



A Compelling Tax Mitigation Strategy:

Generate *IMMEDIATE* Tax Savings from
Future Annual Charitable Gifts



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Brad Gornto has practiced law throughout Florida for over 23 years in the areas of complex estate & charitable planning, business law, probate and trust administration, and income tax planning. In addition to his law practice, Brad is also the President and Founder of iCLAT Solutions, LLC, which specializes in design, drafting and consulting services of “reversionary” charitable lead trusts for individuals, professional advisors, attorneys, and donor advised fund sponsors. Brad earned his undergraduate degree (marketing) from Florida State University, his law degree (J.D.) from the University of Florida College of Law, and his LL.M In Taxation from the University of Miami School of Law.

Brad’s current volunteer service includes: (i) Board of Director & Treasurer of the National Association of Charitable Gift Planners (“CGP”); and (ii) member of The Florida State University Foundation, Inc. Planned Giving Advisory Council. Brad is a past member of the Board of Directors for the Down Syndrome Association of Central Florida and various other charitable organizations over the years. Brad is also a 2020 recipient of the University of Florida Foundation’s “Gary Gerson Award for Advisor Excellence.” Brad and his wife Cindy are happily raising their four children, Bryce, Owen, Joel & Daisy Grace in Ormond Beach, Florida.

KEY Idea & Client Planning Opportunity

income tax savings **NOW**
from future annual
GIFTS to charity



The Essentials

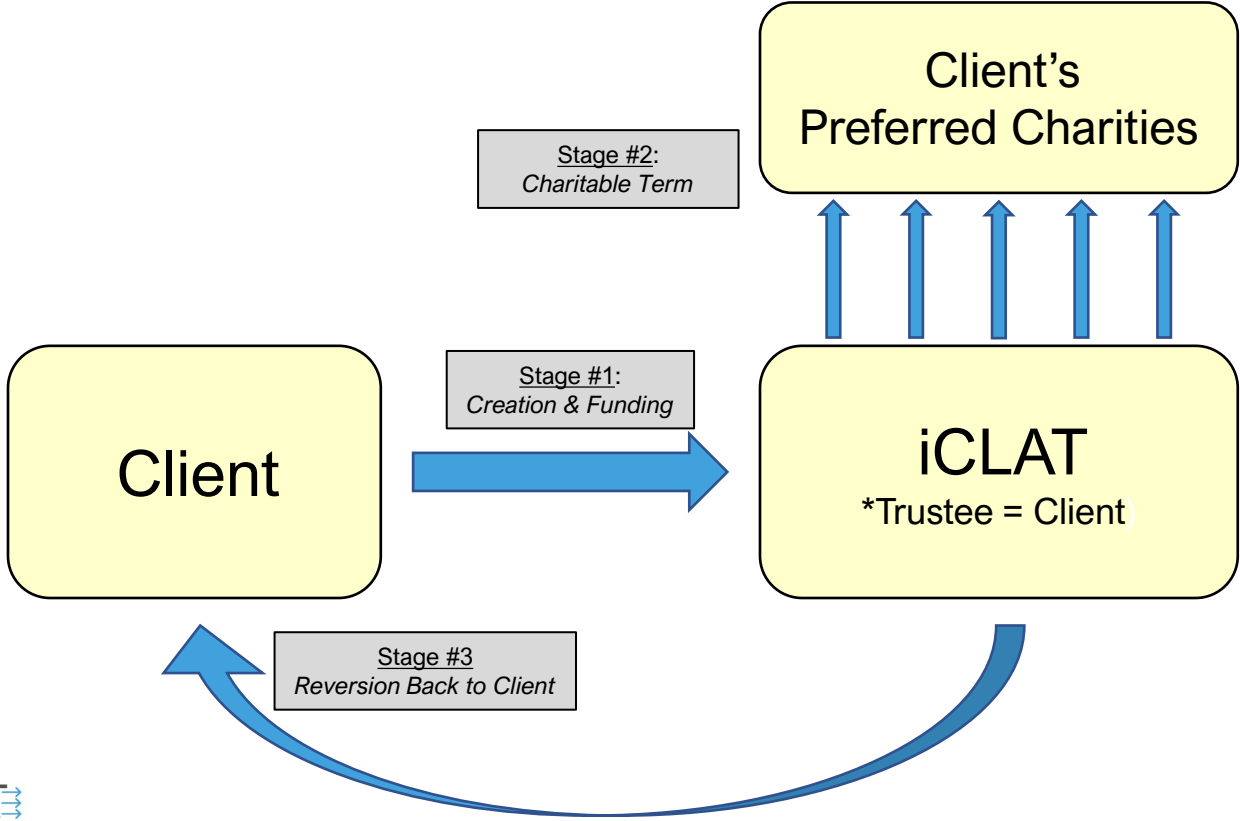
- **What** *is it?*
- **How** *does it save taxes?*
- **Who** *is the ideal client for it?*
- **Why NOW** *is the time for it?*



