SUPER CLAT

PREPARED FOR:

Thomas and Virginia Smith

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PRESENTED BY

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You should consult with your other advisors on the tax, accounting, and legal implications of these proposed strategies before any strategy is implemented.

Any discussion in this presentation relating to tax, accounting, regulatory, or legal matters is based on our understanding as of the date of this presentation. Rules in these areas are constantly changing and are open to varying interpretations.

GOALS AND OBJECTIVES

1. Reduce ordinary income taxes on $2 million bonus received.

2. Maximize inheritance to heirs. We would consider additional insurance if we could find a way to own the insurance outside of our estate.

3. Reduce or eliminate gift and estate taxes.

4. Begin annual charitable gifting program

Comparison of Benefits

CURRENT YEAR

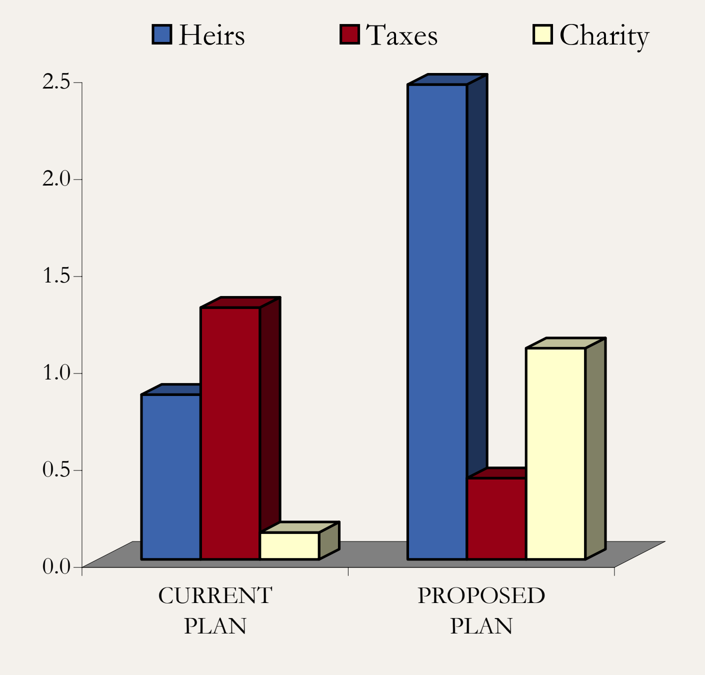
	EXISTING PLAN	PROPOSED PLAN
INCOME TAX DEDUCTIONS	$ 136,664	$ 1,108,469
HEIRS RECEIVE IMMEDIATELY	$ 559,001	$ -
NPV OF BENEFITS FROM CLAT	$ -	$ 2,448,749
FAMILY FOUNDATION	$ 136,664	$ 1,090,301
INCOME, GIFT AND ESTATE TAXES	$ 1,304,335	$ 415,353

	PROPOSED PLAN SUMMARY
INCREASED INCOME TAX DEDUCTIONS	$ 971,805
INCREASED NET TO HEIRS (FV of Existing vs NPV of CLAT)	$ 1,594,385
INCREASE TO FAMILY FOUNDATION (NPV)	$ 953,637
TAX SAVINGS	$ 888,982

