Goldman Sachs

Private Wealth Management

Putting it All Together: Some of the Best Estate Planning Strategies We See That Reduce Both Income and Estate Taxes in the Uncertain Age of Tax Reform

Important Information

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

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

- A perfect income tax strategy, or a combination of income tax strategies, would accomplish all of the following:
  - The strategy would be consistent with the taxpayer's nontax investment goals and stewardship goals.
  - The strategy would lower a taxpayer's current income taxes.
  - The strategy would either enhance the basis of the taxpayer's low basis assets to equal their fair market value, or eliminate any capital gains if the assets are sold.

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Tax Efficient Investing and Basis Management Uses the Mathematical Power of Tax-Free Compounding Deferral

- Consider the table below:

	Taxes Delayed Until Year 30 (1)	Taxes Paid Annually (2)	% Increase in Annual Rate of Return to Breakeven Compared to Delayed Tax (2-1)/1
4% Annual Return			
Ordinary Income Tax - Current Tax Rate of 40.8%	4.00%	4.83%	20.65%
LTCG Tax - Current Tax Rate of 23.8%	4.00%	4.43%	10.84%
8% Annual Return			
Ordinary Income Tax - Current Tax Rate of 40.8%	8.00%	10.75%	34.37%
LTCG Tax - Current Tax Rate of 23.8%	8.00%	9.36%	17.04%
12% Annual Return			
Ordinary Income Tax - Current Tax Rate of 40.8%	12.00%	17.13%	42.78%
LTCG Tax - Current Tax Rate of 23.8%	12.00%	14.47%	20.61%

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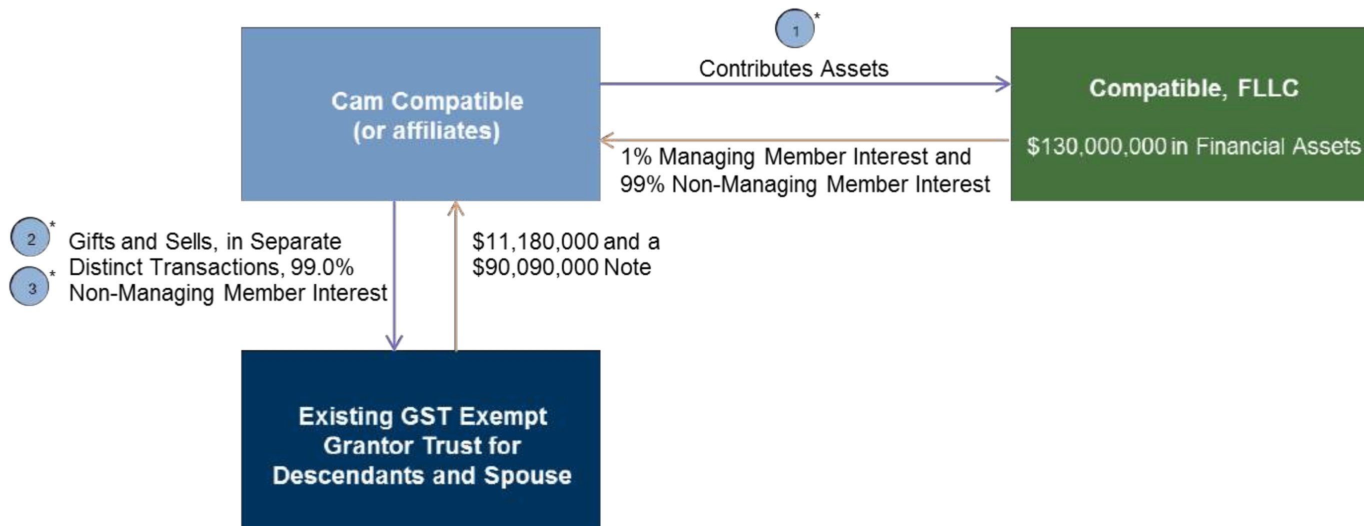
Comparison of the Advantages and Considerations of Some Favorite Lifetime Planning Trust Techniques in Which the Grantor is a Deemed Owner of the Trust Assets For Income Tax Purposes

Use of an Intentionally Defective Grantor Trust and a Sale to an Intentionally Defective Grantor Trust ("SIDGT") (Pages 21-54 of the Paper)

- Consider the following example:

Cam Compatible Creates an Intentionally Defective Grantor Trust for the Benefit of
<u>His Spouse and Family and Makes Certain Sales to That Trust ("SIDGT") Technique</u>

Cam Compatible owns $150,000,000 in financial assets. Cam and affiliates contribute $130,000,000 to a family limited liability company ("FLLC") ("1"). In a separate and distinct transaction ("2") Cam contributes $11,180,000 to a trust that is a grantor trust for income tax purposes. The trust treats his wife, Carolyn, as the discretionary beneficiary and gives her certain powers of appointment over the trust. Cam, at a much later time ("3"), sells non-managing member interests to that trust, pursuant to a defined value allocation formula, in consideration for cash and notes. Assuming a 30% valuation discount, the technique is illustrated below.



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Income Tax and Basis Enhancing Advantages of the SIDGT
(Pages 22-27 of the Paper)

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- The Advantage of Locating Income Tax Inefficient Asset Classes Inside a Grantor Trust That is Not Subject to Estate Taxes.
  - The technique of asset class location in order to improve the after-tax, after-risk adjusted rate of return for an investment portfolio.
  - Location of tax inefficient investment classes in a grantor trust significantly ameliorates the income tax inefficiencies of those classes, because transfer taxes are saved when the grantor pays the income taxes of the trust.
  - For instance, as the following table illustrates, under the assumptions of the table, if the remaining unrelated income is taxed after the grantor's death inside a grantor trust, a 12.24% improvement in annual pre-tax return is necessary for a 100% turnover fund (e.g., a hedge fund) to equal a 5% annual turnover fund (e.g., a total market index fund). If the funds are instead owned by the taxpayer and not by a grantor trust, a 72.29% annual pre-tax improvement in return is necessary for a 100% turnover fund to equal a 5% annual turnover fund.

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Income Tax and Basis Enhancing Advantages of the SIDGT (Continued)

	Annual Growth Rate Required on a $1mm Equity Fund Which Has a 2% Dividend Rate to Achieve $2mm (After Tax) for Investor's Beneficiaries for an Investor Who Dies in 10 Years[1], Depending Upon How a Fund is Located, and Percentage Improvement to Equal Equity Fund with 5% Turnover[2], 20% Turnover[3] or 50% Turnover[4]																											
	No Estate Planning Fund Owned by Investor								Estate Planning Techniques Fund is Not Subject to Estate Taxes but Grantor's Estate is Subject to Estate Taxes																Fund Owned by Charity			
Equity Fund's Annual Turnover of Assets	Fund is Owned by Investor and Investor's Estate is Not Subject to Estate Tax Because of Existing Exemptions and/or Charitable Bequests				Fund is Owned by Investor and is Fully Taxable in the Investor's Estate				Fund is in a Grantor Trust and Grantor Buys the Assets from the Grantor Trust for Cash Shortly Before Grantor's Death				Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 10 Years Before Grantor's Death				Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 10 Years After Grantor's Death				Fund is Held in a Non-Grantor Trust and Remaining Unrealized Income is Taxed in 10 Years				Fund is Not Subject to Income Taxes or Estate Taxes Because Fund is Owned by a Charity			
	A				B				C				D				E				F				G			
		(2)	(3)	(4)		(2)	(3)	(4)		(2)	(3)	(4)		(2)	(3)	(4)		(2)	(3)	(4)		(2)	(3)	(4)		(2)	(3)	(4)
Indexed Fund with 5% Annual Turnover[5]	5.98%	N/A	N/A	N/A	11.83%	N/A	N/A	N/A	5.65%	N/A	N/A	N/A	6.21%	N/A	N/A	N/A	6.66%	N/A	N/A	N/A	7.08%	N/A	N/A	N/A	5.18%	N/A	N/A	N/A
Active Beta Indexed Fund with 20% Annual Turnover[6]	6.73%	12.58%	N/A	N/A	13.21%	11.66%	N/A	N/A	6.05%	7.03%	N/A	N/A	6.39%	2.78%	N/A	N/A	6.59%	-1.06%	N/A	N/A	7.45%	5.18%	N/A	N/A	5.18%	0.00%	N/A	N/A
Managed Fund with 50% Annual Turnover[7]	7.70%	28.80%	14.41%	N/A	15.15%	28.04%	14.66%	N/A	6.50%	15.12%	7.56%	N/A	6.64%	6.78%	3.89%	N/A	6.69%	0.41%	1.48%	N/A	8.01%	13.11%	7.54%	N/A	5.18%	0.00%	0.00%	N/A
Hedge Fund with 100% Annual Turnover[8]	10.25%	71.33%	52.18%	33.01%	20.39%	72.29%	54.29%	34.56%	7.48%	32.37%	23.68%	14.98%	7.48%	20.34%	17.08%	12.69%	7.48%	12.24%	13.45%	11.79%	10.25%	44.75%	37.63%	27.97%	5.18%	0.00%	0.00%	0.00%

(1) These calculations ignore the effect of investment management fees, state income taxes and investment friction costs. These calculations assume the estate planning vehicles are created without paying gift taxes. An equity fund owned by a tax exempt entity would need 5.18% annual growth rate of return over 10 years, assuming a 2% dividend rate, to achieve $2mm.
(2) % annual improvement necessary to equal fund with 5% annual turnover.
(3) % annual improvement necessary to equal fund with 20% annual turnover.
(4) % annual improvement necessary to equal fund with 50% annual turnover.
(5) 100% short-term realized gains in year 1; 0% short-term realized gains and 100% long-term realized gains in years 2-10.
(6) 100% short-term realized gains in year 1; 10% short-term realized gains and 90% long-term realized gains in years 2-10.
(7) 100% short-term realized gains in year 1; 25% short-term realized gains and 75% long-term realized gains in years 2-10.
(8) 100% short-term realized gains in years 1-10.

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Considerations of the SIDGT (Pages 42-54 of the Paper)

- There may need to be substantive equity in the trust from prior gifts (is 10% equity enough?) before the sale is made.
- State income tax considerations.
- The IRS could be successful in the argument, that because of the step transaction doctrine, a valuation discount is not appropriate in valuing the transferred entity interest.
- If the assets decrease in value, the gift tax exemption equivalent may not be recoverable.
- There may be capital gains consequences with respect to the note receivables and/or note payables that may exist at death.
- On the death of the grantor there will be no step-up in basis in the assets owned by the grantor trust.
- The IRS may contest the valuation of any assets that are hard to value that are donated to a grantor trust or are sold to such a trust.
  - The problem and the probable solution: defined allocation transfers.
  - Defined value allocation clauses involving a defined dollar transfer by the donor.
  - Defined value allocation clauses involving both a defined dollar transfer by the donor and a parallel formula qualified disclaimer by the donee.

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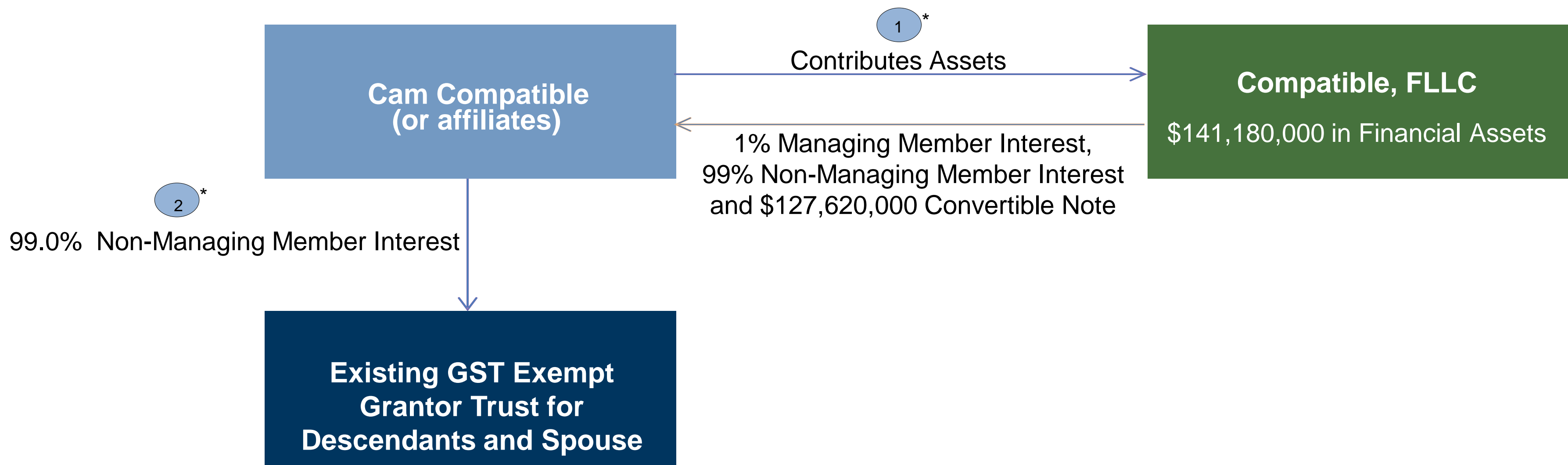
Contribution of a Leveraged Asset to an Intentionally Defective Grantor Trust ("LAIDGT") (Pages 54-56 of the Paper)

- Consider the following example:

Cam Compatible Creates a Leveraged Single Member LLC
<u>and Then Contributes His Non-Managing Interests to a Grantor Trust</u>

Cam and affiliates (who are not recognized for income tax purposes) contribute $141,180,000 in assets to a FLLC and receive a 1% managing member interest, a 99% non-managing member interest and a $127,620,000 Note ("1"). In a separate, independent and distinct transactions Cam contributes his 99% non-managing member interest to a grantor trust. Like the example on slide 5, the trust treats his wife, Carolyn, as the discretionary beneficiary and gives her certain powers of appointment over the trust. Assuming a 30% valuation discount, the technique is illustrated below:



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

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Income Tax and Basis Enhancing Advantages of the LAIDGT

- It has all of the income tax and basis enhancing advantages of the SIDGT technique.
- In addition to the income tax and basis enhancing advantages of the SIDGT technique this technique has the following income tax and basis enhancing advantages.
  - At some point in the future the balance of the retained note could be converted into a preferred partnership interest without any income tax consequences on the conversion.
  - The disregarded entity status for income tax purposes of the FLLC can be easily turned on or off by admitting or redeeming other owners who are not grantor trusts.
  - The note could be a convertible note at the election of the holder of the note into that number of units of non-managing interests of the FLLC equal to the then outstanding principal of the note. That conversion right could be mandatory at the death of the holder of the note. Such a conversion feature would have the following advantages:
    - The conversion feature would support the value of the note.
    - The conversion feature would give the holder of the note the option to participate in the growth of the FLLC assets after the conversion.
    - The conversion feature could lead to a step-up in basis of the assets of the FLLC to the extent of the outstanding principal value of the note at the death of the holder.

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Considerations of the LAIDGT

- This technique has the same considerations as the SIDGT technique, except the consideration of the note being considered as a retained equity interest in the trust.

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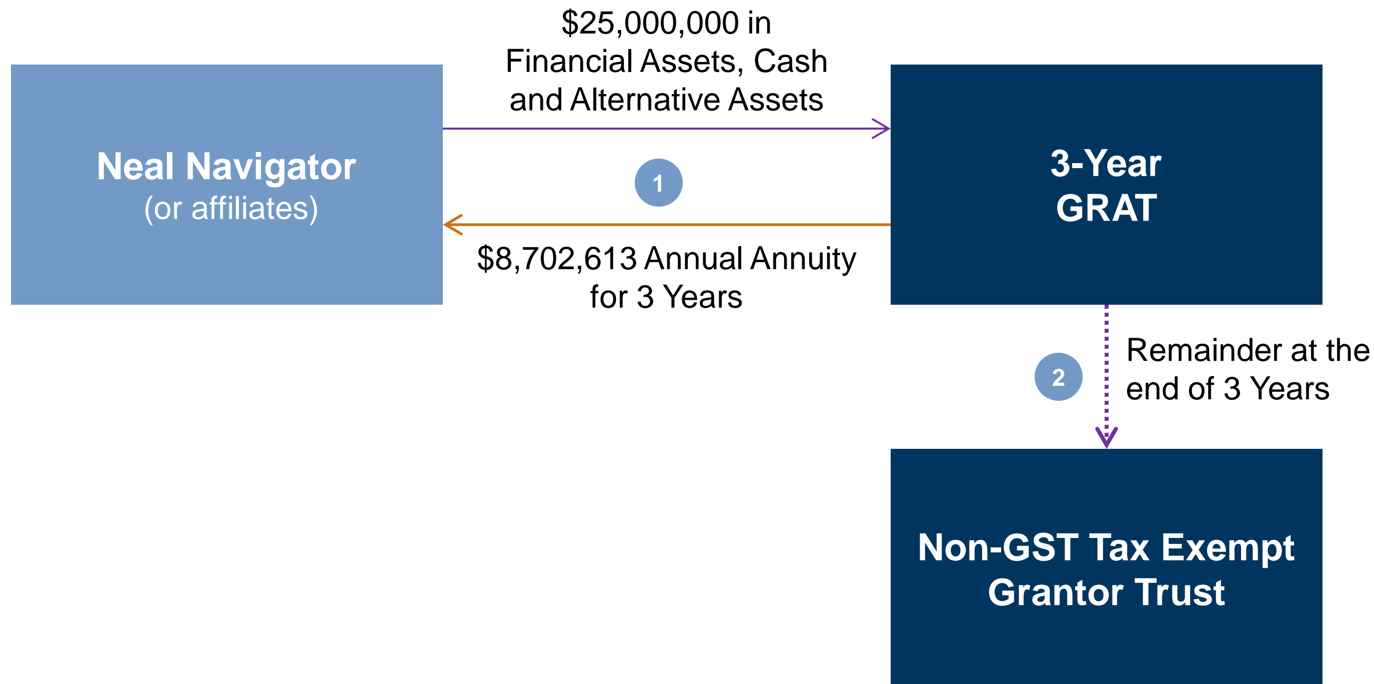
Grantor Retained Annuity Trust ("GRAT") Technique (Page 56-68 of the Paper)

GRAT Technique A (Without the Use of Discounted Interests in Entities)



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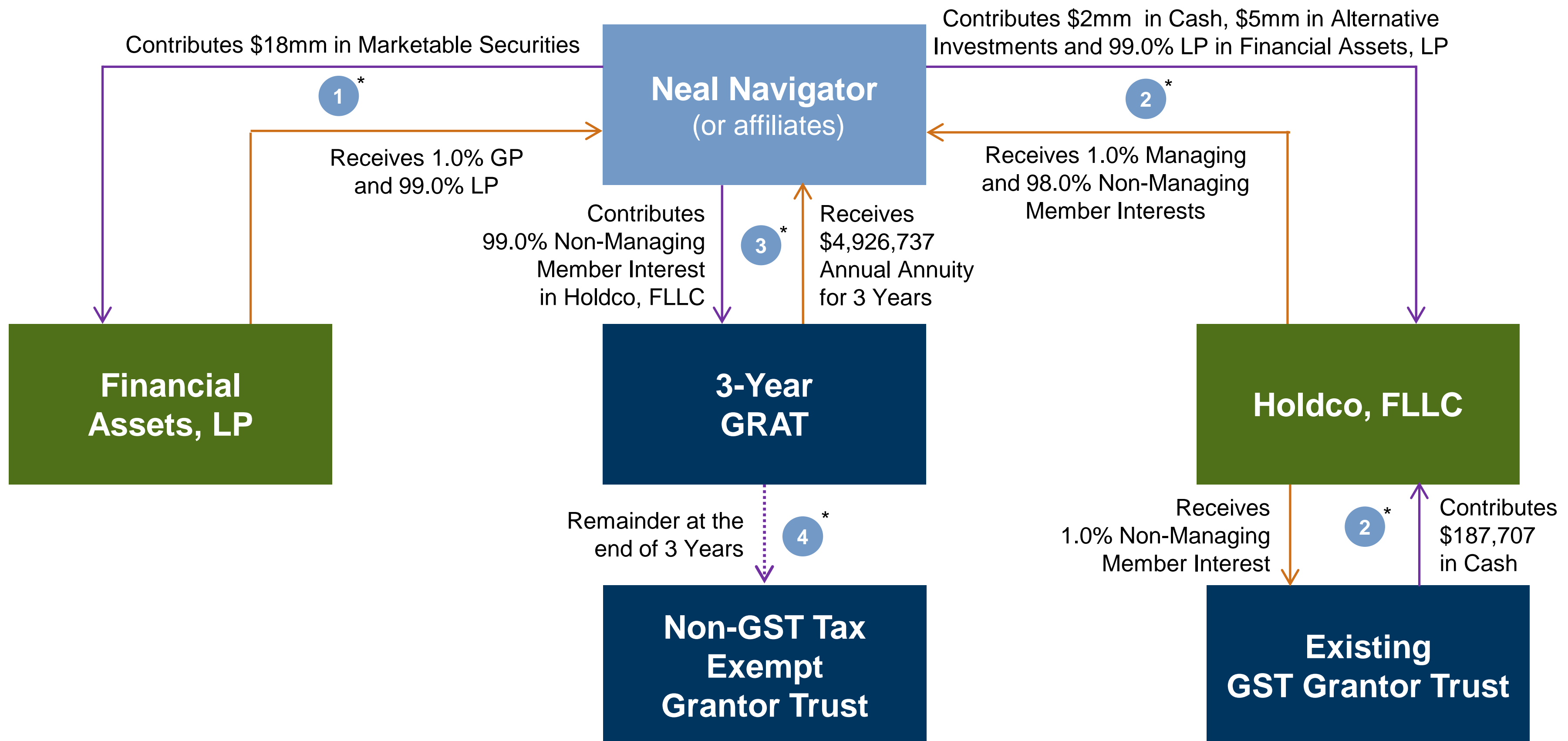
GRAT Technique B (With the Use of Discounted Interests in Entities)



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Income Tax and Basis Enhancing Advantages of a GRAT (Page 60 of the Paper)

- Ability of grantor to pay for income taxes associated with GRAT gift tax free and substitute assets of the GRAT income tax-free.
- A GRAT does not require the use of the unified credit and the unified credit can be saved to protect the estate cost of a taxpayer dying with low basis assets.

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Considerations of Using a GRAT (Pages 64-68 of the Paper)

- Financial reasons why a GRAT may not succeed.
  - Some assets are not volatile.
  - Some GRAT investments are only profitable if the investment is long.
- If a GRAT is not administered properly, the retained interest by the grantor may not be deemed to be a qualified interest.
  - The Atkinson worry.
  - The annuity amount must be paid annually.
  - Paying the grantor in satisfaction of his retained annuity interest with hard to value assets may disqualify his retained interest from being a qualified interest, if the assets are valued improperly.
  - The contribution of assets to the traditional GRAT structure must be made at the exact point of the creation of the GRAT.
- The retained annuity interest is valued using the valuation principles under IRC Sec. 7520, which is typically higher than interest on an intra-family note.
- A successful GRAT could regress to the mean by the end of the term of the GRAT.
- The traditional GRAT structure may not satisfy a client's stewardship goals because the investments of the GRAT may have been too successful.

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Considerations of Using a GRAT (Continued)

- The GST tax exemption may be difficult to leverage through the use of a traditional GRAT structure.
- A traditional GRAT structure will not be successful in transferring assets if the grantor does not survive until the end of the term of the GRAT.

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Possible Structural Solutions to Address Certain Administrative and Certain Stewardship Disadvantages of a Traditional GRAT (Pages 68-70 of the Paper)

- Structural solutions to prevent the inadvertent additional contribution of assets to a GRAT.
  - When creating the GRAT, the grantor may wish to consider a provision that prohibits any additional contributions to the GRAT and if any additional contribution is made, a new GRAT must be created specifically to hold that contribution.
  - The grantor of the GRAT may wish to consider initially making the trust revocable. Once all assignments to the trust have been completed, the grantor could amend the trust to make it an irrevocable GRAT.
- Structural solutions to ensure that the annuity amount is always deemed to be paid on a timely basis.
  - The grantor of the GRAT may wish to consider a provision in the trust document that provides (pursuant to a formula) a portion of the trust that is equal to the annuity amount due to the grantor shall not be subject to the trust.
  - If that portion remains in the hands of the trustee after the annuity payment date, the trustee shall hold such property only as a nominee, or as an agent, for the grantor.
  - The grantor may also wish to consider a provision in the trust document that the portion of the trust estate that is being held in that agent capacity can be comingled with the trust assets and that the person also serving as trustee has full authority, as agent, to invest the property.
- Structural solutions to limit the amount that is received by the remainderman of the GRAT.
  - A structural solution for a donor with those stewardship goals is to put a cap on the amount left in the trust for the benefit of his descendants at the end of the annuity term.
  - To the extent that the value of the assets of the GRAT on its termination exceeds that cap, there could be a provision that requires that excess to revert back to the donor.

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Possible Structural Solutions to Address Certain Administrative and Certain Stewardship Disadvantages of a Traditional GRAT (Continued)

- Solutions to reduce the mortality risk in GRATs.
  - The grantor could sell her retained annuity interest.
  - The grantor could use a life insurance to hedge against an early grantor death.
  - The grantor could purchase the remainder interest in a profitable GRAT from the remainder beneficiaries.
  - The GRAT could be created by the grantor in consideration of full and adequate consideration.
  - In order to keep the GRAT annuity amount very low, the donor could use a combination of the following strategies: a member interest in a FLLC could be contributed to the GRAT and the donor could allocate part or all of his gift tax exemption to the GRAT and reduce the retained annuity.

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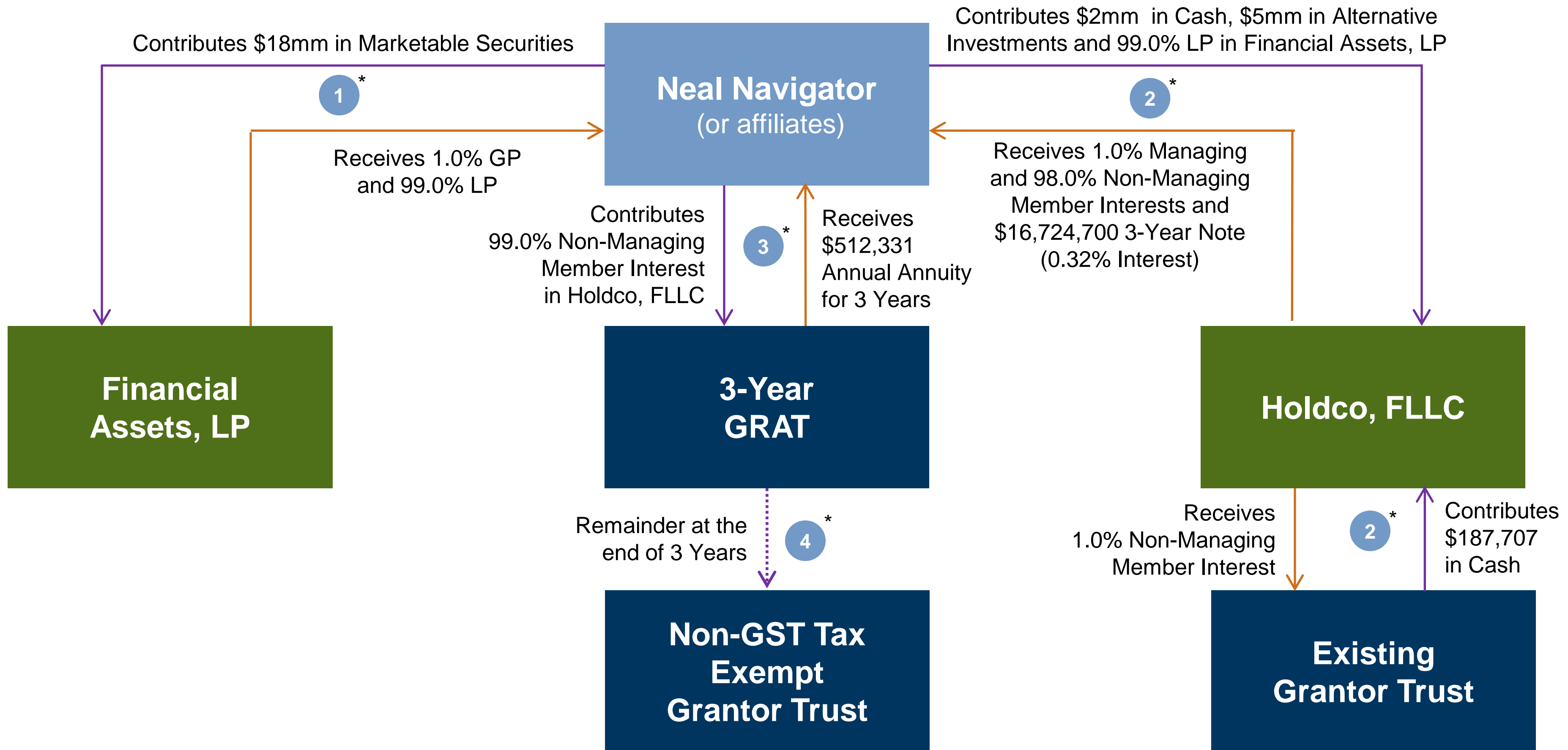
- Consider the following example:



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Summary of the Key Advantages of a LAGRAT in Comparison to a Traditional GRAT

- Performs much better in bear, flat and bull markets.
- The “Atkinson” worry about paying a GRAT annuity with a hard-to-value asset may be eliminated.
- Has many of the same advantages that a sale to a grantor trust has in comparison to a GRAT. For example, a retained note is much more flexible than a retained annuity.
- The LAGRAT technique avoids the necessity of continually creating GRATs using the so–called “cascading GRATs” technique.
- The LAGRAT technique locks in today’s low interest rate.
- The LAGRAT technique has a lower “hurdle rate” than a GRAT.
- There may be an extra level of valuation discount in using the technique.
- Disregarded entity status can be turned “off” or “on again” by simply admitting or redeeming member interests that either turn single member LLC status off or on.

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Summary of the Key Advantages of a LAGRAT in Comparison to a Defined Value Allocation Sale to a Grantor Trust

- Does not require a significant use of gift tax exemption, which may be wasted if markets deteriorate.
- In the future the IRS may be able to ignore defined value sales by changing its regulations.
- Better authority that sales to single member FLLC's should be ignored by the IRS for income tax purposes than sales to a grantor trust.
- smaller chance of an audit of a transfer to a GRAT than a sale (even a defined sale) to a grantor trust.
- Smaller chance that the retained note will be recharacterized as a deemed retained interest in the donee trust under equitable tax principles because of too much leverage. if the retained note is recharacterized as an equity interest it will be recharacterized as an equity interest in the FLLC and not a retained interest in the GRAT.
- Disregarded entity status can be turned "off" or "on again" by simply admitting or redeeming member interests that either turn single member FLLC status off or on.

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Considerations of the LAGRAT Technique (Pages 91-96 of the Paper)

- If the grantor does not survive the term of the GRAT, part or all of the net value of the leveraged FLLC interests owned by the GRAT and the then value of the outstanding note receivable from the FLLC could be taxable in the grantor's estate.
- The LAGRAT is more complex to initially create than the traditional GRAT (but it is less complicated than using the alternative "freeze" technique of cascading GRATs that would be created each year).
- Care must be taken to make sure that there is not a violation of the Treasury regulation that prohibits "issuance of a note, or other debt instrument, option, or other similar financial arrangement, directly or indirectly, in satisfaction of the annuity amount." However, it is permissible for a grantor to loan money to enable a GRAT to make an investment, if the loan proceeds can be traced for that purpose. Since the GRAT is being created after the creation of the leveraged Holdco, it should be clear that the grantor's receipt of a note from Holdco is in exchange for a contribution of an asset to Holdco.
- Care must be taken to make sure that the IRS cannot successfully take the position that the creation of Holdco, FLLC should be ignored for gift tax purposes and that the retained notes are in reality retained trust interests in the GRAT that do no constitute a qualified annuity interest under IRC Sec. 2702.
- Care must be taken if the underlying asset that is sold or contributed to the single member FLLC is stock in a subchapter S corporation.

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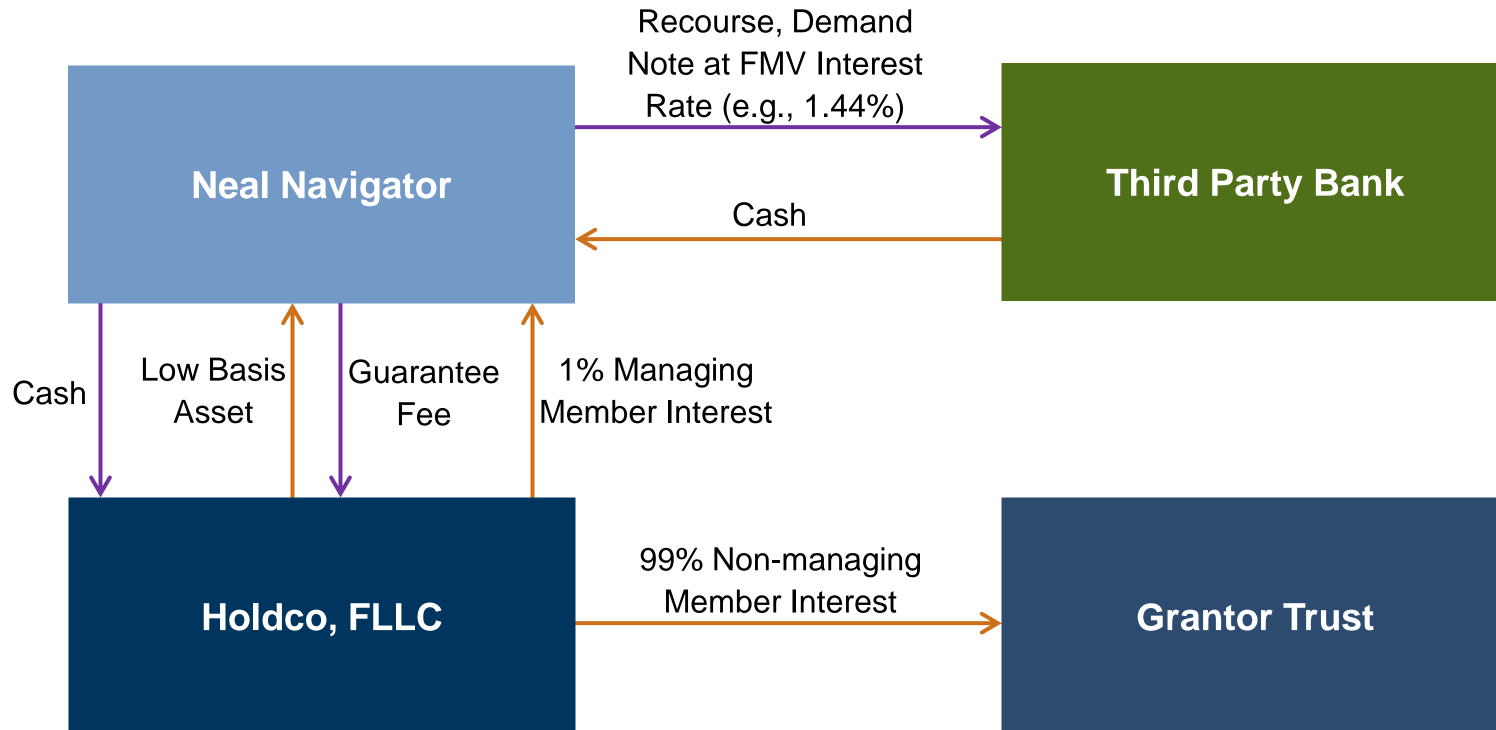
Income Tax and Basis Enhancing Advantages of the LAIDGT and/or LAGRAT Techniques (Pages 75-80 of the Paper)

- This technique has all of the same income tax and basis enhancing advantages of the LAIDGT technique.
- There is an inherent flexibility to enter into basis enhancing strategies with the LAGRAT.
  - Consider Hypothetical Transaction #1 illustrated below:



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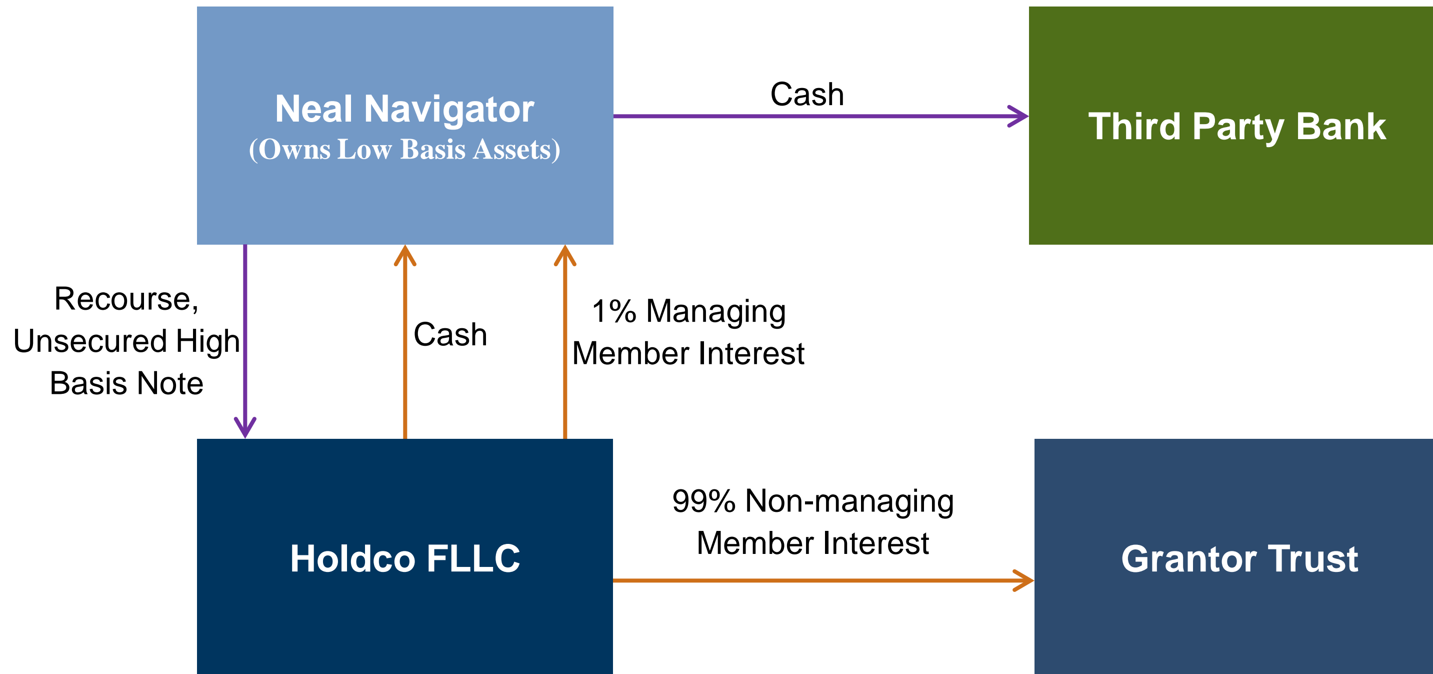
Income Tax and Basis Enhancing Advantages of the LAIDGT and/or LAGRAT Techniques (Continued)

– Consider Hypothetical Transaction #2 illustrated below:



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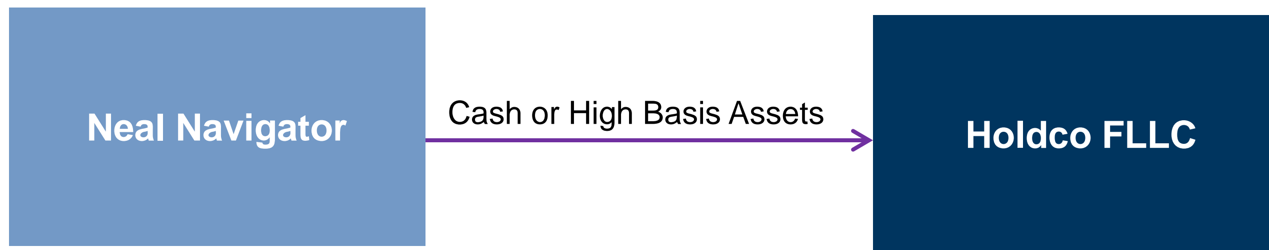
Income Tax and Basis Enhancing Advantages of the LAIDGT and/or LAGRAT Techniques (Continued)

- Upon the death of Neal Navigator, the estate satisfies the note to Holdco FLLC with the now high basis assets or cash (if the high basis assets are sold after the death of Neal Navigator).
  - Consider Hypothetical Transaction #3 illustrated below:



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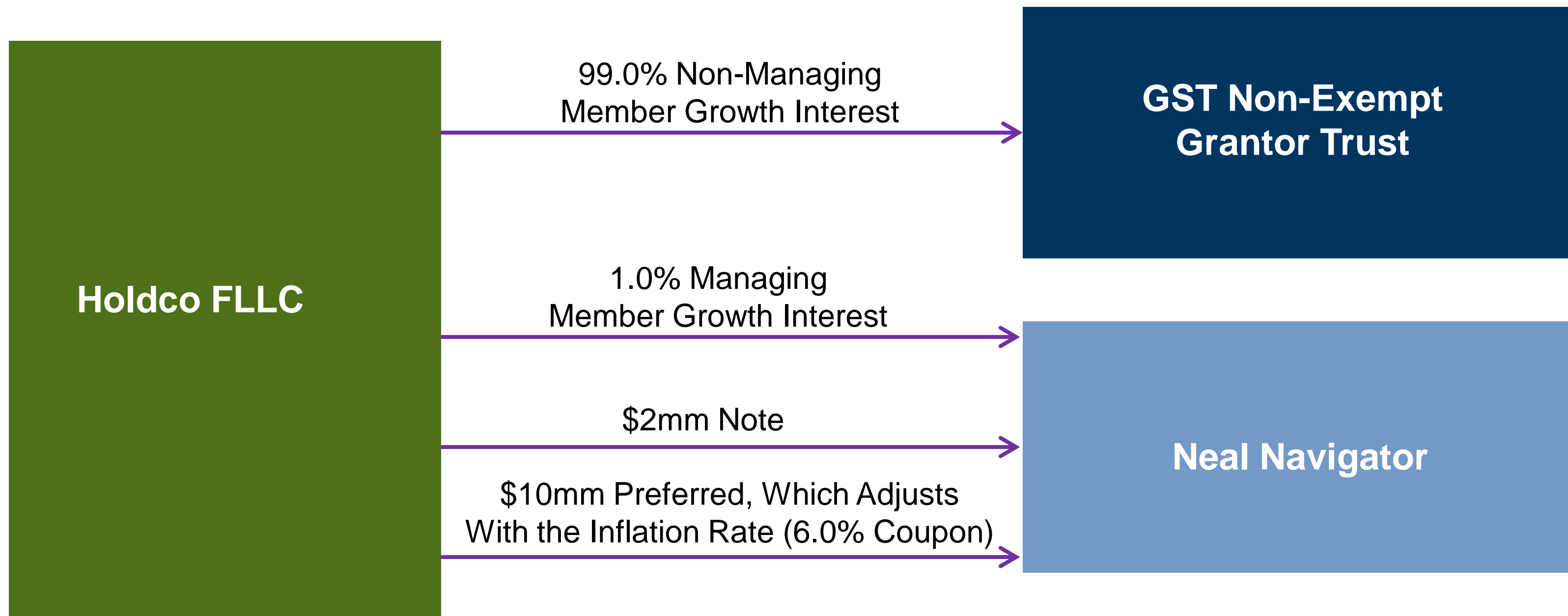
Income Tax and Basis Enhancing Advantages of the LAIDGT and/or LAGRAT Techniques (Continued)

- Another basis enhancing strategy opportunity with the LAGRAT technique is to convert part or all of the retained note at some point to a preferred member interest in the FLLC. In that manner an IRC Sec. 754 election could be made on the death of Neal Navigator and a partial basis step up of the assets of Holdco FLLC could be achieved.
- This example, after the conversion of $10,000,000 of the $12,000,000 note, is illustrated below:



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Income Tax and Basis Enhancing Advantages of the LAIDGT and/or LAGRAT Techniques (Continued)

- Another basis enhancing strategy is to make the note that the taxpayer receives in the LAGRAT technique (or the LAIDGT technique) convertible into that amount of FLLC or limited partnership units that is equal, at the time of the conversion, to the then principal value of the note.
  - The conversion could happen anytime at the election of the holder of the note, or the payor of the note.
  - The note could also be designed with a mandatory conversion to equity equal to the principal value of the note at the death of the holder of the note.
  - An IRC Sec. 754 election could be made when the FLLC or limited partnership units are transferred or sold to pay for transfer taxes.
  - The act of conversion is not subject to income taxes. *See* Revenue Ruling 72-265
- There is greater authority that a sale to a single member FLLC will be treated as a nontaxable sale to a disregarded entity for income tax purposes than there is for a sale to a grantor trust.

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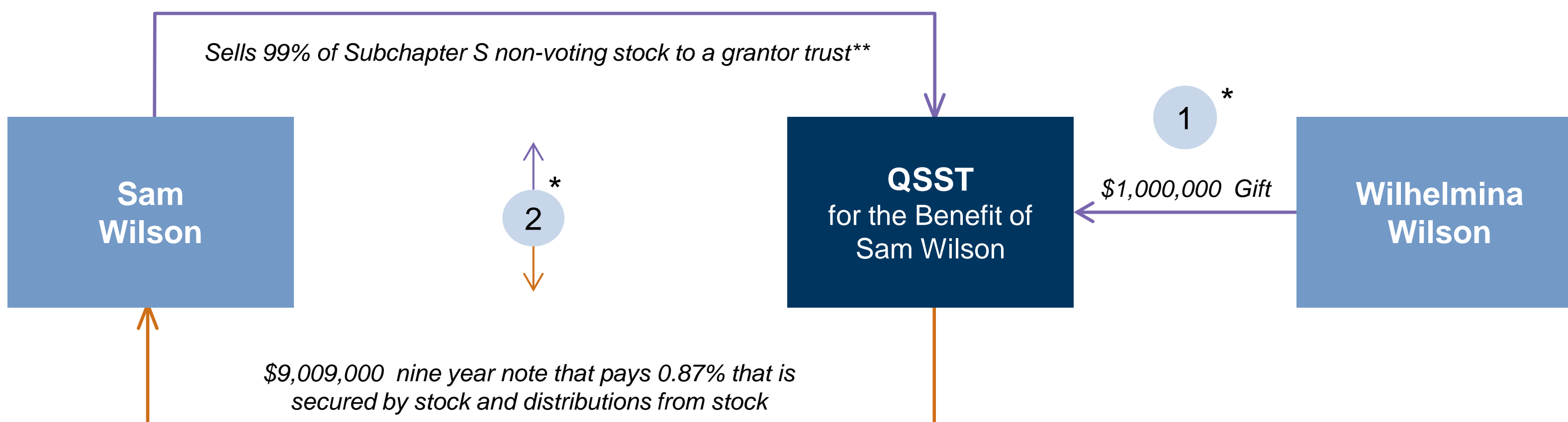
Goldman Sachs

Private Wealth Management

Comparison of the Advantages and Considerations of Some Favorite Lifetime Planning Trust Techniques in Which the Beneficiary is a Deemed Owner of the Trust Assets For Income Tax Purposes

The Advantages and Considerations of a Transferor Selling Subchapter S Stock to a Qualified Subchapter S Trust ("QSST") Created By a Third Party That is a Grantor Trust as to the Subchapter S Stock, That Names the Transferor as a Beneficiary and Gives the Transferor a Special Limited Power of Appointment (Pages 147-154 of the Paper)



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

** It is assumed there is a 30% discount and the Subchapter S assets are worth $13,000,000.

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Advantages of the Technique
(Pages 149-151 of the Paper)

- May provide better defenses to the bona fide sale considerations of IRC Secs. 2036 and 2038 than the beneficiary grantor trust that is funded with $5,000.
- Circumvents federal capital gains tax treatment on the sale of the Subchapter S stock.
- There is not any concern about the effect of any lapse of withdrawal rights.
- It has the advantage of allowing the seller to be a beneficiary of the trust and have a power of appointment over the trust.
- It has the potential of mitigating gift tax surprises.
- Appreciation will be out of the seller's estate.

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Considerations of the Technique
(Pages 151-154 of the Paper)

- There may need to be substantive equity in the trust from prior gifts (is 10% equity enough?) before the sale is made.
- The disadvantage of utilizing a Subchapter S corporation.
- Need to file a federal gift tax return.
- Federal income tax considerations.
- State income tax considerations.
- Could lose the benefits of using the gift tax exemption.
- Step Transaction Doctrine.
- Creditor rights and related estate tax issues.
- Incomplete gift issues.
- The transferor is the only beneficiary of the trust.

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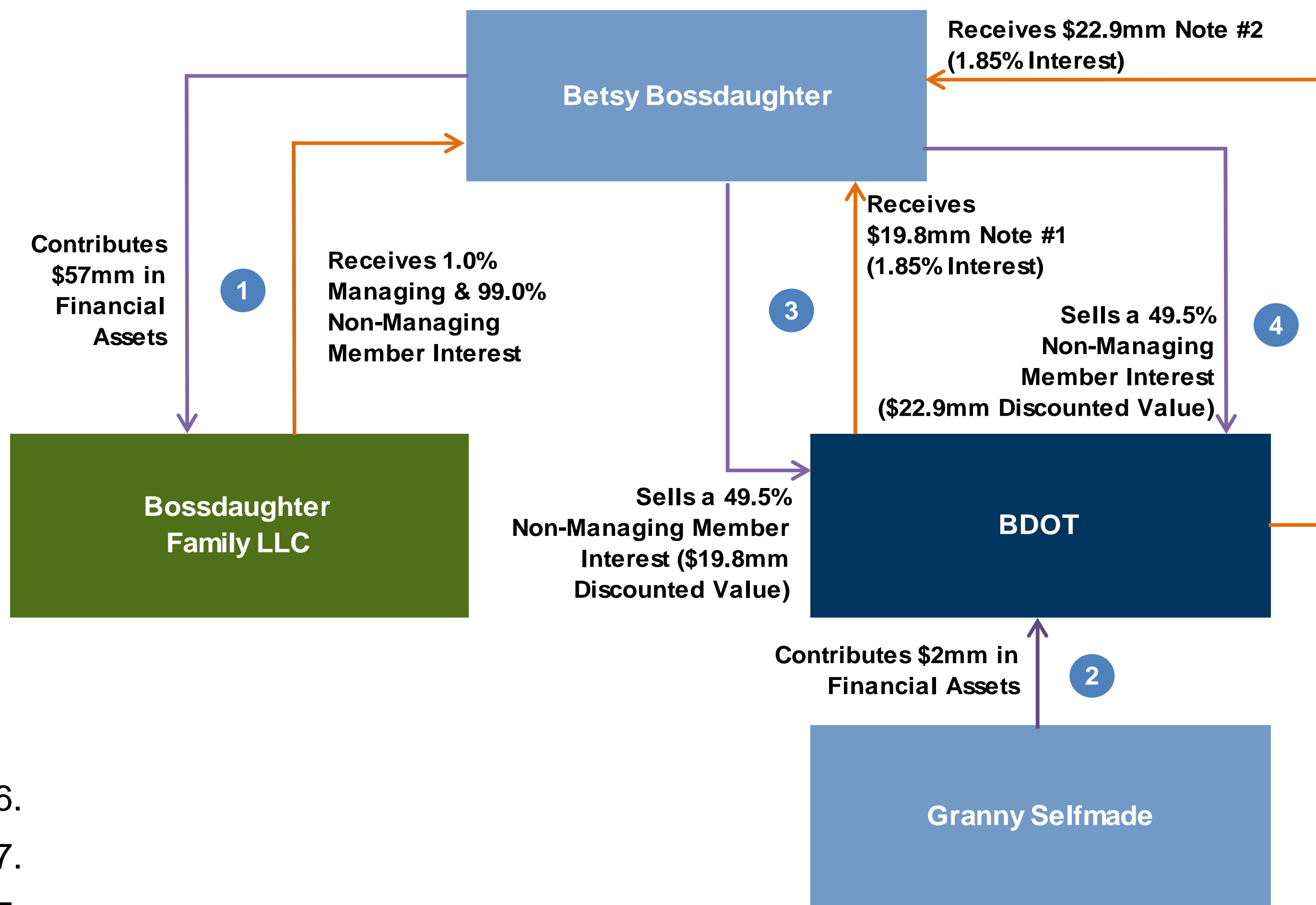

1. Occurs in 2016.
2. Occurs in 2017.
3. Occurs in 2017.
4. Occurs in 2021, assuming the net worth of the BDOT grows to $4,800,000 before sale.

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Potential Future Values in 30 Years

	Bossdaughter Children (1)	Bossdaughter Children & Grandchildren (2)	Consumption: Direct Cost (3)	Consumption: Investment Opportunity Cost (4)	IRS Income Tax: Direct Cost (5)	IRS Income Tax: Investment Opportunity Cost (6)	IRS Income Tax: Embedded Capital Gains Tax (7)	IRS Estate Tax (@ 40%) (8)	Total (9)
30-Year Future Values									
No Further Planning	$89,948,174	$22,759,465	$43,902,703	$60,266,542	$27,710,079	$34,146,049	$167,518	$59,965,449	$338,865,979
Hypothetical Technique	$0	$169,144,803	$43,902,703	$60,266,542	$28,775,165	$34,146,049	$2,630,716	$0	$338,865,979
Present Values (discounted at 2.5%)									
No Further Planning	$42,882,134	$10,850,408	$20,930,293	$28,731,633	$13,210,577	$16,278,879	$79,863	$28,588,089	$161,551,877
Hypothetical Technique	$0	$80,638,548	$20,930,293	$28,731,633	$13,718,349	$16,278,879	$1,254,175	$0	$161,551,877

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Income Tax Advantages of the Technique
(Pages 157-159 of the Paper)

- The technique has all of the income tax advantages of the SIDGT technique.
- Failing to take the withdrawing income is not relevant to the IRC Sec. 678 analysis.
- The BDOT can be designed to be very flexible for any calendar year by giving a trustee, or a protector, the power to change the withdrawal power for a future year or years.
- The BDOT has many income tax advantages that a complex trust does not have.
  - The beneficiary of a BDOT can take an IRC Sec. 179 expense deduction while a complex trust's ability to take that deduction is limited.
  - Depending upon the BDOT beneficiary's tax bracket, and/or how active the beneficiary is in a closely held business, the 3.8% net investment income tax will not apply while under the same circumstances it may apply to a complex trust.
  - The BDOT can be a shareholder of a S corporation without some of the considerations of an ESBT.
- Capital losses can be passed through to the beneficiary of the BDOT.
- The capital gains benefit of a residence that is inherent under IRC Sec. 121 will be available to sales of residences owned by a BDOT.
- There are increased opportunities for charitable planning because the inherent limitations under IRC Sec. 642(c) will be eliminated.
- A BDOT should avoid overlapping state fiduciary income taxation.
- The consideration of the BDIT losing part of its beneficiary deemed owner status, when it is substantially funded, if it is designed to have an initial pecuniary withdrawal right, does not exist with the BDOT technique.

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Transfer Tax Advantages of the Technique
(Page 159 of the Paper)

- The beneficiary has the opportunity by her actions to increase the value of the BDOT and, thus, the amount that is not subject to estate taxes.
- Because the beneficiary is the deemed income tax owner of the BDOT, there is flexibility to allow the beneficiary to sell life insurance policies to the BDOT.
- The BDOT can own non-qualified deferred annuities.
- The BDOT has all of the transfer tax advantages of a SIDGT.
- The BDOT technique has a greater safety valve than the SIDGT for protecting the seller, since the seller both has withdrawal rights in and is a discretionary beneficiary of the BDOT.

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Considerations of the Technique
(Pages 160-162 of the Paper)

- In order to receive the lapse of power transfer tax protection of IRC Secs. 2041(b)(2) and 2514(e)(2), it is important that the withdrawal power can be applied against the entire income and/or corpus and/or proceeds of the entire corpus, of the BDOT.
- If creditors can reach part of the withdrawable, but untaken, BDOT funds under the appropriate state law then that part that the creditors can reach will be taxable in the BDOT beneficiary's estate, whether or not that BDOT beneficiary has those potential creditors. Almost all states protect the annual lapse of a withdrawal power from creditors, if the annual lapse does not exceed 5% of the then value of the corpus of the BDOT.
- In light of the above considerations, the beneficiary of a BDOT may wish to notify the trustee of the BDOT, in any calendar year, that he or she desires to withdraw that amount of net taxable income that is the greater of (i) that amount of net taxable income that the beneficiary has previously notified the trustee that he or she wishes to withdraw; (ii) that amount of net taxable income that is equal to the income taxes owed by the beneficiary of the BDOT; or (iii) that amount of net taxable income that exceed 5% of the value of the corpus of the trust.

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Considerations of the Technique
(Continued)

- The sale of assets to a BDOT has most of the considerations of a SIDGT with the following exceptions.
  - There is less danger that the sale to a BDOT will be a taxable gift because of the presence of the seller's beneficial interest and special power of appointment over the BDOT, would make the gift an incomplete gift.
  - The grantor trust status can remain longer because of the seller's beneficial interest in the trust.
  - There is greater opportunity to convert the retained note to a private annuity.
- The sale of assets to a BDOT has some of the considerations of a sale to a BDIT, except the BDOT has the potential to have much more corpus and, thus, substance with the use of a leveraged sale.

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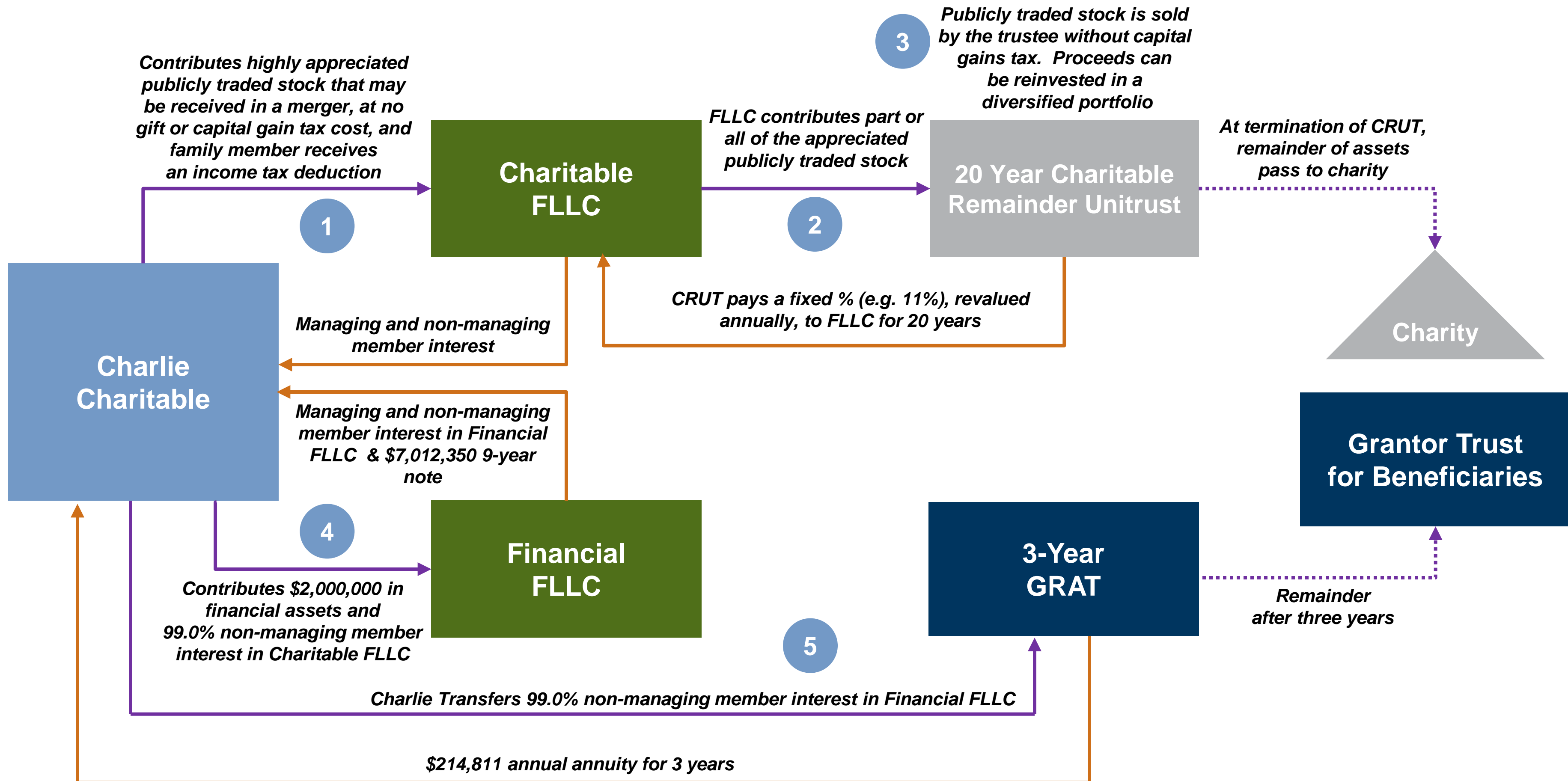
Goldman Sachs

Private Wealth Management

Comparison of the Advantages and Considerations of Some Favorite Lifetime Charitable Planning Techniques

Use of a LAGRAT When One of the Assets of the FLLC is a Non-charitable Interest in a Charitable Remainder Unitrust ("CRUT") (Pages 183-191 of the Paper)

- Consider the following example:



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Income Tax and Basis Enhancing Advantages of the Technique

(Pages 187-188 of the Paper)

- The income tax advantages of creating a LAGRAT.
- The income tax advantage of eliminating the capital gains tax on that part of the gains that will be allocated to the charity under the tiered income tax rules.
- The income tax advantage of lowering opportunity costs by delaying taxes on the portion of the original gain that is not allocated to charity.
- The income tax advantage of a charitable deduction in year one for the actuarial value of the remainder interest of the CRUT passing to charity.

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Transfer Tax Advantage of the Technique (Pages 188-191 of the Paper)

- The tax advantage of integration, which produces advantageous comparative results:

Hypothetical Technique (Assumes $9.83mm Estate Tax Exemption Available)	Charlie's Descendants	Charity	Charlie's Consumption Direct Costs	Consumption Investment Opportunity Costs	IRS Taxes on Investment Income	IRS Investment Opportunity Costs	IRS Estate Taxes (@40.0%)	Total
Future Values at the end of 25 Years Assuming an Annual Compounded Rate of Return at 7.4%								
Stock Sale, No Planning	$19,745,860	$0	$5,123,665	$7,440,046	$11,792,247	$23,763,728	$6,610,574	$74,476,121
Simulated Tax Holiday (No Initial Capital Gains Tax and No Estate Tax) 78% - 22% Split Between Family and Charity	$27,251,647	$7,539,379	$5,123,665	$7,440,046	$11,817,313	$15,304,071	$0	$74,476,121
FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity	$24,972,689	$7,539,379	$5,123,665	$7,440,046	$12,581,416	$16,818,926	$0	$74,476,121
FLLC/Holdco/LevGRAT (no CRUT), Charlie gives remaining estate to family	$25,552,526	$0	$5,123,665	$7,440,046	$12,596,156	$23,763,728	$0	$74,476,121

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Considerations of the Technique (Page 191 of the Paper)

- Generally, investments that are made inside the CRUT should be marketable stocks and bonds. A trustee of a CRUT should avoid any investments that may have unrelated business taxable income.
- The technique will have the same considerations as the creation of a LAGRAT.

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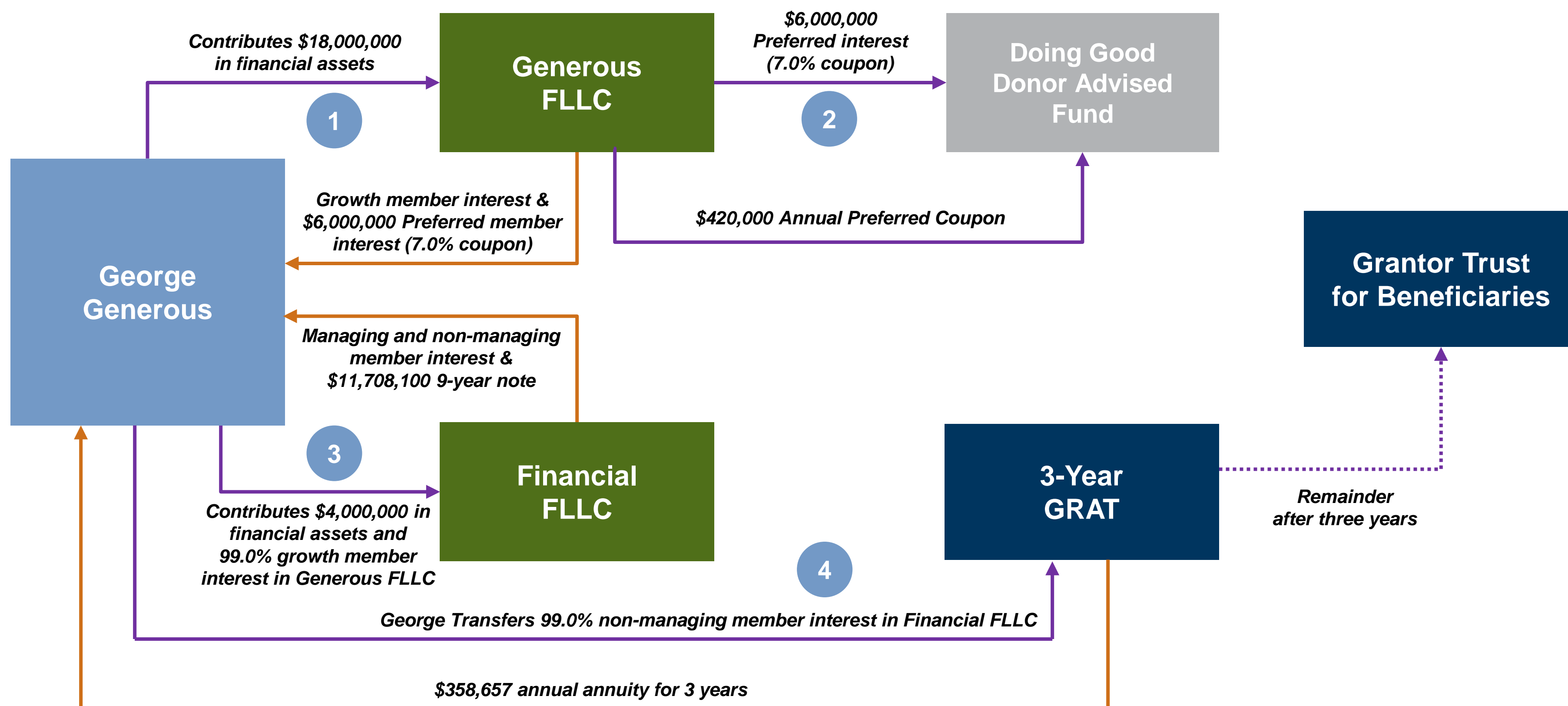
Creating a FLP or FLLC with Preferred and Growth Interests, Transferring the Preferred Interest to a Public Charity, and Transferring the Growth Interests to a LAGRAT (Pages 191-203 of the Paper)

- Consider the following example:



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Income Tax Advantages of the Technique (Pages 192-195 of the Paper)

- The donor may receive an income tax deduction for the discounted present value of the charity's right to receive the par value of the preferred on termination of the FLLC, even though that might occur after the donor's death.
- The donor should receive an income tax charitable deduction, in the year of the gift, for the discounted present value of the 7% coupon that is to be paid to charity.
- In addition to receiving an upfront charitable income deduction for the present value of the annual coupon of the preferred that is paid to the charity, the donor also receives an indirect second annual deduction with respect to the future preferred coupon payments against his income and health care taxes because of the partnership tax accounting rules.
- The donor will also avoid the built-in capital gains tax on the sale of any low basis asset that is contributed for the preferred interest.
- Assuming a low basis asset will be sold, the "out of pocket" cost of a gift of a preferred interest to a public charity, or donor advised fund, is minimal because of the above tax advantages.
- Income tax valuation advantage: IRS concedes preferred partnership interests should have a high coupon.

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Income Tax Advantages of the Technique (Continued)

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

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Considerations of the Technique (Pages 199-203 of the Paper)

- Despite state property law, the IRS may take the position that the gift of the preferred interest of an FLLC should be considered a non-deductible partial gift of the underlying assets of the FLLC.
- If the gift of the preferred interest is to a donor advised fund (instead of some other public charity) care should be taken to make sure there is not a tax on excess business holdings under IRC Sec. 4943.
- The taxpayer must comply with certain reporting requirements in order to receive a deduction for the fair market value of the donated preferred interest.
- If there is unrelated business taxable income associated with assets owned by the FLLC, some public charities will not accept the gift of the preferred interest in the FLLC.

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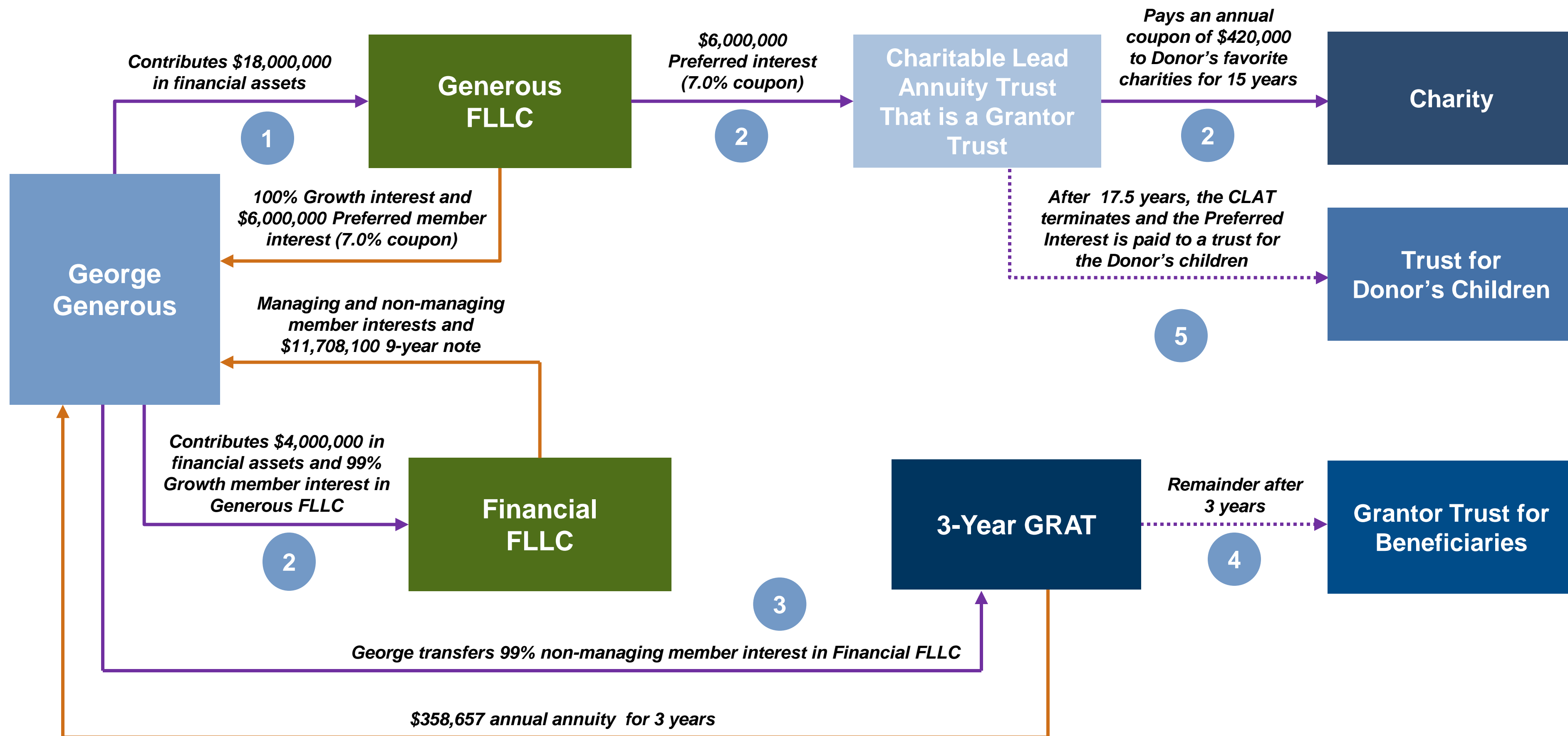
The Use of a High-Yield Preferred Partnership or Membership Interest With a Charitable Lead Annuity Trust ("CLAT") (Pages 203-209 of the Paper)

- Consider the following example:



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Income Tax Advantages of the Technique (Pages 205-206 of the Paper)

- The donor will not pay income taxes or healthcare taxes on income that is allocated to the CLAT, if the CLAT is a conventional CLAT and is not a grantor trust.
- The donor will receive an upfront deduction against income taxes for the actuarial value of the annuity interest paid to charity if the CLAT is a grantor trust.

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Considerations of the Technique (Pages 207-209 of the Paper)

- The partial interest rule should not apply for gift tax purposes or income tax purposes (if a grantor CLAT is used), but the IRS may make the argument.
- Care should be taken to make sure that there is not a tax on excess business holdings under IRC Sec. 4943.
- If the CLAT is a grantor trust the grantor will pay the income taxes on the earnings of the CLAT.

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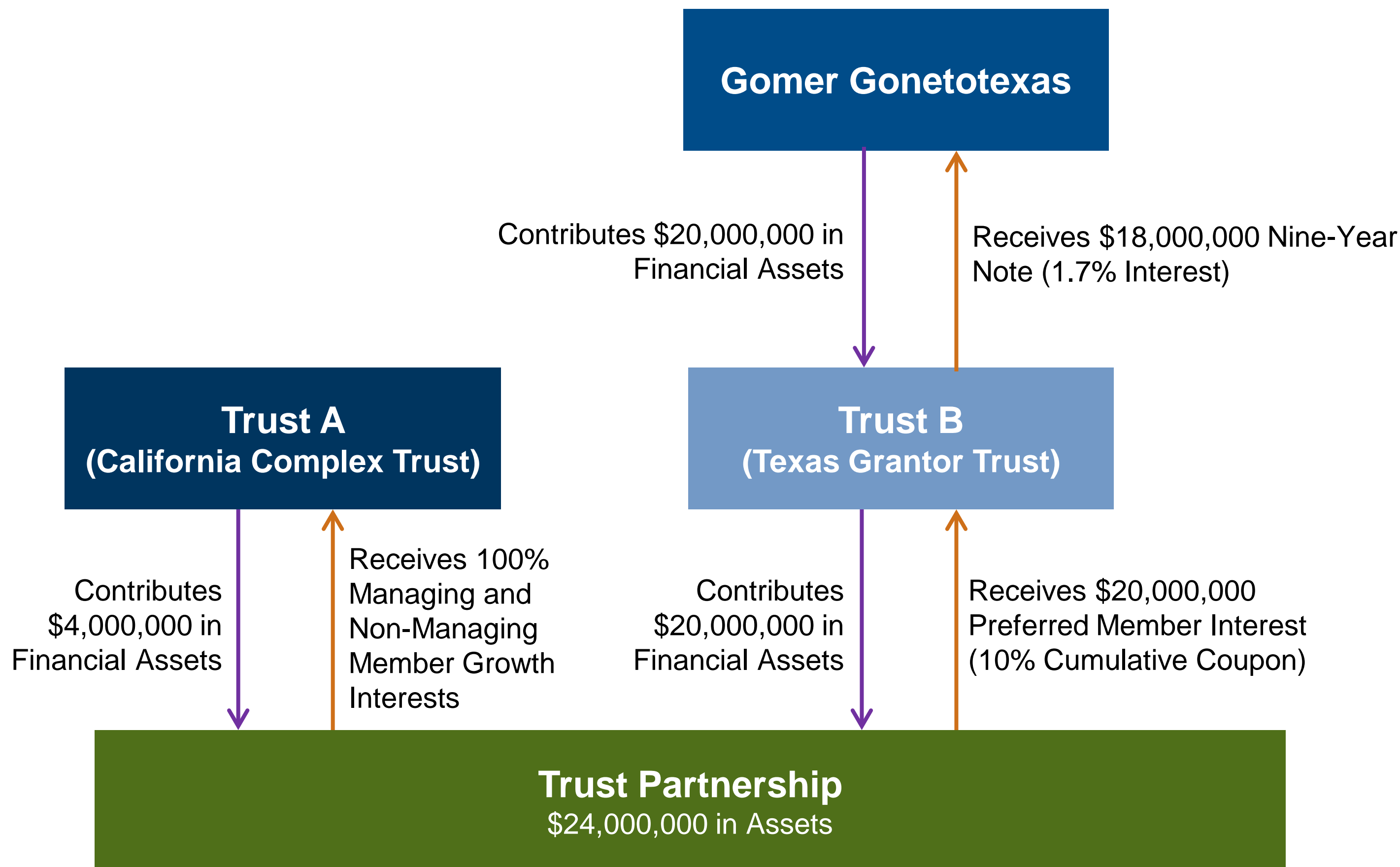
Private Wealth Management

Comparison of the Advantages and Considerations of Some Favorite Planning Techniques to Reduce the State and Federal Income Taxes of Complex Trusts

– Hypothetical Transaction #1:



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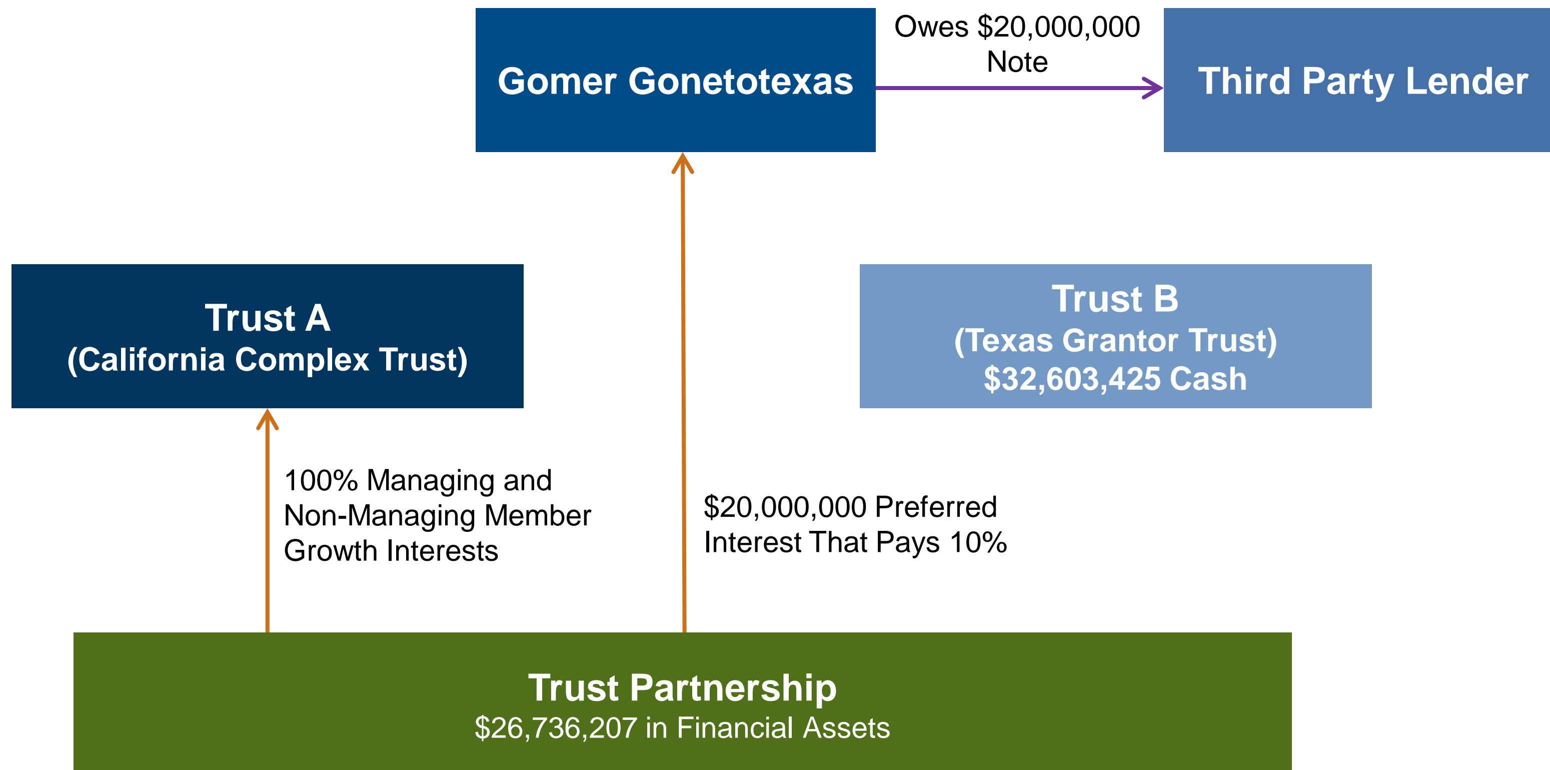
– Hypothetical Transaction #2 (Seventeen Years After Hypothetical Transaction #1):



- In certain circumstances it may be more profitable for the old trust to sell the high basis assets to the new trust for a low interest (AFR rate) note to the new trust.

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Income Tax Advantages (Pages 226-227 of the Paper)

- Significant transfer taxes can be saved under this technique.
- Significant state income taxes and the investment opportunity costs associated with those state income taxes can be saved with this technique.

	Gonetotexas Beneficiaries			Consumption		IRS Income Taxes		CA Income Taxes				
		Children & Grandchildren										
	Children	California Complex Trust	Texas Grantor Trust	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Opportunity Cost/ (Benefit) of 3rd Party Note	IRS Estate Tax (at 40.0%)	Total
20-Year Future Values												
No Further Planning	$15,428,576	$9,609,259	$8,690,000	$12,772,329	$13,053,175	$14,270,950	$13,698,567	$1,264,013	$995,794	$0	$10,285,717	$100,068,380
Hypothetical Technique	$0	$4,000,000	$43,359,947	$12,772,329	$13,053,175	$15,967,067	$14,173,982	$0	$0	($3,258,119)	$0	$100,068,380
Present Values (discounted at 2.5%)												
No Further Planning	$9,415,611	$5,864,252	$5,303,254	$7,794,581	$7,965,974	$8,709,146	$8,359,837	$771,391	$607,704	$0	$6,277,074	$61,068,825
Hypothetical Technique	$0	$2,441,084	$26,461,316	$7,794,581	$7,965,974	$9,744,237	$8,649,969	$0	$0	($1,988,336)	$0	$61,068,825

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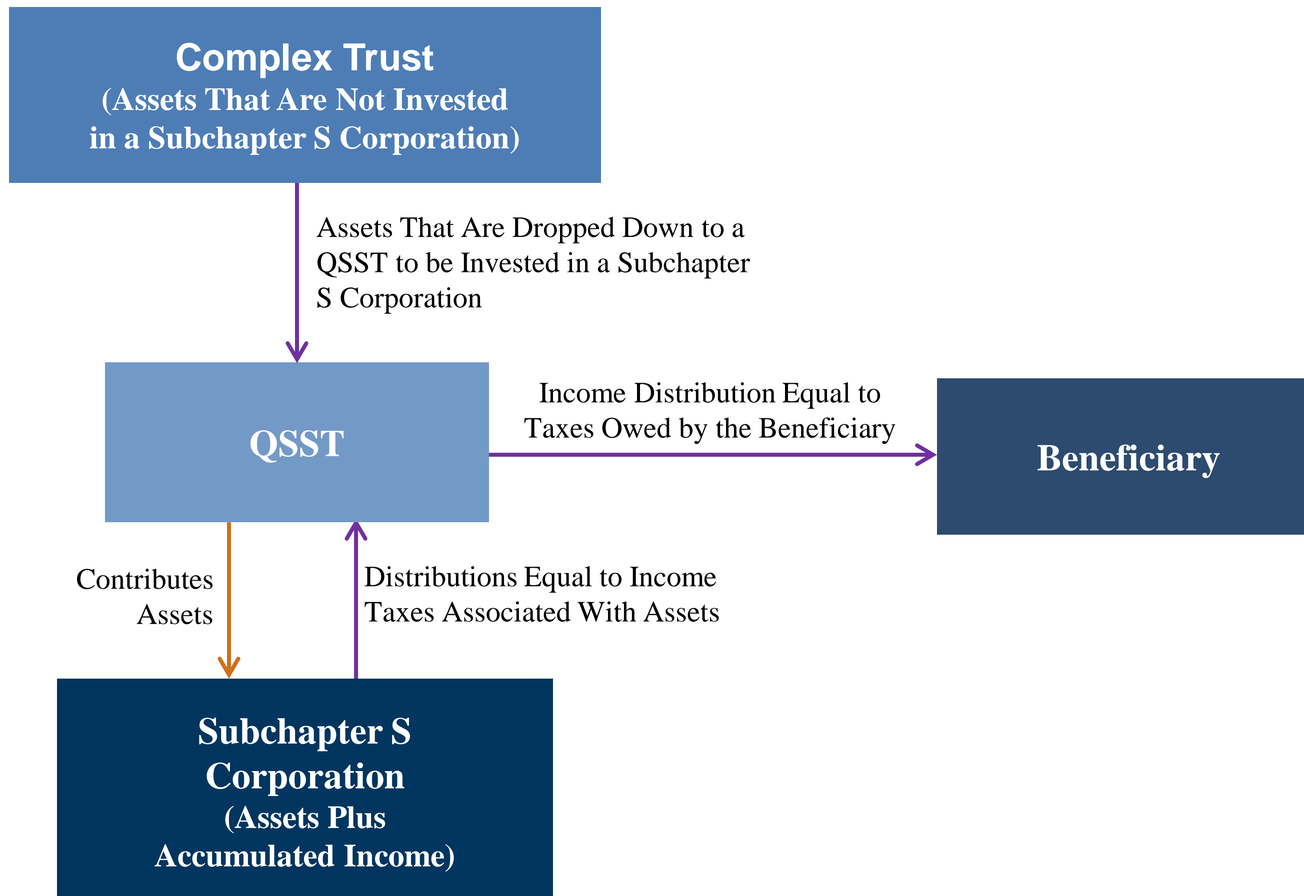
- Consider the following example:



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Income Tax and Basis Enhancing Advantages of the Technique
(Pages 230-231 of the Paper)

- The beneficiary may be in a lower tax bracket than the trust and is taxed on the taxable income allocated to the QSST. The taxes associated with the beneficiary being the deemed owner of the QSST may equal the cash distributed by the QSST to the beneficiary, which will limit any cash build up in the beneficiary's estate.
- There is not any concern about the effect of any lapse of withdrawal rights.
- If the subchapter S corporation participates in a trade or business, and if the current beneficiary of the QSST materially participates in that trade or business, or is in a lower marginal bracket, significant health care taxes may be saved with the technique.
- The beneficiary of the QSST will have access to the accounting income distributed to the trust.
- The trust is much more flexible than a simple income only trust and may be administered to simulate a complex trust without the income tax and health care tax disadvantages of a complex trust.

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Transfer Tax Advantage of the Technique (Page 231 of the Paper)

- The transfer tax advantage of this technique is that it preserves whatever inherent transfer tax advantage the trust has without distributing net cash assets from the trust to beneficiaries.

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Considerations of the Technique (Pages 231-232 of the Paper)

- The federal income tax considerations with utilizing a subchapter S corporation.
- Any income of the QSST that does not accrue from subchapter S stock earnings will be taxed under normal subchapter J rules.
- State income tax considerations.

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- Under IRC Sec. 678(a)(1), if a beneficiary of a third party created trust has the unilateral power to withdraw all of the net taxable income of the trust to himself; and, if all of the assets of the trust are available to satisfy that withdrawal power, the beneficiary of the trust will be the deemed income tax owner of the trust (assuming the creator of the trust has not retained any powers that would make the creator of the trust a deemed income tax owner of the trust).

- The beneficiary of a BDOT is the deemed owner for income tax purposes of all of the net taxable income earned by the BDOT. The reference to "income" in IRC Sec. 678(a)(1) is taxable income and not accounting income. If a beneficiary of a BDOT has the right to withdraw net taxable income, the beneficiary has the right to withdraw not only dividends and interest, but income normally allocated to principal such as capital gains income. In satisfaction of the withdrawal power, the beneficiary of a BDOT has the right to withdraw the income of the trust, the capital of the trust and the net proceeds of the capital of the trust.

- The beneficiary of a BDOT could withdraw, in any calendar year, the greater of (i) that amount of net taxable income necessary to pay his income taxes or (ii) that amount of net taxable income that exceeds 5% of the value of the corpus of the trust.

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Income Tax Advantages of the Technique
(Page 233 of the Paper)

- Failing to take the withdrawing income is not relevant to the IRC Sec. 678 analysis.
  - Such a power has even been ruled effective when held by a minor even where there was no court-appointed guardian with authority to exercise the power.
- The BDOT can be designed to be very flexible for any calendar year by giving an independent trustee, or a protector, the power to change the withdrawal power for a future year or years.
- The BDOT has many income tax advantages that a complex trust does not have:
  - The beneficiary of a BDOT can take an IRC Sec. 179 Expense deduction while a complex trust's ability to take that deduction is limited.
  - Depending upon the BDOT beneficiary's tax bracket, and/or how active the beneficiary is in a closely held business, the 3.8% net investment income tax will not apply while under the same circumstances it may apply to a complex trust.
  - The BDOT can be a shareholder of a S corporation without some of the considerations of an ESBT.
- Capital losses can be passed through to the beneficiary of the BDOT.
  - Assets that have a capital loss could be distributed in kind.
- The capital gains benefit of a residence that is inherent under IRC Sec. 121 will be available to sales of residences owned by a BDOT.

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Income Tax Advantages of the Technique
(Continued)

- There are increased opportunities for charitable planning because the inherent limitations under IRC Sec. 642(c) will be eliminated.
  - The beneficiary can withdraw assets that accrued from sources other than gross income and those assets can then be contributed by the beneficiary to charities.
- A BDOT should avoid overlapping state fiduciary income taxation.

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Transfer Tax Advantages of the Technique
(Page 233 of the Paper)

- The beneficiary has the opportunity by her actions to increase the value of the BDOT and, thus, the amount that is not subject to estate taxes.
  - To the extent the beneficiary of a BDOT does not withdraw net taxable income of the BDOT up to the lapse protection (the so-called "5 and 5" protection of IRC Sec. 2041(b)(2)), that amount remains in the trust in a manner that will not be subject to estate taxes. Almost all states have legislation that protects the lapse portion from creditors.
- Because the beneficiary is the deemed income tax owner of the BDOT, there is flexibility to allow the beneficiary to sell life insurance policies to the BDOT.
- The BDOT can own non-qualified deferred annuities.
  - It is very difficult for a complex trust to own non-qualified deferred annuities because of the requirements under IRC Sec. 72.

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Considerations of the Technique
(Page 233 of the Paper)

- In order to receive the lapse of power transfer tax protection of IRC Secs. 2041(b)(2) and 2514(e)(2), it is important that the withdrawal power can be applied against the entire income and/or corpus and/or proceeds of the entire corpus, of the BDOT.
- If Creditors can reach part of the withdrawable, but untaken, BDOT funds under the appropriate state law then that part that the creditors can reach will be taxable in the BDOT beneficiary's estate, whether or not that BDOT beneficiary has those potential creditors.
  - However, almost all states have legislation that protects against the BDOT beneficiary's creditors reaching the withdrawable, but untaken, BDOT funds. Not only do the states that permit self settled trusts protect against those potential creditors, but almost all states have legislation that protects against creditors reaching lapsed withdrawals that are 5% or less of the value of the corpus of a trust. Secondly, a BDOT could be drafted to allow an independent trustee or a protector to remove the withdrawal power that is inherent in a BDOT trust structure in future years.
- The sale of assets to a BDOT has most of the considerations of a sale to an intentionally defective trust, with the following exceptions.
  - There is less danger that the sale to a BDOT will be a taxable gift because of the presence of the seller's beneficial interest and special power of appointment over the BDOT, would make the gift an incomplete gift.
  - The grantor trust status can remain longer because of the seller's beneficial interest in the trust.
    - There is a greater safety valve protection for the BDOT seller's lifestyle needs because the seller is also a beneficiary of the BDOT.
  - There is greater opportunity to convert the retained note to a private annuity.

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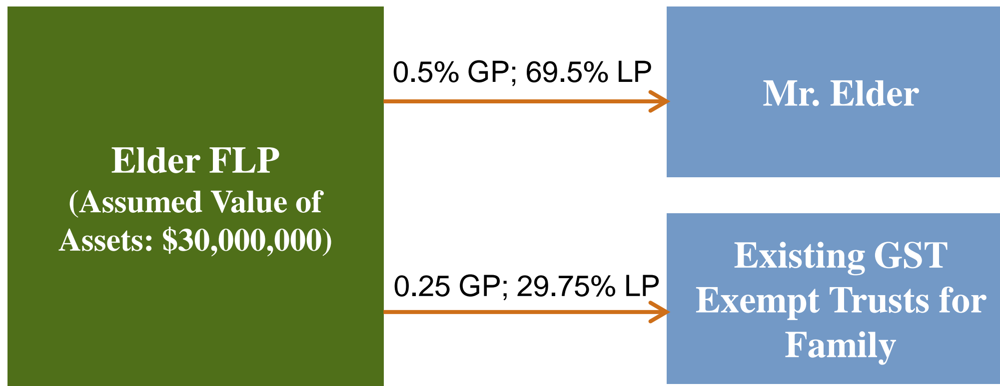
Private Wealth Management

Comparison of the Advantages and Considerations of Some Favorite Post-Mortem Planning Techniques

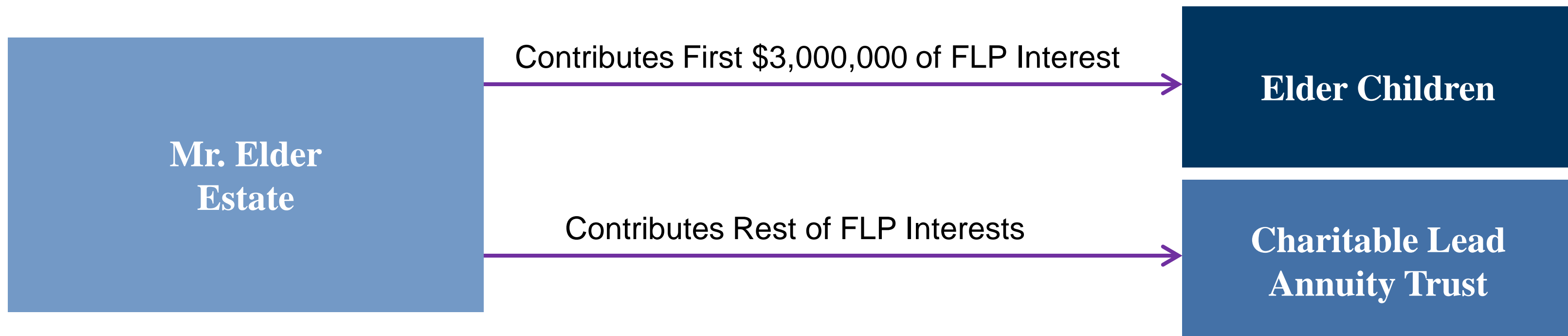
Use of a Leveraged Buy-Out of a Testamentary Charitable Lead Annuity Trust ("CLAT") (Pages 233-239 of the Paper)

- Consider the following example:
  - During Ed's lifetime he creates a FLP with his family:



Elder, LP Partner	Ownership (%)
Mr. Elder	0.5% GP; 69.5% LP
Existing GST Exempt Trusts for Family	0.25% GP; 29.75% LP

  - After Ed's death his will conveys his FLP interests as follows:



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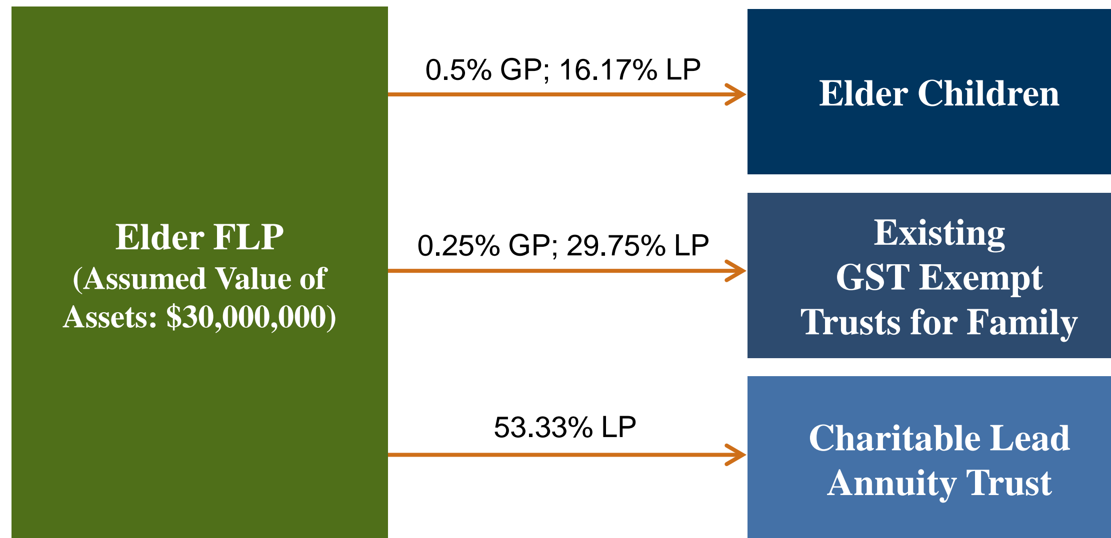
Use of a Leveraged Buy-Out of a Testamentary Charitable Lead Annuity Trust ("CLAT") (Continued)

– The percentage ownership of Elder FLP before any redemption pursuant to a probate court hearing is as follows:



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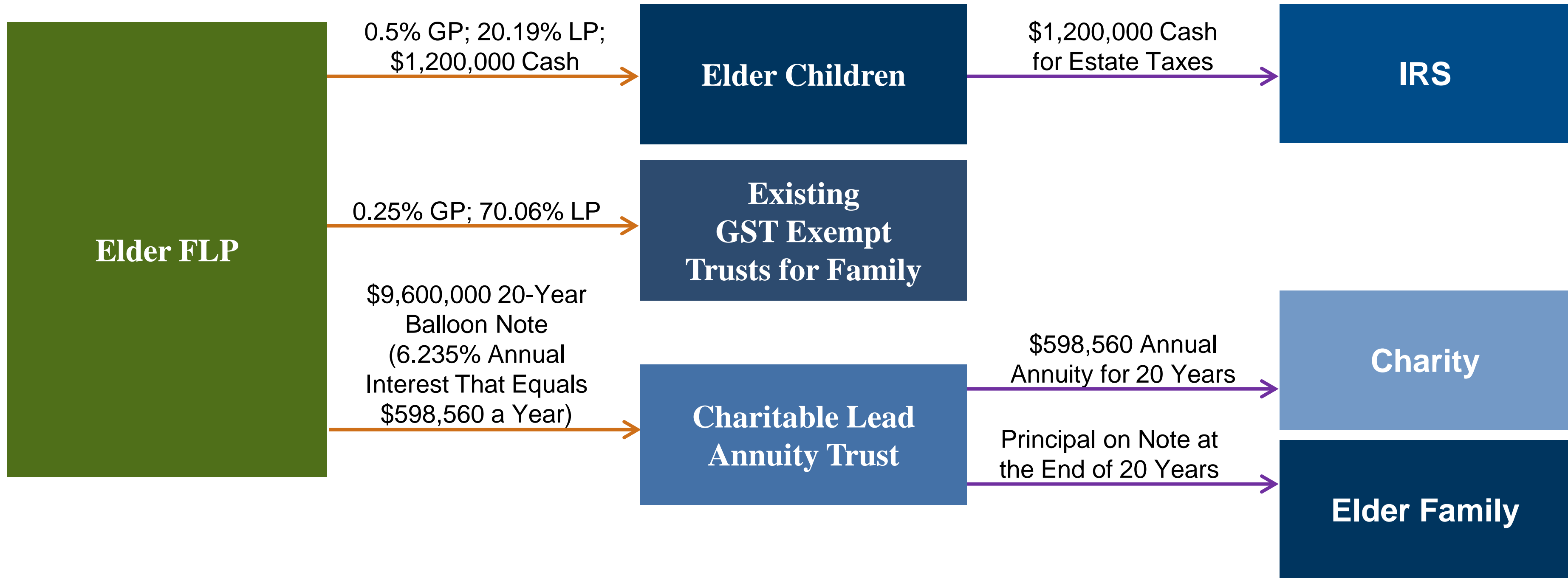
Use of a Leveraged Buy-Out of a Testamentary Charitable Lead Annuity Trust ("CLAT") (Continued)

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



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Income Tax and Basis Enhancing Advantages of the Technique
(Page 236 of the Paper)

- There is a partial step-up in basis in the decedent's partnership interest that is bequeathed to a zeroed-out CLAT.
- There will be income tax deductions for the interest paid to the CLAT, assuming the investment income of the partnership is greater than the interest expense.

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Transfer Tax Advantages of the Technique (Pages 236-239 of the Paper)

- No estate taxes have to be paid with a gift to a properly structured and implemented zeroed-out CLAT.
- If the decedent bequeaths a dollar gift to his family and the rest of his estate to a zeroed-out CLAT, his will acts like a defined value allocation clause.
- Significant improvement in the after tax net worth for both the family of the decedent and the decedent's favorite charitable causes will accrue because of this technique.
- The family does not have to wait 20 years to access the investments, if the investments are successful.

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Transfer Tax Advantages of the Technique (Continued)

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

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

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Considerations of the Technique (Page 239 of the Paper)

- Need to get probate court approval.
- Leverage could work against the family unless a carefully constructed partnership sinking fund is utilized to pay future interest payments.

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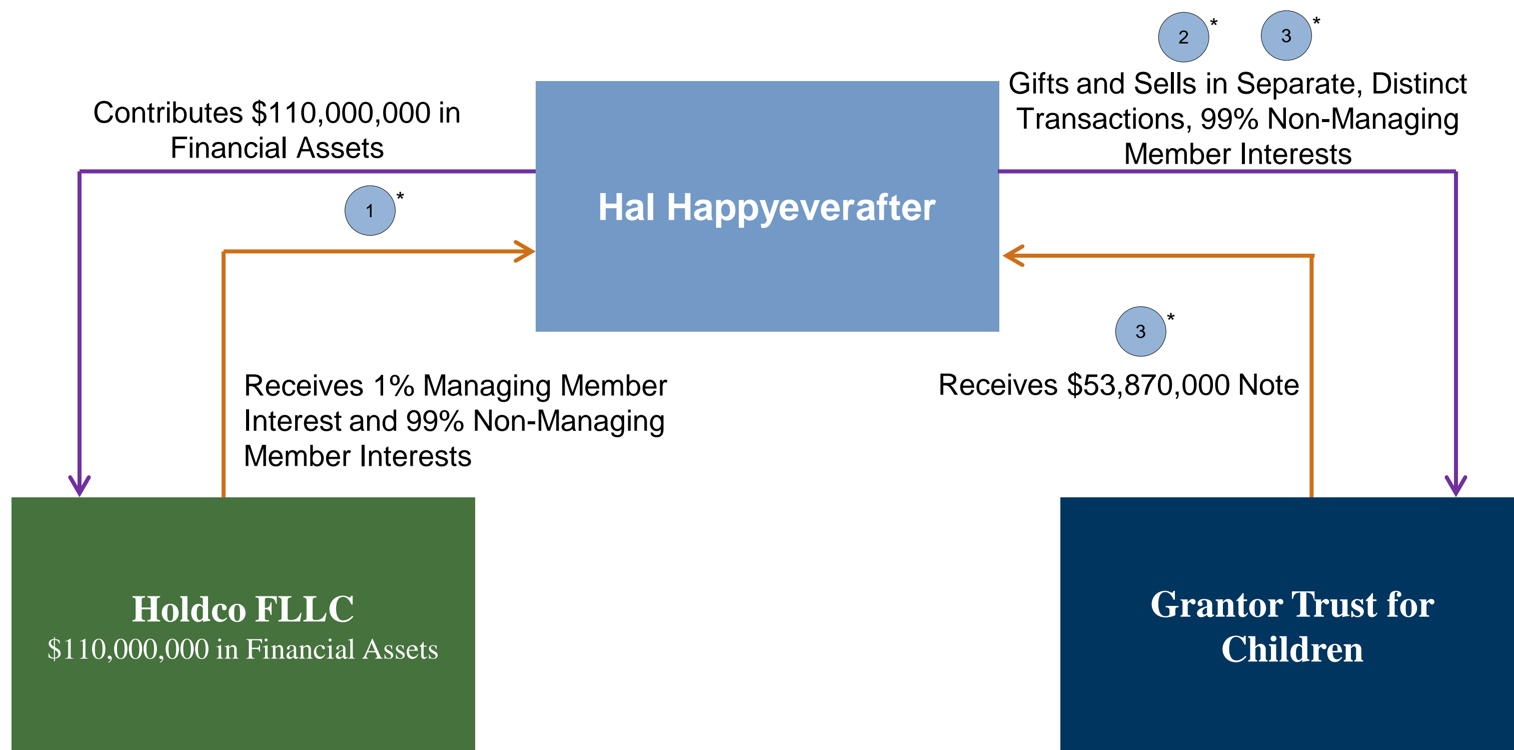
The Use of the Deceased Spouse's Unused Exemption Amount ("DSUE Amount") to Take Advantage of the Grantor Trust Rules to Save Future Estate Taxes (Pages 240-244 of the Paper)

- Consider the following example:



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

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Income Tax and Basis Enhancing Advantages of the Technique
(Page 241 of the Paper)

- There is a step-up in basis of the deceased spouse's assets at her death.
- There is an opportunity through using borrowing strategies from third party lenders for the surviving spouse to increase the basis of the family's assets during his lifetime.
- All of the income tax and basis enhancing advantages of creating a grantor trust and selling assets to a grantor trust are present with this technique.

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Transfer Tax Advantages of the Technique (Pages 242-243 of the Paper)

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

	Beneficiaries		Consumption		IRS Income Tax				
	Happyeverafter Children (1)	Happyeverafter Children & Grandchildren (2)	Direct Cost (3)	Investment Opportunity Cost (4)	Direct Cost (5)	Investment Opportunity Costs (6)	Embedded Capital Gains Tax Liability (7)	IRS Estate Taxes at 40% (8)	Total (9)
10-Year Future Values									
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust with her unified credit and balance of estate goes to a marital deduction trust	$84,901,072	$34,357,075	$22,406,764	$8,689,346	$12,693,504	$4,550,782	$414,058	$56,600,715	$224,613,316
	$119,258,147		$31,096,110		$17,658,344				
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust with her unified credit; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust	$19,537,175	$138,767,406	$22,406,764	$8,689,346	$14,060,949	$4,550,782	$3,576,111	$13,024,783	$224,613,316
	$158,304,580		$31,096,110		$22,187,842				
Hypothetical Technique: First spouse to die bequests estate to surviving spouse; surviving spouse gifts his lifetime gift and the DSUE amounts to a grantor trust; Hal sells the remaining non-managing member interests to the grantor trust	$157,853,517	$2,780,000	$22,406,764	$8,689,346	$14,060,949	$4,550,782	$3,576,111	$10,695,846	$224,613,316
	$160,633,517		$31,096,110		$22,187,842				

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Transfer Tax Advantages of the Technique (Continued)

- Significantly more assets may receive protection from creditors by using sales to grantor trusts with the use of the DSUE amount then using the exemption to fund a credit shelter trust.
- The surviving spouse's rights with respect to assets owned by the grantor trust, and cash flows produced by those assets, are pursuant to a flexible contract, rather than discretionary distributions by a trustee who is subject to fiduciary considerations.

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Considerations of the Technique (Pages 243-244 of the Paper)

- The surviving spouse may not transfer the DSUE amount in the manner that the deceased spouse anticipated.
- If the surviving spouse has creditor issues at the time of the first spouse's death, creating a family trust with the deceased spouse's unified credit will provide better protection from those creditors.
- This technique has the same considerations as the creation of a grantor trust and a sale to a grantor trust.
- The GST tax exemption is not portable.
- It may be more advantageous to convert a traditional credit shelter trust, with its attendant creditor protection and GST advantages, to a section 678 grantor trust by using the QSST technique.
- It may be more advantageous for the decedent to have created the grantor trust during her lifetime and use her exemption to create the grantor trust for the benefit of the spouse before death.
- Like all leverage techniques, if the underlying assets stay flat or decline there is not any advantage to the technique and to the extent a gift tax exemption is used, the technique operates at a disadvantage.

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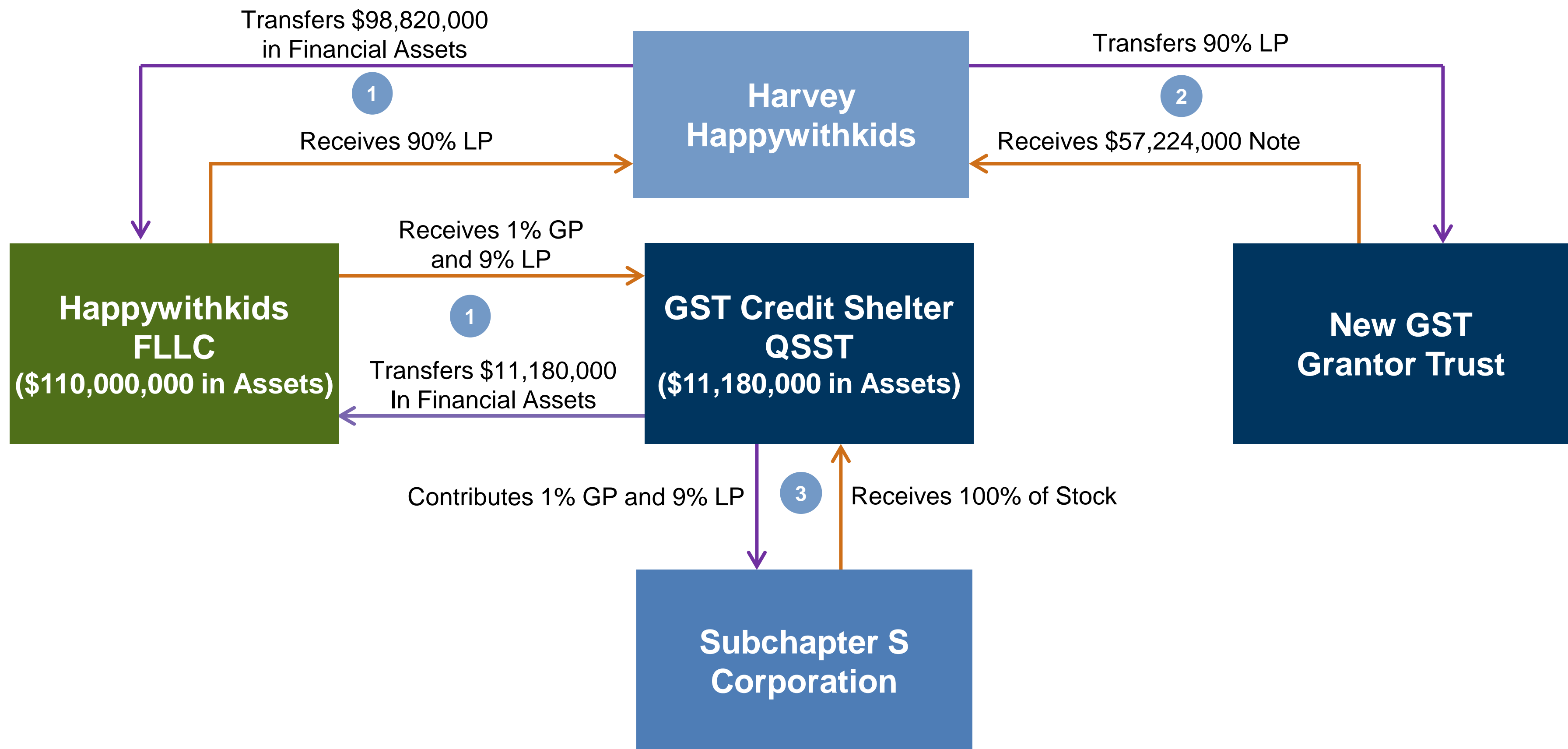
- Consider the following example:



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Income Tax and Basis Enhancing Advantages of the Technique
(Page 246 of the Paper)

- There is a step-up in basis of the deceased spouse's assets at her death.
- There is an opportunity through using borrowing strategies from third party lenders for the surviving spouse to increase the basis of the family's assets during his lifetime.
- All of the income tax advantages of a SIDGT are present with this technique.

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Transfer Tax Advantages of the Technique (Pages 246-248 of the Paper)

- Significant estate taxes can be saved with this technique.

	Beneficiaries		Consumption		IRS Income Tax			IRS Estate Tax (@ 40%)	Total
	Happywithkids Children (1)	Happywithkids Children & Grandchildren (2)	Direct Cost (3)	Investment Opportunity Cost (4)	Direct Cost (5)	Investment Opportunity Cost (6)	Embedded Capital Gains Tax (7)	(8)	(9)
10-Year Future Values									
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust with her unified credit and balance of estate goes to a marital deduction trust	$95,044,358	$34,357,075	$11,203,382	$4,344,673	$13,238,320	$4,690,485	$414,058	$63,362,905	$226,655,255
	$129,401,432		$15,548,055		$18,342,862				
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust	$27,346,315	$142,293,544	$11,203,382	$4,344,673	$14,717,018	$4,690,485	$3,828,961	$18,230,877	$226,655,255
	$169,639,859		$15,548,055		$23,236,464				
Hypothetical Technique: first to die spouse creates a credit shelter trust that is converted to a QSST; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust	$27,346,315	$142,293,544	$11,203,382	$4,344,673	$14,717,018	$4,690,485	$3,828,961	$18,230,877	$226,655,255
	$169,639,859		$15,548,055		$23,236,464				

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Transfer Tax Advantages of the Technique (Continued)

- Under this example, Harvey Happywithkids has a considerable safety net of being a beneficiary of the GST Credit Shelter Trust QSST, if he ever needs those resources.
- It has all of the advantages of converting a complex trust to a QSST.
- It has all of the transfer tax advantages of a SIDGT.
- Since under this technique, there is not a sale to a trust in which the seller is a beneficiary, there is much less IRC Secs. 2036 and 2038 pressure on the technique.

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Considerations of the Technique (Page 248 of the Paper)

- The surviving spouse only has flexibility to change the beneficiaries of the GST credit shelter QSST (assuming the surviving spouse has a power of appointment over the trust) and any assets the surviving spouse owns (which may be significantly depleted by the time of his death).
- This technique has the same considerations of converting a complex trust to a QSST.
- This technique has the same considerations as sales of limited partnership interests to a grantor trust.

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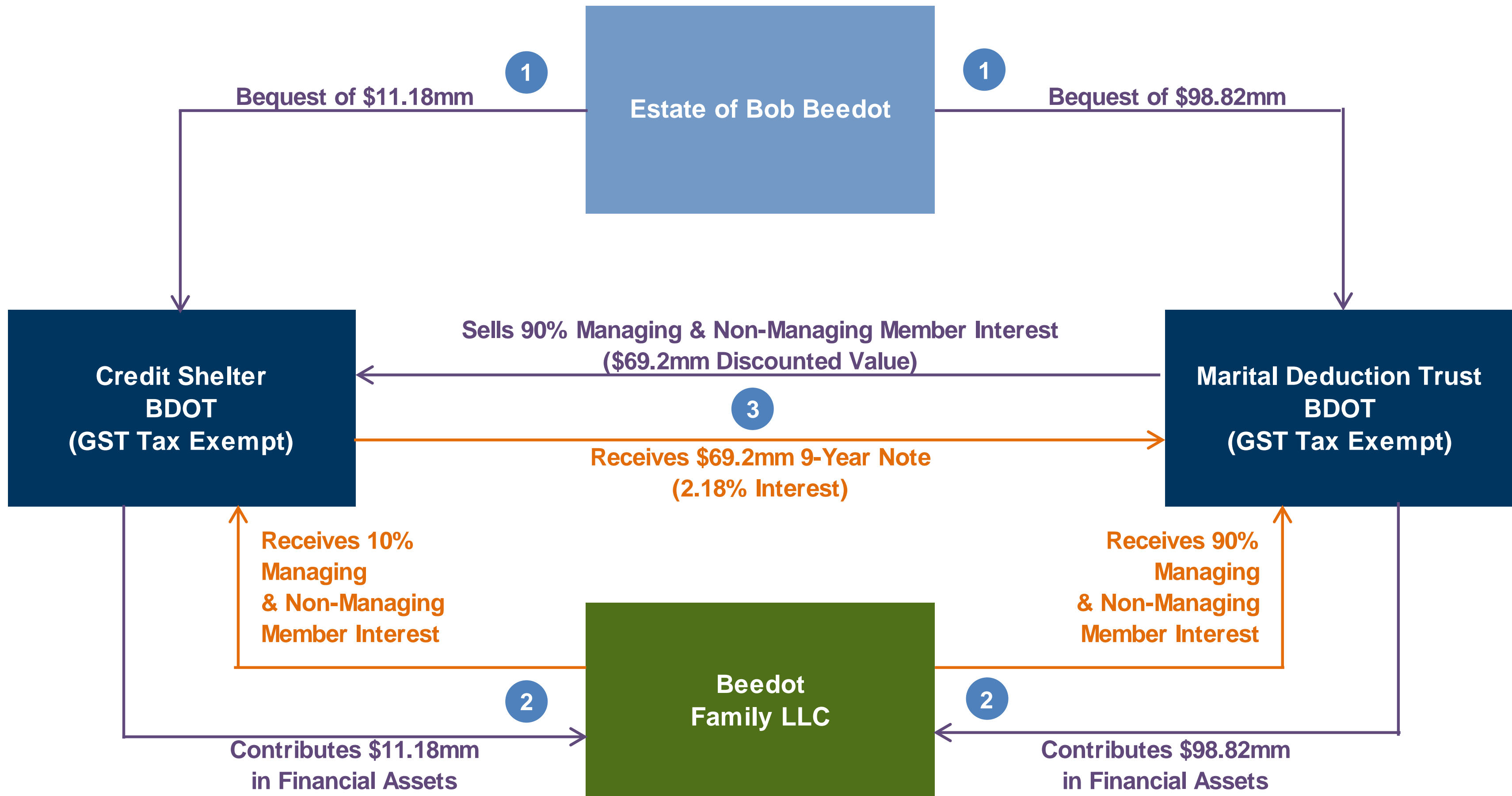
Both the Credit Shelter Trust and the Marital Deduction Trust Are Designed to be a BDOT for the Benefit of the Surviving Spouse; Both Trusts Contribute Their Assets to a FLLC; and, After That Contribution, the Marital Deduction Trust Sells its Member Interests in the FLLC to the Credit Shelter Trust (Pages 252-255 of the Paper)



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Income Tax and Basis Enhancing Advantages of the Technique
(Page 253 of the Paper)

- There is a step-up in basis of the deceased spouse's assets at his death.
- There is an opportunity through using borrowing strategies from third party lenders for the surviving spouse to increase the basis of the family's assets during her lifetime.
- All of the income tax and basis enhancing advantages of creating a grantor trust and selling assets to a grantor trust are present with this technique.

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Transfer Tax Advantages of the Technique (Pages 254-255 of the Paper)

- Significantly more assets may be passed to the next generation by using this technique than using the exemption to fund a credit shelter trust that is taxed as a complex trust and a marital deduction trust that is taxed as a complex trust.

	Beneficiaries		Consumption		IRS Income Tax			IRS Estate Tax (@ 40%)	Total
	Beedot Children (1)	Beedot Children & Grandchildren (2)	Direct Cost (3)	Investment Opportunity Cost (4)	Direct Cost (5)	Investment Opportunity Cost (6)	Embedded Capital Gains Tax (7)	(8)	(9)
10-Year Future Values									
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust with his unified credit and balance of estate goes to a marital deduction trust	$86,124,803	$32,858,879	$11,203,382	$4,344,673	$23,662,299	$8,610,683	$392,061	$57,416,535	$224,613,316
	$118,983,682		$15,548,055		$32,665,044				
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust and balance of estate goes to a marital deduction trust; the credit shelter trust and the marital deduction trust create an LLC; the marital trust sells LLC interest to the credit shelter trust	$29,178,407	$123,128,879	$11,203,382	$4,344,673	$25,054,497	$8,610,683	$3,640,523	$19,452,272	$224,613,316
	$152,307,286		$15,548,055		$37,305,703				
Hypothetical Technique: first to die spouse creates a credit shelter trust, that is a BDOT, and a marital deduction trust, that is also a BDOT; the credit shelter trust and the marital deduction trust create an LLC; the marital deduction trust sells LLC interests to the credit shelter trust	$19,675,355	$139,000,798	$11,203,382	$4,344,673	$25,044,447	$8,610,683	$3,617,074	$13,116,903	$224,613,316
	$158,676,153		$15,548,055		$37,272,205				

- The surviving spouse's rights with respect to assets owned by the BDOT, and cash flows produced by those assets, are substantial.

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Considerations of the Technique (Page 255 of the Paper)

- This technique has the same considerations as the creation of a BDOT and sale to a BDOT.
- This technique has the same considerations as the creation of a grantor trust and a sale to a grantor trust.
- Like all leverage techniques, if the underlying assets stay flat or decline there is not any advantage to the technique and to the extent a gift tax exemption is used, the technique operates at a disadvantage.
- The marital trust must give the surviving spouse the right to all the trust's accounting income for life. A spouse's right to withdraw accounting income satisfies the regulations applicable to marital trusts, including QTIP trusts. Treas. Reg. §§ 20.2056 (b)-5(f)(8) & 20.2056(b)-7(d)(2). Unless accounting income is required to be distributed currently, the surviving spouse's power of withdrawal over the marital trust must extend not only to the trust's taxable income but also to all its accounting income, whether or not taxable. If accounting income is required to be distributed, does the trust remain a wholly grantor trust under IRC Sec. 678 because of the spouse's power to withdraw taxable income? The answer should be yes, because the grantor trust rules prevail over the otherwise applicable trust rules. See Treas. Reg. §1.671-2(d).

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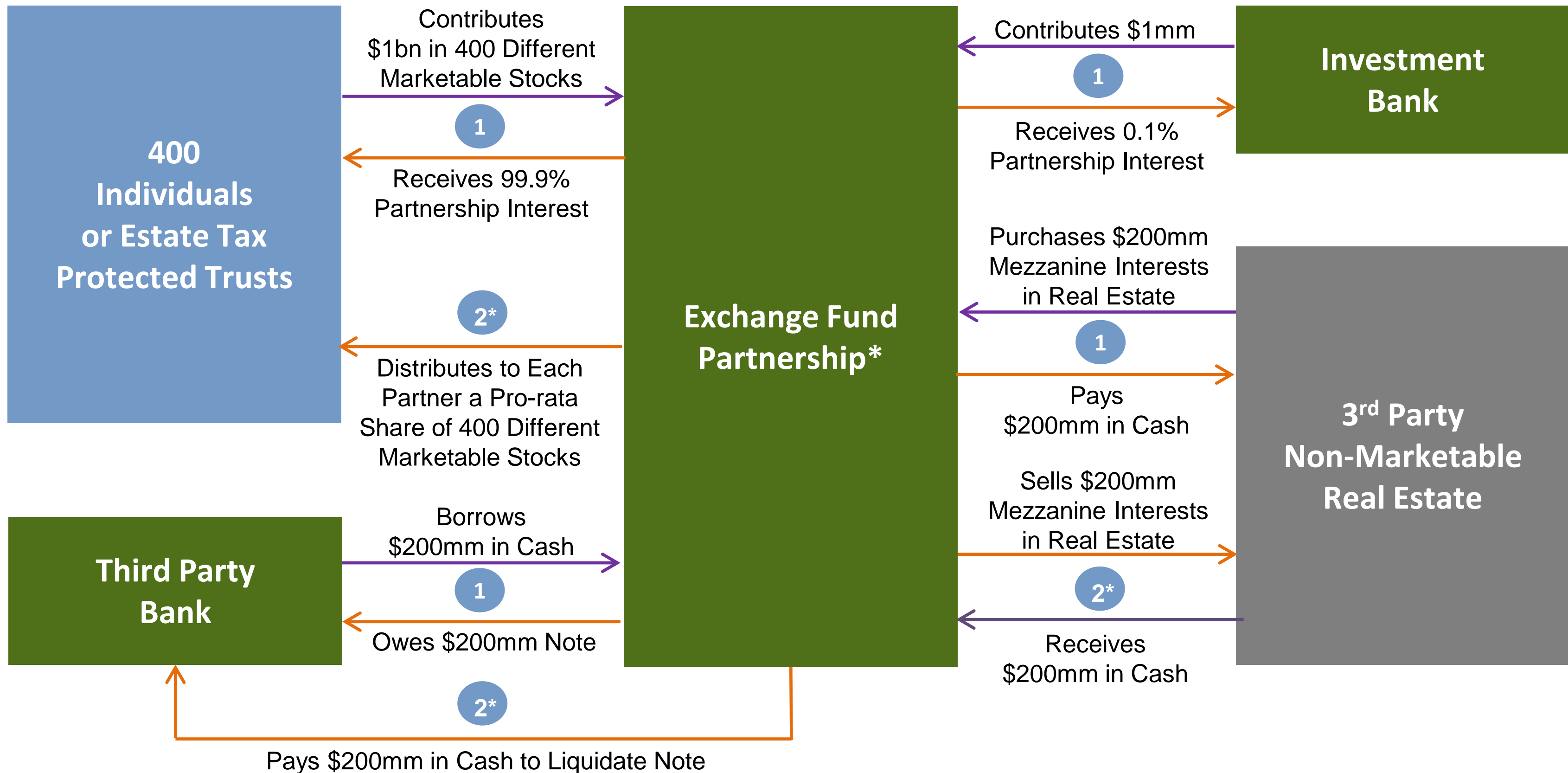
Private Wealth Management

Comparison of the Advantages and Considerations of Some Favorite Partnership Planning Techniques

Use of a Multi-Owner Exchange Fund Partnership to Achieve Diversification While Delaying the Tax on That Diversification in order to Achieve Greater Pre-tax Compounding (Pages 255-260 of the Paper)

- Consider the following example:*



2* above is 7 years and 1 month after the Exchange Fund Partnership is created, the following occurs: (i) the partnership sells its mezzanine interest in real estate for cash; (ii) the partnership liquidates the debt owed to the 3rd Party Bank; and (iii) the partners liquidate their interest in exchange for their pro-rata interest in each stock owned by the partnership.

* Each transaction must be independent, separate and distinct.

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Income Tax Advantage of the Technique (Page 257 of the Paper)

- The owner of the exchange fund will achieve diversification of his portfolio that has much less volatility, and achieve a seven-year or longer delay in paying a capital gains tax for that diversification.

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Considerations of the Technique (Pages 258-260 of the Paper)

- Care needs to be taken to make sure there is not a deemed sale on the formation of the partnership under IRC Sec. 721.
- Care should be taken to make sure IRC Secs. 704(c), 737 and 707 do not apply.
- Each partner's basis in the assets that each partner receives on liquidation will equal that partner's total outside basis of the liquidated partnership interest.
- There are economic considerations in using exchange funds:
  - The lack of liquidity (there may be a six month or longer notice period before a partner can withdraw);
  - The financial management fees and third party bank loan interest may exceed the profits on the real estate investment;
  - The desire of the fund manager to accept certain securities than an investor would otherwise not invest; and
  - The performance of the other securities accepted into the fund over the seven-year period.
  - The taxpayer may only be able to diversify a limited amount of his single stock position because of limitations inherent in accepting stock from several taxpayers.

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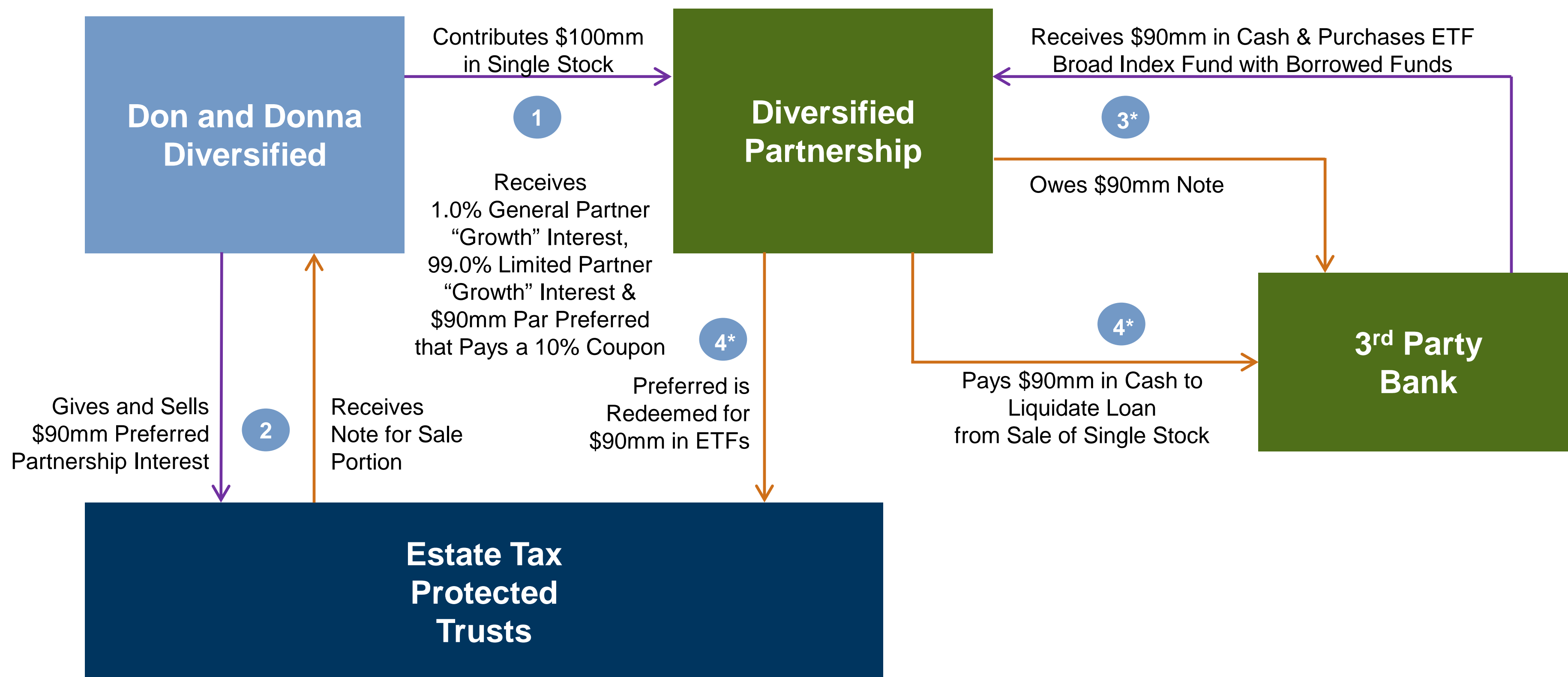
Using Closely Held Family Partnerships to Achieve Diversification and to Defer and Lower Income Taxes By Using Various Forms of Mixing Bowl Transactions (Example One) (Pages 260-262 of the Paper)

- Consider the following leveraged reverse freeze example:*



3* above is 7 years and 1 month after it is assumed (i) that the note owed to Don and Donna Diversified by the Estate Tax Protected Trusts has been paid; (ii) the grantor trust status is removed from the trusts and the trusts become complex trusts; (iii) the Diversified Partnership borrows $90mm from a 3rd Party Lender (Don and Donna guarantee the loan) and invests $90mm in ETFs.

4* above is when the $90mm preferred interest is redeemed for the ETFs and the partnership sells the $100mm Single Stock in order to pay off the 3rd party note.

*Each transaction must be independent, separate and distinct.

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Advantages of the Family Partnership Mixing Bowl Techniques (Example One)
(Pages 264-265 of the Paper)

- Management fees do not have to be paid to a third party investment bank.
- The income tax benefit of the withdrawal: the illustrated "family structure" opportunities can provide the family an ability to manage the position through an appropriate controlled legal entity, while offering the potential for a long-term exit strategy that can be accomplished on a deferred tax basis.
  - In the example on slide 89 there will be no immediate tax consequences to the family trust diversifying its zero basis single stock position from its $90,000,000 position until the trust decides to sell part or all of its $90,000,000 diversified ETF position.
- In comparison to the exchange fund, this illustrated mixing bowl technique provides the retention of upside in the original appreciated position, albeit without diversification until the stock is sold, and without the lack of control with exchange funds.
- By using partnership division techniques that are in compliance with IRC Sec. 708, partnership assets could be isolated where basis planning is most useful.
- The net result of the transactions in the example on slide 89 is that only a 2.38% initial capital gains tax has to be paid. If instead the zero basis $100,000,000 single stock had been sold with the sale proceeds being reinvested in a low turnover index fund, a combined 23.8% capital gains and 1411 tax would have to be paid.
- Transfer tax benefit of a withdrawal from a long-term partnership structure.
  - In the example on slide 89 the transfer tax benefits of the trust owning a 10% compounding preferred interest could be significant especially if the underlying stock does not grow at that same pace.

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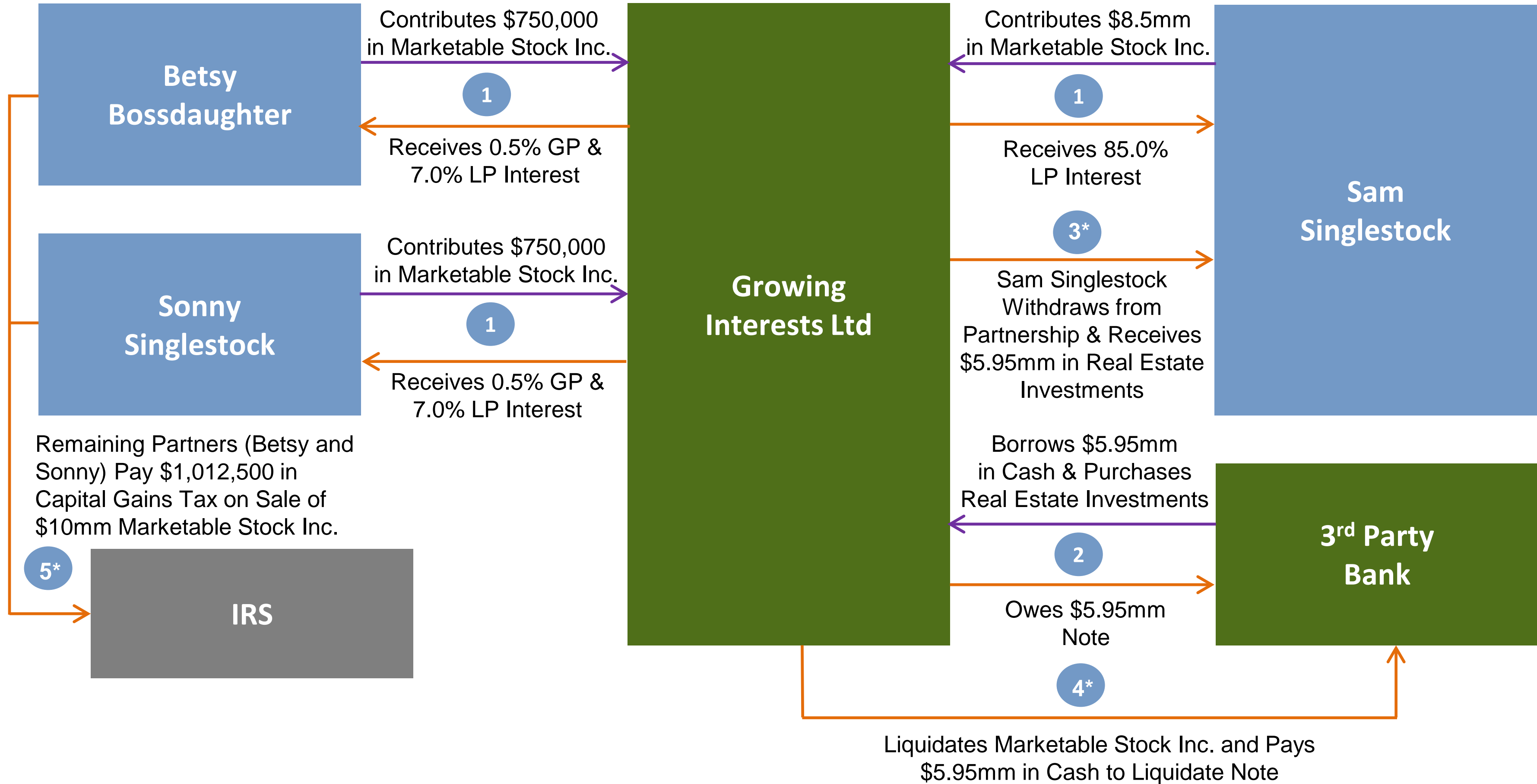
Using Closely Held Family Partnerships to Achieve Diversification and to Defer and Lower Income Taxes By Using Various Forms of Mixing Bowl Transactions (Example Two) (Pages 262-263 of the Paper)

- Consider the following example:



3*, 4* and 5* above happen more than 7 years after the creation of the partnership.

* Each transaction must be independent, separate and distinct.

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Advantages of the Family Partnership Mixing Bowl Techniques (Example Two)
(Pages 264-265 of the Paper)

- Management fees do not have to be paid to a third party investment bank.
- The income tax benefit of the withdrawal: the illustrated "family structure" opportunities can provide the family an ability to manage the position through an appropriate controlled legal entity, while offering the potential for a long-term exit strategy that can be accomplished on a deferred tax basis.
  - In the example on slide 91 the real estate investment will retain its zero basis without the imposition of a capital gains tax until it is sold, at which time Sam will recognize capital gains taxes. If Sam chooses to operate the real estate until his death, then IRC Sec. 1014 would apply upon his death and the real estate will receive a step-up in basis to its then fair market value. Betsy and Sonny, if the partnership makes an IRC Sec. 754 election, will receive a basis adjustment because of IRC Sec. 734(b) in the retained Marketable Stock that should allow the partnership to retire its debt with modest tax net consequences.
- In comparison to the exchange fund, this illustrated mixing bowl technique provides the retention of upside in the original appreciated position, albeit without diversification until the stock is sold, and without the lack of control with exchange funds.
- By using partnership division techniques that are in compliance with IRC Sec. 708, partnership assets could be isolated where basis planning is most useful.
- The net result of the transactions in the example on slide 91 is that Betsy and Sonny's collective net worth (assuming a 23.8% capital gains rate), after capital gains taxes and/or contingent capital gains taxes, will increase by 170%.
- Transfer tax benefit of a withdrawal from a long-term partnership structure.
  - In the example on slide 91 the valuation discount associated with the liquidation of Sam's limited partnership interest, if it is accurate, will not result in a gift tax, even though the fair market value of the remaining partnership interests owned by Betsy and Sonny will increase in value. This is because the withdrawing partner, Sam Singlestock, under the assumptions, received full and adequate consideration.

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Considerations of the Mixing Bowl Technique (Pages 266-267 of the Paper)

- General considerations:
  - The individual transactions comprised in each technique must be independent, separate, and distinct. They must avoid application of the partnership anti-abuse rules. In the example on slide 89, it is important that the partnership operate as an "investment partnership" within the meaning of IRC Sec. 731(c)(3)(A)(iii) to prevent the distributed ETF units from being treated as money under IRC Sec. 731(c)(1).
- Tax consequences on formation of the partnership needs to be avoided.
  - Formation of the partnership should not be a taxable event under IRC Secs. 721 or 351, because there is not any diversification. There should not be any gift tax consequences on the formation of the partnership.
- Tax consequences when the partnership interests are redeemed need to be avoided.
- There is exposure that Congress could change the law, by the time a partner withdraws (*e.g.*, IRC Secs. 732 or 752 of the Code could be amended) and that the favorable liquidation rules would no longer be available. there is also exposure in that the IRS could change its regulations.
- Like all leverage techniques, if the underlying assets stay flat or decline there is not any advantage to the technique and to the extent a gift tax exemption is used, the technique operates at a disadvantage.
- If these techniques are used it will take at least seven years of partnership aging before the "safety" of diversification can be used.

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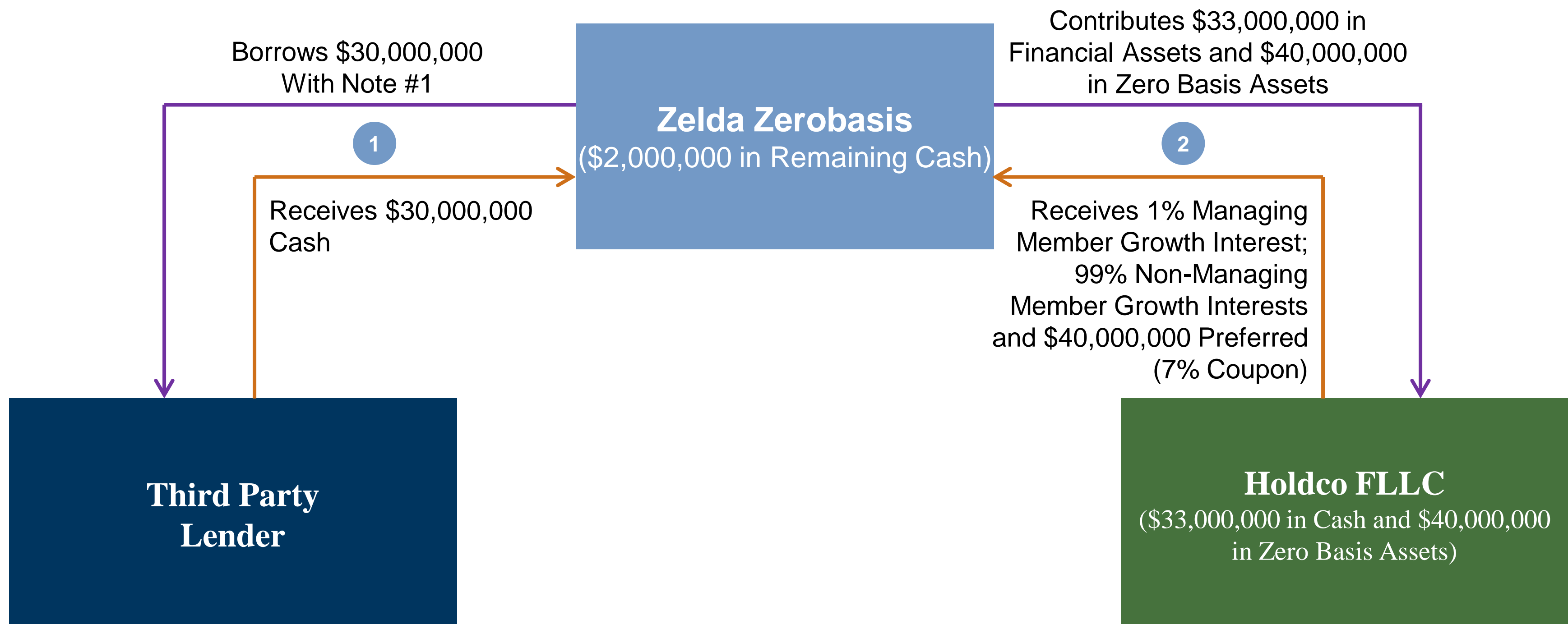
- Consider the following example:
  - Hypothetical Transaction #1:



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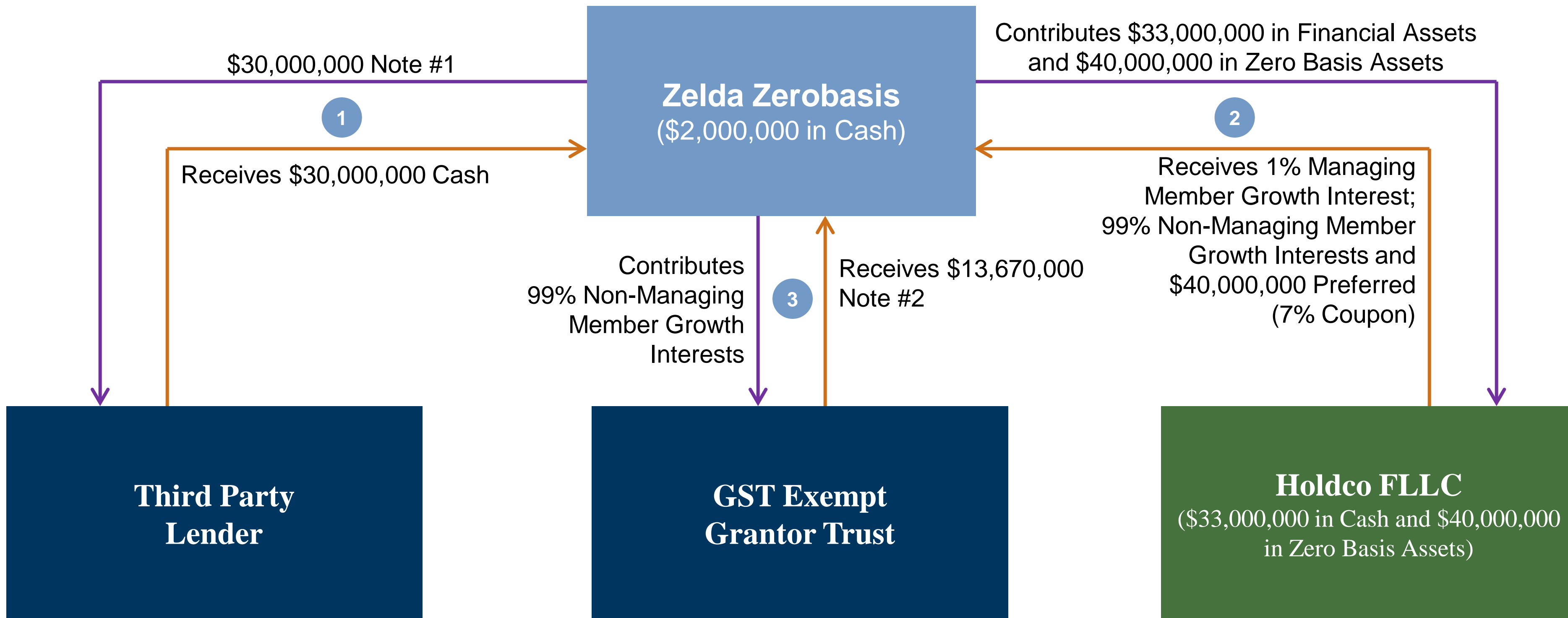
– Hypothetical Transaction #2:



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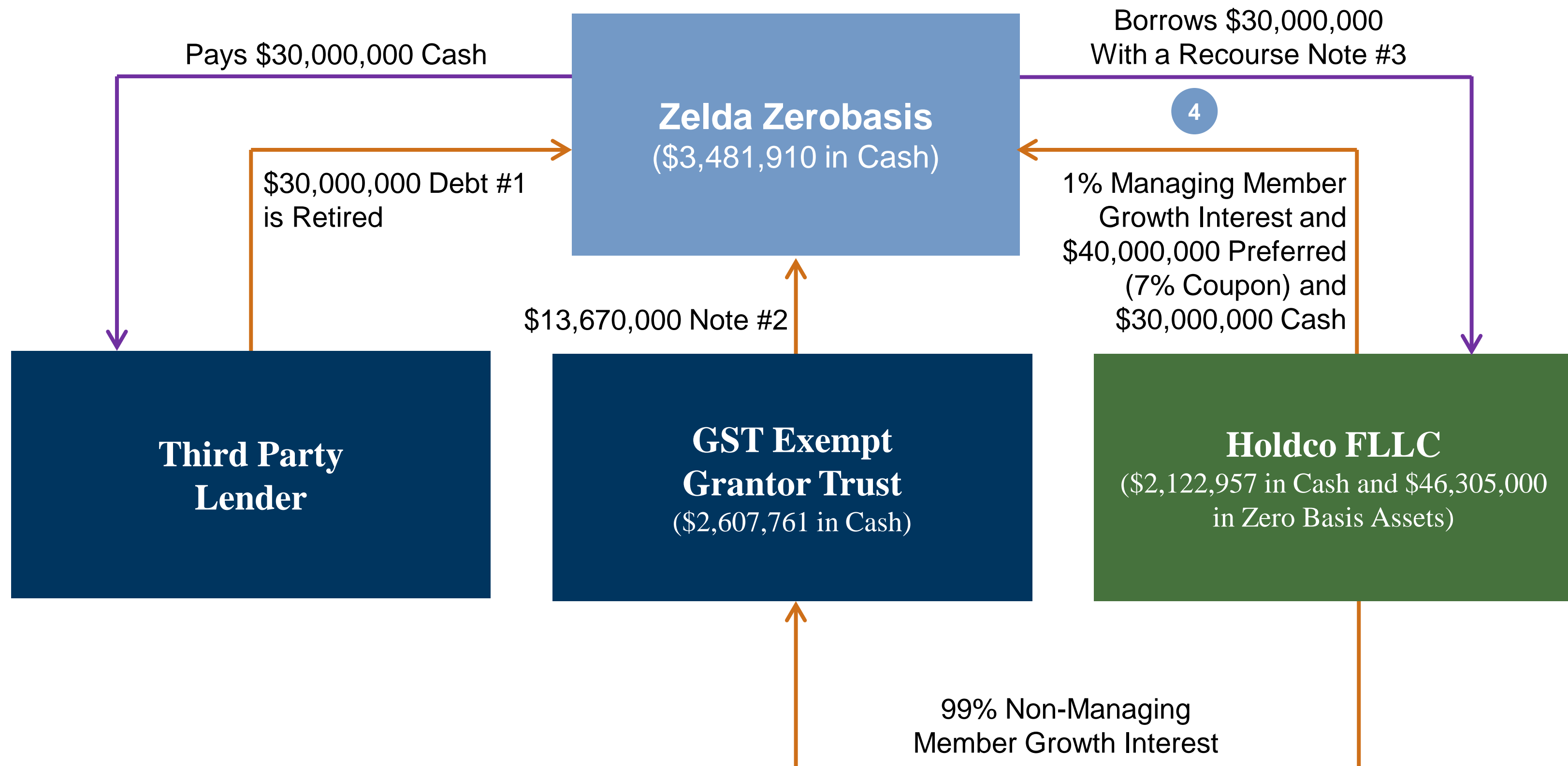
The Use of a Retained Preferred Partnership Interest and Third Party Leverage to Generate Effective Estate Planning and Basis Planning (Continued)

– Hypothetical Transaction #3:



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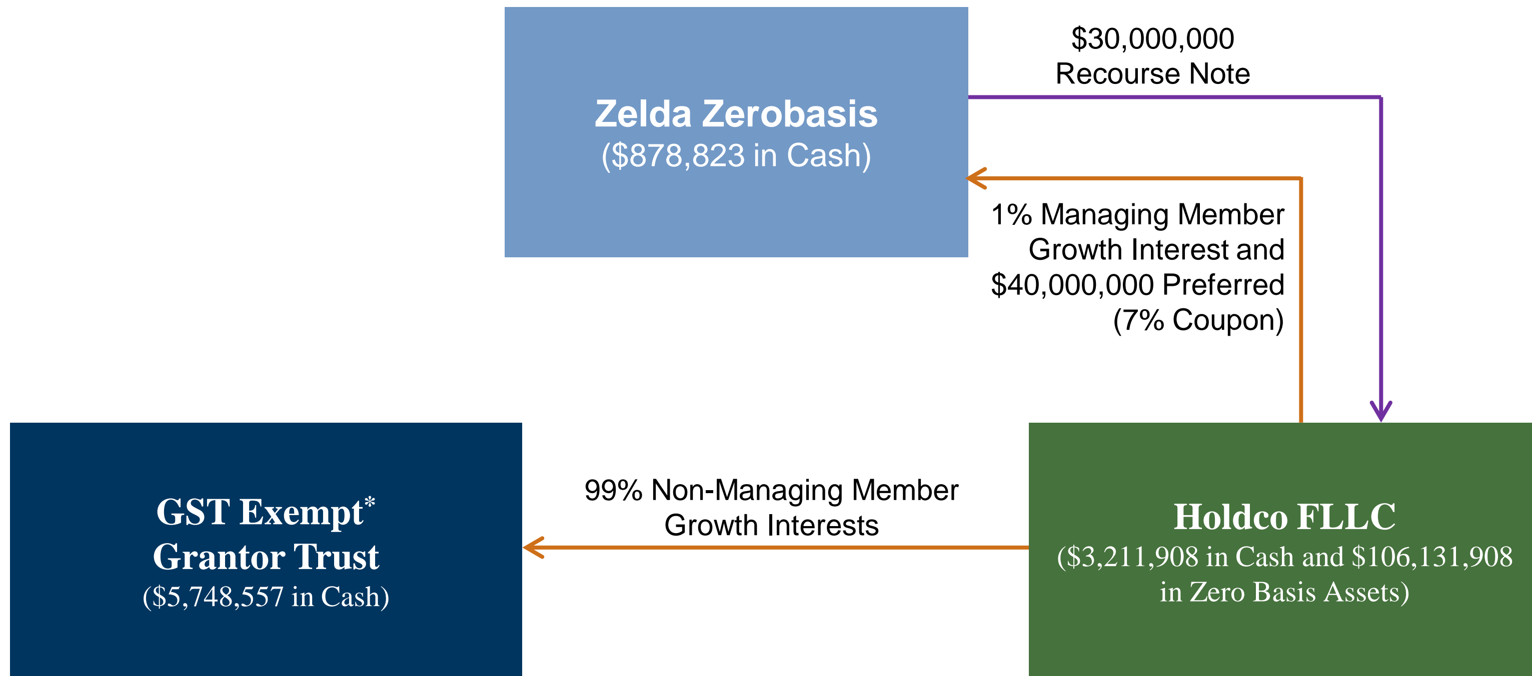
– The moment before Zelda's death in 20 years the structure under the above assumptions may be as follows:



*Grantor Trust status removed in year 18.

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Income Tax and Basis Enhancing Advantages of the Technique
(Page 271 of the Paper)

- This technique has the same advantage of being able to use third party borrowing by a disregarded entity to achieve basis adjustment in low basis assets.
- **The net effect of the illustrated technique is that for every $1 of the taxpayer's estate exposed to estate taxes there is a $4 increase in the basis of the low basis assets subject to the technique.**

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Transfer Tax Advantages of the Technique (Pages 271-272 of the Paper)

- The net after income and transfer tax savings to Zelda are projected to be substantial:

	Zerobasis Children (1)	Zerobasis Children & Grandchildren (2)	Consumption (3)	Consumption Investment Opportunity Cost (4)	Opportunity Cost/(Benefit) of Borrowing from 3rd Party Lender (5)	IRS Income Tax (6)	IRS Income Tax Investment Opportunity Costs (7)	Estate Taxes (8)	Total (9)
20-Year Future Values									
No Further Planning: Bequeaths Estate to Family	$44,616,886	$8,530,000	$12,772,329	$13,053,175	$0	$15,575,474	$15,627,875	$29,744,590	$139,920,329
Hypothetical Technique: Bequeaths Remaining Estate to Family	$3,135,638	$82,597,794	$12,772,329	$13,053,175	($11,079,903)	$22,247,774	$15,103,098	$2,090,425	$139,920,329
Present Values (Discounted at 2.5%)									
No Further Planning: Bequeaths Estate to Family	$27,228,389	$5,205,611	$7,794,581	$7,965,974	$0	$9,505,259	$9,537,238	$18,152,259	$85,389,311
Hypothetical Technique: Bequeaths Remaining Estate to Family	$1,913,589	$50,407,034	$7,794,581	$7,965,974	($6,761,743)	$13,577,170	$9,216,982	$1,275,726	$85,389,311

- This technique also has the same advantages as the SIDGT.

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Considerations of the Technique (Pages 272-273 of the Paper)

- This technique has the same considerations as a SIDGT, except this technique may address step-up in basis planning in a more advantageous manner.
- Care must be taken to comply with the gift tax valuation rules of IRC Sec. 2701.
- Third party financing, at least on a temporary basis, may be necessary.
- This technique has many of the same considerations as a grantor trust has in third party borrowing to achieve basis adjustment in low basis assets.

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Private Wealth Management

Comparison of the Advantages and Considerations of Certain Planning Techniques That Are Discussed in the Companion Paper, But Are Not Included in this Presentation

Techniques Discussed in Companion Paper, But Not Included in This Presentation

Technique	Page Number(s) in Paper
A Legal Structure That May Always Ensure a Successful GRAT: Funding a LAGRAT With a Guaranteed Preferred Partnership Interest and Funding Another LAGRAT With Slightly Different Beneficiaries With a Growth Partnership Interest	97-103
Possible Structural Solutions to Allow the Allocation of the GST Exemption Upon the Creation of a GRAT or a LAGRAT	103-134
Using a 20% Annual Increasing Annuity GRAT, and Using “Proportionality” and “Debt” Exceptions to IRC Sec. 2701 to Plan for Private Equity Fund Managers and Hedge Fund Managers	134-139
Use of Spousal Grantor Trusts	139-147
The $5,000 BDIT Guaranteed Sale Technique	162-172
A Substantially Funded BDIT Created By a Hanging Power Lapsing in Another Substantially Funded BDIT	172-175
The BDIT Remainder Purchase Technique	175-181

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Techniques Discussed in Companion Paper, But Not Included in This Presentation (Continued)

Technique	Page Number(s) in Paper
The BDOT Created BDIT	181-183
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PUTTING IT ALL TOGETHER: SOME OF THE BEST ESTATE PLANNING STRATEGIES WE SEE THAT REDUCE BOTH INCOME AND ESTATE TAXES IN THE UNCERTAIN AGE OF TAX REFORM©

Updated as of January 9, 2018

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PUTTING IT ALL TOGETHER: SOME OF THE BEST ESTATE PLANNING STRATEGIES WE SEE THAT REDUCE BOTH INCOME AND ESTATE TAXES IN THE UNCERTAIN AGE OF TAX REFORM©

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

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

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

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

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

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

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[1] I would like to thank Mike Allen of Allen ◊ Lottmann, P.C., in Tyler, Texas. Around 25 years ago Mike articulated these concepts to me. I have been a better advisor since.

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

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

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

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

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

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

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

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

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

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

Purpose The declared principles for the family's capital which determine the plan's essential characteristics

(having priority over)

Strategies The alternative game plans for implementing the essential characteristics

(having priority over)

Legal Structures The legal documents which embody and implement the essential characteristics

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

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

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

Under current transfer tax laws, almost all of the US population (estimates are over 99.93%) does not have to worry about strategies that reduce transfer taxes.[3] However, according to the Gallup poll on May 24, 2017, 54% of Americans own stocks and presumably would welcome strategies that would lower income taxes on their individual investments and/or trust investments.

There are strategies that reduce both the income taxes on capital and the transfer taxes on capital. Planning for those two taxes does not have to be, and should not be, an "either, or" exercise. The purpose of this paper is to discuss some of the strategies that reduce both taxes.

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

A. Income Tax Versus Estate Tax: A New Paradigm? (It May Not Have to Be).[4]

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

a. Certain Key Basis Rules.

(1) Property Acquired By Purchase.

If property is purchased the basis will be its cost[5], unless the property is purchased by a grantor trust from the grantor. If property is purchased by a grantor trust from the grantor, the basis will be the basis that the grantor had in the assets and will be treated as if the sale had not occurred.[6]

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[3] The Joint Committee on Taxation estimates that in 2018 only 1,800 of the estimated 2.6 million decedents will have to pay estate taxes.

[4] I would like to thank my colleagues at Goldman Sachs who helped with many of the ideas expressed in this paper: Jeff Daly, Cliff Schlesinger, Karey Dye, Melinda Kleehamer, Chi-Yu Liang, Ed Manigault, Cathy Bell and Jason Danziger. Many of the ideas generated in this paper also came from the fertile minds of my attorney friends, including: Carlyn McCaffrey, Ellen Harrison, David Handler, Jonathan Blattmachr, Richard Dees, Mickey R. Davis, Melissa J. Willms, Turney Berry, Ronald J. Weiss, Pamela Endreny and Dan T. Hastings. I would particularly like to thank Steve Gorin. Any reader interested in the subject matter of this paper should *see*, Gorin, "Structuring Ownership of Privately-Owned Businesses: Tax and Estate Planning Implications." Steve's treatise contains over 740 pages of materials and is available by emailing him at sgorin@thompsoncoburn.com.

[5] *See*, IRC Sec. 1012.

[6] *See*, Revenue Ruling 85-13, 1985-1 C.B. 184.

(2) Property Acquired By Gift.

(a) The Donor's Basis is Less Than the Property's Fair Market Value at the Time of Gift.

The property's basis is equal to the donor's basis plus a portion of gift tax paid (if any) equal to the portion of the property's value consisting of appreciation over the donor's basis.[7]

(b) The Donor's Basis is Greater Than the Fair Market Value of the Donated Property at the Time of the Gift.

(i) The basis for determining gain will be basis of the donor.[8]

(ii) The basis for determining loss will be the fair market value of the property at the time of gift.[9]

(iii) There is not any gain or loss, if the donee sells the property between the donor's basis and the fair market value of the property on the date of the gift.[10]

(3) Property Acquired By a Distribution From a Trust or Estate.

The beneficiary's basis will be the same as the trust or estate's basis adjusted for any gain or loss recognized on the distribution. The trust or estate could elect under IRC Sec. 643(e)(3) to treat the distribution as a sale for its fair market value.[11] Also, if the beneficiary receives the distribution of the property in satisfaction of a pecuniary bequest, the distribution will be treated as a sale.

(4) Property Acquired By Inheritance.

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

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

[8] *See*, IRC Secs. 1015(a) and 1015(d)(1)(A) as limited by 1015(d)(6).

[9] *See*, IRC Sec. 1015(a).

[10] *See*, IRC Sec. 1015(a).

[11] *See*, IRC Sec. 643(e).

(i) The proceeds from receivables, which would have been income to the decedent during his lifetime upon its receipt. The future proceeds from these receivables are referred to as "income in receipt of a decedent."

(ii) On the death of a spouse who holds property as joint tenants, or tenants by the entirety with the other spouse, one-half of the property will be taxed in the decedent's estate and its basis will be adjusted to have the same value as determined for estate tax purposes and the remaining half will retain its basis.

(iii) On the death of an individual who jointly owns property with a person who is not a spouse, all of the property is included in that decedent's estate and the basis of the property will be adjusted to have the same value as determined for estate tax purposes (unless the surviving joint owner can show he contributed to the purchase of the property, in which case inclusion in the estate and the resulting basis adjustment are based on the percentage of the consideration paid to acquire the property that was furnished by the decedent).

(iv) Property that is subject to debt on which the decedent is not personally liable. The basis of the property may only be the net value of property (gross value of the property minus the debt), because that is how it will be reported for estate tax purposes.[12]

(v) Any property that a decedent received by gift within one year prior to death if the decedent bequeaths the property back to the donor. The decedent's pre-death basis in such property will carry over to the donor-legatee, as provided by IRC Sec. 1014(e):

> Appreciated property acquired by decedent by gift within 1 year of death.
>
> (1) In general.
>
> In the case of a decedent dying after December 31, 1981, if –
>
> (A) **appreciated property** was **acquired** by the decedent by **gift** during the 1-year period ending on the date of the decedent's death, and

[12] *See* discussion *infra* Section XVI.D.5.

(B) such property is **acquired from the decedent** by (or **passes from** the decedent to) the **donor** of such property (or the spouse of such donor), the basis of such property in the hands of such donor (or spouse) shall be the adjusted basis of such property in the hands of the decedent immediately before the death of the decedent.

(2) Definitions.

For purposes of paragraph (1) -

(A) Appreciated property

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

(B) Treatment of certain property sold by estate

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

b. Certain Key Partnership Income Tax and Basis Accounting Rules.

As noted above, there are limited ways of changing the basis of an asset without having a recognition event for income tax purposes. However, entities treated as partnerships have tax accounting rules that provide sufficient planning flexibility to shift and change the basis of property. Some of the key partnership income tax and basis accounting rules follow:

(1) Generally, a Beginning Partner's Basis in a Partnership is Equal to the Property Contributed or Cash Paid, Plus Any Income Recognized on Formation of the Partnership, Plus the Partner's Share of the Liabilities of the Partnership.

A partnership's basis can be increased by the following: additional contributions of cash or property to the partnership; increases in the partner's share of liabilities of the partnership; a partner's assumption of individual liabilities of the partnership; or a partner's share of the taxable income or nontaxable income of the partnership.

A partner's basis is decreased to the extent distributions are made to the partner, partnership losses are allocated to the partner or a partner's share of the liabilities decreases.

(2) Under the "Unitary Basis" Tax Accounting Rules a Partner Has a "Unitary Basis" in His or Her Partnership Interest Even if the Partner Has Different Classes of Partnership Interests in Different Transactions.

The basis of a partner is generally allocated to the relative fair market value of different interests when determining such basis allocation is relevant (e.g., sales or redemptions of partnership interests). For example, a partner may have contributed a low basis asset to a partnership and then transferred or sold the low basis partnership interest to a grantor trust that is ignored for income tax purposes. At a later time that same partner could contribute cash for another partnership interest in the partnership. That contribution of cash will result in proportional increases for both the grantor trust partnership interests and the new partnership interests acquired for cash.

(3) Generally, the Contribution of Low Basis Property to a Partnership Does Not Trigger Gain, But it Could.

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

Subchapter K of the Internal Revenue Code indicates that, in general, no gain or loss shall be recognized to a partnership or to any of its partners in the case of a contribution of property to the partnership in exchange for an interest in the partnership.[13] However, if the entity is considered an "investment company," then a taxable sale is deemed to occur.[14] The partners in the partnership must determine if a taxable contribution has occurred via the existence of an

---

[13] *See* IRC Sec. 721(a).

[14] *See* IRC Sec. 721(b).

investment company. In general, an investment company includes an entity that owns stock, bonds, foreign currencies, REITS and other marketable securities.[15]

The Treasury Regulations further detail the definition of an investment company to include entities where the formation results, directly or indirectly, in diversification of the transferors' interests, and more than 80 percent of its value in assets (excluding cash and nonconvertible debt obligations from consideration) that are held for investment and are readily marketable stocks or securities, or interests in regulated investment companies or real estate investment trusts.[16]

(4) Generally, When a Donor Makes a Gratuitous Transfer of a Partnership Interest to a Donee No Gain or Loss is Recognized on the Transfer. However, a Proportionate Share of the Basis of That Transferred Interest May Not Be Transferred.

The IRS has ruled that in calculating the outside basis of a transferred partnership interest the basis of the transferred interest equals an amount that bears the same relation to the entire interest as the fair market value of the transferred portion of the interest bears to the fair market value of the entire interest.[17] Thus, if there is more of a valuation discount on the transferred interest than the original interest, the donor will retain the basis on his retained partnership interest that is not allocated on that proportional test.

(5) Certain Partnership Tax Accounting Rules Must Be Navigated to Make Sure a Partnership is Not Being Used as a Vehicle For a Disguised Sale.

Another area of potential taxpayer abuse involves the concept of a partnership formed to specifically disguise a sale where the investment company rules do not apply. A simple example would be for two individuals to form a partnership with one individual contributing $100 of a non-marketable asset through the ownership of two entities and the other individual contributing $100 of cash. If the partnership is economically a 50/50 arrangement between the ultimate partners, the effect of the formation is again a sale of 50% of one owner’s asset to the other partner and the purchase of 50% of the asset by the other partner. Because the asset is not marketable, IRC Sec. 721 does not apply and the formation is not considered a taxable event. However, if the partnership acquired the interest of the second partner by delivering the non-marketable asset, the result would be the receipt of the asset by the second partner without the imposition of a tax and the retention of the cash by the original owner of the non-marketable asset through the partnership. In effect, the original owner would have sold the asset for cash yet

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[15] *See* IRC Sec. 351(e).

[16] Treas. Reg. §1.351-1(c)(1).

[17] Rev. Rul. 84-53, 1984-1 C.B. 159.

not recognized any capital gain until the partnership is ultimately liquidated. In an effort to preclude such disguised sale planning opportunities IRC Secs. 704(c), 737 and 707 were included in subchapter K.

In essence, IRC Secs. 704(c) and 737 prevent the distribution of an appreciated asset to one partner that was originally contributed by another partner during a seven-year period.[18] Another way to view the section is that if a partnership exists for more than seven years, or five years if established prior to June 9, 1997, then the IRS probably will view the partnership as having a business purpose other than the disguised sale of an asset.

Besides the seven-year rule of IRC Secs. 704(c) and 737, there is the so-called two-year rule under the regulations of IRC Sec. 707.[19] If a partner transfers property to a partnership and receives money or other consideration, the transfers are presumed to be a sale. Due to the specificity of the two-year rule, a properly structured partnership could avoid the application of a disguised sale if the assets remain within the partnership for an appropriate length of time.

(6) Certain Partnership Income Tax Accounting Rules Exist to Determine if a Tax is Imposed on a Partner Who Liquidates His or Her Partnership Interest.

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

Generally, gain will not be recognized to a partner, except to the extent that any money distributed exceeds the adjusted basis of such partner's interest in the partnership immediately before the distribution.[20]

Because of the ease of liquidity related to marketable securities, the IRS has increasingly viewed such instruments as cash. Within the context of a partnership, IRC Sec. 731(c) was added to the Internal Revenue Code. In effect, marketable securities, if deemed to be money, can cause taxable gain, if the fair market value of the distributed securities exceeds the withdrawing partner’s tax basis in the partnership.[21] As with many areas of the tax law, there are always exceptions to the rules. If a partnership meets the definition of an investment partnership, then it is excepted from the capital gain issue created by IRC Sec. 731(c).

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[18] *See* IRC Secs. 704(c)(1)(B), 737(a), and 737(b).

[19] *See* Treas. Reg. §1.707-3(c).

[20] *See* IRC Sec. 731(a).

[21] *See* IRC Sec. 731(c).

As noted in the discussion *infra* Section XV.A.4, the receipt of marketable securities will not be considered cash, if the partnership is an investment partnership. The general rule for qualifying as an investment partnership is the ownership of marketable investments and never engaging in an actual trade or business other than investing.[22]

(7) Certain Partnership Tax Accounting Rules Exist to Determine a Partner's Basis in Non-Cash Assets He or She Receives.

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

Under IRC Sec. 732, if a partner receives an asset distribution from a partnership, the partner receives the asset subject to a carryover of the partnership's cost basis, and if the partner receives an asset distribution in liquidation of his interest, then the partner will attach his partnership interest cost basis to the assets received in liquidation.[23] The regulations highlight an example illustrating the result.[24]

If a withdrawing partner receives property that has a higher basis than the partner's basis in the partnership interest then the basis in that distributed asset is stripped out and is allocated to the remaining assets of the partnership if certain tax elections are made (see *infra* Section XV.B.2) or if the distribution is of sufficient size it is automatically made.

(8) The IRS Will Recognize a Division of a Partnership Between the Partners as Being Tax Free if it Complies With Their Requirements.

A division of a partnership may be accomplished if a partnership contributes some of its assets and liabilities to a recipient partnership in exchange for an interest in the recipient partnership, followed by a distribution of the recipient partnership interests to the partners.[25] Because the basis of non-cash distributions to a partner is determined by the outside basis of a partner's interest, careful partnership division allows taxpayers to determine what the tax basis of the in-kind property will be upon distribution (rather than determined by an aggregate basis under the unitary basis rule).

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[22] *See* IRC Sec. 731(c)(3)(C)(i).

[23] *See* IRC Secs. 732(a)(1) and 732(b).

[24] *See* Treas. Reg. §1.732-1(b).

[25] *See* Treas. Reg. §1.708-1(d)(3).

(9) If a Partners Interest is Redeemed For Partnership Assets the Value Paid Upon Full Redemption Should Be Based on the Fair Market Value of the Partnership Assets That Are Equal to the Fair Market Value of the Redeemed Partnership Interests.[26]

If the capital account redeemed partnership interest is used instead of its fair market value there could be a deemed gift either by the remaining partners to the withdrawing partner or from the withdrawing partner to the remaining partners to the extent the capital account value differs from the fair market value.

(10) If There is a Change in the Outside Basis of a Partnership Interest, Because of a Sale or a Death of a Partner, That Could Effect the Inside Basis of the Partnership Assets.

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

(11) Existing Anti-Abuse Tax Accounting Rules.

Regardless of the form of a transaction, the IRS added regulations under IRC Sec. 701 (Anti-Abuse Rules) in 1995 that address the substance of a partnership and could cause a tax result derived from a partnership transaction to be negated, if the IRS views the structure as a mechanism to reduce the overall tax burden of the participating partners in a manner inconsistent with the intent of Subchapter K.

It is noteworthy that the above general rule under IRC Sec. 701 is not violated even if the partnership and the liquidating partner have as a principal purpose a basis shift that accrues from following the above tax accounting rules. Despite that purpose, the regulations, by using an example, conclude that purpose does not violate the anti-abuse provisions because the structure that is used is not inconsistent with the intent of Subchapter K.[27] In another example under the regulations the partnership and the liquidating partner had as a principal purpose the shift of basis from a non-depreciable asset to the depreciable asset pursuant to a liquidating distribution. Again, despite that purpose, the regulations conclude that technique does not violate the anti-abuse provisions.[28] The IRS regulation writers took the position that the illustrated technique was not inconsistent with the intent of Subchapter K.

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[26] *See* Treas. Reg. §1.704-4(a)(3).

[27] Treas. Reg. §1.701-2(d), Ex. 9.

[28] Treas. Reg. §1.701-2(d), Ex. 10.

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

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

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

lifetime transfer of the asset or hold it until death. The determination of the breakeven growth rate can be expressed by the following formula:[29]

Breakeven Growth Rate During the Taxpayer's Life Expectancy =

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

Consider the following example:

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

Danny Lowbasis owns $11,180,000 in shares of a near zero basis stock that he is confident he will not sell during his lifetime, but his family would sell immediately after his death. Danny has $11,180,000 in gift tax exemption remaining. Danny believes he has a 15-year life expectancy. Danny also believes the estate tax exemption will increase to $15,810,000 by the time of his death (because of an assumed inflation rate of 2.5%).

Danny is willing to give his family that amount of the stock that will not generate gift taxes or $11,180,000 of the stock, if it saves future estate taxes greater than the future income taxes and health care taxes that will accrue because of the loss of the step-up in basis at death on the gifted shares. Danny asks his planner, Ima Mathgeek, at what assumed annual rate of appreciation during his lifetime does it make sense to give $11,180,000 of the stock away to his family as opposed to holding the stock and bequeathing the stock to his family.

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

$$\frac{.238(\$11{,}180{,}000) + .40(0) - .40(\$11{,}180{,}000 - \$15{,}810{,}000)}{\$11{,}180{,}000(.162)} = \frac{\$2{,}660{,}840 + \$1{,}852{,}000}{\$1{,}811{,}160} = 249.17\%$$

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

On a compounded annualized basis 249.17%, over a 15-year period, is equal to a per annum growth rate of 8.69%. Please *see* the spreadsheet analysis in Schedule 1. If a taxpayer lives in California, under those assumptions, the compounded annualized breakeven growth rate is 21.9% for gifting a zero basis asset. *See* also the spreadsheet analysis in attached Schedule 2.

However, very few taxpayers can afford to give away all of their assets. If you assume the taxpayer will have enough low basis assets at death to offset the anticipated increase in estate tax exemption, even if a gift is made, this will change the breakeven growth rate. To determine the breakeven growth rate under those circumstances, in order to isolate the breakeven growth rate for a particular asset, it may be necessary to assume the projected estate tax exemption will be equal to the current gift tax exemption. Under the above assumptions, if you assume the taxpayer could use the estate tax exemption that exists at death against other low basis assets, the Texas breakeven annualized compounded growth rate for gifting a zero basis asset is 6.21% and the California breakeven annualized compounded growth rate for gifting a zero basis asset is 19.12%. *See* the analysis in Schedules 3 and 4.

Another problem with the formula is that it does not take into account the after tax power of grantor trusts and basis enhancing strategies. Those strategies will be explored in this paper.

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

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

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

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

Consider the following table that ranks eleven asset classes by pre-tax returns, and risk or volatility, from the time period 2001-2016, and ranks each asset class by returns for each year from 2006 to 2016.

Table 1

Asset Class Returns – As of December 31, 2016

2001 - 2016		Returns										
Returns (Ann.)	Vol (Std. Dev.)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
MLPs 11.4%	REITs 23.1%	REITs 36.0%	Emerging Market Equity 39.8%	Investment Grade Munis 4.2%	Emerging Market Equity 79.0%	MLPs 35.9%	MLPs 13.9%	Emerging Market Equity 18.6%	US Small Cap 38.8%	REITs 32.0%	REITs 4.5%	US Small Cap 21.3%
REITs 10.5%	Emerging Market Equity 22.3%	Emerging Market Equity 32.6%	EM Local Debt 18.1%	EM Local Debt -5.2%	MLPs 76.4%	REITs 28.1%	REITs 9.4%	High Yield Munis 18.1%	US Large Cap 32.4%	High Yield Munis 13.9%	Investment Grade Munis 2.4%	MLPs 18.3%
Emerging Market Equity 9.5%	US Small Cap 19.5%	Non-US Equity 26.9%	MLPs 12.7%	Hedge Funds -21.4%	Global Equities 35.4%	US Small Cap 26.9%	High Yield Munis 9.2%	Non-US Equity 17.9%	MLPs 27.6%	US Large Cap 13.7%	High Yield Munis 1.8%	US Large Cap 12.0%
US Small Cap 7.9%	Non-US Equity 17.1%	MLPs 26.1%	Global Equities 12.2%	High Yield Munis -27.0%	High Yield Munis 32.7%	Emerging Market Equity 19.2%	Investment Grade Munis 7.6%	REITs 17.1%	Global Equities 23.4%	US Small Cap 4.9%	US Large Cap 1.4%	Emerging Market Equity 11.6%
EM Local Debt 7.0%	MLPs 17.0%	Global Equities 21.5%	Non-US Equity 11.6%	US Small Cap -33.8%	Non-US Equity 32.5%	EM Local Debt 15.7%	US Large Cap 2.1%	EM Local Debt 16.8%	Non-US Equity 23.3%	MLPs 4.8%	Hedge Funds -0.3%	EM Local Debt 10.1%
US Large Cap 6.1%	Global Equities 15.8%	US Small Cap 18.4%	Hedge Funds 10.3%	MLPs -36.9%	REITs 28.5%	US Large Cap 15.1%	EM Local Debt -1.8%	Global Equities 16.8%	Hedge Funds 9.0%	Investment Grade Munis 4.7%	Non-US Equity -0.4%	Global Equities 8.5%
Global Equities 5.8%	US Large Cap 14.5%	US Large Cap 15.8%	US Large Cap 5.5%	US Large Cap -37.0%	US Small Cap 27.2%	Global Equities 13.2%	US Small Cap -4.2%	US Small Cap 16.3%	REITs 1.2%	Global Equities 4.7%	Global Equities -1.8%	REITs 6.7%
High Yield Munis 5.5%	EM Local Debt 12.1%	EM Local Debt 15.2%	Investment Grade Munis 4.8%	REITs -39.2%	US Large Cap 26.5%	Non-US Equity 8.2%	Hedge Funds -5.7%	US Large Cap 16.0%	Investment Grade Munis -0.3%	Hedge Funds 3.4%	US Small Cap -4.4%	High Yield Munis 3.0%
Non-US Equity 5.0%	High Yield Munis 7.1%	High Yield Munis 10.7%	US Small Cap -1.6%	Global Equities -41.8%	EM Local Debt 22.0%	High Yield Munis 7.8%	Global Equities -6.9%	MLPs 4.8%	Emerging Market Equity -2.3%	Emerging Market Equity -1.8%	Emerging Market Equity -14.6%	Non-US Equity 1.5%
Investment Grade Munis 3.9%	Hedge Funds 4.9%	Hedge Funds 10.4%	High Yield Munis -2.3%	Non-US Equity -43.1%	Hedge Funds 11.5%	Hedge Funds 5.7%	Non-US Equity -11.7%	Hedge Funds 4.8%	High Yield Munis -5.5%	Non-US Equity -4.5%	EM Local Debt -14.9%	Hedge Funds 0.5%
Hedge Funds 3.2%	Investment Grade Munis 3.1%	Investment Grade Munis 3.7%	REITs -17.6%	Emerging Market Equity -53.2%	Investment Grade Munis 7.2%	Investment Grade Munis 3.1%	Emerging Market Equity -18.2%	Investment Grade Munis 3.6%	EM Local Debt -9.0%	EM Local Debt -5.7%	MLPs -32.6%	Investment Grade Munis -0.1%

Source: Datastream, Bloomberg, JP Morgan Dataquery.
Annualized Volatility and Returns since July 2001 through December 2016. Indices: Investment Grade Municipal Bonds – Barclays Capital Municipal 1-10; Municipal High Yield – Barclays Capital Municipal High Yield; EM Local Debt – JP Morgan EM Local Debt (GBI EM); US Large Cap – S&P 500; US Small Cap Equity – Russell 2000; Non-US Equity – MSCI EAFE; Emerging Market Equity – MSCI Emerging Markets; Hedge Funds – HFRI Fund of Funds Composite; REITs – Dow Jones Wilshire REITs; MLPs – Alerian MLP.

