



- *Power of Coupling iCLATs & DAFs -
IMMEDIATE Tax Savings
Without “Bunching” Your Clients’
Annual Charitable Gifts*

Presented By:

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Let's Get Started.....

First, what is a charitable lead trust (CLT)?

- a trust that makes annual (or more frequent) distributions to charity for a specified number of years, AND THEN
- distributes all of the remaining trust assets to EITHER:
 - (i) the client's family members (outright or in continuing trusts)

OR

- (ii) back to the CLIENT
- *For all the IRS requirements for a trust to be treated as a charitable lead trust, see IRC 170(f)(2)(B) & Treasury Reg. 1.170A-6(a)(1) & (c)(2); which require the term interest of the CLT to be either a "guaranteed annuity interest" or a "unitrust" interest.*



Two Very Different Types of CLTs

Traditional Common “Wealth Transfer” Structure

- Primary Purpose: saving future estate taxes on client’s death
- Complex planning considerations, can also disrupt client’s estate plan
- Significant time and expense necessary to establish

Lesser-Known “Reversionary” Structure

- ONLY Purpose: saving **income taxes in current year**
- Simpler planning considerations
- Minimal time and expense necessary to establish
- iCLAT® is simply another name for a “reversionary” CLAT



Estate Tax Return Data (2018)

- Only 34,092 estate tax returns filed in 2018
- Only raised \$21.8 Billion in Taxes

Income Tax Return Data (2018)

- 153,621,000 income tax returns filed in 2018
- Raised \$1.6 Trillion in Taxes

CONCLUSION:

OUR CLIENTS CARE SO MUCH MORE ABOUT *SAVING CURRENT INCOME TAX SAVINGS* COMPARED TO SAVING FUTURE ESTATE TAXES.



