INTRODUCTION

CURRENT PLAN

PROPOSED PLAN

SUPPORTING DOCUMENTS

IMPLEMENTATION

PLANNING STRATEGIES

PREPARED FOR:

BRUCE AND NADINE SMITH

January 24, 2006

PRESENTED BY:

Legal - Tax

John Jones

Law Offices of J&J
5167 Vine Street
San Francisco, CA 94047
(510) 671-8123
FAX: (510) 671-0192
jj@law.org

Accounting - Tax

Sharon Perry

Eagle Accounting
6718 Apple Drive
Oakland, CA 95671
(510) 516-1717
FAX: (510) 516-1717
sperry@eagle.net

Wealth Preservation Strategist

Jared Levy

KAP Planning
1633 Braodway
3rd Floor
New York, NY 10019
(212) 261-9815
jared@kapplanning.com

The Wealth Preservation Blueprint

THE ESTATE ADVISORY GROUP

Wealth Preservation Strategists

Advanced Estate Planning is much like a chess match with the IRS. The pieces are your assets. You and your family win by keeping what you desire and transferring to your family as many of the "extra" pieces as possible. The IRS is your opponent, trying to capture as many pieces (assets) as they can, in the form of various taxes, during your lifetime and upon your death(s). Most people feel powerless, playing against this monolith.

The combined planning team's job is to empower and assist you and your family in retaining as many of these assets as possible - by utilizing them to fully meet your own needs and then moving the excess assets safely past the IRS and directing them to those whom you desire and in the manner you wish.

The chess piece depicted in the above logo is a white knight. While each chess piece moves in a different manner, most pieces move linearly. The knight is different. It has very unique moves that, when used skillfully and strategically, can be extremely effective in protecting other valuable chess pieces, especially the Queen and King. In chess, the player with the white pieces is allowed the first move.

PERSONAL DATA

Clients	Birth Dates	Age in 2006	Life Expectancy (Avg. per tables)
Bruce	6/7/1938	68	14
Nadine	8/15/1939	67	19

Married - 3/28/1959

Children / Occupation			Spouse / Occupation	Number of Grandchildren	Grandchildren
Drew / Real Estate Mgmt	7/9/1960	46	Angie / Homemaker	3	Adam - 18, Kyle - 15, Kristen - 9
Ashley / Teacher	6/11/1965	41	Ron / Real Estate Developer	2	Jamie - 16, Tyson - 13
Kellie / Engineer	4/2/1967	39	Grant / Landscape Developer	2	John - 12, Callie - 9
Cole / Pilot	10/8/1969	37	Caitlin / Symphonic Cellist	2	George - 10, Fred - 8

Work Address

Office
101 Battery Street
San Francisco, CA 94111
(510) 567-1234
Fax (510) 987-6512

Home Address

Orinda Home
1234 fallen Tree Lane
Orinda, CA 94563
(925) 111-1099
Fax (925) 111-1040

Other Residence

Advisors

Legal - Tax

John Jones

Law Offices of J&J
5167 Vine Street
San Francisco, CA 94047
(510) 671-8123
FAX:(510) 671-0192
jj@law.org

Accounting - Tax

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6718 Apple Drive
Oakland, CA 95671
(510) 516-1717
FAX:(510) 516-1717
sperry@eagle.net

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jared@kapplanning.com

ESTIMATE OF NET WORTH

LIQUID ASSETS	
Cash and Equivalents	1,296,000
Municipal Bonds	2,400,000
Securities	5,354,000
	9,050,000
ILLIQUID ASSETS	
Retirement Plans	1,595,000
Crescent	1,025,000
Adams	750,000
Ramada	950,000
Boardwalk	2,350,000
Park Place	3,100,000
Path of Progress	3,500,000
Strip Mall	3,700,000
	16,970,000
PERSONAL USE ASSETS	
Residence	1,200,000
Tahoe Vacation Home	750,000
Furnishings	120,000
Cars	80,000
	2,150,000
TOTAL ASSETS	**28,170,000**
LESS LIABILITIES	**0**
ESTIMATED NET WORTH	**28,170,000**

ASSET AND LIABILITY DETAILS

1. Cash & Equivalents

	Ownership	Title	Cost Basis	Current Balance	Annual Income	Interest Rate
a. Bruce Checking	CP	TC		350,000	7,000	2%
b. Nadine Checking	CP	JT		396,000	7,920	2%
c. Bruce Savings	CP	JT		278,000	5,560	2%
d. Nadine Savings	CP	JT		272,000	5,440	2%
				1,296,000	**25,920**	

2. Marketable Securities

	Ownership	Title	Cost Basis	Market Value	Annual Income	Div/Int %	Growth %
a. Muni Bonds	CP	JT	250,000	2,400,000	84,000	3.5%	0%
b. Securities 1	CP	JT		1,826,000	36,520	2%	5%
c. Securities 2	CP	JT		2,340,000	70,200	3%	5%
d. Securities 3	CP	JT		1,188,000	23,760	2%	5%
			250,000	**7,754,000**	**214,480**		

3. Retirement Plans

	Type of Plan	Annual Contrib.	MarketValue	Projected Ret. Inc.	Name & Beneficiary	Growth %	Life Exp. Calc
a. Company Plan	CP		1,265,000		Nadine	7%	Recalc. Both
b. Personal IRA	CP		185,000		Nadine	7%	Recalc. Both
c. Personal IRA	CP		145,000		Bruce	7%	Recalc. Both
			1,595,000				

4. Real Estate

	Ownership	Title	Cost Basis	Market Value	Loan Balance	Equity	Growth %
a. Crescent	CP	JT	153,750	1,025,000		1,025,000	3%
b. Adams	CP	JT	112,500	750,000		750,000	4%
c. Ramada	CP	JT	171,000	950,000		950,000	4%
d. Boardwalk	CP	JT	399,500	2,350,000		2,350,000	6%
e. Park Place	CP	JT	465,000	3,100,000		3,100,000	6%
f. Path of Progress	CP	JT	577,500	3,500,000		3,500,000	10%
g. Strip Mall	CP	JT	666,000	3,700,000		3,700,000	6%

ASSET AND LIABILITY DETAILS (CONT.)

4. Real Estate (cont.)

	Ownership	Title	Cost Basis	Market Value	Loan Balance	Equity	Growth %
			2,545,250	**15,375,000**		**15,375,000**	

5. Personal Use Property

	Ownership	Title	Cost Basis	Market Value	Loan Balance	APR & Term left	Equity	Growth %
a. Residence	CP	JT	850,000	1,200,000			1,200,000	4%
b. Tahoe Vacation Home	CP	JT	275,000	750,000			750,000	6%
c. Furnishings	CP	JT		120,000			120,000	0%
d. Cars	CP	JT		80,000			80,000	0%
			1,125,000	**2,150,000**				

Objectives

1. Update our legal documents to appropriately reflect our wishes.
2. Provide an annual cash flow of $400,000 per year, growing at 3.0% per year, plus taxes and gifts for life.
3. Reduce or eliminate capital gains tax where possible upon the sale of RE properties 1, 2, 3. When sold, will use passive investments with the proceeds.
4. Retain Real Estate Properties 4, 5, 6, 7, in the family as long as possible. Prop 4, 5, 6 are great, 7 is a cash cow. Also would like to retain the vacation home for the future generations.
5. Begin making additional gifts to our children (in trust). These gifts should not be harmful to our children's financial development or maturation process. We will oversee this, while alive, and wish a continuation of this philosophy re: distributions to future generations.
   (See Family Financial Philosophy)
6. Begin to make gifts, during our lifetimes, to several charitable programs of our choice, as an alternative to paying these amounts in taxes.
7. Reduce estate taxes legally and effectively. If possible, we would rather the portion that normally goes to the IRS be reallocated to our family and charities of our choice.
8. Upon death(s), consider distributions to both heirs and charity: roughly 70%-80% to children and future generations and the balance to charity. Investigate the viability of setting up a Charitable Foundation.
9. Provide for grandchildren in the most tax effective manner. Consider education expenses, plus some amounts available for each grandchild, consistent with our family financial philosophy, with the balance held in an ongoing trust.
10. After both of our deaths, the remainder of our estate to flow to our heirs as effectively as possible, with each child having a major influence over distributions to their family. Where possible, also avoid taxes on these assets upon the deaths of our children.

Family Financial Philosophy

PURPOSE

This document expresses the values and intentions of both of us, regarding the accumulation, use, preservation, and distribution of our estate. We wish it to serve as a basis of planning for our professional advisors and for the subsequent guidance to our trustees. Furthermore, it will clearly articulate to our children and others why we have distributed our estate in the manner we have chosen. We will update this document as warranted by changing circumstances.

PRIMARY SOURCES OF WEALTH

Our estate has been developed primarily by building and growing a real estate business through strong personal initiative, careful analysis and hard work, real estate development and management. We have tried to be financially responsible, worked hard and have enjoyed the fruits of our labor. We also believe that good common sense investing for the long-term has helped us to increase our estate.

GENERAL PHILOSOPHY

Thus far, our wealth has been concentrated in real estate. This has simplified the need to venture into other investment areas. However, we have sold some, and it is our plan to sell more properties in the near future, so investment planning will then be even more of a concern. We intend to preserve our wealth through sound investment diversification, with an emphasis on long-term growth, tax minimization, and a reliance on professional guidance.

A primary motivation for estate planning is to reduce the amount of various taxes that will have to be paid. In achieving this objective, we would like to assure a safety net for our children, grandchildren, and future generations, without dumping money in their laps which could adversely affect their personal initiative and work ethic. We feel that we have paid (more than) our share of taxes over the years.

Through current planning, we are limiting the adverse impact of various types of taxes. We are also interested in providing for charities, if this can be done by redirecting taxes to this area, without hurting our children's inheritance or ourselves.

Among those things we value most are honesty, integrity, responsibility for our actions, and respect for others. Among those associations we value most are family, friendships, and business relationships. Among those activities and character traits we value most are personal initiative and achievement, hard work, education, individual responsibility, volunteerism, community involvement, recreation, and leisure.

At this point in our lives, we are starting to become comfortable with relinquishing ownership of a portion of our assets, as long as we retain access to sufficient income to maintain our financial independence.

Family Financial Philosophy (cont.)

We believe our children will take what we leave them (in trust) and be motivated to grow and preserve it. They are doing very well and we are very proud of their development. We want to help them achieve a higher level of success than they already have thus far. At the same time, we are concerned that if we give our children, grandchildren and future generations too large of an inheritance, or provide it too early, it may become a disincentive for their personal achievement and perhaps even reduce their sense of self-worth. We have seen and read too many examples of this unfortunate consequence. We believe they will develop far more positive values if they are required to provide for their own financial needs and security. We feel more comfortable gifting assets to our children gradually.

Although we certainly prefer leaving assets to our family rather than to the IRS, it is our goal that our children not rely on inherited wealth for their financial success, but rather rely on their own innate abilities and skills. We feel that they will become stronger as a result of this self reliance. At the same time, however, we want to have a substantial portion of our estate pass to our family, as a safety net (in trust), upon our deaths. We truly hope and believe that our posterity will be motivated to benefit from what we leave them and even increase its value and influence.

AREAS OF FINANCIAL INTEREST

We feel our first responsibility is to ourselves; to secure our own financial independence for our respective lifetimes and preserve our ability to maintain our desired lifestyle.

To the extent that there is excess, our second level of financial interest is to our children, grandchildren, and beyond. We have provided and will continue to provide them with the best education possible and will continue to nurture their development as they grow to become financially responsible and mature adults. While we are alive, we will seek opportunities to assist them in their growing knowledge and ability regarding fiscal stewardship.

We feel a third category of financial interest is to charities, as a way of giving back to others. We are also thankful for the rich environment that our church and community have provided us for rearing our children.

FAMILY LEGACY

During our remaining years, we want to maintain the flexibility to change the terms of distributions to our children as we follow their personal growth. Because our assets are substantial and, hopefully, far more than would be needed by our children, we are also interested in making assets available for our grandchildren, and future generations, consistent with the philosophy articulated in this document.

CHARITABLE THINKING

We understand that it is possible to reduce taxes by making charitable gifts. We would like to do this (where advantageous) and leave a portion of our estate to charitable causes.

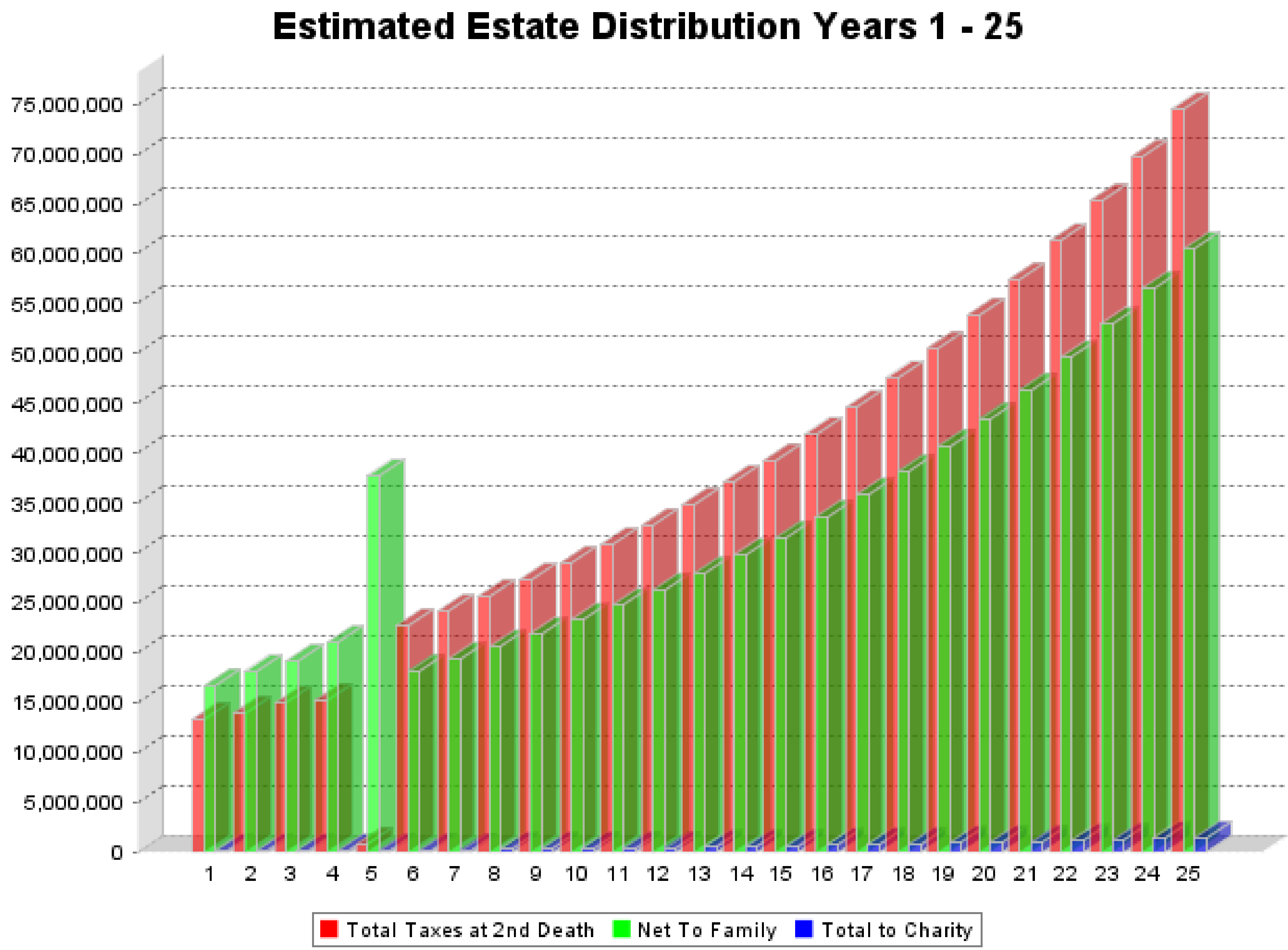
ESTIMATE OF NET WORTH & ESTATE DISTRIBUTION - SCENARIO #1 AS IS (IN 000'S)

Ages: (Bruce/Nadine)	68/67	69/68	70/69	71/70	72/71	73/72	74/73	75/74	76/75	77/76	78/77	79/78	80/79	81/80	82/81	88/87	93/92
Fical Year #	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**20**	**25**
I.CASH FLOW																	
CASH RECEIPTS:																	
Consulting	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	0	0
Social Security	24	24	25	26	27	28	28	29	30	31	32	33	34	35	36	42	49
Interest On Cash and Equivalents	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25
Interest on Municipal Bonds	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84
Int/Div on Securities Portfolio	130	146	162	180	199	218	238	259	281	305	329	356	383	413	444	625	877
Retirement Portfolio	0	0	66	71	76	81	86	92	99	105	112	119	127	135	143	187	230
Real Estate Net Income	732	732	732	732	732	732	732	732	732	732	732	732	732	732	732	732	732
Total Cash Receipts	1,175	1,191	1,274	1,298	1,323	1,348	1,373	1,401	1,431	1,462	1,494	1,529	1,565	1,604	1,644	1,695	1,997
DISBURSEMENTS:																	
Living Expenses (2)	250	257	265	273	281	289	298	307	316	326	335	346	356	367	378	0	0
Living Expenses (1)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	250	289	335
Charitable Gifts	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25
Vacation	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Income Tax	521	528	566	576	640	652	665	678	692	707	723	739	757	775	795	820	965
Total Disbursements	811	825	871	889	961	981	1,003	1,025	1,048	1,073	1,098	1,125	1,153	1,182	1,463	1,149	1,340
EXCESS CASH FLOW	**364**	**366**	**403**	**409**	**362**	**367**	**370**	**376**	**383**	**389**	**396**	**404**	**412**	**422**	**181**	**546**	**657**
II.SECURITIES PORTFOLIO																	
Beginning. Balance Securities Portfolio	5,354	6,005	6,673	7,413	8,195	8,969	9,786	10,649	11,560	12,523	13,540	14,616	15,753	16,955	18,226	25,653	35,989
Growth:	285	300	333	370	409	448	489	532	578	626	677	730	787	847	911	1,282	1,799
Excess Cash Flow	364	366	403	409	362	367	370	376	383	389	396	404	412	422	181	546	657
Ending Balance Securities Portfolio	6,003	6,671	7,409	8,192	8,966	9,784	10,645	11,557	12,521	13,538	14,613	15,750	16,952	18,224	19,318	27,481	38,445

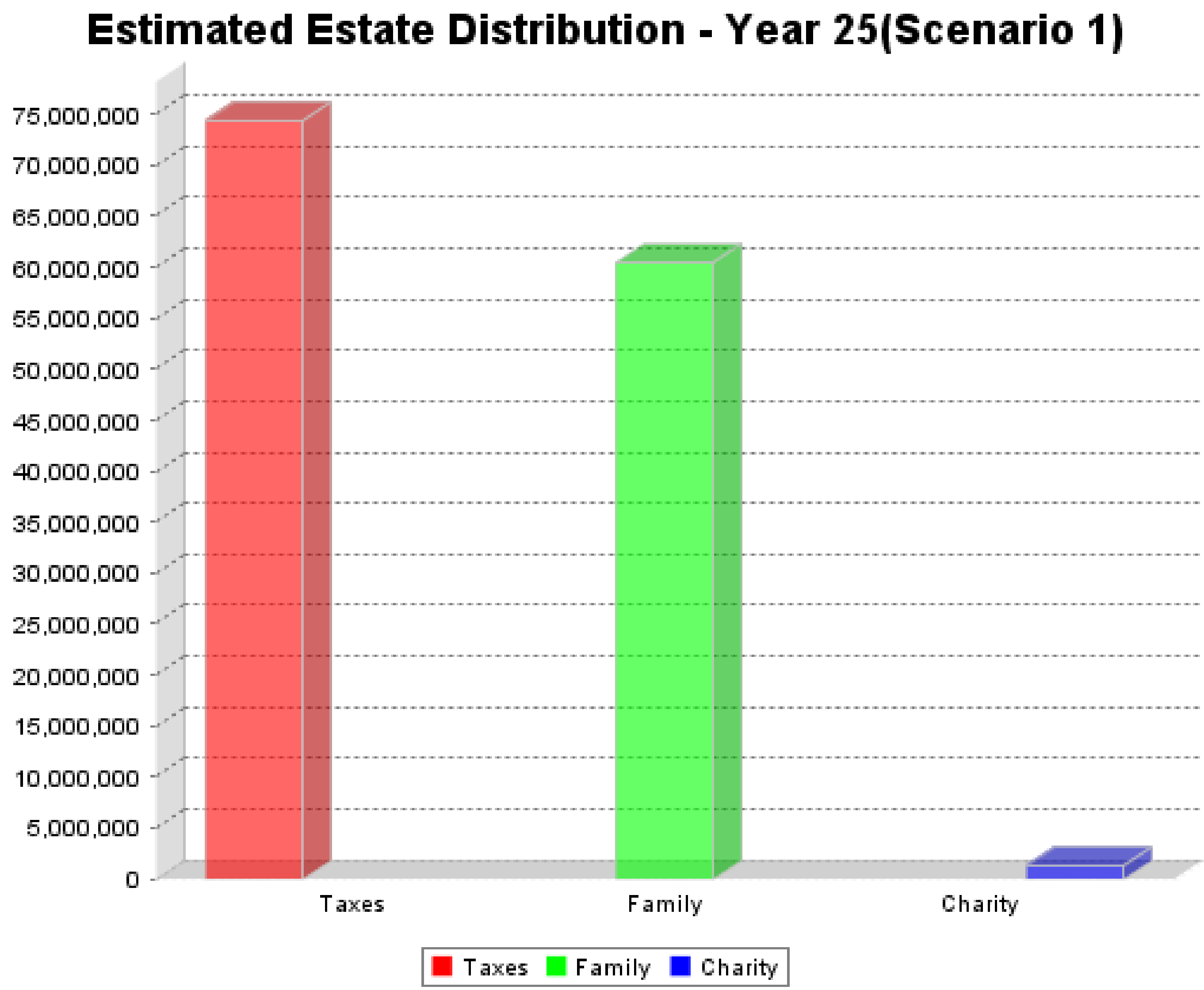
Estimate Of Net Worth & Estate Distribution - Scenario #1 As Is (in 000's)