For example, "master limited partnerships" ranked first in pre-tax returns from 2001-2016, and were ranked the fifth most volatile class from 2001-2016. "Non-US equity" ranked seventh in pre-tax returns from 2001-2016, but were ranked the fourth most volatile class from 2001-2016. Also, as the above table demonstrates, depending upon the investment year, an asset class may significantly differ in its "return" ranking. For instance, "master limited partnerships" was the top performing asset class by pre-tax return from 2010-2016, but ranked last in 2015 (but second in 2016). Obviously, the volatility of any single asset in an asset class may be considerably greater than the asset class volatility. Hence, depending upon a taxpayer's life expectancy, the non-tax argument for selling a low basis asset to diversify to improve a taxpayer's risk adjusted return, as opposed to holding the asset to achieve a step-up in basis at death, is generally there.

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

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

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

Lifetime gift planning should be considered for a low basis asset for a client who is projected to have a taxable estate unless all of the following factors exist: (i) the above formula (*see supra* Section II.A.2) indicates gift planning should not be utilized, (ii) the taxpayer thinks it will be unlikely he will ever wish to sell that asset because of its investment risk, (iii) non-tax considerations such as asset protection planning, planning for future stewardship and cash flow planning for retirement do not exist; (iv) the taxpayer is convinced that his family will sell that asset immediately after his death; and (v) if it is unlikely a lifetime basis enhancing strategy will be used. Those assets and situations do exist, but it is respectfully submitted that those assets and situations are rare (e.g., negative basis real estate that is well positioned to keep its value and the taxpayer's family will sell it immediately after his death.)

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

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

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

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

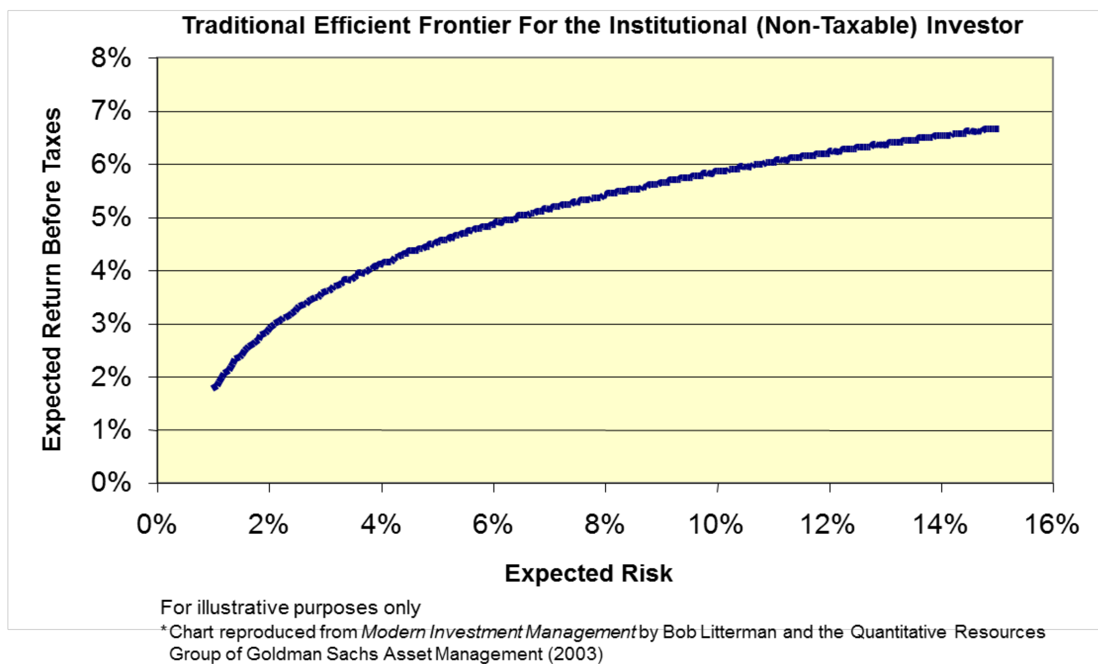
(i) substantially lower rates of taxation;

(ii) the private investor, under the tax laws, may choose when he realizes taxable income on any equity investment (turnover rate), but cannot when he owns a taxable bond investment; and

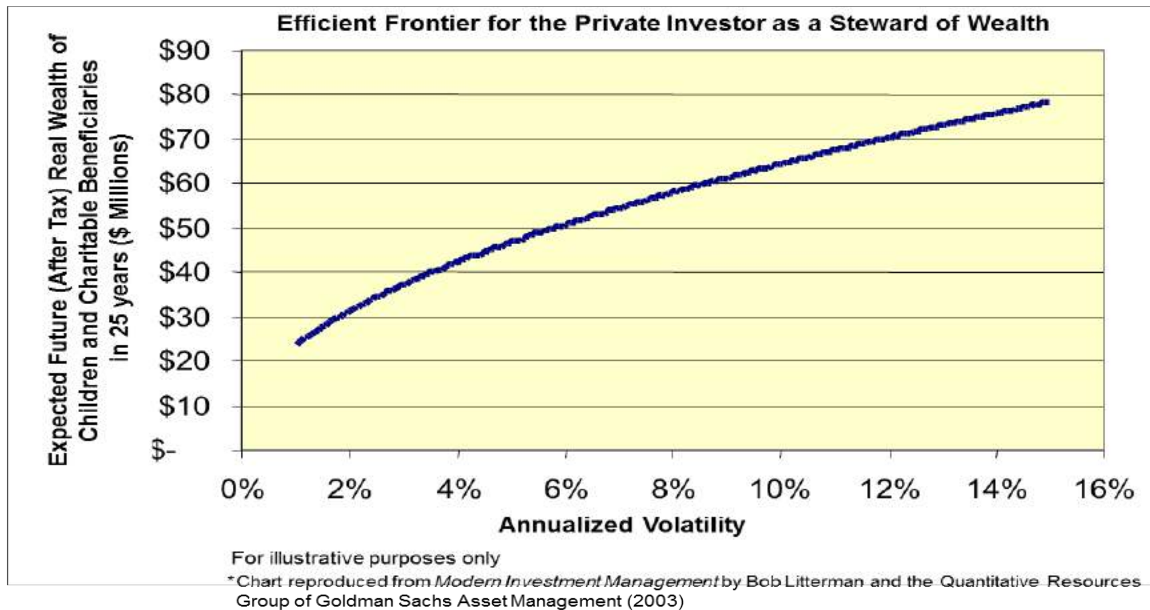
(iii) the private investor may determine how much of an equity investment's unrealized income is ever taxed (e.g., the private investor could bequeath the equity investment to a charity).

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

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

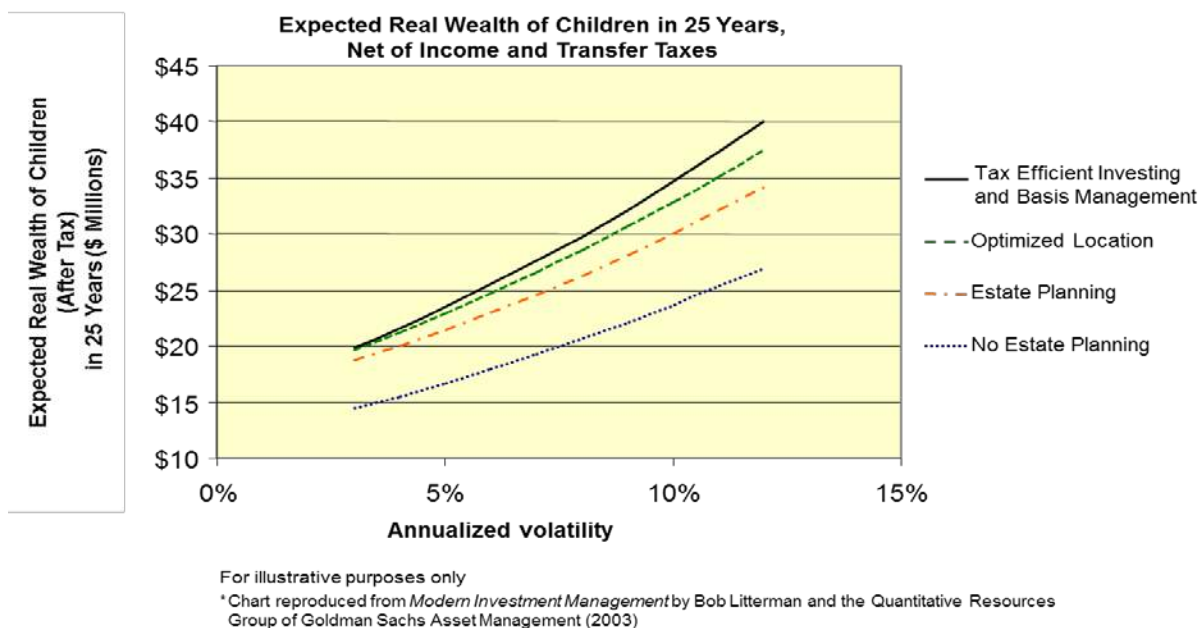


Instead, the efficient frontier of the private investor, who views himself as a steward of wealth, is a comparison of the expected future after-tax real wealth the investor's beneficiaries will receive in comparison to expected after-tax real wealth risk of the wealth management strategies, as illustrated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



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

A wealth management strategy for a private investor involves much more than constructing an investment strategy. A wealth management strategy involves estate and income tax planning that is consistent with the private investor's stewardship goals, optimized location of asset classes in the tax-advantaged entities the private investor has created, and the use of income tax efficient investing and basis enhancing strategies when possible. A sample efficient frontier for the private investor, as a steward of wealth, is illustrated below.



Tax efficient investing and basis management uses the mathematical power of tax-free compounding deferral. Consider the table below (also see Schedule 5 attached):

Table 2

	Taxes Delayed Until Year 30 (1)	Taxes Paid Annually (2)	% Increase in Annual Rate of Return to Breakeven Compared to Delayed Tax (2-1)/1
4% Annual Return			
Ordinary Income Tax - Current Tax Rate of 40.8%	4.00%	4.83%	20.65%
LTCG Tax - Current Tax Rate of 23.8%	4.00%	4.43%	10.84%
8% Annual Return			
Ordinary Income Tax - Current Tax Rate of 40.8%	8.00%	10.75%	34.37%
LTCG Tax - Current Tax Rate of 23.8%	8.00%	9.36%	17.04%
12% Annual Return			
Ordinary Income Tax - Current Tax Rate of 40.8%	12.00%	17.13%	42.78%
LTCG Tax - Current Tax Rate of 23.8%	12.00%	14.47%	20.61%

Since the 1933 and 1934 Securities Acts were passed, the S&P 500 (or what the S&P 500 would have been before the measure was invented) for the period 1935-2016, taking dividends into account, has grown at a compounded mean annual rate of 12.5% and a compounded median annual rate of 14.7%. **As the table above demonstrates, if a taxpayer can defer taxation for 30 years, and if the mean annual rate of his investments is 12%, that taxpayer would have to increase his annual rate of return by 42.78% to achieve the same result, if that non-deferred rate of return is subject to ordinary income tax rates (40.8%) under current law. If a taxpayer can defer taxation 30 years, and if the mean annual rate of his investments is 12%, that taxpayer would have to increase his annual rate of return by 20.61% to achieve the same result, if that non-deferred rate of return is subject to capital gains income tax rates (23.8%) under current law.**

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

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

the health care tax. The purpose of this paper is to generally focus on strategies that also address the transfer tax.

A perfect income tax and transfer tax strategy, or combination of strategies, would accomplish all of the following:

1. **The strategy would be consistent with the taxpayer's nontax investment goals and stewardship goals.**
2. **The strategy would eliminate a taxpayer's current transfer taxes and/or transfer taxes that may be imposed by a future Congress.**
3. **The strategy would either enhance the basis of the taxpayer's low basis assets to equal their fair market value, or eliminate any capital gains if the assets are sold.**

This paper will focus on planning strategies or a combination of strategies that accomplish the above goals, including: various borrowing, location, disregarded entity, sale to a grantor trust, contribution of a leveraged disregarded entity either to a grantor trust or a grantor retained annuity trust, qualified Subchapter S trust, mixing bowl and charitable planning strategies. The paper will also explore various strategies that reduce an estate tax protected complex trust's income taxes.

III. USE OF INTENTIONALLY DEFECTIVE GRANTOR TRUSTS AND SALES TO INTENTIONALLY DEFECTIVE GRANTOR TRUSTS ("SIDGT" TECHNIQUE).

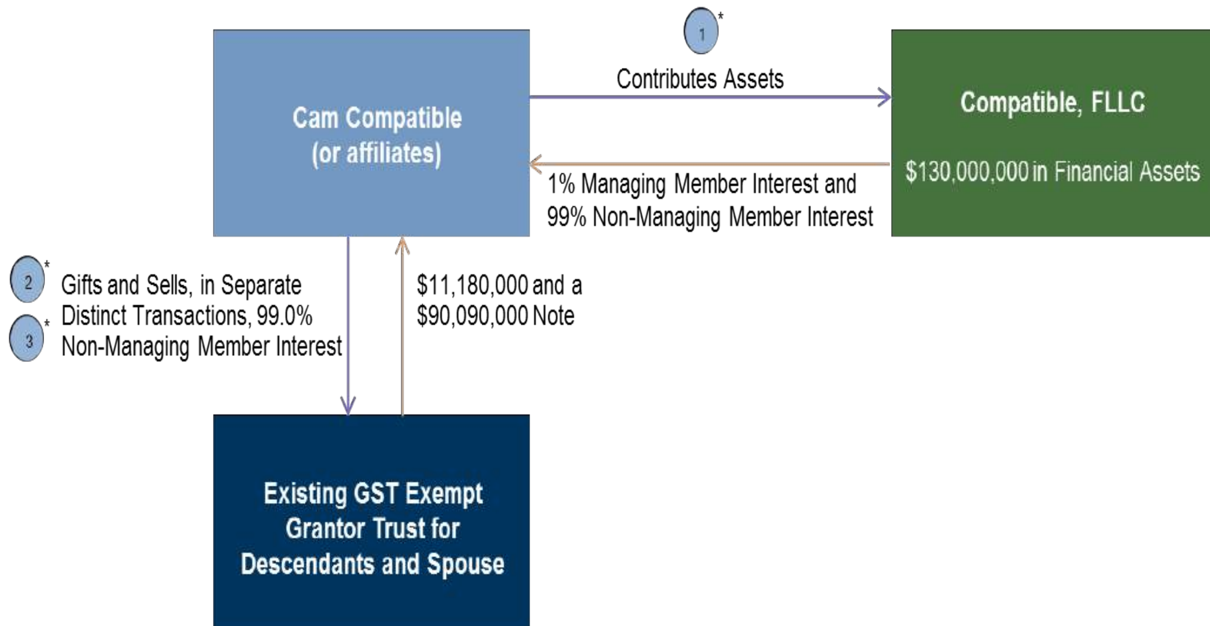
A. The Technique.

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

Consider the following example:

Example 2: Cam Compatible Creates an Intentionally Defective Grantor Trust for the *<u>Benefit of His Spouse and Family and Makes Certain Sales to That Trust ("SIDGT") Technique</u>*

Cam Compatible owns $150,000,000 in financial assets. Cam and affiliates contribute $130,000,000 to a family limited liability company ("FLLC") (Transaction 1). In a separate and distinct transaction (Transaction 2) Cam contributes $11,180,000 to a trust that is a grantor trust for income tax purposes. The trust treats his wife, Carolyn, as the discretionary beneficiary and gives her certain powers of appointment over the trust. Cam, at a much later time (Transaction 3), sells non-managing member interests to that trust, pursuant to a defined value allocation formula, in consideration for cash and notes. Assuming a 30% valuation discount, the technique is illustrated below.



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

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

B. Income Tax and Basis Enhancing Advantages of the Technique.

1. Tax Advantages of Creating an Intentionally Defective Grantor Trust and the SIDGT.

IRC Secs. 671 through 677 contain rules under which the grantor of a trust will be treated as the owner of all or any portion of that trust, referred to as a "grantor trust." If a grantor retains certain powers over a trust, it will cause the trust to be treated as a grantor trust. If the grantor is

treated as the owner of any portion of a trust, IRC Sec. 671 provides that those items of income, deductions, and credits against the tax of the trust that are attributable to that portion of the trust are to be included in computing the taxable income and credits of the grantor to the extent that such items will be taken into account in computing the taxable income or credits of an individual. An item of income, deduction or credit included under IRC Sec. 671 in computing the taxable income and credits of the grantor is treated as if received or paid directly to the grantor.[30] Thus, if the private investor contributes assets to an intentionally defective grantor trust, the assets will grow (from the point of view of the trust beneficiaries) income-tax free. Furthermore, the IRS now agrees that there is no additional gift tax liability, if the private investor continues to be subject to income taxes on the trust assets and there is no right of reimbursement from the trust.[31]

Under Rev. Rul. 85-13,[32] a grantor is treated as the owner of trust assets for federal income tax purposes to the extent the grantor is treated as the owner of any portion of the trust under IRC Sec. 671-77. In that ruling, it was held that a transfer of trust assets to the grantor in exchange for the grantor's unsecured promissory note is not recognized as a sale for federal income tax purposes.[33]

Similarly, if the grantor is treated as the owner of the trust property and transfers property into the trust in exchange for property previously held by the trust, such transfer will not be recognized as a sale, exchange or disposition for federal income tax purposes.[34] Thus, no gain or loss is realized by the grantor or the trust. The basis of the property transferred into the trust is unaffected by the transfer, and neither the grantor or the trust acquires a cost basis in the assets transferred from or to the trust.

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

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[30] Treas. Reg. Section 1.671-2(c).

[31] *See* Rev. Rul. 2004-64, 2004-2 C.B. 7.

[32] Rev. Rul. 85-13, 1985-1 C.B. 184.

[33] *See also*, P.L.R. 9146025 (Aug. 14, 1991) (finding that transfer of stock to grantor by trustees of grantor trust in satisfaction of payments due grantor under the terms of the trust does not constitute a sale or exchange of the stock).

[34] *See* P.L.R. 9010065 (Dec. 13, 1989).

2. The Advantage of Locating Income Tax Inefficient Asset Classes Inside a Grantor Trust That is Not Subject to Estate Taxes.

a. The Technique of Asset Class Location in Order to Improve the After-Tax, After-Risk Adjusted Rate of Return for an Investment Portfolio.

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

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

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

b. Location of Tax Inefficient Investment Classes in a Grantor Trust Significantly Ameliorates the Income Tax Inefficiencies of Those Classes, Because Transfer Taxes Are Saved When the Grantor Pays the Income Taxes of the Trust.

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

Table 3 below illustrates the annual growth required for an equity fund to double (after both income taxes and transfer taxes) for an investor's beneficiaries, if the investor dies in 10 years, depending upon how a fund is located (also *see* attached Schedule 6). This table also illustrates the significant wealth management advantages for the private investor who: (i) engages in estate planning; (ii) invests income tax efficiently for those asset classes that he can; and (iii) optimizes location of tax inefficient asset classes in estate tax protected grantor trusts to ameliorate income tax inefficiencies.

Table 3

	Annual Growth Rate Required on a $1mm Equity Fund Which Has a 2% Dividend Rate to Achieve $2mm (After Tax) for Investor's Beneficiaries for an Investor Who Dies in 10 Years[1], Depending Upon How a Fund is Located, and Percentage Improvement to Equal Equity Fund with 5% Turnover[2], 20% Turnover[3] or 50% Turnover[4]																											
	No Estate Planning Fund Owned by Investor								Estate Planning Techniques Fund is Not Subject to Estate Taxes but Grantor's Estate is Subject to Estate Taxes																Fund Owned by Charity			
Equity Fund's Annual Turnover of Assets	Fund is Owned by Investor and Investor's Estate Is Not Subject to Estate Tax Because of Existing Exemptions and/or Charitable Bequests				Fund is Owned by Investor and is Fully Taxable in the Investor's Estate				Fund is in a Grantor Trust and Grantor Buys the Assets from the Grantor Trust for Cash Shortly Before Grantor's Death				Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 10 Years Before Grantor's Death				Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 10 Years After Grantor's Death				Fund is Held in a Non-Grantor Trust and Remaining Unrealized Income is Taxed in 10 Years				Fund is Not Subject to Income Taxes or Estate Taxes Because Fund is Owned by a Charity			
	A				B				C				D				E				F				G			
		(2)	(3)	(4)		(2)	(3)	(4)		(2)	(3)	(4)		(2)	(3)	(4)		(2)	(3)	(4)		(2)	(3)	(4)		(2)	(3)	(4)
Indexed Fund with 5% Annual Turnover[5]	5.94%	N/A	N/A	N/A	11.78%	N/A	N/A	N/A	5.63%	N/A	N/A	N/A	6.16%	N/A	N/A	N/A	6.58%	N/A	N/A	N/A	6.97%	N/A	N/A	N/A	5.18%	N/A	N/A	N/A
Active Beta Indexed Fund with 20% Annual Turnover[6]	6.64%	11.72%	N/A	N/A	13.06%	10.87%	N/A	N/A	6.00%	6.57%	N/A	N/A	6.31%	2.51%	N/A	N/A	6.51%	-1.08%	N/A	N/A	7.29%	4.64%	N/A	N/A	5.18%	0.00%	N/A	N/A
Equity Fund with 50% Annual Turnover[7]	7.50%	26.27%	13.02%	N/A	14.80%	25.60%	13.28%	N/A	6.41%	13.94%	6.91%	N/A	6.53%	6.05%	3.46%	N/A	6.58%	0.09%	1.18%	N/A	7.77%	11.55%	6.61%	N/A	5.18%	0.00%	0.00%	N/A
Equity Fund with 100% Annual Turnover[8]	9.55%	60.75%	43.89%	27.31%	19.04%	61.62%	45.76%	28.67%	7.23%	28.58%	20.64%	12.85%	7.23%	17.47%	14.59%	10.76%	7.23%	10.00%	11.20%	9.89%	9.55%	37.08%	31.01%	22.89%	5.18%	0.00%	0.00%	0.00%

(1) These calculations ignore the effect of investment management fees, state income taxes and investment friction costs. These calculations assume the estate planning vehicles are created without paying gift taxes. An equity fund owned by a tax exempt entity would need 5.18% annual growth rate of return over 10 years, assuming a 2% dividend rate, to achieve $2mm.
(2) % annual improvement necessary to equal fund with 5% annual turnover.
(3) % annual improvement necessary to equal fund with 20% annual turnover.
(4) % annual improvement necessary to equal fund with 50% annual turnover.
(5) 100% short-term realized gains in year 1, 0% short-term realized gains and 100% long-term realized gains in years 2-10.
(6) 100% short-term realized gains in year 1, 10% short-term realized gains and 90% long-term realized gains in years 2-10.
(7) 100% short-term realized gains in year 1, 25% short-term realized gains and 75% long-term realized gains in years 2-10.
(8) 100% short-term realized gains in years 1-10.

The asset location of a tax inefficient investment is particularly important. There is a much more modest differential on what is needed to earn pre-tax for a tax inefficient investment, in comparison to a tax efficient investment, in order to double the investment over a 10-year period, if the investment is located in an estate tax protected grantor trust, as opposed to being taxed in the taxpayer's estate. For instance, if a fund is located in an estate tax protected grantor trust, and if the remaining unrealized income is taxed after the grantor's death, a 100% turnover fund (e.g., certain hedge funds) needs to earn 7.23% before taxes to double the value of the investment after taxes in 10 years and a 5% turnover fund (e.g., S&P 500 index fund) needs to earn 6.58% before taxes to double the investment after taxes in 10 years. *See* Column E in above Table 3. Stated differently, a 10% improvement in annual pre-tax return is necessary for a 100% turnover fund to equal a 5% annual turnover fund, if the fund is located in a grantor trust and if the remaining unrealized income is taxed after the grantor's death (*see* column E(2)). Contrast this result with those same funds being held in the taxpayer's estate, if those same types of funds are subject to estate taxes. If the funds are subject to estate taxes, a 5% turnover will need to annually earn 11.78% before taxes to double the investment after taxes in 10 years, and the high 100% turnover fund will need to annually earn 19.04% before taxes to double the investment after taxes in 10 years. *See* Column B. A 61.62% annual pre-tax improvement in return is

necessary for a 100% turnover fund to equal a 5% annual turnover fund, if the fund is fully taxable in the investor's estate (*see* column B(2)). The difference between 10% annual pre-tax needed improvement and 61.62% annual pre-tax needed improvement is obviously significant in determining where to locate a 100% turnover fund.

Similarly, Table 4 below illustrates, if the investor dies in 10 years, the annual interest required for a bond fund to grow by one-third after-tax, depending where a fund is located, and whether the fund interest is tax-free (*also see* attached Schedule 7).

Table 4

	Annual Interest Rate Required on an Initial $1mm Bond Fund Investment to Equal $1.34mm for Investor's Beneficiaries for an Investor Who Dies in 10 Years[1], Depending Upon How a Fund is Located, and Percentage Improvement to Equal Tax Free Bond Fund[2]					
	No Estate Planning Fund is Owned by Investor		Estate Planning Techniques (Fund is Not Subject to Estate Taxes)			
Type of Bond Investment Fund	Fund is Owned by Investor and is Fully Taxable in the Investor's Estate		Fund is Held in a Grantor Trust at Investor's Death		Fund is Held in a Non-Grantor Trust; or Fund is Owned by Investor and Investor's Estate is Lower than Remaining Estate Tax Exemption; or a Bequest of Fund is Made to Charity at Investor's Death	
	A		B		C	
	(1)	(2)	(1)	(2)	(1)	(2)
Tax Free Bond Fund	8.40%	N/A	3.00%	N/A	3.00%	N/A
Taxable Bond Fund	14.19%	68.92%	3.97%	32.42%	5.07%	68.92%

(1) These calculations ignore the effect of investment management fees, state income taxes and investment friction costs. These calculations assume the estate planning vehicles are created without paying gift taxes.
(2) % improvement necessary to equal tax free bond fund.

c. Location of Tax Inefficient Classes in a Grantor Trust, and Managing the Grantor Trust Through Substitution Strategies, Further Enhances the After Tax Advantage of a Low Turnover Index Fund.

As Column C(1) in Table 4 demonstrates the lowest pre-tax rate of return that is required to more than double the fund assets after 10 years is 5.65%, if a low turnover fund (e.g., a 5% turnover fund) is held in a grantor trust and if cash is substituted for the fund before the grantor's death. This is a classic example of the synergistic power of estate planning when it is coupled with a basis enhancing strategy.

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

(1) Advantages of the Technique.

(a) The Low Basis Assets, if Retained By the Grantor, Will Receive a Basis Step-Up on the Grantor's Death.

(b) If the Low Basis Assets Are Sold By the Grantor Before His or Her Death the Cost of the Capital Gains Taxes Will Be Borne By the Grantor (Just As They Would Have Been if the Assets Had Been Sold By the Grantor Trust or a Disregarded Single Member FLLC.)

(2) Considerations of the Technique.

(a) The Grantor May Not Have Any High Basis Assets, or Cash, to Swap.

If that is the case, consider a recourse third party loan of cash to the grantor. The grantor could then use that cash to swap for the low basis asset. The grantor trust may then be converted to a complex non-grantor trust. At a later time, in an independent transaction, the grantor could borrow the high basis cash from the trust with a long-term, recourse note that is unsecured and use that cash to pay the principal of the third party loan. This lending strategy is described *infra* Section VII.B.2.

(b) To the Extent, After the Swap of Assets, "Swapped" Low Basis Assets Grow More Than the "Swapped" High Basis Assets in the Grantor Trust, the Grantor's Estate Taxes Will Increase.

That consideration could be mitigated by a reverse note purchase technique described above. For instance, assume that a grantor wishes to borrow cash from the trust. That loan could be accomplished by a recourse, unsecured note that pays a fair market value interest rate. That interest rate carry may be higher than the rate of return of the high basis asset, which would mitigate or eliminate any estate tax cost associated with the low basis asset's growth in the grantor's estate. *See* discussion *infra* Section VII.B.2.

C. Transfer Tax Advantages of the Technique.

1. Transfer Tax Advantage of Transferring a Non-Managing Interest.

The value of the non-managing interest is what a hypothetical buyer would pay a hypothetical seller assuming the parties are not related to each other and neither party is under an

obligation to buy or sell. If they do not have any put rights there may be a marketability discount in valuing the transferred interest. If the transferred interest does not have any inherent management rights there may be a lack of control or minority discount in valuing the transferred interest.

2. The Near Term Death of the Grantor of a Grantor Trust Generally Does Not Affect the Technique Like the Death of a Grantor of a GRAT.

If the grantor dies shortly after the sale to the grantor trust, all that should be included in the grantor's estate is the remaining principal value of the note, assuming the sale is recognized as a valid sale and the note is recognized as a valid note. The grantor/seller could bequeath that note to his spouse. Over the surviving spouse's lifetime, that surviving spouse could live off of the proceeds of the interest and principal payments of the note, before drawing down on any beneficial interest that surviving spouse would be entitled to under the trust. Thus, there are two lifetimes to utilize to assure the efficacy of the technique: the original grantor's lifetime and his spouse's lifetime.

3. The Appreciation of the Assets of the Trust Above the Interest of the Note Used in Any Sale to a Grantor Trust for the Grantor's Spouse Will Not Be Taxable in the Grantor/Seller's Estate.

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

4. Flexibility Advantages of the SIDGT.

a. Flexibility Could Be Achieved By Naming a Spouse as a Beneficiary of the Grantor Trust and Giving a Grantor's Spouse a Special Power of Appointment.

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

assets of the trust for the benefit of that spouse. If the spouse is serving as trustee and has distribution powers in that capacity, the distributions powers must be ascertainable and enforceable by a court for the health, education, maintenance standard of IRC Sec. 2041 of the Internal Revenue Code.

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

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

b. Flexibility Could Also Be Achieved By Converting the Note to a Note With a Different Interest Rate, a Private Annuity, Purchasing Assets Owned By the Trust and/or Renouncing the Powers That Make the Trust a Grantor Trust.

The note retained by the grantor could also be structured and/or converted to meet the grantor's consumption needs, without additional gift taxes, as long as the restructuring is for adequate and full consideration. For instance, the note at a future time could be converted to a private annuity to last the grantor's lifetime. That conversion should be on an income tax free basis since, as noted above the trust and any consideration received for any sale to the trust are ignored for income tax purposes. The note could also be restructured to pay a different interest rate, as long as the new rate is not lower than the AFR rate or higher than the fair market value rate. If the grantor cannot afford to pay the trust's income taxes in the future, the trust could be converted to a complex trust that pays its own income taxes. However, converting the trust to a complex trust could have income tax consequences if the then principal balance of the note is greater than the basis of the assets that were originally sold. That difference will be subject to capital gains taxes.[35]

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

5. The Taxpayer May Retain Investment Control of the Family's Assets and May Also Retain Limited Control of Any Distributions From the Transferred Entity Interests to Family Members.

What should a taxpayer who wishes to have some impact on family partnership or FLLC distributions do to prevent the potential application of IRC Sec. 2036(a)(2)? The taxpayer should either adopt one of the following strategies:

(i) The retained distribution power is subject to a standard that could be enforced by a court (*see* Revenue Ruling 73-143);

(ii) The general partnership interest or managing member interest that has distribution power could be contributed by the taxpayer to a trust where the taxpayer has the right to remove and replace the trustee, as long as the replacement is not related or subordinate (*see* Revenue Ruling 95-98); *or*

(iii) The general partnership interest or managing member interest, that has the distribution power, could be contributed by the taxpayer to a corporation, which has normal fiduciary duties for management, and the taxpayer could retain the voting stock and transfer the non-voting stock to his family (*see* Revenue Ruling 81-15).

a. Analysis of Case Law.

(1) Supreme Court Analysis.

Even if a general partner controls partnership distributions, the partnership agreement could be designed to address IRC § 2036(a) from including any previously transferred limited partnership interests or assignee interests in his estate. The Supreme Court's analysis in *United States v. Byrum*[36] provides authority that IRC § 2036(a)(1), IRC § 2036(a)(2) and IRC § 2038 do not apply (under the right facts).

A transferred partnership interest will not be included in the donor's estate under IRC Sec. 2036(a)(2) where the only distribution power is one subject to a definite external standard, which could be enforced by a court. If a distribution power is so constrained, the donor does not have the legal right to designate the persons who shall possess or enjoy the property or the income therefrom. The original source of this doctrine is *Jennings v. Smith,*[37] and several other cases (*e.g.*, *see* the discussion by Justice Powell of *Northern Trust Co.* and *King* cases below) have followed that logic. That court-made doctrine, or exception, to IRC Sec. 2036(a)(2) was approved by the IRS in Rev. Rul. 73-143. The *Jennings v. Smith* line of cases involved retained trustee powers by a donor of a trust. In the corporate or partnership context the external standard

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[36] 408 U.S. 125 (1972).

[37] 161 F.2d, 74 (2nd Cir. 1947).

may be satisfied, if normal fiduciary constraints exist in the corporation or partnership. *United States v. Byrum* endorsed the proposition that this may be all that is required.

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

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

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

> At the outset we observe that this Court has never held that trust property must be included in a settlor's gross estate solely because the settlor retained the power to manage trust assets. On the contrary, since our decision in *Reinecke v. Northern Trust Co.*, 278 U.S. 339, 49 S.Ct. 123, 73 L.Ed. 410, 66 A.L.R. 397 (1929), it has been recognized that a settlor's retention of broad powers of management does not necessarily subject an inter vivos trust to the federal estate tax. Although there was no statutory analogue to § 2036(a)(2) when Northern Trust was decided, several lower court decisions decided after the enactment of the predecessor of § 2036(a)(2) have upheld the settlor's right to exercise managerial powers without incurring estate-tax liability. In *Estate of King v. Commissioner*, 37 T.C. 973 (1962), a settlor reserved the power to direct the trustee in the management and investment of trust assets. The Government argued that the settlor was thereby empowered to cause investments to be made in such a manner as to control significantly the flow of income into the trust. The Tax Court rejected this argument, and held for the taxpayer. Although the court recognized that the settlor had reserved "wide latitude in the exercise of his discretion as to the types of investments to be made," id. at 980, it did not find this control over the flow of income to be equivalent to the power to designate who shall enjoy the income from the transferred property.
>
> Essentially the power retained by Byrum is the same managerial power retained by the settlors in *Northern Trust* and in *King*. Although neither case controls this one--*Northern Trust*, because it was not decided under § 2036(a)(2)

> or a predecessor; and *King*, because it is a lower court opinion--the existence of such precedents carries weight. The holding of *Northern Trust*, that the settlor of a trust may retain broad powers of management without adverse estate-tax consequences, may have been relied upon in the drafting of hundreds of inter vivos trusts. The modifications of this principle now sought by the Government could have a seriously adverse impact, especially upon settlors (and their estates) who happen to have been "controlling" stockholders of a closely held corporation. Courts properly have been reluctant to depart from an interpretation of tax law, which has been generally accepted when the departure could have potentially far-reaching consequences. When a principle of taxation requires reexamination, Congress is better equipped than a court to define precisely the type of conduct, which results in tax consequences. When courts readily undertake such tasks, taxpayers may not rely with assurance on what appear to be established rules lest they be subsequently overturned. Legislative enactments, on the other hand, although not always free from ambiguity, at least afford the taxpayers advance warning.[38]

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

> It must be conceded that Byrum reserved no such "right" in the trust instrument or otherwise. The term "right," certainly when used in a tax statute, must be given its normal and customary meaning. It connotes an ascertainable and legally enforceable power, such as that involved in O'Malley. Here, the right ascribed to Byrum was the power to use his majority position and influence over the corporate directors to "regulate" the flow of dividends" to the trust. That "right" was neither ascertainable nor legally enforceable and hence was not a right in any normal sense of that term.
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> . . . .
>
> A majority shareholder has a fiduciary duty not to misuse his power by promoting his personal interests at the expense of corporate interests. Moreover, the directors also have a fiduciary duty to promote the interests of the corporation. However great Byrum's influence may have been with the corporate directors, their responsibilities were to all stockholders and were enforceable according to legal standards entirely unrelated to the needs of the trust or to Byrum's desires with respect thereto.[39]

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

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[38] *Byrum*, 408 U.S. at 132-35.

[39] *Byrum*, 408 U.S. at 136-38 (footnotes omitted).

> There is no reason to suppose that the three corporations controlled by Byrum were other than typical small businesses. The customary vicissitudes of such enterprises--bad years; product obsolescence; new competition; disastrous litigation; new, inhibiting Government regulations; even bankruptcy--prevent any certainty or predictability as to earnings or dividends. There is no assurance that a small corporation will have a flow of net earnings or that income earned will in fact be available for dividends. Thus, Byrum's alleged de facto "power to control the flow of dividends" to the trust was subject to business and economic variables over which [he] had little or no control.
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> . . . .
>
> These various economic considerations are ignored at the directors' peril. Although vested with broad discretion in determining whether, when, and what amount of dividends shall be paid, that discretion is subject to legal restraints. If, in obedience to the will of the majority stockholder, corporate directors disregard the interests of shareholders by accumulating earnings to an unreasonable extent, they are vulnerable to a derivative suit. They are similarly vulnerable if they make an unlawful payment of dividends in the absence of net earnings or available surplus, or if they fail to exercise the requisite degree of care in discharging their duty to act only in the best interest of the corporation and its stockholders.[40]

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

(2) Tax Court Analysis By Judge Cohen in the *Strangi* Case.

In the past, the IRS has ruled privately that because of the controlling case authority in *United States v. Byrum*, IRC § 2036(a)(2) does not apply with a properly worded partnership

[40] *Byrum*, 408 U.S. at 139-42 (footnotes omitted).

agreement where the partners follow the agreement.[41] However, *Byrum* was distinguished, and the private rulings were disavowed, by Judge Cohen in dicta in a memorandum opinion in the *Strangi* case discussed below.

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

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

(3) Full Tax Court Analysis in the *Cohen* Case.

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

The *Cohen* emphasized the similarities between the Massachusetts business trust and the corporation in *Byrum*, and stated that "the very fact that we are concerned here with the declaration of ***dividends*** on ***shares*** representing interests in the entity bolsters the corporate analogy, and thus the relevance of *Byrum*." *Id*. at 1025. The Court further opined that:

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

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

Id. (emphasis added).

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

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

Id. at 1027.

(4) Full Tax Court Analysis in the *Powell* Case.[42]

Under the facts of this case, the decedent's son, acting on her behalf under a power of attorney, contributed about $10 million of cash and marketable securities to a limited partnership (FLP) in return for a 99% limited partnership (LP) interest. Her two sons contributed unsecured notes in return for the 1% general partner (GP) interest. The same day, the son who was the agent under the power of attorney (acting under the power of attorney) transferred the decedent's 99% LP interest to a charitable lead annuity trust (CLAT) paying an annuity to charity for the decedent's life with the remainder passing to the decedent's two sons (the remainder was valued by assuming a 25% discount for lack of control and marketability of the 99% LP interest). The decedent died 7 days later. The IRS claimed that the $10 million of assets contributed to the FLP were includible in the decedent's estate (without a discount) under IRC Secs. 2036(a)(1) (retained enjoyment or income), 2036(a)(2) (retained right in conjunction with any person to

[42] *Estate of Powell v. Commissioner*, 148 TC No. 18 (May 18, 2017).

designate who could enjoy the property or its income), or 2038 (power to alter, amend, revoke, or terminate the transfer at the decedent's death), or under IRC Sec. 2035(a) (transfer of property within three years of death that otherwise would have been included in the estate under IRC Secs. 2036-2038 or 2042) if the transfer to the CLAT was valid.

The taxpayer did not contest the application of IRC Sec. 2036(a)(2), or contest that the bona fide sale for full consideration exception to IRC Sec. 2036 was not applicable. The taxpayer merely argued that IRC Secs. 2036 and 2038 could not apply because the decedent no longer owned the LP interest at her death (despite the fact that the interest had been transferred within 3 years of her death and IRC Sec. 2035(a) would then apply).

The majority and concurring opinions both agreed that IRC Sec. 2036(a)(2) applied (though the concurring opinion did not address the reasoning for applying IRC Sec. 2036(a)(2)). The majority opinion reasoned (1) that the decedent, in conjunction with all the other partners, could dissolve the partnership, and (2) that the decedent, through her son as the GP and as her agent, could control the amount and timing of distributions. The opinion adopted the analysis in *Strangi* as to why the "fiduciary duty" analysis in the Supreme Court *Byrum* case does not apply to avoid inclusion under IRC Sec. 2036(a)(2) because under the facts of this case any such fiduciary duty is "illusory." *Powell* is the first case to apply IRC Sec. 2036(a)(2) when the decedent merely owned a limited partnership interest. In this case the decedent owned a 99% LP interest, but the court's analysis drew no distinction between owning a 99% or 1% LP interest; the court reasoned that the LP "in conjunction with" all of the other partners could dissolve the partnership at any time. Because IRC Sec. 2036(a)(2) applied, the court did not address IRC Secs. 2036(a)(1) or 2038.

b. Six Separate Methodologies That May Prevent Running Afoul of IRC Sec. 2036(a)(2) Inclusion With Respect to Managing Partner Donors and Owners of Partnership Interests.

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

(1) Successfully Making the Argument That the *O'Malley* Analysis and the Prerequisites of IRC Sec. 2036(A)(2) Are Not Applicable to a Donor Partner, Who Retains a Distribution Power Over a Family Partnership That is Subject to a Formula That a Court Could Enforce.

No other court has reviewed Judge Cohen's analysis. This writer believes that if another court reviews her analysis that Court may find her analysis problematic for either of three reasons: (i) that court may find that it is a matter in which IRC Sec. 2033 supersedes IRC Sec. 2036 for estate inclusion purposes; (ii) the analysis in the *Estate of Cohen* is more appropriate; or (iii) that court may find that, unlike the situation with the trust described in the *O'Malley* case, supra, cited by Judge Cohen in *Strangi*, the decedent did not retain the "legal right to designate"

who would receive the income of the partnership assets, because each donee partner beneficially owns, through the partnership, any past, current or future income that belongs to his partnership interest, whether it is distributed to him or not.

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

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

> . . . a 'power' to persuade others to act, or join in acting, in a way that could affect possession or enjoyment of the transferred property is not considered to be a taxable power. This rule is not limited to the obvious situation where the transferor is not a member of the decision-making body (if such were deemed to be a taxable power, nothing would be immune from §§2036(a)(2) and 2038). The rule applies even to cases in which the transferor is a member of the decision-making group, provided that such body is not a trusteeship (or equivalent body) whose sole purpose is to administer the transferred property. Thus, the doctrine has been applied to irrevocable death-benefit and stock-transfer situations in which the transferor was a major stockholder, executive committee member, and/or member of the board of directors. These holdings probably cover the situation in which the transferor has more than 50% control over the entity, although there is authority in other areas [life insurance and contractual death benefits] lending support to the contrary position. . .[43]

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

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

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

managing partner's attempt to deny that partner the economic benefit of accumulating the current income.

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

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

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

(2) Taxpayers Should Consider Adopting a Strategy of Selling Partnership Interests (Perhaps to Defective Grantor Trusts) in Exchange For a Note or Other Full Consideration.

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

(3) IRC Sec. 2036(a)(2) Inclusion Should Not Present Any Issues if the Partnership Agreement is Structured to Provide the Same Fiduciary Constraints That Mr. Byrum Had That a Court Could Enforce.

Normal partnership fiduciary duties should be affirmed in the partnership agreement, including fiduciary constraints on the distribution power that are consistent with Mr. Byrum's constraints. In order to provide protection for management that is acceptable under IRC Sec. 2036(a)(2), consider providing for arbitration for any partner disagreements with management decisions. Consider providing that management will only be liable for decisions that are not within the confines of the business judgment rule. Also consider providing in the partnership agreement that any party who loses that arbitration action shall pay for all costs associated with that arbitration action.

(4) IRC Sec. 2036(a)(2) Inclusion Should Not Present Any Issues if the Donor Partner's Distribution Power is Limited By Standards That a Court Could Enforce and Complies With Revenue Ruling 73-143.

If the donor partner is going to retain a distribution power, consideration should be given to having the distribution power of the managing partner limited to a standard that may be enforced by a court. *See* Rev. Rul. 73-143, 1973-1 C.B. 407. This may be crucial. If the donor of a partnership interest is the sole managing partner, any gifts of partnership interests may be brought back into the donor's estate under IRC Sec. 2036(a)(2), if the ability to accumulate income for a partner is considered to be a legal right to designate that another person (i.e. another partner) enjoys the past, current or future income of the partnership. Stated differently, if *O'Malley* analysis applies to partnerships and if the transfer of the partnership interest is not for adequate and full consideration, IRC Sec. 2036(a)(2) may apply unless the dispositive powers are limited by standards that a court can enforce. If the dispositive powers retained by the donor partner are not limited by standards, it may not matter what other actions or drafting constraints are present (with the possible exception of a sale for adequate and full consideration). On the other hand, the transferred partnership interest will not be included in the donor's estate under IRC Sec. 2036(a)(2) where the only distribution power is one subject to a definite external standard subject to supervision by a court. If a power is so constrained, the donor does not have the legal right to designate the persons who shall possess or enjoy the property or the income therefrom. The original source of this doctrine is *Jennings v. Smith,* [44] but it has been approved by the IRS in Rev. Rul. 73-143.

A caveat: the application of the doctrine to powers that, though subject to an enforceable standard, are exercisable in favor of the creator of the power is uncertain. Thus, this approach has greater certainty in negating IRC Sec. 2036(a)(2) with respect to gifted partnership interests than with respect to partnership assets deemed retained by the decedent under IRC Sec.

[44] 161 F.2d 74 (2nd Cir. 1947).

2036(a)(1). Stated differently, the standard may put more pressure on any potential Sec. 2036(a)(1) argument by the IRS. Obviously, this is not a concern, if the taxpayer only retained *de minimis* partnership interests (i.e., that partner has already transferred all but a small portion of the partnership interests). Secondly, in those situations where significant partnership interests have been retained, if as a matter of partnership practice, the partnership distributions pursuant to the standard are different than the income earned by the partnership assets, the standard may buttress the argument that the decedent-managing partner did not retain income rights with respect to the underlying partnership assets. Furthermore, if the managing partner retains most of his limited partnership interest, there is significant authority that the underlying assets of the partnership that the managing partner originally contributed will not be brought back into that partner's estate under IRC Sec. 2036(a)(1), because the retained right with respect to the distributions is *a retained right with respect to the partnership interest* and not a retained right with respect to the underlying assets of the partnership. *See Estate of Boykin v. Commissioner*, T.C. Memo 1987-134, 53 T.C.M. 345, (1987). *Boykin* (according to legislative history) led to the passage of the infamous IRC Sec. 2036(c), in which Congress overturned existing case law and applied IRC Sec. 2036 to include the contributed assets to an "enterprise" back into the partner or shareholder's estate. In 1990, Congress repudiated its previous work and repealed IRC Sec. 2036(c) (thus, implicitly approving the result of *Boykin*). Stated differently, the prevailing case law with respect to entities, and recent Congressional legislative history when IRC Sec. 2036(c) was repealed, may be persuasive that rights with respect to income of significant retained partnership interests should not be considered rights to possess the partnership assets or income.[45]

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

> No Other Distributions. Except as provided in this Article, the Partnership shall make no distributions of cash or other property to any Partner until its liquidation as provided in Section ____.
>
> Distributable Cash. Distributable Cash includes only that cash held by the Partnership at the end of a Fiscal Year after reasonable reserves of cash have been set aside by the Partnership Management, subject to the duties imposed by Section ___, for working capital and other cash requirements, including current and reasonably projected expenses, current and reasonably projected investment opportunities, and reasonably anticipated contingencies. For purposes of this Section, any of the Partnership Assets which are contributed to the Partnership by the Partners, any borrowed funds, and any cash generated upon the sale of any of the Partnership Assets, including Partnership Assets which are purchased with borrowed funds and including the cash attributable to appreciation in value, shall be considered as necessary for investment purposes.

[45] *See* discussion *infra* Section XII.B.3.a.

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

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

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

(5) IRC Sec. 2036(a)(2) Inclusion Should Not Present Any Issues if the Donor Partner Contributes the Partnership Interest That Controls the Distribution Power to a Trust and Retains the Power to Remove and Replace the Trustee in a Manner That Complies With Revenue Ruling 95-58.

If a donor partner wishes to have some influence on distributions, but does not wish to have distributions subject to an enforceable standard, the donor partner could utilize Rev. Rul. 95-58. For instance, the potential donor-managing partner could bifurcate the powers of the general partner. That is, one general partnership interest could have all of the powers of

management, except the discretionary right to make distributions. Another general partnership interest would only have rights with respect to determining the distributions of the partnership. The donor general partner would not own the general partnership interest that has the distribution power. The "distribution power" general partnership interest then could be contributed to a trust. The donor could retain the right to remove the trustee, and under Rev. Rul. 95-58, 1995-2 C.B. 151, as long as the successor trustee is not related or subordinate to the donor, concerns about the application of IRC Sec. 2036(a)(2) are addressed.

(6) IRC Sec. 2036(a)(2) Inclusion Should Not Present Any Issues if the Donor Partner Contributes the Partnership Interest That Controls Distribution Powers to a Corporation That Has the Same Considerations and Constraints in its Structure as Existed in *Byrum* and Complies With Revenue Ruling 81-15.

If a donor partner wishes to retain the distribution power (and not delegate it to a "removable" independent trustee) and have that power "free" of an enforceable standard, except to the extent fiduciary restraints exist in the corporation consistent with the *Byrum* case, consideration should be given to utilizing the safe harbor under Revenue Ruling 81-15, 1981-1 C.B. 457. The managing partner interest, including all powers with respect to making discretionary distributions of the partnership, could be contributed by the taxpayer to a subchapter S corporation. The voting rights of the corporation's stock could be bifurcated between full voting stock and limited voting stock (e.g., a ratio of 1:99). The "limited" voting stock may be allowed to only vote on decisions with respect to dissolution of the partnership or the corporation. The potential donor could then transfer both limited partnership interests and a majority of the stock that has the limited voting rights to a trust for the benefit of others in his family. Even though the taxpayer controls a corporation, which in turn controls distributions from the partnership, Revenue Ruling 81-15, in combination with the reasoning of the *Byrum* case, appears to provide a safe harbor from application of IRC Sec. 2036(a)(2) to such transfers.

c. Conclusion.

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

6. As Long as the Grantor Trust Can Maintain its Grantor Status it is Paying Back the Note With Pre-Income Tax Dollars.

7. Grantor's Payment of the Income Taxes Associated With the Taxable Income of a Grantor Trust Does Not Constitute a Taxable Gift.

The grantor's payment of income taxes is not a voluntary act of transfer. It is required under the income tax laws. Hence, that payment is not a taxable gift to the beneficiaries of the trust. *See* Rev. Rul. 2004-64 (I.R.B. 2004-27).

D. Considerations of the Technique.

1. There May Need to Be Substantive Equity in the Trust From Prior Gifts (is 10% Equity Enough?) Before the Sale is Made.

The note needs to be treated as a note for tax purposes. Generally, estate and gift tax law follows state property law.[46] Thus, there needs to be a strong likelihood that the note will be paid and the capitalization of the trust should not be too "thin."[47] If the assets of the trust are almost equal to the value of the note, the note may not be considered a note under equitable tax principles, but rather a disguised interest in the trust. If the note is considered a disguised interest in the trust, the provisions of the trust and the note may not satisfy the requirements of IRC Sec. 2702 and, thus, all of the assets of the trust could be considered as having been given to the donees (the remainder beneficiaries of the trust) without any offsetting consideration for the value of the note. If the note is considered a disguised retained beneficial interest in the trust,

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

[47] In the corporate context *see* IRC Sec. 385(b); *Miller v. Commissioner*, T.C. Memo 1996-3, 71 T.C.M. (CCH) 1674; *see also* IRC Sec. 385 (titled "Treatment of Certain Interests In Corporations As Stock or Indebtedness"); Notice 94-47, 1994–1 C.B. 357. *See also,* Staff of the Joint Committee on Taxation, "Federal Income Tax Aspects of Corporate Financial Structures," JCS-1-89, at 35-37 91989), noting that various courts have determined that the following features, among others, are characteristic of debt:

> 1) a written unconditional promise to pay on demand or on a specific date a sum certain in money in return for an adequate consideration in money or money's worth, and to pay a fixed rate of interest; 2) a preference over, or lack of subordination to, other interests in the corporation; 3) a relatively low corporate debt to equity ratio; 4) the lack of convertibility into the stock of the corporation; 5) independence between the holdings of the stock of the corporation and the holdings of the interest in question; 6) an intent of the parties to create a creditor-debtor relationship; 7) principal and interest payments that are not subject to the risks of the corporation's business; 8) the existence of security to ensure the payment of interest and principal, including sinking fund arrangements, if appropriate; 9) the existence of rights of enforcement and default remedies; 10) an expectation of repayment; 11) the holder's lack of voting and management rights (except in the case of default or similar circumstance); 12) the availability of other credit sources at similar terms; 13) the ability to freely transfer the debt obligation; 14) interest payments that are not contingent on or subject to management of board of directors' discretion; and 15) the labelling and financial statement classification of the instrument as debt. Some of these criteria are the same as those specified in §385, but this elaboration is a more extensive summary of the factors applicable in making the determination.

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

instead of a note, the IRS may take the position that IRC Secs. 2036 and/or 2038 apply on the death of the taxpayer.[48] Based on a private letter ruling in 1995[49] and the statutory make-up of IRC Sec. 2701, many practitioners and commentators seem to be comfortable with leverage that does not exceed 90%.[50]

2. State Income Tax Considerations.

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

3. The IRS Could Be Successful in the Argument, That Because of the Step Transaction Doctrine, a Valuation Discount is Not Appropriate in Valuing the Transferred Entity Interest.

The common law doctrine known as the step transaction doctrine, which is an application of the larger substance over form doctrine, could under certain circumstances, be used by the IRS to deny the tax benefit of taking a valuation discount on the sale of the partnership interest to the grantor trust as illustrated in this Example 2.[51] In applying the step transaction doctrine, the IRS or court may not treat the various steps of the transfer as independent. Instead, the steps in creating the partnership and transferring a partnership interest may be collapsed into a single transaction. Under the circumstances of creating the partnership and selling an interest to a grantor trust, the crucial key to not run afoul of the step transaction doctrine may be establishing that the creation of the FLP or FLLC should stand on its own. Could the act of a transferor creating a FLP or FLLC be independently separated from the gift and/or sale to the trust? The creation of the FLP or FLLC should be designed to be sufficiently independent on its own and as an act that does not require a gift and/or sale to that trust. There does not have to be a business purpose for the creation of the trust. It is difficult for this writer to understand the business purpose of any gift. As noted above, the Supreme Court has said on two separate occasions,

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[48] The IRS made that argument in *Karmazin* (T.C. Docket No. 2127-03, 2003), but the case was settled on terms favorable to the taxpayer. In *Dallas v. Commissioner* (T.C. Memo 2006-72) the IRS originally made that argument, but dropped the argument before trial. The IRS also made that argument in two docketed cases, *Estate of Donald Woelbing v. Commissioner* (Docket No. 30261-13) and *Estate of Marion Woelbing v. Commissioner* (Docket No. 30260-13), but the case was settled. Also *see Bixby v. Commissioner*, 58 TC 757 (1972) in which the full Tax Court, in a highly leveraged sale to a trust, recast the seller as a beneficiary of the trust for income tax purposes. While this is an income tax case, there is a similar analysis for IRC Sec. 677 purposes and IRC Sec. 2036 purposes.

[49] PLR 9535026 (May 31, 1995).

[50] *See* Martin Shenkman, "Role of Guarantees and Seed Gifts in Family Installment Sales," 37 Estate Planning 3 (Nov. 2010).

[51] *See* Donald P. DiCarlo, Jr., "What Estate Planners Need to Know About the Step Transaction Doctrine," 45 Real Prop. Tr. & Est. L.J. 355 (Summer 2010).

estate and gift tax law should be applied in a manner that follows a state property law analysis.[52] Thus, the key questions could be, is the creation of the FLP or FLLC recognized for state property law purposes, and is its creation independent of any other events, including the subsequent gift and/or sale to the trust? It would seem to this writer in many situations it could be demonstrated that the creation of the trust did not require a gift and/or sale to that trust of the interest in the FLP or FLLC for state law property purposes or for tax purposes. Furthermore, as noted above, a sale to such a trust has economic risk to the trust. The trust has both risk and reward. The value of the assets could depreciate below the value of the note. Depending upon the size of the transaction, 10% equity may represent real risk in comparison to the reward of the leverage. One percent equity may not.

An excellent discussion of the interrelationship of state property law, federal transfer tax law and the step transaction doctrine in the transfer tax context is found in the *Linton*[53] case. This case involved the identification of what was transferred for gift tax purposes. The Linton's transferred certain assets to a FLLC and then transferred the FLLC interests to trusts for the Linton family. The question before the court was whether, for gift tax purposes, the transfers were the assets contributed to the FLLC or the FLLC interests. The court held the transfers were the FLLC interests:

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

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

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

* * *

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

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

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

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

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

> creation and funding of the LLC enabled them to specify the terms of the LLC and contribute the desired amount and type of capital to it—reasonable and ordinary business activities. These facts do not meet the requirements of the interdependence test.
>
> The binding commitment test asks whether, at the time the first step of a transaction was entered, there was a binding commitment to take the later steps. *Comm'r v. Gordon,* 391 U.S. 83, 96 (1968). The test only applies to transactions spanning several years. *True,* 190 F.3d at 1175 n. 8; *Associated Wholesale Grocers,* 927 F.2d at 1522 n. 6; *McDonald's Rests. of Illinois, Inc. v. Comm'r,* 688 F.2d 520, 525 (7th Cir. 1982) (rejecting application of the test for transactions spanning six months). Here, the Lintons' transactions took place over the course of no more than a few months, and arguably a few weeks. The binding commitment test is inapplicable.
>
> The government is therefore not entitled to summary judgment based on an application of the step transaction doctrine.

4. If the Assets Decrease in Value, the Gift Tax Exemption Equivalent May Not Be Recoverable.

If a trust's assets decrease in value the gift tax exemption equivalent may not be recoverable. The problem inherent in creating a grantor trust, using the grantor's gift tax exemption equivalent, and leveraging that gift through a sale, is that the trust assets could decrease in value. In comparison to the creation of a grantor retained annuity trust ("GRAT") (*see infra* Section V.C.4), this may have the disadvantage of wasting a grantor's gift tax exemption equivalent.

5. There May Be Capital Gains Consequences With Respect to the Note Receivables and/or Note Payables That May Exist at Death.

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

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

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

If a grantor sells low basis assets to a grantor trust for a note, and if there is an outstanding note **receivable** at death that exceeds the basis of the assets that were sold, is there a capital gains transaction at death when the grantor trust converts into a trust that is for the first time recognized for income tax purposes? The grantor's death is the event, for income tax purposes, that first causes the asset contribution to the trust to be recognized and first causes the sale of certain of those assets to the trust for a note to be recognized. Consider the following analogous example: a decedent directs in his will that his executor contribute certain assets to a trust and sell certain assets to that trust. There would not be any income taxes to the decedent's estate with that sale. Is that the proper analysis when there is an outstanding receivable from a grantor trust at the grantor's death? There is no definitive authority on that question and there is a debate among the commentators as to the correct assumption.[54] To the extent this is a concern, the note could be paid in-kind by the trust before the death of the grantor (perhaps with a low basis asset that will receive a basis step-up on the death of the grantor).

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

To the extent this is a concern, it could be mitigated by the grantor borrowing cash from a third party lender and using that cash to eliminate the note owed to the trust. At a later time, perhaps after the trust is converted to a complex trust for income tax purposes, the grantor (or his executor) could borrow the cash from the trust and pay the third party lender. If the trust, at that later time, does loan cash to the grantor or the executor of the grantor's estate, the trust's basis in that note should be equal to the cash that is loaned. (*See* discussion *infra* Section VII.C.2.)

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

6. On the Death of the Grantor There Will Be No Step-Up in Basis in the Assets Owned By the Grantor Trust.

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

a. The Problem and the Probable Solution: Defined Allocation Transfers.

The IRS will almost always scrutinize significant transfers of "hard to value" assets. Reasonable people (and, of course, unreasonable people) can differ on the value of certain assets (*e.g.*, a FLP interest). From the IRS's point of view, scrutiny of those assets may represent a significant revenue opportunity. One approach that may reduce the chance of an audit of a transfer of a hard to value asset, or a gift tax surprise, if an audit does occur, is to utilize a formula defined value allocation transfer.[55] A formula defined value allocation transfer may increase the retained interest of the donor (as in the case of a grantor retained annuity trust); may define the portion of the property interest that is transferred or may provide that a defined portion of the property transferred passes to a "tax sheltered recipient." For example, a transfer may provide that an undivided part of a "hard to value" asset, which exceeds a defined value of the transferred entity interest, will pass either to a grantor retained annuity trust,[56] the transferor's spouse,[57] charity[58] or a trust in which the grantor has retained an interest that makes the gift incomplete.[59]

"Formula defined value allocation" clauses should be distinguished from "reversion" clauses like the ones discussed in Revenue Ruling 86-41, 1986-1 C.B. 442, and in *Procter*.[60] In Rev. Rul. 86-41, the IRS said that a clause that increased the consideration to be paid for the transferred property, or that caused a portion of the transferred property to revert to the transferor, were conditions subsequent that are not effective to circumvent a taxable gift from being made

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

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

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

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

[59] David A. Handler & Deborah V. Dunn, "The LPA Lid: A New Way to 'Contain' Gift Revaluations," 27 Estate Planning 206 (June 2000).

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

on the transfer of the property. By contrast, formula clauses defining the amount of the transfer or the identity of the transferee are ubiquitous in the transfer tax context. In fact, such arrangements are specifically permitted in the tax law. [61] If an adjustment occurs in a formula defined value allocation clause, a change in the identity of the transferee may occur (*e.g.*, the credit shelter trust owns less of the asset and the marital trust owns more of the asset). If an adjustment occurs in a price adjustment clause, the initial transfer is partially unwound and the identity of the transferee does not change (*e.g.*, the transferee pays an additional amount for the asset). Price reimbursement clauses were found to be against public policy in *Procter* because, if such clauses were effective, the result of an audit of the gift tax return could never result in a deficiency and there is no other penalty of assets passing to a different transferee. Although part of the same public policy argument applies to formula defined value allocation clauses, they are so commonly used that an argument that they are void is not persuasive. Secondly, the public policy argument could be addressed by deliberately structuring the formula to produce a small deficiency on audit. Thirdly, formula clauses have a penalty in that the transferred assets could pass to an unintended transferee.

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

b. Defined Value Allocation Clauses Involving a Defined Dollar Transfer By the Donor.

Technical Advice Memorandum 86-11-004 [62] illustrates the effect of a defined value clause when the excess value above the defined value accrues to the donor, instead of to a spouse or a charity. Under the facts in Technical Advice Memorandum 86-11-004, a man ("the donor") transferred a sole proprietorship to a partnership in exchange for a 99.9982% interest in the partnership. The other .0018% interest in the partnership was owned by trusts for the donor's

[61] *See* Treas. Reg. §25.2518-3(c) (allowing defined value formula for disclaimer of pecuniary amount); Treas. Reg. §25.2702-3(b)(2) (allowing value of grantor retained annuity trust annuity to be stated in terms of a fraction or percentage of fair market value); Treas. Reg. §25.2702-39(c)(2) (requiring the annuity of a grantor retained annuity trust to be increased if an incorrect determination of the fair market value of the trust assets is made); Rev. Proc. 64-19, 1964-1 C.B. 682 (relating to defined value formula for funding the marital deduction); Treas. Reg. §1.664-2(a)(1)(iii) (allowing defined value dollar amount of charitable remainder annuity trust to be expressed as a fraction or percentage of the initial net fair market value of the property passing in trust as finally determined for Federal tax purposes); Rev. Rul. 72-395, 1972-2 C.B. 340, 344, modified by Rev. Rul. 80-123, 1980-1 C.B. 205 and Rev. Rul. 82-128, 1982-2 C.B. 71 (allowing value definition clauses in charitable remainder trusts); Treas. Reg. §1.664-3(a)(1)(iii) (requiring adjustments in annuity amounts if an incorrect determination of the fair market value of the charitable remainder trust has been made).

[62] Tech. Adv. Mem. 8611004 (Nov. 15, 1985).

children. The donor transferred a portion of his partnership interest equal to a stated dollar amount to the trusts for his children each year from 1971 through 1982. The donor and trustees agreed on the capital ownership attributable to the gifts, and partnership income was allocated accordingly. The IRS concluded that the interests transferred by the donor were those having a fractional equivalent to the stated fair market values of the gifts, based upon the fair market value of the partnership at the time of each gift determined according to recognized valuation principles. The donor's interest extended to the rest of the partnership because he could have asserted ownership to the extent that the gifted fractional interests reflected in the partnership agreement and income tax returns exceeded the fractional interests actually conveyed in the gift assignments. If, however, he were ever barred from enforcing his ownership right to the excess interest, he would be treated as having made an additional gift to the trusts. To the extent that income was allocated to the donees in an amount exceeding the partnership interest to which they were actually entitled, the donor made gift assignments of the income, with the implicit right to revoke the assignments by asserting his right to the excess partnership interest. Therefore, according to the Technical Advice Memorandum the gifts of income were to be regarded as complete when each distribution of excess income became irrevocable as a result of the lapse of the statute of limitations.

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

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

> I hereby assign and transfer as gifts, effective as of January 1, 2004, a sufficient number of my Units as a Member of Norseman Capital, LLC, a Colorado limited liability company, so that the fair market value of such Units for federal gift tax purposes shall be as follows:
>
> | Name | Gift Amount |
> |---|---|
> | Kenneth D. Wandry | $261,000 |
> | Cynthia A. Wandry | $261,000 |
> | Jason K. Wandry | $261,000 |
> | Jared S. Wandry | $261,000 |
> | Grandchild A | $11,000 |
> | Grandchild B | $11,000 |
> | Grandchild C | $11,000 |
> | Grandchild D | $11,000 |
> | Grandchild E | $11,000 |
> | **Total Gifts** | $**1,099,000** |
>
> Although the number of Units gifted is fixed on the date of the gift, that number is based on the fair market value of the gifted Units, which cannot be

known on the date of the gift but must be determined after such date based on all relevant information as of that date. Furthermore, the value determined is subject to challenge by the Internal Revenue Service ("IRS"). I intend to have a good-faith determination of such value made by an independent third-party professional experienced in such matters and appropriately qualified to make such a determination. Nevertheless, if, after the number of gifted Units is determined based on such valuation, the IRS challenges such valuation and a final determination of a different value is made by the IRS or a court of law, the number of gifted Units shall be adjusted accordingly so that the value of the number of Units gifted to each person equals the amount set forth above, in the same manner as a federal estate tax formula marital deduction amount would be adjusted for a valuation redetermination by the IRS and/or a court of law.

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

> Absent the audit, the donees might never have received the proper [LLC] percentage interests they were entitled to, but that does not mean that parts of petitioners' transfers were dependent upon an IRS audit. Rather, the audit merely ensured that petitioners' children and grandchildren would receive the 1.98% and .083% [LLC] percentage interests they were always entitled to receive, respectively.
>
> It is inconsequential that the adjustment clause reallocates membership units among petitioners and the donees rather than a charitable organization *because the reallocations do not alter the transfers*. On January 1, 2004, each donee was entitled to a predefined [LLC] percentage interest expressed through a formula. The gift documents do not allow for petitioners to "take property back". Rather, the gift documents correct the allocation of LLC membership units among petitioners and the donees because the [business appraiser] report understated [the LLC's] value. The clauses at issue are valid formula clauses. [emphasis added]

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

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

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

Example 3: Defined Dollar Formula by a Donor and a
Parallel Qualified Formula Disclaimer by the Donee Trust

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

The argument for using the formula disclaimer by the current beneficiaries of the trust, which parallels the formula of the *Wandry* assignment, is that the public policy concerns of the *Wandry* technique, and the concerns that the IRS has nonacquiesced in the *Wandry* case result, could be ameliorated with a companion formula disclaimer. The IRS has blessed formula disclaimers, if the disclaimed gift has not been accepted. *See* Treas. Reg. §25.2518-3(b), examples 15 and 20. A defined value disclaimer was approved in *Estate of Christiansen v. Comm'r*, 586 F.3d 1061 (8th Cir. 2009). The advocates for the technique also note that the *Wandry* formula assignment by the grantor (plus any exculpatory language in the trust document) should counter any concern that the trustee has breached a fiduciary duty by not accepting any property subject to the formula assignment and formula disclaimer by the current beneficiaries of the trust. The *Wandry* formula assignment is evidence that the grantor did not desire for a trust relationship to exist for any property that is not assigned as per the formula in the original *Wandry* formula assignment.

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

The combination of formula gift and formula disclaimer affords "belt-and-suspenders" protection for the transfer. If the "belt" of the formula gift proves ineffective, the "suspenders" of the disclaimer by the current trust beneficiaries should by itself be adequate to prevent revaluation of the FLP from resulting in a gift that exceeds the original stated dollar value. As discussed above, it seems very difficult for the IRS to argue that the disclaimer is invalid because the trustee has violated its fiduciary duty in accepting it. It may still be open to the IRS to argue

that the beneficiaries have no rational reason to make the disclaimer and is acting in concert with Grant Gratuitous to deprive the IRS of the incentive and ability to enforce the gift tax law, in violation of public policy, a central *Procter* concern. If the transfer took the form of net gift, and if the donated asset is illiquid (as most hard to value assets are) the beneficiaries of the trust would have a rational personal motive for the disclaimer, which is to manage and limit the trust's own gift tax liability.

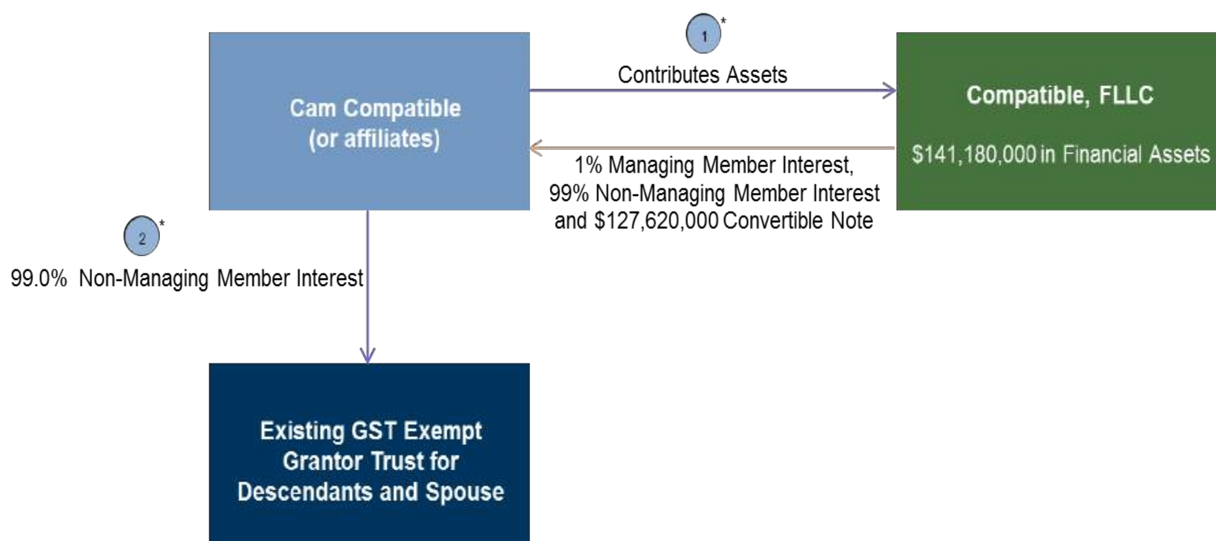
IV. CONTRIBUTION OF A LEVERAGED ASSET TO AN INTENTIONALLY DEFECTIVE GRANTOR TRUST ("LAIDGT").

A. The Technique.

In order to protect against a note in the SIDGT technique being declared a disguised retention of an equity interest in a trust under equitable tax principles, the donor could first create a leveraged entity and then contribute an interest in that entity to a grantor trust.

Example 4: Cam Compatible Creates a Leveraged Single Member LLC
and Then Contributes His Non-Managing Interests to a Grantor Trust

Cam Compatible owns $150,000,000 in financial assets. Cam and affiliates (who are not recognized for income tax purposes) contribute $141,180,000 in assets to a FLLC and receive a 1% managing member interest, a 99% non-managing member interest and a $127,620,000 Note (Transaction 1). The note could be converted at any time at the death of the holder to that number of Compatible, FLLC units that are equal in value to the then outstanding principal of the note. The note could have a mandatory conversion feature at the death of the holder of the note. In a separate, independent and distinct transaction (Transaction 2) Cam contributes his 99% non-managing member interest to a grantor trust. Like Example 2, the trust treats his wife, Carolyn, as the discretionary beneficiary and gives her certain powers of appointment over the trust. Assuming a 30% valuation discount, the technique is illustrated below:



B. Income Tax and Basis Enhancing Advantages of the Technique.

1. It Has All of the Income Tax and Basis Enhancing Advantages of the SIDGT Technique.

See the discussion *infra* Section III.B.

2. The Retained Note Could Be Designed to (i) Have a Mandatory Conversion of the Amount of Non-Managing Member Interests That Are Equal in Value to the Principal Balance of the Note at the Death of the Holder of the Note, and (ii) Before Death, at the Election of the Holder, the then Outstanding Principal of the Note Could Be Converted to That Amount of Non-Managing Member Interests That Are Equal in Value to That Outstanding Principal.

There are several advantages in making the note convertible as described above.

(a) When the note is converted, that act of conversion, does not trigger sale treatment. See Revenue Ruling 72-265, 1972-1 C.B. 222.

(b) If there is automatic conversion at the moment of death, an IRC Sec. 754 election could be made either at the moment of death or at a later time when certain non-managing interests are purchased in order to finance the payment of estate taxes. In that fashion, certain of the then assets of the FLLC may receive a basis step-up.

(c) The conversion feature will support the argument that the principal of the note is equal to its value.

(d) The conversion feature will give the holder of the note additional flexibility to increase his or her future equity exposure.

3. The Disregarded Entity Status of the FLLC, For Income Tax Purposes, Can Be Easily Turned On or Off By Admitting or Redeeming Other Owners Who Are Not Grantor Trusts.

C. Transfer Tax Advantages.

1. This Technique Has All of the Transfer Tax Advantages of the SIDGT Technique.

See discussion *infra* Section III.C.

2. If Under Tax Equitable Principles, Because of Too Much Leverage, or Some Other Cause, Part of the Donor Retained Debt is Deemed to Be a Retained Equity Interest, it Will Be a Retained Equity in the FLLC, and not a Retained Interest in the Existing GST Exempt Grantor Trust.

If the donor has a deemed retained interest in the trust, the donor may owe gift taxes because that retained interest is not a qualified interest under IRC Sec. 2702 and the donor may owe estate taxes on his death because the donor has a deemed retained interest under IRC Sec. 2036. *See* footnote 47 and the discussion *infra* Section III.D. Since the note is accruing from the FLLC, and not the trust, that consideration of the SIDGT technique may be avoided.

D. Considerations of the Technique.

This technique has the same considerations as the SIDGT technique, except the considerations noted *infra* Section III.D.1.

V. GRANTOR RETAINED ANNUITY TRUST ("GRAT") TECHNIQUE.

A. What is a the Technique?

A GRAT is an irrevocable trust to which the grantor transfers an asset in exchange for the right to receive a guaranteed annuity for a fixed number of fiscal years (the "Annuity Period").[63] When the trust term expires, any GRAT balance remaining is transferred tax free to a designated remainder beneficiary (e.g., a "defective grantor trust" for the benefit of the grantor's spouse and issue).[64] If a grantor makes a gift of property in trust to a member of the grantor's family while retaining an interest in such property, the taxable gift generally equals the fair market value of the gifted property without reduction for the fair market value of the retained interest.[65] However, IRC Sec. 2702 provides that for a gift of the remainder of a GRAT in which the grantor retains a "qualified interest," defined to include a guaranteed annuity, the taxable gift will be reduced by the present value of the qualified interest, as determined pursuant to a statutory rate determined under IRC Sec. 7520(a)(2) (the "Statutory Rate"). In general, Statutory Rate requires an actuarial

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

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

[65] *See* IRC Sec. 2702(a)(2)(A). Absent IRC Sec. 2702, the amount of the gift would be reduced by the value of the retained interest.

valuation under prescribed tables using an interest rate equal to 120 percent of the federal midterm rate in effect for the month of the valuation.[66]

A grantor's ability to determine the size of the guaranteed annuity and the annuity period at the outset allows the GRAT to be constructed so that the present value of the grantor's retained interest approximately equals the value of the property placed in the GRAT, resulting in a "zeroed out" GRAT.[67] If the grantor survives the GRAT term and the GRAT earns a yield or

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[66] *See*, IRC Sec. 7520(a)(2). Certain exceptions set forth in Treas. Reg. § 25.7520-3(b) do not appear to be applicable to the facts discussed in this paper. *See* Treas. Reg. § 25.2511-1(e).

[67] The possibility of completely "zeroing out" a GRAT was negated by Example 9 of Treas. Reg. § 25.2702-3(e). Example 9 was invalidated by Walton v. Commissioner, 115 T.C. 589 (2000), acq., Notice 2003-72, 2003-44 I.R.B. 964. Final regulations reflecting Walton and containing a revised Example 9 were issued. *See* T.D. 9181, 2005-1 C.B. 717 (Feb. 25, 2005). Prior to its acquiescence, the IRS, in Rev. Proc. 2002-3, 2002-1 C.B. 117, § 4.01(51), announced that it will not issue a favorable private letter ruling in circumstances where the amount of the guaranteed annuity payable annually is more than 50 percent of the initial net fair market value of the property transferred to the GRAT or if the present value of the remainder interest is less than 10 percent of the transferred property's initial net fair market value. This item remains on the "no ruling" list. Rev. Proc. 2015-3, 2015-1 I.R.B. 129, § 4.01(53). The regulations do not include any such 50/10 limitation, nor would such a limitation be consistent with the Walton case itself, which involved a zeroed-out GRAT.

> The Obama Administration proposed changes with respect to GRATs which would require that the remainder have a minimum value. Those proposed changes may appear as a result of future legislation. The ability to "zero out" (or almost zero out) the GRAT under current law would be eliminated. *See* Treasury Department, "General Explanations of the Administration's Fiscal Year 2016 Revenue Proposals" 197-198 (Feb. 2015):
>
> Reasons for Change
>
> GRATs and sales to grantor trusts are used for transferring wealth while minimizing the gift and income tax cost of transfers. In both cases, the greater the post-transaction appreciation, the greater the transfer tax benefit achieved. The gift tax cost of a GRAT often is essentially eliminated by minimizing the term of the GRAT (thus reducing the risk of the grantor's death during the term), and by retaining an annuity interest significant enough to reduce the gift tax value of the remainder interest to close to zero. In addition, with both GRATs and sales to grantor trusts, future capital gains taxes can be avoided by the grantor's purchase at fair market value of the appreciated asset from the trust and the subsequent inclusion of that asset in the grantor's gross estate at death. Under current law, the basis in that asset is then adjusted (in this case, "stepped up") to its fair market value at the time of the grantor's death, often at an estate tax cost that has been significantly reduced or entirely eliminated by the grantor's lifetime exclusion from estate tax.
>
> Proposal
>
> The proposal would require that a GRAT have a minimum term of ten years and a maximum term of the life expectancy of the annuitant plus ten years to impose some downside risk in the use of a GRAT. The proposal also would include a requirement that the remainder interest in the GRAT at the time the interest is created must have a minimum value equal to the greater of 25 percent of the value of the assets contributed to the GRAT or $500,000 (but not more than the value of the assets contributed). In addition, the proposal would prohibit any decrease in the annuity during the GRAT term, and would prohibit the grantor from engaging in a tax-free exchange of any asset held in the trust.
>
> This proposal would apply to trusts created after the date of enactment.

otherwise appreciates at a rate that exceeds the Statutory Rate, the amount of such excess value should pass to the GRAT's designated beneficiaries free of transfer tax.

Consider the following example:

Example 5: Contribution of Financial Assets
or an Interest in a Closely Held Entity to a GRAT

Neal Navigator approaches his attorney, Lenny Leverage, and tells him that he would like to transfer, through the use of a GRAT, the maximum amount that he can transfer using a three-year GRAT that will terminate in favor of a grantor trust for his wife and children. Neal tells Lenny that he has around $20,000,000 in financial assets and $5,000,000 in private equity assets (for a total of $25,000,000 in assets). Neal is willing to have a significant portion of his assets subject to a three-year GRAT.

Lenny likes many of the aspects of a GRAT, including its built-in revaluation clause. Lenny also likes using family limited partnerships ("FLPs"), or FLLCs, because of the substantive non-tax investment and transfer tax advantages that are sometimes associated with these entities (e.g., they may effectively deal with qualified purchasers and accredited investor requirements for alternative investments and because of the possibility of valuation discounts).[68]

Lenny recommends that Neal contribute $18,000,000 of marketable securities and other financial assets to a FLP ("Transaction 1"). Lenny assumes Neal's limited partnership interest in FLP will have a 35% valuation discount. Neal would then transfer the 99% limited partnership interest in FLP, together with $5,000,000 of alternative investments and $2,000,000 cash, to a single member FLLC (or "Holdco") ("Transaction 2"). Neal contributes the non-managing interest or Holdco to a three year GRAT ("Transaction 3"). Lenny assumes that Neal's non-managing member interest in Holdco will have a 20% valuation discount. Holdco is projected to distribute 3.5% of the undiscounted value of its assets it directly or indirectly owns or around $875,000 a year ($25,000,000 x 3.5%). Three years later the GRAT terminates and the remaining assets pass to a grantor trust for the benefit of his family ("Transaction 4").

Neal would also like Lenny to illustrate the GRAT technique without creating the FLP and Holdco.

In this technique, Neal simply contributes his assets without the entity encumbrance to a GRAT (Transaction 1) and three years later the remaining assets of the GRAT terminate in favor of a grantor trust for the benefit of his family (Transaction 2).

Lenny agrees to illustrate the differences in the two GRAT techniques and agrees to perform some calculations under the above assumptions assuming Neal's assets grow at 2.2%, 7.4% and 10% a year.

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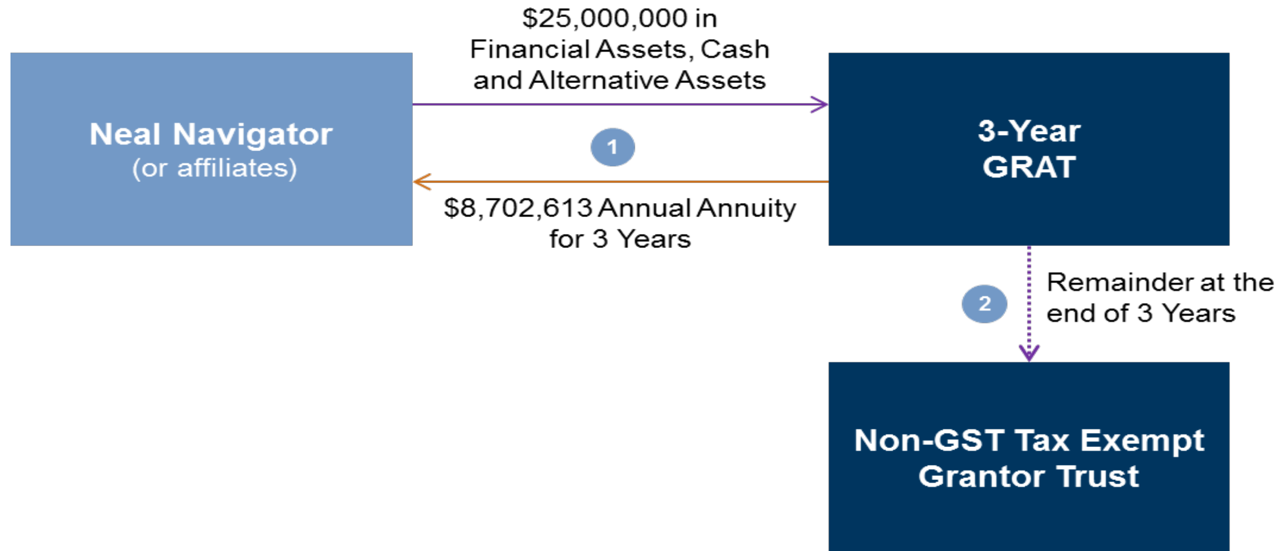
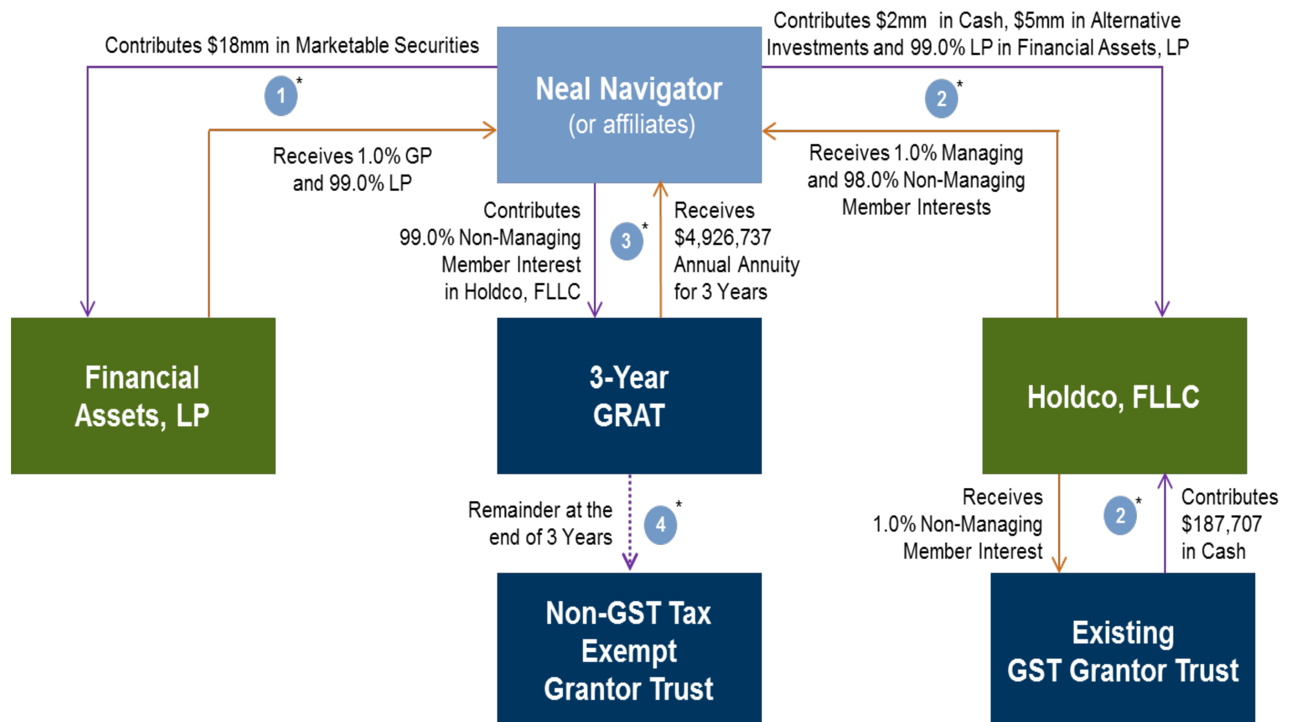
[68] *See* the discussion by this author in "Some of the Best Family Limited Partnership Planning Ideas We See Out There," ALI-ABA Planning For Large Estates, at 2-32 (Nov. 15, 2010).

Lenny's proposed techniques, assuming the IRC Sec. 7520 rate is 2.2%, are illustrated below:

GRAT Technique A (Without the Use of Discounted Interests in Entities)



GRAT Technique B (With the Use of Discounted Interests in Entities)



B. Income Tax and Basis Enhancing Advantages of a GRAT.

1. Ability of Grantor to Pay for Income Taxes Associated With GRAT Gift Tax-free and Substitute Assets of the GRAT Income Tax-free.

A GRAT can be designed to be an effective trust for estate and gift tax purposes and income tax purposes (i.e., a so-called grantor trust). That is, the trust will not pay its own income taxes, rather the grantor of the trust will pay the income taxes associated with any taxable income earned by the trust. *See* discussion *supra* Section III.B.1.

Thus, if the assets of the GRAT, any time during the term of the GRAT, have significant appreciation, the grantor is in a position to substitute other assets to lock in the profit of the GRAT. As a practical matter, the ability to substitute assets may be used by the grantor of a GRAT to "lock in" appreciation in the investment of a GRAT prior to the end of the Annuity Period by substituting other assets of equal value that are less likely to fluctuate, if at the time of such substitution the yield or appreciation of the investments of a GRAT surpasses the Statutory Rate. In this connection, Treas. Reg. § 25.2702-3(b)(5) requires the governing instrument of a GRAT to prohibit additional contributions to the GRAT after its inception. It might be argued that the power to swap assets of equal value constitutes a power to make an additional contribution. However, to date the Service has not made this connection. In addition, numerous private letter rulings have approved GRATs containing a power of substitution without raising or reserving as to this issue.[69] Other considerations with respect to swapping assets with respect to GRATs are addressed later in this paper.

2. A GRAT Does Not Require the Use of the Unified Credit and the Unified Credit Can Be Saved to Protect the Estate Cost of a Taxpayer Dying With Low Basis Assets.

A GRAT can be designed to work without the use of the unified credit, thus, preserving its availability to use against the estate tax, which ameliorates the estate tax cost of retaining low basis assets in order to receive a step-up at death.

Currently, the highest marginal estate tax bracket is 40%. The highest marginal long term capital gains tax bracket, taking into account the *Pease* limitation and IRC Sec. 1411, is 25%. Thus, any freeze strategy, such as the GRAT strategy, which does not use any unified credit, for a very wealthy client, even if the client only owns zero based assets, is superior to not freezing. The reason is rather simple. The marginal rate of 40% is higher than 25%.

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[69] *See*, e.g., PLR 200220014 (Feb. 13, 2002); PLR 200030010 (Apr. 26, 2000); PLR 200001013 (idem, 200001015 (Sept. 30, 1999)); PLR 9519029 (Feb. 10, 1995); PLR 9451056 (Sept. 26, 1994); PLR 9352007 (Sept. 28, 1993); PLR 9352004 (Sept. 24, 1993); and PLR 9239015 (Jun. 25, 1992).

C. Transfer Tax Advantages of a GRAT.

1. Defined Value Formula Advantage of a GRAT.

Under the regulations, the grantor's retained annuity rights may be defined in the trust instrument as a percentage of the fair market value of the property contributed by the grantor to the trust, *as such value is finally determined for federal tax purposes*. For example, the trust agreement might provide for payments of 53% per year for two years, where the 53% annual payment amount is derived from the initial value. This type of language operates as a built-in revaluation clause, mitigating the risk of a surprise gift on revaluation of the transferred property by the Service. This feature can be especially beneficial with contributed assets of which reasonable people (and unreasonable people) could differ as to the initial value (e.g., a private derivative, closely held limited partnership interest, or closely held subchapter S corporation stock).

This valuation advantage may be the most important advantage of the GRAT in comparison to other estate planning techniques. The IRS is not going to argue their own regulations are against public policy like they have with other defined value assignments. The IRS served notice that they are taking dead aim with perhaps a regulations project against other forms of defined value assignments.[70] *The disadvantages of a GRAT in comparison to other techniques can all be eliminated or significantly mitigated is the primary thesis of this paper.*

2. Synergy With Other Techniques.

A GRAT may be a means to transfer enough wealth to a trust for the benefit of the next generation in order to provide leverage for other future estate planning techniques. If the GRAT, or GRATs, that a grantor and a grantor's spouse create are successful (e.g. 10% of the family's wealth is transferred downstream to the grantor's family or to trusts for the grantor's family), further leveraging with respect to other transfer tax planning techniques could occur. For instance, assume that a GRAT or GRATs that are created by a grantor and a grantor's spouse transfer approximately 10% of the family's net worth to a grantor trust for the benefit of their family. The grantor and the grantor's spouse could transfer their remaining assets to a trust in exchange for a note that is equal to the fair market value of what has been transferred. In that fashion, the grantor has achieved a freeze of his or her estate (except for the interest carry on the note) while paying no (or very little) gift tax. That trust could also purchase life insurance to equal approximately 40% of the projected principal amount of the note due on the death of the surviving spouse. In order to receive a step-up in basis of the underlying assets in the grantor trust the taxpayer could enter into one of the techniques described in *infra* Section VII.C.2.

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[70] *See* Department of the Treasury July 31, 2015 2015-2016 Priority Guidance Plan (Page 14).

3. Comparatively Low Hurdle Rate.

From August, 2012 to January, 2017, the Statutory Rate has ranged between 1% and 2.2%. In today's relatively low interest rate environment for US Treasury obligations, it is certainly possible, and for certain investments probable, that the investments of a GRAT will exceed that hurdle rate.

4. High Leverage.

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

5. Non-recourse Risk to Remaindermen.

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

6. Significant Wealth May Be Transferred Through the Use of GRATs Depending Upon (i) the Earning Rate of the GRAT assets; and (ii) if a Valuation Arbitrage Exists Between the Discounted Value of the Assets Being Contributed to the GRAT and the Cash Being Used to pay the GRAT Annuity.

Consider the following tables comparing Technique A (no use of valuation discounted interests in entities) and Technique B (the use of discounted interests in entities).

Table 5a

Hypothetical Techniques Scenario 1: Assets Earn 2.20% Annually, IRC 7520 Rate of 2.20%	Neal Navigator	Navigator Children	% Improvement Over Technique #1
No Further Planning	$26,553,039	$0	N/A
Technique A: Contributing Assets That Are Not in Entities to a GRAT	$26,552,894	$144	N/A
Technique B: Contribution of Non-Leveraged Entities to a GRAT	$24,217,863	$2,335,176	1619182.15%

Table 5b

Hypothetical Techniques Scenario 2: Assets Earn 7.40% Annually, IRC 7520 Rate of 2.20%	Neal Navigator	Navigator Children	% Improvement Over Technique #1
No Further Planning	$30,292,932	$0	N/A
Technique A: Contributing Assets That Are Not in Entities to a GRAT	$27,409,575	$2,883,358	N/A
Technique B: Contribution of Non-Leveraged Entities to a GRAT	$24,501,833	$5,791,099	100.85%

Table 5c

Hypothetical Techniques Scenario 3: Assets Earn 10.00% Annually, IRC 7520 Rate of 2.20%	Neal Navigator	Navigator Children	% Improvement Over Technique #1
No Further Planning	$32,295,905	$0	N/A
Technique A: Contributing Assets That Are Not in Entities to a GRAT	$27,826,552	$4,469,353	N/A
Technique B: Contribution of Non-Leveraged Entities to a GRAT	$24,569,260	$7,726,645	72.88%

The reason why Technique B substantially outperforms Technique A is that the annuity amount in Technique B is smaller and because there is a partial valuation arbitrage between the discounted assets contributed to the GRAT and the undiscounted cash flow from those assets used to partially pay the retained GRAT annuity. However, if the normal cash flow from the discounted entities is too high, the ability to take valuation discounts could be impaired. Informally, many expert appraisers note that discounts will not be affected, if the cash flow does not exceed 5% of the undiscounted value of the assets held by the discounted entity.

D. Considerations of Using a GRAT.

1. Financial Reasons Why a GRAT May Not Succeed.

A famous University of Texas football coach, Darrell Royal, once explained why he disdained the forward pass, "Three things can happen when you throw a pass and two of them are bad." To a certain extent the same thing can be said about investments that are placed in a GRAT. If the investment goes down (the equivalent of a pass interception), or if an investment only increased modestly (the equivalent of a pass incompletion), the GRAT will be unsuccessful in transferring wealth to the remainderman. Thus, because of investment performance, many GRATs may not be successful. *See infra* Sections VI, VII and VIII for structural techniques that allow a GRAT to work in flat or down markets.

a. Some Assets Are Not Volatile.

Generally, assets that have a chance to have a significant result over the Annuity Period have a wide variance of possible investment outcomes. A stable asset portfolio, while in another context generally desirable, is not a desirable portfolio for a GRAT. If the leading objective of the GRAT is to produce a transfer of wealth to the remainderman, variance of return (or risk) is a friend, not an enemy. Thus, the challenge for the practitioner for clients that have a stable portfolio of assets is how to make the GRAT an effective technique.

b. Some GRAT Investments Are Only Profitable if the Investment is Long.

Another challenge for the practitioner in dealing with many clients' normal asset portfolio is that the assets are only profitable if the markets in which the assets are invested increase. Markets do not always increase in value, nor do the assets which find much of their return related to that market always increase in value. Thus, if the markets are flat, or if the markets are decreasing in value, many of the GRATS created during that period will be unsuccessful.

2. If a GRAT is Not Administered Properly, the Retained Interest By the Grantor May Not Be Deemed to Be a Qualified Interest.

a. The *Atkinson* Worry.

The U.S. Court of Appeals for the Eleventh Circuit (*see Atkinson v. Commissioner*, 309 F.3d 1290 (11th Cir. 2002), *cert denied*, 540 U.S. 945 (2003)),[71] has held that an inter vivos charitable remainder annuity trust's (CRAT's) failure to comply with the required annual payment regulations during the donor's lifetime resulted in complete loss of the charitable deduction. The Court found that the trust in question was not properly operated as a CRAT from its creation. Even though the subject CRAT prohibited the offending acts of administration, the Court held that the CRAT fails.[72]

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

b. The Annuity Amount Must Be Paid Annually.

An annuity amount payable based on the anniversary date of the creation of the trust must be paid no later than 105 days after the anniversary date. An annuity amount payable based on the taxable year of the trust may be paid after the close of the taxable year, provided that the payment is made no later than the date on which the trustee is required to file the federal income tax return of the trust for the taxable year (without regard to extensions).[73] Failure to pay the annuity amount within these time limits may jeopardize the retained interest by the grantor of the trust from being a qualified interest. If a retained interest in the GRAT is not a qualified interest, then it will have a value of zero for purposes of determining the gift tax associated with the grantor's contribution of assets to the trust.

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[71] *See* also CCA 200628028 (July 14, 2006), PLR 201714002 and PLR 201714003.

[72] *See* also PLR 201714002 and PLR 201714003 in which the IRS ruled that, based on *Atkinson*, *infra*, the subject trusts failed to operate exclusively as a charitable remainder trust from its creation and throughout its entire existence by virtue of failing to operate in accordance with the terms by making distributions in excess of the annual trust income to the non-charitable beneficiary of the trust.

[73] *See* Treas. Reg. § 25.2702-3(b)(4).

See infra Sections VI.B and VII for structural techniques that eliminate this consideration.

c. Paying the Grantor in Satisfaction of His Retained Annuity Interest With Hard to Value Assets May Disqualify His Retained Interest From Being a Qualified Interest, if the Assets Are Valued Improperly.

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

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

See infra Section VII for a structural technique that allows hard to value assets to be contributed to a GRAT, yet does not use those assets to pay the GRAT annuity.

d. The Contribution of Assets to the Traditional GRAT Structure Must Be Made At the Exact Point of the Creation of the GRAT.

As noted above, there cannot be any additional contributions to a GRAT. If an assignment to a GRAT is not effective at the same time of assignment of another asset to a GRAT is made, that could be finally determined to violate the prohibition against additional contributions to a GRAT. That additional contribution could cause the retained interest in the GRAT by the grantor to not be considered a qualified interest for purposes of IRC Sec. 2702.

See infra Section VI.A for structural techniques that should solve this consideration.

3. The Retained Annuity Interest is Valued Using the Valuation Principles Under IRC Sec. 7520, Which is Typically Higher Than Interest on an Intra-Family Note.

One of the disadvantages of a GRAT in comparison to sales to intentionally defective grantor trusts is that the qualified interest is valued under IRC Sec. 7520, which is inherently higher than the AFR that may be used for notes received for sales to intentionally defective grantor trusts.

See infra Section VII.A for a structural technique that ameliorates this consideration.

4. A Successful GRAT Could Regress to the Mean By the End of the Term of the GRAT.

As noted above, one of the disadvantages of the GRAT is that it cannot be commuted. The GRAT must last its designated term and the only permissible beneficiary of the GRAT during the term of the GRAT is the holder of the annuity interest. Assume a grantor creates a three year GRAT with a volatile stock in which there has been a significant increase in value by the end of year two. If the stock then regresses to a lower price before the end of the third year of the GRAT, less value will pass to the remainderman beneficiaries of the GRAT, than would have been the case, if the GRAT could have been commuted in two years.

See infra Sections VII and VIII for structural techniques that ameliorate this consideration.

5. The Traditional GRAT Structure May Not Satisfy a Client's Stewardship Goals Because the Investments of the GRAT May Have Been Too Successful.

Many clients, in developing their future stewardship goals for their assets, have a view that only a certain percentage of their assets should go to their descendants. If a GRAT is more successful than a grantor anticipated, the possibility exists that the stewardship balance the client wishes to maintain may be upset.

See infra Section VI.C for a structural technique that eliminates this consideration.

6. The GST Tax Exemption May Be Difficult to Leverage Through the Use of a Traditional GRAT Structure.

It is difficult to leverage the GST exemption with a GRAT. It is generally thought that the generation-skipping tax exemption of the grantor may not be leveraged, like the gift tax exemption may be leveraged, through the use of a GRAT. This is because of the estate tax inclusion period ("ETIP") rule found in IRC Sec. 2642(f)(3), which provides as follows:

> Any period after the transfer described in paragraph (1) during which the value of the property involved in such transfer would be includible in the gross estate of the transferor under Chapter 11 if he died. The transferor's exemption for generation-skipping tax purposes cannot be allocated until after the ETIP period.

Since a grantor is the only beneficiary of a GRAT during the Annuity Period, if the grantor dies during that term a significant portion (usually all) of the assets of the GRAT will be included in the grantor's estate under IRC Sec. 2036. Only after the Annuity Period passes and it is clear that the property will not be included in the grantor's estate for estate tax purposes, may a grantor's GST exemption be allocated.

See infra Section IX for structural techniques that may facilitate the efficient use of a GRAT for generation-skipping planning.

7. A Traditional GRAT Structure Will Not Be Successful in Transferring Assets if the Grantor Does Not Survive Until the End of the Term of the GRAT.

If a grantor does not survive the Annuity Period a significant portion or all of the assets of the GRAT will be included in the grantor's estate. The amount of corpus of the GRAT that will be included in the grantor's estate is that amount that is necessary to yield the annuity payment to the grantor without reducing or invading the principle of the GRAT. The annual annuity receivable divided by the Sec. 7520 interest rate equals the amount includable under IRC Sec. 2036. *See* Treas. Reg. § 20.2036-1(c)(2) and Treas. Reg. § 20.2036-1(c)(2)(iii), Example 2.

See infra Section VI.D for structural techniques that may eliminate or substantially ameliorate this consideration.

VI. POSSIBLE STRUCTURAL SOLUTIONS TO ADDRESS CERTAIN ADMINISTRATIVE AND CERTAIN STEWARDSHIP DISADVANTAGES OF A TRADITIONAL GRAT.

A. Structural Solutions to Prevent the Inadvertent Additional Contribution of Assets to a GRAT.

1. When Creating the GRAT, the Grantor May Wish to Consider a Provision That Prohibits Any Additional Contributions to the GRAT and if Any Additional Contribution is Made, a New GRAT Must Be Created Specifically to Hold That Contribution.

2. The Grantor of the GRAT May Wish to Consider Initially Making the Trust Revocable. Once All Assignments to the Trust Have Been Completed, the Grantor Could Amend the Trust to Make it an Irrevocable GRAT.

B. Structural Solutions to Ensure That the Annuity Amount is Always Deemed to Be Paid on a Timely Basis.

The grantor of the GRAT may wish to consider a provision in the trust document that provides (pursuant to a formula) a portion of the trust that is equal to the annuity amount due to the grantor shall not be subject to the trust. If that portion remains in the hands of the trustee after the annuity payment date, the trustee shall hold such property only as a nominee, or as an agent, for the grantor. The grantor may also wish to consider a provision in the trust document that the portion of the trust estate that is being held in that agent capacity can be comingled with the trust assets and that the person also serving as trustee has full authority, as agent, to invest the property.

C. Structural Solutions to Limit the Amount That is Received By the Remainderman of the GRAT.

Generally, it is advantageous for the grantor to put as much as he or she can afford into a GRAT because that increases the likelihood of the remainderman beneficiaries receiving assets when the GRAT terminates. For instance, assume a client holds an interest in a closely held company. The client believes that within the next few years there could be a monetary event with respect to his stock in the company either through a public offering or a merger. However, assume the client's stewardship goal is that, by the time of his death, a certain dollar amount will pass to trusts for the benefit of his descendants with the rest of his estate passing to his favorite charitable causes. Under those circumstances, the more stock the client contributes to a GRAT, the greater the chance is that there will be sufficient assets as the end of the term of the GRAT to at least equal stewardship goal he has for his descendants. The inherent conflict with that strategy is that the more stock of the closely held company that he puts into the GRAT the greater the chance that the remainder amount will exceed the stewardship goal that he has for his descendants.

A structural solution for a donor with those stewardship goals is to put a cap on the amount left in the trust for the benefit of his descendants at the end of the annuity term. To the extent that the value of the assets of the GRAT on its termination exceeds that cap, there could be a provision that requires that excess to revert back to the donor. In that manner, the client could be encouraged to contribute most, if not all, of his stock in the closely held business to the GRAT, which helps ensure that the GRAT will be successful in reaching his stewardship goal for his descendants, without the disadvantage of harming his charitable stewardship goals.

D. Solutions to Reduce the Mortality Risk in GRATs.

1. The Grantor Could Sell Her Retained Annuity Interest.

If the sale is made to a grantor trust or to a spouse, the sale will not have any income tax consequences. Although the transfer of a retained interest that would otherwise cause inclusion under IRC Sec. 2036 is presumptively subject to the three-year rule of IRC Sec. 2035(a), a sale for full and adequate consideration is exempt under IRC Sec. 2035(d). The IRS could characterize consideration equal to the remaining value of the annuity as not full and adequate for

purposes of IRC Sec. 2035 under the doctrine of *United States v. Allen,* 293 F.2d 916 (10th Cir. 1961). The viability of *Allen* may be questioned in light of the cases discussed *infra* Section IX.E.1. Even if the sale is not for full and adequate consideration, if the grantor lives at least three years after the sale, IRC Sec. 2036 inclusion should be avoided.

2. The Grantor Could Use a Life Insurance to Hedge Against an Early Grantor Death.

See discussion *infra* Section VII.D.1.

3. The Grantor Could Purchase the Remainder Interest in a Profitable GRAT From the Remainder Beneficiaries.

If before the end of the term of the GRAT, the GRAT is very profitable and the grantor wishes to lock in the gain and the mortality risk of the grantor, the grantor could purchase the remainder interest. If the remainder beneficiary is a grantor trust there will not be any income tax consequences triggered by the purchase. The proceeds of the purchase will be removed from the grantor's estate. The IRS could characterize such a purchase as a commutation, as it did for QTIP trusts in Rev. Rul. 98-8, 1998-1 C.B. 541. However, the policy underlying that ruling (to avoid an "end run" around IRC Sec. 2519) does not apply to a GRAT. In order to preserve this opportunity the GRAT trust document must not contain traditional spendthrift clauses and must permit a transfer of interests in the GRAT.

4. The GRAT Could Be Created By the Grantor in Consideration of Full and Adequate Consideration.

If the remainder interest of a GRAT is not created by gift, but is created for full consideration, IRC Sec. 2036 should not apply to the GRAT assets, if the grantor dies before the end of the term of the trust. *See* discussion *infra* Sections IX.D, IX.E., and IX.G.

5. In Order to Keep the GRAT Annuity Amount Very Low, the Donor Could Use a Combination of the Following Strategies: A Member Interest in a Leveraged FLLC Could Be Contributed to the GRAT and the Donor Could Allocate Part or All of His Gift Tax Exemption to the GRAT and Reduce the Retained Annuity.

If a grantor dies before the end of the term of the GRAT all that will be brought back into his estate is the annuity amount divided by the then IRC Sec. 7520 rate. If the annuity amount is small, very little may be brought back into the grantor's estate under IRC. Sec. 2036. *See* discussion *infra* Section VII.

VII. MARRYING THE BEST CHARACTERISTICS OF A LAIDGT WITH A GRAT: THE ADVANTAGES AND CONSIDERATIONS OF CONTRIBUTING AN INTEREST IN A LEVERAGED FLLC TO A GRAT (THE SO-CALLED "LAGRAT").

A. What is the LAGRAT Technique?

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

Perhaps the best freeze technique that does not have to use any of a taxpayer's unified credit is described below. In addition to preserving the unified credit in order to receive the maximum step up without estate taxes, varieties of the technique described below also have the potential of saving capital gains taxes beyond the estate freeze. *See infra* Section VII.B.2.

A taxpayer could create a single member FLLC by contributing and selling financial and private equity assets to that FLLC. If the taxpayer is the only owner of the FLLC there should not be any income taxes or gift taxes associated with the creation of the FLLC.[74] The taxpayer could then contribute some or all of the FLLC member interests to a GRAT. After the term of the GRAT, the remainder beneficiary could be a grantor trust that names the grantor's spouse as a beneficiary and gives that spouse a special power of appointment. The technique will sometimes be described below as a "Leveraged Asset GRAT" or as a "LAGRAT."

Consider the following example:

Example 6: Contribution of a Leveraged FLLC Member Interest to a GRAT

The facts are the same as Example 5, except Neal creates a leveraged Holdco. Lenny recommends that Neal contribute $18,000,000 of marketable securities to a FLP. Lenny assumes Neal's limited partnership interest in FLP will have a 35% valuation discount. Neal would then transfer the 99% limited partnership interest in FLP, together with $5,000,000 of alternative investments and $2,000,000 cash, to a single member FLLC (or "Holdco") in a part sale/part contribution, receiving a note equal to $16,724,700 (which is 90% of the assumed value of the assets transferred to Holdco). Lennie assumes that Neal's non-managing member interest in Holdco will have a 20% valuation discount.

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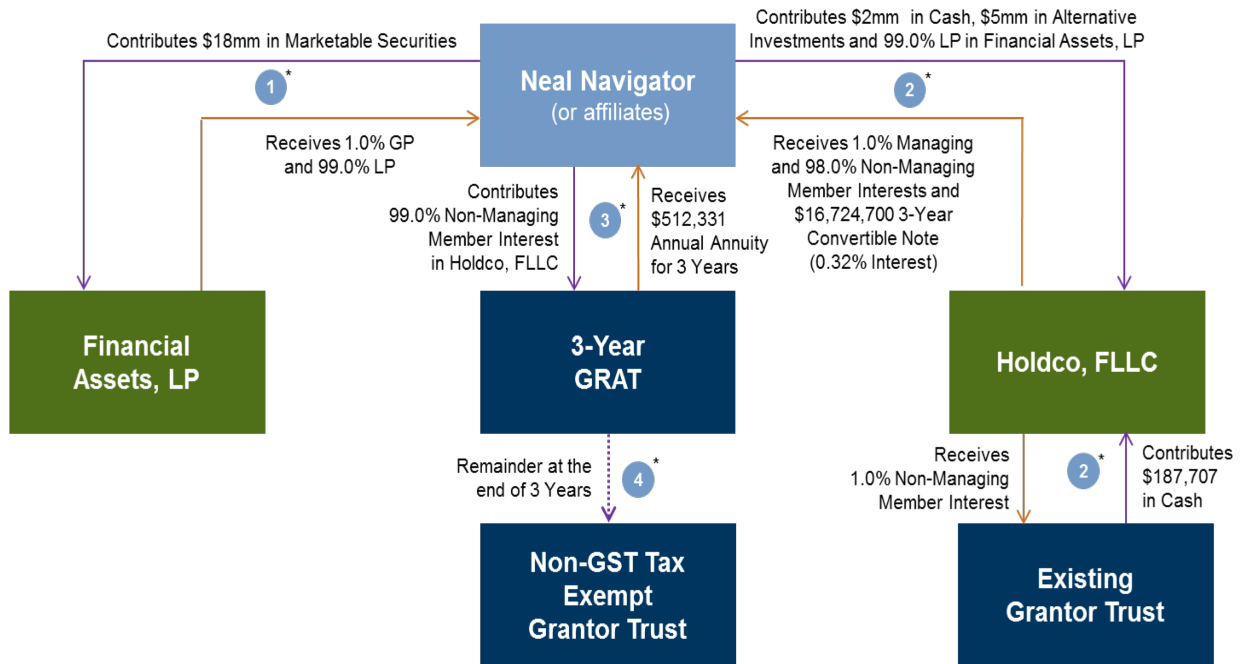
[74] For the proposition that there should not be any income taxes because the sale of assets to a single member FLLC is ignored for income tax purposes, *see* Treas. Reg. § 301.7701-3(b)(1)(ii). For the proposition that there should not be any gift taxes for a sale of assets for less than the value of the assets on creation of the leveraged single member FLLC, *see Estate of Albert Strangi v. Commissioner*, 115 T.C. 35 (2000).

Lenny's proposed technique (Technique C below), assuming the IRC Sec. 7520 rate is 2.2%, is illustrated below:



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

The technique described above is designed to join a discounted sale to a grantor trust to a near "zeroed out" GRAT so as to get the best of both worlds.

Instead of this transaction, Neal could create Holdco, FLLC without leverage and transfer his non-managing member interest in Holdco to a grantor trust for his spouse and descendants, taking back a note at the appropriate AFR with a principal amount equal to the discounted value of the transferred interest. In addition, cash or other assets with a value equal to 10% of the total transfer could be gifted to the trust. (Alternatively, the Holdco interest could be sold to the trust for 90% of its discounted value, with no additional gift.) The note could be structured so as not to require interest and principal payments in the near term of more than the trust's cash flow. The sale will not result in realization of gain because transactions between a grantor and a grantor trust are disregarded. *See* discussion *infra* Section VII.B.1. The underlying assets have a value in excess of the note equal to the "discount amount" resulting from the discounts for FLP and Holdco, which will be indirectly transferred to the Navigator family.

One aspect of the sale is the requirement that the purchasing trust have sufficient capital in excess of the amount of the note to justify treating the note as debt with a value equal to its face amount. A 10% cushion is widely believed to be the minimum adequate amount. In the technique, the discount amount would actually exceed the required cushion, but it is not clear that reliance on the underlying value that is not reflected in gift tax value would be regarded as sufficient, nor would this be good "optics." A bargain sale for 90% of value, or a separate gift, would create a 10% cushion, but each result in a taxable gift.

A key disadvantage of this approach is that the assets that are sold or given could be revalued. The IRS might argue for a lower discount in valuing the sold or given assets. A simple price adjustment clause that would increase the sale price to cover the increased value will not be recognized for gift tax purposes. A defined value transfer that shifts value in excess of the sale price to a marital or charitable disposition might succeed in avoiding a taxable gift but at the cost of diverting property away from the grantor trust, and while this has appellate case law support, there remains legal uncertainty about the success of the technique (the IRS has not acquiesced to the technique). A defined value transfer that reduces the quantum of property transferred to match the sale price has received some case law support, but cannot yet be called a proven technique (the IRS has not acquiesced to the technique), and it too would reduce the property passing to the grantor trust by keeping it with the grantor.

If the note were not treated as debt, because of too much leverage, or for some other reason, then it may be treated as a retained interest in the trust under equitable tax principles, potentially resulting in a taxable gift under IRC Sec. 2702 and inclusion under IRC Sec. 2036. *See* discussion *infra* Section VII.C.11. As we shall see, the LAGRAT finesses the debt issue (both as to adequacy of the cushion and as to the result of the note not being treated as debt under equitable principles) by making the sale to a single member FLLC prior to any transfer to the GRAT.

Alternatively, Neal could create Holdco, FLLC without leverage and contribute his non-managing member interest in Holdco to a GRAT. The discounted value of the transfer to the GRAT would be $14,717,736. For a three-year trust and an IRC Sec. 7520 rate of 2.2%, the annuity to zero out the transfer would be $5,123,310. The GRAT in theory solves the problem of getting the discounts generated by FLP and Holdco through the system without making an initial taxable gift. But will this be the case in the real world? The GRAT has no asset other than the Holdco interest. If "slices" of the Holdco interest are used to pay the annuity, the interests distributed must be valued using the valuation discount. Although the distributed slices of the Holdco interest must be valued at a discount, they carry with them the corresponding "full" value of the underlying assets, and nearly the entire Holdco interest must be distributed to satisfy the annuity. The discount amount does not pass to the donees (though some value may remain as a result of earnings on the discount amount). This problem would be solved if the GRAT could distribute cash in satisfaction of the annuity, but Holdco has only $2 million of cash, plus cash earnings during the GRAT term. Furthermore, the more cash that is distributed from Holdco, the lower the valuation discount will be; which in turn increases the amount of the GRAT annuity that must be paid.

Another approach would be for the GRAT to borrow the amount necessary to pay the annuity in cash from a third party. At the end of the GRAT term, the remainderman would receive the Holdco interest without diminution, and would assume the requirement to eventually repay the note. As long as the remainderman is a grantor trust, the assumption of the note should not be a realization event as to Neal or the GRAT. This approach in effect turns the GRAT into a LAGRAT. Borrowing from a third party results in interest on the loan passing outside the family. The "third party" could, however, be Neal's spouse or an existing family trust, although taxable interest income to the lender would result.

In summary, unlike the sale to a grantor trust, the contribution of an interest in a non-leveraged entity to a GRAT offers certain protection from an inadvertent taxable gift upon revaluation, but presents the problem of where to get the cash to pay the GRAT's immediate annuity obligation, a problem not present with the sale to a grantor trust, where payment of principal and (if need be) interest on the note can be deferred.

The simplest way to "marry" a discounted sale and a GRAT would be to sell assets that could be discounted to the GRAT. Under the facts of this example, the assets transferred to Holdco could instead be sold to the GRAT (itself a grantor trust) for a note with a principal amount equal to 90% of their value, or $16,724,700. The gross taxable gift is $1,858,300. The GRAT annuity would be based on this reduced value. Instead of an annuity of $5,123,310 as in the unleveraged GRAT discussed above, the annuity would be $646,883. The total annuity payments over three years would have a present value of $1,858,300. The annuity payments could be satisfied using the $2,000,000 cash transferred to the GRAT. Even if there were no cash transferred, a 4% annual cash distribution from the assets would be $743,320, almost enough to cover the annuity and a 0.32% note. The leverage reduces the annuity while protecting from gift tax assets of sufficient magnitude to generate cash sufficient to pay the reduced annuity (or a good portion of it). The annual annuity amount could be further reduced by lengthening the term of the GRAT, until it was covered by the assets' projected cash flow. Thus, even if the GRAT assets earned only at the 7520 rate, the discount amount would be protected and would pass to the grantor trust that is the GRAT remainderman. Of course, the interest and principal on the note must be paid, but that is a longer-term issue.

One problem with this simple marriage is that the same 10% of the transferred value is both the cushion for the note, and the amount subject to the GRAT annuity. It could be argued that because that 10% will be consumed by the GRAT annuity, there really is no cushion. That may lead to the finding that the note has more characteristics of a retained interest in the trust than a note. If the note is not treated as debt under equitable tax principles, then the note may represent an interest in the trust that is not a qualified annuity under IRC Sec. 2702, resulting in a taxable gift.[75] It could be argued that the discount amount itself provides a sufficient cushion for the note, but as noted above, it is uncertain whether one can rely for the cushion on value that does not "exist" in determining the value transferred. The only sure solution would be to have a 10% gift taxable component in the transfer that is not offset by the annuity, which Neal wants to avoid. Any such taxable gift would also increase proportionally if the discount were reduced on audit. Another problem with this technique is that if the sale price is inadequate the sale could be deemed to be a deemed contribution. This consideration may be eliminated if the sale is first to a revocable trust. The revocable trust could, at a later time, be amended and become an irrevocable GRAT.

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[75] In itself, this might not disqualify the annuity as a "qualified interest," though the IRS would probably argue that one or another of the requirements of Treas. Reg. § 25.2702-3(d) had been violated.

Beyond the cushion issue, the simple marriage of a discounted sale and a GRAT has not been approved in any case or ruling and many practitioners would be reluctant to be the test case of such a novel format.

The LAGRAT technique seeks to avoid the problems of the simple marriage by making the sale of the assets to an intermediate entity, a FLLC with a 1% managing member interest and a 99% non-managing member interest, and then transferring the 99% non-managing member interest in FLLC to the GRAT.

A side benefit of using the intermediate entity FLLC in the above illustration is the additional discount provided by FLLC. The illustration assumes that FLLC would afford an additional discount of 20% on top of the 35% discount afforded by FLP, so that the marketable securities indirectly held in FLLC would have a cumulative discount of 48%. The extra discount affords a benefit but is not the primary reason for using the second entity.

The limited partnership interest in this example, together with the alternative interests and cash, are transferred to FLLC in exchange for a note with a principal amount equal to 90% of the value of the transferred assets. The bargain sale leaves a 10% cushion in support of the note. If the note's validity as debt is tested at the moment of this transfer, it passes the cushion test and presumably is valid debt.[76]

Even assuming under tax equitable principles part or all of the purported debt from the FLLC is considered equity in the FLLC for tax purposes, the consequences that determination may not be as disastrous as they would be for part or all of a note being considered a retained trust interest in a sale to a grantor trust. That equity interest belongs to Neal, but it is an interest in FLLC, not a direct retained interest in the GRAT. *The application of equitable tax principles to treat a retained note as FLLC equity will not be treated as an interest in a trust that is a non-qualified interest under IRC Sec. 2702.*

B. Income Tax and Basis Enhancing Advantages of the LAGRAT Technique.

1. This Technique Has All of the Same Income Tax and Basis Enhancing Advantages of the LAIDGT Technique.

See infra Sections IV.B.

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[76] Of course, at the moment of sale nothing turns on whether the note is debt or an interest in FLLC, since Neal already owns all the interest in FLLC. Only on the subsequent transfer to the GRAT does it become important that the note be treated as debt to avoid a possible taxable gift and potential inclusion (but *see* the discussion below of the consequences of "flunking" the debt test).

2. There is an Inherent Flexibility to Enter Into Basis Enhancing Strategies With the LAGRAT.

The use of this technique freezes the taxpayer's assets on a discounted basis. In other words, the appreciation of the assets, similar to a sale of a discounted asset to a grantor trust, is not subject to the taxpayer's future estate taxes. Unlike a sale to a grantor trust that is created by substantial use of a taxpayer's available unified credit, the technique does not require the use of the taxpayer's unified credit. Any unified credit that can be saved by using this technique may be used by the taxpayer to save estate taxes and capital gains taxes on the low basis assets owned by the taxpayer at his death. Thus, this may be an ideal technique for a taxpayer who wishes to preserve his unified credit to save estate taxes and capital gains taxes on certain low basis assets he may own at the time of his death.

The principal and interest of the retained note may be paid with either cash or in kind. There will not be any income tax consequences with in kind payments, if the FLLC remains a disregarded entity. If low basis assets owned by the FLLC are used to make some of those in kind payments, and if those low basis assets are retained by the grantor until the grantor's death, there will be a step-up in basis of those assets on the grantor's death under IRC Sec. 1014.

The creator of the FLLC, as long as it is a disregarded entity, could swap his individually owned high basis assets with the FLLC's low basis assets. The creator of the FLLC could also buy the low basis assets from the FLLC for a note. However, if the note is paid back after the creator's death there may be capital gains consequences to the then owners of the FLLC. The FLLC's basis in the note may be equal to the basis of the low basis assets that are purchased.

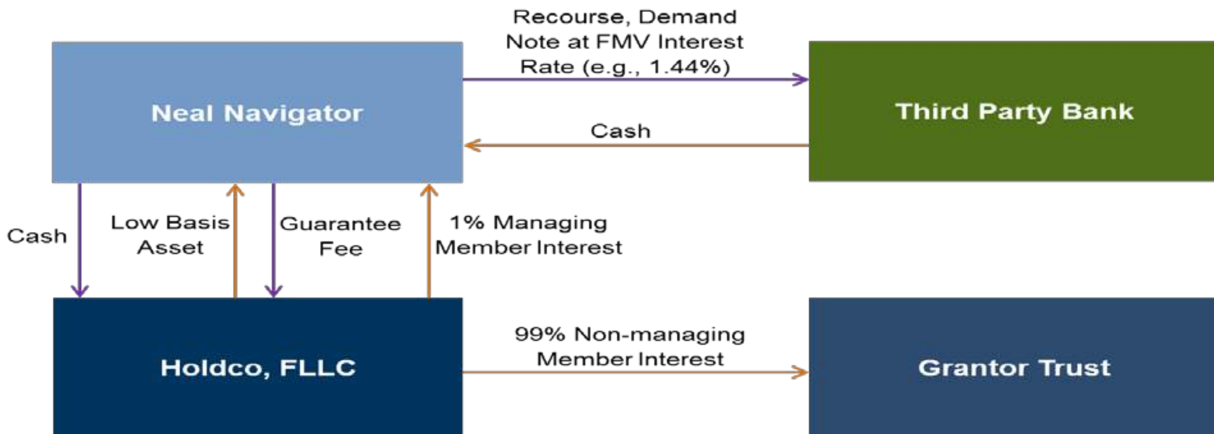
A better course of action for the creator of the FLLC who does not have any high basis assets, may be to borrow cash from a third party lender to make that exchange. At a later time the creator could refinance the note to the third party lender by borrowing cash from the FLLC. Generally, Neal's estate taxes will not increase with this basis enhancing technique because the acquisition of low basis assets, which will be taxable in Neal's estate, are offset by the note owed either to third party lender or, at a later time, to the FLLC.

Consider the following illustrated example:

Hypothetical Transaction 1:

Neal Navigator borrows cash from Third Party Bank and uses that cash to purchase low basis assets from Holdco FLLC, which is 99% owned by a grantor trust. Neal will be personally liable on the bank loan. Holdco FLLC could guarantee the bank's loan to Neal.

Hypothetical Transaction 1 is illustrated below:



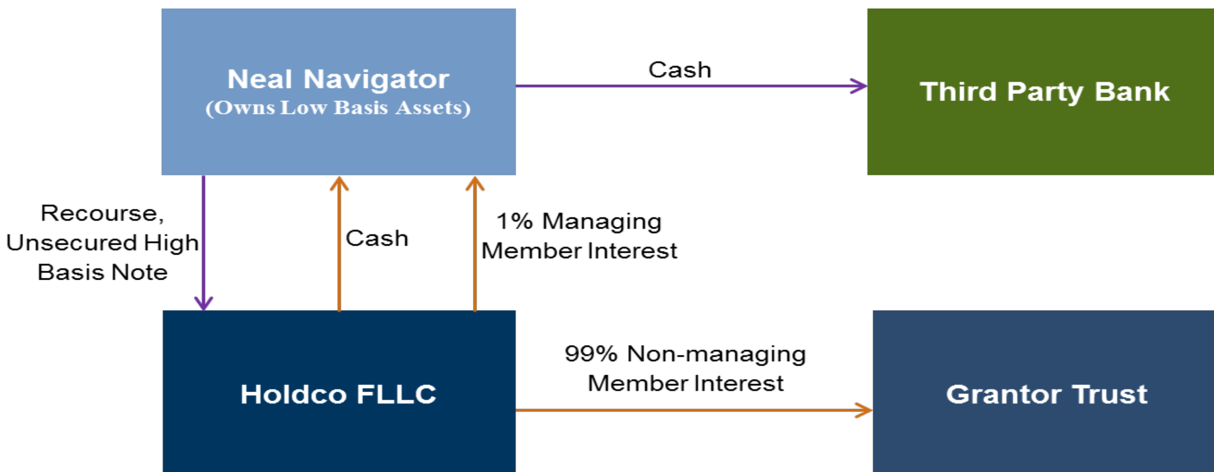
Hypothetical Transaction 2:

Neal Navigator could continue to borrow from Third Party Bank. Or, in a few years, because he would like the flexibility of a recourse, unsecured long-term note, or because interest rates have moved, or because of some other financial reason, he could borrow cash from Holdco FLLC to extinguish the Third Party Bank note.

The recourse, unsecured long-term note with Holdco FLLC will be at a fair market interest rate that is much higher than the AFR. Neal will be personally liable on the note owed to Holdco FLLC.

Holdco FLLC's basis in the new recourse, unsecured note may be equal to the cash that is loaned.

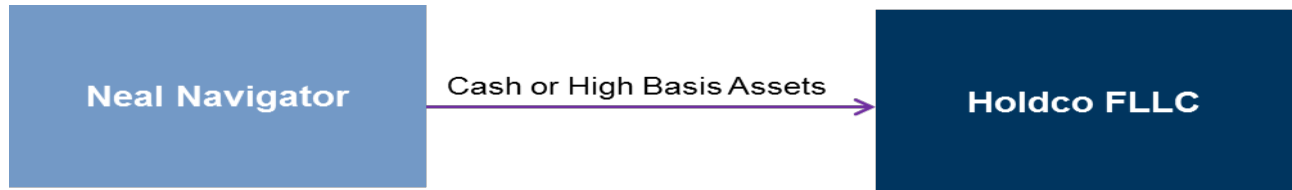
Hypothetical Transaction 2 is illustrated below:



Hypothetical Transaction 3:

Upon the death of Neal Navigator, the estate satisfies the note to Holdco FLLC with the now high basis assets or cash (if the high basis assets are sold after the death of Neal Navigator).

Hypothetical Transaction 3 is illustrated below:



Another basis enhancing strategy opportunity with the LAGRAT technique is to convert part or all of the retained note at some point to a preferred member interest in the FLLC. The preferred interest, in order to avoid gift tax issues, needs to be compliant with IRC Sec. 2701 and Revenue Ruling 83-120.[77] In this example, assets with an underlying value of approximately $25,000,000 were contributed to the single member FLLC. Assume in this example that Neal Navigator and his wife, Nancy, need annual cash flow equal to $600,000 a year for their consumption needs. Assume in a future year that the retained note has been reduced from $16,724,700 to $12,000,000. Neal could convert $10,000,000 of the $12,000,000 note to a $10,000,000 preferred non-managing member interest that pays a 6% annual coupon without any income taxes associated with the conversion because the FLLC is a disregarded entity for income tax purposes. The principal of the preferred could be designed to annually increase at the same rate the exemption increases. In this manner, assuming Neal and Nancy have not used any of their exemption in this technique, or any other technique, they will be in a position to eliminate the estate tax. The $2,000,000 in retained notes that are not converted to a preferred interest could be used to pay income taxes associated with the FLLC investments. At some point, distributions from the remainder grantor trust could also be made to Nancy to also pay for Neal and Nancy's income taxes. On Neal's death, his basis in the preferred will receive a step-up in basis equal to the fair market value of the preferred. The FLLC could make an IRC Sec. 754 election and receive a basis step-up of some of its assets commiserate to the step-up in basis of Neal's preferred.

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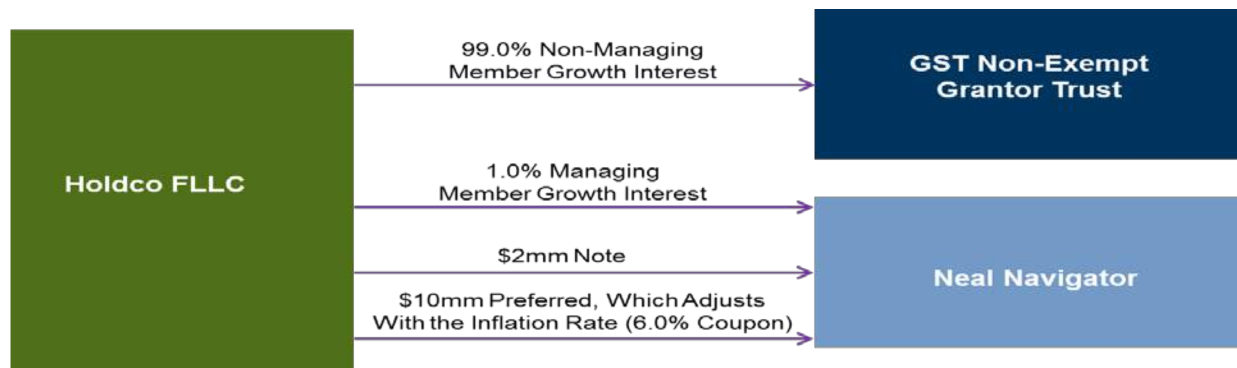
[77] Rev. Rul. 83-120, 1983-2 C.B. 170.

This example, after the conversion of $10,000,000 of the $12,000,000 note, is illustrated below:



Finally, as noted *supra* Section IV.B.2, the original note payable by Holdco could be designed to be a convertible note that is convertible at the election of the holder of the note to be converted to that amount of non-managing units of Holdco that are equal in value to the then outstanding principal balance of the note. Secondly, the note could be designed to have a mandatory conversion feature on the death of the holder of the note to that amount of non-managing units of Holdco that are equal in value to the then outstanding principal balance of the note.

The chief advantage of designing the note with those conversion features are the following:

a. That conversion feature would support the value of the note.

b. That conversion feature would give the holder additional flexibility to participate in the future growth of Holdco.

c. On the death of the holder of the note, the holder could make an IRC Sec. 754 election and receive a basis step-up of some of its assets commiserate to the step-up in basis of the holder's converted interest in Holdco.

3. There is Greater Authority That a Sale to a Single Member FLLC Will Be Treated as a Nontaxable Sale to a Disregarded Entity For Income Tax Purposes Than There is For a Sale to a Grantor Trust.

While many practitioners believe a sale to a grantor trust should be treated as a sale to a disregarded entity, the law is not clear that a grantor trust will be disregarded for sale purposes as it is for a sale to a single member FLLC. It is clear that a single member FLLC is disregarded for all income tax purposes.[78] In *Rothstein v. Commissioner*[79] the Second Circuit ruled that a

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[78] *See* Treas. Reg. § 301.7701-3(a); Treas. Reg. § 301.7701-3(b)(1)(ii) and Treas. Reg. § 301.7701-2(a).

[79] *Rothstein v. Commissioner*, 735 F.2d 704 (2nd Cir. 1984).

purchase from a grantor trust is not ignored because the phrase under IRC Sec. 671 "shall be treated as the owner of the trust assets" *only* applied for purposes of including the trust's income and deductions. *See* also the commentaries of distinguished professors Mark Asher[80] and Jeff Pennell.[81]

C. Transfer Tax Advantages of the LAGRAT Technique.

1. If Leverage is Used in Creating the FLLC That is Contributed to the GRAT (Technique C in the Tables Below) Much More Wealth Will Be Transferred to the Remainderman of the GRAT Than Contributing Assets That Are Not Entities to a GRAT or a FLLC That is Contributed to the GRAT Without Leverage.

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

Table 6a

Hypothetical Techniques Scenario 1: Assets Earn 2.20% Annually, IRS 7520 Rate of 2.20%	Neal Navigator	Navigator Children	% Improvement Over Technique #1	% Improvement Over Technique #2
No Further Planning	$26,553,039	$0	N/A	N/A
Technique A: Contributing Assets That Are Not in Entities to a GRAT	$26,552,894	$144	N/A	N/A
Technique B: Contribution of Non-Leveraged Entities to a GRAT	$24,217,863	$2,335,176	1619182.15%	N/A
Technique C: Leveraged FLLC Asset Contributed to a GRAT	$18,781,789	$7,771,250	5388721.91%	232.79%

[80] Mark L. Asher, When to Ignore Grantor Trusts: The Precedents, a Proposal, and a Prediction, 41 Tax. L. Rev. 253 (1986).

[81] Jeffrey N. Pennell, "(Mis) Conceptions About Grantor Trusts," 50th Annual Southern Federal Tax Institute.

Table 6b

Hypothetical Techniques Scenario 2: Assets Earn 7.40% Annually, IRS 7520 Rate of 2.20%	Neal Navigator	Navigator Children	% Improvement Over Technique #1	% Improvement Over Technique #2
No Further Planning	$30,292,932	$0	N/A	N/A
Technique A: Contributing Assets That Are Not in Entities to a GRAT	$27,409,575	$2,883,358	N/A	N/A
Technique B: Contribution of Non-Leveraged Entities to a GRAT	$24,501,833	$5,791,099	100.85%	N/A
Technique C: Leveraged FLLC Asset Contributed to a GRAT	$18,401,811	$11,891,122	312.41%	105.33%

Table 6c

Hypothetical Techniques Scenario 3: Assets Earn 10.00% Annually, IRS 7520 Rate of 2.20%	Neal Navigator	Navigator Children	% Improvement Over Technique #1	% Improvement Over Technique #2
No Further Planning	$32,295,905	$0	N/A	N/A
Technique A: Contributing Assets That Are Not in Entities to a GRAT	$27,826,552	$4,469,353	N/A	N/A
Technique B: Contribution of Non-Leveraged Entities to a GRAT	$24,569,260	$7,726,645	72.88%	N/A
Technique C: Leveraged FLLC Asset Contributed to a GRAT	$18,186,732	$14,109,173	215.69%	82.60%

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

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

2. The LAGRAT Technique Can Be Designed to Be Very Flexible to Meet a Taxpayer's Changing Consumption Needs or Stewardship Goals, and Has Inherent Flexibility to Enter Into Basis Enhancing Strategies.

a. Flexibility to Meet Changing Needs and Stewardship Goals By Adding a Spouse as a Beneficiary of the Trust That is a Remainder of the GRAT and Giving That Spouse a Special Power of Appointment.

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

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

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

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

b. There is Inherent Flexibility to Meet Changing Consumption Needs With the Grantor Retaining a Note From the FLLC That Could Be Converted to a Note With a Different Interest Rate or a Private Annuity.

The note retained by the grantor could also be structured and/or converted to meet the grantor's consumption needs, without additional gift taxes, as long as the restructuring is for adequate and full consideration.

For instance, the note at a future time could be converted to a private annuity to last the grantor's lifetime. That conversion should be on an income tax free basis since, as noted above, the trust and any consideration received for any sale to the trust are ignored for income tax purposes. At the time of the conversion to a private annuity it is important that enough assets exist in the FLLC to satisfy IRC Sec. 7520 exhaustion test requirements.

The note could also be restructured to pay a different interest rate, as long as the new rate is not lower than the AFR rate or higher than the fair market value rate.

3. The Potential IRC Sec. 2036(a)(2) Advantage of the Structure.

What should a taxpayer who wishes to have some impact on FLLC distributions do to prevent the potential application of IRC Sec. 2036(a)(2)? *See* discussion *supra* Section III C.5.b.(3) and (4).

4. Valuation Advantage of the LAGRAT.

See discussion *supra* Section V.C.1.

5. Ability of Grantor to Pay For Income Taxes Associated With Holdco, the GRAT and Remainder Grantor Trust Gift Tax-Free and Substitute Assets of Holdco, the GRAT and Remainder Grantor Trust Income Tax-Free.

See discussion *supra* Section V.B.1.

6. Synergy With Other Techniques.

See discussion *supra* Section V.C.2.

7. Comparatively Low Hurdle Rate.

See discussion *supra* Section V.C.3.

8. High Leverage.

See discussion *supra* Section V.C.4.

9. Non-Recourse Risk to Remaindermen.

See discussion *supra* Section V.C.5.

10. The "*Atkinson*" Worry About Paying a GRAT Annuity With a Hard-to-Value Asset May Be Eliminated.

If the annuity amount is kept relatively small because of the use of leverage, then there may be enough cash flow to pay the annuity with cash or near cash. In Example 6 there would be more than enough cash flow to and from the FLLC to pay both the interest on the note and the GRAT annuity. Obviously, there are no valuation issues with cash. The U.S. Court of Appeals for the Eleventh Circuit (*see Atkinson*, 309 F.3d 1290 (11th Cir. 2002), cert denied, 540 U.S. 945 (2003)),[82] has held that an inter vivos charitable remainder annuity trust's (CRAT's) failure to comply with the required annual payment regulations during the donor's lifetime resulted in complete loss of the charitable deduction. The Court found that the trust in question was not properly operated as a CRAT from its creation. Even though the subject CRAT prohibited the offending acts of administration, the Court held that the CRAT fails.

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

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

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

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[82] *See* also C.C.A. 200628028 (July 14, 2006).

grantor, must be very careful, like Goldilocks, to make sure that the annuity payments are "just right". Using hard to value assets, to make the "just right" payments, may be highly problematic. Language in the trust requiring that any payment be retroactively adjusted if later found to be incorrect may help, but is not certain to negate an *Atkinson* type challenge.

11. There May Be Less Danger That the Retained Note Will Be Recharacterized as a Deemed Retained Interest in a Trust Under Equitable Tax Principles With This Technique Than With the SIDGT Technique.

The IRS has purportedly made the argument under certain circumstances (e.g., when there is significant leverage) that, in substance, the sale for a note to the grantor trust is a contribution to the trust with a deemed retained interest.[83] If, under equitable tax principles, the transaction is treated as a deemed contribution to the trust with a deemed retained trust interest, severe gift tax and estate tax consequences could accrue under IRC Secs. 2702, 2036 and 2038. Unfortunately, there are no authorities that can provide the taxpayer with guidance on an amount of leverage that may safely be used with a trust.

It should also be noted that the IRS, in its recent Priority Guidance Plan issued on July 31, 2015, appears to be taking dead aim at the sale for a note to a grantor trust that is subject to a defined value assignment.[84]

The GRAT/FLLC technique employs leverage, but the leverage is in the organization of the entity. Numerous debt/equity tax cases exist regarding whether the debt is treated as a disguised equity in that context. There is ample authority and guidelines on that subject, particularly in interpreting IRC Sec. 385.[85] Furthermore, as noted above, assuming the FLLC is

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[83] *See* the cases cited in footnote 40 and the discussion *supra* Section III.D.1.

[84] Please *see* 3, 5, and 8 of that guidance plan, which states as follows:

> 3. Guidance on basis of grantor trust assets at death under IRC Sec. 1014.
>
> …
>
> 5. Guidance on the valuation of promissory notes for transfer tax purposes under IRC Secs. 2031, 2033, 2512, and 7872.
>
> …
>
> 8. Guidance on the gift tax effect of defined value formula clauses under §§ 2512 and 2511.

[85] In the corporate context, *see* IRC Sec. 385(b); *Miller v. Commissioner*, T.C. Memo 1996-3, 71 T.C.M. (CCH) 1674; *see* the discussion of what constitutes a valid indebtedness in *Todd v. Comm'r.*, T.C. Memo 2011-123, aff'd per curiam 486 Fed. App. 423 (5th Cir. 2012); *see also* IRC Sec. 385 (titled "Treatment of Certain Interests In Corporations As Stock or Indebtedness"); Notice 94-47, 1994–1 C.B. 357. *See also,* Staff of the Joint Committee on Taxation, "Federal Income Tax Aspects of Corporate Financial Structures," JCS-1-89, at 35-37 (Jan. 18, 1989), available at https://www.jct.gov/publications.html?func=showdown&id=2238, noting that various courts have determined that the following features, among others, are characteristic of debt:

recognized for transfer tax purposes, if the note is found not to be a note under equitable tax principles, the note will be treated as retained equity in the FLLC. The note should not be treated as a retained interest in a trust with the attendant IRC Secs. 2702 and 2036 considerations.

See discussion *supra* Section IV.C.2.

12. The LAGRAT Avoids the Necessity of Continually Creating GRATs Using the So-called "Cascading GRATs" Technique.

Using this technique is a one time solution at the end of the GRAT annuity period, the grantor has a perfect freeze (the grantor only owns a note and a small equity interest). The grantor does not need to keep forming GRATs to freeze his estate, which saves on legal and appraisal costs and is also administratively easier to execute.

13. The LAGRAT Technique, in Combination With a Long Term Lease That Has Generous Terms to the Lessor (and Under Which the Donor is the Lessee), May Be an Ideal Technique For Those Assets in Which it is Difficult to Determine the Fair Market Value Terms of a Long Term Lease Such as a Long Term Lease For Art or a Residence.

Consider the following example:

Example 7: Al Art Wishes to Use the
<u>Above LAGRAT Technique to Plan For His Art</u>

Al Art believes he and his wife, Alma, have a 25-year life expectancy. Al owns various FLLCs that have $70,000,000 in financial investments before valuation discounts, private equity that has $25,000,000 in value before valuation discounts, $5,000,000 in financial assets that are not in any FLLCs, and art that has a fair market value of $10,000,000.

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1) a written unconditional promise to pay on demand or on a specific date a sum certain in money in return for an adequate consideration in money or money's worth, and to pay a fixed rate of interest; 2) a preference over, or lack of subordination to, other interests in the corporation; 3) a relatively low corporate debt to equity ratio; 4) the lack of convertibility into the stock of the corporation; 5) independence between the holdings of the stock of the corporation and the holdings of the interest in question; 6) an intent of the parties to create a creditor-debtor relationship; 7) principal and interest payments that are not subject to the risks of the corporation's business; 8) the existence of security to ensure the payment of interest and principal, including sinking fund arrangements, if appropriate; 9) the existence of rights of enforcement and default remedies; 10) an expectation of repayment; 11) the holder's lack of voting and management rights (except in the case of default or similar circumstance); 12) the availability of other credit sources at similar terms; 13) the ability to freely transfer the debt obligation; 14) interest payments that are not contingent on or subject to management of board of directors' discretion; and 15) the labelling and financial statement classification of the instrument as debt. Some of these criteria are the same as those specified in § 385, but this elaboration is a more extensive summary of the factors applicable in making the determination.

Al believes that over the next 25 years his financial investments will average a 7.4% annual return before taxes (with .60% of the return being taxed at ordinary rates, 2.4% of the return being tax free and 4.4% of the return being taxed at long term capital gains rates with a 30% turnover rate). Al believes that over the next 25 years his private equity will average a 7.4% annual return (with 3.4% of the return being taxed at ordinary rates and 4% of the return being taxed at long term capital gains rates with a 10% turnover rate). Al believes his art will average an annual increase of 8% a year for the next 25 years and the art will never be sold.

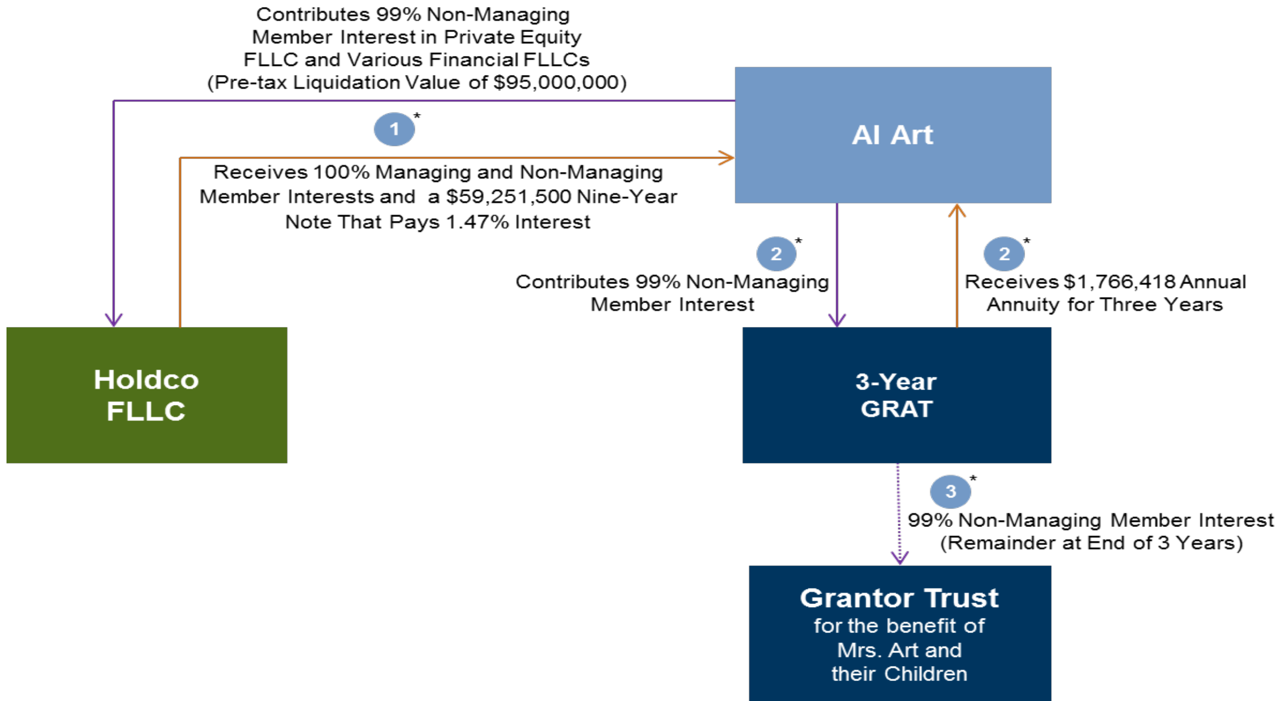
Other key assumptions that Al is making are that the annual inflation rate will be 2.5% over the next 25 years and that he and Alma will annually spend $2,000,000 a year, inflation adjusted. Al believes a 30% valuation discount is appropriate for his private equity investments and his various financial asset FLLCs. If Al contributes his assets in a single member FLLC, Al believes an additional 20% valuation discount will be appropriate in valuing a non-member interest in a FLLC.

Al likes the technique of contributing an interest in a leveraged FLLC to a GRAT. Al is considering contributing his art to the FLLC subject to a 25-year lease with generous terms to the lessor. Al consulted with valuation experts to determine the terms of a lease that would be generous to the lessor in order to "slam the door shut" on any potential argument that the lease was not for "full and adequate consideration."[86] *After that consultation, Al determined that the terms of the lease should be a triple net lease with Al paying all of the insurance and other expenses of the art and an annual rental fee of $1,000,000 (which is 10% of the current value of the art) with an increase in the rent each year by a factor of three times the annual inflation rate (e.g., if the inflation rate is 2.5%, the increase in the rent for that year will be 7.5%). Assuming an annual inflation rate of 2.5% for the next 25 years, and a present value discount rate of 8%, the lease will have a net present value of $22,731,152 and the residual value of the art at the end of the lease term will have a present value of $10,000,000 (for a total value of $32,731,152).*

Al would like to compare (i) doing no further planning with (ii) contributing an interest in a leveraged FLLC that does not own the art and with (iii) contributing an interest in a leveraged FLLC that does own the art subject to the lease with generous terms described above.

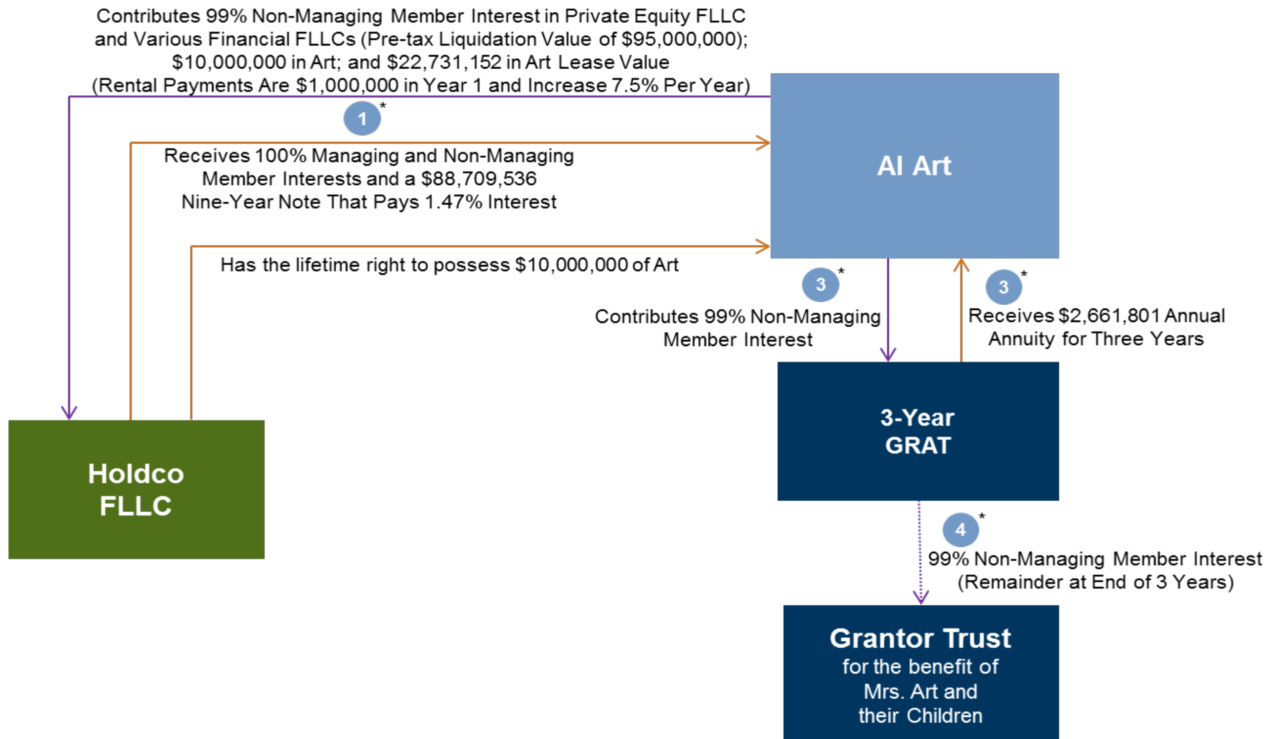
The proposed LAGRAT technique ***without*** art being contributed to the FLLC subject to the lease is illustrated below:

[86] This author would like to thank Garry Marshall and Brad Gates for their assistance with this example. Mr. Marshall and Mr. Gates used their experience with the Mei Moses® Fine Art Index and other sources to help this author construct an art lease with generous terms to the lessee.



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

The proposed LAGRAT technique ***with*** art being contributed to the FLLC subject to the lease is illustrated below:



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

A comparison of the results in 25 years with (i) no further planning, (ii) LAGRAT that does not own art, and (iii) LAGRAT that does own art are shown in the table below (*also see* Schedule 9 attached):

Table 7

	Art Children	Art Children and Grandchildren	Consumption	Consumption Investment Opportunity Cost	IRS Income Tax	IRS Income Tax Investment Opportunity Costs	IRS Estate Tax (at 40%)	Total
25-Year Future Values								
No Further Planning	$197,066,795	$19,660,000	$72,918,529	$102,732,004	$66,945,932	$73,592,594	$131,377,863	$664,293,718
LAGRAT Without Art	$305,826,923	$19,560,000	$72,918,529	$102,732,004	$68,221,681	$73,592,594	$21,441,986	$664,293,718
LAGRAT With Art	$341,160,771	$5,672,187	$72,918,529	$102,732,004	$68,217,632	$73,592,594	$0	$664,293,718
Present Values (Discounted at 2.5%)								
No Further Planning	$106,295,975	$10,604,419	$39,331,568	$55,412,676	$36,110,006	$39,695,153	$70,863,983	$358,313,780
LAGRAT Without Art	$164,960,164	$10,550,480	$39,331,568	$55,412,676	$36,798,133	$39,695,153	$11,565,605	$358,313,780
LAGRAT With Art	$184,018,909	$3,059,525	$39,331,568	$55,412,676	$36,795,949	$39,695,153	$0	$358,313,780

One advantage of using a generous long-term lease agreement to the lessor is that it should eliminate IRC Sec. 2036 being applied to include the art in the lessee's estate. It also helps ensure that Al has not retained an interest in the trust for purposes of IRC Sec. 2702. A leasehold interest for full consideration is not a "term interest" under IRC Sec. 2702. *See* Treas. Reg. § 25.2702-4. The disadvantage, of course, is that it will increase the value of the gift of the art since it is subject to a valuable lease. The increase is the difference of the net present value of the lease and the residual value of the art (assumed in this example to be $32,731,152) in comparison to the value of the art without a lease (assumed in this example to be $10,000,000) or an increase of $22,731,152. The LAGRAT technique decreases the amount of gift tax exposure of a generous lease by the retention by the donor of a note equal to 90% of the present value of the art subject to the advantageous lease, and the donor's retention of the increased annuity payments of the GRAT.

The use of a generous lease coupled with the above technique could also be used for residences and summer residences as an alternative to qualified personal residence trusts.

Art that is subject to a lease is a difficult asset to value. If the IRS believes the value should be higher (which would be a great finding from the perspective of avoiding IRC Sec. 2036), the valuation adjustment clause of the GRAT will mitigate the gift tax exposure to the donor.

14. Summary of the Key Advantages of a LAGRAT in Comparison to a Traditional GRAT.

a. Performs Much Better in Bear, Flat and Bull Markets.

The key reason for the potential for outsized performance is the arbitrage of a very discounted asset being contributed to the GRAT and an undiscounted asset coming back (a note and relatively modest cash annuity payments).

b. The "*Atkinson*" Worry About Paying a GRAT Annuity With a Hard-to-Value Asset May Be Eliminated.

c. Has Many of the Same Advantages That a Sale to a Grantor Trust Has in Comparison to a GRAT. For Example, a Retained Note is Much More Flexible Than a Retained Annuity.

d. The LAGRAT Technique Avoids the Necessity of Continually Creating GRATs Using the So–called "Cascading GRATs" Technique.

e. The LAGRAT Technique Locks in Today's Low Interest Rate.

f. The LAGRAT Technique Has a Lower "Hurdle Rate" Than a GRAT.

g. There May Be an Extra Level of Valuation Discount in Using the Technique.

h. Disregarded Entity Status Can Be Turned "Off" or "On Again" By Simply Admitting or Redeeming Member Interests That Either Turn Single Member LLC Status Off or On.

15. Summary of the Key Advantages of a LAGRAT in Comparison to a Defined Value Allocation Sale to a Grantor Trust.

a. Does Not Require a Significant Use of Gift Tax Exemption, Which May Be Wasted if Markets Deteriorate.

b. In the Future the IRS May Be Able to Ignore Defined Value Sales By Changing Its Regulations.

c. Better Authority That Sales to Single Member FLLC's Should Be Ignored By the IRS For Income Tax Purposes Than Sales to a Grantor Trust.

d. Smaller Chance of an Audit of a Transfer to a GRAT Than a Sale (Even a Defined Sale) to a Grantor Trust.

e. Smaller Chance That the Retained Note Will Be Recharacterized as a Deemed Retained Interest in the Donee Trust Under Equitable Tax Principles Because of Too Much Leverage. If the Retained Note is Recharacterized as an Equity Interest it Will Be Recharacterized as an Equity Interest in the FLLC and Not a Retained Interest in the GRAT.

The disappointment upon such recharacterization is that a lower percentage of the equity member interests are transferred. The downside of that disappointment is small compared to a deemed retained interest in a grantor trust with its IRC Sec. 2702 and IRC Sec. 2036 implications.

f. Disregarded Entity Status Can Be Turned "Off" or "On Again" By Simply Admitting or Redeeming Member Interests That Either Turn Single Member FLLC Status Off or On.

D. Considerations of the Technique.

1. If the Grantor Does Not Survive the Term of the GRAT, Part or All of the Net Value of the Leveraged FLLC Interests Owned By the GRAT and the Then Value of the Outstanding Note Receivable From the FLLC Could Be Taxable in the Grantor's Estate.

If the grantor does not survive the term of the GRAT, the IRS takes the position that IRC Sec. 2036 will include the assets of a GRAT in the grantor's estate equal to the lesser of the value of the assets in the GRAT, or the dollar amount of the retained annual annuity divided by the then IRC Sec. 7520 rate.[87] Under the facts of Example 6, if the IRC Sec. 7520 rate increases to 5% before the GRAT terminates, and if the grantor dies before the end of the term of the GRAT, the lesser of the net value of the GRAT or $10,246,240 ($512,321 ÷ 5%) will be included in the estate of the grantor (Neal Navigator). Assuming the assets earn 7.4% annually before taxes the net value of Holdco in three years will be $12,381,520, assuming valuation discounts will not be allowed. *See infra* Schedule 10. However, that amount is greater than $10,246,240. Thus, the maximum amount included under IRC Sec. 2036 under those facts, is $10,246.240. The then principal amount of the note is also included in the grantor's estate under IRC Sec. 2033.

There are a number of techniques to eliminate the IRC Sec. 2036 concern that a death by the grantor of the GRAT will include some or all of the GRAT assets in the grantor's estate. *See* discussion *supra* Section VI.D of this paper.

One of the techniques is for part of the liquidity that is directly or indirectly owned by the GRAT to be invested in life insurance instead of financial assets to hedge against Neal's early death. As noted above, if the IRC Sec. 7520 rate rises to 5% at the time of Neal's death, because

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[87] *See* Treas. Reg. §§ 20.2036-1(c)(2)(i), 20.2036-1(c)(2)(iii), Ex 2.

of the formula under the IRC Sec. 2036 regulations, the maximum under the facts of Example 6 that will be included in Neal Navigator's estate because of the GRAT annuity is $10,246.620 ($512,321 ÷ 5%). Also, if Neal dies before the GRAT annuity ends, under IRC Sec. 2033 the value of Neal's note receivable and the 1% retained managing member interest will also be taxable in his estate. The estate taxes associated with the IRC Sec. 2036 and IRC Sec. 2033 inclusion with Neal's early death could be mitigated or "hedged," if either the Holdco FLLC or Financial Assets LP purchases life insurance with Neal being the insured. There is a long line of authority that life insurance owned by a partnership entity is only taxable in the insured's estate under IRC Sec. 2033, and is not included in the insured's estate under IRC Sec. 2042.[88]

Under Example 6, assume Neal is 60 years old and Financial Assets, LP buys a combination of 10-year term life insurance and permanent life insurance to pay for the potential estate tax cost of Neal's passing within three years of creating the LAGRAT. Assuming the estate tax rate is 40%, Neal would need to purchase a maximum of $4,098,648 of term life insurance ($10,246,620 x 40%) to pay the estate taxes because of the IRC Sec. 2036 inclusion of the GRAT, and a maximum of $6,689,880 ($16,724,700 x 40%) of permanent life insurance to pay for the IRC Sec. 2033 inclusion of Neal's note receivable and the remaining 1% member interest in Holdco FLLC.

The cost of the ten year term life insurance premiums to hedge or pay for the potential IRC Sec. 2036 inclusion would be $10,893 each year. The annual cost of the $6,689,880 permanent life insurance policy to hedge or pay for the potential IRC Sec. 2033 inclusion would be $93,362 a year.[89] Thus for an annual outlay of $104,255, which is .417% of the assets subject to the LAGRAT in this example, Neal Navigator's early death estate tax problem is solved.

Under those facts, if Neal is then in the maximum estate tax bracket and has used all of his estate tax exemption, and has an early death, the synergy of the use of the LAGRAT and the use of life insurance is quite remarkable. The loss of the family's net worth is reduced from 40% to a little over 1%.

Obviously, after the GRAT annuity period ends the IRC Sec. 2036 exposure also ends and Neal could terminate the term life insurance and the associated premiums. Neal could also terminate or reduce the permanent life insurance premiums as his IRC Sec. 2033 estate tax exposure because the retained note is also reduced.

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[88] *See* Treas. Reg. § 20.2042-1(c)(2); *Estate of Knipp v. Commissioner*, 25 T.C. 153 (1955), aff'd on another issue, 244 F.2d (4th Cir. 1957), cert denied, 355 U.S. 827 (1957), acq. in result, 1959-1 C.B. 4; Rev. Rul. 83-147, 1983-2 C.B. 158; *Watson v. Commissioner*, 36 T.C.M. (CCH) 1084 (1977); *Estate of Fuchs v. Commissioner*, 47 T.C. 199 (1966); *Estate of Infante v. Commissioner*, 29 T.C.M. (CCH) 903 (1970); *Estate of Tompkins v. Commissioner*, 13 T.C. 1054 (1949).

[89] Many thanks to Preston Sartelle of Capital Strategies Group, Inc. who used certain current assumptions of current TIAA-CREF life insurance products to give the author the above annual premium assumptions.

2. The LAGRAT is More Complex to Initially Create Than the Traditional GRAT (But it is Less Complicated Than Using the Alternative "Freeze" Technique of Cascading GRATs That Would Be Created Each Year).

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

3. Care Must Be Taken to Make Sure That There is Not a Violation of the Treasury Regulation That Prohibits "Issuance of a Note, or Other Debt Instrument, Option, or Other Similar Financial Arrangement, Directly or Indirectly, in Satisfaction of the Annuity Amount."

If there is an indirect issuance of a note in satisfaction of the retained GRAT annuity amounts, the annuity amounts will not be considered qualified annuity interests and the annuity amounts will be worth zero in determining the gift to the remainder trusts. *See* Treas. Reg. § 25.2202-3(b)(1). In the context of the examples of this outline, the gift would be the fair market value of the non-managing member interests that were transferred to the GRATs. That gift would be comparatively low, around 8% of the gross value of the assets of the FLLC (assuming a 20% valuation discount and 90% leverage with respect to the FLLC), but the indirect issuance of a note in satisfaction of the annuity amount should be avoided.

Borrowing from others to make annuity payments is not addressed in the regulations, but is expressly acknowledged as being acceptable in the preamble to the regulations, if the step transaction doctrine does not apply. A GRAT borrowing from the grantor for purposes other than making annuity payments, such as to enable the trust to make other investments (or allowing the entity the GRAT owns to make other investments like the Holdco, FLLC in this example), is not addressed and, therefore, should be viewed as permissible, subject to the "directly or indirectly" step transaction caveat (*see* discussion *supra* Section III.D.3). In the LAGRAT technique, it should be easy to trace the borrowing proceeds from a grantor to an investment by the GRAT, or some other use by the GRAT (e.g., paying expenses), other than making an annuity payment.[90]

All of the retained leverage by the grantor in the LAGRAT technique is associated with the creation of Holdco when the grantor contributes assets in exchange for a note from Holdco. The grantor in this technique never loans money to the GRAT for any purpose, including the purpose of providing liquidity so that the GRAT can pay the GRAT annuity with liquid assets.

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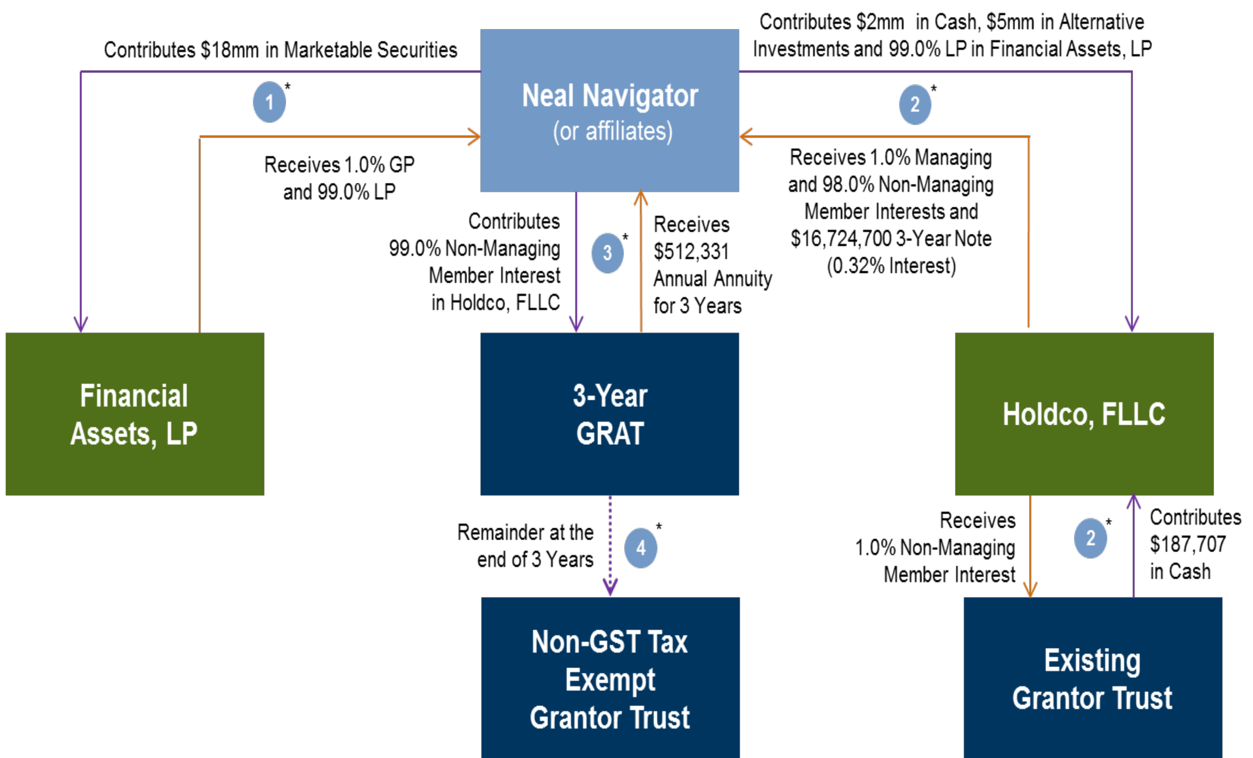
[90] *See* the discussion by Ronald D. Aucutt in "Grantor Retained Annuity Trusts (GRATs) and Installment Sales to Grantor Trusts." The American Law Institute Continuing Legal Education Planning Techniques for Large Estates (Apr. 8-10, 2015).

4. Care Must Be Taken to Make Sure That the IRS Cannot Successfully Take the Position That the Creation of Holdco, FLLC Should Be Ignored For Gift Tax Purposes and That the Retained Notes Are In Reality Retained Trust Interests in the GRAT That Do No Constitute a Qualified Annuity Interest Under IRC Sec. 2702.

Holdco, FLLC could be disregarded under two different theories: (i) a single member FLLC should be per se disregarded for both income tax purposes and transfer tax purposes and/or (ii) even if single member FLLC's should not be disregarded for transfer tax purposes on a per se basis, the step transaction doctrine applies to the facts of the transaction and the FLLC is disregarded for transfer tax purposes.

The argument that the FLLC should not be ignored for gift tax purposes on a per se basis, or under the step transaction doctrine, is greatly strengthened if the FLLC is also partially owned by another disregarded entity (e.g., an existing grantor trust) before the donor contributes his part of the non-managing member interests in the FLLC to the GRAT(s).

For instance, consider the following modification of Example 6 with an existing grantor trust also contributing to Holdco FLLC:



Even though the single member FLLC is per se disregarded for income tax purposes (*see* Treas. Reg. § 301.7701-3(b)(1)(ii)), it is not disregarded for gift tax purposes. In *Pierre v. Commissioner*, 133 T.C. 24 (2009), the full Tax Court held that because transfer taxes follows state law property rights, interests in a single member FLLC were valued for gift tax purposes as FLLC interests and not, as the IRS argued, with reference to underlying asset values.[91] The IRS has not acquiesced in the decision.

As noted in the examples, care should be taken to make sure that the leveraged creation of FLLC is recognized as an independent transaction under the step transaction doctrine. In applying the step transaction doctrine, the IRS or court may not treat the various steps of the transfer as independent. Instead, the steps may be collapsed into a single transaction.[92] Under the circumstances of the gift of a non-managing member interest in a leveraged FLLC to a GRAT, the crucial key to not run afoul of the step transaction doctrine may be establishing that the creation of the FLLC should stand on its own, especially if there is another owner of the FLLC as in the above example. Could the act of a transferor creating the leveraged FLLC be independently separated from the gift to the GRAT? The creation of the FLLC should be designed to be sufficiently independent on its own and as an act that does not require a gift to the GRAT. There does not have to be a non-tax purpose for the creation of and gift to the GRAT. It is difficult for this writer to understand the non-tax purpose of any gift.

The Supreme Court has said on two separate occasions that estate and gift tax law should be applied in a manner that follows a state property law analysis.[93] Thus, the key questions could be, is the creation of the FLLC with leverage recognized for state property law purposes, and is its creation independent of any other events, including the subsequent gift to the GRAT? Stated differently, for state law property purposes, would the creation of the FLLC be recognized independent of the gift to the GRAT? It would seem to this writer that in many situations it could be demonstrated that the creation of the FLLC did not require a gift to the GRAT for state law property purposes or for tax purposes. Furthermore, creating a FLLC with debt has economic risk to the current owners and future owners of the FLLC. The creation of the FLLC has both risk and reward. The value of the FLLC assets could depreciate below the value of the note. Depending upon the size of the transaction, 10% equity may represent real risk in comparison to the reward of the leverage. One percent equity may not.

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[91] A subsequent memorandum decision, T.C. Memo 2010-106, applied the step transaction doctrine to collapse certain sale and gift transfers of 9.5% and 40.5% into single 50% transfers.

[92] *See* Donald P. DiCarlo, Jr., "What Estate Planners Need to Know About the Step Transaction Doctrine," 45 Real Prop. Tr. & Est. L.J. 355 (Summer 2010).

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

An excellent discussion of the interrelationship of creating a FLLC, transferring a member interest in a FLLC, state property law, federal transfer tax law and the step transaction doctrine is found in the *Linton*[94] case. *See* discussion of this case *supra* Section III.D.3.

If the creation of the FLLC is ignored for gift tax purposes, then under equitable tax principles the sale and contribution of the underlying assets of the FLLC is to the GRAT instead of to the FLLC. The value of the GRAT will increase. Assuming the valuation discount for the transferred non-managing member interests is 20%, then ignoring the valuation discounts will increase the value of the GRAT by 20% and the GRAT annuity amounts will increase by 20%.

If the creation of the FLLC is ignored for gift tax purposes, does it matter what the terms of a trust are in determining if the cushion is adequate on a sale to a trust in order to have a note recognized as a note instead of as a retained interest in the trust? It may matter. On its face, there may be plenty of cushion on the sale and the note would be recognized as a note. However, the terms of this trust, after payment of trust obligations, are that all of the net assets are to be distributed to the grantor of the trust (who is also the owner of the note) unless there is growth of the assets. Does the fact that the GRAT is in effect a short term trust in which most of its assets are to be distributed to the grantor, after payment of the outstanding note to the grantor, equitably convert the note to a retained interest in the trust? If the note is treated as a retained interest in trust, the terms of the note may not comply with the definition of a qualified payment under IRC Sec. 2702 and the gift will be all of the assets of the GRAT minus the annuity payments that do qualify.

5. Care Must Be Taken if the Underlying Asset That is Sold or Contributed to the Single Member FLLC is Stock in a Subchapter S Corporation.

Assuming the FLLC is a single member FLLC and/or is owned by other disregarded entities for income tax purposes, the FLLC may own subchapter S stock.[95] If the FLLC is not a single member FLLC, it will not be a permissible shareholder of a subchapter S corporation and the subchapter S election will be terminated. The FLLC should be drafted to make it clear that it dissolves and liquidates upon the earlier of a term of years or the death of the single member owner. If the FLLC terminates and dissolves on the single member's death, the subchapter S election may be preserved.[96]

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[94] *See Linton v. United States*, 630 F.3d 1211 (9th Cir. 2011); *see also* the following cases which also held that the step transaction doctrine did not apply under the facts of the case: *Holman v. Commissioner*, 601 F.3d 763 (8th Cir. 2010); *Senda v. Commissioner*, 433 F.3d 1044 (8th Cir. 2006); *Gross v. Commissioner*, T.C. Memo 2010-176 (2010). *But see Heckerman v. United States*, 104 A.F.T.R. 2d 5551 (W.D. Wash. 2009), which held the step transaction doctrine did apply.

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

[96] *See* PLR 200841007. In this private letter ruling the deemed single member LLC was owned by five separate grantor trusts when the grantor died. One day after the grantor's death, the LLC was liquidated and distributed its subchapter S stock to the new five non-grantor trusts. The representative of the grantor represented

VIII. A LEGAL STRUCTURE THAT MAY ALWAYS ENSURE A SUCCESSFUL GRAT: FUNDING A LAGRAT WITH A GUARANTEED PREFERRED PARTNERSHIP INTEREST AND FUNDING ANOTHER LAGRAT WITH SLIGHTLY DIFFERENT BENEFICIARIES WITH A GROWTH PARTNERSHIP INTEREST.

A. The Technique.

The technique involves first creating a FLP or a FLLC that has two different economic interests: a preferred interest that annually pays a guaranteed coupon and a growth interest that is allocated on liquidation of the assets that are not paid to the owner of the preferred interest. The guaranteed annual preferred coupon is fixed and is not contingent as to time or amount. It is paid annually even if there are not any profits. Upon liquidation of the FLP the preferred interest owner is entitled to all of the assets of the partnership up to the value of the initial contributions for the preferred interest, which is commonly called the "par" value of the preferred interest. On liquidation, the growth interest owner is entitled to all of the assets that are not allocated to the preferred interest.

If the taxpayer owns both a guaranteed coupon preferred interest and a growth interest he may wish to contribute the guaranteed coupon preferred interest and the growth interest to separate LAGRAT structures. Even in flat or declining markets the LAGRAT structure, which owns the guaranteed coupon preferred interest, will be successful (assuming the markets do not decline much below what is owed to the preferred interest owner). In markets where there is significant appreciation the technique will also work much better, because of the significant valuation discounts that may be present with respect to the contribution of the growth interests to a LAGRAT.

Consider the following example:

Example 8: Grat Gratuitous Uses a Legal Structure in Conjunction With a GRAT That Works Well Whether a $10,000,000 Single Stock Asset Grows Substantially in Value, is Flat in Its Growth, or Declines in Value

Grat Gratuitous contributes his $10,000,000 single stock to a FLLC ("Single Stock FLLC") in return for managing and non-managing member "growth" interests and a preferred interest of $8,000,000 that pays a 7.0% guaranteed annual coupon that may be paid in kind. The guaranteed annual preferred coupon is fixed and is not contingent as to time or amount. It is paid annually even if there are not any profits earned by Single Stock FLLC.