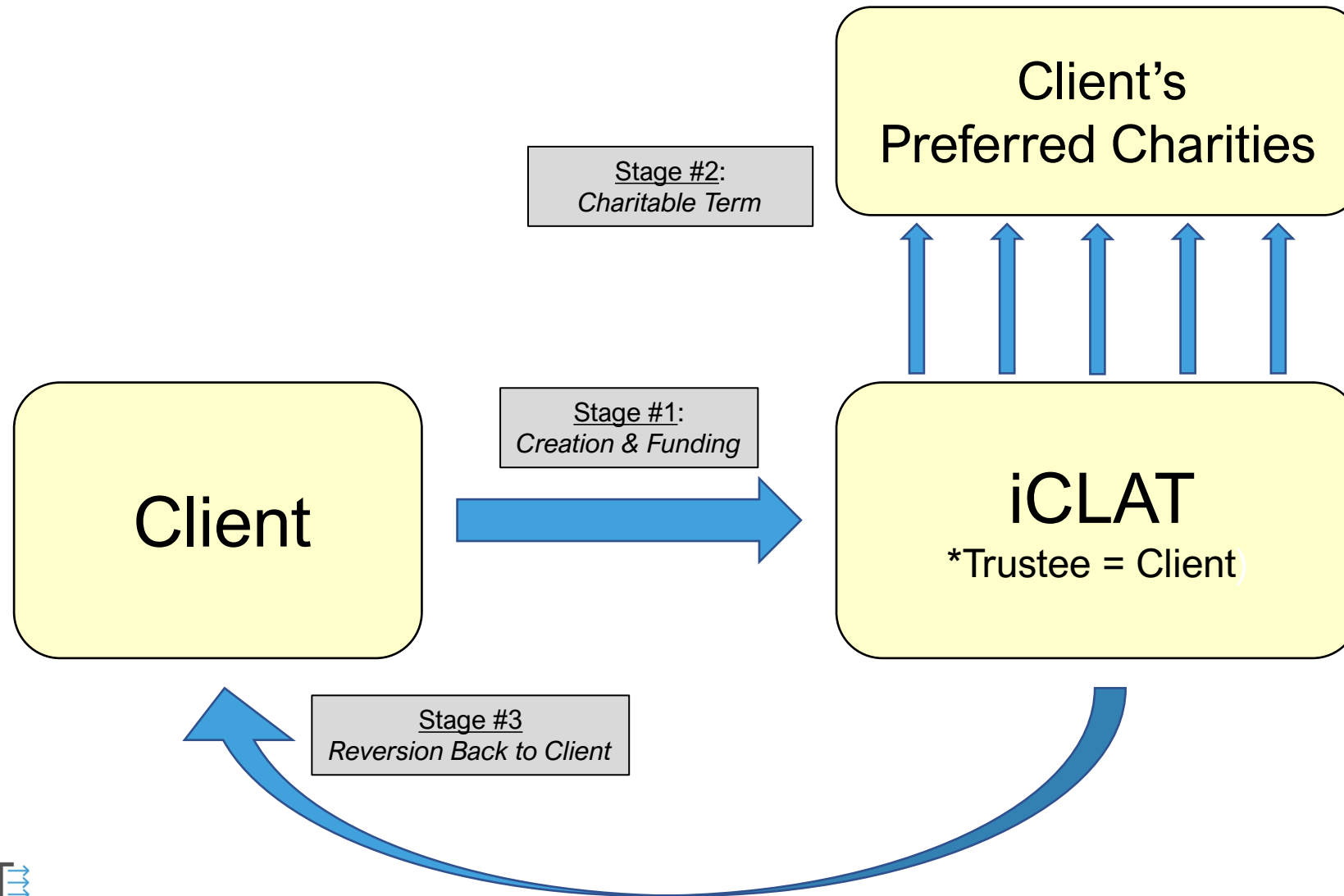
iCLAT



Traditional Charitable Lead Trusts



Basic Structure of an iCLAT: 3 Stages



The Key Benefit of an iCLAT®

- iCLATs generate a VERY large “IMMEDIATE” YEAR 1 charitable income tax deduction for your clients!
 - IMPORTANT: The charitable deduction is based entirely on the “present value” of the annual distributions from an iCLAT!
 - *See Treas. Reg. 1.170A-6(c)(3)
 - The lower the discount interest rate, the larger the immediate charitable deduction generated by an iCLAT.
 - The IRS 7520 Rate remains at historically low levels.
 - The current 7520 rate is only **1.0%**!



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	\$73,524	98.03%
5 Years	\$25,000/year	\$125,000	\$121,335	97.07%
7 Years	\$25,000/year	\$175,000	\$168,204	96.12%
10 Years	\$25,000/year	\$250,000	\$236,782	94.71%
15 Years	\$25,000/year	\$375,000	\$346,626	92.43%
20 Years	\$25,000/year	\$500,000	\$451,138	90.02%



**Based on the IRS 7520 Rate of 1.0% (September 2021 Rate, which remains available through the end of November 2021).
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Two Ideal Client Scenarios for an iCLAT

- Clients who regularly give at least \$10,000/year to charity, including to their place of worship, donor advised fund and/or private foundation AND

- **Ideal Scenario #1:**

Spike/Increase “ordinary income” tax event in excess of \$250,000

OR

- **Ideal Scenario #2:**

High-income (\$350,00 or more) to end due to client’s retirement or other reasons