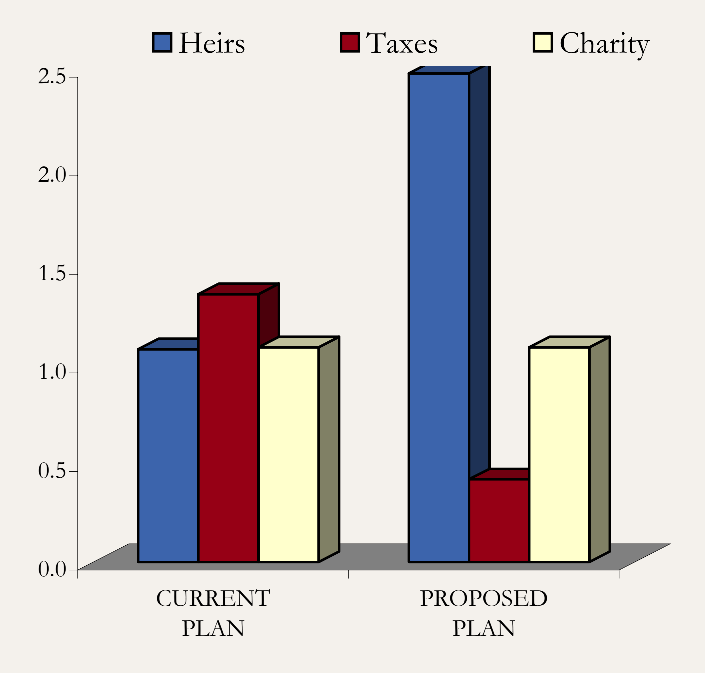
Comparison of Benefits

DOLLARS IN MILLIONS

YEAR 2004



YEAR 2014



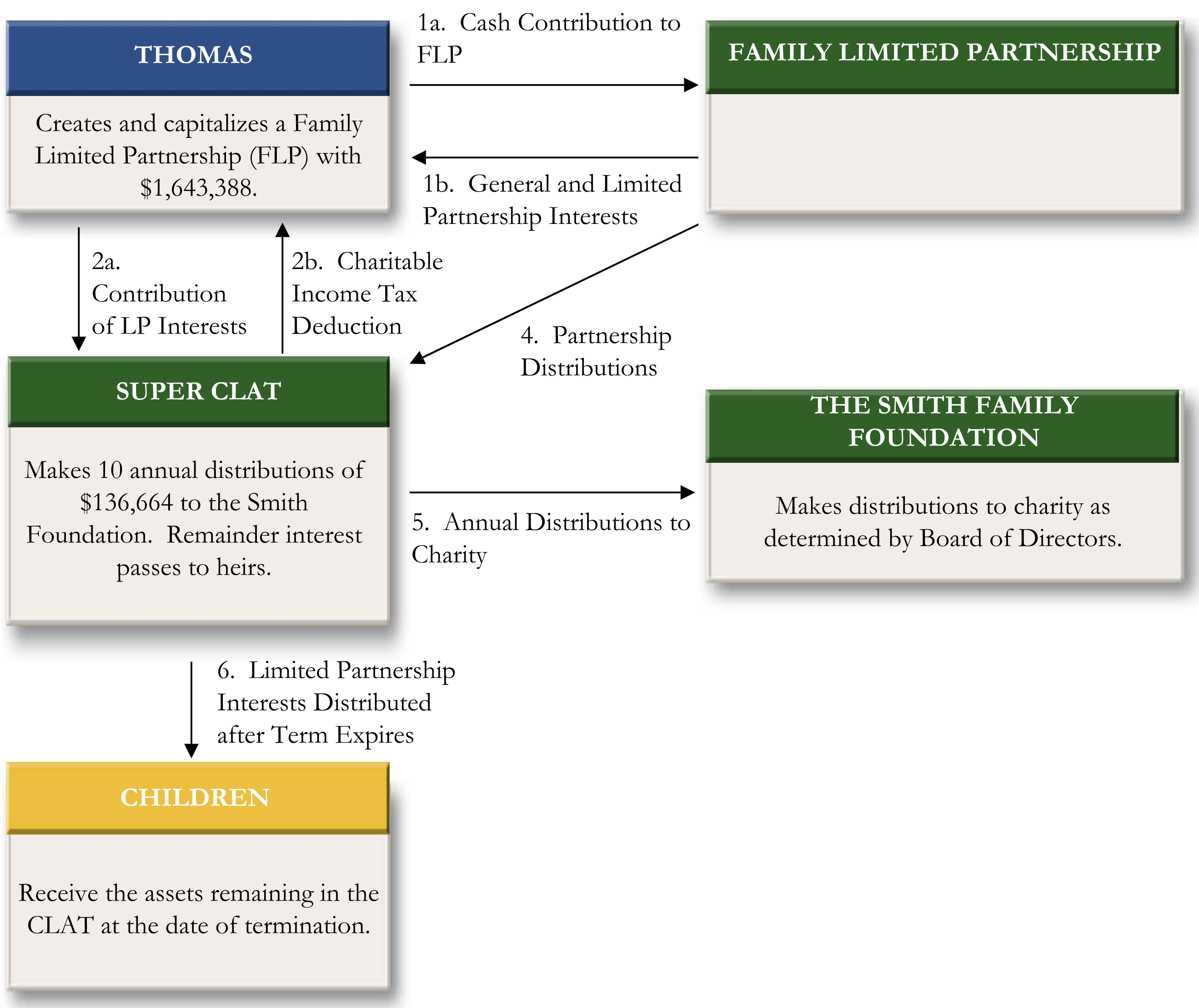
YEAR 2004

	CURRENT PLAN	PROPOSED PLAN
Heirs	0.9	2.5
Taxes	1.3	0.4
Charity	0.1	1.1

YEAR 2014

	CURRENT PLAN	PROPOSED PLAN
Heirs	1.1	2.5
Taxes	1.4	0.4
Charity	1.1	1.1

SUPER CLAT DIAGRAM



EXPLANATION OF SUPER CLAT DIAGRAM

1. a) Thomas contributes cash and/or high basis assets to a new Family Limited Partnership; b) In exchange, he receives general partnership (GP) and limited partnership (LP) interests. The value of the limited partnership interests should be lower than the value of the underlying assets contributed since limited partnership interests have limited liquidity and marketability and limited partners have no voice in management decisions.

2. a) Thomas contributes his LP interests to a Super CLAT; b) This contribution should produce a charitable income tax deduction equal to approximately $1,119,666. This is the present value of the future income to charity. The portion of the contribution not attributable to charity is considered to be a gift to the family. We estimate this amount to be $30,399. Thomas may use all or part of his remaining lifetime exemption to shelter this family gift from transfer tax.

3. Thomas is the general partner of the FLP and he takes the following actions as general partner: a) He acquires a variable universal life (VUL) insurance policy on himself to be owned by the FLP; b) He pays the premium with cash he contributed to the FLP and invests the balance of the cash in municipal bonds; c) After a year Thomas liquidates enough bonds so that he can (i) distribute sufficient cash to the partners enabling the Super CLAT trustee to make the required distribution to charity and (ii) pay the second insurance premium. This pattern continues for five years until the munibonds are liquidated and all the assets have been transferred to the VUL policy.

4. In years 6-10, Thomas, as general partner, takes tax-free withdrawals or loans from the policy and makes distributions to the partners so that the Super CLAT trustee can make the distributions to charity. It is incumbent upon Thomas, as the general partner, to see that the FLP makes distributions to the partners such that the trustee of the Super CLAT has sufficient assets to make the annual required distributions to charity.

