



IMMEDIATE 2023 Tax Savings Opportunity
for Key Client Demographic
- Meet the iCLAT -

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?

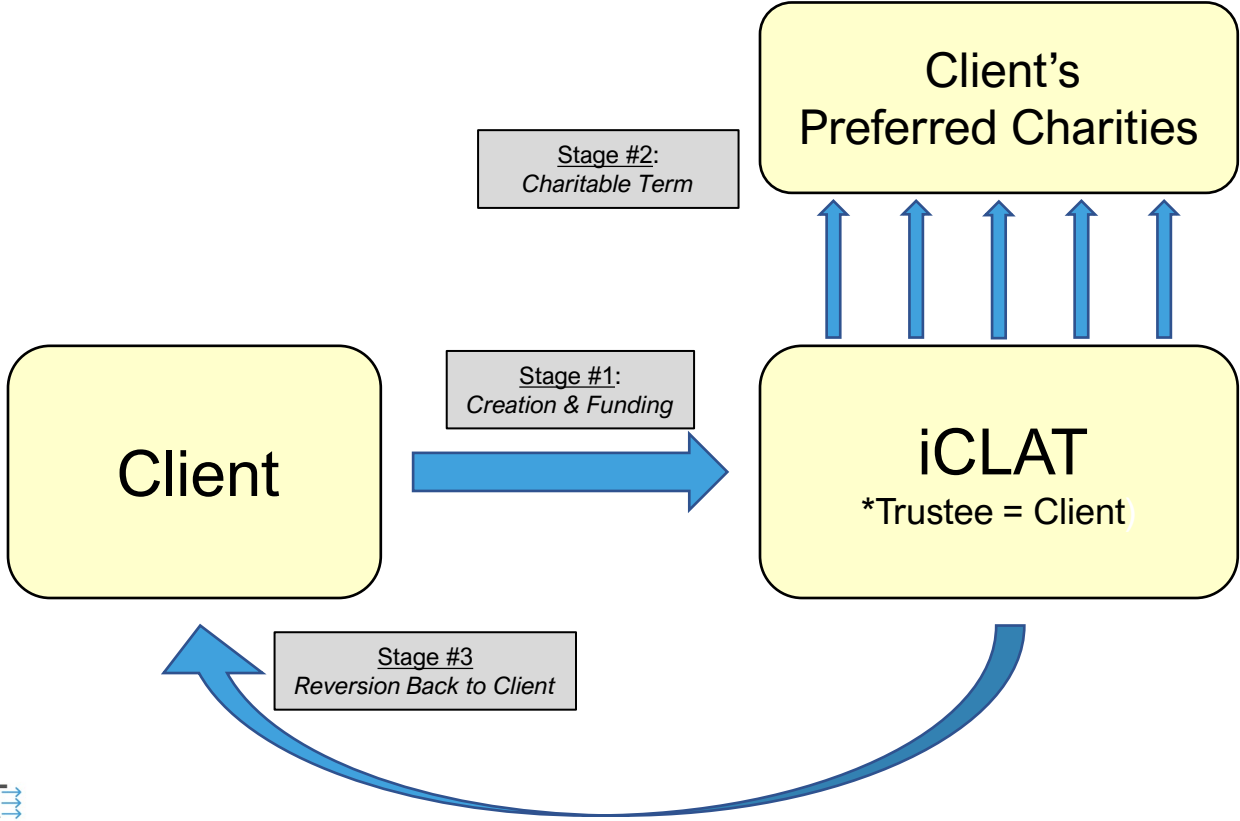
- An irrevocable trust that makes annual distributions to one or more charities for a specified number of years, and then *distributes the trust assets back to the client in a non-taxable transaction.*
- Technical Name: a “reversionary” charitable lead annuity trust that is treated as a grantor trust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



Traditional CLTs vs iCLAT



Basic Structure of an iCLAT: 3 Stages





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
- 4.4% IRS rate is available to end of July 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	\$68,855	91.8%
5 Years	\$25,000/year	\$125,000	\$110,055	88.0%
7 Years	\$25,000/year	\$175,000	\$147,857	84.5%
10 Years	\$25,000/year	\$250,000 →	\$198,795	79.5%
15 Years	\$25,000/year	\$375,000	\$270,345	72.1%
20 Years	\$25,000/year	\$500,000 →	\$328,035	65.6%



**Based on the IRS 7520 Rate of 4.4% (May 2023 Rate, which remains available through the end of July 2023).*

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Who are ideal clients?

