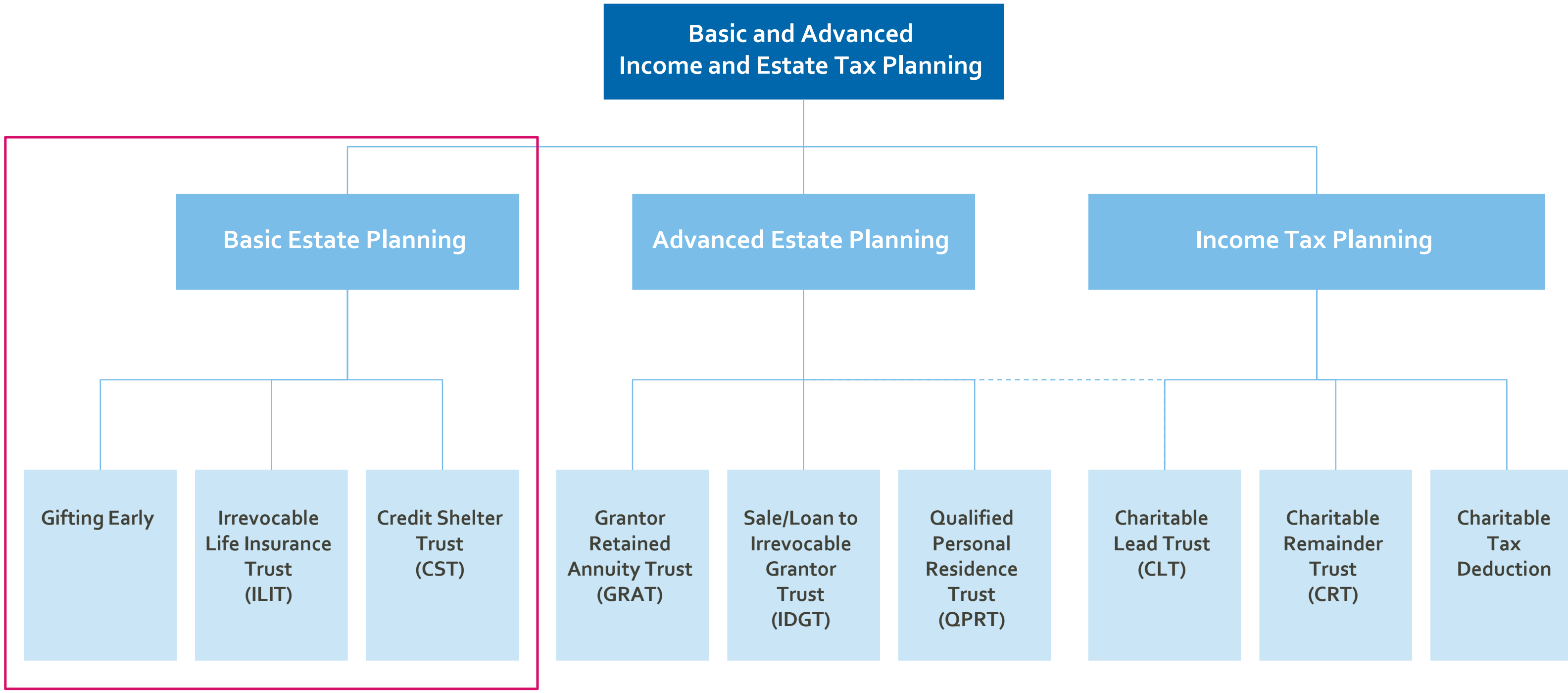
BASIC ESTATE PLANNING



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Chapter 1

GIFTING EARLY

Basic Estate Planning

GIFTING EARLY

Gift and Estate Tax

- Generally, gratuitous transfers a donor makes (except to charity or a U.S. citizen spouse) during his/her lifetime and/or at death are subject to the unified gift and estate tax. A donor may make $15,000 "annual exclusion" gifts to any number of recipients each year that are not subject to the tax. Additionally, qualifying medical and tuition payments made directly to a provider/institution (i.e., not to an intermediary with the understanding that he/she will pay the expenses) are also exempt from transfer taxes.
- In 2021, the combined federal gift and estate tax exemption is $11.7MM per person and will be indexed for inflation in subsequent years. Note that in 2026 the exemption will revert to $5MM , indexed for inflation after 2010. The value of gifts made in excess of a donor's available exemption amount is subject to gift and estate tax at a maximum rate of 40%. Some states also impose a separate state-level gift and/or estate/inheritance tax.
- The cost basis of assets that are included in a decedent's gross estate will generally be adjusted to fair market value as of the date of his/her death. This is often referred to as a "step up" in basis. Assets can also receive a "step down" in basis.

Gifting Early

- A taxpayer whose assets have an aggregate value that exceeds the federal gift and estate tax exemption might consider using a portion of his/her available exemption to make lifetime gifts. Doing so removes the value of the gifted assets AND any future appreciation on those assets from his/her taxable estate. This may decrease or even eliminate his/her gift and estate tax exposure.
- A taxpayer may enhance the potential benefit of gifting early by making gifts to an irrevocable grantor trust. If a trust is structured as a grantor trust, the grantor of the trust is treated as the owner of the trust assets for income tax purposes. He/she will report any income generated in the trust on his/her own individual tax return. This is effectively an additional indirect gift to the trust not subject to gift tax.
- If the gift is a non-managing membership interest of a Family Limited Partnership (FLP) or Limited Liability Company (LLC), a qualified appraisal of the assets may reflect discounts for lack of marketability and/or control. Making discounted gifts may provide an opportunity to transfer greater actual value out of the taxable estate than the gift tax value.

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HYPOTHETICAL ILLUSTRATION

GIFTING EARLY

Donor

Donor makes gifts to the beneficiary.

Beneficiary

Potential future appreciation of the gift is removed from the estate.

Valuation Discount

Gifting with valuation discounts (i.e. liquidity discount, lack of marketability, lack of control discount) may further enhance the wealth transfer.

Irrevocable Grantor Trust

If the gifts are made to an irrevocable grantor trust, of which the donor is the grantor, the donor pays taxes incurred in the trust, thus making an indirect gift that is not subject to gift tax.

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HYPOTHETICAL ILLUSTRATION

GIFTING EARLY USING LIFETIME EXEMPTION

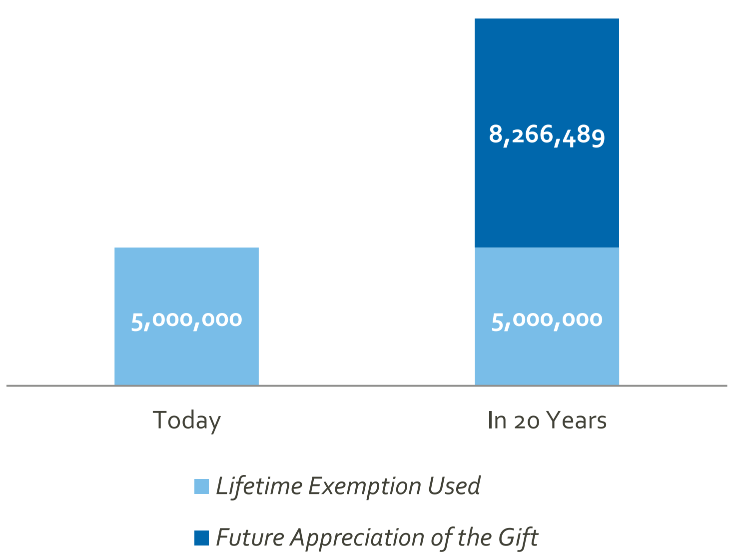
GIFTING TO AN IRREVOCABLE GRANTOR TRUST

- The following illustrates a hypothetical scenario where a donor makes a gift to an irrevocable grantor trust for the benefit of his/her children using a portion of his/her lifetime exemption .
- The value of the gift and any future appreciation is removed from the donor's estate.

Assumptions	
Value of Gift to Irrevocable Grantor Trust	5,000,000
Annual Investment Gross Return	5%
Time Horizon (Year)	20

In 20 Years	
Assets held in Irrevocable Grantor Trust	13,266,489
Lifetime Exemption Used	5,000,000
Appreciation Transferred Free of Estate and Gift Taxes	8,266,489
Gift or Estate Tax %	40%
Transfer Tax Savings from Early Gifting	3,306,595

Assets Outside the Estate



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Not representative of any specific investment.

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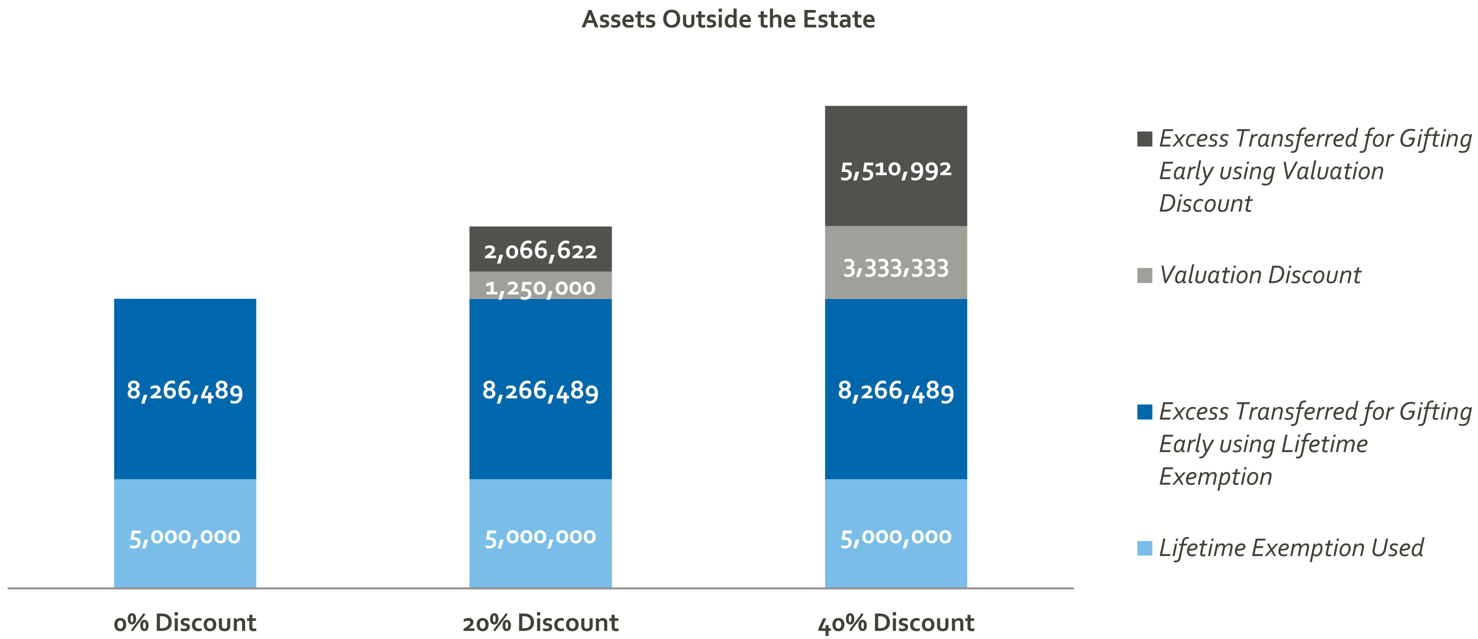
HYPOTHETICAL ILLUSTRATION

GIFTING EARLY USING VALUATION DISCOUNT

GIFTING TO AN IRREVOCABLE GRANTOR TRUST

- The following is a continuation of the hypothetical scenario illustrated on the previous page. Here, the gifted assets qualify for valuation discounts.
- The application of valuation discounts may enhance wealth transfer.