Ages: (Bruce/Nadine)	68/67	69/68	70/69	71/70	72/71	73/72	74/73	75/74	76/75	77/76	78/77	79/78	80/79	81/80	82/81	88/87	93/92
Fical Year #	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**20**	**25**
III. Net Worth																	
Bruce Checking	350	350	350	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Nadine Checking	396	396	396	396	396	396	396	396	396	396	396	396	396	396	396	396	396
Bruce Savings	278	278	278	278	278	278	278	278	278	278	278	278	278	278	278	278	278
Nadine Savings	272	272	272	272	272	272	272	272	272	272	272	272	272	272	272	272	272
Municipal Bonds	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Securities Portfolio	6,005	6,673	7,413	8,195	8,969	9,786	10,649	11,560	12,523	13,540	14,616	15,753	16,955	18,226	19,320	27,484	38,446
Retirement Plans	1,706	1,826	1,887	1,948	2,008	2,067	2,125	2,181	2,235	2,286	2,333	2,377	2,416	2,450	2,478	2,506	2,287
Crescent	1,055	1,087	1,120	1,153	1,188	1,223	1,260	1,298	1,337	1,377	1,418	1,461	1,505	1,550	1,596	1,851	2,146
Adams	780	811	843	877	912	948	986	1,026	1,067	1,110	1,154	1,200	1,248	1,298	1,350	1,643	1,999
Ramada	988	1,027	1,068	1,111	1,155	1,202	1,250	1,300	1,352	1,406	1,462	1,520	1,581	1,645	1,710	2,081	2,532
Boardwalk	2,491	2,640	2,798	2,966	3,144	3,333	3,533	3,745	3,970	4,208	4,461	4,728	5,012	5,313	5,631	7,536	10,085
Park Place	3,286	3,483	3,692	3,913	4,148	4,397	4,661	4,940	5,237	5,551	5,884	6,237	6,612	7,008	7,429	9,942	13,304
Path of Progress	3,850	4,235	4,658	5,124	5,636	6,200	6,820	7,502	8,252	9,078	9,985	10,984	12,082	13,291	14,620	23,546	37,921
Strip Mall	3,922	4,157	4,406	4,671	4,951	5,248	5,563	5,897	6,251	6,626	7,023	7,445	7,891	8,365	8,867	11,866	15,879
Residence	1,248	1,297	1,349	1,403	1,459	1,518	1,579	1,642	1,707	1,776	1,847	1,921	1,998	2,078	2,161	2,629	3,199
Tahoe Vacation Home	795	842	893	946	1,003	1,063	1,127	1,195	1,267	1,343	1,423	1,509	1,599	1,695	1,797	2,405	3,218
Furnishings	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120
Cars	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80
END OF YEAR NET WORTH	30,022	31,974	34,023	36,203	38,469	40,881	43,449	46,182	49,094	52,197	55,502	59,031	62,795	66,815	70,855	97,385	134,912
V.ESTATE DISTRIBUTION																	
Taxable Estate	30,022	31,974	34,023	36,203	38,469	40,881	43,449	46,182	49,094	52,197	55,502	59,031	62,795	66,815	70,855	97,385	134,912
TOTAL TAXES AT 2ND DEATH	13,333	13,967	14,904	15,237	823	22,700	24,129	25,647	27,264	28,985	30,815	32,768	34,850	37,070	39,300	53,899	74,480
Gifts to Children (accum@5.0%)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NET TO FAMILY	16,689	18,007	19,119	20,966	37,646	18,181	19,320	20,535	21,830	23,212	24,687	26,263	27,945	29,745	31,555	43,486	60,432
What's this really worth? - Inflation adjusted (3%) Net to Family	16,689	17,483	18,021	19,187	33,448	15,683	16,180	16,697	17,233	17,790	18,369	18,973	19,600	20,255	20,862	24,799	29,729
TOTAL TO CHARITY	25	51	79	109	140	174	209	247	287	329	374	421	472	525	581	919	1,371

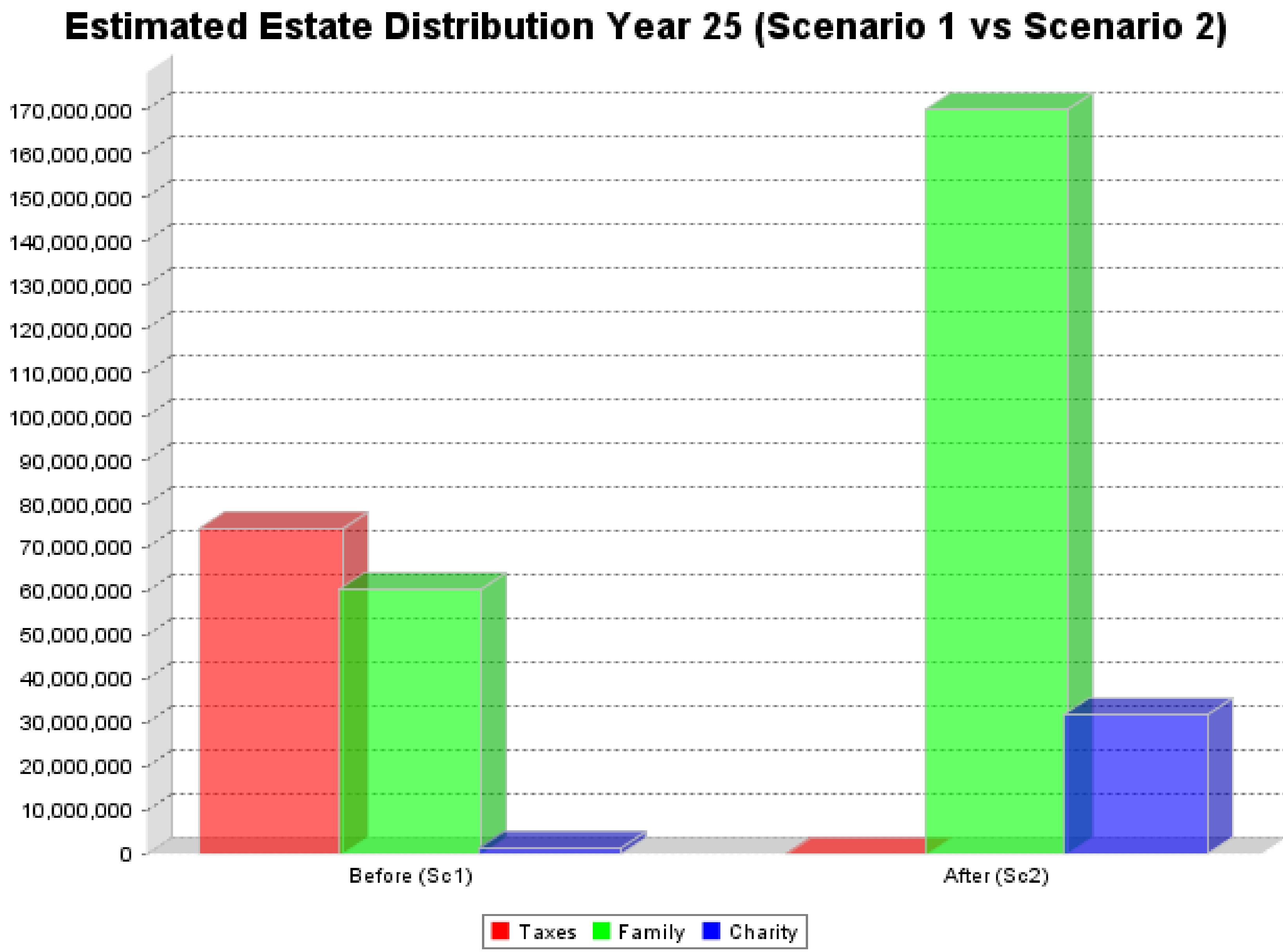
Estate Distribution Summary - SCENARIO 1



Estate Distribution Comparison



Estate Distribution Comparison



OBSERVATIONS

1. With your current Simple Wills and the titling of your assets, you are losing the advantages of the Lifetime Estate Tax Exemption of the first spouse to die. There could also be major confusion should one of you be placed on life support.
2. Your current estate documents provide for an outright distribution of assets to your family immediately upon the second death. This is in sharp contrast with your objectives and philosophy.
3. Your annual cash flow need of $400,000 is exceeded significantly each year. The amount of excess continues to increase your future estate-tax liability. Based on these projections, you will have more assets than you can spend during your lifetimes.
4. If your Real Estate Properties 1, 2, 3 are sold outright as planned, you will be required to pay approximately $1,916,596 in up front capital gains taxes upon the sale.
5. If both of your deaths occurred within 10 years, all of your liquid assets would be used and non-liquid assets would have to be sold to pay the estate-tax liability, which is due in cash within 9 months of death.
6. Your life insurance is currently owned personally, thus causing these proceeds to be unnecessarily taxed in your estate.
7. Once your assets pass to your children, any significant amounts remaining in their estates will also be reduced by estate taxes.
8. The charitable gifts of cash you are currently making do not provide the tax savings and leverage that can be obtained through gifting appreciated assets and using special types of charitable trusts.
9. Using only the annual exclusion and the lifetime exemption gift amounts do not significantly reduce the tax liability owed at your deaths due to the size and projected growth of your estate.
10. There is no plan currently in place that helps to create either personal initiative or charitable hearts within your children and grandchildren.

COMBINED PLANNING TEAM RECOMMENDATIONS

The Advanced Estate Planning described in our metaphor of the chess match with the IRS will be greatly accomplished with the following recommended moves. Here are several effective tax saving moves we can make currenty. These moves still enable you to retain great control over both management and distribution of your estate during your lifetime(s).

Fortunately, these recommended changes enable us to significantly reduce the estate tax liability. Some of your assets (chess pieces) will change in the future, as will your objectives and circumstances. These first strategic moves are important, and show significant improvement, laying the foundation for preserving even more of your family's wealth in the future as your assets continue to grow.

As we update our strategies and techniques on an annual basis, additional solutions will be recommended as appropriate.

RECOMMENDATIONS

1. ABC TRUST

An ABC Trust with appropriate titling of assets, would help avoid probate, preserve both of your lifetime exemptions and also pass assets to your family consistent with your objectives and philosophy. Living Wills will aid your family in carrying out your health care objectives.

2. FAMILY LIMITED PARTNERSHIP (FLP)

Several Family Limited Partnerships (FLPs) will be needed, which will transfer real estate properties and securities to each respective partnership in exchange for partnership interests. Then discounted partnership interests can be gifted to various trusts to be discussed. The gifted partnership interests can receive valuation discounts for tax purposes due to a lack of marketability and lack of control, while you control the entire amounts.

3. QUALIFIED PERSONAL RESIDENCE TRUST (QPRT)

The Vacation home ownership can be divided by two and placed into two Qualified Personal Residence Trusts. Each trust value represents half the value of the Tahoe home. With separate trusts, a split-interest discount of 15% can also be used for valuation purposes. At the end of the trust terms (12 years for Bruce's trust and 15 years for Nadine's trust), the Tahoe home passes to the children outside of the taxable estate.

4. GRANTOR RETAINED ANNUITY TRUST (GRAT)

A family partnership is illustrated (FLP 1) with Real Estate Property 7. The partnership pays out income from the rental properties to the interest holders in the first year with equal distributions in each subsequent year. Any excess income in subsequent years is reinvested in the partnership's securities portfolio. Two Grantor Retained Annuity Trusts and are then established and 50% of the partnership interest is transfered into each GRAT. Each trust has a term of 10 years. At the end of the trust term, the partnership interest transfers to the children or remains in trust for them.

5. WEALTH PRESERVATION TRUST (WPT)

A Wealth Preservation Trust is established and Real Estate Properties 1, 2, and 3, worth $9,800,000, are transfered into it. The trust (Charitable Remainder Uni Trust) is projected to earn 7% and pays an income equal to 6% of the trust value, recalculated annually, for life. A charitable deduction is taken for up to six years with a carryover of the unused deduction. Upon the deaths of both, the trust assets pass to the charities of choice. Life insurance is obtained on the lives of Bruce and Nadine, payable to a trust for children and grandchildren, which replaces assets going to charity. The net result is more to you, more to your family, plus a substantial amount to charity - all paid for by the IRS.

Recommendations (cont.)

6. Retirement Plan Maximizer (RPM)

Accelerated distributions are taken by Bruce and Nadine, taxes are paid, and the net amount is gifted to a trust for the heirs. Insurance is obtained by the trust with these gifts, which will pass to the heirs trust free of all taxes. These proceeds will significantly exceed the net amount otherwise available, after tax, from the retirement plan assets.

7. Irrevocable (Crummey) Trust

An Irrevocable (Crummy) Trust is established into which cash gifts are made by utilizing annual exclusions under a 'Crummey' provision. The trust then loans the money to a Multigenerational Trust to obtain survivorship life insurance on both of your lives.

8. Intentionally Defective Irrevocable Trust (IDIT)

This type of trust can be used very effectively to freeze the growth of your Path of Progress (RE #6). This is done by placing the property in FPL #2, then selling your LP interest to the newly formed IDIT set up on a Multigenerational basis (discussed later) for your children and grandchildren. These LP interests are sold, at a discount, to the trust in exchange for a note. This note will be interest only, at 6%, for 15 years, with a balloon payment due at that time. The notes are subsequently placed in FLP #3, along with $4,237,428 in securities and then the LP interests are transferred to two GRATS, one for Clark and one for Barbara.

The effect of this recommendation is to discount, then freeze, and then transfer this highly profitable property to your heirs virtually tax free.

9. Charitable Lead Annuity Trust (CLAT)

RE properties 4 & 5 are placed in FLP #4. LP interests are then gifted to a CLAT. The trust makes annual payments to your Family Foundation with subsequent distribution to charities of choice. At the end of the term, the Partnership Interests pass to the children.

10. Multigenerational Trusts

A Grantor style Multigenerational trust is formed (see IDIT) and funded with a gift of $2,750,000 in marketable securities, placed in FLP #5 with a 25% discount (thus a taxable gift of $2,062,500), utilizing the Generation Skipping Tax exemption.

Since the trust is set up under grantor rules, you pay the tax on any realized capital gain and income earned by the trusts. This can provide an additional tax-free benefit to the trusts. You can revoke this provision at any time after the first year.

Recommendations (cont.)

The trust also obtains and owns the life insurance policies discussed in the recommendations. Part of the annual premium will be borrowed from the Irrevocable (Crummey) Trust with an interest rate of 5%, and the balance will be paid with assets in this trust.

Upon the death of the surviving spouse, the MGT then repays the loan with proceeds of life insurance.

11. TESTAMENTARY CHARITABLE LEAD ANNUITY TRUST (TEST-CLAT)

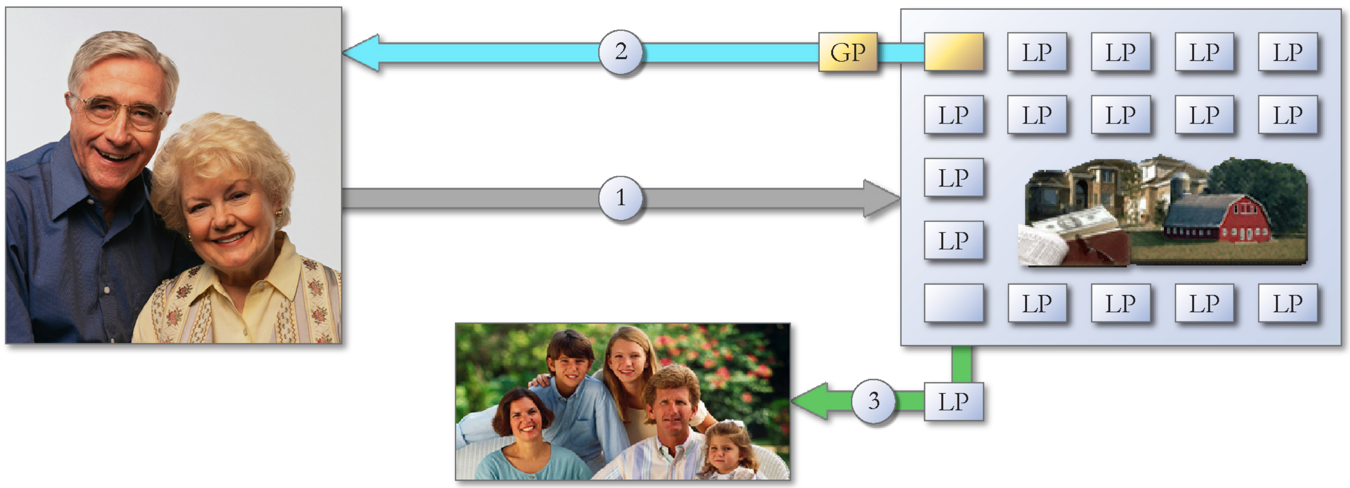
A 20 year Testamentary Charitable Lead Annuity Trust is established upon the death of the surviving spouse. It is formed with practically all of the estate's remaining assets, leaving some assets to be distributed to your heirs and to pay estate administration costs. The estate receives a charitable deduction equal to the assets transferred to the trust. The trust pays an annuity equal to approx. 7% of the trust value at death to the Family Charitable Foundation, and then to the charities of choice. At the termination of the trust, the assets of the trust pass to the children.

12. FAMILY CHARITABLE FOUNDATION (SUPPORTING ORGANIZATION)

Three charitable techniques have been suggested, resulting in the reallocation of many millions of dollars of taxes to both the family, as well as the charities of choice. Rather than have these charitable amounts pass in one lump sum, much more benefit can be derived by current and future generations with a family fund, growing tax free, from which discretionary distributions can be made to selected charities over an extended period of time. This process has helped many financially successful families to become socially involved and to make a significant positive difference in their respective communities.

Assets flowing from techniques 5, 9, and 11, listed above, can be directed to this foundation, while members of the family serve as Advisors and/or Directors, in concert with a Public Foundation, to disburse future charitable grants from this fund.

FAMILY LIMITED PARTNERSHIP (FLP)



THE PROCESS

1. A Family Limited Partnership is created (with a valid business purpose) for techniques to be described subsequently, and assets are transfered to it.
2. You retain the General Partner interest, which has the asset management responsibilities and control. You can receive a reasonable salary for the managing duties.
3. The Limited Partner interests have no management responsibility, and usually cannot be liquidated, sold, or freely transferred without the consent of the GP. This allows the LP to receive a discount for both a lack of marketability and lack of control. The discount values provide leverage for future gifts made to your family.

BENEFITS OF UTILIZING THIS TECHNIQUE

TAX REASONS

- Valuation discounts
  - --Lack of Control
  - --Lack of Marketability
- Leverage 1.5(+/-):1
- Can Pass More to Family... Tax Free

BUSINESS REASONS

- Control
  - --2% governs all
- Control Asset Management
- Control Distributions
  - --Amounts
  - --Timing

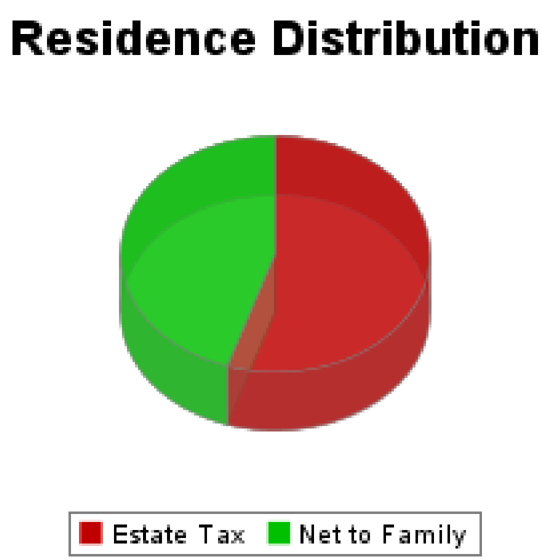
FAMILY REASONS

- Mentoring
  - --Asset Management
  - --Diversification
- Partnership Meetings
  - --Family Gatherings
  - --Tax deductible

The Problem

Your Tahoe Vacation Home has developed financial and sentimental value for your family. However, its fair market value and growth (approximately 6% per year) continue to add to your estate tax liability.

Today's Fair Market Value	$750,000
Projected years of life expectancy	25
Growth Rate	6%
Value (projected) in Taxable Estate	$3,218,903
Estate Tax on Tahoe Vacation Home (55%)	$1,770,397
Net Value of Tahoe Vacation Home passing to family.	$1,448,506

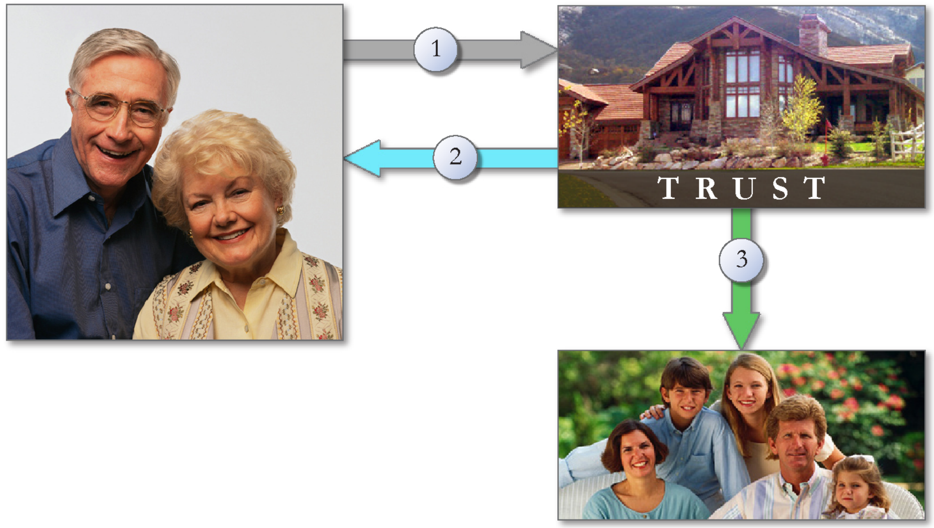


When one's estate (and the estate tax liability) is growing faster than can be reduced by spending and normal (tax free) gifting to family, leveraged gifts can be very effective. This process discounts the value of the assets being transferred, resulting in the reduction of estate taxes.