Grat Gratuitous could contribute and sell his preferred interest, using the LAGRAT technique, in Single Stock FLLC (total assumed value of $8,000,000) to a single member FLLC

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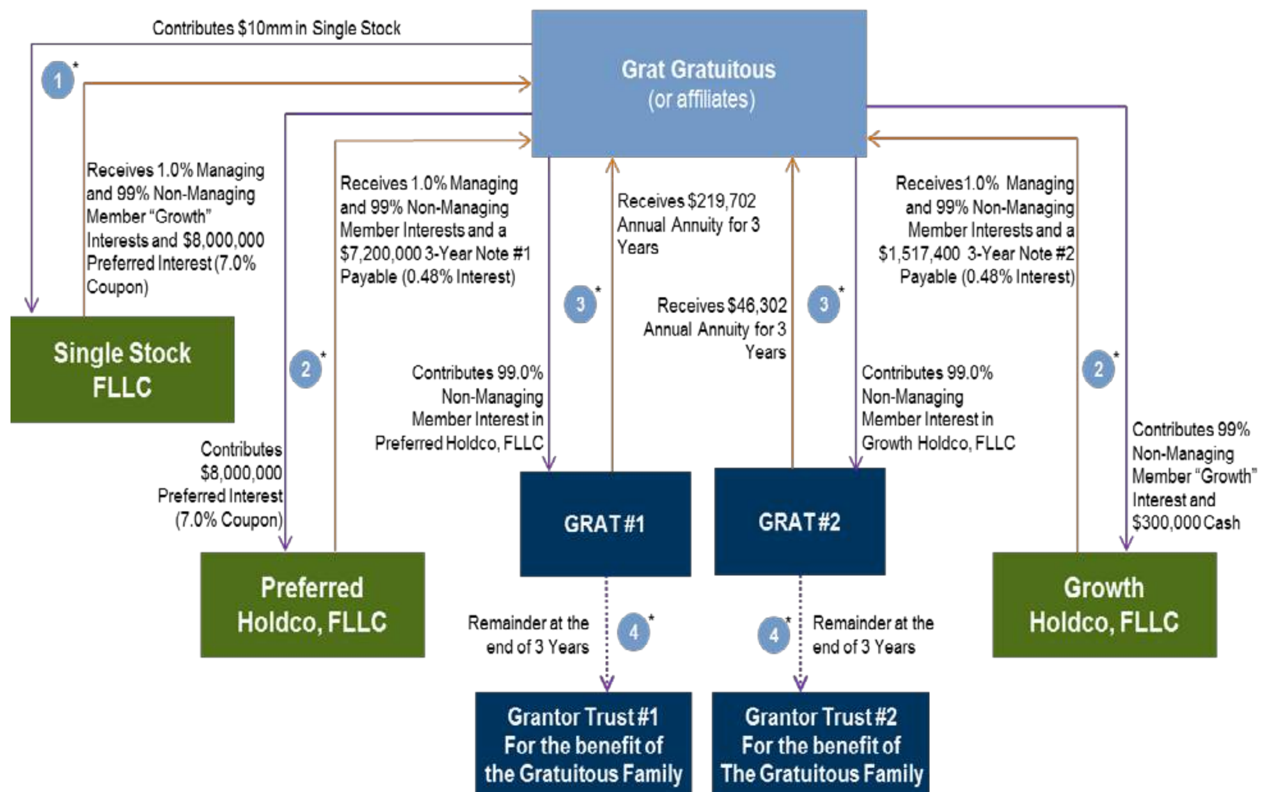
that the existence of the new partnership for one day after the grantor's death was inadvertent and was not motivated by tax purposes. The IRS agreed that the LLC was deemed to terminate on the day of the grantor's death and the subchapter S election remained in effect.

("Preferred Holdco FLLC") of which he is the sole owner, in return for managing and non-managing member interests and a three year note that pays the short term AFR rate of 0.48% (Note 1). (Transaction 2 in the diagram below.) Grat Gratuitous could contribute his non-managing member interest in Preferred Holdco FLLC to an irrevocable three-year GRAT 1. (Transaction 3 in the diagram below.) If the IRC Sec. 7520 rate is 2% and if the non-managing member interest in Preferred Holdco FLLC has a valuation discount of 20%, then the three-year GRAT annual annuity will be $219,702.

Grat Gratuitous could contribute $300,000 in miscellaneous financial assets and his 99% non-managing member "growth" interest in Single Stock FLLC to Growth Holdco FLLC in consideration for a three year note of $1,517,400 that pays the AFR rate of 0.48% (Note 2) and managing and non-managing member interests in Growth Holdco FLLC. (Transaction 4 in the diagram below.) Grat Gratuitous could contribute his non-managing member interest in Growth Holdco FLLC to an irrevocable three-year GRAT 2. The remainder grantor trust of the GRAT, Grantor Trust 2, and GRAT 2 could have slightly different beneficiaries and/or payouts than GRAT 1 and Grantor Trust 1. (Transaction 5 in the diagram below.) If the IRC Sec. 7520 rate is 2%, if the non-managing member growth interest in Single Stock FLLC has a 30% valuation discount, and if the non-managing member interest in Growth Holdco FLLC has a 20% valuation discount, then the three-year GRAT annual annuity will be $46,302.

The structure is illustrated below:



B. Income Tax and Basis Enhancing Advantages of a GRAT.

This technique has the same income tax and basis enhancing advantages as the LAGRAT technique. *See* discussion *infra* Section VII.B.

C. Transfer Tax Advantages.

1. This Legal Structure Works Extremely Well in All Markets.

As the table below illustrates, the structured technique works much better than a traditional three year GRAT. The table below, for determining what passes to the remainderman of the GRAT, ignores valuation discounts. *See infra* Schedule 10.

Table 8

	Grat Gratuitous (1)	Gratuitous Children and Grandchildren (2)	Assumed IRS & State Income Tax (3)	Assumed IRS & State Income Tax Investment Opportunity Costs (4)	Total (5)
3-Year Future Values					
Scenario A: $300,000 in Financial Assets Earn 7.4% Annually and the $10,000,000 in Stock Earns 0.0% Annually					
No Further Planning	$10,363,852	$0	$7,360	$438	$10,371,650
Hypothetical Structural Technique with a GRAT	$8,670,403	$1,693,449	$7,360	$438	$10,371,650
Traditional GRAT	$10,363,852	$0	$7,360	$438	$10,371,650
Scenario B: $300,000 in Financial Assets Earn 7.4% Annually and the $10,000,000 in Stock Earns 9.44% Annually					
No Further Planning	$13,473,307	$0	$7,360	$438	$13,481,105
Hypothetical Structural Technique with a GRAT	$9,798,244	$3,675,064	$7,360	$438	$13,481,105
Traditional GRAT	$11,779,858	$1,693,449	$7,360	$438	$13,481,105
Scenario C: $300,000 in Financial Assets Earn 7.40% Annually and the $10,000,000 in Stock Earns 16.76% Annually					
No Further Planning	$16,282,662	$0	$7,360	$438	$16,290,459
Hypothetical Structural Technique with a GRAT	$9,913,439	$6,369,222	$7,360	$438	$16,290,459
Traditional GRAT	$12,607,598	$3,675,064	$7,360	$438	$16,290,459

As the calculations in the table above demonstrate, if under this technique there is no growth of the stock asset, the technique works as well as a traditional GRAT would work if the stock annually grew at a 9.44% pre-tax return for three years. If the stock does annually grow at a 9.44% pre-tax return for three years under this technique, the technique works as well as stock annually growing at a 16.76% pre-tax return with a traditional GRAT for three years. If the stock does annually grow at a 16.76% pre-tax return for three years, this structured technique will work 73.31% better than a traditional GRAT structure.

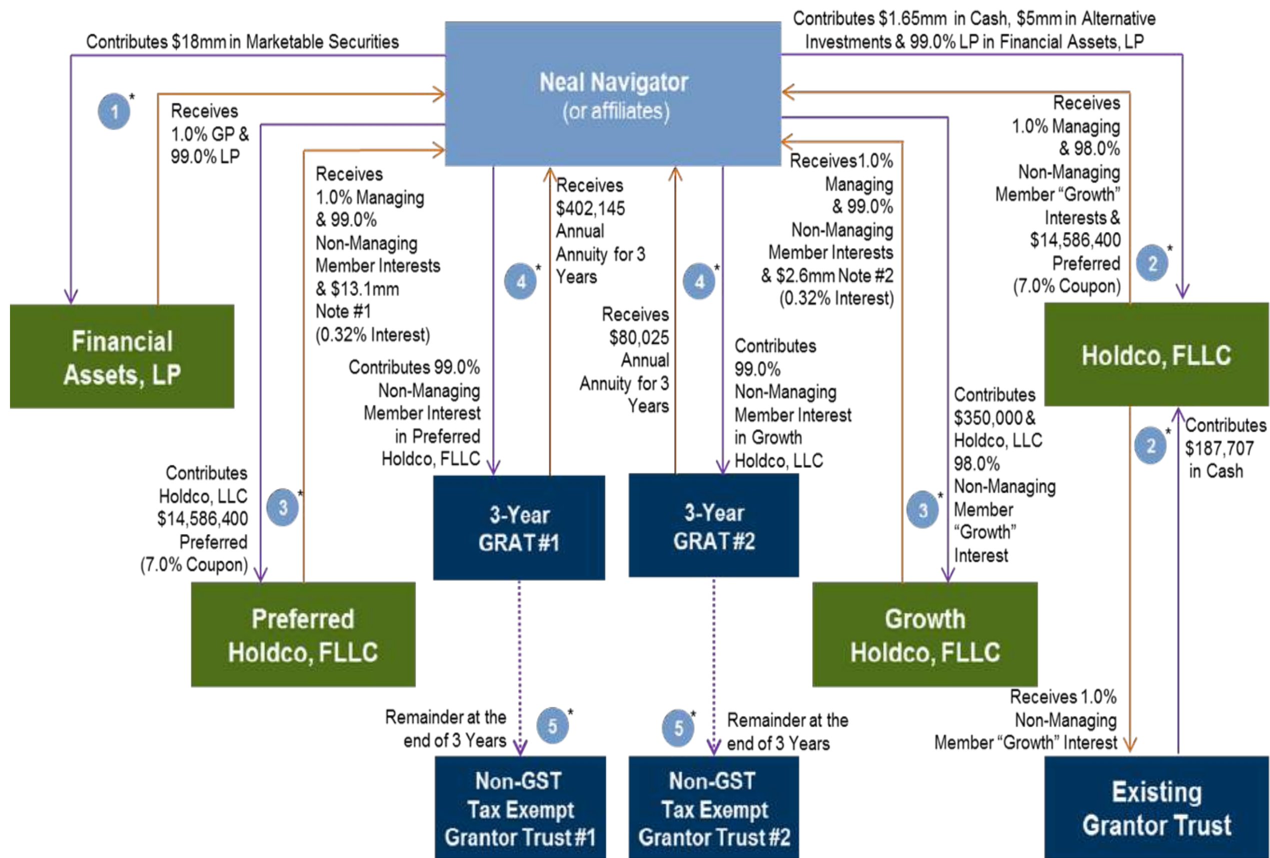
The reason why this technique works much better than a conventional GRAT in flat or down markets is because one of the GRATs owns a guaranteed preferred interest on a leveraged basis. The assumed preferred return is much higher than the AFR rate and the IRC Sec. 7520

rate. The IRS took the position in Revenue Ruling 83-120 that preferred interests in closely held entities should have a very high return because they are not marketable. As long as the single stock does not decline more than the "cushion" in Single Stock FLLC, which is available to annually pay in kind the preferred return and the "par" value of the preferred on liquidation of Single Stock FLLC, the technique will be successful.

The reason why this technique works much better than a conventional GRAT in a good market is because of the greater valuation discounts associated with the LAGRAT that owns the growth interest. There is a significant arbitrage created when a heavily discounted asset that is leveraged is contributed to the GRAT, which determines the size of the GRAT annuity and undiscounted cash is used to pay that GRAT annuity.

The synergies of two LAGRATs with one holding a preferred interest and one holding a growth interest is impressive. However, how much does the preferred/growth entity add to the very good results of a single LAGRAT (*see supra* Section VII).

Perhaps a good way to compare the additive of using a preferred/growth entity is to use the facts and assumptions of Example 6 and assume that Holdco, FLLC is not created with leverage but does have a preferred interest and a growth interest. Neal Navigator could then contribute the preferred interest to a leveraged FLLC that is called Preferred FLLC and the growth interest to another leveraged FLLC that is called Growth FLLC. Please see the diagram below:



The comparative results are as follows (*also see* Schedule 10 attached):

Table 8a: Same Facts as Example 6

Hypothetical Techniques Scenario 1: Assets Earn 2.20% Annually, IRS 7520 Rate of 2.20%	Neal Navigator	Navigator Children	% Improvement Over Technique #1	% Improvement Over Technique #2	% Improvement Over Technique #3
No Further Planning	$26,553,039	$0	N/A	N/A	N/A
Technique A: Contributing Assets That Are Not in Entities to a GRAT	$26,552,894	$144	N/A	N/A	N/A
Technique B: Contribution of Non-Leveraged Entities to a GRAT	$24,217,863	$2,335,176	1619182.15%	N/A	N/A
Technique C: Leveraged FLLC Asset Contributed to a GRAT	$18,781,789	$7,771,250	5388721.91%	232.79%	N/A
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs	$17,455,005	$9,098,034	6308754.37%	289.61%	17.07%

Table 8b: Same Facts as Example 6

Hypothetical Techniques Scenario 2: Assets Earn 7.40% Annually, IRS 7520 Rate of 2.20%	Neal Navigator	Navigator Children	% Improvement Over Technique #1	% Improvement Over Technique #2	% Improvement Over Technique #3
No Further Planning	$30,292,932	$0	N/A	N/A	N/A
Technique A: Contributing Assets That Are Not in Entities to a GRAT	$27,409,575	$2,883,358	N/A	N/A	N/A
Technique B: Contribution of Non-Leveraged Entities to a GRAT	$24,501,833	$5,791,099	100.85%	N/A	N/A
Technique C: Leveraged FLLC Asset Contributed to a GRAT	$18,401,811	$11,891,122	312.41%	105.33%	N/A
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs	$17,080,466	$13,212,466	358.23%	128.15%	11.11%

Table 8c: Same Facts as Example 6

Hypothetical Techniques Scenario 3: Assets Earn 10.00% Annually, IRS 7520 Rate of 2.20%	Neal Navigator	Navigator Children	% Improvement Over Technique #1	% Improvement Over Technique #2	% Improvement Over Technique #3
No Further Planning	$32,295,905	$0	N/A	N/A	N/A
Technique A: Contributing Assets That Are Not in Entities to a GRAT	$27,826,552	$4,469,353	N/A	N/A	N/A
Technique B: Contribution of Non-Leveraged Entities to a GRAT	$24,569,260	$7,726,645	72.88%	N/A	N/A
Technique C: Leveraged FLLC Asset Contributed to a GRAT	$18,186,732	$14,109,173	215.69%	82.60%	N/A
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs	$16,784,233	$15,511,672	247.07%	100.76%	9.94%

Obviously, the results are improved over just using the LAGRAT. However, there is a level of complexity in adding the preferred/growth FLLC layer that on the balance may supersede the improved results of adding that layer.

2. Many of the Gift Tax Valuation Rules Under IRC Sec. 2701 Do Not Apply, Because of the Exception for Guaranteed Return Preferred Interests.

The guaranteed preferred interest is not an applicable retained interest under IRC Sec. 2701 because it is not a distribution right under IRC Sec. 2701. *See* IRC Sec. 2701(c)(1)(B)(iii) and IRC Sec. 2701(b)(1). If the guaranteed return preferred is not an "applicable retained interest," then many of the gift tax valuation rules under IRC Sec. 2701 do not apply. *See* IRC Sec. 2701(a)(1)(B).

3. This Technique Has the Same Advantages as the LAGRAT Technique.

See discussion *supra* Section VII.B and C.

D. Considerations of the Technique.

1. There May Be Additional Income Tax Consequences if the Guaranteed Preferred Interest is Not Owned By Grantor Trusts.

If there is less taxable income earned by the Single Stock FLLC than the coupon amount of the guaranteed preferred interest then there will be more taxable income than what was generated by the single stock. However, if Single Stock FLLC is a disregarded entity, and if the trusts are all disregarded entities, then the grantor is taxed only on the earnings of Single Stock

FLLC and the trusts are not taxable on the coupon paid by the income tax disregarded Single Stock FLLC.

2. This Technique Has the Same Considerations as the LAGRAT.

See discussion *supra* Section VII.D.

3. The GRATs and the Remainder Trusts Should Have Different Provisions in Order to Avoid the IRS Treating the Two GRATs as One GRAT Under Equitable Tax Principles.

The GRATs could have different payouts and could be created at different times in order to avoid this concern. The remainder grantor trusts to the two different GRATs could also have different beneficiaries and different powers of appointment in order to avoid this concern.

IX. POSSIBLE STRUCTURAL SOLUTIONS TO ALLOW THE ALLOCATION OF THE GST EXEMPTION UPON THE CREATION OF A GRAT OR A LAGRAT.

A. Introduction.

The "conventional wisdom" this author sometimes hears on this subject is as follows: "the remainderman of a GRAT cannot be a generation-skipping trust" or "you can use the leverage of a GRAT for gift tax purposes, but you cannot use that leverage for generation-skipping tax purposes." This "conventional wisdom," under the circumstances described below, may be incorrect.

As noted above, a GRAT can be structured to have almost no gift tax value attributable to the remainderman, valued as of the creation of the trust. If the asset that has been contributed to GRAT outperforms the IRC Sec. 7520 interest rate, that outperformance results in a gift tax free gift to the remainderman. Thus, the gift tax exemption can be substantially leveraged using the GRAT technique.

It is generally thought that the generation-skipping tax exemption of the grantor may not be leveraged in a similar fashion. This is because of the estate tax inclusion period ("ETIP") rule found in IRC Sec. 2642(f)(3), which provides as follows:

> Any period after the transfer described in paragraph (1) during which the value of the property involved in such transfer ***would be includible in the gross estate of the transferor under Chapter 11 if he died***. The transferor's exemption for generation-skipping tax purposes cannot be allocated until after the ETIP period. (Emphasis added.)

Stated differently, whether a generation-skipping transfer has occurred cannot be determined until after it is determined whether the property will be included in the grantor's estate. If the period passes, and it is clear the property will not be included in the grantor's estate, then and only then, may the grantor's GST exemption be allocated.

What follows are several approaches that may allow using the leverage of a GRAT, LAGRAT or a GRAT like trust ("GLT") in doing GST planning. *There is no explicit authority supporting any of these techniques. If the child is a beneficiary of the GST trust with a formula general power of appointment to include that portion of the trust that is not GST exempt in the child's estate, the consequence of the analysis offered in this paper being incorrect is to put the grantor back in the same position she would have been in had she created a conventional GRAT with a trust for the benefit of her child that terminates on that child's death. In addition, what would be a taxable distribution from a trust, if that trust is not exempt, could be made out of the GST trust and a return could be filed to get the statute of limitations running on the trust's GST exempt status.*

B. If There is a 5% or Less Probability That Estate Tax Inclusion Will Occur Because of the Death of the Grantor, is There an Exception to the ETIP Rules Applying, Which Allows an Upfront Allocation of a GST Exemption?

1. The Technique.

Treas. Reg. § 26.2632-1(c)(2) contains the regulatory definition of ETIP and then provides an exception, as follows:

> For purposes of paragraph (c)(2) of this section, the value of transferred property is not considered as being subject to inclusion in the gross estate of the transferor or the spouse of the transferor if the possibility that the property will be included is so remote as to be negligible. A possibility is so remote as to be negligible *if it can be ascertained by actuarial standards* that there is less than a 5 percent probability that the property will be included in the gross estate. (Emphasis added.)

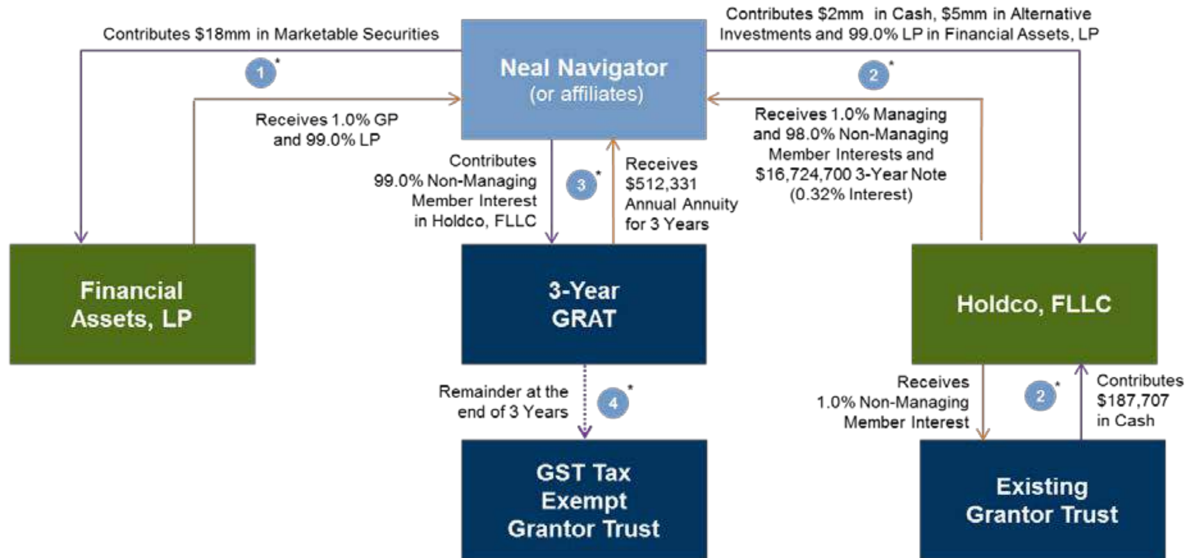
For a short term GRAT there will often be less than a 5% probability that the grantor will die during the GRAT term. For example, this will be true for a two-year GRAT unless the grantor is above 70 years of age. In such a case, the exception noted above would literally apply. On this reading of the exception, the ETIP rules will not apply to an allocation of GST exemption, upon creation of the GRAT because there is less than a 5% chance that the grantor will die during the GRAT term. Thus, a grantor age 70 or younger can create a two-year GRAT in which the remainderman is a generation-skipping trust and make an upfront allocation of the GST exemption.

For instance, consider the following example:

Example 9: Allocation of GST Exemption on Creation of a GRAT When the
Grantor Has Less Than a 5% Chance of Dying Before the Termination Date of the GRAT

The facts of this example are exactly the same as Example 6, except Neal Navigator is 66 years old and there is less than a 5% chance, under actuarial standards, that he will die before the GRAT terminates. Neal uses $1.00 of his gift tax exemption and allocates $1,471,774 of his GST tax exemption upon formation of the GRAT in Transaction 3 below. As noted in Example 6,

Neal retains his 1% managing member interest. The value of the assets held in the GRAT on its creation after valuation discounts is assumed to be $1,471,774. In determining the amount of GST exemption to allocate to the GRAT ($1,471,774) when it is created, Neal assumes he cannot subtract out the actuarial value of the annuity he is to receive. The technique is illustrated below:



On termination of the GRAT in three years the 99% non-managing member interest of Holdco, FLLC subject to the $16,724,700 note owed by Holdco, FLLC will pass to the GST Tax Exempt Grantor Trust. Ignoring all valuation discounts, subtracting the amount owed on the note, and assuming the following rates of growth, the chart below delineates the value of the assets held by the GST Tax Exempt Grantor Trust in three years after the allocation of $1,471,774 of GST exemption in year one:

Annual Rate of Growth <u>of GST Assets</u>	**Net Value of GST Assets <u>Pre-Valuation Discount</u>**
2.2%	$7,771,250
7.5%	$11,891,122
10.0%	$14,109,173

See supra Schedule 8 for the calculations.

2. Considerations of the Technique.

If the grantor wishes to have a zero inclusion for GST purposes for the trust, can he use an amount of upfront allocation of the GST exemption that is equal to the amount of the taxable gift of the GRAT remainder, which subtracts the retained GRAT annuity in determining the gift? Or does the grantor, if he wishes to have a zero inclusion for GST purposes for the trust, have to make an upfront allocation of the GST exemption that is equal to the full value of the trust without subtracting the annuity payments? There is not any definitive authority on this subject, but most commentators believe the IRS will resist the result that an upfront allocation of the GST exemption equal to the gift tax amount works to achieve zero inclusion.[97] Ed Manigault and Mil Hatcher discuss this issue and note the following:[98]

> Although it appears that some GRATs should fall outside of the ETIP rule—depending on the age of the grantor and the term of the annuity period—it is not clear *how much* GST exemption would need to be allocated to the GRAT to provide for a zero inclusion ratio. If the allocable amount necessary to produce a zero inclusion ratio was tied to the taxable *gift* amount, then using a nearly zeroed-out GRAT would seem to permit the allocation of an amount only equal to the minimal taxable gift.
>
> The provisions for allocation of GST exemption, however, do not clearly define the allocation amount based on the amount of the taxable gift. Instead, the regulations arguably point to the *amount of the property transferred*, not to the amount of the taxable gift. *See* Treas. Reg. § 26.2632-1(b)(1)(i), (2)(i) and (ii), and (4). This approach is consistent with the determination of the applicable fraction (for purposes of calculating the inclusion ratio), which has as its denominator the value of the property transferred to the trust. *See* Treas. Reg. § 26.2642-1(c)(1). It might then be the position of the IRS that, if the above interpretation of the ETIP exception is accurate, a grantor must allocate GST exemption equal to the amount transferred to the GRAT, not the minimal taxable gift created as a result of the funding of the GRAT.

The argument that the authors make is that the amount transferred for generation-skipping tax purposes should be offset by the consideration received by the grantor. In the case of the GRAT, the consideration received is the present value of the amount of the annuities that the grantor is to receive. In the case of the LAGRAT technique, the consideration received is the present value of the amount of the annuities that the grantor is to receive, plus the value of the note received from the single member FLLC. In the case of a transfer to a

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[97] *See* PLR 200107015; Covey & Hastings, "Recent Developments 2007" 42nd Annual Heckerling Institute of Estate Planning, University of Miami School of Law (page 295). *See* Manigault and Hatcher, "GRATs and GST Planning – Potential Pitfalls and Possible Planning Opportunity." 20 Prob. & Prop. 28 (2006).

[98] *See* Manigault and Hatcher, "GRATs and GST Planning – Potential Pitfalls and Possible Planning Opportunity." 20 Prob. & Prop. 28, 32 (2006).

generation-skipping trust, pursuant to a bargain sale, it is commonly accepted that the amount of the GST exemption that needs to be allocated is the amount of the transfer after subtracting the value of the consideration received. The natural question is, why should the result be different if the consideration received is an annuity (from a GRAT) as opposed to a seller-financed note from a non-GRAT trust? To take the analogy a little bit further, assume that a grandparent makes a bargain sale to an "old and cold" adequately funded trust (presumably a defective grantor trust) in which the consideration for the "sale" part of the bargain sale is not a seller financed note, but a private annuity. One would assume that the selling grandparent should be able to insulate the trust from GST taxes by allocating her GST exemption in an amount equal to the "bargain" gift component (this assumes the annuity will be recognized on its own terms and not as a disguised retained income interest that is subject to IRC Sec. 2036). Thus, the question is why should a transaction involving a bargain sale private annuity be treated differently than a transaction involving an annuity from a GRAT, as far as determining the amount of the property transferred for GST tax exemption allocation purposes?

The taxpayer should assume that the ETIP rules do not apply if there is less than a 5% probability that a GRAT will be included in the gross estate and the GST exemption may be allocated on the creation of the GRAT. ***However***, a conservative taxpayer should assume in allocating the GST exemption on the creation of the GRAT, if an inclusion ratio of "0" is desired, that he should allocate a GST exemption amount that is equal to the amount of the property transferred, without netting out the retained GRAT annuity.

Is there a situation, when the 5% exception applies, where the above debate, about whether the retained annuity in a GRAT can be used as an offset in calculating the allocation of the GST exemption, at the time of the creation of the GRAT, is generally irrelevant? There may be. Consider a defined formula remainder GRAT using the LAGRAT technique as in Example 9, with a small retained annuity in comparison to the value of the asset that is contributed to the GRAT, because the annuity amount is defined as a result of a "defined value" remainder that is a significant, specific dollar amount.[99] Using the "defined value' remainder, allocating a GST

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[99] For example, the formula might define the annuity as that percentage of the initial value of the trust assets (as finally determined for federal gift tax purposes) which will result in an annuity having a present value at the inception of the trust equal to the initial value of the trust assets (as so determined) less $4,800,000. Also assume under this example that the value of the annuity is $400,000 and the grantor has an available gift tax exemption and GST tax exemption of $5,400,000. The grantor could allocate $4,800,000 of his available gift tax exemption and $5,200,000 of his GST tax exemption to the GRAT. A GRAT annuity defined in this way has not been passed upon by the IRS or the courts. It should meet the requirements of Treas. Reg. 25.2702-3(b)(i)(B), which permits the annuity to be "[a] fixed fraction or percentage of the initial fair market value of the property transferred to the trust, as finally determined for federal tax purposes, payable periodically but not less frequently than annually, but only to the extent the fraction or percentage does not exceed 120 percent of the fixed fraction or percentage payable in the preceding year." In order to freeze the remainder value at a constant dollar amount, such a formula definition generates a greater annuity percentage (not just a greater annuity amount) for a higher initial value. The percentage is dependent upon finally determined asset values and is fixed by them, since there is only one percentage corresponding to any given initial value of the trust. It therefore is hard to see in what sense this would not be a "fixed percentage," and the regulatory definition, with its reference to values "as finally determined for federal tax purposes," seems entirely consistent with defining the annuity percentage in this way. An initial annuity percentage

exemption to a LAGRAT on its creation could still work very well for generation-skipping transfer tax purposes. The client, under those circumstances, may be content with allocating the GST exemption equal to the discounted value of the assets that are held in the GRAT after the note owed by the single member FLLC in the LAGRAT technique. If the 5% exception under Treas. Reg. Sec. 26.2632-1(c)(2) applies, the GST exemption may be allocated to the GRAT in the LAGRAT technique when it is created. In such a case, the GRAT operates with two very useful features: (1) the amount of the transfer for gift tax purposes will not increase even if the initial value of the trust increases upon audit, and will remain protected from gift tax if it is less than the unified credit applicable to the transfer. If the IRS takes the view that the assets have a greater value than the filed gift tax return would indicate, the increased annuity will offset the increase in asset values; and (2) if values are not increased upon audit, the GST exemption allocated will make the continuing trusts GST exempt and protect subsequent appreciation from GST tax. It should be noted that if values are increased on audit, the GRAT may be only partially exempt for GST tax purposes. In that event, upon termination of the GRAT, the continuing trust could be bifurcated into a trust that is GST exempt and another trust that is not GST exempt.

3. Transfer Tax Advantages of the Technique.

Using the LAGRAT structural technique when the ETIP rules do not apply because of the age of the grantor and allocating GST exemption to the GRAT assets on creation of the GRAT, even if there is not an offset for the retained GRAT annuity, is not much of a "penalty" with the LAGRAT technique. The reason why there is not much of a penalty with that structural technique is because the retained GRAT annuity is a relatively modest part of the leverage being employed in the transfer to the GST exempt trust.

For instance, *see* Example 9 *supra* Section IX.B. Assume the grantor in that example is young enough that there is only a 5% probability that the grantor will die during the GRAT annuity period (which is the case with a 66 year old grantor). Because of the leverage embedded in the contributed FLLC member interest to a GRAT and the assumed valuation discounts, the taxpayer would only have to allocate $1,471,774 of his GST exemption to make the GRAT and the remainder trust exempt from the generation-skipping transfer tax because those trusts will have a zero inclusion ratio. That is obviously more than the $1.00 gift tax exemption that needs to be allocated. However, it may still be an efficient use of the GST tax exemption as the chart in *supra* Example 9 illustrates. At the end of three years, because of the arbitrage of discounted assets going into the GRAT and a relatively modest amount of cash being used to pay the GRAT annuities, even if the assets grow at the modest IRC Sec. 7520 rate of 2.2%, the GST trust would, upon termination of the GRAT in three years, have a value of $7,771,229 (*see* the table *supra* Section IX.B), if the valuation discounts are ignored in valuing the GST assets at that time. That is clearly an efficient use of the upfront allocation of $1,471,774 in GST exemption.

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defined in this way could then be made subject to the 20% annual increase permitted under the regulation, although that is not a feature of the technique under discussion.

C. Is There a Technique That Uses the Leverage of the GRAT to Indirectly Profit a GST Trust in Which a Skip Person is Not the Remainderman of the GRAT at the Beginning or End of the ETIP (and Does the Technique Work)?

1. The Technique.

Another interesting inquiry is whether a grandparent who creates a GRAT will be deemed to have made a transfer that is subject to generation-skipping taxes, if the remainderman at the beginning and at the end of the ETIP period of the GRAT is not a skip person? The answer would seem to be no.

However, does that answer change if the original remainderman, who is not a skip person, during the ETIP period transfers, for full and adequate consideration, sells her remainder interest to an existing generation-skipping trust that the remainderman has created and at a later time buys back that remainder interest (presumably before the ETIP period ends)? In other words, has the grandparent who created the GRAT made a generation skipping transfer despite naming a non-skip person as the remainderman who in fact receives the remainder after the ETIP period ends? If the original remainderman and the remainderman at the end of the ETIP period is a non-skip person, but during the ETIP period there are non-taxable transfers by the remainderman to and from a generation-skipping trust, has a generation-skipping transfer been made? Consider the following example:

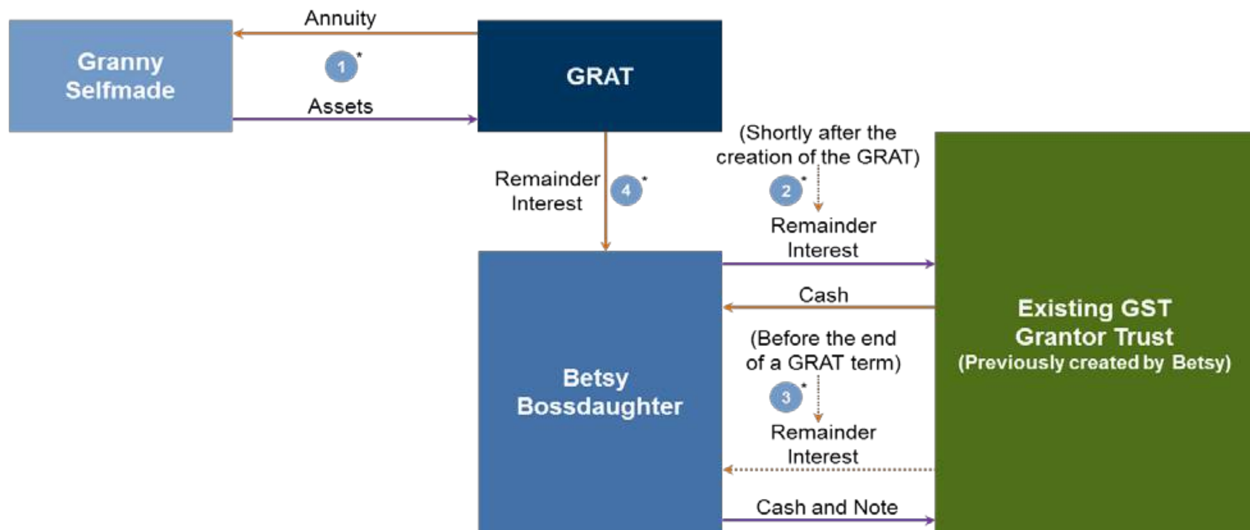
Example 10: Granny Selfmade Creates a GRAT
That, Because of the Non-Skip Remainderman's
Actions, Indirectly Benefits a Generation-Skipping Trust

Granny Selfmade creates a GRAT with a retained annuity amount that results in a very low gift for gift tax purposes to the remainderman, her daughter, Betsy Bossdaughter. The terms of the trust agreement creating the GRAT provide that if Granny survives the two-year term of the GRAT, but Betsy does not survive the term of the GRAT, the remaining proceeds of the GRAT, if any, are to pass to Betsy's two children, Bob and Brenda Bossdaughter.

Betsy is grateful for the creation of the GRAT by her mother, but she feels that her mother has already done enough estate planning for her benefit. Betsy is interested in transferring wealth to her children. Several years ago Betsy made an independent gift to a generation-skipping trust in which the primary beneficiaries were her children, Bob and Brenda. The generation-skipping trust is an intentionally defective grantor trust. In the early days of the GRAT, while the actuarial value of the remainder interest is very low, Betsy, for full and adequate consideration, sells her remainder interest to that existing GST trust she created.

The GRAT is very successful. Before the end of the two-year term (or ETIP period) Betsy decides to buy back the remainder interest for full and adequate consideration (perhaps with a seller-financed note). Thus, on termination of the GRAT, Betsy is once again, the only remainderman beneficiary. On termination of the GRAT, Betsy satisfies any note she owes to the existing GST grantor trust with assets she received from the GRAT.

The technique is illustrated below:



Granny asked her tax advisor, Pam Planner, whether she owes any generation-skipping transfer taxes on termination of the GRAT because of Betsy's actions.

2. Transfer Tax Advantages of the Technique.

Before Pam, or anyone, can answer this question, certain key concepts must be understood in addition to the applicability of the ETIP rules. What is a "transfer" for purposes of Chapter 13? In certain contexts "transfer" is shorthand for "generation-skipping transfer", which is a defined term. The generation-skipping transfer is one of the three defined GST taxable events: taxable termination, taxable distribution, or direct skip. However, in certain other contexts of Chapter 13, "transfer" refers to the original transfer of property establishing a trust. The transferor, for generation-skipping tax purposes is "the individual with respect to whom property was most recently subject to federal estate or gift tax." *See* Treas. Reg. § 26.2652-1(a)(1).

Another area where it is important, under Chapter 13, to determine whether a generation-skipping tax transfer has occurred is determining the inclusion ratio when additional transfers are made to a trust. Any addition requires a recompilation of the trust's applicable fraction and, thus, its inclusion ratio and requires allocation of GST exemption to preserve a zero inclusion ratio. Treas. Reg. § 26.2642-4 seems to suggest that no addition to a trust, which could subject a trust to GST consequences, can occur without a gift or an estate taxable transfer. A transfer for full and adequate consideration is not such a transfer and should not be an addition.

Under these definitions, Pam Planner advises Granny that there appears to be no transfer that would incur GST tax or require an allocation of GST exemption to avoid tax.

3. Considerations of the Technique.

Consideration must be given to PLR 200107015. This ruling involved a zeroed-out charitable lead annuity trust ("CLAT") and a proposed gift assignment by a child who was a one-sixth vested remainderman. The gift would be to a trust, which is a generation-skipping trust with respect to the grantor of the CLAT. The purpose of the ruling was to determine whether the child would be treated as the transferor for GST purposes instead of the grantor of the CLAT. The IRS refused to grant the request of a favorable ruling:

> Section 2642(e) provides a special ruling for determining the inclusion ratio for any 'charitable lead annuity trust.' Under § 2642(e) and the applicable regulations, in the case of a charitable lead annuity trust the applicable fraction (1) the numerator of which is the adjusted generation-skipping transfer tax exemption ('adjusted GST exemption'), and (2) the denominator of which is the value of all property in the trust immediately after the termination of the charitable lead annuity. The adjusted GST exemption is the amount of GST exemption allocated to the trust increased by an amount equal to the interest that would accrue if an amount equal to the allocated GST exemption were invested at the rate used to determine the amount of the estate or gift tax charitable deduction, compounded annually, for the actual period of the charitable lead annuity. The amount of GST exemption allocated to a charitable lead annuity trust is not reduced even though it is ultimately determined that the allocation of a lesser of GST exemption would have resulted in an inclusion ratio of zero. Under § 2642(e)(3), a 'charitable lead annuity trust' is defined as any trust providing an interest in the form of a guaranteed annuity for which the transferor is allowed a charitable deduction for Federal estate or gift tax purposes under §§ 2055 and 2522.
>
> In the absence of § 2642(e), little or no GST tax would ever be imposed with respect to certain charitable lead annuity trusts, even if no GST exemption is allocated to the trust. That is, if the value of the assets transferred to the trust was equal to the estate tax charitable deduction allowed with respect to the transfer, then under the general rules of § 2642, the inclusion ratio with respect to the trust would be zero and the trust would be exempt from GST tax. Even if the charitable deduction did not equal the value of the transferred assets, an allocation of only a small amount of GST exemption would have resulted in no GST tax. Congress was concerned that allowing the present value of the charitable interest to reduce the denominator of the applicable fraction permitted the leveraging of the GST tax exemption. If the trust assets sufficiently outperform the rate of return assumed in computing the present value of the charitable interest, the amount passing to noncharitable persons can exceed the amount which would have passed to them had there been no charitable interest in the trust. S. Rep. No. 445, 100th Cong., 2d Sess. 368 (1988).
>
> . . .

> We also note that under the facts presented in the ruling request, the form of the transaction might be disregarded and the series of transactions viewed as the designation by the Trustee of Child A's children as remainder beneficiaries. Under this analysis, Decedent would be treated as the transferor of the entire Trust estate for GST tax purposes. *See Estate of Bies v. Commissioner*, T.C. Memo. 2000-338; *Estate of Cidulka v. Commissioner*, T.C. Memo. 1996-149; *Griffin v. United States*, 42 F. Supp. 2d 700 (W.D. Tex. 1998).

The ruling's basic holding can be viewed as uniquely applicable to the CLAT. However, it is clear that the IRS will look for other opportunities to apply equitable doctrines in similar contexts. Stated differently, the ruling's reasoning could apply just as easily to a GRAT, if the reader substituted the phrase "ETIP rules" for "IRC Sec. 2642(e)." Using the same logic, the Service could find that a ***gift*** by a GRAT remainderman is avoidance of the Congressional intent in enacting the ETIP rules. However, would the equitable doctrines inherent in the ruling apply to a ***sale*** by Betsy in above Example 10? It would appear that the answer should be no.

In using a sale for full and adequate consideration, the issue is not whether Granny or Betsy is the transferor of the property that moves from the GRAT to the dynasty trust. The issue is whether there is an addition to the dynasty trust for GST purposes. There should not be an addition to the dynasty trust for GST purposes when Betsy transfers the remainder interest to the GST trust for full and adequate consideration and when Betsy buys the remainder interest back for full and adequate consideration.

Another hurdle for the IRS is that for property law purposes and gift tax purposes, Granny's only transferee is a non-skip person (Betsy Bossdaughter). It would seem that the IRS, in order to be successful, would have to argue that a generation-skipping tax transfer occurred by Granny when Betsy sold for full consideration the remainder interest to the generation-skipping trust she created, even though you could not determine whether a generation-skipping transfer has occurred until after it was determined if Granny Selfmade survived the annuity term (and at that point, the only beneficiary of the GRAT was a non-skip person). The cumulative hurdle of those positions may be very difficult for the IRS to surmount.

D. The Remainder Interest in a GRAT That is Indirectly Held By the Grantor of the GRAT is Sold For Full and Adequate Consideration to an Existing GST Grantor Trust.

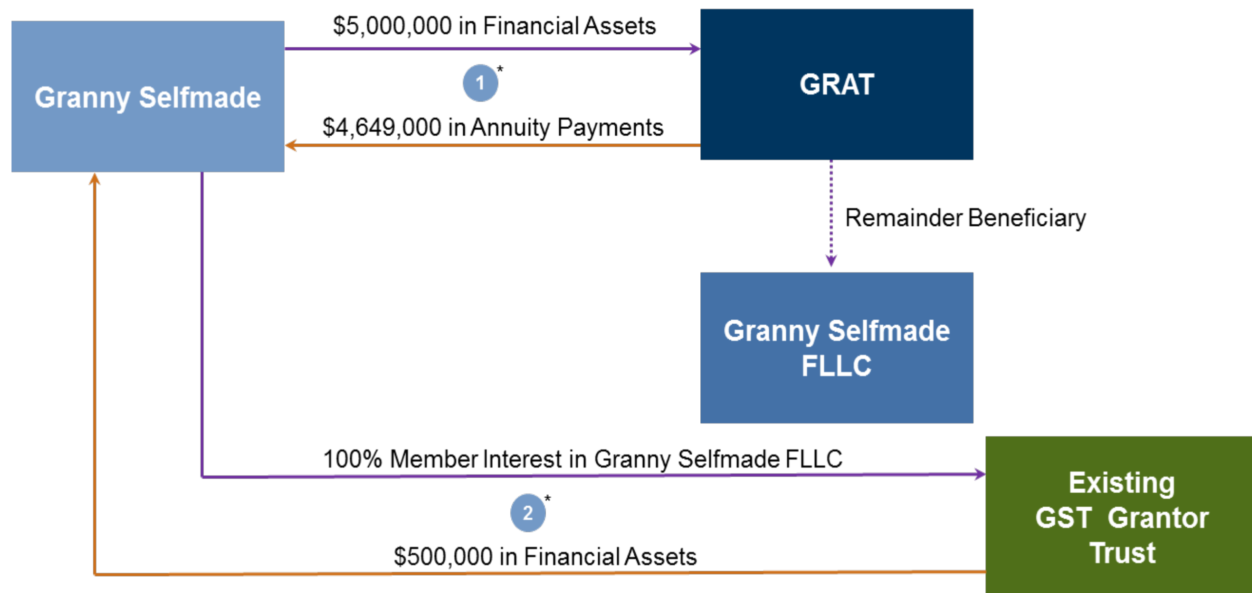
1. The Technique.

Consider the following example:

Example 11: Granny Transfers a Remainder Interest in a GRAT For Full and Adequate Consideration to a Pre-Existing Generation-Skipping Transfer Trust

Granny Selfmade transfers cash and marketable financial assets equal to $5,000,000 to a two-year GRAT. The GRAT pays an annuity equal to 46.49% at the end of each year at a time when the IRS Sec. 7520 rate is 2.2%. The remainder beneficiary is Granny FLLC, which has $160,000 in other assets. Granny Selfmade is the only owner of Granny FLLC. Shortly after the

creation of the GRAT, Granny transfers, for full and adequate consideration, all of her interest in Granny FLLC to an existing generation-skipping trust that is also a grantor trust that was created several years ago. Granny uses a defined value allocation formula in making that assignment to the existing GST Grantor Trust. The technique is illustrated as follows:



Granny files a gift tax return reporting both Transactions 1 and 2 above. In the gift tax return Granny reports that the transfer in Transaction 2 was for full and adequate consideration.

2. Transfer Tax Advantages of the Technique.

a. The Technique Should Avoid Gift Taxes.

Granny should not have any gift tax exposure with Transaction 1. The combined value of Granny's retained annuity in the GRAT and Granny's ownership of the FLLC should eliminate any gift. With respect to Transaction 2, Granny's sale of her membership in the FLLC will be a gift only if the consideration received is less than the full value of the FLLC.

b. Assuming the Grantor of the GRAT Receives Full Consideration, the Technique Should Avoid All Estate Taxes and Generation-Skipping Transfer Taxes, Even if the Grantor Dies During the Term of the GRAT Annuity.

IRC Sec. 2036(a) does not apply if Granny receives full consideration. However, if there is even a $1.00 gift, and if Granny dies during the term of the GRAT, all of the value of the GRAT at the time of Granny's death, will probably be brought back into her estate minus the value Granny received in Transaction 2 (*see* IRC Sec. 2043).

c. When the GRAT Terminates and the Existing GST Grantor Trust Receives Granny's FLLC Interest, That Should Not Be Treated as an Addition For Purposes of Requiring an Adjustment to the Existing GST Grantor Trusts Inclusion Ratio, Assuming the Existing GST Grantor Trust Pays Full Consideration for Granny's Interest.

See discussion *supra* Section IX.C.3 and *infra* IX.H. If an addition is made to a trust above the trust's payment of consideration for that addition its inclusion ratio is adjusted to reflect the addition. *See* IRC Sec. 2642(d). However, when a trust with a zero inclusion ratio makes a profitable investment, the receipt of the profit will not change its inclusion ratio.

3. Considerations of the Technique.

a. There is No Authority That Explicitly Supports the Advantages Outlined *Supra* Section IX.D.2, Other Than the Analysis Offered in This Paper.

The consequence of the analysis offered in this paper being incorrect is to put the grantor back in the same position she would have been in if she had created a conventional GRAT assuming the trust is structured as noted in X.A.

b. It is Crucial For the Grantor to Have Received Full Consideration in Above Transaction 2.

In order to make sure the sale of the remainder FLLC is for full consideration, the grantor may wish to consider entering in a defined value allocation assignment when selling to the existing grantor trust.[100]

c. Other than the GST Consideration, This Technique Has the Same Considerations Delineated *Supra* Section V.D and *Supra* Section VII.D.

d. It May Be Crucial That the Remainder Interest of the GRAT That is Sold Has Substance and is Not a De Minimis Amount.

See discussion *infra* Section IX.E.1 and 2.

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[100] *See* this author's paper, "Planning For the 0.2% as if They Were Part of the 99.8%: Some of the Best Planning Strategies We See That Reduce Both Income Taxes and Estate Taxes," 49 U Miami Heckerling Institute on Estate Planning ¶402.1[C][6] (2015 University of Miami); *also see* this author's paper, "The Art of Donating Your Cake to Your Family and Eating It Too: Current Gift Planning Opportunities Using Strings That Are Not Considered Attached By the Donor," 47 U Miami Heckerling Institute on Estate Planning, ¶602.2[C][5] (2013 University of Miami).

E. The Creation of a GRAT For Full and Adequate Consideration.

1. The Technique.

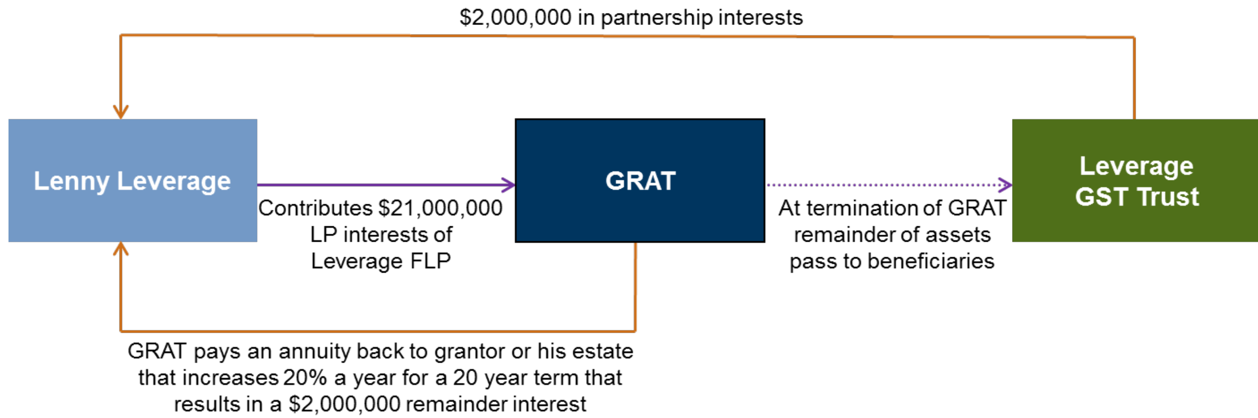
Consider a GRAT that is created with a substantial remainder interest; however, because of a purchase of a remainder interest of the GRAT upon its creation, there is not a gift. That is, instead of making a gift of the remainder interest, what if the grantor of a GRAT sold it for full and adequate consideration to a pre-existing GST grantor trust upon its creation? IRC Sec. 2036 inclusion does not apply if the grantor dies before the GRAT term ends, and as a consequence, the ETIP limitation may also not apply and the creation of the GRAT may not constitute a transfer to the GST trust. Consider the following example:[101]

Example 12: Lenny Leverage Enters Into a GRAT With the Remainderman Being an Existing Grantor Trust That is a Generation-Skipping Transfer Trust, With the Existing Generation-Skipping Transfer Trust Purchasing the Remainder Interest For Full Consideration

Several years ago, Lenny Leverage created a generation-skipping transfer trust that is also a grantor trust. The GST trust and Lenny contributed certain assets to a FLP. Lenny's interest in the partnership, after considering valuation discounts, is worth $21 million and the GST trust's interest in the partnership is worth $2,000,000. The GST trust transfers that $2,000,000 partnership interest to Lenny Leverage in full consideration for Lenny Leverage contributing his $21 million interest in the FLP to a GRAT that is designed with a defined value formula annuity which increases 20% a year. Lenny (or his estate) will receive that term annuity. The formula produces a remainder value of $2 million under IRC Sec. 7520. The liquidation value of the partnership interest that is transferred to the GRAT is $30 million and the appraised fair market value of the transferred partnership interest is $21 million (30% discount). The partnership, at that time, has 15 years to operate before it terminates. Lenny has $1,500,000 outside the partnership. Lenny is 50 years old.

[101] There are other alternative forms of designing a GRAT that is formed for adequate and full consideration. In order to avoid estate tax inclusion of the value of the remaining annuity payments and future estate income taxes, if the grantor does not live past the annuity term, the GRAT annuity payments (which will have to be higher to provide full consideration) could be designed to terminate at the shorter of the grantor's life or the stated term. The GRAT could be designed to be a joint contribution GRAT. In that circumstance, care should be taken to make sure the same assets (e.g., partnership units of the same partnership) are being contributed by the grantor and the GST trust to the GRAT.

The technique is illustrated below:



2. Transfer Tax Advantages of the Technique.

a. Significant Value Can Be Transferred Because of the Leverage of a GRAT.

Please note the table below, which delineates the amount that is projected to be transferred to Lenny's children, grandchildren and great grandchildren pursuant to this technique in comparison to not doing any further planning with respect to the partnership. The table assumes Lenny's death at the end of year 20, Lenny consumes $100,000 a year with a 3% inflation rate, an 8% pre-tax rate of return with 2% being taxed at ordinary income rates (35%) and 6% at capital gains rates (15%, with a 30% turnover). Assume that the partnership, at the time of the creation of the purchase GRAT, has only 15 years remaining and that the valuation discount is 30%. *See infra* Schedule 11.

Table 9

Technique	Leverage Children	Leverage GST Trust	Consumption – Direct Cost	Consumption – Investment Opportunity Cost	IRS – Income Tax	IRS – Investment Opportunity Cost	IRS – Estate Tax (at 45%)	Total
No Further Planning; Bequeaths Estate To Family	$55,282,583	$13,317,021	$2,687,037	$3,022,654	$20,916,430	$19,680,241	$45,231,204	$160,137,171
Hypothetical Integrated Income and Estate Tax Plan With a Partnership and GRAT; Bequeaths Estate To Family	$9,687,257	$98,772,116	$2,687,037	$3,022,654	$20,778,989	$17,263,179	$7,925,938	$160,137,171

b. The Creation of the Joint Purchase GRAT is Not Subject to the ETIP Rules and the Creation of the GRAT Does Not Constitute a Transfer to the GST Trust.

If Lenny died during the 20-year term of the GRAT, the GRAT property will not be includible in his gross estate.[102] Only the remaining actuarial value of the unpaid annuity amounts of the GRAT would be included under IRC Sec. 2033.

What would be the results, if the GRAT was for the shorter of 20 years or Lenny's death? The annuity amounts would be higher. However, that technique would have income tax and estate tax advantages if Lenny died during the 20 years. *See* the results below and *see* attached Schedule 11a:

Table 10

Technique	Leverage Children	Leverage GST Trust	Consumption – Direct Cost	Consumption – Investment Opportunity Cost	IRS – Income Tax	IRS – Investment Opportunity Cost	IRS – Estate Tax (at 45%)	Total
No Further Planning; Bequeaths Estate To Family	$55,282,583	$13,317,021	$2,687,037	$3,022,654	$20,916,430	$19,680,241	$45,231,204	$160,137,171
Hypothetical Integrated Income and Estate Tax Plan With a Partnership and GRAT; Bequeaths Estate To Family	$19,236,810	$81,703,110	$2,687,037	$3,022,654	$20,485,173	$17,263,179	$15,739,208	$160,137,171

3. Considerations of the Technique.

a. It is Crucial to Avoid Valuation Issues With This Technique.

The purchase price for the remainder interest must be consistent with the valuation assumptions of the GRAT. Thus, using "apples to apples", such as partnership units in the same partnership, will facilitate adequate and full consideration being paid for the remainder interest in the GRAT.

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[102] *See Wheeler v. United States*, 116 F.3d 749 (5th Cir. 1997); *Estate of D'Ambrosio v. Commissioner*, 101 F.3d 309 (3rd Cir. 1996); *Estate of Magnin v. Commissioner*, 183 F.3d 1074 (9th Cir. 1999); *contra, Gradow v. United States*, 11 Cl. Ct. 808 (1987), *aff'd*, 897 F.2d 516 (Fed. Cir. 1990).

b. There Could Be Abusive Situations Where the Remainder Interest is Very Small and the Logic of the *Wheeler, D'Ambrosio* and *Magnin* Cases Would Not Be Applied.

However, under the facts assumed under this example, the remainder interest is significant and would seem to be analogous to the remainderman values considered in the Circuit Court cases cited *supra* footnote 54 and the discussion *supra* Section IX.E.3.

c. If the GRAT is for a Term of Years With the GRAT Annuity Payable to the Grantor or His Estate and the Grantor Dies Before the End of the Term, There Could Be Unfavorable Estate Tax and Income Tax Consequences.

The remaining annuity payments will be included in the grantor's estate under IRC Sec. 2033. The remainder GST trust will receive no income tax deduction for the annuity payments made to the grantor's estate, but part of the annuity payments will be IRD income to the estate.

F. Contribution of a Non-Managing Member Interest in a Leveraged FLLC to a GRAT Like Trust ("GLT"), That is Not Subject to IRC Sec. 2702, in Which Full Consideration Has Been Paid to the Grantor for the Term Annuity Rights of the GLT, With a New GST Grantor Trust Being the Remainderman After the Term of the GLT.

1. The Technique.

Example 13: A Taxpayer Agrees to Create GLTs in Which the Only Gift
<u>the Taxpayer Makes is to a Newly Created GST Trust That is a Grantor Trust</u>

Ima Imitator contributes assets valued at $100,000,000 (after valuation discounts) to a FLLC in exchange for the following: a three-year note valued at $90,000,000, a 1% managing member interest[103] *and a 99% non-managing member interest.*

Several years ago Ima Imitator created non-GST grantor trusts. Six months after the creation of the FLLC Ima Imitator contributes one-half of the 99% non-managing member interest in the FLLC to two different three year GRAT like trusts pursuant to a contract with those existing non-GST grantor trusts. Each trust will be structured like a GRAT, except Ima Imitator will not have any interest in the trusts. Ima will have the non-fiduciary power to substitute assets in the GLTs, as long as those substituted assets have a fair market value equal to the GLT assets that are being exchanged.

The gross value of the assets of the FLLC six months after it was created has grown to $105,000,000 after paying interest on the note. The balance of the note is still $90,000,000. The assumed AFR short-term interest rate of the note is 0.67%. The note may be refinanced.

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[103] *See* discussion *supra* Section III.C.5, if Ima desires to retain the 1% managing member interest.

For each GLT, one of the existing non-GST grantor trusts will pay Ima Imitator full consideration to be the beneficiary of the annuity interest of one of the GLTs. The consideration paid by the non-GST trusts could be for cash and notes. That annuity interest will be paid to each non-GST grantor trust in three equal annual installments. The actuarial value of the annuity interest that is purchased by each non-GST grantor trust is equal to the value of the GLT's assets, as finally determined for gift tax purposes, minus a fixed dollar amount of $1,000,000.[104] *The remainder beneficiary of each GLT is a separate new GST grantor trust, which will not pay any consideration for Ima Imitator's gift.*

Each existing non-GST grantor trust and each new GST grantor trust will not have any beneficiaries who are "applicable family members," as that term is defined in IRC Sec. 2701(e)(2) (i.e., none of the beneficiaries are Ima, ancestors of Ima or Ima's spouse).

Under the terms of the contract between each non-GST grantor trust and Ima, the trustee of the non-GST grantor trust will agree to pay to Ima Imitator an amount that is equal to the value of the annuity interest that the non-GST grantor trust will receive in the GLT. Another key provision of the contract provides that if the annuity value of the GLT increases, because of an adjustment in the fair market value of the contributed assets to the GLT, that excess annuity amount that would otherwise pass to the non-GST trust must be paid to a designated public charity.

At all times it is assumed that a 30% valuation discount is appropriate in valuing the non-managing member interests that are owned by the GLTs. At the time of the creation of the GLTs the IRC Sec. 7520 rate is 1.8%.

While the GLT could be designed to have features similar to those of a GRAT, it does not have to be designed to meet all of the GRAT requirements. For instance, proceeds of loans by the non-GST grantor trust to the GLT, which are used to pay annuity amounts to the non-GST trust, do not have to be prohibited under the terms of the GLT, even if the trustee of the GLT uses the proceeds of the loan to pay the annuity interest that is due to the non-GST grantor trust. Additional contributions by Ima Imitator to the GLT may also be made.

On the creation of the GLTs, Ima Imitator and her husband, Iam A. Imitator, elect gift splitting. Each of them therefore uses $1,000,000 of a gift tax exemption ($500,000 per GLT). Ima Imitator and Iam A. Imitator also collectively allocate GST exemption equal to the value of each of the GLT's assets, as finally determined for gift tax purposes, for the reasons noted

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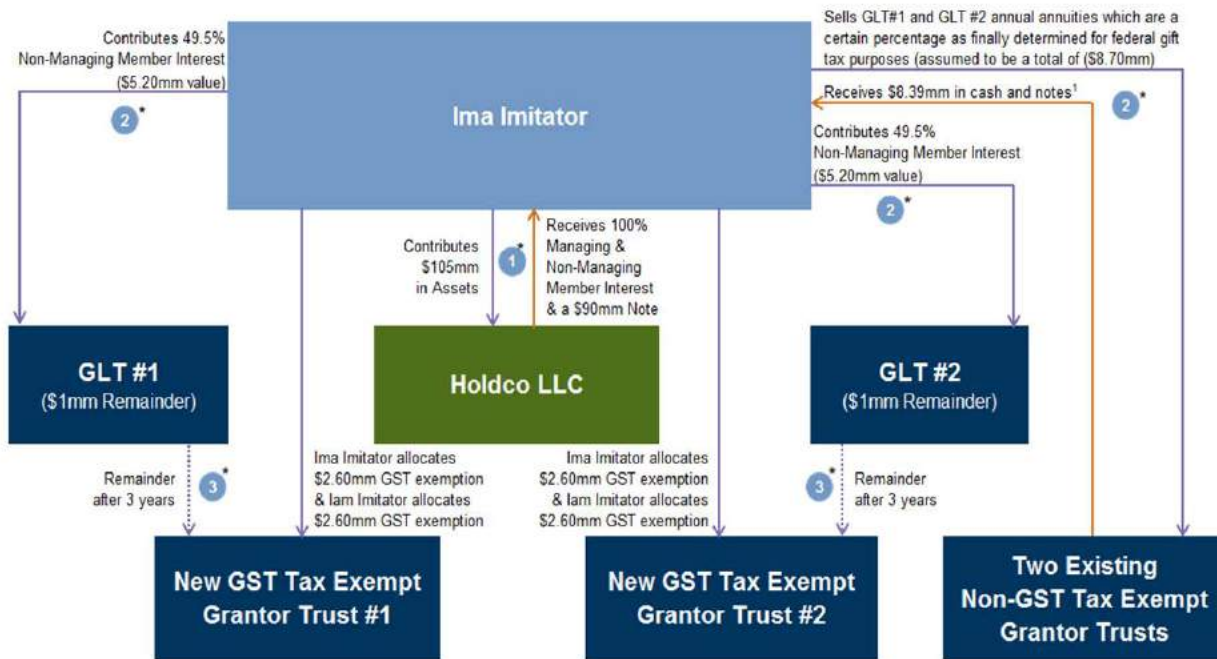
[104] For example, the formula might define the annuity as that percentage of the initial value of the trust assets (as finally determined for federal gift tax purposes) which will result in an annuity having a present value at the inception of the trust equal to the value of the trust assets (as so determined) less $1,000,000. A GRAT annuity defined in this way has not been passed on by the IRS or the courts as being a qualified interest meeting the requirement of IRC Sec. 2702. However, those requirements do not apply to a GLT trust because no applicable family member, as that term is defined in IRC Sec. 2702, retains an interest in the GLT. *See* discussion *supra* footnote 99 and *supra* Section IX.B.2.

above,[105] *without subtracting the value of the annuity amounts. The value of the GST exemption is the net fair market value of the 49.5% interest treated as contributed to each GLT by each spouse, assuming a 30% discount, or $2,600,000 (($105,000,000 - $90,000,000)(.5)(.7)(.99)(.5)). The total GST exemption that is allocated by both Ima and Iam is $10,400,000.*

Ima Imitator dies two years after the creation of the GLTs. The then liquidation value of the FLLC net assets, taking into account the outstanding $90,000,000 note, at the end of year two of the GLTs, is equal to $21,195,966. (See Schedule 12.) On the termination of the GLTs, three years after creation (or three and one-half years after the creation of the FLLC), the liquidation value of the FLLC is equal to $25,224,411, after making the interest payments on the $90,000,000 note and after the annual distributions to the members of the FLLC. (See Schedule 12.)

The GLTs, as collective owners of the non-managing member interest, use the distributions from the FLLC to make the annual annuity payments to the existing non-GST grantor trusts.

See below for an illustration of the technique:



105 *See* discussion *supra* Section IX.B.

2. There Are Not Any Income Tax Consequences With the Technique.

There are not any income tax consequences because both the GLTs, and the assignee non-GST grantor trusts, are grantor trusts.

3. Transfer Tax Advantages of the Technique.

a. IRC Sec. 2036 Will Not Apply On the Donor's Death Before the End of the Annuity Term.

Under the assumed facts of Example 13, IRC Sec. 2036 will not apply to Ima Imitator because she does not have an interest in the trust either on its creation, or on her death.

b. The GLT is Not Subject to the Restrictions of IRC Sec. 2702 and is Governed by General Gift Tax Principles.

Since neither Ima Imitator, nor an applicable family member, as that term is used in IRC Sec. 2701(e)(2), has retained any interest in the trust, IRC Sec. 2702 does not apply. *See* IRC Sec. 2702(a)(1). A grantor of a trust for his family has wide freedoms to design that trust, and only the net value of that trust as to which he has parted with dominion and control, as finally determined for gift tax purposes, will be subject to gift taxes, as long as he, his wife and his ancestors have not retained an interest in the trust for state law property purposes.[106] For state law purposes Ima Imitator will not be considered a beneficiary of the trust. Ima Imitator's interest in the contract with an existing non-GST grantor trust is a derivative of the value of the member interest of the FLLC transferred to the corresponding GLT. Even if that derivative property right changes, because the value of the property contributed to the trust as finally determined changes, the profit of that change will not accrue to Ima Imitator, but to a designated public charity.

c. There Are Favorable Gift Tax Consequences With the Technique.

The only gift tax consequences are that Ima Imitator makes a taxable gift of the value of each GLT remainder ($1,000,000) to each new GST grantor trust, assuming full consideration has been paid for the annuity interest of the GLT. The gift is split with Iam. The formula for determining the Imitators' gift taxes will be the value of Ima's transferred interests in the FLLC minus the contract amounts she will receive from the existing non-GST grantor trusts. Under Ima Imitator's assumed facts and the terms of the contract, if the value of the interest in the FLLC

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[106] In *Morgan v. Commissioner*, 309 U.S. 78, 60 S. Ct. 424, 84 L. Ed. 585 (1940), the Supreme Court said (p. 80): 'State law creates legal interests and rights. The federal revenue acts designate what interests or rights, so created, shall be taxed.' *Estate of Rogers v. Commissioner*, 320 U.S. 410, 414, 64 S. Ct. 172, 88 L. Ed. 134 (1943); *United States v. Dallas Nat'l Bank*, 152 F.2d 582 (C.A. 5th 1945); *Smith's Estate v. Commissioner*, 140 F.2d 759 (C.A. 3d. 1944). *United States v. Bess*, 357 U.S. 51, 55, 78 S.Ct. 1054, 2 L.Ed.2d 1135 (1958). *See Aquilino v. United States,* 363 U.S. 509, 513, 80 S. Ct. 1277, 4 L. Ed. 2d 1365 (1960); *Commissioner v. Chase Manhattan Bank*, 259 F.2d 231, 249 (5th Cir. 1958); *United States v. Hiles* 318 F.2d 56, (5th Cir. 1963). * * *

transferred to a GLT is finally determined for gift tax purposes to have a higher value, this in turn will increase the annuity payable to the non-GST grantor trust, with that excess annuity amount in turn being owed by the non-GST grantor trust to a public charity.[107] In this respect, the gift tax consequences to Ima Imitator of her gift to the GST trust, on the creation of each GLT should be the same as if she used the traditional GRAT technique and she retained a qualified annuity interest. The gift to the remainderman is complete and Ima Imitator will owe gift taxes on the value of the remainder gifts to the remaindermen, the new GST grantor trusts.

d. The GST Exemption May Be Allocated to the Remainder Beneficiary of a GLT, the New GST Grantor Trust, On the GLT's Creation, Instead of After the Term Annuity Expires, as is the Case With a Traditional GRAT.

The timing of the allocation of the GST tax exemption to the GST trust in comparison to a typical GRAT transaction is a significant advantage of the technique. With a GRAT, in which a grantor has retained an interest, that grantor could not allocate his GST tax exemption to the trust until after the GRAT annuity period because of the ETIP rules described in IRC Sec. 2642(f).

The ETIP rules described in IRC Sec. 2642(f) and Treas. Reg. §§ 26.2632-1(c)(2), 26.2632-1(c)(3), 26.2632-1(c)(5) (Example 2), and Treas. Reg. § 26.2642-1 provide that the GST exemption may be allocated to a trust when the trust will no longer be included in a grantor's estate under IRC Sec. 2036 without regard to whether IRC Sec. 2035 would include the trust in the grantor's estate. Thus, under the assumed facts, Ima Imitator could immediately allocate, on the creation of each GLT, an amount of GST exemption to make the new GST exempt grantor trust totally exempt, because IRC Sec. 2036 does not apply. Ima Imitator does not have any retained beneficial interest in the GLT, which is a necessary prerequisite for IRC Sec. 2036 to apply to the trust.

e. Unlike a Traditional GRAT, the Grantor's Retained Leverage is Accruing to the Grantor From Notes, Instead of Retained Annuity Payments From the Trust, Which Allows for an Efficient Use of the GST Exemption.

A separate issue is how much upfront exemption should Ima Imitator allocate on creation of each GLT to make the GLT's remainder totally GST exempt? Is the amount of GST exemption that needs to be allocated the actuarial value of the remainder of each GLT for gift tax purposes on the GLT's creation, or is it the full value of the GLTs on their creation without any adjustment for the consideration paid to Ima from the existing grantor trusts?

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[107] A thorough discussion of defined value allocation clauses in assignments, and which assignments are enforceable against the IRS is beyond the scope of this paper. *See* a discussion of those clauses in the papers noted *supra* Section III.D.7.

As noted above,[108] there is not any definitive authority on this subject, but most commentators believe the IRS will resist the result that an upfront allocation of the GST exemption equal to the taxable gift works to achieve zero inclusion, for a traditional GRAT.[109] The same analysis may apply for a GLT. However, there may be a better case made that the the GLT technique consideration received by the grantor, cash and notes from a non-GST grantor trust, and a note from the FLLC, should be recognized and not ignored, as is the case with an annuity in a traditional GRAT, in determining the amount of allocated GST exemption that is necessary to have the remainder GST grantor trust fully GST exempt. In the classic gift and sale to a GST grantor trust, the consideration received by the grantor is directly from the GST trust and is subtracted in determining the minimum amount of GST exemption necessary to make the GST trust GST tax exempt. Under the facts of Ima Imitator's transactions, there is consideration coming from a third party (i.e., the non-GST grantor trusts) instead of directly from the GST trusts. There may be an argument that consideration from a third party grantor trust to create the GLTs should not be treated differently than consideration coming directly from a GST trust in determining the amount of GST tax exemption allocation that is necessary to have a zero inclusion for the GST trust.

Even if the conservative analysis is the correct analysis (i.e., the cash and notes receivable from the non-GST grantor trusts cannot be taken into account), the technique could still work very well for generation-skipping transfer tax purposes under Ima Imitator's facts. In other words, if the only asset of a GLT is an interest in a leveraged FLLC, allocating GST exemption to the full value of a GLT asset without any offset for the GLTs annuity interest that is paid to a non-GST trust, is not much of a "penalty."

The reason why there is not much of an allocation "penalty" with that structural technique is that the transferred GLT annuity is a relatively modest part of the leverage being employed in the transfer to the GST exempt trust. The retained note from the FLLC is the dominant leverage being employed. The retained note from the FLLC is equal to $90,000,000 (which may be taken into account in allocating the upfront GST exemption), while the value of the total GLT's retained annuities which are sold are equal to $8,039,000.

Because of the leverage embedded in the contributed FLLC member interest to each GLT and the assumed valuation discounts, Mr. and Mrs. Imitator would only have to allocate an amount equal to $10,400,000 of their collective GST exemptions to make each GRAT remainder trust have a zero inclusion ratio even though the gross assets of the FLLC are equal to $105,000,000. That is obviously more than the $2,000,000 gift tax exemption that needs to be allocated. However, it may still be an efficient use of the GST tax exemption. As noted above under the facts of Ima Imitator, the GST trust, upon termination of each of the GLTs in three

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[108] *See* discussion *supra* Section IX.B.

[109] *See* PLR 200107015; Covey & Hastings, "Recent Developments 2007," 42nd Annual Heckerling Institute of Estate Planning, University of Miami School of Law (page 295). *See* Manigault and Hatcher, "GRATs and GST Planning – Potential Pitfalls and Possible Planning Opportunity." 20 Prob. & Prop. 28 (2006).

years, will have a liquidation value of $25,224,411. That is clearly an efficient use of the upfront allocation of $10,400,000 in GST exemption three years earlier.

f. Even if a Grantor of a GLT Dies Before the GLT Annuity Term Ends, or Within Three Years of the Creation of the GLT, IRC Sec. 2035 Will Not Apply.

On Ima Imitator's death, two years after the creation of each GLT, are the trusts included in Ima Imitator's estate under IRC Sec. 2035? The key determination is the meaning of the word "transfer" as it is used in IRC Sec. 2035(a)(1) under Ima Imitator's facts. If the meaning of the word "transfer" has the same meaning in both IRC Secs. 2035 and 2036, then IRC Sec. 2035 would not apply because the day the GLTs were created IRC Sec. 2036 will not apply. Stated differently, under the assumed facts, Ima Imitator never made a transfer in which "the value of such [transferred] property (or an interest therein) would have been included in the decedent's gross estate under IRC Sec. 2036," as required for IRC Sec. 2035 inclusion. *See* IRC Sec. 2035. The reason is, as noted above, Ima Imitator, on creation of the GLTs, did not have any retained interest in the GLTs. Ima Imitator's interest in the GLTs, on creation, had either been assigned for consideration to the existing non-GST grantor trust or had been assigned by gift to the new GST grantor trust. Since the passage of the Tax Reform Act of 1976, IRC Sec. 2035 does not apply to transfers in trust in which the transferor parted with all ownership strings on the creation of the trust, even if the transferor dies within three years of the creation of the trust.

Assume different facts than Ima Imitator's facts. Assume Ima Imitator creates a GRAT. If instead of naming the existing non-GST trusts the beneficiary of the annuity interests for full consideration, when the GRATs were created, Ima Imitator assigns her retained interests in the GRATs for adequate and full consideration one year after the creation of the GRATs.[110] Under those circumstances IRC Sec. 2035 may apply. The reason is that, for gift tax purposes, the term "for adequate and full consideration" may have different meanings under IRC Sec. 2036 than it does for IRC Sec. 2035.

In *United States v. Allen*[111] the decedent sold her retained 3/5 life estate interest in a trust, after it was created, for $140,000 even though it was only worth $135,000. For IRC Sec. 2035 purposes the Appeals Court found that the purchase price, even though it was more than income interest was worth, was inadequate. The Court believed it was the Congressional intent, for purposes of IRC Sec. 2035, that the purchase price needed to be equal to what would have been included in the decedent's estate on the date of the purchase. In other words, the sales price for IRC Sec. 2035 purposes needed to equal not only what the decedent had a right to (part of the income interest) but what the decedent did not have a right to (a proportionate part of the remainder interest).

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[110] This assumes GRAT annuities may be assigned. That may not be the case. *See* Treas. Reg. §§ 25.2702-2(a)(3), 25.2702-2(a)(5); 25.2702-3(d).

[111] *United States v. Allen*, 293 F.2d 916 (10th Cir. 1961), A.F.T.R. 2d (RIA) 6128 (D. Colo. 1960), cert. denied, 368 U.S. 944 (1961).

It is not clear if Constitutional arguments were raised with the *Allen* Court (*see* discussion *infra* Section IX.H). However, *Allen* is distinguishable from the Ima Imitator facts because consideration is paid on the creation of the trust for the term interest. Under the Ima Imitator facts, on the date of creation of the trust, Ima Imitator did not retain any IRC Sec. 2036 strings. That was not the case for the *Allen* case transferor. In other words, upon the creation of the trust in *Allen* the operative IRC Sec. 2035 requirement "a transfer in which IRC Sec. 2036 would have applied" was present, but it is not present under the Ima Imitator facts.

g. Since the Requirements of IRC Sec. 2702 Do Not Apply to This Technique, Significant Flexibility Exists to Manage the GLT.

h. Tremendous After-tax Wealth Can Be Transferred Under This Technique if Ima Lives 20 Years.

Please see the table below and Schedule 12.

Table 11

			Consumption		IRS Income Tax				
	Imitator Children	Imitator Children and Grandchildren	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Embedded Capital Gain Tax Liability	IRS Estate Tax (at 40%)	Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
20-Year Future Values									
No Further Planning	$187,522,700	$10,560,000	$44,703,151	$45,686,113	$41,838,354	$36,922,902	$686,612	$103,235,457	$471,155,289
Hypothetical Technique	$49,057,547	$233,279,058	$44,703,151	$45,686,113	$44,357,702	$36,922,902	$6,506,081	$10,642,735	$471,155,289
Present Values (discounted at 2.5%)									
No Further Planning	$114,439,655	$6,444,461	$27,281,034	$27,880,907	$25,532,731	$22,532,974	$419,020	$63,001,600	$287,532,382
Hypothetical Technique	$29,938,396	$142,363,430	$27,281,034	$27,880,907	$27,070,217	$22,532,974	$3,970,472	$6,494,952	$287,532,382

4. Considerations of the Technique.

a. The Existing Non-GST Grantor Trusts Need to Be Created in Independent Acts From the Creation of the GLTs.

The greater the length of time between the creation of the GLTs and the non-GST grantor trusts and the greater the independent significance of each transaction, the smaller should be the

possibility of those two transactions being treated as one transaction under the step transaction doctrine or other equitable tax doctrine.[112] It will also be very helpful if the trustees of each of the grantor trusts are independent trustees. If those two transactions are treated as one transaction, IRC Sec. 2702 requirements may apply to the creation of the GLT and there may not be any consideration offset to the payments to the grantor. If the step transaction doctrine applies, and if appropriate savings language is not present, IRC Sec. 2036 could apply to the GLT if the grantor dies before the annuity term ends, and the ETIP rules will be applicable.

b. The Technique is Complex, However, it is a "One and Done" Technique That Operates Like a Sale to a Grantor Trust Once the Annuity Period Terminates.

From the point of view of a taxpayer, alternative techniques such as cascading GRATs may be more complex and may be more difficult to manage.

G. A Grantor Contributes a Non-Managing Member Interest in a Leveraged FLLC to a GLT With Full Consideration Being Paid to the Grantor to Create the GLT.

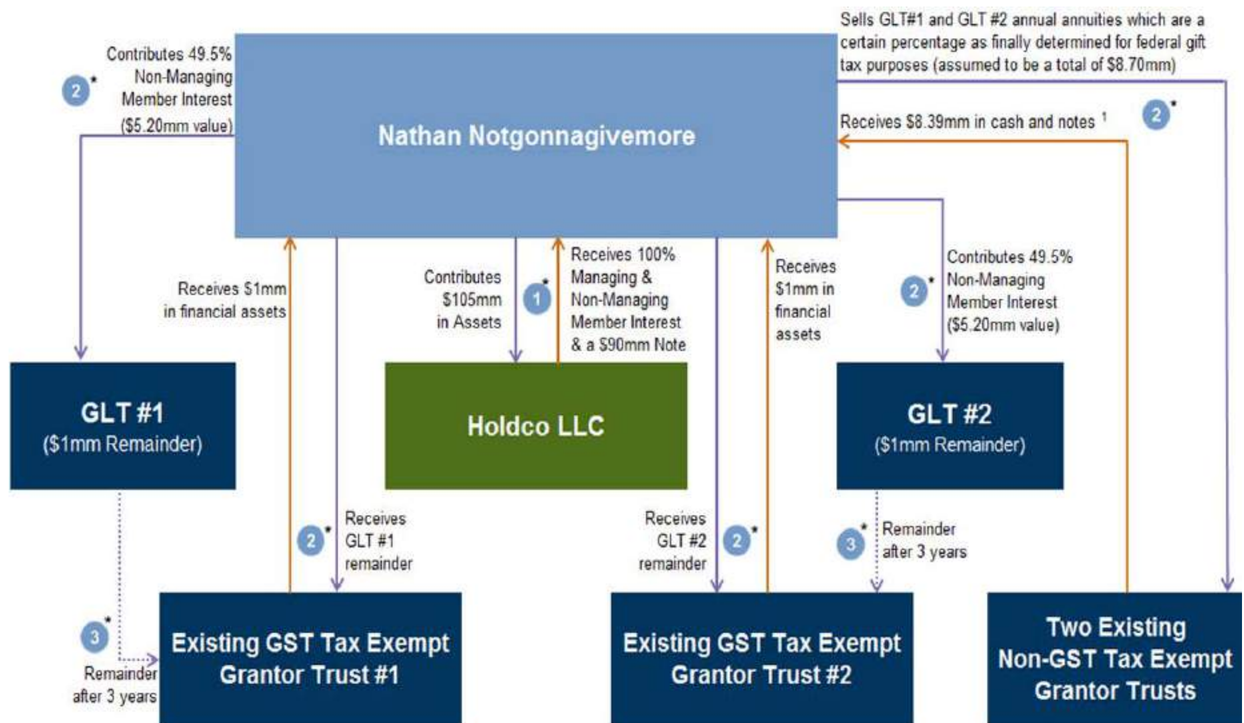
1. The Technique.

Example 14: A Taxpayer Agrees to Create a GLT in Which Full Consideration is Paid by Existing Non-GST Grantor Trusts and GST Grantor Trusts to the Taxpayer to Create the GLTs

Nathan Notgonnagivemore is the cousin of Ima Imitator. His facts are the same as Ima Imitator's in Example 13, except Nathan used $1,500,000 of his GST exemption in 2012 to create two GST grantor trusts. Neither Nathan, his spouse nor his ancestors are beneficiaries of those GST grantor trusts. The value of those GST grantor trusts has grown to $2,000,000. Nathan, like Ima, also created two Non-GST grantor trusts that have the same value as Ima's non-GST grantor trusts. In addition to transferring the annuity rights in two GLTs for full consideration to the existing non-GST grantor trusts, Nathan transfers the remainder interests in the GLTs for full consideration to the 2012 GST grantor trusts.

An illustration of the technique is follows:

[112] *See* discussion *supra* Section III.D.3.



[1] The contract of sale also provides that if the value of the assets of the GLT increases, as finally determined for gift tax purposes, that excess will pass to a public charity.

* These transactions need to be separate, distinct and independent. Holdco may have another member as long as it is a grantor trust in which Ima Imitator is the grantor.

2. Advantages of the Technique.

a. This Technique Has All of the Same Advantages as the Technique described *supra* Section IX.F.

b. There is No Possibility That IRC Sec. 2035 or IRC Sec. 2036 Inclusion Will Occur on the Creation of Each GLT.

Under the assumed facts of Example 14 the grantor, Nathan, has not retained any interest in the GLT and he received full consideration for his transfer to the GLT. Based on these assumptions, neither IRC Sec. 2035 nor IRC Sec. 2036 will apply.

c. Under the Facts of Example 14 the Amount of the Taxable Transfer for Gift Tax Purposes of Nathan's Transfer, Which is Zero Because of the Contract Between Nathan and the Existing Trusts, Will Not Increase even if the Initial Value of the GLT Assets Increase Because of an IRS Audit.

Under the beneficiary formula of the GLT, if an audit increases the value of the GLT assets, that will also increate the value of the annuity interest held by the existing non-GST grantor trust, which in turn results in a greater transfer to charity under the contract between Nathan and the existing non-GST grantor trust.

d. Under the Facts of Example 14 No Additional Transfer to the Existing GST Grantor Trust Will Occur Even if an IRS Audit Increases the Value of the Assets Held By the GLT.

The existing GST grantor trust is only entitled to receive a remainder with an initial value equal to a fixed amount from the GLT for which it paid full consideration. An addition to a GST trust cannot occur unless there is a taxable transfer to the trust. *See* discussion *supra* Section IX.C.

e. This Technique is Useful for Any Client Who Wishes to Make a Defined Value Allocation to a GST Trust, and Would Like to Use Significant Leverage, With That Leverage Accruing Both From Himself and an Existing Non-GST Grantor Trust.

f. This Technique is Useful for a Client Who Does Not Wish to Use Anymore of Their Existing Gift Tax or Generation-Skipping Tax Exemption in Making Transfers.

g. The Results of This Technique Can Be Very Powerful.

See the table below and Schedule 13, which assumes Nathan lives 20 years.

Table 12

			Consumption		IRS Income Tax				
	Nathan's Children	Nathan's Children and Grandchildren	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Embedded Capital Gain Tax Liability	IRS Estate Tax (at 40%)	Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
20-Year Future Values									
No Further Planning	$187,452,494	$17,227,379	$44,703,151	$45,686,113	$42,747,921	$37,630,344	$858,265	$103,188,653	$479,494,321
Hypothetical Technique	$42,033,881	$245,981,576	$44,703,151	$45,686,113	$45,254,850	$37,630,344	$6,647,447	$11,556,958	$479,494,321
Present Values (discounted at 2.5%)									
No Further Planning	$114,396,810	$10,513,369	$27,281,034	$27,880,907	$26,087,814	$22,964,705	$523,774	$62,973,037	$292,621,451
Hypothetical Technique	$25,652,056	$150,115,408	$27,281,034	$27,880,907	$27,617,720	$22,964,705	$4,056,744	$7,052,876	$292,621,451

h. Since the Requirements of IRC Sec. 2702 Do Not Apply to This Technique, Significant Flexibility Exists to Manage the GLT.

For instance, additional contributions and loans can be used by the taxpayer to the non-GST grantor trust without the disadvantage of the GLT Annuity payments to the non-GST

grantor trust being disregarded as would be the case with a GRAT. *See* discussion *supra* Section IX.F.4.b.

3. Considerations of the Technique.

a. It is Important That the Step Transaction Doctrine or Other Equitable Tax Doctrines Not Be Applied to Combine the Transactions Creating the Existing Grantor Trusts With the Creation of the GLTs.

See discussion *supra* Section III.D.3.

b. The Transaction is Complex, But That is Partially Offset By the Fact That the Transaction May Be the Final Estate Planning Transaction a Client Will Need to Implement and There Exists Great Flexibility in Managing the Transaction.

H. Constitutionally, There is Probably a Need For a Transfer Before GST Tax Can Apply.

Possible further support of the argument that a GST tax under the assumed facts of Examples 10, 11, 12 or 14 cannot apply, because there has not been a transfer for estate and gift tax purposes, is the proposition that an imposition of a generation-skipping transfer tax under those circumstances would constitute a direct tax on the property contributed to the trust rather than an indirect (excise) tax on a transfer. Before an excise tax (known as the generation-skipping tax) on a transfer can occur, there must be a transfer. There does appear to be a transfer under the above-assumed facts. *See* discussion *supra* Examples 10, 11, 12 and 14.

The generation-skipping tax valuation must be based on the value of that interest when transferred from one person to another, not the value when held by the transferor, because of the limit in the Constitution on the federal government's ability to tax. The Constitution provides that "[n]o Capitation, or other direct, Tax shall be laid, unless in Proportion to the Census or Enumeration herein before directed to be taken."[113] In plain terms, therefore, all *direct* taxes are unconstitutional unless levied across the country in proportion to the states' populations. This clear constitutional prohibition against direct taxes raises two questions: (i) what is meant by a direct tax; and (ii) under what circumstances will a gift, estate, or generation-skipping tax not be considered a direct tax?

[113] U.S. CONST. art. I, § 9, cl. 4.

1. What Constitutes a Direct Tax?

The definition of direct taxes is found in *Pollock v. Farmers' Loan & Trust Co.*[114] The issue before the Supreme Court in *Pollock* was the constitutionality of a federal income tax. The taxpayer argued that a tax on the income from property is the same thing as a direct tax on the property itself.[115] In agreement, the Supreme Court held clearly and conclusively as follows:

> *First.* We adhere to the opinion already announced, that, taxes on real estate being indisputably direct taxes, taxes on the rents or income of real estate are equally direct taxes.
>
> *Second.* We are of opinion that taxes on personal property, or on the income of personal property, are likewise direct taxes.[116]

The Court's lengthy analysis rests heavily on the substance-over-form rationale advanced by the taxpayer that a tax on the income from property simply cannot be distinguished from a tax on the property itself.[117] After *Pollock*, therefore, there could be no federal income tax without an amendment to the Constitution, and the Supreme Court's decision in *Pollock* in fact led to the Sixteenth Amendment.

It is quite clear since Pollock that a tax on the value of either real or personal property is a direct tax. Further, a tax merely on the income from either type of property is a direct tax, but one that is permitted by the Sixteenth Amendment. *Therefore, the generation-skipping tax cannot be valid unless it is a tax on something other than the value of the transferor's property per se*.

2. The Generation-Skipping Tax Will Avoid Being Considered a Direct Tax Only to the Extent it Operates as an Excise Tax on the Transfer of Property.

The Supreme Court often has held or stated that succession taxes, inheritance taxes, estate taxes, and other death taxes will not be considered direct taxes on property if they are applied in a manner that is merely an excise tax on the transfer of property at death.[118]

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[114] *Pollock v. Farmers' Loan & Trust Co.,* 157 U.S. 429, *reh'g granted*, 158 U.S. 601 (1895).

[115] *Pollock*, 157 U.S. at 555.

[116] *Pollock*, 157 U.S. at 637.

[117] *Pollock*, 157 U.S. at 580-83.

[118] *See*, e.g., *Scholey v. Rew*, 90 U.S. 331 (1874); *Knowlton v. Moore*, 178 U.S. 41 (1900); *Murdock v. Ward*, 178 U.S. 139 (1900); *New York Trust Co. v. Eisner*, 256 U.S. 345 (1921); *Greiner v. Lewellyn*, 258 U.S. 384 (1922); *Young Men's Christian Ass'n v. Davis*, 264 U.S. 47 (1924); *Chase Nat'l Bank v. United States*, 278 U.S. 327 (1929); *Reinecke v. Northern Trust Co.*, 278 U.S. 339 (1929); *Tyler v. United States*, 281 U.S. 497 (1930); *United States v. Jacobs*, 306 U.S. 363 (1939); *U.S. Trust Co. v. Helvering*, 307 U.S. 57 (1939); *Fernandez v. Wiener*, 326

The seminal case on the matter is *Knowlton v. Moore*,[119] in which the Court stated as follows:

> Taxes of this general character are universally deemed to relate, not to property *eo nomine*, but to its passage by will or by descent in cases of intestacy, as distinguished from taxes imposed on property, real or personal, as such, because of its ownership and possession. In other words, the public contribution which death duties exact is predicated on the passage of property as a result of death, as distinct from a tax on property disassociated from its transmission or receipt by will, or as the result of intestacy.[120]

After considering the approach used in other nations and colonies, the Court in *Knowlton* concluded that the "tax laws of this nature in all countries rest in their essence upon the principle that death is the generating source from which the particular taxing power takes its being, and that it is the power to transmit, or the transmission from the dead to the living, on which such taxes are more immediately rested."[121]

In *United States v. Wells Fargo Bank*,[122] Justice Brennan's opinion recognizes that the estate tax, unlike the income tax, is not a direct tax but rather is an excise tax that may be levied only upon the use or transfer of property. That opinion states:

> Of course, we begin our analysis of § 5(e) with the statutory language itself. This section states that "[Project Notes], including interest thereon, . . . shall be exempt from all taxation now or hereafter imposed by the United States." Well before the Housing Act was passed, an exemption of property from all taxation had an understood meaning: the property was exempt from *direct* taxation, but certain privileges of ownership, such as the right to transfer the property, could be taxed. Underlying this doctrine is the distinction between an excise tax, which is levied upon the use or transfer of property even though it might be measured by the property's value, and a tax levied upon the property itself. The former has historically been permitted even where the latter has been constitutionally or statutorily forbidden. The estate tax is a form of excise tax.[123]

In *United States v. Manufacturers Nat'l Bank*,[124] the Supreme Court observed that "[f]rom its inception, the estate tax has been a tax on a class of events which Congress has chosen to label, in the provision which actually imposes the tax, 'the *transfer* of the net estate of every

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U.S. 340 (1946); *United States v. Manufacturers Nat'l Bank of Detroit*, 363 U.S. 194 (1960); *United States v. Wells Fargo Bank*, 485 U.S. 351 (1988).

[119] *Knowlton v. Moore*, 178 U.S. 41 (1900).

[120] *Knowlton*, 178 U.S. at 47.

[121] *Id*. at 56.

[122] *United States v. Wells Fargo Bank*, 485 U.S. 351 (1988).

[123] *Id*. at 355.

[124] *United States v. Manfacturers Nat'l Bank*, 363 U.S. 194 (1960).

decedent.'"[125] In that case, the Court sought to find a transfer, reflecting the critical threshold test of every case in which an estate tax is to be assessed: identify the transfer.

If Congress wanted to tax all property interests owned by a decedent, irrespective of the taxes associated with any transfer that may have occurred as a result of the decedent's death, it could do so simply by amending IRC Sec. 102 to make bequests, devises, and inheritances subject to the income tax. This is true because the federal income tax is a permissible direct tax on property under the Sixteenth Amendment to the Constitution. Because income is by definition taxed only when received, even the repeal of IRC Sec. 102 would tax only the transfer-receipt of property. However, until a similar constitutional amendment is adopted with respect to generation-skipping, estate and gift taxes, it is unconstitutional to assess the generation-skipping transfer tax in a manner that constitutes an unapportioned direct tax.

Therefore, only that property which is *transferred* as a result of a taxpayer's death or by gift during the taxpayer's life can be subjected to taxation under the federal generation-skipping transfer tax system. The tax cannot be a "wealth tax" or "property tax" on the intrinsic value of an asset to the decedent or donor at the time the transfer occurs; rather, it must be a tax only on the value transferred.

IRC Sec. 2033 expansively defines a decedent's gross estate to include all assets owned by the decedent at the time of his death for purposes of calculating the decedent's estate tax, irrespective of whether all or part of those assets are to be transferred to the decedent's heirs. Specifically, IRC Sec. 2033 provides that "the value of the gross estate shall include the value of all property to the extent of the interest therein of the decedent at the time of his death."[126]

Although the Internal Revenue Code expansively defines a decedent's gross estate to include all assets owned by the decedent at the moment of his death, the U.S. Treasury through its own regulations recognizes that in certain instances such inclusion would be unconstitutional. The decedent's property must not only be owned by the decedent at the moment of his death, but must also be transferable. The Treasury Regulations provide that "the estate tax . . . is an excise tax on the transfer of property at death and is not a tax on the property transferred."[127] The Regulations add the following helpful example of an asset of the decedent that in many cases has significant value at the moment of death, but very little transferable value (and, thus, very little value for estate tax purposes):

> [A] cemetery lot owned by the decedent is part of his gross estate, but its value is limited to the salable value of that part of the lot which is not designed for the interment of the decedent and the members of his family.[128]

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[125] *Id.* at 198.

[126] IRC Sec. 2033.

[127] Treas. Reg. § 20.2033-1(a).

[128] Treas. Reg. § 20.2033-1(b).

A cemetery lot could be sold for considerable value at the moment of death. However, under the regulations that part of a cemetery lot in which the decedent is buried is not included in the gross estate and is not subject to tax because it is not transferred to the decedent's heirs at death; rather, it is taken or encumbered by the decedent's remains. The logic of the cemetery lot exception in the Treasury Regulations is a tangible example showing that the estate tax is an excise tax on the transfer of property at death and not a tax on the property transferred.

The following example may be even more indicative of the constitutional limitation on the estate tax than the Treasury's example of the cemetery lot: what would be the estate tax result if a decedent died owning the Coca-Cola formula and directed in her will that her executor was to retrieve the formula from her safe deposit box and burn it? What would be the value of that formula for estate tax purposes if the executor burned the formula six months after the decedent's death? Is the value of the transfer equal to what a hypothetical willing buyer would pay for the Coca-Cola formula at the moment of death or what a hypothetical willing buyer would pay for the ashes? The answer is well stated in the Court's opinion in *Ahmanson Found. v. United States*,[129] in which the Ninth Circuit opined:

> [T]he valuation of property in the gross estate must take into account any changes in value brought about by the fact of the distribution itself. *It is undisputed that the valuation must take into account changes brought about by the death of the testator.* Ordinarily death itself does not alter the value of property owned by the decedent. However, in a few instances such as when a small business loses the services of a valuable partner, death does change the value of property. *See United States v. Land, supra,* 303 F.2d at 172. *The valuation should also take into account transformations brought about by those aspects of the estate plan, which go into effect logically prior to the distribution of property in the gross estate to the beneficiaries*. Thus, for example, if a public figure ordered his executor to shred and burn his papers, and then to turn the ashes over to a newspaper, the value to be counted would be the value of the ashes, rather than the papers. Similarly, if a will provides that prior to the distribution of the estate a close corporation owned by the testator is to be recapitalized, with one class of stock in the gross estate exchanged for another, the value of the gross estate would be based on the shares resulting from the recapitalization. *Provident Nat'l Bank v. United States, supra*, 581 F.2d at 1086-87.
>
> . . . The estate tax is a tax upon a transfer. . . . [I]t is a tax on the privilege of passing on property not a tax on the privilege of receiving property.[130]

It is clear that the valuation of what is transferred and subject to estate tax, in the words of *Ahmanson*, takes "into account transformations. . . which go into effect logically prior to the distribution of property in the gross estate to the beneficiaries."[131]

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[129] *Ahmanson Found. v. Unites States*, 674 F.2d 761 (9th Cir. 1981) (emphasis added).

[130] *Id*. at 768 (citing *Provident Nat'l Bank v. United States*, 581 F.2d 1081 (3d Cir. 1978)).

In another Ninth Circuit case, *Estate of McClatchy v. Commissioner*, 147 F.3d 1089 (9th Cir. 1998), the court also analyzed the affect changing transfer restrictions had on valuation of stock. The decedent, prior to his death, owned two classes of common stock of a corporation, one class of which was subject to federal securities law transfer restrictions on sales as an affiliate of the corporation. Upon the decedent's death, the restricted stock passed to the executor of his estate. The executor, which was not an affiliate, was not subject to the securities law restrictions applicable to the decedent.

The court held that the restricted stock should be valued in the hands of the decedent and should reflect the discount applicable to the restriction on transfer of the stock. The court ruled that death alone in this instance, did not *logically* alter the value of the stock. Instead, the change in value was occasioned by the identity of the transferee (i.e., the executor) and not by death. Thus, according to the court, the property was not transformed prior to the distribution to the heirs of the estate by the lapsing security law restrictions.

X. USING A 20% ANNUAL INCREASING ANNUITY GRAT, AND USING "PROPORTIONALITY" AND "DEBT" EXCEPTIONS TO IRC SEC. 2701 TO PLAN FOR PRIVATE EQUITY FUND MANAGERS AND HEDGE FUND MANAGERS.

A. The Technique.

Private equity fund managers or hedge fund managers often participate in their funds in two different manners. The fund manager often invests in his managed fund along with other investors and receives the same return and rights that the other investors receive. Additionally, the fund manager also receives a right to "carried" interest from the fund that participates in the profits of the fund after a certain minimum amount of profits have been allocated to the investors. Many of these mangers would like to do estate planning solely on their "carried" interest because of its greater growth potential. However, because managers have two different types of equity interests in their funds, and because they are in control of the funds, many worry that the special valuation rules of IRC Sec. 2701 may apply to any transfers of the "carried" interest and those valuation rules may be applied in a manner that is disadvantageous in comparison to the hypothetical willing buyer, willing seller standard that is normally applied for gift tax transfers.[132]

Because of that IRC Sec. 2701 concern, the creation of a LAGRAT, with a consistent percentage of the fund manager's interests in the funds and his carried interests being contributed to a FLLC, may be the estate planning vehicle of choice for a private equity fund manager. Consider the following example:

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[131] *Id.*

[132] *See* Wendel & Hatcher, "How to Profit Without Getting Carried Away: Carried Interests, Profits Interests, or Black Holes?," American College of Trust and Estate Counsel Annual Meeting (March 4-9, 2009); Jonathan J. Rikoon, "Fun with Funds: FUNDamentals of Estate Planning with Carried Interests in Private Equity and Hedge Funds," 43rd Heckerling Institute on Estate Planning (Jan. 13, 2009) .

Example 15: Iam A. Carrier Engages in Estate
Planning With Respect to His Carried Interest

Iam A. Carrier is a private equity fund manager, along with his partners of a $1 billion private equity fund. Mr. Carrier is interested in estate planning with respect to certain of his interests in a private equity fund in which he invests and co-manages. Mr. Carrier owns a .2% investment interest in the $1 billion private equity fund. Mr. Carrier also has a 10% interest in the entity that owns the general partner of the private equity fund. The general partner is entitled to the "carried interest" as further described below.

The profits and cash flow of the private equity fund are to be divided as follows:

- *First, to the investment owners in proportion to their unreturned capital contributions until all capital contribution amounts have been returned.*
- *Second, to the investment owners until they have received an 8% return on their unreturned capital contribution amounts. This 8% "preference" return is cumulative and compounds annually.*
- *Third, to the carried interest owners until they have received distributions totaling 20% of the total profits of the private equity hedge fund on a cumulative basis.*
- *Fourth, to the carried interest owners and the investment owners so that the carried interest owners receive 20% of the "residual" cash flow and profits and the remaining 80% of the "residual" cash flow and profits are allocated among the investment owners in proportion to their respective membership interests.*

There are many investment reasons for Mr. Carrier to create a FLLC to hold the carried interest before he engages in estate planning, including certain control aspects inherent with his other co-managers.

Mr. Carrier has asked his attorney, Connie Careful, to develop planning ideas based on the following assumptions about the growth of the private equity fund:

	Beginning of Year	Distributed Income	Unrealized Growth*	End of Year
Year 1	1,000,000,000	20,000,000	101,353,392	1,101,353,392
Year 2	1,101,353,392	22,027,068	111,625,902	1,212,979,294
Year 3	1,212,979,294	24,259,586	122,939,566	1,335,918,860
Year 4	1,335,918,860	26,718,377	135,399,908	1,471,318,768
Year 5	1,471,318,768	29,426,375	149,123,148	1,620,441,915
Year 6	1,620,441,915	32,408,838	164,237,285	1,784,679,200
Year 7	1,784,679,200	35,693,584	180,883,290	1,965,562,490
Year 8	1,965,562,490	39,311,250	199,216,425	2,164,778,916

Mr. Carrier would like Ms. Careful to concentrate on the estate planning opportunities inherent with his carried interest. It is assumed that if Mr. Carrier is a hypothetical willing seller, a hypothetical willing buyer would pay $1,500,000 for his interest in the entity that owns the general partnership carried interest. Mr. Carrier generally wishes to retain (free of estate planning techniques) most of the preference economics associated with his investment interest in the private equity fund for his consumption needs.

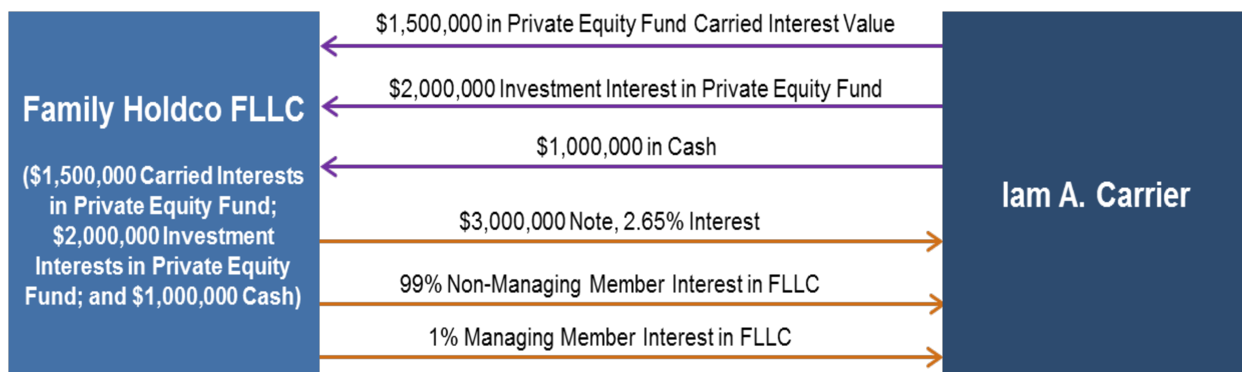
Ms. Careful is worried about the gift tax valuation rules of IRC Sec. 2701 applying, if the estate plan is isolated on solely planning for the carried interest. Ms. Careful reasons that the carried interest will only be profitable if the private equity fund earns over 8%. Thus, if she devises a plan that uses the proportionality and debt exceptions to the IRC Sec. 2701 valuation rules (assuming interest on the debt will be equal to or less than 8%), she believes she may be able to simulate (and even improve) any potential estate planning opportunities in comparison to an isolated plan involving the carried interest.

Ms. Careful believes that Mr. Carrier should contribute the same proportion of his ownership in the carried interest and his investment interest in the private equity fund to a FLP or FLLC. For his contribution, Mr. Carrier could receive a combination of equity interests and notes in that family entity with the face amount of the notes being equal to the value of the contributed investment interest in the fund.

Ms. Careful believes she would then be in a position to plan for Mr. Carrier's estate, without the investment interest "diluting" the planning opportunity for the carried interest. More specifically, Ms. Careful believes that if Mr. Carrier receives a note from the family holding entity that is equal to the value of the investment interest in the private equity fund contribution, there will be no dilution in her planning for the carried interest contribution to the family holding entity.

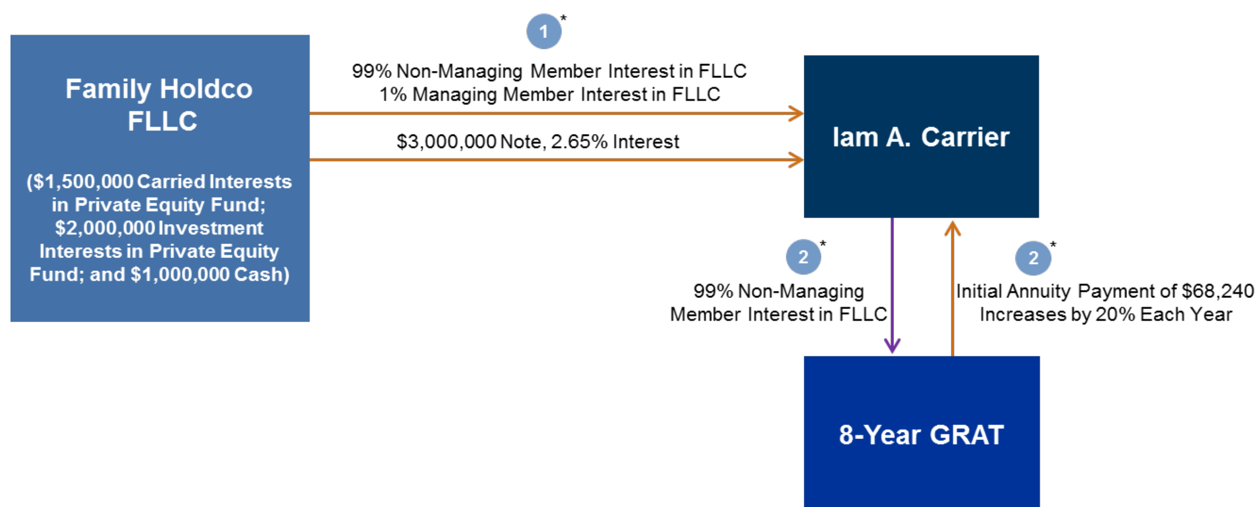
The initial Holdco structure would be organized as follows ("Hypothetical Technique 1"):

Scenario 1: Hypothetical Technique 1:



Ms. Careful believes that because of certain income tax considerations it may be prudent to use a GRAT instead of a sale to an intentionally defective grantor trust or some other estate planning technique that could be considered as involving a sale of the carried interest. Ms. Careful may also wish to eliminate from Mr. Carrier's planning any carried interest that has been awarded in the last two years, because of those income tax considerations.[133] Thus, she suggests to Iam A. Carrier that he transfer his 99% non-managing member interest in Holdco to an eight year near "zeroed out" GRAT in which the annuity increases 20% a year. The estate planning structure is illustrated below ("Hypothetical Technique 2"):

Scenario 1: Hypothetical Technique 2:



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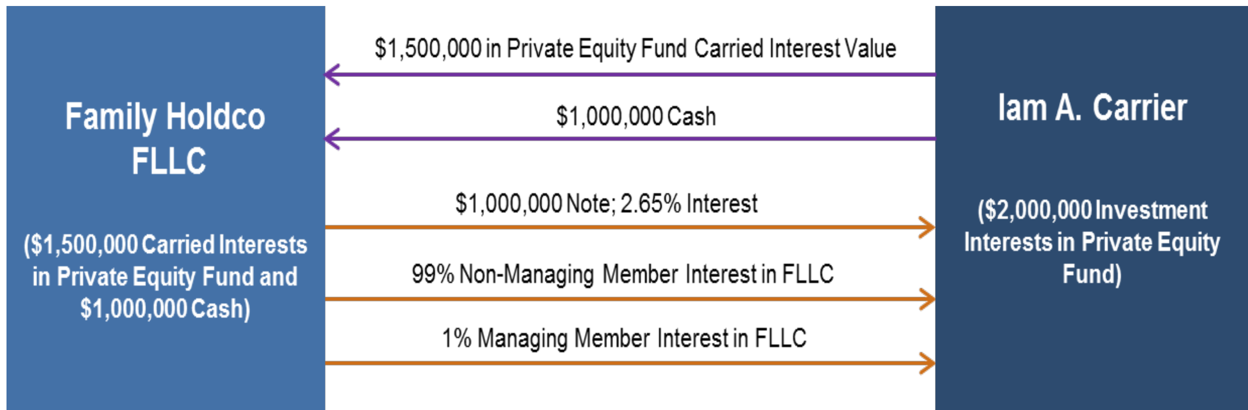
[133] Receipt of a carried interest in exchange for services provided to the managed fund held in partnership form by a fund manager is generally not a taxable event regardless of whether it is vested upon receipt, subject to compliance with Rev. Proc. 93-27, 1933-2 CB 343, and Rev. Proc. 2001-43, 2001-2 CB 191. One of the requirements under Rev. Proc. 93-27 is that the recipient partner does not sell the carried interest or any other profits interest within two years of receipt. A gift to a GRAT that is a grantor trust for income tax purposes should not be considered a disposition because there is no sale either for income tax purposes or property law purposes. If Family Holdco FLLC is carefully constructed in stages, the contribution of the Private Equity Fund Carried Interest may also not be considered a sale for income tax purposes or property law purposes. For instance, the first stage could be the contribution of the carried interests in consideration for member interests in a FLLC. The second stage could be a contribution of cash and investment interests in the fund for notes. A sale to an intentionally defective trust should not be considered a disposition for income tax purposes, but may be considered a disposition for property law purposes, which may be fatal under Rev. Proc. 93-27. *See also Diamond v. Commissioner*, 492 F.2d 286 (7th Cir. 1974) where the receipt of profits interest was taxable because it was disposed of shortly after receipt. Even if the protection of Rev. Proc. 93-27 is deemed to be violated because the "sale" requirements are not complied with, case law suggests that a profits interest with speculative value should be valued at zero for purposes of determining compensation income on the grant. *See Campbell v. Commissioner*, 943 F.2d 815 (8th Cir. 1991). Nevertheless, it may be desirable to file a protective IRC Sec. 83(b) election because Rev. Proc. 2001-43 (2001-34 I.R.B. 191) technically does not apply if the requirements of Rev. Proc. 93-27 are not met. Other alternative methods to avoid income tax problems that may be associated with a sale of a profits interest to a disregarded income tax entity, is to only contribute carried interests that have at least two years of age, or to use preferred member interests instead of debt in the creation of the leveraged FLLC.

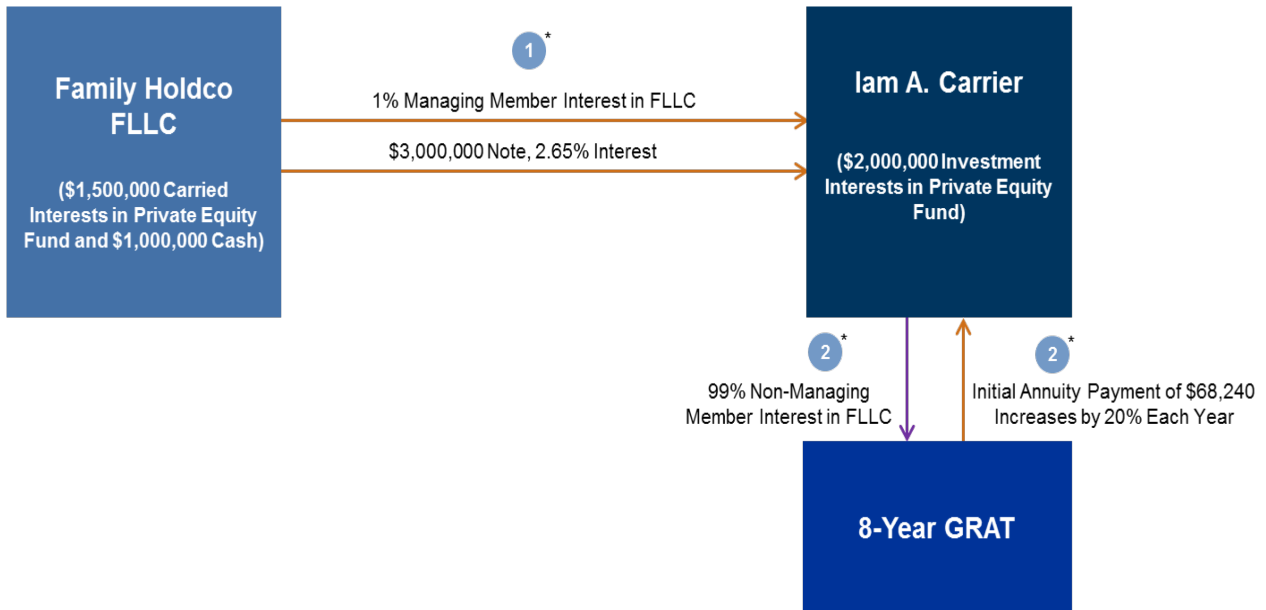
An alternative structure, which may be subject to the valuation rules under IRC Sec. 2701, would be for Iam Carrier to contribute $1,000,000 along with the carried interest to Holdco. Iam A. Carrier would continue to individually own the investment interest in the private equity fund. The structure would be similar to the illustration below ("Hypothetical Technique 1a"):

Scenario 2: Hypothetical Technique 1a



Iam A. Carrier could transfer his 99% non-managing member interest in Holdco to an eight year near "zeroed out" GRAT in which the annuity increases 20% a year. The estate planning structure is illustrated below ("Hypothetical Technique 2a"):

Scenario 2: Hypothetical Technique 2a



Under the assumptions of this example, the estate planning results of scenario one and scenario two in comparison to each other and in comparison to no further planning are delineated below (*See* attached Schedule 14):

Table 13

Technique	Carrier Family	IRS - Income Tax	IRS - Investment Opportunity Cost	IRS - Gift Tax (at 45%)	Total
No Further Planning; Transfers Estate to Family at the End of 8 Years	14,092,544	3,755,759	68,598	11,530,263	29,447,164
Planning Scenario #1: Leveraged FLLC Asset GRAT Technique That Includes Carried Interests, Cash and the Investment Interests in the Private Equity Fund	24,886,627	3,769,157	68,598	722,783	29,447,164
*Planning Scenario #2: Leveraged FLLC Asset GRAT Technique That Includes Only the carried Interest and Cash	24,447,268	3,497,229	68,598	1,434,069 *	29,447,164

* This scenario may also be subject to additional gift taxes because of the valuation rules under IRC Section 2701.

B. Observation.

Using two of the exceptions to the valuation rules of IRC Sec. 2701, (i) the proportionality exception (client contributes all of his interests (both his investment interest and his carried interest) in the private equity fund to the Holding FLP) and (ii) the debt exception (the investment interest is contributed in exchange for a note), in combination with a 20% annual increasing annuity GRAT, the results attained are similar to or enhanced over the results of contributing a partnership that solely owns a carried interest to a 20% annual increasing annuity GRAT, without the IRC Sec. 2701 valuation concerns.

XI. USING A COMBINATION OF DISREGARDED INCOME TAX ENTITIES AND THIRD PARTY CREATED TRUSTS IN WHICH THE TAXPAYER IS A BENEFICIARY.

A. The Advantages and Considerations of a Transferor Selling Assets to a Trust That Names the Transferor as a Beneficiary, Gives the Transferor a Special Power of Appointment, and Under Which the Transferor's Spouse is Considered the Income Tax Owner ("Spousal Grantor Trust").

1. What is the Technique?

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

Example 16: Ann and Aaron Appointment Wish to Make
<u>Transfers of Their FLP Interests and Maintain Maximum Flexibility</u>

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

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

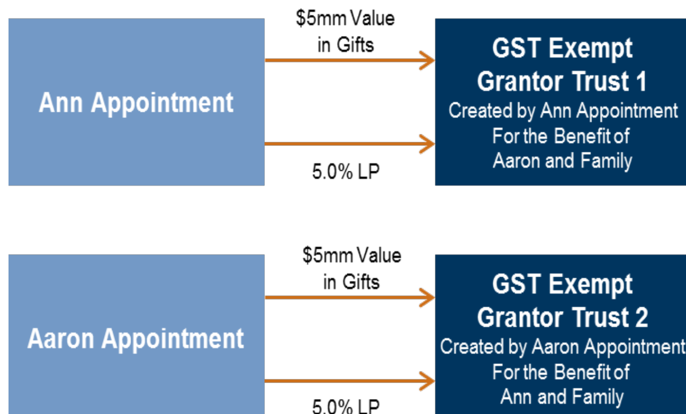
Ann has a 5% limited partnership interest in the FLP, which has a value of $5,000,000 after considering valuation discounts. It is assumed the valuation discounts for the transfers is equal to 30%. Aaron has a 94% limited partnership interest that has a value of $94,000,000 after considering valuation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

Ray suggests that after the trusts are created that Aaron sell 44.5% of his limited partnership interests to the trust Aaron created for Ann's benefit (GST Grantor Trust 2) pursuant to a defined value formula assignment and Aaron sell his remaining 44.5% limited partnership interest to the trust Ann created for his benefit (GST Grantor Trust 1). Nine-year notes are used. It is assumed the AFR for a nine-year note is 0.87%.

The ownership of the FLP is illustrated below:

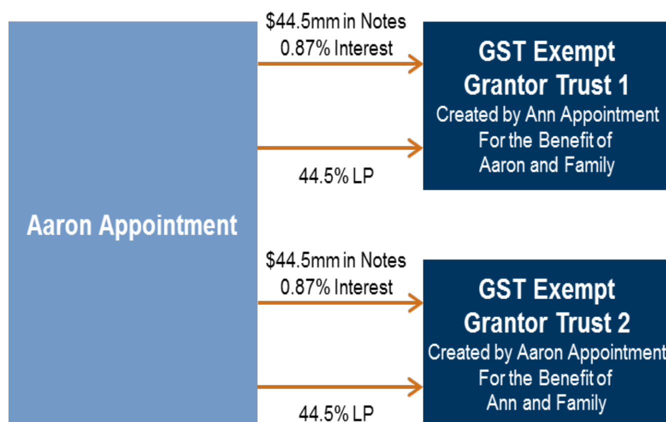
Partner	Ownership %
Aaron Appointment (or affiliates)	1.0% GP, 94.0% LP
Ann Appointment	5.0% LP

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



Partner	Ownership %
Aaron Appointment (or affiliates)	1.0% GP, 89.0% LP
GST Exempt Grantor Trust 1 Created by Ann Appointment	5.0% LP
GST Exempt Grantor Trust 2 Created by Aaron Appointment	5.0% LP

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



Partner	Ownership %
Aaron Appointment (or affiliates)	1.0% GP, 89.0% LP $89,000,000 Notes Receivable
GST Exempt Grantor Trust 1 Created by Ann Appointment	49.5% LP $45,500,000 Note Payable
GST Exempt Grantor Trust 2 Created by Aaron Appointment	49.5% LP 45,500,000 Note Payable

2. Income Tax Advantages of the Technique.

a. There Will Be No Capital Gains Consequence on the Original Sale of the Assets to the Trust.

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

W and is governed by IRC Sec. 1041. Therefore, there should be no capital gains tax consequences to the transactions explored above.[134]

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

b. By Using Basis Enhancing Techniques the Basis of the Taxpayer's Assets May Be Increased.

See supra Sections III.B, IV.B and VII.B.

3. Estate Tax Advantages of the Technique.

a. The Technique, With Respect to a Sale to the Trust in Which the Seller Has a Power of Appointment, Has the Potential of Mitigating Gift Tax Surprises.

Because of the presence of the testamentary power of appointment in GST Grantor Trust 1, if the IRS determines the notes received by Aaron is inadequate consideration, there will not be any gift taxes owed because any "gift" inherent in that sale to GST Grantor Trust 1 will be incomplete for gift tax purposes. *See* Treas. Reg. Sec. 25.2511-2(b). It should be noted that if a gift occurs, the retention of a special power of appointment will include the assets of the trust in the seller/beneficiary's estate under IRC Sec. 2038. Instead, for income tax purposes Aaron will be considered the grantor of that portion of the trust consisting of the excess value. For estate tax purposes, Aaron may be considered the transferor of all the property he sells to the trust. If the IRS does finally determine Aaron has made a transfer for less than full consideration, the trust may be able to be divided into two trusts, because of the operation of state law, or the trust agreement. Under those circumstances, GST Grantor Trust 1 could perhaps be divided in a manner in which Aaron is considered the grantor of one trust ("Trust 1A") and Ann is considered the grantor of the other trust ("Trust 1B"). The trust in which Aaron is considered the grantor, Trust 1A, will be taxable in his estate. There may be additional planning opportunities, if the trustee of Trust 1A simply distributes the trust assets to Aaron, and Aaron then enters into further estate planning.

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

b. It Has the Advantage of Allowing the Transferor to Be a Beneficiary of the Trust and Have a Power of Appointment Over the Trust.

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

c. Appreciation Will Be Out of the Transferor's Estate.

Assuming the assets grow faster than the interest carry on any note sold to a spousal grantor trust, the appreciation will be out of the transferor seller's estate. *See* the discussion *supra* Section III.C.3. As noted above, except for transfer tax consequences associated with paying the income taxes on a grantor trust, for most clients the next most powerful tool in estate planning is the estate freeze. Since the note can be refinanced on an income tax free basis, it could be swapped for a note paying a higher interest or could be converted to a private annuity or some other consideration. However, that may not be necessary when a grantor/seller is also the beneficiary of the trust. Presumably, the beneficial provisions of the trust will be flexible enough to cover a transferor's anticipated or unanticipated consumption needs.

4. Considerations of the Technique.

a. There May Need to Be Substantive Equity in the Trust From Prior Gifts (is 10% Equity Enough?) Before the Sale is Made.

See discussion *supra* Section III.D.1.

b. Federal Income Tax Considerations.

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

c. State Income Tax Considerations.

See discussion *supra* Section III.D.2.

d. Necessary to File Gift Tax Returns.

In order to get the gift tax statute of limitations running, it is advisable to file a gift tax return even if the grantor/seller to the Spousal Grantor Trust is reasonably confident that the sale is for adequate and full consideration. If the gift tax return is accepted there should not be any gift tax consequences[135] and arguably there should not be any further open issue with respect to IRC Sec. 2036, even if the grantor/seller is a beneficiary of the trust.[136] However, if the Service successfully takes the position that the sale is not for adequate and full consideration, the seller will be considered a grantor of a portion of the trust. For IRC Sec. 2036 purposes, not only the portion of the trust in which the grantor has made a gift will be brought back into the grantor's estate, but that portion associated with the note may be brought back into the grantor's estate. There will be a consideration offset for the note allowed under IRC Sec. 2043, but that is generally inadequate if there has been appreciation in the assets of the trust. Thus, it is very advantageous to find out what portion of the trust the grantor/seller is considered a grantor by filing a gift tax return. As noted above, it may be possible to do further planning to ameliorate the IRC Sec. 2036 concerns by splitting the trust into a portion the seller is considered a grantor of and a portion in which the spouse is considered a grantor.

e. The Family Could Lose The Benefits of Using the Gift Tax Exemption, if the Trust Assets Depreciate.

If the value of the trust assets depreciate below the value of the note of the seller then the seller, grantor's spouse and the grantor's family has lost the benefit of allocating the gift tax exemption or any GST exemption to this trust. As with the other leveraged transactions that are described in this paper, because of the significant leverage, a small depreciation in the value of the assets may eliminate the benefit of allocating the gift tax exemption and GST exemption to such a trust.

f. The IRS Could Be Successful in Applying the Step Transaction Doctrine to the Technique.

See discussion *supra* Section III.D.3.

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[135] *See* IRC Sec. 2504(c).

[136] *See* IRC Sec. 2001(b); Treas. Reg. Section 20.2001-1(b). See, however, the final paragraph of the discussion *supra* Section XI.D.3.b.(4).

g. Reciprocal Trust Doctrine Considerations.

The common law reciprocal trust doctrine could be applied by the IRS and or the courts in the creation of mutual spousal grantor trusts. Perhaps one of the cleaner ways to lessen concerns about the application of that doctrine is if only one spouse is the seller to each trust, created by the spouses. Particularly, if the sales are done for different considerations and using different trust techniques (*e.g.*, one sale involves the sale to a spousal grantor trust and the other transaction involves the contribution of leveraged FLLC interests to a GRAT).

h. If it is Possible For a Current Creditor, or Any Future Creditor, of the Assigning Spouse/Beneficiary to Reach Part of the Assets of the Trust For a Period of Time That Does Not End Before the Assigning Spouse/Beneficiary's Death, By Either Voluntary or Involuntary Assignment By the Assigning Spouse/Beneficiary, Then That Part of the Trust May Be Included in the Assigning Spouse/Beneficiary's Estate Under IRC Secs. 2036 or 2038.

Even if an assigning spouse/beneficiary does not have any current creditors, or any future creditors, if the assigning spouse/beneficiary *could* create a creditor relationship under which part of the trust assets, either under state law or federal bankruptcy law, would be available to satisfy the creditor obligation, that part of the trust will be included in the assigning spouse/beneficiary's estate for estate tax purposes. Even if the sale is for adequate and full consideration for gift tax purposes the IRS could take the position that either (i) the sale is not adequate for creditor protection purposes under the relevant state property law or (ii) even if the sale is adequate for state law purposes, the assigning spouse/beneficiary, under certain assumptions, could still create a future creditor relationship that could access the trust.

The sale must be for adequate and full consideration, not only for gift tax purposes, but also for state law creditor protection purposes. There is more pressure on a sale to a trust in which the seller is also a beneficiary of the trust. Generally speaking, under the law of most states, an assigning spouse/beneficiary's creditor can reach the maximum amount that can be distributed by a trustee to the assigning spouse/beneficiary, if there is an assignment by the assigning spouse/beneficiary for less than full consideration under state property law.[137] In other words, under the laws of most states, a grantor of a trust cannot create a trust and achieve creditor protection to the extent the grantor could be a beneficiary of that trust. It is the IRS's view, which has had some success in the courts, that a retained "string" exists under IRC Sec. 2036 or 2038, if the settlor of the trust has the capacity of creating such a creditor.[138] It does not matter at the time of death that such a creditor exists – it only matters that the creditor could exist because of the

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[137] E.g., *Vanderbilt Creditor Corp. v. Chase Manhattan Bank*, N.A., 473 N.Y.S. 2d 242 (App. Div. 1984); comment f to Restatement (3d) of Trusts § 60.

[138] Rev. Rul. 76-103, 1976-1 CB 293; Rev. Rul. 77-378, 1977-2 CB 348; *Estate of Paxton v. Commissioner,* 86 TC 785 (1986) and cases cited therein; *Outwin v. Commissioner*, 76 TC 153 (1981), acq. 1981-2 CB 1; *Paolozzi v. Commissioner*, 23 TC 182 (1954), acq. 1962-1 CB 4.

assigning spouse/beneficiary's actions. As noted above, if IRC Sec. 2036 or 2038 apply, all of the appreciation in the trust after the sale may also be included because of the manner in which the consideration offset is applied under IRC Sec. 2043. Thus, it is important that the sale be for adequate and full consideration for state law creditor protection purposes, in order to avoid grantor status for the assigning spouse/beneficiary, which also affects the estate tax consequences of the transaction.

Fifteen states have adopted varying ways in which a grantor can create a self-settled trust, with an independent trustee, and also be a discretionary beneficiary of that trust, and the grantor's future creditors cannot reach the beneficial interest in the trust. What if the assigning spouse/beneficiary does not live in one of those states, but creates a trust subject to the law of one of those states that allow self-settled trusts? The IRS may take the position that even though the trust is subject to the self-settled state's laws, because of operation of the assigning spouse/beneficiary's state law (assuming the assigning spouse/beneficiary lives in a state that does not allow self-settled trusts), the assigning spouse/beneficiary could create a creditor relationship that would allow the creditor access to trust assets, which indirectly allows an assigning spouse/beneficiary to retain the ownership for estate tax purposes. The IRS may take the position that the assigning spouse/beneficiary could, at any time, create a significant debt and enjoy the benefit of the proceeds of that debt. That creditor, if not paid, could get a judgment against the assigning spouse/beneficiary. The IRS could take the position that any such judgment is enforceable against both the assigning spouse/beneficiary and the trust the assigning spouse/beneficiary creates, even if under the state law governing the trust that judgment would not be enforceable. The IRS may take the position that creation of the trust would be against public policy of the domicile state of the assigning spouse/beneficiary. The IRS could argue that either because of comity, full faith and credit clause under the Constitution[139] and/or conflict of law rules,[140] the trust jurisdiction state would allow that potential creditor access to the trust. It would not matter to the IRS, for purposes of IRC Sec. 2036(a)(1), that the creditor never exists. The fact that the assigning spouse/beneficiary *could* create that relationship gives the assigning spouse/beneficiary a retained power to access the trust anytime and at the moment of death. There is not any definitive case law with respect to state property law creditor aspects of the above analysis nor the federal tax law aspects of the above analysis.

The IRS may take the position that the assigning spouse/beneficiary of a trust subject to the laws of a self-settled state *could* create a creditor relationship, even if the assigning spouse/beneficiary is domiciled in that self-settled state, if there is a sale that constitutes inadequate consideration for state law property purposes, because of federal bankruptcy laws. If

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[139] "Full faith and credit shall be given in each state to the public acts, records and judicial proceedings of every other state." (U.S. Const. Art IV, § 1).

[140] *See* comment d to § 145 of the Second Restatement of the Conflict of Laws, which states:

> [S]ubject only to rare exceptions, the local law of the state where conduct and injury occurred will be applied to determine whether the actor satisfied minimum standards of acceptable conduct and whether the interest affected by the actor's conduct was entitled to legal protection.

the assigning spouse/beneficiary creates a self-settled trust, within 10 years of his death, the IRS could argue that the assigning spouse/beneficiary could have filed a bankruptcy petition under Chapter 7 within 10 years of his death, and the bankruptcy trustee could avoid the transfer to the self-settled trust and bring the trust assets back into the bankruptcy estate for the benefit of creditors, because of 11 U.S.C. § 548(e). See the bankruptcy court decision in the *Battley v. Mortensen*, No. A09-90036-DMD (D. Alaska 5/26/11) holding that creditors of an Alaskan resident, whose claims arose after a validly created Alaskan self-settled trust, within 10 years of the transfer to the trust, could be satisfied in bankruptcy from the self-settled trust. On the other hand, 11 U.S.C. § 548(e) does not confer upon creditors the right to enforce satisfaction of a debt against a self-settled trust except in a bankruptcy proceeding, and it does not apply to a transfers more than 10 years prior to the bankruptcy. Thus, creditors' rights under federal bankruptcy law are significantly less than under the state law that exists outside the thirteen states permitting self-settled trusts, and may not have the same effect for federal transfer tax purposes, especially where the transferor remains solvent at all times prior to death, with bankruptcy not more than a remote possibility. The application of 11 U.S.C. § 548(e) requires proof of an actual intent by the transferor to hinder potential future creditors, which may be absent when the transfer has significant other purposes.

i. If it is Possible For a Current or Future Creditor of an Assigning Spouse/Beneficiary to Reach Part of the Assets of a Self-settled Trust, Then That Part of the Trust May Not Constitute a Complete Gift For Gift Tax Purposes.

The IRS could argue that because of state property law, or federal bankruptcy law, the grantor/beneficiary could create a future creditor relationship, which would terminate part or all of the trust. That power by the assigning spouse/beneficiary would mean that the assigning spouse/beneficiary has retained dominion and control over that part of the trust, and has not completed a gift for gift tax purposes under Treas. Reg. § 25.2511-2(b).[141]

B. The Advantages and Considerations of a Transferor Selling Subchapter S Stock to a Qualified Subchapter S Trust ("QSST") Created By a Third Party That is a Grantor Trust as to the Subchapter S Stock, That Names the Transferor as a Beneficiary and Gives the Transferor a Special Limited Power of Appointment.

1. What is the Technique?

A third party could create a trust for the benefit of a potential transferor to the trust, which would meet the requirements of a qualified Subchapter S trust (QSST) under IRC Sec. 1361(d). The potential transferor could create, or may have already created, a Subchapter S corporation to hold his investment assets and/or trade or business. The transferor could then sell his voting and/or nonvoting stock that he has in the Subchapter S corporation to the QSST that has been

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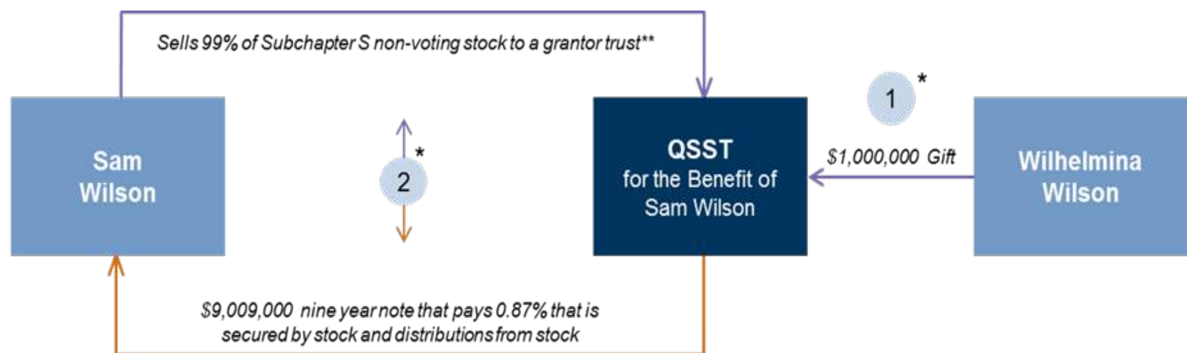
[141] *See Outwin v. Commissioner*, 76 TC 153 (1981), acq. 1981-2 CB 1; *Herzog v. Commissioner*, 116 F2d 591 (2d Cir. 1941).

created by a third party. It is important that the sale be in consideration of a secured note in which the security is the transferred stock and all distributions on that stock.

Example 17: A Third Party Creates a QSST For the Benefit of a Transferor and Then the Transferor Sells, For a Secured Note, the Transferor's Non-Voting Stock <u>in a Subchapter S Corporation to the Qualified Subchapter S Corporation to the Trust</u>

Sam and Sally Wilson own $32,000,000 in financial assets. Sam owns around $13,000,000 of their financial assets, which constitute private equity investments and/or financial assets that have a relatively low basis ($2,000,000). For valid non-tax reasons, including concerns about future ownership of the assets under the qualified purchaser and accredited investor rules, Sam Wilson decides to incorporate that $13,000,000 of these assets in a Subchapter S corporation. His mother, Wilhelmina Wilson contributes $1,000,000 to a dynasty trust that could qualify to be a QSST. Sam, as the income beneficiary of the trust, has a right to principle distributions of the trust for his support and maintenance. Sam also has a limited testamentary power of appointment to appoint the trust assets to his family and/or Sally. Sam sells his non-voting stock (which represents 99% of the capitalization of the Subchapter S corporation) to the QSST in exchange for a secured note. The security for the note is the stock that is sold and the distributions from that stock. It is assumed that the estimated pre-tax rate of return of the Subchapter S corporation will average 12% a year. It is also assumed that the rate of return on the remaining financial assets of Sam and Sally will average 7.0% a year pre-tax. It is assumed that Sam and Sally will consume $250,000 a year as adjusted for inflation.

This technique is illustrated below:



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

** It is assumed there is a 30% discount and the Subchapter S assets are worth $13,000,000.

Under IRC Sec. 1361(d)(1)(B) the transferor (as a beneficiary of the QSST) will be treated as the owner of the Subchapter S stock held in trust under IRC Sec. 678(a). Under IRC Sec. 678(a) the trust is ignored for income tax purposes, at least with respect to any Subchapter S stock that is held in the trust. It should be noted that the trust assets other than the Subchapter S stock will be taxed under the normal Subchapter J rules. Thus, the sale of Subchapter S corporation stock should not trigger any capital gains consequences to the transferor, if he sells to

a trust that qualified as a QSST,[142] because the seller is considered the owner of the stock both before and after the sale for income tax purposes. A QSST, while it owns Subchapter S stock, may have only one beneficiary (who also must be a U.S. citizen or resident), all of its trust accounting income[143] must be distributed to that beneficiary. The beneficiary may receive corpus during the beneficiary's lifetime. The beneficiary must elect to be taxable on the income of the QSST.[144] The beneficiary may have a testamentary power of appointment.

Can the distributions from the Subchapter S corporation stock owned by the QSST, which are collateral on the transferor's note, be used to retire both the principal and interest of the note on which the QSST is the obligor? Clearly interest on a note is a charge against the income of a trust for trust accounting purposes and should be paid by the trustee of the QSST. *See* Sec. 501(3) of the Uniform Principal and Income Act. The distributions on the purchased Subchapter S stock can also be used by the trustee of the QSST to retire the principal on the note, if the distributions are security for a note on which the QSST is the obligor. Compare the interaction of Secs. 502(b) and 504(b)(4) of the Uniform Principal and Income Act. There may need to be an equitable adjustment between the principal and income of the trust when the distributions from purchased Subchapter S stock are used by the trustee of the QSST to retire principal of the debt used for that purchase, depending upon the interaction of Secs. 502(b) and 504(b)(4) of the Uniform Principal and Income Act. The fact that Subchapter S distributions are part of the security for the debt, and are used to retire the principal of the debt, does not disqualify the trust from being a QSST.[145]

2. Advantages of the Technique.

a. May Provide Better Defenses to the Bona Fide Sale Considerations of IRC Secs. 2036 and 2038 Than the Beneficiary Grantor Trust That is Funded With $5,000 Described Below.

Unlike the BDIT described *infra* Section XI.D of this paper, a settlor may contribute much more than $5,000 to the trust in order to provide substantive security on any leveraged sale of Subchapter S stock to the trust, which may help on the bona fide sale considerations of IRC Secs. 2036 and 2038.

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[142] *See* Rev. Rul. 85-13, 1985-1 C.B. 184 and the authorities discussed therein. This Revenue Ruling involved the sale to a trust that was not a grantor trust before the sale. However, because of the terms of the sale, the trust became a grantor trust and the seller was considered the owner of the sold trust property both before and after the sale. The same analysis would appear to apply for a sale, of Subchapter S stock by a Subchapter S owner to a QSST held for his benefit, even if the QSST was not a grantor trust under IRC Sec. 678 until the sale. The seller of the Subchapter S stock to a QSST, held for the benefit of the seller, should be considered the income tax owner of the sold Subchapter S stock both before and after the sale. Thus, no capital gains consequences should arise.

[143] *See* Treas. Reg. Section 1.1361-1(j)(i).

[144] Under IRC Sec. 1361(d)(2)(D), the election can be retroactive for up to two months and fifteen days, so a timely election will cause IRC Sec. 678 to apply at the time of the sale.

[145] *See* P.L.R. 914005 (June 25, 1991); P.L.R. 200140046 (Oct. 5, 2001).

b. Circumvents Federal Capital Gains Tax Treatment on the Sale of the Subchapter S Stock.

Under Internal Revenue Ruling 85-13, a sale by a taxpayer of an asset to a trust (that was not a grantor trust until the purchase occurred) in which the taxpayer is considered the owner of the trust asset for income tax purposes, both before and after the sale, is not subject to federal capital gains taxes. See the discussion in Section III.B.1 of this paper. That Revenue Ruling discussed and followed a B.T.A. case, which held that a purchase of an asset from a bankruptcy trustee should be ignored for income tax purposes if the purchaser owned the asset both prior to and after the bankruptcy proceeding. Under IRC 1361(d)(1)(B), the beneficiary of a QSST is treated as the owner under IRC Sec. 678(a)(1) of that portion of the trust, which consists of Subchapter S corporation stock. If the beneficiary of the QSST sells Subchapter S stock that he individually owns to the QSST, he will own the stock for income tax purposes both before and after the sale. It should be noted that under Treasury Regulation Sec. 1.1361-1(j)(8), if there is a sale at a later time of the Subchapter S stock to a third party (or, it would seem, to Betsy) by the trustee of the trust, that sale will be taxable to the trust under the usual principles of Subchapter J.

c. There is Not Any Concern About the Effect of Any Lapse of Withdrawal Rights.

Unlike the BDIT discussed *infra* Section XI.D, there is no need for the beneficiary of the QSST to have withdrawal rights, because there is no attempt to make the entire QSST a grantor trust, and withdrawal rights are not necessary for the Subchapter S stock to constitute a grantor trust portion of the QSST. The transfer tax and income tax consequences that may accrue from the existence of a withdrawal right, and from its lapse, are not present in this technique.

d. It Has the Advantage of Allowing the Seller to Be a Beneficiary of the Trust and Have a Power of Appointment Over the Trust.

Compare the discussion of the spousal grantor trust *supra* Section XI.A.3.b.

e. It Has the Potential of Mitigating Gift Tax Surprises.

See discussion *supra* Section XI.A.3.a.

f. Appreciation Will Be Out of the Seller's Estate.

See discussion *supra* Section XI.A.3.c. In addition, the flexibility goals of the Wilsons are met with this plan. Under the terms of the trust and/or future trusts subject to Sam's power of appointment, the future stewardship goals of Sam to provide incentives and options for his children could be met. The financial capital of the trusts could also empower the children's goals. Sam will have the flexibility to change who the future beneficiaries of the trusts are, if his future stewardship goals change. Finally, Sam will have access to the cash flow of these trusts as the sole income beneficiary of the trust. Sam will also have access to the cash flow of any note on any sale from the trust. The estate tax savings of the technique could be substantial. Please see the table below and see Schedule 15.

Table 14

Hypothetical Results	Assuming Mr. and Mrs. Wilson Die at the End of 5 Years	Assuming Mr. and Mrs. Wilson Die at the End of 15 Years	Assuming Mr. and Mrs. Wilson Die at the End of 30 Years
	Estate Taxes at 40%		
No Further Planning; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)	$12,000,222	$20,627,272	$46,143,476
Sales of Sub-Chapter S Non-Voting Stock to a Qualified Sub-Chapter S Trust (QSST) that is Created by a Third Party for the Benefit of the Seller and Seller's Family; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)	$6,986,907	$9,154,659	$19,768,149

3. Considerations of the Technique.

a. There May Need to Be Substantive Equity in the Trust From Prior Gifts (is 10% Equity Enough?) Before the Sale is Made.

See discussion *supra* Section III.D.1.

b. The Disadvantage of Utilizing a Subchapter S Corporation.

A Subchapter S corporation is generally more advantageous from an income tax standpoint than a Subchapter C corporation, because there are not any corporate taxes to be paid for a corporation that qualifies. A Subchapter S corporation can own passively managed assets, if the corporation has never been a C corporation.

One of the disadvantages of a Subchapter S corporation is that only certain shareholders may qualify. Shareholders must be United States citizens. To the extent the Subchapter S stock is owned by a trust, the trust needs to be a grantor trust, a QSST or an electing small business trust (ESBT). Of these, the only trusts to which sales of Subchapter S stock may be without realization of gain are grantor trusts (sale by the grantor) and QSST trusts (sale by the trust beneficiary).

Another disadvantage of a Subchapter S corporation is that there is not a step up on the underlying assets of the Subchapter S corporation on the death of the shareholder who owns stock that is subject to estate taxes. FLPs and limited liability companies, pursuant to certain elections that can be made under IRC Sec. 754, have the ability to have certain of the partnership assets receive an internal basis step up on the death of a partner or member who owns the partnership interest or member interest (assuming the assets have appreciated). However, this may not be a significant consideration, if the planning goal is to have the stock out of the client's estate by the time of the client's death. Obviously, there would also not be a basis change under that goal and those facts, even if a partnership was used in the transfer planning – one cannot receive a basis step up on assets one does not own at death.

c. Need to File a Federal Gift Tax Return.

See discussion *supra* Section III.D.4 and the final paragraph of the discussion *supra* Section XI.D.3.b.(4).

d. Federal Income Tax Considerations.

The income from the Subchapter S stock that is owned by the QSST trust will be taxed to the beneficiary, which is generally an advantageous result for federal transfer tax purposes. If the logic of Rev. Rul. 85-13 applies, the note should not be recognized for income tax purposes and the transferor should not be taxable on the interest on the note.

If the note is recognized for income tax purposes, the interest on the note should be deductible to the beneficiary of the trust (i.e., the transferor) under the separate share rules of IRC Sec. 663 or because of the fact that interest, at least to the extent paid from distributions from the S corporation, is being paid from the grantor portion of the QSST. Thus, if the note is recognized, both the interest income and the interest expense (which should constitute a "wash") should be reported on the transferor's income tax return. In the situation in which a QSST purchases S corporation stock from a third party (not the beneficiary) in exchange for a note the Office of the Chief Counsel ruled that the interest expense associated with the debt incurred by the QSST to acquire the S corporation stock is allocated to the grantor trust portion of the QSST thereby allowing the beneficiary to report the interest expense as a deduction on his personal income tax return.[146]

The Chief Counsel provided in the analysis the following:

> …Section 1.1361-1(j)(8) reiterates that the grantor is deemed to own the portion of the QSST consisting of the S corporation stock, but creates an exception when the QSST is determining and attributing the federal income tax consequences of a disposition of the S corporation stock. However, even within this exception there is an exception that again emphasizes the beneficiary's ownership interest. When the QSST disposes of the S corporation stock, the beneficiary is treated as personally disposing of the S corporation stock for purposes of applying §§ 465 and 469 to the beneficiary.
>
> Applying the rules in § 1361(d), the S corporation stock is treated as though it is held in a grantor trust (the S portion). We should, therefore, look to the rules of subchapter J to determine which portion of the QSST receives the interest expense allocation. Under § 671 and the regulations thereunder, all items of income and deduction directly related to the grantor trust are attributed to the grantor. …

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[146] CCA 201327009 (May 1, 2013).

> The regulations under § 652(b) provide guidance for determining what deductions are allocable to different classes of income held by a trust. Section 1.652(b)-3(a) provides that all deductible items that are directly attributable to one class of income are allocated to that class. …
>
> The rules under § 163 provide guidance to determine to which class of income the interest expense incurred by the trust is allocated. The interest tracing rules (§ 1.163-8T) provide guidance in allocating interest expense for purposes of applying §§ 469 and 163(d) and (h). Section 163(d) limits the deduction for investment interest and § 163(h) allows a deduction for all but personal interest. The interest tracing rules provide that interest on a debt is allocated in the same manner as the debt to which the interest expense relates is allocated.
>
> …

Therefore, § 1.671-3(a)(2) would seem to require that based on § 1.652(b)-3 the interest expense deduction should be attributable to the S portion of the QSST and, thus, deductible by the beneficiary.

Any assets of the trust that are not Subchapter S stock will be taxed trust under normal Subchapter J rules.

As noted above, under Treas. Reg. Sec. 1.1361-1(j)(8), if there is a sale by the trustee of the QSST of any Subchapter S stock owned by the QSST, the QSST will be taxed on that sale under normal Subchapter J principles. The basis of the Subchapter S stock, that is to be sold, could be low because the only basis step up will be the accumulated income of the corporation after the sale by the Sec. 678 owner of the QSST. It may be very important to eliminate any note outstanding to the Sec. 678 owner of the QSST, before the QSST sells its Subchapter S stock to a third party, in order to circumvent any income tax complications associated with the outstanding debt.

e. State Income Tax Considerations.

Certain states may have different tax rules with respect to Subchapter S corporations and the taxation of QSST trusts. Thus, the possibility exists that under certain state laws, a sale to a QSST trust may be subject to state capital gains taxes and the beneficiary of the trust will not be taxed on the trust income.

f. Could Lose the Benefits of Using the Gift Tax Exemption.

See discussion *supra* Section III.D.4.

g. Step Transaction Doctrine.

See discussion *supra* Section III.D.3 of this paper.

h. Creditor Rights and Related Estate Tax Issues.

See discussion *supra* Section XI.A.4.h.

i. Incomplete Gift Issues.

See discussion *infra* Section XI.D.3.b.(6).

j. The Transferor is the Only Beneficiary of the Trust.

If the transferor wishes to have the flexibility to transfer trust assets to another family member, this technique will not allow the beneficiary to accomplish that purpose during the transferor's lifetime. However, the transferor could use other techniques to benefit the transferor's family.

C. The Advantages and Considerations of a Transferor Selling Assets to a Third Party Created Trust That is a Beneficiary Deemed Owner Trust ("BDOT") in Which the Transferor, as the Beneficiary of the BDOT, Has the Power to Withdraw in Any Calendar Year of the Trust All of the Net Taxable Income of the Trust, and That Withdrawal Power Can Be Satisfied Out of the Entire Income and/or Corpus and/or Proceeds of the Corpus of the Trust.

1. The Technique.[147]

A third party could create an inter vivos or testamentary estate tax protected trust, of any value, in which the beneficiary is the deemed income tax owner. This technique allows significant initial funding, which is different than the beneficiary defective inheritor's trust ("BDIT") that is described *infra* Section XI.D.1, which generally is only funded with $5,000 of assets when it is created. Under IRC Sec. 678(a)(1), if a beneficiary of a third party created trust has the unilateral power to withdraw all of the net taxable income of the trust to himself; and, if all of the assets of the trust are available to satisfy that withdrawal power, the beneficiary of the trust will be the deemed income tax owner of the trust (assuming the creator of the trust has not retained any powers that would make the creator of the trust a deemed income tax owner of the trust).

[147] For an in depth discussion of the BDOT technique, please *see* Ed Morrow "IRC § 678(a)(1) and the "Beneficiary Deemed Owner Trust '(BDOT)' (Leimberg Information Services, Inc., September 5, 2017). It should be noted that this paper differs from Mr. Morrow's paper as to how the withdrawal right should be designed. For instance, there may be certain IRC Sec. 678 concerns for a tax year if the beneficiary does not have the unfettered right to withdraw net taxable income for the full year.

IRC Sec. 678(a)(1) provides as follows:

> **(a) General rule** A person other than the grantor shall be treated as the owner of any portion of a trust with respect to which:
>
> > **(1)** such person has a power exercisable solely by himself to vest the corpus or the income therefrom in himself. . .

Thus, the beneficiary of a BDOT is the deemed owner for income tax purposes of all of the net taxable income earned by the BDOT. The reference to "income" in IRC Sec. 678(a)(1) is taxable income and not accounting income. If a beneficiary of a BDOT has the right to withdraw net taxable income, the beneficiary has the right to withdraw not only dividends and interest, but income normally allocated to principal such as capital gains income.

Example 18: A Parent Creates a $2,000,000 BDOT for the Benefit of Her Daughter and Her Daughter Sells to the BDOT Significant Assets in Two Different Cascading Sales

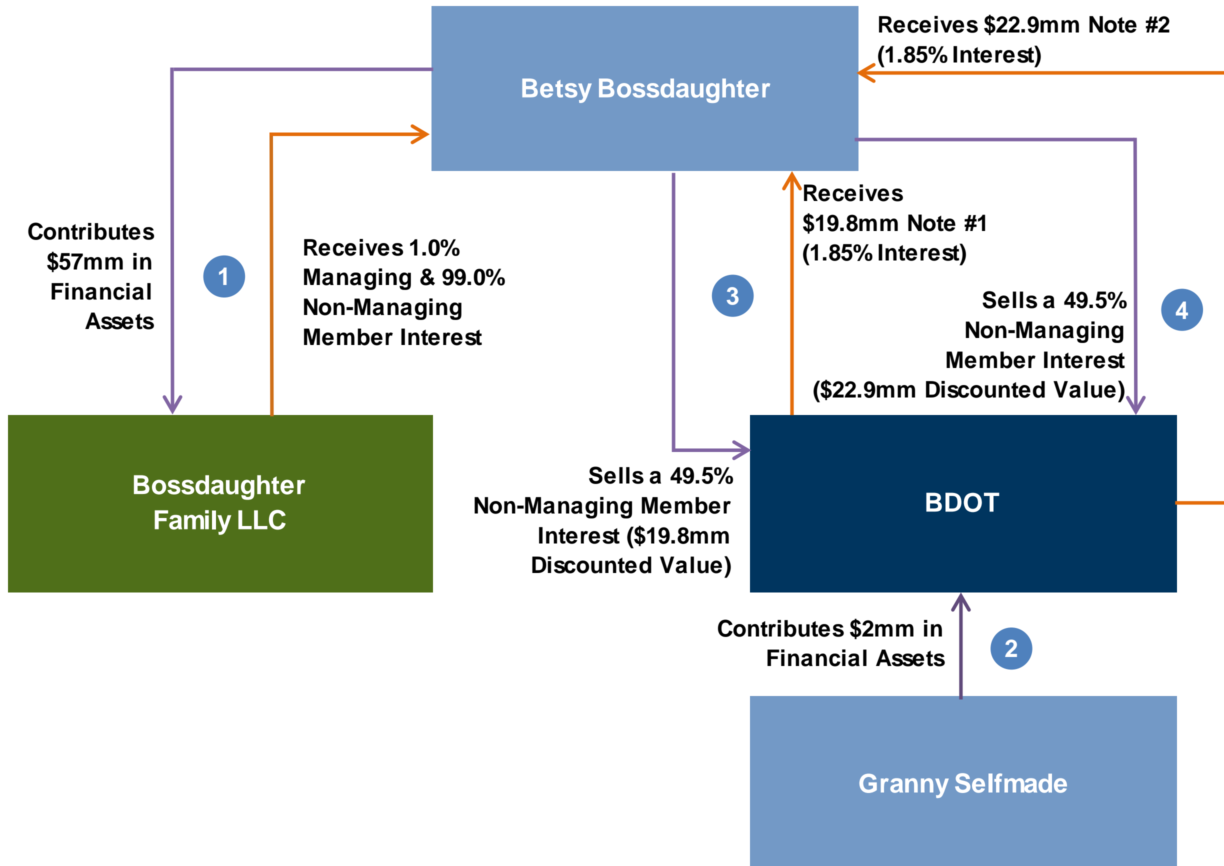
In 2016, Betsy Bossdaughter created a single member FLLC with a 1% managing member interest and a 99% non-managing member interest and the FLLC held $57,000,000 in assets (Transaction 1 below). In 2017 Granny Selfmade transfers $2,000,000 in assets to a BDOT that is also a GST exempt trust (Transaction 2 below). (Note: Granny could create the trust during her lifetime, if Granny retains no interest or power that would cause her to be taxed on the trust income under the grantor trust rules as discussed infra Section XI.D.3.c.(2), or by her will.) The BDOT provides Granny's daughter, Betsy Bossdaughter, the power to withdraw in any calendar year of the BDOT all of the net taxable income of the BDOT. That withdrawal power can be satisfied out of the entire income or corpus of the trust. If Betsy does not exercise her withdrawal power in any calendar year it will lapse. Betsy is also given a special testamentary power of appointment in the BDOT trust documents. The remainder beneficiaries of the BDOT after her death, subject to the power of appointment, are Betsy's children and grandchildren.

After the BDOT is created in 2017, Betsy sells a 49.5% non-managing member interest in her FLLC in exchange for $19,750,500 note (Transaction 3 below). It is assumed there is a 30% valuation discount associated with the sold 49.5% non-managing member interest. The assets in the FLLC and the $2,000,000 in the BDOT outside of its ownership of the FLLC annually grow at 6% per year pre-tax. In 2021, Betsy sells her remaining 49.5% non-managing member interest in her FLLC in exchange for a $22,896,243 note (Transaction 4 below).

Betsy needs $1,000,000 a year (inflation adjusted) for her consumption needs and also needs enough additional cash flow from the BDOT and her FLLC to pay her income taxes. Betsy plans to first look to payments on the note receivable from the BDOT for those consumption and tax payment needs.

Betsy asks her tax advisor, Mable Mathgeek, how many years will it take the BDOT to pay off her note receivables under those above assumptions and what will be the undiscounted value of the BDOT assets when that note is paid off?

The technique is illustrated below:



Under the above assumptions, the BDOT will have paid all of its note receivables in 27 years. At that point, the undiscounted value of the BDOT assets will be worth $126,613,473. *See* the calculations *infra* Schedule 16. Going forward, Betsy could use her withdrawal power over the BDOT to satisfy her consumption and tax payment needs. The assets of the BDOT, if the trust document is properly drafted and the trust is properly administered, will not be subject to Betsy's estate tax. Furthermore, Betsy may use her transfer tax exemptions to engage in additional estate planning. *See* Schedule 16 for detailed calculations and the table below for a summary of those calculations based on the above assumptions and assuming Betsy dies in 30 years.

Table 15

	Bossdaughter Children (1)	Bossdaughter Children & Grandchildren (2)	Consumption: Direct Cost (3)	Consumption: Investment Opportunity Cost (4)	IRS Income Tax: Direct Cost (5)	IRS Income Tax: Investment Opportunity Cost (6)	IRS Income Tax: Embedded Capital Gains Tax (7)	IRS Estate Tax (@ 40%) (8)	Total (9)
30-Year Future Values									
No Further Planning	$89,948,174	$22,759,465	$43,902,703	$60,266,542	$27,710,079	$34,146,049	$167,518	$59,965,449	$338,865,979
Hypothetical Technique	$0	$169,144,803	$43,902,703	$60,266,542	$28,775,165	$34,146,049	$2,630,716	$0	$338,865,979
Present Values (discounted at 2.5%)									
No Further Planning	$42,882,134	$10,850,408	$20,930,293	$28,731,633	$13,210,577	$16,278,879	$79,863	$28,588,089	$161,551,877
Hypothetical Technique	$0	$80,638,548	$20,930,293	$28,731,633	$13,718,349	$16,278,879	$1,254,175	$0	$161,551,877

2. Income Tax Advantages of the Technique.

a. The Technique Has All of the Income Tax Advantages of the SIDGT Technique.

The BDOT is treated as a grantor trust to the beneficiary based on IRC Sec. 678, which is basically a codification of the *Mallinckrodt* case.[148] Thus, a sale by the beneficiary of the BDOT to the BDOT has the same advantages as a sale to a grantor trust by the grantor. *See* the discussion *supra* Sections III.B and III.C.

b. Failing to Take the Withdrawing Income is Not Relevant to the IRC Sec. 678 Analysis.

Such a power has even been ruled effective when held by a minor even where there was no court-appointed guardian with authority to exercise the power. [149]

[148] *Mallinckrodt v. Nunan*, 146 F.2d 1 (8th Cir. 1945).

[149] *Trust No. 3 v. Commissioner*, 285 F.2d 102 (7th Cir., 1960).

c. The BDOT Can Be Designed to be Very Flexible For Any Calendar Year By Giving an Independent Trustee, or a Protector, the Power to Change the Withdrawal Power For a Future Year or Years.

d. The BDOT Has Many Income Tax Advantages That A Complex Trust Does Not Have.

(1) The Beneficiary of a BDOT Can Take an IRC Sec. 179 Expense Deduction While a Complex Trust's Ability to Take That Deduction is Limited.

(2) Depending Upon the BDOT Beneficiary's Tax Bracket, and/or How Active the Beneficiary is in a Closely Held Business, the 3.8% Net Investment Income Tax Will Not Apply While Under the Same Circumstances it May Apply to a Complex Trust.

(3) The BDOT Can Be a Shareholder of a S Corporation Without Some of the Considerations of an ESBT.

The beneficiary of a BDOT may be entitled to certain deductions that are eliminated by ESBTs. A QSST has to pay the trust accounting income of the QSST to the beneficiary, while a BDOT does not pay any income to the beneficiary unless the withdrawal right is exercised.

e. Capital Losses Can Be Passed Through to the Beneficiary of the BDOT.

Assets that have a capital loss could be distributed in kind.

f. The Capital Gains Benefit of a Residence That is Inherent Under IRC Sec. 121 Will Be Available to Sales of Residences Owned By a BDOT.

g. There Are Increased Opportunities For Charitable Planning Because the Inherent Limitations Under IRC Sec. 642(c) Will Be Eliminated.

The beneficiary can withdraw assets that accrued from sources other than gross income and those assets can then be contributed by the beneficiary to charities.

h. A BDOT Should Avoid Overlapping State Fiduciary Income Taxation.

i. The Consideration of the BDIT Losing Part of Its Beneficiary Deemed Owner Status, When it is Substantially Funded, if it is Designed to Have an Initial Pecuniary Withdrawal Right, Does Not Exist With the BDOT Technique.

See discussion *infra* Section XI.E.3.d.

3. Transfer Tax Advantage of the Technique.

a. The Beneficiary Has the Opportunity By Her Actions to Increase the Value of the BDOT and, Thus, the Amount That is Not Subject to Estate Taxes.

To the extent the beneficiary of a BDOT does not withdraw net taxable income of the BDOT up to the lapse protection (the so-called "5 and 5" protection of IRC Sec. 2041(b)(2)), that amount remains in the trust in a manner that will not be subject to estate taxes. Almost all states have legislation that protects the lapse portion from creditors. However, to the extent that a current or hanging power exists at death or a prior power lapsed in excess of the lapse protection, property could be accessible by creditors of the beneficiary and that portion of the BDOT will be subject to the beneficiary's estate taxes. The beneficiary may maximize the lapse protection by always withdrawing that amount of net taxable income (payable out of income or corpus of the trust) that exceeds 5% of the value of the corpus of the trust. *See* discussion *infra* Section IX.C.4.a. It should be noted that under this Example 20, the right to withdraw could be designed to only occur if the trust and/or protector has not removed that withdrawal right in a prior year.

b. Because the Beneficiary is the Deemed Income Tax Owner of the BDOT, There is Flexibility to Allow the Beneficiary to Sell Life Insurance Policies to the BDOT.

c. The BDOT Can Own Non-Qualified Deferred Annuities.

It is very difficult for a complex trust to own non-qualified deferred annuities because of the requirements under IRC Sec. 72.

d. The BDOT Has All of the Transfer Tax Advantages of a SIDGT.

See supra Section III.C.

e. The BDOT Technique Has a Greater Safety Valve Than the SIDGT For Protecting the Seller, Since the Seller Both Has Withdrawal Rights in and is a Discretionary Beneficiary of the BDOT.

4. Considerations of the Technique.

a. In Order to Receive the Lapse of Power Transfer Tax Protection of IRC Secs. 2041(b)(2) and 2514(e)(2), it is Important That the Withdrawal Power Can Be Applied Against the Entire Income and/or Corpus and/or Proceeds of the Entire Corpus, of the BDOT.

It is important that any withdrawable, but untaken, BDOT funds be protected from being considered a contribution by the beneficiary of the BDOT for transfer tax purposes. The requirements under the tax law for those withdrawable, but untaken, BDOT funds to not be considered a transfer for transfer tax purposes are: (i) those BDOT funds cannot exceed more than 5% of the value of the property of the BDOT; (ii) those BDOT funds could have been paid from the entire property, or proceeds from the property, of the BDOT, and (iii) creditors cannot reach those BDOT funds after the right to withdraw them expires. For a discussion of the third requirement of whether creditors can reach those funds *see supra* Section XI.A.4.h.

In order to meet the statutory requirements of IRC Secs. 2041(b)(2) and 2514(e)(2), the withdrawable, but untaken, funds cannot exceed 5% of the value of the property of the BDOT. If the net taxable income is projected to exceed 5% of the value of the property of the BDOT (in many years of most BDOTs, that would not be the case) the beneficiary could withdraw that excess net taxable income above that value equal to 5% of the BDOT. For instance, if it is assumed the net taxable income of the BDOT is equal to an amount that is 6% of the value of the corpus of the BDOT, the beneficiary could withdraw one-sixth of the net taxable income of the trust. In that fashion the withdrawable, but untaken BDOT funds will be equal to the 5% safe harbor of IRC Secs. 2041(b)(2) and 2514(e)(2). Secondly, the use of hanging powers of withdrawal could also mitigate the transfer tax issue.

Revenue Ruling 66-87[150] highlights the importance of making sure the BDOT funds available for withdrawal can be paid from the entire property and/or proceeds of the property of the BDOT. That revenue ruling focused on the effect of a power to withdraw accounting income (not net taxable income from all sources including capital gains sales) that was not withdrawn. The revenue ruling concluded the 5% lapse protection is calculated based on the amount of that accounting income only and is not calculated based on the corpus of the requisite trust. In issuing Revenue Ruling 66-87, Treasury assumed that the trust document did not permit the withdrawal powers to be satisfied from all of the trust assets.

In light of the above considerations, the beneficiary of a BDOT may wish to notify the trustee of the BDOT, in any calendar year, that he or she desires to withdraw that amount of net taxable income that is the greater of (i) that amount of net taxable income that the beneficiary has previously notified the trustee that he or she wishes to withdraw; (ii) that amount of net taxable income that is equal to the income taxes owed by the

[150] Rev. Rul. 66-87, 1966-1 C.B. 217.

beneficiary of the BDOT; or (iii) that amount of net taxable income that exceed 5% of the value of the corpus of the trust.

b. If Creditors Can Reach Part of the Withdrawable, But Untaken, BDOT Funds Under the Appropriate State Law Then That Part That the Creditors Can Reach Will Be Taxable in the BDOT Beneficiary's Estate, Whether or Not That BDOT Beneficiary Has those Potential Creditors.

Please see the discussion *supra* Section XI.A.4.h. However, almost all states have legislation that protects against the BDOT beneficiary's creditors reaching the withdrawable, but untaken, BDOT funds. Not only do the states that permit self-settled trusts protect against those potential creditors, but almost all states have legislation that protects against creditors reaching lapsed withdrawals that are 5% or less of the value of the corpus of a trust. Secondly, a BDOT could be drafted to allow an independent trustee or a protector to remove the withdrawal power that is inherent in a BDOT trust structure in future years.

c. The Sale of Assets to a BDOT Has Most of the Considerations of a SIDGT (*See* Discussion *Supra* Section III.D), With the Following Exceptions.

(1) There is Less Danger That the Sale to a BDOT Will Be a Taxable Gift Because of the Presence of the Seller's Beneficial Interest and Special Power of Appointment Over the BDOT, Would Make the Gift an Incomplete Gift.

(2) The Grantor Trust Status Can Remain Longer Because of the Seller's Beneficial Interest in the Trust.

There is a greater safety valve protection for the BDOT seller's lifestyle needs because the seller is also a beneficiary of the BDOT.

(3) There is Greater Opportunity to Convert the Retained Note to a Private Annuity.

d. The Sale of Assets to a BDOT Has Some of the Considerations of a Sale to a BDIT (*See* Discussion *Infra* Section XI.D.3).

(1) Because the BDOT can be substantially funded, the sale will not be as highly leveraged as a sale to a BDIT. However, the beneficiary of the BDOT has a right to the trust's taxable income, which is not the case with a BDIT.

(2) It is essential that the sale to the BDOT be a bona fide sale for full and adequate consideration, for gift tax purposes and for purposes of IRC Secs. 2036 and 2038. See the discussion of transfer tax issues *infra* at XI.D.3.b. Unless the sold assets are easy to value, consideration should be given to structuring the sale as a defined value assignment or a defined value allocation assignment.

D. The The Advantages and Considerations of a Transferor Selling Assets to a Third Party Created Trust That Generally Only Has $5,000 of Corpus (a "Beneficiary Defective Inheritor's Trust" or "BDIT"), That Names the Transferor as a Beneficiary, and Under Which the Transferor is Considered the Income Tax Owner; With the Consideration of the Sale Being a Note That is Guaranteed By a Grantor Trust the Transferor Has Previously Created (the "$5,000 BDIT Guaranteed Sale Technique").

1. What is the $5,000 BDIT Guaranteed Sale Technique?

A BDIT is a trust that is a grantor trust, not as to the trust's settlor (the "Settlor") but as to a trust beneficiary (the "beneficiary"). That is, the trust is specifically designed not to trigger any of IRC Secs. 673, 674, 675, 676, 677 or 679, but intentionally to trigger IRC Sec. 678.

Consider the following example:

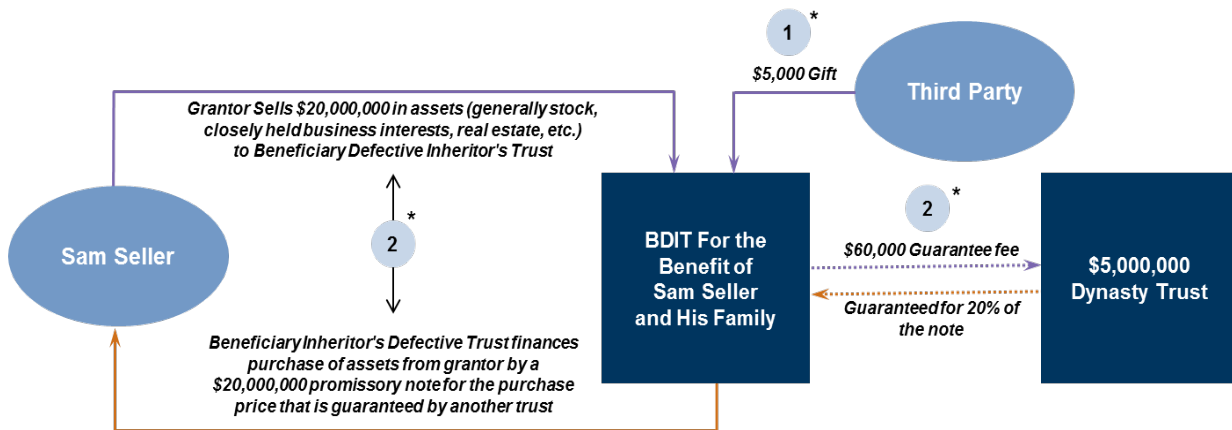
Example 19: A Leveraged Sale By a Transferor to a $5,000 BDIT in
Which the Note is Guaranteed By the Transferor's Spouse or a Third Party Trust

Sam Seller is the beneficiary of a BDIT that has $5,000 as its sole asset and was created by a third party (Transaction 1 below). Sam has the power to withdraw $5,000 when the trust is created. Sam does not exercise that power and the power lapses. The $5,000 then passes to a trust in which distributions may be made to Sam under an ascertainable standard and under which Sam has a special power of appointment. That trust is designed not to be taxed in Sam Seller's estate. The trust is also designed where Sam Seller will pay all of the income taxes of the trust under IRC Sec. 678.

Previously, Sam had contributed $5,000,000 to a dynasty trust, which has the same beneficiaries as the BDIT, excluding Sam. Sam does not have a power of appointment over that $5,000,000 dynasty trust. The $5,000,000 dynasty trust is a grantor trust to Sam.

Sam sells assets equal to $20,000,000 to the BDIT (Transaction 2 below). The $5,000,000 generation-skipping trust guarantees the note up to $4,000,000. The BDIT pays a guarantee fee equal to one and one-half percent of the $4,000,000 guarantee, or $60,000 a year.

The $5,000 BDIT Guaranteed Sale technique is illustrated as follows:



2. Advantages of the $5,000 BDIT Guaranteed Sale Technique.

If the technique works, it has many of the same advantages as the sale to a grantor trust with the additional exit strategies of the transferor not only having access to the cash flow from the note, but also having access to the cash flow of the trust for his or her support and maintenance. Additionally, if the technique works, the transferor has the ability to change his or her mind as to future stewardship goals through the power of appointment mechanism.

In Revenue Procedure 2013-3 Section 4.01 (43), the IRS announced it would not rule on this transaction if "the value of he assets with with the trust was funded by the grantor is nominal compared to the value of the property purchases." Some of the considerations that may have led the IRS to the "no ruling" policy are noted below.

3. Considerations of the $5,000 BDIT Guaranteed Sale Technique.

a. Does the Guarantee Fee Have Substance?

There is considerable pressure on the technique because of the need to pay the guarantee fee to the third party. A guarantee fee is probably necessary because the guarantor trust may not be the remainder beneficiary of the BDIT.[151] The IRS may question the substance of any guarantee fee in the hypothetical transaction illustrated above because of the significant ratio of that guarantee fee in comparison to the beginning corpus of the BDIT. Under this example, the corpus of the BDIT is $5,000 and the guarantee fee to be paid is $60,000 a year for the years the guarantee is outstanding. That is, the annual guarantee fee is *twelve* times the beginning corpus of the $5,000 trust. The IRS may take the view that the substance of the transaction, despite the

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[151] *See* P.L.R. 9113009 (Dec. 21, 1990), which was withdrawn for other reasons; *see also* Martin M. Shenkman, "Role of Guarantees and Seed Gifts in Family Installment Sales," 37 Estate Planning 3 (Nov. 2010).

guarantee, is a sale for a $20,000,000 note to a $5,000 "naked" trust that, under these circumstances, may have gift tax consequences under IRC Sec. 2702 (if the beneficiary does not have a special power of appointment), and estate tax consequences under IRC Secs. 2036 and 2038. Stated differently, the IRS may take the view that the risk/reward ratio of the guarantee fee by the BDIT is not commercial and there is no substance in the protection of the guarantee. The IRS' position could be, in reality, there is little risk in the guarantee by the BDIT in comparison to its potential reward. The BDIT, under this example, has *de minimis* "skin" in the game. *Thus, the IRS may take the view that the substance of the integrated transaction inherent in the $5,000 BDIT Guaranteed Sale is that, under equitable tax principals, two gifts for a total of $5,005,000 were made to a dynasty trust that has two grantors (i.e., one grantor contributed $5,000,000 and one grantor contributed $5,000), followed by a sale of $20,000,000 in financial assets to that dynasty trust, whose terms provide that the dominant grantor retains certain beneficial interests and certain powers to change the trust.*

b. Additional Discussion of the Transfer Tax Issues With the $5,000 BDIT Guaranteed Sale Technique.

(1) In General.

Often (though not always) the purpose of creating a BDIT is to enable the beneficiary to sell property to the trust without incurring a capital gains tax, because the trust is a grantor trust as to the beneficiary, removing subsequent appreciation of the sold property from the beneficiary's gross estate. Of course, the beneficiary could sell property to a grantor trust of his own creation without capital gains tax, and doing so has become a standard estate planning technique. The advantage of the BDIT, if it works, is that the beneficiary may have interests in and powers over the BDIT that the beneficiary could not have with respect to an ordinary, self-settled grantor trust, without causing the trust property to be included in the beneficiary's gross estate, because these interests and powers will be treated as conferred upon the beneficiary by the settlor of the trust, rather than retained by the beneficiary.[152]

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[152] Richard A. Oshins, Larry Brody & Katarinna McBride, "The BDIT: A Powerful Wealth Planning Strategy When Properly Designed and Implemented," LISI Estate Planning Newsletter 1824 (June 22, 2011), at http://www.leimbergservices.com; Steven B. Gorin, "Beneficiary Grantor Trusts: A New Paradigm for Transferring Businesses," paper prepared for the ACTEC Business Planning Committee Summer 2011 Meeting (a shorter version is *A Balanced Solution,* Trusts & Estates 28-33 (May 2011)); Jeffrey A. Galant, "Beneficiary Grantor Trusts: Overview of Selected Issues," paper prepared for the ACTEC Business Planning Committee Summer 2011 Meeting; Jonathan G. Blattmachr & Diana S.C. Zeydel, "PLR 200449012 – Beneficiary Defective Trust(sm) Private Letter Ruling," LISI Estate Planning Newsletter 1559 (Dec. 10, 2009), at http://www.leimbergservices.com; Richard A. Oshins, Robert Alexander & Kristen Simmons, "The Beneficiary Defective Inheritor's Trust© ("BDIT"): Finessing the Pipe Dream," CCH Practitioner's Strategies (Nov. 2008); Richard A Oshins & Noel Ice, "The Inheritor's Trust™ Preserves Wealth as Well as Flexibility," 30 Est. Plan. 475 (Oct. 2003); Richard A Oshins & Noel Ice, "The Inheritor's Trust™: The Art of Properly Inheriting Property," 30 Est. Plan. 419 (Sept 2003); *see also generally*, Jonathan G. Blattmachr, Mitchell M. Gans & Alvina H. Lo, "A Beneficiary as Trust Owner: Decoding Section 678," 35 ACTEC Law Journal 106 (Fall 2009).

(2) Interests and Powers of the Beneficiary.

The proponents of the $5,000 BDIT Guaranteed Sale Technique assert that the beneficiary can have various interests and powers in the trust without causing inclusion in the beneficiary's gross estate. That is, the beneficiary's interests and powers will be tested under IRC Sec. 2041 rather than IRC Secs. 2035 and 2038.[153] If that is so, the beneficiary can have a limited testamentary power of appointment over the trust and the power will not cause inclusion, whereas the same power retained by the beneficiary in a trust he creates would cause inclusion under IRC Sec. 2038. Similarly, the beneficiary may have a power of withdrawal subject to an ascertainable standard (and, as we shall see, such a power may be helpful to preserve grantor trust status). Under IRC Sec. 2041 a power exercisable in favor of the powerholder does not cause inclusion if it is subject to an ascertainable standard. Under IRC Secs. 2036 and 2038, such a power may cause inclusion, if the beneficiary is the grantor of the trust.[154] Also, the beneficiary may be able to receive trust distributions in the discretion of an independent trustee. Such an interest will cause inclusion if the beneficiary's creditors can reach trust property under state law "creditors' rights" doctrine. Typically, creditors cannot reach trust property if the interest in the trust was conferred on the debtor-beneficiary by a third party, but can reach it if the interest was retained by the debtor or the debtor has a general power.[155]

(3) Who is the Transferor For Estate Tax Purposes With the $5,000 BDIT Guaranteed Sale Technique?

It seems open to the IRS to argue that the beneficiary should be treated as the transferor for estate tax purposes of any property which the beneficiary, rather than the settlor, transfers to the BDIT, whether the beneficiary's transfer is a gift or a sale. For example, if the settlor of the BDIT transferred only one dollar to the trust and the beneficiary transferred ten million dollars by gift, it seems likely that the beneficiary would be treated as the transferor of the ten million, with inclusion in the beneficiary's estate governed by IRC Secs. 2036 and 2038 rather than IRC Sec. 2041. This result does not require applying the step transaction doctrine (although the IRS might assert that doctrine—see the discussion *supra* Section III.D.3 of this paper). It requires only the application of the principle that when an individual transfers property to a trust, interests in and powers over that that property which the individual possesses after the transfer will be treated as retained by him, regardless of who created the trust. It seems likely that the same result would

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[153] Cf. Treas. Reg. Section 20.2041-1(b)(2).

