

PUTTING IT ALL TOGETHER – SOME OF THE BEST PLANNING STRATEGIES WE SEE
IN THE NEW FRONTIER THAT REDUCE BOTH INCOME TAXES AND ESTATE TAXES[©]

S. Stacy Eastland
Houston, Texas

Goldman Sachs Goldman Sachs does not provide legal, tax or accounting advice. Clients of Goldman Sachs should obtain their own independent tax and legal advice based on their particular circumstances.

The information herein is provided solely to educate on a variety of topics, including wealth planning, tax considerations, estate, gift and philanthropic planning.

Table of Contents

I.	THE PRIMARY IMPORTANCE OF GOALS-BASED PLANNING FOR THE SUCCESSFUL SUCCESSION OF THE FAMILY WEALTH IRRESPECTIVE OF THE STATUS OF THE TAX LAW.	1
A.	The Importance of First Determining a Client's Goals That Determine the Estate Plan's Essential Strategies.....	1
1.	The Prevalence of Tax Driven Wealth Preservation Focus and Four Suggested Rules to Change the Priority of That Focus.	1
2.	Estate Plans Developed Around the Stewardship Purpose of the Family Wealth.	1
3.	Organizational Pattern of a Purpose-Based Estate Plan:	3
4.	Compatibility of Strategies and Legal Structures with the Stated Purpose of the Family Wealth.....	3
B.	Once the Purpose and Use of the Family's Capital Has Been Determined, Strategies Should Be Developed to Maximize the Investment Risk-Adjusted, After-Tax Wealth That May Be Applied to Those Purposes and Uses.....	3
II.	DEVELOPING WEALTH MANAGEMENT STRATEGIES TO ACCOMPLISH A CLIENT'S GOALS IN THE NEW TAX ENVIRONMENT.....	4
A.	Income Tax Versus Estate Tax: A New Paradigm? (It May Not Have to Be).	4
1.	Some of the Key Income Tax and Basis Rules.....	4
a.	Certain key basis rules.	4
b.	Certain key partnership income tax and basis accounting rules.	6
2.	If Lifetime Basis Enhancing Strategies Are Not Used, From a Tax Perspective, at What Assumed Growth Rate is it Better to Use a Lifetime Transfer Strategy With a Low Basis Asset in Comparison to Retaining the Asset Until Death?.....	9
3.	There May Be Non-tax Factors, Such as Risk-adjusted Investment Considerations, Which Make Holding a Low Basis Asset Until Death for the Basis Step-up Disadvantageous.....	11
4.	The Capital Gains Tax Advantage of a Step-up at Death May Be Unimportant, if the Asset is a Legacy Asset That Will Not Be Sold By the Taxpayer's Heirs.	12
5.	Taking All of the Above Factors Into Account, When Should a Gifting Strategy for a Low Basis Asset Be Considered?	12

B.	Why Wealth Management Strategies, Including Investment Management Strategies, Are Entirely Different for the Private Wealth Investor in Comparison to the Institutional Investor and Why Tax Management Strategies Are an Important Consideration for the Private Wealth Investor.	13
1.	Congress Gives the Private Investor Significant After Tax Subsidies for his Equity Investments in Comparison to His Fixed Income Investments.	13
2.	What is the Efficient Investment Frontier for the Private Investor? (Hint: It is Probably Not What You Learned in Finance Class.).....	13
3.	What are the Key Components of Structuring a Wealth Management Strategy for a Private Investor?.....	14
C.	The Purposes of This Paper: Explore Wealth Management Strategies That Utilize a Combination of Effective Estate Planning Strategies, Optimized Location of Asset Classes in Family Entities and Basis Enhancing Strategies to Decrease Both Income Taxes and Transfer Taxes on a Net Basis.	15
III.	WEALTH MANAGEMENT STRATEGIES THAT USE GRANTOR TRUSTS TO LOWER A TAXPAYER’S TOTAL NET INCOME AND TRANSFER TAXES.....	15
A.	Contributing and/or Selling Assets to a Grantor Trust.	15
1.	The Technique.	15
2.	Advantages of the Technique.....	17
a.	Tax advantage.	17
b.	The appreciation of the assets of the trust above the interest of the note used in any sale to a grantor trust for the grantor’s spouse will not be taxable in the grantor/seller’s estate.....	19
c.	The advantage of locating income tax inefficient asset classes inside a grantor trust that is not subject to estate taxes.	19
d.	Location of tax inefficient classes in a grantor trust, and managing the grantor trust through substitution strategies, further enhances the after tax advantage of a low turnover index fund.	22
e.	Flexibility advantages of gifting and selling non-managing interests in family entities to a grantor trust in which the grantor’s spouse is a beneficiary.....	22
f.	The taxpayer may retain investment control of the family’s assets and may also retain limited control of any distributions from the transferred entity interests to family members.	23

3.	Considerations of the Technique.	34
a.	There may need to be substantive equity in the trust from prior gifts (is 10% equity enough?) before the sale is made.....	34
b.	State income tax considerations.....	35
c.	The IRS could be successful in the argument, that because of the step transaction doctrine, a valuation discount is not appropriate in valuing the transferred entity interest.	35
d.	If the assets decrease in value, the gift tax exemption equivalent may not be recoverable.	38
e.	There may be capital gains consequences with respect to the note receivables and/or note payables that may exist at death.....	38
f.	The IRS May Contest the Valuation of Any Assets That Are Hard to Value That Are Donated to a Grantor Trust or Are Sold to Such a Trust.	40
B.	The Advantages and Considerations for a Taxpayer to Contribute and Sell the Taxpayer's Investments to a Single Member FLLC and Then Contributing Non-Managing Member Interests in That FLLC to a Grantor Retained Annuity Trust ("GRAT").....	44
1.	What is the Technique?.....	44
2.	Advantages of the Technique.....	48
a.	If leverage is used in creating the FLLC that is contributed to the GRAT, much more wealth will be transferred to the remainderman of the GRAT than through the use of a conventional GRAT.....	48
b.	The technique has many of the same advantages as the sale to the grantor trust.	49
c.	Valuation advantage of a GRAT.....	50
d.	Ability of grantor to pay for income taxes associated with Holdco, the GRAT and remainder grantor trust gift tax-free and substitute assets of Holdco, the GRAT and remainder grantor trust income tax-free.	50
e.	Synergy with other techniques.....	50
f.	Comparatively low hurdle rate.....	51
g.	High leverage.....	51
h.	Non-recourse risk to remaindermen.....	51
i.	The "Atkinson" worry about paying a GRAT annuity with a hard-to-value asset may be eliminated.....	51

j.	The taxpayer's unified credit does not have to be used with this technique as it would with most other freeze techniques, which could save capital gains taxes on the death of the taxpayer.....	52
k.	There may be less danger that the retained note will be recharacterized as a deemed retained interest in a trust with this technique than with a sale to a grantor trust.	53
3.	Considerations of the Technique.	53
a.	Part (but not all) of the FLLC interests could be taxable in the grantor's estate if the grantor does not survive the term of the GRAT.....	53
b.	It is more complex than the other GRAT techniques.	53
c.	Care must be taken if the underlying asset that is sold or contributed to the single member LLC is stock in a Subchapter S corporation.	54
C.	Swapping Assets Inside a Grantor Trust, or a Disregarded Single Member LLC, Before the Death of the Grantor.....	54
1.	Advantages of the Technique.....	54
a.	The low basis assets, if retained by the grantor, will receive a basis step-up on the grantor's death.....	54
b.	If the low basis assets are sold by the grantor before his or her death the cost of the capital gains taxes will be borne by the grantor (just as they would have been if the assets had been sold by the grantor trust or a disregarded single member LLC.).....	54
2.	Considerations of the Technique.	54
a.	The grantor may not have any high basis assets, or cash, to swap.	54
b.	To the extent, after the swap of assets, "swapped" low basis assets grow more than the "swapped" high basis assets in the grantor trust, the grantor's estate taxes will increase.....	54
D.	Gifts and Selling Low Basis Assets to a Grantor Trust That is Subject to an Older Generation's General Power of Appointment and Estate Taxes.	55
1.	The Technique.	55
2.	Advantages of the Technique.....	56
a.	This technique has the same advantages as a sale to a grantor trust.	56
b.	The assets of the trust will receive a step-up in basis on the older generation beneficiary's death equal to the fair market value of the assets, if net value rule of Treas. Reg. §2053-7 does not	

	apply (see the discussion below in Section III E 3 e of this paper).	56
c.	The assets of the trust may be generation skipping tax protected.....	56
d.	The older generation beneficiary may not have to pay estate taxes because of her general power of appointment, if her then available unified credit exceeds the net value of the trust.	56
3.	Considerations of the Technique.	56
a.	The grantor of the trust will still have a low basis in his or her note upon the death of the older generation beneficiary.....	56
b.	The older generation beneficiary could exercise his or her general power of appointment in an unanticipated way.	57
c.	Many of the same considerations for the use of a grantor trust and a sale to a grantor trust would also be present for this technique. See Section III A 3 of this paper.	57
d.	The effect of IRC Sec. 1014(e) must be considered, if cash is not given and low basis assets are used to capitalize the trust.....	57
e.	The effect of Treas. Reg. §20.2053-7 needs to be considered.....	57
f.	Is grantor trust status lost for the original grantor when the older generation beneficiary dies and the trust assets are included in the beneficiary's estate?	58
IV.	THE ADVANTAGES AND CONSIDERATIONS OF A TRANSFEROR SELLING ASSETS TO A TRUST CREATED BY THE TRANSFEROR'S SPOUSE THAT NAMES THE TRANSFEROR AS A BENEFICIARY, GIVES THE TRANSFEROR A SPECIAL POWER OF APPOINTMENT, AND UNDER WHICH THE TRANSFEROR'S SPOUSE IS CONSIDERED THE INCOME TAX OWNER ("SPOUSAL GRANTOR TRUST").....	59
A.	What is the Technique?.....	59
1.	Advantages of the Technique.....	61
a.	There will be no capital gains consequence on the original sale of the assets to the trust.	61
b.	The technique, with respect to a sale to the trust in which the seller has a power of appointment, has the potential of mitigating gift tax surprises.	61
c.	It has the advantage of allowing the transferor to be a beneficiary of the trust and have a power of appointment over the trust.....	62
d.	The technique has many of the other advantages of the sale to a grantor trust technique.	62

2.	Considerations of the Technique.	62
a.	This technique has many of the considerations of the sale to a grantor trust technique.	62
b.	Additional federal income tax considerations.....	62
c.	Additional estate tax considerations.	62
V.	BORROWING STRATEGIES THAT LOWER THE NET TOTAL INCOME TAX AND TRANSFER TAX.	63
A.	Managing a Grantor Trust, or a Spousal Grantor Trust, By Making it a “Reverse Grantor Trust.” The Grantor Could Purchase Low Basis Assets From a Grantor Trust By Using Either a Financed Note or a Loan From a Third Party Bank.	63
1.	The Technique.	63
2.	Advantages of the Technique.....	63
a.	The low basis asset will receive a step-up in basis on the grantor’s death.	63
b.	Estate taxes will be saved if the interest carry on the note owed to the grantor trust exceeds the growth of the purchased low basis note.....	63
c.	As long as the trust is a grantor trust, the interest payments on the note could be made in-kind without any income tax consequences.....	63
3.	Considerations of the Technique.	63
a.	An independent appraisal will be necessary to determine that the interest rate on the recourse, unsecured note is a fair market value interest rate. If the interest rate is too high, there may be gift tax consequences.	63
b.	If the note is paid back after the grantor’s death, there may be capital gains consequences to the trust. See the discussion in Section III A E of this paper. Stated differently, the trust’s basis in the note may be equal to the basis of the low basis asset that is exchanged for the note. That result may not change on the death of the grantor, when the trust becomes a complex trust.	63
c.	The technique needs to be arranged and implemented in a manner that avoids the application of the step transaction doctrine. See Section III A 3 c of this paper.	67
d.	The use of a third party loan and refinancing the third party loan by borrowing from a family entity adds to the complexity of the technique.	67

e.	Is the basis of the note received for cash loaned by the Estate Tax Protected Grantor Trust equal to the cash's fair market value?	68
f.	The effect of Treas. Reg. §20.2053-7 needs to be considered.....	68
g.	Like all leverage techniques, if the underlying assets stay flat or decline there is not any advantage to the technique and to the extent a gift tax exemption is used, the technique operates at a disadvantage.....	68
B.	Use of Third Party Lending in Combination With the Technique of Contributing Non-Managing Member Interests of a Leveraged LLC to a GRAT (for a Description of the Technique See Section III C I of This Paper).	68
1.	The Technique.	68
2.	Advantages of the Technique.....	70
a.	This technique has many of the advantages of the technique of contributing non-managing member interests of a leveraged LLC to a GRAT (see Section III C 2 of this paper) without the future capital gains tax disadvantage.	70
b.	Any low basis asset held by a decedent, including assets purchased from the single member liability company, will receive a step-up in basis on the decedent's death.....	70
3.	Considerations of the Technique.	70
C.	Use of Third Party Recourse Lending in Combination With the Technique of Using Leverage to Make a Sale to a Grantor Trust That is Subject to the Estate Taxes of an Older Generation Beneficiary (For a Description of This Technique see Section III E of this paper).....	70
1.	The Technique.	70
2.	Advantages of the Technique.....	71
a.	This technique has many of the advantages as the technique of using leverage to make a sale to a grantor trust that is subject to the estate taxes of an older generation beneficiary (see Section III E 2 of this paper) without the potential IRC Sec. 1014(e) disadvantage, if the grantor had only gifted and sold low basis assets to create the trust.....	71
b.	The grantor may be able to again depreciate improved property.	71
3.	Considerations of the Technique.	71

VI.	POST-MORTEM STRATEGIES THAT LOWER THE NET TOTAL INCOME TAX AND TRANSFER TAX.	71
A.	Use of a Leveraged Buy-Out of a Testamentary Charitable Lead Annuity Trust (“CLAT”).....	71
1.	The Technique.	71
a.	Introduction.....	71
b.	What is a CLAT?	73
c.	What is a leveraged buyout testamentary CLAT?	74
2.	Advantages of the Technique.....	75
a.	No estate taxes have to be paid with a gift to a properly structured and implemented zeroed-out CLAT.	75
b.	There is a partial step-up in basis in the decedent’s partnership interest that is bequeathed to a zeroed-out CLAT.	75
c.	If the decedent bequeaths a dollar gift to his family and the rest of his estate to a zeroed-out CLAT, his will acts like a defined value allocation clause.	75
d.	Significant improvement in the after tax net worth for both the family of the decedent and the decedent’s favorite charitable causes will accrue because of this technique.	75
e.	The family does not have to wait 20 years to access the investments, if the investments are successful.....	77
3.	Considerations of the Technique.	77
a.	Need to get probate court approval.....	77
b.	Leverage could work against the family unless a carefully constructed partnership sinking fund is utilized to pay future interest payments.	77
B.	The Use of the Deceased Spouse’s Unused Exemption Amount (“DSUE Amount”) to Take Advantage of the Grantor Trust Rules to Save Future Estate Taxes and to Simulate the Tax and Creditor Protection Advantage That a Significant Credit Shelter Trust Would Give a Surviving Spouse.	77
1.	The Technique.	77
2.	Advantages of the Technique.....	79
a.	Significantly more assets may be passed to the next generation by using this technique than using the exemption to fund a credit shelter trust.....	79
b.	There is a step-up in basis of the deceased spouse’s assets at her death.....	79

c.	There is an opportunity through using borrowing strategies from third party lenders for the surviving spouse to increase the basis of the transferred assets during his lifetime.	80
d.	Significantly more assets may receive protection from creditors by using sales to grantor trusts with the use of the DSUE amount then using the exemption to fund a credit shelter trust.	80
e.	The surviving spouse's rights with respect to assets owned by the grantor trust, and cash flows produced by those assets, are pursuant to a flexible contract, rather than discretionary distributions by a trustee who is subject to fiduciary considerations.	80
f.	All of the advantages of creating a grantor trust and selling assets to a grantor trust are present with this technique.	80
3.	Considerations of the Technique.	80
a.	The surviving spouse may not transfer the DSUE amount in the manner that the deceased spouse anticipated.	80
b.	If the surviving spouse has creditor issues at the time of the first spouse's death, creating a family trust with the deceased spouse's unified credit will provide better protection from those creditors.	80
c.	This technique has the same considerations as the creation of a grantor trust and a sale to a grantor trust.	81
d.	The GST tax exemption is not portable.	81
e.	It may be more advantageous to convert a traditional credit shelter trust, with its attendant creditor protection and GST advantages, to a Section 678 grantor trust by using the QSST technique.	81
f.	It may be more advantageous for the decedent to have created the grantor trust during her lifetime and use her exemption to create the grantor trust for the benefit of the spouse before death.	81
g.	Like all leverage techniques, if the underlying assets stay flat or decline there is not any advantage to the technique and to the extent a gift tax exemption is used, the technique operates at a disadvantage.	81
C.	The Conversion of a Credit Shelter Trust to a Qualified Subchapter S Trust ("QSST"), the Investment by the Credit Shelter QSST in a Subchapter S Corporation and the Sale of Subchapter S Stock owned by the Surviving Spouse to the Credit Shelter QSST.	81

VII.	LIFETIME CHARITABLE GIVING STRATEGIES THAT ALSO BENEFIT CLIENT'S DESCENDANTS BY REDUCING THE FAMILY'S TOTAL INCOME TAX AND TRANSFER TAX.	81
A.	Use of a Discounted Sale of the Non-charitable Interest in a Charitable Remainder Unitrust ("CRUT") to a Grantor Trust.	81
1.	Introduction and the Technique.	81
2.	Advantages of the Technique.	85
a.	The tax advantages of creating a grantor trust and a sale to a grantor trust.	85
b.	The tax advantage of eliminating the capital gains tax on that part of the gains that will be allocated to the charity under the tiered income tax rules.	85
c.	The tax advantage of lowering opportunity costs by delaying taxes on the portion of the original gain that is not allocated to charity.	86
d.	The tax advantage of a charitable deduction in year one for the actuarial value of the remainder interest of the CRUT passing to charity.	86
e.	FLLCs offer many non-tax advantages. Among them, FLLCs:	86
f.	The tax advantage of integration, which produces advantageous comparative results.	86
3.	Considerations of the Technique.	89
a.	Consideration of a FLLC in this context.	89
b.	The technique will have the same considerations as a sale to a grantor trust. See Section III A 3 of this paper.	90
B.	Creating a FLP or FLLC with Preferred and Growth Interests, Transferring the Preferred Interest to a Public Charity, and Transferring the Growth Interests to Family Members.	90
1.	The Technique.	90
2.	Advantages of the Technique.	91
a.	The donor may receive an income tax deduction for the discounted present value of the charity's right to receive the par value of the preferred on termination of the FLLC, even though that might occur after the donor's death.	91
b.	The donor should receive an income tax charitable deduction, in the year of the gift, for the discounted present value of the 7% coupon that is to be paid to charity.	91

c.	In addition to receiving an upfront charitable income deduction for the present value of the annual coupon of the preferred that is paid to the charity, the donor also receives an indirect second annual deduction with respect to the future preferred coupon payments against his income and health care because of the partnership tax accounting rules.	92
d.	The donor will also avoid the built-in capital gains tax on the sale of any low basis asset that is contributed for the preferred interest.....	92
e.	The “out of pocket” cost of a gift of a preferred interest to a public charity, or donor advised fund, is minimal because of the above tax advantages.	92
f.	Valuation advantage: The gift tax valuation rules under IRC Sec. 2701 do not apply to any future gifts, or sales, of the growth member interests to family members, or trusts for family members.....	93
g.	Under the facts of this example, in addition to saving significant income and healthcare taxes, significant transfer taxes could be saved in transferring the growth interests to a grantor trust.....	95
h.	Income tax valuation advantage: IRS concedes preferred partnership interests should have a high coupon.	95
i.	IRC Sec. 2036 advantage, if George gives or sells the growth interests to his family.	96
3.	Considerations of the Technique.	102
a.	Despite state property law, the IRS may take the position that the gift of the preferred interest of an FLLC should be considered a non-deductible partial gift of the underlying assets of the FLLC.....	102
b.	If the gift of the preferred interest is to a donor advised fund (instead of some other public charity) care should be taken to make sure there is not a tax on excess business holdings under IRC Sec. 4943.	104
c.	The taxpayer must comply with certain reporting requirements in order to receive a deduction for the fair market value of the donated preferred interest.	104
d.	If there is unrelated business taxable income associated with assets owned by the LLC, some public charities will not accept the gift of the preferred interest in the LLC.....	105

C.	The Use of a High-Yield Preferred Partnership or Membership Interest With Charitable Lead Annuity Trust (“CLAT”).....	105
1.	The Technique.	105
2.	Advantages of the Technique.....	106
a.	Because of the difference in the yield of a preferred coupon of a preferred interest in a FLLC that is compliant with Revenue Ruling 83-120 and the IRC Sec. 7520 rate, the transfer tax success of a CLAT is virtually assured.....	106
b.	IRC Sec. 2701 valuation rules will not apply to a gift of the “growth” interests in a FLLC if the preferred interests are owned by a CLAT.	106
c.	The donor will not pay income taxes or health care taxes on income that is allocated to the CLAT.	107
3.	Considerations of the Technique.	107
a.	The partial interest rule should not apply for gift tax purposes or income tax purposes (if a grantor CLAT is used), but the IRS may make the argument.	107
b.	Care should be taken to make sure that there is not a tax on excess business holdings under IRC Sec. 4943.	109
VIII.	STRATEGIES THAT MAY LOWER THE INCOME AND HEALTH CARE TAXES OF TRUSTS WITHOUT MAKING CASH DISTRIBUTIONS TO THE BENEFICIARIES OF THE TRUSTS.	109
A.	A Donor Could Create a Complex Trust That Provides Annual Lapsing Withdrawal Rights to the Beneficiary of a Limited Amount of Trust Income and the Beneficiary Only Withdraws that Amount Necessary to Pay the Income Taxes Caused By That Withdrawal Right.	109
1.	The Technique.	109
2.	Advantages of the Technique.....	110
a.	Assuming, on the beneficiary’s death, the annual lapse of the withdrawal powers did not exceed in value 5% of the trust properties in any calendar year, there should not be any estate taxes on the beneficiary’s estate associated with those lapses.....	110
b.	The annual failure to exercise the withdrawal power should not be considered a taxable gift by the beneficiary.....	110
c.	Annually, that part of the taxable income of the trust that the beneficiary has the power to vest in himself will be taxable to the beneficiary and will not be taxable to the trust.	110

d.	The trust assets may grow much faster during the beneficiary's lifetime than would be the case if the limited income withdrawal right did not exist.	110
e.	If the trust owns an interest in a closely held entity that is taxed under the LLC or Subchapter S rules, and if the beneficiary materially participates in the business, there may be health care tax advantages to Wiley and the trust if the beneficiary has the limited income withdrawal power.	111
f.	The limited income withdrawal power may cause less fiduciary problems for an independent trustee of the trust.....	111
3.	Considerations of the Technique.	112
a.	The power holder may exercise the limited income withdrawal power in a manner that was not anticipated by the settlor.	112
b.	Beneficiary creditor concerns.	112
B.	The Trustee of a Complex Trust Could Consider Creating a Two Class (One Class is a Preferred Interest and One Class is a Growth Interest) Single Member LLC and the Trustee Could Distribute Part or All of the Preferred Class to the Current Beneficiary.....	112
1.	The Technique.	112
2.	Advantages of the Technique.....	115
a.	Taxable income of the trust allocated to the beneficiary, either directly to the beneficiary because of the in-kind distributions of the preferred interest, or indirectly because of the payment of the preferred coupon, will not be taxable to the trust, which could save significant income taxes and health care taxes.	115
b.	If the trust contributes low basis assets to Holdco in exchange for the preferred, then distributes the preferred to the beneficiary, and if there is a later sale of those low basis assets by Holdco, significant future capital gains taxes could be saved.	116
c.	On the death of the beneficiary additional income tax and health care tax savings could accrue, if the stepped-up outside basis of the preferred interest owned by the beneficiary exceeds the proportionate inside basis of the LLC assets.	116
d.	Unlike a trustee distribution of cash, a trustee distribution of a preferred interest in a closely held LLC is not marketable, which could partially address spendthrift concerns.....	116
e.	Unlike a distribution of cash, in which the trust loses its ability to return the earning potential of that cash for the benefit of future beneficiaries, the trust will indirectly retain the earning	

	potential of the assets owned by the single member LLC subject to the preferred coupon payment requirements.	116
f.	The valuation rules of IRC Sec. 2701 probably do not apply to these illustrated transactions.	116
3.	Considerations of the Technique.	117
a.	It adds a layer of complexity to the administration of the trust.	117
b.	The beneficiary may not bequeath the preferred interest in a manner consistent with the remainderman provisions of the complex trust.	117
c.	Creditors of the beneficiary, including divorced spouses, may be able to attach the preferred interest.	117
C.	The Advantages and Considerations of a Transferor Selling Subchapter S Stock to a Qualified Subchapter S Trust (“QSST”) Created By a Third Party That is a Grantor Trust as to the Subchapter S Stock, That Names the Transferor as a Beneficiary, and Gives the Transferor a Special Limited Power of Appointment.	117
1.	What is the Technique?.....	117
2.	Advantages of the Technique.....	120
a.	May provide better defenses to the bona fide sale considerations of IRC Secs. 2036 and 2038 than certain other IRC Sec. 678 beneficiary grantor trust techniques in which the trust is only funded with \$5,000.	120
b.	Circumvents federal capital gains tax treatment on a QSST beneficiary’s sale of his Subchapter S stock to the QSST.	120
c.	There is not any concern about the effect of any lapse of withdrawal rights.	121
d.	It has the advantage of allowing the seller to be a beneficiary of the trust and have a power of appointment over the trust.	121
e.	If the current beneficiary of the QSST materially participates in the business of the Subchapter S corporation or is in a lower marginal bracket, significant health care taxes may be saved with the technique.	121
f.	It has the potential of mitigating gift tax surprises.	121
g.	Appreciation will be out of the seller’s estate.....	122
h.	The beneficiary of the QSST will have access to the cash flow distributed to the trust.	122

i.	The trust is much more flexible than a simple income only trust and may be administered to simulate a complex trust without the income tax and health care tax disadvantages of a complex trust.	122
j.	The estate tax savings of the technique could be substantial.	122
k.	Because of the safe harbor provided by Revenue Ruling 81-15, IRC Sec. 2036(a)(2) may not be a concern for transfer planning with Subchapter S stock.	122
3.	Considerations of the Technique.	123
a.	There may need to be substantive equity in the trust from prior gifts (is 10% equity enough?) before the sale is made.	123
b.	The federal income tax considerations with utilizing a Subchapter S corporation.	123
c.	Federal income tax considerations with respect to the interest on the seller/beneficiary's note.	124
d.	Any assets of the trust that are not Subchapter S stock will be taxed trust under normal Subchapter J rules.	125
e.	State income tax considerations.	125
f.	The Step Transaction Doctrine needs to be considered.	125
g.	The transferor is the only beneficiary of the trust.	125
h.	Like all leverage techniques, if the underlying assets stay flat or decline there is not any advantage to the technique and to the extent a gift tax exemption is used, the technique operates at a disadvantage.	125
i.	Additional estate tax considerations.	126
D.	The Synergistic Use of an Investment in a Subchapter S Corporation, a QSST Election With an Otherwise Non-Grantor Trust (Such as a Credit Shelter Trust), and a Sale to the QSST by the Beneficiary of the QSST.	126
1.	The Technique.	126
2.	Advantages of the Technique.	128
a.	A significantly greater amount will pass to the remainder beneficiaries of the credit shelter trust under this technique, in comparison to no further planning, as Schedule 15 and the table below demonstrate:	128
b.	This technique has the same advantages as the third party created QSST discussed in Section VIII C 2 of this paper.	128
c.	This technique does not have to be entered into until after the death of the first spouse to die.	128

d.	A full step-up on the appreciated assets that accrued from the first spouse to die's estate will be achieved.	128
3.	Considerations of the Technique.	129
a.	This technique has the same considerations as the third party created QSST in Section VIII C 3 of this paper.....	129
b.	A trust must meet the requirements of a QSST, which may mean converting an existing trust's provisions.	129
c.	Income distributed by the Subchapter S must be distributed to the beneficiary of the QSST and cannot be accumulated.	129
d.	If the current beneficiary of the QSST has multiple children, and if the Subchapter S corporation is not conducting a trade or business, the Subchapter S corporation cannot be easily divided if the children wish to go their separate ways after the death of the current beneficiary.	129
IX.	USING PARTNERSHIP STRUCTURES TO ACHIEVE DIVERSIFICATION WHILE DELAYING THE TAX ON THAT DIVERSIFICATION.	129
A.	Use of Multi-Owner Exchange Funds.	129
1.	The Technique.	129
2.	Advantages of the Technique.....	130
a.	If a client contributes stock to an exchange fund and then immediately gives a direct or indirect interest in the fund to a grantor trust there may be significant valuation discounts associated with that gift.	130
b.	The owner of the exchange fund will achieve diversification of his portfolio that has much less volatility, and achieve a seven-year or longer delay in paying a capital gains tax for that diversification.	131
3.	Considerations of the Technique.	131
a.	Care needs to be taken to make sure there is not a deemed sale on the formation of the partnership under IRC Sec. 721.	131
b.	Care should be taken to make sure IRC Secs. 704(c), 737 and 707 do not apply.....	131
c.	Care should be taken to make sure the liquidation of the partnership in seven years will not be subject to tax under IRC Secs. 731(c) and 732.	131
d.	Each partner's basis in the assets that each partner receives will equal that partner's total outside basis of the liquidated partnership interest.....	132

e.	There are economic considerations in using exchange funds.	132
B.	Use of Closely Held Family Partnerships.	132
1.	The Technique.	132
2.	Advantages of the Technique.	134
a.	The income tax benefit of the withdrawal: the illustrated “family structure” opportunity can provide the family an ability to manage the position through an appropriate controlled legal entity, while offering the potential for a long-term exit strategy that can be accomplished on a deferred tax basis.	134
b.	In comparison to the exchange fund, the illustrated mixing bowl technique provides the retention of upside in the original appreciated position, albeit without diversification until the stock is sold, and without the lack of control and the outside management fees associated with exchange funds.	134
c.	Transfer tax benefit of a withdrawal from a long-term partnership structure.	134
d.	The total potential transfer tax and capital gains tax savings may be significant.	134
3.	Considerations of the Technique.	135
a.	Are there any tax consequences on formation of the partnership?	135
b.	Are there any tax consequences when Sam redeems his interest?	135
c.	There is exposure that Congress could change the law, by the time a partner withdraws (e.g., IRC Secs. 732 or 752 of the Code could be amended) and that the favorable liquidation rules would no longer be available. There is also exposure in that the IRS could change its regulations.	136
d.	Like all leverage techniques, if the underlying assets stay flat or decline there is not any advantage to the technique and to the extent a gift tax exemption is used, the technique operates at a disadvantage.	136
C.	The Use of a Retained Preferred Partnership Interest and Third Party Leverage to Generate Effective Estate Planning and Basis Planning.	136
1.	The Technique.	136
2.	Advantages of the Technique.	140
a.	The net after tax savings to Zelda are projected to be substantial. See the table below and attached Schedule 16.	140

b.	This technique has the same advantages as a sale to a grantor trust.	140
c.	This technique has the same advantages as using borrowing with a grantor trust to achieve basis adjustment in low basis assets.	140
3.	Considerations of the Technique.	140
a.	This technique has the same considerations as a sale to a grantor trust, except this technique may address step-up in basis planning in a more advantageous manner.	140
b.	Care must be taken to comply with the gift tax valuation rules of IRC Sec. 2701.	140
c.	Third party financing, at least on a temporary basis, may be necessary.	141
d.	This technique has many of the same considerations as using borrowing with a grantor trust to achieve basis adjustment in low basis assets.	141
X.	SIGNIFICANTLY REDUCING BOTH THE INCOME AND ESTATE TAX CONSEQUENCES OF OWNING A SUCCESSFUL IRA WITHOUT MAKING A CHARITABLE GIFT.	141
A.	The Techniques.	141
B.	Advantages of the Techniques.	144
1.	If Certain Factors are Present, Conversion Strategies Will Produce a Superior Result.	144
2.	Roth IRA Earnings and Distributions Are Not Subject to Income Taxes.	144
3.	Roth IRAs Are Not Subject to Required Minimum Distributions (RMD) Rules During the Account Holder's Life.	144
4.	Even Though the Ownership of a Roth IRA Cannot Be Transferred, the Future Value of the Roth IRA Could Be Simulated and Expressed in a Private Call Option Derivative, Which May Be Transferred, as Illustrated in This Example.	144
C.	Considerations of the Techniques.	145
1.	Use of a Derivative Could Be Counterproductive for the Grantor Trust if the Measurement of the Success of That Derivative Does Not Grow.	145
2.	The Investor May Not Withdraw Funds From the Roth IRA for at Least Five Years.	145
3.	If the Investor Must Use Funds Inside the IRA to Pay His Income Taxes on Conversion, it Probably Does Not Make Sense to Convert.	145

4.	There Are Proposals to Put New Limits on Extended Distributions to Non-spouse Beneficiaries.	145
XI.	USE OF THE LEVERAGED REVERSE FREEZE TO PAY FOR INCOME TAX EFFICIENT LIFE INSURANCE AND TO MAKE CASCADING PURCHASES OF GROWTH FLP INTERESTS	145
A.	The Technique.	145
B.	Advantages of the Technique.....	148
1.	Valuation Advantage: IRS Concedes Preferred Partnership Interests Should Have a High Coupon.	148
2.	IRC Sec. 2036 Advantage.....	148
3.	The Valuation Rules of IRC Sec. 2701 Should Not Apply, if One Generation Transfers the Preferred Partnership Interests to the Second Generation.....	148
4.	The Effect of Cascading Sales to an Intentionally Defective Grantor Trust.	148
5.	Life Insurance Proceeds, if the Policy is Properly Structured, are Not Subject to Income Taxes Under IRC Sec. 101.	148
6.	The taxpayer could save much of his unified credit to assist with a step-up in basis at death and refrain from any additional gifting strategies except as are necessary to pay for the life insurance, which will offset any estate taxes due at death of the taxpayer.....	148
7.	Whether Taxpayers Live Past Their Collective Life Expectancies or Live a Shortened Life Expectancy, the Comparative Outcome Under the Proposed Plan is Very Advantageous.	149
8.	Significant Life Insurance Can Be Purchased With This Technique.	151
C.	Considerations of the Technique.	151
1.	The Same Considerations as Sales to Grantor Trusts.	151
2.	If the Insured Live Beyond Their Life Expectancy There May Be an Investment Opportunity Cost in Buying Life Insurance.....	151
XII.	ENHANCING THE BASIS OF AN ASSET THROUGH MARITAL PLANNING.	151
A.	Creating Community Property Interests.	151
1.	The Technique of Establishing a Residency and Domicile in a Community Property State Before the Death of a Spouse and Converting the Property of the Marriage Into Community Property by Agreement.....	151
a.	The technique.....	151

b.	Advantages of the technique.....	152
c.	Considerations of the technique.....	152
2.	The Technique of a Non-resident Couple Electing to Treat Their Property as Community Property Under the State Statutes of Alaska and Tennessee.....	152
a.	The technique.....	152
b.	Advantages of the technique.....	152
c.	Considerations of the technique.....	153
B.	Using Joint Revocable Trusts to Get a Basis Adjustment on the Low Basis Assets Jointly Owned by a Couple on First Spouse to Die's Death.....	153
1.	The Technique.....	153
2.	Advantages of the Technique.....	154
a.	If IRC Sec. 1014(e) does not apply, all or part of the marital property subject to the JEST will get a basis adjustment upon the death of the first to die.....	154
b.	A simple estate freeze could occur during the surviving spouse's lifetime to reduce the estate taxes on the surviving spouse's death.....	154
3.	Considerations of the Technique.....	154
a.	This technique may lead to undesirable results in second marriage situations when there is a desire to protect a spouse's children from a different marriage.....	154
b.	IRC Sec. 1014(e) may prevent some or all of the basis adjustment that exceeds what would have happened if the JEST had not been created.....	154
c.	The surviving spouse may not be a beneficiary of the by-pass trust in which the surviving spouse is considered the grantor.....	154
C.	IRC Sec. 2038 Estate Marital Trust.....	155
1.	The Technique.....	155
2.	Advantages of the Technique.....	155
a.	If the funding spouse dies first, the trust assets should be taxable in the funding spouse's estate and there should be a basis adjustment of the trust's assets upon that death.....	155
b.	If the beneficiary spouse dies first, the trust assets should be taxable in the beneficiary spouse's estate under IRC Sec. 2031.....	155

c.	The funding spouse's transfer should qualify for the gift tax marital deduction under IRC Sec. 2523(b) and should be a completed gift for gift tax purposes (since the beneficiary spouse is the lifetime beneficiary and the remaining trust properties on the beneficiary spouse's death pass to the beneficiary spouse's estate).	155
d.	For smaller estates, unlike the JEST described above in Section XII B 1 of this paper, the surviving spouse could be a beneficiary of all trusts that may be created.	155
e.	The remaining high basis assets of the marriage could be left out of the technique.	155
3.	Considerations of the Technique.	155
a.	The possibility exists that the beneficiary spouse's may bequeath the properties accruing from the trust in an unanticipated manner (from the funding spouse's perspective).	155
b.	If the beneficiary spouse dies first and if the death occurs within one year of the funding of the trust, IRC Sec. 1014(e) will prevent the desired basis adjustment, if the property is bequeathed back to the funding spouse.	155

PUTTING IT ALL TOGETHER – SOME OF THE BEST PLANNING STRATEGIES WE SEE
IN THE NEW FRONTIER THAT REDUCE BOTH INCOME TAXES AND ESTATE TAXES[©]

I. THE PRIMARY IMPORTANCE OF GOALS-BASED PLANNING FOR THE
SUCCESSFUL SUCCESSION OF THE FAMILY WEALTH IRRESPECTIVE OF THE
STATUS OF THE TAX LAW.

A. The Importance of First Determining a Client's Goals That Determine the Estate
Plan's Essential Strategies.

1. The Prevalence of Tax Driven Wealth Preservation Focus and Four
Suggested Rules to Change the Priority of That Focus.

In assisting a client with achieving their goals the state of the tax law and how that affects the plan should not be the “tail that wags the dog.” Certain tax-planning advisors assume that a combination of wealth preservation and tax reduction is the purpose of every estate and succession plan. All tax advisors from time to time have been guilty of that assumption.¹ Whenever owners and tax advisors gather to formulate a plan, inevitably their conversations focus extensively on tax issues. Something about the topic of tax planning, the prevalence of tax advisory literature, tax advisors' professional degrees and titles, how the meetings originate, and the expectations of the gathered parties combine to dictate this focus.²

Tax planner's habitual patterns of engaging in planning conversations that evolve into tax reduction conversations have resulted in the evolution of a conventional style of planning that can be referred to as *tax driven wealth preservation planning*. This planning style begins with advisors gathering relevant facts and recommending optimum legal structures. In most instances, the defining characteristics of the selected strategies and legal structures are their tax reduction and control retention characteristics. A danger in tax driven wealth preservation planning is its subtle power to enable money (and its conservation) to become the defining objective.

Through the years I have developed four personal rules for determining a client's goals and concerns with respect to the family's capital (as defined below): (1) try to ask open ended questions that give the client the opportunity to articulate his or her goals and concerns; (2) listen; (3) listen, and (4) listen.

2. Estate Plans Developed Around the Stewardship Purpose of the Family
Wealth.

It is enlightening to contrast conventional *tax driven wealth preservation plans* with plans which have been formulated for clients who were initially asked (perhaps through the vehicle of many open-ended questions): "What is the purpose (or stewardship mission) of your family wealth?" A family's wealth, or capital, is more than its financial capital. A family's social capital and stewardship capital are also very important and interact with the family's financial capital.

¹ I would like to thank Mike Allen of Allen ♦ Lottmann, P.C., in Tyler, Texas. Around 20 years ago Mike articulated these concepts to me. I have been a better advisor since.

² L. Paul Hood, Jr., “*From the School of Hard Knocks: Thoughts on the Initial Estate Planning Interview*,” 27 ACTEC Law Journal 297 (2002).

When planning conversations begin with open-ended questions to determine the purpose or mission of the family's capital, a different succession plan may emerge, and the priority of tax reduction can be expected to decline in status from the defining principle to an important collateral objective.

At an introductory stage, a dialogue about purpose or stewardship mission questions might evolve like this:

- | | |
|-------------|---|
| Question 1: | Do you want to save taxes? Answer: Yes. |
| Question 2: | Do you want to protect your wealth? Answer: Yes. |
| Question 3: | Do you want to preserve the same level of consumption? Answer: Yes. |
| Question 4: | Do you want to empower your children (or favorite charitable causes)? Answer: Yes. |
| Question 5: | Do you want to give your children (or charitable entities you create) options? Answer: Yes. |
| Question 6: | Do you want to give your children (or charitable entities you create) incentives? Answer: Yes. |
| Question 7: | Do you want to maintain control of investment decisions with respect to your wealth? Answer: Yes. |
| Question 8: | Do you want to maintain your flexibility (control) to change your mind about how and whom should have future stewardship of your wealth? Answer: Yes. |
| Question 9: | Which of these is most important? Typical Answer: (pause) That is the first time we have been asked that question. We'll need to think about it. |

Members of my tax planning fraternity routinely start with good questions. But we sometimes tend to stop asking them too quickly (often after question #3), and we seldom ask question 9.

Questions of stewardship mission or the purpose of the family wealth are not raised lightly. They are the most important questions in the succession planning process. Their answers should govern every design decision.

3. Organizational Pattern of a Purpose-Based Estate Plan:

A hierarchical organizational pattern for a purpose-based estate plan is:

<p style="text-align: center;"><i>Purpose</i></p> <p style="text-align: center;">The declared principles for the family's capital which determine the plan's essential characteristics</p>
--

(having priority over)

<p style="text-align: center;"><i>Strategies</i></p> <p style="text-align: center;">The alternative game plans for implementing the essential characteristics</p>

(having priority over)

<p style="text-align: center;"><i>Legal Structures</i></p> <p style="text-align: center;">The legal documents which embody and implement the essential characteristics</p>
--

4. Compatibility of Strategies and Legal Structures with the Stated Purpose of the Family Wealth.

When an estate succession plan is organized around declared principles, the strategies and legal structures used to accomplish conventional tax planning are retained, but they are modified as necessary to make them compatible with the declared principles.

- B. Once the Purpose and Use of the Family's Capital Has Been Determined, Strategies Should Be Developed to Maximize the Investment Risk-Adjusted, After-Tax Wealth That May be Applied to Those Purposes and Uses.

Almost all of the US population (estimates are 99.8%) do not have to worry about strategies that reduce transfer taxes. However, around 50% of the US population welcomes strategies that reduce income taxes on investments. There are strategies that reduce both the income taxes on capital and the transfer taxes on capital. Planning for those two taxes does not have to be, and should not be, an "either, or" exercise. The purpose of this paper is to discuss some of the strategies that reduce both taxes.

II. DEVELOPING WEALTH MANAGEMENT STRATEGIES TO ACCOMPLISH A CLIENT'S GOALS IN THE NEW TAX ENVIRONMENT.

A. Income Tax Versus Estate Tax: A New Paradigm? (It May Not Have to Be).³

1. Some of the Key Income Tax and Basis Rules.

a. Certain key basis rules.

(1) Property acquired by purchase.

If property is purchased the basis will be its cost⁴, unless the property is purchased by a grantor trust from the grantor. If property is purchased by a grantor trust from the grantor, the basis will be the basis that the grantor had in the assets and will be treated as if the sale had not occurred.⁵

(2) Property acquired by gift.

(a) The donor's basis is less than the property's fair market value at the time of gift.

The property's basis is equal to the donor's basis plus a portion of gift tax paid (if any) equal to the portion of the property's value consisting of appreciation over the donor's basis.⁶

(b) The donor's basis is greater than the fair market value of the donated property at the time of the gift.

(i) The basis for determining gain will be basis of the donor.⁷

(ii) The basis for determining loss will be the fair market value of the property at the time of gift.⁸

³ I would like to thank my colleagues at Goldman Sachs who helped with many of the ideas expressed in this paper: Jeff Daly, Cliff Schlesinger, Karey Dye, Melinda Kleehamer, Michael Duffy, Cathy Bell and Jason Danziger. Many of the ideas generated in this paper also came from the fertile minds of my attorney friends, including: Carlyn McCaffrey, Ellen Harrison, David Handler, Jonathan Blattmachr, Richard Dees, Steve Gorin, Mickey R. Davis, Melissa J. Willms, Turney Berry, Jonathan Koslow and Dan Hastings.

⁴ See, IRC Sec. 1012.

⁵ See, Revenue Ruling 85-13, 1985-1 C.B. 184.

⁶ See, IRC Secs. 1015(a) and 1015(d)(1)(A) as limited by 1015(d)(6). For gifts made prior to December 31, 1976, a larger adjustment to basis for gift tax paid may apply.

⁷ See, IRC Secs. 1015(a) and 1015(d)(1)(A) as limited by 1015(d)(6).

⁸ See, IRC Sec. 1015(a).

- (iii) There is not any gain or loss, if the donee sells the property between the donor's basis and the fair market value of the property on the date of the gift.⁹

(3) Property acquired by a distribution from a trust or estate.

The beneficiary's basis will be the same as the trust or estate's basis adjusted for any gain or loss recognized on the distribution. The trust or estate could elect under IRC Sec. 643(e)(3) to treat the distribution as a sale for its fair market value.¹⁰ Also, if the beneficiary receives the distribution of the property in satisfaction of a pecuniary bequest, the distribution will be treated as a sale.

(4) Property acquired by inheritance.

The basis of property acquired by inheritance will generally be the value used for Federal estate tax purposes. There are exceptions:

- (i) The proceeds from receivables, which would have been income to the decedent during his lifetime upon its receipt. The future proceeds from these receivables are referred to as "income in receipt of a decedent."
- (ii) On the death of a spouse who holds property as joint tenants, or tenants by the entirety with the other spouse, one-half of the property will be taxed in the decedent's estate and its basis will be adjusted to have the same value as determined for estate tax purposes and the remaining half will retain its basis.
- (iii) On the death of an individual who jointly owns property with a person who is not a spouse, all of the property is included in that decedent's estate and the basis of the property will be adjusted to have the same value as determined for estate tax purposes (unless the surviving joint owner can show he contributed to the purchase of the property, in which case inclusion in the estate and the resulting basis adjustment are based on the percentage of the consideration paid to acquire the property that was furnished by the decedent).
- (iv) Property that is subject to debt on which the decedent is not personally liable. The basis of the property may only be the net value of property (gross value of the property minus the debt), because that is how it will be reported for estate tax purposes.¹¹
- (v) Any property that a decedent received by gift within one year prior to death if the decedent bequeaths the property back to the donor. The decedent's pre-death basis in such property will carry over to the donor-legatee, as provided by IRC Sec. 1014(e):

⁹ See, IRC Sec. 1015(a).

¹⁰ See, IRC Sec. 643(e).

¹¹ See the discussion in Section III E 3 e of this paper.

Appreciated property acquired by decedent by gift within 1 year of death.

(1) In general.

In the case of a decedent dying after December 31, 1981, if –

- (A) **appreciated property** was **acquired** by the decedent by **gift** during the 1-year period ending on the date of the decedent's death, and
- (B) such property is **acquired from the decedent** by (or **passes from** the decedent to) the **donor** of such property (or the spouse of such donor), the basis of such property in the hands of such donor (or spouse) shall be the adjusted basis of such property in the hands of the decedent immediately before the death of the decedent.

(2) Definitions.

For purposes of paragraph (1) -

(A) Appreciated property

The term “appreciated property” means any property if the fair market value of such property on the day it was transferred **to the decedent** by gift exceeds its adjusted basis.

(B) Treatment of certain property sold by estate

In the case of any appreciated property described in subparagraph (A) of paragraph (1) **sold** by the **estate** of the decedent or by a **trust** of which the decedent was the grantor, rules similar to the rules of paragraph (1) shall apply **to the extent** the donor of such property (or the spouse of such donor) is **entitled to the proceeds** from such sale. (emphasis added).

b. Certain key partnership income tax and basis accounting rules.

- (1) Generally, the contribution of low basis property to a partnership does not trigger gain, but it could.

The primary purpose of IRC Sec. 721 is to allow the formation of a partnership without the recognition of a taxable gain, thus encouraging the growth of new businesses. Many taxpayers have utilized the same concept in an effort to facilitate a sale through the diversification of their marketable investments. A simple example would be for two individuals to form a partnership with one individual contributing \$100 of appreciated stock and the other individual contributing \$100 of cash. If the partnership is economically a 50/50 arrangement between the partners, the effect of the formation is a sale of 50% of one partner's stock position to the other partner and the purchase of 50% of the stock position by the other partner. If transactions like this would be allowed, many taxpayers could escape the imposition of capital gains taxes on marketable security exchanges through structures that incorporated these concepts. Thus, certain

tests were included in the Internal Revenue Code and the regulations that address these issues and preclude certain arrangements from achieving their disguised goals.

Subchapter K of the Internal Revenue Code indicates, that, in general, no gain or loss shall be recognized to a partnership or to any of its partners in the case of a contribution of property to the partnership in exchange for an interest in the partnership.¹² However, if the entity is considered an “investment company,” then a taxable sale is deemed to occur.¹³ The partners in the partnership must determine if a taxable contribution has occurred via the existence of an investment company. In general, an investment company includes an entity that owns stock, bonds, foreign currencies, REITS and other marketable securities.¹⁴

The Treasury Regulations further detail the definition of an investment company to include entities where the formation results, directly or indirectly, in diversification of the transferors' interests, and more than 80 percent of its value in assets (excluding cash and nonconvertible debt obligations from consideration) that are held for investment and are readily marketable stocks or securities, or interests in regulated investment companies or real estate investment trusts.¹⁵

- (2) Certain partnership tax accounting rules must be navigated to make sure a partnership is not being used as a vehicle for a disguised sale.

Another area of potential taxpayer abuse involves the concept of a partnership formed to specifically disguise a sale where the investment company rules do not apply. A simple example would be for two individuals to form a partnership with one individual contributing \$100 of a non-marketable asset through the ownership of two entities and the other individual contributing \$100 of cash. If the partnership is economically a 50/50 arrangement between the ultimate partners, the effect of the formation is again a sale of 50% of one owner's asset to the other partner and the purchase of 50% of the asset by the other partner. Because the asset is not marketable, IRC Sec. 721 does not apply and the formation is not considered a taxable event. However, if the partnership acquired the interest of the second partner by delivering the non-marketable asset, the result would be the receipt of the asset by the second partner without the imposition of a tax and the retention of the cash by the original owner of the non-marketable asset through the partnership. In effect, the original owner would have sold the asset for cash yet not recognized any capital gain until the partnership is ultimately liquidated. In an effort to preclude such disguised sale planning opportunities IRC Secs. 704(c), 737 and 707 were included in subchapter K.

In essence, IRC Secs. 704(c) and 737 prevent the distribution of an appreciated asset to one partner that was originally contributed by another partner during a seven-year period.¹⁶ Another way to view the section is that if a partnership exists for more than seven years, or five

¹² See IRC Sec. 721(a).

¹³ See IRC Sec. 721(b).

¹⁴ See IRC Sec. 351(e).

¹⁵ Treas. Reg. Section 1.351-1(c)(1).

¹⁶ See IRC Secs. 704(c)(1)(B), 737(a), and 737(b).

years if established prior to June 9, 1997, then the IRS probably will view the partnership as having a business purpose other than the disguised sale of an asset.

Besides the seven-year rule of IRC Secs. 704(c) and 737, there is the so-called two-year rule under the regulations of IRC Sec. 707.¹⁷ If a partner transfers property to a partnership and receives money or other consideration, the transfers are presumed to be a sale. Due to the specificity of the two-year rule, a properly structured partnership could avoid the application of a disguised sale if the assets remain within the partnership for an appropriate length of time.

- (3) Certain partnership income tax accounting rules exist to determine if a tax is imposed on a partner who liquidates his or her partnership interest.

At some point in the future, the partners may wish to realize the economic benefits of their investment through the distribution of partnership assets or the liquidation of their interest in the partnership. IRC Secs. 731 and 732 address the taxation of such transactions.

Generally, gain will not be recognized to a partner, except to the extent that any money distributed exceeds the adjusted basis of such partner's interest in the partnership immediately before the distribution.¹⁸

Because of the ease of liquidity related to marketable securities, the IRS has increasingly viewed such instruments as cash. Within the context of a partnership, IRC Sec. 731(c) was added to the Internal Revenue Code. In effect, marketable securities, if deemed to be money, can cause taxable gain, if the fair market value of the distributed securities exceeds the withdrawing partner's tax basis in the partnership.¹⁹ As with many areas of the tax law, there are always exceptions to the rules. If a partnership meets the definition of an investment partnership, then it is excepted from the capital gain issue created by IRC Sec. 731(c).

As noted in the discussion in Section IX A 3 c of this paper, the receipt of marketable securities will not be considered cash, if the partnership is an investment partnership. The general rule for qualifying as an investment partnership is the ownership of marketable investments and never engaging in an actual trade or business other than investing.²⁰

- (4) Certain partnership tax accounting rules exist to determine a partner's basis in non-cash assets he or she receives.

The basis in the asset distributions or distributions in liquidation of a partner's interest is subject to the tax rules outlined in IRC Sec. 732.

Under IRC Sec. 732, if a partner receives an asset distribution from a partnership, the partner receives the asset subject to a carryover of the partnership's cost basis, and if the partner receives an asset distribution in liquidation of his interest, then the partner will attach his

¹⁷ See Treas. Reg. Section 1.707-3(c).

¹⁸ See IRC Sec. 731(a).

¹⁹ See IRC Sec. 731(c).

²⁰ See IRC Sec. 731(c)(3)(C)(i).

partnership interest cost basis to the assets received in liquidation.²¹ The regulations highlight an example illustrating the result.²²

(5) Existing anti-abuse tax accounting rules.

Regardless of the form of a transaction, the IRS added regulations under IRC Sec. 701 (Anti-Abuse Rules) that address the substance of a partnership and could cause a tax result derived from a partnership transaction to be negated, if the IRS views the structure as a mechanism to reduce the overall tax burden of the participating partners.

(6) If there is a change in the outside basis of a partnership interest, because of a sale or a death of a partner, that could effect the inside basis of the partnership assets.

If timely election is not made by the partnership (or a distribution and election by the distributee partner under IRC Sec. 732(d)), the death of a partner or a sale of a partnership interest, does not affect the inside basis of the assets held by the partnership at the time of the partner's death or sale. See IRC Secs. 754 and 743(a). However, under those circumstances, if that partnership interest is later completely liquidated the estate of successor partner takes a basis in the distributed assets equal to the basis in the partnership interest.

2. If Lifetime Basis Enhancing Strategies Are Not Used, From a Tax Perspective, at What Assumed Growth Rate is it Better to Use a Lifetime Transfer Strategy With a Low Basis Asset in Comparison to Retaining the Asset Until Death?

Consistent with a private investor's stewardship goals, wealth management strategies should be developed. One component, sometimes a key component, in developing a wealth management strategy for the private investor is the development of a tax efficient strategy that implements the investor's stewardship goals. The development of tax efficient strategies may change for certain assets because estate tax rates and capital gains tax rates have become much closer than they have been for more than a decade. For some taxpayers the combined state and federal capital gains taxes, the effect of the Pease limitation (or "stealth" tax), and the new 3.8% tax under IRC Sec. 1411 (referred to in this paper as the "health care tax") can exceed the transfer tax (after consideration of the transfer tax exemption), particularly for negative basis property. As noted above, the only nice "tax" factor about death is that the taxpayer receives a step-up in basis with respect to the taxpayer's low or negative basis assets. That step-up in basis will not occur if that asset is not subject to a lifetime basis enhancing strategy and is not subject to estate taxes in the taxpayer's estate because the taxpayer used a gifting and/or selling strategy to remove that asset from estate taxation. Another factor that did not exist in the past is that a taxpayer's unified credit to be applied against transfer taxes increases each year with inflation.

Simplistically, if an asset will be sold immediately after a taxpayer's death if the tax result is the only factor (of course, it is rare that the tax result is the only factor), and if lifetime basis enhancing strategies are not used, the decision to subject a low basis asset to a lifetime transfer strategy to a non-grantor trust, in order to save future estate taxes, or to hold the asset in order to

²¹ See IRC Secs. 732(a)(1) and 732(b).

²² See Treas. Reg. Section 1.732-1(b).

receive a step-up in basis, is determined by a taxpayer's assumption of how fast a low basis asset will increase in value in the future. There is not an exemption protecting the assessment of a capital gains tax on the sale of an asset. There are substantial exemptions protecting the assessment of a transfer tax. The amount of tax that you would pay by gifting the asset now is the gift tax paid now (if any) plus the capital gains tax paid upon a sale at death. The amount of tax that you would pay by bequeathing the low basis asset at death is the estate tax paid at death. There is a growth rate where the taxpayer will pay the same taxes whether the taxpayer gives the asset now, or at the taxpayer's death. If the taxpayer assumes a growth rate will be higher than that breakeven growth rate, then it is more tax efficient to gift the asset now. If the taxpayer assumes a growth rate is lower than that breakeven growth rate, then it is more tax efficient to bequeath the asset at death and receive the stepped-up basis. The assumed growth rate is a function of the taxpayer's assumed life expectancy times the assumed annual growth rate of the asset. A taxpayer's assumption as to the estate tax exemption that will be available at death is based on the taxpayer's assumption as to the growth of the exemption caused by inflation and whether that future exemption growth will be used by the taxpayer's other assets anyway. For instance, if the taxpayer will have other low basis assets that will use the growth of the assumed estate tax exemption, that should be reflected in the taxpayer's analysis of whether to make a lifetime transfer of the asset or hold it until death. The determination of the breakeven growth rate can be expressed by the following formula.²³

Breakeven Growth Rate During the Taxpayer's Life Expectancy =

$$\frac{\text{Capital Gain Rate}(\text{Gift Value} - \text{Basis}) + \text{Gift Tax Rate}(\text{Gift Value} - \text{Remaining Gift Tax Exemption}) - \text{Estate Tax Rate}(\text{Gift Value} - \text{Estate Tax Exemption at Death})}{\text{Value of Gift} (\text{Estate Tax Rate} - \text{Capital Gains Rate})}$$

Consider the following example:

Example 1: Is it Better for a Private Investor Who Owns a Low Basis Asset That Will Not Be Sold During His Lifetime, But Will Be Sold On His Death, to Give That Asset Away to His Family Now, or Hold That Asset Until His Death?

Danny Lowbasis owns \$5,340,000 in shares of a near zero basis stock that he is confident he will not sell during his lifetime, but his family would sell immediately after his death. Danny has \$5,340,000 in gift tax exemption remaining. Danny believes he has a 15-year life expectancy. Danny also believes the estate tax exemption will increase to \$7,540,000 by the time of his death (because of an assumed inflation rate of 2.5%).

Danny is willing to give his family that amount of the stock that will not generate gift taxes or \$5,340,000 of the stock, if it saves future estate taxes greater than the future income taxes and health care taxes that will accrue because of the loss of the step-up in basis at death on the gifted shares. Danny asks his planner, Ima Mathgeek, at what assumed annual rate of appreciation during his lifetime does it make sense to give \$5,340,000 of the stock away to his family as opposed to holding the stock and bequeathing the stock to his family.

²³ I would like to thank Kelly Hellmuth of McGuire Woods who generously allowed me to publish her formula.

Under the above formula, if a gift to a non-grantor trust is contemplated, if a taxpayer has a 15-year life expectancy, if after the gift that taxpayer will not have any other assets in which an increased estate tax exemption could be used, and if the taxpayer lives in a state without an income tax (e.g., Texas), the breakeven growth rate over a 15-year period for gifting a zero basis asset is determined under the above formula is as follows:

$$\frac{.25(\$5,340,000) + .40(0) - .40(\$5,340,000 - \$7,540,000)}{\$5,340,000(.15)} = \frac{\$1,335,000 + \$880,000}{\$801,000} = 276.54\%$$

On a compounded annualized basis 276.54%, over a 15-year period, is equal to a per annum growth rate of 9.24%. Please see the spreadsheet analysis in Schedule 1. If a taxpayer lives in California, under those assumptions, the compounded annualized breakeven growth rate is 21.89% for gifting a zero basis asset. See also the spreadsheet analysis in attached Schedule 2.

However, very few taxpayers can afford to give away all of their assets. If you assume the taxpayer will have enough low basis assets at death to offset the anticipated increase in estate tax exemption, even if a gift is made, this will change the breakeven growth rate. To determine the breakeven growth rate under those circumstances, in order to isolate the breakeven growth rate for a particular asset, it may be necessary to assume the projected estate tax exemption will be equal to the current gift tax exemption. Under the above assumptions, if you assume the taxpayer could use the estate tax exemption that exists at death against other low basis assets, the Texas breakeven annualized compounded growth rate for gifting a zero basis asset is 6.76% and the California breakeven annualized compounded growth rate for gifting a zero basis asset is 19.12%. See the analysis in Schedules 3 and 4.

The above analysis would suggest, to a certain extent, from a tax perspective, current planning should be more specific by asset.

3. There May Be Non-tax Factors, Such as Risk-adjusted Investment Considerations, Which Make Holding a Low Basis Asset Until Death for the Basis Step-up Disadvantageous.

As noted above, non-tax factors such as asset protection planning, planning for future stewardship considerations, and planning for later years post retirement may override tax considerations.

Risk adjusted investment considerations may also override the tax considerations. There may be a significant inherent investment risk in not diversifying out of a large single asset that is part of one asset class, into multiple assets held in many different asset classes.

Consider the following table that ranks ten asset classes by pre-tax returns, and risk or volatility, from the time period 2001-2013, and ranks each asset class by returns for each year from 2004 to 2013.

Table 1

Asset Class Returns – As of December 31, 2013											
2001 - 2013		Returns									
Returns (Ann.)	Vol (Std. Dev.)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
MLPs 16.0%	REITs 24.6%	REITs 33.2%	Emerging Market Equity 34.5%	REITs 36.0%	Emerging Market Equity 39.8%	Investment Grade Munis 4.2%	Emerging Market Equity 79.0%	MLPs 35.9%	MLPs 13.9%	Emerging Market Equity 18.6%	US Small Cap 38.8%
Emerging Market Equity 12.5%	Emerging Market Equity 23.5%	Emerging Market Equity 26.0%	Non-US Equity 14.0%	Emerging Market Equity 32.6%	EM Local Debt 18.1%	EM Local Debt -5.2%	MLPs 76.4%	REITs 28.1%	REITs 9.4%	High Yield Munis 18.1%	US Large Cap 32.4%
EM Local Debt 10.2%	US Small Cap 20.2%	EM Local Debt 23.0%	REITs 13.8%	Non-US Equity 26.9%	MLPs 12.7%	Hedge Funds -21.4%	High Yield Munis 32.7%	US Small Cap 26.9%	High Yield Munis 9.2%	Non-US Equity 17.9%	MLPs 27.6%
REITs 9.7%	Non-US Equity 18.0%	Non-US Equity 16.7%	High Yield Munis 8.7%	MLPs 26.1%	Non-US Equity 11.6%	High Yield Munis -27.0%	Non-US Equity 32.5%	Emerging Market Equity 19.2%	Investment Grade Munis 7.6%	REITs 17.1%	Non-US Equity 23.3%
US Small Cap 8.2%	MLPs 16.0%	US Small Cap 18.3%	Hedge Funds 7.5%	US Small Cap 18.4%	Hedge Funds 10.3%	US Small Cap -33.8%	REITs 28.5%	EM Local Debt 15.7%	US Large Cap 2.1%	EM Local Debt 16.8%	Hedge Funds 8.8%
Non-US Equity 6.5%	US Large Cap 15.3%	MLPs 16.7%	MLPs 6.3%	US Large Cap 15.8%	US Large Cap 5.5%	MLPs -36.9%	US Small Cap 27.2%	US Large Cap 15.1%	EM Local Debt -1.8%	US Small Cap 16.3%	REITs 1.2%
US Large Cap 5.4%	EM Local Debt 12.0%	US Large Cap 10.9%	EM Local Debt 6.3%	EM Local Debt 15.2%	Investment Grade Munis 4.8%	US Large Cap -37.0%	US Large Cap 26.5%	Non-US Equity 8.2%	US Small Cap -4.2%	US Large Cap 16.0%	Investment Grade Munis -0.3%
High Yield Munis 5.3%	High Yield Munis 7.4%	High Yield Munis 10.5%	US Large Cap 4.9%	High Yield Munis 10.7%	US Small Cap -1.6%	REITs -39.2%	EM Local Debt 22.0%	High Yield Munis 7.8%	Hedge Funds -5.7%	MLPs 4.8%	Emerging Market Equity -2.3%
Investment Grade Munis 4.3%	Hedge Funds 5.1%	Hedge Funds 6.9%	US Small Cap 4.6%	Hedge Funds 10.4%	High Yield Munis -2.3%	Non-US Equity -43.1%	Hedge Funds 11.5%	Hedge Funds 5.7%	Non-US Equity -11.7%	Hedge Funds 4.8%	High Yield Munis -5.5%
Hedge Funds 3.7%	Investment Grade Munis 3.3%	Investment Grade Munis 2.9%	Investment Grade Munis 1.7%	Investment Grade Munis 3.7%	REITs -17.6%	Emerging Market Equity -53.2%	Investment Grade Munis 7.2%	Investment Grade Munis 3.1%	Emerging Market Equity -18.2%	Investment Grade Munis 3.6%	EM Local Debt -9.0%

Source: Datastream, Bloomberg, JP Morgan Dataquery.

Annualized Volatility and Returns since July 2001 through December 31, 2013. Indices: Investment Grade Municipal Bonds – Barclays Capital Municipal 1-10; Municipal High Yield – Barclays Capital Municipal High Yield; EM Local Debt – JP Morgan EM Local Debt (GBI EM); US Large Cap – S&P 500; US Small Cap Equity – Russell 2000; Non-US Equity – MSCI EAFE; Emerging Market Equity – MSCI Emerging Markets; Hedge Funds – HFRI Fund of Funds Composite; REITs – Dow Jones Wilshire REITs; MLPs – Alerian MLP.

For example, “master limited partnerships” ranked first in pre-tax returns from 2001-2013, and were ranked the fifth most volatile class from 2001-2013. “Non-US equity” ranked sixth in pre-tax returns from 2001-2013, but were ranked the third most volatile class from 2001-2013. Also, as the above table demonstrates, depending upon the investment year, an asset class may significantly differ in its “return” ranking. For instance, “master limited partnerships” was the top performing asset class by pre-tax return from 2010-2011, but ranked only eighth in 2012. Obviously, the volatility of any single asset in an asset class may be considerably greater than the asset class volatility. Hence, depending upon a taxpayer’s life expectancy, the non-tax argument for selling an asset to diversify and improve a taxpayer’s risk adjusted return is generally there.

4. The Capital Gains Tax Advantage of a Step-up at Death May Be Unimportant, if the Asset is a Legacy Asset That Will Not Be Sold By the Taxpayer’s Heirs.

Another consideration is whether or not a low basis asset will be sold by a taxpayer’s family after the taxpayer’s death. If the family views the asset as a “legacy” asset that will never be sold, then income tax considerations are not relevant and transfer tax considerations are paramount. Under those circumstances transfer planning for that asset is more important, even if the above formula indicates transfer planning should not be utilized.

5. Taking All of the Above Factors Into Account, When Should a Gifting Strategy for a Low Basis Asset Be Considered?

Gift planning should be considered for a low basis asset for a client who is projected to have a taxable estate unless **all** of the following factors exist: (i) the above formula (see Section II A 2 of this paper) indicates gift planning should not be utilized, (ii) the taxpayer thinks it will be unlikely he will ever wish to sell that asset because of its investment risk, (iii) non-tax

considerations such as asset protection planning, planning for future stewardship and cash flow planning for retirement do not exist; (iv) the taxpayer is convinced that his family will sell that asset immediately after his death; and (v) if it is unlikely a lifetime basis enhancing strategy will be used. Those assets and situations do exist, but it is respectfully submitted that those assets and situations are rare (e.g., negative basis real estate that is well positioned to keep its value and the taxpayer's family will sell it immediately after his death.)

While it may be rare that transfer planning for a wealthy client's low basis assets should not be considered, it is rarer still that a client would also not wish to consider lifetime income tax planning and basis enhancing strategies that are consistent with transfer tax saving strategies.

B. Why Wealth Management Strategies, Including Investment Management Strategies, Are Entirely Different for the Private Wealth Investor in Comparison to the Institutional Investor and Why Tax Management Strategies Are an Important Consideration for the Private Wealth Investor.

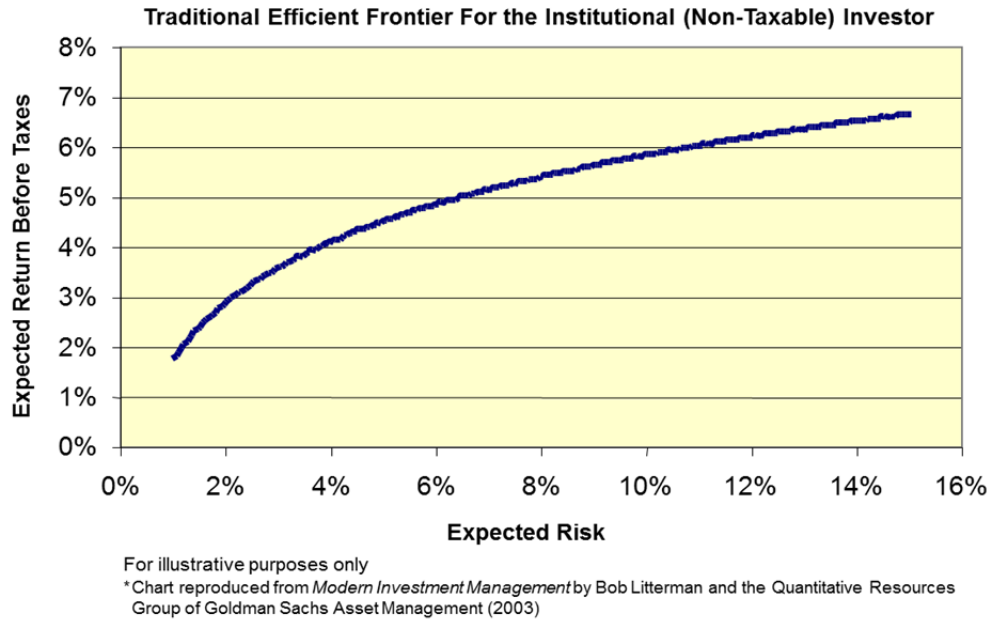
1. Congress Gives the Private Investor Significant After Tax Subsidies for his Equity Investments in Comparison to His Fixed Income Investments.

A key income tax factor that affects wealth management strategy of a private investor's portfolio, in comparison to construction of an institutional investor's portfolio, is the significant degree Congress subsidizes an equity investment (which may have a low basis in comparison to value) in comparison to a fixed income investment (which generally has a high basis in comparison to value):

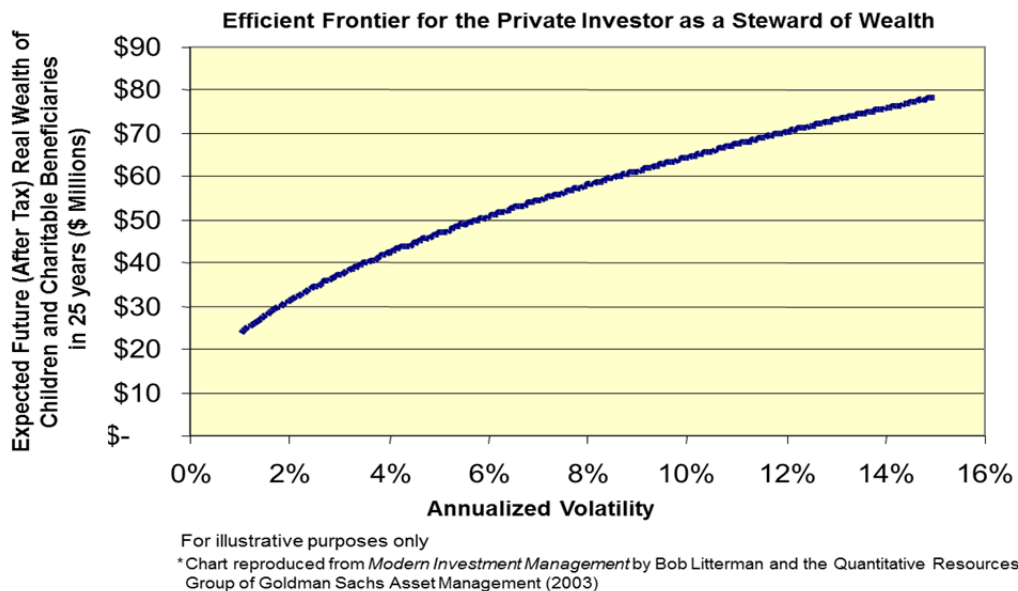
- (i) substantially lower rates of taxation;
- (ii) the private investor, under the tax laws, may choose when he realizes taxable income on any equity investment (turnover rate), but cannot when he owns a taxable bond investment; and
- (iii) the private investor may determine how much of an equity investment's unrealized income is ever taxed (e.g., the private investor could bequeath the equity investment to a charity).

2. What is the Efficient Investment Frontier for the Private Investor? (Hint: It is Probably Not What You Learned in Finance Class.)

The traditional efficient frontier, illustrated below, will not work for the private investor, who pays taxes, like it does for the institutional investor that does not pay taxes. This is because gross return does not equal wealth for the taxable private investor due to income taxes, health care taxes and transfer taxes.



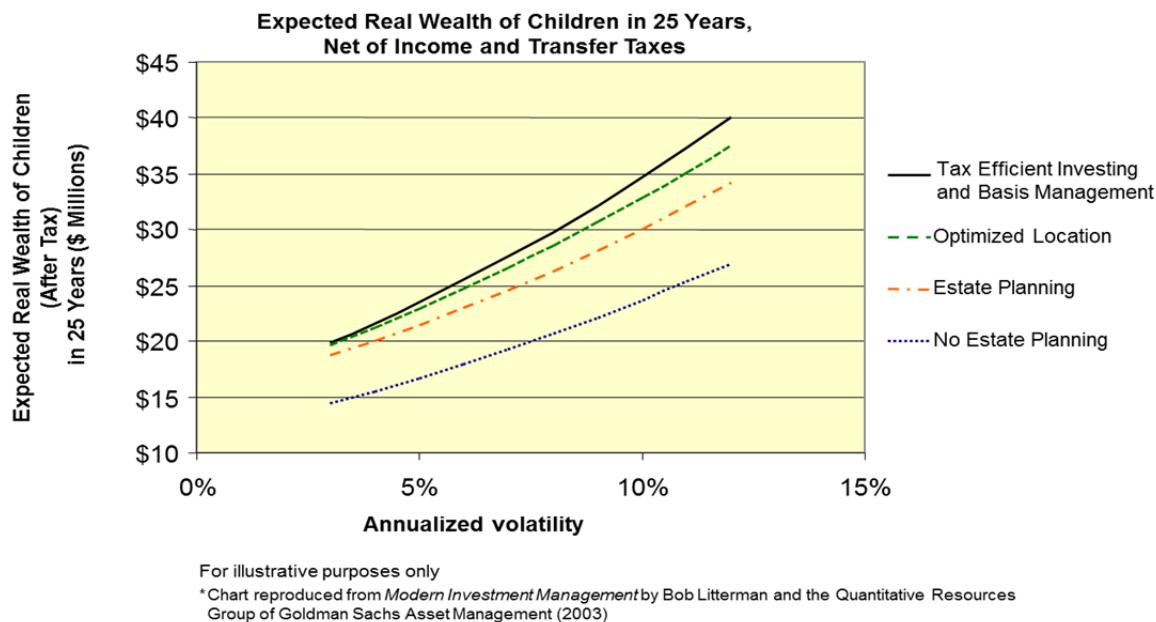
Instead, the efficient frontier of the private investor, who views himself as a steward of wealth, is a comparison of the expected future after-tax real wealth the investor's beneficiaries will receive in comparison to expected after-tax real wealth risk of the wealth management strategies, as illustrated below.



3. What are the Key Components of Structuring a Wealth Management Strategy for a Private Investor?

A wealth management strategy for a private investor involves much more than constructing an investment strategy. A wealth management strategy involves estate and income tax planning that is consistent with the private investor's stewardship goals, optimized location of asset classes in the tax-advantaged entities the private investor has created, and the use of income

tax efficient investing and basis enhancing strategies when possible. A sample efficient frontier for the private investor, as a steward of wealth, is illustrated below.



- C. The Purposes of This Paper: Explore Wealth Management Strategies That Utilize a Combination of Effective Estate Planning Strategies, Optimized Location of Asset Classes in Family Entities and Basis Enhancing Strategies to Decrease Both Income Taxes and Transfer Taxes on a Net Basis.

The question this paper will address is: are there transfer tax management strategies for low basis assets (perhaps in conjunction with basis enhancing strategies and asset location strategies), that do not sacrifice income tax and health care tax considerations? If so, what are some of the best strategies we see? There are many strategies that focus only on income tax and the health care tax. The purpose of this paper is to generally focus on strategies that also address the transfer tax.

The paper will focus on planning strategies that lower the taxpayer's potential transfer taxes and reduce the net tax effect a sale of any assets subject to estate planning may have, including: various borrowing, location, disregarded entity, grantor trust, QSST, DSUE, mixing bowl and charitable planning strategies. The paper will also explore various strategies that reduce a complex trust's income taxes, indirectly benefit grantor GST trusts with a Roth IRA conversion, and enhance the basis of a surviving spouse's assets.

III. WEALTH MANAGEMENT STRATEGIES THAT USE GRANTOR TRUSTS TO LOWER A TAXPAYER'S TOTAL NET INCOME AND TRANSFER TAXES.

- A. Contributing and/or Selling Assets to a Grantor Trust.

1. The Technique.

A taxpayer

Consider the following example. could contribute a low basis asset to an intentionally defective grantor trust that does not pay income taxes or health care taxes. The taxpayer will pay

the income taxes and health care taxes associated with the trust. If the grantor trust sells a low basis asset, the taxpayer will pay less estate tax, because his estate is liable for the income taxes and health care taxes associated with that sale. A trust that does not pay income taxes and health care taxes will grow much faster than a trust that does pay income taxes and health care taxes. Any growth by the grantor trust's assets will escape future estate taxes. Stated differently, depending on one's tax perspective, when a taxpayer uses grantor trusts, that taxpayer is using income taxes and health care taxes to subsidize the payment of transfer taxes or vice versa.

Example 2: Is it Better for a Taxpayer Who Owns a Low Basis

Asset: (i) to Engage in Discount and Grantor Trust Planning and Then Sell the Low Basis Stock and Reinvest in a Diversified Portfolio; (ii) to Immediately Sell That Asset and Hold the Diversified Portfolio Until Death Without Any Lifetime Planning; or (iii) to Hold That Low Basis Asset Until the Taxpayer's Death and Diversify After His Death?

Danny Diversified asks his planner, Ima Mathgeek, to assume that he owns \$2,500,000 in a diversified portfolio and \$45,340,000 in a zero basis marketable stock that pays a 1% dividend. Danny assumes the diversified portfolio will grow at 7.4% pre-tax with 0.6% of the return being taxed at ordinary rates, 2.4% of the return being tax-free and 4.4% of the return being taxed at long-term capital gains rates with a 30% turnover. If Danny engages in estate planning, he will form a single member LLC with 1% managing member interests and 99% non-managing member interests. In the planning alternative it is assumed Danny gifts \$5,340,000 of the non-managing interests in the LLC to a grantor trust and sells the rest of the non-managing interests to the grantor trust for a note. It is assumed that the non-managing interests in the LLC will have a valuation discount of 35%. All of the low basis stock owned by the LLC will be sold after the planning is completed. The trustee of the grantor trust will reduce the note with part of the cash proceeds in order that Danny can pay his income taxes.

Secondly, Danny asks Ima to assume the same facts, except Danny sells the zero basis asset and invests in a diversified portfolio, but does not do any further planning.

Finally, Danny asks Ima to assume that he does not sell the zero basis stock, or do any planning, and that his family sells the asset after his death.

Danny will need about \$300,000 a year (inflation adjusted) for his consumption needs. Danny assumes that during this 15-year period the diversified portfolio will earn 7.4% before taxes with .6% of the return being taxed at ordinary rates, 2.4% of the return being tax-free and 4.4% of the return will be taxed at long-term rates with a 30% turnover. Danny assumes the single stock, if he does not sell it, will always have a 1% dividend rate.

Ima Mathgeek makes the calculations (see the spreadsheet attached as Schedule 5a-d) and concludes the following:

- (i) If Danny lives in Texas, if Danny engages in the estate planning assumed above, if the diversified portfolio performs as assumed above (7.4% annual return before taxes), if Danny and/or the planning entity sells the single stock, and if Danny then lives 15 years, the single stock must earn 7.9% (including dividends) or more annually to outperform the planning and diversification strategy (see Schedule 5a). However, if Danny lives in California, under those same facts, the single stock must earn 6.38% or

more annually to outperform the planning and diversification strategy (see schedule 5b).

- (ii) If Danny lives in Texas, if Danny does **not** engage in any lifetime estate planning, and if the diversified portfolio performs as assumed above (7.4% annual return before taxes) after Danny sells the single stock, and if Danny then lives 15 years, the single stock must earn 4.6% (including dividends) or more annually to outperform the diversification strategy (see Schedule 5b). However, if Danny lives in California, under those same facts, the single stock must earn 3.37% (including dividends) or more annually to outperform the diversification strategy (see Schedule 5d).

The above example illustrates the power of using a grantor trust, estate freeze and discounting strategy that is a “wrapper” around a diversification wealth management strategy. Even with added immediate capital gains taxes, and the lost investment opportunity cost of those taxes with the lifetime diversification of the zero basis stock, there are **less** overall taxes with the estate planning wrapper (assuming similar pre-tax earnings) than with the hold and sell after death strategy, in a low tax state, unless the single stock has an annual 6.76% ($\frac{7.9-7.4}{7.9}$) **improvement** in pre-tax return performance over the diversified portfolio. While the above example indicates that in high tax states Danny’s descendants pay less in taxes if he holds zero basis stock until death if the stock grows at certain rates of return, that is only part of the story. As noted above, from Danny’s perspective there is greater asset protection, and there is less investment risk with the diversified equity portfolio, that may more than compensate for any difference in the after-tax rate of return from not diversifying. Stated differently, for many clients the relevant measure is not the after-tax rate of return, but the after-tax investment risk rate of return coupled with non-tax factors such as asset protection.

This example also illustrates the folly of only looking at a simple gift strategy, without also considering the power of grantor trusts, leveraging and discounting, in deciding if it is better to give a low basis asset or to hold an asset until death as this paper did in Example 1.

2. Advantages of the Technique.

a. Tax advantage.

IRC Secs. 671 through 677 contain rules under which the grantor of a trust will be treated as the owner of all or any portion of that trust, referred to as a “grantor trust.” If a grantor retains certain powers over a trust, it will cause the trust to be treated as a grantor trust. If the grantor is treated as the owner of any portion of a trust, IRC Sec. 671 provides that those items of income, deductions, and credits against the tax of the trust that are attributable to that portion of the trust are to be included in computing the taxable income and credits of the grantor to the extent that such items will be taken into account in computing the taxable income or credits of an individual. An item of income, deduction or credit included under IRC Sec. 671 in computing the taxable income and credits of the grantor is treated as if received or paid directly to the grantor.²⁴ Thus, if the private investor contributes assets to an intentionally defective grantor trust, the assets will grow (from the point of view of the trust beneficiaries) income-tax free. Furthermore, the IRS

²⁴ Treas. Reg. Section 1.671-2(c).

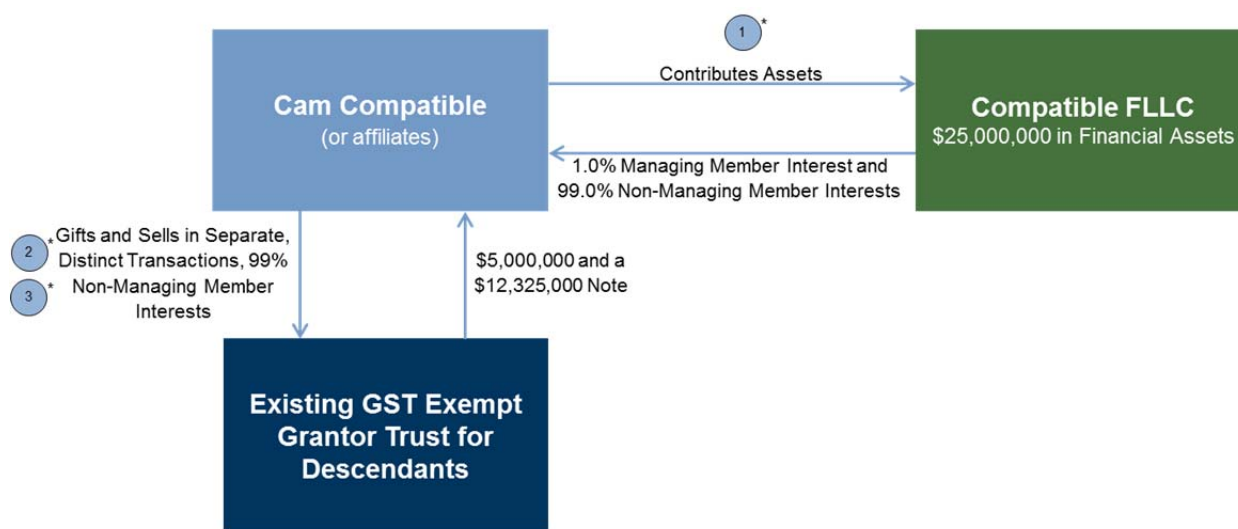
now agrees that there is no additional gift tax liability, if the private investor continues to be subject to income taxes on the trust assets and there is no right of reimbursement from the trust.²⁵

It is possible to design a grantor trust that is defective for income tax purposes (e.g., a retained power to substitute assets of the trust for assets of equivalent value), but is not defective for transfer tax purposes. In comparison to either discounting or freezing a client's net worth, over periods of 20 years or more, the effect of paying the income taxes of a grantor trust is generally the most effective wealth transfer technique there is.

Consider the following example.

Example 3: Cam Compatible Creates a Grantor Trust for the Benefit of His Spouse and Family and Makes Certain Sales to That Trust

Cam Compatible owns \$32,000,000 in financial assets. Cam and affiliates contribute \$25,000,000 to a family limited liability company ("FLLC") ("1"). In a separate and distinct transaction ("2") Cam contributes \$5,000,000 to a trust that is a grantor trust for income tax purposes. The trust treats his wife, Carolyn, as the discretionary beneficiary and gives her certain powers of appointment over the trust. Cam, at a much later time ("3"), sells non-managing member interests to that trust, pursuant to a defined value allocation formula, in consideration for cash and notes. Assuming a 30% valuation discount, the technique is illustrated below.



* These transactions need to be separate, distinct and independent.

If the considerations that are noted below can be addressed, this technique would provide significant flexibility to both Cam and Carolyn in making sure their consumption needs are met in the future and, depending upon the terms of the powers of appointment that Cam gives Carolyn, could provide the flexibility that they need to address any changing stewardship goals that may accrue.

²⁵ See Rev. Rul. 2004-64, 2004-2 C.B. 7.

- b. The appreciation of the assets of the trust above the interest of the note used in any sale to a grantor trust for the grantor's spouse will not be taxable in the grantor/seller's estate.

Assuming there is appreciation of the trust assets above the interest carry on any note that appreciation will not be subject to estate taxes in either the grantor's estate or the grantor spouse's estate. This is a significant transfer tax advantage. In calculations that we have performed in situations where the joint life expectancies exceed 20 years, this is the second biggest driver of transfer tax savings for a client's family. (The most important driver for saving transfer taxes, over a 20-year period, as mentioned above, is the donor's paying the income taxes of the trust on a gift tax-free basis.) The interest on the note does not have to be any higher than the applicable federal rate in order to ensure there are no gift tax consequences. See IRC Sec. 7872. The applicable federal rate, depending upon the length of the term of the note is equal to the average Treasury's securities for that term. See IRC Secs. 7872 and 1274(d).

- c. The advantage of locating income tax inefficient asset classes inside a grantor trust that is not subject to estate taxes.
 - (1) The technique of asset class location in order to improve the after-tax, after-risk adjusted rate of return for an investment portfolio.

In order to optimize after-tax risk-adjusted returns, wealth management for the private taxable investor involves: (i) the creation of tax advantaged entities; (ii) the investment in asset classes that produce an optimal after-tax risk-adjusted return; and (iii) asset class location in different tax advantaged entities.

Certain asset classes that may optimize risk-adjusted returns may not be tax efficient, which could produce a less than optimal after-tax risk adjusted return for the private investor, unless the technique of locating those asset classes in estate tax protected grantor trusts is used.

Stated differently, not every asset class that an investor and the investor's family would desire in their collective investment portfolios in order to reduce the portfolio's risk, or volatility, lends itself to investment via a tax efficient low turnover fund (i.e., a broad based passive equity fund). For instance, asset classes such as high yield bonds, hedge funds, master limited partnerships, emerging market debt and various forms of private equity are not available in a passive, low turnover (tax efficient) product. An investor and his family may have all of those asset classes in their collective portfolios. See Table 1 above in Section II A 3 of the paper.

(2) Advantages of the technique.

- (i) Location of tax inefficient investment classes in a grantor trust significantly ameliorates the income income tax inefficiencies of those classes, because transfer taxes are saved when the grantor pays the income taxes of the trust.

Engaging in an asset class location strategy of locating income tax inefficient asset classes in grantor trusts, and other family planning vehicles, may greatly ameliorate those tax inefficiencies and lead to an optimal after tax risk adjusted return for the private investor. There exist various techniques (see the discussion in Section III A 2) for the investor to have direct, or indirect, access to these tax efficient entities. There exist various techniques (see the discussion in Section III A 2) for the investor to create these tax efficient entities without paying gift taxes.

Table 2 below illustrates the annual growth required for an equity fund to double (after both income taxes and transfer taxes) for an investor's beneficiaries, if the investor dies in 10 years, depending upon how a fund is located (also see attached Schedule 6). This table also illustrates the significant wealth management advantages for the private investor who: (i) engages in estate planning; (ii) invests income tax efficiently for those asset classes that he can; and (iii) optimizes location of tax inefficient asset classes in estate tax protected grantor trusts to ameliorate income tax inefficiencies.

Table 2

Annual Growth Rate Required on a \$1mm Equity Fund Which Has a 2% Dividend Rate to Achieve \$2.06mm (After Tax) for Investor's Beneficiaries for an Investor Who Dies in 10 Years ⁽¹⁾ , Depending Upon How a Fund is Located, and Percentage Improvement to Equal Equity Fund with 5% Turnover ⁽²⁾ or 50% Turnover ⁽³⁾																		
Equity Fund's Annual Turnover of Assets	No Estate Planning Fund Owned by Investor						Estate Planning Techniques (Fund is Not Subject to Estate Taxes)											
	Fund is Owned by Investor and Investor's Estate is Not Subject to Estate Tax Because of Existing Exemptions and/or Charitable Bequests			Fund is Owned by Investor and is Fully Taxable in the Investor's Estate			Fund is in a Grantor Trust and Grantor Buys the Assets from the Grantor Trust for Cash Shortly Before Grantor's Death			Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 10 Years <u>Before</u> Grantor Dies			Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 10 Years <u>After</u> Grantor Dies			Fund is Held in a Non-Grantor Trust and Remaining Unrealized Income is Taxed in 10 Years		
	A			B			C			D			E			F		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Equity Fund with 5% Annual Turnover ⁽⁴⁾	6.34%	N/A	N/A	12.21%	N/A	N/A	6.00%	N/A	N/A	6.59%	N/A	N/A	7.06%	N/A	N/A	7.49%	N/A	N/A
Equity Fund with 50% Annual Turnover ⁽⁵⁾	8.16%	28.75%	N/A	15.62%	27.99%	N/A	6.91%	15.10%	N/A	7.05%	6.88%	N/A	7.37%	4.42%	N/A	8.48%	13.28%	N/A
Equity Fund with 200% Annual Turnover ⁽⁶⁾	10.86%	71.39%	33.12%	21.03%	72.34%	34.65%	7.94%	32.40%	15.03%	7.94%	20.50%	12.75%	7.94%	12.49%	7.73%	10.86%	45.10%	28.09%

(1) These calculations ignore the effect of investment management fees, state income taxes and investment friction costs. These calculations assume the estate planning vehicles are created without paying gift taxes. An equity fund owned by a tax exempt entity would need 5.52% annual growth rate of return over 10 years, assuming a 2% dividend rate, to achieve \$2.06mm.

(2) % improvement necessary to equal fund with 5% annual turnover.

(3) % improvement necessary to equal fund with 50% annual turnover.

(4) 100% short-term realized gains in year 1, 0% short-term realized gains in years 2-10; 100% long-term realized gains in years 2-10.

(5) 100% short-term realized gains in year 1; 25% short-term realized gains and 75% long-term realized gains in years 2-10.

(6) 100% short-term realized gains in years 1-10.

The asset location of a tax inefficient investment is particularly important. There is a much more modest differential on what is needed to earn pre-tax for a tax inefficient investment, in comparison to a tax efficient investment, in order to double the investment over a 10-year period, if the investment is located in an estate tax protected grantor trust, as opposed to being taxed in the taxpayer's estate. For instance, if a fund is located in an estate tax protected grantor trust, a 200% turnover fund (e.g., certain hedge funds) needs to earn 7.94% before taxes to double the value of the investment after taxes in 10 years and a 5% turnover fund (e.g., S&P 500 index fund) needs to earn 7.06% before taxes to double the investment after taxes in 10 years. Stated differently, a 12.49% improvement in annual pre-tax return is necessary for a 200% turnover fund to equal a 5% annual turnover fund, if the fund is located in a grantor trust and sold after the grantor's death (see column E(2)). Contrast this result with those same funds being held in the taxpayer's estate, if the two different types of funds are subject to estate taxes. If the funds are subject to estate taxes, a 5% turnover will need to earn 12.21% before taxes to double the investment after taxes in 10 years, and the high 200% turnover fund will need to earn 21.03% before taxes to double the investment after taxes in 10 years. A 72.34% annual pre-tax improvement in return is necessary for a 200% turnover fund to equal a 5% annual turnover fund, if the fund is fully taxable in the investor's estate (see column B(2)). The difference between 12.49% annual pre-tax needed improvement and 72.34% annual pre-tax needed improvement is obviously significant.

Similarly, Table 3 below illustrates, if the investor dies in 10 years, the annual interest required for a bond fund to grow by one-third after-tax, depending where a fund is located, and whether the fund interest is tax-free (also see attached Schedule 7).

Table 3

Annual Interest Rate Required on an Initial \$1mm Bond Fund Investment to Equal \$1.34mm for Investor's Beneficiaries for an Investor Who Dies in 10 Years ⁽¹⁾ , Depending Upon How a Fund is Located, and Percentage Improvement to Equal Tax Free Bond Fund ⁽²⁾						
Type of Bond Investment Fund	No Estate Planning Fund is Owned by Investor		Estate Planning Techniques (Fund is Not Subject to Estate Taxes)			
	Fund is Owned by Investor and is Fully Taxable in the Investor's Estate		Fund is Held in a Grantor Trust at Investor's Death		Fund is Held in a Non-Grantor Trust; or Fund is Owned by Investor and Investor's Estate is Lower than Remaining Estate Tax Exemption; or a Bequest of Fund is Made to Charity at Investor's Death	
	A		B		C	
	(1)	(2)	(1)	(2)	(1)	(2)
Tax Free Bond Fund	8.40%	N/A	3.00%	N/A	3.00%	N/A
Taxable Bond Fund	15.16%	80.51%	4.10%	36.54%	5.42%	80.51%

(1) These calculations ignore the effect of investment management fees, state income taxes and investment friction costs. These calculations assume the estate planning vehicles are created without paying gift taxes.

(2) % improvement necessary to equal tax free bond fund.

- d. Location of tax inefficient classes in a grantor trust, and managing the grantor trust through substitution strategies, further enhances the after tax advantage of a low turnover index fund.

As Column C(1) in Table 2 demonstrates the lowest pre-tax rate of return that is required to more than double the fund assets after 10 years is 6%, if a low turnover fund (e.g., a 5% turnover fund) is held in a grantor trust and if cash is substituted for the fund before the grantor's death. This is a classic example of the synergistic power of estate planning when it is coupled with a basis enhancing strategy.

- e. Flexibility advantages of gifting and selling non-managing interests in family entities to a grantor trust in which the grantor's spouse is a beneficiary.
 - (1) Flexibility could be achieved by naming a spouse as a beneficiary of the grantor trust and giving a grantor's spouse a special power of appointment.

It is possible for the patriarch or matriarch to name his or her spouse as a beneficiary of a trust and also give that spouse the power to redirect trust assets that are different than the default provisions of the trust instrument. IRC Sec. 2041 of the Internal Revenue Code provides that a person may be a beneficiary of a trust and have a power of appointment over the trust as long as the beneficiary does not have the right to enjoy the benefits of the trust under a standard that is not ascertainable and does not have the power to appoint the trust assets to either the beneficiary's estate or creditors of the beneficiary's estate. If an independent third party is trustee of the trust, that third party could have significant additional powers over the trust to distribute assets of the trust for the benefit of that spouse. If the spouse is serving as trustee and has distribution powers in that capacity, the distributions powers must be ascertainable and enforceable by a court for the health, education, maintenance standard of IRC Sec. 2041 of the Internal Revenue Code.

If unanticipated consumption problems accrue during a couple's lifetime and if the trust allows distributions to be made to meet those unanticipated consumption needs, that trust can obviously act as a safety valve for those needs. If the trust allows the grantor's spouse to appoint properties in a manner different than the default provisions of the trust, those powers of appointment could also serve as a safety valve to redirect the properties of the trust that is more consistent with the client's future stewardship goals.

A collateral benefit of the inherent flexibility of creating trusts that have the safety valve of having a client's spouse as the beneficiary, and giving that spouse a limited special power of appointment, is that the technique encourages the client to create such a trust when the client may be reluctant to do so.

- (2) Flexibility could also be achieved by refinancing the note to a note with a different interest rate, a private annuity, purchasing assets owned by the trust and/or renouncing the powers that make the trust a grantor trust.

The note retained by the grantor could also be structured and/or converted to meet the grantor's consumption needs, without additional gift taxes, as long as the restructuring is for adequate and full consideration. For instance, the note at a future time could be converted to a private annuity to last the grantor's lifetime. That conversion should be on an income tax free

basis since, as noted above, the trust and any consideration received for any sale to the trust are ignored for income tax purposes. The note could also be restructured to pay a different interest rate, as long as the new rate is not lower than the AFR rate or higher than the fair market value rate. If the grantor cannot afford to pay the trust's income taxes in the future, the trust could be converted to a complex trust that pays its own income taxes. However, converting the trust to a complex trust could have income tax consequences if the then principal balance of the note is greater than the basis of the assets that were originally sold. That difference will be subject to capital gains taxes.²⁶

- f. The taxpayer may retain investment control of the family's assets and may also retain limited control of any distributions from the transferred entity interests to family members.

What should a taxpayer who wishes to have some impact on family partnership or LLC distributions do to prevent the potential application of IRC Sec. 2036(a)(2)? The taxpayer should either adopt a strategy of selling all of his partnership interests, except the management interest, for full consideration, *or* take one of the following actions:

- (i) The retained distribution power is subject to a standard that could be enforced by a court;
- (ii) The general partnership interest or managing member interest that has distribution power could be contributed by the taxpayer to a trust where the taxpayer has the right to remove and replace the trustee, as long as the replacement is not related or subordinate; *or*
- (iii) The general partnership interest or managing member interest, that has the distribution power, could be contributed by the taxpayer to a corporation and the taxpayer could retain the voting stock and transfer the non-voting stock to his family.

- (1) Analysis of case law.

- (a) Supreme Court analysis.

Even if a general partner controls partnership distributions, the partnership agreement could be designed to address IRC § 2036(a) from including any previously transferred limited partnership interests or assignee interests in his estate. The Supreme Court's analysis in *United States v. Byrum*²⁷ provides authority that IRC § 2036(a)(1), IRC § 2036(a)(2) and IRC § 2038 do not apply (under the right facts).

A transferred partnership interest will not be included in the donor's estate under IRC Sec. 2036(a)(2) where the only distribution power is one subject to a definite external standard, which could be enforced by a court. If a distribution power is so constrained, the donor does not have the legal right to designate the persons who shall possess or enjoy the property or the income

²⁶ See Treas. Reg. Section 1.1001-2(e), Ex. 5; *Madorin v. Commissioner*, 84 T.C. 667 (1985); Rev. Rul. 77-402, 1977-2 C.B. 722.

²⁷ 408 U.S. 125 (1972).

therefrom. The original source of this doctrine is *Jennings v. Smith*,²⁸ and several other cases (e.g., see the discussion by Justice Powell of *Northern Trust Co.* and *King* cases below) have followed that logic. That court-made doctrine, or exception, to IRC Sec. 2036(a)(2) was approved by the IRS in Rev. Rul. 73-143. The *Jennings v. Smith* line of cases involved retained trustee powers by a donor of a trust. In the corporate or partnership context the external standard may be satisfied, if normal fiduciary constraints exist in the corporation or partnership. *United States v. Byrum* endorsed the proposition that this may be all that is required.

United States v. Byrum involved a case in which the IRS determined that certain transferred stock of a closely held corporation was included in a decedent's estate under IRC § 2036(a)(2). The decedent had transferred stock to a trust and retained the rights to vote the stock and also retained the power to disapprove the transfer of any trust assets, investments and reinvestments, and to remove the trustee and designate a corporate trustee. The decedent's right to vote the stock of the trust corpus, together with his right to vote the stock he owned individually, gave him the right to vote 71% of the stock.

The IRS argued that under IRC § 2036(a)(2), Mr. Byrum, the decedent, retained the right to designate the persons who had enjoyed the income from the transferred property. The Service argued that he had this right because he had control over the corporate dividend policy and could liquidate the corporation. By increasing, decreasing, or stopping the dividends completely, Byrum could indirectly "regulate the flow of the income to the trust" and thereby shift or defer the beneficial enjoyment of the trust income between the beneficiaries.

The Supreme Court rejected the Service's reasoning based on three different theories. The first theory was that the power to manage transferred assets that affect the income of a transferee, and the power to determine the inherent distributions associated with the transferred assets within a court enforceable standard, are not powers that are subject to IRC § 2036(a)(2):

At the outset we observe that this Court has never held that trust property must be included in a settlor's gross estate solely because the settlor retained the power to manage trust assets. On the contrary, since our decision in *Reinecke v. Northern Trust Co.*, 278 U.S. 339, 49 S.Ct. 123, 73 L.Ed. 410, 66 A.L.R. 397 (1929), it has been recognized that a settlor's retention of broad powers of management does not necessarily subject an inter vivos trust to the federal estate tax. Although there was no statutory analogue to § 2036(a)(2) when *Northern Trust* was decided, several lower court decisions decided after the enactment of the predecessor of § 2036(a)(2) have upheld the settlor's right to exercise managerial powers without incurring estate-tax liability. In *Estate of King v. Commissioner*, 37 T.C. 973 (1962), a settlor reserved the power to direct the trustee in the management and investment of trust assets. The Government argued that the settlor was thereby empowered to cause investments to be made in such a manner as to control significantly the flow of income into the trust. The Tax Court rejected this argument, and held for the taxpayer. Although the court recognized that the settlor had reserved "wide latitude in the exercise of his discretion as to the types of investments to be made," *id.* at 980, it did not find this control over the

²⁸ 161 F.2d, 74 (2nd Cir. 1947).

flow of income to be equivalent to the power to designate who shall enjoy the income from the transferred property.

Essentially the power retained by Byrum is the same managerial power retained by the settlors in *Northern Trust* and in *King*. Although neither case controls this one--*Northern Trust*, because it was not decided under § 2036(a)(2) or a predecessor; and *King*, because it is a lower court opinion--the existence of such precedents carries weight. The holding of *Northern Trust*, that the settlor of a trust may retain broad powers of management without adverse estate-tax consequences, may have been relied upon in the drafting of hundreds of inter vivos trusts. The modifications of this principle now sought by the Government could have a seriously adverse impact, especially upon settlors (and their estates) who happen to have been “controlling” stockholders of a closely held corporation. Courts properly have been reluctant to depart from an interpretation of tax law, which has been generally accepted when the departure could have potentially far-reaching consequences. When a principle of taxation requires reexamination, Congress is better equipped than a court to define precisely the type of conduct, which results in tax consequences. When courts readily undertake such tasks, taxpayers may not rely with assurance on what appear to be established rules lest they be subsequently overturned. Legislative enactments, on the other hand, although not always free from ambiguity, at least afford the taxpayers advance warning.²⁹

Secondly, the Supreme Court held that *Byrum* did not have a retained “right” as that term is used in IRC § 2036(a)(2) because of the fiduciary duty *Byrum* owed to the corporation:

It must be conceded that Byrum reserved no such “right” in the trust instrument or otherwise. The term “right,” certainly when used in a tax statute, must be given its normal and customary meaning. It connotes an ascertainable and legally enforceable power, such as that involved in *O’Malley*. Here, the right ascribed to Byrum was the power to use his majority position and influence over the corporate directors to “regulate” the flow of dividends” to the trust. That “right” was neither ascertainable nor legally enforceable and hence was not a right in any normal sense of that term.

. . . .

A majority shareholder has a fiduciary duty not to misuse his power by promoting his personal interests at the expense of corporate interests. Moreover, the directors also have a fiduciary duty to promote the interests of the corporation. However great Byrum’s influence may have been with the corporate directors, their responsibilities were to all stockholders and were enforceable according to legal standards entirely unrelated to the needs of the trust or to Byrum’s desires with respect thereto.³⁰

²⁹ *Byrum*, 408 U.S. at 132-35.

³⁰ *Byrum*, 408 U.S. at 136-38 (footnotes omitted).

Thirdly, the Supreme Court ruled that Byrum was not in control of determining the dividends of the corporation because of the many practical difficulties and business realities involved in such a determination, over which Byrum had no control:

There is no reason to suppose that the three corporations controlled by Byrum were other than typical small businesses. The customary vicissitudes of such enterprises--bad years; product obsolescence; new competition; disastrous litigation; new, inhibiting Government regulations; even bankruptcy--prevent any certainty or predictability as to earnings or dividends. There is no assurance that a small corporation will have a flow of net earnings or that income earned will in fact be available for dividends. Thus, Byrum's alleged de facto "power to control the flow of dividends" to the trust was subject to business and economic variables over which [he] had little or no control.

. . . .

These various economic considerations are ignored at the directors' peril. Although vested with broad discretion in determining whether, when, and what amount of dividends shall be paid, that discretion is subject to legal restraints. If, in obedience to the will of the majority stockholder, corporate directors disregard the interests of shareholders by accumulating earnings to an unreasonable extent, they are vulnerable to a derivative suit. They are similarly vulnerable if they make an unlawful payment of dividends in the absence of net earnings or available surplus, or if they fail to exercise the requisite degree of care in discharging their duty to act only in the best interest of the corporation and its stockholders.³¹

All three of the considerations that led the Supreme Court to rule that IRC § 2036(a)(2) does not exist in the corporate context could also apply in the partnership context. First of all, the partnership agreement could be designed where the donor general partner does not have the "legal right" to enjoy any of the income of that transferred limited partnership interest or that assignee interest, or to determine who does enjoy that income because he may only retain a distribution power that relates to partnership objectives that may be enforced by a court. Secondly, the partnership agreement could be designed where the donor general partner has a fiduciary duty not to misuse his power to promote his personal interest at the expense of the partnership (just as a majority shareholder has a fiduciary duty not to misuse his power by promoting his personal interests at the expense of the corporation). Thus, it is important not to negate normal state law fiduciary duties a partner owes to the partnership. Thirdly, the customary vicissitudes of enterprises that affect a corporation's ability to make distributions also affect a partnership's ability to make distributions (even with securities partnerships, the vicissitudes of the Dow certainly affect distribution). Thus, just as Byrum was not in control of the dividend policy of the corporations because of these outside factors, a general partner may not be in control of the cash flow of the partnership because of those same outside factors.

³¹ *Byrum*, 408 U.S. at 139-42 (footnotes omitted).

(b) Tax Court analysis by Judge Cohen in the *Strangi* case.

In the past, the IRS has ruled privately that because of the controlling case authority in *United States v. Byrum*, IRC § 2036(a)(2) does not apply with a properly worded partnership agreement where the partners follow the agreement.³² However, *Byrum* was distinguished, and the private rulings were disavowed, by Judge Cohen in dicta in a memorandum opinion in the *Strangi* case discussed below.

In addition to whether IRC Sec. 2036(a)(1) applies to the facts of *Strangi* (discussed below), Judge Cohen addressed whether IRC Sec. 2036(a)(2) applies to the facts of *Strangi*. Judge Cohen, citing *United States v. O'Malley*, 383 U.S. 627, 631 (1966), held that IRC Sec. 2036(a)(2) applies because the decedent, in conjunction with other individuals, had the power to accumulate partnership income for the benefit of each partner, rather than disperse that income, which in turn constituted a “right to designate” under IRC Sec. 2036(a)(2). The Court distinguished the facts under *United States v. Byrum*, *supra*, finding that the decedent, along with others, had management rights that exceeded the administrative powers in *Byrum* and, most important, that management in *Strangi* did not owe fiduciary duties that would limit its distribution powers as they were limited in *Byrum*.

Judge Cohen's holding in effect attributes the power of the corporate general partner to the decedent, among others, both because of the decedent's 47% ownership of, and board membership in, the corporate general partner, and because the general partner hired as managing partner the decedent's attorney-in-fact. Since the general partner's right to distribute income or not distribute it does not include a right to shift ownership of the income among partners or to a non-partner, Judge Cohen's holding endorses (without discussing) the idea that a power to control only the timing of receipt of income is a power to designate under IRC Sec. 2036(a)(2).

(c) Full Tax Court analysis in the *Cohen* case.

The IRC Sec. 2036(a)(2) position taken by Judge Cohen in *Strangi* is contrary in certain key respects to the position taken by the full Tax Court in *Estate of Cohen v. Commissioner*, 79 T.C. 1015 (1982). (It should be noted that Judge Cohen ignored this full Tax Court Opinion in her analysis in her *Strangi* opinion.) In *Cohen* the decedent was a co-trustee of a Massachusetts business trust. The trust agreement gave the decedent and his co-trustees broad management powers with respect to the property of the trusts, including the discretionary power to determine whether to declare dividends on common shares of the business trust. Similar to *Strangi*, the Internal Revenue Service argued that the dividend power possessed by the decedent and the co-trustees gave them the “right” to designate the persons who enjoy trustee income.

