



2021 Webinar Series: *iCLAT Essentials* *for Professional Advisors*

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Let's Get Started...

First, what is a charitable lead trust (CLT)?

- a trust which makes distributions to charities (at least annually) for a specific number of years *AND THEN, AT THE END OF THE TERM*, distributes all of the remaining trust assets to EITHER:
 - (i) the client's family members (outright or in continuing trusts)

OR

- (ii) the CLIENT

- *For all 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 Very Different CLT Structures

Traditional Common “Wealth Transfer” Structure

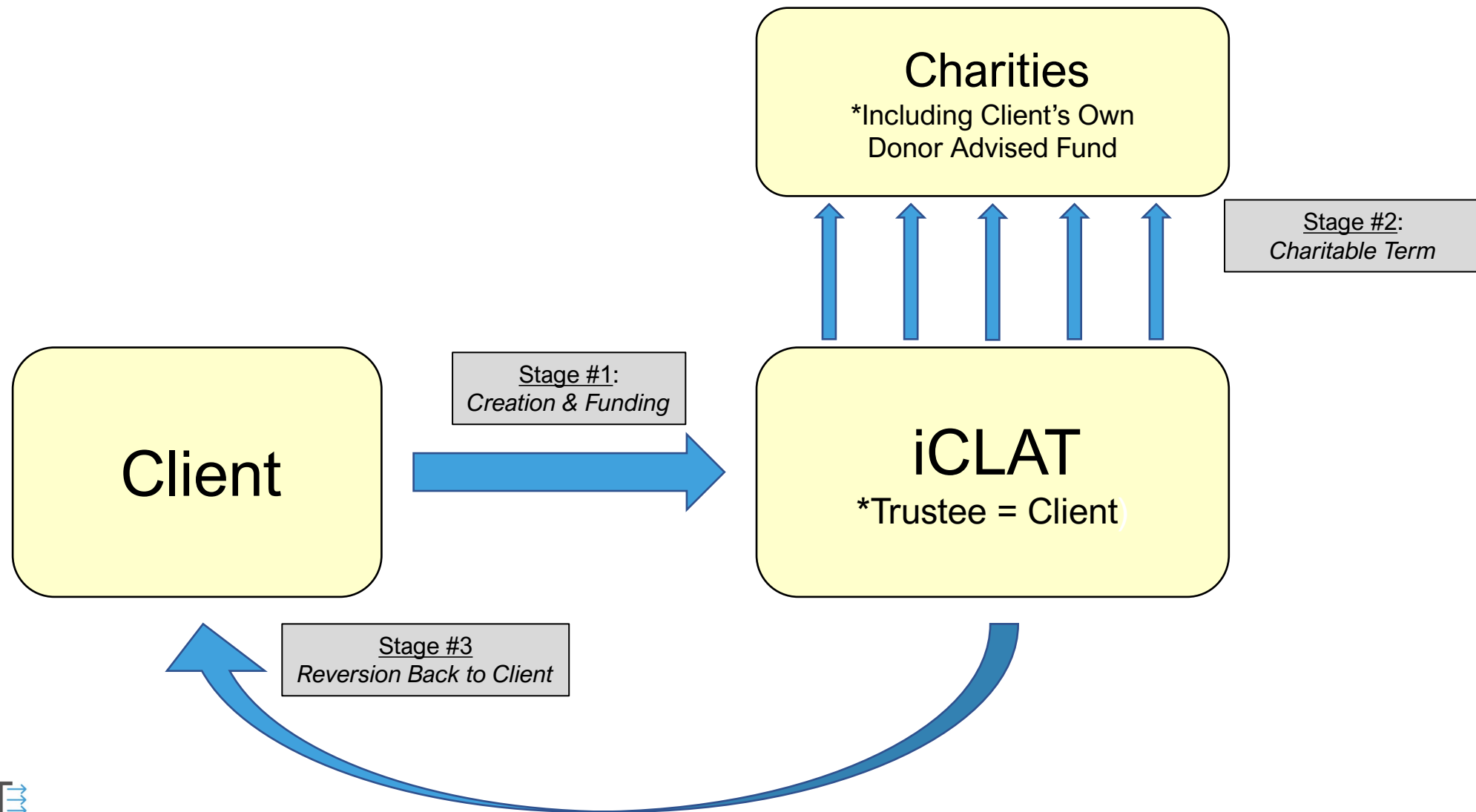
- Primary Purpose: saving future estate taxes on client’s death
- Complex planning considerations, can also disrupt client’s estate plan
- Significant time and expense necessary to establish

