

# Strategic Planning with the iCLAT

**CBS | BROKERAGE**

OUR GOAL IS YOUR LEGACY

EST. 2008

SHAKOPEE, MINNESOTA

# Good News

**IPO**

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**Direct Acquisition**

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**Leveraged Buy-Out**

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**Private Equity/Hedge Fund Investment**

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**Sale of Real Estate**

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**Sale of Asset**

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**Sale of a Patent**

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**Exercise of RSU's**

# Bad News



Current	California	Federal (incl. NIIT)	Combined
Capital Gains	13.3%	23.8%	37.1%
Income	13.3%	37%	50.3%

Proposed*	California	Federal (incl. NIIT)	Combined
Capital Gains	13.3%	43.4%	56.7%
Income	13.3%	39.6%	52.9%

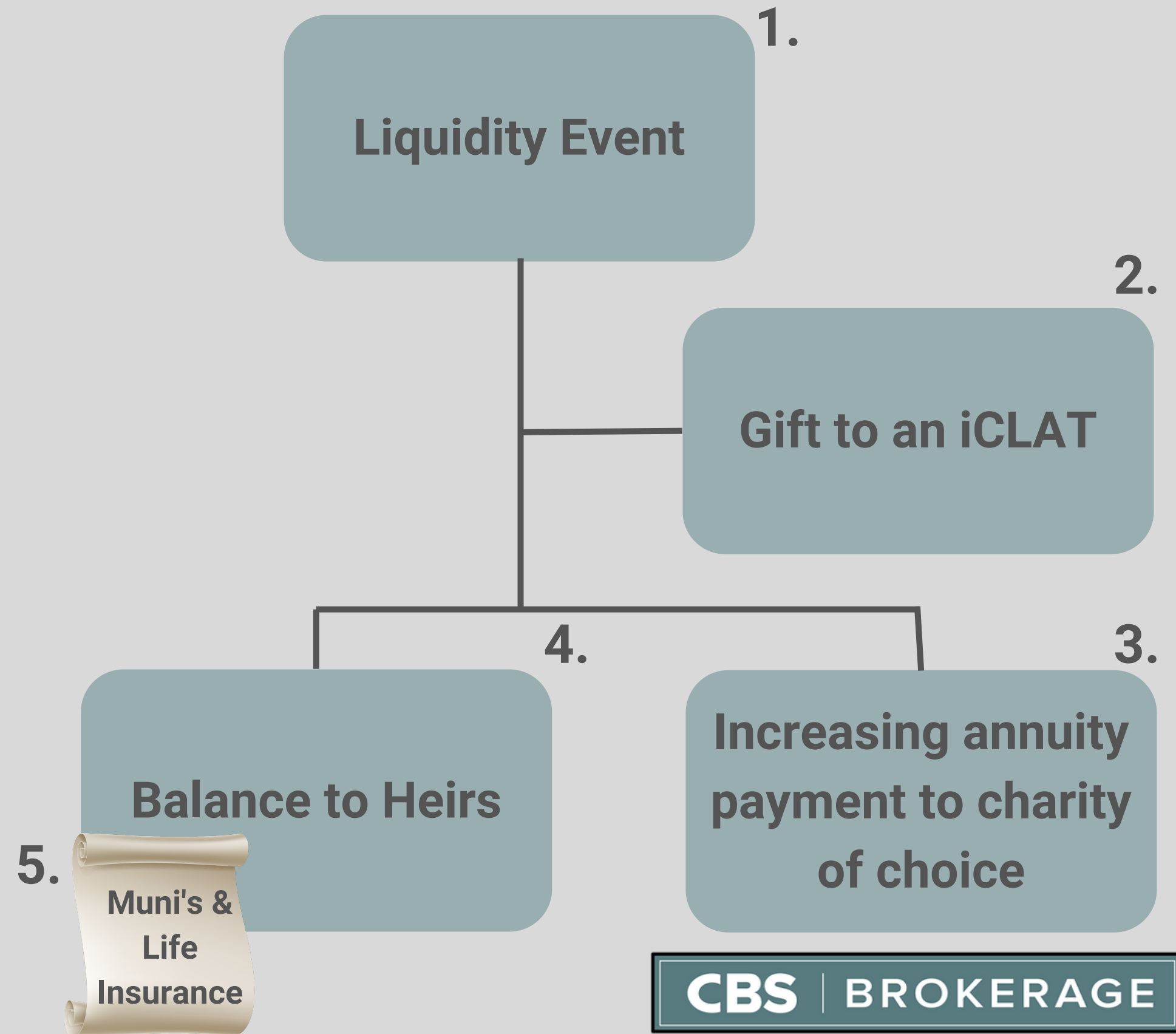
\*Please see technical notes on slide 12