What is it?

- An irrevocable trust that makes annual distributions to one or more charities for a specified number of years, and then *distributes the trust assets back to the client in a non-taxable transaction.*
- Technical Name: a “reversionary” charitable lead annuity trust that is treated as a grantor trust for income tax purposes.
 - IRC 170(f)(2)(B) & Treas. Reg. 1.170A-6(a)(1) & (c)(2)

Basic Structure of an iCLAT: 3 Stages





Traditional CLTs vs iCLAT





How does it save taxes?

- 2 words: **“PRESENT VALUE”**
- iCLATs generate a **VERY** large “IMMEDIATE” YEAR 1 charitable income tax deduction for your clients!
- The lower the discount interest rate, the larger the “present value” & immediate charitable deduction
- 4.2% IRS rate is available to end of August 2023

IMMEDIATE YEAR 1 Charitable Income Tax Deduction Currently Generated by an iCLAT®

Term of the iCLAT (Years)	<u>ANNUAL</u> Charitable Distributions from iCLAT	<u>TOTAL</u> Charitable Distributions from iCLAT	IMMEDIATE Year 1 Charitable Deduction	% of the IMMEDIATE Charitable Deduction <i>*Compared to total distributions to charity</i>
3 Years	\$25,000/year	\$ 75,000	\$69,115	92.2%
5 Years	\$25,000/year	\$125,000	\$110,673	88.5%
7 Years	\$25,000/year	\$175,000	\$148,978	85.1%
10 Years	\$25,000/year	\$250,000 →	\$200,768	80.3%
15 Years	\$25,000/year	\$375,000	\$274,113	73.1%
20 Years	\$25,000/year	\$500,000 →	\$333,820	66.8%



**Based on the IRS 7520 Rate of 4.2% (June 2023 Rate, which remains available through the end of August 2023).*

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Who are ideal clients?

Clients who regularly give \$10,000 or more to charity on an annual basis

(including to their place of worship, DAF, or private foundation)

AND

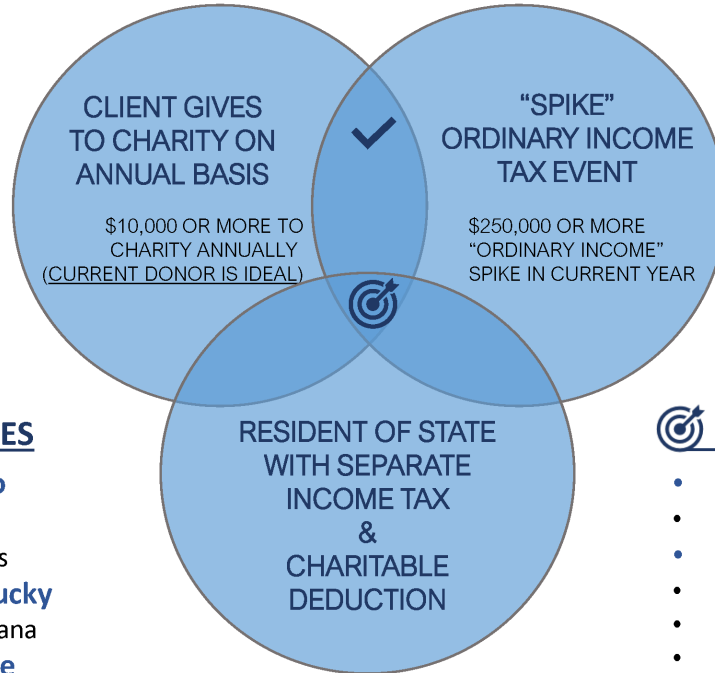
- **Ideal Scenario #1: Spike Income Tax Event**

