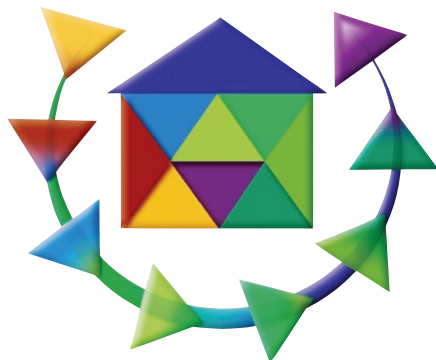


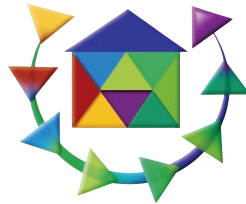
Charitable Lead Annuity Trust



Udell Associates

From Estate Planning to Wealth Enjoyment

Charitable Lead Annuity Trust



Key Benefits

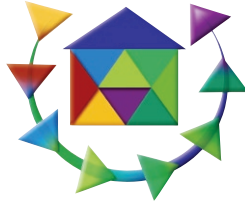
Income stream for grantor's favorite charity (which could include grantor's private foundation).

Assets eventually can be transferred to children with estate and gift taxes dramatically reduced or eliminated.

Can be used effectively with other planning techniques to enhance results.

Please see page 7 of this booklet for important information concerning the planning technique illustrated herein.

Charitable Lead Annuity Trust

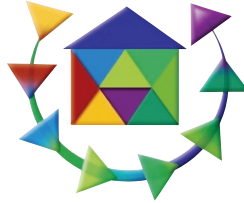


Scenario

Mary would like to make a large gift to her children. The asset that Mary has in mind is presently worth \$1,000,000, but is expected to grow in value at a high rate (9%) and produce significant income (5%) for the foreseeable future. She has been informed that gifting this type of asset, now, could save a large amount of estate taxes at her death. However, she also is aware that such a large gift would require her to use her entire \$1,000,000 lifetime gift tax exemption to avoid gift tax, and she wonders whether there might be a better way to transfer the asset to her children. Mary also is interested in providing financial support for her favorite charity.

After some consideration, Mary decides to implement a planning technique known as a Charitable Lead Annuity Trust (“CLAT”). Conceptually, Mary will create an irrevocable trust for the benefit of her favorite charity and her children. An annuity will be paid to the charity for a specified period (10 years was chosen for this particular CLAT). At the end of this period, the charity’s interest ends and the remaining assets are distributed to Mary’s children (or retained in trust for their benefit).

