

Estate Planning Opportunities
in the
Current Low Interest Rate Environment

Applicable Federal Rates for October
Rev. Rul. 2010-24, 2010-40 IRB

The Applicable Federal Rates for October 2010 are reproduced below.

Table I				
Applicable Federal Rate (AFR)	Annual	Semi-annual	Quarterly	Monthly
October 2010				
	Period for Compounding			
<i>Short-Term</i>				
AFR	.41%	.41%	.41%	.41%
110% AFR	.45%	.45%	.45%	.45%
120% AFR	.49%	.49%	.49%	.49%
130% AFR	.53%	.53%	.53%	.53%
<i>Mid-Term</i>				
AFR	1.73%	1.72%	1.72%	1.71%
110% AFR	1.90%	1.89%	1.89%	1.88%
120% AFR	2.07%	2.06%	2.05%	2.05%
130% AFR	2.25%	2.24%	2.23%	2.23%
150% AFR	2.60%	2.58%	2.57%	2.57%
175% AFR	3.03%	3.01%	3.00%	2.99%
<i>Long-Term</i>				
AFR	3.32%	3.29%	3.28%	3.27%
110% AFR	3.65%	3.62%	3.60%	3.59%
120% AFR	3.99%	3.95%	3.93%	3.92%
130% AFR	4.33%	4.28%	4.26%	4.24%

Table II				
Adjusted AFR for October 2010				
	Period for Compounding			
	Annual	Semi-annual	Quarterly	Monthly
Short-term adjusted AFR	.44%	.44%	.44%	.44%
Mid-term adjusted AFR	1.30%	1.30%	1.30%	1.30%
Long-term adjusted AFR	3.45%	3.42%	3.41%	3.40%

Table III	
Rates Under Section 382 for October 2010	
Adjusted federal long-term rate for the current month	3.45%

Long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months). 3.98%

Table IV

Appropriate Percentages Under Section 42(b)(1)* for October 2010

Appropriate Percentage for the 70% present value low-income housing credit	7.58%
Appropriate Percentage for the 30% present value low-income housing credit	3.25%

Table V

Rate Under Section 7520 for October 2010

Applicable federal rate for determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest	2.0%
---	------

* *Note:* Under Code Sec. 42(b)(2), the applicable percentage for non-federally subsidized new buildings placed in service after July 30, 2008, and before Dec. 31, 2013, is not to be less than 9%.

Leimberg.comLeimberg & LeClair, Inc. : Leimberg Associates, Inc.
610-924-0515

October 19, 2010

[Cart](#)  **SEARCH**[Product Information](#) [Online Store](#) [Contact Us](#) [Speeches](#) [Free Resources](#) [About Us](#) [Technical Support](#)[Software Version Info](#)

Key Rates / Valuation

The current 7520 Rate for October 2010.....2.0%

- [Section 7520 Rate History](#)
- [Short-Term Rates for 1998 to present](#)
- [Mid-Term Rates for 1998 to present](#)
- [Long-Term Rates for 1998 to present](#)
- [Pooled Income Fund Rates](#)
- [Over and Underpayment Rates](#)
- [OID Inflation-Adjusted Dollar Amounts](#)

Section 7520 Rates

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1989					11.6%	11.2%	10.6%	10.0%	9.6%	10.2%	10.0%	9.8%
1990	9.6%	9.8%	10.2%	10.6%	10.6%	11.0%	10.6%	10.4%	10.2%	10.6%	10.6%	10.2%
1991	9.8%	9.6%	9.4%	9.6%	9.6%	9.6%	9.6%	9.8%	9.6%	9.0%	8.6%	8.4%
1992	8.2%	7.6%	8.0%	8.4%	8.6%	8.4%	8.2%	7.8%	7.2%	7.0%	6.8%	7.4%
1993	7.6%	7.6%	7.0%	6.6%	6.6%	6.4%	6.6%	6.4%	6.4%	6.0%	6.0%	6.2%
1994	6.4%	6.4%	6.4%	7.0%	7.8%	8.4%	8.2%	8.4%	8.4%	8.6%	9.0%	9.4%
1995	9.6%	9.6%	9.4%	8.8%	8.6%	8.2%	7.6%	7.2%	7.6%	7.6%	7.4%	7.2%
1996	6.8%	6.8%	6.6%	7.0%	7.6%	8.0%	8.2%	8.2%	8.0%	8.0%	8.0%	7.6%
1997	7.4%	7.6%	7.8%	7.8%	8.2%	8.2%	8.0%	7.6%	7.6%	7.6%	7.4%	7.2%
1998	7.2%	6.8%	6.8%	6.8%	6.8%	7.0%	6.8%	6.8%	6.6%	6.2%	5.4%	5.4%
1999	5.6%	5.6%	5.8%	6.4%	6.2%	6.4%	7.0%	7.2%	7.2%	7.2%	7.4%	7.4%
2000	7.4%	8.0%	8.2%	8.0%	7.8%	8.0%	8.0%	7.6%	7.6%	7.4%	7.2%	7.0%
2001	6.8%	6.2%	6.2%	6.0%	5.8%	6.0%	6.2%	6.0%	5.8%	5.6%	5.0%	4.8%
2002	5.4%	5.6%	5.4%	5.6%	6.0%	5.8%	5.6%	5.2%	4.6%	4.2%	3.6%	4.0%
2003	4.2%	4.0%	3.8%	3.6%	3.8%	3.6%	3.0%	3.2%	4.2%	4.4%	4.0%	4.2%
2004	4.2%	4.2%	4.0%	3.8%	3.8%	4.6%	5.0%	4.8%	4.6%	4.4%	4.2%	4.2%
2005	4.6%	4.6%	4.6%	5.0%	5.2%	4.8%	4.6%	4.8%	5.0%	5.0%	5.0%	5.4%
2006	5.4%	5.2%	5.4%	5.6%	5.8%	6.0%	6.0%	6.2%	6.0%	5.8%	5.6%	5.8%
2007	5.6%	5.6%	5.8%	5.6%	5.6%	5.6%	6.0%	6.2%	5.8%	5.2%	5.2%	5.0%
2008	4.4%	4.2%	3.6%	3.4%	3.2%	3.8%	4.2%	4.2%	4.2%	3.8%	3.6%	3.4%
2009	2.4%	2.0%	2.4%	2.6%	2.4%	2.8%	3.4%	3.4%	3.4%	3.2%	3.2%	3.2%
2010	3.0%	3.4%	3.2%	3.2%	3.4%	3.2%	2.8%	2.6%	2.4%	2.0%		