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Chapter 2

IRREVOCABLE LIFE INSURANCE TRUST (ILIT)

Basic Estate Planning

IRREVOCABLE LIFE INSURANCE TRUST (ILIT)

- Objective: To pass life insurance proceeds to family members free of federal estate tax.
- Description: The ILIT is an irrevocable trust that an individual (grantor) creates during life for the benefit of his or her spouse and/or other family members. The ILIT is funded with any existing insurance policies on the grantor's life and/or funds that will be used to purchase new insurance policies on the grantor's life. The grantor is treated as making a gift equal to the value of the assets transferred to the ILIT. The ILIT is the owner and beneficiary of the insurance policies. The ILIT can provide income and principal distributions to the surviving spouse and/or other family members.
- Benefits: (1) The ILIT can provide family members with a source of liquidity to pay estate tax upon the insured's death. (2) The ILIT should receive any insurance death benefits free of federal income tax. (3) The assets of the ILIT (including any appreciation) generally will not be includible in the grantor's estate and will grow inside the ILIT free of federal estate and gift taxes. (4) Distributions from the ILIT generally can be made to beneficiaries free of federal estate and gift taxes. (5) The ILIT can be structured so that contributions to the ILIT (which the trustees presumably will use to pay for insurance premiums) will qualify for the federal annual gift tax exclusion by giving trust beneficiaries certain rights (sometimes referred to as a "Crummey power") to withdraw these contributions. (6) Assets held in the ILIT may be protected from the beneficiaries' creditors, including ex-spouses.
- Disadvantages: (1) ILIT assets will only be available to trust beneficiaries as provided in the trust document. (2) As an irrevocable trust, the grantor cannot decide to terminate the ILIT and take back the trust assets after the ILIT is funded. (3) If the grantor transfers to the ILIT any existing insurance policies on his or her life, the grantor must live 3 years thereafter or else any such policies will be subject to federal estate tax at the grantor's death.

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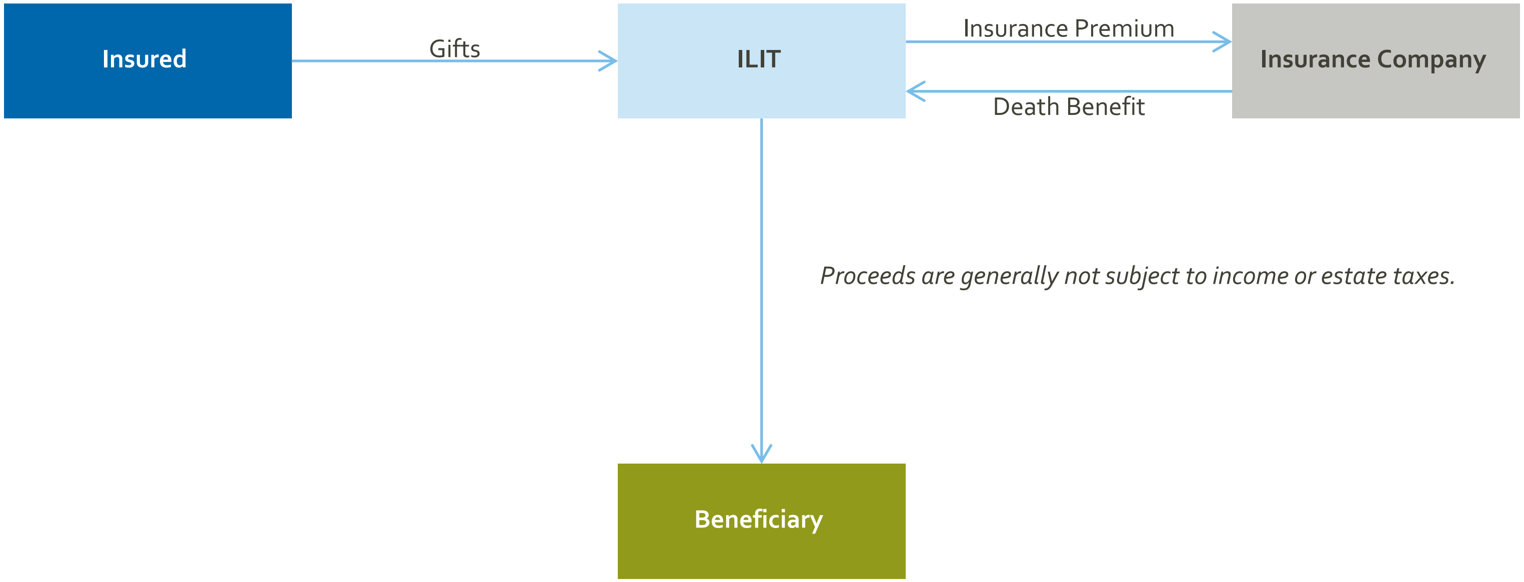
HYPOTHETICAL ILLUSTRATION

IRREVOCABLE LIFE INSURANCE TRUST (ILIT)



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HYPOTHETICAL ILLUSTRATION

IRREVOCABLE LIFE INSURANCE TRUST (ILIT)

RATE OF RETURN ON FIXED DEATH BENEFIT WITH SURVIVORSHIP COVERAGE

- The following hypothetical illustrates the rate of return on a $10,000,000 death benefit. This hypothetical sample pricing is for a policy insuring the lives of a healthy male and a healthy female, both age 60, with survivorship coverage. The death benefit under survivorship coverage is not paid until the death of the second spouse.
- The earlier death occurs, the higher the internal rate of return (IRR) will be to the beneficiary. Life insurance proceeds are generally exempt from income taxes (and potentially estate taxes if structured properly).
- The last row in the table below reflects the normal life expectancy of the second spouse to die.

Year	Age	Annual Premium	Cumulative Premiums Paid	Death Benefit	IRR on the Death Benefit
5	65	100,000	500,000	10,000,000	124.0%
10	70	100,000	1,000,000	10,000,000	40.4%
15	75	100,000	1,500,000	10,000,000	21.6%
20	80	100,000	2,000,000	10,000,000	13.7%
25	85	100,000	2,500,000	10,000,000	9.5%
30	90	100,000	3,000,000	10,000,000	6.9%
32	92	100,000	3,200,000	10,000,000	6.2%

The above hypothetical table is for illustrative purposes only.

The above table serves as a high-level analysis, assuming an annual premium of $100,000 and a death benefit of $10,000,000.
In this hypothetical example, should the death occur in **Year 30** (when the insureds are age 90), the corresponding internal rate of return on the death benefit is **6.9%**.
As the example illustrates, the later death occurs, the lower the internal rate of return on the death benefit.

The type of insurance product selected effects the outcome. Not all policies are guaranteed. Clients and their financial advisors should pay particularly close attention to guarantees when selecting this type of estate planning technique.

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Chapter 3

CREDIT SHELTER TRUST (CST)

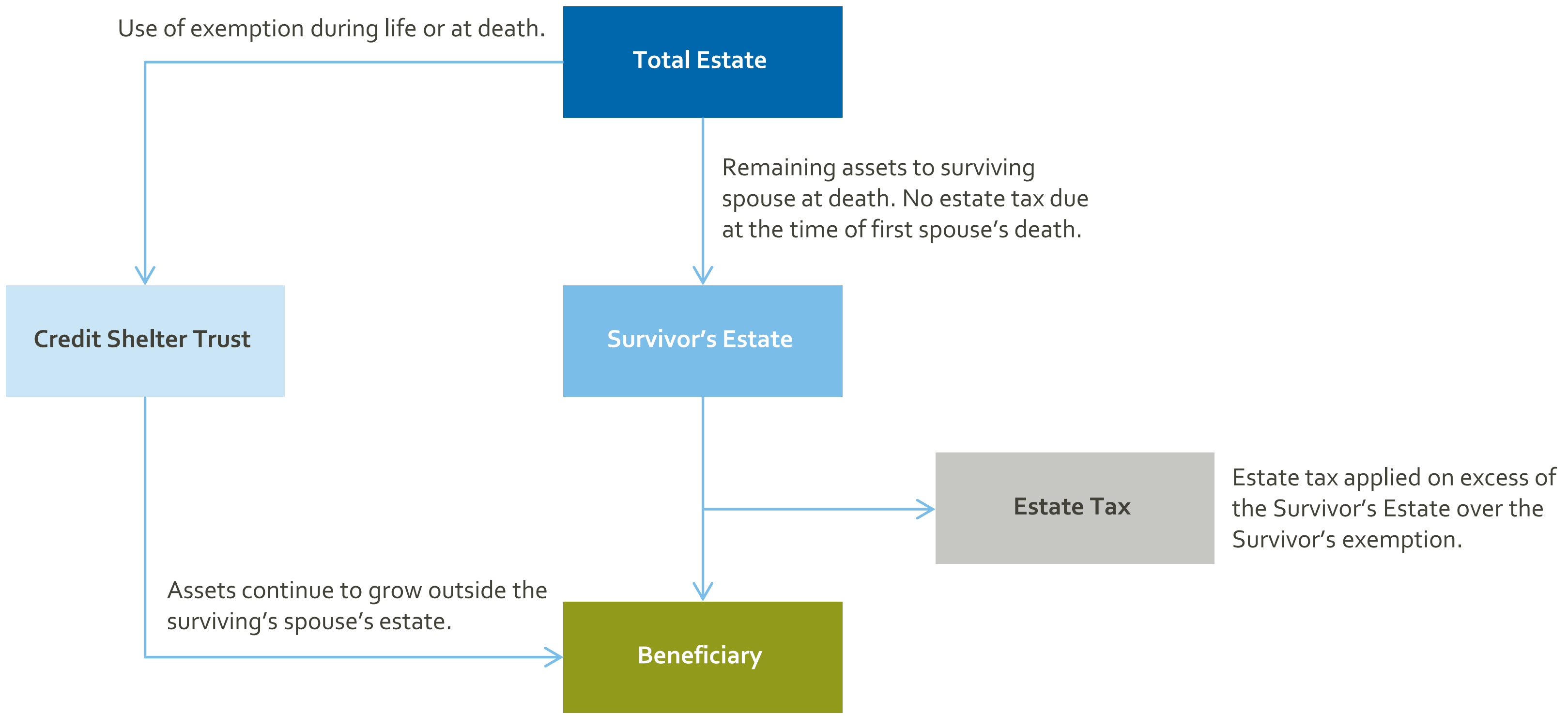
Basic Estate Planning

CREDIT SHELTER TRUST (CST)

