

- iCLATs -

Don't Wait for Your Charitable Deduction

A Closer Look at the Relevance & Simplicity of "Reversionary" CLTs

Presented for:

Planned Giving Council of Northeast Florida

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Brad Gornto has practiced law in Central Florida for 20 years. His entire legal career has been focused in the areas of complex estate planning, probate, trust administration, business law, tax law and charitable planning for high net worth families, business owners, philanthropists and non-profit organizations.

In addition to his law practice, Brad is also the President and Founder of Effectual Giving, LLC, which is a professional consulting firm that assists charitable organizations, philanthropic families and allied professionals across the country in the actual implementation of donor-specific planned giving strategies and recommendations.

Brad earned his undergraduate degree from Florida State University, his J.D. from the University of Florida College of Law, and his Master of Laws in Taxation (LL.M.) from the University of Miami School of Law.

As a volunteer, Brad currently serves as: (i) the President of the Charitable Gift Planners of Central Florida; (ii) a member of the Florida State University Foundation, Inc. Planned Giving Advisory Council; and (iii) Development Advisor to the C.S. Lewis Study Center in Northfield Massachusetts. Brad is a past President of the Estate Planning Council of the Fun Coast, Inc. (Volusia, Flagler, and St. John's Counties). Finally, Brad is married to his wife Cindy and together they are raising their four children Bryce, Owen, Joel and Daisy!

Background & Key Changes from TCJA of 2017

- Estate, Gift & GST Tax Exemption Amounts Doubled!
 - \$11,580,000 per person (or \$23,160,000 for married couple)
- Standard Deduction Doubled (For all Taxpayers)
- Major Changes to Itemized Deductions
- The Charitable Income Tax Deduction not only survived, but it also Improved
 - AGI Limit for Cash Gifts (increased to 60%)
 - Pease Limitation on itemized deductions Suspended - HUGE BENEFIT!
- MANY OTHER MAJOR CHANGES....not directly related to charitable giving
 - Reduced corporate income tax rate from 35% to 21%
 - New 199A Deduction for Qualified Business Income

Remember the Standard Deduction Has **Doubled** (For all Taxpayers)

Filing Status	2017 Standard Deduction	2020 Standard Deduction
Single Person	\$6,350	\$12,400
Married	\$12,700	\$24,880
Head of Household	\$9,325	\$18,650

KEY TAKEAWAY: While its good news for the general public, the doubled standard deduction amount will prevent many donors from receiving any income tax savings from their charitable gifts.

*According to the Tax Policy Center, Urban Institute/Brookings Institution, **21 million taxpayers** will stop taking the itemized charitable deduction as a result of the TCJA of 2017.

So What's an Annual Giver to Do?

4 OPTIONS TO CONSIDER GIVE ANNUALLY IN A TAX EFFECTIVE MANNER

- OPTION #1: QCDs - If the annual giver is over 70 ½ they can make QCDs from their IRA.
- OPTION #2: Make annual gifts of appreciated stocks or mutual funds to avoid capital gains taxes.
- OPTION #3: “BUNCHING” multiple years of annual gifts to charity or to a donor advised fund.
- **OPTION #4: An iCLAT**
which we will now explore 😊!

Let's Start with the Basics....

What is a *charitable lead trust (or CLT)*?

(simple working definition):

- a charitable lead trust is a trust that makes charitable distributions on an annual (or more frequent) basis for a set number of years, and then the remaining trust assets EITHER: (i) pass to family members; or (ii) *return back to the grantor (a/k/a the client or donor)*.
 - *For IRS definition, see IRC 170(f)(2)(B) & Treasury Reg. 1.170A-6(a)(1) & (c)(2).*
- From the charity (or DAF) perspective: all CLTs are basically a pledge-like arrangement with an annual donor, but with “enhanced” income tax benefits

Two VERY Different Structures for Charitable Lead Trusts

Traditional “Wealth Transfer” Structure

- Primary Purpose: saving estate taxes on client’s death
- Complex
- Significant time and expense necessary to establish
- Taxable gift Component

Lesser-Known “Reversionary” Structure

- Sole Purpose: saving **income taxes** for client *this year*
- Simpler
- Less time and expense necessary to establish
- No taxable gift component

Key Benefit of an iCLAT®

- It generates a large “IMMEDIATE” YEAR 1 charitable income tax deduction!
 - based on the “present value” of its annual charitable distributions (based on the current historically low interest rates)
 - See Treas. Reg. 1.170A-6(c)(3)
- *Simply put, an iCLAT gives you...*