The above table shows the interest rates that have been used to value life estates, remainders, and annuities since 5/1/1989, using the 1980CNSMT mortality table from 5/1/1989 through 4/30/1999 and Table 90CM from 5/1/1999 to 4/30/2009. Before 5/1/1989, life estates, remainders, and annuities were valued as follows:

- From 12/1/1983 to 4/30/1989, based on a rate of 10 percent and a unisex mortality table that was known as either Table CM (in one publication) or Table LN (in the regulations). You can find tables of factors for single life and term interests, as well as Table LN, at Treas. Reg. section 20.2031-7A(d)(6).
- From 1/1/1971 through 11/30/1983, based on a rate of 6 percent and using a different mortality table, also known as Table LN, that showed mortality factors for males and females separately.
- From 1/1/1952 through 12/31/1970, based on a rate of 3.5% and U.S. Life Table 38 (which was also gender-specific).
- Before 1/1/1952, based on a rate of 4% and a still older mortality table (which was also gender-specific).

Installment Sale

Estate Freeze Planning

Installment Sale Overview

- Lifetime transfer of property outright or in trust in exchange for an interest-bearing note
 - Note may be interest-only or self-amortizing
 - Interest rate must be \geq applicable federal rate (AFR) or imputed interest rules will apply
 - Unpaid note includible in seller's gross estate
- Gain on sale of appreciated property is recognized by seller as payments are received
- Asset sold is permanently removed from transferor-seller's estate

1

Installment Sale Advantages

- Deferral of capital gains taxes
- Conversion of transferred asset to an income stream in the form of note payments
- Removal of transferred asset from transferor-seller's estate
- May be an effective device for transferring ownership in a closely held business
- Bypasses generation-skipping transfer rules
- Steps up depreciable basis to purchase price in hands of transferee

2

Installment Sale Requirements

- Transfer is irrevocable
- Installment sale tax treatment is automatic if any payments are made after the year of sale
 - Seller can make an irrevocable election to opt out of installment sale treatment on tax return
 - Installment treatment is unavailable for sales of marketable securities, for sales of depreciable property to controlled entities or for capital losses
 - Depreciation recapture in year of sale may apply
- Sales to related parties are generally subject to 2-year third-party resale restrictions

3

Installment Sale Tax Treatment¹

- Gain is recognized by seller ratably as principal payments are received
 - Total gain = contract price – adjusted tax basis
 - Gross profit percentage = gain/contract price
 - Gain recognized by seller for each payment = principal payment x gross profit percentage
 - Principal payment – gain = tax-free basis recovery
- Certain depreciation deductions may be recaptured in year of sale, and these decrease gains recognized on an installment basis

4

Installment Sale Tax Treatment²

- Gift tax consequences can be avoided in arms-length sale transaction
 - Value of note = FMV of property sold
 - Note must bear interest at \geq AFR to avoid imputed taxable gifts relating to foregone interest
- Transferred property removed from seller's estate—effective estate freeze
- Unpaid note is includible in seller's estate
- Postmortem note payments received by estate or legatee are taxed as IRD

6

Installment Sale Tax Treatment³

- Transferee-obligor may be entitled to income tax deductions for interest payments
 - Deductibility depends on character of transferred property (e.g., business, investment, passive)
 - Interest payments are ordinary income to seller
- Transferee's basis in transferred property equals purchase price
 - Transferee can immediately sell property at its FMV without realizing gain, but may cause original seller to accelerate recognition of gain if related
 - Depreciation is based on new, stepped-up basis

7

Installment Sale Suitability

- Appreciating estate with significant tax exposure
- Appreciated property with a motivation to sell
 - Conversion of nonproductive property to annual income stream for seller in form of note payments
 - Desire to defer income recognition over time, perhaps due to declining tax bracket post-sale
- Lifetime transfer of closely held business to family members or key employees
- Transferee is acceptable credit risk