Lesser-Known “Reversionary” Structure

- ONLY Purpose: saving *income taxes in current year*
- Simpler planning considerations
- Minimal time and expense necessary to establish
- iCLAT® is simply another name for a “reversionary” CLAT



Basic Structure of an iCLAT – 3 Stages



Key Benefit of an iCLAT®

- iCLATs generate a VERY large “IMMEDIATE” YEAR 1 charitable income tax deduction for your clients!
 - The deduction is entirely based on “present value” of the annual charitable distributions made from an iCLAT!
 - *See Treas. Reg. 1.170A-6(c)(3)
 - The lower the discount interest rate, the larger the immediate charitable deduction generated by an iCLAT.
 - The IRS 7520 Rate remains at historically low levels. The current rate is only 1.2% (available through the end of Sept. 2021), which is great news!



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	\$73,235	97.6%
5 Years	\$25,000/year	\$125,000	\$120,623	96.4%
7 Years	\$25,000/year	\$175,000	\$166,893	95.3%
10 Years	\$25,000/year	\$250,000	\$234,263	93.7%
15 Years	\$25,000/year	\$375,000	\$341,323	91.0%
20 Years	\$25,000/year	\$500,000	\$442,183	88.4%



**Based on the IRS 7520 Rate of 1.2% (July 2021 Rate, which remains available through the end of September 2021).*

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Two Ideal Client Scenarios for an iCLAT

- Clients who regularly give at least \$10,000/year to charity, including to their place of worship, donor advised fund and/or private foundation AND

- **Ideal Scenario #1:**

Spike/Increase “ordinary income” tax event in excess of \$250,000

OR

- **Ideal Scenario #2:**

High-income (\$350,00 or more) to end due to client’s retirement or other reasons

