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FINANCIAL EXPERTS

NETWORK

IMMEDIATE Tax Savings
from Future Annual Charitable Gifts
NOW is the Time to Take a Closer
Look at the "iCLAT"

Presented By:

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Let's Get Started.....

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

- a trust that makes annual (or more frequent) distributions to charity for a specified number of years, AND THEN
- distributes all of the remaining trust assets to EITHER:
 - (i) the client's family members (outright or in continuing trusts)

OR

• (ii) back to 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 Types of CLTs

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



Two Very Different Types of CLTs

Traditional Common
“Wealth Transfer” Structure



Lesser-Known
“Reversionary” Structure - iCLAT



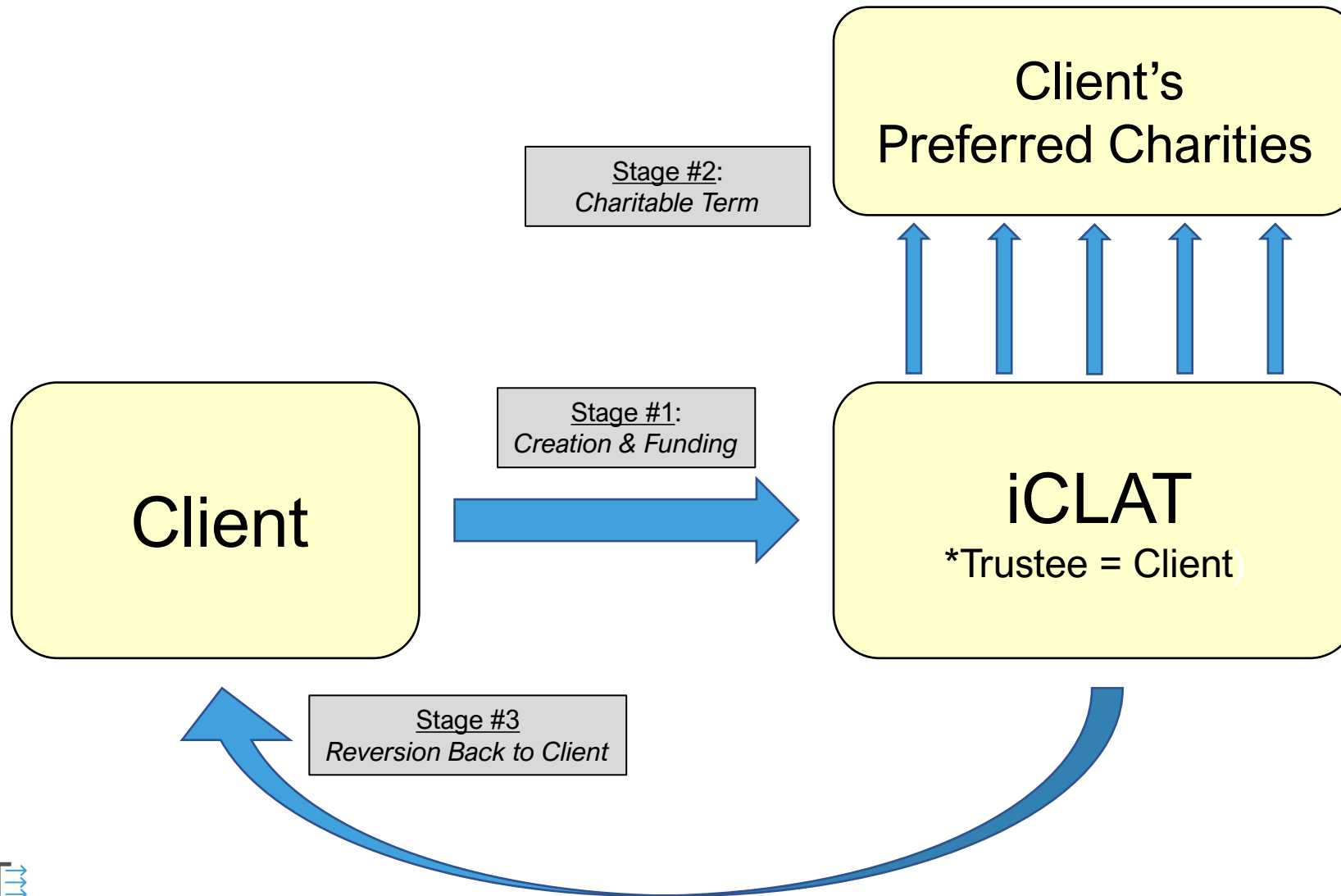
iCLAT



Traditional Charitable Lead Trusts



Basic Structure of an iCLAT: 3 Stages



THE SOLE Benefit of an iCLAT®

- to generate a VERY large “IMMEDIATE” YEAR 1 charitable income tax deduction for your clients!
 - IMPORTANT: The charitable deduction is based entirely on the “present value” of the annual distributions 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 7520 rate is 2.0% (March 2022)
 - *1.6% rate is available thru end of April 2022



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	\$72,663	96.9%
5 Years	\$25,000/year	\$125,000	\$119,218	95.4%
7 Years	\$25,000/year	\$175,000	\$164,318	93.9%
10 Years	\$25,000/year	\$250,000 →	\$229,338	91.7%
15 Years	\$25,000/year	\$375,000	\$331,058	88.3%
20 Years	\$25,000/year	\$500,000 →	\$425,015	85.0%



**Based on the IRS 7520 Rate of 1.6% (February 2022 Rate, which remains available through the end of April 2022).*

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Why is NOW the time to consider iCLAT for your clients?