The *Cohen* emphasized the similarities between the Massachusetts business trust and the corporation in *Byrum*, and stated that “the very fact that we are concerned here with the

³² See Tech. Adv. Mem. 9131006 (citing *Byrum* for the proposition that the Service will not consider the managing partner in a typical FLP, because of his or her fiduciary duty obligations, as having retained an IRC Sec. 2036(a)(2) power over the transferred limited partnership interest); see also Rev. Rul. 81-15, 1981-1 C.B. 457; P.L.R. 9415007 (Jan. 12, 1994); P.L.R. 9332006 (Aug. 20, 1992); P.L.R. 931-039 (Dec. 16, 1992); P.L.R. 9026021 (Mar. 26, 1990); G.C.M. 38,984 (May 6, 1983); G.C.M. 38,375 (May 12, 1980).

declaration of *dividends* on *shares* representing interests in the entity bolsters the corporate analogy, and thus the relevance of *Byrum*.” *Id.* at 1025. The Court further opined that:

In *Byrum*, the critical impediments to the transformation of the power to affect dividend policy into a right to designate enjoyment where the fiduciary obligations imposed by local law on *Byrum* as a controlling shareholder and on the corporate directors he could elect. Therefore, the issue here must turn upon the construction of this trust agreement under Massachusetts law. ***If the agreement may be said to give the trustees unlimited discretion in this respect, so that dividends could be arbitrarily and capriciously withheld or declared, then the dividend power would constitute a “right” under section 2036(a)(2); if, on the other hand, the power is circumscribed by cognizable limits on the exercise of discretion, then no such “right” exists.***

Id. (emphasis added).

The Court determined that a fair reading of the trust agreement would permit the omission of the dividend (or a reduction in amount) “only if the determination to eliminate or reduce the dividend were made in good faith and in the exercise of a bona fide business judgment.” *Id.* at 1026. Thus, the Court held that

In view of the perceived limitations on the dividend power in the trust agreement in question, and the apparent willingness of the Massachusetts courts to hold business trustees to a fair standard of conduct, we conclude that the decedent and his sons did not have the power to withhold dividends arbitrarily. Thus, they did not have an “ascertainable and legally enforceable” *right* to shift income between the classes of shareholders, and the dividend power does not require inclusion of either the common or preferred shares in the decedent’s estate under section 2036(a)(2). We think *Byrum* is controlling.

Id. at 1027.

- (2) Six separate methodologies that may prevent running afoul of IRC Sec. 2036(a)(2) inclusion with respect to managing partner donors and owners of partnership interests.

If the taxpayer does not retain a distribution power, then he or she will not run afoul of IRC Sec. 2036(a)(2). Other than not retaining any input in distribution decisions by the partnership, what should a potential donor of partnership interests do to circumvent IRC Sec. 2036(a) scrutiny? The following actions should assist:

- (a) Successfully making the argument that the *O’Malley* analysis and the prerequisites of IRC Sec. 2036(a)(2) are not applicable to a donor partner, who retains a distribution power over a family partnership that is subject to a formula that a court could enforce.

No other court has reviewed Judge Cohen’s analysis. This writer believes that if another court reviews her analysis that Court may find her analysis problematic for either of three reasons: (i) that court may find that it is a matter in which IRC Sec. 2033 supersedes IRC Sec. 2036 for estate inclusion purposes; (ii) the analysis in the *Estate of Cohen* is more appropriate; or (iii) that

court may find that, unlike the situation with the trust described in the *O'Malley* case, *supra*, cited by Judge Cohen in *Strangi*, the decedent did not retain the “legal right to designate” who would receive the income of the partnership assets, because each donee partner beneficially owns, through the partnership, any past, current or future income that belongs to his partnership interest, whether it is distributed to him or not.

IRC Sec. 2036(a)(2) will apply to assets contributed to a partnership, if the decedent at the moment of his death had the legal right, either alone or in conjunction with any person, to designate the *persons* who shall possess or enjoy the property or the income therefrom, and not solely the power to affect the *timing* of distributions to such persons, particularly when those persons have the power to receive value for any distributions that are not currently paid.

Assuming the managing partner acts in that capacity with others, it is generally existing precedent that the phrase “in conjunction with any person” in IRC Sec. 2036(a)(2) does not apply to a decedent, like the decedent in *Strangi*, who would have to persuade others (in a non-trusteeship capacity) to act. As Professor Dodge noted:

... a ‘power’ to persuade others to act, or join in acting, in a way that could affect possession or enjoyment of the transferred property is not considered to be a taxable power. This rule is not limited to the obvious situation where the transferor is not a member of the decision-making body (if such were deemed to be a taxable power, nothing would be immune from §§2036(a)(2) and 2038). The rule applies even to cases in which the transferor is a member of the decision-making group, provided that such body is not a trusteeship (or equivalent body) whose sole purpose is to administer the transferred property. Thus, the doctrine has been applied to irrevocable death-benefit and stock-transfer situations in which the transferor was a major stockholder, executive committee member, and/or member of the board of directors. These holdings probably cover the situation in which the transferor has more than 50% control over the entity, although there is authority in other areas [life insurance and contractual death benefits] lending support to the contrary position. . .³³

See Estate of Tully v. United States, 528 F.2d 1401 (Ct. Cl. 1976). *But see Estate of Levin v. Commissioner*, 90 T.C. 723 (1988).

A court may also find that IRC Sec. 2036(a)(2) does not apply, even if the court finds the decedent-managing partner had control, because the managing partner did not have the *legal right to designate the persons* who shall possess or enjoy the property or the income therefrom. The managing partner in the subject partnership may have the power to accumulate income owed to a partner and pay it at a later time to the partner (or to the partner’s estate). However, that income will always be paid or held for the benefit of *that partner* and not some other person. That partner, directly or indirectly, has the ability to enjoy the benefit of any accumulation of income, without interference from the managing partner, by selling his partnership interest. Stated differently, any partner, by simply selling his interest, has the right, in effect, to veto a managing partner’s attempt to deny that partner the economic benefit of accumulating the current income.

³³ Joseph M. Dodge, Transfers With Retained Interest In Powers, 50-5th Tax Mgmt. Port. (BNA) at A-46.

A court may conclude that Judge Cohen incorrectly compares the trust in *O'Malley* (in which the current beneficiaries may not receive all of the trust estate) to a vested partnership interest. Trusts, of course, are significantly different legal relationships than partnerships. In *O'Malley* the trustee had the ability to withhold income and that withheld income would be accumulated in the trust estate, which could then pass to beneficiaries at the time of the termination of the trust. If the beneficiary did not live beyond the term of the trust, then that property would pass to a different beneficiary (i.e., a different person).

Assume, instead of the facts of *O'Malley*, that a beneficiary of a trust had, at any time, the right to enjoy the income of the trust without trustee interference. For instance, if the beneficiary of the trust in *O'Malley* had a unilateral, unlimited power to enjoy the benefit of the past, current and future income of the trust by vetoing the trustee's accumulation exercise and/or a power to sell the past, current or future income rights of the trust, at any time before the trust terminates, without trustee interference, the trustee would not have the *legal right to designate* which trust beneficiary would enjoy the income.

Similarly, the partners in *Strangi* (and almost all other partnerships and/or business trusts as analyzed in the *Estate of Cohen*) had the right at any time to sell the past, current and future income of the partnership, without managing partner interference, through their right to sell their partnership interests (subject to any rights of first refusal that may have existed under the partnership agreement). The managing partner in *Strangi* did not retain the *legal right to designate* that another person (i.e., another partner) had the right to enjoy that partner's past, current or future income of the partnership. Thus, another court may conclude the distribution powers of the managing partner may affect valuation under IRC Sec. 2033, but those powers do not constitute a *legal right to designate* that another person receives the benefit of that partner's income.

- (b) Taxpayers should consider adopting a strategy of selling partnership interests (perhaps to defective grantor trusts) in exchange for a note or other full consideration.

The sales should be made for full and adequate consideration. If there is any gift element, and if the prerequisites of IRC Sec. 2036(a)(2) are met, IRC Sec. 2036(a)(2) could apply, at least with respect to the growth in value of the partnership interest, to cause inclusion in the donor's estate. Thus, that transferor partner may wish to sell his or her partnership interest, pursuant to a formula defined value allocation (assuming the formula can be structured, and is structured, in a manner that is not contrary to public policy). Even if the transferor retains a potential IRC Sec. 2036(a)(2) power, if the transfer is for full and adequate consideration (i.e., if the formula is honored), IRC Sec. 2036(a)(2) does not apply. (Additionally, if there is some consideration, but not full consideration, IRC Sec. 2043 would provide for partial inclusion.)

- (c) IRC Sec. 2036(a)(2) inclusion should not present any issues if the partnership agreement is structured to provide the same fiduciary constraints that Mr. Byrum had that a court could enforce.

Normal partnership fiduciary duties should be affirmed in the partnership agreement, including fiduciary constraints on the distribution power that are consistent with Mr. Byrum's constraints. In order to provide protection for management that is acceptable under IRC Sec.

2036(a)(2), consider providing for arbitration for any partner disagreements with management decisions. Consider providing that management will only be liable for decisions that are not within the confines of the business judgment rule. Also consider providing in the partnership agreement that any party who loses that arbitration action shall pay for all costs associated with that arbitration action.

- (d) IRC Sec. 2036(a)(2) inclusion should not present any issues if the donor partner's distribution power is limited by standards that a court could enforce and complies with Revenue Ruling 73-143.

If the donor partner is going to retain a distribution power, consideration should be given to having the distribution power of the managing partner limited to a standard that may be enforced by a court. See Rev. Rul. 73-143, 1973-1 C.B. 407. This may be crucial. If the donor of a partnership interest is the sole managing partner, any gifts of partnership interests may be brought back into the donor's estate under IRC Sec. 2036(a)(2), if the ability to accumulate income for a partner is considered to be a legal right to designate that another person (i.e. another partner) enjoys the past, current or future income of the partnership. Stated differently, if *O'Malley* analysis applies to partnerships and if the transfer of the partnership interest is not for adequate and full consideration, IRC Sec. 2036(a)(2) may apply unless the dispositive powers are limited by standards that a court can enforce. If the dispositive powers retained by the donor partner are not limited by standards, it may not matter what other actions or drafting constraints are present (with the possible exception of a sale for adequate and full consideration). On the other hand, the transferred partnership interest will not be included in the donor's estate under IRC Sec. 2036(a)(2) where the only distribution power is one subject to a definite external standard subject to supervision by a court. If a power is so constrained, the donor does not have the legal right to designate the persons who shall possess or enjoy the property or the income therefrom. The original source of this doctrine is *Jennings v. Smith*,³⁴ but it has been approved by the IRS in Rev. Rul. 73-143.

A caveat: the application of the doctrine to powers that, though subject to an enforceable standard, are exercisable in favor of the creator of the power is uncertain. Thus, this approach has greater certainty in negating IRC Sec. 2036(a)(2) with respect to gifted partnership interests than with respect to partnership assets deemed retained by the decedent under IRC Sec. 2036(a)(1). Stated differently, the standard may put more pressure on any potential Sec. 2036(a)(1) argument by the IRS. Obviously, this is not a concern, if the taxpayer only retained *de minimis* partnership interests (i.e., that partner has already transferred all but a small portion of the partnership interests). Secondly, in those situations where significant partnership interests have been retained, if as a matter of partnership practice, the partnership distributions pursuant to the standard are different than the income earned by the partnership assets, the standard may buttress the argument that the decedent-managing partner did not retain income rights with respect to the underlying partnership assets. Furthermore, if the managing partner retains most of his limited partnership interest, there is significant authority that the underlying assets of the partnership that the managing partner originally contributed will not be brought back into that partner's estate under IRC Sec. 2036(a)(1), because the retained right with respect to the

³⁴ 161 F.2d 74 (2d Cir. 1947).

distributions is *a retained right with respect to the partnership interest* and not a retained right with respect to the underlying assets of the partnership. See *Estate of Boykin v. Commissioner*, T.C. Memo 1987-134, 53 T.C.M. 345, (1987). *Boykin* (according to legislative history) led to the passage of the infamous IRC Sec. 2036(c), in which Congress overturned existing case law and applied IRC Sec. 2036 to include the contributed assets to an “enterprise” back into the partner or shareholder’s estate. In 1990, Congress repudiated its previous work and repealed IRC Sec. 2036(c) (thus, implicitly approving the result of *Boykin*). Stated differently, the prevailing case law with respect to entities, and recent Congressional legislative history when IRC Sec. 2036(c) was repealed, may be persuasive that rights with respect to income of significant retained partnership interests should not be considered rights to possess the partnership assets or income.³⁵

An example of partnership drafting that provides a distribution power that is subject to court enforcement is the following:

No Other Distributions. Except as provided in this Article, the Partnership shall make no distributions of cash or other property to any Partner until its liquidation as provided in Section ____.

Distributable Cash. Distributable Cash includes only that cash held by the Partnership at the end of a Fiscal Year after reasonable reserves of cash have been set aside by the Partnership Management, subject to the duties imposed by Section ____, for working capital and other cash requirements, including current and reasonably projected expenses, current and reasonably projected investment opportunities, and reasonably anticipated contingencies. For purposes of this Section, any of the Partnership Assets which are contributed to the Partnership by the Partners, any borrowed funds, and any cash generated upon the sale of any of the Partnership Assets, including Partnership Assets which are purchased with borrowed funds and including the cash attributable to appreciation in value, shall be considered as necessary for investment purposes.

Operating Distributions. From time to time during each Fiscal Year, the Partnership may distribute any part or all of the Distributable Cash proportionately to each of the Partners based on their Percentage Interests; provided that no more than sixty days after each Fiscal Year, the Partnership shall distribute all of the Distributable Cash proportionately to each of the Partners based on their Percentage Interests. No distributions under this Section shall have the effect of changing any of the Percentage Interests.

To ensure that there are no issues with IRC Sec. 2036(a)(2), caution would indicate that the method listed above should be implemented, even if the donor is not a general partner or manager, because the donor may be imputed with the actions of other partners, as per the analysis of the Court in *Strangi*, and because of the Court’s interpretation of the “in conjunction with any person” rule of IRC Sec. 2036(a)(2).

If discretion is not removed from the general partner or manager, is it sufficient protection under IRC Sec. 2036(a)(2) for the transferor not to act as general partner or manager? The answer

³⁵ See the discussion in Section VII B 2 i of this paper.

should be yes. In this regard, however, it should be noted that under Judge Cohen's analysis there are two pitfalls that must be planned for. First, the donor must not bear such a relationship to any of the general partners or managers that their powers will be attributed to him. For example, in *Strangi* the manager was the donor's attorney-in-fact, who had established the partnership, and the manager's powers were imputed to the donor. Whether this principle would be extended to, for example, the donor's children or spouse, is uncertain, but a strong argument can be made that it should not be extended to anyone, such as a child or spouse, who could serve as trustee of a trust created by the donor without triggering IRC Sec. 2036(a)(2). However, it should be noted that the person who had Mr. Strangi's power of attorney (Mr. Gulig) could have served as trustee without triggering IRC Sec. 2036(a)(2). Second, the donor must not have any rights as limited partner that could affect the timing of distribution of income. One such right identified by Judge Cohen was the right as limited partner to participate in a vote to dissolve the partnership. While this holding was questionable (see the discussion of joint action as a retained "power" above), it cannot be ignored until it is overturned. In effect the limited partners (or at least the donor as limited partner) must be stripped of any rights normally pertaining to limited partners under state law that could implicate IRC Sec. 2036. It is difficult to say where the line must be drawn; as a practical matter safety is achieved only by stripping the transferor of all voting rights he would otherwise have as limited partner.

- (e) IRC Sec. 2036(a)(2) inclusion should not present any issues if the donor partner contributes the partnership interest that controls the distribution power to a trust and retains the power to remove and replace the trustee in a manner that complies with Revenue Ruling 95-58.

If a donor partner wishes to have some influence on distributions, but does not wish to have distributions subject to an enforceable standard, the donor partner could utilize Rev. Rul. 95-58. For instance, the potential donor-managing partner could bifurcate the powers of the general partner. That is, one general partnership interest could have all of the powers of management, except the discretionary right to make distributions. Another general partnership interest would only have rights with respect to determining the distributions of the partnership. The donor general partner would not own the general partnership interest that has the distribution power. The "distribution power" general partnership interest then could be contributed to a trust. The donor could retain the right to remove the trustee, and under Rev. Rul. 95-58, 1995-2 C.B. 151, as long as the successor trustee is not related or subordinate to the donor, concerns about the application of IRC Sec. 2036(a)(2) are addressed.

- (f) IRC Sec. 2036(a)(2) inclusion should not present any issues if the donor partner contributes the partnership interest that controls distribution powers to a corporation that has the same considerations and constraints in its structure as existed in *Byrum* and complies with Revenue Ruling 81-15.

If a donor partner, wishes to retain the distribution power (and not delegate it to a "removable" independent trustee) and have that power "free" of an enforceable standard, except to the extent fiduciary restraints exist in the corporation consistent with the *Byrum* case,

consideration should be given to utilizing the safe harbor under Revenue Ruling 81-15, 1981-1 C.B. 457. The managing partner interest, including all powers with respect to making discretionary distributions of the partnership, could be contributed by the taxpayer to a Subchapter S corporation. The voting rights of the stock of the corporation could be bifurcated between full voting stock and limited voting stock (e.g., a ratio of 1:99). The “limited” voting stock may be allowed to only vote on decisions with respect to dissolution of the partnership or the corporation. The potential donor could then transfer both limited partnership interests and a majority of the stock that has the limited voting rights to a trust for the benefit of others in his family. Even though the taxpayer controls a corporation, which in turn controls distributions from the partnership, Revenue Ruling 81-15, in combination with the reasoning of the *Byrum* case, appears to provide a safe harbor from application of IRC Sec. 2036(a)(2) to such transfers.

(3) Conclusion.

A donor giving or selling FLP interests, or non-managing member interests in a FLLC, may be able to retain investment control and limited distribution control with respect to the transferred interests. Secondly, until the donor transfers the equity interests that determine future investment control, the donor has flexibility to determine who should have that future stewardship.

3. Considerations of the Technique.

- a. There may need to be substantive equity in the trust from prior gifts (is 10% equity enough?) before the sale is made.

The note needs to be treated as a note for tax purposes. Generally, estate and gift tax law follows state property law.³⁶ Thus, there needs to be a strong likelihood that the note will be paid and the capitalization of the trust should not be too “thin.”³⁷ If the assets of the trust are almost

³⁶ See *United States v. Bess*, 357 U.S. 51 (1958); *Morgan v. Commissioner*, 309 U.S. 78 (1940).

³⁷ In the corporate context see IRC Sec. 385(b); *Miller v. Commissioner*, T.C. Memo 1996-3, 71 T.C.M. (CCH) 1674; see also IRC Sec. 385 (titled “Treatment of Certain Interests In Corporations As Stock or Indebtedness”); Notice 94-47, 1994-1 C.B. 357. See also, Staff of the Joint Committee on Taxation, “Federal Income Tax Aspects of Corporate Financial Structures,” JCS-1-89, at 35-37 (1989), noting that various courts have determined that the following features, among others, are characteristic of debt:

- 1) a written unconditional promise to pay on demand or on a specific date a sum certain in money in return for an adequate consideration in money or money’s worth, and to pay a fixed rate of interest;
- 2) a preference over, or lack of subordination to, other interests in the corporation;
- 3) a relatively low corporate debt to equity ratio;
- 4) the lack of convertibility into the stock of the corporation;
- 5) independence between the holdings of the stock of the corporation and the holdings of the interest in question;
- 6) an intent of the parties to create a creditor-debtor relationship;
- 7) principal and interest payments that are not subject to the risks of the corporation’s business;
- 8) the existence of security to ensure the payment of interest and principal, including sinking fund arrangements, if appropriate;
- 9) the existence of rights of enforcement and default remedies;
- 10) an expectation of repayment;
- 11) the holder’s lack of voting and management rights (except in the case of default or similar circumstance);
- 12) the availability of other credit sources at similar terms;
- 13) the ability to freely transfer the debt obligation;
- 14) interest payments that are not contingent on or subject to management of board of directors’ discretion; and
- 15) the labelling and financial statement classification of the instrument as debt.

Some of these criteria are the same as those specified in §385, but this elaboration is a more extensive summary of the factors applicable in making the determination.

equal to the value of the note, the note may not be considered a note under equitable tax principles, but rather a disguised interest in the trust. If the note is considered a disguised interest in the trust, the provisions of the trust and the note may not satisfy the requirements of IRC Sec. 2702 and, thus, all of the assets of the trust could be considered as having been given to the donees (the remainder beneficiaries of the trust) without any offsetting consideration for the value of the note. If the note is considered a disguised retained beneficial interest in the trust, instead of a note, the IRS may take the position that IRC Secs. 2036 and/or 2038 apply on the death of the taxpayer.³⁸ Based on a private letter ruling in 1995³⁹ and the statutory make-up of IRC Sec. 2701, many practitioners and commentators seem to be comfortable with leverage that does not exceed 90%.⁴⁰

b. State income tax considerations.

Many states that have a state income tax have similar provisions to the federal tax law with respect to grantor trusts, but it is not clear all states would follow the logic of Rev. Rul. 85-13. Thus, there could be state income tax consequences with the sale, whether there are capital gains consequences and/or there could be a mismatch of the interest income and interest deduction associated with any sale.

c. The IRS could be successful in the argument, that because of the step transaction doctrine, a valuation discount is not appropriate in valuing the transferred entity interest.

The common law doctrine known as the step transaction doctrine, which is an application of the larger substance over form doctrine, could under certain circumstances, be used by the IRS to deny the tax benefit of taking a valuation discount on the sale of the partnership interest to the grantor trust as illustrated in this Example 3.⁴¹ In applying the step transaction doctrine, the IRS or court may not treat the various steps of the transfer as independent. Instead, the steps in creating the partnership and transferring a partnership interest may be collapsed into a single transaction. Under the circumstances of creating the partnership and selling an interest to a grantor trust, the crucial key to not run afoul of the step transaction doctrine may be establishing that the creation of the family limited partnership (“FLP”) or FLLC should stand on its own. Could the act of a transferor creating a FLP or FLLC be independently separated from the gift and/or sale to the trust? The creation of the FLP or FLLC should be designed to be sufficiently independent on its own and as an act that does not require a gift and/or sale to that trust. There

See also the discussion of what constitutes a valid indebtedness in *Todd v. Comm’r.*, T.C. Memo 2011-123, aff’d per curiam 486 Fed. App. 423 (5th Cir. 2012).

³⁸ The IRS made that argument in *Karmazin* (T.C. Docket No. 2127-03, 2003), but the case was settled on terms favorable to the taxpayer. In *Dallas v. Commissioner* (T.C. Memo 2006-72) the IRS originally made that argument, but dropped the argument before trial. The IRS is currently making both of those arguments in two docketed cases, *Estate of Donald Woelbing v. Commissioner* (Docket No. 30261-13) and *Estate of Marion Woelbing v. Commissioner* (Docket No. 30260-13).

³⁹ P.L.R. 9535026 (May 31, 1995).

⁴⁰ See Martin Shenkman, “Role of Guarantees and Seed Gifts in Family Installment Sales,” 37 Estate Planning 3 (Nov. 2010).

⁴¹ See Donald P. DiCarlo, Jr., “What Estate Planners Need to Know About the Step Transaction Doctrine,” 45 Real Prop. Tr. & Est. L.J. 355 (Summer 2010).

does not have to be a business purpose for the creation of the trust. It is difficult for this writer to understand the business purpose of any gift. As noted above, the Supreme Court has said on two separate occasions, estate and gift tax law should be applied in a manner that follows a state property law analysis.⁴² Thus, the key questions could be, is the creation of the FLP or FLLC recognized for state property law purposes, and is its creation independent of any other events, including the subsequent gift and/or sale to the trust? It would seem to this writer in many situations it could be demonstrated that the creation of the trust did not require a gift and/or sale to that trust of the interest in the FLP or FLLC for state law property purposes or for tax purposes. Furthermore, as noted above, a sale to such a trust has economic risk to the trust. The trust has both risk and reward. The value of the assets could depreciate below the value of the note. Depending upon the size of the transaction, 10% equity may represent real risk in comparison to the reward of the leverage. One percent equity may not.

An excellent discussion of the interrelationship of state property law, federal transfer tax law and the step transaction doctrine in the transfer tax context is found in the *Linton*⁴³ case. This case involved the identification of what was transferred for gift tax purposes. The Linton's transferred certain assets to a FLLC and then transferred the FLLC interests to trusts for the Linton family. The question before the court was whether, for gift tax purposes, the transfers were the assets contributed to the FLLC or the FLLC interests. The court held the transfers were the FLLC interests:

The state law of gifts informs our analysis of whether and when the donor has parted with dominion and control in a manner adequate to give rise to federal tax liability. *See Jones v. Comm'r*, 129 T.C. 146, 150 (2007) (“In order to make a valid gift for Federal tax purposes, a transfer must at least effect a valid gift under the applicable State law.”); *cf. United States v. Nat'l Bank of Commerce*, 472 U.S. 719, 722 (1985) (“[I]n the application of a federal revenue act, state law controls in determining the nature of the legal interest which the taxpayer had in the property.” (quotation omitted)); *Aquilino v. United States*, 363 U.S. 509, 514 n. 3 (1960); *Shepherd v. Comm'r*, 115 T.C. 376, 384 (2000), *aff'd* 283 F.3d 1258 (11th Cir. 2002) (“look[ing] to applicable State law . . . to determine what property rights are conveyed”). This conclusion follows from the general principle that federal tax law “creates no property rights but merely attaches consequences, federally defined, to rights created under state law.” *Nat'l Bank of Commerce*, 472 U.S. at 722 (quotation omitted); *Morgan v. Comm'r*, 309 U.S. 78, 80 (1940) (“State law creates legal interests and rights. The federal revenue acts designate what interests or rights, so created, shall be taxed.”); *cf. United States v. Mitchell*, 403 U.S. 190, 197 (1971) (explaining that “federal income tax liability follows ownership. . . . In the determination of ownership, state law controls.”).

⁴² *See United States v. Bess*, 357 U.S. 51 (1958); *Morgan v. Commissioner*, 309 U.S. 78 (1940).

⁴³ *See Linton v. United States*, 630 F.3d 1211 (9th Cir. 2011); *see also* the following cases which also held that the step transaction doctrine did apply under the facts of the case: *Holman v. Commissioner*, 601 F.3d 763 (8th Cir. 2010); *Senda v. Commissioner*, 433 F.3d 1044 (8th Cir. 2006); *Gross v. Commissioner*, T.C. Memo 2010-176 (2010); *Shepherd v. Commissioner*, 115 T.C. 376 (2000). *But see Heckerman v. United States*, 104 A.F.T.R. 2d 5551 (W.D. Wash. 2009), which held the step transaction doctrine did apply.

The step transaction doctrine treats multiple transactions as a single integrated transaction for tax purposes if all of the elements of at least one of three tests are satisfied: (1) the end result test, (2) the interdependence test, or (3) the binding commitment test. *True v. United States*, 190 F.3d 1165, 1174-75 (10th Cir. 1999). Although the doctrine considers the substance over the form of the transactions, “anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose the pattern which will best pay the Treasury.” *Brown*, 329 F.3d at 671 (quoting *Grove v. Comm’r*, 490 F.2d 241, 242 (2d Cir. 1973)).

The step transaction doctrine has been described as “combin[ing] a series of individually meaningless steps into a single transaction.” *Esmark, Inc. & Affiliated Cos. v. Comm’r*, 90 T.C. 171, 195 (1988). We note as a threshold matter that the government has pointed to no meaningless or unnecessary step that should be ignored. Nonetheless, examining the step transaction doctrine in light of the three applicable tests, we conclude that its application does not entitle the government to summary judgment.

The end result test asks whether a series of steps was undertaken to reach a particular result, and, if so, treats the steps as one. *True*, 190 F.3d at 1175. Under this test, a taxpayer’s subjective intent is “especially relevant,” and we ask “whether the taxpayer intended to reach a particular result by structuring a series of transactions in a certain way.” *Id.* The result sought by the Lintons is consistent with the tax treatment that they seek: The Lintons wanted to convey to their children LLC interests, without giving them management control over the LLC or ownership of the underlying assets. Ample evidence supports this intention. The end result sought and achieved was the gifting of LLC interests. If the transactions could somehow be merged, the Lintons would still prevail, because the end result would be that their gifts of LLC interests would be taxed as they contend.

The interdependence test asks “whether on a reasonable interpretation of objective facts the steps were so interdependent that the legal relations created by one transaction would have been fruitless without a completion of the series.” *Associated Wholesale Grocers, Inc. v. United States*, 927 F.2d 1517, 1523 (10th Cir. 1991) (quotation marks omitted). Under this test, it may be “useful to compare the transactions in question with those we might usually expect to occur in otherwise bona fide business settings.” *True*, 190 F.3d at 1176.

The placing of assets into a limited liability entity such as the LLC is an ordinary and objectively reasonable business activity that makes sense with or without any subsequent gift. In *Holman v. Commissioner*, the Tax Court stated that the creation of a limited partnership was not necessarily “fruitless” even if done in anticipation of gifting partnership interests to the taxpayers’ children. 130 T.C. 170, 188, 191 (2008) (holding the creation of the limited partnership and the subsequent transfer of partnership interests should not be treated as a single transaction). The Lintons’ creation and funding of the LLC enabled them to specify the terms of the LLC and

contribute the desired amount and type of capital to it—reasonable and ordinary business activities. These facts do not meet the requirements of the interdependence test.

The binding commitment test asks whether, at the time the first step of a transaction was entered, there was a binding commitment to take the later steps. *Comm'r v. Gordon*, 391 U.S. 83, 96 (1968). The test only applies to transactions spanning several years. *True*, 190 F.3d at 1175 n. 8; *Associated Wholesale Grocers*, 927 F.2d at 1522 n. 6; *McDonald's Rests. of Illinois, Inc. v. Comm'r*, 688 F.2d 520, 525 (7th Cir. 1982) (rejecting application of the test for transactions spanning six months). Here, the Lintons' transactions took place over the course of no more than a few months, and arguably a few weeks. The binding commitment test is inapplicable.

The government is therefore not entitled to summary judgment based on an application of the step transaction doctrine.

- d. If the assets decrease in value, the gift tax exemption equivalent may not be recoverable.

If a trust's assets decrease in value the gift tax exemption equivalent may not be recoverable. The problem inherent in creating a grantor trust, using the grantor's gift tax exemption equivalent, and leveraging that gift through a sale, is that the trust assets could decrease in value. In comparison to the creation of a grantor retained annuity trust ("GRAT") (see Section III C of this paper), this may have the disadvantage of wasting a grantor's gift tax exemption equivalent.

- e. There may be capital gains consequences with respect to the note receivables and/or note payables that may exist at death.

Under the facts of Revenue Ruling 85-13, 1985-1 C.B. 184, a grantor of a trust purchases all of the assets of that trust in consideration for an unsecured promissory note. The purchase is done in a manner that makes the trust a grantor trust. The key issue to be decided by the Service in the revenue ruling is as follows:

To the extent that a grantor is treated as the owner of a trust, *whether the trust will be recognized as a separate taxpayer capable of entering into a sales transaction with the grantor.* (Emphasis added.)

The Service determined that for income tax purposes the trust was not capable of entering into a sales transaction with the grantor as a separate taxpayer. The Revenue Ruling then cited some old cases for the common sense proposition that a taxpayer cannot enter into transactions with himself for income tax purposes and have it recognized. The trust would not be capable of entering into a sales transaction for income tax purposes as a separate taxpayer until the moment of the grantor's death. For income tax purposes, the trust itself is not created and recognized as a separate taxpayer until the moment of the death of the grantor.

If a grantor sells low basis assets to a grantor trust for a note, and if there is an outstanding note **receivable** at death that exceeds the basis of the assets that were sold, is there a capital gains transaction at death when the grantor trust converts into a trust that is for the first time recognized for income tax purposes? The grantor's death is the event, for income tax purposes, that first

causes the asset contribution to the trust to be recognized and first causes the sale of certain of those assets to the trust for a note to be recognized. Consider the following analogous example: a decedent directs in his will that his executor contribute certain assets to a trust and sell certain assets to that trust. There would not be any income taxes to the decedent's estate with that sale. Is that the proper analysis when there is an outstanding receivable from a grantor trust at the grantor's death? There is no definitive authority on that question and there is a debate among the commentators as to the correct assumption.⁴⁴ To the extent this is a concern, the note could be paid in-kind by the trust before the death of the grantor (perhaps with a low basis asset that will receive a basis step-up on the death of the grantor).

If a grantor purchases a low basis asset from a grantor trust, what is the trust's basis in any note **payable** to the trust by the decedent grantor at the moment of death? The grantor's death is the event, for income tax purposes, that first causes the asset contribution to the trust to be recognized and first causes the purchase of certain of those assets to the trust for a note to be recognized. Consider the following analogous example: a decedent directs in his will that the executor create a trust with part of the assets of his estate. The decedent then directs that the executor purchase certain of those assets from the trust with a note. The decedent finally directs the executor to pay the note with other assets of his estate. There would not be any income taxes recognized by the trust with that payment. Is that the proper analysis in determining the tax consequences of a payment of a note payable to a grantor trust upon the grantor's death, which is the moment when all of the transactions are first recognized for income tax purposes? Again, there is no definitive authority on what the trust's basis in a note payable to the trust is at the moment of death, and the possibility exists that a court could find that the basis of the note is equal to the basis of the trust assets sold to the grantor at the time of the purchase.

To the extent this is a concern, it could be mitigated by the grantor borrowing cash from a third party lender and using that cash to eliminate the note owed to the trust. At a later time, perhaps after the trust is converted to a complex trust for income tax purposes, the grantor (or his executor) could borrow the cash from the trust and pay the third party lender. If the trust, at that later time, does loan cash to the grantor or the executor of the grantor's estate, the trust's basis in that note should be equal to the cash that is loaned. (See the discussion in Section V A of this paper.)

⁴⁴ Compare Cantrell, *Gains is Realized at Death*, TR. & ESTS. 20 (Feb. 2010) and Dunn & Handler, *Tax Consequences of Outstanding Trust Liabilities When Grantor Status Terminates*, 95 J. TAX'N (July 2001) with Gans & Blattmachr, *No Gain at Death*, TR. & ESTS. 34 (Feb. 2010); Manning & Hirsch, *Deferred Payment Sales to Grantor Trusts, GRATs, and Net Gifts; Income and Transfer Tax Elements*, 24 TAX MGMT. EST., GIFTS & TR. J. 3 (1999); Hatcher & Manigault, *Using Beneficiary Guarantees in Defective Grantor Trusts*, 92 J. TAX'N 152, 161-64 (2000); Blattmachr, Gans & Jacobson, *Income Tax Effects of Termination of Grantor Trust Status by Reason of the Grantor's Death*, 97 J. TAX'N 149 (Sept. 2002).

f. The IRS May Contest the Valuation of Any Assets That Are Hard to Value That Are Donated to a Grantor Trust or Are Sold to Such a Trust.

(1) The Problem and the Probable Solution: Defined Allocation Transfers.

The Internal Revenue Service will almost always scrutinize significant transfers of “hard to value” assets. Reasonable people (and, of course, unreasonable people) can differ on the value of certain assets (*e.g.*, a FLP interest). From the Service’s point of view, scrutiny of those assets may represent a significant revenue opportunity. One approach that may reduce the chance of an audit of a transfer of a hard to value asset, or a gift tax surprise, if an audit does occur, is to utilize a formula defined value allocation transfer.⁴⁵ A formula defined value allocation transfer may increase the retained interest of the donor (as in the case of a grantor retained annuity trust); may define the portion of the property interest that is transferred or may provide that a defined portion of the property transferred passes to a “tax sheltered recipient.” For example, a transfer may provide that an undivided part of a “hard to value” asset, which exceeds a defined value of the transferred entity interest, will pass either to a grantor retained annuity trust,⁴⁶ the transferor’s spouse,⁴⁷ charity⁴⁸ or a trust in which the grantor has retained an interest that makes the gift incomplete.⁴⁹

“Formula defined value allocation” clauses should be distinguished from “reversion” clauses like the ones discussed in Revenue Ruling 86-41, 1986-1 C.B. 442, and in *Procter*.⁵⁰ In Rev. Rul. 86-41, the IRS said that a clause that increased the consideration to be paid for the transferred property, or that caused a portion of the transferred property to revert to the transferor, were conditions subsequent that are not effective to circumvent a taxable gift from being made on the transfer of the property. By contrast, formula clauses defining the amount of the transfer or the identity of the transferee are ubiquitous in the transfer tax context. In fact, such arrangements are specifically permitted in the tax law.⁵¹ If an adjustment occurs in a formula defined value

⁴⁵ See S. Stacy Eastland, “*The Art of Donating Your Cake to Your Family and Eating it Too: Current Gift Planning Opportunities Using Strings That Are Not Considered Attached by the Donor*” 47th Annual Heckerling Institute on Estate Planning ¶ 602.2[c]5 (June, 2013).

⁴⁶ *E.g.*, the excess could be transferred to a grantor retained annuity trust under IRC Sec. 2702 that is nearly “zeroed out” with respect to the grantor and uses the required revaluation clause in the trust agreement with respect to a retained annuity.

⁴⁷ *E.g.*, the excess could be transferred to a spouse or a marital deduction trust pursuant to a formula marital deduction clause.

⁴⁸ *E.g.*, the excess could be transferred to a charity. See *McCord v. Commissioner*, 120 T.C. 358 (2003); *Estate of Christianson v. Commissioner*, 130 T.C. 1 (2008), *aff’d* 586 F.3d 1061 (8th Cir. 2009); *Hendrix v. Commissioner*, T.C. Memo 2011-133, 101 T.C.M. (CCH) 1642; *Estate of Petter v. Commissioner*, T.C. Memo 2009-280, 99 T.C.M. (CCH) 534.

⁴⁹ David A. Handler & Deborah V. Dunn, “The LPA Lid: A New Way to ‘Contain’ Gift Revaluations,” 27 Estate Planning 206 (June 2000).

⁵⁰ See *Commissioner v. Procter*, 142 F.2d 824 (4th Cir. 1944); see also *Ward v. Commissioner*, 87 T.C. 78 (1986).

⁵¹ See Treas. Reg. Section 25.2518-3(c) (allowing defined value formula for disclaimer of pecuniary amount); Treas. Reg. Section 25.2702-3(b)(2) (allowing value of grantor retained annuity trust annuity to be stated in

allocation clause, a change in the identity of the transferee may occur (*e.g.*, the credit shelter trust owns less of the asset and the marital trust owns more of the asset). If an adjustment occurs in a price adjustment clause, the initial transfer is partially unwound and the identity of the transferee does not change (*e.g.*, the transferee pays an additional amount for the asset). Price reimbursement clauses were found to be against public policy in *Procter* because, if such clauses were effective, the result of an audit of the gift tax return could never result in a deficiency and there is no other penalty of assets passing to a different transferee. Although part of the same public policy argument applies to formula defined value allocation clauses, they are so commonly used that an argument that they are void is not persuasive. Secondly, the public policy argument could be addressed by deliberately structuring the formula to produce a small deficiency on audit. Thirdly, formula clauses have a penalty in that the transferred assets could pass to an unintended transferee.

Any formula defined value allocation clause needs a mechanism to bring finality to the question of who owns what. Where the transfer involves a gift, finality can be achieved by filing a gift tax return that adequately discloses the formula transfer. When the statute of limitations expires on assessing a gift tax deficiency and none has been asserted, the ownership fractions will have been determined. If there is no gift tax return, however, finality cannot be achieved unless there is another mechanism that does not involve any action by the transferor that can be viewed as donative.

(2) Defined Value Allocation Clauses Involving a Defined Dollar Transfer By the Donor.

Technical Advice Memorandum 86-11-004⁵² illustrates the effect of a defined value clause when the excess value above the defined value accrues to the donor, instead of to a spouse or a charity. Under the facts in Technical Advice Memorandum 86-11-004, a man (“the donor”) transferred a sole proprietorship to a partnership in exchange for a 99.9982% interest in the partnership. The other .0018% interest in the partnership was owned by trusts for the donor’s children. The donor transferred a portion of his partnership interest equal to a stated dollar amount to the trusts for his children each year from 1971 through 1982. The donor and trustees agreed on the capital ownership attributable to the gifts, and partnership income was allocated accordingly. The Service concluded that the interests transferred by the donor were those having a fractional equivalent to the stated fair market values of the gifts, based upon the fair market value of the partnership at the time of each gift determined according to recognized valuation principles. The donor’s interest extended to the rest of the partnership because he could have asserted ownership to the extent that the gifted fractional interests reflected in the partnership agreement and income tax returns exceeded the fractional interests actually conveyed in the gift

terms of a fraction or percentage of fair market value); Treas. Reg. Section 25.2702-39(c)(2) (requiring the annuity of a grantor retained annuity trust to be increased if an incorrect determination of the fair market value of the trust assets is made); Rev. Proc. 64-19, 1964-1 C.B. 682 (relating to defined value formula for funding the marital deduction); Treas. Reg. Section 1.664-2(a)(1)(iii) (allowing defined value dollar amount of charitable remainder annuity trust to be expressed as a fraction or percentage of the initial net fair market value of the property passing in trust as finally determined for Federal tax purposes); Rev. Rul. 72-395, 1972-2 C.B. 340, 344, modified by Rev. Rul. 80-123, 1980-1 C.B. 205 and Rev. Rul. 82-128, 1982-2 C.B. 71 (allowing value definition clauses in charitable remainder trusts); Treas. Reg. Section 1.664-3(a)(1)(iii) (requiring adjustments in annuity amounts if an incorrect determination of the fair market value of the charitable remainder trust has been made).

⁵² Tech. Adv. Mem. 8611004 (Nov. 15, 1985).

assignments. If, however, he were ever barred from enforcing his ownership right to the excess interest, he would be treated as having made an additional gift to the trusts. To the extent that income was allocated to the donees in an amount exceeding the partnership interest to which they were actually entitled, the donor made gift assignments of the income, with the implicit right to revoke the assignments by asserting his right to the excess partnership interest. Therefore, according to the Technical Advice Memorandum the gifts of income were to be regarded as complete when each distribution of excess income became irrevocable as a result of the lapse of the statute of limitations.

The recent *Wandry v. Commissioner* case (T.C. No. 10751-09, T.C. Memo. 2012-88, March 26, 2012, nonacq.) partially overrules Technical Advice Memorandum 86-11-004 to the extent it holds that a gift is made when the statute of limitations expires, if the transferred percentage interest of the enterprise exceeds the fair market value of the dollar formula transfer.

On January 1, 2004, Joanne and Dean Wandry executed separate assignments and memorandums of gifts (“gift documents”). Each gift document provided:

I hereby assign and transfer as gifts, effective as of January 1, 2004, a sufficient number of my Units as a Member of Norseman Capital, LLC, a Colorado limited liability company, so that the fair market value of such Units for federal gift tax purposes shall be as follows:

<u>Name</u>	<u>Gift Amount</u>
Kenneth D. Wandry	\$261,000
Cynthia A. Wandry	\$261,000
Jason K. Wandry	\$261,000
Jared S. Wandry	\$261,000
Grandchild A	\$11,000
Grandchild B	\$11,000
Grandchild C	\$11,000
Grandchild D	\$11,000
Grandchild E	<u>\$11,000</u>
Total Gifts	\$1,099,000

Although the number of Units gifted is fixed on the date of the gift, that number is based on the fair market value of the gifted Units, which cannot be known on the date of the gift but must be determined after such date based on all relevant information as of that date. Furthermore, the value determined is subject to challenge by the Internal Revenue Service (“IRS”). I intend to have a good-faith determination of such value made by an independent third-party professional experienced in such matters and appropriately qualified to make such a determination. Nevertheless, if, after the number of gifted Units is determined based on such valuation, the IRS challenges such valuation and a final determination of a different value is made by the IRS or a court of law, the number of gifted Units shall be adjusted accordingly so that the value of the number of Units gifted to each person equals the amount set forth above, in the same manner as a federal estate tax formula marital deduction amount would be adjusted for a valuation redetermination by the IRS and/or a court of law.

The Tax Court opinion was written by Judge Haines. Judge Haines addressed the IRS arguments and concluded:

Absent the audit, the donees might never have received the proper [LLC] percentage interests they were entitled to, but that does not mean that parts of petitioners' transfers were dependent upon an IRS audit. Rather, the audit merely ensured that petitioners' children and grandchildren would receive the 1.98% and .083% [LLC] percentage interests they were always entitled to receive, respectively.

It is inconsequential that the adjustment clause reallocates membership units among petitioners and the donees rather than a charitable organization *because the reallocations do not alter the transfers*. On January 1, 2004, each donee was entitled to a predefined [LLC] percentage interest expressed through a formula. The gift documents do not allow for petitioners to "take property back". Rather, the gift documents correct the allocation of LLC membership units among petitioners and the donees because the [business appraiser] report understated [the LLC's] value. The clauses at issue are valid formula clauses. [emphasis added]

Finally, Judge Haines rejected the Procter public policy argument that the IRS made, stating that "[t]he lack of charitable component in the cases at hand does not result in a 'severe and immediate' public policy concern."

(3) Defined Value Allocation Clauses Involving Both a Defined Dollar Transfer By the Donor and a Parallel Formula Qualified Disclaimer By the Donee.

What if donor made a defined dollar gift and the donee also engaged in a parallel formula disclaimer? Consider the following example:

Example 4: Defined Dollar Formula by a Donor and a Parallel Qualified Formula Disclaimer by the Donee Trust

Grant Gratuitous makes a defined dollar formula gift of that amount of partnership interests that are equal to \$5,000,000 patterned on the Wandry case. The gift assignment is made to a trust. The trust document provides that the current beneficiaries of the trust have the power to disclaim any contributed property, and if any property is disclaimed, it will revert to the grantor of the property and the disclaimed property will be held in an agency capacity by the person who is the trustee until the property is returned to the grantor. At the same time the assignment is made, those beneficiaries execute a qualified formula disclaimer using the same parallel language in the dollar-defined assignment, with any disclaimed amount reverting back to Grant Gratuitous. The trust document provides that the trustee does not have to accept any additional property (and presumably any interest in property in excess of the original "Wandry" assignment is additional property). The trust document also provides that any disclaimed property that is held in an agency capacity may be comingled with the trust property, until it is returned to the grantor.

The argument for using the formula disclaimer by the current beneficiaries of the trust, which parallels the formula of the Wandry assignment, is that the public policy concerns of the Wandry technique, and the concerns that the IRS has nonacquiesced in the Wandry case result, could be ameliorated with a companion formula disclaimer. The IRS has blessed formula

disclaimers, if the disclaimed gift has not been accepted. See Treasury Regulation Section 25.2518-3(b), examples 15 and 20. A defined value disclaimer was approved in *Estate of Christiansen v. Comm’r*, 586 F.3d 1061 (8th Cir. 2009). The advocates for the technique also note that the *Wandry* formula assignment by the grantor (plus any exculpatory language in the trust document) should counter any concern that the trustee has breached a fiduciary duty by not accepting any property subject to the formula assignment and formula disclaimer by the current beneficiaries of the trust. The *Wandry* formula assignment is evidence that the grantor did not desire for a trust relationship to exist for any property that is not assigned as per the formula in the original *Wandry* formula assignment.

If, at a later time, it is finally determined that the original assumptions as to the percentage interest of the FLP that was assigned to the trust is excessive, the trustee will assign those extra interests (that are held under the trust document in an agency relationship) back to the grantor. Under state property law, and the trust document, it would seem that the disclaimed property has not been accepted as trust property and was only accepted in an agency capacity. If the disclaimed property is never accepted as trust property under the above Treasury regulations, the disclaimer would appear to be a valid disclaimer and any unanticipated gift tax consequences of the assignment is avoided.

The combination of formula gift and formula disclaimer affords “belt-and-suspenders” protection for the transfer. If the “belt” of the formula gift proves ineffective, the “suspenders” of the disclaimer by the current trust beneficiaries should by itself be adequate to prevent revaluation of the FLP from resulting in a gift that exceeds the original stated dollar value. As discussed above, it seems very difficult for the IRS to argue that the disclaimer is invalid because the trustee has violated its fiduciary duty in accepting it. It may still be open to the IRS to argue that the beneficiaries have no rational reason to make the disclaimer and is acting in concert with Grant Gratuitous to deprive the IRS of the incentive and ability to enforce the gift tax law, in violation of public policy, a central *Procter* concern. If the transfer took the form of net gift, and if the donated asset is illiquid (as most hard to value assets are) the beneficiaries of the trust would have a rational personal motive for the disclaimer, which is to manage and limit the trust’s own gift tax liability.

B. The Advantages and Considerations for a Taxpayer to Contribute and Sell the Taxpayer’s Investments to a Single Member FLLC and Then Contributing Non-Managing Member Interests in That FLLC to a Grantor Retained Annuity Trust (“GRAT”).

1. What is the Technique?

All wealthy taxpayers should consider an estate freeze estate planning technique that does not use any of their unified credit, even those taxpayers who have low basis assets. In all states, the marginal transfer tax rate is higher than the marginal federal and state capital gains rate. Thus, removing future growth of a taxpayer’s assets, while preserving the taxpayer’s unified credit to be used at the taxpayer’s death, always results in lower net transfer and capital gains taxes, even for zero basis assets that are not sold during the taxpayer’s lifetime.

Perhaps the best freeze technique that does not have to use any of a taxpayer’s unified credit is described below.

A taxpayer could create a single member FLLC by contributing and selling financial and private equity assets to that FLLC. If the taxpayer is the only owner of the FLLC there should not be any income taxes or gift taxes associated with the creation of the FLLC.⁵³ The taxpayer could then contribute some or all of the FLLC member interests to a GRAT. After the term of the GRAT, the remainder beneficiary could be a grantor trust that names the grantor's spouse as a beneficiary and gives that spouse a special power of appointment.

The first inquiry is what is a GRAT? A GRAT is an irrevocable trust to which the grantor transfers an asset in exchange for the right to receive a fixed number of fiscal years (the "Annuity Period").⁵⁴ When the trust term expires, any GRAT balance remaining is transferred tax-free to a designated remainder beneficiary (e.g., a "defective grantor trust" for the benefit of the grantor's spouse and issue).⁵⁵ If a grantor makes a gift of property in trust to a member of the grantor's family while retaining an interest in such property, the taxable gift generally equals the fair market value of the gifted property without reduction for the fair market value of the retained interest.⁵⁶ However, IRC Sec. 2702 provides that for a gift of the remainder of a GRAT in which the grantor retains a "qualified interest", defined to include a guaranteed annuity, the taxable gift will be reduced by the present value of the qualified interest, as determined pursuant to a statutory rate determined under IRC Sec. 7520(a)(2) (the "Statutory Rate"). In general, the Statutory Rate requires an actuarial valuation under prescribed tables using an interest rate equal to 120 percent of the Federal midterm rate in effect for the month of the valuation.⁵⁷

A grantor's ability to determine the size of the guaranteed annuity and the annuity period at the outset allows the GRAT to be constructed so that the present value of the grantor's retained interest approximately equals the value of the property placed in the GRAT, resulting in a "zeroed out" GRAT.⁵⁸ Thus, a GRAT could be structured, where there is no, or a relatively modest,

⁵³ For the proposition that there should not be any income taxes because of the sale of assets to a single member LLC is ignored for income tax purposes see Treas. Reg. §301.7701-3(b)(1)(ii). For the proposition that there should not be any gift taxes for a sale of assets for less than the value of the assets on creation of the leveraged single member LLC, please see the *Strangi* discussion in Section III A 2 f(1) (b).

⁵⁴ The GRAT may also be structured to terminate on the earlier of a period of years or the grantor's death, with a reversion of the entire corpus to the grantor's estate on premature death, but doing so will reduce the value of the retained interest.

⁵⁵ IRC Sec. 2702 provides the statutory authority for such transfers after October 8, 1990. IRC Sec. 2702(a) uses the "subtraction-out" method to value retained interests of split-interests transfers. Under IRC Sec. 2702(b), a qualified interest includes any interest that consists of a right to receive fixed amounts. The value of a remainder interest in a GRAT that meets the requirements of IRC Sec. 2702 is computed by subtracting the present value of the grantor's annual annuity payments from the contributed properties' current fair market value. The grantor must recognize a taxable gift to the extent of any computed remainder interest. The present value of the grantor's annual annuity payment is computed by discount rates set by the Service under IRC Sec. 7520. The IRS Tables change monthly to reflect an interest rate assumption of 120% of the mid-term adjusted Federal Rate for that month under IRC Sec. 1274(d)(1).

⁵⁶ See IRC Sec. 2702(a)(2)(A). Absent Sec. 2702, the amount of the gift would be reduced by the value of the retained interest. See Treas. Reg. Section 25.2511-1(e).

⁵⁷ See, IRC Sec. 7520(a)(2). Certain exceptions set forth in Treas. Reg. Section 25.7520-3(b) do not appear to be applicable to the facts discussed in this paper.

⁵⁸ The possibility of completely "zeroing out" a GRAT was negated by Example 9 of Regulations section 25.2702-3(e). Example 9 was invalidated by *Walton v. Commissioner*, 115 T.C. 589 (2000), acq., Notice 2003-72,

taxable gift. If the GRAT does not earn a yield or otherwise appreciate at a rate equal to the Statutory Rate, all the trust property will be returned to the grantor in payment of the retained annuity, and no transfer of property to the GRAT's beneficiaries will occur. If the grantor dies during the GRAT term, depending upon the amount of the annuity payment in comparison to the then IRS Sec. 7520 rate, all or most of the GRAT property should be included in the grantor's gross estate and be subject to estate tax, with a reduction for any gift tax paid upon creation of the GRAT. If, however, the grantor survives the GRAT term and the GRAT earns a yield or otherwise appreciates at a rate that exceeds the Statutory Rate, the amount of such excess value should pass to the GRAT's designated beneficiaries free of transfer tax.

Consider the following example:

Example 5: Contribution of a Leveraged FLLC Member Interest to a GRAT

Neal Navigator approaches his attorney, Lenny Leverage, and tells him that he would like to transfer, through the use of a GRAT, the maximum amount that he can transfer using a three-year GRAT that will terminate in favor of a grantor trust for his wife and children. Neal

2003-44 I.R.B. 964. Final regulations reflecting *Walton* and containing a revised Example 9, have been issued. T.D. 9181 (February 25, 2005), 70 F.R. 9,222-24 (February 25, 2005). Prior to its acquiescence, the Service, in Revenue Procedure 2002-3, 2002-1 C.B. 117, Section 4.01(51), announced that it will not issue a favorable private letter ruling in circumstances where the amount of the guaranteed annuity payable annually is more than 50 percent of the initial net fair market value of the property transferred to the GRAT or if the present value of the remainder interest is less than 10 percent of the transferred property's initial net fair market value. The regulations do not include any such 50/10 limitation, nor would such a limitation be consistent with the *Walton* case itself, which involved a zeroed-out GRAT. The 50/10 limitation is not mentioned in the Obama administration's reform proposals with respect to GRATs, which would require only that the remainder have a value greater than zero. The ability to "zero out" the GRAT under current law is in effect conceded in the proposals. See Treasury Department "General Explanation of the Administration's Fiscal Year 2012 Revenue Proposals" (Greenbook, May, 2011.) In particular, the Greenbook notes:

Reasons for Change

GRATs have proven to be a popular and efficient technique for transferring wealth while minimizing the gift tax cost of transfers, providing that the grantor survives the GRAT term and the trust assets do not depreciate in value. The greater the appreciation, the greater the transfer tax benefit achieved. Taxpayers have become more adept at maximizing the benefit of this technique, often by minimizing the term of the GRAT (thus reducing the risk of the grantor's death during the term), in many cases to 2 years, and by retaining annuity interests significant enough to reduce the gift tax value of the remainder interest to zero or to a number small enough to generate only a minimal gift tax liability.

Proposal

This proposal would require, in effect, some downside risk in the use of this technique by imposing the requirement that a GRAT have a minimum term of 10 years. The proposal would also include a requirement that the remainder interest have a value greater than zero and would prohibit any decrease in the annuity during the GRAT term. Although a minimum term would not prevent "zeroing-out" the gift tax value of the remainder interest, it would increase the risk of the grantor's death during the GRAT term and the resulting loss of any anticipated transfer tax benefit.

This proposal would apply to trusts created after the date of enactment.

However, the no-ruling policy is still in effect. Rev. Proc. 2011-3, 2011-1 I.R.B. 111, Section 4.01(54).

tells Lenny that he has around \$32,000,000 in financial and private equity assets. Neal is willing to have a significant portion of his assets subject to a three-year GRAT.

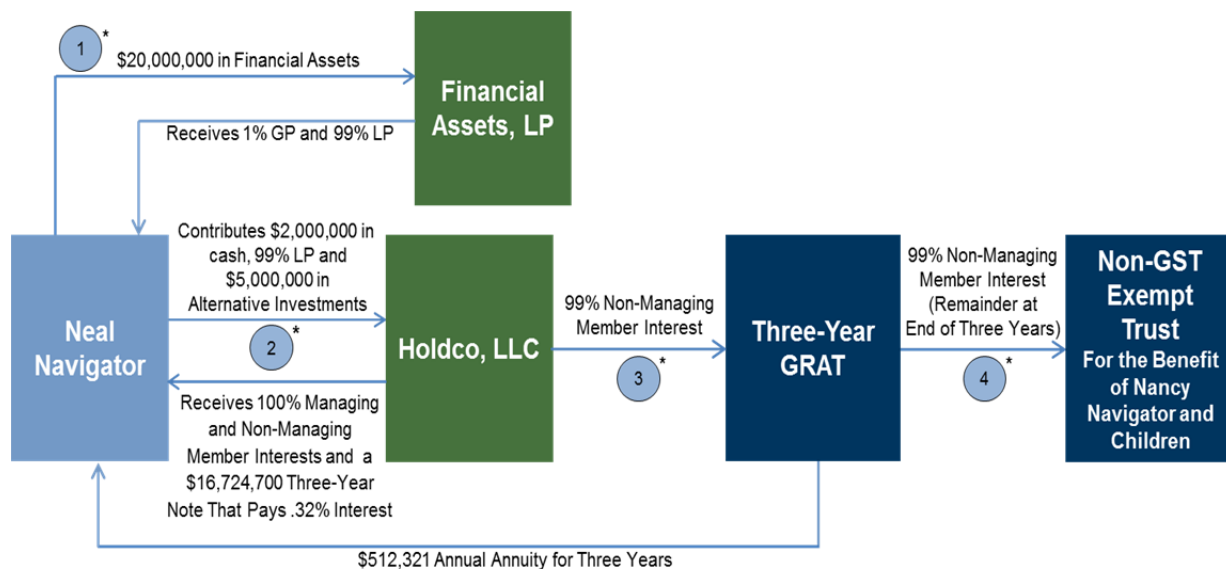
Lenny likes many of the aspects of a GRAT, including its built-in revaluation clause. Lenny also likes using FLPs, or FLLCs, because of the substantive non-tax investment and transfer tax advantages that are sometimes associated with these entities (e.g., they may effectively deal with qualified purchasers and accredited investor requirements for alternative investments and because of the possibility of valuation discounts with FLLCs).⁵⁹

Despite the advantages of GRATs and the possibility of valuation discounts of FLPs and FLLC's, Lenny, feels that there are certain disadvantages with contributing FLP interests and FLLC member interests to a GRAT in comparison to a sale of partnership interests to a grantor trust, including the disadvantage of the higher Statutory Rate and the potential difficulties in paying the retained annuity amounts in a GRAT with hard to value FLP or FLLC interests.

Lenny assumes Neal's limited partnership interest will have a 35% valuation discount and Neal's non-managing member interest in Holdco will have a 20% valuation discount.

Lenny proposes to eliminate those disadvantages by having a part sale/part contribution of Neal's assets to a single member FLLC in exchange for a note equal to \$16,724,700 (which is 90% of the assumed value of \$2,000,000 cash, the limited partnership interest and the alternative investments that are contributed to the single member LLC).

Lenny's proposed technique is illustrated below:



* These transactions need to be separate, distinct and independent.

⁵⁹ See the discussion by this author in "Some of the Best Family Limited Partnership Planning Ideas We See Out There," ALI-ABA Planning For Large Estates, at 2-32 (Nov. 15, 2010).

2. Advantages of the Technique.

- a. If leverage is used in creating the FLLC that is contributed to the GRAT, much more wealth will be transferred to the remainderman of the GRAT than through the use of a conventional GRAT.

In comparing the leveraged a GRAT to a GRAT that uses discounted entities, but does not use leverage (Technique 2 below) and to a GRAT that does not use either discounted entities or leverage, under the above assumptions, the transfer advantage of leverage is significant. The charts below summarize the advantage. The calculations below are made after two years, ignoring valuation discounts, and are net of the outstanding debt (see Schedule 8 attached to this paper). The calculations below assume different rates of returns, as noted. The assumed IRC Sec. 7520 rate is 2.2%.

Table 4a

Hypothetical Techniques: Assets Earn 2.20% Annually	Neal Navigator	Navigator Children	% Improvement Over Hypothetical Technique #1a	% Improvement Over Hypothetical Technique #2a
Holdco, FLLC Distributes about 2% of the value of assets it owns directly and indirectly.				
No Further Planning	\$33,987,889	\$0	N/A	N/A
Hypothetical Technique #1a (Conventional GRAT): Contribution of Assets to a Three-Year GRAT that Does Not Use Discounted Entities or Leverage; Remaindermen of GRAT is a Non-GST Grantor Trust	\$33,987,745	\$144	N/A	N/A
Hypothetical Technique #2a (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage, Contribution to a Three-Year GRAT	\$32,512,758	\$1,475,131	1022800.97%	N/A
Hypothetical Technique #3a (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted; Contribution to a Three-Year GRAT	\$26,216,640	\$7,771,249	5388721.62%	426.82%

Table 4b

Hypothetical Techniques: Assets Earn 7.40% Annually	Neal Navigator	Navigator Children	% Improvement Over Hypothetical Technique #1b	% Improvement Over Hypothetical Technique #2b
Holdco, FLLC Distributes about 2% of the value of assets it owns directly and indirectly.				
No Further Planning	\$38,774,953	\$0	N/A	N/A
Hypothetical Technique #1b (Conventional GRAT): Contribution of Assets to a Three-Year GRAT that Does Not Use Discounted Entities or Leverage; Remaindermen of GRAT is a Non-GST Grantor Trust	\$35,891,596	\$2,883,358	N/A	N/A
Hypothetical Technique #2b (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage, Contribution to a Three-Year GRAT	\$33,985,022	\$4,789,931	66.12%	N/A
Hypothetical Technique #3b (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted; Contribution to a Three-Year GRAT	\$26,883,832	\$11,891,122	312.41%	148.25%

Table 4c

Hypothetical Techniques: Assets Earn 10.00% Annually	Neal Navigator	Navigator Children	% Improvement Over Hypothetical Technique #1c	% Improvement Over Hypothetical Technique #2c
Holdco, FLLC Distributes about 2% of the value of assets it owns directly and indirectly.				
No Further Planning	\$41,338,758	\$0	N/A	N/A
Hypothetical Technique #1c (Conventional GRAT): Contribution of Assets to a Three-Year GRAT that Does Not Use Discounted Entities or Leverage; Remaindermen of GRAT is a Non-GST Grantor Trust	\$36,869,405	\$4,469,353	N/A	N/A
Hypothetical Technique #2c (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage, Contribution to a Three-Year GRAT	\$34,699,299	\$6,639,459	48.56%	N/A
Hypothetical Technique #3c (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted; Contribution to a Three-Year GRAT	\$27,229,585	\$14,109,173	215.69%	112.50%

Under all rates of return, the leveraged GRAT substantially outperforms the other techniques. The reason for the improved performance with the contribution of member interests in a leveraged FLLC is (i) the average hurdle rate is lower with leverage and (ii) the GRAT annuity amount is paid with the normal distributable cash flow of the FLLC instead of discounted FLLC member interests. The chief reason for the outperformance is the second reason. A significant arbitrage is created when a heavily discounted asset is contributed to a GRAT and undiscounted cash is used to pay the annuity.

As noted below, not only does paying the GRAT annuity with cash, instead of member interests, produce a much better result, it does not present “deemed contribution” or “deemed commutation” concerns that could accrue if hard to value assets are used to pay the GRAT annuity.

- b. The technique has many of the same advantages as the sale to the grantor trust.

Generally, many of the same flexibility advantages of a sale to a grantor trust benefiting a grantor’s spouse and family (see the discussion in Section III A 2 of this paper) also exist with the technique of contributing non-managing member interests in a leveraged FLLC to a GRAT in which the remainderman is a trust for the transferor’s spouse and family. The GRAT and the remainder trust of the GRAT can be designed to be a grantor trust in which the grantor is responsible for paying the income taxes of the trust. The trust may have features that give the transferor’s spouse flexibility with consumption issues and stewardship issues. The transferor also has retained leverage and flexibility by owning the note from the FLLC. There is an inherent delay, the term of the GRAT, before the transferor’s spouse can enjoy the benefits of any properties that may accrue to the trust for his or her benefit. This is ameliorated by the transferor being entitled to the distributions of the FLLC either in the form of interest and principal payments by the FLLC on the outstanding note, or in the form of annuity payments by the GRAT.

c. Valuation advantage of a GRAT.

Under the regulations, the grantor's retained annuity rights may be defined in the trust instrument as a percentage of the fair market value of the property contributed by the grantor to the trust, *as such value is finally determined for federal tax purposes*. For example, the trust agreement might provide for payments of 53% per year for two years, where the 53% annual payment amount is derived from the initial value. This type of language operates as a built-in revaluation clause, mitigating the risk of a surprise gift on revaluation of the transferred property by the Service. This feature can be especially beneficial with contributed alternative investments of which reasonable people (and unreasonable people) could differ as to the initial value (e.g., a private derivative, closely held limited partnership interest, or closely held subchapter S corporation stock). Without the complications of a defined formula allocation clause in an assignment (see the discussion in Section III B) the grantor is in a position to steer clear of a gift tax surprise if it is finally determined that the value of the contributed asset is different than what the grantor reported on his gift tax return.

d. Ability of grantor to pay for income taxes associated with Holdco, the GRAT and remainder grantor trust gift tax-free and substitute assets of Holdco, the GRAT and remainder grantor trust income tax-free.

A GRAT can be designed to be an effective trust for estate and gift tax purposes and income tax purposes (i.e., a so-called grantor trust). That is, the trust will not pay its own income taxes, rather the grantor of the trust will pay the income taxes associated with any taxable income earned by the trust.

Thus, if the assets of the GRAT, any time during the term of the GRAT, have significant appreciation, the grantor is in a position to substitute other assets to lock in the profit of the GRAT. As a practical matter, the ability to substitute assets may be used by the grantor of a GRAT to "lock in" appreciation in the investment of a GRAT prior to the end of the Annuity Period by substituting other assets of equal value that are less likely to fluctuate, if at the time of such substitution the yield or appreciation of the investments of a GRAT surpasses the Statutory Rate. In this connection, Treasury Regulation Section 25.2702-3(b)(5) requires the governing instrument of a GRAT to prohibit additional contributions to the GRAT after its inception. It might be argued that the power to swap assets of equal value constitutes a power to make an additional contribution. However, to date the Service has not made this connection. In addition, numerous private letter rulings have approved GRATs containing a power of substitution without raising or reserving as to this issue.⁶⁰

e. Synergy with other techniques.

A GRAT may be a means to transfer enough wealth to a trust for the benefit of the next generation in order to provide leverage for other future estate planning techniques. If the GRAT, or GRATs, that a grantor and a grantor's spouse create are successful (e.g. 10% of the family's wealth is transferred downstream to the grantor's family or to trusts for the grantor's family),

⁶⁰ See, e.g., P.L.R. 200220014 (Feb. 13, 2002); P.L.R. 200030010 (Apr. 26, 2000); P.L.R. 200001013 (*idem*, 200001015 (Sept. 30, 1999)); P.L.R. 9519029 (Feb. 10, 1995); P.L.R. 9451056 (Sept. 26, 1994); P.L.R. 9352007 (Sept. 28, 1993); P.L.R. 9352004 (Sept. 24, 1993); P.L.R. 9239015 (June 25, 1992).

further leveraging with respect to other transfer tax planning techniques could occur. For instance, assume that a GRAT (or GRATs) created by a grantor transfers approximately 10% of the family's net worth to a grantor trust for the benefit of his or her family. The grantor could transfer his or her remaining assets to a trust in exchange for a note that is equal to the fair market value of what has been transferred. In that fashion, the grantor has achieved a freeze of his or her estate (except for the interest carry on the note) while paying no (or very little) gift tax. That trust could also purchase life insurance to equal approximately 50% of the projected principal amount of the note due on the death of the surviving spouse.

f. Comparatively low hurdle rate.

Currently, the Statutory Rate has been ranging between 1.4% and 3.6%. In today's relatively low interest rate environment for US Treasury obligations, it is certainly possible, and for certain investments probable, that the investments of a GRAT will exceed that hurdle rate. In a leveraged FLLC contribution to a GRAT it is even more probable because of the effect of the discount of the contributed FLLC interests.

g. High leverage.

A GRAT can be created where the grantor retains an annuity amount that is almost equal to the value of the assets there were originally placed in the GRAT. Stated differently, significant leverage can be created by creating an annuity that is almost equal to the value of the assets placed into the GRAT. As noted above, if there is appreciation above the Statutory Rate, the appreciation above the Statutory Rate will accrue to the remainderman. In comparison, most practitioners believe that other leveraged gifting techniques, including a sale to a grantor trust, should have more equity associated with the transaction (e.g., for example, some practitioners advocate at least 10% equity with a sale to a grantor trust, which usually results in a taxable gift).

h. Non-recourse risk to remaindermen.

Another financial advantage of the GRAT technique is that if the asset goes down in value, the remaindermen have no personal exposure. Furthermore, there is no added cost of wasting significant gift tax exemptions of the grantor. For instance, assume for the sake of comparison, that at the time of the sale to the grantor trust, the grantor trust had 10% - 15% equity. If the asset goes down in value, that equity of the trust could be eliminated and the exemptions that were originally used to create that equity could also be lost.

i. The "Atkinson" worry about paying a GRAT annuity with a hard-to-value asset may be eliminated.

If the annuity amount is kept relatively small because of the use of leverage, then there may be enough cash flow to pay the annuity with cash or near cash. In this example that would be enough cash. Obviously, there are no valuation issues with cash. The U.S. Court of Appeals for the Eleventh Circuit (*see Atkinson*, 309 F.3d 1290 (11th Cir. 2002), cert denied, 540 U.S. 945 (2003)),⁶¹ has held that an inter vivos charitable remainder annuity trust's (CRAT's) failure to comply with the required annual payment regulations during the donor's lifetime resulted in complete loss of the charitable deduction. The Court found that the trust in question was not

⁶¹ See also C.C.A. 200628028 (July 14, 2006).

properly operated as a CRAT from its creation. Even though the subject CRAT prohibited the offending acts of administration, the Court held that the CRAT fails.

In a similar fashion, the Internal Revenue Service could take the position that if the regulations under IRC Sec. 2702 are violated by the trustee of the GRAT's administrative practices, then the interest retained by the grantor will not be a qualified interest. Just as in the *Atkinson* case, it may not matter if appropriate savings language is in the document. As explored below, there are many areas in which the administration of a GRAT may fail, including the following: (i) inadvertently engaging in an activity that would constitute an underpayment of the amount owed to the grantor, which would constitute a deemed contribution; and/or (ii) inadvertently engaging in an activity that would constitute an acceleration of the amounts owed to the grantor (a commutation).

In order to have a successful GRAT, it is obviously desirable to have an asset that has significant potential for appreciation. It is desirable from a volatility and potential growth standpoint to contribute, in many instances, a hard to value asset to the GRAT. Many of the asset classes that have that potential for appreciation (e.g., closely held partnership interests, real estate, hedge funds and other private equity investments) are very difficult to value accurately.

The problem with a GRAT that owns hard to value volatile assets is that when it is time to pay the retained annuity amounts to the grantor, it is often difficult to value the asset that is being used to satisfy the annuity obligation. If the distributed asset is finally determined to have had too low a value when it is used to satisfy the annuity amount owed by the GRAT, it could be deemed to be an additional contribution by the annuitant to the GRAT, which is prohibited. *See* Treas. Reg. Sec. 25.2702-3(b)(5). On the other hand, if it is finally determined that the hard to value asset that is distributed in satisfaction of the annuity payment to the grantor had too high a value, it could be determined by the IRS that such a payment is a commutation, which is also prohibited. *See* Treas. Reg. Sec. 25.2702-3(d)(5). Thus, the trustee of the GRAT, which is frequently also the grantor, must be very careful, like Goldilocks, to make sure that the annuity payments are "just right". Using hard to value assets, to make the "just right" payments, may be highly problematic.

- j. The taxpayer's unified credit does not have to be used with this technique as it would with most other freeze techniques, which could save capital gains taxes on the death of the taxpayer.

The use of this technique freezes the taxpayer's assets on a discounted basis with the use of a grantor trust. In other words, the appreciation of the assets, similar to a sale of a discounted asset to a grantor trust, is not subject to the taxpayer's future estate taxes. Unlike a sale to a grantor trust that is created by substantial use of a taxpayer's available unified credit, the technique does not require the use of the taxpayer's unified credit. Any unified credit that can be saved by using this technique may be used by the taxpayer to save estate taxes and capital gains taxes on the low basis assets owned by the taxpayer at his death. Thus, this may be an ideal technique for the taxpayer who does not have any unified credit left and wishes to save significant future estate taxes without incurring gift taxes. It is also an ideal technique for a taxpayer who wishes to preserve his unified credit to be used to save estate taxes and capital gains taxes on certain low basis assets he may own at the time of his death.

- k. There may be less danger that the retained note will be recharacterized as a deemed retained interest in a trust with this technique than with a sale to a grantor trust.

The IRS has purportedly made the argument under certain circumstances (e.g., when there is significant leverage) that the substance of the transaction is not a sale for a note to the grantor trust, but a contribution to the trust with a deemed retained interest.⁶² If, under equitable tax principals, the transaction is treated as a deemed contribution to the trust with a deemed retained interest, severe gift tax and estate tax consequences could accrue under IRC Secs. 2702, 2036 and 2038. Unfortunately, there are no authorities that can provide the taxpayer with guidance on an amount of leverage that may safely be used with a trust.

The technique employs leverage, but the leverage is in the organization of the entity. Numerous debt/equity tax cases exist regarding whether the debt is treated as a disguised equity in that context. There is ample authority and guidelines on that subject, particularly in interpreting IRC Sec. 385.⁶³

3. Considerations of the Technique.

- a. Part (but not all) of the FLLC interests could be taxable in the grantor's estate if the grantor does not survive the term of the GRAT.

If the grantor does not survive the term of the GRAT, the IRS takes the position that IRC Sec. 2036 will include the assets of a GRAT in the grantor's estate to the extent of the value of the dollar amount of the retained annuity divided by the then IRC Sec. 7520 rate.⁶⁴ Under the facts of this example, if the IRC Sec. 7520 rate increases to 5% before the GRAT terminates, and if the grantor dies before the end of the term of the GRAT, the value above \$10,246,240 ($\$512,321 \div 5\%$) will not be included in the estate of the grantor (Neal Navigator). It could be argued that this IRC Sec. 2036 inclusion of only a little over one-third of the non-discounted value of the GRAT assets is a comparative advantage. If a death occurred before the end of the term of a conventionally structured three-year GRAT, it almost always results in the inclusion of all the GRAT assets.

- b. It is more complex than the other GRAT techniques.

While this technique solves considerations in paying GRAT annuities with hard to value assets and has the distinct advantage of substantially outperforming other GRAT techniques, it is more complex to create. However, after the termination of the GRAT, it should not be any more complex to administer than a sale of partnership interests to a grantor trust.

⁶² See the authorities in footnote 37.

⁶³ See the authorities in footnote 36.

⁶⁴ See Treas. Reg. Sections 20.2036-1(c)(2)(i); 20.2036-1(c)(2)(iii), Ex 2.

- c. Care must be taken if the underlying asset that is sold or contributed to the single member LLC is stock in a Subchapter S corporation.

Assuming the LLC is a single member LLC and/or is owned by other disregarded entities for income tax purposes, the LLC may own subchapter S stock.⁶⁵ If the LLC is not a single member LLC it will not be a permissible shareholder of a subchapter S corporation and the subchapter S election will be terminated. If the LLC terminates and dissolves on the single member's death, the subchapter S election may be preserved.

C. Swapping Assets Inside a Grantor Trust, or a Disregarded Single Member LLC, Before the Death of the Grantor.

If there are low basis assets inside a grantor trust, or a disregarded single member LLC, the grantor could substitute high basis assets for the low basis assets held by the grantor trust or the disregarded single member LLC.

1. Advantages of the Technique.
 - a. The low basis assets, if retained by the grantor, will receive a basis step-up on the grantor's death.
 - b. If the low basis assets are sold by the grantor before his or her death the cost of the capital gains taxes will be borne by the grantor (just as they would have been if the assets had been sold by the grantor trust or a disregarded single member LLC.)
2. Considerations of the Technique.
 - a. The grantor may not have any high basis assets, or cash, to swap.

If that is the case, consider a recourse third party loan of cash to the grantor. The grantor could then use that cash to swap for the low basis asset. The grantor trust may then be converted to a complex non-grantor trust. At a later time, in an independent transaction, the grantor could borrow the high basis cash from the trust with a long-term, recourse note that is unsecured and use that cash to pay the principal of the third party loan. This lending strategy is described in Section V of this paper.

- b. To the extent, after the swap of assets, "swapped" low basis assets grow more than the "swapped" high basis assets in the grantor trust, the grantor's estate taxes will increase.

That consideration could be mitigated by a reverse note purchase technique described above. For instance, assume that a grantor wishes to borrow cash from the trust. That loan could be accomplished by a recourse, unsecured note that pays a fair market value interest rate. That interest rate carry may be higher than the rate of return of the high basis asset, which would mitigate or eliminate any estate tax cost associated with the low basis asset's growth in the grantor's estate. See the discussion in Section V of this paper.

⁶⁵ See PLRs 9739014, 9745017, 200107025 and 20008015. These rulings do not consider whether an LLC having a grantor and grantor trust as members will be considered to have only one owner and therefore remain a disregarded entity, but they support that result.

D. Gifting and Selling Low Basis Assets to a Grantor Trust That is Subject to an Older Generation's General Power of Appointment and Estate Taxes.

1. The Technique.⁶⁶

A taxpayer could gift cash and then later sell some of his low basis assets (for adequate and full consideration) to a grantor trust in independent transactions. The beneficiaries of the trust could be the taxpayer's descendants and an older generation beneficiary, such as a parent. The older generation beneficiary could be given a general power of appointment that will be structured to include those trust assets in his or her estate. If the grantor first gifts high basis cash to the trust, IRC Sec. 1014(e) should not apply to that gift of cash because it is not a low basis asset. The sale of low basis assets could be for a recourse, unsecured note in which both the trustee and the older generation beneficiary are personally liable. A sale price that is equal to the fair market value of the low basis assets, perhaps pursuant to a defined value allocation assignment, should also circumvent IRC Sec. 1014(e). For a discussion of defined value assignments see Section III B of this paper. If the sale price is equal to the value of the low basis asset there is not a gift and IRC Sec. 1014(e) does not apply, even if the older generation beneficiary dies within one year. For a discussion of IRC Sec. 1014(e), please see Sections II A 1 a (4) (v) and III E 3 d of this paper.

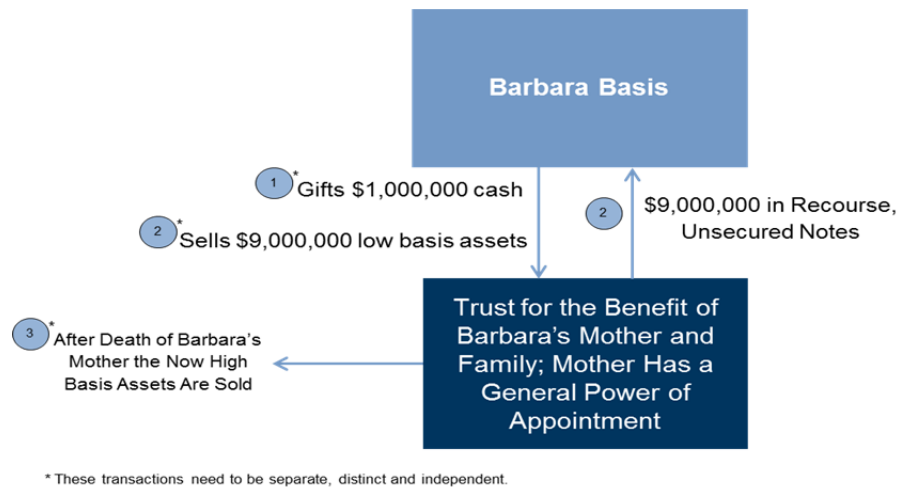
If the older generation beneficiary's estate is small, that general power of appointment may not result in any estate taxes being assessed against his estate. The general power of appointment could be designed so that it may not be exercised unless approved by a non-adverse party such as an independent trustee. Consider the following example:

Example 6: Barbara Basis Creates a Grantor Trust for the Benefit of Her Mother, Gmom Basis, and Her Family and Makes Certain Sales to That Trust

In separate and distinct transactions (“(1)”) Barbara contributes \$1,000,000 in cash to a trust that is a grantor trust for income tax purposes. Barbara's mother, Gmom Basis, is the initial beneficiary and is given a general power of appointment over the trust. Barbara, at a later time (“(2)”) sells \$9,000,000 in low basis property to that trust, pursuant to a defined value allocation formula for a recourse note in which both the trust and Gmom Basis are personally liable. The recourse note is unsecured. After Gmom's death (“(3)”), the trustee of the trust sells the now high basis assets and reinvests the proceeds in new assets.

⁶⁶ See Mickey R. Davis and Melissa J. Willms' discussion of the accidentally perfect grantor trust, *Trust and Estate Planning in a High Exemption World and the 3.8% “Medicare” Tax: What Estate and Trust Professionals Need to Know*, 61st Annual Tax Conference – Estate Planning Workshop, 31-33 (December 6, 2013).

The technique is illustrated below:



2. Advantages of the Technique.

- a. This technique has the same advantages as a sale to a grantor trust.

See Section III A 2 of this paper.

- b. The assets of the trust will receive a step-up in basis on the older generation beneficiary's death equal to the fair market value of the assets, if net value rule of Treas. Reg. §2053-7 does not apply (see the discussion below in Section III E 3 e of this paper).

The trust assets could be sold after the older generation beneficiary's death and reinvested without capital gains tax consequences. If low basis property is depreciable, after the death of the older generation beneficiary, the property could be kept by the trust and could be depreciated again.

- c. The assets of the trust may be generation skipping tax protected
- d. The older generation beneficiary may not have to pay estate taxes because of her general power of appointment, if her then available unified credit exceeds the net value of the trust.

3. Considerations of the Technique.

- a. The grantor of the trust will still have a low basis in his or her note upon the death of the older generation beneficiary.

Even though the assets of the trust will receive a step-up in basis on the older generation beneficiary's death, the grantor's note does not. Under the logic of Revenue Ruling 85-13, the note does not exist as long as the grantor status of the trust is maintained. The note may be satisfied before the grantor's death without tax consequences. There is an absence of authority, and a split among certain commentators, as to whether satisfaction of the note after the grantor's

death will cause capital gains consequences. See the discussion in Section III A 3 e of this paper.⁶⁷

- b. The older generation beneficiary could exercise his or her general power of appointment in an unanticipated way.

That possibility could perhaps be mitigated by requiring that an independent, non-adverse trustee approve any exercise of a general power of appointment before it is effective. This veto power seems consistent with IRC Sec. 2041(b)(1)(c)(ii), which says the power is a general power unless the veto right is held by someone “having a substantial interest in the property, subject to the power, which is adverse to exercise of the power in favor of the decedent.”

- c. Many of the same considerations for the use of a grantor trust and a sale to a grantor trust would also be present for this technique. See Section III A 3 of this paper.

In order to remove the uncertainty of the consideration discussed in Section III A 3 e above, the grantor trust could pay the note with cash or assets in kind before the grantor’s death. Another strategy is for either the grantor or the trust to use third party lending. See the discussion in Section V of this paper.

- d. The effect of IRC Sec. 1014(e) must be considered, if cash is not given and low basis assets are used to capitalize the trust.

See the discussion in Section II A 1 a (4) (v) of this paper.

If the donor is a beneficiary of a new trust created after the death of the donee by the donee’s exercise of a power of appointment, there may not be a step-up of the trust assets with respect to the donor’s actuarial interest in the trust. If the donor’s interest is purely discretionary in a new trust created by the older generation’s exercise, IRC Sec. 1014(e) may not apply even if the older generation beneficiary dies within one year of the donor’s creation of the grantor trust. Another key exception to the application of IRC Sec. 1014(e) is whether the decedent acquired any part of the included low basis assets by “gift”. If the decedent acquired the asset by sale, or by part sale-part gift, it would appear that the percentage of the asset acquired by sale should not be subject to IRC Sec. 1014(e). If the donor does not have a high basis asset, or cash, to initially capitalize the trust, the donor may wish to borrow cash to initially capitalize the trust. See the discussion in Section V C of this paper.

- e. The effect of Treas. Reg. §20.2053-7 needs to be considered.

Treas. Reg. §20.2053-7 provides:

A deduction is allowed from a decedent's gross estate of the full unpaid amount of a mortgage upon, or of any other indebtedness in respect of, any property of the gross estate, including interest which had accrued thereon to the date of death, provided the value of the property, undiminished by the amount of the mortgage or indebtedness, is included in the value of the gross estate. **If the decedent's estate is liable for the amount of the mortgage or indebtedness, the full value of the property subject to the mortgage or indebtedness must be included**

⁶⁷ See the authorities in footnote 44.

as part of the value of the gross estate; the amount of the mortgage or indebtedness being in such case allowed as a deduction. **But if the decedent's estate is not so liable, only the value of the equity of redemption** (or the value of the property, less the mortgage or indebtedness) **need** be returned as part of the value of the gross estate. In no case may the deduction on account of the mortgage or indebtedness exceed the liability therefor contracted bona fide and for an adequate and full consideration in money or money's worth. (Emphasis added.)

In this example, the debt is unsecured and the debtor has personal liability to the lender. As a consequence, the full value of the gross assets could be included in the value of the decedent's estate and the liability will be separately deducted.

What if the debt is secured and the liability is non-recourse? What is the meaning of the word "need" as it is used in the regulation? Does the word "need" also mean "does not need to be"? Some have suggested it should be. If those who have so suggested are right, a huge loophole could be created with non-recourse liability. For instance, a taxpayer could take the proceeds of a non-recourse borrowing, against a low basis asset, and purchase low basis assets from another grantor trust and achieve an additional step-up on the taxpayer's death on low basis assets purchased with the proceeds of the non-recourse borrowing. Of course, a similar argument could be made with respect to recourse debt, except it is logical that if the whole estate is liable, the whole estate is available to the lender and the debtor should receive a step-up.

At some point in the future, by regulation, the IRS may make it clear, if an asset is included in a decedent's estate, and is subject to non-recourse debt, only the net value of the asset is to be reported in the decedent's estate (gross asset value minus the debt) and there will only be a partial step-up.

In the technique, Gmom's personal liability on the note is intended to strengthen the case for full inclusion and step-up at her death.

- f. Is grantor trust status lost for the original grantor when the older generation beneficiary dies and the trust assets are included in the beneficiary's estate?

Treas. Reg. §1.671-2(e)(6) contains an example that would seem to indicate that the grantor trust status would not change, if the older generation does not exercise his or her general power of appointment:

Example 8. G creates and funds a trust, T1, for the benefit of B. G retains a power to revest the assets of T1 in G within the meaning of section 676. Under the trust agreement, B is given a general power of appointment over the assets of T1. B exercises the general power of appointment with respect to one-half of the corpus of T1 in favor of a trust, T2, that is for the benefit of C, B's child. Under paragraph (e)(1) of this section, G is the grantor of T1, and under paragraphs (e)(1) and (5) of this section, B is the grantor of T2.

IV. THE ADVANTAGES AND CONSIDERATIONS OF A TRANSFEROR SELLING ASSETS TO A TRUST CREATED BY THE TRANSFEROR'S SPOUSE THAT NAMES THE TRANSFEROR AS A BENEFICIARY, GIVES THE TRANSFEROR A SPECIAL POWER OF APPOINTMENT, AND UNDER WHICH THE TRANSFEROR'S SPOUSE IS CONSIDERED THE INCOME TAX OWNER ("SPOUSAL GRANTOR TRUST").

A. What is the Technique?

Sales to a Spousal Grantor Trust may constitute effective estate planning. Consider the following example:

Example 7: Ann and Aaron Appointment Wish to Make Transfers of Their FLP Interests and Maintain Maximum Flexibility

Ann and Aaron Appointment approach their attorney, Ray Reciprocal, and tell him they would like to transfer their FLP interests in a manner that maintains maximum future flexibility and ensures that there will be no gift tax surprises.

Ray suggests they consider creating trusts for each other as discretionary beneficiaries (with different provisions) that will not be considered reciprocal trusts and under which one spouse would have a lifetime special power of appointment and the other spouse would have a testamentary power of appointment (also with different provisions). The trusts will be grantor trusts to the spouse who creates the trust.

Ann has a 5% limited partnership interest in the FLP, which has a value of \$5,000,000 after considering valuation discounts. It is assumed the valuation discounts for the transfers is equal to 30%. Aaron has a 94% limited partnership interest that has a value of \$94,000,000 after considering valuation discounts. Ann creates a grantor trust for the benefit of Aaron and her family by gifts of her partnership interest (GST Grantor Trust #1) pursuant to a defined value formula assignment. Aaron creates a trust for the benefit of Ann and their family by contributing a 5% limited partnership interest (GST Grantor Trust #2) pursuant to a defined value formula assignment.

Ray suggests that after the trusts are created that Aaron sell 44.5% of his limited partnership interests to the trust Aaron created for Ann's benefit (GST Grantor Trust #2) pursuant to a defined value formula assignment and Aaron sell his remaining 44.5% limited partnership interest to the trust Ann created for his benefit (GST Grantor Trust #1). Nine year notes are used.

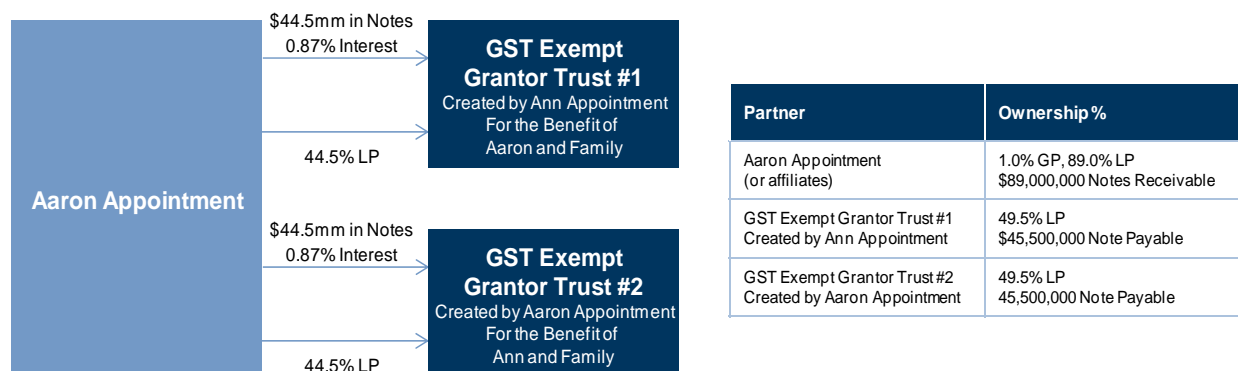
The ownership of the FLP is illustrated below:



The proposed gift to create the proposed trusts is illustrated below:



The proposed sale of the remaining 89% limited partnership interests by Aaron is illustrated below:



1. Advantages of the Technique.

- a. There will be no capital gains consequence on the original sale of the assets to the trust.

A sale to a Spousal Grantor Trust should not be recognized for income tax purposes because of IRC Secs. 1041 and 671. As noted above, under Rev. Rul. 85-13, a grantor trust is deemed to have no existence with respect to transactions between the grantor and the trust. To say that transactions between the grantor and the trust are treated as transactions between the grantor and himself is not quite the same as saying that transactions between a third party and the trust are treated as transactions between the third party and the grantor. The latter conclusion, however, follows logically from the former, and this extension of Rev. Rul. 85-13 has been endorsed by two private rulings. PLR 8644012 and PLR 200120007 hold that a transfer between H (or H's grantor trust) and W's grantor trust is treated the same way as a transfer between H and W and is governed by IRC Sec. 1041. Therefore, there should be no capital gains tax consequences to the transactions explored above.⁶⁸

However, interest on notes issued as consideration for a sale to a spousal grantor trust will be recognized for income tax purposes, because IRC Sec. 1041 does not prevent inter-spousal interest from being taxable. Generally, the interest will produce an offsetting deduction and income to the spouses. The principal and income of the notes can be paid with cash flow that is naturally distributed to the partners in order to pay their income taxes.

- b. The technique, with respect to a sale to the trust in which the seller has a power of appointment, has the potential of mitigating gift tax surprises.

Because of the presence of the testamentary power of appointment in GST Grantor Trust #1, if the IRS determines the notes received by Aaron is inadequate consideration, there will not be any gift taxes owed because any "gift" inherent in that sale to GST Grantor Trust #1 will be incomplete for gift tax purposes. See Treas. Reg. Sec. 25.2511-2(b). Instead, for income tax purposes Aaron will be considered the grantor of that portion of the trust consisting of the excess value. For estate tax purposes, Aaron may be considered the transferor of all the property he sells to the trust. If the IRS does finally determine Aaron has made a transfer for less than full consideration, the trust may be able to be divided into two trusts, because of the operation of state law, or the trust agreement. Under those circumstances, GST Grantor Trust #1 could perhaps be divided in a manner in which Aaron is considered the grantor of one trust ("Trust 1A") and Ann is considered the grantor of the other trust ("Trust 1B"). The trust in which Aaron is considered the grantor, Trust 1A, will be taxable in his estate. There may be additional planning opportunities, if the trustee of Trust 1A simply distributes the trust assets to Aaron, and Aaron then enters into further estate planning.

⁶⁸ *Rothstein v. United States*, 735 F.2d 704 (2nd Cir. 1984), held that a transaction between a grantor trust and a grantor was not disregarded for income tax purposes. This case has not been overruled and stands as authority of a high level against the income tax analysis herein. However, the IRS disagreed with the case in Rev. Rul. 85-13 and, it appears, has never departed from Rev. Rul. 85-13 or relied on the case even when to do so would have favored the government. As a practical matter it seems that Rothstein may be ignored.

- c. It has the advantage of allowing the transferor to be a beneficiary of the trust and have a power of appointment over the trust.

From the perspective of any transferor, the most flexible arrangement, with respect to exit strategies, is a trust in which the transferor is a beneficiary and the transferor has a special power of appointment over the trust (i.e., GST Grantor Trust #1). Assuming the sale is for adequate and full consideration, and assuming one of the equitable doctrines (either the step transaction doctrine or the reciprocal trust doctrine) is not available to attack the transaction, a sale to such a trust has significant flexibility advantages. The seller has access to the proceeds of the note or any asset, which that note may be converted into (e.g. a private annuity). Furthermore, the seller may have access, as limited by the trust provisions, to the assets of the trust for his her benefit. Assuming the seller's spouse has given the seller a power of appointment, the seller has the ability to redirect the assets of the trust in a different stewardship manner than the default provisions of the trust.

- d. The technique has many of the other advantages of the sale to a grantor trust technique.

See the discussion in Section III A 2 of this paper.

2. Considerations of the Technique.

- a. This technique has many of the considerations of the sale to a grantor trust technique.

See the discussion in Section III A 3 of this paper.

- b. Additional federal income tax considerations.

As noted above, the sale to a Spousal Grantor Trust should be income tax free. However, the seller will be taxed on the interest on the note. As long as the seller spouse is living, he or she should receive a corresponding deduction on the interest on the note. Thus, assuming the spouses file joint returns, the interest income and the interest deduction should be a “wash” in most circumstances.

- c. Additional estate tax considerations.

It is important that any sale by a beneficiary of a trust be for “fair and adequate consideration” and also be considered a “bona fide sale”. If the sale is not for “adequate and full consideration,” or if the sale is not considered to be a “bona fide sale,” the value of the assets of the trust at the time of the beneficiary's death will be brought back into the beneficiary's estate under IRC Secs. 2036 and/or 2038 because the seller obviously has a retained interest in the trust (unlike a conventional sale to a grantor trust in which the seller does not have a retained interest in the trust). (In determining the estate tax under IRC Secs. 2036 and 2038, there will be a consideration offset allowed under IRC Sec. 2043 for the value of the note at the time of the sale.) The beneficiary—seller should consider a defined value assignment and the filing of a gift tax return which discloses the sale. The gift tax return should get the statute of limitations on the “adequate and full consideration” issue running. However, it is not clear that the gift tax return filing starts the statute of limitations running on an estate tax legal issue of whether the sale is a “bona fide sale.” There may be too much leverage, or some other reason may exist that may lead a court to conclude at the time of the death of the beneficiary that the sale was not “bona fide.” As

a consequence, it is important that every step be taken to demonstrate that the sale has normal commercial terms and adequate security.

V. BORROWING STRATEGIES THAT LOWER THE NET TOTAL INCOME TAX AND TRANSFER TAX.

A. Managing a Grantor Trust, or a Spousal Grantor Trust, By Making it a “Reverse Grantor Trust.” The Grantor Could Purchase Low Basis Assets From a Grantor Trust By Using Either a Financed Note or a Loan From a Third Party Bank.

1. The Technique.

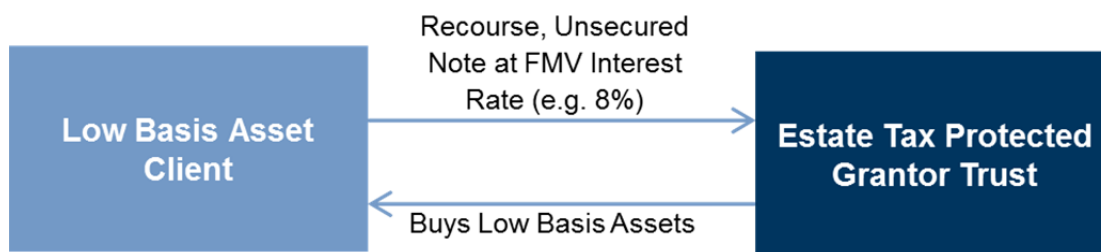
Similar to the technique illustrated by Revenue Ruling 85-13 a grantor could purchase low basis assets from a successful grantor trust. Consider the following example:

Example 8: Low Basis Asset Held by a Grantor Trust is Sold For a Fair Market Value Interest Note

Hypothetical Transaction #1:

Stanley Step-up buys low basis asset from a grantor trust in return for a recourse unsecured note at a fair market value interest rate that is much higher than the AFR (e.g., 8.0%).

Hypothetical Transaction #1 is illustrated below:



2. Advantages of the Technique.

- a. The low basis asset will receive a step-up in basis on the grantor’s death.
- b. Estate taxes will be saved if the interest carry on the note owed to the grantor trust exceeds the growth of the purchased low basis note.
- c. As long as the trust is a grantor trust, the interest payments on the note could be made in-kind without any income tax consequences.

3. Considerations of the Technique.

- a. An independent appraisal will be necessary to determine that the interest rate on the recourse, unsecured note is a fair market value interest rate. If the interest rate is too high, there may be gift tax consequences.
- b. If the note is paid back after the grantor’s death, there may be capital gains consequences to the trust. See the discussion in Section III A E of this paper. Stated differently, the trust’s basis in

the note may be equal to the basis of the low basis asset that is exchanged for the note. That result may not change on the death of the grantor, when the trust becomes a complex trust.

One way to remove this consideration may be to borrow cash from an independent third party bank. Consider the following additional hypothetical transactions.

Hypothetical Transaction #2:

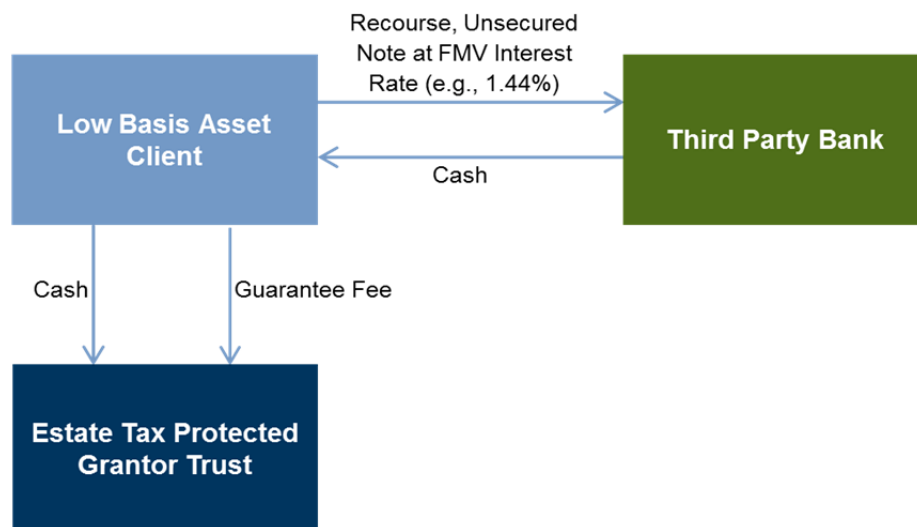
Low Basis Asset Client borrows cash from Third Party Bank in return for an unsecured demand note, or an unsecured, short-term revolving note in which the Low Basis Asset Client is personally liable.

Low Basis Asset Client uses the cash from Third Party Bank to pay Low Basis Asset Client's recourse, unsecured note that is owed to the grantor trust.

Low Basis Asset Client continues to own low basis assets, subject to the recourse, unsecured note owed to Third Party Bank.

The grantor trust has "high basis" cash, which could be re-invested. The grantor trust could also guarantee the Third Party Bank loan to Low Basis Asset Client for an intra-family guarantee fee payable from Low Basis Asset Client to the grantor trust.

Hypothetical Transaction #2 is illustrated below:



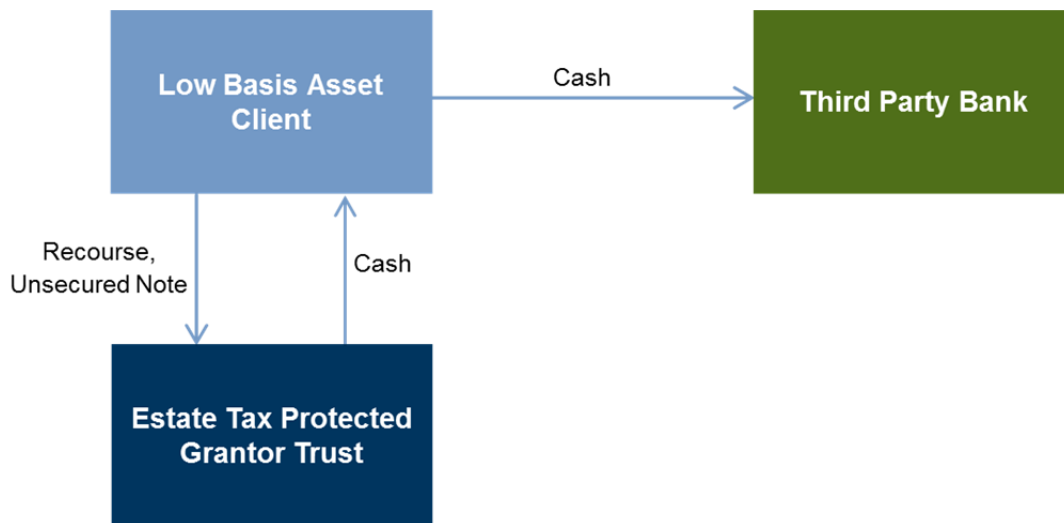
Hypothetical Transaction #3:

Low Basis Asset Client could continue to borrow from Third Party Bank. Or, in a few years, because Low Basis Asset Client would like the flexibility of an unsecured, recourse long term note, or because interest rates have changed, or because of some other financial reason, Low Basis Asset Client could borrow cash from the Estate Tax Protected Grantor Trust to help pay the remaining balance of the Third Party Bank note. (Alternatively, the Estate Tax Protected Grantor Trust could purchase the Third Party Bank loan from the Third Party Bank.)

The recourse, unsecured long-term note with the grantor trust used to pay the Third Party Bank Note could be at a fair market interest rate that is much higher than the AFR. The Low Basis Asset Client will be personally liable on the note owed to the trust.

The Estate Tax Protected Grantor Trust's basis in the new unsecured note may be equal to the cash that is loaned.

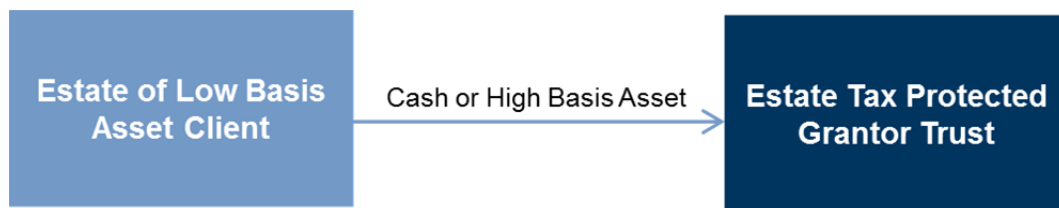
Hypothetical Transaction #3 is illustrated below:



Hypothetical Transaction #4:

Upon the death of Low Basis Asset Client, the estate could satisfy the note to the Estate Tax Protected Grantor Trust with the now high basis assets or cash (if the executor sells the new high basis assets after the death of Low Basis Asset Client).

Hypothetical Transaction #4 is illustrated below:



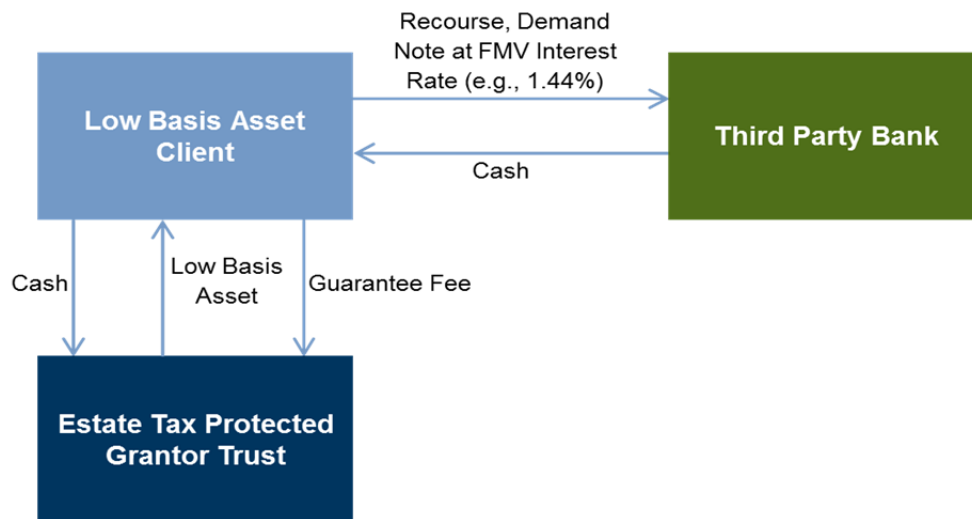
A derivative of Example 8, which would change above Hypothetical Transactions #1 and #2, is for the Low Basis Asset Client to first borrow cash on an unsecured basis from a Third Party Bank (a new transaction #1) in which the Low Basis Asset Client is personally liable, and using that cash to buy assets from the Estate Tax Protected Grantor Trust (a new transaction #2). The Estate Tax Protected Grantor Trust could provide a guarantee for the loan from the Third Party Bank to the Low Basis Asset Client in exchange for a guarantee fee. At a later time, when Third Party Bank interest rates may have risen, the Low Basis Asset Client may be able to negotiate recourse, unsecured loan from the Trustee of the Estate Tax Protected Grantor Trust. The proceeds of that loan could be used to pay the Third Party Bank. (Alternatively, the Estate Tax Protected Grantor Trust could purchase the Third Party Bank loan from the Third Party Bank.) In that manner, Hypothetical Transactions #3 and #4 above are then duplicated.

The technique is illustrated below:

Hypothetical Transaction #1:

Low Basis Asset Client borrows cash from Third Party Bank and uses that cash to purchase low basis assets from the Estate Tax Protected Grantor Trust. The Low Basis Asset Client will be personally liable on the bank loan. The trust could guarantee the bank's loan to the client.

Hypothetical Transaction #1 is illustrated below:



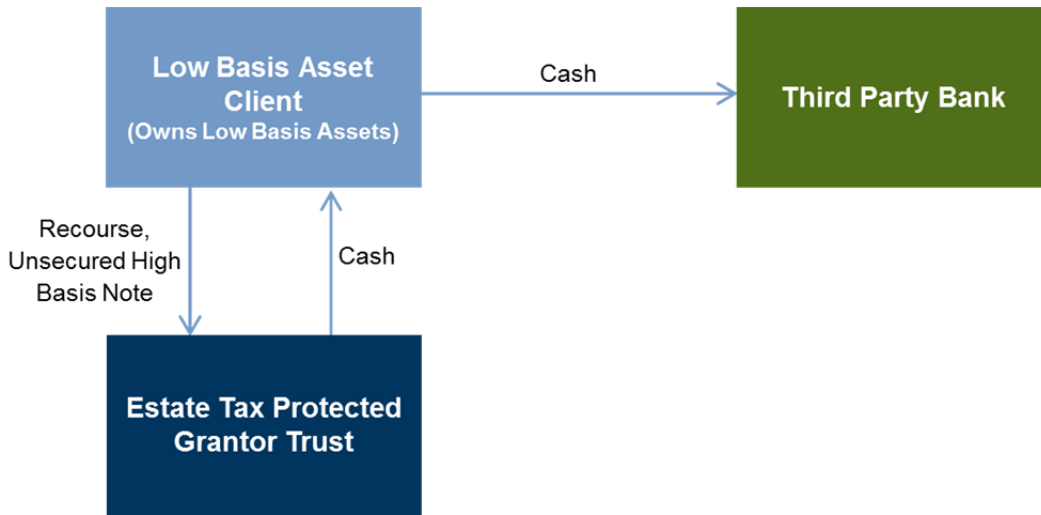
Hypothetical Transaction #2:

Low Basis Asset Client could continue to borrow from Third Party Bank. Or, in a few years, because Low Basis Asset Client would like the flexibility of a recourse, unsecured long-term note, or because interest rates have moved, or because of some other financial reason, Low Basis Asset Client could borrow cash from the grantor trust to help pay the Third Party Bank note.

The recourse, unsecured long-term note with the grantor trust will be at a fair market interest rate that is much higher than the AFR. The Low Basis Asset Client will be personally liable on the note owed to the trust.