EXPLANATION OF SUPER CLAT DIAGRAM
CONTINUED

5. The Super CLAT makes distributions to charity for a period of 10 years. These distributions are fixed and based on the initial value of the LP interest contribution, times the payout rate of 12.0%. Distributions from the Super CLAT are added to the Family Foundation. These funds are invested and accumulated for charitable purposes. The board of directors makes decisions periodically as to which charitable organizations the Family Foundation will support.

6. At the end of the term of the Super CLAT, all assets remaining in the trust are distributed to the heirs or a trust for the heirs. At this point, these assets should include only the LP interest in the FLP that owns a life insurance policy on Thomas. We estimate that the cash value of the policy at this point may be as much as $1,008,768, and the potential death benefit $2,571,283. Thomas may continue to be the general partner of the FLP and, as such, make all management decisions with respect to partnership business decisions.

Income Tax and Cash Analysis of Current Plan

Income Tax Analysis		Cash Analysis	
Value of stock acquired	$ 2,000,000	Gross proceeds	$ 2,000,000
Less adjusted cost basis	-	Less income tax	(800,000)
Taxable income	2,000,000	Net cash proceeds	1,200,000
Estimated income tax	800,000		

The following figures indicate what may happen if you simply sold the assets, paid the tax, reinvested the net proceeds, and made annual gifts to charity as indicated.

Year	Year End Account Value	Taxable Earnings	Charitable Gifts	Tax Liability (Savings)	Potential Net to Heirs
		200,000	136,664	819,001	
1	1,244,335	124,434	136,664	(3,669)	622,168
2	1,232,105	123,210	136,664	(4,036)	616,052
3	1,218,651	121,865	136,664	(4,440)	609,325
4	1,203,852	120,385	136,664	(4,884)	601,926
5	1,187,573	118,757	136,664	(5,372)	593,786
6	1,169,666	116,967	136,664	(5,909)	584,833
7	1,149,969	114,997	136,664	(6,500)	574,984
8	1,128,301	112,830	136,664	(7,150)	564,151
9	1,104,467	110,447	136,664	(7,865)	552,234
10	1,078,250			-	539,125
Totals		1,063,892	1,229,977	(49,826)	
NPV		808,567	929,547	(36,294)	301,045