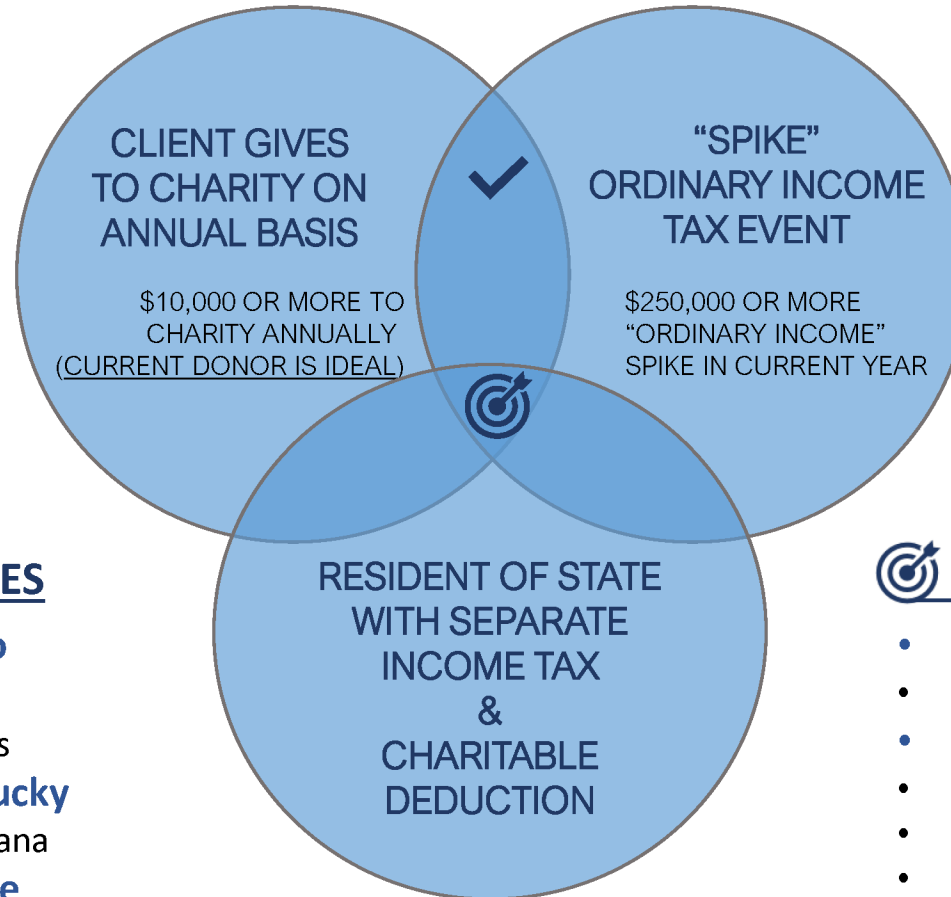




IDEAL FACT SCENARIO #1 – Spike “Ordinary Income” Tax Event in Current Year



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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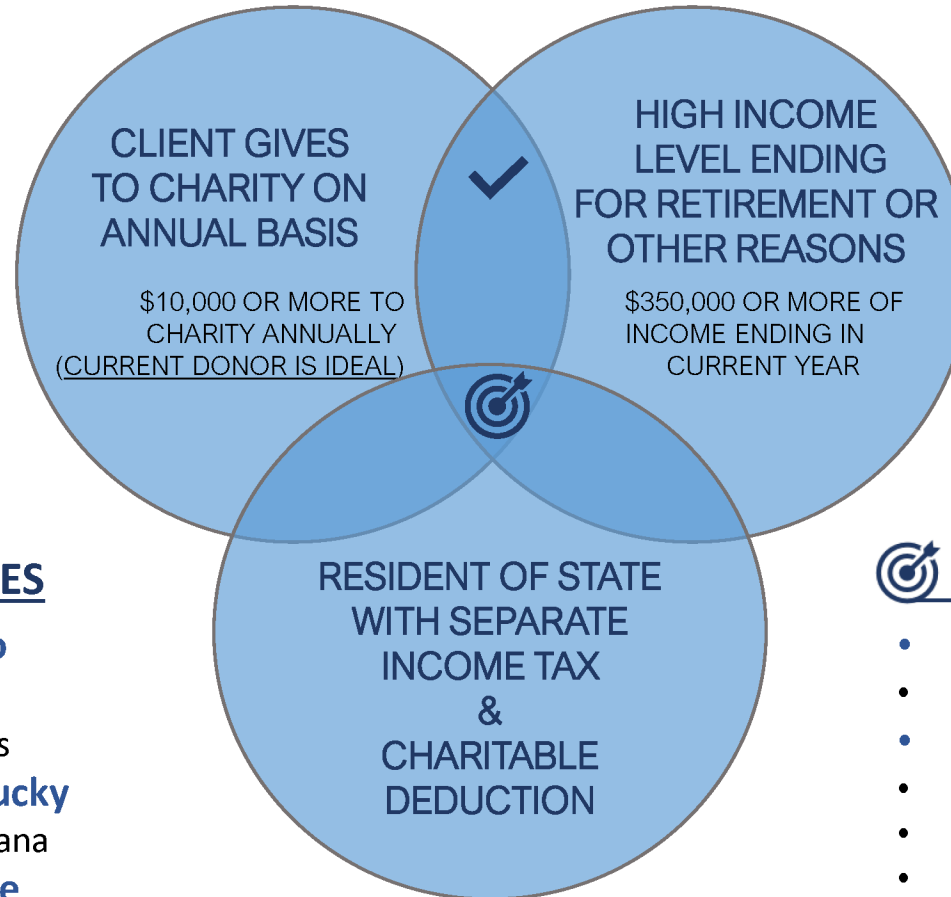
Scenario #1: HERE'S WHAT TO LOOK FOR...

Common Examples of Spike “Ordinary Income” Events

- Wages & Bonuses
- ROTH IRA Conversions
- RMDs and other distributions from IRAs, 401ks, and other retirement plans
- Deferred Compensation Payouts
- Severance Payments to Executives
- Contingency Fees (attorneys) & Large Commissions
- Rental Income & Dividends
- Sale of Assets, Real Property or Business
- Stock Options
- Royalties (Intellectual Property or Oil & Gas)
- Professional Athlete/Entertainer Contracts
- Interest (balloon notes)
- K-1 Business Income (S Corp/LLC)
- “IRD” Items
- Inherited IRAs *Beneficiaries can't use “STRETCH”, the 10-yr rule applies now
- Lottery Winnings



IDEAL FACT SCENARIO #2 – Approaching Retirement for High Income Donor



✓ 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
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Scenario #2: HERE'S WHAT TO LOOK FOR... Common Ideal “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

Common Examples Based on Actual iCLAT Clients

- **Example 1:** Peter regularly gives \$30,000 annually to his 2 or 3 favorite charities (including his church) and he anticipates continuing this level of annual giving for the next 15 years. Based on the advice of his financial planner and CPA, he decided to convert his \$1M traditional IRA to a ROTH IRA earlier this year. Peter is a resident of California and he has a donor advised fund.