SIMPLE- The IMMEDIATE tax savings will most likely NEVER be at these levels – at least not for a for a very long time.

AS INTEREST RATES RISE & INFLATION KICKS IN, THE TAX SAVINGS FROM iCLATs WILL DECREASE

Example: 10 Year iCLAT \$25k/Year to Charity

	Deduction	Tax Savings (at 37% Rate)
Until 4/30/2022 (at 1.6% rate)	\$229,338	\$84,855
At 3% IRS rate	\$213,255	\$78,904
At 5% IRS rate	\$193,042	\$71,426
At 10% IRS rate	\$153,615	\$56,858

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 income tax event in excess of \$250,000 (*preferably "ordinary income event"*)

OR

- **Ideal Scenario #2:**

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

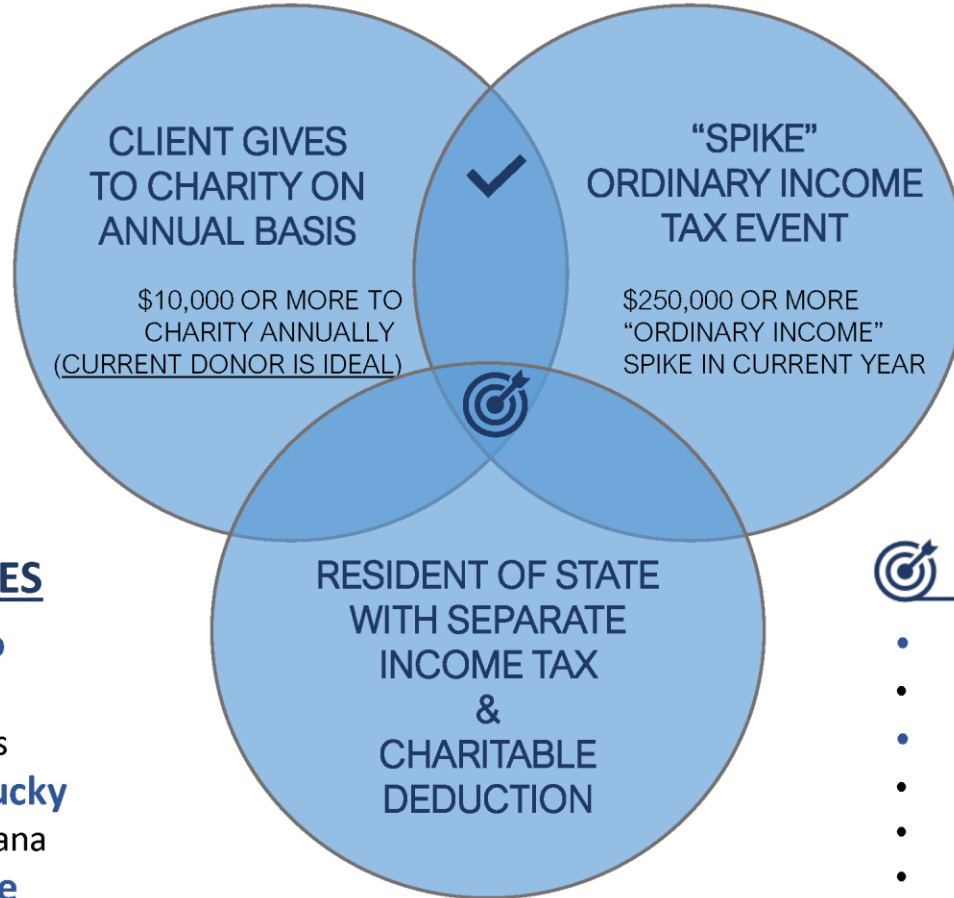




IDEAL FACT SCENARIO #1 – Spike “Ordinary Income” Tax Event in Current Year



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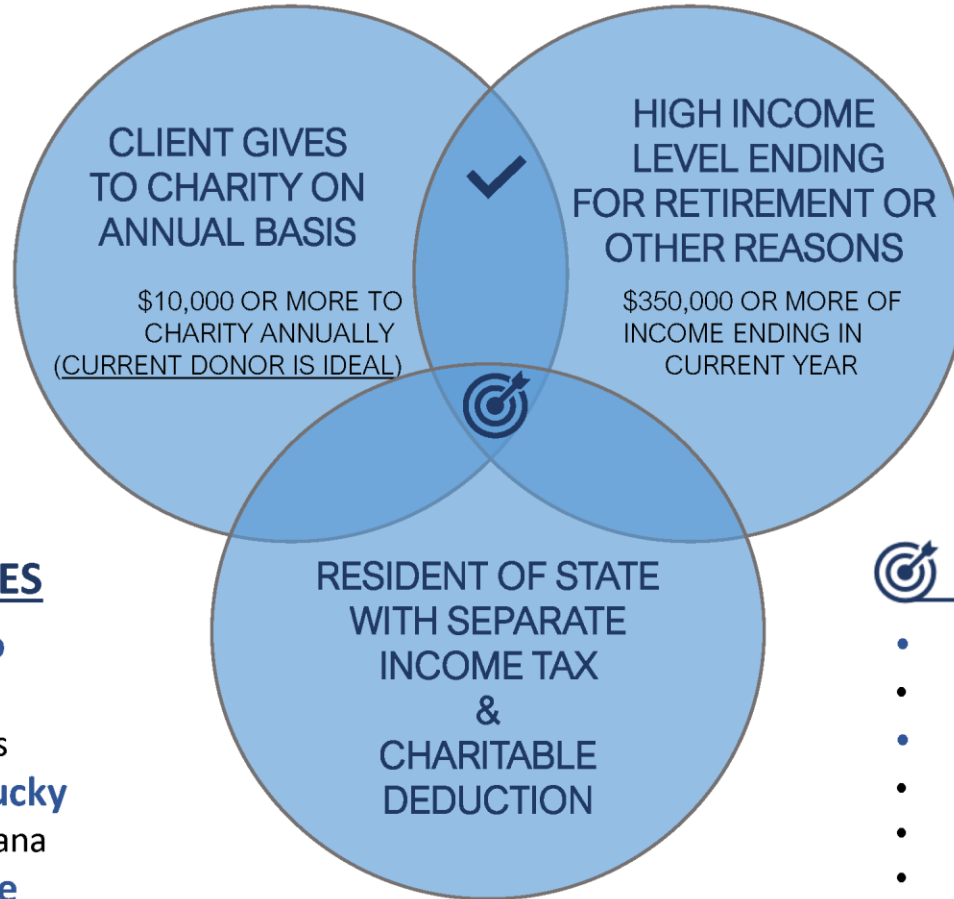
Scenario #1: HERE'S WHAT TO LOOK FOR...