[154] Cases have excepted retained powers to distribute to someone other than the powerholder from IRC Secs. 2036(a)(2) and 2038 where the power was subject to an ascertainable standard. *Jennings v. Smith*, 161 F. 2d 74 (2d Cir. 1949); *Estate of Budd v. Commissioner*, 49 T.C. 468 (1968), acq. 1973-2 C.B. 1; *Estate of Pardee v. Commissioner*, 49 T.C. 140 (1968); *see also Old Colony Trust Co. v. United States*, 423 F. 2d 601 (1st Cir. 1970); *Estate of Cutter v. Commissioner*, 62 T.C. 351 (1974). Whether the exception applies for purposes of IRC Secs. 2036(a)(1) and 2038 where the retained power is exercisable in favor of the powerholder under an ascertainable standard is uncertain. Logically, the exception should apply, and Action on Decision 1981-101 (Apr. 14, 1981) says that it does, but there is no developed body of law.

[155] See, e.g., Uniform Trust Code Section 505.

obtain if the settlor transferred only a small amount, such as $5,000, to the trust, as is contemplated in some uses of the BDIT.

If the beneficiary's transfer is a sale rather than a gift, does the result change? First suppose that the beneficiary sells property to the trust at a bargain price equal to half the property's fair market value. It seems that such a bargain sale would make it possible for the IRS to argue that the beneficiary remains the transferor and therefore that IRC Secs. 2036 and 2038 remain potentially applicable to the bargain sale. If that is so, then the IRS could make the same argument in the case of a sale for full and adequate consideration. Why should the payment of full consideration change the identity of the transferor? The proponents of the BDIT seem to maintain (though the point is not discussed explicitly) that if the sale is for full consideration, the property transferred to the trust by the beneficiary in the sale will be treated for estate tax purposes as if transferred by the trust settlor. That may be so, but for transfer tax purposes it is not clear that it is so, and the IRS may argue otherwise.

The grantor trust rules contain precise rules for determining who the transferor (grantor) is in the above examples. The beneficiary is treated as the grantor to the extent of any gratuitous transfer to the BDIT, and in the case of a bargain sale the value in excess of the sale price is treated as a gratuitous transfer. However, the beneficiary does not become the grantor in the case of a sale at fair market value.[156] However, these rules may not apply for transfer tax purposes. For example, as discussed in the next paragraph, in the case of a bargain sale IRC Secs. 2036 and 2038 include the entire value at death of the sold property, reduced by the consideration paid, rather than a portion of the property proportionate to the bargain element on the date of sale.

(4) Estate Tax Considerations Because of Potential Application of IRC Secs. 2036 and/or 2038 With the $5,000 BDIT Guaranteed Sale Technique.

Unlike a conventional sale to a grantor trust in which the seller does not have a retained interest or power over the trust, under the $5,000 BDIT Guaranteed Sale Technique, the seller is also a beneficiary of the BDIT and will have a retained interest or power, which will trigger IRC Secs. 2036 or 2038, unless an exception applies. Under the "parenthetical exception" contained in both IRC Sec. 2036 and IRC Sec. 2038, these provisions do not apply "in case of a bona fide sale for an adequate and full consideration in money or money's worth." If the exception applies, the property sold will be excluded from the beneficiary's gross estate despite the beneficiary's interests and powers under the BDIT. If the exception does not apply, the sold property is included in the beneficiary's gross estate at its date-of-death value, reduced by the consideration paid under IRC Sec. 2043.[157]

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[156] See Treas. Reg. Section 1.671-2(e), especially subparagraphs (1) and (2), and Ex. (7) under subparagraph (6).

[157] The parenthetical exception should also apply to a sale to a self-settled trust, so it may be asked what advantage the beneficiary grantor trust provides, other than a cosmetic one. One answer may be that the "creditors'

The application of the parenthetical exception under IRC Secs. 2036 and 2038 requires not only that the transfer be for "full consideration," but that it is "a bona fide sale". In the family partnership context, courts have held that the "full consideration" and "bona fide sale" requirements are two separate tests. The courts have also held that for a transfer to be a bona fide sale the transfer of assets to the partnership must have a significant nontax investment purpose.[158] Whether this requirement would apply to a sale under the $5,000 BDIT Guaranteed Sale Technique, and what it would mean in that context, are uncertain.

It seems essential that the sale be for full consideration for the BDIT to achieve its goal of keeping trust property out of the selling beneficiary's gross estate. As stated in one article: "The beneficiary must never make a gratuitous transfer to the trust."[159] This puts pressure both on the valuation of the transferred property and the valuation of any note taken in return. For instance, if an appropriate court finds that for estate tax purposes the sale to the BDIT was for inadequate consideration by even a small amount, all of the then value of the BDIT at the death of the beneficiary will be included in the beneficiary's estate under IRC Secs. 2036 and/or 2038, minus the value of the note (because of the operation of IRC Sec. 2043) at the time of the sale.

As a consequence, the beneficiary/seller should consider a defined value assignment and the filing of a gift tax return that discloses the sale. However, even if the sale is reported on a gift tax return that meets the adequate disclosure requirements of Treas. Reg. §301.6501(c)-1(f) and the gift tax statute of limitations runs, the IRS may not be barred upon the beneficiary's death from asserting "inadequacy of consideration" for purposes of IRC Sec. 2036 and 2038. Adequacy of consideration is a "valuation issue" rather than a "legal issue." Treas. Reg. §25.2504-2(c), Ex. (3). An estate tax regulation provides that for transfers after August 5, 1997, the running of the gift tax statute of limitations bars any adjustment to the value of a prior gift, and this rule "applies to adjustments involving all issues relating to the gift, including valuation issues and legal issues involving the interpretation of the gift tax law." Treas. Reg. §20.2001-1(b). This regulation, applies "[f]or purposes of determining the amount of adjusted taxable gifts as defined in Sec. 2001(b)." Furthermore, determining inclusion under IRC Secs. 2036 and 2038 is not the same as determining the amount of adjusted taxable gifts and the regulation may not prevent revisiting the consideration question under IRC Secs. 2036 and 2038. The gift tax disclosure regulations do not specifically address finality on the issue of adequate consideration for purposes of IRC Secs. 2036 or 2038. They do address the case of an incomplete transfer reported as a completed transfer. Treas. Reg. §301.6501(c)-1(f) provides that "if an incomplete gift is reported as a completed gift on the gift tax return and is adequately disclosed, the period for assessment of the gift tax will begin to run when the return is filed, as

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rights" doctrine will apply more strictly to a self-settled trust, although if the requirements of the parenthetical exception are met, that may not matter.

[158] E.g., *Estate of Strangi v. Commissioner*, 417 F.3d 468 (5th Cir. 2005); *Estate of Bongard v. Commissioner,* 124 T.C. 95 (2005).

[159] Richard A. Oshins, Larry Brody & Katarinna McBride, "*The BDIT: A Powerful Wealth Planning Strategy When Properly Designed and Implemented,*" LISI *Estate Planning Newsletter* 1824 (June 22, 2011), at http://www.leimbergservices.com.

determined under Sec. 6501(b). Further, once the period of assessment for gift tax expires, the transfer will be subject to inclusion in the donor's gross estate for estate tax purposes only to the extent that a completed gift would be so included." The final sentence is ambiguous as applied to an attempt to invoke IRC Secs. 2036 and 2038 at death on the grounds that the transfer was not for full consideration, but the more convincing reading is that the regulation would not preclude inclusion of the transfer under those sections, because IRC Secs. 2036 and 2038 can apply to transfers which are completed gifts. Moreover, it is not clear that the regulation, which applies when "an incomplete gift is reported as a completed gift," will apply to a return that reports the transfer as a sale for full consideration but says nothing about whether any value later determined to be in excess of the consideration is a complete or incomplete gift. That is the way most such gift tax returns will read, because the beneficiary typically will want to preserve the "incompleteness" argument as to any gift if the consideration is found inadequate.

Furthermore, the gift tax return filing will not start the statute of limitations running on an estate tax issue of whether the sale is a "bona fide sale" because that is a legal issue, which may only be determined on the taxpayer's death. This may put pressure on the non-tax purpose of the sale. Like any sale, the non-tax purpose may be met if the taxpayer can demonstrate that there was a plausible risk/reward commercial relationship with respect to the sale and in that regard there was adequate security to demonstrate that the note had the characteristics of a note and not a deemed retained interest in the trust. Hopefully, on the taxpayer's death, it can be demonstrated that there was a high probability that the note would be paid in full, and, in fact, it was paid in full.

(5) Estate Tax Considerations if Under Applicable State Law or Federal Bankruptcy Law the Seller/Beneficiary's Creditors Can Reach the BDIT Assets Under the $5,000 BDIT Guaranteed Sale Technique.

Even if an assigning seller/beneficiary does not have any current creditors, or any future creditors, if the assigning seller/beneficiary *could* create a creditor relationship under which part or all of the trust assets, either under state law or federal bankruptcy law, would be available to satisfy that creditor obligation, that part or all of the trust will be included in the assigning seller/beneficiary's estate for estate tax purposes. Even if the sale is for adequate and full consideration for gift tax purposes, the IRS could take the position that either (i) the sale is not adequate for creditor protection purposes under the relevant state property law or (ii) even if the sale is adequate for state law purposes, the assigning seller/beneficiary, under certain assumptions, could still create a future creditor relationship that could access the trust. *See* discussion *infra* Section XI.A.4.h.

(6) If it is Possible For a Current or Future Creditor of an Assigning Seller/Beneficiary to Reach That Part of the Trust Assets That Are Sold, Then That Part of the Trust May Not Constitute a Complete Gift For Gift Tax Purposes.

The IRS could argue that because of state property law, or federal bankruptcy law, the grantor/beneficiary could create a future creditor relationship, which would terminate part or all of the trust. That power by the assigning seller/beneficiary would mean that the assigning seller/beneficiary has retained dominion and control over that part of the trust, and has not completed a gift for gift tax purposes under Treas. Reg. §25.2511-2(b).[160]

c. Income Tax Considerations With the $5,000 BDIT Guaranteed Sale Technique.

(1) In General.

The BDIT must remain a grantor trust during the beneficiary's life, or at least while any note is outstanding, in order to circumvent a capital gain on the sale (or as installments are paid), income tax on interest payments, and (possibly) adverse consequences upon loss of grantor trust status under Treas. Reg. Section 1.1001-2(c), Ex. (5). To achieve grantor trust status under IRC Sec. 678, initially the beneficiary must have over the trust "a power exercisable solely by himself to vest the corpus or the income therefrom in himself." IRC Sec. 678(a)(1). If left in place, such a power would cause the trust property to be includible in the beneficiary's gross estate under IRC Secs. 2036 and 2038, or under IRC Sec. 2041, whichever is viewed as applicable. Thus this power must be cut down before the beneficiary's death without either (1) losing grantor trust status, or (2) causing the beneficiary to be treated as the transferor for estate tax purposes.

Once the beneficiary acquires a power described in IRC Sec. 678(a)(1), IRC Sec. 678(a)(2) provides that the trust continues to be a grantor trust after the powerholder "has previously partially released or otherwise modified such a power and after the release or modification retains such control as would, within the principles of IRC Secs. 671 to 677, inclusive, subject a grantor of a trust to treatment as the owner thereof."

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[160] *See Outwin v. Commissioner*, 76 TC 153 (1981), acq. 1981-2 CB 1; *Herzog v. Commissioner*, 116 F.2d 591 (2d Cir. 1941).

(2) It is Necessary For the Settlor of the BDIT to Steer Clear of Grantor Trust Status.

In order to achieve grantor trust status for the beneficiary of the BDIT under IRC Sec. 678, the trust cannot be a grantor trust to the settlor. In Private Letter Ruling 200949012, the IRS rules that the trust would not be a grantor trust as to the settlor, yet the beneficiary would be treated as the owner for income tax purposes under IRC Sec. 678. The design of the trust in that private letter ruling provides a great roadmap in avoiding grantor trust status for the settlor. The private letter ruling notes the following key facts:

> Grantor is not a beneficiary under the Trust, and has no interest under the Trust. Trust provides that no income or principal of Trust may be paid or appointed for the benefit of the Grantor or Grantor's spouse, or to pay premiums on insurance policies on the life of Grantor and/or Grantor's spouse. Trust further provides that neither Grantor nor Grantor's spouse may act as a Trustee of Trust and that no more than one-half of Trustees of Trust may be related or subordinate parties to Grantor, within the meaning of § 672(c).
>
> Trust further provides that Grantor does not intend to be treated under subpart E of Part I of subchapter J as the owner of Trust. Trust further provides that neither Grantor nor any other "nonadverse party" as that term is defined in § 672(b) shall have the power to (1) purchase, exchange or otherwise deal with or dispose of Trust's principal or income for less than adequate consideration or (2) borrow any of Trust's principal or income without adequate interest or security. Trust further provides that no person, other than a United States person, shall have the authority to control any substantial decision (within the meaning of § 7701(a)(30)(E) of any trust created under an [sic] held under Trust. No court, other than a court within the United States, shall exercise primary supervision over the administration of any trust created and held under Trust. Grantor and beneficiary represent that Trust will be a domestic trust within the meaning of § 301.7701-7 of the Procedure and Administration Regulations.

The private letter ruling concludes that based on the above facts the settlor will not be taxed under the grantor trust rules.

(3) Release vs. Lapse

One issue with respect to any BDIT in which there is a lapse of a withdrawal right, is whether IRC Sec. 678(a)(2) applies when the power is cut down by a lapse rather than a release. If a lapse occurs pursuant to the terms of the trust, can the powerholder be said to have "partially released or otherwise modified" the power? In two non-precedential private rulings issued in 2009 and 2010, the IRS has held that after a lapse the beneficiary continues to be taxable on the income of the trust under IRC Sec. 678(a)(2).[161] These are the latest in a long line of private

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[161] *See* P.L.R. 200949012 (Aug. 17, 2009); PLR 201039010 (June 29, 2010).

rulings that treat a lapse as covered by the "partially released or otherwise modified" language of IRC Sec. 678(a)(2).[162] However, the rulings do not discuss in detail the issues underlying that result. Some worry that the rulings are questionable and the IRS could change its position because a lapse is different than a release, and IRC Sec. 678(2) does not mention lapses.[163] A "release" requires an act by the powerholder, while a "lapse" can occur pursuant to the terms of the trust without an affirmative act. Is a lapse a release or other modification as required by IRC Sec. 678(a)(2)? The private rulings imply that the answer is yes.[164]

(4) Partial Release or Other Modification

Assuming a lapse can qualify as a release or other modification, the next issue with respect to any BDIT in which there is a lapse of a withdrawal right is whether a power that has lapsed completely (either all at once or in stages over time) remains one described in IRC Sec. 678(a)(2), given the statute's requirement that the IRC Sec. 678(a)(1) power have been "<u>partially</u> released or otherwise modified" (underscoring added). For estate tax purposes, it would be desirable to eliminate the power of withdrawal entirely prior to death because, even if tested under IRC Sec. 2041, it is a general power. In Private Letter Ruling 201039010 withdrawal powers over successive additions lapsed completely (within the "5 & 5" limits) after each year's addition, but IRC Sec. 678(a)(2) was held to apply, without discussion of the word "partially" in the statute. One way to read IRC Sec. 678(a)(2) is that if the beneficiary once had a IRC Sec. 678(a)(1) power, IRC Sec. 678(a)(2) applies as long as the beneficiary has any continuing interest or power that would make a self-settled trust a grantor trust, even if the beneficiary no longer has any power to withdraw. The line of private rulings mentioned in the preceding paragraph supports this reading. The language of the pertinent Regulation seems also to support it.[165] This reading is not certain, however, and some practitioners would argue that the power to withdraw must continue to some extent for the lapse to be "partial".[166] The design of the trust described in Private Letter Ruling 200949012 finesses this issue, giving the beneficiary a continuing withdrawal power under an ascertainable standard, supporting the conclusion that

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[162] See rulings cited in Howard Zaritsky, "*The Year in Review: An Estate Planner's Perspective on Recent Tax Developments,"* TM Estates Gifts and Trusts Journal (*BNA*) (Jan.13, 2011).

[163] *See* Avi Kestenbaum, Jeff Galant & Eli Akhaven, "The Beneficiary Defective Inheritor's Trust: Is It Really Defective?," LISI *Estate Planning Newsletter 1730* (Dec. 14, 2010), at http://www.leimbergservices.com.

[164] Under the gift and estate tax, specific statutes provide that a lapse is a release. IRC Secs. 2514(e), 2041(b)(2). These provisions do not apply to the extent the lapsed power covered less than the greater of $5,000 or 5% of the trust's value.

[165] Treas. Reg. Section 1.678(a)-1(a) states: "The holder of [an IRC Sec. 678(a)(1) power] also is treated as an owner of the trust even though he has partially released or otherwise modified the power <u>so that he can no longer vest the corpus or income in himself</u>, if he has retained such control of the trust as would, if retained by a grantor, subject the grantor to treatment as the owner under Secs. 671 to 677, inclusive." See Jeffrey A. Galant, "*Beneficiary Grantor Trusts: Overview of Selected Issues*," paper prepared for the ACTEC Business Planning Committee Summer 2011 Meeting.

[166] Jonathan G. Blattmachr & Diana S. C. Zeydel, "PLR 200449012 – Beneficiary Defective Trust(sm) Private Letter Ruling," LISI *Estate Planning Newsletter* 1559 (Dec. 10, 2009), at http://www.leimbergservices.com.

there has been a "partial release" or other "modification" of the unlimited withdrawal power, rather than a complete release. Again, however, the ruling does not discuss the issue specifically.

E. A Substantially Funded BDIT Created By a Hanging Power Lapses in Another Substantially Funded BDIT.

1. What is the Substantial Lapsing Hanging Power Created BDIT?

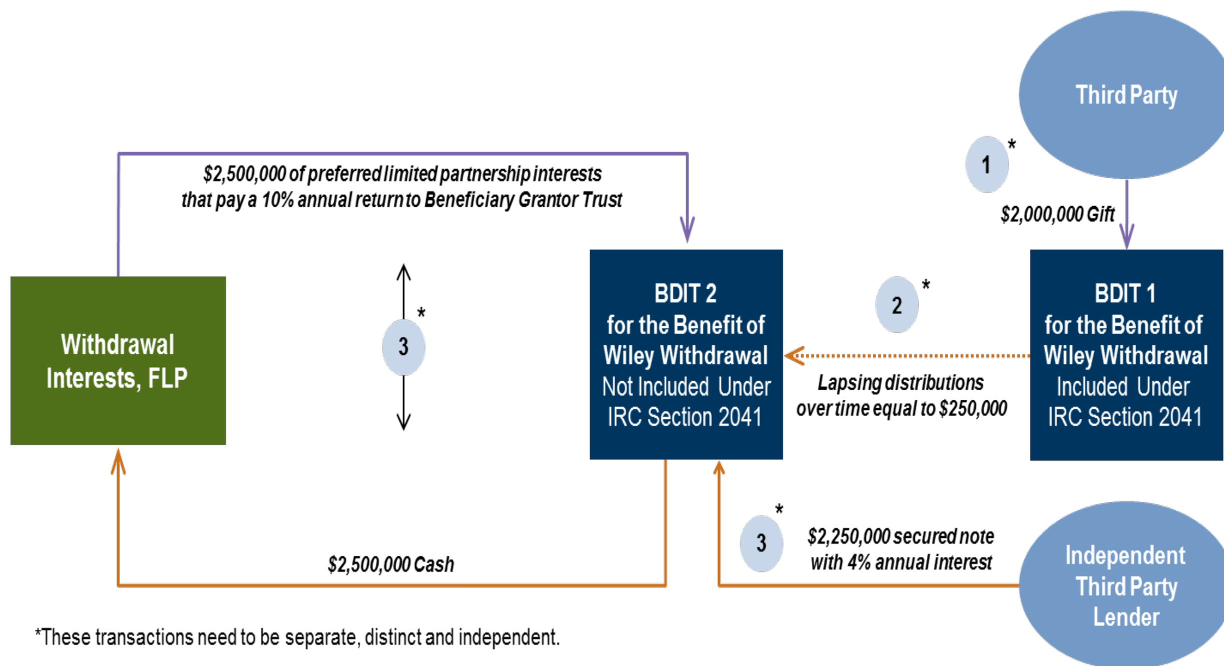
The settlor to a BDIT ("BDIT 1") could contribute a corpus that is much greater than $5,000. The BDIT 1 could be designed so that the original unlimited power to withdraw all of the assets of the trust gradually lapses over time pursuant to a so-called "hanging power." The trust assets with that unlimited power to withdraw could pass to another trust ("BDIT 2") in which the beneficiary only has the power to withdraw pursuant to an ascertainable standard. The technique may be illustrated by the example below:

Example 20: A BDIT is Created By a Third Party With Substantial Assets and
<u>Under Which There is Only a Gradual Lapse of the Unlimited Withdrawal Power</u>

Wilhelmina Withdrawal creates a trust, BDIT 1, for the benefit of her son Wiley Withdrawal. She contributes $1,000,000 to the trust. Wiley has an unlimited power of withdrawal of $1,000,000 for any reason, which gradually lapses over time (this lapsing power annually lapses by the greater of 5% of the value of the assets or $5,000.00). Each year when the unlimited power to withdraw $1,000,000 partially lapses, the trust assets equal to that lapse are held in another trust, BDIT 2, in which Wiley Withdrawal has a direct or indirect limited power of withdrawal that never lapses and that limited power of withdrawal is tied to an ascertainable standard relating to Wiley's health, support and maintenance. Wiley lives in a state where his creditors cannot reach the assets of a trust that is not included in his estate under IRC Sec. 2041 despite his powers of withdrawal.

Five years later, the trust in which Wiley has a limited power of withdrawal (BDIT 2) has $250,000 in it. That trust then borrows $2,250,000 from an independent third party and invests $2,500,000 in Withdrawal Interests, FLP and receives a preferred limited partnership interest that pays a 10% coupon and has certain put rights.

This technique is illustrated below:



2. Additional Advantages of the Substantial Lapsing Hanging Power Created BDIT Technique.

The use of a reverse freeze (using high yielding preferred partnerships) has been explored by this writer and others.[167] A high yielding preferred partnership interest may make excellent collateral to an independent third party lender. Assuming the trust is not taxable in Wiley's estate, any future sales into the trust in which Wiley has a limited power of withdrawal should not be subject to capital gains taxes. The trust, as described above, would have considerable flexibility for Wiley's cash flow needs. Assuming Wiley has a limited power of appointment over the trust he should be able to reallocate the corpus of the trust if he has different stewardship goals at the time of his death. In the initial year, the trust has $250,000 in free cash flow to pay to the third party lender.

Over time, as the note is paid down, and also over time as more assets are available to the trustee because of future lapsing distributions to BDIT 2, greater equity will exist in the trust. This equity could support subordinated note sales of other assets (e.g., preferred partnership interests) by Wiley Withdrawal. All of this could be done without the necessity of guarantee fees or sales of remainder interests in GRATs. There is much more substance to the leverage of this technique than the techniques discussed in Examples 18 and 21. Furthermore the leverage is coming from an independent third party lender instead of the transferor/beneficiary of the BDIT.

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[167] *See* this author's paper, "Some of the Best Family Limited Partnership Ideas We See Out There," ALI-ABA Planning Techniques for Large Estates, at 167-82 (Nov. 5, 2010); *see also* the discussion in Section V of this paper.

3. Considerations of the Substantial Lapsing Hanging Power Created BDIT Technique.

a. Use of a BDIT Raises Many of the Income Tax Issues Discussed *Supra* Section XI.D.1 of this Paper.

b. IRC Sec. 2041 Issues.

If the beneficiary should die in the early years of the trust, a substantial portion of the original trust, which is subject to IRC Sec. 2041, will be included in his estate because of the unlimited power to withdraw assets to the extent the unlimited power to withdraw assets is still in existence.

c. Use of a Third Party Lender

This technique may also require the existence of an asset that is attractive as security to a third party lender, because a third party will demand collateral that has substantial inherent cash flow and safety. A high yielding preferred partnership interest, in which the other assets of the partnership are subordinated to the preferred partnership interest, may be such an asset.

d. Pecuniary Withdrawal Right Issues.

This use of the BDIT, in which there is a lapse of a withdrawal right, calls for the settlor to contribute to the trust property with a value greater than $5,000, so that the beneficiary's power of withdrawal cannot lapse in full at the end of the first year and must lapse over time as a "hanging power".[168] Assuming the trust appreciates in value, the power may lapse faster if it is defined as a pecuniary amount, because the appreciation will increase the potential annual lapse without increasing the amount withdrawable under the power. However, this raises another IRC Sec. 678 consideration: whether the trust could lose its status as a wholly grantor trust in a year in which, because of appreciation in the value of the trust, the pecuniary amount withdrawable under IRC Sec. 678(a)(1), plus the portion of the trust subject to IRC Sec. 678(a)(2) by reason of prior lapses, totals less than the current value of the trust. Under Treas. Reg. §1.671-3(a)(3), the IRS could also argue that the portion of the trust represented by such excess appreciation is not currently subject to the grantor trust rules, so the BDIT is no longer wholly a grantor trust. Moreover, in the absence of subsequent depreciation, it seems that the portion not subject to IRC Sec. 678(a)(1) can never become subject to IRC Sec. 678(a)(2), so that the trust never again becomes wholly grantor, although some argue otherwise.[169]

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[168] The annual lapse of the power of withdrawal will be limited to the greater of $5,000 or 5% of the value of the trust, to keep the Beneficiary from being treated under IRC Sec. 2041 as a transferor for gift and estate tax purposes by reason of the lapse. As mentioned above, this requires that the governing law must protect such a lapse from creditors' rights, which is the case under Uniform Trust Code Section 505(b)(2).

[169] Jonathan G. Blattmachr & Diana S. C. Zeydel, "PLR 200449012 – Beneficiary Defective Trust(sm) Private Letter Ruling," LISI *Estate Planning Newsletter* 1559 (Dec. 10, 2009), at http://www.leimbergservices.com.

For example, if the trust assets initially covered by the withdrawal power is X where X equals the entire value of the trust, but in a future year the trust is worth 4X, the portion of the trust considered to be a grantor trust under IRC Sec. 678 in that year may be 25%. Moreover, if the power then lapses each year to the extent of 5% of the value of the trust per year, assuming no further appreciation or depreciation, the maximum portion of the trust that will eventually consist of property over which a power of withdrawal lapsed will also be 25%, and the trust never again becomes wholly grantor. Obviously, if that is the correct interpretation, the servicing of any note from a sale by a beneficiary to the trust would be disadvantageous to the extent a trust is treated as a complex trust instead of a grantor trust. The IRS has never taken this approach in its private letter rulings regarding trusts that qualify to be Subchapter S shareholders because they are grantor trusts.[170] Otherwise, if the trusts were not wholly grantor trusts, they might not have qualified as Subchapter S trusts.

One solution to the problem discussed in the preceding paragraphs may be to initially define the beneficiary's withdrawal right as extending not to a pecuniary amount but to 100% of the trust property, lapsing each year as to 5% of the trust (or such greater percentage as equals $5,000 in value). This will require more time for the power to lapse completely.

It should be noted that some practitioners believe that the "portion" rule of Treas. Reg. Section 1.671-3(a)(3) does not apply when the beneficiary's pecuniary power of withdrawal is large enough to make all property added to the trust withdrawable, even if subsequent appreciation or income accumulation increases the trust's value above the pecuniary amount. In such a case, all value in the trust is attributable to property over which the beneficiary once had a power of withdrawal. The beneficiary could have captured all the increasing value for himself by promptly exercising the power, but instead allowed it to "lapse" as to such value. Therefore it can be argued that any value that is no longer withdrawable is covered, at least in a policy sense, by IRC Sec. 678(a)(2).[171]

F. The Technique of a $5,000 BDIT Purchasing the Remainder Interest in a GRAT or a LAGRAT (the "BDIT Remainder Purchase Technique").

1. What is the BDIT Remainder Purchase Technique?

A third party could create a trust for the benefit of the potential seller to the trust. The trust could be designed so that the third party settlor is not taxable on the trust income under the grantor trust rules. The trust could also be designed so that the beneficiary has an unlimited right to withdraw of all of the assets that are in the trust for a period of time. The right of withdrawal

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[170] For example, *see* P.L.R. 200011058 (Dec. 15, 1999); P.L.R. 200011054 to 056 (Dec. 15, 1999); P.L.R.199942037 (June 7, 1999); P.L.R. 199935046 (June 7, 1999).

[171] Steven B. Gorin, "*Beneficiary Grantor Trusts: A New Paradigm for Transferring Businesses*," paper prepared for the ACTEC Business Planning Committee Summer 2011 Meeting, pp. 14-15; see also Jeffrey A. Galant, "*Beneficiary Grantor Trusts: Overview of Selected Issues*," paper prepared for the ACTEC Business Planning Committee Summer 2011 Meeting, section A(2).

lapses after a period of time, (e.g., one year) in an amount equal to the greater of 5% of the value of the corpus of the trust or $5,000. However, the beneficiary could also be given the direct or indirect right to continue to withdraw income and principal of the assets of the trust, as long as it is for the beneficiary's health, education, support or maintenance as described under IRC Sec. 2041. The situs of the trust is in a jurisdiction in which a lapse of the greater of 5% of the corpus or $5,000 does not give a creditor rights to the trust (hereinafter the trust is referred to as a "BDIT"). The beneficiary/transferor could sell certain assets to the BDIT, either using the LAGRAT technique in which the BDIT trustee pays for the remainder interest (which is the technique explored below), a sale for a note that is guaranteed by another trust, or a sale to the BDIT that is financed by an independent third party lender. The beneficiary/transferor is considered the owner of the trust for income tax purposes under IRC Sec. 678.

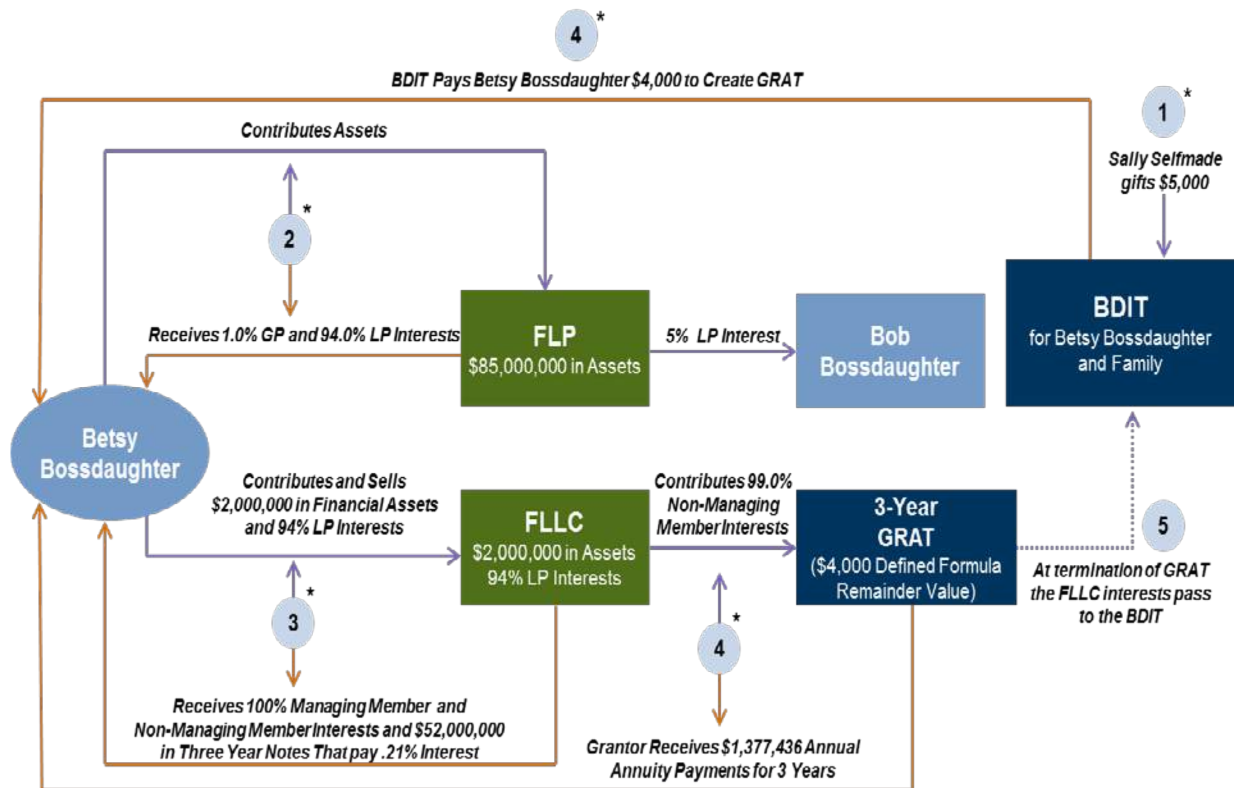
Consider the following example:

Example 21: Creation of a LAGRAT in Which the BDIT
Remainderman Pays Full Consideration For That Remainder Interest

Betsy Bossdaughter has $97,000,000 in financial and private equity assets. Betsy wishes to maintain maximum flexibility in her estate planning. Betsy also wishes to retain the right to change her mind as to future stewardship goals and consumption needs. Betsy's husband, Bob owns $5,000,000 in assets. Assume that Betsy and Bob's assets will grow at 7.4% a year pre-tax. Betsy's mother, Sally Selfmade, is still living. Sally is going to create a generation-skipping trust for the benefit of Betsy. The trust will have a corpus of $5,000 (Transaction 1 below). The trust agreement will provide that Betsy has the right to withdraw all the trust assets for a year. That right lapses after a year. After the first year, Betsy will also have the power to withdraw the trust assets as needed for her health, support and maintenance in order to maintain her standard of living. That right will not lapse. In a separate and distinct transaction, after Sally creates the $5,000 trust, the trustee of the trust transfers $4,000 of the trust to Betsy for full consideration for Betsy creating a GRAT, with the assets described below, that has a $4,000 defined value remainder interest (Transaction 4 below).

The GRAT is funded with non-managing member interests in a FLLC that was funded with limited partnership interests in a FLP, as illustrated below (Transactions 2 and 3 below). It is assumed that valuation discounts for transfers of the limited partnership interests and the non-managing member interests of the FLLC are each equal to 30%. It is assumed that the IRC Sec. 7520 rate is 1.0%.

This technique is illustrated below:



2. Advantages of the BDIT Remainder Purchase Technique.

a. The Assets of the BDIT, if the Transferor is Not a Deemed Donor Under Equitable Principles, Will Not Be Subject to Estate Taxes in the Transferor's Estate.

See discussion *supra* Section XI.D.3. Under the assumed facts, if Betsy is not a transferor, or a deemed transferor under equitable principles, the BDIT assets may not be taxable in the beneficiary's estate. The lapsed withdrawal power meets the exception of IRC Sec. 2041.

Obviously, if this technique is successful, it could be a very powerful technique with respect to estate planning for Betsy Bossdaughter and her family. Please see the following chart, which denotes what the estate taxes would be at the end of five years, 15 years and 30 years (also see the spreadsheets attached as Schedule 17):

Table 16

Hypothetical Results	Assuming Mr. and Mrs. Bossdaughter Die at the End of 5 Years	Assuming Mr. and Mrs. Bossdaughter Die at the End of 15 Years	Assuming Mr. and Mrs. Bossdaughter Die at the End of 30 Years
Estate Taxes at 40%			
No Further Planning; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)	$44,243,250	$61,859,403	$102,572,795
Third Party Gift to a Trust in Which the Beneficiary is Taxed Under 678 but not Taxable in the Beneficiary's Estate (678 Trust); Creation of a Single Member FLLC with Contribution of Non-Managing Member Interests to a 3-Year GRAT in Which There is No Gift Because of a Purchase by the 678 Trust; the GRAT Remaindermen is a 678 Trust Created for the Benefit of the Grantor and His Family; Bequeaths Estate to Family (assumes $25.5mm exemption is available)	$23,651,853	$16,164,598	$0

b. Avoids Capital Gains Tax Consequences on the Sale of Assets to the Trust.

There should not be any capital gains consequences on creation of a leveraged FLLC. *See* discussion *supra* Section VII.A. There also should not be any capital gains consequences on the creation of the GRAT by contributing the FLLC interests to the GRAT. The GRAT can be designed to be a grantor trust to the grantor. *See* discussion *supra* Section V.A. of this paper. The creation of the grantor retained annuity trust in consideration for the cash coming from a BDIT in which a grantor is taxed under IRC Sec. 678 should also be income tax free, since both trusts are treated as grantor trusts.

c. Has the Advantage of Allowing Betsy Access to Cash Flow From Note Payments, and as a Beneficiary of the BDIT.

If the transaction is successful, during the term of the GRAT, the grantor of the GRAT will have access to the cash flow of the assets of the FLLC, either through the note payments from the FLLC, or the annuity payments from the GRAT. After the GRAT terminates, the transferor will have access to the cash flow of the assets of the FLLC either from the note payments of the FLLC, or under the terms of the BDIT, if the cash flow of the BDIT is needed for her support and maintenance.

d. The Transferor Has Flexibility to Change the Future Beneficiaries of the Trust Through the Exercise of a Special Power of Appointment.

If the transferor has a power of appointment over the BDIT the taxpayer also has the flexibility of redirecting the assets in a manner that may be different than the default provisions of the trust document.

e. Has the Potential of Avoiding Gift Tax Surprises.

The GRAT can be designed with a built-in revaluation clause. If the IRS disputes any valuation discounts associated with the FLLC, because of the built-in revaluation clause the annuity amounts accruing back to the taxpayer would increase. Such a clause should not be against public policy and, in fact, is explicitly permitted by the IRS regulations. Treas. Reg. Section 25.2702-3(b)(1)(ii)(B). *See* discussion *supra* Section V.C.1.

f. Appreciation Will Be Out of the Transferor's Estate.

To the extent the assets of the FLLC increase in value above the interest carry on the note and the annuity payments that accrued back to the transferor, that appreciation should be out of the transferor's estate, assuming the transaction is recognized for estate and gift tax purposes.

3. Considerations of the BDIT Remainder Purchase Technique.

a. In Order For the Full and Adequate Consideration Exception Under IRC Sec. 2036 to Apply, the Remainder Interest of the GRAT That is Sold May Need to Have a Substantive Value Much Greater Than $4,000.

As noted in the discussion *supra* Section IX.E.1, there are three Circuit court cases providing that IRC Sec. 2036 does not apply when there has been full and adequate consideration for a sale of a remainder interest in a trust. However, in each of those case there was a substantial remainder interest (much greater than $4,000). Query: would the courts be reluctant to provide that adequate and full consideration exists to circumvent application of IRC Sec. 2036 in a situation in which only $4,000 is paid in the context of a multi-million dollar trust? Stated differently, with the significant leverage involved in the creation of a FLLC, and the significant leverage involved in creating a GRAT, would a court take the view that the leverage is too extreme and that the *substance* of the transaction is a transfer of the FLLC interests by the beneficiary/transferor to the BDIT for less than full consideration? A court could take the position that those cited cases are all distinguishable because the purchase of the remainder interest in each of those cases had economic risk for the purchaser of the remainder interest. Under the Sam and Sally facts, the economic exposure of the BDIT resulting from its purchase of the GRAT remainder is $4,000. In the context of a multi-million dollar GRAT, a court may conclude that the remainderman trust's (i.e., the BDIT's) economic risk in the transaction lacks substance in comparison to the potential reward. In *Strangi*, the full Tax Court and the Fifth Circuit both concluded that IRC Sec. 2036 applies to any and all transfers, even if gift taxes are not owed on that transfer by that transferor.[172] If the remainder trust purchase had substance (perhaps because it is a spousal grantor trust that pays considerable consideration) IRC Sec. 2036 should not apply. But a court may find that is not the case under facts similar to Example 23. If the purchase of the remainder is not a "bona fide sale for an adequate and full consideration" IRC

[172] *See Estate of Strangi v. Commissioner*, 115 T.C. 478 (2000), aff'd, 417 F.3d 468 (5th Cir. 2005).

Sec. 2036 and/or 2038 could apply. The GRAT formula clause, unless easy to value assets are used or the GRAT and the BDIT have proportionate interests in the same entity, does not ensure that the consideration paid will equal the value of the remainder interest if values are increased on audit, because the remainder will increased proportionally and exceed the original payment. It may be possible to solve this problem by having the BDIT "overpay" for the remainder, which the trustee would have a rational reason to do to insure against later depletion of the trust assets by the beneficiary's estate tax apportioned to the trust, or by using a defined value clause for the sale, with any remainder value in excess of the sale price passing by gift to a recipient other than the BDIT.

b. Need to File a Federal Gift Tax Return.

See discussions *supra* Section III.D.4 and the final paragraph of the discussion *supra* Section XI.D.3.b.(4). A federal gift tax return needs to be filed in order to determine if there should be any adjustments with the GRAT and to get the statute of limitations running. There will be an expense in connection with filing the federal gift tax return and with the necessary appraisals attendant with the technique.

c. State Income Tax Considerations.

There may be state income tax considerations on the sale of any appreciated assets to the FLLC. There also may be state income tax consequences in selling the remainder interest of a GRAT to the BDIT.

d. Step Transaction Doctrine Could Apply.

Please *see* discussion *supra* Section III.D.3. If the IRS can demonstrate, because of the thin capitalization, the $4,000 payment should be ignored, then under other equitable principles it may be able to establish the creation of the BDIT lacks independence, and the deemed grantor of the trust will be the beneficiary.

e. Creditor Rights and Related Estate Tax Issues.

If the sale to a FLLC and the creation of the GRAT with the FLLC interests in consideration for a $4,000 payment from the BDIT is not for adequate and full consideration, then under the laws of the state of the beneficiary, the creditors may be able to reach whatever interest the beneficiary of the trust could distribute to himself or herself, and whatever the trustee could distribute to the beneficiary. A settlor's ability to redirect to creditors may include that portion of the trust in the beneficiary's estate under either IRC Sec. 2036 or IRC Sec. 2038. *See* discussion *supra* Section XI.A.4.h. The lapse of a power over not more than the greater of 5% or $5,000 does not cause the powerholder to be treated as a settlor of the property subject to the lapse under the laws of many states.[173] Here, however, the beneficiary's transfer of the remainder

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[173] *See* Uniform Trust Code Section 505(b)(1) and the comments under it.

interest to the trust may make him a settlor for creditors' rights purposes despite those statutes, as his continuing interests and powers in the BDIT arguably result from the beneficiary's own transfer, rather than from the lapse of his unlimited power of withdrawal.

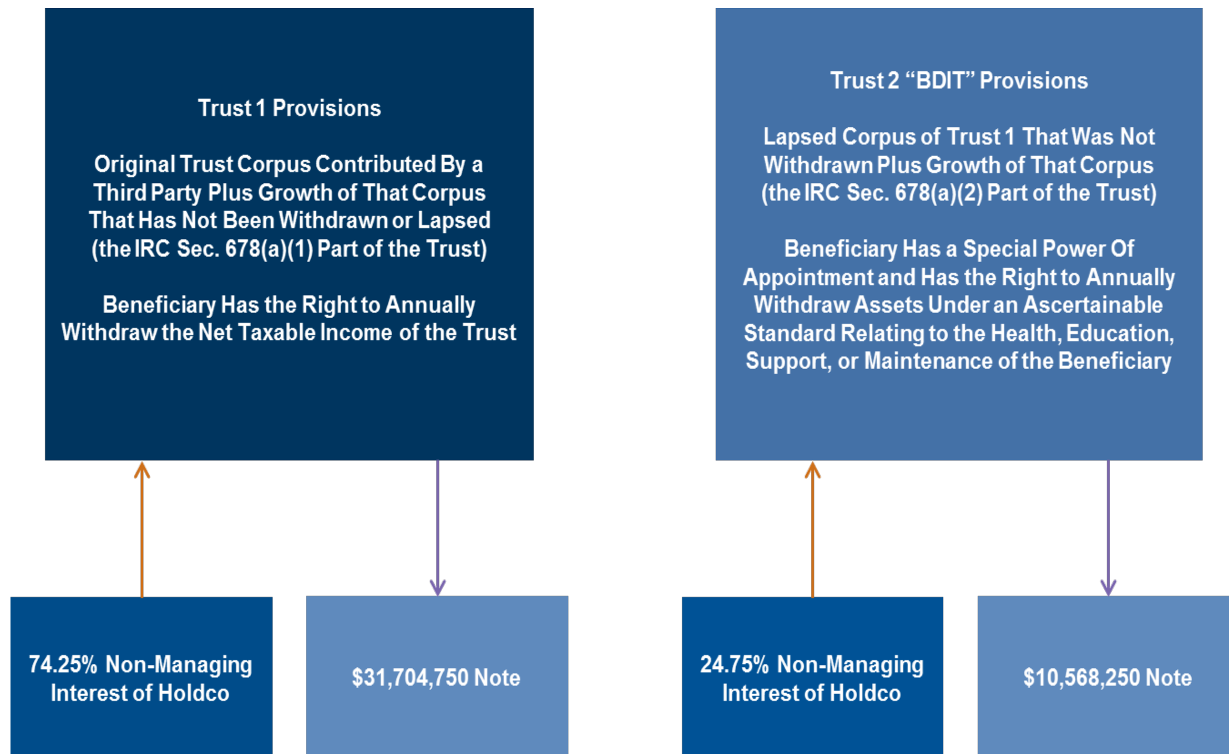
f. Incomplete Gift Issues.

See discussion *supra* Section XI.D.3.b.(6).

G. Creation of and Additions to a BDIT Could Accrue By Providing That the Withdrawable, But Untaken, Funds of the BDOT, That Do Not Exceed 5% Corpus Limitation, Are to Be Held Under Trust Provisions Similar to BDIT Provisions After Each Lapse of the Withdrawal Power of the BDOT (the "BDOT Created BDIT").

1. What is the BDOT Created BDIT Technique.

See supra Section XI.C for a discussion of the BDOT technique, its advantages, considerations and an example of the technique. Under the facts of that Example 20, assume that after a period of time 25% of the net funds and the net corpus of the BDOT that is subject to the debt of the BDOT and that could have been withdrawn has not been withdrawn and has lapsed. That lapsed part of the trust could be held under different provisions of the trust that allow the beneficiary to only withdraw that part of the trust pursuant to an ascertainable standard relating to the health, education, support, or maintenance of the beneficiary. The beneficiary continues to have a testamentary special power of appointment. The technique is illustrated below:



2. Advantages of the BDOT Created BDIT Technique.

a. A BDIT Created in This Fashion Has All of the Advantages That May Exist With a BDIT, Including the Advantage That the "Trust 2" Part of the Trust Will Be Treated Under IRC Sec. 678(a)(2) as a Grantor Trust to the Beneficiary.

See the discussion *supra* Section XI.D.2.

b. This Technique Does Not Require the Use of Guarantees to Support the Integrity of the Note That May Lack Substance Under Equitable Tax Principles.

See the discussion *supra* Section XI.D.3.

c. Since There is a Much Better Chance the Retained Note of the Seller to the Trust, Who is Also a Beneficiary of the Trust, Will Be Treated as a Bonafide Note There is Less IRC Secs. 2036 and 2038 Risk With the Technique Than A BDIT That is Only Created With $5,000.

d. There May Be Greater Creditor Protection Under the Above Trust 2 Provisions Than the Trust 1 Provisions.

3. Considerations of the BDOT Created BDIT Technique.

a. Depending on How the Lapse of the Withdrawal Power is Implemented There Could Be the Consideration That Part of the Trust May Not Be Considered a Grantor Trust.

See the discussion *supra* Section XI.E.3.d.

b. A Beneficiary Has the Automatic Right to Access the Income and Principal of Trust 1, Which, Under the Terms of the Agreement, is Not the Case for Trust 2.

However, under certain circumstances (e.g., concerns about creditors) that consideration could be an advantage. Secondly, assuming the beneficiary has a fairly wide-open special power of appointment, and is trustee of Trust 2, the payment of principal or income from Trust 2 to the beneficiary will probably not be considered by a remainder beneficiary to be an abuse of the HEMS standard for fairly obvious practical reasons. If the BDOT beneficiary does not withdraw net taxable income in a year, he loses the right to withdraw the income on that income in subsequent years. Does that threaten the idea that as to the BDOT he has the right to withdraw all the net taxable income?

XII. LIFETIME CHARITABLE GIVING STRATEGIES THAT ALSO BENEFIT CLIENT'S DESCENDANTS.

A. Use of a LAGRAT When One of the Assets of the FLLC is a Non-charitable Interest in a Charitable Remainder Unitrust ("CRUT").

1. Introduction and the Technique.

The "conventional wisdom" this author sometimes hears on this subject is as follows: "you can no longer use the CRUT technique and benefit your family;" or "the problem with charitable planning is that it will greatly decrease what a client's family will receive." This "conventional wisdom," under the circumstances discussed below, is incorrect.

Charitable remainder trusts, particularly charitable remainder unitrusts ("CRUTs") are a very popular planning technique for the charitably inclined client. While the technique has significant benefits to the client and his favorite charitable causes, one downside is the perception that it is difficult to benefit a client's family with the technique. Perhaps that is not true, if the technique is used synergistically with certain other estate planning techniques, that is, a LAGRAT. *That synergistic planning could simulate the following: a capital gains tax and estate tax holiday with the only "cost" (or additional benefit) being that the taxpayer's favorite charity receives a little over 20% of his remaining wealth on his death.*

Consider the following example:

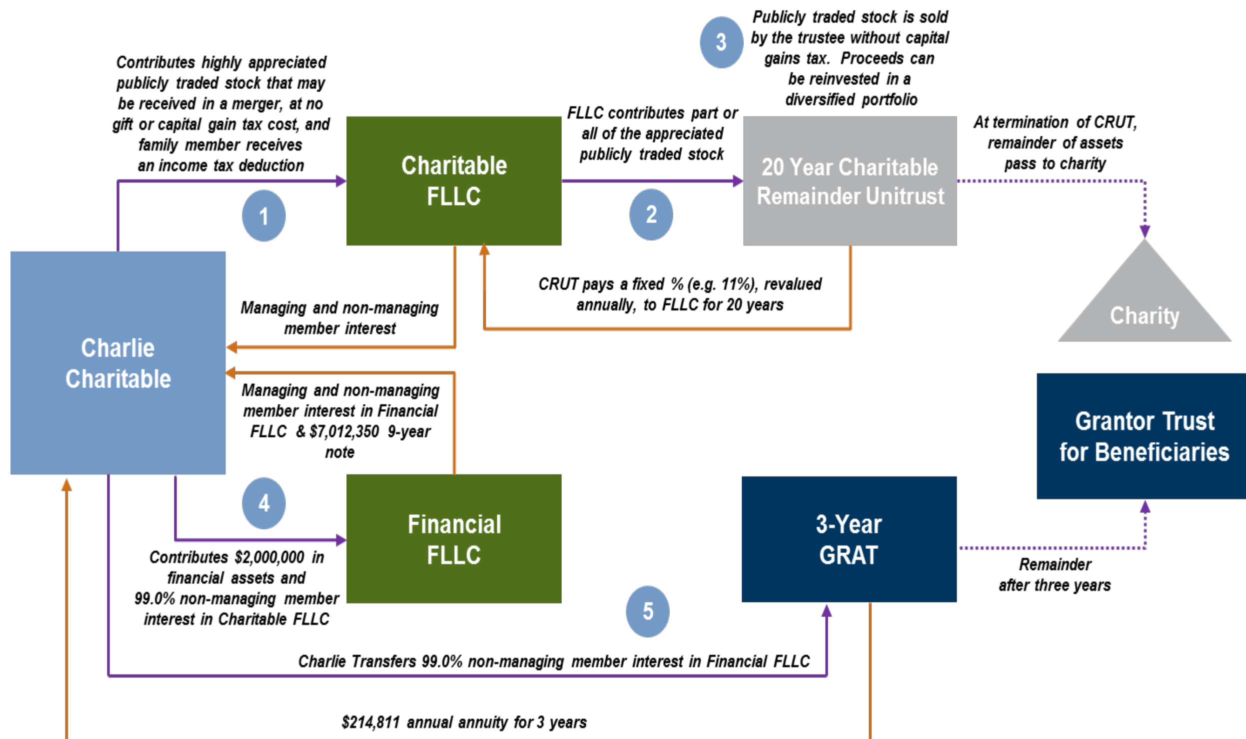
Example 22: Charlie Charitable Wishes to Benefit His Family,
<u>His Charitable Causes and Himself With a Monetization Strategy</u>

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

Charlie's lawyer, Pam Planner, has a plan to help Charlie achieve his objectives, which significantly reduces the capital gains tax on the sale of his appreciated stock and minimizes the estate tax cost of transferring the stock proceeds to his family. Pam suggests that Charlie fund a Charitable FLLC with his stock, and that the FLLC creates a twenty-year term charitable

remainder unitrust ("CRUT"). The FLLC will keep an up-front stream of payments for twenty years that represents a 90% actuarial interest in the CRUT. Charlie's favorite charity will receive the remaining CRUT assets at the end of the twenty-year term. The trustee of the CRUT could sell the stock and construct a diversified investment portfolio without triggering immediate capital gains tax consequences. If Charlie owns most of the Charitable FLLC when the CRUT is created, most of the income tax charitable deduction for charity's 10% actuarial interest will flow through to him. Charlie could then contribute his non-managing member interest in the Charitable FLLC along with most of his other financial assets to a leveraged FLLC (Financial FLLC) getting a note back for 90% of the value of the assets. Charlie can allocate GST exemption to the grantor trust so his family's wealth is potentially protected from gift, estate and GST taxes forever.

This technique is illustrated below:



A CRUT is an irrevocable trust, often called a "split interest" trust. When a donor creates a CRUT, he can keep or give away a continuing payment stream from the CRUT for a period of time. This payment stream is made to the "noncharitable" beneficiaries.[174] The time period can last for up to twenty years or for the lifetimes of one or more currently living noncharitable beneficiaries.[175] In private letter rulings, the IRS has permitted partnerships and corporations to

[174] IRC Sec. 644(d)(2)(A); Treas. Reg. § 1.664-3(a)(1).

[175] Treas. Reg. § 1.664-2(a)(1).

create CRUTs where the unitrust term is measured in years instead of the lives of individuals.[176] In Charlie's case, the FLLC will be both the donor and the noncharitable beneficiary. The CRUT must pay a fixed percentage of the annual value of its assets to the FLLC each year, so the unitrust payments will fluctuate along with the value of the CRUT's investments.

At the end of the unitrust period, the trustees of the CRUT will distribute the remaining assets to one or more qualified charitable beneficiaries or will hold the assets solely for charitable purposes.[177] These charitable beneficiaries can include private foundations and donor advised funds.[178]

The FLLC, as the donor, will pass through a current income tax deduction for the value of charity's interest to the members in the year it funds the CRUT. The value of the deduction depends on the value of the assets contributed to the CRUT, how long charity must wait to receive its interest, the size and timing of the partnership's reserved unitrust payment, and an assumed investment rate of return (called the IRC Sec. 7520 rate) that the IRS publishes monthly.[179] Because Charlie will own almost all of the FLLC when the CRUT is created, he will receive most of the deduction. Generally, Charlie can deduct up to 30% of his adjusted gross income for the transfer of appreciated marketable securities to the CRUT (20% if the remainderman is a private foundation), and he can carry forward any excess deduction for five years.[180]

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

[177] IRC Sec. 664(d)(2)(C).

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

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

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

Pam lists some of the key CRUT rules for Charlie:

a. The FLLC, as the noncharitable beneficiary, must receive an annual unitrust payment.[181] This unitrust payment is a fixed percentage of the fair market value of the trust's assets, revalued annually. There are exceptions to this rule that allow some CRUTs to distribute net income instead, but these extra rules are not relevant for Charlie.

b. The unitrust payment must be at least 5%,[182] but not more than 50%,[183] of the fair market value of the trust's assets, determined annually.

c. At the CRUT's inception, the actuarial value of charity's interest in the CRUT must be worth at least 10%.[184] The CRUT can receive additional contributions as long as each additional contribution satisfies the 10% rule.[185]

d. The CRUT does not pay income taxes.[186] The CRUT distributions carry out income tax consequences to the noncharitable beneficiary in a specific order: First, as ordinary income to the extent of the trust's current and past undistributed ordinary income (dividends that are taxed at 15% are included in this tier); second, as capital gains to the extent of the trust's current and past capital gains; third, as tax-exempt income to the extent of the trust's current and past tax exempt income; and finally, as a nontaxable return of capital.[187]

e. Charlie must factor in additional legal, accounting and administrative costs. Since every unitrust payment depends on an annual valuation of the CRUT's assets, hard to value assets might generate appraisal costs, too.[188]

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[181] IRC Secs. 664(d)(1)(B), (2)(B); Treas. Reg. § 1.664-3(a)(1)(i).

[182] Treas. Reg. § 1.644-2(a).

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

[184] IRC Sec. 664(d)(1)(D).

[185] Treas. Reg. § 1.664-3(b).

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

[187] IRC Sec. 664(b); Treas. Reg. § 1.664-1(d)(1).

[188] Treas. Reg. § 1.664-1(a)(7).

f. The trustees of the CRUT do not have unlimited investment flexibility. There is a 100% excise tax on unrelated business taxable income (UBTI) generated in a CRUT. Broadly defined, UBTI is income derived from any trade or business. UBTI includes debt-financed income, so certain investment strategies that use borrowing might be off limits. Also, the self-dealing rules that apply to charitable trusts prohibit Charlie from transacting with the CRUT, even if the transaction is completely fair.[189]

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

2. Income Tax and Basis Enhancing Advantages of the Technique.

a. The Income Tax Advantages of Creating a LAGRAT.

See discussion *supra* Section VII.B.

b. The Income Tax Advantage of Eliminating the Capital Gains Tax on That Part of the Gains That Will Be Allocated to the Charity Under the Tiered Income Tax Rules.

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

c. The Income Tax Advantage of Lowering Opportunity Costs By Delaying Taxes on the Portion of the Original Gain That is Not Allocated to Charity.

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

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[189] IRC Sec. 4941.

d. The Income Tax Advantage of a Charitable Deduction in Year One For the Actuarial Value of the Remainder Interest of the CRUT Passing to Charity.

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

3. Transfer Tax Advantages of the Technique.

a. The Transfer Tax Advantages of Creating a LAGRAT.

For a discussion of the transfer tax advantages of creating a LAGRAT *see supra* Section VII.C.

b. The Transfer Tax Advantage of a Higher Valuation Discount for the Transferred Non-Managing Interest.

A hypothetical willing buyer will take into account the actuarial value that passes to charity, the liquidating restrictions of the CRUT and the investment restrictions of the CRUT. All of these factors will lead to a much higher valuation discount than a gift or sale of a non-managing interest in an entity that does not create a 20-year term CRUT.

c. The Tax Advantage of Integration, Which Produces Advantageous Comparative Results.

Charlie can use a combination of gift and estate planning techniques to achieve his objectives. But the plan also requires investment strategies that support the income tax, cash flow and appreciation targets necessary to promote its success.

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

Charlie, the children, the trustees and their investment advisor consider how to produce the annual CRUT payments; how much could be in cash and in kind; what happens when the CRUT distributes its unitrust payments to the Charitable FLLC and the Charitable FLLC distributes some or all of the unitrust payments to Financial FLLC; Financial FLLC’s repayments of Charlie’s note; and how to reinvest those distributions to meet the differing objectives for Charlie, the charity, Financial FLLC and the grantor trust that is the remaindermen of the GRAT. They think through contingency plans to cope with inevitable investment volatility, or the ups and downs that happen in every diversified investment plan. They analyze the different types of

note: a "slow" note that preserves leverage for a longer time, and a "fast" note that eliminates the uncertain tax issues at Charlie's death. Charlie decides he would like the trust to repay his note as soon as possible, so the repayment is built into the plan.

To show Charlie the difference that taxes play in accumulating family wealth over time, Pam projects what would happen if there were no initial capital gains taxes when Charlie sells his stock and no estate taxes. She also projects what would happen if Charlie contributed non-managing member interests in Charitable FLLC to Financial FLLC without including the CRUT component. If the investment plan produced smooth returns until Charlie's death (which the group agrees to project twenty-five into the future), the results would look like this (*see* Schedule 18):

Table 17

Hypothetical Technique (Assumes $9.83mm Estate Tax Exemption Available)	Charlie's Descendants	Charity	Charlie's Consumption Direct Costs	Consumption Investment Opportunity Costs	IRS Taxes on Investment Income	IRS Investment Opportunity Costs	IRS Estate Taxes (@40.0%)	Total
Future Values at the end of 25 Years Assuming an Annual Compounded Rate of Return at 7.4%								
Stock Sale, No Planning	$19,745,860	$0	$5,123,665	$7,440,046	$11,792,247	$23,763,728	$6,610,574	$74,476,121
Simulated Tax Holiday (No Initial Capital Gains Tax and No Estate Tax) 78% - 22% Split Between Family and Charity	$27,251,647	$7,539,379	$5,123,665	$7,440,046	$11,817,313	$15,304,071	$0	$74,476,121
LLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity	$24,972,689	$7,539,379	$5,123,665	$7,440,046	$12,581,416	$16,818,926	$0	$74,476,121
LLC/Holdco/LevGRAT (no CRUT), Charlie gives remaining estate to family	$25,552,526	$0	$5,123,665	$7,440,046	$12,596,156	$23,763,728	$0	$74,476,121

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

Charlie is currently subject to a combined federal and state transfer tax rate of 44.6%. On the one-half of the capital gains taxed to Charlie (because the rest of the capital gain is still embedded in the CRUT when it passes to charity), Charlie avoids transfer tax on the dollars he spends to pay capital gains tax. Charlie has already paid those dollars to the IRS and so they have

been eliminated from his transfer tax base. That means Charlie's total effective capital gains rate on his $10,000,000 stock sale turns out to be less than 7.5% instead of 25% (prior to considering the 4.46% charitable income tax subsidy and the "time" described below). In other words, it costs Charlie a net of 3% of the proceeds in taxes to sell the stock using the proposed technique instead of 25%, even before the time advantage of delaying the payment of the capital gains tax is considered.

Although the simple stock sale generates the lowest amount of income tax – $11,792,247 – the combined total income tax cost of combining income tax with the lost opportunity cost of paying the capital gains tax in year one is $35,555,975, which is dramatically more than in the next two sets of projections (the simulated tax holiday and Pam's CRUT plan) because the early stock sale tax payment contributes to $23,763,728 in investment opportunity costs. Since Charlie pays capital gains tax immediately on the stock sale, his family loses the benefit of reinvesting those tax dollars. On top of that, the simple stock sale without estate planning piles on another $6,610,574 of estate tax. In contrast, there is no estate tax liability at all in the next three projections.

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

The two middle rows of numbers compare Pam's plan to a simulated tax holiday. Both sets of projections shows a total tax burden (which includes the investment opportunity costs of paying the tax) that is less than 65% of the aggregate tax bill generated by the simple stock sale with no planning. Charlie detects only one difference between Pam's plan and the simulated tax holiday. In Pam's plan, the total projected tax cost is an additional $2,278,958 (or 8.4% of the roughly $27,121,384 tax burden in the simulated tax holiday). That $2,278,958 reduces what Charlie's family would keep in a world with no initial capital gains tax on big stock sales and no estate taxes.

Pam asks Charlie to consider the projected outcome if he contributes non-managing member interests in Charitable FLLC to a LAGRAT, but the FLLC does *not* transfer its appreciated securities to a CRUT first. Those projections are in the final row. Charlie sees that his descendants would end up with $25,552,526, if Charitable FLLC did not create the CRUT, or $579,837 more than they would have received, if the FLLC did create the CRUT. Pam explains that when the FLLC creates the CRUT, the trustees do not pay immediate capital gains tax when they sell the stock, and Charlie receives a charitable income tax deduction up front. Without the CRUT, the larger note from the contribution to the LAGRAT, the early payment of taxes and lack of income tax subsidy compounds over time, so that at the end of the day, Charlie's family pays additional taxes and opportunity costs that cost almost as much as the future $7,539,379 gift to charity. Thus, there is comparatively little net cost to Charlie's family to transfer around $7,539,379 to charity. In fact, in states where a state capital gains tax exists, the net worth of Charlie's family generally *increases* with the use of the CRUT technique.

Although Charlie clearly sees that the two middle rows of numbers – Pam's plan against a simulated tax holiday – produce a nearly identical result, Pam presses the benefits of understanding leverage and opportunity costs even further. If Charlie allocates $617,087 in GST exemption to the GRAT on its creation (assume Charlie is 60 years old), he will protect more from further transfer taxes by the time of his death. *See* discussion *supra* Section IX.B. This benefit compounds as the property moves down the generations. By using his GST exemption wisely, Charlie not only solves some of his tax problems, but he also solves some of his descendants' tax problems as well.

4. Considerations of the Technique.

a. Generally, Investments That Are Made Inside the CRUT Should Be Marketable Stocks and Bonds. A Trustee of a CRUT Should Avoid Any Investments That May Have Unrelated Business Taxable Income.

b. The Technique Will Have the Same Considerations as the Creation of a LAGRAT.

See discussion *supra* Section VII.D.

B. Creating a FLP or FLLC with Preferred and Growth Interests, Transferring the Preferred Interest to a Public Charity, and Transferring the Growth Interests to a LAGRAT.

1. The Technique.

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

Consider the following example.

Example 23: Gift of a Preferred FLLC Interest to a Public Charity
and the Gift or Sale of a Growth FLLC Interest to a Taxpayer's Family

George Generous is unhappy about some of tax limitations associated with traditional charitable giving. Not only do tax limitations exist with respect to the amount of a deduction available for income tax purposes, there also is not any deduction in determining the new healthcare tax. George's stewardship goals are to give around $420,000 a year to his favorite public charities and to give a $6,000,000 bequest to his favorite public charities in his will

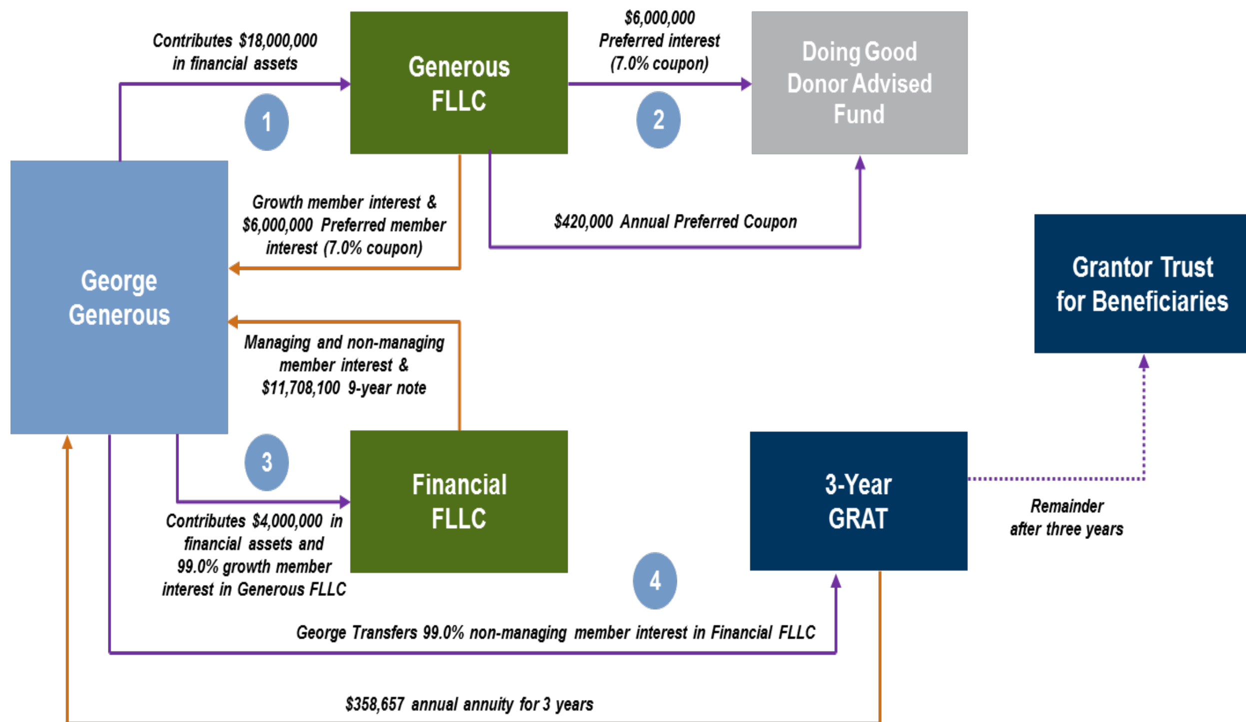
George tells Pam that he has a $6,000,000 zero basis security in his $22,000,000 portfolio. George asks Pam to assume his assets will annually earn 7.4%, with 3% of that return being taxed as ordinary rates and 4.4% of the return being taxed at long-term capital gains rates with a 30% turnover. George believes he has a 20-year life expectancy. George has a significant pension plan that pays for his consumption needs.

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

Pam Planner suggests that George consider forming a FLLC that will last until the earlier of his death, or 50 years. The FLLC is structured to have both preferred and growth interests. George could contribute $22,000,000 of his assets to the FLLC. George could contribute his low basis securities to the FLLC and receive a $6,000,000 preferred interest that pays a coupon of 7% (or $420,000 a year). The rest of his member interests, the so-called "growth" interests, would receive any income or gains above what is necessary to fund the preferred coupon.

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

This technique is illustrated below:



2. Income Tax Advantages of the Technique.

a. The Donor May Receive an Income Tax Deduction For the Discounted Present Value of the Charity's Right to Receive the Par Value of the Preferred on Termination of the FLLC, Even Though That Might Occur After the Donor's Death.

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

b. The Donor Should Receive an Income Tax Charitable Deduction, in the Year of the Gift, For the Discounted Present Value of the 7% Coupon That is to Be Paid to Charity.

Most of the value of the preferred interest is attributable to receiving the 7% coupon for 50 years, or until George's death. Stated differently, there is no willing buyer who would pay more than a small amount for the right to receive the par value for the preferred interest on George's death and the reason the preferred interest will have a fair market value of $6,000,000 is because of the right to receive a $420,000 annual preferred coupon.

c. In Addition to Receiving an Upfront Charitable Income Deduction For the Present Value of the Annual Coupon of the Preferred That is Paid to the Charity, the Donor Also Receives an Indirect Second Annual Deduction With Respect to the Future Preferred Coupon Payments Against His Income and Health Care Taxes Because of the Partnership Tax Accounting Rules.

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

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

d. The Donor Will Also Avoid the Built-in Capital Gains Tax on the Sale of Any Low Basis Asset That is Contributed For the Preferred Interest.

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

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

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

e. Assuming a Low Basis Asset Will Be Sold, the "Out of Pocket" Cost of a Gift of a Preferred Interest to a Public Charity, or Donor Advised Fund, is Minimal Because of the Above Tax Advantages.

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

In order to isolate the benefits of each of the annual giving strategies, Pam assumes George's assets will earn 7% before taxes. George asks Pam to assume 3% of the return will be taxed at ordinary rates and 4% will be taxed at capital gains rates (with 30% annual turnover). Using those assumptions she then calculates the income and health care tax efficiency ratio (present value of both total net income and healthcare tax savings divided by the present value of the total out of pocket cash) under the two assumed scenarios. Pam assumes a 7% present value discount rate. Please *see* Table 18 below and attached Schedule 19.

f. Income Tax Valuation Advantage: IRS Concedes Preferred Partnership Interests Should Have a High Coupon.

Prior to passage of IRC Sec. 2036(c) in 1987 (which was repealed in 1990) and prior to the passage of IRC Sec. 2701 as part of Chapter 14 in 1990, the IRS did not have many tools with which to fight, from their perspective, abusive estate freezes, except valuation principles. In

1983, the IRS issued a Revenue Ruling,[190] which promulgated the factors for determining what an appropriate coupon should be on preferred stock of a closely held corporation or what an appropriate coupon should be on a preferred partnership interest in a closely held FLP. Generally, the IRS took the view that a secondary market does not exist for interests in FLPs. Accordingly, with respect to a preferred partnership interest in a FLP, the coupon should be very high in order to reflect the embedded marketability discount of the preferred partnership interest. In other words, according to the IRS, to have a preferred partnership interest valued at "par", a hypothetical willing buyer would demand a significant return on that preferred partnership interest, in comparison to other comparable fixed income instruments, in order to compensate that hypothetical willing buyer for the lack of marketability that would be inherent in that family limited preferred partnership interest.

Table 18

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

3. The Transfer Tax Advantages of the Technique.

a. The Technique Has All of the Transfer Tax Advantages of a LAGRAT.

See discussion *supra* Section VII.C.

b. Valuation Advantage: The Gift Tax Valuation Rules Under IRC Sec. 2701 Do Not Apply to Any Future Gifts, or Sales, of the Growth Member Interests to Family Members, or Trusts For Family Members.

IRC Sec. 2701 became effective on October 9, 1990. It is a gift tax valuation statute that applies when a junior equity in a corporation or partnership is transferred to a member of the transferor's family and a senior interest in the family or partnership with certain discretionary

[190] Rev. Rul. 83-120, 1983-2 C.B. 170.

features is retained by the transferor or an 'applicable family member." A liquidation, put, call, or conversion right is automatically regarded as discretionary because it is within the discretion of the holder. Distribution rights trigger the valuation rules of IRC Sec. 2701 if the transferors hold control of the entity. These discretionary interests are referred to under IRC Sec. 2701 as "applicable retained interests."

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

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

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

Do these IRC Sec. 2701 valuation rules apply to a transfer of a preferred interest to a charity and a later sale or gift of the growth interest to the transferor's family? Stated differently, if a patriarch or matriarch reorganized his or her entity and transferred a high-yielding preferred equity interest to a charity, would this transfer and reorganization be a transaction that is subject to the valuation rules under IRC Sec. 2701, which was passed as part of Chapter 14? The answer is no.[191]

If a retained distribution right exists, there must exist a senior equity interest (*i.e.*, the transferor must have retained preferred stock or, in the case of a partnership, a partnership interest under which the rights as to income and capital are senior to the rights of all other classes of equity interest).[192] The Senate legislative history of Chapter 14 indicates that retention of

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[191] *See* IRC Sec. 2701(c)(1)(B)(i).

[192] *See* IRC Secs. 2701(c)(1)(B)(i); 2701(a)(4)(B); Treas. Reg. § 25.2701-2(b)(3)(i); s*ee also* PLR 9204016 (Oct. 24, 1991).

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

c. Under the Facts of This Example, in Addition to Saving Significant Income and Healthcare Taxes, Significant Transfer Taxes Could Be Saved in Transferring the Growth Interests to a Grantor Trust.

If George was able to obtain a 35% valuation discount for the growth interest in Generous FLLC and a 20% discount for Financial FLLC, Pam projects that in addition to saving income and healthcare taxes, George could save over $15,000,000 in estate taxes. Please *see* the table below and attached Schedule 19.

Table 19

	George's Descendants	Charity	IRS Income Tax	IRS Income Tax Investment Opportunity Cost	IRS Estate Tax (at 40%)	Total
20-Year Future Values						
No Further Planning	$35,000,264	$23,989,144	$14,640,259	$15,513,858	$17,540,176	$106,683,701
Hypothetical Technique #1	$55,436,988	$23,989,144	$15,426,212	$9,896,673	$1,934,685	$106,683,701
Present Values (Discounted at 2.5%)						
No Further Planning	$21,359,644	$14,639,877	$8,934,525	$9,467,657	$10,704,260	$65,105,963
Hypothetical Technique #1	$33,831,583	$14,639,877	$9,414,169	$6,039,652	$1,180,682	$65,105,963

d. IRC Sec. 2036 Advantage, if George Gives or Sells the Growth Interests to His Family.

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

First, there is a substantial investment purpose (i.e., non-tax purpose) with having preferred and common interests that divide the economic return of the FLP or FLLC between the owners of the interests in a different way than would result without the two interests. This creates is a substantive investment reason for the creation of the FLP or FLLC. As such, it should constitute a significant non-tax purpose, one that is inherent in the preferred/common structure. This in turn should minimize the danger of IRC Sec. 2036 being applied to any transfers of interests in the FLP or FLLC, because the Tax Court and the Courts of Appeal are much less likely to apply IRC Sec. 2036 to transferred FLP or FLLC interests if a non-tax reason, preferably an investment non-tax reason, exists for the creation of the FLP or FLLC.[193]

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

In 1987, the Tax Court in the *Boykin*[194]case ruled that because of state property law,[195] the receipt of income from retained preferred stock is only a retention of income from the preferred

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[193] *Estate of Kimbell v. United States, 371 F.3d 257* (5th Cir. 2004)*; Church v. United States*, 85 A.F.T.R. 2d (RIA) 804 (W.D. Tex. 2000), *aff'd without published opinion*, 268 F.3d 1063 (5th Cir. 2001) (per curiam), unpublished opinion available at 88 A.F.T.R. 2d 2001-5352 (5th Cir. 2001); *Estate of Bongard v. Commissioner, 124 T.C. 95* (2005); *Estate of Stone v. Commissioner*, 86 T.C.M. (CCH) 551 (2003); *Estate of Schutt v. Commissioner*, T.C. Memo 2005-126 (May 26, 2005); *Estate of Mirowski v. Commissioner*, T.C. Memo 2008-74; *Estate of Miller v. Commissioner*, T.C. Memo 2009-119; *Rayford L. Keller, et al. v. United States of America*, Civil Action No. V-02-62 (S.D. Tex. August 20, 2009); *Estate of Murphy v. United States*, No. 07-CV-1013, 2009 WL 3366099 (W.D. Ark. Oct. 2, 2009); and *Estate of Black v. Commissioner*, 133 T.C. 340 (2009) and *Shurtz v. Commissioner*, T.C. Memo 2010-21.

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

[195] Under certain Supreme Court holdings, in determining the value for gift and estate tax purposes of any asset is transferred, the legal rights and interests inherent in that transferred property must first be determined under state law. *See United States v. Bess*, 357 U.S. 51 (1958); *Morgan v. Commissioner*, 309 U.S. 78 (1940); s*ee also* H. REP. NO. 2543, 83rd Cong. 2nd Sess., 58-67 (1954); H.R. REP. NO. 1274, 80th Cong. 2nd Sess., 4 (1948-1 C.B. 241, 243); S. REP. NO. 1013, 80th Cong., 2nd Sess., 5 (1948-1 C.B. 285, 288) where the Committee Reports on the 1948 changes in the estate taxation of community property states: "Generally, this restores the rule by which estate and gift tax liabilities are dependent upon the ownership of property under state law." *See also* the reports of the Revenue Act

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

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

4. Considerations of the Technique.

a. Despite State Property Law, the IRS May Take the Position That the Gift of the Preferred Interest of an FLLC Should Be Considered a Non-deductible Partial Gift of the Underlying Assets of the FLLC.

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

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of 1932 that define "property" to include "every species of right or interest protected by law and having an exchangeable value." H.R. REP. NO. 708, 72nd Cong., 1st Sess., 27-28 (1932); S. REP. NO. 665, 72nd Cong., 1st Sess., 39 (1932).

The Tax Court in the *Estate of John Boykin*[196] held that an ownership of a preferred equity interest does not entitle the owner to any rights to the assets of the entity – it only entitles the owner to rights in the preferred interest. Any gift of the preferred interest should be analyzed as a gift of the preferred interest not a gift of certain rights over the entity's assets. Consistent with the *Boykin* case cited above, the preferred interest should be considered to be a separate interest both from the FLLC's assets and from George's other interests in the FLLC. The separate preferred interest is transferred in its entirety. In this example, all of George's preferred interest passes to charity – he does not retain any interest in the preferred interest or make a gift of part of the preferred interest, so the transfer is not "a contribution (not made by a transfer in trust) of an interest in property which consists of less than the taxpayer's entire interest in such property." IRC Sec. 170(f)(3).

On the gift tax side (*see* IRC Sec. 2522(c)(2)) there are two Supreme Court cases stating that the gift tax consequences should be applied in a manner that follows a state property law analysis.[197]

State law does not treat a partnership interest as a partial interest in the underlying assets of the partnership. A partner is not a co-owner of partnership property and has no interest in partnership property that can be transferred, either voluntarily or involuntarily. *See* Revised Uniform Partnership Act, § 501. The only transferable interest of a partner in the partnership is the partner's share of the profits and losses of the partnership and the partner's right to receive distributions. Ownership of a partnership interest does not entitle the owner to any rights over property owned by the partnership. Revised Uniform Partnership Act, § 502; *Michtom v. United*

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[196] *Estate of Boykin v. Commissioner*, T.C. Memo. 1987-134, 53 T.C.M. 345. *See also Hutchens Non-Marital Trust v. Commissioner,* 66 T.C.M. (CCH) 1599 (1993) (The Tax Court held that the interest that the decedent held in his family-owned corporation prior to recapitalization was not includible in his gross estate under IRC Sec. 2036 because the decedent received adequate consideration for the pre-recapitalization stock, the decedent retained no interest in stock surrendered in the recapitalization, and the decedent's post-recapitalization control and dividend rights came from new and different forms of preferred stock that he received in the recapitalization.) *See* also private letter rulings 8950071 (issued on September 21, 1989), 9022010 (issued on February 27, 1990) and 201129033 (issued on July 22, 2011). In each of these private letter rulings the IRS ruled that in the case where a donor owned different classes of corporate stock with different rights, the "partial interest" rule was not violated when only one class of stock was donated to charity. *See also* Todd Angkatavanich, Jonathan G. Blattmachr and James R. Brockway, "Coming Ashore – Planning for Year 2017 Offshore Deferred Compensation Arrangements: Using CLAT's, PPLI and Preferred Partnerships and Consideration of the charitable Partial Interest Rules," 39 ACTEC Law Journal 103, 130-145, 152-153. The authors discuss *McCord v. Commissioner*, 120 T.C. 358 (2003), rev'd and remanded, 461 F.3d 614 (5th Cir. 2006), *Church v. United States*, 85 A.F.T.R. 2d 2000-804 (W.D. Tex. 2000), aff'd 268 F.3d 1063 (5th Cir. 2201), and *Estate of Strangi v. Commissioner*, 115 T.C. 478 (2000), aff'd in part and remanded in part, 293 F.3d 279 (5th Cir. 2002), on remand 85 T.C.M. (CCH) 1331 (2003), aff'd 417 F.3d 468 (5th Cir. 2005) and conclude that a gift of a preferred interest to a charity should not be considered a gift of a partial interest because the courts follow the entity rule in determining the property rights associated with a partnership interest. The authors also conclude the argument is strengthened if the gift of a preferred interest is made to a qualifying trust (e.g., a charitable lead trust) and/or the donor only owns the donated preferred interest and does not own any other interest in the partnership. (*See* discussion *infra* Section XIII.B.5.)

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

States, 573 F.2d 58, 63 (Ct. Cl. 1978); PLR 9825001. Partnerships are distinct entities. Revised Uniform Partnership Act, § 201.

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

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

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

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

Consequently, it is important to establish that the purpose of the FLLC is not to slice the voting rights from the FLLC's underlying securities by retaining the managing units (which control the FLLC and thereby control the vote of the underlying securities) and donating only the

preferred units (which carry no control over the FLLC). Having an independent entity from the donor as a manager will strengthen the donor's position.

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

b. If the Gift of the Preferred Interest is to a Donor Advised Fund (Instead of Some Other Public Charity) Care Should Be Taken to Make Sure There is Not a Tax on Excess Business Holdings Under IRC Sec. 4943.

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

c. The Taxpayer Must Comply With Certain Reporting Requirements in Order to Receive a Deduction For the Fair Market Value of the Donated Preferred Interest.

Among the reporting requirements are:

(1) The taxpayer must get and keep a contemporaneous written acknowledgment of the contribution from the charity. *See* IRC Sec. 170(f)(8)(A).

(2) The taxpayer must also keep records that include how the taxpayer acquired the property and the basis information for the donated preferred interest. *See* Treas. Reg. §§ 1.170A-13(b)(3)(i)(A), (B).

(3) The taxpayer must also obtain a qualified written appraisal of the donated property from a qualified appraiser, if the preferred interest is worth more than $500,000 attach the qualified appraisal to the taxpayer's return. *See* IRC Sec. 170(f)(11)(D).

d. If There is Unrelated Business Taxable Income Associated With Assets Owned By the FLLC, Some Public Charities Will Not Accept the Gift of the Preferred Interest in the FLLC.

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

C. The Use of a High-Yield Preferred Partnership or Membership Interest With a CLAT.

1. What is a CLAT?

(i) A CLAT is a trust in which the lead interest is payable to a charity and is in the form of an annuity amount for the term of the lead interest.

(ii) In the CLAT, the annual payment is not based on the income of the trust. Since the annuity amount is not based on the income of the trust, that amount must be paid to the charity even if the trust has no income. If the trust's current income is insufficient to make the required annual payment, the short fall must be made up out of the invasion of the trust principal. If the current income exceeds the required annual payment, it does not have to be paid over to the charity; however, the excess income would then be accumulated and added to the trust corpus.

(iii) The lead interest in a CLAT can be for a fixed term of years. Unlike a charitable remainder trust, the fixed term can be indefinite.[198] The lead interest can also be measured by the life of an existing individual or the joint lives of existing individuals.

(iv) CLATs are not subject to the minimum payout requirements associated with charitable remainder trusts. Thus, there is no 5% minimum pay out for CLATs.

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[198] IRC Sec. 170(f)(2)(B).

(v) The CLAT is not a tax-exempt entity, unless the CLAT is a grantor trust. If the CLAT is a non-grantor trust and if taxable income is accumulated in the trust it will be subject to income taxes. The CLAT will receive a charitable income tax deduction when it makes the distribution to the charity. If the CLAT is a grantor trust, the grantor will receive an income tax deduction for the actuarial value of the charitable gift of the annuity amounts upon creation of the CLAT. If the CLAT is a grantor trust, there will not be any future income tax deductions for distributions to charities.

(vi) CLATs are characterized as private foundations for purposes of certain restrictions placed on such organizations. Accordingly, CLATs are subject to private foundation excise tax provisions.[199] The governing trust instrument must contain specific prohibitions against (i) self-dealing; (ii) excess business holdings; (iii) jeopardy investments; and (iv) taxable expenditures.[200] If the specified prohibited transactions occur onerous significant excess taxes could accrue.

2. The Technique.

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

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

Consider the following Example 24, which has the same facts as Example 30, except the gift of the preferred interest is a 17.5-year CLAT that is treated as a grantor trust:

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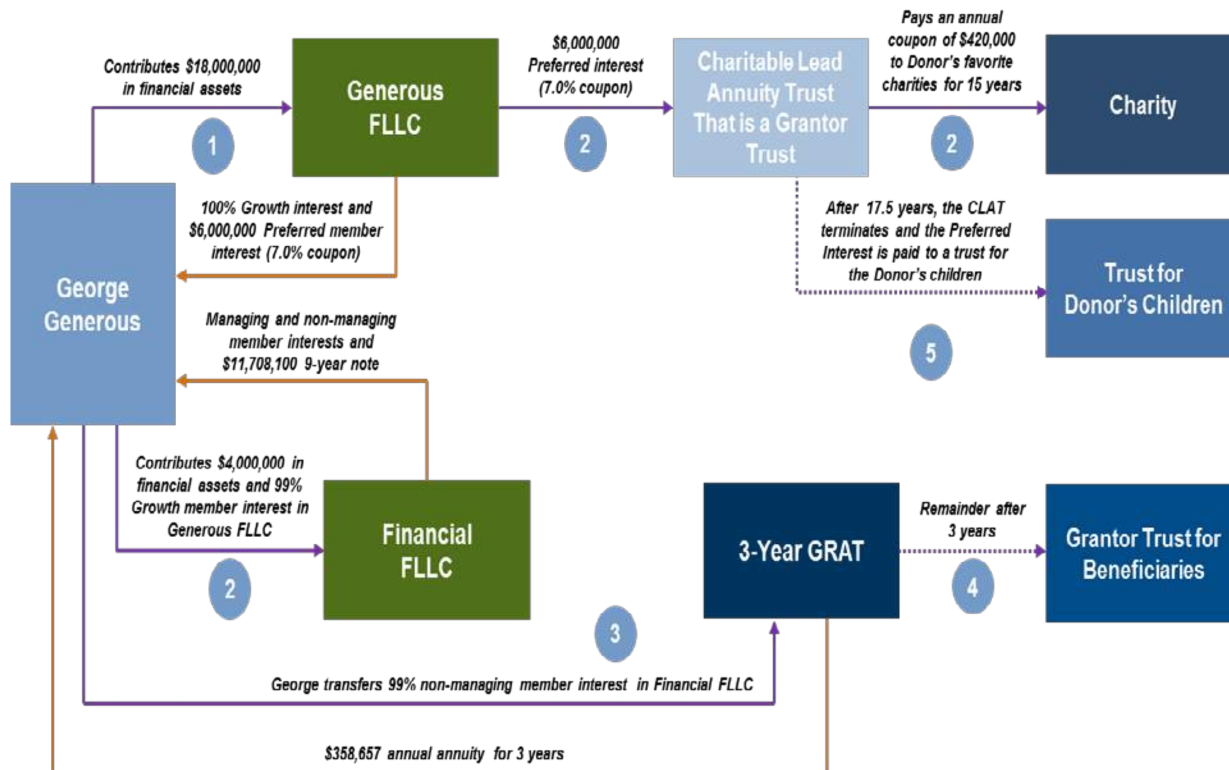
[199] IRC Sec. 4947(a)(2).

[200] *See* IRC Secs. 4941(a)-(b), 4943(a)-(b).



3. Income Tax Advantages of the Technique.

a. The Donor Will Not Pay Income Taxes or Healthcare Taxes on Income That is Allocated to the CLAT, if the CLAT is a Conventional CLAT and is Not a Grantor Trust.

See discussion *supra* Section XII.B.2.

b. The Donor Will Receive an Upfront Deduction Against Income Taxes For the Actuarial Value of the Annuity Interest Paid to Charity if the CLAT is a Grantor Trust.

4. Transfer Tax Advantages of the Technique.

a. Because of the Difference in the Yield of a Preferred Coupon of a Preferred Interest in a FLLC That is Compliant With Revenue Ruling 83-120 and the IRC Sec. 7520 Rate, the Transfer Tax Success of a CLAT is Virtually Assured.

Under the assumed facts of the above illustration, George will successfully transfer his preferred interest in 17.5 years to a trust for his children without using any gift tax exemption and George will not be taxed on the income allocated to the charity. The Donor FLLC needs only to earn 1.17% annual return to have enough earnings to satisfy the $70,000 annual preferred coupon.

The preferred partnership interest or limited liability interest appears to work very well from a transfer tax perspective with all varieties of CLATs, including level payment CLATs, back-loaded payment CLATs, grantor CLATs and non-grantor CLATs.[201]

b. IRC Sec. 2701 Valuation Rules Will Not Apply to a Gift of the "Growth" Interests in a FLLC if the Preferred Interests Are Owned By a CLAT.

In addition to the inherent benefits of a high yielding financial instrument being utilized when the IRC Sec. 7520 rate is low, there are additional estate planning benefits to the structure. As noted above the valuation rules of IRC Sec. 2701 do not apply to gift of the growth member interests if the donor does not retain the preferred partnership interests.[202] If the growth interest in the FLP or FLLC could be given or sold, additional estate planning benefits could accrue. Substantial valuation discounts may exist with respect to any growth interests that are donated or sold, because of the presence of the preferred interest. Consider the following table (*also see infra* Schedule 19):

Table 20

	George's Descendants	Charity	IRS Income Tax	IRS Income Tax Investment Opportunity Cost	IRS Estate Tax (at 40%)	IRS Estate Tax (at 40.0%)
20-Year Future Values						
No Further Planning	$35,000,264	$23,989,144	$14,640,259	$15,513,858	$17,540,176	$106,683,701
Hypothetical Technique #2	$62,717,877	$16,373,449	$15,934,675	$9,946,218	$1,711,482	$106,683,701
Present Values (Discounted at 2.5%)						
No Further Planning	$21,359,644	$14,639,877	$8,934,525	$9,467,657	$10,704,260	$65,105,963
Hypothetical Technique #2	$38,274,898	$9,992,240	$9,724,469	$6,069,888	$1,044,468	$65,105,963

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

[202] *See* discussion *supra* Section XII.B.3.

5. Considerations of the Technique.

a. The Partial Interest Rule Should Not Apply For Gift Tax Purposes or Income Tax Purposes (if a Grantor CLAT is Used), But the IRS May Make the Argument.

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

In addition to the arguments and analysis *supra* Section XII.B.4, there is the additional benefit of having the gift structured as a gift of an annuity interest in a charitable lead annuity trust. The sought-after deduction is not for the contribution of the partial interest to the trust, but rather for the contribution of the term interest in the trust to charity. The deduction must be allowable "*with respect to the trust*," not with respect to the assets contributed to the trust. The charitable deduction is specifically allowed by IRC Sec. 170(f)(2) for the contribution of the term interest in the grantor lead trust. Here, the deduction is allowable with respect to the grantor lead trust as long as the grantor lead trust otherwise meets the description of IRC Sec. 664. Second, IRC Sec. 170 (f)(3) specifically refers to contributions "not made by a transfer in trust", whereas IRC Sec. 170(f)(2) refers to contributions "in trust." IRC subsections 170(f)(2) and 170(f)(3) are mutually exclusive: the first applies to contributions in trust and the second applies to contributions outside of trust.

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

In that ruling, the IRS disregarded the specific language of Treas. Reg. § 1.664-l(a)(l)(iii). That section defines qualified charitable remainder trusts as *trusts* for which an income or transfer tax deduction is *allowable*. It does not require that each contribution to a trust must be independently deductible in order for the trust to qualify. As justification for ignoring this distinction, the IRS relies upon its "function exclusively" weapon of Treas. Reg. § 1.664-l(a)(4), which requires that the charitable remainder trust at all times throughout its existence must "meet the definition of and function exclusively as a charitable remainder trust." Using this weapon, the IRS read into IRC Sec. 1.664-l(a)(l)(iii) a requirement that each asset contributed to the trust must independently qualify for a charitable deduction under IRC Secs. 170, 2055, 2106 or 2522 in order for the trust to be, and to function exclusively as, a charitable remainder trust "in every

respect." There is no direct authority to support this argument as there is no direct authority regarding what constitutes meeting the definition of and functioning exclusively as a charitable remainder trust.

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

That statement would not be necessary if the option itself, as a partial interest, disqualified the trust.

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

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

IRC Secs. 170(f)(2), 170(f)(3), 2055(e)(2) and 2522(c)(2) were enacted as part of a comprehensive revision of the tax treatment of charitable contributions in the Tax Reform Act of 1969, Pub. L. No. 91-172, 83 Stat. 487. In that legislation, Congress provided rules governing charitable gifts of partial interests outside of trust, *see* IRC 170(f)(3); income tax deductions for gifts in trust, *see* IRC Sec. 170(f)(2); estate tax deductions, *see* IRC Sec. 2055(e)(2), and gift tax deductions, *see* IRC Sec. 2522(c)(2). Notably, Congress did not include a corresponding IRC Sec. l70(f)(3)-like provision in IRC Secs. 2055 or 2522.

The legislative history concerning income tax deductions for gifts of partial interests not in trust weighs against importing the same restrictions into IRC Secs. 2055 and 2522. The history focused on the practice of taking a deduction for the donation of the rent-free use of property for a specified time. Congress agreed with the IRS's position that in such a situation a taxpayer obtains a double benefit by being able to claim a deduction for the fair rental value of property and also exclude from income the receipts from the donated interest during the period of the donation. The legislative solution was to permit the exclusion but deny an income tax deduction. *See* H.R. Rep. No. 413, 91st Cong., 1st Sess. 57-58 (1969), 1969-3 C.B. at 239. This solution is not relevant in the transfer tax context.

b. Care Should Be Taken to Make Sure That There is Not a Tax on Excess Business Holdings Under IRC Sec. 4943.

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

c. If the CLAT is a Grantor Trust the Grantor Will Pay the Income Taxes on the Earnings of the CLAT.

However, from a transfer tax planning point of view, that is generally advantageous.

D. Planning for Gifts of Art to a Private Foundation That Will Eventually Be Sold By That Private Foundation.

1. The Technique.

If a taxpayer wishes to give his private foundation some artwork, which will eventually be sold, that taxpayer is faced with the prospect of very little tax subsidization. If the taxpayer first sells the art and then gives cash to his private foundation, the taxpayer will get a charitable deduction for the value of the cash (subject to A.G.I. limits) that is contributed to the private foundation (Technique 1 in the table below). However, the taxes on the sale of the artwork could be very steep. If a taxpayer sells art the appreciation of the art will be taxed at a federal income tax rate of 28%. If the taxpayer does not sell the artwork but instead contributes it to his foundation, which then sells the artwork, the taxpayer will avoid the 28% tax on the appreciation of the artwork (Technique 2 in the table below). However, the taxpayer will only receive an income tax charitable deduction equal to his basis in the artwork.

Is there a technique that could closely simulate the tax result that would occur if a taxpayer could both receive an income tax deduction for the full fair market value of the artwork he contributes to his foundation and also not be taxed on the sale of the artwork by the foundation? There may be. Consider using the NIMCRUT technique in light of IRC Sec. 170(a)(3), which provides as follows:

> (3) FUTURE INTERESTS IN TANGIBLE PERSONAL PROPERTY.—For purposes of this section, payment of a charitable contribution which consists of a future interest in tangible personal property shall be treated as made only when all intervening

interests in, and rights to the actual possession or enjoyment of, the property have expired or are held by persons other than the taxpayer or those standing in a relationship to the taxpayer described in section 267(b) or 707(b). For purposes of the preceding sentence, a fixture which is intended to be severed from the real property shall be treated as tangible personal property.

An example of the technique follows:

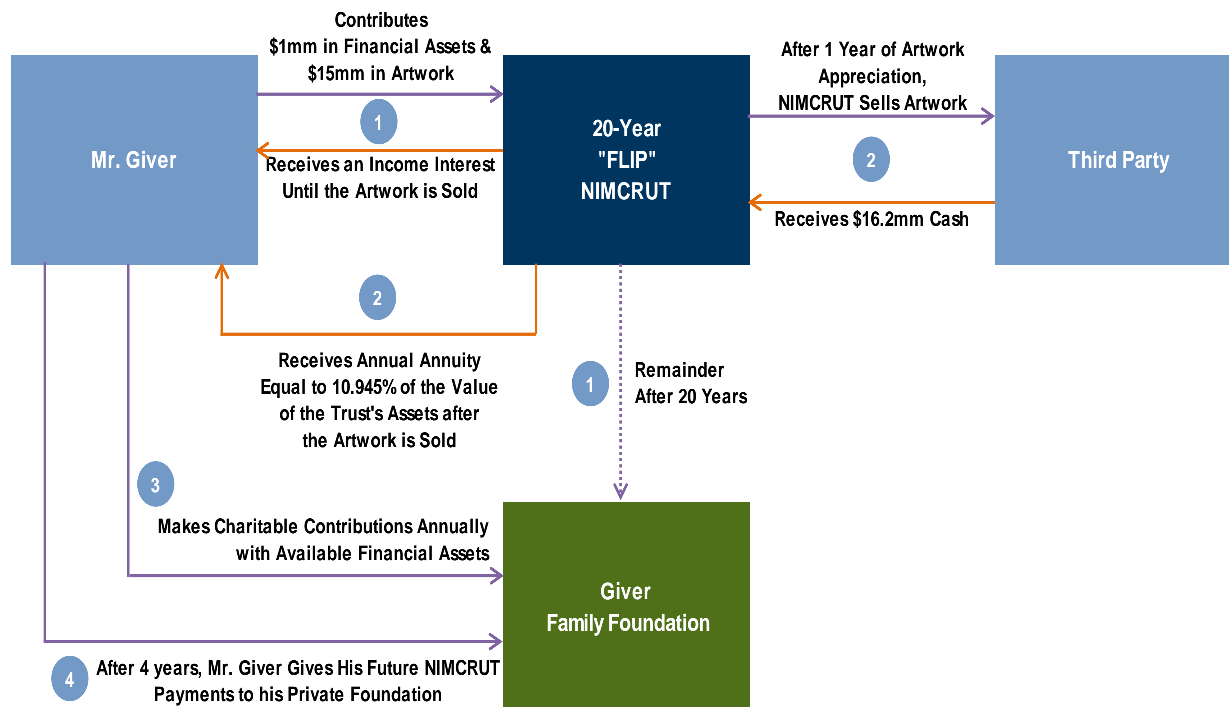
Example 25: Art Giver Contributes His Artwork Worth
$15,000,000 and $1,000,000 in Financial Assets to a
NIMCRUT in Which the Remainderman is a Private Foundation

Art Giver wishes to increase the endowment of his private foundation. Art has some appreciated art worth $15,000,000, which could be sold. The proceeds of the art sales could be used by Art's foundation to increase its endowment. Art asks his tax advisor, Pam Planner, what would be the most efficient way to accomplish his goals?

Pam suggests the most efficient way to endow Art's foundation may be to contribute the $15,000,000 in artwork and $1,000,000 in financial assets to a 20-year "flip" NIMCRUT. The terms of the NIMCRUT could provide that Art would only be entitled to the income of the NIMCRUT until the art is sold. When the artwork is sold Art will be entitled to receive an annual unitrust payment.

Art tells Pam to assume that one year after the NIMCRUT is created the trustee will find a buyer for the art. It is assumed that the artwork will appreciate 8% during that one-year period and, hence, that the artwork will have a value of $16,200,000 when it is sold. It is also assumed that the IRS Sec. 7520 rate will be 2.6% and the annual payout of the NIMCRUT will be 10.945% of the then value of the NIMCRUT after the artwork is sold. Art also tells Pam that, assuming he can afford it, he plans to contribute his NIMCRUT net cash flow from his term interest to his foundation, after reserving enough to pay his income taxes associated with the NIMCRUT distributions. Art further tells Pam to assume he has a 10-year life expectancy. Pam also assumes that in four years Art may be comfortable enough with his other consumption sources that he may give away his right to receive future NIMCRUT payments to his foundation. Art's basis in the $15,000,000 of artwork is $4,500,000 and his basis in the $1,000,000 of financial assets is $1,000,000.

A diagram of the technique is below:



2. Income Tax Advantages of the Technique.

a. Because of the Operation of IRC Sec. 170(a)(3), the Charitable Income Tax Deduction Associated With the Remainder Value of the Artwork May Be Postponed Until the Art is Sold by the NIMCRUT and the Deduction May Be Determined By Using the Sale Proceeds at the Moment the Remainder Gift is Complete.

The argument is that the contribution of the artwork is not complete, because of operation of IRC Sec. 170(a)(3), until the artwork is sold and the cash proceeds are received. When the contribution is finally complete (thanks to the IRC Sec. 170(a)(3) suspension) it is a gift of cash, not tangible property for an unrelated use. The regulations under IRC Sec. 664 suggest that in certain circumstances, IRC Sec. 170(a)(3) will apply to gifts made to a charitable remainder trust. For example, the regulations state in part: "For rules for postponing the time for deduction of a charitable contribution of a future interest in tangible personal property, see section 170(a)(3) and the regulations thereunder."[203] Under that analysis Art's income tax deduction for the actuarial value of the NIMCRUT remainder interest is postponed until the artwork is sold.[204]

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[203] IRC Secs. 1.664-2(d), -3(d).

[204] *See* IRC Sec. 170(a)(3). Since under the assumed facts the artwork is sold at the end of one year, the actuarial value of the remainder gift is 11.222% at that time, because only 19 years remain in the term of the NIMCRUT. Art will, however, be able to claim a 10% income tax deduction in the year of the contribution for the

The remainder interest charitable income tax deduction on the value of the cash proceeds from the sale will, in many cases, be much higher than the basis. However, the IRS may resist the finding that the deduction for the remainderman is the net proceeds value and instead take the position that the actuarial deduction for the remainder interest is limited to the then remainder actuarial value of the basis. *See* discussion *supra* Section XII.D.4.b. In the table below, please compare Technique 3, Scenario A (the taxpayer is able to use the sale proceeds to determine the actuarial value of the remainder interest gift when the art is sold) to Technique 3, Scenario B (the taxpayer is only able to deduct the actuarial value of the basis of the art with respect to the remainder interest when the art is sold).

b. The Taxpayer Has All of the Advantages of Using a NIMCRUT.

Among the advantages of using a NIMCRUT is that there will not be any immediate capital gains tax on the sale of the artwork. The recipient will only pay that tax on a delayed basis under the tiered income tax rules when the other classes of income have been used in the payout of the unitrust payments.

c. The Taxpayer Will Receive a Charitable Income Tax Deduction for the Transfer of His Term Interest in the NIMCRUT Equal to Its Actuarial Value at the Time of the Transfer, if the Taxpayer's Gift is Not Pre-Arranged at the Time of the Creation of the NIMCRUT.

As the tables below illustrate, using the facts of this example, if the taxpayer no longer needs the cash flow from his term interest and can afford to transfer his term interest to the same charitable recipient as his remainder gift, the taxpayer almost simulates the same result that would occur if there was a subsidized tax holiday (i.e., the same consequences that would occur if the taxpayer could receive a charitable income tax deduction equal to the cash value of the artwork contributed to the foundation coupled with the taxpayer not paying any taxes on the sale of the artwork).

As illustrated by Table 21a below (also see attached Schedule 20), from the point of view of the charity, there is a only a 6.01% decrease in the results of a simulated tax holiday, if the taxpayer is able to use the sale proceeds to determine the actuarial value of the remainder interest gift (Technique 3, Scenario A). Also, as illustrated by Table 21a below (also see attached Schedule 20), there is an 8.92% decrease in the results of a simulated tax holiday, if the taxpayer is only able to deduct the actuarial value of the basis of the art with respect to the remainder interest (Technique 3, Scenario B).

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actuarial value of the NIMCRUT remainder interest attributable to the $1 million of financial assets contributed to the trust, because 20 years remain in the term of the NIMCRUT when the NIMCRUT was created.

Table 21a

From the Point of View of the Charity
Simulated Tax Holiday vs. No Further Planning Techniques vs. Hypothetical Techniques Under Two Different Scenarios
Summary of Hypothetical Results of $16,000,000 of Assets
Post Death Scenarios Assuming Mr. Giver Has a Life Expectancy of 10 Years

	Charity (1)	IRS Income Tax Direct Cost/ (Benefit) (2)	IRS Income Tax Investment Opportunity Cost/(Benefit) (3)	IRS Estate Tax (at 40.0%) (4)	Value of Art Sale Proceeds Plus $1mm (5)
10-Year Future Values					
Simulated Tax Holiday	$48,918,504	($10,955,058)	($7,532,668)	$0	$30,430,777
No Further Planning Technique #1	$40,821,195	($6,156,930)	($4,233,488)	$0	$30,430,778
No Further Planning Technique #2	$36,785,934	($3,765,801)	($2,589,355)	$0	$30,430,778
Hypothetical Technique #3, Scenario A	$45,978,246	($10,842,512)	($4,704,957)	$0	$30,430,778
Hypothetical Technique #3, Scenario B	$44,553,902	($9,943,734)	($4,179,391)	$0	$30,430,778
Present Values (discounted at 2.5%)					
Simulated Tax Holiday	$38,215,057	($8,558,074)	($5,884,508)	$0	$23,772,475
No Further Planning Technique #1	$31,889,453	($4,809,784)	($3,307,194)	$0	$23,772,475
No Further Planning Technique #2	$28,737,113	($2,941,838)	($2,022,800)	$0	$23,772,475
Hypothetical Technique #3, Scenario A	$35,918,133	($8,470,153)	($3,675,505)	$0	$23,772,475
Hypothetical Technique #3, Scenario B	$34,805,437	($7,768,029)	($3,264,933)	$0	$23,772,475

As illustrated by Table 21b below (also see attached Schedule 20), from the point of view of Art Giver, there is only a 7.17% decrease in the results of a simulated tax holiday, if the taxpayer is able to use the sale proceeds to determine the actuarial value of the remainder interest gift (Technique 3, Scenario A). Also, as illustrated by Table 21b below (also see attached Schedule 20), from the point of view of Art Giver, there is only a 15.17% decrease in the results of a simulated tax holiday, if the taxpayer is only able to deduct the actuarial value of the basis of the art with respect to the remainder interest (Technique 3, Scenario B).

Table 21b

From the Point of View of Art Giver
Simulated Tax Holiday vs. No Further Planning Techniques vs. Hypothetical Techniques Under Two Different Scenarios
Summary of Hypothetical Results of $16,000,000 of Assets
Post Death Scenarios Assuming Mr. Giver Has a Life Expectancy of 10 Years

	Net Present Value (discounted at 2.5%)		
	Charitable Income Tax Savings	Capital Gains Tax on Sale of Art	Income Tax Benefit of Strategy
	(1)	(2)	(1)-(2)
Simulated Tax Holiday[1]	$10,501,473	$0	$10,501,473
No Further Planning Technique #1[2]	$9,098,105	$3,196,098	$5,902,007
No Further Planning Technique #2[3]	$3,609,882	$0	$3,609,882
Hypothetical Technique #3, Scenario A[4]	$11,307,999	$1,558,973	$9,749,026
Hypothetical Technique #3, Scenario B[5]	$10,467,410	$1,558,973	$8,908,437

(1) Simulated Tax Holiday - Mr. Giver receives a full deduction for giving cash and art to his foundation; foundation may sell the art without any capital gains tax attributable to Mr. Giver; Mr. Giver makes annual gifts to charity to the extent that he has extra cash.

(2) No Further Planning Technique #1 - sale of art; net proceeds from sale of art after taxes contributed to foundation; annual gifts to charity to the extent that Mr. Giver has extra cash.

(3) No Further Planning Technique #2 - art contributed to foundation; deduction limited to art basis; foundation sells art; annual gifts to charity to the extent that Mr. Giver has extra cash.

(4) Hypothetical Technique #3, Scenario A - art contributed to a flip NIMCRUT; net proceeds of NIMCRUT distributions plus available cash are annually contributed to foundation; Mr. Giver receives a deduction for remainder interest of NIMCRUT when art is sold equal to sale proceeds.

(5) Hypothetical Technique #3, Scenario B - art contributed to a flip NIMCRUT; net proceeds of NIMCRUT distributions plus available cash are annually contributed to foundation; Mr. Giver receives a deduction for remainder interest of NIMCRUT when art is sold equal to basis of art.

3. Transfer Tax Advantages of the Technique.

a. There Will Be No Estate Tax on the Art Sale Proceeds Passing to the Private Foundation.

b. The Income Tax Savings From the Technique Will Increase That Part of the Taxpayer's Assets Available For Distribution to the Taxpayer's Non-Charitable Beneficiaries.

4. Considerations of the Technique.

a. For the Trust to be a Qualified Charitable Remainder Trust, It May Be Necessary for Some Deduction to Be Allowed at the Time the Trust is Created.

Treas. Reg. §1.664-1(a)(1)(iii)(a) may require that a charitable income or gift tax deduction be allowed at the creation of the NIMCRUT.[205] If the only assets in the NIMCRUT are tangible personal property assets (e.g., the artwork), which is subject to IRC Sec. 170(a)(3), the charitable remainder trust may not be qualified. Perhaps the easiest way to satisfy this requirement is for the grantor of the NIMCRUT to also contribute assets that are not subject to IRC Sec. 170(a)(3), such as financial assets. Alternatively, if the grantor does not retain a power to change the remainderman interest, and the remainder interest is a completed gift, a gift tax deduction will be allowed, as there is no "delay" provision comparable to IRC Sec. 170(a)(3) under the gift tax.

b. In Order to Get the Benefit of the Delayed Deduction for the Remainder Interest in the NIMCRUT at the Full Cash Value of the Remainder Interest it May Be Important that the Delayed Deduction not be Treated as Capital Gain Property.

LTR 9452026 seems to hold that the sale by the NIMCRUT is in itself an unrelated use, regardless of what use the remainderman of the NIMCRUT might make of the property. The result in LTR 9452026 is a deduction for an actuarial share of basis only. Even if the art is treated as related use property, if the delayed deduction is deemed to consist of the art, rather than the sale proceeds, the deduction may be limited to basis because the art is capital gain property transferred to a private non-operating foundation. However, when the grantor assigns the remaining term interest to the remainderman, the reduction would apply only to the extent that the reinvested sale proceeds had appreciated, and there should be no reduction if the trust assets are liquidated prior to the assignment.

c. It is Important, Under Rev. Rul. 86-60, for the Assignment of the Remaining Term Interest in the NIMCRUT to Be Eligible for the Gift Tax Charitable Deduction That There Not Be Any Secondary Non-Charitable Interests.

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[205] *See* LTR 9532006.

d. In Calculating the Donor's Deduction, the Assignment Must Be Valued Actuarially Under IRC Sec. 664 Using Unitrust Valuation Based on the Trust's Stated Payout Rate, and Not Limited to the Value of an Income Interest Under IRC Sec. 7520.

The recent amendments to IRC Sec. 664(e) seem to support that result, even if a NIMCRUT that does not "flip" to ordinary CRUT status is used.

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

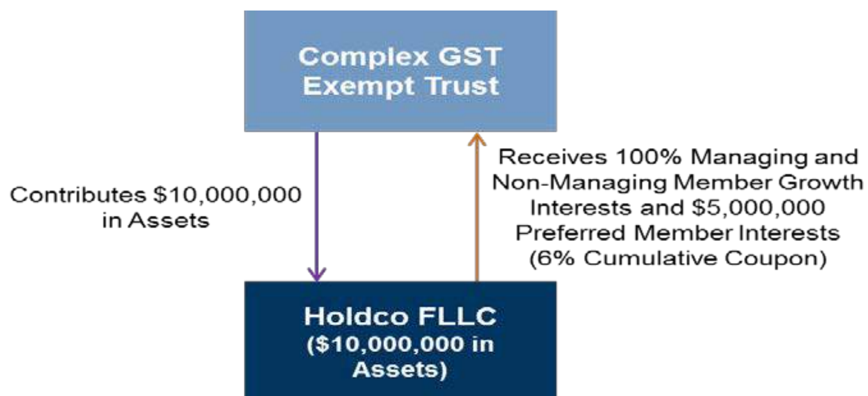
A. The Trustee of a Complex Trust Could Consider Creating a Two Class (One Class is a Preferred Interest and One Class is a Growth Interest) Single Member FLLC and the Trustee Could Distribute Part or All of the Preferred Class to the Current Beneficiary.

1. The Technique.

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

<u>*Hypothetical Transaction 1*</u>:

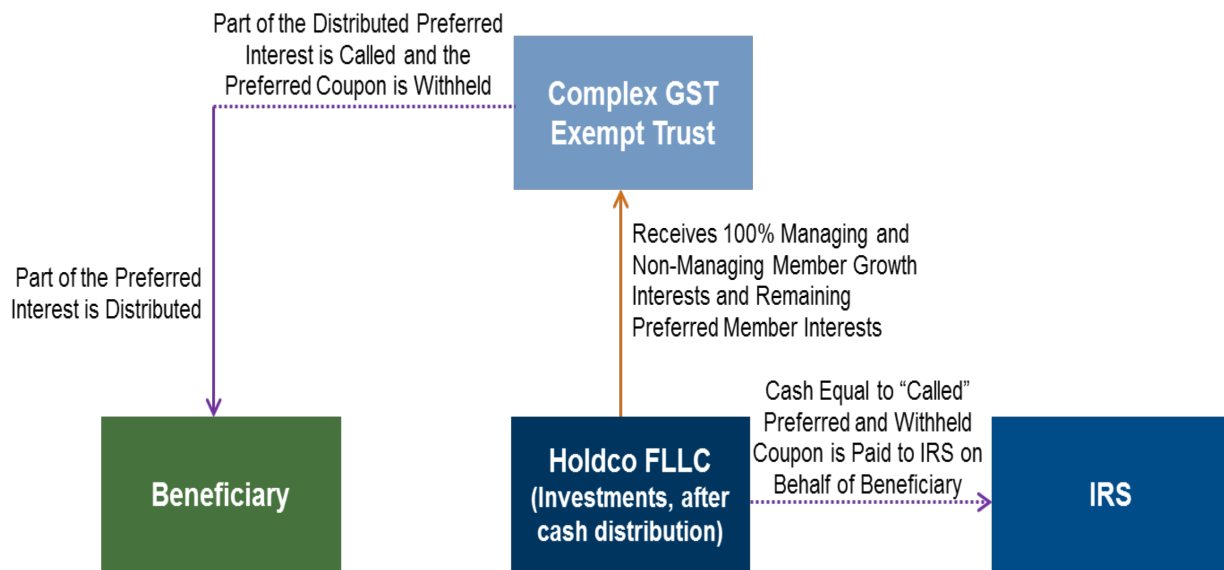
Trustee of Complex GST Exempt Trust, which has $10,000,000 in assets, forms a single member FLLC with preferred and growth member interests as illustrated below:



Holdco, FLLC has the right to "call" or "redeem" any portion of the preferred for cash and/or withhold any portion of a preferred coupon that is to be paid to its owner in order to make payments to the IRS on behalf of the owner of the preferred. The trustee of the Complex GST Exempt Trust could pay cash for that portion of "called" preferred that is owed and/or any portion of the coupon that is withheld, to the IRS for the benefit of the owner of the preferred.

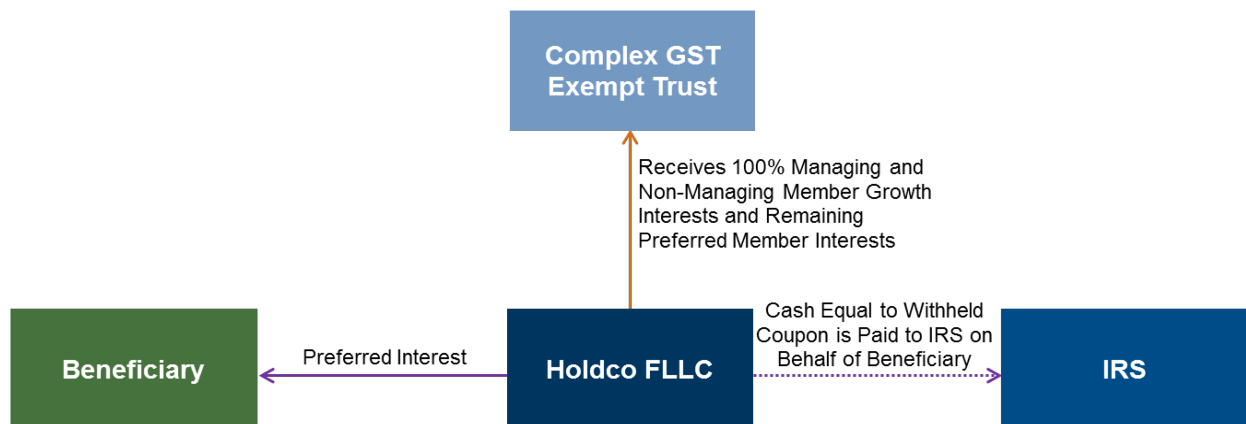
Hypothetical Transaction(s) 2:

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



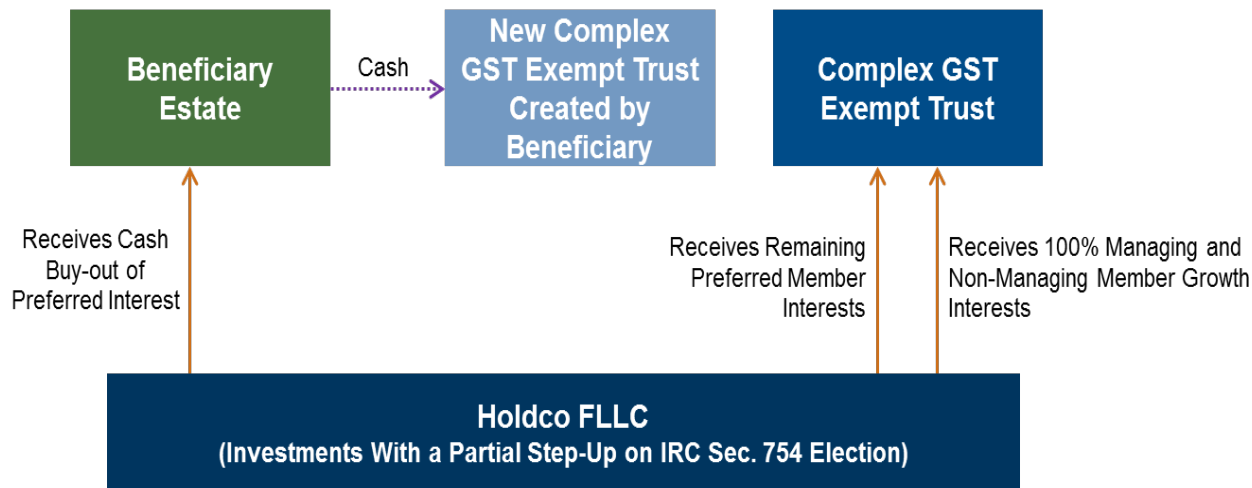
Hypothetical Transaction(s) 3:

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



Hypothetical Transaction 4:

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



2. Income Tax Advantages of the Technique.

a. Taxable Income of the Trust Allocated to the Beneficiary, Either Directly to the Beneficiary Because of the In-Kind Distributions of the Preferred Interest, or Indirectly Because of the Payment of the Preferred Coupon, Will Not Be Taxable to the Trust, Which Could Save Significant Income Taxes and Health Care Taxes.

The fair market value of the preferred, when it is distributed to the beneficiary, will carry out distributable net income of the trust for that tax year. *See* IRC Secs. 661 and 662. The taxable income earned by Holdco that is allocated to the beneficiary as an owner, or part owner,

of the preferred will not be taxed to the trust but will be allocated to the beneficiary. *See* IRC Sec. 704(b). If the beneficiary's income tax bracket is lower than the top bracket of the trust, then income taxes could be saved based on that difference.

b. If the Trust Contributes Low Basis Assets to Holdco in Exchange For the Preferred, Then Distributes the Preferred to the Beneficiary, and if There is a Later Sale of Those Low Basis Assets By Holdco, Significant Future Capital Gains Taxes Could Be Saved.

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

c. On the Death of the Beneficiary Additional Income Tax and Health Care Tax Savings Could Accrue, if the Stepped-Up Outside Basis of the Preferred Interest Owned By the Beneficiary Exceeds the Proportionate Inside Basis of the FLLC Assets.

In this example, on the death of the beneficiary, Holdco could elect to have an adjustment of its inside basis on its assets under IRC Sec. 754 that are proportionately represented by the preferred interest. That election could save future capital gains and health care taxes when those assets are sold.

d. Unlike a Trustee Distribution of Cash, a Trustee Distribution of a Preferred Interest in a Closely Held FLLC is Not Marketable, Which Could Partially Address Spendthrift Concerns.

The problem with a trustee distributing cash to a beneficiary in order to lessen the income tax and health care tax burdens is that cash can be spent by the beneficiary instead of being saved and bequeathed to future generations on the death of the beneficiary. A distribution of cash is also readily available to creditors and spouses on divorce. It may be difficult for a beneficiary to find a buyer for the preferred interest. Secondly, the preferred interest could be subject to a buy-sell agreement. It is generally very likely the preferred interest will still be owned by the beneficiary on his or her death.

e. Unlike a Distribution of Cash, in Which the Trust Loses its Ability to Return the Earning Potential of That Cash For the Benefit of Future Beneficiaries, the Trust Will Indirectly Retain the Earning Potential of the Assets Owned By the Single Member FLLC Subject to the Preferred Coupon Payment Requirements.

If Holdco earns more than the coupon that is distributed to the beneficiary those excess earnings will accrue to the other beneficiaries of the trust.

f. The Valuation Rules of IRC Sec. 2701 Probably Do Not Apply to These Illustrated Transactions.

The valuation rules of IRC Sec. 2701, which apply for gift tax purposes in valuating gifts of common interests in a manner that overrides the hypothetical willing buyer, willing seller standard should not apply in this context. IRC Sec. 2701 does not apply for generation-skipping purposes. Secondly, IRC Sec. 2701 does not apply, if preferred interests are transferred instead of being retained. *See* discussion *infra* Section XII.B.3. Third, it is difficult to see how a distribution by a trustee to a beneficiary is a gift by any person as a donor, if the trustee is properly exercising fiduciary discretion. Since IRC Sec. 2701 does not apply, this may allow greater flexibility in designing the preferred to comply with the traditional willing buyer, willing seller standard.

3. Much Greater Inherent Transfer Tax Advantages With This Technique in Comparison to Transferring Cash to a Beneficiary in Order to Carry Out DNI to a Beneficiary Who is in a Lower Tax Bracket.

4. Considerations of the Technique.

a. It Adds a Layer of Complexity to the Administration of the Trust.

b. The Beneficiary May Bequeath the Preferred Interest in a Manner That is Inconsistent With the Remainderman Provisions of the Complex Trust.

These same considerations exist with a distribution of cash to the beneficiary. *See* discussion *supra* Section XIII.A.4.a.

c. Creditors of the Beneficiary, Including Divorced Spouses, May Be Able to Attach the Preferred Interest.

These same considerations exist with a distribution of cash to the beneficiary. *See* discussion *supra* Section XIII.A.4.b.

B. Using Preferred Interests (Owned By a Trust in a High Tax State) and Growth Interests (Owned By a Trust in a Low Tax State) in a Partnership (or Vice Versa Depending Upon the Circumstances) to Shift Trust Income to a Low Tax State.

1. Technique A.

Under certain facts, a complex trust may significantly reduce its income taxes and may increase its net worth, if it invests its assets in a partnership for a preferred interest and a grantor trust invests in the partnership for a growth interest. Consider the following example:

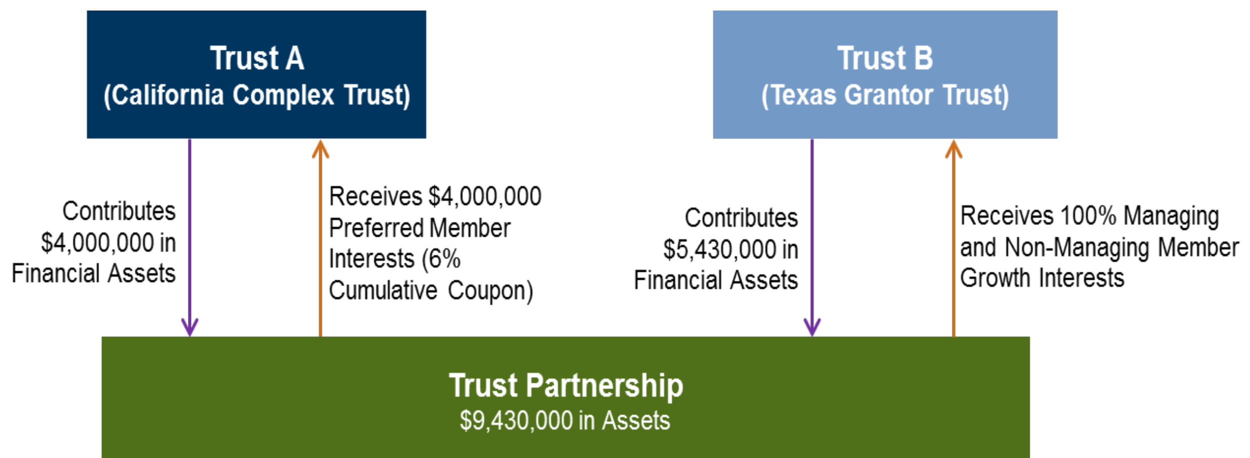
Example 26: Old Complex Trust Enters Into a
Two-Class Partnership With a New Grantor GST Trust

Gomer Gonetotexas is a discretionary beneficiary of a GST Complex trust that was created in California and is subject to California state income tax law ("Trust A"). Gomer now lives in Texas. Gomer has a $20,000,000 estate and does not need or want any distributions from Trust A. The beneficiaries of Gomer's estate are the same as the beneficiaries of the California complex trust. Gomer desires to lower the California state income taxes of Trust A and lower his estate taxes. Gomer does not want to pay any gift taxes. Gomer's living expenses are $500,000 a year. Gomer develops the following plan:

Trust A invests its $4,000,000 in financial assets for a $4,000,000 preferred interest in a FLP that pays a 6% cumulative return. Gomer creates Trust B with $5,430,000 in assets. Trust B is a grantor trust that is also a GST trust with similar beneficial interests to Trust A. Trust B contributes its assets for a growth interest in the FLP that is entitled to all of the income and growth of the partnership that is not allocated to the preferred interest. During the term of the partnership there are no distributions to the Trust A beneficiaries. Assume the partnership assets earn 7.4% before taxes a year with 3.4% of the return being taxed at ordinary rates and 4% of the return being taxed at long-term capital gains rates with a 30% turnover.

The proposed transaction is illustrated below:

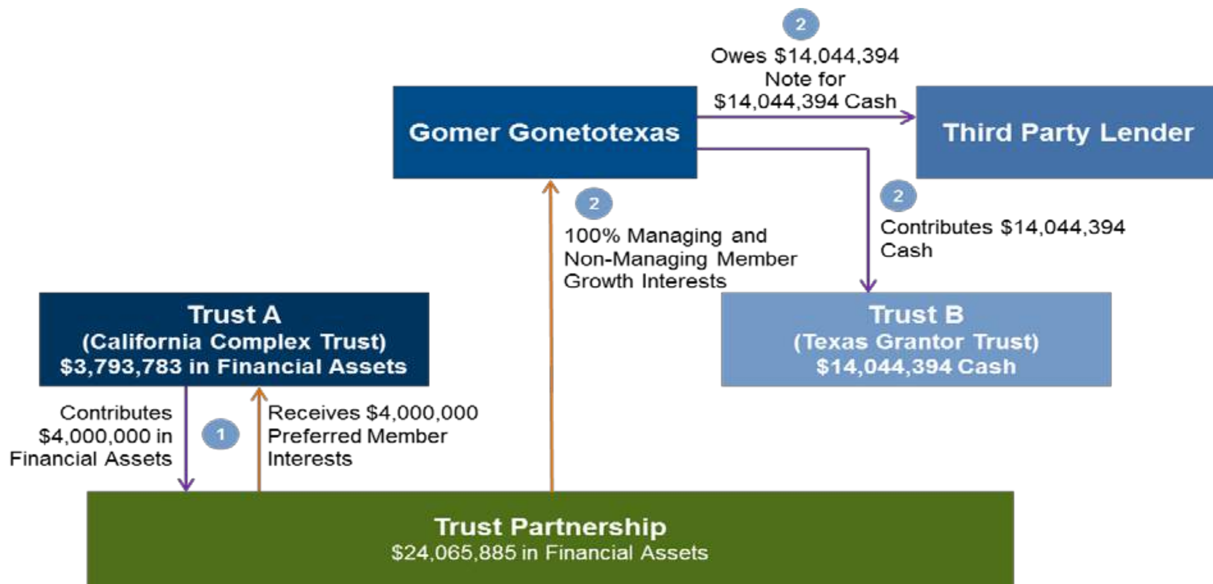
Transaction 1 (Scenario A):



Transaction 2 (Scenario A):

Assume Gomer, two years before he dies (and eighteen years after the original transaction), manages the contingent income capital gains taxes associated with Trust B's ownership of the growth interest by purchasing the growth interest with cash obtained by borrowing from a third party. *See* discussion *infra* Section XIV. That transaction is illustrated below:

Eighteen Years After Scenario A, Gomer Borrows Cash From Third Party
<u>Lender and Buys Trust B's Growth Interest in the Trust Partnership For its Fair Market Value</u>



It is assumed that the partnership is terminated shortly before Gomer's death and the third party lender is then paid.

2. Income Tax Advantages of Scenario A.

a. Under This Arrangement and the Assumed Facts, the Complex Trust's Income Taxes Will Be Significantly Reduced and a Significantly Greater Amount Will Pass to Gomer's Descendants.

The technique described is Scenario A in Table 22 below (*also see* attached Schedule 21). Over a 20-year period Trust A will pay 16.2% less in the total of state income taxes and associated investment opportunity costs by using this technique. If the beneficiaries of Trust A, Trust B and Gomer's estate are the same, Gomer's estate will save $3,380,750 in estate taxes and Gomer's descendants will receive $38,150,544 in assets in comparison to $33,727,835 in assets with no further planning.

Table 22

	Gonetotexas Beneficiaries			Consumption		IRS Income Taxes		CA Income Taxes		Opportunity Cost/ (Benefit) of 3rd Party Note	IRS Estate Tax (at 40.0%)	Total
		Children & Grandchildren										
	Children	California Complex Trust	Texas Grantor Trust	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost			
20-Year Future Values												
No Further Planning	$15,428,576	$9,609,259	$8,690,000	$12,772,329	$13,053,175	$14,277,270	$13,716,783	$1,257,693	$977,577	$0	$10,285,717	$100,068,380
Hypothetical Technique Scenario A	$10,357,451	$12,333,221	$15,459,872	$12,772,329	$13,053,175	$14,389,073	$13,719,802	$986,747	$887,382	($795,639)	$6,904,967	$100,068,380
Hypothetical Technique Scenario B	$10,165,130	$10,164,400	$18,638,941	$12,772,329	$13,053,175	$14,588,078	$13,924,521	$493,205	$443,626	($951,776)	$6,776,753	$100,068,380
Present Values (discounted at 2.5%)												
No Further Planning	$9,415,611	$5,864,252	$5,303,254	$7,794,581	$7,965,974	$8,713,003	$8,370,954	$767,534	$596,587	$0	$6,277,074	$61,068,825
Hypothetical Technique Scenario A	$6,320,851	$7,526,606	$9,434,710	$7,794,581	$7,965,974	$8,781,233	$8,372,797	$602,183	$541,543	($485,555)	$4,213,901	$61,068,825
Hypothetical Technique Scenario B	$6,203,483	$6,203,038	$11,374,804	$7,794,581	$7,965,974	$8,902,680	$8,497,730	$300,988	$270,732	($580,841)	$4,135,655	$61,068,825

b. This Technique May Be Easier to Manage Than Some of the Other Trust Income Tax Savings Techniques.

3. Transfer Tax Advantages of Scenario A.

a. The Trustee of the Complex Trust Does Not Have to Distribute Assets or Cash to a Beneficiary, or Give a Withdrawal Right to a Beneficiary, in order to Save Income Taxes or Health Care Taxes.

As noted above, there may be fiduciary concerns if distributions are made to a beneficiary solely to save income taxes. This technique eliminates that risk.

b. If the Two Trusts Have Identical Provisions the Valuation Rules Under IRC Sec. 2701 May Not Apply.

IRC Sec. 2701 valuation rules do not apply for generation skipping purposes. If the two trusts have identical provisions it is difficult to see a gift tax issue or fiduciary issues, if the creator of Trust B is not entitled to any distributions from Trust A because his standard of living

is met by other sources.[206] If there is no gift tax or GST tax issue, the trustee of Trust A, because Trust B has the same identical beneficiaries may believe it is in the Trust A beneficiaries' best interest to receive a 3% cumulative preferred interest instead of a 6% cumulative preferred interest in order to save state income taxes.

The technique described above is Scenario A in Table 22 above (*also see* attached Schedule 21). Over a 20-year period Trust A will pay 58.1% less in the total of state income taxes and associated investment opportunity costs by using this technique. If the beneficiaries of Trust A, Trust B and Gomer's estate are the same, Gomer's estate will save $3,508,964 in estate taxes and Gomer's descendants will receive $39,968,471 in assets in comparison to $33,727,835 in assets with no further planning.

4. Considerations of Scenario A.

a. A Party May Not Exist That Could Create a Grantor Trust That Could Invest and Receive a Preferred Partnership Interest.

b. The Technique is Complex.

c. In Certain Circumstances it May Be Better For the New Grantor Trust to Own the Preferred Interest if a High Coupon is Warranted (e,g. 11% – 12%), Because the New Grantor Trust is Contributing 80% – 90% of the Assets of the Partnership. Under These Circumstances, if the Leveraged Reverse Freeze is Used, the 80% – 90% Preferred Interest Capitalization Could Be Obtained With Minimal Gift Tax Consequences By Using a Contribution From the New Grantor Trust. Under Those Facts, Consider Scenario B Described *Infra* Section XIII.B.5.

d. In Certain Circumstances it May Be More Profitable For the Old Trust to Sell the High Basis Assets to the New Trust For a Low Interest (AFR Rate) Note to the New Trust.

e. The IRS May Argue That the Valuation Rules of IRC Sec. 2701 Apply Despite the Identical Provisions and Beneficial Interests of the Two Trusts.

f. If There is Not a Buy-Back of the Growth Interest By the Grantor of the New Grantor Trust Before the Death of the Grantor Much of the Income Tax Benefit Will Be Lost Because of the Lack of Step-Up That Accrues For the Assets Held in the New Grantor Trust.

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[206] *See* Treas. Reg. §25.2511-1(g)(1) and *Saltzman v. Comm.*, 131 F.3d 87 (2nd Cir., 1997).

5. Scenario B.

Under certain assumptions, it may make sense to employ Scenario B: the preferred partnership interest is owned by a grantor trust in a low state income tax state and the growth interest is owned by a complex trust located in a high state income tax state.

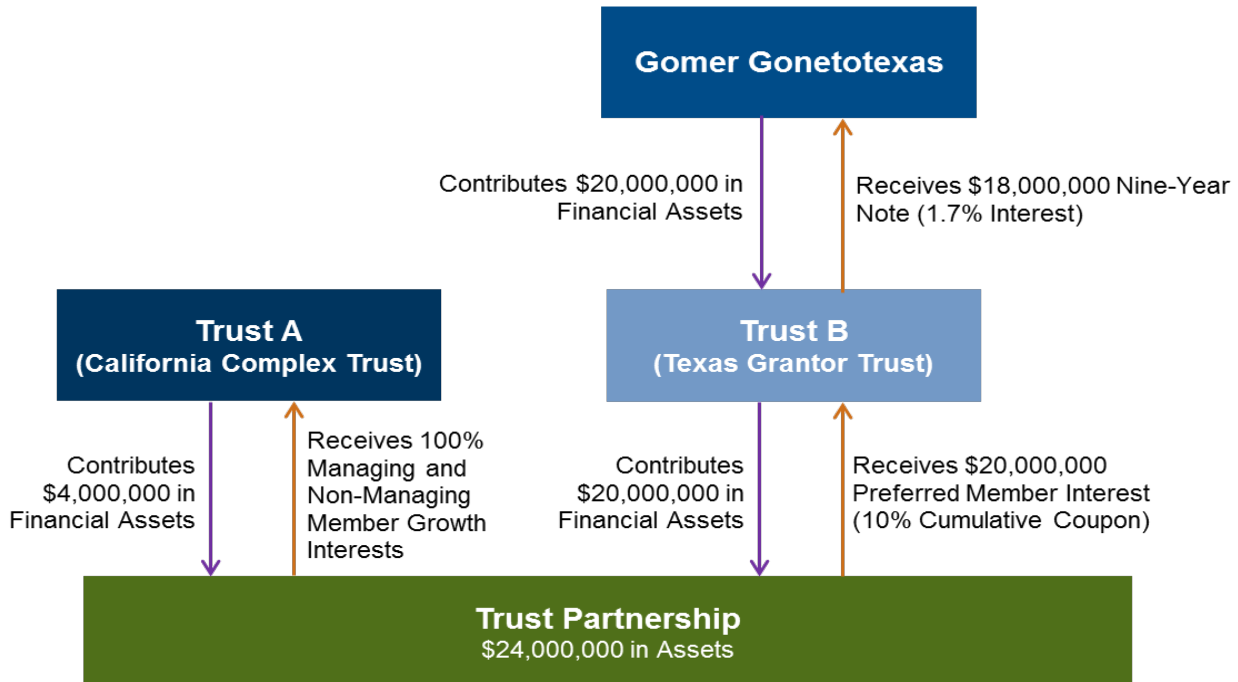
Consider the following example:

Example 27: A Leveraged Reverse Freeze is Used to Shift Trust
Taxable Income From a High Income Tax State to a Low Income Tax State

The facts are similar to Example 26, except Gomer Gonetotexas contributes all of his net worth ($20,000,000) to a partnership with Trust A and receives a mezzanine preferred partnership interest that pays a cumulative coupon with a coupon rate that is consistent with Revenue Ruling 83-120 (that rate for purposes of this example is assumed to be 10%). Trust A will receive the growth interest. Gomer then contributes $2,000,000 of the preferred interest and sells $18,000,000 of his preferred interest to Trust B, which has the same provisions as Example 26, in exchange for a nine-year note that pays an AFR interest rate.

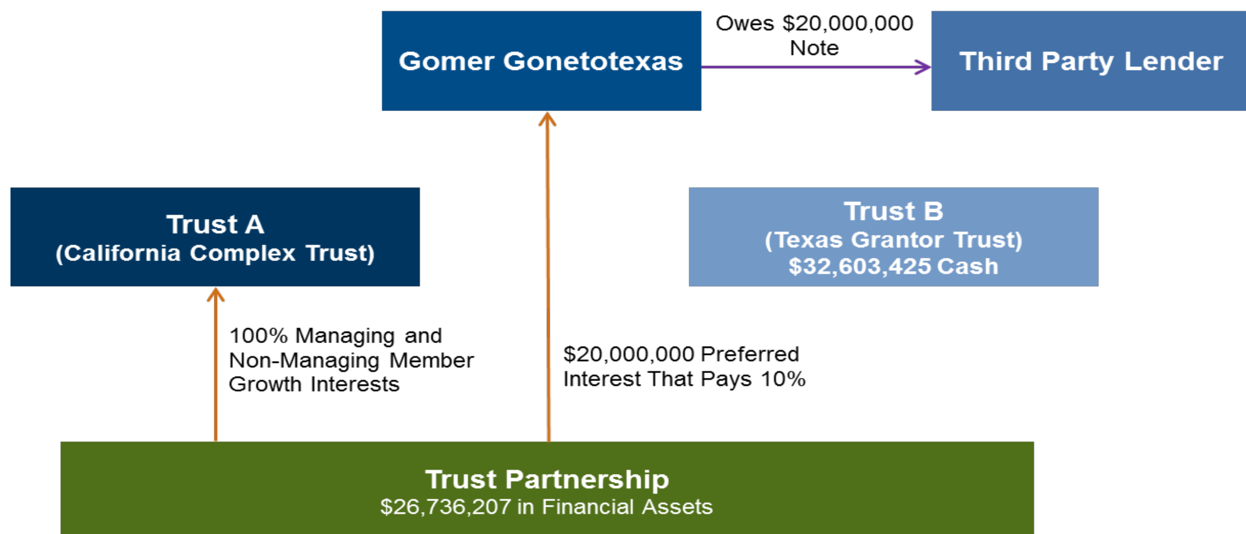
This example is illustrated below:

Transaction 1 (Scenario B):



Transaction 2 (Scenario B):

Seventeen Years After Scenario A, Gomer Borrows Cash From Third Party
Lender and Buys Trust B's Preferred Interest in the Trust Partnership For its Fair Market Value



For a full discussion of the reverse freeze technique *see infra* Section XV.C.

6. Income Tax Advantages of Scenario B.

a. Significant State Income Taxes and the Investment Opportunity Costs Associated With Those State Income Taxes Can Be Saved With This Technique.

See Table 23 below and attached Schedule 22. In this technique all of the potential state income taxes and the opportunity costs associated with those state income taxes are eliminated. Under the assumptions of this Example 27, $1,264,013 in state income taxes will be saved and $995,794 in investment opportunity costs on those state income taxes will be saved for a total savings of $2,259,807.

b. Under the Right Facts, Many of the State Income Tax Advantages of This Scenario B Will Exist as They Do For Scenario A Discussed *Supra* Section XIII.B.2.

7. Transfer Tax Advantages of Scenario B.

a. Significant Transfer Taxes Will Be Saved Under This Scenario.

See Table 23 below and attached Schedule 22. Under the assumed facts of this Example 27, all of the estate taxes are eliminated.

Table 23

	Gonetotexas Beneficiaries			Consumption		IRS Income Taxes		CA Income Taxes		Opportunity Cost/ (Benefit) of 3rd Party Note	IRS Estate Tax (at 40.0%)	Total
	Children	Children & Grandchildren										
		California Complex Trust	Texas Grantor Trust	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost			
20-Year Future Values												
No Further Planning	$15,428,576	$9,609,259	$8,690,000	$12,772,329	$13,053,175	$14,270,950	$13,698,567	$1,264,013	$995,794	$0	$10,285,717	$100,068,380
Hypothetical Technique	$0	$4,000,000	$43,359,947	$12,772,329	$13,053,175	$15,967,067	$14,173,982	$0	$0	($3,258,119)	$0	$100,068,380
Present Values (discounted at 2.5%)												
No Further Planning	$9,415,611	$5,864,252	$5,303,254	$7,794,581	$7,965,974	$8,709,146	$8,359,837	$771,391	$607,704	$0	$6,277,074	$61,068,825
Hypothetical Technique	$0	$2,441,084	$26,461,316	$7,794,581	$7,965,974	$9,744,237	$8,649,969	$0	$0	($1,988,336)	$0	$61,068,825

b. The Trustee of Trust B May Wish to Use Some of its Positive Cash Flow From the Transaction to Purchase Life Insurance on the Life of Gomer Gonetotexas, At Least to the Extent There May Be Estate Taxes Associated With Gomer's Note.

The insurance could serve as a hedge to Gomer's early death. *See* discussion *supra* Section VI.D.2.

c. In General, This Scenario B Has the Same Transfer Tax Advantages Discussed in Scenario A, *See Supra* Section XIII.B.3.

8. Considerations of Scenario B.

Scenario B has many of the same considerations that are discussed *supra* Section XIII.B.4.

C. The Complex Trust Could in Effect Convert Part of Its Assets Into an IRC Sec. 678 Grantor Trust in Which the Income is Taxed to the Beneficiary of the Trust By Having the Trust Invest in a Subchapter S Corporation and Converting that Part of the Trust Into a Qualified Subchapter S trust ("QSST").

1. The Technique.

Many trust documents creating complex trusts provide that if any investment is made in a subchapter S corporation that part of the trust will convert into a QSST. Or, in appropriate circumstances, a complex trust could be modified by court order to allow a Subchapter S

investment by a QSST conversion for that investment. In order to ameliorate fiduciary concerns, assume the amount of distributions to the QSST beneficiary is taken into account by the trustee in determining the amount of the distributions, if any, to the beneficiary out of the assets of the complex trust that are not held in the QSST.

What is a QSST? A QSST is a trust that has only one income beneficiary and any corpus distributed during the life of the current beneficiary may only be distributed to that beneficiary. After an election is made by the beneficiary, the beneficiary is taxable on the taxable income of any Subchapter S stock that is owned by the trust as if the trust is a grantor trust to the beneficiary under IRC Sec. 678(a).

Under IRC Sec. 678(a) the trust is ignored for income tax purposes, at least with respect to any Subchapter S stock that is held in the trust. The IRS confirmed this grantor trust treatment of Subchapter S stock owned by a QSST as to the beneficiary of the QSST in Revenue Ruling 92-84.[207] The key holdings of that Revenue Ruling are as follows:

> Section 1361(d)(1)(B) of the Code provides that, for purposes of section 678(a), which sets forth the rules for when a person other than the grantor will be treated as a substantial owner, the beneficiary of a QSST shall be treated as the owner of that portion of the trust which consists of stock in an S corporation with respect to which the election under section 1361(d)(2) is made.
>
> …
>
> A has made the election under section 1361(d)(2) of the Code with respect to TR and M corporation. Therefore, under section 1361(d)(1)(B), A is treated as the owner of that portion of TR that consists of stock in corporation M for purposes of section 678(a).
>
> …
>
> Section 678(a) is within subpart E of subchapter J of the Code. Therefore, the provisions of section 671 are applicable to the stock of an S corporation with respect to which the beneficiary has made an election under section 1361(d)(2).
>
> Section 1.671-2(b) of the Income Tax Regulations provides that when it is stated in the regulations under subpart E that 'income' is attributed to the grantor or another person, the reference, unless specifically limited, is to income determined for tax purposes and not to income for trust accounting purposes.
>
> Section 1.671-2(c) of the regulations provides that an item of income, deduction, or credit included in computing the taxable income and credits of a grantor or

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[207] *See* Rev. Rul. 92-84, 1992-2 C.B. 216.

another person under section 671 is treated as if it had been received or paid directly by the grantor or other person (whether or not an individual).

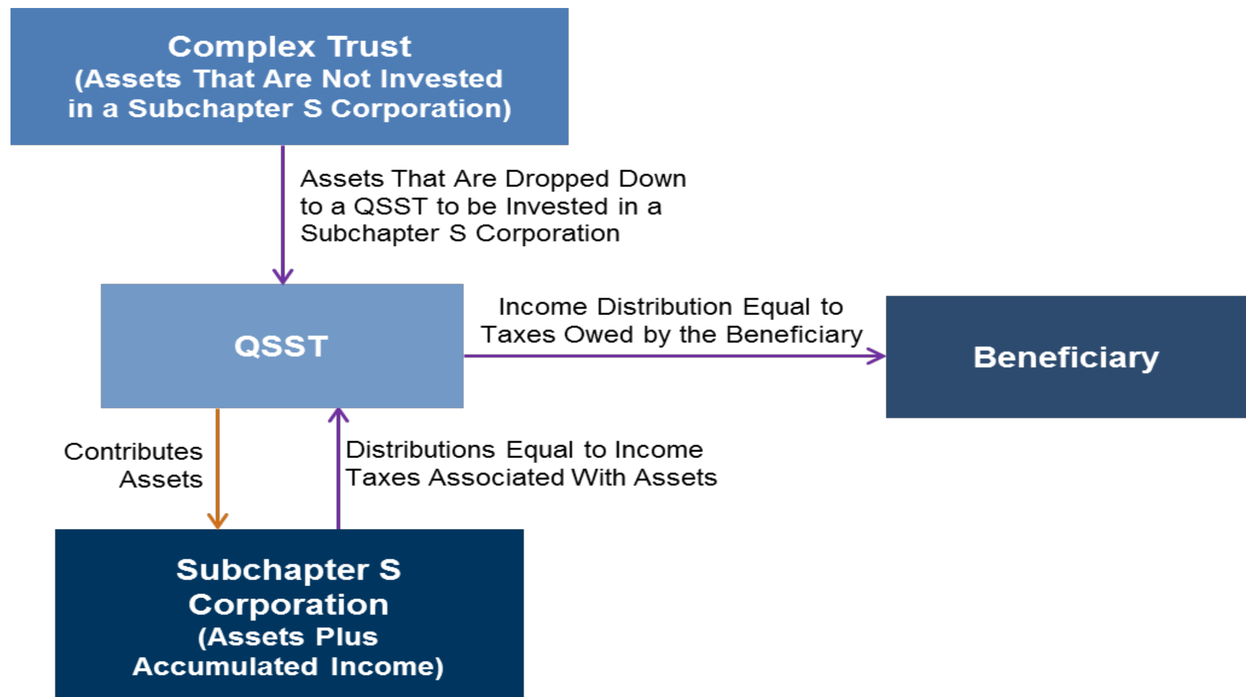
Section 1.671-3(a)(2) of the regulations provides that, if the portion treated as owned by a grantor trust or another person consists of specific trust property and its income, all items directly related to that property are attributable to that portion.

Accordingly, where a grantor or another person is treated as the owner of property constituting corpus under subpart E, the trust is disregarded as a separate entity and any gain or loss on the sale of such corpus is treated as gain or loss of such person.

It should be noted that the IRS revoked Revenue Ruling 92-84, because of cash problems caused by installment sales of Subchapter S stock by a QSST when it modified Treas. Reg. §1.1361-1(j)(8) in TD 8600 (7/20/1995). However, it would seem the other grantor trust aspects of the Revenue Ruling remain, which are consistent with IRC Sec. 1361 (i.e., for income tax purposes, the beneficiary of the QSST is treated as the income tax owner of any Subchapter S stock in the QSST and the beneficiary pays all of the income taxes on the Subchapter S income earned by the trust). It should also be noted that the trust assets other than the Subchapter S stock will be taxed under the normal Subchapter J rules.

After the trustee converts part of the trust assets to QSST, the trustee could manage the QSST in a manner which duplicates the result of a complex trust with lower income taxes. For instance, the trustee could only distribute that amount of cash from the trust owned Subchapter S stock that is necessary for the beneficiary to pay his income taxes.

The technique is illustrated as follows:



2. Income Tax and Basis Enhancing Advantages of the Technique.

a. The Beneficiary May Be in a Lower Tax Bracket Than the Trust.

The beneficiary may be in a lower tax bracket than the trust and is taxed on the taxable income allocated to the QSST. The taxes associated with the beneficiary being the deemed owner of the QSST may equal the cash distributed by the QSST to the beneficiary, which will limit any cash build up in the beneficiary's estate.

b. There is Not Any Concern About the Effect of any Lapse of Withdrawal Rights.

Unlike the limited income withdrawal trust, or other IRC Sec. 678 beneficiary grantor trust techniques, there is no need for the beneficiary of the QSST to have withdrawal rights, because there is no attempt to make all of the assets taxed as a IRC Sec. 678 trust (only the Subchapter S stock owned by the trust). The transfer tax, income tax consequences and creditor protection consequences that may accrue from the existence of a withdrawal right, and from its lapse, are not present in this technique.

c. If the Subchapter S Corporation Participates in a Trade or Business, and if the Current Beneficiary of the QSST Materially Participates in That Trade or Business, or is in a Lower Marginal Bracket, Significant Health Care Taxes May Be Saved With the Technique.

The net investment income, as noted above, is not allocated to the QSST, but is allocated to the beneficiary of the trust under IRC Sec. 678. Thus, if the beneficiary materially, or significantly, participates in the business of the subchapter S corporation there is not any tax. Secondly, even if the beneficiary does not participate, the beneficiary may be in a lower bracket than the trust.

d. The Beneficiary of the QSST Will Have Access to the Accounting Income Distributed to the Trust.

The beneficiary is the sole income beneficiary of the trust. The distributions could be adequate to pay the beneficiary's income taxes associated with the QSST.

e. The Trust is Much More Flexible Than a Simple Income Only Trust and May Be Administered to Simulate a Complex Trust Without the Income Tax and Health Care Tax Disadvantages of a Complex Trust.

The beneficiary is entitled to receive the distributions paid on the Subchapter S stock held in the trust, as an income beneficiary. However, the beneficiary pays income taxes (and health care taxes) on all of the income associated with the Subchapter S stock owed by the QSST. Much of the income earned by the subchapter S corporation could be retained by the corporation, and the trust and the subchapter S corporation could be managed to simulate a complex trust that

does not pay income taxes, which only distributes that amount of cash necessary so that the beneficiary may pay his income taxes on the income earned by that trust.

3. The Transfer Tax Advantage of this Technique is that it Preserves Whatever Inherent Transfer Tax Advantage the Trust Has Without Distributing Net Cash Assets From the Trust to Beneficiaries.

4. Considerations of the Technique.

a. The Federal Income Tax Considerations With Utilizing a Subchapter S Corporation.

However as noted below, many of the income tax considerations may be either mitigated, eliminated, or do not really exist in comparison to certain of the techniques.

A subchapter S corporation is generally more advantageous from an income tax standpoint than a Subchapter C corporation, because there are not any corporate taxes to be paid for a corporation that qualifies. A subchapter S corporation can own passively managed assets, if the corporation has never been a C corporation.

One of the considerations of a subchapter S corporation is that only certain shareholders may qualify. Shareholders must be United States citizens. To the extent the Subchapter S stock is owned by a trust, the trust needs to be a grantor trust, a QSST or an electing small business trust (ESBT). Of these, the only trusts to which sales of Subchapter S stock may be made without realization of gain are grantor trusts (sale by the grantor) and QSST trusts (sale by the trust beneficiary).

Another consideration of a subchapter S corporation is that there is not a step-up on the underlying assets of the subchapter S corporation on the death of the shareholder who owns stock that is subject to estate taxes. FLPs and FLLCs, pursuant to certain elections that can be made under IRC Sec. 754, have the ability to have certain of the partnership assets receive an internal basis step-up on the death of a partner or member who owns the partnership interest or member interest (assuming the assets have appreciated). This may not be a significant consideration, if the planning goal is to have the stock out of the client's estate by the time of the client's death. Obviously, there would also not be a basis change under that goal and those facts, even if a partnership was used in the transfer planning – a taxpayer cannot receive a basis step-up on the underlying assets of the partnership assets, if the taxpayer does not own a partnership interest at the taxpayer's death.

Nevertheless, to the extent Subchapter S stock has not been transferred, and is included in a decedent's estate, the step-up in basis of a decedent's ownership of the Subchapter S stock will not be proportionately allocated to the subchapter S corporation's low basis assets as would be the case if the decedent owned a partnership interest and an IRC Sec. 754 election were made. However, in some cases, this disadvantage may only be one of timing. For instance, assume in the same year, after the death of the owner of the Subchapter S stock, the subchapter S corporation sells some of its low basis assets for cash in a transaction that generates capital gain.

The corporation may use that cash to redeem the Subchapter S stock. The estate will be allocated its share of the gain on that subchapter S corporation sale, which will further increase the estate's basis in its Subchapter S shares. That redemption will generate a capital loss (since the estate's basis is equal to its fair market value at death plus its share of the gain generated by subchapter S corporation sales of the low basis assets), which will be offset by the estate's share of Subchapter S gain on the sale of the low basis assets.

If future generations wish to terminate a subchapter S corporation, there may be immediate capital gains consequences in comparison to the assets being held in a partnership or FLLC. If the assets owned by the subchapter S corporation are sold immediately after, or before, the termination, that capital gains comparative disadvantage to a partnership organization may be mitigated. That inside basis disadvantage may also be mitigated by the use of drop down partnerships and leverage strategies, which are discussed *infra* Section XV.

b. Any Income of the QSST that Does Not Accrue From Subchapter S Stock Earnings Will Be Taxed Under Normal Subchapter J Rules.

As noted above, under Treas. Reg. §1.1361-1(j)(8), if there is a sale by the trustee of the QSST of any Subchapter S stock owned by the QSST, the QSST will be taxed on that sale under normal Subchapter J principles. The basis of the Subchapter S stock, that is to be sold, could be low because the only basis adjustment, after the sale of Subchapter S stock, will be the income of the corporation accumulated after the sale. It may be very important to eliminate any note outstanding to the Sec. 678 owner of the QSST, before the QSST sells its Subchapter S stock to a third party, in order to circumvent any income tax complications associated with the outstanding debt.

c. State Income Tax Considerations.

Certain states may have different tax rules with respect to subchapter S corporations and the taxation of QSST trusts. Thus, the possibility exists that under many state laws, a sale to a QSST trust may be subject to state capital gains taxes and the beneficiary of the trust will not be taxed on the trust income. For example, a Missouri trust holds S corporation stock that owns Illinois real estate. When the real estate is sold, Illinois would tax the gain on the real estate, but the capital loss on liquidation of the stock would not be Illinois source loss, because the stock is not Illinois property.

D. A Trust That is Designed to Be a BDOT, or Reformed to Be a BDOT, Does Not Pay Any Trust Income Taxes and All of the Taxable Income is Allocated to the Beneficiary of the Trust.

1. The Technique.

See the discussion *supra* Section XI.C.

2. Income Tax Advantages of the Technique.

a. To the Extent the Beneficiary's Effective Rate is Lower Than What the Trust's Effective Rate Would Be, Income Taxes Are Saved.

b. Since a BDOT is Treated as a Grantor Trust to the Beneficiary Under IRC Sec. 678, the Beneficiary Can Sell Assets to the BDOT Without Any Income Tax Consequences.

See the discussion *supra* Section XI.C.1, Example 18.

3. Transfer Tax Advantages of the Technique.

See the discussion of the transfer tax advantages *supra* Section XI.C.3.

4. Considerations of the Technique.

See the discussion of the consideration *supra* Section XI.C.4.

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

A taxpayer will receive a step-up in basis of his low basis assets that are subject to estate taxes. While beneficial, the taxpayer's family still has to pay estate taxes. What follows are three techniques that benefit the family and eliminate the estate tax even when substantial low basis assets are subject to the estate tax.

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

1. The Technique.

a. Introduction.

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

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

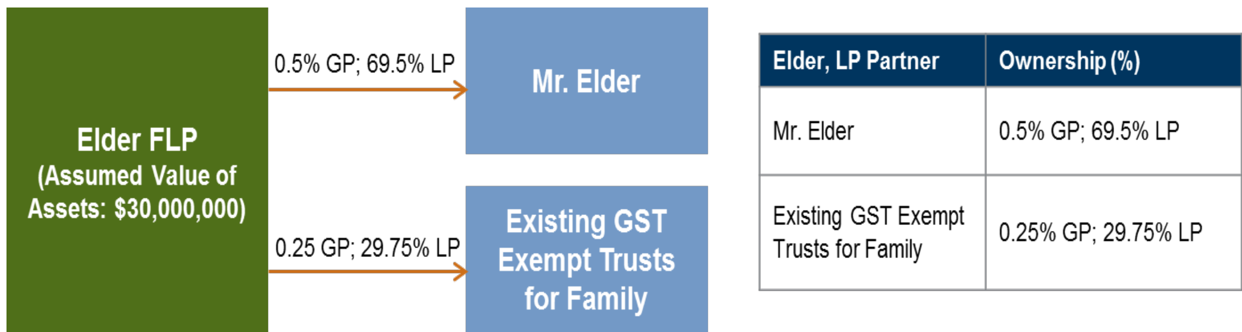
Example 28: Use of a Testamentary CLAT in Conjunction With a
Leveraged Redemption of a Partnership Interest Held by a Decedent

Ed Elder and his family create a FLP. Ed Elder owns 70% of the partnership interests after contributing $30,000,000 in assets to the FLP and doing some lifetime gifting to a generation-skipping trust. Ed does not have any estate tax exemption remaining. The estate tax rate is 40%. However, Ed dies unexpectedly before he has had a chance to make additional transfers of limited partnership interests to trusts for the benefit of his family. It is assumed a valuation discount of 40% of the transferred partnership interests is appropriate. What would be the effect on Ed's estate plan, under those circumstances, if his will bequeaths an upfront dollar gift to trusts for the benefit of his family and the rest to a "zeroed out" testamentary charitable lead annuity trust (CLAT)?

Assume Ed's will provided that the first $3 million of his estate goes to trusts for the benefit of his family and the rest to a 100% "zeroed out" CLAT that is to last for 20 years. Assume that the FLP buys out the charitable lead annuity trust interest in a probate trust proceeding that fits the requirements of the regulations under IRC Sec. 4941.[208] *Assume the partnership interest is redeemed with an interest only note (which pays interest equal to the dollar amount that is owed for the annuity payments to the charitable beneficiaries of the CLAT) with the principal of the note being paid in the 20th year. Finally, it is assumed that the IRC Sec. 7520 rate is 1.0% at the time of Ed's death.*

This technique is illustrated below:

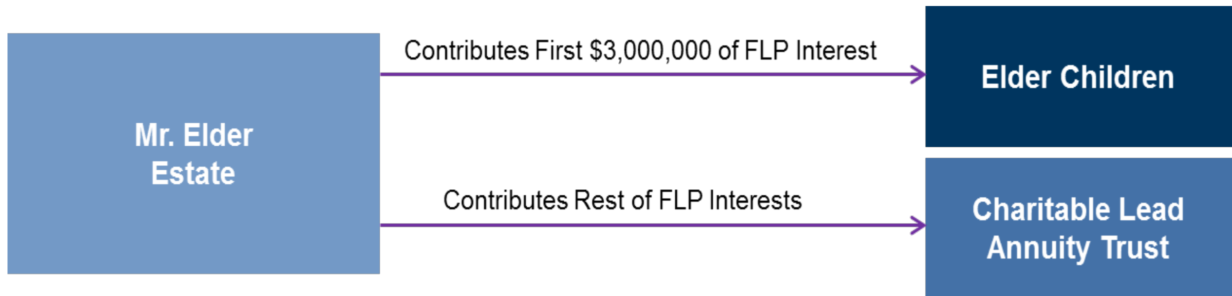
During Ed's lifetime he creates a FLP with his family.



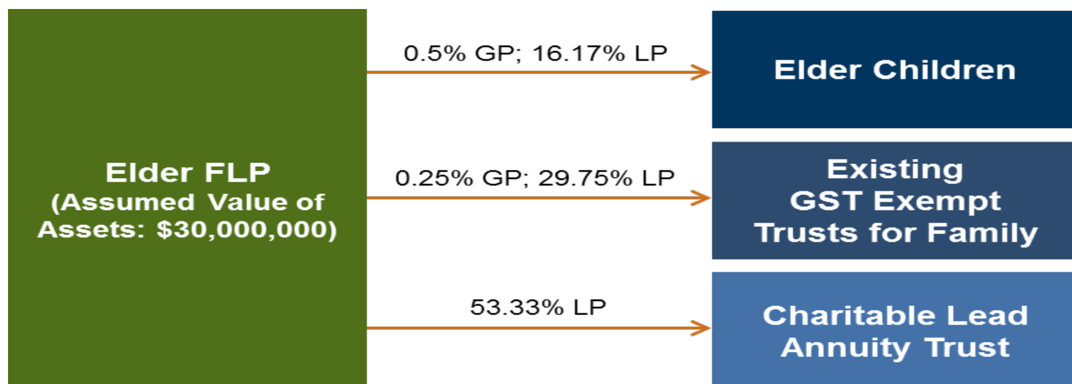
Elder, LP Partner	Ownership (%)
Mr. Elder	0.5% GP; 69.5% LP
Existing GST Exempt Trusts for Family	0.25% GP; 29.75% LP

[208] *See* PLR 200207029 (Nov. 21, 2002); PLR 200124029 (Mar. 22, 2001); PLR 20024052 (Nov. 2, 2001); *see also* Daniels & Leibell, "Planning for the Closely Held Business Owner: The Charitable Options," 40th Philip E. Heckerling Institute on Estate Planning, Chapter 12 (2006).

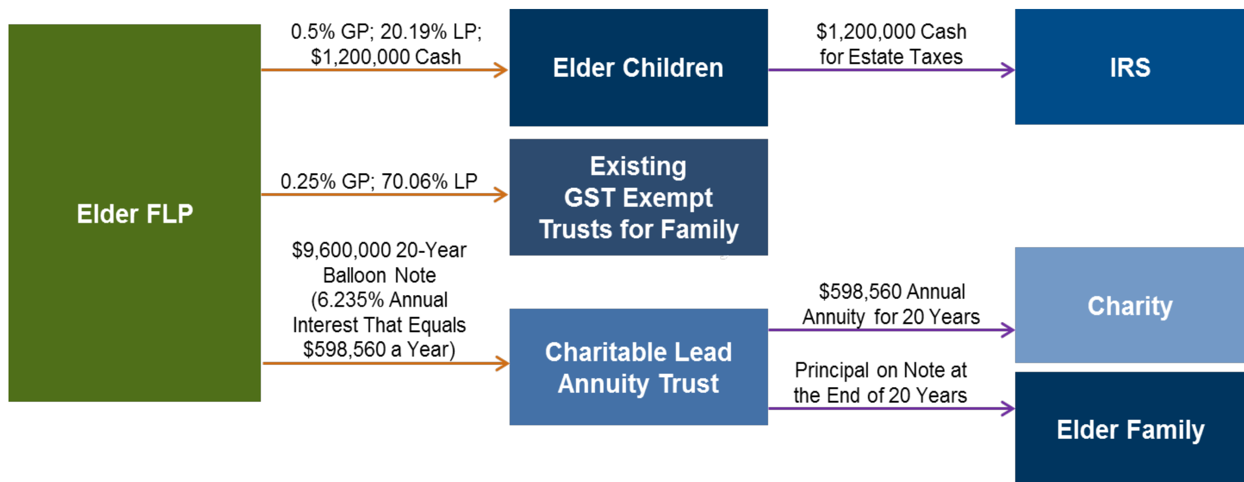
After Ed's death his will conveys his FLP interest as follows:



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



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



b. What is a CLAT?

See supra Section XII.C.

c. What is a Leveraged Buyout Testamentary CLAT?

During probate administration, one of the exceptions to the self-dealing rules, with respect to foundations and CLATs, is that a self-dealing transaction may occur if certain restrictions are met. For instance, if a partnership interest that is to pass to a CLAT is redeemed for a note that may be a permissible transaction.[209] One requirement is that the note has a fair market value that is at least equal to or greater than the fair market value of the existing redeemed partnership interest. Another requirement is that the note must be just as liquid, if not more liquid, than the existing partnership interest. Assuming the appropriate probate court approves the leverage buyout, the note could be structured to be an interest only negotiable note, with the interest rate being higher than the existing AFR rate (e.g. 5.42% in comparison to a long term AFR of 2.18%), with a balloon payment at the end of 20 years (assuming a 20 year testamentary CLAT).

2. Income Tax and Basis Enhancing Advantages of the Technique.

a. There is a Partial Step-Up in Basis in the Decedent's Partnership Interest That is Bequeathed to a Zeroed-Out CLAT.

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

b. There Will Be Income Tax Deductions For the Interest Paid to the CLAT, Assuming the Investment Income of the Partnership is Greater Than the Interest Expense.

3. Transfer Tax Advantages of the Technique.

a. No Estate Taxes Have to Be Paid With a Gift to a Properly Structured and Implemented Zeroed-Out CLAT.

Since the principal of the balloon note, when it is due, is coming back to the family as the remaindermen of the CLAT, the only out of pocket cost to the decedent's family are the interest payments on the note. However, those interest payments are heavily subsidized. The decedent's family will receive: (i) an upfront estate tax charitable deduction for the present value of those interest payments using a low present value discount factor (the then IRC Sec. 7520 rate); and

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[209] *See* Treas. Reg. §53.4941(d)-2; *see also* Matthew J. Madsen, "Funding a CLAT with a Note," 30 Est. Plan 495, 2003 WL 22213736 (2005).

(ii) an income tax deduction for each interest payment as it occurs (as noted *supra* Section XIV.A.2.b).

b. If the Decedent Bequeaths a Dollar Gift to His Family and the Rest of His Estate to a Zeroed-Out CLAT, His Will Acts Like a Defined Value Allocation Clause.

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

c. Significant Improvement in the After Tax Net Worth For Both the Family of the Decedent and the Decedent's Favorite Charitable Causes Will Accrue Because of This Technique.

What would the results be for Ed's family and his charitable beneficiaries under those circumstances in comparison to a gift only to his family (with the IRS allowing a full discount for the partnership interests)? What would be the comparison if the IRS did not allow any discount for the gift to the family? What difference would it make in comparison of the various alternatives if the family earned 3% before taxes, 7.5% before taxes and 10% before taxes during the 20-year period after Ed's death? What difference would it make if instead of bequeathing $3 million to Ed's family, Ed had bequeathed $10 million to his family with the rest to the zeroed out CLAT? The results of those comparisons are summarized below (*see* Schedule 23 attached).

Table 24a
Summary of Results For $30 Million of Assets Growing at 3% Per Year (Pre Tax) – No Further Planning vs. 20 Year Testamentary CLAT Technique; 20 Year Future Values; Post-Death Scenarios (assuming Mr. Elder dies in year 1)

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

Table 24b

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

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

Table 24c

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

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

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

d. The Family Does Not Have to Wait 20 Years to Access the Investments, if the Investments Are Successful.

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

4. Considerations of the Technique.

a. Need to Get Probate Court Approval.

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

b. Leverage Could Work Against the Family Unless a Carefully Constructed Partnership Sinking Fund is Utilized to Pay Future Interest Payments.

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

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

1. The Technique.

Portability permits the estate of the first spouse to die of a married couple to elect to transfer the DSUE amount to the surviving spouse who could use it for making gifts and sales to a grantor trust.[210] *See* IRC Sec. 2010. A surviving spouse's gift of non-managing interests in a family entity to a grantor trust using the DSUE amount, and sales by the surviving spouse of non-managing interests in a family entity to the grantor trust, will generally result in a much better result than traditional credit shelter trust planning because of the greater use of grantor trust planning. Consider the following example.

Example 29: Use of the DSUE amount to Create a Larger
Grantor Trust in Lieu of the Use of a Credit Shelter Trust

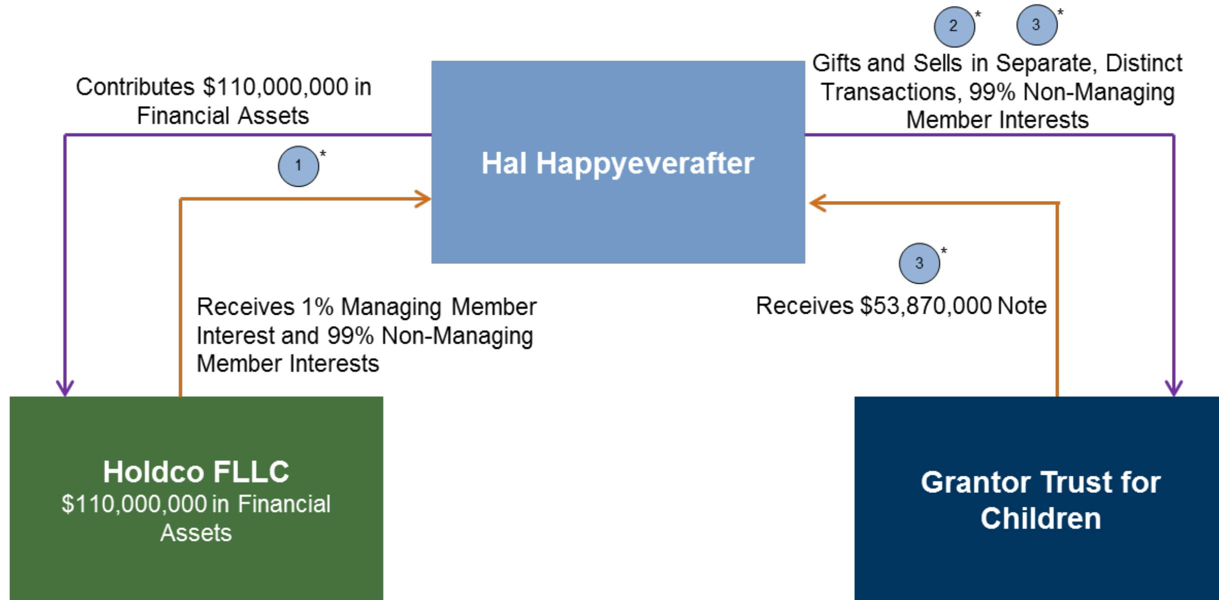
Harriett Happyeverafter is married to Hal Happyeverafter. Harriett has been very successful and has built a $110,000,000 estate during her 50-year marriage. Her goals, if Hal survives her, are to provide for Hal. Upon Hal's death, Harriett wishes for her remaining estate to pass to their children. Harriett has never engaged in lifetime gifting strategies for a variety of reasons, one of which is that she has very low basis assets. Harriett likes the protection, tax benefits and simplicity of the credit shelter trust that could be created on her death. However, Harriett is concerned that the credit shelter trust only protects about one-tenth of her net worth from future estate taxes and creditors. Harriett is intrigued about the possibility of Hal using her DSUE amount, and other techniques, to enhance the benefits of grantor trust planning.

Harriett tells her attorney, Ima Mathgeek, that Hal will need approximately $1,000,000 a year for his consumption needs. Harriett would like Hal to control her investments after her death. Harriett asks Ima to make the following assumptions: her assets will annually earn 7.4% before income taxes with 0.6% of the return being taxed at ordinary rates, 2.4% of the return being tax-free and 4.4% of the return being taxed at long-term capital gains rates (with a 30% turnover rate). Harriett asks Ima to assume Hal will live for 10 years after her death. Harriett asks Ima to design a structure that Hal could use with the DSUE amount to enhance the benefits of grantor trust planning.

Ima suggests that after Harriett's death Hal could create a single member FLLC with managing and non-managing interests. Hal in independent steps could gift and sell the non-managing interests to a grantor trust in which their children are beneficiaries. The original gift to the grantor trust will use the DSUE amount. Ima assumes a 30% valuation discount for

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

the non-managing interests will be allowed. The structure, after completion, is illustrated as follows:



2. Income Tax and Basis Enhancing Advantages of the Technique.

a. There is a Step-Up in Basis of the Deceased Spouse's Assets at Her Death.

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

b. There is an Opportunity Through Using Borrowing Strategies From Third Party Lenders For the Surviving Spouse to Increase the Basis of the Family's Assets During His Lifetime.

The surviving spouse could substitute cash for any assets owned by Holdco that appreciate during his lifetime. *See supra* Sections III.B, IV.B and VII.B. It is much more difficult to use borrowing strategies to enhance the basis of trust assets in a complex trust.

c. All of the Income Tax and Basis Enhancing Advantages of Creating a Grantor Trust and Selling Assets to a Grantor Trust Are Present With This Technique.

See discussion *supra* Section III.B.

3. Transfer Tax Advantages of the Technique.

a. Significantly More Assets May Be Passed to the Next Generation By Using This Technique Than Using the Exemption to Fund a Credit Shelter Trust That is Taxed as a Complex Trust.

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

Ima wishes to compare using a traditional credit shelter trust by the first spouse to die with DSUE planning. The context of the comparison is the use of a discounted entity by the surviving spouse with a sale by the surviving spouse of non-managing member units to a grantor trust using the surviving spouse's available unified credit. Under the above assumptions, an additional $2,328,937 will be saved on the death of the surviving spouse, if that death occurs 10 years later. *See* the table below and attached Schedule 24.

Table 25

	Beneficiaries		Consumption		IRS Income Tax			IRS Estate Taxes at 40%	Total
	Happyeverafter Children	Happyeverafter Children & Grandchildren	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Costs	Embedded Capital Gains Tax Liability		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
10-Year Future Values									
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust with her unified credit and balance of estate goes to a marital deduction trust	$84,901,072	$34,357,075	$22,406,764	$8,689,346	$12,693,504	$4,550,782	$414,058	$56,600,715	$224,613,316
	$119,258,147		$31,096,110		$17,658,344				
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust with her unified credit; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust	$19,537,175	$138,767,406	$22,406,764	$8,689,346	$14,060,949	$4,550,782	$3,576,111	$13,024,783	$224,613,316
	$158,304,580		$31,096,110		$22,187,842				
Hypothetical Technique: First spouse to die bequests estate to surviving spouse; surviving spouse gifts his lifetime gift and the DSUE amounts to a grantor trust; Hal sells the remaining non-managing member interests to the grantor trust	$157,853,517	$2,780,000	$22,406,764	$8,689,346	$14,060,949	$4,550,782	$3,576,111	$10,695,846	$224,613,316
	$160,633,517		$31,096,110		$22,187,842				

b. Significantly More Assets May Receive Protection From Creditors By Using Sales to Grantor Trusts With the Use of the DSUE Amount Then Using the Exemption to Fund a Credit Shelter Trust.

See the above analysis and Schedule 24.

c. The Surviving Spouse's Rights With Respect to Assets Owned By the Grantor Trust, and Cash Flows Produced By Those Assets, Are Pursuant to a Flexible Contract, Rather Than Discretionary Distributions By a Trustee Who is Subject to Fiduciary Considerations.

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

4. Considerations of the Technique.

a. The Surviving Spouse May Not Transfer the DSUE Amount in the Manner That the Deceased Spouse Anticipated.

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

b. If the Surviving Spouse Has Creditor Issues At the Time of the First Spouse's Death, Creating a Family Trust With the Deceased Spouse's Unified Credit Will Provide Better Protection From Those Creditors.

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

c. This Technique Has the Same Considerations as the Creation of a Grantor Trust and a Sale to a Grantor Trust.

See discussion *supra* Section III.D.

d. The GST Tax Exemption is Not Portable.

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

e. It May Be More Advantageous to Convert a Traditional Credit Shelter Trust, With its Attendant Creditor Protection and GST Advantages, to a Section 678 Grantor Trust By Using the QSST Technique.