Ideal Scenario #1 - Spike Income Event



Example #1: \$30,000 Per Year to Charity/DAF for 10 Years

Client Name:	Peter Smith
Value of Assets Contributed to iCLAT:	\$ 450,000
Type of Assets Contributed to iCLAT:	Cash
Desired Term of iCLAT (# of Years)	10
Annual Payments to Charity:	\$ 30,000
Preferred Charity (if any):	Peter's Preferred Charities/DAF
Assumed Annual Income /Growth Rate:	3% 1% 4%
IRS §7520 Interest Rate:	1.2%

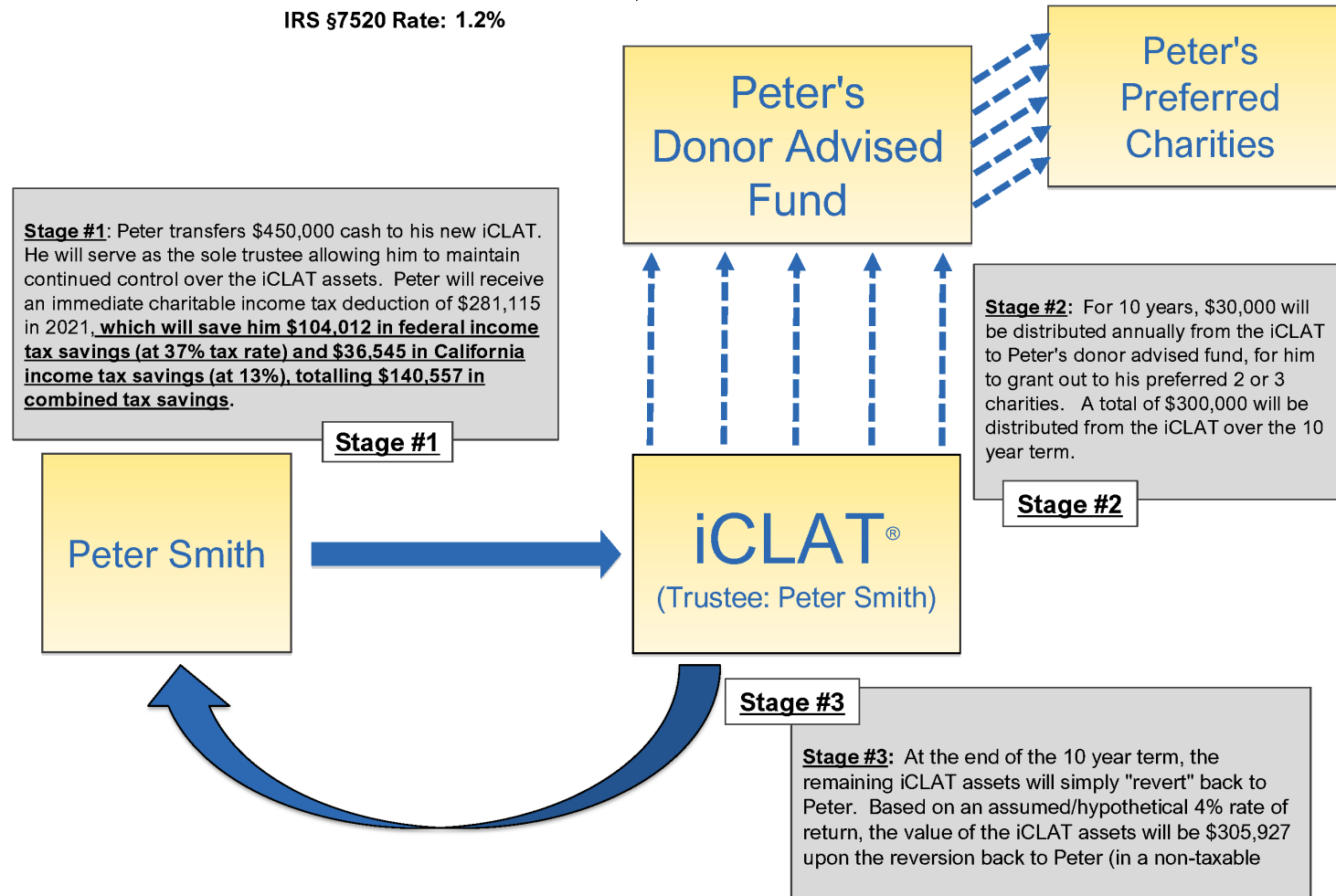


Year	Beginning		Assumed Net Income		Assumed Growth		Annual Charitable Distributions to Peter's DAF	Year-End Principal	Net Growth in Principal
	Principal		Rate	Amount	Rate	Amount			
1	\$	450,000	3.0%	\$ 13,500	1%	\$ 4,500	\$ 30,000	\$ 438,000	\$ (12,000)
2	\$	438,000	3.0%	\$ 13,140	1%	\$ 4,380	\$ 30,000	\$ 425,520	\$ (12,480)
3	\$	425,520	3.0%	\$ 12,766	1%	\$ 4,255	\$ 30,000	\$ 412,541	\$ (12,979)
4	\$	412,541	3.0%	\$ 12,376	1%	\$ 4,125	\$ 30,000	\$ 399,042	\$ (13,498)
5	\$	399,042	3.0%	\$ 11,971	1%	\$ 3,990	\$ 30,000	\$ 385,004	\$ (14,038)
6	\$	385,004	3.0%	\$ 11,550	1%	\$ 3,850	\$ 30,000	\$ 370,404	\$ (14,600)
7	\$	370,404	3.0%	\$ 11,112	1%	\$ 3,704	\$ 30,000	\$ 355,220	\$ (15,184)
8	\$	355,220	3.0%	\$ 10,657	1%	\$ 3,552	\$ 30,000	\$ 339,429	\$ (15,791)
9	\$	339,429	3.0%	\$ 10,183	1%	\$ 3,394	\$ 30,000	\$ 323,006	\$ (16,423)
10	\$	323,006	3.0%	\$ 9,690	1%	\$ 3,230	\$ 30,000	\$ 305,927	\$ (17,080)