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 & Signing Bonuses
- Interest (balloon notes)
- K-1 Business Income (S Corp/LLC)
- “IRD” Items
- Inherited IRAs *10-yr rule applies now for almost all beneficiaries
- 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
- Oklahoma
- Oregon
- South Carolina
- Vermont
- Virginia
- Utah
- Washington DC
- Wisconsin

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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

Broad Application of iCLATs – Not an Ultra-Wealthy Tool (Actual Data from all 2020 & 2021 iCLAT Clients)

- Average Initial Funding Amount: \$402,310
- Average Annual Charitable Payments: \$ 28,216
- Asset Class for Funding iCLAT:
 - 100% Cash Funding: 62.1%
 - Cash & Marketable Securities: 21.4%
 - Real Property (and cash/securities): 11.2%
 - Crypto, LLC Interest & Other Assets: 5.3%

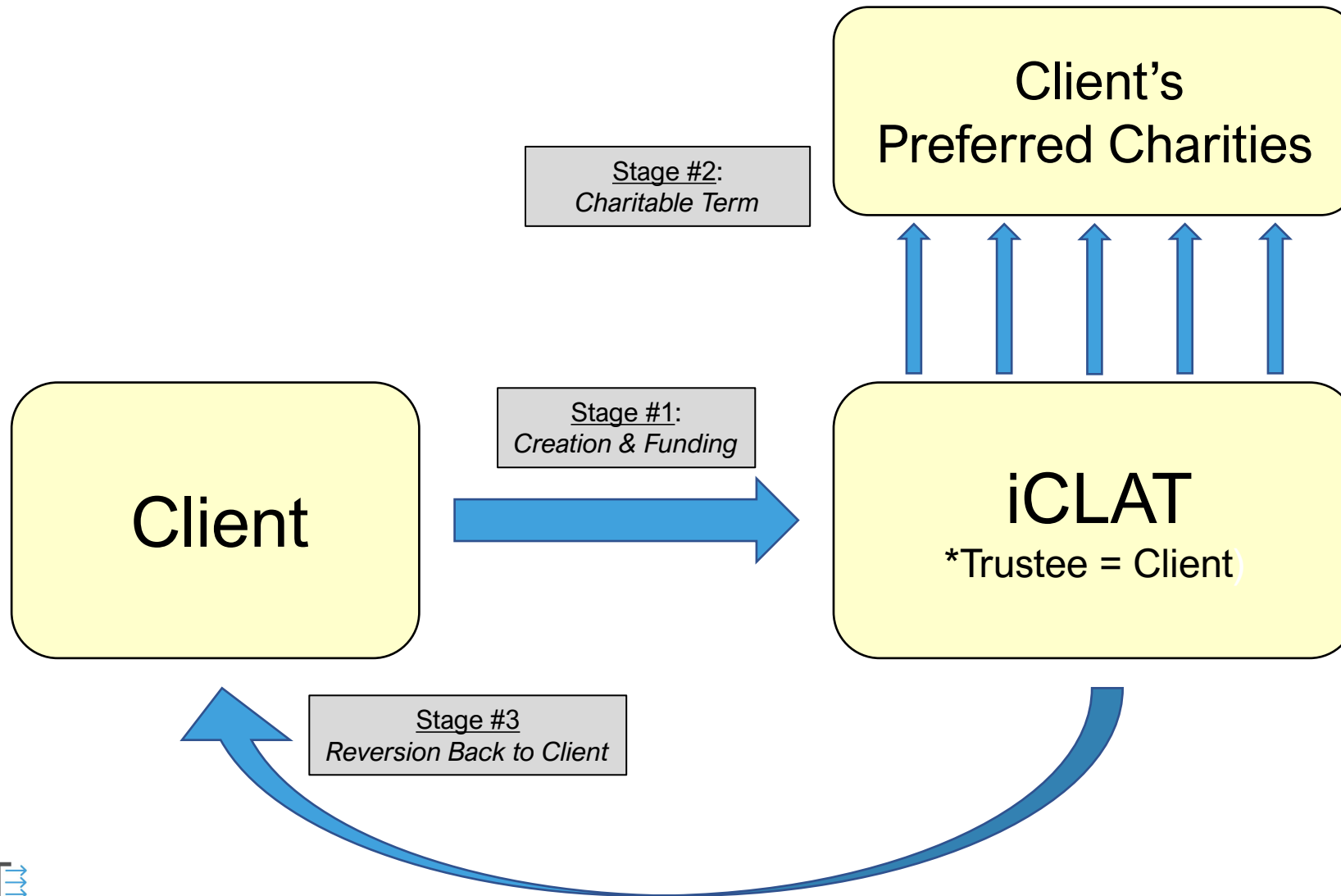
Knowledge Check:

Which type of client will not benefit from the immediate tax savings from an iCLAT?