OR

- **Ideal Scenario #2: High-Income Client Retiring This Year**



IDEAL FACT SCENARIO #1 – Spike “Ordinary Income” Tax Event in Current Year



✓ STATES

- Alaska
- Florida
- Nevada
- South Dakota
- Texas
- Washington
- Wyoming

✓ STATES

- Connecticut
- Indiana
- Illinois
- Massachusetts
- Michigan
- New Jersey
- New Hampshire
- Ohio
- Pennsylvania
- Rhode Island
- Tennessee
- West Virginia

🎯 STATES

- Alabama
- Arkansas
- Arizona
- California
- Colorado
- Delaware
- Georgia
- Hawaii

🎯 STATES

- Idaho
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Maryland

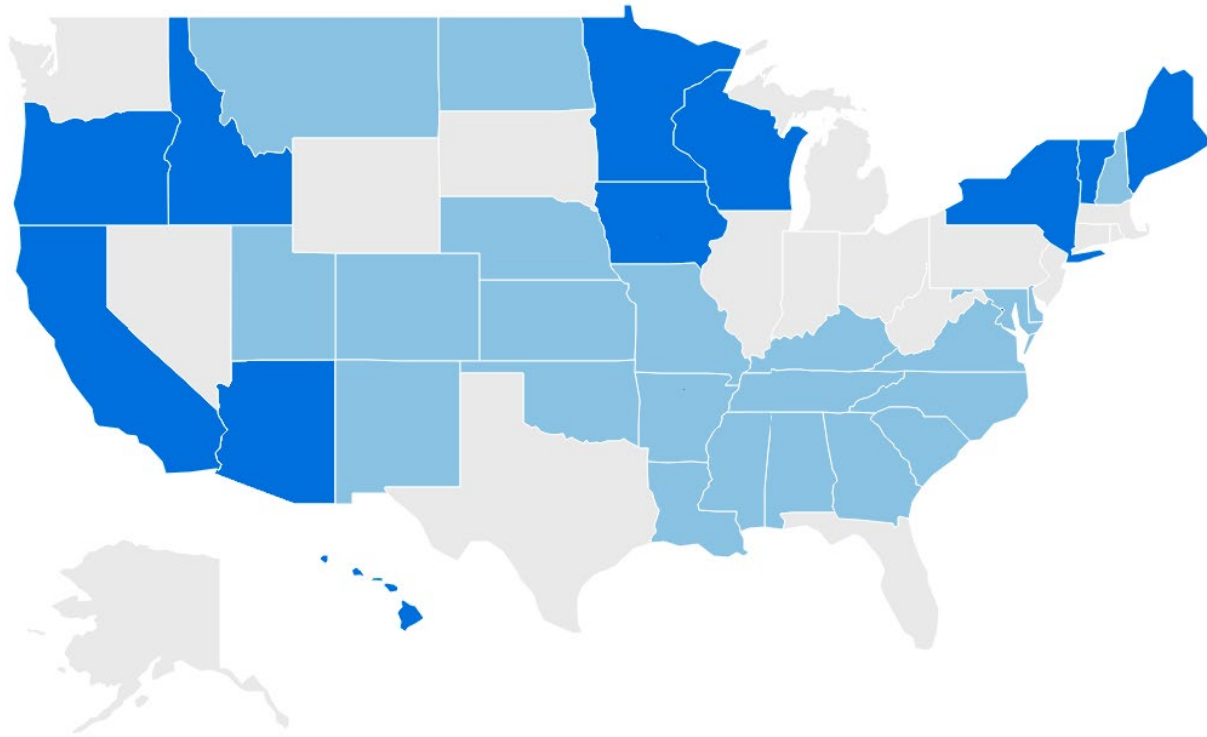
🎯 STATES




- Minnesota
- Mississippi
- Missouri
- Montana
- Nebraska
- New Mexico
- New York
- North Carolina

🎯 STATES

- North Dakota
- Oklahoma
- Oregon
- South Carolina
- Vermont
- Virginia
- Utah
- Washington DC
- Wisconsin

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-  Best States – 7% to 13% State Charitable Deduction
-  Better States – 2% to 6% State Charitable Deduction
-  Good/Neutral States – No State Charitable Deduction

Ideal Scenario #1: Here's What to Look For...