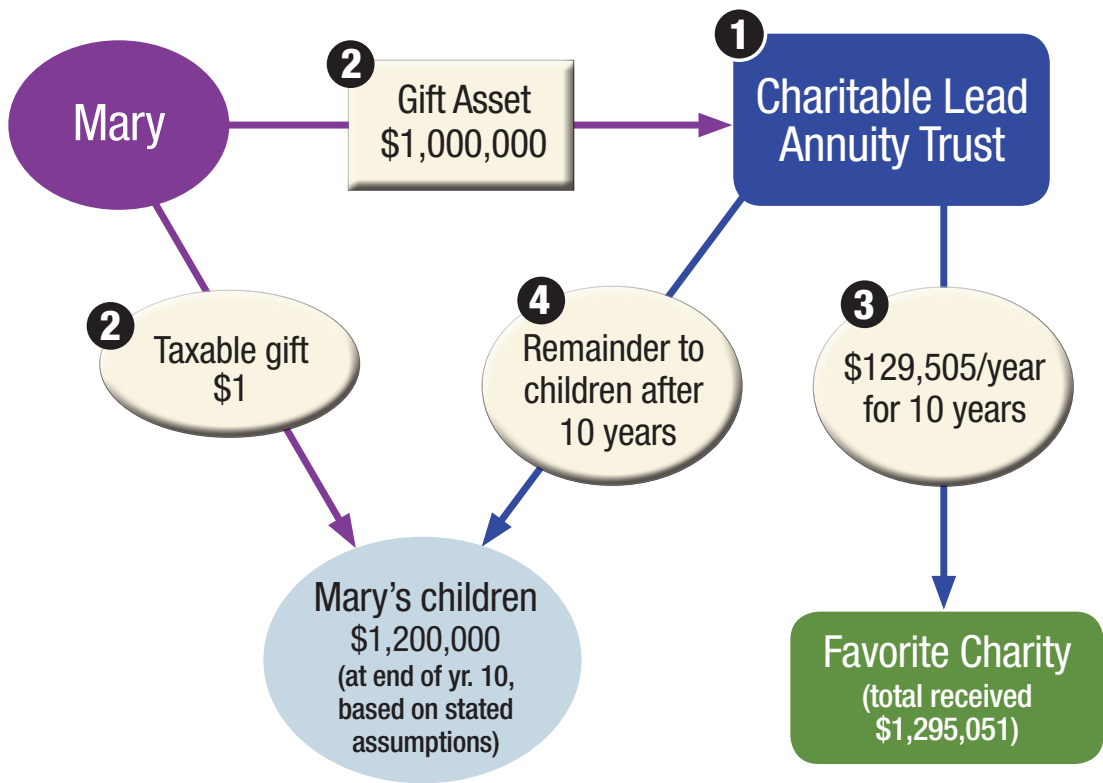
Charitable Lead Annuity Trust



Construction

- 1** Mary creates an irrevocable Charitable Lead Annuity Trust under which her favorite charity will receive an annuity in the amount of \$129,505 for 10 years, with the remaining trust assets to be transferred to her children (or retained in trust for their benefit) at the end of the 10-year period.
- 2** Upon creation of the CLAT, Mary transfers a selected asset worth \$1,000,000 to the trustee of the CLAT. For federal gift tax purposes, the amount gifted to the trust is divided into 2 separate gifts, valued under IRS actuarial tables. The charity's portion is gift tax free. The children's portion of the gift is a taxable gift, which can be sheltered from gift tax by Mary's gift tax exemption. In this scenario, Mary designed the CLAT so that the taxable gift to the children is only \$1.
- 3** The annuity is paid to Mary's favorite charity for 10 years, after which time the charity's interest in the trust ends.
- 4** At the end of year 10, remaining assets of the CLAT are transferred, estate and gift tax free, to the Grantor's children outright or are retained in trust for their benefit.

Charitable Lead Annuity Trust



Charitable Lead Annuity Trust

Technical Notes

A Charitable Lead Annuity Trust (or, “CLAT”) is a special type of irrevocable “split interest” trust in which a fixed annuity is payable to a qualifying charity for a specified period of time, with the remainder of the trust’s assets to be transferred to one or more non-charitable beneficiaries (e.g., the grantor’s children) after the charity’s annuity ends.

Creative use of the CLAT offers the potential for dramatic estate and gift tax savings. Properly designed, the CLAT allows the grantor (i.e., creator) of the trust to accomplish philanthropic goals (which could include funding his or her own private foundation) and eventually transfer a large amount of wealth to his or her children, free of estate and gift taxes. It is possible to design the trust to provide income tax benefits for the grantor; however, tax planning with the

CLAT typically focuses on minimizing or eliminating estate and gift taxes on the trust assets transferred to the grantor’s children.

Generally, the trust should be funded with assets that can produce a substantial stream of income, while having strong potential for significant future growth in value. Note that this technique can be implemented either during the grantor’s lifetime or at the grantor’s death (via a testamentary trust). Other planning techniques may be used with the CLAT to enhance charitable benefits and the amount of wealth that is ultimately transferred to the children.

Unless otherwise stated in this booklet, actuarial calculations are based on the assumptions that the client is 65 years old and the Applicable Federal Rate (AFR) is 5.0%.



This booklet is intended solely for the purpose of illustrating conceptually how a particular estate planning technique might work, based on various assumptions. Whether the planning technique is appropriate for you will depend on your goals and your specific situation. This booklet has been prepared to accurately reflect our understanding of existing tax and regulatory laws in effect at the time of printing, and it assumes the continuation of such laws. However, the information in this booklet should not be interpreted as legal or tax advice, and the reader is strongly encouraged to seek guidance from his or her own legal and tax advisors concerning legal and tax consequences of the planning technique. Any amounts shown that relate to life insurance are hypothetical in nature and are not guaranteed. Any assumed investment returns shown are based on hypothetical investments.

The following notice is required by the IRS: Any U. S. federal tax advice contained in this communication is not intended to be written or used, and cannot be used or relied upon, to avoid tax-related penalties under the Internal Revenue Code, or to promote, market or recommend to another any tax-related matter addressed herein.

No part of this publication may be reproduced, stored in or introduced into a retrieval system, or transmitted, in any form or by any means without the prior written permission of Udell Associates.



Udell Associates

From Estate Planning to Wealth Enjoyment

Sarasota, Florida

800-725-6511

941-951-0443

Orlando, Florida

800-749-9499

407-660-0330

Email: info@WealthEnjoyment.com

Web site: WealthEnjoyment.com