



## The Essentials

*WHAT is an iCLAT®? HOW does it work?  
WHEN does it work best? WHY now?*

Date Presented: March 11, 2020

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For 20 years, Brad Gornto has practiced law throughout Florida in the areas of complex estate & charitable planning, business law, probate and trust administration, and income tax planning. In addition to his law practice, Brad is the President 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 planned giving solutions and donor-specific recommendations. Finally, Brad is also the President and Founder of iCLAT Solutions, LLC, which is the one of the nation's leaders in the establishment and funding of "reversionary" charitable lead trusts for individuals and companies who are annual donors to public charities, churches, ministries, private foundations and donor advised funds. Brad earned his undergraduate degree from Florida State University, his law degree (J.D.) from the University Of Florida College Of Law, and his Masters in Taxation (LL.M.) from the University of Miami School Of Law. Brad's the current volunteer service includes: (i) current President and Board Member of the Charitable Gift Planners of Central Florida; and (ii) Development Advisor to the Board of Directors for the C.S. Lewis Study Center based 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). Brad is also an active member of his local church and various Christian ministries. Brad is married to his wife of 19 years, Cindy, and together they are raising their 4 children, Bryce, Owen, Joel & Daisy.

# LET'S SET THE STAGE FOR TODAY



- **ANNUAL GIVING TOOL**

- Client/Donor is a current annual giver to charity (or prospective annual giver)
- Wants current income tax savings

## Charitable Lead Trust (CLT)

*\*but through a “new” planning lens*

# GOALS FOR TODAY

1. Add a new charitable planning tool to your “toolbox”
2. Showcase the compelling income tax planning opportunity presented by the iCLAT
3. Discuss the essential elements of an iCLAT
  - *WHAT is an iCLAT?*
    - *the simple type of charitable lead trust*
  - *HOW does it work?*
    - *“present value” principles*
  - *WHEN does it work best?*
    - *2 common client/donor scenarios*
  - *WHY now?*
    - *historically low interest rate environment & ideal tax laws = “perfect storm”*



# Impact of the Doubling of the Standard Deduction in 2018 (For all Taxpayers)

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

**KEY TAKEAWAY:** While its good news for the general public, the doubled standard deduction amount prevents many taxpayers from receiving any additional 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?

## FOUR CHOICES TO GIVE ANNUALLY TO CHARITY 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**

# Let's Start with the Basics....

## What is a charitable lead trust (CLT)?

- Here is a *simple* working definition:
  - an irrevocable trust that makes charitable distributions on an annual (or more frequent) basis for a specific number of years, and then EITHER:
    - (i) the remaining trust assets are distributed to family members or to continuing trusts for their benefit; OR
    - **(ii) the remaining trust assets simply return back to the grantor (i.e. the client/donor)**
- For 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 Different CLT Structures

## Traditional “Wealth Transfer” Structure

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

## *Lesser-Known* “Reversionary” Structure

- ONLY Purpose: saving **income taxes** for client *this year*
- Simpler planning considerations
- Minimal time and expense necessary to establish
- The term iCLAT® is simply another name for a reversionary CLTs!