Common Income Spike Events

- Bonuses & Increased Wages
- ROTH IRA Conversions
- Sale of Assets, Real Property or Business
- RMDs and other distributions from IRAs, 401ks, and other retirement plans
- Deferred Compensation Payouts
- Severance Payments to Executives
- Contingency Fees (attorneys) & Large Commissions
- Stock Options
- Rental Income & Dividends
- “Increased K-1” Business Income - S Corp; LLC; LP
- Royalties (Intellectual Property or Oil & Gas)
- Professional Athlete/Entertainer Contracts & Signing Bonuses
- Interest Income Increase (balloon notes)
- “IRD” Items
- Inherited IRAs *10-yr rule applies now for almost all beneficiaries
- Lottery Winnings

Ideal Scenario #2: Here's What to Look For...

Common High-Income Retirement Situations

- Physicians, Attorneys, CPAs, Other Professionals
- Executives
- Business Owners
- Professional Athletes

- Contracts Nearing End of Term (Examples)
 - Consulting Agreements, Government Contracts
 - Post-Sale of Business Employment Agreements



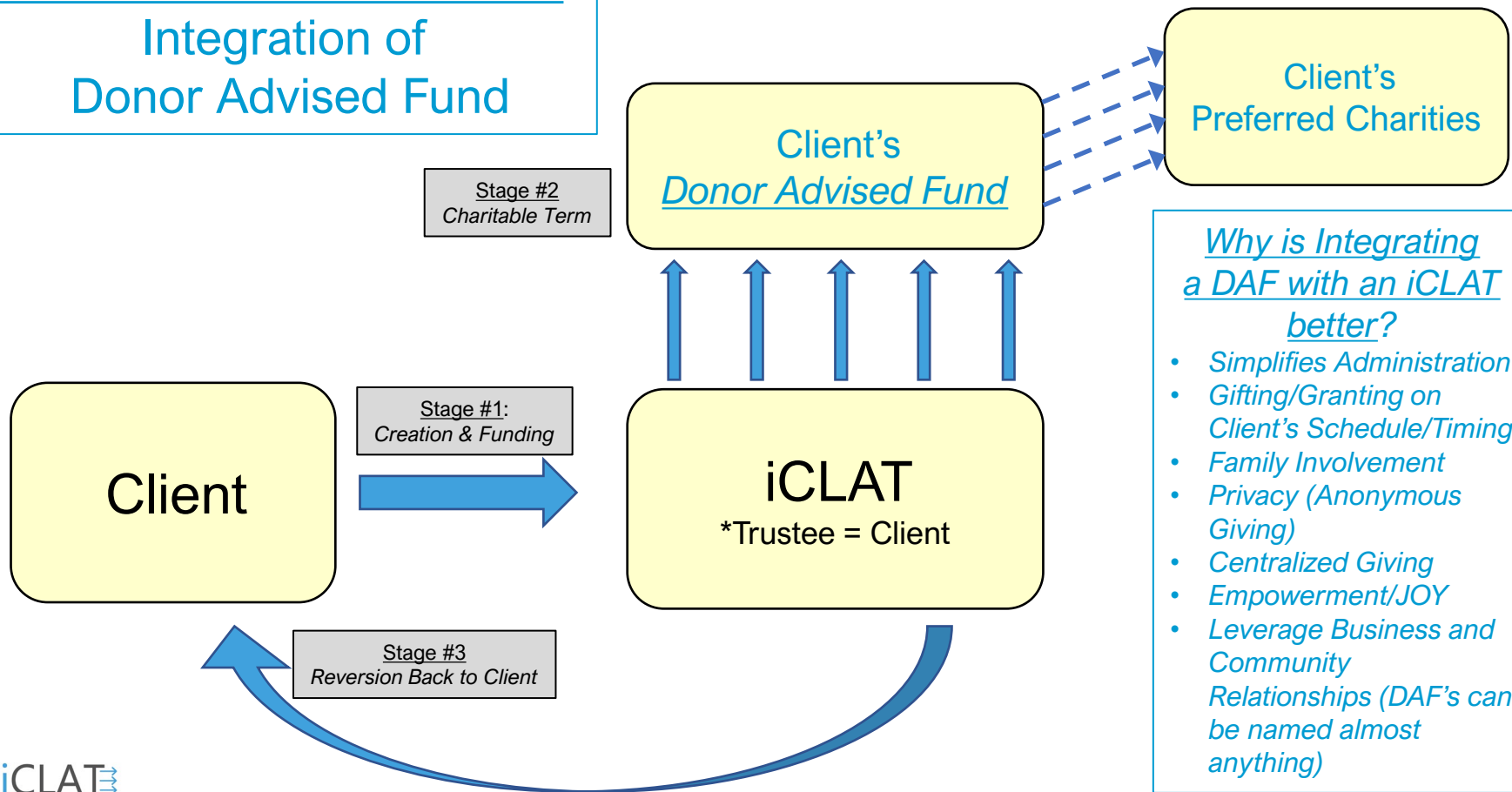
Why NOW? Right Now!