Clients who regularly give \$10,000 or more each year to charity
(including to their place of worship, DAF, or private foundation)

AND

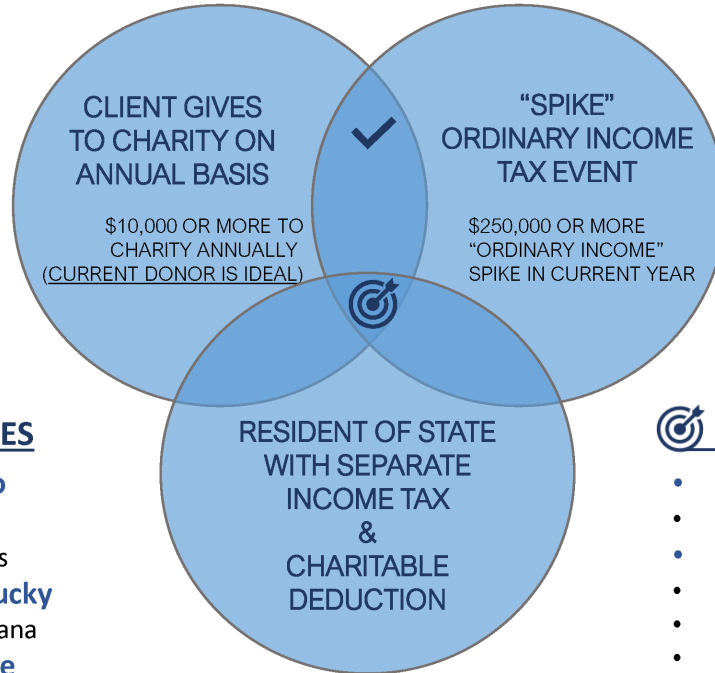
- **Ideal Scenario #1: Spike Income Tax Event**