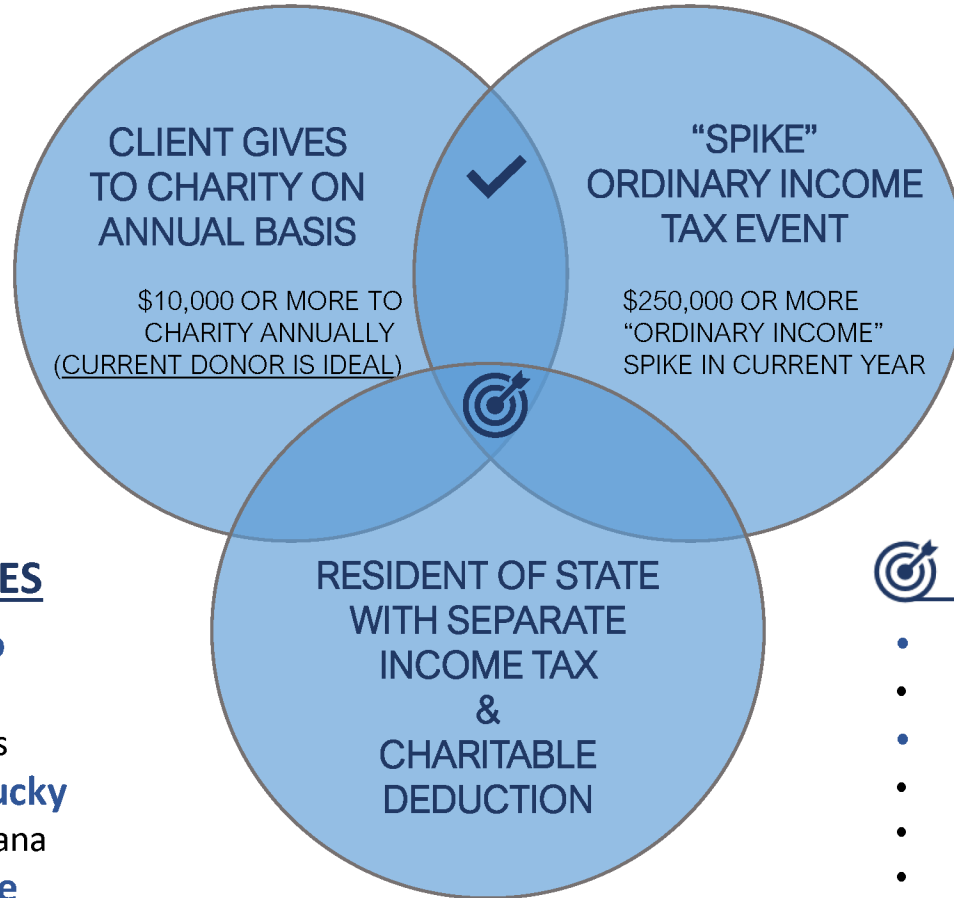




IDEAL FACT SCENARIO #1 – Spike “Ordinary Income” Tax Event in Current Year



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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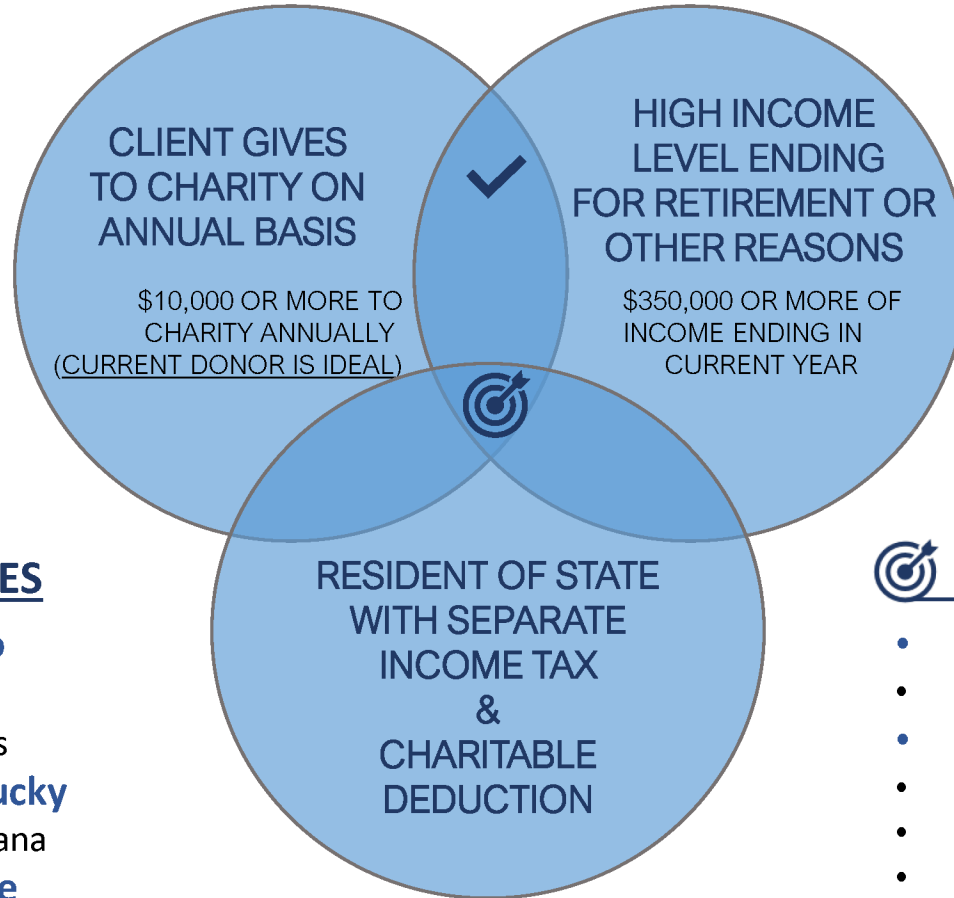
Scenario #1: HERE'S WHAT TO LOOK FOR...

Common Examples of Spike “Ordinary Income” Events

- Wages & Bonuses
- ROTH IRA Conversions
- RMDs and other distributions from IRAs, 401ks, and other retirement plans
- Deferred Compensation Payouts
- Severance Payments to Executives
- Contingency Fees (attorneys) & Large Commissions
- Rental Income & Dividends
- Sale of Assets, Real Property or Business
- Stock Options
- Royalties (Intellectual Property or Oil & Gas)
- Professional Athlete/Entertainer Contracts
- Interest (balloon notes)
- K-1 Business Income (S Corp/LLC)
- “IRD” Items
- Inherited IRAs *Beneficiaries can't use “STRETCH”, the 10-yr rule applies now
- Lottery Winnings