INCOME TAX AND CASH ANALYSIS OF SUPER CLAT

Assumptions	
Section 7520 rate	4.0%
CLAT payout rate	12.0%
Term of CLAT	10
Tax exempt yield of munibonds	3.0%
Total return of VUL investments	10.0%

Maximum Super CLAT Contribution

Income Tax Analysis			**Cash Analysis**		
Pretax sale proceeds	$	2,000,000	Gross proceeds	$	2,000,000
Less applicable cost basis		-	Less income tax due		(356,612)
Less charitable deduction		(1,108,469)	Contrib. to FLP for SCLAT		(1,643,388)
Taxable income		891,531	Additional cash proceeds		-
Income tax due	$	356,612			

Tax Deduction Details

Income Tax Deduction			**Gift Tax**		
Cash contribution to FLP	$	1,643,388	Contribution to Super CLAT	$	1,150,371
Valuation discount to LP		493,016	Portion attributable to charity		(1,119,666)
LP interests to SCLAT		1,150,371	Balance deemed a taxable gift		30,706
Char. deduction of 97.3%		1,119,666	Hypothetical gift tax due		15,353

SUPER CLAT CASH FLOW

Cash contrib. to FLP	$ 1,643,388	LP interests to SCLAT	$ 1,138,868
First premium paid	211,245	Annual payout to charity	136,664
Net invested in munis	1,432,143		

Year	Year End Munibond Account Value	Beg. of Year Premiums Paid from Munibond Account	Year End SCLAT Disbursement to Charity (Funds from Sale of Munibonds Distributed from FLP)	Year End SCLAT Disbursement to Charity (Funds from VUL Policy Distributed from FLP)	Year End Estimated Cash Value of VUL	Year End Estimated Death Benefit of VUL
1	$ 1,127,199	$ 211,245	$ 136,664	$ -	$ 293,159	$ -
2	813,106	211,245	136,664	-	611,187	-
3	489,590	211,245	136,664	-	956,776	-
4	156,369	211,245	136,664	-	1,332,604	-
5	24,396	211,245	136,664	-	1,739,685	-
6	25,128	-	-	136,664	1,617,122	-
7	25,882	-	-	136,664	1,484,013	-
8	26,658	-	-	136,664	1,338,939	-
9	27,458	-	-	136,664	1,180,845	-
10	28,282	-	-	136,664	1,037,050	2,585,424
Totals		1,056,223	683,321	683,321	1,037,050	2,585,424
NPV		889,839	575,679	430,181	546,305	1,443,687

SUMMARY OF LIFE INSURANCE VALUES

The following summary is not a valid insurance illustration. You must consult a valid insurance illustration with complete footnotes.

Year	Client Age	Premiums	Withdrawals	Cash Surrender Value	Net Death Benefit
1	69	$ 211,245	$ -	$ 293,159	$ 3,742,615
2	70	211,245	-	611,187	3,742,615
3	71	211,245	-	956,776	3,742,615
4	72	211,245	-	1,332,604	3,742,615
5	73	211,245	-	1,739,685	3,742,615
6	74	-	136,664	1,617,122	3,508,349
7	75	-	136,664	1,484,013	3,274,082
8	76	-	136,664	1,338,939	3,039,816
9	77	-	136,664	1,180,845	2,805,549
10	78	-	136,664	1,008,768	2,571,283

CHARITABLE LEAD ANNUITY TRUST

General Overview

A Nongrantor Charitable Lead Annuity Trust (CLAT) is one of many variations of a Charitable Lead Trust. Generally, a CLAT is an irrevocable trust designed to make periodic distributions to charity for a period of years. At the end of the term, the assets in the trust (the remainder interest) are distributed to beneficiaries selected by the donor, usually the donor's children.

The donor establishes the amount of income and the term that charity will receive distributions from the trust. This amount distributed to charity annually is fixed and will not change regardless of the investment performance of the assets in the trust. The donor does not receive a charitable income tax deduction. Instead, the donor receives a charitable gift tax deduction equal to the present value of the charitable distributions. This deduction serves to reduce the taxable gift value of the remainder interest.

Benefits

· Significant assets can pass to the family at a very low gift tax value.
· Distributions to charity.

Qualified Prospect

Generally, qualified prospects include those who:
· Have assets they can afford to do without.
· Have assets which are expected to appreciate at a rate greater than the IRS rate.
· Want to make significant transfers to heirs at low gift tax costs.
· Want to make significant charitable gifts.