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

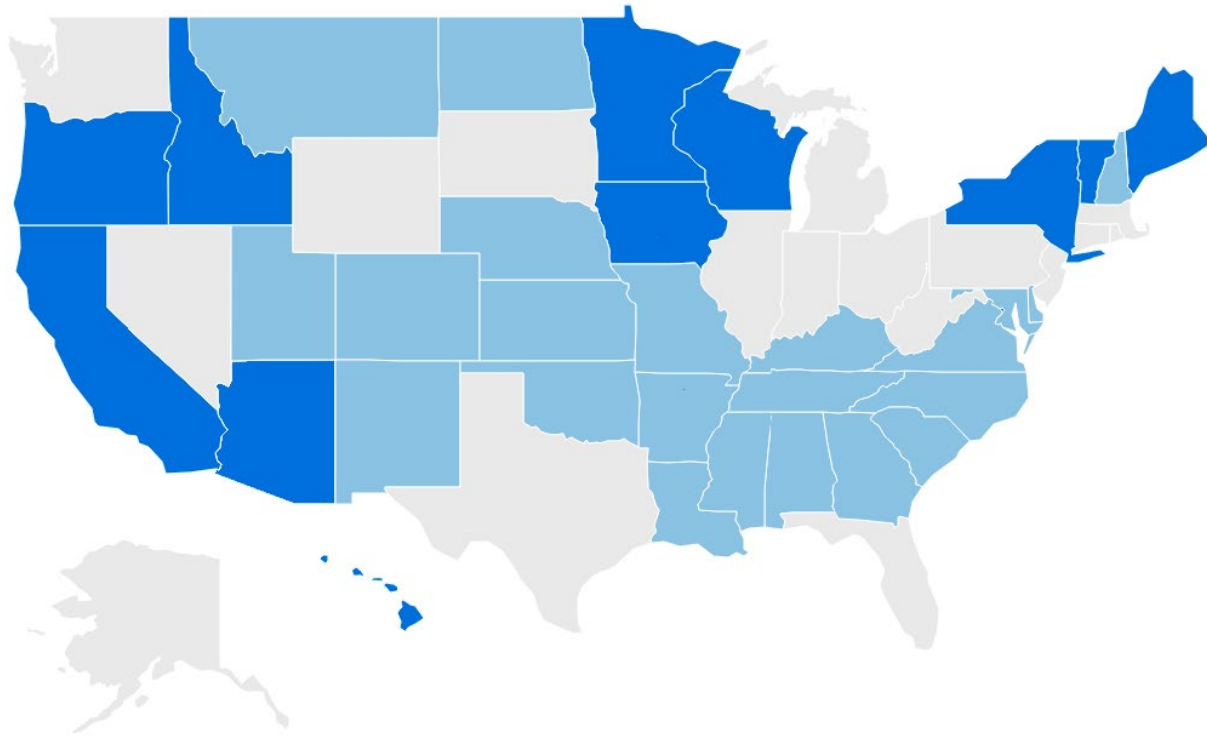
🎯 STATES




- 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



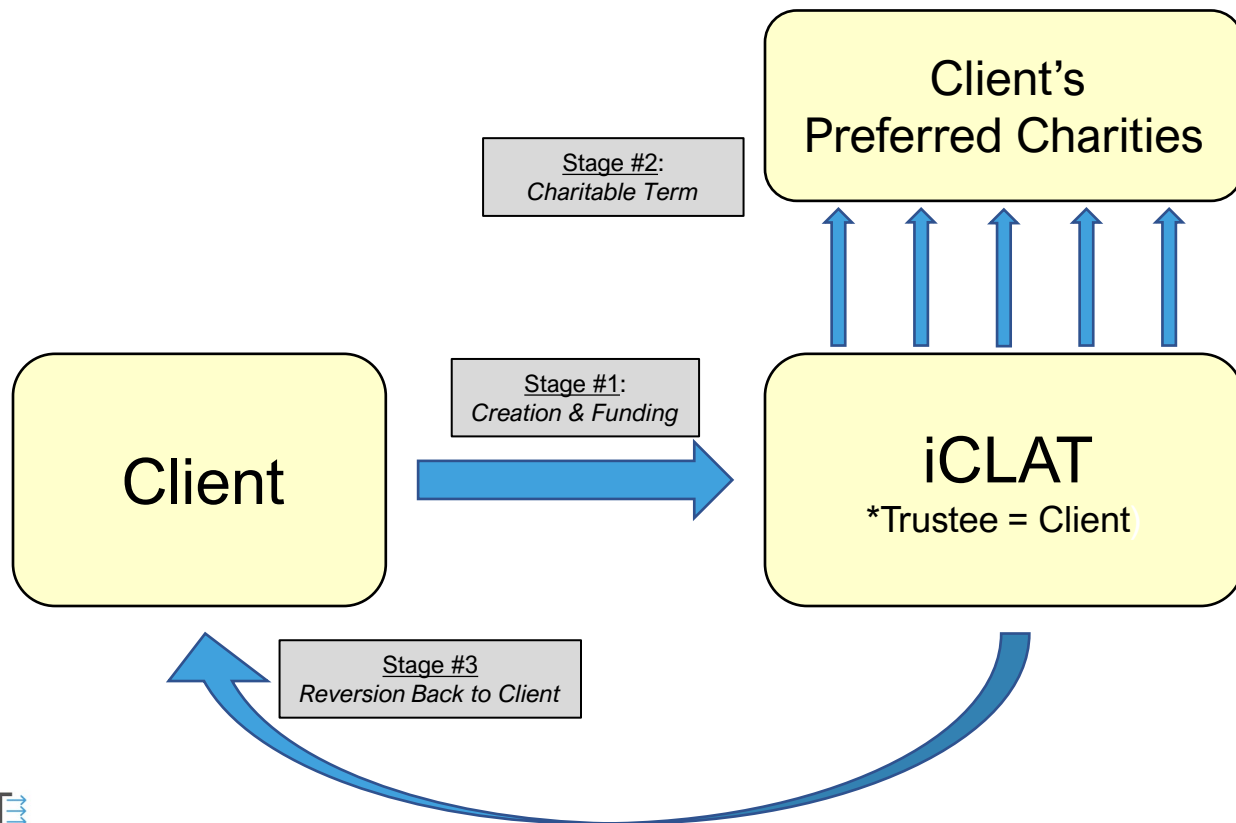
Why NOW? Right Now!