Let's examine a leveraging technique that is often utilized with a personal (including vacation) residence.

Bruce and Nadine Smith

Qualified Personal Residence Trust (QPRT)



The Process

1. Two Qualified Personal Residence Trusts are established, one for each of you, and your respective half interests in the Tahoe Vacation Home are transferred to the trusts. When we separate your interests into two shares, the value of each 1/2 interest may be eligible for a fractional interest discount (illustrated at 15%) before gift value calculations.
2. You each retain all of the rights and obligations of ownership for your respective trust periods.
3. At the end of the trust terms your respective interests in the residence pass to your children without further estate/gift taxation.

Benefits of Using this Technique

- Allows the transfer of a residence at a lower taxable gift value.
- The longer the trust period, the lower the gift value.
- Gift future growth out of the estate.
- At the end of the trust period, the full ownership has been transferred to your family.

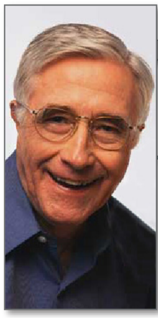
Side effects/Draw backs of using this technique

- Should you not survive the trust period, the decedent's share of the residence reverts to his/her taxable estate at the fair market value upon date of death.
- Heirs do not receive a step up in basis upon the death of parent, therefore will recognize a capital gain upon subsequent sale.

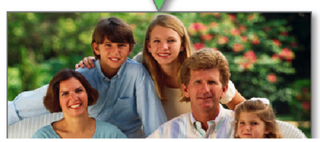
Bruce and Nadine Smith

25 Year Comparison

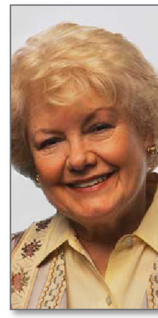
Bruce's one half	Keep in the Estate	12 Year QPRT
Value for Estate/Gift Taxes	$1,609,452	$111,566
Estate/Gift Taxes(55%)	$885,198	$61,361



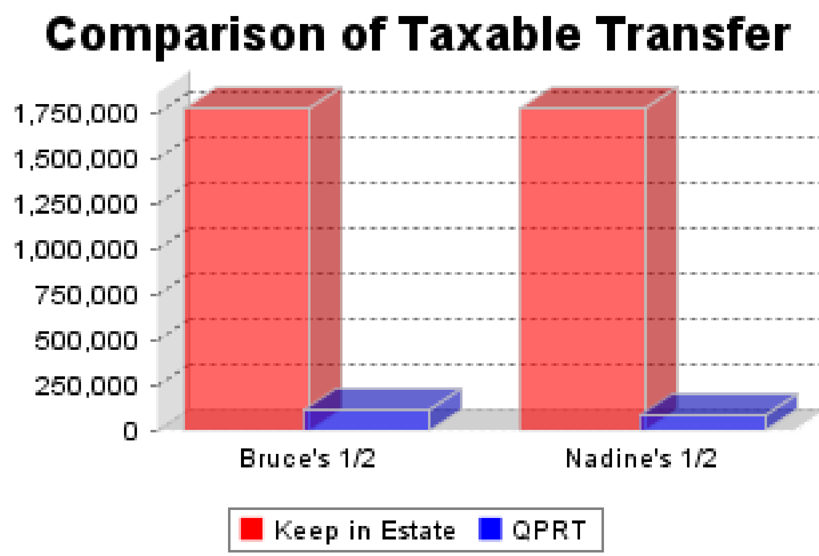
1/2 Interest in Residence
12 Year Term



Nadine's one half	Keep in the Estate	15 Year QPRT
Value for Estate/Gift Taxes	$1,609,452	$82,324
Estate/Gift Taxes(55%)	$885,198	$45,278



1/2 Interest in Residence
15 Year Term

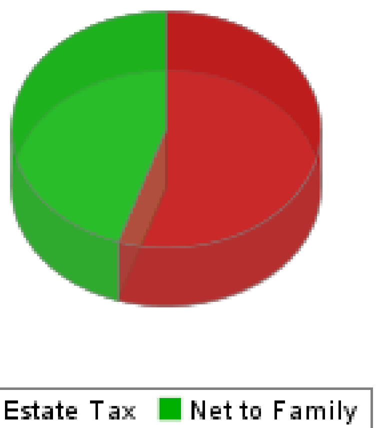


THE PROBLEM

Due to your sound financial acumen, your Strip Mall property(ies) provides steady growth and income. However, the fair market value plus growth and income not spent continue to add to your estate tax liability.

Todays Fair Market Value	$3,626,000
Projected Years of Growth	25
Average Growth Rate	6%
Average Income Rate	8.2%
Total Value (projected) in Taxable Estate	**$32,778,615**
Estate Tax (55%)	**$18,028,238**
Net Value Passing to Family	**$14,750,377**

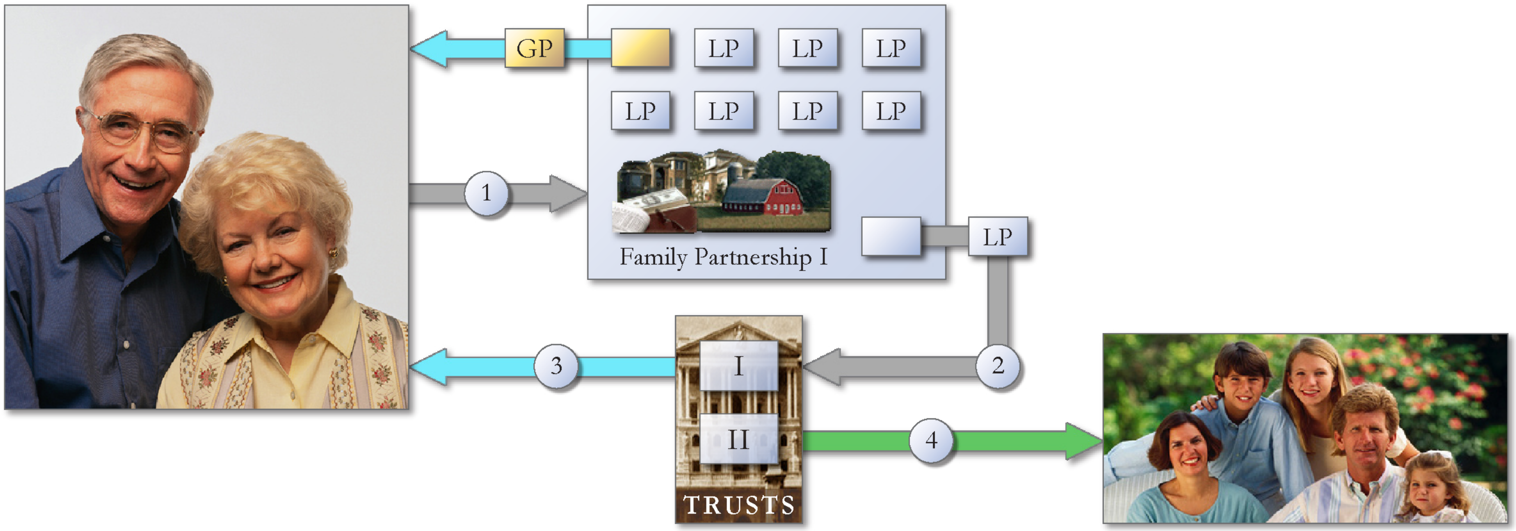
Asset Distribution



When one's estate (and the estate tax liability) is growing faster than can be reduced by pesonal spending and normal (tax free) gifting to one's family, leveraged gifts can be very effective. This process can reduce the value of the assets being transferred, often resulting in the reduction of taxes.

Let's examine a double discount leveraging technique that is often utilized with this circumstance.

Grantor Retained Annuity Trust (GRAT)



The Process

1. A Family Limited Partnership (FLP) is formed with a 2% General Partnership (GP) interest and 98% Limited Partnership (LP) interest. Assets are then transferred to the FLP.
2. Two Grantor Retained Annuity Trusts (GRATs) are also established, one each for Bruce and Nadine and LP interests are gifted to the trusts. These gifts then receive a substantial discount from their original value.
3. Bruce and Nadine each receive a fixed annual payment from the income generated by the assets transferred to the FLP/GRATs.
4. At the end of the GRAT terms, the property plus any appreciation and accumulated earnings not distrubuted, pass estate-tax free to the family.

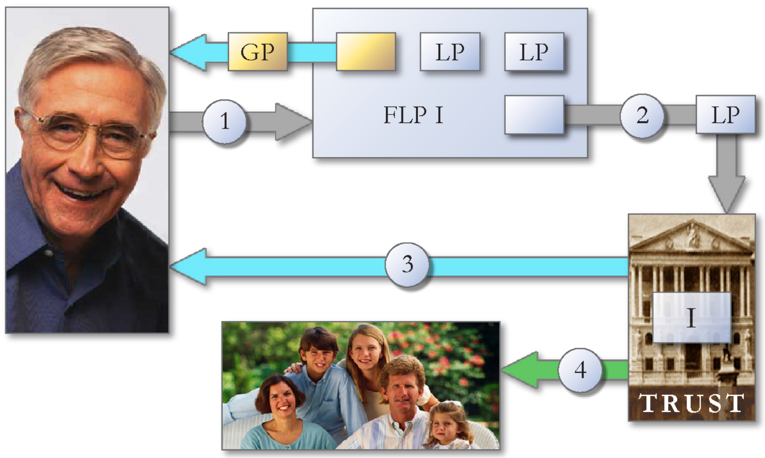
Benefits of using this technique

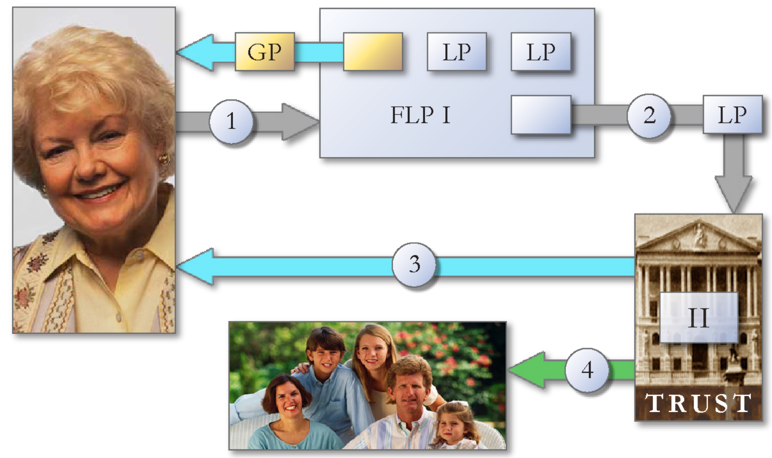
- Valuation discounts are made possible by the FLP.
- Leveraged gifts are made to the heirs through the GRATs, thus further reducing the taxable gift on the assets transferred.
- Estate taxes are greatly reduced.
- Grantors receive a fixed income stream for the term of the trust.
- Excess earnings and growth in the value of the assets add to the benefit to the family

Side effects/Draw backs of using this technique

- If a death occurs before the end of the GRAT term, assets in the GRAT revert to the taxable estate of the deceased.
- At the end of the GRAT terms, the Partnership Interests retain your tax basis.

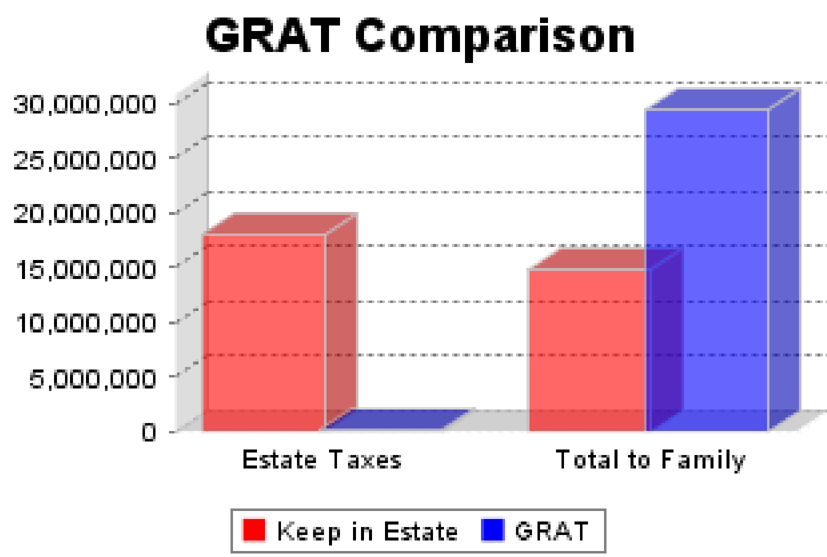
GRANTOR RETAINED ANNUITY TRUST (GRAT)





COMPARISON IN 25 YEARS

	Keep in the Estate	GRATs	Difference
Total Value:	$32,778,615	$29,373,633*	
Estate/Gift Taxable:	**$32,778,615**	**$36,630**	**$32,741,985**
Total Estate/Gift Taxes:	**$18,028,238**	**$20,146**	**$18,008,092**
Total to Family	**$14,750,377**	**$29,353,487**	**$14,603,110**



* Value transferred minus retained income.

ELIMINATING THE GRAT SIDE EFFECTS

By strategically combining the tax advantages of the 10 Year GRAT with life insurance, your plan may eliminate the side effects (see below) of the GRAT technique. The insurance is designed to provide you with 98.17% of the tax savings, regardless of when deaths occur.

HOW DOES THIS WORK

Growth and Income of the GRAT (Year 9)		**$7,023,669**
Estate Taxes (if death occurs too soon)		**3,863,018**
Insurance Death Benefit	(a)	**4,000,000**
Annual Insurance Premium		**54,000**
Accumulated Cost of Insurance ($54,000 x 9 years)	(b)	**$486,000**
Cash Value of Life Insurance	(c)	**$412,615**
Cost to Preserve Tax Savings (Insurance)	(d)=(b-c)	**$73,385**
Cost of Protection as a Percent of Tax Savings	(d)/(a)	**1.83%**
Percent of Tax Savings Realized		**98.17%**

SIDE EFFECT

If death occurs before the end of the GRAT term, GRAT payments and the assets are included in the taxable estate not as cash, but as continued annuity payments, thus not available to pay the tax.

SOLUTION

Insurance proceeds replace the tax savings if early death occurs. These tax-free proceeds (when insurance is owned outside the estate) are in addition to any assets passing through the estate.

SUMMARY

Professionals often refer to the Grantor Retained Annuity Trust (GRAT) as a "heads you win, tails you tie" scenario. However, combining the power of the GRAT with life insurance yields a "heads you win, tails you win" outcome for you and for your family.

THE PROBLEM

You have built several very successful real estate properties, over many years, with much physical and emotional effort. This effort brings both good news and bad news. The good news is that you can sell them at a tremendous profit. The bad news is that the IRS wants to keep much of this profit in the form of taxes. Let's look at the result of these taxes in three areas:

A. Income Taxes

Capital Gains Taxes Destroy 22.17%[1] of your profit:

Value of The asset	$2,725,000
Less: Cost(Basis)	$437,250
Taxable Gain	$2,287,750
Income (Capital Gains) Tax Liability	$507,194

This loss of taxes also creates another loss. All of the future earnings that could have been received had this tax amount been invested, are also lost in perpetuity! Let's assume a return on investment of 7% and that at least one of you lives 25 years.

B. Income Loss

Loss of income** potential each year for life!	$35,504
At your ages, this projected loss of income is	$887,590

And, the problem gets worse...

Upon both of your deaths, the remaining amount of these proceeds (along with your other assets) will be subjected to an estate tax. This is the largest tax of all.

C. Estate Taxes

Net Proceeds (after Capital Gains Taxes)	$2,217,806
Estate Tax (55%)	$1,219,793
Net to Family	$998,013

D. Where Did All The Money Go?

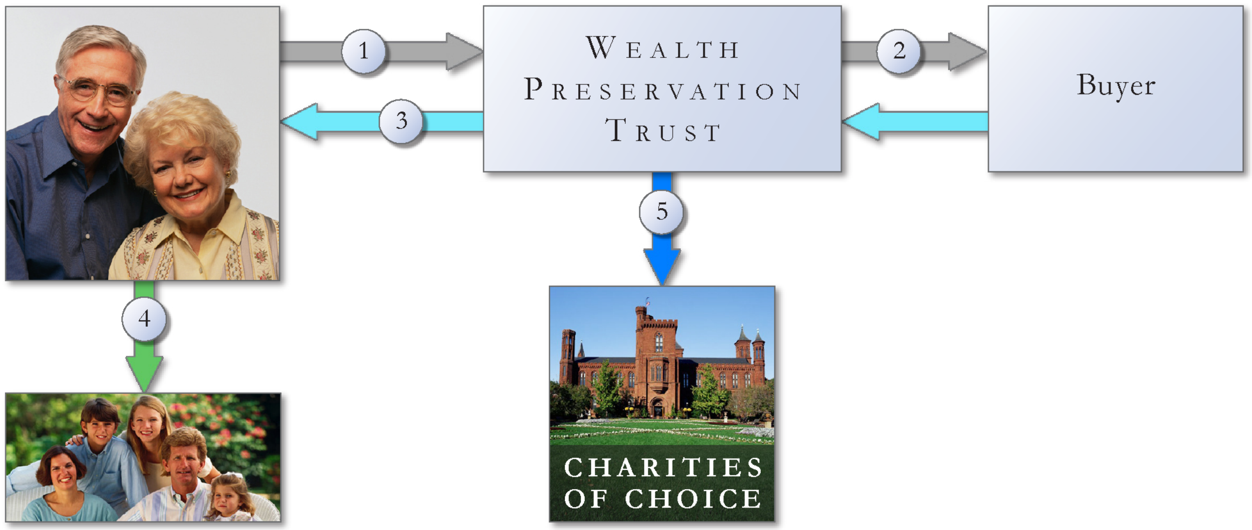
Sales Price	$2,725,000
Total Taxes (Capital Gains plus Estate Tax)	$1,726,987
Net to Family	$998,013
Percentage Lost to Taxes	**63.38%**

(The IRS' version of Capital Punishment!)

[1] Federal plus State Capital Gains taxes
** Assuming a pre-tax return on investment at 7%. ($507,194 @ 7% = a loss of $35,504 each year of life)

Bruce & Nadine Smith

Wealth Preservation Trust



Fortunately, a tool that can help solve this problem has existed for many years, although it has not been widely publicized. Created over 100 years ago, and clarified by Congress in 1969, this trust has been utilized by many top tax advisors for the benefit of their affluent clients.

Many individuals who have learned about this trust thought it was too good to be true and wrote the IRS requesting clarification. Because of the burden of responding, the IRS, in 1990, published 16 versions of the trust as authorized prototypes.

Here's How It Works

1. The Wealth Preservation Trust (also known as a Charitable Remainder Trust) is established and certain assets are transferred to it.
2. Assets are then sold by the trustee (this can be Bruce and Nadine) and proceeds are reinvested (as trustee directs) into income producing assets.
3. Cash is paid to Bruce & Nadine as the income beneficiaries for their lifetimes. Upon the first death, the full amount is paid to the survivor.
4. Gifts are regularly made to the Family (or in trust for them) of excess cash flow, which protects their inheritance with life insurance on the lives of Bruce and Nadine.
5. Upon the deaths of Bruce & Nadine, the remaining (WPT) assets pass to the named charities.

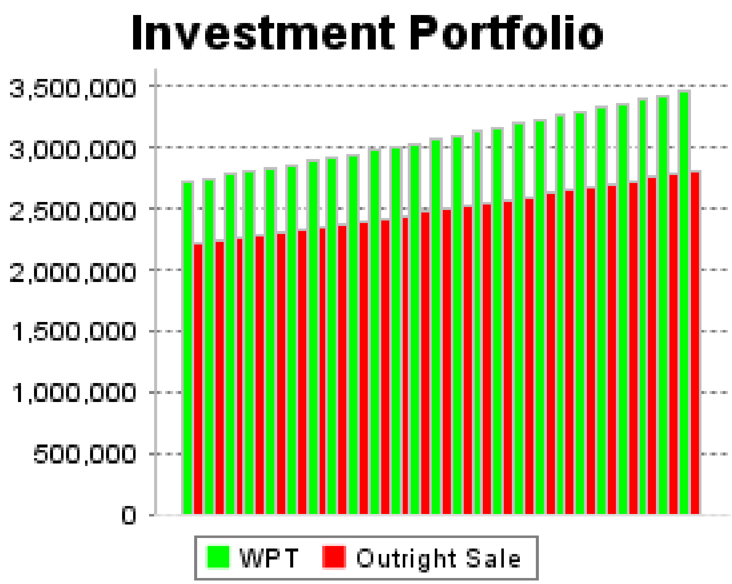
THE COMPARISON

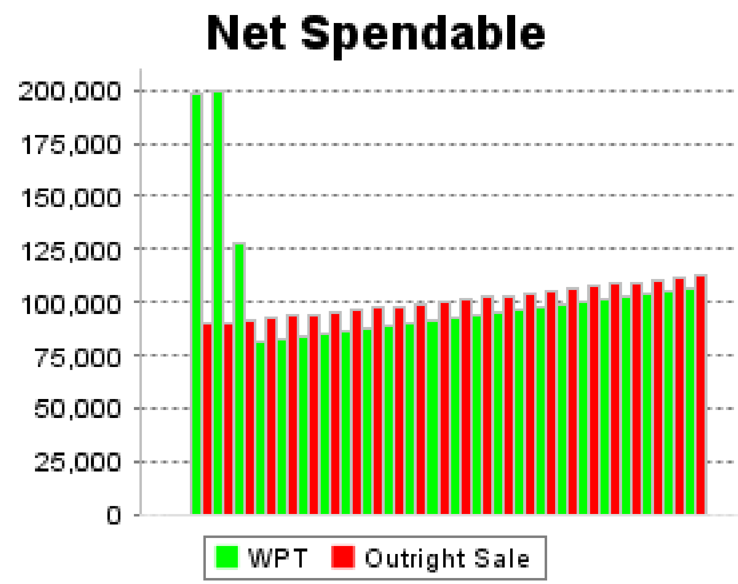
When comparing the results of a traditional outright sale to the use of a Wealth Preservation Trust (WPT) and inheritance trust for the family, the difference is truly astounding.