- Objective: To maximize the amount that can pass free of estate tax to family members at the death of a married couple.
- Description: The Credit Shelter Trust generally comes into effect under the Will or Revocable Trust of the first spouse to die, and it can provide income and principal distributions to the surviving spouse and/or other family members. A Credit Shelter Trust is funded at the first spouse's death with that amount of assets equal to or less than his or her available federal estate tax exclusion.
- Benefits: (1) The assets of the first spouse to die are placed in the Credit Shelter Trust free of federal estate tax - the trust allows a married couple to take advantage of the federal estate tax exclusion available at the first spouse's death. (2) At the surviving spouse's death, trust assets (including any appreciation) generally will not be includible in his or her estate and will pass to family free of federal estate tax.
- Disadvantages: (1) Credit Shelter Trust assets will only be available to the surviving spouse and family as provided in the trust provisions. The trust terms can authorize an independent trustee to determine when, and to what extent, to make distributions of trust property to family members. (2) Assets used to fund the Credit Shelter Trust will not receive a step up in basis on the death of the surviving spouse. Depending on the size of the combined estates of the two spouses and the application of the portability of the federal estate tax exclusions for both spouses, the lack of a step up in basis may subject the Credit Shelter Trust assets to a capital gains tax on sale without any corresponding estate tax savings.

HYPOTHETICAL ILLUSTRATION

CREDIT SHELTER TRUST (CST)



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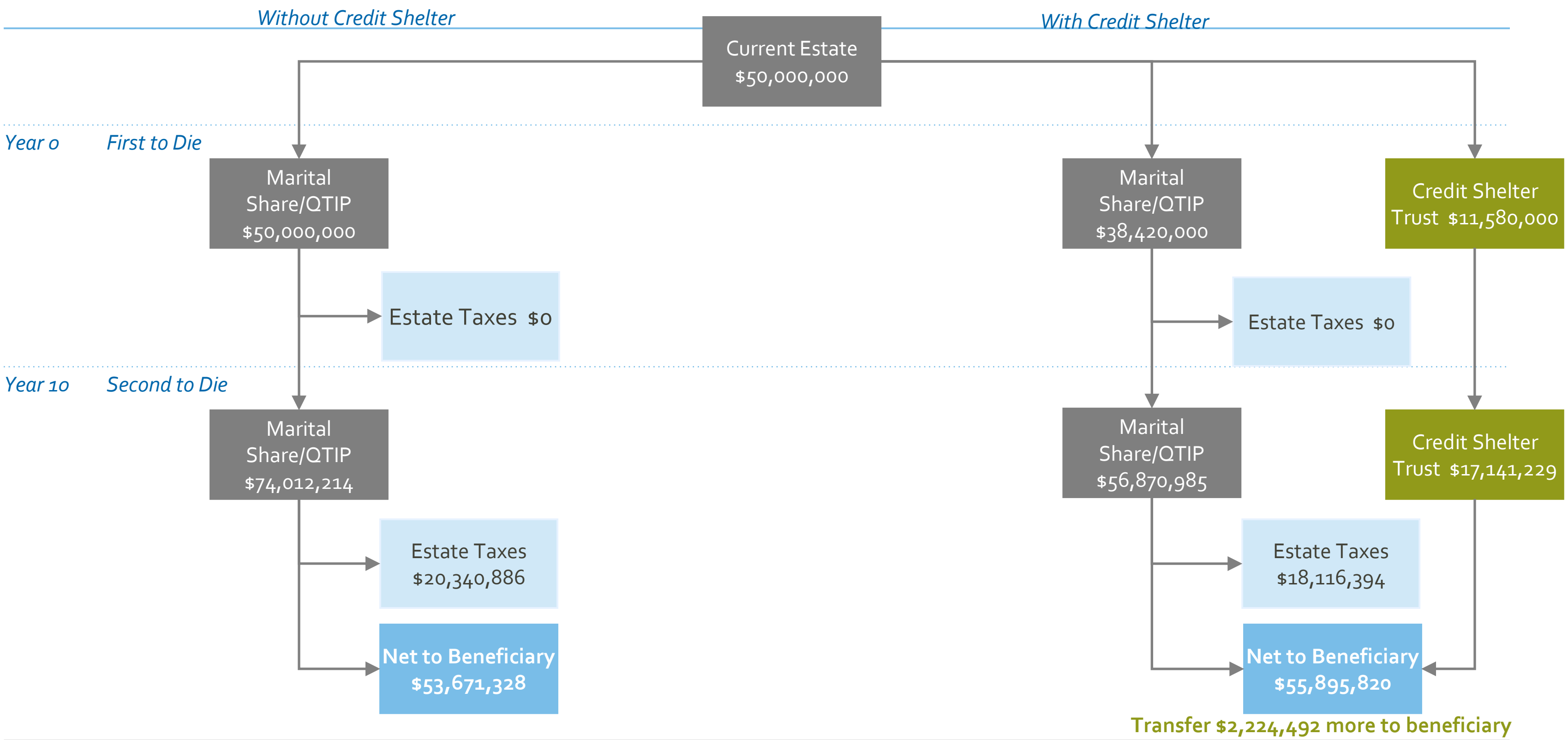
HYPOTHETICAL ILLUSTRATION

CREDIT SHELTER TRUST (CST)

Assumptions	
Lifetime Exemption of the First Spouse	11,580,000
Lifetime Exemption of the Second Spouse	0
Credit Shelter Amount	11,580,000
Estate Tax %	40%
Annual Investment Net Return	4%

In the following example, a Credit Shelter Trust is funded with $11.7MM upon at the death of the first spouse. The Credit Shelter Trust is not subject to estate tax at the death of either spouse.



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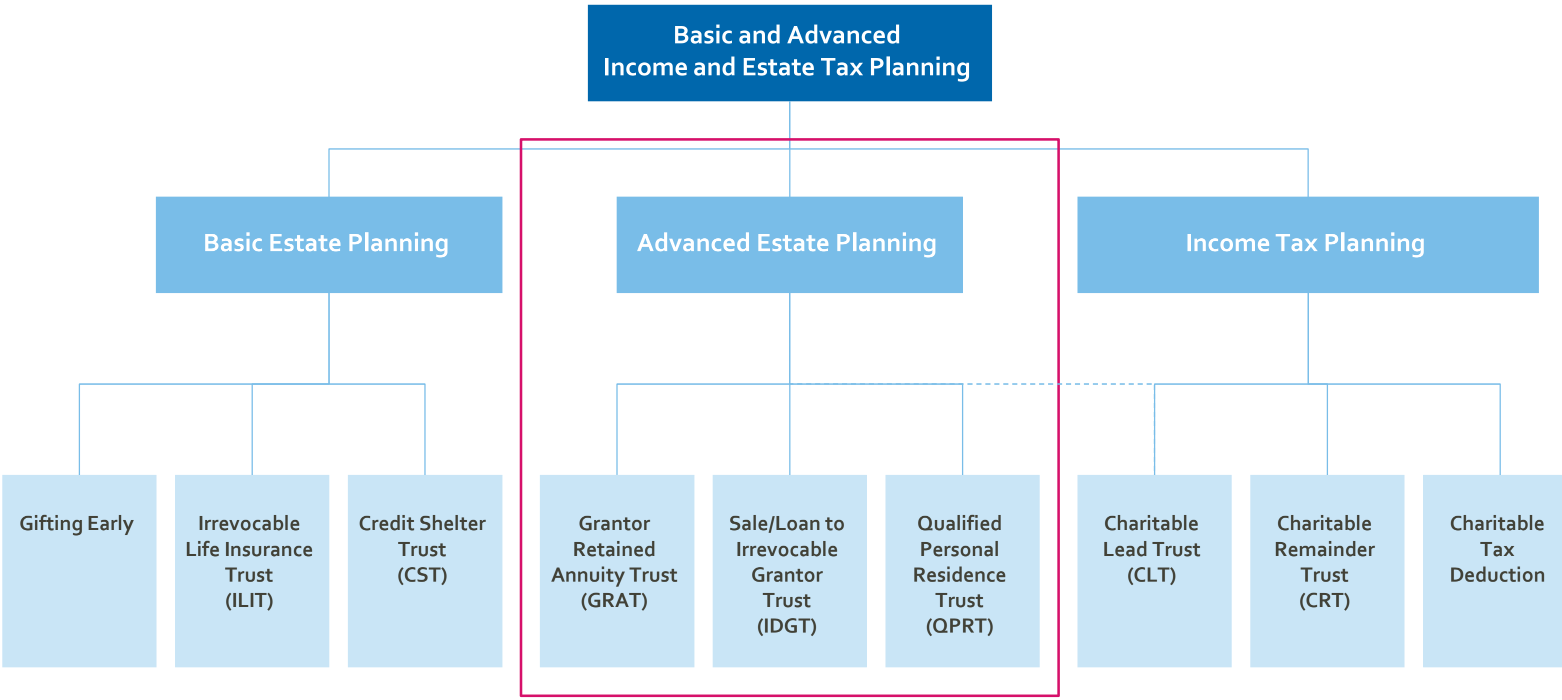
QUALIFIED TERMINAL INTEREST PROPERTY (QTIP) TRUST

- Objective: To provide for one's spouse, potentially defer the payment of federal estate or gift tax until the surviving spouse's death, and control the ultimate disposition of trust assets following the spouse's death.
- Description: The QTIP Trust generally comes into effect under the Will or Revocable Trust of the first spouse to die and operates exclusively for the benefit of the surviving spouse. This trust will not generate any federal estate tax upon the first spouse's death if it qualifies for the marital deduction (one of the requirements is that all income must be distributed to the surviving spouse on at least an annual basis) and the appropriate election is made on the estate tax return of the first spouse to die. The trust can authorize principal distributions to the surviving spouse, but neither income nor principal can be distributed to anyone other than the surviving spouse for so long as he or she is alive.
- Benefits: (1) If the QTIP Trust obtains the marital deduction, trust assets will not be subject to federal estate tax at the first spouse's death. (2) The surviving spouse will receive a lifetime income interest in the trust. (3) Through the terms of the trust, the first spouse to die rather than the surviving spouse determines who will receive trust assets following the death of the surviving spouse (this may be important where the first spouse to die wishes to "disinherit" the surviving spouse's next spouse or in the case of a second marriage if the first spouse to die wishes to ensure that his or her children from a first marriage will receive their inheritance). (4) The trust can provide asset management for the surviving spouse.
- Disadvantages: (1) At best, the QTIP Trust can defer the payment of federal estate tax at the first spouse's death because the remaining trust property ultimately will be subject to estate tax in the surviving spouse's estate. (2) Distributions of trust principal will only be available to the surviving spouse as provided in the trust provisions - the trust terms can authorize an independent trustee to determine when, and to what extent, to make distributions of trust property to the surviving spouse.