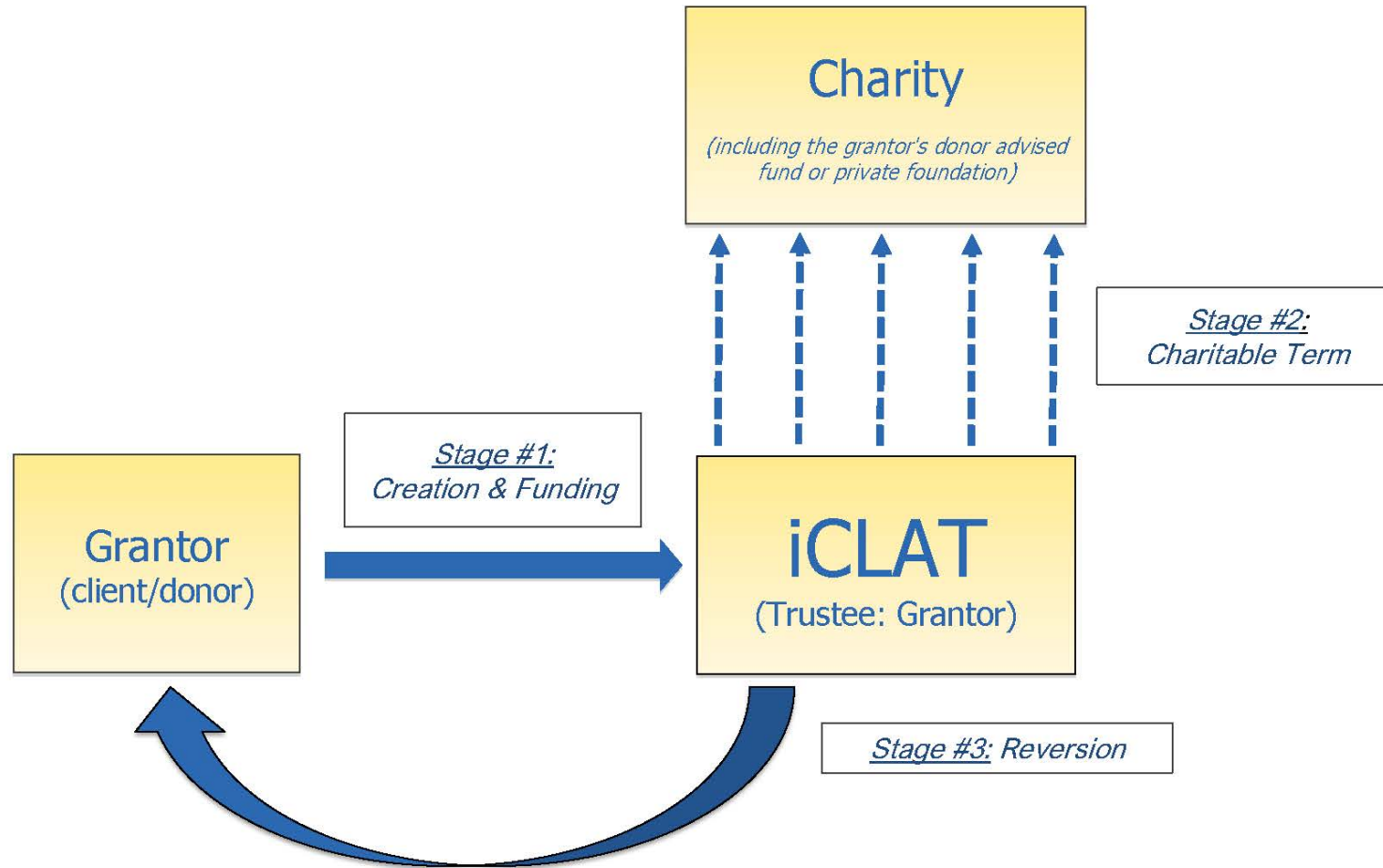
# Why is the “REVERSIONARY” component of an iCLAT® so important?

- 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 accelerated income tax savings in year 1.
- 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



# 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)
  - IMPORTANT: The lower 30% and 20% “for use of” AGI limitations do apply to the large immediate charitable deduction generated by the iCLAT (w/5 yr carry over)
- *Simply put, an iCLAT gives you...*

*CURRENT Income Tax SAVINGS  
for Future Annual Charitable Gifts*



Ok, just *How Large is the Year 1*  
*Charitable Income Tax Deduction* generated by an iCLAT®?