Example:

10 Year iCLAT that distributes \$50,000 per year to preferred charities.

Applicable IRS Interest Rate	IMMEDIATE Charitable Deduction	IMMEDIATE Tax Savings (at 37% tax rate)	DECREASED TAX SAVINGS
Current 4.2% Rate (available through 8/30/2023)	\$401,535	\$148,568	N/A
At 4.6% Rate (*applicable rate for Sept. 2023)	\$393,700	\$145,669	-\$2,899 (-2%)
At <u>6%</u> IRS §7520 Rate (??? 2024)	\$368,005	\$136,162	-\$12,406 (-8%)
At <u>8%</u> IRS §7520 Rate (??? 2024)	\$335,505	\$124,137	-\$24,431 (-16%)

Enhanced iCLAT Structure: Integration of Donor Advised Fund



Why is Integrating a DAF with an iCLAT better?

- Simplifies Administration
- Gifting/Granting on Client's Schedule/Timing
- Family Involvement
- Privacy (Anonymous Giving)
- Centralized Giving
- Empowerment/JOY
- Leverage Business and Community Relationships (DAF's can be named almost anything)





Actual Client Case #1 - Peter

Facts: Peter regularly gives \$40,000 annually to his favorite charities (including his church) and he anticipates continuing this level of annual giving for at least the next 12 years. Based on the advice of his financial planner and CPA, Peter decided to convert his \$1M traditional IRA to a ROTH IRA earlier this year. Peter is a California resident and he has a donor advised fund.

iCLAT Illustration - Economic Schedule



Client Name:	Peter
Value of Assets Contributed to iCLAT:	\$ 500,000
Type of Assets Contributed to iCLAT:	Cash & Marketable Securities
Desired Term of iCLAT (# of Years)	12
Annual Payments to Charity:	\$ 40,000
Preferred Charity (if any):	Donor Advised Fund (DAF)
Assumed Annual Income /Growth Rate:	3.0% 2.0% 5%
IRS §7520 Interest Rate:	4.2%

Year	Beginning		Assumed Net Income		Assumed Growth		Annual Charitable Distributions to Donor Advised Fund (DAF)	Year-End Principal	Net Growth in Principal	Tax Savings from iCLAT Deduction Invested for Term of Years	Combined Value of iCLAT Assets & Invested Tax Savings Generated by iCLAT
	Principal		Rate	Amount	Rate	Amount					
1	\$	500,000	3.0%	\$ 15,000	2.0%	\$ 10,000	\$ 40,000	\$ 485,000	\$ (15,000)	\$ 185,542	\$ 670,542
2	\$	485,000	3.0%	\$ 14,550	2.0%	\$ 9,700	\$ 40,000	\$ 469,250	\$ (15,750)	\$ 194,819	\$ 664,069
3	\$	469,250	3.0%	\$ 14,078	2.0%	\$ 9,385	\$ 40,000	\$ 452,713	\$ (16,538)	\$ 204,560	\$ 657,273
4	\$	452,713	3.0%	\$ 13,581	2.0%	\$ 9,054	\$ 40,000	\$ 435,348	\$ (17,364)	\$ 214,788	\$ 650,136
5	\$	435,348	3.0%	\$ 13,060	2.0%	\$ 8,707	\$ 40,000	\$ 417,116	\$ (18,233)	\$ 225,527	\$ 642,643
6	\$	417,116	3.0%	\$ 12,513	2.0%	\$ 8,342	\$ 40,000	\$ 397,971	\$ (19,144)	\$ 236,804	\$ 634,775
7	\$	397,971	3.0%	\$ 11,939	2.0%	\$ 7,959	\$ 40,000	\$ 377,870	\$ (20,101)	\$ 248,644	\$ 626,514
8	\$	377,870	3.0%	\$ 11,336	2.0%	\$ 7,557	\$ 40,000	\$ 356,763	\$ (21,107)	\$ 261,076	\$ 617,840
9	\$	356,763	3.0%	\$ 10,703	2.0%	\$ 7,135	\$ 40,000	\$ 334,602	\$ (22,162)	\$ 274,130	\$ 608,732
10	\$	334,602	3.0%	\$ 10,038	2.0%	\$ 6,692	\$ 40,000	\$ 311,332	\$ (23,270)	\$ 287,837	\$ 599,168
11	\$	311,332	3.0%	\$ 9,340	2.0%	\$ 6,227	\$ 40,000	\$ 286,898	\$ (24,433)	\$ 302,228	\$ 589,127
12	\$	286,898	3.0%	\$ 8,607	2.0%	\$ 5,738	\$ 40,000	\$ 261,243	\$ (25,655)	\$ 317,340	\$ 578,583
TOTALS				\$ 144,746		\$ 96,497	\$ 480,000	\$ 261,243	\$ (238,757)		