ADVANCED ESTATE PLANNING



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Chapter 4

GRANTOR RETAINED ANNUITY TRUST (GRAT)

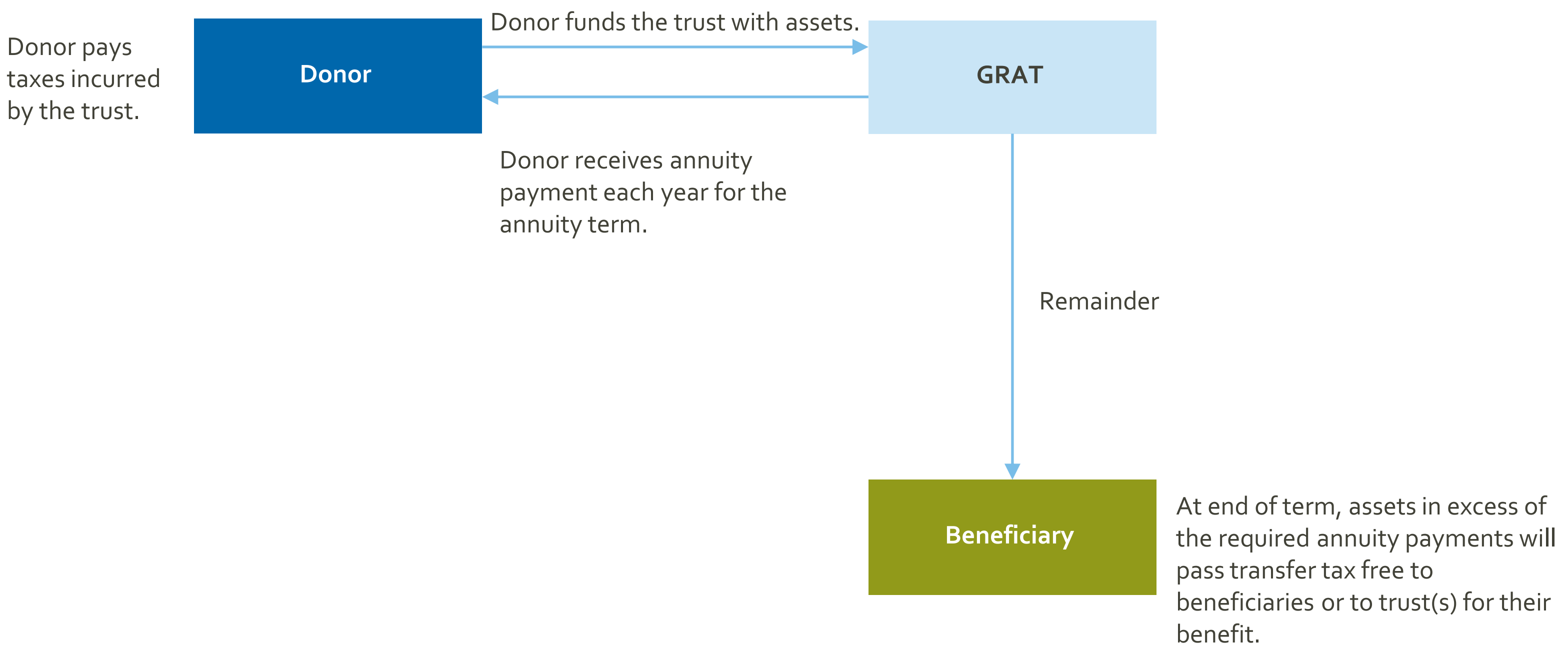
Advanced Estate Planning

GRANTOR RETAINED ANNUITY TRUST (GRAT)

- Objective: To transfer potential asset appreciation to younger family members at a reduced federal gift tax cost.
- Description: The GRAT is an irrevocable trust to which an individual (grantor) transfers assets and takes back a fixed annuity payment, made at least annually, for a specified term of years. The grantor is treated as making a gift equal to the value of the assets transferred to the GRAT less the present value of his or her retained annuity payments, computed by using the government prescribed interest rate in effect for the month the GRAT is funded (referred to as the 7520 rate). At the end of the annuity payment term, the remaining trust assets will pass to the beneficiaries specified in the trust document (usually younger family members or a trust(s) created for their benefit).
- Benefits: (1) If the grantor survives the annuity payment term, then at such time, the remaining trust assets will pass to the trust beneficiaries free of federal estate and gift taxes - the grantor generally can achieve a transfer tax-free shift of wealth to the trust beneficiaries to the extent the trust's combined rate of income and growth exceeds the applicable 7520 rate (this technique works best when the 7520 rate is low). (2) The grantor can choose an annuity payment amount and annuity payment term that produces a near-zero gift value.
- Disadvantages: (1) If the grantor dies before the end of the annuity payment term, some or all of the remaining trust property will be includible in his or her estate and subject to federal estate tax. (2) If the grantor survives the annuity payment term, the beneficiaries who receive the remaining trust assets will take the grantor's basis in this property for income tax purposes. (3) As an irrevocable trust, the grantor cannot decide to terminate the GRAT and take back the trust assets after the trust is funded. (4) Generation Skipping Transfer Tax exemption cannot be allocated to the trust assets passing to the beneficiaries at the end of the annuity term.

HYPOTHETICAL ILLUSTRATION

GRANTOR RETAINED ANNUITY TRUST (GRAT)



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HYPOTHETICAL ILLUSTRATION

GRANTOR RETAINED ANNUITY TRUST (GRAT)

"ZEROED-OUT" FLAT ANNUITY GRAT

- The following is an illustration of a "zeroed-out" flat annuity GRAT funded with $1,000,000 marketable securities.
- In this hypothetical scenario, the donor receives an annuity worth $357,616 per year for 3 years and the remainder beneficiaries receive (outright or in trust) assets worth $30,240.

Assumptions:

Term of Trust	3
Principal	$1,000,000
7520 Rate	3.6%
Annual Investment Return	5.0%

Key Outputs:

Annuity to Donor (%)	35.8%
Annuity to Donor ($)	$357,616
Remainder	$30,240

Hypothetical example is for illustrative purposes only.
Not representative of any specific investment.

Year	Beginning Principal	Growth	Annuity Payment	Remainder
1	$1,000,000	$50,000	$357,616	$692,384
2	$692,384	$34,619	$357,616	$369,387
3	$369,387	$18,469	$357,616	$30,240

HYPOTHETICAL ILLUSTRATION

GRANTOR RETAINED ANNUITY TRUST (GRAT)

"ZEROED-OUT" GROWING ANNUITY GRAT

- The following example is the same as the "zeroed-out" flat annuity GRAT except the annuity grows 20% per year. There is still no taxable gift on funding the trust (i.e., the value of the annuity stream is still roughly equal to the principal contributed to the trust).
- However, the value of assets passing to the beneficiaries at the end of the term may increase reflecting the potential benefit of having assets stay in the trust longer and generate compounded returns for the beneficiaries. In this hypothetical scenario, the remainder beneficiaries receive assets worth $32,073, or $1,833 more compared to the flat annuity scenario.

Assumptions:

Term of Trust	3
Principal	$1,000,000
7520 Rate	3.6%
Annual Investment Return	5.0%
Annuity Growth	20.0%

Key Outputs:

Remainder (Growing Annuity)	$32,073
Remainder (Flat Annuity)	$30,240
Difference	$1,833

Hypothetical example is for illustrative purposes only. Not representative of any specific investment.

Year	Beginning Principal	Growth	Annuity Payment	Remainder
1	$1,000,000	$50,000	$296,003	$753,997
2	$753,997	$37,700	$355,204	$436,493
3	$436,493	$21,825	$426,245	$32,073

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HYPOTHETICAL ILLUSTRATION

GRANTOR RETAINED ANNUITY TRUST (GRAT)

ROLLING GRATS

- Relative to a standard GRAT, so-called "Rolling GRATs" may provide greater opportunity for compounding returns while reducing mortality risk through the creation of a series of sequential short-term GRATs with each subsequent GRAT being funded with an annuity payment from an earlier-created GRAT. The potential compounding benefit results from Rolling GRATs keeping all principal (and interest, in some cases) "at work" over a longer period of time.
- The following is an illustration of two sequential two-year rolling GRATs. In this hypothetical scenario, the remainder beneficiaries receive assets worth $34,420, or $4,180 more than they would with one three-year GRAT.

Assumptions:

Rolling Period	3
Principal	$1,000,000
7520 Rate	3.6%
Annual Investment Return	5.0%

Key Outputs:

"Remainder Trust" Ending Principal	$34,420
3-Year Flat GRAT Remainder	$30,240
Difference	$4,180

Hypothetical example is for illustrative purposes only. Not representative of any specific investment.