*Strike the balance  
between Good News  
and Bad News with an  
iCLAT*



# Increasing Charitable Lead Annuity Trust

1. The Good News
2. Establish and fund an iCLAT
3. Enjoy a Tax Deduction
4. During life, the iCLAT pays increasing annuity payments to charity
5. At passing, the remainder passes to the trust beneficiaries





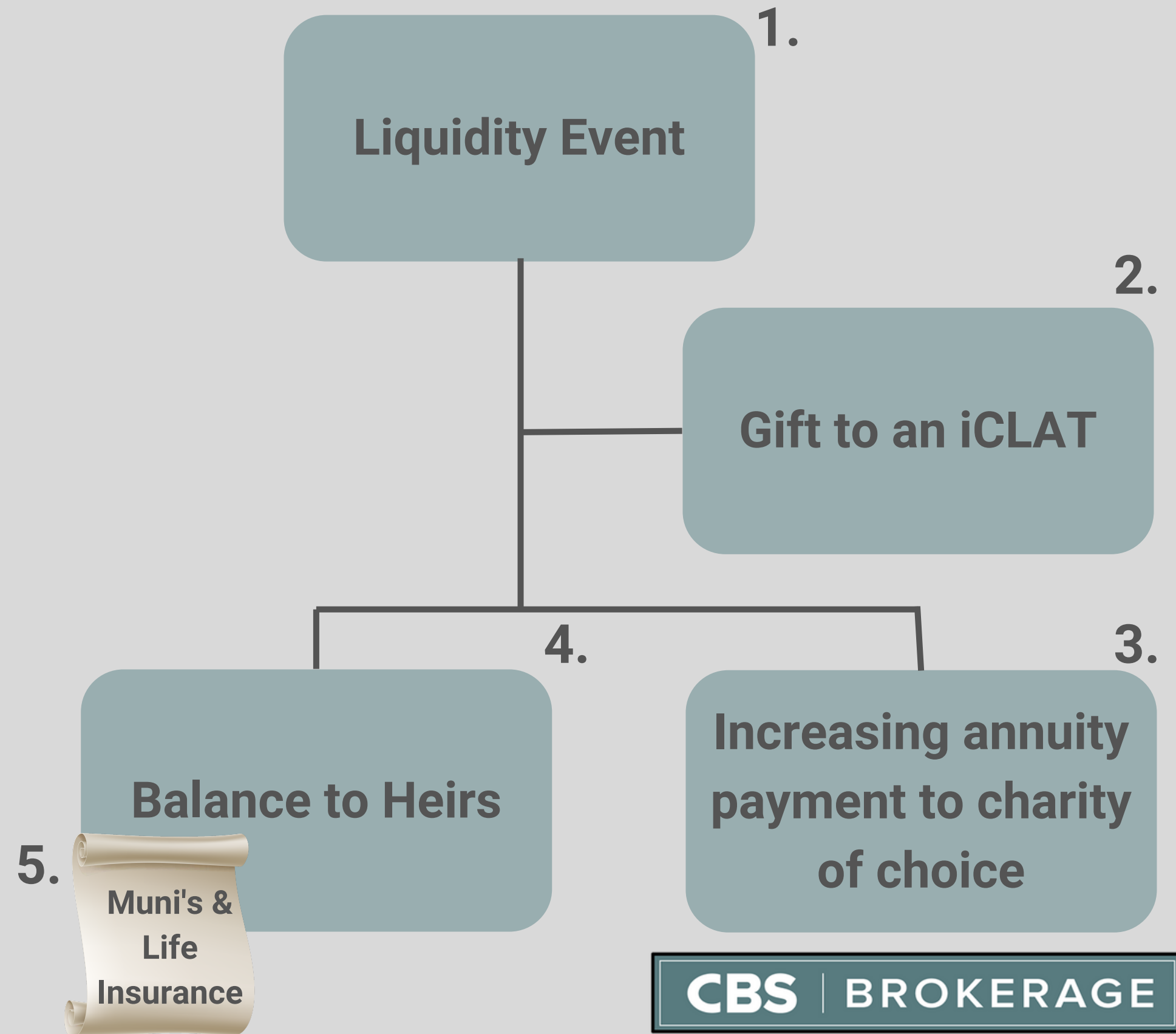
## The iCLAT in Action....