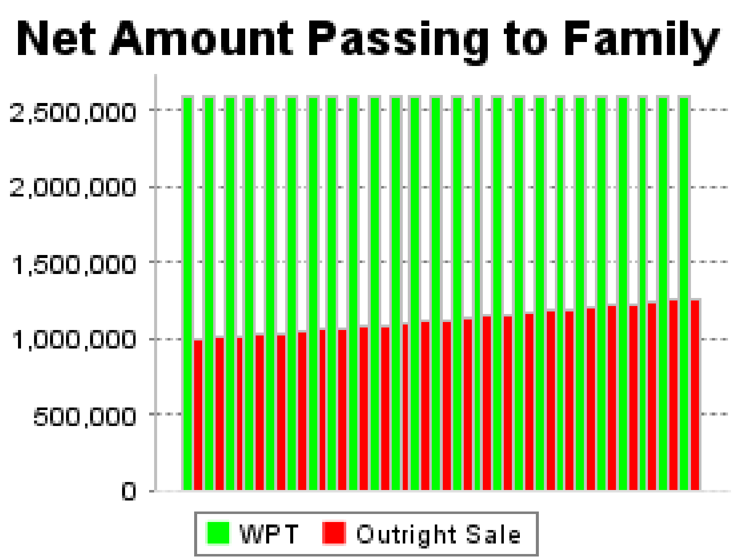
Income Taxes	Outright Sale		**WPT**	
Net Proceeds from Sale	$2,725,000		**$2,725,000**	
Capital Gains Tax (up front)	$507,194		$0	
Net Remaining to Invest	$2,217,806		$2,725,000	
Income Tax Deduction	$0		$879,000	
Benefits During Lifetime of Bruce & Nadine	Outright Sale		**WPT**	
Annual Income 1st Yr. (Net after tax)	$89,708	(1)	**$197,770**	(2)(3)
Annual Income 25th Yr. (Net after tax)	$113,905	(1)	**$107,914**	(2)
Cumulative Net Life Income	$2,533,642		**$2,598,487**	
Tax Saved from Deduction	$0		**$377,970**	
Summary at life expectancy (25 years)	Outright Sale		**WPT**	
Life Income plus Income Tax Savings	$2,533,642		**$2,598,487**	
Net passing to Family - after tax (4)	$1,279,883		**$2,600,000**	
Benefit to Charity(ies) (5)	$0		**$3,494,627**	
Total to Bruce & Nadine, Family & Charity	$3,813,525		**$8,693,114**	
Difference			**$4,879,589**	

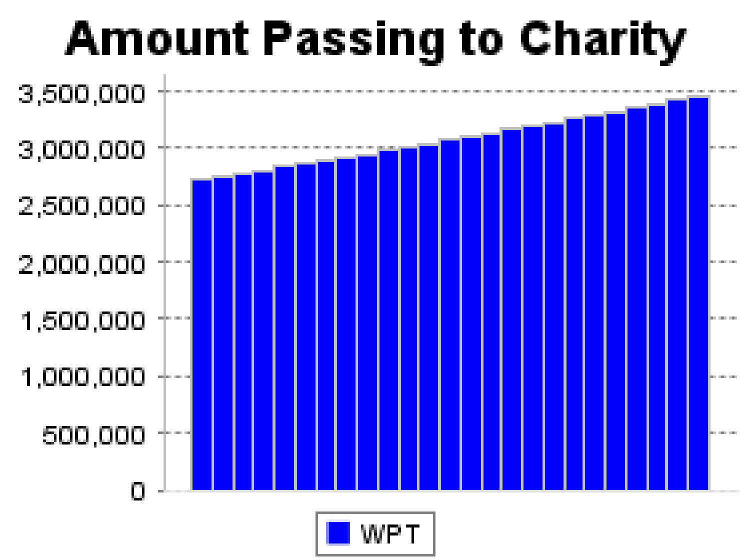
1. Assumes a pretax investment return of 7% and a spending rate of 6% (less tax). The balance (after tax) is reinvested in a growing portfolio.
2. Assumes a pretax investment return of 7% and a payout rate of 6%, reduced by taxes and a life insurance premium of $32,040. Balance, 1%, grows inside the trust.
3. For the first six years, income is increased due to income tax savings.
4. Equals the growing portfolio, less estate tax vs. tax free life insurance.
5. Amount left in the Wealth Preservation Trust upon projected deaths in 25 years.

Note: The Wealth Preservation Trust is also known as a Charitable Remainder Trust (CRT)


Investment Portfolio
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
WPT
Outright Sale


Net Spendable
200,000
175,000
150,000
125,000
100,000
75,000
50,000
25,000
0
WPT
Outright Sale


Net Amount Passing to Family
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
WPT
Outright Sale


Amount Passing to Charity
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
WPT

Bruce & Nadine Smith

Wealth Preservation Trust

Assumptions

Property Value	2,725,000	Date Calculated	1/24/2006
Liability	0	IRC Sec. 7520(b) rate used	5%
Basis	437,250	Charitable Deduction Factor	0.32271
Maginal Income Tax Rate (Fed and State)	43%	Charitable Deduction	879,385
Future Estate Tax Rate	55%	Adjusted Gross Income (AGI) before payout	1,060,000
Capital Gains Rate (Fed and State)	22.17%	Deduction Limitation of AGI	30%
Investment Return	7%	Donor(s)	Bruce & Nadine
Spending/Payout Rate(1)	6%	Life Expectancy (Average per tables)(A)(B)	(14) (19)
Capital Gains Tax	507,194	Insurance(4)	2,600,000

Outright Sale

	Year	Investment Return	Income Tax(2)	Net(1) Spendable	Portfolio Balance
	0	0	0	0	2,217,806
	1	155,246	43,360	89,708	2,239,984
	2	156,799	43,794	90,605	2,262,384
	3	158,367	44,232	91,511	2,285,008
	4	159,951	44,674	92,426	2,307,858
	5	161,550	45,121	93,351	2,330,936
	6	163,166	45,572	94,284	2,354,246
	7	164,797	46,028	95,227	2,377,788
	8	166,445	46,488	96,179	2,401,566
	9	168,110	46,953	97,141	2,425,582
	10	169,791	47,423	98,112	2,449,837
	11	171,489	47,897	99,093	2,474,336
	12	173,204	48,376	100,084	2,499,079
	13	174,936	48,859	101,085	2,524,070
(A)	14	176,685	49,348	102,096	2,549,311
	15	178,452	49,842	103,117	2,574,804
	16	180,236	50,340	104,148	2,600,552
	17	182,039	50,843	105,190	2,626,557
	18	183,859	51,352	106,242	2,652,823
(B)	19	185,698	51,865	107,304	2,679,351
	20	187,555	52,384	108,377	2,706,145
	21	189,430	52,908	109,461	2,733,206
	22	191,324	53,437	110,555	2,760,538
	23	193,238	53,971	111,661	2,788,143
	24	195,170	54,511	112,778	2,816,025
	25	197,122	55,056	113,905	2,844,185
				2,533,642	

Sale With Wealth Preservation Trust (WPT)

Year	Annual Payout	Charitable Deduction(3)	Insurance Premiums	Income Tax(2)	Net Spendable	Trust Balance
0	0	0	0	0	0	2,725,000
1	163,500	367,000	32,040	-66,310	197,770	2,752,250
2	165,135	368,000	32,040	-66,104	199,199	2,779,772
3	166,786	144,000	32,040	7,425	127,321	2,807,570
4	168,454	0	32,040	54,891	81,523	2,835,646
5	170,139	0	32,040	55,440	82,659	2,864,002
6	171,840	0	32,040	55,994	83,806	2,892,642
7	173,559	0	32,040	56,554	84,964	2,921,569
8	175,294	0	32,040	57,120	86,135	2,950,785
9	177,047	0	32,040	57,691	87,316	2,980,292
10	178,818	0	32,040	58,268	88,510	3,010,095
11	180,606	0	32,040	58,850	89,715	3,040,196
12	182,412	0	32,040	59,439	90,933	3,070,598
13	184,236	0	32,040	60,033	92,163	3,101,304
14	186,078	0	32,040	60,634	93,405	3,132,317
15	187,939	0	32,040	61,240	94,659	3,163,640
16	189,818	0	32,040	61,852	95,926	3,195,277
17	191,717	0	32,040	62,471	97,206	3,227,230
18	193,634	0	32,040	63,096	98,498	3,259,502
19	195,570	0	32,040	63,727	99,804	3,292,097
20	197,526	0	32,040	64,364	101,122	3,325,018
21	199,501	0	32,040	65,007	102,454	3,358,268
22	201,496	0	32,040	65,657	103,799	3,391,851
23	203,511	0	32,040	66,314	105,157	3,425,769
24	205,546	0	32,040	66,977	106,529	3,460,027
25	207,602	0	32,040	67,647	107,915	3,494,627
					2,598,487	

Summary of Outright Sale

Estate Impact @ Death:	25th year
Portfolio Balance	2,844,185
Estate Tax	1,564,302
Net to Family	1,279,883
Net To Charity	0

1) Net spendable is figured by taking a spendable rate (6%) multiplied by the period beginning balance and subtracting the income tax. The spendable rate is comparable to the WPT payout rate. The unspent growth is added to the portfolio balance.
2) Income tax is figured by taking the rate of ordinary income (2%) multiplied by the marginal income tax rate (43%) and adding that to the realized capital gain (6% - 2% = 4%) multiplied by the capital gains rate (22.17%). This yields a marginal tax rate of 29.11%.
3) Deduction is subject to 30% of AGI; 5 year carry forward.
4) Insurance amounts/value/premium duration based upon current assumptions, major carrier, NOT GUARANTEED

Summary of Sale with WPT

Estate Impact @ Death:	25th year
Trust Balance	3,494,627
Estate Tax	0
Net to Family (Ins.)(4)	2,600,000
Net to Charity	3,494,627

Extra Net Spendable(cumul.) w/WPT	64,845
Premiums Gifted (4)	801,000

Taxes Saved	25th year
Capital Gains Tax	507,194
Income Tax (3)	377,970
Estate Tax	1,564,302
Total Taxes Saved	2,449,466

Bruce and Nadine Smith

Your Qualified Retirement Plan Dilemma

The Good News

You have Retirement Plan assets that are more than you will spend during your lifetime. This excess will be available to pass on to your family.

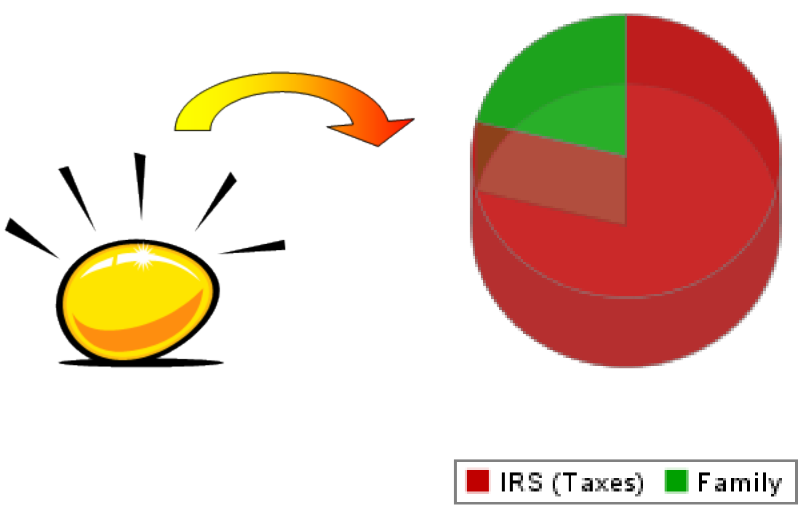
The Bad News

One of the disadvantages of a qualified retirement plan is that upon the death of the surviving spouse, any remaining balance in the plan is subject to double taxation.

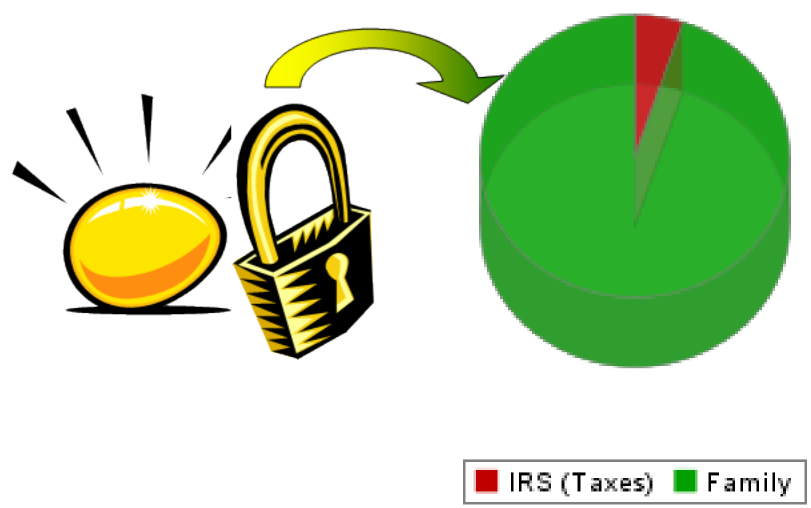
The first of these taxes is the estate tax. The combined Federal & State estate taxes can transfer from 41% to 60% of the qualified plan balance to this confiscatory tax.

The second of the taxes is the income tax. Depending on the distribution election made by the participant, or the cash needs of the estate, the entire balance can be subject to an income taxable distribution following the death of the surviving spouse. This can cause the tax deferred balance to suddenly become subject to Federal and State Income Taxes during the estate settlement process, referred to as Income in Respect of a Decedent (IRD).

Your Situation in 25 Years



Recommendations

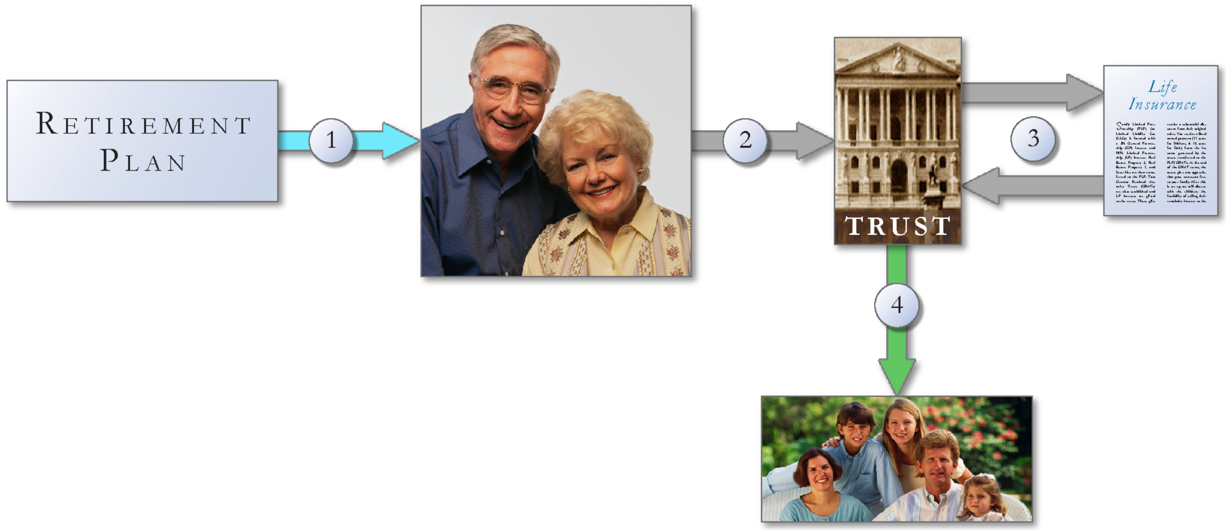


Bruce and Nadine Smith

Current Retirement Plan

	Year	Plan Balance Beg Of Year	Earning @7%	Minimum Distribution	Balance End of Year	Retirement Plan Taxes at Death	% to Taxes	Accum'd in Trust	Plan and Trust Money	Total Taxes	Net To Family
1	2006	1,595,000	111,650	0	1,706,650	1,210,783	70.95%	0	1,706,650	1,210,783	495,867
2	2007	1,706,650	119,466	0	1,826,116	1,283,668	70.29%	0	1,826,116	1,283,668	542,448
3	2008	1,826,116	127,828	66,647	1,887,297	1,326,675	70.3%	41,041	1,928,338	1,345,144	583,194
4	2009	1,887,297	132,111	71,219	1,948,189	1,369,480	70.3%	86,725	2,034,914	1,408,506	626,408
5	2010	1,948,189	136,373	76,101	2,008,461	824,373	41.04%	137,449	2,145,910	824,373	1,321,537
6	2011	2,008,461	140,592	81,314	2,067,739	1,752,889	84.77%	189,548	2,257,287	1,857,140	400,147
7	2012	2,067,739	144,742	86,880	2,125,601	1,801,940	84.77%	246,985	2,372,586	1,937,782	434,804
8	2013	2,125,601	148,792	92,821	2,181,572	1,849,389	84.77%	310,195	2,491,767	2,019,996	471,771
9	2014	2,181,572	152,710	99,162	2,235,120	1,894,783	84.77%	379,646	2,614,766	2,103,588	511,178
10	2015	2,235,120	156,458	105,430	2,286,148	1,938,041	84.77%	455,556	2,741,704	2,188,597	553,108
11	2016	2,286,148	160,030	112,618	2,333,560	1,978,234	84.77%	538,718	2,872,278	2,274,528	597,749
12	2017	2,333,560	163,349	119,670	2,377,240	2,015,262	84.77%	629,354	3,006,593	2,361,407	645,187
13	2018	2,377,240	166,407	127,125	2,416,522	2,048,563	84.77%	728,005	3,144,526	2,448,965	695,561
14	2019	2,416,522	169,157	135,001	2,450,677	2,077,517	84.77%	835,244	3,285,920	2,536,901	749,019
15	2020	2,450,677	171,547	143,314	2,478,910	2,101,451	84.77%	951,676	3,430,586	2,624,873	805,713
16	2021	2,478,910	173,524	152,080	2,500,353	2,119,629	84.77%	1,077,942	3,578,295	2,712,498	865,798
17	2022	2,500,353	175,025	161,313	2,514,065	2,131,253	84.77%	1,214,716	3,728,781	2,799,347	929,434
18	2023	2,514,065	175,985	169,869	2,520,180	2,136,437	84.77%	1,362,048	3,882,228	2,885,564	996,664
19	2024	2,520,180	176,413	178,736	2,517,856	2,134,467	84.77%	1,520,554	4,038,410	2,970,772	1,067,638
20	2025	2,517,856	176,250	187,900	2,506,207	2,124,592	84.77%	1,690,865	4,197,072	3,054,568	1,142,505
21	2026	2,506,207	175,434	197,339	2,484,302	2,106,022	84.77%	1,873,631	4,357,933	3,136,519	1,221,414
22	2027	2,484,302	173,901	207,025	2,451,178	2,077,942	84.77%	2,069,508	4,520,686	3,216,171	1,304,514
23	2028	2,451,178	171,582	215,016	2,407,745	2,041,122	84.77%	2,278,072	4,685,817	3,294,062	1,391,755
24	2029	2,407,745	168,542	222,939	2,353,348	1,995,008	84.77%	2,499,814	4,853,161	3,369,906	1,483,256
25	2030	2,353,348	164,734	230,720	2,287,362	1,939,070	84.77%	2,735,197	5,022,558	3,443,428	1,579,130
26	2031	2,287,362	160,115	238,267	2,209,210	1,872,818	84.77%	2,984,654	5,193,864	3,514,378	1,679,486
27	2032	2,209,210	154,645	242,770	2,121,084	1,798,111	84.77%	3,247,033	5,368,117	3,583,979	1,784,138
28	2033	2,121,084	148,476	246,638	2,022,923	1,714,896	84.77%	3,522,508	5,545,430	3,652,275	1,893,155
29	2034	2,022,923	141,605	249,744	1,914,784	1,623,223	84.77%	3,811,186	5,725,970	3,719,376	2,006,594
30	2035	1,914,784	134,035	251,945	1,796,873	1,523,267	84.77%	4,113,102	5,909,975	3,785,473	2,124,502
31	2036	1,796,873	125,781	253,081	1,669,574	1,415,351	84.77%	4,428,194	6,097,768	3,850,858	2,246,910
32	2037	1,669,574	116,870	249,190	1,537,254	1,303,179	84.77%	4,754,144	6,291,397	3,917,958	2,373,439
33	2038	1,537,254	107,608	244,009	1,400,853	1,187,548	84.77%	5,090,663	6,491,516	3,987,413	2,504,104
34	2039	1,400,853	98,060	237,433	1,261,480	1,069,397	84.77%	5,437,397	6,698,877	4,059,965	2,638,912
35	2040	1,261,480	88,304	229,360	1,120,424	949,819	84.77%	5,793,913	6,914,337	4,136,471	2,777,866

Retirement Plan Maximizer™



The Process

1. Bruce and Nadine begin taking an income from their (respective) retirement programs. The amount taken in this example is designed to deplete their assets at the end of the 15th year.
2. The after tax income is gifted to an Inheritance Trust. It is assumed that there are no gift taxes paid on the gifts due to the number of heirs and the annual exclusions under the Crummey provision.
3. The Trust uses the assets and income of the Trust to purchase a Life Insurance policy. The trust is owner and beneficiary of the policy.
4. The Trust, at the death of the parents, receives the proceeds of the life insurance free of income and estate taxes.