8

Installment Sale Enhancers

- Rapid appreciation following sale
 - Property temporarily depressed prior to sale
 - Post-sale IPO (2 years out if seller-buyer are related)
- Transferee in sound financial condition
 - Reduces default risk which could imperil seller
 - Payment obligation can be secured, but must be carefully structured to avoid constructive receipt
- Gift tax valuation discounts increase leverage by reducing required note payments
- Seller can periodically forgive note payments

8

Installment Sale Drawbacks

- Legal and appraisal fees
- Depreciation recapture may create liquidity problems for seller without proper structuring
- Related party tax provisions may restrict transferee-purchaser's ability to resell property
- Interest payments may be nondeductible
- If seller dies with note outstanding, note is subject to estate inclusion and subsequent payments are taxed as IRD to recipients

11

Installment Sale

Annual Cash Flow and Payments

John Client - Sample Case

General

Type of Note	Level Prin + Int
Date of Transfer	10/19/2010
Beginning Principal	1,500,000
Beginning Basis	500,000
Term of Note	5
Interest Rate of Note	1.7%
Extended Term	0
Pay at Begin or End of Period?	End of Period
Years Deferred	0

Ending Values

Years of Duration	5
Cumulative Payments	1,577,850
Ending Principal	1,572,596

Year	Beginning Principal	Annual Growth	Annual Payment	Ending Principal
1	1,500,000	327,000	325,950	1,501,050
2	1,501,050	327,229	320,760	1,507,519
3	1,507,519	328,639	315,570	1,520,588
4	1,520,588	331,488	310,380	1,541,696
5	1,541,696	336,090	305,190	1,572,596

Installment Sale

Annual Payment Breakdown

John Client - Sample Case

General

Type of Note	Level Prin + Int
Date of Transfer	10/19/2010
Beginning Principal	1,500,000
Beginning Basis	500,000
Term of Note	5
Interest Rate of Note	1.7%
Extended Term	0
Pay at Begin or End of Period?	End of Period
Years Deferred	0

Ending Values

Years of Duration	5
Cumulative Payments	1,577,850
Cumulative Interest Portion	77,850
Cumulative Capital Gain Portion	1,000,000
Cumulative Tax Free Portion	500,000

Year	Annual Payment	Interest Portion	Capital Gain Portion	Tax Free Portion	Note Balance
1	325,950	25,950	200,000	100,000	1,200,000
2	320,760	20,760	200,000	100,000	900,000
3	315,570	15,570	200,000	100,000	600,000
4	310,380	10,380	200,000	100,000	300,000
5	305,190	5,190	200,000	100,000	0