- Paula and Andy met 19 years ago
- Both age 50
- Worked for the same start-up
- They each cashed out \$15,000,000 RSU's
- Married; two children
- Their potential tax bill has *shocked* them
- They spend every other weekend volunteering for beach clean ups



# The iCLAT in Action....

1. RSU's: \$30,000,000
2. Gift to iCLAT: \$5,000,000
3. Tax deduction: \$4,776,007
4. Cumulative Payments to Charity:  
~\$5,000,000
5. Net to Heirs: \$15,000,000+



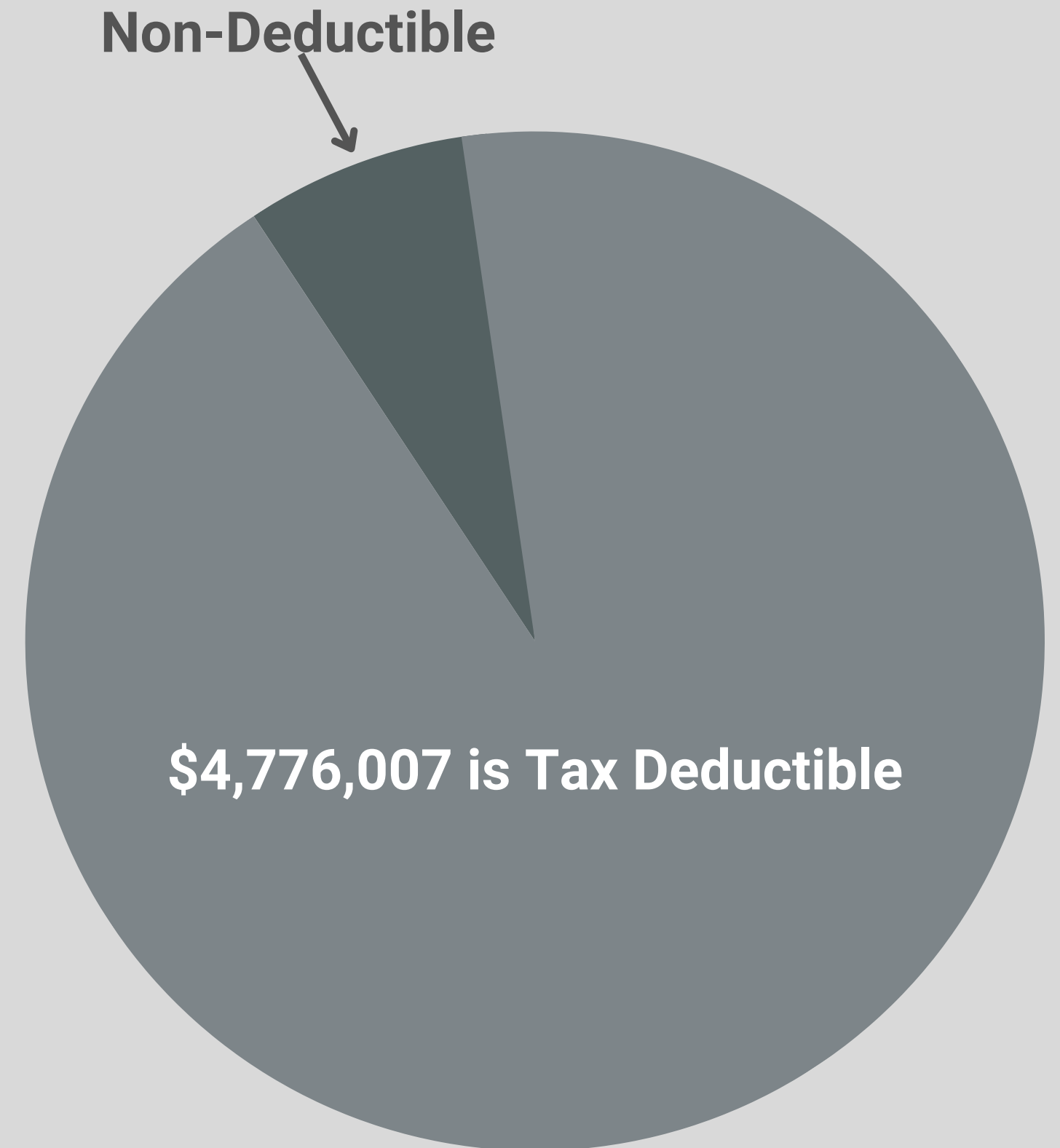
# Immediate Tax Savings: ~\$2,300,000

Without the iCLAT	
AGI:	\$30,000,000
Standard Deduction:	\$25,100
Taxable Income:	\$29,974,900
Federal Tax Due:	\$11,090,713
CA AGI:	\$29,974,900
CA Income Tax	\$3,986,662
Total Income Tax	\$15,077,375

With the iCLAT	
AGI:	\$30,000,000
Itemized Deduction:	\$4,776,007
Taxable Income:	\$25,223,993
Federal Tax Due:	\$9,332,877
CA AGI:	\$25,223,993
CA Income Tax	\$3,354,791
Total Income Tax	\$12,687,678