IDEAL FACT SCENARIO #2 – Approaching Retirement for High Income Donor



✓ 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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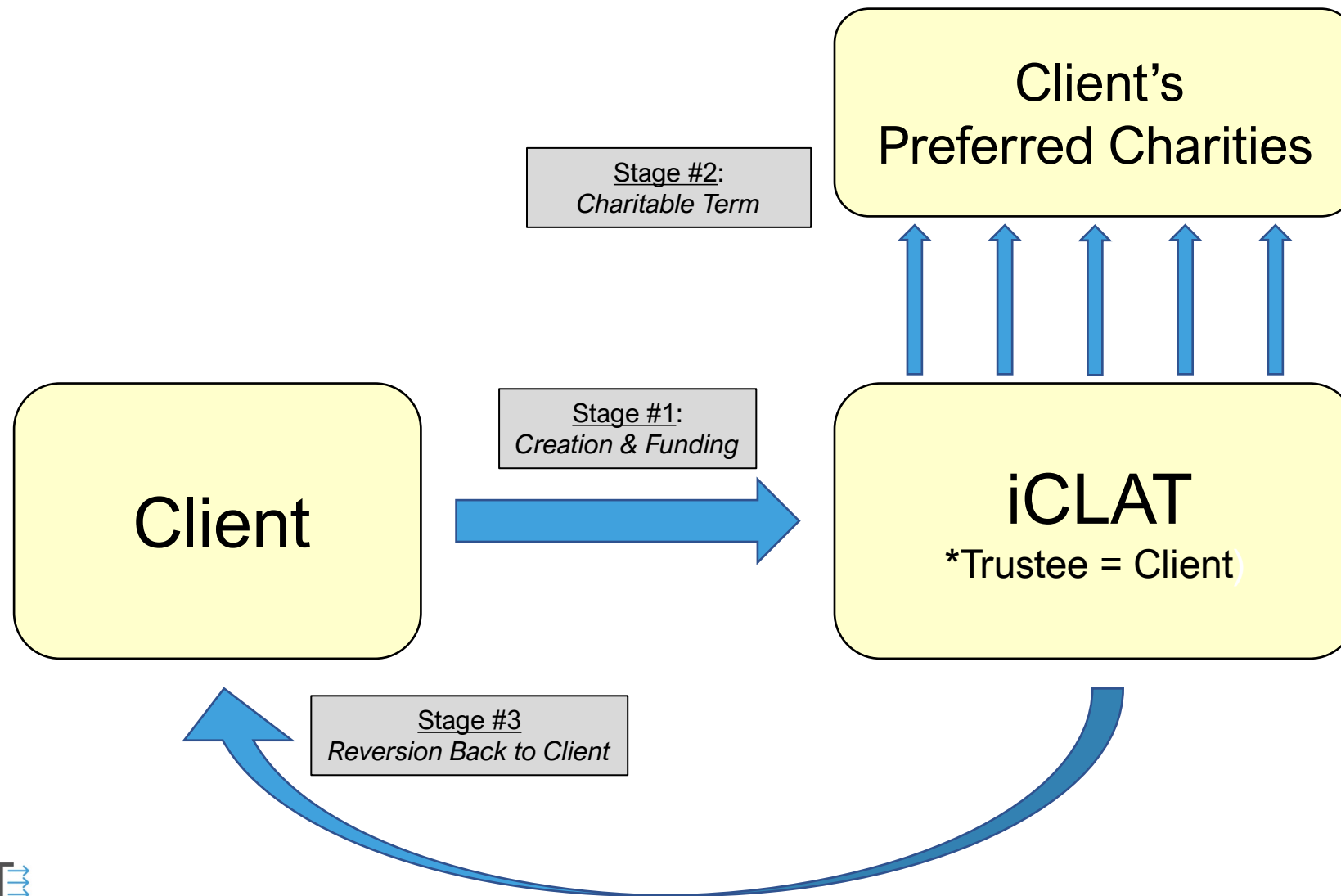
Scenario #2: HERE'S WHAT TO LOOK FOR...

Common Ideal “Retirement” Situations

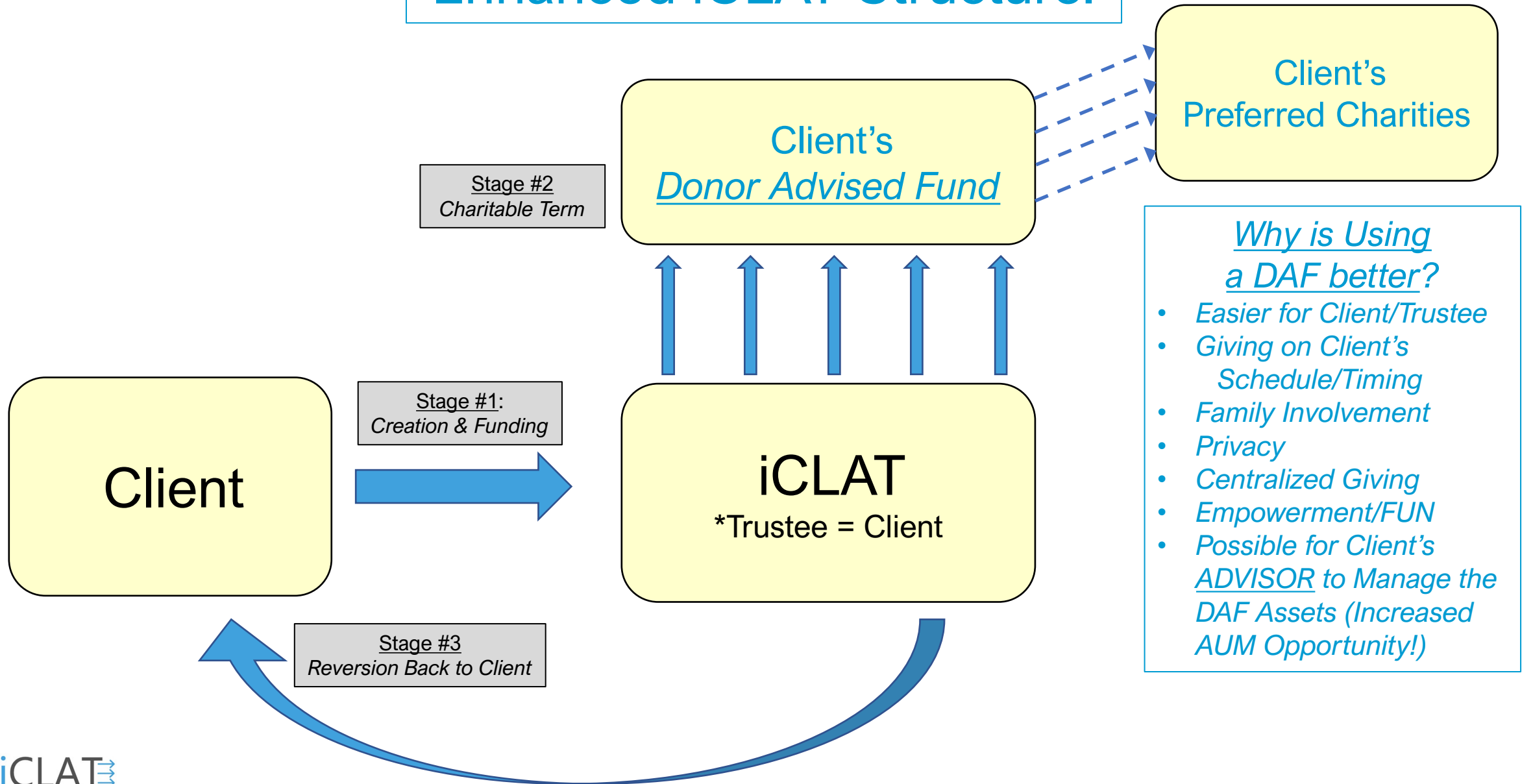
- Physicians, Attorneys, CPAs, Other Professionals
- Executives
- Business Owners
- Professional Athletes