Grantor Retained Annuity Trust
Estate Freeze Planning

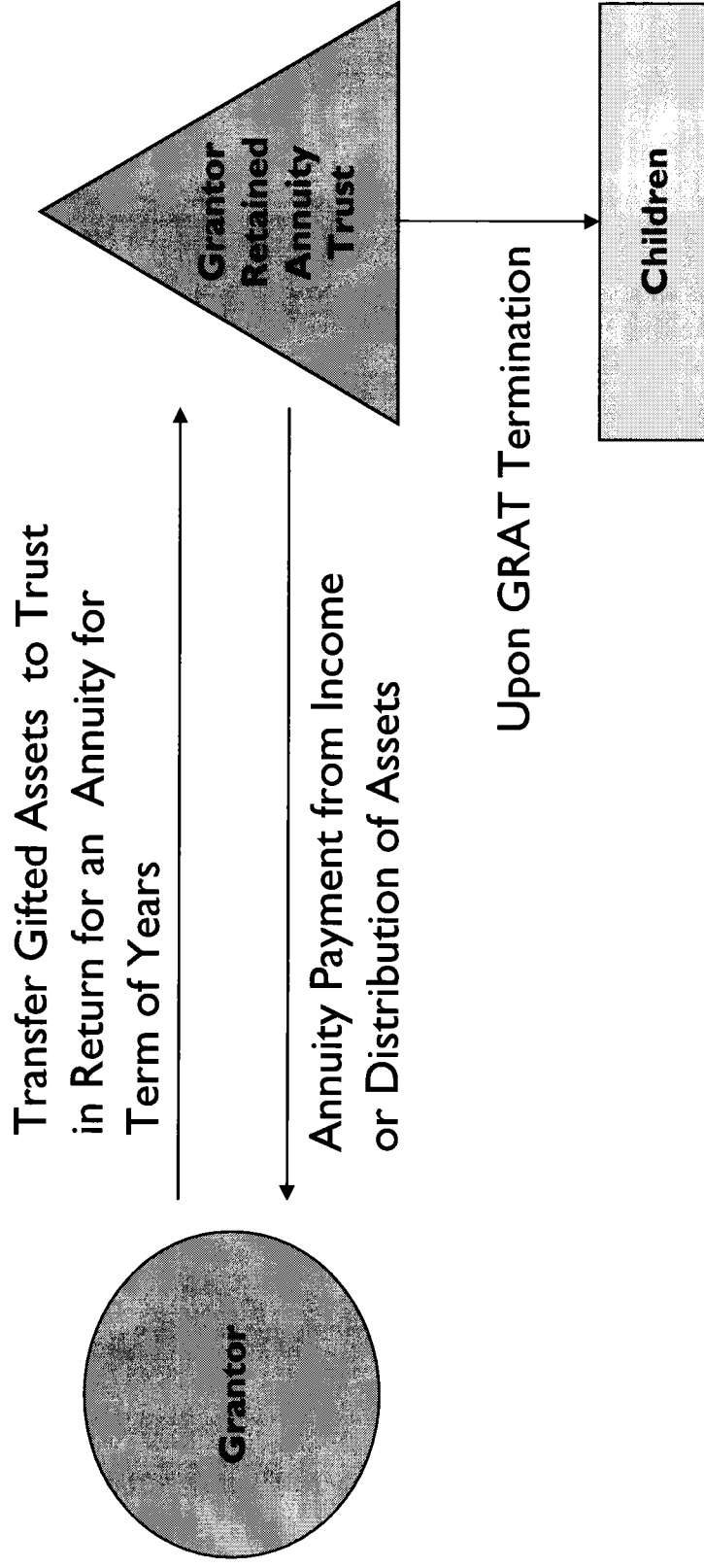
GRAT Overview

- Lifetime transfer of cash or property in trust in exchange for an annuity
- Annuity is generally payable for a fixed term of years
- Property remaining in trust after expiration of annuity term passes to remaindermen at no additional gift tax cost
- Virtually no downside estate planning risk

GRAT Advantages

- Effective estate freeze is achievable with minimal or no gift tax cost
- Over the GRAT term, grantor receives
 - Value of property transferred in form of annuity
 - Trust earnings equal to the IRC Section 7520 rate
 - Other retained interests (e.g., tax reimbursement)
- As a creation of the Code and Regs a GRAT offers predictable results
- In worst-case, family generally no worse off

Grantor Retained Annuity Trust (GRAT) Planning



GRAT Requirements

- Transfer is irrevocable
- Annuity payable to grantor at least annually
 - Payments must be in cash and/or property only
 - Payments may increase at a rate of 20% per-year or less
- No further transfers to the trust are permissible during GRAT term

3

GRAT Tax Treatment

- Taxable gift = transfer less retained interest
 - Walton case supports zeroed-out gifts
 - Valuation discounts may also apply
 - Gift of future interest so no annual exclusion offset
- Value of retained annuity interest is based on 7520 rate for month of transfer
- Grantor's death during GRAT term results in inclusion of trust property in gross estate
- Grantor trust for income tax purposes

4

GRAT Suitability

- Appreciating estate with significant tax exposure
- Grantor is motivated to make lifetime transfers and can financially afford to
- Trust property is expected to outperform 7520 rate during GRAT term
- Grantor is expected to survive GRAT term
 - Both spouses can fund GRATs to hedge risk
 - May require an up-front interspousal transfer

5

GRAT Enhancers

- Rapid appreciation during GRAT term
 - Property temporarily depressed prior to funding
 - Post-transfer IPO
- Trust property is big cash-flow generator
 - Cash flow alone may satisfy the annuity
 - Enables property to grow in trust for heirs' benefit
- Gift tax valuation discounts increase leverage by reducing required annuity payments
- Cascading or sequential GRATs

6

GRAT Drawbacks

- Legal, administrative and appraisal fees
- Special trust provisions for S corp stock to ensure wholly-owned grantor trust status
- Mortality risk
- Trust must outperform the 7520 rate during GRAT term or \$0 will remain for heirs' benefit
- Carryover basis for trust beneficiaries
- Inefficient for generation-skipping transfers

7

Grantor Retained Annuity Trust

General Analysis

John Client - Sample Case

General

Type of Trust	Term
Date of Transfer	10/19/2010
Section 7520 Rate	2.0%
Beginning Principal	1,500,000
Trust Term	2
Gift Tax Law To Apply	Freeze 2009

Annuity Information

Type of Payment Rate	Zero Out
Annuity Payment Rate	51.50391%
Annuity Payment Period	Annual
Payments Made at Beginning or End of Period?	End
Annuity Increase Percentage	0%
Annuity Factor	1.9416
Annuity Payment Per Year (First Year)	772,559
Annuity Payment Per Period (First Year)	772,559

Taxable Gift

Total Interest	1,500,000
Annuity Interest	1,500,000
Remainder Interest (Taxable Gift)	0

Gift Tax Payable

Elect Gift Splitting?	No
Client's Post-76 Taxable Gifts	0
Client's Used Unified Credit	0
Gift Tax Payable	0

Ending Values

Years of Client's Life Expectancy	17.7
Years of Trust Duration (Term)	2
Cumulative Annuity Payments	1,545,117
Average Estate Tax Rate	45.0%
Growth Rate of Principal	5.0%
Ending Principal	70,005
Estimated Estate Tax Savings*	31,502

Applicable Tests

Annuity Exhaustion Test (Rev. Rul. 77-454 & Sec.7520 Regs)	Passed
--	--------

*Average Estate Tax Rate times the difference of Ending Principal minus Taxable Gift.