The Estate Tax Protected Grantor Trust's basis in the new recourse, unsecured note may be equal to the cash that is loaned.

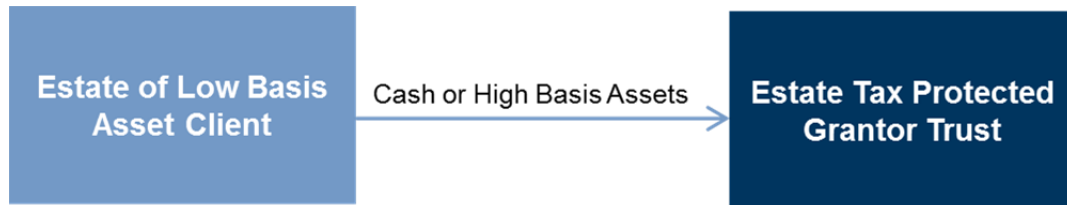
Hypothetical Transaction #2 is illustrated below:



Hypothetical Transaction #3:

Upon the death of Low Basis Asset Client, the estate satisfies the note to the Estate Tax Protected Grantor Trust with the now high basis assets or cash (if the high basis assets are sold after the death of Low Basis Asset Client).

Hypothetical Transaction #3 is illustrated below:



- c. The technique needs to be arranged and implemented in a manner that avoids the application of the step transaction doctrine. See Section III A 3 c of this paper.

It is very common for a borrower to refinance his debt. If a borrower refinances debt by borrowing from a family entity the non-tax economic advantage of doing so may exist if there exists more generous terms as to the timing of when the principal note must be paid, the security required for the note (or the lack thereof) is improved from the borrower's perspective, and/or locking in interest rates that could change unfavorably in the future.

- d. The use of a third party loan and refinancing the third party loan by borrowing from a family entity adds to the complexity of the technique.

However, the use of a third party loan that is refinanced by a family entity may lessen the future administrative burden for the family.

- e. Is the basis of the note received for cash loaned by the Estate Tax Protected Grantor Trust equal to the cash's fair market value?

It is difficult to imagine that when the Estate Tax Protected Grantor Trust loans cash its basis in the resulting note is anything less than the value of the cash. Stated differently, may cash ever have a basis lower than the amount of that cash? Perhaps in the different world of grantor trusts it may.

If that is a concern, consider converting the grantor trust to a complex trust before the loan of the cash is made. If the conversion is made before the trust makes a loan to the grantor there would not appear to be any tax consequences to that conversion (because there are not any outstanding loans owed to or by the grantor). The loan of cash from the now, complex trust, should be treated like any loan of cash from a complex trust.

- f. The effect of Treas. Reg. §20.2053-7 needs to be considered.

See the discussion in Section III E 3 e of this paper.

- g. Like all leverage techniques, if the underlying assets stay flat or decline there is not any advantage to the technique and to the extent a gift tax exemption is used, the technique operates at a disadvantage.

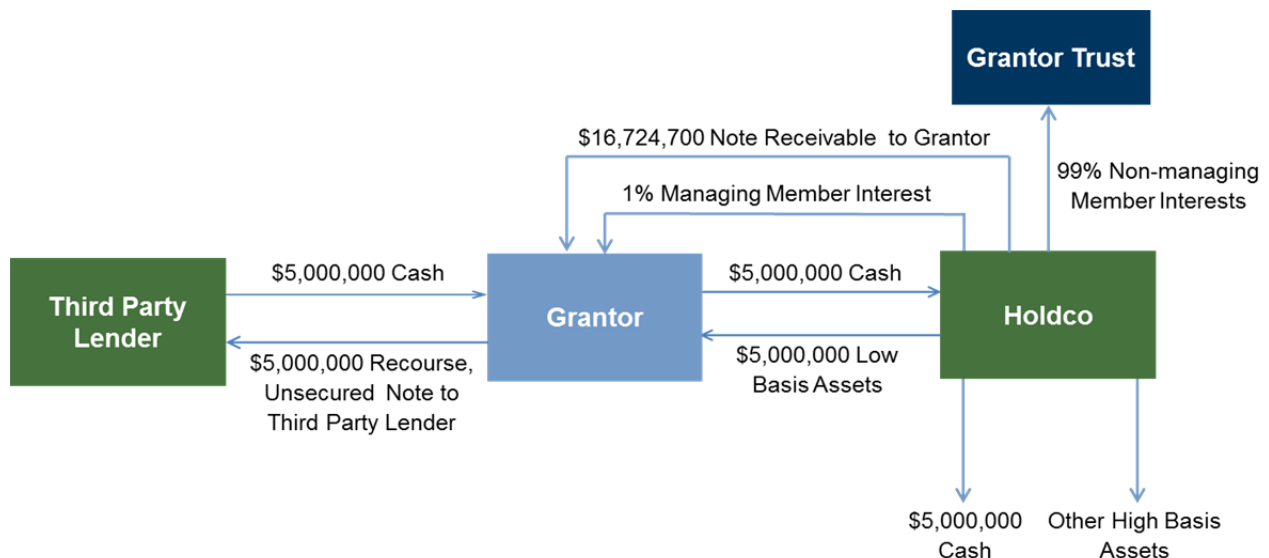
B. Use of Third Party Lending in Combination With the Technique of Contributing Non-Managing Member Interests of a Leveraged LLC to a GRAT (for a Description of the Technique See Section III C I of This Paper).

1. The Technique.

See Example 5 in the discussion in Section III C of this paper. Assume in that example the assets of Holdco LLC have a very low basis. Consider the following additional transactions:

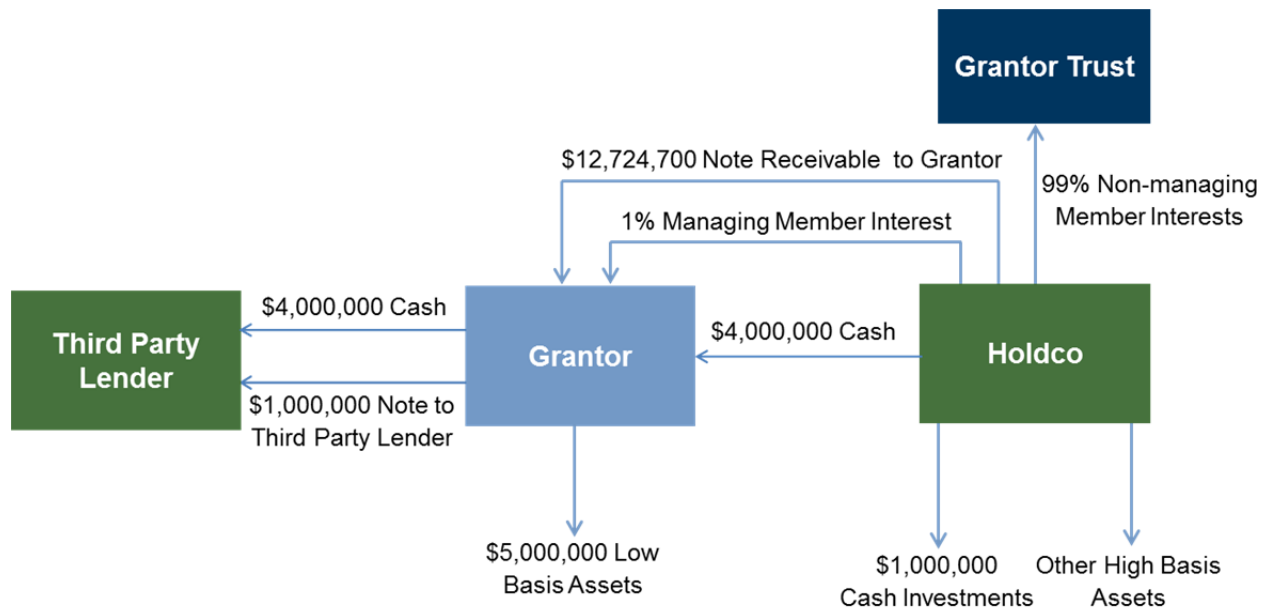
Hypothetical Transaction #1:

After the GRAT terminates the grantor borrows cash on a recourse basis from a third party and substitutes that cash in exchange for the low basis assets held by Holdco.



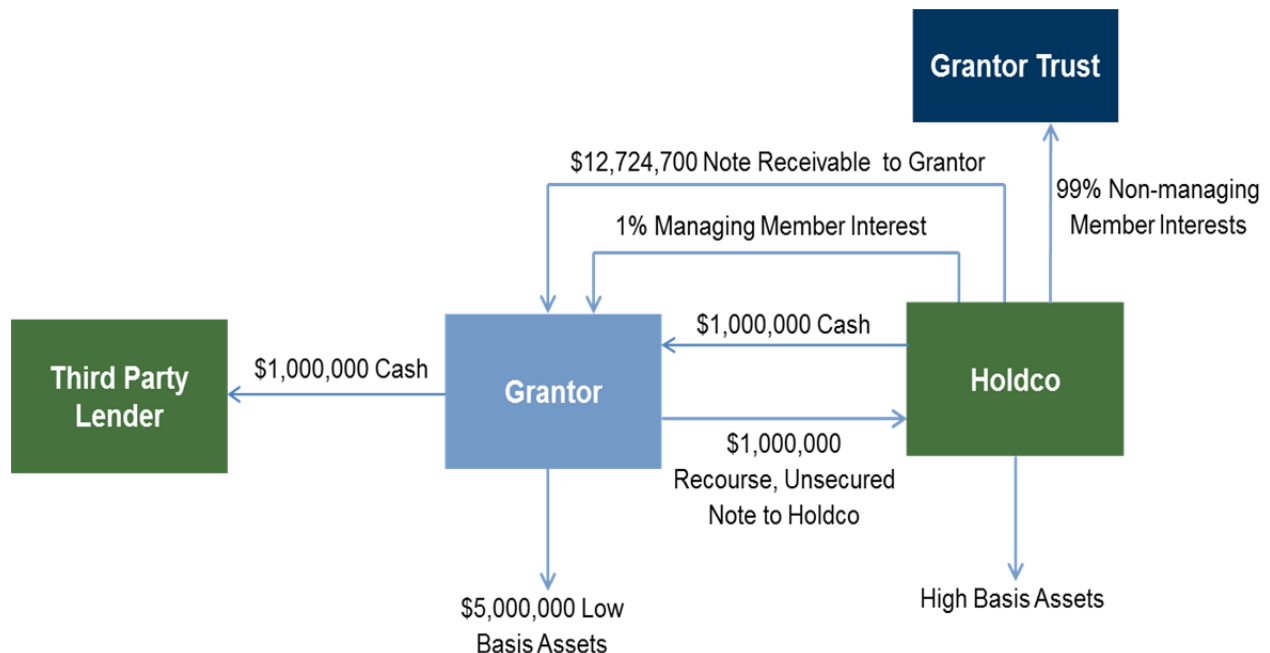
Hypothetical Transaction #2:

Holdco uses some of its cash to pay off the note owed to the grantor. The Grantor uses those proceeds to reduce its note to the third party lender.



Hypothetical Transaction #3:

Holdco uses the swapped cash for investments. Holdco at a later time may wish to make a future recourse, unsecured loan to the grantor who could then retire any remaining note owed to the third party lender.



2. Advantages of the Technique.

- a. This technique has many of the advantages of the technique of contributing non-managing member interests of a leveraged LLC to a GRAT (see Section III C 2 of this paper) without the future capital gains tax disadvantage.
- b. Any low basis asset held by a decedent, including assets purchased from the single member liability company, will receive a step-up in basis on the decedent's death.

The note owed to Holdco and/or the third party lender is on a recourse basis and should be fully deductible without reducing the gross estate value of the low basis asset. See Treas. Reg. §20.2053-7.

3. Considerations of the Technique.

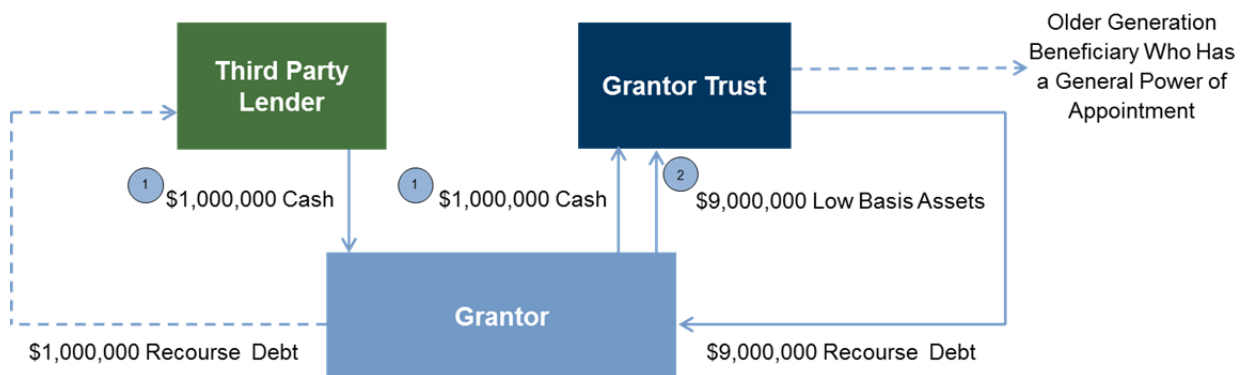
This technique has generally the same considerations as using third party lending to facilitate basis enhancing for sales to grantor trusts. Please see the discussion in Section V A 3 of this paper.

- C. Use of Third Party Recourse Lending in Combination With the Technique of Using Leverage to Make a Sale to a Grantor Trust That is Subject to the Estate Taxes of an Older Generation Beneficiary (For a Description of This Technique see Section III E of this paper).

1. The Technique.

See Example 6 in the discussion in Section III E of this paper. Assume in that example the assets to be held in the grantor trust over which the older generation beneficiary has a general power of appointment are assets that have a very low basis. Assume grantor first borrows \$1,000,000 cash from a third party lender and then contributes that cash to the trust. The third party loan could be recourse against the grantor. See the illustration below.

Hypothetical Transaction #1:



2. Advantages of the Technique.

- a. This technique has many of the advantages as the technique of using leverage to make a sale to a grantor trust that is subject to the estate taxes of an older generation beneficiary (see Section III E 2 of this paper) without the potential IRC Sec. 1014(e) disadvantage, if the grantor had only gifted and sold low basis assets to create the trust.
- b. The grantor may be able to again depreciate improved property.

If the grantor purchases depreciable assets from the grantor trust after the death of the older generation beneficiary the grantor may be in a position to again depreciate the assets in his lifetime. If the grantor dies still owning the assets after it has been fully depreciated his estate and the heirs will receive a new basis that is equal to the then fair market value of the asset. Stated differently, the grantor and his descendants may be in a position to enjoy the income tax benefits of the depreciation three times.

3. Considerations of the Technique.

This technique has generally the same considerations as using third party lending to facilitate basis enhancing for sales to grantor trusts. Please see the discussion in Section III E 3 of this paper.

VI. POST-MORTEM STRATEGIES THAT LOWER THE NET TOTAL INCOME TAX AND TRANSFER TAX.

A. Use of a Leveraged Buy-Out of a Testamentary Charitable Lead Annuity Trust ("CLAT").

1. The Technique.

a. Introduction.

The "conventional wisdom" this author sometimes hears on this subject is as follows: "one can never self-deal, even on a fair basis, with a foundation or a CLAT;" "the problem with testamentary gifts to charity is that the decedent's family always ends up with substantially less;" or "the problem with testamentary CLATs is that the decedent's family has to wait a long time to have access to the decedent's assets." This "conventional wisdom," under the circumstances discussed below, is incorrect.

Assume a client, at his death, wishes for part of his estate to go to his family and the rest to his favorite charitable causes. One technique that is generally considered under those circumstances is the CLAT.

Example 9: Use of a Testamentary CLAT in Conjunction With a Leveraged Redemption of a Partnership Interest Held by a Decedent

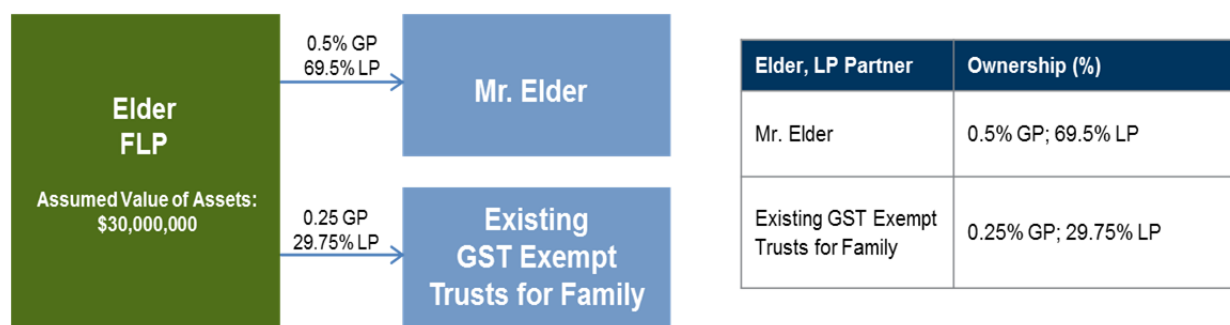
Ed Elder and his family create a FLP. Ed Elder owns 70% of the partnership interests after contributing \$30,000,000 in assets to the FLP and doing some lifetime gifting to a generation-skipping trust. Ed does not have any estate tax exemption remaining. The estate tax rate is 40%. However, Ed dies unexpectedly before he has had a chance to make additional transfers of limited partnership interests to trusts for the benefit of his family. It is assumed a

valuation discount of 40% of the transferred partnership interests is appropriate. What would be the effect on Ed's estate plan, under those circumstances, if his will bequeaths an upfront dollar gift to trusts for the benefit of his family and the rest to a "zeroed out" testamentary charitable lead annuity trust (CLAT)?

Assume Ed's will provided that the first \$3 million of his estate goes to trusts for the benefit of his family and the rest to a 100% "zeroed out" CLAT that is to last for 20 years. Assume that the FLP buys out the charitable lead annuity trust interest in a probate trust proceeding that fits the requirements of the regulations under IRC Sec. 4941.⁶⁹ Assume the partnership interest is redeemed with an interest only note (which pays interest equal to the dollar amount that is owed for the annuity payments to the charitable beneficiaries of the CLAT) with the principal of the note being paid in the 20th year. Finally, it is assumed that the IRC Sec. 7520 rate is 1.0% at the time of Ed's death.

This technique is illustrated below:

During Ed's lifetime he creates a FLP with his family.

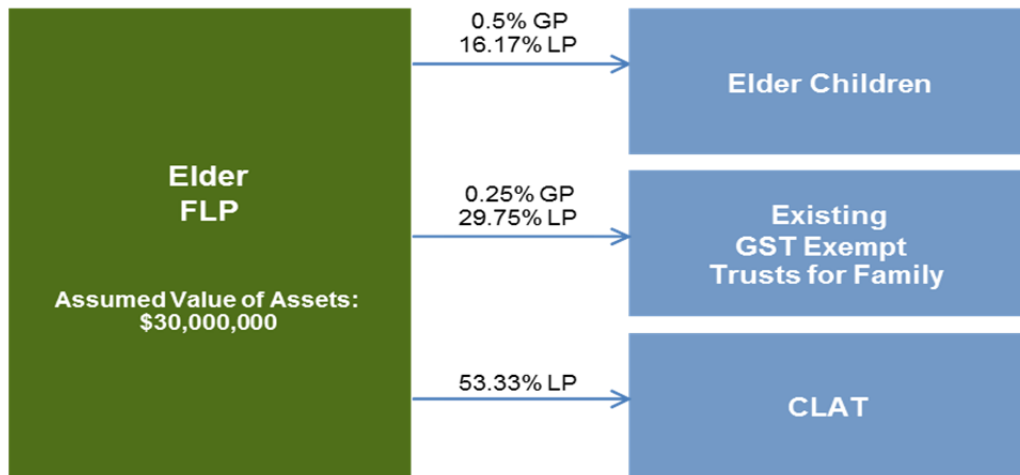


After Ed's death his will conveys his partnership interest as follows:

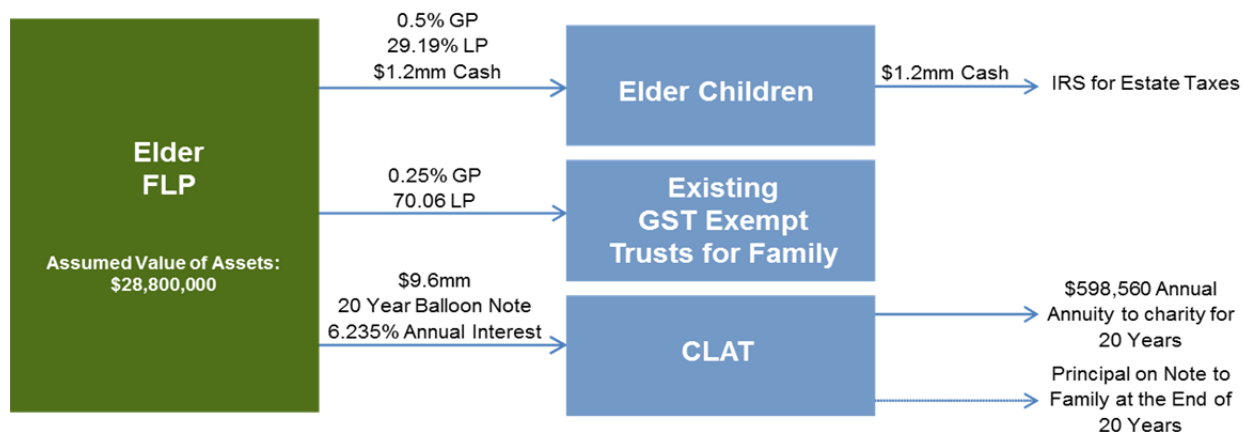


The percentage ownership of Elder Family Limited Partnership before any redemption pursuant to a probate court hearing is as follows:

⁶⁹ See P.L.R. 200207029 (Nov. 21, 2002); P.L.R. 200124029 (Mar. 22, 2001); P.L.R. 20024052 (Nov. 2, 2001); see also Daniels & Leibel, "Planning for the Closely Held Business Owner: The Charitable Options," 40th Philip E. Heckerling Institute on Estate Planning, Chapter 12 (2006).



After a probate hearing the children's interest is partially redeemed and the CLAT's interest is totally redeemed as follows:



b. What is a CLAT?

- (1) A charitable lead annuity trust is a trust in which the lead interest is payable to a charity and is in the form of an annuity amount for the term of the lead interest.
- (2) In the charitable lead annuity trust, the annual payment is not based on the income of the trust. Since the annuity amount is not based on the income of the trust, that amount must be paid to the charity even if the trust has no income. If the trust's current income is insufficient to make the required annual payment, the short-fall must be made up out of the invasion of the trust principle. If the current income exceeds the required annual payment, it does not have to be paid over to the charity; however, the excess income would then be accumulated and added to the trust corpus.

- (3) The lead interest in a charitable lead annuity trust can be for a fixed term of years. Unlike a charitable remainder trust, the fixed term can be indefinite.⁷⁰ The lead interest can also be measured by the life of an existing individual or the joint lives of existing individuals.
- (4) Charitable lead annuity trusts are not subject to the minimum payout requirements associated with charitable remainder trusts. Thus, there is no 5% minimum payout for charitable lead annuity trusts.
- (5) The charitable lead annuity trust is not a tax-exempt entity. Thus, if taxable income is accumulated in the trust it will be subject to income taxes. The CLAT will receive a charitable income tax deduction when it makes the distribution to the charity.
- (6) Charitable lead trusts are characterized as private foundations for purposes of certain restrictions placed on such organizations. Accordingly, CLATs are subject to private foundation excise tax provisions.⁷¹ The governing trust instrument must contain specific prohibitions against (i) self-dealing; (ii) excess business holdings; (iii) jeopardy investments; and (iv) taxable expenditures.⁷² If the specified prohibited transactions occur onerous significant excess taxes could accrue.

c. What is a leveraged buyout testamentary CLAT?

During probate administration, one of the exceptions to the self-dealing rules, with respect to foundations and CLATs, is that a self-dealing transaction may occur if certain restrictions are met. For instance, if a partnership interest that is to pass to a CLAT is redeemed for a note that may be a permissible transaction.⁷³ One requirement is that the note has a fair market value that is at least equal to or greater than the fair market value of the existing redeemed partnership interest. Another requirement is that the note must be just as liquid, if not more liquid, than the existing partnership interest. Assuming the appropriate probate court approves the leverage buyout, the note could be structured to be an interest only negotiable note, with the interest rate being higher than the existing AFR rate (e.g. 5.42% in comparison to a long term AFR of 2.18%), with a balloon payment at the end of 20 years (assuming a 20 year testamentary CLAT).

⁷⁰ IRC Sec. 170(f)(2)(B).

⁷¹ IRC Sec. 4947(a)(2).

⁷² See IRC Secs. 4941(a), (b), 4943(a), (b).

⁷³ See Treas. Reg. Section 53.4941(d)-2; see also Matthew J. Madson, "Funding a CLAT with a Note," 30 Est. Plan 495, 2003 WL 22213736 (2005).

2. Advantages of the Technique.

- a. No estate taxes have to be paid with a gift to a properly structured and implemented zeroed-out CLAT.
- b. There is a partial step-up in basis in the decedent's partnership interest that is bequeathed to a zeroed-out CLAT.

If a discounted partnership interest is bequeathed to a CLAT the assets of the partnership may receive a partial step-up in basis if an IRC Sec. 754 election is made. The step-up in the partnership assets will need to take into account the valuation discounts that will exist with the bequeathed partnership interests.

- c. If the decedent bequeaths a dollar gift to his family and the rest of his estate to a zeroed-out CLAT, his will acts like a defined value allocation clause.

Even if all of the assets of the estate are hard to value, the only estate taxes to be paid are on the dollar gifts to the family. Any increase in the value of the estate by the IRS will result in no increase in estate taxes and a future decrease in income tax revenues.

- d. Significant improvement in the after tax net worth for both the family of the decedent and the decedent's favorite charitable causes will accrue because of this technique.

What would the results be for Ed's family and his charitable beneficiaries under those circumstances in comparison to a gift only to his family (with the IRS allowing a full discount for the partnership interests)? What would be the comparison if the IRS did not allow any discount for the gift to the family? What difference would it make in comparison of the various alternatives if the family earned 3% before taxes, 7.5% before taxes and 10% before taxes during the 20-year period after Ed's death? What difference would it make if instead of bequeathing \$3 million to Ed's family, Ed had bequeathed \$10 million to his family with the rest to the zeroed out CLAT? The results of those comparisons are summarized below (please see attached Schedule 9).

Table 5a
Summary of Results For \$30 Million of Assets Growing at 3% Per Year (Pre Tax) –
No Further Planning vs. 20 Year Testamentary CLAT Technique; 20 Year
Future Values; Post-Death Scenarios (assuming Mr. Elder dies in year 1)

Technique	Elder Children	Elder GST Exempt Trust	Charity	IRS Taxes on Investment Income	IRS Investment Opportunity Cost	IRS Estate Tax	Total
No Further Planning - No Charitable Gift No Discount Allowed	\$18,333,733	\$15,073,672	\$0	\$5,253,849	\$7,522,083	\$8,000,000	\$54,183,337
No Further Planning - No Charitable Gift Discount Allowed	\$23,059,178	\$15,073,672	\$0	\$5,956,415	\$5,294,072	\$4,800,000	\$54,183,337
Hypothetical Technique - CLAT Redemption Discount Allowed - \$3mm to Family	\$16,818,670	\$17,096,849	\$16,083,531	\$1,747,005	\$1,237,281	\$1,200,000	\$54,183,337
Hypothetical Technique - CLAT Redemption Discount Allowed - \$10mm to Family	\$22,778,999	\$14,337,710	\$4,355,956	\$4,501,200	\$4,209,472	\$4,000,000	\$54,183,337

Table 5b
Summary of Results For \$30 Million of Assets Growing at 7.50% Per Year (Pre Tax) –
No Further Planning vs. 20 Year Testamentary CLAT Technique; 20 Year
Future Values; Post-Death Scenarios (assuming Mr. Elder dies in year 1)

Technique	Elder Children	Elder GST Exempt Trust	Charity	IRS Taxes on Investment Income	IRS Investment Opportunity Cost	IRS Estate Tax	Total
No Further Planning - No Discount Allowed	\$33,734,275	\$27,222,640	\$0	\$19,049,212	\$39,429,406	\$8,000,000	\$127,435,533
No Further Planning - Discount Allowed	\$42,018,677	\$27,222,640	\$0	\$21,535,391	\$31,858,825	\$4,800,000	\$127,435,533
Hypothetical Technique - CLAT Redemption Discount Allowed - \$3mm to Family	\$26,774,735	\$40,677,004	\$25,920,450	\$16,803,779	\$16,059,565	\$1,200,000	\$127,435,533
Hypothetical Technique - CLAT Redemption Discount Allowed - \$10mm to Family	\$41,011,327	\$27,292,259	\$7,020,122	\$20,117,950	\$27,993,875	\$4,000,000	\$127,435,533

Table 5c
Summary of Results For \$30 Million of Assets Growing at 10% Per Year (Pre Tax) –
No Further Planning vs. 20 Year Testamentary CLAT Technique; 20 Year
Future Values; Post-Death Scenarios (assuming Mr. Elder dies in year 1)

Technique	Elder Children	Elder GST Exempt Trust	Charity	IRS Taxes on Investment Income	IRS Investment Opportunity Cost	IRS Estate Tax	Total
No Further Planning - No Discount Allowed	\$49,533,164	\$39,520,097	\$0	\$29,956,665	\$74,815,071	\$8,000,000	\$201,824,998
No Further Planning - Discount Allowed	\$61,335,976	\$39,520,097	\$0	\$33,800,051	\$62,368,873	\$4,800,000	\$201,824,998
Hypothetical Technique - CLAT Redemption Discount Allowed - \$3mm to Family	\$36,556,659	\$63,844,719	\$34,282,524	\$29,612,351	\$36,328,746	\$1,200,000	\$201,824,998
Hypothetical Technique - CLAT Redemption Discount Allowed - \$10mm to Family	\$59,592,669	\$40,494,791	\$9,284,850	\$32,455,697	\$55,996,990	\$4,000,000	\$201,824,998

The primary reason the leveraged buy out CLAT technique has a good result for both the client's family and the client's favorite charities, is that, in effect, the client's family is getting two different tax deductions for the interest payments that they are making on the note. There is an estate tax deduction (i.e., the zeroed out CLAT annuity payments) and the family owners of the FLP are also receiving an income tax deduction on the interest payments (assuming there is enough partnership investment income to offset the interest expense). The combined effect of those two different tax deductions is to heavily subsidize the interest payments. Another reason the technique has a good result for the family is that they are not out-of-pocket cash to pay the

principal of the note to a third party. From Ed Elder's children's perspective, the principal of the note is, in effect, paid to themselves, since they are the remainderman of the CLAT.

- e. The family does not have to wait 20 years to access the investments, if the investments are successful.

One of the downsides of a long term testamentary CLAT (e.g. 20 year term CLAT) is that the remainder beneficiaries have to wait until the CLAT terminates to access the capital of the CLAT. With the leveraged buy-out testamentary CLAT, assuming a conservative sinking fund is set aside to pay future interest payments, the family owners of the partnership may access the rest of the funds of the partnership and, of course, invest the rest of the funds of the partnership.

3. Considerations of the Technique.

- a. Need to get probate court approval.

As noted, above the appropriate probate court will need to find that the note has a fair market value equal to or greater than the partnership interest that is being redeemed and the note needs to be more liquid than the redeemed limited partnership interest. The second requirement should be relatively easy to satisfy if the note is negotiable and the first requirement should also be easy to satisfy because subject interest rate should be equal to or greater than the true "fair market value" interest rate.

- b. Leverage could work against the family unless a carefully constructed partnership sinking fund is utilized to pay future interest payments.

If the managers of the partnership do not carve off part of the partnership assets to develop a carefully constructed sinking fund that is conservative in order to assure that future interest payments that are paid to the charitable beneficiary of the CLAT, the assets of the partnership, and the assets available to the family, could decrease.

B. The Use of the Deceased Spouse's Unused Exemption Amount ("DSUE Amount") to Take Advantage of the Grantor Trust Rules to Save Future Estate Taxes and to Simulate the Tax and Creditor Protection Advantage That a Significant Credit Shelter Trust Would Give a Surviving Spouse.

1. The Technique.

Portability permits the estate of the first spouse to die of a married couple to elect to transfer the DSUE amount to the surviving spouse who could use it for making gifts and sales to a grantor trust.⁷⁴ See IRC Sec. 2010. A surviving spouse's gift of non-managing interests in a family entity to a grantor trust using the DSUE amount, and sales by the surviving spouse of non-managing interests in a family entity to the grantor trust, may be designed to simulate, from the perspective of the surviving spouse and the surviving spouse's descendants, the same result that would accrue if the first spouse to die had created a much larger credit shelter trust through the use of a much larger unified credit. Consider the following example.

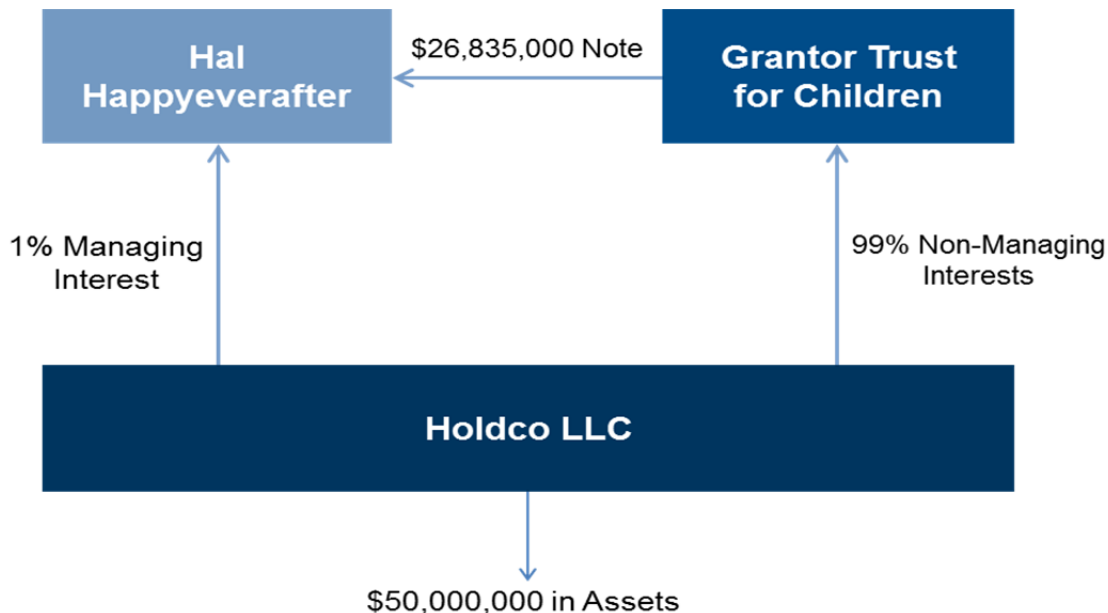
⁷⁴ See, Thomas W. Abendroth "Portability: Now Available in Generic Form" Chapter 2, 48th Annual Heckerling Institute on Estate Planning (June, 2014).

*Example 10: Use of the DSUE amount to Simulate a
Significantly Larger Credit Shelter Trust Than What Can Be
Created By the Use of a Decedent's Available Unified Credit*

Harriett Happyeverafter is married to Hal Happyeverafter. Harriett has been very successful and has built a \$50,000,000 estate during her 50-year marriage. Her goals, if Hal survives her, are to provide for Hal. Upon Hal's death, Harriett wishes for her remaining estate pass to their children. Harriett has never engaged in lifetime gifting strategies for a variety of reasons, one of which is that she has very low basis assets. Harriett likes the protection, tax benefits and simplicity of the credit shelter trust that could be created on her death. However, Harriett is concerned that the credit shelter trust only protects about one-tenth of her net worth from future estate taxes and creditors. Harriett is intrigued about the possibility of Hal using her DSUE amount, and other techniques, to simulate a significant credit shelter trust for Hal's benefit and their children's benefit.

Harriett tells her attorney, Ima Mathgeek, that Hal will need approximately \$500,000 a year for his consumption needs. Harriett would like Hal to control her investments after her death. Harriett asks Ima to make the following assumptions: her assets will annually earn 7.4% before income taxes with 0.6% of the return being taxed at ordinary rates, 2.4% of the return being tax-free and 4.4% of the return being taxed at long-term capital gains rates (with a 30% turnover rate). Harriett asks Ima to assume Hal will live for 10 years after her death. Harriett asks Ima to design a structure that Hal could use with the DSUE amount to simulate the tax benefits and creditor protection benefits of a larger credit shelter trust.

Ima suggests that after Harriett's death Hal could create a single member LLC with managing and non-managing interests. Hal in independent steps could gift and sell the non-managing interests to a grantor trust in which their children are beneficiaries. The original gift to the grantor trust will use the DSUE amount. Ima assumes a 30% valuation discount for the non-managing interests will be allowed. The structure, after completion, is illustrated as follows:



Ima's calculations indicate that for a credit shelter trust to duplicate the estate tax savings of the above DSUE amount planning the trust would have to be funded with \$46,189,085 on Harriett's death, or around nine times the then assumed available unified credit amount. See the table below and attached Schedule 10.

Table 6

	Happyeverafter Children (1)	Consumption (2)	Consumption Investment Opportunity Cost (3)	IRS Income Tax (4)	IRS Income Tax Investment Opportunity Costs (5)	IRS Estate Taxes at 40% (6)	Total (7)
10-Year Future Values							
Simulated Credit Shelter Trust: Hal Happyeverafter's deceased spouse created a \$46,189,085 credit shelter trust for Hal and family and bequeaths the rest of her estate to Hal	\$77,713,665	\$6,722,029	\$2,606,804	\$8,285,914	\$2,225,962	\$4,542,587	\$102,096,962
Hap Happyeverafter's deceased spouse bequeaths her estate to Hal; Hal creates a single member LLC and gifts the DSUE amount to a grantor trust; Hal sells the remaining non-managing member interests to the grantor trust	\$77,713,665	\$6,722,029	\$2,606,804	\$8,732,917	\$2,225,962	\$4,095,584	\$102,096,962
Present Values (Discounted at 2.5%)							
Simulated Credit Shelter Trust: Hal Happyeverafter's deceased spouse created a \$46,189,085 credit shelter trust for Hal and family and bequeaths the rest of her estate to Hal	\$60,709,791	\$5,251,238	\$2,036,431	\$6,472,943	\$1,738,918	\$3,548,662	\$79,757,983
Hap Happyeverafter's deceased spouse bequeaths her estate to Hal; Hal creates a single member LLC and gifts the DSUE amount to a grantor trust; Hal sells the remaining non-managing member interests to the grantor trust	\$60,709,791	\$5,251,238	\$2,036,431	\$6,822,141	\$1,738,918	\$3,199,464	\$79,757,983

2. Advantages of the Technique.

- a. Significantly more assets may be passed to the next generation by using this technique than using the exemption to fund a credit shelter trust.

Using the synergies of a discounted sale of non-member interests to a grantor trust and paying the note with pre-income tax dollars, is a much more powerful planning technique than a transfer to a complex trust that pays its own income taxes. This technique, once again, demonstrates the synergistic power of discounted sales to a grantor trust.

- b. There is a step-up in basis of the deceased spouse's assets at her death.

This technique is particularly advantageous for a taxpayer who has a low basis or negative basis asset. There will be a step-up in basis that is equal to the fair market value of the assets.

- c. There is an opportunity through using borrowing strategies from third party lenders for the surviving spouse to increase the basis of the transferred assets during his lifetime.

The surviving spouse could substitute cash for any assets owned by Holdco that appreciate during his lifetime. See Section V of this paper. It is much more difficult to use borrowing strategies to enhance the basis of trust assets in a complex trust.

- d. Significantly more assets may receive protection from creditors by using sales to grantor trusts with the use of the DSUE amount then using the exemption to fund a credit shelter trust.

See the above analysis and Schedule 10.

- e. The surviving spouse's rights with respect to assets owned by the grantor trust, and cash flows produced by those assets, are pursuant to a flexible contract, rather than discretionary distributions by a trustee who is subject to fiduciary considerations.

There are certain advantages from the surviving spouse's point of view, and the family's point of view, in having the trust's obligations to the surviving spouse being contractual, instead of being under a discretionary standard that is subject to the fiduciary constraints of trust law and the trust document. In comparison to changing a trust document, changing a contract, if circumstances change, is relatively easy (assuming all parties to the contract agree). For instance, in this example, after a few years after the note has been reduced, it may be in Hal's best interest, and the trust's best interest, to convert part, or all, of the note to a private annuity. If the trustee and Hal agree to the change it may be changed without court involvement. A similar profound change in a trust document may require court involvement and the appointment of representatives for minor beneficiaries and unborn beneficiaries.

- f. All of the advantages of creating a grantor trust and selling assets to a grantor trust are present with this technique.

See Section III A 2 of this paper.

3. Considerations of the Technique.

- a. The surviving spouse may not transfer the DSUE amount in the manner that the deceased spouse anticipated.

This probably is not a technique that a taxpayer should use if there is any doubt that her spouse will not use the DSUE amount as anticipated. For instance, this may not be a very good technique in second marriage situations in which there exist blended families.

- b. If the surviving spouse has creditor issues at the time of the first spouse's death, creating a family trust with the deceased spouse's unified credit will provide better protection from those creditors.

Generally, with respect to existing creditors of a surviving spouse, a third party created trust had a much better chance of protection than a trust created by the surviving spouse.

- c. This technique has the same considerations as the creation of a grantor trust and a sale to a grantor trust.

See Section III A 3 of this paper.

- d. The GST tax exemption is not portable.

A credit shelter trust may be designed to be a dynasty trust. The grantor trust that is created by using the deceased spouses DSUE amount may not be generation skipping tax protected. The surviving spouse could use his own exemption to create a generation skipping trust that is also a grantor trust and save the DSUE amount to protect his estate on his death from estate taxes. The surviving spouse could also use his own exemption to create a generation-skipping trust that is also a grantor trust, use the DSUE amount to create a grantor trust for the first generation, with the first generation trust using low interest loans to the generation-skipping trust to maximize the generation-skipping benefits.

- e. It may be more advantageous to convert a traditional credit shelter trust, with its attendant creditor protection and GST advantages, to a Section 678 grantor trust by using the QSST technique.

See the discussion of this technique in Section VIII C of this paper.

- f. It may be more advantageous for the decedent to have created the grantor trust during her lifetime and use her exemption to create the grantor trust for the benefit of the spouse before death.

However, unless there is careful management of the grantor trust during the grantor's lifetime, significant capital gains cost could accrue in comparison to creating the grantor trust after the grantor's death.

- g. Like all leverage techniques, if the underlying assets stay flat or decline there is not any advantage to the technique and to the extent a gift tax exemption is used, the technique operates at a disadvantage.

- C. The Conversion of a Credit Shelter Trust to a Qualified Subchapter S Trust ("QSST"), the Investment by the Credit Shelter QSST in a Subchapter S Corporation and the Sale of Subchapter S Stock owned by the Surviving Spouse to the Credit Shelter QSST.

See Section VIII C of this paper.

VII. LIFETIME CHARITABLE GIVING STRATEGIES THAT ALSO BENEFIT CLIENT'S DESCENDANTS BY REDUCING THE FAMILY'S TOTAL INCOME TAX AND TRANSFER TAX.

- A. Use of a Discounted Sale of the Non-charitable Interest in a Charitable Remainder Unitrust ("CRUT") to a Grantor Trust.

- 1. Introduction and the Technique.

The "conventional wisdom" this author sometimes hears on this subject is as follows: "you can no longer use the CRUT technique and benefit your family;" or "the problem with

charitable planning is that it will greatly decrease what a client's family will receive." This "conventional wisdom," under the circumstances discussed below, is incorrect.

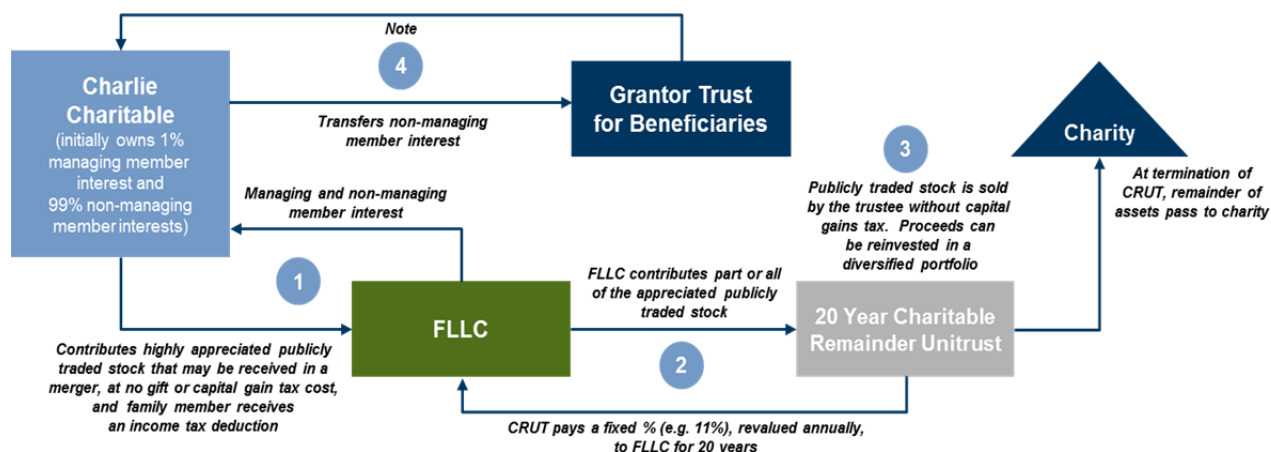
Charitable remainder trusts, particularly charitable remainder unitrusts ("CRUTs") are a very popular planning technique for the charitably inclined client. While the technique has significant benefits to the client and his favorite charitable causes, one downside is the perception that it is difficult to benefit a client's family with the technique. Perhaps that is not true, if the technique is used synergistically with certain other estate planning techniques, that is, sale of FLLC or member interests to a grantor trust. That synergistic planning could simulate the following: a capital gains tax and estate tax holiday with the only cost (or additional benefit) being the taxpayer's favorite charity receiving 21% of his wealth on his death. Consider the following example:

*Example 11: Charlie Charitable Wishes to Benefit His Family,
His Charitable Causes and Himself With a Monetization Strategy*

Charlie Charitable, age 63, is widowed and has three adult children. Charlie owns \$10 million of a publicly traded stock with a zero basis. Charlie also owns \$2,500,000 in financial assets that have a 100% basis. He plans to spend \$150,000 per year, indexed for inflation. If Charlie's spending needs are secure, he would like to give a large proportion of his after-tax wealth to his family, but he would still like to give between 20% and 25% of what he owns to his favorite charity. Charlie wants to diversify his stock position, but does not want to incur a big capital gains tax. Charlie has considered a CRUT, but he is concerned that charity could receive a windfall at the expense of his family if he dies prematurely. He is not certain he will qualify for favorable life insurance rates to insure against that risk and he generally dislikes insurance as a pure investment vehicle. Charlie would like his family to be eligible to receive some funds now, but he does not want to bear the gift tax consequences of naming family members as current CRUT beneficiaries. Charlie is also willing to take steps to reduce potential estate tax, and he needs help sorting through his options. He would like to involve his children in his estate planning discussions so they can learn about their obligations as fiduciaries and beneficiaries and can start to plan their own family and financial affairs.

Charlie's lawyer, Pam Planner, has a plan to help Charlie achieve his objectives, which significantly reduces the capital gains tax on the sale of his appreciated stock and minimizes the estate tax cost of transferring the stock proceeds to his family. Pam suggests that Charlie fund a FLLC with his stock, and that the partnership create a twenty-year term charitable remainder unitrust ("CRUT"). The partnership will keep an up-front stream of payments for twenty years that represents a 90% actuarial interest in the CRUT. Charlie's favorite charity will receive the remaining CRUT assets at the end of the twenty-year term. The trustee of the CRUT could sell the stock and construct a diversified investment portfolio without triggering immediate capital gains tax consequences. If Charlie owns most of the FLLC when the CRUT is created, most of the income tax charitable deduction for charity's 10% actuarial interest will flow through to him. Charlie could then sell his non-managing member interests to an intentionally defective grantor trust in exchange for a note. Charlie can allocate GST exemption to the grantor trust so his family's wealth is potentially protected from gift, estate and GST taxes forever.

This technique is illustrated below:



A CRUT is an irrevocable trust, often called a “split interest” trust. When a donor creates a CRUT, he can keep or give away a continuing payment stream from the CRUT for a period of time. This payment stream is made to the “noncharitable” beneficiaries.⁷⁵ The time period can last for up to twenty years or for the lifetimes of one or more currently living noncharitable beneficiaries.⁷⁶ In private letter rulings, the IRS has permitted partnerships and corporations to create CRUTs where the unitrust term is measured in years instead of the lives of individuals.⁷⁷ In Charlie’s case, the FLLC will be both the donor and the noncharitable beneficiary. The CRUT must pay a fixed percentage of the annual value of its assets to the FLLC each year, so the unitrust payments will fluctuate along with the value of the CRUT’s investments.

At the end of the unitrust period, the trustees of the CRUT will distribute the remaining assets to one or more qualified charitable beneficiaries or will hold the assets solely for charitable purposes.⁷⁸ These charitable beneficiaries can include private foundations and donor advised funds.⁷⁹

The FLLC, as the donor, will pass through a current income tax deduction for the value of charity’s interest to the members in the year it funds the CRUT. The value of the deduction depends on the value of the assets contributed to the CRUT, how long charity must wait to receive

⁷⁵ IRC Sec. 644(d)(2)(A); Treas. Reg. Section 1.664-3(a)(1).

⁷⁶ Treas. Reg. Section 1.664-2(a)(1).

⁷⁷ See P.L.R. 9205031 (Jan. 31, 1992) (C corporation); P.L.R. 9340043 (S corporation); P.L.R. 9419021 (Feb. 10, 1994) (partnership). Under Treas. Reg. Section 1.671-2(e)(4), if a partnership or corporation (an “entity”) makes a gratuitous transfer to a trust for a business purpose, the entity is generally treated as the grantor of the trust. However, if an entity makes a gratuitous transfer to a trust for the personal purposes of one or more partners or shareholders, the gratuitous transfer is treated as a constructive distribution to the partners or shareholders and they in turn are treated as the grantors of the trust. The IRS has taken the position that a CRT with multiple grantors is an association taxable as a corporation. See P.L.R. 9547004 (Nov. 24, 1995); P.L.R. 200203034 (Jan. 18, 2002). If the IRS takes the position that Charlie’s partnership created the CRUT all or in part for the personal purposes of its partners, then the CRUT may not be valid. If a practitioner is concerned about this result, Charlie could accomplish the transaction by funding a single member LLC, having the LLC create the CRUT, and then selling a portion of the LLC to a grantor trust so that there is only one grantor and income tax owner for the entire series of transactions.

⁷⁸ IRC Sec. 664(d)(2)(C).

⁷⁹ Qualified organizations are described in IRC Secs. 170(c), 2055(a), and 2522(a).

its interest, the size and timing of the partnership's reserved unitrust payment, and an assumed investment rate of return (called the IRC Sec. 7520 rate) that the IRS publishes monthly.⁸⁰ Because Charlie will own almost all of the FLLC when the CRUT is created, he will receive most of the deduction. Generally, Charlie can deduct up to 30% of his adjusted gross income for the transfer of appreciated marketable securities to the CRUT (20% if the remainderman is a private foundation), and he can carry forward any excess deduction for five years.⁸¹

Pam lists some of the key CRUT rules for Charlie:

- (a) The FLLC, as the noncharitable beneficiary, must receive an annual unitrust payment.⁸² This unitrust payment is a fixed percentage of the fair market value of the trust's assets, revalued annually. There are exceptions to this rule that allow some CRUTs to distribute net income instead, but these extra rules are not relevant for Charlie.
- (b) The unitrust payment must be at least 5%,⁸³ but not more than 50%,⁸⁴ of the fair market value of the trust's assets, determined annually.
- (c) At the CRUT's inception, the actuarial value of charity's interest in the CRUT must be worth at least 10%.⁸⁵ The CRUT can receive additional contributions as long as each additional contribution satisfies the 10% rule.⁸⁶
- (d) The CRUT does not pay income taxes.⁸⁷ The CRUT distributions carry out income tax consequences to the noncharitable beneficiary in a specific order: First, as ordinary income to the extent of the trust's current and past undistributed ordinary income (dividends that are taxed at 15% are included in this tier); second, as capital gains to the extent of the trust's current and past capital gains; third, as tax-exempt income to the extent of

⁸⁰ The IRC Sec. 7520 is 120% of the federal midterm rate. The partnership can choose the rate in effect for the month of the gift or for either of the two immediately preceding months.

⁸¹ IRC Sec. 170(b)(1)(B), (b)(1)(D). If a private foundation were the named remainderman and the stock of XYZ Company were not publicly traded, the deduction would be limited to basis (here, zero), and could not exceed 10% of XYZ Company's stock. IRC Sec. 170(e)(1)(b)(ii), (e)(5)(C).

⁸² IRC Secs. 664(d)(1)(B), (2)(B); Treas. Reg. Section 1.664-3(a)(1)(i).

⁸³ Treas. Reg. Section 1.644-2(a).

⁸⁴ IRC Sec. 664(d)(1)(A), as amended by The Taxpayer Relief Act of 1997, Pub. L. No. 105-34, 111 Stat. 787 (1997).

⁸⁵ IRC Sec. 664(d)(1)(D).

⁸⁶ Treas. Reg. Section 1.664-3(b).

⁸⁷ IRC Sec. 664(c)(1). Charlie's advisors will also want to ascertain the tax treatment of the CRUT under applicable state law. Most states recognize CRUTs as tax exempt, but some, *e.g.*, New Jersey, do not. It will usually be possible to establish the partnership and CRUT in a state recognizing the exemption regardless of where Charlie lives.

the trust's current and past tax exempt income; and finally, as a nontaxable return of capital.⁸⁸

- (e) Charlie must factor in additional legal, accounting and administrative costs. Since every unitrust payment depends on an annual valuation of the CRUT's assets, hard to value assets might generate appraisal costs, too.⁸⁹
- (f) The trustees of the CRUT do not have unlimited investment flexibility. There is a 100% excise tax on unrelated business taxable income (UBTI) generated in a CRUT. Broadly defined, UBTI is income derived from any trade or business. UBTI includes debt-financed income, so certain investment strategies that use borrowing might be off limits. Also, the self-dealing rules that apply to charitable trusts prohibit Charlie from transacting with the CRUT, even if the transaction is completely fair.⁹⁰

Charlie is interested in Pam's idea but it seems complicated, so he wonders if the plan is really that much better than just selling his stock. He also wonders how much taxation truly affects the real wealth he can transfer to his family over time. Charlie has already created a successful intentionally defective GST exempt trust so he has been through the planning process before. Still, he is eager to get a lucid explanation of some planning techniques to start educating his children and he wants to understand how the techniques can be combined to achieve his objectives.

2. Advantages of the Technique.

- a. The tax advantages of creating a grantor trust and a sale to a grantor trust.

See the discussion in Section III A 2 of this paper.

- b. The tax advantage of eliminating the capital gains tax on that part of the gains that will be allocated to the charity under the tiered income tax rules.

Depending upon the investment performance of the assets held in the CRUT a portion of the built-in capital gains will be allocated to the charity under the tiered income allocation rules. Treas. Reg. Section 1.664-1(d)(1). Assuming a 6% to 8% annual return of the CRUT assets during the 20 year term of the CRUT 40% to 60% of the original built-in gain will be allocated to the charity on termination of the CRUT and that portion of the gain will not be taxed when the asset is sold in year one.

⁸⁸ IRC Sec. 664(b); Treas. Reg. Section 1.664-1(d)(1).

⁸⁹ Treas. Reg. Section 1.664-1(a)(7).

⁹⁰ IRC Sec. 4941.

- c. The tax advantage of lowering opportunity costs by delaying taxes on the portion of the original gain that is not allocated to charity.

If tax rates stay the same, it is better for Charlie to defer paying taxes so he can use those tax dollars to generate investment returns. Paying taxes earlier than necessary is an opportunity cost.

- d. The tax advantage of a charitable deduction in year one for the actuarial value of the remainder interest of the CRUT passing to charity.

Under the facts of this example, Charlie will receive an income tax deduction equal to 10% of the value of the CRUT assets. The benefits of that tax deduction occur in year one.

- e. FLLCs offer many non-tax advantages. Among them, FLLCs:
 - (1) Allow a family to consolidate its assets for investment efficiency, investment diversity and economies of scale.
 - (2) Protect limited partners from creditors, divorcing spouses and financial inexperience.
 - (3) Give Charlie the opportunity to exercise some continuing investment control over the FLLC's assets.
 - (4) Create a forum for younger family members to participate in investment and other business decisions.
 - (5) Protect management by use of the business judgment rule and provide non-litigation mechanisms like arbitration to resolve disputes.
- f. The tax advantage of integration, which produces advantageous comparative results.

Charlie can use a combination of gift and estate planning techniques to achieve his objectives. But the plan also requires investment strategies that support the income tax, cash flow and appreciation targets necessary to promote its success. In addition, Charlie must involve the other managing members of the proposed FLLC, the trustees of the grantor trust and the CRUT, and one or more investment advisors, to properly implement the plan.

Charlie, his children and the trustees then show the plan to their investment advisor. The advisor constructs a sample diversified portfolio inside the CRUT that targets an annual 7.4% pre-tax return, with 3% of the return being taxed at ordinary income or short term gains and the balance 4.4% of the return being taxed at long term capital gains rates. Generally, the advisor projects an annual 30% turnover – that is, on average the trust will need to sell and reinvest 30% of the portfolio every year. It is assumed that the total taxes on realized long-term capital gains (including income taxes, surtax on investment income and the so-called “stealth” tax), will be 25%. It is also assumed that total taxes on ordinary income will be 44.6% (including income taxes, surtax on investment income and the so-called “stealth” tax).

Charlie, the children, the trustees and their investment advisor consider how to produce the annual CRUT payments; how much could be in cash and in kind; what happens when the CRUT distributes its unitrust payments to the FLLC and the FLLC distributes some or all of the

unitrust payments to the grantor trust; the grantor trust's repayments of Charlie's note; and how to reinvest those distributions to meet the differing objectives for Charlie, charity, the FLLC and the grantor trust. They think through contingency plans to cope with inevitable investment volatility, or the ups and downs that happen in every diversified investment plan. They analyze the different types of note: a "slow" note that preserves leverage for a longer time, and a "fast" note that eliminates the uncertain tax issues at Charlie's death. Charlie decides he would like the trust to repay his note as soon as possible, so the repayment is built into the plan.

To show Charlie the difference that taxes play in accumulating family wealth over time, Pam projects what would happen if there were no initial capital gains taxes when Charlie sells his stock and no estate taxes. She also projects what would happen if Charlie sold non-managing member interests to a grantor trust without including the CRUT component. If the investment plan produced smooth returns until Charlie's death (which the group agrees to project twenty-five into the future), the results would look like this (see Schedule 11):

Table 7

Hypothetical Technique (Assumes \$9.65mm Estate Tax Exemption Available)	Charlie's Children	Charlie's Descendants (GST Exempt)	Charity	Charlie's Consumption Direct Costs	Consumption Investment Opportunity Costs	IRS Taxes on Investment Income	IRS Investment Opportunity Costs	IRS Estate Taxes (@40.0%)	Total
Future Values at the end of 25 Years Assuming an Annual Compounded Rate of Return at 7.4%									
Stock Sale, No Planning	\$10,023,860	\$9,650,000	\$0	\$5,123,665	\$7,440,046	\$11,792,247	\$23,763,728	\$6,682,574	\$74,476,121
Simulated Tax Holiday (No Initial Capital Gains Tax and No Estate Tax) 76% - 24% Split Between Family and Charity	\$0	\$26,583,325	\$8,207,700	\$5,123,665	\$7,440,046	\$11,817,313	\$15,304,071	\$0	\$74,476,121
FLP/CRUT/Grantor Trust Sale, Charlie gives remaining estate to charity	\$0	\$24,472,697	\$8,207,700	\$5,123,665	\$7,440,046	\$12,516,445	\$16,715,568	\$0	\$74,476,121
FLP/Grantor Trust Sale, Charlie gives remaining estate to family	\$0	\$25,621,226	\$0	\$5,123,665	\$7,440,046	\$12,527,456	\$23,763,729	\$0	\$74,476,121

Using the above assumptions, Charlie will not pay tax on approximately half of the capital gains generated when the CRUT sells the stock. Under the CRUT tiered income distribution rules, approximately half the gain will still be inside the CRUT at the end of twenty years when charity receives the remainder. Although Charlie does pay some capital gains tax on the other half of the gain, he still takes advantage of two of Pam's key concepts: He defers the capital gains tax payment until the CRUT makes distributions, and his estate does not pay estate tax on those capital gains tax payments. In effect, the grantor trust repays Charlie's installment note using pre-tax dollars.

Charlie is currently subject to a combined federal and state transfer tax rate of 44.6%. On the one-half of the capital gains taxed to Charlie (because the rest of the capital gain is still embedded in the CRUT when it passes to charity), Charlie avoids transfer tax on the dollars he spends to pay capital gains tax. Charlie has already paid those dollars to the IRS and so they have been eliminated from his transfer tax base. That means Charlie's total effective capital gains rate on his \$10 million stock sale turns out to be less than 7.5% instead of 25% (prior to considering

the 4.46% charitable income tax subsidy and the “time” described below). In other words, it costs Charlie a net of 3% of the proceeds in taxes to sell the stock using the proposed technique instead of 25%, even before the time advantage of delaying the payment of the capital gains tax is considered.

Although the simple stock sale generates the lowest amount of income tax – \$11,792,247 – the combined total income tax cost of combining income tax with the lost opportunity cost of paying the capital gains tax in year one is \$35,555,975, which is dramatically more than in the next two sets of projections (the simulated tax holiday and Pam’s CRUT plan) because the early stock sale tax payment contributes to \$23,763,728 in investment opportunity costs. Since Charlie pays capital gains tax immediately on the stock sale, his family loses the benefit of reinvesting those tax dollars. On top of that, the simple stock sale without estate planning piles on another \$6,682,574 of estate tax. In contrast, there is no estate tax liability at all in the next three projections.

Because Charlie will own more than 99% of the FLLC when the FLLC funds the CRUT, the FLLC will pass through more than 99% of the charitable income tax deduction to Charlie. The deduction equals 10% of the fair market value of the assets contributed to the CRUT, or \$1,000,000. In Charlie’s case, it is assumed the deduction offsets \$1,000,000 of his ordinary income, so it yields a \$446,000 income tax benefit. In effect, the income tax deduction pays Charlie a 4.46% subsidy for his \$10,000,000 transaction.

The two middle rows of numbers compare Pam’s plan to a simulated tax holiday. Both sets of projections shows a total tax burden (which includes the investment opportunity costs of paying the tax) that is less than 65% of the aggregate tax bill generated by the simple stock sale with no planning. Charlie detects only one difference between Pam’s plan and the simulated tax holiday. In Pam’s plan, the total projected tax cost is an additional \$2,110,629 (or 7.8% of the roughly \$27,121,384 tax burden in the simulated tax holiday). That \$2,110,629 reduces what Charlie’s family would keep in a world with no initial capital gains tax on big stock sales and no estate taxes.

Pam asks Charlie to consider the projected outcome if he sells non-managing member interests to a grantor trust, but the FLLC does *not* transfer its appreciated securities to a CRUT first. Those projections are in the final row. Charlie sees that his descendants would end up with \$25,621,226, if the FLLC did not create the CRUT, or \$1,148,529 more than they would have received, if the FLLC did create the CRUT. Pam explains that when the FLLC creates the CRUT, the trustees do not pay immediate capital gains tax when they sell the stock, and Charlie receives a charitable income tax deduction up front. Without the CRUT, the larger note from the sale to the grantor trust, the early payment of taxes and lack of income tax subsidy compounds over time, so that at the end of the day, Charlie’s family pays additional taxes and opportunity costs that cost almost as much as the future \$8,207,700 gift to charity. Thus, there is comparatively little net cost to Charlie’s family to transfer around \$8,207,700 to charity. In fact, in states where a state capital gains tax exists, the net worth of Charlie’s family generally *increases* with the use of the CRUT technique.

Although Charlie clearly sees that the two middle rows of numbers – Pam’s plan against a simulated tax holiday – produce a nearly identical result, Pam presses the benefits of understanding leverage and opportunity costs even further. If Charlie allocates GST exemption to a 10% seed gift to the grantor trust, or if he sells FLLC interests to an existing GST exempt

grantor trust, he will protect more from further transfer taxes by the time of his death. This benefit compounds as the property moves down the generations. By using his GST exemption wisely, Charlie not only solves some of his tax problems, but he also solves some of his descendants' tax problems as well.

3. Considerations of the Technique.

a. Consideration of a FLLC in this context.

- (1) For gift tax purposes, to demonstrate the legitimacy of the FLLC, it may be enough that Charlie and the other members are engaged in permissible FLLC activity organized for profit.⁹¹
- (2) Charlie and his other managing members should be prepared to hold regular FLLC meetings and to share relevant FLLC information.
- (3) Charlie cannot completely control the FLLC, although he can control the FLLC investments if he chooses. If Charlie keeps too much control over distributions, or if he does not honor the FLLC agreement, or if he makes disproportionate distributions, the IRS may attempt to tax the FLLC interests or the underlying FLLC property in Charlie's estate. Charlie wants to use discounting to help move appreciation from his estate now, so these adverse estate tax consequences (although unlikely, because Charlie is giving away or selling all of his non-managing member interests now) would defeat his current gift strategy.
- (4) Like the CRUT, the FLLC will have its own legal, accounting and administrative costs, and Charlie must engage a professional appraiser to set the value of the non-managing member interests.
- (5) It is difficult, and sometimes impossible, to use FLLC interests as collateral for a loan.
- (6) FLLC income tax rules are complicated and transferring property to and from a partnership can trigger surprising income tax consequences. Charlie and his family must make a long-term commitment to conducting their affairs inside the FLLC.

⁹¹ See IRC Sec. 7701(a)(2); *Knight v. Commissioner*, 115 T.C. 506 (2000); *Estate of Strangi v. Commissioner*, 417 F.3d, 468 (5th Cir. 2005); *Winkler v. Commissioner*, 73 T.C.M. (CCH) 1657. However, care should be taken to make sure the creation of the partnership and the transfer of the partnership interests are sequential, independent acts; otherwise partnership discounts may not be recognized for gift tax purposes. See *Shepherd v. Commissioner*, 283 F.3d, 1258 (11th Cir. 2002); *Senda v. Commissioner*, 433 F.3d, 1044 (8th Cir. 2006).

- (7) Since Charlie is selling non-managing member interests that are valued by appraisal to the trust, he will not know for sure if he is making a gift. The IRS may challenge the discount applied to Charlie's non-managing member interests. Charlie might try to use a formula to define the value of the non-managing member interests he wishes to give.
- b. The technique will have the same considerations as a sale to a grantor trust. See Section III A 3 of this paper.
- B. Creating a FLP or FLLC with Preferred and Growth Interests, Transferring the Preferred Interest to a Public Charity, and Transferring the Growth Interests to Family Members.
 1. The Technique.

There could be significant after-tax cash flow advantages for giving preferred interests in a FLLC that is designed to last for several years to a public charity, or a donor advised fund, and transferring the growth interests to a taxpayer's family.

Consider the following example.

*Example 12: Gift of a Preferred FLLC Interest to a Public Charity
and the Gift or Sale of a Growth FLLC Interest to a Taxpayer's Family*

George Generous is unhappy about some of tax limitations associated with traditional charitable giving. Not only do tax limitations exist with respect to the amount of a deduction available for income tax purposes, there also is not any deduction in determining the new healthcare tax. George's stewardship goals are to give around \$450,000 a year to his favorite public charities and to give a \$6,000,000 bequest to his favorite public charities in his will

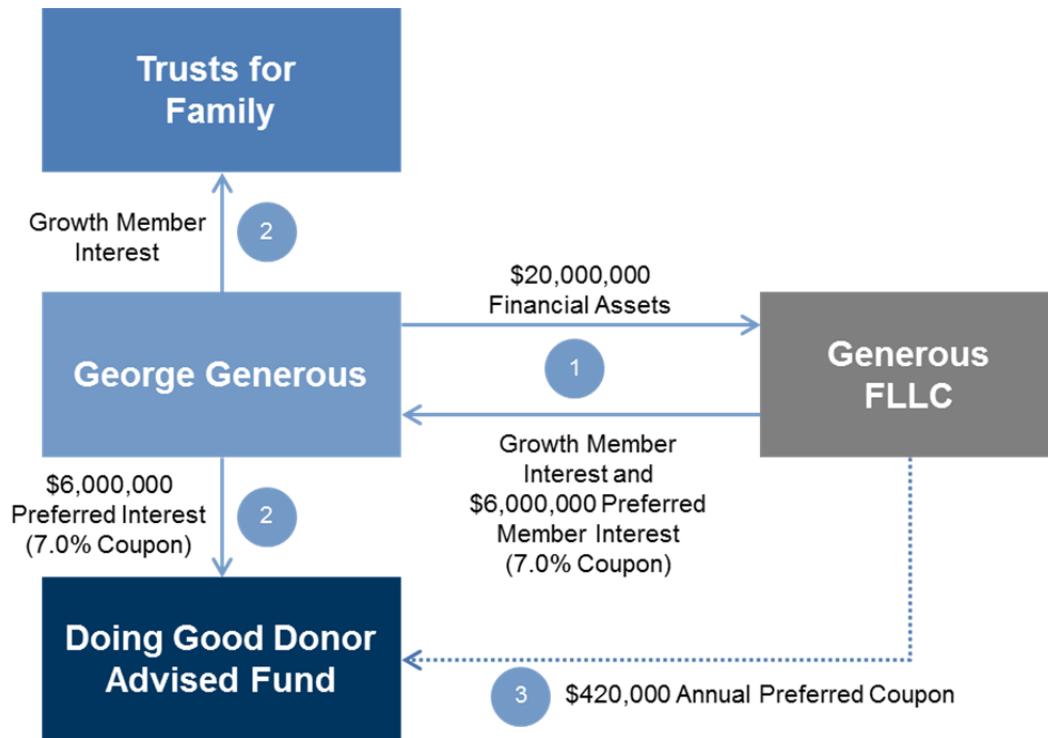
George tells Pam that after he sells a \$6,000,000 zero basis security he will have \$20,000,000 in financial assets. George asks Pam to assume his assets will annually earn 7.4%, with 3% of that return being taxed as ordinary rates and 4.4% of the return being taxed at long-term capital gains rates with a 30% turnover. George believes he has a 20-year life expectancy. George has a significant pension plan that pays for his consumption needs.

George asks his lawyer, Pam Planner, if she has any ideas that are consistent with his charitable intent where he can get a tax deduction for his projected annual giving without any limitations, both for determining his income tax and the new healthcare tax. He also asks Pam if she has any ideas of how he can get an income tax deduction this year for the actuarial value of the planned testamentary gifts he wishes to make to his favorite charitable causes. George also would like to hear Pam's best ideas on how to avoid the capital gains tax and healthcare tax on the projected \$6,000,000 sale of some his highly appreciated securities.

Pam Planner suggests that George consider forming a FLLC that will last until the earlier of his death, or 50 years. The FLLC is structured to have both preferred and growth interests. George could contribute \$20,000,000 of his assets to the FLLC. George could contribute his low basis securities to the FLLC and receive a \$6,000,000 preferred interest that pays a coupon of 7% (or \$420,000 a year). The rest of his member interests, the so-called "growth" interests, would receive any income or gains above what is necessary to fund the preferred coupon.

After the FLLC is formed, Pam suggests that George make a gift of the preferred FLLC member interest to his favorite charity, the Doing Good Donor Advised Fund (which is a donor advised fund at a local community foundation and is a qualified public charity). The Doing Good Donor Advised Fund is entitled to a 7% preferred coupon each year. George could gift and sell the growth interests to a trust for his family.

This technique is illustrated below:



2. Advantages of the Technique.

- a. The donor may receive an income tax deduction for the discounted present value of the charity's right to receive the par value of the preferred on termination of the FLLC, even though that might occur after the donor's death.

George may receive a full deduction for the present value of the right to receive the par value of the preferred interest when the LLC terminates, even though no cash has passed from his hands to the donor advised fund and the payment of the preferred par value will probably occur after George's death. Contrast that treatment with a bequest of a dollar amount under George's will. Obviously, George will not receive a lifetime income tax deduction for that bequest.

- b. The donor should receive an income tax charitable deduction, in the year of the gift, for the discounted present value of the 7% coupon that is to be paid to charity.

Most of the value of the preferred interest is attributable to receiving the 7% coupon for 50 years, or until George's death. Stated differently, there is no willing buyer who would pay more than a small amount for the right to receive the par value for the preferred interest on George's

death and the reason the preferred interest will have a fair market value of \$6,000,000 is because of the right to receive a \$420,000 annual preferred coupon.

- c. In addition to receiving an upfront charitable income deduction for the present value of the annual coupon of the preferred that is paid to the charity, the donor also receives an indirect second annual deduction with respect to the future preferred coupon payments against his income and health care because of the partnership tax accounting rules.

The preferred interest income that is allocated to the donor advised fund will not be taxed to the other FLLC members because of operation of IRC Sec. 704(b). George will receive each year, in effect, a simulated income tax and healthcare tax deduction for the preferred interest coupon income that is allocated to the donor advised fund (since he will not be taxed on that income). That simulated deduction will not count against his adjusted gross income limitation, and it will not be subject to limitations associated with itemized deductions.

Contrast the double income tax benefit of the charitable gift of the preferred interest coupon with a charitable lead trust in which the donor may either receive a deduction for the actuarial value of the lead interest payable to the charity, or not be taxed on the annual lead payments allocated to the charity, but cannot have *both* income tax advantages.

- d. The donor will also avoid the built-in capital gains tax on the sale of any low basis asset that is contributed for the preferred interest.

In this example, George receives his preferred interest in exchange for a transfer of his low basis assets. If the FLLC sells those contributed low basis assets, George should not be liable on any capital gains tax associated with the built-in gain that existed at the time of the contribution, because the gain under IRC Sec. 704(c) should be allocated to the donee, the donor advised fund.

Again, contrast that result with a non-grantor charitable lead trust. If highly appreciated assets are sold by a non-grantor charitable lead trust, the gain will be allocated to the trust. The trust will only receive a deduction for the distributions that are made that year to charity. Thus, in many situations with the use of the non-grantor charitable lead trust, if there are substantial capital gains because of a sale of appreciated assets owed by the trust, that trust will pay a significant capital gains tax.

If instead of a non-grantor charitable lead trust, a “grantor” charitable lead trust is used, the income that results are again disadvantageous. There will not be any allocation of the capital gains to the charitable beneficiary. All of the taxable gain will be allocated to the grantor.

- e. The “out of pocket” cost of a gift of a preferred interest to a public charity, or donor advised fund, is minimal because of the above tax advantages.

George asked Pam to compare the benefits of the proposed gift of a preferred FLLC interest with a 7% coupon to making annual cash charitable contributions equal to that 7% coupon and a cash testamentary bequest equal to the par value of the preferred to the donor advised fund at George’s death. Additionally, George asked Pam to assume that he will live 20 years, and that if he elects to contribute the preferred interest to charity, the charity’s preferred interest will be liquidated at his death.

In order to isolate the benefits of each of the annual giving strategies, Pam assumes George's assets will earn 7% before taxes. George asks Pam to assume 3% of the return will be taxed at ordinary rates and 4% will be taxed at capital gains rates (with 30% annual turnover). Using those assumptions she then calculates the income and health care tax efficiency ratio (present value of both total net income and healthcare tax savings divided by the present value of the total out of pocket cash) under the two assumed scenarios. Pam assumes a 7% present value discount rate. Please see Table 8 below and attached Schedule 12.

Table 8

<div> <div> Tax Efficiency Ratio of Charitable Gifts (Present Value of Total Net Tax Savings ÷ Present Value of Total Out of Pocket Cash) </div> </div>	
Description	
No Further Planning: Makes \$420,000 Annual Contribution to Charity; Bequeaths \$6mm to a Public Charity at Death	20.78%
Hypothetical Technique: Creation of an FLLC with Growth and Preferred Interests; Gift of a \$6,000,000 Preferred Interest to a Public Charity That Pays an Annual 7% Coupon	70.09%

- f. Valuation advantage: The gift tax valuation rules under IRC Sec. 2701 do not apply to any future gifts, or sales, of the growth member interests to family members, or trusts for family members.

IRC Sec. 2701 became effective on October 9, 1990. It is a gift tax valuation statute that applies when a junior equity in a corporation or partnership is transferred to a member of the transferor's family and a senior interest in the family or partnership with certain discretionary features is retained by the transferor or an 'applicable family member.' A liquidation, put, call, or conversion right is automatically regarded as discretionary because it is within the discretion of the holder. Distribution rights trigger the valuation rules of IRC Sec. 2701 if the transferors hold control of the entity. These discretionary interests are referred to under IRC Sec. 2701 as "applicable retained interests."

IRC Sec 2701 prescribes special valuation rules for the value of certain senior equity interests in a family entity (e.g., preferred interests) for gift tax purposes that are retained by the transferor, and that value is subtracted from total value of the entity. Distribution rights are valued according to their terms if distributions are paid periodically a a fixed rate (under IRC Sec. 2701 they are called "qualified payment"). A transferor may elect to treat distribution rights as "qualified payments" even if they are not by assuming payments in such amounts and at such times as are specified in the election, as long as those terms are consistent with the underlying equity interest. The regulations provide that the right to share in the liquidation proceeds ("liquidation participation right") may be valued without regards to IRC Sec. 2701.

The regulations spell out in detail the methodology of subtracting the value of preferred interests from the value of the entire entity with adjustments to reflect the actual fragmented ownership. After the adjustments of the four step method, which takes the lack of marketability and the likelihood of liquidation into account, the value of any transferred junior equity interests are determined. It should be noted that there is a mandated value that the junior equity interest in the entity cannot be worth less than 10% of the total value of the equity interests in the entity.

There is an adjustment under the regulations to prevent double transfer taxation of the retained senior equity interests. There is a reduction of the transferor's adjusted taxable gifts for estate tax purposes, equal to the lesser of the amount by which IRC Sec. 2701 originally increased taxable gifts or the amount by which the applicable retained interest increases the gross estate or taxable gifts at the time of the subsequent transfer.

Do these IRC Sec. 2701 valuation rules apply to a transfer of a preferred interest to a charity and a later sale or gift of the growth interest to the transferor's family? Stated differently, if a patriarch or matriarch reorganized his or her entity and transferred a high-yielding preferred equity interest to a charity, would this transfer and reorganization be a transaction that is subject to the valuation rules under IRC Sec. 2701, which was passed as part of Chapter 14? The answer is no.⁹²

If a retained distribution right exists, there must exist a senior equity interest (*i.e.*, the transferor must have retained preferred stock or, in the case of a partnership, a partnership interest under which the rights as to income and capital are senior to the rights of all other classes of equity interest).⁹³ The Senate legislative history of Chapter 14 indicates that retention of common stock, after the gift of preferred stock, is not a transaction which is subject to the valuation rules under IRC Sec. 2701 because retained ownership of the common stock generally does not give the transferor the right to manipulate the value of the transferred interest. Any transferred preferred stock that has a cumulative right to a dividend, or any transferred note in a corporation which has a cumulative right to interest, is not subject to value manipulation by the common stock owner. For instance, if a dividend or an interest payment is missed, the preferred stock owner or bondholder, as the case may be, continues to have the right to that dividend payment or interest payment. It is true that in certain instruments the preferred stockholder would not enjoy the compounding effect of receiving a late dividend. However, the "lowering" of value to a transferee, by not paying the transferee's dividend, or delaying the payment of the dividend, does not hurt the fisc since that tends to help or increase the junior equity interest owner's net worth (*i.e.*, it increases the transferor's net worth). Thus, even though a transferee may receive a valuable asset in a junk bond or a junk preferred interest, it is a type of security in which the junior equity interest cannot manipulate value, except to *decrease* the value of the transferred interest at a later date.

⁹² See IRC Sec. 2701(c)(1)(B)(i).

⁹³ See IRC Secs. 2701(c)(1)(B)(i); 2701(a)(4)(B); Treas. Reg. Section 25.2701-2(b)(3)(i); *see also* P.L.R. 9204016 (Oct. 24, 1991).

- g. Under the facts of this example, in addition to saving significant income and healthcare taxes, significant transfer taxes could be saved in transferring the growth interests to a grantor trust.

If George was able to obtain a 35% valuation discount for the gift and sale of the growth interest, Pam projects that in addition to saving income and healthcare taxes, George could save over \$15,000,000 in estate taxes. Please see the table below and attached Schedule 12.

Table 9

	20-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post-Death		
No Further Planning Except for \$420,000 Annual Gift to Charity: Bequeaths \$6mm to Charity at Death; Balance of Estate to Family (assumes \$8.53mm estate tax exemption available at death)				
George Generous	58,712,723	-	-	0.00%
Charity	17,989,144	23,989,144	14,639,877	22.49%
Generous Children	-	26,509,634	16,178,059	24.85%
Generous Children and Grandchildren	-	8,530,000	5,205,611	8.00%
IRS Income Tax - Direct Cost	14,567,393	14,567,393	8,890,057	13.65%
IRS Income Tax - Investment Opportunity Cost	15,414,442	15,414,442	9,406,986	14.45%
IRS Estate Tax (at 40.0%)	-	17,673,089	10,785,373	16.57%
Total	\$106,683,701	\$106,683,701	\$65,105,963	100.00%
Hypothetical Technique: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Gift and Sale of Growth Interest to a GST Tax Exempt Grantor Trust; Bequeaths Estate to Family (assumes \$3.10mm estate tax exemption available at death)				
George Generous	8,204,328	-	-	0.00%
Charity	23,989,144	23,989,144	14,639,877	22.49%
Generous Children	-	3,062,597	1,869,014	2.87%
Generous Children and Grandchildren	47,425,983	50,525,983	30,834,539	47.36%
IRS Income Tax - Direct Cost	17,410,042	17,410,042	10,624,843	16.32%
IRS Income Tax - Investment Opportunity Cost	9,654,204	9,654,204	5,891,680	9.05%
IRS Estate Tax (at 40.0%)	-	2,041,731	1,246,009	1.91%
Total	\$106,683,701	\$106,683,701	\$65,105,963	100.00%
Calculations of Remaining Estate Tax Exemption				
Current Exemption	5,340,000	5,340,000		
Gifts Made	-	(5,430,000)		
Future Exemption Available in 20 years (assumes 2.5% inflation)	8,530,000	3,100,000		

- h. Income tax valuation advantage: IRS concedes preferred partnership interests should have a high coupon.

Prior to passage of IRC Sec. 2036(c) in 1987 (which was repealed in 1990) and prior to the passage of IRC Sec. 2701 as part of Chapter 14 in 1990, the Internal Revenue Service did not have many tools with which to fight, from their perspective, abusive estate freezes, except valuation principles. In 1983, the Service issued a Revenue Ruling,⁹⁴ which promulgated the factors for determining what an appropriate coupon should be on preferred stock of a closely held corporation or what an appropriate coupon should be on a preferred partnership interest in a closely held FLP. Generally, the IRS took the view that a secondary market does not exist for interests in FLPs. Accordingly, with respect to a preferred partnership interest in a FLP, the coupon should be very high in order to reflect the embedded marketability discount of the

⁹⁴ Rev. Rul. 83-120, 1983-2 C.B. 170.

preferred partnership interest. In other words, according to the IRS, to have a preferred partnership interest valued at “par”, a hypothetical willing buyer would demand a significant return on that preferred partnership interest, in comparison to other comparable fixed income instruments, in order to compensate that hypothetical willing buyer for the lack of marketability that would be inherent in that family limited preferred partnership interest.

- i. IRC Sec. 2036 advantage, if George gives or sells the growth interests to his family.

If the growth member interest is transferred to the donor’s family after the preferred member interest is transferred to a public charity IRC Sec. 2036 should not operate to include the transferred common interest (or the underlying partnership assets) in the transferor’s gross estate, for two reasons.

First, there is a substantial investment purpose (i.e., non-tax purpose) with having preferred and common interests that divide the economic return of the FLP or FLLC between the owners of the interests in a different way than would result without the two interests. This creates is a substantive investment reason for the creation of the FLP or FLLC. As such, it should constitute a significant non-tax purpose, one that is inherent in the preferred/common structure. This in turn should minimize the danger of IRC Sec. 2036 being applied to any transfers of interests in the FLP or FLLC, because the Tax Court and the Courts of Appeal are much less likely to apply IRC Sec. 2036 to transferred FLP or FLLC interests if a non-tax reason, preferably an investment non-tax reason, exists for the creation of the FLP or FLLC.⁹⁵

Second, the enactment of IRC Sec. 2036(c) and its subsequent repeal demonstrate that going forward Congress intended to address the preferred/common structure solely by means of the gift tax rules of Chapter 14 (IRC Sec. 2701) and *not* by including the transferred common interest in the transferor’s gross estate under IRC Sec. 2036. The legislative history of the repeal of IRC Sec. 2036(c) unmistakably manifests this Congressional intent. Thus, even if the transfer of the growth interests occurs at the taxpayer’s death, because of that strong legislative intent, IRC Sec. 2036 should not apply.

In 1987, the Tax Court in the *Boykin*⁹⁶ case ruled that because of state property law,⁹⁷ the receipt of income from retained preferred stock is only a retention of income from the preferred

⁹⁵ *Estate of Kimbell v. United States*, 371 F.3d 257 (5th Cir. 2004); *Church v. United States*, 85 A.F.T.R. 2d (RIA) 804 (W.D. Tex. 2000), *aff’d without published opinion*, 268 F.3d 1063 (5th Cir. 2001) (per curiam), unpublished opinion available at 88 A.F.T.R. 2d 2001-5352 (5th Cir. 2001); *Estate of Bongard v. Comm’r*, 124 T.C. 95 (2005); *Estate of Stone v. Comm’r*, 86 T.C.M. (CCH) 551 (2003); *Estate of Schutt v. Comm’r*, T.C. Memo 2005-126 (May 26, 2005); *Estate of Mirowski v. Comm’r*, T.C. Memo 2008-74; *Estate of Miller v. Comm’r*, T.C. Memo 2009-119; *Rayford L. Keller, et al. v. United States of America*, Civil Action No. V-02-62 (S.D. Tex. August 20, 2009); *Estate of Murphy v. United States*, No. 07-CV-1013, 2009 WL 3366099 (W.D. Ark. Oct. 2, 2009); and *Estate of Samuel P. Black, Jr., v. Comm’r*, 133 T.C. No. 15 (December 14, 2009); and *Shurtz v. Comm’r*, T.C. Memo 2010-21.

⁹⁶ See *Estate of Boykin v. Commissioner*, T.C. Memo 1987-134, 53 T.C.M. (CCH) 345.

⁹⁷ Under certain Supreme Court holdings, in determining the value for gift and estate tax purposes of any asset is transferred, the legal rights and interests inherent in that transferred property must first be determined under state law. See *United States v. Bess*, 357 U.S. 51 (1958); *Morgan v. Commissioner*, 309 U.S. 78 (1940); see also H. REP. NO. 2543, 83rd Cong. 2nd Sess., 58-67 (1954); H.R. REP. NO. 1274, 80th Cong. 2nd Sess., 4 (1948-1 C.B. 241, 243); S. REP. NO. 1013, 80th Cong., 2nd Sess., 5 (1948-1 C.B. 285, 288) where the Committee Reports on the 1948

stock, not from the assets of the entire enterprise and accordingly should be included in a decedent's estate under IRC Sec. 2033, and not under IRC Sec. 2036. The court concluded that Mr. Boykin did not have a legal retained property right to the income of the assets of the corporation, he only retained a legal right to the income of the retained preferred stock.

In 1987 Congress passed legislation to overturn the result of *Boykin*, IRC Sec. 2036(c). For a very brief period, 1987 to 1990, IRC Sec. 2036(a), when it applied, did operate to include the partnership assets of a partnership in which a preferred partnership interest was created to the exclusion of IRC Sec. 2033. (While IRC Sec. 2033 also could have applied in 1987 to include the same partnership interests, Congress was very careful to reverse the traditional priority of IRC Sec. 2033 inclusion over IRC Sec. 2036 inclusion with the passage of IRC Sec. 2036(c)(5)). In 1987, Congress explored whether or not to do away with minority and marketability discounts with respect to family partnership and family corporations and whether to attack so-called estate freezes. At that time, Congress decided not to attack FLP discounts or discounts associated with family corporations. However, Congress decided to attack so-called estate freezes by making estate freezes that met six defined tests (described in IRC Sec. 2036(c)) subject to the IRC Sec. 2036(a) inclusion.

This writer's paper on this subject in 1989 stated that the Ways and Means Committee's reasons for the application of IRC Sec. 2036(a) instead of IRC Sec. 2033 were the difficulty in valuing the common stock and that transfer indirectly retained the income of the enterprise.⁹⁸

By 1990, it became apparent to many commentators⁹⁹, including this one, IRC Sec. 2036(a) inclusion, in lieu of IRC Sec. 2033 inclusion with respect to ownership in partnerships and other "enterprises" should be repealed because of numerous problems. Those problems included the following:

Sometimes the transfer tax system is abused by estate freeze planning but the abuse does not lie in the retention of preferred stock or a preferred partnership interest by the transferor. There is nothing sinister or improper about owning preferred stock or a preferred partnership interest. The economic rights associated with preferred ownership interests serve an extremely useful purpose in the capital market. Many capital investors find an equity interest that bestows a preferred income stream, preferred voting rights, and preferred liquidation preferences suitable for their investment goals. In the closely held family business context, preferred interests are an extremely useful capital concept because it is extremely rare to find a family whose members have equal abilities to run the business, or

changes in the estate taxation of community property states: "Generally, this restores the rule by which estate and gift tax liabilities are dependent upon the ownership of property under state law." *See also* the reports of the Revenue Act of 1932 that define "property" to include "every species of right or interest protected by law and having an exchangeable value." H.R. REP. NO. 708, 72nd Cong., 1st Sess., 27-28 (1932); S. REP. NO. 665, 72nd Cong., 1st Sess., 39 (1932).

⁹⁸ S. Stacy Eastland, "The Legacy of IRC Section 2036(c): Saving The Closely Held Business After Congress Made 'Enterprise' A Dirty Word." *Real Property Probate and Trust Journal*, Volume 24, Number 3, Fall 1989.

⁹⁹ *See* Richard L. Dees, "Section 2036(c): The Monster That Ate Estate Planning and Installment Sales, Buy-Sells, Options Employment Contracts and Leases," 66 *Taxes* 876 (1988).

who all have a desire to participate as employees in the family business. Preferred ownership interests fairly compensate those family members who are not receiving compensation as employees of the business. Occasionally, family owners reach retirement and no longer are employed by the family business. In those circumstances, preferred ownership interests are extremely useful capital structures that allow a portion of the income stream of the business to be directed to that family owner.

Congress implicitly recognized that there is nothing inherently evil in the ownership of preferred interests for enterprises that are not closely held. For example, an individual of significant wealth may convert that wealth into ownership of preferred stock and common stock of General Motors. That individual could convey the common stock to a child without Section 2036(c) applying to bring the future value of that common stock into the individual's gross estate.

The clear discrimination against closely held businesses under Section 2036(c) is justified, according to the legislative history, because the common stock or growth partnership interest of a closely held enterprise is more difficult to value than the common stock of General Motors. Because Section 2036(c) did not eliminate the need to value the transferred common stock or growth partnership interest, the way to attack the valuation problem would be to aid the Internal Revenue Service in valuing transferred common stock or growth partnership interests.

* * *

A second criticism of Section 2036(a) inclusion is that it is based on a flawed analogy and concept. Besides the valuation problems noted by Congress, the other reason given for adoption of Section 2036(c) was that a transferor's retention of preferred stock after a conveyance of common stock is analogous to creation of a trust in which the settler retains only an income interest, in which case Section 2036(a)(1) would include the entire value of the trust in the transferor's gross estate. Transferred common stock is not includible in a deceased transferor's estate by operation of Section 2036(a)(1), operating without Section 2036(c), because the transferor has not retained rights in the transferred common stock. Thus, the asserted analogy is not appropriate.

To illustrate this, assume a transferor (T) creates two trusts. One trust will be includible in T's estate under Section 2036(a)(1) because T retains an income interest, but the other trust will not be includible in T's estate because T is not a beneficiary of the trust (assume T's children are the sole beneficiaries of the trust.) Finally, assume that T transfer General Motors preferred stock into the retained income trust and transfers General Motors common stock into the trust created for the children. General Motors will allocate a disproportionate amount of the income generated by its assets to the retained income trust and a disproportionate amount of the appreciation of its assets to the trust created for T's children. Under Section 2036(a)(1) the only trust that will be included in T's estate is the retained income trust because T retained no interest in the General Motors common stock

that was transferred to the children's trust. T did not retain the right to income, either directly or indirectly, of that common stock. If the facts were changed to assume stock in Family Co. Ranching Operations, the common stock would be includible in T's estate, not under Section 2036(a)(1) but, instead, under Section 2036(c), which ignores the fact that T has not retained an income interest in the common stock.

Even if the analogy to Section 2036(a) were appropriate, and if Congress wished to reform the transfer tax system to make the treatment of trusts consistent with the treatment of family enterprises, the solution would not be to create Section 2036(c) to bring enterprises within the fold of Section 2036(a). Instead, the solution would be to eliminate Section 2036(a) in its present form. The estate taxation of trusts because of retained income interests, particularly in light of the unified transfer tax system that has existed since 1976, is unfair and unnecessary. [See Treasury I]

* * *

The third principal flaw [in application of IRC Sec. 2036(c) for Section 2036(a) inclusion] is that, while it discourages the utilization of preferred ownership interests, it does not eliminate "freezes" or solve valuation problems. Taxpayers may pay a heavy tax cost under Section 2036(c) if they convert a growth interest in a family business to a preferred ownership interest, which discourages taxpayers from using an equity tool that can solve many family business ownership problems. Meanwhile, Section 2036(c) has compounded the valuation problems inherent in determining the value of transferred growth interests and has not eliminated numerous freezes in family businesses, some of which have been endorsed specifically by Congress. Having failed in its two objectives, Section 2036(c) should not be left also to dissuade legitimate non-tax planning in family businesses.

Because the language of Section 2036(c) abandons traditional property law concepts, and applies to transfers that have no inherent gift element, a fourth criticism of it is that application of the tax cannot be predicted with certainty, which is always bad in a voluntary compliance system. Moreover, Section 2036(c) encourages investment in self-gratification assets instead of job-producing enterprises, which also is a poor policy result. Indeed, because of the Service's interpretation that personal use assets are not subject to Section 2036(c), Congress appears to have passed an estate tax statute that opposes the Section 162 and 212 income tax policy of encouraging investment in enterprises.

* * *

Commentators were not the only persons by 1990 who concluded that IRC Sec. 2036 (a) inclusion in lieu of IRC Sec. 2033 inclusion for preferred interest partnerships was poor policy. Several prominent Republican Senators also did. What is perhaps noteworthy is that several powerful Democrat Senators felt the same way. Thus, the removal of IRC Sec. 2036(a) priority over IRC Sec. 2033 in determining inclusion enjoyed rare bi-partisan consensus. The legislative history associated with the repeal of IRC Sec. 2036(a) makes clear the strong desire of Congress that IRC Sec. 2036 should not apply to partnerships that have a significant preferred partnership

component that is owned differently than the growth interest component. Consider the following statements before the Senate on October 17, 1990:¹⁰⁰

MR. BENTSEN. Mr. President, I am introducing legislation today that will repeal section 2036(c) of the Internal Revenue Code and provide new rules to limit evasion of Federal estate and gift taxes by means of estate freezes.

The Omnibus Reconciliation Act of 1987 contained section 2036(c). . . . Unfortunately, the cure 3 years ago turned out to be worse than the disease. The complexity, breadth and vagueness of the new rules have posed an unreasonable impediment to the transfer of family businesses.

. . .

All witnesses agreed that the current rules should be repealed. Most witnesses testified that these rules should be replaced with a rule that is targeted to valuation abuses. That is exactly what this bill does.

We have worked hard to balance taxpayers concerns with our concerns about transfer tax abuses. I'm convinced that this proposal is a reasonable approach to the problem.

* * *

MR. BOREN. Mr. President, I am pleased today to join with my colleagues Senator Bentsen and Senator Daschle in introducing this legislation that will repeal section 2036(c) of the Internal Revenue Code. At a time when we should be doing all that we can to help keep small family owned businesses afloat section 2036(c), known as the estate freeze provision, poses a real treat to their survival.

. . .

The legislation we are introducing today repeals section 2036(c) and instead provides for special valuation rules for estate freezes. The current law is overly broad and unintelligible to even the most sophisticated counsel, let alone counsel representing many small family owned business or farms throughout the United States.

. . .

I believe the most efficient way to solve this problem is to repeal section 2036(c) and start over. We should begin with a clean slate, only then can we begin to consider a much more narrow, focused and equitable alternative to the current section 2036(c). I believe the legislation we are introducing today is such an alternative. I urge my colleagues to join us in supporting this legislation.

* * *

Our bill addresses three major concerns I have about current law. First, current law takes an approach that throws the baby out with the bathwater.

¹⁰⁰ Congressional Record, 101st Congress S. 3113: pp. 1-4 (Oct. 17, 1990).

Consequently, a wide range of otherwise legitimate transactions are suspect under its provisions. The bill we are introducing today takes the opposite approach. It says, ‘These specifically identified abuses are impermissible.’ Period. In this way, family business owners who wish to pass the business on to their children gradually during their lifetimes can do so with a clear understanding of those means which are permissible.

Second, under [application of Section 2036(a) in lieu of Section 2033], *the IRS can find a transaction unenforceable for estate tax purposes years, perhaps decades, after the transaction occurs. Like a number of other substitute proposals that have been advanced, our bill addresses potential abuses at the time the transaction occurs. This ensures that the appropriate amount of gift tax is paid at that time, leaving owners of businesses with confidence that the transaction will not be found invalid years later when they die and it is too late to do anything about it.*

Finally, section 2036(c) is simply too ambiguous and confusing. Senator Bentsen and I have sought to make our bill much simpler and straightforward. This should make the IRS pursuant to the measure much easier and faster to draft. [Emphasis added.]

* * *

Congress did retroactively repeal the application of IRC Sec. 2036 inclusion to business and other financial enterprises in lieu of IRC Sec. 2033 inclusion. Among the reasons cited by the Senate in their legislative history were the following:

The [Senate Finance] committee believes that an across-the-board inclusion rule [application of Section 2036(a)] is an inappropriate and unnecessary approach to the valuation problems associated with estate freezes. The committee believes that the amount of any tax on a gift should be determined at the time of the transfer and not upon the death of the transferor In developing a replacement for current section 2036(c) the committee sought to accomplish several goals: (1) to provide a well defined and administrable set of rules; (2) to allow business owners who are not abusing the transfer tax system to freely engage in standard intra-family transactions without being subject to severe transfer tax consequences; and (3) to deter abuse by making unfavorable assumptions regarding certain retained rights.¹⁰¹

Congress adopted the suggestion of numerous commentators and approached the reform with respect to inclusion of partnership interest and corporate interest as a valuation problem. It reaffirmed the traditional inclusion and taxation of partnership interests, in which part of the partnership is held in preferred form, under IRC Sec. 2511 and IRC Sec. 2033. The *Boykin* ruling of taxing retained preferred interests under IRC Sec. 2033, instead of IRC Sec. 2036, was, in effect, reinstated. The gift taxation of transferred interests in FLPs and FLLCs with bifurcated

¹⁰¹ Informal Senate report accompanying the Revenue Reconciliation Bill of 1990 (S. 3209) as printed in the Oct. 18, 1990, Congressional Record, vol. 136, s. 15679 (Daily Edition) (emphasis added).

interests were modified, however, through the passage of new valuation rules under Chapter 14, including IRC Sec. 2701.

3. Considerations of the Technique.

- a. Despite state property law, the IRS may take the position that the gift of the preferred interest of an FLLC should be considered a non-deductible partial gift of the underlying assets of the FLLC.

IRC Sec. 170(f)(3) denies an income tax charitable deduction, and IRC Sec. 2522(a)(2) denies a gift tax charitable deduction, for a contribution of an interest in property that consists of less than the taxpayer's entire interest in such property. A gift of the entirety of an asset or an undivided portion of the taxpayer's entire interest in property to a charity does qualify for the income tax and gift tax charitable deduction. The undivided portion of the taxpayer's entire interest in property must consist of a fraction or percentage of each and every substantial interest or right the decedent owned in the property. IRC Sec. 170(f)(3)(B)(ii) and Treas. Reg. Section 1.170A-7(b) provide that a deduction is allowed for a contribution, that is not in trust, of a partial interest that is less than the donor's entire interest in property if the partial interest is an undivided portion of the donor's entire interest. An undivided portion of a donor's entire interest in property must, however, consist of a fraction or percentage of *each and every substantial interest or right* owned by the donor in such property. See Rev. Rul. 88-37, 1988-1 C.B. 97 (1988).

The Tax Court in the *Estate of John Boykin*¹⁰² held that an ownership of a preferred equity interest does not entitle the owner to any rights to the assets of the entity – it only entitles the owner to rights in the preferred interest. Any gift of the preferred interest should be analyzed as a gift of the preferred interest not a gift of certain rights over the entity's assets. Consistent with the *Boykin* case cited above, the preferred interest should be considered to be a separate interest both from the FLLC's assets and from George's other interests in the FLLC. The separate preferred interest is transferred in its entirety. In this example, all of George's preferred interest passes to charity – he does not retain any interest in the preferred interest or make a gift of part of the preferred interest, so the transfer is not “a contribution (not made by a transfer in trust) of an interest in property which consists of less than the taxpayer's entire interest in such property.” IRC Sec. 170(f)(3).

¹⁰² *Estate of Boykin v. Commissioner*, T.C. Memo. 1987-134, 53 T.C.M. 345. *See* Todd Angkatavanich, Jonathan G. Blattmachr and James R. Brockway, “Coming Ashore – Planning for Year 2017 Offshore Deferred Compensation Arrangements: Using CLAT's, PPLI and Preferred Partnerships and Consideration of the Charitable Partial Interest Rules,” 39 ACTEC Law Journal 103, 130-145, 152-153. The authors discuss *McCord v. Comm'r*, 120 T.C. 358(2003), rev'd and remanded, 461 F.3d 614 (5th Cir. 2006), *Church v. United States*, 85 AFTR 2d 2000-804 (W.D. Texas 2000), aff'd 268 F.3d 1063 (5th Cir. 2201), and *Estate of Strangi v. Comm'r*, 115 T.C. 478 (2000), aff'd in part and remanded in part, 293 F.3d 279 (5th Cir. 2002), on remand 85 T.C.M. (CCH) 1331 (2003), aff'd 417 F.3d 468 (5th Cir. 2005) and conclude that a gift of a preferred interest to a charity should not be considered a gift of a partial interest because the courts follow the entity rule in determining the property rights associated with a partnership interest. The authors also conclude the argument is strengthened if the gift of a preferred interest is made to a qualifying trust (e.g., a charitable lead trust) and/or the donor only owns the donated preferred interest and does not own any other interest in the partnership.

On the gift tax side (see IRC Sec. 2522(c)(2)) there are two Supreme Court cases stating that the gift tax consequences should be applied in a manner that follows a state property law analysis.¹⁰³

State law does not treat a partnership interest as a partial interest in the underlying assets of the partnership. A partner is not a co-owner of partnership property and has no interest in partnership property that can be transferred, either voluntarily or involuntarily. Revised Uniform Partnership Act, §501. The only transferable interest of a partner in the partnership is the partner's share of the profits and losses of the partnership and the partner's right to receive distributions. Ownership of a partnership interest does not entitle the owner to any rights over property owned by the partnership. Revised Uniform Partnership Act, §502; *Michtom v. United States*, 573 F.2d 58, 63 (Ct. Cl. 1978); PLR 9825001. Partnerships are distinct entities. Revised Uniform Partnership Act, §201.

Despite state property law, there is a possibility that the IRS could attempt to deny a charitable deduction for a contribution of preferred units. Treas. Reg. Section 1.170A-6(2) allows a deduction for a contribution of a partial interest in property only "if such interest is the taxpayer's entire interest in the property, such as an income interest or a remainder interest." "If, however, the property in which such partial interest exists was divided in order to create such interest and thus avoid IRC Sec. 170(f)(2), the deduction will not be allowed." *Id.* The IRS may take the position that Section 170(f)(3) can apply despite the fact that a contributed interest becomes a separate property interest for federal tax purposes as a result of the transfer. For instance, the Service has denied charitable deductions in situations where the donor had donated common stock but retained the right to vote that stock (see Rev. Rul. 81-281, 1981-2 C.B. 78; PLR 8136025) because the right constitutes a substantial interest. Carving the right to vote away from the economic interest in the common stock created a non-deductible partial interest.

Similarly, in Rev. Rul. 88-37, the Service denied a deduction because the donor did not contribute the donor's entire interest in his property but carved out and contributed only a portion of that interest. Further, the portion contributed was not an undivided portion of the donor's entire interest—it did not convey a fraction of each and every substantial right owned by the donor in the property. By transferring an overriding royalty interest or a net profits interest, the donor retained the right inherent in the "working interest" (the ownership of an operating interest under an oil and gas lease) to participate in the control of, the development and operation of the lease. This right to control or to participate in the control, similar to the retained voting rights in Rev. Rul. 81-282, is a substantial right, the retention of which prevented the donated interest from being considered an undivided portion.

There are numerous business and financial reasons to form a partnership or LLC as an advantageous vehicle for, and being in the best interests of, the members of a family, including consolidation of the management and control of family assets within a partnership owned by the eventual owners of all of the assets; avoidance of fractional asset ownership over time; greater creditor protection; greater ability to keep assets in the family, etc. The more of these factors that are applicable to any proposed LLC the less likely the contribution of preferred units will be attacked as a prohibited gift of partial interests.

¹⁰³ See *United States v. Bess*, 357 U.S. 51 (1958) and *Morgan v. Commissioner*, 309 U.S. (1940).

The proposed LLC should be created for reasons independent of obtaining a charitable deduction and independent of avoiding section 170(f)(3). The fact that the charitable deduction is likely to be only 30% of the value of the preferred units given away may demonstrate that other reasons are more important than the charitable deduction. The more participants in the LLC the more likely it was created for purposes independent of obtaining a charitable deduction and the less likely the Service will deny the charitable contribution as a gift of a partial interest.

Consequently, it is important to establish that the purpose of the LLC is not to slice the voting rights from the LLC's underlying securities by retaining the managing units (which control the LLC and thereby control the vote of the underlying securities) and donating only the preferred units (which carry no control over the LLC). Having an independent entity from the donor as a manager will strengthen the donor's position.

Another factor that could bolster the argument that the LLC was not created for purposes only related to dividing the economic interests of the contributed property to the LLC in order to circumvent the partial interest rule is the longevity of the LLC before gifts are made to charity. The longer the LLC exists prior to the contribution, the more a separate purpose would be indicated. See Rev. Rul. 86-60, 1986-1 C.B. 302 (four-year delay between creation of partial interest and proposed contribution); Rev. Rul. 76-523, 1976-2 C.B. 54 (1976) (split of interests in stock was for business purpose and done years before the transfer to charity); PLR 20010812 (eight-year delay between the donor's transfer of voting rights in common stock to a voting trust and her charitable donation of that stock); PLR 9721014 (ten-year delay between creation of partial interest and the proposed contribution).

- b. If the gift of the preferred interest is to a donor advised fund (instead of some other public charity) care should be taken to make sure there is not a tax on excess business holdings under IRC Sec. 4943.

This example assumes the FLLC owns only financial assets. If the FLLC owns trade or business assets, and if the preferred is given to a donor advised fund (instead of some other public charity) the excess business holding rules need to be considered. See IRC Sec. 4943(b).

- c. The taxpayer must comply with certain reporting requirements in order to receive a deduction for the fair market value of the donated preferred interest.

Among the reporting requirements are:

1. The taxpayer must get and keep a contemporaneous written acknowledgment of the contribution from the charity. See IRC Sec. 170(f)(8)(A).
2. The taxpayer must also keep records that include how the taxpayer acquired the property and the basis information for the donated preferred interest. See Treas. Reg. §§ 1.170A-13(b)(3)(i)(A), (B).
3. The taxpayer must also obtain a qualified written appraisal of the donated property from a qualified appraiser, if the preferred interest is worth more than \$500,000 attach the qualified appraisal to the taxpayer's return. See IRC Sec. 170(f)(11)(D).

- d. If there is unrelated business taxable income associated with assets owned by the LLC, some public charities will not accept the gift of the preferred interest in the LLC.

All items of income of the LLC will be proportionately allocated to the owner of the preferred interest, including items of income that are considered unrelated business income, which will be subject to the unrelated business income tax under IRC Sec. 511. The unrelated business income tax is imposed on the unrelated business taxable income of most exempt organizations. Gross income subject to the tax consists of income from a trade or business activity, if the business activity is not substantially related to the charity's exempt purposes and is regularly carried on by the organization. Even passive income, such as dividends and interest, will be subject to the tax, if the income is derived from debt-financed property.

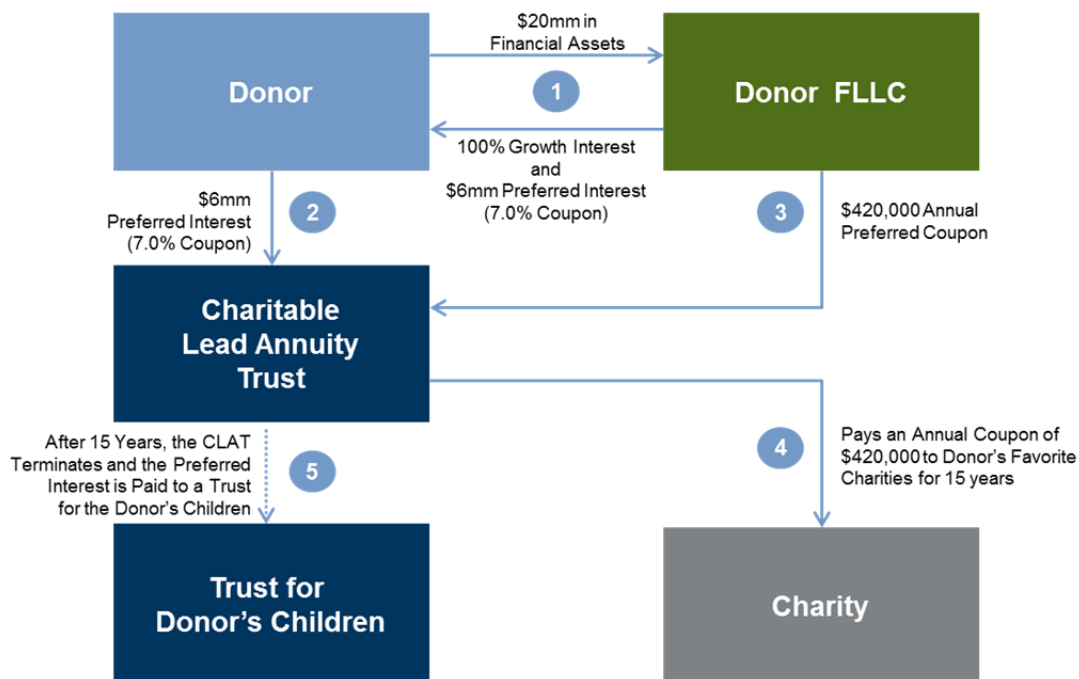
C. The Use of a High-Yield Preferred Partnership or Membership Interest With Charitable Lead Annuity Trust ("CLAT").