See discussion of this technique *infra* Sections XIV.C.

f. It May Be More Advantageous For the Decedent to Have Created the Grantor Trust During Her Lifetime and Use Her Exemption to Create the Grantor Trust For the Benefit of the Spouse Before Death.

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

g. Like All Leverage Techniques, if the Underlying Assets Stay Flat or Decline There is Not Any Advantage to the Technique and to the Extent a Gift Tax Exemption is Used, the Technique Operates at a Disadvantage.

C. Using the Synergies of a Credit Shelter Trust Becoming a QSST, a Surviving Spouse Creating a FLP and a Surviving Spouse Giving and Selling Interests in the FLP to a New Grantor Trust.

1. The Technique.

A deceased spouse bequeaths her entire estate under a formula credit shelter plan. An amount equal to her remaining unified credit, assumed to be $11,180,000, passes to a credit shelter trust that pays all of its income to her husband. The remainder of her estate passes to her husband.

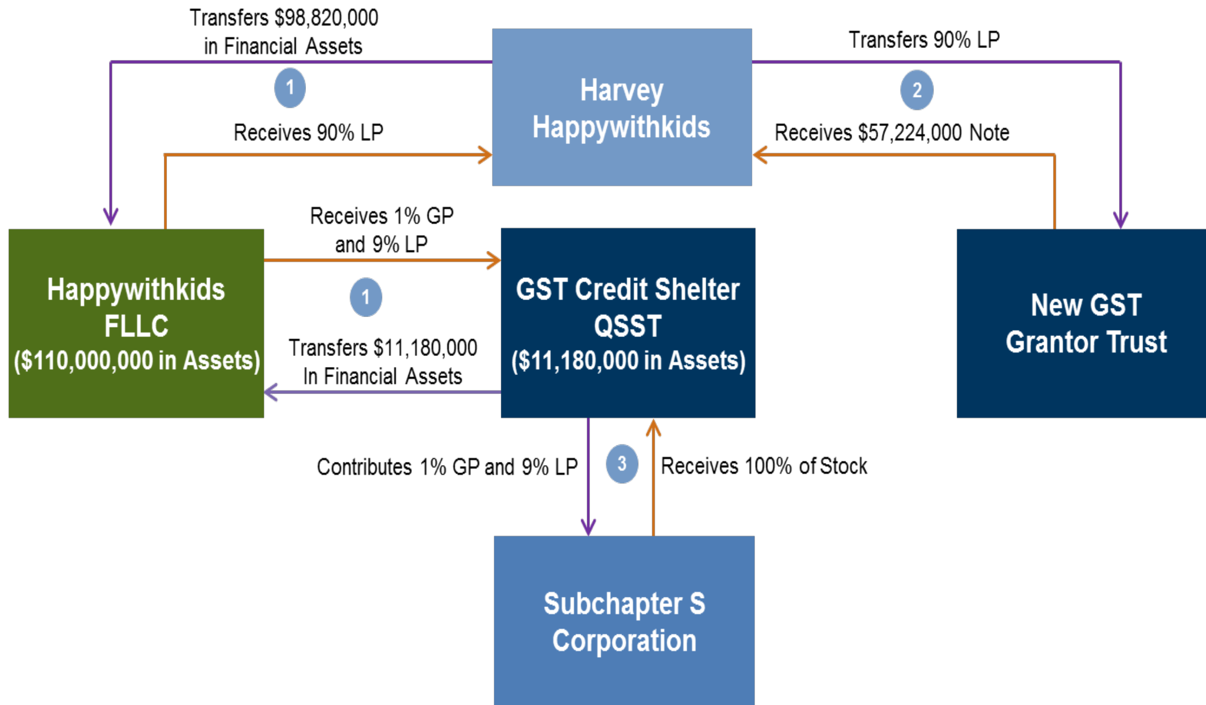
Consider the following example in which the credit shelter trust and the surviving spouse form a FLP together. The credit shelter trust then contributes its share of the partnership to a subchapter S corporation and the credit shelter trust becomes a QSST. The surviving spouse could use the unified credit to create a new grantor GST trust and could sell his remaining partnership interest to the new grantor trust.

Example 30: Harvey Happywithkids and a Credit Shelter Trust
Create a FLP, the Credit Shelter Trust Contributes its Partnership Interest
to a Subchapter S Corporation, the Credit Shelter Trust Becomes a QSST,
and Harvey Gifts and Sells His Partnership Interest to a New Grantor Trust

Helen Happywithkids dies with a substantial $110,000,000 estate that is largely liquid, but has a low basis. Her husband, Harvey, has $1,000,000 in liquid assets. Helen's will bequeaths $11,180,000 to a GST credit shelter trust and the rest of her estate to Harvey. Harvey is the trustee of the credit shelter trust that distributes all of its income to Harvey and has a special power of appointment.

Harvey asks his attorney, Susie Cue, if she has any ideas on how to eliminate the future estate tax after his death. Harvey is very happy with his descendants and the ability to change the objects of his bounty is not important to him. Harvey asks Susie to assume he will live 10 years. Harvey also tells Susie that the liquid assets will annually earn a 7.4% pre-tax return during that 10-year period with 0.6% of the return being taxed at ordinary rates, 2.4% of the return being tax-free and 4.4% of the return being taxed at long-term capital gains rates with a 30% turnover. Harvey tells Susie that he will need around $1,000,000 a year (inflation adjusted) for his consumption needs. Susie assumes a 30% valuation discount is appropriate in valuing the limited partnership interest.

Susie Cue does have a plan. Susie suggests that the credit shelter trust and Harvey contribute their collective assets to an FLLC (Transaction 1 below). Harvey will then gift (using his unified credit) and sell his non-managing interests to a grantor trust that is also a GST trust pursuant to a defined value allocation assignment (Transaction 2 below). The credit shelter trust will contribute its partnership interest to a subchapter S corporation and the credit shelter trust will become a QSST (Transaction 3 below). The technique is illustrated below:



2. Income Tax and Basis Enhancing Advantages of the Technique.

a. There is a Step-Up in Basis of the Deceased Spouse's Assets at Her Death.

b. There is an Opportunity Through Using Borrowing Strategies From Third Party Lenders For the Surviving Spouse to Increase the Basis of the Family's Assets During His Lifetime.

The surviving spouse could substitute cash for any assets owned by Holdco that appreciate during his lifetime. *See supra* Sections III.B, IV.B. and VII.B. It is much more difficult to use borrowing strategies to enhance the basis of trust assets in a complex trust.

c. All of the Income Tax Advantages of a SIDGT Are Present With This Technique.

See supra Section III.B.

3. Transfer Tax Advantages of the Technique.

a. Significant Estate Taxes Can Be Saved With This Technique.

Susie wants to compare planning with a traditional credit shelter trust that is taxed as a complex trust with a credit shelter trust that is taxed as a grantor trust, because the credit shelter trust becomes a QSST that owns Subchapter S stock. The context of the comparison is a creation

of an FLLC by the surviving spouse who sells and gives his units to a grantor trust he creates. *See* Schedule 25 attached and the table below:

Table 26

	Beneficiaries		Consumption		IRS Income Tax			IRS Estate Tax (@ 40%)	Total
	Happywithkids Children	Happywithkids Children & Grandchildren	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Embedded Capital Gains Tax		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
10-Year Future Values									
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust with her unified credit and balance of estate goes to a marital deduction trust	$95,044,358	$34,357,075	$11,203,382	$4,344,673	$13,238,320	$4,690,485	$414,058	$63,362,905	$226,655,255
	$129,401,432		$15,548,055		$18,342,862				
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust	$27,346,315	$142,293,544	$11,203,382	$4,344,673	$14,717,018	$4,690,485	$3,828,961	$18,230,877	$226,655,255
	$169,639,859		$15,548,055		$23,236,464				
Hypothetical Technique: first to die spouse creates a credit shelter trust that is converted to a QSST; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust	$27,346,315	$142,293,544	$11,203,382	$4,344,673	$14,717,018	$4,690,485	$3,828,961	$18,230,877	$226,655,255
	$169,639,859		$15,548,055		$23,236,464				

b. Under This Example, Harvey Happywithkids Has a Considerable Safety Net of Being a Beneficiary of the GST Credit Shelter Trust QSST, if He Ever Needs Those Resources.

c. Under This Example, Harvey Happywithkids Does Not Have to Be Paid Back an Equitable Adjustment Equal to the Principal of the Note, as is the Case With a Sale to a QSST.

d. It Has All of the Advantages of Converting a Complex Trust to a QSST.

See discussion *supra* Section XIII.C.2 and 3.

e. It Has All of the Transfer Tax Advantages of a SIDGT.

See discussion *supra* Section III.B and C.

f. Since Under This Technique, There is Not a Sale to a Trust in Which the Seller is a Beneficiary, There is Much Less IRC Secs. 2036 and 2038 Pressure on the Technique.

4. Considerations of the Technique.

a. The Surviving Spouse Only Has Flexibility to Change the Beneficiaries of the GST Credit Shelter QSST (Assuming the Surviving Spouse Has a Power of Appointment Over the Trust) and Any Assets the Surviving Spouse Owns (Which May Be Significantly Depleted By the Time of His Death).

Thus, this technique lacks the flexibility to change beneficiaries because of changed circumstances in comparison to techniques in which the surviving spouse sells assets to a trust in which the surviving spouse is a beneficiary and has a power of appointment, the surviving spouse has the significant flexibility to redirect assets if circumstances change.

b. This Technique Has the Same Considerations of Converting a Complex Trust to a QSST.

See discussion *supra* Section XIII.C.4. Some of the income tax considerations of having a subchapter S corporation could be mitigated if the subchapter S corporation owned a preferred interest in the partnership.

c. This Technique Has the Same Considerations as Sales of Limited Partnership Interests to a Grantor Trust.

See discussion *supra* Section III.D.

D. A Credit Shelter Trust is Designed to be a BDOT for the Benefit of the Surviving Spouse; After the Death of the First Spouse to Die, the Surviving Spouse Creates a FLP, the Surviving Spouse Then Gives and Sells Part of the Surviving Spouse's Interest in the FLP to a New Grantor Trust, and Sells the Remaining Part of the Surviving Spouse's Interest in the FLP to the Credit Shelter Trust.

1. The Technique.

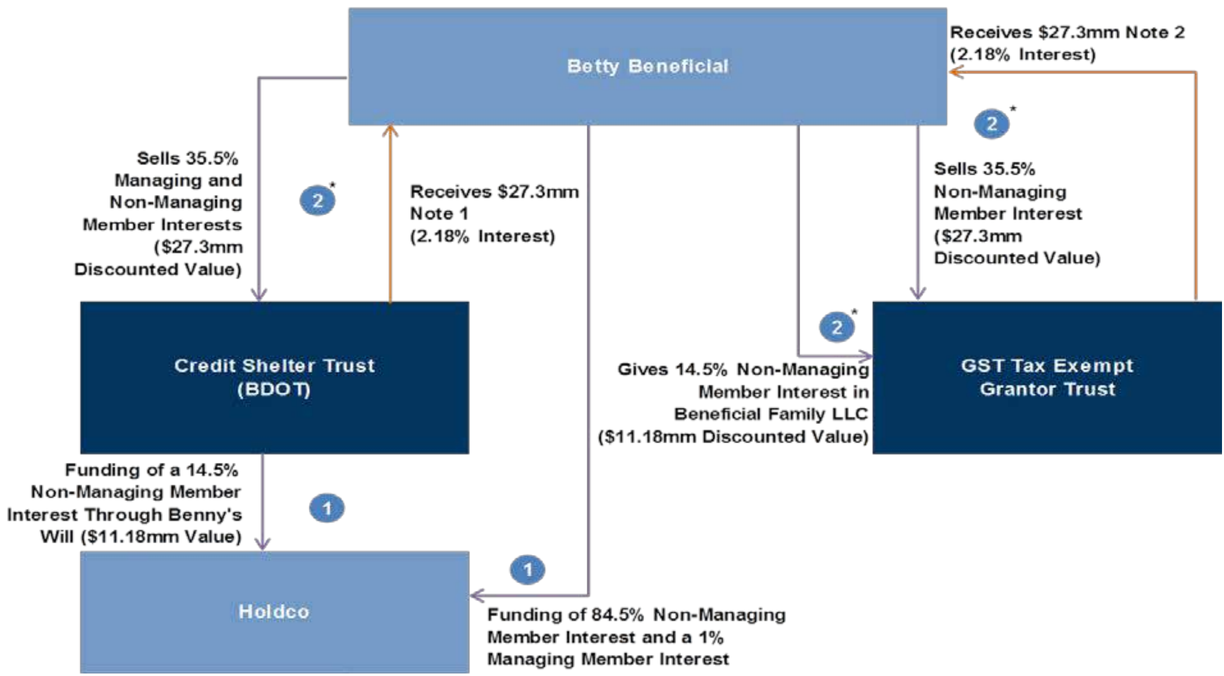
A surviving spouse's sale of non-managing interests in a family entity to a BDOT designed to be a credit shelter trust created by the first spouse to die, and the surviving spouse's gift and sale of non-managing interests to a grantor trust she creates, may be designed to increase the amount passing to the descendants, because of the power of turning the credit shelter trust into a grantor trust using the BDOT technique. Consider the following:

Example 31: Designing a Credit Shelter Trust to Be a BDOT
in Order to Use Grantor Trust Planning With the Credit Shelter Trust

Benny Beneficial is married to Betty Beneficial. Benny has been very successful and he has built a $110,000,000 estate during their 50-year marriage. His first goal, if Betty survives him, is to totally provide for Betty. Upon Benny's death, Betty wishes for her remaining estate to pass in trusts to their descendants. Benny has never engaged in lifetime gifting strategies for a variety of reasons, one of which is that he has very low basis assets. Benny likes the protection, tax benefits and simplicity of the credit shelter trust that could be created on his death. However, Benny is concerned that the credit shelter trust only protects about one-tenth of his net worth from future estate taxes and creditors. Benny is intrigued about the possibility of designing the credit shelter trust to be a BDOT, and other techniques.

Benny tells his attorney, Youra Mathgeek, that Betty will need approximately $500,000 a year for her consumption needs. Benny asks Youra to make the following assumptions: his assets will annually earn 7.4% before income taxes with 0.6% of the return being taxed at ordinary rates, 2.4% of the return being tax-free and 4.4% of the return being taxed at long-term capital gains rates (with a 30% turnover rate). Benny asks Youra to assume Betty will live for 10 years after his death.

Youra suggests to Benny that after his death Betty and the credit shelter trust designed to be a BDOT could create a single member FLLC with managing and non-managing interests (Transaction 1 below). Betty, in independent steps, could gift and sell the non-managing interests to a grantor trust in which their children are beneficiaries and could sell the managing member interests and the remaining non-managing interests to the credit shelter trust that is a BDOT (Transaction 2 below). Youra assumes a 30% valuation discount for the non-managing interests will be allowed. The structure, after completion, is illustrated as follows:



2. Income Tax and Basis Enhancing Advantages of the Technique.

a. There is a Step-Up in Basis of the Deceased Spouse's Assets at His Death.

This technique is particularly advantageous for a taxpayer who has a low basis or a negative basis asset, because it does not require a lifetime transfer of assets. There will be a step-up in basis that is equal to the fair market value of the assets.

b. There is an Opportunity Through Using Borrowing Strategies From Third Party Lenders For the Surviving Spouse to Increase the Basis of the Family's Assets During Her Lifetime.

The surviving spouse could substitute cash for any assets owned by Holdco that appreciate during her lifetime. *See supra* Sections III.B, IV.B. and VII.B. It is much more difficult to use borrowing strategies to enhance the basis of trust assets in a complex trust.

c. All of the Income Tax and Basis Enhancing Advantages of Creating a Grantor Trust and Selling Assets to a Grantor Trust Are Present With This Technique.

See discussion *supra* Section III.B.

3. Transfer Tax Advantages of the Technique.

a. Significantly More Assets May Be Passed to the Next Generation By Using This Technique Than Using the Exemption to Fund a Credit Shelter Trust That is Taxed as a Complex Trust.

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

Youra's calculations indicate that $2,764,480 in additional estate tax savings could accrue with this technique, in the context of discounted entities being used, in comparing a credit shelter trust that is a complex trust with a credit shelter trust that is designed to be a BDOT. This differential exists because of the power of grantor trust planning. *See* the table below and attached Schedule 26.

Table 27

	Beneficiaries		Consumption		IRS Income Tax			IRS Estate Tax (@ 40%)	Total
	Beneficial Children	Beneficial Children & Grandchildren	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Embedded Capital Gains Tax		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
10-Year Future Values									
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust with his unified credit and balance of estate goes to a marital deduction trust	$93,917,958	$34,357,075	$11,203,382	$4,344,673	$13,116,840	$4,647,358	$414,058	$62,611,972	$224,613,316
	$128,275,032		$15,548,055		$18,178,256				
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust	$26,598,931	$141,707,595	$11,203,382	$4,344,673	$14,579,793	$4,647,358	$3,798,962	$17,732,621	$224,613,316
	$168,306,526		$15,548,055		$23,026,114				
Hypothetical Technique: first to die spouse creates a BDOT; surviving spouse sells LLC interest to the the BDOT and gifts and sells remaining non-managing member interests to a new GST tax exempt grantor trust	$22,452,212	$148,590,142	$11,203,382	$4,344,673	$14,579,793	$4,647,358	$3,827,614	$14,968,141	$224,613,316
	$171,042,354		$15,548,055		$23,054,766				

b. Significantly More Assets May Receive Protection From Creditors By Using Sales to the Testamentary BDOT Grantor Trust Than Using the Exemption to Fund a Credit Shelter Trust.

See the above analysis and Schedule 26.

c. The Surviving Spouse's Rights With Respect to Assets Owned By the BDOT, and Cash Flows Produced By Those Assets, Are Substantial.

4. Considerations of the Technique.

a. This Technique Has the Same Considerations as the Creation of a BDOT and Sale to a BDOT.

See discussion *supra* Section XI.C.4.

b. This Technique Has the Same Considerations as the Creation of a Grantor Trust and a Sale to a Grantor Trust.

See discussion *supra* Section III.D.

c. Like All Leverage Techniques, if the Underlying Assets Stay Flat or Decline There is Not Any Advantage to the Technique and to the Extent a Gift Tax Exemption is Used, the Technique Operates at a Disadvantage.

E. Both the Credit Shelter Trust and the Marital Deduction Trust Are Designed to be a BDOT for the Benefit of the Surviving Spouse; Both Trusts Contribute Their Assets to a FLLC; and, After That Contribution, the Marital Deduction Trust Sells its Member Interests in the FLLC to the Credit Shelter Trust.

1. The Technique.

If both the credit shelter trust and the marital deduction trust are designed to be BDOTs then any sales between the two trusts will be ignored for income tax purposes. A discount entity could be created by those trusts and perhaps the surviving spouse. If the marital deduction trust sells its interest in the entity to a credit shelter trust that sale will be ignored for income tax purposes and all of the future collective appreciation above the interest owed to the marital deduction trust will pass to the credit shelter trust. The surviving spouse will pay all of the collective income taxes associated with the structure. The surviving spouse could look to the assets of the marital deduction trust for her living expenses and income tax expenses, which could deplete the marital deduction trust during the surviving spouse's lifetime, if those distributions exceed the marital deduction trust's interest income. Consider the following:

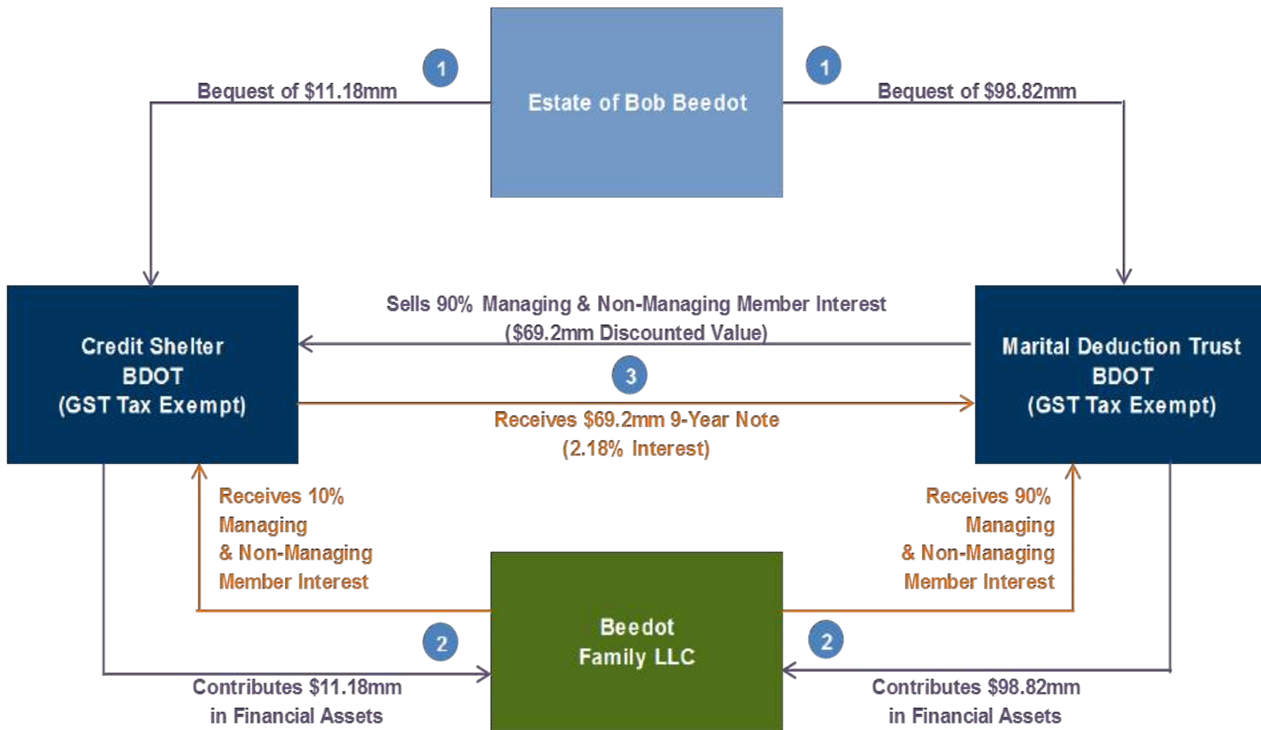
Example 32: Designing a Credit Shelter Trust and a Marital Deduction
<u>Trust to Be a BDOT in Order to Use Grantor Trust Planning With Both Trusts</u>

Bob Beedot is married to Dot Beedot. Bob has been very successful and he has built a $110,000,000 estate during their 50-year marriage. His first goal, if Dot survives him, is to totally provide for Dot. Upon Bob's death, Dot wishes for her remaining estate to pass in trusts to their descendants. Bob has never engaged in lifetime gifting strategies for a variety of reasons, one of which is that he has very low basis assets. Bob likes the protection, tax benefits and simplicity of the credit shelter trust and the marital deduction trust that could be created on his death. However, Bob is concerned that the credit shelter trust only protects about one-tenth of his net worth from future estate taxes and creditors. Bob is intrigued about the possibility of designing the credit shelter trust and the marital deduction trust to be BDOTs, and other techniques.

Bob tells his attorney, Youra Mathgeek, that Dot will need approximately $1,000,000 a year (inflation adjusted) for her consumption needs. Bob asks Youra to make the following assumptions: his assets will annually earn 7.4% before income taxes with 0.6% of the return not being tax-free, 2.4% of the return being taxed at ordinary rates and 4.4% of the return being taxed at long-term capital gains rates (with a 30% turnover rate). Bob asks Youra to assume Dot will live for 10 years after his death.

Youra suggests to Bob that after his death the trusts could create a single member FLLC with managing and non-managing interests (Transactions 1 and 2 below). The marital

deduction trust could sell its interests to the credit shelter trust (Transaction 3 below). Youra assumes a 30% valuation discount for the non-managing interests will be allowed. The structure, after completion, is illustrated as follows:



2. Income Tax and Basis Enhancing Advantages of the Technique.

a. There is a Step-Up in Basis of the Deceased Spouse's Assets at His Death.

This technique is particularly advantageous for a taxpayer who has a low basis or a negative basis asset, because it does not require a lifetime transfer of assets. There will be a step-up in basis that is equal to the fair market value of the assets.

b. There is an Opportunity Through Using Borrowing Strategies From Third Party Lenders For the Surviving Spouse to Increase the Basis of the Family's Assets During Her Lifetime.

The surviving spouse could substitute cash for any assets owned by Holdco that appreciate during her lifetime. *See supra* Sections III.B., IV.B and VII.B. It is much more difficult to use borrowing strategies to enhance the basis of trust assets in a complex trust.

c. All of the Income Tax and Basis Enhancing Advantages of Creating a Grantor Trust and Selling Assets to a Grantor Trust Are Present With This Technique.

See discussion *supra* Section III.B.

3. Transfer Tax Advantages of the Technique.

a. Significantly More Assets May Be Passed to the Next Generation By Using This Technique Than Using the Exemption to Fund a Credit Shelter Trust That is Taxed as a Complex Trust and a Marital Deduction Trust That is Taxed as a Complex Trust.

Using the synergies of a discounted sale of the marital deduction trust's non-member interests to the credit shelter trust and paying the notes with pre-income tax dollars, is a much more powerful planning technique than a transfer to complex trusts that pay their own income taxes. This technique, once again, demonstrates the synergistic power of discounted sales to trusts that are treated as grantor trusts.

Youra's calculations indicate that $6,335,369 in additional estate tax savings could accrue with this technique, assuming Dot lives 10 years after the death of Bob, in the context of discounted entities being used in comparing a credit shelter trust and a marital deduction trust that are designed to be complex trusts to credit shelter and marital deduction trusts that are designed to be BDOTs because of the power of grantor trust planning. *See* the table below and attached Schedule 27.

Table 28

	Beneficiaries		Consumption		IRS Income Tax			IRS Estate Tax (@40%)	Total
	Beedot Children (1)	Beedot Children & Grandchildren (2)	Direct Cost (3)	Investment Opportunity Cost (4)	Direct Cost (5)	Investment Opportunity Cost (6)	Embedded Capital Gains Tax (7)	(8)	(9)
10-Year Future Values									
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust with his unified credit and balance of estate goes to a marital deduction trust	$86,124,803	$32,858,879	$11,203,382	$4,344,673	$23,662,299	$8,610,683	$392,061	$57,416,535	$224,613,316
	$118,983,682		$15,548,055		$32,665,044				
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust and balance of estate goes to a marital deduction trust; the credit shelter trust and the marital deduction trust create an LLC; the marital trust sells LLC interest to the credit shelter trust	$29,178,407	$123,128,879	$11,203,382	$4,344,673	$25,054,497	$8,610,683	$3,640,523	$19,452,272	$224,613,316
	$152,307,286		$15,548,055		$37,305,703				
Hypothetical Technique: first to die spouse creates a credit shelter trust, that is a BDOT, and a marital deduction trust, that is also a BDOT; the credit shelter trust and the marital deduction trust create an LLC; the marital deduction trust sells LLC interests to the credit shelter trust	$19,675,355	$139,000,798	$11,203,382	$4,344,673	$25,044,447	$8,610,683	$3,617,074	$13,116,903	$224,613,316
	$158,676,153		$15,548,055		$37,272,205				

b. The Surviving Spouse's Rights With Respect to Assets Owned By the BDOT, and Cash Flows Produced By Those Assets, Are Substantial.

4. Considerations of the Technique.

a. This Technique Has the Same Considerations as the Creation of a BDOT and Sale to a BDOT.

See discussion *supra* Section XI.C.4.

b. This Technique Has the Same Considerations as the Creation of a Grantor Trust and a Sale to a Grantor Trust.

See discussion *supra* Section III.D.

c. Like All Leverage Techniques, if the Underlying Assets Stay Flat or Decline There is Not Any Advantage to the Technique and to the Extent a Gift Tax Exemption is Used, the Technique Operates at a Disadvantage.

d. The marital trust must give the surviving spouse the right to all the trust's accounting income for life. A spouse's right to withdraw accounting income satisfies the regulations applicable to marital trusts, including QTIP trusts. Treas. Reg. §§ 20.2056 (b)-5(f)(8) & 20.2056(b)-7(d)(2). Unless accounting income is required to be distributed currently, the surviving spouse's power of withdrawal over the marital trust must extend not only to the trust's taxable income but also to all its accounting income, whether or not taxable. If accounting income is required to be distributed, does the trust remain a wholly grantor trust under IRC Sec. 678 because of the spouse's power to withdraw taxable income? The answer should be yes, because the grantor trust rules prevail over the otherwise applicable trust rules. See Treas. Reg. §1.671-2(d).

XV. USING PARTNERSHIP STRUCTURES TO ACHIEVE DIVERSIFICATION WHILE DELAYING THE TAX ON THAT DIVERSIFICATION IN ORDER TO ACHIEVE GREATER PRE-TAX COMPOUNDING.

A. Use of Multi-Owner Exchange Funds.

1. The Technique.

The exchange fund is a technique for a taxpayer to consider if he has accumulated highly appreciated stock positions and desires both tax deferral and immediate economic diversification. The strategy needs to be carefully implemented in order to prevent participants from recognizing capital gains due to their participation in the fund.

The exchange fund concept can be applied in many ways through the use of a partnership, but for purposes of the analysis under this Section XV, the exchange fund is bifurcated into two categories, the "multi-owner," or exchange fund (*see* discussion *infra* Section XV.A), and the "closely-held family structure" techniques (*see* discussion *infra* Sections XV.B and XV.C).

At its very essence, the exchange fund concept entails the contribution of multiple appreciated marketable security positions from multiple owners in a single partnership in combination with certain non-marketable assets. If certain conditions are met pursuant to IRC Secs. 721, 351, 704(c), 737, 707, 731(c), and 732,[211] then the contribution of the appreciated position by the original owner and the ultimate receipt of non-cash, marketable assets upon liquidation, will not cause a capital gain recognition event to the owner.

Example 33: The Use of Multi-Owner Exchange Funds

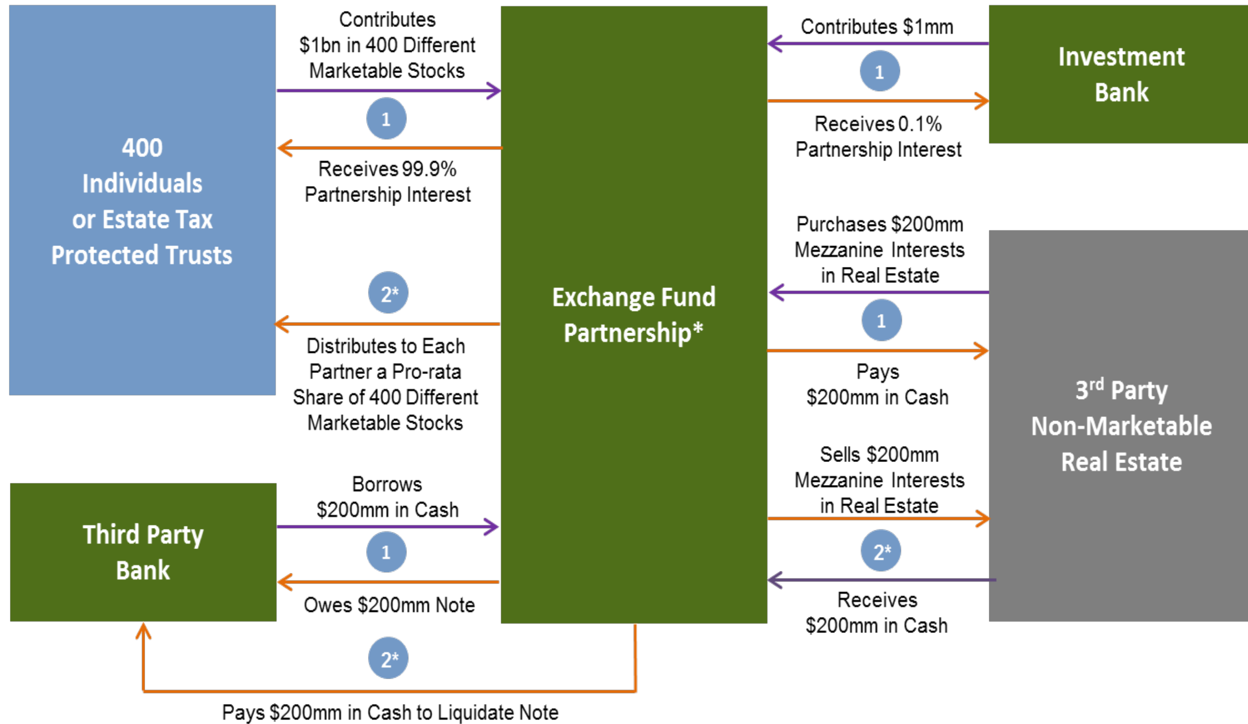
Four hundred unrelated individuals contribute 400 different marketable stocks to a partnership in which an investment bank is the managing partner. The marketable stock is used to provide for security for a loan equal to 20% of the value of the contributed stock. The proceeds of the loan are used to purchase a mezzanine interest in various real estate properties. The stocks that are accepted into the partnership are designed to be correlated to the Russell 1000 Index. The partnership is designed to last for 20 years. The investment bank charges an annual fee equal to 0.85% of the value of the partnership assets. None of the partners withdraw prior to seven years after the creation of the partnership. Each partner contributes significant positions in 400 different marketable stocks that are collectively worth $1 billion. After the partnership is formed several partners transfer his or her interests to estate tax protected trusts ("Transaction 1").

Seven years and a day later, all of the partners decide to withdraw from the partnership and receive a diversified portfolio appropriate for their sharing ratios. The mezzanine interests in the real estate properties are sold and the third party loan is liquidated ("Transaction 2").

The partners believe at the time of their withdrawal that no capital gains consequences will accrue under current law.

The technique is illustrated below:

[211] For discussion of those IRC Sections, see *supra* Section II.A.1.b.



3* – 7 years and 1 month after the Exchange Fund Partnership is created, the following occurs: (i) the partnership sells its mezzanine interest in real estate for cash; (ii) the partnership liquidates the debt owed to the 3rd Party Bank; and (iii) the partners liquidate their interest in exchange for their pro-rata interest in each stock owned by the partnership.

* Each transaction must be independent, separate and distinct.

2. Income Tax Advantage of the Technique.

a. The Owner of the Exchange Fund Will Achieve Diversification of His Portfolio That Has Much Less Volatility, and Achieve a Seven-Year or Longer Delay in Paying a Capital Gains Tax For That Diversification.

Many investment firms market the exchange fund partnership to multiple clients and collect many securities upon formation. In effect, the exchange fund simulates a mutual fund concept that is designed to track the Russell 1000 Index and which can provide an equity investment alternative to its participants.

Once the partnership terminates, the owner of the exchange fund could sell those securities he or she does not wish to own and keep the rest. The cash proceeds of the stock that is sold could be reinvested in the securities the taxpayer does wish to own. If the owner is a grantor trust, the grantor of the trust will pay the tax on those sales. Thus, diversification occurs immediately for the stock contributed to the exchange fund. There is a seven-year delay in tax on the resulting portfolio on termination of the partnership for the stock that is to be sold, with a longer delay in tax on those securities that are not sold. Using the borrowing techniques discussed *supra* Section VIII.C.2, there may be tax elimination on the securities that are not sold at the end of seven years. There may also be capital gains tax elimination on any securities that are subject to estate taxes in the taxpayer's estate.

3. Transfer Tax Advantage of the Technique.

a. If a Client Contributes Stock to an Exchange Fund and Then Immediately Gives a Direct or Indirect Interest in the Fund to a Grantor Trust There May Be Significant Valuation Discounts Associated With That Gift.

There may be significant marketability (because it may take a year or more to withdraw from the Exchange Fund partnership) and lack of control (no investor has the power to change the investment profile of the partnership) discounts associated with a exchange fund investment because of its illiquidity. Many of the funds are designed where it is difficult to withdraw earlier than one year after it is formed and, of course, the desired diversification may not occur until after a seven-year commitment. After seven years the investment will be liquid, but the lack of control and marketability for a seven-year period may have a significant effect on its value.

Certain of the exchange funds are very conducive to estate planning because the investor can receive preferred units (usually for 95% of the consideration) and common units (usually for 5% of the consideration). The common units can be given away, generally, without fear of IRC Sec. 2701, because no one family is in control of the partnership.

4. Considerations of the Technique.

a. Care Needs to Be Taken to Make Sure There is Not a Deemed Sale on the Formation of the Partnership Under IRC Sec. 721.

See the discussion of IRC Sec. 721 *supra* Section II.A.1.b.(3).

As the above discussion indicates, the ultimate test under IRC Sec. 721 in this context is one of both diversification and not violating the 80% marketability test. Under the facts of this Example 33, the individual participants have diversified their holdings through the formation of the partnership. However, the formation of the partnership should not constitute a taxable event to the participants because less than 80% of the assets of the partnership are marketable due to the non-marketable real estate assets held by the Exchange Fund partnership.

b. Care Should Be Taken to Make Sure IRC Secs. 704(c), 737 and 707 Do Not Apply.

See discussion *supra* Section II.A.1.b.(5) about the disguised sales rules under subchapter K.

Under the facts of this example, the facts and circumstances test of the two-year rule of a partner receiving money on other consideration should not be applicable. *See* IRC Sec. 1.707.3(b)(2).

In this example, several individuals, the trust and the investment bank remain in the partnership for seven years without selling any of the appreciated marketable securities, then any

transactions involving the distribution of the securities to the partners should not result in a taxable gain pursuant to IRC Sec. 704(c).

c. Care Should Be Taken to Make Sure the Liquidation of the Partnership Occurs in Seven Years Will Not Be Subject to Tax Under IRC Secs. 731(c) and 732.

See discussion *supra* Section II.A.1.b.(6) and (7).

Upon the liquidation of a partner's interest, to the extent that partner receives money above the partner's basis in the partnership, the partner will be taxed. Thus, the issue of "money" is pertinent to the extent it is distributed to a partner in excess of his basis. However, if securities are distributed in lieu of cash, then perhaps such a gain can be avoided. Presumably, a exchange fund partnership such as Example 33 would meet the definition of investment partnership pursuant to IRC Sec. 731(c), which is a different definition from the 80% test imposed by IRC Sec. 721, and as such, the distribution of securities should not create a taxable event.

d. Each Partner's Basis in the Assets That Each Partner Receives on Liquidation Will Equal That Partner's Total Outside Basis of the Liquidated Partnership Interest.

See discussion *supra* Section II.A.1.b.(7).

Under Example 33, if the exchange fund partnership operates for seven years without the sale or disposition of the contributed appreciated securities, then upon liquidation, each partner could receive an approximate 20% interest in all of the underlying partnership assets without the imposition of a capital gains tax. Only when an individual partner sells his distributed assets will that partner recognize capital gains. Under the facts of Example 33, the partnership has provided each partner with the potential of asset diversification and tax deferral.

e. There Are Economic Considerations in Using Exchange Funds.

The economic limitations of the exchange fund are the following:

(1) The lack of liquidity (there may be a six month or longer notice period before a partner can withdraw);

(2) The financial management fees and third party bank loan interest may exceed the profits on the real estate investment;

(3) The desire of the fund manager to accept certain securities than an investor would otherwise not invest;

(4) The performance of the other securities accepted into the fund over the seven-year period; and

(5) The taxpayer may only be able to diversify a limited amount of his single stock position because of limitations inherent in accepting stock from several taxpayers.

B. Using Closely Held Family Partnerships to Achieve Diversification and to Defer and Lower Income Taxes By Using Various Forms of Mixing Bowl Transactions.

1. The Techniques.

The concepts outlined above that address the formation and management of a multi-owner exchange fund can certainly exist within the framework of a privately-managed partnership with a limited number of partners, perhaps all within the same family. There are no prohibitions among related-party transactions that would impact any of the previously mentioned statutes and regulations. A variety of techniques, sometimes called "mixing bowl" techniques have been developed over the years using privately-managed partnerships, contributions by partners, withdrawals by partners, loans to partnerships and/or loans to partners to substantially delay the taxation associated with diversifying the partners' investments. However, in a closely-held partnership, attention should be given to the Treasury regulations under IRC Sec. 701 (the so-called "anti-abuse" rules). However, as previously discussed, basis enhancing strategies based on the Subchapter K provisions generally appear to be in compliance with IRC Sec. 701. *See* discussion *supra* Section II.A.1.b.(5).

In some cases, from the IRS point of view, these techniques constitute disguised sales. The IRS, in a series of cases from 1978 to 1983, challenged some of these techniques using certain common law tax doctrines. During this period, the IRS had several significant losses.[212] This lead to the Tax Reform Act of 1984 in which many of the mechanical rules of subchapter K, which are noted in the prior discussion *supra* Section II.A.1.b, were adopted. If these rules are followed tax delayed diversification and basis shifting may occur.

Examples of those closely-held family structure techniques, which are two of many, are discussed in Examples 34 and 35 below[213]. In these examples the estate tax savings associated with using a family partnership are preserved and diversification is achieved while potentially significantly ameliorating and/or deferring the income tax costs of that diversification.

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[212] *See Otey v. Commr.*, 70 T.C. 312 (1978), aff'd per curium 634 F.2d 1046 (6th Cir. 1980); *Communication Satellite Corp. v. U.S.*, 625 F.2d 997 (Ct. Cl. 1980); *Park Realty Co. v. Commr.*, 77 T.C. 412 (1981), acq. 1982-2 C.B. 2; and *Jupiter Corp. v. U.S.*, 2 Cls Ct 58 (1983).

[213] *See* Abrams, Howard "Now You See It; Now You Don't: Exiting a Partnership and Making Gain Disappear" (February 16, 2009, Vol. 50, No. 04 TM Memorandum (BNA)).

Example 34: Diversifying a "0" Basis Single Stock to a
Diversified Portfolio by Paying an Initial 2.5% Tax Instead of a 25% Tax

A little over seven years ago, Don and Donna Diversified entered into a leveraged reverse freeze planning transaction. Don and Donna contributed only one stock, Single Stock, Inc., which had a value of $100,000,000, to the partnership in exchange for a general partnership interest, and "growth" and "preferred" limited partnership interests, with the preferred interest having a 10% coupon (Transaction 1) and a par value of $90 million. The stock had a "0" basis on its contribution. Don and Donna, right after the partnership was created, gifted and sold their $90 million par preferred interest to a grantor trust for their descendants (Transaction 2). The 10% coupon was serviced by dividends and sales of Single Stock, Inc. from time to time.

After seven years the note owed by the grantor trusts was extinguished. At that point the grantor trust status of the trust was terminated. After that termination, the partnership still had $100,000,000 in value of the Single Stock, Inc. stock. The partnership then borrowed $90,000,000 in cash from a third party lender. The $90,000,000 loan was guaranteed by Don and Donna who also posted additional personal assets, besides the partnership assets to secure the loan. The partnership paid an appropriate guarantee fee to Don and Donna. Under this example, it is assumed, under IRC Sec. 752, that the loan is properly allocated to Don and Donna under partnership tax accounting principles. The partnership used the $90,000,000 in loan proceeds to purchase a broad based market index ETF fund (Transaction 3).

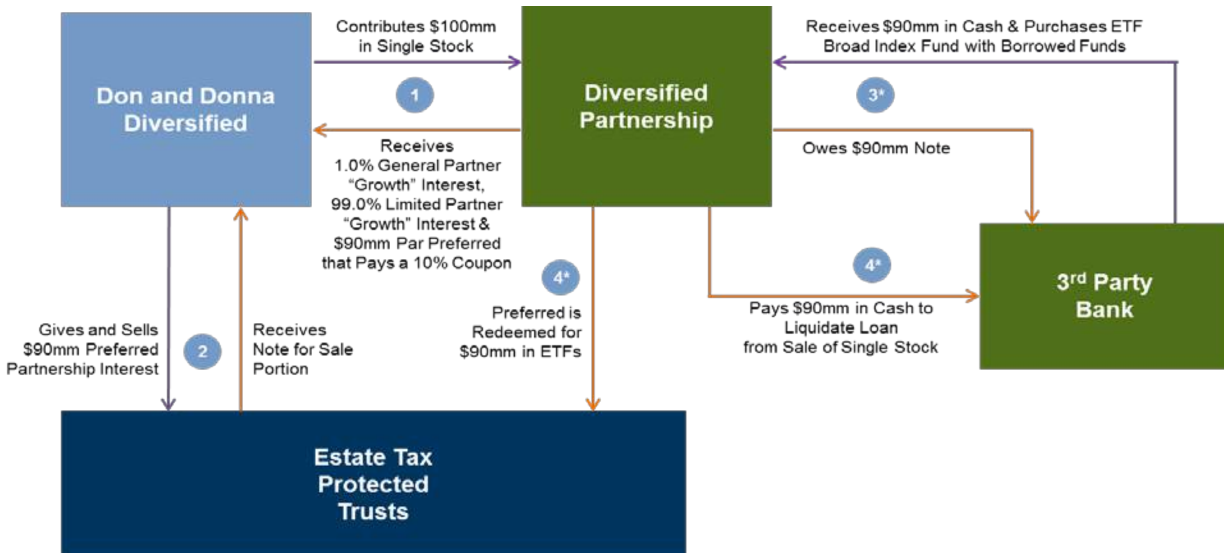
The partnership then redeems the $90,000,000 par preferred interest that is held by the non-grantor trust with the $90,000,000 basis diversified ETF fund. After that transaction is completed the partnership then sells the $100,000,000 worth of Single Stock, Inc. stock and uses 90% of the sale proceeds to liquidate the third party lender debt and ten percent (10%) of the sale proceeds to invest in bonds and an ETF that correlates with a broad based market index. The partnership makes an IRC Sec. 754 election and the $90,000,000 basis that is stripped out of the ETF used for redeeming the trust's preferred interest (because the ETF will take on a new basis of "0", which is equal to the trust's outside partnership basis of "0") is allocated to the partnership's ownership of $100,000,000 in Single Stock, Inc. (Transaction 4).

By entering into this selling and liquidation strategy the partners are able to sell $100,000,000 of Single Stock, Inc. and diversify into a broad based diversified ETF and only owe $2,380,000 in immediate capital gains taxes and will collectively own $97,620,000 in that fund with a collective basis of $7,500,000.

If the partnership had not entered into this technique and instead had sold all of the Single Stock, Inc. stock and invested the sale proceeds after taxes in the ETF fund (assuming a 23.8% tax rate), the partnership would own $76,200,000 of the ETF with a collective basis of $76,200,000. It should be noted that if this technique is adopted, and if the trust for Don and Donna's descendants decides to sell at a later time its $90,000,000 ETF investment and invest the proceeds in other investments, the partners and former partners will also collectively own $76,200,000 of assets (assuming no growth in the assets) with a $76,200,000 basis. Thus, the

power of the technique is deferral of income taxes and the power of pre-tax compounding. This technique does not eliminate the inherent capital gains tax.

A diagram of the technique is illustrated below:



3* – After 7 years and 1 month, it is assumed (i) that the note owed to Don and Donna Diversified by the Estate Tax Protected Trusts has been paid; (ii) the grantor trust status is removed from the trusts and the trusts become complex trusts; (iii) the Diversified Partnership borrows $90mm from a 3rd Party Lender and invests $90mm in ETFs.

4* – The $90mm preferred interest is redeemed for the ETFs and the partnership sells the $100mm Single Stock in order to pay off the 3rd party note.

*Each transaction must be independent, separate and distinct.

Also consider this example:

Example 35: Diversification Planning With a Closely Held Family Partnership While Preserving the Transfer Tax Advantage of a Closely Held Family <u>Partnership and Paying a 10.13% Capital Gains Tax Instead of a 25% Capital Gains Tax</u>

In 2005, Sam Singlestock contributed $8,500,000 worth of marketable stock (Marketable Stock, Inc.), with a cost basis of $0 to Growing Interests, Ltd. for an 85% limited partnership interest. His daughter, Betsy Bossdaughter, contributed $750,000 worth of Marketable Stock, Inc., with a cost basis of $0 and his son, Sonny Singlestock, contributed $750,000 worth of Marketable Stock, Inc., with a cost basis of $0 to the partnership and each received a .5% general partnership interest and a 7% limited partnership interest. The initial sharing ratios of the partners are Sam 85%, Betsy 7.5%, and Sonny 7.5% ("Transaction 1"). In 2011, using a financial engineering technique, the Marketable Stock, Inc. stock owned by the partnership is hedged, and the partnership is able to obtain $5,950,000 in cash, in the form of a cash loan from Investment Bank, Inc. Betsy and Sonny also agree to personally guarantee the note. The partnership invests the loan proceeds in a nonmarketable $5,950,000 real estate investment, which is used with the other partnership assets as security for the loan ("Transaction 2").

A few years later (2013), for family reasons and because the partners have significantly different views about the future investment philosophy of the partnership, Sam Singlestock wishes to withdraw from the partnership. There has been no growth in the partnership assets. A

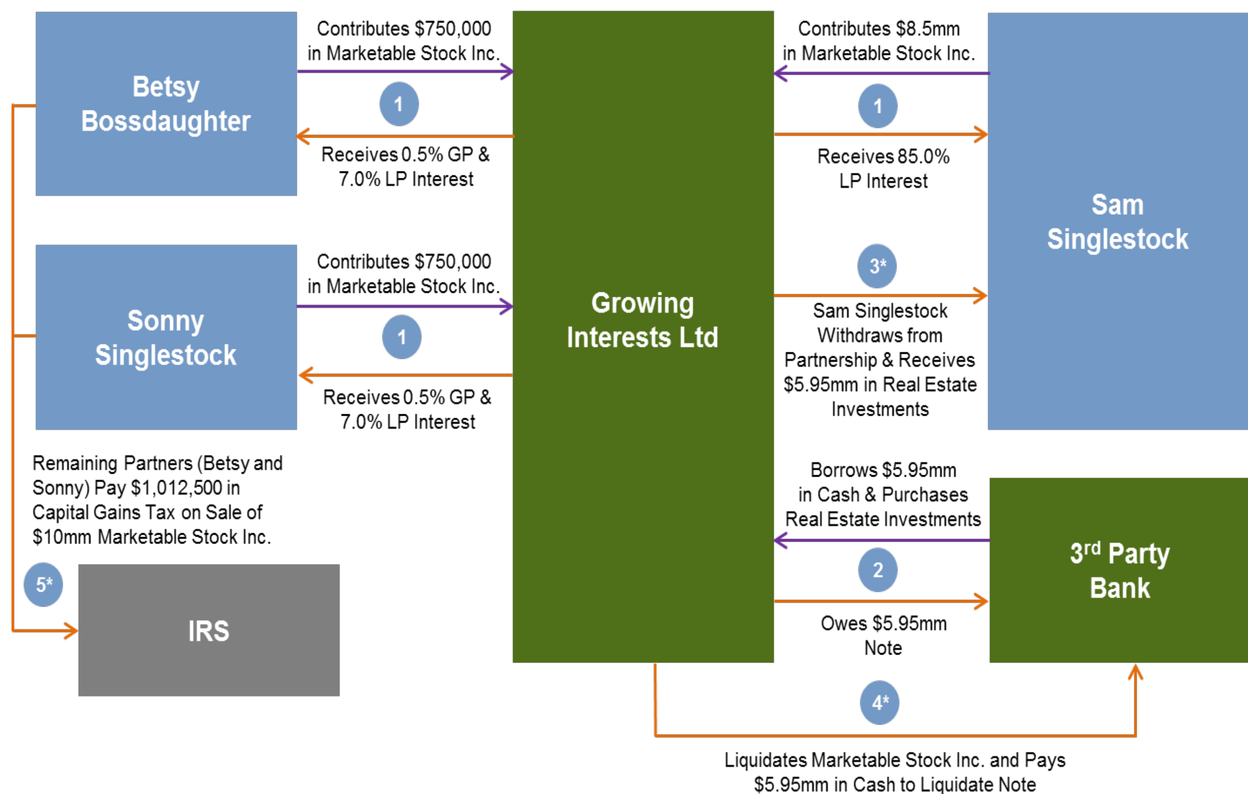
professional, independent appraiser determines that because of marketability and minority control discounts, Sam's limited partnership interest is worth $5,950,000. The partnership distributes the real estate investment worth ($5,950,000) in liquidation of his limited partnership interest. The partnership makes an IRC Sec. 754 election ("Transaction 3").

One year later (2014) the partnership sells enough of Marketable Stock to liquidate the $5,950,000 loan with the proceeds of the $10,000,000 sale ("Transaction 4").

After the partnership makes an IRC Sec. 754 election, the partnership's basis in the $10,000,000 Marketable Stock, Inc. is equal to $5,950,000. Thus, if all of the $10,000,000 in marketable stock is then sold to retire the $5,950,000 debt and diversify into other investments there will be $1,012,500 in capital gains taxes (assuming a then 25% rate). After the sale, the partnership and the remaining owners of the partnership, Betsy and Sonny, are left with $3,037,500 ("Transaction 5").

If the partnership had instead sold $10,000,000 of Marketable Stock, Inc., and not made the real estate investment, and then had liquidated, Betsy and Sonny would have been left with only $1,125,000 in cash as their part of the partnership after capital gains taxes. From the perspective of Betsy and Sonny the technique generates a 170% increased improvement.

The technique is illustrated below:



3*, 4* and 5* happen more than 7 years after the creation of the partnership.

* Each transaction must be independent, separate and distinct.

2. Advantages of the Family Partnership Mixing Bowl Techniques.

In addition to the discussion below, *see* discussion *supra* Section XV.A.

a. Management Fees Do Not Have to Be Paid to a Third Party Investment Bank.

b. The Income Tax Benefit of the Withdrawal: The Illustrated "Family Structure" Opportunities Can Provide the Family an Ability to Manage the Position Through an Appropriate Controlled Legal Entity, While Offering the Potential For a Long-Term Exit Strategy That Can Be Accomplished on a Deferred Tax Basis.

In Example 34 there will be no immediate tax consequences to the family trust diversifying its zero basis single stock position from its $90,000,000 position until the trust decides to sell part or all of its $90,000,000 diversified ETF position. In Example 35 the real estate investment will retain its zero basis without the imposition of a capital gains tax until it is sold, at which time Sam will recognize capital gains taxes. If Sam chooses to operate the real estate until his death, then IRC Sec. 1014 would apply upon his death and the real estate will receive a step-up in basis to its then fair market value. Betsy and Sonny, if the partnership makes an IRC Sec. 754 election, will receive a basis adjustment because of IRC Sec. 734(b) in the retained Marketable Stock that should allow the partnership to retire its debt with modest tax net consequences.

c. In Comparison to the Exchange Fund, the Illustrated Mixing Bowl Techniques Provide the Retention of Upside in the Original Appreciated Position, Albeit Without Diversification Until the Stock is Sold, and Without the Lack of Control With Exchange Funds.

d. Transfer Tax Benefit of a Withdrawal From a Long-Term Partnership Structure.

In Example 34 the transfer tax benefits of the trust owning a 10% compounding preferred interest could be significant especially if the underlying stock does not grow at that same pace. In Example 35 the valuation discount associated with the liquidation of Sam's limited partnership interest, if it is accurate, will not result in a gift tax, even though the fair market value of the remaining partnership interests owned by Betsy and Sonny will increase in value. This is because the withdrawing partner, Sam Singlestock, under the assumptions, received full and adequate consideration.

e. The Total Potential Transfer Tax and Capital Gains Tax Savings May Be Significant.

The net result of the transactions in Example 34 is that only a 2.38% initial capital gains tax has to be paid instead of a 23.8% capital gains tax if the full zero basis $100,000,000 single stock is diversified. Furthermore, the transfer of benefits of the leveraged reverse freeze are preserved.

The net result of the transactions in Example 35 is that Betsy and Sonny's collective net worth (assuming a then 25% capital gains rate), after capital gains taxes and/or contingent capital gains taxes, will increase by 170%, as calculated below:

(($1,000,000-$595,000-$101,250)-($150,000-$37,500)), or ($303,750-$112,500), or $191,250, or a 170% improvement ($191,250÷$112,500) after taxes.

Furthermore, the valuation discount transfer tax advantage is preserved.

f. By Use of Partnership Division Techniques That Are in Compliance With IRC Sec. 708, Partnership Assets Could Be Isolated Where Basis Planning is Most Useful.

See discussion *supra* Section II.A.1.(b)(8).

g. A Taxpayer Could Use the Techniques to Diversify Most of His Position in a Single Stock.

3. Considerations of the Techniques.

a. General Considerations

The individual transactions comprised in each technique must be independent, separate, and distinct. They must avoid application of the partnership anti-abuse rules.[214] In Example 34, it is important that the partnership operate as an "investment partnership" within the meaning of IRC Sec. 731(c)(3)(A)(iii) to prevent the distributed ETF units from being treated as money under IRC Sec. 731(c)(1).

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[214] The anti-abuse rules are discussed *supra* Section II(A)(1)(b)(11). *See also Countryside Limited Partnership v. Commissioner*, TC Memo 2008-3 (the Tax Court found that partnership anti-abuse rules were not violated in a mixing bowl transaction). In general, the courts are reluctant to allow the IRS to use equitable tax doctrines to override the benefits the Internal Revenue Code clearly permits. *See Getlitz v. Commissioner*, 531 US 206 (2001) (the Supreme Court found for the taxpayer in which a literal application of the rules under subchapter S in the context of cancellation of debt income provided both a basis increase and an exclusion from income); *Summa Holdings, Inc. v. Commissioner*, No. 16-1712 (6th Cir. 2017); *Wright v. Commissioner*, 804 F.3d 877 (6th Cir., 2016); and *Pilgrim's Pride Corp. v. Commissioner*, 779 F.3d 311 (5th Cir., 2015).

b. Are There Any Tax Consequences on Formation of the Partnership in the Above Techniques?

Formation of the partnership should not be a taxable event under IRC Secs. 721 or 351, because there is not any diversification. Each partner is still exposed to the same original Marketable Stock, Inc. position. There should not be any gift tax consequences on the formation of the partnership.[215]

c. Are There Any Tax Consequences When the Partnership Interests in Examples 34 and 35 are Redeemed?

After formation, in order to properly diversify into another asset, while still allowing the family members to participate in the upside potential of the marketable stock, the partnerships in the above examples could hedge its position in the marketable stocks. The hedging strategies could either be structured as a single long-dated contract or multiple contracts over time that do not cause the original security to be sold for income tax purposes. The hedging could be accomplished through a collar with a margin loan, or a pre-paid variable share forward structure. The partnership could invest the cash in a new asset.

Assuming the partnership is seven years old, or older, the partnership can enter into the transactions of these examples without directly violating IRC Secs. 704(c), 737 and 731(c). Under the facts of these examples, due to family investment reasons, the partnership decides to redeem a partnership interest. In order to redeem that member, the partnership first determines the value of the redeemed partner's interest in the partnership. If the partnership redeems the redeemed partner's interest for cash, the partner will be subject to capital gain recognition under IRC Sec. 731(a). If the redeemed partner's interest is redeemed with a high basis ETF as in Example 34, or with high basis real estate, applying the rules of IRC Secs. 732 and 752, the redeemed partner would have a "0" basis in that property because that property assumes the "0" basis of the redeemed partner's interest. However, the redeemed partner would pay no immediate capital gains tax and the partnership, because of the application of IRC Sec. 734(b), would have an increased basis in its remaining assets equal to the stripped basis of the asset used in redeeming the withdrawing partner as in Example 35.

The partnership portfolio is still subject to the note payable to the third party lender that must be repaid at some time in the future. The partnership could make an IRC Sec. 754 election after the redemption of the withdrawing partner's interest, and because of IRC Sec. 734(b) the remaining marketable stock would receive a proportionate basis adjustment. The partnership could sell enough of the remaining assets to eliminate the debt. The sale of the partnership assets by the partnership may result in a much smaller taxable gain than if the redemption and the IRC Sec. 754 election had not occurred.

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[215] Please *see* the discussion in the *Strangi* decision *supra* Section III.C.5.a.(2). Practically, the only tax issue every judge of the full Tax Court agreed upon in the *Strangi* decision is there is not a gift on formation of a pro rata partnership, even if every partner's interest is worth less after formation.

d. There is Exposure That Congress Could Change the Law, By the Time a Partner Withdraws (E.G., IRC Secs. 732 or 752 of the Code Could Be Amended) and That the Favorable Liquidation Rules Would No Longer Be Available. There is Also Exposure in That the IRS Could Change its Regulations.

For instance, the IRS has recently proposed changes to its regulations under IRC Sec 752 to address perceived abuses associated with the so-called popular "leveraged partnership" technique. Under this technique, one partner contributes a business and receives a small interest in the partnership and the proceeds from a borrowing incurred by the partnership shortly after its formation. Generally in a transaction where a partner contributes property and receives shortly thereafter cash from the partnership, the receipt of the cash will be treated as a disguised sale under IRC Sec. 707. There is an exception, if the partnership borrows funds from a third party and that borrowing is fully allocable to the "business contributing" partner in a properly structured transaction. With a properly structured transaction, the gain from the simulated sale is deferred until the earlier of the partnership terminating or the loan being repaid. The key to the success of the leveraged partnership technique is for the entire partnership liability to be properly allocable to the "business contributing" partner who receives the proceeds of the third party loan to the partnership.

The proposed regulations will change how certain of the leveraged partnerships have been structured in the past. (*See* proposed Treas. Reg. §§1.752-2(b) and 1.752-2(f)). For instance, under the proposed regulation changes, if a limited partner guarantees a recourse liability the guarantor's share of the recourse liability will be zero, if the general partner has net value sufficient to satisfy the obligation. Another change is that certain guarantees will not work, if they are so-called "bottom dollar guarantees." Another example of a proposed change occurs if a partner agrees to indemnify the first losses that the "business contributing" partner may have as guarantor on a partnership debt. Under those circumstances the guarantee will not work.

e. Like All Leverage Techniques, if the Underlying Assets Stay Flat or Decline There is Not Any Advantage to the Technique and to the Extent a Gift Tax Exemption is Used, the Technique Operates at a Disadvantage.

f. If These Techniques Are Used it Will Take at Least Seven Years of Partnership Aging Before the "Safety" of Diversification Can Be Used.

This should be contrasted with a multi-party exchange fund as illustrated in Example 33 where that diversification can be achieved immediately. However, there is also a seven year wait before a partner receives liquid assets.

C. The Use of a Retained Preferred Partnership Interest and Third Party Leverage to Generate Effective Estate Planning and Basis Planning.

1. The Technique.

Borrowing against low basis assets and using the loan proceeds in estate planning transactions is a popular alternative to achieve a step-up in basis on the death of a taxpayer and also mitigate the taxpayer's estate taxes. One form of that technique is for a taxpayer who owns assets that are highly appreciated (e.g., depreciated real estate) to consider creating a single member limited liability company with preferred and growth member interests. The preferred interest coupon could be cumulative and could be paid in cash or in kind. The taxpayer could contribute the zero basis asset to the single member limited liability company in exchange for a preferred interest. The taxpayer could contribute cash that the taxpayer owns, or borrows, to the single member limited liability company in exchange for the "growth" interests. The taxpayer could then engage in advanced gifting techniques to remove the growth interests from her estate. Consider the following example.

Example 36: Use of a Leveraged Estate Freeze to
Obtain a Basis Adjustment at Death and to Save Estate Taxes

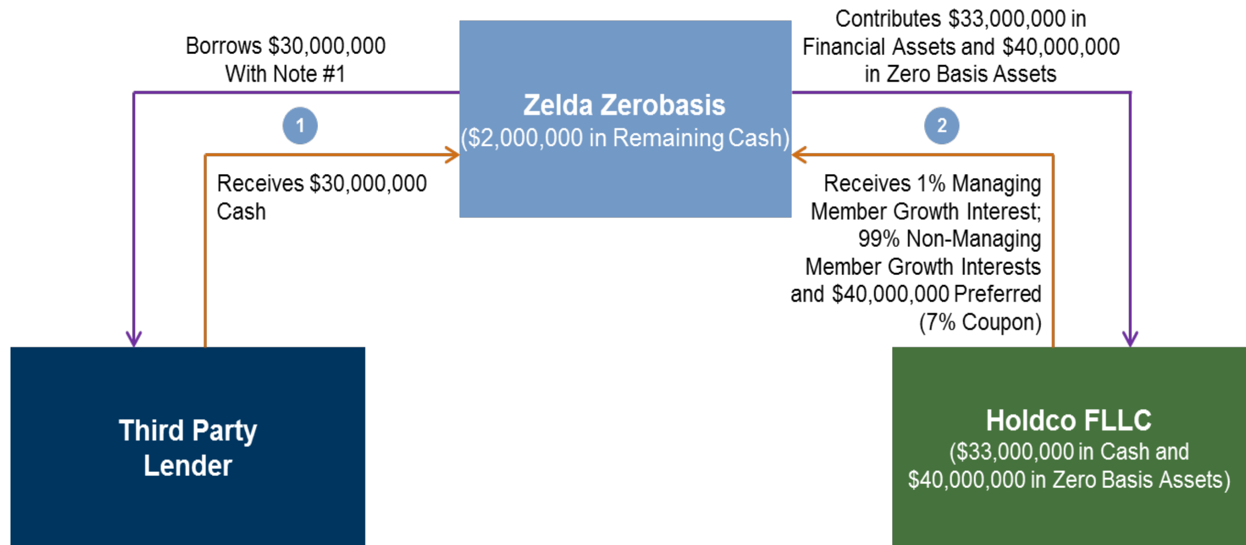
Zelda Zerobasis owns $40,000,000 in zero basis assets and $5,000,000 in cash or near cash assets that have full basis. She tells her advisor, Pam Planner, she wants a plan in which the following goals are met: (i) she does not wish to pay any gift taxes; (ii) she wishes her heirs to pay the lowest possible combination of estate taxes and capital gains taxes at her death; (iii) she wishes to maintain investment control of her assets; and (iv) she wishes to maintain her current lifestyle of $500,000 a year before inflation.

Zelda asks Pam to assume that her zero basis assets will grow at 5% a year and generate 3% ordinary taxable income a year. Zelda asks Pam to assume she will live 20 years and that she will not sell the low basis assets during her lifetime. Zelda tells Pam that because of prior gifts she only has $5,340,000 of exemption left. Zelda tells Pam that based on her assumptions that her zero basis assets will be worth over $106,000,00 at her death, which will cause a terrible estate tax problem, or a capital gains tax problem if she uses gifting techniques to remove the low basis assets from her estate to escape estate taxes.

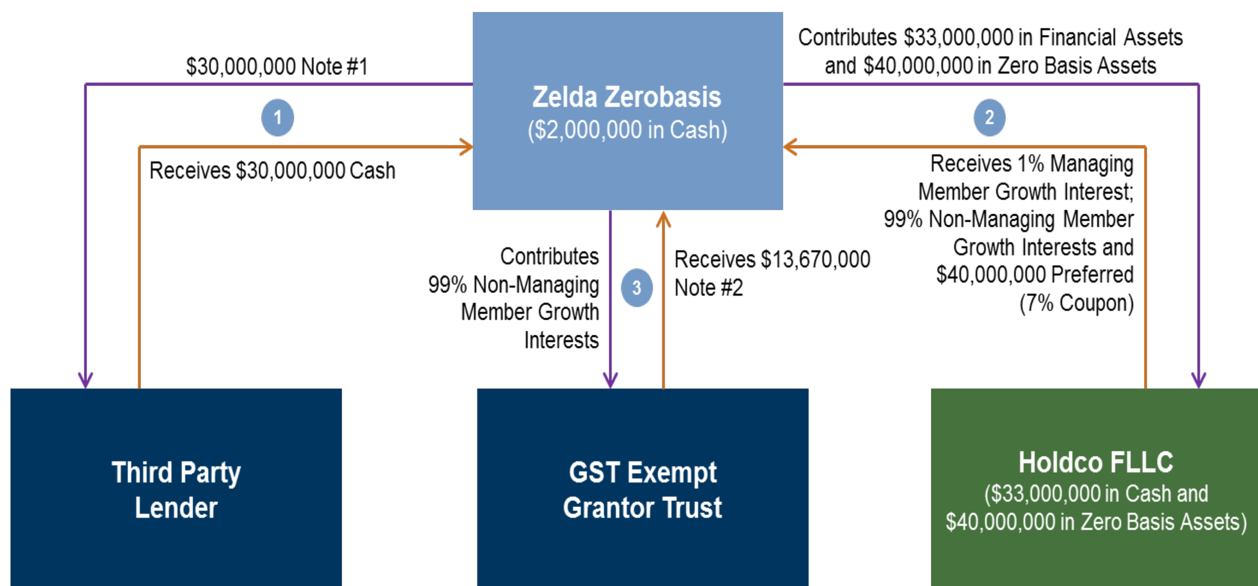
Zelda also asks Pam to assume her cash and near cash investments will have a 7.4% pre-tax rate of return with 0.6% of the return being taxed at ordinary rates, 2.4% of return being tax-free, and 4.4% of the return being taxed at long-term capital gains rates with a 30% turnover.

Pam suggests to Zelda that she create a single member limited liability company with three classes: (i) a "growth" managing member interest; (ii) a "growth" non-managing member interest; and (iii) a preferred non-managing member interest that would pay a coupon of 7% that is cumulative. It is assumed the 7% coupon will be based on the valuation principles of Revenue Ruling 83-120 and will produce a fair market value for the preferred equal to the "par" value of the preferred. The preferred interest will also have a right to $40,000,000 upon liquidation in preference to the growth interests.

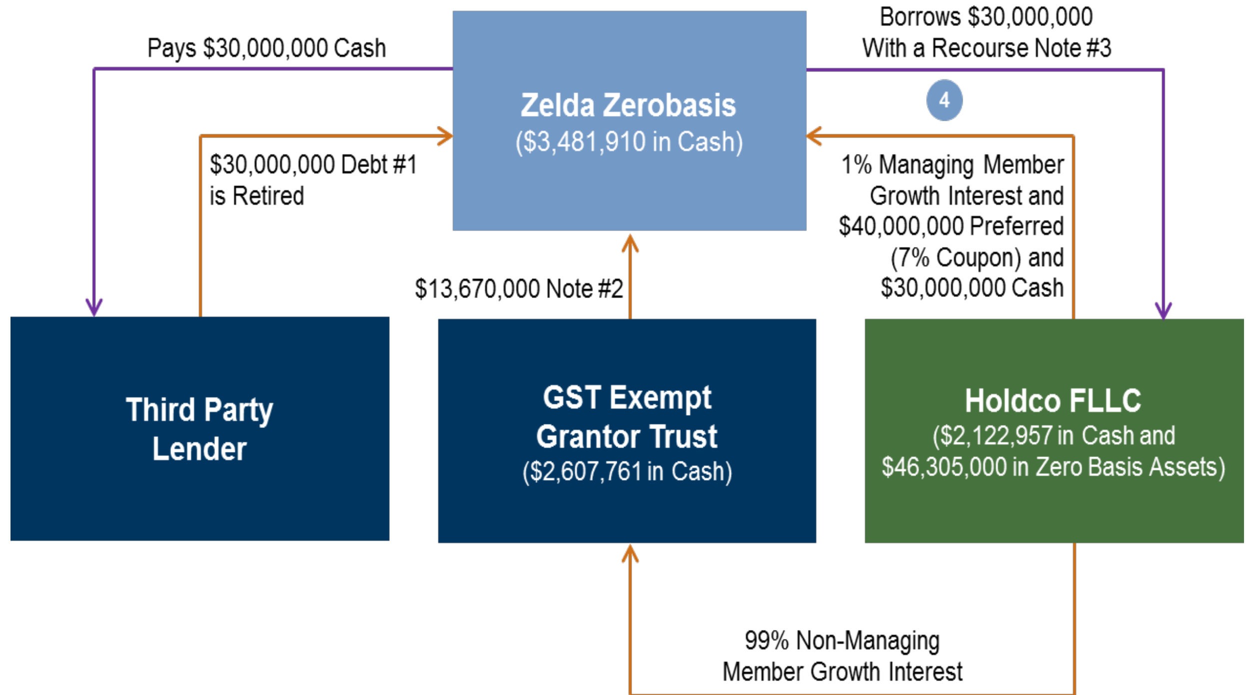
The single member FLLC would terminate on the earlier of her death or 35 years. Pam suggests that Zelda could contribute her low basis assets for the preferred interest. Pam also suggests that Zelda borrow $30,000,000 in cash from a third party lender on a recourse basis and contribute $33,000,000 in cash to the single member FLLC for the growth interests. The diagram below illustrates these transactions.



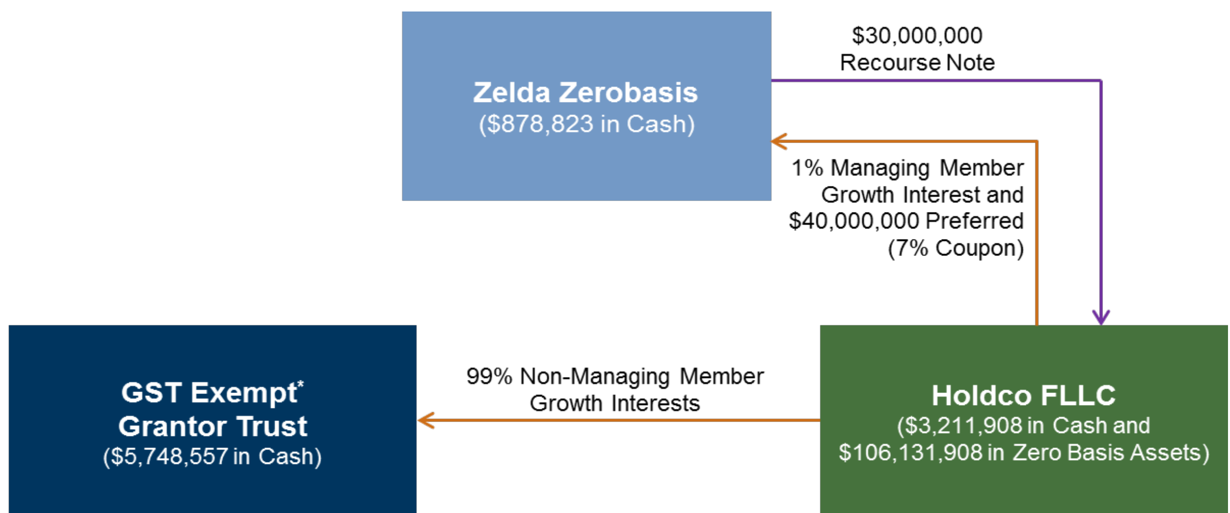
Pam suggests that Zelda could then gift (using her remaining $5,340,000 gift tax exemption) the non-managing member growth interests and sell the remaining non-managing member growth interests to a GST exempt grantor trust in separate independent transactions. Assuming a 40% valuation discount is appropriate because of the liquidation preference and income preference of the retained preferred interest, these transactions could be represented by the following diagram:



After three years Zelda may wish to borrow cash from Holdco, FLLC on a long-term recourse, unsecured basis to pay her recourse loan from the third party lender. (*See* discussion *supra* Section VIII.C.2.) After the payment of the loan to the third party lender the structure will be as shown below:



The moment before Zelda's death in 20 years the structure under the above assumptions may be as follows (*also see* attached Schedule 28):



At Zelda's death the single member FLLC could terminate and her estate would pay the note owed to the single member FLLC. Her estate would receive a step-up in basis for the preferred interest in Holdco. Holdco, FLLC could sell the zero basis assets after an IRC Sec. 754 election is made. The balance in Zelda's estate and the GST exempt trust, after capitals gains taxes, but before estate taxes, would be as follows (*see* attached Schedule 28):

*Grantor Trust status removed in year 18.

2. Income Tax and Basis Enhancing Advantages of the Technique.

a. This Technique Has the Same Advantage of Being Able to Use Third Party Borrowing By a Disregarded Entity to Achieve Basis Adjustment in Low Basis Assets.

See discussion *supra* Section VIII.C.2.

b. The Net Effect of the Illustrated Technique is That For Every $1 of the Taxpayer's Estate Exposed to Estate Taxes There is a $4 Increase in Basis of the Low Basis Assets Subject to the Technique.

In this example the taxpayer has a net $10,000,000 estate ($40,000,000 preferred interest minus a $30,000,000 deductible debt). However, the taxpayer's partnership interest, on the taxpayer's death, will have an outside basis of $40,000,000. If an IRC Sec. 754 election is made, the inside basis of the partnership assets will be increased.

3. Transfer Tax Advantages of the Technique.

a. The Net After Income and Transfer Tax Savings to Zelda Are Projected to Be Substantial. *See* the Table Below and Attached Schedule 28.

Table 29

	Zerobasis Children (1)	Zerobasis Children & Grandchildren (2)	Consumption (3)	Consumption Investment Opportunity Cost (4)	Opportunity Cost/(Benefit) of Borrowing from 3rd Party Lender (5)	IRS Income Tax (6)	IRS Income Tax Investment Opportunity Costs (7)	Estate Taxes (8)	Total (9)
20-Year Future Values									
No Further Planning: Bequeaths Estate to Family	$44,616,886	$8,530,000	$12,772,329	$13,053,175	$0	$15,575,474	$15,627,875	$29,744,590	$139,920,329
Hypothetical Technique: Bequeaths Remaining Estate to Family	$3,135,638	$82,597,794	$12,772,329	$13,053,175	($11,079,903)	$22,247,774	$15,103,098	$2,090,425	$139,920,329
Present Values (Discounted at 2.5%)									
No Further Planning: Bequeaths Estate to Family	$27,228,389	$5,205,611	$7,794,581	$7,965,974	$0	$9,505,259	$9,537,238	$18,152,259	$85,389,311
Hypothetical Technique: Bequeaths Remaining Estate to Family	$1,913,589	$50,407,034	$7,794,581	$7,965,974	($6,761,743)	$13,577,170	$9,216,982	$1,275,726	$85,389,311

Unlike a traditional gift planning technique, that eliminates estate taxes by removing an asset from the taxpayer's estate, there will be a significant step-up in basis on the death Zelda. Under this example there will be a step-up on the $40,000,000 preferred interest, which before her death had a zero basis. **In other words, for every $1 exposure to estate tax in this technique, under these facts, there is a $4 increase in basis.** Assuming an IRC Sec. 754 election is made that outside basis may be allocated to the assets owned by the partnership.

b. This Technique Has the Same Advantages as a SIDGT.

See discussion *supra* Section III.B and C.

4. Considerations of the Technique.

a. This Technique Has the Same Considerations as a SIDGT, Except This Technique May Address Step-Up in Basis Planning in a More Advantageous Manner.

See discussion *supra* Section III.D.

b. Care Must Be Taken to Comply With the Gift Tax Valuation Rules of IRC Sec. 2701.

Among other factors, the preferred interest must be structured (or treated by election and administered) as a "qualified payment right" for purposes of IRC Sec. 2701(c)(3) and Treas. Reg. §25.2701-2(b)(6). *See* discussion *supra* Section XIII.B.4.f.

c. Third Party Financing, at Least on a Temporary Basis, May Be Necessary.

The after-tax interest costs of third party financing may lower the amount accruing to the family. However, in this example, it was assumed the financial assets purchased would produce a higher rate of return than the interest rate cost.

d. This Technique Has Many of the Same Considerations as a Grantor Trust Has in Third Party Borrowing to Achieve Basis Adjustment in Low Basis Assets.

See discussion *supra* Sections III.D.5 and VIII.C.2.

XVI. GIFTING AND SELLING LOW BASIS ASSETS TO A GRANTOR TRUST THAT IS SUBJECT TO AN OLDER GENERATION'S GENERAL POWER OF APPOINTMENT AND ESTATE TAXES.

A. The Technique.[216]

A taxpayer could gift cash and then later sell some of his low basis assets (for adequate and full consideration) to a grantor trust in independent transactions. The beneficiaries of the trust could be the taxpayer's descendants and an older generation beneficiary, such as a parent. The older generation beneficiary could be given a general power of appointment that will be structured to include those trust assets in his or her estate. If the grantor first gifts high basis cash to the trust, IRC Sec. 1014(e) should not apply to that gift of cash because it is not a low basis asset. The sale of low basis assets could be for a recourse, unsecured note in which both the trustee and the older generation beneficiary are personally liable. A sale price that is equal to the fair market value of the low basis assets, perhaps pursuant to a defined value allocation assignment, should also circumvent IRC Sec. 1014(e). For a discussion of defined value assignments *see supra* Section III.D.7. If the sale price is equal to the value of the low basis asset there is not a gift and IRC Sec. 1014(e) does not apply, even if the older generation beneficiary dies within one year. For a discussion of IRC Sec. 1014(e), *see supra* Section II.A.1.a.(4).(v).

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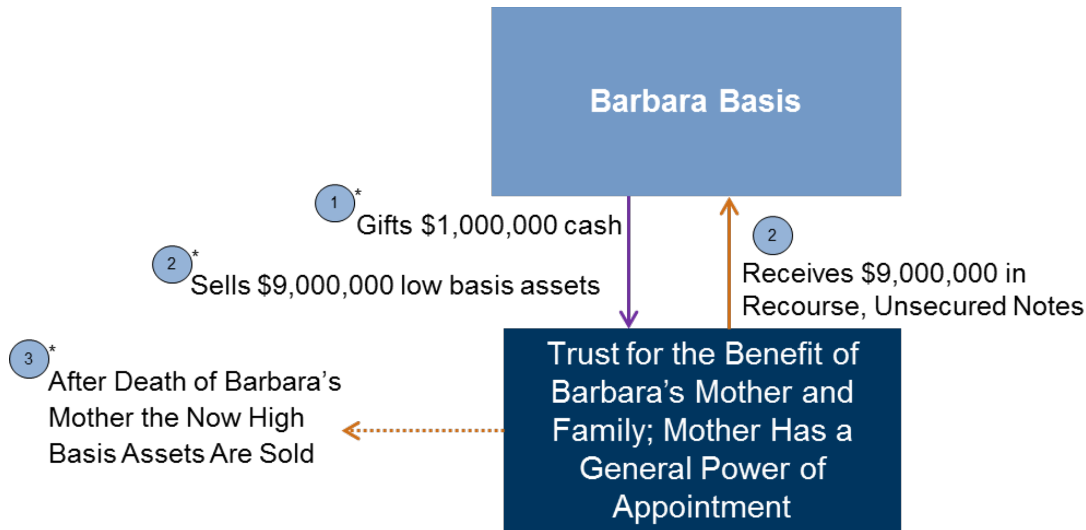
[216] *See* Mickey R. Davis and Melissa J. Willms' discussion of the accidently perfect grantor trust, *Trust and Estate Planning in a High Exemption World and the 3.8% "Medicare" Tax: What Estate and Trust Professionals Need to Know*, 61st Annual Tax Conference – Estate Planning Workshop, 31-33 (December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

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

Example 37: Barbara Basis Creates a Grantor Trust for the Benefit of Her Mother, Gmom Basis, and Her Family and Makes Certain Sales to That Trust

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

The technique is illustrated below:



B. Income Tax and Basis Enhancing Advantages of the Technique.

1. This Technique Has the Same Advantages as a SIDGT.

See discussion *supra* Section III.B and C.

2. The Assets of the Trust Will Receive a Step-up in Basis on the Older Generation Beneficiary's Death Equal to the Fair Market Value of the Assets, if Net Value Rule of Treas. Reg. §2053-7 Does Not Apply (See Discussion *Infra* Section XVI.D.5).

The non-depreciable trust assets could be sold after the older generation beneficiary's death and reinvested without capital gains tax consequences.

C. Transfer Tax Advantages of the Technique.

1. The Assets of the Trust May Be Generation-Skipping Tax Protected.

2. The Older Generation Beneficiary May Not Have to Pay Estate Taxes Because of Her General Power of Appointment, if Her Then Available Unified Credit Exceeds the Net Value of the Trust.

D. Considerations of the Technique.

1. The Grantor of the Trust Will Still Have a Low Basis in His or Her Note Upon the Death of the Older Generation Beneficiary.

Even though the assets of the trust will receive a step-up in basis on the older generation beneficiary's death, the grantor's note does not. Under the logic of Revenue Ruling 85-13, the note does not exist as long as the grantor status of the trust is maintained. After the older generation beneficiary's death the note may be satisfied, without tax consequences, with the now higher basis assets owned by the trust.

2. The Older Generation Beneficiary Could Exercise His or Her General Power of Appointment in an Unanticipated Way.

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

3. Many of the Same Considerations For the Use of a Grantor Trust and a Sale to a Grantor Trust Would Also Be Present For This Technique. *See* Discussion *Supra* Section III.D.

In order to remove the uncertainty of the consideration discussed *supra* Section III.D.5, the grantor trust could pay the note with cash or assets in kind before the grantor's death. Another strategy is for either the grantor or the trust to use third party lending. *See* discussion *supra* VIII.

4. The Effect of IRC Sec. 1014(e) Must Be Considered, if Cash is Not Given and Low Basis Assets Are Used to Capitalize the Trust.

See discussion *supra* Section II.A.1.a.(4).(v).

If the donor is a beneficiary of a new trust created after the death of the donee by the donee's exercise of a power of appointment, there may not be a step-up of the trust assets with respect to the donor's actuarial interest in the trust. If the donor's interest is purely discretionary in a new trust created by the older generation's exercise, IRC Sec. 1014(e) may not apply even if

the older generation beneficiary dies within one year of the donor's creation of the grantor trust. Another key exception to the application of IRC Sec. 1014(e) is whether the decedent acquired any part of the included low basis assets by "gift". If the decedent acquired the asset by sale, or by part sale-part gift, it would appear that the percentage of the asset acquired by sale should not be subject to IRC Sec. 1014(e). If the donor does not have a high basis asset, or cash, to initially capitalize the trust, the donor may wish to borrow cash to initially capitalize the trust. *See* discussion *supra* Section VIII.C.2.

5. The Effect of Treas. Reg. §20.2053-7 Needs to Be Considered.

Treas. Reg. §20.2053-7 provides:

> A deduction is allowed from a decedent's gross estate of the full unpaid amount of a mortgage upon, or of any other indebtedness in respect of, any property of the gross estate, including interest which had accrued thereon to the date of death, provided the value of the property, undiminished by the amount of the mortgage or indebtedness, is included in the value of the gross estate. **If the decedent's estate is liable** for the amount of the mortgage or indebtedness, **the full value of the property** subject to the mortgage or indebtedness **must be included** as part of the value of the gross estate; the amount of the mortgage or indebtedness being in such case allowed as a deduction. **But if the decedent's estate is not so liable, only the value of the equity of redemption** (or the value of the property, less the mortgage or indebtedness) **need** be returned as part of the value of the gross estate. In no case may the deduction on account of the mortgage or indebtedness exceed the liability therefor contracted bona fide and for an adequate and full consideration in money or money's worth. (Emphasis added.)

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

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

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

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

6. Is Grantor Trust Status Lost For the Original Grantor When the Older Generation Beneficiary Dies and the Trust Assets Are Included in the Beneficiary's Estate?

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

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

7. IRC Sec. 1014(b)(9) Needs to Be Considered For Property That Has Depreciated.

IRC Sec. 1014(b)(9) (but none of the other IRC 1014 sections) limits the basis adjustment for depreciation taken by a taxpayer other than the decedent. If the trust remains a grantor trust as to the younger generation grantor who originally took the depreciation deduction, after the death of the older generation holder of the general power of appointment, then the amount of the basis adjustment might be reduced by the amount of the depreciation deductions allowed to the younger generation grantor prior to the older generation member's death. See Treas. Reg. §1.1014-6.

Under certain circumstances, if this technique is to be used with depreciable property, it may make sense to use valuation discount techniques to sell a depreciable asset to a non-grantor trust (in order to lower the tax consequences of the sale to the non-grantor trust). For instance, a depreciable asset held in a partnership that can be discounted for valuation purposes, could be sold to a non-grantor trust under which the older generation has a power of appointment. At a later time, before the death of the older generation general power holder, in a transaction that is independent, the depreciated asset could be distributed from the partnership, or the partnership could terminate. IRC Sec. 1014(b)(4) should apply to the depreciated real estate under those circumstances and the depreciated asset should receive a step-up in basis.

Consideration could also be given to using one of the mixing bowl techniques discussed *supra* Section XV.B.2 as a work around of the effect of IRC Sec. 1014(b)(9) on depreciable assets.

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Schedule 1
Danny Lowbasis (Texas Resident)
Single Stock Analysis
Hypothetical Integrated Income and Estate Tax Plan Comparisons with an Initial Portfolio Value of $11,180,000
Assuming 15 Year Life Expectancy and 8.69% Annual Return on Single Stock Equity Portfolio

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

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	15-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning: Stock Sold at Death (assumes $15.81mm estate tax exemption available at death)				
Danny Lowbasis (Texas Resident)	39,037,037	-	-	0.00%
Lowbasis Children	-	29,746,222	19,092,968	76.20%
IRS - Income Tax	-	-	-	0.00%
IRS - Estate Tax (at 40.0%)	-	9,290,815	5,963,420	23.80%
Total	**$39,037,037**	**$39,037,037**	**$25,056,389**	**100.00%**
Hypothetical Technique: Gift of $11.18mm in Single Stock to a Grantor Trust (assumes $4.63mm estate tax exemption available at death)				
Danny Lowbasis (Texas Resident)	-	-	-	0.00%
Lowbasis Children	29,746,222	29,746,222	19,092,968	76.20%
IRS - Income Tax	9,290,815	9,290,815	5,963,420	23.80%
IRS - Estate Tax (at 40.0%)	-	-	-	0.00%
Total	**$39,037,037**	**$39,037,037**	**$25,056,389**	**100.00%**

	No Further Planning	Hypothetical Technique
Estate Tax Exemption Calculation (assuming 2.5% inflation)		
Current Estate and Gift Tax Exemption	$11,180,000	$11,180,000
Gifts Made	$0	($11,180,000)
Estate Tax Exemption Available in 15 Years	$15,810,000	$4,630,000

Schedule 1
Danny Lowbasis (Texas Resident)
Single Stock Analysis
Asset Page

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	Danny Lowbasis
Assets	
FMV: Single Stock Equity Portfolio	$11,180,000
Basis: Single Stock Equity Portfolio	$0

Schedule 1
Danny Lowbasis (Texas Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy and 8.69% Annual Return on Single Stock Equity Portfolio
No Further Planning: Stock Sold at Death (assumes $15.81mm estate tax exemption available at death)

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Assumptions:	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	8.69%	8.69%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	8.69%	8.69%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	23.80%	
Ordinary and Health Care Tax Rate	40.80%	

Danny Lowbasis (Texas Resident)

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	11,180,000	971,899	-	12,151,899	12,151,899
Year 2	-	-	-	-	-	-	12,151,899	1,056,388	-	13,208,286	13,208,286
Year 3	-	-	-	-	-	-	13,208,286	1,148,221	-	14,356,508	14,356,508
Year 4	-	-	-	-	-	-	14,356,508	1,248,039	-	15,604,546	15,604,546
Year 5	-	-	-	-	-	-	15,604,546	1,356,533	-	16,961,079	16,961,079
Year 6	-	-	-	-	-	-	16,961,079	1,474,459	-	18,435,538	18,435,538
Year 7	-	-	-	-	-	-	18,435,538	1,602,636	-	20,038,175	20,038,175
Year 8	-	-	-	-	-	-	20,038,175	1,741,957	-	21,780,131	21,780,131
Year 9	-	-	-	-	-	-	21,780,131	1,893,388	-	23,673,520	23,673,520
Year 10	-	-	-	-	-	-	23,673,520	2,057,984	-	25,731,504	25,731,504
Year 11	-	-	-	-	-	-	25,731,504	2,236,889	-	27,968,392	27,968,392
Year 12	-	-	-	-	-	-	27,968,392	2,431,346	-	30,399,738	30,399,738
Year 13	-	-	-	-	-	-	30,399,738	2,642,707	-	33,042,445	33,042,445
Year 14	-	-	-	-	-	-	33,042,445	2,872,443	-	35,914,888	35,914,888
Year 15	-	-	-	39,037,037	-	39,037,037	35,914,888	3,122,150	(39,037,037)	-	39,037,037

Schedule 1
Danny Lowbasis (Texas Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy, 8.69% Annual Return on Portfolio and 25% Long Term Capital Gain Tax Rate
Hypothetical Technique: Gift of $11.18mm in Single Stock to a Grantor Trust (assumes $4.63mm estate tax exemption available at death)

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Assumptions:	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	8.69%	8.69%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	8.69%	8.69%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	23.80%	
Ordinary and Health Care Tax Rate	40.80%	

Danny Lowbasis (Texas Resident)

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-	-	-

Grantor Trust

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Reinvest Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Reinvest in Same Stock	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	11,180,000	971,899	-	-	12,151,899	12,151,899
Year 2	-	-	-	-	-	-	-	12,151,899	1,056,388	-	-	13,208,286	13,208,286
Year 3	-	-	-	-	-	-	-	13,208,286	1,148,221	-	-	14,356,508	14,356,508
Year 4	-	-	-	-	-	-	-	14,356,508	1,248,039	-	-	15,604,546	15,604,546
Year 5	-	-	-	-	-	-	-	15,604,546	1,356,533	-	-	16,961,079	16,961,079
Year 6	-	-	-	-	-	-	-	16,961,079	1,474,459	-	-	18,435,538	18,435,538
Year 7	-	-	-	-	-	-	-	18,435,538	1,602,636	-	-	20,038,175	20,038,175
Year 8	-	-	-	-	-	-	-	20,038,175	1,741,957	-	-	21,780,131	21,780,131
Year 9	-	-	-	-	-	-	-	21,780,131	1,893,388	-	-	23,673,520	23,673,520
Year 10	-	-	-	-	-	-	-	23,673,520	2,057,984	-	-	25,731,504	25,731,504
Year 11	-	-	-	-	-	-	-	25,731,504	2,236,889	-	-	27,968,392	27,968,392
Year 12	-	-	-	-	-	-	-	27,968,392	2,431,346	-	-	30,399,738	30,399,738
Year 13	-	-	-	-	-	-	-	30,399,738	2,642,707	-	-	33,042,445	33,042,445
Year 14	-	-	-	-	-	-	-	33,042,445	2,872,443	-	-	35,914,888	35,914,888
Year 15	-	-	-	39,037,037	-	(9,290,815)	29,746,222	35,914,888	3,122,150	-	(39,037,037)	-	29,746,222

Schedule 2

Danny Lowbasis (California Resident)

Single Stock Analysis

Hypothetical Integrated Income and Estate Tax Plan Comparisons with an Initial Portfolio Value of $11,180,000

Assuming 15 Year Life Expectancy and 21.90% Annual Return on Single Stock Equity Portfolio

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	15-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning: Stock Sold at Death (assumes $15.81mm estate tax exemption available at death)				
Danny Lowbasis (California Resident)	218,068,966	-	-	0.00%
Lowbasis Children	-	137,165,379	88,041,237	62.90%
IRS - Income Tax	-	-	-	0.00%
IRS - Estate Tax (at 40.0%)	-	80,903,586	51,928,933	37.10%
Total	**$218,068,966**	**$218,068,966**	**$139,970,171**	**100.00%**
Hypothetical Technique: Gift of $11.18mm in Single Stock to a Grantor Trust (assumes $4.63mm estate tax exemption available at death)				
Danny Lowbasis (California Resident)	-	-	-	0.00%
Lowbasis Children	137,165,379	137,165,379	88,041,237	62.90%
IRS - Income Tax	80,903,586	80,903,586	51,928,933	37.10%
IRS - Estate Tax (at 40.0%)	-	-	-	0.00%
Total	**$218,068,966**	**$218,068,966**	**$139,970,171**	**100.00%**

	No Further Planning	Hypothetical Technique
Estate Tax Exemption Calculation (assuming 2.5% inflation)		
Current Estate and Gift Tax Exemption	$11,180,000	$11,180,000
Gifts Made	$0	($11,180,000)
Estate Tax Exemption Available in 15 Years	$15,810,000	$4,630,000

Schedule 2
Danny Lowbasis (California Resident)
Single Stock Analysis
Asset Page

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	Danny Lowbasis
Assets	
FMV: Single Stock Equity Portfolio	$11,180,000
Basis: Single Stock Equity Portfolio	$0

Schedule 2

Danny Lowbasis (California Resident)

Single Stock Analysis - Assuming 15 Year Life Expectancy and 21.90% Annual Return on Single Stock Equity Portfolio

No Further Planning: Stock Sold at Death (assumes $15.81mm estate tax exemption available at death)

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Assumptions:	**Financial Assets**	**Single Stock Equity Portfolio**
Total Estimated Rate of Return	21.90%	21.90%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	21.90%	21.90%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	37.10%	
Ordinary and Health Care Tax Rate	54.10%	

Danny Lowbasis (California Resident)

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	11,180,000	2,448,622	-	13,628,622	13,628,622
Year 2	-	-	-	-	-	-	13,628,622	2,984,914	-	16,613,536	16,613,536
Year 3	-	-	-	-	-	-	16,613,536	3,638,664	-	20,252,200	20,252,200
Year 4	-	-	-	-	-	-	20,252,200	4,435,597	-	24,687,798	24,687,798
Year 5	-	-	-	-	-	-	24,687,798	5,407,073	-	30,094,871	30,094,871
Year 6	-	-	-	-	-	-	30,094,871	6,591,320	-	36,686,191	36,686,191
Year 7	-	-	-	-	-	-	36,686,191	8,034,938	-	44,721,130	44,721,130
Year 8	-	-	-	-	-	-	44,721,130	9,794,735	-	54,515,864	54,515,864
Year 9	-	-	-	-	-	-	54,515,864	11,939,958	-	66,455,823	66,455,823
Year 10	-	-	-	-	-	-	66,455,823	14,555,025	-	81,010,848	81,010,848
Year 11	-	-	-	-	-	-	81,010,848	17,742,838	-	98,753,686	98,753,686
Year 12	-	-	-	-	-	-	98,753,686	21,628,840	-	120,382,526	120,382,526
Year 13	-	-	-	-	-	-	120,382,526	26,365,946	-	146,748,472	146,748,472
Year 14	-	-	-	-	-	-	146,748,472	32,140,565	-	178,889,037	178,889,037
Year 15	-	-	-	218,068,966	-	218,068,966	178,889,037	39,179,929	(218,068,966)	-	218,068,966

Schedule 2
Danny Lowbasis (California Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy, 21.90% Annual Return on Portfolio and 25% Long Term Capital Gain Tax Rate
Hypothetical Technique: Gift of $11.18mm in Single Stock to a Grantor Trust (assumes $4.63mm estate tax exemption available at death)

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Assumptions:	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	21.90%	21.90%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	21.90%	21.90%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	37.10%	
Ordinary and Health Care Tax Rate	54.10%	

Individual

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-	-	-

Grantor Trust

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Reinvest Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Reinvest in Same Stock	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	11,180,000	2,448,622	-	-	13,628,622	13,628,622
Year 2	-	-	-	-	-	-	-	13,628,622	2,984,914	-	-	16,613,536	16,613,536
Year 3	-	-	-	-	-	-	-	16,613,536	3,638,664	-	-	20,252,200	20,252,200
Year 4	-	-	-	-	-	-	-	20,252,200	4,435,597	-	-	24,687,798	24,687,798
Year 5	-	-	-	-	-	-	-	24,687,798	5,407,073	-	-	30,094,871	30,094,871
Year 6	-	-	-	-	-	-	-	30,094,871	6,591,320	-	-	36,686,191	36,686,191
Year 7	-	-	-	-	-	-	-	36,686,191	8,034,938	-	-	44,721,130	44,721,130
Year 8	-	-	-	-	-	-	-	44,721,130	9,794,735	-	-	54,515,864	54,515,864
Year 9	-	-	-	-	-	-	-	54,515,864	11,939,958	-	-	66,455,823	66,455,823
Year 10	-	-	-	-	-	-	-	66,455,823	14,555,025	-	-	81,010,848	81,010,848
Year 11	-	-	-	-	-	-	-	81,010,848	17,742,838	-	-	98,753,686	98,753,686
Year 12	-	-	-	-	-	-	-	98,753,686	21,628,840	-	-	120,382,526	120,382,526
Year 13	-	-	-	-	-	-	-	120,382,526	26,365,946	-	-	146,748,472	146,748,472
Year 14	-	-	-	-	-	-	-	146,748,472	32,140,565	-	-	178,889,037	178,889,037
Year 15	-	-	-	218,068,966	-	(80,903,586)	137,165,379	178,889,037	39,179,929	-	(218,068,966)	-	137,165,379

Schedule 3
Danny Lowbasis (Texas Resident)
Single Stock Analysis
Hypothetical Integrated Income and Estate Tax Plan Comparisons with an Initial Portfolio Value of $11,180,000
Assuming 15 Year Life Expectancy and 6.21% Annual Return on Single Stock Equity Portfolio

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

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	15-Year Future Values		Present Values (Discounted at 0.0%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning: Stock Sold at Death (assumes $11.18mm estate tax exemption available at death)				
Danny Lowbasis (Texas Resident)	27,604,938	-	-	0.00%
Lowbasis Children	-	21,034,963	13,501,542	76.20%
IRS - Income Tax	-	-	-	0.00%
IRS - Estate Tax (at 40.0%)	-	6,569,975	4,217,017	23.80%
Total	**$27,604,938**	**$27,604,938**	**$17,718,559**	**100.00%**
Hypothetical Technique: Gift of $11.18mm in Single Stock to a Grantor Trust (assumes $0mm estate tax exemption available at death)				
Danny Lowbasis (Texas Resident)	-	-	-	0.00%
Lowbasis Children	21,034,963	21,034,963	13,501,542	76.20%
IRS - Income Tax	6,569,975	6,569,975	4,217,017	23.80%
IRS - Estate Tax (at 40.0%)	-	-	-	0.00%
Total	**$27,604,938**	**$27,604,938**	**$17,718,559**	**100.00%**

	No Further Planning	Hypothetical Technique
Estate Tax Exemption Calculation (assuming 0.0% inflation)		
Current Estate and Gift Tax Exemption	$11,180,000	$11,180,000
Gifts Made	$0	($11,180,000)
Estate Tax Exemption Available in 15 Years	$11,180,000	$0

Schedule 3
Danny Lowbasis (Texas Resident)
Single Stock Analysis
Asset Page

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	Danny Lowbasis
Assets	
FMV: Single Stock Equity Portfolio	$11,180,000
Basis: Single Stock Equity Portfolio	$0

Schedule 3
Danny Lowbasis (Texas Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy and 6.21% Annual Return on Single Stock Equity Portfolio
No Further Planning: Stock Sold at Death (assumes $11.18mm estate tax exemption available at death)

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Assumptions:	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	6.21%	6.21%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	6.21%	6.21%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	23.80%	
Ordinary and Health Care Tax Rate	40.80%	

Danny Lowbasis (Texas Resident)

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	11,180,000	694,394	-	11,874,394	11,874,394
Year 2	-	-	-	-	-	-	11,874,394	737,523	-	12,611,918	12,611,918
Year 3	-	-	-	-	-	-	12,611,918	783,331	-	13,395,249	13,395,249
Year 4	-	-	-	-	-	-	13,395,249	831,984	-	14,227,234	14,227,234
Year 5	-	-	-	-	-	-	14,227,234	883,659	-	15,110,893	15,110,893
Year 6	-	-	-	-	-	-	15,110,893	938,544	-	16,049,437	16,049,437
Year 7	-	-	-	-	-	-	16,049,437	996,837	-	17,046,274	17,046,274
Year 8	-	-	-	-	-	-	17,046,274	1,058,751	-	18,105,025	18,105,025
Year 9	-	-	-	-	-	-	18,105,025	1,124,510	-	19,229,535	19,229,535
Year 10	-	-	-	-	-	-	19,229,535	1,194,354	-	20,423,890	20,423,890
Year 11	-	-	-	-	-	-	20,423,890	1,268,536	-	21,692,426	21,692,426
Year 12	-	-	-	-	-	-	21,692,426	1,347,325	-	23,039,751	23,039,751
Year 13	-	-	-	-	-	-	23,039,751	1,431,008	-	24,470,760	24,470,760
Year 14	-	-	-	-	-	-	24,470,760	1,519,889	-	25,990,648	25,990,648
Year 15	-	-	-	27,604,938	-	27,604,938	25,990,648	1,614,290	(27,604,938)	-	27,604,938

Schedule 3
Danny Lowbasis (Texas Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy, 6.21% Annual Return on Portfolio and 25% Long Term Capital Gain Tax Rate
Hypothetical Technique: Gift of $11.18mm in Single Stock to a Grantor Trust (assumes $0mm estate tax exemption available at death)

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Assumptions:	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	6.21%	6.21%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	6.21%	6.21%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	23.80%	
Ordinary and Health Care Tax Rate	40.80%	

Danny Lowbasis (Texas Resident)

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-	-	-

Grantor Trust

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Reinvest Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Reinvest in Same Stock	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	11,180,000	694,394	-	-	11,874,394	11,874,394
Year 2	-	-	-	-	-	-	-	11,874,394	737,523	-	-	12,611,918	12,611,918
Year 3	-	-	-	-	-	-	-	12,611,918	783,331	-	-	13,395,249	13,395,249
Year 4	-	-	-	-	-	-	-	13,395,249	831,984	-	-	14,227,234	14,227,234
Year 5	-	-	-	-	-	-	-	14,227,234	883,659	-	-	15,110,893	15,110,893
Year 6	-	-	-	-	-	-	-	15,110,893	938,544	-	-	16,049,437	16,049,437
Year 7	-	-	-	-	-	-	-	16,049,437	996,837	-	-	17,046,274	17,046,274
Year 8	-	-	-	-	-	-	-	17,046,274	1,058,751	-	-	18,105,025	18,105,025
Year 9	-	-	-	-	-	-	-	18,105,025	1,124,510	-	-	19,229,535	19,229,535
Year 10	-	-	-	-	-	-	-	19,229,535	1,194,354	-	-	20,423,890	20,423,890
Year 11	-	-	-	-	-	-	-	20,423,890	1,268,536	-	-	21,692,426	21,692,426
Year 12	-	-	-	-	-	-	-	21,692,426	1,347,325	-	-	23,039,751	23,039,751
Year 13	-	-	-	-	-	-	-	23,039,751	1,431,008	-	-	24,470,760	24,470,760
Year 14	-	-	-	-	-	-	-	24,470,760	1,519,889	-	-	25,990,648	25,990,648
Year 15	-	-	-	27,604,938	-	(6,569,975)	21,034,963	25,990,648	1,614,290	-	(27,604,938)	-	21,034,963

Schedule 4
Danny Lowbasis (California Resident)
Single Stock Analysis
Hypothetical Integrated Income and Estate Tax Plan Comparisons with an Initial Portfolio Value of $11,180,000
Assuming 15 Year Life Expectancy and 19.12% Annual Return on Single Stock Equity Portfolio

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	15-Year Future Values		Present Values (Discounted at 0.0%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning: Stock Sold at Death (assumes $11.18mm estate tax exemption available at death)				
Danny Lowbasis (California Resident)	154,206,896	-	-	0.00%
Lowbasis Children	-	96,996,138	62,258,130	62.90%
IRS - Income Tax	-	-	-	0.00%
IRS - Estate Tax (at 40.0%)	-	57,210,759	36,721,409	37.10%
Total	**$154,206,896**	**$154,206,896**	**$98,979,539**	**100.00%**
Hypothetical Technique: Gift of $11.18mm in Single Stock to a Grantor Trust (assumes $0mm estate tax exemption available at death)				
Danny Lowbasis (California Resident)	-	-	-	0.00%
Lowbasis Children	96,996,138	96,996,138	62,258,130	62.90%
IRS - Income Tax	57,210,759	57,210,759	36,721,409	37.10%
IRS - Estate Tax (at 40.0%)	-	-	-	0.00%
Total	**$154,206,896**	**$154,206,896**	**$98,979,539**	**100.00%**

	No Further Planning	Hypothetical Technique
Estate Tax Exemption Calculation (assuming 0.0% inflation)		
Current Estate and Gift Tax Exemption	$11,180,000	$11,180,000
Gifts Made	$0	($11,180,000)
Estate Tax Exemption Available in 15 Years	$11,180,000	$0

Schedule 4
Danny Lowbasis (California Resident)
Single Stock Analysis
Asset Page

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	Danny Lowbasis
Assets	
FMV: Single Stock Equity Portfolio	$11,180,000
Basis: Single Stock Equity Portfolio	$0

Schedule 4
Danny Lowbasis (California Resident)
Single Stock Analysis - Assuming 15 Year Life Expectancy and 19.12% Annual Return on Single Stock Equity Portfolio
No Further Planning: Stock Sold at Death (assumes $11.18mm estate tax exemption available at death)

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Assumptions:	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	19.12%	19.12%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	19.12%	19.12%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	37.10%	
Ordinary and Health Care Tax Rate	54.10%	

Danny Lowbasis (California Resident)

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	11,180,000	2,137,395	-	13,317,395	13,317,395
Year 2	-	-	-	-	-	-	13,317,395	2,546,022	-	15,863,417	15,863,417
Year 3	-	-	-	-	-	-	15,863,417	3,032,771	-	18,896,188	18,896,188
Year 4	-	-	-	-	-	-	18,896,188	3,612,577	-	22,508,765	22,508,765
Year 5	-	-	-	-	-	-	22,508,765	4,303,230	-	26,811,995	26,811,995
Year 6	-	-	-	-	-	-	26,811,995	5,125,923	-	31,937,918	31,937,918
Year 7	-	-	-	-	-	-	31,937,918	6,105,898	-	38,043,816	38,043,816
Year 8	-	-	-	-	-	-	38,043,816	7,273,224	-	45,317,040	45,317,040
Year 9	-	-	-	-	-	-	45,317,040	8,663,721	-	53,980,761	53,980,761
Year 10	-	-	-	-	-	-	53,980,761	10,320,053	-	64,300,813	64,300,813
Year 11	-	-	-	-	-	-	64,300,813	12,293,042	-	76,593,856	76,593,856
Year 12	-	-	-	-	-	-	76,593,856	14,643,229	-	91,237,084	91,237,084
Year 13	-	-	-	-	-	-	91,237,084	17,442,724	-	108,679,808	108,679,808
Year 14	-	-	-	-	-	-	108,679,808	20,777,428	-	129,457,236	129,457,236
Year 15	-	-	-	154,206,896	-	154,206,896	129,457,236	24,749,660	(154,206,896)	-	154,206,896

Schedule 4

Danny Lowbasis (California Resident)

Single Stock Analysis - Assuming 15 Year Life Expectancy, 19.12% Annual Return on Portfolio and 25% Long Term Capital Gain Tax Rate

Hypothetical Technique: Gift of $11.18mm in Single Stock to a Grantor Trust (assumes $0mm estate tax exemption available at death)

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Assumptions:	Financial Assets	Single Stock Equity Portfolio
Total Estimated Rate of Return	19.12%	19.12%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	19.12%	19.12%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Long-Term Capital Gain, Dividends & Health Care Tax Rate	37.10%	
Ordinary and Health Care Tax Rate	54.10%	

Individual

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-	-	-

Grantor Trust

	Beginning of Year Financial Assets	Income	Growth	Stock Sale Proceeds	Reinvest Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Single Stock Equity Portfolio	Growth	Reinvest in Same Stock	Stock Sale	End of Year Single Stock Equity Portfolio	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	11,180,000	2,137,395	-	-	13,317,395	13,317,395
Year 2	-	-	-	-	-	-	-	13,317,395	2,546,022	-	-	15,863,417	15,863,417
Year 3	-	-	-	-	-	-	-	15,863,417	3,032,771	-	-	18,896,188	18,896,188
Year 4	-	-	-	-	-	-	-	18,896,188	3,612,577	-	-	22,508,765	22,508,765
Year 5	-	-	-	-	-	-	-	22,508,765	4,303,230	-	-	26,811,995	26,811,995
Year 6	-	-	-	-	-	-	-	26,811,995	5,125,923	-	-	31,937,918	31,937,918
Year 7	-	-	-	-	-	-	-	31,937,918	6,105,898	-	-	38,043,816	38,043,816
Year 8	-	-	-	-	-	-	-	38,043,816	7,273,224	-	-	45,317,040	45,317,040
Year 9	-	-	-	-	-	-	-	45,317,040	8,663,721	-	-	53,980,761	53,980,761
Year 10	-	-	-	-	-	-	-	53,980,761	10,320,053	-	-	64,300,813	64,300,813
Year 11	-	-	-	-	-	-	-	64,300,813	12,293,042	-	-	76,593,856	76,593,856
Year 12	-	-	-	-	-	-	-	76,593,856	14,643,229	-	-	91,237,084	91,237,084
Year 13	-	-	-	-	-	-	-	91,237,084	17,442,724	-	-	108,679,808	108,679,808
Year 14	-	-	-	-	-	-	-	108,679,808	20,777,428	-	-	129,457,236	129,457,236
Year 15	-	-	-	154,206,896	-	(57,210,759)	96,996,138	129,457,236	24,749,660	-	(154,206,896)	-	96,996,138

Schedule 5

Current Tax Rate - Ordinary Income Analysis

Assumptions:	**Taxed Annually**	**Taxed Delayed**
Total Estimated Rate of Return	4.83%	4.00%
Rate of Return Taxed at Ordinary Income Rate	4.83%	4.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%

Assumptions (continued):	
Ordinary Income Rate	40.8%

Taxed Annually

	Financial Assets					
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Income Taxes**	**End of Year**
Year 1	1,000,000	48,258	-	-	(19,689)	1,028,569
Year 2	1,028,569	49,637	-	-	(20,252)	1,057,954
Year 3	1,057,954	51,055	-	-	(20,830)	1,088,178
Year 4	1,088,178	52,513	-	-	(21,425)	1,119,266
Year 5	1,119,266	54,014	-	-	(22,038)	1,151,242
Year 6	1,151,242	55,557	-	-	(22,667)	1,184,132
Year 7	1,184,132	57,144	-	-	(23,315)	1,217,961
Year 8	1,217,961	58,776	-	-	(23,981)	1,252,757
Year 9	1,252,757	60,456	-	-	(24,666)	1,288,546
Year 10	1,288,546	62,183	-	-	(25,371)	1,325,358
Year 11	1,325,358	63,959	-	-	(26,095)	1,363,222
Year 12	1,363,222	65,786	-	-	(26,841)	1,402,168
Year 13	1,402,168	67,666	-	-	(27,608)	1,442,226
Year 14	1,442,226	69,599	-	-	(28,396)	1,483,429
Year 15	1,483,429	71,587	-	-	(29,208)	1,525,808
Year 16	1,525,808	73,633	-	-	(30,042)	1,569,399
Year 17	1,569,399	75,736	-	-	(30,900)	1,614,235
Year 18	1,614,235	77,900	-	-	(31,783)	1,660,351
Year 19	1,660,351	80,125	-	-	(32,691)	1,707,786
Year 20	1,707,786	82,414	-	-	(33,625)	1,756,575
Year 21	1,756,575	84,769	-	-	(34,586)	1,806,758
Year 22	1,806,758	87,191	-	-	(35,574)	1,858,375
Year 23	1,858,375	89,682	-	-	(36,590)	1,911,466
Year 24	1,911,466	92,244	-	-	(37,635)	1,966,075
Year 25	1,966,075	94,879	-	-	(38,711)	2,022,243
Year 26	2,022,243	97,590	-	-	(39,817)	2,080,016
Year 27	2,080,016	100,378	-	-	(40,954)	2,139,440
Year 28	2,139,440	103,245	-	-	(42,124)	2,200,561
Year 29	2,200,561	106,195	-	-	(43,327)	2,263,428
Year 30	2,263,428	109,229	-	-	(44,565)	2,328,091

Schedule 5
Current Tax Rate - Ordinary Income Analysis

Assumptions:	Taxed Annually	Taxed Delayed
Total Estimated Rate of Return	4.83%	4.00%
Rate of Return Taxed at Ordinary Income Rate	4.83%	4.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%

Assumptions (continued):	
Ordinary Income Rate	40.8%

Taxed Delayed

	Financial Assets					
	Beginning of Year	Income	Tax Free Income	Growth	Income Taxes	End of Year
Year 1	1,000,000	40,000	-	-	-	1,040,000
Year 2	1,040,000	41,600	-	-	-	1,081,600
Year 3	1,081,600	43,264	-	-	-	1,124,864
Year 4	1,124,864	44,995	-	-	-	1,169,859
Year 5	1,169,859	46,794	-	-	-	1,216,653
Year 6	1,216,653	48,666	-	-	-	1,265,319
Year 7	1,265,319	50,613	-	-	-	1,315,932
Year 8	1,315,932	52,637	-	-	-	1,368,569
Year 9	1,368,569	54,743	-	-	-	1,423,312
Year 10	1,423,312	56,932	-	-	-	1,480,244
Year 11	1,480,244	59,210	-	-	-	1,539,454
Year 12	1,539,454	61,578	-	-	-	1,601,032
Year 13	1,601,032	64,041	-	-	-	1,665,074
Year 14	1,665,074	66,603	-	-	-	1,731,676
Year 15	1,731,676	69,267	-	-	-	1,800,944
Year 16	1,800,944	72,038	-	-	-	1,872,981
Year 17	1,872,981	74,919	-	-	-	1,947,900
Year 18	1,947,900	77,916	-	-	-	2,025,817
Year 19	2,025,817	81,033	-	-	-	2,106,849
Year 20	2,106,849	84,274	-	-	-	2,191,123
Year 21	2,191,123	87,645	-	-	-	2,278,768
Year 22	2,278,768	91,151	-	-	-	2,369,919
Year 23	2,369,919	94,797	-	-	-	2,464,716
Year 24	2,464,716	98,589	-	-	-	2,563,304
Year 25	2,563,304	102,532	-	-	-	2,665,836
Year 26	2,665,836	106,633	-	-	-	2,772,470
Year 27	2,772,470	110,899	-	-	-	2,883,369
Year 28	2,883,369	115,335	-	-	-	2,998,703
Year 29	2,998,703	119,948	-	-	-	3,118,651
Year 30	3,118,651	124,746	-	-	(915,306)	2,328,091

Schedule 5

Current Tax Rates - LTCG Analysis

Assumptions:	**Taxed Annually**	**Taxed Delayed**
Total Estimated Rate of Return	4.43%	4.00%
Rate of Return Taxed at Ordinary Income Rate	0.00%	0.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.43%	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	100.00%	0.00%

Assumptions (continued):	
Long Term Capital Gain Rate	23.8%

Taxed Annually

	Financial Assets					
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Income Taxes**	**End of Year**
Year 1	1,000,000	-	-	44,335	(10,552)	1,033,783
Year 2	1,033,783	-	-	45,833	(10,908)	1,068,708
Year 3	1,068,708	-	-	47,381	(11,277)	1,104,812
Year 4	1,104,812	-	-	48,982	(11,658)	1,142,136
Year 5	1,142,136	-	-	50,637	(12,051)	1,180,721
Year 6	1,180,721	-	-	52,347	(12,459)	1,220,610
Year 7	1,220,610	-	-	54,116	(12,880)	1,261,846
Year 8	1,261,846	-	-	55,944	(13,315)	1,304,475
Year 9	1,304,475	-	-	57,834	(13,764)	1,348,544
Year 10	1,348,544	-	-	59,788	(14,229)	1,394,103
Year 11	1,394,103	-	-	61,807	(14,710)	1,441,200
Year 12	1,441,200	-	-	63,895	(15,207)	1,489,888
Year 13	1,489,888	-	-	66,054	(15,721)	1,540,221
Year 14	1,540,221	-	-	68,286	(16,252)	1,592,255
Year 15	1,592,255	-	-	70,592	(16,801)	1,646,046
Year 16	1,646,046	-	-	72,977	(17,369)	1,701,655
Year 17	1,701,655	-	-	75,443	(17,955)	1,759,143
Year 18	1,759,143	-	-	77,991	(18,562)	1,818,572
Year 19	1,818,572	-	-	80,626	(19,189)	1,880,009
Year 20	1,880,009	-	-	83,350	(19,837)	1,943,522
Year 21	1,943,522	-	-	86,166	(20,507)	2,009,180
Year 22	2,009,180	-	-	89,077	(21,200)	2,077,057
Year 23	2,077,057	-	-	92,086	(21,917)	2,147,227
Year 24	2,147,227	-	-	95,197	(22,657)	2,219,767
Year 25	2,219,767	-	-	98,413	(23,422)	2,294,758
Year 26	2,294,758	-	-	101,738	(24,214)	2,372,282
Year 27	2,372,282	-	-	105,175	(25,032)	2,452,425
Year 28	2,452,425	-	-	108,728	(25,877)	2,535,276
Year 29	2,535,276	-	-	112,401	(26,751)	2,620,926
Year 30	2,620,926	-	-	116,199	(27,655)	2,709,469

Schedule 5

Current Tax Rates - LTCG Analysis

Assumptions:	**Taxed Annually**	**Taxed Delayed**
Total Estimated Rate of Return	4.43%	4.00%
Rate of Return Taxed at Ordinary Income Rate	0.00%	0.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.43%	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	100.00%	0.00%

Assumptions (continued):	
Long Term Capital Gain Rate	23.8%

Taxed Delayed

	Financial Assets					
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Income Taxes**	**End of Year**
Year 1	1,000,000	-	-	40,000	-	1,040,000
Year 2	1,040,000	-	-	41,600	-	1,081,600
Year 3	1,081,600	-	-	43,264	-	1,124,864
Year 4	1,124,864	-	-	44,995	-	1,169,859
Year 5	1,169,859	-	-	46,794	-	1,216,653
Year 6	1,216,653	-	-	48,666	-	1,265,319
Year 7	1,265,319	-	-	50,613	-	1,315,932
Year 8	1,315,932	-	-	52,637	-	1,368,569
Year 9	1,368,569	-	-	54,743	-	1,423,312
Year 10	1,423,312	-	-	56,932	-	1,480,244
Year 11	1,480,244	-	-	59,210	-	1,539,454
Year 12	1,539,454	-	-	61,578	-	1,601,032
Year 13	1,601,032	-	-	64,041	-	1,665,074
Year 14	1,665,074	-	-	66,603	-	1,731,676
Year 15	1,731,676	-	-	69,267	-	1,800,944
Year 16	1,800,944	-	-	72,038	-	1,872,981
Year 17	1,872,981	-	-	74,919	-	1,947,900
Year 18	1,947,900	-	-	77,916	-	2,025,817
Year 19	2,025,817	-	-	81,033	-	2,106,849
Year 20	2,106,849	-	-	84,274	-	2,191,123
Year 21	2,191,123	-	-	87,645	-	2,278,768
Year 22	2,278,768	-	-	91,151	-	2,369,919
Year 23	2,369,919	-	-	94,797	-	2,464,716
Year 24	2,464,716	-	-	98,589	-	2,563,304
Year 25	2,563,304	-	-	102,532	-	2,665,836
Year 26	2,665,836	-	-	106,633	-	2,772,470
Year 27	2,772,470	-	-	110,899	-	2,883,369
Year 28	2,883,369	-	-	115,335	-	2,998,703
Year 29	2,998,703	-	-	119,948	-	3,118,651
Year 30	3,118,651	-	-	124,746	(533,929)	2,709,469

Schedule 5

Current Tax Rate - Ordinary Income Analysis

Assumptions:	Taxed Annually	Taxed Delayed
Total Estimated Rate of Return	10.75%	8.00%
Rate of Return Taxed at Ordinary Income Rate	10.75%	8.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%

Assumptions (continued):	
Ordinary Income Rate	40.8%

Taxed Annually

	Financial Assets					
	Beginning of Year	Income	Tax Free Income	Growth	Income Taxes	End of Year
Year 1	1,000,000	107,495	-	-	(43,858)	1,063,637
Year 2	1,063,637	114,336	-	-	(46,649)	1,131,324
Year 3	1,131,324	121,612	-	-	(49,618)	1,203,318
Year 4	1,203,318	129,351	-	-	(52,775)	1,279,894
Year 5	1,279,894	137,582	-	-	(56,134)	1,361,343
Year 6	1,361,343	146,338	-	-	(59,706)	1,447,975
Year 7	1,447,975	155,650	-	-	(63,505)	1,540,120
Year 8	1,540,120	165,555	-	-	(67,547)	1,638,128
Year 9	1,638,128	176,091	-	-	(71,845)	1,742,374
Year 10	1,742,374	187,297	-	-	(76,417)	1,853,254
Year 11	1,853,254	199,216	-	-	(81,280)	1,971,190
Year 12	1,971,190	211,893	-	-	(86,452)	2,096,630
Year 13	2,096,630	225,378	-	-	(91,954)	2,230,054
Year 14	2,230,054	239,720	-	-	(97,806)	2,371,968
Year 15	2,371,968	254,975	-	-	(104,030)	2,522,914
Year 16	2,522,914	271,201	-	-	(110,650)	2,683,465
Year 17	2,683,465	288,459	-	-	(117,691)	2,854,233
Year 18	2,854,233	306,816	-	-	(125,181)	3,035,868
Year 19	3,035,868	326,341	-	-	(133,147)	3,229,062
Year 20	3,229,062	347,109	-	-	(141,620)	3,434,550
Year 21	3,434,550	369,197	-	-	(150,633)	3,653,115
Year 22	3,653,115	392,692	-	-	(160,218)	3,885,589
Year 23	3,885,589	417,682	-	-	(170,414)	4,132,856
Year 24	4,132,856	444,262	-	-	(181,259)	4,395,859
Year 25	4,395,859	472,534	-	-	(192,794)	4,675,599
Year 26	4,675,599	502,604	-	-	(205,063)	4,973,141
Year 27	4,973,141	534,589	-	-	(218,112)	5,289,618
Year 28	5,289,618	568,608	-	-	(231,992)	5,626,234
Year 29	5,626,234	604,793	-	-	(246,755)	5,984,271
Year 30	5,984,271	643,280	-	-	(262,458)	6,365,093

Schedule 5

Current Tax Rate - Ordinary Income Analysis

Assumptions:	**Taxed Annually**	**Taxed Delayed**
Total Estimated Rate of Return	10.75%	8.00%
Rate of Return Taxed at Ordinary Income Rate	10.75%	8.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%

Assumptions (continued):	
Ordinary Income Rate	40.8%

Taxed Delayed

	Financial Assets					
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Income Taxes**	**End of Year**
Year 1	1,000,000	80,000	-	-	-	1,080,000
Year 2	1,080,000	86,400	-	-	-	1,166,400
Year 3	1,166,400	93,312	-	-	-	1,259,712
Year 4	1,259,712	100,777	-	-	-	1,360,489
Year 5	1,360,489	108,839	-	-	-	1,469,328
Year 6	1,469,328	117,546	-	-	-	1,586,874
Year 7	1,586,874	126,950	-	-	-	1,713,824
Year 8	1,713,824	137,106	-	-	-	1,850,930
Year 9	1,850,930	148,074	-	-	-	1,999,005
Year 10	1,999,005	159,920	-	-	-	2,158,925
Year 11	2,158,925	172,714	-	-	-	2,331,639
Year 12	2,331,639	186,531	-	-	-	2,518,170
Year 13	2,518,170	201,454	-	-	-	2,719,624
Year 14	2,719,624	217,570	-	-	-	2,937,194
Year 15	2,937,194	234,975	-	-	-	3,172,169
Year 16	3,172,169	253,774	-	-	-	3,425,943
Year 17	3,425,943	274,075	-	-	-	3,700,018
Year 18	3,700,018	296,001	-	-	-	3,996,019
Year 19	3,996,019	319,682	-	-	-	4,315,701
Year 20	4,315,701	345,256	-	-	-	4,660,957
Year 21	4,660,957	372,877	-	-	-	5,033,834
Year 22	5,033,834	402,707	-	-	-	5,436,540
Year 23	5,436,540	434,923	-	-	-	5,871,464
Year 24	5,871,464	469,717	-	-	-	6,341,181
Year 25	6,341,181	507,294	-	-	-	6,848,475
Year 26	6,848,475	547,878	-	-	-	7,396,353
Year 27	7,396,353	591,708	-	-	-	7,988,061
Year 28	7,988,061	639,045	-	-	-	8,627,106
Year 29	8,627,106	690,169	-	-	-	9,317,275
Year 30	9,317,275	745,382	-	-	(3,697,564)	6,365,093

Schedule 5
Current Tax Rates - LTCG Analysis

Assumptions:	Taxed Annually	Taxed Delayed
Total Estimated Rate of Return	9.36%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.00%	0.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	9.36%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	100.00%	0.00%

Assumptions (continued):	
Long Term Capital Gain Rate	23.8%

Taxed Annually

	Financial Assets					
	Beginning of Year	Income	Tax Free Income	Growth	Income Taxes	End of Year
Year 1	1,000,000	-	-	93,635	(22,285)	1,071,350
Year 2	1,071,350	-	-	100,316	(23,875)	1,147,791
Year 3	1,147,791	-	-	107,474	(25,579)	1,229,686
Year 4	1,229,686	-	-	115,142	(27,404)	1,317,424
Year 5	1,317,424	-	-	123,357	(29,359)	1,411,423
Year 6	1,411,423	-	-	132,159	(31,454)	1,512,128
Year 7	1,512,128	-	-	141,589	(33,698)	1,620,019
Year 8	1,620,019	-	-	151,691	(36,102)	1,735,607
Year 9	1,735,607	-	-	162,514	(38,678)	1,859,443
Year 10	1,859,443	-	-	174,110	(41,438)	1,992,114
Year 11	1,992,114	-	-	186,532	(44,395)	2,134,252
Year 12	2,134,252	-	-	199,841	(47,562)	2,286,531
Year 13	2,286,531	-	-	214,100	(50,956)	2,449,675
Year 14	2,449,675	-	-	229,376	(54,592)	2,624,460
Year 15	2,624,460	-	-	245,742	(58,487)	2,811,716
Year 16	2,811,716	-	-	263,276	(62,660)	3,012,332
Year 17	3,012,332	-	-	282,061	(67,130)	3,227,262
Year 18	3,227,262	-	-	302,186	(71,920)	3,457,528
Year 19	3,457,528	-	-	323,747	(77,052)	3,704,223
Year 20	3,704,223	-	-	346,846	(82,549)	3,968,519
Year 21	3,968,519	-	-	371,594	(88,439)	4,251,674
Year 22	4,251,674	-	-	398,107	(94,749)	4,555,031
Year 23	4,555,031	-	-	426,512	(101,510)	4,880,033
Year 24	4,880,033	-	-	456,944	(108,753)	5,228,224
Year 25	5,228,224	-	-	489,547	(116,512)	5,601,259
Year 26	5,601,259	-	-	524,476	(124,825)	6,000,909
Year 27	6,000,909	-	-	561,897	(133,732)	6,429,075
Year 28	6,429,075	-	-	601,989	(143,273)	6,887,790
Year 29	6,887,790	-	-	644,941	(153,496)	7,379,235
Year 30	7,379,235	-	-	690,957	(164,448)	7,905,745

Schedule 5
Current Tax Rates - LTCG Analysis

Assumptions:	Taxed Annually	Taxed Delayed
Total Estimated Rate of Return	9.36%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.00%	0.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	9.36%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	100.00%	0.00%

Assumptions (continued):	
Long Term Capital Gain Rate	23.8%

Taxed Delayed

	Financial Assets					
	Beginning of Year	Income	Tax Free Income	Growth	Income Taxes	End of Year
Year 1	1,000,000	-	-	80,000	-	1,080,000
Year 2	1,080,000	-	-	86,400	-	1,166,400
Year 3	1,166,400	-	-	93,312	-	1,259,712
Year 4	1,259,712	-	-	100,777	-	1,360,489
Year 5	1,360,489	-	-	108,839	-	1,469,328
Year 6	1,469,328	-	-	117,546	-	1,586,874
Year 7	1,586,874	-	-	126,950	-	1,713,824
Year 8	1,713,824	-	-	137,106	-	1,850,930
Year 9	1,850,930	-	-	148,074	-	1,999,005
Year 10	1,999,005	-	-	159,920	-	2,158,925
Year 11	2,158,925	-	-	172,714	-	2,331,639
Year 12	2,331,639	-	-	186,531	-	2,518,170
Year 13	2,518,170	-	-	201,454	-	2,719,624
Year 14	2,719,624	-	-	217,570	-	2,937,194
Year 15	2,937,194	-	-	234,975	-	3,172,169
Year 16	3,172,169	-	-	253,774	-	3,425,943
Year 17	3,425,943	-	-	274,075	-	3,700,018
Year 18	3,700,018	-	-	296,001	-	3,996,019
Year 19	3,996,019	-	-	319,682	-	4,315,701
Year 20	4,315,701	-	-	345,256	-	4,660,957
Year 21	4,660,957	-	-	372,877	-	5,033,834
Year 22	5,033,834	-	-	402,707	-	5,436,540
Year 23	5,436,540	-	-	434,923	-	5,871,464
Year 24	5,871,464	-	-	469,717	-	6,341,181
Year 25	6,341,181	-	-	507,294	-	6,848,475
Year 26	6,848,475	-	-	547,878	-	7,396,353
Year 27	7,396,353	-	-	591,708	-	7,988,061
Year 28	7,988,061	-	-	639,045	-	8,627,106
Year 29	8,627,106	-	-	690,169	-	9,317,275
Year 30	9,317,275	-	-	745,382	(2,156,912)	7,905,745

Schedule 5
Current Tax Rate - Ordinary Income Analysis

Assumptions:	Taxed Annually	Taxed Delayed
Total Estimated Rate of Return	17.13%	12.00%
Rate of Return Taxed at Ordinary Income Rate	17.13%	12.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%

Assumptions (continued):	
Ordinary Income Rate	40.8%

Taxed Annually

	Financial Assets					
	Beginning of Year	Income	Tax Free Income	Growth	Income Taxes	End of Year
Year 1	1,000,000	171,339	-	-	(69,906)	1,101,433
Year 2	1,101,433	188,719	-	-	(76,997)	1,213,154
Year 3	1,213,154	207,861	-	-	(84,807)	1,336,208
Year 4	1,336,208	228,945	-	-	(93,409)	1,471,743
Year 5	1,471,743	252,167	-	-	(102,884)	1,621,026
Year 6	1,621,026	277,745	-	-	(113,320)	1,785,451
Year 7	1,785,451	305,918	-	-	(124,814)	1,966,554
Year 8	1,966,554	336,948	-	-	(137,475)	2,166,027
Year 9	2,166,027	371,125	-	-	(151,419)	2,385,733
Year 10	2,385,733	408,769	-	-	(166,778)	2,627,725
Year 11	2,627,725	450,232	-	-	(183,695)	2,894,262
Year 12	2,894,262	495,900	-	-	(202,327)	3,187,835
Year 13	3,187,835	546,201	-	-	(222,850)	3,511,186
Year 14	3,511,186	601,603	-	-	(245,454)	3,867,335
Year 15	3,867,335	662,626	-	-	(270,351)	4,259,610
Year 16	4,259,610	729,838	-	-	(297,774)	4,691,674
Year 17	4,691,674	803,867	-	-	(327,978)	5,167,563
Year 18	5,167,563	885,406	-	-	(361,245)	5,691,723
Year 19	5,691,723	975,215	-	-	(397,888)	6,269,050
Year 20	6,269,050	1,074,133	-	-	(438,246)	6,904,937
Year 21	6,904,937	1,183,086	-	-	(482,699)	7,605,324
Year 22	7,605,324	1,303,089	-	-	(531,660)	8,376,753
Year 23	8,376,753	1,435,265	-	-	(585,588)	9,226,430
Year 24	9,226,430	1,580,848	-	-	(644,986)	10,162,292
Year 25	10,162,292	1,741,198	-	-	(710,409)	11,193,081
Year 26	11,193,081	1,917,813	-	-	(782,468)	12,328,426
Year 27	12,328,426	2,112,342	-	-	(861,835)	13,578,933
Year 28	13,578,933	2,326,602	-	-	(949,254)	14,956,281
Year 29	14,956,281	2,562,596	-	-	(1,045,539)	16,473,338
Year 30	16,473,338	2,822,527	-	-	(1,151,591)	18,144,274

Schedule 5
Current Tax Rate - Ordinary Income Analysis

Assumptions:	**Taxed Annually**	**Taxed Delayed**
Total Estimated Rate of Return	17.13%	12.00%
Rate of Return Taxed at Ordinary Income Rate	17.13%	12.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%

Assumptions (continued):	
Ordinary Income Rate	40.8%

Taxed Delayed

	Financial Assets					
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Income Taxes**	**End of Year**
Year 1	1,000,000	120,000	-	-	-	1,120,000
Year 2	1,120,000	134,400	-	-	-	1,254,400
Year 3	1,254,400	150,528	-	-	-	1,404,928
Year 4	1,404,928	168,591	-	-	-	1,573,519
Year 5	1,573,519	188,822	-	-	-	1,762,342
Year 6	1,762,342	211,481	-	-	-	1,973,823
Year 7	1,973,823	236,859	-	-	-	2,210,681
Year 8	2,210,681	265,282	-	-	-	2,475,963
Year 9	2,475,963	297,116	-	-	-	2,773,079
Year 10	2,773,079	332,769	-	-	-	3,105,848
Year 11	3,105,848	372,702	-	-	-	3,478,550
Year 12	3,478,550	417,426	-	-	-	3,895,976
Year 13	3,895,976	467,517	-	-	-	4,363,493
Year 14	4,363,493	523,619	-	-	-	4,887,112
Year 15	4,887,112	586,453	-	-	-	5,473,566
Year 16	5,473,566	656,828	-	-	-	6,130,394
Year 17	6,130,394	735,647	-	-	-	6,866,041
Year 18	6,866,041	823,925	-	-	-	7,689,966
Year 19	7,689,966	922,796	-	-	-	8,612,762
Year 20	8,612,762	1,033,531	-	-	-	9,646,293
Year 21	9,646,293	1,157,555	-	-	-	10,803,848
Year 22	10,803,848	1,296,462	-	-	-	12,100,310
Year 23	12,100,310	1,452,037	-	-	-	13,552,347
Year 24	13,552,347	1,626,282	-	-	-	15,178,629
Year 25	15,178,629	1,821,435	-	-	-	17,000,064
Year 26	17,000,064	2,040,008	-	-	-	19,040,072
Year 27	19,040,072	2,284,809	-	-	-	21,324,881
Year 28	21,324,881	2,558,986	-	-	-	23,883,866
Year 29	23,883,866	2,866,064	-	-	-	26,749,930
Year 30	26,749,930	3,209,992	-	-	(11,815,648)	18,144,274

Schedule 5
Current Tax Rates - LTCG Analysis

Assumptions:	Taxed Annually	Taxed Delayed
Total Estimated Rate of Return	14.47%	12.00%
Rate of Return Taxed at Ordinary Income Rate	0.00%	0.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	14.47%	12.00%
Turnover Rate (% of Capital Gains Recognized/Year)	100.00%	0.00%

Assumptions (continued):	
Long Term Capital Gain Rate	23.8%

Taxed Annually

	Financial Assets					
	Beginning of Year	Income	Tax Free Income	Growth	Income Taxes	End of Year
Year 1	1,000,000	-	-	144,727	(34,445)	1,110,282
Year 2	1,110,282	-	-	160,688	(38,244)	1,232,726
Year 3	1,232,726	-	-	178,409	(42,461)	1,368,674
Year 4	1,368,674	-	-	198,084	(47,144)	1,519,614
Year 5	1,519,614	-	-	219,929	(52,343)	1,687,200
Year 6	1,687,200	-	-	244,184	(58,116)	1,873,268
Year 7	1,873,268	-	-	271,113	(64,525)	2,079,856
Year 8	2,079,856	-	-	301,012	(71,641)	2,309,227
Year 9	2,309,227	-	-	334,208	(79,541)	2,563,893
Year 10	2,563,893	-	-	371,065	(88,313)	2,846,645
Year 11	2,846,645	-	-	411,987	(98,053)	3,160,579
Year 12	3,160,579	-	-	457,421	(108,866)	3,509,134
Year 13	3,509,134	-	-	507,867	(120,872)	3,896,128
Year 14	3,896,128	-	-	563,875	(134,202)	4,325,801
Year 15	4,325,801	-	-	626,061	(149,002)	4,802,860
Year 16	4,802,860	-	-	695,104	(165,435)	5,332,529
Year 17	5,332,529	-	-	771,762	(183,679)	5,920,611
Year 18	5,920,611	-	-	856,873	(203,936)	6,573,549
Year 19	6,573,549	-	-	951,371	(226,426)	7,298,493
Year 20	7,298,493	-	-	1,056,290	(251,397)	8,103,386
Year 21	8,103,386	-	-	1,172,780	(279,122)	8,997,044
Year 22	8,997,044	-	-	1,302,116	(309,904)	9,989,257
Year 23	9,989,257	-	-	1,445,716	(344,081)	11,090,893
Year 24	11,090,893	-	-	1,605,153	(382,026)	12,314,019
Year 25	12,314,019	-	-	1,782,173	(424,157)	13,672,035
Year 26	13,672,035	-	-	1,978,714	(470,934)	15,179,815
Year 27	15,179,815	-	-	2,196,931	(522,870)	16,853,877
Year 28	16,853,877	-	-	2,439,213	(580,533)	18,712,557
Year 29	18,712,557	-	-	2,708,215	(644,555)	20,776,217
Year 30	20,776,217	-	-	3,006,882	(715,638)	23,067,461

Schedule 5
Current Tax Rates - LTCG Analysis

Assumptions:	**Taxed Annually**	**Taxed Delayed**
Total Estimated Rate of Return	14.47%	12.00%
Rate of Return Taxed at Ordinary Income Rate	0.00%	0.00%
Rate of Return Tax Free	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	14.47%	12.00%
Turnover Rate (% of Capital Gains Recognized/Year)	100.00%	0.00%

Assumptions (continued):	
Long Term Capital Gain Rate	23.8%

Taxed Delayed

	Financial Assets					
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Income Taxes**	**End of Year**
Year 1	1,000,000	-	-	120,000	-	1,120,000
Year 2	1,120,000	-	-	134,400	-	1,254,400
Year 3	1,254,400	-	-	150,528	-	1,404,928
Year 4	1,404,928	-	-	168,591	-	1,573,519
Year 5	1,573,519	-	-	188,822	-	1,762,342
Year 6	1,762,342	-	-	211,481	-	1,973,823
Year 7	1,973,823	-	-	236,859	-	2,210,681
Year 8	2,210,681	-	-	265,282	-	2,475,963
Year 9	2,475,963	-	-	297,116	-	2,773,079
Year 10	2,773,079	-	-	332,769	-	3,105,848
Year 11	3,105,848	-	-	372,702	-	3,478,550
Year 12	3,478,550	-	-	417,426	-	3,895,976
Year 13	3,895,976	-	-	467,517	-	4,363,493
Year 14	4,363,493	-	-	523,619	-	4,887,112
Year 15	4,887,112	-	-	586,453	-	5,473,566
Year 16	5,473,566	-	-	656,828	-	6,130,394
Year 17	6,130,394	-	-	735,647	-	6,866,041
Year 18	6,866,041	-	-	823,925	-	7,689,966
Year 19	7,689,966	-	-	922,796	-	8,612,762
Year 20	8,612,762	-	-	1,033,531	-	9,646,293
Year 21	9,646,293	-	-	1,157,555	-	10,803,848
Year 22	10,803,848	-	-	1,296,462	-	12,100,310
Year 23	12,100,310	-	-	1,452,037	-	13,552,347
Year 24	13,552,347	-	-	1,626,282	-	15,178,629
Year 25	15,178,629	-	-	1,821,435	-	17,000,064
Year 26	17,000,064	-	-	2,040,008	-	19,040,072
Year 27	19,040,072	-	-	2,284,809	-	21,324,881
Year 28	21,324,881	-	-	2,558,986	-	23,883,866
Year 29	23,883,866	-	-	2,866,064	-	26,749,930
Year 30	26,749,930	-	-	3,209,992	(6,892,461)	23,067,461

Schedule 6

A. Fund is Owned by Investor and Investor's Estate is Not Subject to Estate Tax Because of Existing Exemptions and/or Charitable Bequests

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	5.940%	6.637%	7.501%	9.550%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	5.940%	6.637%	7.501%	9.550%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	11.72%	26.27%	60.75%
Increase Over Active Beta Indexed Fund	N/A	N/A	13.02%	43.89%
Increase Over Managed Fund	N/A	N/A	N/A	27.31%

Indexed Fund - 5% Turnover - 5.940% Growth Rate
Year 1 - Realized Gains are Short Term; Years 2-10 - Realized Gains are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	59,405	(5,972)	-	1,073,433
Year 2	1,073,433	21,469	63,767	(6,540)	-	1,152,128
Year 3	1,152,128	23,043	68,442	(7,657)	-	1,235,955
Year 4	1,235,955	24,719	73,421	(8,822)	-	1,325,274
Year 5	1,325,274	26,505	78,727	(10,037)	-	1,420,471
Year 6	1,420,471	28,409	84,383	(11,307)	-	1,521,955
Year 7	1,521,955	30,439	90,411	(12,639)	-	1,630,166
Year 8	1,630,166	32,603	96,839	(14,037)	-	1,745,572
Year 9	1,745,572	34,911	103,695	(15,506)	-	1,868,672
Year 10	1,868,672	37,373	111,008	(17,053)	-	2,000,000

Active Beta Indexed Fund - 20% Turnover - 6.637% Growth Rate
Year 1 - Realized Gains are Short Term; Years 2-10 - 10% of Realized Gains are Short Term and 90% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	66,367	(10,176)	-	1,076,191
Year 2	1,076,191	21,524	71,423	(11,473)	-	1,157,666
Year 3	1,157,666	23,153	76,831	(14,509)	-	1,243,140
Year 4	1,243,140	24,863	82,503	(17,324)	-	1,333,182
Year 5	1,333,182	26,664	88,479	(19,984)	-	1,428,342
Year 6	1,428,342	28,567	94,795	(22,544)	-	1,529,159
Year 7	1,529,159	30,583	101,485	(25,050)	-	1,636,178
Year 8	1,636,178	32,724	108,588	(27,543)	-	1,749,946
Year 9	1,749,946	34,999	116,138	(30,057)	-	1,871,026
Year 10	1,871,026	37,421	124,174	(32,621)	-	2,000,000

Schedule 6

A. Fund is Owned by Investor and Investor's Estate is Not Subject to Estate Tax Because of Existing Exemptions and/or Charitable Bequests

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This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	5.940%	6.637%	7.501%	9.550%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	5.940%	6.637%	7.501%	9.550%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	11.72%	26.27%	60.75%
Increase Over Active Beta Indexed Fund	N/A	N/A	13.02%	43.89%
Increase Over Managed Fund	N/A	N/A	N/A	27.31%

Managed Fund - 50% Turnover - 7.501% Growth Rate
Year 1 - Realized Gains are Short Term; Years 2-10 - 25% of Realized Gains are Short Term and 75% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	75,009	(20,062)	-	1,074,947
Year 2	1,074,947	21,499	80,630	(21,685)	-	1,155,391
Year 3	1,155,391	23,108	86,664	(25,939)	-	1,239,224
Year 4	1,239,224	24,784	92,952	(29,155)	-	1,327,807
Year 5	1,327,807	26,556	99,597	(31,917)	-	1,422,043
Year 6	1,422,043	28,441	106,665	(34,527)	-	1,522,622
Year 7	1,522,622	30,452	114,210	(37,145)	-	1,630,140
Year 8	1,630,140	32,603	122,275	(39,857)	-	1,745,160
Year 9	1,745,160	34,903	130,902	(42,715)	-	1,868,251
Year 10	1,868,251	37,365	140,135	(45,751)	-	2,000,000

Managed Fund - 200% Turnover - 9.550% Growth Rate
All Realized Gains are Short Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	95,496	(43,722)	-	1,071,773
Year 2	1,071,773	21,435	102,350	(46,860)	-	1,148,698
Year 3	1,148,698	22,974	109,696	(50,224)	-	1,231,144
Year 4	1,231,144	24,623	117,569	(53,828)	-	1,319,508
Year 5	1,319,508	26,390	126,007	(57,692)	-	1,414,214
Year 6	1,414,214	28,284	135,051	(61,833)	-	1,515,717
Year 7	1,515,717	30,314	144,744	(66,271)	-	1,624,505
Year 8	1,624,505	32,490	155,133	(71,027)	-	1,741,101
Year 9	1,741,101	34,822	166,268	(76,125)	-	1,866,066
Year 10	1,866,066	37,321	178,201	(81,589)	-	2,000,000

Schedule 6

A. Fund is Owned by Investor and Investor's Estate is Not Subject to Estate Tax Because of Existing Exemptions and/or Charitable

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	11.780%	13.061%	14.796%	19.038%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	11.780%	13.061%	14.796%	19.038%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	10.87%	25.60%	61.62%
Increase Over Active Beta Indexed Fund	N/A	N/A	13.28%	45.76%
Increase Over Managed Fund	N/A	N/A	N/A	28.67%

Indexed Fund - 5% Turnover - 11.780% Growth Rate
Year 1 - Realized Gains are Short Term; Years 2-10 - Realized Gains are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	117,798	(7,163)	-	1,130,635
Year 2	1,130,635	22,613	133,187	(8,298)	-	1,278,137
Year 3	1,278,137	25,563	150,562	(10,646)	-	1,443,615
Year 4	1,443,615	28,872	170,056	(13,230)	-	1,629,313
Year 5	1,629,313	32,586	191,930	(16,080)	-	1,837,750
Year 6	1,837,750	36,755	216,484	(19,232)	-	2,071,758
Year 7	2,071,758	41,435	244,050	(22,726)	-	2,334,517
Year 8	2,334,517	46,690	275,002	(26,606)	-	2,629,604
Year 9	2,629,604	52,592	309,763	(30,922)	-	2,961,037
Year 10	2,961,037	59,221	348,805	(35,730)	(1,333,333)	2,000,000

Active Beta Indexed Fund - 20% Turnover - 13.061% Growth Rate
Year 1 - Realized Gains are Short Term; Years 2-10 - 10% of Realized Gains are Short Term and 90% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	130,608	(15,418)	-	1,135,191
Year 2	1,135,191	22,704	148,265	(18,294)	-	1,287,866
Year 3	1,287,866	25,757	168,206	(25,021)	-	1,456,808
Year 4	1,456,808	29,136	190,271	(31,751)	-	1,644,464
Year 5	1,644,464	32,889	214,781	(38,635)	-	1,853,500
Year 6	1,853,500	37,070	242,082	(45,814)	-	2,086,838
Year 7	2,086,838	41,737	272,558	(53,427)	-	2,347,705
Year 8	2,347,705	46,954	306,630	(61,608)	-	2,639,681
Year 9	2,639,681	52,794	344,764	(70,494)	-	2,966,744
Year 10	2,966,744	59,335	387,481	(80,227)	(1,333,333)	2,000,000

Schedule 6

A. Fund is Owned by Investor and Investor's Estate is Not Subject to Estate Tax Because of Existing Exemptions and/or Charitable

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	11.780%	13.061%	14.796%	19.038%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	11.780%	13.061%	14.796%	19.038%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	10.87%	25.60%	61.62%
Increase Over Active Beta Indexed Fund	N/A	N/A	13.28%	45.76%
Increase Over Managed Fund	N/A	N/A	N/A	28.67%

Managed Fund - 50% Turnover - 14.796% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-10 - 25% of Realized Gains are Short Term and 75% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	147,958	(34,943)	-	1,133,015
Year 2	1,133,015	22,660	167,639	(39,280)	-	1,284,033
Year 3	1,284,033	25,681	189,983	(49,701)	-	1,449,996
Year 4	1,449,996	29,000	214,538	(58,785)	-	1,634,750
Year 5	1,634,750	32,695	241,874	(67,646)	-	1,841,673
Year 6	1,841,673	36,833	272,490	(76,915)	-	2,074,081
Year 7	2,074,081	41,482	306,877	(86,987)	-	2,335,453
Year 8	2,335,453	46,709	345,549	(98,137)	-	2,629,574
Year 9	2,629,574	52,591	389,066	(110,593)	-	2,960,638
Year 10	2,960,638	59,213	438,050	(124,567)	(1,333,333)	2,000,000

Managed Fund - 200% Turnover - 19.038% Growth Rate

All Realized Gains are Short Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	190,380	(82,435)	-	1,127,945
Year 2	1,127,945	22,559	214,738	(92,982)	-	1,272,260
Year 3	1,272,260	25,445	242,213	(104,879)	-	1,435,039
Year 4	1,435,039	28,701	273,202	(118,297)	-	1,618,645
Year 5	1,618,645	32,373	308,157	(133,433)	-	1,825,742
Year 6	1,825,742	36,515	347,584	(150,505)	-	2,059,336
Year 7	2,059,336	41,187	392,056	(169,761)	-	2,322,818
Year 8	2,322,818	46,456	442,218	(191,481)	-	2,620,010
Year 9	2,620,010	52,400	498,797	(215,980)	-	2,955,227
Year 10	2,955,227	59,105	562,616	(243,614)	(1,333,333)	2,000,000

Schedule 6

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	5.626%	5.996%	6.410%	7.234%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	5.626%	5.996%	6.410%	7.234%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	6.57%	13.94%	28.58%
Increase Over Active Beta Indexed Fund	N/A	N/A	6.91%	20.64%
Increase Over Managed Fund	N/A	N/A	N/A	12.85%

Indexed Fund - 5% Turnover - 5.626% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-10 - Realized Gains are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	56,261	(5,908)	2,363	-	1,072,716
Year 2	1,072,716	21,454	60,352	(6,460)	2,584	-	1,150,647
Year 3	1,150,647	23,013	64,737	(7,534)	3,014	-	1,233,876
Year 4	1,233,876	24,678	69,419	(8,653)	3,461	-	1,322,781
Year 5	1,322,781	26,456	74,421	(9,823)	3,929	-	1,417,764
Year 6	1,417,764	28,355	79,765	(11,048)	4,419	-	1,519,255
Year 7	1,519,255	30,385	85,475	(12,333)	4,933	-	1,627,715
Year 8	1,627,715	32,554	91,577	(13,684)	5,474	-	1,743,635
Year 9	1,743,635	34,873	98,099	(15,107)	6,043	-	1,867,543
Year 10	1,867,543	37,351	105,070	(16,606)	6,643	-	2,000,000

Active Beta Indexed Fund - 20% Turnover - 5.996% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-10 - 10% of Realized Gains are Short Term and 90% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	59,960	(9,653)	3,861	-	1,074,168
Year 2	1,074,168	21,483	64,407	(10,844)	4,338	-	1,153,552
Year 3	1,153,552	23,071	69,167	(13,603)	5,441	-	1,237,628
Year 4	1,237,628	24,753	74,208	(16,166)	6,466	-	1,326,889
Year 5	1,326,889	26,538	79,560	(18,593)	7,437	-	1,421,831
Year 6	1,421,831	28,437	85,253	(20,938)	8,375	-	1,522,957
Year 7	1,522,957	30,459	91,316	(23,242)	9,297	-	1,630,788
Year 8	1,630,788	32,616	97,782	(25,544)	10,217	-	1,745,859
Year 9	1,745,859	34,917	104,681	(27,874)	11,150	-	1,868,733
Year 10	1,868,733	37,375	112,049	(30,261)	12,104	-	2,000,000

Schedule 6

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	5.626%	5.996%	6.410%	7.234%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	5.626%	5.996%	6.410%	7.234%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	6.57%	13.94%	28.58%
Increase Over Active Beta Indexed Fund	N/A	N/A	6.91%	20.64%
Increase Over Managed Fund	N/A	N/A	N/A	12.85%

Managed Fund - 50% Turnover - 6.410% Growth Rate
Year 1 - Realized Gains are Short Term; Years 2-10 - 25% of Realized Gains are Short Term and 75% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	64,103	(17,837)	7,135	-	1,073,400
Year 2	1,073,400	21,468	68,808	(19,255)	7,702	-	1,152,123
Year 3	1,152,123	23,042	73,854	(22,915)	9,166	-	1,235,271
Year 4	1,235,271	24,705	79,184	(25,701)	10,280	-	1,323,740
Year 5	1,323,740	26,475	84,855	(28,112)	11,245	-	1,418,202
Year 6	1,418,202	28,364	90,910	(30,407)	12,163	-	1,519,232
Year 7	1,519,232	30,385	97,387	(32,718)	13,087	-	1,627,373
Year 8	1,627,373	32,547	104,319	(35,120)	14,048	-	1,743,167
Year 9	1,743,167	34,863	111,741	(37,656)	15,062	-	1,867,178
Year 10	1,867,178	37,344	119,691	(40,354)	16,141	-	2,000,000

Managed Fund - 200% Turnover - 7.234% Growth Rate
All Realized Gains are Short Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	72,338	(34,274)	13,710	-	1,071,773
Year 2	1,071,773	21,435	77,530	(36,734)	14,693	-	1,148,698
Year 3	1,148,698	22,974	83,094	(39,370)	15,748	-	1,231,144
Year 4	1,231,144	24,623	89,058	(42,196)	16,878	-	1,319,508
Year 5	1,319,508	26,390	95,450	(45,225)	18,090	-	1,414,214
Year 6	1,414,214	28,284	102,301	(48,470)	19,388	-	1,515,717
Year 7	1,515,717	30,314	109,644	(51,949)	20,780	-	1,624,505
Year 8	1,624,505	32,490	117,513	(55,678)	22,271	-	1,741,101
Year 9	1,741,101	34,822	125,947	(59,674)	23,870	-	1,866,066
Year 10	1,866,066	37,321	134,987	(63,957)	25,583	-	2,000,000

Schedule 6

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	6.158%	6.313%	6.531%	7.234%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	6.158%	6.313%	6.531%	7.234%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	2.51%	6.05%	17.47%
Increase Over Active Beta Indexed Fund	N/A	N/A	3.46%	14.59%
Increase Over Managed Fund	N/A	N/A	N/A	10.76%

Indexed Fund - 5% Turnover - 6.158% Growth Rate
Year 1 - Realized Gains are Short Term; Years 2-10 - Realized Gains are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	61,581	(6,016)	2,406	-	1,077,971
Year 2	1,077,971	21,559	66,382	(6,617)	2,647	-	1,161,942
Year 3	1,161,942	23,239	71,553	(7,794)	3,118	-	1,252,058
Year 4	1,252,058	25,041	77,103	(9,027)	3,611	-	1,348,785
Year 5	1,348,785	26,976	83,059	(10,323)	4,129	-	1,452,626
Year 6	1,452,626	29,053	89,454	(11,687)	4,675	-	1,564,120
Year 7	1,564,120	31,282	96,320	(13,125)	5,250	-	1,683,847
Year 8	1,683,847	33,677	103,692	(14,645)	5,858	-	1,812,430
Year 9	1,812,430	36,249	111,611	(16,253)	6,501	-	1,950,537
Year 10	1,950,537	39,011	120,115	(182,771)	73,109	-	2,000,000

Active Beta Indexed Fund - 20% Turnover - 6.313% Growth Rate
Year 1 - Realized Gains are Short Term; Years 2-10 - 10% of Realized Gains are Short Term and 90% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	63,127	(9,911)	3,964	-	1,077,180
Year 2	1,077,180	21,544	67,999	(11,171)	4,468	-	1,160,021
Year 3	1,160,021	23,200	73,229	(14,091)	5,636	-	1,247,995
Year 4	1,247,995	24,960	78,782	(16,814)	6,726	-	1,341,649
Year 5	1,341,649	26,833	84,694	(19,404)	7,762	-	1,441,534
Year 6	1,441,534	28,831	91,000	(21,917)	8,767	-	1,548,214
Year 7	1,548,214	30,964	97,734	(24,398)	9,759	-	1,662,273
Year 8	1,662,273	33,245	104,934	(26,887)	10,755	-	1,784,321
Year 9	1,784,321	35,686	112,639	(29,418)	11,767	-	1,914,996
Year 10	1,914,996	38,300	120,888	(123,639)	49,456	-	2,000,000

Schedule 6

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	6.158%	6.313%	6.531%	7.234%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	6.158%	6.313%	6.531%	7.234%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	2.51%	6.05%	17.47%
Increase Over Active Beta Indexed Fund	N/A	N/A	3.46%	14.59%
Increase Over Managed Fund	N/A	N/A	N/A	10.76%

Managed Fund - 50% Turnover - 6.531% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-10 - 25% of Realized Gains are Short Term and 75% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	65,309	(18,083)	7,233	-	1,074,459
Year 2	1,074,459	21,489	70,172	(19,536)	7,814	-	1,154,399
Year 3	1,154,399	23,088	75,392	(23,279)	9,312	-	1,238,911
Year 4	1,238,911	24,778	80,912	(26,137)	10,455	-	1,328,919
Year 5	1,328,919	26,578	86,790	(28,618)	11,447	-	1,425,117
Year 6	1,425,117	28,502	93,073	(30,983)	12,393	-	1,528,102
Year 7	1,528,102	30,562	99,799	(33,370)	13,348	-	1,638,441
Year 8	1,638,441	32,769	107,005	(35,855)	14,342	-	1,756,701
Year 9	1,756,701	35,134	114,728	(38,480)	15,392	-	1,883,475
Year 10	1,883,475	37,670	123,008	(73,587)	29,435	-	2,000,000

Managed Fund - 200% Turnover - 7.234% Growth Rate

All Realized Gains are Short Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	72,338	(34,274)	13,710	-	1,071,773
Year 2	1,071,773	21,435	77,530	(36,734)	14,693	-	1,148,698
Year 3	1,148,698	22,974	83,094	(39,370)	15,748	-	1,231,144
Year 4	1,231,144	24,623	89,058	(42,196)	16,878	-	1,319,508
Year 5	1,319,508	26,390	95,450	(45,225)	18,090	-	1,414,214
Year 6	1,414,214	28,284	102,301	(48,470)	19,388	-	1,515,717
Year 7	1,515,717	30,314	109,644	(51,949)	20,780	-	1,624,505
Year 8	1,624,505	32,490	117,513	(55,678)	22,271	-	1,741,101
Year 9	1,741,101	34,822	125,947	(59,674)	23,870	-	1,866,066
Year 10	1,866,066	37,321	134,987	(63,957)	25,583	-	2,000,000

Schedule 6

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	6.576%	6.505%	6.582%	7.234%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	6.576%	6.505%	6.582%	7.234%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	-1.08%	0.09%	10.00%
Increase Over Active Beta Indexed Fund	N/A	N/A	1.18%	11.20%
Increase Over Managed Fund	N/A	N/A	N/A	9.89%

Indexed Fund - 5% Turnover - 6.576% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-10 - Realized Gains are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Income Tax Payments by Trust	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	65,762	(6,102)	-	2,441	-	1,082,102
Year 2	1,082,102	21,642	71,162	(6,741)	-	2,696	-	1,170,861
Year 3	1,170,861	23,417	76,999	(8,000)	-	3,200	-	1,266,476
Year 4	1,266,476	25,330	83,287	(9,325)	-	3,730	-	1,369,497
Year 5	1,369,497	27,390	90,061	(10,722)	-	4,289	-	1,480,515
Year 6	1,480,515	29,610	97,362	(12,199)	-	4,880	-	1,600,168
Year 7	1,600,168	32,003	105,231	(13,764)	-	5,505	-	1,729,144
Year 8	1,729,144	34,583	113,713	(15,423)	-	6,169	-	1,868,186
Year 9	1,868,186	37,364	122,856	(17,188)	-	6,875	-	2,018,094
Year 10	2,018,094	40,362	132,715	(19,066)	(179,731)	7,626	-	2,000,000

Active Beta Indexed Fund - 20% Turnover - 6.505% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-10 - 10% of Realized Gains are Short Term and 90% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Income Tax Payments by Trust	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	65,054	(10,068)	-	4,027	-	1,079,013
Year 2	1,079,013	21,580	70,194	(11,370)	-	4,548	-	1,163,965
Year 3	1,163,965	23,279	75,721	(14,390)	-	5,756	-	1,254,331
Year 4	1,254,331	25,087	81,599	(17,211)	-	6,885	-	1,350,691
Year 5	1,350,691	27,014	87,868	(19,903)	-	7,961	-	1,453,630
Year 6	1,453,630	29,073	94,564	(22,521)	-	9,008	-	1,563,755
Year 7	1,563,755	31,275	101,729	(25,113)	-	10,045	-	1,681,690
Year 8	1,681,690	33,634	109,401	(27,720)	-	11,088	-	1,808,093
Year 9	1,808,093	36,162	117,624	(30,377)	-	12,151	-	1,943,652
Year 10	1,943,652	38,873	126,442	(33,117)	(89,097)	13,247	-	2,000,000

Schedule 6

A. Fund is Owned by Investor and Investor's Estate is Not Subject to Estate Tax Because of Existing Exemptions and/or Charitable

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	6.576%	6.505%	6.582%	7.234%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	6.576%	6.505%	6.582%	7.234%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	-1.08%	0.09%	10.00%
Increase Over Active Beta Indexed Fund	N/A	N/A	1.18%	11.20%
Increase Over Managed Fund	N/A	N/A	N/A	9.89%

Managed Fund - 50% Turnover - 6.582% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-10 - 25% of Realized Gains are Short Term and 75% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Income Tax Payments by Trust	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	65,824	(18,188)	-	7,275	-	1,074,912
Year 2	1,074,912	21,498	70,755	(19,656)	-	7,862	-	1,155,372
Year 3	1,155,372	23,107	76,052	(23,436)	-	9,374	-	1,240,470
Year 4	1,240,470	24,809	81,653	(26,324)	-	10,530	-	1,331,138
Year 5	1,331,138	26,623	87,621	(28,835)	-	11,534	-	1,428,081
Year 6	1,428,081	28,562	94,003	(31,231)	-	12,492	-	1,531,906
Year 7	1,531,906	30,638	100,837	(33,651)	-	13,460	-	1,643,191
Year 8	1,643,191	32,864	108,162	(36,171)	-	14,468	-	1,762,514
Year 9	1,762,514	35,250	116,017	(38,836)	-	15,534	-	1,890,480
Year 10	1,890,480	37,810	124,440	(41,674)	(27,725)	16,670	-	2,000,000

Managed Fund - 200% Turnover - 7.234% Growth Rate

All Realized Gains are Short Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments by Grantor	Income Tax Payments by Trust	Grantor Trust 40% Estate Tax Benefit	Estate Taxes	End of Year
Year 1	1,000,000	20,000	72,338	(34,274)	-	13,710	-	1,071,773
Year 2	1,071,773	21,435	77,530	(36,734)	-	14,693	-	1,148,698
Year 3	1,148,698	22,974	83,094	(39,370)	-	15,748	-	1,231,144
Year 4	1,231,144	24,623	89,058	(42,196)	-	16,878	-	1,319,508
Year 5	1,319,508	26,390	95,450	(45,225)	-	18,090	-	1,414,214
Year 6	1,414,214	28,284	102,301	(48,470)	-	19,388	-	1,515,717
Year 7	1,515,717	30,314	109,644	(51,949)	-	20,780	-	1,624,505
Year 8	1,624,505	32,490	117,513	(55,678)	-	22,271	-	1,741,101
Year 9	1,741,101	34,822	125,947	(59,674)	-	23,870	-	1,866,066
Year 10	1,866,066	37,321	134,987	(63,957)	-	25,583	-	2,000,000

Schedule 6

A. Fund is Owned by Investor and Investor's Estate is Not Subject to Estate Tax Because of Existing Exemptions and/or Charitable

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	6.966%	7.289%	7.771%	9.550%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	6.966%	7.289%	7.771%	9.550%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	4.64%	11.55%	37.08%
Increase Over Active Beta Indexed Fund	N/A	N/A	6.61%	31.01%
Increase Over Managed Fund	N/A	N/A	N/A	22.89%

Indexed Fund - 5% Turnover - 6.966% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-10 - Realized Gains are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	69,662	(6,181)	-	1,083,481
Year 2	1,083,481	21,670	75,478	(6,843)	-	1,173,785
Year 3	1,173,785	23,476	81,768	(8,162)	-	1,270,867
Year 4	1,270,867	25,417	88,531	(9,549)	-	1,375,267
Year 5	1,375,267	27,505	95,804	(11,011)	-	1,487,566
Year 6	1,487,566	29,751	103,627	(12,555)	-	1,608,389
Year 7	1,608,389	32,168	112,044	(14,190)	-	1,738,411
Year 8	1,738,411	34,768	121,101	(15,923)	-	1,878,357
Year 9	1,878,357	37,567	130,850	(17,764)	-	2,029,010
Year 10	2,029,010	40,580	141,345	(210,936)	-	2,000,000

Active Beta Indexed Fund - 20% Turnover - 7.289% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-10 - 10% of Realized Gains are Short Term and 90% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	72,891	(10,708)	-	1,082,183
Year 2	1,082,183	21,644	78,881	(12,148)	-	1,170,560
Year 3	1,170,560	23,411	85,323	(15,521)	-	1,263,774
Year 4	1,263,774	25,275	92,118	(18,673)	-	1,362,494
Year 5	1,362,494	27,250	99,314	(21,676)	-	1,467,382
Year 6	1,467,382	29,348	106,959	(24,592)	-	1,579,096
Year 7	1,579,096	31,582	115,102	(27,473)	-	1,698,307
Year 8	1,698,307	33,966	123,791	(30,362)	-	1,825,702
Year 9	1,825,702	36,514	133,077	(33,300)	-	1,961,994
Year 10	1,961,994	39,240	143,012	(144,246)	-	2,000,000

Schedule 6

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	6.966%	7.289%	7.771%	9.550%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	6.966%	7.289%	7.771%	9.550%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Short Term Capital Gain and Health Care Tax Rate	40.800%	40.800%	40.800%	40.800%
Dividend Income Tax Rate	23.800%	23.800%	23.800%	23.800%
Federal Estate Taxes	40.000%	40.000%	40.000%	40.000%
Increase Over Indexed Fund	N/A	4.64%	11.55%	37.08%
Increase Over Active Beta Indexed Fund	N/A	N/A	6.61%	31.01%
Increase Over Managed Fund	N/A	N/A	N/A	22.89%

Managed Fund - 50% Turnover - 7.771% Growth Rate
Year 1 - Realized Gains are Short Term; Years 2-10 - 25% of Realized Gains are Short Term and 75% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	77,710	(20,613)	-	1,077,097
Year 2	1,077,097	21,542	83,701	(22,315)	-	1,160,024
Year 3	1,160,024	23,200	90,145	(26,759)	-	1,246,611
Year 4	1,246,611	24,932	96,874	(30,139)	-	1,338,279
Year 5	1,338,279	26,766	103,997	(33,058)	-	1,435,983
Year 6	1,435,983	28,720	111,590	(35,830)	-	1,540,463
Year 7	1,540,463	30,809	119,709	(38,619)	-	1,652,362
Year 8	1,652,362	33,047	128,405	(41,517)	-	1,772,297
Year 9	1,772,297	35,446	137,725	(44,578)	-	1,900,889
Year 10	1,900,889	38,018	147,718	(86,625)	-	2,000,000

Managed Fund - 200% Turnover - 9.550% Growth Rate
All Realized Gains are Short Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	95,496	(43,722)	-	1,071,773
Year 2	1,071,773	21,435	102,350	(46,860)	-	1,148,698
Year 3	1,148,698	22,974	109,696	(50,224)	-	1,231,144
Year 4	1,231,144	24,623	117,569	(53,828)	-	1,319,508
Year 5	1,319,508	26,390	126,007	(57,692)	-	1,414,214
Year 6	1,414,214	28,284	135,051	(61,833)	-	1,515,717
Year 7	1,515,717	30,314	144,744	(66,271)	-	1,624,505
Year 8	1,624,505	32,490	155,133	(71,027)	-	1,741,101
Year 9	1,741,101	34,822	166,268	(76,125)	-	1,866,066
Year 10	1,866,066	37,321	178,201	(81,589)	-	2,000,000

Schedule 6

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	5.177%	5.177%	5.177%	5.177%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	5.177%	5.177%	5.177%	5.177%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	0.000%	0.000%	0.000%	0.000%
Short Term Capital Gain and Health Care Tax Rate	0.000%	0.000%	0.000%	0.000%
Dividend Income Tax Rate	0.000%	0.000%	0.000%	0.000%
Federal Estate Taxes	0.000%	0.000%	0.000%	0.000%
Increase Over Indexed Fund	N/A	0.00%	0.00%	0.00%
Increase Over Active Beta Indexed Fund	N/A	N/A	0.00%	0.00%
Increase Over Managed Fund	N/A	N/A	N/A	0.00%

Indexed Fund - 5% Turnover - 5.177% Growth Rate
Year 1 - Realized Gains are Short Term; Years 2-10 - Realized Gains are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	51,773	-	-	1,071,773
Year 2	1,071,773	21,435	55,489	-	-	1,148,698
Year 3	1,148,698	22,974	59,472	-	-	1,231,144
Year 4	1,231,144	24,623	63,741	-	-	1,319,508
Year 5	1,319,508	26,390	68,315	-	-	1,414,214
Year 6	1,414,214	28,284	73,219	-	-	1,515,717
Year 7	1,515,717	30,314	78,474	-	-	1,624,505
Year 8	1,624,505	32,490	84,106	-	-	1,741,101
Year 9	1,741,101	34,822	90,143	-	-	1,866,066
Year 10	1,866,066	37,321	96,613	-	-	2,000,000

Active Beta Indexed Fund - 20% Turnover - 5.177% Growth Rate
Year 1 - Realized Gains are Short Term; Years 2-10 - 10% of Realized Gains are Short Term and 90% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	51,773	-	-	1,071,773
Year 2	1,071,773	21,435	55,489	-	-	1,148,698
Year 3	1,148,698	22,974	59,472	-	-	1,231,144
Year 4	1,231,144	24,623	63,741	-	-	1,319,508
Year 5	1,319,508	26,390	68,315	-	-	1,414,214
Year 6	1,414,214	28,284	73,219	-	-	1,515,717
Year 7	1,515,717	30,314	78,474	-	-	1,624,505
Year 8	1,624,505	32,490	84,106	-	-	1,741,101
Year 9	1,741,101	34,822	90,143	-	-	1,866,066
Year 10	1,866,066	37,321	96,613	-	-	2,000,000

Schedule 6

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Rate of Return Taxed at Dividend Income Rate	2.000%	2.000%	2.000%	2.000%
Rate of Return Taxed at Short Term Capital Gains Rate - Year 1	5.177%	5.177%	5.177%	5.177%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	5.177%	5.177%	5.177%	5.177%
Turnover Rate (% of Capital Gains Recognized/Year)	5.000%	20.000%	50.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	0.000%	0.000%	0.000%	0.000%
Short Term Capital Gain and Health Care Tax Rate	0.000%	0.000%	0.000%	0.000%
Dividend Income Tax Rate	0.000%	0.000%	0.000%	0.000%
Federal Estate Taxes	0.000%	0.000%	0.000%	0.000%
Increase Over Indexed Fund	N/A	0.00%	0.00%	0.00%
Increase Over Active Beta Indexed Fund	N/A	N/A	0.00%	0.00%
Increase Over Managed Fund	N/A	N/A	N/A	0.00%

Managed Fund - 50% Turnover - 5.177% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-10 - 25% of Realized Gains are Short Term and 75% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	51,773	-	-	1,071,773
Year 2	1,071,773	21,435	55,489	-	-	1,148,698
Year 3	1,148,698	22,974	59,472	-	-	1,231,144
Year 4	1,231,144	24,623	63,741	-	-	1,319,508
Year 5	1,319,508	26,390	68,315	-	-	1,414,214
Year 6	1,414,214	28,284	73,219	-	-	1,515,717
Year 7	1,515,717	30,314	78,474	-	-	1,624,505
Year 8	1,624,505	32,490	84,106	-	-	1,741,101
Year 9	1,741,101	34,822	90,143	-	-	1,866,066
Year 10	1,866,066	37,321	96,613	-	-	2,000,000

Managed Fund - 200% Turnover - 5.177% Growth Rate

All Realized Gains are Short Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	Estate Taxes	End of Year
Year 1	1,000,000	20,000	51,773	-	-	1,071,773
Year 2	1,071,773	21,435	55,489	-	-	1,148,698
Year 3	1,148,698	22,974	59,472	-	-	1,231,144
Year 4	1,231,144	24,623	63,741	-	-	1,319,508
Year 5	1,319,508	26,390	68,315	-	-	1,414,214
Year 6	1,414,214	28,284	73,219	-	-	1,515,717
Year 7	1,515,717	30,314	78,474	-	-	1,624,505
Year 8	1,624,505	32,490	84,106	-	-	1,741,101
Year 9	1,741,101	34,822	90,143	-	-	1,866,066
Year 10	1,866,066	37,321	96,613	-	-	2,000,000

Schedule 7 - Cam Compatible

A: Fund is Owned by Investor and is Fully Taxable in the Investor's Estate

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Assumptions:	Tax Free Bond Fund	Taxable Bond Fund
Rate of Return - Tax Free Income	8.398%	0.000%
Rate of Return Taxed at Ordinary Rates	0.000%	14.186%
Ordinary Income Tax	40.800%	40.800%
Federal Estate Tax	40.000%	40.000%

Tax Free Bond Fund - 8.398% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	83,982	-	-	-	1,083,982
Year 2	1,083,982	91,035	-	-	-	1,175,017
Year 3	1,175,017	98,680	-	-	-	1,273,697
Year 4	1,273,697	106,968	-	-	-	1,380,665
Year 5	1,380,665	115,951	-	-	-	1,496,616
Year 6	1,496,616	125,689	-	-	-	1,622,305
Year 7	1,622,305	136,245	-	-	-	1,758,550
Year 8	1,758,550	147,687	-	-	-	1,906,236
Year 9	1,906,236	160,090	-	-	-	2,066,326
Year 10	2,066,326	173,534	-	-	(895,944)	1,343,916

Taxable Bond Fund - 14.186% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	-	141,862	(57,880)	-	1,083,982
Year 2	1,083,982	-	153,775	(62,740)	-	1,175,017
Year 3	1,175,017	-	166,690	(68,009)	-	1,273,698
Year 4	1,273,698	-	180,689	(73,721)	-	1,380,665
Year 5	1,380,665	-	195,863	(79,912)	-	1,496,616
Year 6	1,496,616	-	212,312	(86,623)	-	1,622,305
Year 7	1,622,305	-	230,143	(93,898)	-	1,758,550
Year 8	1,758,550	-	249,471	(101,784)	-	1,906,237
Year 9	1,906,237	-	270,422	(110,332)	-	2,066,326
Year 10	2,066,326	-	293,132	(119,598)	(895,944)	1,343,916

Schedule 7 - Cam Compatible

B: Fund is Held in a Grantor Trust at Investor's Death

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Assumptions:	Tax Free Bond Fund	Taxable Bond Fund
Rate of Return - Tax Free Income	3.000%	0.000%
Rate of Return Taxed at Ordinary Rates	0.000%	3.972%
Ordinary Income Tax	40.800%	40.800%
Federal Estate Tax	40.000%	40.000%

Tax Free Bond Fund - 3.000% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	30,000	-	-	-	-	1,030,000
Year 2	1,030,000	30,900	-	-	-	-	1,060,900
Year 3	1,060,900	31,827	-	-	-	-	1,092,727
Year 4	1,092,727	32,782	-	-	-	-	1,125,509
Year 5	1,125,509	33,765	-	-	-	-	1,159,274
Year 6	1,159,274	34,778	-	-	-	-	1,194,052
Year 7	1,194,052	35,822	-	-	-	-	1,229,874
Year 8	1,229,874	36,896	-	-	-	-	1,266,770
Year 9	1,266,770	38,003	-	-	-	-	1,304,773
Year 10	1,304,773	39,143	-	-	-	-	1,343,916

Taxable Bond Fund - 3.972% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Grantor Trust 40% Estate Tax Benefit	Income Tax Withdrawals	Estate Taxes	End of Year
Year 1	1,000,000	-	39,725	6,483	(16,208)	-	1,030,000
Year 2	1,030,000	-	40,916	6,678	(16,694)	-	1,060,900
Year 3	1,060,900	-	42,144	6,878	(17,195)	-	1,092,727
Year 4	1,092,727	-	43,408	7,084	(17,711)	-	1,125,509
Year 5	1,125,509	-	44,710	7,297	(18,242)	-	1,159,274
Year 6	1,159,274	-	46,052	7,516	(18,789)	-	1,194,052
Year 7	1,194,052	-	47,433	7,741	(19,353)	-	1,229,874
Year 8	1,229,874	-	48,856	7,973	(19,933)	-	1,266,770
Year 9	1,266,770	-	50,322	8,213	(20,531)	-	1,304,773
Year 10	1,304,773	-	51,832	8,459	(21,147)	-	1,343,916