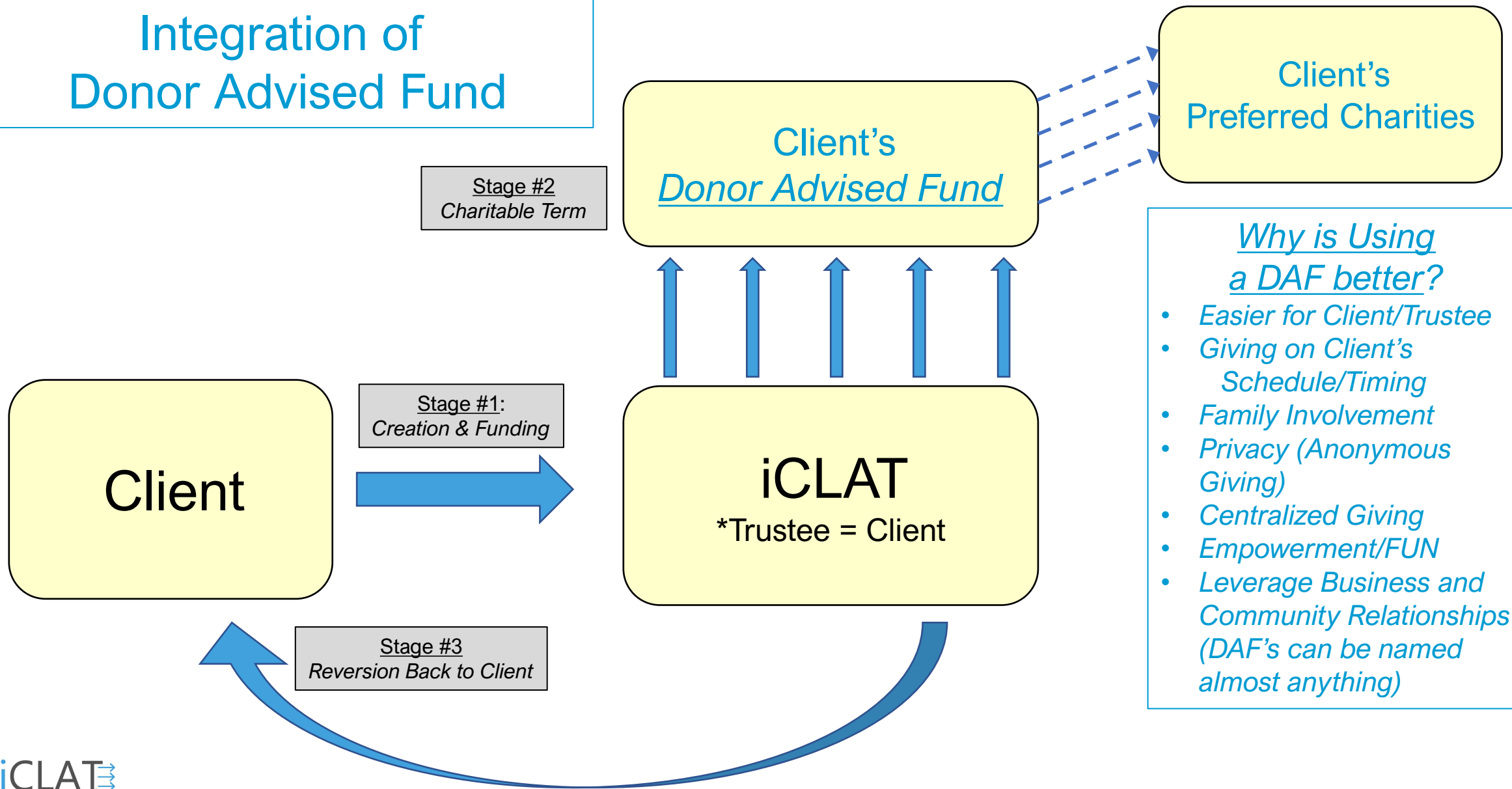
- a. Client with large year-end bonus
- b. Client who plans to convert a large traditional IRA to a ROTH IRA
- c. Client in the last year of high salary job before retirement
- d. Client who is not charitably inclined and looking to receive fixed income stream for life



Basic Structure of an iCLAT: 3 Stages



Enhanced iCLAT Structure: Integration of Donor Advised Fund



- BEST OF BOTH WORLDS -
“Coupling an iCLAT with a Donor Advised Fund”

Specific benefits of DAFs to Advisors:

1. Additional AUM Opportunity for iCLAT & DAF Assets
2. Strengthen Relationships with Clients
3. Distinguish Yourself from Vast Majority of Other Advisors
4. Client Continuation Glue – Adult Children of Client