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

Basic Structure of an iCLAT: 3 Stages



Enhanced iCLAT Structure:



- Why is Using a DAF better?
- Easier for Client/Trustee
 - Giving on Client's Schedule/Timing
 - Family Involvement
 - Privacy
 - Centralized Giving
 - Empowerment/FUN
 - Possible for Client's ADVISOR to Manage the DAF Assets (Increased AUM Opportunity!)



- BEST OF BOTH WORLDS -
“Coupling an iCLAT with a Donor Advised Fund”

General benefits of DAFs to Clients:

1. Granting on donor/client's time frame...no year end madness!
2. Anonymous giving
3. FUN/Empowerment
4. Getting kids and grandkids involved in family's philanthropy
5. DAFs can be named almost anything...leverage business, charitable cause, community, etc.

- BEST OF BOTH WORLDS -
“Coupling an iCLAT with a Donor Advised Fund”

Specific benefits of DAFs to Advisors:

1. Strengthen Relationships with Clients
2. Additional AUM Opportunity for iCLAT & DAF Assets
3. Client Continuation – Adult Children of Client
4. Distinguish Yourself from Vast Majority of Other Advisors

- BEST OF BOTH WORLDS -
“Coupling an iCLAT with a Donor Advised Fund”

Specific benefits of DAFs to Charities:

1. Donor STEWARDSHIP, STEWARDSHIP, STEWARDSHIP
2. “Center of Table” of Donor’s Philanthropy
3. Increase Planned Gifts & “Bequest-Like” Revenue!!!
4. Operating Charity DAFs Are on the RISE!!!!!!

Actual iCLAT Client Case

- **Client Case #1** : Peter regularly gives \$30,000 annually to his 2 or 3 favorite charities (including his church) and he anticipates continuing this level of annual giving for the next 10 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 resident of California and he has a donor advised fund.

Ideal Scenario #1 - Spike Income Event



Example #1: \$30,000 Per Year to Charity/DAF for 10 Years

Client Name:	Peter Smith		
Value of Assets Contributed to iCLAT:	\$	450,000	
Type of Assets Contributed to iCLAT:	Cash		
Desired Term of iCLAT (# of Years)	10		
Annual Payments to Charity:	\$	30,000	
Preferred Charity (if any):	Peter's Preferred Charities/DAF		
Assumed Annual Income /Growth Rate:	3% 1%	4%	
IRS §7520 Interest Rate:	1.2%		