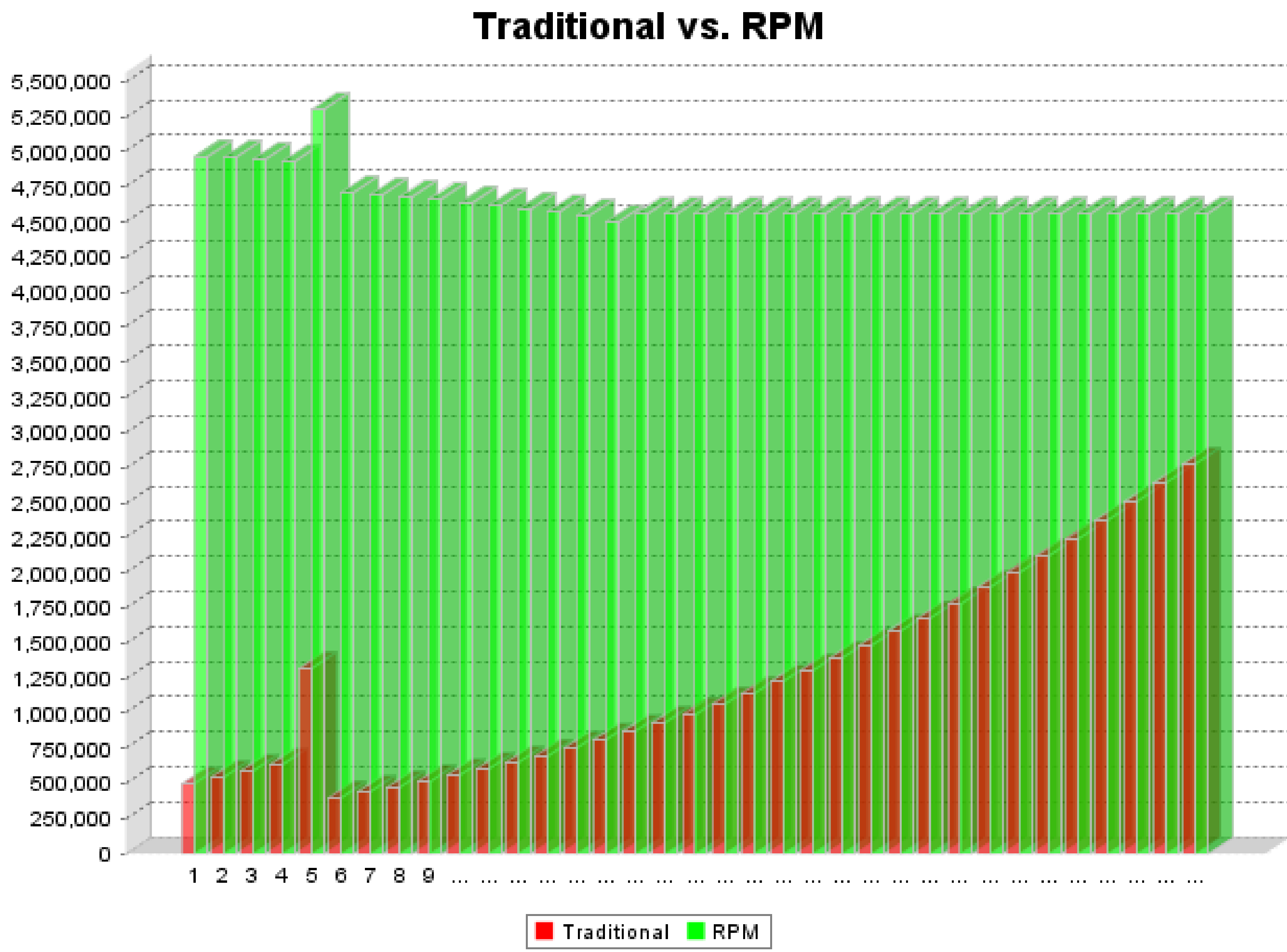
RETIREMENT PLAN MAXIMIZER™ SUMMARY

	Year	Plan Balance Beg Of Year	Earning @7%	Plan Distribution	Balance End of Year	Total Taxes	Net Distribution to Trust	Trust Owned Ins Premium	Year End Value of Trust	Life Insurance Death Benefit	Net To Family
	The RETIREMENT PLAN MAXIMIZER (RPM)						DISTRIBUTION AFTER BOTH DEATHS				
1	2006	1,595,000	111,650	175,122	1,531,528	1,117,412	103,243	98,672	4,775	4,550,000	4,968,891
2	2007	1,531,528	107,207	175,122	1,463,612	1,059,045	103,243	98,672	9,763	4,550,000	4,964,330
3	2008	1,463,612	102,453	175,122	1,390,942	1,007,962	103,243	98,672	14,972	4,550,000	4,947,953
4	2009	1,390,942	97,366	175,122	1,313,186	953,303	103,243	98,672	20,414	4,550,000	4,930,297
5	2010	1,313,186	91,923	175,122	1,229,987	504,848	103,243	98,672	26,098	4,550,000	5,301,236
6	2011	1,229,987	86,099	175,122	1,140,963	1,005,180	95,937	98,672	24,332	4,550,000	4,710,116
7	2012	1,140,963	79,867	175,122	1,045,708	924,429	95,937	98,672	22,493	4,550,000	4,693,772
8	2013	1,045,708	73,200	175,122	943,785	838,026	95,937	98,672	20,578	4,550,000	4,676,338
9	2014	943,785	66,065	175,122	834,728	745,574	95,937	98,672	18,584	4,550,000	4,657,737
10	2015	834,728	58,431	175,122	718,037	646,651	95,937	98,672	16,506	4,550,000	4,637,892
11	2016	718,037	50,263	175,122	593,177	540,804	95,937	98,672	14,343	4,550,000	4,616,716
12	2017	593,177	41,522	175,122	459,577	427,547	95,937	98,672	12,090	4,550,000	4,594,120
13	2018	459,577	32,170	175,122	316,625	306,362	95,937	98,672	9,743	4,550,000	4,570,006
14	2019	316,625	22,164	175,122	163,666	176,694	95,937	98,672	7,299	4,550,000	4,544,271
15	2020	163,666	11,457	175,122	0	52,765	95,937	98,672	4,753	4,550,000	4,501,988
16	2021	0	0	0	0	0	0	0	4,950	4,550,000	4,554,950
17	2022	0	0	0	0	0	0	0	5,156	4,550,000	4,555,156
18	2023	0	0	0	0	0	0	0	5,370	4,550,000	4,555,370
19	2024	0	0	0	0	0	0	0	5,593	4,550,000	4,555,593
20	2025	0	0	0	0	0	0	0	5,825	4,550,000	4,555,825
21	2026	0	0	0	0	0	0	0	6,066	4,550,000	4,556,066
22	2027	0	0	0	0	0	0	0	6,318	4,550,000	4,556,318
23	2028	0	0	0	0	0	0	0	6,580	4,550,000	4,556,580
24	2029	0	0	0	0	0	0	0	6,853	4,550,000	4,556,853
25	2030	0	0	0	0	0	0	0	7,138	4,550,000	4,557,138
26	2031	0	0	0	0	0	0	0	7,434	4,550,000	4,557,434
27	2032	0	0	0	0	0	0	0	7,743	4,550,000	4,557,743
28	2033	0	0	0	0	0	0	0	8,064	4,550,000	4,558,064
29	2034	0	0	0	0	0	0	0	8,398	4,550,000	4,558,398
30	2035	0	0	0	0	0	0	0	8,747	4,550,000	4,558,747
31	2036	0	0	0	0	0	0	0	9,110	4,550,000	4,559,110
32	2037	0	0	0	0	0	0	0	9,488	4,550,000	4,559,488
33	2038	0	0	0	0	0	0	0	9,882	4,550,000	4,559,882
34	2039	0	0	0	0	0	0	0	10,292	4,550,000	4,560,292
35	2040	0	0	0	0	0	0	0	10,719	4,550,000	4,560,719

Traditional vs. Retirement Plan Maximizer™

Net (after all taxes) Amount To Family

	Year	Amount to Family "Before"	Amount to Family "RPM"	RPM vs Before Advantage
1	2006	495,867	4,968,891	4,473,023
2	2007	542,448	4,964,330	4,421,882
3	2008	583,194	4,947,953	4,364,759
4	2009	626,408	4,930,297	4,303,889
5	2010	1,321,537	5,301,236	3,979,699
6	2011	400,147	4,710,116	4,309,968
7	2012	434,804	4,693,772	4,258,968
8	2013	471,771	4,676,338	4,204,567
9	2014	511,178	4,657,737	4,146,559
10	2015	553,108	4,637,892	4,084,784
11	2016	597,749	4,616,716	4,018,966
12	2017	645,187	4,594,120	3,948,933
13	2018	695,561	4,570,006	3,874,445
14	2019	749,019	4,544,271	3,795,252
15	2020	805,713	4,501,988	3,696,275
16	2021	865,798	4,554,950	3,689,152
17	2022	929,434	4,555,156	3,625,722
18	2023	996,664	4,555,370	3,558,705
19	2024	1,067,638	4,555,593	3,487,954
20	2025	1,142,505	4,555,825	3,413,320
21	2026	1,221,414	4,556,066	3,334,653
22	2027	1,304,514	4,556,318	3,251,804
23	2028	1,391,755	4,556,580	3,164,825
24	2029	1,483,256	4,556,853	3,073,598
25	2030	1,579,130	4,557,138	2,978,007
26	2031	1,679,486	4,557,434	2,877,948
27	2032	1,784,138	4,557,743	2,773,604
28	2033	1,893,155	4,558,064	2,664,909
29	2034	2,006,594	4,558,398	2,551,804
30	2035	2,124,502	4,558,747	2,434,245
31	2036	2,246,910	4,559,110	2,312,200
32	2037	2,373,439	4,559,488	2,186,049
33	2038	2,504,104	4,559,882	2,055,778
34	2039	2,638,912	4,560,292	1,921,380
35	2040	2,777,866	4,560,719	1,782,853


Traditional vs. RPM
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Traditional
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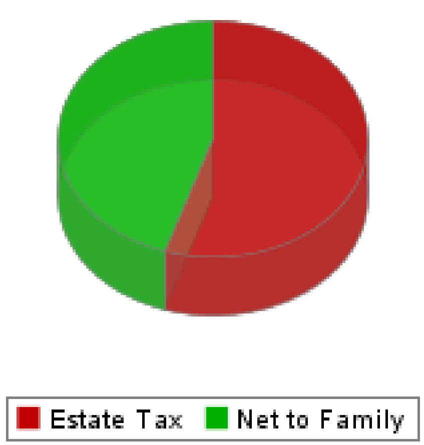
THE PROBLEM

Due to your sound financial acumen, your assets Boardwalk, Park Place, provide steady growth and income. However, the fair market value plus growth and income not spent continue to add to your estate tax liability.

Todays Fair Market Value	$5,457,424
Projected Years of Growth	25.0
Average Growth Rate	5.98%
Average Income Rate	4.76%
Total Value (projected) in Taxable Estate	**$36,573,235**
Estate Tax (55%)	**$20,115,279**
Net Value Passing to Family	**$16,457,956**

Asset Distribution



When one's estate (and the estate tax liability) is growing faster than can be reduced by personal spending and normal (tax free) gifting to one's family, leveraged gifts can be very effective. This process can reduce the value of the assets being transferred, often resulting in the reduction of taxes.

Let's examine a double discount leveraging technique that is often utilized with this circumstance.

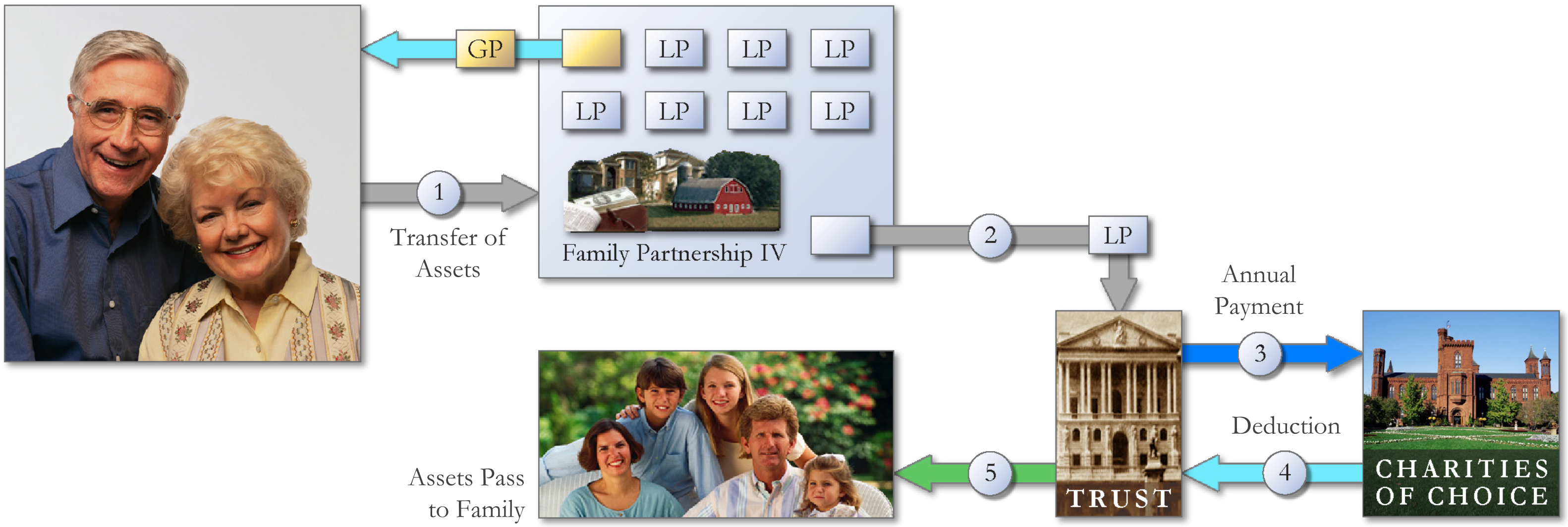
CURRENT SITUATION

Assets	Current Full Value	Grown for 25 years
Boardwalk	2,303,000	9,884,178
Park Place	3,038,000	13,038,703
Total of Assets	5,341,000	22,922,882
Securities & Rental Income	116,424	13,650,354
Total Value	5,457,424	36,573,235
Value for Estate Tax Purpose	5,457,424	22,922,882
Value of excess cash invested	-	13,650,354
Total value in estate	5,457,424	36,573,235
Estate Tax	(3,001,583)	(20,115,279)
Amount to Family	$2,455,841	$16,457,956
Amount to Charity	$0	$0

Securities + accum. Net Rental Income + accum. Securities

	Rental Income From Assets	Income Taxes on Rents	Net Earnings on Sec. Portfolio (0%)	Portfolio Balance
				116,424
1	257,417	(111,024)	5,821	268,638
2	272,862	(117,685)	13,432	437,246
3	289,233	(124,746)	21,862	623,596
4	306,587	(132,231)	31,180	829,132
5	324,983	(140,165)	41,457	1,055,406
6	344,481	(148,575)	52,770	1,304,083
7	365,150	(157,489)	65,204	1,576,948
8	387,059	(166,939)	78,847	1,875,916
9	410,283	(176,955)	93,796	2,203,040
10	434,900	(187,572)	110,152	2,560,519
11	460,994	(198,827)	128,026	2,950,712
12	488,654	(210,756)	147,536	3,376,145
13	517,973	(223,402)	168,807	3,839,524
14	549,051	(236,806)	191,976	4,343,745
15	581,994	(251,014)	217,187	4,891,912
16	616,914	(266,075)	244,596	5,487,347
17	653,929	(282,039)	274,367	6,133,604
18	693,164	(298,962)	306,680	6,834,486
19	734,754	(316,900)	341,724	7,594,065
20	778,840	(335,913)	379,703	8,416,695
21	825,570	(356,068)	420,835	9,307,031
22	875,104	(377,432)	465,352	10,270,054
23	927,610	(400,078)	513,503	11,311,089
24	983,267	(424,083)	565,554	12,435,828
25	1,042,263	(449,528)	621,791	13,650,354

CHARITABLE LEAD ANNUITY TRUST (CLAT)



THE PROCESS

1. A Family Limited Partnership (FLP) is formed with a 2% General Partnership (GP) interest and 98% Limited Partnership (LP) interest. Assets are then transferred to the FLP.
2. A Charitable Lead Annuity Trust (CLAT) is also established and LP interests are gifted to the trust. This gift receives a substantial discount from its original value.
3. The charity(ies) of your choice receive(s) a fixed annual payment for 15 years from the income generated by the assets transferred to the FLP/CLAT.
4. The CLAT receives an income tax charitable deduction for the payments made to charity(ies). Any excess income is taxed and the net accumulates in the trust.
5. At the end of the CLAT term, the assets plus any appreciation and excess income pass estate-tax free to your family.

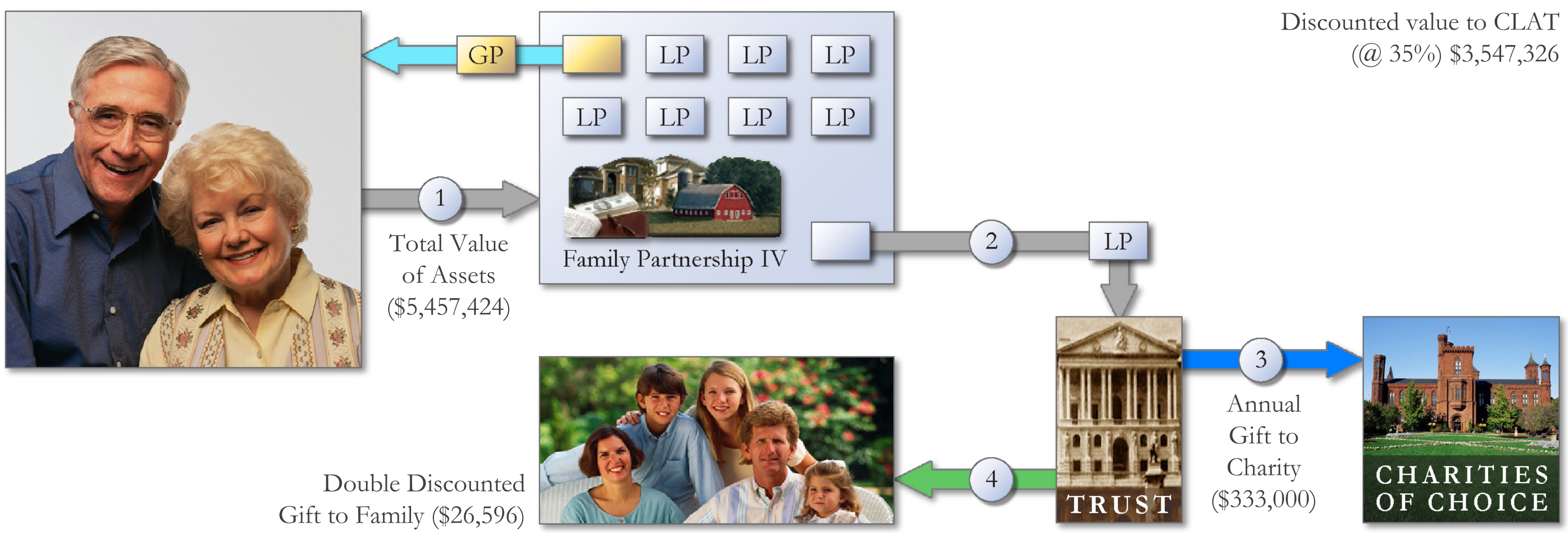
BENEFITS OF USING THIS TECHNIQUE

- Valuation discounts are made possible by the FLP. An additional discount is obtained by the CLAT.
- Only a portion of the full value of the assets is subject to estate/gift taxes.
- Full value of the net assets remaining in the CLAT is later transferred to the heirs without additional tax.
- Excess earnings and growth in the value of the assets add to the benefit for the family.
- The substantial tax savings are shared by the heirs and the selected charities.