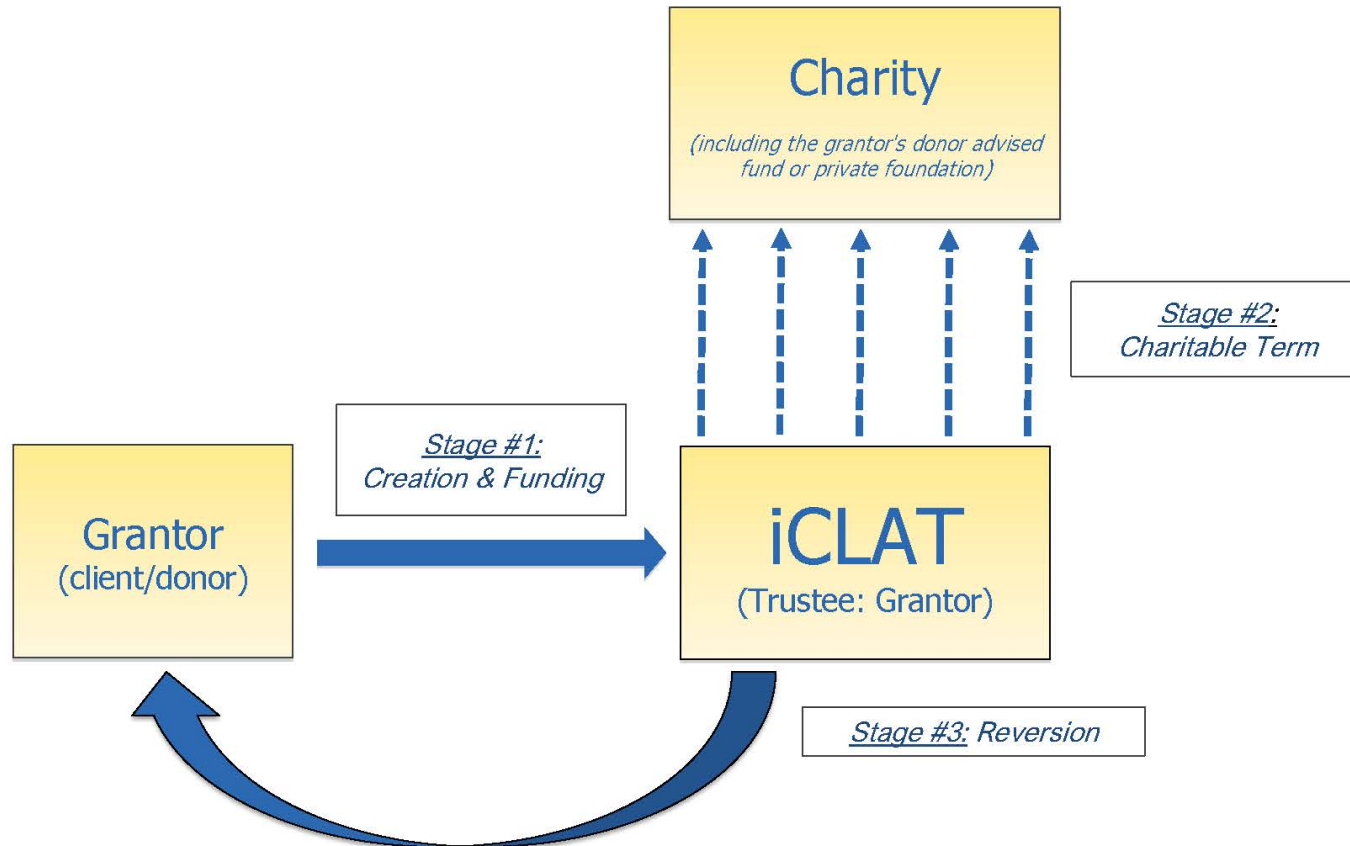
*CURRENT Income Tax SAVINGS
for Future Annual Charitable Gifts*

Why is the “REVERSIONARY” component of an iCLAT® so important?

- It **DIFFERENTIATES THE iCLAT from** the vast majority of other CLTs.
- It makes it **EASIER TO EXPLAIN, ESTABLISH AND ADMINISTER**
 - Not only for clients, but also for professional advisors and the recipient charities
- It makes the iCLAT a **“GRANTOR TRUST”** under §673 on the IRC
 - This is why the client/grantor receives the immediate income tax savings.
- It **PREVENTS DISRUPTION** to one’s current estate plan.
- It **NARROWS THE PLANNING FOCUS** to solely saving income taxes!