Schedule 7 - Cam Compatible

C: Fund is Held in a Non-Grantor Trust; or Fund is Owned by Investor and Investor's Estate is Lower than Remaining Estate Tax Exemption; or a Bequest of Fund is Made to Charity at Investor's Death

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Assumptions:	Tax Free Bond Fund	Taxable Bond Fund
Rate of Return - Tax Free Income	3.000%	0.000%
Rate of Return Taxed at Ordinary Rates	0.000%	5.068%
Ordinary Income Tax	40.800%	40.800%
Federal Estate Tax	40.000%	40.000%

Tax Free Bond Fund - 3.000% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Income Taxes	Estate Taxes	End of Year
Year 1	1,000,000	30,000	-	-	-	1,030,000
Year 2	1,030,000	30,900	-	-	-	1,060,900
Year 3	1,060,900	31,827	-	-	-	1,092,727
Year 4	1,092,727	32,782	-	-	-	1,125,509
Year 5	1,125,509	33,765	-	-	-	1,159,274
Year 6	1,159,274	34,778	-	-	-	1,194,052
Year 7	1,194,052	35,822	-	-	-	1,229,874
Year 8	1,229,874	36,896	-	-	-	1,266,770
Year 9	1,266,770	38,003	-	-	-	1,304,773
Year 10	1,304,773	39,143	-	-	-	1,343,916

Taxable Bond Fund - 5.068% Interest Rate

	Beginning of Year	Tax Free Income	Ordinary Income	Income Taxes	Estate Taxes	End of Year
Year 1	1,000,000	-	50,676	(20,676)	-	1,030,000
Year 2	1,030,000	-	52,196	(21,296)	-	1,060,900
Year 3	1,060,900	-	53,762	(21,935)	-	1,092,727
Year 4	1,092,727	-	55,375	(22,593)	-	1,125,509
Year 5	1,125,509	-	57,036	(23,271)	-	1,159,274
Year 6	1,159,274	-	58,747	(23,969)	-	1,194,052
Year 7	1,194,052	-	60,509	(24,688)	-	1,229,874
Year 8	1,229,874	-	62,325	(25,428)	-	1,266,770
Year 9	1,266,770	-	64,194	(26,191)	-	1,304,773
Year 10	1,304,773	-	66,120	(26,977)	-	1,343,916

Schedule 8 - Scenario 1 (assets earn 2.2% annually)
Neal and Nancy Navigator
Hypothetical Integrated Income and Estate Tax Plan Comparisons (Three-Year Future Values)

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	Three-Year Future Values	Present Values (Discounted at 2.5%)	Percentage of Total
No Further Planning			
Mr. and Mrs. Neal Navigator	26,553,039	24,657,136	99.50%
Navigator Children	-	-	0.00%
IRS Income Tax - Direct Cost	130,285	120,983	0.49%
IRS Income Tax - Investment Opportunity Cost	3,242	3,011	0.01%
Total	$26,686,566	$24,781,130	100.00%
Technique A: Contributing Assets That Are Not in Entities to a GRAT			
Mr. and Mrs. Neal Navigator	26,552,894	24,657,002	99.50%
Navigator Children	144	134	0.00%
IRS - Income Tax	130,285	120,983	0.49%
IRS - Investment Opportunity Costs	3,242	3,011	0.01%
Total	$26,686,566	$24,781,130	100.00%
Technique B: Contribution of Non-Leveraged Entities to a GRAT			
Mr. and Mrs. Neal Navigator	24,217,863	22,488,693	90.75%
Navigator Children	2,335,176	2,168,443	8.75%
IRS Income Tax - Direct Cost	130,285	120,983	0.49%
IRS Income Tax - Investment Opportunity Cost	3,242	3,011	0.01%
Total	$26,686,566	$24,781,130	100.00%
Technique C: Leveraged FLLC Asset Contributed to a GRAT			
Mr. and Mrs. Neal Navigator	18,781,789	17,440,758	70.38%
Navigator Children	7,771,250	7,216,378	29.12%
IRS Income Tax - Direct Cost	130,285	120,983	0.49%
IRS Income Tax - Investment Opportunity Cost	3,242	3,011	0.01%
Total	$26,686,566	$24,781,130	100.00%
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs			
Mr. and Mrs. Neal Navigator	17,455,005	16,208,707	65.41%
Navigator Children	9,098,034	8,448,429	34.09%
IRS - Income Tax	130,285	120,983	0.49%
IRS - Investment Opportunity Costs	3,242	3,011	0.01%
Total	$26,686,566	$24,781,130	100.00%

Schedule 8 - Scenario 1 (assets earn 2.2% annually)
Neal and Nancy Navigator
No Further Planning

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Assumptions:	
Total Estimated Rate of Return	2.20%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial & Other Assets
Year 1	25,000,000	150,000	600,000	(200,000)	(51,900)	25,498,100
Year 2	25,498,100	152,989	611,954	(203,985)	(42,434)	26,016,624
Year 3	26,016,624	156,100	624,399	(208,133)	(35,951)	26,553,039

Schedule 8 - Scenario 1 (assets earn 2.2% annually)
Neal and Nancy Navigator
Technique A: Contributing Assets That Are Not in Entities to a GRAT

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Assumptions:	
Total Estimated Rate of Return	2.20%
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Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
GRAT Annual Annuity	$8,702,613
IRS §7520 Rate	2.20%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	8,702,613	(51,900)	8,650,713
Year 2	8,650,713	51,904	207,617	(69,206)	8,702,613	(42,434)	17,501,207
Year 3	17,501,207	105,007	420,029	(140,010)	8,702,613	(35,951)	26,552,894

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	25,000,000	150,000	600,000	(200,000)	(8,702,613)	-	16,847,388
Year 2	16,847,388	101,084	404,337	(134,779)	(8,702,613)	-	8,515,418
Year 3	8,515,418	51,093	204,370	(68,123)	(8,702,613)	(144)	-

Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Descendants (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	GRAT Terminates	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	144	-	-	144

Schedule 8 - Scenario 1 (assets earn 2.2% annually)
Neal and Nancy Navigator
Technique B: Contribution of Non-Leveraged Entities to a GRAT

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Assumptions:	
Total Estimated Rate of Return	2.20%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, LP Valuation Discount	35.00%
Financial Assets, LP Distributions	4.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$4,926,737
IRS §7520 Rate	2.20%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Cash Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	7,200	8,668	858,132	(51,900)	822,100
Year 2	822,100	4,933	19,730	(6,577)	7,070	244,904	609,065	(42,434)	1,658,792
Year 3	1,658,792	9,953	39,811	(13,270)	6,943	491,209	350,161	(35,951)	2,507,648

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets
Year 1	18,000,000	108,000	432,000	(144,000)	(720,000)	17,676,000
Year 2	17,676,000	106,056	424,224	(141,408)	(707,040)	17,357,832
Year 3	17,357,832	104,147	416,588	(138,863)	(694,313)	17,045,391

Ownership	
Neal Navigator	Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Distributions	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	(56,000)	712,800	(866,800)	7,000,000
Year 2	7,000,000	42,000	168,000	(56,000)	699,970	(853,970)	7,000,000
Year 3	7,000,000	42,000	168,000	(56,000)	687,370	(841,370)	7,000,000

End of Year Ownership	
Neal Navigator	GRAT & Grantor Trust #1
28.68%	71.32%
58.38%	41.62%
90.22%	9.78%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Cash Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	858,132	(858,132)	-	-
Year 2	-	-	-	-	609,065	(609,065)	-	-
Year 3	-	-	-	-	350,161	(350,161)	-	-

In-Kind Annuity Payments with Holdco Units	Holdco %
5,085,756	27.68%
5,397,090	29.70%
5,720,720	31.84%

Schedule 8 - Scenario 1 (assets earn 2.2% annually)
Neal and Nancy Navigator
Technique B: Contribution of Non-Leveraged Entities to a GRAT

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Assumptions:	
Total Estimated Rate of Return	2.20%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, LP Valuation Discount	35.00%
Financial Assets, LP Distributions	4.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$4,926,737
IRS §7520 Rate	2.20%

New Non-GST Grantor Trusts #1 Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Schedule 8 - Scenario 1 (assets earn 2.2% annually)
Neal and Nancy Navigator
Technique C: Leveraged FLLC Asset Contributed to a GRAT

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Assumptions:	
Total Estimated Rate of Return	2.20%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Financial Assets, LP Distributions	2.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$512,331
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term) - June 2014	0.32%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Annuity Payments	Note Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	8,000	5,175	512,331	53,519	(51,900)	527,125
Year 2	527,125	3,163	12,651	(4,217)	8,000	5,175	512,331	53,519	(42,434)	1,075,313
Year 3	1,075,313	6,452	25,808	(8,603)	3,437	5,175	512,331	53,519	(35,951)	1,637,480

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets	Ownership: Neal Navigator	Ownership: Holdco, FLLC
Year 1	18,000,000	108,000	432,000	(144,000)	(800,000)	17,596,000	1.00%	99.00%
Year 2	17,596,000	105,576	422,304	(140,768)	(800,000)	17,183,112	1.00%	99.00%
Year 3	17,183,112	103,099	412,395	(137,465)	(343,662)	17,217,478	1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Note Payments	Distributions	End of Year Financial & Other Assets	Ownership: Neal Navigator	Ownership: GRAT & Grantor Trust
Year 1	7,000,000	42,000	168,000	(56,000)	792,000	(53,519)	(517,506)	7,374,975	1.00%	99.00%
Year 2	7,374,975	44,250	176,999	(59,000)	792,000	(53,519)	(517,506)	7,758,199	1.00%	99.00%
Year 3	7,758,199	46,549	186,197	(62,066)	340,226	(53,519)	(517,506)	7,698,080	1.00%	99.00%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	512,331	(512,331)	-	-
Year 2	-	-	-	-	512,331	(512,331)	-	-
Year 3	-	-	-	-	512,331	(512,331)	-	-

Schedule 8 - Scenario 1 (assets earn 2.2% annually)
Neal and Nancy Navigator
Technique C: Leveraged FLLC Asset Contributed to a GRAT

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Assumptions:	
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Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Financial Assets, LP Distributions	2.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$512,331
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term) - June 2014	0.32%

New Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Note #1 Between Neal Navigator and Holdco, FLLC for the Purchase of Non-Managing Member Interests

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	16,724,700	53,519	(53,519)	16,724,700
Year 2	16,724,700	53,519	(53,519)	16,724,700
Year 3	16,724,700	53,519	(53,519)	16,724,700

Schedule 8 - Scenario 1 (assets earn 2.2% annually)
Neal and Nancy Navigator
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs

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Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Holdco, FLLC Preferred Interest	$14,586,400
Holdco, FLLC Preferred Coupon	7.00%
Holdco, FLLC Valuation Discount	30.00%
Preferred Holdco, FLLC Valuation Discount	20.00%
Growth Holdco, FLLC Valuation Discount	20.00%
GRAT #1 Annual Annuity	$402,145
GRAT #2 Annual Annuity	$80,025
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets LP Distributions	Holdco FLLC Distributions	Preferred Holdco Distributions	Growth Holdco Distributions	GRAT #1 & #2 Annuity Payments	Notes #1 & #2 Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	3,600	-	4,062	808	482,170	50,368	(51,900)	489,109
Year 2	489,109	2,935	11,739	(3,913)	3,607	-	4,062	808	482,170	50,368	(42,434)	998,451
Year 3	998,451	5,991	23,963	(7,988)	3,614	-	4,062	808	482,170	50,368	(35,951)	1,525,489

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Growth Distributions	End of Year Financial & Other Assets
Year 1	18,000,000	108,000	432,000	(144,000)	(360,000)	18,036,000
Year 2	18,036,000	108,216	432,864	(144,288)	(360,720)	18,072,072
Year 3	18,072,072	108,432	433,730	(144,577)	(361,441)	18,108,216

Ownership	
Neal Navigator	Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Preferred Distributions	Growth Distributions	End of Year Financial & Other Assets
Year 1	6,650,000	39,900	159,600	(53,200)	356,400	(1,021,048)	-	6,131,652
Year 2	6,131,652	36,790	147,160	(49,053)	357,113	(1,021,048)	-	5,602,613
Year 3	5,602,613	33,616	134,463	(44,821)	357,827	(1,021,048)	-	5,062,650

Growth Ownership	
Neal Navigator	Growth Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Preferred Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco Preferred Distributions	Note #1 Payments	Distributions	End of Year Financial & Other Assets
Year 1	-	-	-	-	1,021,048	(42,009)	(406,207)	572,832
Year 2	572,832	3,437	13,748	(4,583)	1,021,048	(42,009)	(406,207)	1,158,266
Year 3	1,158,266	6,950	27,798	(9,266)	1,021,048	(42,009)	(406,207)	1,756,580

Ownership	
Neal Navigator	GRAT #1 & Grantor Trust
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Schedule 8 - Scenario 1 (assets earn 2.2% annually)
Neal and Nancy Navigator
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs

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Assumptions:	
Total Estimated Rate of Return	2.20%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Holdco, FLLC Preferred Interest	$14,586,400
Holdco, FLLC Preferred Coupon	7.00%
Holdco, FLLC Valuation Discount	30.00%
Preferred Holdco, FLLC Valuation Discount	20.00%
Growth Holdco, FLLC Valuation Discount	20.00%
GRAT #1 Annual Annuity	$402,145
GRAT #2 Annual Annuity	$80,025
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

Growth Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco Growth Distributions	Note #2 Payments	Distributions	End of Year Financial & Other Assets
Year 1	350,000	2,100	8,400	(2,800)	-	(8,360)	(80,833)	268,507
Year 2	268,507	1,611	6,444	(2,148)	-	(8,360)	(80,833)	185,222
Year 3	185,222	1,111	4,445	(1,482)	-	(8,360)	(80,833)	100,104

Ownership	
Neal Navigator	GRAT #2 & Grantor Trust
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Three Year Grantor Retained Annuity Trust #1

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Preferred Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	402,145	(402,145)	-	-
Year 2	-	-	-	-	402,145	(402,145)	-	-
Year 3	-	-	-	-	402,145	(402,145)	-	-

Three Year Grantor Retained Annuity Trust #2

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Growth Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	80,025	(80,025)	-	-
Year 2	-	-	-	-	80,025	(80,025)	-	-
Year 3	-	-	-	-	80,025	(80,025)	-	-

Schedule 8 - Scenario 1 (assets earn 2.2% annually)
Neal and Nancy Navigator
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs

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Assumptions:	
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Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	-0.80%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Holdco, FLLC Preferred Interest	$14,586,400
Holdco, FLLC Preferred Coupon	7.00%
Holdco, FLLC Valuation Discount	30.00%
Preferred Holdco, FLLC Valuation Discount	20.00%
Growth Holdco, FLLC Valuation Discount	20.00%
GRAT #1 Annual Annuity	$402,145
GRAT #2 Annual Annuity	$80,025
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

New Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRATs)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Preferred Holdco, FLLC Distributions	Growth Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-

Note #1 Between Neal Navigator and Preferred Holdco, FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	13,127,760	42,009	(42,009)	13,127,760
Year 2	13,127,760	42,009	(42,009)	13,127,760
Year 3	13,127,760	42,009	(42,009)	13,127,760

Note #2 Between Neal Navigator and Growth Holdco, FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	2,612,358	8,360	(8,360)	2,612,358
Year 2	2,612,358	8,360	(8,360)	2,612,358
Year 3	2,612,358	8,360	(8,360)	2,612,358

Schedule 8 - Scenario 2 (assets earn 7.4% annually)

Neal and Nancy Navigator

Hypothetical Integrated Income and Estate Tax Plan Comparisons (Three-Year Future Values)

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	Three-Year Future Values	Present Values (Discounted at 2.5%)	Percentage of Total
No Further Planning			
Mr. and Mrs. Neal Navigator	30,292,932	28,129,999	97.81%
Navigator Children	-	-	0.00%
IRS Income Tax - Direct Cost	638,888	593,271	2.06%
IRS Income Tax - Investment Opportunity Cost	39,010	36,225	0.13%
Total	$30,970,831	$28,759,495	100.00%
Technique A: Contributing Assets That Are Not in Entities to a GRAT			
Mr. and Mrs. Neal Navigator	27,409,575	25,452,515	88.50%
Navigator Children	2,883,358	2,677,484	9.31%
IRS Income Tax - Direct Cost	638,888	593,271	2.06%
IRS Income Tax - Investment Opportunity Cost	39,010	36,225	0.13%
Total	$30,970,831	$28,759,495	100.00%
Technique B: Contribution of Non-Leveraged Entities to a GRAT			
Mr. and Mrs. Neal Navigator	24,501,833	22,752,388	79.11%
Navigator Children	5,791,099	5,377,611	18.70%
IRS Income Tax - Direct Cost	638,888	593,271	2.06%
IRS Income Tax - Investment Opportunity Cost	39,010	36,225	0.13%
Total	$30,970,831	$28,759,495	100.00%
Technique C: Leveraged FLLC Asset Contributed to a GRAT			
Mr. and Mrs. Neal Navigator	18,401,811	17,087,910	59.42%
Navigator Children	11,891,122	11,042,089	38.39%
IRS Income Tax - Direct Cost	638,888	593,271	2.06%
IRS Income Tax - Investment Opportunity Cost	39,010	36,225	0.13%
Total	$30,970,831	$28,759,495	100.00%
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs			
Mr. and Mrs. Neal Navigator	17,080,466	15,860,911	55.15%
Navigator Children	13,212,466	12,269,088	42.66%
IRS Income Tax - Direct Cost	638,888	593,271	2.06%
IRS Income Tax - Investment Opportunity Cost	39,010	36,225	0.13%
Total	$30,970,831	$28,759,495	100.00%

Schedule 8 - Scenario 2 (assets earn 7.4% annually)
Neal and Nancy Navigator
No Further Planning

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial & Other Assets
Year 1	25,000,000	150,000	600,000	1,100,000	(149,400)	26,700,600
Year 2	26,700,600	160,204	640,814	1,174,826	(217,313)	28,459,132
Year 3	28,459,132	170,755	683,019	1,252,202	(272,175)	30,292,932

Schedule 8 - Scenario 2 (assets earn 7.4% annually)

Neal and Nancy Navigator

Technique A: Contributing Assets That Are Not in Entities to a GRAT

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Assumptions:	
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Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
GRAT Annual Annuity	$8,702,613
IRS §7520 Rate	2.20%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	8,702,613	(149,400)	8,553,213
Year 2	8,553,213	51,319	205,277	376,341	8,702,613	(217,313)	17,671,450
Year 3	17,671,450	106,029	424,115	777,544	8,702,613	(272,175)	27,409,575

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	25,000,000	150,000	600,000	1,100,000	(8,702,613)	-	18,147,388
Year 2	18,147,388	108,884	435,537	798,485	(8,702,613)	-	10,787,682
Year 3	10,787,682	64,726	258,904	474,658	(8,702,613)	(2,883,358)	-

Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Descendants (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	GRAT Terminates	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	2,883,358	-	-	2,883,358

Schedule 8 - Scenario 2 (assets earn 7.4% annually)
Neal and Nancy Navigator
Technique B: Contribution of Non-Leveraged Entities to a GRAT

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Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, LP Valuation Discount	35.00%
Financial Assets, LP Distributions	4.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$4,926,737
IRS §7520 Rate	2.20%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Cash Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	7,200	12,308	1,218,492	(149,400)	1,088,600
Year 2	1,088,600	6,532	26,126	47,898	7,445	319,107	935,928	(217,313)	2,214,324
Year 3	2,214,324	13,286	53,144	97,430	7,698	654,913	625,181	(272,175)	3,393,801

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets
Year 1	18,000,000	108,000	432,000	792,000	(720,000)	18,612,000
Year 2	18,612,000	111,672	446,688	818,928	(744,480)	19,244,808
Year 3	19,244,808	115,469	461,875	846,772	(769,792)	19,899,131

Ownership	
Neal Navigator	Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Distributions	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	308,000	712,800	(1,230,800)	7,000,000
Year 2	7,000,000	42,000	168,000	308,000	737,035	(1,255,035)	7,000,000
Year 3	7,000,000	42,000	168,000	308,000	762,094	(1,280,094)	7,000,000

Ownership	
Neal Navigator	GRAT & Grantor Trust #1
25.43%	74.57%
51.16%	48.84%
78.31%	21.69%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Cash Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	1,218,492	(1,218,492)	-	-
Year 2	-	-	-	-	935,928	(935,928)	-	-
Year 3	-	-	-	-	625,181	(625,181)	-	-

In-Kind Annuity Payments with Holdco Units	Holdco %
4,635,306	24.43%
4,988,511	25.74%
5,376,944	27.15%

Schedule 8 - Scenario 2 (assets earn 7.4% annually)
Neal and Nancy Navigator
Technique B: Contribution of Non-Leveraged Entities to a GRAT

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Assumptions:	
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Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, LP Valuation Discount	35.00%
Financial Assets, LP Distributions	4.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$4,926,737
IRS §7520 Rate	2.20%

New Non-GST Grantor Trusts #1 Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Schedule 8 - Scenario 2 (assets earn 7.4% annually)
Neal and Nancy Navigator
Technique C: Leveraged FLLC Asset Contributed to a GRAT

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Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Financial Assets, LP Distributions	2.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$512,331
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Annuity Payments	Note Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	8,000	5,175	512,331	53,519	(149,400)	429,625
Year 2	429,625	2,578	10,311	18,904	8,000	5,175	512,331	53,519	(217,313)	823,130
Year 3	823,130	4,939	19,755	36,218	3,821	5,175	512,331	53,519	(272,175)	1,186,712

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets	Ownership: Neal Navigator	Ownership: Holdco, FLLC
Year 1	18,000,000	108,000	432,000	792,000	(800,000)	18,532,000	1.00%	99.00%
Year 2	18,532,000	111,192	444,768	815,408	(800,000)	19,103,368	1.00%	99.00%
Year 3	19,103,368	114,620	458,481	840,548	(382,067)	20,134,950	1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Note Payments	Distributions	End of Year Financial & Other Assets	Ownership: Neal Navigator	Ownership: GRAT & Grantor Trust
Year 1	7,000,000	42,000	168,000	308,000	792,000	(53,519)	(517,506)	7,738,975	1.00%	99.00%
Year 2	7,738,975	46,434	185,735	340,515	792,000	(53,519)	(517,506)	8,532,634	1.00%	99.00%
Year 3	8,532,634	51,196	204,783	375,436	378,247	(53,519)	(517,506)	8,971,270	1.00%	99.00%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	512,331	(512,331)	-	-
Year 2	-	-	-	-	512,331	(512,331)	-	-
Year 3	-	-	-	-	512,331	(512,331)	-	-

Schedule 8 - Scenario 2 (assets earn 7.4% annually)
Neal and Nancy Navigator
Technique C: Leveraged FLLC Asset Contributed to a GRAT

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Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Financial Assets, LP Distributions	2.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$512,331
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

New Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Note #1 Between Neal Navigator and Holdco, FLLC for the Purchase of Non-Managing Member Interests

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	16,724,700	53,519	(53,519)	16,724,700
Year 2	16,724,700	53,519	(53,519)	16,724,700
Year 3	16,724,700	53,519	(53,519)	16,724,700

Schedule 8 - Scenario 2 (assets earn 7.4% annually)
Neal and Nancy Navigator
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Holdco, FLLC Preferred Interest	$14,586,400
Holdco, FLLC Preferred Coupon	7.00%
Holdco, FLLC Valuation Discount	30.00%
Preferred Holdco, FLLC Valuation Discount	20.00%
Growth Holdco, FLLC Valuation Discount	20.00%
GRAT #1 Annual Annuity	$402,145
GRAT #2 Annual Annuity	$80,025
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets LP Distributions	Holdco FLLC Distributions	Preferred Holdco Distributions	Growth Holdco Distributions	GRAT #1 & #2 Annuity Payments	Notes #1 & #2 Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	3,600	-	4,062	808	482,170	50,368	(149,400)	391,609
Year 2	391,609	2,350	9,399	17,231	3,794	-	4,062	808	482,170	50,368	(217,313)	744,478
Year 3	744,478	4,467	17,867	32,757	3,999	-	4,062	808	482,170	50,368	(272,175)	1,068,803

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Growth Distributions	End of Year Financial & Other Assets
Year 1	18,000,000	108,000	432,000	792,000	(360,000)	18,972,000
Year 2	18,972,000	113,832	455,328	834,768	(379,440)	19,996,488
Year 3	19,996,488	119,979	479,916	879,845	(399,930)	21,076,298

Ownership	Neal Navigator	Holdco, FLLC
Year 1	1.00%	99.00%
Year 2	1.00%	99.00%
Year 3	1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Preferred Distributions	Growth Distributions	End of Year Financial & Other Assets
Year 1	6,650,000	39,900	159,600	292,600	356,400	(1,021,048)	-	6,477,452
Year 2	6,477,452	38,865	155,459	285,008	375,646	(1,021,048)	-	6,311,381
Year 3	6,311,381	37,868	151,473	277,701	395,930	(1,021,048)	-	6,153,306

Growth Ownership	Neal Navigator	Growth Holdco, FLLC
Year 1	1.00%	99.00%
Year 2	1.00%	99.00%
Year 3	1.00%	99.00%

Preferred Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco Preferred Distributions	Note #1 Payments	Distributions	End of Year Financial & Other Assets
Year 1	-	-	-	-	1,021,048	(42,009)	(406,207)	572,832
Year 2	572,832	3,437	13,748	25,205	1,021,048	(42,009)	(406,207)	1,188,053
Year 3	1,188,053	7,128	28,513	52,274	1,021,048	(42,009)	(406,207)	1,848,801

Ownership	Neal Navigator	GRAT #1 & Grantor Trust
Year 1	1.00%	99.00%
Year 2	1.00%	99.00%
Year 3	1.00%	99.00%

Schedule 8 - Scenario 2 (assets earn 7.4% annually)
Neal and Nancy Navigator
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Holdco, FLLC Preferred Interest	$14,586,400
Holdco, FLLC Preferred Coupon	7.00%
Holdco, FLLC Valuation Discount	30.00%
Preferred Holdco, FLLC Valuation Discount	20.00%
Growth Holdco, FLLC Valuation Discount	20.00%
GRAT #1 Annual Annuity	$402,145
GRAT #2 Annual Annuity	$80,025
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

Growth Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco Growth Distributions	Note #2 Payments	Distributions	End of Year Financial & Other Assets
Year 1	350,000	2,100	8,400	15,400	-	(8,360)	(80,833)	286,707
Year 2	286,707	1,720	6,881	12,615	-	(8,360)	(80,833)	218,731
Year 3	218,731	1,312	5,250	9,624	-	(8,360)	(80,833)	145,724

Ownership	
Neal Navigator	GRAT #2 & Grantor Trust
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Three Year Grantor Retained Annuity Trust #1

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Preferred Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	402,145	(402,145)	-	-
Year 2	-	-	-	-	402,145	(402,145)	-	-
Year 3	-	-	-	-	402,145	(402,145)	-	-

Three Year Grantor Retained Annuity Trust #2

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Growth Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	80,025	(80,025)	-	-
Year 2	-	-	-	-	80,025	(80,025)	-	-
Year 3	-	-	-	-	80,025	(80,025)	-	-

Schedule 8 - Scenario 2 (assets earn 7.4% annually)
Neal and Nancy Navigator
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Holdco, FLLC Preferred Interest	$14,586,400
Holdco, FLLC Preferred Coupon	7.00%
Holdco, FLLC Valuation Discount	30.00%
Preferred Holdco, FLLC Valuation Discount	20.00%
Growth Holdco, FLLC Valuation Discount	20.00%
GRAT #1 Annual Annuity	$402,145
GRAT #2 Annual Annuity	$80,025
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

New Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRATs)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Preferred Holdco, FLLC Distributions	Growth Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-

Note #1 Between Neal Navigator and Preferred Holdco, FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	13,127,760	42,009	(42,009)	13,127,760
Year 2	13,127,760	42,009	(42,009)	13,127,760
Year 3	13,127,760	42,009	(42,009)	13,127,760

Note #2 Between Neal Navigator and Growth Holdco, FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	2,612,358	8,360	(8,360)	2,612,358
Year 2	2,612,358	8,360	(8,360)	2,612,358
Year 3	2,612,358	8,360	(8,360)	2,612,358

Schedule 8 - Scenario 3 (assets earn 10.0% annually)
Neal and Nancy Navigator
Hypothetical Integrated Income and Estate Tax Plan Comparisons (Three-Year Future Values)

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	Three-Year Future Values	Present Values (Discounted at 2.5%)	Percentage of Total
No Further Planning			
Mr. Neal Navigator	32,295,905	29,989,958	97.06%
Navigator Children	-	-	0.00%
IRS Income Tax - Direct Cost	906,657	841,921	2.72%
IRS Income Tax - Investment Opportunity Cost	72,438	67,266	0.22%
Total	$33,275,000	$30,899,145	100.00%
Technique A: Contributing Assets That Are Not in Entities to a GRAT			
Mr. Neal Navigator	27,826,552	25,839,720	83.63%
Navigator Children	4,469,353	4,150,238	13.43%
IRS Income Tax - Direct Cost	906,657	841,921	2.72%
IRS Income Tax - Investment Opportunity Cost	72,438	67,266	0.22%
Total	$33,275,000	$30,899,145	100.00%
Technique B: Contribution of Non-Leveraged Entities to a GRAT			
Mr. Neal Navigator	24,569,260	22,815,000	73.84%
Navigator Children	7,726,645	7,174,958	23.22%
IRS Income Tax - Direct Cost	906,657	841,921	2.72%
IRS Income Tax - Investment Opportunity Cost	72,438	67,266	0.22%
Total	$33,275,000	$30,899,145	100.00%
Technique C: Leveraged FLLC Asset Contributed to a GRAT			
Mr. Neal Navigator	18,186,732	16,888,188	54.66%
Navigator Children	14,109,173	13,101,770	42.40%
IRS Income Tax - Direct Cost	906,657	841,921	2.72%
IRS Income Tax - Investment Opportunity Cost	72,438	67,266	0.22%
Total	$33,275,000	$30,899,145	100.00%
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs			
Mr. Neal Navigator	16,784,233	15,585,829	50.44%
Navigator Children	15,511,672	14,404,129	46.62%
IRS Income Tax - Direct Cost	906,657	841,921	2.72%
IRS Income Tax - Investment Opportunity Cost	72,438	67,266	0.22%
Total	$33,275,000	$30,899,145	100.00%

Schedule 8 - Scenario 3 (assets earn 10.0% annually)
Neal and Nancy Navigator
No Further Planning

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Assumptions:	
Total Estimated Rate of Return	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Mr. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial & Other Assets
Year 1	25,000,000	150,000	600,000	1,750,000	(198,150)	27,301,850
Year 2	27,301,850	163,811	655,244	1,911,130	(308,269)	29,723,766
Year 3	29,723,766	178,343	713,370	2,080,664	(400,237)	32,295,905

Schedule 8 - Scenario 3 (assets earn 10.0% annually)
Neal and Nancy Navigator
Technique A: Contributing Assets That Are Not in Entities to a GRAT

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Assumptions:	
Total Estimated Rate of Return	10.00%
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Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
GRAT Annual Annuity	$8,702,613
IRS §7520 Rate	2.20%

Mr. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	8,702,613	(198,150)	8,504,463
Year 2	8,504,463	51,027	204,107	595,312	8,702,613	(308,269)	17,749,252
Year 3	17,749,252	106,496	425,982	1,242,448	8,702,613	(400,237)	27,826,552

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	25,000,000	150,000	600,000	1,750,000	(8,702,613)	-	18,797,388
Year 2	18,797,388	112,784	451,137	1,315,817	(8,702,613)	-	11,974,514
Year 3	11,974,514	71,847	287,388	838,216	(8,702,613)	(4,469,353)	-

Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Descendants (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	GRAT Terminates	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	4,469,353	-	-	4,469,353

Schedule 8 - Scenario 3 (assets earn 10.0% annually)
Neal and Nancy Navigator
Technique B: Contribution of Non-Leveraged Entities to a GRAT

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Assumptions:	
Total Estimated Rate of Return	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, LP Valuation Discount	35.00%
Financial Assets, LP Distributions	4.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$4,926,737
IRS §7520 Rate	2.20%

Mr. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Cash Annuity Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	7,200	14,128	1,398,672	(198,150)	1,221,850
Year 2	1,221,850	7,331	29,324	85,530	7,632	347,535	1,108,033	(308,269)	2,498,966
Year 3	2,498,966	14,994	59,975	174,928	8,090	716,316	784,586	(400,237)	3,857,617

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets
Year 1	18,000,000	108,000	432,000	1,260,000	(720,000)	19,080,000
Year 2	19,080,000	114,480	457,920	1,335,600	(763,200)	20,224,800
Year 3	20,224,800	121,349	485,395	1,415,736	(808,992)	21,438,288

Ownership		
	Neal Navigator	Holdco, FLLC
Year 1	1.00%	99.00%
Year 2	1.00%	99.00%
Year 3	1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Distributions	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	490,000	712,800	(1,412,800)	7,000,000
Year 2	7,000,000	42,000	168,000	490,000	755,568	(1,455,568)	7,000,000
Year 3	7,000,000	42,000	168,000	490,000	800,902	(1,500,902)	7,000,000

Ownership		
	Neal Navigator	GRAT & Grantor Trust #1
Year 1	23.88%	76.12%
Year 2	47.73%	52.27%
Year 3	72.62%	27.38%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Cash Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	1,398,672	(1,398,672)	-	-
Year 2	-	-	-	-	1,108,033	(1,108,033)	-	-
Year 3	-	-	-	-	784,586	(784,586)	-	-

	In-Kind Annuity Payments with Holdco Units	Holdco %
Year 1	4,410,081	22.88%
Year 2	4,773,380	23.85%
Year 3	5,177,688	24.90%

Schedule 8 - Scenario 3 (assets earn 10.0% annually)
Neal and Nancy Navigator
Technique B: Contribution of Non-Leveraged Entities to a GRAT

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Assumptions:	
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Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, LP Valuation Discount	35.00%
Financial Assets, LP Distributions	4.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$4,926,737
IRS §7520 Rate	2.20%

New Non-GST Grantor Trusts #1 Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Schedule 8 - Scenario 3 (assets earn 10.0% annually)
Neal and Nancy Navigator
Technique C: Leveraged FLLC Asset Contributed to a GRAT

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Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Financial Assets, LP Distributions	2.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$512,331
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

Mr. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets Distributions	Holdco Distributions	Annuity Payments	Note Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	8,000	5,175	512,331	53,519	(198,150)	380,875
Year 2	380,875	2,285	9,141	26,661	8,000	5,175	512,331	53,519	(308,269)	689,719
Year 3	689,719	4,138	16,553	48,280	4,020	5,175	512,331	53,519	(400,237)	933,498

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial & Other Assets
Year 1	18,000,000	108,000	432,000	1,260,000	(800,000)	19,000,000
Year 2	19,000,000	114,000	456,000	1,330,000	(800,000)	20,100,000
Year 3	20,100,000	120,600	482,400	1,407,000	(402,000)	21,708,000

Ownership	
Neal Navigator	Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Note Payments	Distributions	End of Year Financial & Other Assets
Year 1	7,000,000	42,000	168,000	490,000	792,000	(53,519)	(517,506)	7,920,975
Year 2	7,920,975	47,526	190,103	554,468	792,000	(53,519)	(517,506)	8,934,047
Year 3	8,934,047	53,604	214,417	625,383	397,980	(53,519)	(517,506)	9,654,406

Ownership	
Neal Navigator	GRAT & Grantor Trust
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Three Year Grantor Retained Annuity Trust

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	512,331	(512,331)	-	-
Year 2	-	-	-	-	512,331	(512,331)	-	-
Year 3	-	-	-	-	512,331	(512,331)	-	-

Schedule 8 - Scenario 3 (assets earn 10.0% annually)
Neal and Nancy Navigator
Technique C: Leveraged FLLC Asset Contributed to a GRAT

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Assumptions:	
Total Estimated Rate of Return	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Financial Assets, LP Distributions	2.00%
Holdco, FLLC Valuation Discount	20.00%
Holdco, FLLC Distributions	2.00%
GRAT Annual Annuity	$512,331
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

New Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRAT)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-

Note #1 Between Neal Navigator and Holdco, FLLC for the Purchase of Non-Managing Member Interests

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	16,724,700	53,519	(53,519)	16,724,700
Year 2	16,724,700	53,519	(53,519)	16,724,700
Year 3	16,724,700	53,519	(53,519)	16,724,700

Schedule 8 - Scenario 3 (assets earn 10.0% annually)
Neal and Nancy Navigator
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs

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Assumptions:	
Total Estimated Rate of Return	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Holdco, FLLC Preferred Interest	$14,586,400
Holdco, FLLC Preferred Coupon	7.00%
Holdco, FLLC Valuation Discount	30.00%
Preferred Holdco, FLLC Valuation Discount	20.00%
Growth Holdco, FLLC Valuation Discount	20.00%
GRAT #1 Annual Annuity	$402,145
GRAT #2 Annual Annuity	$80,025
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

Mr. and Mrs. Neal Navigator

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets LP Distributions	Holdco FLLC Distributions	Preferred Holdco Distributions	Growth Holdco Distributions	GRAT #1 & #2 Annuity Payments	Notes #1 & #2 Payments	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	3,600	-	4,062	808	482,170	(292,491)	(198,150)	-
Year 2	-	-	-	-	3,888	-	4,062	808	482,170	(182,659)	(308,269)	-
Year 3	-	-	-	-	4,199	-	4,062	808	482,170	(91,002)	(400,237)	-

Financial Assets, LP

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Growth Distributions	End of Year Financial & Other Assets
Year 1	18,000,000	108,000	432,000	1,260,000	(360,000)	19,440,000
Year 2	19,440,000	116,640	466,560	1,360,800	(388,800)	20,995,200
Year 3	20,995,200	125,971	503,885	1,469,664	(419,904)	22,674,816

Ownership	
Neal Navigator	Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Financial Assets, LP Distributions	Preferred Distributions	Growth Distributions	End of Year Financial & Other Assets
Year 1	6,650,000	39,900	159,600	465,500	356,400	(1,021,048)	-	6,650,352
Year 2	6,650,352	39,902	159,608	465,525	384,912	(1,021,048)	-	6,679,251
Year 3	6,679,251	40,076	160,302	467,548	415,705	(1,021,048)	-	6,741,833

Growth Ownership	
Neal Navigator	Growth Holdco, FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Preferred Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco Preferred Distributions	Note #1 Payments	Distributions	End of Year Financial & Other Assets
Year 1	-	-	-	-	1,021,048	300,850	(406,207)	915,691
Year 2	915,691	5,494	21,977	64,098	1,021,048	191,019	(406,207)	1,813,119
Year 3	1,813,119	10,879	43,515	126,918	1,021,048	99,362	(406,207)	2,708,633

Ownership	
Neal Navigator	GRAT #1 & Grantor Trust
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Schedule 8 - Scenario 3 (assets earn 10.0% annually)
Neal and Nancy Navigator
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs

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Assumptions:	
Total Estimated Rate of Return	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Holdco, FLLC Preferred Interest	$14,586,400
Holdco, FLLC Preferred Coupon	7.00%
Holdco, FLLC Valuation Discount	30.00%
Preferred Holdco, FLLC Valuation Discount	20.00%
Growth Holdco, FLLC Valuation Discount	20.00%
GRAT #1 Annual Annuity	$402,145
GRAT #2 Annual Annuity	$80,025
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

Growth Holdco, FLLC

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Holdco Growth Distributions	Note #2 Payments	Distributions	End of Year Financial & Other Assets
Year 1	350,000	2,100	8,400	24,500	-	(8,360)	(80,833)	295,807
Year 2	295,807	1,775	7,099	20,707	-	(8,360)	(80,833)	236,195
Year 3	236,195	1,417	5,669	16,534	-	(8,360)	(80,833)	170,622

Ownership	
Neal Navigator	GRAT #2 & Grantor Trust
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Three Year Grantor Retained Annuity Trust #1

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Preferred Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	402,145	(402,145)	-	-
Year 2	-	-	-	-	402,145	(402,145)	-	-
Year 3	-	-	-	-	402,145	(402,145)	-	-

Three Year Grantor Retained Annuity Trust #2

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Growth Holdco, FLLC Distributions	Annuity Payments	GRAT Terminates	End of Year Financial & Other Assets
Year 1	-	-	-	-	80,025	(80,025)	-	-
Year 2	-	-	-	-	80,025	(80,025)	-	-
Year 3	-	-	-	-	80,025	(80,025)	-	-

Schedule 8 - Scenario 3 (assets earn 10.0% annually)
Neal and Nancy Navigator
Technique D: Two Leveraged FLLCs (Preferred and Growth) Assets Contributed to Two Different GRATs

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Assumptions:	
Total Estimated Rate of Return	10.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	7.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain and Health Care Tax Rate	25.00%
Ordinary and Health Care Tax Rate	44.60%

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	35.00%
Holdco, FLLC Preferred Interest	$14,586,400
Holdco, FLLC Preferred Coupon	7.00%
Holdco, FLLC Valuation Discount	30.00%
Preferred Holdco, FLLC Valuation Discount	20.00%
Growth Holdco, FLLC Valuation Discount	20.00%
GRAT #1 Annual Annuity	$402,145
GRAT #2 Annual Annuity	$80,025
IRS §7520 Rate	2.20%
Intra-Family Interest Rate (short-term)	0.32%

New Non-GST Tax Exempt Grantor Trusts Created by Neal Navigator for the Benefit of Nancy Navigator and their Children (Remanider of 3-Year GRATs)

	Beginning of Year Financial & Other Assets	Income	Tax Free Income	Growth	Preferred Holdco, FLLC Distributions	Growth Holdco, FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-

Note #1 Between Neal Navigator and Preferred Holdco, FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	13,127,760	42,009	300,850	13,470,619
Year 2	13,470,619	43,106	191,019	13,704,743
Year 3	13,704,743	43,855	99,362	13,847,960

Note #2 Between Neal Navigator and Growth Holdco, FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	2,612,358	8,360	(8,360)	2,612,358
Year 2	2,612,358	8,360	(8,360)	2,612,358
Year 3	2,612,358	8,360	(8,360)	2,612,358

Schedule 9

Mr. and Mrs. Al Art

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mr. and Mrs. Art have a joint life expectancy of 25 years)

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	25-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning				
Schedule 9	348,104,658	-	-	0.00%
Art Children	-	197,066,795	106,295,975	29.67%
Art Children and Grandchildren	-	19,660,000	10,604,419	2.96%
Consumption - Direct Cost	72,918,529	72,918,529	39,331,568	10.98%
Consumption - Investment Opportunity Cost	102,732,004	102,732,004	55,412,676	15.46%
IRS Income Tax - Direct Cost	66,945,932	66,945,932	36,110,006	10.08%
IRS Income Tax - Investment Opportunity Costs	73,592,594	73,592,594	39,695,153	11.08%
IRS - Estate Tax (at 40.0%)	-	131,377,863	70,863,983	19.78%
Total	**$664,293,718**	**$664,293,718**	**$358,313,780**	**100.00%**
Hypothetical Technique #1:				
Schedule 9	73,164,965	-	-	0.00%
Art Children	273,663,944	305,826,923	164,960,164	46.04%
Art Children and Grandchildren	-	19,560,000	10,550,480	2.94%
Consumption - Direct Cost	72,918,529	72,918,529	39,331,568	10.98%
Consumption - Investment Opportunity Cost	102,732,004	102,732,004	55,412,676	15.46%
IRS Income Tax - Direct Cost	68,221,681	68,221,681	36,798,133	10.27%
IRS Income Tax - Investment Opportunity Costs	73,592,594	73,592,594	39,695,153	11.08%
IRS - Estate Tax (at 40.0%)		21,441,986	11,565,605	3.23%
Total	**$664,293,718**	**$664,293,718**	**$358,313,780**	**100.00%**
Hypothetical Technique #2:				
Schedule 9	5,672,187	-	-	0.00%
Art Children	341,160,771	341,160,771	184,018,909	51.36%
Art Children and Grandchildren	-	5,672,187	3,059,525	0.85%
Consumption - Direct Cost	72,918,529	72,918,529	39,331,568	10.98%
Consumption - Investment Opportunity Cost	102,732,004	102,732,004	55,412,676	15.46%
IRS Income Tax - Direct Cost	68,217,632	68,217,632	36,795,949	10.27%
IRS Income Tax - Investment Opportunity Costs	73,592,594	73,592,594	39,695,153	11.08%
IRS - Estate Tax (at 40.0%)	-	-	-	0.00%
Total	**$664,293,718**	**$664,293,718**	**$358,313,780**	**100.00%**

Calculations of Remaining Estate Tax Exemption	**No Further Planning**	**Hypothetical Techniques**
Current Gift and Estate Exemption	10,860,000	10,860,000
Gifts Made	-	(100,000)
Future Estate Tax Exemption Available in 25 years (assumes 3% inflation)	19,660,000	19,560,000

Schedule 9
Mr. and Mrs. Al Art
Asset Page

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	Al Art
Assets and Assumed Basis*	
FMV: Financial & Other Assets	$5,000,000
Basis: Financial & Other Assets	$5,000,000
FMV: Private Equity	$25,000,000
Basis: Private Equity	$25,000,000
FMV: Various Financial LLC Interests	$70,000,000
Basis: Various Financial LLC Interests	$70,000,000
FMV: Artwork	$10,000,000
Basis: Artwork	$10,000,000
Total Assets:	**$110,000,000**
Total Basis:	**$110,000,000**

* Information provided by client. There is no proposed planning for Mr. Art's other assets.

Schedule 9
Mr. and Mrs. Al Art
No Further Planning

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Assumptions:	**Financial Assets**	**Private Equity**	**Various LLC Interests**	**Artwork**
Total Estimated Rate of Return	7.40%	7.40%	7.40%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	3.40%	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Schedule 9

	Beginning of Year Financial Assets	**Income**	**Tax Free Income**	**Growth**	**Various LLC Distributions**	**Private Equity LLC Distributions**	**Consumption from these Sources**	**Income Taxes**	**End of Year Financial Assets**	**Beginning of Year Artwork**	**Growth**	**End of Year Artwork**	**End of Year Financial & Other Assets**
Year 1	5,000,000	30,000	120,000	220,000	2,100,000	950,000	(2,000,000)	(852,300)	5,567,700	10,000,000	800,000	10,800,000	16,367,700
Year 2	5,567,700	33,406	133,625	244,979	2,192,400	1,074,200	(2,060,000)	(1,084,396)	6,101,914	10,800,000	864,000	11,664,000	17,765,914
Year 3	6,101,914	36,611	146,446	268,484	2,288,866	1,190,451	(2,121,800)	(1,271,182)	6,639,790	11,664,000	933,120	12,597,120	19,236,910
Year 4	6,639,790	39,839	159,355	292,151	2,389,576	1,299,262	(2,185,454)	(1,426,368)	7,208,150	12,597,120	1,007,770	13,604,890	20,813,039
Year 5	7,208,150	43,249	172,996	317,159	2,494,717	1,401,110	(2,251,018)	(1,559,703)	7,826,659	13,604,890	1,088,391	14,693,281	22,519,940
Year 6	7,826,659	46,960	187,840	344,373	2,604,485	1,496,439	(2,318,548)	(1,678,139)	8,510,067	14,693,281	1,175,462	15,868,743	24,378,811
Year 7	8,510,067	51,060	204,242	374,443	2,719,082	1,585,666	(2,388,105)	(1,786,655)	9,269,802	15,868,743	1,269,499	17,138,243	26,408,044
Year 8	9,269,802	55,619	222,475	407,871	2,838,721	1,669,184	(2,459,748)	(1,888,834)	10,115,091	17,138,243	1,371,059	18,509,302	28,624,393
Year 9	10,115,091	60,691	242,762	445,064	2,963,625	1,747,356	(2,533,540)	(1,987,277)	11,053,772	18,509,302	1,480,744	19,990,046	31,043,818
Year 10	11,053,772	66,323	265,291	486,366	3,094,025	1,820,525	(2,609,546)	(2,083,893)	12,092,861	19,990,046	1,599,204	21,589,250	33,682,111
Year 11	12,092,861	72,557	290,229	532,086	3,230,162	1,889,012	(2,687,833)	(2,180,103)	13,238,970	21,589,250	1,727,140	23,316,390	36,555,360
Year 12	13,238,970	79,434	317,735	582,515	3,372,289	1,953,115	(2,768,468)	(2,276,985)	14,498,605	23,316,390	1,865,311	25,181,701	39,680,306
Year 13	14,498,605	86,992	347,967	637,939	3,520,670	2,013,116	(2,851,522)	(2,375,379)	15,878,386	25,181,701	2,014,536	27,196,237	43,074,624
Year 14	15,878,386	95,270	381,081	698,649	3,675,579	2,069,276	(2,937,067)	(2,475,958)	17,385,217	27,196,237	2,175,699	29,371,936	46,757,153
Year 15	17,385,217	104,311	417,245	764,950	3,837,305	2,121,842	(3,025,179)	(2,579,280)	19,026,411	29,371,936	2,349,755	31,721,691	50,748,103
Year 16	19,026,411	114,158	456,634	837,162	4,006,146	2,171,045	(3,115,935)	(2,685,826)	20,809,796	31,721,691	2,537,735	34,259,426	55,069,222
Year 17	20,809,796	124,859	499,435	915,631	4,182,416	2,217,098	(3,209,413)	(2,796,025)	22,743,797	34,259,426	2,740,754	37,000,181	59,743,977
Year 18	22,743,797	136,463	545,851	1,000,727	4,366,443	2,260,203	(3,305,695)	(2,910,276)	24,837,513	37,000,181	2,960,014	39,960,195	64,797,708
Year 19	24,837,513	149,025	596,100	1,092,851	4,558,566	2,300,550	(3,404,866)	(3,028,955)	27,100,784	39,960,195	3,196,816	43,157,011	70,257,795
Year 20	27,100,784	162,605	650,419	1,192,435	4,759,143	2,338,315	(3,507,012)	(3,152,433)	29,544,255	43,157,011	3,452,561	46,609,571	76,153,827
Year 21	29,544,255	177,266	709,062	1,299,947	4,968,545	2,373,663	(3,612,222)	(3,281,078)	32,179,438	46,609,571	3,728,766	50,338,337	82,517,775
Year 22	32,179,438	193,077	772,307	1,415,895	5,187,161	2,406,749	(3,720,589)	(3,415,262)	35,018,776	50,338,337	4,027,067	54,365,404	89,384,180
Year 23	35,018,776	210,113	840,451	1,540,826	5,415,397	2,437,717	(3,832,207)	(3,555,365)	38,075,707	54,365,404	4,349,232	58,714,636	96,790,343
Year 24	38,075,707	228,454	913,817	1,675,331	5,653,674	2,466,703	(3,947,173)	(3,701,781)	41,364,732	58,714,636	4,697,171	63,411,807	104,776,540
Year 25	41,364,732	248,188	992,754	1,820,048	5,902,436	13,865,055	(4,065,588)	(10,912,480)	49,215,145	63,411,807	5,072,945	68,484,752	117,699,897

Schedule 9
Mr. and Mrs. Al Art
No Further Planning

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Assumptions:	**Financial Assets**	**Private Equity**	**Various LLC Interests**	**Artwork**
Total Estimated Rate of Return	7.40%	7.40%	7.40%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	3.40%	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Private Equity

	Beginning of Year Private Equity	**Income**	**Tax Free Income**	**Growth**	**Distributions**	**End of Year Private Equity**
Year 1	25,000,000	850,000	-	1,000,000	(950,000)	25,900,000
Year 2	25,900,000	880,600	-	1,036,000	(1,074,200)	26,742,400
Year 3	26,742,400	909,242	-	1,069,696	(1,190,451)	27,530,886
Year 4	27,530,886	936,050	-	1,101,235	(1,299,262)	28,268,910
Year 5	28,268,910	961,143	-	1,130,756	(1,401,110)	28,959,699
Year 6	28,959,699	984,630	-	1,158,388	(1,496,439)	29,606,279
Year 7	29,606,279	1,006,613	-	1,184,251	(1,585,666)	30,211,477
Year 8	30,211,477	1,027,190	-	1,208,459	(1,669,184)	30,777,942
Year 9	30,777,942	1,046,450	-	1,231,118	(1,747,356)	31,308,154
Year 10	31,308,154	1,064,477	-	1,252,326	(1,820,525)	31,804,432
Year 11	31,804,432	1,081,351	-	1,272,177	(1,889,012)	32,268,949
Year 12	32,268,949	1,097,144	-	1,290,758	(1,953,115)	32,703,736
Year 13	32,703,736	1,111,927	-	1,308,149	(2,013,116)	33,110,697
Year 14	33,110,697	1,125,764	-	1,324,428	(2,069,276)	33,491,612
Year 15	33,491,612	1,138,715	-	1,339,664	(2,121,842)	33,848,149
Year 16	33,848,149	1,150,837	-	1,353,926	(2,171,045)	34,181,867
Year 17	34,181,867	1,162,183	-	1,367,275	(2,217,098)	34,494,228
Year 18	34,494,228	1,172,804	-	1,379,769	(2,260,203)	34,786,597
Year 19	34,786,597	1,182,744	-	1,391,464	(2,300,550)	35,060,255
Year 20	35,060,255	1,192,049	-	1,402,410	(2,338,315)	35,316,399
Year 21	35,316,399	1,200,758	-	1,412,656	(2,373,663)	35,556,149
Year 22	35,556,149	1,208,909	-	1,422,246	(2,406,749)	35,780,556
Year 23	35,780,556	1,216,539	-	1,431,222	(2,437,717)	35,990,600
Year 24	35,990,600	1,223,680	-	1,439,624	(2,466,703)	36,187,202
Year 25	36,187,202	1,230,365	-	1,447,488	(13,865,055)	25,000,000

Schedule 9
Mr. and Mrs. Al Art
No Further Planning

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Assumptions:	**Financial Assets**	**Private Equity**	**Various LLC Interests**	**Artwork**
Total Estimated Rate of Return	7.40%	7.40%	7.40%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	3.40%	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Various Financials LLCs

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial Assets	Ownership: Al Art
Year 1	70,000,000	420,000	1,680,000	3,080,000	(2,100,000)	73,080,000	100.0%
Year 2	73,080,000	438,480	1,753,920	3,215,520	(2,192,400)	76,295,520	100.0%
Year 3	76,295,520	457,773	1,831,092	3,357,003	(2,288,866)	79,652,523	100.0%
Year 4	79,652,523	477,915	1,911,661	3,504,711	(2,389,576)	83,157,234	100.0%
Year 5	83,157,234	498,943	1,995,774	3,658,918	(2,494,717)	86,816,152	100.0%
Year 6	86,816,152	520,897	2,083,588	3,819,911	(2,604,485)	90,636,063	100.0%
Year 7	90,636,063	543,816	2,175,266	3,987,987	(2,719,082)	94,624,050	100.0%
Year 8	94,624,050	567,744	2,270,977	4,163,458	(2,838,721)	98,787,508	100.0%
Year 9	98,787,508	592,725	2,370,900	4,346,650	(2,963,625)	103,134,158	100.0%
Year 10	103,134,158	618,805	2,475,220	4,537,903	(3,094,025)	107,672,061	100.0%
Year 11	107,672,061	646,032	2,584,129	4,737,571	(3,230,162)	112,409,632	100.0%
Year 12	112,409,632	674,458	2,697,831	4,946,024	(3,372,289)	117,355,656	100.0%
Year 13	117,355,656	704,134	2,816,536	5,163,649	(3,520,670)	122,519,304	100.0%
Year 14	122,519,304	735,116	2,940,463	5,390,849	(3,675,579)	127,910,154	100.0%
Year 15	127,910,154	767,461	3,069,844	5,628,047	(3,837,305)	133,538,201	100.0%
Year 16	133,538,201	801,229	3,204,917	5,875,681	(4,006,146)	139,413,881	100.0%
Year 17	139,413,881	836,483	3,345,933	6,134,211	(4,182,416)	145,548,092	100.0%
Year 18	145,548,092	873,289	3,493,154	6,404,116	(4,366,443)	151,952,208	100.0%
Year 19	151,952,208	911,713	3,646,853	6,685,897	(4,558,566)	158,638,105	100.0%
Year 20	158,638,105	951,829	3,807,315	6,980,077	(4,759,143)	165,618,182	100.0%
Year 21	165,618,182	993,709	3,974,836	7,287,200	(4,968,545)	172,905,382	100.0%
Year 22	172,905,382	1,037,432	4,149,729	7,607,837	(5,187,161)	180,513,219	100.0%
Year 23	180,513,219	1,083,079	4,332,317	7,942,582	(5,415,397)	188,455,801	100.0%
Year 24	188,455,801	1,130,735	4,522,939	8,292,055	(5,653,674)	196,747,856	100.0%
Year 25	196,747,856	1,180,487	4,721,949	8,656,906	(5,902,436)	205,404,761	100.0%

Schedule 9
Mr. and Mrs. Al Art
Hypothetical Technique #1:

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Assumptions:	Financial Assets	Private Equity	Various LLC Interests	Artwork
Total Estimated Rate of Return	7.40%	7.40%	7.40%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	3.40%	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%

Schedule 9

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Various FLLC Distributions	Private Equity FLLC Distributions	Holdco FLLC Distributions	GRAT Annuity	Note Payments	Trust Distributions	Consumption from these Sources	Income Taxes	End of Year Financial Assets	Beginning of Year Artwork	Growth	End of Year Artwork	End of Year Financial & Other Assets
Year 1	5,000,000	30,000	120,000	220,000	21,000	9,500	17,843	1,766,418	870,997	-	(2,000,000)	(852,300)	5,203,458	10,000,000	800,000	10,800,000	16,003,458
Year 2	5,203,458	31,221	124,883	228,952	21,924	10,742	17,843	1,766,418	870,997	-	(2,060,000)	(1,084,396)	5,132,041	10,800,000	864,000	11,664,000	16,796,041
Year 3	5,132,041	30,792	123,169	225,810	22,889	11,905	17,843	1,766,418	870,997	-	(2,121,800)	(1,271,182)	4,808,880	11,664,000	933,120	12,597,120	17,406,000
Year 4	4,808,880	28,853	115,413	211,591	23,896	12,993	-	-	870,997	-	(2,185,454)	(1,426,368)	2,460,801	12,597,120	1,007,770	13,604,890	16,065,690
Year 5	2,460,801	14,765	59,059	108,275	24,947	14,011	-	-	1,128,862	-	(2,251,018)	(1,559,703)	-	13,604,890	1,088,391	14,693,281	14,693,281
Year 6	-	-	-	-	26,045	14,964	-	-	3,955,678	-	(2,318,548)	(1,678,139)	-	14,693,281	1,175,462	15,868,743	15,868,743
Year 7	-	-	-	-	27,191	15,857	-	-	4,131,712	-	(2,388,105)	(1,786,655)	-	15,868,743	1,269,499	17,138,243	17,138,243
Year 8	-	-	-	-	28,387	16,692	-	-	4,303,502	-	(2,459,748)	(1,888,834)	-	17,138,243	1,371,059	18,509,302	18,509,302
Year 9	-	-	-	-	29,636	17,474	-	-	4,473,707	-	(2,533,540)	(1,987,277)	-	18,509,302	1,480,744	19,990,046	19,990,046
Year 10	-	-	-	-	30,940	18,205	-	-	4,644,294	-	(2,609,546)	(2,083,893)	-	19,990,046	1,599,204	21,589,250	21,589,250
Year 11	-	-	-	-	32,302	18,890	-	-	4,816,744	-	(2,687,833)	(2,180,103)	-	21,589,250	1,727,140	23,316,390	23,316,390
Year 12	-	-	-	-	33,723	19,531	-	-	4,992,199	-	(2,768,468)	(2,276,985)	-	23,316,390	1,865,311	25,181,701	25,181,701
Year 13	-	-	-	-	35,207	20,131	-	-	5,171,563	-	(2,851,522)	(2,375,379)	-	25,181,701	2,014,536	27,196,237	27,196,237
Year 14	-	-	-	-	36,756	20,693	-	-	5,355,576	-	(2,937,067)	(2,475,958)	-	27,196,237	2,175,699	29,371,936	29,371,936
Year 15	-	-	-	-	38,373	21,218	-	-	5,544,868	-	(3,025,179)	(2,579,280)	-	29,371,936	2,349,755	31,721,691	31,721,691
Year 16	-	-	-	-	40,061	21,710	-	-	5,739,989	-	(3,115,935)	(2,685,826)	-	31,721,691	2,537,735	34,259,426	34,259,426
Year 17	-	-	-	-	41,824	22,171	-	-	5,941,443	-	(3,209,413)	(2,796,025)	-	34,259,426	2,740,754	37,000,181	37,000,181
Year 18	-	-	-	-	43,664	22,602	91,846	-	6,057,859	-	(3,305,695)	(2,910,276)	-	37,000,181	2,960,014	39,960,195	39,960,195
Year 19	-	-	-	-	45,586	23,006	91,071	-	648,187	5,625,972	(3,404,866)	(3,028,955)	-	39,960,195	3,196,816	43,157,011	43,157,011
Year 20	-	-	-	-	47,591	23,383	91,653	-	-	6,496,818	(3,507,012)	(3,152,433)	-	43,157,011	3,452,561	46,609,571	46,609,571
Year 21	-	-	-	-	49,685	23,737	92,537	-	-	6,727,341	(3,612,222)	(3,281,078)	-	46,609,571	3,728,766	50,338,337	50,338,337
Year 22	-	-	-	-	51,872	24,067	93,554	-	-	6,966,357	(3,720,589)	(3,415,262)	-	50,338,337	4,027,067	54,365,404	54,365,404
Year 23	-	-	-	-	54,154	24,377	94,720	-	-	7,214,321	(3,832,207)	(3,555,365)	-	54,365,404	4,349,232	58,714,636	58,714,636
Year 24	-	-	-	-	56,537	24,667	96,043	-	-	7,471,707	(3,947,173)	(3,701,781)	-	58,714,636	4,697,171	63,411,807	63,411,807
Year 25	-	-	-	-	59,024	138,651	198,433	-	-	15,857,710	(4,065,588)	(12,188,229)	-	63,411,807	5,072,945	68,484,752	68,484,752

Schedule 9
Mr. and Mrs. Al Art
Hypothetical Technique #1:

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Assumptions:	Financial Assets	Private Equity	Various LLC Interests	Artwork
Total Estimated Rate of Return	7.40%	7.40%	7.40%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	3.40%	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%

Holdco FLLC

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Various FLLC Distributions	Private Equity FLLC Distributions	Note Payments	Distributions	End of Year Financial Assets	Ownership: Al Art	Ownership: GRAT & Grantor Trust
Year 1	-	-	-	-	2,079,000	940,500	(870,997)	(1,784,261)	364,242	1.0%	99.0%
Year 2	364,242	2,185	8,742	16,027	2,170,476	1,063,458	(870,997)	(1,784,261)	969,873	1.0%	99.0%
Year 3	969,873	5,819	23,277	42,674	2,265,977	1,178,547	(870,997)	(1,784,261)	1,830,909	1.0%	99.0%
Year 4	1,830,909	10,985	43,942	80,560	2,365,680	1,286,270	(870,997)	-	4,747,349	1.0%	99.0%
Year 5	4,747,349	28,484	113,936	208,883	2,469,770	1,387,098	(1,128,862)	-	7,826,659	1.0%	99.0%
Year 6	7,826,659	46,960	187,840	344,373	2,578,440	1,481,474	(3,955,678)	-	8,510,067	1.0%	99.0%
Year 7	8,510,067	51,060	204,242	374,443	2,691,891	1,569,810	(4,131,712)	-	9,269,802	1.0%	99.0%
Year 8	9,269,802	55,619	222,475	407,871	2,810,334	1,652,492	(4,303,502)	-	10,115,091	1.0%	99.0%
Year 9	10,115,091	60,691	242,762	445,064	2,933,989	1,729,882	(4,473,707)	-	11,053,772	1.0%	99.0%
Year 10	11,053,772	66,323	265,291	486,366	3,063,084	1,802,320	(4,644,294)	-	12,092,861	1.0%	99.0%
Year 11	12,092,861	72,557	290,229	532,086	3,197,860	1,870,122	(4,816,744)	-	13,238,970	1.0%	99.0%
Year 12	13,238,970	79,434	317,735	582,515	3,338,566	1,933,584	(4,992,199)	-	14,498,605	1.0%	99.0%
Year 13	14,498,605	86,992	347,967	637,939	3,485,463	1,992,984	(5,171,563)	-	15,878,386	1.0%	99.0%
Year 14	15,878,386	95,270	381,081	698,649	3,638,823	2,048,583	(5,355,576)	-	17,385,217	1.0%	99.0%
Year 15	17,385,217	104,311	417,245	764,950	3,798,932	2,100,624	(5,544,868)	-	19,026,411	1.0%	99.0%
Year 16	19,026,411	114,158	456,634	837,162	3,966,085	2,149,334	(5,739,989)	-	20,809,796	1.0%	99.0%
Year 17	20,809,796	124,859	499,435	915,631	4,140,592	2,194,927	(5,941,443)	-	22,743,797	1.0%	99.0%
Year 18	22,743,797	136,463	545,851	1,000,727	4,322,778	2,237,601	(6,057,859)	(9,184,555)	15,744,803	1.0%	99.0%
Year 19	15,744,803	94,469	377,875	692,771	4,512,981	2,277,545	(648,187)	(9,107,113)	13,945,145	1.0%	99.0%
Year 20	13,945,145	83,671	334,683	613,586	4,711,552	2,314,932	-	(9,165,319)	12,838,251	1.0%	99.0%
Year 21	12,838,251	77,030	308,118	564,883	4,918,860	2,349,926	-	(9,253,688)	11,803,380	1.0%	99.0%
Year 22	11,803,380	70,820	283,281	519,349	5,135,290	2,382,681	-	(9,355,445)	10,839,356	1.0%	99.0%
Year 23	10,839,356	65,036	260,145	476,932	5,361,243	2,413,340	-	(9,471,976)	9,944,075	1.0%	99.0%
Year 24	9,944,075	59,664	238,658	437,539	5,597,137	2,442,036	-	(9,604,322)	9,114,788	1.0%	99.0%
Year 25	9,114,788	54,689	218,755	401,051	5,843,411	13,726,404	-	(19,843,259)	9,515,839	1.0%	99.0%

Schedule 2
Mr. and Mrs. Al Art
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Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
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Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%

Private Equity FLLC

	Beginning of Year Private Equity	Income	Tax Free Income	Growth	Distributions	End of Year Private Equity	Ownership: Al Art	Ownership: Holdco FLLC
Year 1	25,000,000	850,000	-	1,000,000	(950,000)	25,900,000	1.0%	99.0%
Year 2	25,900,000	880,600	-	1,036,000	(1,074,200)	26,742,400	1.0%	99.0%
Year 3	26,742,400	909,242	-	1,069,696	(1,190,451)	27,530,886	1.0%	99.0%
Year 4	27,530,886	936,050	-	1,101,235	(1,299,262)	28,268,910	1.0%	99.0%
Year 5	28,268,910	961,143	-	1,130,756	(1,401,110)	28,959,699	1.0%	99.0%
Year 6	28,959,699	984,630	-	1,158,388	(1,496,439)	29,606,279	1.0%	99.0%
Year 7	29,606,279	1,006,613	-	1,184,251	(1,585,666)	30,211,477	1.0%	99.0%
Year 8	30,211,477	1,027,190	-	1,208,459	(1,669,184)	30,777,942	1.0%	99.0%
Year 9	30,777,942	1,046,450	-	1,231,118	(1,747,356)	31,308,154	1.0%	99.0%
Year 10	31,308,154	1,064,477	-	1,252,326	(1,820,525)	31,804,432	1.0%	99.0%
Year 11	31,804,432	1,081,351	-	1,272,177	(1,889,012)	32,268,949	1.0%	99.0%
Year 12	32,268,949	1,097,144	-	1,290,758	(1,953,115)	32,703,736	1.0%	99.0%
Year 13	32,703,736	1,111,927	-	1,308,149	(2,013,116)	33,110,697	1.0%	99.0%
Year 14	33,110,697	1,125,764	-	1,324,428	(2,069,276)	33,491,612	1.0%	99.0%
Year 15	33,491,612	1,138,715	-	1,339,664	(2,121,842)	33,848,149	1.0%	99.0%
Year 16	33,848,149	1,150,837	-	1,353,926	(2,171,045)	34,181,867	1.0%	99.0%
Year 17	34,181,867	1,162,183	-	1,367,275	(2,217,098)	34,494,228	1.0%	99.0%
Year 18	34,494,228	1,172,804	-	1,379,769	(2,260,203)	34,786,597	1.0%	99.0%
Year 19	34,786,597	1,182,744	-	1,391,464	(2,300,550)	35,060,255	1.0%	99.0%
Year 20	35,060,255	1,192,049	-	1,402,410	(2,338,315)	35,316,399	1.0%	99.0%
Year 21	35,316,399	1,200,758	-	1,412,656	(2,373,663)	35,556,149	1.0%	99.0%
Year 22	35,556,149	1,208,909	-	1,422,246	(2,406,749)	35,780,556	1.0%	99.0%
Year 23	35,780,556	1,216,539	-	1,431,222	(2,437,717)	35,990,600	1.0%	99.0%
Year 24	35,990,600	1,223,680	-	1,439,624	(2,466,703)	36,187,202	1.0%	99.0%
Year 25	36,187,202	1,230,365	-	1,447,488	(13,865,055)	25,000,000	1.0%	99.0%

Schedule 9
Mr. and Mrs. Al Art
Hypothetical Technique #1:

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Assumptions:	Financial Assets	Private Equity	Various LLC Interests	Artwork
Total Estimated Rate of Return	7.40%	7.40%	7.40%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	3.40%	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%

Various Financial FLLCs

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial Assets	Ownership: Al Art	Ownership: Holdco FLLC
Year 1	70,000,000	420,000	1,680,000	3,080,000	(2,100,000)	73,080,000	1.0%	99.0%
Year 2	73,080,000	438,480	1,753,920	3,215,520	(2,192,400)	76,295,520	1.0%	99.0%
Year 3	76,295,520	457,773	1,831,092	3,357,003	(2,288,866)	79,652,523	1.0%	99.0%
Year 4	79,652,523	477,915	1,911,661	3,504,711	(2,389,576)	83,157,234	1.0%	99.0%
Year 5	83,157,234	498,943	1,995,774	3,658,918	(2,494,717)	86,816,152	1.0%	99.0%
Year 6	86,816,152	520,897	2,083,588	3,819,911	(2,604,485)	90,636,063	1.0%	99.0%
Year 7	90,636,063	543,816	2,175,266	3,987,987	(2,719,082)	94,624,050	1.0%	99.0%
Year 8	94,624,050	567,744	2,270,977	4,163,458	(2,838,721)	98,787,508	1.0%	99.0%
Year 9	98,787,508	592,725	2,370,900	4,346,650	(2,963,625)	103,134,158	1.0%	99.0%
Year 10	103,134,158	618,805	2,475,220	4,537,903	(3,094,025)	107,672,061	1.0%	99.0%
Year 11	107,672,061	646,032	2,584,129	4,737,571	(3,230,162)	112,409,632	1.0%	99.0%
Year 12	112,409,632	674,458	2,697,831	4,946,024	(3,372,289)	117,355,656	1.0%	99.0%
Year 13	117,355,656	704,134	2,816,536	5,163,649	(3,520,670)	122,519,304	1.0%	99.0%
Year 14	122,519,304	735,116	2,940,463	5,390,849	(3,675,579)	127,910,154	1.0%	99.0%
Year 15	127,910,154	767,461	3,069,844	5,628,047	(3,837,305)	133,538,201	1.0%	99.0%
Year 16	133,538,201	801,229	3,204,917	5,875,681	(4,006,146)	139,413,881	1.0%	99.0%
Year 17	139,413,881	836,483	3,345,933	6,134,211	(4,182,416)	145,548,092	1.0%	99.0%
Year 18	145,548,092	873,289	3,493,154	6,404,116	(4,366,443)	151,952,208	1.0%	99.0%
Year 19	151,952,208	911,713	3,646,853	6,685,897	(4,558,566)	158,638,105	1.0%	99.0%
Year 20	158,638,105	951,829	3,807,315	6,980,077	(4,759,143)	165,618,182	1.0%	99.0%
Year 21	165,618,182	993,709	3,974,836	7,287,200	(4,968,545)	172,905,382	1.0%	99.0%
Year 22	172,905,382	1,037,432	4,149,729	7,607,837	(5,187,161)	180,513,219	1.0%	99.0%
Year 23	180,513,219	1,083,079	4,332,317	7,942,582	(5,415,397)	188,455,801	1.0%	99.0%
Year 24	188,455,801	1,130,735	4,522,939	8,292,055	(5,653,674)	196,747,856	1.0%	99.0%
Year 25	196,747,856	1,180,487	4,721,949	8,656,906	(5,902,436)	205,404,761	1.0%	99.0%

Schedule 9
Mr. and Mrs. Al Art
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Assumptions:	Financial Assets	Private Equity	Various LLC Interests	Artwork
Total Estimated Rate of Return	7.40%	7.40%	7.40%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	3.40%	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%

3-Year GRAT Created by Al Art

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Holdco LLC Distributions	Annual Annuity	GRAT Terminates to Grantor Trust	End of Year Financial Assets
Year 1	-	-	-	-	1,766,418	(1,766,418)	-	-
Year 2	-	-	-	-	1,766,418	(1,766,418)	-	-
Year 3	-	-	-	-	1,766,418	(1,766,418)	-	-
Year 4	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-	-
Year 18	-	-	-	-	-	-	-	-
Year 19	-	-	-	-	-	-	-	-
Year 20	-	-	-	-	-	-	-	-
Year 21	-	-	-	-	-	-	-	-
Year 22	-	-	-	-	-	-	-	-
Year 23	-	-	-	-	-	-	-	-
Year 24	-	-	-	-	-	-	-	-
Year 25	-	-	-	-	-	-	-	-

Schedule 9
Mr. and Mrs. Al Art
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Assumptions:	Financial Assets	Private Equity	Various LLC Interests	Artwork
Total Estimated Rate of Return	7.40%	7.40%	7.40%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	3.40%	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%

Grantor Trust Created by Al Art for the Benefit of Mrs. Art and their Children (GRAT Remaindermen)

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Holdco LLC Distributions	GRAT Terminates	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-	-	-
Year 18	-	-	-	-	9,092,709	-	-	-	9,092,709
Year 19	9,092,709	54,556	218,225	400,079	9,016,041	-	(5,625,972)	-	13,155,639
Year 20	13,155,639	78,934	315,735	578,848	9,073,665	-	(6,496,818)	-	16,706,004
Year 21	16,706,004	100,236	400,944	735,064	9,161,152	-	(6,727,341)	-	20,376,059
Year 22	20,376,059	122,256	489,025	896,547	9,261,890	-	(6,966,357)	-	24,179,420
Year 23	24,179,420	145,077	580,306	1,063,894	9,377,256	-	(7,214,321)	-	28,131,632
Year 24	28,131,632	168,790	675,159	1,237,792	9,508,279	-	(7,471,707)	-	32,249,945
Year 25	32,249,945	193,500	773,999	1,418,998	19,644,826	-	(15,857,710)	-	38,423,557

Schedule 9
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Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%

Note Between Al Art and Holdco LLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	59,251,500	870,997	(870,997)	59,251,500
Year 2	59,251,500	870,997	(870,997)	59,251,500
Year 3	59,251,500	870,997	(870,997)	59,251,500
Year 4	59,251,500	870,997	(870,997)	59,251,500
Year 5	59,251,500	870,997	(1,128,862)	58,993,635
Year 6	58,993,635	867,206	(3,955,678)	55,905,163
Year 7	55,905,163	821,806	(4,131,712)	52,595,257
Year 8	52,595,257	773,150	(4,303,502)	49,064,905
Year 9	49,064,905	721,254	(4,473,707)	45,312,452
Year 10	45,312,452	666,093	(4,644,294)	41,334,251
Year 11	41,334,251	607,613	(4,816,744)	37,125,120
Year 12	37,125,120	545,739	(4,992,199)	32,678,661
Year 13	32,678,661	480,376	(5,171,563)	27,987,474
Year 14	27,987,474	411,416	(5,355,576)	23,043,313
Year 15	23,043,313	338,737	(5,544,868)	17,837,183
Year 16	17,837,183	262,207	(5,739,989)	12,359,401
Year 17	12,359,401	181,683	(5,941,443)	6,599,641
Year 18	6,599,641	97,015	(6,057,859)	638,796
Year 19	638,796	9,390	(648,187)	-
Year 20	-	-	-	-
Year 21	-	-	-	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-

Schedule 9

Mr. and Mrs. Al Art

Hypothetical Technique #2:

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Total Estimated Rate of Return	7.40%	7.40%	7.40%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	3.40%	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%
Artwork Lease Payment (increasing by 6% per year)	$1,000,000

Mr. and Mrs. Al Art

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Various FLLC Distributions	Private Equity FLLC Distributions	Holdco FLLC Distributions	GRAT Annuity	Note Payments	Trust Distributions	Artwork Lease Payments	Consumption from these Sources	Income Taxes	End of Year Financial Assets
Year 1	5,000,000	30,000	120,000	220,000	21,000	9,500	26,887	2,661,801	1,304,030	-	(1,000,000)	(2,000,000)	(852,300)	5,540,918
Year 2	5,540,918	33,246	132,982	243,800	21,924	10,742	26,887	2,661,801	1,304,030	-	(1,075,000)	(2,060,000)	(1,084,396)	5,756,934
Year 3	5,756,934	34,542	138,166	253,305	22,889	11,905	26,887	2,661,801	1,304,030	-	(1,155,625)	(2,121,800)	(1,271,182)	5,661,851
Year 4	5,661,851	33,971	135,884	249,121	23,896	12,993	-	-	1,304,030	-	(1,242,297)	(2,185,454)	(1,426,368)	2,567,627
Year 5	2,567,627	15,406	61,623	112,976	24,947	14,011	-	-	2,349,600	-	(1,335,469)	(2,251,018)	(1,559,703)	-
Year 6	-	-	-	-	26,045	14,964	-	-	5,391,307	-	(1,435,629)	(2,318,548)	(1,678,139)	-
Year 7	-	-	-	-	27,191	15,857	-	-	5,675,013	-	(1,543,302)	(2,388,105)	(1,786,655)	-
Year 8	-	-	-	-	28,387	16,692	-	-	5,962,551	-	(1,659,049)	(2,459,748)	(1,888,834)	-
Year 9	-	-	-	-	29,636	17,474	-	-	6,257,185	-	(1,783,478)	(2,533,540)	(1,987,277)	-
Year 10	-	-	-	-	30,940	18,205	-	-	6,561,533	-	(1,917,239)	(2,609,546)	(2,083,893)	-
Year 11	-	-	-	-	32,302	18,890	-	-	6,877,776	-	(2,061,032)	(2,687,833)	(2,180,103)	-
Year 12	-	-	-	-	33,723	19,531	-	-	7,207,808	-	(2,215,609)	(2,768,468)	(2,276,985)	-
Year 13	-	-	-	-	35,207	20,131	-	-	7,553,343	-	(2,381,780)	(2,851,522)	(2,375,379)	-
Year 14	-	-	-	-	36,756	20,693	-	-	7,915,990	-	(2,560,413)	(2,937,067)	(2,475,958)	-
Year 15	-	-	-	-	38,373	21,218	-	-	8,297,312	-	(2,752,444)	(3,025,179)	(2,579,280)	-
Year 16	-	-	-	-	40,061	21,710	-	-	8,698,866	-	(2,958,877)	(3,115,935)	(2,685,826)	-
Year 17	-	-	-	-	41,824	22,171	-	-	9,122,236	-	(3,180,793)	(3,209,413)	(2,796,025)	-
Year 18	-	-	-	-	43,664	22,602	91,842	-	12,598,478	-	(3,419,353)	(3,305,695)	(2,910,276)	3,121,263
Year 19	3,121,263	18,728	74,910	137,336	45,586	23,006	89,171	-	-	6,599,626	(3,675,804)	(3,404,866)	(3,028,955)	-
Year 20	-	-	-	-	47,591	23,383	91,685	-	-	10,448,275	(3,951,489)	(3,507,012)	(3,152,433)	-
Year 21	-	-	-	-	49,685	23,737	95,475	-	-	10,972,255	(4,247,851)	(3,612,222)	(3,281,078)	-
Year 22	-	-	-	-	51,872	24,067	100,317	-	-	11,526,035	(4,566,440)	(3,720,589)	(3,415,262)	-
Year 23	-	-	-	-	54,154	24,377	106,043	-	-	12,111,921	(4,908,923)	(3,832,207)	(3,555,365)	-
Year 24	-	-	-	-	56,537	24,667	112,525	-	-	12,732,317	(5,277,092)	(3,947,173)	(3,701,781)	-
Year 25	-	-	-	-	59,024	138,651	205,628	-	-	21,519,339	(5,672,874)	(4,065,588)	(12,184,180)	-

Schedule 9
Mr. and Mrs. Al Art
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Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%
Artwork Lease Payment (increasing by 6% per year)	$1,000,000

Holdco FLLC

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Various FLLC Distributions	Private Equity FLLC Distributions	Artwork Lease Payments	Note Payments	Distributions	End of Year Financial Assets	Beginning of Year Artwork	Growth	End of Year Artwork	End of Year Financial & Other Assets	Ownership: Al Art	Ownership: GRAT & Grantor Trust
Year 1	-	-	-	-	2,079,000	940,500	1,000,000	(1,304,030)	(2,688,688)	26,782	10,000,000	800,000	10,800,000	10,826,782	1.0%	99.0%
Year 2	26,782	161	643	1,178	2,170,476	1,063,458	1,075,000	(1,304,030)	(2,688,688)	344,980	10,800,000	864,000	11,664,000	12,008,980	1.0%	99.0%
Year 3	344,980	2,070	8,280	15,179	2,265,977	1,178,547	1,155,625	(1,304,030)	(2,688,688)	977,939	11,664,000	933,120	12,597,120	13,575,059	1.0%	99.0%
Year 4	977,939	5,868	23,471	43,029	2,365,680	1,286,270	1,242,297	(1,304,030)	-	4,640,523	12,597,120	1,007,770	13,604,890	18,245,412	1.0%	99.0%
Year 5	4,640,523	27,843	111,373	204,183	2,469,770	1,387,098	1,335,469	(2,349,600)	-	7,826,659	13,604,890	1,088,391	14,693,281	22,519,940	1.0%	99.0%
Year 6	7,826,659	46,960	187,840	344,373	2,578,440	1,481,474	1,435,629	(5,391,307)	-	8,510,067	14,693,281	1,175,462	15,868,743	24,378,811	1.0%	99.0%
Year 7	8,510,067	51,060	204,242	374,443	2,691,891	1,569,810	1,543,302	(5,675,013)	-	9,269,802	15,868,743	1,269,499	17,138,243	26,408,044	1.0%	99.0%
Year 8	9,269,802	55,619	222,475	407,871	2,810,334	1,652,492	1,659,049	(5,962,551)	-	10,115,091	17,138,243	1,371,059	18,509,302	28,624,393	1.0%	99.0%
Year 9	10,115,091	60,691	242,762	445,064	2,933,989	1,729,882	1,783,478	(6,257,185)	-	11,053,772	18,509,302	1,480,744	19,990,046	31,043,818	1.0%	99.0%
Year 10	11,053,772	66,323	265,291	486,366	3,063,084	1,802,320	1,917,239	(6,561,533)	-	12,092,861	19,990,046	1,599,204	21,589,250	33,682,111	1.0%	99.0%
Year 11	12,092,861	72,557	290,229	532,086	3,197,860	1,870,122	2,061,032	(6,877,776)	-	13,238,970	21,589,250	1,727,140	23,316,390	36,555,360	1.0%	99.0%
Year 12	13,238,970	79,434	317,735	582,515	3,338,566	1,933,584	2,215,609	(7,207,808)	-	14,498,605	23,316,390	1,865,311	25,181,701	39,680,306	1.0%	99.0%
Year 13	14,498,605	86,992	347,967	637,939	3,485,463	1,992,984	2,381,780	(7,553,343)	-	15,878,386	25,181,701	2,014,536	27,196,237	43,074,624	1.0%	99.0%
Year 14	15,878,386	95,270	381,081	698,649	3,638,823	2,048,583	2,560,413	(7,915,990)	-	17,385,217	27,196,237	2,175,699	29,371,936	46,757,153	1.0%	99.0%
Year 15	17,385,217	104,311	417,245	764,950	3,798,932	2,100,624	2,752,444	(8,297,312)	-	19,026,411	29,371,936	2,349,755	31,721,691	50,748,103	1.0%	99.0%
Year 16	19,026,411	114,158	456,634	837,162	3,966,085	2,149,334	2,958,877	(8,698,866)	-	20,809,796	31,721,691	2,537,735	34,259,426	55,069,222	1.0%	99.0%
Year 17	20,809,796	124,859	499,435	915,631	4,140,592	2,194,927	3,180,793	(9,122,236)	-	22,743,797	34,259,426	2,740,754	37,000,181	59,743,977	1.0%	99.0%
Year 18	22,743,797	136,463	545,851	1,000,727	4,322,778	2,237,601	3,419,353	(12,598,478)	(9,184,219)	12,623,873	37,000,181	2,960,014	39,960,195	52,584,068	1.0%	99.0%
Year 19	12,623,873	75,743	302,973	555,450	4,512,981	2,277,545	3,675,804	-	(8,917,125)	15,107,244	39,960,195	3,196,816	43,157,011	58,264,255	1.0%	99.0%
Year 20	15,107,244	90,643	362,574	664,719	4,711,552	2,314,932	3,951,489	-	(9,168,522)	18,034,631	43,157,011	3,452,561	46,609,571	64,644,203	1.0%	99.0%
Year 21	18,034,631	108,208	432,831	793,524	4,918,860	2,349,926	4,247,851	-	(9,547,467)	21,338,365	46,609,571	3,728,766	50,338,337	71,676,702	1.0%	99.0%
Year 22	21,338,365	128,030	512,121	938,888	5,135,290	2,382,681	4,566,440	-	(10,031,693)	24,970,122	50,338,337	4,027,067	54,365,404	79,335,526	1.0%	99.0%
Year 23	24,970,122	149,821	599,283	1,098,685	5,361,243	2,413,340	4,908,923	-	(10,604,265)	28,897,151	54,365,404	4,349,232	58,714,636	87,611,787	1.0%	99.0%
Year 24	28,897,151	173,383	693,532	1,271,475	5,597,137	2,442,036	5,277,092	-	(11,252,525)	33,099,280	58,714,636	4,697,171	63,411,807	96,511,087	1.0%	99.0%
Year 25	33,099,280	198,596	794,383	1,456,368	5,843,411	13,726,404	5,672,874	-	(20,562,794)	40,228,522	63,411,807	5,072,945	68,484,752	108,713,274	1.0%	99.0%

Schedule 9
Mr. and Mrs. Al Art
Hypothetical Technique #2:

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Assumptions:	Financial Assets	Private Equity	Various LLC Interests	Artwork
Total Estimated Rate of Return	7.40%	7.40%	7.40%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	3.40%	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%
Artwork Lease Payment (increasing by 6% per year)	$1,000,000

Private Equity FLLC

	Beginning of Year Private Equity	Income	Tax Free Income	Growth	Distributions	End of Year Private Equity	Ownership: Al Art	Ownership: Holdco FLLC
Year 1	25,000,000	850,000	-	1,000,000	(950,000)	25,900,000	1.0%	99.0%
Year 2	25,900,000	880,600	-	1,036,000	(1,074,200)	26,742,400	1.0%	99.0%
Year 3	26,742,400	909,242	-	1,069,696	(1,190,451)	27,530,886	1.0%	99.0%
Year 4	27,530,886	936,050	-	1,101,235	(1,299,262)	28,268,910	1.0%	99.0%
Year 5	28,268,910	961,143	-	1,130,756	(1,401,110)	28,959,699	1.0%	99.0%
Year 6	28,959,699	984,630	-	1,158,388	(1,496,439)	29,606,279	1.0%	99.0%
Year 7	29,606,279	1,006,613	-	1,184,251	(1,585,666)	30,211,477	1.0%	99.0%
Year 8	30,211,477	1,027,190	-	1,208,459	(1,669,184)	30,777,942	1.0%	99.0%
Year 9	30,777,942	1,046,450	-	1,231,118	(1,747,356)	31,308,154	1.0%	99.0%
Year 10	31,308,154	1,064,477	-	1,252,326	(1,820,525)	31,804,432	1.0%	99.0%
Year 11	31,804,432	1,081,351	-	1,272,177	(1,889,012)	32,268,949	1.0%	99.0%
Year 12	32,268,949	1,097,144	-	1,290,758	(1,953,115)	32,703,736	1.0%	99.0%
Year 13	32,703,736	1,111,927	-	1,308,149	(2,013,116)	33,110,697	1.0%	99.0%
Year 14	33,110,697	1,125,764	-	1,324,428	(2,069,276)	33,491,612	1.0%	99.0%
Year 15	33,491,612	1,138,715	-	1,339,664	(2,121,842)	33,848,149	1.0%	99.0%
Year 16	33,848,149	1,150,837	-	1,353,926	(2,171,045)	34,181,867	1.0%	99.0%
Year 17	34,181,867	1,162,183	-	1,367,275	(2,217,098)	34,494,228	1.0%	99.0%
Year 18	34,494,228	1,172,804	-	1,379,769	(2,260,203)	34,786,597	1.0%	99.0%
Year 19	34,786,597	1,182,744	-	1,391,464	(2,300,550)	35,060,255	1.0%	99.0%
Year 20	35,060,255	1,192,049	-	1,402,410	(2,338,315)	35,316,399	1.0%	99.0%
Year 21	35,316,399	1,200,758	-	1,412,656	(2,373,663)	35,556,149	1.0%	99.0%
Year 22	35,556,149	1,208,909	-	1,422,246	(2,406,749)	35,780,556	1.0%	99.0%
Year 23	35,780,556	1,216,539	-	1,431,222	(2,437,717)	35,990,600	1.0%	99.0%
Year 24	35,990,600	1,223,680	-	1,439,624	(2,466,703)	36,187,202	1.0%	99.0%
Year 25	36,187,202	1,230,365	-	1,447,488	(13,865,055)	25,000,000	1.0%	99.0%

Schedule 9
Mr. and Mrs. Al Art
Hypothetical Technique #2:

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Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%
Artwork Lease Payment (increasing by 6% per year)	$1,000,000

Various Financial FLLCs

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Distributions	End of Year Financial Assets	Ownership: Al Art	Ownership: Holdco FLLC
Year 1	70,000,000	420,000	1,680,000	3,080,000	(2,100,000)	73,080,000	1.0%	99.0%
Year 2	73,080,000	438,480	1,753,920	3,215,520	(2,192,400)	76,295,520	1.0%	99.0%
Year 3	76,295,520	457,773	1,831,092	3,357,003	(2,288,866)	79,652,523	1.0%	99.0%
Year 4	79,652,523	477,915	1,911,661	3,504,711	(2,389,576)	83,157,234	1.0%	99.0%
Year 5	83,157,234	498,943	1,995,774	3,658,918	(2,494,717)	86,816,152	1.0%	99.0%
Year 6	86,816,152	520,897	2,083,588	3,819,911	(2,604,485)	90,636,063	1.0%	99.0%
Year 7	90,636,063	543,816	2,175,266	3,987,987	(2,719,082)	94,624,050	1.0%	99.0%
Year 8	94,624,050	567,744	2,270,977	4,163,458	(2,838,721)	98,787,508	1.0%	99.0%
Year 9	98,787,508	592,725	2,370,900	4,346,650	(2,963,625)	103,134,158	1.0%	99.0%
Year 10	103,134,158	618,805	2,475,220	4,537,903	(3,094,025)	107,672,061	1.0%	99.0%
Year 11	107,672,061	646,032	2,584,129	4,737,571	(3,230,162)	112,409,632	1.0%	99.0%
Year 12	112,409,632	674,458	2,697,831	4,946,024	(3,372,289)	117,355,656	1.0%	99.0%
Year 13	117,355,656	704,134	2,816,536	5,163,649	(3,520,670)	122,519,304	1.0%	99.0%
Year 14	122,519,304	735,116	2,940,463	5,390,849	(3,675,579)	127,910,154	1.0%	99.0%
Year 15	127,910,154	767,461	3,069,844	5,628,047	(3,837,305)	133,538,201	1.0%	99.0%
Year 16	133,538,201	801,229	3,204,917	5,875,681	(4,006,146)	139,413,881	1.0%	99.0%
Year 17	139,413,881	836,483	3,345,933	6,134,211	(4,182,416)	145,548,092	1.0%	99.0%
Year 18	145,548,092	873,289	3,493,154	6,404,116	(4,366,443)	151,952,208	1.0%	99.0%
Year 19	151,952,208	911,713	3,646,853	6,685,897	(4,558,566)	158,638,105	1.0%	99.0%
Year 20	158,638,105	951,829	3,807,315	6,980,077	(4,759,143)	165,618,182	1.0%	99.0%
Year 21	165,618,182	993,709	3,974,836	7,287,200	(4,968,545)	172,905,382	1.0%	99.0%
Year 22	172,905,382	1,037,432	4,149,729	7,607,837	(5,187,161)	180,513,219	1.0%	99.0%
Year 23	180,513,219	1,083,079	4,332,317	7,942,582	(5,415,397)	188,455,801	1.0%	99.0%
Year 24	188,455,801	1,130,735	4,522,939	8,292,055	(5,653,674)	196,747,856	1.0%	99.0%
Year 25	196,747,856	1,180,487	4,721,949	8,656,906	(5,902,436)	205,404,761	1.0%	99.0%

Schedule 9
Mr. and Mrs. Al Art
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Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%
Artwork Lease Payment (increasing by 6% per year)	$1,000,000

3-Year GRAT Created by Al Art

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Holdco LLC Distributions	Annual Annuity	GRAT Terminates to Grantor Trust	End of Year Financial Assets
Year 1	-	-	-	-	2,661,801	(2,661,801)	-	-
Year 2	-	-	-	-	2,661,801	(2,661,801)	-	-
Year 3	-	-	-	-	2,661,801	(2,661,801)	-	-
Year 4	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-	-
Year 18	-	-	-	-	-	-	-	-
Year 19	-	-	-	-	-	-	-	-
Year 20	-	-	-	-	-	-	-	-
Year 21	-	-	-	-	-	-	-	-
Year 22	-	-	-	-	-	-	-	-
Year 23	-	-	-	-	-	-	-	-
Year 24	-	-	-	-	-	-	-	-
Year 25	-	-	-	-	-	-	-	-

Schedule 9
Mr. and Mrs. Al Art
Hypothetical Technique #2:

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Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%
Artwork Lease Payment (increasing by 6% per year)	$1,000,000

Grantor Trust Created by Al Art for the Benefit of Mrs. Art and their Children (GRAT Remaindermen)

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Holdco LLC Distributions	GRAT Terminates	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-	-	-
Year 18	-	-	-	-	9,092,377	-	-	-	9,092,377
Year 19	9,092,377	54,554	218,217	400,065	8,827,953	-	(6,599,626)	-	11,993,540
Year 20	11,993,540	71,961	287,845	527,716	9,076,837	-	(10,448,275)	-	11,509,624
Year 21	11,509,624	69,058	276,231	506,423	9,451,992	-	(10,972,255)	-	10,841,074
Year 22	10,841,074	65,046	260,186	477,007	9,931,376	-	(11,526,035)	-	10,048,654
Year 23	10,048,654	60,292	241,168	442,141	10,498,222	-	(12,111,921)	-	9,178,556
Year 24	9,178,556	55,071	220,285	403,856	11,140,000	-	(12,732,317)	-	8,265,452
Year 25	8,265,452	49,593	198,371	363,680	20,357,166	-	(21,519,339)	-	7,714,922

Schedule 9
Mr. and Mrs. Al Art
Hypothetical Technique #2:

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Assumptions:	Financial Assets	Private Equity	Various LLC Interests	Artwork
Total Estimated Rate of Return	7.40%	7.40%	7.40%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	3.40%	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	4.00%	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	30.00%	0.00%
Long-Term Capital Gain Tax Rate	25.00%			
Ordinary Tax Rate	44.60%			
Consumption (increasing 2.5% per year)	$2,000,000			

Assumptions (Continued):	
Private Equity Valuation Discount	30.00%
Various LLCs Valuation Discount	30.00%
Holdco LLC Valuation Discount	20.00%
Intra-Family Interest Rate (mid-term) - March 2015	1.47%
IRS §7520 Rate - March 2015	1.80%
Artwork Lease Payment (increasing by 6% per year)	$1,000,000

Note Between Al Art and Holdco LLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	88,709,536	1,304,030	(1,304,030)	88,709,536
Year 2	88,709,536	1,304,030	(1,304,030)	88,709,536
Year 3	88,709,536	1,304,030	(1,304,030)	88,709,536
Year 4	88,709,536	1,304,030	(1,304,030)	88,709,536
Year 5	88,709,536	1,304,030	(2,349,600)	87,663,967
Year 6	87,663,967	1,288,660	(5,391,307)	83,561,320
Year 7	83,561,320	1,228,351	(5,675,013)	79,114,658
Year 8	79,114,658	1,162,985	(5,962,551)	74,315,092
Year 9	74,315,092	1,092,432	(6,257,185)	69,150,338
Year 10	69,150,338	1,016,510	(6,561,533)	63,605,316
Year 11	63,605,316	934,998	(6,877,776)	57,662,538
Year 12	57,662,538	847,639	(7,207,808)	51,302,370
Year 13	51,302,370	754,145	(7,553,343)	44,503,172
Year 14	44,503,172	654,197	(7,915,990)	37,241,379
Year 15	37,241,379	547,448	(8,297,312)	29,491,516
Year 16	29,491,516	433,525	(8,698,866)	21,226,175
Year 17	21,226,175	312,025	(9,122,236)	12,415,964
Year 18	12,415,964	182,515	(12,598,478)	-
Year 19	-	-	-	-
Year 20	-	-	-	-
Year 21	-	-	-	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-

Grat Gratuitous

Asset Page

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	Grat Gratuitous
Assets* (assumed value and basis)	
FMV: Financial Assets	$300,000
Basis: Financial Assets	$300,000
FMV: Single Stock Position	$10,000,000
Basis: Single Stock Position	$0
Total FMV:	**$10,300,000**
Total Basis:	**$300,000**

* Information provided by client. There is no proposed planning for Grat Gratuitous' other assets.

Schedule 10
Grat Gratuitous
Hypothetical Integrated Income and Estate Tax Plan Comparisons
Scenario A: $300,000 in Financial Assets Earn 7.4% Annually and $10,000,000 in Stock Earns 0.0% Annually

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	3-Year Future Values	Present Values (Discounted at 2.5%)	Percentage of Total
No Further Planning			
Grat Gratuitous	10,363,852	9,623,867	99.92%
Gratuitous Children	-	-	0.00%
IRS & State Income Tax - Direct Cost	7,360	6,834	0.07%
IRS & State Income Tax - Investment Opportunity Costs	438	407	0.00%
Total	**$10,371,650**	**$9,631,108**	**100.00%**
Leveraged FLLC Asset GRAT			
Grat Gratuitous	8,670,403	8,051,331	83.60%
Gratuitous Children	1,693,449	1,572,536	16.33%
IRS & State Income Tax - Direct Cost	7,360	6,834	0.07%
IRS & State Income Tax - Investment Opportunity Costs	438	407	0.00%
Total	**$10,371,650**	**$9,631,108**	**100.00%**

Schedule 10
Grat Gratuitous
No Further Planning
Scenario A: $300,000 in Financial Assets Earn 7.4% Annually and $10,000,000 in Stock Earns 0.0% Annually

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Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	7.40%	0.00%
Rate of Return Taxed at Ordinary Rates	0.40%	0.00%
Rate of Return Tax Free	2.60%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains and Health Care Tax Rate	27.27%	
Ordinary Income and Health Care Tax Rate	46.87%	

Grat Gratuitous

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	End of Year Stock	End of Year Financial & Other Assets
Year 1	300,000	1,200	7,800	13,200	(1,642)	320,558	10,000,000	-	10,000,000	10,320,558
Year 2	320,558	1,282	8,335	14,105	(2,510)	341,769	10,000,000	-	10,000,000	10,341,769
Year 3	341,769	1,367	8,886	15,038	(3,207)	363,852	10,000,000	-	10,000,000	10,363,852

Schedule 10
Grat Gratuitous
Leveraged FLLC Asset GRAT
Scenario A: $300,000 in Financial Assets Earn 7.4% Annually and $10,000,000 in Stock Earns 0.0% Annually

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Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	7.40%	0.00%
Rate of Return Taxed at Ordinary Rates	0.40%	0.00%
Rate of Return Tax Free	2.60%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains and Health Care Tax Rate	27.27%	
Ordinary Income and Health Care Tax Rate	46.87%	

Assumptions (continued):	
Single Stock FLLC Valuation Discount	30.00%
Single Stock FLLC Preferred Interest	$8,000,000
Single Stock FLLC Preferred Coupon	7.00%
Preferred Holdco FLLC Valuation Discount	20.00%
Growth Holdco FLLC Valuation Discount	20.00%
IRS §7520 Rate	2.00%
Assumed Interest Rate	0.48%

Grat Gratuitous

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Holdco FLLC Distributions	Note #2 Payments	GRAT #2 Annuity Payments	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	Single Stock FLP Growth Distributions	Preferred Holdco FLLC Distributions	GRAT #1 Annuity Payments	Note #1 & Note #2 Payments	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	468	7,284	46,302	(1,642)	52,411	-	-	-	2,219	219,702	34,560	256,482	308,893
Year 2	52,411	210	1,363	2,306	468	7,284	46,302	(2,510)	107,833	256,482	-	-	2,219	219,702	34,560	512,963	620,796
Year 3	107,833	431	2,804	4,745	468	204,477	46,302	(3,207)	363,852	512,963	-	3,200	19,325	219,702	7,551,360	8,306,551	8,670,403

Single Stock FLLC

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Distributions	End of Year Financial Assets	Beginning of Year Stock	Growth	Preferred Distributions	Growth Distributions	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	10,000,000	-	(560,000)	-	9,440,000	9,440,000
Year 2	-	-	-	-	-	-	9,440,000	-	(560,000)	-	8,880,000	8,880,000
Year 3	-	-	-	-	-	-	8,880,000	-	(8,560,000)	(320,000)	-	-

Growth Interest Ownership

	Grant Gratuitous	Growth Holdco FLLC
Year 1	1.00%	99.00%
Year 2	1.00%	99.00%
Year 3	1.00%	99.00%

Preferred Holdco FLLC

	Beginning of Year Stock	Income	Tax Free Income	Growth	Owner Distributions	End of Year Financial Assets	Beginning of Year Stock	Growth	Single Stock FLP Preferred Distributions	Note #1 Payments	Owner Distributions	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	560,000	(34,560)	(221,922)	303,518	303,518
Year 2	-	-	-	-	-	-	303,518	-	560,000	(34,560)	(221,922)	607,037	607,037
Year 3	-	-	-	-	-	-	607,037	-	8,560,000	(7,234,560)	(1,932,477)	-	-

Ownership

	Grant Gratuitous	GRAT #1 & Grantor Trust
Year 1	1.00%	99.00%
Year 2	1.00%	99.00%
Year 3	1.00%	99.00%

Growth Holdco FLLC

	Beginning of Year Stock	Income	Tax Free Income	Growth	Note #2 Payments	Owner Distributions	End of Year Financial Assets	Beginning of Year Stock	Growth	Single Stock FLP Growth Distributions	Note #2 Payments	End of Year Stock	End of Year Financial & Other Assets
Year 1	300,000	1,200	7,800	13,200	(7,284)	(46,770)	268,146	-	-	-	-	-	268,146
Year 2	268,146	1,073	6,972	11,798	(7,284)	(46,770)	233,936	-	-	-	-	-	233,936
Year 3	233,936	936	6,082	10,293	(204,477)	(46,770)	-	-	-	316,800	(316,800)	-	-

Ownership

	Grant Gratuitous	GRAT #2 & Grantor Trust
Year 1	1.00%	99.00%
Year 2	1.00%	99.00%
Year 3	1.00%	99.00%

GRAT #1

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	End of Year Financial Assets	Beginning of Year Stock	Growth	Preferred Holdco FLLC Distributions	Annual Annuity	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	219,702	(219,702)	-	-
Year 2	-	-	-	-	-	-	-	219,702	(219,702)	-	-
Year 3	-	-	-	-	-	-	-	219,702	(219,702)	-	-

GRAT #2

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Holdco FLLC Distributions	Annual Annuity	End of Year Financial Assets
Year 1	-	-	-	-	46,302	(46,302)	-
Year 2	-	-	-	-	46,302	(46,302)	-
Year 3	-	-	-	-	46,302	(46,302)	-

Grantor Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Holdco FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	Preferred Holdco FLLC Distributions	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-	-	1,693,449	1,693,449	1,693,449

Note #1 Between Grat Gratuitous and Preferred Holdco FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	7,200,000	34,560	(34,560)	7,200,000
Year 2	7,200,000	34,560	(34,560)	7,200,000
Year 3	7,200,000	34,560	(7,234,560)	-

Note #2 Between Grat Gratuitous and Growth Holdco FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	1,517,400	7,284	(7,284)	1,517,400
Year 2	1,517,400	7,284	(7,284)	1,517,400
Year 3	1,517,400	7,284	(503,966)	1,020,718

Schedule 10

Grat Gratuitous

Hypothetical Integrated Income and Estate Tax Plan Comparisons

Scenario B: $300,000 in Financial Assets Earn 7.4% Annually and $10,000,000 in Stock Earns 9.44% Annually

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	3-Year Future Values	Present Values (Discounted at 2.5%)	Percentage of Total
No Further Planning			
Grat Gratuitous	13,473,307	12,511,305	99.94%
Gratuitous Children	-	-	0.00%
IRS & State Income Tax - Direct Cost	7,360	6,834	0.05%
IRS & State Income Tax - Investment Opportunity Costs	438	407	0.00%
Total	**$13,481,105**	**$12,518,546**	**100.00%**
Leveraged FLLC Asset GRAT			
Grat Gratuitous	9,798,244	9,098,643	72.68%
Gratuitous Children	3,675,064	3,412,662	27.26%
IRS & State Income Tax - Direct Cost	7,360	6,834	0.05%
IRS & State Income Tax - Investment Opportunity Costs	438	407	0.00%
Total	**$13,481,105**	**$12,518,546**	**100.00%**
Traditional GRAT			
Grat Gratuitous	11,779,858	10,938,769	87.38%
Gratuitous Children	1,693,449	1,572,536	12.56%
IRS & State Income Tax - Direct Cost	7,360	6,834	0.05%
IRS & State Income Tax - Investment Opportunity Costs	438	407	0.00%
Total	**$13,481,105**	**$12,518,546**	**100.00%**

Schedule 10
Grat Gratuitous
No Further Planning
Scenario B: $300,000 in Financial Assets Earn 7.4% Annually and $10,000,000 in Stock Earns 9.44% Annually

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Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	7.40%	9.44%
Rate of Return Taxed at Ordinary Rates	0.40%	0.00%
Rate of Return Tax Free	2.60%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	9.44%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains and Health Care Tax Rate	27.27%	
Ordinary Income and Health Care Tax Rate	46.87%	

Grat Gratuitous

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	End of Year Stock	End of Year Financial & Other Assets
Year 1	300,000	1,200	7,800	13,200	(1,642)	320,558	10,000,000	944,474	10,944,474	11,265,032
Year 2	320,558	1,282	8,335	14,105	(2,510)	341,769	10,944,474	1,033,677	11,978,150	12,319,919
Year 3	341,769	1,367	8,886	15,038	(3,207)	363,852	11,978,150	1,131,305	13,109,455	13,473,307

Schedule 10
Grat Gratuitous
Leveraged FLLC Asset GRAT
Scenario B: $300,000 in Financial Assets Earn 7.4% Annually and $10,000,000 in Stock Earns 9.44% Annually

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Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	7.40%	9.44%
Rate of Return Taxed at Ordinary Rates	0.40%	0.00%
Rate of Return Tax Free	2.60%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	9.44%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains and Health Care Tax Rate	27.27%	
Ordinary Income and Health Care Tax Rate	46.87%	

Assumptions (continued):	
Single Stock FLLC Valuation Discount	30.00%
Single Stock FLLC Preferred Interest	$8,000,000
Single Stock FLLC Preferred Coupon	7.00%
Preferred Holdco FLLC Valuation Discount	20.00%
Growth Holdco FLLC Valuation Discount	20.00%
IRS §7520 Rate	2.00%
Assumed Interest Rate	0.48%

Grat Gratuitous

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Holdco FLLC Distributions	Note #2 Payments	GRAT #2 Annuity Payments	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	Single Stock FLP Growth Distributions	Preferred Holdco FLLC Distributions	Growth Holdco FLLC Distributions	GRAT #1 Annuity Payments	Note #1 & Note #2 Payments	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	468	7,284	46,302	(1,642)	52,411	-	-	-	2,219	-	219,702	34,560	256,482	308,893
Year 2	52,411	210	1,363	2,306	468	7,284	46,302	(2,510)	107,833	256,482	24,224	-	2,219	-	219,702	34,560	537,187	645,020
Year 3	107,833	431	2,804	4,745	468	204,477	46,302	(3,207)	363,852	537,187	50,736	32,658	20,212	19,129	219,702	8,554,766	9,434,391	9,798,244

Single Stock FLLC

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Distributions	End of Year Financial Assets	Beginning of Year Stock	Growth	Preferred Distributions	Growth Distributions	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	10,000,000	944,474	(560,000)	-	10,384,474	10,384,474
Year 2	-	-	-	-	-	-	10,384,474	980,786	(560,000)	-	10,805,260	10,805,260
Year 3	-	-	-	-	-	-	10,805,260	1,020,528	(8,560,000)	(3,265,788)	-	-

Growth Interest Ownership

	Grant Gratuitous	Growth Holdco FLLC
Year 1	1.00%	99.00%
Year 2	1.00%	99.00%
Year 3	1.00%	99.00%

Preferred Holdco FLLC

	Beginning of Year Stock	Income	Tax Free Income	Growth	Owner Distributions	End of Year Financial Assets	Beginning of Year Stock	Growth	Single Stock FLP Preferred Distributions	Note #1 Payments	Owner Distributions	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	560,000	(34,560)	(221,922)	303,518	303,518
Year 2	-	-	-	-	-	-	303,518	28,667	560,000	(34,560)	(221,922)	635,703	635,703
Year 3	-	-	-	-	-	-	635,703	60,040	8,560,000	(7,234,560)	(2,021,184)	-	-

Ownership

	Grant Gratuitous	GRAT #1 & Grantor Trust
Year 1	1.00%	99.00%
Year 2	1.00%	99.00%
Year 3	1.00%	99.00%

Growth Holdco FLLC

	Beginning of Year Stock	Income	Tax Free Income	Growth	Note #2 Payments	Owner Distributions	End of Year Financial Assets	Beginning of Year Stock	Growth	Single Stock FLP Growth Distributions	Note #2 Payments	Owner Distributions	End of Year Stock	End of Year Financial & Other Assets
Year 1	300,000	1,200	7,800	13,200	(7,284)	(46,770)	268,146	-	-	-	-	-	-	268,146
Year 2	268,146	1,073	6,972	11,798	(7,284)	(46,770)	233,936	-	-	-	-	-	-	233,936
Year 3	233,936	936	6,082	10,293	(204,477)	(46,770)	-	-	-	3,233,130	(1,320,206)	(1,912,924)	-	-

Ownership

	Grant Gratuitous	GRAT #2 & Grantor Trust
Year 1	1.00%	99.00%
Year 2	1.00%	99.00%
Year 3	1.00%	99.00%

GRAT #1

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	End of Year Financial Assets	Beginning of Year Stock	Growth	Preferred Holdco FLLC Distributions	Annual Annuity	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	219,702	(219,702)	-	-
Year 2	-	-	-	-	-	-	-	219,702	(219,702)	-	-
Year 3	-	-	-	-	-	-	-	219,702	(219,702)	-	-

GRAT #2

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Holdco FLLC Distributions	Annual Annuity	End of Year Financial Assets
Year 1	-	-	-	-	46,302	(46,302)	-
Year 2	-	-	-	-	46,302	(46,302)	-
Year 3	-	-	-	-	46,302	(46,302)	-

Grantor Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Holdco FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	Preferred Holdco FLLC Distributions	Growth Holdco FLLC Distributions	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-	-	1,781,269	1,893,794	3,675,064	3,675,064

Note #1 Between Grat Gratuitous and Preferred Holdco FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	7,200,000	34,560	(34,560)	7,200,000
Year 2	7,200,000	34,560	(34,560)	7,200,000
Year 3	7,200,000	34,560	(7,234,560)	-

Note #2 Between Grat Gratuitous and Growth Holdco FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	1,517,400	7,284	(7,284)	1,517,400
Year 2	1,517,400	7,284	(7,284)	1,517,400
Year 3	1,517,400	7,284	(1,524,684)	-

Schedule 10
Grat Gratuitous
Traditional GRAT
Scenario B: $300,000 in Financial Assets Earn 7.4% Annually and $10,000,000 in Stock Earns 9.44% Annually

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Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	7.40%	9.44%
Rate of Return Taxed at Ordinary Rates	0.40%	0.00%
Rate of Return Tax Free	2.60%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	9.44%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains and Health Care Tax Rate	27.27%	
Ordinary Income and Health Care Tax Rate	46.87%	

Assumptions (continued):	
IRS §7520 Rate	2.00%

Grat Gratuitous

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	Annual Annuity	End of Year Stock	End of Year Financial & Other Assets
Year 1	300,000	1,200	7,800	13,200	(1,642)	320,558	-	-	3,467,526	3,467,526	3,788,084
Year 2	320,558	1,282	8,335	14,105	(2,510)	341,769	3,467,526	327,499	3,467,526	7,262,551	7,604,319
Year 3	341,769	1,367	8,886	15,038	(3,207)	363,852	7,262,551	685,929	3,467,526	11,416,005	11,779,858

3-Year GRAT

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	Annual Annuity	GRAT Terminates	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	10,000,000	944,474	(3,467,526)	-	7,476,948	7,476,948
Year 2	-	-	-	-	-	-	7,476,948	706,178	(3,467,526)	-	4,715,600	4,715,600
Year 3	-	-	-	-	-	-	4,715,600	445,376	(3,467,526)	(1,693,449)	-	-

Grantor Trust (GRAT Remaindermen)

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	GRAT Terminates	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	1,693,449	1,693,449	1,693,449

Schedule 10

Grat Gratuitous

Hypothetical Integrated Income and Estate Tax Plan Comparisons

Scenario C: $300,000 in Financial Assets Earn 7.40% Annually and $10,000,000 in Stock Earns 16.76% Annually

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	3-Year Future Values	Present Values (Discounted at 2.5%)	Percentage of Total
No Further Planning			
Grat Gratuitous	16,282,662	15,120,070	99.95%
Gratuitous Children	-	-	0.00%
IRS & State Income Tax - Direct Cost	7,360	6,834	0.05%
IRS & State Income Tax - Investment Opportunity Costs	438	407	0.00%
Total	**$16,290,459**	**$15,127,311**	**100.00%**
Leveraged FLLC Asset GRAT			
Grat Gratuitous	9,913,439	9,205,614	60.85%
Gratuitous Children	6,369,222	5,914,456	39.10%
IRS & State Income Tax - Direct Cost	7,360	6,834	0.05%
IRS & State Income Tax - Investment Opportunity Costs	438	407	0.00%
Total	**$16,290,459**	**$15,127,311**	**100.00%**
Traditional GRAT			
Grat Gratuitous	12,607,598	11,707,408	77.39%
Gratuitous Children	3,675,064	3,412,662	22.56%
IRS & State Income Tax - Direct Cost	7,360	6,834	0.05%
IRS & State Income Tax - Investment Opportunity Costs	438	407	0.00%
Total	**$16,290,459**	**$15,127,311**	**100.00%**

Schedule 10
Grat Gratuitous
No Further Planning
Scenario C: $300,000 in Financial Assets Earn 7.40% Annually and $10,000,000 in Stock Earns 16.76% Annually

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Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	7.40%	16.76%
Rate of Return Taxed at Ordinary Rates	0.40%	0.00%
Rate of Return Tax Free	2.60%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	16.76%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains and Health Care Tax Rate	27.27%	
Ordinary Income and Health Care Tax Rate	46.87%	

Grat Gratuitous

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	End of Year Stock	End of Year Financial & Other Assets
Year 1	300,000	1,200	7,800	13,200	(1,642)	320,558	10,000,000	1,676,254	11,676,254	11,996,812
Year 2	320,558	1,282	8,335	14,105	(2,510)	341,769	11,676,254	1,957,237	13,633,490	13,975,259
Year 3	341,769	1,367	8,886	15,038	(3,207)	363,852	13,633,490	2,285,319	15,918,809	16,282,662

Schedule 10
Grat Gratuitous
Leveraged FLLC Asset GRAT
Scenario C: $300,000 in Financial Assets Earn 7.40% Annually and $10,000,000 in Stock Earns 16.76% Annually

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Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	7.40%	16.76%
Rate of Return Taxed at Ordinary Rates	0.40%	0.00%
Rate of Return Tax Free	2.60%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	16.76%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains and Health Care Tax Rate	27.27%	
Ordinary Income and Health Care Tax Rate	46.87%	

Assumptions (continued):	
Single Stock FLLC Valuation Discount	30.00%
Single Stock FLLC Preferred Interest	$8,000,000
Single Stock FLLC Preferred Coupon	7.00%
Preferred Holdco FLLC Valuation Discount	20.00%
Growth Holdco FLLC Valuation Discount	20.00%
IRS §7520 Rate	2.00%
Assumed Interest Rate	0.48%

Grat Gratuitous

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Holdco FLLC Distributions	Note #2 Payments	GRAT #2 Annuity Payments	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	Single Stock FLP Growth Distributions	Preferred Holdco FLLC Distributions	Growth Holdco FLLC Distributions	GRAT #1 Annuity Payments	Note #1 & Note #2 Payments	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	468	7,284	46,302	(1,642)	52,411	-	-	-	2,219	-	219,702	34,560	256,482	308,893
Year 2	52,411	210	1,363	2,306	468	7,284	46,302	(2,510)	107,833	256,482	42,993	-	2,219	-	219,702	34,560	555,956	663,789
Year 3	107,833	431	2,804	4,745	468	204,477	46,302	(3,207)	363,852	555,956	93,192	59,415	20,936	45,618	219,702	8,554,766	9,549,587	9,913,439

Single Stock FLLC

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Distributions	End of Year Financial Assets	Beginning of Year Stock	Growth	Preferred Distributions	Growth Distributions	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	10,000,000	1,676,254	(560,000)	-	11,116,254	11,116,254
Year 2	-	-	-	-	-	-	11,116,254	1,863,366	(560,000)	-	12,419,620	12,419,620
Year 3	-	-	-	-	-	-	12,419,620	2,081,844	(8,560,000)	(5,941,464)	-	-

Growth Interest Ownership	
Grant Gratuitous	Growth Holdco FLLC
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Preferred Holdco FLLC

	Beginning of Year Stock	Income	Tax Free Income	Growth	Owner Distributions	End of Year Financial Assets	Beginning of Year Stock	Growth	Single Stock FLP Preferred Distributions	Note #1 Payments	Owner Distributions	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	560,000	(34,560)	(221,922)	303,518	303,518
Year 2	-	-	-	-	-	-	303,518	50,877	560,000	(34,560)	(221,922)	657,914	657,914
Year 3	-	-	-	-	-	-	657,914	110,283	8,560,000	(7,234,560)	(2,093,637)	-	-

Ownership	
Grant Gratuitous	GRAT #1 & Grantor Trust
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

Growth Holdco FLLC

	Beginning of Year Stock	Income	Tax Free Income	Growth	Note #2 Payments	Owner Distributions	End of Year Financial Assets	Beginning of Year Stock	Growth	Single Stock FLP Growth Distributions	Note #2 Payments	Owner Distributions	End of Year Stock	End of Year Financial & Other Assets
Year 1	300,000	1,200	7,800	13,200	(7,284)	(46,770)	268,146	-	-	-	-	-	-	268,146
Year 2	268,146	1,073	6,972	11,798	(7,284)	(46,770)	233,936	-	-	-	-	-	-	233,936
Year 3	233,936	936	6,082	10,293	(204,477)	(46,770)	-	-	-	5,882,049	(1,320,206)	(4,561,843)	-	-

Ownership	
Grant Gratuitous	GRAT #2 & Grantor Trust
1.00%	99.00%
1.00%	99.00%
1.00%	99.00%

GRAT #1

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	End of Year Financial Assets	Beginning of Year Stock	Growth	Preferred Holdco FLLC Distributions	Annual Annuity	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	219,702	(219,702)	-	-
Year 2	-	-	-	-	-	-	-	219,702	(219,702)	-	-
Year 3	-	-	-	-	-	-	-	219,702	(219,702)	-	-

GRAT #2

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Holdco FLLC Distributions	Annual Annuity	End of Year Financial Assets
Year 1	-	-	-	-	46,302	(46,302)	-
Year 2	-	-	-	-	46,302	(46,302)	-
Year 3	-	-	-	-	46,302	(46,302)	-

Grantor Trust

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Growth Holdco FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	Preferred Holdco FLLC Distributions	Growth Holdco FLLC Distributions	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	-	-	1,852,998	4,516,224	6,369,222	6,369,222

Note #1 Between Grat Gratuitous and Preferred Holdco FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	7,200,000	34,560	(34,560)	7,200,000
Year 2	7,200,000	34,560	(34,560)	7,200,000
Year 3	7,200,000	34,560	(7,234,560)	-

Note #2 Between Grat Gratuitous and Growth Holdco FLLC

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	1,517,400	7,284	(7,284)	1,517,400
Year 2	1,517,400	7,284	(7,284)	1,517,400
Year 3	1,517,400	7,284	(1,524,684)	-

Schedule 10
Grat Gratuitous
Traditional GRAT
Scenario C: $300,000 in Financial Assets Earn 7.40% Annually and $10,000,000 in Stock Earns 16.76% Annually

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Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	7.40%	16.76%
Rate of Return Taxed at Ordinary Rates	0.40%	0.00%
Rate of Return Tax Free	2.60%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	16.76%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains and Health Care Tax Rate	27.27%	
Ordinary Income and Health Care Tax Rate	46.87%	

Assumptions (continued):	
IRS §7520 Rate	2.00%

Grat Gratuitous

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	Annual Annuity	End of Year Stock	End of Year Financial & Other Assets
Year 1	300,000	1,200	7,800	13,200	(1,642)	320,558	-	-	3,467,526	3,467,526	3,788,084
Year 2	320,558	1,282	8,335	14,105	(2,510)	341,769	3,467,526	581,245	3,467,526	7,516,297	7,858,066
Year 3	341,769	1,367	8,886	15,038	(3,207)	363,852	7,516,297	1,259,922	3,467,526	12,243,746	12,607,598

3-Year GRAT

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	Annual Annuity	GRAT Terminates	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	10,000,000	1,676,254	(3,467,526)	-	8,208,728	8,208,728
Year 2	-	-	-	-	-	-	8,208,728	1,375,991	(3,467,526)	-	6,117,193	6,117,193
Year 3	-	-	-	-	-	-	6,117,193	1,025,397	(3,467,526)	(3,675,064)	-	-

Grantor Trust (GRAT Remaindermen)

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Income Taxes	End of Year Financial Assets	Beginning of Year Stock	Growth	GRAT Terminates	End of Year Stock	End of Year Financial & Other Assets
Year 1	-	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-	3,675,064	3,675,064	3,675,064

Schedule 11

Leverage Family

Hypothetical Integrated Income and Estate Tax Plan Comparisons - 20 Year Term Scenario

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	Pre-Death	Post-Death	Present Value (Discounted at 3%)	Percentage of Total
No Furhter Planning; Bequeaths Estate to Family				
Lenny Leverage	100,513,787	-	-	0.00%
Leverage Children	-	55,282,583	30,608,626	34.52%
Leverage GST Trust	13,317,021	13,317,021	7,373,312	8.32%
Consumption - Direct Cost	2,687,037	2,687,037	1,487,747	1.68%
Consumption - Investment Opportunity Cost	3,022,654	3,022,654	1,673,570	1.89%
IRS - Income Tax	20,916,430	20,916,430	11,580,920	13.06%
IRS - Investment Opportunity Costs	19,680,241	19,680,241	10,896,472	12.29%
IRS - Estate Tax (at 45%)	-	45,231,204	25,043,421	28.25%
Total	$160,137,171	$160,137,171	$88,664,069	100.00%
Hypothetical Integrated Income and Estate Tax Plan With a Partnership; Bequeaths Remaining Estate to Family				
Lenny Leverage	12,579,217	-	-	0.00%
Leverage Children	-	6,918,569	3,830,644	4.47%
Leverage GST Trust	98,772,116	98,772,116	54,687,726	63.79%
Consumption - Direct Cost	2,687,037	2,687,037	1,487,747	1.74%
Consumption - Investment Opportunity Cost	3,022,654	3,022,654	1,673,570	1.95%
IRS - Income Tax	20,556,056	20,556,056	11,381,390	13.28%
IRS - Investment Opportunity Costs	17,225,727	17,225,727	9,537,467	11.12%
IRS - Estate Tax (at 45%)	-	5,660,647	3,134,163	3.66%
Total	$154,842,807	$154,842,807	$85,732,708	100.00%

Schedule 11
Leverage Family
Asset Page*

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	Lenny Leverage
Asset: Miscellaneous Investments	$30,000,000
Basis: Miscellaneous Investments	$30,000,000
GST Trust	
Asset: Cash	$2,857,143
Basis: Cash	$2,857,143
Other Miscellaneous Assets	
Asset: Cash	$1,500,000
Basis: Cash	$1,500,000
Total Assets	**$34,357,143**
Total Basis	**$34,357,143**

* Information provided by client. There is no proposed planning for Lenny Leverage's other assets

Schedule 11

Leverage Family

No Further Planning

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Assumptions:	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	18.25%
Ordinary Tax Rate	38.25%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (with 3% inflation adjustment each year)	100,000

Lenny Leverage

	Beg. of Year	Income	Growth	Income Taxes	Consumption	End of Year
Year 1	31,500,000	630,000	1,890,000	(375,695)	(100,000)	33,544,305
Year 2	33,544,305	670,886	2,012,658	(479,554)	(103,000)	35,645,296
Year 3	35,645,296	712,906	2,138,718	(565,757)	(106,090)	37,825,072
Year 4	37,825,072	756,501	2,269,504	(640,277)	(109,273)	40,101,528
Year 5	40,101,528	802,031	2,406,092	(707,383)	(112,551)	42,489,716
Year 6	42,489,716	849,794	2,549,383	(770,140)	(115,927)	45,002,826
Year 7	45,002,826	900,057	2,700,170	(830,769)	(119,405)	47,652,878
Year 8	47,652,878	953,058	2,859,173	(890,898)	(122,987)	50,451,223
Year 9	50,451,223	1,009,024	3,027,073	(951,739)	(126,677)	53,408,905
Year 10	53,408,905	1,068,178	3,204,534	(1,014,212)	(130,477)	56,536,928
Year 11	56,536,928	1,130,739	3,392,216	(1,079,042)	(134,392)	59,846,449
Year 12	59,846,449	1,196,929	3,590,787	(1,146,810)	(138,423)	63,348,931
Year 13	63,348,931	1,266,979	3,800,936	(1,218,011)	(142,576)	67,056,258
Year 14	67,056,258	1,341,125	4,023,376	(1,293,075)	(146,853)	70,980,831
Year 15	70,980,831	1,419,617	4,258,850	(1,372,398)	(151,259)	75,135,641
Year 16	75,135,641	1,502,713	4,508,138	(1,456,353)	(155,797)	79,534,342
Year 17	79,534,342	1,590,687	4,772,061	(1,545,306)	(160,471)	84,191,313
Year 18	84,191,313	1,683,826	5,051,479	(1,639,622)	(165,285)	89,121,712
Year 19	89,121,712	1,782,434	5,347,303	(1,739,674)	(170,243)	94,341,532
Year 20	94,341,532	1,886,831	5,660,492	(1,199,716)	(175,351)	100,513,787

Schedule 11
Leverage Family
No Further Planning

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Assumptions:	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	18.25%
Ordinary Tax Rate	38.25%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (with 3% inflation adjustment each year)	100,000

Leverage GST Trust

	Beg. of Year	Income	Growth	Income Taxes	End of Year
Year 1	2,857,143	57,143	171,429	-	3,085,714
Year 2	3,085,714	61,714	185,143	-	3,332,572
Year 3	3,332,572	66,651	199,954	-	3,599,177
Year 4	3,599,177	71,984	215,951	-	3,887,112
Year 5	3,887,112	77,742	233,227	-	4,198,080
Year 6	4,198,080	83,962	251,885	-	4,533,927
Year 7	4,533,927	90,679	272,036	-	4,896,641
Year 8	4,896,641	97,933	293,798	-	5,288,372
Year 9	5,288,372	105,767	317,302	-	5,711,442
Year 10	5,711,442	114,229	342,687	-	6,168,357
Year 11	6,168,357	123,367	370,101	-	6,661,826
Year 12	6,661,826	133,237	399,710	-	7,194,772
Year 13	7,194,772	143,895	431,686	-	7,770,354
Year 14	7,770,354	155,407	466,221	-	8,391,982
Year 15	8,391,982	167,840	503,519	-	9,063,341
Year 16	9,063,341	181,267	543,800	-	9,788,408
Year 17	9,788,408	195,768	587,304	-	10,571,481
Year 18	10,571,481	211,430	634,289	-	11,417,199
Year 19	11,417,199	228,344	685,032	-	12,330,575
Year 20	12,330,575	246,612	739,835	-	13,317,021

Schedule 11
Leverage Family
Hypothetical Integrated Income and Estate Tax Plan With a Partnership; Bequeaths Remaining Estate to Family

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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	146,297	*based on nominal amount of $21,000,000 [$30,000,000 (1-30%)]
Leverage FLP Valuation Discount	30.00%	

Leverage FLP

	Beginning of Year	Income	Growth	Distributions	End of Year
Year 1	32,857,143	657,143	1,971,429	(1,961,571)	33,524,143
Year 2	33,524,143	670,483	2,011,449	(2,063,491)	34,142,583
Year 3	34,142,583	682,852	2,048,555	(2,145,143)	34,728,847
Year 4	34,728,847	694,577	2,083,731	(2,212,623)	35,294,532
Year 5	35,294,532	705,891	2,117,672	(2,270,239)	35,847,855
Year 6	35,847,855	716,957	2,150,871	(2,321,032)	36,394,652
Year 7	36,394,652	727,893	2,183,679	(2,367,154)	36,939,070
Year 8	36,939,070	738,781	2,216,344	(2,410,124)	37,484,072
Year 9	37,484,072	749,681	2,249,044	(2,451,017)	38,031,781
Year 10	38,031,781	760,636	2,281,907	(2,490,595)	38,583,729
Year 11	38,583,729	771,675	2,315,024	(2,529,397)	39,141,030
Year 12	39,141,030	782,821	2,348,462	(2,567,806)	39,704,506
Year 13	39,704,506	794,090	2,382,270	(2,606,096)	40,274,771
Year 14	40,274,771	805,495	2,416,486	(2,644,461)	40,852,291
Year 15	40,852,291	817,046	2,451,137	(2,683,041)	41,437,432

Schedule 11

Leverage Family

Hypothetical Integrated Income and Estate Tax Plan With a Partnership; Bequeaths Remaining Estate to Family

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Lenny Leverage	
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Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	146,297	*based on nominal amount of $21,000,000 [$30,000,000 (1-30%)]
Leverage FLP Valuation Discount	30.00%	

GRAT

	Undiscounted Beg. of Year Value	Income	Growth	Distribution from Partnership	Cash Portion of Annuity Payment	Partnership Share Portion of Annuity Payment (Pre-discount)	Undiscounted End of Year Value	Percentage Ownership of FLP by GRAT At End of Year	Percentage Ownership of FLP by Lenny Leverage At End of Year
Year 1	30,000,000	-	-	1,791,000	(146,297)	-	32,253,703	91.30%	8.70%
Year 2	32,253,703	32,894	98,682	1,884,057	(175,556)	-	34,658,443	91.30%	8.70%
Year 3	34,658,443	69,696	209,087	1,958,609	(210,668)	-	37,220,451	91.30%	8.70%
Year 4	37,220,451	110,230	330,690	2,020,221	(252,801)	-	39,945,285	91.30%	8.70%
Year 5	39,945,285	154,397	463,191	2,072,827	(303,361)	-	42,837,547	91.30%	8.70%
Year 6	42,837,547	202,138	606,414	2,119,203	(364,034)	-	45,900,517	91.30%	8.70%
Year 7	45,900,517	253,412	760,237	2,161,314	(436,841)	-	49,135,718	91.30%	8.70%
Year 8	49,135,718	308,175	924,524	2,200,548	(524,209)	-	52,542,366	91.30%	8.70%
Year 9	52,542,366	366,356	1,099,067	2,237,885	(629,050)	-	56,116,705	91.30%	8.70%
Year 10	56,116,705	427,841	1,283,522	2,274,021	(754,860)	-	59,851,181	91.30%	8.70%
Year 11	59,851,181	492,451	1,477,354	2,309,449	(905,832)	-	63,733,444	91.30%	8.70%
Year 12	63,733,444	559,920	1,679,759	2,344,519	(1,086,999)	-	67,745,120	91.30%	8.70%
Year 13	67,745,120	629,864	1,889,591	2,379,479	(1,304,399)	-	71,860,331	91.30%	8.70%
Year 14	71,860,331	701,754	2,105,263	2,414,508	(1,565,278)	-	76,043,879	91.30%	8.70%
Year 15	76,043,879	774,879	2,324,638	2,449,733	(1,878,334)	-	80,249,055	91.30%	8.70%
Year 16	80,249,055	1,604,981	4,814,943	-	(2,254,001)	-	84,414,978	-	-
Year 17	84,414,978	1,688,300	5,064,899	-	(2,704,801)	-	88,463,375	-	-
Year 18	88,463,375	1,769,268	5,307,803	-	(3,245,761)	-	92,294,684	-	-
Year 19	92,294,684	1,845,894	5,537,681	-	(3,894,914)	-	95,783,345	-	-
Year 20	95,783,345	1,915,667	5,747,001	-	(4,673,897)	-	98,772,116	-	-

Schedule 11

Leverage Family

Hypothetical Integrated Income and Estate Tax Plan With a Partnership; Bequeaths Remaining Estate to Family

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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	146,297	*based on nominal amount of $21,000,000 [$30,000,000 (1-30%)]
Leverage FLP Valuation Discount	30.00%	

Lenny Leverage

	Beginning of Year*	Income	Growth	Distribution from Partnership	Cash Annuity Payment	Income Taxes	Consumption	End of Year
Year 1	1,500,000	30,000	90,000	170,571	146,297	(333,264)	(100,000)	1,503,604
Year 2	1,503,604	30,072	90,216	179,434	175,556	(420,658)	(103,000)	1,455,225
Year 3	1,455,225	29,105	87,314	186,534	210,668	(493,867)	(106,090)	1,368,888
Year 4	1,368,888	27,378	82,133	192,402	252,801	(557,812)	(109,273)	1,256,519
Year 5	1,256,519	25,130	75,391	197,412	303,361	(616,010)	(112,551)	1,129,252
Year 6	1,129,252	22,585	67,755	201,829	364,034	(670,995)	(115,927)	998,533
Year 7	998,533	19,971	59,912	205,839	436,841	(724,604)	(119,405)	877,087
Year 8	877,087	17,542	52,625	209,576	524,209	(778,191)	(122,987)	779,859
Year 9	779,859	15,597	46,792	213,132	629,050	(832,775)	(126,677)	724,979
Year 10	724,979	14,500	43,499	216,573	754,860	(889,135)	(130,477)	734,798
Year 11	734,798	14,696	44,088	219,948	905,832	(947,894)	(134,392)	837,077
Year 12	837,077	16,742	50,225	223,288	1,086,999	(1,009,563)	(138,423)	1,066,343
Year 13	1,066,343	21,327	63,981	226,617	1,304,399	(1,074,582)	(142,576)	1,465,508
Year 14	1,465,508	29,310	87,930	229,953	1,565,278	(1,143,345)	(146,853)	2,087,781
Year 15	2,087,781	41,756	125,267	233,308	1,878,334	(1,216,220)	(151,259)	2,998,967
Year 16	2,998,967	59,979	179,938	-	2,254,001	(1,258,608)	(155,797)	4,078,481
Year 17	4,078,481	81,570	244,709	-	2,704,801	(1,331,497)	(160,471)	5,617,593
Year 18	5,617,593	112,352	337,056	-	3,245,761	(1,411,015)	(165,285)	7,736,462
Year 19	7,736,462	154,729	464,188	-	3,894,914	(1,497,016)	(170,243)	10,583,034
Year 20	10,583,034	211,661	634,982	-	4,673,897	(3,349,006)	(175,351)	12,579,217

* Assumes $2.86 million of LP interests is paid from Leverage GST Trust for purchase of remainder interest

Schedule 11

Leverage Family

Hypothetical Integrated Income and Estate Tax Plan With a Partnership; Bequeaths Remaining Estate to Family

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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	146,297	*based on nominal amount of $21,000,000 [$30,000,000 (1-30%)]
Leverage FLP Valuation Discount	30.00%	

Leverage GST Trust

	Beginning of Year	Income	Growth	Remainder Interest from GRAT	Income Taxes	End of Year
Year 1	-	-	-	-	-	-
Year 2	-	-	-	-	-	-
Year 3	-	-	-	-	-	-
Year 4	-	-	-	-	-	-
Year 5	-	-	-	-	-	-
Year 6	-	-	-	-	-	-
Year 7	-	-	-	-	-	-
Year 8	-	-	-	-	-	-
Year 9	-	-	-	-	-	-
Year 10	-	-	-	-	-	-
Year 11	-	-	-	-	-	-
Year 12	-	-	-	-	-	-
Year 13	-	-	-	-	-	-
Year 14	-	-	-	-	-	-
Year 15	-	-	-	-	-	-
Year 16	-	-	-	-	-	-
Year 17	-	-	-	-	-	-
Year 18	-	-	-	-	-	-
Year 19	-	-	-	-	-	-
Year 20	-	-	-	98,772,116	-	98,772,116

Schedule 11a

Leverage Family

Hypothetical Integrated Income and Estate Tax Plan Comparisons - Shorter of Lenny Leverage's Death or 20 Years Scenario

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	Pre-Death	Post-Death	Present Value (Discounted at 3%)	Percentage of Total
No Further Planning; Bequeaths Estate to Family				
Lenny Leverage	100,513,787	-	-	0.00%
Leverage Children	-	55,282,583	30,608,626	34.52%
Leverage GST Trust	13,317,021	13,317,021	7,373,312	8.32%
Consumption - Direct Cost	2,687,037	2,687,037	1,487,747	1.68%
Consumption - Investment Opportunity Cost	3,022,654	3,022,654	1,673,570	1.89%
IRS - Income Tax	20,916,430	20,916,430	11,580,920	13.06%
IRS - Investment Opportunity Costs	19,680,241	19,680,241	10,896,472	12.29%
IRS - Estate Tax (at 45%)	-	45,231,204	25,043,421	28.25%
Total	$160,137,171	$160,137,171	$88,664,069	100.00%
Hypothetical Integrated Income and Estate Tax Plan With a Partnership; Bequeaths Remaining Estate to Family				
Lenny Leverage	34,976,018	-	-	0.00%
Leverage Children	-	19,236,810	10,650,955	12.01%
Leverage GST Trust	81,703,110	81,703,110	45,237,031	51.02%
Consumption - Direct Cost	2,687,037	2,687,037	1,487,747	1.68%
Consumption - Investment Opportunity Cost	3,022,654	3,022,654	1,673,570	1.89%
IRS - Income Tax	20,485,173	20,485,173	11,342,144	12.79%
IRS - Investment Opportunity Costs	17,263,179	17,263,179	9,558,204	10.78%
IRS - Estate Tax (at 45%)	-	15,739,208	8,714,418	9.83%
Total	$160,137,171	$160,137,171	$88,664,069	100.00%

Schedule 11a
Leverage Family
Asset Page*

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	Lenny Leverage
FLP	
Asset: Miscellaneous Investments	$30,000,000
Basis: Miscellaneous Investments	$30,000,000
GST Trust	
Asset: Cash	$2,857,143
Basis: Cash	$2,857,143
Other Miscellaneous Assets	
Asset: Cash	$1,500,000
Basis: Cash	$1,500,000
Total Assets*	**$34,357,143**
Total Basis	**$34,357,143**

* There is not any proposed planning for Lenny Leverage's other assets

Schedule 11a

Leverage Family

No Further Planning; Bequeaths Estate to Family

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Assumptions:	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	18.25%
Ordinary Tax Rate	38.25%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (with 3% inflation adjustment each year)	100,000

Lenny Leverage

	Beg. of Year	Income	Growth	Income Taxes	Consumption	End of Year
Year 1	31,500,000	630,000	1,890,000	(375,695)	(100,000)	33,544,305
Year 2	33,544,305	670,886	2,012,658	(479,554)	(103,000)	35,645,296
Year 3	35,645,296	712,906	2,138,718	(565,757)	(106,090)	37,825,072
Year 4	37,825,072	756,501	2,269,504	(640,277)	(109,273)	40,101,528
Year 5	40,101,528	802,031	2,406,092	(707,383)	(112,551)	42,489,716
Year 6	42,489,716	849,794	2,549,383	(770,140)	(115,927)	45,002,826
Year 7	45,002,826	900,057	2,700,170	(830,769)	(119,405)	47,652,878
Year 8	47,652,878	953,058	2,859,173	(890,898)	(122,987)	50,451,223
Year 9	50,451,223	1,009,024	3,027,073	(951,739)	(126,677)	53,408,905
Year 10	53,408,905	1,068,178	3,204,534	(1,014,212)	(130,477)	56,536,928
Year 11	56,536,928	1,130,739	3,392,216	(1,079,042)	(134,392)	59,846,449
Year 12	59,846,449	1,196,929	3,590,787	(1,146,810)	(138,423)	63,348,931
Year 13	63,348,931	1,266,979	3,800,936	(1,218,011)	(142,576)	67,056,258
Year 14	67,056,258	1,341,125	4,023,376	(1,293,075)	(146,853)	70,980,831
Year 15	70,980,831	1,419,617	4,258,850	(1,372,398)	(151,259)	75,135,641
Year 16	75,135,641	1,502,713	4,508,138	(1,456,353)	(155,797)	79,534,342
Year 17	79,534,342	1,590,687	4,772,061	(1,545,306)	(160,471)	84,191,313
Year 18	84,191,313	1,683,826	5,051,479	(1,639,622)	(165,285)	89,121,712
Year 19	89,121,712	1,782,434	5,347,303	(1,739,674)	(170,243)	94,341,532
Year 20	94,341,532	1,886,831	5,660,492	(1,199,716)	(175,351)	100,513,787

Schedule 11a

Leverage Family

No Further Planning; Bequeaths Estate to Family

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Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	18.25%
Ordinary Tax Rate	38.25%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (with 3% inflation adjustment each year)	100,000

Leverage GST Trust

	Beg. of Year	Income	Growth	Income Taxes	End of Year
Year 1	2,857,143	57,143	171,429	-	3,085,714
Year 2	3,085,714	61,714	185,143	-	3,332,572
Year 3	3,332,572	66,651	199,954	-	3,599,177
Year 4	3,599,177	71,984	215,951	-	3,887,112
Year 5	3,887,112	77,742	233,227	-	4,198,080
Year 6	4,198,080	83,962	251,885	-	4,533,927
Year 7	4,533,927	90,679	272,036	-	4,896,641
Year 8	4,896,641	97,933	293,798	-	5,288,372
Year 9	5,288,372	105,767	317,302	-	5,711,442
Year 10	5,711,442	114,229	342,687	-	6,168,357
Year 11	6,168,357	123,367	370,101	-	6,661,826
Year 12	6,661,826	133,237	399,710	-	7,194,772
Year 13	7,194,772	143,895	431,686	-	7,770,354
Year 14	7,770,354	155,407	466,221	-	8,391,982
Year 15	8,391,982	167,840	503,519	-	9,063,341
Year 16	9,063,341	181,267	543,800	-	9,788,408
Year 17	9,788,408	195,768	587,304	-	10,571,481
Year 18	10,571,481	211,430	634,289	-	11,417,199
Year 19	11,417,199	228,344	685,032	-	12,330,575
Year 20	12,330,575	246,612	739,835	-	13,317,021

Schedule 11a

Leverage Family

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Assumptions:	
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Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	207,119	*based on nominal amount of $21,000,000 [$30,000,000 (1-30%)]
Leverage FLP Valuation Discount	30.00%	

Leverage FLP

	Beginning of Year	Income	Growth	Distributions	End of Year
Year 1	32,857,143	657,143	1,971,429	(1,961,571)	33,524,143
Year 2	33,524,143	670,483	2,011,449	(2,063,491)	34,142,583
Year 3	34,142,583	682,852	2,048,555	(2,145,143)	34,728,847
Year 4	34,728,847	694,577	2,083,731	(2,212,623)	35,294,532
Year 5	35,294,532	705,891	2,117,672	(2,270,239)	35,847,855
Year 6	35,847,855	716,957	2,150,871	(2,321,032)	36,394,652
Year 7	36,394,652	727,893	2,183,679	(2,367,154)	36,939,070
Year 8	36,939,070	738,781	2,216,344	(2,410,124)	37,484,072
Year 9	37,484,072	749,681	2,249,044	(2,451,017)	38,031,781
Year 10	38,031,781	760,636	2,281,907	(2,490,595)	38,583,729
Year 11	38,583,729	771,675	2,315,024	(2,529,397)	39,141,030
Year 12	39,141,030	782,821	2,348,462	(2,567,806)	39,704,506
Year 13	39,704,506	794,090	2,382,270	(2,606,096)	40,274,771
Year 14	40,274,771	805,495	2,416,486	(2,644,461)	40,852,291
Year 15	40,852,291	817,046	2,451,137	(2,683,041)	41,437,432

Schedule 11a

Leverage Family

Hypothetical Integrated Income and Estate Tax Plan With a Partnership; Bequeaths Remaining Estate to Family

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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	207,119	*based on nominal amount of $21,000,000 [$30,000,000 (1-30%)]
Leverage FLP Valuation Discount	30.00%	

GRAT

	Undiscounted Beg. of Year Value	Income	Growth	Distribution from Partnership	Cash Portion of Annuity Payment	Partnership Share Portion of Annuity Payment (Pre-discount)	Undiscounted End of Year Value	Percentage Ownership of FLP by GRAT At End of Year	Percentage Ownership of FLP by Lenny Leverage At End of Year
Year 1	30,000,000	-	-	1,791,000	(207,119)	-	32,192,881	91.30%	8.70%
Year 2	32,192,881	31,678	95,033	1,884,057	(248,543)	-	34,519,769	91.30%	8.70%
Year 3	34,519,769	66,922	200,766	1,958,609	(298,251)	-	36,983,099	91.30%	8.70%
Year 4	36,983,099	105,483	316,449	2,020,221	(357,902)	-	39,583,845	91.30%	8.70%
Year 5	39,583,845	147,168	441,504	2,072,827	(429,482)	-	42,321,071	91.30%	8.70%
Year 6	42,321,071	191,808	575,425	2,119,203	(515,378)	-	45,191,378	91.30%	8.70%
Year 7	45,191,378	239,230	717,689	2,161,314	(618,454)	-	48,188,234	91.30%	8.70%
Year 8	48,188,234	289,225	867,675	2,200,548	(742,145)	-	51,301,148	91.30%	8.70%
Year 9	51,301,148	341,531	1,024,594	2,237,885	(890,574)	-	54,514,666	91.30%	8.70%
Year 10	54,514,666	395,800	1,187,400	2,274,021	(1,068,689)	-	57,807,151	91.30%	8.70%
Year 11	57,807,151	451,571	1,354,712	2,309,449	(1,282,426)	-	61,149,297	91.30%	8.70%
Year 12	61,149,297	508,237	1,524,710	2,344,519	(1,538,912)	-	64,502,329	91.30%	8.70%
Year 13	64,502,329	565,008	1,695,023	2,379,479	(1,846,694)	-	67,815,822	91.30%	8.70%
Year 14	67,815,822	620,864	1,862,592	2,414,508	(2,216,033)	-	71,025,055	91.30%	8.70%
Year 15	71,025,055	674,503	2,023,508	2,449,733	(2,659,239)	-	74,047,820	91.30%	8.70%
Year 16	74,047,820	1,480,956	4,442,869	-	(3,191,087)	-	76,780,559	-	-
Year 17	76,780,559	1,535,611	4,606,834	-	(3,829,304)	-	79,093,699	-	-
Year 18	79,093,699	1,581,874	4,745,622	-	(4,595,165)	-	80,826,030	-	-
Year 19	80,826,030	1,616,521	4,849,562	-	(5,514,198)	-	81,777,914	-	-
Year 20	81,777,914	1,635,558	4,906,675	-	(6,617,038)	-	81,703,110	-	-

Schedule 11a

Leverage Family

Hypothetical Integrated Income and Estate Tax Plan With a Partnership; Bequeaths Remaining Estate to Family

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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	207,119	*based on nominal amount of $21,000,000 [$30,000,000 (1-30%)]
Leverage FLP Valuation Discount	30.00%	

Lenny Leverage

	Beginning of Year*	Income	Growth	Distribution from Partnership	Cash Annuity Payment	Income Taxes	Consumption	End of Year
Year 1	1,500,000	30,000	90,000	170,571	207,119	(333,264)	(100,000)	1,564,426
Year 2	1,564,426	31,289	93,866	179,434	248,543	(420,658)	(103,000)	1,593,899
Year 3	1,593,899	31,878	95,634	186,534	298,251	(493,867)	(106,090)	1,606,240
Year 4	1,606,240	32,125	96,374	192,402	357,902	(557,812)	(109,273)	1,617,959
Year 5	1,617,959	32,359	97,078	197,412	429,482	(616,010)	(112,551)	1,645,728
Year 6	1,645,728	32,915	98,744	201,829	515,378	(670,995)	(115,927)	1,707,672
Year 7	1,707,672	34,153	102,460	205,839	618,454	(724,604)	(119,405)	1,824,570
Year 8	1,824,570	36,491	109,474	209,576	742,145	(778,191)	(122,987)	2,021,078
Year 9	2,021,078	40,422	121,265	213,132	890,574	(832,775)	(126,677)	2,327,018
Year 10	2,327,018	46,540	139,621	216,573	1,068,689	(889,135)	(130,477)	2,778,829
Year 11	2,778,829	55,577	166,730	219,948	1,282,426	(947,894)	(134,392)	3,421,223
Year 12	3,421,223	68,424	205,273	223,288	1,538,912	(1,009,563)	(138,423)	4,309,134
Year 13	4,309,134	86,183	258,548	226,617	1,846,694	(1,074,582)	(142,576)	5,510,017
Year 14	5,510,017	110,200	330,601	229,953	2,216,033	(1,143,345)	(146,853)	7,106,605
Year 15	7,106,605	142,132	426,396	233,308	2,659,239	(1,216,220)	(151,259)	9,200,202
Year 16	12,803,457	256,069	768,207	-	3,191,087	(1,293,559)	(155,797)	15,569,465
Year 17	15,569,465	311,389	934,168	-	3,829,304	(1,375,716)	(160,471)	19,108,140
Year 18	19,108,140	382,163	1,146,488	-	4,595,165	(1,463,044)	(165,285)	23,603,628
Year 19	23,603,628	472,073	1,416,218	-	5,514,198	(1,555,909)	(170,243)	29,279,964
Year 20	29,279,964	585,599	1,756,798	-	6,617,038	(3,088,030)	(175,351)	34,976,018

* Assumes $2.86 million of LP interests is paid from Leverage GST Trust for purchase of remainder interest

Schedule 11a

Leverage Family

Hypothetical Integrated Income and Estate Tax Plan With a Partnership; Bequeaths Remaining Estate to Family

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Assumptions:	
Lenny Leverage	
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Taxed at Capital Gains Rates	6.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing at 3% per year)	100,000
Intra-Family Note Interest Percentage	2.06%
7520 Rate	2.40%

FLP		
Rate of Return Taxed at Ordinary Rates	2.00%	
Rate of Return Taxed at Capital Gains Rates	6.00%	
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	
Lenny Leverage Percentage Ownership in Leverage FLP	8.70%	
GRAT Percentage Ownership in Leverage FLP	91.30%	
GRAT Annuity* (20% Increasing Annuity)	207,119	*based on nominal amount of $21,000,000 [$30,000,000 (1-30%)]
Leverage FLP Valuation Discount	30.00%	

Leverage GST Trust

	Beginning of Year	Income	Growth	Remainder Interest from GRAT	Income Taxes	End of Year
Year 1	-	-	-	-	-	-
Year 2	-	-	-	-	-	-
Year 3	-	-	-	-	-	-
Year 4	-	-	-	-	-	-
Year 5	-	-	-	-	-	-
Year 6	-	-	-	-	-	-
Year 7	-	-	-	-	-	-
Year 8	-	-	-	-	-	-
Year 9	-	-	-	-	-	-
Year 10	-	-	-	-	-	-
Year 11	-	-	-	-	-	-
Year 12	-	-	-	-	-	-
Year 13	-	-	-	-	-	-
Year 14	-	-	-	-	-	-
Year 15	-	-	-	-	-	-
Year 16	-	-	-	-	-	-
Year 17	-	-	-	-	-	-
Year 18	-	-	-	-	-	-
Year 19	-	-	-	-	-	-
Year 20	-	-	-	81,703,110	-	81,703,110

Schedule 12

Iam and Ima Imitator

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mrs. Imitator has a life expectancy of 20 years)

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	20-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning				
Mr. and Mrs. Imitator	268,648,643	-	-	0.00%
Imitator Children	33,356,127	187,522,700	114,439,655	39.80%
Imitator Children and Grandchildren	-	10,560,000	6,444,461	2.24%
Consumption - Direct Cost	44,703,151	44,703,151	27,281,034	9.49%
Consumption - Investment Opportunity Cost	45,686,113	45,686,113	27,880,907	9.70%
IRS Income Tax - Direct Cost	41,838,354	41,838,354	25,532,731	8.88%
IRS Income Tax - Investment Opportunity Costs	36,922,902	36,922,902	22,532,974	7.84%
IRS Income Tax - Embedded Capital Gain Tax Liability	-	686,612	419,020	0.15%
IRS - Estate Tax (at 40%)	-	103,235,457	63,001,600	21.91%
Total	**$471,155,289**	**$471,155,289**	**$287,532,382**	**100.00%**
Hypothetical Technique				
Mr. and Mrs. Imitator	35,166,838	-	-	0.00%
Imitator Children	32,262,432	49,057,547	29,938,396	10.41%
Imitator Children and Grandchildren	232,056,151	233,279,058	142,363,430	49.51%
Consumption - Direct Cost	44,703,151	44,703,151	27,281,034	9.49%
Consumption - Investment Opportunity Cost	45,686,113	45,686,113	27,880,907	9.70%
IRS Income Tax - Direct Cost	44,357,702	44,357,702	27,070,217	9.41%
IRS Income Tax - Investment Opportunity Costs	36,922,902	36,922,902	22,532,974	7.84%
IRS Income Tax - Embedded Capital Gain Tax Liability	-	6,506,081	3,970,472	1.38%
IRS - Estate Tax (at 40%)	-	10,642,735	6,494,952	2.26%
Total	**$471,155,289**	**$471,155,289**	**$287,532,382**	**100.00%**

	No Further Planning	Hypothetical Technique	
		Estate Tax	GST Tax
Calculations of Remaining Estate Tax Exemption			
Current Gift and Estate Exemptions	10,900,000	10,900,000	10,900,000
Assumed Gifts Made	(6,900,000)	(8,900,000)	(10,395,000)
Future Estate Tax Exemption Available in 20 years (assumes 2.5% inflation)	10,560,000	8,560,000	7,065,000

Schedule 12
No Further Planning

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Schedule 12

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Consumption	Income Taxes	End of Year Financial Assets
Year 1	105,000,000	630,000	2,520,000	4,620,000	(1,750,000)	(675,288)	110,344,712
Year 2	110,344,712	662,068	2,648,273	4,855,167	(1,793,750)	(971,796)	115,744,675
Year 3	115,744,675	694,468	2,777,872	5,092,766	(1,838,594)	(1,204,300)	121,266,887
Year 4	121,266,887	727,601	2,910,405	5,335,743	(1,884,559)	(1,392,829)	126,963,249
Year 5	126,963,249	761,779	3,047,118	5,586,383	(1,931,673)	(1,551,600)	132,875,257
Year 6	132,875,257	797,252	3,189,006	5,846,511	(1,979,964)	(1,690,732)	139,037,330
Year 7	139,037,330	834,224	3,336,896	6,117,642	(2,029,463)	(1,817,455)	145,479,173
Year 8	145,479,173	872,875	3,491,500	6,401,084	(2,080,200)	(1,936,960)	152,227,472
Year 9	152,227,472	913,365	3,653,459	6,698,009	(2,132,205)	(2,053,003)	159,307,097
Year 10	159,307,097	955,843	3,823,370	7,009,512	(2,185,510)	(2,168,336)	166,741,977
Year 11	166,741,977	1,000,452	4,001,807	7,336,647	(2,240,148)	(2,285,001)	174,555,734
Year 12	174,555,734	1,047,334	4,189,338	7,680,452	(2,296,152)	(2,404,550)	182,772,157
Year 13	182,772,157	1,096,633	4,386,532	8,041,975	(2,353,555)	(2,528,193)	191,415,549
Year 14	191,415,549	1,148,493	4,593,973	8,422,284	(2,412,394)	(2,656,906)	200,510,999
Year 15	200,510,999	1,203,066	4,812,264	8,822,484	(2,472,704)	(2,791,506)	210,084,603
Year 16	210,084,603	1,260,508	5,042,030	9,243,723	(2,534,522)	(2,932,706)	220,163,636
Year 17	220,163,636	1,320,982	5,283,927	9,687,200	(2,597,885)	(3,081,156)	230,776,705
Year 18	230,776,705	1,384,660	5,538,641	10,154,175	(2,662,832)	(3,237,465)	241,953,884
Year 19	241,953,884	1,451,723	5,806,893	10,645,971	(2,729,403)	(3,402,228)	253,726,841
Year 20	253,726,841	1,522,361	6,089,444	11,163,981	(2,797,638)	(1,056,346)	268,648,643

Schedule 12
No Further Planning

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Existing Non-GST Grantor Trust for the Benefit of Imitator Children

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	8,000,000	48,000	192,000	352,000	-	-	8,592,000
Year 2	8,592,000	51,552	206,208	378,048	-	-	9,227,808
Year 3	9,227,808	55,367	221,467	406,024	-	-	9,910,666
Year 4	9,910,666	59,464	237,856	436,069	-	-	10,644,055
Year 5	10,644,055	63,864	255,457	468,338	-	-	11,431,715
Year 6	11,431,715	68,590	274,361	502,995	-	-	12,277,662
Year 7	12,277,662	73,666	294,664	540,217	-	-	13,186,209
Year 8	13,186,209	79,117	316,469	580,193	-	-	14,161,989
Year 9	14,161,989	84,972	339,888	623,127	-	-	15,209,976
Year 10	15,209,976	91,260	365,039	669,239	-	-	16,335,514
Year 11	16,335,514	98,013	392,052	718,763	-	-	17,544,342
Year 12	17,544,342	105,266	421,064	771,951	-	-	18,842,623
Year 13	18,842,623	113,056	452,223	829,075	-	-	20,236,977
Year 14	20,236,977	121,422	485,687	890,427	-	-	21,734,514
Year 15	21,734,514	130,407	521,628	956,319	-	-	23,342,868
Year 16	23,342,868	140,057	560,229	1,027,086	-	-	25,070,240
Year 17	25,070,240	150,421	601,686	1,103,091	-	-	26,925,438
Year 18	26,925,438	161,553	646,211	1,184,719	-	-	28,917,920
Year 19	28,917,920	173,508	694,030	1,272,388	-	-	31,057,846
Year 20	31,057,846	186,347	745,388	1,366,545	-	-	33,356,127
					Embedded Capital Gains Tax Liability:		686,612

Schedule 12
Hypothetical Technique

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

Schedule 12

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Holdco LLC Distributions	Note Payments	Annuity Purchase	Consumption	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	29,289	2,395,999	8,394,998	(1,750,000)	(675,288)	8,394,998
Year 2	8,394,998	50,370	201,480	369,380	29,289	1,271,141	-	(1,793,750)	(971,796)	7,551,112
Year 3	7,551,112	45,307	181,227	332,249	29,289	1,271,141	-	(1,838,594)	(1,204,300)	6,367,431
Year 4	6,367,431	38,205	152,818	280,167	-	1,271,141	-	(1,884,559)	(1,392,829)	4,832,374
Year 5	4,832,374	28,994	115,977	212,624	-	1,271,141	-	(1,931,673)	(1,551,600)	2,977,839
Year 6	2,977,839	17,867	71,468	131,025	-	1,271,141	-	(1,979,964)	(1,690,732)	798,644
Year 7	798,644	4,792	19,167	35,140	-	2,989,175	-	(2,029,463)	(1,817,455)	-
Year 8	-	-	-	-	-	4,017,160	-	(2,080,200)	(1,936,960)	-
Year 9	-	-	-	-	-	4,185,208	-	(2,132,205)	(2,053,003)	-
Year 10	-	-	-	-	-	4,353,846	-	(2,185,510)	(2,168,336)	-
Year 11	-	-	-	-	-	4,525,149	-	(2,240,148)	(2,285,001)	-
Year 12	-	-	-	-	-	4,700,701	-	(2,296,152)	(2,404,550)	-
Year 13	-	-	-	-	-	4,881,748	-	(2,353,555)	(2,528,193)	-
Year 14	-	-	-	-	-	5,069,300	-	(2,412,394)	(2,656,906)	-
Year 15	-	-	-	-	-	5,264,210	-	(2,472,704)	(2,791,506)	-
Year 16	-	-	-	-	-	5,467,228	-	(2,534,522)	(2,932,706)	-
Year 17	-	-	-	-	-	5,679,040	-	(2,597,885)	(3,081,156)	-
Year 18	-	-	-	-	-	5,900,297	-	(2,662,832)	(3,237,465)	-
Year 19	-	-	-	-	-	6,131,630	-	(2,729,403)	(3,402,228)	-
Year 20	-	-	-	-	-	39,196,169	-	(2,797,638)	(3,575,695)	32,822,836

Schedule 12
Hypothetical Technique

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

Holdco LLC

								Ownership		
	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Note Payments	Owner Distributions	End of Year Financial Assets	Ima Imitator	GLT #1 & New GST Tax Exempt Grantor Trust #1	GLT #2 & New GST Tax Exempt Grantor Trust #2
Year 1	105,000,000	630,000	2,520,000	4,620,000	(2,395,999)	(2,928,915)	107,445,086	1.00%	49.50%	49.50%
Year 2	107,445,086	644,671	2,578,682	4,727,584	(1,271,141)	(2,928,915)	111,195,966	1.00%	49.50%	49.50%
Year 3	111,195,966	667,176	2,668,703	4,892,622	(1,271,141)	(2,928,915)	115,224,411	1.00%	49.50%	49.50%
Year 4	115,224,411	691,346	2,765,386	5,069,874	(1,271,141)	-	122,479,876	1.00%	49.50%	49.50%
Year 5	122,479,876	734,879	2,939,517	5,389,115	(1,271,141)	-	130,272,246	1.00%	49.50%	49.50%
Year 6	130,272,246	781,633	3,126,534	5,731,979	(1,271,141)	-	138,641,250	1.00%	49.50%	49.50%
Year 7	138,641,250	831,848	3,327,390	6,100,215	(2,989,175)	-	145,911,528	1.00%	49.50%	49.50%
Year 8	145,911,528	875,469	3,501,877	6,420,107	(4,017,160)	-	152,691,821	1.00%	49.50%	49.50%
Year 9	152,691,821	916,151	3,664,604	6,718,440	(4,185,208)	-	159,805,808	1.00%	49.50%	49.50%
Year 10	159,805,808	958,835	3,835,339	7,031,456	(4,353,846)	-	167,277,592	1.00%	49.50%	49.50%
Year 11	167,277,592	1,003,666	4,014,662	7,360,214	(4,525,149)	-	175,130,985	1.00%	49.50%	49.50%
Year 12	175,130,985	1,050,786	4,203,144	7,705,763	(4,700,701)	-	183,389,977	1.00%	49.50%	49.50%
Year 13	183,389,977	1,100,340	4,401,359	8,069,159	(4,881,748)	-	192,079,087	1.00%	49.50%	49.50%
Year 14	192,079,087	1,152,475	4,609,898	8,451,480	(5,069,300)	-	201,223,639	1.00%	49.50%	49.50%
Year 15	201,223,639	1,207,342	4,829,367	8,853,840	(5,264,210)	-	210,849,979	1.00%	49.50%	49.50%
Year 16	210,849,979	1,265,100	5,060,399	9,277,399	(5,467,228)	-	220,985,649	1.00%	49.50%	49.50%
Year 17	220,985,649	1,325,914	5,303,656	9,723,369	(5,679,040)	-	231,659,547	1.00%	49.50%	49.50%
Year 18	231,659,547	1,389,957	5,559,829	10,193,020	(5,900,297)	-	242,902,056	1.00%	49.50%	49.50%
Year 19	242,902,056	1,457,412	5,829,649	10,687,690	(6,131,630)	-	254,745,178	1.00%	49.50%	49.50%
Year 20	254,745,178	1,528,471	6,113,884	11,208,788	(39,196,169)	-	234,400,152	1.00%	49.50%	49.50%

Schedule 12
Hypothetical Technique
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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

3-Year GRAT-like Trust #1 and New GST Tax Exempt Grantor Trust #1

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Holdco LLC Distributions	Annual Annuities	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	1,449,813	(1,449,813)	-	-	-
Year 2	-	-	-	-	1,449,813	(1,449,813)	-	-	-
Year 3	-	-	-	-	1,449,813	(1,449,813)	-	-	-
Year 4	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-	-	-
Year 18	-	-	-	-	-	-	-	-	-
Year 19	-	-	-	-	-	-	-	-	-
Year 20	-	-	-	-	-	-	-	-	-
								Embedded Capital Gains Tax Liability:	2,921,047

Schedule 12
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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

3-Year GRAT-like Trust #2 and New GST Tax Exempt Grantor Trust #2

	Beginning of Year Financial Assets	**Income**	**Tax-Free Income**	**Growth**	**Holdco LLC Distributions**	**Annual Annuities**	**Beneficiary Distributions**	**Income Taxes**	**End of Year Financial Assets**
Year 1	-	-	-	-	1,449,813	(1,449,813)	-	-	-
Year 2	-	-	-	-	1,449,813	(1,449,813)	-	-	-
Year 3	-	-	-	-	1,449,813	(1,449,813)	-	-	-
Year 4	-	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-	-	-
Year 18	-	-	-	-	-	-	-	-	-
Year 19	-	-	-	-	-	-	-	-	-
Year 20	-	-	-	-	-	-	-	-	-
								Embedded Capital Gains Tax Liability:	2,921,047

Schedule 12
Hypothetical Technique

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

Existing Non-GST Tax Exempt Grantor Trust for the Benefit of Imitator Children

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Annual Annuity	GLT #1 & GLT #2 Annuity Purchase	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	8,000,000	48,000	192,000	352,000	2,899,626	(8,394,998)	-	-	3,096,628
Year 2	3,096,628	18,580	74,319	136,252	2,899,626	-	-	-	6,225,405
Year 3	6,225,405	37,352	149,410	273,918	2,899,626	-	-	-	9,585,711
Year 4	9,585,711	57,514	230,057	421,771	-	-	-	-	10,295,053
Year 5	10,295,053	61,770	247,081	452,982	-	-	-	-	11,056,887
Year 6	11,056,887	66,341	265,365	486,503	-	-	-	-	11,875,097
Year 7	11,875,097	71,251	285,002	522,504	-	-	-	-	12,753,854
Year 8	12,753,854	76,523	306,093	561,170	-	-	-	-	13,697,639
Year 9	13,697,639	82,186	328,743	602,696	-	-	-	-	14,711,265
Year 10	14,711,265	88,268	353,070	647,296	-	-	-	-	15,799,898
Year 11	15,799,898	94,799	379,198	695,196	-	-	-	-	16,969,091
Year 12	16,969,091	101,815	407,258	746,640	-	-	-	-	18,224,804
Year 13	18,224,804	109,349	437,395	801,891	-	-	-	-	19,573,439
Year 14	19,573,439	117,441	469,763	861,231	-	-	-	-	21,021,874
Year 15	21,021,874	126,131	504,525	924,962	-	-	-	-	22,577,492
Year 16	22,577,492	135,465	541,860	993,410	-	-	-	-	24,248,227
Year 17	24,248,227	145,489	581,957	1,066,922	-	-	-	-	26,042,595
Year 18	26,042,595	156,256	625,022	1,145,874	-	-	-	-	27,969,747
Year 19	27,969,747	167,818	671,274	1,230,669	-	-	-	-	30,039,509
Year 20	30,039,509	180,237	720,948	1,321,738	-	-	-	-	32,262,432
							Embedded Capital Gains Tax Liability:		663,988

Schedule 12
Hypothetical Technique

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

Note Between Ima Imitator and Holdco LLC

	Beginning of Year Principal	Interest (@ 1.43% Interest)	Note Payments	End of Year Principal
Year 1	90,000,000	1,287,000	(2,395,999)	88,891,001
Year 2	88,891,001	1,271,141	(1,271,141)	88,891,001
Year 3	88,891,001	1,271,141	(1,271,141)	88,891,001
Year 4	88,891,001	1,271,141	(1,271,141)	88,891,001
Year 5	88,891,001	1,271,141	(1,271,141)	88,891,001
Year 6	88,891,001	1,271,141	(1,271,141)	88,891,001
Year 7	88,891,001	1,271,141	(2,989,175)	87,172,968
Year 8	87,172,968	1,246,573	(4,017,160)	84,402,381
Year 9	84,402,381	1,206,954	(4,185,208)	81,424,127
Year 10	81,424,127	1,164,365	(4,353,846)	78,234,646
Year 11	78,234,646	1,118,755	(4,525,149)	74,828,253
Year 12	74,828,253	1,070,044	(4,700,701)	71,197,596
Year 13	71,197,596	1,018,126	(4,881,748)	67,333,973
Year 14	67,333,973	962,876	(5,069,300)	63,227,549
Year 15	63,227,549	904,154	(5,264,210)	58,867,493
Year 16	58,867,493	841,805	(5,467,228)	54,242,070
Year 17	54,242,070	775,662	(5,679,040)	49,338,692
Year 18	49,338,692	705,543	(5,900,297)	44,143,938
Year 19	44,143,938	631,258	(6,131,630)	38,643,566
Year 20	38,643,566	552,603	(39,196,169)	-

Schedule 13

Mr. and Mrs. Nathan Notgonnagivemore

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mrs. Notgoingtogivenomore has a life expectancy of 20 years)

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	20-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning				
Mr. and Mrs. Nathan Notgonnagivemore	267,031,633	-	-	0.00%
Notgonnagivemore Children	33,356,127	187,452,494	114,396,810	39.09%
Notgoingtogivenomore Children and Grandchildren	8,339,032	17,227,379	10,513,369	3.59%
Consumption - Direct Cost	44,703,151	44,703,151	27,281,034	9.32%
Consumption - Investment Opportunity Cost	45,686,113	45,686,113	27,880,907	9.53%
IRS Income Tax - Direct Cost	42,747,921	42,747,921	26,087,814	8.92%
IRS Income Tax - Investment Opportunity Costs	37,630,344	37,630,344	22,964,705	7.85%
IRS Income Tax - Embedded Capital Gain Tax Liability	-	858,265	523,774	0.18%
IRS - Estate Tax (at 40%)	-	103,188,653	62,973,037	21.52%
Total	**$479,494,321**	**$479,494,321**	**$292,621,451**	**100.00%**
Hypothetical Technique				
Mr. and Mrs. Nathan Notgonnagivemore	37,952,395	-	-	0.00%
Notgonnagivemore Children	32,262,432	42,033,881	25,652,056	8.77%
Notgoingtogivenomore Children and Grandchildren	236,005,035	245,981,576	150,115,408	51.30%
Consumption - Direct Cost	44,703,151	44,703,151	27,281,034	9.32%
Consumption - Investment Opportunity Cost	45,686,113	45,686,113	27,880,907	9.53%
IRS Income Tax - Direct Cost	45,254,850	45,254,850	27,617,720	9.44%
IRS Income Tax - Investment Opportunity Costs	37,630,344	37,630,344	22,964,705	7.85%
IRS Income Tax - Embedded Capital Gain Tax Liability	-	6,647,447	4,056,744	1.39%
IRS - Estate Tax (at 40%)	-	11,556,958	7,052,876	2.41%
Total	**$479,494,321**	**$479,494,321**	**$292,621,451**	**100.00%**

	No Further Planning	Hypothetical Technique	
		Estate Tax	GST Tax
Calculations of Remaining Estate Tax Exemption			
Current Gift and Estate Exemptions	10,900,000	10,900,000	10,900,000
Assumed Gifts Made	(8,400,000)	(8,400,000)	(1,500,000)
Future Estate Tax Exemption Available in 20 years (assumes 2.5% inflation)	9,060,000	9,060,000	15,960,000

Schedule 13
Mr. and Mrs. Nathan Notgonnagivemore
No Further Planning

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Assumptions:	
Total Estimated Rate of Return*	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Mr. and Mrs. Nathan Notgonnagivemore

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Consumption	Income Taxes	End of Year Financial Assets
Year 1	105,000,000	630,000	2,520,000	4,620,000	(1,750,000)	(687,240)	110,332,760
Year 2	110,332,760	661,997	2,647,986	4,854,641	(1,793,750)	(989,181)	115,714,453
Year 3	115,714,453	694,287	2,777,147	5,091,436	(1,838,594)	(1,226,074)	121,212,655
Year 4	121,212,655	727,276	2,909,104	5,333,357	(1,884,559)	(1,418,288)	126,879,544
Year 5	126,879,544	761,277	3,045,109	5,582,700	(1,931,673)	(1,580,284)	132,756,674
Year 6	132,756,674	796,540	3,186,160	5,841,294	(1,979,964)	(1,722,354)	138,878,350
Year 7	138,878,350	833,270	3,333,080	6,110,647	(2,029,463)	(1,851,852)	145,274,033
Year 8	145,274,033	871,644	3,486,577	6,392,057	(2,080,200)	(1,974,060)	151,970,052
Year 9	151,970,052	911,820	3,647,281	6,686,682	(2,132,205)	(2,092,802)	158,990,829
Year 10	158,990,829	953,945	3,815,780	6,995,596	(2,185,510)	(2,210,878)	166,359,762
Year 11	166,359,762	998,159	3,992,634	7,319,830	(2,240,148)	(2,330,371)	174,099,865
Year 12	174,099,865	1,044,599	4,178,397	7,660,394	(2,296,152)	(2,452,862)	182,234,241
Year 13	182,234,241	1,093,405	4,373,622	8,018,307	(2,353,555)	(2,579,586)	190,786,433
Year 14	190,786,433	1,144,719	4,578,874	8,394,603	(2,412,394)	(2,711,539)	199,780,696
Year 15	199,780,696	1,198,684	4,794,737	8,790,351	(2,472,704)	(2,849,557)	209,242,206
Year 16	209,242,206	1,255,453	5,021,813	9,206,657	(2,534,522)	(2,994,372)	219,197,235
Year 17	219,197,235	1,315,183	5,260,734	9,644,678	(2,597,885)	(3,146,648)	229,673,297
Year 18	229,673,297	1,378,040	5,512,159	10,105,625	(2,662,832)	(3,307,012)	240,699,277
Year 19	240,699,277	1,444,196	5,776,783	10,590,768	(2,729,403)	(3,476,074)	252,305,547
Year 20	252,305,547	1,513,833	6,055,333	11,101,444	(2,797,638)	(1,146,886)	267,031,633

Schedule 13
Mr. and Mrs. Nathan Notgonnagivemore
No Further Planning

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Assumptions:	
Total Estimated Rate of Return*	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Existing GST Tax Exempt Grantor Trust #1 for the Benefit of Notgoingtogivenomore Descendants

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	1,000,000	6,000	24,000	44,000	-	-	1,074,000
Year 2	1,074,000	6,444	25,776	47,256	-	-	1,153,476
Year 3	1,153,476	6,921	27,683	50,753	-	-	1,238,833
Year 4	1,238,833	7,433	29,732	54,509	-	-	1,330,507
Year 5	1,330,507	7,983	31,932	58,542	-	-	1,428,964
Year 6	1,428,964	8,574	34,295	62,874	-	-	1,534,708
Year 7	1,534,708	9,208	36,833	67,527	-	-	1,648,276
Year 8	1,648,276	9,890	39,559	72,524	-	-	1,770,249
Year 9	1,770,249	10,621	42,486	77,891	-	-	1,901,247
Year 10	1,901,247	11,407	45,630	83,655	-	-	2,041,939
Year 11	2,041,939	12,252	49,007	89,845	-	-	2,193,043
Year 12	2,193,043	13,158	52,633	96,494	-	-	2,355,328
Year 13	2,355,328	14,132	56,528	103,634	-	-	2,529,622
Year 14	2,529,622	15,178	60,711	111,303	-	-	2,716,814
Year 15	2,716,814	16,301	65,204	119,540	-	-	2,917,858
Year 16	2,917,858	17,507	70,029	128,386	-	-	3,133,780
Year 17	3,133,780	18,803	75,211	137,886	-	-	3,365,680
Year 18	3,365,680	20,194	80,776	148,090	-	-	3,614,740
Year 19	3,614,740	21,688	86,754	159,049	-	-	3,882,231
Year 20	3,882,231	23,293	93,174	170,818	-	-	4,169,516
						Embedded Capital Gains Tax Liability:	85,827

Schedule 13
Mr. and Mrs. Nathan Notgonnagivemore
No Further Planning

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Assumptions:	
Total Estimated Rate of Return*	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Existing GST Tax Exempt Grantor Trust #2 for the Benefit of Notgoingtogivenomore Descendants

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	1,000,000	6,000	24,000	44,000	-	-	1,074,000
Year 2	1,074,000	6,444	25,776	47,256	-	-	1,153,476
Year 3	1,153,476	6,921	27,683	50,753	-	-	1,238,833
Year 4	1,238,833	7,433	29,732	54,509	-	-	1,330,507
Year 5	1,330,507	7,983	31,932	58,542	-	-	1,428,964
Year 6	1,428,964	8,574	34,295	62,874	-	-	1,534,708
Year 7	1,534,708	9,208	36,833	67,527	-	-	1,648,276
Year 8	1,648,276	9,890	39,559	72,524	-	-	1,770,249
Year 9	1,770,249	10,621	42,486	77,891	-	-	1,901,247
Year 10	1,901,247	11,407	45,630	83,655	-	-	2,041,939
Year 11	2,041,939	12,252	49,007	89,845	-	-	2,193,043
Year 12	2,193,043	13,158	52,633	96,494	-	-	2,355,328
Year 13	2,355,328	14,132	56,528	103,634	-	-	2,529,622
Year 14	2,529,622	15,178	60,711	111,303	-	-	2,716,814
Year 15	2,716,814	16,301	65,204	119,540	-	-	2,917,858
Year 16	2,917,858	17,507	70,029	128,386	-	-	3,133,780
Year 17	3,133,780	18,803	75,211	137,886	-	-	3,365,680
Year 18	3,365,680	20,194	80,776	148,090	-	-	3,614,740
Year 19	3,614,740	21,688	86,754	159,049	-	-	3,882,231
Year 20	3,882,231	23,293	93,174	170,818	-	-	4,169,516
					Embedded Capital Gains Tax Liability:		85,827

Schedule 13
Mr. and Mrs. Nathan Notgonnagivemore
No Further Planning

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Assumptions:	
Total Estimated Rate of Return*	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Existing Non-GST Grantor Trust for the Benefit of Notgoingtogivenomore Children

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	8,000,000	48,000	192,000	352,000	-	-	8,592,000
Year 2	8,592,000	51,552	206,208	378,048	-	-	9,227,808
Year 3	9,227,808	55,367	221,467	406,024	-	-	9,910,666
Year 4	9,910,666	59,464	237,856	436,069	-	-	10,644,055
Year 5	10,644,055	63,864	255,457	468,338	-	-	11,431,715
Year 6	11,431,715	68,590	274,361	502,995	-	-	12,277,662
Year 7	12,277,662	73,666	294,664	540,217	-	-	13,186,209
Year 8	13,186,209	79,117	316,469	580,193	-	-	14,161,989
Year 9	14,161,989	84,972	339,888	623,127	-	-	15,209,976
Year 10	15,209,976	91,260	365,039	669,239	-	-	16,335,514
Year 11	16,335,514	98,013	392,052	718,763	-	-	17,544,342
Year 12	17,544,342	105,266	421,064	771,951	-	-	18,842,623
Year 13	18,842,623	113,056	452,223	829,075	-	-	20,236,977
Year 14	20,236,977	121,422	485,687	890,427	-	-	21,734,514
Year 15	21,734,514	130,407	521,628	956,319	-	-	23,342,868
Year 16	23,342,868	140,057	560,229	1,027,086	-	-	25,070,240
Year 17	25,070,240	150,421	601,686	1,103,091	-	-	26,925,438
Year 18	26,925,438	161,553	646,211	1,184,719	-	-	28,917,920
Year 19	28,917,920	173,508	694,030	1,272,388	-	-	31,057,846
Year 20	31,057,846	186,347	745,388	1,366,545	-	-	33,356,127
					Embedded Capital Gains Tax Liability:		686,612

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Hypothetical Technique

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Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

Mr. and Mrs. Nathan Notgonnagivemore

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Holdco LLC Distributions	Note Payments	Annuity Purchase	GLT Remainder Purchase	Consumption	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	29,289	2,407,951	8,394,998	2,000,000	(1,750,000)	(687,240)	10,394,998
Year 2	10,394,998	62,370	249,480	457,380	29,289	1,270,970	-	-	(1,793,750)	(989,181)	9,681,556
Year 3	9,681,556	58,089	232,357	425,988	29,289	1,270,970	-	-	(1,838,594)	(1,226,074)	8,633,583
Year 4	8,633,583	51,801	207,206	379,878	-	1,270,970	-	-	(1,884,559)	(1,418,288)	7,240,591
Year 5	7,240,591	43,444	173,774	318,586	-	1,270,970	-	-	(1,931,673)	(1,580,284)	5,535,409
Year 6	5,535,409	33,212	132,850	243,558	-	1,270,970	-	-	(1,979,964)	(1,722,354)	3,513,682
Year 7	3,513,682	21,082	84,328	154,602	-	1,270,970	-	-	(2,029,463)	(1,851,852)	1,163,350
Year 8	1,163,350	6,980	27,920	51,187	-	2,804,822	-	-	(2,080,200)	(1,974,060)	-
Year 9	-	-	-	-	-	4,225,007	-	-	(2,132,205)	(2,092,802)	-
Year 10	-	-	-	-	-	4,396,389	-	-	(2,185,510)	(2,210,878)	-
Year 11	-	-	-	-	-	4,570,519	-	-	(2,240,148)	(2,330,371)	-
Year 12	-	-	-	-	-	4,749,014	-	-	(2,296,152)	(2,452,862)	-
Year 13	-	-	-	-	-	4,933,141	-	-	(2,353,555)	(2,579,586)	-
Year 14	-	-	-	-	-	5,123,933	-	-	(2,412,394)	(2,711,539)	-
Year 15	-	-	-	-	-	5,322,262	-	-	(2,472,704)	(2,849,557)	-
Year 16	-	-	-	-	-	5,528,894	-	-	(2,534,522)	(2,994,372)	-
Year 17	-	-	-	-	-	5,744,533	-	-	(2,597,885)	(3,146,648)	-
Year 18	-	-	-	-	-	5,969,844	-	-	(2,662,832)	(3,307,012)	-
Year 19	-	-	-	-	-	6,205,477	-	-	(2,729,403)	(3,476,074)	-
Year 20	-	-	-	-	-	42,025,762	-	-	(2,797,638)	(3,653,815)	35,574,309

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Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

Holdco LLC

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Note Payments	Owner Distributions	End of Year Financial Assets
Year 1	105,000,000	630,000	2,520,000	4,620,000	(2,407,951)	(2,928,915)	107,433,134
Year 2	107,433,134	644,599	2,578,395	4,727,058	(1,270,970)	(2,928,915)	111,183,300
Year 3	111,183,300	667,100	2,668,399	4,892,065	(1,270,970)	(2,928,915)	115,210,979
Year 4	115,210,979	691,266	2,765,063	5,069,283	(1,270,970)	-	122,465,621
Year 5	122,465,621	734,794	2,939,175	5,388,487	(1,270,970)	-	130,257,107
Year 6	130,257,107	781,543	3,126,171	5,731,313	(1,270,970)	-	138,625,162
Year 7	138,625,162	831,751	3,327,004	6,099,507	(1,270,970)	-	147,612,454
Year 8	147,612,454	885,675	3,542,699	6,494,948	(2,804,822)	-	155,730,953
Year 9	155,730,953	934,386	3,737,543	6,852,162	(4,225,007)	-	163,030,037
Year 10	163,030,037	978,180	3,912,721	7,173,322	(4,396,389)	-	170,697,871
Year 11	170,697,871	1,024,187	4,096,749	7,510,706	(4,570,519)	-	178,758,994
Year 12	178,758,994	1,072,554	4,290,216	7,865,396	(4,749,014)	-	187,238,146
Year 13	187,238,146	1,123,429	4,493,715	8,238,478	(4,933,141)	-	196,160,627
Year 14	196,160,627	1,176,964	4,707,855	8,631,068	(5,123,933)	-	205,552,580
Year 15	205,552,580	1,233,315	4,933,262	9,044,314	(5,322,262)	-	215,441,210
Year 16	215,441,210	1,292,647	5,170,589	9,479,413	(5,528,894)	-	225,854,965
Year 17	225,854,965	1,355,130	5,420,519	9,937,618	(5,744,533)	-	236,823,700
Year 18	236,823,700	1,420,942	5,683,769	10,420,243	(5,969,844)	-	248,378,809
Year 19	248,378,809	1,490,273	5,961,091	10,928,668	(6,205,477)	-	260,553,364
Year 20	260,553,364	1,563,320	6,253,281	11,464,348	(42,025,762)	-	237,808,551

	Ownership		
	Ima Notgonnagivemore	GLT #1 & Existing GST Tax Exempt Grantor Trust #1	GLT #2 & Existing GST Tax Exempt Grantor Trust #2
Year 1	1.00%	49.50%	49.50%
Year 2	1.00%	49.50%	49.50%
Year 3	1.00%	49.50%	49.50%
Year 4	1.00%	49.50%	49.50%
Year 5	1.00%	49.50%	49.50%
Year 6	1.00%	49.50%	49.50%
Year 7	1.00%	49.50%	49.50%
Year 8	1.00%	49.50%	49.50%
Year 9	1.00%	49.50%	49.50%
Year 10	1.00%	49.50%	49.50%
Year 11	1.00%	49.50%	49.50%
Year 12	1.00%	49.50%	49.50%
Year 13	1.00%	49.50%	49.50%
Year 14	1.00%	49.50%	49.50%
Year 15	1.00%	49.50%	49.50%
Year 16	1.00%	49.50%	49.50%
Year 17	1.00%	49.50%	49.50%
Year 18	1.00%	49.50%	49.50%
Year 19	1.00%	49.50%	49.50%
Year 20	1.00%	49.50%	49.50%

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Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

3-Year GRAT-like Trust #1

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Holdco LLC Distributions	Annual Annuities	Trust Terminates	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	1,449,813	(1,449,813)	-	-	-
Year 2	-	-	-	-	1,449,813	(1,449,813)	-	-	-
Year 3	-	-	-	-	1,449,813	(1,449,813)	-	-	-

3-Year GRAT-like Trust #2

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Holdco LLC Distributions	Annual Annuities	Trust Terminates	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	1,449,813	(1,449,813)	-	-	-
Year 2	-	-	-	-	1,449,813	(1,449,813)	-	-	-
Year 3	-	-	-	-	1,449,813	(1,449,813)	-	-	-

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Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

Existing GST Tax Exempt Grantor Trust #1 for the Benefit of Notgonnagivemore Descendants

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Holdco LLC Distributions	GLT #1 Remainder Purchase	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	1,000,000	6,000	24,000	44,000	-	(1,000,000)	-	-	74,000
Year 2	74,000	444	1,776	3,256	-	-	-	-	79,476
Year 3	79,476	477	1,907	3,497	-	-	-	-	85,357
Year 4	85,357	512	2,049	3,756	-	-	-	-	91,674
Year 5	91,674	550	2,200	4,034	-	-	-	-	98,458
Year 6	98,458	591	2,363	4,332	-	-	-	-	105,743
Year 7	105,743	634	2,538	4,653	-	-	-	-	113,568
Year 8	113,568	681	2,726	4,997	-	-	-	-	121,972
Year 9	121,972	732	2,927	5,367	-	-	-	-	130,998
Year 10	130,998	786	3,144	5,764	-	-	-	-	140,692
Year 11	140,692	844	3,377	6,190	-	-	-	-	151,104
Year 12	151,104	907	3,626	6,649	-	-	-	-	162,285
Year 13	162,285	974	3,895	7,141	-	-	-	-	174,294
Year 14	174,294	1,046	4,183	7,669	-	-	-	-	187,192
Year 15	187,192	1,123	4,493	8,236	-	-	-	-	201,044
Year 16	201,044	1,206	4,825	8,846	-	-	-	-	215,922
Year 17	215,922	1,296	5,182	9,501	-	-	-	-	231,900
Year 18	231,900	1,391	5,566	10,204	-	-	-	-	249,060
Year 19	249,060	1,494	5,977	10,959	-	-	-	-	267,491
Year 20	267,491	1,605	6,420	11,770	-	-	-	-	287,285
								Embedded Capital Gains Tax Liability:	2,991,730

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Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

Existing GST Tax Exempt Grantor Trust #2 for the Benefit of Notgonnagivemore Descendants

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Holdco LLC Distributions	GLT #2 Remainder Purchase	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	1,000,000	6,000	24,000	44,000	-	(1,000,000)	-	-	74,000
Year 2	74,000	444	1,776	3,256	-	-	-	-	79,476
Year 3	79,476	477	1,907	3,497	-	-	-	-	85,357
Year 4	85,357	512	2,049	3,756	-	-	-	-	91,674
Year 5	91,674	550	2,200	4,034	-	-	-	-	98,458
Year 6	98,458	591	2,363	4,332	-	-	-	-	105,743
Year 7	105,743	634	2,538	4,653	-	-	-	-	113,568
Year 8	113,568	681	2,726	4,997	-	-	-	-	121,972
Year 9	121,972	732	2,927	5,367	-	-	-	-	130,998
Year 10	130,998	786	3,144	5,764	-	-	-	-	140,692
Year 11	140,692	844	3,377	6,190	-	-	-	-	151,104
Year 12	151,104	907	3,626	6,649	-	-	-	-	162,285
Year 13	162,285	974	3,895	7,141	-	-	-	-	174,294
Year 14	174,294	1,046	4,183	7,669	-	-	-	-	187,192
Year 15	187,192	1,123	4,493	8,236	-	-	-	-	201,044
Year 16	201,044	1,206	4,825	8,846	-	-	-	-	215,922
Year 17	215,922	1,296	5,182	9,501	-	-	-	-	231,900
Year 18	231,900	1,391	5,566	10,204	-	-	-	-	249,060
Year 19	249,060	1,494	5,977	10,959	-	-	-	-	267,491
Year 20	267,491	1,605	6,420	11,770	-	-	-	-	287,285
								Embedded Capital Gains Tax Liability:	2,991,730

Schedule 13
Mr. and Mrs. Nathan Notgonnagivemore
Hypothetical Technique

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

Existing Non-GST Tax Exempt Grantor Trust for the Benefit of Notgonnagivemore Children

	Beginning of Year Financial Assets	Income	Tax-Free Income	Growth	Annual Annuity	GLT #1 & GLT #2 Annuity Purchase	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	8,000,000	48,000	192,000	352,000	2,899,626	(8,394,998)	-	-	3,096,628
Year 2	3,096,628	18,580	74,319	136,252	2,899,626	-	-	-	6,225,405
Year 3	6,225,405	37,352	149,410	273,918	2,899,626	-	-	-	9,585,711
Year 4	9,585,711	57,514	230,057	421,771	-	-	-	-	10,295,053
Year 5	10,295,053	61,770	247,081	452,982	-	-	-	-	11,056,887
Year 6	11,056,887	66,341	265,365	486,503	-	-	-	-	11,875,097
Year 7	11,875,097	71,251	285,002	522,504	-	-	-	-	12,753,854
Year 8	12,753,854	76,523	306,093	561,170	-	-	-	-	13,697,639
Year 9	13,697,639	82,186	328,743	602,696	-	-	-	-	14,711,265
Year 10	14,711,265	88,268	353,070	647,296	-	-	-	-	15,799,898
Year 11	15,799,898	94,799	379,198	695,196	-	-	-	-	16,969,091
Year 12	16,969,091	101,815	407,258	746,640	-	-	-	-	18,224,804
Year 13	18,224,804	109,349	437,395	801,891	-	-	-	-	19,573,439
Year 14	19,573,439	117,441	469,763	861,231	-	-	-	-	21,021,874
Year 15	21,021,874	126,131	504,525	924,962	-	-	-	-	22,577,492
Year 16	22,577,492	135,465	541,860	993,410	-	-	-	-	24,248,227
Year 17	24,248,227	145,489	581,957	1,066,922	-	-	-	-	26,042,595
Year 18	26,042,595	156,256	625,022	1,145,874	-	-	-	-	27,969,747
Year 19	27,969,747	167,818	671,274	1,230,669	-	-	-	-	30,039,509
Year 20	30,039,509	180,237	720,948	1,321,738	-	-	-	-	32,262,432
							Embedded Capital Gains Tax Liability:		663,988

Schedule 13
Mr. and Mrs. Nathan Notgonnagivemore
Hypothetical Technique

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption (increasing 2.5% per year)	$1,750,000
Long-Term Capital Gain and Healthcare Tax Rate	25.00%
Ordinary and Healthcare Tax Rate	44.60%

Assumptions (continued):	
Holdco LLC Valuation Discount	30.0%
IRS Applicable Federal Rate (mid-term)	1.43%
Guarantee Fee	1.50%

Note Between Nathan Notgonnagivemore and Holdco LLC

	Beginning of Year Principal	Interest (@ 1.43% Interest)	Note Payments	End of Year Principal
Year 1	90,000,000	1,287,000	(2,407,951)	88,879,049
Year 2	88,879,049	1,270,970	(1,270,970)	88,879,049
Year 3	88,879,049	1,270,970	(1,270,970)	88,879,049
Year 4	88,879,049	1,270,970	(1,270,970)	88,879,049
Year 5	88,879,049	1,270,970	(1,270,970)	88,879,049
Year 6	88,879,049	1,270,970	(1,270,970)	88,879,049
Year 7	88,879,049	1,270,970	(1,270,970)	88,879,049
Year 8	88,879,049	1,270,970	(2,804,822)	87,345,198
Year 9	87,345,198	1,249,036	(4,225,007)	84,369,227
Year 10	84,369,227	1,206,480	(4,396,389)	81,179,318
Year 11	81,179,318	1,160,864	(4,570,519)	77,769,663
Year 12	77,769,663	1,112,106	(4,749,014)	74,132,755
Year 13	74,132,755	1,060,098	(4,933,141)	70,259,712
Year 14	70,259,712	1,004,714	(5,123,933)	66,140,493
Year 15	66,140,493	945,809	(5,322,262)	61,764,041
Year 16	61,764,041	883,226	(5,528,894)	57,118,372
Year 17	57,118,372	816,793	(5,744,533)	52,190,632
Year 18	52,190,632	746,326	(5,969,844)	46,967,114
Year 19	46,967,114	671,630	(6,205,477)	41,433,267
Year 20	41,433,267	592,496	(42,025,762)	-

Schedule 14
Carrier Family
Hypothetical Integrated Income and Estate Tax Plan Comparisons

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	Pre-Death	Post Death	Percentage of Total
No Further Planning; Transfers Estate to Family at the End of 8 Years			
Iam A. Carrier	25,622,807	-	0.00%
Carrier Family	-	14,092,544	47.86%
IRS - Income Tax	3,755,759	3,755,759	12.75%
IRS - Investment Opportunity Costs	68,598	68,598	0.23%
IRS - Estate Tax (at 45%)	-	11,530,263	39.16%
Total	$29,447,164	$29,447,164	100.00%
Planning Scenario #1: Leveraged FLLC Asset GRAT Technique That Includes Carried Interests, Cash and the Investment Interests in the Private Equity Fund			
Iam A. Carrier	1,606,183	-	0.00%
Carrier Family	24,003,226	24,886,627	84.51%
IRS - Income Tax	3,769,157	3,769,157	12.80%
IRS - Investment Opportunity Costs	68,598	68,598	0.23%
IRS - Estate Tax (at 45%)	-	722,783	2.45%
Total	$29,447,164	$29,447,164	100.00%
***Planning Scenario #2: Leveraged FLLC Asset GRAT Technique That Includes Only the Carried Interest and Cash**			
Iam A. Carrier	3,186,821	-	0.00%
Carrier Family	22,694,516	24,447,268	83.02%
IRS - Income Tax	3,497,229	3,497,229	11.88%
IRS - Investment Opportunity Costs	68,598	68,598	0.23%
IRS - Estate Tax (at 45%)	-	1,434,069	4.87%
Total	$29,447,164	$29,447,164	100.00%

* May be subject to IRS Section 2701 valuation considerations

Schedule 14
Carrier Family
Asset Page

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Iam A. Carrier	
FMV: Carried Interest*	$1,500,000
Basis: Carried Interest	$0
FMV: Private Equity Investment**	$2,000,000
Basis: Private Equity Investment	$2,000,000
Asset: Cash	$1,000,000
Basis: Cash	$1,000,000
Total Assets* **	**$4,500,000**
Total Basis	**$3,000,000**

* $1,500,000 represents 10% of the fund's total carried interest
** $2,000,000 represents 0.20% of the funds total initial investment interests
*** There is no proposed planning for Iam A. Carrier's other assets
**** Private Equity's hypothetical growth performance is detailed below. Profits are distributed as follows: first, to the investment interest parties until all capital contributions have been returned; second, to the investment interest parties until they have received an 8% cumulative annual compounded return on unreturned capital contribution amounts; third, to the carried interest portion until the carried interest has received distributions totaling 20% of the total profits of the private equity fund on a cumulative basis; fourth, the residual profits and cash flow will pass 20% to the carried interest portions and 80% to the investment interest portions.

