Leading by Example:
Best Practices in Charitable Giving

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Minimizing Taxes in a High-Tax World

Use of CLAT / PPLI Technique

Financial Architects Partners

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I. Mitigate income tax rates with planning

	California	Massachusetts	New York City
Earned income tax rates	52.06%	47.20%	53.55%
Investment income tax rates (70% STCG/ordinary; 30% LTCG)	46.75%	41.88%	46.39%

How to mitigate with planning:

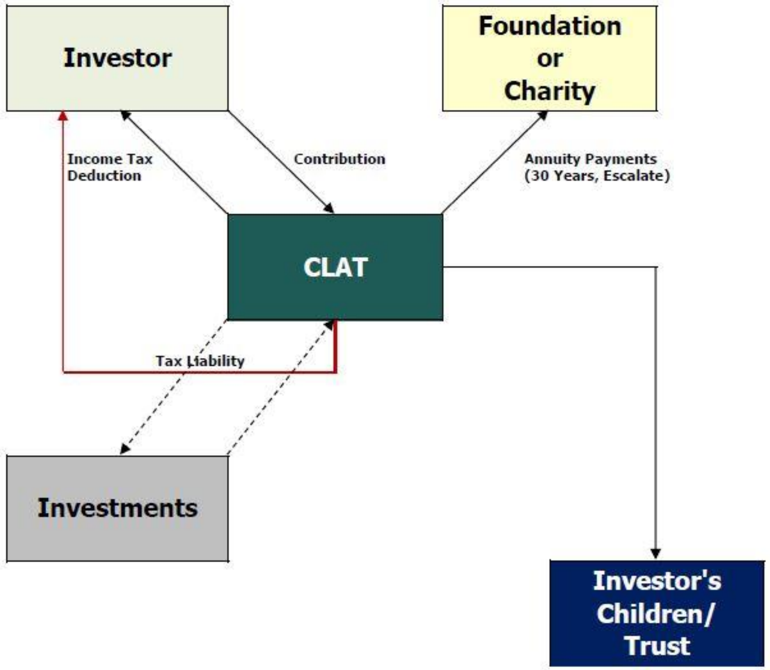
Example:

- $20M earned income annually
- MA resident
- 5% investment return (70% STCG/30% LTCG)
- 30 year horizon

	No Planning	Planning
Income	$20,000,000	$20,000,000
After-Tax investment	$10,560,000	$20,000,000
Balance at 30 years (2.9% vs. 4.25%)	$24,895,000	$69,712,000
Balance to children (less estate tax - 47.10%)	$13,169,000	$69,712,000
Amount to charity	0	$28,128,000

II. Zeroed Out Grantor Charitable Lead Annuity Trust (CLAT)

- Statutory (in code)
- Up-front deduction to investor for charitable distributions over a defined term of years
- CLAT must pay entire initial funding and IRS hurdle rate to charity
- CLAT income is taxed to investor
- "Zeroed-out" means expectation (based on IRS rules) that charitable distributions will leave CLAT with no assets at end of term, so initial funding is not a taxable gift (but no penalty if CLAT investment growth exceeds hurdle rate, excess to children)
- Charitable distributions can increase year to year, allowing CLAT more time to outperform hurdle rate
- Any property held in CLAT at end of term passes to investor's children/trust free of gift/estate taxes (i.e., excess investment growth goes to children / trust)