Actual iCLAT Client Case

- **Client Case #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 10 years. Based on the advice of his financial planner and CPA, Peter 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.



iCLAT CLIENT CASE #1 - Peter Smith

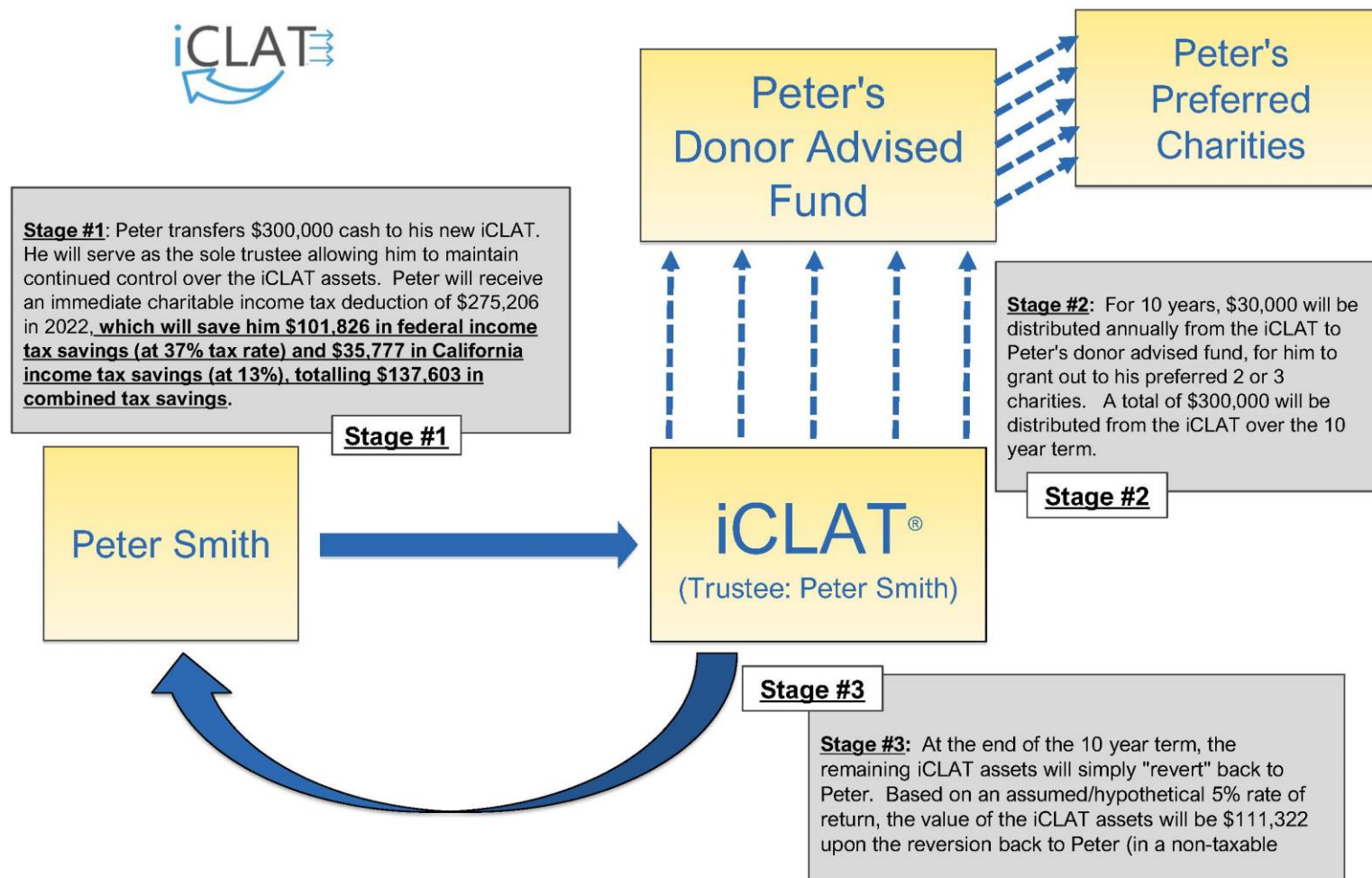
Client Name:	Peter Smith		
Value of Assets Contributed to iCLAT:	\$	300,000	
Type of Assets Contributed to iCLAT:	Cash		
Desired Term of iCLAT (# of Years)	10		
Annual Payments to Charity:	\$	30,000	
Preferred Charity (if any):	Peter's Donor Advised Fund		
Assumed Annual Income /Growth Rate:	3% 2%	5%	
IRS §7520 Interest Rate:	1.6%		



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	\$ 300,000	3.0%	\$ 9,000	2%	\$ 6,000	\$ 30,000	\$ 285,000	\$ (15,000)
2	\$ 285,000	3.0%	\$ 8,550	2%	\$ 5,700	\$ 30,000	\$ 269,250	\$ (15,750)
3	\$ 269,250	3.0%	\$ 8,078	2%	\$ 5,385	\$ 30,000	\$ 252,713	\$ (16,538)
4	\$ 252,713	3.0%	\$ 7,581	2%	\$ 5,054	\$ 30,000	\$ 235,348	\$ (17,364)
5	\$ 235,348	3.0%	\$ 7,060	2%	\$ 4,707	\$ 30,000	\$ 217,116	\$ (18,233)
6	\$ 217,116	3.0%	\$ 6,513	2%	\$ 4,342	\$ 30,000	\$ 197,971	\$ (19,144)
7	\$ 197,971	3.0%	\$ 5,939	2%	\$ 3,959	\$ 30,000	\$ 177,870	\$ (20,101)
8	\$ 177,870	3.0%	\$ 5,336	2%	\$ 3,557	\$ 30,000	\$ 156,763	\$ (21,107)
9	\$ 156,763	3.0%	\$ 4,703	2%	\$ 3,135	\$ 30,000	\$ 134,602	\$ (22,162)
10	\$ 134,602	3.0%	\$ 4,038	2%	\$ 2,692	\$ 30,000	\$ 111,332	\$ (23,270)
TOTALS			\$ 66,799		\$ 44,533	\$ 300,000	\$ 111,332	\$ (188,668)