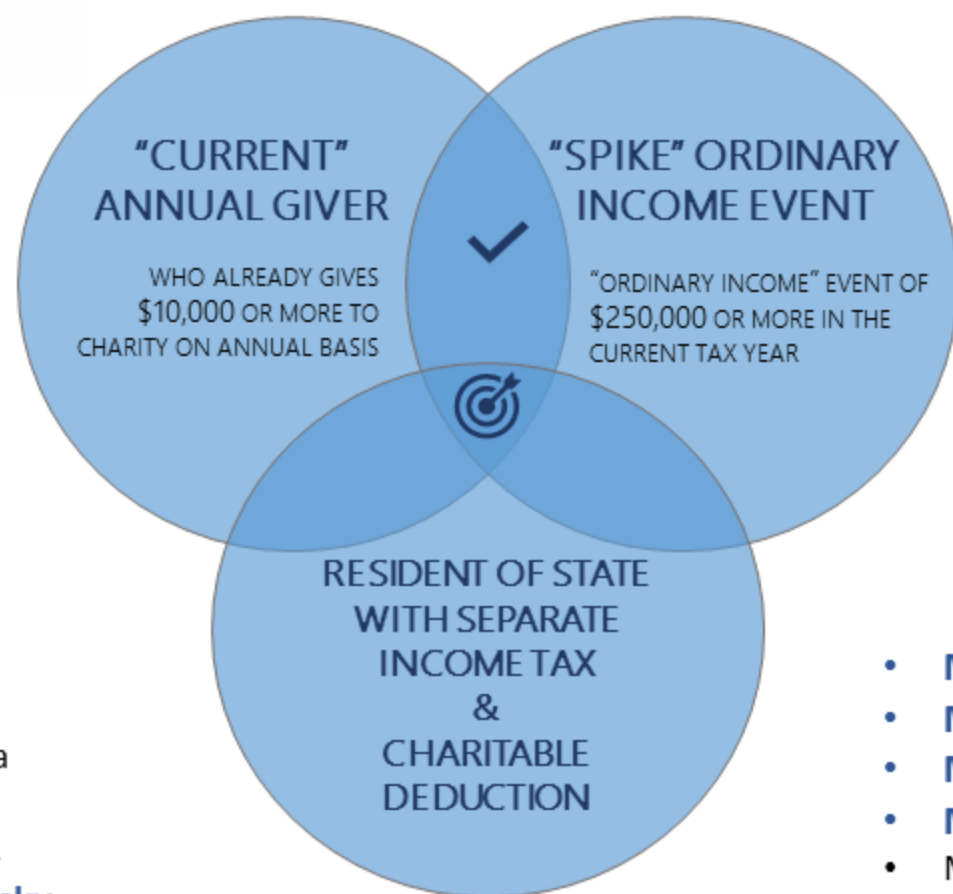
Hypothetical Term (years) of an iCLAT	<b>YEAR 1 % Charitable Deduction</b>	“EXAMPLE” <u>ANNUAL</u> Charitable Distributions from iCLAT	“EXAMPLE” <u>TOTAL SUM OF</u> Charitable Distributions from iCLAT	“EXAMPLE” <u>Amount of</u> “Accelerated” Year 1 Charitable Deduction
<b>3 Years</b>	<b>97.2%</b>	\$50,000 per year	\$150,000	<b>\$145,730</b>
<b>5 Years</b>	<b>95.4%</b>	\$50,000 per year	\$250,000	<b>\$238,633</b>
<b>7 Years</b>	<b>93.7%</b>	\$50,000 per year	\$350,000	<b>\$328,284</b>
<b>10 Years</b>	<b>91.3%</b>	\$50,000 per year	\$500,000	<b>\$456,906</b>
<b>15 Years</b>	<b>87.5%</b>	\$50,000 per year	\$750,000	<b>\$656,550</b>
<b>20 Years</b>	<b>83.9%</b>	\$50,000 per year	\$1,000,000	<b>\$839,160</b>



\*Based on the IRS 7520 Rate of 1.8% (March 2020, which is available through end of May 2020), and quarterly charitable distributions from the iCLAT.  
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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**

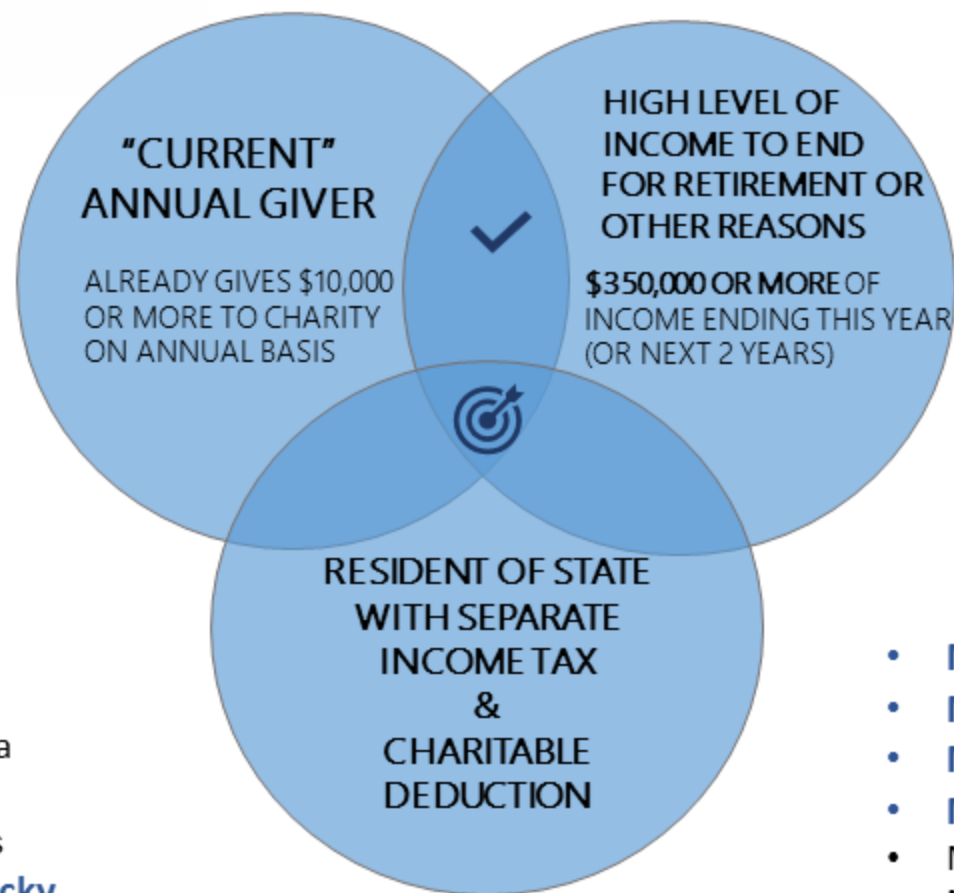
- North Dakota
- Oklahoma
- **Oregon**
- **South Carolina**
- **Vermont**
- **Virginia**
- Utah
- Washington DC
- **Wisconsin**