1. The Technique.

What if a financial engineering technique existed that would generally ensure the financial success (from the remainderman's perspective) of a CLAT and would create additional discounts for any future non-charitable gifts to family members? Consider the following example:

If a taxpayer creates a preferred interest in a FLP or a FLLC and contributes that preferred interest to a CLAT, the success of the CLAT is virtually assured. This is because all of the assets and the income of all of the assets of the FLP or FLLC are available to ensure the success of the coupon payments that are made on the preferred interest that is contributed to the CLAT. Assuming the preferred coupon rate is substantially in excess of the IRC Sec. 7520 rate, substantial assets will be available to the remainder beneficiaries of the CLAT on its termination.

Consider the following illustration, assuming the IRC Sec. 7520 rate is 1.0%:



2. Advantages of the Technique.

- a. Because of the difference in the yield of a preferred coupon of a preferred interest in a FLLC that is compliant with Revenue Ruling 83-120 and the IRC Sec. 7520 rate, the transfer tax success of a CLAT is virtually assured.

Under the assumed facts of the above illustration, George will successfully transfer his preferred interest in 15 years to a trust for his children without using any gift tax exemption and George will not be taxed on the income allocated to the charity. The Donor FLLC needs only to earn 1.17% annual return to have enough earnings to satisfy the \$70,000 annual preferred coupon.

The preferred partnership interest or limited liability interest appears to work very well from a transfer tax perspective with all varieties of CLATs, including level payment CLATs, back-loaded payment CLATs, grantor CLATs and non-grantor CLATs.¹⁰⁴

- b. IRC Sec. 2701 valuation rules will not apply to a gift of the “growth” interests in a FLLC if the preferred interests are owned by a CLAT.

In addition to the inherent benefits of a high yielding financial instrument being utilized when the IRC Sec. 7520 rate is low, there are additional estate planning benefits to the structure. As noted above the valuation rules of IRC Sec. 2701 do not apply to gift of the growth member interests if the donor does not retain the preferred partnership interests.¹⁰⁵ If the growth interest in the FLP or FLLC could be given or sold, additional estate planning benefits could accrue. Substantial valuation discounts may exist with respect to any growth interests that are donated or sold, because of the presence of the preferred interest. Consider the following table (also see Schedule 12 attached to this paper):

Table 10

	Total Present Value Received by Family Net of Taxes	Total Present Value Received by Charity	Total Present Value for Family and Charity
	Assuming a 7.0% Present Value Discount		
Description			
No Further Planning: Makes \$420,000 Annual Contribution to Charity; Bequeaths \$6mm to Charity at Death	\$6,850,593	\$6,199,251	\$13,049,844
Hypothetical Technique: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Gift and Sale of Growth Interest to a GST Tax Exempt Grantor Trust; Bequeaths Estate to Family	\$13,848,307	\$6,199,251	\$20,047,558

¹⁰⁴ See Paul S. Lee, Turner P. Berry & Martin Hall, “Innovative CLAT Structures: Providing Economic Efficiencies to a Wealth Transfer Workhorse,” 37 ACTEC Law Journal 93, 151-53 (Summer 2011).

¹⁰⁵ See the discussion in Section VII B 2 f of this paper.

- c. The donor will not pay income taxes or health care taxes on income that is allocated to the CLAT.

See the discussion in Section VII B 2 c of this paper.

3. Considerations of the Technique.

- a. The partial interest rule should not apply for gift tax purposes or income tax purposes (if a grantor CLAT is used), but the IRS may make the argument.

The income tax deduction is obviously unimportant if a non-grantor CLAT is used, because the gift on the annuity in a non-grantor CLAT is not eligible for an income tax deduction. What if the CLAT is a grantor trust? It is then important to receive an upfront income tax deduction. The question then becomes whether section 170(f)(3), which denies a charitable deduction for a contribution to charity (not made by a transfer in trust) of certain partial interests in property, trumps the deduction allowed under 170(f)(2) for gifts to grantor CLATs. The answer should be no.

In addition to the arguments and analysis in Section VII B 3 a of this paper, there is the additional benefit of having the gift structured as a gift of an annuity interest in a charitable lead annuity trust. The sought-after deduction is not for the contribution of the partial interest to the trust, but rather for the contribution of the term interest in the trust to charity. The deduction must be allowable “*with respect to the trust*,” not with respect to the assets contributed to the trust. The charitable deduction is specifically allowed by section 170(f)(2) for the contribution of the term interest in the grantor lead trust. Here, the deduction is allowable with respect to the grantor lead trust as long as the grantor lead trust otherwise meets the description of section 664. Second, section 170 (f)(3) specifically refers to contributions “not made by a transfer in trust”, whereas 170(f)(2) refers to contributions “in trust.” Subsections 170(f)(2) and 170(f)(3) are mutually exclusive: the first applies to contributions in trust and the second applies to contributions outside of trust.

Concerns about the partial interest issue arise from Private Letter Ruling 9501004. This ruling involved a charitable trust funded with an option to purchase real estate. The donor contributed an option to purchase real estate instead of contributing real estate itself because the real estate was encumbered by debt. According to the ruling, an option does not, before exercise, vest in the optionee any interest, estate or title in the land. Accordingly, the taxpayer would not be allowed a charitable deduction in the year in which the option was granted but would be allowed a deduction in the year in which the charitable organization exercised the option. See Rev. Rul. 82-197, 1982-2 CB 1982).

In that ruling, the IRS disregarded the specific language of Treasury Regulation section 1.664-1(a)(1)(iii). That section defines qualified charitable remainder trusts as *trusts* for which an income or transfer tax deduction is *allowable*. It does not require that each contribution to a trust must be independently deductible in order for the trust to qualify. As justification for ignoring this distinction, the IRS relies upon its “function exclusively” weapon of Treas. Reg. §1.664-1(a)(4), which requires that the charitable remainder trust at all times throughout its existence must “meet the definition of and function exclusively as a charitable remainder trust.” Using this weapon, the IRS read into section 1.664-1(a)(1)(iii) a requirement that each asset contributed to the trust must independently qualify for a charitable deduction under section 170,

2055, 2106 or 2522 in order for the trust to be, and to function exclusively as, a charitable remainder trust “in every respect.” There is no direct authority to support this argument as there is no direct authority regarding what constitutes meeting the definition of and functioning exclusively as a charitable remainder trust.

Based on this questionable interpretation of the statute and the regulation’s language, the IRS proceeded to discuss the denial of the income tax deduction based on the partial interest rule of section 170(f)(3). The IRS posited an example where the property contributed to the trust ultimately passed outside the trust: the facts in the ruling indicated that the option would never be exercised by a charitable organization or trust, but rather would be assigned to a third party. Then, relying on the partial interest rule of section 170(f)(3) (not 170(f)(2)), the IRS denied the income tax deduction because the contribution was of a partial interest which passed *outside* of the trust. The ruling goes out of its way to say: “However, no deduction would be allowable under [the partial interest rule] for any payment made to such a third party purchaser that purchases and exercises the purported option. In such a situation, the payment by Taxpayer would be made to the third party charitable organization *outside the trust* [emphasis added].” That statement would not be necessary if the option itself, as a partial interest, disqualified the trust.

It is also important for purposes of the gift tax charitable deduction whether the partial interest rule applies. As discussed below, the partial interest rule should also not apply for gift tax purposes. Even if the income tax deduction is denied under section 170, the CLAT still qualifies for a gift tax deduction because a gift tax deduction remains allowable under section 2522. Section 2522 does not appear to incorporate a 170(f)(3)-type partial interest rule. PLR 9501004 did not address whether section 2522 indirectly incorporates a partial interest rule because the gift was found to be incomplete. “Such [an incomplete] transfer would not constitute a transfer to the Trust for which a gift tax charitable deduction is allowable with respect to the Trust.” The converse is implied to be true - if the payment by Taxpayer would be made to a charitable organization inside a trust, such a transfer would constitute a transfer for which a gift tax charitable deduction is allowable with respect to the trust.

The Service did not import a 170(f)(3)-type partial interest rule into section 2055 in its private letter ruling 200202032. In that ruling, the taxpayer had previously contributed to the museum all of his right, title and interest in and to a 50% undivided interest in 32 paintings. At his death, the taxpayer bequeathed his remaining 50% undivided interest in the 32 paintings to the museum. The ruling held that the taxpayer's 50% undivided interest qualified for the estate tax charitable deduction under section 2055, despite being partial interests.

Sections 170(f)(2), 170(f)(3), 2055(e)(2) and 2522(c)(2) were enacted as part of a comprehensive revision of the tax treatment of charitable contributions in the Tax Reform Act of 1969, Pub. L. No. 91-172, 83 Stat. 487. In that legislation, Congress provided rules governing charitable gifts of partial interests outside of trust, see IRC 170(f)(3); income tax deductions for gifts in trust, see IRC §170(f)(2); estate tax deductions, see IRC §2055(e)(2), and gift tax deductions, see IRC §2522(c)(2). Notably, Congress did not include a corresponding 170(f)(3)-like provision in 2055 or 2522.

The legislative history concerning income tax deductions for gifts of partial interests not in trust weighs against importing the same restrictions into 2055 and 2522. The history focused on the practice of taking a deduction for the donation of the rent-free use of property for a specified time. Congress agreed with the Service's position that in such a situation a taxpayer

obtains a double benefit by being able to claim a deduction for the fair rental value of property and also exclude from income the receipts from the donated interest during the period of the donation. The legislative solution was to permit the exclusion but deny an income tax deduction. See H.R. Rep. No. 413, 91st Cong., 1st Sess. 57-58 (1969), 1969-3 C.B. at 239. This solution is not relevant in the transfer tax context.

- b. Care should be taken to make sure that there is not a tax on excess business holdings under IRC Sec. 4943.

This example assumes the FLLC owns only financial assets. If the FLLC owns a trust or business, since the CLAT will be considered a private foundation, the excess business holding rules and IRC Sec. 4943 need to be considered.

VIII. STRATEGIES THAT MAY LOWER THE INCOME AND HEALTH CARE TAXES OF TRUSTS WITHOUT MAKING CASH DISTRIBUTIONS TO THE BENEFICIARIES OF THE TRUSTS.

- A. A Donor Could Create a Complex Trust That Provides Annual Lapsing Withdrawal Rights to the Beneficiary of a Limited Amount of Trust Income and the Beneficiary Only Withdraws that Amount Necessary to Pay the Income Taxes Caused By That Withdrawal Right.

1. The Technique.

A taxpayer could create a complex trust giving the beneficiary an annual lapsing withdrawal power over a defined amount of the taxable income of the trust that does not exceed an amount equal to 5% of the corpus of the trust.¹⁰⁶ Consider the following withdrawal power (hereinafter sometimes referred to as a “limited income withdrawal power”):

Upon the end of each calendar year if the beneficiary is living immediately before the end of the year, the Trustee shall pay to the beneficiary, or his representative, that fractional share of the trust’s net income that is not exempt from federal income tax, as the beneficiary, or his representative, last directs in writing before the end of the year, whether or not that net income is allocable to corpus, that does not exceed the lesser of the following:

- (a) that fractional share of the trust’s net income that is equal to the trust’s net investment income, as defined in IRC Sec. 1411;

- (b) that fractional share of the trust’s net income that is equal to the trust’s adjusted gross income, as defined in IRC Sec. 67(e) in excess of the dollar amount at which the highest tax bracket in IRC Sec. (1)(e) begins for such taxable year; or

- (c) that fractional share of the trust’s net income that is equal to 5% of the trust estate determined at the end of the year of the trust.

¹⁰⁶ See also, James G. Blase “Drafting Tips That Minimize the Income Tax on Trusts – Part I” Estate Planning, p. 28, July-August, 2013).

Assume the trust is also drafted in a manner where the beneficiary does not have a power, under the principles of IRC Secs. 671 to 678, over any part of the trust that accrues from a lapsed withdrawal right. (However, if the beneficiary does have such a right, the results illustrated below will be only enhanced.) Also assume the beneficiary never exercises his or her withdrawal power, except to the extent necessary to pay his or her income taxes, or if the limited income withdrawal power lapses for the year without exercise, the trust authorizes the trustee in its discretion to transfer that amount of cash from the trust to the IRS on behalf of the beneficiary that is necessary for the beneficiary to pay his or her income taxes on trust income.

2. Advantages of the Technique.

- a. Assuming, on the beneficiary's death, the annual lapse of the withdrawal powers did not exceed in value 5% of the trust properties in any calendar year, there should not be any estate taxes on the beneficiary's estate associated with those lapses.

See IRC Sec. 2041(b)(2).

- b. The annual failure to exercise the withdrawal power should not be considered a taxable gift by the beneficiary.

See IRC Sec. 2514(a).

- c. Annually, that part of the taxable income of the trust that the beneficiary has the power to vest in himself will be taxable to the beneficiary and will not be taxable to the trust.

See IRC Sec. 678(a)(1) and Revenue Ruling 67-241.¹⁰⁷ For each taxable year of the trust, to the extent of the limited income withdrawal power, the beneficiary will be taxable on that portion of the income and the trust will not be taxable on that part of the income. Assuming the beneficiary is in a much lower income tax bracket, and assuming the beneficiary only withdraws that amount necessary to pay his or her income taxes, the trust should grow at a much faster rate.

- d. The trust assets may grow much faster during the beneficiary's lifetime than would be the case if the limited income withdrawal right did not exist.

If the withdrawal power did not exist the trust would only grow by that rate of return earned by the trust assets after distributions to the beneficiary and taxes paid by the trust. That should be compared with the trust growth, if the trust is not taxed on its income that does not exceed IRC Sec. (1)(e), assuming the limited income withdrawal power is only exercised by that amount necessary for the beneficiary to pay his income taxes. Consider the following example:

¹⁰⁷ Rev. Rul. 67-241, 1967-2 C.B. 225.

*Example 13: Tim Taxadvantage Creates
a Trust for the Benefit of Wiley Withdrawal*

Tim Taxadvantage asks his advisor, Pam Planner, to compare how much a \$5,000,000 trust will grow during the lifetime of the beneficiary if he gives a limited income withdrawal power to the beneficiary, Wiley Withdrawal, who has a 35-year life expectancy, in comparison to not giving Wiley Withdrawal a limited income withdrawal power. Tim asks Pam to assume that the trust will annually earn 2.4% in tax free income, 0.6% in ordinary income and 4.4% in long term capital gains income (with a 30% turnover). Tim asks Pam to assume Wiley earns \$90,000 a year from other sources, is single, and will not need any income from the trust. Tim asks Pam to assume there is zero inflation and that Tim's needs, and income from other sources, will never increase. Tim also asks Pam to assume Wiley never exercised his limited income withdrawal power, except as necessary to pay his income taxes.

Pam does the calculations. Under the above assumptions, even though the trust is investing very tax efficiently, Pam calculates the trust will have \$4,034,496 more, or 9.8% more, at the end of 35 years, if Tim gives Wiley that limited income withdrawal power and it is exercised only as necessary to pay income taxes that are inherent with that withdrawal power. (See attached Schedule 13.)

Assume the same facts, except the trust is a \$500,000 trust instead of a \$5,000,000 trust. Under these assumptions, Pam calculates the trust will have \$544,299 more, or 13.32% more, at the end of 35 years, if Tim gives Wiley that limited income withdrawal power and it is exercised only as necessary to pay income taxes that are inherent with that withdrawal power. (See attached Schedule 13.)

- e. If the trust owns an interest in a closely held entity that is taxed under the LLC or Subchapter S rules, and if the beneficiary materially participates in the business, there may be health care tax advantages to Wiley and the trust if the beneficiary has the limited income withdrawal power.

In addition to the benefits of lower health care taxes that may be associated with the beneficiary being in a lower tax bracket than the trust (the health care tax does not apply to investment income unless the beneficiary's income is above \$200,000 if single and \$250,000 if a joint filer), there may be benefits if the beneficiary materially participates in any business entity in which the trust may own an interest. There may not be any health care tax on that part of the business income that is allocated to the beneficiary under the grantor trust rules and IRC Sec. 678.

- f. The limited income withdrawal power may cause less fiduciary problems for an independent trustee of the trust.

If the limited income distribution withdrawal power does not exist, and if the trustee wishes to save the same amount of income taxes and health care taxes, the trustee could distribute cash that exceeds what Wiley needs in order to save income taxes and health care taxes. The problem with those excess distributions, from the point of view of the trustee and the future remainder beneficiaries of the trust is that the excess distributions may be a breach of trust. The damages to the remainderman could be significant if the excess assets are subject to Wiley's transfer taxes, or subject to Wiley's creditors, or if Wiley bequeathed those assets to different

individuals. Thus, because of fiduciary constraints, an independent trustee may be reluctant to manage the trust in a tax efficient manner through cash distributions.

3. Considerations of the Technique.

- a. The power holder may exercise the limited income withdrawal power in a manner that was not anticipated by the settlor.

If the beneficiary does not need access to the trust for his consumption needs to the degree his limited income withdrawal power entitles him, and if he exercises that power, the excess assets would be subject to his future bequests, which could be inconsistent with the grantor's dispositive plan and even if the beneficiary consumes amounts withdrawn, the withdrawal avoids depletion of his other assets, which will be bequeathed in accordance with his plan, not the grantor's plan. Even if the beneficiary's testamentary desires are consistent with the trust, if the beneficiary has a taxable estate, and if that beneficiary has excess withdrawals, those withdrawals may be subject to the beneficiary's estate taxes, which could be in excess of the potential income tax savings.

However, if an independent trust protector, or an independent trustee, has the power in future years to terminate, or temporarily terminate, the beneficiary's limited income withdrawal power, that may ameliorate the concern.

- b. Beneficiary creditor concerns.

Depending upon the state law, creditors of the beneficiary may have greater access to the trust than would be the case if the beneficiary did not have a limited income power of withdrawal.

However, if an independent trust protector, or an independent trustee, has the power in future years to terminate, or temporarily terminate, the beneficiary's limited income withdrawal power, that may ameliorate the concern.

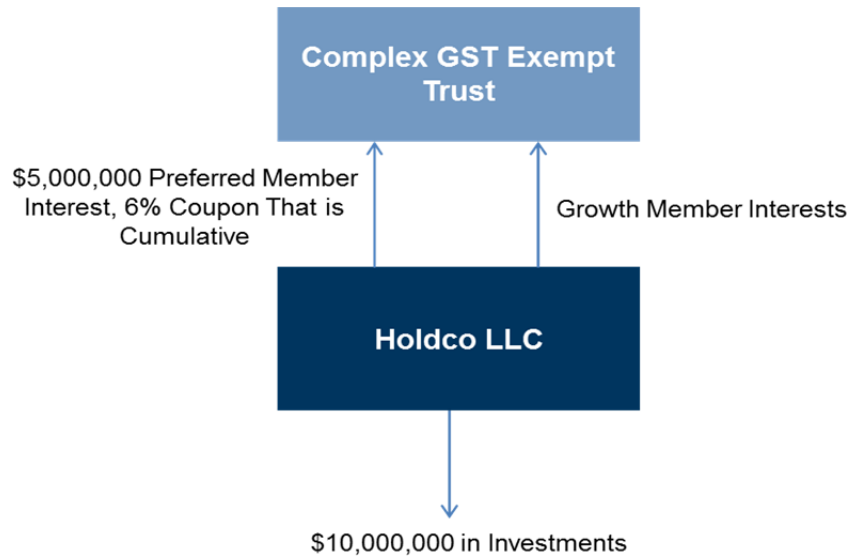
- B. The Trustee of a Complex Trust Could Consider Creating a Two Class (One Class is a Preferred Interest and One Class is a Growth Interest) Single Member LLC and the Trustee Could Distribute Part or All of the Preferred Class to the Current Beneficiary.

1. The Technique.

The trustee of a trust could contribute part or all of its assets into a single member LLC that has both preferred interests and growth interests. The owner of the preferred interest would be paid a fixed coupon and would also be entitled to a fixed liquidation value or "par" value on termination of the single member LLC. The owner of the common interest would be entitled to the income and assets on liquidation that are not allocated to the preferred owner. The single member LLC could have the right to call the preferred interest for cash equal to the par value of the preferred that is "called". The trust could also withhold part of the cash accruing from "called" preferred interests or the preferred coupon and pay that withheld amount to the IRS to satisfy the beneficiary's taxes associated with distributions and ownership of the preferred interest. Consider the following illustrated transactions.

Hypothetical Transaction #1

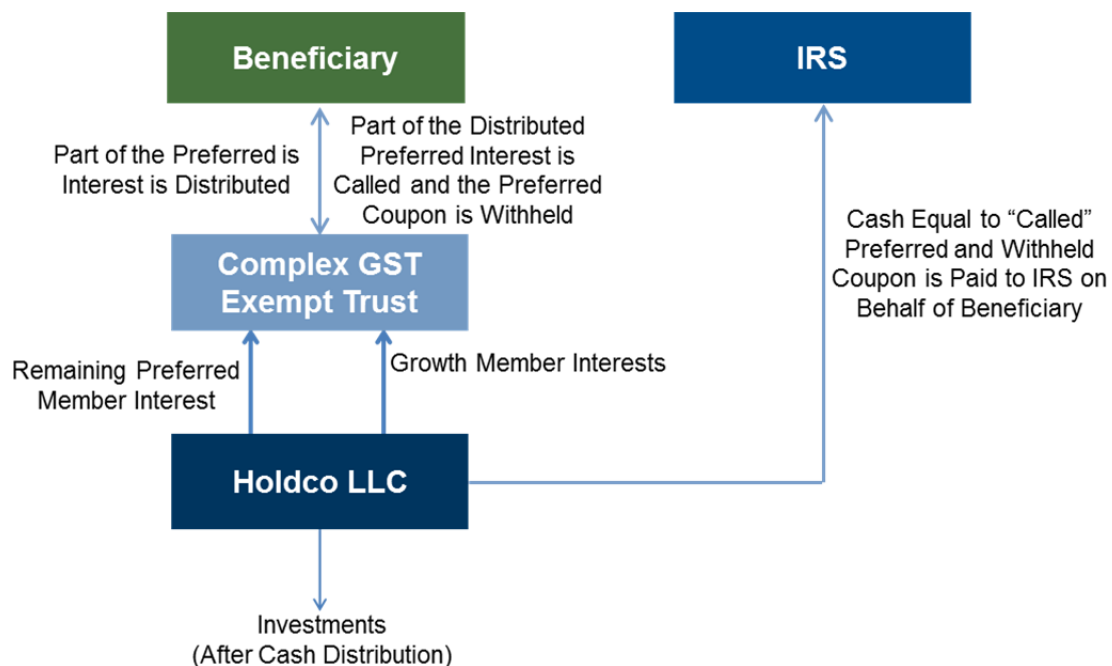
Trustee of Complex GST Exempt Trust, which has \$10,000,000 in assets, forms a single member LLC with preferred and growth member interests as illustrated below:



Holdco, LLC has the right to “call” or “redeem” any portion of the preferred for cash and/or withhold any portion of a preferred coupon that is to be paid to its owner. The trustee of the Complex GST Exempt Trust could pay cash for that portion of “called” preferred that is owed and/or any portion of the coupon that is withheld, to the IRS for the benefit of the owner of the preferred.

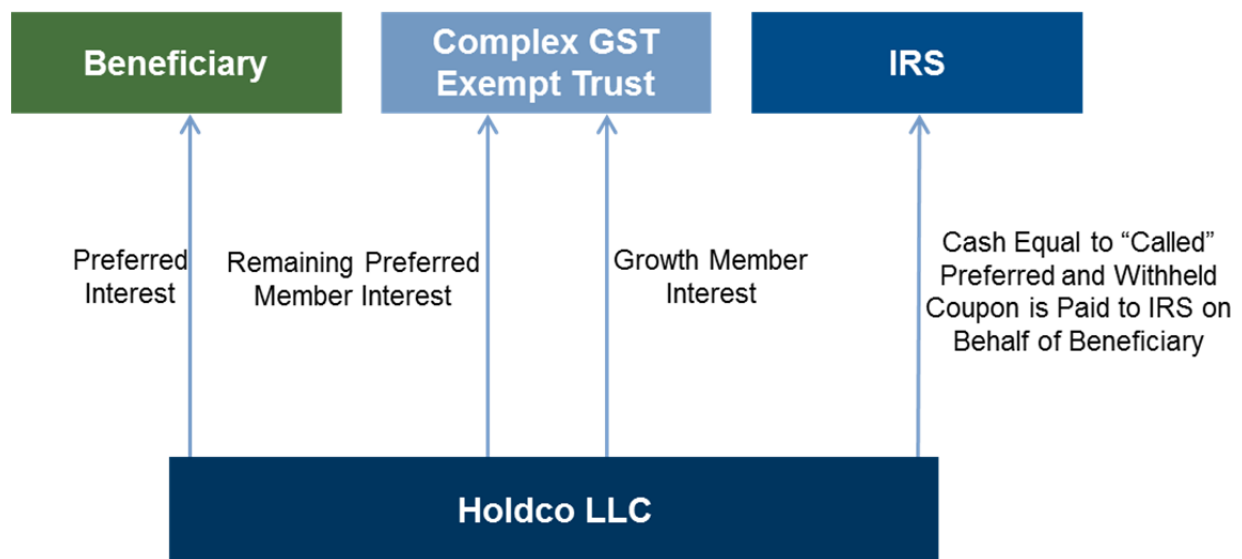
Hypothetical Transaction(s) #2

Trustee of the Complex GST Exempt Trust could distribute part of its preferred interest to beneficiary. The par value of the distributed preferred is equal to the trust’s adjusted gross income, as defined in IRC §67(e) over the dollar at which the highest bracket in IRC §(1)(e) begins for such taxable year. The trustee withholds the coupon payout that is due and “calls” or redeems part of the preferred. A cash amount equal to the “withheld” coupon and the “called” preferred interest is paid to the IRS on behalf of the beneficiary to be applied to the beneficiary’s income taxes. This transaction can be shown as follows:



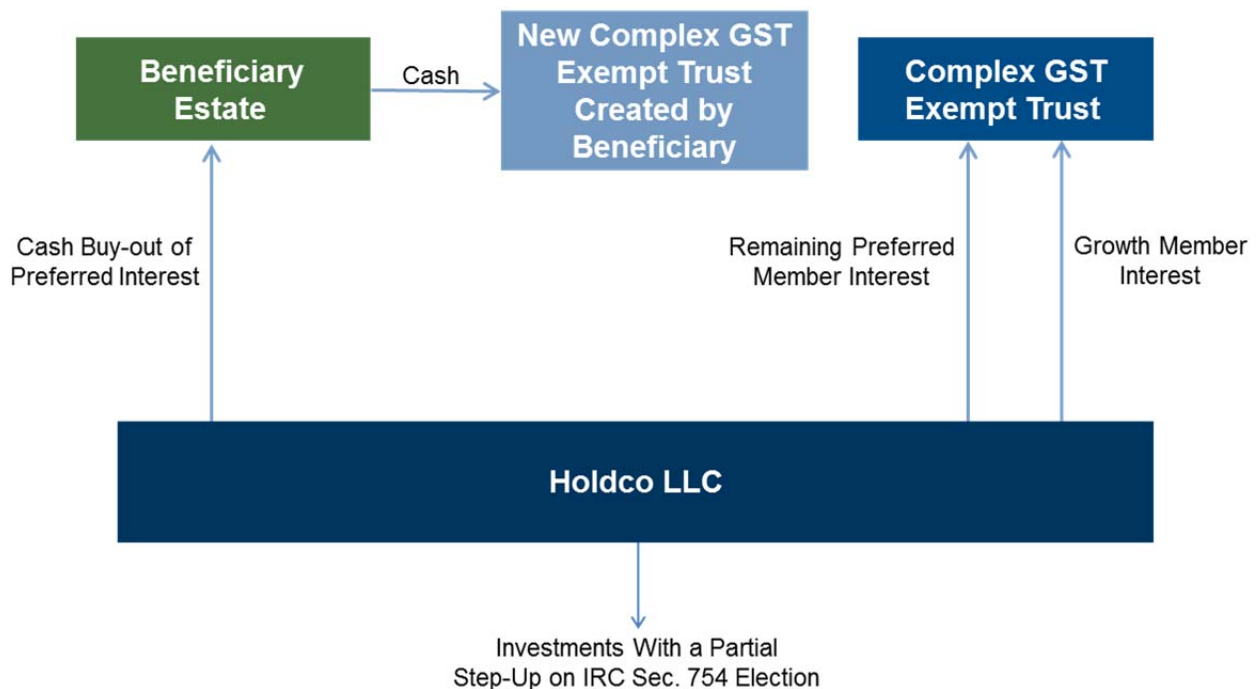
Hypothetical Transaction(s) #3

In the later years, the trustee of the Complex GST Exempt Trust no longer distributes preferred partnership interests to the beneficiary. The trustee of the Complex GST Exempt Trust is not taxed on the net income allocated to the preferred interest owned by the beneficiary. Holdco, LLC "calls" or withholds part of the cash coupon owed to the beneficiary and pays that cash to the IRS on behalf of the beneficiary:



Hypothetical Transaction #4

Upon the beneficiary's death, the trustee may wish to redeem or "call" all of the preferred interest then held by the beneficiary's estate. If the beneficiary does not have a taxable estate and bequeaths the proceeds of the "called" preferred interest to a similar Complex GST Exempt Trust, that cash, upon redemption, will then pass according to the terms of the new trust. If a IRC §754 election is made, some of the low basis assets of Holdco, LLC may receive a step-up in basis:



2. Advantages of the Technique.

- a. Taxable income of the trust allocated to the beneficiary, either directly to the beneficiary because of the in-kind distributions of the preferred interest, or indirectly because of the payment of the preferred coupon, will not be taxable to the trust, which could save significant income taxes and health care taxes.

The fair market value of the preferred, when it is distributed to the beneficiary, will carry out distributable net income of the trust for that tax year. See IRC Secs. 661 and 662. The taxable income earned by Holdco that is allocated to the beneficiary as an owner, or part owner, of the preferred will not be taxed to the trust but will be allocated to the beneficiary. See IRC Sec. 704(b). If the beneficiary's income tax bracket is lower than the top bracket of the trust, then income taxes could be saved based on that difference.

- b. If the trust contributes low basis assets to Holdco in exchange for the preferred, then distributes the preferred to the beneficiary, and if there is a later sale of those low basis assets by Holdco, significant future capital gains taxes could be saved.

If after distributing the preferred interest to the beneficiary, Holdco LLC sells the highly appreciated securities that were exchanged for the preferred, the capital gains interest in the securities at the time of the exchange (the so-called “built-in gain”) will be allocated to the beneficiary and will not be allocated to the other owners of Holdco (i.e., the trust). See IRC Sec. 704(c). Holdco could “call” part of the preferred, after the sale of securities, in order for the beneficiary to have sufficient cash to pay his taxes that are associated with the allocated gain. If the beneficiary is in a marginal bracket that is lower than the top marginal bracket of the trust, substantial capital gains taxes may be saved.

- c. On the death of the beneficiary additional income tax and health care tax savings could accrue, if the stepped-up outside basis of the preferred interest owned by the beneficiary exceeds the proportionate inside basis of the LLC assets.

In this example, on the death of the beneficiary, Holdco could elect to have an adjustment of its inside basis on its assets under IRC Sec. 754 that are proportionately represented by the preferred interest. That election could save future capital gains and health care taxes when those assets are sold.

- d. Unlike a trustee distribution of cash, a trustee distribution of a preferred interest in a closely held LLC is not marketable, which could partially address spendthrift concerns.

The problem with a trustee distributing cash to a beneficiary in order to lessen the income tax and health care tax burdens is that cash can be spent by the beneficiary instead of being saved and bequeathed to future generations on the death of the beneficiary. A distribution of cash is also readily available to creditors and spouses on divorce. It may be difficult for a beneficiary to find a buyer for the preferred interest. The preferred interest could be subject to a buy-sell agreement. It is generally very likely the preferred interest will still be owned by the beneficiary on his or her death.

- e. Unlike a distribution of cash, in which the trust loses its ability to return the earning potential of that cash for the benefit of future beneficiaries, the trust will indirectly retain the earning potential of the assets owned by the single member LLC subject to the preferred coupon payment requirements.

If Holdco earns more than the coupon that is distributed to the beneficiary those excess earnings will accrue to the other beneficiaries of the trust.

- f. The valuation rules of IRC Sec. 2701 probably do not apply to these illustrated transactions.

The valuation rules of IRC Sec. 2701, which apply for gift tax purposes in valuing gifts of common interests in a manner that overrides the hypothetical willing buyer, willing seller standard should not apply in this context. See the discussion in Section VII B 2 e of this paper. IRC Sec. 2701 does not apply for generation-skipping purposes. Secondly, IRC Sec. 2701 does

not apply, if preferred interests are transferred instead of being retained. See the discussion in Section VII B 2 e of this paper. Third, it is difficult to see how a distribution by a trustee to a beneficiary is a gift by any person as a donor, if the trustee is properly exercising fiduciary discretion. Since IRC Sec. 2701 does not apply, this may allow greater flexibility in designing the preferred to comply with the traditional willing buyer, willing seller standard.

3. Considerations of the Technique.

- a. It adds a layer of complexity to the administration of the trust.
- b. The beneficiary may not bequeath the preferred interest in a manner consistent with the remainderman provisions of the complex trust.

These same considerations exist with a distribution of cash to the beneficiary. See the discussion in Section VIII A 3 a of this paper.

- c. Creditors of the beneficiary, including divorced spouses, may be able to attach the preferred interest.

These same considerations exist with a distribution of cash to the beneficiary. See the discussion in Section VIII A 3 b of this paper.

C. The Advantages and Considerations of a Transferor Selling Subchapter S Stock to a Qualified Subchapter S Trust (“QSST”) Created By a Third Party That is a Grantor Trust as to the Subchapter S Stock, That Names the Transferor as a Beneficiary, and Gives the Transferor a Special Limited Power of Appointment.

1. What is the Technique?

A third party could create a trust for the benefit of a potential transferor to the trust, which would meet the requirements of a qualified Subchapter S trust (QSST) under IRC Sec. 1361(d). The potential transferor could create, or may have already created, a Subchapter S corporation to hold his investment assets and/or trade or business. The transferor could then sell his voting and/or nonvoting stock that he has in the Subchapter S corporation to the QSST that has been created by a third party. It is important that the sale be in consideration of a secured note in which the security is the transferred stock and all distributions on that stock.

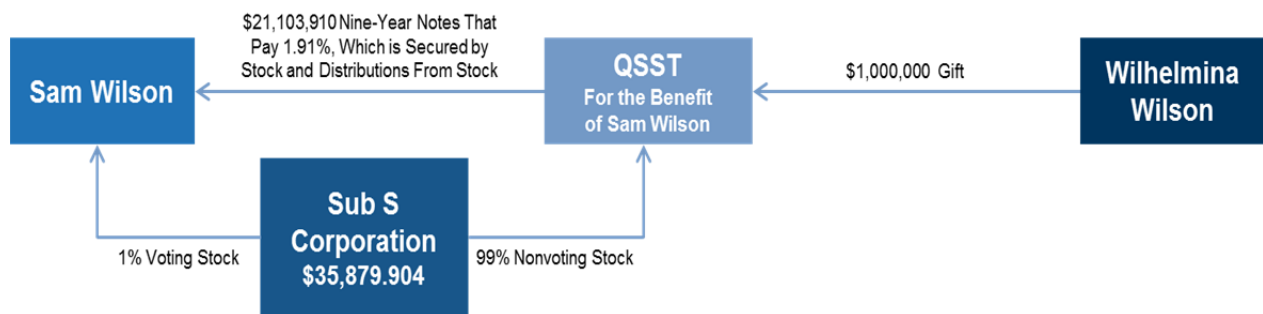
Example 14: A Third Party Creates a QSST and the Beneficiary of the QSST Sells to the QSST, For a Secured Note, the Beneficiary’s Non-Voting Stock in a Subchapter S Corporation

Sam Wilson owns \$32,000,000 in financial assets. Around \$13,000,000 of his assets consist of private equity investments, which have a relatively low basis (\$2,000,000). For valid non-tax reasons, including concerns about future ownership of the assets under the qualified purchaser and accredited investor rules, Sam decides to incorporate the \$13,000,000 of his private equity investments and \$17,000,000 of his financial assets in a Subchapter S corporation. His mother, Wilhelmina Wilson contributes \$1,000,000 to a dynasty trust that could qualify to be a QSST. Sam, as the income beneficiary of the trust, has a right to principle distributions of the trust for his support and maintenance. Sam also has a limited testamentary power of appointment to appoint the trust assets to his family or his wife, Sally. Sam capitalizes the Subchapter S corporation with 1% voting stock and 99% nonvoting stock. Sam sells 45% of his nonvoting stock to the QSST in exchange for a secured \$7,775,000 note and \$1,000,000 in cash (assuming a 35%

valuation discount). Three years later Sam sells his remaining nonvoting stock for a note (again assuming a 35% discount). The security for the note is the stock that is sold and the distributions from that stock.

It is assumed that the estimated pre-tax rate of return of the Subchapter S corporation will average 10% a year, before taxes. Four percent of the return will be taxed at ordinary rates and 6% of the return will be taxed at long-term capital gains rates with a 30% turnover. It is assumed that Sam and Sally will consume \$300,000 a year as adjusted for inflation.

This technique, after the second sale, three years after the creation of the Subchapter S corporation, is illustrated below (see Schedule 14):



Under IRC Sec. 1361(d)(1)(B), the transferor (as a beneficiary of the QSST) will be treated as the owner of the Subchapter S stock held in trust under IRC Sec. 678(a). Under IRC Sec. 678(a) the trust is ignored for income tax purposes, at least with respect to any Subchapter S stock that is held in the trust. The Service confirmed this grantor trust treatment of Subchapter S stock owned QSST as to the beneficiary of the QSST in Revenue Ruling 92-84.¹⁰⁸ The key holdings of that Revenue Ruling are as follows:

Section 1361(d)(1)(B) of the Code provides that, for purposes of section 678(a), which sets forth the rules for when a person other than the grantor will be treated as a substantial owner, the beneficiary of a QSST shall be treated as the owner of that portion of the trust which consists of stock in an S corporation with respect to which the election under section 1361(d)(2) is made.

...

A has made the election under section 1361(d)(2) of the Code with respect to TR and M corporation. Therefore, under section 1361(d)(1)(B), A is treated as the owner of that portion of TR that consists of stock in corporation M for purposes of section 678(a).

...

¹⁰⁸ See Rev. Rul. 92-84, 1992-2 C.B. 216.

Section 678(a) is within subpart E of subchapter J of the Code. Therefore, the provisions of section 671 are applicable to the stock of an S corporation with respect to which the beneficiary has made an election under section 1361(d)(2).

Section 1.671-2(b) of the Income Tax Regulations provides that when it is stated in the regulations under subpart E that 'income' is attributed to the grantor or another person, the reference, unless specifically limited, is to income determined for tax purposes and not to income for trust accounting purposes.

Section 1.671-2(c) of the regulations provides that an item of income, deduction, or credit included in computing the taxable income and credits of a grantor or another person under section 671 is treated as if it had been received or paid directly by the grantor or other person (whether or not an individual).

Section 1.671-3(a)(2) of the regulations provides that, if the portion treated as owned by a grantor trust or another person consists of specific trust property and its income, all items directly related to that property are attributable to that portion.

Accordingly, where a grantor or another person is treated as the owner of property constituting corpus under subpart E, the trust is disregarded as a separate entity and any gain or loss on the sale of such corpus is treated as gain or loss of such person.

It should be noted that the IRS modified its holding in revenue 92-84 with respect to sales of Subchapter S stock by a QSST, because of cash problems caused by installment sales of Subchapter S stock by a QSST when it modified Treas. Reg. §1.1361-1(j)(8) in TD 8600 (7/20/1995). However, it would seem the other grantor trust aspects of the Revenue Ruling remain, which are consistent with IRC Sec. 1361 (i.e., for income tax purposes, the beneficiary of the QSST is treated as the income tax owner of any Subchapter S stock in the QSST and the beneficiary pays all of the income taxes on the Subchapter S income earned by the trust). It should also be noted that the trust assets other than the Subchapter S stock will be taxed under the normal Subchapter J rules.

Thus, the sale of Subchapter S corporation stock should not trigger any capital gains consequences to the transferor, if he sells to a trust that qualified as a QSST,¹⁰⁹ because the seller is considered the owner of the stock both before and after the sale for income tax purposes.

A QSST, while it owns Subchapter S stock, may have only one beneficiary (who also must be a U.S. citizen or resident), all of its trust accounting income¹¹⁰ must be distributed to that beneficiary. The beneficiary may receive corpus during the beneficiary's lifetime. The

¹⁰⁹ See Rev. Rul. 85-13, 1985-1 C.B. 184 and the authorities discussed therein. This Revenue Ruling involved the sale to a trust that was not a grantor trust before the sale. However, because of the terms of the sale, the trust became a grantor trust and the seller was considered the owner of the sold trust property both before and after the sale. The same analysis would appear to apply for a sale, of Subchapter S stock by a Subchapter S owner to a QSST held for his benefit, even if the QSST was not a grantor trust under IRC Sec. 678 until the sale. The seller of the Subchapter S stock to a QSST, held for the benefit of the seller, should be considered the income tax owner of the sold Subchapter S stock both before and after the sale. Thus, no capital gains consequences should arise.

¹¹⁰ See Treas. Reg. Section 1.1361-1(j)(i) and IRC Sec. 643(b).

beneficiary must elect to be taxable on all of the Subchapter S income of the QSST, whether all of it is distributed or not in the form of a distribution from the corporation.¹¹¹ The beneficiary may have a testamentary power of appointment.

Can the distributions from the Subchapter S corporation stock owned by the QSST, which are collateral on the transferor's note, including distributions that are considered trust accounting income be used first to retire both the principal and interest of the note on which the QSST is the obligor? Clearly interest on a note is a charge against the income of a trust for trust accounting purposes and should be paid by the trustee of the QSST. See Sec. 501(3) of the Uniform Principal and Income Act. The distributions on the purchased Subchapter S stock can also be used by the trustee of the QSST to retire the principal on the note, if both the sold stock and the distributions of that stock are security for a note on which the QSST is the obligor. Compare the interaction of Secs. 502(b) and 504(b)(4) of the Uniform Principal and Income Act. There may need to be an equitable adjustment between the principal and income of the trust when the distributions from purchased Subchapter S stock are used by the trustee of the QSST to retire principal of the debt used for that purchase, depending upon the interaction of Secs. 502(b) and 504(b)(4) of the Uniform Principal and Income Act. The fact that Subchapter S distributions are part of the security for the debt, and are used to retire the principal of the debt, does not disqualify the trust from being a QSST.¹¹²

2. Advantages of the Technique.

- a. May provide better defenses to the bona fide sale considerations of IRC Secs. 2036 and 2038 than certain other IRC Sec. 678 beneficiary grantor trust techniques in which the trust is only funded with \$5,000.

Unlike some Beneficiary Grantor Trust techniques in which a third party is the grantor, a settlor may contribute much more than \$5,000 to the trust in order to provide substantive security on any leveraged sale of Subchapter S stock to the trust, which may help on the "bona fide sale" requirements in order to avoid application of IRC Secs. 2036 and 2038. Both sales under this example are accomplished with less than 90% leverage and without the use of guarantees.

- b. Circumvents federal capital gains tax treatment on a QSST beneficiary's sale of his Subchapter S stock to the QSST.

As noted above, under Internal Revenue Ruling 85-13, a sale by a taxpayer of an asset to a trust (that was not a grantor trust until the purchase occurred) in which the taxpayer is considered the owner of the trust asset for income tax purposes, both before and after the sale, is not subject to federal capital gains taxes. See the discussion in Sections III A 2 a of this paper. Revenue Ruling 85-13 discussed and followed a B.T.A. case, which held that a purchase of an asset from a bankruptcy trustee should be ignored for income tax purposes if the purchaser owned the asset both prior to and after the bankruptcy proceeding. If the beneficiary of the QSST sells Subchapter S stock that he individually owns to the QSST, he will own the stock for income tax purposes both before and after the sale. As noted above, it should be noted that under Treasury Regulation Sec.

¹¹¹ Under IRC Sec. 1361(d)(2)(D), the election can be retroactive for up to two months and fifteen days, so a timely election will cause IRC Sec. 678 to apply at the time of the sale.

¹¹² See P.L.R. 914005 (June 25, 1991); P.L.R. 200140046 (Oct. 5, 2001).

1.1361-1(j)(8), if there is a sale at a later time of the Subchapter S stock to a third party by the trustee of the trust, that sale will be taxable to the trust under the usual principles of Subchapter J.

- c. There is not any concern about the effect of any lapse of withdrawal rights.

Unlike the limited income withdrawal trust, or other IRC Sec. 678 Beneficiary Grantor Trust techniques, there is no need for the beneficiary of the QSST to have withdrawal rights, because there is no attempt to make the entire QSST a grantor trust. The transfer tax and income tax consequences that may accrue from the existence of a withdrawal right, and from its lapse, are not present in this technique.

- d. It has the advantage of allowing the seller to be a beneficiary of the trust and have a power of appointment over the trust.

From the perspective of any transferor, the most flexible arrangement, with respect to exit strategies, is a trust in which the transferor is a beneficiary and the transferor has a special power of appointment over the trust. Assuming the sale is for adequate and full consideration, and assuming one of the equitable tax doctrines (either the step transaction doctrine or the reciprocal trust doctrine) is not available to attack the transaction, a sale to such a trust has significant flexibility advantages. The seller has access to the proceeds of the note or any asset, which that note may be converted into (e.g. a private annuity). Furthermore, the seller may have access, as limited by the trust provisions, to the assets of the trust for his/her benefit. With a power of appointment, the seller/beneficiary has the ability to redirect the assets of the trust in a different stewardship manner than the default provisions of the trust.

- e. If the current beneficiary of the QSST materially participates in the business of the Subchapter S corporation or is in a lower marginal bracket, significant health care taxes may be saved with the technique.

The net investment income, as noted above, is not allocated to the QSST, but is allocated to the beneficiary of the trust under IRC Sec. 678. Thus, if the beneficiary materially participates in the business of the Subchapter S corporation there is not any tax. Secondly, even if the beneficiary does not participate, the beneficiary may be in a lower bracket than the trust.

- f. It has the potential of mitigating gift tax surprises.

Because of the presence of the testamentary power of appointment if the IRS determines the consideration received by the seller/beneficiary is inadequate consideration, there will not be any gift taxes owed because any “gift” inherent in that sale to the QSST will be incomplete for gift tax purposes. *See* Treas. Reg. Sec. 25.2511-2(b). Instead, for income tax purposes the seller/beneficiary will be considered the grantor of that portion of the trust consisting of the excess value. For estate tax purposes, the seller/beneficiary may be considered the transferor of all the property he sells to the trust. If the IRS does finally determine the seller/beneficiary has made a transfer for less than full consideration, the trust may be able to be divided into two trusts, because of the operation of state law, or the trust agreement. Under those circumstances, the QSST could perhaps be divided in a manner in which the seller/beneficiary is considered the grantor of one trust (“Trust 1A”) and the original grantor of the QSST is considered the grantor of the other trust (“Trust 1B”). The trust in which the seller/beneficiary is considered the grantor, Trust 1A, will be taxable in his estate. There may be additional planning opportunities, if the

trustee of Trust 1A simply distributes the trust assets to the seller/beneficiary, and the seller/beneficiary then enters into further estate planning.

- g. Appreciation will be out of the seller's estate.

See the discussion in Section III A 2 b of this paper.

- h. The beneficiary of the QSST will have access to the cash flow distributed to the trust.

Sam is the sole income beneficiary of the trust. Sam will also have access to the cash flow of any note on any sale from the trust.

- i. The trust is much more flexible than a simple income only trust and may be administered to simulate a complex trust without the income tax and health care tax disadvantages of a complex trust.

Sam is entitled to receive the distributions paid on the Subchapter S stock held in the trust, either as an income beneficiary, or as a creditor of the trust. However, much of the income earned by the Subchapter S corporation could be retained by the corporation, and the trust and the Subchapter S corporation could be managed to simulate a complex trust that does not pay income taxes and only distributes that amount of cash necessary so that the beneficiary may pay his income taxes.

- j. The estate tax savings of the technique could be substantial.

Please see the table below and see Schedule 14.

Table 11

	Assuming the Survivor of Sam and Sally Dies at the End of:		
	15 Years	25 Years	30 Years
Hypothetical Estate Taxes at 40%*			
No Further Planning; Bequeaths Estate to Family (assumes \$21.84mm estate tax exemption available)	\$32,654,341	\$48,145,770	\$66,304,487
Sales of Sub-Chapter S Non-Voting Stock to a Qualified Sub-Chapter S Trust (QSST) that is Created by a Third Party for the Benefit of the Seller and Seller's Family; Bequeaths Estate to Family (assumes \$21.84mm estate tax exemption available)	\$4,225,701	\$3,438,144	\$3,483,707

- k. Because of the safe harbor provided by Revenue Ruling 81-15, IRC Sec. 2036(a)(2) may not be a concern for transfer planning with Subchapter S stock.

See the discussion in Section III A 2 f of this paper.

3. Considerations of the Technique.

- a. There may need to be substantive equity in the trust from prior gifts (is 10% equity enough?) before the sale is made.

See the discussion in Section III A 3 a of this paper.

- b. The federal income tax considerations with utilizing a Subchapter S corporation.

However as noted below, many of the income tax considerations may be either mitigated, eliminated, or do not really exist in comparison to certain of the techniques.

A Subchapter S corporation is generally more advantageous from an income tax standpoint than a Subchapter C corporation, because there are not any corporate taxes to be paid for a corporation that qualifies. A Subchapter S corporation can own passively managed assets, if the corporation has never been a C corporation.

One of the considerations of a Subchapter S corporation is that only certain shareholders may qualify. Shareholders must be United States citizens. To the extent the Subchapter S stock is owned by a trust, the trust needs to be a grantor trust, a QSST or an electing small business trust (ESBT). Of these, the only trusts to which sales of Subchapter S stock may be without realization of gain are grantor trusts (sale by the grantor) and QSST trusts (sale by the trust beneficiary).

Another consideration of a Subchapter S corporation is that there is not a step-up on the underlying assets of the Subchapter S corporation on the death of the shareholder who owns stock that is subject to estate taxes. FLPs and limited liability companies, pursuant to certain elections that can be made under IRC Sec. 754, have the ability to have certain of the partnership assets receive an internal basis step-up on the death of a partner or member who owns the partnership interest or member interest (assuming the assets have appreciated). This may not be a significant consideration, if the planning goal is to have the stock out of the client's estate by the time of the client's death. Obviously, there would also not be a basis change under that goal and those facts, even if a partnership was used in the transfer planning – a taxpayer cannot receive a basis step-up on the underlying assets of the partnership assets, if the taxpayer does not own a partnership interest at the taxpayer's death.

Nevertheless, to the extent Subchapter S stock has not been transferred, and is included in a decedent's estate, the step-up in basis of a decedent's ownership of the Subchapter S stock will not be proportionately allocated to the Subchapter S corporation's low basis assets as would be the case if the decedent owned a partnership interest and an IRC Sec. 754 election were made. However, in some cases, this disadvantage may only be one of timing. For instance, assume in the same year, after the death of the owner of the Subchapter S stock, the Subchapter S corporation sells some of its low basis assets for cash. The corporation may use that cash to redeem the Subchapter S stock. The estate will be allocated its share of the gain on that Subchapter S corporation sale, which will further increase the estate's basis in its Subchapter S shares. That redemption will generate a capital loss (since the estate's basis is equal to its fair market value at death plus its share of the gain generated by Subchapter S corporation sales of the low basis assets), which will be offset by the estate's share of Subchapter S gain on the sale of the low basis assets.

If future generations wish to terminate a Subchapter S corporation, there may be immediate capital gains consequences in comparison to the assets being held in a partnership or LLC. If the assets owned by the Subchapter S corporation are sold immediately after, or before, the termination, that capital gains comparative disadvantage to a partnership organization may be mitigated. That inside basis disadvantage may also be mitigated by the use of drop down partnerships and leverage strategies, which are discussed in Sections IX and V of this paper.

- c. Federal income tax considerations with respect to the interest on the seller/beneficiary's note.

The income from the Subchapter S stock that is owned by the QSST trust will be taxed to the beneficiary, which is generally an advantageous result for federal transfer tax purposes. If the logic of Rev. Rul. 85-13 applies, the creation of the note should not be recognized for income tax purposes, the transferor should not be taxable on the interest on the note and the potential interest deduction should not be recognized at the QSST trust level.

If the note is recognized for income tax purposes, the interest on the note should be deductible to the beneficiary of the trust (i.e., the transferor) under the separate share rules of IRC Sec. 663, or because of the fact that interest, at least to the extent paid from distributions from the S corporation, is being paid from the grantor portion of the QSST. Thus, if the note is recognized, both the interest income and the interest expense (which should constitute a "wash") should be reported on the transferor's income tax return.

In the situation in which a QSST purchases S corporation stock from a third party (not the beneficiary) in exchange for a note the Office of the Chief Counsel has recently ruled that the interest expense associated with the debt incurred by the QSST to acquire the S corporation stock is allocated to the grantor trust portion of the QSST thereby allowing the beneficiary to report the interest expense as a deduction on his personal income tax return.¹¹³

The Chief Counsel provided in its analysis the following:

...Section 1.1361-1(j)(8) reiterates that the grantor is deemed to own the portion of the QSST consisting of the S corporation stock, but creates an exception when the QSST is determining and attributing the federal income tax consequences of a disposition of the S corporation stock. However, even within this exception there is an exception that again emphasizes the beneficiary's ownership interest. When the QSST disposes of the S corporation stock, the beneficiary is treated as personally disposing of the S corporation stock for purposes of applying §§ 465 and 469 to the beneficiary.

Applying the rules in § 1361(d), the S corporation stock is treated as though it is held in a grantor trust (the S portion). We should, therefore, look to the rules of subchapter J to determine which portion of the QSST receives the interest expense allocation. Under § 671 and the regulations thereunder, all items of income and deduction directly related to the grantor trust are attributed to the grantor. ...

¹¹³ CCA 201327009 (May 1, 2013).

The regulations under § 652(b) provide guidance for determining what deductions are allocable to different classes of income held by a trust. Section 1.652(b)-3(a) provides that all deductible items that are directly attributable to one class of income are allocated to that class. ...

The rules under § 163 provide guidance to determine to which class of income the interest expense incurred by the trust is allocated. The interest tracing rules (§ 1.163-8T) provide guidance in allocating interest expense for purposes of applying §§ 469 and 163(d) and (h). Section 163(d) limits the deduction for investment interest and § 163(h) allows a deduction for all but personal interest. The interest tracing rules provide that interest on a debt is allocated in the same manner as the debt to which the interest expense relates is allocated.

...

Therefore, § 1.671-3(a)(2) would seem to require, based on § 1.652(b)-3, that the interest expense deduction should be attributable to the S portion of the QSST and, thus, deductible by the beneficiary.

- d. Any assets of the trust that are not Subchapter S stock will be taxed trust under normal Subchapter J rules.

As noted above, under Treas. Reg. Sec. 1.1361-1(j)(8), if there is a sale by the trustee of the QSST of any Subchapter S stock owned by the QSST, the QSST will be taxed on that sale under normal Subchapter J principles. The basis of the Subchapter S stock, that is to be sold, could be low because the only basis adjustment, after the sale of Subchapter S stock, will be the income of the corporation accumulated after the sale. It may be very important to eliminate any note outstanding to the Sec. 678 owner of the QSST, before the QSST sells its Subchapter S stock to a third party, in order to circumvent any income tax complications associated with the outstanding debt.

- e. State income tax considerations.

Certain states may have different tax rules with respect to Subchapter S corporations and the taxation of QSST trusts. Thus, the possibility exists that under certain state laws, a sale to a QSST trust may be subject to state capital gains taxes and the beneficiary of the trust will not be taxed on the trust income.

- f. The Step Transaction Doctrine needs to be considered.
- g. The transferor is the only beneficiary of the trust.
- h. Like all leverage techniques, if the underlying assets stay flat or decline there is not any advantage to the technique and to the extent a gift tax exemption is used, the technique operates at a disadvantage.

i. Additional estate tax considerations.

It is important that any sale by a beneficiary of a trust be for “fair and adequate consideration” and also be considered a “bona fide sale”. If the sale is not for “adequate and full consideration,” or if the sale is not considered to be a “bona fide sale,” the value of the assets of the trust at the time of the beneficiary’s death will be brought back into the beneficiary’s estate under IRC Secs. 2036 and/or 2038 because the seller obviously has a retained interest in the trust (unlike a conventional sale to a grantor trust in which the seller does not have a retained interest in the trust). (In determining the estate tax under IRC Secs. 2036 and 2038, there will be a consideration offset allowed under IRC Sec. 2043 for the value of the note at the time of the sale.) The beneficiary—seller should consider a defined value assignment and the filing of a gift tax return which discloses the sale. The gift tax return should get the statute of limitations on the “adequate and full consideration” issue running. However, it is not clear that the gift tax return filing starts the statute of limitations running on an estate tax legal issue of whether the sale is a “bona fide sale.” There may be too much leverage, or some other reason may exist that may lead a court to conclude at the time of the death of the beneficiary that the sale was not “bona fide.” As a consequence, it is important that every step be taken to demonstrate that the sale has normal commercial terms and adequate security.

If the transferor wishes to have the flexibility to transfer trust assets to another family member, this technique will not allow the beneficiary to accomplish that purpose during the transferor’s lifetime. However, the transferor could use other techniques to benefit the transferor’s family. Secondly, to the extent the Subchapter S corporation retains its corporate income and does not distribute it, that benefits the remainderman beneficiaries.

D. The Synergistic Use of an Investment in a Subchapter S Corporation, a QSST Election With an Otherwise Non-Grantor Trust (Such as a Credit Shelter Trust), and a Sale to the QSST by the Beneficiary of the QSST.

1. The Technique.

A deceased spouse bequeaths her entire estate under a formula marital deduction plan. An amount equal to her remaining unified credit, assumed to be \$5,340,000, passes to a credit shelter trust that pays all of its income to her husband. The remainder of her estate passes to her husband.

Consider the following example, in which by investing in a Subchapter S corporation, making a QSST election with the credit shelter trust, and the beneficiary of the QSST selling non-voting stock in a Subchapter S corporation, a leveraged sale to a credit shelter trust that is a grantor trust to the surviving spouse is simulated.

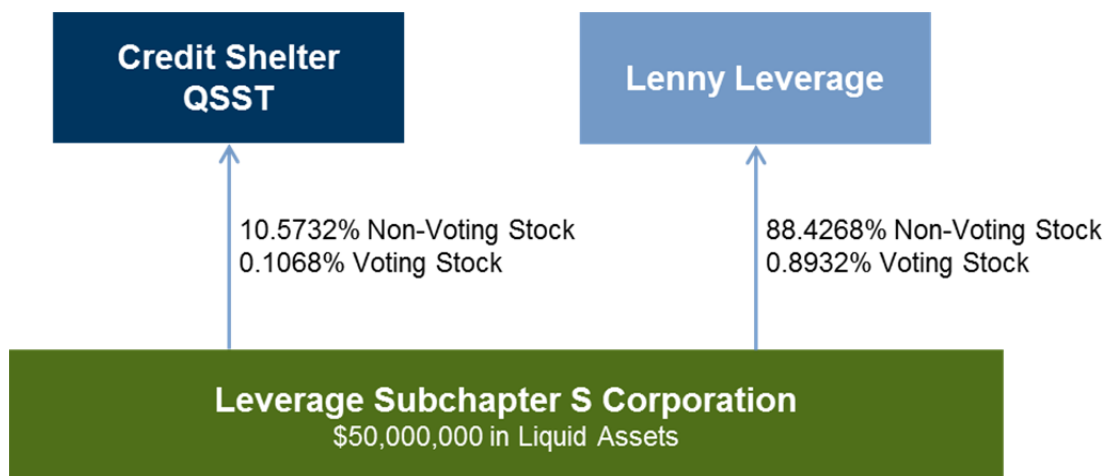
Example 15: Lenny Leverage Sells His Assets to a Credit Shelter Trust and His Note From the Sale is Paid Back With Pre-income Tax Dollars

Lucy Leverage dies with a substantial \$45,000,000 estate that is largely liquid. Her husband Lenny Leverage, has \$5,000,000 in liquid assets. Lucy’s will bequeaths \$5,340,000 to a GST credit shelter trust and the rest of her estate to Lenny. Lenny is the trustee of the credit shelter trust that distributes all of its income to Lenny and has a special power of appointment.

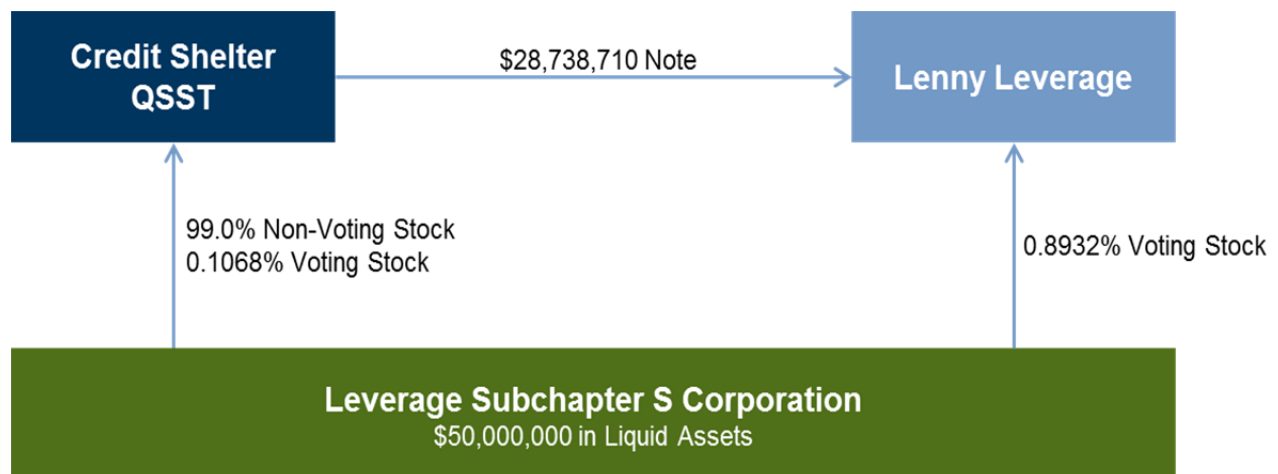
Lenny asks his attorney, Susie Cue, if she has any ideas on how to eliminate the future estate tax after his death. Lenny tells Susie to assume he will live 10 years. Lenny also tells Susie that the liquid assets will annually earn a 7.4% pre-tax return during that 10-year period with 0.6% of the return being taxed at ordinary rates, 2.4% of the return being tax-free and 4.4% of the

return being taxed at long-term capital gains rates with a 30% turnover. Lenny tells Susie that he will need around \$600,000 a year for his consumption needs.

Susie Cue does have a plan. Susie suggests that the credit shelter trust and Lenny contribute their collective assets to a Subchapter S corporation. Lenny Leverage, as the beneficiary of the credit shelter trust, will need to make the necessary QSST election. The stock of the Subchapter S corporation will be proportionately issued with each shareholder receiving 1% voting stock and 99% non-voting stock as illustrated below.



Lenny could sell for a note that pays an AFR rate, his non-voting stock to the credit shelter trust that is also a QSST. Assuming a 35% valuation discount, those transactions are illustrated below:



2. Advantages of the Technique.

- a. A significantly greater amount will pass to the remainder beneficiaries of the credit shelter trust under this technique, in comparison to no further planning, as Schedule 15 and the table below demonstrate:

Table 12

	Leverage Children and Grandchildren (1)	Consumption Direct Cost (2)	Consumption Investment Opportunity Cost (3)	IRS Income Tax (4)	IRS Income tax Investment Opportunity Costs (5)	IRS Estate Tax (at 40%) (6)	Total (7)
10-Year Future Values							
No Further Planning other than funding a \$5,340,000 credit shelter trust: Lenny bequeaths estate to family (assumes \$6.7mm estate tax exemption available at death)	\$56,160,243	\$6,722,029	\$2,606,804	\$6,416,457	\$2,225,962	\$27,965,466	\$102,096,962
Simulated \$44,549,008 Credit Shelter Trust: Lenny Leverage's deceased spouse created a credit shelter trust for Lenny and family and bequeaths the rest of her estate to Lenny	\$76,846,392	\$6,722,029	\$2,606,804	\$8,210,690	\$2,225,962	\$5,485,084	\$102,096,962
Hypothetical Technique: Lenny bequeaths estate to family (assumes \$6.7mm estate tax exemption available at death)	\$76,846,392	\$6,722,029	\$2,606,804	\$8,734,934	\$2,225,962	\$4,960,840	\$102,096,962

As the above table demonstrates, under the assumed facts of this example, the technique simulates the same results a \$45,000,000 credit shelter trust would have produced, which is almost nine times the size of the credit shelter trust that could be created. Once again, the synergistic power of using discounted sales to grantor trusts is illustrated.

- b. This technique has the same advantages as the third party created QSST discussed in Section VIII C 2 of this paper.
- c. This technique does not have to be entered into until after the death of the first spouse to die.

This technique is obviously an optional technique that does not have to be implemented until after the death of the first spouse to die. At that time, the advantages and considerations of the technique could be carefully considered.

- d. A full step-up on the appreciated assets that accrued from the first spouse to die's estate will be achieved.

3. Considerations of the Technique.

- a. This technique has the same considerations as the third party created QSST in Section VIII C 3 of this paper.
- b. A trust must meet the requirements of a QSST, which may mean converting an existing trust's provisions.

Many trusts are drafted to provide for that QSST conversion, if there is an investment in a Subchapter S corporation. Other trust documents provide that an independent trustee has the power to amend the trust. Under state law, a court may have the power to modify a trust if it is in the best interests of the beneficiary.

- c. Income distributed by the Subchapter S must be distributed to the beneficiary of the QSST and cannot be accumulated.

However, at the Subchapter S corporation level the income earned by the Subchapter S corporation could be re-invested into new investments. Thus, indirectly, the QSST may perform in a manner similar to a trust that has the power to accumulate income. See the discussion in Section VIII C 3 h of this paper.

- d. If the current beneficiary of the QSST has multiple children, and if the Subchapter S corporation is not conducting a trade or business, the Subchapter S corporation cannot be easily divided if the children wish to go their separate ways after the death of the current beneficiary.

This consideration could be mitigated if the beneficiary and the QSST created multiple Subchapter S corporations. After Lenny's death, each child could receive a separate corporation.

IX. USING PARTNERSHIP STRUCTURES TO ACHIEVE DIVERSIFICATION WHILE DELAYING THE TAX ON THAT DIVERSIFICATION.

A. Use of Multi-Owner Exchange Funds.

1. The Technique.

The exchange fund is a technique for a taxpayer to consider if he has accumulated highly appreciated stock positions and desires both tax deferral and economic diversification. The strategy needs to be carefully implemented in order to prevent participants from recognizing capital gains due to their participation in the fund.

The exchange fund concept can be applied in many ways through the use of a partnership, but for purposes of the analysis under this Section IX, the exchange fund is bifurcated into two categories, the "multi-owner," or exchange fund (see the discussion in this Section IX A below), and the "closely-held family structure" techniques (see the discussion under Sections IX B and IX C below).

At its very essence, the exchange fund concept entails the contribution of multiple appreciated marketable security positions from multiple owners in a single partnership in combination with certain non-marketable assets. If certain conditions are met pursuant to IRC

Secs. 721, 351, 704(c), 737, 707, 731(c), and 732,¹¹⁴ then the contribution of the appreciated position by the original owner and the ultimate receipt of non-cash, marketable assets upon liquidation, will not cause a capital gain recognition event to the owner.

Example 16: The Use of Multi-Owner Exchange Funds

Four individuals, who are not related, and an investment bank contribute certain assets to a partnership. The partnership is designed to last for 20 years. None of the partners withdraw prior to seven years after the creation of the partnership. Each partner contributes the following assets: Stacy Seattle, who owns a single member, LLC, contributes \$1 million of Microsoft stock owned by her LLC, with a cost basis of \$0; Connie Conglomerate contributes \$1 million of General Electric stock, with a cost basis of \$0; Wally Walter contributes \$1 million of Wal-Mart stock, with a cost basis of \$0; Manny Megadrug contributes \$1 million of Merck, with a cost basis of \$0; and Special, Inc. investment bank contributes \$1.1 million of preferred partnership units in an UPREIT structure, with a cost basis of \$1.1 million. The initial sharing ratios are as follows: the estate tax protected trust created by Stacy Seattle equals 19.6078%; Connie Conglomerate equals 19.6078%; Wally Walter equals 19.6078%; Manny Megadrug equals 19.6078%; and Special, Inc. equals 21.5686%. After the partnership is formed Stacy Seattle gives a non-managing member interest in his LLC to a grantor trust.

Seven years and a day later, all of the partners decide to withdraw from the partnership and receive a diversified portfolio appropriate for their sharing ratios. The partners believe at the time of their withdrawal that no capital gains consequences will accrue under current law.

2. Advantages of the Technique.

- a. If a client contributes stock to an exchange fund and then immediately gives a direct or indirect interest in the fund to a grantor trust there may be significant valuation discounts associated with that gift.

There may be significant marketability and lack of control discounts associated with a exchange fund investment because of its illiquidity. Many of the funds are designed where it is difficult to withdraw earlier than one year after it is formed and, of course, the desired diversification may not occur until after a seven-year commitment. After seven years the investment will be liquid, but the lack of control and marketability for a seven-year period may have a significant effect on its value.

Certain of the exchange funds are very conducive to estate planning because the investor can receive preferred units (usually for 95% of the consideration) and common units (usually for 5% of the consideration). The common units can be given away, generally, without fear of IRC Sec. 2701, because no one family is in control of the partnership.

¹¹⁴ For discussion of those IRC Sections, please see Section II A 1 b of this paper.

- b. The owner of the exchange fund will achieve diversification of his portfolio that has much less volatility, and achieve a seven-year or longer delay in paying a capital gains tax for that diversification.

Many investment firms market the exchange fund partnership to multiple clients and collect many securities upon formation. In effect, the exchange fund simulates a mutual fund concept that can provide an equity investment alternative to its participants.

Once the partnership terminates, the owner of the exchange fund could sell those securities he or she does not wish to own and keep the rest. The cash proceeds of the stock that is sold could be reinvested in the securities the taxpayer does wish to own. If the owner is a grantor trust, the grantor of the trust will pay the tax on those sales. See the discussion in Section III A of this paper. Thus, diversification occurs immediately for the stock contributed to the exchange fund. There is a seven-year delay in tax on the resulting portfolio on termination of the partnership for the stock that is to be sold, with a longer delay in tax on those securities that are not sold. Using the borrowing techniques discussed in Section V of this paper, there may be tax elimination on the securities that are not sold at the end of seven years. There may also be capital gains tax elimination on any securities that are subject to estate taxes in the taxpayer's estate.

3. Considerations of the Technique.

- a. Care needs to be taken to make sure there is not a deemed sale on the formation of the partnership under IRC Sec. 721.

See the discussion of IRC Sec. 721 in Section II A 1 b (1) of this paper.

As the above discussion indicates, the ultimate test under IRC Sec. 721 in this context is one of both diversification and 80% marketability. Under the facts of Example 16, the four individual participants have diversified their holdings through the formation of the partnership. However, the formation of the partnership should not constitute a taxable event to the participants because less than 80% of the assets of the partnership are marketable due to the non-marketable preferred partnership interests in the UPREIT structure.

- b. Care should be taken to make sure IRC Secs. 704(c), 737 and 707 do not apply.

See the discussion in Section II A 1 b (2) of this paper about the disguised sales rules under subchapter K.

Under the facts of this example, the facts and circumstances test of the two-year rule of a partner receiving money on other consideration should not be applicable. See IRC Sec. 1.707.3(b)(2).

In this example, assuming the four individuals and the corporation remain in the partnership for seven years without selling any of the appreciated marketable securities, then any transactions involving the distribution of the securities to the partners should not result in a taxable gain pursuant to IRC Sec. 704(c).

- c. Care should be taken to make sure the liquidation of the partnership in seven years will not be subject to tax under IRC Secs. 731(c) and 732.

See the discussion in Section II A 1 b (3) of this paper.

Upon the liquidation of a partner's interest, to the extent that partner receives money above the partner's basis in the partnership, the partner will be taxed. Thus, the issue of "money" is pertinent to the extent it is distributed to a partner in excess of his basis. However, if securities are distributed in lieu of cash, then perhaps such a gain can be avoided. Presumably, an exchange fund partnership such as Example 16 would meet the definition of investment partnership pursuant to IRC Sec. 731(c), which is a different definition from the 80% test imposed by IRC Sec. 721, and as such, the distribution of securities should not create a taxable event.

- d. Each partner's basis in the assets that each partner receives will equal that partner's total outside basis of the liquidated partnership interest.

See the discussion in Section II A 1 b (4) of this paper.

Under Example 16, if the exchange fund partnership operates for seven years without the sale or disposition of the contributed appreciated securities, then upon liquidation, each partner could receive an approximate 20% interest in all of the underlying partnership assets without the imposition of a capital gains tax. Only when an individual partner sells his distributed assets will that partner recognize capital gains. Under the facts of Example 16, the partnership has provided each partner with the potential of asset diversification and tax deferral.

- e. There are economic considerations in using exchange funds.

The limitations of the exchange fund are the lack of liquidity, the financial management fees, the desire of the fund manager to accept certain securities than an investor would otherwise not invest in, and the performance of the other securities accepted into the fund over the seven-year period.

B. Use of Closely Held Family Partnerships.

1. The Technique.

The concepts outlined above that address the formation and management of a multi-owner exchange fund can certainly exist within the framework of a privately-managed partnership with a limited number of partners, perhaps all within the same family. There are no prohibitions among related-party transactions that would impact any of the previously mentioned statutes and regulations. However, in a closely-held partnership, attention should be given to the treasury regulations under IRC Sec. 701 (the so-called "anti-abuse" rules). See the discussion in Section II A 1 b (5) of this paper.

A variety of techniques have been developed over the years using privately-managed partnerships, contributions by partners, withdrawals by partners, loans to partnerships and/or loans to partners to substantially delay the taxation of the monetization that has occurred. In some cases, from the IRS point of view, these techniques constitute disguised sales. The techniques are generally referred to in this paper as "closely-held family" partnership techniques. The IRS, in a series of cases, attacked these techniques using certain common law tax doctrines. The IRS in a period from 1978 to 1983 had several significant losses attacking mixing bowl transactions.¹¹⁵

¹¹⁵ See *Otey v. Commr.*, 70 T.C. 312 (1978), aff'd per curiam 634 F.2d 1046 (6th Cir. 1980); *Communication Satellite Corp. v. U.S.*, 625 F.2d 997 (Ct. Cl. 1980); *Park Realty Co. v. Commr.*, 77 T.C. 412 (1981), acq. 1982-2 C.B. 2; and *Jupiter Corp. v. U.S.*, 2 Cls Ct 58 (1983).

This led to the Tax Reform Act of 1984 in which many of the mechanical rules of subchapter K, which are noted in the prior discussion in Section II A 1 b of this paper. While Congress has now provided mechanical rules, the business purpose of the transaction still needs to be addressed in the context of the common law tax doctrines and the Anti-Abuse Rules of the Treasury regulations under IRC Sec. 701. A sample closely-held family structure technique, which is one of many, is discussed in Example 17 below. In this example the estate tax savings associated with using a family partnership are preserved, while potentially doubling the basis of the family assets.

*Example 17: Diversification Planning With a Closely Held Family Partnership
While Preserving the Transfer Tax Advantage of a Closely Held Family Partnership*

In 2005, Sam Singlestock contributed \$850,000 worth of marketable stock (Marketable Stock, Inc.), with a cost basis of \$0 to Growing Interests, Ltd. for an 85% limited partnership interest. His daughter, Betsy Bosssdaughter, contributed \$75,000 worth of Marketable Stock, Inc., with a cost basis of \$0 and his son, Sonny Singlestock, contributed \$75,000 worth of Marketable Stock, Inc., with a cost basis of \$0 to the partnership and each received a .5% general partnership interest and a 7% limited partnership interest. The initial sharing ratios of the partners are Sam 85%, Betsy 7.5%, and Sonny 7.5%. In 2011, using a financial engineering technique, the Marketable Stock, Inc. stock owned by the partnership is hedged, and the partnership is able to obtain \$595,000 in cash, in the form of a cash loan from Investment Bank, Inc. Betsy and Sonny also agree to personally guarantee the note. The partnership invests the loan proceeds in a nonmarketable \$595,000 real estate investment.

A few years later (2013), for family reasons and because the partners have significantly different views about the future investment philosophy of the partnership, Sam Singlestock wishes to withdraw from the partnership. There has been no growth in the partnership assets. A professional, independent appraiser determines that because of marketability and minority control discounts, Sam's limited partnership interest is worth \$595,000. The partnership distributes the real estate investment worth (\$595,000) in liquidation of his limited partnership interest. The partnership makes an IRC Sec. 754 election.

One year later (2014) the partnership sells enough of Marketable Stock to liquidate the loan with the proceeds of the \$595,000 sale. After the 754 election the partnership's basis in the \$1,000,000 Marketable Stock, Inc. is equal to \$595,000. Thus, if all of the \$1,000,000 in marketable stock is then sold to retire the \$595,000 debt and diversify into other investments there will be \$101,250 in capital gains taxes (assuming a 25% rate). After the sale, the partnership and the remaining owners of the partnership, Betsy and Sonny, are left with \$303,750.

2. Advantages of the Technique.

In addition to the discussion below, please see the discussion under Section IX A of this paper.

- a. The income tax benefit of the withdrawal: the illustrated “family structure” opportunity can provide the family an ability to manage the position through an appropriate controlled legal entity, while offering the potential for a long-term exit strategy that can be accomplished on a deferred tax basis.

The real estate investment will retain its zero basis without the imposition of a capital gains tax until it is sold, at which time Sam will recognize capital gains taxes. If Sam chooses to operate the real estate until his death, then IRC Sec. 1014 would apply upon his death and the real estate will receive a step-up in basis to its then fair market value. Betsy and Sonny, if the partnership makes an IRC Sec. 754 election, will receive a basis adjustment because of IRC Sec. 734(b) in the retained Marketable Stock that should allow the partnership to retire its debt with modest tax net consequences.

- b. In comparison to the exchange fund, the illustrated mixing bowl technique provides the retention of upside in the original appreciated position, albeit without diversification until the stock is sold, and without the lack of control and the outside management fees associated with exchange funds.
- c. Transfer tax benefit of a withdrawal from a long-term partnership structure.

The valuation discount associated with the liquidation of Sam’s limited partnership interest, if it is accurate, will not result in a gift tax, even though the fair market value of the remaining partnership interests owned by Betsy and Sonny will increase in value. This is because the withdrawing partner, Sam Singlestock, under the assumptions, received full and adequate consideration.

- d. The total potential transfer tax and capital gains tax savings may be significant.

The net result of these transactions is that Betsy and Sonny’s collective net worth (assuming a 25% capital gains rate) after capital gains taxes and/or contingent capital gains taxes will increase by 170%, as calculated below:

$((\$1,000,000 - \$595,000 - \$101,250) - (\$150,000 - \$37,500))$, or $(\$303,750 - \$112,500)$, or $\$191,250$, or a 170% improvement $(\$191,250 \div \$112,500)$ after taxes.

3. Considerations of the Technique.

a. Are there any tax consequences on formation of the partnership?

Formation of the partnership should not be a taxable event under IRC Secs. 721 or 351, because there is not any diversification. Each partner is still exposed to the same original Marketable Stock, Inc. position. There should not be any gift tax consequences on the formation of the partnership.¹¹⁶

b. Are there any tax consequences when Sam redeems his interest?

After formation, in order to properly diversify into another asset, while still allowing the family members to participate in the upside potential of the marketable stock, the partnership could hedge its position in Marketable Stock, Inc. The hedging strategies could either be structured as a single long-dated contract or multiple contracts over time that do not cause the original security to be sold for income tax purposes. The hedging could be accomplished through a collar with a margin loan, or a pre-paid variable share forward structure. The partnership could invest the cash in a nonmarketable asset (e.g., privately held real estate or oil and gas investments).

Assuming the partnership is seven years old, or older, the partnership can enter into the transactions of this example without directly violating IRC Secs. 704(c), 737 and 731(c). Under the facts of this example, due to family investment reasons, the partnership decides to redeem Sam. In order to redeem that member, the partnership first determines the value of Sam's interest in the partnership. If Sam's interest is valued at \$595,000 (assuming a 30% valuation discount), the partnership could either redeem Sam's interest for cash, or the \$595,000 non-marketable real estate investment. If the partnership redeems Sam's interest for cash, Sam will be subject to capital gain recognition under IRC Sec. 731(a). If Sam's interest is redeemed with the non-marketable real estate, applying the rules of IRC Secs. 732 and 752, Sam would have a "0" basis in the non-marketable real estate, Sam would pay no immediate capital gains tax and the partnership, because of the application of IRC Sec. 734(b), would have a \$595,000 basis in its remaining assets (the hedged Marketable Stock, Inc. stock).

The partnership portfolio is still subject to the \$595,000 note payable that must be repaid at some time in the future. The partnership could make a Section 754 election after the redemption of Sam's interest, and because of IRC Sec. 734(b) the remaining marketable stock would receive a proportionate basis adjustment. The partnership could sell enough Marketable Stock to eliminate the debt. The sale of the Marketable Stock by the partnership may result in a much smaller taxable gain than if the redemption and the Section 754 election had not occurred.

¹¹⁶ Please see the discussion in the *Strangi* decision in Section III A 2 f (1) (b) of this paper. Practically, the only tax issue every judge of the full Tax Court agreed upon in the *Strangi* decision is there is not a gift on formation of a pro rata partnership, even if every partner's interest is worth less after formation.

- c. There is exposure that Congress could change the law, by the time a partner withdraws (e.g., IRC Secs. 732 or 752 of the Code could be amended) and that the favorable liquidation rules would no longer be available. There is also exposure in that the IRS could change its regulations.

For instance, the IRS has recently proposed changes to its regulations under IRC Sec 752 to address perceived abuses associated with the so-called popular “leveraged partnership” technique. Under this technique, one partner contributes a business and receives a small interest in the partnership and the proceeds from a borrowing incurred by the partnership shortly after its formation. Generally in a transaction where a partner contributes property and receives shortly thereafter cash from the partnership, the receipt of the cash will be treated as a disguised sale under IRC Sec. 707. There is an exception, if the partnership borrows funds from a third party and that borrowing is fully allocable to the “business contributing” partner in a properly structured transaction. With a properly structured transaction, the gain from the simulated sale is deferred until the earlier of the partnership terminating or the loan being repaid. The key to the success of the leveraged partnership technique is for the entire partnership liability to be properly allocable to the “business contributing” partner who receives the proceeds of the third party loan to the partnership.

The proposed regulations will change how certain of the leveraged partnerships have been structured in the past. (See proposed Treas. Reg. Sections 1.752-2(b) and 1.752-2(f)). For instance, under the proposed regulation changes, if a limited partner guarantees a recourse liability the guarantor’s share of the recourse liability will be zero, if the general partner has net value sufficient to satisfy the obligation. Another change is that certain guarantees will not work, if they are so-called “better dollar guarantees.” Another example of a proposed change occurs if a partner agrees to indemnify the first losses that the “business contributing” partner may have as guarantor on a partnership debt. Under those circumstances the guarantee will not work.

- d. Like all leverage techniques, if the underlying assets stay flat or decline there is not any advantage to the technique and to the extent a gift tax exemption is used, the technique operates at a disadvantage.

C. The Use of a Retained Preferred Partnership Interest and Third Party Leverage to Generate Effective Estate Planning and Basis Planning.

1. The Technique.

A technique for a taxpayer who owns assets that are highly appreciated (e.g., depreciated real estate), wishes to engage in estate planning, and would like to preserve the possibility of a step-up in basis at death, is to consider creating a single member limited liability company with preferred and growth member interests. The preferred interest coupon could be cumulative and could be paid in cash or in kind. The taxpayer could contribute the zero basis asset to the single member limited liability company in exchange for a preferred interest. The taxpayer could contribute cash that the taxpayer owns, or borrows, to the single member limited liability company in exchange for the “growth” interests. The taxpayer could then engage in advanced gifting techniques to remove the growth interests from her estate. Consider the following example.

*Example 18: Use of a Leveraged Estate Freeze to Obtain a
Basis Adjustment at Death and to Save Estate Taxes*

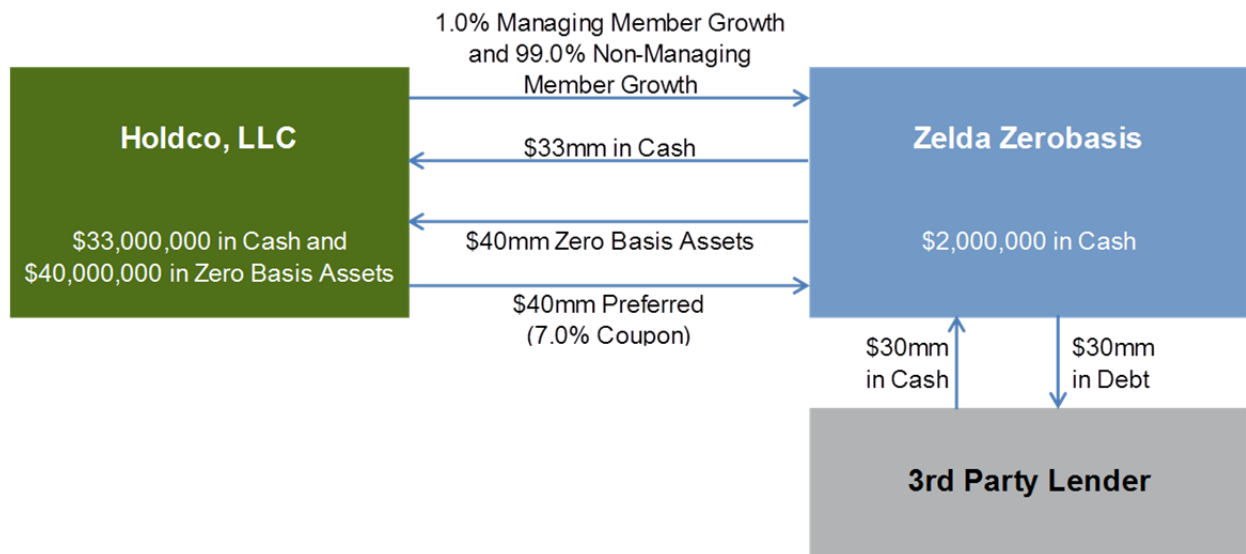
Zelda Zerobasis owns \$40,000,000 in zero basis assets and \$5,000,000 in cash or near cash assets that have full basis. She tells her advisor, Pam Planner, she wants a plan in which the following goals are met: (i) she does not wish to pay any gift taxes; (ii) she wishes her heirs to pay the lowest possible combination of estate taxes and capital gains taxes at her death; (iii) she wishes to maintain investment control of her assets; and (iv) she wishes to maintain her current lifestyle of \$500,000 a year before inflation.

Zelda asks Pam to assume that her zero basis assets will grow at 5% a year and generate 3% ordinary taxable income a year. Zelda asks Pam to assume she will live 20 years and that she will not sell the low basis assets during her lifetime. Zelda tells Pam that based on her assumptions that her zero basis assets will be worth over \$106,000,00 at her death, which will cause a terrible estate tax problem, or a capital gains tax problem if she uses gifting techniques to remove the low basis assets from her estate to escape estate taxes.

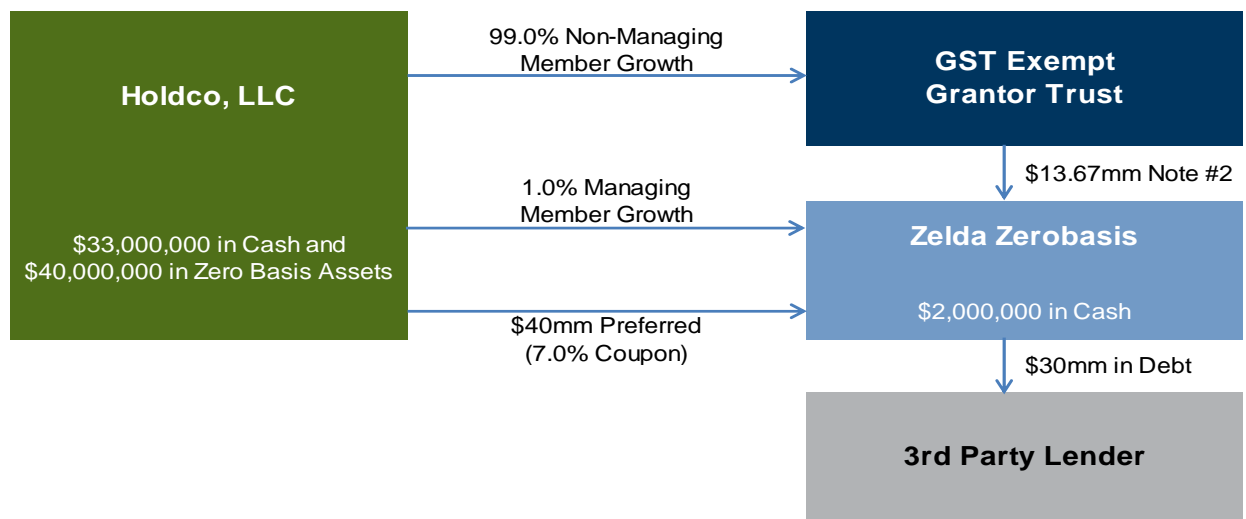
Zelda also asks Pam to assume her cash and near cash investments will have a 7.4% pre-tax rate of return with 0.6% of the return being taxed at ordinary rates, 2.4% of return being tax-free, and 4.4% of the return being taxed at long-term capital gains rates with a 30% turnover.

Pam suggests to Zelda that she create a single member limited liability company with three classes: (i) a “growth” managing member interest; (ii) a “growth” non-managing member interest; and (iii) a preferred non-managing member interest that would pay a coupon of 7% that is cumulative. It is assumed the 7% coupon will be based on the valuation principles of Revenue Ruling 83-120 and will produce a fair market value for the preferred equal to the “par” value of the preferred. The preferred interest will also have a right to \$40,000,000 upon liquidation in preference to the growth interests.

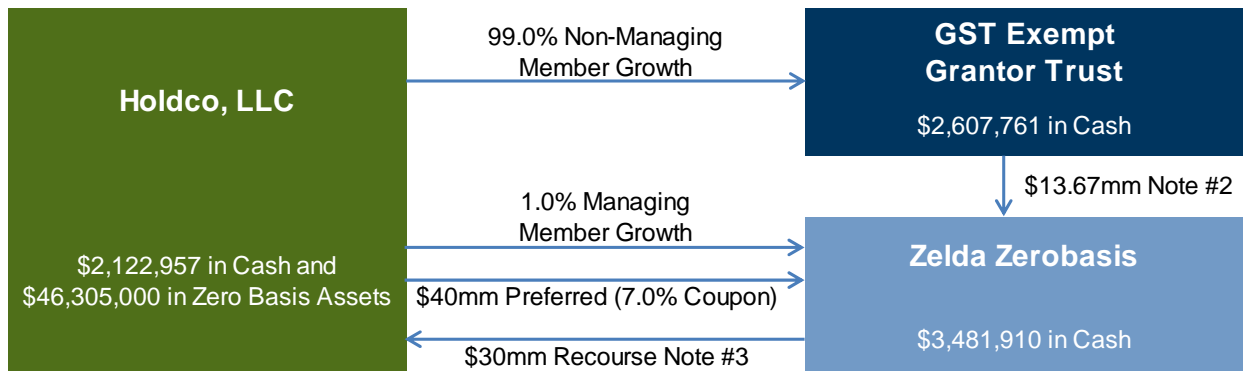
The single member LLC would terminate on the earlier of her death or 35 years. Pam suggests that Zelda could contribute her low basis assets for the preferred interest. Pam also suggests that Zelda borrow \$30,000,000 in cash from a third party lender on a recourse basis and contribute \$33,000,000 in cash to the single member LLC for the growth interests. The diagram below illustrates these transactions.



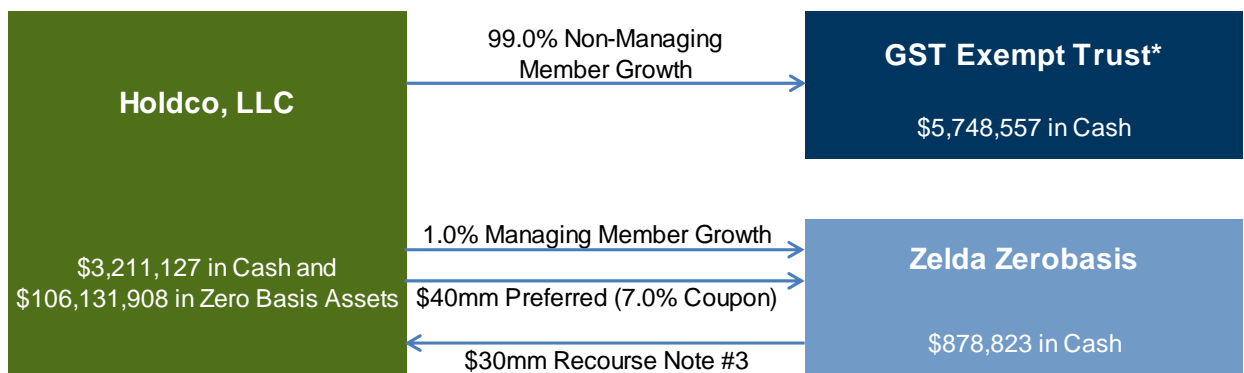
Pam suggests that Zelda could then gift (using her \$5,340,000 gift tax exemption) the non-managing member growth interests and sell the remaining non-managing member growth interests to a GST exempt grantor trust in separate independent transactions. Assuming a 40% valuation discount is appropriate because of the liquidation preference and income preference of the retained preferred interest, these transactions could be represented by the following diagram:



After three years Zelda may wish to borrow cash from Holdco, LLC on a long-term recourse, unsecured basis to pay her recourse loan from the third party lender. (See the discussion in Section V of this paper.) After the payment of the loan to the third party lender the structure will be as shown below:



The moment before Zelda's death in 20 years the structure under the above assumptions may be as follows (also see attached Schedule 16):



*Grantor Trust status removed in year 18.

At Zelda's death the single member LLC could terminate and her estate would pay the note owed to the single member LLC. Her estate would receive a step-up in basis for the preferred interest in Holdco. Holdco, LLC could sell the zero basis assets after an IRC Sec. 754 election is made. The balance in Zelda's estate and the GST exempt trust, after capitals gains taxes, but before estate taxes, would be as follows (see attached Schedule 16):



*Grantor Trust status removed in year 18.

2. Advantages of the Technique.

- a. The net after tax savings to Zelda are projected to be substantial. See the table below and attached Schedule 16.

Table 13

	Zerobasis Children (1)	Zerobasis Children & Grandchildren (2)	Consumption (3)	Consumption Investment Opportunity Cost (4)	Opportunity Cost/(Benefit) of Borrowing from 3rd Party Lender (5)	IRS Income Tax (6)	IRS Income Tax Investment Opportunity Costs (7)	Estate Taxes (8)	Total (9)
20-Year Future Values									
No Further Planning: Bequeaths Estate to Family	\$44,616,886	\$8,530,000	\$12,772,329	\$13,053,175	\$0	\$15,575,474	\$15,627,875	\$29,744,590	\$139,920,329
Hypothetical Technique: Bequeaths Remaining Estate to Family	\$3,135,638	\$82,597,794	\$12,772,329	\$13,053,175	(\$11,079,903)	\$22,247,774	\$15,103,098	\$2,090,425	\$139,920,329
Present Values (Discounted at 2.5%)									
No Further Planning: Bequeaths Estate to Family	\$27,228,389	\$5,205,611	\$7,794,581	\$7,965,974	\$0	\$9,505,259	\$9,537,238	\$18,152,259	\$85,389,311
Hypothetical Technique: Bequeaths Remaining Estate to Family	\$1,913,589	\$50,407,034	\$7,794,581	\$7,965,974	(\$6,761,743)	\$13,577,170	\$9,216,982	\$1,275,726	\$85,389,311

Unlike a traditional gift planning technique, that eliminates estate taxes by removing an asset from the taxpayer's estate, there will be a significant step-up in basis on the death of Zelda. Under this example there will be a step-up on the \$40,000,000 preferred interest, which before her death had a zero basis. Assuming an IRC Sec. 754 election is made that outside basis may be allocated to the assets owned by the partnership.

- b. This technique has the same advantages as a sale to a grantor trust.

See the discussion in Section III A 2 of this paper.

- c. This technique has the same advantages as using borrowing with a grantor trust to achieve basis adjustment in low basis assets.

See the discussion in Section V A 2 of this paper.

3. Considerations of the Technique.

- a. This technique has the same considerations as a sale to a grantor trust, except this technique may address step-up in basis planning in a more advantageous manner.

See the discussion in Section III A 3 of this paper.

- b. Care must be taken to comply with the gift tax valuation rules of IRC Sec. 2701.

Among other factors, the preferred interest must be structured (or treated by election and administered) as a "qualified payment right" for purposes of IRC Sec. 2701(c)(3) and Treas. Reg. §25.2701-2(b)(6). See the discussion in Section VII B 2 f of this paper.

- c. Third party financing, at least on a temporary basis, may be necessary.

The after-tax interest costs of third party financing may lower the amount accruing to the family. However, in this example, it was assumed the financial assets purchased would produce a higher rate of return than the interest rate cost.

- d. This technique has many of the same considerations as using borrowing with a grantor trust to achieve basis adjustment in low basis assets.

See the discussion in Section V A 3 of this paper.

X. SIGNIFICANTLY REDUCING BOTH THE INCOME AND ESTATE TAX CONSEQUENCES OF OWNING A SUCCESSFUL IRA WITHOUT MAKING A CHARITABLE GIFT.

A. The Techniques.

One of the most interesting income tax changes ever to occur in the income tax law occurred in the 1978 Tax Act.¹¹⁷ Not many changes in the income tax law benefit both the taxpayer and the Treasury, but this change clearly did. Most of the publicity in 1978 was about a reduction in the capital gains rates. The 1978 Tax Act also added a then comparatively little discussed provision to the Internal Revenue Code—IRC Sec. 401(k). There is now almost \$12 trillion dollars held in defined contribution plans under IRC Sec. 401(k) and IRAs. Many argue that that income tax change was not only an excellent change for the taxpayer who wishes to save, because the taxpayer would only be taxed once on salary income that the taxpayer contributes to such plans for his retirement needs, but also an excellent investment for the federal government. Over the next 25 years a significant portion of that \$12 trillion (and its future growth) will be subject to income taxes and estate taxes. The cost to the Treasury by allowing 401(k) plans and IRAs has been the cost of the interest on U.S. Treasury bonds that were necessary to sell because of the delayed income taxes on the income contributed to those plans. However, the potential revenue that may accrue to the Treasury, because the maturing of the 401(k) plans and IRAs, will more than compensate the Treasury for that interest cost, perhaps by many fold.

For a wealthy owner of a 401(k) plan or IRA, the marginal taxation of his balance could be staggering because of a combination of federal and state income taxes and federal and state estate taxes. In certain cases, the combined marginal rate could exceed 70%. Is there a technique that could reduce his total income and estate taxes associated with a substantial 401(k) plan or IRA without making a gift to charity? There may be. Consider the taxpayer who rolls his \$10,000,000 IRA to a Roth IRA and enters into a private derivative with a dynasty grantor trust, or borrows cash pursuant to a fair market loan from the dynasty grantor trust, in order to pay for the income taxes associated with the conversion.

¹¹⁷ Revenue Act of 1978, Pub.L. 95–600, 92 Stat. 2763, enacted November 6, 1978.

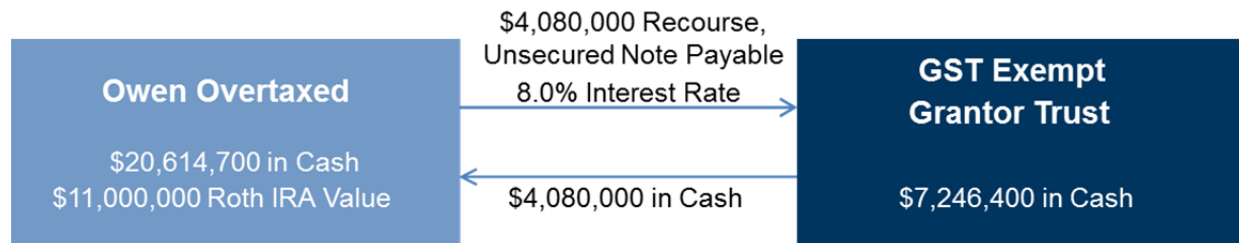
*Example 19: Owen Overtaxed Engages in a Plan to Eliminate the
Future Income Tax and Estate Taxes on the Growth of His \$10,000,000 IRA*

Owen Overtaxed, who has just turned 70-½, tells his tax advisor, Pam Planner, that he has \$10,000,000 in his IRA, \$20,000,000 in assets that he owns outside his IRA and \$10,000,000 in a dynasty grantor trust he created. Owen asks Pam to assume that he has a 13-year life expectancy and the IRA will grow at a rate that is correlated to the S&P 500 Index, which he asks her to assume will be 10% a year (pre-tax). Owen estimates that he will spend \$500,000 a year in addition to what he will need to pay his income taxes and the grantor trust's income taxes. Owen tells Pam that he does not need any distributions from the IRA for his retirement needs and that the balance of the IRA will pass to his descendants on his death. Owen asks Pam to assume that he and the grantor trust will earn 10% a year before taxes with 3% of the return being taxed at ordinary rates and 7% of the return being taxed at long-term capital gains rates with a 30% turnover.

Owen asks Pam if there are any strategies that do not involve charitable giving in which he can significantly reduce his projected income tax and estate tax that will be caused by the future growth of his IRA? Pam tells Owen that yes, there are such strategies. Pam tells Owen that she will run an analysis on three different strategies. All of these strategies involve converting the \$10,000,000 IRA to a Roth IRA with Owen paying the \$4,080,000 federal income tax caused by the conversion.

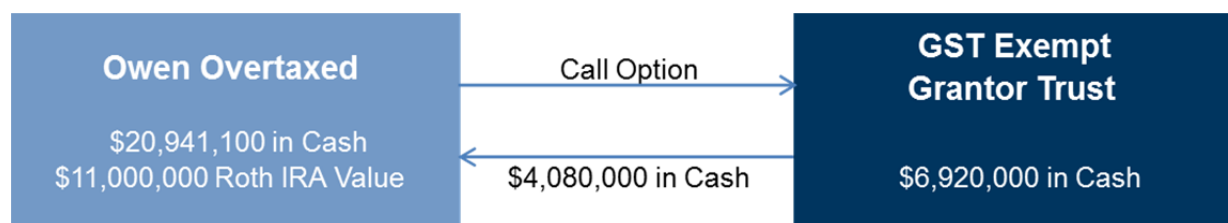
The first strategy is for Owen to pay for the income tax on the rollover to a Roth IRA out of his personal assets. Since the conversion is not going to benefit Owen and will only benefit his descendants, Pam's last two strategies involve the dynasty grantor trust entering into transactions that finance the income tax cost of the conversion. Pam reasons that because the Roth IRA conversion benefits Owen's descendants, the grantor trust should be willing to be either a lender of funds to Owen, or a counter-party to Owen in a derivative transaction.

The lending strategy involves Owen converting his IRA to a Roth IRA and paying the resulting tax by borrowing the amount that is necessary to pay his income taxes on the conversion from the grantor trust for a long-term recourse note that is unsecured and has a fair market value interest rate (assumed to be 8% a year). Pam assumes if this strategy is adopted, Owen's estate will pay the principal of the note on his death. The lending strategy, after one year, is show below (see attached Schedule 17).



The third strategy involves Owen rolling his IRA to a Roth IRA and paying for the resulting income tax by selling a private derivative that is a private call option to the grantor trust based on the 12-year performance of the S&P 500 Index. Assuming Owen converts his IRA to a Roth IRA there will be a \$4,080,000 federal income tax, if he is in the top marginal federal tax bracket. Owen could sell a call option to the dynasty grantor trust to finance the cash necessary to pay his income tax. Owen and the trust assume a 20% volatility rate, at that time, with a S&P 500

index fund. If the Dynasty Grantor Trust has the right to receive the fair market value of a \$10,000,000 S&P 500 index fund that is above \$9,813,434 in 12 years, the purchase price of the call option may be \$4,080,000.¹¹⁸ The third strategy, after one year, is illustrated below.



To determine if there is any potential advantage to Owen’s descendants with the conversion, Pam simplifies her analysis by assuming both the IRA and the converted Roth IRA will terminate at Owen’s death. That assumption greatly favors not converting the IRA to a Roth IRA, because a Roth IRA may be structured on an after-tax basis much more favorably after the death of the owner, if the Roth IRA is allowed to be extended. Another advantage of simplifying the analysis is that a future Congress may limit the ability to extend the payments from any IRA after the death of its owner, and this analysis assumes the worst case scenario becomes the law. Even with that simplification, which favors not converting, after taking into account the lost investment opportunity costs of paying the income tax on the conversion, the decreased income taxes with a Roth IRA and the estate tax savings with either Owen’s personal assets being decreased with that conversion, or the grantor trust financing the conversion, the IRA conversion using one of the strategies, appears to be advantageous.

See the table below and attached Schedule 17 for a summary of Pam’s calculations.

Table 14

	Amount Transferred to Children and Grandchildren at Owen Overtaxed’s Death if the IRA Terminates	% Improvement Over No Further Planning at Owen Overtaxed’s Death if the IRA Terminates
% Improvement of Amount Transferred to Children and Grandchildren Compared to No Further Planning		
No Further Planning; IRA is Not Converted	\$64,198,644	n/a
Hypothetical Technique #1: Owen Overtaxed Converts his IRA to a Roth IRA and Pays the Associated Income Taxes	\$67,416,809	5.01%
Hypothetical Technique #2: Owen Overtaxed Converts his IRA to a Roth IRA; He Borrows \$4,080,000 from the Existing GST Exempt Grantor Trust in Order to Pay the Associated Income Taxes	\$67,281,395	4.80%
Hypothetical Technique #3: Owen Overtaxed Converts his IRA to a Roth IRA; He Enters Into a Call Option Purchase with the Existing GST Exempt Grantor Trust for \$4,080,000; After 12 Years, the Call Option is Settled	\$71,894,217	11.99%

¹¹⁸ The author would like to thank Brad Gates, who is a Managing Director of Stout Risius Ross, Inc. for his analysis of what the proper pricing would be under the hypothetical facts.

B. Advantages of the Techniques.

1. If Certain Factors are Present, Conversion Strategies Will Produce a Superior Result.

Generally, conversion strategies will produce a superior result, if all of the following factors are present: (i) the investor does not anticipate being taxed at a lower income tax rate in the future; (ii) the investor has sufficient funds outside the IRA to pay the income tax generated by the conversion; and (iii) the investor does not anticipate withdrawing funds from the Roth IRA for a least five years.

2. Roth IRA Earnings and Distributions Are Not Subject to Income Taxes.

Historically Roth IRAs were only available to taxpayers with income below certain levels. The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) contained a provision that permits individuals, regardless of income or economic condition, to convert traditional IRAs to Roth IRAs after 2009, if the individual takes into account the balance of the converted IRA into his taxable income.

3. Roth IRAs Are Not Subject to Required Minimum Distributions (RMD) Rules During the Account Holder's Life.

Roth IRA holders need not start taking distributions at age 70-½, which means funds can be retained in a Roth IRA for a much longer period of time than with a traditional IRA, building up federal income tax free.

4. Even Though the Ownership of a Roth IRA Cannot Be Transferred, the Future Value of the Roth IRA Could Be Simulated and Expressed in a Private Call Option Derivative, Which May Be Transferred, as Illustrated in This Example.

Private derivatives are an interesting estate planning tool for assets that are prohibited from being transferred, either because of a contract provision, or because of a spendthrift provision of a trust, or a spendthrift provision mandated by law or contract. A derivative is a contract based on the performance of an asset. One form of a derivative, as in this example, is a call option. An investor can write a call option based on the performance of an asset he owns, does not own, or an asset he cannot transfer. In this example, a call option is written of an asset (the S&P 500 Index) that the taxpayer cannot transfer, but may roughly correlate with the performance of an asset he does own – his Roth IRA account.

A call option is a contract under the terms of which a buyer acquires an option (“call option”) to purchase an asset held by a seller under certain conditions. The cost of acquiring the call option (the “purchase price”) will typically be a portion of the value of the asset at the time the call option is purchased (the “initial value”). Under the terms of the call option, if the asset price stands at or above a specified value (the “target value”) on a specified date (the “target date”), the buyer will acquire the right to purchase the asset at a specified price (the “exercise price”). If the price of the asset is less than the target value on the target date, the call option is not exercisable. If the asset is less than the target value, the buyer loses the purchase price of the call option to the seller. If the asset does appreciate above the target value, the seller loses the asset while retaining the purchase price and exercise price, the sum of which is, however, less than the then asset value. Or the seller can “cash settle” the difference that is owed to the buyer.

The most the buyer (in this case, the dynasty grantor trust) can lose is the premium paid for the purchase price of the call option (in this case \$4,080,000). In this case, the beneficiaries of the dynasty trust will also benefit from the conversion, which operates as an additional indirect consideration for the purchase of the call option. After the future income tax benefits are considered there may be very little, if any, “cost” to purchasing the call option. Theoretically, the seller can lose an unlimited amount if the price of the asset skyrockets, unless the seller owns the asset (a so-called “covered call”). While the seller in this case does not own an S&P 500 index fund, he does own a Roth IRA, which may move in the same direction as an S&P 500 index fund over that same time period.

C. Considerations of the Techniques.

1. Use of a Derivative Could Be Counterproductive for the Grantor Trust if the Measurement of the Success of That Derivative Does Not Grow.
2. The Investor May Not Withdraw Funds From the Roth IRA for at Least Five Years.
3. If the Investor Must Use Funds Inside the IRA to Pay His Income Taxes on Conversion, it Probably Does Not Make Sense to Convert.
4. There Are Proposals to Put New Limits on Extended Distributions to Non-spouse Beneficiaries.