Current Year "Immediate" Charitable <u>Income</u> Tax Deduction	\$ 371,084
Federal Income Tax Savings U.S. Rate: 37%	\$ 137,301
State Income Tax Savings California Rate: 13%	\$ 48,241
TOTAL IMMEDIATE INCOME TAX SAVINGS*	\$ 185,542
*To receive ALL income tax savings on 2023 tax return, AGI needs to be at least: \$1,236,947	
Value* of iCLAT Assets at End of Term to Revert to Peter	\$ 261,243
*Illustrated value, not a guaranteed value	
Total Charitable Distributions to Donor Advised Fund (DAF)	\$ 480,000

✓ **\$185,542 in Immediate Tax Savings**

✓ **\$261,243 "Reverts" Back to Peter at end of the iCLAT term.**



Actual Client Case #2 - Carl

- **Facts:** Carl's manufacturing business (an S Corp) is having a banner year, and he anticipates K-1 income of \$1,500,000, which is more than double his usual K-1 income. Carl is 53 and a resident of Arizona. Currently, he only gives \$3,500/year to various local charities, but he wants to give more significantly in the coming years, preferably anonymously.

Economic Schedule of iCLAT Illustration

Client Name:	Carl	
Value of Assets Contributed to iCLAT:	\$	1,000,000
Type of Assets Contributed to iCLAT:	Cash & Marketable Securities	
Desired Term of iCLAT (# of Years)	20	
Annual Payments to Charity:	20% Increasing	
Preferred Charity (if any):	Donor Advised Fund (DAF)	
Assumed Annual Income /Growth Rate:	3.0% 2.0%	5%
IRS §7520 Interest Rate:		4.2%