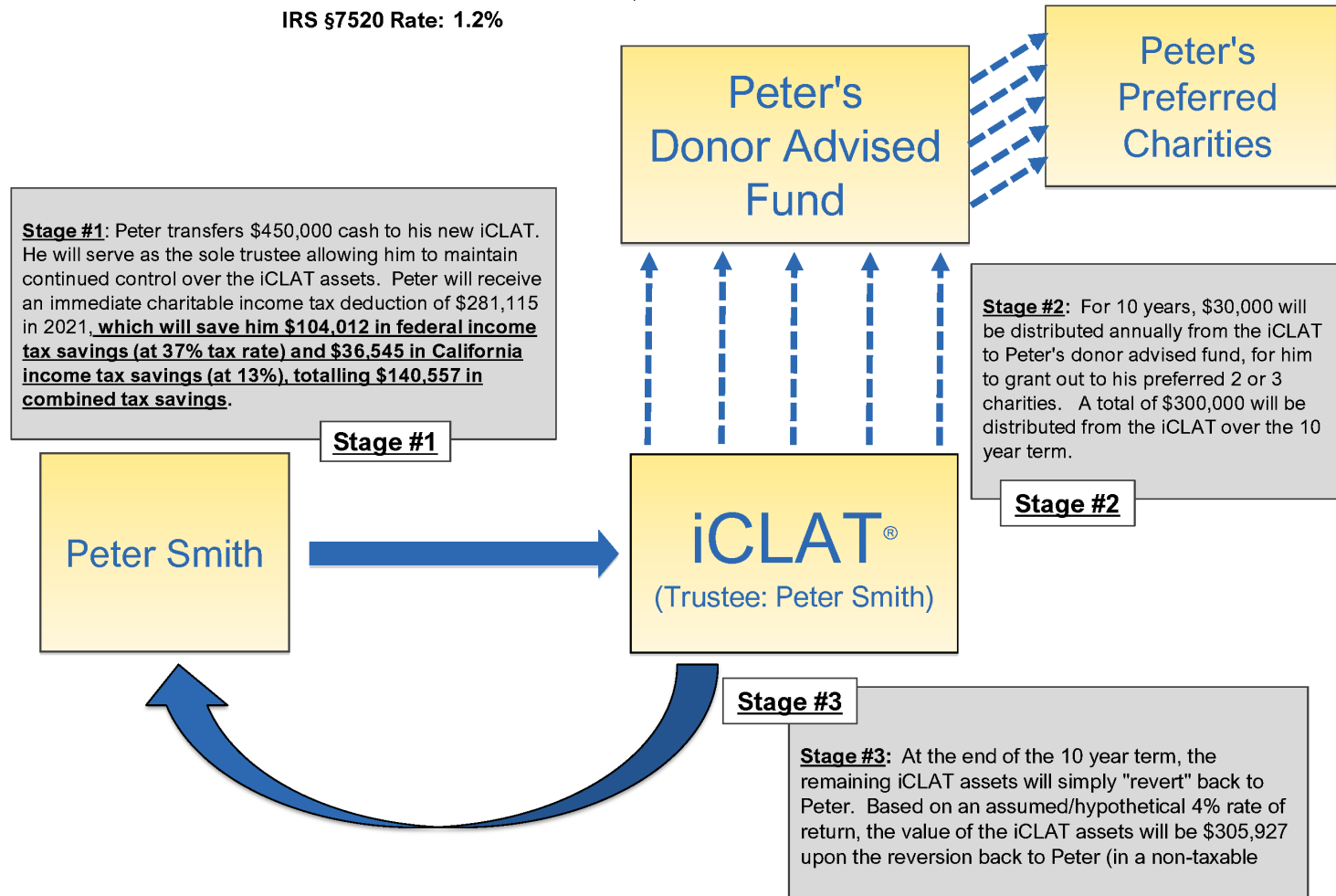


Year	Beginning Principal	Assumed Net Income		Assumed Growth		Annual Charitable Distributions to Peter's DAF	Year-End Principal	Net Growth in Principal
		Rate	Amount	Rate	Amount			
1	\$ 450,000	3.0%	\$ 13,500	1%	\$ 4,500	\$ 30,000	\$ 438,000	\$ (12,000)
2	\$ 438,000	3.0%	\$ 13,140	1%	\$ 4,380	\$ 30,000	\$ 425,520	\$ (12,480)
3	\$ 425,520	3.0%	\$ 12,766	1%	\$ 4,255	\$ 30,000	\$ 412,541	\$ (12,979)
4	\$ 412,541	3.0%	\$ 12,376	1%	\$ 4,125	\$ 30,000	\$ 399,042	\$ (13,498)
5	\$ 399,042	3.0%	\$ 11,971	1%	\$ 3,990	\$ 30,000	\$ 385,004	\$ (14,038)
6	\$ 385,004	3.0%	\$ 11,550	1%	\$ 3,850	\$ 30,000	\$ 370,404	\$ (14,600)
7	\$ 370,404	3.0%	\$ 11,112	1%	\$ 3,704	\$ 30,000	\$ 355,220	\$ (15,184)
8	\$ 355,220	3.0%	\$ 10,657	1%	\$ 3,552	\$ 30,000	\$ 339,429	\$ (15,791)
9	\$ 339,429	3.0%	\$ 10,183	1%	\$ 3,394	\$ 30,000	\$ 323,006	\$ (16,423)
10	\$ 323,006	3.0%	\$ 9,690	1%	\$ 3,230	\$ 30,000	\$ 305,927	\$ (17,080)
TOTALS			\$ 116,945		\$ 38,982	\$ 300,000	\$ 305,927	\$ (144,073)

Immediate Charitable Income Tax Deduction in Current Year	\$	281,115
Federal Income Tax Savings	<i>U.S. Rate: 37%</i>	\$ 104,012
State Income Tax Savings	<i>California Rate: 13.00%</i>	\$ 36,545
TOTAL IMMEDIATE INCOME TAX SAVINGS*	\$	140,557
<i>*To receive ALL income tax savings on 2021 tax return, AGI needs to be at least: \$937,048</i>		
Value* of iCLAT Assets at End of Term to Revert to Peter Smith	\$	305,927
<i>*Illustrated value, not a guaranteed value</i>		
Total Charitable Distributions to Peter's Preferred Charities/DAF	\$	300,000



FACTS: 10 Year / \$ 30,000 Peter's Preferred Charities/DAF
 Initial Assets to Fund the iCLAT: \$ 450,000 Cash
 IRS §7520 Rate: 1.2%



Actual iCLAT Client Case

- **Client Case #2:** Stacy is a dentist and just sold her 50% interest in her dental practice for \$1,250,000. Her annual salary & other income is \$400,000. Stacy is a resident of Virginia. Currently, she only gives \$3,500/year to various local charities. However, now that she sold her practice, she wants to start giving in a more significantly in the coming years, and would prefer to do so anonymously.