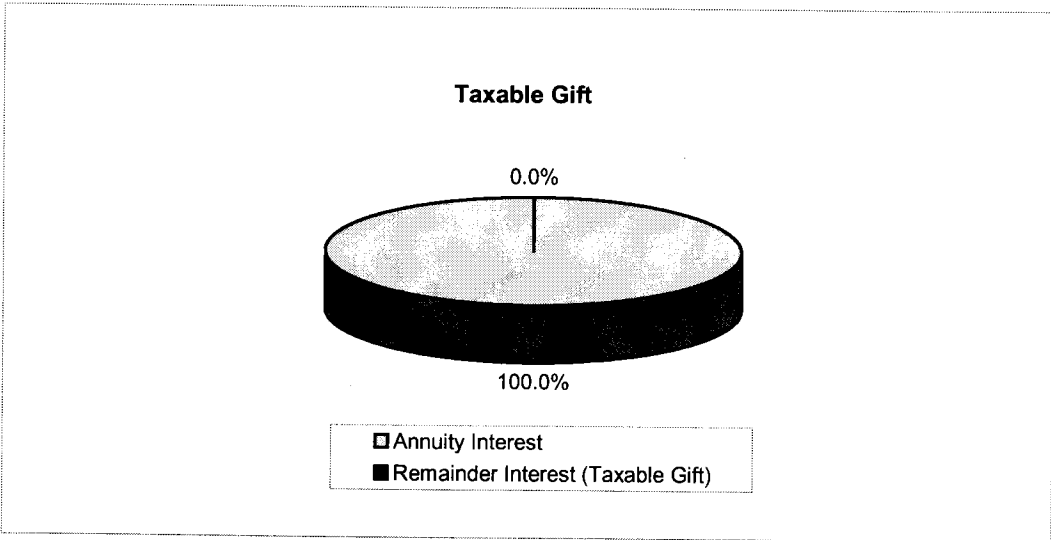
Grantor Retained Annuity Trust

Taxable Gift

John Client - Sample Case

Taxable Gift

Total Interest	1,500,000
Annuity Interest	1,500,000
Remainder Interest (Taxable Gift)	0



General

Type of Trust	Term
Date of Transfer	10/19/2010
Section 7520 Rate	2.0%
Beginning Principal	1,500,000
Trust Term	2
Annuity Payment Rate	51.50391%
Annuity Payment Period	Annual
Payments Made at Beginning or End of Period?	End
Annuity Increase Percentage	0.0%
Gift Tax Law To Apply	Freeze 2009

Grantor Retained Annuity Trust

Annual Cash Flow and Payments

John Client - Sample Case

General

Type of Trust	Term
Annuity Payment Rate	51.50391%
Annuity Payment Period	Annual
Payments Made at Beginning or End of Period?	End
Annuity Increase Percentage	0.0%
Annuity Payment Per Period (First Year)	772,559
Years of Trust Duration (Term)	2
Cumulative Annuity Payments	1,545,117

Year	Beginning Principal	Annual Growth	Annual Payment	Ending Principal
1	1,500,000	75,000	772,559	802,441
2	802,441	40,122	772,559	70,005

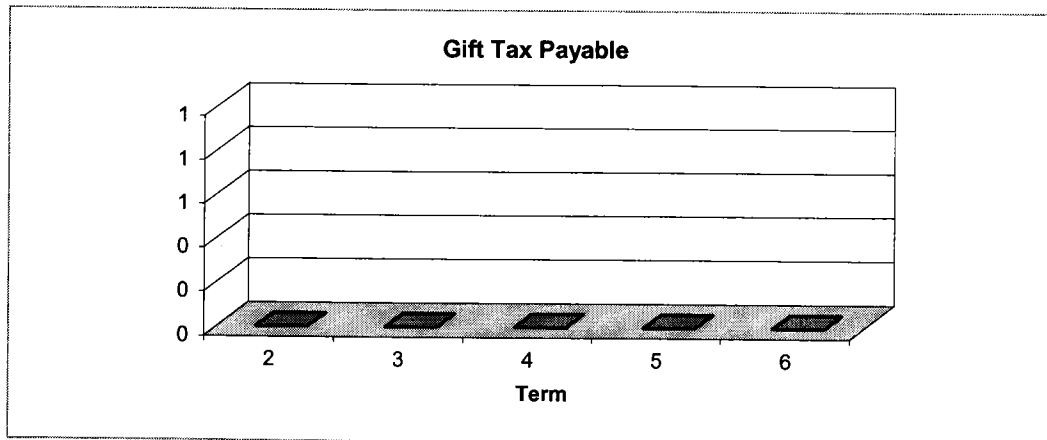
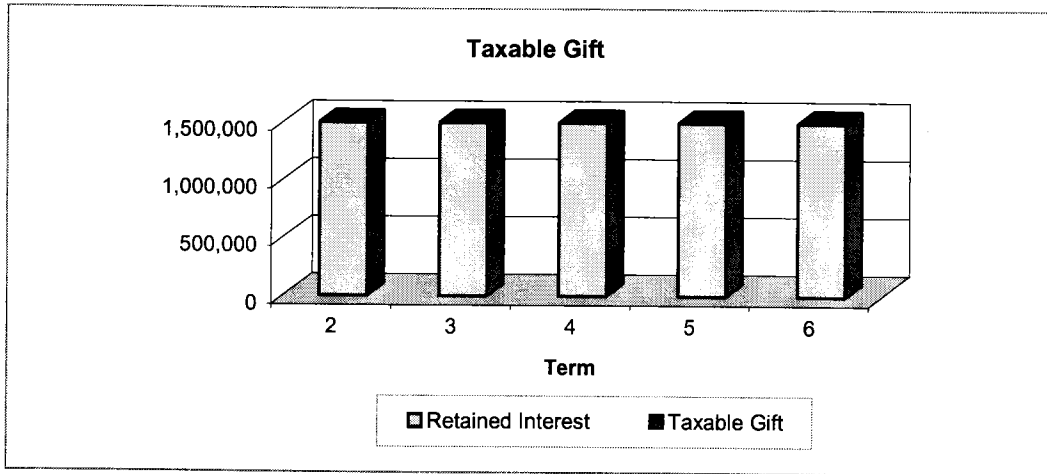
Grantor Retained Annuity Trust