Private Equity Fund****

	Beginning of Year	Distributed Income	Unrealized Growth*	End of Year
Year 1	1,000,000,000	20,000,000	101,353,392	1,101,353,392
Year 2	1,101,353,392	22,027,068	111,625,902	1,212,979,294
Year 3	1,212,979,294	24,259,586	122,939,566	1,335,918,860
Year 4	1,335,918,860	26,718,377	135,399,908	1,471,318,768
Year 5	1,471,318,768	29,426,375	149,123,148	1,620,441,915
Year 6	1,620,441,915	32,408,838	164,237,285	1,784,679,200
Year 7	1,784,679,200	35,693,584	180,883,290	1,965,562,490
Year 8	1,965,562,490	39,311,250	199,216,425	2,164,778,916

* Realized at the end of the 8th year

Schedule 14
Carrier Family
No Further Planning; Transfers Estate to Family at the End of 8 Years

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Assumptions (Iam A. Carrier):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Iam A. Carrier

	Beginning of Year - Cash	Income	Growth	Distributed Income from Private Equity Investment	Realized Growth of Private Equity Investment	Realized Growth of Carried Interest	Income Taxes	End of Year - Cash	Private Equity Investment Interest	End of Year - Total Assets
Year 1	1,000,000	20,000	50,000	40,000	-	-	(23,250)	1,086,750	2,000,000	3,086,750
Year 2	1,086,750	21,735	54,338	44,054	-	-	(27,046)	1,179,830	2,000,000	3,179,830
Year 3	1,179,830	23,597	58,992	48,519	-	-	(30,709)	1,280,228	2,000,000	3,280,228
Year 4	1,280,228	25,605	64,011	53,437	-	-	(34,373)	1,388,908	2,000,000	3,388,908
Year 5	1,388,908	27,778	69,445	58,853	-	-	(38,142)	1,506,842	2,000,000	3,506,842
Year 6	1,506,842	30,137	75,342	64,818	-	-	(42,099)	1,635,040	2,000,000	3,635,040
Year 7	1,635,040	32,701	81,752	71,387	-	-	(46,315)	1,774,564	2,000,000	3,774,564
Year 8	1,774,564	35,491	88,728	78,622	1,863,646	23,295,578	(3,513,824)	23,622,807	2,000,000	25,622,807

* Assumes Private Equity growth profits are realized year 8

Schedule 14
Carrier Family
Planning Scenario #1: Leveraged FLLC Asset GRAT Technique That Includes Carried Interests, Cash and the Investment Interests in the Private Equity Fund

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Assumptions (Iam A. Carrier):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Intra-Family Note from Holdco to Iam Carrier Interest Percentage	2.64%
7520 Rate	3.20%

Assumptions (Holdco FLLC):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Iam A. Carrier's Percentage Ownership in Carrier FLLC	1.00%
GRAT Ownership in Carrier FLLC	99.00%
Holdco FLLC Valuation Discount	35.00%

Holdco FLLC

	Beginning of Year	Income	Growth	Distributed Income from Private Equity Investment	Realized Growth of Private Equity Investment	Realized Growth of Carried Interest	Distributions	Note Payments	End of Year	Private Equity Investment Interest	End of Year - Total Assets
Year 1	1,000,000	20,000	50,000	40,000	-	-	(69,939)	(79,200)	960,861	2,000,000	2,960,861
Year 2	960,861	19,217	48,043	44,054	-	-	(83,927)	(79,200)	909,048	2,000,000	2,909,048
Year 3	909,048	18,181	45,452	48,519	-	-	(100,713)	(79,200)	841,287	2,000,000	2,841,287
Year 4	841,287	16,826	42,064	53,437	-	-	(120,855)	(79,200)	753,559	2,000,000	2,753,559
Year 5	753,559	15,071	37,678	58,853	-	-	(145,026)	(79,200)	640,935	2,000,000	2,640,935
Year 6	640,935	12,819	32,047	64,818	-	-	(174,032)	(79,200)	497,386	2,000,000	2,497,386
Year 7	497,386	9,948	24,869	71,387	-	-	(208,838)	(79,200)	315,552	2,000,000	2,315,552
Year 8	315,552	6,311	15,778	78,622	1,863,646	23,295,578	(250,605)	(3,079,200)	22,245,683	2,000,000	24,245,683

* Assumes Private Equity growth profits are realized year 8

Iam A. Carrier

	Beginning of Year	Income	Growth	Distribution from FLLC	Note Payments	Annuity Payments	Income Taxes	End of Year
Year 1	-	-	-	699	79,200	69,240	(23,250)	125,889
Year 2	125,889	2,518	6,294	839	79,200	83,088	(27,046)	270,783
Year 3	270,783	5,416	13,539	1,007	79,200	99,706	(30,709)	438,941
Year 4	438,941	8,779	21,947	1,209	79,200	119,647	(34,373)	635,349
Year 5	635,349	12,707	31,767	1,450	79,200	143,576	(38,142)	865,908
Year 6	865,908	17,318	43,295	1,740	79,200	172,291	(42,099)	1,137,654
Year 7	1,137,654	22,753	56,883	2,088	79,200	206,750	(46,315)	1,459,012
Year 8	1,459,012	29,180	72,951	2,506	3,079,200	248,099	(3,527,222)	1,363,727

Carrier GRAT

	Beginning of Year	Income	Growth	Distribution from FLLC	Annuity Payments	Income Taxes	End of Year
Year 1	-	-	-	69,240	(69,240)	-	-
Year 2	-	-	-	83,088	(83,088)	-	-
Year 3	-	-	-	99,706	(99,706)	-	-
Year 4	-	-	-	119,647	(119,647)	-	-
Year 5	-	-	-	143,576	(143,576)	-	-
Year 6	-	-	-	172,291	(172,291)	-	-
Year 7	-	-	-	206,750	(206,750)	-	-
Year 8	-	-	-	248,099	(248,099)	-	-

Note #1 Between Iam A. Carrier and Holdco FLLC for the Purchase of Private Equity Fund Interests

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	2,000,000	52,800	(52,800)	2,000,000
Year 2	2,000,000	52,800	(52,800)	2,000,000
Year 3	2,000,000	52,800	(52,800)	2,000,000
Year 4	2,000,000	52,800	(52,800)	2,000,000
Year 5	2,000,000	52,800	(52,800)	2,000,000
Year 6	2,000,000	52,800	(52,800)	2,000,000
Year 7	2,000,000	52,800	(52,800)	2,000,000
Year 8	2,000,000	52,800	(2,052,800)	-

Note #2 Between Iam A. Carrier and Holdco FLLC for the Purchase of Financial Assets

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	1,000,000	26,400	(26,400)	1,000,000
Year 2	1,000,000	26,400	(26,400)	1,000,000
Year 3	1,000,000	26,400	(26,400)	1,000,000
Year 4	1,000,000	26,400	(26,400)	1,000,000
Year 5	1,000,000	26,400	(26,400)	1,000,000
Year 6	1,000,000	26,400	(26,400)	1,000,000
Year 7	1,000,000	26,400	(26,400)	1,000,000
Year 8	1,000,000	26,400	(1,026,400)	-

Schedule 14
Carrier Family
***Planning Scenario #2: Leveraged FLLC Asset GRAT Technique That Includes Only the Carried Interest and Cash**

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Assumptions (Iam A. Carrier):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Long-Term Capital Gain Tax Rate	15.00%
Ordinary Tax Rate	35.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Intra-Family Note Interest Percentage	2.64%
7520 Rate	3.20%

Assumptions (Holdco FLLC):	
Rate of Return Taxed at Ordinary Rates - Non-Private Equity Assets	2.00%
Rate of Return Taxed at Capital Gains Rates - Non-Private Equity Assets	5.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Iam A. Carrier's Percentage Ownership in Carrier FLLC	1.00%
GRAT Ownership in Carrier FLLC	99.00%
Holdco FLLC Valuation Discount	35.00%

Holdco FLLC

	Beginning of Year	Income	Growth	Distributed Income from Private Equity Investment	Realized Growth of Carried Interest	Note Payments	Distributions	End of Year
Year 1	1,000,000	20,000	50,000	40,000	-	(26,400)	(69,939)	1,013,661
Year 2	1,013,661	20,273	50,683	44,054	-	(26,400)	(83,927)	1,018,344
Year 3	1,018,344	20,367	50,917	48,519	-	(26,400)	(100,713)	1,011,034
Year 4	1,011,034	20,221	50,552	53,437	-	(26,400)	(120,855)	987,988
Year 5	987,988	19,760	49,399	58,853	-	(26,400)	(145,026)	944,574
Year 6	944,574	18,891	47,229	64,818	-	(26,400)	(174,032)	875,080
Year 7	875,080	17,502	43,754	71,387	-	(26,400)	(208,838)	772,485
Year 8	772,485	15,450	38,624	78,622	23,295,578	(1,026,400)	(250,605)	22,923,754

* Assumes Private Equity growth profits are realized year 8

Iam A. Carrier

	Beginning of Year	Income	Growth	Distribution from FLLC	Note Payments	Annuity Payments	Realized Growth of Private Equity Investment	Income Taxes	End of Year	Private Equity Investment Interest	End of Year - Total Assets
Year 1	-	-	-	699	26,400	69,240	-	(23,250)	73,089	2,000,000	2,073,089
Year 2	73,089	1,462	3,654	839	26,400	83,088	-	(27,046)	161,487	2,000,000	2,161,487
Year 3	161,487	3,230	8,074	1,007	26,400	99,706	-	(30,709)	269,194	2,000,000	2,269,194
Year 4	269,194	5,384	13,460	1,209	26,400	119,647	-	(34,373)	400,920	2,000,000	2,400,920
Year 5	400,920	8,018	20,046	1,450	26,400	143,576	-	(38,142)	562,269	2,000,000	2,562,269
Year 6	562,269	11,245	28,113	1,740	26,400	172,291	-	(42,099)	759,960	2,000,000	2,759,960
Year 7	759,960	15,199	37,998	2,088	26,400	206,750	-	(46,315)	1,002,080	2,000,000	3,002,080
Year 8	1,002,080	20,042	50,104	2,506	1,026,400	248,099	1,863,646	(3,255,294)	957,583	2,000,000	2,957,583

* Assumes Private Equity growth profits are realized year 8

Carrier GRAT

	Beginning of Year	Income	Growth	Distribution from FLLC	Note Payments	Income Taxes	End of Year
Year 1	-	-	-	69,240	(69,240)	-	-
Year 2	-	-	-	83,088	(83,088)	-	-
Year 3	-	-	-	99,706	(99,706)	-	-
Year 4	-	-	-	119,647	(119,647)	-	-
Year 5	-	-	-	143,576	(143,576)	-	-
Year 6	-	-	-	172,291	(172,291)	-	-
Year 7	-	-	-	206,750	(206,750)	-	-
Year 8	-	-	-	248,099	(248,099)	-	-

Note #1 Between Iam A Carrier and Holdco, FLLC for the Purchase of Financial Assets

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	1,000,000	26,400	(26,400)	1,000,000
Year 2	1,000,000	26,400	(26,400)	1,000,000
Year 3	1,000,000	26,400	(26,400)	1,000,000
Year 4	1,000,000	26,400	(26,400)	1,000,000
Year 5	1,000,000	26,400	(26,400)	1,000,000
Year 6	1,000,000	26,400	(26,400)	1,000,000
Year 7	1,000,000	26,400	(26,400)	1,000,000
Year 8	1,000,000	26,400	(1,026,400)	-

Schedule 15
Sam and Sally Wilson
Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mr. and Mrs. Wilson have a joint life expectancy of 30 years)

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	Pre-Death	Post Death	Present Values (Discounted at 3%)	Percentage of Total
No Further Planning; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)				
Sam and Sally Wilson	140,844,946	-	-	0.00%
Wilson Children	-	69,215,214	28,515,752	19.50%
Wilson Children and Grandchildren	-	25,486,256	10,500,000	7.18%
Consumption - Direct Cost	11,893,854	11,893,854	4,900,110	3.35%
Consumption - Investment Opportunity Cost	20,512,350	20,512,350	8,450,816	5.78%
IRS - Income Tax	73,174,905	73,174,905	30,147,092	20.61%
IRS - Investment Opportunity Costs	108,592,940	108,592,940	44,738,854	30.59%
IRS - Estate Tax at 40%	-	46,143,476	19,010,501	13.00%
Total	$355,018,994	$355,018,994	$146,263,125	100.00%
Sales of Sub-Chapter S Non-Voting Stock to a Qualified Sub-Chapter S Trust (QSST) that is Created by a Third Party for the Benefit of the Seller and Seller's Family; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)				
Sam and Sally Wilson	74,906,628	-	-	0.00%
Wilson Children	-	29,652,223	12,216,323	8.35%
Wilson Children and Grandchildren	65,582,178	91,068,434	37,518,989	25.65%
Consumption - Direct Cost	11,893,854	11,893,854	4,900,110	3.35%
Consumption - Investment Opportunity Cost	20,512,350	20,512,350	8,450,816	5.78%
IRS - Income Tax	73,531,045	73,531,045	30,293,817	20.71%
IRS - Investment Opportunity Costs	108,592,940	108,592,940	44,738,854	30.59%
IRS - Estate Tax at 40%	-	19,768,149	8,144,216	5.57%
Total	$355,018,994	$355,018,994	$146,263,125	100.00%

Schedule 15
Sam and Sally Wilson
Asset Page*

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	Sam & Sally Wilson	Third Party
FMV: Financial Assets	$19,000,000	$1,000,000
Basis: Financial Assets	$19,000,000	$1,000,000
FMV: Wilson Sub-S Corp.	$13,000,000	$0
Basis: Wilson Sub-S Corp.	$2,000,000	$0
Total Assets:	**$32,000,000**	**$1,000,000**
Total Basis:	**$21,000,000**	**$1,000,000**

* Information provided by client.
** There is no proposed planning for Mr. and Mrs. Sam Wilson's other assets. -
-

Schedule 15
Sam and Sally Wilson
No Further Planning; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets*	7.00%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (FL)	25.00%
Ordinary Tax Rate (FL)	44.60%
Consumption (increasing 3% per year)	$250,000

Assumptions (continued):	
Total Estimated Rate of Return - Wilson Sub-S Corp.*	12.00%
Wilson Sub-S Corp. Distributions (as a % of income)	60.00%

Sam and Sally Wilson

	Beginning of Year - Financial Assets	Income	Growth	Wilson Corp. Distributions	Third Party Gift	Consumption	Income Taxes	End of Year - Financial Assets
Year 1	19,000,000	570,000	760,000	936,000	1,000,000	(250,000)	(1,006,980)	21,009,020
Year 2	21,009,020	630,271	840,361	980,928	-	(257,500)	(1,113,184)	22,089,895
Year 3	22,089,895	662,697	883,596	1,028,013	-	(265,225)	(1,198,037)	23,200,938
Year 4	23,200,938	696,028	928,038	1,077,357	-	(273,182)	(1,277,690)	24,351,489
Year 5	24,351,489	730,545	974,060	1,129,070	-	(281,377)	(1,354,651)	25,549,135
Year 6	25,549,135	766,474	1,021,965	1,183,266	-	(289,819)	(1,430,742)	26,800,280
Year 7	26,800,280	804,008	1,072,011	1,240,062	-	(298,513)	(1,507,302)	28,110,546
Year 8	28,110,546	843,316	1,124,422	1,299,585	-	(307,468)	(1,585,330)	29,485,071
Year 9	29,485,071	884,552	1,179,403	1,361,966	-	(316,693)	(1,665,590)	30,928,709
Year 10	30,928,709	927,861	1,237,148	1,427,340	-	(326,193)	(1,748,681)	32,446,184
Year 11	32,446,184	973,386	1,297,847	1,495,852	-	(335,979)	(1,835,091)	34,042,199
Year 12	34,042,199	1,021,266	1,361,688	1,567,653	-	(346,058)	(1,925,231)	35,721,516
Year 13	35,721,516	1,071,645	1,428,861	1,642,900	-	(356,440)	(2,019,462)	37,489,020
Year 14	37,489,020	1,124,671	1,499,561	1,721,760	-	(367,133)	(2,118,111)	39,349,767
Year 15	39,349,767	1,180,493	1,573,991	1,804,404	-	(378,147)	(2,221,490)	41,309,018
Year 16	41,309,018	1,239,271	1,652,361	1,891,015	-	(389,492)	(2,329,898)	43,372,275
Year 17	43,372,275	1,301,168	1,734,891	1,981,784	-	(401,177)	(2,443,634)	45,545,308
Year 18	45,545,308	1,366,359	1,821,812	2,076,910	-	(413,212)	(2,562,999)	47,834,179
Year 19	47,834,179	1,435,025	1,913,367	2,176,602	-	(425,608)	(2,688,301)	50,245,263
Year 20	50,245,263	1,507,358	2,009,811	2,281,078	-	(438,377)	(2,819,856)	52,785,277
Year 21	52,785,277	1,583,558	2,111,411	2,390,570	-	(451,528)	(2,957,995)	55,461,295
Year 22	55,461,295	1,663,839	2,218,452	2,505,318	-	(465,074)	(3,103,058)	58,280,771
Year 23	58,280,771	1,748,423	2,331,231	2,625,573	-	(479,026)	(3,255,405)	61,251,567
Year 24	61,251,567	1,837,547	2,450,063	2,751,600	-	(493,397)	(3,415,409)	64,381,971
Year 25	64,381,971	1,931,459	2,575,279	2,883,677	-	(508,199)	(3,583,465)	67,680,723
Year 26	67,680,723	2,030,422	2,707,229	3,022,094	-	(523,444)	(3,759,984)	71,157,039
Year 27	71,157,039	2,134,711	2,846,282	3,167,154	-	(539,148)	(3,945,399)	74,820,639
Year 28	74,820,639	2,244,619	2,992,826	3,319,178	-	(555,322)	(4,140,164)	78,681,776
Year 29	78,681,776	2,360,453	3,147,271	3,478,498	-	(571,982)	(4,344,757)	82,751,259
Year 30	82,751,259	2,482,538	3,310,050	3,645,466	-	(589,141)	(3,817,008)	87,783,164

Schedule 15
Sam and Sally Wilson
No Further Planning; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets*	7.00%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (FL)	25.00%
Ordinary Tax Rate (FL)	44.60%
Consumption (increasing 3% per year)	$250,000

Assumptions (continued):	
Total Estimated Rate of Return - Wilson Sub-S Corp.*	12.00%
Wilson Sub-S Corp. Distributions (as a % of income)	60.00%

Wilson Sub-S Corp.

	Beginning of Year - Value	Income	Distributions	End of Year - Value
Year 1	13,000,000	1,560,000	(936,000)	13,624,000
Year 2	13,624,000	1,634,880	(980,928)	14,277,952
Year 3	14,277,952	1,713,354	(1,028,013)	14,963,294
Year 4	14,963,294	1,795,595	(1,077,357)	15,681,532
Year 5	15,681,532	1,881,784	(1,129,070)	16,434,245
Year 6	16,434,245	1,972,109	(1,183,266)	17,223,089
Year 7	17,223,089	2,066,771	(1,240,062)	18,049,797
Year 8	18,049,797	2,165,976	(1,299,585)	18,916,188
Year 9	18,916,188	2,269,943	(1,361,966)	19,824,165
Year 10	19,824,165	2,378,900	(1,427,340)	20,775,725
Year 11	20,775,725	2,493,087	(1,495,852)	21,772,959
Year 12	21,772,959	2,612,755	(1,567,653)	22,818,061
Year 13	22,818,061	2,738,167	(1,642,900)	23,913,328
Year 14	23,913,328	2,869,599	(1,721,760)	25,061,168
Year 15	25,061,168	3,007,340	(1,804,404)	26,264,104
Year 16	26,264,104	3,151,692	(1,891,015)	27,524,781
Year 17	27,524,781	3,302,974	(1,981,784)	28,845,971
Year 18	28,845,971	3,461,516	(2,076,910)	30,230,577
Year 19	30,230,577	3,627,669	(2,176,602)	31,681,645
Year 20	31,681,645	3,801,797	(2,281,078)	33,202,364
Year 21	33,202,364	3,984,284	(2,390,570)	34,796,077
Year 22	34,796,077	4,175,529	(2,505,318)	36,466,289
Year 23	36,466,289	4,375,955	(2,625,573)	38,216,671
Year 24	38,216,671	4,586,001	(2,751,600)	40,051,071
Year 25	40,051,071	4,806,129	(2,883,677)	41,973,523
Year 26	41,973,523	5,036,823	(3,022,094)	43,988,252
Year 27	43,988,252	5,278,590	(3,167,154)	46,099,688
Year 28	46,099,688	5,531,963	(3,319,178)	48,312,473
Year 29	48,312,473	5,797,497	(3,478,498)	50,631,471
Year 30	50,631,471	6,075,777	(3,645,466)	53,061,782

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Sam and Sally Wilson
Sales of Sub-Chapter S Non-Voting Stock to a Qualified Sub-Chapter S Trust (QSST) that is Created by a Third Party for the Benefit of the Seller and Seller's Family; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)

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Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (FL)	25.00%
Ordinary Tax Rate (FL)	44.60%
Consumption (increasing 3% per year)	$250,000

Assumptions (continued):	
Total Estimated Rate of Return - Wilson Sub-S Corp.*	12.00%
Wilson Sub-S Corp. Valuation Discount	30.00%
Wilson Sub-S Corp. Distributions (as a % of income)	60.00%
Inter-Family Interest Rate (Mid-Term)	2.49%

Sam and Sally Wilson

	Beginning of Year - Financial Assets	Income	Growth	Wilson Corp. Distributions	Note Payments	Trust Distributions	Consumption	Income Taxes	End of Year - Financial Assets
Year 1	19,000,000	570,000	760,000	9,360	1,926,640	-	(250,000)	(1,006,980)	21,009,020
Year 2	21,009,020	630,271	840,361	9,809	971,119	-	(257,500)	(1,113,184)	22,089,895
Year 3	22,089,895	662,697	883,596	10,280	1,017,732	-	(265,225)	(1,198,037)	23,200,938
Year 4	23,200,938	696,028	928,038	10,774	1,066,584	-	(273,182)	(1,277,690)	24,351,489
Year 5	24,351,489	730,545	974,060	11,291	1,117,780	-	(281,377)	(1,354,651)	25,549,135
Year 6	25,549,135	766,474	1,021,965	11,833	1,171,433	-	(289,819)	(1,430,742)	26,800,280
Year 7	26,800,280	804,008	1,072,011	12,401	1,227,662	-	(298,513)	(1,507,302)	28,110,546
Year 8	28,110,546	843,316	1,124,422	12,996	1,286,590	-	(307,468)	(1,585,330)	29,485,071
Year 9	29,485,071	884,552	1,179,403	13,620	253,592	-	(316,693)	(1,665,590)	29,833,956
Year 10	29,833,956	895,019	1,193,358	14,273	-	1,250,000	(326,193)	(1,730,749)	31,129,663
Year 11	31,129,663	933,890	1,245,187	14,959	-	1,250,000	(335,979)	(1,811,228)	32,426,491
Year 12	32,426,491	972,795	1,297,060	15,677	-	1,500,000	(346,058)	(1,894,392)	33,971,572
Year 13	33,971,572	1,019,147	1,358,863	16,429	-	1,500,000	(356,440)	(1,984,343)	35,525,228
Year 14	35,525,228	1,065,757	1,421,009	17,218	-	1,500,000	(367,133)	(2,077,751)	37,084,327
Year 15	37,084,327	1,112,530	1,483,373	18,044	-	1,500,000	(378,147)	(2,174,522)	38,645,604
Year 16	38,645,604	1,159,368	1,545,824	18,910	-	1,500,000	(389,492)	(2,274,612)	40,205,603
Year 17	40,205,603	1,206,168	1,608,224	19,818	-	1,500,000	(401,177)	(2,378,009)	41,760,627
Year 18	41,760,627	1,252,819	1,670,425	20,769	-	1,500,000	(413,212)	(2,484,728)	43,306,700
Year 19	43,306,700	1,299,201	1,732,268	21,766	-	1,500,000	(425,608)	(2,594,798)	44,839,528
Year 20	44,839,528	1,345,186	1,793,581	22,811	-	2,000,000	(438,377)	(2,708,263)	46,854,466
Year 21	46,854,466	1,405,634	1,874,179	23,906	-	2,000,000	(451,528)	(2,833,363)	48,873,294
Year 22	48,873,294	1,466,199	1,954,932	25,053	-	2,000,000	(465,074)	(2,963,452)	50,890,952
Year 23	50,890,952	1,526,729	2,035,638	26,256	-	2,500,000	(479,026)	(3,098,339)	53,402,210
Year 24	53,402,210	1,602,066	2,136,088	27,516	-	2,500,000	(493,397)	(3,246,104)	55,928,381
Year 25	55,928,381	1,677,851	2,237,135	28,837	-	2,500,000	(508,199)	(3,399,998)	58,464,007
Year 26	58,464,007	1,753,920	2,338,560	30,221	-	2,500,000	(523,444)	(3,559,764)	61,003,500
Year 27	61,003,500	1,830,105	2,440,140	31,672	-	3,000,000	(539,148)	(3,725,253)	64,041,016
Year 28	64,041,016	1,921,230	2,561,641	33,192	-	3,000,000	(555,322)	(3,904,590)	67,097,167
Year 29	67,097,167	2,012,915	2,683,887	34,785	-	3,000,000	(571,982)	(4,091,061)	70,165,710
Year 30	70,165,710	2,104,971	2,806,628	36,455	-	3,500,000	(589,141)	(3,648,614)	74,376,010

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Assumptions:	
Total Estimated Rate of Return - Financial Assets*	7.00%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (FL)	25.00%
Ordinary Tax Rate (FL)	44.60%
Consumption (increasing 3% per year)	$250,000

Assumptions (continued):	
Total Estimated Rate of Return - Wilson Sub-S Corp.*	12.00%
Wilson Sub-S Corp. Valuation Discount	30.00%
Wilson Sub-S Corp. Distributions (as a % of income)	60.00%
Inter-Family Interest Rate (Mid-Term)	2.49%

Wilson Sub-S Corp.

	Beginning of Year - Value	Income	Distributions	End of Year - Value	Ownership: Sam Wilson	Ownership: QST Trust #1
Year 1	13,000,000	1,560,000	(936,000)	13,624,000	1.00%	99.00%
Year 2	13,624,000	1,634,880	(980,928)	14,277,952	1.00%	99.00%
Year 3	14,277,952	1,713,354	(1,028,013)	14,963,294	1.00%	99.00%
Year 4	14,963,294	1,795,595	(1,077,357)	15,681,532	1.00%	99.00%
Year 5	15,681,532	1,881,784	(1,129,070)	16,434,245	1.00%	99.00%
Year 6	16,434,245	1,972,109	(1,183,266)	17,223,089	1.00%	99.00%
Year 7	17,223,089	2,066,771	(1,240,062)	18,049,797	1.00%	99.00%
Year 8	18,049,797	2,165,976	(1,299,585)	18,916,188	1.00%	99.00%
Year 9	18,916,188	2,269,943	(1,361,966)	19,824,165	1.00%	99.00%
Year 10	19,824,165	2,378,900	(1,427,340)	20,775,725	1.00%	99.00%
Year 11	20,775,725	2,493,087	(1,495,852)	21,772,959	1.00%	99.00%
Year 12	21,772,959	2,612,755	(1,567,653)	22,818,061	1.00%	99.00%
Year 13	22,818,061	2,738,167	(1,642,900)	23,913,328	1.00%	99.00%
Year 14	23,913,328	2,869,599	(1,721,760)	25,061,168	1.00%	99.00%
Year 15	25,061,168	3,007,340	(1,804,404)	26,264,104	1.00%	99.00%
Year 16	26,264,104	3,151,692	(1,891,015)	27,524,781	1.00%	99.00%
Year 17	27,524,781	3,302,974	(1,981,784)	28,845,971	1.00%	99.00%
Year 18	28,845,971	3,461,516	(2,076,910)	30,230,577	1.00%	99.00%
Year 19	30,230,577	3,627,669	(2,176,602)	31,681,645	1.00%	99.00%
Year 20	31,681,645	3,801,797	(2,281,078)	33,202,364	1.00%	99.00%
Year 21	33,202,364	3,984,284	(2,390,570)	34,796,077	1.00%	99.00%
Year 22	34,796,077	4,175,529	(2,505,318)	36,466,289	1.00%	99.00%
Year 23	36,466,289	4,375,955	(2,625,573)	38,216,671	1.00%	99.00%
Year 24	38,216,671	4,586,001	(2,751,600)	40,051,071	1.00%	99.00%
Year 25	40,051,071	4,806,129	(2,883,677)	41,973,523	1.00%	99.00%
Year 26	41,973,523	5,036,823	(3,022,094)	43,988,252	1.00%	99.00%
Year 27	43,988,252	5,278,590	(3,167,154)	46,099,688	1.00%	99.00%
Year 28	46,099,688	5,531,963	(3,319,178)	48,312,473	1.00%	99.00%
Year 29	48,312,473	5,797,497	(3,478,498)	50,631,471	1.00%	99.00%
Year 30	50,631,471	6,075,777	(3,645,466)	53,061,782	1.00%	99.00%

Schedule 15
Sam and Sally Wilson
Sales of Sub-Chapter S Non-Voting Stock to a Qualified Sub-Chapter S Trust (QSST) that is Created by a Third Party for the Benefit of the Seller and Seller's Family; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets*	7.00%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (FL)	25.00%
Ordinary Tax Rate (FL)	44.60%
Consumption (increasing 3% per year)	$250,000

Assumptions (continued):	
Total Estimated Rate of Return - Wilson Sub-S Corp.*	12.00%
Wilson Sub-S Corp. Valuation Discount	30.00%
Wilson Sub-S Corp. Distributions (as a % of income)	60.00%
Inter-Family Interest Rate (Mid-Term)	2.49%

QSST Trust #1 Created by 3rd Party (Parent or Spouse)

	Beginning of Year - Financial Assets	Income	Growth	Third Party Gift	Wilson Corp. Distributions	Note Payments	Distributions	Income Taxes	End of Year - Financial Assets
Year 1	-	-	-	1,000,000	926,640	(1,926,640)	-	-	-
Year 2	-	-	-	-	971,119	(971,119)	-	-	-
Year 3	-	-	-	-	1,017,732	(1,017,732)	-	-	-
Year 4	-	-	-	-	1,066,584	(1,066,584)	-	-	-
Year 5	-	-	-	-	1,117,780	(1,117,780)	-	-	-
Year 6	-	-	-	-	1,171,433	(1,171,433)	-	-	-
Year 7	-	-	-	-	1,227,662	(1,227,662)	-	-	-
Year 8	-	-	-	-	1,286,590	(1,286,590)	-	-	-
Year 9	-	-	-	-	1,348,346	(253,592)	-	-	1,094,754
Year 10	1,094,754	32,843	43,790	-	1,413,066	-	(1,250,000)	(17,932)	1,316,521
Year 11	1,316,521	39,496	52,661	-	1,480,894	-	(1,250,000)	(23,864)	1,615,707
Year 12	1,615,707	48,471	64,628	-	1,551,977	-	(1,500,000)	(30,839)	1,749,944
Year 13	1,749,944	52,498	69,998	-	1,626,471	-	(1,500,000)	(35,119)	1,963,793
Year 14	1,963,793	58,914	78,552	-	1,704,542	-	(1,500,000)	(40,360)	2,265,440
Year 15	2,265,440	67,963	90,618	-	1,786,360	-	(1,500,000)	(46,967)	2,663,414
Year 16	2,663,414	79,902	106,537	-	1,872,105	-	(1,500,000)	(55,286)	3,166,673
Year 17	3,166,673	95,000	126,667	-	1,961,966	-	(1,500,000)	(65,624)	3,784,681
Year 18	3,784,681	113,540	151,387	-	2,056,141	-	(1,500,000)	(78,271)	4,527,479
Year 19	4,527,479	135,824	181,099	-	2,154,836	-	(1,500,000)	(93,503)	5,405,735
Year 20	5,405,735	162,172	216,229	-	2,258,268	-	(2,000,000)	(111,593)	5,930,811
Year 21	5,930,811	177,924	237,232	-	2,366,664	-	(2,000,000)	(124,632)	6,588,000
Year 22	6,588,000	197,640	263,520	-	2,480,264	-	(2,000,000)	(139,606)	7,389,819
Year 23	7,389,819	221,695	295,593	-	2,599,317	-	(2,500,000)	(157,066)	7,849,357
Year 24	7,849,357	235,481	313,974	-	2,724,084	-	(2,500,000)	(169,306)	8,453,591
Year 25	8,453,591	253,608	338,144	-	2,854,840	-	(2,500,000)	(183,467)	9,216,716
Year 26	9,216,716	276,501	368,669	-	2,991,873	-	(2,500,000)	(200,220)	10,153,538
Year 27	10,153,538	304,606	406,142	-	3,135,483	-	(3,000,000)	(220,145)	10,779,623
Year 28	10,779,623	323,389	431,185	-	3,285,986	-	(3,000,000)	(235,574)	11,584,609
Year 29	11,584,609	347,538	463,384	-	3,443,713	-	(3,000,000)	(253,696)	12,585,549
Year 30	12,585,549	377,566	503,422	-	3,609,011	-	(3,500,000)	(524,535)	13,051,013

Schedule 15
Sam and Sally Wilson
Sales of Sub-Chapter S Non-Voting Stock to a Qualified Sub-Chapter S Trust (QSST) that is Created by a Third Party for the Benefit of the Seller and Seller's Family; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets*	7.00%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (FL)	25.00%
Ordinary Tax Rate (FL)	44.60%
Consumption (increasing 3% per year)	$250,000

Assumptions (continued):	
Total Estimated Rate of Return - Wilson Sub-S Corp.*	12.00%
Wilson Sub-S Corp. Valuation Discount	30.00%
Wilson Sub-S Corp. Distributions (as a % of income)	60.00%
Inter-Family Interest Rate (Mid-Term)	2.49%

Note #1 Between QSST Trust #1 and Mr. and Mrs. Sam Wilson for the Purchase of Wilson Corp. Interests

	Beginning of Year - Principal	Interest	Note Payment	End of Year - Principal
Year 1	9,009,000	224,324	(1,926,640)	7,306,684
Year 2	7,306,684	181,936	(971,119)	6,517,502
Year 3	6,517,502	162,286	(1,017,732)	5,662,055
Year 4	5,662,055	140,985	(1,066,584)	4,736,457
Year 5	4,736,457	117,938	(1,117,780)	3,736,615
Year 6	3,736,615	93,042	(1,171,433)	2,658,224
Year 7	2,658,224	66,190	(1,227,662)	1,496,752
Year 8	1,496,752	37,269	(1,286,590)	247,431
Year 9	247,431	6,161	(253,592)	-
Year 10	-	-	-	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-
Year 21	-	-	-	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-
Year 26	-	-	-	-
Year 27	-	-	-	-
Year 28	-	-	-	-
Year 29	-	-	-	-
Year 30	-	-	-	-

Schedule 16
Betsy Bossdaughter
Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mrs. Bossdaughter has a life expectancy of 30 years)

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	30-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning				
Betsy Bossdaughter	161,353,624	-	-	0.00%
Bossdaughter Children	-	89,948,174	42,882,134	26.54%
Bossdaughter Children & Grandchildren	11,486,982	22,759,465	10,850,408	6.72%
Consumption - Direct Cost	43,902,703	43,902,703	20,930,293	12.96%
Consumption - Investment Opportunity Cost	60,266,542	60,266,542	28,731,633	17.78%
IRS Income Tax - Direct Cost	27,710,079	27,710,079	13,210,577	8.18%
IRS Income Tax - Investment Opportunity Cost	34,146,049	34,146,049	16,278,879	10.08%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	167,518	79,863	0.05%
IRS Estate Tax (@ 40%)	-	59,965,449	28,588,089	17.70%
Total	**338,865,979**	**338,865,979**	**161,551,877**	**100.00%**
Hypothetical Technique				
Betsy Bossdaughter	2,383,540	-	-	0.00%
Bossdaughter Children	-	-	-	0.00%
Bossdaughter Children & Grandchildren	169,391,980	169,144,803	80,638,548	49.91%
Consumption - Direct Cost	43,902,703	43,902,703	20,930,293	12.96%
Consumption - Investment Opportunity Cost	60,266,542	60,266,542	28,731,633	17.78%
IRS Income Tax - Direct Cost	28,775,165	28,775,165	13,718,349	8.49%
IRS Income Tax - Investment Opportunity Cost	34,146,049	34,146,049	16,278,879	10.08%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	2,630,716	1,254,175	0.78%
IRS Estate Tax (@ 40%)	-	-	-	0.00%
Total	**338,865,979**	**338,865,979**	**161,551,877**	**100.00%**

***Calculations of Remaining Estate Tax Exemption for Betsy Bossdaughter**	
Current Gift and Estate Exemption	5,600,000
Assumed Gifts Made	-
Future Estate Tax Exemption Available in 30 years (assumes 2.5% inflation)	11,440,000

Schedule 16
Betsy Bossdaughter
No Further Planning

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Assumptions:	Financial Assets
Total Estimated Rate of Return	6.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	3.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	25.00%
Ordinary Income and Health Care Tax Rate	44.60%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000

Betsy Bossdaughter

	Financial Assets							
	Beginning of Year	Income	Tax Free Income	Growth	Trust Distributions	Consumption	Income Taxes	End of Year
Year 1	57,000,000	342,000	1,368,000	1,710,000	-	(1,000,000)	(290,634)	59,129,366
Year 2	59,129,366	354,776	1,419,105	1,773,881	-	(1,025,000)	(394,639)	61,257,489
Year 3	61,257,489	367,545	1,470,180	1,837,725	-	(1,050,625)	(474,339)	63,407,974
Year 4	63,407,974	380,448	1,521,791	1,902,239	-	(1,076,891)	(537,162)	65,598,399
Year 5	65,598,399	393,590	1,574,362	1,967,952	-	(1,103,813)	(588,351)	67,842,139
Year 6	67,842,139	407,053	1,628,211	2,035,264	-	(1,131,408)	(631,612)	70,149,647
Year 7	70,149,647	420,898	1,683,592	2,104,489	-	(1,159,693)	(669,565)	72,529,367
Year 8	72,529,367	435,176	1,740,705	2,175,881	-	(1,188,686)	(704,070)	74,988,373
Year 9	74,988,373	449,930	1,799,721	2,249,651	-	(1,218,403)	(736,449)	77,532,823
Year 10	77,532,823	465,197	1,860,788	2,325,985	-	(1,248,863)	(767,647)	80,168,283
Year 11	80,168,283	481,010	1,924,039	2,405,048	-	(1,280,085)	(798,341)	82,899,955
Year 12	82,899,955	497,400	1,989,599	2,486,999	-	(1,312,087)	(829,026)	85,732,840
Year 13	85,732,840	514,397	2,057,588	2,571,985	-	(1,344,889)	(860,062)	88,671,859
Year 14	88,671,859	532,031	2,128,125	2,660,156	-	(1,378,511)	(891,721)	91,721,938
Year 15	91,721,938	550,332	2,201,327	2,751,658	-	(1,412,974)	(924,211)	94,888,070
Year 16	94,888,070	569,328	2,277,314	2,846,642	-	(1,448,298)	(957,693)	98,175,363
Year 17	98,175,363	589,052	2,356,209	2,945,261	-	(1,484,506)	(992,302)	101,589,077
Year 18	101,589,077	609,534	2,438,138	3,047,672	-	(1,521,618)	(1,028,149)	105,134,655
Year 19	105,134,655	630,808	2,523,232	3,154,040	-	(1,559,659)	(1,065,334)	108,817,742
Year 20	108,817,742	652,906	2,611,626	3,264,532	-	(1,598,650)	(1,103,946)	112,644,210
Year 21	112,644,210	675,865	2,703,461	3,379,326	-	(1,638,616)	(1,144,072)	116,620,174
Year 22	116,620,174	699,721	2,798,884	3,498,605	-	(1,679,582)	(1,185,794)	120,752,009
Year 23	120,752,009	724,512	2,898,048	3,622,560	-	(1,721,571)	(1,229,193)	125,046,365
Year 24	125,046,365	750,278	3,001,113	3,751,391	-	(1,764,611)	(1,274,353)	129,510,184
Year 25	129,510,184	777,061	3,108,244	3,885,306	-	(1,808,726)	(1,321,357)	134,150,712
Year 26	134,150,712	804,904	3,219,617	4,024,521	-	(1,853,944)	(1,370,292)	138,975,518
Year 27	138,975,518	833,853	3,335,412	4,169,266	-	(1,900,293)	(1,421,248)	143,992,508
Year 28	143,992,508	863,955	3,455,820	4,319,775	-	(1,947,800)	(1,474,318)	149,209,940
Year 29	149,209,940	895,260	3,581,039	4,476,298	-	(1,996,495)	(1,529,598)	154,636,444
Year 30	154,636,444	927,819	3,711,275	4,639,093	-	(2,046,407)	(514,600)	161,353,624

Betsy Bossdaughter
No Further Planning

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	6.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	3.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	25.00%
Ordinary Income and Health Care Tax Rate	44.60%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000

BDOT Created by Granny Selfmade

	Financial Assets						
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Beneficiary Distributions**	**Income Taxes**	**End of Year**
Year 1	2,000,000	12,000	48,000	60,000	-	-	2,120,000
Year 2	2,120,000	12,720	50,880	63,600	-	-	2,247,200
Year 3	2,247,200	13,483	53,933	67,416	-	-	2,382,032
Year 4	2,382,032	14,292	57,169	71,461	-	-	2,524,954
Year 5	2,524,954	15,150	60,599	75,749	-	-	2,676,451
Year 6	2,676,451	16,059	64,235	80,294	-	-	2,837,038
Year 7	2,837,038	17,022	68,089	85,111	-	-	3,007,261
Year 8	3,007,261	18,044	72,174	90,218	-	-	3,187,696
Year 9	3,187,696	19,126	76,505	95,631	-	-	3,378,958
Year 10	3,378,958	20,274	81,095	101,369	-	-	3,581,695
Year 11	3,581,695	21,490	85,961	107,451	-	-	3,796,597
Year 12	3,796,597	22,780	91,118	113,898	-	-	4,024,393
Year 13	4,024,393	24,146	96,585	120,732	-	-	4,265,857
Year 14	4,265,857	25,595	102,381	127,976	-	-	4,521,808
Year 15	4,521,808	27,131	108,523	135,654	-	-	4,793,116
Year 16	4,793,116	28,759	115,035	143,793	-	-	5,080,703
Year 17	5,080,703	30,484	121,937	152,421	-	-	5,385,546
Year 18	5,385,546	32,313	129,253	161,566	-	-	5,708,678
Year 19	5,708,678	34,252	137,008	171,260	-	-	6,051,199
Year 20	6,051,199	36,307	145,229	181,536	-	-	6,414,271
Year 21	6,414,271	38,486	153,943	192,428	-	-	6,799,127
Year 22	6,799,127	40,795	163,179	203,974	-	-	7,207,075
Year 23	7,207,075	43,242	172,970	216,212	-	-	7,639,499
Year 24	7,639,499	45,837	183,348	229,185	-	-	8,097,869
Year 25	8,097,869	48,587	194,349	242,936	-	-	8,583,741
Year 26	8,583,741	51,502	206,010	257,512	-	-	9,098,766
Year 27	9,098,766	54,593	218,370	272,963	-	-	9,644,692
Year 28	9,644,692	57,868	231,473	289,341	-	-	10,223,373
Year 29	10,223,373	61,340	245,361	306,701	-	-	10,836,776
Year 30	10,836,776	65,021	260,083	325,103	-	-	11,486,982

Schedule 16
Betsy Bossdaughter
Hypothetical Technique

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Assumptions:	Financial Assets
Total Estimated Rate of Return	6.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	3.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	25.00%
Ordinary Income and Health Care Tax Rate	44.60%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	1.85%
Bossdaughter Family LLC Valuation Discount	30.00%

Betsy Bossdaughter

	Financial Assets									
	Beginning of Year	Income	Tax Free Income	Growth	Bossdaughter Family LLC Distributions	Notes #1 and #2 Payments	Trust Distributions	Consumption	Income Taxes	End of Year
Year 1	-	-	-	-	863,550	1,427,084	-	(1,000,000)	(290,634)	1,000,000
Year 2	1,000,000	6,000	24,000	30,000	889,457	470,183	-	(1,025,000)	(394,639)	1,000,000
Year 3	1,000,000	6,000	24,000	30,000	916,140	548,824	-	(1,050,625)	(474,339)	1,000,000
Year 4	1,000,000	6,000	24,000	30,000	943,624	610,428	-	(1,076,891)	(537,162)	1,000,000
Year 5	1,000,000	6,000	24,000	30,000	971,933	660,231	-	(1,103,813)	(588,351)	1,000,000
Year 6	1,000,000	6,000	24,000	30,000	19,824	1,683,196	-	(1,131,408)	(631,612)	1,000,000
Year 7	1,000,000	6,000	24,000	30,000	20,418	1,748,840	-	(1,159,693)	(669,565)	1,000,000
Year 8	1,000,000	6,000	24,000	30,000	21,031	1,811,725	-	(1,188,686)	(704,070)	1,000,000
Year 9	1,000,000	6,000	24,000	30,000	21,662	1,873,191	-	(1,218,403)	(736,449)	1,000,000
Year 10	1,000,000	6,000	24,000	30,000	22,312	1,934,198	-	(1,248,863)	(767,647)	1,000,000
Year 11	1,000,000	6,000	24,000	30,000	22,981	1,995,445	-	(1,280,085)	(798,341)	1,000,000
Year 12	1,000,000	6,000	24,000	30,000	23,670	2,057,442	-	(1,312,087)	(829,026)	1,000,000
Year 13	1,000,000	6,000	24,000	30,000	24,381	2,120,570	-	(1,344,889)	(860,062)	1,000,000
Year 14	1,000,000	6,000	24,000	30,000	25,112	2,185,120	-	(1,378,511)	(891,721)	1,000,000
Year 15	1,000,000	6,000	24,000	30,000	25,865	2,251,319	-	(1,412,974)	(924,211)	1,000,000
Year 16	1,000,000	6,000	24,000	30,000	26,641	2,319,350	-	(1,448,298)	(957,693)	1,000,000
Year 17	1,000,000	6,000	24,000	30,000	27,440	2,389,367	-	(1,484,506)	(992,302)	1,000,000
Year 18	1,000,000	6,000	24,000	30,000	28,264	2,461,504	-	(1,521,618)	(1,028,149)	1,000,000
Year 19	1,000,000	6,000	24,000	30,000	29,112	2,535,881	-	(1,559,659)	(1,065,334)	1,000,000
Year 20	1,000,000	6,000	24,000	30,000	29,985	2,612,612	-	(1,598,650)	(1,103,946)	1,000,000
Year 21	1,000,000	6,000	24,000	30,000	30,885	2,691,804	-	(1,638,616)	(1,144,072)	1,000,000
Year 22	1,000,000	6,000	24,000	30,000	31,811	2,773,564	-	(1,679,582)	(1,185,794)	1,000,000
Year 23	1,000,000	6,000	24,000	30,000	32,765	2,857,999	-	(1,721,571)	(1,229,193)	1,000,000
Year 24	1,000,000	6,000	24,000	30,000	33,748	2,945,215	-	(1,764,611)	(1,274,353)	1,000,000
Year 25	1,000,000	6,000	24,000	30,000	34,761	3,035,322	-	(1,808,726)	(1,321,357)	1,000,000
Year 26	1,000,000	6,000	24,000	30,000	35,804	3,128,433	-	(1,853,944)	(1,370,292)	1,000,000
Year 27	1,000,000	6,000	24,000	30,000	36,878	1,257,421	1,967,243	(1,900,293)	(1,421,248)	1,000,000
Year 28	1,000,000	6,000	24,000	30,000	37,984	-	3,324,134	(1,947,800)	(1,474,318)	1,000,000
Year 29	1,000,000	6,000	24,000	30,000	39,124	-	3,426,969	(1,996,495)	(1,529,598)	1,000,000
Year 30	1,000,000	6,000	24,000	30,000	40,297	-	3,525,800	(2,046,407)	(1,579,689)	1,000,000

Betsy Bossdaughter
Hypothetical Technique

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Assumptions:	Financial Assets
Total Estimated Rate of Return	6.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	3.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	25.00%
Ordinary Income and Health Care Tax Rate	44.60%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	1.85%
Bossdaughter Family LLC Valuation Discount	30.00%

Bossdaughter Family LLC

	Financial Assets						Ownership	
	Beginning of Year	Income	Tax Free Income	Growth	Owner Distributions	End of Year	Betsy Bossdaughter	BDOT
Year 1	57,000,000	342,000	1,368,000	1,710,000	(1,710,000)	58,710,000	50.5%	49.5%
Year 2	58,710,000	352,260	1,409,040	1,761,300	(1,761,300)	60,471,300	50.5%	49.5%
Year 3	60,471,300	362,828	1,451,311	1,814,139	(1,814,139)	62,285,439	50.5%	49.5%
Year 4	62,285,439	373,713	1,494,851	1,868,563	(1,868,563)	64,154,002	50.5%	49.5%
Year 5	64,154,002	384,924	1,539,696	1,924,620	(1,924,620)	66,078,622	50.5%	49.5%
Year 6	66,078,622	396,472	1,585,887	1,982,359	(1,982,359)	68,060,981	1.0%	99.0%
Year 7	68,060,981	408,366	1,633,464	2,041,829	(2,041,829)	70,102,810	1.0%	99.0%
Year 8	70,102,810	420,617	1,682,467	2,103,084	(2,103,084)	72,205,895	1.0%	99.0%
Year 9	72,205,895	433,235	1,732,941	2,166,177	(2,166,177)	74,372,071	1.0%	99.0%
Year 10	74,372,071	446,232	1,784,930	2,231,162	(2,231,162)	76,603,234	1.0%	99.0%
Year 11	76,603,234	459,619	1,838,478	2,298,097	(2,298,097)	78,901,331	1.0%	99.0%
Year 12	78,901,331	473,408	1,893,632	2,367,040	(2,367,040)	81,268,371	1.0%	99.0%
Year 13	81,268,371	487,610	1,950,441	2,438,051	(2,438,051)	83,706,422	1.0%	99.0%
Year 14	83,706,422	502,239	2,008,954	2,511,193	(2,511,193)	86,217,614	1.0%	99.0%
Year 15	86,217,614	517,306	2,069,223	2,586,528	(2,586,528)	88,804,143	1.0%	99.0%
Year 16	88,804,143	532,825	2,131,299	2,664,124	(2,664,124)	91,468,267	1.0%	99.0%
Year 17	91,468,267	548,810	2,195,238	2,744,048	(2,744,048)	94,212,315	1.0%	99.0%
Year 18	94,212,315	565,274	2,261,096	2,826,369	(2,826,369)	97,038,684	1.0%	99.0%
Year 19	97,038,684	582,232	2,328,928	2,911,161	(2,911,161)	99,949,845	1.0%	99.0%
Year 20	99,949,845	599,699	2,398,796	2,998,495	(2,998,495)	102,948,340	1.0%	99.0%
Year 21	102,948,340	617,690	2,470,760	3,088,450	(3,088,450)	106,036,791	1.0%	99.0%
Year 22	106,036,791	636,221	2,544,883	3,181,104	(3,181,104)	109,217,894	1.0%	99.0%
Year 23	109,217,894	655,307	2,621,229	3,276,537	(3,276,537)	112,494,431	1.0%	99.0%
Year 24	112,494,431	674,967	2,699,866	3,374,833	(3,374,833)	115,869,264	1.0%	99.0%
Year 25	115,869,264	695,216	2,780,862	3,476,078	(3,476,078)	119,345,342	1.0%	99.0%
Year 26	119,345,342	716,072	2,864,288	3,580,360	(3,580,360)	122,925,702	1.0%	99.0%
Year 27	122,925,702	737,554	2,950,217	3,687,771	(3,687,771)	126,613,473	1.0%	99.0%
Year 28	126,613,473	759,681	3,038,723	3,798,404	(3,798,404)	130,411,878	1.0%	99.0%
Year 29	130,411,878	782,471	3,129,885	3,912,356	(3,912,356)	134,324,234	1.0%	99.0%
Year 30	134,324,234	805,945	3,223,782	4,029,727	(4,029,727)	138,353,961	1.0%	99.0%

Betsy Bossdaughter
Hypothetical Technique

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Assumptions:	Financial Assets
Total Estimated Rate of Return	6.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	3.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	25.00%
Ordinary Income and Health Care Tax Rate	44.60%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	1.85%
Bossdaughter Family LLC Valuation Discount	30.00%

BDOT Created by Granny Selfmade

	Financial Assets								
	Beginning of Year	Income	Tax Free Income	Growth	Bossdaughter Family LLC Distributions	Notes #1 and #2 Payments	Beneficiary Distributions	Income Taxes	End of Year
Year 1	2,000,000	12,000	48,000	60,000	846,450	(1,427,084)	-	-	1,539,366
Year 2	1,539,366	9,236	36,945	46,181	871,844	(470,183)	-	-	2,033,389
Year 3	2,033,389	12,200	48,801	61,002	897,999	(548,824)	-	-	2,504,567
Year 4	2,504,567	15,027	60,110	75,137	924,939	(610,428)	-	-	2,969,351
Year 5	2,969,351	17,816	71,264	89,081	952,687	(660,231)	-	-	3,439,968
Year 6	3,439,968	20,640	82,559	103,199	1,962,535	(1,683,196)	-	-	3,925,705
Year 7	3,925,705	23,554	94,217	117,771	2,021,411	(1,748,840)	-	-	4,433,818
Year 8	4,433,818	26,603	106,412	133,015	2,082,053	(1,811,725)	-	-	4,970,175
Year 9	4,970,175	29,821	119,284	149,105	2,144,515	(1,873,191)	-	-	5,539,710
Year 10	5,539,710	33,238	132,953	166,191	2,208,851	(1,934,198)	-	-	6,146,745
Year 11	6,146,745	36,880	147,522	184,402	2,275,116	(1,995,445)	-	-	6,795,221
Year 12	6,795,221	40,771	163,085	203,857	2,343,370	(2,057,442)	-	-	7,488,862
Year 13	7,488,862	44,933	179,733	224,666	2,413,671	(2,120,570)	-	-	8,231,294
Year 14	8,231,294	49,388	197,551	246,939	2,486,081	(2,185,120)	-	-	9,026,132
Year 15	9,026,132	54,157	216,627	270,784	2,560,663	(2,251,319)	-	-	9,877,044
Year 16	9,877,044	59,262	237,049	296,311	2,637,483	(2,319,350)	-	-	10,787,800
Year 17	10,787,800	64,727	258,907	323,634	2,716,608	(2,389,367)	-	-	11,762,309
Year 18	11,762,309	70,574	282,295	352,869	2,798,106	(2,461,504)	-	-	12,804,650
Year 19	12,804,650	76,828	307,312	384,140	2,882,049	(2,535,881)	-	-	13,919,097
Year 20	13,919,097	83,515	334,058	417,573	2,968,510	(2,612,612)	-	-	15,110,142
Year 21	15,110,142	90,661	362,643	453,304	3,057,566	(2,691,804)	-	-	16,382,512
Year 22	16,382,512	98,295	393,180	491,475	3,149,293	(2,773,564)	-	-	17,741,191
Year 23	17,741,191	106,447	425,789	532,236	3,243,771	(2,857,999)	-	-	19,191,435
Year 24	19,191,435	115,149	460,594	575,743	3,341,085	(2,945,215)	-	-	20,738,791
Year 25	20,738,791	124,433	497,731	622,164	3,441,317	(3,035,322)	-	-	22,389,113
Year 26	22,389,113	134,335	537,339	671,673	3,544,557	(3,128,433)	-	-	24,148,584
Year 27	24,148,584	144,892	579,566	724,458	3,650,893	(1,257,421)	(1,967,243)	-	26,023,729
Year 28	26,023,729	156,142	624,569	780,712	3,760,420	-	(3,324,134)	-	28,021,439
Year 29	28,021,439	168,129	672,515	840,643	3,873,233	-	(3,426,969)	-	30,148,989
Year 30	30,148,989	180,894	723,576	904,470	3,989,430	-	(3,525,800)	-	32,421,559

Betsy Bossdaughter
Hypothetical Technique

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Assumptions:	Financial Assets
Total Estimated Rate of Return	6.00%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	3.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	25.00%
Ordinary Income and Health Care Tax Rate	44.60%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	1.85%
Bossdaughter Family LLC Valuation Discount	30.00%

Notes #1 and #2 Between Betsy Bossdaughter and BDOT

	Beginning of Year Principal	Interest @ 1.85%	Note Payments	End of Year Principal
Year 1	19,750,500	365,384	(1,427,084)	18,688,800
Year 2	18,688,800	345,743	(470,183)	18,564,360
Year 3	18,564,360	343,441	(548,824)	18,358,977
Year 4	18,358,977	339,641	(610,428)	18,088,189
Year 5	18,088,189	334,632	(660,231)	17,762,590
Year 6*	40,658,832	752,188	(1,683,196)	39,727,824
Year 7	39,727,824	734,965	(1,748,840)	38,713,949
Year 8	38,713,949	716,208	(1,811,725)	37,618,431
Year 9	37,618,431	695,941	(1,873,191)	36,441,182
Year 10	36,441,182	674,162	(1,934,198)	35,181,146
Year 11	35,181,146	650,851	(1,995,445)	33,836,552
Year 12	33,836,552	625,976	(2,057,442)	32,405,087
Year 13	32,405,087	599,494	(2,120,570)	30,884,011
Year 14	30,884,011	571,354	(2,185,120)	29,270,244
Year 15	29,270,244	541,500	(2,251,319)	27,560,425
Year 16	27,560,425	509,868	(2,319,350)	25,750,942
Year 17	25,750,942	476,392	(2,389,367)	23,837,968
Year 18	23,837,968	441,002	(2,461,504)	21,817,467
Year 19	21,817,467	403,623	(2,535,881)	19,685,209
Year 20	19,685,209	364,176	(2,612,612)	17,436,774
Year 21	17,436,774	322,580	(2,691,804)	15,067,550
Year 22	15,067,550	278,750	(2,773,564)	12,572,735
Year 23	12,572,735	232,596	(2,857,999)	9,947,332
Year 24	9,947,332	184,026	(2,945,215)	7,186,143
Year 25	7,186,143	132,944	(3,035,322)	4,283,764
Year 26	4,283,764	79,250	(3,128,433)	1,234,581
Year 27	1,234,581	22,840	(1,257,421)	-
Year 28	-	-	-	-
Year 29	-	-	-	-
Year 30	-	-	-	-

Note #1 Calculations		
Bossdaughter Family LLC Value		57,000,000
Bossdaughter Family LLC Valuation Discount		(17,100,000)
Bossdaughter Family LLC Discounted Value		39,900,000
Amount Transferred to BDOT via Note #1	49.5%	19,750,500

Note #2 Calculations		
Bossdaughter Family LLC Value - End of Year 5		66,078,622
Bossdaughter Family LLC Valuation Discount		(19,823,587)
Bossdaughter Family LLC Discounted Value		46,255,036
Amount Transferred to BDOT via Note #2	49.5%	22,896,243

*Beginning year principal includes Note #2 principal.

Bossdaughter Family LLC Value - End of Year 27	
Bossdaughter Family LLC Value - End of Year 27	126,613,473

Betsy Bossdaughter

Summary of Hypothetical Results for $59,000,000 of Assets

Post Death Scenarios (assuming Betsy Bossdaughter has a life expectancy of 30 years)

	Bossdaughter Children (1)	Bossdaughter Children & Grandchildren (2)	Consumption: Direct Cost (3)	Consumption: Investment Opportunity Cost (4)	IRS Income Tax: Direct Cost (5)	IRS Income Tax: Investment Opportunity Cost (6)	IRS Income Tax: Embedded Capital Gains Tax (7)	IRS Estate Tax (@ 40%) (8)	Total (9)
30-Year Future Values									
No Further Planning	$89,948,174	$22,759,465	$43,902,703	$60,266,542	$27,710,079	$34,146,049	$167,518	$59,965,449	$338,865,979
Hypothetical Technique	$0	$169,144,803	$43,902,703	$60,266,542	$28,775,165	$34,146,049	$2,630,716	$0	$338,865,979
Present Values (discounted at 2.5%)									
No Further Planning	$42,882,134	$10,850,408	$20,930,293	$28,731,633	$13,210,577	$16,278,879	$79,863	$28,588,089	$161,551,877
Hypothetical Technique	$0	$80,638,548	$20,930,293	$28,731,633	$13,718,349	$16,278,879	$1,254,175	$0	$161,551,877

Schedule 17
Bob and Betsy Bossdaughter
Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mr. and Mrs. Bossdaughter have a joint life expectancy of 30 years)

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	Pre-Death	Post Death	Present Values (Discounted at 3%)	Percentage of Total
No Further Planning; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)				
Bob and Betsy Bossdaughter	281,918,244	-	-	0.00%
Bossdaughter Children	-	153,859,193	63,387,950	19.81%
Bossdaughter Children and Grandchildren	-	25,486,256	10,500,000	3.28%
Consumption - Direct Cost	71,363,124	71,363,124	29,400,662	9.19%
Consumption - Investment Opportunity Cost	123,074,098	123,074,098	50,704,899	15.85%
IRS - Income Tax	113,459,902	113,459,902	46,743,977	14.61%
IRS - Investment Opportunity Costs	186,670,218	186,670,218	76,905,658	24.04%
IRS - Estate Tax at 40%	-	102,572,795	42,258,634	13.21%
Total	$776,485,586	$776,485,586	$319,901,780	100.00%
Third Party Gift to a Trust in Which the Beneficiary is Taxed Under 678 but not Taxable in the Beneficiary's Estate (678 Trust); Creation of a Single Member FLLC with Contribution of Non-Managing Member Interests to a 3-Year GRAT in Which There is No Gift Because of a Purchase by the 678 Trust; the GRAT Remaindermen is a 678 Trust Created for the Benefit of the Grantor and His Family; Bequeaths Estate to Family (assumes $25.5mm exemption is available)				
Bob and Betsy Bossdaughter	14,933,949	-	-	0.00%
Bossdaughter Children	-	14,933,949	6,152,589	1.92%
Bossdaughter Children and Grandchildren	258,624,250	258,624,250	106,549,767	33.31%
Consumption - Direct Cost	71,363,124	71,363,124	29,400,662	9.19%
Consumption - Investment Opportunity Cost	123,074,098	123,074,098	50,704,899	15.85%
IRS - Income Tax	121,819,947	121,819,947	50,188,205	15.69%
IRS - Investment Opportunity Costs	186,670,218	186,670,218	76,905,658	24.04%
IRS - Estate Tax at 40%	-	-	-	0.00%
Total	$776,485,586	$776,485,586	$319,901,780	100.00%

Schedule 17
Bob and Betsy Bossdaughter
Asset Page*

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	Betsy Bossdaughter	Bob Bossdaughter	Third Party
FMV: Financial Assets	$97,000,000	$5,000,000	$5,000
Basis: Financial Assets	$12,000,000	$5,000,000	$5,000
Total Assets:	**$97,000,000**	**$5,000,000**	**$5,000**
Total Basis:	**$12,000,000**	**$5,000,000**	**$5,000**

* Information provided by client.
** There is no proposed planning for Mr. and Mrs. Bob Bossdaughter's other assets.

Schedule 17
Bob and Betsy Bossdaughter
No Further Planning; Bequeaths Estate to Family (assumes $25.5mm estate tax exemption available)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets*	7.00%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (NY)	25.00%
Ordinary Tax Rate (NY)	44.60%
Consumption (increasing 3% per year)	$1,500,000

Bob and Betsy Bossdaughter

	Beginning of Year - Financial Assets	Income	Growth	Third Party Gift	Consumption	Income Taxes	End of Year - Financial Assets
Year 1	102,000,000	3,060,000	4,080,000	5,000	(1,500,000)	(1,670,760)	105,974,240
Year 2	105,974,240	3,179,227	4,238,970	-	(1,545,000)	(1,950,058)	109,897,379
Year 3	109,897,379	3,296,921	4,395,895	-	(1,591,350)	(2,172,605)	113,826,240
Year 4	113,826,240	3,414,787	4,553,050	-	(1,639,091)	(2,355,998)	117,798,988
Year 5	117,798,988	3,533,970	4,711,960	-	(1,688,263)	(2,512,650)	121,844,004
Year 6	121,844,004	3,655,320	4,873,760	-	(1,738,911)	(2,651,354)	125,982,819
Year 7	125,982,819	3,779,485	5,039,313	-	(1,791,078)	(2,778,356)	130,232,182
Year 8	130,232,182	3,906,965	5,209,287	-	(1,844,811)	(2,898,097)	134,605,527
Year 9	134,605,527	4,038,166	5,384,221	-	(1,900,155)	(3,013,752)	139,114,007
Year 10	139,114,007	4,173,420	5,564,560	-	(1,957,160)	(3,127,598)	143,767,230
Year 11	143,767,230	4,313,017	5,750,689	-	(2,015,875)	(3,241,284)	148,573,777
Year 12	148,573,777	4,457,213	5,942,951	-	(2,076,351)	(3,356,014)	153,541,577
Year 13	153,541,577	4,606,247	6,141,663	-	(2,138,641)	(3,472,679)	158,678,168
Year 14	158,678,168	4,760,345	6,347,127	-	(2,202,801)	(3,591,953)	163,990,886
Year 15	163,990,886	4,919,727	6,559,635	-	(2,268,885)	(3,714,358)	169,487,005
Year 16	169,487,005	5,084,610	6,779,480	-	(2,336,951)	(3,840,309)	175,173,835
Year 17	175,173,835	5,255,215	7,006,953	-	(2,407,060)	(3,970,149)	181,058,795
Year 18	181,058,795	5,431,764	7,242,352	-	(2,479,271)	(4,104,169)	187,149,471
Year 19	187,149,471	5,614,484	7,485,979	-	(2,553,650)	(4,242,630)	193,453,654
Year 20	193,453,654	5,803,610	7,738,146	-	(2,630,259)	(4,385,770)	199,979,381
Year 21	199,979,381	5,999,381	7,999,175	-	(2,709,167)	(4,533,814)	206,734,957
Year 22	206,734,957	6,202,049	8,269,398	-	(2,790,442)	(4,686,982)	213,728,980
Year 23	213,728,980	6,411,869	8,549,159	-	(2,874,155)	(4,845,488)	220,970,365
Year 24	220,970,365	6,629,111	8,838,815	-	(2,960,380)	(5,009,551)	228,468,361
Year 25	228,468,361	6,854,051	9,138,734	-	(3,049,191)	(5,179,389)	236,232,566
Year 26	236,232,566	7,086,977	9,449,303	-	(3,140,667)	(5,355,227)	244,272,952
Year 27	244,272,952	7,328,189	9,770,918	-	(3,234,887)	(5,537,296)	252,599,876
Year 28	252,599,876	7,577,996	10,103,995	-	(3,331,934)	(5,725,832)	261,224,101
Year 29	261,224,101	7,836,723	10,448,964	-	(3,431,892)	(5,921,083)	270,156,814
Year 30	270,156,814	8,104,704	10,806,273	-	(3,534,848)	(3,614,698)	281,918,244

Schedule 17
Bob and Betsy Bossdaughter
Third Party Gift to a Trust in Which the Beneficiary is Taxed Under 678 but not Taxable in the Beneficiary's Estate (678 Trust); Creation of a Single Member FLLC with Contribution of Non-Managing Member Interests to a 3-Year GRAT in Which There is No Gift Because of a Purchase by the 678 Trust; the GRAT Remaindermen is a 678 Trust Created for the Benefit of the Grantor and His Family; Bequeaths Estate to Family (assumes $25.5mm exemption is available)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets*	7.00%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (NY)	25.00%
Ordinary Tax Rate (NY)	44.60%
Consumption (increasing 3% per year)	$1,500,000

Assumptions (continued):	
Bossdaughter FLP Distributions	4.00%
Bossdaughter FLP Valuation Discount	30.00%
Holdco, FLLC Distributions	10.00%
Holdco, FLLC Valuation Discount	30.00%
IRS 7520 Rate	1.00%
Annual Annuity Payment from GRAT	$1,377,436
IRS Intra-Family Interest Rate (Mid-Term)	0.87%
IRS Intra-Family Interest Rate (Short-Term)	0.21%

Bob and Betsy Bossdaughter

	Beginning of Year - Financial Assets	Income	Growth	Distributions from Bossdaugher FLP	Distributions from Holdco, FLLC	Cash Annuity Payments from GRAT	Note Payments	Trust Distributions	Payment from 678 Trust	Consumption	Income Taxes	End of Year - Financial Assets
Year 1	15,000,000	450,000	600,000	3,400,000	-	-	-	-	4,000	(1,500,000)	(1,670,760)	16,283,240
Year 2	16,283,240	488,497	651,330	210,120	13,913	1,377,436	109,488	-	-	(1,545,000)	(1,950,058)	15,638,966
Year 3	15,638,966	469,169	625,559	216,424	13,913	1,377,436	109,488	-	-	(1,591,350)	(2,172,605)	14,686,999
Year 4	14,686,999	440,610	587,480	222,916	13,913	1,377,436	109,488	-	-	(1,639,091)	(2,355,998)	13,443,754
Year 5	13,443,754	403,313	537,750	229,604	12,283	-	453,592	-	-	(1,688,263)	(2,512,650)	10,879,382
Year 6	10,879,382	326,381	435,175	236,492	14,914	-	453,592	-	-	(1,738,911)	(2,651,354)	7,955,671
Year 7	7,955,671	238,670	318,227	243,587	17,570	-	453,592	-	-	(1,791,078)	(2,778,356)	4,657,883
Year 8	4,657,883	139,736	186,315	250,894	20,253	-	453,592	-	-	(1,844,811)	(2,898,097)	965,766
Year 9	965,766	28,973	38,631	258,421	22,965	-	5,453,592	-	-	(1,900,155)	(3,013,752)	1,854,440
Year 10	1,854,440	55,633	74,178	266,174	20,709	-	4,410,092	-	-	(1,957,160)	(3,127,598)	1,596,468
Year 11	1,596,468	47,894	63,859	274,159	19,681	-	5,375,292	-	-	(2,015,875)	(3,241,284)	2,120,194
Year 12	2,120,194	63,606	84,808	282,384	17,839	-	5,331,792	-	-	(2,076,351)	(3,356,014)	2,468,257
Year 13	2,468,257	74,048	98,730	290,855	16,219	-	5,288,292	-	-	(2,138,641)	(3,472,679)	2,625,081
Year 14	2,625,081	78,752	105,003	299,581	14,818	-	5,744,792	-	-	(2,202,801)	(3,591,953)	3,073,274
Year 15	3,073,274	92,198	122,931	308,568	13,135	-	6,196,942	-	-	(2,268,885)	(3,714,358)	3,823,806
Year 16	3,823,806	114,714	152,952	317,825	11,185	-	6,144,742	-	-	(2,336,951)	(3,840,309)	4,387,964
Year 17	4,387,964	131,639	175,519	327,360	9,484	-	4,592,542	-	-	(2,407,060)	(3,970,149)	3,247,299
Year 18	3,247,299	97,419	129,892	337,181	9,531	-	4,553,392	-	-	(2,479,271)	(4,104,169)	1,791,273
Year 19	1,791,273	53,738	71,651	347,296	9,763	-	1,651,242	2,871,316	-	(2,553,650)	(4,242,630)	-
Year 20	-	-	-	357,715	13,042	-	-	6,645,272	-	(2,630,259)	(4,385,770)	-
Year 21	-	-	-	368,447	18,031	-	-	6,856,504	-	(2,709,167)	(4,533,814)	-
Year 22	-	-	-	379,500	23,031	-	-	7,074,892	-	(2,790,442)	(4,686,982)	-
Year 23	-	-	-	390,885	28,048	-	-	7,300,710	-	(2,874,155)	(4,845,488)	-
Year 24	-	-	-	402,612	33,085	-	-	7,534,233	-	(2,960,380)	(5,009,551)	-
Year 25	-	-	-	414,690	38,148	-	-	7,775,742	-	(3,049,191)	(5,179,389)	-
Year 26	-	-	-	427,131	43,241	-	-	8,025,522	-	(3,140,667)	(5,355,227)	-
Year 27	-	-	-	439,945	48,367	-	-	8,283,870	-	(3,234,887)	(5,537,296)	-
Year 28	-	-	-	453,143	53,533	-	-	8,551,090	-	(3,331,934)	(5,725,832)	-
Year 29	-	-	-	466,737	58,742	-	-	8,827,495	-	(3,431,892)	(5,921,083)	-
Year 30	-	-	-	480,739	64,000	-	-	14,964,852	-	(3,534,848)	(11,974,743)	-

Schedule 17

Bob and Betsy Bossdaughter

Third Party Gift to a Trust in Which the Beneficiary is Taxed Under 678 but not Taxable in the Beneficiary's Estate (678 Trust); Creation of a Single Member FLLC with Contribution of Non-Managing Member Interests to a 3-Year GRAT in Which There is No Gift Because of a Purchase by the 678 Trust; the GRAT Remaindermen is a 678 Trust Created for the Benefit of the Grantor and His Family; Bequeaths Estate to Family (assumes $25.5mm exemption is available)

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Ordinary Tax Rate (NY)	44.60%
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Annual Annuity Payment from GRAT	$1,377,436
IRS Intra-Family Interest Rate (Mid-Term)	0.87%
IRS Intra-Family Interest Rate (Short-Term)	0.21%

Bossdauther FLP

	Beginning of Year - Value	Income	Growth	Distributions	End of Year - Value	Ownership: Bob & Betsy Bossdaughter	Ownership: Holdco, FLLC
Year 1	85,000,000	2,550,000	3,400,000	(3,400,000)	87,550,000	100.00%	0.00%
Year 2	87,550,000	2,626,500	3,502,000	(3,502,000)	90,176,500	6.00%	94.00%
Year 3	90,176,500	2,705,295	3,607,060	(3,607,060)	92,881,795	6.00%	94.00%
Year 4	92,881,795	2,786,454	3,715,272	(3,715,272)	95,668,249	6.00%	94.00%
Year 5	95,668,249	2,870,047	3,826,730	(3,826,730)	98,538,296	6.00%	94.00%
Year 6	98,538,296	2,956,149	3,941,532	(3,941,532)	101,494,445	6.00%	94.00%
Year 7	101,494,445	3,044,833	4,059,778	(4,059,778)	104,539,279	6.00%	94.00%
Year 8	104,539,279	3,136,178	4,181,571	(4,181,571)	107,675,457	6.00%	94.00%
Year 9	107,675,457	3,230,264	4,307,018	(4,307,018)	110,905,721	6.00%	94.00%
Year 10	110,905,721	3,327,172	4,436,229	(4,436,229)	114,232,892	6.00%	94.00%
Year 11	114,232,892	3,426,987	4,569,316	(4,569,316)	117,659,879	6.00%	94.00%
Year 12	117,659,879	3,529,796	4,706,395	(4,706,395)	121,189,675	6.00%	94.00%
Year 13	121,189,675	3,635,690	4,847,587	(4,847,587)	124,825,366	6.00%	94.00%
Year 14	124,825,366	3,744,761	4,993,015	(4,993,015)	128,570,127	6.00%	94.00%
Year 15	128,570,127	3,857,104	5,142,805	(5,142,805)	132,427,230	6.00%	94.00%
Year 16	132,427,230	3,972,817	5,297,089	(5,297,089)	136,400,047	6.00%	94.00%
Year 17	136,400,047	4,092,001	5,456,002	(5,456,002)	140,492,049	6.00%	94.00%
Year 18	140,492,049	4,214,761	5,619,682	(5,619,682)	144,706,810	6.00%	94.00%
Year 19	144,706,810	4,341,204	5,788,272	(5,788,272)	149,048,015	6.00%	94.00%
Year 20	149,048,015	4,471,440	5,961,921	(5,961,921)	153,519,455	6.00%	94.00%
Year 21	153,519,455	4,605,584	6,140,778	(6,140,778)	158,125,039	6.00%	94.00%
Year 22	158,125,039	4,743,751	6,325,002	(6,325,002)	162,868,790	6.00%	94.00%
Year 23	162,868,790	4,886,064	6,514,752	(6,514,752)	167,754,853	6.00%	94.00%
Year 24	167,754,853	5,032,646	6,710,194	(6,710,194)	172,787,499	6.00%	94.00%
Year 25	172,787,499	5,183,625	6,911,500	(6,911,500)	177,971,124	6.00%	94.00%
Year 26	177,971,124	5,339,134	7,118,845	(7,118,845)	183,310,258	6.00%	94.00%
Year 27	183,310,258	5,499,308	7,332,410	(7,332,410)	188,809,565	6.00%	94.00%
Year 28	188,809,565	5,664,287	7,552,383	(7,552,383)	194,473,852	6.00%	94.00%
Year 29	194,473,852	5,834,216	7,778,954	(7,778,954)	200,308,068	6.00%	94.00%
Year 30	200,308,068	6,009,242	8,012,323	(8,012,323)	206,317,310	6.00%	94.00%

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Assumptions:	
Total Estimated Rate of Return - Financial Assets*	7.00%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (NY)	25.00%
Ordinary Tax Rate (NY)	44.60%
Consumption (increasing 3% per year)	$1,500,000

Assumptions (continued):	
Bossdaughter FLP Distributions	4.00%
Bossdaughter FLP Valuation Discount	30.00%
Holdco, FLLC Distributions	10.00%
Holdco, FLLC Valuation Discount	30.00%
IRS 7520 Rate	1.00%
Annual Annuity Payment from GRAT	$1,377,436
IRS Intra-Family Interest Rate (Mid-Term)	0.87%
IRS Intra-Family Interest Rate (Short-Term)	0.21%

Holdco, FLLC

	Beginning of Year - Value	Income	Growth	FLP Distributions	Note Payments	Distributions	End of Year - Value	Ownership: Betsy Bossdaughter	Ownership: GRAT & 678 Trusts
Year 1	2,000,000	60,000	80,000	-	-	-	2,140,000	100.00%	0.00%
Year 2	2,140,000	64,200	85,600	3,291,880	(109,488)	(1,391,349)	4,080,843	1.00%	99.00%
Year 3	4,080,843	122,425	163,234	3,390,636	(109,488)	(1,391,349)	6,256,301	1.00%	99.00%
Year 4	6,256,301	187,689	250,252	3,492,355	(109,488)	(1,391,349)	8,685,760	1.00%	99.00%
Year 5	8,685,760	260,573	347,430	3,597,126	(453,592)	(1,228,289)	11,209,009	1.00%	99.00%
Year 6	11,209,009	336,270	448,360	3,705,040	(453,592)	(1,491,405)	13,753,683	1.00%	99.00%
Year 7	13,753,683	412,610	550,147	3,816,191	(453,592)	(1,756,987)	16,322,053	1.00%	99.00%
Year 8	16,322,053	489,662	652,882	3,930,677	(453,592)	(2,025,273)	18,916,408	1.00%	99.00%
Year 9	18,916,408	567,492	756,656	4,048,597	(5,453,592)	(2,296,501)	16,539,062	1.00%	99.00%
Year 10	16,539,062	496,172	661,562	4,170,055	(4,410,092)	(2,070,912)	15,385,847	1.00%	99.00%
Year 11	15,385,847	461,575	615,434	4,295,157	(5,375,292)	(1,968,100)	13,414,621	1.00%	99.00%
Year 12	13,414,621	402,439	536,585	4,424,011	(5,331,792)	(1,783,863)	11,662,001	1.00%	99.00%
Year 13	11,662,001	349,860	466,480	4,556,732	(5,288,292)	(1,621,873)	10,124,908	1.00%	99.00%
Year 14	10,124,908	303,747	404,996	4,693,434	(5,744,792)	(1,481,834)	8,300,459	1.00%	99.00%
Year 15	8,300,459	249,014	332,018	4,834,237	(6,196,942)	(1,313,470)	6,205,316	1.00%	99.00%
Year 16	6,205,316	186,159	248,213	4,979,264	(6,144,742)	(1,118,458)	4,355,752	1.00%	99.00%
Year 17	4,355,752	130,673	174,230	5,128,642	(4,592,542)	(948,439)	4,248,316	1.00%	99.00%
Year 18	4,248,316	127,449	169,933	5,282,501	(4,553,392)	(953,082)	4,321,725	1.00%	99.00%
Year 19	4,321,725	129,652	172,869	5,440,976	(1,651,242)	(976,270)	7,437,710	1.00%	99.00%
Year 20	7,437,710	223,131	297,508	5,604,205	-	(1,304,192)	12,258,363	1.00%	99.00%
Year 21	12,258,363	367,751	490,335	5,772,332	-	(1,803,069)	17,085,711	1.00%	99.00%
Year 22	17,085,711	512,571	683,428	5,945,501	-	(2,303,121)	21,924,091	1.00%	99.00%
Year 23	21,924,091	657,723	876,964	6,123,866	-	(2,804,796)	26,777,848	1.00%	99.00%
Year 24	26,777,848	803,335	1,071,114	6,307,582	-	(3,308,543)	31,651,337	1.00%	99.00%
Year 25	31,651,337	949,540	1,266,053	6,496,810	-	(3,814,815)	36,548,926	1.00%	99.00%
Year 26	36,548,926	1,096,468	1,461,957	6,691,714	-	(4,324,064)	41,475,001	1.00%	99.00%
Year 27	41,475,001	1,244,250	1,659,000	6,892,466	-	(4,836,747)	46,433,970	1.00%	99.00%
Year 28	46,433,970	1,393,019	1,857,359	7,099,240	-	(5,353,321)	51,430,266	1.00%	99.00%
Year 29	51,430,266	1,542,908	2,057,211	7,312,217	-	(5,874,248)	56,468,354	1.00%	99.00%
Year 30	56,468,354	1,694,051	2,258,734	7,531,583	-	(6,399,994)	61,552,728	1.00%	99.00%

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Assumptions:	
Total Estimated Rate of Return - Financial Assets*	7.00%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (NY)	25.00%
Ordinary Tax Rate (NY)	44.60%
Consumption (increasing 3% per year)	$1,500,000

Assumptions (continued):	
Bossdaughter FLP Distributions	4.00%
Bossdaughter FLP Valuation Discount	30.00%
Holdco, FLLC Distributions	10.00%
Holdco, FLLC Valuation Discount	30.00%
IRS 7520 Rate	1.00%
Annual Annuity Payment from GRAT	$1,377,436
IRS Intra-Family Interest Rate (Mid-Term)	0.87%
IRS Intra-Family Interest Rate (Short-Term)	0.21%

3-Year GRATs

	Beginning of Year - Financial Assets	Income	Growth	Distributions from Holdco, FLLC	Annuity Payment	GRAT Terminates	End of Year - Financial Assets
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	1,377,436	(1,377,436)	-	-
Year 3	-	-	-	1,377,436	(1,377,436)	-	-
Year 4	-	-	-	1,377,436	(1,377,436)	-	-
Year 5	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-
Year 18	-	-	-	-	-	-	-
Year 19	-	-	-	-	-	-	-
Year 20	-	-	-	-	-	-	-
Year 21	-	-	-	-	-	-	-
Year 22	-	-	-	-	-	-	-
Year 23	-	-	-	-	-	-	-
Year 24	-	-	-	-	-	-	-
Year 25	-	-	-	-	-	-	-
Year 26	-	-	-	-	-	-	-
Year 27	-	-	-	-	-	-	-
Year 28	-	-	-	-	-	-	-
Year 29	-	-	-	-	-	-	-
Year 30	-	-	-	-	-	-	-

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Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.00%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (NY)	25.00%
Ordinary Tax Rate (NY)	44.60%
Consumption (increasing 3% per year)	$1,500,000

Assumptions (continued):	
Bossdaughter FLP Distributions	4.00%
Bossdaughter FLP Valuation Discount	30.00%
Holdco, FLLC Distributions	10.00%
Holdco, FLLC Valuation Discount	30.00%
IRS 7520 Rate	1.00%
Annual Annuity Payment from GRAT	$1,377,436
IRS Intra-Family Interest Rate (Mid-Term)	0.87%
IRS Intra-Family Interest Rate (Short-Term)	0.21%

678 Trust (Created by 3rd Party)

	Beginning of Year - Financial Assets	Income	Growth	Distributions from Holdco, FLLC	GRAT Terminates	Gift from 3rd Party	Payment to Bossdaughters	Beneficiary Distributions	Income Taxes	End of Year - Financial Assets
Year 1	-	-	-	-	-	5,000	(4,000)	-	-	1,000
Year 2	1,000	30	40	-	-	-	-	-	-	1,070
Year 3	1,070	32	43	-	-	-	-	-	-	1,145
Year 4	1,145	34	46	-	-	-	-	-	-	1,225
Year 5	1,225	37	49	1,216,006	-	-	-	-	-	1,217,317
Year 6	1,217,317	36,519	48,693	1,476,491	-	-	-	-	-	2,779,020
Year 7	2,779,020	83,371	111,161	1,739,418	-	-	-	-	-	4,712,968
Year 8	4,712,968	141,389	188,519	2,005,020	-	-	-	-	-	7,047,897
Year 9	7,047,897	211,437	281,916	2,273,536	-	-	-	-	-	9,814,785
Year 10	9,814,785	294,444	392,591	2,050,203	-	-	-	-	-	12,552,022
Year 11	12,552,022	376,561	502,081	1,948,419	-	-	-	-	-	15,379,083
Year 12	15,379,083	461,372	615,163	1,766,025	-	-	-	-	-	18,221,644
Year 13	18,221,644	546,649	728,866	1,605,655	-	-	-	-	-	21,102,813
Year 14	21,102,813	633,084	844,113	1,467,016	-	-	-	-	-	24,047,026
Year 15	24,047,026	721,411	961,881	1,300,335	-	-	-	-	-	27,030,653
Year 16	27,030,653	810,920	1,081,226	1,107,273	-	-	-	-	-	30,030,072
Year 17	30,030,072	900,902	1,201,203	938,955	-	-	-	-	-	33,071,132
Year 18	33,071,132	992,134	1,322,845	943,551	-	-	-	-	-	36,329,662
Year 19	36,329,662	1,089,890	1,453,186	966,507	-	-	-	(2,871,316)	-	36,967,930
Year 20	36,967,930	1,109,038	1,478,717	1,291,150	-	-	-	(6,645,272)	-	34,201,563
Year 21	34,201,563	1,026,047	1,368,063	1,785,039	-	-	-	(6,856,504)	-	31,524,207
Year 22	31,524,207	945,726	1,260,968	2,280,090	-	-	-	(7,074,892)	-	28,936,100
Year 23	28,936,100	868,083	1,157,444	2,776,748	-	-	-	(7,300,710)	-	26,437,664
Year 24	26,437,664	793,130	1,057,507	3,275,458	-	-	-	(7,534,233)	-	24,029,525
Year 25	24,029,525	720,886	961,181	3,776,667	-	-	-	(7,775,742)	-	21,712,516
Year 26	21,712,516	651,375	868,501	4,280,823	-	-	-	(8,025,522)	-	19,487,693
Year 27	19,487,693	584,631	779,508	4,788,379	-	-	-	(8,283,870)	-	17,356,340
Year 28	17,356,340	520,690	694,254	5,299,788	-	-	-	(8,551,090)	-	15,319,982
Year 29	15,319,982	459,599	612,799	5,815,506	-	-	-	(8,827,495)	-	13,380,392
Year 30	13,380,392	401,412	535,216	6,335,994	-	-	-	(14,964,852)	-	5,688,161

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Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate (NY)	25.00%
Ordinary Tax Rate (NY)	44.60%
Consumption (increasing 3% per year)	$1,500,000

Assumptions (continued):	
Bossdaughter FLP Distributions	4.00%
Bossdaughter FLP Valuation Discount	30.00%
Holdco, FLLC Distributions	10.00%
Holdco, FLLC Valuation Discount	30.00%
IRS 7520 Rate	1.00%
Annual Annuity Payment from GRAT	$1,377,436
IRS Intra-Family Interest Rate (Mid-Term)	0.87%
IRS Intra-Family Interest Rate (Short-Term)	0.21%

Note #1 Between Betsy Bossdaughter and Holdco, FLLC for the Purchase of Financial Assets

	Beginning of Year - Principal Balance	Interest	Note Payment	End of Year - Financial Assets
Year 1	-	-	-	-
Year 2	52,137,000	109,488	(109,488)	52,137,000
Year 3	52,137,000	109,488	(109,488)	52,137,000
Year 4	52,137,000	109,488	(109,488)	52,137,000
Year 5	52,137,000	453,592	(453,592)	52,137,000
Year 6	52,137,000	453,592	(453,592)	52,137,000
Year 7	52,137,000	453,592	(453,592)	52,137,000
Year 8	52,137,000	453,592	(453,592)	52,137,000
Year 9	52,137,000	453,592	(5,453,592)	47,137,000
Year 10	47,137,000	410,092	(4,410,092)	43,137,000
Year 11	43,137,000	375,292	(5,375,292)	38,137,000
Year 12	38,137,000	331,792	(5,331,792)	33,137,000
Year 13	33,137,000	288,292	(5,288,292)	28,137,000
Year 14	28,137,000	244,792	(5,744,792)	22,637,000
Year 15	22,637,000	196,942	(6,196,942)	16,637,000
Year 16	16,637,000	144,742	(6,144,742)	10,637,000
Year 17	10,637,000	92,542	(4,592,542)	6,137,000
Year 18	6,137,000	53,392	(4,553,392)	1,637,000
Year 19	1,637,000	14,242	(1,651,242)	-
Year 20	-	-	-	-
Year 21	-	-	-	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-
Year 26	-	-	-	-
Year 27	-	-	-	-
Year 28	-	-	-	-
Year 29	-	-	-	-
Year 30	-	-	-	-

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

Numerical Summary of Alternatives - Future Values

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Hypothetical Technique (Assumes $9.83mm Estate Tax Exemption Available)	Charlie's Descendants	Charity	Charlie's Consumption Direct Costs	Consumption Investment Opportunity Costs	IRS Taxes on Investment Income	IRS Investment Opportunity Costs	IRS Estate Taxes (@40.0%)	Total
Future Values at the end of 25 Years Assuming an Annual Compounded Rate of Return at 7.4%								
Stock Sale, No Planning	$19,745,860	$0	$5,123,665	$7,440,046	$11,792,247	$23,763,728	$6,610,574	$74,476,121
Simulated Tax Holiday (No Initial Capital Gains Tax and No Estate Tax) 78% - 22% Split Between Family and Charity	$27,251,647	$7,539,379	$5,123,665	$7,440,046	$11,817,313	$15,304,071	$0	$74,476,121
FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity	$24,972,689	$7,539,379	$5,123,665	$7,440,046	$12,581,416	$16,818,926	$0	$74,476,121
FLLC/Holdco/LevGRAT (no CRUT), Charlie gives remaining estate to family	$25,552,526	$0	$5,123,665	$7,440,046	$12,596,156	$23,763,728	$0	$74,476,121

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRU

Stock Sale, No Planning

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate on Growth (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 3% per year)	$150,000

Charlie Charitable

	Beginning of Year	Income	Tax Free Income	Growth	Consumption	Income Taxes	End of Year
Year 1	12,500,000	375,000	-	550,000	(150,000)	(2,708,500)	10,566,500
Year 2	10,566,500	316,995	-	464,926	(153,750)	(205,124)	10,989,547
Year 3	10,989,547	329,686	-	483,540	(157,594)	(227,927)	11,417,253
Year 4	11,417,253	342,518	-	502,359	(161,534)	(247,060)	11,853,535
Year 5	11,853,535	355,606	-	521,556	(165,572)	(263,725)	12,301,400
Year 6	12,301,400	369,042	-	541,262	(169,711)	(278,775)	12,763,217
Year 7	12,763,217	382,897	-	561,582	(173,954)	(292,818)	13,240,924
Year 8	13,240,924	397,228	-	582,601	(178,303)	(306,291)	13,736,158
Year 9	13,736,158	412,085	-	604,391	(182,760)	(319,508)	14,250,365
Year 10	14,250,365	427,511	-	627,016	(187,329)	(332,699)	14,784,864
Year 11	14,784,864	443,546	-	650,534	(192,013)	(346,032)	15,340,899
Year 12	15,340,899	460,227	-	675,000	(196,813)	(359,633)	15,919,679
Year 13	15,919,679	477,590	-	700,466	(201,733)	(373,601)	16,522,401
Year 14	16,522,401	495,672	-	726,986	(206,777)	(388,011)	17,150,272
Year 15	17,150,272	514,508	-	754,612	(211,946)	(402,925)	17,804,521
Year 16	17,804,521	534,136	-	783,399	(217,245)	(418,398)	18,486,413
Year 17	18,486,413	554,592	-	813,402	(222,676)	(434,474)	19,197,257
Year 18	19,197,257	575,918	-	844,679	(228,243)	(451,199)	19,938,413
Year 19	19,938,413	598,152	-	877,290	(233,949)	(468,610)	20,711,296
Year 20	20,711,296	621,339	-	911,297	(239,798)	(486,748)	21,517,386
Year 21	21,517,386	645,522	-	946,765	(245,792)	(505,652)	22,358,228
Year 22	22,358,228	670,747	-	983,762	(251,937)	(525,360)	23,235,440
Year 23	23,235,440	697,063	-	1,022,359	(258,236)	(545,912)	24,150,715
Year 24	24,150,715	724,521	-	1,062,631	(264,692)	(567,349)	25,105,828
Year 25	25,105,828	753,175	-	1,104,656	(271,309)	(335,916)	26,356,434

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

Simulated Tax Holiday (No Initial Capital Gains Tax and No Estate Tax) 78% - 22% Split Between Family and Charity

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%

Charlie Charitable

	Beginning of Year	Income	Tax Free Income	Growth	Consumption	Taxes on Investment Income	End of Year
Year 1	12,500,000	375,000	-	550,000	(150,000)	(208,500)	13,066,500
Year 2	13,066,500	391,995	-	574,926	(153,750)	(246,824)	13,632,847
Year 3	13,632,847	408,985	-	599,845	(157,594)	(277,792)	14,206,292
Year 4	14,206,292	426,189	-	625,077	(161,534)	(303,730)	14,792,294
Year 5	14,792,294	443,769	-	650,861	(165,572)	(326,290)	15,395,061
Year 6	15,395,061	461,852	-	677,383	(169,711)	(346,648)	16,017,936
Year 7	16,017,936	480,538	-	704,789	(173,954)	(365,643)	16,663,666
Year 8	16,663,666	499,910	-	733,201	(178,303)	(383,876)	17,334,599
Year 9	17,334,599	520,038	-	762,722	(182,760)	(401,782)	18,032,816
Year 10	18,032,816	540,984	-	793,444	(187,329)	(419,679)	18,760,236
Year 11	18,760,236	562,807	-	825,450	(192,013)	(437,801)	19,518,680
Year 12	19,518,680	585,560	-	858,822	(196,813)	(456,324)	20,309,926
Year 13	20,309,926	609,298	-	893,637	(201,733)	(475,384)	21,135,743
Year 14	21,135,743	634,072	-	929,973	(206,777)	(495,090)	21,997,921
Year 15	21,997,921	659,938	-	967,909	(211,946)	(515,531)	22,898,289
Year 16	22,898,289	686,949	-	1,007,525	(217,245)	(536,783)	23,838,735
Year 17	23,838,735	715,162	-	1,048,904	(222,676)	(558,913)	24,821,213
Year 18	24,821,213	744,636	-	1,092,133	(228,243)	(581,983)	25,847,757
Year 19	25,847,757	775,433	-	1,137,301	(233,949)	(606,053)	26,920,489
Year 20	26,920,489	807,615	-	1,184,502	(239,798)	(631,181)	28,041,627
Year 21	28,041,627	841,249	-	1,233,832	(245,792)	(657,424)	29,213,491
Year 22	29,213,491	876,405	-	1,285,394	(251,937)	(684,840)	30,438,512
Year 23	30,438,512	913,155	-	1,339,295	(258,236)	(713,489)	31,719,238
Year 24	31,719,238	951,577	-	1,395,646	(264,692)	(743,432)	33,058,338
Year 25	33,058,338	991,750	-	1,454,567	(271,309)	(442,321)	34,791,025

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 2.5% per year)	$150,000
Intra-Family Note Interest Percentage	1.82%
IRS 7520 Rate (Best)	2.20%
Unitrust Percentage	10.934%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
Charitable Deduction		$1,000,200
Income Tax Benefit to Charlie	39.6%	$396,079
CRUT Starting Value		$10,000,000
CRUT Actuarial Discount	10.0%	($1,000,000)
Value of FLLC Actuarial Interest in CRUT - Year 1		$9,000,000
Discounted Value of Partnership Actuarial Interest	35.0%	$5,850,000
99% Transferred to Holdco FLLC	99.0%	$5,791,500
Holdco Cash		$2,000,000
Total Holdco Value		$7,791,500
90% Note	90.0%	$7,012,350
Holdco Net Value		$779,150
Discounted Value of Holdco FLLC	20.0%	$623,320
99% Transferred to GRAT	99.0%	$617,087

Charlie Charitable

	Beginning of Year	Income	Tax Free Income	Growth	Charitable FLLC Distributions	Holdco FLLC Distributions	Note Payments	GRAT Annuity Payments	Consumption	Taxes on Investment Income	End of Year
Year 1	500,000	15,000	-	22,000	3,322	2,170	328,829	214,811	(150,000)	22,229	958,360
Year 2	958,360	28,751	-	42,168	8,331	2,170	824,778	214,811	(153,750)	(387,079)	1,538,539
Year 3	1,538,539	46,156	-	67,696	8,282	2,170	819,900	214,811	(157,594)	(395,535)	2,144,424
Year 4	2,144,424	64,333	-	94,355	8,236	-	815,336	-	(161,534)	(404,332)	2,560,817
Year 5	2,560,817	76,825	-	112,676	8,192	-	811,014	-	(165,572)	(413,562)	2,990,390
Year 6	2,990,390	89,712	-	131,577	8,150	-	806,882	-	(169,711)	(423,294)	3,433,705
Year 7	3,433,705	103,011	-	151,083	8,110	-	802,900	-	(173,954)	(433,585)	3,891,270
Year 8	3,891,270	116,738	-	171,216	8,071	-	799,038	-	(178,303)	(444,480)	4,363,551
Year 9	4,363,551	130,907	-	191,996	8,033	-	795,273	-	(182,760)	(456,020)	4,850,980
Year 10	4,850,980	145,529	-	213,443	7,996	-	791,590	-	(187,329)	(468,241)	5,353,967
Year 11	5,353,967	160,619	-	235,575	7,959	-	191,378	-	(192,013)	(481,178)	5,276,308
Year 12	5,276,308	158,289	-	232,158	7,923	3,741	-	-	(196,813)	(494,863)	4,986,744
Year 13	4,986,744	149,602	-	219,417	7,888	3,849	-	-	(201,733)	(509,329)	4,656,437
Year 14	4,656,437	139,693	-	204,883	7,853	3,970	-	-	(206,777)	(524,608)	4,281,451
Year 15	4,281,451	128,444	-	188,384	7,818	4,104	-	-	(211,946)	(540,735)	3,857,519
Year 16	3,857,519	115,726	-	169,731	7,783	4,250	-	-	(217,245)	(557,744)	3,380,020
Year 17	3,380,020	101,401	-	148,721	7,749	4,407	-	-	(222,676)	(575,670)	2,843,950
Year 18	2,843,950	85,319	-	125,134	7,714	4,576	-	-	(228,243)	(594,553)	2,243,897
Year 19	2,243,897	67,317	-	98,731	7,680	4,756	-	-	(233,949)	(614,430)	1,574,001
Year 20	1,574,001	47,220	-	69,256	7,645	4,947	-	-	(239,798)	(58,913)	1,404,360
Year 21	1,404,360	42,131	-	61,792	993	3,534	-	-	(245,792)	(49,142)	1,217,874
Year 22	1,217,874	36,536	-	53,586	1,037	3,746	-	-	(251,937)	(43,171)	1,017,671
Year 23	1,017,671	30,530	-	44,778	1,085	3,959	-	-	(258,236)	(37,480)	802,307
Year 24	802,307	24,069	-	35,301	1,137	4,176	-	-	(264,692)	(31,866)	570,433
Year 25	570,433	17,113	-	25,099	2,380	8,732	-	-	(271,309)	(18,720)	333,728

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 2.5% per year)	$150,000
Intra-Family Note Interest Percentage	1.82%
IRS 7520 Rate (Best)	2.20%
Unitrust Percentage	10.934%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
Charitable Deduction		$1,000,200
Income Tax Benefit to Charlie	39.6%	$396,079
CRUT Starting Value		$10,000,000
CRUT Actuarial Discount	10.0%	($1,000,000)
Value of FLLC Actuarial Interest in CRUT - Year 1		$9,000,000
Discounted Value of Partnership Actuarial Interest	35.0%	$5,850,000
99% Transferred to Holdco FLLC	99.0%	$5,791,500
Holdco Cash		$2,000,000
Total Holdco Value		$7,791,500
90% Note	90.0%	$7,012,350
Holdco Net Value		$779,150
Discounted Value of Holdco FLLC	20.0%	$623,320
99% Transferred to GRAT	99.0%	$617,087

Charitable FLLC

	Beginning of Year	Income	Tax Free Income	Growth	Unitrust Payments	Distributions	End of Year	Ownership: Charlie Charitable	Ownership: Financial FLLC
Year 1	-	-	-	-	1,093,400	(332,150)	761,250	1.00%	99.00%
Year 2	761,250	22,838	-	33,495	1,054,759	(833,109)	1,039,232	1.00%	99.00%
Year 3	1,039,232	31,177	-	45,726	1,017,484	(828,181)	1,305,438	1.00%	99.00%
Year 4	1,305,438	39,163	-	57,439	981,526	(823,572)	1,559,995	1.00%	99.00%
Year 5	1,559,995	46,800	-	68,640	946,839	(819,206)	1,803,067	1.00%	99.00%
Year 6	1,803,067	54,092	-	79,335	913,378	(815,032)	2,034,840	1.00%	99.00%
Year 7	2,034,840	61,045	-	89,533	881,099	(811,010)	2,255,507	1.00%	99.00%
Year 8	2,255,507	67,665	-	99,242	849,961	(807,109)	2,465,267	1.00%	99.00%
Year 9	2,465,267	73,958	-	108,472	819,923	(803,307)	2,664,313	1.00%	99.00%
Year 10	2,664,313	79,929	-	117,230	790,947	(799,586)	2,852,834	1.00%	99.00%
Year 11	2,852,834	85,585	-	125,525	762,995	(795,932)	3,031,007	1.00%	99.00%
Year 12	3,031,007	90,930	-	133,364	736,031	(792,333)	3,199,000	1.00%	99.00%
Year 13	3,199,000	95,970	-	140,756	710,020	(788,779)	3,356,967	1.00%	99.00%
Year 14	3,356,967	100,709	-	147,707	684,927	(785,262)	3,505,048	1.00%	99.00%
Year 15	3,505,048	105,151	-	154,222	660,722	(781,773)	3,643,372	1.00%	99.00%
Year 16	3,643,372	109,301	-	160,308	637,372	(778,304)	3,772,049	1.00%	99.00%
Year 17	3,772,049	113,161	-	165,970	614,847	(774,850)	3,891,178	1.00%	99.00%
Year 18	3,891,178	116,735	-	171,212	593,119	(771,403)	4,000,840	1.00%	99.00%
Year 19	4,000,840	120,025	-	176,037	572,158	(767,957)	4,101,103	1.00%	99.00%
Year 20	4,101,103	123,033	-	180,449	551,938	(764,505)	4,192,018	1.00%	99.00%
Year 21	4,192,018	125,761	-	184,449	-	(99,299)	4,402,929	1.00%	99.00%
Year 22	4,402,929	132,088	-	193,729	-	(103,688)	4,625,058	1.00%	99.00%
Year 23	4,625,058	138,752	-	203,503	-	(108,489)	4,858,823	1.00%	99.00%
Year 24	4,858,823	145,765	-	213,788	-	(113,669)	5,104,706	1.00%	99.00%
Year 25	5,104,706	153,141	-	224,607	-	(237,989)	5,244,465	1.00%	99.00%

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 2.5% per year)	$150,000
Intra-Family Note Interest Percentage	1.82%
IRS 7520 Rate (Best)	2.20%
Unitrust Percentage	10.934%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
Charitable Deduction		$1,000,200
Income Tax Benefit to Charlie	39.6%	$396,079
CRUT Starting Value		$10,000,000
CRUT Actuarial Discount	10.0%	($1,000,000)
Value of FLLC Actuarial Interest in CRUT - Year 1		$9,000,000
Discounted Value of Partnership Actuarial Interest	35.0%	$5,850,000
99% Transferred to Holdco FLLC	99.0%	$5,791,500
Holdco Cash		$2,000,000
Total Holdco Value		$7,791,500
90% Note	90.0%	$7,012,350
Holdco Net Value		$779,150
Discounted Value of Holdco FLLC	20.0%	$623,320
99% Transferred to GRAT	99.0%	$617,087

Financial FLLC

	Beginning of Year	Income	Tax Free Income	Growth	Charitable FLLC Distributions	Note Payments	Distributions	End of Year	Ownership: Charlie Charitable	Ownership: GRAT & Grantor Trust
Year 1	2,000,000	60,000	-	88,000	328,829	(328,829)	(216,980)	1,931,020	1.00%	99.00%
Year 2	1,931,020	57,931	-	84,965	824,778	(824,778)	(216,980)	1,856,934	1.00%	99.00%
Year 3	1,856,934	55,708	-	81,705	819,900	(819,900)	(216,980)	1,777,367	1.00%	99.00%
Year 4	1,777,367	53,321	-	78,204	815,336	(815,336)	-	1,908,892	1.00%	99.00%
Year 5	1,908,892	57,267	-	83,991	811,014	(811,014)	-	2,050,150	1.00%	99.00%
Year 6	2,050,150	61,505	-	90,207	806,882	(806,882)	-	2,201,861	1.00%	99.00%
Year 7	2,201,861	66,056	-	96,882	802,900	(802,900)	-	2,364,799	1.00%	99.00%
Year 8	2,364,799	70,944	-	104,051	799,038	(799,038)	-	2,539,794	1.00%	99.00%
Year 9	2,539,794	76,194	-	111,751	795,273	(795,273)	-	2,727,739	1.00%	99.00%
Year 10	2,727,739	81,832	-	120,021	791,590	(791,590)	-	2,929,592	1.00%	99.00%
Year 11	2,929,592	87,888	-	128,902	787,972	(191,378)	-	3,742,975	1.00%	99.00%
Year 12	3,742,975	112,289	-	164,691	784,409	-	(374,124)	4,430,241	1.00%	99.00%
Year 13	4,430,241	132,907	-	194,931	780,891	-	(384,873)	5,154,097	1.00%	99.00%
Year 14	5,154,097	154,623	-	226,780	777,409	-	(397,004)	5,915,906	1.00%	99.00%
Year 15	5,915,906	177,477	-	260,300	773,955	-	(410,396)	6,717,241	1.00%	99.00%
Year 16	6,717,241	201,517	-	295,559	770,521	-	(424,976)	7,559,862	1.00%	99.00%
Year 17	7,559,862	226,796	-	332,634	767,102	-	(440,705)	8,445,689	1.00%	99.00%
Year 18	8,445,689	253,371	-	371,610	763,689	-	(457,570)	9,376,789	1.00%	99.00%
Year 19	9,376,789	281,304	-	412,579	760,277	-	(475,576)	10,355,372	1.00%	99.00%
Year 20	10,355,372	310,661	-	455,636	756,860	-	(494,743)	11,383,786	1.00%	99.00%
Year 21	11,383,786	341,514	-	500,887	98,306	-	(353,359)	11,971,134	1.00%	99.00%
Year 22	11,971,134	359,134	-	526,730	102,651	-	(374,587)	12,585,061	1.00%	99.00%
Year 23	12,585,061	377,552	-	553,743	107,405	-	(395,917)	13,227,843	1.00%	99.00%
Year 24	13,227,843	396,835	-	582,025	112,533	-	(417,637)	13,901,599	1.00%	99.00%
Year 25	13,901,599	417,048	-	611,670	235,609	-	(873,195)	14,292,732	1.00%	99.00%

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 2.5% per year)	$150,000
Intra-Family Note Interest Percentage	1.82%
IRS 7520 Rate (Best)	2.20%
Unitrust Percentage	10.934%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
Charitable Deduction		$1,000,200
Income Tax Benefit to Charlie	39.6%	$396,079
CRUT Starting Value		$10,000,000
CRUT Actuarial Discount	10.0%	($1,000,000)
Value of FLLC Actuarial Interest in CRUT - Year 1		$9,000,000
Discounted Value of Partnership Actuarial Interest	35.0%	$5,850,000
99% Transferred to Holdco FLLC	99.0%	$5,791,500
Holdco Cash		$2,000,000
Total Holdco Value		$7,791,500
90% Note	90.0%	$7,012,350
Holdco Net Value		$779,150
Discounted Value of Holdco FLLC	20.0%	$623,320
99% Transferred to GRAT	99.0%	$617,087

3-Year GRAT

	Beginning of Year	Income	Tax Free Income	Growth	Holdco FLLC Distributions	Annual Annuity	GRAT Terminates	End of Year
Year 1	-	-	-	-	214,811	(214,811)	-	-
Year 2	-	-	-	-	214,811	(214,811)	-	-
Year 3	-	-	-	-	214,811	(214,811)	-	-

New Grantor Trust (GRAT Remaindermen) - grantor trust status removed in year 20

	Beginning of Year	Income	Tax Free Income	Growth	Holdco FLLC Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-
Year 12	-	-	-	-	370,383	-	370,383
Year 13	370,383	11,111	-	16,297	381,024	-	778,815
Year 14	778,815	23,364	-	34,268	393,034	-	1,229,481
Year 15	1,229,481	36,884	-	54,097	406,292	-	1,726,755
Year 16	1,726,755	51,803	-	75,977	420,726	-	2,275,261
Year 17	2,275,261	68,258	-	100,111	436,298	-	2,879,929
Year 18	2,879,929	86,398	-	126,717	452,995	-	3,546,038
Year 19	3,546,038	106,381	-	156,026	470,821	-	4,279,265
Year 20	4,279,265	128,378	-	188,288	489,795	(576,432)	4,509,294
Year 21	4,509,294	135,279	-	198,409	349,825	(446,456)	4,746,351
Year 22	4,746,351	142,391	-	208,839	370,842	(475,080)	4,993,343
Year 23	4,993,343	149,800	-	219,707	391,957	(503,403)	5,251,404
Year 24	5,251,404	157,542	-	231,062	413,461	(531,925)	5,521,543
Year 25	5,521,543	165,646	-	242,948	864,463	(1,111,816)	5,682,784

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 2.5% per year)	$150,000
Intra-Family Note Interest Percentage	1.82%
IRS 7520 Rate (Best)	2.20%
Unitrust Percentage	10.934%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
Charitable Deduction		$1,000,200
Income Tax Benefit to Charlie	39.6%	$396,079
CRUT Starting Value		$10,000,000
CRUT Actuarial Discount	10.0%	($1,000,000)
Value of FLLC Actuarial Interest in CRUT - Year 1		$9,000,000
Discounted Value of Partnership Actuarial Interest	35.0%	$5,850,000
99% Transferred to Holdco FLLC	99.0%	$5,791,500
Holdco Cash		$2,000,000
Total Holdco Value		$7,791,500
90% Note	90.0%	$7,012,350
Holdco Net Value		$779,150
Discounted Value of Holdco FLLC	20.0%	$623,320
99% Transferred to GRAT	99.0%	$617,087

Charitable Remainder Unitrust

	Beginning of Year	Income	Tax Free Income	Growth	Unitrust Payment	Payment to Charity	End of Year
Year 1	10,000,000	300,000	-	440,000	(1,093,400)	-	9,646,600
Year 2	9,646,600	289,398	-	424,450	(1,054,759)	-	9,305,689
Year 3	9,305,689	279,171	-	409,450	(1,017,484)	-	8,976,826
Year 4	8,976,826	269,305	-	394,980	(981,526)	-	8,659,585
Year 5	8,659,585	259,788	-	381,022	(946,839)	-	8,353,555
Year 6	8,353,555	250,607	-	367,556	(913,378)	-	8,058,341
Year 7	8,058,341	241,750	-	354,567	(881,099)	-	7,773,559
Year 8	7,773,559	233,207	-	342,037	(849,961)	-	7,498,841
Year 9	7,498,841	224,965	-	329,949	(819,923)	-	7,233,832
Year 10	7,233,832	217,015	-	318,289	(790,947)	-	6,978,189
Year 11	6,978,189	209,346	-	307,040	(762,995)	-	6,731,579
Year 12	6,731,579	201,947	-	296,189	(736,031)	-	6,493,685
Year 13	6,493,685	194,811	-	285,722	(710,020)	-	6,264,199
Year 14	6,264,199	187,926	-	275,625	(684,927)	-	6,042,822
Year 15	6,042,822	181,285	-	265,884	(660,722)	-	5,829,269
Year 16	5,829,269	174,878	-	256,488	(637,372)	-	5,623,262
Year 17	5,623,262	168,698	-	247,424	(614,847)	-	5,424,536
Year 18	5,424,536	162,736	-	238,680	(593,119)	-	5,232,833
Year 19	5,232,833	156,985	-	230,245	(572,158)	-	5,047,905
Year 20	5,047,905	151,437	-	222,108	(551,938)	(4,869,512)	-

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 2.5% per year)	$150,000
Intra-Family Note Interest Percentage	1.82%
IRS 7520 Rate (Best)	2.20%
Unitrust Percentage	10.934%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
Charitable Deduction		$1,000,200
Income Tax Benefit to Charlie	39.6%	$396,079
CRUT Starting Value		$10,000,000
CRUT Actuarial Discount	10.0%	($1,000,000)
Value of FLLC Actuarial Interest in CRUT - Year 1		$9,000,000
Discounted Value of Partnership Actuarial Interest	35.0%	$5,850,000
99% Transferred to Holdco FLLC	99.0%	$5,791,500
Holdco Cash		$2,000,000
Total Holdco Value		$7,791,500
90% Note	90.0%	$7,012,350
Holdco Net Value		$779,150
Discounted Value of Holdco FLLC	20.0%	$623,320
99% Transferred to GRAT	99.0%	$617,087

Charity

	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**CRUT Distribution**	**End of Year**
Year 1	-	-	-	-	-	-
Year 2	-	-	-	-	-	-
Year 3	-	-	-	-	-	-
Year 4	-	-	-	-	-	-
Year 5	-	-	-	-	-	-
Year 6	-	-	-	-	-	-
Year 7	-	-	-	-	-	-
Year 8	-	-	-	-	-	-
Year 9	-	-	-	-	-	-
Year 10	-	-	-	-	-	-
Year 11	-	-	-	-	-	-
Year 12	-	-	-	-	-	-
Year 13	-	-	-	-	-	-
Year 14	-	-	-	-	-	-
Year 15	-	-	-	-	-	-
Year 16	-	-	-	-	-	-
Year 17	-	-	-	-	-	-
Year 18	-	-	-	-	-	-
Year 19	-	-	-	-	-	-
Year 20	-	-	-	-	4,869,512	4,869,512
Year 21	4,869,512	146,085	-	214,259	-	5,229,856
Year 22	5,229,856	156,896	-	230,114	-	5,616,865
Year 23	5,616,865	168,506	-	247,142	-	6,032,513
Year 24	6,032,513	180,975	-	265,431	-	6,478,919
Year 25	6,478,919	194,368	-	285,072	-	6,958,359

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity

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IRS 7520 Rate (Best)	2.20%
Unitrust Percentage	10.934%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
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Holdco Cash		$2,000,000
Total Holdco Value		$7,791,500
90% Note	90.0%	$7,012,350
Holdco Net Value		$779,150
Discounted Value of Holdco FLLC	20.0%	$623,320
99% Transferred to GRAT	99.0%	$617,087

Note Between Charlie Charitable and Holdco FLLC

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	7,012,350	127,625	(328,829)	6,811,146
Year 2	6,811,146	123,963	(824,778)	6,110,331
Year 3	6,110,331	111,208	(819,900)	5,401,639
Year 4	5,401,639	98,310	(815,336)	4,684,613
Year 5	4,684,613	85,260	(811,014)	3,958,859
Year 6	3,958,859	72,051	(806,882)	3,224,028
Year 7	3,224,028	58,677	(802,900)	2,479,806
Year 8	2,479,806	45,132	(799,038)	1,725,900
Year 9	1,725,900	31,411	(795,273)	962,038
Year 10	962,038	17,509	(791,590)	187,958
Year 11	187,958	3,421	(191,378)	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-
Year 21	-	-	-	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity

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Consumption (increasing at 2.5% per year)	$150,000
Intra-Family Note Interest Percentage	1.82%
IRS 7520 Rate (Best)	2.20%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
Discounted Value of Financial Assets FLLC	35.0%	$6,500,000
99% Transferred to Holdco FLLC	99.0%	$6,435,000
Holdco Cash		$2,000,000
Total Holdco Value		$8,435,000
90% Note	90.0%	$7,591,500
Holdco Net Value		$843,500
Discounted Value of Holdco FLLC	20.0%	$674,800
99% Transferred to GRAT	99.0%	$668,052

Charlie Charitable

	Beginning of Year	Income	Tax Free Income	Growth	Financial Assets FLLC Distributions	Holdco FLLC Distributions	Note Payments	GRAT Annuity Payments	Consumption	Taxes on Investment Income	End of Year
Year 1	500,000	15,000	-	22,000	26,668	2,349	2,059,931	232,552	(150,000)	(2,708,500)	-
Year 2	-	-	-	-	2,422	2,349	121,551	232,552	(153,750)	(205,124)	-
Year 3	-	-	-	-	2,529	2,349	148,091	232,552	(157,594)	(227,927)	-
Year 4	-	-	-	-	2,640	-	405,954	-	(161,534)	(247,060)	-
Year 5	-	-	-	-	2,756	-	426,541	-	(165,572)	(263,725)	-
Year 6	-	-	-	-	2,877	-	445,609	-	(169,711)	(278,775)	-
Year 7	-	-	-	-	3,004	-	463,768	-	(173,954)	(292,818)	-
Year 8	-	-	-	-	3,136	-	481,458	-	(178,303)	(306,291)	-
Year 9	-	-	-	-	3,274	-	498,995	-	(182,760)	(319,508)	-
Year 10	-	-	-	-	3,418	-	516,610	-	(187,329)	(332,699)	-
Year 11	-	-	-	-	3,568	-	3,002,757	-	(192,013)	(346,032)	2,468,281
Year 12	2,468,281	74,048	-	108,604	3,725	3,184	-	-	(196,813)	(47,255)	2,413,775
Year 13	2,413,775	72,413	-	106,206	3,889	3,276	-	-	(201,733)	(52,259)	2,345,568
Year 14	2,345,568	70,367	-	103,205	4,060	3,392	-	-	(206,777)	(55,230)	2,264,586
Year 15	2,264,586	67,938	-	99,642	4,239	3,528	-	-	(211,946)	(56,698)	2,171,289
Year 16	2,171,289	65,139	-	95,537	4,426	3,682	-	-	(217,245)	(57,033)	2,065,794
Year 17	2,065,794	61,974	-	90,895	4,620	3,851	-	-	(222,676)	(56,493)	1,947,965
Year 18	1,947,965	58,439	-	85,710	4,824	4,033	-	-	(228,243)	(55,253)	1,817,474
Year 19	1,817,474	54,524	-	79,969	5,036	4,227	-	-	(233,949)	(53,434)	1,673,848
Year 20	1,673,848	50,215	-	73,649	5,257	4,435	-	-	(239,798)	(51,114)	1,516,493
Year 21	1,516,493	45,495	-	66,726	5,489	4,654	-	-	(245,792)	(48,344)	1,344,721
Year 22	1,344,721	40,342	-	59,168	5,730	4,886	-	-	(251,937)	(45,153)	1,157,756
Year 23	1,157,756	34,733	-	50,941	5,982	5,130	-	-	(258,236)	(41,555)	954,751
Year 24	954,751	28,643	-	42,009	6,246	5,387	-	-	(264,692)	(37,556)	734,789
Year 25	734,789	22,044	-	32,331	6,520	11,273	-	-	(271,309)	(31,166)	504,481

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IRS 7520 Rate (Best)	2.20%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
Discounted Value of Financial Assets FLLC	35.0%	$6,500,000
99% Transferred to Holdco FLLC	99.0%	$6,435,000
Holdco Cash		$2,000,000
Total Holdco Value		$8,435,000
90% Note	90.0%	$7,591,500
Holdco Net Value		$843,500
Discounted Value of Holdco FLLC	20.0%	$674,800
99% Transferred to GRAT	99.0%	$668,052

Charitable FLLC

	Beginning of Year	Income	Tax Free Income	Growth	Distributions	End of Year
Year 1	10,000,000	300,000	-	440,000	(2,666,800)	8,073,200
Year 2	8,073,200	242,196	-	355,221	(242,196)	8,428,421
Year 3	8,428,421	252,853	-	370,851	(252,853)	8,799,271
Year 4	8,799,271	263,978	-	387,168	(263,978)	9,186,439
Year 5	9,186,439	275,593	-	404,203	(275,593)	9,590,643
Year 6	9,590,643	287,719	-	421,988	(287,719)	10,012,631
Year 7	10,012,631	300,379	-	440,556	(300,379)	10,453,187
Year 8	10,453,187	313,596	-	459,940	(313,596)	10,913,127
Year 9	10,913,127	327,394	-	480,178	(327,394)	11,393,304
Year 10	11,393,304	341,799	-	501,305	(341,799)	11,894,610
Year 11	11,894,610	356,838	-	523,363	(356,838)	12,417,973
Year 12	12,417,973	372,539	-	546,391	(372,539)	12,964,363
Year 13	12,964,363	388,931	-	570,432	(388,931)	13,534,795
Year 14	13,534,795	406,044	-	595,531	(406,044)	14,130,326
Year 15	14,130,326	423,910	-	621,734	(423,910)	14,752,061
Year 16	14,752,061	442,562	-	649,091	(442,562)	15,401,151
Year 17	15,401,151	462,035	-	677,651	(462,035)	16,078,802
Year 18	16,078,802	482,364	-	707,467	(482,364)	16,786,269
Year 19	16,786,269	503,588	-	738,596	(503,588)	17,524,865
Year 20	17,524,865	525,746	-	771,094	(525,746)	18,295,959
Year 21	18,295,959	548,879	-	805,022	(548,879)	19,100,982
Year 22	19,100,982	573,029	-	840,443	(573,029)	19,941,425
Year 23	19,941,425	598,243	-	877,423	(598,243)	20,818,847
Year 24	20,818,847	624,565	-	916,029	(624,565)	21,734,877
Year 25	21,734,877	652,046	-	956,335	(652,046)	22,691,211

	Ownership	
	Charlie Charitable	Financial FLLC
Year 1	1.00%	99.00%
Year 2	1.00%	99.00%
Year 3	1.00%	99.00%
Year 4	1.00%	99.00%
Year 5	1.00%	99.00%
Year 6	1.00%	99.00%
Year 7	1.00%	99.00%
Year 8	1.00%	99.00%
Year 9	1.00%	99.00%
Year 10	1.00%	99.00%
Year 11	1.00%	99.00%
Year 12	1.00%	99.00%
Year 13	1.00%	99.00%
Year 14	1.00%	99.00%
Year 15	1.00%	99.00%
Year 16	1.00%	99.00%
Year 17	1.00%	99.00%
Year 18	1.00%	99.00%
Year 19	1.00%	99.00%
Year 20	1.00%	99.00%
Year 21	1.00%	99.00%
Year 22	1.00%	99.00%
Year 23	1.00%	99.00%
Year 24	1.00%	99.00%
Year 25	1.00%	99.00%

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 2.5% per year)	$150,000
Intra-Family Note Interest Percentage	1.82%
IRS 7520 Rate (Best)	2.20%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
Discounted Value of Financial Assets FLLC	35.0%	$6,500,000
99% Transferred to Holdco FLLC	99.0%	$6,435,000
Holdco Cash		$2,000,000
Total Holdco Value		$8,435,000
90% Note	90.0%	$7,591,500
Holdco Net Value		$843,500
Discounted Value of Holdco FLLC	20.0%	$674,800
99% Transferred to GRAT	99.0%	$668,052

Financial FLLC

	Beginning of Year	Income	Tax Free Income	Growth	Financial Assets FLLC Distributions	Note Payments	Distributions	End of Year	Ownership: Charlie Charitable	Ownership: GRAT & Grantor Trust
Year 1	2,000,000	60,000	-	88,000	2,640,132	(2,059,931)	(234,901)	2,493,300	1.00%	99.00%
Year 2	2,493,300	74,799	-	109,705	239,774	(121,551)	(234,901)	2,561,126	1.00%	99.00%
Year 3	2,561,126	76,834	-	112,690	250,324	(148,091)	(234,901)	2,617,981	1.00%	99.00%
Year 4	2,617,981	78,539	-	115,191	261,338	(405,954)	-	2,667,096	1.00%	99.00%
Year 5	2,667,096	80,013	-	117,352	272,837	(426,541)	-	2,710,757	1.00%	99.00%
Year 6	2,710,757	81,323	-	119,273	284,842	(445,609)	-	2,750,587	1.00%	99.00%
Year 7	2,750,587	82,518	-	121,026	297,375	(463,768)	-	2,787,737	1.00%	99.00%
Year 8	2,787,737	83,632	-	122,660	310,460	(481,458)	-	2,823,031	1.00%	99.00%
Year 9	2,823,031	84,691	-	124,213	324,120	(498,995)	-	2,857,061	1.00%	99.00%
Year 10	2,857,061	85,712	-	125,711	338,381	(516,610)	-	2,890,254	1.00%	99.00%
Year 11	2,890,254	86,708	-	127,171	353,270	(3,002,757)	-	454,645	1.00%	99.00%
Year 12	454,645	13,639	-	20,004	368,814	-	(318,430)	538,673	1.00%	99.00%
Year 13	538,673	16,160	-	23,702	385,042	-	(327,567)	636,010	1.00%	99.00%
Year 14	636,010	19,080	-	27,984	401,983	-	(339,196)	745,861	1.00%	99.00%
Year 15	745,861	22,376	-	32,818	419,671	-	(352,848)	867,877	1.00%	99.00%
Year 16	867,877	26,036	-	38,187	438,136	-	(368,204)	1,002,033	1.00%	99.00%
Year 17	1,002,033	30,061	-	44,089	457,414	-	(385,052)	1,148,545	1.00%	99.00%
Year 18	1,148,545	34,456	-	50,536	477,540	-	(403,256)	1,307,822	1.00%	99.00%
Year 19	1,307,822	39,235	-	57,544	498,552	-	(422,737)	1,480,416	1.00%	99.00%
Year 20	1,480,416	44,412	-	65,138	520,488	-	(443,455)	1,667,000	1.00%	99.00%
Year 21	1,667,000	50,010	-	73,348	543,390	-	(465,397)	1,868,351	1.00%	99.00%
Year 22	1,868,351	56,051	-	82,207	567,299	-	(488,573)	2,085,335	1.00%	99.00%
Year 23	2,085,335	62,560	-	91,755	592,260	-	(513,009)	2,318,901	1.00%	99.00%
Year 24	2,318,901	69,567	-	102,032	618,320	-	(538,741)	2,570,078	1.00%	99.00%
Year 25	2,570,078	77,102	-	113,083	645,526	-	(1,127,257)	2,278,532	1.00%	99.00%

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity

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Assumptions:	Financial Assets
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Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 2.5% per year)	$150,000
Intra-Family Note Interest Percentage	1.82%
IRS 7520 Rate (Best)	2.20%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
Discounted Value of Financial Assets FLLC	35.0%	$6,500,000
99% Transferred to Holdco FLLC	99.0%	$6,435,000
Holdco Cash		$2,000,000
Total Holdco Value		$8,435,000
90% Note	90.0%	$7,591,500
Holdco Net Value		$843,500
Discounted Value of Holdco FLLC	20.0%	$674,800
99% Transferred to GRAT	99.0%	$668,052

3-Year GRAT

	Beginning of Year	Income	Tax Free Income	Growth	Holdco FLLC Distributions	Annual Annuity	GRAT Terminates	End of Year
Year 1	-	-	-	-	232,552	(232,552)	-	-
Year 2	-	-	-	-	232,552	(232,552)	-	-
Year 3	-	-	-	-	232,552	(232,552)	-	-

New Grantor Trust (GRAT Remaindermen) - grantor trust status removed in year 12

	Beginning of Year	Income	Tax Free Income	Growth	Holdco FLLC Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-
Year 12	-	-	-	-	315,246	(312,378)	2,867
Year 13	2,867	86	-	126	324,291	(321,342)	6,028
Year 14	6,028	181	-	265	335,804	(332,781)	9,497
Year 15	9,497	285	-	418	349,320	(346,227)	13,293
Year 16	13,293	399	-	585	364,522	(361,364)	17,435
Year 17	17,435	523	-	767	381,201	(377,981)	21,945
Year 18	21,945	658	-	966	399,224	(395,945)	26,847
Year 19	26,847	805	-	1,181	418,510	(415,177)	32,167
Year 20	32,167	965	-	1,415	439,020	(435,635)	37,933
Year 21	37,933	1,138	-	1,669	460,743	(457,308)	44,175
Year 22	44,175	1,325	-	1,944	483,688	(480,207)	50,925
Year 23	50,925	1,528	-	2,241	507,879	(504,356)	58,216
Year 24	58,216	1,746	-	2,562	533,354	(529,793)	66,085
Year 25	66,085	1,983	-	2,908	1,115,985	(1,108,659)	78,301

Schedule 18

Analysis of Leveraged FLLC Asset GRAT When One of the Assets of the FLLC is a Non-Charitable Interest in a CRUT

FLLC/CRUT/Holdco/LevGRAT, Charlie gives remaining estate to charity

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Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Capital Gains Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Consumption (increasing at 2.5% per year)	$150,000
Intra-Family Note Interest Percentage	1.82%
IRS 7520 Rate (Best)	2.20%
GRAT Payout Percentage	34.810%

Assumptions (continued):		
Discounted Value of Financial Assets FLLC	35.0%	$6,500,000
99% Transferred to Holdco FLLC	99.0%	$6,435,000
Holdco Cash		$2,000,000
Total Holdco Value		$8,435,000
90% Note	90.0%	$7,591,500
Holdco Net Value		$843,500
Discounted Value of Holdco FLLC	20.0%	$674,800
99% Transferred to GRAT	99.0%	$668,052

Note Between Charlie Charitable and Holdco FLLC

	Beginning of Year	Interest	Note Payment	End of Year
Year 1	7,591,500	138,165	(2,059,931)	5,669,734
Year 2	5,669,734	103,189	(121,551)	5,651,372
Year 3	5,651,372	102,855	(148,091)	5,606,136
Year 4	5,606,136	102,032	(405,954)	5,302,213
Year 5	5,302,213	96,500	(426,541)	4,972,172
Year 6	4,972,172	90,494	(445,609)	4,617,057
Year 7	4,617,057	84,030	(463,768)	4,237,319
Year 8	4,237,319	77,119	(481,458)	3,832,981
Year 9	3,832,981	69,760	(498,995)	3,403,746
Year 10	3,403,746	61,948	(516,610)	2,949,084
Year 11	2,949,084	53,673	(3,002,757)	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-
Year 21	-	-	-	-
Year 22	-	-	-	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-

Schedule 19

George Generous

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming George Generous has a life expectancy of 20 years)

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	20-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning Except for $420,000 Annual Gift to Charity: Bequeaths $6mm to Charity at Death; Balance of Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death)				
George Generous	58,540,440	-	-	0.00%
Charity	17,989,144	23,989,144	14,639,877	22.49%
Generous Descendants	-	35,000,264	21,359,644	32.81%
IRS Income Tax - Direct Cost	14,640,259	14,640,259	8,934,525	13.72%
IRS Income Tax - Investment Opportunity Cost	15,513,858	15,513,858	9,467,657	14.54%
IRS Estate Tax (at 40.0%)	-	17,540,176	10,704,260	16.44%
Total	**$106,683,701**	**$106,683,701**	**$65,105,963**	**100.00%**
Hypothetical Technique #1: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Contribute and Sell Growth and Financial Assets to another FLLC; Contribute Non-Managing Interest to a GRAT; Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death				
George Generous	13,526,713	-	-	0.00%
Charity	23,989,144	23,989,144	14,639,877	22.49%
Generous Descendants	43,844,960	55,436,988	33,831,583	51.96%
IRS Income Tax - Direct Cost	15,426,212	15,426,212	9,414,169	14.46%
IRS Income Tax - Investment Opportunity Cost	9,896,673	9,896,673	6,039,652	9.28%
IRS Estate Tax (at 40.0%)	-	1,934,685	1,180,682	1.81%
Total	**$106,683,701**	**$106,683,701**	**$65,105,963**	**100.00%**
Hypothetical Technique #2: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to a 17.5 Year Grantor CLAT; Contribute and Sell Growth and Financial Assets to Another FLLC; Contribute Non-Managing Interest to a GRAT; Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death				
George Generous	12,968,704	-	-	0.00%
Charity	16,373,449	16,373,449	9,992,240	15.35%
Generous Descendants	51,460,655	62,717,877	38,274,898	58.79%
IRS Income Tax - Direct Cost	15,934,675	15,934,675	9,724,469	14.94%
IRS Income Tax - Investment Opportunity Cost	9,946,218	9,946,218	6,069,888	9.32%
IRS Estate Tax (at 40.0%)	-	1,711,482	1,044,468	1.60%
Total	**$106,683,701**	**$106,683,701**	**$65,105,963**	**100.00%**

Calculations of Remaining Estate Tax Exemption	**No Further Planning**	**Hypothetical Techniques**
Current Exemption	5,430,000	5,430,000
Gifts Made	-	-
Future Exemption Available in 20 years (assumes 2.5% inflation)	8,690,000	8,690,000

Schedule 19
George Generous
Asset Page

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	George Generous
Assets*	
FMV: Financial Assets	$20,000,000
Basis: Financial Assets	$20,000,000
FMV: Securities	$6,000,000
Basis: Securities	$0
Total Assets	**$26,000,000**
Total Basis	**$20,000,000**

* Information provided by client and client's advisors. There is no proposed planning for George Generous' other assets.