However, as the above calculations demonstrate, which are based on the assumption that after the death of the Roth IRA owner the Roth IRA must terminate, it may still make sense to convert, whether the tax on conversion is paid by the owner of the IRA or by resources other than the IRA.

XI. USE OF THE LEVERAGED REVERSE FREEZE TO PAY FOR INCOME TAX EFFICIENT LIFE INSURANCE AND TO MAKE CASCADING PURCHASES OF GROWTH FLP INTERESTS

A. The Technique.

The “conventional wisdom” this author sometimes hears on this subject is as follows: “using a preferred partnership interest is dead after the passage of IRC Sec. 2701;” or “it is impossible, after the split dollar reform, for a trust to pay for premiums on a significant life insurance policy with its inherent income tax advantages without paying significant gift taxes.” This “conventional wisdom,” under the circumstances discussed below, is incorrect.

One of the somewhat unexplored areas of estate planning is the utilization of what some practitioners call “reverse freeze” planning. This planning takes advantage of the truism that investors have the potential of making a successful investment, if they engage in a leveraged purchase of a high yield preferred interest. The following idea exploits the current differentiation in yields between high yield fixed income and treasuries.

Consider the following example, which illustrates the potential of combining a leveraged sale of a high yielding preferred to a grantor trust with the trust using its excess cash flow to purchase life insurance and make cascading purchases of the growth partnership interests:

Example 20: Ian and Inez Insurance Wish to Transfer \$150,000,000 of Their Financial Assets to Their Children in the Most Efficient Transfer Tax Manner Possible

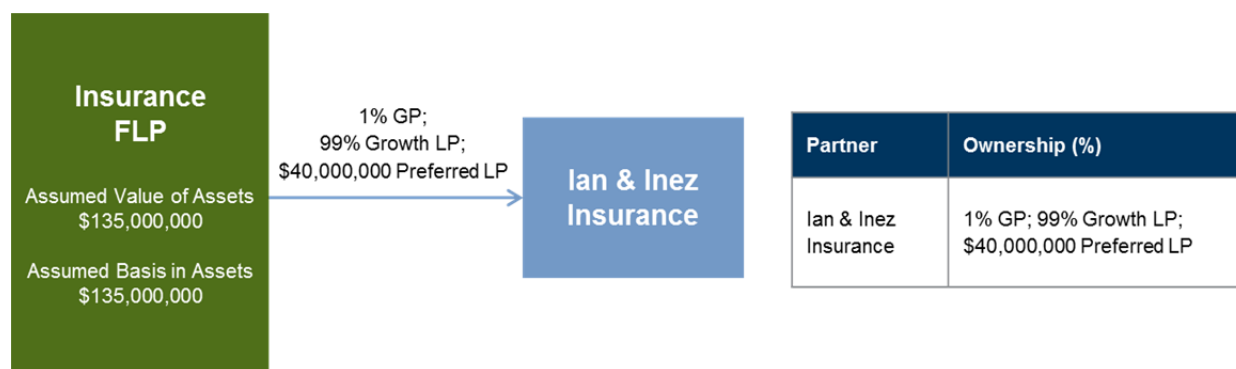
Ian and Inez Insurance own significant financial assets, \$150,000,000. They are not fond of paying substantial gift taxes. Ian and Inez want their tax planner, Pam Planner, to devise a plan in which their consumption needs are addressed and in which their stewardship goals are met.

Ian and Inez tell Pam that they are both 60 years of age and are in excellent health. Ian and Inez would like Pam to assume that they will consume \$1,750,000 a year with a 3% inflation adjustment for the next 30 years above whatever is necessary to pay their income tax bill. Ian and Inez ask Pam to assume that the assets will earn 7.4% pre-tax, with 0.6% of the return being taxed at ordinary income rate, 2.4% of the return being tax-free and 4.4% of the return being taxed at capital gains rates, with a 30% turnover in capital gains investments.

Ian and Inez desire for Pam to develop a plan in which there are minimum gift tax consequences, and which eliminates, as much as possible, their estate taxes, even if they both die in 10 years. Ian and Inez tell Pam to also assume the survivor will live 30 years.

Pam tells Ian and Inez that she believes that a plan exists, under the assumptions that they have asked her to incorporate, which could accomplish their goals. The first step of the plan is to create a FLP or a FLLC between Ian and Inez that has growth and preferred partnership interests. Pam engages a valuation expert and asks her to apply the Service's valuation parameters inherent in Revenue Ruling 83-120.¹¹⁹ Assume, for purposes of the analysis below, the expert appraiser tells Pam that a non-cumulative preferred partnership interest, under those parameters and under the facts of the proposed FLP, should have a coupon equal to 7.5% in order to support par value for the preferred. Ian and Inez Insurance will initially own a \$40,000,000 preferred partnership interest with the rest of the \$135,000,000 they have contributed to the FLP being represented by a general partnership interest or a growth limited partnership interest.

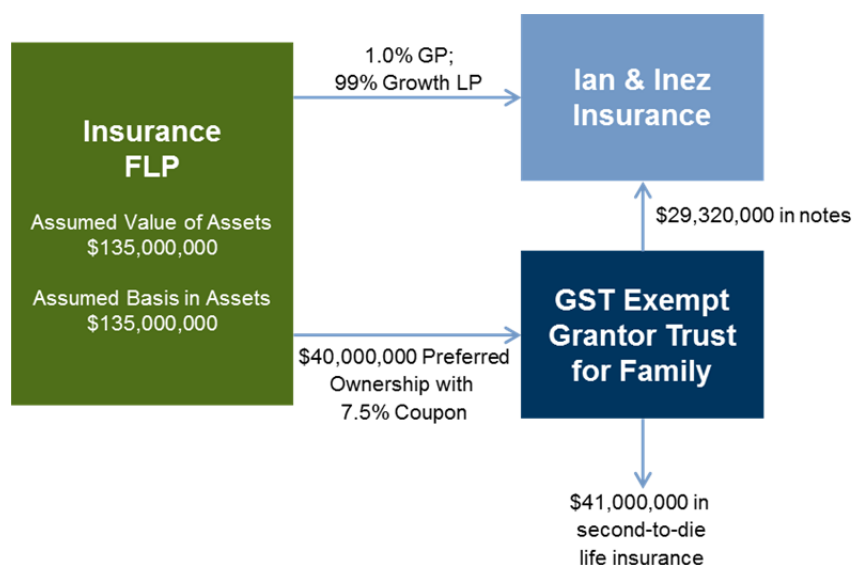
This technique is illustrated below:



After the FLP has been created Ian and Inez Insurance transfer, by gift, a \$10,680,000 preferred partnership interest to some generation-skipping transfer trusts for the benefit of their children, grandchildren and future descendants. In April of 2014 Ian and Inez also sell the

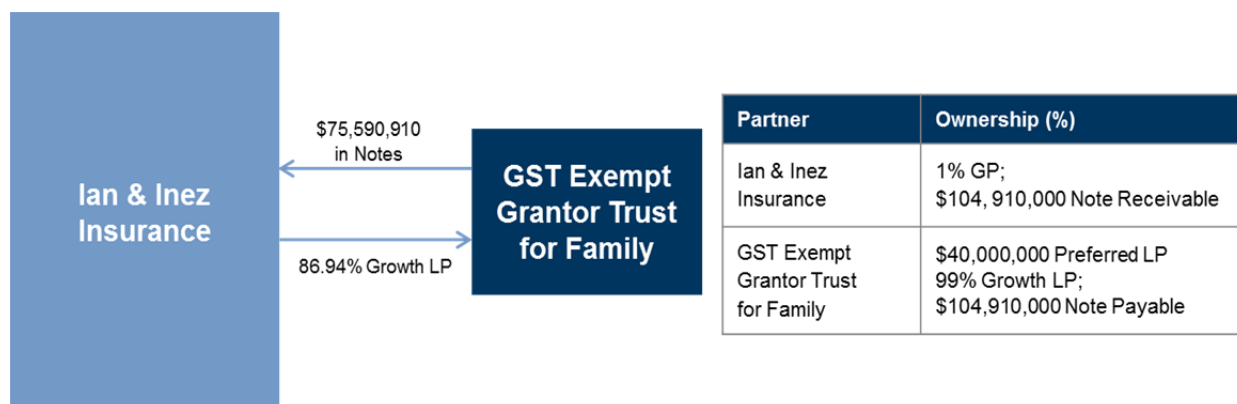
¹¹⁹ 1983-2 C.B. 170.

remaining \$29,320,000 preferred interests to those trusts in exchange for notes that will pay a blended AFR rate of 1.81%. (For purposes of the calculations and the illustration below, it is assumed that the coupon of the preferred partnership interest will be 7.5%) See the illustration below:



The grantor trusts, after that sale, will purchase \$41,000,000 in second-to-die life insurance. Ian and Inez will be the insured. It is assumed that the GST will use its net cash flow to pay the projected \$400,000 annual insurance premium. The remaining cash flow inherent in the trust (the difference between the yield on the 7.5% preferred interest owned by the trust and the interest on the \$29,320,000 note) will be utilized to pay interest and principal on the notes, or to purchase additional growth limited partnership interests from Ian and Inez.

Approximately three years after the transfer of the preferred partnership interests, the GST grantor trust could purchase from Ian and Inez their remaining growth interests that have not been sold in prior years in exchange for notes (on which, it is again assumed there will be a blended 1.81% interest rate). During the interim three-year period, it is assumed that around 12% of the growth limited partnership interests will have been purchased. The purchase of the remaining growth interests could occur in a manner in which there is a defined value sale and in which a stated dollar amount (around \$75,590,910) in value of the transferred growth limited partnership interest, as finally determined for federal gift tax purposes, passes to the generation-skipping trusts and any excess in value passes to a near zero GRAT or a marital deduction trust. Please see the illustration below:



B. Advantages of the Technique.

1. Valuation Advantage: IRS Concedes Preferred Partnership Interests Should Have a High Coupon.

See the discussion in Section VII B 2 g of this paper.

2. IRC Sec. 2036 Advantage.

See the discussion in Section VII B 2 h of this paper.

3. The Valuation Rules of IRC Sec. 2701 Should Not Apply, if One Generation Transfers the Preferred Partnership Interests to the Second Generation.

See the discussion in Section VII B 2 f of this paper.

4. The Effect of Cascading Sales to an Intentionally Defective Grantor Trust.

A somewhat largely unexplored estate planning area is the advantages of cascading sales to an intentionally defective grantor trust. Certain commentators believe that in order to have an effective sale to an intentionally defective grantor trust in consideration for a note and to have the note treated as a note for property law purposes and tax purposes instead of a retained interest in the trust, it is necessary to have around 10% equity in that intentionally defective grantor trust. However, certain clients are resistant, in significant situations, to making significant gifts to an intentionally defective trust to support the proposition that the trust has at least 10% equity at the time of the note sale. One way to ameliorate that concern is for the client, over time, to have cascading sales to that grantor trust. That is, sales could be made to that intentionally defective grantor trust over a period of time as that trust has sufficient equity to support the cascading sales to that trust. The increase in value of previously sold property would constitute equity for purposes of subsequent sales. Arguably, however, only the value of trust property in excess of currently outstanding notes should “count” as equity for this purpose.

5. Life Insurance Proceeds, if the Policy is Properly Structured, are Not Subject to Income Taxes Under IRC Sec. 101.
6. The taxpayer could save much of his unified credit to assist with a step-up in basis at death and refrain from any additional gifting strategies except as are necessary to pay for the life insurance, which will offset any estate taxes due at death of the taxpayer.

7. Whether Taxpayers Live Past Their Collective Life Expectancies or Live a Shortened Life Expectancy, the Comparative Outcome Under the Proposed Plan is Very Advantageous.

Please see attached Schedule 18. Over time, substantial wealth will be transferred from Ian and Inez Insurance to their children and future descendants because of the power of the estate freeze and the power of indirectly paying the income taxes for the benefit of their family using the intentionally defective grantor trust technique. However, both for the estate freeze and for the inherent power in paying future income taxes to work, a substantial period of time is required.

Ian and Inez may not have that period of time, since they are mortals. The \$41,000,000 second-to-die life insurance policy provides an interesting hedge to the strategy. Obviously, if Ian and Inez both die before their time (e.g., when they are 70) the second-to-die policy will be a spectacular investment that could put their descendants in almost the same position, as they would have been if Ian and Inez would have had the full benefit of the estate freeze and the full benefit of indirectly paying the income taxes for their family for 30 years.

The tables below indicate the results that could accrue under the assumptions given to Pam Planner by Ian and Inez and also assuming a \$400,000 a year premium and a 40% discount on the growth partnership interests (because of the effect of the preferred partnership interests). The results are extremely powerful. Assuming that Ian and Inez die in 10 years, the 30 year future values and present values (assuming a 3% inflation present value discount) of the hypothetical integrated plan in comparison to not doing any further planning is as follows (see attached Schedule 18):

Table 15a
30 Year Future Values (Death in 10 Years)

	Insurance Children	Insurance Children & Grandchildren	Consumption Direct Cost	Consumption Investment Opportunity Cost	IRS Income Tax	IRS Investment Opportunity Cost	IRS Estate Tax (at 40%)	Investment Opportunity Cost/(Benefit) of Buying Life Insurance	Total
30-Year Future Values (Death in 10 Years)									
No Further Planning; Bequeaths Estate to Family in 10 Years (assumes \$13.3mm estate tax exemption available in 10 years)	\$518,454,579	\$0	\$20,061,789	\$95,693,446	\$100,387,186	\$446,483,369	\$96,004,325	\$0	\$1,277,084,694
Hypothetical Technique; Bequeaths Estate to Family in 10 years (assumes \$2.6mm estate tax exemption available in 10 years)	\$228,280,974	\$557,267,326	\$20,061,789	\$95,693,446	\$148,985,957	\$329,382,789	\$44,879,416	(\$147,467,002)	\$1,277,084,694

Table 15b

Present Value of the 30 Year Future Values (Death in 10 Years)

	Insurance Children	Insurance Children & Grandchildren	Consumption Direct Cost	Consumption Investment Opportunity Cost	IRS Income Tax	IRS Investment Opportunity Cost	IRS Estate Tax (at 40%)	Investment Opportunity Cost/(Benefit) of Buying Life Insurance	Total
Present Value of the 30-Year Future Values (Death in 10 Years)									
No Further Planning; Bequeaths Estate to Family in 10 Years (assumes \$13.3mm estate tax exemption available in 10 years)	\$213,596,422	\$0	\$8,265,191	\$39,424,433	\$41,358,191	\$183,945,237	\$39,552,511	\$0	\$526,141,985
Hypothetical Technique; Bequeaths Estate to Family in 10 years (assumes \$2.6mm estate tax exemption available in 10 years)	\$94,048,739	\$229,586,760	\$8,265,191	\$39,424,433	\$61,380,242	\$135,701,348	\$18,489,725	(\$60,754,452)	\$526,141,985

If the survivor of Ian and Inez Insurance dies in 30 years, the future value in 30 years of what their descendants will receive under the hypothetical plan in comparison to no further planning and the present values of those future values (assuming a 3% present value discount) are as follows (see attached Schedule 18):

Table 15c

Future Value (Death in 30 Years)

	Insurance Children	Insurance Children & Grandchildren	Consumption Direct Cost	Consumption Investment Opportunity Cost	IRS Income Tax	IRS Investment Opportunity Cost	IRS Estate Tax (at 40%)	Investment Opportunity Cost/(Benefit) of Buying Life Insurance	Total
30-Year Future Values (Death in 30 Years)									
No Further Planning; Bequeaths Estate to Family in 30 Years (assumes \$21.8mm estate tax exemption available in 30 years)	\$421,834,314	\$0	\$83,256,977	\$158,825,116	\$131,688,888	\$214,816,523	\$266,662,876	\$0	\$1,277,084,694
Hypothetical Technique; Bequeaths Estate to Family in 30 Years (assumes \$11.2mm estate tax exemption available in 30 years)	\$9,414,203	\$700,602,974	\$83,256,977	\$158,825,116	\$138,943,238	\$186,426,522	\$0	(\$384,335)	\$1,277,084,694

Table 15d

Present Value of the 30 Year Future Values (Death in 30 Years)

	Insurance Children	Insurance Children & Grandchildren	Consumption Direct Cost	Consumption Investment Opportunity Cost	IRS Income Tax	IRS Investment Opportunity Cost	IRS Estate Tax (at 40%)	Investment Opportunity Cost/(Benefit) of Buying Life Insurance	Total
Present Value of the 30-Year Future Values (Death in 30 Years)									
No Further Planning; Bequeaths Estate to Family in 30 Years (assumes \$21.8mm estate tax exemption available in 30 years)	\$173,790,152	\$0	\$34,300,772	\$65,433,845	\$54,254,078	\$88,501,563	\$109,861,574	\$0	\$526,141,985
Hypothetical Technique; Bequeaths Estate to Family in 30 Years (assumes \$11.2mm estate tax exemption available in 30 years)	\$3,878,527	\$288,639,149	\$34,300,772	\$65,433,845	\$57,242,774	\$76,805,259	\$0	(\$158,341)	\$526,141,985

Significant wealth may be able to be transferred from one generation to the next using the valuation arbitrage that may exist between a coupon on a preferred partnership interest determined under the parameters of Revenue Ruling 83-120 and the AFR rate on intra-family notes. This valuation arbitrage has an inherent advantage over the valuation arbitrage that exists for a sale of a pro rata partnership interest for two reasons. The “rate of return” difference between the arbitrage for high yield non-marketable preferred and an AFR denominated notes is probably greater, in the current market, than the difference between a pro rata partnership interest and an AFR denominated note. Secondly, the IRS agrees that the marketability discount exists for closely held preferred partnership interests.

8. Significant Life Insurance Can Be Purchased With This Technique.

The arbitrage noted above may make possible the purchase of significance life insurance without the payment of gift taxes. That arbitrage could also operate to have a “Pac-man” effect in buying the retained growth interest held by the senior generation, but that takes time. In order to hedge against the possibility that long planning period may not exist, due to the early deaths of clients, the insurance could also serve a role to put the family in almost the same position they would have been in if the patriarch and matriarch had lived their life expectancies or beyond their life expectancies.

C. Considerations of the Technique.

1. The Same Considerations as Sales to Grantor Trusts.

Please see Section III A 3 of this paper.

2. If the Insured Live Beyond Their Life Expectancy There May Be an Investment Opportunity Cost in Buying Life Insurance.

As Table 15c above demonstrates, under certain circumstances an investment in life insurance may not produce the same after tax results as the insured’s other assets.

XII. ENHANCING THE BASIS OF AN ASSET THROUGH MARITAL PLANNING.

A. Creating Community Property Interests.

1. The Technique of Establishing a Residency and Domicile in a Community Property State Before the Death of a Spouse and Converting the Property of the Marriage Into Community Property by Agreement.

a. The technique.

If property is community property, the surviving spouse’s half interest in the community property will have a basis adjustment equal to the fair market value as reported in the deceased spouse’s estate tax return. See IRC Sec. 1014(b)(6).

There are currently nine community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. Generally, when a couple moves into one of these states, their separate property may be converted into community property by agreement.

- b. Advantages of the technique.
 - (1) There is a clear statutory authority that if property is community property, the basis of the surviving spouse's interest in the community property is adjusted on the deceased spouse's death.
 - (2) If a couple moves to Texas or Nevada, there are also other advantages. Neither state has a state income tax nor a state inheritance tax.
- c. Considerations of the technique.
 - (1) The couple needs to establish that they are domiciled in the community property state.

Domicile is the place a taxpayer considers "home." Whether domicile exists in a state is based upon all facts and circumstances. Some of the factors that are indicative of domicile include: the state that taxpayer has a residence; the state the taxpayer spends the majority of time; the state the taxpayer is registered to vote; the state the taxpayer receives mail; the state the taxpayer has a driver's license; and the state where the taxpayer's car is registered.

- (2) Community property states could create creditor considerations, and marital property rights on the divorce of the spouses, that otherwise would not exist.
- (3) Arizona, California, Idaho, Louisiana, New Mexico, Washington and Wisconsin either have a state income tax or a state inheritance tax.
- (4) A couple may later move from a community property state to a separate property state and the community property status of their property may be lost.

Some common law states have adopted the Uniform Disposition of Community Property Rights at Death Act, which provides that community property brought into their state will retain community property status for testamentary purposes. There is not any tax case law authority that following the state statutory procedures will work for IRC Sec. 1014(b)(6) purposes. The states that have adopted that act are: Alaska, Arkansas, Colorado, Florida, Hawaii, Kentucky, Michigan, Montana, New York, North Carolina, Oregon, Utah, Virginia and Wyoming.

2. The Technique of a Non-resident Couple Electing to Treat Their Property as Community Property Under the State Statutes of Alaska and Tennessee.

a. The technique.

Non-residents could name a trustee who resides in Alaska or Tennessee as trustee and have the trust subject to either state's trust and property laws. Both states allow non-residents to convert their property to community property, if the trust document expresses that intent.

b. Advantages of the technique.

- (1) If the technique is successful, it has the potential basis advantages of community property.

- (2) Both Alaska and Tennessee have favorable state tax laws.
- c. Considerations of the technique.
 - (1) There is not any reported tax case confirming the technique.
 - (2) Requires the cost of creating the trust and having a trustee in that state.
 - (3) Under the conflict law rules of the taxpayer's domicile, it is unclear whether the non-residents' creation of a trust in Alaska or Tennessee, which changes the marital property rights of the non-residents, will be recognized by the non-residents' state of domicile.

The creation of the out of state trust may not be recognized by the state of the non-residents' state of domicile, if that creation violates a fundamental public policy with respect to post nuptial marital property agreements. If that is the case, the creation of the trust will also not be recognized for tax purposes.

B. Using Joint Revocable Trusts to Get a Basis Adjustment on the Low Basis Assets Jointly Owned by a Couple on First Spouse to Die's Death.

1. The Technique.

Sometimes these trusts are referred to as "Joint Exempt Step-up Trusts" (or "JEST") by their advocates.¹²⁰ A married couple jointly creates a revocable trust and transfers assets to the trust. Either spouse, during their joint lifetimes may revoke the trust with 50% of the assets in the trust passing to each spouse.

On the death of either spouse, the trust becomes irrevocable and, the decedent spouse will have a general power of appointment over the entire trust, which causes a basis adjustment under IRC Sec. 1014. Under the trust document, or by exercise of the general power of appointment, it is assumed an amount no greater than the deceased spouse's exemption amount, but no greater than the deceased spouse's contribution to the JEST, will first fund a bypass trust with the surviving spouse being a lifetime beneficiary. If the decedent spouse's 50% share is less than the exemption amount, that remaining exemption amount may perhaps be funded by the surviving spouse's share of the trust in a bypass trust in which the surviving spouse is not a beneficiary. If the deceased spouse's 50% share exceeds the estate exemption amount, that excess could pass to a QTIP for the benefit of the surviving spouse.

¹²⁰ Alan S. Gassman, Christopher J. Denicolo, and Kacie Hohnadell, JEST Offers Serious Estate Planning Plus for Spouses-Part 1, 40 Est. Plan. 3 (Oct. 2013), Alan S. Gassman, Christopher J. Denicolo, and Kacie Hohnadell, JEST Offers Serious Estate Planning Plus for Spouses-Part 2, 40 Est. Plan. (Nov. 2013), and Gassman, Ellwanger & Hohnadell, It's Just a JEST, the Joint Exempt Step-Up Trust, Steve Leimberg's Estate Planning Email Newsletter-Archive Message #2086 (4/3/13).

2. Advantages of the Technique.

- a. If IRC Sec. 1014(e) does not apply, all or part of the marital property subject to the JEST will get a basis adjustment upon the death of the first to die.
- b. A simple estate freeze could occur during the surviving spouse's lifetime to reduce the estate taxes on the surviving spouse's death.

The trustee of the QTIP trust could sell or loan its assets to the trustee of the by-pass trust after the death of the first spouse to die.

3. Considerations of the Technique.

- a. This technique may lead to undesirable results in second marriage situations when there is a desire to protect a spouse's children from a different marriage.
- b. IRC Sec. 1014(e) may prevent some or all of the basis adjustment that exceeds what would have happened if the JEST had not been created.

The IRS takes the position that an incomplete gift is made by the surviving spouse to the deceased spouse (because of the surviving spouse's revocation power) that does not become complete until the moment of death (which, of course, is within one year of the deceased spouse's death) and IRC Sec. 1014(e) applies to deny a step-up of that part of the JEST that accrues from the surviving spouse's contribution to the JEST.¹²¹ See the discussion of IRC Sec. 1014(e) in Section II A (4) (v) of this paper. The advocates of this technique suggest that the IRC Sec. 1014(e) portion could be segregated and put into the bypass trust in which the surviving spouse is not a beneficiary, which some believe may defeat the reason for the creation of the JEST.¹²²

- c. The surviving spouse may not be a beneficiary of the by-pass trust in which the surviving spouse is considered the grantor.

In more modest estates the fact that the surviving spouse is not a beneficiary of one of the by-pass trusts may clearly be a consideration. This disadvantage may be offset by the high basis in the JEST assets that are not subject to IRC Sec. 1014(e) that could be sold and redeployed to assets that have greater liquidity and could be used to satisfy the surviving spouse's consumption needs. It is not clear that in many circumstances, the same or better result could have been achieved without the creation of a JEST.

¹²¹ See PLRs 9026036, 200101021 and 20021051.

¹²² See Gassman, Denicolo, Morrow, "Response to Jeff Scroggin's Commentary." LISI Newsletter (March 18, 2014).

C. IRC Sec. 2038 Estate Marital Trust.

1. The Technique.¹²³

A spouse (the “funding spouse”) will contribute a low basis asset to a trust in which the trust assets will be held for the benefit of the other spouse (the “beneficiary spouse”) and will pass to the beneficiary spouse’s estate on the beneficiary spouse’s death. The funding spouse will retain the right to terminate the trust at any time prior to the beneficiary spouse’s death. If the trust is terminated the trust assets must be distributed to the beneficiary spouse. The funding spouse will retain the right in a non-fiduciary capacity to swap assets with the trust.

2. Advantages of the Technique.

- a. If the funding spouse dies first, the trust assets should be taxable in the funding spouse’s estate and there should be a basis adjustment of the trust’s assets upon that death.

The funding spouse’s power to terminate the trust will be treated as an IRC Sec. 2038 power.

- b. If the beneficiary spouse dies first, the trust assets should be taxable in the beneficiary spouse’s estate under IRC Sec. 2031.
- c. The funding spouse’s transfer should qualify for the gift tax marital deduction under IRC Sec. 2523(b) and should be a completed gift for gift tax purposes (since the beneficiary spouse is the lifetime beneficiary and the remaining trust properties on the beneficiary spouse’s death pass to the beneficiary spouse’s estate).
- d. For smaller estates, unlike the JEST described above in Section XII B 1 of this paper, the surviving spouse could be a beneficiary of all trusts that may be created.
- e. The remaining high basis assets of the marriage could be left out of the technique.

3. Considerations of the Technique.

- a. The possibility exists that the beneficiary spouse’s may bequeath the properties accruing from the trust in an unanticipated manner (from the funding spouse’s perspective).
- b. If the beneficiary spouse dies first and if the death occurs within one year of the funding of the trust, IRC Sec. 1014(e) will prevent the desired basis adjustment, if the property is bequeathed back to the funding spouse.

¹²³ See Paul S. Lee “Venn Diagrams: Meet Me at the Intersection of Estate and Income Tax,” 91 302.5 48th Annual Heckerling Institute on Estate Planning (June, 2014).

This material represents the views of the Strategic Wealth Advisory Team (“SWAT”), which is part of the Investment Management Division of Goldman Sachs. The information herein is provided solely to educate on a variety of topics, including wealth planning, tax considerations, executive compensation, and estate, gift and philanthropic planning. The views and opinions expressed herein may differ from the views and opinions expressed by other departments or divisions of Goldman Sachs. While this material is based on information believed to be reliable, no warranty is given as to its accuracy or completeness and it should not be relied upon as such. Information and opinions provided herein are as of the date of this material only and are subject to change without notice. Tax results may differ depending on a client’s individual positions, elections or other circumstances. This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. The examples and assumed growth rate(s) stated herein are provided for illustrative purposes only; they do not represent a guarantee that these amounts can be achieved and no representation is being made that any client will or is likely to achieve the results shown. Assumed growth rates are subject to high levels of uncertainty and do not represent actual trading and, thus, may not reflect material economic and market factors that may have an impact on actual performance. Goldman Sachs has no obligation to provide updates to these rates. Goldman Sachs does not provide accounting, tax or legal advice to its clients and all investors are strongly urged to consult with their own advisors before implementing any structure, investment plan or strategy. Notwithstanding anything in this document to the contrary, and except as required to enable compliance with applicable securities law, you may disclose to any person the US federal and state income tax treatment and tax structure of the transaction and all materials of any kind (including tax opinions and other tax analyses) that are provided to you relating to such tax treatment and tax structure, without Goldman Sachs imposing any limitation of any kind. Information related to amounts and rates set forth under U.S. tax laws are drawn from current public sources, including the Internal Revenue Code of 1986, as amended, as well as regulations and other public pronouncements of the U.S. Treasury Department and Internal Revenue Service. Such information may be subject to change without notice. In some cases, rates may be estimated and may vary based on your particular circumstances. SWAT services offered through Goldman, Sachs & Co. Member FINRA/SIPC. © 2014 Goldman Sachs. All rights reserved.

Schedule 1

Danny Lowbasis (Texas Resident)

Single Stock Analysis

Hypothetical Integrated Income and Estate Tax Plan Comparisons with an Initial Portfolio Value of \$5,340,000

Assuming 15 Year Life Expectancy and 9.24% Annual Return on Single Stock Equity Portfolio

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	15-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning: Stock Sold at Death (assumes \$7.54mm estate tax exemption available at death)				
Danny Lowbasis (Texas Resident)	20,106,667	-	-	0.00%
Lowbasis Children	-	15,080,000	9,679,278	75.00%
IRS - Income Tax	-	-	-	0.00%
IRS - Estate Tax (at 40.0%)	-	5,026,667	3,226,426	25.00%
Total	\$20,106,667	\$20,106,667	\$12,905,704	100.00%
Hypothetical Technique: Gift of \$5.34mm in Single Stock to a Grantor Trust (assumes \$2.20mm estate tax exemption available at death)				
Danny Lowbasis (Texas Resident)	-	-	-	0.00%
Lowbasis Children	15,080,000	15,080,000	9,679,278	75.00%
IRS - Income Tax	5,026,667	5,026,667	3,226,426	25.00%
IRS - Estate Tax (at 40.0%)	-	-	-	0.00%
Total	\$20,106,667	\$20,106,667	\$12,905,704	100.00%

	No Further Planning	Hypothetical Technique
Estate Tax Exemption Calculation (assuming 2.5% inflation)		
Current Estate and Gift Tax Exemption	\$5,340,000	\$5,340,000
Gifts Made	\$0	(\$5,340,000)
Estate Tax Exemption Available in 15 Years	7,540,000	\$2,200,000

Schedule 1
Danny Lowbasis (Texas Resident)
Single Stock Analysis
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assets		Danny Lowbasis
FMV: Single Stock Equity Portfolio		\$5,340,000
Basis: Single Stock Equity Portfolio		\$0

Schedule 1
Danny Lowbasis (Texas Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy and 9.24% Annual Return on Single Stock Equity Portfolio
No Further Planning: Stock Sold at Death (assumes \$7.54mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	9.24%	9.24%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	9.24%	9.24%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	25.00%	
Ordinary and Health Care Tax Rate	44.60%	

Danny Lowbasis (Texas Resident)

	Beginning of Year Financial Assets					End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio			End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
	Financial Assets	Income	Growth	Stock Sale Proceeds	Income Taxes		Single Stock Equity Portfolio	Growth	Stock Sale		
Year 1	-	-	-	-	-	-	5,340,000	493,482	-	5,833,482	5,833,482
Year 2	-	-	-	-	-	-	5,833,482	539,086	-	6,372,567	6,372,567
Year 3	-	-	-	-	-	-	6,372,567	588,904	-	6,961,471	6,961,471
Year 4	-	-	-	-	-	-	6,961,471	643,326	-	7,604,797	7,604,797
Year 5	-	-	-	-	-	-	7,604,797	702,777	-	8,307,574	8,307,574
Year 6	-	-	-	-	-	-	8,307,574	767,722	-	9,075,296	9,075,296
Year 7	-	-	-	-	-	-	9,075,296	838,669	-	9,913,965	9,913,965
Year 8	-	-	-	-	-	-	9,913,965	916,172	-	10,830,137	10,830,137
Year 9	-	-	-	-	-	-	10,830,137	1,000,838	-	11,830,975	11,830,975
Year 10	-	-	-	-	-	-	11,830,975	1,093,328	-	12,924,303	12,924,303
Year 11	-	-	-	-	-	-	12,924,303	1,194,365	-	14,118,668	14,118,668
Year 12	-	-	-	-	-	-	14,118,668	1,304,739	-	15,423,407	15,423,407
Year 13	-	-	-	-	-	-	15,423,407	1,425,313	-	16,848,720	16,848,720
Year 14	-	-	-	-	-	-	16,848,720	1,557,029	-	18,405,749	18,405,749
Year 15	-	-	-	20,106,667	-	20,106,667	18,405,749	1,700,918	(20,106,667)	-	20,106,667

Schedule 1
Danny Lowbasis (Texas Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy, 9.24% Annual Return on Portfolio and 25% Long Term Capital Gain Tax Rate
Hypothetical Technique: Gift of \$5.34mm in Single Stock to a Grantor Trust (assumes \$2.20mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Financial Assets	Single Stock Equity Portfolio
Assumptions:		
Total Estimated Rate of Return	9.24%	9.24%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	9.24%	9.24%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	25.00%	
Ordinary and Health Care Tax Rate	44.60%	

Danny Lowbasis (Texas Resident)

	Beginning of Year Financial Assets					End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio			End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
	Income	Growth	Stock Sale Proceeds	Income Taxes			Growth	Stock Sale			
Year 1	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-	-	-

Grantor Trust

	Beginning of Year Financial Assets						End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio			Reinvest in Same Stock	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
	Income	Growth	Stock Sale Proceeds	Reinvest Sale Proceeds	Income Taxes			Growth						
Year 1	-	-	-	-	-	-	-	5,340,000	493,482	-	-	-	5,833,482	5,833,482
Year 2	-	-	-	-	-	-	-	5,833,482	539,086	-	-	-	6,372,567	6,372,567
Year 3	-	-	-	-	-	-	-	6,372,567	588,904	-	-	-	6,961,471	6,961,471
Year 4	-	-	-	-	-	-	-	6,961,471	643,326	-	-	-	7,604,797	7,604,797
Year 5	-	-	-	-	-	-	-	7,604,797	702,777	-	-	-	8,307,574	8,307,574
Year 6	-	-	-	-	-	-	-	8,307,574	767,722	-	-	-	9,075,296	9,075,296
Year 7	-	-	-	-	-	-	-	9,075,296	838,669	-	-	-	9,913,965	9,913,965
Year 8	-	-	-	-	-	-	-	9,913,965	916,172	-	-	-	10,830,137	10,830,137
Year 9	-	-	-	-	-	-	-	10,830,137	1,000,838	-	-	-	11,830,975	11,830,975
Year 10	-	-	-	-	-	-	-	11,830,975	1,093,328	-	-	-	12,924,303	12,924,303
Year 11	-	-	-	-	-	-	-	12,924,303	1,194,365	-	-	-	14,118,668	14,118,668
Year 12	-	-	-	-	-	-	-	14,118,668	1,304,739	-	-	-	15,423,407	15,423,407
Year 13	-	-	-	-	-	-	-	15,423,407	1,425,313	-	-	-	16,848,720	16,848,720
Year 14	-	-	-	-	-	-	-	16,848,720	1,557,029	-	-	-	18,405,749	18,405,749
Year 15	-	-	20,106,667	-	(5,026,667)	15,080,000	-	18,405,749	1,700,918	-	(20,106,667)	-	-	15,080,000

Schedule 2
Danny Lowbasis (California Resident)
Single Stock Analysis

Hypothetical Integrated Income and Estate Tax Plan Comparisons with an Initial Portfolio Value of \$5,340,000

Assuming 15 Year Life Expectancy and 17.75% Annual Return on Single Stock Equity Portfolio

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	15-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning: Stock Sold at Death (assumes \$7.54mm estate tax exemption available at death)				
Danny Lowbasis (California Resident)	61,930,185	-	-	0.00%
Lowbasis Children	-	40,174,111	25,786,233	64.87%
IRS - Income Tax	-	-	-	0.00%
IRS - Estate Tax (at 40.0%)	-	21,756,074	13,964,396	35.13%
Total	\$61,930,185	\$61,930,185	\$39,750,629	100.00%
Hypothetical Technique: Gift of \$5.34mm in Single Stock to a Grantor Trust (assumes \$2.20mm estate tax exemption available at death)				
Danny Lowbasis (California Resident)	-	-	-	0.00%
Lowbasis Children	40,174,111	40,174,111	25,786,233	64.87%
IRS - Income Tax	21,756,074	21,756,074	13,964,396	35.13%
IRS - Estate Tax (at 40.0%)	-	-	-	0.00%
Total	\$61,930,185	\$61,930,185	\$39,750,629	100.00%

	No Further Planning	Hypothetical Technique
Estate Tax Exemption Calculation (assuming 2.5% inflation)		
Current Estate and Gift Tax Exemption	\$5,340,000	\$5,340,000
Gifts Made	\$0	(\$5,340,000)
Estate Tax Exemption Available in 15 Years	7,540,000	\$2,200,000

Schedule 2
Danny Lowbasis (California Resident)
Single Stock Analysis
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assets		Danny Lowbasis
FMV: Single Stock Equity Portfolio		\$5,340,000
Basis: Single Stock Equity Portfolio		\$0

Schedule 2
Danny Lowbasis (California Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy and 17.75% Annual Return on Single Stock Equity Portfolio
No Further Planning: Stock Sold at Death (assumes \$7.54mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
 This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

<u>Assumptions:</u>	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	17.75%	17.75%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	17.75%	17.75%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	35.13%	
Ordinary and Health Care Tax Rate	52.63%	

Danny Lowbasis (California Resident)

	Beginning of Year Financial Assets					End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio			End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
	Income	Growth	Stock Sale Proceeds	Income Taxes			Growth	Stock Sale			
Year 1	-	-	-	-	-	-	5,340,000	947,799	-	6,287,799	6,287,799
Year 2	-	-	-	-	-	-	6,287,799	1,116,025	-	7,403,824	7,403,824
Year 3	-	-	-	-	-	-	7,403,824	1,314,108	-	8,717,932	8,717,932
Year 4	-	-	-	-	-	-	8,717,932	1,547,350	-	10,265,282	10,265,282
Year 5	-	-	-	-	-	-	10,265,282	1,821,990	-	12,087,272	12,087,272
Year 6	-	-	-	-	-	-	12,087,272	2,145,376	-	14,232,648	14,232,648
Year 7	-	-	-	-	-	-	14,232,648	2,526,160	-	16,758,808	16,758,808
Year 8	-	-	-	-	-	-	16,758,808	2,974,529	-	19,733,336	19,733,336
Year 9	-	-	-	-	-	-	19,733,336	3,502,480	-	23,235,816	23,235,816
Year 10	-	-	-	-	-	-	23,235,816	4,124,136	-	27,359,952	27,359,952
Year 11	-	-	-	-	-	-	27,359,952	4,856,131	-	32,216,084	32,216,084
Year 12	-	-	-	-	-	-	32,216,084	5,718,048	-	37,934,132	37,934,132
Year 13	-	-	-	-	-	-	37,934,132	6,732,948	-	44,667,080	44,667,080
Year 14	-	-	-	-	-	-	44,667,080	7,927,982	-	52,595,062	52,595,062
Year 15	-	-	61,930,185	-	61,930,185	52,595,062	9,335,123	(61,930,185)	-	61,930,185	61,930,185

Schedule 2
Danny Lowbasis (California Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy, 17.75% Annual Return on Portfolio and 25% Long Term Capital Gain Tax Rate
Hypothetical Technique: Gift of \$5.34mm in Single Stock to a Grantor Trust (assumes \$2.20mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Financial Assets	Single Stock Equity Portfolio
Assumptions:		
Total Estimated Rate of Return	17.75%	17.75%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	17.75%	17.75%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	35.13%	
Ordinary and Health Care Tax Rate	52.63%	

Individual

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-	-	-

Grantor Trust

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Reinvest Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Reinvest in Same Stock	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	5,340,000	947,799	-	-	6,287,799	6,287,799
Year 2	-	-	-	-	-	-	-	6,287,799	1,116,025	-	-	7,403,824	7,403,824
Year 3	-	-	-	-	-	-	-	7,403,824	1,314,108	-	-	8,717,932	8,717,932
Year 4	-	-	-	-	-	-	-	8,717,932	1,547,350	-	-	10,265,282	10,265,282
Year 5	-	-	-	-	-	-	-	10,265,282	1,821,990	-	-	12,087,272	12,087,272
Year 6	-	-	-	-	-	-	-	12,087,272	2,145,376	-	-	14,232,648	14,232,648
Year 7	-	-	-	-	-	-	-	14,232,648	2,526,160	-	-	16,758,808	16,758,808
Year 8	-	-	-	-	-	-	-	16,758,808	2,974,529	-	-	19,733,336	19,733,336
Year 9	-	-	-	-	-	-	-	19,733,336	3,502,480	-	-	23,235,816	23,235,816
Year 10	-	-	-	-	-	-	-	23,235,816	4,124,136	-	-	27,359,952	27,359,952
Year 11	-	-	-	-	-	-	-	27,359,952	4,856,131	-	-	32,216,084	32,216,084
Year 12	-	-	-	-	-	-	-	32,216,084	5,718,048	-	-	37,934,132	37,934,132
Year 13	-	-	-	-	-	-	-	37,934,132	6,732,948	-	-	44,667,080	44,667,080
Year 14	-	-	-	-	-	-	-	44,667,080	7,927,982	-	-	52,595,062	52,595,062
Year 15	-	-	-	61,930,185	-	(21,756,074)	40,174,111	52,595,062	9,335,123	-	(61,930,185)	-	40,174,111

Schedule 3

Danny Lowbasis (Texas Resident)

Single Stock Analysis

Hypothetical Integrated Income and Estate Tax Plan Comparisons with an Initial Portfolio Value of \$5,340,000

Assuming 15 Year Life Expectancy and 6.76% Annual Return on Single Stock Equity Portfolio

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	15-Year Future Values		Present Values (Discounted at 0.0%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning: Stock Sold at Death (assumes \$5.34mm estate tax exemption available at death)				
Danny Lowbasis (Texas Resident)	14,240,000	-	-	0.00%
Lowbasis Children	-	10,680,000	6,855,086	75.00%
IRS - Income Tax	-	-	-	0.00%
IRS - Estate Tax (at 40.0%)	-	3,560,000	2,285,029	25.00%
Total	\$14,240,000	\$14,240,000	\$9,140,114	100.00%
Hypothetical Technique: Gift of \$5.34mm in Single Stock to a Grantor Trust (assumes \$0.00mm estate tax exemption available at death)				
Danny Lowbasis (Texas Resident)	-	-	-	0.00%
Lowbasis Children	10,680,000	10,680,000	6,855,086	75.00%
IRS - Income Tax	3,560,000	3,560,000	2,285,029	25.00%
IRS - Estate Tax (at 40.0%)	-	-	-	0.00%
Total	\$14,240,000	\$14,240,000	\$9,140,114	100.00%

	No Further Planning	Hypothetical Technique
Estate Tax Exemption Calculation (assuming 0.0% inflation)		
Current Estate and Gift Tax Exemption	\$5,340,000	\$5,340,000
Gifts Made	\$0	(\$5,340,000)
Estate Tax Exemption Available in 15 Years	5,340,000	\$0

Schedule 3
Danny Lowbasis (Texas Resident)
Single Stock Analysis
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assets		Danny Lowbasis
FMV: Single Stock Equity Portfolio		\$5,340,000
Basis: Single Stock Equity Portfolio		\$0

Schedule 3
Danny Lowbasis (Texas Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy and 6.76% Annual Return on Single Stock Equity Portfolio
No Further Planning: Stock Sold at Death (assumes \$5.34mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

<u>Assumptions:</u>	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	6.76%	6.76%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	6.76%	6.76%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	25.00%	
Ordinary and Health Care Tax Rate	44.60%	

Danny Lowbasis (Texas Resident)

	Beginning of Year Financial Assets					End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio			End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
	Income	Growth	Stock Sale Proceeds	Income Taxes			Growth	Stock Sale			
Year 1	-	-	-	-	-	-	5,340,000	360,844	-	5,700,844	5,700,844
Year 2	-	-	-	-	-	-	5,700,844	385,228	-	6,086,072	6,086,072
Year 3	-	-	-	-	-	-	6,086,072	411,259	-	6,497,331	6,497,331
Year 4	-	-	-	-	-	-	6,497,331	439,049	-	6,936,381	6,936,381
Year 5	-	-	-	-	-	-	6,936,381	468,718	-	7,405,098	7,405,098
Year 6	-	-	-	-	-	-	7,405,098	500,391	-	7,905,489	7,905,489
Year 7	-	-	-	-	-	-	7,905,489	534,204	-	8,439,693	8,439,693
Year 8	-	-	-	-	-	-	8,439,693	570,302	-	9,009,996	9,009,996
Year 9	-	-	-	-	-	-	9,009,996	608,840	-	9,618,835	9,618,835
Year 10	-	-	-	-	-	-	9,618,835	649,981	-	10,268,817	10,268,817
Year 11	-	-	-	-	-	-	10,268,817	693,903	-	10,962,720	10,962,720
Year 12	-	-	-	-	-	-	10,962,720	740,793	-	11,703,513	11,703,513
Year 13	-	-	-	-	-	-	11,703,513	790,851	-	12,494,364	12,494,364
Year 14	-	-	-	-	-	-	12,494,364	844,292	-	13,338,656	13,338,656
Year 15	-	-	14,240,000	-	14,240,000	13,338,656	901,344	(14,240,000)	-	14,240,000	14,240,000

Schedule 3
Danny Lowbasis (Texas Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy, 6.76% Annual Return on Portfolio and 25% Long Term Capital Gain Tax Rate
Hypothetical Technique: Gift of \$5.34mm in Single Stock to a Grantor Trust (assumes \$0.00mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Financial Assets	Single Stock Equity Portfolio
Assumptions:		
Total Estimated Rate of Return	6.76%	6.76%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	6.76%	6.76%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	25.00%	
Ordinary and Health Care Tax Rate	44.60%	

Danny Lowbasis (Texas Resident)

	Beginning of Year Financial Assets					End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio			End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
	Income	Growth	Stock Sale Proceeds	Income Taxes			Growth	Stock Sale			
Year 1	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-	-	-

Grantor Trust

	Beginning of Year Financial Assets						End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio				End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
	Income	Growth	Stock Sale Proceeds	Reinvest Sale Proceeds	Income Taxes			Growth	Reinvest in Same Stock	Stock Sale			
Year 1	-	-	-	-	-	-	5,340,000	360,844	-	-	5,700,844	5,700,844	
Year 2	-	-	-	-	-	-	5,700,844	385,228	-	-	6,086,072	6,086,072	
Year 3	-	-	-	-	-	-	6,086,072	411,259	-	-	6,497,331	6,497,331	
Year 4	-	-	-	-	-	-	6,497,331	439,049	-	-	6,936,381	6,936,381	
Year 5	-	-	-	-	-	-	6,936,381	468,718	-	-	7,405,098	7,405,098	
Year 6	-	-	-	-	-	-	7,405,098	500,391	-	-	7,905,489	7,905,489	
Year 7	-	-	-	-	-	-	7,905,489	534,204	-	-	8,439,693	8,439,693	
Year 8	-	-	-	-	-	-	8,439,693	570,302	-	-	9,009,996	9,009,996	
Year 9	-	-	-	-	-	-	9,009,996	608,840	-	-	9,618,835	9,618,835	
Year 10	-	-	-	-	-	-	9,618,835	649,981	-	-	10,268,817	10,268,817	
Year 11	-	-	-	-	-	-	10,268,817	693,903	-	-	10,962,720	10,962,720	
Year 12	-	-	-	-	-	-	10,962,720	740,793	-	-	11,703,513	11,703,513	
Year 13	-	-	-	-	-	-	11,703,513	790,851	-	-	12,494,364	12,494,364	
Year 14	-	-	-	-	-	-	12,494,364	844,292	-	-	13,338,656	13,338,656	
Year 15	-	-	14,240,000	-	(3,560,000)	10,680,000	13,338,656	901,344	-	(14,240,000)	-	10,680,000	

Schedule 4
Danny Lowbasis (California Resident)
Single Stock Analysis

Hypothetical Integrated Income and Estate Tax Plan Comparisons with an Initial Portfolio Value of \$5,340,000

Assuming 15 Year Life Expectancy and 15.07% Annual Return on Single Stock Equity Portfolio

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	15-Year Future Values		Present Values (Discounted at 0.0%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning: Stock Sold at Death (assumes \$5.34mm estate tax exemption available at death)				
Danny Lowbasis (California Resident)	43,860,370	-	-	0.00%
Lowbasis Children	-	28,452,222	18,262,398	64.87%
IRS - Income Tax	-	-	-	0.00%
IRS - Estate Tax (at 40.0%)	-	15,408,148	9,889,904	35.13%
Total	\$43,860,370	\$43,860,370	\$28,152,302	100.00%
Hypothetical Technique: Gift of \$5.34mm in Single Stock to a Grantor Trust (assumes \$0.00mm estate tax exemption available at death)				
Danny Lowbasis (California Resident)	-	-	-	0.00%
Lowbasis Children	28,452,222	28,452,222	18,262,398	64.87%
IRS - Income Tax	15,408,148	15,408,148	9,889,904	35.13%
IRS - Estate Tax (at 40.0%)	-	-	-	0.00%
Total	\$43,860,370	\$43,860,370	\$28,152,302	100.00%

	No Further Planning	Hypothetical Technique
Estate Tax Exemption Calculation (assuming 0.0% inflation)		
Current Estate and Gift Tax Exemption	\$5,340,000	\$5,340,000
Gifts Made	\$0	(\$5,340,000)
Estate Tax Exemption Available in 15 Years	5,340,000	\$0

Schedule 4
Danny Lowbasis (California Resident)
Single Stock Analysis
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assets		Danny Lowbasis
FMV: Single Stock Equity Portfolio		\$5,340,000
Basis: Single Stock Equity Portfolio		\$0

Schedule 4

Danny Lowbasis (California Resident)

Single Stock Analysis - Assuming 15 Year Life Expectancy and 15.07% Annual Return on Single Stock Equity Portfolio

No Further Planning: Stock Sold at Death (assumes \$5.34mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	15.07%	15.07%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	15.07%	15.07%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	35.13%	
Ordinary and Health Care Tax Rate	52.63%	

Danny Lowbasis (California Resident)

	Beginning of Year					End of Year	Beginning of Year			End of Year	End of Year
	Financial Assets	Income	Growth	Stock Sale Proceeds	Income Taxes	Financial Assets	Single Stock Equity Portfolio	Growth	Stock Sale	Single Stock Equity Portfolio	Financial & Other Assets
Year 1	-	-	-	-	-	-	5,340,000	804,832	-	6,144,832	6,144,832
Year 2	-	-	-	-	-	-	6,144,832	926,134	-	7,070,966	7,070,966
Year 3	-	-	-	-	-	-	7,070,966	1,065,719	-	8,136,684	8,136,684
Year 4	-	-	-	-	-	-	8,136,684	1,226,341	-	9,363,025	9,363,025
Year 5	-	-	-	-	-	-	9,363,025	1,411,172	-	10,774,198	10,774,198
Year 6	-	-	-	-	-	-	10,774,198	1,623,861	-	12,398,058	12,398,058
Year 7	-	-	-	-	-	-	12,398,058	1,868,605	-	14,266,663	14,266,663
Year 8	-	-	-	-	-	-	14,266,663	2,150,236	-	16,416,900	16,416,900
Year 9	-	-	-	-	-	-	16,416,900	2,474,315	-	18,891,214	18,891,214
Year 10	-	-	-	-	-	-	18,891,214	2,847,237	-	21,738,452	21,738,452
Year 11	-	-	-	-	-	-	21,738,452	3,276,366	-	25,014,818	25,014,818
Year 12	-	-	-	-	-	-	25,014,818	3,770,172	-	28,784,990	28,784,990
Year 13	-	-	-	-	-	-	28,784,990	4,338,403	-	33,123,393	33,123,393
Year 14	-	-	-	-	-	-	33,123,393	4,992,277	-	38,115,669	38,115,669
Year 15	-	-	-	43,860,370	-	43,860,370	38,115,669	5,744,700	(43,860,370)	-	43,860,370

Schedule 4
Danny Lowbasis (California Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy, 15.07% Annual Return on Portfolio and 25% Long Term Capital Gain Tax Rate
Hypothetical Technique: Gift of \$5.34mm in Single Stock to a Grantor Trust (assumes \$0.00mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Financial Assets	Single Stock Equity Portfolio
Assumptions:		
Total Estimated Rate of Return	15.07%	15.07%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	15.07%	15.07%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	35.13%	
Ordinary and Health Care Tax Rate	52.63%	

Individual

	Beginning of Year Financial Assets					End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio			End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
	Income	Growth	Stock Sale Proceeds	Income Taxes			Income	Growth	Stock Sale		
Year 1	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-	-	-

Grantor Trust

	Beginning of Year Financial Assets						End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio			Reinvest in Same Stock	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
	Income	Growth	Stock Sale Proceeds	Reinvest Sale Proceeds	Income Taxes			Income	Growth					
Year 1	-	-	-	-	-	-	-	5,340,000	804,832	-	-	-	6,144,832	6,144,832
Year 2	-	-	-	-	-	-	-	6,144,832	926,134	-	-	-	7,070,966	7,070,966
Year 3	-	-	-	-	-	-	-	7,070,966	1,065,719	-	-	-	8,136,684	8,136,684
Year 4	-	-	-	-	-	-	-	8,136,684	1,226,341	-	-	-	9,363,025	9,363,025
Year 5	-	-	-	-	-	-	-	9,363,025	1,411,172	-	-	-	10,774,198	10,774,198
Year 6	-	-	-	-	-	-	-	10,774,198	1,623,861	-	-	-	12,398,058	12,398,058
Year 7	-	-	-	-	-	-	-	12,398,058	1,868,605	-	-	-	14,266,663	14,266,663
Year 8	-	-	-	-	-	-	-	14,266,663	2,150,236	-	-	-	16,416,900	16,416,900
Year 9	-	-	-	-	-	-	-	16,416,900	2,474,315	-	-	-	18,891,214	18,891,214
Year 10	-	-	-	-	-	-	-	18,891,214	2,847,237	-	-	-	21,738,452	21,738,452
Year 11	-	-	-	-	-	-	-	21,738,452	3,276,366	-	-	-	25,014,818	25,014,818
Year 12	-	-	-	-	-	-	-	25,014,818	3,770,172	-	-	-	28,784,990	28,784,990
Year 13	-	-	-	-	-	-	-	28,784,990	4,338,403	-	-	-	33,123,393	33,123,393
Year 14	-	-	-	-	-	-	-	33,123,393	4,992,277	-	-	-	38,115,669	38,115,669
Year 15	-	-	43,860,370	-	(15,408,148)	28,452,222	38,115,669	5,744,700	-	(43,860,370)	-	-	28,452,222	28,452,222

Schedule 5

Danny Diversified - Texas Resident - Single Stock Analysis

Hypothetical Integrated Income and Estate Tax Plan Comparisons with an Initial Portfolio Value of \$45,340,000

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	15-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning Except Stock Sold and Proceeds Invested in a Diversified Portfolio (assumes \$7.54mm estate tax exemption available at death)				
Danny Diversified - Texas Resident	85,217,695	-	-	0.00%
Diversified Children	-	54,146,617	34,754,653	38.79%
Consumption - Direct Cost	5,379,578	5,379,578	3,452,946	3.85%
Consumption - Opportunity Cost	3,617,730	3,617,730	2,322,083	2.59%
IRS Income Tax - Direct Cost	20,403,383	20,403,383	13,096,155	14.62%
IRS Income Tax - Investment Opportunity Costs	24,971,963	24,971,963	16,028,553	17.89%
IRS Estate Tax (at 40.0%)	-	31,071,078	19,943,343	22.26%
Total	\$139,590,348	\$139,590,348	\$89,597,733	100.00%

No Further Planning, Stock Held Until Death (assumes \$7.54mm estate tax exemption available at death)				
Danny Diversified - Texas Resident	128,430,318	-	-	0.00%
Diversified Children	-	80,074,191	51,396,576	57.36%
Consumption - Direct Cost	5,379,578	5,379,578	3,452,946	3.85%
Consumption - Opportunity Cost	3,617,730	3,617,730	2,322,083	2.59%
IRS Income Tax - Direct Cost	3,526,594	3,526,594	2,263,587	2.53%
IRS Income Tax - Investment Opportunity Costs	2,032,989	2,032,989	1,304,898	1.46%
IRS Estate Tax (at 40.0%)	-	48,356,127	31,037,958	34.64%
How Much (More) or Less the Stock Must Grow to Match Results of Hypothetical Technique	(3,396,861)	(3,396,861)	(2,180,316)	-2.43%
Total	\$139,590,348	\$139,590,348	\$89,597,733	100.00%

Hypothetical Technique: Stock Contributed to a FLP; Gift of \$5.34mm in LP to a Grantor Trust; Sell Balance of LP to the Grantor Trust; Stock Sold				
Danny Diversified - Texas Resident	9,055,316	-	-	0.00%
Diversified Children	73,761,001	80,074,191	51,396,576	57.36%
Consumption - Direct Cost	5,379,578	5,379,578	3,452,946	3.85%
Consumption - Opportunity Cost	3,617,730	3,617,730	2,322,083	2.59%
IRS Income Tax - Direct Cost	22,804,761	22,804,761	14,637,508	16.34%
IRS Income Tax - Investment Opportunity Costs	24,971,963	24,971,963	16,028,553	17.89%
IRS Estate Tax (at 40.0%)	-	2,742,126	1,760,067	1.96%
Total	\$139,590,348	\$139,590,348	\$89,597,733	100.00%

	No Further Planning	Hypothetical Technique
Estate Tax Exemption Calculation		
Current Estate and Gift Tax Exemption	\$5,340,000	\$5,340,000
Gifts Made	\$0	(\$5,340,000)
Estate Tax Exemption Available in 15 Years	\$7,540,000	\$2,200,000

Schedule 5
Danny Diversified - Texas Resident - Single Stock Analysis
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

		Individual
Assets		
FMV: Financial Assets		\$2,500,000
Basis: Financial Assets		\$2,500,000
FMV: Single Stock Equity Portfolio		\$45,340,000
Basis: Single Stock Equity Portfolio		\$0
Total Assets:		\$47,840,000
Total Basis:		\$2,500,000

Schedule 5

Danny Diversified - Texas Resident - Single Stock Analysis

No Further Planning Except Stock Sold and Proceeds Invested in a Diversified Portfolio (assumes \$7.54mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Ordinary Dividends	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%
Annual Consumption (increasing 2.5% per year)	\$300,000

Individual

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Consumption	Income Taxes	End of Year Financial Assets
Year 1	47,840,000	287,040	1,148,160	2,104,960	(300,000)	(11,620,892)	39,459,268
Year 2	39,459,268	236,756	947,022	1,736,208	(307,500)	(346,319)	41,725,435
Year 3	41,725,435	250,353	1,001,410	1,835,919	(315,188)	(417,859)	44,080,070
Year 4	44,080,070	264,480	1,057,922	1,939,523	(323,067)	(477,764)	46,541,164
Year 5	46,541,164	279,247	1,116,988	2,047,811	(331,144)	(529,994)	49,124,073
Year 6	49,124,073	294,744	1,178,978	2,161,459	(339,422)	(577,380)	51,842,451
Year 7	51,842,451	311,055	1,244,219	2,281,068	(347,908)	(621,958)	54,708,927
Year 8	54,708,927	328,254	1,313,014	2,407,193	(356,606)	(665,200)	57,735,582
Year 9	57,735,582	346,413	1,385,654	2,540,366	(365,521)	(708,187)	60,934,308
Year 10	60,934,308	365,606	1,462,423	2,681,110	(374,659)	(751,724)	64,317,064
Year 11	64,317,064	385,902	1,543,610	2,829,951	(384,025)	(796,423)	67,896,078
Year 12	67,896,078	407,376	1,629,506	2,987,427	(393,626)	(842,765)	71,683,997
Year 13	71,683,997	430,104	1,720,416	3,154,096	(403,467)	(891,136)	75,694,010
Year 14	75,694,010	454,164	1,816,656	3,330,536	(413,553)	(941,864)	79,939,950
Year 15	79,939,950	479,640	1,918,559	3,517,358	(423,892)	(213,919)	85,217,695

Schedule 5
Danny Diversified - Texas Resident - Single Stock Analysis
No Further Planning, Stock Held Until Death (assumes \$7.54mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	7.40%	7.59%
Rate of Return Taxed at Ordinary Rates	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%
Ordinary Dividends	0.00%	1.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	6.59%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	25.00%	
Ordinary and Health Care Tax Rate	44.60%	
Annual Consumption (increasing 2.5% per year)	\$300,000	

Individual

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Dividends	Stock Sale Proceeds	Consumption	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	2,500,000	15,000	60,000	110,000	453,400	-	(300,000)	(128,290)	2,710,110	45,340,000	2,989,582	-	48,329,582	51,039,692
Year 2	2,710,110	16,261	65,043	119,245	483,296	-	(307,500)	(142,795)	2,943,659	48,329,582	3,186,706	-	51,516,289	54,459,948
Year 3	2,943,659	17,662	70,648	129,521	515,163	-	(315,188)	(156,685)	3,204,781	51,516,289	3,396,828	-	54,913,117	58,117,898
Year 4	3,204,781	19,229	76,915	141,010	549,131	-	(323,067)	(170,446)	3,497,552	54,913,117	3,620,805	-	58,533,922	62,031,474
Year 5	3,497,552	20,985	83,941	153,892	585,339	-	(331,144)	(184,448)	3,826,119	58,533,922	3,859,550	-	62,393,472	66,219,591
Year 6	3,826,119	22,957	91,827	168,349	623,935	-	(339,422)	(198,976)	4,194,788	62,393,472	4,114,037	-	66,507,509	70,702,297
Year 7	4,194,788	25,169	100,675	184,571	665,075	-	(347,908)	(214,264)	4,608,105	66,507,509	4,385,304	-	70,892,813	75,500,918
Year 8	4,608,105	27,649	110,595	202,757	708,928	-	(356,606)	(230,509)	5,070,918	70,892,813	4,674,458	-	75,567,270	80,638,188
Year 9	5,070,918	30,426	121,702	223,120	755,673	-	(365,521)	(247,884)	5,588,434	75,567,270	4,982,677	-	80,549,948	86,138,381
Year 10	5,588,434	33,531	134,122	245,891	805,499	-	(374,659)	(266,549)	6,166,270	80,549,948	5,311,220	-	85,861,168	92,027,437
Year 11	6,166,270	36,998	147,990	271,316	858,612	-	(384,025)	(286,656)	6,810,504	85,861,168	5,661,426	-	91,522,593	98,333,097
Year 12	6,810,504	40,863	163,452	299,662	915,226	-	(393,626)	(308,358)	7,527,724	91,522,593	6,034,723	-	97,557,316	105,085,040
Year 13	7,527,724	45,166	180,665	331,220	975,573	-	(403,467)	(331,807)	8,325,074	97,557,316	6,432,634	-	103,989,951	112,315,025
Year 14	8,325,074	49,950	199,802	366,303	1,039,900	-	(413,553)	(357,164)	9,210,312	103,989,951	6,856,783	-	110,846,734	120,057,045
Year 15	9,210,312	55,262	221,047	405,254	1,108,467	118,155,632	(423,892)	(301,764)	128,430,318	110,846,734	7,308,898	(118,155,632)	-	128,430,318

Danny Diversified - Texas Resident - Single Stock Analysis

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions (continued):	
Diversified Family Limited Partnership Valuation Discount	35.00%
Intra-Family Interest Rate - June 2014	1.91%

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	FLP Distributions	Note Payments	Consumption	Income Taxes	End of Year Financial Assets
Year 1	2,500,000	15,000	60,000	110,000	120,262	11,905,952	(300,000)	(11,620,892)	2,790,322
Year 2	2,790,322	16,742	66,968	122,774	6,377	631,369	(307,500)	(346,319)	2,980,733
Year 3	2,980,733	17,884	71,538	131,152	7,119	704,746	(315,188)	(417,859)	3,180,125
Year 4	3,180,125	19,081	76,323	139,926	7,754	767,600	(323,067)	(477,764)	3,389,977
Year 5	3,389,977	20,340	81,359	149,159	8,319	823,574	(331,144)	(529,994)	3,611,590
Year 6	3,611,590	21,670	86,678	158,910	8,841	875,276	(339,422)	(577,380)	3,846,162
Year 7	3,846,162	23,077	92,308	169,231	9,339	924,577	(347,908)	(621,958)	4,094,828
Year 8	4,094,828	24,569	98,276	180,172	9,827	972,837	(356,606)	(665,200)	4,358,704
Year 9	4,358,704	26,152	104,609	191,783	10,314	1,021,053	(365,521)	(708,187)	4,638,907
Year 10	4,638,907	27,833	111,334	204,112	10,808	1,069,967	(374,659)	(751,724)	4,936,578
Year 11	4,936,578	29,619	118,478	217,209	11,315	1,120,146	(384,025)	(796,423)	5,252,897
Year 12	5,252,897	31,517	126,070	231,127	11,839	1,172,035	(393,626)	(842,765)	5,589,095
Year 13	5,589,095	33,535	134,138	245,920	12,384	1,225,993	(403,467)	(891,136)	5,946,462
Year 14	5,946,462	35,679	142,715	261,644	12,953	1,282,324	(413,553)	(941,864)	6,326,359
Year 15	6,326,359	37,958	151,833	278,360	45,549	1,937,002	(423,892)	(42,913)	8,310,255

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial Assets
Year 1	45,340,000	272,040	1,088,160	1,994,960	(12,026,214)	36,668,946
Year 2	36,668,946	220,014	880,055	1,613,434	(637,746)	38,744,702
Year 3	38,744,702	232,468	929,873	1,704,767	(711,865)	40,899,945
Year 4	40,899,945	245,400	981,599	1,799,598	(775,353)	43,151,188
Year 5	43,151,188	258,907	1,035,629	1,898,652	(831,893)	45,512,482
Year 6	45,512,482	273,075	1,092,300	2,002,549	(884,117)	47,996,290
Year 7	47,996,290	287,978	1,151,911	2,111,837	(933,916)	50,614,099
Year 8	50,614,099	303,685	1,214,738	2,227,020	(982,664)	53,376,878
Year 9	53,376,878	320,261	1,281,045	2,348,583	(1,031,366)	56,295,401
Year 10	56,295,401	337,772	1,351,090	2,476,998	(1,080,775)	59,380,486
Year 11	59,380,486	356,283	1,425,132	2,612,741	(1,131,461)	62,643,181
Year 12	62,643,181	375,859	1,503,436	2,756,300	(1,183,873)	66,094,903
Year 13	66,094,903	396,569	1,586,278	2,908,176	(1,238,376)	69,747,549
Year 14	69,747,549	418,485	1,673,941	3,068,892	(1,295,277)	73,613,591
Year 15	73,613,591	441,682	1,766,726	3,238,998	(4,554,935)	74,506,062

[illegible]

Schedule 5

Danny Diversified - Texas Resident - Single Stock Analysis

Hypothetical Technique: Stock Contributed to a FLP; Gift of \$5.34mm in LP to a Grantor Trust; Sell Balance of LP to the Grantor Trust; Stock Sold

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Ordinary Dividends	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%
Annual Consumption (increasing 2.5% per year)	\$300,000

Assumptions (continued):	
Diversified Family Limited Partnership Valuation Discount	35.00%
Intra-Family Interest Rate - June 2014	1.91%

Grantor Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	FLP Distributions	Note Payments	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	11,905,952	(11,905,952)	-	-
Year 2	-	-	-	-	631,369	(631,369)	-	-
Year 3	-	-	-	-	704,746	(704,746)	-	-
Year 4	-	-	-	-	767,600	(767,600)	-	-
Year 5	-	-	-	-	823,574	(823,574)	-	-
Year 6	-	-	-	-	875,276	(875,276)	-	-
Year 7	-	-	-	-	924,577	(924,577)	-	-
Year 8	-	-	-	-	972,837	(972,837)	-	-
Year 9	-	-	-	-	1,021,053	(1,021,053)	-	-
Year 10	-	-	-	-	1,069,967	(1,069,967)	-	-
Year 11	-	-	-	-	1,120,146	(1,120,146)	-	-
Year 12	-	-	-	-	1,172,035	(1,172,035)	-	-
Year 13	-	-	-	-	1,225,993	(1,225,993)	-	-
Year 14	-	-	-	-	1,282,324	(1,282,324)	-	-
Year 15	-	-	-	-	4,509,385	(1,937,002)	(2,572,384)	-

Note Between Danny Lowbasis and Grantor Trust

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	23,836,290	455,273	(11,905,952)	12,385,611
Year 2	12,385,611	236,565	(631,369)	11,990,807
Year 3	11,990,807	229,024	(704,746)	11,515,086
Year 4	11,515,086	219,938	(767,600)	10,967,425
Year 5	10,967,425	209,478	(823,574)	10,353,328
Year 6	10,353,328	197,749	(875,276)	9,675,801
Year 7	9,675,801	184,808	(924,577)	8,936,032
Year 8	8,936,032	170,678	(972,837)	8,133,873
Year 9	8,133,873	155,357	(1,021,053)	7,268,177
Year 10	7,268,177	138,822	(1,069,967)	6,337,032
Year 11	6,337,032	121,037	(1,120,146)	5,337,923
Year 12	5,337,923	101,954	(1,172,035)	4,267,843
Year 13	4,267,843	81,516	(1,225,993)	3,123,366
Year 14	3,123,366	59,656	(1,282,324)	1,900,698
Year 15	1,900,698	36,303	(1,937,002)	-

Schedule 5

Danny Diversified - California Resident - Single Stock Analysis

Hypothetical Integrated Income and Estate Tax Plan Comparisons with an Initial Portfolio Value of \$45,340,000

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	15-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning Except Stock Sold and Proceeds Invested in a Diversified Portfolio (assumes \$7.54mm estate tax exemption available at death)				
Danny Diversified - California Resident	70,142,579	-	-	0.00%
Diversified Children	-	45,101,547	28,948,967	32.31%
Consumption - Direct Cost	5,379,578	5,379,578	3,452,946	3.85%
Consumption - Opportunity Cost	3,617,730	3,617,730	2,322,083	2.59%
NY & IRS Income Tax - Direct Cost	26,511,090	26,511,090	17,016,460	18.99%
NY & IRS Income Tax - Investment Opportunity Costs	33,939,372	33,939,372	21,784,391	24.31%
NY & IRS Estate Tax	-	25,041,032	16,072,885	17.94%
Total	\$139,590,348	\$139,590,348	\$89,597,733	100.00%

No Further Planning, Stock Held Until Death (assumes \$7.54mm estate tax exemption available at death)				
Danny Diversified - California Resident	107,017,361	-	-	0.00%
Diversified Children	-	67,226,416	43,150,079	48.16%
Consumption - Direct Cost	5,379,578	5,379,578	3,452,946	3.85%
Consumption - Opportunity Cost	3,617,730	3,617,730	2,322,083	2.59%
NY & IRS Income Tax - Direct Cost	4,417,805	4,417,805	2,835,621	3.16%
NY & IRS Income Tax - Investment Opportunity Costs	2,666,588	2,666,588	1,711,581	1.91%
NY & IRS Estate Tax	-	39,790,944	25,540,293	28.51%
How Much (More) or Less the Stock Must Grow to Match Results of Hypothetical Technique	16,491,287	16,491,287	10,585,130	11.81%
Total	\$139,590,348	\$139,590,348	\$89,597,733	100.00%

Hypothetical Technique: Stock Contributed to a FLP; Gift of \$5.34mm in LP to a Grantor Trust; Sell Balance of LP to the Grantor Trust; Stock Sold				
Danny Diversified - California Resident	712,427	-	-	0.00%
Diversified Children	66,513,990	67,226,416	43,150,079	48.16%
Consumption - Direct Cost	5,379,578	5,379,578	3,452,946	3.85%
Consumption - Opportunity Cost	3,617,730	3,617,730	2,322,083	2.59%
NY & IRS Income Tax - Direct Cost	29,427,252	29,427,252	18,888,233	21.08%
NY & IRS Income Tax - Investment Opportunity Costs	33,939,372	33,939,372	21,784,391	24.31%
NY & IRS Estate Tax	-	-	-	0.00%
Total	\$139,590,348	\$139,590,348	\$89,597,733	100.00%

	No Further Planning	Hypothetical Technique
Estate Tax Exemption Calculation		
Current Estate and Gift Tax Exemption	\$5,340,000	\$5,340,000
Gifts Made	\$0	(\$5,340,000)
Estate Tax Exemption Available in 15 Years	\$7,540,000	\$2,200,000

Schedule 5
Danny Diversified - California Resident - Single Stock Analysis
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

		Individual
Assets		
FMV: Financial Assets		\$2,500,000
Basis: Financial Assets		\$2,500,000
FMV: Single Stock Equity Portfolio		\$45,340,000
Basis: Single Stock Equity Portfolio		\$0
Total Assets:		\$47,840,000
Total Basis:		\$2,500,000

Schedule 5

Danny Diversified - California Resident - Single Stock Analysis

No Further Planning Except Stock Sold and Proceeds Invested in a Diversified Portfolio (assumes \$7.54mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Ordinary Dividends	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	35.13%
Ordinary and Health Care Tax Rate	52.63%
Annual Consumption (increasing 2.5% per year)	\$300,000

Individual

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Consumption	Income Taxes	End of Year Financial Assets
Year 1	47,840,000	287,040	1,148,160	2,104,960	(300,000)	(16,300,853)	34,779,307
Year 2	34,779,307	208,676	834,703	1,530,290	(307,500)	(426,393)	36,619,083
Year 3	36,619,083	219,714	878,858	1,611,240	(315,188)	(507,041)	38,506,667
Year 4	38,506,667	231,040	924,160	1,694,293	(323,067)	(574,141)	40,458,952
Year 5	40,458,952	242,754	971,015	1,780,194	(331,144)	(632,157)	42,489,613
Year 6	42,489,613	254,938	1,019,751	1,869,543	(339,422)	(684,282)	44,610,140
Year 7	44,610,140	267,661	1,070,643	1,962,846	(347,908)	(732,810)	46,830,572
Year 8	46,830,572	280,983	1,123,934	2,060,545	(356,606)	(779,401)	49,160,028
Year 9	49,160,028	294,960	1,179,841	2,163,041	(365,521)	(825,264)	51,607,085
Year 10	51,607,085	309,643	1,238,570	2,270,712	(374,659)	(871,294)	54,180,057
Year 11	54,180,057	325,080	1,300,321	2,383,923	(384,025)	(918,161)	56,887,194
Year 12	56,887,194	341,323	1,365,293	2,503,037	(393,626)	(966,384)	59,736,837
Year 13	59,736,837	358,421	1,433,684	2,628,421	(403,467)	(1,016,368)	62,737,529
Year 14	62,737,529	376,425	1,505,701	2,760,451	(413,553)	(1,068,448)	65,898,104
Year 15	65,898,104	395,389	1,581,555	2,899,517	(423,892)	(208,093)	70,142,579

Schedule 5
Danny Diversified - California Resident - Single Stock Analysis
No Further Planning, Stock Held Until Death (assumes \$7.54mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Financial Assets	Single Stock Equity Portfolio
Assumptions:		
Total Estimated Rate of Return	7.40%	6.38%
Rate of Return Taxed at Ordinary Rates	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%
Ordinary Dividends	0.00%	1.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	5.38%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	35.13%	
Ordinary and Health Care Tax Rate	52.63%	
Annual Consumption (increasing 2.5% per year)	\$300,000	

Individual

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Dividends	Stock Sale Proceeds	Consumption	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	2,500,000	15,000	60,000	110,000	453,400	-	(300,000)	(178,767)	2,659,633	45,340,000	2,441,241	-	47,781,241	50,440,874
Year 2	2,659,633	15,958	63,831	117,024	477,812	-	(307,500)	(196,702)	2,830,056	47,781,241	2,572,684	-	50,353,925	53,183,981
Year 3	2,830,056	16,980	67,921	124,522	503,539	-	(315,188)	(213,267)	3,014,565	50,353,925	2,711,205	-	53,065,130	56,079,695
Year 4	3,014,565	18,087	72,350	132,641	530,651	-	(323,067)	(229,122)	3,216,105	53,065,130	2,857,185	-	55,922,315	59,138,419
Year 5	3,216,105	19,297	77,187	141,509	559,223	-	(331,144)	(244,754)	3,437,422	55,922,315	3,011,024	-	58,933,339	62,370,760
Year 6	3,437,422	20,625	82,498	151,247	589,333	-	(339,422)	(260,528)	3,681,174	58,933,339	3,173,146	-	62,106,485	65,787,659
Year 7	3,681,174	22,087	88,348	161,972	621,065	-	(347,908)	(276,723)	3,950,015	62,106,485	3,343,998	-	65,450,483	69,400,498
Year 8	3,950,015	23,700	94,800	173,801	654,505	-	(356,606)	(293,561)	4,246,655	65,450,483	3,524,049	-	68,974,532	73,221,187
Year 9	4,246,655	25,480	101,920	186,853	689,745	-	(365,521)	(311,222)	4,573,910	68,974,532	3,713,794	-	72,688,327	77,262,236
Year 10	4,573,910	27,443	109,774	201,252	726,883	-	(374,659)	(329,860)	4,934,743	72,688,327	3,913,756	-	76,602,082	81,536,826
Year 11	4,934,743	29,608	118,434	217,129	766,021	-	(384,025)	(349,613)	5,332,296	76,602,082	4,124,484	-	80,726,567	86,058,863
Year 12	5,332,296	31,994	127,975	234,621	807,266	-	(393,626)	(370,607)	5,769,920	80,726,567	4,346,559	-	85,073,125	90,843,045
Year 13	5,769,920	34,620	138,478	253,876	850,731	-	(403,467)	(392,961)	6,251,197	85,073,125	4,580,590	-	89,653,716	95,904,913
Year 14	6,251,197	37,507	150,029	275,053	896,537	-	(413,553)	(416,797)	6,779,973	89,653,716	4,827,223	-	94,480,939	101,260,912
Year 15	6,779,973	40,680	162,719	298,319	944,809	99,568,074	(423,892)	(353,321)	107,017,361	94,480,939	5,087,135	(99,568,074)	-	107,017,361

Schedule 5
Danny Diversified - California Resident - Single Stock Analysis
Hypothetical Technique: Stock Contributed to a FLP; Gift of \$5.34mm in LP to a Grantor Trust; Sell Balance of LP to the Grantor Trust; Stock Sold

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:		Assumptions (continued):	
Total Estimated Rate of Return	7.40%	Diversified Family Limited Partnership Valuation Discount	35.00%
Rate of Return Taxed at Ordinary Rates	0.60%	Intra-Family Interest Rate - June 2014	1.91%
Rate of Return Tax Free	2.40%		
Ordinary Dividends	0.00%		
Rate of Return Taxed at Capital Gains Rates	4.40%		
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%		
Long-Term Capital Gain, Dividends & Health Care Tax Rate	35.13%		
Ordinary and Health Care Tax Rate	52.63%		
Annual Consumption (increasing 2.5% per year)	\$300,000		

Individual

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	FLP Distributions	Note Payments	Consumption	Income Taxes	End of Year Financial Assets
Year 1	2,500,000	15,000	60,000	110,000	167,489	16,581,365	(300,000)	(16,300,853)	2,833,001
Year 2	2,833,001	16,998	67,992	124,652	7,108	703,694	(307,500)	(426,393)	3,019,553
Year 3	3,019,553	18,117	72,469	132,860	7,917	783,815	(315,188)	(507,041)	3,212,504
Year 4	3,212,504	19,275	77,100	141,350	8,606	851,952	(323,067)	(574,141)	3,413,578
Year 5	3,413,578	20,481	81,926	150,197	9,213	912,114	(331,144)	(632,157)	3,624,209
Year 6	3,624,209	21,745	86,981	159,465	9,769	967,169	(339,422)	(684,282)	3,845,634
Year 7	3,845,634	23,074	92,295	169,208	10,295	1,019,178	(347,908)	(732,810)	4,078,965
Year 8	4,078,965	24,474	97,895	179,474	32,573	3,224,740	(356,606)	(779,401)	6,502,115
Year 9	6,502,115	39,013	156,051	286,093	12,797	-	(365,521)	(825,264)	5,805,284
Year 10	5,805,284	34,832	139,327	255,433	13,360	-	(374,659)	(871,294)	5,002,283
Year 11	5,002,283	30,014	120,055	220,100	13,948	-	(384,025)	(918,161)	4,084,214
Year 12	4,084,214	24,505	98,021	179,705	14,562	-	(393,626)	(966,384)	3,040,998
Year 13	3,040,998	18,246	72,984	133,804	15,203	-	(403,467)	(1,016,368)	1,861,400
Year 14	1,861,400	11,168	44,674	81,902	15,872	-	(413,553)	(1,068,448)	533,014
Year 15	533,014	3,198	12,792	23,453	31,262	-	(423,892)	(29,346)	150,481

Diversified Family Limited Partnership

	Beginning of Year Financial Assets					End of Year Financial Assets		Danny Diversified	Grantor Trust
	Income	Tax Free Income	Growth	Distributions					
Year 1	45,340,000	272,040	1,088,160	1,994,960	(16,748,854)	31,946,306		1.0%	99.0%
Year 2	31,946,306	191,678	766,711	1,405,637	(710,802)	33,599,530		1.0%	99.0%
Year 3	33,599,530	201,597	806,389	1,478,379	(791,732)	35,294,164		1.0%	99.0%
Year 4	35,294,164	211,765	847,060	1,552,943	(860,558)	37,045,374		1.0%	99.0%
Year 5	37,045,374	222,272	889,089	1,629,996	(921,328)	38,865,404		1.0%	99.0%
Year 6	38,865,404	233,192	932,770	1,710,078	(976,938)	40,764,506		1.0%	99.0%
Year 7	40,764,506	244,587	978,348	1,793,638	(1,029,472)	42,751,607		1.0%	99.0%
Year 8	42,751,607	256,510	1,026,039	1,881,071	(3,257,313)	42,657,913		1.0%	99.0%
Year 9	42,657,913	255,947	1,023,790	1,876,948	(1,279,737)	44,534,861		1.0%	99.0%
Year 10	44,534,861	267,209	1,068,837	1,959,534	(1,336,046)	46,494,395		1.0%	99.0%
Year 11	46,494,395	278,966	1,115,865	2,045,753	(1,394,832)	48,540,148		1.0%	99.0%
Year 12	48,540,148	291,241	1,164,964	2,135,767	(1,456,204)	50,675,915		1.0%	99.0%
Year 13	50,675,915	304,055	1,216,222	2,229,740	(1,520,277)	52,905,655		1.0%	99.0%
Year 14	52,905,655	317,434	1,269,736	2,327,849	(1,587,170)	55,233,504		1.0%	99.0%
Year 15	55,233,504	331,401	1,325,604	2,430,274	(3,126,171)	56,194,612		1.0%	99.0%

Schedule 5

Danny Diversified - California Resident - Single Stock Analysis

Hypothetical Technique: Stock Contributed to a FLP; Gift of \$5.34mm in LP to a Grantor Trust; Sell Balance of LP to the Grantor Trust; Stock Sold

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Ordinary Dividends	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	35.13%
Ordinary and Health Care Tax Rate	52.63%
Annual Consumption (increasing 2.5% per year)	\$300,000

Assumptions (continued):	
Diversified Family Limited Partnership Valuation Discount	35.00%
Intra-Family Interest Rate - June 2014	1.91%

Grantor Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	FLP Distributions	Note Payments	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	16,581,365	(16,581,365)	-	-
Year 2	-	-	-	-	703,694	(703,694)	-	-
Year 3	-	-	-	-	783,815	(783,815)	-	-
Year 4	-	-	-	-	851,952	(851,952)	-	-
Year 5	-	-	-	-	912,114	(912,114)	-	-
Year 6	-	-	-	-	967,169	(967,169)	-	-
Year 7	-	-	-	-	1,019,178	(1,019,178)	-	-
Year 8	-	-	-	-	3,224,740	(3,224,740)	-	-
Year 9	-	-	-	-	1,266,940	-	-	1,266,940
Year 10	1,266,940	7,602	30,407	55,745	1,322,685	-	-	2,683,379
Year 11	2,683,379	16,100	64,401	118,069	1,380,884	-	-	4,262,833
Year 12	4,262,833	25,577	102,308	187,565	1,441,642	-	-	6,019,925
Year 13	6,019,925	36,120	144,478	264,877	1,505,075	-	-	7,970,474
Year 14	7,970,474	47,823	191,291	350,701	1,571,298	-	-	10,131,587
Year 15	10,131,587	60,790	243,158	445,790	3,094,909	-	(3,094,909)	10,881,324

Note Between Danny Lowbasis and Grantor Trust

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	23,836,290	455,273	(16,581,365)	7,710,198
Year 2	7,710,198	147,265	(703,694)	7,153,768
Year 3	7,153,768	136,637	(783,815)	6,506,591
Year 4	6,506,591	124,276	(851,952)	5,778,914
Year 5	5,778,914	110,377	(912,114)	4,977,177
Year 6	4,977,177	95,064	(967,169)	4,105,072
Year 7	4,105,072	78,407	(1,019,178)	3,164,302
Year 8	3,164,302	60,438	(3,224,740)	-
Year 9	-	-	-	-
Year 10	-	-	-	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-

Schedule 6 - Cam Compatible

A: Fund is Owned by Investor and Investor's Estate is Not Subject to Estate Tax Because of Existing Exemptions and/or Charitable Bequests

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	6.338%	8.161%	10.863%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Dividend Income Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Indexed Fund - 5% Turnover - 6.338% Growth Rate

	Beginning of Year	Dividend Income	Growth	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	63,382	(6,413)	-	1,076,969
Year 2	1,076,969	21,539	68,261	(6,991)	-	1,159,778
Year 3	1,159,778	23,196	73,509	(8,243)	-	1,248,240
Year 4	1,248,240	24,965	79,116	(9,552)	-	1,342,769
Year 5	1,342,769	26,855	85,108	(10,923)	-	1,443,809
Year 6	1,443,809	28,876	91,512	(12,362)	-	1,551,835
Year 7	1,551,835	31,037	98,359	(13,874)	-	1,667,356
Year 8	1,667,356	33,347	105,681	(15,467)	-	1,790,917
Year 9	1,790,917	35,818	113,513	(17,147)	-	1,923,100
Year 10	1,923,100	38,462	121,891	(18,922)	-	2,064,530

Managed Fund - 50% Turnover - 8.161% Growth Rate

	Beginning of Year	Dividend Income	Growth	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	81,608	(23,199)	-	1,078,409
Year 2	1,078,409	21,568	88,007	(24,649)	-	1,163,335
Year 3	1,163,335	23,267	94,937	(29,638)	-	1,251,900
Year 4	1,251,900	25,038	102,165	(33,444)	-	1,345,659
Year 5	1,345,659	26,913	109,816	(36,738)	-	1,445,651
Year 6	1,445,651	28,913	117,976	(39,871)	-	1,552,669
Year 7	1,552,669	31,053	126,710	(43,028)	-	1,667,405
Year 8	1,667,405	33,348	136,073	(46,312)	-	1,790,514
Year 9	1,790,514	35,810	146,120	(49,785)	-	1,922,659
Year 10	1,922,659	38,453	156,904	(53,487)	-	2,064,530

Schedule 6 - Cam Compatible
A: Fund is Owned by Investor and Investor's Estate is Not Subject to Estate Tax Because of Existing Exemptions and/or Charitable Bequests

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy. This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	6.338%	8.161%	10.863%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Dividend Income Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Managed Fund - 200% Turnover - 10.863% Growth Rate

	Beginning of Year	Dividend Income	Growth	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	108,632	(53,450)	-	1,075,182
Year 2	1,075,182	21,504	116,800	(57,469)	-	1,156,017
Year 3	1,156,017	23,120	125,581	(61,789)	-	1,242,929
Year 4	1,242,929	24,859	135,022	(66,435)	-	1,336,376
Year 5	1,336,376	26,728	145,174	(71,429)	-	1,436,847
Year 6	1,436,847	28,737	156,088	(76,800)	-	1,544,873
Year 7	1,544,873	30,897	167,823	(82,574)	-	1,661,020
Year 8	1,661,020	33,220	180,441	(88,782)	-	1,785,899
Year 9	1,785,899	35,718	194,007	(95,456)	-	1,920,168
Year 10	1,920,168	38,403	208,592	(102,633)	-	2,064,530

Schedule 6 - Cam Compatible

B: Fund is Owned by Investor and is Fully Taxable in the Investor's Estate

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	12.205%	15.622%	21.035%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Ordinary and Health Care Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Indexed Fund - 5% Turnover - 12.205% Growth Rate

	Beginning of Year	Dividend Income	Growth	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	122,050	(7,722)	-	1,134,329
Year 2	1,134,329	22,687	138,445	(8,852)	-	1,286,609
Year 3	1,286,609	25,732	157,031	(11,417)	-	1,457,955
Year 4	1,457,955	29,159	177,944	(14,249)	-	1,650,809
Year 5	1,650,809	33,016	201,482	(17,384)	-	1,867,924
Year 6	1,867,924	37,358	227,981	(20,862)	-	2,112,400
Year 7	2,112,400	42,248	257,819	(24,731)	-	2,387,736
Year 8	2,387,736	47,755	291,424	(29,042)	-	2,697,872
Year 9	2,697,872	53,957	329,276	(33,854)	-	3,047,252
Year 10	3,047,252	60,945	371,918	(39,231)	(1,376,354)	2,064,530

Managed Fund - 50% Turnover - 15.622% Growth Rate

	Beginning of Year	Dividend Income	Growth	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	156,216	(39,836)	-	1,136,379
Year 2	1,136,379	22,728	177,520	(43,898)	-	1,292,729
Year 3	1,292,729	25,855	201,944	(55,762)	-	1,464,765
Year 4	1,464,765	29,295	228,819	(66,182)	-	1,656,698
Year 5	1,656,698	33,134	258,802	(76,403)	-	1,872,230
Year 6	1,872,230	37,445	292,471	(87,146)	-	2,115,001
Year 7	2,115,001	42,300	330,396	(98,861)	-	2,388,835
Year 8	2,388,835	47,777	373,173	(111,877)	-	2,697,909
Year 9	2,697,909	53,958	421,455	(126,463)	-	3,046,858
Year 10	3,046,858	60,937	475,967	(142,878)	(1,376,354)	2,064,530

Schedule 6 - Cam Compatible

B: Fund is Owned by Investor and is Fully Taxable in the Investor's Estate

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	12.205%	15.622%	21.035%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Ordinary and Health Care Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Managed Fund - 200% Turnover - 21.035% Growth Rate

	Beginning of Year	Dividend Income	Growth	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	210,347	(98,815)	-	1,131,532
Year 2	1,131,532	22,631	238,015	(111,812)	-	1,280,366
Year 3	1,280,366	25,607	269,322	(126,519)	-	1,448,775
Year 4	1,448,775	28,976	304,746	(143,161)	-	1,639,336
Year 5	1,639,336	32,787	344,830	(161,991)	-	1,854,962
Year 6	1,854,962	37,099	390,186	(183,298)	-	2,098,950
Year 7	2,098,950	41,979	441,509	(207,408)	-	2,375,030
Year 8	2,375,030	47,501	499,581	(234,688)	-	2,687,423
Year 9	2,687,423	53,748	565,292	(265,557)	-	3,040,906
Year 10	3,040,906	60,818	639,647	(300,488)	(1,376,353)	2,064,530

Schedule 6 - Cam Compatible

C: Fund is in a Grantor Trust and Grantor Buys the Assets from the Grantor Trust for Cash Shortly Before Grantor's Death

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	6.000%	6.906%	7.944%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Dividend Income Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Indexed Fund - 5% Turnover - 6.000% Growth Rate

	Beginning of Year	Dividend Income	Growth	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	60,000	2,535	(6,338)	-	1,076,197
Year 2	1,076,197	21,524	64,572	2,760	(6,901)	-	1,158,153
Year 3	1,158,153	23,163	69,489	3,241	(8,103)	-	1,245,943
Year 4	1,245,943	24,919	74,757	3,744	(9,361)	-	1,340,002
Year 5	1,340,002	26,800	80,400	4,272	(10,680)	-	1,440,794
Year 6	1,440,794	28,816	86,448	4,826	(12,065)	-	1,548,819
Year 7	1,548,819	30,976	92,929	5,410	(13,524)	-	1,664,610
Year 8	1,664,610	33,292	99,877	6,025	(15,062)	-	1,788,741
Year 9	1,788,741	35,775	107,324	6,675	(16,688)	-	1,921,828
Year 10	1,921,828	38,437	115,310	7,363	(18,407)	-	2,064,530

Managed Fund - 50% Turnover - 6.906% Growth Rate

	Beginning of Year	Dividend Income	Growth	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	69,061	8,160	(20,401)	-	1,076,821
Year 2	1,076,821	21,536	74,366	8,666	(21,664)	-	1,159,725
Year 3	1,159,725	23,194	80,092	10,365	(25,912)	-	1,247,463
Year 4	1,247,463	24,949	86,151	11,669	(29,174)	-	1,341,059
Year 5	1,341,059	26,821	92,615	12,808	(32,019)	-	1,441,283
Year 6	1,441,283	28,826	99,536	13,898	(34,744)	-	1,548,799
Year 7	1,548,799	30,976	106,961	15,001	(37,504)	-	1,664,234
Year 8	1,664,234	33,285	114,933	16,153	(40,384)	-	1,788,222
Year 9	1,788,222	35,764	123,496	17,374	(43,435)	-	1,921,422
Year 10	1,921,422	38,428	132,695	18,677	(46,692)	-	2,064,530

Schedule 6 - Cam Compatible

C: Fund is in a Grantor Trust and Grantor Buys the Assets from the Grantor Trust for Cash Shortly Before Grantor's Death

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Assumptions:			
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	6.000%	6.906%	7.944%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Dividend Income Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Managed Fund - 200% Turnover - 7.944% Growth Rate

	Beginning of Year	Dividend Income	Growth	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	79,441	16,172	(40,431)	-	1,075,182
Year 2	1,075,182	21,504	85,413	17,388	(43,470)	-	1,156,017
Year 3	1,156,017	23,120	91,835	18,695	(46,738)	-	1,242,929
Year 4	1,242,929	24,859	98,739	20,101	(50,252)	-	1,336,376
Year 5	1,336,376	26,728	106,163	21,612	(54,030)	-	1,436,847
Year 6	1,436,847	28,737	114,144	23,237	(58,093)	-	1,544,873
Year 7	1,544,873	30,897	122,726	24,984	(62,460)	-	1,661,020
Year 8	1,661,020	33,220	131,953	26,862	(67,156)	-	1,785,900
Year 9	1,785,900	35,718	141,873	28,882	(72,205)	-	1,920,168
Year 10	1,920,168	38,403	152,539	31,053	(77,633)	-	2,064,530

Schedule 6 - Cam Compatible

D: Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 10 Years Before Grantor Dies

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	6.593%	7.046%	7.944%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Ordinary and Health Care Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Indexed Fund - 5% Turnover - 6.593% Growth Rate

	Beginning of Year	Dividend Income	Growth	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	65,926	2,588	(6,470)	-	1,082,044
Year 2	1,082,044	21,641	71,335	2,834	(7,085)	-	1,170,769
Year 3	1,170,769	23,415	77,184	3,364	(8,409)	-	1,266,322
Year 4	1,266,322	25,326	83,484	3,921	(9,803)	-	1,369,251
Year 5	1,369,251	27,385	90,269	4,509	(11,272)	-	1,480,141
Year 6	1,480,141	29,603	97,580	5,130	(12,825)	-	1,599,629
Year 7	1,599,629	31,993	105,457	5,788	(14,470)	-	1,728,396
Year 8	1,728,396	34,568	113,946	6,486	(16,214)	-	1,867,182
Year 9	1,867,182	37,344	123,096	7,227	(18,068)	-	2,016,780
Year 10	2,016,780	40,336	132,958	83,696	(209,240)	-	2,064,530

Managed Fund - 50% Turnover - 7.046% Growth Rate

	Beginning of Year	Dividend Income	Growth	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	70,460	8,285	(20,713)	-	1,078,033
Year 2	1,078,033	21,561	75,958	8,805	(22,013)	-	1,162,344
Year 3	1,162,344	23,247	81,899	10,547	(26,367)	-	1,251,669
Year 4	1,251,669	25,033	88,193	11,888	(29,721)	-	1,347,063
Year 5	1,347,063	26,941	94,914	13,062	(32,656)	-	1,449,325
Year 6	1,449,325	28,986	102,120	14,190	(35,474)	-	1,559,146
Year 7	1,559,146	31,183	109,858	15,333	(38,333)	-	1,677,187
Year 8	1,677,187	33,544	118,175	16,529	(41,322)	-	1,804,113
Year 9	1,804,113	36,082	127,118	17,797	(44,493)	-	1,940,617
Year 10	1,940,617	38,812	136,736	34,424	(86,059)	-	2,064,530

Schedule 6 - Cam Compatible

D: Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 10 Years Before Grantor Dies

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Assumptions:			
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	6.593%	7.046%	7.944%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Ordinary and Health Care Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Managed Fund - 200% Turnover - 7.944% Growth Rate

	Beginning of Year	Dividend Income	Growth	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	79,441	16,172	(40,431)	-	1,075,182
Year 2	1,075,182	21,504	85,413	17,388	(43,470)	-	1,156,017
Year 3	1,156,017	23,120	91,835	18,695	(46,738)	-	1,242,929
Year 4	1,242,929	24,859	98,739	20,101	(50,252)	-	1,336,375
Year 5	1,336,375	26,728	106,163	21,612	(54,030)	-	1,436,847
Year 6	1,436,847	28,737	114,144	23,237	(58,092)	-	1,544,873
Year 7	1,544,873	30,897	122,726	24,984	(62,460)	-	1,661,020
Year 8	1,661,020	33,220	131,953	26,862	(67,156)	-	1,785,899
Year 9	1,785,899	35,718	141,873	28,882	(72,205)	-	1,920,167
Year 10	1,920,167	38,403	152,539	31,053	(77,633)	-	2,064,530

Schedule 6 - Cam Compatible

E: Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 10 Years After Grantor Dies

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	7.062%	7.374%	7.944%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Ordinary and Health Care Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Indexed Fund - 5% Turnover - 7.062% Growth Rate

	Beginning of Year	Dividend Income	Growth	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	70,623	2,630	(6,575)	-	1,086,678
Year 2	1,086,678	21,734	76,744	2,893	(7,231)	-	1,180,817
Year 3	1,180,817	23,616	83,393	3,462	(8,655)	-	1,282,633
Year 4	1,282,633	25,653	90,583	4,063	(10,158)	-	1,392,774
Year 5	1,392,774	27,855	98,362	4,701	(11,751)	-	1,511,941
Year 6	1,511,941	30,239	106,778	5,377	(13,443)	-	1,640,892
Year 7	1,640,892	32,818	115,885	6,097	(15,242)	-	1,780,449
Year 8	1,780,449	35,609	125,740	6,864	(17,159)	-	1,931,503
Year 9	1,931,503	38,630	136,408	7,683	(19,207)	-	2,095,017
Year 10	2,095,017	41,900	147,956	8,559	(228,903)	-	2,064,530

Managed Fund - 50% Turnover - 7.374% Growth Rate

	Beginning of Year	Dividend Income	Growth	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	73,742	8,578	(21,444)	-	1,080,875
Year 2	1,080,875	21,617	79,705	10,590	(26,476)	-	1,166,313
Year 3	1,166,313	23,326	86,006	12,765	(31,913)	-	1,256,497
Year 4	1,256,497	25,130	92,656	14,428	(36,071)	-	1,352,640
Year 5	1,352,640	27,053	99,746	15,875	(39,686)	-	1,455,627
Year 6	1,455,627	29,113	107,340	17,257	(43,141)	-	1,566,195
Year 7	1,566,195	31,324	115,494	18,655	(46,638)	-	1,685,030
Year 8	1,685,030	33,701	124,257	20,115	(50,288)	-	1,812,814
Year 9	1,812,814	36,256	133,680	21,663	(54,158)	-	1,950,255
Year 10	1,950,255	39,005	143,815	23,317	(91,862)	-	2,064,530

Schedule 6 - Cam Compatible

E: Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 10 Years After Grantor Dies

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	7.062%	7.374%	7.944%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Ordinary and Health Care Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Managed Fund - 200% Turnover - 7.944% Growth Rate

	Beginning of Year	Dividend Income	Growth	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	20,000	79,441	16,172	(40,431)	-	1,075,182
Year 2	1,075,182	21,504	85,413	17,388	(43,470)	-	1,156,017
Year 3	1,156,017	23,120	91,835	18,695	(46,738)	-	1,242,929
Year 4	1,242,929	24,859	98,739	20,101	(50,252)	-	1,336,375
Year 5	1,336,375	26,728	106,163	21,612	(54,030)	-	1,436,847
Year 6	1,436,847	28,737	114,144	23,237	(58,092)	-	1,544,873
Year 7	1,544,873	30,897	122,726	24,984	(62,460)	-	1,661,020
Year 8	1,661,020	33,220	131,953	26,862	(67,156)	-	1,785,899
Year 9	1,785,899	35,718	141,873	28,882	(72,205)	-	1,920,167
Year 10	1,920,167	38,403	152,539	31,053	(77,633)	-	2,064,530

Schedule 6 - Cam Compatible

F: Fund is Held in a Non-Grantor Trust and Remaining Unrealized Income is Taxed in 10 Years

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	7.487%	8.481%	10.863%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Ordinary and Health Care Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Indexed Fund - 5% Turnover - 7.487% Growth Rate

	Beginning of Year	Dividend Income	Growth	Income Taxes	Estate Taxes	End of Year
Year 1	1,000,000	20,000	74,869	(6,670)	-	1,088,199
Year 2	1,088,199	21,764	81,472	(7,348)	-	1,184,087
Year 3	1,184,087	23,682	88,651	(8,841)	-	1,287,579
Year 4	1,287,579	25,752	96,400	(10,417)	-	1,399,314
Year 5	1,399,314	27,986	104,765	(12,086)	-	1,519,978
Year 6	1,519,978	30,400	113,799	(13,858)	-	1,650,319
Year 7	1,650,319	33,006	123,558	(15,741)	-	1,791,142
Year 8	1,791,142	35,823	134,101	(17,747)	-	1,943,319
Year 9	1,943,319	38,866	145,494	(19,887)	-	2,107,793
Year 10	2,107,793	42,156	157,808	(243,227)	-	2,064,530

Managed Fund - 50% Turnover - 8.481% Growth Rate

	Beginning of Year	Dividend Income	Growth	Income Taxes	Estate Taxes	End of Year
Year 1	1,000,000	20,000	84,809	(23,912)	-	1,080,897
Year 2	1,080,897	21,618	91,670	(25,449)	-	1,168,736
Year 3	1,168,736	23,375	99,119	(30,684)	-	1,260,545
Year 4	1,260,545	25,211	106,905	(34,705)	-	1,357,956
Year 5	1,357,956	27,159	115,167	(38,208)	-	1,462,074
Year 6	1,462,074	29,241	123,997	(41,557)	-	1,573,755
Year 7	1,573,755	31,475	133,468	(44,946)	-	1,693,753
Year 8	1,693,753	33,875	143,645	(48,482)	-	1,822,791
Year 9	1,822,791	36,456	154,589	(52,232)	-	1,961,604
Year 10	1,961,604	39,232	166,361	(102,668)	-	2,064,530

Schedule 6 - Cam Compatible

F: Fund is Held in a Non-Grantor Trust and Remaining Unrealized Income is Taxed in 10 Years

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%
Rate of Return Taxed at Capital Gains Rates	7.487%	8.481%	10.863%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	25.000%	25.000%	25.000%
Short Term Capital Gain and Health Care Tax Rate	44.600%	44.600%	44.600%
Ordinary and Health Care Tax Rate	25.000%	25.000%	25.000%
Federal Estate Taxes	40.000%	40.000%	40.000%

Managed Fund - 200% Turnover - 10.863% Growth Rate

	Beginning of Year	Dividend Income	Growth	Income Taxes	Estate Taxes	End of Year
Year 1	1,000,000	20,000	108,632	(53,450)	-	1,075,182
Year 2	1,075,182	21,504	116,800	(57,469)	-	1,156,017
Year 3	1,156,017	23,120	125,581	(61,789)	-	1,242,929
Year 4	1,242,929	24,859	135,022	(66,435)	-	1,336,376
Year 5	1,336,376	26,728	145,174	(71,429)	-	1,436,847
Year 6	1,436,847	28,737	156,088	(76,800)	-	1,544,873
Year 7	1,544,873	30,897	167,823	(82,574)	-	1,661,020
Year 8	1,661,020	33,220	180,441	(88,782)	-	1,785,899
Year 9	1,785,899	35,718	194,007	(95,456)	-	1,920,168
Year 10	1,920,168	38,403	208,592	(102,633)	-	2,064,530

Schedule 7 - Cam Compatible

A: Fund is Owned by Investor and is Fully Taxable in the Investor's Estate

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Tax Free Bond Fund	Taxable Bond Fund
Rate of Return - Tax Free Income	8.398%	0.000%
Rate of Return Taxed at Ordinary Rates	0.000%	15.159%
Ordinary Income Tax	44.600%	44.600%
Federal Estate Tax	40.000%	40.000%

Tax Free Bond Fund - 8.398% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	83,982	-	-	-	1,083,982
Year 2	1,083,982	91,035	-	-	-	1,175,017
Year 3	1,175,017	98,680	-	-	-	1,273,697
Year 4	1,273,697	106,968	-	-	-	1,380,665
Year 5	1,380,665	115,951	-	-	-	1,496,616
Year 6	1,496,616	125,689	-	-	-	1,622,305
Year 7	1,622,305	136,245	-	-	-	1,758,550
Year 8	1,758,550	147,687	-	-	-	1,906,236
Year 9	1,906,236	160,090	-	-	-	2,066,326
Year 10	2,066,326	173,534	-	-	(895,944)	1,343,916

Taxable Bond Fund - 15.159% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	-	151,592	(67,610)	-	1,083,982
Year 2	1,083,982	-	164,323	(73,288)	-	1,175,017
Year 3	1,175,017	-	178,123	(79,443)	-	1,273,697
Year 4	1,273,697	-	193,082	(86,115)	-	1,380,665
Year 5	1,380,665	-	209,298	(93,347)	-	1,496,616
Year 6	1,496,616	-	226,875	(101,186)	-	1,622,305
Year 7	1,622,305	-	245,929	(109,684)	-	1,758,549
Year 8	1,758,549	-	266,582	(118,896)	-	1,906,236
Year 9	1,906,236	-	288,970	(128,881)	-	2,066,325
Year 10	2,066,325	-	313,239	(139,704)	(895,944)	1,343,916

Schedule 7 - Cam Compatible

B: Fund is Held in a Grantor Trust at Investor's Death

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Tax Free Bond Fund	Taxable Bond Fund
Rate of Return - Tax Free Income	3.000%	0.000%
Rate of Return Taxed at Ordinary Rates	0.000%	4.096%
Ordinary Income Tax	44.600%	44.600%
Federal Estate Tax	40.000%	40.000%

Tax Free Bond Fund - 3.000% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	30,000	-	-	-	-	1,030,000
Year 2	1,030,000	30,900	-	-	-	-	1,060,900
Year 3	1,060,900	31,827	-	-	-	-	1,092,727
Year 4	1,092,727	32,782	-	-	-	-	1,125,509
Year 5	1,125,509	33,765	-	-	-	-	1,159,274
Year 6	1,159,274	34,778	-	-	-	-	1,194,052
Year 7	1,194,052	35,822	-	-	-	-	1,229,874
Year 8	1,229,874	36,896	-	-	-	-	1,266,770
Year 9	1,266,770	38,003	-	-	-	-	1,304,773
Year 10	1,304,773	39,143	-	-	-	-	1,343,916

Taxable Bond Fund - 4.096% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	-	40,961	7,307	(18,269)	-	1,030,000
Year 2	1,030,000	-	42,190	7,527	(18,817)	-	1,060,900
Year 3	1,060,900	-	43,456	7,753	(19,381)	-	1,092,727
Year 4	1,092,727	-	44,759	7,985	(19,963)	-	1,125,509
Year 5	1,125,509	-	46,102	8,225	(20,562)	-	1,159,274
Year 6	1,159,274	-	47,485	8,471	(21,178)	-	1,194,052
Year 7	1,194,052	-	48,910	8,726	(21,814)	-	1,229,874
Year 8	1,229,874	-	50,377	8,987	(22,468)	-	1,266,770
Year 9	1,266,770	-	51,888	9,257	(23,142)	-	1,304,773
Year 10	1,304,773	-	53,445	9,535	(23,837)	-	1,343,916

Schedule 7 - Cam Compatible

C: Fund is Held in a Non-Grantor Trust; or Fund is Owned by Investor and Investor's Estate is Lower than Remaining Estate Tax Exemption; or a Bequest of Fund is Made to Charity at Investor's Death

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Tax Free Bond Fund	Taxable Bond Fund
Rate of Return - Tax Free Income	3.000%	0.000%
Rate of Return Taxed at Ordinary Rates	0.000%	5.415%
Ordinary Income Tax	44.600%	44.600%
Federal Estate Tax	40.000%	40.000%

Tax Free Bond Fund - 3.000% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Income Taxes	Estate Taxes	End of Year
Year 1	1,000,000	30,000	-	-	-	1,030,000
Year 2	1,030,000	30,900	-	-	-	1,060,900
Year 3	1,060,900	31,827	-	-	-	1,092,727
Year 4	1,092,727	32,782	-	-	-	1,125,509
Year 5	1,125,509	33,765	-	-	-	1,159,274
Year 6	1,159,274	34,778	-	-	-	1,194,052
Year 7	1,194,052	35,822	-	-	-	1,229,874
Year 8	1,229,874	36,896	-	-	-	1,266,770
Year 9	1,266,770	38,003	-	-	-	1,304,773
Year 10	1,304,773	39,143	-	-	-	1,343,916

Taxable Bond Fund - 5.415% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Income Taxes	Estate Taxes	End of Year
Year 1	1,000,000	-	54,152	(24,152)	-	1,030,000
Year 2	1,030,000	-	55,776	(24,876)	-	1,060,900
Year 3	1,060,900	-	57,449	(25,622)	-	1,092,727
Year 4	1,092,727	-	59,173	(26,391)	-	1,125,509
Year 5	1,125,509	-	60,948	(27,183)	-	1,159,274
Year 6	1,159,274	-	62,777	(27,998)	-	1,194,052
Year 7	1,194,052	-	64,660	(28,838)	-	1,229,874
Year 8	1,229,874	-	66,600	(29,703)	-	1,266,770
Year 9	1,266,770	-	68,598	(30,595)	-	1,304,773
Year 10	1,304,773	-	70,656	(31,512)	-	1,343,916

Schedule 8 - Assets Earn 2.2% Annually

Neal and Nancy Navigator

Hypothetical Integrated Income and Estate Tax Plan Comparisons (Three-Year Future Values)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Three-Year Future Values	Present Values (Discounted at 2.5%)	Percentage of Total
No Further Planning			
Mr. and Mrs. Neal Navigator	33,987,889	31,561,134	99.50%
Navigator Children	-	-	0.00%
IRS Income Tax - Direct Cost	166,765	154,858	0.49%
IRS Income Tax - Investment Opportunity Cost	4,150	3,854	0.01%
Total	\$34,158,805	\$31,719,846	100.00%
Hypothetical Technique #1a (Conventional GRAT): Contribution of Assets to a Three-Year GRAT that Does Not Use Discounted Entities or Leverage; Remaindermen of GRAT is a Non-GST Grantor Trust			
Mr. and Mrs. Neal Navigator	33,987,745	31,561,000	99.50%
Navigator Children	144	134	0.00%
IRS - Income Tax	166,765	154,858	0.49%
IRS - Investment Opportunity Costs	4,150	3,854	0.01%
Total	\$34,158,805	\$31,719,846	100.00%
Hypothetical Technique #2a (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage, Contribution to a Three-Year GRAT			
Mr. and Mrs. Neal Navigator	32,512,758	30,191,328	95.18%
Navigator Children	1,475,131	1,369,806	4.32%
IRS Income Tax - Direct Cost	166,765	154,858	0.49%
IRS Income Tax - Investment Opportunity Cost	4,150	3,854	0.01%
Total	\$34,158,805	\$31,719,846	100.00%
Hypothetical Technique #3a (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted; Contribution to a Three-Year GRAT			
Mr. and Mrs. Neal Navigator	26,216,640	24,344,757	76.75%
Navigator Children	7,771,249	7,216,378	22.75%
IRS Income Tax - Direct Cost	166,765	154,858	0.49%
IRS Income Tax - Investment Opportunity Cost	4,150	3,854	0.01%
Total	\$34,158,805	\$31,719,846	100.00%

Asset Page*

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

		Neal and Nancy Navigator
Assets		
FMV: Financial Assets		\$27,000,000
Basis: Financial Assets		\$27,000,000
FMV: Alternative Investments		\$5,000,000
Basis: Alternative Investments		\$5,000,000
Total Assets:		\$32,000,000
Total Basis:		\$32,000,000

* Information provided by client. There is no proposed planning for Mr. and Mrs. Navigator's other assets.