Example of How the Strategy Works

Fred, age 50, contributes $1,000,000 to a CLAT. He elects to establish a trust that will make distributions to charity equal to 10% of the initial contribution each year for a period of 10 years after which the assets in the trust will pass to his three children. The initial annual charitable distribution will be $100,000. When Fred makes the contribution, he is deemed to make a future gift to his family. The amount of this gift for tax purposes is determined by reference to Treasury Regulation tables and, in this case, will be approximately $300,000. He will report this gift and apply a portion of his remaining lifetime exemption to avoid paying any gift tax on this contribution. After 10 years, the assets remaining in the trust, no matter what the value is, will pass to his children. If the assets earn 8% annually during the term of the trust, the assets distributed from the trust to Fred's children at the end of the term will be about $710,000.

Charitable Lead Annuity Trust

Alternatively, Fred could have simply made a gift of $300,000 directly to his children. If his children invested the funds and earned 8% annually in a 25% tax bracket, their accumulated fund balance after 10 years would have been $530,000. Thus, the CLAT enables Fred to use his lifetime exemption more efficiently given these assumptions.

Income Tax Implications

Only one contribution is permitted. The gift tax deduction is based on the amount of the charitable distribution, the length of time charity will receive distributions, the current interest rate, and other factors.

The CLAT is a separate legal entity but unlike its cousin, the charitable remainder trust, it is not a tax-exempt trust and may, depending on the circumstances, pay its own income tax. Like a person, the CLAT has income and deductions. All interest, dividends, rents and capital gains are reported as gross income. All distributions to charity are deductible against the earnings of the trust assets. If the annual charitable distribution is equal to or greater than the earnings, no income tax is owed by the trust. If the earnings exceed the charitable distribution deduction, the excess is taxable income and subject to income tax at the trust rates. Thus, a CLAT does not provide an ideal environment to diversify appreciated assets or compound earnings.

Estate and Gift Tax Implications

When a donor makes the contribution to the trust he or she is deemed to make a gift to the remainder beneficiaries for gift tax purposes. The value of this gift is determined by the subtraction method. The present value of the future charitable distributions is subtracted from the initial value of the gift. The difference is the amount the donor must report as a taxable gift. The donor cannot apply any annual gift tax exclusions to this gift but can apply any unused lifetime exemption to shelter all or part of this gift from gift tax.

Assets in the CLAT should not be included in the estate of the donor as long as the donor does not have a right to change the charitable recipient each year.

If remainder beneficiaries include grandchildren, a generation skipping transfer tax test must be applied at the termination of the CLAT. If the investment performance of the assets in the trust has exceeded the growth rate assumed in the original tax calculations, a generation skipping tax may be due when the assets are distributed to the grandchildren.

Design Ideas and Strategies

This deduction is determined by reference to Treasury Regulation tables. Donors that elect to make higher trust distributions to charity and choose longer trust terms receive higher gift tax deductions.

CHARITABLE LEAD ANNUITY TRUST

If the donor desires to transfer wealth to grandchildren, consider a charitable lead unitrust. The unitrust variation is exempt from a generation skipping tax test that must be applied to a CLAT.

Risks

If the payout to charity is too high, the assets of the trust could be exhausted and nothing may be left at the end of the trust to be distributed to the heirs.

The contribution to a CLAT is irrevocable. The donor will not be able to "un-do" the trust and receive the assets back. In addition, the payout terms must be set at the time the document is created, so the donor will not be able to change the persons who will receive the trust balance at the end of the term.

Suitable Assets

Suitable assets include cash and assets with a relatively high cost basis. Assets should generate income or be salable or be suitable collateral for loans so that the requisite amount of cash can be generated each year to make the charitable distributions.
Limited partnership interests may make ideal contribution assets if the assets owned by the partnership can be managed to generate enough cash and if the general partner will make cash distributions as needed by the trust for charitable distributions.

Trustee, Management and Administrative Issues

A trustee is appointed to oversee the asset management, administrative and tax reporting responsibilities of the trust. A bank or charitable organization can serve as trustee. The donor can also serve as trustee as long as the donor retains only routine administrative duties. If the donor elects to serve as trustee, the donor can control the investments in the trust. Third-party administrative services can be engaged to do the accounting and compliance work.

Allowable Charities

The annual payouts must be made to a qualified charity or charities. This can include the donor's family foundation or family directed fund at a community foundation. However, if a family controlled vehicle is the recipient, the donor may not have discretionary control over the amounts the charity receives from the CLAT.