TOTALS				\$ 116,945		\$ 38,982	\$ 300,000	\$ 305,927	\$ (144,073)

Immediate Charitable Income Tax Deduction in Current Year	\$ 281,115
Federal Income Tax Savings <i>U.S. Rate: 37%</i>	\$ 104,012
State Income Tax Savings <i>California Rate: 13.00%</i>	\$ 36,545
TOTAL IMMEDIATE INCOME TAX SAVINGS*	\$ 140,557
<i>*To receive ALL income tax savings on 2021 tax return, AGI needs to be at least: \$937,048</i>	
Value* of iCLAT Assets at End of Term to Revert to Peter Smith	\$ 305,927
<i>*Illustrated value, not a guaranteed value</i>	
Total Charitable Distributions to Peter's Preferred Charities/DAF	\$ 300,000



FACTS: 10 Year / \$ 30,000 Peter's Preferred Charities/DAF
Initial Assets to Fund the iCLAT: \$ 450,000 Cash
IRS §7520 Rate: 1.2%



Common Examples Based on Actual iCLAT Clients

- **Example 2:** Stacy wants to contribute \$75,000 annually to her alma mater as part of a capital campaign over the next 10 years. She is a civil engineer and just sold her engineering firm for \$1.8M, in addition to her annual salary & other income of \$400,000. Stacy is a resident of Minnesota.

Ideal Scenario #1 - Spike Income Event

- **Example 3:** Thomas is a successor surgeon and is also a huge fan of his alma mater's athletic program. He has regularly given at least \$25,000 per year and he plans to continue to do so for the rest of his life - even after he retires next year. Thomas is a resident of Georgia.