Schedule 8 - Assets Earn 2.2% Annually
Neal and Nancy Navigator
No Further Planning

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	2.20%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial & Other Assets
Year 1	32,000,000	192,000	768,000	(256,000)	(66,432)	32,637,568
Year 2	32,637,568	195,825	783,302	(261,101)	(54,316)	33,301,279
Year 3	33,301,279	199,808	799,231	(266,410)	(46,018)	33,987,889

Schedule 8 - Assets Earn 2.2% Annually**Neal and Nancy Navigator****Hypothetical Technique #1a (Conventional GRAT): Contribution of Assets to a Three-Year GRAT that Does Not Use Discounted Entities or Leverage; Remaindermen of GRAT is a Non-GST Grantor Trust**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:		
Total Estimated Rate of Return	2.20%	
Rate of Return Taxed at Ordinary Rates	0.60%	
Rate of Return Tax Free	2.40%	
Rate of Return Taxed at Capital Gains Rates	-0.80%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Long-Term Capital Gain and Health Care Tax Rate	25.00%	
Ordinary and Health Care Tax Rate	44.60%	

Assumptions (continued):		
GRAT Annual Annuity	\$8,702,613	
IRS §7520 Rate - June 2014	2.20%	

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	(56,000)	8,702,613	(66,432)	15,790,181
Year 2	15,790,181	94,741	378,964	(126,321)	8,702,613	(54,316)	24,785,861
Year 3	24,785,861	148,715	594,861	(198,287)	8,702,613	(46,018)	33,987,745

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	25,000,000	150,000	600,000	(200,000)	(8,702,613)	-	16,847,388
Year 2	16,847,388	101,084	404,337	(134,779)	(8,702,613)	-	8,515,418
Year 3	8,515,418	51,093	204,370	(68,123)	(8,702,613)	(144)	-

Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Descendants (Remainder of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	GRAT Terminates	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	144	-	-	144

Schedule 8 - Assets Earn 2.2% Annually

Neal and Nancy Navigator

Hypothetical Technique #2a (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage,

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

<u>Assumptions:</u>		<u>Assumptions (continued):</u>	
Total Estimated Rate of Return	2.20%	Financial Assets, LP Valuation Discount	35.00%
Rate of Return Taxed at Ordinary Rates	0.60%	Financial Assets, LP Distributions	4.00%
Rate of Return Tax Free	2.40%	Holdco, FLLC Valuation Discount	20.00%
Rate of Return Taxed at Capital Gains Rates	-0.80%	Holdco, FLLC Distributions	2.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	GRAT Annual Annuity	\$4,926,737
Long-Term Capital Gain Tax Rate	25.00%	IRS §7520 Rate - June 2014	2.20%
Ordinary Tax Rate	44.60%		

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Cash Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	(56,000)	8,000	9,020	892,980	(66,432)	7,997,568
Year 2	7,997,568	47,985	191,942	(63,981)	7,856	262,653	625,091	(54,316)	9,014,799
Year 3	9,014,799	54,089	216,355	(72,118)	7,715	528,353	345,392	(46,018)	10,048,566

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets
Year 1	20,000,000	120,000	480,000	(160,000)	(800,000)	19,640,000
Year 2	19,640,000	117,840	471,360	(157,120)	(785,600)	19,286,480
Year 3	19,286,480	115,719	462,876	(154,292)	(771,459)	18,939,323

Ownership	
Neal Navigator	Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Distributions	End of Year Financial & Other Assets
Year 1	5,000,000	30,000	120,000	(40,000)	792,000	(902,000)	5,000,000
Year 2	5,000,000	30,000	120,000	(40,000)	777,744	(887,744)	5,000,000
Year 3	5,000,000	30,000	120,000	(40,000)	763,745	(873,745)	5,000,000

End of Year Ownership	
Neal Navigator	GRAT & Grantor Trust #1
29.59%	70.41%
60.47%	39.53%
93.79%	6.21%

Schedule 8 - Assets Earn 2.2% Annually

Neal and Nancy Navigator

Hypothetical Technique #2a (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage,

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	2.20%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, LP Valuation Discount	35.00%
Financial Assets, LP Distributions	4.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	\$4,926,737
IRS §7520 Rate - June 2014	2.20%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Cash Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	892,980	(892,980)	-	-
Year 2	-	-	-	-	625,091	(625,091)	-	-
Year 3	-	-	-	-	345,392	(345,392)	-	-

In-Kind Annuity Payments with Holdco Units	Holdco %
5,042,196	28.59%
5,377,057	30.88%
5,726,682	33.32%

New Non-GST Grantor Trusts #1 Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Schedule 8 - Assets Earn 2.2% Annually

Neal and Nancy Navigator

Hypothetical Technique #3a (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted;

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	2.20%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):

Financial Assets, FLP Valuation Discount	35.00%
Financial Assets, LP Distributions	2.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	\$512,331
IRS §7520 Rate - June 2014	2.20%
Intra-Family Interest Rate (short-term) - June 2014	0.32%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Annuity Payments	Note Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	(56,000)	8,000	5,175	512,331	53,519	(66,432)	7,666,593
Year 2	7,666,593	46,000	183,998	(61,333)	8,000	5,175	512,331	53,519	(54,316)	8,359,968
Year 3	8,359,968	50,160	200,639	(66,880)	3,437	5,175	512,331	53,519	(46,018)	9,072,331

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets
Year 1	18,000,000	108,000	432,000	(144,000)	(800,000)	17,596,000
Year 2	17,596,000	105,576	422,304	(140,768)	(800,000)	17,183,112
Year 3	17,183,112	103,099	412,395	(137,465)	(343,662)	17,217,478

Ownership	
Neal Navigator	Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Note Payments	Distributions	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	(56,000)	792,000	(53,519)	(517,506)	7,374,975
Year 2	7,374,975	44,250	176,999	(59,000)	792,000	(53,519)	(517,506)	7,758,199
Year 3	7,758,199	46,549	186,197	(62,066)	340,226	(53,519)	(517,506)	7,698,080

Ownership	
Neal Navigator	GRAT & Grantor Trust
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Schedule 8 - Assets Earn 2.2% Annually

Neal and Nancy Navigator

Hypothetical Technique #3a (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted;

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	2.20%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):

Financial Assets, FLP Valuation Discount	35.00%
Financial Assets, LP Distributions	2.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	\$512,331
IRS §7520 Rate - June 2014	2.20%
Intra-Family Interest Rate (short-term) - June 2014	0.32%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	512,331	(512,331)	-	-
Year 2	-	-	-	-	512,331	(512,331)	-	-
Year 3	-	-	-	-	512,331	(512,331)	-	-

New Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Note #1 Between Neal Navigator and Holdco, FLLC for the Purchase of Non-Managing Member Interests

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	16,724,700	53,519	(53,519)	16,724,700
Year 2	16,724,700	53,519	(53,519)	16,724,700
Year 3	16,724,700	53,519	(53,519)	16,724,700

Schedule 8 - Assets Earn 7.4% Annually

Neal and Nancy Navigator

Hypothetical Integrated Income and Estate Tax Plan Comparisons (Three-Year Future Values)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Three-Year Future Values	Present Values (Discounted at 2.5%)	Percentage of Total
No Further Planning			
Mr. and Mrs. Neal Navigator	38,774,953	36,006,399	97.81%
Navigator Children	-	-	0.00%
IRS Income Tax - Direct Cost	817,777	759,387	2.06%
IRS Income Tax - Investment Opportunity Cost	49,933	46,368	0.13%
Total	\$39,642,663	\$36,812,154	100.00%
Hypothetical Technique #1b (Conventional GRAT): Contribution of Assets to a Three-Year GRAT that Does Not Use Discounted Entities or Leverage; Remaindermen of GRAT is a Non-GST Grantor Trust			
Mr. and Mrs. Neal Navigator	35,891,596	33,328,915	90.54%
Navigator Children	2,883,358	2,677,484	7.27%
IRS Income Tax - Direct Cost	817,777	759,387	2.06%
IRS Income Tax - Investment Opportunity Cost	49,933	46,368	0.13%
Total	\$39,642,663	\$36,812,154	100.00%
Hypothetical Technique #2b (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage, Contribution to a Three-Year GRAT			
Mr. and Mrs. Neal Navigator	33,985,022	31,558,472	85.73%
Navigator Children	4,789,931	4,447,927	12.08%
IRS Income Tax - Direct Cost	817,777	759,387	2.06%
IRS Income Tax - Investment Opportunity Cost	49,933	46,368	0.13%
Total	\$39,642,663	\$36,812,154	100.00%
Hypothetical Technique #3b (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted; Contribution to a Three-Year GRAT			
Mr. and Mrs. Neal Navigator	26,883,832	24,964,310	67.82%
Navigator Children	11,891,122	11,042,089	30.00%
IRS Income Tax - Direct Cost	817,777	759,387	2.06%
IRS Income Tax - Investment Opportunity Cost	49,933	46,368	0.13%
Total	\$39,642,663	\$36,812,154	100.00%

Schedule 8 - Assets Earn 7.4% Annually
Neal and Nancy Navigator
No Further Planning

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial & Other Assets
Year 1	32,000,000	192,000	768,000	1,408,000	(191,232)	34,176,768
Year 2	34,176,768	205,061	820,242	1,503,778	(278,160)	36,427,688
Year 3	36,427,688	218,566	874,265	1,602,818	(348,384)	38,774,953

Schedule 8 - Assets Earn 7.4% Annually

Neal and Nancy Navigator

Hypothetical Technique #1b (Conventional GRAT): Contribution of Assets to a Three-Year GRAT that Does Not Use Discounted Entities or Leverage; Remaindermen of GRAT is a Non-GST Grantor Trust

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:		
Total Estimated Rate of Return	7.40%	
Rate of Return Taxed at Ordinary Rates	0.60%	
Rate of Return Tax Free	2.40%	
Rate of Return Taxed at Capital Gains Rates	4.40%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Long-Term Capital Gain and Health Care Tax Rate	25.00%	
Ordinary and Health Care Tax Rate	44.60%	

Assumptions (continued):		
GRAT Annual Annuity	\$8,702,613	
IRS §7520 Rate - June 2014	2.20%	

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	308,000	8,702,613	(191,232)	16,029,381
Year 2	16,029,381	96,176	384,705	705,293	8,702,613	(278,160)	25,640,007
Year 3	25,640,007	153,840	615,360	1,128,160	8,702,613	(348,384)	35,891,596

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	25,000,000	150,000	600,000	1,100,000	(8,702,613)	-	18,147,388
Year 2	18,147,388	108,884	435,537	798,485	(8,702,613)	-	10,787,682
Year 3	10,787,682	64,726	258,904	474,658	(8,702,613)	(2,883,358)	-

Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Descendants (Remainder of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	GRAT Terminates	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	2,883,358	-	-	2,883,358

Schedule 8 - Assets Earn 7.4% Annually

Neal and Nancy Navigator

Hypothetical Technique #2b (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage,

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

<u>Assumptions:</u>		<u>Assumptions (continued):</u>	
Total Estimated Rate of Return	7.40%	Financial Assets, LP Valuation Discount	35.00%
Rate of Return Taxed at Ordinary Rates	0.60%	Financial Assets, LP Distributions	4.00%
Rate of Return Tax Free	2.40%	Holdco, FLLC Valuation Discount	20.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	Holdco, FLLC Distributions	2.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	GRAT Annual Annuity	\$4,926,737
Long-Term Capital Gain Tax Rate	25.00%	IRS §7520 Rate - June 2014	2.20%
Ordinary Tax Rate	44.60%		

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Cash Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	308,000	8,000	11,620	1,150,380	(191,232)	8,496,768
Year 2	8,496,768	50,981	203,922	373,858	8,272	318,444	870,484	(278,160)	10,044,568
Year 3	10,044,568	60,267	241,070	441,961	8,553	654,761	562,011	(348,384)	11,664,807

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets
Year 1	20,000,000	120,000	480,000	880,000	(800,000)	20,680,000
Year 2	20,680,000	124,080	496,320	909,920	(827,200)	21,383,120
Year 3	21,383,120	128,299	513,195	940,857	(855,325)	22,110,146

Ownership	
Neal Navigator	Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Distributions	End of Year Financial & Other Assets
Year 1	5,000,000	30,000	120,000	220,000	792,000	(1,162,000)	5,000,000
Year 2	5,000,000	30,000	120,000	220,000	818,928	(1,188,928)	5,000,000
Year 3	5,000,000	30,000	120,000	220,000	846,772	(1,216,772)	5,000,000

Ownership	
Neal Navigator	GRAT & Grantor Trust #1
26.78%	73.22%
53.81%	46.19%
82.19%	17.81%

Schedule 8 - Assets Earn 7.4% Annually

Neal and Nancy Navigator

Hypothetical Technique #2b (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage,

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, LP Valuation Discount	35.00%
Financial Assets, LP Distributions	4.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	\$4,926,737
IRS §7520 Rate - June 2014	2.20%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Cash Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	1,150,380	(1,150,380)	-	-
Year 2	-	-	-	-	870,484	(870,484)	-	-
Year 3	-	-	-	-	562,011	(562,011)	-	-

In-Kind Annuity Payments with Holdco Units	Holdco %
4,720,446	25.78%
5,070,316	27.03%
5,455,908	28.37%

New Non-GST Grantor Trusts #1 Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Schedule 8 - Assets Earn 7.4% Annually

Neal and Nancy Navigator

Hypothetical Technique #3b (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted;

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):

Financial Assets, FLP Valuation Discount	35.00%
Financial Assets, LP Distributions	2.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	\$512,331
IRS §7520 Rate - June 2014	2.20%
Intra-Family Interest Rate (short-term) - June 2014	0.32%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Annuity Payments	Note Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	308,000	8,000	5,175	512,331	53,519	(191,232)	7,905,793
Year 2	7,905,793	47,435	189,739	347,855	8,000	5,175	512,331	53,519	(278,160)	8,791,687
Year 3	8,791,687	52,750	211,000	386,834	3,821	5,175	512,331	53,519	(348,384)	9,668,733

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets
Year 1	18,000,000	108,000	432,000	792,000	(800,000)	18,532,000
Year 2	18,532,000	111,192	444,768	815,408	(800,000)	19,103,368
Year 3	19,103,368	114,620	458,481	840,548	(382,067)	20,134,950

Ownership	
Neal Navigator	Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Note Payments	Distributions	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	308,000	792,000	(53,519)	(517,506)	7,738,975
Year 2	7,738,975	46,434	185,735	340,515	792,000	(53,519)	(517,506)	8,532,634
Year 3	8,532,634	51,196	204,783	375,436	378,247	(53,519)	(517,506)	8,971,270

Ownership	
Neal Navigator	GRAT & Grantor Trust
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Schedule 8 - Assets Earn 7.4% Annually

Neal and Nancy Navigator

Hypothetical Technique #3b (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted;

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):

Financial Assets, FLP Valuation Discount	35.00%
Financial Assets, LP Distributions	2.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	\$512,331
IRS §7520 Rate - June 2014	2.20%
Intra-Family Interest Rate (short-term) - June 2014	0.32%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	512,331	(512,331)	-	-
Year 2	-	-	-	-	512,331	(512,331)	-	-
Year 3	-	-	-	-	512,331	(512,331)	-	-

New Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Note #1 Between Neal Navigator and Holdco, FLLC for the Purchase of Non-Managing Member Interests

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	16,724,700	53,519	(53,519)	16,724,700
Year 2	16,724,700	53,519	(53,519)	16,724,700
Year 3	16,724,700	53,519	(53,519)	16,724,700

Schedule 8 - Assets Earn 10.0% Annually

Neal and Nancy Navigator

Hypothetical Integrated Income and Estate Tax Plan Comparisons (Three-Year Future Values)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Three-Year Future Values	Present Values (Discounted at 2.5%)	Percentage of Total
No Further Planning			
Mr. Neal Navigator	41,338,758	38,387,146	97.06%
Navigator Children	-	-	0.00%
IRS Income Tax - Direct Cost	1,160,521	1,077,659	2.72%
IRS Income Tax - Investment Opportunity Cost	92,721	86,101	0.22%
Total	<u>\$42,592,000</u>	<u>\$39,550,906</u>	<u>100.00%</u>
Hypothetical Technique #1c (Conventional GRAT): Contribution of Assets to a Three-Year GRAT that Does Not Use Discounted Entities or Leverage; Remaindermen of GRAT is a Non-GST Grantor Trust			
Mr. Neal Navigator	36,869,405	34,236,908	86.56%
Navigator Children	4,469,353	4,150,238	10.49%
IRS Income Tax - Direct Cost	1,160,521	1,077,659	2.72%
IRS Income Tax - Investment Opportunity Cost	92,721	86,101	0.22%
Total	<u>\$42,592,000</u>	<u>\$39,550,906</u>	<u>100.00%</u>
Hypothetical Technique #2c (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage, Contribution to a Three-Year GRAT			
Mr. Neal Navigator	34,699,299	32,221,749	81.47%
Navigator Children	6,639,459	6,165,397	15.59%
IRS Income Tax - Direct Cost	1,160,521	1,077,659	2.72%
IRS Income Tax - Investment Opportunity Cost	92,721	86,101	0.22%
Total	<u>\$42,592,000</u>	<u>\$39,550,906</u>	<u>100.00%</u>
Hypothetical Technique #3c (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted; Contribution to a Three-Year GRAT			
Mr. Neal Navigator	27,229,585	25,285,376	63.93%
Navigator Children	14,109,173	13,101,770	33.13%
IRS Income Tax - Direct Cost	1,160,521	1,077,659	2.72%
IRS Income Tax - Investment Opportunity Cost	92,721	86,101	0.22%
Total	<u>\$42,592,000</u>	<u>\$39,550,906</u>	<u>100.00%</u>

Schedule 8 - Assets Earn 10.0% Annually

Neal and Nancy Navigator

No Further Planning

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Mr. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial & Other Assets
Year 1	32,000,000	192,000	768,000	2,240,000	(253,632)	34,946,368
Year 2	34,946,368	209,678	838,713	2,446,246	(394,585)	38,046,420
Year 3	38,046,420	228,279	913,114	2,663,249	(512,304)	41,338,758

Schedule 8 - Assets Earn 10.0% Annually**Neal and Nancy Navigator****Hypothetical Technique #1c (Conventional GRAT): Contribution of Assets to a Three-Year GRAT that Does Not Use Discounted Entities or Leverage; Remaindermen of GRAT is a Non-GST Grantor Trust**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):

GRAT Annual Annuity	\$8,702,613
IRS §7520 Rate - June 2014	2.20%

Mr. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	490,000	8,702,613	(253,632)	16,148,981
Year 2	16,148,981	96,894	387,576	1,130,429	8,702,613	(394,585)	26,071,906
Year 3	26,071,906	156,431	625,726	1,825,033	8,702,613	(512,304)	36,869,405

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	25,000,000	150,000	600,000	1,750,000	(8,702,613)	-	18,797,388
Year 2	18,797,388	112,784	451,137	1,315,817	(8,702,613)	-	11,974,514
Year 3	11,974,514	71,847	287,388	838,216	(8,702,613)	(4,469,353)	-

Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Descendants (Remainder of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	GRAT Terminates	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	4,469,353	-	-	4,469,353

Schedule 8 - Assets Earn 10.0% Annually

Neal and Nancy Navigator

Hypothetical Technique #2c (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage,

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

<u>Assumptions:</u>		<u>Assumptions (continued):</u>	
Total Estimated Rate of Return	10.00%	Financial Assets, LP Valuation Discount	35.00%
Rate of Return Taxed at Ordinary Rates	0.60%	Financial Assets, LP Distributions	4.00%
Rate of Return Tax Free	2.40%	Holdco, FLLC Valuation Discount	20.00%
Rate of Return Taxed at Capital Gains Rates	7.00%	Holdco, FLLC Distributions	2.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	GRAT Annual Annuity	\$4,926,737
Long-Term Capital Gain Tax Rate	25.00%	IRS §7520 Rate - June 2014	2.20%
Ordinary Tax Rate	44.60%		

Mr. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Cash Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	490,000	8,000	12,920	1,279,080	(253,632)	8,746,368
Year 2	8,746,368	52,478	209,913	612,246	8,480	341,019	998,501	(394,585)	10,574,420
Year 3	10,574,420	63,447	253,786	740,209	8,989	704,538	685,353	(512,304)	12,518,438

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets
Year 1	20,000,000	120,000	480,000	1,400,000	(800,000)	21,200,000
Year 2	21,200,000	127,200	508,800	1,484,000	(848,000)	22,472,000
Year 3	22,472,000	134,832	539,328	1,573,040	(898,880)	23,820,320

Ownership	
Neal Navigator	Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Distributions	End of Year Financial & Other Assets
Year 1	5,000,000	30,000	120,000	350,000	792,000	(1,292,000)	5,000,000
Year 2	5,000,000	30,000	120,000	350,000	839,520	(1,339,520)	5,000,000
Year 3	5,000,000	30,000	120,000	350,000	889,891	(1,389,891)	5,000,000

Ownership	
Neal Navigator	GRAT & Grantor Trust #1
25.46%	74.54%
50.69%	49.31%
76.77%	23.23%

Schedule 8 - Assets Earn 10.0% Annually

Neal and Nancy Navigator

Hypothetical Technique #2c (Contributing Non-Leveraged Family Entities to a Conventional GRAT): Formation of Discounted Entities Without Leverage,

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, LP Valuation Discount	35.00%
Financial Assets, LP Distributions	4.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	\$4,926,737
IRS §7520 Rate - June 2014	2.20%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Cash Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	1,279,080	(1,279,080)	-	-
Year 2	-	-	-	-	998,501	(998,501)	-	-
Year 3	-	-	-	-	685,353	(685,353)	-	-

In-Kind Annuity Payments with Holdco Units	Holdco %
4,559,571	24.46%
4,910,296	25.23%
5,301,730	26.08%

New Non-GST Grantor Trusts #1 Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Schedule 8 - Assets Earn 10.0% Annually

Neal and Nancy Navigator

Hypothetical Technique #3c (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted;

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:					Assumptions (continued):				
Total Estimated Rate of Return				10.00%	Financial Assets, FLP Valuation Discount				35.00%
Rate of Return Taxed at Ordinary Rates				0.60%	Financial Assets, LP Distributions				2.00%
Rate of Return Tax Free				2.40%	Holdco, FLLC Valuation Discount				20.00%
Rate of Return Taxed at Capital Gains Rates				7.00%	Holdco, FLLC Distributions				2.00%
Turnover Rate (% of Capital Gains Recognized/Year)				30.00%	GRAT Annual Annuity				\$512,331
Long-Term Capital Gain and Health Care Tax Rate				25.00%	IRS §7520 Rate - June 2014				2.20%
Ordinary and Health Care Tax Rate				44.60%	Intra-Family Interest Rate (short-term) - June 2014				0.32%

Mr. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Annuity Payments	Note Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	490,000	8,000	5,175	512,331	53,519	(253,632)	8,025,393
Year 2	8,025,393	48,152	192,609	561,778	8,000	5,175	512,331	53,519	(394,585)	9,012,373
Year 3	9,012,373	54,074	216,297	630,866	4,020	5,175	512,331	53,519	(512,304)	9,976,352

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets
Year 1	18,000,000	108,000	432,000	1,260,000	(800,000)	19,000,000
Year 2	19,000,000	114,000	456,000	1,330,000	(800,000)	20,100,000
Year 3	20,100,000	120,600	482,400	1,407,000	(402,000)	21,708,000

Ownership	
Neal Navigator	Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Note Payments	Distributions	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	490,000	792,000	(53,519)	(517,506)	7,920,975
Year 2	7,920,975	47,526	190,103	554,468	792,000	(53,519)	(517,506)	8,934,047
Year 3	8,934,047	53,604	214,417	625,383	397,980	(53,519)	(517,506)	9,654,406

Ownership	
Neal Navigator	GRAT & Grantor Trust
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Schedule 8 - Assets Earn 10.0% Annually

Neal and Nancy Navigator

Hypothetical Technique #3c (Contributing Leveraged Family Entities to a Conventional GRAT): Formation of a Leveraged Entity that Can be Discounted;

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):

Financial Assets, FLP Valuation Discount	35.00%
Financial Assets, LP Distributions	2.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	\$512,331
IRS §7520 Rate - June 2014	2.20%
Intra-Family Interest Rate (short-term) - June 2014	0.32%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	512,331	(512,331)	-	-
Year 2	-	-	-	-	512,331	(512,331)	-	-
Year 3	-	-	-	-	512,331	(512,331)	-	-

New Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Note #1 Between Neal Navigator and Holdco, FLLC for the Purchase of Non-Managing Member Interests

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	16,724,700	53,519	(53,519)	16,724,700
Year 2	16,724,700	53,519	(53,519)	16,724,700
Year 3	16,724,700	53,519	(53,519)	16,724,700

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Table with 2 columns: Assumptions, Values. Rows include Total Rate of Return (3.00%), Rate of Return on Assets That Are Taxable at Ordinary Rate (1.00%), Rate of Return on Assets That Are Taxable at Capital Gains Rate (2.00%), Long-Term Capital Gain Tax Rate (25.00%), Ordinary Tax Rate (44.60%), Estate Tax Rate (40.00%), Turnover Rate (30.00%), Elder FLP Valuation Discount (40.00%), and Gross Proceeds (\$30,000,000).

Table with 8 columns: Scenario, Elder Children's Future Values, Elder GST Exempt Trust Future Values, Charity, IRS Income Taxes, IRS Income Taxes & Estate Taxes Investment Opp. Costs, IRS Estate Taxes, Totals. Rows include No Further Planning - No Discount Allowed, No Further Planning - Discount Allowed, CLAT Redemption - Discount Allowed - \$3mm to Family, and CLAT Redemption - Discount Allowed - \$10mm to Family.

Table with 3 columns: Scenario, Elder Children, Elder GST Exempt Trust. Rows include No Further Planning - No Discount Allowed, Elder Children (33.84%), Elder GST Exempt Trust (27.82%), Charity (0.00%), IRS (income and estate taxes) (24.46%), IRS (investment opportunity costs) (13.88%), and Total (54,183,337 / 100.00%).

Table with 3 columns: Scenario, Elder Children, Elder GST Exempt Trust. Rows include No Further Planning - Discount Allowed, Elder Children (42.56%), Elder GST Exempt Trust (27.82%), Charity (0.00%), IRS (income and estate taxes) (19.85%), IRS (investment opportunity costs) (9.77%), and Total (54,183,337 / 100.00%).

Table with 3 columns: Scenario, Elder Children, Elder GST Exempt Trust. Rows include CLAT Redemption - Discount Allowed - \$3mm to Family, Elder Children (31.04%), Elder GST Exempt Trust (31.55%), Charity (29.68%), IRS (income and estate taxes) (5.44%), IRS (investment opportunity costs) (2.28%), and Total (54,183,337 / 100.00%).

Table with 3 columns: Scenario, Elder Children, Elder GST Exempt Trust. Rows include CLAT Redemption - Discount Allowed - \$10mm to Family, Elder Children (42.04%), Elder GST Exempt Trust (26.46%), Charity (8.04%), IRS (income and estate taxes) (15.69%), IRS (investment opportunity costs) (7.77%), and Total (54,183,337 / 100.00%).

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
No Further Planning - No Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	200,000	400,000	(119,200)	(8,000,000)	12,480,800
Year 2	12,480,800	124,808	249,616	(95,386)	-	12,759,838
Year 3	12,759,838	127,598	255,197	(103,853)	-	13,038,780
Year 4	13,038,780	130,388	260,776	(110,572)	-	13,319,371
Year 5	13,319,371	133,194	266,387	(116,077)	-	13,602,875
Year 6	13,602,875	136,029	272,058	(120,744)	-	13,890,218
Year 7	13,890,218	138,902	277,804	(124,838)	-	14,182,086
Year 8	14,182,086	141,821	283,642	(128,547)	-	14,479,002
Year 9	14,479,002	144,790	289,580	(132,001)	-	14,781,370
Year 10	14,781,370	147,814	295,627	(135,294)	-	15,089,517
Year 11	15,089,517	150,895	301,790	(138,492)	-	15,403,711
Year 12	15,403,711	154,037	308,074	(141,641)	-	15,724,181
Year 13	15,724,181	157,242	314,484	(144,775)	-	16,051,132
Year 14	16,051,132	160,511	321,023	(147,916)	-	16,384,750
Year 15	16,384,750	163,847	327,695	(151,083)	-	16,725,210
Year 16	16,725,210	167,252	334,504	(154,287)	-	17,072,679
Year 17	17,072,679	170,727	341,454	(157,538)	-	17,427,321
Year 18	17,427,321	174,273	348,546	(160,842)	-	17,789,299
Year 19	17,789,299	177,893	355,786	(164,206)	-	18,158,772
Year 20	18,158,772	181,588	363,175	(369,802)	-	18,333,733

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
No Further Planning - No Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder GST Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	End of Year
Year 1	10,000,000	100,000	200,000	(59,600)	10,240,400
Year 2	10,240,400	102,404	204,808	(71,533)	10,476,079
Year 3	10,476,079	104,761	209,522	(80,540)	10,709,822
Year 4	10,709,822	107,098	214,196	(87,502)	10,943,614
Year 5	10,943,614	109,436	218,872	(93,039)	11,178,883
Year 6	11,178,883	111,789	223,578	(97,588)	11,416,662
Year 7	11,416,662	114,167	228,333	(101,454)	11,657,708
Year 8	11,657,708	116,577	233,154	(104,855)	11,902,584
Year 9	11,902,584	119,026	238,052	(107,943)	12,151,719
Year 10	12,151,719	121,517	243,034	(110,824)	12,405,446
Year 11	12,405,446	124,054	248,109	(113,576)	12,664,034
Year 12	12,664,034	126,640	253,281	(116,251)	12,927,704
Year 13	12,927,704	129,277	258,554	(118,888)	13,196,648
Year 14	13,196,648	131,966	263,933	(121,513)	13,471,034
Year 15	13,471,034	134,710	269,421	(124,147)	13,751,018
Year 16	13,751,018	137,510	275,020	(126,802)	14,036,747
Year 17	14,036,747	140,367	280,735	(129,490)	14,328,359
Year 18	14,328,359	143,284	286,567	(132,217)	14,625,993
Year 19	14,625,993	146,260	292,520	(134,990)	14,929,783
Year 20	14,929,783	149,298	298,596	(304,004)	15,073,672

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
No Further Planning - Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth t	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	200,000	400,000	(119,200)	(4,800,000)	15,680,800
Year 2	15,680,800	156,808	313,616	(114,458)	-	16,036,766
Year 3	16,036,766	160,368	320,735	(126,744)	-	16,391,125
Year 4	16,391,125	163,911	327,823	(136,345)	-	16,746,514
Year 5	16,746,514	167,465	334,930	(144,078)	-	17,104,832
Year 6	17,104,832	171,048	342,097	(150,517)	-	17,467,460
Year 7	17,467,460	174,675	349,349	(156,066)	-	17,835,418
Year 8	17,835,418	178,354	356,708	(161,012)	-	18,209,468
Year 9	18,209,468	182,095	364,189	(165,555)	-	18,590,197
Year 10	18,590,197	185,902	371,804	(169,836)	-	18,978,067
Year 11	18,978,067	189,781	379,561	(173,956)	-	19,373,453
Year 12	19,373,453	193,735	387,469	(177,985)	-	19,776,672
Year 13	19,776,672	197,767	395,533	(181,975)	-	20,187,997
Year 14	20,187,997	201,880	403,760	(185,960)	-	20,607,677
Year 15	20,607,677	206,077	412,154	(189,967)	-	21,035,940
Year 16	21,035,940	210,359	420,719	(194,014)	-	21,473,005
Year 17	21,473,005	214,730	429,460	(198,115)	-	21,919,080
Year 18	21,919,080	219,191	438,382	(202,279)	-	22,374,374
Year 19	22,374,374	223,744	447,487	(206,515)	-	22,839,089
Year 20	22,839,089	228,391	456,782	(465,084)	-	23,059,178

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
No Further Planning - Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth t	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder GST Exempt Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	10,000,000	100,000	200,000	(59,600)	-	10,240,400
Year 2	10,240,400	102,404	204,808	(71,533)	-	10,476,079
Year 3	10,476,079	104,761	209,522	(80,540)	-	10,709,822
Year 4	10,709,822	107,098	214,196	(87,502)	-	10,943,614
Year 5	10,943,614	109,436	218,872	(93,039)	-	11,178,883
Year 6	11,178,883	111,789	223,578	(97,588)	-	11,416,662
Year 7	11,416,662	114,167	228,333	(101,454)	-	11,657,708
Year 8	11,657,708	116,577	233,154	(104,855)	-	11,902,584
Year 9	11,902,584	119,026	238,052	(107,943)	-	12,151,719
Year 10	12,151,719	121,517	243,034	(110,824)	-	12,405,446
Year 11	12,405,446	124,054	248,109	(113,576)	-	12,664,034
Year 12	12,664,034	126,640	253,281	(116,251)	-	12,927,704
Year 13	12,927,704	129,277	258,554	(118,888)	-	13,196,648
Year 14	13,196,648	131,966	263,933	(121,513)	-	13,471,034
Year 15	13,471,034	134,710	269,421	(124,147)	-	13,751,018
Year 16	13,751,018	137,510	275,020	(126,802)	-	14,036,747
Year 17	14,036,747	140,367	280,735	(129,490)	-	14,328,359
Year 18	14,328,359	143,284	286,567	(132,217)	-	14,625,993
Year 19	14,625,993	146,260	292,520	(134,990)	-	14,929,783
Year 20	14,929,783	149,298	298,596	(304,004)	-	15,073,672

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Table with 2 columns: Assumptions, Values. Rows include Total Rate of Return (3.00%), Rate of Return on Assets That Are Taxable at Ordinary Rate (1.00%), Rate of Return on Assets That Are Taxable at Capital Gains Rate (2.00%), Long-Term Capital Gain Tax Rate (25.00%), Ordinary Tax Rate (44.60%), Estate Tax Rate (40.00%), Turnover Rate (30.00%).

Table with 2 columns: Assumptions (continued), Values. Rows include Interest Rate on CLAT Note (6.235%), IRS 7520 Rate (June 2014) (2.20%), CLAT Annuity Payment (\$598,560), Elder FLP Valuation Discount (40.00%).

Elder FLP

Table with 8 columns: Beg. of Year, Income, Growth, Distribution Income Taxes, Distribution Estate Taxes, Note Payment to CLAT, End of Year. Rows show data for Year 1 through Year 20.

Table with 3 columns: Ownership, Elder Children, Elder GST Exempt Trust. Rows show percentages for Elder Children (16.67% to 29.69%) and Elder GST Exempt Trust (30.00% to 70.31%).

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Income Taxes	Estate Taxes	End of Year
Year 1	-	-	-	-	1,200,000	-	-	(1,200,000)	-
Year 2	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	6,077	-	-	(6,077)	-	-
Year 4	-	-	-	10,860	-	-	(10,860)	-	-
Year 5	-	-	-	14,374	-	-	(14,374)	-	-
Year 6	-	-	-	16,998	-	-	(16,998)	-	-
Year 7	-	-	-	19,000	-	-	(19,000)	-	-
Year 8	-	-	-	20,569	-	-	(20,569)	-	-
Year 9	-	-	-	21,835	-	-	(21,835)	-	-
Year 10	-	-	-	22,894	-	-	(22,894)	-	-
Year 11	-	-	-	23,810	-	-	(23,810)	-	-
Year 12	-	-	-	24,629	-	-	(24,629)	-	-
Year 13	-	-	-	25,385	-	-	(25,385)	-	-
Year 14	-	-	-	26,100	-	-	(26,100)	-	-
Year 15	-	-	-	26,790	-	-	(26,790)	-	-
Year 16	-	-	-	27,468	-	-	(27,468)	-	-
Year 17	-	-	-	28,140	-	-	(28,140)	-	-
Year 18	-	-	-	28,814	-	-	(28,814)	-	-
Year 19	-	-	-	29,493	-	-	(29,493)	-	-
Year 20	-	-	-	145,405	-	9,600,000	(145,405)	-	9,600,000

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Elder GST Trust

	Distrib. from Elder FLP						
	Beg. of Year	Income	Growth	Income Taxes	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-
Year 3	-	-	-	14,393	-	(14,393)	-
Year 4	-	-	-	25,722	-	(25,722)	-
Year 5	-	-	-	34,043	-	(34,043)	-
Year 6	-	-	-	40,259	-	(40,259)	-
Year 7	-	-	-	45,001	-	(45,001)	-
Year 8	-	-	-	48,715	-	(48,715)	-
Year 9	-	-	-	51,715	-	(51,715)	-
Year 10	-	-	-	54,223	-	(54,223)	-
Year 11	-	-	-	56,392	-	(56,392)	-
Year 12	-	-	-	58,333	-	(58,333)	-
Year 13	-	-	-	60,123	-	(60,123)	-
Year 14	-	-	-	61,816	-	(61,816)	-
Year 15	-	-	-	63,451	-	(63,451)	-
Year 16	-	-	-	65,055	-	(65,055)	-
Year 17	-	-	-	66,648	-	(66,648)	-
Year 18	-	-	-	68,244	-	(68,244)	-
Year 19	-	-	-	69,852	-	(69,852)	-
Year 20	-	-	-	344,381	-	(344,381)	-

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Charitable Lead Annuity Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP - Income Taxes	Note Payment Received	Annuity Payment to Charity	Income Taxes	Distrib. to Elder Family Remaindermen	End of Year
Year 1	-	-	-	-	598,560	(598,560)	-	-	-
Year 2	-	-	-	-	598,560	(598,560)	-	-	-
Year 3	-	-	-	-	598,560	(598,560)	-	-	-
Year 4	-	-	-	-	598,560	(598,560)	-	-	-
Year 5	-	-	-	-	598,560	(598,560)	-	-	-
Year 6	-	-	-	-	598,560	(598,560)	-	-	-
Year 7	-	-	-	-	598,560	(598,560)	-	-	-
Year 8	-	-	-	-	598,560	(598,560)	-	-	-
Year 9	-	-	-	-	598,560	(598,560)	-	-	-
Year 10	-	-	-	-	598,560	(598,560)	-	-	-
Year 11	-	-	-	-	598,560	(598,560)	-	-	-
Year 12	-	-	-	-	598,560	(598,560)	-	-	-
Year 13	-	-	-	-	598,560	(598,560)	-	-	-
Year 14	-	-	-	-	598,560	(598,560)	-	-	-
Year 15	-	-	-	-	598,560	(598,560)	-	-	-
Year 16	-	-	-	-	598,560	(598,560)	-	-	-
Year 17	-	-	-	-	598,560	(598,560)	-	-	-
Year 18	-	-	-	-	598,560	(598,560)	-	-	-
Year 19	-	-	-	-	598,560	(598,560)	-	-	-
Year 20	-	-	-	-	10,198,560	(598,560)	-	(9,600,000)	-

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	598,560	598,560
Year 2	598,560	5,986	11,971	598,560	1,215,077
Year 3	1,215,077	12,151	24,302	598,560	1,850,089
Year 4	1,850,089	18,501	37,002	598,560	2,504,152
Year 5	2,504,152	25,042	50,083	598,560	3,177,836
Year 6	3,177,836	31,778	63,557	598,560	3,871,731
Year 7	3,871,731	38,717	77,435	598,560	4,586,443
Year 8	4,586,443	45,864	91,729	598,560	5,322,597
Year 9	5,322,597	53,226	106,452	598,560	6,080,835
Year 10	6,080,835	60,808	121,617	598,560	6,861,820
Year 11	6,861,820	68,618	137,236	598,560	7,666,234
Year 12	7,666,234	76,662	153,325	598,560	8,494,781
Year 13	8,494,781	84,948	169,896	598,560	9,348,185
Year 14	9,348,185	93,482	186,964	598,560	10,227,190
Year 15	10,227,190	102,272	204,544	598,560	11,132,566
Year 16	11,132,566	111,326	222,651	598,560	12,065,103
Year 17	12,065,103	120,651	241,302	598,560	13,025,616
Year 18	13,025,616	130,256	260,512	598,560	14,014,944
Year 19	14,014,944	140,149	280,299	598,560	15,033,953
Year 20	15,033,953	150,340	300,679	598,560	16,083,531

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	9,600,000	598,560	(598,560)	9,600,000
Year 2	9,600,000	598,560	(598,560)	9,600,000
Year 3	9,600,000	598,560	(598,560)	9,600,000
Year 4	9,600,000	598,560	(598,560)	9,600,000
Year 5	9,600,000	598,560	(598,560)	9,600,000
Year 6	9,600,000	598,560	(598,560)	9,600,000
Year 7	9,600,000	598,560	(598,560)	9,600,000
Year 8	9,600,000	598,560	(598,560)	9,600,000
Year 9	9,600,000	598,560	(598,560)	9,600,000
Year 10	9,600,000	598,560	(598,560)	9,600,000
Year 11	9,600,000	598,560	(598,560)	9,600,000
Year 12	9,600,000	598,560	(598,560)	9,600,000
Year 13	9,600,000	598,560	(598,560)	9,600,000
Year 14	9,600,000	598,560	(598,560)	9,600,000
Year 15	9,600,000	598,560	(598,560)	9,600,000
Year 16	9,600,000	598,560	(598,560)	9,600,000
Year 17	9,600,000	598,560	(598,560)	9,600,000
Year 18	9,600,000	598,560	(598,560)	9,600,000
Year 19	9,600,000	598,560	(598,560)	9,600,000
Year 20	9,600,000	598,560	(10,198,560)	-

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Elder FLP

	Beg. of Year	Income	Growth	Distribution Income Taxes	Distribution Estate Taxes	Note Payment to CLAT	End of Year
Year 1	30,000,000	300,000	600,000	(106,499)	(4,000,000)	(162,110)	26,631,391
Year 2	26,631,391	266,314	532,628	(117,922)	-	(162,110)	27,150,301
Year 3	27,150,301	271,503	543,006	(139,528)	-	(162,110)	27,663,172
Year 4	27,663,172	276,632	553,263	(156,088)	-	(162,110)	28,174,869
Year 5	28,174,869	281,749	563,497	(169,129)	-	(162,110)	28,688,876
Year 6	28,688,876	286,889	573,778	(179,724)	-	(162,110)	29,207,708
Year 7	29,207,708	292,077	584,154	(188,628)	-	(162,110)	29,733,202
Year 8	29,733,202	297,332	594,664	(196,373)	-	(162,110)	30,266,715
Year 9	30,266,715	302,667	605,334	(203,333)	-	(162,110)	30,809,273
Year 10	30,809,273	308,093	616,185	(209,773)	-	(162,110)	31,361,668
Year 11	31,361,668	313,617	627,233	(215,880)	-	(162,110)	31,924,528
Year 12	31,924,528	319,245	638,491	(221,785)	-	(162,110)	32,498,369
Year 13	32,498,369	324,984	649,967	(227,581)	-	(162,110)	33,083,630
Year 14	33,083,630	330,836	661,673	(233,335)	-	(162,110)	33,680,694
Year 15	33,680,694	336,807	673,614	(239,094)	-	(162,110)	34,289,911
Year 16	34,289,911	342,899	685,798	(244,892)	-	(162,110)	34,911,606
Year 17	34,911,606	349,116	698,232	(250,754)	-	(162,110)	35,546,090
Year 18	35,546,090	355,461	710,922	(256,698)	-	(162,110)	36,193,664
Year 19	36,193,664	361,937	723,873	(262,738)	-	(162,110)	36,854,626
Year 20	36,854,626	368,546	737,093	(681,446)	-	(2,762,110)	34,516,709

Ownership		
Elder Children	CLAT	Elder GST Exempt Trust
55.56%	14.44%	30.00%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	59,166	4,000,000	-	(59,166)	(4,000,000)	-
Year 2	-	-	-	68,939	-	-	(68,939)	-	-
Year 3	-	-	-	81,570	-	-	(81,570)	-	-
Year 4	-	-	-	91,252	-	-	(91,252)	-	-
Year 5	-	-	-	98,876	-	-	(98,876)	-	-
Year 6	-	-	-	105,069	-	-	(105,069)	-	-
Year 7	-	-	-	110,275	-	-	(110,275)	-	-
Year 8	-	-	-	114,802	-	-	(114,802)	-	-
Year 9	-	-	-	118,872	-	-	(118,872)	-	-
Year 10	-	-	-	122,637	-	-	(122,637)	-	-
Year 11	-	-	-	126,207	-	-	(126,207)	-	-
Year 12	-	-	-	129,659	-	-	(129,659)	-	-
Year 13	-	-	-	133,047	-	-	(133,047)	-	-
Year 14	-	-	-	136,411	-	-	(136,411)	-	-
Year 15	-	-	-	139,778	-	-	(139,778)	-	-
Year 16	-	-	-	143,168	-	-	(143,168)	-	-
Year 17	-	-	-	146,595	-	-	(146,595)	-	-
Year 18	-	-	-	150,070	-	-	(150,070)	-	-
Year 19	-	-	-	153,601	-	-	(153,601)	-	-
Year 20	-	-	-	398,384	-	2,600,000	(398,384)	-	2,600,000

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Elder GST Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Beneficiary Distributons	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	31,950	-	(31,950)	-	-
Year 2	-	-	-	48,983	-	(48,983)	-	-
Year 3	-	-	-	57,958	-	(57,958)	-	-
Year 4	-	-	-	64,837	-	(64,837)	-	-
Year 5	-	-	-	70,254	-	(70,254)	-	-
Year 6	-	-	-	74,655	-	(74,655)	-	-
Year 7	-	-	-	78,353	-	(78,353)	-	-
Year 8	-	-	-	81,570	-	(81,570)	-	-
Year 9	-	-	-	84,461	-	(84,461)	-	-
Year 10	-	-	-	87,137	-	(87,137)	-	-
Year 11	-	-	-	89,673	-	(89,673)	-	-
Year 12	-	-	-	92,126	-	(92,126)	-	-
Year 13	-	-	-	94,534	-	(94,534)	-	-
Year 14	-	-	-	96,924	-	(96,924)	-	-
Year 15	-	-	-	99,316	-	(99,316)	-	-
Year 16	-	-	-	101,724	-	(101,724)	-	-
Year 17	-	-	-	104,159	-	(104,159)	-	-
Year 18	-	-	-	106,629	-	(106,629)	-	-
Year 19	-	-	-	109,137	-	(109,137)	-	-
Year 20	-	-	-	283,062	-	(283,062)	-	-

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Table with 2 columns: Assumptions and values. Rows include Total Rate of Return (3.00%), Rate of Return on Assets That Are Taxable at Ordinary Rate (1.00%), Rate of Return on Assets That Are Taxable at Capital Gains Rate (2.00%), Long-Term Capital Gain Tax Rate (25.00%), Ordinary Tax Rate (44.60%), Estate Tax Rate (40.00%), and Turnover Rate (30.00%).

Table with 2 columns: Assumptions (continued) and values. Rows include Interest Rate on CLAT Note (6.235%), IRS 7520 Rate (June 2014) (2.20%), CLAT Annuity Payment (\$162,110), and Elder FLP Valuation Discount (40.00%).

Charitable Lead Annuity Trust

Table with 10 columns: Beg. of Year, Income, Growth, Distrib. from Elder FLP - Income Taxes, Note Payment Received, Annuity Payment to Charity, Taxes on Investment Income, Distrib. to Elder Family Remaindermen, and End of Year. Rows represent years 1 through 20.

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	162,110	162,110
Year 2	162,110	1,621	3,242	162,110	329,083
Year 3	329,083	3,291	6,582	162,110	501,066
Year 4	501,066	5,011	10,021	162,110	678,208
Year 5	678,208	6,782	13,564	162,110	860,664
Year 6	860,664	8,607	17,213	162,110	1,048,594
Year 7	1,048,594	10,486	20,972	162,110	1,242,162
Year 8	1,242,162	12,422	24,843	162,110	1,441,537
Year 9	1,441,537	14,415	28,831	162,110	1,646,893
Year 10	1,646,893	16,469	32,938	162,110	1,858,409
Year 11	1,858,409	18,584	37,168	162,110	2,076,272
Year 12	2,076,272	20,763	41,525	162,110	2,300,670
Year 13	2,300,670	23,007	46,013	162,110	2,531,800
Year 14	2,531,800	25,318	50,636	162,110	2,769,864
Year 15	2,769,864	27,699	55,397	162,110	3,015,070
Year 16	3,015,070	30,151	60,301	162,110	3,267,632
Year 17	3,267,632	32,676	65,353	162,110	3,527,771
Year 18	3,527,771	35,278	70,555	162,110	3,795,714
Year 19	3,795,714	37,957	75,914	162,110	4,071,696
Year 20	4,071,696	40,717	81,434	162,110	4,355,956

Schedule 9
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	2,600,000	162,110	(162,110)	2,600,000
Year 2	2,600,000	162,110	(162,110)	2,600,000
Year 3	2,600,000	162,110	(162,110)	2,600,000
Year 4	2,600,000	162,110	(162,110)	2,600,000
Year 5	2,600,000	162,110	(162,110)	2,600,000
Year 6	2,600,000	162,110	(162,110)	2,600,000
Year 7	2,600,000	162,110	(162,110)	2,600,000
Year 8	2,600,000	162,110	(162,110)	2,600,000
Year 9	2,600,000	162,110	(162,110)	2,600,000
Year 10	2,600,000	162,110	(162,110)	2,600,000
Year 11	2,600,000	162,110	(162,110)	2,600,000
Year 12	2,600,000	162,110	(162,110)	2,600,000
Year 13	2,600,000	162,110	(162,110)	2,600,000
Year 14	2,600,000	162,110	(162,110)	2,600,000
Year 15	2,600,000	162,110	(162,110)	2,600,000
Year 16	2,600,000	162,110	(162,110)	2,600,000
Year 17	2,600,000	162,110	(162,110)	2,600,000
Year 18	2,600,000	162,110	(162,110)	2,600,000
Year 19	2,600,000	162,110	(162,110)	2,600,000
Year 20	2,600,000	162,110	(2,762,110)	-

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Table with 2 columns: Assumptions, Values. Rows include Total Rate of Return (7.50%), Rate of Return on Assets That Are Taxable at Ordinary Rate (3.00%), Rate of Return on Assets That Are Taxable at Capital Gains Rate (4.50%), Long-Term Capital Gain Tax Rate (25.00%), Ordinary Tax Rate (44.60%), Estate Tax Rate (40.00%), Turnover Rate (30.00%), Elder FLP Valuation Discount (40.00%), and Gross Proceeds (\$30,000,000).

Table with 8 columns: Scenario, Elder Children's Future Values, Elder GST Exempt Trust Future Values, Charity, IRS Income Taxes, IRS Income Taxes & Estate Taxes Investment Opp. Costs, IRS Estate Taxes, Totals. Rows include No Further Planning - No Discount Allowed, No Further Planning - Discount Allowed, CLAT Redemption - Discount Allowed - \$3mm to Family, and CLAT Redemption - Discount Allowed - \$10mm to Family.

Table with 3 columns: Scenario, Elder Children, Elder GST Exempt Trust. Rows include No Further Planning - No Discount Allowed, Elder Children, Elder GST Exempt Trust, Charity, IRS (income and estate taxes), IRS (investment opportunity costs), and Total.

Table with 3 columns: Scenario, Elder Children, Elder GST Exempt Trust. Rows include No Further Planning - Discount Allowed, Elder Children, Elder GST Exempt Trust, Charity, IRS (income and estate taxes), IRS (investment opportunity costs), and Total.

Table with 3 columns: Scenario, Elder Children, Elder GST Exempt Trust. Rows include CLAT Redemption - Discount Allowed - \$3mm to Family, Elder Children, Elder GST Exempt Trust, Charity, IRS (income and estate taxes), IRS (investment opportunity costs), and Total.

Table with 3 columns: Scenario, Elder Children, Elder GST Exempt Trust. Rows include CLAT Redemption - Discount Allowed - \$10mm to Family, Elder Children, Elder GST Exempt Trust, Charity, IRS (income and estate taxes), IRS (investment opportunity costs), and Total.

Schedule 9

Elder Family - 7.50% Rate of Return, 20 Years

No Further Planning - No Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	600,000	900,000	(335,100)	(8,000,000)	13,164,900
Year 2	13,164,900	394,947	592,421	(267,828)	-	13,884,440
Year 3	13,884,440	416,533	624,800	(296,811)	-	14,628,962
Year 4	14,628,962	438,869	658,303	(322,834)	-	15,403,300
Year 5	15,403,300	462,099	693,148	(347,051)	-	16,211,496
Year 6	16,211,496	486,345	729,517	(370,292)	-	17,057,066
Year 7	17,057,066	511,712	767,568	(393,159)	-	17,943,187
Year 8	17,943,187	538,296	807,443	(416,093)	-	18,872,833
Year 9	18,872,833	566,185	849,277	(439,423)	-	19,848,872
Year 10	19,848,872	595,466	893,199	(463,401)	-	20,874,136
Year 11	20,874,136	626,224	939,336	(488,223)	-	21,951,474
Year 12	21,951,474	658,544	987,816	(514,046)	-	23,083,789
Year 13	23,083,789	692,514	1,038,770	(541,003)	-	24,274,070
Year 14	24,274,070	728,222	1,092,333	(569,212)	-	25,525,413
Year 15	25,525,413	765,762	1,148,644	(598,775)	-	26,841,044
Year 16	26,841,044	805,231	1,207,847	(629,793)	-	28,224,329
Year 17	28,224,329	846,730	1,270,095	(662,361)	-	29,678,793
Year 18	29,678,793	890,364	1,335,546	(696,572)	-	31,208,130
Year 19	31,208,130	936,244	1,404,366	(732,521)	-	32,816,219
Year 20	32,816,219	984,487	1,476,730	(1,543,161)	-	33,734,275

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
No Further Planning - No Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder GST Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	End of Year
Year 1	10,000,000	300,000	450,000	(167,550)	10,582,450
Year 2	10,582,450	317,474	476,210	(200,934)	11,175,200
Year 3	11,175,200	335,256	502,884	(228,779)	11,784,561
Year 4	11,784,561	353,537	530,305	(252,929)	12,415,474
Year 5	12,415,474	372,464	558,696	(274,697)	13,071,938
Year 6	13,071,938	392,158	588,237	(295,025)	13,757,308
Year 7	13,757,308	412,719	619,079	(314,589)	14,474,517
Year 8	14,474,517	434,235	651,353	(333,882)	15,226,223
Year 9	15,226,223	456,787	685,180	(353,265)	16,014,925
Year 10	16,014,925	480,448	720,672	(373,006)	16,843,038
Year 11	16,843,038	505,291	757,937	(393,314)	17,712,952
Year 12	17,712,952	531,389	797,083	(414,348)	18,627,075
Year 13	18,627,075	558,812	838,218	(436,241)	19,587,865
Year 14	19,587,865	587,636	881,454	(459,102)	20,597,853
Year 15	20,597,853	617,936	926,903	(483,029)	21,659,663
Year 16	21,659,663	649,790	974,685	(508,108)	22,776,030
Year 17	22,776,030	683,281	1,024,921	(534,424)	23,949,808
Year 18	23,949,808	718,494	1,077,741	(562,055)	25,183,988
Year 19	25,183,988	755,520	1,133,279	(591,083)	26,481,705
Year 20	26,481,705	794,451	1,191,677	(1,245,193)	27,222,640

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
No Further Planning - Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth t	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	600,000	900,000	(335,100)	(4,800,000)	16,364,900
Year 2	16,364,900	490,947	736,421	(321,444)	-	17,270,824
Year 3	17,270,824	518,125	777,187	(361,110)	-	18,205,026
Year 4	18,205,026	546,151	819,226	(396,043)	-	19,174,359
Year 5	19,174,359	575,231	862,846	(427,989)	-	20,184,447
Year 6	20,184,447	605,533	908,300	(458,195)	-	21,240,086
Year 7	21,240,086	637,203	955,804	(487,567)	-	22,345,525
Year 8	22,345,525	670,366	1,005,549	(516,761)	-	23,504,678
Year 9	23,504,678	705,140	1,057,711	(546,266)	-	24,721,263
Year 10	24,721,263	741,638	1,112,457	(576,446)	-	25,998,912
Year 11	25,998,912	779,967	1,169,951	(607,585)	-	27,341,246
Year 12	27,341,246	820,237	1,230,356	(639,906)	-	28,751,934
Year 13	28,751,934	862,558	1,293,837	(673,595)	-	30,234,734
Year 14	30,234,734	907,042	1,360,563	(708,809)	-	31,793,530
Year 15	31,793,530	953,806	1,430,709	(745,688)	-	33,432,357
Year 16	33,432,357	1,002,971	1,504,456	(784,363)	-	35,155,421
Year 17	35,155,421	1,054,663	1,581,994	(824,955)	-	36,967,122
Year 18	36,967,122	1,109,014	1,663,520	(867,587)	-	38,872,069
Year 19	38,872,069	1,166,162	1,749,243	(912,379)	-	40,875,096
Year 20	40,875,096	1,226,253	1,839,379	(1,922,051)	-	42,018,677

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
No Further Planning - Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth t	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder GST Exempt Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	10,000,000	300,000	450,000	(167,550)	-	10,582,450
Year 2	10,582,450	317,474	476,210	(200,934)	-	11,175,200
Year 3	11,175,200	335,256	502,884	(228,779)	-	11,784,561
Year 4	11,784,561	353,537	530,305	(252,929)	-	12,415,474
Year 5	12,415,474	372,464	558,696	(274,697)	-	13,071,938
Year 6	13,071,938	392,158	588,237	(295,025)	-	13,757,308
Year 7	13,757,308	412,719	619,079	(314,589)	-	14,474,517
Year 8	14,474,517	434,235	651,353	(333,882)	-	15,226,223
Year 9	15,226,223	456,787	685,180	(353,265)	-	16,014,925
Year 10	16,014,925	480,448	720,672	(373,006)	-	16,843,038
Year 11	16,843,038	505,291	757,937	(393,314)	-	17,712,952
Year 12	17,712,952	531,389	797,083	(414,348)	-	18,627,075
Year 13	18,627,075	558,812	838,218	(436,241)	-	19,587,865
Year 14	19,587,865	587,636	881,454	(459,102)	-	20,597,853
Year 15	20,597,853	617,936	926,903	(483,029)	-	21,659,663
Year 16	21,659,663	649,790	974,685	(508,108)	-	22,776,030
Year 17	22,776,030	683,281	1,024,921	(534,424)	-	23,949,808
Year 18	23,949,808	718,494	1,077,741	(562,055)	-	25,183,988
Year 19	25,183,988	755,520	1,133,279	(591,083)	-	26,481,705
Year 20	26,481,705	794,451	1,191,677	(1,245,193)	-	27,222,640

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Elder FLP

	Beg. of Year	Income	Growth	Distribution Income Taxes	Distribution Estate Taxes	Note Payment to CLAT	End of Year
Year 1	30,000,000	900,000	1,350,000	(235,692)	(1,200,000)	(598,560)	30,215,748
Year 2	30,215,748	906,472	1,359,709	(310,182)	-	(598,560)	31,573,187
Year 3	31,573,187	947,196	1,420,793	(383,048)	-	(598,560)	32,959,568
Year 4	32,959,568	988,787	1,483,181	(444,569)	-	(598,560)	34,388,406
Year 5	34,388,406	1,031,652	1,547,478	(498,590)	-	(598,560)	35,870,386
Year 6	35,870,386	1,076,112	1,614,167	(547,852)	-	(598,560)	37,414,253
Year 7	37,414,253	1,122,428	1,683,641	(594,323)	-	(598,560)	39,027,439
Year 8	39,027,439	1,170,823	1,756,235	(639,422)	-	(598,560)	40,716,516
Year 9	40,716,516	1,221,495	1,832,243	(684,182)	-	(598,560)	42,487,513
Year 10	42,487,513	1,274,625	1,911,938	(729,367)	-	(598,560)	44,346,149
Year 11	44,346,149	1,330,384	1,995,577	(775,552)	-	(598,560)	46,297,998
Year 12	46,297,998	1,388,940	2,083,410	(823,176)	-	(598,560)	48,348,612
Year 13	48,348,612	1,450,458	2,175,688	(872,590)	-	(598,560)	50,503,609
Year 14	50,503,609	1,515,108	2,272,662	(924,080)	-	(598,560)	52,768,739
Year 15	52,768,739	1,583,062	2,374,593	(977,892)	-	(598,560)	55,149,942
Year 16	55,149,942	1,654,498	2,481,747	(1,034,243)	-	(598,560)	57,653,385
Year 17	57,653,385	1,729,602	2,594,402	(1,093,331)	-	(598,560)	60,285,499
Year 18	60,285,499	1,808,565	2,712,847	(1,155,346)	-	(598,560)	63,053,005
Year 19	63,053,005	1,891,590	2,837,385	(1,220,474)	-	(598,560)	65,962,947
Year 20	65,962,947	1,978,888	2,968,333	(2,859,869)	-	(10,198,560)	57,851,739

Ownership		
Elder Children	CLAT	Elder GST Exempt Trust
16.67%	53.33%	30.00%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Income Taxes	Estate Taxes	End of Year
Year 1	-	-	-	39,282	1,200,000	-	(39,282)	(1,200,000)	-
Year 2	-	-	-	92,085	-	-	(92,085)	-	-
Year 3	-	-	-	113,717	-	-	(113,717)	-	-
Year 4	-	-	-	131,982	-	-	(131,982)	-	-
Year 5	-	-	-	148,019	-	-	(148,019)	-	-
Year 6	-	-	-	162,644	-	-	(162,644)	-	-
Year 7	-	-	-	176,440	-	-	(176,440)	-	-
Year 8	-	-	-	189,828	-	-	(189,828)	-	-
Year 9	-	-	-	203,117	-	-	(203,117)	-	-
Year 10	-	-	-	216,531	-	-	(216,531)	-	-
Year 11	-	-	-	230,242	-	-	(230,242)	-	-
Year 12	-	-	-	244,380	-	-	(244,380)	-	-
Year 13	-	-	-	259,050	-	-	(259,050)	-	-
Year 14	-	-	-	274,336	-	-	(274,336)	-	-
Year 15	-	-	-	290,312	-	-	(290,312)	-	-
Year 16	-	-	-	307,041	-	-	(307,041)	-	-
Year 17	-	-	-	324,583	-	-	(324,583)	-	-
Year 18	-	-	-	342,993	-	-	(342,993)	-	-
Year 19	-	-	-	362,328	-	-	(362,328)	-	-
Year 20	-	-	-	849,024	-	9,600,000	(849,024)	-	9,600,000

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Elder GST Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	70,708	-	(70,708)	-
Year 2	-	-	-	218,097	-	(218,097)	-
Year 3	-	-	-	269,331	-	(269,331)	-
Year 4	-	-	-	312,588	-	(312,588)	-
Year 5	-	-	-	350,571	-	(350,571)	-
Year 6	-	-	-	385,208	-	(385,208)	-
Year 7	-	-	-	417,883	-	(417,883)	-
Year 8	-	-	-	449,593	-	(449,593)	-
Year 9	-	-	-	481,065	-	(481,065)	-
Year 10	-	-	-	512,836	-	(512,836)	-
Year 11	-	-	-	545,310	-	(545,310)	-
Year 12	-	-	-	578,795	-	(578,795)	-
Year 13	-	-	-	613,540	-	(613,540)	-
Year 14	-	-	-	649,744	-	(649,744)	-
Year 15	-	-	-	687,581	-	(687,581)	-
Year 16	-	-	-	727,202	-	(727,202)	-
Year 17	-	-	-	768,748	-	(768,748)	-
Year 18	-	-	-	812,353	-	(812,353)	-
Year 19	-	-	-	858,146	-	(858,146)	-
Year 20	-	-	-	2,010,845	-	(2,010,845)	-

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Charitable Lead Annuity Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP - Income Taxes	Note Payment Received	Annuity Payment to Charity	Income Taxes	Distrib. to Elder Family Remaindermen	End of Year
Year 1	-	-	-	125,703	598,560	(598,560)	(125,703)	-	-
Year 2	-	-	-	-	598,560	(598,560)	-	-	-
Year 3	-	-	-	-	598,560	(598,560)	-	-	-
Year 4	-	-	-	-	598,560	(598,560)	-	-	-
Year 5	-	-	-	-	598,560	(598,560)	-	-	-
Year 6	-	-	-	-	598,560	(598,560)	-	-	-
Year 7	-	-	-	-	598,560	(598,560)	-	-	-
Year 8	-	-	-	-	598,560	(598,560)	-	-	-
Year 9	-	-	-	-	598,560	(598,560)	-	-	-
Year 10	-	-	-	-	598,560	(598,560)	-	-	-
Year 11	-	-	-	-	598,560	(598,560)	-	-	-
Year 12	-	-	-	-	598,560	(598,560)	-	-	-
Year 13	-	-	-	-	598,560	(598,560)	-	-	-
Year 14	-	-	-	-	598,560	(598,560)	-	-	-
Year 15	-	-	-	-	598,560	(598,560)	-	-	-
Year 16	-	-	-	-	598,560	(598,560)	-	-	-
Year 17	-	-	-	-	598,560	(598,560)	-	-	-
Year 18	-	-	-	-	598,560	(598,560)	-	-	-
Year 19	-	-	-	-	598,560	(598,560)	-	-	-
Year 20	-	-	-	-	10,198,560	(598,560)	-	(9,600,000)	-

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	598,560	598,560
Year 2	598,560	17,957	26,935	598,560	1,242,012
Year 3	1,242,012	37,260	55,891	598,560	1,933,723
Year 4	1,933,723	58,012	87,018	598,560	2,677,312
Year 5	2,677,312	80,319	120,479	598,560	3,476,671
Year 6	3,476,671	104,300	156,450	598,560	4,335,981
Year 7	4,335,981	130,079	195,119	598,560	5,259,739
Year 8	5,259,739	157,792	236,688	598,560	6,252,780
Year 9	6,252,780	187,583	281,375	598,560	7,320,298
Year 10	7,320,298	219,609	329,413	598,560	8,467,881
Year 11	8,467,881	254,036	381,055	598,560	9,701,532
Year 12	9,701,532	291,046	436,569	598,560	11,027,707
Year 13	11,027,707	330,831	496,247	598,560	12,453,345
Year 14	12,453,345	373,600	560,401	598,560	13,985,905
Year 15	13,985,905	419,577	629,366	598,560	15,633,408
Year 16	15,633,408	469,002	703,503	598,560	17,404,474
Year 17	17,404,474	522,134	783,201	598,560	19,308,370
Year 18	19,308,370	579,251	868,877	598,560	21,355,057
Year 19	21,355,057	640,652	960,978	598,560	23,555,247
Year 20	23,555,247	706,657	1,059,986	598,560	25,920,450

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	9,600,000	598,560	(598,560)	9,600,000
Year 2	9,600,000	598,560	(598,560)	9,600,000
Year 3	9,600,000	598,560	(598,560)	9,600,000
Year 4	9,600,000	598,560	(598,560)	9,600,000
Year 5	9,600,000	598,560	(598,560)	9,600,000
Year 6	9,600,000	598,560	(598,560)	9,600,000
Year 7	9,600,000	598,560	(598,560)	9,600,000
Year 8	9,600,000	598,560	(598,560)	9,600,000
Year 9	9,600,000	598,560	(598,560)	9,600,000
Year 10	9,600,000	598,560	(598,560)	9,600,000
Year 11	9,600,000	598,560	(598,560)	9,600,000
Year 12	9,600,000	598,560	(598,560)	9,600,000
Year 13	9,600,000	598,560	(598,560)	9,600,000
Year 14	9,600,000	598,560	(598,560)	9,600,000
Year 15	9,600,000	598,560	(598,560)	9,600,000
Year 16	9,600,000	598,560	(598,560)	9,600,000
Year 17	9,600,000	598,560	(598,560)	9,600,000
Year 18	9,600,000	598,560	(598,560)	9,600,000
Year 19	9,600,000	598,560	(598,560)	9,600,000
Year 20	9,600,000	598,560	(10,198,560)	-

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Elder FLP

	Beg. of Year	Income	Growth	Distribution Income Taxes	Distribution Estate Taxes	Note Payment to CLAT	End of Year
Year 1	30,000,000	900,000	1,350,000	(430,349)	(4,000,000)	(162,110)	27,657,541
Year 2	27,657,541	829,726	1,244,589	(461,976)	-	(162,110)	29,107,771
Year 3	29,107,771	873,233	1,309,850	(530,353)	-	(162,110)	30,598,390
Year 4	30,598,390	917,952	1,376,928	(589,609)	-	(162,110)	32,141,550
Year 5	32,141,550	964,247	1,446,370	(642,983)	-	(162,110)	33,747,073
Year 6	33,747,073	1,012,412	1,518,618	(692,793)	-	(162,110)	35,423,201
Year 7	35,423,201	1,062,696	1,594,044	(740,705)	-	(162,110)	37,177,126
Year 8	37,177,126	1,115,314	1,672,971	(787,932)	-	(162,110)	39,015,368
Year 9	39,015,368	1,170,461	1,755,692	(835,364)	-	(162,110)	40,944,047
Year 10	40,944,047	1,228,321	1,842,482	(883,664)	-	(162,110)	42,969,076
Year 11	42,969,076	1,289,072	1,933,608	(933,339)	-	(162,110)	45,096,308
Year 12	45,096,308	1,352,889	2,029,334	(984,788)	-	(162,110)	47,331,633
Year 13	47,331,633	1,419,949	2,129,923	(1,038,330)	-	(162,110)	49,681,065
Year 14	49,681,065	1,490,432	2,235,648	(1,094,239)	-	(162,110)	52,150,796
Year 15	52,150,796	1,564,524	2,346,786	(1,152,751)	-	(162,110)	54,747,245
Year 16	54,747,245	1,642,417	2,463,626	(1,214,081)	-	(162,110)	57,477,097
Year 17	57,477,097	1,724,313	2,586,469	(1,278,432)	-	(162,110)	60,347,337
Year 18	60,347,337	1,810,420	2,715,630	(1,346,002)	-	(162,110)	63,365,276
Year 19	63,365,276	1,900,958	2,851,437	(1,416,983)	-	(162,110)	66,538,579
Year 20	66,538,579	1,996,157	2,994,236	(3,063,276)	-	(2,762,110)	65,703,586

Ownership		
Elder Children	CLAT	Elder GST Exempt Trust
55.56%	14.44%	30.00%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	239,083	4,000,000	-	(239,083)	(4,000,000)	-
Year 2	-	-	-	270,078	-	-	(270,078)	-	-
Year 3	-	-	-	310,053	-	-	(310,053)	-	-
Year 4	-	-	-	344,695	-	-	(344,695)	-	-
Year 5	-	-	-	375,898	-	-	(375,898)	-	-
Year 6	-	-	-	405,017	-	-	(405,017)	-	-
Year 7	-	-	-	433,028	-	-	(433,028)	-	-
Year 8	-	-	-	460,637	-	-	(460,637)	-	-
Year 9	-	-	-	488,367	-	-	(488,367)	-	-
Year 10	-	-	-	516,604	-	-	(516,604)	-	-
Year 11	-	-	-	545,645	-	-	(545,645)	-	-
Year 12	-	-	-	575,722	-	-	(575,722)	-	-
Year 13	-	-	-	607,024	-	-	(607,024)	-	-
Year 14	-	-	-	639,709	-	-	(639,709)	-	-
Year 15	-	-	-	673,916	-	-	(673,916)	-	-
Year 16	-	-	-	709,770	-	-	(709,770)	-	-
Year 17	-	-	-	747,391	-	-	(747,391)	-	-
Year 18	-	-	-	786,893	-	-	(786,893)	-	-
Year 19	-	-	-	828,390	-	-	(828,390)	-	-
Year 20	-	-	-	1,790,838	-	2,600,000	(1,790,838)	-	2,600,000

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Elder GST Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Beneficiary Distributons	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	129,105	-	(129,105)	-	-
Year 2	-	-	-	191,898	-	(191,898)	-	-
Year 3	-	-	-	220,301	-	(220,301)	-	-
Year 4	-	-	-	244,915	-	(244,915)	-	-
Year 5	-	-	-	267,085	-	(267,085)	-	-
Year 6	-	-	-	287,775	-	(287,775)	-	-
Year 7	-	-	-	307,678	-	(307,678)	-	-
Year 8	-	-	-	327,295	-	(327,295)	-	-
Year 9	-	-	-	346,997	-	(346,997)	-	-
Year 10	-	-	-	367,060	-	(367,060)	-	-
Year 11	-	-	-	387,695	-	(387,695)	-	-
Year 12	-	-	-	409,066	-	(409,066)	-	-
Year 13	-	-	-	431,306	-	(431,306)	-	-
Year 14	-	-	-	454,530	-	(454,530)	-	-
Year 15	-	-	-	478,835	-	(478,835)	-	-
Year 16	-	-	-	504,311	-	(504,311)	-	-
Year 17	-	-	-	531,041	-	(531,041)	-	-
Year 18	-	-	-	559,108	-	(559,108)	-	-
Year 19	-	-	-	588,593	-	(588,593)	-	-
Year 20	-	-	-	1,272,438	-	(1,272,438)	-	-

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Charitable Lead Annuity Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP - Income Taxes	Note Payment Received	Annuity Payment to Charity	Taxes on Investment Income	Distrib. to Elder Family Remaindermen	End of Year
Year 1	-	-	-	62,162	162,110	(162,110)	(62,162)	-	-
Year 2	-	-	-	-	162,110	(162,110)	-	-	-
Year 3	-	-	-	-	162,110	(162,110)	-	-	-
Year 4	-	-	-	-	162,110	(162,110)	-	-	-
Year 5	-	-	-	-	162,110	(162,110)	-	-	-
Year 6	-	-	-	-	162,110	(162,110)	-	-	-
Year 7	-	-	-	-	162,110	(162,110)	-	-	-
Year 8	-	-	-	-	162,110	(162,110)	-	-	-
Year 9	-	-	-	-	162,110	(162,110)	-	-	-
Year 10	-	-	-	-	162,110	(162,110)	-	-	-
Year 11	-	-	-	-	162,110	(162,110)	-	-	-
Year 12	-	-	-	-	162,110	(162,110)	-	-	-
Year 13	-	-	-	-	162,110	(162,110)	-	-	-
Year 14	-	-	-	-	162,110	(162,110)	-	-	-
Year 15	-	-	-	-	162,110	(162,110)	-	-	-
Year 16	-	-	-	-	162,110	(162,110)	-	-	-
Year 17	-	-	-	-	162,110	(162,110)	-	-	-
Year 18	-	-	-	-	162,110	(162,110)	-	-	-
Year 19	-	-	-	-	162,110	(162,110)	-	-	-
Year 20	-	-	-	-	2,762,110	(162,110)	-	(2,600,000)	-

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	162,110	162,110
Year 2	162,110	4,863	7,295	162,110	336,378
Year 3	336,378	10,091	15,137	162,110	523,717
Year 4	523,717	15,711	23,567	162,110	725,105
Year 5	725,105	21,753	32,630	162,110	941,598
Year 6	941,598	28,248	42,372	162,110	1,174,328
Year 7	1,174,328	35,230	52,845	162,110	1,424,513
Year 8	1,424,513	42,735	64,103	162,110	1,693,461
Year 9	1,693,461	50,804	76,206	162,110	1,982,581
Year 10	1,982,581	59,477	89,216	162,110	2,293,384
Year 11	2,293,384	68,802	103,202	162,110	2,627,498
Year 12	2,627,498	78,825	118,237	162,110	2,986,671
Year 13	2,986,671	89,600	134,400	162,110	3,372,781
Year 14	3,372,781	101,183	151,775	162,110	3,787,849
Year 15	3,787,849	113,635	170,453	162,110	4,234,048
Year 16	4,234,048	127,021	190,532	162,110	4,713,712
Year 17	4,713,712	141,411	212,117	162,110	5,229,350
Year 18	5,229,350	156,881	235,321	162,110	5,783,661
Year 19	5,783,661	173,510	260,265	162,110	6,379,546
Year 20	6,379,546	191,386	287,080	162,110	7,020,122

Schedule 9
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	2,600,000	162,110	(162,110)	2,600,000
Year 2	2,600,000	162,110	(162,110)	2,600,000
Year 3	2,600,000	162,110	(162,110)	2,600,000
Year 4	2,600,000	162,110	(162,110)	2,600,000
Year 5	2,600,000	162,110	(162,110)	2,600,000
Year 6	2,600,000	162,110	(162,110)	2,600,000
Year 7	2,600,000	162,110	(162,110)	2,600,000
Year 8	2,600,000	162,110	(162,110)	2,600,000
Year 9	2,600,000	162,110	(162,110)	2,600,000
Year 10	2,600,000	162,110	(162,110)	2,600,000
Year 11	2,600,000	162,110	(162,110)	2,600,000
Year 12	2,600,000	162,110	(162,110)	2,600,000
Year 13	2,600,000	162,110	(162,110)	2,600,000
Year 14	2,600,000	162,110	(162,110)	2,600,000
Year 15	2,600,000	162,110	(162,110)	2,600,000
Year 16	2,600,000	162,110	(162,110)	2,600,000
Year 17	2,600,000	162,110	(162,110)	2,600,000
Year 18	2,600,000	162,110	(162,110)	2,600,000
Year 19	2,600,000	162,110	(162,110)	2,600,000
Year 20	2,600,000	162,110	(2,762,110)	-

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Table with 2 columns: Assumptions, values. Rows include Total Rate of Return (10.00%), Rate of Return on Assets That Are Taxable at Ordinary Rate (3.00%), Rate of Return on Assets That Are Taxable at Capital Gains Rate (7.00%), Long-Term Capital Gain Tax Rate (25.00%), Ordinary Tax Rate (44.60%), Estate Tax Rate (40.00%), Turnover Rate (% of Capital Gains Recognized/Year) (30.00%), Elder FLP Valuation Discount (40.00%), and Gross Proceeds (\$30,000,000).

Table with 8 columns: Future Values at the End of 20 Years of Annual Compounded Growth at 10%, Elder Children's Future Values, Elder GST Exempt Trust Future Values, Charity, IRS Income Taxes, IRS Income Taxes & Estate Taxes Investment Opp. Costs, IRS Estate Taxes, Totals. Rows include No Further Planning - No Discount Allowed, No Further Planning - Discount Allowed, CLAT Redemption - Discount Allowed - \$3mm to Family, and CLAT Redemption - Discount Allowed - \$10mm to Family.

Table with 3 columns: No Further Planning - No Discount Allowed, Elder Children, Elder GST Exempt Trust, Charity, IRS (income and estate taxes), IRS (investment opportunity costs), Total. Rows show percentages for each category.

Table with 3 columns: No Further Planning - Discount Allowed, Elder Children, Elder GST Exempt Trust, Charity, IRS (income and estate taxes), IRS (investment opportunity costs), Total. Rows show percentages for each category.

Table with 3 columns: CLAT Redemption - Discount Allowed - \$3mm to Family, Elder Children, Elder GST Exempt Trust, Charity, IRS (income and estate taxes), IRS (investment opportunity costs), Total. Rows show percentages for each category.

Table with 3 columns: CLAT Redemption - Discount Allowed - \$10mm to Family, Elder Children, Elder GST Exempt Trust, Charity, IRS (income and estate taxes), IRS (investment opportunity costs), Total. Rows show percentages for each category.

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
No Further Planning - No Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	600,000	1,400,000	(372,600)	(8,000,000)	13,627,400
Year 2	13,627,400	408,822	953,918	(327,378)	-	14,662,762
Year 3	14,662,762	439,883	1,026,393	(374,698)	-	15,754,340
Year 4	15,754,340	472,630	1,102,804	(418,460)	-	16,911,313
Year 5	16,911,313	507,339	1,183,792	(460,425)	-	18,142,020
Year 6	18,142,020	544,261	1,269,941	(501,892)	-	19,454,330
Year 7	19,454,330	583,630	1,361,803	(543,840)	-	20,855,922
Year 8	20,855,922	625,678	1,459,915	(587,025)	-	22,354,490
Year 9	22,354,490	670,635	1,564,814	(632,045)	-	23,957,894
Year 10	23,957,894	718,737	1,677,053	(679,395)	-	25,674,288
Year 11	25,674,288	770,229	1,797,200	(729,499)	-	27,512,218
Year 12	27,512,218	825,367	1,925,855	(782,736)	-	29,480,704
Year 13	29,480,704	884,421	2,063,649	(839,462)	-	31,589,312
Year 14	31,589,312	947,679	2,211,252	(900,016)	-	33,848,228
Year 15	33,848,228	1,015,447	2,369,376	(964,738)	-	36,268,313
Year 16	36,268,313	1,088,049	2,538,782	(1,033,973)	-	38,861,171
Year 17	38,861,171	1,165,835	2,720,282	(1,108,076)	-	41,639,213
Year 18	41,639,213	1,249,176	2,914,745	(1,187,418)	-	44,615,717
Year 19	44,615,717	1,338,471	3,123,100	(1,272,390)	-	47,804,898
Year 20	47,804,898	1,434,147	3,346,343	(3,052,223)	-	49,533,164

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
No Further Planning - No Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder GST Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	End of Year
Year 1	10,000,000	300,000	700,000	(186,300)	10,813,700
Year 2	10,813,700	324,411	756,959	(238,209)	11,656,861
Year 3	11,656,861	349,706	815,980	(282,633)	12,539,914
Year 4	12,539,914	376,197	877,794	(322,283)	13,471,622
Year 5	13,471,622	404,149	943,014	(359,126)	14,459,659
Year 6	14,459,659	433,790	1,012,176	(394,596)	15,511,028
Year 7	15,511,028	465,331	1,085,772	(429,759)	16,632,372
Year 8	16,632,372	498,971	1,164,266	(465,416)	17,830,194
Year 9	17,830,194	534,906	1,248,114	(502,189)	19,111,024
Year 10	19,111,024	573,331	1,337,772	(540,573)	20,481,554
Year 11	20,481,554	614,447	1,433,709	(580,979)	21,948,731
Year 12	21,948,731	658,462	1,536,411	(623,760)	23,519,844
Year 13	23,519,844	705,595	1,646,389	(669,235)	25,202,594
Year 14	25,202,594	756,078	1,764,182	(717,702)	27,005,151
Year 15	27,005,151	810,155	1,890,361	(769,450)	28,936,217
Year 16	28,936,217	868,087	2,025,535	(824,766)	31,005,072
Year 17	31,005,072	930,152	2,170,355	(883,944)	33,221,635
Year 18	33,221,635	996,649	2,325,514	(947,287)	35,596,512
Year 19	35,596,512	1,067,895	2,491,756	(1,015,110)	38,141,054
Year 20	38,141,054	1,144,232	2,669,874	(2,435,062)	39,520,097

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
No Further Planning - Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth t	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	600,000	1,400,000	(372,600)	(4,800,000)	16,827,400
Year 2	16,827,400	504,822	1,177,918	(386,994)	-	18,123,146
Year 3	18,123,146	543,694	1,268,620	(450,925)	-	19,484,535
Year 4	19,484,535	584,536	1,363,917	(508,903)	-	20,924,086
Year 5	20,924,086	627,723	1,464,686	(563,556)	-	22,452,939
Year 6	22,452,939	673,588	1,571,706	(616,812)	-	24,081,420
Year 7	24,081,420	722,443	1,685,699	(670,111)	-	25,819,451
Year 8	25,819,451	774,584	1,807,362	(724,548)	-	27,676,849
Year 9	27,676,849	830,305	1,937,379	(780,978)	-	29,663,556
Year 10	29,663,556	889,907	2,076,449	(840,095)	-	31,789,816
Year 11	31,789,816	953,694	2,225,287	(902,482)	-	34,066,315
Year 12	34,066,315	1,021,989	2,384,642	(968,650)	-	36,504,297
Year 13	36,504,297	1,095,129	2,555,301	(1,039,065)	-	39,115,662
Year 14	39,115,662	1,173,470	2,738,096	(1,114,171)	-	41,913,058
Year 15	41,913,058	1,257,392	2,933,914	(1,194,403)	-	44,909,961
Year 16	44,909,961	1,347,299	3,143,697	(1,280,197)	-	48,120,761
Year 17	48,120,761	1,443,623	3,368,453	(1,372,001)	-	51,560,836
Year 18	51,560,836	1,546,825	3,609,259	(1,470,280)	-	55,246,640
Year 19	55,246,640	1,657,399	3,867,265	(1,575,522)	-	59,195,782
Year 20	59,195,782	1,775,873	4,143,705	(3,779,384)	-	61,335,976

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
No Further Planning - Discount Allowed

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein.

These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth t	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder GST Exempt Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	10,000,000	300,000	700,000	(186,300)	-	10,813,700
Year 2	10,813,700	324,411	756,959	(238,209)	-	11,656,861
Year 3	11,656,861	349,706	815,980	(282,633)	-	12,539,914
Year 4	12,539,914	376,197	877,794	(322,283)	-	13,471,622
Year 5	13,471,622	404,149	943,014	(359,126)	-	14,459,659
Year 6	14,459,659	433,790	1,012,176	(394,596)	-	15,511,028
Year 7	15,511,028	465,331	1,085,772	(429,759)	-	16,632,372
Year 8	16,632,372	498,971	1,164,266	(465,416)	-	17,830,194
Year 9	17,830,194	534,906	1,248,114	(502,189)	-	19,111,024
Year 10	19,111,024	573,331	1,337,772	(540,573)	-	20,481,554
Year 11	20,481,554	614,447	1,433,709	(580,979)	-	21,948,731
Year 12	21,948,731	658,462	1,536,411	(623,760)	-	23,519,844
Year 13	23,519,844	705,595	1,646,389	(669,235)	-	25,202,594
Year 14	25,202,594	756,078	1,764,182	(717,702)	-	27,005,151
Year 15	27,005,151	810,155	1,890,361	(769,450)	-	28,936,217
Year 16	28,936,217	868,087	2,025,535	(824,766)	-	31,005,072
Year 17	31,005,072	930,152	2,170,355	(883,944)	-	33,221,635
Year 18	33,221,635	996,649	2,325,514	(947,287)	-	35,596,512
Year 19	35,596,512	1,067,895	2,491,756	(1,015,110)	-	38,141,054
Year 20	38,141,054	1,144,232	2,669,874	(2,435,062)	-	39,520,097

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

<i>Elder FLP</i>							
	Beg. of Year	Income	Growth	Distribution Income Taxes	Distribution Estate Taxes	Note Payment to CLAT	End of Year
Year 1	30,000,000	900,000	2,100,000	(291,942)	(1,200,000)	(598,560)	30,909,498
Year 2	30,909,498	927,285	2,163,665	(419,136)	-	(598,560)	32,982,751
Year 3	32,982,751	989,483	2,308,793	(538,278)	-	(598,560)	35,144,188
Year 4	35,144,188	1,054,326	2,460,093	(642,527)	-	(598,560)	37,417,520
Year 5	37,417,520	1,122,526	2,619,226	(737,610)	-	(598,560)	39,823,102
Year 6	39,823,102	1,194,693	2,787,617	(827,691)	-	(598,560)	42,379,161
Year 7	42,379,161	1,271,375	2,966,541	(915,837)	-	(598,560)	45,102,680
Year 8	45,102,680	1,353,080	3,157,188	(1,004,338)	-	(598,560)	48,010,049
Year 9	48,010,049	1,440,301	3,360,703	(1,094,945)	-	(598,560)	51,117,549
Year 10	51,117,549	1,533,526	3,578,228	(1,189,032)	-	(598,560)	54,441,712
Year 11	54,441,712	1,633,251	3,810,920	(1,287,717)	-	(598,560)	57,999,606
Year 12	57,999,606	1,739,988	4,059,972	(1,391,946)	-	(598,560)	61,809,060
Year 13	61,809,060	1,854,272	4,326,634	(1,502,554)	-	(598,560)	65,888,853
Year 14	65,888,853	1,976,666	4,612,220	(1,620,306)	-	(598,560)	70,258,872
Year 15	70,258,872	2,107,766	4,918,121	(1,745,935)	-	(598,560)	74,940,265
Year 16	74,940,265	2,248,208	5,245,819	(1,880,159)	-	(598,560)	79,955,572
Year 17	79,955,572	2,398,667	5,596,890	(2,023,706)	-	(598,560)	85,328,863
Year 18	85,328,863	2,559,866	5,973,020	(2,177,320)	-	(598,560)	91,085,870
Year 19	91,085,870	2,732,576	6,376,011	(2,341,776)	-	(598,560)	97,254,120
Year 20	97,254,120	2,917,624	6,807,788	(5,979,594)	-	(10,198,560)	90,801,378

Ownership		
Elder Children	CLAT	Elder GST Exempt Trust
16.67%	53.33%	30.00%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%
29.69%	0.00%	70.31%

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Income Taxes	Estate Taxes	End of Year
Year 1	-	-	-	48,657	1,200,000	-	(48,657)	(1,200,000)	-
Year 2	-	-	-	124,431	-	-	(124,431)	-	-
Year 3	-	-	-	159,801	-	-	(159,801)	-	-
Year 4	-	-	-	190,750	-	-	(190,750)	-	-
Year 5	-	-	-	218,978	-	-	(218,978)	-	-
Year 6	-	-	-	245,721	-	-	(245,721)	-	-
Year 7	-	-	-	271,889	-	-	(271,889)	-	-
Year 8	-	-	-	298,163	-	-	(298,163)	-	-
Year 9	-	-	-	325,062	-	-	(325,062)	-	-
Year 10	-	-	-	352,994	-	-	(352,994)	-	-
Year 11	-	-	-	382,291	-	-	(382,291)	-	-
Year 12	-	-	-	413,234	-	-	(413,234)	-	-
Year 13	-	-	-	446,071	-	-	(446,071)	-	-
Year 14	-	-	-	481,028	-	-	(481,028)	-	-
Year 15	-	-	-	518,324	-	-	(518,324)	-	-
Year 16	-	-	-	558,172	-	-	(558,172)	-	-
Year 17	-	-	-	600,788	-	-	(600,788)	-	-
Year 18	-	-	-	646,392	-	-	(646,392)	-	-
Year 19	-	-	-	695,215	-	-	(695,215)	-	-
Year 20	-	-	-	1,775,192	-	9,600,000	(1,775,192)	-	9,600,000

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Elder GST Trust

				Distrib. from Elder FLP	Beneficiary	Income	
	Beg. of Year	Income	Growth	Income Taxes	Distributions	Taxes	End of Year
Year 1	-	-	-	87,583	-	(87,583)	-
Year 2	-	-	-	294,705	-	(294,705)	-
Year 3	-	-	-	378,477	-	(378,477)	-
Year 4	-	-	-	451,777	-	(451,777)	-
Year 5	-	-	-	518,632	-	(518,632)	-
Year 6	-	-	-	581,970	-	(581,970)	-
Year 7	-	-	-	643,948	-	(643,948)	-
Year 8	-	-	-	706,175	-	(706,175)	-
Year 9	-	-	-	769,883	-	(769,883)	-
Year 10	-	-	-	836,038	-	(836,038)	-
Year 11	-	-	-	905,426	-	(905,426)	-
Year 12	-	-	-	978,712	-	(978,712)	-
Year 13	-	-	-	1,056,483	-	(1,056,483)	-
Year 14	-	-	-	1,139,278	-	(1,139,278)	-
Year 15	-	-	-	1,227,610	-	(1,227,610)	-
Year 16	-	-	-	1,321,987	-	(1,321,987)	-
Year 17	-	-	-	1,422,918	-	(1,422,918)	-
Year 18	-	-	-	1,530,928	-	(1,530,928)	-
Year 19	-	-	-	1,646,561	-	(1,646,561)	-
Year 20	-	-	-	4,204,402	-	(4,204,402)	-

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Charitable Lead Annuity Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP - Income Taxes	Note Payment Received	Annuity Payment to Charity	Income Taxes	Distrib. to Elder Family Remaindermen	End of Year
Year 1	-	-	-	155,703	598,560	(598,560)	(155,703)	-	-
Year 2	-	-	-	-	598,560	(598,560)	-	-	-
Year 3	-	-	-	-	598,560	(598,560)	-	-	-
Year 4	-	-	-	-	598,560	(598,560)	-	-	-
Year 5	-	-	-	-	598,560	(598,560)	-	-	-
Year 6	-	-	-	-	598,560	(598,560)	-	-	-
Year 7	-	-	-	-	598,560	(598,560)	-	-	-
Year 8	-	-	-	-	598,560	(598,560)	-	-	-
Year 9	-	-	-	-	598,560	(598,560)	-	-	-
Year 10	-	-	-	-	598,560	(598,560)	-	-	-
Year 11	-	-	-	-	598,560	(598,560)	-	-	-
Year 12	-	-	-	-	598,560	(598,560)	-	-	-
Year 13	-	-	-	-	598,560	(598,560)	-	-	-
Year 14	-	-	-	-	598,560	(598,560)	-	-	-
Year 15	-	-	-	-	598,560	(598,560)	-	-	-
Year 16	-	-	-	-	598,560	(598,560)	-	-	-
Year 17	-	-	-	-	598,560	(598,560)	-	-	-
Year 18	-	-	-	-	598,560	(598,560)	-	-	-
Year 19	-	-	-	-	598,560	(598,560)	-	-	-
Year 20	-	-	-	-	10,198,560	(598,560)	-	(9,600,000)	-

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	598,560	598,560
Year 2	598,560	17,957	41,899	598,560	1,256,976
Year 3	1,256,976	37,709	87,988	598,560	1,981,234
Year 4	1,981,234	59,437	138,686	598,560	2,777,917
Year 5	2,777,917	83,338	194,454	598,560	3,654,269
Year 6	3,654,269	109,628	255,799	598,560	4,618,256
Year 7	4,618,256	138,548	323,278	598,560	5,678,641
Year 8	5,678,641	170,359	397,505	598,560	6,845,065
Year 9	6,845,065	205,352	479,155	598,560	8,128,132
Year 10	8,128,132	243,844	568,969	598,560	9,539,505
Year 11	9,539,505	286,185	667,765	598,560	11,092,015
Year 12	11,092,015	332,760	776,441	598,560	12,799,777
Year 13	12,799,777	383,993	895,984	598,560	14,678,315
Year 14	14,678,315	440,349	1,027,482	598,560	16,744,706
Year 15	16,744,706	502,341	1,172,129	598,560	19,017,737
Year 16	19,017,737	570,532	1,331,242	598,560	21,518,070
Year 17	21,518,070	645,542	1,506,265	598,560	24,268,437
Year 18	24,268,437	728,053	1,698,791	598,560	27,293,841
Year 19	27,293,841	818,815	1,910,569	598,560	30,621,785
Year 20	30,621,785	918,654	2,143,525	598,560	34,282,524

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$3mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$598,560
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	9,600,000	598,560	(598,560)	9,600,000
Year 2	9,600,000	598,560	(598,560)	9,600,000
Year 3	9,600,000	598,560	(598,560)	9,600,000
Year 4	9,600,000	598,560	(598,560)	9,600,000
Year 5	9,600,000	598,560	(598,560)	9,600,000
Year 6	9,600,000	598,560	(598,560)	9,600,000
Year 7	9,600,000	598,560	(598,560)	9,600,000
Year 8	9,600,000	598,560	(598,560)	9,600,000
Year 9	9,600,000	598,560	(598,560)	9,600,000
Year 10	9,600,000	598,560	(598,560)	9,600,000
Year 11	9,600,000	598,560	(598,560)	9,600,000
Year 12	9,600,000	598,560	(598,560)	9,600,000
Year 13	9,600,000	598,560	(598,560)	9,600,000
Year 14	9,600,000	598,560	(598,560)	9,600,000
Year 15	9,600,000	598,560	(598,560)	9,600,000
Year 16	9,600,000	598,560	(598,560)	9,600,000
Year 17	9,600,000	598,560	(598,560)	9,600,000
Year 18	9,600,000	598,560	(598,560)	9,600,000
Year 19	9,600,000	598,560	(598,560)	9,600,000
Year 20	9,600,000	598,560	(10,198,560)	-

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Elder FLP

	Beg. of Year	Income	Growth	Distribution Income Taxes	Distribution Estate Taxes	Note Payment to CLAT	End of Year
Year 1	30,000,000	900,000	2,100,000	(486,599)	(4,000,000)	(162,110)	28,351,291
Year 2	28,351,291	850,539	1,984,590	(566,133)	-	(162,110)	30,458,177
Year 3	30,458,177	913,745	2,132,072	(676,501)	-	(162,110)	32,665,384
Year 4	32,665,384	979,962	2,286,577	(775,145)	-	(162,110)	34,994,667
Year 5	34,994,667	1,049,840	2,449,627	(866,918)	-	(162,110)	37,465,106
Year 6	37,465,106	1,123,953	2,622,557	(955,367)	-	(162,110)	40,094,139
Year 7	40,094,139	1,202,824	2,806,590	(1,043,122)	-	(162,110)	42,898,321
Year 8	42,898,321	1,286,950	3,002,882	(1,132,169)	-	(162,110)	45,893,874
Year 9	45,893,874	1,376,816	3,212,571	(1,224,045)	-	(162,110)	49,097,106
Year 10	49,097,106	1,472,913	3,436,797	(1,319,978)	-	(162,110)	52,524,728
Year 11	52,524,728	1,575,742	3,676,731	(1,420,987)	-	(162,110)	56,194,104
Year 12	56,194,104	1,685,823	3,933,587	(1,527,950)	-	(162,110)	60,123,454
Year 13	60,123,454	1,803,704	4,208,642	(1,641,661)	-	(162,110)	64,332,029
Year 14	64,332,029	1,929,961	4,503,242	(1,762,862)	-	(162,110)	68,840,260
Year 15	68,840,260	2,065,208	4,818,818	(1,892,273)	-	(162,110)	73,669,903
Year 16	73,669,903	2,210,097	5,156,893	(2,030,613)	-	(162,110)	78,844,170
Year 17	78,844,170	2,365,325	5,519,092	(2,178,614)	-	(162,110)	84,387,864
Year 18	84,387,864	2,531,636	5,907,150	(2,337,031)	-	(162,110)	90,327,510
Year 19	90,327,510	2,709,825	6,322,926	(2,506,656)	-	(162,110)	96,691,495
Year 20	96,691,495	2,900,745	6,768,405	(6,111,074)	-	(2,762,110)	97,487,461

Ownership		
Elder Children	CLAT	Elder GST Exempt Trust
55.56%	14.44%	30.00%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	270,333	4,000,000	-	(270,333)	(4,000,000)	-
Year 2	-	-	-	330,970	-	-	(330,970)	-	-
Year 3	-	-	-	395,493	-	-	(395,493)	-	-
Year 4	-	-	-	453,162	-	-	(453,162)	-	-
Year 5	-	-	-	506,814	-	-	(506,814)	-	-
Year 6	-	-	-	558,522	-	-	(558,522)	-	-
Year 7	-	-	-	609,825	-	-	(609,825)	-	-
Year 8	-	-	-	661,884	-	-	(661,884)	-	-
Year 9	-	-	-	715,596	-	-	(715,596)	-	-
Year 10	-	-	-	771,680	-	-	(771,680)	-	-
Year 11	-	-	-	830,731	-	-	(830,731)	-	-
Year 12	-	-	-	893,263	-	-	(893,263)	-	-
Year 13	-	-	-	959,740	-	-	(959,740)	-	-
Year 14	-	-	-	1,030,596	-	-	(1,030,596)	-	-
Year 15	-	-	-	1,106,252	-	-	(1,106,252)	-	-
Year 16	-	-	-	1,187,128	-	-	(1,187,128)	-	-
Year 17	-	-	-	1,273,651	-	-	(1,273,651)	-	-
Year 18	-	-	-	1,366,264	-	-	(1,366,264)	-	-
Year 19	-	-	-	1,465,430	-	-	(1,465,430)	-	-
Year 20	-	-	-	3,572,628	-	2,600,000	(3,572,628)	-	2,600,000

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Elder GST Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Beneficiary Distributons	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	145,980	-	(145,980)	-	-
Year 2	-	-	-	235,163	-	(235,163)	-	-
Year 3	-	-	-	281,008	-	(281,008)	-	-
Year 4	-	-	-	321,983	-	(321,983)	-	-
Year 5	-	-	-	360,104	-	(360,104)	-	-
Year 6	-	-	-	396,845	-	(396,845)	-	-
Year 7	-	-	-	433,297	-	(433,297)	-	-
Year 8	-	-	-	470,286	-	(470,286)	-	-
Year 9	-	-	-	508,450	-	(508,450)	-	-
Year 10	-	-	-	548,299	-	(548,299)	-	-
Year 11	-	-	-	590,256	-	(590,256)	-	-
Year 12	-	-	-	634,687	-	(634,687)	-	-
Year 13	-	-	-	681,921	-	(681,921)	-	-
Year 14	-	-	-	732,266	-	(732,266)	-	-
Year 15	-	-	-	786,021	-	(786,021)	-	-
Year 16	-	-	-	843,485	-	(843,485)	-	-
Year 17	-	-	-	904,963	-	(904,963)	-	-
Year 18	-	-	-	970,767	-	(970,767)	-	-
Year 19	-	-	-	1,041,226	-	(1,041,226)	-	-
Year 20	-	-	-	2,538,446	-	(2,538,446)	-	-

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Charitable Lead Annuity Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP - Income Taxes	Note Payment Received	Annuity Payment to Charity	Taxes on Investment Income	Distrib. to Elder Family Remaindermen	End of Year
Year 1	-	-	-	70,287	162,110	(162,110)	(70,287)	-	-
Year 2	-	-	-	-	162,110	(162,110)	-	-	-
Year 3	-	-	-	-	162,110	(162,110)	-	-	-
Year 4	-	-	-	-	162,110	(162,110)	-	-	-
Year 5	-	-	-	-	162,110	(162,110)	-	-	-
Year 6	-	-	-	-	162,110	(162,110)	-	-	-
Year 7	-	-	-	-	162,110	(162,110)	-	-	-
Year 8	-	-	-	-	162,110	(162,110)	-	-	-
Year 9	-	-	-	-	162,110	(162,110)	-	-	-
Year 10	-	-	-	-	162,110	(162,110)	-	-	-
Year 11	-	-	-	-	162,110	(162,110)	-	-	-
Year 12	-	-	-	-	162,110	(162,110)	-	-	-
Year 13	-	-	-	-	162,110	(162,110)	-	-	-
Year 14	-	-	-	-	162,110	(162,110)	-	-	-
Year 15	-	-	-	-	162,110	(162,110)	-	-	-
Year 16	-	-	-	-	162,110	(162,110)	-	-	-
Year 17	-	-	-	-	162,110	(162,110)	-	-	-
Year 18	-	-	-	-	162,110	(162,110)	-	-	-
Year 19	-	-	-	-	162,110	(162,110)	-	-	-
Year 20	-	-	-	-	2,762,110	(162,110)	-	(2,600,000)	-

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	162,110	162,110
Year 2	162,110	4,863	11,348	162,110	340,431
Year 3	340,431	10,213	23,830	162,110	536,584
Year 4	536,584	16,098	37,561	162,110	752,353
Year 5	752,353	22,571	52,665	162,110	989,698
Year 6	989,698	29,691	69,279	162,110	1,250,778
Year 7	1,250,778	37,523	87,554	162,110	1,537,965
Year 8	1,537,965	46,139	107,658	162,110	1,853,872
Year 9	1,853,872	55,616	129,771	162,110	2,201,369
Year 10	2,201,369	66,041	154,096	162,110	2,583,616
Year 11	2,583,616	77,508	180,853	162,110	3,004,087
Year 12	3,004,087	90,123	210,286	162,110	3,466,606
Year 13	3,466,606	103,998	242,662	162,110	3,975,377
Year 14	3,975,377	119,261	278,276	162,110	4,535,025
Year 15	4,535,025	136,051	317,452	162,110	5,150,637
Year 16	5,150,637	154,519	360,545	162,110	5,827,811
Year 17	5,827,811	174,834	407,947	162,110	6,572,702
Year 18	6,572,702	197,181	460,089	162,110	7,392,082
Year 19	7,392,082	221,762	517,446	162,110	8,293,400
Year 20	8,293,400	248,802	580,538	162,110	9,284,850

Schedule 9
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - \$10mm to Family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	\$162,110
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	2,600,000	162,110	(162,110)	2,600,000
Year 2	2,600,000	162,110	(162,110)	2,600,000
Year 3	2,600,000	162,110	(162,110)	2,600,000
Year 4	2,600,000	162,110	(162,110)	2,600,000
Year 5	2,600,000	162,110	(162,110)	2,600,000
Year 6	2,600,000	162,110	(162,110)	2,600,000
Year 7	2,600,000	162,110	(162,110)	2,600,000
Year 8	2,600,000	162,110	(162,110)	2,600,000
Year 9	2,600,000	162,110	(162,110)	2,600,000
Year 10	2,600,000	162,110	(162,110)	2,600,000
Year 11	2,600,000	162,110	(162,110)	2,600,000
Year 12	2,600,000	162,110	(162,110)	2,600,000
Year 13	2,600,000	162,110	(162,110)	2,600,000
Year 14	2,600,000	162,110	(162,110)	2,600,000
Year 15	2,600,000	162,110	(162,110)	2,600,000
Year 16	2,600,000	162,110	(162,110)	2,600,000
Year 17	2,600,000	162,110	(162,110)	2,600,000
Year 18	2,600,000	162,110	(162,110)	2,600,000
Year 19	2,600,000	162,110	(162,110)	2,600,000
Year 20	2,600,000	162,110	(2,762,110)	-

Schedule 10
Hal Happyeverafter

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Hal Happyeverafter has a life expectancy of 10 years)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	10-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
Simulated Credit Shelter Trust: Hal Happyeverafter's deceased spouse created a \$46,189,085 credit shelter trust for Hal and family and bequeaths the rest of her estate to Hal				
Hal Happyeverafter	18,016,467	-	-	0.00%
Happyeverafter Children	64,239,785	77,713,665	60,709,791	76.12%
Consumption - Direct Cost	6,722,029	6,722,029	5,251,238	6.58%
Consumption - Investment Opportunity Cost	2,606,804	2,606,804	2,036,431	2.55%
IRS Income Tax - Direct Cost	8,285,914	8,285,914	6,472,943	8.12%
IRS Income Tax - Investment Opportunity Cost	2,225,962	2,225,962	1,738,918	2.18%
IRS Estate Taxes at 40%	-	4,542,587	3,548,662	4.45%
Total	\$102,096,962	\$102,096,962	\$79,757,983	100.00%
Hap Happyeverafter's deceased spouse bequeaths her estate to Hal; Hal creates a single member LLC and gifts the DSUE amount to a grantor trust; Hal sells the remaining non managing member interests to the grantor trust				
Hal Happyeverafter	16,898,961	-	-	0.00%
Happyeverafter Children	64,910,289	77,713,665	60,709,791	76.12%
Consumption - Direct Cost	6,722,029	6,722,029	5,251,238	6.58%
Consumption - Investment Opportunity Cost	2,606,804	2,606,804	2,036,431	2.55%
IRS Income Tax - Direct Cost	8,732,917	8,732,917	6,822,141	8.55%
IRS Income Tax - Investment Opportunity Cost	2,225,962	2,225,962	1,738,918	2.18%
IRS Estate Taxes at 40%	-	4,095,584	3,199,464	4.01%
Total	\$102,096,962	\$102,096,962	\$79,757,983	100.00%

Calculations of Remaining Exemption in 10 Years

Current Total Exemptions	5,340,000
Prior Gifts Made	-
Future Federal Exemption Available in 10 years (assumes 2.5% inflation)	6,660,000

Schedule 10
Hal Happyeverafter
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Hal Happyeverafter	
Assets*	
FMV: Financial Assets	\$50,000,000
Assumed Basis: Financial Assets	\$50,000,000

* Information provided by client. There is no proposed planning for Hal Happyeverafter's other assets.