Rolling GRATs

Year	Principal	Growth	Annuity	Remainder
1	$1,000,000	$50,000	$527,159	$522,841
2	$522,841	$26,142	$527,159	$21,824

Year	Principal	Growth	Annuity	Remainder
2	$527,159	$26,358	$277,897	$275,620
3	$275,620	$13,781	$277,897	$11,505

Remainder Trust

Year	Beginning Principal	Growth	Remainder Added	Ending Principal
1	$0	$0	$0	$0
2	$0	$0	$21,824	$21,824
3	$21,824	$1,091	$11,505	$34,420

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Chapter 5

SALE/LOAN TO IRREVOCABLE GRANTOR TRUST

SALE/LOAN TO INTENTIONALLY DEFECTIVE IRREVOCABLE GRANTOR TRUST

- Objective: To transfer potential asset appreciation to younger family members at a reduced federal gift tax cost.
- Description: The IDGT is any irrevocable trust that an individual (grantor) creates during life where the grantor is treated as the owner of such trust for federal income tax purposes, but not for federal gift, estate or generation-skipping transfer tax purposes. A popular strategy is for the grantor to gift assets to the IDGT and later sell other assets to the IDGT. NOTE: as a general rule the value of the assets gifted should equal at least 10% of the assets that are later sold to the IDGT. The sale arrangement involves an initial gift to the trust and if the gift is sufficient to secure a portion of the purchase price, the trust can subsequently purchase assets from the grantor in exchange for the trust's promissory note. Typically, the promissory note will require interest-only annual payments with a balloon payment of the outstanding principal balance at the end of a specified term of years. The interest rate must be at least equal to the applicable government prescribed interest rate at the time of sale (referred to as the Applicable Federal Rate, or AFR).
- Benefits: (1) As the owner of the IDGT for federal income tax purposes, the grantor will be liable for paying the trust's income tax, which allows trust assets to grow without depletion for income tax. (2) The grantor's payment of income tax out of his or her own assets is the equivalent of the grantor making a tax-free gift to the trust. (3) The grantor's future estate will be reduced by his or her payment of the trust's income tax. (4) The grantor can contribute appreciated assets to the trust and still pay the income tax when the trust sells those assets. (5) Trust assets (including any appreciation) generally will not be includible in the grantor's estate and grow inside the trust free of federal estate and gift taxes. (6) Trust distributions generally can be made to beneficiaries free of federal estate and gift taxes. (7) Trust assets may be protected from the beneficiaries' creditors, including ex-spouses.
- Additional Benefits if Sale to IDGT: (1) As the owner of the IDGT for federal income tax purposes, (i) the grantor's sale of appreciated assets to the trust will not generate any gains if the grantor survives the term of the promissory note and (ii) the trust's interest payments on the promissory note related to the sale will not generate interest income during the grantor's life. (2) The grantor can achieve a tax-free transfer of wealth to trust beneficiaries to the extent the trust's combined rate of income and growth on the assets purchased from the grantor exceeds the applicable AFR for the related promissory note (this technique works best when the AFR is low).
- Disadvantages: (1) The grantor may not wish to pay the IDGT's income tax in future years. (2) The IDGT will pay its own income tax following the grantor's death, including income tax attributable to any appreciated property sold after the grantor's demise. (3) The grantor cannot sell assets to the IDGT without making an initial gift to it unless the IDGT has sufficient assets of its own. (4) IDGT assets will only be available to trust beneficiaries as provided in the trust document (5) As an irrevocable trust, the grantor cannot decide to terminate the IDGT and take back the trust assets after the IDGT is funded. (6) The Internal Revenue Service may challenge the valuation of the assets sold to the IDGT in order to establish that the grantor made a gift to the IDGT equal to all or part of the value of the assets sold to the IDGT. (7) The Internal Revenue Service may raise various arguments (*e.g.*, the IDGT was not sufficiently funded or the IDGT's promissory note is equity rather than debt) in order to establish that the grantor made a gift to the IDGT equal to all or part of the value of the assets sold to the IDGT. (8) The IDGT is required to repay the loan even if the combined rate of income and growth on the assets purchased from the grantor does not exceed the applicable AFR for the related promissory note. You should consult with your legal or tax advisor prior to implementing this strategy.

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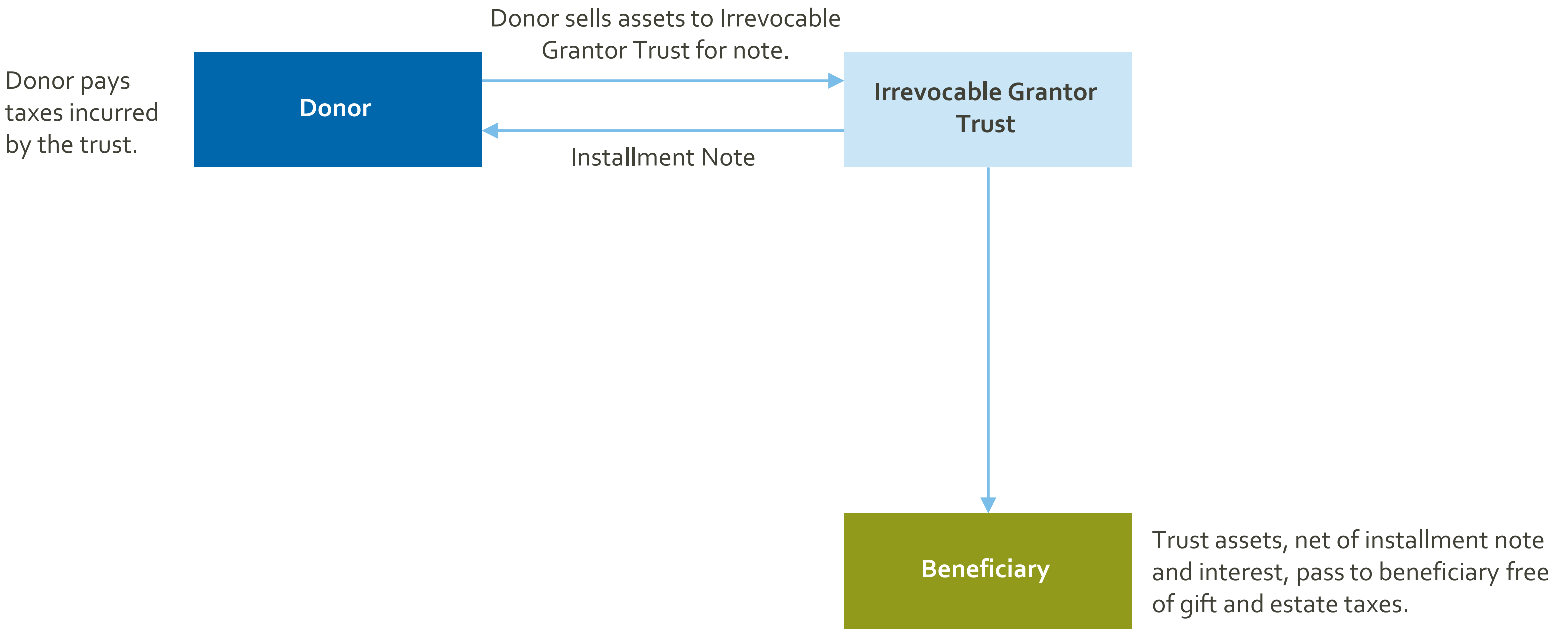
HYPOTHETICAL ILLUSTRATION

SALE/LOAN TO IRREVOCABLE GRANTOR TRUST



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HYPOTHETICAL ILLUSTRATION

SALE/LOAN TO IRREVOCABLE GRANTOR TRUST

BALLOON PAYMENT

- The following example illustrates a sale of $1,000,000 of assets to a grantor trust in exchange for a $1,000,000 promissory note bearing interest at the rate of 3.05% per year for a 9-year term.
- In this hypothetical Illustration, the donor receives interest payments of $30,500 per year and the $1,000,000 loan principal at the end of the term. After repayment of the note, the trust has $215,018 of assets remaining.

Assumptions:

Term of Trust	9
Sale Price	$1,000,000
AFR Rate	3.05%
Annual Investment Return	5.0%

Key Outputs:

Ending Value	$215,018

Hypothetical example is for illustrative purposes only. Not representative of any specific investment.

Year	Beginning Principal	Growth	Annual Payment	Ending Principal
1	$1,000,000	$50,000	$30,500	$1,019,500
2	$1,019,500	$50,975	$30,500	$1,039,975
3	$1,039,975	$51,999	$30,500	$1,061,474
4	$1,061,474	$53,074	$30,500	$1,084,047
5	$1,084,047	$54,202	$30,500	$1,107,750
6	$1,107,750	$55,387	$30,500	$1,132,637
7	$1,132,637	$56,632	$30,500	$1,158,769
8	$1,158,769	$57,938	$30,500	$1,186,208
9	$1,186,208	$59,310	$1,030,500	$215,018

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HYPOTHETICAL ILLUSTRATION

SALE/LOAN TO IRREVOCABLE GRANTOR TRUST

BALLOON PAYMENT WITH SEEDING GIFT

- The following example illustrates a sale of $1,000,000 of assets to a grantor trust in exchange for a $500,000 promissory note. The difference of $500,000 is a taxable gift upon funding the trust.
- In this hypothetical Illustration, the donor receives interest payments of $15,250 per year and the $500,000 loan principal at the end of the term. After repayment of the note, the trust has $883,173 of assets remaining, or $668,155 more compared to the scenario with no seeding gift.

Assumptions:

Term of Trust	9
Principal	$1,000,000
Seed	$500,000
AFR Rate	3.05%
Annual Investment Return	5.0%

Key Outputs:

Ending Value (Seeding Gift)	$883,173
Ending Value (No Seeding Gift)	$215,018
Difference	$668,155

Hypothetical example is for illustrative purposes only.
Not representative of any specific investment.

Year	Beginning Principal	Growth	Annual Payment	Ending Principal
1	$1,000,000	$50,000	$15,250	$1,034,750
2	$1,034,750	$51,738	$15,250	$1,071,238
3	$1,071,238	$53,562	$15,250	$1,109,549
4	$1,109,549	$55,477	$15,250	$1,149,777
5	$1,149,777	$57,489	$15,250	$1,192,016
6	$1,192,016	$59,601	$15,250	$1,236,366
7	$1,236,366	$61,818	$15,250	$1,282,935
8	$1,282,935	$64,147	$15,250	$1,331,832
9	$1,331,832	$66,592	$515,250	$883,173

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HYPOTHETICAL ILLUSTRATION

SALE/LOAN TO IRREVOCABLE GRANTOR TRUST

AMORTIZED PAYMENT

- The following example illustrates a sale of $1,000,000 of assets to a grantor trust in exchange for a $1,000,000 promissory note is amortized over time.
- In this hypothetical Illustration, the donor receives $128,733 of interest and principal payments per year. At the end of the term, the trust has $131,840 of assets remaining, or $83,178 less compared to the balloon payment scenario.

Assumptions:

Term of Trust	9
Principal	$1,000,000
AFR Rate	3.05%
Annual Investment Return	5.0%

Key Outputs:

Ending Principal (Amortizing)	$131,840
Ending Principal (Interest-Only)	$215,018
Difference	-$83,178

Hypothetical example is for illustrative purposes only. Not representative of any specific investment.