Term Comparisons

John Client - Sample Case

Term	Annuity Payment	Retained Interest	Taxable Gift	Gift Tax Payable
2	772,559	1,500,000	0	0
3	520,129	1,500,000	0	0
4	393,939	1,500,000	0	0
5	318,235	1,500,000	0	0
6	267,790	1,500,000	0	0

Note: A "zero out" annuity payment rate is assumed for each term



General

Beginning Principal	1,500,000
Elect Gift Splitting?	No
Client's Post-76 Taxable Gifts	0
Client's Used Unified Credit	0
Gift Tax Law To Apply	Freeze 2009

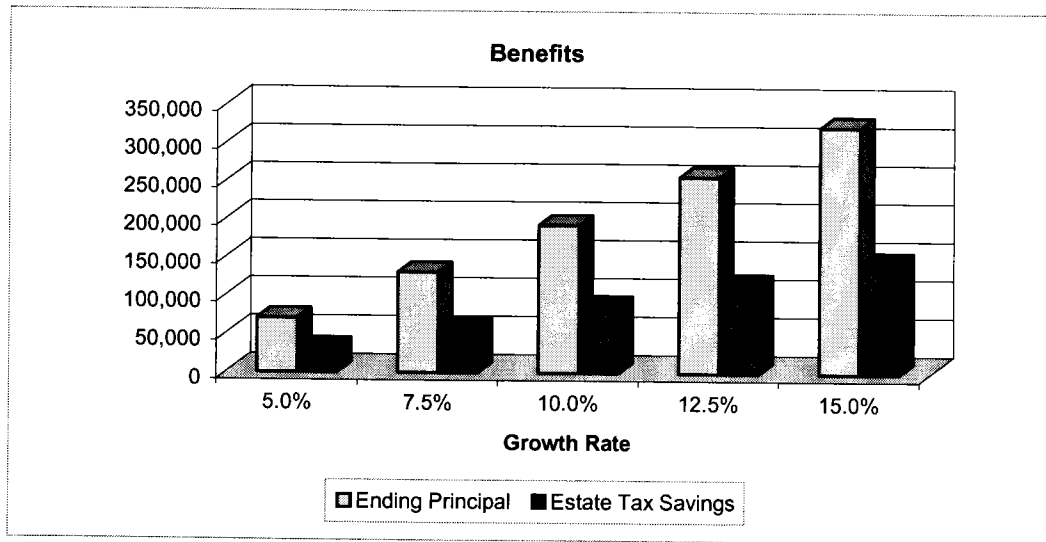
Grantor Retained Annuity Trust

Growth Rate Comparisons

John Client - Sample Case

Growth Rate	Ending Principal	Taxable Gift	Estate Tax Savings*
5.0%	70,005	0	31,502
7.5%	130,378	0	58,670
10.0%	192,627	0	86,682
12.5%	256,750	0	115,538
15.0%	322,749	0	145,237

*Avg Estate Tax Rate times the difference of Ending Principal minus Taxable Gift.



General

Type of Trust	Term
Date of Transfer	10/19/2010
Section 7520 Rate	2.0%
Beginning Principal	1,500,000
Trust Term	2
Annuity Payment Rate	51.50391%
Annuity Payment Period	Annual
Payments Made at Beginning or End of Period?	End
Annuity Increase Percentage	0.0%
Taxable Gift	0
Gift Tax Payable	0
Gift Tax Law To Apply	Freeze 2009

Sale to Defective Grantor Trust
Estate Freeze Planning

- Sale to IDGT Overview**
- Installment sale to an irrevocable trust in exchange for an interest-bearing note
 - Trust is treated differently for income and transfer tax purposes
 - Note is typically interest-only with a balloon principal payment at the end of the note term
 - Up-front gift of cash and/or property is made prior to sale to reduce risk of IRS challenge
 - Much more flexible than a GRAT

- Sale to IDGT Advantages**
- Significant estate tax savings may be realizable immediately following sale
 - Estate includes only the face amount of the note
 - Valuation discounts provide extra leverage
 - Note issued by trustee can be interest-only
 - Easier to satisfy debt service requirements
 - Enables more property to grow in trust for heirs
 - Efficient generation-skipping transfer planning vehicle