**Deduction as  
Percentage of Amount  
Transferred**



# iCLAT Economic Performance Model

Year	BOY Balance	Income at 4%	Annuity to Charity Increasing at 3% Annually	Insurance Premium	EOY Balance	Net to Heirs
1	\$5,000,000	\$200,000	\$150,000.00	\$100,000	\$4,950,000	\$19,858,014
5	\$4,779,070	\$191,163	\$155,190.56	\$100,000	\$4,715,042	\$19,623,056
10	\$4,423,539	\$176,942	\$158,596.16	\$100,000	\$4,341,884	\$19,249,898
15	\$3,981,263	\$159,251	\$157,595.78	\$100,000	\$3,882,918	\$18,790,932
20	\$3,459,438	\$138,378	\$151,192.42	\$100,000	\$3,346,623	\$18,254,637
25	\$2,871,887	\$114,875	\$138,577.48	\$100,000	2,109,429	\$17,017,443
30	\$2,239,155	\$89,566	\$119,291.74	\$100,000	\$2,109,429	\$17,017,443
35	\$1,587,721	\$63,509	\$93,390.21	\$100,000	\$1,457,840	\$16,365,854

# What was Accomplished?

The Good News Just got a Little Better

Immediate Income Tax Savings

Tax Efficient Wealth Transfer

Sizable, on-going charitable donations

# Technical Notes

- Slide 3** All rates are for Married filing jointly taxpayers. California's maximum rate is 12.3% for income of \$1,198,025 or more. As a part of the Mental Health Services Act, an additional 1% income tax applies on income over \$1,000,000, which brings the maximum rate up to 13.3%. California taxes capital gains as ordinary income. The maximum federal income tax rate is currently 37% on income over \$622,051 or more. The maximum capital gains rate is currently 20% when the taxpayer's income exceeds \$501,500. The Net Investment Income Tax (NIIT) applies at a rate of 3.8% to certain net investment income above \$250,000. The American Families Plan would raise the marginal income tax rate from 37 to 39.6% for income over \$509,300. Additionally, the proposal would tax long-term capital gains and qualified dividends as ordinary income for taxpayers with taxable income above \$1,000,000.
- Slide 4** A CLAT is an irrevocable split-interest trust that provides for a specified amount to be paid to one or more charitable beneficiaries during the trust's term. At the end of the term, the principal remaining in the trust is paid over to, or held in a continuing trust for, noncharitable beneficiaries identified in the trust. If the terms of an inter vivos grantor CLAT satisfy certain requirements, the gift of the charitable lead annuity interest qualifies for a charitable deduction under § 170(a). The value of the remainder interest is a taxable gift by the donor at the time of the donor's contribution to the trust. During the term of the grantor CLAT, all trust income and capital gains are taxed to the donor.
- Slide 5** An iCLAT is an inter vivos grantor CLAT that defines the annuity amount as an increasing amount for which the value is ascertainable at the creation of the trust. The trust instrument would provide for payment of the annuity amount for the life or lives of the grantor(s). Adopting an "increasing" strategy allows the trust assets to be maintained longer and generate higher levels of return. To the extent the investments outperform the IRS actuarial rate on an after-tax basis, the distribution to the remainder noncharitable beneficiaries increases. A Sample Inter Vivos Grantor Charitable Lead Annuity Trust is available on the IRS's website at [https://www.irs.gov/irb/2007-29\\_IRB](https://www.irs.gov/irb/2007-29_IRB)
- Slides 7&9** Section 7520 requires that the annuity interest must be valued using tables published by the IRS. The method for valuing a charitable lead annuity interest is outlined in Treas. Reg. §§ 20.7520-2 and 25.7520-2. In this example, the value of the lead interest is \$4,776,007. The taxable gift, for which a timely filed gift tax return should be made, is \$223,993. This amount may be sheltered by the donor's lifetime exemption.
- Slide 8** For simplicity's sake, this slide does not account for progressive income taxes. Additionally, it assumes no other income, deductions, or credits. The purpose of this slide is to demonstrate the immediate tax savings of a significant charitable deduction vs. the standard deduction.
- Slide 10** In order to claim a charitable income tax deduction, the CLAT must be a grantor trust. However, during the term of a grantor CLAT, all trust income and capital gains are taxed to the donor. Care must be given to the assets invested. The grantor will pay income taxes if the investable assets generate taxable income and/or capital gains. From one perspective, each dollar of income or capital gain taxes paid during the term of the trust claws back the initial income tax deduction. Therefore, tax-exempt returns are typically favored in a grantor CLAT. This example assumes that the iCLAT trustee earns 4% with a combination of tax-free municipal bonds, that the lead interest starts at 3% and increases by 3% annually. The trust also purchases a second-to-die life insurance policy on the grantors. Note that both asset classes: municipal bonds and life insurance, should be exempt from taxes – this preserves the charitable deduction. Life insurance illustration available upon request. Prudential SUL Protector; Male age 50, Female age 50; both PNT; Face amount: \$14,908,014; CA; CVAT; annual premium \$100,000.



# Thank You

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