SIDE EFFECTS/DRAW BACKS OF USING THIS TECHNIQUE

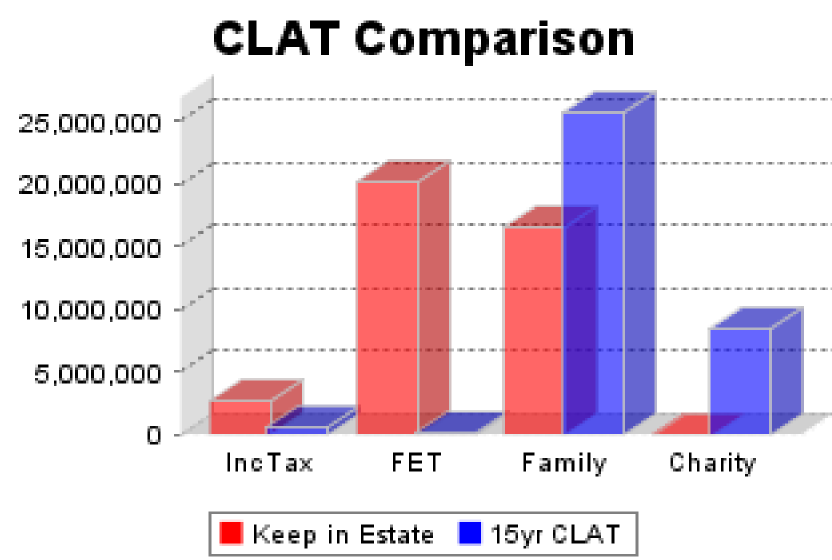
- All income from these assets is directed to charity or retained in the trust.
- Heirs lose the step-up in basis of the assets upon the parents' death(s).

The Comparison



Comparison in 25 Years

	Keep in the Estate	15 yr CLAT	Difference
Total Income Taxes:	$2,591,473	$529,189	$2,062,284
Estate/Gift Taxable:	**$36,573,235**	**$26,596**	**$36,546,640**
Total Estate/Gift Taxes:	**$20,115,279**	**$14,628***	**$20,100,652**
Total to Family	**$16,457,956**	**$25,580,011**	**$9,122,055**
Total to Charity	**$0**	**$8,367,964**	**$8,367,964**



* Taxable gifts are covered by the lifetime exemptions.

The Problem

Your assets of Path of Progres have the potential to grow very dramatically over the next few years. This is great news until we calculate your future estate tax liability

Today's Fair Market Value	**$3,500,000**
Projected Years of Growth	**25**
Average Growth Rate	**10%**
Average Income Rate	**2.86%**
Total Value (projected) in Taxable Estate	**$45,327,247**
Estate Tax (55%)	**$24,929,986**
Net Value Passing to Family	**$20,397,261**

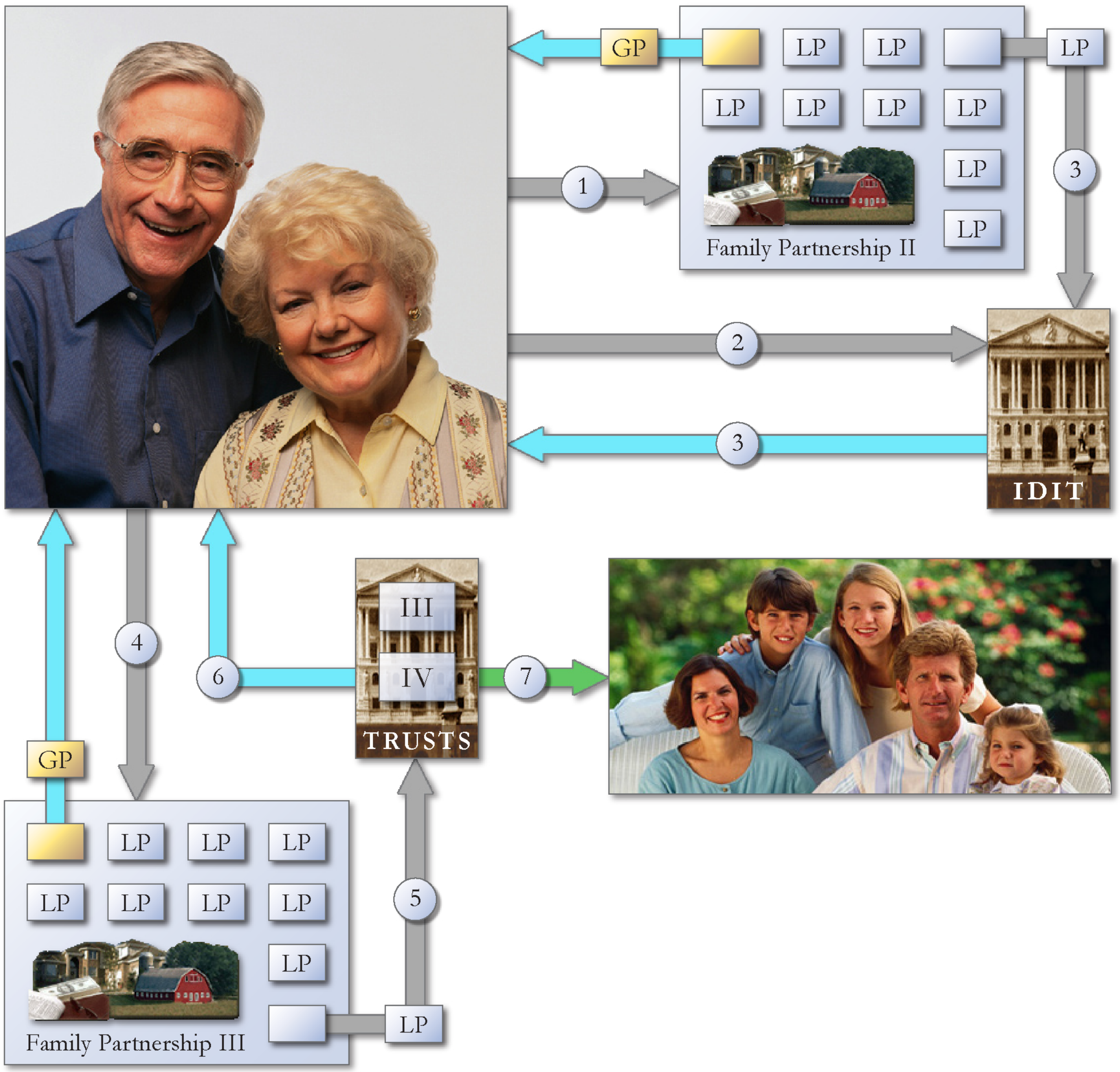
When an asset is growing very rapidly in one's estate, and the estate tax liability is growing faster than can be reduced by normal gifting techniques, a different approach can be taken.

Let's examine a combination of leveraging techniques that can be utilized with this circumstance.

Estate Taxes Before Tax Planning With IDIT

Number	Year	Total Real Estate Value	Total Securities Portfolio Growth	Yield On RE @ 3.00% After Tax	Yield On Sec. Div'd @ 2.00% After Tax	Yield On Sec. Gr'wth @ 5.00% After Tax	Total Taxable Estate	Total Estate Taxes	Total To Estate Taxes	Net To Family
1	2006	3,500,000	1,977,467	56,738	33,660	53,996	5,477,467	2,519,635	46%	2,957,832
2	2007	3,850,000	2,121,860	62,412	36,117	57,938	5,827,467	2,622,360	45%	3,205,107
3	2008	4,235,000	2,278,328	68,654	38,781	62,211	6,356,860	2,860,587	45%	3,496,273
4	2009	4,658,500	2,447,973	75,519	41,668	66,843	6,936,828	3,121,573	45%	3,815,255
5	2010	5,124,350	2,632,003	83,071	44,801	71,868	7,572,323	0	0%	7,572,323
6	2011	5,636,785	2,831,743	84,911	44,790	70,917	8,268,788	4,547,833	55%	3,720,955
7	2012	6,200,464	3,032,360	93,402	47,963	75,941	9,032,206	4,967,713	55%	4,064,493
8	2013	6,820,510	3,249,666	102,743	51,400	81,383	9,852,870	5,419,078	55%	4,433,791
9	2014	7,502,561	3,485,191	113,017	55,125	87,281	10,752,227	5,913,725	55%	4,838,502
10	2015	8,252,817	3,740,615	124,318	59,165	93,678	11,738,008	6,455,905	55%	5,282,104
11	2016	9,078,099	4,017,776	136,750	63,549	100,619	12,818,713	7,050,292	55%	5,768,421
12	2017	9,985,908	4,318,695	150,425	68,309	108,155	14,003,685	7,702,027	55%	6,301,658
13	2018	10,984,499	4,645,584	165,468	73,479	116,342	15,303,194	8,416,757	55%	6,886,437
14	2019	12,082,949	5,000,872	182,015	79,099	125,239	16,728,533	9,200,693	55%	7,527,840
15	2020	13,291,244	5,387,225	200,216	85,209	134,915	18,292,116	10,060,664	55%	8,231,452
16	2021	14,620,369	5,807,565	220,238	91,858	145,442	20,007,593	11,004,176	55%	9,003,417
17	2022	16,082,405	6,265,103	242,261	99,095	156,900	21,889,971	12,039,484	55%	9,850,487
18	2023	17,690,646	6,763,359	266,488	106,976	169,378	23,955,749	13,175,662	55%	10,780,087
19	2024	19,459,711	7,306,201	293,136	115,562	182,973	26,223,070	14,422,688	55%	11,800,381
20	2025	21,405,682	7,897,872	322,450	124,920	197,790	28,711,882	15,791,535	55%	12,920,347
21	2026	23,546,250	8,543,032	354,695	135,125	213,947	31,444,122	17,294,267	55%	14,149,855
22	2027	25,900,875	9,246,800	390,165	146,256	231,572	34,443,907	18,944,149	55%	15,499,758
23	2028	28,490,962	10,014,793	429,181	158,403	250,805	37,737,762	20,755,769	55%	16,981,993
24	2029	31,340,059	10,853,183	472,099	171,664	271,802	41,354,851	22,745,168	55%	18,609,683
25	2030	34,474,064	11,768,748	519,309	186,146	294,731	45,327,247	24,929,986	55%	20,397,261
26	2031	37,921,471	12,768,933	571,240	201,966	319,779	49,690,218	27,329,620	55%	22,360,598
27	2032	41,713,618	13,861,917	628,364	219,253	347,151	54,482,551	29,965,403	55%	24,517,148
28	2033	45,884,980	15,056,685	691,200	238,151	377,072	59,746,897	32,860,793	55%	26,886,104
29	2034	50,473,478	16,363,109	760,320	258,814	409,790	65,530,163	36,041,590	55%	29,488,573
30	2035	55,520,825	17,792,033	836,352	281,416	445,575	71,883,934	39,536,164	55%	32,347,770

Intentionally Defective Irrevocable Trust (IDIT)



The Process

1 A Family Limited Partnership (FLP) is formed with a 2% General Partnership (GP) interest and 98% Limited Partnership (LP) interest. Assets are transferred to the FLP. with each of you recieving one half of the GP/LP shares.

2,3 LP interests are sold by each of you to an Intentionally Defective Irrevocable Trust (IDIT) set up for the benefit of your children, grandchildren, etc. The sale price is discounted by 40%, due to the LP interests you each have and the underlying illiquid real estate asset. You each obtain notes recievable for the discounted value, paying 5% interest only, with a balloon payment due in 15 years.

4,5,6,7 The notes are then combined with Securities Portfolio assets and placed in another FLP. You each then transfer your respective 49% LP interest in the FLP into seperate GRATS, set up for 10 years and then payable to the children.

Benefits of using this technique.

- The FLP discounts the asset value.
- The IDIT enables the freezing of a rapidly growing value.
- Then the GRATS remove the remaining value from the taxable estate

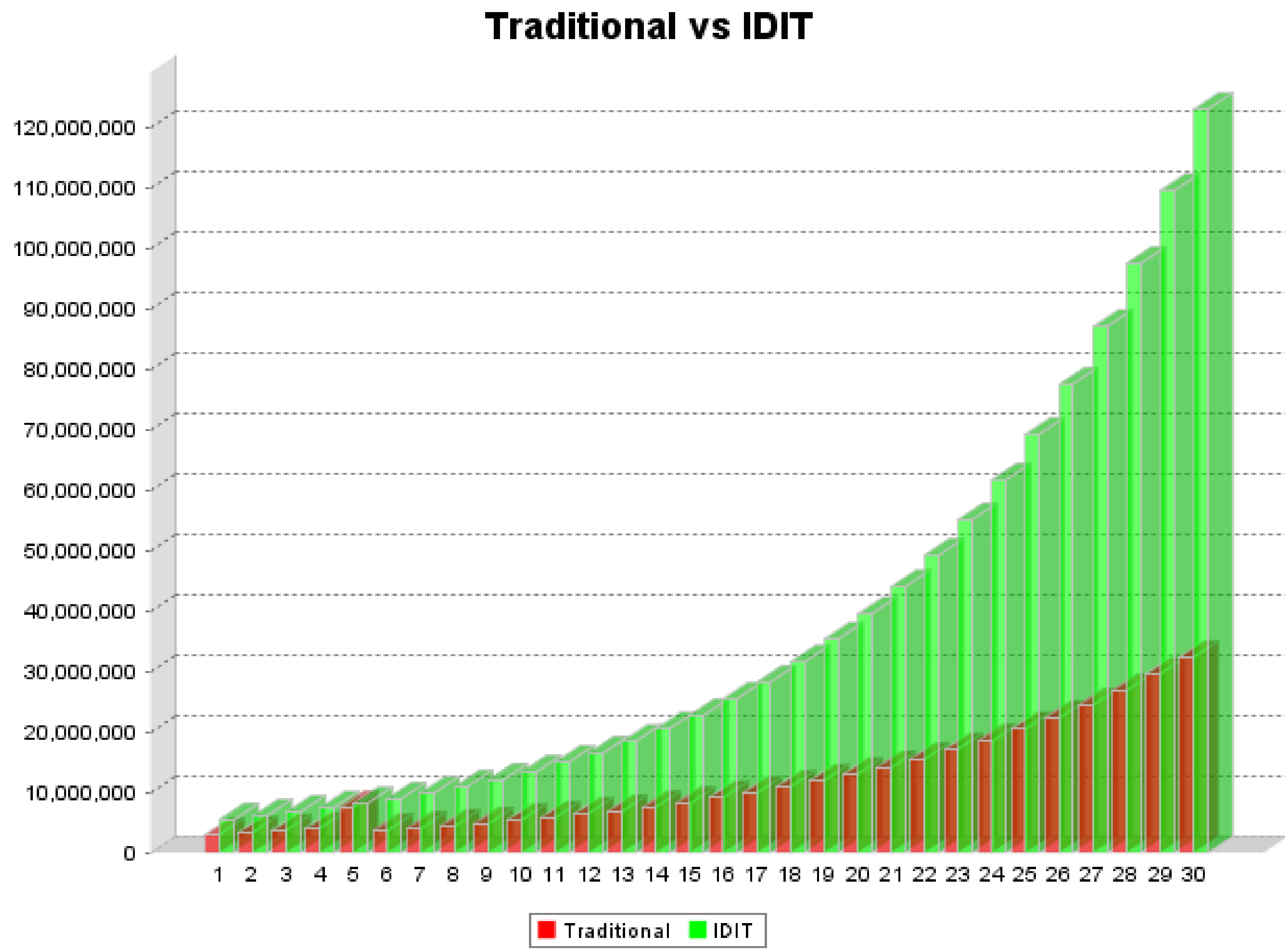
Estate Taxes After Tax Planning With IDIT

Number	Year	Total Real Estate Value	Note & Principal Payment From Real Estate	Total Securities Portfolio	Yield On Securities @ 7.00%	GRAT Payment From Securities	End Of Year Total Taxable Estate	Total Estate Taxes	Total To Estate Taxes	Net To Family
1	2006	3,430,000	0	1,977,467	98,873	0	0	0	46%	5,506,340
2	2007	3,871,000	0	2,076,340	103,817	0	0	0	45%	6,051,157
3	2008	4,368,700	0	2,180,157	109,008	0	0	0	45%	6,657,865
4	2009	4,930,390	0	2,289,165	114,458	0	0	0	45%	7,334,013
5	2010	5,564,297	0	2,403,623	120,181	0	0	0	0%	8,088,101
6	2011	6,279,707	0	2,523,804	126,190	0	0	0	55%	8,929,701
7	2012	7,087,098	0	2,649,994	132,500	0	0	0	55%	9,869,592
8	2013	7,998,296	0	2,782,494	139,125	0	0	0	55%	10,919,915
9	2014	9,026,648	0	2,921,619	146,081	0	0	0	55%	12,094,348
10	2015	10,187,218	0	3,067,700	153,385	0	0	0	55%	13,408,302
11	2016	11,497,003	0	3,221,085	161,054	0	0	0	55%	14,879,142
12	2017	12,975,189	0	3,382,139	169,107	0	0	0	55%	16,526,435
13	2018	14,643,427	0	3,551,246	177,562	0	0	0	55%	18,372,235
14	2019	16,526,154	0	3,728,808	186,440	0	0	0	55%	20,441,402
15	2020	18,650,945	0	3,915,249	195,762	0	0	0	55%	22,761,956
16	2021	21,048,923	0	4,111,011	205,551	0	0	0	55%	25,365,485
17	2022	23,755,214	0	4,316,562	215,828	0	0	0	55%	28,287,603
18	2023	26,809,455	0	4,532,390	226,619	0	0	0	55%	31,568,464
19	2024	30,256,385	0	4,759,009	237,950	0	0	0	55%	35,253,345
20	2025	34,146,492	0	4,996,960	249,848	0	0	0	55%	39,393,300
21	2026	38,536,755	0	5,246,808	262,340	0	0	0	55%	44,045,903
22	2027	43,491,481	0	5,509,148	275,457	0	0	0	55%	49,276,086
23	2028	49,083,243	0	5,784,605	289,230	0	0	0	55%	55,157,078
24	2029	55,393,946	0	6,073,836	303,692	0	0	0	55%	61,771,473
25	2030	62,516,024	0	6,377,527	318,876	0	0	0	55%	69,212,428
26	2031	70,553,799	0	6,696,404	334,820	0	0	0	55%	77,585,023
27	2032	79,625,001	0	7,031,224	351,561	0	0	0	55%	87,007,787
28	2033	89,862,502	0	7,382,785	369,139	0	0	0	55%	97,614,426
29	2034	101,416,252	0	7,751,924	387,596	0	0	0	55%	109,555,772
30	2035	114,455,484	0	8,139,521	406,976	0	0	0	55%	123,001,981

Before and After With IDIT Estate Tax Planning

Number	Year	Total Estate Taxes Before IDIT	Total Estate Taxes After IDIT	Decrease In Estate Taxes After IDIT	Net To Family Before IDIT	Net To Family After IDIT	Increase To Family After IDIT
1	2006	2,519,635	0	2,519,635	2,957,832	5,506,340	2,548,508
2	2007	2,622,360	0	2,622,360	3,205,107	6,051,157	2,846,050
3	2008	2,860,587	0	2,860,587	3,496,273	6,657,865	3,161,592
4	2009	3,121,573	0	3,121,573	3,815,255	7,334,013	3,518,758
5	2010	0	0	0	7,572,323	8,088,101	515,778
6	2011	4,547,833	0	4,547,833	3,720,955	8,929,701	5,208,747
7	2012	4,967,713	0	4,967,713	4,064,493	9,869,592	5,805,099
8	2013	5,419,078	0	5,419,078	4,433,791	10,919,915	6,486,123
9	2014	5,913,725	0	5,913,725	4,838,502	12,094,348	7,255,846
10	2015	6,455,905	0	6,455,905	5,282,104	13,408,302	8,126,199
11	2016	7,050,292	0	7,050,292	5,768,421	14,879,142	9,110,721
12	2017	7,702,027	0	7,702,027	6,301,658	16,526,435	10,224,776
13	2018	8,416,757	0	8,416,757	6,886,437	18,372,235	11,485,798
14	2019	9,200,693	0	9,200,693	7,527,840	20,441,402	12,913,562
15	2020	10,060,664	0	10,060,664	8,231,452	22,761,956	14,530,503
16	2021	11,004,176	0	11,004,176	9,003,417	25,365,485	16,362,068
17	2022	12,039,484	0	12,039,484	9,850,487	28,287,603	18,437,116
18	2023	13,175,662	0	13,175,662	10,780,087	31,568,464	20,788,377
19	2024	14,422,688	0	14,422,688	11,800,381	35,253,345	23,452,963
20	2025	15,791,535	0	15,791,535	12,920,347	39,393,300	26,472,952
21	2026	17,294,267	0	17,294,267	14,149,855	44,045,903	29,896,048
22	2027	18,944,149	0	18,944,149	15,499,758	49,276,086	33,776,328
23	2028	20,755,769	0	20,755,769	16,981,993	55,157,078	38,175,086
24	2029	22,745,168	0	22,745,168	18,609,683	61,771,473	43,161,790
25	2030	24,929,986	0	24,929,986	20,397,261	69,212,428	48,815,167
26	2031	27,329,620	0	27,329,620	22,360,598	77,585,023	55,224,424
27	2032	29,965,403	0	29,965,403	24,517,148	87,007,787	62,490,639
28	2033	32,860,793	0	32,860,793	26,886,104	97,614,426	70,728,322
29	2034	36,041,590	0	36,041,590	29,488,573	109,555,772	80,067,199
30	2035	39,536,164	0	39,536,164	32,347,770	123,001,981	90,654,211

Intentionally Defective Irrevocable Trust Comparison



Eliminating the GRAT Side Effects

By Strategically combining the tax advantages of the 10 Year GRAT with life insurance, your plan may eliminate the side effects (see below) of the GRAT technique. The insurance is designed to provide you with -8624.84% of the tax savings, regardless of when deaths occur.

How Does This Work

Growth and Income of the GRAT (Year 9)		**$13,254,917**
Estate Taxes (if death occurs too soon)		**7,290,204**
Insurance Death Benefit	(a)	**515,769**
Annual Insurance Premium		**5,000,000**
Accumulated Cost of Insurance ($5,000,000 x 9 years)	(b)	**$45,000,000**
Cash Value of Life Insurance	(c)	**$0**
Cost to Preserve Tax Savings (Insurance)	(d)=(b-c)	**$45,000,000**
Cost of Protection as a Percent of Tax Savings	(d)/(a)	**8724.84%**
Percent of Tax Savings Realized		**-8624.84%**

Side Effect

If death occurs before the end of the GRAT term, GRAT payments and the assets are included in the taxable estate not as cash, but as continued annuity payments, thus not available to pay the tax.