Example:

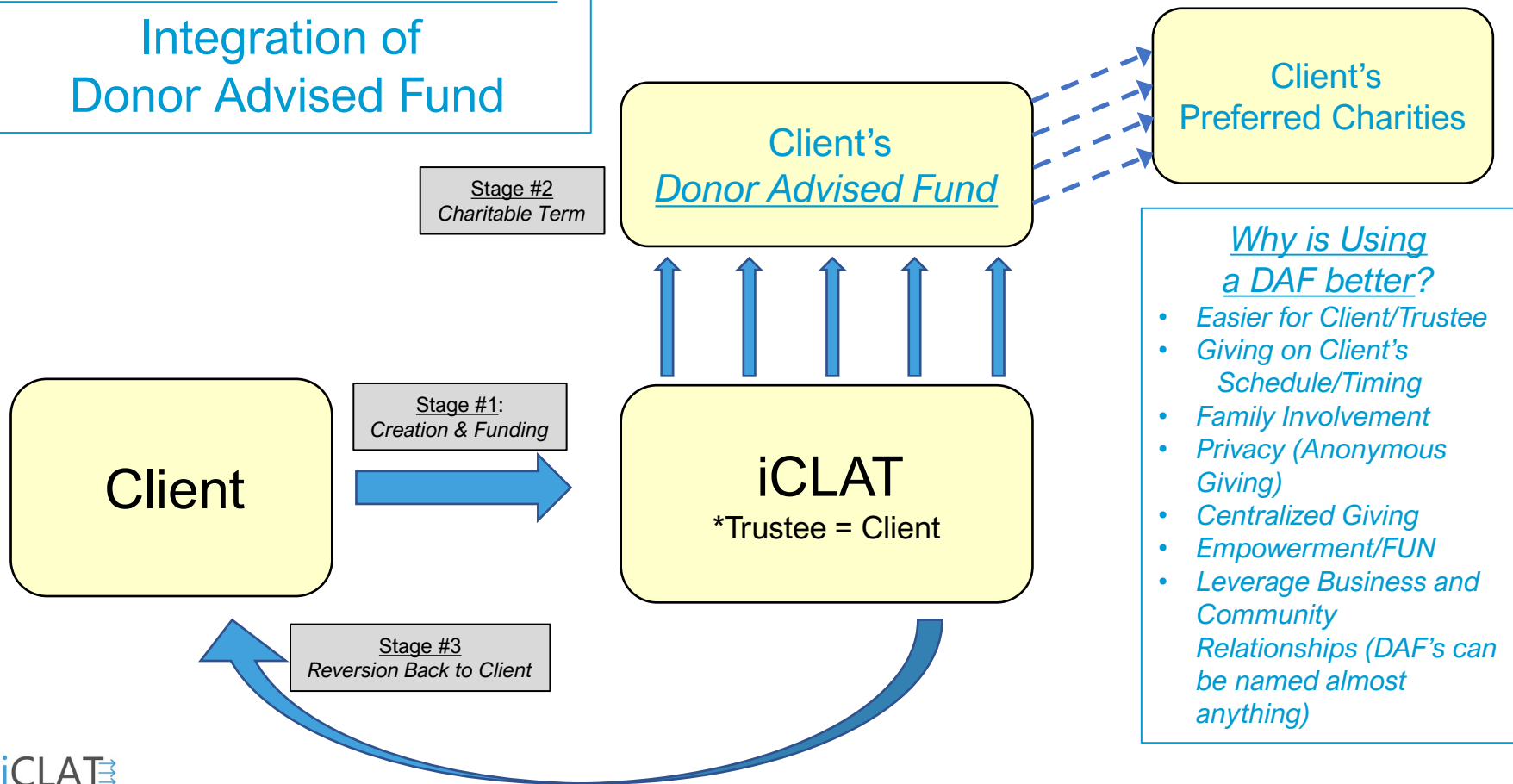
10 Year iCLAT that distributes \$50,000 per year to preferred charities.