Schedule 10

Hal Happyeverafter

Simulated Credit Shelter Trust: Hal Happyeverafter's deceased spouse created a \$46,189,085 credit shelter trust for Hal and family and bequeaths the rest of her estate to Hal

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (FL)	25.00%
Ordinary Income and Health Care Tax Rate (FL)	44.60%
Annual Consumption from these Sources (increasing 2.5% per year)	\$600,000

Hal Happyeverafter

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Credit Shelter Trust Distributions	Annual Consumption from these Sources	Income Taxes	End of Year Financial & Other Assets
Year 1	3,810,915	22,865	91,462	167,680	1,385,673	(600,000)	(146,376)	4,732,219
Year 2	4,732,219	28,393	113,573	208,218	1,442,069	(615,000)	(165,716)	5,743,757
Year 3	5,743,757	34,463	137,850	252,725	1,497,561	(630,375)	(185,001)	6,850,980
Year 4	6,850,980	41,106	164,424	301,443	1,552,940	(646,134)	(204,697)	8,060,060
Year 5	8,060,060	48,360	193,441	354,643	1,608,785	(662,288)	(225,160)	9,377,842
Year 6	9,377,842	56,267	225,068	412,625	1,665,523	(678,845)	(246,668)	10,811,813
Year 7	10,811,813	64,871	259,484	475,720	1,723,476	(695,816)	(269,451)	12,370,096
Year 8	12,370,096	74,221	296,882	544,284	1,782,891	(713,211)	(293,707)	14,061,456
Year 9	14,061,456	84,369	337,475	618,704	1,843,962	(731,042)	(319,612)	15,895,311
Year 10	15,895,311	95,372	381,487	699,394	1,906,848	(749,318)	(212,627)	18,016,467

Happyeverafter Credit Shelter Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	46,189,085	277,135	1,108,538	2,032,320	(1,385,673)	(152,424)	48,068,981
Year 2	48,068,981	288,414	1,153,656	2,115,035	(1,442,069)	(265,324)	49,918,692
Year 3	49,918,692	299,512	1,198,049	2,196,422	(1,497,561)	(350,459)	51,764,656
Year 4	51,764,656	310,588	1,242,352	2,277,645	(1,552,940)	(416,145)	53,626,156
Year 5	53,626,156	321,757	1,287,028	2,359,551	(1,608,785)	(468,267)	55,517,439
Year 6	55,517,439	333,105	1,332,419	2,442,767	(1,665,523)	(510,995)	57,449,212
Year 7	57,449,212	344,695	1,378,781	2,527,765	(1,723,476)	(547,279)	59,429,699
Year 8	59,429,699	356,578	1,426,313	2,614,907	(1,782,891)	(579,213)	61,465,392
Year 9	61,465,392	368,792	1,475,169	2,704,477	(1,843,962)	(608,285)	63,561,584
Year 10	63,561,584	381,370	1,525,478	2,796,710	(1,906,848)	(2,118,509)	64,239,785

Schedule 10
Hal Happyeverafter
Hap Happyeverafter's deceased spouse bequeaths her estate to Hal; Hal creates a single member LLC and gifts the DSUE amount to a grantor trust; Hal sells the remaining non-managing member interests to the grantor trust

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:		Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%	Happyeverafter LLC Valuation Discount	35.00%
Rate of Return Taxed at Ordinary Rates	0.60%	Intra-Family Interest Rate (Mid-Term) - June 2014	1.91%
Rate of Return Tax Free	2.40%		
Rate of Return Taxed at Capital Gains Rates	4.40%		
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%		
Long-Term Capital Gains, Dividend and Health Care Tax Rate (FL)	25.00%		
Ordinary Income and Health Care Tax Rate (FL)	44.60%		
Annual Consumption from these Sources (increasing 2.5% per year)	\$600,000		

Hal Happyeverafter

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	LLC Distributions	Note Payments	Annual Consumption from these Sources	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	15,000	1,012,549	(600,000)	(298,800)	128,749
Year 2	128,749	772	3,090	5,665	15,660	1,002,999	(615,000)	(431,040)	110,894
Year 3	110,894	665	2,661	4,879	16,349	1,193,449	(630,375)	(535,460)	163,064
Year 4	163,064	978	3,914	7,175	17,068	1,180,079	(646,134)	(620,842)	105,301
Year 5	105,301	632	2,527	4,633	17,819	1,266,709	(662,288)	(693,427)	41,906
Year 6	41,906	251	1,006	1,844	18,603	1,451,429	(678,845)	(757,663)	78,532
Year 7	78,532	471	1,885	3,455	19,422	1,432,329	(695,816)	(816,730)	23,547
Year 8	23,547	141	565	1,036	20,277	1,613,229	(713,211)	(872,920)	72,664
Year 9	72,664	436	1,744	3,197	21,169	1,590,309	(731,042)	(927,897)	30,579
Year 10	30,579	183	734	1,345	174,862	19,602,389	(749,318)	(2,778,138)	16,282,636

Happyeverafter LLC

	Ownership					
	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets
Year 1	50,000,000	300,000	1,200,000	2,200,000	(1,500,000)	52,200,000
Year 2	52,200,000	313,200	1,252,800	2,296,800	(1,566,000)	54,496,800
Year 3	54,496,800	326,981	1,307,923	2,397,859	(1,634,904)	56,894,659
Year 4	56,894,659	341,368	1,365,472	2,503,365	(1,706,840)	59,398,024
Year 5	59,398,024	356,388	1,425,553	2,613,513	(1,781,941)	62,011,537
Year 6	62,011,537	372,069	1,488,277	2,728,508	(1,860,346)	64,740,045
Year 7	64,740,045	388,440	1,553,761	2,848,562	(1,942,201)	67,588,607
Year 8	67,588,607	405,532	1,622,127	2,973,899	(2,027,658)	70,562,506
Year 9	70,562,506	423,375	1,693,500	3,104,750	(2,116,875)	73,667,256
Year 10	73,667,256	442,004	1,768,014	3,241,359	(17,486,204)	61,632,429

Ownership	
Hal	Grantor Trust
1.0%	99.0%
1.0%	99.0%
1.0%	99.0%
1.0%	99.0%
1.0%	99.0%
1.0%	99.0%
1.0%	99.0%
1.0%	99.0%
1.0%	99.0%
1.0%	99.0%

Schedule 10

Hal Happyeverafter

Hap Happyeverafter's deceased spouse bequeaths her estate to Hal; Hal creates a single member LLC and gifts the DSUE amount to a grantor trust; Hal sells the remaining non-managing member interests to the grantor trust

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (FL)	25.00%
Ordinary Income and Health Care Tax Rate (FL)	44.60%
Annual Consumption from these Sources (increasing 2.5% per year)	\$600,000

Assumptions:	
Happyeverafter LLC Valuation Discount	35.00%
Intra-Family Interest Rate (Mid-Term) - June 2014	1.91%

Grantor Trust for Happyeverafter Children

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	LLC Distributions	Note Payments	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	1,485,000	(1,012,549)	-	-	472,452
Year 2	472,452	2,835	11,339	20,788	1,550,340	(1,002,999)	-	-	1,054,754
Year 3	1,054,754	6,329	25,314	46,409	1,618,555	(1,193,449)	-	-	1,557,913
Year 4	1,557,913	9,347	37,390	68,548	1,689,771	(1,180,079)	-	-	2,182,891
Year 5	2,182,891	13,097	52,389	96,047	1,764,121	(1,266,709)	-	-	2,841,838
Year 6	2,841,838	17,051	68,204	125,041	1,841,743	(1,451,429)	-	-	3,442,448
Year 7	3,442,448	20,655	82,619	151,468	1,922,779	(1,432,329)	-	-	4,187,640
Year 8	4,187,640	25,126	100,503	184,256	2,007,382	(1,613,229)	-	-	4,891,679
Year 9	4,891,679	29,350	117,400	215,234	2,095,706	(1,590,309)	-	-	5,759,061
Year 10	5,759,061	34,554	138,217	253,399	17,311,342	(19,602,389)	-	-	3,894,184

Note Between Hal Happyeverafter and Grantor Trust

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	26,835,000	512,549	(1,012,549)	26,335,000
Year 2	26,335,000	502,999	(1,002,999)	25,835,000
Year 3	25,835,000	493,449	(1,193,449)	25,135,000
Year 4	25,135,000	480,079	(1,180,079)	24,435,000
Year 5	24,435,000	466,709	(1,266,709)	23,635,000
Year 6	23,635,000	451,429	(1,451,429)	22,635,000
Year 7	22,635,000	432,329	(1,432,329)	21,635,000
Year 8	21,635,000	413,229	(1,613,229)	20,435,000
Year 9	20,435,000	390,309	(1,590,309)	19,235,000
Year 10	19,235,000	367,389	(19,602,389)	-

Schedule 11

Analysis of FLP Creating CRUT Followed by Sale to Grantor Trust

Stock Sale, No Planning

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	\$150,000

Charlie Charitable

	Beginning of Year	Income	Tax Free Income	Growth	Consumption	Taxes on Investment Income	End of Year
Year 1	12,500,000	375,000	-	550,000	(150,000)	(2,708,500)	10,566,500
Year 2	10,566,500	316,995	-	464,926	(153,750)	(205,124)	10,989,547
Year 3	10,989,547	329,686	-	483,540	(157,594)	(227,927)	11,417,253
Year 4	11,417,253	342,518	-	502,359	(161,534)	(247,060)	11,853,535
Year 5	11,853,535	355,606	-	521,556	(165,572)	(263,725)	12,301,400
Year 6	12,301,400	369,042	-	541,262	(169,711)	(278,775)	12,763,217
Year 7	12,763,217	382,897	-	561,582	(173,954)	(292,818)	13,240,924
Year 8	13,240,924	397,228	-	582,601	(178,303)	(306,291)	13,736,158
Year 9	13,736,158	412,085	-	604,391	(182,760)	(319,508)	14,250,365
Year 10	14,250,365	427,511	-	627,016	(187,329)	(332,699)	14,784,864
Year 11	14,784,864	443,546	-	650,534	(192,013)	(346,032)	15,340,899
Year 12	15,340,899	460,227	-	675,000	(196,813)	(359,633)	15,919,679
Year 13	15,919,679	477,590	-	700,466	(201,733)	(373,601)	16,522,401
Year 14	16,522,401	495,672	-	726,986	(206,777)	(388,011)	17,150,272
Year 15	17,150,272	514,508	-	754,612	(211,946)	(402,925)	17,804,521
Year 16	17,804,521	534,136	-	783,399	(217,245)	(418,398)	18,486,413
Year 17	18,486,413	554,592	-	813,402	(222,676)	(434,474)	19,197,257
Year 18	19,197,257	575,918	-	844,679	(228,243)	(451,199)	19,938,413
Year 19	19,938,413	598,152	-	877,290	(233,949)	(468,610)	20,711,296
Year 20	20,711,296	621,339	-	911,297	(239,798)	(486,748)	21,517,386
Year 21	21,517,386	645,522	-	946,765	(245,792)	(505,652)	22,358,228
Year 22	22,358,228	670,747	-	983,762	(251,937)	(525,360)	23,235,440
Year 23	23,235,440	697,063	-	1,022,359	(258,236)	(545,912)	24,150,715
Year 24	24,150,715	724,521	-	1,062,631	(264,692)	(567,349)	25,105,828
Year 25	25,105,828	753,175	-	1,104,656	(271,309)	(335,916)	26,356,434

Schedule 11

Analysis of FLP Creating CRUT Followed by Sale to Grantor Trust

Simulated Tax Holiday (No Initial Capital Gains Tax and No Estate Tax) 76% - 24% Split Between Family and Charity

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%

Charlie Charitable

	Beginning of Year	Income	Tax Free Income	Growth	Consumption	Taxes on Investment Income	End of Year
Year 1	12,500,000	375,000	-	550,000	(150,000)	(208,500)	13,066,500
Year 2	13,066,500	391,995	-	574,926	(153,750)	(246,824)	13,632,847
Year 3	13,632,847	408,985	-	599,845	(157,594)	(277,792)	14,206,292
Year 4	14,206,292	426,189	-	625,077	(161,534)	(303,730)	14,792,294
Year 5	14,792,294	443,769	-	650,861	(165,572)	(326,290)	15,395,061
Year 6	15,395,061	461,852	-	677,383	(169,711)	(346,648)	16,017,936
Year 7	16,017,936	480,538	-	704,789	(173,954)	(365,643)	16,663,666
Year 8	16,663,666	499,910	-	733,201	(178,303)	(383,876)	17,334,599
Year 9	17,334,599	520,038	-	762,722	(182,760)	(401,782)	18,032,816
Year 10	18,032,816	540,984	-	793,444	(187,329)	(419,679)	18,760,236
Year 11	18,760,236	562,807	-	825,450	(192,013)	(437,801)	19,518,680
Year 12	19,518,680	585,560	-	858,822	(196,813)	(456,324)	20,309,926
Year 13	20,309,926	609,298	-	893,637	(201,733)	(475,384)	21,135,743
Year 14	21,135,743	634,072	-	929,973	(206,777)	(495,090)	21,997,921
Year 15	21,997,921	659,938	-	967,909	(211,946)	(515,531)	22,898,289
Year 16	22,898,289	686,949	-	1,007,525	(217,245)	(536,783)	23,838,735
Year 17	23,838,735	715,162	-	1,048,904	(222,676)	(558,913)	24,821,213
Year 18	24,821,213	744,636	-	1,092,133	(228,243)	(581,983)	25,847,757
Year 19	25,847,757	775,433	-	1,137,301	(233,949)	(606,053)	26,920,489
Year 20	26,920,489	807,615	-	1,184,502	(239,798)	(631,181)	28,041,627
Year 21	28,041,627	841,249	-	1,233,832	(245,792)	(657,424)	29,213,491
Year 22	29,213,491	876,405	-	1,285,394	(251,937)	(684,840)	30,438,512
Year 23	30,438,512	913,155	-	1,339,295	(258,236)	(713,489)	31,719,238
Year 24	31,719,238	951,577	-	1,395,646	(264,692)	(743,432)	33,058,338
Year 25	33,058,338	991,750	-	1,454,567	(271,309)	(442,321)	34,791,025

FLP/CRUT/Grantor Trust Sale. Charlie gives remaining estate to charity

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	\$150,000
Intra-Family Note Interest Percentage	1.91%
IRS 7520 Rate (Best)	2.40%
Unitrust Percentage	11.024%

Charitable Deduction	\$1,000,200
Income Tax Benefit to Charlie	\$446,089
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Charlie Charitable FLP Valuation Discount	35.00%
CRUT Starting Value	\$10,000,000
CRUT Actuarial Discount (10%)	(\$1,000,000)
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Partnership Discount (35%)	(\$3,150,000)
Discounted Value of Partnership Actuarial Interest	\$5,850,000
Face Value of Note (99% Transferred to Grantor Trust)	\$5,791,500

	Beginning of Year	Income	Tax Free Income	Growth	Unitrust Payments	Distributions	End of Year
Year 1	-	-	-	-	1,102,400	(834,400)	268,000
Year 2	268,000	8,040	-	11,792	1,062,449	(826,752)	523,529
Year 3	523,529	15,706	-	23,035	1,023,946	(819,953)	766,263
Year 4	766,263	22,988	-	33,716	986,838	(813,770)	996,035
Year 5	996,035	29,881	-	43,826	951,075	(808,031)	1,212,785
Year 6	1,212,785	36,384	-	53,363	916,608	(802,616)	1,416,523
Year 7	1,416,523	42,496	-	62,327	883,390	(797,436)	1,607,300
Year 8	1,607,300	48,219	-	70,721	851,376	(792,427)	1,785,189
Year 9	1,785,189	53,556	-	78,548	820,522	(787,539)	1,950,277
Year 10	1,950,277	58,508	-	85,812	790,787	(782,737)	2,102,647
Year 11	2,102,647	63,079	-	92,516	762,128	(777,991)	2,242,380
Year 12	2,242,380	67,271	-	98,665	734,509	(773,280)	2,369,545
Year 13	2,369,545	71,086	-	104,260	707,890	(768,585)	2,484,197
Year 14	2,484,197	74,526	-	109,305	682,236	(763,890)	2,586,374
Year 15	2,586,374	77,591	-	113,800	657,512	(759,181)	2,676,096
Year 16	2,676,096	80,283	-	117,748	633,684	(754,447)	2,753,365
Year 17	2,753,365	82,601	-	121,148	610,719	(749,675)	2,818,158
Year 18	2,818,158	84,545	-	123,999	588,587	(744,854)	2,870,435
Year 19	2,870,435	86,113	-	126,299	567,256	(739,974)	2,910,130
Year 20	2,910,130	87,304	-	128,046	546,699	(735,023)	2,937,155
Year 21	2,937,155	88,115	-	129,235	-	(70,168)	3,084,337
Year 22	3,084,337	92,530	-	135,711	-	(73,055)	3,239,523
Year 23	3,239,523	97,186	-	142,539	-	(76,286)	3,402,963
Year 24	3,402,963	102,089	-	149,730	-	(79,820)	3,574,962
Year 25	3,574,962	107,249	-	157,298	-	(167,164)	3,672,345

[illegible]

Schedule 11

Analysis of FLP Creating CRUT Followed by Sale to Grantor Trust

FLP/CRUT/Grantor Trust Sale, Charlie gives remaining estate to charity

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth ta	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	\$150,000
Intra-Family Note Interest Percentage	1.91%
IRS 7520 Rate (Best)	2.40%
Unitrust Percentage	11.024%

Assumptions (continued):

Charitable Deduction	\$1,000,200
Income Tax Benefit to Charlie	\$446,089
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Charlie Charitable FLP Valuation Discount	35.00%
CRUT Starting Value	\$10,000,000
CRUT Actuarial Discount (10%)	(\$1,000,000)
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Partnership Discount (35%)	(\$3,150,000)
Discounted Value of Partnership Actuarial Interest	\$5,850,000
Face Value of Note (99% Transferred to Grantor Trust)	\$5,791,500

Charitable Remainder Unitrust

	Beginning of Year	Income	Tax Free Income	Growth	Unitrust Payment	Payment to Charity	End of Year
Year 1	10,000,000	300,000	-	440,000	(1,102,400)	-	9,637,600
Year 2	9,637,600	289,128	-	424,054	(1,062,449)	-	9,288,333
Year 3	9,288,333	278,650	-	408,687	(1,023,946)	-	8,951,724
Year 4	8,951,724	268,552	-	393,876	(986,838)	-	8,627,314
Year 5	8,627,314	258,819	-	379,602	(951,075)	-	8,314,660
Year 6	8,314,660	249,440	-	365,845	(916,608)	-	8,013,337
Year 7	8,013,337	240,400	-	352,587	(883,390)	-	7,722,933
Year 8	7,722,933	231,688	-	339,809	(851,376)	-	7,443,054
Year 9	7,443,054	223,292	-	327,494	(820,522)	-	7,173,318
Year 10	7,173,318	215,200	-	315,626	(790,787)	-	6,913,357
Year 11	6,913,357	207,401	-	304,188	(762,128)	-	6,662,817
Year 12	6,662,817	199,885	-	293,164	(734,509)	-	6,421,356
Year 13	6,421,356	192,641	-	282,540	(707,890)	-	6,188,646
Year 14	6,188,646	185,659	-	272,300	(682,236)	-	5,964,370
Year 15	5,964,370	178,931	-	262,432	(657,512)	-	5,748,221
Year 16	5,748,221	172,447	-	252,922	(633,684)	-	5,539,906
Year 17	5,539,906	166,197	-	243,756	(610,719)	-	5,339,139
Year 18	5,339,139	160,174	-	234,922	(588,587)	-	5,145,649
Year 19	5,145,649	154,369	-	226,409	(567,256)	-	4,959,171
Year 20	4,959,171	148,775	-	218,204	(546,699)	(4,779,450)	-

Schedule 11

Analysis of FLP Creating CRUT Followed by Sale to Grantor Trust

FLP/CRUT/Grantor Trust Sale, Charlie gives remaining estate to charity

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth ta	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	\$150,000
Intra-Family Note Interest Percentage	1.91%
IRS 7520 Rate (Best)	2.40%
Unitrust Percentage	11.024%

Assumptions (continued):	
Charitable Deduction	\$1,000,200
Income Tax Benefit to Charlie	\$446,089
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Charlie Charitable FLP Valuation Discount	35.00%
CRUT Starting Value	\$10,000,000
CRUT Actuarial Discount (10%)	(\$1,000,000)
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Partnership Discount (35%)	(\$3,150,000)
Discounted Value of Partnership Actuarial Interest	\$5,850,000
Face Value of Note (99% Transferred to Grantor Trust)	\$5,791,500

Charlie Charitable

	Beginning of Year	Income	Tax Free Income	Distribution Growth from Partnership	Note Payments	Consumption	Taxes on Investment Income	End of Year
Year 1	2,500,000	75,000	-	110,000	8,344	826,056	(150,000)	3,433,614
Year 2	3,433,614	103,008	-	151,079	8,268	818,484	(153,750)	3,970,904
Year 3	3,970,904	119,127	-	174,720	8,200	811,754	(157,594)	4,528,948
Year 4	4,528,948	135,868	-	199,274	8,138	805,632	(161,534)	5,109,459
Year 5	5,109,459	153,284	-	224,816	8,080	799,951	(165,572)	5,714,011
Year 6	5,714,011	171,420	-	251,417	8,026	794,590	(169,711)	6,344,099
Year 7	6,344,099	190,323	-	279,140	7,974	789,462	(173,954)	7,001,180
Year 8	7,001,180	210,035	-	308,052	7,924	640,297	(178,303)	7,542,499
Year 9	7,542,499	226,275	-	331,870	7,875	-	(182,760)	7,467,596
Year 10	7,467,596	224,028	-	328,574	7,827	-	(187,329)	7,370,369
Year 11	7,370,369	221,111	-	324,296	7,780	-	(192,013)	7,248,328
Year 12	7,248,328	217,450	-	318,926	7,733	-	(196,813)	7,098,765
Year 13	7,098,765	212,963	-	312,346	7,686	-	(201,733)	6,918,734
Year 14	6,918,734	207,562	-	304,424	7,639	-	(206,777)	6,705,035
Year 15	6,705,035	201,151	-	295,022	7,592	-	(211,946)	6,454,196
Year 16	6,454,196	193,626	-	283,985	7,544	-	(217,245)	6,162,448
Year 17	6,162,448	184,873	-	271,148	7,497	-	(222,676)	5,825,706
Year 18	5,825,706	174,771	-	256,331	7,449	-	(228,243)	5,439,540
Year 19	5,439,540	163,186	-	239,340	7,400	-	(233,949)	4,999,149
Year 20	4,999,149	149,974	-	219,963	7,350	-	(239,798)	4,499,334
Year 21	4,499,334	134,980	-	197,971	702	-	(245,792)	4,087,687
Year 22	4,087,687	122,631	-	179,858	731	-	(251,937)	3,616,634
Year 23	3,616,634	108,499	-	159,132	763	-	(258,236)	3,081,631
Year 24	3,081,631	92,449	-	135,592	798	-	(264,692)	2,477,505
Year 25	2,477,505	74,325	-	109,010	1,672	-	(271,309)	1,341,313

Schedule 11

Analysis of FLP Creating CRUT Followed by Sale to Grantor Trust

FLP/CRUT/Grantor Trust Sale, Charlie gives remaining estate to charity

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth ta	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	\$150,000
Intra-Family Note Interest Percentage	1.91%
IRS 7520 Rate (Best)	2.40%
Unitrust Percentage	11.024%

Assumptions (continued):

Charitable Deduction	\$1,000,200
Income Tax Benefit to Charlie	\$446,089
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Charlie Charitable FLP Valuation Discount	35.00%
CRUT Starting Value	\$10,000,000
CRUT Actuarial Discount (10%)	(\$1,000,000)
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Partnership Discount (35%)	(\$3,150,000)
Discounted Value of Partnership Actuarial Interest	\$5,850,000
Face Value of Note (99% Transferred to Grantor Trust)	\$5,791,500

Charlie Charitable Family's Grantor Trust

	Beginning of Year	Income	Tax Free Income	Growth	Distribution from Partnerships	Note Payments	Taxes on Investment Income	End of Year
Year 1	-	-	-	-	826,056	(826,056)	-	-
Year 2	-	-	-	-	818,484	(818,484)	-	-
Year 3	-	-	-	-	811,754	(811,754)	-	-
Year 4	-	-	-	-	805,632	(805,632)	-	-
Year 5	-	-	-	-	799,951	(799,951)	-	-
Year 6	-	-	-	-	794,590	(794,590)	-	-
Year 7	-	-	-	-	789,462	(789,462)	-	-
Year 8	-	-	-	-	784,503	(640,297)	-	144,205
Year 9	144,205	4,326	-	6,345	779,664	-	-	934,540
Year 10	934,540	28,036	-	41,120	774,909	-	-	1,778,605
Year 11	1,778,605	53,358	-	78,259	770,211	-	-	2,680,433
Year 12	2,680,433	80,413	-	117,939	765,547	-	-	3,644,332
Year 13	3,644,332	109,330	-	160,351	760,899	-	-	4,674,912
Year 14	4,674,912	140,247	-	205,696	756,251	-	-	5,777,106
Year 15	5,777,106	173,313	-	254,193	751,590	-	-	6,956,201
Year 16	6,956,201	208,686	-	306,073	746,902	-	-	8,217,862
Year 17	8,217,862	246,536	-	361,586	742,178	-	-	9,568,162
Year 18	9,568,162	287,045	-	420,999	737,405	-	-	11,013,611
Year 19	11,013,611	330,408	-	484,599	732,574	-	-	12,561,192
Year 20	12,561,192	376,836	-	552,692	727,673	-	-	14,218,393
Year 21	14,218,393	426,552	-	625,609	69,466	-	-	15,340,020
Year 22	15,340,020	460,201	-	674,961	72,324	-	-	16,547,506
Year 23	16,547,506	496,425	-	728,090	75,523	-	-	17,847,544
Year 24	17,847,544	535,426	-	785,292	79,022	-	-	19,247,284
Year 25	19,247,284	577,419	-	846,880	165,492	-	-	20,837,075

Schedule 11

Analysis of FLP Creating CRUT Followed by Sale to Grantor Trust

FLP/CRUT/Grantor Trust Sale, Charlie gives remaining estate to charity

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth ta	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	\$150,000
Intra-Family Note Interest Percentage	1.91%
IRS 7520 Rate (Best)	2.40%
Unitrust Percentage	11.024%

Assumptions (continued):	
Charitable Deduction	\$1,000,200
Income Tax Benefit to Charlie	\$446,089
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Charlie Charitable FLP Valuation Discount	35.00%
CRUT Starting Value	\$10,000,000
CRUT Actuarial Discount (10%)	(\$1,000,000)
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Partnership Discount (35%)	(\$3,150,000)
Discounted Value of Partnership Actuarial Interest	\$5,850,000
Face Value of Note (99% Transferred to Grantor Trust)	\$5,791,500

Charity

	Beginning of Year	Income	Tax Free Income	Growth	CRUT Distribution	End of Year
Year 1	-	-	-	-	-	-
Year 2	-	-	-	-	-	-
Year 3	-	-	-	-	-	-
Year 4	-	-	-	-	-	-
Year 5	-	-	-	-	-	-
Year 6	-	-	-	-	-	-
Year 7	-	-	-	-	-	-
Year 8	-	-	-	-	-	-
Year 9	-	-	-	-	-	-
Year 10	-	-	-	-	-	-
Year 11	-	-	-	-	-	-
Year 12	-	-	-	-	-	-
Year 13	-	-	-	-	-	-
Year 14	-	-	-	-	-	-
Year 15	-	-	-	-	-	-
Year 16	-	-	-	-	-	-
Year 17	-	-	-	-	-	-
Year 18	-	-	-	-	-	-
Year 19	-	-	-	-	-	-
Year 20	-	-	-	-	4,779,450	4,779,450
Year 21	4,779,450	143,384	-	210,296	-	5,133,130
Year 22	5,133,130	153,994	-	225,858	-	5,512,981
Year 23	5,512,981	165,389	-	242,571	-	5,920,942
Year 24	5,920,942	177,628	-	260,521	-	6,359,091
Year 25	6,359,091	190,773	-	279,800	-	6,829,664

Schedule 11

Analysis of FLP Creating CRUT Followed by Sale to Grantor Trust

FLP/CRUT/Grantor Trust Sale, Charlie gives remaining estate to charity

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	\$150,000
Intra-Family Note Interest Percentage	1.91%
IRS 7520 Rate (Best)	2.40%
Unitrust Percentage	11.024%

Assumptions (continued):	
Charitable Deduction	\$1,000,200
Income Tax Benefit to Charlie	\$446,089
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Charlie Charitable FLP Valuation Discount	35.00%
CRUT Starting Value	\$10,000,000
CRUT Actuarial Discount (10%)	(\$1,000,000)
Value of Partnership Actuarial Interest in CRUT - Year 1	\$9,000,000
Partnership Discount (35%)	(\$3,150,000)
Discounted Value of Partnership Actuarial Interest	\$5,850,000
Face Value of Note (99% Transferred to Grantor Trust)	\$5,791,500

Note Between Charlie Charitable and Charlie Charitable Family's Grantor Trust - FLP

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	5,791,500	110,618	(826,056)	5,076,062
Year 2	5,076,062	96,953	(818,484)	4,354,530
Year 3	4,354,530	83,172	(811,754)	3,625,948
Year 4	3,625,948	69,256	(805,632)	2,889,572
Year 5	2,889,572	55,191	(799,951)	2,144,812
Year 6	2,144,812	40,966	(794,590)	1,391,187
Year 7	1,391,187	26,572	(789,462)	628,297
Year 8	628,297	12,000	(640,297)	-
Year 9	-	-	-	-
Year 10	-	-	-	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-
Year 21	-	-	-	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-

FLP/Grantor Trust Sale, Charlie gives remaining estate to family

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	\$150,000
Intra-Family Note Interest Percentage	1.91%
7520 Rate (Best)	2.40%

Charlie Charitable FLP Valuation Discount	35.00%
Note Between Charlie Charitable and Grantor Trust	
FLP Starting Value	\$10,000,000
Partnership Discount (35%)	<u>(\$3,500,000)</u>
Discounted Value of Partnership Interest	\$6,500,000
Face Value of Note (99% Transferred to Grantor Trust)	\$6,435,000

	Beginning of Year	Income	Tax Free Income	Growth	Distributions	End of Year
Year 1	10,000,000	300,000	-	440,000	(3,466,800)	7,273,200
Year 2	7,273,200	218,196	-	320,021	(726,273)	7,085,144
Year 3	7,085,144	212,554	-	311,746	(717,963)	6,891,482
Year 4	6,891,482	206,744	-	303,225	(705,715)	6,695,736
Year 5	6,695,736	200,872	-	294,612	(690,876)	6,500,345
Year 6	6,500,345	195,010	-	286,015	(674,393)	6,306,978
Year 7	6,306,978	189,209	-	277,507	(656,932)	6,116,762
Year 8	6,116,762	183,503	-	269,138	(638,959)	5,930,444
Year 9	5,930,444	177,913	-	260,940	(620,798)	5,748,498
Year 10	5,748,498	172,455	-	252,934	(602,674)	5,571,213
Year 11	5,571,213	167,136	-	245,133	(584,741)	5,398,742
Year 12	5,398,742	161,962	-	237,545	(567,101)	5,231,148
Year 13	5,231,148	156,934	-	230,171	(549,824)	5,068,429
Year 14	5,068,429	152,053	-	223,011	(532,953)	4,910,540
Year 15	4,910,540	147,316	-	216,064	(516,515)	4,757,404
Year 16	4,757,404	142,722	-	209,326	(500,524)	4,608,928
Year 17	4,608,928	138,268	-	202,793	(484,986)	4,465,003
Year 18	4,465,003	133,950	-	196,460	(469,899)	4,325,514
Year 19	4,325,514	129,765	-	190,323	(455,261)	4,190,341
Year 20	4,190,341	125,710	-	184,375	(441,063)	4,059,364
Year 21	4,059,364	121,781	-	178,612	(427,298)	3,932,459
Year 22	3,932,459	117,974	-	173,028	(413,954)	3,809,507
Year 23	3,809,507	114,285	-	167,618	(401,022)	3,690,388
Year 24	3,690,388	110,712	-	162,377	(388,490)	3,574,987
Year 25	3,574,987	107,250	-	157,299	(475,547)	3,363,989

[illegible]

Schedule 11

Analysis of FLP Creating CRUT Followed by Sale to Grantor Trust

FLP/Grantor Trust Sale, Charlie gives remaining estate to family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	\$150,000
Intra-Family Note Interest Percentage	1.91%
7520 Rate (Best)	2.40%

Assumptions (continued):

Charlie Charitable FLP Valuation Discount	35.00%
Note Between Charlie Charitable and Grantor Trust	
FLP Starting Value	\$10,000,000
Partnership Discount (35%)	(\$3,500,000)
Discounted Value of Partnership Interest	\$6,500,000
Face Value of Note (99% Transferred to Grantor Trust)	\$6,435,000

Charlie Charitable

	Beginning of Year	Income	Tax Free Income	Distribution Growth from Partnership	Note Payments	Consumption	Taxes on Investment Income	End of Year
Year 1	2,500,000	75,000	-	110,000	34,668	3,432,132	(150,000)	3,293,300
Year 2	3,293,300	98,799	-	144,905	7,263	719,010	(153,750)	3,904,403
Year 3	3,904,403	117,132	-	171,794	7,180	710,783	(157,594)	4,525,771
Year 4	4,525,771	135,773	-	199,134	7,057	698,658	(161,534)	5,157,799
Year 5	5,157,799	154,734	-	226,943	6,909	683,967	(165,572)	5,801,055
Year 6	5,801,055	174,032	-	255,246	6,744	485,449	(169,711)	6,274,039
Year 7	6,274,039	188,221	-	276,058	6,569	-	(173,954)	6,278,115
Year 8	6,278,115	188,343	-	276,237	6,390	-	(178,303)	6,264,492
Year 9	6,264,492	187,935	-	275,638	6,208	-	(182,760)	6,232,004
Year 10	6,232,004	186,960	-	274,208	6,027	-	(187,329)	6,179,170
Year 11	6,179,170	185,375	-	271,883	5,847	-	(192,013)	6,104,232
Year 12	6,104,232	183,127	-	268,586	5,671	-	(196,813)	6,005,169
Year 13	6,005,169	180,155	-	264,227	5,498	-	(201,733)	5,879,716
Year 14	5,879,716	176,391	-	258,707	5,330	-	(206,777)	5,725,357
Year 15	5,725,357	171,761	-	251,916	5,165	-	(211,946)	5,539,328
Year 16	5,539,328	166,180	-	243,730	5,005	-	(217,245)	5,318,601
Year 17	5,318,601	159,558	-	234,018	4,850	-	(222,676)	5,059,877
Year 18	5,059,877	151,796	-	222,635	4,699	-	(228,243)	4,759,565
Year 19	4,759,565	142,787	-	209,421	4,553	-	(233,949)	4,413,767
Year 20	4,413,767	132,413	-	194,206	4,411	-	(239,798)	4,018,250
Year 21	4,018,250	120,547	-	176,803	4,273	-	(245,792)	3,568,429
Year 22	3,568,429	107,053	-	157,011	4,140	-	(251,937)	3,059,335
Year 23	3,059,335	91,780	-	134,611	4,010	-	(258,236)	2,485,589
Year 24	2,485,589	74,568	-	109,366	3,885	-	(264,692)	1,841,367
Year 25	1,841,367	55,241	-	81,020	4,755	-	(271,309)	1,684,541

Schedule 11

Analysis of FLP Creating CRUT Followed by Sale to Grantor Trust

FLP/Grantor Trust Sale, Charlie gives remaining estate to family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	\$150,000
Intra-Family Note Interest Percentage	1.91%
7520 Rate (Best)	2.40%

Assumptions (continued):

Charlie Charitable FLP Valuation Discount	35.00%
Note Between Charlie Charitable and Grantor Trust	
FLP Starting Value	\$10,000,000
Partnership Discount (35%)	(\$3,500,000)
Discounted Value of Partnership Interest	\$6,500,000
Face Value of Note (99% Transferred to Grantor Trust)	\$6,435,000

Charlie Charitable Family's Grantor Trust

	Beginning of Year	Income	Tax Free Income	Growth	Distribution from Partnerships	Note Payments	Taxes on Investment Income	End of Year
Year 1	-	-	-	-	3,432,132	(3,432,132)	-	-
Year 2	-	-	-	-	719,010	(719,010)	-	-
Year 3	-	-	-	-	710,783	(710,783)	-	-
Year 4	-	-	-	-	698,658	(698,658)	-	-
Year 5	-	-	-	-	683,967	(683,967)	-	-
Year 6	-	-	-	-	667,649	(485,449)	-	182,200
Year 7	182,200	5,466	-	8,017	650,363	-	-	846,046
Year 8	846,046	25,381	-	37,226	632,569	-	-	1,541,223
Year 9	1,541,223	46,237	-	67,814	614,590	-	-	2,269,864
Year 10	2,269,864	68,096	-	99,874	596,648	-	-	3,034,481
Year 11	3,034,481	91,034	-	133,517	578,893	-	-	3,837,926
Year 12	3,837,926	115,138	-	168,869	561,430	-	-	4,683,362
Year 13	4,683,362	140,501	-	206,068	544,326	-	-	5,574,256
Year 14	5,574,256	167,228	-	245,267	527,624	-	-	6,514,375
Year 15	6,514,375	195,431	-	286,633	511,350	-	-	7,507,789
Year 16	7,507,789	225,234	-	330,343	495,519	-	-	8,558,884
Year 17	8,558,884	256,767	-	376,591	480,136	-	-	9,672,377
Year 18	9,672,377	290,171	-	425,585	465,200	-	-	10,853,333
Year 19	10,853,333	325,600	-	477,547	450,708	-	-	12,107,188
Year 20	12,107,188	363,216	-	532,716	436,653	-	-	13,439,772
Year 21	13,439,772	403,193	-	591,350	423,025	-	-	14,857,340
Year 22	14,857,340	445,720	-	653,723	409,815	-	-	16,366,598
Year 23	16,366,598	490,998	-	720,130	397,012	-	-	17,974,738
Year 24	17,974,738	539,242	-	790,888	384,605	-	-	19,689,474
Year 25	19,689,474	590,684	-	866,337	470,792	-	(1,044,592)	20,572,694

Schedule 11

Analysis of FLP Creating CRUT Followed by Sale to Grantor Trust

FLP/Grantor Trust Sale, Charlie gives remaining estate to family

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	\$150,000
Intra-Family Note Interest Percentage	1.91%
7520 Rate (Best)	2.40%

Assumptions (continued):

Charlie Charitable FLP Valuation Discount	35.00%
<u>Note Between Charlie Charitable and Grantor Trust</u>	
FLP Starting Value	\$10,000,000
Partnership Discount (35%)	(\$3,500,000)
Discounted Value of Partnership Interest	\$6,500,000
Face Value of Note (99% Transferred to Grantor Trust)	\$6,435,000

Note Between Charlie Charitable and Charlie Charitable Family's Grantor Trust - FLP

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	6,435,000	122,909	(3,432,132)	3,125,777
Year 2	3,125,777	59,702	(719,010)	2,466,469
Year 3	2,466,469	47,110	(710,783)	1,802,795
Year 4	1,802,795	34,433	(698,658)	1,138,571
Year 5	1,138,571	21,747	(683,967)	476,350
Year 6	476,350	9,098	(485,449)	-
Year 7	-	-	-	-
Year 8	-	-	-	-
Year 9	-	-	-	-
Year 10	-	-	-	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-
Year 21	-	-	-	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-

Schedule 11

Analysis of FLP Creating CRUT Followed by Sale to Grantor Trust

Assumptions

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Gross Proceeds	10,000,000
Cost Basis	-
Capital Gain	10,000,000
Client's Aggregate Annual Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Combined Federal and State Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. Income & stealth tax)	25.00%
Combined Federal and State Ordinary Tax Rate (includes income taxes, surtax on inv. Income & stealth tax)	44.60%
Combined Federal Estate Tax and State Inheritance Tax Rate	40.00%
Valuation Discount on Partnership	35.00%
Unitrust Rate on CRT	11.024%
Charitable Deduction	\$1,003,100
Income Tax Benefit to Charlie	\$446,089
Interest Rate on Private Annuity (Best Section 7520 Rate)	2.40%
Charlie Charitable Percentage Ownership in FLP (Children's GP interests ignored)	1.00%
Grantor Trust Subsequent Ownership in FLP	99.00%
Charlie Charitable's Annual Assumed Consumption With 2.5% Inflation Adjustment	\$150,000
Interest Rate on Loan from Grantor Trust	1.91%
Discount Rate for NPV Calculations	2.50%
Note Between Charlie Charitable and Grantor Trust - FLP/CRUT	
CRUT Starting Value	10,000,000
CRUT Actuarial Discount (10%)	(1,000,000)
Value of Partnership Actuarial Interest in CRUT - Year 1	9,000,000
Partnership Discount (35%)	(3,150,000)
Discounted Value of Partnership Actuarial Interest	5,850,000
Note Face Value (99% Transferred to the Grantor Trust)	5,791,500
Note Between Charlie Charitable and Grantor Trust - FLP (No CRUT)	
FLP Starting Value	10,000,000
Partnership Discount (35%)	(3,500,000)
Discounted Value of Partnership Interest	6,500,000
Face Value of Note (99% Transferred to Grantor Trust)	6,435,000

Schedule 12

George Generous

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming George Generous has a life expectancy of 20 years)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	20-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning: Bequeaths \$6mm to Charity at Death; Balance of Estate to Family (assumes \$8.53mm estate tax exemption available at death)				
George Generous	58,712,723	-	-	0.00%
Charity	17,989,144	23,989,144	14,639,877	22.49%
Generous Children	-	26,509,634	16,178,059	24.85%
Generous Children and Grandchildren	-	8,530,000	5,205,611	8.00%
IRS Income Tax - Direct Cost	14,567,393	14,567,393	8,890,057	13.65%
IRS Income Tax - Investment Opportunity Cost	15,414,442	15,414,442	9,406,986	14.45%
IRS Estate Tax (at 40.0%)	-	17,673,089	10,785,373	16.57%
Total	\$106,683,701	\$106,683,701	\$65,105,963	100.00%

Hypothetical Technique: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Gift and Sale of Growth Interest to a GST Tax Exempt Grantor Trust; Bequeaths Estate to Family (assumes \$3.10mm estate tax exemption available at death)				
George Generous	8,204,328	-	-	0.00%
Charity	23,989,144	23,989,144	14,639,877	22.49%
Generous Children	-	3,062,597	1,869,014	2.87%
Generous Children and Grandchildren	47,425,983	50,525,983	30,834,539	47.36%
IRS Income Tax - Direct Cost	17,410,042	17,410,042	10,624,843	16.32%
IRS Income Tax - Investment Opportunity Cost	9,654,204	9,654,204	5,891,680	9.05%
IRS Estate Tax (at 40.0%)	-	2,041,731	1,246,009	1.91%
Total	\$106,683,701	\$106,683,701	\$65,105,963	100.00%

	No Further Planning	Hypothetical Techniques
Calculations of Remaining Estate Tax Exemption		
Current Exemption	5,340,000	5,340,000
Gifts Made	-	(5,430,000)
Future Exemption Available in 20 years (assumes 2.5% inflation)	8,530,000	3,100,000

Schedule 12
George Generous
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

George Generous	
Assets*	
FMV: Financial Assets	\$20,000,000
Basis: Financial Assets	\$20,000,000
FMV: Securities	\$6,000,000
Basis: Securities	\$0
Total Assets	\$26,000,000
Total Basis	\$20,000,000

* Information provided by client and client's advisors. There is no proposed planning for George Generous' other assets.

Schedule 12
George Generous

No Further Planning: Bequeaths \$6mm to Charity at Death; Balance of Estate to Family (assumes \$8.53mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	21.20%
Ordinary Income Tax Rate	40.80%
Health Care Tax Rate	3.80%
Charitable Spending	\$420,000

George Generous

	Beginning of Year Financial Assets			End of Year Financial Assets			Beginning of Year Securities		End of Year Securities		End of Year Financial & Other Assets
	Assets	Income	Growth	Sale Proceeds	Charitable Contributions	Income Taxes	Securities	Sale	Securities		Assets
Year 1	20,000,000	600,000	880,000	6,000,000	(420,000)	(1,662,240)	25,397,760	6,000,000	(6,000,000)	-	25,397,760
Year 2	25,397,760	761,933	1,117,501	-	(420,000)	(298,475)	26,558,720	-	-	-	26,558,720
Year 3	26,558,720	796,762	1,168,584	-	(420,000)	(362,648)	27,741,417	-	-	-	27,741,417
Year 4	27,741,417	832,242	1,220,622	-	(420,000)	(416,424)	28,957,858	-	-	-	28,957,858
Year 5	28,957,858	868,736	1,274,146	-	(420,000)	(463,280)	30,217,460	-	-	-	30,217,460
Year 6	30,217,460	906,524	1,329,568	-	(420,000)	(505,696)	31,527,856	-	-	-	31,527,856
Year 7	31,527,856	945,836	1,387,226	-	(420,000)	(545,447)	32,895,471	-	-	-	32,895,471
Year 8	32,895,471	986,864	1,447,401	-	(420,000)	(583,811)	34,325,924	-	-	-	34,325,924
Year 9	34,325,924	1,029,778	1,510,341	-	(420,000)	(621,717)	35,824,325	-	-	-	35,824,325
Year 10	35,824,325	1,074,730	1,576,270	-	(420,000)	(659,847)	37,395,478	-	-	-	37,395,478
Year 11	37,395,478	1,121,864	1,645,401	-	(420,000)	(698,711)	39,044,032	-	-	-	39,044,032
Year 12	39,044,032	1,171,321	1,717,937	-	(420,000)	(738,698)	40,774,593	-	-	-	40,774,593
Year 13	40,774,593	1,223,238	1,794,082	-	(420,000)	(780,114)	42,591,798	-	-	-	42,591,798
Year 14	42,591,798	1,277,754	1,874,039	-	(420,000)	(823,209)	44,500,382	-	-	-	44,500,382
Year 15	44,500,382	1,335,011	1,958,017	-	(420,000)	(868,190)	46,505,221	-	-	-	46,505,221
Year 16	46,505,221	1,395,157	2,046,230	-	(420,000)	(915,241)	48,611,366	-	-	-	48,611,366
Year 17	48,611,366	1,458,341	2,138,900	-	(420,000)	(964,531)	50,824,077	-	-	-	50,824,077
Year 18	50,824,077	1,524,722	2,236,259	-	(420,000)	(1,016,215)	53,148,844	-	-	-	53,148,844
Year 19	53,148,844	1,594,465	2,338,549	-	(420,000)	(1,070,447)	55,591,411	-	-	-	55,591,411
Year 20	55,591,411	1,667,742	2,446,022	-	(420,000)	(572,453)	58,712,723	-	-	-	58,712,723

Schedule 12
George Generous

No Further Planning: Bequeaths \$6mm to Charity at Death; Balance of Estate to Family (assumes \$8.53mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	21.20%
Ordinary Income Tax Rate	40.80%
Health Care Tax Rate	3.80%
Charitable Spending	\$420,000

Doing Good Donor Advised Fund

	Beginning of Year Financial Assets	Income	Growth	Charitable Contributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	420,000	-	420,000
Year 2	420,000	12,600	18,480	420,000	-	871,080
Year 3	871,080	26,132	38,328	420,000	-	1,355,540
Year 4	1,355,540	40,666	59,644	420,000	-	1,875,850
Year 5	1,875,850	56,275	82,537	420,000	-	2,434,663
Year 6	2,434,663	73,040	107,125	420,000	-	3,034,828
Year 7	3,034,828	91,045	133,532	420,000	-	3,679,405
Year 8	3,679,405	110,382	161,894	420,000	-	4,371,681
Year 9	4,371,681	131,150	192,354	420,000	-	5,115,185
Year 10	5,115,185	153,456	225,068	420,000	-	5,913,709
Year 11	5,913,709	177,411	260,203	420,000	-	6,771,324
Year 12	6,771,324	203,140	297,938	420,000	-	7,692,402
Year 13	7,692,402	230,772	338,466	420,000	-	8,681,639
Year 14	8,681,639	260,449	381,992	420,000	-	9,744,081
Year 15	9,744,081	292,322	428,740	420,000	-	10,885,143
Year 16	10,885,143	326,554	478,946	420,000	-	12,110,643
Year 17	12,110,643	363,319	532,868	420,000	-	13,426,831
Year 18	13,426,831	402,805	590,781	420,000	-	14,840,416
Year 19	14,840,416	445,212	652,978	420,000	-	16,358,607
Year 20	16,358,607	490,758	719,779	420,000	-	17,989,144

Schedule 12
George Generous
Hypothetical Technique: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Gift and Sale of Growth Interest to a GST Tax Exempt Grantor Trust; Bequeaths Estate to Family (assumes \$3.10mm estate tax exemption available at death)
 This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
 This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.40%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	21.20%
Ordinary Income Tax Rate	40.80%
Health Care Tax Rate	3.80%
Charitable Spending	\$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	\$6,000,000
Generous FLLC Preferred Coupon	7.00%
Generous FLLC Ownership - George Generous	1.00%
Generous FLLC Trusts for Family	99.00%
Intra-Family Interest Rate - Mid-Term (June 2014)	1.91%

George Generous

	Beginning of Year Financial Assets							End of Year Financial Assets
	Income	Growth	FLLC Distributions	Note Payments	Charitable Spending	Income Taxes		
Year 1	6,000,000	180,000	264,000	4,200	68,359	-	2,114,400	8,630,959
Year 2	8,630,959	258,929	379,762	3,692	68,359	-	(532,829)	8,808,872
Year 3	8,808,872	264,266	387,590	4,179	68,359	-	(606,479)	8,926,787
Year 4	8,926,787	267,804	392,779	4,572	68,359	-	(667,116)	8,993,185
Year 5	8,993,185	269,796	395,700	4,902	68,359	-	(718,993)	9,012,948
Year 6	9,012,948	270,388	396,570	5,188	68,359	-	(765,140)	8,988,314
Year 7	8,988,314	269,649	395,486	5,448	68,359	-	(807,719)	8,919,537
Year 8	8,919,537	267,586	392,460	5,691	68,359	-	(848,283)	8,805,349
Year 9	8,805,349	264,160	387,435	5,925	3,647,359	-	(887,954)	12,222,275
Year 10	12,222,275	366,668	537,780	6,156	-	-	(927,554)	12,205,326
Year 11	12,205,326	366,160	537,034	6,389	-	-	(967,690)	12,147,219
Year 12	12,147,219	364,417	534,478	6,626	-	-	(1,008,821)	12,043,919
Year 13	12,043,919	361,318	529,932	6,871	-	-	(1,051,304)	11,890,735
Year 14	11,890,735	356,722	523,192	7,123	-	-	(1,095,423)	11,682,350
Year 15	11,682,350	350,471	514,023	7,386	-	-	(1,141,412)	11,412,818
Year 16	11,412,818	342,385	502,164	7,661	-	-	(1,189,476)	11,075,552
Year 17	11,075,552	332,267	487,324	7,948	-	-	(1,239,794)	10,663,296
Year 18	10,663,296	319,899	469,185	8,249	-	-	(1,292,536)	10,168,093
Year 19	10,168,093	305,043	447,396	8,564	-	-	(1,347,862)	9,581,233
Year 20	9,581,233	287,437	421,574	17,837	-	-	(2,428,057)	7,880,025

Schedule 12
George Generous
Hypothetical Technique: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Gift and Sale of Growth Interest to a GST Tax Exempt Grantor Trust; Bequeaths Estate to Family (assumes \$3.10mm estate tax exemption available at death)
 This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
 This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.40%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	21.20%
Ordinary Income Tax Rate	40.80%
Health Care Tax Rate	3.80%
Charitable Spending	\$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	\$6,000,000
Generous FLLC Preferred Coupon	7.00%
Generous FLLC Ownership - George Generous	1.00%
Generous FLLC Trusts for Family	99.00%
Intra-Family Interest Rate - Mid-Term (June 2014)	1.91%

Generous FLLC

	Beginning of Year Financial Assets			End of Year Financial Assets			Beginning of Year Securities		End of Year Securities		End of Year Financial & Other Assets
	Income	Growth	Sale Proceeds	Preferred Distributions	Growth Distributions		Sale				
Year 1	14,000,000	420,000	616,000	6,000,000	(420,000)	(420,000)	20,196,000	6,000,000	(6,000,000)	-	20,196,000
Year 2	20,196,000	605,880	888,624	-	(420,000)	(369,209)	20,901,295	-	-	-	20,901,295
Year 3	20,901,295	627,039	919,657	-	(420,000)	(417,924)	21,610,066	-	-	-	21,610,066
Year 4	21,610,066	648,302	950,843	-	(420,000)	(457,241)	22,331,970	-	-	-	22,331,970
Year 5	22,331,970	669,959	982,607	-	(420,000)	(490,166)	23,074,369	-	-	-	23,074,369
Year 6	23,074,369	692,231	1,015,272	-	(420,000)	(518,836)	23,843,037	-	-	-	23,843,037
Year 7	23,843,037	715,291	1,049,094	-	(420,000)	(544,772)	24,642,649	-	-	-	24,642,649
Year 8	24,642,649	739,279	1,084,277	-	(420,000)	(569,066)	25,477,139	-	-	-	25,477,139
Year 9	25,477,139	764,314	1,120,994	-	(420,000)	(592,502)	26,349,945	-	-	-	26,349,945
Year 10	26,349,945	790,498	1,159,398	-	(420,000)	(615,650)	27,264,192	-	-	-	27,264,192
Year 11	27,264,192	817,926	1,199,624	-	(420,000)	(638,928)	28,222,814	-	-	-	28,222,814
Year 12	28,222,814	846,684	1,241,804	-	(420,000)	(662,650)	29,228,653	-	-	-	29,228,653
Year 13	29,228,653	876,860	1,286,061	-	(420,000)	(687,054)	30,284,519	-	-	-	30,284,519
Year 14	30,284,519	908,536	1,332,519	-	(420,000)	(712,328)	31,393,246	-	-	-	31,393,246
Year 15	31,393,246	941,797	1,381,303	-	(420,000)	(738,624)	32,557,722	-	-	-	32,557,722
Year 16	32,557,722	976,732	1,432,540	-	(420,000)	(766,070)	33,780,923	-	-	-	33,780,923
Year 17	33,780,923	1,013,428	1,486,361	-	(420,000)	(794,780)	35,065,932	-	-	-	35,065,932
Year 18	35,065,932	1,051,978	1,542,901	-	(420,000)	(824,853)	36,415,957	-	-	-	36,415,957
Year 19	36,415,957	1,092,479	1,602,302	-	(420,000)	(856,388)	37,834,350	-	-	-	37,834,350
Year 20	37,834,350	1,135,031	1,664,711	-	(420,000)	(1,783,734)	38,430,358	-	-	-	38,430,358

Schedule 12

George Generous

Hypothetical Technique: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Gift and Sale of Growth Interest to a GST Tax Exempt Grantor Trust; Bequeaths Estate to Family (assumes \$3.10mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy. This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:		Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%	Generous FLLC Valuation Discount	35.00%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%	Generous FLLC Preferred	\$6,000,000
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.40%	Generous FLLC Preferred Coupon	7.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%	Generous FLLC Ownership - George Generous	1.00%
Long-Term Capital Gain Tax Rate	21.20%	Generous FLLC Trusts for Family	99.00%
Ordinary Income Tax Rate	40.80%	Intra-Family Interest Rate - Mid-Term (June 2014)	1.91%
Health Care Tax Rate	3.80%		
Charitable Spending	\$0		

Doing Good Donor Advised Fund

	Beginning of Year					End of Year
	Financial Assets	Income	Growth	Preferred Distributions	Income Taxes	Financial Assets
Year 1	-	-	-	420,000	-	420,000
Year 2	420,000	12,600	18,480	420,000	-	871,080
Year 3	871,080	26,132	38,328	420,000	-	1,355,540
Year 4	1,355,540	40,666	59,644	420,000	-	1,875,850
Year 5	1,875,850	56,275	82,537	420,000	-	2,434,663
Year 6	2,434,663	73,040	107,125	420,000	-	3,034,828
Year 7	3,034,828	91,045	133,532	420,000	-	3,679,405
Year 8	3,679,405	110,382	161,894	420,000	-	4,371,681
Year 9	4,371,681	131,150	192,354	420,000	-	5,115,185
Year 10	5,115,185	153,456	225,068	420,000	-	5,913,709
Year 11	5,913,709	177,411	260,203	420,000	-	6,771,324
Year 12	6,771,324	203,140	297,938	420,000	-	7,692,402
Year 13	7,692,402	230,772	338,466	420,000	-	8,681,639
Year 14	8,681,639	260,449	381,992	420,000	-	9,744,081
Year 15	9,744,081	292,322	428,740	420,000	-	10,885,143
Year 16	10,885,143	326,554	478,946	420,000	-	12,110,643
Year 17	12,110,643	363,319	532,868	420,000	-	13,426,831
Year 18	13,426,831	402,805	590,781	420,000	-	14,840,416
Year 19	14,840,416	445,212	652,978	420,000	-	16,358,607
Year 20	16,358,607	490,758	719,779	420,000	-	17,989,144

Schedule 12
George Generous
Hypothetical Technique: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Gift and Sale of Growth Interest to a GST Tax Exempt Grantor Trust; Bequeaths Estate to Family (assumes \$3.10mm estate tax exemption available at death)
 This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
 This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.40%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	21.20%
Ordinary Income Tax Rate	40.80%
Health Care Tax Rate	3.80%
Charitable Spending	\$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	\$6,000,000
Generous FLLC Preferred Coupon	7.00%
Generous FLLC Ownership - George Generous	1.00%
Generous FLLC Trusts for Family	99.00%
Intra-Family Interest Rate - Mid-Term (June 2014)	1.91%

GST Tax Exempt Grantor Trust for Generous Family

	Beginning of Year Financial Assets	Income	Growth	FLLC Growth Distributions	Note Payments	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	415,800	(68,359)	-	347,441
Year 2	347,441	10,423	15,287	365,517	(68,359)	-	670,310
Year 3	670,310	20,109	29,494	413,745	(68,359)	-	1,065,299
Year 4	1,065,299	31,959	46,873	452,669	(68,359)	-	1,528,441
Year 5	1,528,441	45,853	67,251	485,265	(68,359)	-	2,058,452
Year 6	2,058,452	61,754	90,572	513,647	(68,359)	-	2,656,066
Year 7	2,656,066	79,682	116,867	539,325	(68,359)	-	3,323,580
Year 8	3,323,580	99,707	146,238	563,375	(68,359)	-	4,064,542
Year 9	4,064,542	121,936	178,840	586,577	(3,647,359)	-	1,304,536
Year 10	1,304,536	39,136	57,400	609,493	-	-	2,010,565
Year 11	2,010,565	60,317	88,465	632,539	-	-	2,791,885
Year 12	2,791,885	83,757	122,843	656,023	-	-	3,654,508
Year 13	3,654,508	109,635	160,798	680,183	-	-	4,605,124
Year 14	4,605,124	138,154	202,625	705,205	-	-	5,651,108
Year 15	5,651,108	169,533	248,649	731,238	-	-	6,800,528
Year 16	6,800,528	204,016	299,223	758,410	-	-	8,062,177
Year 17	8,062,177	241,865	354,736	786,832	-	-	9,445,610
Year 18	9,445,610	283,368	415,607	816,605	-	-	10,961,189
Year 19	10,961,189	328,836	482,292	847,824	-	-	12,620,141
Year 20	12,620,141	378,604	555,286	1,765,896	-	-	15,319,928

Schedule 12
George Generous

Hypothetical Technique: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Gift and Sale of Growth Interest to a GST Tax Exempt Grantor Trust; Bequeaths Estate to Family (assumes \$3.10mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy. This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.40%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	21.20%
Ordinary Income Tax Rate	40.80%
Health Care Tax Rate	3.80%
Charitable Spending	\$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	\$6,000,000
Generous FLLC Preferred Coupon	7.00%
Generous FLLC Ownership - George Generous	1.00%
Generous FLLC Trusts for Family	99.00%
Intra-Family Interest Rate - Mid-Term (June 2014)	1.91%

Note between George Generous and Grantor Trust for Generous Family

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	3,579,000	68,359	(68,359)	3,579,000
Year 2	3,579,000	68,359	(68,359)	3,579,000
Year 3	3,579,000	68,359	(68,359)	3,579,000
Year 4	3,579,000	68,359	(68,359)	3,579,000
Year 5	3,579,000	68,359	(68,359)	3,579,000
Year 6	3,579,000	68,359	(68,359)	3,579,000
Year 7	3,579,000	68,359	(68,359)	3,579,000
Year 8	3,579,000	68,359	(68,359)	3,579,000
Year 9	3,579,000	68,359	(3,647,359)	-
Year 10	-	-	-	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-

Schedule 13
Tim Taxadvantaged - Trust Analysis - \$5,000,000 Initial Funding
Summary

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Variables and Assumptions	Trust	Individual
Initial funding	5,000,000	-
Rate of Return Taxed at Capital Gains Rates	4.40%	4.40%
Rate of Return Tax Free	2.40%	2.40%
Rate of Return Taxed at Ordinary Rates	0.60%	0.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Taxes on LT Realized Gains	23.80%	Various
Taxes on ST Realized Gains/Interest/NQ Dividends*	43.40%	Various
Withdrawal Right (Income up to Portion of Trust Value)		5.00%

INDIVIDUAL NOT SUBJECT TO ALTERNATIVE MINIMUM TAX (AMT)
*Trusts are taxable at the highest marginal rate once taxable income reaches \$12,150. For this analysis, we have ignored the \$2,989 benefit of the lower tax rates for income brackets below \$12,150, as the benefit would apply equally to the trusts in all examples.

			Net-Tax Benefit to Beneficiary		
			Increase/ (Decrease) Over Scenario 1	Scenario 1 Non-Grantor Trust without Withdrawal Rights	Scenario 2 With \$678 Withdrawal Rights
Year	Which Results in Greatest Benefit?				
1	Trust with Withdrawal Rights		0%	5,307,609	5,318,483
2	Trust with Withdrawal Rights		0%	5,633,021	5,660,308
3	Trust with Withdrawal Rights		1%	5,979,973	6,033,847
4	Trust with Withdrawal Rights		1%	6,349,422	6,434,717
5	Trust with Withdrawal Rights		2%	6,742,495	6,863,964
6	Trust with Withdrawal Rights		2%	7,160,471	7,321,946
7	Trust with Withdrawal Rights		3%	7,604,762	7,810,133
8	Trust with Withdrawal Rights		3%	8,076,909	8,335,666
9	Trust with Withdrawal Rights		4%	8,578,577	8,895,361
10	Trust with Withdrawal Rights		4%	9,111,554	9,489,209
11	Trust with Withdrawal Rights		5%	9,677,754	10,120,055
12	Trust with Withdrawal Rights		5%	10,279,219	10,790,180
13	Trust with Withdrawal Rights		5%	10,918,124	11,502,011
14	Trust with Withdrawal Rights		6%	11,596,787	12,258,131
15	Trust with Withdrawal Rights		6%	12,317,671	13,061,286
16	Trust with Withdrawal Rights		6%	13,083,395	13,914,396
17	Trust with Withdrawal Rights		7%	13,896,744	14,820,564
18	Trust with Withdrawal Rights		7%	14,760,676	15,783,085
19	Trust with Withdrawal Rights		7%	15,678,335	16,805,463
20	Trust with Withdrawal Rights		7%	16,653,059	17,891,418
21	Trust with Withdrawal Rights		8%	17,688,397	19,044,903
22	Trust with Withdrawal Rights		8%	18,788,116	20,270,117
23	Trust with Withdrawal Rights		8%	19,956,220	21,571,518
24	Trust with Withdrawal Rights		8%	21,196,961	22,953,844
25	Trust with Withdrawal Rights		8%	22,514,855	24,422,127
26	Trust with Withdrawal Rights		9%	23,914,699	25,981,713
27	Trust with Withdrawal Rights		9%	25,401,589	27,638,277
28	Trust with Withdrawal Rights		9%	26,980,938	29,397,852
29	Trust with Withdrawal Rights		9%	28,658,495	31,266,841
30	Trust with Withdrawal Rights		9%	30,440,367	33,252,049
31	Trust with Withdrawal Rights		9%	32,333,041	35,360,702
32	Trust with Withdrawal Rights		9%	34,343,405	37,600,476
33	Trust with Withdrawal Rights		10%	36,478,780	39,979,526
34	Trust with Withdrawal Rights		10%	38,746,937	42,506,511
35	Trust with Withdrawal Rights		10%	41,156,134	45,190,630

Schedule 13
Tim Taxadvantaged - Trust Analysis - \$5,000,000 Initial Funding
Support for Scenario 1: Non-grantor Trust Without Withdrawal Rights

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax and Health Care Tax Rate	23.80%
Ordinary Tax and Health Care Tax Rate	43.40%

Non-Grantor Trust

Year	Beginning of Year	LT Growth	Tax Free	ST Growth/ Ordinary	Taxes	Remainder	Inherent Tax Liability
1	5,000,000	220,000	120,000	30,000	(28,728)	5,341,272	(33,663)
2	5,341,272	235,016	128,191	32,048	(41,684)	5,694,842	(61,821)
3	5,694,842	250,573	136,676	34,169	(52,163)	6,064,097	(84,124)
4	6,064,097	266,820	145,538	36,385	(60,976)	6,451,864	(102,442)
5	6,451,864	283,882	154,845	38,711	(68,699)	6,860,603	(118,108)
6	6,860,603	301,867	164,654	41,164	(75,747)	7,292,540	(132,070)
7	7,292,540	320,872	175,021	43,755	(82,418)	7,749,771	(145,009)
8	7,749,771	340,990	185,995	46,499	(88,927)	8,234,327	(157,419)
9	8,234,327	362,310	197,624	49,406	(95,433)	8,748,234	(169,657)
10	8,748,234	384,922	209,958	52,489	(102,058)	9,293,546	(181,992)
11	9,293,546	408,916	223,045	55,761	(108,891)	9,872,377	(194,623)
12	9,872,377	434,385	236,937	59,234	(116,006)	10,486,927	(207,708)
13	10,486,927	461,425	251,686	62,922	(123,463)	11,139,497	(221,372)
14	11,139,497	490,138	267,348	66,837	(131,311)	11,832,508	(235,721)
15	11,832,508	520,630	283,980	70,995	(139,598)	12,568,516	(250,845)
16	12,568,516	553,015	301,644	75,411	(148,364)	13,350,222	(266,827)
17	13,350,222	587,410	320,405	80,101	(157,650)	14,180,489	(283,745)
18	14,180,489	623,942	340,332	85,083	(167,495)	15,062,349	(301,673)
19	15,062,349	662,743	361,496	90,374	(177,941)	15,999,022	(320,688)
20	15,999,022	703,957	383,977	95,994	(189,027)	16,993,923	(340,864)
21	16,993,923	747,733	407,854	101,964	(200,796)	18,050,677	(362,280)
22	18,050,677	794,230	433,216	108,304	(213,293)	19,173,135	(385,018)
23	19,173,135	843,618	460,155	115,039	(226,563)	20,365,383	(409,163)
24	20,365,383	896,077	488,769	122,192	(240,657)	21,631,765	(434,804)
25	21,631,765	951,798	519,162	129,791	(255,625)	22,976,890	(462,035)
26	22,976,890	1,010,983	551,445	137,861	(271,523)	24,405,657	(490,958)
27	24,405,657	1,073,849	585,736	146,434	(288,409)	25,923,266	(521,677)
28	25,923,266	1,140,624	622,158	155,540	(306,345)	27,535,243	(554,305)
29	27,535,243	1,211,551	660,846	165,211	(325,395)	29,247,456	(588,961)
30	29,247,456	1,286,888	701,939	175,485	(345,629)	31,066,139	(625,772)
31	31,066,139	1,366,910	745,587	186,397	(367,122)	32,997,911	(664,871)
32	32,997,911	1,451,908	791,950	197,987	(389,951)	35,049,806	(706,401)
33	35,049,806	1,542,191	841,195	210,299	(414,199)	37,229,293	(750,513)
34	37,229,293	1,638,089	893,503	223,376	(439,955)	39,544,305	(797,368)
35	39,544,305	1,739,949	949,063	237,266	(467,313)	42,003,271	(847,137)

Schedule 13
Tim Taxadvantaged - Trust Analysis - \$5,000,000 Initial Funding
Support for Scenario 2: Non-grantor Trust With \$678 Withdrawal Rights

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax and Health Care Tax Rate	Various
Ordinary Tax and Health Care Tax Rate	Various

Assumptions (contin	
Withdrawal Right (Income up to Portion of Trust Value)	5.00%

[1] Assumption is that individual makes \$90,000 per year and spends it down completely for taxes and other expenses. We have ignored any other assets.

Non-Grantor Trust

Year	Beginning of Year	LT Growth	Tax Free	ST Growth/ Ordinary	Taxes	Withdrawal	Remainder	Inherent Tax Liability
1	5,000,000	220,000	120,000	30,000	(3,636)	(14,218)	5,352,146	(33,663)
2	5,352,146	235,494	128,451	32,113	(3,405)	(22,590)	5,722,209	(61,901)
3	5,722,209	251,777	137,333	34,333	(3,318)	(24,107)	6,118,227	(84,380)
4	6,118,227	269,202	146,837	36,709	(3,276)	(29,964)	6,537,736	(103,018)
5	6,537,736	287,660	156,906	39,226	(3,252)	(35,171)	6,983,104	(119,140)
6	6,983,104	307,257	167,595	41,899	(3,238)	(40,979)	7,455,637	(133,691)
7	7,455,637	328,048	178,935	44,734	(3,229)	(46,651)	7,957,473	(147,340)
8	7,957,473	350,129	190,979	47,745	(3,224)	(46,863)	8,496,239	(160,572)
9	8,496,239	373,834	203,910	50,977	(3,220)	(52,594)	9,069,146	(173,785)
10	9,069,146	399,042	217,659	54,415	(3,218)	(60,603)	9,676,442	(187,233)
11	9,676,442	425,763	232,235	58,059	(3,217)	(68,128)	10,321,154	(201,099)
12	10,321,154	454,131	247,708	61,927	(3,216)	(75,993)	11,005,711	(215,531)
13	11,005,711	484,251	264,137	66,034	(3,215)	(84,256)	11,732,662	(230,651)
14	11,732,662	516,237	281,584	70,396	(3,214)	(92,970)	12,504,695	(246,564)
15	12,504,695	550,207	300,113	75,028	(3,214)	(102,180)	13,324,649	(263,363)
16	13,324,649	586,285	319,792	79,948	(3,214)	(111,931)	14,195,528	(281,132)
17	14,195,528	624,603	340,693	85,173	(3,213)	(122,266)	15,120,518	(299,955)
18	15,120,518	665,303	362,892	90,723	(3,213)	(133,227)	16,102,996	(319,911)
19	16,102,996	708,532	386,472	96,618	(3,213)	(144,859)	17,146,546	(341,083)
20	17,146,546	754,448	411,517	102,879	(3,213)	(157,207)	18,254,971	(363,552)
21	18,254,971	803,219	438,119	109,530	(3,213)	(170,316)	19,432,309	(387,406)
22	19,432,309	855,022	466,375	116,594	(3,213)	(184,237)	20,682,851	(412,734)
23	20,682,851	910,045	496,388	124,097	(3,213)	(199,021)	22,011,148	(439,631)
24	22,011,148	968,491	528,268	132,067	(3,212)	(214,722)	23,422,039	(468,195)
25	23,422,039	1,030,570	562,129	140,532	(3,212)	(231,398)	24,920,660	(498,533)
26	24,920,660	1,096,509	598,096	149,524	(3,212)	(249,109)	26,512,468	(530,755)
27	26,512,468	1,166,549	636,299	159,075	(3,212)	(267,922)	28,203,256	(564,979)
28	28,203,256	1,240,943	676,878	169,220	(3,212)	(287,904)	29,999,181	(601,330)
29	29,999,181	1,319,964	719,980	179,995	(3,212)	(309,128)	31,906,781	(639,940)
30	31,906,781	1,403,898	765,763	191,441	(3,212)	(331,671)	33,932,999	(680,951)
31	33,932,999	1,493,052	814,392	203,598	(3,212)	(355,616)	36,085,213	(724,511)
32	36,085,213	1,587,749	866,045	216,511	(3,212)	(381,050)	38,371,257	(770,780)
33	38,371,257	1,688,335	920,910	230,228	(3,212)	(408,066)	40,799,452	(819,926)
34	40,799,452	1,795,176	979,187	244,797	(3,212)	(436,761)	43,378,639	(872,128)
35	43,378,639	1,908,660	1,041,087	260,272	(3,212)	(467,240)	46,118,206	(927,576)

Withdrawal Rights and Taxes Paid by Beneficiary

Withdrawal Right (income, up to 5% of trust value)	Taxes	Amount Withdrawn to Pay Taxes	Remainder
83,850	(14,218)	14,218	-
136,811	(22,590)	22,590	-
179,510	(24,107)	24,107	-
215,449	(29,964)	29,964	-
246,997	(35,171)	35,171	-
275,870	(40,979)	40,979	-
303,283	(46,651)	46,651	-
330,123	(46,863)	46,863	-
357,148	(52,594)	52,594	-
384,802	(60,603)	60,603	-
413,413	(68,128)	68,128	-
443,270	(75,993)	75,993	-
474,604	(84,256)	84,256	-
507,621	(92,970)	92,970	-
542,503	(102,180)	102,180	-
579,421	(111,931)	111,931	-
618,540	(122,266)	122,266	-
660,026	(133,227)	133,227	-
704,044	(144,859)	144,859	-
750,767	(157,207)	157,207	-
800,372	(170,316)	170,316	-
853,045	(184,237)	184,237	-
908,981	(199,021)	199,021	-
968,388	(214,722)	214,722	-
1,031,483	(231,398)	231,398	-
1,098,497	(249,109)	249,109	-
1,169,676	(267,922)	267,922	-
1,245,278	(287,904)	287,904	-
1,325,580	(309,128)	309,128	-
1,410,875	(331,671)	331,671	-
1,501,472	(355,616)	355,616	-
1,597,703	(381,050)	381,050	-
1,699,917	(408,066)	408,066	-
1,808,487	(436,761)	436,761	-
1,923,808	(467,240)	467,240	-

Schedule 13
Tim Taxadvantaged - Trust Analysis - \$500,000 Initial Funding
Summary

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Variables and Assumptions	Trust	Individual
Initial funding	500,000	-
Rate of Return Taxed at Capital Gains Rates	4.40%	4.40%
Rate of Return Tax Free	2.40%	2.40%
Rate of Return Taxed at Ordinary Rates	0.60%	0.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Taxes on LT Realized Gains	23.80%	Various
Taxes on ST Realized Gains/Interest/NQ Dividends*	43.40%	Various
Withdrawal Right (Income up to Portion of Trust Value)		5.00%

INDIVIDUAL NOT SUBJECT TO ALTERNATIVE MINIMUM TAX (AMT)

*Trusts are taxable at the highest marginal rate once taxable income reaches \$12,150. For this analysis, we have ignored the \$2,989 benefit of the lower tax rates for income brackets below \$12,150, as the benefit would apply equally to the trusts in all examples.

			Net-Tax Benefit to Beneficiary	
		Increase/ (Decrease)	Scenario 1 Non-Grantor Trust without Withdrawal Rights	Scenario 2 With \$678 Withdrawal Rights
Year	Which Results in Greatest Benefit?	Over Scenario 1		
1	Non-Grantor Trust	0%	533,451	533,150
2	Non-Grantor Trust	0%	565,992	565,968
3	Trust with Withdrawal Rights	0%	600,687	601,393
4	Trust with Withdrawal Rights	0%	637,632	639,465
5	Trust with Withdrawal Rights	0%	676,940	680,275
6	Trust with Withdrawal Rights	1%	718,737	723,946
7	Trust with Withdrawal Rights	1%	763,166	770,626
8	Trust with Withdrawal Rights	1%	810,381	820,490
9	Trust with Withdrawal Rights	2%	860,548	873,728
10	Trust with Withdrawal Rights	2%	913,845	930,552
11	Trust with Withdrawal Rights	2%	970,465	991,192
12	Trust with Withdrawal Rights	2%	1,030,612	1,055,895
13	Trust with Withdrawal Rights	3%	1,094,502	1,124,928
14	Trust with Withdrawal Rights	3%	1,162,369	1,198,576
15	Trust with Withdrawal Rights	3%	1,234,457	1,277,146
16	Trust with Withdrawal Rights	4%	1,311,030	1,360,963
17	Trust with Withdrawal Rights	4%	1,392,364	1,450,376
18	Trust with Withdrawal Rights	5%	1,478,758	1,545,760
19	Trust with Withdrawal Rights	5%	1,570,523	1,647,510
20	Trust with Withdrawal Rights	5%	1,667,996	1,757,565
21	Trust with Withdrawal Rights	6%	1,771,530	1,874,940
22	Trust with Withdrawal Rights	6%	1,881,502	2,000,124
23	Trust with Withdrawal Rights	7%	1,998,312	2,133,638
24	Trust with Withdrawal Rights	7%	2,122,386	2,276,037
25	Trust with Withdrawal Rights	8%	2,254,175	2,427,912
26	Trust with Withdrawal Rights	8%	2,394,160	2,589,895
27	Trust with Withdrawal Rights	9%	2,542,849	2,762,659
28	Trust with Withdrawal Rights	9%	2,700,784	2,946,921
29	Trust with Withdrawal Rights	10%	2,868,540	3,143,447
30	Trust with Withdrawal Rights	10%	3,046,727	3,353,054
31	Trust with Withdrawal Rights	11%	3,235,994	3,582,511
32	Trust with Withdrawal Rights	11%	3,437,031	3,827,148
33	Trust with Withdrawal Rights	12%	3,650,568	4,087,980
34	Trust with Withdrawal Rights	13%	3,877,384	4,366,082
35	Trust with Withdrawal Rights	13%	4,118,303	4,662,602

Schedule 13
Tim Taxadvantaged - Trust Analysis - \$500,000 Initial Funding
Support for Scenario 1: Non-grantor Trust Without Withdrawal Rights

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax and Health Care Tax Rate	23.80%
Ordinary Tax and Health Care Tax Rate	43.40%

Non-Grantor Trust

Year	Beginning of Year	LT Growth	Tax Free	ST Growth/ Ordinary	Taxes	Remainder	Inherent Tax Liability
1	500,000	22,000	12,000	3,000	(2,873)	534,127	(676)
2	534,127	23,502	12,819	3,205	(4,168)	569,484	(3,492)
3	569,484	25,057	13,668	3,417	(5,216)	606,410	(5,722)
4	606,410	26,682	14,554	3,638	(6,098)	645,186	(7,554)
5	645,186	28,388	15,484	3,871	(6,870)	686,060	(9,121)
6	686,060	30,187	16,465	4,116	(7,575)	729,254	(10,517)
7	729,254	32,087	17,502	4,376	(8,242)	774,977	(11,811)
8	774,977	34,099	18,599	4,650	(8,893)	823,433	(13,052)
9	823,433	36,231	19,762	4,941	(9,543)	874,823	(14,276)
10	874,823	38,492	20,996	5,249	(10,206)	929,355	(15,509)
11	929,355	40,892	22,305	5,576	(10,889)	987,238	(16,772)
12	987,238	43,438	23,694	5,923	(11,601)	1,048,693	(18,081)
13	1,048,693	46,142	25,169	6,292	(12,346)	1,113,950	(19,447)
14	1,113,950	49,014	26,735	6,684	(13,131)	1,183,251	(20,882)
15	1,183,251	52,063	28,398	7,100	(13,960)	1,256,852	(22,394)
16	1,256,852	55,301	30,164	7,541	(14,836)	1,335,022	(23,993)
17	1,335,022	58,741	32,041	8,010	(15,765)	1,418,049	(25,684)
18	1,418,049	62,394	34,033	8,508	(16,750)	1,506,235	(27,477)
19	1,506,235	66,274	36,150	9,037	(17,794)	1,599,902	(29,379)
20	1,599,902	70,396	38,398	9,599	(18,903)	1,699,392	(31,396)
21	1,699,392	74,773	40,785	10,196	(20,080)	1,805,068	(33,538)
22	1,805,068	79,423	43,322	10,830	(21,329)	1,917,313	(35,812)
23	1,917,313	84,362	46,016	11,504	(22,656)	2,036,538	(38,226)
24	2,036,538	89,608	48,877	12,219	(24,066)	2,163,176	(40,790)
25	2,163,176	95,180	51,916	12,979	(25,563)	2,297,689	(43,514)
26	2,297,689	101,098	55,145	13,786	(27,152)	2,440,566	(46,406)
27	2,440,566	107,385	58,574	14,643	(28,841)	2,592,327	(49,478)
28	2,592,327	114,062	62,216	15,554	(30,634)	2,753,524	(52,741)
29	2,753,524	121,155	66,085	16,521	(32,539)	2,924,746	(56,206)
30	2,924,746	128,689	70,194	17,548	(34,563)	3,106,614	(59,887)
31	3,106,614	136,691	74,559	18,640	(36,712)	3,299,791	(63,797)
32	3,299,791	145,191	79,195	19,799	(38,995)	3,504,981	(67,950)
33	3,504,981	154,219	84,120	21,030	(41,420)	3,722,929	(72,361)
34	3,722,929	163,809	89,350	22,338	(43,996)	3,954,431	(77,047)
35	3,954,431	173,995	94,906	23,727	(46,731)	4,200,327	(82,024)

Schedule 13
Tim Taxadvantaged - Trust Analysis - \$500,000 Initial Funding
Support for Scenario 2: Non-grantor Trust With \$678 Withdrawal Rights

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax and Health Care Tax Rate	Various
Ordinary Tax and Health Care Tax Rate	Various

Assumptions (contin	
Withdrawal Right (Income up to Portion of Trust Value)	5.00%

[1] Assumption is that individual makes \$90,000 per year and spends it down completely for taxes and other expenses. We have ignored any other assets.

Non-Grantor Trust

Year	Beginning of Year	LT Growth	Tax Free	ST Growth/ Ordinary	Taxes	Withdrawal	Remainder	Inherent Tax Liability
1	500,000	22,000	12,000	3,000	(3,636)	462	533,826	(676)
2	533,826	23,488	12,812	3,203	(3,405)	(466)	569,458	(3,490)
3	569,458	25,056	13,667	3,417	(3,318)	(1,167)	607,114	(5,721)
4	607,114	26,713	14,571	3,643	(3,275)	(1,741)	647,024	(7,558)
5	647,024	28,469	15,529	3,882	(3,251)	(2,240)	689,412	(9,137)
6	689,412	30,334	16,546	4,136	(3,237)	(2,693)	734,499	(10,553)
7	734,499	32,318	17,628	4,407	(3,228)	(3,122)	782,501	(11,875)
8	782,501	34,430	18,780	4,695	(3,223)	(3,542)	833,641	(13,152)
9	833,641	36,680	20,007	5,002	(3,219)	(3,963)	888,148	(14,420)
10	888,148	39,079	21,316	5,329	(3,217)	(4,394)	946,260	(15,708)
11	946,260	41,635	22,710	5,678	(3,216)	(4,840)	1,008,227	(17,035)
12	1,008,227	44,362	24,197	6,049	(3,215)	(5,307)	1,074,314	(18,419)
13	1,074,314	47,270	25,784	6,446	(3,214)	(5,799)	1,144,800	(19,872)
14	1,144,800	50,371	27,475	6,869	(3,214)	(6,319)	1,219,982	(21,405)
15	1,219,982	53,679	29,280	7,320	(3,213)	(6,871)	1,300,176	(23,030)
16	1,300,176	57,208	31,204	7,801	(3,213)	(7,458)	1,385,718	(24,755)
17	1,385,718	60,972	33,257	8,314	(3,213)	(8,081)	1,476,966	(26,590)
18	1,476,966	64,987	35,447	8,862	(3,213)	(8,746)	1,574,303	(28,543)
19	1,574,303	69,269	37,783	9,446	(3,213)	(9,454)	1,678,134	(30,624)
20	1,678,134	73,838	40,275	10,069	(3,213)	(8,696)	1,790,406	(32,841)
21	1,790,406	78,778	42,970	10,742	(3,213)	(9,526)	1,910,157	(35,217)
22	1,910,157	84,047	45,844	11,461	(3,213)	(10,414)	2,037,881	(37,757)
23	2,037,881	89,667	48,909	12,227	(3,213)	(11,361)	2,174,110	(40,472)
24	2,174,110	95,661	52,179	13,045	(3,214)	(12,373)	2,319,407	(43,371)
25	2,319,407	102,054	55,666	13,916	(3,214)	(13,453)	2,474,377	(46,465)
26	2,474,377	108,873	59,385	14,846	(3,214)	(14,605)	2,639,662	(49,767)
27	2,639,662	116,145	63,352	15,838	(3,214)	(15,835)	2,815,949	(53,290)
28	2,815,949	123,902	67,583	16,896	(3,214)	(17,146)	3,003,969	(57,048)
29	3,003,969	132,175	72,095	18,024	(3,214)	(18,545)	3,204,505	(61,057)
30	3,204,505	140,998	76,908	19,227	(3,214)	(20,037)	3,418,388	(65,334)
31	3,418,388	150,409	82,041	20,510	(3,214)	(15,729)	3,652,406	(69,895)
32	3,652,406	160,706	87,658	21,914	(3,214)	(17,518)	3,901,952	(74,804)
33	3,901,952	171,686	93,647	23,412	(3,214)	(19,434)	4,168,048	(80,069)
34	4,168,048	183,394	100,033	25,008	(3,214)	(21,483)	4,451,787	(85,705)
35	4,451,787	195,879	106,843	26,711	(3,214)	(23,672)	4,754,332	(91,730)

Withdrawal Rights and Taxes Paid by Beneficiary

Withdrawal Right (income, up to 5% of trust value)	Taxes	Amount Withdrawn to Pay Taxes	Remainder
(2,550)	462	(462)	-
2,719	(466)	466	-
6,950	(1,167)	1,167	-
10,485	(1,741)	1,741	-
13,567	(2,240)	2,240	-
16,371	(2,693)	2,693	-
19,022	(3,122)	3,122	-
21,609	(3,542)	3,542	-
24,201	(3,963)	3,963	-
26,847	(4,394)	4,394	-
29,586	(4,840)	4,840	-
32,449	(5,307)	5,307	-
35,461	(5,799)	5,799	-
38,646	(6,319)	6,319	-
42,023	(6,871)	6,871	-
45,610	(7,458)	7,458	-
49,427	(8,081)	8,081	-
53,492	(8,746)	8,746	-
57,823	(9,454)	9,454	-
62,439	(8,696)	8,696	-
67,390	(9,526)	9,526	-
72,683	(10,414)	10,414	-
78,338	(11,361)	11,361	-
84,375	(12,373)	12,373	-
90,819	(13,453)	13,453	-
97,695	(14,605)	14,605	-
105,031	(15,835)	15,835	-
112,856	(17,146)	17,146	-
121,203	(18,545)	18,545	-
130,107	(20,037)	20,037	-
139,604	(15,729)	15,729	-
149,847	(17,518)	17,518	-
160,825	(19,434)	19,434	-
172,571	(21,483)	21,483	-
185,123	(23,672)	23,672	-

Schedule 14**Sam and Sally Wilson****Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mr. and Mrs. Wilson have a joint life expectancy of 30 years)**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	30-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning; Bequeaths Estate to Family (assumes \$21.84mm estate tax exemption available)				
Sam and Sally Wilson	187,601,218	-	-	0.00%
Wilson Children	-	99,456,731	47,415,269	28.64%
Wilson Children and Grandchildren	-	21,840,000	10,412,060	6.29%
Consumption - Direct Cost	13,170,811	13,170,811	6,279,088	3.79%
Consumption - Investment Opportunity Cost	26,112,844	26,112,844	12,449,108	7.52%
IRS Income Tax - Direct Cost	48,177,408	48,177,408	22,968,227	13.87%
IRS Income Tax - Investment Opportunity Costs	72,195,268	72,195,268	34,418,566	20.79%
IRS Estate Tax at 40%	-	66,304,487	31,610,179	19.09%
Total	\$347,257,549	\$347,257,549	165,552,497	100.00%
Sales of Sub-Chapter S Non-Voting Stock to a Qualified Sub-Chapter S Trust (QSST) that is Created by a Third Party for the Benefit of the Seller and Seller's Family; Bequeaths Estate to Family (assumes \$21.84mm estate tax exemption available)				
Sam and Sally Wilson	31,313,809	-	-	0.00%
Wilson Children	-	-	-	0.00%
Wilson Children and Grandchildren	150,326,666	177,850,952	84,789,140	51.22%
Consumption - Direct Cost	13,170,811	13,170,811	6,279,088	3.79%
Consumption - Investment Opportunity Cost	26,112,844	26,112,844	12,449,108	7.52%
IRS Income Tax - Direct Cost	54,138,150	54,138,150	25,809,967	15.59%
IRS Income Tax - Investment Opportunity Costs	72,195,268	72,195,268	34,418,566	20.79%
IRS Estate Tax at 40%	-	3,789,524	1,806,628	1.09%
Total	\$347,257,549	\$347,257,549	\$165,552,497	100.00%

Schedule 14
Sam and Sally Wilson
Asset Page*

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Sam & Sally Wilson	Third Party
FMV: Financial Assets	\$19,000,000	\$1,000,000
Basis: Financial Assets	\$19,000,000	\$1,000,000
FMV: Private Equity Investments	\$13,000,000	\$0
Basis: Private Equity Investments	\$2,000,000	\$0
Total Assets:	\$32,000,000	\$1,000,000
Total Basis:	\$21,000,000	\$1,000,000

* Information provided by client. There is no proposed planning for Mr. and Mrs. Wilson's other assets.

Schedule 14
Sam and Sally Wilson
No Further Planning; Bequeaths Estate to Family (assumes \$21.84mm estate tax exemption available)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Private Equity
Total Estimated Rate of Return	7.40%	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%	4.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Long-Term Capital Gain Tax Rate (FL)	25.00%	
Ordinary Tax Rate (FL)	44.60%	
Consumption (increasing 2.5% per year)	\$300,000	

Sam and Sally Wilson

	Beginning of Year Financial Assets		Tax Free Income	Growth	Private Equity Income	Third Party Gift	Consumption	Income Taxes	End of Year Financial Assets	Beginning of Year Private Equity Growth		End of Year Private Equity	End of Year Financial & Private Equity
Year 1	19,000,000	114,000	456,000	836,000	520,000	1,000,000	(300,000)	(403,964)	21,222,036	13,000,000	780,000	13,780,000	35,002,036
Year 2	21,222,036	127,332	509,329	933,770	551,200	-	(307,500)	(519,508)	22,516,659	13,780,000	826,800	14,606,800	37,123,459
Year 3	22,516,659	135,100	540,400	990,733	584,272	-	(315,188)	(612,693)	23,839,282	14,606,800	876,408	15,483,208	39,322,490
Year 4	23,839,282	143,036	572,143	1,048,928	619,328	-	(323,067)	(692,656)	25,206,995	15,483,208	928,992	16,412,200	41,619,195
Year 5	25,206,995	151,242	604,968	1,109,108	656,488	-	(331,144)	(764,135)	26,633,522	16,412,200	984,732	17,396,933	44,030,454
Year 6	26,633,522	159,801	639,205	1,171,875	695,877	-	(339,422)	(830,530)	28,130,327	17,396,933	1,043,816	18,440,748	46,571,075
Year 7	28,130,327	168,782	675,128	1,237,734	737,630	-	(347,908)	(894,302)	29,707,391	18,440,748	1,106,445	19,547,193	49,254,585
Year 8	29,707,391	178,244	712,977	1,307,125	781,888	-	(356,606)	(957,245)	31,373,775	19,547,193	1,172,832	20,720,025	52,093,800
Year 9	31,373,775	188,243	752,971	1,380,446	828,801	-	(365,521)	(1,020,693)	33,138,022	20,720,025	1,243,201	21,963,226	55,101,248
Year 10	33,138,022	198,828	795,313	1,458,073	878,529	-	(374,659)	(1,085,656)	35,008,450	21,963,226	1,317,794	23,281,020	58,289,470
Year 11	35,008,450	210,051	840,203	1,540,372	931,241	-	(384,025)	(1,152,916)	36,993,374	23,281,020	1,396,861	24,677,881	61,671,255
Year 12	36,993,374	221,960	887,841	1,627,708	987,115	-	(393,626)	(1,223,107)	39,101,266	24,677,881	1,480,673	26,158,554	65,259,821
Year 13	39,101,266	234,608	938,430	1,720,456	1,046,342	-	(403,467)	(1,296,753)	41,340,883	26,158,554	1,569,513	27,728,067	69,068,951
Year 14	41,340,883	248,045	992,181	1,818,999	1,109,123	-	(413,553)	(1,374,312)	43,721,366	27,728,067	1,663,684	29,391,751	73,113,117
Year 15	43,721,366	262,328	1,049,313	1,923,740	1,175,670	-	(423,892)	(1,456,201)	46,252,323	29,391,751	1,763,505	31,155,257	77,407,580
Year 16	46,252,323	277,514	1,110,056	2,035,102	1,246,210	-	(434,489)	(1,542,810)	48,943,906	31,155,257	1,869,315	33,024,572	81,968,477
Year 17	48,943,906	293,663	1,174,654	2,153,532	1,320,983	-	(445,352)	(1,634,518)	51,806,867	33,024,572	1,981,474	35,006,046	86,812,914
Year 18	51,806,867	310,841	1,243,365	2,279,502	1,400,242	-	(456,485)	(1,731,703)	54,852,629	35,006,046	2,100,363	37,106,409	91,959,038
Year 19	54,852,629	329,116	1,316,463	2,413,516	1,484,256	-	(467,898)	(1,834,749)	58,093,334	37,106,409	2,226,385	39,332,794	97,426,127
Year 20	58,093,334	348,560	1,394,240	2,556,107	1,573,312	-	(479,595)	(1,944,050)	61,541,908	39,332,794	2,359,968	41,692,761	103,234,669
Year 21	61,541,908	369,251	1,477,006	2,707,844	1,667,710	-	(491,585)	(2,060,017)	65,212,117	41,692,761	2,501,566	44,194,327	109,406,444
Year 22	65,212,117	391,273	1,565,091	2,869,333	1,767,773	-	(503,875)	(2,183,081)	69,118,631	44,194,327	2,651,660	46,845,986	115,964,618
Year 23	69,118,631	414,712	1,658,847	3,041,220	1,873,839	-	(516,471)	(2,313,695)	73,277,083	46,845,986	2,810,759	49,656,746	122,933,828
Year 24	73,277,083	439,662	1,758,650	3,224,192	1,986,270	-	(529,383)	(2,452,336)	77,704,137	49,656,746	2,979,405	52,636,150	130,340,287
Year 25	77,704,137	466,225	1,864,899	3,418,982	2,105,446	-	(542,618)	(2,599,511)	82,417,561	52,636,150	3,158,169	55,794,319	138,211,880
Year 26	82,417,561	494,505	1,978,021	3,626,373	2,231,773	-	(556,183)	(2,755,754)	87,436,295	55,794,319	3,347,659	59,141,979	146,578,274
Year 27	87,436,295	524,618	2,098,471	3,847,197	2,365,679	-	(570,088)	(2,921,635)	92,780,537	59,141,979	3,548,519	62,690,497	155,471,034
Year 28	92,780,537	556,683	2,226,733	4,082,344	2,507,620	-	(584,340)	(3,097,756)	98,471,821	62,690,497	3,761,430	66,451,927	164,923,748
Year 29	98,471,821	590,831	2,363,324	4,332,760	2,658,077	-	(598,949)	(3,284,758)	104,533,106	66,451,927	3,987,116	70,439,043	174,972,149
Year 30	104,533,106	627,199	2,508,795	4,599,457	2,817,562	-	(613,922)	(1,536,363)	112,935,833	70,439,043	4,226,343	74,665,385	187,601,218

Schedule 14
Sam and Sally Wilson
Sales of Sub-Chapter S Non-Voting Stock to a Qualified Sub-Chapter S Trust (QSST) that is Created by a Third Party for the Benefit of the Seller and Seller's Family; Bequeaths Estate to Family (assumes \$21.84mm estate tax exemption available)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Private Equity
Total Estimated Rate of Return	7.40%	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%	4.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Long-Term Capital Gain Tax Rate (FL)	25.00%	
Ordinary Tax Rate (FL)	44.60%	
Consumption (increasing 2.5% per year)	\$300,000	

Assumptions (continued):	
Wilson Sub-S Corp. Valuation Discount	35.00%
Wilson Sub-S Corp. Distributions (as a % of income) - Years 1-29	85.00%
Inter-Family Interest Rate (Mid-Term)	1.91%

Sam and Sally Wilson

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Wilson Sub-S Corp. Distributions	Cash & Note Payments	Trust Distributions	Consumption	Income Taxes	End of Year Financial Assets
Year 1	2,000,000	12,000	48,000	88,000	355,076	1,148,503	-	(300,000)	(293,791)	3,057,787
Year 2	3,057,787	18,347	73,387	134,543	421,907	148,503	-	(307,500)	(362,159)	3,184,814
Year 3	3,184,814	19,109	76,436	140,132	479,046	148,503	-	(315,188)	(416,130)	3,316,722
Year 4	3,316,722	19,900	79,601	145,936	9,635	148,503	-	(323,067)	(107,191)	3,290,038
Year 5	3,290,038	19,740	78,961	144,762	10,490	403,085	-	(331,144)	(224,535)	3,391,397
Year 6	3,391,397	20,348	81,394	149,221	11,308	403,085	-	(339,422)	(228,005)	3,489,326
Year 7	3,489,326	20,936	83,744	153,530	12,112	403,085	-	(347,908)	(230,991)	3,583,834
Year 8	3,583,834	21,503	86,012	157,689	12,919	403,085	-	(356,606)	(233,635)	3,674,800
Year 9	3,674,800	22,049	88,195	161,691	13,742	403,085	-	(365,521)	(236,032)	3,762,009
Year 10	3,762,009	22,572	90,288	165,528	14,591	403,085	-	(374,659)	(238,253)	3,845,162
Year 11	3,845,162	23,071	92,284	169,187	15,474	403,085	-	(384,025)	(240,342)	3,923,894
Year 12	3,923,894	23,543	94,173	172,651	16,397	403,085	-	(393,626)	(242,334)	3,997,784
Year 13	3,997,784	23,987	95,947	175,903	17,366	403,085	-	(403,467)	(244,247)	4,066,357
Year 14	4,066,357	24,398	97,593	178,920	18,386	403,085	-	(413,553)	(246,097)	4,129,088
Year 15	4,129,088	24,775	99,098	181,680	19,461	403,085	-	(423,892)	(247,890)	4,185,404
Year 16	4,185,404	25,112	100,450	184,158	20,596	403,085	-	(434,489)	(249,632)	4,234,683
Year 17	4,234,683	25,408	101,632	186,326	21,794	403,085	-	(445,352)	(251,322)	4,276,255
Year 18	4,276,255	25,658	102,630	188,155	23,061	403,085	-	(456,485)	(252,960)	4,309,399
Year 19	4,309,399	25,856	103,426	189,614	24,400	403,085	-	(467,898)	(254,542)	4,333,340
Year 20	4,333,340	26,000	104,000	190,667	25,816	403,085	-	(479,595)	(256,065)	4,347,248
Year 21	4,347,248	26,083	104,334	191,279	27,314	8,178,085	-	(491,585)	(257,522)	12,125,237
Year 22	12,125,237	72,751	291,006	533,510	28,898	254,582	-	(503,875)	(239,138)	12,562,972
Year 23	12,562,972	75,378	301,511	552,771	30,573	254,582	-	(516,471)	(261,073)	13,000,243
Year 24	13,000,243	78,001	312,006	572,011	32,346	254,582	-	(529,383)	(278,638)	13,441,168
Year 25	13,441,168	80,647	322,588	591,411	34,221	254,582	-	(542,618)	(293,191)	13,888,809
Year 26	13,888,809	83,333	333,331	611,108	36,204	254,582	-	(556,183)	(305,694)	14,345,490
Year 27	14,345,490	86,073	344,292	631,202	38,303	254,582	-	(570,088)	(316,831)	14,813,022
Year 28	14,813,022	88,878	355,513	651,773	40,522	254,582	-	(584,340)	(327,087)	15,292,864
Year 29	15,292,864	91,757	367,029	672,886	42,871	254,582	-	(598,949)	(336,811)	15,786,229
Year 30	15,786,229	94,717	378,869	694,594	105,969	13,583,493	-	(613,922)	(227,335)	29,802,615

Schedule 14

Sam and Sally Wilson

Sales of Sub-Chapter S Non-Voting Stock to a Qualified Sub-Chapter S Trust (QSST) that is Created by a Third Party for the Benefit of the Seller and Seller's Family; Bequeaths Estate to Family (assumes \$21.84mm estate tax exemption available)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Private Equity
Total Estimated Rate of Return	7.40%	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%	4.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Long-Term Capital Gain Tax Rate (FL)	25.00%	
Ordinary Tax Rate (FL)	44.60%	
Consumption (increasing 2.5% per year)	\$300,000	

Assumptions (continued):	
Wilson Sub-S Corp. Valuation Discount	35.00%
Wilson Sub-S Corp. Distributions (as a % of income) - Years 1-29	85.00%
Inter-Family Interest Rate (Mid-Term)	1.91%

Wilson Sub-S Corp.

	Beginning of Year						End of Year Financial Assets	Beginning of Year			End of Year Private Equity	End of Year Financial & Private Equity	Ownership	
	Financial Assets	Income	Tax Free Income	Growth	Private Equity Income	Distributions		Private Equity	Growth	Private Equity			Sam Wilson	QST Trust #1
Year 1	17,000,000	102,000	408,000	748,000	520,000	(645,592)	18,132,408	13,000,000	780,000	13,780,000	31,912,408		55.00%	45.00%
Year 2	18,132,408	108,794	435,178	797,826	551,200	(767,104)	19,258,303	13,780,000	826,800	14,606,800	33,865,103		55.00%	45.00%
Year 3	19,258,303	115,550	462,199	847,365	584,272	(870,993)	20,396,696	14,606,800	876,408	15,483,208	35,879,904		55.00%	45.00%
Year 4	20,396,696	122,380	489,521	897,455	619,328	(963,477)	21,561,903	15,483,208	928,992	16,412,200	37,974,104		1.00%	99.00%
Year 5	21,561,903	129,371	517,486	948,724	656,488	(1,049,007)	22,764,965	16,412,200	984,732	17,396,933	40,161,898		1.00%	99.00%
Year 6	22,764,965	136,590	546,359	1,001,658	695,877	(1,130,794)	24,014,656	17,396,933	1,043,816	18,440,748	42,455,404		1.00%	99.00%
Year 7	24,014,656	144,088	576,352	1,056,645	737,630	(1,211,175)	25,318,195	18,440,748	1,106,445	19,547,193	44,865,389		1.00%	99.00%
Year 8	25,318,195	151,909	607,637	1,114,001	781,888	(1,291,870)	26,681,760	19,547,193	1,172,832	20,720,025	47,401,785		1.00%	99.00%
Year 9	26,681,760	160,091	640,362	1,173,997	828,801	(1,374,173)	28,110,837	20,720,025	1,243,201	21,963,226	50,074,064		1.00%	99.00%
Year 10	28,110,837	168,665	674,660	1,236,877	878,529	(1,459,078)	29,610,490	21,963,226	1,317,794	23,281,020	52,891,510		1.00%	99.00%
Year 11	29,610,490	177,663	710,652	1,302,862	931,241	(1,547,371)	31,185,536	23,281,020	1,396,861	24,677,881	55,863,417		1.00%	99.00%
Year 12	31,185,536	187,113	748,453	1,372,164	987,115	(1,639,698)	32,840,682	24,677,881	1,480,673	26,158,554	58,999,237		1.00%	99.00%
Year 13	32,840,682	197,044	788,176	1,444,990	1,046,342	(1,736,611)	34,580,624	26,158,554	1,569,513	27,728,067	62,308,692		1.00%	99.00%
Year 14	34,580,624	207,484	829,935	1,521,547	1,109,123	(1,838,598)	36,410,115	27,728,067	1,663,684	29,391,751	65,801,866		1.00%	99.00%
Year 15	36,410,115	218,461	873,843	1,602,045	1,175,670	(1,946,114)	38,334,020	29,391,751	1,763,505	31,155,257	69,489,276		1.00%	99.00%
Year 16	38,334,020	230,004	920,016	1,686,697	1,246,210	(2,059,589)	40,357,358	31,155,257	1,869,315	33,024,572	73,381,930		1.00%	99.00%
Year 17	40,357,358	242,144	968,577	1,775,724	1,320,983	(2,179,448)	42,485,338	33,024,572	1,981,474	35,006,046	77,491,384		1.00%	99.00%
Year 18	42,485,338	254,912	1,019,648	1,869,355	1,400,242	(2,306,117)	44,723,377	35,006,046	2,100,363	37,106,409	81,829,786		1.00%	99.00%
Year 19	44,723,377	268,340	1,073,361	1,967,829	1,484,256	(2,440,030)	47,077,133	37,106,409	2,226,385	39,332,794	86,409,927		1.00%	99.00%
Year 20	47,077,133	282,463	1,129,851	2,071,394	1,573,312	(2,581,634)	49,552,519	39,332,794	2,359,968	41,692,761	91,245,280		1.00%	99.00%
Year 21	49,552,519	297,315	1,189,260	2,180,311	1,667,710	(2,731,393)	52,155,723	41,692,761	2,501,566	44,194,327	96,350,050		1.00%	99.00%
Year 22	52,155,723	312,934	1,251,737	2,294,852	1,767,773	(2,889,794)	54,893,225	44,194,327	2,651,660	46,845,986	101,739,212		1.00%	99.00%
Year 23	54,893,225	329,359	1,317,437	2,415,302	1,873,839	(3,057,348)	57,771,816	46,845,986	2,810,759	49,656,746	107,428,561		1.00%	99.00%
Year 24	57,771,816	346,631	1,386,524	2,541,960	1,986,270	(3,234,590)	60,798,610	49,656,746	2,979,405	52,636,150	113,434,760		1.00%	99.00%
Year 25	60,798,610	364,792	1,459,167	2,675,139	2,105,446	(3,422,087)	63,981,066	52,636,150	3,158,169	55,794,319	119,775,385		1.00%	99.00%
Year 26	63,981,066	383,886	1,535,546	2,815,167	2,231,773	(3,620,436)	67,327,001	55,794,319	3,347,659	59,141,979	126,468,980		1.00%	99.00%
Year 27	67,327,001	403,962	1,615,848	2,962,388	2,365,679	(3,830,267)	70,844,611	59,141,979	3,548,519	62,690,497	133,535,108		1.00%	99.00%
Year 28	70,844,611	425,068	1,700,271	3,117,163	2,507,620	(4,052,247)	74,542,484	62,690,497	3,761,430	66,451,927	140,994,411		1.00%	99.00%
Year 29	74,542,484	447,255	1,789,020	3,279,869	2,658,077	(4,287,081)	78,429,625	66,451,927	3,987,116	70,439,043	148,868,667		1.00%	99.00%
Year 30	78,429,625	470,578	1,882,311	3,450,903	2,817,562	(10,596,896)	76,454,083	70,439,043	4,226,343	74,665,385	151,119,468		1.00%	99.00%

Schedule 14
Sam and Sally Wilson
Sales of Sub-Chapter S Non-Voting Stock to a Qualified Sub-Chapter S Trust (QSST) that is Created by a Third Party for the Benefit of the Seller and Seller's Family; Bequeaths Estate to Family (assumes \$21.84mm estate tax exemption available)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Private Equity
Total Estimated Rate of Return	7.40%	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%	4.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Long-Term Capital Gain Tax Rate (FL)	25.00%	
Ordinary Tax Rate (FL)	44.60%	
Consumption (increasing 2.5% per year)	\$300,000	

Assumptions (continued):	
Wilson Sub-S Corp. Valuation Discount	35.00%
Wilson Sub-S Corp. Distributions (as a % of income) - Years 1-29	85.00%
Inter-Family Interest Rate (Mid-Term)	1.91%

QSST Trust Created by 3rd Party (Parent or Spouse)

	Beginning of Year - Financial Assets	Income	Tax Free Income	Growth	Third Party Gift	Wilson Sub-S Corp. Distributions	Note Payments	Cash Payments	Distributions	Income Taxes	End of Year - Financial Assets
Year 1	-	-	-	-	1,000,000	290,516	(148,503)	(1,000,000)	-	(110,173)	31,841
Year 2	31,841	191	764	1,401	-	345,197	(148,503)	-	-	(157,349)	73,542
Year 3	73,542	441	1,765	3,236	-	391,947	(148,503)	-	-	(196,564)	125,865
Year 4	125,865	755	3,021	5,538	-	953,842	(148,503)	-	-	(585,465)	355,053
Year 5	355,053	2,130	8,521	15,622	-	1,038,517	(403,085)	-	-	(539,600)	477,159
Year 6	477,159	2,863	11,452	20,995	-	1,119,486	(403,085)	-	-	(602,526)	626,345
Year 7	626,345	3,758	15,032	27,559	-	1,199,063	(403,085)	-	-	(663,310)	805,362
Year 8	805,362	4,832	19,329	35,436	-	1,278,951	(403,085)	-	-	(723,610)	1,017,215
Year 9	1,017,215	6,103	24,413	44,757	-	1,360,432	(403,085)	-	-	(784,661)	1,265,175
Year 10	1,265,175	7,591	30,364	55,668	-	1,444,487	(403,085)	-	-	(847,403)	1,552,798
Year 11	1,552,798	9,317	37,267	68,323	-	1,531,898	(403,085)	-	-	(912,574)	1,883,944
Year 12	1,883,944	11,304	45,215	82,894	-	1,623,301	(403,085)	-	-	(980,773)	2,262,800
Year 13	2,262,800	13,577	54,307	99,563	-	1,719,245	(403,085)	-	-	(1,052,505)	2,693,901
Year 14	2,693,901	16,163	64,654	118,532	-	1,820,212	(403,085)	-	-	(1,128,216)	3,182,162
Year 15	3,182,162	19,093	76,372	140,015	-	1,926,653	(403,085)	-	-	(1,208,311)	3,732,899
Year 16	3,732,899	22,397	89,590	164,248	-	2,038,993	(403,085)	-	-	(1,293,178)	4,351,864
Year 17	4,351,864	26,111	104,445	191,482	-	2,157,654	(403,085)	-	-	(1,383,196)	5,045,274
Year 18	5,045,274	30,272	121,087	221,992	-	2,283,056	(403,085)	-	-	(1,478,743)	5,819,853
Year 19	5,819,853	34,919	139,676	256,074	-	2,415,630	(403,085)	-	-	(1,580,206)	6,682,861
Year 20	6,682,861	40,097	160,389	294,046	-	2,555,817	(403,085)	-	-	(1,687,985)	7,642,140
Year 21	7,642,140	45,853	183,411	336,254	-	2,704,079	(8,178,085)	-	-	(1,802,495)	931,158
Year 22	931,158	5,587	22,348	40,971	-	2,860,896	(254,582)	-	-	(1,943,943)	1,662,434
Year 23	1,662,434	9,975	39,898	73,147	-	3,026,774	(254,582)	-	-	(2,052,622)	2,505,024
Year 24	2,505,024	15,030	60,121	110,221	-	3,202,244	(254,582)	-	-	(2,173,698)	3,464,359
Year 25	3,464,359	20,786	83,145	152,432	-	3,387,866	(254,582)	-	-	(2,306,320)	4,547,686
Year 26	4,547,686	27,286	109,144	200,098	-	3,584,232	(254,582)	-	-	(2,450,060)	5,763,804
Year 27	5,763,804	34,583	138,331	253,607	-	3,791,965	(254,582)	-	-	(2,604,804)	7,122,904
Year 28	7,122,904	42,737	170,950	313,408	-	4,011,725	(254,582)	-	-	(2,770,669)	8,636,473
Year 29	8,636,473	51,819	207,275	380,005	-	4,244,210	(254,582)	-	-	(2,947,947)	10,317,252
Year 30	10,317,252	61,904	247,614	453,959	-	10,490,927	(13,583,493)	-	-	(7,269,771)	718,393

Schedule 14
Sam and Sally Wilson
Sales of Sub-Chapter S Non-Voting Stock to a Qualified Sub-Chapter S Trust (QSST) that is Created by a Third Party for the Benefit of the Seller and Seller's Family; Bequeaths Estate to Family (assumes \$21.84mm estate tax exemption available)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Private Equity
Total Estimated Rate of Return	7.40%	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%	4.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Long-Term Capital Gain Tax Rate (FL)	25.00%	
Ordinary Tax Rate (FL)	44.60%	
Consumption (increasing 2.5% per year)	\$300,000	

Assumptions (continued):	
Wilson Sub-S Corp. Valuation Discount	35.00%
Wilson Sub-S Corp. Distributions (as a % of income) - Years 1-29	85.00%
Inter-Family Interest Rate (Mid-Term)	1.91%

Note #1 Between QSST Trust #1 and Mr. and Mrs. Sam Wilson

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	7,775,000	148,503	(148,503)	7,775,000
Year 2	7,775,000	148,503	(148,503)	7,775,000
Year 3	7,775,000	148,503	(148,503)	7,775,000
Year 4	7,775,000	148,503	(148,503)	7,775,000
Year 5	7,775,000	148,503	(148,503)	7,775,000
Year 6	7,775,000	148,503	(148,503)	7,775,000
Year 7	7,775,000	148,503	(148,503)	7,775,000
Year 8	7,775,000	148,503	(148,503)	7,775,000
Year 9	7,775,000	148,503	(148,503)	7,775,000
Year 10	7,775,000	148,503	(148,503)	7,775,000
Year 11	7,775,000	148,503	(148,503)	7,775,000
Year 12	7,775,000	148,503	(148,503)	7,775,000
Year 13	7,775,000	148,503	(148,503)	7,775,000
Year 14	7,775,000	148,503	(148,503)	7,775,000
Year 15	7,775,000	148,503	(148,503)	7,775,000
Year 16	7,775,000	148,503	(148,503)	7,775,000
Year 17	7,775,000	148,503	(148,503)	7,775,000
Year 18	7,775,000	148,503	(148,503)	7,775,000
Year 19	7,775,000	148,503	(148,503)	7,775,000
Year 20	7,775,000	148,503	(148,503)	7,775,000
Year 21	7,775,000	148,503	(7,923,503)	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-
Year 26	-	-	-	-
Year 27	-	-	-	-
Year 28	-	-	-	-
Year 29	-	-	-	-
Year 30	-	-	-	-

Note #2 Between QSST Trust #1 and Mr. and Mrs. Sam Wilson

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	-	-	-	-
Year 2	-	-	-	-
Year 3	-	-	-	-
Year 4	-	-	-	-
Year 5	13,328,910	254,582	(254,582)	13,328,910
Year 6	13,328,910	254,582	(254,582)	13,328,910
Year 7	13,328,910	254,582	(254,582)	13,328,910
Year 8	13,328,910	254,582	(254,582)	13,328,910
Year 9	13,328,910	254,582	(254,582)	13,328,910
Year 10	13,328,910	254,582	(254,582)	13,328,910
Year 11	13,328,910	254,582	(254,582)	13,328,910
Year 12	13,328,910	254,582	(254,582)	13,328,910
Year 13	13,328,910	254,582	(254,582)	13,328,910
Year 14	13,328,910	254,582	(254,582)	13,328,910
Year 15	13,328,910	254,582	(254,582)	13,328,910
Year 16	13,328,910	254,582	(254,582)	13,328,910
Year 17	13,328,910	254,582	(254,582)	13,328,910
Year 18	13,328,910	254,582	(254,582)	13,328,910
Year 19	13,328,910	254,582	(254,582)	13,328,910
Year 20	13,328,910	254,582	(254,582)	13,328,910
Year 21	13,328,910	254,582	(254,582)	13,328,910
Year 22	13,328,910	254,582	(254,582)	13,328,910
Year 23	13,328,910	254,582	(254,582)	13,328,910
Year 24	13,328,910	254,582	(254,582)	13,328,910
Year 25	13,328,910	254,582	(254,582)	13,328,910
Year 26	13,328,910	254,582	(254,582)	13,328,910
Year 27	13,328,910	254,582	(254,582)	13,328,910
Year 28	13,328,910	254,582	(254,582)	13,328,910
Year 29	13,328,910	254,582	(254,582)	13,328,910
Year 30	13,328,910	254,582	(13,583,493)	-

Schedule 15**Lenny Leverage****Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mr. Leverage has a life expectancy of 10 years)**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	10-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning other than funding a \$5,340,000 credit shelter trust: Lenny bequeaths estate to family (assumes \$6.7mm estate tax exemption available at				
Lenny Leverage	76,573,664	-	-	0.00%
Leverage Children and Grandchildren	7,552,045	56,160,243	43,872,292	55.01%
Consumption - Direct Cost	6,722,029	6,722,029	5,251,238	6.58%
Consumption - Investment Opportunity Cost	2,606,804	2,606,804	2,036,431	2.55%
IRS Income Tax - Direct Cost	6,416,457	6,416,457	5,012,526	6.28%
IRS Income Tax - Investment Opportunity Cost	2,225,962	2,225,962	1,738,918	2.18%
IRS Estate Tax	-	27,965,466	21,846,577	27.39%
Total	\$102,096,962	\$102,096,962	\$79,757,983	100.00%

Simulated \$44,549,008 Credit Shelter Trust: Lenny Leverage's deceased spouse created a credit shelter trust for Lenny and family and bequeaths the rest of her estate to Lenny				
Lenny Leverage	20,372,711	-	-	0.00%
Leverage Children and Grandchildren	61,958,765	76,846,392	60,032,278	75.27%
Consumption - Direct Cost	6,722,029	6,722,029	5,251,238	6.58%
Consumption - Investment Opportunity Cost	2,606,804	2,606,804	2,036,431	2.55%
IRS Income Tax - Direct Cost	8,210,690	8,210,690	6,414,178	8.04%
IRS Income Tax - Investment Opportunity Cost	2,225,962	2,225,962	1,738,918	2.18%
IRS Estate Tax	-	5,485,084	4,284,939	5.37%
Total	\$102,096,962	\$102,096,962	\$79,757,983	100.00%

Hypothetical Technique: Lenny bequeaths estate to family (assumes \$6.7mm estate tax exemption available at death)				
Lenny Leverage	19,062,101	-	-	0.00%
Leverage Children and Grandchildren	62,745,131	76,846,392	60,032,278	75.27%
Consumption - Direct Cost	6,722,029	6,722,029	5,251,238	6.58%
Consumption - Investment Opportunity Cost	2,606,804	2,606,804	2,036,431	2.55%
IRS Income Tax - Direct Cost	8,734,934	8,734,934	6,823,717	8.56%
IRS Income Tax - Investment Opportunity Cost	2,225,962	2,225,962	1,738,918	2.18%
IRS Estate Tax	-	4,960,840	3,875,401	4.86%
Total	\$102,096,962	\$102,096,962	\$79,757,983	100.00%

	No Further Planning	Hypothetical Techniques
Calculation of Remaining Estate Tax Exemption Available		
Current Estate Tax Exemption Available	5,340,000	5,340,000
Gifts During Lifetime	-	-
Available Estate Tax Exemption in 10 Years (2.5% inflation adjusted after lifetime gifts)	6,660,000	6,660,000

Schedule 15
Lenny Leverage
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Lenny Leverage
Assets*	
FMV: Financial and Other Assets	\$50,000,000
Basis: Financial and Other Assets	\$50,000,000

*Information provided by client. There is no proposed planning for the other assets of the Leverage Family.