Sale to IDGT Requirements

- Transfer is irrevocable
- Up-front gift to the trust equal to a certain percentage of the property sold
 - Rule of thumb is 10% gift - 90% sale
 - Not a requirement per se; subject to debate
- Interest rate \geq applicable federal rate (AFR)
 - AFR increases with increasing note term
 - Depending on note term, rate may be less than the IRC Section 7520 rate governing GRATs

3

Sale to IDGT Tax Treatment

- Completed transfer for transfer tax purposes
 - Property gifted and sold removed from estate
 - Outstanding note is includible in gross estate
- Grantor trust for income tax purposes
 - No recognized gain on initial sale
 - Grantor-seller is taxed on trust earnings
- Generation-skipping transfer consequences
 - GST exemption can be applied against the gift
 - Entire transfer can be sheltered from GST tax

4

Sale to IDGT Suitability

- Appreciating estate with significant tax exposure
- Grantor is motivated to make lifetime transfers and can financially afford to
- Trust property is expected to outperform AFR during note term
- Grantor has a tolerance for tax risk since a sale to an IDGT is not "settled" like a GRAT

5

Sale to IDGT Enhancers

- Rapid appreciation during note term
 - Property temporarily depressed prior to funding
 - Post-transfer IPO
- Trust property is big cash-flow generator
 - Cash flow alone may satisfy note payments
 - Excess cash flow can cover insurance premiums
- Gift tax valuation discounts increase leverage by reducing required note payments
- Sale to funded trust may eliminate seed gift

Sale to IDGT Drawbacks

- Legal, administrative and appraisal fees
- Special trust provisions for S corp stock to ensure wholly-owned grantor trust status
- Tax risk due to unsettled tax issues
 - Capital gains recognition upon premature death
 - Sale vs. gift if sale is to an unfunded trust
- Trust must outperform the AFR during note term or \$0 will remain for remaindermen
- Carryover basis for trust beneficiaries

Sale to IDGT vs. GRAT

Sale to IDGT

- Tax treatment uncertain
- Up-front taxable gift
- Interest only balloon note permissible
- Lower AFR hurdle rate
- Minor mortality risk *
- GST planning: Yes

GRAT

- Tax treatment certain
- Zero-out taxable gift
- Annuity payments = value transferred
- 7520 hurdle rate
- Major mortality risk
- GST planning: no

* Death with note outstanding may result in capital gains tax

Charitable Lead Annuity Trust
Planned Charitable Giving

CLAT Overview

- Lifetime or testamentary transfer of cash or property in trust for the benefit of charity over
 - (a) Fixed term of years
 - (b) Lives of one or more noncharitable beneficiaries
 - Shorter of (a) or (b) or greater of (a) or (b)
- Fixed-dollar payout determined on the basis of the trust's fair market value at time of funding
- Assets remaining in trust after expiration of annuity interest revert to donor or pass to heirs
- Income, gift or estate tax deductions available

CLAT Advantages

- Fixed-income stream transferred to charity satisfies donor's charitable objectives
- Grantor CLAT
 - Income tax deductions = value of charitable gift
 - Deductions can offset income in high-tax year
- Family CLAT
 - Removes property from donor's estate
 - Gift/estate tax deductions = value of charitable gift
 - Future interest in property transferred to heirs at a significant wealth transfer tax discount

CLAT Requirements

- Transfer is irrevocable
- Guaranteed annuity payable to charity at least annually
 - Payments must be in cash and/or property only
 - Unlike CRATs, no required minimum or maximum payout rates or trust terms
- If grantor CLAT, annual trust income and gains are taxed to donor
- Additional transfers to CLAT are prohibited
- Certain private foundation rules apply

3

CLAT Tax Treatment

- Income tax: Trust is not a tax-exempt entity
 - Grantor CLAT: Grantor/donor taxed on all trust income and capital gains
 - Family CLAT: Taxable entity entitled to annual charitable deduction for payments to charity
 - In-kind distributions may trigger capital gains
- Wealth transfer tax
 - Taxable transfer offset by value of charitable gift
 - Value of generation-skipping transfer exemption is indeterminable until triggering event

4

CLAT Tax Deductions

- Grantor CLAT: Donor's up-front income tax deduction = present value of lead interest
 - Donor can elect to use 7520 rate for month of funding or either of two preceding months
 - Deductions limited to % of adjusted gross income
 - Death during CLAT term requires partial recapture
- Family CLAT
 - Trust's annual income tax deduction = payments to charity, so "excess" income taxed at trust level
 - Donor's gift (inter vivos) or estate (testamentary) tax deduction = present value of lead interest

5

CLAT Suitability

- Donor with significant charitable intent
 - CLAT substitutes for donor's annual gifts to charity
 - Family CLAT avoids % of AGI limitations applicable to charitable gifts made directly by donor
- Donor or heirs currently do not need the income from the property selected for transfer
- Donor seeks a tax-efficient means of making a future transfer of property to heirs
- Donor with significant estate and/or income tax exposure seeking tax-reduction techniques