IMMEDIATE Charitable Income Tax Deduction in Current Year	\$ 275,206
Federal Income Tax Savings <small>U.S. Rate: 37%</small>	\$ 101,826
State Income Tax Savings <small>California Rate: 13.00%</small>	\$ 35,777
TOTAL IMMEDIATE INCOME TAX SAVINGS*	\$ 137,603
<small>*To receive ALL income tax savings on 2022 tax return, AGI needs to be at least: \$917,352</small>	
Value* of iCLAT Assets at End of Term to Revert to Peter Smith	\$ 111,332
<small>*Illustrated value, not a guaranteed value</small>	
Total Charitable Distributions to Peter's Donor Advised Fund	\$ 300,000





Actual iCLAT Client Case

- **Client Case #2:** Carl Smith's manufacturing business (an S Cor) is having a banner year, and he anticipates K-1 income of \$1,500,000, which is more than double his usual K-1 income. Carl is 53 and a resident of Arizona. Currently, he only gives \$3,500/year to various local charities, but he wants to give more significantly in the coming years, preferably anonymously. Carl also has Block-Fi crypto account worth \$800,000, in addition to his other traditional investment assets.



iCLAT CLIENT CASE #2 - Carl Smith

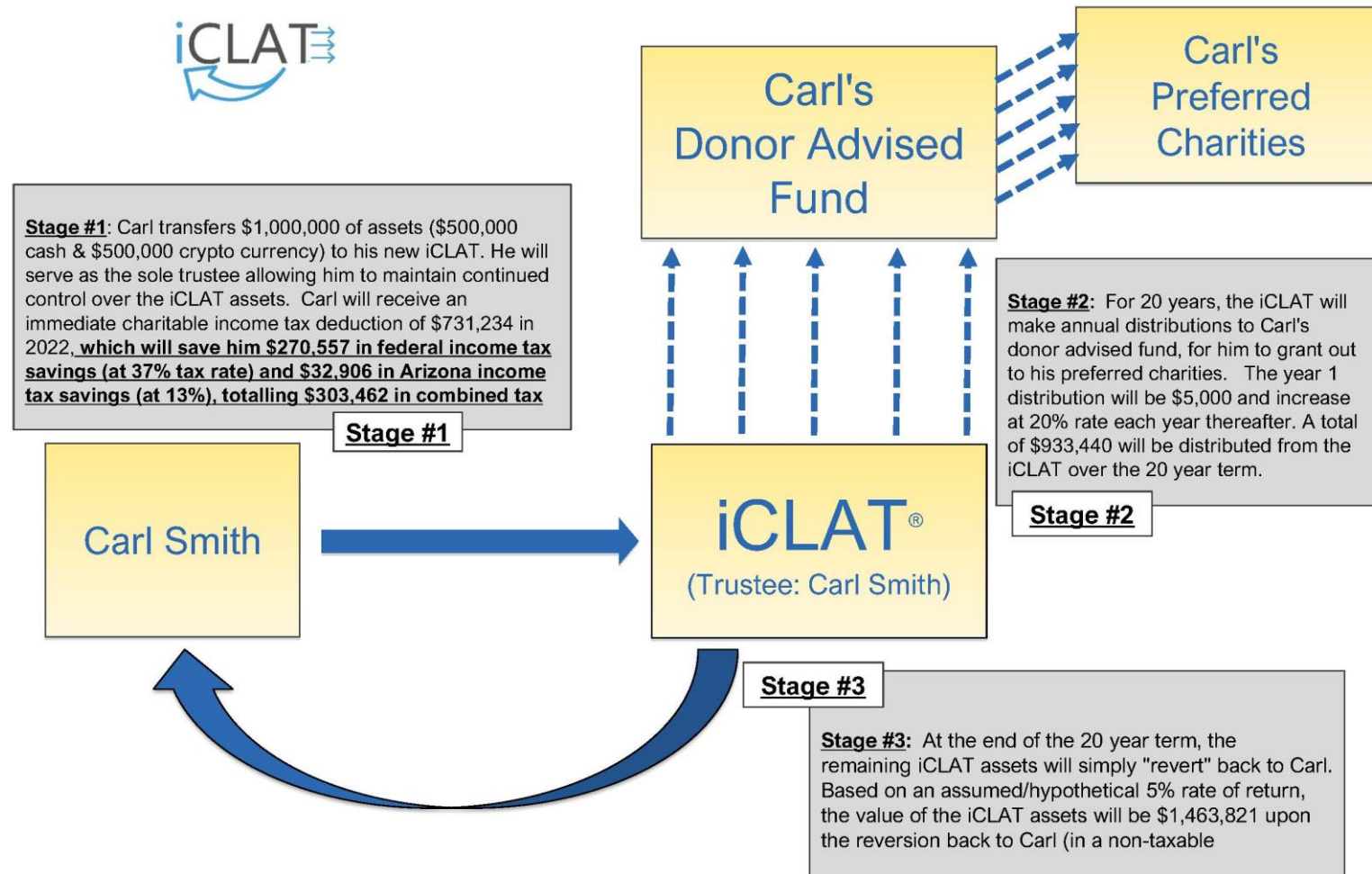
(20% Increasing Charitable Distribution Structure)