Year	Beginning Principal	Growth	Annual Payment	Ending Principal
1	$1,000,000	$50,000	$128,733	$921,267
2	$921,267	$46,063	$128,733	$838,596
3	$838,596	$41,930	$128,733	$751,793
4	$751,793	$37,590	$128,733	$660,649
5	$660,649	$33,032	$128,733	$564,948
6	$564,948	$28,247	$128,733	$464,462
7	$464,462	$23,223	$128,733	$358,951
8	$358,951	$17,948	$128,733	$248,165
9	$248,165	$12,408	$128,733	$131,840

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Chapter 6

QUALIFIED PERSONAL RESIDENCE TRUST (QPRT)

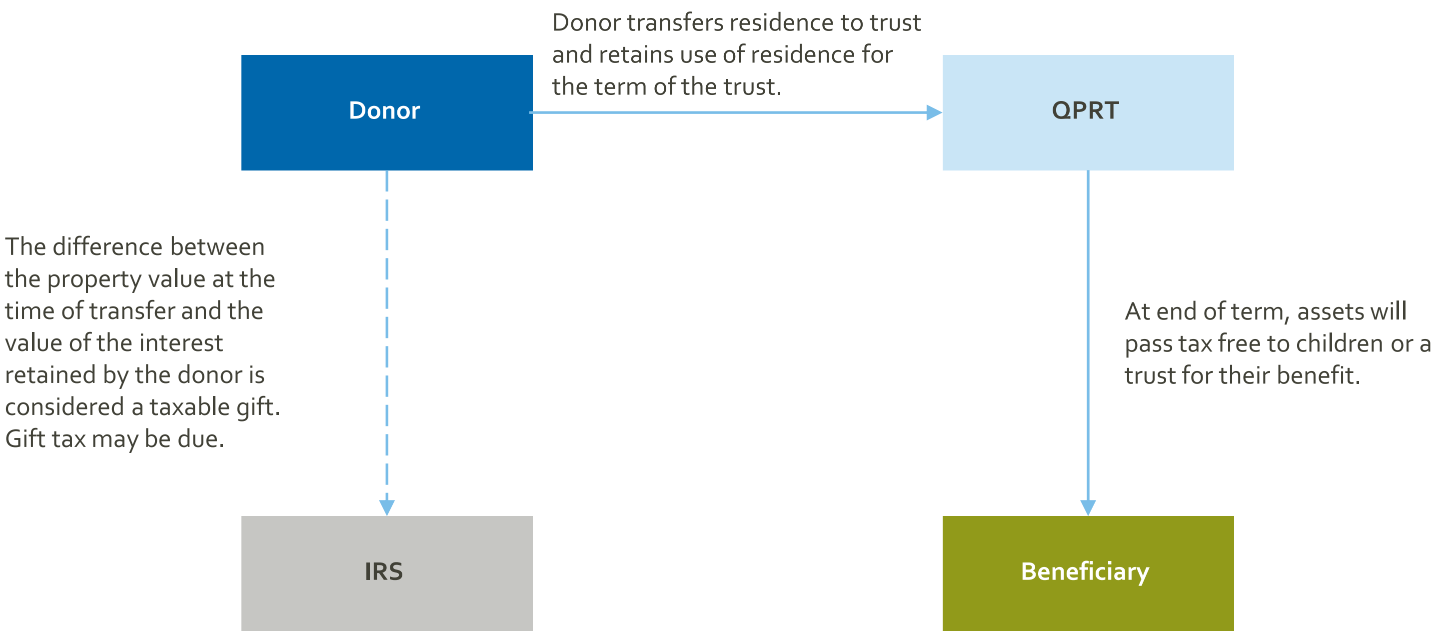
Advanced Estate Planning

QUALIFIED PERSONAL RESIDENCE TRUST (QPRT)

- Objective: To transfer a primary residence or vacation home to younger family members at a reduced federal gift tax cost.
- Description: The QPRT is an irrevocable trust to which an individual (grantor) transfers his or her home, often a vacation or second home, but retains the exclusive use of such property for a specified term of years (such term is referred to below as the QPRT term). The grantor is treated as making a gift equal to the value of the home less the present value of his or her retained use of it, computed by using the government prescribed interest rate in effect for the month the QPRT is funded (referred to as the 7520 rate). At the end of the QPRT term, the home will pass to the beneficiaries specified in the trust document (usually younger family members or a trust(s) created for their benefit).
- Benefits: (1) The grantor may be able to transfer the home to the trust at a reduced federal gift tax cost. (2) If the grantor survives the QPRT term, the home (including any appreciation) will pass at that time to the trust beneficiaries free of federal estate tax and with no additional federal gift taxes. (3) The grantor can be allowed to remain in the home after the QPRT term if he or she pays a fair market rent to the designated trust beneficiaries - any rental payments will reduce the grantor's potential estate and not be treated as gifts.
- Disadvantages: (1) If the grantor dies before the end of the QPRT term, the home will be includible in his or her estate and subject to federal estate tax. (2) If the grantor survives the QPRT term, the trust beneficiaries who receive the home will take the grantor's basis in this asset for income tax purposes. (3) As an irrevocable trust, the grantor cannot decide to terminate the QPRT and take back the trust assets after the trust is funded.

HYPOTHETICAL ILLUSTRATION

QUALIFIED PERSONAL RESIDENCE TRUST (QPRT)



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HYPOTHETICAL ILLUSTRATION

QUALIFIED PERSONAL RESIDENCE TRUST (QPRT)

FUNDING A QPRT

- The following assumes that a QPRT is set up with property interest worth $5,000,000.
- The taxable gift amount is calculated for several scenarios with various combinations of term and IRS 7520 rate. The scenario comparison shows that the longer the term and/or the higher the IRS discount rate, the smaller the gift.
- The donor's survival of the term is necessary for any transfer tax savings. Appreciation of the assets enhances the benefits of the technique. QPRTs tend to not be attractive in low interest rate environments absent meaningful depreciation in the personal residences' value.
- Note that one would need to know the donor's age to compute the tax valuation discount on the retained interest.

Different terms, Same 7520 rate

Term	7520 Rate	Residence Value	Retained Interest	Taxable Gift
10	3.6%	5,000,000	1,489,472	3,510,528
15	3.6%	5,000,000	2,058,467	2,941,533
20	3.6%	5,000,000	2,535,239	2,464,761

Same terms, different 7520 rates

Term	7520 Rate	Residence Value	Retained Interest	Taxable Gift
15	3.0%	5,000,000	1,790,690	3,209,310
15	4.0%	5,000,000	2,223,677	2,776,323
15	5.0%	5,000,000	2,594,915	2,405,085

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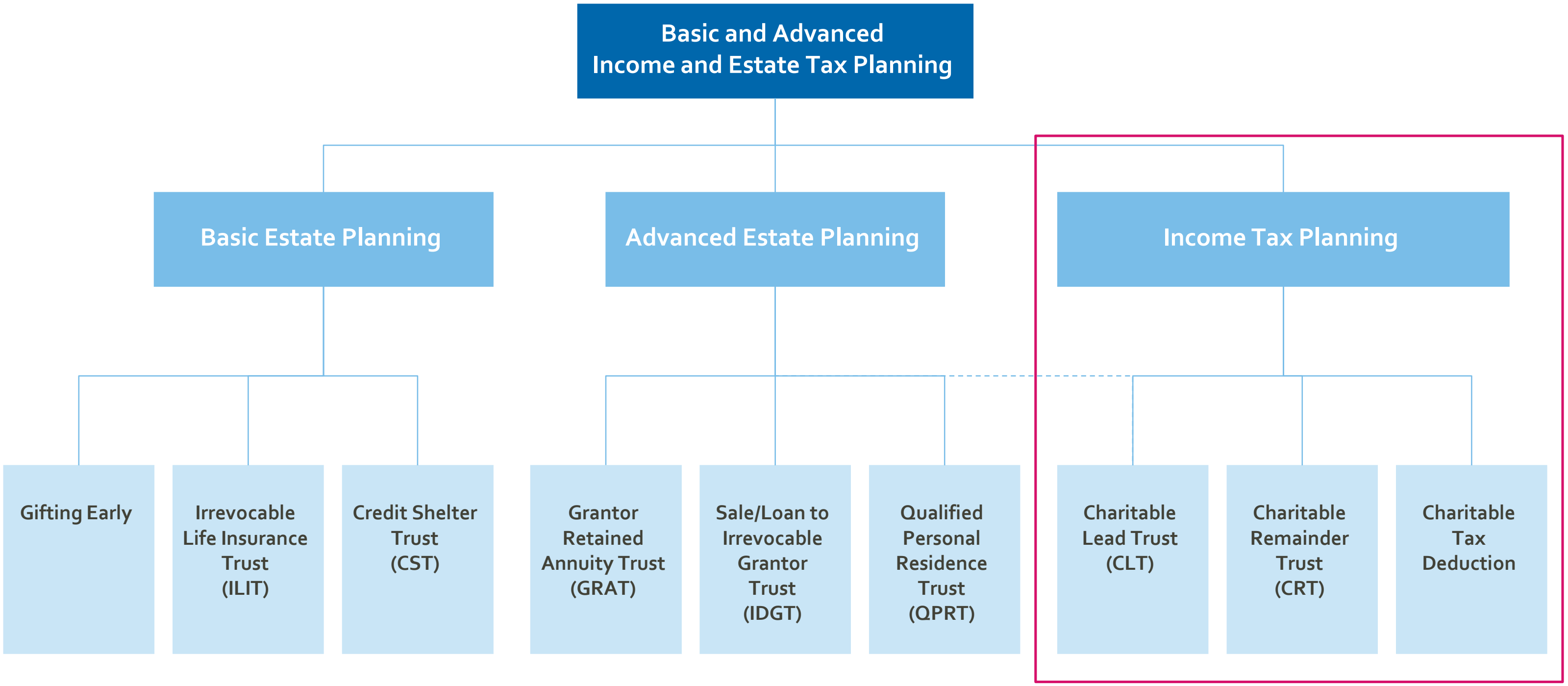
INCOME TAX PLANNING



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Chapter 7

CHARITABLE LEAD TRUST (CLT)

Income and Estate Tax Planning

Morgan Stanley

CHARITABLE LEAD TRUST (CLT)