Applicable IRS Interest Rate	IMMEDIATE Charitable Deduction	IMMEDIATE Tax Savings (at 37% tax rate)	DECREASED TAX SAVINGS
Current 4.4% Rate (available through 7/31/2023)	\$397,590	\$147,108	N/A
At <u>6%</u> IRS §7520 Rate (??? 2023)	\$368,005	\$136,162	-\$10,946 (-7%)
At <u>8%</u> IRS §7520 Rate (??? 2023)	\$335,505	\$124,137	-\$22,971 (-15%)

Basic Structure of an iCLAT: 3 Stages



Enhanced iCLAT Structure: Integration of Donor Advised Fund



- Why is Using a DAF better?
- *Easier for Client/Trustee*
 - *Giving on Client's Schedule/Timing*
 - *Family Involvement*
 - *Privacy (Anonymous Giving)*
 - *Centralized Giving*
 - *Empowerment/FUN*
 - *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:	4.4%

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)	\$ 183,419	\$ 668,419
2	\$ 485,000		3.0%	\$ 14,550	2.0%	\$ 9,700	\$ 40,000	\$ 469,250	\$ (15,750)	\$ 192,590	\$ 661,840
3	\$ 469,250		3.0%	\$ 14,078	2.0%	\$ 9,385	\$ 40,000	\$ 452,713	\$ (16,538)	\$ 202,220	\$ 654,932
4	\$ 452,713		3.0%	\$ 13,581	2.0%	\$ 9,054	\$ 40,000	\$ 435,348	\$ (17,364)	\$ 212,331	\$ 647,679
5	\$ 435,348		3.0%	\$ 13,060	2.0%	\$ 8,707	\$ 40,000	\$ 417,116	\$ (18,233)	\$ 222,947	\$ 640,063
6	\$ 417,116		3.0%	\$ 12,513	2.0%	\$ 8,342	\$ 40,000	\$ 397,971	\$ (19,144)	\$ 234,095	\$ 632,066
7	\$ 397,971		3.0%	\$ 11,939	2.0%	\$ 7,959	\$ 40,000	\$ 377,870	\$ (20,101)	\$ 245,799	\$ 623,669
8	\$ 377,870		3.0%	\$ 11,336	2.0%	\$ 7,557	\$ 40,000	\$ 356,763	\$ (21,107)	\$ 258,089	\$ 614,853
9	\$ 356,763		3.0%	\$ 10,703	2.0%	\$ 7,135	\$ 40,000	\$ 334,602	\$ (22,162)	\$ 270,994	\$ 605,595
10	\$ 334,602		3.0%	\$ 10,038	2.0%	\$ 6,692	\$ 40,000	\$ 311,332	\$ (23,270)	\$ 284,544	\$ 595,875
11	\$ 311,332		3.0%	\$ 9,340	2.0%	\$ 6,227	\$ 40,000	\$ 286,898	\$ (24,433)	\$ 298,771	\$ 585,669
12	\$ 286,898		3.0%	\$ 8,607	2.0%	\$ 5,738	\$ 40,000	\$ 261,243	\$ (25,655)	\$ 313,709	\$ 574,952
TOTALS				\$ 144,746		\$ 96,497	\$ 480,000	\$ 261,243	\$ (238,757)		

Current Year "Immediate" Charitable <u>Income</u> Tax Deduction	\$ 366,839
Federal Income Tax Savings U.S. Rate: 37%	\$ 135,730
State Income Tax Savings California Rate: 13%	\$ 47,689
TOTAL IMMEDIATE INCOME TAX SAVINGS*	\$ 183,419
*To receive ALL income tax savings on 2023 tax return, AGI needs to be at least: \$1,222,796	
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