6

CLAT Enhancers

- Structuring and timing CLAT implementation for larger charitable tax deductions
 - Higher CLAT payout rate
 - Longer trust term
 - Lower 7520 rate
 - Can zero-out the transfer to heirs for tax purposes
- High-yielding assets to satisfy annuity
- Rapidly appreciating assets increase the value of the future transfer to heirs
- Valuation discounts reduce required annuity

7

CLAT Drawbacks

- Legal and administrative fees
- Irrevocable transfer is required
 - Family forgoes income on transferred property
 - Donor should have significant charitable intent
- Value of charitable annuity over time eroded by inflation
- Trust is not a tax-exempt entity
- Transfer of debt-encumbered property can be problematic

8

Charitable Lead Annuity Trust

General Analysis

John Client - Default Case

General

Type of Trust	Term
Date of Transfer	10/19/2010
Section 7520 Rate	2.0%
Beginning Principal	750,000
Trust Term	20

Annuity Information

Annuity Payment Rate	6.115%
Annuity Payment Period	Annual
Payments Made at Beginning or End of Period?	End of Period
Annuity Factor	16.3514
Annuity Payment Per Year	45,863
Annuity Payment Per Period	45,863

Charitable Deduction

Total Interest	750,000
Remainder Interest	84
Annuity Interest (Charitable Deduction)	749,916

Ending Values

Years of Life Expectancy	n/a
Duration Calculation Method	Auto
Years of Trust Duration	20
Cumulative Annuity Payments	917,250
Growth Rate of Principal	7.5%
Ending Principal	1,199,827

Applicable Tests

Annuity Subject to Exhaustion (Rev. Rul. 77-454 & Sec.7520 Regs)	No
--	----

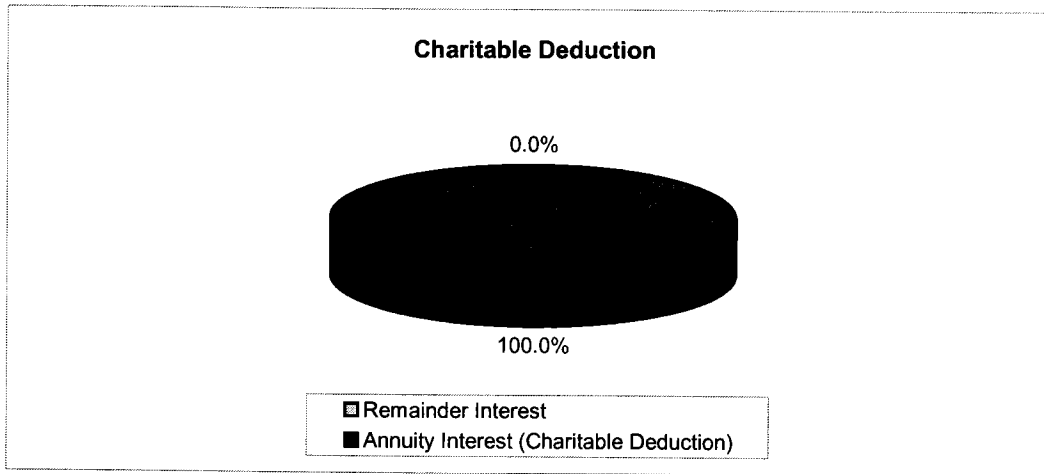
Charitable Lead Annuity Trust

Charitable Deduction

John Client - Default Case

Charitable Deduction

Total Interest	750,000
Remainder Interest	84
Annuity Interest (Charitable Deduction)	749,916



General

Type of Trust	Term
Date of Transfer	10/19/2010
Section 7520 Rate	2.0%
Beginning Principal	750,000
Trust Term	20
Annuity Payment Rate	6.115%
Annuity Payment Period	Annual
Payments Made at Beginning or End of Period?	End of Period

Charitable Lead Annuity Trust

Annual Cash Flow and Payments

John Client - Default Case

General

Type of Trust	Term
Annuity Payment Rate	6.115%
Annuity Payment Period	Annual
Payments Made at Beginning or End of Period?	End of Period
Annuity Payment Per Period	45,863
Years of Trust Duration	20
Cumulative Annuity Payments	917,250

Year	Beginning Principal	Annual Growth	Annual Payment	Ending Principal
1	750,000	56,250	45,863	760,388
2	760,388	57,029	45,863	771,554
3	771,554	57,867	45,863	783,558
4	783,558	58,767	45,863	796,462
5	796,462	59,735	45,863	810,335
6	810,335	60,775	45,863	825,247
7	825,247	61,894	45,863	841,278
8	841,278	63,096	45,863	858,512
9	858,512	64,388	45,863	877,038
10	877,038	65,778	45,863	896,953
11	896,953	67,271	45,863	918,362
12	918,362	68,877	45,863	941,376
13	941,376	70,603	45,863	966,117
14	966,117	72,459	45,863	992,714
15	992,714	74,454	45,863	1,021,305
16	1,021,305	76,598	45,863	1,052,040
17	1,052,040	78,903	45,863	1,085,080
18	1,085,080	81,381	45,863	1,120,599
19	1,120,599	84,045	45,863	1,158,781
20	1,158,781	86,909	45,863	1,199,827