Let's take a look at what
an iCLAT looks like structurally?

Basic Structure of the iCLAT



Here is a fairly standard iCLAT® case...

FACTS:

- Peter typically gives \$50,000 annually to his favorite charities (including his place of worship).
- Peter anticipates continuing this level of annual gifts at least for the next 10 years.

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iCLAT 

iCLAT® Case Study #1 - Economic Schedule



Client Name:	Peter Smith		
Value of Assets Contributed to iCLAT:	\$	500,000	
Type of Assets Contributed to iCLAT:	Cash		
Desired Term of iCLAT (# of Years)	10		
Annual Payments to Charity:	\$	50,000	
Preferred Charity (if any):	Peter's Donor Advised Fund		
Assumed Annual Income /Growth Rate:	3% 1%	4%	
IRS §7520 Interest Rate:	2.0%		

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	\$ 500,000	3.0%	\$ 15,000	1%	\$ 5,000	\$ 50,000	\$ 470,000	\$ (30,000)
2	\$ 470,000	3.0%	\$ 14,100	1%	\$ 4,700	\$ 50,000	\$ 438,800	\$ (31,200)
3	\$ 438,800	3.0%	\$ 13,164	1%	\$ 4,388	\$ 50,000	\$ 406,352	\$ (32,448)
4	\$ 406,352	3.0%	\$ 12,191	1%	\$ 4,064	\$ 50,000	\$ 372,606	\$ (33,746)
5	\$ 372,606	3.0%	\$ 11,178	1%	\$ 3,726	\$ 50,000	\$ 337,510	\$ (35,096)
6	\$ 337,510	3.0%	\$ 10,125	1%	\$ 3,375	\$ 50,000	\$ 301,011	\$ (36,500)
7	\$ 301,011	3.0%	\$ 9,030	1%	\$ 3,010	\$ 50,000	\$ 263,051	\$ (37,960)
8	\$ 263,051	3.0%	\$ 7,892	1%	\$ 2,631	\$ 50,000	\$ 223,573	\$ (39,478)
9	\$ 223,573	3.0%	\$ 6,707	1%	\$ 2,236	\$ 50,000	\$ 182,516	\$ (41,057)
10	\$ 182,516	3.0%	\$ 5,475	1%	\$ 1,825	\$ 50,000	\$ 139,817	\$ (42,699)
TOTALS			\$ 104,863		\$ 34,954	\$ 500,000	\$ 139,817	\$ (360,183)

Immediate Charitable Income Tax Deduction in Current Year	\$	449,129
Federal Income Tax Savings	<i>U.S. Rate: 37%</i>	\$ 166,178
State Income Tax Savings	<i>California Rate: 13.00%</i>	\$ 58,387
TOTAL ACCELERATED INCOME TAX SAVINGS*		\$ 224,565
<i>*To receive ALL income tax savings on 2019 tax return, AGI needs to be at least: \$1,497,098</i>		
Value* of iCLAT Assets at End of Term to Revert to Peter Smith	\$	139,817
<i>*Illustrated value, not a guaranteed value</i>		
Total Charitable Distributions to Peter's Donor Advised Fund	\$	500,000

EXAMPLES BELOW – All based on iCLAT® with \$50,000/year to charity.

Term for the iCLAT® (# of Years)	ANNUAL Charitable Distributions from the iCLAT®	TOTAL Charitable Distributions from iCLAT®	Amount of the IMMEDIATE Year 1 Charitable Deduction from the iCLAT®	IMMEDIATE YEAR 1 Charitable Deduction from the iCLAT® (% of total distributions)
3 Years	\$50,000/yr	\$150,000	\$145,276	96.8%
5 Years	\$50,000/yr	\$250,000	\$237,443	94.9%
7 Years	\$50,000/yr	\$350,000	\$326,027	93.1%
10 Years	\$50,000/yr	\$500,000	\$452,498	90.5%
15 Years	\$50,000/yr	\$750,000	\$647,283	86.3%
20 Years	\$50,000/yr	\$1,000,000	\$823,701	83.9%