Year	Beginning		Assumed Net Income		Assumed Growth		Annual Charitable Distributions to Carl's Preferred Charities	Year-End Principal	Net Growth in Principal	Tax Savings from iCLAT Deduction Invested for Term of Years	Combined Value of iCLAT Assets & Invested Tax Savings Generated by iCLAT					
	Principal	Rate	Amount	Rate	Amount	Principal						in Principal				
1	\$	1,000,000	3.0%	\$	30,000	2.0%	\$	1,045,000	\$	45,000	\$	207,989				
2	\$	1,045,000	3.0%	\$	31,350	2.0%	\$	1,091,250	\$	46,250	\$	1,309,638				
3	\$	1,091,250	3.0%	\$	32,738	2.0%	\$	1,138,613	\$	47,363	\$	1,367,920				
4	\$	1,138,613	3.0%	\$	34,158	2.0%	\$	1,186,903	\$	48,291	\$	1,427,676				
5	\$	1,186,903	3.0%	\$	35,607	2.0%	\$	1,235,880	\$	48,977	\$	1,488,692				
6	\$	1,235,880	3.0%	\$	37,076	2.0%	\$	1,285,233	\$	49,352	\$	1,550,685				
7	\$	1,285,233	3.0%	\$	38,557	2.0%	\$	1,334,564	\$	49,332	\$	1,613,289				
8	\$	1,334,564	3.0%	\$	40,037	2.0%	\$	1,383,377	\$	48,812	\$	1,676,038				
9	\$	1,383,377	3.0%	\$	41,501	2.0%	\$	1,431,046	\$	47,670	\$	1,738,341				
10	\$	1,431,046	3.0%	\$	42,931	2.0%	\$	1,476,800	\$	45,753	\$	1,799,459				
11	\$	1,476,800	3.0%	\$	44,304	2.0%	\$	1,519,681	\$	42,881	\$	1,858,473				
12	\$	1,519,681	3.0%	\$	45,590	2.0%	\$	1,558,515	\$	38,834	\$	1,914,246				
13	\$	1,558,515	3.0%	\$	46,755	2.0%	\$	1,591,860	\$	33,345	\$	1,965,378				
14	\$	1,591,860	3.0%	\$	47,756	2.0%	\$	1,617,956	\$	26,096	\$	2,010,151				
15	\$	1,617,956	3.0%	\$	48,539	2.0%	\$	1,634,658	\$	16,702	\$	2,046,462				
16	\$	1,634,658	3.0%	\$	49,040	2.0%	\$	1,639,356	\$	4,698	\$	2,071,750				
17	\$	1,639,356	3.0%	\$	49,181	2.0%	\$	1,628,882	\$	(10,474)	\$	2,082,896				
18	\$	1,628,882	3.0%	\$	48,866	2.0%	\$	1,599,395	\$	(29,486)	\$	2,076,110				
19	\$	1,599,395	3.0%	\$	47,982	2.0%	\$	1,546,249	\$	(53,147)	\$	2,046,799				
20	\$	1,546,249	3.0%	\$	46,387	2.0%	\$	1,463,821	\$	(82,428)	\$	1,989,398				
TOTALS				\$	838,357		\$	558,904	\$	933,440	\$	1,463,821	\$	463,821		

Current Year "Immediate" Charitable <u>Income Tax Deduction</u>	\$	501,178
Federal Income Tax Savings	U.S. Rate: 37%	\$ 185,436
State Income Tax Savings	Arizona Rate: 4.5%	\$ 22,553
TOTAL IMMEDIATE INCOME TAX SAVINGS*		\$ 207,989
<small>*To receive ALL income tax savings on 2023 tax return, AGI needs to be at least: \$1,670,593</small>		
Value* of iCLAT Assets at End of Term to Revert to Carl	\$	1,463,821
<small>*Illustrated value, not a guaranteed value</small>		
Total Charitable Distributions to Donor Advised Fund (DAF)	\$	933,440

✓ **\$207,989 in Immediate Tax Savings**
✓ **\$1,463,821 "Reverts" Back to Carl at end of the iCLAT term.**



“Tale of the Tape” Comparison

“BUNCHING”
MULTIPLE ANNUAL
CHARITABLE GIFTS
IN A SINGLE TAX YEAR



“Tale of the Tape” Comparison

“Bunching” 10 Years of Annual Gifts to a DAF

- \$30,000 X 10 = \$300,000 Gift
- AGI Limit: 60% Cash
- Yr. 1 Deduction: \$300,000
- Tax Savings in Yr. 1: \$111,000
- Control of Principal: NO
- 10 Year Reversion: NO
- Reversion Amount: NOTHING

10 Year iCLAT

- \$300,000 transferred to an iCLAT
- AGI Limit: 30% Cash
- Yr. 1 Deduction: \$240,921
- Yr. 1 Tax Savings: \$89,140
- Control of Principal: YES
- 10 Year Reversion: YES
- **Reversion Amount*: \$111,332**

**initial funding of \$300k & 5% annual ROR*



Additional Takeaways

- iCLATs can be funded with other assets such as **rental real estate, S Corp stock, LLC or LP interests**
- iCLATs are a great PLAN B, if pre-sale planning is not possible
- iCLATs are typically designed, established & funded in **2 to 3 weeks**
- Annual IRS Filing Requirements for iCLATs are:
Form 5227 & Form 1041 (*short grantor trust Form 1041*)



KEY Idea & Client Planning Opportunity

income tax savings **NOW**
from future annual
GIFTS to charity



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