- Objective: To transfer potential asset appreciation to younger family members at a reduced federal gift tax cost by creating a trust that provides a fixed payment stream to charity over a specified term and then distributes the remaining trust assets to family members at the end of charity's payment term.
- Description: The CLT is an irrevocable trust to which an individual (grantor) transfers assets and the trust makes a fixed payment (usually expressed as a percentage of trust assets), at least annually, to charity for a specified term. The payment term can last for the life of the grantor and/or the life or lives of other family members. The payment term also can have a duration that lasts for a fixed number of years. At the end of charity's payment term, the remaining trust assets will pass to the beneficiaries specified in the trust provisions (usually younger family members or a trust(s) created for their benefit). If anyone other than the grantor is to receive the trust property at the end of charity's payment term, then the grantor may be treated as making a gift to such person equal to the value of the property transferred to the CLT less the present value of charity's payment stream, computed by using the applicable government prescribed interest rate, referred to as the 7520 rate, at the time the CLT is funded.
- There are two types of CLTs, the Charitable Lead Annuity Trust (CLAT) and the Charitable Lead Unitrust (CLUT). With the CLAT, payments are typically made to charity based on a fixed percentage of the initial value of the assets contributed to the trust. Thus, each payment from the CLAT is always the same amount, except for short-years, which may occur in the first and last years of the trust. On the other hand, each payment from the CLUT generally is based on a fixed percentage of the annual value of trust assets. As a result, trust assets are revalued each year so the payment amount from the CLUT probably will fluctuate from year to year.
- Benefits: (1) At the end of charity's payment term, the remaining CLT assets generally will pass to the non-charitable trust beneficiaries free of federal estate and gift taxes. In the case of a CLAT, the grantor can achieve a tax-free transfer of wealth to the non-charitable beneficiaries to the extent the trust's combined rate of income and growth exceeds the applicable 7520 rate (this technique works best when the 7520 rate is low). Because the payments from a CLUT fluctuate from year to year, the amount by which the trust's combined rate of income and growth exceeds the 7520 rate is not exactly equal to the amount that passes to the non-charitable beneficiaries free of transfer tax at the end of charity's payment term. (2) If the grantor creates the CLT during lifetime, the grantor will receive a federal charitable gift tax deduction and some (but not all) types of CLTs may give the grantor a potential federal charitable income tax deduction, each deduction being equal to the present value of charity's payment stream, computed by using the applicable 7520 rate. (3) If the grantor creates the CLT at death, the grantor's estate will receive a federal charitable estate tax deduction computed as explained in (2) above.
- Disadvantages: (1) CLT assets will only be available to the grantor and/or family members following the end of charity's payment term. (2) As an irrevocable trust, the grantor cannot decide to terminate the CLT and take back the trust assets after the trust is funded.

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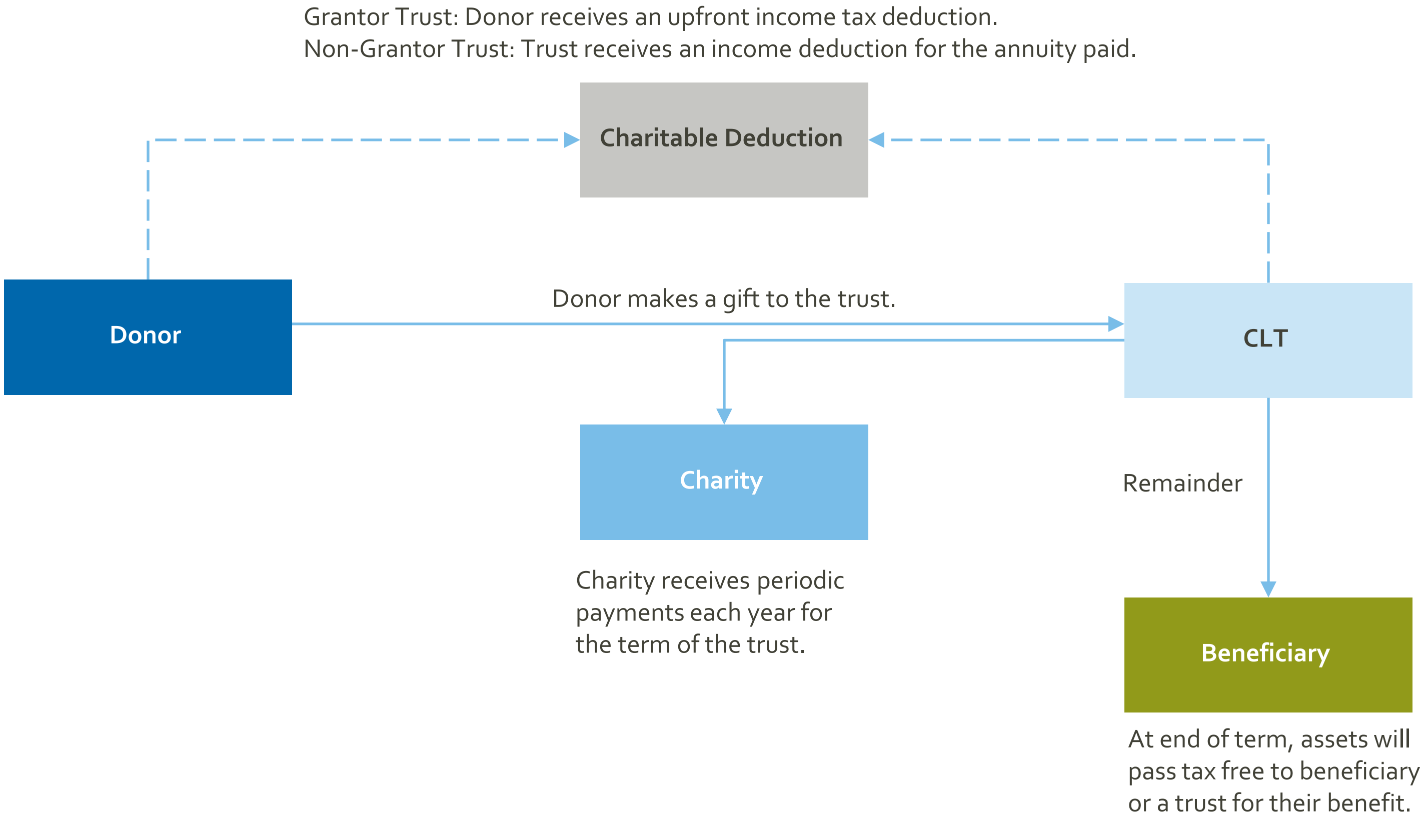
HYPOTHETICAL ILLUSTRATION

CHARITABLE LEAD TRUST (CLT)



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HYPOTHETICAL ILLUSTRATION

CHARITABLE LEAD TRUST (CLT)

FUNDING A "ZEROED-OUT" GRANTOR CLAT

- The following is an illustration of a "zeroed-out" grantor CLAT funded with $1,000,000.
- In this hypothetical illustration, a charity receives an annuity of $120,848 per year for 10 years and the remainder beneficiaries receive (outright or in continuing trust) $108,879 free of gift and estate taxes.

Assumptions:

Term of Trust	10
Principal	$1,000,000
7520 Rate	3.6%
Annuity (% of funding amount)	12.1%
Annual Investment Gross Return	5.0%

Key Outputs:

Marginal Tax Rate	40.8%
Tax Savings from Deduction	$408,000
Taxable Gift	$0
Remainder	$108,879

Hypothetical example is for illustrative purposes only.
Not representative of any specific investment.

Year	Beginning Principal	Growth	Annuity Payment	Remainder
1	$1,000,000	$50,000	$120,848	$929,152
2	$929,152	$46,458	$120,848	$854,761
3	$854,761	$42,738	$120,848	$776,651
4	$776,651	$38,833	$120,848	$694,635
5	$694,635	$34,732	$120,848	$608,519
6	$608,519	$30,426	$120,848	$518,097
7	$518,097	$25,905	$120,848	$423,153
8	$423,153	$21,158	$120,848	$323,463
9	$323,463	$16,173	$120,848	$218,788
10	$218,788	$10,939	$120,848	$108,879

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Chapter 8

CHARITABLE REMAINDER TRUST (CRT)

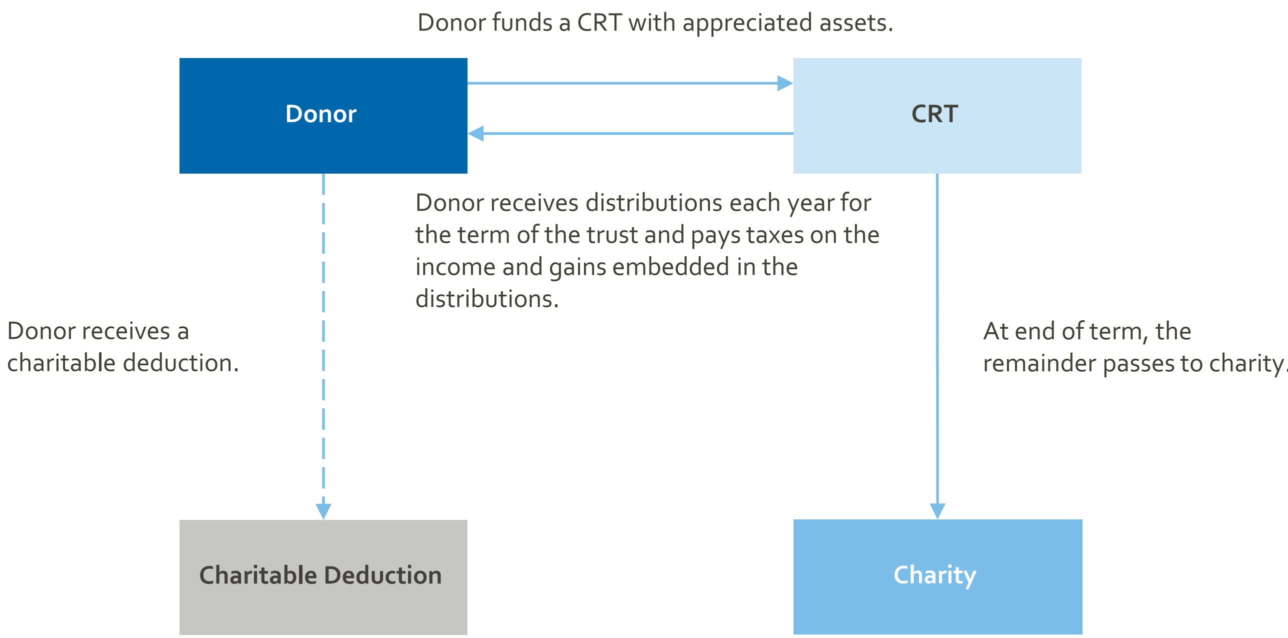
Income Tax Planning

CHARITABLE REMAINDER TRUST (CRT)