✓ **\$183,419 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:	4.4%		



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	Term of Years	Generated by iCLAT								
1	\$		1,000,000	3.0%	\$	30,000	2.0%	\$	20,000	\$	5,000	\$	1,045,000	\$	45,000	\$	202,229	\$	1,247,229	
2	\$		1,045,000	3.0%	\$	31,350	2.0%	\$	20,900	\$	6,000	\$	1,091,250	\$	46,250	\$	212,341	\$	1,303,591	
3	\$		1,091,250	3.0%	\$	32,738	2.0%	\$	21,825	\$	7,200	\$	1,138,613	\$	47,363	\$	222,958	\$	1,361,570	
4	\$		1,138,613	3.0%	\$	34,158	2.0%	\$	22,772	\$	8,640	\$	1,186,903	\$	48,291	\$	234,105	\$	1,421,009	
5	\$		1,186,903	3.0%	\$	35,607	2.0%	\$	23,738	\$	10,368	\$	1,235,880	\$	48,977	\$	245,811	\$	1,481,691	
6	\$		1,235,880	3.0%	\$	37,076	2.0%	\$	24,718	\$	12,442	\$	1,285,233	\$	49,352	\$	258,101	\$	1,543,334	
7	\$		1,285,233	3.0%	\$	38,557	2.0%	\$	25,705	\$	14,930	\$	1,334,564	\$	49,332	\$	271,006	\$	1,605,571	
8	\$		1,334,564	3.0%	\$	40,037	2.0%	\$	26,691	\$	17,916	\$	1,383,377	\$	48,812	\$	284,557	\$	1,667,933	
9	\$		1,383,377	3.0%	\$	41,501	2.0%	\$	27,668	\$	21,499	\$	1,431,046	\$	47,670	\$	298,784	\$	1,729,831	
10	\$		1,431,046	3.0%	\$	42,931	2.0%	\$	28,621	\$	25,799	\$	1,476,800	\$	45,753	\$	313,724	\$	1,790,524	
11	\$		1,476,800	3.0%	\$	44,304	2.0%	\$	29,536	\$	30,959	\$	1,519,681	\$	42,881	\$	329,410	\$	1,849,091	
12	\$		1,519,681	3.0%	\$	45,590	2.0%	\$	30,394	\$	37,150	\$	1,558,515	\$	38,834	\$	345,880	\$	1,904,395	
13	\$		1,558,515	3.0%	\$	46,755	2.0%	\$	31,170	\$	44,581	\$	1,591,860	\$	33,345	\$	363,174	\$	1,955,034	
14	\$		1,591,860	3.0%	\$	47,756	2.0%	\$	31,837	\$	53,497	\$	1,617,956	\$	26,096	\$	381,333	\$	1,999,290	
15	\$		1,617,956	3.0%	\$	48,539	2.0%	\$	32,359	\$	64,196	\$	1,634,658	\$	16,702	\$	400,400	\$	2,035,058	
16	\$		1,634,658	3.0%	\$	49,040	2.0%	\$	32,693	\$	77,035	\$	1,639,356	\$	4,698	\$	420,420	\$	2,059,776	
17	\$		1,639,356	3.0%	\$	49,181	2.0%	\$	32,787	\$	92,442	\$	1,628,882	\$	(10,474)	\$	441,441	\$	2,070,323	
18	\$		1,628,882	3.0%	\$	48,866	2.0%	\$	32,578	\$	110,931	\$	1,599,395	\$	(29,486)	\$	463,513	\$	2,062,908	
19	\$		1,599,395	3.0%	\$	47,982	2.0%	\$	31,988	\$	133,117	\$	1,546,249	\$	(53,147)	\$	486,688	\$	2,032,937	
20	\$		1,546,249	3.0%	\$	46,387	2.0%	\$	30,925	\$	159,740	\$	1,463,821	\$	(82,428)	\$	511,023	\$	1,974,844	
TOTALS			\$		\$	838,357		\$	558,904		\$	933,440	\$	1,463,821	\$	463,821				

Current Year "Immediate" Charitable <u>Income Tax Deduction</u>	\$	487,299
Federal Income Tax Savings	U.S. Rate: 37%	\$ 180,301
State Income Tax Savings	Arizona Rate: 4.5%	\$ 21,928
TOTAL IMMEDIATE INCOME TAX SAVINGS*		\$ 202,229
*To receive ALL income tax savings on 2023 tax return, AGI needs to be at least: \$1,624,330		
Value* of iCLAT Assets at End of Term to Revert to Carl	\$	1,463,821
*Illustrated value, not a guaranteed value		
Total Charitable Distributions to Donor Advised Fund (DAF)	\$	933,440

✓ **\$202,229 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: \$238,500
- Yr. 1 Tax Savings: \$88,245
- 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

Questions?



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