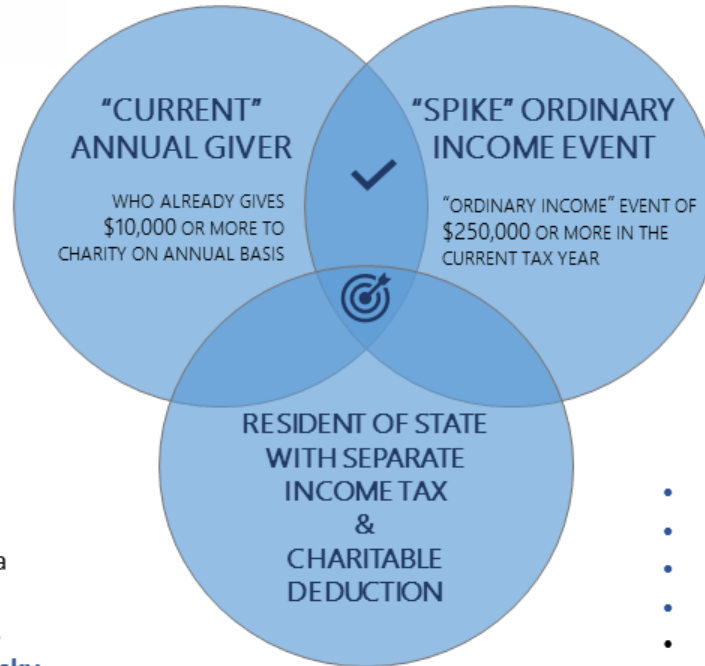
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*Based on the January 2020 IRS 7520 Rate of 2.0%, which is available through 3/31/2020.
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IDEAL FACT SCENARIO #1 - "Spike" Ordinary Income Event



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

- **Idaho**
- Illinois
- Indiana
- **Iowa**
- Kansas
- **Kentucky**
- Louisiana
- **Maine**

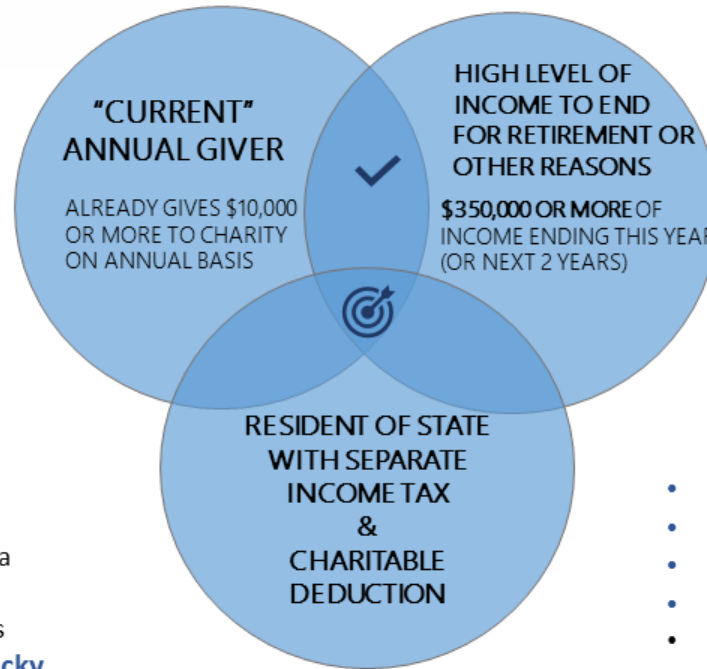
- **Maryland**
- **Minnesota**
- **Mississippi**
- **Missouri**
- Montana
- Nebraska
- New Mexico
- **New York**
- **North Carolina**

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

For a Free Customized iCLAT® Illustration
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IDEAL FACT SCENARIO #2 – Approaching Retirement or End of High Level of Income



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

- **Idaho**
- Illinois
- Indiana
- **Iowa**
- Kansas
- **Kentucky**
- Louisiana
- **Maine**

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

- North Dakota
- Oklahoma
- **Oregon**
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iCLAT® - Case Study Examples/Opportunities

1. Peter Smith (resident of California)
 - ROTH IRA Conversion earlier this year, normally gives \$50,000/yr. to his favorite charities
2. Stacy Smith (resident of Mississippi)
 - Attorney received large legal fee from trial, normally gives \$25,000/yr. to her church
3. Thomas Smith (resident of Georgia)
 - Surgeon to retire next year, normally gives \$50,000/yr. to various charities
4. Peter Smith (resident of South Carolina)
 - S Corp owner had banner income year, normally gives \$12,500/yr. to his church
5. Beth Smith (resident of Colorado)
 - Large ROTH IRA conversion, wants to give \$175,000/yr. to alma mater's 5-year campaign