Solution

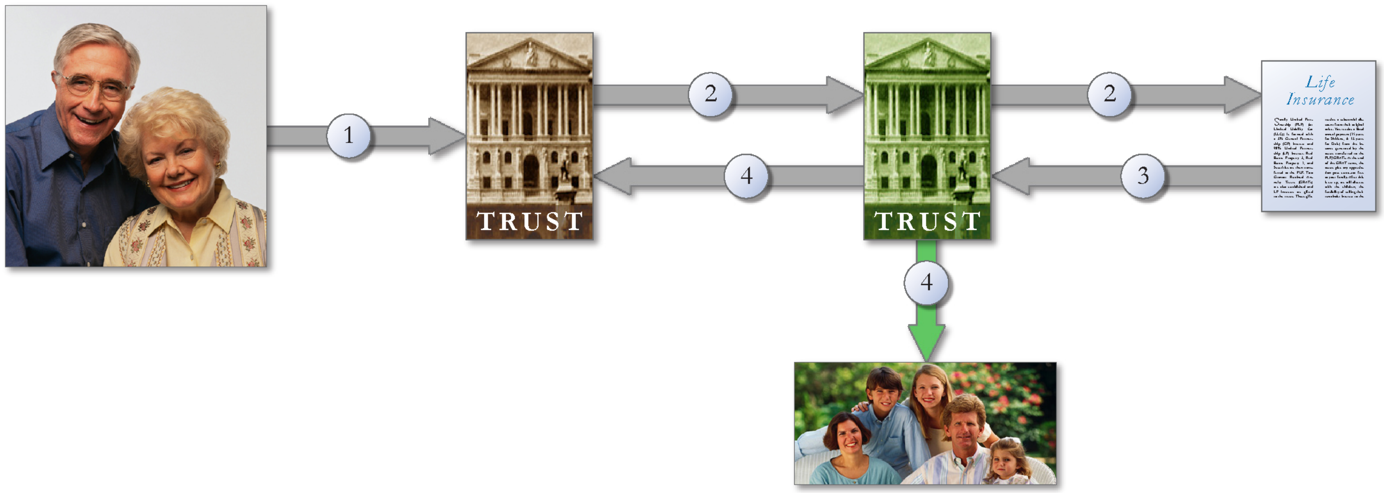
Insurance proceeds replace the tax savings if early death occurs. These tax-free proceeds (when insurance is owned outside the estate) are in addition to any assets passing through the estate.

Summary

Professionals often refer to the Grantor Retained Annuity Trust (GRAT) as a "heads you win, tails you tie" scenario. However, combining the power of the GRAT with life insurance yields a "heads you win, tails you win" outcome for you and for your family.

Bruce and Nadine Smith

Irrevocable Inheritance (Crummey) Trust



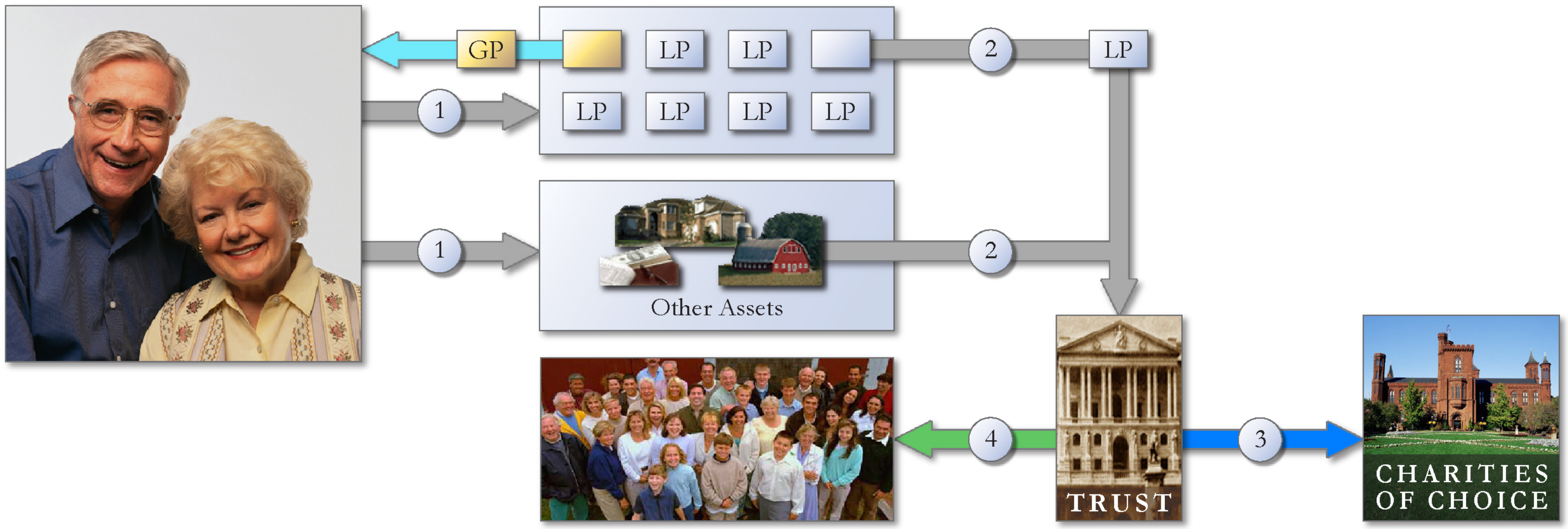
1. Bruce & Nadine make annual gifts of $306,210 to an Irrevocable Inheritance (Crummey) Trust utilizing annual exclusion gifts, which can be made for both children and grandchildren.
2. The trustee uses the gifts to loan money to the Multigenerational Trust which then purchases $20,150,000 of life insurance on Bruce and Nadine's lives with an annual premium of $306,210.
3. Upon the second death (of Bruce & Nadine), the life insurance proceeds are paid to the Multigenerational Trust free of both income and estate taxes.
4. The Multigenerational Trust then uses insurance proceeds to repay the loan to this trust.
5. Distributions are made to children and grandchildren from both trusts, as directed by instructions from Bruce and Nadine

Other Issues

- Trustee must notify the beneficiaries in writing of the gift made to this trust. (Crummey power withdrawal right letters drafted by attorney)
- Beneficiaries have a certain amount of time (e.g. 30 days) to 'demand' their share of the gift. This withdrawal right creates a "present interest (vs. a "future interest") gift", thus enabling the annual exclusion to apply.
- Beneficiaries can elect to receive some or all of their gift, refuse the gift in writing, or waive the gift by allowing their option to lapse.

Bruce and Nadine Smith

Testamentary Charitable Lead Annuity Trust



1. Upon both of your deaths, a Testamentary Charitable Lead Annuity Trust (Test. CLAT), which will be described in your Living Trust, becomes operative. Except for personal effects and enough liquidity to pay administrative expenses, all other remaining assets are then transferred to the Test. CLAT. Your estate will receive a substantial deduction from the taxable estate based on the term of the trust and the payout to charity.
2. The family foundation (discussed next) and subsequently the charity(ies) of choice receive(s) a fixed annual payment for 20 years from the income generated by the use of assets transferred to the Test. CLAT.
3. At the end of the Test. CLAT term, the assets plus any appreciation pass estate-tax free to the family.

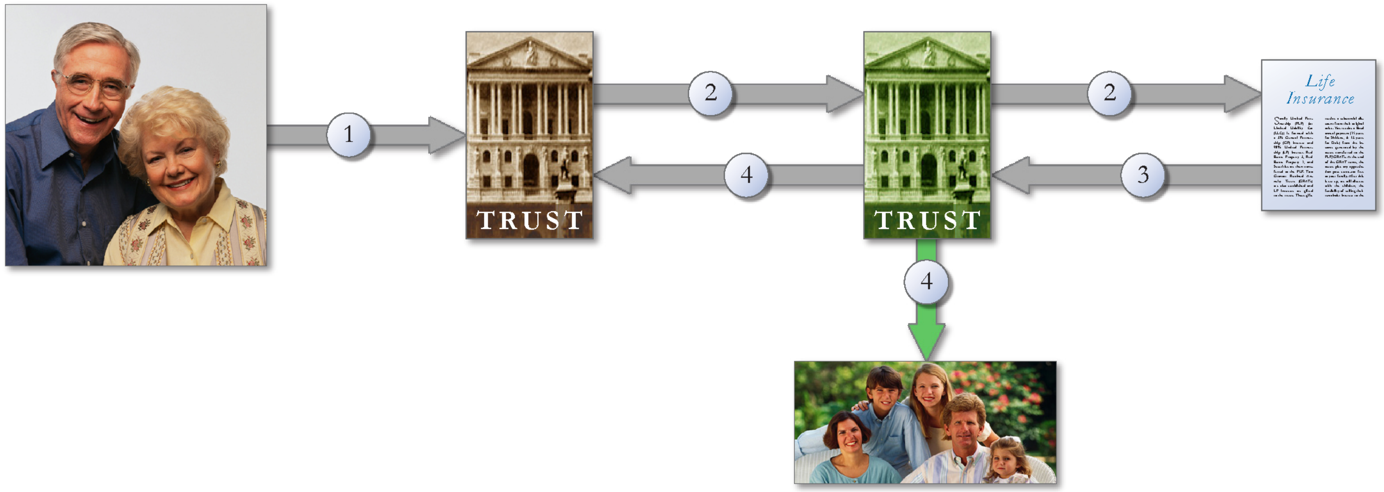
Benefits of Using this Technique

- A substantial discount is obtained by your estate through utilizing the Test. CLAT.
- Bruce and Nadine have full control of assets while living, and can choose the level of control by the family after death.
- Full value of the assets is later transferred to the family without additional tax.
- Excess earnings and growth in the value of assets add to the benefit to the family.
- The substantial tax savings are shared by the family and selected charities.
- Assets transferred to Test. CLAT receive a step up in basis.

Side Effects / Draw backs of using this technique

- Heirs do not receive the benefit of the assets until after the CLAT term expires.

Irrevocable Life Insurance (Crummey) Trust



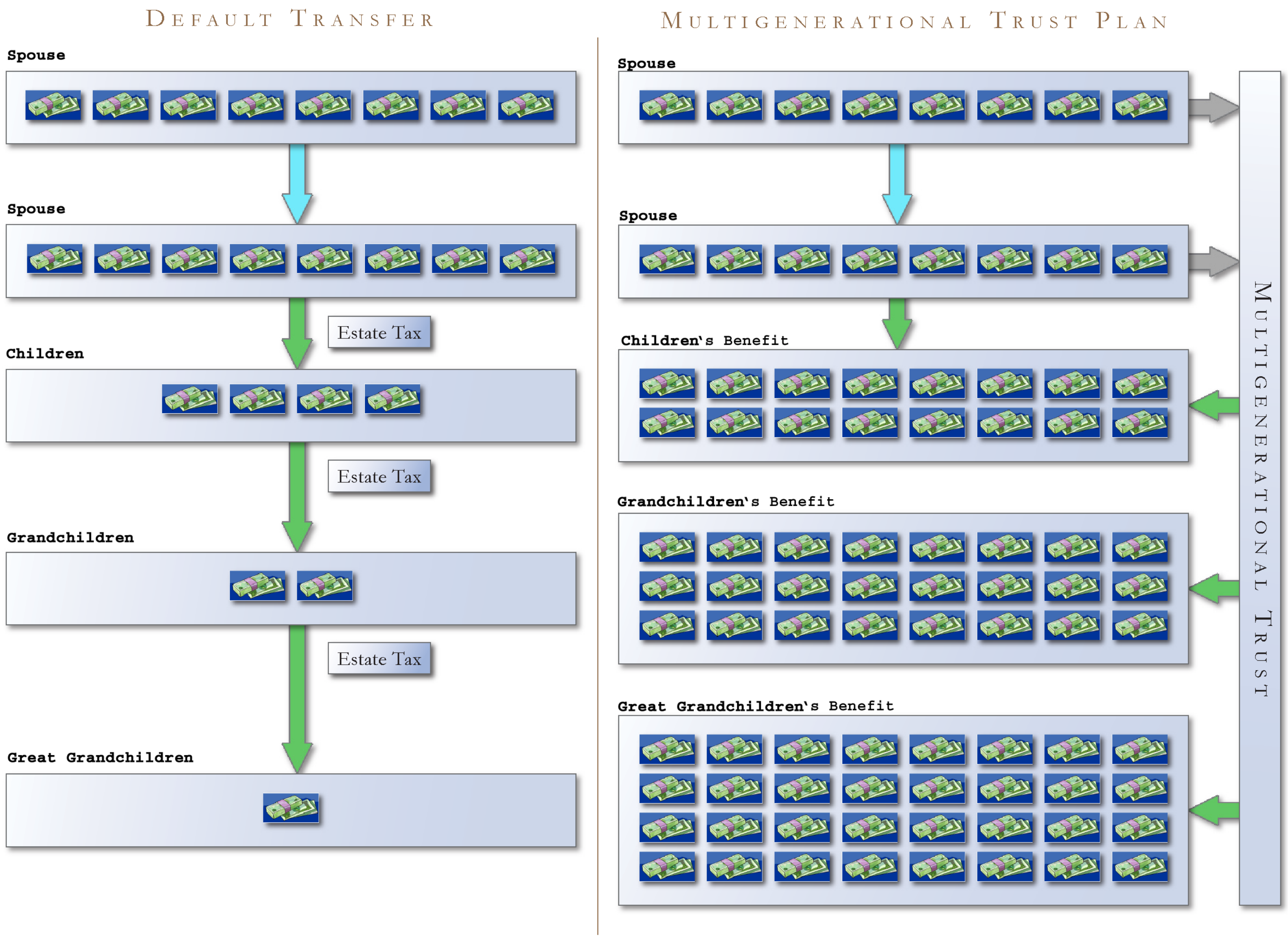
1. Bruce & Nadine gift their Life Insurance to an Irrevocable Inheritance (Crummey) Trust.
2. The life insurance policies on both Bruce and Nadine are then owned by the trust, and upon second death, are transfered to their heirs.

Other Issues

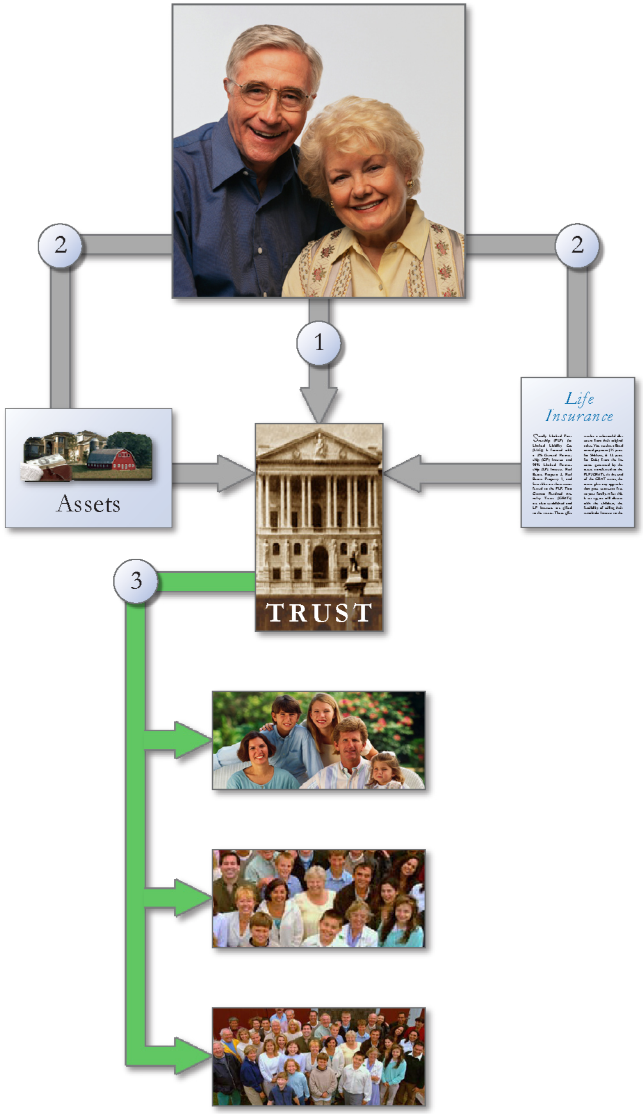
- Trustee must notify the beneficiaries in writing of the gift made to this trust. (Crummey power withdrawal right letters drafted by attorney)
- Beneficiaries have a certain amount of time (e.g. 30 days) to 'demand' their share of the gift. This withdrawal right creates a "present interest (vs. a "future interest") gift".
- Beneficiaries can elect to receive some or all of their gift, refuse the gift in writing, or waive the gift by allowing their option to lapse.

Bruce and Nadine Smith

Multigenerational Trust



MULTIGENERATIONAL TRUST



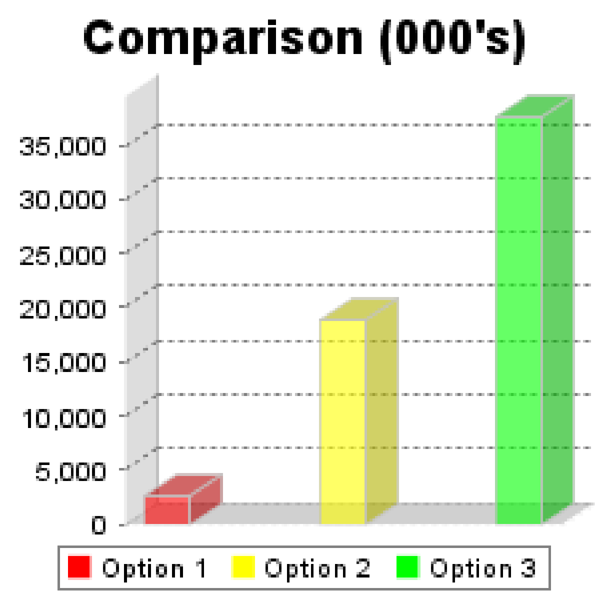
1. Bruce and Nadine transfer Marketable Securities to a Family Limited Partnership (FLP).
2. LP interests are then gifted to the Multigenerational Trust, utilizing Generation-Skipping Tax Exemptions. The FLP interests could receive discounts for a lack of marketability and a lack of control.
3. Assets can be protected for family from divorced spouses, creditors, and estate taxes.
4. Earnings of the Multigenerational Trust can benefit future posterity according to the financial philosophy designated by Bruce and Nadine in the trust instrument.
5. Upon the deaths of children, grandchildren, etc., assets remaining in the trust can avoid estate taxes as long as the trust is allowed to continue. This length of time is based upon the laws of each state, called the "Rule against perpetuities". In many states, this trust could last as long as 100 years or so, whereas in others such as Delaware, South Dakota or Alaska it could last indefinitely.
6. The Multigenerational Trust can also use Life Insurance and other assets to leverage, hedge and add to the gifted capital. (Please refer to Recommendations for details.)