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# Common Examples of “Ordinary Income”

- Wages & Bonuses
- ROTH IRA Conversions
- RMDs and other distributions from IRAs, 401ks, and other retirement plans
- Non-Qualified Deferred Compensation
- Severance Payments to Executives
- Contingency Fees (attorneys) & Commissions
- Interest (balloon notes)
- Rental Income & Dividends
- Stock Options
- Royalties & Licensing Income
- Professional Athlete/Entertainer Contracts
- K-1 Business Income (S Corp, LLC, LP or Trust)
- Sale of Assets of Business (some)
- IRD Items – Inherited IRAs
- Lottery Winnings





- **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**

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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.
- Peter, with the advice of his financial planner and CPA decided to convert large traditional IRA to a ROTH IRA



## 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		Assumed Net Income		Assumed Growth		Annual Charitable Distributions to Peter's DAF	Year-End Principal	Net Growth in Principal
	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
<b>TOTAL ACCELERATED INCOME TAX SAVINGS*</b>	<b>\$ 224,565</b>
<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

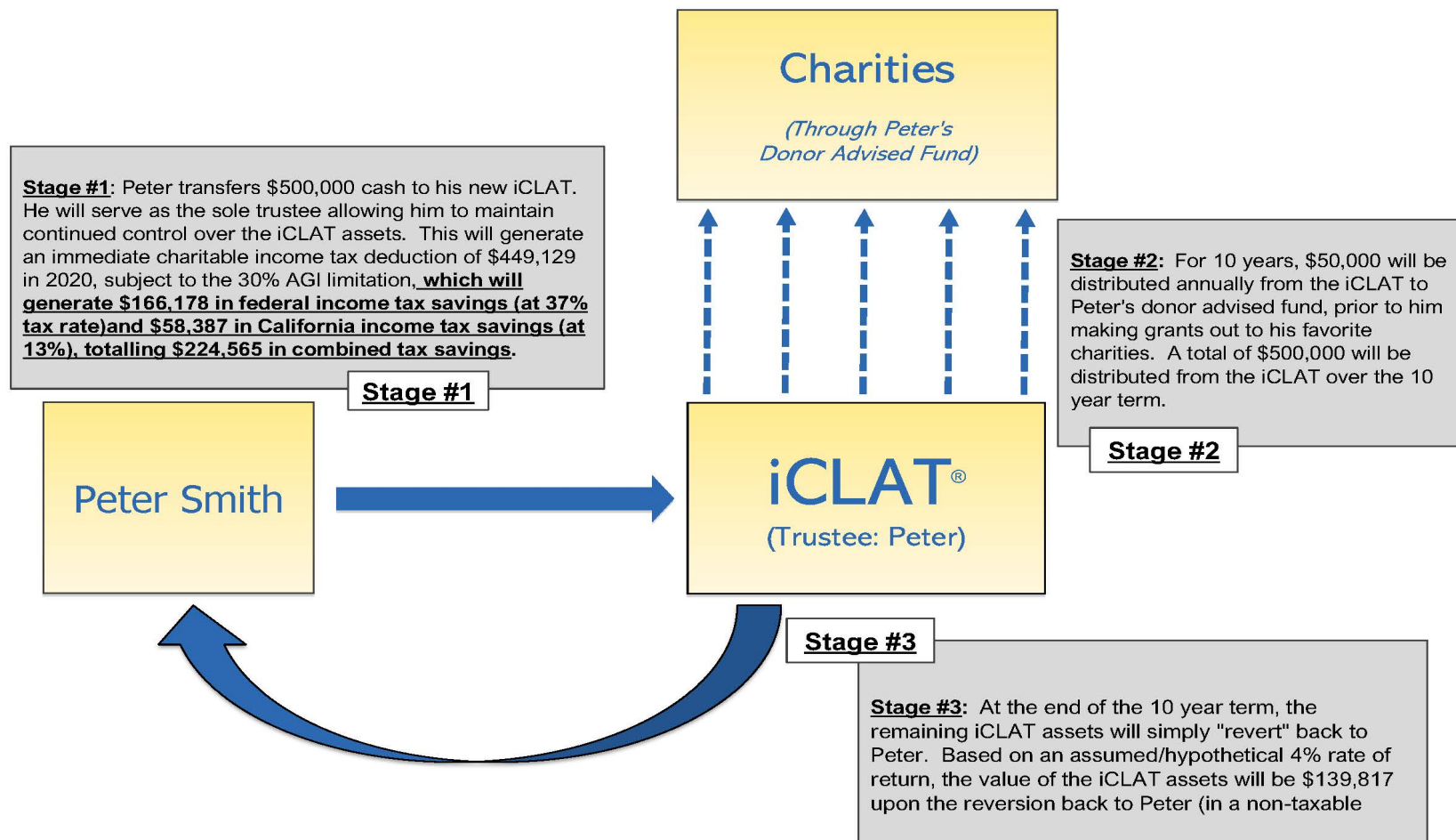


## iCLAT® Case Study #1      Illustration: Basic Structure of the iCLAT

**FACTS:**    10 Year /    \$ 50,000 Annual Payments to Charity

Initial Assets to Fund the iCLAT:    \$ 500,000 Cash

IRS §7520 Rate: 2.0%



# iCLAT® - Case Study Examples/Opportunities

1. Peter Smith (resident of California)
  - ROTH IRA Conversion, normally gives \$50,000/yr. to various charities
2. Stacy Smith (resident of Minnesota)
  - 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 best profits ever this 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
<b>Immediate Charitable Deduction in Current Year</b>	<b>\$449,129</b>	<b>\$321,232</b>	<b>\$449,129</b>	<b>\$204,393</b>	<b>\$824,855</b>
<b>% of Total Payments to Charity</b>	<b>89.8%</b>	<b>92.5%</b>	<b>89.8%</b>	<b>81.8%</b>	<b>94.3%</b>
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%