Year	Beginning Principal	Assumed Net Income		Assumed Growth		Annual Charitable Distributions to Carl's DAF	Year-End Principal	Net Growth in Principal
		Rate	Amount	Rate	Amount			
1	\$ 1,000,000	3.0%	\$ 30,000	2%	\$ 20,000	\$ 5,000	\$ 1,045,000	\$ 45,000
2	\$ 1,045,000	3.0%	\$ 31,350	2%	\$ 20,900	\$ 6,000	\$ 1,091,250	\$ 46,250
3	\$ 1,091,250	3.0%	\$ 32,738	2%	\$ 21,825	\$ 7,200	\$ 1,138,613	\$ 47,363
4	\$ 1,138,613	3.0%	\$ 34,158	2%	\$ 22,772	\$ 8,640	\$ 1,186,903	\$ 48,291
5	\$ 1,186,903	3.0%	\$ 35,607	2%	\$ 23,738	\$ 10,368	\$ 1,235,880	\$ 48,977
6	\$ 1,235,880	3.0%	\$ 37,076	2%	\$ 24,718	\$ 12,442	\$ 1,285,233	\$ 49,352
7	\$ 1,285,233	3.0%	\$ 38,557	2%	\$ 25,705	\$ 14,930	\$ 1,334,564	\$ 49,332
8	\$ 1,334,564	3.0%	\$ 40,037	2%	\$ 26,691	\$ 17,916	\$ 1,383,377	\$ 48,812
9	\$ 1,383,377	3.0%	\$ 41,501	2%	\$ 27,668	\$ 21,499	\$ 1,431,046	\$ 47,670
10	\$ 1,431,046	3.0%	\$ 42,931	2%	\$ 28,621	\$ 25,799	\$ 1,476,800	\$ 45,753
11	\$ 1,476,800	3.0%	\$ 44,304	2%	\$ 29,536	\$ 30,959	\$ 1,519,681	\$ 42,881
12	\$ 1,519,681	3.0%	\$ 45,590	2%	\$ 30,394	\$ 37,150	\$ 1,558,515	\$ 38,834
13	\$ 1,558,515	3.0%	\$ 46,755	2%	\$ 31,170	\$ 44,581	\$ 1,591,860	\$ 33,345
14	\$ 1,591,860	3.0%	\$ 47,756	2%	\$ 31,837	\$ 53,497	\$ 1,617,956	\$ 26,096
15	\$ 1,617,956	3.0%	\$ 48,539	2%	\$ 32,359	\$ 64,196	\$ 1,634,658	\$ 16,702
16	\$ 1,634,658	3.0%	\$ 49,040	2%	\$ 32,693	\$ 77,035	\$ 1,639,356	\$ 4,698
17	\$ 1,639,356	3.0%	\$ 49,181	2%	\$ 32,787	\$ 92,442	\$ 1,628,882	\$ (10,474)
18	\$ 1,628,882	3.0%	\$ 48,866	2%	\$ 32,578	\$ 110,931	\$ 1,599,395	\$ (29,486)
19	\$ 1,599,395	3.0%	\$ 47,982	2%	\$ 31,988	\$ 133,117	\$ 1,546,249	\$ (53,147)
20	\$ 1,546,249	3.0%	\$ 46,387	2%	\$ 30,925	\$ 159,740	\$ 1,463,821	\$ (82,428)
TOTALS			\$ 838,357		\$ 558,904	\$ 933,440	\$ 1,463,821	\$ 634,658

IMMEDIATE Charitable Income Tax Deduction in Current Year	\$ 731,234
Federal Income Tax Savings <small>U.S. Rate: 37%</small>	\$ 270,557
State Income Tax Savings <small>Arizona Rate: 4.50%</small>	\$ 32,906
TOTAL ACCELERATED INCOME TAX SAVINGS*	\$ 303,462
<small>*To receive ALL income tax savings on 2022 tax return, AGI needs to be at least: \$2,437,447</small>	
Value* of iCLAT Assets at End of Term to Revert to Carl Smith	\$ 1,463,821
<small>*Illustrated value, not a guaranteed value</small>	
Total Charitable Distributions to Carl's Donor Advised Fund	\$ 933,440



iCLAT Client Case #2 - Carl Smith
 (20% Increasing Charitable Distribution Structure)



Knowledge Check:



Which interest rate environment is most favorable for using an iCLAT?

- a. A low interest rate environment
- b. Rates don't matter
- c. A high interest rate environment

Ask the Expert: Donor Advised Funds

Why have donor advised funds (DAFs) become such popular charitable giving tools in the past decade?

I believe the core reason for the tremendous growth in DAFs is that they are **empowering** to donors. DAFs provide a compelling and cost-effective platform to charitably-minded families for their current and future charitable giving. The specific benefits of DAFs include: (1) anonymous giving; (2) current year income tax savings from charitable gifts, even though the ultimate gifts to the actual desired charities can be made in future years; (3) minimal costs and no annual tax filing requirements, which is not the case with private foundations; and (4) the overall “fun factor” that DAFs add to one’s charitable giving by providing a convenient centralized on-line giving platform equipped with charity research tools, “back office-like” advice and support, recordkeeping resources, family involvement and more!