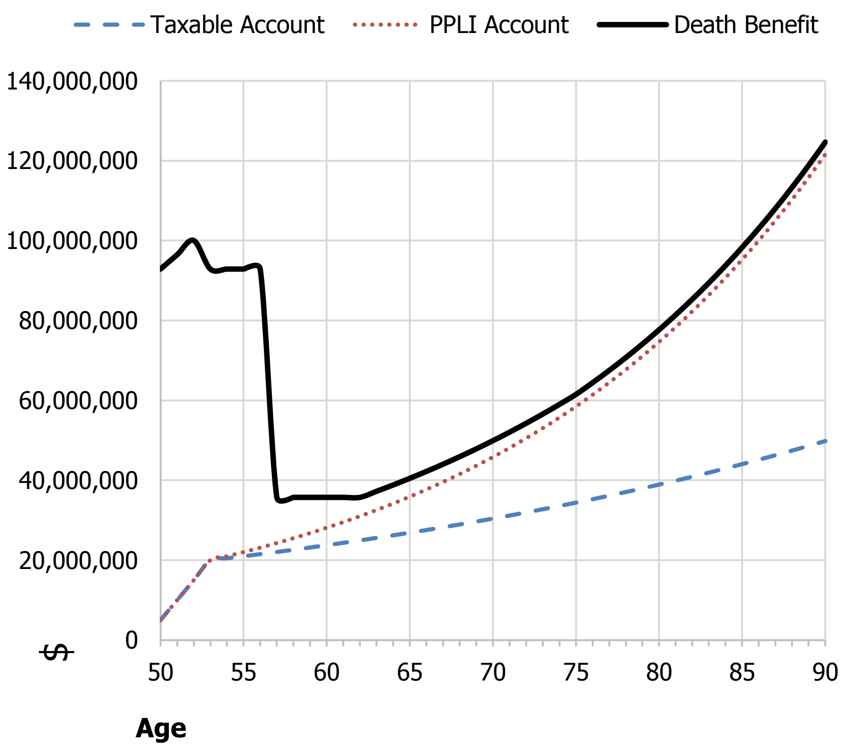


III. Private Placement Life Insurance (PPLI)

- Statutory (in code)
- Investors can grow tax-ineffecient investments tax-deferred and access growth tax-free
- No policy surrender charges and product costs, fees often 75 bps/year and decline later
- Policy investment segregated from carrier's general account, protected from carrier creditors
- Investment flexibility for investor limited to investment policy guidelines and available funds; cannot pick specific investments
- Policy value tied exclusively to investment performance (less fees)
- Tax-deferred growth on investments so long as investor does not select specific investments
- If premiums paid in over at least 4 years, tax-free access to account values via policy loans
- Death benefit is paid income tax-free

Assumptions

- 50 Year old man
- $20M over 4 years
- 5% investment return
- 50% effective return rate



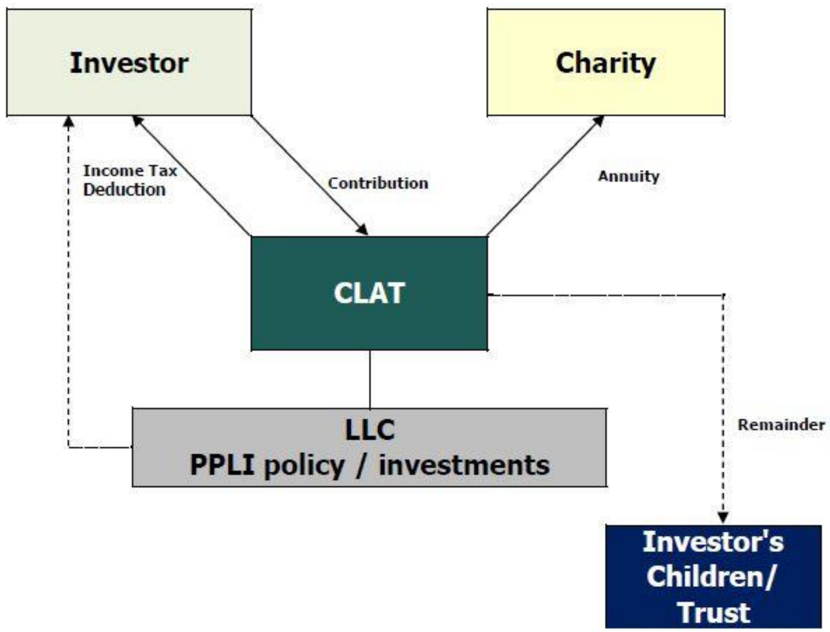
IV. Combining CLAT and PPLI

CLAT

- Upfront charitable deduction (30% AGI)
- CLAT remainder outside of investor's estate with no gift tax cost if "zeroed out" CLAT
- Insured pays tax on CLAT income, gains
- LLC or multiple insureds to solve special charitable tax deduction rule (no personal benefits to investor)

PPLI

- Tax efficient investing (hedge funds)
- Tax-free policy withdrawals to satisfy larger backloaded CLAT payments to charity
- Investors cannot pick investments, just provide guidelines
- Investors only pays tax on CLAT's non-insurance investment income



	No Planning	Planning
Income---------------------	**$20,000,000**	**$20,000,000**
After Tax Investment-----	**$10,560,000**	**$20,000,000**
Balance at 30 years------- **(2.9% vs. 4.25%)**	**$24,895,000**	**$69,712,000**
Balance to children-------- **(less estate tax - 47.10%)**	**$13,169,000**	**$69,712,000**
Amount to charity---------	**0**	**$28,128,000**

V. Summary

1. No Planning - Invest / No CLAT or PPLI

+ Investor retains complete control of investments
+ No expense

- Higher tax on hedge fund income
- No charitable giving
- No estate planning

Tax Overview

- No charitable deduction
- Full tax on earned income and investments
- Estate tax at investor death

3. Invest in CLAT / No PPLI

+ Reduced tax cost on earned income
+ Upfront charitable deduction

- Highest tax cost to investor
- No GST planning

Tax Overview

+ No tax on ordinary income
- Investor pays tax on all CLAT income
+ No estate tax at death of investors
- GST tax when children die

2. Invest in PPLI / no CLAT

+ Less expensive planning
+ No income tax on growth inside policy

- Higher tax cost on earned income
- No charitable giving
- No control over investments
- No estate planning

Tax Overview

- No charitable deduction to offset earned income
+ No current tax on investment income
- Estate tax at death of investor

4. Invest in CLAT and PPLI

+ Lower tax on earned income
+ No tax on investment income in PPLI policy

+ Upfront charitable deduction
- Less control over PPLI investments
- Tax on non-insurance investment income in CLAT (early years)
- No GST planning
- Complex, legal fees

Tax Overview

+ No current tax on ordinary income
+ No tax on PPLI portion of investment income
+ Upfront charitable deduction

+ No estate tax on CLAT asset when transferred at end of term
+ No gift tax
- No GST tax savings