<b>Estimated Year 1 Federal Income Tax Savings</b>	<b>\$166,178</b>	<b>\$118,856</b>	<b>\$166,178</b>	<b>\$75,625</b>	<b>\$305,197</b>
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%
<b>Estimated Year 1 State Income Tax Savings</b>	<b>\$58,387</b>	<b>\$31,641</b>	<b>\$26,948</b>	<b>\$14,308</b>	<b>\$38,191</b>
<b>Total Estimated U.S. &amp; State Tax Savings in Year 1</b>	<b>\$224,565</b>	<b>\$150,497</b>	<b>\$193,126</b>	<b>\$89,933</b>	<b>\$343,387</b>

*\*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.*



# Greater Importance of an iCLAT After the SECURE ACT

- “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
  - 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 IRA conversions – without changing what annual givers are already doing.

# iCLAT® - Additional Takeaways

- Client can Serve as Trustee of an iCLAT / GREATER CONTROL Compared to Traditional CLTs (no 2036 issues)
- Great alternative planning tool to “BUNCHING”
- Works very well with a donor advised fund or a private foundation (as an annual funding vehicle to the DAF or PF)
- 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
- Annual IRS Filing Requirements of an iCLAT are: Form 1041 (informational) & Form 5227





# Okay, now I understand the iCLAT®

## *What's the Next Step?*

- Take advantage of the **FREE TOOLS** on our website [www.iclat.net](http://www.iclat.net).
  - iCLAT Calculator Tool - <https://www.iclat.net/iclat-calculator>
  - Customized iCLAT Illustration Tool - <https://www.iclat.net/iclat-free-illustration>
  - FAQ's page on our website - <https://www.iclat.net/iclatfrequentlyaskedquestions>
  - Review Articles and Presentations on Website
  - Register for Future Webcasts
- **Complimentary Telephone Calls to Further Explore the iCLAT**
  - Client's accountant, financial planners and/or attorney are welcomed to participate on the introductory calls
- **Email or call us with any questions or to request additional info**



*THANK YOU, ANY QUESTIONS?*



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

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