Schedule 15
Lenny Leverage

No Further Planning other than funding a \$5,340,000 credit shelter trust: Lenny bequeaths estate to family (assumes \$6.7mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy. This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rate	4.40%
Turnover Rate (% of Cap. Gains Recognized/Year)	30.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	25.00%
Ordinary Income and Health Care Tax Rate	44.60%
Annual Consumption (increasing 2.5% per year)	\$600,000

Lenny Leverage

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Credit Shelter Trust Distributions	Consumption	Income Taxes	End of Year Financial Assets
Year 1	44,570,000	267,420	1,069,680	1,961,080	162,900	(600,000)	(280,881)	47,150,199
Year 2	47,150,199	282,901	1,131,605	2,074,609	169,530	(615,000)	(399,848)	49,793,995
Year 3	49,793,995	298,764	1,195,056	2,190,936	176,054	(630,375)	(494,260)	52,530,170
Year 4	52,530,170	315,181	1,260,724	2,311,327	182,564	(646,134)	(571,920)	55,381,912
Year 5	55,381,912	332,291	1,329,166	2,436,804	189,129	(662,288)	(638,378)	58,368,638
Year 6	58,368,638	350,212	1,400,847	2,568,220	195,799	(678,845)	(697,590)	61,507,281
Year 7	61,507,281	369,044	1,476,175	2,706,320	202,612	(695,816)	(752,392)	64,813,225
Year 8	64,813,225	388,879	1,555,517	2,851,782	209,597	(713,211)	(804,828)	68,300,961
Year 9	68,300,961	409,806	1,639,223	3,005,242	216,777	(731,042)	(856,387)	71,984,580
Year 10	71,984,580	431,907	1,727,630	3,167,322	224,169	(749,318)	(212,627)	76,573,664

Credit Shelter Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Distributions	Income Taxes	End of Year Financial Assets
Year 1	5,430,000	32,580	130,320	238,920	(162,900)	(17,919)	5,651,001
Year 2	5,651,001	33,906	135,624	248,644	(169,530)	(31,192)	5,868,453
Year 3	5,868,453	35,211	140,843	258,212	(176,054)	(41,200)	6,085,465
Year 4	6,085,465	36,513	146,051	267,760	(182,564)	(48,922)	6,304,304
Year 5	6,304,304	37,826	151,303	277,389	(189,129)	(55,050)	6,526,644
Year 6	6,526,644	39,160	156,639	287,172	(195,799)	(60,073)	6,753,743
Year 7	6,753,743	40,522	162,090	297,165	(202,612)	(64,338)	6,986,570
Year 8	6,986,570	41,919	167,678	307,409	(209,597)	(68,092)	7,225,886
Year 9	7,225,886	43,355	173,421	317,939	(216,777)	(71,510)	7,472,315
Year 10	7,472,315	44,834	179,336	328,782	(224,169)	(249,052)	7,552,045

Schedule 15**Lenny Leverage****Simulated \$44,549,008 Credit Shelter Trust: Lenny Leverage's deceased spouse created a credit shelter trust for Lenny and family and bequeaths the rest of her estate to Lenny**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rate	4.40%
Turnover Rate (% of Cap. Gains Recognized/Year)	30.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	25.00%
Ordinary Income and Health Care Tax Rate	44.60%
Annual Consumption (increasing 2.5% per year)	\$600,000

Lenny Leverage and/or QTIP Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Credit Shelter Trust Distributions	Consumption	Income Taxes	End of Year Financial Assets
Year 1	5,450,992	32,706	130,824	239,844	1,336,470	(600,000)	(151,788)	6,439,047
Year 2	6,439,047	38,634	154,537	283,318	1,390,865	(615,000)	(175,137)	7,516,265
Year 3	7,516,265	45,098	180,390	330,716	1,444,386	(630,375)	(197,445)	8,689,034
Year 4	8,689,034	52,134	208,537	382,317	1,497,798	(646,134)	(219,474)	9,964,212
Year 5	9,964,212	59,785	239,141	438,425	1,551,660	(662,288)	(241,787)	11,349,149
Year 6	11,349,149	68,095	272,380	499,363	1,606,384	(678,845)	(264,812)	12,851,713
Year 7	12,851,713	77,110	308,441	565,475	1,662,279	(695,816)	(288,884)	14,480,319
Year 8	14,480,319	86,882	347,528	637,134	1,719,584	(713,211)	(314,273)	16,243,962
Year 9	16,243,962	97,464	389,855	714,734	1,778,487	(731,042)	(341,211)	18,152,249
Year 10	18,152,249	108,913	435,654	798,699	1,839,139	(749,318)	(212,627)	20,372,711

\$44,549,008 Simulated Credit Shelter Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	44,549,008	267,294	1,069,176	1,960,156	(1,336,470)	(147,012)	46,362,153
Year 2	46,362,153	278,173	1,112,692	2,039,935	(1,390,865)	(255,903)	48,146,184
Year 3	48,146,184	288,877	1,155,508	2,118,432	(1,444,386)	(338,015)	49,926,602
Year 4	49,926,602	299,560	1,198,238	2,196,770	(1,497,798)	(401,368)	51,722,004
Year 5	51,722,004	310,332	1,241,328	2,275,768	(1,551,660)	(451,640)	53,546,132
Year 6	53,546,132	321,277	1,285,107	2,356,030	(1,606,384)	(492,850)	55,409,311
Year 7	55,409,311	332,456	1,329,823	2,438,010	(1,662,279)	(527,846)	57,319,475
Year 8	57,319,475	343,917	1,375,667	2,522,057	(1,719,584)	(558,646)	59,282,885
Year 9	59,282,885	355,697	1,422,789	2,608,447	(1,778,487)	(586,686)	61,304,646
Year 10	61,304,646	367,828	1,471,312	2,697,404	(1,839,139)	(2,043,285)	61,958,765

Schedule 15
Lenny Leverage

Hypothetical Technique: Lenny bequeaths estate to family (assumes \$6.7mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:		Assumptions (continued):	
Total Estimated Rate of Return	7.40%	Leverage Subchapter S Corp. Valuation Discount	35.00%
Rate of Return Taxed at Ordinary Rates	0.60%	Intra-Family Interest Rate (mid-term)	1.91%
Rate of Return Taxed at Ordinary Rates	2.40%		
Rate of Return Taxed at Capital Gains Rate	4.40%		
Turnover Rate (% of Cap. Gains Recognized/Year)	30.00%		
Long-Term Capital Gain, Dividends & Health Care Tax Rate	25.00%		
Ordinary Income and Health Care Tax Rate	44.60%		
Annual Consumption (increasing 2.5% per year)	\$600,000		

Lenny Leverage

	Beginning of Year Financial Assets		Tax Free Income		Leverage Sub-S Corp Distributions		Note Payments Consumption		Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	8,028	890,772	(600,000)	(298,800)	-	
Year 2	-	-	-	-	9,343	1,036,697	(615,000)	(431,040)	-	
Year 3	-	-	-	-	10,413	1,155,421	(630,375)	(535,460)	-	
Year 4	-	-	-	-	11,317	1,255,660	(646,134)	(620,842)	-	
Year 5	-	-	-	-	12,109	1,343,606	(662,288)	(693,427)	-	
Year 6	-	-	-	-	12,831	1,423,677	(678,845)	(757,663)	-	
Year 7	-	-	-	-	13,510	1,499,036	(695,816)	(816,730)	-	
Year 8	-	-	-	-	14,167	1,571,964	(713,211)	(872,920)	-	
Year 9	-	-	-	-	14,818	1,644,121	(731,042)	(927,897)	-	
Year 10	-	-	-	-	196,737	21,829,347	(749,318)	(2,780,156)	18,496,610	

Leverage Subchapter S Corporations

	Beginning of Year Financial Assets							
			Tax Free Income	Growth	Distributions	End of Year Financial Assets	Lenny Leverage	Credit Shelter QSST
Year 1	50,000,000	300,000	1,200,000	2,200,000	(898,800)	52,801,200	0.8932%	99.1068%
Year 2	52,801,200	316,807	1,267,229	2,323,253	(1,046,040)	55,662,449	0.8932%	99.1068%
Year 3	55,662,449	333,975	1,335,899	2,449,148	(1,165,835)	58,615,635	0.8932%	99.1068%
Year 4	58,615,635	351,694	1,406,775	2,579,088	(1,266,976)	61,686,216	0.8932%	99.1068%
Year 5	61,686,216	370,117	1,480,469	2,714,194	(1,355,715)	64,895,281	0.8932%	99.1068%
Year 6	64,895,281	389,372	1,557,487	2,855,392	(1,436,508)	68,261,024	0.8932%	99.1068%
Year 7	68,261,024	409,566	1,638,265	3,003,485	(1,512,546)	71,799,794	0.8932%	99.1068%
Year 8	71,799,794	430,799	1,723,195	3,159,191	(1,586,131)	75,526,848	0.8932%	99.1068%
Year 9	75,526,848	453,161	1,812,644	3,323,181	(1,658,939)	79,456,896	0.8932%	99.1068%
Year 10	79,456,896	476,741	1,906,965	3,496,103	(22,026,084)	63,310,622	0.8932%	99.1068%

Schedule 15
Lenny Leverage

Hypothetical Technique: Lenny bequeaths estate to family (assumes \$6.7mm estate tax exemption available at death)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:		Assumptions (continued):	
Total Estimated Rate of Return	7.40%	Leverage Subchapter S Corp. Valuation Discount	35.00%
Rate of Return Taxed at Ordinary Rates	0.60%	Intra-Family Interest Rate (mid-term)	1.91%
Rate of Return Taxed at Ordinary Rates	2.40%		
Rate of Return Taxed at Capital Gains Rate	4.40%		
Turnover Rate (% of Cap. Gains Recognized/Year)	30.00%		
Long-Term Capital Gain, Dividends & Health Care Tax Rate	25.00%		
Ordinary Income and Health Care Tax Rate	44.60%		
Annual Consumption (increasing 2.5% per year)	\$600,000		

Credit Shelter QSST

	Beginning of Year Financial Assets		Income		Tax Free Income		Leverage Sub-S Corp Growth Distributions		Note Payments	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	-	-	890,772	(890,772)	-	-	-	-
Year 2	-	-	-	-	-	-	1,036,697	(1,036,697)	-	-	-	-
Year 3	-	-	-	-	-	-	1,155,421	(1,155,421)	-	-	-	-
Year 4	-	-	-	-	-	-	1,255,660	(1,255,660)	-	-	-	-
Year 5	-	-	-	-	-	-	1,343,606	(1,343,606)	-	-	-	-
Year 6	-	-	-	-	-	-	1,423,677	(1,423,677)	-	-	-	-
Year 7	-	-	-	-	-	-	1,499,036	(1,499,036)	-	-	-	-
Year 8	-	-	-	-	-	-	1,571,964	(1,571,964)	-	-	-	-
Year 9	-	-	-	-	-	-	1,644,121	(1,644,121)	-	-	-	-
Year 10	-	-	-	-	-	-	21,829,347	(21,829,347)	-	-	-	-

Note Between Lenny Leverage and Credit Shelter QSST

	Beginning of Year Principal		Interest		Note Payments		End of Year Principal
Year 1	28,738,710	548,909	(890,772)				28,396,847
Year 2	28,396,847	542,380	(1,036,697)				27,902,530
Year 3	27,902,530	532,938	(1,155,421)				27,280,047
Year 4	27,280,047	521,049	(1,255,660)				26,545,437
Year 5	26,545,437	507,018	(1,343,606)				25,708,849
Year 6	25,708,849	491,039	(1,423,677)				24,776,211
Year 7	24,776,211	473,226	(1,499,036)				23,750,401
Year 8	23,750,401	453,633	(1,571,964)				22,632,069
Year 9	22,632,069	432,273	(1,644,121)				21,420,221
Year 10	21,420,221	409,126	(21,829,347)				-

Schedule 16
Zelda Zerobasis

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Zelda Zerobasis has a life expectancy of 20 years)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	20-Year Values Pre-Death	20-Year Values Post Death	Present Values (Discounted at 2.50%)	Percentage of Total
No Further Planning: Bequeaths Estate to Family; Assumes \$8.53mm Estate Tax Exemption Available				
Zelda Zerobasis	82,891,476	-	-	0.00%
Zerobasis Children	-	44,616,886	27,228,389	31.89%
Zerobasis Children and Grandchildren	-	8,530,000	5,205,611	6.10%
Consumption	12,772,329	12,772,329	7,794,581	9.13%
Consumption - Investment Opportunity Cost	13,053,175	13,053,175	7,965,974	9.33%
Opportunity Cost/(Benefit) of Borrowing from 3rd Party Lender	-	-		
IRS Income Tax	15,575,474	15,575,474	9,505,259	11.13%
IRS Income Tax - Investment Opportunity Cost	15,627,875	15,627,875	9,537,238	11.17%
IRS Estate Taxes @ 40%	-	29,744,590	18,152,259	21.26%
Total	\$139,920,329	\$139,920,329	\$85,389,311	100.00%

Hypothetical Technique: Bequeaths Remaining Estate to Family; Assumes \$3.19mm Estate Tax Exemption Available				
Zelda Zerobasis	8,416,063	-	-	0.00%
Zerobasis Children	-	3,135,638	1,913,589	2.24%
Zerobasis Children and Grandchildren	79,407,794	82,597,794	50,407,034	59.03%
Consumption	12,772,329	12,772,329	7,794,581	9.13%
Consumption - Investment Opportunity Cost	13,053,175	13,053,175	7,965,974	9.33%
Opportunity Cost/(Benefit) of Borrowing from 3rd Party Lender	(11,079,903)	(11,079,903)	(6,761,743)	-7.92%
IRS Income Tax	22,247,774	22,247,774	13,577,170	15.90%
IRS Income Tax - Investment Opportunity Cost	15,103,098	15,103,098	9,216,982	10.79%
IRS Estate Taxes @ 40%	-	2,090,425	1,275,726	1.49%
Total	\$139,920,329	\$139,920,329	\$85,389,311	100.00%

Calculations of Remaining EstateTax Exemptions (assumes 2.5% inflation)	No Further Planning	Hypothetical Technique
Current Estate Tax Exemption	5,340,000	5,340,000
Prior Gifts Made	-	(5,340,000)
Future Exemption Available in 20 years	8,530,000	3,190,000

Schedule 16
Zelda Zerobasis
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Zelda Zerobasis
Assets*	
FMV: Financial Assets	\$5,000,000
Assumed Basis: Financial Assets	\$5,000,000
FMV: Other Asset	\$40,000,000
Assumed Basis: Other Asset	\$0
Total Assets:	\$45,000,000
Total Assumed Basis:	\$5,000,000

* Information provided by client. There is no proposed planning for Zelda Zerobasis' other assets.

Schedule 16

Zelda Zerobasis

No Further Planning: Bequeaths Estate to Family; Assumes \$8.53mm Estate Tax Exemption Available

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Other Asset
Total Estimated Rate of Return	7.40%	5.00%
Rate of Return Taxed at Ordinary Rates	0.60%	3.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	2.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (TX)	25.00%	
Ordinary Income and Health Care Tax Rate (TX)	44.60%	
Annual Consumption from these Sources (increasing 2.5% per year)	\$500,000	

Zelda Zerobasis

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Other Asset Income	Consumption from these Sources	Income Taxes	End of Year Financial Assets	Beginning of Year Other Asset	Growth	End of Year Other Asset	End of Year Financial & Other Assets
Year 1	5,000,000	30,000	120,000	220,000	1,200,000	(500,000)	(565,080)	5,504,920	40,000,000	800,000	40,800,000	46,304,920
Year 2	5,504,920	33,030	132,118	242,216	1,224,000	(512,500)	(590,351)	6,033,433	40,800,000	816,000	41,616,000	47,649,433
Year 3	6,033,433	36,201	144,802	265,471	1,248,480	(525,313)	(613,679)	6,589,395	41,616,000	832,320	42,448,320	49,037,715
Year 4	6,589,395	39,536	158,145	289,933	1,273,450	(538,445)	(635,835)	7,176,180	42,448,320	848,966	43,297,286	50,473,466
Year 5	7,176,180	43,057	172,228	315,752	1,298,919	(551,906)	(657,373)	7,796,856	43,297,286	865,946	44,163,232	51,960,088
Year 6	7,796,856	46,781	187,125	343,062	1,324,897	(565,704)	(678,694)	8,454,322	44,163,232	883,265	45,046,497	53,500,819
Year 7	8,454,322	50,726	202,904	371,990	1,351,395	(579,847)	(700,093)	9,151,397	45,046,497	900,930	45,947,427	55,098,824
Year 8	9,151,397	54,908	219,634	402,661	1,378,423	(594,343)	(721,788)	9,890,892	45,947,427	918,949	46,866,375	56,757,267
Year 9	9,890,892	59,345	237,381	435,199	1,405,991	(609,201)	(743,946)	10,675,662	46,866,375	937,328	47,803,703	58,479,365
Year 10	10,675,662	64,054	256,216	469,729	1,434,111	(624,431)	(766,695)	11,508,645	47,803,703	956,074	48,759,777	60,268,422
Year 11	11,508,645	69,052	276,207	506,380	1,462,793	(640,042)	(790,141)	12,392,895	48,759,777	975,196	49,734,972	62,127,867
Year 12	12,392,895	74,357	297,429	545,287	1,492,049	(656,043)	(814,371)	13,331,604	49,734,972	994,699	50,729,672	64,061,276
Year 13	13,331,604	79,990	319,958	586,591	1,521,890	(672,444)	(839,460)	14,328,129	50,729,672	1,014,593	51,744,265	66,072,394
Year 14	14,328,129	85,969	343,875	630,438	1,552,328	(689,256)	(865,478)	15,386,004	51,744,265	1,034,885	52,779,151	68,165,155
Year 15	15,386,004	92,316	369,264	676,984	1,583,375	(706,487)	(892,490)	16,508,966	52,779,151	1,055,583	53,834,734	70,343,699
Year 16	16,508,966	99,054	396,215	726,394	1,615,042	(724,149)	(920,559)	17,700,963	53,834,734	1,076,695	54,911,428	72,612,391
Year 17	17,700,963	106,206	424,823	778,842	1,647,343	(742,253)	(949,746)	18,966,178	54,911,428	1,098,229	56,009,657	74,975,835
Year 18	18,966,178	113,797	455,188	834,512	1,680,290	(760,809)	(980,116)	20,309,040	56,009,657	1,120,193	57,129,850	77,438,890
Year 19	20,309,040	121,854	487,417	893,598	1,713,895	(779,829)	(1,011,731)	21,734,244	57,129,850	1,142,597	58,272,447	80,006,691
Year 20	21,734,244	130,405	521,622	956,307	1,748,173	(799,325)	(837,846)	23,453,580	58,272,447	1,165,449	59,437,896	82,891,476

Schedule 16
Zelda Zerobasis
Hypothetical Technique: Bequeaths Remaining Estate to Family; Assumes \$3.19mm Estate Tax Exemption Available

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Other Asset
Total Estimated Rate of Return	7.40%	5.00%
Rate of Return Taxed at Ordinary Rates	0.60%	3.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	2.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (TX)	25.00%	
Ordinary Income and Health Care Tax Rate (TX)	44.60%	
Annual Consumption from these Sources (increasing 2.5% per year	\$500,000	

Assumptions (continued):	
Holdco, LLC - Preferred Non-Managing Member Interest	\$40,000,000
Holdco, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	40.00%
Note #1 - 3rd Party Interest Rate	4.00%
Note #2 - Intra-Family Interest Rate (mid-term)	1.93%
Note #3 - Interest Rate	8.00%
Zelda Zerobasis Managing Member Growth Interest	1.00%
GST Exempt Grantor Trust Non-Managing Member Growth Interes ¹	99.00%

Zelda Zerobasis

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Holdco Growth Distributions	Loan Proceeds	Holdco Preferred Distributions	Note Payments from GST Trust	Holdco Terminates and Pays Preferred	3rd Party Note Payments	Note Payments to Holdco	Consumption from these Sources	Income Taxes	End of Year Financial Assets
Year 1	2,000,000	12,000	48,000	88,000	7,324	-	2,800,000	275,257	-	(1,200,000)	-	(500,000)	(209,160)	3,321,421
Year 2	3,321,421	19,929	79,714	146,143	8,200	-	2,800,000	275,257	-	(1,200,000)	-	(512,500)	(311,954)	4,626,208
Year 3	4,626,208	27,757	111,029	203,553	8,849	30,000,000	2,800,000	275,257	-	(31,200,000)	(2,400,000)	(525,313)	(395,338)	3,532,003
Year 4	3,532,003	21,192	84,768	155,408	9,069	-	2,800,000	275,257	-	-	(2,400,000)	(538,445)	(821,458)	3,117,794
Year 5	3,117,794	18,707	74,827	137,183	9,347	-	2,800,000	275,257	-	-	(2,400,000)	(551,906)	(805,379)	2,675,828
Year 6	2,675,828	16,055	64,220	117,736	9,631	-	2,800,000	275,257	-	-	(2,400,000)	(565,704)	(801,169)	2,191,854
Year 7	2,191,854	13,151	52,604	96,442	9,922	-	2,800,000	275,257	-	-	(2,400,000)	(579,847)	(805,638)	1,653,744
Year 8	1,653,744	9,922	39,690	72,765	10,220	-	2,800,000	275,257	-	-	(2,400,000)	(594,343)	(816,547)	1,050,708
Year 9	1,050,708	6,304	25,217	46,231	10,525	-	2,800,000	1,275,257	-	-	(2,400,000)	(609,201)	(832,331)	1,372,710
Year 10	1,372,710	8,236	32,945	60,399	10,838	-	2,800,000	1,255,957	-	-	(2,400,000)	(624,431)	(851,900)	1,664,754
Year 11	1,664,754	9,989	39,954	73,249	11,159	-	2,800,000	1,236,657	-	-	(2,400,000)	(640,042)	(874,502)	1,921,216
Year 12	1,921,216	11,527	46,109	84,534	11,487	-	2,800,000	1,217,357	-	-	(2,400,000)	(656,043)	(899,626)	2,136,560
Year 13	2,136,560	12,819	51,277	94,009	11,824	-	2,800,000	1,198,057	-	-	(2,400,000)	(672,444)	(926,929)	2,305,173
Year 14	2,305,173	13,831	55,324	101,428	12,170	-	2,800,000	1,178,757	-	-	(2,400,000)	(689,256)	(956,190)	2,421,237
Year 15	2,421,237	14,527	58,110	106,534	12,524	-	2,800,000	1,159,457	-	-	(2,400,000)	(706,487)	(987,276)	2,478,626
Year 16	2,478,626	14,872	59,487	109,060	12,888	-	2,800,000	1,140,157	-	-	(2,400,000)	(724,149)	(1,020,115)	2,470,825
Year 17	2,470,825	14,825	59,300	108,716	13,261	-	2,800,000	1,120,857	-	-	(2,400,000)	(742,253)	(1,054,682)	2,390,849
Year 18	2,390,849	14,345	57,380	105,197	13,644	-	2,800,000	1,101,557	-	-	(2,400,000)	(760,809)	(1,090,984)	2,231,180
Year 19	2,231,180	13,387	53,548	98,172	14,037	-	2,800,000	1,082,257	-	-	(2,400,000)	(779,829)	(1,129,055)	1,983,697
Year 20	1,983,697	11,902	47,609	87,283	17,482	-	2,800,000	3,324,957	40,000,000	-	(32,400,000)	(799,325)	(6,657,540)	8,416,063

Schedule 16
Zelda Zerobasis
Hypothetical Technique: Bequeaths Remaining Estate to Family; Assumes \$3.19mm Estate Tax Exemption Available

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Other Asset
Total Estimated Rate of Return	7.40%	5.00%
Rate of Return Taxed at Ordinary Rates	0.60%	3.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	2.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (TX)	25.00%	
Ordinary Income and Health Care Tax Rate (TX)	44.60%	
Annual Consumption from these Sources (increasing 2.5% per year	\$500,000	

Assumptions (continued):	
Holdco, LLC - Preferred Non-Managing Member Interest	\$40,000,000
Holdco, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	40.00%
Note #1 - 3rd Party Interest Rate	4.00%
Note #2 - Intra-Family Interest Rate (mid-term)	1.93%
Note #3 - Interest Rate	8.00%
Zelda Zerobasis Managing Member Growth Interest	1.00%
GST Exempt Grantor Trust Non-Managing Member Growth Interes	99.00%

Holdco, LLC

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Other Asset Income	Note Payments from Zelda Zerobasis	Proceeds from Asset Sale	Loan to Zelda Zerobasis	Preferred Coupon	Growth Distributions & Holdco Termination	End of Year Financial Assets	Beginning of Year Other Asset	Growth	Sale of Assets	End of Year Other Asset	End of Year Financial & Other Assets
Year 1	33,000,000	198,000	792,000	1,452,000	1,200,000	-	-	-	(2,800,000)	(732,408)	33,109,592	40,000,000	800,000	-	40,800,000	73,909,592
Year 2	33,109,592	198,658	794,630	1,456,822	1,224,000	-	-	-	(2,800,000)	(819,997)	33,163,705	40,800,000	816,000	-	41,616,000	74,779,705
Year 3	33,163,705	198,982	795,929	1,459,203	1,248,480	2,400,000	-	(30,000,000)	(2,800,000)	(884,853)	5,581,447	41,616,000	832,320	-	42,448,320	48,029,767
Year 4	5,581,447	33,489	133,955	245,584	1,273,450	2,400,000	-	-	(2,800,000)	(906,938)	5,960,985	42,448,320	848,966	-	43,297,286	49,258,271
Year 5	5,960,985	35,766	143,064	262,283	1,298,919	2,400,000	-	-	(2,800,000)	(934,685)	6,366,332	43,297,286	865,946	-	44,163,232	50,529,564
Year 6	6,366,332	38,198	152,792	280,119	1,324,897	2,400,000	-	-	(2,800,000)	(963,095)	6,799,242	44,163,232	883,265	-	45,046,497	51,845,739
Year 7	6,799,242	40,795	163,182	299,167	1,351,395	2,400,000	-	-	(2,800,000)	(992,190)	7,261,591	45,046,497	900,930	-	45,947,427	53,209,018
Year 8	7,261,591	43,570	174,278	319,510	1,378,423	2,400,000	-	-	(2,800,000)	(1,021,992)	7,755,379	45,947,427	918,949	-	46,866,375	54,621,754
Year 9	7,755,379	46,532	186,129	341,237	1,405,991	2,400,000	-	-	(2,800,000)	(1,052,524)	8,282,745	46,866,375	937,328	-	47,803,703	56,086,448
Year 10	8,282,745	49,696	198,786	364,441	1,434,111	2,400,000	-	-	(2,800,000)	(1,083,808)	8,845,972	47,803,703	956,074	-	48,759,777	57,605,748
Year 11	8,845,972	53,076	212,303	389,223	1,462,793	2,400,000	-	-	(2,800,000)	(1,115,869)	9,447,498	48,759,777	975,196	-	49,734,972	59,182,470
Year 12	9,447,498	56,685	226,740	415,690	1,492,049	2,400,000	-	-	(2,800,000)	(1,148,734)	10,089,927	49,734,972	994,699	-	50,729,672	60,819,599
Year 13	10,089,927	60,540	242,158	443,957	1,521,890	2,400,000	-	-	(2,800,000)	(1,182,430)	10,776,042	50,729,672	1,014,593	-	51,744,265	62,520,308
Year 14	10,776,042	64,656	258,625	474,146	1,552,328	2,400,000	-	-	(2,800,000)	(1,216,984)	11,508,813	51,744,265	1,034,885	-	52,779,151	64,287,964
Year 15	11,508,813	69,053	276,212	506,388	1,583,375	2,400,000	-	-	(2,800,000)	(1,252,427)	12,291,413	52,779,151	1,055,583	-	53,834,734	66,126,146
Year 16	12,291,413	73,748	294,994	540,822	1,615,042	2,400,000	-	-	(2,800,000)	(1,288,790)	13,127,229	53,834,734	1,076,695	-	54,911,428	68,038,657
Year 17	13,127,229	78,763	315,053	577,598	1,647,343	2,400,000	-	-	(2,800,000)	(1,326,106)	14,019,880	54,911,428	1,098,229	-	56,009,657	70,029,537
Year 18	14,019,880	84,119	336,477	616,875	1,680,290	2,400,000	-	-	(2,800,000)	(1,364,409)	14,973,232	56,009,657	1,120,193	-	57,129,850	72,103,082
Year 19	14,973,232	89,839	359,358	658,822	1,713,895	2,400,000	-	-	(2,800,000)	(1,403,735)	15,991,412	57,129,850	1,142,597	-	58,272,447	74,263,859
Year 20	15,991,412	95,948	383,794	703,622	1,748,173	32,400,000	59,437,896	-	(2,800,000)	(107,960,846)	-	58,272,447	1,165,449	(59,437,896)	-	-

Schedule 16
Zelda Zerobasis
Hypothetical Technique: Bequeaths Remaining Estate to Family; Assumes \$3.19mm Estate Tax Exemption Available

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Other Asset	Assumptions (continued):	
Total Estimated Rate of Return	7.40%	5.00%	Holdco, LLC - Preferred Non-Managing Member Interest	\$40,000,000
Rate of Return Taxed at Ordinary Rates	0.60%	3.00%	Holdco, LLC - Preferred Coupon	7.00%
Rate of Return Tax Free	2.40%	0.00%	Holdco, LLC - Valuation Discount	40.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	2.00%	Note #1 - 3rd Party Interest Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%	Note #2 - Intra-Family Interest Rate (mid-term)	1.93%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (TX)	25.00%		Note #3 - Interest Rate	8.00%
Ordinary Income and Health Care Tax Rate (TX)	44.60%		Zelda Zerobasis Managing Member Growth Interest	1.00%
Annual Consumption from these Sources (increasing 2.5% per year)	\$500,000		GST Exempt Grantor Trust Non-Managing Member Growth Interes ¹	99.00%

GST Exempt Grantor Trust Created by Zelda Zerobasis for the Benefit of her Descendants

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Holdco Growth Distributions	Holdco Terminates	Note Payments to Zelda Zerobasis	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	725,084	-	(275,257)	-	-	449,827
Year 2	449,827	2,699	10,796	19,792	811,797	-	(275,257)	-	-	1,019,655
Year 3	1,019,655	6,118	24,472	44,865	876,004	-	(275,257)	-	-	1,695,857
Year 4	1,695,857	10,175	40,701	74,618	897,869	-	(275,257)	-	-	2,443,962
Year 5	2,443,962	14,664	58,655	107,534	925,338	-	(275,257)	-	-	3,274,897
Year 6	3,274,897	19,649	78,598	144,095	953,464	-	(275,257)	-	-	4,195,447
Year 7	4,195,447	25,173	100,691	184,600	982,268	-	(275,257)	-	-	5,212,921
Year 8	5,212,921	31,278	125,110	229,369	1,011,772	-	(275,257)	-	-	6,335,193
Year 9	6,335,193	38,011	152,045	278,749	1,041,998	-	(1,275,257)	-	-	6,570,739
Year 10	6,570,739	39,424	157,698	289,113	1,072,969	-	(1,255,957)	-	-	6,873,987
Year 11	6,873,987	41,244	164,976	302,455	1,104,710	-	(1,236,657)	-	-	7,250,716
Year 12	7,250,716	43,504	174,017	319,031	1,137,247	-	(1,217,357)	-	-	7,707,159
Year 13	7,707,159	46,243	184,972	339,115	1,170,605	-	(1,198,057)	-	-	8,250,038
Year 14	8,250,038	49,500	198,001	363,002	1,204,814	-	(1,178,757)	-	-	8,886,598
Year 15	8,886,598	53,320	213,278	391,010	1,239,903	-	(1,159,457)	-	-	9,624,653
Year 16	9,624,653	57,748	230,992	423,485	1,275,903	-	(1,140,157)	-	-	10,472,623
Year 17	10,472,623	62,836	251,343	460,795	1,312,845	-	(1,120,857)	-	-	11,439,586
Year 18	11,439,586	68,638	274,550	503,342	1,350,765	-	(1,101,557)	-	-	12,535,324
Year 19	12,535,324	75,212	300,848	551,554	1,389,698	-	(1,082,257)	-	-	13,770,379
Year 20	13,770,379	82,622	330,489	605,897	1,730,692	66,212,672	(3,324,957)	-	-	79,407,794

Schedule 16
Zelda Zerobasis
Hypothetical Technique: Bequeaths Remaining Estate to Family; Assumes \$3.19mm Estate Tax Exemption Available

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy. This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Other Asset	Assumptions (continued):	
Total Estimated Rate of Return	7.40%	5.00%	Holdco, LLC - Preferred Non-Managing Member Interest	\$40,000,000
Rate of Return Taxed at Ordinary Rates	0.60%	3.00%	Holdco, LLC - Preferred Coupon	7.00%
Rate of Return Tax Free	2.40%	0.00%	Holdco, LLC - Valuation Discount	40.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	2.00%	Note #1 - 3rd Party Interest Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%	Note #2 - Intra-Family Interest Rate (mid-term)	1.93%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (TX)	25.00%		Note #3 - Interest Rate	8.00%
Ordinary Income and Health Care Tax Rate (TX)	44.60%		Zelda Zerobasis Managing Member Growth Interest	1.00%
Annual Consumption from these Sources (increasing 2.5% per year)	\$500,000		GST Exempt Grantor Trust Non-Managing Member Growth Interes ¹	99.00%

Note #1 - 3rd Party Note

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	30,000,000	1,200,000	(1,200,000)	30,000,000
Year 2	30,000,000	1,200,000	(1,200,000)	30,000,000
Year 3	30,000,000	1,200,000	(31,200,000)	-
Year 4	-	-	-	-
Year 5	-	-	-	-
Year 6	-	-	-	-
Year 7	-	-	-	-
Year 8	-	-	-	-
Year 9	-	-	-	-
Year 10	-	-	-	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-

Note #2 Between Zelda Zerobasis and GST Exempt Grantor Trust

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	14,262,000	275,257	(275,257)	14,262,000
Year 2	14,262,000	275,257	(275,257)	14,262,000
Year 3	14,262,000	275,257	(275,257)	14,262,000
Year 4	14,262,000	275,257	(275,257)	14,262,000
Year 5	14,262,000	275,257	(275,257)	14,262,000
Year 6	14,262,000	275,257	(275,257)	14,262,000
Year 7	14,262,000	275,257	(275,257)	14,262,000
Year 8	14,262,000	275,257	(275,257)	14,262,000
Year 9	14,262,000	275,257	(1,275,257)	13,262,000
Year 10	13,262,000	255,957	(1,255,957)	12,262,000
Year 11	12,262,000	236,657	(1,236,657)	11,262,000
Year 12	11,262,000	217,357	(1,217,357)	10,262,000
Year 13	10,262,000	198,057	(1,198,057)	9,262,000
Year 14	9,262,000	178,757	(1,178,757)	8,262,000
Year 15	8,262,000	159,457	(1,159,457)	7,262,000
Year 16	7,262,000	140,157	(1,140,157)	6,262,000
Year 17	6,262,000	120,857	(1,120,857)	5,262,000
Year 18	5,262,000	101,557	(1,101,557)	4,262,000
Year 19	4,262,000	82,257	(1,082,257)	3,262,000
Year 20	3,262,000	62,957	(3,324,957)	-

Note #3 Between Holdco and Zelda Zerobasis

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	-	-	-	-
Year 2	-	-	-	-
Year 3	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 4	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 5	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 6	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 7	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 8	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 9	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 10	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 11	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 12	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 13	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 14	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 15	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 16	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 17	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 18	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 19	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 20	30,000,000	2,400,000	(32,400,000)	-

Schedule 17

Owen Overtaxed

Hypothetical Integrated Income and Estate Tax Plan Comparisons

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Pre-Death	Post Death*	Present Values (Discounted at 2.5%)	Percentage of Total
No Further Planning; IRA is Not Converted				
Owen Overtaxed	48,113,219	-	-	0.00%
Overtaxed Children	-	27,763,931	20,140,522	20.11%
Overtaxed Children and Grandchildren	34,522,712	36,362,712	26,378,252	26.33%
Consumption - Direct Cost	7,570,221	7,570,221	5,491,592	5.48%
Consumption - Investment Opportunity Cost	6,254,847	6,254,847	4,537,393	4.53%
IRS Income Tax - Direct Cost	28,317,307	28,317,307	20,541,951	20.51%
IRS Income Tax - Investment Opportunity Costs	13,312,543	13,312,543	9,657,190	9.64%
IRS Estate Tax	-	18,509,288	13,427,014	13.40%
Total	\$138,090,849	\$138,090,849	\$100,173,915	100.00%
Hypothetical Technique #1: Owen Overtaxed Converts his IRA to a Roth IRA and Pays the Associated Income Taxes				
Owen Overtaxed	53,476,828	-	-	0.00%
Overtaxed Children	-	30,982,097	22,475,044	22.44%
Overtaxed Children and Grandchildren	34,522,712	36,362,712	26,378,252	26.33%
Consumption - Direct Cost	7,570,221	7,570,221	5,491,592	5.48%
Consumption - Investment Opportunity Cost	6,254,847	6,254,847	4,537,393	4.53%
IRS Income Tax - Direct Cost	18,130,350	18,130,350	13,152,126	13.13%
IRS Income Tax - Investment Opportunity Costs	18,135,890	18,135,890	13,156,144	13.13%
IRS Estate Tax	-	20,654,731	14,983,363	14.96%
Total	\$138,090,849	\$138,090,849	\$100,173,915	100.00%

Owen Overtaxed

Hypothetical Integrated Income and Estate Tax Plan Comparisons

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Pre-Death	Post Death*	Present Values (Discounted at 2.5%)	Percentage of Total
Hypothetical Technique #2: Owen Overtaxed Converts his IRA to a Roth IRA; He Borrows \$4,080,000 from the Existing GST Exempt Grantor Trust in Order to Pay the Associated Income Taxes				
Owen Overtaxed	54,452,096	-	-	0.00%
Overtaxed Children	-	31,567,258	22,899,532	22.86%
Overtaxed Children and Grandchildren	33,802,138	35,642,138	25,855,533	25.81%
Consumption - Direct Cost	7,570,221	7,570,221	5,491,592	5.48%
Consumption - Investment Opportunity Cost	6,254,847	6,254,847	4,537,393	4.53%
IRS Income Tax - Direct Cost	17,875,657	17,875,657	12,967,366	12.94%
IRS Income Tax - Investment Opportunity Costs	18,135,890	18,135,890	13,156,144	13.13%
IRS Estate Tax	-	21,044,838	15,266,355	15.24%
Total	\$138,090,849	\$138,090,849	\$100,173,915	100.00%

Hypothetical Technique #3: Owen Overtaxed Converts his IRA to a Roth IRA; He Enters Into a Call Option Purchase with the Existing GST Exempt Grantor Trust for \$4,080,000; After 12 Years, the Call Option is Settled				
Owen Overtaxed	42,733,930	-	-	0.00%
Overtaxed Children	-	24,536,358	17,799,174	17.77%
Overtaxed Children and Grandchildren	45,445,859	47,285,859	34,302,126	34.24%
Consumption - Direct Cost	7,570,221	7,570,221	5,491,592	5.48%
Consumption - Investment Opportunity Cost	6,254,847	6,254,847	4,537,393	4.53%
IRS Income Tax - Direct Cost	17,950,101	17,950,101	13,021,369	13.00%
IRS Income Tax - Investment Opportunity Costs	18,135,890	18,135,890	13,156,144	13.13%
IRS Estate Tax	-	16,357,572	11,866,116	11.85%
Total	\$138,090,849	\$138,090,849	\$100,173,915	100.00%

*Calculations of Remaining Exemption

Current Exemption	5,340,000
Prior Gifts Made	(5,340,000)
Future Exemption Available in 13 years (assumes 2.5% inflation)	1,840,000

Schedule 17
Owen Overtaxed
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Owen Overtaxed	GST Exempt Grantor Trust
Assets		
FMV: Financial Assets	\$20,000,000	\$10,000,000
Basis: Financial Assets	\$20,000,000	\$10,000,000
FMV: Individual Retirement Account	\$10,000,000	\$0
Basis: Individual Retirement Account	\$10,000,000	\$0
Total Assets:	\$30,000,000	\$10,000,000
Total Basis:	\$30,000,000	\$10,000,000

* Information is based on certain assumptions. There is no proposed planning for other assets.

Schedule 17
Owen Overtaxed
No Further Planning; IRA is Not Converted

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	IRA
Total Estimated Pre-Tax Rate of Return*	10.00%	10.00%
Rate of Return Taxed at Ordinary Rates	3.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	7.00%	10.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long Term Capital Gain Tax Rate	25.00%	0.00%
Ordinary and Health Care Tax Rate	44.60%	40.80%
Consumption (increasing 2.5% per year)	\$500,000	

Owen Overtaxed									IRA				
	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Required Minimum Distribution	Consumption	Income Taxes	End of Year Financial Assets	Beginning of Year IRA Financial Assets	Growth	Distributions	End of Year IRA Financial Assets	End of Year Financial & IRA Assets
Year 1	20,000,000	600,000	-	1,400,000	364,964	(500,000)	(707,805)	21,157,158	10,000,000	1,000,000	(364,964)	10,635,036	31,792,195
Year 2	21,157,158	634,715	-	1,481,001	401,322	(512,500)	(873,077)	22,288,619	10,635,036	1,063,504	(401,322)	11,297,218	33,585,837
Year 3	22,288,619	668,659	-	1,560,203	441,298	(525,313)	(1,016,062)	23,417,404	11,297,218	1,129,722	(441,298)	11,985,642	35,403,046
Year 4	23,417,404	702,522	-	1,639,218	485,249	(538,445)	(1,145,338)	24,560,610	11,985,642	1,198,564	(485,249)	12,698,958	37,259,568
Year 5	24,560,610	736,818	-	1,719,243	533,570	(551,906)	(1,267,183)	25,731,151	12,698,958	1,269,896	(533,570)	13,435,284	39,166,435
Year 6	25,731,151	771,935	-	1,801,181	586,694	(565,704)	(1,386,259)	26,938,997	13,435,284	1,343,528	(586,694)	14,192,119	41,131,116
Year 7	26,938,997	808,170	-	1,885,730	645,096	(579,847)	(1,506,098)	28,192,048	14,192,119	1,419,212	(645,096)	14,966,234	43,158,283
Year 8	28,192,048	845,761	-	1,973,443	705,954	(594,343)	(1,628,087)	29,494,778	14,966,234	1,496,623	(705,954)	15,756,903	45,251,681
Year 9	29,494,778	884,843	-	2,064,634	776,202	(609,201)	(1,757,006)	30,854,251	15,756,903	1,575,690	(776,202)	16,556,391	47,410,642
Year 10	30,854,251	925,628	-	2,159,798	849,046	(624,431)	(1,891,715)	32,272,575	16,556,391	1,655,639	(849,046)	17,362,985	49,635,560
Year 11	32,272,575	968,177	-	2,259,080	928,502	(640,042)	(2,035,168)	33,753,124	17,362,985	1,736,298	(928,502)	18,170,781	51,923,906
Year 12	33,753,124	1,012,594	-	2,362,719	971,700	(656,043)	(2,171,052)	35,273,041	18,170,781	1,817,078	(971,700)	19,016,160	54,289,201
Year 13	35,273,041	1,058,191	-	2,469,113	20,917,776	(672,444)	(10,932,457)	48,113,219	19,016,160	1,901,616	(20,917,776)	-	48,113,219

GST Exempt Grantor Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	10,000,000	300,000	-	700,000	-	-	11,000,000
Year 2	11,000,000	330,000	-	770,000	-	-	12,100,000
Year 3	12,100,000	363,000	-	847,000	-	-	13,310,000
Year 4	13,310,000	399,300	-	931,700	-	-	14,641,000
Year 5	14,641,000	439,230	-	1,024,870	-	-	16,105,100
Year 6	16,105,100	483,153	-	1,127,357	-	-	17,715,610
Year 7	17,715,610	531,468	-	1,240,093	-	-	19,487,171
Year 8	19,487,171	584,615	-	1,364,102	-	-	21,435,888
Year 9	21,435,888	643,077	-	1,500,512	-	-	23,579,477
Year 10	23,579,477	707,384	-	1,650,563	-	-	25,937,425
Year 11	25,937,425	778,123	-	1,815,620	-	-	28,531,167
Year 12	28,531,167	855,935	-	1,997,182	-	-	31,384,284
Year 13	31,384,284	941,529	-	2,196,900	-	-	34,522,712

Schedule 17
Owen Overtaxed
Hypothetical Technique #1: Owen Overtaxed Converts his IRA to a Roth IRA and Pays the Associated Income Taxes

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Roth IRA
Total Estimated Pre-Tax Rate of Return*	10.00%	10.00%
Rate of Return Taxed at Ordinary Rates	3.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	7.00%	10.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long Term Capital Gain Tax Rate	25.00%	0.00%
Ordinary and Health Care Tax Rate	44.60%	40.80%
Consumption (increasing 2.5% per year)	\$500,000	

Owen Overtaxed								Roth IRA					
	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Required Minimum Distribution	Consumption	Income Taxes	End of Year Financial Assets	Beginning of Year IRA Financial Assets	Growth	Distributions	End of Year IRA Financial Assets	End of Year Financial & IRA Assets
Year 1	20,000,000	600,000	-	1,400,000	-	(500,000)	(4,638,900)	16,861,100	10,000,000	1,000,000	-	11,000,000	27,861,100
Year 2	16,861,100	505,833	-	1,180,277	-	(512,500)	(629,302)	17,405,408	11,000,000	1,100,000	-	12,100,000	29,505,408
Year 3	17,405,408	522,162	-	1,218,379	-	(525,313)	(729,250)	17,891,386	12,100,000	1,210,000	-	13,310,000	31,201,386
Year 4	17,891,386	536,742	-	1,252,397	-	(538,445)	(815,409)	18,326,670	13,310,000	1,331,000	-	14,641,000	32,967,670
Year 5	18,326,670	549,800	-	1,282,867	-	(551,906)	(892,742)	18,714,688	14,641,000	1,464,100	-	16,105,100	34,819,788
Year 6	18,714,688	561,441	-	1,310,028	-	(565,704)	(964,837)	19,055,616	16,105,100	1,610,510	-	17,715,610	36,771,226
Year 7	19,055,616	571,668	-	1,333,893	-	(579,847)	(1,034,312)	19,347,019	17,715,610	1,771,561	-	19,487,171	38,834,190
Year 8	19,347,019	580,411	-	1,354,291	-	(594,343)	(1,103,100)	19,584,278	19,487,171	1,948,717	-	21,435,888	41,020,166
Year 9	19,584,278	587,528	-	1,370,899	-	(609,201)	(1,172,655)	19,760,850	21,435,888	2,143,589	-	23,579,477	43,340,327
Year 10	19,760,850	592,826	-	1,383,260	-	(624,431)	(1,244,094)	19,868,410	23,579,477	2,357,948	-	25,937,425	45,805,835
Year 11	19,868,410	596,052	-	1,390,789	-	(640,042)	(1,318,303)	19,896,906	25,937,425	2,593,742	-	28,531,167	48,428,073
Year 12	19,896,906	596,907	-	1,392,783	-	(656,043)	(1,396,009)	19,834,544	28,531,167	2,853,117	-	31,384,284	51,218,828
Year 13	19,834,544	595,036	-	1,388,418	-	(672,444)	(2,191,438)	18,954,116	31,384,284	3,138,428	-	34,522,712	53,476,828

GST Exempt Grantor Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	10,000,000	300,000	-	700,000	-	-	11,000,000
Year 2	11,000,000	330,000	-	770,000	-	-	12,100,000
Year 3	12,100,000	363,000	-	847,000	-	-	13,310,000
Year 4	13,310,000	399,300	-	931,700	-	-	14,641,000
Year 5	14,641,000	439,230	-	1,024,870	-	-	16,105,100
Year 6	16,105,100	483,153	-	1,127,357	-	-	17,715,610
Year 7	17,715,610	531,468	-	1,240,093	-	-	19,487,171
Year 8	19,487,171	584,615	-	1,364,102	-	-	21,435,888
Year 9	21,435,888	643,077	-	1,500,512	-	-	23,579,477
Year 10	23,579,477	707,384	-	1,650,563	-	-	25,937,425
Year 11	25,937,425	778,123	-	1,815,620	-	-	28,531,167
Year 12	28,531,167	855,935	-	1,997,182	-	-	31,384,284
Year 13	31,384,284	941,529	-	2,196,900	-	-	34,522,712

Schedule 17
Owen Overtaxed
Hypothetical Technique #2: Owen Overtaxed Converts his IRA to a Roth IRA; He Borrows \$4,080,000 from the Existing GST Exempt Grantor Trust in Order to Pay the Associated Income Taxes

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:		Financial Assets	Roth IRA
Total Estimated Pre-Tax Rate of Return*		10.00%	10.00%
Rate of Return Taxed at Ordinary Rates		3.00%	0.00%
Rate of Return Taxed at Capital Gains Rates		7.00%	10.00%
Turnover Rate (% of Capital Gains Recognized/Year)		30.00%	0.00%
Long Term Capital Gain Tax Rate		25.00%	0.00%
Ordinary and Health Care Tax Rate		44.60%	40.80%
Consumption (increasing 2.5% per year)		\$500,000	

Assumptions (continued):	
Interest Rate	8.00%

Owen Overtaxed										Roth IRA				
	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Loan Proceeds	Note Payments	Consumption	Income Taxes	End of Year Financial Assets	Beginning of Year IRA Financial Assets	Growth	Distributions	End of Year IRA Financial Assets	End of Year Financial & IRA Assets
Year 1	20,000,000	600,000	-	1,400,000	4,080,000	(326,400)	(500,000)	(4,638,900)	20,614,700	10,000,000	1,000,000	-	11,000,000	31,614,700
Year 2	20,614,700	618,441	-	1,443,029	-	(326,400)	(512,500)	(629,302)	21,207,968	11,000,000	1,100,000	-	12,100,000	33,307,968
Year 3	21,207,968	636,239	-	1,484,558	-	(326,400)	(525,313)	(729,250)	21,747,802	12,100,000	1,210,000	-	13,310,000	35,057,802
Year 4	21,747,802	652,434	-	1,522,346	-	(326,400)	(538,445)	(815,409)	22,242,327	13,310,000	1,331,000	-	14,641,000	36,883,327
Year 5	22,242,327	667,270	-	1,556,963	-	(326,400)	(551,906)	(892,742)	22,695,511	14,641,000	1,464,100	-	16,105,100	38,800,611
Year 6	22,695,511	680,865	-	1,588,686	-	(326,400)	(565,704)	(964,837)	23,108,122	16,105,100	1,610,510	-	17,715,610	40,823,732
Year 7	23,108,122	693,244	-	1,617,569	-	(326,400)	(579,847)	(1,034,312)	23,478,375	17,715,610	1,771,561	-	19,487,171	42,965,546
Year 8	23,478,375	704,351	-	1,643,486	-	(326,400)	(594,343)	(1,103,100)	23,802,370	19,487,171	1,948,717	-	21,435,888	45,238,258
Year 9	23,802,370	714,071	-	1,666,166	-	(326,400)	(609,201)	(1,172,655)	24,074,351	21,435,888	2,143,589	-	23,579,477	47,653,828
Year 10	24,074,351	722,231	-	1,685,205	-	(326,400)	(624,431)	(1,244,094)	24,286,861	23,579,477	2,357,948	-	25,937,425	50,224,286
Year 11	24,286,861	728,606	-	1,700,080	-	(326,400)	(640,042)	(1,318,303)	24,430,802	25,937,425	2,593,742	-	28,531,167	52,961,969
Year 12	24,430,802	732,924	-	1,710,156	-	(326,400)	(656,043)	(1,396,009)	24,495,430	28,531,167	2,853,117	-	31,384,284	55,879,714
Year 13	24,495,430	734,863	-	1,714,680	-	(4,406,400)	(672,444)	(1,936,744)	19,929,384	31,384,284	3,138,428	-	34,522,712	54,452,096

GST Exempt Grantor Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Note Payments	Loan to Owen Overtaxed	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	10,000,000	300,000	-	700,000	326,400	(4,080,000)	-	-	7,246,400
Year 2	7,246,400	217,392	-	507,248	326,400	-	-	-	8,297,440
Year 3	8,297,440	248,923	-	580,821	326,400	-	-	-	9,453,584
Year 4	9,453,584	283,608	-	661,751	326,400	-	-	-	10,725,342
Year 5	10,725,342	321,760	-	750,774	326,400	-	-	-	12,124,277
Year 6	12,124,277	363,728	-	848,699	326,400	-	-	-	13,663,104
Year 7	13,663,104	409,893	-	956,417	326,400	-	-	-	15,355,815
Year 8	15,355,815	460,674	-	1,074,907	326,400	-	-	-	17,217,796
Year 9	17,217,796	516,534	-	1,205,246	326,400	-	-	-	19,265,976
Year 10	19,265,976	577,979	-	1,348,618	326,400	-	-	-	21,518,973
Year 11	21,518,973	645,569	-	1,506,328	326,400	-	-	-	23,997,271
Year 12	23,997,271	719,918	-	1,679,809	326,400	-	-	-	26,723,398
Year 13	26,723,398	801,702	-	1,870,638	4,406,400	-	-	-	33,802,138

Owen Overtaxed
Hypothetical Technique #2: Owen Overtaxed Converts his IRA to a Roth IRA; He Borrows \$4,080,000 from the Existing GST Exempt Grantor Trust in Order to Pay the Associated Income Taxes

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Roth IRA
Total Estimated Pre-Tax Rate of Return*	10.00%	10.00%
Rate of Return Taxed at Ordinary Rates	3.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	7.00%	10.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long Term Capital Gain Tax Rate	25.00%	0.00%
Ordinary and Health Care Tax Rate	44.60%	40.80%
Consumption (increasing 2.5% per year)	\$500,000	

Assumptions (continued):	
Interest Rate	8.00%

Note Between Owen Overtaxed and GST Exempt Grantor Trust

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	4,080,000	326,400	(326,400)	4,080,000
Year 2	4,080,000	326,400	(326,400)	4,080,000
Year 3	4,080,000	326,400	(326,400)	4,080,000
Year 4	4,080,000	326,400	(326,400)	4,080,000
Year 5	4,080,000	326,400	(326,400)	4,080,000
Year 6	4,080,000	326,400	(326,400)	4,080,000
Year 7	4,080,000	326,400	(326,400)	4,080,000
Year 8	4,080,000	326,400	(326,400)	4,080,000
Year 9	4,080,000	326,400	(326,400)	4,080,000
Year 10	4,080,000	326,400	(326,400)	4,080,000
Year 11	4,080,000	326,400	(326,400)	4,080,000
Year 12	4,080,000	326,400	(326,400)	4,080,000
Year 13	4,080,000	326,400	(4,406,400)	-

Schedule 17
Owen Overtaxed
Hypothetical Technique #3: Owen Overtaxed Converts his IRA to a Roth IRA; He Enters Into a Call Option Purchase with the Existing GST Exempt Grantor Trust for \$4,080,000; After 12 Years, the Call Option is Settled

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Roth IRA
Total Estimated Pre-Tax Rate of Return*	10.00%	10.00%
Rate of Return Taxed at Ordinary Rates	3.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	7.00%	10.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long Term Capital Gain Tax Rate	25.00%	0.00%
Ordinary and Health Care Tax Rate	44.60%	40.80%
Consumption (increasing 2.5% per year)	\$500,000	

Assumptions (continued):
Call Option Exercise Price \$9,813,434

Owen Overtaxed										Roth IRA				
	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Call Option Purchase	Settlement Cost of Call Option	Consumption	Income Taxes	End of Year Financial Assets	Beginning of Year IRA Financial Assets	Growth	Distributions	End of Year IRA Financial Assets	End of Year Financial & IRA Assets
Year 1	20,000,000	600,000	-	1,400,000	4,080,000	-	(500,000)	(4,638,900)	20,941,100	10,000,000	1,000,000	-	11,000,000	31,941,100
Year 2	20,941,100	628,233	-	1,465,877	-	-	(512,500)	(629,302)	21,893,408	11,000,000	1,100,000	-	12,100,000	33,993,408
Year 3	21,893,408	656,802	-	1,532,539	-	-	(525,313)	(729,250)	22,828,186	12,100,000	1,210,000	-	13,310,000	36,138,186
Year 4	22,828,186	684,846	-	1,597,973	-	-	(538,445)	(815,409)	23,757,150	13,310,000	1,331,000	-	14,641,000	38,398,150
Year 5	23,757,150	712,714	-	1,663,000	-	-	(551,906)	(892,742)	24,688,216	14,641,000	1,464,100	-	16,105,100	40,793,316
Year 6	24,688,216	740,646	-	1,728,175	-	-	(565,704)	(964,837)	25,626,497	16,105,100	1,610,510	-	17,715,610	43,342,107
Year 7	25,626,497	768,795	-	1,793,855	-	-	(579,847)	(1,034,312)	26,574,988	17,715,610	1,771,561	-	19,487,171	46,062,159
Year 8	26,574,988	797,250	-	1,860,249	-	-	(594,343)	(1,103,100)	27,535,044	19,487,171	1,948,717	-	21,435,888	48,970,932
Year 9	27,535,044	826,051	-	1,927,453	-	-	(609,201)	(1,172,655)	28,506,692	21,435,888	2,143,589	-	23,579,477	52,086,169
Year 10	28,506,692	855,201	-	1,995,468	-	-	(624,431)	(1,244,094)	29,488,837	23,579,477	2,357,948	-	25,937,425	55,426,261
Year 11	29,488,837	884,665	-	2,064,219	-	-	(640,042)	(1,318,303)	30,479,375	25,937,425	2,593,742	-	28,531,167	59,010,542
Year 12	30,479,375	914,381	-	2,133,556	-	(21,570,850)	(656,043)	(1,396,009)	9,904,410	28,531,167	2,853,117	-	31,384,284	41,288,694
Year 13	9,904,410	297,132	-	693,309	-	-	(672,444)	(2,011,189)	8,211,218	31,384,284	3,138,428	-	34,522,712	42,733,930

GST Exempt Grantor Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Settlement Cost of Call Option	Call Option Purchase	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	10,000,000	300,000	-	700,000	-	(4,080,000)	-	-	6,920,000
Year 2	6,920,000	207,600	-	484,400	-	-	-	-	7,612,000
Year 3	7,612,000	228,360	-	532,840	-	-	-	-	8,373,200
Year 4	8,373,200	251,196	-	586,124	-	-	-	-	9,210,520
Year 5	9,210,520	276,316	-	644,736	-	-	-	-	10,131,572
Year 6	10,131,572	303,947	-	709,210	-	-	-	-	11,144,729
Year 7	11,144,729	334,342	-	780,131	-	-	-	-	12,259,202
Year 8	12,259,202	367,776	-	858,144	-	-	-	-	13,485,122
Year 9	13,485,122	404,554	-	943,959	-	-	-	-	14,833,635
Year 10	14,833,635	445,009	-	1,038,354	-	-	-	-	16,316,998
Year 11	16,316,998	489,510	-	1,142,190	-	-	-	-	17,948,698
Year 12	17,948,698	538,461	-	1,256,409	21,570,850	-	-	-	41,314,417
Year 13	41,314,417	1,239,433	-	2,892,009	-	-	-	-	45,445,859

Schedule 18

Insurance Family

Hypothetical Integrated Income and Estate Tax Plan Comparisons - Surviving Spouse Dies at the End of Year 10

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Future Value in 30 Years	Present Value (Discounted at 2.5%)	Percentage of Total
No Further Planning; Bequeaths Estate to Family in 10 Years (assumes \$13.3mm estate tax exemption available in 10 years)			
Insurance Children	518,454,579	247,169,428	40.60%
Insurance Children & Grandchildren	-	-	0.00%
Consumption - Direct Cost	20,061,789	9,564,311	1.57%
Consumption - Investment Opportunity Cost	95,693,446	45,621,151	7.49%
IRS - Income Tax	100,387,186	47,858,856	7.86%
IRS - Investment Opportunity Costs	446,483,369	212,857,680	34.96%
IRS - Estate Tax (at 40%)	96,004,325	45,769,360	7.52%
Total	\$1,277,084,694	608,840,786	100.00%
Hypothetical Technique: Bequeaths Estate to Family in 10 years (assumes \$2.6mm estate tax exemption available in 10 years)			
Insurance Children	228,280,974	108,831,285	17.88%
Insurance Children & Grandchildren	557,267,326	265,673,121	43.64%
Consumption - Direct Cost	20,061,789	9,564,311	1.57%
Consumption - Investment Opportunity Cost	95,693,446	45,621,151	7.49%
IRS - Income Tax	148,985,957	71,027,965	11.67%
IRS - Investment Opportunity Costs	329,382,789	157,030,835	25.79%
IRS - Estate Tax (at 40%)	44,879,416	21,395,933	3.51%
Investment Opportunity Cost/(Benefit) of Buying Life Insurance	(147,467,002)	(70,303,815)	-11.55%
Total	\$1,277,084,694	\$526,141,985	86.42%

Schedule 18
Insurance Family
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Ian & Inez Insurance
Assets	
Asset: Financial Assets	\$150,000,000
Basis: Financial Assets	\$150,000,000
Total Assets*	\$150,000,000
Total Basis	\$150,000,000

* There is not any proposed planning for Ian & Inez Insurance's other assets

Schedule 18**Insurance Family****No Further Planning; Bequeaths Estate to Family in 10 Years (assumes \$13.3mm estate tax exemption available in 10 years)**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%
Consumption (with 3% inflation adjustment each year)	\$1,750,000

Insurance Children

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Income Taxes	Bequest Received	End of Year Financial Assets
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	157,326,488	157,326,488
Year 11	157,326,488	943,959	3,775,836	6,922,365	(940,183)	-	168,028,465
Year 12	168,028,465	1,008,171	4,032,683	7,393,252	(1,367,562)	-	179,095,009
Year 13	179,095,009	1,074,570	4,298,280	7,880,180	(1,712,814)	-	190,635,225
Year 14	190,635,225	1,143,811	4,575,245	8,387,950	(2,002,725)	-	202,739,507
Year 15	202,739,507	1,216,437	4,865,748	8,920,538	(2,256,381)	-	215,485,849
Year 16	215,485,849	1,292,915	5,171,660	9,481,377	(2,487,439)	-	228,944,363
Year 17	228,944,363	1,373,666	5,494,665	10,073,552	(2,705,730)	-	243,180,516
Year 18	243,180,516	1,459,083	5,836,332	10,699,943	(2,918,400)	-	258,257,474
Year 19	258,257,474	1,549,545	6,198,179	11,363,329	(3,130,701)	-	274,237,827
Year 20	274,237,827	1,645,427	6,581,708	12,066,464	(3,346,568)	-	291,184,858
Year 21	291,184,858	1,747,109	6,988,437	12,812,134	(3,569,016)	-	309,163,522
Year 22	309,163,522	1,854,981	7,419,925	13,603,195	(3,800,425)	-	328,241,198
Year 23	328,241,198	1,969,447	7,877,789	14,442,613	(4,042,742)	-	348,488,305
Year 24	348,488,305	2,090,930	8,363,719	15,333,485	(4,297,624)	-	369,978,815
Year 25	369,978,815	2,219,873	8,879,492	16,279,068	(4,566,542)	-	392,790,706
Year 26	392,790,706	2,356,744	9,426,977	17,282,791	(4,850,852)	-	417,006,366
Year 27	417,006,366	2,502,038	10,008,153	18,348,280	(5,151,851)	-	442,712,986
Year 28	442,712,986	2,656,278	10,625,112	19,479,371	(5,470,812)	-	470,002,935
Year 29	470,002,935	2,820,018	11,280,070	20,680,129	(5,809,016)	-	498,974,136
Year 30	498,974,136	2,993,845	11,975,379	21,954,862	(17,443,643)	-	518,454,579

Hypothetical Technique: Bequeaths Estate to Family in 10 years (assumes \$2.6mm estate tax exemption available in 10 years)

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Total Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%
Consumption (increasing at 3% per year)	\$1,750,000

GST Grantor Trust's Preferred Ownership in Insurance FLP	\$40,000,000
Interest Percentage on Preferred Ownership	7.50%
Insurance FLP Valuation Discount	40.00%
Intra-Family Note Interest Percentage (mid-term)	1.91%
Annual Insurance Premium	\$400,000
Death Benefit Value of Insurance	\$41,000,000

[illegible][illegible]

Hypothetical Technique: Bequeaths Estate to Family in 10 years (assumes \$2.6mm estate tax exemption available in 10 years)

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Total Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%
Consumption (increasing at 3% per year)	\$1,750,000

GST Grantor Trust's Preferred Ownership in Insurance FLP	\$40,000,000
Interest Percentage on Preferred Ownership	7.50%
Insurance FLP Valuation Discount	40.00%
Intra-Family Note Interest Percentage (mid-term)	1.91%
Annual Insurance Premium	\$400,000
Death Benefit Value of Insurance	\$41,000,000

	2023						
	Beginning of Year	Income	Tax Free Income	Growth	Growth Interest Distributions	Preferred Coupon Distribution	End of Year
Year 1	135,000,000	810,000	3,240,000	5,940,000	(4,856,760)	(3,000,000)	137,133,240
Year 2	137,133,240	822,799	3,291,198	6,033,863	(5,245,355)	(3,000,000)	139,035,744
Year 3	139,035,744	834,214	3,336,858	6,117,573	(5,537,023)	(3,000,000)	140,787,367
Year 4	140,787,367	844,724	3,378,897	6,194,644	(5,760,690)	(3,000,000)	142,444,942
Year 5	142,444,942	854,670	3,418,679	6,267,577	(5,936,825)	(3,000,000)	144,049,043
Year 6	144,049,043	864,294	3,457,177	6,338,158	(6,079,914)	(3,000,000)	145,628,758
Year 7	145,628,758	873,773	3,495,090	6,407,665	(6,200,217)	(3,000,000)	147,205,069
Year 8	147,205,069	883,230	3,532,922	6,477,023	(6,305,006)	(3,000,000)	148,793,238
Year 9	148,793,238	892,759	3,571,038	6,546,902	(6,399,439)	(3,000,000)	150,404,499
Year 10	150,404,499	902,427	3,609,708	6,617,798	(6,487,182)	(3,000,000)	152,047,250
Year 11	152,047,250	912,284	3,649,134	6,690,079	(6,570,847)	(3,000,000)	153,727,900
Year 12	153,727,900	922,367	3,689,470	6,764,028	(6,652,301)	(3,000,000)	155,451,464
Year 13	155,451,464	932,709	3,730,835	6,839,864	(6,732,883)	(3,000,000)	157,221,989
Year 14	157,221,989	943,332	3,773,328	6,917,768	(6,813,564)	(3,000,000)	159,042,852
Year 15	159,042,852	954,257	3,817,028	6,997,885	(6,895,051)	(3,000,000)	160,916,972
Year 16	160,916,972	965,502	3,862,007	7,080,347	(6,977,865)	(3,000,000)	162,846,963
Year 17	162,846,963	977,082	3,908,327	7,165,266	(7,062,402)	(3,000,000)	164,835,236
Year 18	164,835,236	989,011	3,956,046	7,252,750	(7,148,963)	(3,000,000)	166,884,081
Year 19	166,884,081	1,001,304	4,005,218	7,342,900	(7,237,786)	(3,000,000)	168,995,716
Year 20	168,995,716	1,013,974	4,055,897	7,435,812	(7,329,067)	(3,000,000)	171,172,332
Year 21	171,172,332	1,027,034	4,108,136	7,531,583	(7,422,970)	(3,000,000)	173,416,114
Year 22	173,416,114	1,040,497	4,161,987	7,630,309	(7,519,638)	(3,000,000)	175,729,269
Year 23	175,729,269	1,054,376	4,217,502	7,732,088	(7,619,201)	(3,000,000)	178,114,033
Year 24	178,114,033	1,068,684	4,274,737	7,837,017	(7,721,781)	(3,000,000)	180,572,691
Year 25	180,572,691	1,083,436	4,333,745	7,945,198	(7,827,492)	(3,000,000)	183,107,578
Year 26	183,107,578	1,098,645	4,394,582	8,056,733	(7,936,447)	(3,000,000)	185,721,092
Year 27	185,721,092	1,114,327	4,457,306	8,171,728	(8,048,759)	(3,000,000)	188,415,694
Year 28	188,415,694	1,130,494	4,521,977	8,290,291	(8,164,538)	(3,000,000)	191,193,917
Year 29	191,193,917	1,147,163	4,588,654	8,412,532	(8,283,899)	(3,000,000)	194,058,367
Year 30	194,058,367	1,164,350	4,657,401	8,538,568	(13,227,403)	(3,000,000)	192,191,283

[illegible]

Schedule 18**Insurance Family****Hypothetical Technique: Bequeaths Estate to Family in 10 years (assumes \$2.6mm estate tax exemption available in 10 years)**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%
Consumption (increasing at 3% per year)	\$1,750,000

Assumptions (continued):

GST Grantor Trust's Preferred Ownership in Insurance FLP	\$40,000,000
Interest Percentage on Preferred Ownership	7.50%
Insurance FLP Valuation Discount	40.00%
Intra-Family Note Interest Percentage (mid-term)	1.91%
Annual Insurance Premium	\$400,000
Death Benefit Value of Insurance	\$41,000,000

Insurance GST Exempt Grantor Trust

	Beginning of Year	Income	Tax Free Income	Growth	Growth Interest Distribution	Preferred Coupon Distribution	Death Benefit Value of Insurance	Annual Insurance Premium	Note #1 Payments Preferred Ownership	Note #2 Payments Growth Interest	Purchase of Additional Growth Interest	Income Taxes	End of Year
Year 1	-	-	-	-	185,090	3,000,000	-	(400,000)	(560,012)	-	(2,225,078)	-	-
Year 2	-	-	-	-	415,857	3,000,000	-	(400,000)	(560,012)	-	(2,455,845)	-	-
Year 3	-	-	-	-	687,233	3,000,000	-	(400,000)	(560,012)	-	(2,727,221)	-	-
Year 4	-	-	-	-	5,703,083	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	6,742,955
Year 5	6,742,955	40,458	161,831	296,690	5,877,456	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	14,159,261
Year 6	14,159,261	84,956	339,822	623,008	6,019,115	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	22,266,033
Year 7	22,266,033	133,596	534,385	979,705	6,138,215	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	31,091,807
Year 8	31,091,807	186,551	746,203	1,368,040	6,241,956	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	40,674,428
Year 9	40,674,428	244,047	976,186	1,789,675	6,335,444	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	51,059,652
Year 10	51,059,652	306,358	1,225,432	2,246,625	6,422,310	3,000,000	41,000,000	(400,000)	(29,880,012)	(53,362,219)	-	-	21,618,145
Year 11	21,618,145	129,709	518,835	951,198	6,505,139	3,000,000	-	-	-	-	-	(2,385,644)	30,337,383
Year 12	30,337,383	182,024	728,097	1,334,845	6,585,778	3,000,000	-	-	-	-	-	(2,444,615)	39,723,512
Year 13	39,723,512	238,341	953,364	1,747,835	6,665,554	3,000,000	-	-	-	-	-	(2,532,805)	49,795,801
Year 14	49,795,801	298,775	1,195,099	2,191,015	6,745,429	3,000,000	-	-	-	-	-	(2,644,500)	60,581,619
Year 15	60,581,619	363,490	1,453,959	2,665,591	6,826,100	3,000,000	-	-	-	-	-	(2,775,840)	72,114,919
Year 16	72,114,919	432,690	1,730,758	3,173,056	6,908,087	3,000,000	-	-	-	-	-	(2,924,286)	84,435,224
Year 17	84,435,224	506,611	2,026,445	3,715,150	6,991,778	3,000,000	-	-	-	-	-	(3,088,243)	97,586,965
Year 18	97,586,965	585,522	2,342,087	4,293,826	7,077,473	3,000,000	-	-	-	-	-	(3,266,796)	111,619,077
Year 19	111,619,077	669,714	2,678,858	4,911,239	7,165,408	3,000,000	-	-	-	-	-	(3,459,523)	126,584,774
Year 20	126,584,774	759,509	3,038,035	5,569,730	7,255,777	3,000,000	-	-	-	-	-	(3,666,363)	142,541,461
Year 21	142,541,461	855,249	3,420,995	6,271,824	7,348,740	3,000,000	-	-	-	-	-	(3,887,526)	159,550,743
Year 22	159,550,743	957,304	3,829,218	7,020,233	7,444,442	3,000,000	-	-	-	-	-	(4,123,430)	177,678,510
Year 23	177,678,510	1,066,071	4,264,284	7,817,854	7,543,009	3,000,000	-	-	-	-	-	(4,374,652)	196,995,077
Year 24	196,995,077	1,181,970	4,727,882	8,667,783	7,644,563	3,000,000	-	-	-	-	-	(4,641,905)	217,575,371
Year 25	217,575,371	1,305,452	5,221,809	9,573,316	7,749,217	3,000,000	-	-	-	-	-	(4,926,012)	239,499,153
Year 26	239,499,153	1,436,995	5,747,980	10,537,963	7,857,083	3,000,000	-	-	-	-	-	(5,227,895)	262,851,278
Year 27	262,851,278	1,577,108	6,308,431	11,565,456	7,968,271	3,000,000	-	-	-	-	-	(5,548,568)	287,721,976
Year 28	287,721,976	1,726,332	6,905,327	12,659,767	8,082,893	3,000,000	-	-	-	-	-	(5,889,131)	314,207,164
Year 29	314,207,164	1,885,243	7,540,972	13,825,115	8,201,060	3,000,000	-	-	-	-	-	(6,250,767)	342,408,787
Year 30	342,408,787	2,054,453	8,217,811	15,065,987	13,095,129	3,000,000	-	-	-	-	-	(18,766,124)	365,076,042

Schedule 18**Insurance Family****Hypothetical Technique: Bequeaths Estate to Family in 10 years (assumes \$2.6mm estate tax exemption available in 10 years)**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%
Consumption (increasing at 3% per year)	\$1,750,000

Assumptions (continued):	
GST Grantor Trust's Preferred Ownership in Insurance FLP	\$40,000,000
Interest Percentage on Preferred Ownership	7.50%
Insurance FLP Valuation Discount	40.00%
Intra-Family Note Interest Percentage (mid-term)	1.91%
Annual Insurance Premium	\$400,000
Death Benefit Value of Insurance	\$41,000,000

Insurance Children

	Beginning of Year	Income	Tax Free Income	Growth	Growth Interest Distribution	Bequest Received Cash	Income Taxes	End of Year
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	68,438,651	-	68,438,651
Year 11	68,438,651	410,632	1,642,528	3,011,301	65,708	-	(408,989)	73,159,831
Year 12	73,159,831	438,959	1,755,836	3,219,033	66,523	-	(595,296)	78,044,885
Year 13	78,044,885	468,269	1,873,077	3,433,975	67,329	-	(746,061)	83,141,474
Year 14	83,141,474	498,849	1,995,395	3,658,225	68,136	-	(872,902)	88,489,177
Year 15	88,489,177	530,935	2,123,740	3,893,524	68,951	-	(984,102)	94,122,224
Year 16	94,122,224	564,733	2,258,933	4,141,378	69,779	-	(1,085,588)	100,071,459
Year 17	100,071,459	600,429	2,401,715	4,403,144	70,624	-	(1,181,629)	106,365,742
Year 18	106,365,742	638,194	2,552,778	4,680,093	71,490	-	(1,275,328)	113,032,969
Year 19	113,032,969	678,198	2,712,791	4,973,451	72,378	-	(1,368,970)	120,100,816
Year 20	120,100,816	720,605	2,882,420	5,284,436	73,291	-	(1,464,268)	127,597,299
Year 21	127,597,299	765,584	3,062,335	5,614,281	74,230	-	(1,562,536)	135,551,192
Year 22	135,551,192	813,307	3,253,229	5,964,252	75,196	-	(1,664,814)	143,992,362
Year 23	143,992,362	863,954	3,455,817	6,335,664	76,192	-	(1,771,954)	152,952,035
Year 24	152,952,035	917,712	3,670,849	6,729,890	77,218	-	(1,884,683)	162,463,021
Year 25	162,463,021	974,778	3,899,113	7,148,373	78,275	-	(2,003,647)	172,559,913
Year 26	172,559,913	1,035,359	4,141,438	7,592,636	79,364	-	(2,129,445)	183,279,265
Year 27	183,279,265	1,099,676	4,398,702	8,064,288	80,488	-	(2,262,649)	194,659,769
Year 28	194,659,769	1,167,959	4,671,834	8,565,030	81,645	-	(2,403,823)	206,742,415
Year 29	206,742,415	1,240,454	4,961,818	9,096,666	82,839	-	(2,553,532)	219,570,661
Year 30	219,570,661	1,317,424	5,269,696	9,661,109	132,274	-	(7,670,190)	228,280,974

Schedule 18**Insurance Family****Hypothetical Technique: Bequeaths Estate to Family in 10 years (assumes \$2.6mm estate tax exemption available in 10 years)**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%
Consumption (increasing at 3% per year)	\$1,750,000

Note #1 Between Ian & Inez Insurance and Insurance GST Grantor Trust for the Purchase of Preferred Ownership

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	29,320,000	560,012	(560,012)	29,320,000
Year 2	29,320,000	560,012	(560,012)	29,320,000
Year 3	29,320,000	560,012	(560,012)	29,320,000
Year 4	29,320,000	560,012	(560,012)	29,320,000
Year 5	29,320,000	560,012	(560,012)	29,320,000
Year 6	29,320,000	560,012	(560,012)	29,320,000
Year 7	29,320,000	560,012	(560,012)	29,320,000
Year 8	29,320,000	560,012	(560,012)	29,320,000
Year 9	29,320,000	560,012	(560,012)	29,320,000
Year 10	29,320,000	560,012	(29,880,012)	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-
Year 21	-	-	-	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-
Year 26	-	-	-	-
Year 27	-	-	-	-
Year 28	-	-	-	-
Year 29	-	-	-	-
Year 30	-	-	-	-

Assumptions (continued):	
GST Grantor Trust's Preferred Ownership in Insurance FLP	\$40,000,000
Interest Percentage on Preferred Ownership	7.50%
Insurance FLP Valuation Discount	40.00%
Intra-Family Note Interest Percentage (mid-term)	1.91%
Annual Insurance Premium	\$400,000
Death Benefit Value of Insurance	\$41,000,000

Note #2 Between Ian & Inez Insurance and Insurance GST Grantor Trust for the Purchase of Growth Interest

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	-	-	-	-
Year 2	-	-	-	-
Year 3	-	-	-	-
Year 4	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 5	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 6	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 7	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 8	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 9	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 10	52,362,103	1,000,116	(53,362,219)	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-
Year 21	-	-	-	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-
Year 26	-	-	-	-
Year 27	-	-	-	-
Year 28	-	-	-	-
Year 29	-	-	-	-
Year 30	-	-	-	-

Schedule 18

Insurance Family

Hypothetical Integrated Income and Estate Tax Plan Comparisons - Surviving Spouse Dies End of Year 30

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Future Value in 30 Years	Future Value in 30 Years	Present Value (Discounted at 2.5%)	Percentage of Total
No Further Planning; Bequeaths Estate to Family in 30 Years (assumes \$21.8mm estate tax exemption available in 30 years)				
Ian & Inez Insurance	688,497,190	-	-	0.00%
Insurance Children	-	421,834,314	201,106,424	33.03%
Insurance Children & Grandchildren	-	-	-	0.00%
Consumption - Direct Cost	83,256,977	83,256,977	39,692,155	6.52%
Consumption - Investment Opportunity Cost	158,825,116	158,825,116	75,718,712	12.44%
IRS - Income Tax	131,688,888	131,688,888	62,781,714	10.31%
IRS - Investment Opportunity Costs	214,816,523	214,816,523	102,412,206	16.82%
IRS - Estate Tax (at 40%)	-	266,662,876	127,129,576	20.88%
Total	\$1,277,084,694	\$1,277,084,694	608,840,786	100.00%
Hypothetical Technique: Bequeaths Estate to Family in 30 Years (assumes \$11.2mm estate tax exemption available in 30 years)				
Ian & Inez Insurance	9,414,203	-	-	0.00%
Insurance Children	-	9,414,203	4,488,152	0.74%
Insurance Children & Grandchildren	700,602,974	700,602,974	334,007,343	54.86%
Consumption - Direct Cost	83,256,977	83,256,977	39,692,155	6.52%
Consumption - Investment Opportunity Cost	158,825,116	158,825,116	75,718,712	12.44%
IRS - Income Tax	138,943,238	138,943,238	66,240,172	10.88%
IRS - Investment Opportunity Costs	186,426,522	186,426,522	88,877,481	14.60%
IRS - Estate Tax (at 40%)	-	-	-	0.00%
Investment Opportunity Cost/(Benefit) of Buying Life Insurance	(384,335)	(384,335)	(183,229)	-0.03%
Total	\$1,277,084,694	\$1,277,084,694	608,840,786	100.00%

Schedule 18
Insurance Family
Asset Page

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.
This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	Ian & Inez Insurance
Assets	
Asset: Financial Assets	\$150,000,000
Basis: Financial Assets	\$150,000,000
Total Assets*	\$150,000,000
Total Basis	\$150,000,000

* There is not any proposed planning for Ian & Inez Insurance's other assets

Schedule 18**Insurance Family****No Further Planning; Bequeaths Estate to Family in 30 Years (assumes \$21.8mm estate tax exemption available in 30 years)**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%
Consumption (with 3% inflation adjustment each year)	\$1,750,000

Ian & Inez Insurance

	Beginning of Year Financial Assets		Tax Free Income		Income Taxes		End of Year Financial Assets
	Assets	Income	Income	Growth	Consumption		
Year 1	150,000,000	900,000	3,600,000	6,600,000	(1,750,000)	(1,108,080)	158,241,920
Year 2	158,241,920	949,452	3,797,806	6,962,644	(1,802,500)	(1,658,191)	166,491,131
Year 3	166,491,131	998,947	3,995,787	7,325,610	(1,856,575)	(2,017,042)	174,937,858
Year 4	174,937,858	1,049,627	4,198,509	7,697,266	(1,912,272)	(2,271,388)	183,699,599
Year 5	183,699,599	1,102,198	4,408,790	8,082,782	(1,969,640)	(2,470,001)	192,853,727
Year 6	192,853,727	1,157,122	4,628,489	8,485,564	(2,028,730)	(2,640,375)	202,455,798
Year 7	202,455,798	1,214,735	4,858,939	8,908,055	(2,089,592)	(2,798,088)	212,549,848
Year 8	212,549,848	1,275,299	5,101,196	9,352,193	(2,152,279)	(2,952,048)	223,174,209
Year 9	223,174,209	1,339,045	5,356,181	9,819,665	(2,216,848)	(3,107,438)	234,364,814
Year 10	234,364,814	1,406,189	5,624,756	10,312,052	(2,283,353)	(3,267,363)	246,157,095
Year 11	246,157,095	1,476,943	5,907,770	10,830,912	(2,351,854)	(3,433,774)	258,587,093
Year 12	258,587,093	1,551,523	6,206,090	11,377,832	(2,422,409)	(3,607,989)	271,692,140
Year 13	271,692,140	1,630,153	6,520,611	11,954,454	(2,495,082)	(3,790,984)	285,511,292
Year 14	285,511,292	1,713,068	6,852,271	12,562,497	(2,569,934)	(3,983,558)	300,085,636
Year 15	300,085,636	1,800,514	7,202,055	13,203,768	(2,647,032)	(4,186,424)	315,458,517
Year 16	315,458,517	1,892,751	7,571,004	13,880,175	(2,726,443)	(4,400,263)	331,675,742
Year 17	331,675,742	1,990,054	7,960,218	14,593,733	(2,808,236)	(4,625,755)	348,785,756
Year 18	348,785,756	2,092,715	8,370,858	15,346,573	(2,892,483)	(4,863,596)	366,839,823
Year 19	366,839,823	2,201,039	8,804,156	16,140,952	(2,979,258)	(5,114,510)	385,892,202
Year 20	385,892,202	2,315,353	9,261,413	16,979,257	(3,068,636)	(5,379,258)	406,000,331
Year 21	406,000,331	2,436,002	9,744,008	17,864,015	(3,160,695)	(5,658,638)	427,225,023
Year 22	427,225,023	2,563,350	10,253,401	18,797,901	(3,255,516)	(5,953,496)	449,630,664
Year 23	449,630,664	2,697,784	10,791,136	19,783,749	(3,353,181)	(6,264,724)	473,285,427
Year 24	473,285,427	2,839,713	11,358,850	20,824,559	(3,453,776)	(6,593,268)	498,261,504
Year 25	498,261,504	2,989,569	11,958,276	21,923,506	(3,557,390)	(6,940,128)	524,635,338
Year 26	524,635,338	3,147,812	12,591,248	23,083,955	(3,664,111)	(7,306,362)	552,487,880
Year 27	552,487,880	3,314,927	13,259,709	24,309,467	(3,774,035)	(7,693,091)	581,904,858
Year 28	581,904,858	3,491,429	13,965,717	25,603,814	(3,887,256)	(8,101,502)	612,977,059
Year 29	612,977,059	3,677,862	14,711,449	26,970,991	(4,003,873)	(8,532,854)	645,800,634
Year 30	645,800,634	3,874,804	15,499,215	28,415,228	(4,123,990)	(968,701)	688,497,190

Schedule 18**Insurance Family****Hypothetical Technique: Bequeaths Estate to Family in 30 Years (assumes \$11.2mm estate tax exemption available in 30 years)**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	
Total Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%
Consumption (with 3% inflation adjustment each year)	\$1,750,000

Assumptions (continued):	
GST Grantor Trust's Preferred Ownership in Insurance FLP	\$40,000,000
Interest Percentage on Preferred Ownership	7.50%
Insurance FLP Valuation Discount	40.00%
Intra-Family Note Interest Percentage (mid-term)	1.91%
Annual Insurance Premium	\$400,000
Death Benefit Value of Insurance	\$41,000,000

Ian & Inez Insurance

	Beginning of Year	Income	Tax Free Income	Growth	Growth Interest Distribution	Note #1 Payments	Note #2 Payments	Payments for Purchase of Additional Growth	Consumption	Income Taxes	End of Year
Year 1	15,000,000	90,000	360,000	660,000	4,671,670	560,012	-	2,225,078	(1,750,000)	(896,400)	20,920,360
Year 2	20,920,360	125,522	502,089	920,496	4,829,499	560,012	-	2,455,845	(1,802,500)	(1,291,028)	27,220,294
Year 3	27,220,294	163,322	653,287	1,197,693	4,849,790	560,012	-	2,727,221	(1,856,575)	(1,601,200)	33,913,843
Year 4	33,913,843	203,483	813,932	1,492,209	47,048	560,012	1,000,116	-	(1,912,272)	(1,853,424)	34,264,948
Year 5	34,264,948	205,590	822,359	1,507,658	48,986	560,012	1,000,116	-	(1,969,640)	(2,066,523)	34,373,504
Year 6	34,373,504	206,241	824,964	1,512,434	50,638	560,012	1,000,116	-	(2,028,730)	(2,253,901)	34,245,279
Year 7	34,245,279	205,472	821,887	1,506,792	52,101	560,012	1,000,116	-	(2,089,592)	(2,425,135)	33,876,932
Year 8	33,876,932	203,262	813,046	1,490,585	53,440	560,012	1,000,116	-	(2,152,279)	(2,587,108)	33,258,006
Year 9	33,258,006	199,548	798,192	1,463,352	54,704	560,012	1,000,116	-	(2,216,848)	(2,744,806)	32,372,277
Year 10	32,372,277	194,234	776,935	1,424,380	55,928	560,012	1,000,116	-	(2,283,353)	(2,901,884)	31,198,644
Year 11	31,198,644	187,192	748,767	1,372,740	57,135	560,012	1,000,116	-	(2,351,854)	(3,061,063)	29,711,690
Year 12	29,711,690	178,270	713,081	1,307,314	58,344	560,012	1,000,116	-	(2,422,409)	(3,224,414)	27,882,004
Year 13	27,882,004	167,292	669,168	1,226,808	59,568	560,012	1,000,116	-	(2,495,082)	(3,393,556)	25,676,330
Year 14	25,676,330	154,058	616,232	1,129,759	82,145	560,012	1,000,116	-	(2,569,934)	(3,569,800)	23,078,918
Year 15	23,078,918	138,474	553,894	1,015,472	82,995	560,012	1,000,116	-	(2,647,032)	(3,754,248)	20,028,601
Year 16	20,028,601	120,172	480,686	881,258	83,805	560,012	1,000,116	-	(2,726,443)	(3,947,867)	16,480,341
Year 17	16,480,341	98,882	395,528	725,135	84,591	560,012	1,000,116	-	(2,808,236)	(4,151,535)	12,384,834
Year 18	12,384,834	74,309	297,236	544,933	85,365	560,012	1,000,116	-	(2,892,483)	(4,366,087)	7,688,234
Year 19	7,688,234	46,129	184,518	338,282	86,138	560,012	1,000,116	-	(2,979,258)	(4,592,333)	2,331,838
Year 20	2,331,838	13,991	55,964	102,601	86,915	29,880,012	1,000,116	-	(3,068,636)	(4,831,083)	25,571,719
Year 21	25,571,719	153,430	613,721	1,125,156	87,700	-	1,000,116	-	(3,160,695)	(5,083,158)	20,307,989
Year 22	20,307,989	121,848	487,392	893,552	88,498	-	1,000,116	-	(3,255,516)	(5,349,405)	14,294,474
Year 23	14,294,474	85,767	343,067	628,957	89,311	-	1,000,116	-	(3,353,181)	(5,630,705)	7,457,807
Year 24	7,457,807	44,747	178,987	328,143	90,142	-	6,000,116	-	(3,453,776)	(5,927,978)	4,718,188
Year 25	4,718,188	28,309	113,237	207,600	90,991	-	5,904,616	-	(3,557,390)	(6,242,191)	1,263,360
Year 26	1,263,360	7,580	30,321	55,588	91,860	-	10,809,116	-	(3,664,111)	(6,574,364)	2,019,350
Year 27	2,019,350	12,116	48,464	88,851	92,750	-	10,618,116	-	(3,774,035)	(6,925,572)	2,180,041
Year 28	2,180,041	13,080	52,321	95,922	93,663	-	15,427,116	-	(3,887,256)	(7,296,955)	6,677,932
Year 29	6,677,932	40,068	160,270	293,829	94,598	-	7,502,719	-	(4,003,873)	(78,693)	10,686,850
Year 30	10,686,850	64,121	256,484	470,221	145,068	-	-	-	(4,123,990)	(28,597)	7,470,158

Hypothetical Technique: Bequeaths Estate to Family in 30 Years (assumes \$11.2mm estate tax exemption available in 30 years)

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Total Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%
Consumption (with 3% inflation adjustment each year)	\$1,750,000

GST Grantor Trust's Preferred Ownership in Insurance FLP	\$40,000,000
Interest Percentage on Preferred Ownership	7.50%
Insurance FLP Valuation Discount	40.00%
Intra-Family Note Interest Percentage (mid-term)	1.91%
Annual Insurance Premium	\$400,000
Death Benefit Value of Insurance	\$41,000,000

	2023						
	Beginning of Year	Income	Tax Free Income	Growth	Growth Interest Distributions	Preferred Coupon Distribution	End of Year
Year 1	135,000,000	810,000	3,240,000	5,940,000	(4,856,760)	(3,000,000)	137,133,240
Year 2	137,133,240	822,799	3,291,198	6,033,863	(5,245,355)	(3,000,000)	139,035,744
Year 3	139,035,744	834,214	3,336,858	6,117,573	(5,537,023)	(3,000,000)	140,787,367
Year 4	140,787,367	844,724	3,378,897	6,194,644	(4,704,785)	(3,000,000)	143,500,847
Year 5	143,500,847	861,005	3,444,020	6,314,037	(4,898,555)	(3,000,000)	146,221,355
Year 6	146,221,355	877,328	3,509,313	6,433,740	(5,063,844)	(3,000,000)	148,977,891
Year 7	148,977,891	893,867	3,575,469	6,555,027	(5,210,097)	(3,000,000)	151,792,158
Year 8	151,792,158	910,753	3,643,012	6,678,855	(5,344,034)	(3,000,000)	154,680,743
Year 9	154,680,743	928,084	3,712,338	6,805,953	(5,470,449)	(3,000,000)	157,656,669
Year 10	157,656,669	945,940	3,783,760	6,936,893	(5,592,776)	(3,000,000)	160,730,486
Year 11	160,730,486	964,383	3,857,532	7,072,141	(5,713,490)	(3,000,000)	163,911,053
Year 12	163,911,053	983,466	3,933,865	7,212,086	(5,834,388)	(3,000,000)	167,206,082
Year 13	167,206,082	1,003,236	4,012,946	7,357,068	(5,956,795)	(3,000,000)	170,622,537
Year 14	170,622,537	1,023,735	4,094,941	7,507,392	(8,214,479)	(3,000,000)	172,034,126
Year 15	172,034,126	1,032,205	4,128,819	7,569,590	(8,299,544)	(3,000,000)	173,465,108
Year 16	173,465,108	1,040,791	4,163,163	7,632,465	(8,380,496)	(3,000,000)	174,921,029
Year 17	174,921,029	1,049,526	4,198,105	7,696,525	(8,459,082)	(3,000,000)	176,406,104
Year 18	176,406,104	1,058,437	4,233,746	7,761,869	(8,536,546)	(3,000,000)	177,923,609
Year 19	177,923,609	1,067,542	4,270,167	7,828,639	(8,613,787)	(3,000,000)	179,476,169
Year 20	179,476,169	1,076,857	4,307,428	7,896,951	(8,691,451)	(3,000,000)	181,065,955
Year 21	181,065,955	1,086,396	4,345,583	7,966,902	(8,770,014)	(3,000,000)	182,694,822
Year 22	182,694,822	1,096,169	4,384,676	8,038,572	(8,849,824)	(3,000,000)	184,364,415
Year 23	184,364,415	1,106,186	4,424,746	8,112,034	(8,931,146)	(3,000,000)	186,076,235
Year 24	186,076,235	1,116,457	4,465,830	8,187,354	(9,014,182)	(3,000,000)	187,831,694
Year 25	187,831,694	1,126,990	4,507,961	8,264,595	(9,099,093)	(3,000,000)	189,632,146
Year 26	189,632,146	1,137,793	4,551,172	8,343,814	(9,186,009)	(3,000,000)	191,478,916
Year 27	191,478,916	1,148,873	4,595,494	8,425,072	(9,275,040)	(3,000,000)	193,373,316
Year 28	193,373,316	1,160,240	4,640,960	8,508,426	(9,366,281)	(3,000,000)	195,316,660
Year 29	195,316,660	1,171,900	4,687,600	8,593,933	(9,459,819)	(3,000,000)	197,310,273
Year 30	197,310,273	1,183,862	4,735,447	8,681,652	(14,506,769)	(3,000,000)	194,404,465

[illegible]

Schedule 18**Insurance Family****Hypothetical Technique: Bequeaths Estate to Family in 30 Years (assumes \$11.2mm estate tax exemption available in 30 years)**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:		Assumptions (continued):	
Total Rate of Return	7.40%	GST Grantor Trust's Preferred Ownership in Insurance FLP	\$40,000,000
Rate of Return Taxed at Ordinary Rates	0.60%	Interest Percentage on Preferred Ownership	7.50%
Rate of Return Tax Free	2.40%	Insurance FLP Valuation Discount	40.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	Intra-Family Note Interest Percentage (mid-term)	1.91%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	Annual Insurance Premium	\$400,000
Long-Term Capital Gain Tax Rate	25.00%	Death Benefit Value of Insurance	\$41,000,000
Ordinary Tax Rate	44.60%		
Consumption (with 3% inflation adjustment each year)	\$1,750,000		

Insurance GST Exempt Grantor Trust (Grantor Trust Status Removed in Year 29)

	Beginning of Year	Income	Tax Free Income	Growth	Growth Interest Distribution	Preferred Coupon Distribution	Death Benefit Value of Insurance	Annual Insurance Premium	Note #1 Payments	Note #2 Payments	Purchase of Additional Growth Interest	Income Taxes	End of Year
Year 1	-	-	-	-	185,090	3,000,000	-	(400,000)	(560,012)	-	(2,225,078)	-	-
Year 2	-	-	-	-	415,857	3,000,000	-	(400,000)	(560,012)	-	(2,455,845)	-	-
Year 3	-	-	-	-	687,233	3,000,000	-	(400,000)	(560,012)	-	(2,727,221)	-	-
Year 4	-	-	-	-	4,657,737	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	5,697,609
Year 5	5,697,609	34,186	136,743	250,695	4,849,570	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	12,008,673
Year 6	12,008,673	72,052	288,208	528,382	5,013,206	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	18,950,392
Year 7	18,950,392	113,702	454,809	833,817	5,157,996	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	26,550,589
Year 8	26,550,589	159,304	637,214	1,168,226	5,290,594	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	34,845,799
Year 9	34,845,799	209,075	836,299	1,533,215	5,415,745	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	43,880,004
Year 10	43,880,004	263,280	1,053,120	1,930,720	5,536,848	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	53,703,845
Year 11	53,703,845	322,223	1,288,892	2,362,969	5,656,355	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	64,374,156
Year 12	64,374,156	386,245	1,544,980	2,832,463	5,776,044	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	75,953,760
Year 13	75,953,760	455,723	1,822,890	3,341,965	5,897,227	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	88,511,437
Year 14	88,511,437	531,069	2,124,274	3,894,503	6,017,335	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	104,233,489
Year 15	104,233,489	625,401	2,501,604	4,586,274	6,138,387	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	121,203,188
Year 16	121,203,188	727,219	2,908,877	5,332,940	6,259,691	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	139,508,787
Year 17	139,508,787	837,053	3,348,211	6,138,387	6,374,491	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	159,246,800
Year 18	159,246,800	955,481	3,821,923	7,006,859	6,451,181	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	180,522,115
Year 19	180,522,115	1,083,133	4,332,531	7,942,973	6,527,649	3,000,000	-	(400,000)	(560,012)	(1,000,116)	-	-	203,448,273
Year 20	203,448,273	1,220,690	4,882,759	8,951,724	6,604,537	3,000,000	-	(400,000)	(29,880,012)	(1,000,116)	-	-	198,827,853
Year 21	198,827,853	1,192,967	4,771,868	8,748,426	6,682,313	3,000,000	-	(400,000)	-	(1,000,116)	-	-	223,823,312
Year 22	223,823,312	1,342,940	5,371,759	9,848,226	6,761,326	3,000,000	-	(400,000)	-	(1,000,116)	-	-	250,747,446
Year 23	250,747,446	1,504,485	6,017,939	11,032,888	6,841,834	3,000,000	-	(400,000)	-	(1,000,116)	-	-	279,744,476
Year 24	279,744,476	1,678,467	6,713,867	12,308,757	6,924,041	3,000,000	-	(400,000)	-	(6,000,116)	-	-	305,969,491
Year 25	305,969,491	1,835,817	7,343,268	13,462,658	6,998,102	3,000,000	-	(400,000)	-	(5,904,616)	-	-	334,314,720
Year 26	334,314,720	2,005,888	8,023,553	14,709,848	7,094,149	3,000,000	-	(400,000)	-	(10,809,116)	-	-	359,939,042
Year 27	359,939,042	2,159,634	8,638,537	15,837,318	7,182,290	3,000,000	-	(400,000)	-	(10,618,116)	-	-	387,738,705
Year 28	387,738,705	2,326,432	9,305,729	17,060,503	7,272,618	3,000,000	-	(400,000)	-	(15,427,116)	-	-	412,876,871
Year 29	412,876,871	2,477,261	9,909,045	18,166,582	7,365,221	3,000,000	-	(400,000)	-	(7,502,719)	-	(7,611,024)	440,281,237
Year 30	440,281,237	2,641,687	10,566,750	19,372,374	7,436,170	3,000,000	41,000,000	(400,000)	-	-	-	(22,681,196)	508,142,553

Schedule 18**Insurance Family****Hypothetical Technique: Bequeaths Estate to Family in 30 Years (assumes \$11.2mm estate tax exemption available in 30 years)**

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:

Total Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%
Consumption (with 3% inflation adjustment each year)	\$1,750,000

Note #1 Between Ian & Inez Insurance and Insurance GST Grantor Trust for the Purchase of Preferred Ownership

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	29,320,000	560,012	(560,012)	29,320,000
Year 2	29,320,000	560,012	(560,012)	29,320,000
Year 3	29,320,000	560,012	(560,012)	29,320,000
Year 4	29,320,000	560,012	(560,012)	29,320,000
Year 5	29,320,000	560,012	(560,012)	29,320,000
Year 6	29,320,000	560,012	(560,012)	29,320,000
Year 7	29,320,000	560,012	(560,012)	29,320,000
Year 8	29,320,000	560,012	(560,012)	29,320,000
Year 9	29,320,000	560,012	(560,012)	29,320,000
Year 10	29,320,000	560,012	(560,012)	29,320,000
Year 11	29,320,000	560,012	(560,012)	29,320,000
Year 12	29,320,000	560,012	(560,012)	29,320,000
Year 13	29,320,000	560,012	(560,012)	29,320,000
Year 14	29,320,000	560,012	(560,012)	29,320,000
Year 15	29,320,000	560,012	(560,012)	29,320,000
Year 16	29,320,000	560,012	(560,012)	29,320,000
Year 17	29,320,000	560,012	(560,012)	29,320,000
Year 18	29,320,000	560,012	(560,012)	29,320,000
Year 19	29,320,000	560,012	(560,012)	29,320,000
Year 20	29,320,000	560,012	(29,880,012)	-
Year 21	-	-	-	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-
Year 26	-	-	-	-
Year 27	-	-	-	-
Year 28	-	-	-	-
Year 29	-	-	-	-
Year 30	-	-	-	-

Assumptions (continued):

GST Grantor Trust's Preferred Ownership in Insurance FLP	\$40,000,000
Interest Percentage on Preferred Ownership	7.50%
Insurance FLP Valuation Discount	40.00%
Intra-Family Note Interest Percentage (mid-term)	1.91%
Annual Insurance Premium	\$400,000
Death Benefit Value of Insurance	\$41,000,000

Note #2 Between Ian & Inez Insurance and Insurance GST Grantor Trust for the Purchase of Growth Interest

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	-	-	-	-
Year 2	-	-	-	-
Year 3	-	-	-	-
Year 4	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 5	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 6	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 7	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 8	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 9	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 10	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 11	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 12	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 13	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 14	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 15	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 16	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 17	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 18	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 19	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 20	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 21	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 22	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 23	52,362,103	1,000,116	(1,000,116)	52,362,103
Year 24	52,362,103	1,000,116	(6,000,116)	47,362,103
Year 25	47,362,103	904,616	(5,904,616)	42,362,103
Year 26	42,362,103	809,116	(10,809,116)	32,362,103
Year 27	32,362,103	618,116	(10,618,116)	22,362,103
Year 28	22,362,103	427,116	(15,427,116)	7,362,103
Year 29	7,362,103	140,616	(7,502,719)	-
Year 30	-	-	-	-