Summary of Results - iCLAT® Case Studies

	<u>Case #1</u>	<u>Case #2</u>	<u>Case #3</u>	<u>Case #4</u>	<u>Case #5</u>
Name	Peter Smith	Stacy Smith	Thomas Smith	Fred Smith	Beth Smith
Value of Assets Used to Fund iCLAT	\$500,000	\$300,000	\$600,000	\$300,000	\$1,000,000
Type of Assets Contributed to iCLAT	Cash	Cash	Cash & Securities	Rental Real Property	Cash
Annual Payments to Charity	\$50,000	\$25,000	\$50,000	\$12,500	\$175,000
Term of iCLAT (in years)	10	7	10	20	5
TOTAL Payments to Charity	\$500,000	\$175,000	\$500,000	\$250,000	\$875,000
IRS §7520 Rate (January 2020)	2.0%	2.0%	2.0%	2.0%	2.0%
Assumed Rate of Return (INCOME)	3.0%	3.0%	3.0%	3.0%	3.0%
Assumed Rate of Return (GROWTH)	1.0%	1.0%	1.0%	1.0%	1.0%
Estimated iCLAT Assets at End of Term	\$139,817	\$39,693	\$287,841	\$285,111	\$268,796
Immediate Charitable Deduction in Current Year	\$449,129	\$321,232	\$449,129	\$204,393	\$824,855
% of Total Payments to Charity	89.8%	92.5%	89.8%	81.8%	94.3%
Preferred Charity or Donor Advised Fund (DAF)	Peter's DAF	Stacy's DAF/Church	Thomas' DAF	Fred's Church	Beth's Alma Mater
Assumed Federal Income Tax Rate	37%	37%	37%	37%	37%
Estimated Year 1 Federal Income Tax Savings	\$166,178	\$118,856	\$166,178	\$75,625	\$305,197
Necessary AGI in Yr 1 for 100% Charitable Deduction in Yr. 1					
30% Use 30% All Cash	\$1,497,098	\$1,070,772			\$2,749,518
20% All Other Assets (or BLENDED %)			\$1,796,517	\$1,021,965	
State of Residence	California	Minnesota	Georgia	South Carolina	Colorado
State Income Tax	YES	YES	YES	YES	YES
State Tax Rate (top rate)	13.00%	9.85%	6.00%	7.00%	4.63%
Estimated Year 1 State Income Tax Savings	\$58,387	\$31,641	\$26,948	\$14,308	\$38,191
Total Estimated U.S. & State Tax Savings in Year 1	\$224,565	\$150,497	\$193,126	\$89,933	\$343,387

**Based on actual iCLAT cases, updated to reflect the January 2020 IRS §7520 rate of 2.0%, which is available for the through March 31, 2020.*



CURRENT Income Tax SAVINGS
for Future Annual Charitable Gifts

For illustration purposes only, actual tax savings are case specific and may vary.
Consult your personal tax professional.

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SECURE ACT's Indirect Impact on iCLAT

- “Stretch IRAs” are gone for most IRA beneficiaries
 - 10 year withdrawal of all IRAs, unless beneficiary is a surviving spouse, a minor child, a disabled child or a chronically ill child
- More and more lifetime ROTH IRA Conversions are coming for your clients and donors
 - Again, ROTH IRA Conversions are “ordinary income” events to client/donor
 - An iCLAT can strategically offset a significant portion of the income taxes from such ROTH conversions

iCLAT[®] - Additional Takeaways

- Great alternative planning tool to “BUNCHING”
- Compelling way to fund a donor advised fund or a private foundation
- Client can Serve as Trustee of an iCLAT / GREATER CONTROL
Greater Control Compared to Traditional CLTs (no 2036 issues)
- iCLAT can be funded with rental real estate, S Corp stock, LLC or LP interests
- iCLAT is an excellent PLAN B strategy if the “prearranged sale doctrine” is already applicable to a particular transaction.
- Several planning options if client/donor is overly concerned with “recapture” if he or she dies during the term of an iCLAT.
- An iCLAT can be created by S Corporation, C corporation, LLC or even another trust
- The annual charitable payments can increase over term of iCLAT.
- Private Foundation Rules Do Apply to an iCLAT, just like all CLTs and CRTs

THANK YOU, ANY QUESTIONS?



*CURRENT Income Tax SAVINGS
for Future Annual Charitable Gifts*

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