Can I open up a donor advised fund by starting out with smaller contributions?

Absolutely. Most of the large DAF sponsors allow DAFs to be opened with a minimal initial contribution, such as \$1,000 or less. Some DAF sponsors even allow donors to set up DAFs with no initial gift at all. These are commonly referred to as “zero balance DAFs” or “placeholder DAFs.” As an estate planning attorney, I see great value in

these minimal initial contribution requirements for donors because they allow donors to “test drive” the DAF experience with little (or no) financial commitment, allowing them to easily determine if a DAF is the right tool for them.

Is it possible to donate real estate, or even part of the ownership interest in a corporation, partnership, LLC or other entity, to a donor advised fund?

Yes, DAFs are frequently used by donors, with the advice of their advisors, to facilitate charitable gifts of complex assets, such as real estate and interests in closely-held entities. Many public charities do **NOT** have gift acceptance policies in place that allow them to accept complex gifts. Obvious dilemmas arise when donors want to use complex assets to benefit a particular charity that is incapable of accepting such assets. DAFs allow such complex asset gifts to be made **NOW**, while allowing the donors to make the ultimate grant recommendations to his or her desired charities in the future.



BRAD GORNITO, ESQ., LLM Gornito Law, PLLC - President & Founder - Brad has practiced estate planning/tax law in Florida for over 19 years and is a valued member of the UF Advisor Network.

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“Tale of the Tape” Comparison

“BUNCHING”
MULTIPLE ANNUAL
CHARITABLE GIFTS
IN A SINGLE TAX YEAR



WHEN DID “BUNCHING” BECOME A POPULAR CHARITABLE GIVING STRATEGY?

In 2018, when the standard deduction doubled to \$24,000 for married couples. As a result, most people do not get any tax savings from their charitable giving!

Filing Status	2017 Standard Deduction	2018 Standard Deduction	2022 Standard Deduction
Single Person	\$6,350	\$12,000	\$12,950
Married	\$12,700	\$24,000	\$25,900
Head of Household	\$9,325	\$18,000	\$19,400

“Tale of the Tape” Comparison

“Bunching” 10 Years of Annual Gifts to a DAF

- \$30,000 X 10 = \$300,000 Gift
- AGI Limit: 60% Cash
- Yr. 1 Deduction: \$300,000
- Tax Savings in Yr. 1: \$111,000
- Control of Principal: NO
- 10 Year Reversion: NO
- Reversion Amount: NOTHING

10 Year iCLAT

- \$300,000 transferred to an iCLAT
- AGI Limit: 30% Cash
- Yr. 1 Deduction: \$274,205
- Yr. 1 Tax Savings: \$101,826
- Control of Principal: YES
- 10 Year Reversion: YES
- Reversion Amount*: \$111,332

**initial funding of \$300k & 5% annual ROR*

Additional Takeaways

- iCLAT can be funded with other assets such as rental real estate, S Corp stock, LLC or LP interests
- iCLATs are typically designed, established & funded in 3 to 4 weeks
- Annual IRS Filing Requirements for iCLATs are:
Form 5227 & Form 1041 (*short grantor trust Form 1041*)



Knowledge Check:



An iCLAT can work with which of the following?

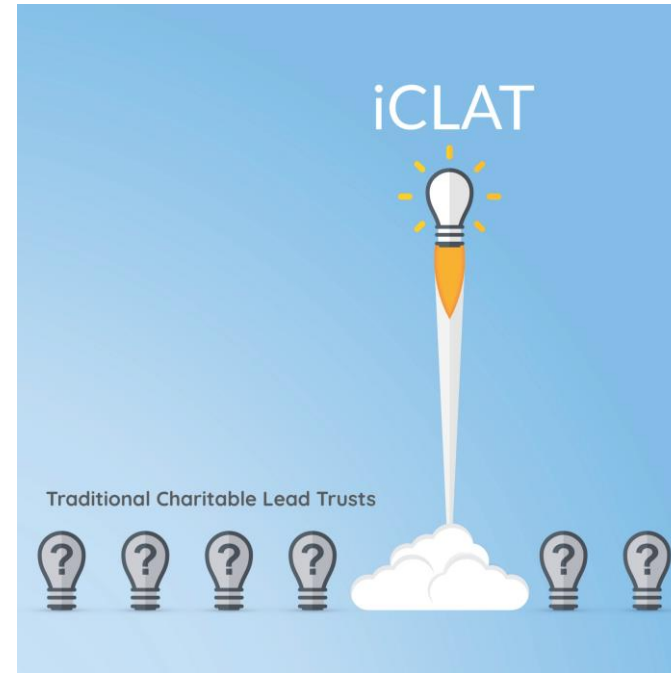
- a. An existing Donor-Advised Fund
- b. Only a new Donor-Advised Fund
- c. Both A. and B.

Easy Ways to Learn More

- Visit our website www.iclat.net
 - iCLAT Calculator Tool - <https://www.iclat.net/iclat-calculator>
 - Request a FREE iCLAT Illustration - <https://www.iclat.net/iclat-free-illustration>
 - FAQ's page on our website - <https://www.iclat.net/iclatfrequentlyaskedquestions>
 - Review Articles and Presentations on Website
- **Schedule a FREE Telephone/Zoom Call or send us your questions**
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Any Questions?



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

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