- Objective: To diversify asset holdings, potentially defer capital gains tax and benefit charity by creating a trust that provides a fixed payment stream to family members over a specified term and then distributes the remaining trust assets to charity at the end of the payment term.
- Description: The CRT is an irrevocable trust to which an individual (grantor) transfers assets and the trust makes a fixed payment (usually expressed as a percentage of trust assets), at least annually, to the grantor and/or family members for a specified term. If anyone other than the grantor is to receive payments from the CRT during the payment term, then the grantor may be treated as making a gift to such person equal to the present value of that person's payment stream, computed by using the applicable government prescribed interest rate at the time the CRT is funded (referred to as the 7520 rate). The payment term can last for the life of the grantor and/or the life or lives of family members. The payment term also can have a duration that lasts for a fixed number of years not exceeding twenty. At the end of the payment term, the remaining trust assets will pass to the charity or charities designated in the trust provisions.
- With all CRTs, the grantor can choose the desired payout percentage subject to the following rules: (i) the payout percentage cannot exceed 50%; (ii) the payout percentage cannot be less than 5%; and (iii) the payout percentage cannot result in there being less than 10% of the trust property remaining for charity at the end of the payment term, measured at the time of creation of the trust.
- There are two types of CRTs, the Charitable Remainder Annuity Trust (CRAT) and the Charitable Remainder Unitrust (CRUT). With the CRAT, payments typically are made to the grantor and/or family members based on a fixed percentage of the initial value of the assets contributed to the trust. Thus, each payment from the CRAT is always the same amount, except for short-years that may occur in the first and last years of the trust. On the other hand, each payment from the CRUT generally is based on a fixed percentage of the annual value of trust assets. As a result, trust assets are revalued each year so the payment amount from the CRUT probably will fluctuate from year to year.
- Benefits: (1) If the grantor creates the CRT during lifetime, the grantor will receive a federal charitable gift tax deduction and potential federal charitable income tax deduction, each being equal to the value of the property transferred to the CRT less the present value of grantor's/family's payment stream, computed by using the applicable 7520 rate. (2) If the grantor creates the CRT at death, the grantor's estate will receive a federal charitable estate tax deduction computed as explained in (1) above. (3) The CRT is a tax-exempt entity so it can sell appreciated assets and achieve diversification and perhaps a higher yield without incurring income/capital gains - the CRT may provide family with a higher after-tax payment stream than it otherwise would have received if appreciated assets were sold outside of the CRT and subject to income tax. (4) Family members can defer the payment of capital gains tax on appreciated assets sold by the CRT at least until their receipt of annual payments from the CRT.
- Disadvantages: (1) At the end of the CRT payment term, the remaining trust assets will pass to charity and no longer be available to the grantor and his or her family. (2) CRT assets will only be available to the grantor and/or his or her family members in the form of a fixed payment stream over the specified payment term. (3) As an irrevocable trust, the grantor and his or her family cannot decide to terminate the CRT and take back the trust assets after the trust is funded. (4) A CRT is subject to the private foundation excise tax rules.

HYPOTHETICAL ILLUSTRATION

CHARITABLE REMAINDER TRUST (CRT)



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HYPOTHETICAL ILLUSTRATION

CHARITABLE REMAINDER TRUST (CRT)

FUNDING A CRUT WITH APPRECIATED ASSETS

- The following is an illustration of a Charitable Remainder Unitrust (CRUT) funded with $1,000,000 in appreciated assets (zero cost basis). The trust has a 5-year term and a 10% charitable deduction. The donor's personal account collects the Unitrust distributions from the CRT.
- In this hypothetical illustration, the charity receives a remainder of $132,683 at the end of the term, whereas the personal account has an ending value of $903,340.
- Note that the numbers below are dependent on additional information such as the payment period and the number of months by which the valuation precedes payout.

CRT

Gross Principal	$1,000,000
Cost Basis	$0
7520 Rate	3.6%
Term of Trust	5
Unitrust Rate	38.2%
Annual Investment Gross Return	5.0%
CRUT Remainder	$132,683

Year	Beginning Value	Growth	Unitrust Amount	Ending Value
1	$1,000,000	$50,000	$382,328	$667,672
2	$667,672	$33,384	$255,270	$445,786
3	$445,786	$22,289	$170,436	$297,639
4	$297,639	$14,882	$113,796	$198,725
5	$198,725	$9,936	$75,978	$132,683

Personal Account
(initial value reflects tax savings from charitable deduction)

Charitable Deduction	$100,000
Marginal Tax Rate	40.8%
Potential Tax Savings	$40,800
Investment Period	5
Effective Investment Tax Rate	20.0%
Annual Investment Gross Return	5.0%
Ending Portfolio Value	$903,340

Year	Beginning Value	Net Unitrust Payment	After Tax Growth	Ending Value
1	$40,800	$293,234	$1,632	$335,666
2	$335,666	$195,784	$13,427	$544,877
3	$544,877	$130,720	$21,795	$697,391
4	$697,391	$87,278	$27,896	$812,565
5	$812,565	$58,273	$32,503	$903,340

Hypothetical example is for illustrative purposes only. Not representative of any specific investment.

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WEALTH REPLACEMENT TRUST

- Objective: To replace for family members some or all of the assets passing to charity from a Charitable Remainder Trust.
- Description: The Wealth Replacement Trust is part of a strategy that includes another estate planning technique, the Charitable Remainder Trust (CRT). The CRT is an irrevocable trust to which an individual (grantor) transfers assets and the CRT makes a fixed payment, at least annually, to the grantor and/or family members for a specified term. At the end of the CRT payment term, the remaining CRT assets will pass to charity and no longer be available to the grantor and his or her family.
- The Wealth Replacement Trust is an irrevocable trust that an individual (grantor) creates during life for the benefit of his or her spouse and/or other family members. The purpose of the Wealth Replacement Trust is to replace for family members some or all of the grantor's assets that ultimately will be passed to charity from the CRT. The grantor is treated as making a gift equal to the value of the assets transferred to the Wealth Replacement Trust. Sometimes, the grantor of the CRT will use the CRT payment stream and the tax savings from the charitable income tax deduction related to the CRT as a source for contributions to the Wealth Replacement Trust. The Wealth Replacement Trust, in turn, then may use these contributions to purchase insurance policies on the life or lives of the grantor and/or family members, and the trust will be the owner and beneficiary of the policies. The Wealth Replacement Trust can provide income and principal distributions to the surviving spouse and/or other family members.
- Benefits: (1) The Wealth Replacement Trust will replace for family members some or all of the grantor's assets passing to charity from the CRT. (2) The Wealth Replacement Trust should receive any insurance death benefits free of federal income tax. (3) Trust assets (including any appreciation) generally will not be includible in the grantor's estate and will grow inside the trust free of federal estate and gift taxes. (4) Trust distributions generally can be made to beneficiaries free of federal estate and gift taxes. (5) The Wealth Replacement Trust can be structured so that contributions to the trust (which the trustees could use to pay for insurance premiums) will qualify for the federal annual gift tax exclusion by giving trust beneficiaries certain rights (sometimes referred to as a "Crummey power") to withdraw these contributions. (7) Trust assets may be protected from the beneficiaries' creditors, including ex-spouses.
- Disadvantages: (1) Wealth Replacement Trust assets will only be available to trust beneficiaries as provided in the trust document. (2) As an irrevocable trust, the grantor cannot decide to terminate the Wealth Replacement Trust and take back the trust assets after the trust is funded.

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Chapter 9

CHARITABLE TAX DEDUCTION

Income Tax Planning

CHARITABLE TAX DEDUCTION

A person may make gifts to certain charitable organizations and receive income, gift and/or estate tax charitable deductions. The organization may be a public charity, private foundation created by a private individual (including the donor) or a hybrid of the two. The classification is important because gifts to a public charity are generally treated more favorably for income tax purposes than comparable gifts to a private foundation. Federal law also restricts the activities of a private foundation and may impose excise taxes on the foundation and its managers and donors (or their family members) for violations of its rules.

In general, either the basis or the fair market value (FMV) of assets given to a U.S. charity may be deducted for income tax purposes subject to a limitation expressed as a percentage of the donor's adjusted gross income (AGI). The amount of the deduction and the applicable limitation are a function of the type of assets given (cash vs. long-term capital gain assets) and the classification of the charitable organization as a public charity or private foundation (for this purpose). Gifts in excess of the limitations can be carried forward and used in any of the five years following the year of the gift. The following is a summary of some of the basic rules:

	PUBLIC CHARITY AMOUNT OF DEDUCTION	AGI LIMITATION	PRIVATE FOUNDATION AMOUNT OF DEDUCTION[1]	AGI LIMITATION
Cash	Fair Market Value	100%*	Fair Market Value	30%
Short-Term Capital Gains Assets	Lower of Fair Market Value or Basis	50%	Lower of Fair Market Value or Basis	20%
Long-Term Capital Gains Assets	Fair Market Value	30%	Cost or Fair Market Value[2]	20%

*Donor Advised Funds do not qualify. Cash gifts to Donor Advised Funds are deductible up to 60% of AGI.

1. The summary for deductions for private foundations does not apply to private operating foundations.
2. Gifts of only certain types of long-term capital gain assets called "qualified appreciated stock" to a private foundation may be deducted at fair market value.

HYPOTHETICAL ILLUSTRATION

CHARITABLE TAX DEDUCTION FOR YEAR OF CHARITABLE GIFT

Gifting Cash to a Donor Advised Fund (DAF)

Fair Market Value of Charitable Gifts	$1,000,000
Adjusted Gross Income	$3,000,000
AGI Limit (Itemized Deduction)	
AGI Deduction Limit (%)	60%
AGI Deduction Limit ($)	$1,800,000
Itemized Charitable Deduction	$1,000,000
Carryforward	$0

Gifting LTCG Assets to a Donor Advised Fund (DAF)

Fair Market Value of Charitable Gifts	$1,000,000
Adjusted Gross Income	$3,000,000
AGI Limit (Itemized Deduction)	
AGI Deduction Limit (%)	30%
AGI Deduction Limit ($)	$900,000
Itemized Charitable Deduction	$900,000
Carryforward	$100,000

Gifting Cash to a Private Foundation

Fair Market Value of Charitable Gifts	$1,000,000
Adjusted Gross Income	$3,000,000
AGI Limit (Itermized Deduction)	
AGI Deduction Limit (%)	30%
AGI Deduction Limit ($)	$900,000
Itemized Charitable Deduction	$900,000
Carryforward	$100,000

Gifting LTCG Assets to a Private Foundation

Fair Market Value of Charitable Gifts	$1,000,000
Adjusted Gross Income	$3,000,000
AGI Limit (Itemized Deduction)	
AGI Deduction Limit (%)	20%
AGI Deduction Limit ($)	$600,000
Itemized Charitable Deduction	$600,000
Carryforward	$400,000

This analysis does not account for Alternative Minimum Tax. This analysis assumes that the individual makes no other charitable gifts during the year. The numbers in the hypothetical illustration could change if the individual gave a large cash gift or gifted other capital gains property during the same year.

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Chapter 10

APPENDIX & DISCLOSURE

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APPENDIX & DISCLOSURE

This presentation was designed to illustrate the financial impact of a particular planning decision. The slides herein do not constitute a recommendation.

Caution: many estate techniques share the common risk of the loss of control of the assets once the gift of the assets is complete.

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