Grantor Multigenerational Trusts

	Option 1 Normal Estate Distribution		Option 2 Multigenerational Trusts in CA		Option 3 Multigenerational Trusts in Delaware	
First Generation (18 years)						
Starting Value	$	1,826,000	$	1,826,000	$	1,826,000
Net Growth of Assets	$	4,345,756	$	3,386,023	$	3,386,023
Value At Death	$	6,171,756	$	5,212,023	$	5,212,023
Less Estate Tax	$	2,839,008		0		0
Total Benefit to family	**$**	**3,332,748**	**$**	**5,212,023**	**$**	**5,212,023**
Present Value of Amount to family (3% Infl.)	$	1,957,638	$	3,061,514	$	3,061,514
Second Generation (25 years)						
Starting Value	$	3,332,748	$	5,212,023	$	5,212,023
Average Annual Income 3% per year	$	86,876	$	143,667	$	145,603
PV of Average Income (3% Infl)	$	24,372	$	40,305	$	40,848
Net Growth of Assets	$	2,317,416	$	4,609,926	$	4,859,505
Value At Death	$	5,650,164	$	9,821,949	$	10,071,529
Less Estate Tax	$	2,599,075		0		0
Total Benefit to family	**$**	**3,051,089**	**$**	**9,821,949**	**$**	**10,071,529**
Present Value of Amount to family (3% Infl.)	$	855,961	$	2,755,478	$	2,825,496
Third Generation (25 years)						
Starting Value	$	3,051,089	$	9,821,949	$	10,071,529
Average Annual Income 3% per year	$	79,534	$	270,738	$	281,358
PV of Average Income (3% Infl)	$	10,657	$	36,276	$	37,699
Net Growth of Assets	$	2,121,564	$	8,687,308	$	9,390,336
Value At Death	$	5,172,653	$	18,509,257	$	19,461,865
Less Estate Tax	$	2,379,420		0		0
Total Benefit to family	**$**	**2,793,233**	**$**	**18,509,257**	**$**	**19,461,865**
Present Value of Amount to family (3% Infl.)	$	374,262	$	2,480,034	$	2,607,673
Fourth Generation (25 years)						
Starting Value	$	2,793,233	$	18,509,257	$	19,461,865
Average Annual Income 3% per year	$	72,812	$	510,200	$	543,687
PV of Average Income (3% Infl)	$	4,660	$	32,650	$	34,793
Net Growth of Assets	$	1,942,265	$	16,371,051	$	18,145,552
Value At Death	$	4,735,498	$	34,880,309	$	37,607,416
Less Estate Tax	$	2,178,329	$	16,044,942		0
Total Benefit to family	**$**	**2,557,169**	**$**	**18,835,367**	**$**	**37,607,416**
Present Value of Amount to family (3% Infl.)	$	163,643	$	1,205,347	$	2,406,643
COMPARISON OF PRINCIPAL ACCOUNTS						
Unadjusted Balance	$	2,557,169	$	18,835,367	$	37,607,416
Inflation Adjusted	$	163,643	$	1,205,347	$	2,406,643
Effectiveness Index (compared to Sc1)	**$**	**1**	**$**	**7.4 : 1**	**$**	**14.7 : 1**

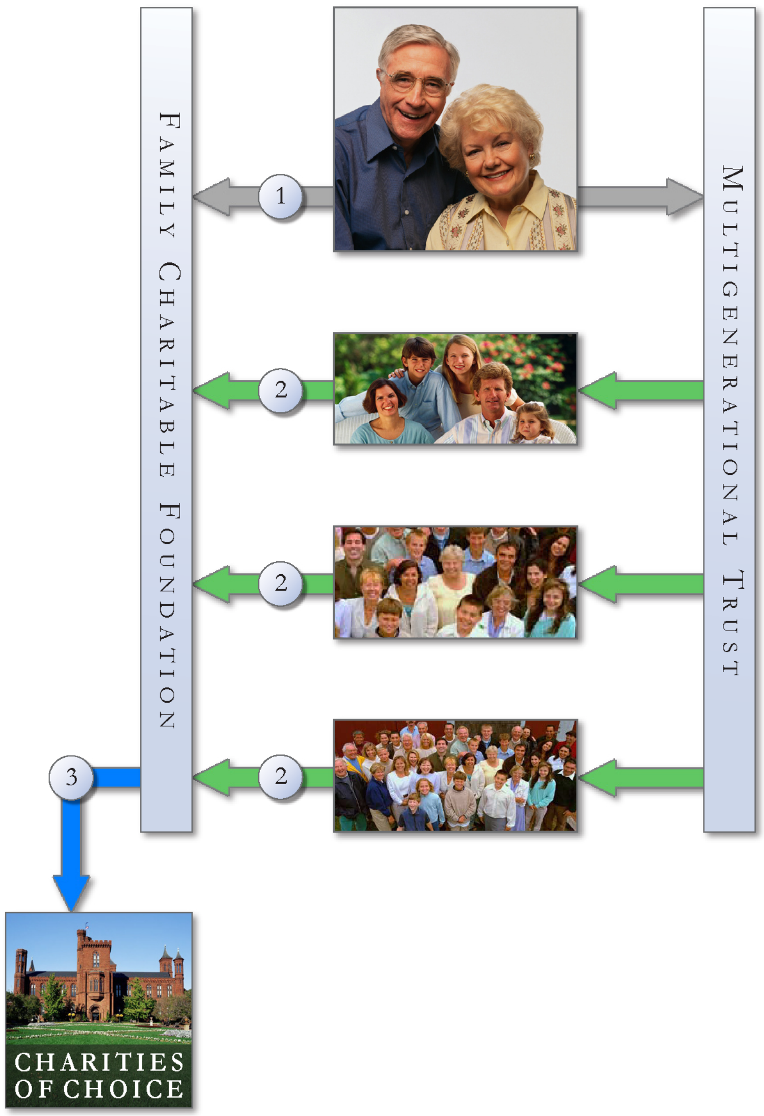
ASSUMPTIONS FOR COMPARISON

Current FMV of security Porfolio	**1,826,000**
Years per Generation(2nd thru 4th)	**25**
Estate Tax Rate	**55%**
Inflation Rate	**3%**
Bruce Life Expectancy	**14**
Nadine Life Expectancy	**19**
Annual Rate of Income (gross)	**2%**
Annual Rate of Growth (gross)	**5%**
Annual Payout Rate (2nd - 4th generations)	**3%**
Trustee Fee Rate	**1%**
Net Annual Growth (CA)	**2.53%**
Net Annual Growth (DE)	**2.71%**



Bruce and Nadine Smith

Family Charitable Foundation



1. A Family Charitable Foundation is created in the form of a Supporting Organization (SO), which operates under the sponsorship umbrella of a Public Charitable Foundation. This sponsor provides the necessary reporting paperwork and also favorable tax treatment. Bruce and Nadine are funding this SO in at least three (3) stages. (1) From the CLAT, which generates income from RE properties #4 and 5, (2) From the remainder interest of the WPT, which will pass to the SO upon the deaths of both Bruce and Nadine, and (3) From the income of the TestCLAT, which will commence upon both deaths. Bruce and Nadine can help oversee the SO and also direct distributions to charities from the SO during their lifetimes.
2. Children, grandchildren and beyond can become involved in both the management of the SO as well as the awarding of distributions to various charities. As this is done, their hearts can be touched and enlarged as they observe the beneficial effects of their humanitarian efforts.
3. As these distributions are made, family members have the opportunity to participate in a wonderful process. In addition to benefiting mankind and their respective communities, important relationships can be formed with community leaders, which can open many other opportunities and positive experiences for family members.

Bruce and Nadine Smith

Estimate Of Cash Flows - Scenario #2 After (in 000's)

Ages: (Bruce/Nadine)	68/67	69/68	70/69	71/70	72/71	73/72	74/73	75/74	76/75	77/76	78/77	79/78	80/79	81/80	82/81	88/87	93/92
Fical Year #	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**20**	**25**
I.CASH FLOW																	
CASH RECEIPTS:																	
Consulting	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	0	0
Social Security	24	24	25	26	27	28	28	29	30	31	32	33	34	35	36	42	49
Interest On Cash	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25
Int & Div on Securities Portfolio	32	32	32	32	32	32	31	30	28	26	24	25	26	26	27	29	39
Retirement Distributions	175	175	175	175	175	175	175	175	175	175	175	175	175	175	175	0	0
CRUT(s) Distributions	163	165	166	168	170	171	173	175	177	178	180	182	184	186	187	197	207
Cash distributed from GRATs	295	295	295	295	295	295	295	295	295	295	0	0	0	0	0	0	0
General Partner Rental Income	13	14	15	16	17	18	19	20	22	23	25	27	29	31	33	46	65
Municipal Bonds	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84
Total Cash Recipts	993	996	1,000	1,003	1,007	1,010	1,013	1,016	1,018	1,020	728	733	738	744	750	425	471
DISBURSEMENTS:																	
Living Expenses (2)	250	257	265	273	281	289	298	307	316	326	335	346	356	367	378	0	0
Living Expenses (1)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	250	289	335
Charitable Gifts	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25
Vacation	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
RPM Trust	103	103	103	103	103	95	95	95	95	95	95	95	95	95	95	0	0
Gift to Irrevocable (Crummey) Trust	306	306	306	306	306	306	306	306	306	306	0	0	0	0	0	0	0
RPM Taxes	71	71	71	71	71	79	79	79	79	79	79	79	79	79	79	0	0
Taxes from Grantor Multigeneration Trust	22	23	24	25	26	28	29	31	32	34	0	0	0	0	0	0	0
Income Tax	255	256	257	258	259	282	283	284	285	285	192	193	195	197	198	74	87
Total Disbursements	1,048	1,058	1,068	1,078	1,088	1,122	1,133	1,144	1,156	1,167	743	755	767	779	1,041	404	463
EXCESS CASH FLOW:	**-56**	**-62**	**-68**	**-75**	**-82**	**-112**	**-120**	**-129**	**-138**	**-147**	**-16**	**-22**	**-29**	**-35**	**-292**	**21**	**8**
II.SECURITIES PORTFOLIO																	
BEG. BALANCE SECURITIES PORTFOLIO	1,431	1,444	1,452	1,453	1,448	1,434	1,389	1,332	1,264	1,183	1,088	1,126	1,160	1,189	1,212	1,299	1,755
Excess Cash	-56	-62	-68	-75	-82	-112	-120	-129	-138	-147	-16	-22	-29	-35	-292	21	8
Growth	68	69	69	68	68	66	63	60	56	51	53	55	56	57	46	66	88
ENDING BALANCE SECURITIES PORTFOLIO	1,444	1,452	1,453	1,448	1,434	1,389	1,332	1,264	1,183	1,088	1,126	1,160	1,189	1,212	966	1,386	1,852

Bruce and Nadine Smith

Estimate Of Net Worth - Scenario #2 After (in 000's)

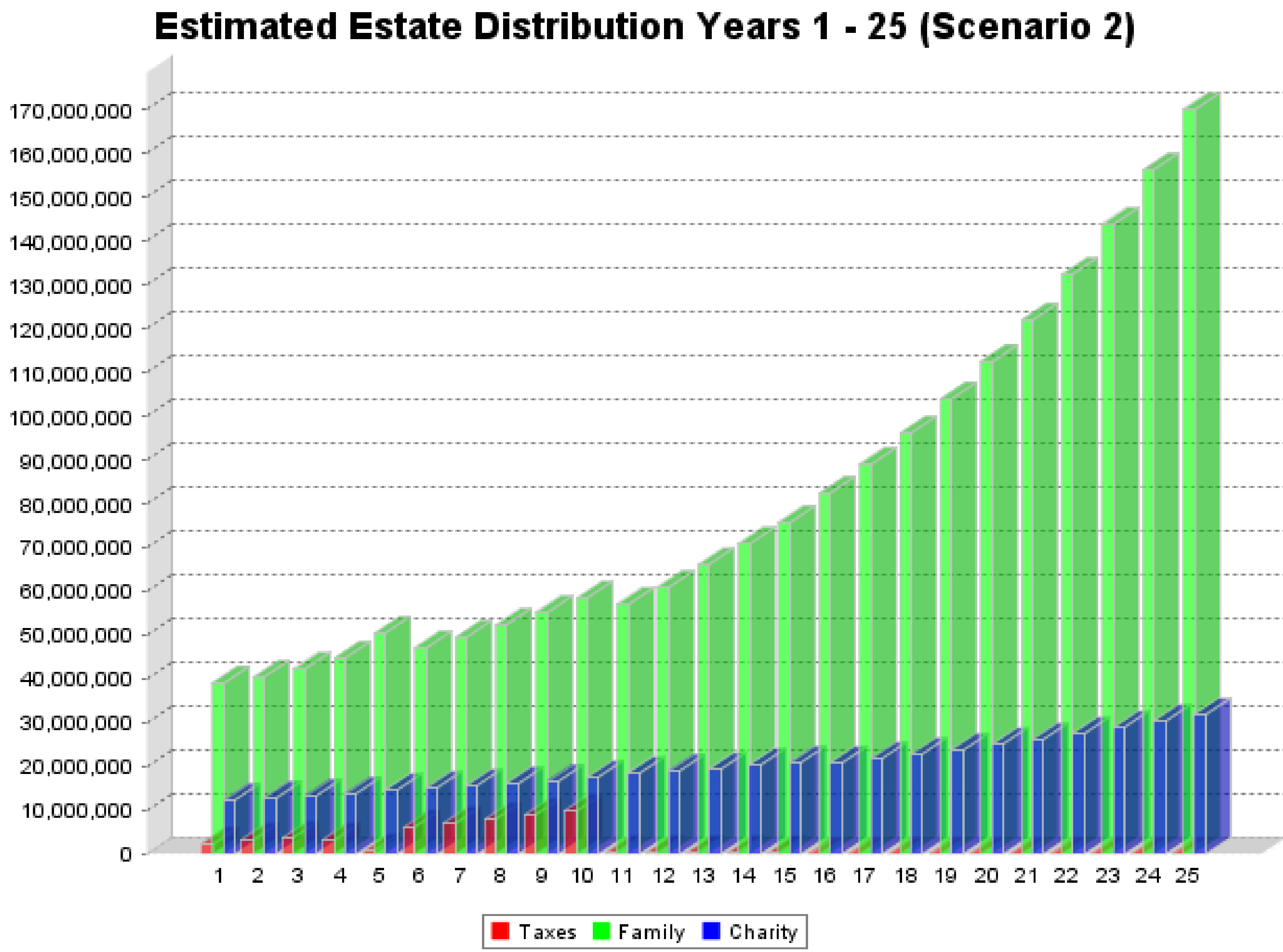
Ages: (Bruce/Nadine)	68/67	69/68	70/69	71/70	72/71	73/72	74/73	75/74	76/75	77/76	78/77	79/78	80/79	81/80	82/81	88/87	93/92
Fical Year #	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**20**	**25**
III.Net Worth																	
Checking	1,296	1,296	1,296	1,296	1,296	1,296	1,296	1,296	1,296	1,296	1,296	1,296	1,296	1,296	1,296	1,296	1,296
Muni Bonds	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Sec Portfolio	1,444	1,452	1,453	1,448	1,434	1,389	1,332	1,264	1,183	1,088	1,126	1,160	1,189	1,212	966	1,386	1,852
RPM Remaining	1,595	1,531	1,463	1,390	1,313	1,229	1,140	1,045	943	834	718	593	459	316	163	0	0
Residence	1,200	1,248	1,297	1,349	1,403	1,459	1,518	1,579	1,642	1,707	1,776	1,847	1,921	1,998	2,078	2,528	3,075
Furnishings	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120	120
Cars	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80
Tahoe Vacation Home (Bruce's QPRT)	397	421	446	473	501	531	563	597	633	671	711	754	0	0	0	0	0
Tahoe Vacation Home (Nadine's QPRT)	397	421	446	473	501	531	563	597	633	671	711	754	799	847	898	0	0
General Partner Retained Interest in FLP	255	273	292	313	336	360	386	414	445	477	513	551	592	636	684	987	1,437
END OF YEAR NET WORTH	9,186	9,244	9,297	9,345	9,387	9,399	9,402	9,395	9,377	9,348	9,454	9,557	8,858	8,907	8,686	8,798	10,262
IV.Estate Distribution																	
Grantor Retained Annuity Trusts	3,829	4,080	4,365	4,689	5,070	5,462	5,924	6,443	7,023	7,671	0	0	0	0	0	0	0
IDIT GRATs	3,430	3,871	4,368	4,930	5,564	6,279	7,087	7,998	9,026	10,187	0	0	0	0	0	0	0
Assets Placed in 20 Yr Test. CLAT	9,186	9,244	9,297	9,345	9,387	9,399	9,402	9,395	9,377	9,348	9,454	9,557	8,858	8,907	8,686	8,798	10,262
Deduction from 20 Yr Test. CLAT	-9,187	-9,245	-9,298	-9,346	-9,388	-9,400	-9,403	-9,396	-9,378	-9,349	-9,455	-9,558	-8,859	-8,908	-8,687	-8,799	-10,263
Taxable Estate	7,259	7,951	8,734	9,619	10,635	11,741	13,011	14,441	16,050	17,859	0	0	0	0	0	0	0
TOTAL TAXES AT 2ND DEATH	2,328	3,098	3,425	3,157	538	6,160	6,895	7,725	8,661	9,680	293	242	187	129	66	0	0
Multigenerational Trusts	1,826	1,917	2,013	2,113	2,219	2,330	2,447	2,569	2,697	2,832	2,974	3,123	3,279	3,443	3,615	4,614	5,889
Tahoe Vacation Home from Bruce's QPRT	0	0	0	0	0	0	0	0	0	0	0	0	1,509	1,599	1,695	2,269	3,036
Tahoe Vacation Home from Nadine's QPRT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,269	3,036
Grantor Retained Annuity Trust (Family)	0	0	0	0	0	0	0	0	0	0	8,689	9,524	10,430	11,412	12,477	19,279	29,353
Intentionaly Defective Irrevocable Trust	5,506	6,051	6,657	7,334	8,088	8,929	9,869	10,919	12,094	13,408	14,879	16,526	18,372	20,441	22,761	39,393	69,212
Life Insurance From GRAT(s)	4,515	4,515	4,515	4,515	4,515	4,515	4,515	4,515	4,515	4,515	412	0	0	0	0	0	0
Life Insurance from CRUT	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600
Retirement Plan Maximizer	4,968	4,964	4,947	4,930	5,301	4,710	4,693	4,676	4,657	4,637	4,616	4,594	4,570	4,544	4,501	4,555	4,557
Charitable Lead Annuity Trust (CLAT)	5,457	5,710	5,993	6,309	6,660	7,051	7,481	7,948	8,455	9,006	9,605	10,254	10,958	11,721	12,547	17,820	25,594
Present Value Test. CLAT	8,984	9,040	9,092	9,139	9,181	9,192	9,195	9,188	9,171	9,142	9,246	9,347	8,663	8,711	8,495	8,605	10,036
Irrevocable Trust(Receivables @6%)	306	630	974	1,339	1,726	2,135	2,570	3,030	3,518	4,036	4,584	5,165	5,781	6,435	7,127	11,264	16,800

Bruce and Nadine Smith

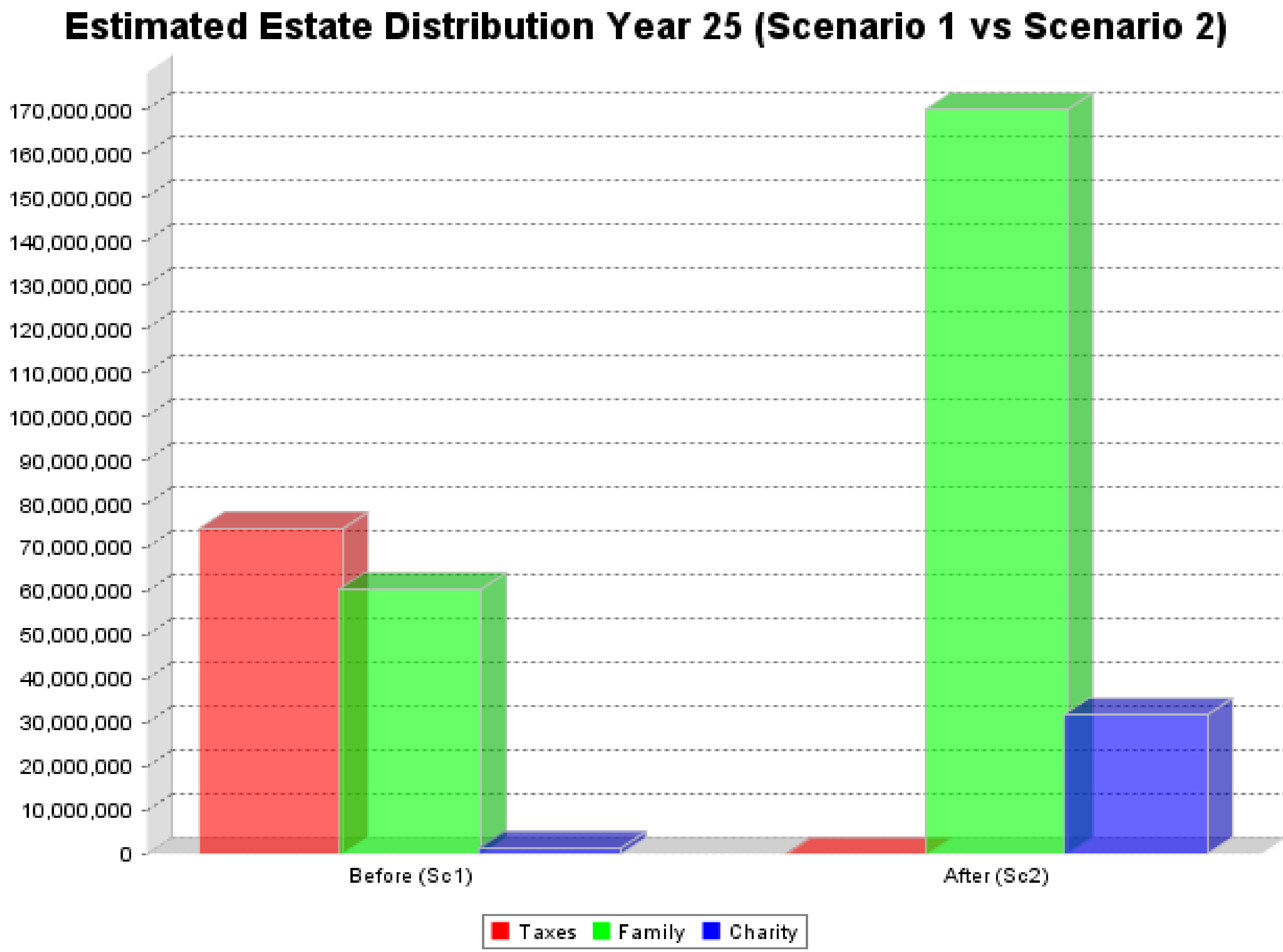
Estimate Of Net Worth - Scenario #2 After (in 000's)

Ages: (Bruce/Nadine)	68/67	69/68	70/69	71/70	72/71	73/72	74/73	75/74	76/75	77/76	78/77	79/78	80/79	81/80	82/81	88/87	93/92
Fical Year #	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**20**	**25**
NET TO FAMILY	39,095	40,283	42,104	44,744	50,389	47,047	49,489	52,165	55,100	58,359	56,902	60,893	65,976	70,779	75,756	112,671	170,116
Net To Family Inflation Adjusted	39,095	39,109	39,687	40,947	44,770	40,583	41,446	42,415	43,496	44,727	42,340	43,990	46,274	48,197	50,084	64,254	83,686
Amount to Charity from WPT	2,752	2,779	2,807	2,835	2,864	2,892	2,921	2,950	2,980	3,010	3,040	3,070	3,101	3,132	3,163	3,325	3,494
Amount to Charity from CLAT	333	689	1,070	1,478	1,914	2,382	2,881	3,416	3,988	4,600	5,255	5,956	6,706	7,509	8,367	11,736	16,461
PV of AMT to Charity from Test. CLAT	9,253	9,312	9,365	9,414	9,456	9,468	9,471	9,464	9,446	9,416	9,523	9,627	8,923	8,972	8,750	8,863	10,337
TOTAL TO CHARITY	12,363	12,832	13,323	13,837	14,376	14,917	15,484	16,079	16,702	17,357	18,193	19,076	19,203	20,139	20,864	24,844	31,664

Estate Distribution Comparison



Estate Distribution Comparison



ESTATE DISTRIBUTION COMPARISON