Client Case #2: 20% Increasing Charitable Distributions for 20 Years

Client Name:	Stacy Smith		
Value of Assets Contributed to iCLAT:	\$	600,000	
Type of Assets Contributed to iCLAT:	Cash & Securities		
Desired Term of iCLAT (# of Years)	20		
Annual Payments to Charity (20% Increasing):	\$	3,500	
Preferred Charity (if any):	Preferred Charities or DAF		
Assumed Annual Income /Growth Rate:	3.0%	2.0%	5%
IRS §7520 Interest Rate:	1.2%		



Year	Beginning		Assumed Net Income		Assumed Growth		Annual Charitable Distributions to Stacy's Charities (or her DAF)	Year-End Principal	Net Growth in Principal
	Principal		Rate	Amount	Rate	Amount			
1	\$	600,000	3.0%	\$ 18,000	2.0%	\$ 12,000	\$ 3,500	\$ 626,500	\$ 26,500
2	\$	626,500	3.0%	\$ 18,795	2.0%	\$ 12,530	\$ 4,200	\$ 653,625	\$ 27,125
3	\$	653,625	3.0%	\$ 19,609	2.0%	\$ 13,073	\$ 5,040	\$ 681,266	\$ 27,641
4	\$	681,266	3.0%	\$ 20,438	2.0%	\$ 13,625	\$ 6,048	\$ 709,282	\$ 28,015
5	\$	709,282	3.0%	\$ 21,278	2.0%	\$ 14,186	\$ 7,258	\$ 737,488	\$ 28,206
6	\$	737,488	3.0%	\$ 22,125	2.0%	\$ 14,750	\$ 8,709	\$ 765,653	\$ 28,165
7	\$	765,653	3.0%	\$ 22,970	2.0%	\$ 15,313	\$ 10,451	\$ 793,485	\$ 27,832
8	\$	793,485	3.0%	\$ 23,805	2.0%	\$ 15,870	\$ 12,541	\$ 820,618	\$ 27,133
9	\$	820,618	3.0%	\$ 24,619	2.0%	\$ 16,412	\$ 15,049	\$ 846,600	\$ 25,982
10	\$	846,600	3.0%	\$ 25,398	2.0%	\$ 16,932	\$ 18,059	\$ 870,870	\$ 24,271
11	\$	870,870	3.0%	\$ 26,126	2.0%	\$ 17,417	\$ 21,671	\$ 892,743	\$ 21,872
12	\$	892,743	3.0%	\$ 26,782	2.0%	\$ 17,855	\$ 26,005	\$ 911,375	\$ 18,632
13	\$	911,375	3.0%	\$ 27,341	2.0%	\$ 18,227	\$ 31,206	\$ 925,737	\$ 14,362
14	\$	925,737	3.0%	\$ 27,772	2.0%	\$ 18,515	\$ 37,448	\$ 934,576	\$ 8,839
15	\$	934,576	3.0%	\$ 28,037	2.0%	\$ 18,692	\$ 44,937	\$ 936,368	\$ 1,792
16	\$	936,368	3.0%	\$ 28,091	2.0%	\$ 18,727	\$ 53,925	\$ 929,262	\$ (7,106)
17	\$	929,262	3.0%	\$ 27,878	2.0%	\$ 18,585	\$ 64,709	\$ 911,015	\$ (18,246)
18	\$	911,015	3.0%	\$ 27,330	2.0%	\$ 18,220	\$ 77,651	\$ 878,915	\$ (32,101)
19	\$	878,915	3.0%	\$ 26,367	2.0%	\$ 17,578	\$ 93,182	\$ 829,679	\$ (49,236)
20	\$	829,679	3.0%	\$ 24,890	2.0%	\$ 16,594	\$ 111,818	\$ 759,345	\$ (70,334)
TOTALS			\$	487,652	\$	325,101	\$ 653,408	\$ 759,345	\$ 159,345

"Immediate" Charitable <u>Income Tax</u> Deduction	\$	543,627
Federal Income Tax Savings	<i>U.S. Rate: 37%</i>	\$ 201,142
State Income Tax Savings	<i>Virginia Rate: 5.75%</i>	\$ 31,259
TOTAL IMMEDIATE TAX SAVINGS	\$	232,401
Value* of Assets at End of iCLAT Term to Revert to Stacy Smith	\$	759,345
<i>*illustrated value, not a guaranteed value</i>		
Total Charitable Distributions to Stacy's Preferred Charities or DAF	\$	653,408



*For Illustration Purposes Only

Ask the Expert: Donor Advised Funds

Why have donor advised funds (DAFs) become such popular charitable giving tools in the past decade?