Ideal Scenario #2 – Approaching Retirement



Summary of Results - iCLAT Examples

	Example #1	Example #2	Example #3	Example #4
Name	Peter Smith	Stacy Smith	Thomas Smith	Fred Smith
Term of iCLAT (in years)	10	10	20	20
Annual Payments to Charity	\$30,000	\$75,000	\$25,000	\$12,500
TOTAL Payments to Charity	\$300,000	\$750,000	\$500,000	\$250,000
Value of Assets Used to Fund iCLAT	\$450,000	\$1,500,000	\$600,000	\$300,000
Type of Assets Contributed to iCLAT	Cash	Cash & Securities	Cash & Securities	Rental Real Property
IRS §7520 Rate (July 2021)	1.2%	1.2%	1.2%	1.2%
Assumed Rate of Return (INCOME)	3.0%	3.0%	3.0%	3.0%
Assumed Rate of Return (GROWTH)	1.0%	1.0%	1.0%	1.0%
Estimated iCLAT Assets at End of Term	\$305,927	\$1,199,646	\$587,994	\$285,111
Immediate Charitable Deduction in Current Year	\$281,115	\$702,786	\$442,182	\$204,393
% of Total Payments to Charity	93.7%	93.7%	88.4%	81.8%
Assumed Federal Income Tax Rate	37%	37%	37%	37%
Estimated Year 1 Federal Income Tax Savings	\$104,012	\$260,031	\$163,608	\$75,625
Necessary AGI in Yr 1 for 100% Charitable Deduction in Yr. 1 30% AGI Limit for Deductibility (with 5 Year Carry-Forward)	\$937,048	\$2,342,621	\$1,473,941	\$681,310
State of Residence	California	Minnesota	Georgia	South Carolina
State Income Tax	YES	YES	YES	YES
State Tax Rate (top rate)	13.00%	9.85%	6.00%	7.00%
Estimated Year 1 State Income Tax Savings	\$36,545	\$69,224	\$26,531	\$14,308
Total Estimated U.S. & State Tax Savings in Year 1	\$140,557	\$329,255	\$190,138	\$89,933

**Based on actual iCLAT cases, updated to reflect the July 2021 IRS §7520 rate of 1.20%, which is available for the through end of September 2021.*

Additional Takeaways

- Client can Serve as Trustee of an iCLAT / **GREATER CONTROL** Compared to Traditional CLTs (no IRC 2036 issues)
- Annual charitable distributions do not have to be fixed, **the distributions can start small and increase each year** **Safe harbor: 20% increasing rate*
- iCLAT can be funded with other assets such as **rental real estate, S Corp stock, LLC or LP interests**
- Great alternative planning tool to “BUNCHING” annual gifts into a single year to a DAF
- iCLATs are typically designed, established & funded in **2 to 3 weeks**
- **iCLATs can be an effective PLAN B** to save taxes after sale of highly appreciated asset/business
- Annual IRS Filing Requirements for iCLATs are:
Form 1041 (informational) & Form 5227

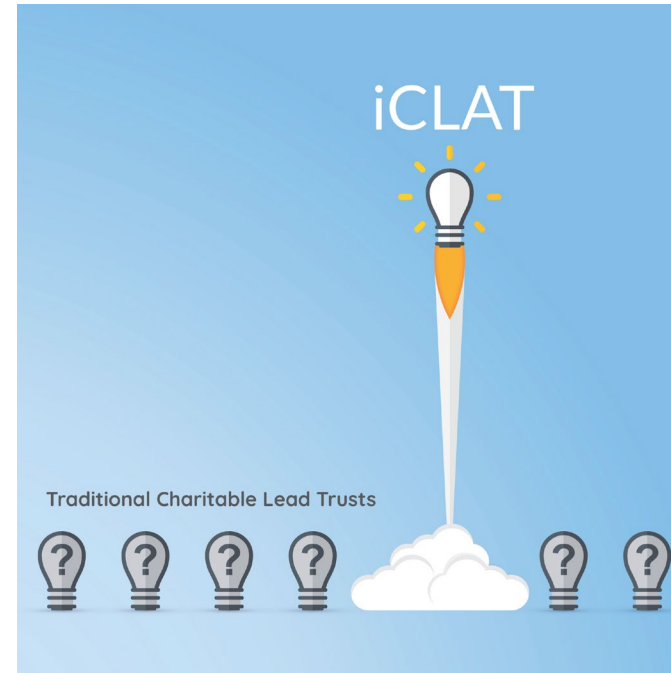


Easy Ways to Can Learn More

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Any Questions?



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

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