I believe the core reason for the tremendous growth in DAFs is that they are **empowering** to donors. DAFs provide a compelling and cost-effective platform to charitably-minded families for their current and future charitable giving. The specific benefits of DAFs include: (1) anonymous giving; (2) current year income tax savings from charitable gifts, even though the ultimate gifts to the actual desired charities can be made in future years; (3) minimal costs and no annual tax filing requirements, which is not the case with private foundations; and (4) the overall “fun factor” that DAFs add to one’s charitable giving by providing a convenient centralized on-line giving platform equipped with charity research tools, “back office-like” advice and support, recordkeeping resources, family involvement and more!

Can I open up a donor advised fund by starting out with smaller contributions?

Absolutely. Most of the large DAF sponsors allow DAFs to be opened with a minimal initial contribution, such as \$1,000 or less. Some DAF sponsors even allow donors to set up DAFs with no initial gift at all. These are commonly referred to as “zero balance DAFs” or “placeholder DAFs.” As an estate planning attorney, I see great value in

these minimal initial contribution requirements for donors because they allow donors to “test drive” the DAF experience with little (or no) financial commitment, allowing them to easily determine if a DAF is the right tool for them.

Is it possible to donate real estate, or even part of the ownership interest in a corporation, partnership, LLC or other entity, to a donor advised fund?

Yes, DAFs are frequently used by donors, with the advice of their advisors, to facilitate charitable gifts of complex assets, such as real estate and interests in closely-held entities. Many public charities do **NOT** have gift acceptance policies in place that allow them to accept complex gifts. Obvious dilemmas arise when donors want to use complex assets to benefit a particular charity that is incapable of accepting such assets. DAFs allow such complex asset gifts to be made **NOW**, while allowing the donors to make the ultimate grant recommendations to his or her desired charities in the future.



BRAD GORNITO, ESQ., LLM Gornito Law, PLLC - President & Founder - Brad has practiced estate planning/tax law in Florida for over 19 years and is a valued member of the UF Advisor Network.

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“Tale of the Tape” Comparison

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



WHEN DID “BUNCHING” BECOME A POPULAR CHARITABLE GIVING STRATEGY?

In 2018, when the standard deduction doubled to \$24,000 for married couples. As a result, most people can no longer itemize and get no tax savings from their charitable giving!

Filing Status	2017 Standard Deduction	2018 Standard Deduction	2021 Standard Deduction
Single Person	\$6,350	\$12,000	\$12,550
Married	\$12,700	\$24,000	\$25,100
Head of Household	\$9,325	\$18,000	\$18,850

“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: \$284,139
- Yr. 1 Tax Savings: \$105,131
- Control of Principal: YES
- 10 Year Reversion: YES
- Reversion Amount*: \$111,332

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

Additional Takeaways

- iCLAT can be funded with other assets such as rental real estate, S Corp stock, LLC or LP interests
- iCLATs are typically designed, established & funded in 3 to 4 weeks
- Annual IRS Filing Requirements for iCLATs are:
Form 5227 & Form 1041 (*short grantor trust Form 1041*)

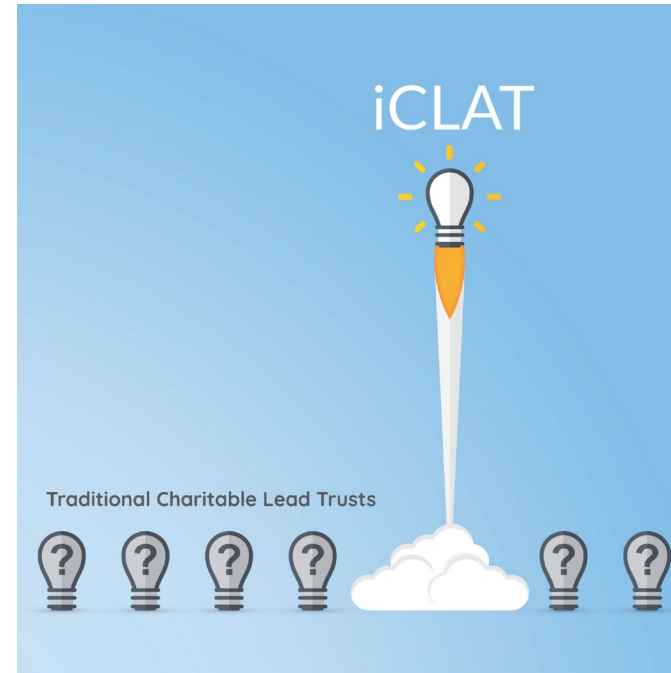


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 - Review Articles and Presentations on Website
- **Schedule a FREE Telephone/Zoom Call or send us your questions**
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Any Questions?



*IMMEDIATE Income Tax SAVINGS
for Future Annual Gifts to Charity*

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