Schedule 19
George Generous
No Further Planning Except for $420,000 Annual Gift to Charity: Bequeaths $6mm to Charity at Death; Balance of Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death)

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Assumptions:	
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate and Health Care Tax	25.00%
Ordinary Income Tax Rate and Health Care Tax	44.60%
Charitable Spending	$420,000

George Generous

	Beginning of Year Financial Assets	Income	Growth	Sale Proceeds	Charitable Contributions	Income Taxes	End of Year Financial Assets	Beginning of Year Securities	Sale	End of Year Securities	End of Year Financial & Other Assets
Year 1	20,000,000	600,000	880,000	6,000,000	(420,000)	(1,667,280)	25,392,720	6,000,000	(6,000,000)	-	25,392,720
Year 2	25,392,720	761,782	1,117,280	-	(420,000)	(303,431)	26,548,351	-	-	-	26,548,351
Year 3	26,548,351	796,451	1,168,127	-	(420,000)	(367,504)	27,725,425	-	-	-	27,725,425
Year 4	27,725,425	831,763	1,219,919	-	(420,000)	(421,165)	28,935,942	-	-	-	28,935,942
Year 5	28,935,942	868,078	1,273,181	-	(420,000)	(467,895)	30,189,307	-	-	-	30,189,307
Year 6	30,189,307	905,679	1,328,329	-	(420,000)	(510,174)	31,493,142	-	-	-	31,493,142
Year 7	31,493,142	944,794	1,385,698	-	(420,000)	(549,778)	32,853,856	-	-	-	32,853,856
Year 8	32,853,856	985,616	1,445,570	-	(420,000)	(587,986)	34,277,055	-	-	-	34,277,055
Year 9	34,277,055	1,028,312	1,508,190	-	(420,000)	(625,726)	35,767,831	-	-	-	35,767,831
Year 10	35,767,831	1,073,035	1,573,785	-	(420,000)	(663,681)	37,330,969	-	-	-	37,330,969
Year 11	37,330,969	1,119,929	1,642,563	-	(420,000)	(702,360)	38,971,101	-	-	-	38,971,101
Year 12	38,971,101	1,169,133	1,714,728	-	(420,000)	(742,152)	40,692,810	-	-	-	40,692,810
Year 13	40,692,810	1,220,784	1,790,484	-	(420,000)	(783,363)	42,500,715	-	-	-	42,500,715
Year 14	42,500,715	1,275,021	1,870,031	-	(420,000)	(826,241)	44,399,527	-	-	-	44,399,527
Year 15	44,399,527	1,331,986	1,953,579	-	(420,000)	(870,995)	46,394,097	-	-	-	46,394,097
Year 16	46,394,097	1,391,823	2,041,340	-	(420,000)	(917,808)	48,489,452	-	-	-	48,489,452
Year 17	48,489,452	1,454,684	2,133,536	-	(420,000)	(966,847)	50,690,824	-	-	-	50,690,824
Year 18	50,690,824	1,520,725	2,230,396	-	(420,000)	(1,018,267)	53,003,678	-	-	-	53,003,678
Year 19	53,003,678	1,590,110	2,332,162	-	(420,000)	(1,072,222)	55,433,728	-	-	-	55,433,728
Year 20	55,433,728	1,663,012	2,439,084	-	(420,000)	(575,383)	58,540,440	-	-	-	58,540,440

Schedule 19
George Generous
No Further Planning Except for $420,000 Annual Gift to Charity: Bequeaths $6mm to Charity at Death; Balance of Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death)

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Long-Term Capital Gain Tax Rate and Health Care Tax	25.00%
Ordinary Income Tax Rate and Health Care Tax	44.60%
Charitable Spending	$420,000

Doing Good Donor Advised Fund

	Beginning of Year Financial Assets	Income	Growth	Charitable Contributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	420,000	-	420,000
Year 2	420,000	12,600	18,480	420,000	-	871,080
Year 3	871,080	26,132	38,328	420,000	-	1,355,540
Year 4	1,355,540	40,666	59,644	420,000	-	1,875,850
Year 5	1,875,850	56,275	82,537	420,000	-	2,434,663
Year 6	2,434,663	73,040	107,125	420,000	-	3,034,828
Year 7	3,034,828	91,045	133,532	420,000	-	3,679,405
Year 8	3,679,405	110,382	161,894	420,000	-	4,371,681
Year 9	4,371,681	131,150	192,354	420,000	-	5,115,185
Year 10	5,115,185	153,456	225,068	420,000	-	5,913,709
Year 11	5,913,709	177,411	260,203	420,000	-	6,771,324
Year 12	6,771,324	203,140	297,938	420,000	-	7,692,402
Year 13	7,692,402	230,772	338,466	420,000	-	8,681,639
Year 14	8,681,639	260,449	381,992	420,000	-	9,744,081
Year 15	9,744,081	292,322	428,740	420,000	-	10,885,143
Year 16	10,885,143	326,554	478,946	420,000	-	12,110,643
Year 17	12,110,643	363,319	532,868	420,000	-	13,426,831
Year 18	13,426,831	402,805	590,781	420,000	-	14,840,416
Year 19	14,840,416	445,212	652,978	420,000	-	16,358,607
Year 20	16,358,607	490,758	719,779	420,000	-	17,989,144

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George Generous
Hypothetical Technique #1: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Contribute and Sell Growth and Financial Assets to another FLLC; Contribute Non-Managing Interest to a GRAT; Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.40%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%

George Generous

	Beginning of Year Financial Assets	Income	Growth	Generous FLLC Distributions	Financial FLLC Distributions	Note Payments	GRAT Annuity Payments	Charitable Spending	Income Taxes	End of Year Financial Assets
Year 1	2,000,000	60,000	88,000	4,200	3,623	213,087	358,657	-	(83,521)	2,644,045
Year 2	2,644,045	79,321	116,338	2,144	3,623	213,087	358,657	-	(157,206)	3,260,010
Year 3	3,260,010	97,800	143,440	2,717	3,623	213,087	358,657	-	(184,786)	3,894,548
Year 4	3,894,548	116,836	171,360	3,173	-	213,087	-	-	(209,812)	4,189,193
Year 5	4,189,193	125,676	184,324	3,555	-	213,087	-	-	(237,761)	4,478,074
Year 6	4,478,074	134,342	197,035	3,890	-	213,087	-	-	(263,172)	4,763,257
Year 7	4,763,257	142,898	209,583	4,196	-	213,087	-	-	(647,315)	4,685,707
Year 8	4,685,707	140,571	206,171	4,486	-	213,087	-	-	(691,811)	4,558,212
Year 9	4,558,212	136,746	200,561	4,768	-	213,087	-	-	(735,155)	4,378,221
Year 10	4,378,221	131,347	192,642	5,049	-	213,087	-	-	(778,299)	4,142,047
Year 11	4,142,047	124,261	182,250	5,333	-	213,087	-	-	(821,942)	3,845,037
Year 12	3,845,037	115,351	169,182	5,623	-	213,087	-	-	(866,609)	3,481,671
Year 13	3,481,671	104,450	153,194	5,923	-	213,087	-	-	(912,703)	3,045,622
Year 14	3,045,622	91,369	134,007	6,233	-	11,921,187	-	-	(960,544)	14,237,875
Year 15	14,237,875	427,136	626,467	6,557	-	-	-	-	(1,010,395)	14,287,640
Year 16	14,287,640	428,629	628,656	6,896	-	-	-	-	(1,062,483)	14,289,339
Year 17	14,289,339	428,680	628,731	7,250	-	-	-	-	(1,117,006)	14,236,995
Year 18	14,236,995	427,110	626,428	7,622	-	-	-	-	(1,174,149)	14,124,004
Year 19	14,124,004	423,720	621,456	8,011	-	-	-	-	(1,234,090)	13,943,102
Year 20	13,943,102	418,293	613,496	18,441	-	-	-	-	(2,277,454)	12,715,878

Schedule 19
George Generous
Hypothetical Technique #1: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Contribute and Sell Growth and Financial Assets to another FLLC; Contribute Non-Managing Interest to a GRAT; Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death

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Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%

Generous FLLC

	Beginning of Year Financial Assets	Income	Growth	Sale Proceeds	Preferred Distributions	Growth Distributions	End of Year Financial Assets	Beginning of Year Securities	Sale	End of Year Securities	End of Year Financial & Other Assets	Growth Ownership: George Generous	Growth Ownership: Financial FLLC
Year 1	14,000,000	420,000	616,000	6,000,000	(420,000)	(420,000)	20,196,000	6,000,000	(6,000,000)	-	20,196,000	1.0%	99.0%
Year 2	20,196,000	605,880	888,624	-	(420,000)	(214,424)	21,056,080	-	-	-	21,056,080	1.0%	99.0%
Year 3	21,056,080	631,682	926,468	-	(420,000)	(271,690)	21,922,539	-	-	-	21,922,539	1.0%	99.0%
Year 4	21,922,539	657,676	964,592	-	(420,000)	(317,276)	22,807,532	-	-	-	22,807,532	1.0%	99.0%
Year 5	22,807,532	684,226	1,003,531	-	(420,000)	(355,488)	23,719,801	-	-	-	23,719,801	1.0%	99.0%
Year 6	23,719,801	711,594	1,043,671	-	(420,000)	(389,013)	24,666,053	-	-	-	24,666,053	1.0%	99.0%
Year 7	24,666,053	739,982	1,085,306	-	(420,000)	(419,646)	25,651,695	-	-	-	25,651,695	1.0%	99.0%
Year 8	25,651,695	769,551	1,128,675	-	(420,000)	(448,628)	26,681,292	-	-	-	26,681,292	1.0%	99.0%
Year 9	26,681,292	800,439	1,173,977	-	(420,000)	(476,833)	27,758,875	-	-	-	27,758,875	1.0%	99.0%
Year 10	27,758,875	832,766	1,221,390	-	(420,000)	(504,893)	28,888,139	-	-	-	28,888,139	1.0%	99.0%
Year 11	28,888,139	866,644	1,271,078	-	(420,000)	(533,267)	30,072,594	-	-	-	30,072,594	1.0%	99.0%
Year 12	30,072,594	902,178	1,323,194	-	(420,000)	(562,300)	31,315,667	-	-	-	31,315,667	1.0%	99.0%
Year 13	31,315,667	939,470	1,377,889	-	(420,000)	(592,257)	32,620,769	-	-	-	32,620,769	1.0%	99.0%
Year 14	32,620,769	978,623	1,435,314	-	(420,000)	(623,347)	33,991,359	-	-	-	33,991,359	1.0%	99.0%
Year 15	33,991,359	1,019,741	1,495,620	-	(420,000)	(655,743)	35,430,977	-	-	-	35,430,977	1.0%	99.0%
Year 16	35,430,977	1,062,929	1,558,963	-	(420,000)	(689,591)	36,943,278	-	-	-	36,943,278	1.0%	99.0%
Year 17	36,943,278	1,108,298	1,625,504	-	(420,000)	(725,022)	38,532,059	-	-	-	38,532,059	1.0%	99.0%
Year 18	38,532,059	1,155,962	1,695,411	-	(420,000)	(762,156)	40,201,275	-	-	-	40,201,275	1.0%	99.0%
Year 19	40,201,275	1,206,038	1,768,856	-	(420,000)	(801,108)	41,955,062	-	-	-	41,955,062	1.0%	99.0%
Year 20	41,955,062	1,258,652	1,846,023	-	(420,000)	(1,844,105)	42,795,632	-	-	-	42,795,632	1.0%	99.0%

Schedule 19
George Generous
Hypothetical Technique #1: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Contribute and Sell Growth and Financial Assets to another FLLC; Contribute Non-Managing Interest to a GRAT; Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death

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Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%

Financial FLLC

	Beginning of Year Financial Assets	Income	Growth	Generous FLLC Distributions	Note Payments	Owner Distributions	End of Year Financial Assets	Ownership: George Generous	Ownership: GRAT & Grantor Trust
Year 1	4,000,000	120,000	176,000	415,800	(213,087)	(362,279)	4,136,433	1.0%	99.0%
Year 2	4,136,433	124,093	182,003	212,280	(213,087)	(362,279)	4,079,443	1.0%	99.0%
Year 3	4,079,443	122,383	179,495	268,973	(213,087)	(362,279)	4,074,928	1.0%	99.0%
Year 4	4,074,928	122,248	179,297	314,103	(213,087)	-	4,477,488	1.0%	99.0%
Year 5	4,477,488	134,325	197,009	351,933	(213,087)	-	4,947,668	1.0%	99.0%
Year 6	4,947,668	148,430	217,697	385,123	(213,087)	-	5,485,831	1.0%	99.0%
Year 7	5,485,831	164,575	241,377	415,450	(213,087)	-	6,094,145	1.0%	99.0%
Year 8	6,094,145	182,824	268,142	444,142	(213,087)	-	6,776,166	1.0%	99.0%
Year 9	6,776,166	203,285	298,151	472,065	(213,087)	-	7,536,580	1.0%	99.0%
Year 10	7,536,580	226,097	331,609	499,844	(213,087)	-	8,381,043	1.0%	99.0%
Year 11	8,381,043	251,431	368,766	527,934	(213,087)	-	9,316,086	1.0%	99.0%
Year 12	9,316,086	279,483	409,908	556,677	(213,087)	-	10,349,066	1.0%	99.0%
Year 13	10,349,066	310,472	455,359	586,334	(213,087)	-	11,488,144	1.0%	99.0%
Year 14	11,488,144	344,644	505,478	617,114	(11,921,187)	-	1,034,193	1.0%	99.0%
Year 15	1,034,193	31,026	45,504	649,185	-	-	1,759,908	1.0%	99.0%
Year 16	1,759,908	52,797	77,436	682,695	-	-	2,572,837	1.0%	99.0%
Year 17	2,572,837	77,185	113,205	717,771	-	-	3,480,998	1.0%	99.0%
Year 18	3,480,998	104,430	153,164	754,534	-	-	4,493,126	1.0%	99.0%
Year 19	4,493,126	134,794	197,698	793,097	-	-	5,618,714	1.0%	99.0%
Year 20	5,618,714	168,561	247,223	1,825,664	-	-	7,860,163	1.0%	99.0%

Schedule 19
George Generous
Hypothetical Technique #1: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Contribute and Sell Growth and Financial Assets to another FLLC; Contribute Non-Managing Interest to a GRAT; Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death

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Assumptions:	
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Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.40%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%

3-Year GRAT

	Beginning of Year Financial Assets	Income	Growth	Financial FLLC Distributions	Annual Annuity	GRAT Terminates	End of Year Financial Assets
Year 1	-	-	-	358,657	(358,657)	-	-
Year 2	-	-	-	358,657	(358,657)	-	-
Year 3	-	-	-	358,657	(358,657)	-	-

Grantor Trust for Generous Descendants (GRAT Remaindermen)

	Beginning of Year Financial Assets	Income	Growth	Financial FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-
Year 18	-	-	-	-	-	-	-
Year 19	-	-	-	-	-	-	-
Year 20	-	-	-	-	-	-	-

Schedule 19
George Generous
Hypothetical Technique #1: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to Charity; Contribute and Sell Growth and Financial Assets to another FLLC; Contribute Non-Managing Interest to a GRAT; Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death

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Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%

Doing Good Donor Advised Fund

	Beginning of Year Financial Assets	Income	Growth	Preferred Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	420,000	-	420,000
Year 2	420,000	12,600	18,480	420,000	-	871,080
Year 3	871,080	26,132	38,328	420,000	-	1,355,540
Year 4	1,355,540	40,666	59,644	420,000	-	1,875,850
Year 5	1,875,850	56,275	82,537	420,000	-	2,434,663
Year 6	2,434,663	73,040	107,125	420,000	-	3,034,828
Year 7	3,034,828	91,045	133,532	420,000	-	3,679,405
Year 8	3,679,405	110,382	161,894	420,000	-	4,371,681
Year 9	4,371,681	131,150	192,354	420,000	-	5,115,185
Year 10	5,115,185	153,456	225,068	420,000	-	5,913,709
Year 11	5,913,709	177,411	260,203	420,000	-	6,771,324
Year 12	6,771,324	203,140	297,938	420,000	-	7,692,402
Year 13	7,692,402	230,772	338,466	420,000	-	8,681,639
Year 14	8,681,639	260,449	381,992	420,000	-	9,744,081
Year 15	9,744,081	292,322	428,740	420,000	-	10,885,143
Year 16	10,885,143	326,554	478,946	420,000	-	12,110,643
Year 17	12,110,643	363,319	532,868	420,000	-	13,426,831
Year 18	13,426,831	402,805	590,781	420,000	-	14,840,416
Year 19	14,840,416	445,212	652,978	420,000	-	16,358,607
Year 20	16,358,607	490,758	719,779	420,000	-	17,989,144

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Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%

Note Between George Generous and Financial FLLC

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	11,708,100	213,087	(213,087)	11,708,100
Year 2	11,708,100	213,087	(213,087)	11,708,100
Year 3	11,708,100	213,087	(213,087)	11,708,100
Year 4	11,708,100	213,087	(213,087)	11,708,100
Year 5	11,708,100	213,087	(213,087)	11,708,100
Year 6	11,708,100	213,087	(213,087)	11,708,100
Year 7	11,708,100	213,087	(213,087)	11,708,100
Year 8	11,708,100	213,087	(213,087)	11,708,100
Year 9	11,708,100	213,087	(213,087)	11,708,100
Year 10	11,708,100	213,087	(213,087)	11,708,100
Year 11	11,708,100	213,087	(213,087)	11,708,100
Year 12	11,708,100	213,087	(213,087)	11,708,100
Year 13	11,708,100	213,087	(213,087)	11,708,100
Year 14	11,708,100	213,087	(11,921,187)	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-

Schedule 19
George Generous
Hypothetical Technique #2: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to a 17.5 Year Grantor CLAT; Contribute and Sell Growth and Financial Assets to Another FLLC; Contribute Non-Managing Interest to a GRAT; Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death

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Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%
CLAT Payout Percentage	7.00%

George Generous

	Beginning of Year Financial Assets	Income	Growth	Generous FLLC Distributions	Financial FLLC Distributions	Note Payments	GRAT Annuity Payments	Charitable Spending	Income Taxes	End of Year Financial Assets
Year 1	2,000,000	60,000	88,000	4,200	3,623	213,087	358,657	-	(83,521)	2,644,045
Year 2	2,644,045	79,321	116,338	2,144	3,623	213,087	358,657	-	(157,206)	3,260,010
Year 3	3,260,010	97,800	143,440	2,717	3,623	213,087	358,657	-	(184,786)	3,894,548
Year 4	3,894,548	116,836	171,360	3,173	-	213,087	-	-	(209,812)	4,189,193
Year 5	4,189,193	125,676	184,324	3,555	-	213,087	-	-	(237,761)	4,478,074
Year 6	4,478,074	134,342	197,035	3,890	-	213,087	-	-	(263,172)	4,763,257
Year 7	4,763,257	142,898	209,583	4,196	-	213,087	-	-	(647,315)	4,685,707
Year 8	4,685,707	140,571	206,171	4,486	-	213,087	-	-	(691,811)	4,558,212
Year 9	4,558,212	136,746	200,561	4,768	-	213,087	-	-	(735,155)	4,378,221
Year 10	4,378,221	131,347	192,642	5,049	-	213,087	-	-	(778,299)	4,142,047
Year 11	4,142,047	124,261	182,250	5,333	-	213,087	-	-	(821,942)	3,845,037
Year 12	3,845,037	115,351	169,182	5,623	-	213,087	-	-	(866,609)	3,481,671
Year 13	3,481,671	104,450	153,194	5,923	-	213,087	-	-	(912,703)	3,045,622
Year 14	3,045,622	91,369	134,007	6,233	-	11,921,187	-	-	(960,544)	14,237,875
Year 15	14,237,875	427,136	626,467	6,557	-	-	-	-	(1,010,395)	14,287,640
Year 16	14,287,640	428,629	628,656	6,896	-	-	-	-	(1,062,483)	14,289,339
Year 17	14,289,339	428,680	628,731	7,951	-	-	-	-	(1,187,105)	14,167,596
Year 18	14,167,596	425,028	623,374	9,012	-	-	-	-	(1,316,686)	13,908,324
Year 19	13,908,324	417,250	611,966	9,376	-	-	-	-	(1,381,757)	13,565,159
Year 20	13,565,159	406,955	596,867	19,532	-	-	-	-	(2,425,614)	12,162,899

Schedule 19
George Generous
Hypothetical Technique #2: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to a 17.5 Year Grantor CLAT; Contribute and Sell Growth and Financial Assets to Another FLLC; Contribute Non-Managing Interest to a GRAT; Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.40%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%
CLAT Payout Percentage	7.00%

Generous FLLC

	Beginning of Year Financial Assets	Income	Growth	Sale Proceeds	Preferred Distributions	Growth Distributions	End of Year Financial Assets	Beginning of Year Securities	Sale	End of Year Securities	End of Year Financial & Other Assets	Growth Ownership: George Generous	Growth Ownership: Financial FLLC
Year 1	14,000,000	420,000	616,000	6,000,000	(420,000)	(420,000)	20,196,000	6,000,000	(6,000,000)	-	20,196,000	1.0%	99.0%
Year 2	20,196,000	605,880	888,624	-	(420,000)	(214,424)	21,056,080	-	-	-	21,056,080	1.0%	99.0%
Year 3	21,056,080	631,682	926,468	-	(420,000)	(271,690)	21,922,539	-	-	-	21,922,539	1.0%	99.0%
Year 4	21,922,539	657,676	964,592	-	(420,000)	(317,276)	22,807,532	-	-	-	22,807,532	1.0%	99.0%
Year 5	22,807,532	684,226	1,003,531	-	(420,000)	(355,488)	23,719,801	-	-	-	23,719,801	1.0%	99.0%
Year 6	23,719,801	711,594	1,043,671	-	(420,000)	(389,013)	24,666,053	-	-	-	24,666,053	1.0%	99.0%
Year 7	24,666,053	739,982	1,085,306	-	(420,000)	(419,646)	25,651,695	-	-	-	25,651,695	1.0%	99.0%
Year 8	25,651,695	769,551	1,128,675	-	(420,000)	(448,628)	26,681,292	-	-	-	26,681,292	1.0%	99.0%
Year 9	26,681,292	800,439	1,173,977	-	(420,000)	(476,833)	27,758,875	-	-	-	27,758,875	1.0%	99.0%
Year 10	27,758,875	832,766	1,221,390	-	(420,000)	(504,893)	28,888,139	-	-	-	28,888,139	1.0%	99.0%
Year 11	28,888,139	866,644	1,271,078	-	(420,000)	(533,267)	30,072,594	-	-	-	30,072,594	1.0%	99.0%
Year 12	30,072,594	902,178	1,323,194	-	(420,000)	(562,300)	31,315,667	-	-	-	31,315,667	1.0%	99.0%
Year 13	31,315,667	939,470	1,377,889	-	(420,000)	(592,257)	32,620,769	-	-	-	32,620,769	1.0%	99.0%
Year 14	32,620,769	978,623	1,435,314	-	(420,000)	(623,347)	33,991,359	-	-	-	33,991,359	1.0%	99.0%
Year 15	33,991,359	1,019,741	1,495,620	-	(420,000)	(655,743)	35,430,977	-	-	-	35,430,977	1.0%	99.0%
Year 16	35,430,977	1,062,929	1,558,963	-	(420,000)	(689,591)	36,943,278	-	-	-	36,943,278	1.0%	99.0%
Year 17	36,943,278	1,108,298	1,625,504	-	(420,000)	(795,121)	38,461,959	-	-	-	38,461,959	1.0%	99.0%
Year 18	38,461,959	1,153,859	1,692,326	-	(420,000)	(901,189)	39,986,955	-	-	-	39,986,955	1.0%	99.0%
Year 19	39,986,955	1,199,609	1,759,426	-	(420,000)	(937,580)	41,588,410	-	-	-	41,588,410	1.0%	99.0%
Year 20	41,588,410	1,247,652	1,829,890	-	(420,000)	(1,953,220)	42,292,732	-	-	-	42,292,732	1.0%	99.0%

Schedule 19
George Generous
Hypothetical Technique #2: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to a 17.5 Year Grantor CLAT; Contribute and Sell Growth and Financial Assets to Another FLLC; Contribute Non-Managing Interest to a GRAT; Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death

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Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%
CLAT Payout Percentage	7.00%

Financial FLLC

	Beginning of Year Financial Assets	Income	Growth	Generous FLLC Distributions	Note Payments	Owner Distributions	End of Year Financial Assets	Ownership: George Generous	Ownership: GRAT & Grantor Trust
Year 1	4,000,000	120,000	176,000	415,800	(213,087)	(362,279)	4,136,433	1.0%	99.0%
Year 2	4,136,433	124,093	182,003	212,280	(213,087)	(362,279)	4,079,443	1.0%	99.0%
Year 3	4,079,443	122,383	179,495	268,973	(213,087)	(362,279)	4,074,928	1.0%	99.0%
Year 4	4,074,928	122,248	179,297	314,103	(213,087)	-	4,477,488	1.0%	99.0%
Year 5	4,477,488	134,325	197,009	351,933	(213,087)	-	4,947,668	1.0%	99.0%
Year 6	4,947,668	148,430	217,697	385,123	(213,087)	-	5,485,831	1.0%	99.0%
Year 7	5,485,831	164,575	241,377	415,450	(213,087)	-	6,094,145	1.0%	99.0%
Year 8	6,094,145	182,824	268,142	444,142	(213,087)	-	6,776,166	1.0%	99.0%
Year 9	6,776,166	203,285	298,151	472,065	(213,087)	-	7,536,580	1.0%	99.0%
Year 10	7,536,580	226,097	331,609	499,844	(213,087)	-	8,381,043	1.0%	99.0%
Year 11	8,381,043	251,431	368,766	527,934	(213,087)	-	9,316,086	1.0%	99.0%
Year 12	9,316,086	279,483	409,908	556,677	(213,087)	-	10,349,066	1.0%	99.0%
Year 13	10,349,066	310,472	455,359	586,334	(213,087)	-	11,488,144	1.0%	99.0%
Year 14	11,488,144	344,644	505,478	617,114	(11,921,187)	-	1,034,193	1.0%	99.0%
Year 15	1,034,193	31,026	45,504	649,185	-	-	1,759,908	1.0%	99.0%
Year 16	1,759,908	52,797	77,436	682,695	-	-	2,572,837	1.0%	99.0%
Year 17	2,572,837	77,185	113,205	787,170	-	-	3,550,397	1.0%	99.0%
Year 18	3,550,397	106,512	156,217	892,177	-	-	4,705,303	1.0%	99.0%
Year 19	4,705,303	141,159	207,033	928,204	-	-	5,981,700	1.0%	99.0%
Year 20	5,981,700	179,451	263,195	1,933,688	-	-	8,358,034	1.0%	99.0%

Schedule 19
George Generous
Hypothetical Technique #2: Creation of an FLLC with Growth and Preferred Interests; Gift of Preferred to a 17.5 Year Grantor CLAT; Contribute and Sell Growth and Financial Assets to Another FLLC; Contribute Non-Managing Interest to a GRAT; Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available at death

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Assumptions:	
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Rate of Return Taxed at Ordinary Rates - Financial Assets	3.00%
Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.40%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%
CLAT Payout Percentage	7.00%

3-Year GRAT

	Beginning of Year Financial Assets	Income	Growth	Financial FLLC Distributions	Annual Annuity	GRAT Terminates	End of Year Financial Assets
Year 1	-	-	-	358,657	(358,657)	-	-
Year 2	-	-	-	358,657	(358,657)	-	-
Year 3	-	-	-	358,657	(358,657)	-	-

Grantor Trust for Generous Descendants (GRAT Remaindermen)

	Beginning of Year Financial Assets	Income	Growth	Preferred Distributions	Financial FLLC Distributions	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-	-
Year 17	-	-	-	210,000	-	-	-	210,000
Year 18	210,000	6,300	9,240	420,000	-	-	-	645,540
Year 19	645,540	19,366	28,404	420,000	-	-	-	1,113,310
Year 20	1,113,310	33,399	48,986	420,000	-	-	-	1,615,695

Schedule 19
George Generous
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Rate of Return Taxed at Capital Gains Rates - Financial Assets	4.40%
Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%
CLAT Payout Percentage	7.00%

17.5-Year Charitable Lead Annuity Trust

	Beginning of Year Financial Assets	Income	Growth	Preferred Distributions	Charitable Contribution	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	420,000	(420,000)	-	-
Year 2	-	-	-	420,000	(420,000)	-	-
Year 3	-	-	-	420,000	(420,000)	-	-
Year 4	-	-	-	420,000	(420,000)	-	-
Year 5	-	-	-	420,000	(420,000)	-	-
Year 6	-	-	-	420,000	(420,000)	-	-
Year 7	-	-	-	420,000	(420,000)	-	-
Year 8	-	-	-	420,000	(420,000)	-	-
Year 9	-	-	-	420,000	(420,000)	-	-
Year 10	-	-	-	420,000	(420,000)	-	-
Year 11	-	-	-	420,000	(420,000)	-	-
Year 12	-	-	-	420,000	(420,000)	-	-
Year 13	-	-	-	420,000	(420,000)	-	-
Year 14	-	-	-	420,000	(420,000)	-	-
Year 15	-	-	-	420,000	(420,000)	-	-
Year 16	-	-	-	420,000	(420,000)	-	-
Year 17	-	-	-	210,000	(210,000)	-	-
Year 18	-	-	-	-	-	-	-
Year 19	-	-	-	-	-	-	-
Year 20	-	-	-	-	-	-	-

Schedule 19
George Generous
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Turnover Rate - Financial Assets (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
Generous FLLC Valuation Discount	35.00%
Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%
CLAT Payout Percentage	7.00%

Doing Good Donor Advised Fund

	Beginning of Year Financial Assets	Income	Growth	Charitable Contribution	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	420,000	-	420,000
Year 2	420,000	12,600	18,480	420,000	-	871,080
Year 3	871,080	26,132	38,328	420,000	-	1,355,540
Year 4	1,355,540	40,666	59,644	420,000	-	1,875,850
Year 5	1,875,850	56,275	82,537	420,000	-	2,434,663
Year 6	2,434,663	73,040	107,125	420,000	-	3,034,828
Year 7	3,034,828	91,045	133,532	420,000	-	3,679,405
Year 8	3,679,405	110,382	161,894	420,000	-	4,371,681
Year 9	4,371,681	131,150	192,354	420,000	-	5,115,185
Year 10	5,115,185	153,456	225,068	420,000	-	5,913,709
Year 11	5,913,709	177,411	260,203	420,000	-	6,771,324
Year 12	6,771,324	203,140	297,938	420,000	-	7,692,402
Year 13	7,692,402	230,772	338,466	420,000	-	8,681,639
Year 14	8,681,639	260,449	381,992	420,000	-	9,744,081
Year 15	9,744,081	292,322	428,740	420,000	-	10,885,143
Year 16	10,885,143	326,554	478,946	420,000	-	12,110,643
Year 17	12,110,643	363,319	532,868	210,000	-	13,216,831
Year 18	13,216,831	396,505	581,541	-	-	14,194,876
Year 19	14,194,876	425,846	624,575	-	-	15,245,297
Year 20	15,245,297	457,359	670,793	-	-	16,373,449

Schedule 19
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Long-Term Capital Gain Tax Rate	25.00%
Ordinary Income Tax Rate	44.60%
Charitable Spending	$0

Assumptions:	
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Generous FLLC Preferred	$6,000,000
Generous FLLC Preferred Coupon	7.00%
Holdco FLLC Valuation Discount	20.00%
IRS 7520 Rate	2.20%
Intra-Family Interest Rate - Mid-Term (August 2015)	1.82%
CLAT Payout Percentage	7.00%

Note Between George Generous and Financial FLLC

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	11,708,100	213,087	(213,087)	11,708,100
Year 2	11,708,100	213,087	(213,087)	11,708,100
Year 3	11,708,100	213,087	(213,087)	11,708,100
Year 4	11,708,100	213,087	(213,087)	11,708,100
Year 5	11,708,100	213,087	(213,087)	11,708,100
Year 6	11,708,100	213,087	(213,087)	11,708,100
Year 7	11,708,100	213,087	(213,087)	11,708,100
Year 8	11,708,100	213,087	(213,087)	11,708,100
Year 9	11,708,100	213,087	(213,087)	11,708,100
Year 10	11,708,100	213,087	(213,087)	11,708,100
Year 11	11,708,100	213,087	(213,087)	11,708,100
Year 12	11,708,100	213,087	(213,087)	11,708,100
Year 13	11,708,100	213,087	(213,087)	11,708,100
Year 14	11,708,100	213,087	(11,921,187)	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-

Schedule 20

Mr. Art Giver

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	10-Year Future Values		Present Values (Discounted at 0.0%)	Percentage of Total
	Pre-Death	Post Death		
Simulated Tax Holiday - Mr. Giver receives a full deduction for giving cash and art to his foundation; foundation may sell the art without any capital gains tax attributable to Mr. Giver; Mr. Giver makes annual gifts to charity to the extent that he has extra cash				
Schedule 20	2,674	-	-	0.00%
Charity	48,915,830	48,918,504	48,918,504	160.75%
IRS Income Tax - Direct Cost/(Benefit)	(10,955,058)	(10,955,058)	(10,955,058)	-36.00%
IRS Income Tax - Investment Opportunity Cost/(Benefit)	(7,532,668)	(7,532,668)	(7,532,668)	-24.75%
IRS Estate Tax (at 40.0%)	-	-	-	0.00%
Total	**$30,430,777**	**$30,430,777**	**$30,430,777**	**100.00%**
No Further Planning Technique #1 - sale of art; net proceeds from sale of art after taxes contributed to foundation; annual gifts to charity to the extent that Mr. Giver has extra cash				
Schedule 20	1,503	-	-	0.00%
Charity	40,819,692	40,821,195	40,821,195	134.14%
IRS Income Tax - Direct Cost/(Benefit)	(6,156,930)	(6,156,930)	(6,156,930)	-20.23%
IRS Income Tax - Investment Opportunity Cost/(Benefit)	(4,233,488)	(4,233,488)	(4,233,488)	-13.91%
IRS Estate Tax (at 40.0%)	-	-	-	0.00%
Total	**$30,430,778**	**$30,430,778**	**$30,430,778**	**100.00%**
No Further Planning Technique #2 - art contributed to foundation; deduction limited to art basis; foundation sells art; annual gifts to charity to the extent that Mr. Giver has extra cash				
Schedule 20	919	-	-	0.00%
Charity	36,785,015	36,785,934	36,785,934	120.88%
IRS Income Tax - Direct Cost/(Benefit)	(3,765,801)	(3,765,801)	(3,765,801)	-12.37%
IRS Income Tax - Investment Opportunity Cost/(Benefit)	(2,589,355)	(2,589,355)	(2,589,355)	-8.51%
IRS Estate Tax (at 40.0%)	-	-	-	0.00%
Total	**$30,430,778**	**$30,430,778**	**$30,430,778**	**100.00%**
Hypothetical Technique #3, Scenario A - art contributed to a flip NIMCRUT; net proceeds of NIMCRUT distributions plus available cash are annually contributed to foundation; Mr. Giver receives a deduction for remainder interest of NIMCRUT when art is sold equal to sale proceeds				
Schedule 20	28,756	-	-	0.00%
Charity	45,949,490	45,978,246	45,978,246	151.09%
IRS Income Tax - Direct Cost/(Benefit)	(10,842,512)	(10,842,512)	(10,842,512)	-35.63%
IRS Income Tax - Investment Opportunity Cost/(Benefit)	(4,704,957)	(4,704,957)	(4,704,957)	-15.46%
IRS Estate Tax (at 40.0%)	-	-	-	0.00%
Total	**$30,430,778**	**$30,430,778**	**$30,430,778**	**100.00%**
Hypothetical Technique #3, Scenario B - art contributed to a flip NIMCRUT; net proceeds of NIMCRUT distributions plus available cash are annually contributed to foundation; Mr. Giver receives a deduction for remainder interest of NIMCRUT when art is sold equal to basis of art				
Schedule 20	28,235	-	-	0.00%
Charity	44,525,667	44,553,902	44,553,902	146.41%
IRS Income Tax - Direct Cost/(Benefit)	(9,943,734)	(9,943,734)	(9,943,734)	-32.68%
IRS Income Tax - Investment Opportunity Cost/(Benefit)	(4,179,391)	(4,179,391)	(4,179,391)	-13.73%
IRS Estate Tax (at 40.0%)	-	-	-	0.00%
Total	**$30,430,778**	**$30,430,778**	**$30,430,778**	**100.00%**

Schedule 20

Simulated Tax Holiday - Mr. Giver receives a full deduction for giving cash and art to his foundation; foundation may sell the art without any capital gains tax attributable to Mr. Giver; Mr. Giver makes annual gifts to charity to the extent that he has extra cash

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Assumptions:	Financial Assets	Artwork
Total Estimated Rate of Return	6.50%	8.00%
Rate of Return Taxed at Ordinary Rate	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rate	6.50%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year) - Yr 1		100.00%
Ordinary Income and Health Care Tax Rate	44.60%	
Long-Term Capital Gains and Health Care Tax Rate	25.00%	
Long-Term Capital Gains and Health Care Tax Rate - Art	28.00%	
Maximum Benefit of Charitable Deduction	39.60%	

Assumptions (continued):	
Charitable deduction - year 1 (for cash and art contributed to foundation)	$16,000,000
Charitable deduction - year 2 (for cash contributed to foundation)	$6,747,840
Charitable deduction - year 3 (for cash contributed to foundation)	$2,845,834
Charitable deduction - year 4 (for cash contributed to foundation)	$1,200,202
Charitable deduction - year 5 (for cash contributed to foundation)	$506,173
Charitable deduction - year 6 (for cash contributed to foundation)	$213,473
Charitable deduction - year 7 (for cash contributed to foundation)	$90,030
Charitable deduction - year 8 (for cash contributed to foundation)	$37,969
Charitable deduction - year 9 (for cash contributed to foundation)	$16,013
Charitable deduction - year 10 (for cash contributed to foundation)	$6,753

Schedule 20

	Beginning of Year Financial Assets	Income	Growth	Charitable Contributions	Income Tax (Expense)/ Benefit	End of Year Financial Assets
Year 1	-	-	-	-	6,336,000	6,336,000
Year 2	6,336,000	-	411,840	(6,747,840)	2,672,145	2,672,145
Year 3	2,672,145	-	173,689	(2,845,834)	1,126,950	1,126,950
Year 4	1,126,950	-	73,252	(1,200,202)	475,280	475,280
Year 5	475,280	-	30,893	(506,173)	200,445	200,445
Year 6	200,445	-	13,029	(213,473)	84,536	84,536
Year 7	84,536	-	5,495	(90,030)	35,652	35,652
Year 8	35,652	-	2,317	(37,969)	15,036	15,036
Year 9	15,036	-	977	(16,013)	6,341	6,341
Year 10	6,341	-	412	(6,753)	2,674	2,674

G Family Foundation

	Beginning of Year Financial Assets	Income	Growth	Charitable Contributions	Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Artwork	Growth	Sale	End of Year Artwork	End of Year Financial & Artwork
Year 1	1,000,000	-	65,000	-	16,200,000	-	17,265,000	15,000,000	1,200,000	(16,200,000)	-	17,265,000
Year 2	17,265,000	-	1,122,225	6,747,840	-	-	25,135,065	-	-	-	-	25,135,065
Year 3	25,135,065	-	1,633,779	2,845,834	-	-	29,614,678	-	-	-	-	29,614,678
Year 4	29,614,678	-	1,924,954	1,200,202	-	-	32,739,834	-	-	-	-	32,739,834
Year 5	32,739,834	-	2,128,089	506,173	-	-	35,374,097	-	-	-	-	35,374,097
Year 6	35,374,097	-	2,299,316	213,473	-	-	37,886,887	-	-	-	-	37,886,887
Year 7	37,886,887	-	2,462,648	90,030	-	-	40,439,565	-	-	-	-	40,439,565
Year 8	40,439,565	-	2,628,572	37,969	-	-	43,106,106	-	-	-	-	43,106,106
Year 9	43,106,106	-	2,801,897	16,013	-	-	45,924,016	-	-	-	-	45,924,016
Year 10	45,924,016	-	2,985,061	6,753	-	-	48,915,830	-	-	-	-	48,915,830

Schedule 20

No Further Planning Technique #1 - sale of art; net proceeds from sale of art after taxes contributed to foundation; annual gifts to charity to the extent that Mr. Giver has extra cash

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Assumptions:	Financial Assets	Artwork
Total Estimated Rate of Return	6.50%	8.00%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	6.50%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year) - Yr 1		100.00%
Ordinary Income and Health Care Tax Rate	44.60%	
Long-Term Capital Gains and Health Care Tax Rate	25.00%	
Long-Term Capital Gains and Health Care Tax Rate - Art	28.00%	
Maximum Benefit of Charitable Deduction	39.60%	

Assumptions (continued):	
Charitable deduction - year 1 (for cash contributed to foundation)	17,265,000
Charitable deduction - year 2 (for cash contributed to foundation)	3,792,401
Charitable deduction - year 3 (for cash contributed to foundation)	1,599,407
Charitable deduction - year 4 (for cash contributed to foundation)	674,534
Charitable deduction - year 5 (for cash contributed to foundation)	284,478
Charitable deduction - year 6 (for cash contributed to foundation)	119,976
Charitable deduction - year 7 (for cash contributed to foundation)	50,599
Charitable deduction - year 8 (for cash contributed to foundation)	21,339
Charitable deduction - year 9 (for cash contributed to foundation)	9,000
Charitable deduction - year 10 (for cash contributed to foundation)	3,796

Schedule 20

	Beginning of Year Financial Assets	Income	Growth	Sale Proceeds	Contribution to Foundation	Income Tax (Expense)/ Benefit	End of Year Financial Assets	Beginning of Year Artwork	Growth	Sale	End of Year Artwork	End of Year Financial & Artwork
Year 1	1,000,000	-	65,000	16,200,000	(17,265,000)	3,560,940	3,560,940	15,000,000	1,200,000	(16,200,000)	-	3,560,940
Year 2	3,560,940	-	231,461	-	(3,792,401)	1,501,791	1,501,791	-	-	-	-	1,501,791
Year 3	1,501,791	-	97,616	-	(1,599,407)	633,365	633,365	-	-	-	-	633,365
Year 4	633,365	-	41,169	-	(674,534)	267,115	267,115	-	-	-	-	267,115
Year 5	267,115	-	17,363	-	(284,478)	112,653	112,653	-	-	-	-	112,653
Year 6	112,653	-	7,322	-	(119,976)	47,510	47,510	-	-	-	-	47,510
Year 7	47,510	-	3,088	-	(50,599)	20,037	20,037	-	-	-	-	20,037
Year 8	20,037	-	1,302	-	(21,339)	8,450	8,450	-	-	-	-	8,450
Year 9	8,450	-	549	-	(9,000)	3,564	3,564	-	-	-	-	3,564
Year 10	3,564	-	232	-	(3,796)	1,503	1,503	-	-	-	-	1,503

G Family Foundation

	Beginning of Year Financial Assets	Income	Growth	Contribution	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	17,265,000	-	17,265,000
Year 2	17,265,000	-	1,122,225	3,792,401	-	22,179,626
Year 3	22,179,626	-	1,441,676	1,599,407	-	25,220,709
Year 4	25,220,709	-	1,639,346	674,534	-	27,534,589
Year 5	27,534,589	-	1,789,748	284,478	-	29,608,815
Year 6	29,608,815	-	1,924,573	119,976	-	31,653,364
Year 7	31,653,364	-	2,057,469	50,599	-	33,761,431
Year 8	33,761,431	-	2,194,493	21,339	-	35,977,264
Year 9	35,977,264	-	2,338,522	9,000	-	38,324,786
Year 10	38,324,786	-	2,491,111	3,796	-	40,819,692

Schedule 20

No Further Planning Technique #2 - art contributed to foundation; deduction limited to art basis; foundation sells art; annual gifts to charity to the extent that Mr. Giver has extra cash

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Assumptions:	Financial Assets	Artwork
Total Estimated Rate of Return	6.50%	8.00%
Rate of Return Taxed at Ordinary Rate	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rate	6.50%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year) - Yr 1		100.00%
Ordinary Income and Health Care Tax Rate	44.60%	
Long-Term Capital Gains and Health Care Tax Rate	25.00%	
Long-Term Capital Gains and Health Care Tax Rate - Art	28.00%	
Maximum Benefit of Charitable Deduction	39.60%	

Assumptions (continued):	
Charitable deduction - year 1 (for cash and art basis contributed to foundation)	$5,500,000
Charitable deduction - year 2 (for cash contributed to foundation)	$2,319,570
Charitable deduction - year 3 (for cash contributed to foundation)	$978,255
Charitable deduction - year 4 (for cash contributed to foundation)	$412,569
Charitable deduction - year 5 (for cash contributed to foundation)	$173,997
Charitable deduction - year 6 (for cash contributed to foundation)	$73,382
Charitable deduction - year 7 (for cash contributed to foundation)	$30,948
Charitable deduction - year 8 (for cash contributed to foundation)	$13,052
Charitable deduction - year 9 (for cash contributed to foundation)	$5,505
Charitable deduction - year 10 (for cash contributed to foundation)	$2,321

Schedule 20

	Beginning of Year Financial Assets	Income	Growth	Charitable Contributions	Income Tax (Expense)/ Benefit	End of Year Financial Assets
Year 1	-	-	-	-	2,178,000	2,178,000
Year 2	2,178,000	-	141,570	(2,319,570)	918,550	918,550
Year 3	918,550	-	59,706	(978,255)	387,389	387,389
Year 4	387,389	-	25,180	(412,569)	163,378	163,378
Year 5	163,378	-	10,620	(173,997)	68,903	68,903
Year 6	68,903	-	4,479	(73,382)	29,059	29,059
Year 7	29,059	-	1,889	(30,948)	12,255	12,255
Year 8	12,255	-	797	(13,052)	5,169	5,169
Year 9	5,169	-	336	(5,505)	2,180	2,180
Year 10	2,180	-	142	(2,321)	919	919

G Family Foundation

	Beginning of Year Financial Assets	Income	Growth	Charitable Contributions	Sale Proceeds	Income Taxes	End of Year Financial Assets	Beginning of Year Artwork	Growth	Sale	End of Year Artwork	End of Year Financial & Artwork
Year 1	1,000,000	-	65,000	-	16,200,000	-	17,265,000	15,000,000	1,200,000	(16,200,000)	-	17,265,000
Year 2	17,265,000	-	1,122,225	2,319,570	-	-	20,706,795	-	-	-	-	20,706,795
Year 3	20,706,795	-	1,345,942	978,255	-	-	23,030,992	-	-	-	-	23,030,992
Year 4	23,030,992	-	1,497,014	412,569	-	-	24,940,576	-	-	-	-	24,940,576
Year 5	24,940,576	-	1,621,137	173,997	-	-	26,735,711	-	-	-	-	26,735,711
Year 6	26,735,711	-	1,737,821	73,382	-	-	28,546,913	-	-	-	-	28,546,913
Year 7	28,546,913	-	1,855,549	30,948	-	-	30,433,411	-	-	-	-	30,433,411
Year 8	30,433,411	-	1,978,172	13,052	-	-	32,424,634	-	-	-	-	32,424,634
Year 9	32,424,634	-	2,107,601	5,505	-	-	34,537,740	-	-	-	-	34,537,740
Year 10	34,537,740	-	2,244,953	2,321	-	-	36,785,015	-	-	-	-	36,785,015

Schedule 20

Hypothetical Technique #3, Scenario A - art contributed to a flip NIMCRUT; net proceeds of NIMCRUT distributions plus available cash are annually contributed to foundation; Mr. Giver receives a deduction for remainder interest of NIMCRUT when art is sold equal to sale proceeds

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Assumptions:	Financial Assets	Artwork
Total Estimated Rate of Return	6.50%	8.00%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	6.50%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year) - Yr 1		100.00%
Ordinary Income and Health Care Tax Rate	44.60%	
Long-Term Capital Gains and Health Care Tax Rate	25.00%	
Maximum Benefit of Charitable Deductions	39.60%	

Assumptions (continued):	
IRS 7520 rate (best)	2.60%
CRUT unitrust rate	10.945%
Charitable deduction - year 1 (for cash contributed to NIMCRUT)	$100,020
Charitable deduction - year 2 (for cash and sale of art within NIMCRUT)	$4,956,935
Charitable deduction - year 3 (for cash contributed to charity)	$3,260,959
Charitable deduction - year 4 (for cash and gift of future NIMCRUT payments)	$13,883,783
Charitable deduction - year 5 (for cash contributed to charity)	$5,442,555
Charitable deduction - year 6 (for cash contributed to charity)	$2,295,343
Charitable deduction - year 7 (for cash contributed to charity)	$968,038
Charitable deduction - year 8 (for cash contributed to charity)	$408,260
Charitable deduction - year 9 (for cash contributed to charity)	$172,180
Charitable deduction - year 10 (for cash contributed to charity)	$72,615

Schedule 20

	Beginning of Year Financial Assets	Income	Growth	NIMCRUT Payments	Charitable Contributions	Income Tax (Expense)/ Benefit	End of Year Financial Assets
Year 1	-	-	-	1,751,200	-	(398,192)	1,353,008
Year 2	1,353,008	-	87,946	1,697,985	(3,138,939)	1,538,450	1,538,450
Year 3	1,538,450	-	99,999	1,622,510	(3,260,959)	885,712	885,712
Year 4	885,712	-	57,571	1,550,389	(2,493,673)	5,110,381	5,110,381
Year 5	5,110,381	-	332,175	-	(5,442,555)	2,155,252	2,155,252
Year 6	2,155,252	-	140,091	-	(2,295,343)	908,956	908,956
Year 7	908,956	-	59,082	-	(968,038)	383,343	383,343
Year 8	383,343	-	24,917	-	(408,260)	161,671	161,671
Year 9	161,671	-	10,509	-	(172,180)	68,183	68,183
Year 10	68,183	-	4,432	-	(72,615)	28,756	28,756

20-Year Charitable Remainder Trust

	Beginning of Year Financial Assets	Income	Growth	Sale Proceeds	Annual Payout	Beneficiary	End of Year Financial Assets	Beginning of Year Artwork	Growth	Sale	End of Year Artwork	End of Year Financial & Artwork
Year 1	1,000,000	-	65,000	16,200,000	(1,751,200)	-	15,513,800	15,000,000	1,200,000	(16,200,000)	-	15,513,800
Year 2	15,513,800	-	1,008,397	-	(1,697,985)	-	14,824,212	-	-	-	-	14,824,212
Year 3	14,824,212	-	963,574	-	(1,622,510)	-	14,165,275	-	-	-	-	14,165,275
Year 4	14,165,275	-	920,743	-	(1,550,389)	(13,535,629)	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-	-	-	-

Schedule 20

Hypothetical Technique #3, Scenario A - art contributed to a flip NIMCRUT; net proceeds of NIMCRUT distributions plus available cash are annually contributed to foundation; Mr. Giver receives a deduction for remainder interest of NIMCRUT when art is sold equal to sale proceeds

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Assumptions:	Financial Assets	Artwork
Total Estimated Rate of Return	6.50%	8.00%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	6.50%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year) - Yr 1		100.00%
Ordinary Income and Health Care Tax Rate	44.60%	
Long-Term Capital Gains and Health Care Tax Rate	25.00%	
Maximum Benefit of Charitable Deductions	39.60%	

Assumptions (continued):	
IRS 7520 rate (best)	2.60%
CRUT unitrust rate	10.945%
Charitable deduction - year 1 (for cash contributed to NIMCRUT)	$100,020
Charitable deduction - year 2 (for cash and sale of art within NIMCRUT)	$4,956,935
Charitable deduction - year 3 (for cash contributed to charity)	$3,260,959
Charitable deduction - year 4 (for cash and gift of future NIMCRUT payments)	$13,883,783
Charitable deduction - year 5 (for cash contributed to charity)	$5,442,555
Charitable deduction - year 6 (for cash contributed to charity)	$2,295,343
Charitable deduction - year 7 (for cash contributed to charity)	$968,038
Charitable deduction - year 8 (for cash contributed to charity)	$408,260
Charitable deduction - year 9 (for cash contributed to charity)	$172,180
Charitable deduction - year 10 (for cash contributed to charity)	$72,615

G Family Foundation

	Beginning of Year Financial Assets	Income	Growth	Contributions	NIMCRUT Proceeds	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	3,138,939	-	-	3,138,939
Year 3	3,138,939	-	204,031	3,260,959	-	-	6,603,929
Year 4	6,603,929	-	429,255	2,493,673	13,535,629	-	23,062,486
Year 5	23,062,486	-	1,499,062	5,442,555	-	-	30,004,103
Year 6	30,004,103	-	1,950,267	2,295,343	-	-	34,249,713
Year 7	34,249,713	-	2,226,231	968,038	-	-	37,443,983
Year 8	37,443,983	-	2,433,859	408,260	-	-	40,286,102
Year 9	40,286,102	-	2,618,597	172,180	-	-	43,076,878
Year 10	43,076,878	-	2,799,997	72,615	-	-	45,949,490

Schedule 20

Hypothetical Technique #3, Scenario B - art contributed to a flip NIMCRUT; net proceeds of NIMCRUT distributions plus available cash are annually contributed to foundation; Mr. Giver receives a deduction for remainder interest of NIMCRUT when art is sold equal to basis of art

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Assumptions:	Financial Assets	Artwork
Total Estimated Rate of Return	6.50%	8.00%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	6.50%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year) - Yr 1		100.00%
Ordinary Income and Health Care Tax Rate	44.60%	
Long-Term Capital Gains and Health Care Tax Rate	25.00%	
Long-Term Capital Gains and Health Care Tax Rate - Art	28.00%	
Maximum Benefit of Charitable Deductions	39.60%	

Assumptions (continued):	
IRS 7520 rate (best)	2.60%
CRUT unitrust rate	10.945%
Charitable deduction - year 1 (for cash contributed to NIMCRUT)	$100,020
Charitable deduction - year 2 (for cash and basis of art contributed to NIMCRUT)	$3,643,938
Charitable deduction - year 3 (for cash contributed to charity)	$2,707,216
Charitable deduction - year 4 (for cash and gift of future NIMCRUT payments)	$13,650,247
Charitable deduction - year 5 (for cash contributed to charity)	$5,344,064
Charitable deduction - year 6 (for cash contributed to charity)	$2,253,806
Charitable deduction - year 7 (for cash contributed to charity)	$950,520
Charitable deduction - year 8 (for cash contributed to charity)	$400,872
Charitable deduction - year 9 (for cash contributed to charity)	$169,064
Charitable deduction - year 10 (for cash contributed to charity)	$71,301

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	Beginning of Year Financial Assets	Income	Growth	NIMCRUT Payments	Charitable Contributions	Income Tax (Expense)/ Benefit	End of Year Financial Assets
Year 1	-	-	-	1,751,200	-	(398,192)	1,353,008
Year 2	1,353,008	-	87,946	1,697,985	(3,138,939)	1,018,503	1,018,503
Year 3	1,018,503	-	66,203	1,622,510	(2,707,216)	666,430	666,430
Year 4	666,430	-	43,318	1,550,389	(2,260,137)	5,017,901	5,017,901
Year 5	5,017,901	-	326,164	-	(5,344,064)	2,116,249	2,116,249
Year 6	2,116,249	-	137,556	-	(2,253,806)	892,507	892,507
Year 7	892,507	-	58,013	-	(950,520)	376,406	376,406
Year 8	376,406	-	24,466	-	(400,872)	158,745	158,745
Year 9	158,745	-	10,318	-	(169,064)	66,949	66,949
Year 10	66,949	-	4,352	-	(71,301)	28,235	28,235

20-Year Charitable Remainder Trust

	Beginning of Year Financial Assets	Income	Growth	Sale Proceeds	Annual Payout	Beneficiary	End of Year Financial Assets	Beginning of Year Artwork	Growth	Sale	End of Year Artwork	End of Year Financial & Artwork
Year 1	1,000,000	-	65,000	16,200,000	(1,751,200)	-	15,513,800	15,000,000	1,200,000	(16,200,000)	-	15,513,800
Year 2	15,513,800	-	1,008,397	-	(1,697,985)	-	14,824,212	-	-	-	-	14,824,212
Year 3	14,824,212	-	963,574	-	(1,622,510)	-	14,165,275	-	-	-	-	14,165,275
Year 4	14,165,275	-	920,743	-	(1,550,389)	(13,535,629)	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-	-	-	-	-

Schedule 20

Hypothetical Technique #3, Scenario B - art contributed to a flip NIMCRUT; net proceeds of NIMCRUT distributions plus available cash are annually contributed to foundation; Mr. Giver receives a deduction for remainder interest of NIMCRUT when art is sold equal to basis of art

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Assumptions:	Financial Assets	Artwork
Total Estimated Rate of Return	6.50%	8.00%
Rate of Return Taxed at Ordinary Rates	0.00%	0.00%
Rate of Return Taxed at Capital Gains Rates	6.50%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	0.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year) - Yr 1		100.00%
Ordinary Income and Health Care Tax Rate	44.60%	
Long-Term Capital Gains and Health Care Tax Rate	25.00%	
Long-Term Capital Gains and Health Care Tax Rate - Art	28.00%	
Maximum Benefit of Charitable Deductions	39.60%	

Assumptions (continued):	
IRS 7520 rate (best)	2.60%
CRUT unitrust rate	10.945%
Charitable deduction - year 1 (for cash contributed to NIMCRUT)	$100,020
Charitable deduction - year 2 (for cash and basis of art contributed to NIMCRUT)	$3,643,938
Charitable deduction - year 3 (for cash contributed to charity)	$2,707,216
Charitable deduction - year 4 (for cash and gift of future NIMCRUT payments)	$13,650,247
Charitable deduction - year 5 (for cash contributed to charity)	$5,344,064
Charitable deduction - year 6 (for cash contributed to charity)	$2,253,806
Charitable deduction - year 7 (for cash contributed to charity)	$950,520
Charitable deduction - year 8 (for cash contributed to charity)	$400,872
Charitable deduction - year 9 (for cash contributed to charity)	$169,064
Charitable deduction - year 10 (for cash contributed to charity)	$71,301

G Family Foundation

	Beginning of Year Financial Assets	Income	Growth	contributeds	NIMCRUT Proceeds	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	3,138,939	-	-	3,138,939
Year 3	3,138,939	-	204,031	2,707,216	-	-	6,050,186
Year 4	6,050,186	-	393,262	2,260,137	13,535,629	-	22,239,214
Year 5	22,239,214	-	1,445,549	5,344,064	-	-	29,028,827
Year 6	29,028,827	-	1,886,874	2,253,806	-	-	33,169,506
Year 7	33,169,506	-	2,156,018	950,520	-	-	36,276,044
Year 8	36,276,044	-	2,357,943	400,872	-	-	39,034,859
Year 9	39,034,859	-	2,537,266	169,064	-	-	41,741,189
Year 10	41,741,189	-	2,713,177	71,301	-	-	44,525,667

Schedule 20
Asset Page

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	Art Giver
Assets* (assumed values and basis)	
FMV: Financial Assets	$1,000,000
Basis: Financial Assets	$1,000,000
FMV: Artwork	$15,000,000
Basis: Artwork	$4,500,000
Total Assets	**$16,000,000**
Total Basis	**$5,500,000**

* Information provided by client. There is no proposed planning for the Giver Family's other assets.

Schedule 21

Gomer Gonetotexas

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Gomer Gonetotexas has a life expectancy of 20 years)

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	20-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning: Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available in 20 years)				
Gomer Gonetotexas	34,404,293	-	-	0.00%
Gonetotexas Children	-	15,428,576	9,415,611	15.42%
Gonetotexas Children and Grandchildren in California Complex Trust	9,609,259	9,609,259	5,864,252	9.60%
Gonetotexas Children and Grandchildren in Texas Grantor Trust	-	8,690,000	5,303,254	8.68%
Consumption - Direct Cost	12,772,329	12,772,329	7,794,581	12.76%
Consumption - Investment Opportunity Cost	13,053,175	13,053,175	7,965,974	13.04%
IRS & CA Income Tax - Direct Cost	3,894,601	3,894,601	2,376,762	3.89%
IRS & TX Income Tax - Direct Cost	11,640,362	11,640,362	7,103,775	11.63%
IRS & CA Income Tax - Investment Opportunity Cost	3,174,203	3,174,203	1,937,124	3.17%
IRS & TX Income Tax - Investment Opportunity Cost	11,520,158	11,520,158	7,030,417	11.51%
IRS Estate Tax (at 40.0%)	-	10,285,717	6,277,074	10.28%
Total	**$100,068,380**	**$100,068,380**	**$61,068,825**	**100.00%**
Hypothetical Technique #1 - Scenario A: 6.0% Preferred Coupon Taxed Pro-Rata; California Complex Trust Owns Preferred; Bequeaths Estate to Family (assumes $3.3mm inflation adjusted estate tax exemption available in 20 years)				
Gomer Gonetotexas	20,522,418	-	-	0.00%
Gonetotexas Children	-	10,357,451	6,320,851	10.35%
Gonetotexas Children and Grandchildren in California Complex Trust	12,333,221	12,333,221	7,526,606	12.32%
Gonetotexas Children and Grandchildren in Texas Grantor Trust	12,199,872	15,459,872	9,434,710	15.45%
Consumption - Direct Cost	12,772,329	12,772,329	7,794,581	12.76%
Consumption - Investment Opportunity Cost	13,053,175	13,053,175	7,965,974	13.04%
IRS & CA Income Tax - Direct Cost	3,085,931	3,085,931	1,883,254	3.08%
IRS & TX Income Tax - Direct Cost	12,289,889	12,289,889	7,500,162	12.28%
IRS & CA Income Tax - Investment Opportunity Cost	2,860,359	2,860,359	1,745,594	2.86%
IRS & TX Income Tax - Investment Opportunity Cost	11,746,826	11,746,826	7,168,746	11.74%
Opportunity Cost/(Benefit) of Third Party Note	(795,639)	(795,639)	(485,555)	-0.80%
IRS Estate Tax (at 40.0%)	-	6,904,967	4,213,901	6.90%
Total	**$100,068,380**	**$100,068,380**	**$61,068,825**	**100.00%**
Hypothetical Technique #1 - Scenario B: 3.0% Preferred Coupon Taxed Pro-Rata; California Complex Trust Owns Preferred; Bequeaths Estate to Family (assumes $3.3mm inflation adjusted estate tax exemption available in 20 years)				
Gomer Gonetotexas	20,201,883	-	-	0.00%
Gonetotexas Children	-	10,165,130	6,203,483	10.16%
Gonetotexas Children and Grandchildren in California Complex Trust	10,164,400	10,164,400	6,203,038	10.16%
Gonetotexas Children and Grandchildren in Texas Grantor Trust	15,378,941	18,638,941	11,374,804	18.63%
Consumption - Direct Cost	12,772,329	12,772,329	7,794,581	12.76%
Consumption - Investment Opportunity Cost	13,053,175	13,053,175	7,965,974	13.04%
IRS & CA Income Tax - Direct Cost	1,543,906	1,543,906	942,201	1.54%
IRS & TX Income Tax - Direct Cost	13,537,376	13,537,376	8,261,467	13.53%
IRS & CA Income Tax - Investment Opportunity Cost	1,431,450	1,431,450	873,572	1.43%
IRS & TX Income Tax - Investment Opportunity Cost	12,936,697	12,936,697	7,894,890	12.93%
Opportunity Cost/(Benefit) of Third Party Note	(951,776)	(951,776)	(580,841)	-0.95%
IRS Estate Tax (at 40.0%)	-	6,776,753	4,135,655	6.77%
Total	**$100,068,380**	**$100,068,380**	**$61,068,825**	**100.00%**

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Gomer Gonetotexas
Asset Page

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	Gomer Gonetotexas	California Complex Trust
Assets* (assumed value and basis)		
FMV: Financial Assets	$20,000,000	$4,000,000
Basis: Financial Assets	$20,000,000	$4,000,000

* Information provided by client. There is no proposed planning for Mr. Gonetotexas' other assets.

Schedule 21

Gomer Gonetotexas

No Further Planning: Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available in 20 years)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%

Gomer Gonetotexas (Texas Residents)

	Beginning of Year Financial Assets	Income	Growth	Consumption	Income Taxes	End of Year Financial Assets
Year 1	20,000,000	600,000	880,000	(500,000)	(333,600)	20,646,400
Year 2	20,646,400	619,392	908,442	(512,500)	(390,582)	21,271,152
Year 3	21,271,152	638,135	935,931	(525,313)	(434,836)	21,885,068
Year 4	21,885,068	656,552	962,943	(538,445)	(470,203)	22,495,916
Year 5	22,495,916	674,877	989,820	(551,906)	(499,398)	23,109,309
Year 6	23,109,309	693,279	1,016,810	(565,704)	(524,345)	23,729,348
Year 7	23,729,348	711,880	1,044,091	(579,847)	(546,405)	24,359,068
Year 8	24,359,068	730,772	1,071,799	(594,343)	(566,544)	25,000,752
Year 9	25,000,752	750,023	1,100,033	(609,201)	(585,446)	25,656,160
Year 10	25,656,160	769,685	1,128,871	(624,431)	(603,600)	26,326,684
Year 11	26,326,684	789,801	1,158,374	(640,042)	(621,354)	27,013,463
Year 12	27,013,463	810,404	1,188,592	(656,043)	(638,956)	27,717,460
Year 13	27,717,460	831,524	1,219,568	(672,444)	(656,589)	28,439,519
Year 14	28,439,519	853,186	1,251,339	(689,256)	(674,381)	29,180,406
Year 15	29,180,406	875,412	1,283,938	(706,487)	(692,432)	29,940,838
Year 16	29,940,838	898,225	1,317,397	(724,149)	(710,812)	30,721,499
Year 17	30,721,499	921,645	1,351,746	(742,253)	(729,577)	31,523,060
Year 18	31,523,060	945,692	1,387,015	(760,809)	(748,771)	32,346,187
Year 19	32,346,187	970,386	1,423,232	(779,829)	(768,429)	33,191,546
Year 20	33,191,546	995,746	1,460,428	(799,325)	(444,103)	34,404,293

Schedule 21

Gomer Gonetotexas

No Further Planning: Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available in 20 years)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%

California Complex Trust

	Beginning of Year Financial Assets	Income	Growth	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	4,000,000	120,000	176,000	-	(80,601)	4,215,399
Year 2	4,215,399	126,462	185,478	-	(97,151)	4,430,187
Year 3	4,430,187	132,906	194,928	-	(110,683)	4,647,339
Year 4	4,647,339	139,420	204,483	-	(122,157)	4,869,085
Year 5	4,869,085	146,073	214,240	-	(132,256)	5,097,141
Year 6	5,097,141	152,914	224,274	-	(141,471)	5,332,858
Year 7	5,332,858	159,986	234,646	-	(150,150)	5,577,340
Year 8	5,577,340	167,320	245,403	-	(158,546)	5,831,517
Year 9	5,831,517	174,946	256,587	-	(166,843)	6,096,206
Year 10	6,096,206	182,886	268,233	-	(175,175)	6,372,150
Year 11	6,372,150	191,164	280,375	-	(183,643)	6,660,046
Year 12	6,660,046	199,801	293,042	-	(192,321)	6,960,569
Year 13	6,960,569	208,817	306,265	-	(201,269)	7,274,382
Year 14	7,274,382	218,231	320,073	-	(210,535)	7,602,151
Year 15	7,602,151	228,065	334,495	-	(220,157)	7,944,554
Year 16	7,944,554	238,337	349,560	-	(230,169)	8,302,282
Year 17	8,302,282	249,068	365,300	-	(240,601)	8,676,050
Year 18	8,676,050	260,281	381,746	-	(251,481)	9,066,596
Year 19	9,066,596	271,998	398,930	-	(262,836)	9,474,689
Year 20	9,474,689	284,241	416,886	-	(566,556)	9,609,259

Schedule 21
Gomer Gonetotexas
Hypothetical Technique #1 - Scenario A: 6.0% Preferred Coupon Taxed Pro-Rata; California Complex Trust Owns Preferred; Bequeaths Estate to Family (assumes $3.3mm inflation adjusted estate tax exemption available in 20 years)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Preferred Interest		$4,000,000
FLP Preferred Coupon		6.0%
FLP Valuation Discount		35.0%
Assumptions - Other:		
3rd Party Note Interest Rate		3.00%

Gomer Gonetotexas (Texas Resident)

	Beginning of Year Financial Assets	Income	Growth	FLP Terminates	3rd Party Note Payments	Consumption	Income Taxes	End of Year Financial Assets
Year 1	14,570,000	437,100	641,080	-	-	(500,000)	(307,653)	14,840,527
Year 2	14,840,527	445,216	652,983	-	-	(512,500)	(380,777)	15,045,449
Year 3	15,045,449	451,363	662,000	-	-	(525,313)	(435,637)	15,197,863
Year 4	15,197,863	455,936	668,706	-	-	(538,445)	(478,476)	15,305,583
Year 5	15,305,583	459,167	673,446	-	-	(551,906)	(513,184)	15,373,105
Year 6	15,373,105	461,193	676,417	-	-	(565,704)	(542,367)	15,402,644
Year 7	15,402,644	462,079	677,716	-	-	(579,847)	(567,820)	15,394,773
Year 8	15,394,773	461,843	677,370	-	-	(594,343)	(590,795)	15,348,848
Year 9	15,348,848	460,465	675,349	-	-	(609,201)	(612,174)	15,263,288
Year 10	15,263,288	457,899	671,585	-	-	(624,431)	(632,580)	15,135,759
Year 11	15,135,759	454,073	665,973	-	-	(640,042)	(652,456)	14,963,307
Year 12	14,963,307	448,899	658,386	-	-	(656,043)	(672,120)	14,742,428
Year 13	14,742,428	442,273	648,667	-	-	(672,444)	(691,800)	14,469,123
Year 14	14,469,123	434,074	636,641	-	-	(689,256)	(711,663)	14,138,920
Year 15	14,138,920	424,168	622,112	-	-	(706,487)	(731,830)	13,746,883
Year 16	13,746,883	412,406	604,863	-	-	(724,149)	(752,396)	13,287,607
Year 17	13,287,607	398,628	584,655	-	-	(742,253)	(773,431)	12,755,206
Year 18	12,755,206	382,656	561,229	-	(421,332)	(760,809)	(607,078)	11,909,872
Year 19	11,909,872	357,296	524,034	-	(421,332)	(779,829)	(859,577)	10,730,464
Year 20	10,730,464	321,914	472,140	25,039,023	(14,465,726)	(799,325)	(776,073)	20,522,418

Schedule 21
Gomer Gonetotexas
Hypothetical Technique #1 - Scenario A: 6.0% Preferred Coupon Taxed Pro-Rata; California Complex Trust Owns Preferred; Bequeaths Estate to Family (assumes $3.3mm inflation adjusted estate tax exemption available in 20 years)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	**California**	**Texas**
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Preferred Interest		$4,000,000
FLP Preferred Coupon		6.0%
FLP Valuation Discount		35.0%
Assumptions - Other:		
3rd Party Note Interest Rate		3.00%

Family Limited Partnership

	Beginning of Year Financial Assets	Income	Growth	Preferred Distributions	Growth Distributions	FLP Terminates	End of Year Financial Assets
Year 1	9,430,000	282,900	414,920	(240,000)	-	-	9,887,820
Year 2	9,887,820	296,635	435,064	(240,000)	-	-	10,379,519
Year 3	10,379,519	311,386	456,699	(240,000)	-	-	10,907,603
Year 4	10,907,603	327,228	479,935	(240,000)	-	-	11,474,766
Year 5	11,474,766	344,243	504,890	(240,000)	-	-	12,083,898
Year 6	12,083,898	362,517	531,692	(240,000)	-	-	12,738,107
Year 7	12,738,107	382,143	560,477	(240,000)	-	-	13,440,727
Year 8	13,440,727	403,222	591,392	(240,000)	-	-	14,195,341
Year 9	14,195,341	425,860	624,595	(240,000)	-	-	15,005,796
Year 10	15,005,796	450,174	660,255	(240,000)	-	-	15,876,225
Year 11	15,876,225	476,287	698,554	(240,000)	-	-	16,811,065
Year 12	16,811,065	504,332	739,687	(240,000)	-	-	17,815,084
Year 13	17,815,084	534,453	783,864	(240,000)	-	-	18,893,400
Year 14	18,893,400	566,802	831,310	(240,000)	-	-	20,051,512
Year 15	20,051,512	601,545	882,267	(240,000)	-	-	21,295,324
Year 16	21,295,324	638,860	936,994	(240,000)	-	-	22,631,178
Year 17	22,631,178	678,935	995,772	(240,000)	-	-	24,065,885
Year 18	24,065,885	721,977	1,058,899	(240,000)	-	-	25,606,760
Year 19	25,606,760	768,203	1,126,697	(240,000)	-	-	27,261,661
Year 20	27,261,661	817,850	1,199,513	(240,000)	-	(29,039,023)	-

Schedule 21
Gomer Gonetotexas
Hypothetical Technique #1 - Scenario A: 6.0% Preferred Coupon Taxed Pro-Rata; California Complex Trust Owns Preferred; Bequeaths Estate to Family (assumes $3.3mm inflation adjusted estate tax exemption available in 20 years)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Preferred Interest		$4,000,000
FLP Preferred Coupon		6.0%
FLP Valuation Discount		35.0%
Assumptions - Other:		
3rd Party Note Interest Rate		3.00%

California Complex Trust

	Beginning of Year Financial Assets	Income	Growth	FLP Preferred Distributions	FLP Terminates	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	240,000	-	-	(111,946)	128,054
Year 2	128,054	3,842	5,634	240,000	-	-	(108,992)	268,538
Year 3	268,538	8,056	11,816	240,000	-	-	(109,464)	418,946
Year 4	418,946	12,568	18,434	240,000	-	-	(111,661)	578,287
Year 5	578,287	17,349	25,445	240,000	-	-	(114,910)	746,170
Year 6	746,170	22,385	32,831	240,000	-	-	(118,884)	922,502
Year 7	922,502	27,675	40,590	240,000	-	-	(123,407)	1,107,360
Year 8	1,107,360	33,221	48,724	240,000	-	-	(128,375)	1,300,930
Year 9	1,300,930	39,028	57,241	240,000	-	-	(133,727)	1,503,471
Year 10	1,503,471	45,104	66,153	240,000	-	-	(139,429)	1,715,300
Year 11	1,715,300	51,459	75,473	240,000	-	-	(145,459)	1,936,773
Year 12	1,936,773	58,103	85,218	240,000	-	-	(151,810)	2,168,284
Year 13	2,168,284	65,049	95,404	240,000	-	-	(158,480)	2,410,256
Year 14	2,410,256	72,308	106,051	240,000	-	-	(165,472)	2,663,143
Year 15	2,663,143	79,894	117,178	240,000	-	-	(172,794)	2,927,422
Year 16	2,927,422	87,823	128,807	240,000	-	-	(180,454)	3,203,597
Year 17	3,203,597	96,108	140,958	240,000	-	-	(188,465)	3,492,199
Year 18	3,492,199	104,766	153,657	240,000	-	-	(196,839)	3,793,783
Year 19	3,793,783	113,813	166,926	240,000	-	-	(205,593)	4,108,930
Year 20	4,108,930	123,268	180,793	240,000	4,000,000	-	(319,770)	8,333,221

Schedule 21
Gomer Gonetotexas
Hypothetical Technique #1 - Scenario A: 6.0% Preferred Coupon Taxed Pro-Rata; California Complex Trust Owns Preferred; Bequeaths Estate to Family (assumes $3.3mm inflation adjusted estate tax exemption available in 20 years)

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Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	**California**	**Texas**
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Preferred Interest		$4,000,000
FLP Preferred Coupon		6.0%
FLP Valuation Discount		35.0%
Assumptions - Other:		
3rd Party Note Interest Rate		3.00%

Texas GST Tax Exempt Grantor Trust

	Beginning of Year Financial Assets	Income	Growth	FLP Growth Distributions	Asset Purchase Proceeds	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-	-
Year 18	-	-	-	-	14,044,394	-	-	14,044,394
Year 19	14,044,394	421,332	617,953	-	-	-	-	15,083,679
Year 20	15,083,679	452,510	663,682	-	-	-	-	16,199,872

Schedule 21
Gomer Gonetotexas
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Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Preferred Interest		$4,000,000
FLP Preferred Coupon		6.0%
FLP Valuation Discount		35.0%
Assumptions - Other:		
3rd Party Note Interest Rate		3.00%

Note Between Gomer Gonetotexas and 3rd Party Lender

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	-	-	-	-
Year 2	-	-	-	-
Year 3	-	-	-	-
Year 4	-	-	-	-
Year 5	-	-	-	-
Year 6	-	-	-	-
Year 7	-	-	-	-
Year 8	-	-	-	-
Year 9	-	-	-	-
Year 10	-	-	-	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	14,044,394	421,332	(421,332)	14,044,394
Year 19	14,044,394	421,332	(421,332)	14,044,394
Year 20	14,044,394	421,332	(14,465,726)	-

Schedule 21
Gomer Gonetotexas
Hypothetical Technique #1 - Scenario B: 3.0% Preferred Coupon Taxed Pro-Rata; California Complex Trust Owns Preferred; Bequeaths Estate to Family (assumes $3.3mm inflation adjusted estate tax exemption available in 20 years)

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Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Preferred Interest		$4,000,000
FLP Preferred Coupon		3.00%
FLP Valuation Discount		35.00%
Assumptions - Other:		
3rd Party Note Interest Rate		3.00%

Gomer Gonetotexas (Texas Resident)

	Beginning of Year Financial Assets	Income	Growth	FLP Terminates	Note Paymemts	Consumption	Income Taxes	End of Year Financial Assets
Year 1	14,570,000	437,100	641,080	-	-	(500,000)	(353,987)	14,794,193
Year 2	14,794,193	443,826	650,945	-	-	(512,500)	(425,544)	14,950,920
Year 3	14,950,920	448,528	657,840	-	-	(525,313)	(480,522)	15,051,453
Year 4	15,051,453	451,544	662,264	-	-	(538,445)	(524,325)	15,102,490
Year 5	15,102,490	453,075	664,510	-	-	(551,906)	(560,513)	15,107,656
Year 6	15,107,656	453,230	664,737	-	-	(565,704)	(591,532)	15,068,386
Year 7	15,068,386	452,052	663,009	-	-	(579,847)	(619,094)	14,984,505
Year 8	14,984,505	449,535	659,318	-	-	(594,343)	(644,402)	14,854,614
Year 9	14,854,614	445,638	653,603	-	-	(609,201)	(668,309)	14,676,345
Year 10	14,676,345	440,290	645,759	-	-	(624,431)	(691,424)	14,446,539
Year 11	14,446,539	433,396	635,648	-	-	(640,042)	(714,181)	14,161,360
Year 12	14,161,360	424,841	623,100	-	-	(656,043)	(736,894)	13,816,363
Year 13	13,816,363	414,491	607,920	-	-	(672,444)	(759,794)	13,406,536
Year 14	13,406,536	402,196	589,888	-	-	(689,256)	(783,050)	12,926,314
Year 15	12,926,314	387,789	568,758	-	-	(706,487)	(806,789)	12,369,585
Year 16	12,369,585	371,088	544,262	-	-	(724,149)	(831,112)	11,729,674
Year 17	11,729,674	351,890	516,106	-	-	(742,253)	(856,097)	10,999,320
Year 18	10,999,320	329,980	483,970	-	(504,014)	(760,809)	(657,018)	9,891,429
Year 19	9,891,429	296,743	435,223	-	(504,014)	(779,829)	(959,087)	8,380,464
Year 20	8,380,464	251,414	368,740	30,178,779	(17,304,486)	(799,325)	(873,703)	20,201,883

Schedule 21
Gomer Gonetotexas
Hypothetical Technique #1 - Scenario B: 3.0% Preferred Coupon Taxed Pro-Rata; California Complex Trust Owns Preferred; Bequeaths Estate to Family (assumes $3.3mm inflation adjusted estate tax exemption available in 20 years)

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Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Preferred Interest		$4,000,000
FLP Preferred Coupon		3.00%
FLP Valuation Discount		35.00%
Assumptions - Other:		
3rd Party Note Interest Rate		3.00%

Family Limited Partnership

	Beginning of Year Financial Assets	Income	Growth	Preferred Distributions	Growth Distributions	FLP Terminates	End of Year Financial Assets
Year 1	9,430,000	282,900	414,920	(120,000)	-	-	10,007,820
Year 2	10,007,820	300,235	440,344	(120,000)	-	-	10,628,399
Year 3	10,628,399	318,852	467,650	(120,000)	-	-	11,294,900
Year 4	11,294,900	338,847	496,976	(120,000)	-	-	12,010,723
Year 5	12,010,723	360,322	528,472	(120,000)	-	-	12,779,516
Year 6	12,779,516	383,385	562,299	(120,000)	-	-	13,605,200
Year 7	13,605,200	408,156	598,629	(120,000)	-	-	14,491,985
Year 8	14,491,985	434,760	637,647	(120,000)	-	-	15,444,392
Year 9	15,444,392	463,332	679,553	(120,000)	-	-	16,467,277
Year 10	16,467,277	494,018	724,560	(120,000)	-	-	17,565,856
Year 11	17,565,856	526,976	772,898	(120,000)	-	-	18,745,729
Year 12	18,745,729	562,372	824,812	(120,000)	-	-	20,012,913
Year 13	20,012,913	600,387	880,568	(120,000)	-	-	21,373,869
Year 14	21,373,869	641,216	940,450	(120,000)	-	-	22,835,535
Year 15	22,835,535	685,066	1,004,764	(120,000)	-	-	24,405,364
Year 16	24,405,364	732,161	1,073,836	(120,000)	-	-	26,091,361
Year 17	26,091,361	782,741	1,148,020	(120,000)	-	-	27,902,122
Year 18	27,902,122	837,064	1,227,693	(120,000)	-	-	29,846,879
Year 19	29,846,879	895,406	1,313,263	(120,000)	-	-	31,935,548
Year 20	31,935,548	958,066	1,405,164	(120,000)	-	(34,178,779)	-

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Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Preferred Interest		$4,000,000
FLP Preferred Coupon		3.00%
FLP Valuation Discount		35.00%
Assumptions - Other:		
3rd Party Note Interest Rate		3.00%

California Complex Trust

	Beginning of Year Financial Assets	Income	Growth	FLP Preferred Distributions	FLP Terminates	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	120,000	-	-	(55,973)	64,027
Year 2	64,027	1,921	2,817	120,000	-	-	(54,524)	134,241
Year 3	134,241	4,027	5,907	120,000	-	-	(54,782)	209,393
Year 4	209,393	6,282	9,213	120,000	-	-	(55,896)	288,992
Year 5	288,992	8,670	12,716	120,000	-	-	(57,532)	372,845
Year 6	372,845	11,185	16,405	120,000	-	-	(59,525)	460,911
Year 7	460,911	13,827	20,280	120,000	-	-	(61,789)	553,229
Year 8	553,229	16,597	24,342	120,000	-	-	(64,273)	649,896
Year 9	649,896	19,497	28,595	120,000	-	-	(66,946)	751,042
Year 10	751,042	22,531	33,046	120,000	-	-	(69,793)	856,827
Year 11	856,827	25,705	37,700	120,000	-	-	(72,802)	967,429
Year 12	967,429	29,023	42,567	120,000	-	-	(75,972)	1,083,048
Year 13	1,083,048	32,491	47,654	120,000	-	-	(79,299)	1,203,894
Year 14	1,203,894	36,117	52,971	120,000	-	-	(82,788)	1,330,194
Year 15	1,330,194	39,906	58,529	120,000	-	-	(86,441)	1,462,188
Year 16	1,462,188	43,866	64,336	120,000	-	-	(90,263)	1,600,127
Year 17	1,600,127	48,004	70,406	120,000	-	-	(94,260)	1,744,277
Year 18	1,744,277	52,328	76,748	120,000	-	-	(98,439)	1,894,915
Year 19	1,894,915	56,847	83,376	120,000	-	-	(102,807)	2,052,331
Year 20	2,052,331	61,570	90,303	120,000	4,000,000	-	(159,804)	6,164,400

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Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
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FLP Preferred Coupon		3.00%
FLP Valuation Discount		35.00%
Assumptions - Other:		
3rd Party Note Interest Rate		3.00%

Texas GST Tax Exempt Grantor Trust

	Beginning of Year Financial Assets	Income	Growth	FLP Growth Distributions	Asset Purchase Proceeds	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-	-
Year 18	-	-	-	-	16,800,472	-	-	16,800,472
Year 19	16,800,472	504,014	739,221	-	-	-	-	18,043,706
Year 20	18,043,706	541,311	793,923	-	-	-	-	19,378,941

Schedule 21
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Hypothetical Technique #1 - Scenario B: 3.0% Preferred Coupon Taxed Pro-Rata; California Complex Trust Owns Preferred; Bequeaths Estate to Family (assumes $3.3mm inflation adjusted estate tax exemption available in 20 years)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Preferred Interest		$4,000,000
FLP Preferred Coupon		3.00%
FLP Valuation Discount		35.00%
Assumptions - Other:		
3rd Party Note Interest Rate		3.00%

Note Between Gomer Gonetotexas and 3rd Party Lender

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	-	-	-	-
Year 2	-	-	-	-
Year 3	-	-	-	-
Year 4	-	-	-	-
Year 5	-	-	-	-
Year 6	-	-	-	-
Year 7	-	-	-	-
Year 8	-	-	-	-
Year 9	-	-	-	-
Year 10	-	-	-	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	16,800,472	504,014	(504,014)	16,800,472
Year 19	16,800,472	504,014	(504,014)	16,800,472
Year 20	16,800,472	504,014	(17,304,486)	-

Schedule 22
Gomer Gonetotexas
Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Gomer Gonetotexas has a life expectancy of 20 years)

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	20-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning: Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available in 20 years)				
Gomer Gonetotexas	34,404,293	-	-	0.00%
Gonetotexas Children	-	15,428,576	9,415,611	15.42%
Gonetotexas Children and Grandchildren in California Complex Trust	9,609,259	9,609,259	5,864,252	9.60%
Gonetotexas Children and Grandchildren in Texas Grantor Trust	-	8,690,000	5,303,254	8.68%
Consumption - Direct Cost	12,772,329	12,772,329	7,794,581	12.76%
Consumption - Investment Opportunity Cost	13,053,175	13,053,175	7,965,974	13.04%
IRS & CA Income Tax - Direct Cost	3,894,601	3,894,601	2,376,762	3.89%
IRS & TX Income Tax - Direct Cost	11,640,362	11,640,362	7,103,775	11.63%
IRS & CA Income Tax - Investment Opportunity Cost	3,174,203	3,174,203	1,937,124	3.17%
IRS & TX Income Tax - Investment Opportunity Cost	11,520,158	11,520,158	7,030,417	11.51%
IRS Estate Tax (at 40.0%)	-	10,285,717	6,277,074	10.28%
Total	**$100,068,380**	**$100,068,380**	**$61,068,825**	**100.00%**
Hypothetical Technique: 10.0% Cumulative Preferred Coupon; California Complex Trust Owns Growth; Bequeaths Estate to Family (assumes $6.7mm inflation adjusted estate tax exemption available in 20 years)				
Gomer Gonetotexas	2,969,741	-	-	0.00%
Gonetotexas Children	-	-	-	0.00%
Gonetotexas Children and Grandchildren in California Complex Trust	4,000,000	4,000,000	2,441,084	4.00%
Gonetotexas Children and Grandchildren in Texas Grantor Trust	40,390,206	43,359,947	26,461,316	43.33%
Consumption - Direct Cost	12,772,329	12,772,329	7,794,581	12.76%
Consumption - Investment Opportunity Cost	13,053,175	13,053,175	7,965,974	13.04%
IRS & CA Income Tax - Direct Cost	-	-	-	0.00%
IRS & TX Income Tax - Direct Cost	15,967,067	15,967,067	9,744,237	15.96%
IRS & CA Income Tax - Investment Opportunity Cost	-	-	-	0.00%
IRS & TX Income Tax - Investment Opportunity Cost	14,173,982	14,173,982	8,649,969	14.16%
Opportunity Cost/(Benefit) of 3rd Party Note	(3,258,119)	(3,258,119)	(1,988,336)	-3.26%
IRS Estate Tax (at 40.0%)	-	-	-	0.00%
Total	**$100,068,380**	**$100,068,380**	**$61,068,825**	**100.00%**

Schedule 22
Gomer Gonetotexas
Asset Page

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	Gomer Gonetotexas	California Complex Trust
Assets* (assumed value and basis)		
FMV: Financial Assets	$20,000,000	$4,000,000
Basis: Financial Assets	$20,000,000	$4,000,000

* Information provided by client. There is no proposed planning for Mr. Gonetotexas' other assets.

Schedule 22

Gomer Gonetotexas

No Further Planning: Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available in 20 years)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000

Assumptions - Income Taxes:	**California**	**Texas**
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%

Gomer Gonetotexas (Texas Residents)

	Beginning of Year Financial Assets	Income	Growth	Consumption	Income Taxes	End of Year Financial Assets
Year 1	20,000,000	600,000	880,000	(500,000)	(333,600)	20,646,400
Year 2	20,646,400	619,392	908,442	(512,500)	(390,582)	21,271,152
Year 3	21,271,152	638,135	935,931	(525,313)	(434,836)	21,885,068
Year 4	21,885,068	656,552	962,943	(538,445)	(470,203)	22,495,916
Year 5	22,495,916	674,877	989,820	(551,906)	(499,398)	23,109,309
Year 6	23,109,309	693,279	1,016,810	(565,704)	(524,345)	23,729,348
Year 7	23,729,348	711,880	1,044,091	(579,847)	(546,405)	24,359,068
Year 8	24,359,068	730,772	1,071,799	(594,343)	(566,544)	25,000,752
Year 9	25,000,752	750,023	1,100,033	(609,201)	(585,446)	25,656,160
Year 10	25,656,160	769,685	1,128,871	(624,431)	(603,600)	26,326,684
Year 11	26,326,684	789,801	1,158,374	(640,042)	(621,354)	27,013,463
Year 12	27,013,463	810,404	1,188,592	(656,043)	(638,956)	27,717,460
Year 13	27,717,460	831,524	1,219,568	(672,444)	(656,589)	28,439,519
Year 14	28,439,519	853,186	1,251,339	(689,256)	(674,381)	29,180,406
Year 15	29,180,406	875,412	1,283,938	(706,487)	(692,432)	29,940,838
Year 16	29,940,838	898,225	1,317,397	(724,149)	(710,812)	30,721,499
Year 17	30,721,499	921,645	1,351,746	(742,253)	(729,577)	31,523,060
Year 18	31,523,060	945,692	1,387,015	(760,809)	(748,771)	32,346,187
Year 19	32,346,187	970,386	1,423,232	(779,829)	(768,429)	33,191,546
Year 20	33,191,546	995,746	1,460,428	(799,325)	(444,103)	34,404,293

Schedule 22
Gomer Gonetotexas
No Further Planning: Bequeaths Estate to Family (assumes $8.69mm inflation adjusted estate tax exemption available in 20 years)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000

Assumptions - Income Taxes:	**California**	**Texas**
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%

California Complex Trust

	Beginning of Year Financial Assets	**Income**	**Growth**	**Beneficiary Distributions**	**Income Taxes**	**End of Year Financial Assets**
Year 1	4,000,000	120,000	176,000	-	(80,601)	4,215,399
Year 2	4,215,399	126,462	185,478	-	(97,151)	4,430,187
Year 3	4,430,187	132,906	194,928	-	(110,683)	4,647,339
Year 4	4,647,339	139,420	204,483	-	(122,157)	4,869,085
Year 5	4,869,085	146,073	214,240	-	(132,256)	5,097,141
Year 6	5,097,141	152,914	224,274	-	(141,471)	5,332,858
Year 7	5,332,858	159,986	234,646	-	(150,150)	5,577,340
Year 8	5,577,340	167,320	245,403	-	(158,546)	5,831,517
Year 9	5,831,517	174,946	256,587	-	(166,843)	6,096,206
Year 10	6,096,206	182,886	268,233	-	(175,175)	6,372,150
Year 11	6,372,150	191,164	280,375	-	(183,643)	6,660,046
Year 12	6,660,046	199,801	293,042	-	(192,321)	6,960,569
Year 13	6,960,569	208,817	306,265	-	(201,269)	7,274,382
Year 14	7,274,382	218,231	320,073	-	(210,535)	7,602,151
Year 15	7,602,151	228,065	334,495	-	(220,157)	7,944,554
Year 16	7,944,554	238,337	349,560	-	(230,169)	8,302,282
Year 17	8,302,282	249,068	365,300	-	(240,601)	8,676,050
Year 18	8,676,050	260,281	381,746	-	(251,481)	9,066,596
Year 19	9,066,596	271,998	398,930	-	(262,836)	9,474,689
Year 20	9,474,689	284,241	416,886	-	(566,556)	9,609,259

Schedule 22
Gomer Gonetotexas
Hypothetical Technique: 10.0% Cumulative Preferred Coupon; California Complex Trust Owns Growth; Bequeaths Estate to Family (assumes $6.7mm inflation adjusted estate tax exemption available in 20 years)

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Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Cumulative Preferred Interest		$20,000,000
FLP Cumulative Preferred Coupon		10.0%
Assumptions - Other:		
Intra-Family Interest Rate (mid-term) - February 2015		1.70%
3rd Party Note Interest Rate		3.00%

Gomer Gonetotexas (Texas Resident)

	Beginning of Year Financial Assets	Income	Growth	FLP Preferred Distributions	Note Payments from TX Trust	FLP Terminates	Note Payments to 3rd Party	Consumption	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	900,320	-	-	(500,000)	(400,320)	-
Year 2	-	-	-	-	982,866	-	-	(512,500)	(470,366)	-
Year 3	-	-	-	-	1,050,820	-	-	(525,313)	(525,508)	-
Year 4	-	-	-	-	1,108,752	-	-	(538,445)	(570,307)	-
Year 5	-	-	-	-	1,159,902	-	-	(551,906)	(607,996)	-
Year 6	-	-	-	-	1,206,569	-	-	(565,704)	(640,865)	-
Year 7	-	-	-	-	1,250,388	-	-	(579,847)	(670,542)	-
Year 8	-	-	-	-	1,292,525	-	-	(594,343)	(698,183)	-
Year 9	-	-	-	-	1,333,816	-	-	(609,201)	(724,615)	-
Year 10	-	-	-	-	1,374,862	-	-	(624,431)	(750,430)	-
Year 11	-	-	-	-	1,416,100	-	-	(640,042)	(776,058)	-
Year 12	-	-	-	-	7,648,299	-	-	(656,043)	(801,810)	6,190,446
Year 13	6,190,446	185,713	272,380	-	-	-	-	(672,444)	(827,916)	5,148,179
Year 14	5,148,179	154,445	226,520	-	-	-	-	(689,256)	(854,551)	3,985,337
Year 15	3,985,337	119,560	175,355	-	-	-	-	(706,487)	(881,848)	2,691,917
Year 16	2,691,917	80,758	118,444	-	-	-	-	(724,149)	(909,913)	1,257,057
Year 17	1,257,057	37,712	55,311	1,972,960	-	-	(340,000)	(742,253)	(787,192)	1,453,594
Year 18	1,453,594	43,608	63,958	1,974,639	-	-	(340,000)	(760,809)	(1,147,498)	1,287,493
Year 19	1,287,493	38,625	56,650	1,975,866	-	-	(340,000)	(779,829)	(1,239,904)	998,900
Year 20	998,900	29,967	43,952	4,717,493	-	20,000,000	(20,340,000)	(799,325)	(1,681,246)	2,969,741

Schedule 22
Gomer Gonetotexas
Hypothetical Technique: 10.0% Cumulative Preferred Coupon; California Complex Trust Owns Growth; Bequeaths Estate to Family (assumes $6.7mm inflation adjusted estate tax exemption available in 20 years)

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Assumptions:	
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Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Cumulative Preferred Interest		$20,000,000
FLP Cumulative Preferred Coupon		10.0%
Assumptions - Other:		
Intra-Family Interest Rate (mid-term) - February 2015		1.70%
3rd Party Note Interest Rate		3.00%

Family Limited Partnership

	Beginning of Year Financial Assets	Income	Growth	Preferred Distributions	Growth Distributions	FLP Terminates	End of Year Financial Assets
Year 1	24,000,000	720,000	1,056,000	(1,036,800)	-	-	24,739,200
Year 2	24,739,200	742,176	1,088,525	(1,290,493)	-	-	25,279,407
Year 3	25,279,407	758,382	1,112,294	(1,475,893)	-	-	25,674,191
Year 4	25,674,191	770,226	1,129,664	(1,611,382)	-	-	25,962,699
Year 5	25,962,699	778,881	1,142,359	(1,710,398)	-	-	26,173,540
Year 6	26,173,540	785,206	1,151,636	(1,782,759)	-	-	26,327,623
Year 7	26,327,623	789,829	1,158,415	(1,835,640)	-	-	26,440,227
Year 8	26,440,227	793,207	1,163,370	(1,874,286)	-	-	26,522,518
Year 9	26,522,518	795,676	1,166,991	(1,902,528)	-	-	26,582,656
Year 10	26,582,656	797,480	1,169,637	(1,923,168)	-	-	26,626,605
Year 11	26,626,605	798,798	1,171,571	(1,938,251)	-	-	26,658,723
Year 12	26,658,723	799,762	1,172,984	(1,949,274)	-	-	26,682,195
Year 13	26,682,195	800,466	1,174,017	(1,957,329)	-	-	26,699,348
Year 14	26,699,348	800,980	1,174,771	(1,963,216)	-	-	26,711,883
Year 15	26,711,883	801,357	1,175,323	(1,967,518)	-	-	26,721,044
Year 16	26,721,044	801,631	1,175,726	(1,970,662)	-	-	26,727,739
Year 17	26,727,739	801,832	1,176,021	(1,972,960)	-	-	26,732,632
Year 18	26,732,632	801,979	1,176,236	(1,974,639)	-	-	26,736,207
Year 19	26,736,207	802,086	1,176,393	(1,975,866)	-	-	26,738,820
Year 20	26,738,820	802,165	1,176,508	(4,717,493)	-	(24,000,000)	-

Schedule 22
Gomer Gonetotexas
Hypothetical Technique: 10.0% Cumulative Preferred Coupon; California Complex Trust Owns Growth; Bequeaths Estate to Family (assumes $6.7mm inflation adjusted estate tax exemption available in 20 years)

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Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Cumulative Preferred Interest		$20,000,000
FLP Cumulative Preferred Coupon		10.0%
Assumptions - Other:		
Intra-Family Interest Rate (mid-term) - February 2015		1.70%
3rd Party Note Interest Rate		3.00%

California Complex Trust

	Beginning of Year Financial Assets	Income	Growth	FLP Growth Distributions	FLP Terminates	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	-	-	-
Year 4	-	-	-	-	-	-	-	-
Year 5	-	-	-	-	-	-	-	-
Year 6	-	-	-	-	-	-	-	-
Year 7	-	-	-	-	-	-	-	-
Year 8	-	-	-	-	-	-	-	-
Year 9	-	-	-	-	-	-	-	-
Year 10	-	-	-	-	-	-	-	-
Year 11	-	-	-	-	-	-	-	-
Year 12	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-	-
Year 18	-	-	-	-	-	-	-	-
Year 19	-	-	-	-	-	-	-	-
Year 20	-	-	-	-	4,000,000	-	-	4,000,000

Schedule 22
Gomer Gonetotexas
Hypothetical Technique: 10.0% Cumulative Preferred Coupon; California Complex Trust Owns Growth; Bequeaths Estate to Family (assumes $6.7mm inflation adjusted estate tax exemption available in 20 years)

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Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	**California**	**Texas**
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Cumulative Preferred Interest		$20,000,000
FLP Cumulative Preferred Coupon		10.0%
Assumptions - Other:		
Intra-Family Interest Rate (mid-term) - February 2015		1.70%
3rd Party Note Interest Rate		3.00%

Texas GST Tax Exempt Grantor Trust

	Beginning of Year Financial Assets	Income	Growth	FLP Preferred Distributions	Asset Purchase Proceeds	Note Payments	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	1,036,800	-	(900,320)	-	-	136,480
Year 2	136,480	4,094	6,005	1,290,493	-	(982,866)	-	-	454,207
Year 3	454,207	13,626	19,985	1,475,893	-	(1,050,820)	-	-	912,891
Year 4	912,891	27,387	40,167	1,611,382	-	(1,108,752)	-	-	1,483,075
Year 5	1,483,075	44,492	65,255	1,710,398	-	(1,159,902)	-	-	2,143,318
Year 6	2,143,318	64,300	94,306	1,782,759	-	(1,206,569)	-	-	2,878,114
Year 7	2,878,114	86,343	126,637	1,835,640	-	(1,250,388)	-	-	3,676,346
Year 8	3,676,346	110,290	161,759	1,874,286	-	(1,292,525)	-	-	4,530,156
Year 9	4,530,156	135,905	199,327	1,902,528	-	(1,333,816)	-	-	5,434,100
Year 10	5,434,100	163,023	239,100	1,923,168	-	(1,374,862)	-	-	6,384,529
Year 11	6,384,529	191,536	280,919	1,938,251	-	(1,416,100)	-	-	7,379,135
Year 12	7,379,135	221,374	324,682	1,949,274	-	(7,648,299)	-	-	2,226,165
Year 13	2,226,165	66,785	97,951	1,957,329	-	-	-	-	4,348,231
Year 14	4,348,231	130,447	191,322	1,963,216	-	-	-	-	6,633,216
Year 15	6,633,216	198,996	291,862	1,967,518	-	-	-	-	9,091,592
Year 16	9,091,592	272,748	400,030	1,970,662	-	-	-	-	11,735,033
Year 17	11,735,033	352,051	516,341	-	20,000,000	-	-	-	32,603,425
Year 18	32,603,425	978,103	1,434,551	-	-	-	-	-	35,016,078
Year 19	35,016,078	1,050,482	1,540,707	-	-	-	-	-	37,607,268
Year 20	37,607,268	1,128,218	1,654,720	-	-	-	-	-	40,390,206

Schedule 22
Gomer Gonetotexas
Hypothetical Technique: 10.0% Cumulative Preferred Coupon; California Complex Trust Owns Growth; Bequeaths Estate to Family (assumes $6.7mm inflation adjusted estate tax exemption available in 20 years)

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$500,000
Gift to Texas GST Tax Exempt Grantor Trust	$5,430,000

Assumptions - Income Taxes:	California	Texas
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%
Assumptions - Family Limited Partnership:		
FLP Cumulative Preferred Interest		$20,000,000
FLP Cumulative Preferred Coupon		10.0%
Assumptions - Other:		
Intra-Family Interest Rate (mid-term) - February 2015		1.70%
3rd Party Note Interest Rate		3.00%

Note Between Gomer Gonetotexas & Texas GST Tax Exempt Grantor Trust

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	18,000,000	306,000	(900,320)	17,405,680
Year 2	17,405,680	295,897	(982,866)	16,718,710
Year 3	16,718,710	284,218	(1,050,820)	15,952,108
Year 4	15,952,108	271,186	(1,108,752)	15,114,542
Year 5	15,114,542	256,947	(1,159,902)	14,211,587
Year 6	14,211,587	241,597	(1,206,569)	13,246,615
Year 7	13,246,615	225,192	(1,250,388)	12,221,419
Year 8	12,221,419	207,764	(1,292,525)	11,136,658
Year 9	11,136,658	189,323	(1,333,816)	9,992,165
Year 10	9,992,165	169,867	(1,374,862)	8,787,170
Year 11	8,787,170	149,382	(1,416,100)	7,520,452
Year 12	7,520,452	127,848	(7,648,299)	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-

Note Between Gomer Gonetotexas & 3rd Party Lender

	Beginning of Year Principal	Interest	Note Payments	End of Year Principal
Year 1	-	-	-	-
Year 2	-	-	-	-
Year 3	-	-	-	-
Year 4	-	-	-	-
Year 5	-	-	-	-
Year 6	-	-	-	-
Year 7	-	-	-	-
Year 8	-	-	-	-
Year 9	-	-	-	-
Year 10	-	-	-	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	20,000,000	340,000	(340,000)	20,000,000
Year 18	20,000,000	340,000	(340,000)	20,000,000
Year 19	20,000,000	340,000	(340,000)	20,000,000
Year 20	20,000,000	340,000	(20,340,000)	-

Schedule 22
Gomer Gonetotexas
Texas Complex Trust versus California Complex Trust

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$0

Assumptions - Income Taxes:	**California**	**Texas**
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%

Texas Complex Trust

	Beginning of Year Financial Assets	Income	Growth	Consumption	Income Taxes	End of Year Financial Assets
Year 1	4,000,000	120,000	176,000	-	(66,720)	4,229,280
Year 2	4,229,280	126,878	186,088	-	(79,784)	4,462,462
Year 3	4,462,462	133,874	196,348	-	(90,672)	4,702,013
Year 4	4,702,013	141,060	206,889	-	(100,104)	4,949,858
Year 5	4,949,858	148,496	217,794	-	(108,598)	5,207,550
Year 6	5,207,550	156,226	229,132	-	(116,520)	5,476,389
Year 7	5,476,389	164,292	240,961	-	(124,136)	5,757,505
Year 8	5,757,505	172,725	253,330	-	(131,639)	6,051,922
Year 9	6,051,922	181,558	266,285	-	(139,168)	6,360,596
Year 10	6,360,596	190,818	279,866	-	(146,830)	6,684,450
Year 11	6,684,450	200,533	294,116	-	(154,704)	7,024,395
Year 12	7,024,395	210,732	309,073	-	(162,853)	7,381,346
Year 13	7,381,346	221,440	324,779	-	(171,328)	7,756,238
Year 14	7,756,238	232,687	341,274	-	(180,170)	8,150,030
Year 15	8,150,030	244,501	358,601	-	(189,416)	8,563,716
Year 16	8,563,716	256,911	376,803	-	(199,101)	8,998,330
Year 17	8,998,330	269,950	395,927	-	(209,255)	9,454,951
Year 18	9,454,951	283,649	416,018	-	(219,909)	9,934,708
Year 19	9,934,708	298,041	437,127	-	(231,092)	10,438,785
Year 20	10,438,785	313,164	459,307	-	(483,551)	10,727,704
				Total Tax	**3,305,551**	
				Opp. Cost	**2,644,809**	
				Total	**5,950,359**	

Schedule 22
Gomer Gonetotexas
Texas Complex Trust versus California Complex Trust

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$0

Assumptions - Income Taxes:	**California**	**Texas**
Long-Term Capital Gains and Health Care Tax Rate	33.03%	25.00%
Ordinary Income and Health Care Tax Rate	52.63%	44.60%

California Complex Trust

	Beginning of Year Financial Assets	Income	Growth	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	4,000,000	120,000	176,000	-	(80,601)	4,215,399
Year 2	4,215,399	126,462	185,478	-	(97,151)	4,430,187
Year 3	4,430,187	132,906	194,928	-	(110,683)	4,647,339
Year 4	4,647,339	139,420	204,483	-	(122,157)	4,869,085
Year 5	4,869,085	146,073	214,240	-	(132,256)	5,097,141
Year 6	5,097,141	152,914	224,274	-	(141,471)	5,332,858
Year 7	5,332,858	159,986	234,646	-	(150,150)	5,577,340
Year 8	5,577,340	167,320	245,403	-	(158,546)	5,831,517
Year 9	5,831,517	174,946	256,587	-	(166,843)	6,096,206
Year 10	6,096,206	182,886	268,233	-	(175,175)	6,372,150
Year 11	6,372,150	191,164	280,375	-	(183,643)	6,660,046
Year 12	6,660,046	199,801	293,042	-	(192,321)	6,960,569
Year 13	6,960,569	208,817	306,265	-	(201,269)	7,274,382
Year 14	7,274,382	218,231	320,073	-	(210,535)	7,602,151
Year 15	7,602,151	228,065	334,495	-	(220,157)	7,944,554
Year 16	7,944,554	238,337	349,560	-	(230,169)	8,302,282
Year 17	8,302,282	249,068	365,300	-	(240,601)	8,676,050
Year 18	8,676,050	260,281	381,746	-	(251,481)	9,066,596
Year 19	9,066,596	271,998	398,930	-	(262,836)	9,474,689
Year 20	9,474,689	284,241	416,886	-	(566,556)	9,609,259
				Total Tax	**3,894,601**	
				Opp. Cost	**3,174,203**	
				Total	**7,068,804**	

Difference **1,118,445**

Schedule 22
Gomer Gonetotexas
Individual with Stepup at Death versus No Stepup at Death

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$0

Assumptions - Income Taxes:	Texas
Long-Term Capital Gains and Health Care Tax Rate	25.00%
Ordinary Income and Health Care Tax Rate	44.60%

Individual with Stepup at Death

	Beginning of Year Financial Assets	Income	Growth	Consumption	Income Taxes	End of Year Financial Assets
Year 1	20,000,000	600,000	880,000	-	(333,600)	21,146,400
Year 2	21,146,400	634,392	930,442	-	(398,922)	22,312,312
Year 3	22,312,312	669,369	981,742	-	(453,358)	23,510,065
Year 4	23,510,065	705,302	1,034,443	-	(500,521)	24,749,289
Year 5	24,749,289	742,479	1,088,969	-	(542,988)	26,037,749
Year 6	26,037,749	781,132	1,145,661	-	(582,599)	27,381,943
Year 7	27,381,943	821,458	1,204,805	-	(620,681)	28,787,526
Year 8	28,787,526	863,626	1,266,651	-	(658,193)	30,259,610
Year 9	30,259,610	907,788	1,331,423	-	(695,842)	31,802,980
Year 10	31,802,980	954,089	1,399,331	-	(734,151)	33,422,249
Year 11	33,422,249	1,002,667	1,470,579	-	(773,522)	35,121,973
Year 12	35,121,973	1,053,659	1,545,367	-	(814,267)	36,906,732
Year 13	36,906,732	1,107,202	1,623,896	-	(856,639)	38,781,191
Year 14	38,781,191	1,163,436	1,706,372	-	(900,849)	40,750,150
Year 15	40,750,150	1,222,504	1,793,007	-	(947,082)	42,818,579
Year 16	42,818,579	1,284,557	1,884,017	-	(995,506)	44,991,648
Year 17	44,991,648	1,349,749	1,979,633	-	(1,046,276)	47,274,754
Year 18	47,274,754	1,418,243	2,080,089	-	(1,099,544)	49,673,542
Year 19	49,673,542	1,490,206	2,185,636	-	(1,155,460)	52,193,923
Year 20	52,193,923	1,565,818	2,296,533	-	(698,355)	55,357,919
				Total Tax	**14,808,354**	
				Opp. Cost	**13,224,043**	
				Total	**28,032,398**	

Schedule 22
Gomer Gonetotexas
Individual with Stepup at Death versus No Stepup at Death

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	3.00%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Annual Consumption (increasing 2.5% per year)	$0

Assumptions - Income Taxes:	Texas
Long-Term Capital Gains and Health Care Tax Rate	25.00%
Ordinary Income and Health Care Tax Rate	44.60%

Individual without Stepup at Death

	Beginning of Year Financial Assets	Income	Growth	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	20,000,000	600,000	880,000	-	(333,600)	21,146,400
Year 2	21,146,400	634,392	930,442	-	(398,922)	22,312,312
Year 3	22,312,312	669,369	981,742	-	(453,358)	23,510,065
Year 4	23,510,065	705,302	1,034,443	-	(500,521)	24,749,289
Year 5	24,749,289	742,479	1,088,969	-	(542,988)	26,037,749
Year 6	26,037,749	781,132	1,145,661	-	(582,599)	27,381,943
Year 7	27,381,943	821,458	1,204,805	-	(620,681)	28,787,526
Year 8	28,787,526	863,626	1,266,651	-	(658,193)	30,259,610
Year 9	30,259,610	907,788	1,331,423	-	(695,842)	31,802,980
Year 10	31,802,980	954,089	1,399,331	-	(734,151)	33,422,249
Year 11	33,422,249	1,002,667	1,470,579	-	(773,522)	35,121,973
Year 12	35,121,973	1,053,659	1,545,367	-	(814,267)	36,906,732
Year 13	36,906,732	1,107,202	1,623,896	-	(856,639)	38,781,191
Year 14	38,781,191	1,163,436	1,706,372	-	(900,849)	40,750,150
Year 15	40,750,150	1,222,504	1,793,007	-	(947,082)	42,818,579
Year 16	42,818,579	1,284,557	1,884,017	-	(995,506)	44,991,648
Year 17	44,991,648	1,349,749	1,979,633	-	(1,046,276)	47,274,754
Year 18	47,274,754	1,418,243	2,080,089	-	(1,099,544)	49,673,542
Year 19	49,673,542	1,490,206	2,185,636	-	(1,155,460)	52,193,923
Year 20	52,193,923	1,565,818	2,296,533	-	(2,417,754)	53,638,520
				Total Tax	**16,527,753**	
				Opp. Cost	**13,224,043**	
				Total	**29,751,797**	

Difference **1,719,399**

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

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Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Elder FLP Valuation Discount	40.00%
Gross Proceeds	$30,000,000

	Future Values at the End of 20 Years of Annual Compounded Growth at 3%						
	Elder Children's Future Values	Elder GST Exempt Trust Future Values	Charity	IRS Income Taxes	IRS Income Taxes & Estate Taxes Investment Opp. Costs	IRS Estate Taxes	Totals
No Further Planning - No Discount Allowed	18,333,733	15,073,672	-	5,253,849	7,522,083	8,000,000	54,183,337
No Further Planning - Discount Allowed	23,059,178	15,073,672	-	5,956,415	5,294,072	4,800,000	54,183,337
CLAT Redemption - Discount Allowed - $3mm to Family	16,818,670	17,096,849	16,083,531	1,747,005	1,237,281	1,200,000	54,183,337
CLAT Redemption - Discount Allowed - $10mm to Family	22,778,999	14,337,710	4,355,956	4,501,200	4,209,472	4,000,000	54,183,337

No Further Planning - No Discount Allowed		
Elder Children	18,333,733	33.84%
Elder GST Exempt Trust	15,073,672	27.82%
Charity	-	0.00%
IRS (income and estate taxes)	13,253,849	24.46%
IRS (investment opportunity costs)	7,522,083	13.88%
Total	**54,183,337**	**100.00%**

No Further Planning - Discount Allowed		
Elder Children	23,059,178	42.56%
Elder GST Exempt Trust	15,073,672	27.82%
Charity	-	0.00%
IRS (income and estate taxes)	10,756,415	19.85%
IRS (investment opportunity costs)	5,294,072	9.77%
Total	**54,183,337**	**100.00%**

CLAT Redemption - Discount Allowed - $3mm to Family		
Elder Children	16,818,670	31.04%
Elder GST Exempt Trust	17,096,849	31.55%
Charity	16,083,531	29.68%
IRS (income and estate taxes)	2,947,005	5.44%
IRS (investment opportunity costs)	1,237,281	2.28%
Total	**54,183,337**	**100.00%**

CLAT Redemption - Discount Allowed - $10mm to Family		
Elder Children	22,778,999	42.04%
Elder GST Exempt Trust	14,337,710	26.46%
Charity	4,355,956	8.04%
IRS (income and estate taxes)	8,501,200	15.69%
IRS (investment opportunity costs)	4,209,472	7.77%
Total	**54,183,337**	**100.00%**

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

No Further Planning - No Discount Allowed

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Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	200,000	400,000	(119,200)	(8,000,000)	12,480,800
Year 2	12,480,800	124,808	249,616	(95,386)	-	12,759,838
Year 3	12,759,838	127,598	255,197	(103,853)	-	13,038,780
Year 4	13,038,780	130,388	260,776	(110,572)	-	13,319,371
Year 5	13,319,371	133,194	266,387	(116,077)	-	13,602,875
Year 6	13,602,875	136,029	272,058	(120,744)	-	13,890,218
Year 7	13,890,218	138,902	277,804	(124,838)	-	14,182,086
Year 8	14,182,086	141,821	283,642	(128,547)	-	14,479,002
Year 9	14,479,002	144,790	289,580	(132,001)	-	14,781,370
Year 10	14,781,370	147,814	295,627	(135,294)	-	15,089,517
Year 11	15,089,517	150,895	301,790	(138,492)	-	15,403,711
Year 12	15,403,711	154,037	308,074	(141,641)	-	15,724,181
Year 13	15,724,181	157,242	314,484	(144,775)	-	16,051,132
Year 14	16,051,132	160,511	321,023	(147,916)	-	16,384,750
Year 15	16,384,750	163,847	327,695	(151,083)	-	16,725,210
Year 16	16,725,210	167,252	334,504	(154,287)	-	17,072,679
Year 17	17,072,679	170,727	341,454	(157,538)	-	17,427,321
Year 18	17,427,321	174,273	348,546	(160,842)	-	17,789,299
Year 19	17,789,299	177,893	355,786	(164,206)	-	18,158,772
Year 20	18,158,772	181,588	363,175	(369,802)	-	18,333,733

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

No Further Planning - No Discount Allowed

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Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder GST Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	End of Year
Year 1	10,000,000	100,000	200,000	(59,600)	10,240,400
Year 2	10,240,400	102,404	204,808	(71,533)	10,476,079
Year 3	10,476,079	104,761	209,522	(80,540)	10,709,822
Year 4	10,709,822	107,098	214,196	(87,502)	10,943,614
Year 5	10,943,614	109,436	218,872	(93,039)	11,178,883
Year 6	11,178,883	111,789	223,578	(97,588)	11,416,662
Year 7	11,416,662	114,167	228,333	(101,454)	11,657,708
Year 8	11,657,708	116,577	233,154	(104,855)	11,902,584
Year 9	11,902,584	119,026	238,052	(107,943)	12,151,719
Year 10	12,151,719	121,517	243,034	(110,824)	12,405,446
Year 11	12,405,446	124,054	248,109	(113,576)	12,664,034
Year 12	12,664,034	126,640	253,281	(116,251)	12,927,704
Year 13	12,927,704	129,277	258,554	(118,888)	13,196,648
Year 14	13,196,648	131,966	263,933	(121,513)	13,471,034
Year 15	13,471,034	134,710	269,421	(124,147)	13,751,018
Year 16	13,751,018	137,510	275,020	(126,802)	14,036,747
Year 17	14,036,747	140,367	280,735	(129,490)	14,328,359
Year 18	14,328,359	143,284	286,567	(132,217)	14,625,993
Year 19	14,625,993	146,260	292,520	(134,990)	14,929,783
Year 20	14,929,783	149,298	298,596	(304,004)	15,073,672

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

No Further Planning - Discount Allowed

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Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	200,000	400,000	(119,200)	(4,800,000)	15,680,800
Year 2	15,680,800	156,808	313,616	(114,458)	-	16,036,766
Year 3	16,036,766	160,368	320,735	(126,744)	-	16,391,125
Year 4	16,391,125	163,911	327,823	(136,345)	-	16,746,514
Year 5	16,746,514	167,465	334,930	(144,078)	-	17,104,832
Year 6	17,104,832	171,048	342,097	(150,517)	-	17,467,460
Year 7	17,467,460	174,675	349,349	(156,066)	-	17,835,418
Year 8	17,835,418	178,354	356,708	(161,012)	-	18,209,468
Year 9	18,209,468	182,095	364,189	(165,555)	-	18,590,197
Year 10	18,590,197	185,902	371,804	(169,836)	-	18,978,067
Year 11	18,978,067	189,781	379,561	(173,956)	-	19,373,453
Year 12	19,373,453	193,735	387,469	(177,985)	-	19,776,672
Year 13	19,776,672	197,767	395,533	(181,975)	-	20,187,997
Year 14	20,187,997	201,880	403,760	(185,960)	-	20,607,677
Year 15	20,607,677	206,077	412,154	(189,967)	-	21,035,940
Year 16	21,035,940	210,359	420,719	(194,014)	-	21,473,005
Year 17	21,473,005	214,730	429,460	(198,115)	-	21,919,080
Year 18	21,919,080	219,191	438,382	(202,279)	-	22,374,374
Year 19	22,374,374	223,744	447,487	(206,515)	-	22,839,089
Year 20	22,839,089	228,391	456,782	(465,084)	-	23,059,178

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

No Further Planning - Discount Allowed

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Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder GST Exempt Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	10,000,000	100,000	200,000	(59,600)	-	10,240,400
Year 2	10,240,400	102,404	204,808	(71,533)	-	10,476,079
Year 3	10,476,079	104,761	209,522	(80,540)	-	10,709,822
Year 4	10,709,822	107,098	214,196	(87,502)	-	10,943,614
Year 5	10,943,614	109,436	218,872	(93,039)	-	11,178,883
Year 6	11,178,883	111,789	223,578	(97,588)	-	11,416,662
Year 7	11,416,662	114,167	228,333	(101,454)	-	11,657,708
Year 8	11,657,708	116,577	233,154	(104,855)	-	11,902,584
Year 9	11,902,584	119,026	238,052	(107,943)	-	12,151,719
Year 10	12,151,719	121,517	243,034	(110,824)	-	12,405,446
Year 11	12,405,446	124,054	248,109	(113,576)	-	12,664,034
Year 12	12,664,034	126,640	253,281	(116,251)	-	12,927,704
Year 13	12,927,704	129,277	258,554	(118,888)	-	13,196,648
Year 14	13,196,648	131,966	263,933	(121,513)	-	13,471,034
Year 15	13,471,034	134,710	269,421	(124,147)	-	13,751,018
Year 16	13,751,018	137,510	275,020	(126,802)	-	14,036,747
Year 17	14,036,747	140,367	280,735	(129,490)	-	14,328,359
Year 18	14,328,359	143,284	286,567	(132,217)	-	14,625,993
Year 19	14,625,993	146,260	292,520	(134,990)	-	14,929,783
Year 20	14,929,783	149,298	298,596	(304,004)	-	15,073,672

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Elder FLP

	Beg. of Year	Income	Growth	Distribution Income Taxes	Distribution Estate Taxes	Note Payment to CLAT	End of Year	Ownership: Elder Children	Ownership: CLAT	Ownership: Elder GST Exempt Trust
Year 1	30,000,000	300,000	600,000	-	(1,200,000)	(598,560)	29,101,440	16.67%	53.33%	30.00%
Year 2	29,101,440	291,014	582,029	-	-	(598,560)	29,375,923	29.69%	0.00%	70.31%
Year 3	29,375,923	293,759	587,518	(20,470)	-	(598,560)	29,638,171	29.69%	0.00%	70.31%
Year 4	29,638,171	296,382	592,763	(36,582)	-	(598,560)	29,892,174	29.69%	0.00%	70.31%
Year 5	29,892,174	298,922	597,843	(48,417)	-	(598,560)	30,141,962	29.69%	0.00%	70.31%
Year 6	30,141,962	301,420	602,839	(57,257)	-	(598,560)	30,390,404	29.69%	0.00%	70.31%
Year 7	30,390,404	303,904	607,808	(64,001)	-	(598,560)	30,639,555	29.69%	0.00%	70.31%
Year 8	30,639,555	306,396	612,791	(69,284)	-	(598,560)	30,890,898	29.69%	0.00%	70.31%
Year 9	30,890,898	308,909	617,818	(73,551)	-	(598,560)	31,145,514	29.69%	0.00%	70.31%
Year 10	31,145,514	311,455	622,910	(77,117)	-	(598,560)	31,404,203	29.69%	0.00%	70.31%
Year 11	31,404,203	314,042	628,084	(80,202)	-	(598,560)	31,667,568	29.69%	0.00%	70.31%
Year 12	31,667,568	316,676	633,351	(82,962)	-	(598,560)	31,936,072	29.69%	0.00%	70.31%
Year 13	31,936,072	319,361	638,721	(85,508)	-	(598,560)	32,210,087	29.69%	0.00%	70.31%
Year 14	32,210,087	322,101	644,202	(87,916)	-	(598,560)	32,489,914	29.69%	0.00%	70.31%
Year 15	32,489,914	324,899	649,798	(90,241)	-	(598,560)	32,775,811	29.69%	0.00%	70.31%
Year 16	32,775,811	327,758	655,516	(92,522)	-	(598,560)	33,068,003	29.69%	0.00%	70.31%
Year 17	33,068,003	330,680	661,360	(94,788)	-	(598,560)	33,366,695	29.69%	0.00%	70.31%
Year 18	33,366,695	333,667	667,334	(97,057)	-	(598,560)	33,672,078	29.69%	0.00%	70.31%
Year 19	33,672,078	336,721	673,442	(99,345)	-	(598,560)	33,984,335	29.69%	0.00%	70.31%
Year 20	33,984,335	339,843	679,687	(489,787)	-	(10,198,560)	24,315,519	29.69%	0.00%	70.31%

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Income Taxes	Estate Taxes	End of Year
Year 1	-	-	-	-	1,200,000	-	-	(1,200,000)	-
Year 2	-	-	-	-	-	-	-	-	-
Year 3	-	-	-	6,077	-	-	(6,077)	-	-
Year 4	-	-	-	10,860	-	-	(10,860)	-	-
Year 5	-	-	-	14,374	-	-	(14,374)	-	-
Year 6	-	-	-	16,998	-	-	(16,998)	-	-
Year 7	-	-	-	19,000	-	-	(19,000)	-	-
Year 8	-	-	-	20,569	-	-	(20,569)	-	-
Year 9	-	-	-	21,835	-	-	(21,835)	-	-
Year 10	-	-	-	22,894	-	-	(22,894)	-	-
Year 11	-	-	-	23,810	-	-	(23,810)	-	-
Year 12	-	-	-	24,629	-	-	(24,629)	-	-
Year 13	-	-	-	25,385	-	-	(25,385)	-	-
Year 14	-	-	-	26,100	-	-	(26,100)	-	-
Year 15	-	-	-	26,790	-	-	(26,790)	-	-
Year 16	-	-	-	27,468	-	-	(27,468)	-	-
Year 17	-	-	-	28,140	-	-	(28,140)	-	-
Year 18	-	-	-	28,814	-	-	(28,814)	-	-
Year 19	-	-	-	29,493	-	-	(29,493)	-	-
Year 20	-	-	-	145,405	-	9,600,000	(145,405)	-	9,600,000

Schedule 23
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - $3mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Elder GST Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-
Year 3	-	-	-	14,393	-	(14,393)	-
Year 4	-	-	-	25,722	-	(25,722)	-
Year 5	-	-	-	34,043	-	(34,043)	-
Year 6	-	-	-	40,259	-	(40,259)	-
Year 7	-	-	-	45,001	-	(45,001)	-
Year 8	-	-	-	48,715	-	(48,715)	-
Year 9	-	-	-	51,715	-	(51,715)	-
Year 10	-	-	-	54,223	-	(54,223)	-
Year 11	-	-	-	56,392	-	(56,392)	-
Year 12	-	-	-	58,333	-	(58,333)	-
Year 13	-	-	-	60,123	-	(60,123)	-
Year 14	-	-	-	61,816	-	(61,816)	-
Year 15	-	-	-	63,451	-	(63,451)	-
Year 16	-	-	-	65,055	-	(65,055)	-
Year 17	-	-	-	66,648	-	(66,648)	-
Year 18	-	-	-	68,244	-	(68,244)	-
Year 19	-	-	-	69,852	-	(69,852)	-
Year 20	-	-	-	344,381	-	(344,381)	-

Schedule 23
Elder Family - 3.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - $3mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Charitable Lead Annuity Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP - Income Taxes	Note Payment Received	Annuity Payment to Charity	Income Taxes	Distrib. to Elder Family Remaindermen	End of Year
Year 1	-	-	-	-	598,560	(598,560)	-	-	-
Year 2	-	-	-	-	598,560	(598,560)	-	-	-
Year 3	-	-	-	-	598,560	(598,560)	-	-	-
Year 4	-	-	-	-	598,560	(598,560)	-	-	-
Year 5	-	-	-	-	598,560	(598,560)	-	-	-
Year 6	-	-	-	-	598,560	(598,560)	-	-	-
Year 7	-	-	-	-	598,560	(598,560)	-	-	-
Year 8	-	-	-	-	598,560	(598,560)	-	-	-
Year 9	-	-	-	-	598,560	(598,560)	-	-	-
Year 10	-	-	-	-	598,560	(598,560)	-	-	-
Year 11	-	-	-	-	598,560	(598,560)	-	-	-
Year 12	-	-	-	-	598,560	(598,560)	-	-	-
Year 13	-	-	-	-	598,560	(598,560)	-	-	-
Year 14	-	-	-	-	598,560	(598,560)	-	-	-
Year 15	-	-	-	-	598,560	(598,560)	-	-	-
Year 16	-	-	-	-	598,560	(598,560)	-	-	-
Year 17	-	-	-	-	598,560	(598,560)	-	-	-
Year 18	-	-	-	-	598,560	(598,560)	-	-	-
Year 19	-	-	-	-	598,560	(598,560)	-	-	-
Year 20	-	-	-	-	10,198,560	(598,560)	-	(9,600,000)	-

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	598,560	598,560
Year 2	598,560	5,986	11,971	598,560	1,215,077
Year 3	1,215,077	12,151	24,302	598,560	1,850,089
Year 4	1,850,089	18,501	37,002	598,560	2,504,152
Year 5	2,504,152	25,042	50,083	598,560	3,177,836
Year 6	3,177,836	31,778	63,557	598,560	3,871,731
Year 7	3,871,731	38,717	77,435	598,560	4,586,443
Year 8	4,586,443	45,864	91,729	598,560	5,322,597
Year 9	5,322,597	53,226	106,452	598,560	6,080,835
Year 10	6,080,835	60,808	121,617	598,560	6,861,820
Year 11	6,861,820	68,618	137,236	598,560	7,666,234
Year 12	7,666,234	76,662	153,325	598,560	8,494,781
Year 13	8,494,781	84,948	169,896	598,560	9,348,185
Year 14	9,348,185	93,482	186,964	598,560	10,227,190
Year 15	10,227,190	102,272	204,544	598,560	11,132,566
Year 16	11,132,566	111,326	222,651	598,560	12,065,103
Year 17	12,065,103	120,651	241,302	598,560	13,025,616
Year 18	13,025,616	130,256	260,512	598,560	14,014,944
Year 19	14,014,944	140,149	280,299	598,560	15,033,953
Year 20	15,033,953	150,340	300,679	598,560	16,083,531

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	9,600,000	598,560	(598,560)	9,600,000
Year 2	9,600,000	598,560	(598,560)	9,600,000
Year 3	9,600,000	598,560	(598,560)	9,600,000
Year 4	9,600,000	598,560	(598,560)	9,600,000
Year 5	9,600,000	598,560	(598,560)	9,600,000
Year 6	9,600,000	598,560	(598,560)	9,600,000
Year 7	9,600,000	598,560	(598,560)	9,600,000
Year 8	9,600,000	598,560	(598,560)	9,600,000
Year 9	9,600,000	598,560	(598,560)	9,600,000
Year 10	9,600,000	598,560	(598,560)	9,600,000
Year 11	9,600,000	598,560	(598,560)	9,600,000
Year 12	9,600,000	598,560	(598,560)	9,600,000
Year 13	9,600,000	598,560	(598,560)	9,600,000
Year 14	9,600,000	598,560	(598,560)	9,600,000
Year 15	9,600,000	598,560	(598,560)	9,600,000
Year 16	9,600,000	598,560	(598,560)	9,600,000
Year 17	9,600,000	598,560	(598,560)	9,600,000
Year 18	9,600,000	598,560	(598,560)	9,600,000
Year 19	9,600,000	598,560	(598,560)	9,600,000
Year 20	9,600,000	598,560	(10,198,560)	-

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Elder FLP

	Beg. of Year	Income	Growth	Distribution Income Taxes	Distribution Estate Taxes	Note Payment to CLAT	End of Year
Year 1	30,000,000	300,000	600,000	(106,499)	(4,000,000)	(162,110)	26,631,391
Year 2	26,631,391	266,314	532,628	(117,922)	-	(162,110)	27,150,301
Year 3	27,150,301	271,503	543,006	(139,528)	-	(162,110)	27,663,172
Year 4	27,663,172	276,632	553,263	(156,088)	-	(162,110)	28,174,869
Year 5	28,174,869	281,749	563,497	(169,129)	-	(162,110)	28,688,876
Year 6	28,688,876	286,889	573,778	(179,724)	-	(162,110)	29,207,708
Year 7	29,207,708	292,077	584,154	(188,628)	-	(162,110)	29,733,202
Year 8	29,733,202	297,332	594,664	(196,373)	-	(162,110)	30,266,715
Year 9	30,266,715	302,667	605,334	(203,333)	-	(162,110)	30,809,273
Year 10	30,809,273	308,093	616,185	(209,773)	-	(162,110)	31,361,668
Year 11	31,361,668	313,617	627,233	(215,880)	-	(162,110)	31,924,528
Year 12	31,924,528	319,245	638,491	(221,785)	-	(162,110)	32,498,369
Year 13	32,498,369	324,984	649,967	(227,581)	-	(162,110)	33,083,630
Year 14	33,083,630	330,836	661,673	(233,335)	-	(162,110)	33,680,694
Year 15	33,680,694	336,807	673,614	(239,094)	-	(162,110)	34,289,911
Year 16	34,289,911	342,899	685,798	(244,892)	-	(162,110)	34,911,606
Year 17	34,911,606	349,116	698,232	(250,754)	-	(162,110)	35,546,090
Year 18	35,546,090	355,461	710,922	(256,698)	-	(162,110)	36,193,664
Year 19	36,193,664	361,937	723,873	(262,738)	-	(162,110)	36,854,626
Year 20	36,854,626	368,546	737,093	(681,446)	-	(2,762,110)	34,516,709

	Ownership		
	Elder Children	CLAT	Elder GST Exempt Trust
Year 1	55.56%	14.44%	30.00%
Year 2	58.46%	0.00%	41.54%
Year 3	58.46%	0.00%	41.54%
Year 4	58.46%	0.00%	41.54%
Year 5	58.46%	0.00%	41.54%
Year 6	58.46%	0.00%	41.54%
Year 7	58.46%	0.00%	41.54%
Year 8	58.46%	0.00%	41.54%
Year 9	58.46%	0.00%	41.54%
Year 10	58.46%	0.00%	41.54%
Year 11	58.46%	0.00%	41.54%
Year 12	58.46%	0.00%	41.54%
Year 13	58.46%	0.00%	41.54%
Year 14	58.46%	0.00%	41.54%
Year 15	58.46%	0.00%	41.54%
Year 16	58.46%	0.00%	41.54%
Year 17	58.46%	0.00%	41.54%
Year 18	58.46%	0.00%	41.54%
Year 19	58.46%	0.00%	41.54%
Year 20	58.46%	0.00%	41.54%

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	59,166	4,000,000	-	(59,166)	(4,000,000)	-
Year 2	-	-	-	68,939	-	-	(68,939)	-	-
Year 3	-	-	-	81,570	-	-	(81,570)	-	-
Year 4	-	-	-	91,252	-	-	(91,252)	-	-
Year 5	-	-	-	98,876	-	-	(98,876)	-	-
Year 6	-	-	-	105,069	-	-	(105,069)	-	-
Year 7	-	-	-	110,275	-	-	(110,275)	-	-
Year 8	-	-	-	114,802	-	-	(114,802)	-	-
Year 9	-	-	-	118,872	-	-	(118,872)	-	-
Year 10	-	-	-	122,637	-	-	(122,637)	-	-
Year 11	-	-	-	126,207	-	-	(126,207)	-	-
Year 12	-	-	-	129,659	-	-	(129,659)	-	-
Year 13	-	-	-	133,047	-	-	(133,047)	-	-
Year 14	-	-	-	136,411	-	-	(136,411)	-	-
Year 15	-	-	-	139,778	-	-	(139,778)	-	-
Year 16	-	-	-	143,168	-	-	(143,168)	-	-
Year 17	-	-	-	146,595	-	-	(146,595)	-	-
Year 18	-	-	-	150,070	-	-	(150,070)	-	-
Year 19	-	-	-	153,601	-	-	(153,601)	-	-
Year 20	-	-	-	398,384	-	2,600,000	(398,384)	-	2,600,000

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Elder GST Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Beneficiary Distributons	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	31,950	-	(31,950)	-	-
Year 2	-	-	-	48,983	-	(48,983)	-	-
Year 3	-	-	-	57,958	-	(57,958)	-	-
Year 4	-	-	-	64,837	-	(64,837)	-	-
Year 5	-	-	-	70,254	-	(70,254)	-	-
Year 6	-	-	-	74,655	-	(74,655)	-	-
Year 7	-	-	-	78,353	-	(78,353)	-	-
Year 8	-	-	-	81,570	-	(81,570)	-	-
Year 9	-	-	-	84,461	-	(84,461)	-	-
Year 10	-	-	-	87,137	-	(87,137)	-	-
Year 11	-	-	-	89,673	-	(89,673)	-	-
Year 12	-	-	-	92,126	-	(92,126)	-	-
Year 13	-	-	-	94,534	-	(94,534)	-	-
Year 14	-	-	-	96,924	-	(96,924)	-	-
Year 15	-	-	-	99,316	-	(99,316)	-	-
Year 16	-	-	-	101,724	-	(101,724)	-	-
Year 17	-	-	-	104,159	-	(104,159)	-	-
Year 18	-	-	-	106,629	-	(106,629)	-	-
Year 19	-	-	-	109,137	-	(109,137)	-	-
Year 20	-	-	-	283,062	-	(283,062)	-	-

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Charitable Lead Annuity Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP - Income Taxes	Note Payment Received	Annuity Payment to Charity	Taxes on Investment Income	Distrib. to Elder Family Remaindermen	End of Year
Year 1	-	-	-	15,383	162,110	(162,110)	(15,383)	-	-
Year 2	-	-	-	-	162,110	(162,110)	-	-	-
Year 3	-	-	-	-	162,110	(162,110)	-	-	-
Year 4	-	-	-	-	162,110	(162,110)	-	-	-
Year 5	-	-	-	-	162,110	(162,110)	-	-	-
Year 6	-	-	-	-	162,110	(162,110)	-	-	-
Year 7	-	-	-	-	162,110	(162,110)	-	-	-
Year 8	-	-	-	-	162,110	(162,110)	-	-	-
Year 9	-	-	-	-	162,110	(162,110)	-	-	-
Year 10	-	-	-	-	162,110	(162,110)	-	-	-
Year 11	-	-	-	-	162,110	(162,110)	-	-	-
Year 12	-	-	-	-	162,110	(162,110)	-	-	-
Year 13	-	-	-	-	162,110	(162,110)	-	-	-
Year 14	-	-	-	-	162,110	(162,110)	-	-	-
Year 15	-	-	-	-	162,110	(162,110)	-	-	-
Year 16	-	-	-	-	162,110	(162,110)	-	-	-
Year 17	-	-	-	-	162,110	(162,110)	-	-	-
Year 18	-	-	-	-	162,110	(162,110)	-	-	-
Year 19	-	-	-	-	162,110	(162,110)	-	-	-
Year 20	-	-	-	-	2,762,110	(162,110)	-	(2,600,000)	-

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	162,110	162,110
Year 2	162,110	1,621	3,242	162,110	329,083
Year 3	329,083	3,291	6,582	162,110	501,066
Year 4	501,066	5,011	10,021	162,110	678,208
Year 5	678,208	6,782	13,564	162,110	860,664
Year 6	860,664	8,607	17,213	162,110	1,048,594
Year 7	1,048,594	10,486	20,972	162,110	1,242,162
Year 8	1,242,162	12,422	24,843	162,110	1,441,537
Year 9	1,441,537	14,415	28,831	162,110	1,646,893
Year 10	1,646,893	16,469	32,938	162,110	1,858,409
Year 11	1,858,409	18,584	37,168	162,110	2,076,272
Year 12	2,076,272	20,763	41,525	162,110	2,300,670
Year 13	2,300,670	23,007	46,013	162,110	2,531,800
Year 14	2,531,800	25,318	50,636	162,110	2,769,864
Year 15	2,769,864	27,699	55,397	162,110	3,015,070
Year 16	3,015,070	30,151	60,301	162,110	3,267,632
Year 17	3,267,632	32,676	65,353	162,110	3,527,771
Year 18	3,527,771	35,278	70,555	162,110	3,795,714
Year 19	3,795,714	37,957	75,914	162,110	4,071,696
Year 20	4,071,696	40,717	81,434	162,110	4,355,956

Schedule 23

Elder Family - 3.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Assumptions:	
Total Rate of Return	3.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	1.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	2.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	2,600,000	162,110	(162,110)	2,600,000
Year 2	2,600,000	162,110	(162,110)	2,600,000
Year 3	2,600,000	162,110	(162,110)	2,600,000
Year 4	2,600,000	162,110	(162,110)	2,600,000
Year 5	2,600,000	162,110	(162,110)	2,600,000
Year 6	2,600,000	162,110	(162,110)	2,600,000
Year 7	2,600,000	162,110	(162,110)	2,600,000
Year 8	2,600,000	162,110	(162,110)	2,600,000
Year 9	2,600,000	162,110	(162,110)	2,600,000
Year 10	2,600,000	162,110	(162,110)	2,600,000
Year 11	2,600,000	162,110	(162,110)	2,600,000
Year 12	2,600,000	162,110	(162,110)	2,600,000
Year 13	2,600,000	162,110	(162,110)	2,600,000
Year 14	2,600,000	162,110	(162,110)	2,600,000
Year 15	2,600,000	162,110	(162,110)	2,600,000
Year 16	2,600,000	162,110	(162,110)	2,600,000
Year 17	2,600,000	162,110	(162,110)	2,600,000
Year 18	2,600,000	162,110	(162,110)	2,600,000
Year 19	2,600,000	162,110	(162,110)	2,600,000
Year 20	2,600,000	162,110	(2,762,110)	-

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

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Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Elder FLP Valuation Discount	40.00%
Gross Proceeds	$30,000,000

	Future Values at the End of 20 Years of Annual Compounded Growth at 7.5%						
	Elder Children's Future Values	Elder GST Exempt Trust Future Values	Charity	IRS Income Taxes	IRS Income Taxes & Estate Taxes Investment Opp. Costs	IRS Estate Taxes	Totals
No Further Planning - No Discount Allowed	33,734,275	27,222,640	-	19,049,212	39,429,406	8,000,000	127,435,533
No Further Planning - Discount Allowed	42,018,677	27,222,640	-	21,535,391	31,858,825	4,800,000	127,435,533
CLAT Redemption - Discount Allowed - $3mm to Family	26,774,735	40,677,004	25,920,450	16,803,779	16,059,565	1,200,000	127,435,533
CLAT Redemption - Discount Allowed - $10mm to Family	41,011,327	27,292,259	7,020,122	20,117,950	27,993,875	4,000,000	127,435,533

No Further Planning - No Discount Allowed		
Elder Children	33,734,275	26.47%
Elder GST Exempt Trust	27,222,640	21.36%
Charity	-	0.00%
IRS (income and estate taxes)	27,049,212	21.23%
IRS (investment opportunity costs)	39,429,406	30.94%
Total	**127,435,533**	**100.00%**

No Further Planning - Discount Allowed		
Elder Children	42,018,677	32.97%
Elder GST Exempt Trust	27,222,640	21.36%
Charity	-	0.00%
IRS (income and estate taxes)	26,335,391	20.67%
IRS (investment opportunity costs)	31,858,825	25.00%
Total	**127,435,533**	**100.00%**

CLAT Redemption - Discount Allowed - $3mm to Family		
Elder Children	26,774,735	21.01%
Elder GST Exempt Trust	40,677,004	31.92%
Charity	25,920,450	20.34%
IRS (income and estate taxes)	18,003,779	14.13%
IRS (investment opportunity costs)	16,059,565	12.60%
Total	**127,435,533**	**100.00%**

CLAT Redemption - Discount Allowed - $10mm to Family		
Elder Children	41,011,327	32.18%
Elder GST Exempt Trust	27,292,259	21.42%
Charity	7,020,122	5.51%
IRS (income and estate taxes)	24,117,950	18.93%
IRS (investment opportunity costs)	27,993,875	21.97%
Total	**127,435,533**	**100.00%**

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

No Further Planning - No Discount Allowed

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Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	600,000	900,000	(335,100)	(8,000,000)	13,164,900
Year 2	13,164,900	394,947	592,421	(267,828)	-	13,884,440
Year 3	13,884,440	416,533	624,800	(296,811)	-	14,628,962
Year 4	14,628,962	438,869	658,303	(322,834)	-	15,403,300
Year 5	15,403,300	462,099	693,148	(347,051)	-	16,211,496
Year 6	16,211,496	486,345	729,517	(370,292)	-	17,057,066
Year 7	17,057,066	511,712	767,568	(393,159)	-	17,943,187
Year 8	17,943,187	538,296	807,443	(416,093)	-	18,872,833
Year 9	18,872,833	566,185	849,277	(439,423)	-	19,848,872
Year 10	19,848,872	595,466	893,199	(463,401)	-	20,874,136
Year 11	20,874,136	626,224	939,336	(488,223)	-	21,951,474
Year 12	21,951,474	658,544	987,816	(514,046)	-	23,083,789
Year 13	23,083,789	692,514	1,038,770	(541,003)	-	24,274,070
Year 14	24,274,070	728,222	1,092,333	(569,212)	-	25,525,413
Year 15	25,525,413	765,762	1,148,644	(598,775)	-	26,841,044
Year 16	26,841,044	805,231	1,207,847	(629,793)	-	28,224,329
Year 17	28,224,329	846,730	1,270,095	(662,361)	-	29,678,793
Year 18	29,678,793	890,364	1,335,546	(696,572)	-	31,208,130
Year 19	31,208,130	936,244	1,404,366	(732,521)	-	32,816,219
Year 20	32,816,219	984,487	1,476,730	(1,543,161)	-	33,734,275

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

No Further Planning - No Discount Allowed

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Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder GST Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	End of Year
Year 1	10,000,000	300,000	450,000	(167,550)	10,582,450
Year 2	10,582,450	317,474	476,210	(200,934)	11,175,200
Year 3	11,175,200	335,256	502,884	(228,779)	11,784,561
Year 4	11,784,561	353,537	530,305	(252,929)	12,415,474
Year 5	12,415,474	372,464	558,696	(274,697)	13,071,938
Year 6	13,071,938	392,158	588,237	(295,025)	13,757,308
Year 7	13,757,308	412,719	619,079	(314,589)	14,474,517
Year 8	14,474,517	434,235	651,353	(333,882)	15,226,223
Year 9	15,226,223	456,787	685,180	(353,265)	16,014,925
Year 10	16,014,925	480,448	720,672	(373,006)	16,843,038
Year 11	16,843,038	505,291	757,937	(393,314)	17,712,952
Year 12	17,712,952	531,389	797,083	(414,348)	18,627,075
Year 13	18,627,075	558,812	838,218	(436,241)	19,587,865
Year 14	19,587,865	587,636	881,454	(459,102)	20,597,853
Year 15	20,597,853	617,936	926,903	(483,029)	21,659,663
Year 16	21,659,663	649,790	974,685	(508,108)	22,776,030
Year 17	22,776,030	683,281	1,024,921	(534,424)	23,949,808
Year 18	23,949,808	718,494	1,077,741	(562,055)	25,183,988
Year 19	25,183,988	755,520	1,133,279	(591,083)	26,481,705
Year 20	26,481,705	794,451	1,191,677	(1,245,193)	27,222,640

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

No Further Planning - Discount Allowed

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	600,000	900,000	(335,100)	(4,800,000)	16,364,900
Year 2	16,364,900	490,947	736,421	(321,444)	-	17,270,824
Year 3	17,270,824	518,125	777,187	(361,110)	-	18,205,026
Year 4	18,205,026	546,151	819,226	(396,043)	-	19,174,359
Year 5	19,174,359	575,231	862,846	(427,989)	-	20,184,447
Year 6	20,184,447	605,533	908,300	(458,195)	-	21,240,086
Year 7	21,240,086	637,203	955,804	(487,567)	-	22,345,525
Year 8	22,345,525	670,366	1,005,549	(516,761)	-	23,504,678
Year 9	23,504,678	705,140	1,057,711	(546,266)	-	24,721,263
Year 10	24,721,263	741,638	1,112,457	(576,446)	-	25,998,912
Year 11	25,998,912	779,967	1,169,951	(607,585)	-	27,341,246
Year 12	27,341,246	820,237	1,230,356	(639,906)	-	28,751,934
Year 13	28,751,934	862,558	1,293,837	(673,595)	-	30,234,734
Year 14	30,234,734	907,042	1,360,563	(708,809)	-	31,793,530
Year 15	31,793,530	953,806	1,430,709	(745,688)	-	33,432,357
Year 16	33,432,357	1,002,971	1,504,456	(784,363)	-	35,155,421
Year 17	35,155,421	1,054,663	1,581,994	(824,955)	-	36,967,122
Year 18	36,967,122	1,109,014	1,663,520	(867,587)	-	38,872,069
Year 19	38,872,069	1,166,162	1,749,243	(912,379)	-	40,875,096
Year 20	40,875,096	1,226,253	1,839,379	(1,922,051)	-	42,018,677

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

No Further Planning - Discount Allowed

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder GST Exempt Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	10,000,000	300,000	450,000	(167,550)	-	10,582,450
Year 2	10,582,450	317,474	476,210	(200,934)	-	11,175,200
Year 3	11,175,200	335,256	502,884	(228,779)	-	11,784,561
Year 4	11,784,561	353,537	530,305	(252,929)	-	12,415,474
Year 5	12,415,474	372,464	558,696	(274,697)	-	13,071,938
Year 6	13,071,938	392,158	588,237	(295,025)	-	13,757,308
Year 7	13,757,308	412,719	619,079	(314,589)	-	14,474,517
Year 8	14,474,517	434,235	651,353	(333,882)	-	15,226,223
Year 9	15,226,223	456,787	685,180	(353,265)	-	16,014,925
Year 10	16,014,925	480,448	720,672	(373,006)	-	16,843,038
Year 11	16,843,038	505,291	757,937	(393,314)	-	17,712,952
Year 12	17,712,952	531,389	797,083	(414,348)	-	18,627,075
Year 13	18,627,075	558,812	838,218	(436,241)	-	19,587,865
Year 14	19,587,865	587,636	881,454	(459,102)	-	20,597,853
Year 15	20,597,853	617,936	926,903	(483,029)	-	21,659,663
Year 16	21,659,663	649,790	974,685	(508,108)	-	22,776,030
Year 17	22,776,030	683,281	1,024,921	(534,424)	-	23,949,808
Year 18	23,949,808	718,494	1,077,741	(562,055)	-	25,183,988
Year 19	25,183,988	755,520	1,133,279	(591,083)	-	26,481,705
Year 20	26,481,705	794,451	1,191,677	(1,245,193)	-	27,222,640

Schedule 23
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - $3mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Elder FLP

	Beg. of Year	Income	Growth	Distribution Income Taxes	Distribution Estate Taxes	Note Payment to CLAT	End of Year
Year 1	30,000,000	900,000	1,350,000	(235,692)	(1,200,000)	(598,560)	30,215,748
Year 2	30,215,748	906,472	1,359,709	(310,182)	-	(598,560)	31,573,187
Year 3	31,573,187	947,196	1,420,793	(383,048)	-	(598,560)	32,959,568
Year 4	32,959,568	988,787	1,483,181	(444,569)	-	(598,560)	34,388,406
Year 5	34,388,406	1,031,652	1,547,478	(498,590)	-	(598,560)	35,870,386
Year 6	35,870,386	1,076,112	1,614,167	(547,852)	-	(598,560)	37,414,253
Year 7	37,414,253	1,122,428	1,683,641	(594,323)	-	(598,560)	39,027,439
Year 8	39,027,439	1,170,823	1,756,235	(639,422)	-	(598,560)	40,716,516
Year 9	40,716,516	1,221,495	1,832,243	(684,182)	-	(598,560)	42,487,513
Year 10	42,487,513	1,274,625	1,911,938	(729,367)	-	(598,560)	44,346,149
Year 11	44,346,149	1,330,384	1,995,577	(775,552)	-	(598,560)	46,297,998
Year 12	46,297,998	1,388,940	2,083,410	(823,176)	-	(598,560)	48,348,612
Year 13	48,348,612	1,450,458	2,175,688	(872,590)	-	(598,560)	50,503,609
Year 14	50,503,609	1,515,108	2,272,662	(924,080)	-	(598,560)	52,768,739
Year 15	52,768,739	1,583,062	2,374,593	(977,892)	-	(598,560)	55,149,942
Year 16	55,149,942	1,654,498	2,481,747	(1,034,243)	-	(598,560)	57,653,385
Year 17	57,653,385	1,729,602	2,594,402	(1,093,331)	-	(598,560)	60,285,499
Year 18	60,285,499	1,808,565	2,712,847	(1,155,346)	-	(598,560)	63,053,005
Year 19	63,053,005	1,891,590	2,837,385	(1,220,474)	-	(598,560)	65,962,947
Year 20	65,962,947	1,978,888	2,968,333	(2,859,869)	-	(10,198,560)	57,851,739

	Ownership		
	Elder Children	CLAT	Elder GST Exempt Trust
Year 1	16.67%	53.33%	30.00%
Year 2	29.69%	0.00%	70.31%
Year 3	29.69%	0.00%	70.31%
Year 4	29.69%	0.00%	70.31%
Year 5	29.69%	0.00%	70.31%
Year 6	29.69%	0.00%	70.31%
Year 7	29.69%	0.00%	70.31%
Year 8	29.69%	0.00%	70.31%
Year 9	29.69%	0.00%	70.31%
Year 10	29.69%	0.00%	70.31%
Year 11	29.69%	0.00%	70.31%
Year 12	29.69%	0.00%	70.31%
Year 13	29.69%	0.00%	70.31%
Year 14	29.69%	0.00%	70.31%
Year 15	29.69%	0.00%	70.31%
Year 16	29.69%	0.00%	70.31%
Year 17	29.69%	0.00%	70.31%
Year 18	29.69%	0.00%	70.31%
Year 19	29.69%	0.00%	70.31%
Year 20	29.69%	0.00%	70.31%

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Income Taxes	Estate Taxes	End of Year
Year 1	-	-	-	39,282	1,200,000	-	(39,282)	(1,200,000)	-
Year 2	-	-	-	92,085	-	-	(92,085)	-	-
Year 3	-	-	-	113,717	-	-	(113,717)	-	-
Year 4	-	-	-	131,982	-	-	(131,982)	-	-
Year 5	-	-	-	148,019	-	-	(148,019)	-	-
Year 6	-	-	-	162,644	-	-	(162,644)	-	-
Year 7	-	-	-	176,440	-	-	(176,440)	-	-
Year 8	-	-	-	189,828	-	-	(189,828)	-	-
Year 9	-	-	-	203,117	-	-	(203,117)	-	-
Year 10	-	-	-	216,531	-	-	(216,531)	-	-
Year 11	-	-	-	230,242	-	-	(230,242)	-	-
Year 12	-	-	-	244,380	-	-	(244,380)	-	-
Year 13	-	-	-	259,050	-	-	(259,050)	-	-
Year 14	-	-	-	274,336	-	-	(274,336)	-	-
Year 15	-	-	-	290,312	-	-	(290,312)	-	-
Year 16	-	-	-	307,041	-	-	(307,041)	-	-
Year 17	-	-	-	324,583	-	-	(324,583)	-	-
Year 18	-	-	-	342,993	-	-	(342,993)	-	-
Year 19	-	-	-	362,328	-	-	(362,328)	-	-
Year 20	-	-	-	849,024	-	9,600,000	(849,024)	-	9,600,000

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Elder GST Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	70,708	-	(70,708)	-
Year 2	-	-	-	218,097	-	(218,097)	-
Year 3	-	-	-	269,331	-	(269,331)	-
Year 4	-	-	-	312,588	-	(312,588)	-
Year 5	-	-	-	350,571	-	(350,571)	-
Year 6	-	-	-	385,208	-	(385,208)	-
Year 7	-	-	-	417,883	-	(417,883)	-
Year 8	-	-	-	449,593	-	(449,593)	-
Year 9	-	-	-	481,065	-	(481,065)	-
Year 10	-	-	-	512,836	-	(512,836)	-
Year 11	-	-	-	545,310	-	(545,310)	-
Year 12	-	-	-	578,795	-	(578,795)	-
Year 13	-	-	-	613,540	-	(613,540)	-
Year 14	-	-	-	649,744	-	(649,744)	-
Year 15	-	-	-	687,581	-	(687,581)	-
Year 16	-	-	-	727,202	-	(727,202)	-
Year 17	-	-	-	768,748	-	(768,748)	-
Year 18	-	-	-	812,353	-	(812,353)	-
Year 19	-	-	-	858,146	-	(858,146)	-
Year 20	-	-	-	2,010,845	-	(2,010,845)	-

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Charitable Lead Annuity Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP - Income Taxes	Note Payment Received	Annuity Payment to Charity	Income Taxes	Distrib. to Elder Family Remaindermen	End of Year
Year 1	-	-	-	125,703	598,560	(598,560)	(125,703)	-	-
Year 2	-	-	-	-	598,560	(598,560)	-	-	-
Year 3	-	-	-	-	598,560	(598,560)	-	-	-
Year 4	-	-	-	-	598,560	(598,560)	-	-	-
Year 5	-	-	-	-	598,560	(598,560)	-	-	-
Year 6	-	-	-	-	598,560	(598,560)	-	-	-
Year 7	-	-	-	-	598,560	(598,560)	-	-	-
Year 8	-	-	-	-	598,560	(598,560)	-	-	-
Year 9	-	-	-	-	598,560	(598,560)	-	-	-
Year 10	-	-	-	-	598,560	(598,560)	-	-	-
Year 11	-	-	-	-	598,560	(598,560)	-	-	-
Year 12	-	-	-	-	598,560	(598,560)	-	-	-
Year 13	-	-	-	-	598,560	(598,560)	-	-	-
Year 14	-	-	-	-	598,560	(598,560)	-	-	-
Year 15	-	-	-	-	598,560	(598,560)	-	-	-
Year 16	-	-	-	-	598,560	(598,560)	-	-	-
Year 17	-	-	-	-	598,560	(598,560)	-	-	-
Year 18	-	-	-	-	598,560	(598,560)	-	-	-
Year 19	-	-	-	-	598,560	(598,560)	-	-	-
Year 20	-	-	-	-	10,198,560	(598,560)	-	(9,600,000)	-

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	598,560	598,560
Year 2	598,560	17,957	26,935	598,560	1,242,012
Year 3	1,242,012	37,260	55,891	598,560	1,933,723
Year 4	1,933,723	58,012	87,018	598,560	2,677,312
Year 5	2,677,312	80,319	120,479	598,560	3,476,671
Year 6	3,476,671	104,300	156,450	598,560	4,335,981
Year 7	4,335,981	130,079	195,119	598,560	5,259,739
Year 8	5,259,739	157,792	236,688	598,560	6,252,780
Year 9	6,252,780	187,583	281,375	598,560	7,320,298
Year 10	7,320,298	219,609	329,413	598,560	8,467,881
Year 11	8,467,881	254,036	381,055	598,560	9,701,532
Year 12	9,701,532	291,046	436,569	598,560	11,027,707
Year 13	11,027,707	330,831	496,247	598,560	12,453,345
Year 14	12,453,345	373,600	560,401	598,560	13,985,905
Year 15	13,985,905	419,577	629,366	598,560	15,633,408
Year 16	15,633,408	469,002	703,503	598,560	17,404,474
Year 17	17,404,474	522,134	783,201	598,560	19,308,370
Year 18	19,308,370	579,251	868,877	598,560	21,355,057
Year 19	21,355,057	640,652	960,978	598,560	23,555,247
Year 20	23,555,247	706,657	1,059,986	598,560	25,920,450

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	9,600,000	598,560	(598,560)	9,600,000
Year 2	9,600,000	598,560	(598,560)	9,600,000
Year 3	9,600,000	598,560	(598,560)	9,600,000
Year 4	9,600,000	598,560	(598,560)	9,600,000
Year 5	9,600,000	598,560	(598,560)	9,600,000
Year 6	9,600,000	598,560	(598,560)	9,600,000
Year 7	9,600,000	598,560	(598,560)	9,600,000
Year 8	9,600,000	598,560	(598,560)	9,600,000
Year 9	9,600,000	598,560	(598,560)	9,600,000
Year 10	9,600,000	598,560	(598,560)	9,600,000
Year 11	9,600,000	598,560	(598,560)	9,600,000
Year 12	9,600,000	598,560	(598,560)	9,600,000
Year 13	9,600,000	598,560	(598,560)	9,600,000
Year 14	9,600,000	598,560	(598,560)	9,600,000
Year 15	9,600,000	598,560	(598,560)	9,600,000
Year 16	9,600,000	598,560	(598,560)	9,600,000
Year 17	9,600,000	598,560	(598,560)	9,600,000
Year 18	9,600,000	598,560	(598,560)	9,600,000
Year 19	9,600,000	598,560	(598,560)	9,600,000
Year 20	9,600,000	598,560	(10,198,560)	-

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Elder FLP

	Beg. of Year	Income	Growth	Distribution Income Taxes	Distribution Estate Taxes	Note Payment to CLAT	End of Year
Year 1	30,000,000	900,000	1,350,000	(430,349)	(4,000,000)	(162,110)	27,657,541
Year 2	27,657,541	829,726	1,244,589	(461,976)	-	(162,110)	29,107,771
Year 3	29,107,771	873,233	1,309,850	(530,353)	-	(162,110)	30,598,390
Year 4	30,598,390	917,952	1,376,928	(589,609)	-	(162,110)	32,141,550
Year 5	32,141,550	964,247	1,446,370	(642,983)	-	(162,110)	33,747,073
Year 6	33,747,073	1,012,412	1,518,618	(692,793)	-	(162,110)	35,423,201
Year 7	35,423,201	1,062,696	1,594,044	(740,705)	-	(162,110)	37,177,126
Year 8	37,177,126	1,115,314	1,672,971	(787,932)	-	(162,110)	39,015,368
Year 9	39,015,368	1,170,461	1,755,692	(835,364)	-	(162,110)	40,944,047
Year 10	40,944,047	1,228,321	1,842,482	(883,664)	-	(162,110)	42,969,076
Year 11	42,969,076	1,289,072	1,933,608	(933,339)	-	(162,110)	45,096,308
Year 12	45,096,308	1,352,889	2,029,334	(984,788)	-	(162,110)	47,331,633
Year 13	47,331,633	1,419,949	2,129,923	(1,038,330)	-	(162,110)	49,681,065
Year 14	49,681,065	1,490,432	2,235,648	(1,094,239)	-	(162,110)	52,150,796
Year 15	52,150,796	1,564,524	2,346,786	(1,152,751)	-	(162,110)	54,747,245
Year 16	54,747,245	1,642,417	2,463,626	(1,214,081)	-	(162,110)	57,477,097
Year 17	57,477,097	1,724,313	2,586,469	(1,278,432)	-	(162,110)	60,347,337
Year 18	60,347,337	1,810,420	2,715,630	(1,346,002)	-	(162,110)	63,365,276
Year 19	63,365,276	1,900,958	2,851,437	(1,416,983)	-	(162,110)	66,538,579
Year 20	66,538,579	1,996,157	2,994,236	(3,063,276)	-	(2,762,110)	65,703,586

Ownership		
Elder Children	CLAT	Elder GST Exempt Trust
55.56%	14.44%	30.00%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%
58.46%	0.00%	41.54%

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	239,083	4,000,000	-	(239,083)	(4,000,000)	-
Year 2	-	-	-	270,078	-	-	(270,078)	-	-
Year 3	-	-	-	310,053	-	-	(310,053)	-	-
Year 4	-	-	-	344,695	-	-	(344,695)	-	-
Year 5	-	-	-	375,898	-	-	(375,898)	-	-
Year 6	-	-	-	405,017	-	-	(405,017)	-	-
Year 7	-	-	-	433,028	-	-	(433,028)	-	-
Year 8	-	-	-	460,637	-	-	(460,637)	-	-
Year 9	-	-	-	488,367	-	-	(488,367)	-	-
Year 10	-	-	-	516,604	-	-	(516,604)	-	-
Year 11	-	-	-	545,645	-	-	(545,645)	-	-
Year 12	-	-	-	575,722	-	-	(575,722)	-	-
Year 13	-	-	-	607,024	-	-	(607,024)	-	-
Year 14	-	-	-	639,709	-	-	(639,709)	-	-
Year 15	-	-	-	673,916	-	-	(673,916)	-	-
Year 16	-	-	-	709,770	-	-	(709,770)	-	-
Year 17	-	-	-	747,391	-	-	(747,391)	-	-
Year 18	-	-	-	786,893	-	-	(786,893)	-	-
Year 19	-	-	-	828,390	-	-	(828,390)	-	-
Year 20	-	-	-	1,790,838	-	2,600,000	(1,790,838)	-	2,600,000

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Assumptions:	
Total Rate of Return	7.50%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	4.50%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Elder GST Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Beneficiary Distributons	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	129,105	-	(129,105)	-	-
Year 2	-	-	-	191,898	-	(191,898)	-	-
Year 3	-	-	-	220,301	-	(220,301)	-	-
Year 4	-	-	-	244,915	-	(244,915)	-	-
Year 5	-	-	-	267,085	-	(267,085)	-	-
Year 6	-	-	-	287,775	-	(287,775)	-	-
Year 7	-	-	-	307,678	-	(307,678)	-	-
Year 8	-	-	-	327,295	-	(327,295)	-	-
Year 9	-	-	-	346,997	-	(346,997)	-	-
Year 10	-	-	-	367,060	-	(367,060)	-	-
Year 11	-	-	-	387,695	-	(387,695)	-	-
Year 12	-	-	-	409,066	-	(409,066)	-	-
Year 13	-	-	-	431,306	-	(431,306)	-	-
Year 14	-	-	-	454,530	-	(454,530)	-	-
Year 15	-	-	-	478,835	-	(478,835)	-	-
Year 16	-	-	-	504,311	-	(504,311)	-	-
Year 17	-	-	-	531,041	-	(531,041)	-	-
Year 18	-	-	-	559,108	-	(559,108)	-	-
Year 19	-	-	-	588,593	-	(588,593)	-	-
Year 20	-	-	-	1,272,438	-	(1,272,438)	-	-

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Charitable Lead Annuity Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP - Income Taxes	Note Payment Received	Annuity Payment to Charity	Taxes on Investment Income	Distrib. to Elder Family Remaindermen	End of Year
Year 1	-	-	-	62,162	162,110	(162,110)	(62,162)	-	-
Year 2	-	-	-	-	162,110	(162,110)	-	-	-
Year 3	-	-	-	-	162,110	(162,110)	-	-	-
Year 4	-	-	-	-	162,110	(162,110)	-	-	-
Year 5	-	-	-	-	162,110	(162,110)	-	-	-
Year 6	-	-	-	-	162,110	(162,110)	-	-	-
Year 7	-	-	-	-	162,110	(162,110)	-	-	-
Year 8	-	-	-	-	162,110	(162,110)	-	-	-
Year 9	-	-	-	-	162,110	(162,110)	-	-	-
Year 10	-	-	-	-	162,110	(162,110)	-	-	-
Year 11	-	-	-	-	162,110	(162,110)	-	-	-
Year 12	-	-	-	-	162,110	(162,110)	-	-	-
Year 13	-	-	-	-	162,110	(162,110)	-	-	-
Year 14	-	-	-	-	162,110	(162,110)	-	-	-
Year 15	-	-	-	-	162,110	(162,110)	-	-	-
Year 16	-	-	-	-	162,110	(162,110)	-	-	-
Year 17	-	-	-	-	162,110	(162,110)	-	-	-
Year 18	-	-	-	-	162,110	(162,110)	-	-	-
Year 19	-	-	-	-	162,110	(162,110)	-	-	-
Year 20	-	-	-	-	2,762,110	(162,110)	-	(2,600,000)	-

Schedule 23
Elder Family - 7.50% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - $10mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	162,110	162,110
Year 2	162,110	4,863	7,295	162,110	336,378
Year 3	336,378	10,091	15,137	162,110	523,717
Year 4	523,717	15,711	23,567	162,110	725,105
Year 5	725,105	21,753	32,630	162,110	941,598
Year 6	941,598	28,248	42,372	162,110	1,174,328
Year 7	1,174,328	35,230	52,845	162,110	1,424,513
Year 8	1,424,513	42,735	64,103	162,110	1,693,461
Year 9	1,693,461	50,804	76,206	162,110	1,982,581
Year 10	1,982,581	59,477	89,216	162,110	2,293,384
Year 11	2,293,384	68,802	103,202	162,110	2,627,498
Year 12	2,627,498	78,825	118,237	162,110	2,986,671
Year 13	2,986,671	89,600	134,400	162,110	3,372,781
Year 14	3,372,781	101,183	151,775	162,110	3,787,849
Year 15	3,787,849	113,635	170,453	162,110	4,234,048
Year 16	4,234,048	127,021	190,532	162,110	4,713,712
Year 17	4,713,712	141,411	212,117	162,110	5,229,350
Year 18	5,229,350	156,881	235,321	162,110	5,783,661
Year 19	5,783,661	173,510	260,265	162,110	6,379,546
Year 20	6,379,546	191,386	287,080	162,110	7,020,122

Schedule 23

Elder Family - 7.50% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	2,600,000	162,110	(162,110)	2,600,000
Year 2	2,600,000	162,110	(162,110)	2,600,000
Year 3	2,600,000	162,110	(162,110)	2,600,000
Year 4	2,600,000	162,110	(162,110)	2,600,000
Year 5	2,600,000	162,110	(162,110)	2,600,000
Year 6	2,600,000	162,110	(162,110)	2,600,000
Year 7	2,600,000	162,110	(162,110)	2,600,000
Year 8	2,600,000	162,110	(162,110)	2,600,000
Year 9	2,600,000	162,110	(162,110)	2,600,000
Year 10	2,600,000	162,110	(162,110)	2,600,000
Year 11	2,600,000	162,110	(162,110)	2,600,000
Year 12	2,600,000	162,110	(162,110)	2,600,000
Year 13	2,600,000	162,110	(162,110)	2,600,000
Year 14	2,600,000	162,110	(162,110)	2,600,000
Year 15	2,600,000	162,110	(162,110)	2,600,000
Year 16	2,600,000	162,110	(162,110)	2,600,000
Year 17	2,600,000	162,110	(162,110)	2,600,000
Year 18	2,600,000	162,110	(162,110)	2,600,000
Year 19	2,600,000	162,110	(162,110)	2,600,000
Year 20	2,600,000	162,110	(2,762,110)	-

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

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Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Elder FLP Valuation Discount	40.00%
Gross Proceeds	$30,000,000

	Future Values at the End of 20 Years of Annual Compounded Growth at 10%						
	Elder Children's Future Values	Elder GST Exempt Trust Future Values	Charity	IRS Income Taxes	IRS Income Taxes & Estate Taxes Investment Opp. Costs	IRS Estate Taxes	Totals
No Further Planning - No Discount Allowed	49,533,164	39,520,097	-	29,956,665	74,815,071	8,000,000	201,824,998
No Further Planning - Discount Allowed	61,335,976	39,520,097	-	33,800,051	62,368,873	4,800,000	201,824,998
CLAT Redemption - Discount Allowed - $3mm to Family	36,556,659	63,844,719	34,282,524	29,612,351	36,328,746	1,200,000	201,824,998
CLAT Redemption - Discount Allowed - $10mm to Family	59,592,669	40,494,791	9,284,850	32,455,697	55,996,990	4,000,000	201,824,998

No Further Planning - No Discount Allowed		
Elder Children	49,533,164	24.54%
Elder GST Exempt Trust	39,520,097	19.58%
Charity	-	0.00%
IRS (income and estate taxes)	37,956,665	18.81%
IRS (investment opportunity costs)	74,815,071	37.07%
Total	**201,824,998**	**100.00%**

No Further Planning - Discount Allowed		
Elder Children	61,335,976	30.39%
Elder GST Exempt Trust	39,520,097	19.58%
Charity	-	0.00%
IRS (income and estate taxes)	38,600,051	19.13%
IRS (investment opportunity costs)	62,368,873	30.90%
Total	**201,824,998**	**100.00%**

CLAT Redemption - Discount Allowed - $3mm to Family		
Elder Children	36,556,659	18.11%
Elder GST Exempt Trust	63,844,719	31.63%
Charity	34,282,524	16.99%
IRS (income and estate taxes)	30,812,351	15.27%
IRS (investment opportunity costs)	36,328,746	18.00%
Total	**201,824,998**	**100.00%**

CLAT Redemption - Discount Allowed - $10mm to Family		
Elder Children	59,592,669	29.53%
Elder GST Exempt Trust	40,494,791	20.06%
Charity	9,284,850	4.60%
IRS (income and estate taxes)	36,455,697	18.06%
IRS (investment opportunity costs)	55,996,990	27.75%
Total	**201,824,998**	**100.00%**

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

No Further Planning - No Discount Allowed

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Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	600,000	1,400,000	(372,600)	(8,000,000)	13,627,400
Year 2	13,627,400	408,822	953,918	(327,378)	-	14,662,762
Year 3	14,662,762	439,883	1,026,393	(374,698)	-	15,754,340
Year 4	15,754,340	472,630	1,102,804	(418,460)	-	16,911,313
Year 5	16,911,313	507,339	1,183,792	(460,425)	-	18,142,020
Year 6	18,142,020	544,261	1,269,941	(501,892)	-	19,454,330
Year 7	19,454,330	583,630	1,361,803	(543,840)	-	20,855,922
Year 8	20,855,922	625,678	1,459,915	(587,025)	-	22,354,490
Year 9	22,354,490	670,635	1,564,814	(632,045)	-	23,957,894
Year 10	23,957,894	718,737	1,677,053	(679,395)	-	25,674,288
Year 11	25,674,288	770,229	1,797,200	(729,499)	-	27,512,218
Year 12	27,512,218	825,367	1,925,855	(782,736)	-	29,480,704
Year 13	29,480,704	884,421	2,063,649	(839,462)	-	31,589,312
Year 14	31,589,312	947,679	2,211,252	(900,016)	-	33,848,228
Year 15	33,848,228	1,015,447	2,369,376	(964,738)	-	36,268,313
Year 16	36,268,313	1,088,049	2,538,782	(1,033,973)	-	38,861,171
Year 17	38,861,171	1,165,835	2,720,282	(1,108,076)	-	41,639,213
Year 18	41,639,213	1,249,176	2,914,745	(1,187,418)	-	44,615,717
Year 19	44,615,717	1,338,471	3,123,100	(1,272,390)	-	47,804,898
Year 20	47,804,898	1,434,147	3,346,343	(3,052,223)	-	49,533,164

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

No Further Planning - No Discount Allowed

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Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%

Elder GST Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	End of Year
Year 1	10,000,000	300,000	700,000	(186,300)	10,813,700
Year 2	10,813,700	324,411	756,959	(238,209)	11,656,861
Year 3	11,656,861	349,706	815,980	(282,633)	12,539,914
Year 4	12,539,914	376,197	877,794	(322,283)	13,471,622
Year 5	13,471,622	404,149	943,014	(359,126)	14,459,659
Year 6	14,459,659	433,790	1,012,176	(394,596)	15,511,028
Year 7	15,511,028	465,331	1,085,772	(429,759)	16,632,372
Year 8	16,632,372	498,971	1,164,266	(465,416)	17,830,194
Year 9	17,830,194	534,906	1,248,114	(502,189)	19,111,024
Year 10	19,111,024	573,331	1,337,772	(540,573)	20,481,554
Year 11	20,481,554	614,447	1,433,709	(580,979)	21,948,731
Year 12	21,948,731	658,462	1,536,411	(623,760)	23,519,844
Year 13	23,519,844	705,595	1,646,389	(669,235)	25,202,594
Year 14	25,202,594	756,078	1,764,182	(717,702)	27,005,151
Year 15	27,005,151	810,155	1,890,361	(769,450)	28,936,217
Year 16	28,936,217	868,087	2,025,535	(824,766)	31,005,072
Year 17	31,005,072	930,152	2,170,355	(883,944)	33,221,635
Year 18	33,221,635	996,649	2,325,514	(947,287)	35,596,512
Year 19	35,596,512	1,067,895	2,491,756	(1,015,110)	38,141,054
Year 20	38,141,054	1,144,232	2,669,874	(2,435,062)	39,520,097

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

No Further Planning - Discount Allowed

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Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder Children

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	20,000,000	600,000	1,400,000	(372,600)	(4,800,000)	16,827,400
Year 2	16,827,400	504,822	1,177,918	(386,994)	-	18,123,146
Year 3	18,123,146	543,694	1,268,620	(450,925)	-	19,484,535
Year 4	19,484,535	584,536	1,363,917	(508,903)	-	20,924,086
Year 5	20,924,086	627,723	1,464,686	(563,556)	-	22,452,939
Year 6	22,452,939	673,588	1,571,706	(616,812)	-	24,081,420
Year 7	24,081,420	722,443	1,685,699	(670,111)	-	25,819,451
Year 8	25,819,451	774,584	1,807,362	(724,548)	-	27,676,849
Year 9	27,676,849	830,305	1,937,379	(780,978)	-	29,663,556
Year 10	29,663,556	889,907	2,076,449	(840,095)	-	31,789,816
Year 11	31,789,816	953,694	2,225,287	(902,482)	-	34,066,315
Year 12	34,066,315	1,021,989	2,384,642	(968,650)	-	36,504,297
Year 13	36,504,297	1,095,129	2,555,301	(1,039,065)	-	39,115,662
Year 14	39,115,662	1,173,470	2,738,096	(1,114,171)	-	41,913,058
Year 15	41,913,058	1,257,392	2,933,914	(1,194,403)	-	44,909,961
Year 16	44,909,961	1,347,299	3,143,697	(1,280,197)	-	48,120,761
Year 17	48,120,761	1,443,623	3,368,453	(1,372,001)	-	51,560,836
Year 18	51,560,836	1,546,825	3,609,259	(1,470,280)	-	55,246,640
Year 19	55,246,640	1,657,399	3,867,265	(1,575,522)	-	59,195,782
Year 20	59,195,782	1,775,873	4,143,705	(3,779,384)	-	61,335,976

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

No Further Planning - Discount Allowed

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Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Estate Tax Rate	40.00%
Elder FLP Valuation Discount	40.00%

Elder GST Exempt Trust

	Beginning of Year	Income	Growth	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	10,000,000	300,000	700,000	(186,300)	-	10,813,700
Year 2	10,813,700	324,411	756,959	(238,209)	-	11,656,861
Year 3	11,656,861	349,706	815,980	(282,633)	-	12,539,914
Year 4	12,539,914	376,197	877,794	(322,283)	-	13,471,622
Year 5	13,471,622	404,149	943,014	(359,126)	-	14,459,659
Year 6	14,459,659	433,790	1,012,176	(394,596)	-	15,511,028
Year 7	15,511,028	465,331	1,085,772	(429,759)	-	16,632,372
Year 8	16,632,372	498,971	1,164,266	(465,416)	-	17,830,194
Year 9	17,830,194	534,906	1,248,114	(502,189)	-	19,111,024
Year 10	19,111,024	573,331	1,337,772	(540,573)	-	20,481,554
Year 11	20,481,554	614,447	1,433,709	(580,979)	-	21,948,731
Year 12	21,948,731	658,462	1,536,411	(623,760)	-	23,519,844
Year 13	23,519,844	705,595	1,646,389	(669,235)	-	25,202,594
Year 14	25,202,594	756,078	1,764,182	(717,702)	-	27,005,151
Year 15	27,005,151	810,155	1,890,361	(769,450)	-	28,936,217
Year 16	28,936,217	868,087	2,025,535	(824,766)	-	31,005,072
Year 17	31,005,072	930,152	2,170,355	(883,944)	-	33,221,635
Year 18	33,221,635	996,649	2,325,514	(947,287)	-	35,596,512
Year 19	35,596,512	1,067,895	2,491,756	(1,015,110)	-	38,141,054
Year 20	38,141,054	1,144,232	2,669,874	(2,435,062)	-	39,520,097

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Elder FLP

	Beg. of Year	Income	Growth	Distribution Income Taxes	Distribution Estate Taxes	Note Payment to CLAT	End of Year
Year 1	30,000,000	900,000	2,100,000	(291,942)	(1,200,000)	(598,560)	30,909,498
Year 2	30,909,498	927,285	2,163,665	(419,136)	-	(598,560)	32,982,751
Year 3	32,982,751	989,483	2,308,793	(538,278)	-	(598,560)	35,144,188
Year 4	35,144,188	1,054,326	2,460,093	(642,527)	-	(598,560)	37,417,520
Year 5	37,417,520	1,122,526	2,619,226	(737,610)	-	(598,560)	39,823,102
Year 6	39,823,102	1,194,693	2,787,617	(827,691)	-	(598,560)	42,379,161
Year 7	42,379,161	1,271,375	2,966,541	(915,837)	-	(598,560)	45,102,680
Year 8	45,102,680	1,353,080	3,157,188	(1,004,338)	-	(598,560)	48,010,049
Year 9	48,010,049	1,440,301	3,360,703	(1,094,945)	-	(598,560)	51,117,549
Year 10	51,117,549	1,533,526	3,578,228	(1,189,032)	-	(598,560)	54,441,712
Year 11	54,441,712	1,633,251	3,810,920	(1,287,717)	-	(598,560)	57,999,606
Year 12	57,999,606	1,739,988	4,059,972	(1,391,946)	-	(598,560)	61,809,060
Year 13	61,809,060	1,854,272	4,326,634	(1,502,554)	-	(598,560)	65,888,853
Year 14	65,888,853	1,976,666	4,612,220	(1,620,306)	-	(598,560)	70,258,872
Year 15	70,258,872	2,107,766	4,918,121	(1,745,935)	-	(598,560)	74,940,265
Year 16	74,940,265	2,248,208	5,245,819	(1,880,159)	-	(598,560)	79,955,572
Year 17	79,955,572	2,398,667	5,596,890	(2,023,706)	-	(598,560)	85,328,863
Year 18	85,328,863	2,559,866	5,973,020	(2,177,320)	-	(598,560)	91,085,870
Year 19	91,085,870	2,732,576	6,376,011	(2,341,776)	-	(598,560)	97,254,120
Year 20	97,254,120	2,917,624	6,807,788	(5,979,594)	-	(10,198,560)	90,801,378

	Ownership		
	Elder Children	CLAT	Elder GST Exempt Trust
Year 1	16.67%	53.33%	30.00%
Year 2	29.69%	0.00%	70.31%
Year 3	29.69%	0.00%	70.31%
Year 4	29.69%	0.00%	70.31%
Year 5	29.69%	0.00%	70.31%
Year 6	29.69%	0.00%	70.31%
Year 7	29.69%	0.00%	70.31%
Year 8	29.69%	0.00%	70.31%
Year 9	29.69%	0.00%	70.31%
Year 10	29.69%	0.00%	70.31%
Year 11	29.69%	0.00%	70.31%
Year 12	29.69%	0.00%	70.31%
Year 13	29.69%	0.00%	70.31%
Year 14	29.69%	0.00%	70.31%
Year 15	29.69%	0.00%	70.31%
Year 16	29.69%	0.00%	70.31%
Year 17	29.69%	0.00%	70.31%
Year 18	29.69%	0.00%	70.31%
Year 19	29.69%	0.00%	70.31%
Year 20	29.69%	0.00%	70.31%

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Income Taxes	Estate Taxes	End of Year
Year 1	-	-	-	48,657	1,200,000	-	(48,657)	(1,200,000)	-
Year 2	-	-	-	124,431	-	-	(124,431)	-	-
Year 3	-	-	-	159,801	-	-	(159,801)	-	-
Year 4	-	-	-	190,750	-	-	(190,750)	-	-
Year 5	-	-	-	218,978	-	-	(218,978)	-	-
Year 6	-	-	-	245,721	-	-	(245,721)	-	-
Year 7	-	-	-	271,889	-	-	(271,889)	-	-
Year 8	-	-	-	298,163	-	-	(298,163)	-	-
Year 9	-	-	-	325,062	-	-	(325,062)	-	-
Year 10	-	-	-	352,994	-	-	(352,994)	-	-
Year 11	-	-	-	382,291	-	-	(382,291)	-	-
Year 12	-	-	-	413,234	-	-	(413,234)	-	-
Year 13	-	-	-	446,071	-	-	(446,071)	-	-
Year 14	-	-	-	481,028	-	-	(481,028)	-	-
Year 15	-	-	-	518,324	-	-	(518,324)	-	-
Year 16	-	-	-	558,172	-	-	(558,172)	-	-
Year 17	-	-	-	600,788	-	-	(600,788)	-	-
Year 18	-	-	-	646,392	-	-	(646,392)	-	-
Year 19	-	-	-	695,215	-	-	(695,215)	-	-
Year 20	-	-	-	1,775,192	-	9,600,000	(1,775,192)	-	9,600,000

Schedule 23
Elder Family - 10.00% Rate of Return, 20 Years
CLAT Redemption - Discount Allowed - $3mm to Family

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Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Elder GST Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	87,583	-	(87,583)	-
Year 2	-	-	-	294,705	-	(294,705)	-
Year 3	-	-	-	378,477	-	(378,477)	-
Year 4	-	-	-	451,777	-	(451,777)	-
Year 5	-	-	-	518,632	-	(518,632)	-
Year 6	-	-	-	581,970	-	(581,970)	-
Year 7	-	-	-	643,948	-	(643,948)	-
Year 8	-	-	-	706,175	-	(706,175)	-
Year 9	-	-	-	769,883	-	(769,883)	-
Year 10	-	-	-	836,038	-	(836,038)	-
Year 11	-	-	-	905,426	-	(905,426)	-
Year 12	-	-	-	978,712	-	(978,712)	-
Year 13	-	-	-	1,056,483	-	(1,056,483)	-
Year 14	-	-	-	1,139,278	-	(1,139,278)	-
Year 15	-	-	-	1,227,610	-	(1,227,610)	-
Year 16	-	-	-	1,321,987	-	(1,321,987)	-
Year 17	-	-	-	1,422,918	-	(1,422,918)	-
Year 18	-	-	-	1,530,928	-	(1,530,928)	-
Year 19	-	-	-	1,646,561	-	(1,646,561)	-
Year 20	-	-	-	4,204,402	-	(4,204,402)	-

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Charitable Lead Annuity Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP - Income Taxes	Note Payment Received	Annuity Payment to Charity	Income Taxes	Distrib. to Elder Family Remaindermen	End of Year
Year 1	-	-	-	155,703	598,560	(598,560)	(155,703)	-	-
Year 2	-	-	-	-	598,560	(598,560)	-	-	-
Year 3	-	-	-	-	598,560	(598,560)	-	-	-
Year 4	-	-	-	-	598,560	(598,560)	-	-	-
Year 5	-	-	-	-	598,560	(598,560)	-	-	-
Year 6	-	-	-	-	598,560	(598,560)	-	-	-
Year 7	-	-	-	-	598,560	(598,560)	-	-	-
Year 8	-	-	-	-	598,560	(598,560)	-	-	-
Year 9	-	-	-	-	598,560	(598,560)	-	-	-
Year 10	-	-	-	-	598,560	(598,560)	-	-	-
Year 11	-	-	-	-	598,560	(598,560)	-	-	-
Year 12	-	-	-	-	598,560	(598,560)	-	-	-
Year 13	-	-	-	-	598,560	(598,560)	-	-	-
Year 14	-	-	-	-	598,560	(598,560)	-	-	-
Year 15	-	-	-	-	598,560	(598,560)	-	-	-
Year 16	-	-	-	-	598,560	(598,560)	-	-	-
Year 17	-	-	-	-	598,560	(598,560)	-	-	-
Year 18	-	-	-	-	598,560	(598,560)	-	-	-
Year 19	-	-	-	-	598,560	(598,560)	-	-	-
Year 20	-	-	-	-	10,198,560	(598,560)	-	(9,600,000)	-

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	598,560	598,560
Year 2	598,560	17,957	41,899	598,560	1,256,976
Year 3	1,256,976	37,709	87,988	598,560	1,981,234
Year 4	1,981,234	59,437	138,686	598,560	2,777,917
Year 5	2,777,917	83,338	194,454	598,560	3,654,269
Year 6	3,654,269	109,628	255,799	598,560	4,618,256
Year 7	4,618,256	138,548	323,278	598,560	5,678,641
Year 8	5,678,641	170,359	397,505	598,560	6,845,065
Year 9	6,845,065	205,352	479,155	598,560	8,128,132
Year 10	8,128,132	243,844	568,969	598,560	9,539,505
Year 11	9,539,505	286,185	667,765	598,560	11,092,015
Year 12	11,092,015	332,760	776,441	598,560	12,799,777
Year 13	12,799,777	383,993	895,984	598,560	14,678,315
Year 14	14,678,315	440,349	1,027,482	598,560	16,744,706
Year 15	16,744,706	502,341	1,172,129	598,560	19,017,737
Year 16	19,017,737	570,532	1,331,242	598,560	21,518,070
Year 17	21,518,070	645,542	1,506,265	598,560	24,268,437
Year 18	24,268,437	728,053	1,698,791	598,560	27,293,841
Year 19	27,293,841	818,815	1,910,569	598,560	30,621,785
Year 20	30,621,785	918,654	2,143,525	598,560	34,282,524

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $3mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$598,560
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	9,600,000	598,560	(598,560)	9,600,000
Year 2	9,600,000	598,560	(598,560)	9,600,000
Year 3	9,600,000	598,560	(598,560)	9,600,000
Year 4	9,600,000	598,560	(598,560)	9,600,000
Year 5	9,600,000	598,560	(598,560)	9,600,000
Year 6	9,600,000	598,560	(598,560)	9,600,000
Year 7	9,600,000	598,560	(598,560)	9,600,000
Year 8	9,600,000	598,560	(598,560)	9,600,000
Year 9	9,600,000	598,560	(598,560)	9,600,000
Year 10	9,600,000	598,560	(598,560)	9,600,000
Year 11	9,600,000	598,560	(598,560)	9,600,000
Year 12	9,600,000	598,560	(598,560)	9,600,000
Year 13	9,600,000	598,560	(598,560)	9,600,000
Year 14	9,600,000	598,560	(598,560)	9,600,000
Year 15	9,600,000	598,560	(598,560)	9,600,000
Year 16	9,600,000	598,560	(598,560)	9,600,000
Year 17	9,600,000	598,560	(598,560)	9,600,000
Year 18	9,600,000	598,560	(598,560)	9,600,000
Year 19	9,600,000	598,560	(598,560)	9,600,000
Year 20	9,600,000	598,560	(10,198,560)	-

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Elder FLP

	Beg. of Year	Income	Growth	Distribution Income Taxes	Distribution Estate Taxes	Note Payment to CLAT	End of Year
Year 1	30,000,000	900,000	2,100,000	(486,599)	(4,000,000)	(162,110)	28,351,291
Year 2	28,351,291	850,539	1,984,590	(566,133)	-	(162,110)	30,458,177
Year 3	30,458,177	913,745	2,132,072	(676,501)	-	(162,110)	32,665,384
Year 4	32,665,384	979,962	2,286,577	(775,145)	-	(162,110)	34,994,667
Year 5	34,994,667	1,049,840	2,449,627	(866,918)	-	(162,110)	37,465,106
Year 6	37,465,106	1,123,953	2,622,557	(955,367)	-	(162,110)	40,094,139
Year 7	40,094,139	1,202,824	2,806,590	(1,043,122)	-	(162,110)	42,898,321
Year 8	42,898,321	1,286,950	3,002,882	(1,132,169)	-	(162,110)	45,893,874
Year 9	45,893,874	1,376,816	3,212,571	(1,224,045)	-	(162,110)	49,097,106
Year 10	49,097,106	1,472,913	3,436,797	(1,319,978)	-	(162,110)	52,524,728
Year 11	52,524,728	1,575,742	3,676,731	(1,420,987)	-	(162,110)	56,194,104
Year 12	56,194,104	1,685,823	3,933,587	(1,527,950)	-	(162,110)	60,123,454
Year 13	60,123,454	1,803,704	4,208,642	(1,641,661)	-	(162,110)	64,332,029
Year 14	64,332,029	1,929,961	4,503,242	(1,762,862)	-	(162,110)	68,840,260
Year 15	68,840,260	2,065,208	4,818,818	(1,892,273)	-	(162,110)	73,669,903
Year 16	73,669,903	2,210,097	5,156,893	(2,030,613)	-	(162,110)	78,844,170
Year 17	78,844,170	2,365,325	5,519,092	(2,178,614)	-	(162,110)	84,387,864
Year 18	84,387,864	2,531,636	5,907,150	(2,337,031)	-	(162,110)	90,327,510
Year 19	90,327,510	2,709,825	6,322,926	(2,506,656)	-	(162,110)	96,691,495
Year 20	96,691,495	2,900,745	6,768,405	(6,111,074)	-	(2,762,110)	97,487,461

	Ownership		
	Elder Children	CLAT	Elder GST Exempt Trust
Year 1	55.56%	14.44%	30.00%
Year 2	58.46%	0.00%	41.54%
Year 3	58.46%	0.00%	41.54%
Year 4	58.46%	0.00%	41.54%
Year 5	58.46%	0.00%	41.54%
Year 6	58.46%	0.00%	41.54%
Year 7	58.46%	0.00%	41.54%
Year 8	58.46%	0.00%	41.54%
Year 9	58.46%	0.00%	41.54%
Year 10	58.46%	0.00%	41.54%
Year 11	58.46%	0.00%	41.54%
Year 12	58.46%	0.00%	41.54%
Year 13	58.46%	0.00%	41.54%
Year 14	58.46%	0.00%	41.54%
Year 15	58.46%	0.00%	41.54%
Year 16	58.46%	0.00%	41.54%
Year 17	58.46%	0.00%	41.54%
Year 18	58.46%	0.00%	41.54%
Year 19	58.46%	0.00%	41.54%
Year 20	58.46%	0.00%	41.54%

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Elder Children

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Distrib. from Elder FLP Estate Taxes	Distrib. from CLAT	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	270,333	4,000,000	-	(270,333)	(4,000,000)	-
Year 2	-	-	-	330,970	-	-	(330,970)	-	-
Year 3	-	-	-	395,493	-	-	(395,493)	-	-
Year 4	-	-	-	453,162	-	-	(453,162)	-	-
Year 5	-	-	-	506,814	-	-	(506,814)	-	-
Year 6	-	-	-	558,522	-	-	(558,522)	-	-
Year 7	-	-	-	609,825	-	-	(609,825)	-	-
Year 8	-	-	-	661,884	-	-	(661,884)	-	-
Year 9	-	-	-	715,596	-	-	(715,596)	-	-
Year 10	-	-	-	771,680	-	-	(771,680)	-	-
Year 11	-	-	-	830,731	-	-	(830,731)	-	-
Year 12	-	-	-	893,263	-	-	(893,263)	-	-
Year 13	-	-	-	959,740	-	-	(959,740)	-	-
Year 14	-	-	-	1,030,596	-	-	(1,030,596)	-	-
Year 15	-	-	-	1,106,252	-	-	(1,106,252)	-	-
Year 16	-	-	-	1,187,128	-	-	(1,187,128)	-	-
Year 17	-	-	-	1,273,651	-	-	(1,273,651)	-	-
Year 18	-	-	-	1,366,264	-	-	(1,366,264)	-	-
Year 19	-	-	-	1,465,430	-	-	(1,465,430)	-	-
Year 20	-	-	-	3,572,628	-	2,600,000	(3,572,628)	-	2,600,000

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Elder GST Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP Income Taxes	Beneficiary Distributons	Taxes on Investment Income	Estate Taxes	End of Year
Year 1	-	-	-	145,980	-	(145,980)	-	-
Year 2	-	-	-	235,163	-	(235,163)	-	-
Year 3	-	-	-	281,008	-	(281,008)	-	-
Year 4	-	-	-	321,983	-	(321,983)	-	-
Year 5	-	-	-	360,104	-	(360,104)	-	-
Year 6	-	-	-	396,845	-	(396,845)	-	-
Year 7	-	-	-	433,297	-	(433,297)	-	-
Year 8	-	-	-	470,286	-	(470,286)	-	-
Year 9	-	-	-	508,450	-	(508,450)	-	-
Year 10	-	-	-	548,299	-	(548,299)	-	-
Year 11	-	-	-	590,256	-	(590,256)	-	-
Year 12	-	-	-	634,687	-	(634,687)	-	-
Year 13	-	-	-	681,921	-	(681,921)	-	-
Year 14	-	-	-	732,266	-	(732,266)	-	-
Year 15	-	-	-	786,021	-	(786,021)	-	-
Year 16	-	-	-	843,485	-	(843,485)	-	-
Year 17	-	-	-	904,963	-	(904,963)	-	-
Year 18	-	-	-	970,767	-	(970,767)	-	-
Year 19	-	-	-	1,041,226	-	(1,041,226)	-	-
Year 20	-	-	-	2,538,446	-	(2,538,446)	-	-

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Charitable Lead Annuity Trust

	Beg. of Year	Income	Growth	Distrib. from Elder FLP - Income Taxes	Note Payment Received	Annuity Payment to Charity	Taxes on Investment Income	Distrib. to Elder Family Remaindermen	End of Year
Year 1	-	-	-	70,287	162,110	(162,110)	(70,287)	-	-
Year 2	-	-	-	-	162,110	(162,110)	-	-	-
Year 3	-	-	-	-	162,110	(162,110)	-	-	-
Year 4	-	-	-	-	162,110	(162,110)	-	-	-
Year 5	-	-	-	-	162,110	(162,110)	-	-	-
Year 6	-	-	-	-	162,110	(162,110)	-	-	-
Year 7	-	-	-	-	162,110	(162,110)	-	-	-
Year 8	-	-	-	-	162,110	(162,110)	-	-	-
Year 9	-	-	-	-	162,110	(162,110)	-	-	-
Year 10	-	-	-	-	162,110	(162,110)	-	-	-
Year 11	-	-	-	-	162,110	(162,110)	-	-	-
Year 12	-	-	-	-	162,110	(162,110)	-	-	-
Year 13	-	-	-	-	162,110	(162,110)	-	-	-
Year 14	-	-	-	-	162,110	(162,110)	-	-	-
Year 15	-	-	-	-	162,110	(162,110)	-	-	-
Year 16	-	-	-	-	162,110	(162,110)	-	-	-
Year 17	-	-	-	-	162,110	(162,110)	-	-	-
Year 18	-	-	-	-	162,110	(162,110)	-	-	-
Year 19	-	-	-	-	162,110	(162,110)	-	-	-
Year 20	-	-	-	-	2,762,110	(162,110)	-	(2,600,000)	-

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Charity

	Beg. of Year	Income	Growth	Annuity Payment Received	End of Year
Year 1	-	-	-	162,110	162,110
Year 2	162,110	4,863	11,348	162,110	340,431
Year 3	340,431	10,213	23,830	162,110	536,584
Year 4	536,584	16,098	37,561	162,110	752,353
Year 5	752,353	22,571	52,665	162,110	989,698
Year 6	989,698	29,691	69,279	162,110	1,250,778
Year 7	1,250,778	37,523	87,554	162,110	1,537,965
Year 8	1,537,965	46,139	107,658	162,110	1,853,872
Year 9	1,853,872	55,616	129,771	162,110	2,201,369
Year 10	2,201,369	66,041	154,096	162,110	2,583,616
Year 11	2,583,616	77,508	180,853	162,110	3,004,087
Year 12	3,004,087	90,123	210,286	162,110	3,466,606
Year 13	3,466,606	103,998	242,662	162,110	3,975,377
Year 14	3,975,377	119,261	278,276	162,110	4,535,025
Year 15	4,535,025	136,051	317,452	162,110	5,150,637
Year 16	5,150,637	154,519	360,545	162,110	5,827,811
Year 17	5,827,811	174,834	407,947	162,110	6,572,702
Year 18	6,572,702	197,181	460,089	162,110	7,392,082
Year 19	7,392,082	221,762	517,446	162,110	8,293,400
Year 20	8,293,400	248,802	580,538	162,110	9,284,850

Schedule 23

Elder Family - 10.00% Rate of Return, 20 Years

CLAT Redemption - Discount Allowed - $10mm to Family

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Assumptions:	
Total Rate of Return	10.00%
Rate of Return on Assets That Are Taxable at Ordinary Rate	3.00%
Rate of Return on Assets That Are Taxable at Capital Gains Rate	7.00%
Long-Term Capital Gain Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	25.00%
Ordinary Tax Rate (includes income taxes, surtax on inv. income & stealth tax)	44.60%
Estate Tax Rate	40.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%

Assumptions (continued):	
Interest Rate on CLAT Note	6.235%
IRS 7520 Rate (June 2014)	2.20%
CLAT Annuity Payment	$162,110
Elder FLP Valuation Discount	40.00%

Note Between Elder FLP and CLAT

	Beg. Balance	Interest	Payment	End of Year Balance
Year 1	2,600,000	162,110	(162,110)	2,600,000
Year 2	2,600,000	162,110	(162,110)	2,600,000
Year 3	2,600,000	162,110	(162,110)	2,600,000
Year 4	2,600,000	162,110	(162,110)	2,600,000
Year 5	2,600,000	162,110	(162,110)	2,600,000
Year 6	2,600,000	162,110	(162,110)	2,600,000
Year 7	2,600,000	162,110	(162,110)	2,600,000
Year 8	2,600,000	162,110	(162,110)	2,600,000
Year 9	2,600,000	162,110	(162,110)	2,600,000
Year 10	2,600,000	162,110	(162,110)	2,600,000
Year 11	2,600,000	162,110	(162,110)	2,600,000
Year 12	2,600,000	162,110	(162,110)	2,600,000
Year 13	2,600,000	162,110	(162,110)	2,600,000
Year 14	2,600,000	162,110	(162,110)	2,600,000
Year 15	2,600,000	162,110	(162,110)	2,600,000
Year 16	2,600,000	162,110	(162,110)	2,600,000
Year 17	2,600,000	162,110	(162,110)	2,600,000
Year 18	2,600,000	162,110	(162,110)	2,600,000
Year 19	2,600,000	162,110	(162,110)	2,600,000
Year 20	2,600,000	162,110	(2,762,110)	-

Schedule 24

Hal Happyeverafter

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Hal Happyeverafter has a life expectancy of 10 years)

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	10-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust with her unified credit and balance of estate goes to a marital deduction trust				
Hal Happyeverafter	155,461,787	-	-	0.00%
Happyeverafter Children	-	84,901,072	66,324,582	37.80%
Happyeverafter Children & Grandchildren	20,811,132	34,357,075	26,839,692	15.30%
Consumption - Direct Cost	22,406,764	22,406,764	17,504,128	9.98%
Consumption - Investment Opportunity Cost	8,689,346	8,689,346	6,788,103	3.87%
IRS Income Tax - Direct Cost	12,693,504	12,693,504	9,916,145	5.65%
IRS Income Tax - Investment Opportunity Cost	4,550,782	4,550,782	3,555,063	2.03%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	414,058	323,461	0.18%
IRS Estate Taxes at 40%	-	56,600,715	44,216,388	25.20%
Total	**$224,613,316**	**$224,613,316**	**$175,467,563**	**100.00%**
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust with her unified credit; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust				
Hal Happyeverafter	35,341,958	-	-	0.00%
Happyeverafter Children	-	19,537,175	15,262,410	8.70%
Happyeverafter Children & Grandchildren	139,563,517	138,767,406	108,404,876	61.78%
Consumption - Direct Cost	22,406,764	22,406,764	17,504,128	9.98%
Consumption - Investment Opportunity Cost	8,689,346	8,689,346	6,788,103	3.87%
IRS Income Tax - Direct Cost	14,060,949	14,060,949	10,984,391	6.26%
IRS Income Tax - Investment Opportunity Cost	4,550,782	4,550,782	3,555,063	2.03%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	3,576,111	2,793,652	1.59%
IRS Estate Taxes at 40%	-	13,024,783	10,174,940	5.80%
Total	**$224,613,316**	**$224,613,316**	**$175,467,563**	**100.00%**
Hypothetical Technique: First spouse to die bequests estate to surviving spouse; surviving spouse gifts his lifetime gift and the DSUE amounts to a grantor trust; Hal sells the remaining non-managing member interests to the grantor trust				
Hal Happyeverafter	29,519,615	-	-	0.00%
Happyeverafter Children	145,385,860	157,853,517	123,314,916	70.28%
Happyeverafter Children & Grandchildren	-	2,780,000	2,171,732	1.24%
Consumption - Direct Cost	22,406,764	22,406,764	17,504,128	9.98%
Consumption - Investment Opportunity Cost	8,689,346	8,689,346	6,788,103	3.87%
IRS Income Tax - Direct Cost	14,060,949	14,060,949	10,984,391	6.26%
IRS Income Tax - Investment Opportunity Cost	4,550,782	4,550,782	3,555,063	2.03%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	3,576,111	2,793,652	1.59%
IRS Estate Taxes at 40%	-	10,695,846	8,355,578	4.76%
Total	**$224,613,316**	**$224,613,316**	**$175,467,563**	**100.00%**

Schedule 20
Hal Happyeverafter
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust with her unified credit and balance of estate goes to a marital deduction trust

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (FL)	23.80%
Ordinary Income and Health Care Tax Rate (FL)	40.80%
Annual Consumption from these Sources (increasing 2.5% per year)	$2,000,000

Hal Happyeverafter

	Financial & Other Assets							
	Beginning of Year	Income	Tax Free Income	Growth	Trust Distributions	Consumption from these Sources	Income Taxes	End of Year
Year 1	98,820,000	592,920	2,371,680	4,348,080	-	(2,000,000)	(552,364)	103,580,316
Year 2	103,580,316	621,482	2,485,928	4,557,534	-	(2,050,000)	(796,290)	108,398,970
Year 3	108,398,970	650,394	2,601,575	4,769,555	-	(2,101,250)	(985,814)	113,333,429
Year 4	113,333,429	680,001	2,720,002	4,986,671	-	(2,153,781)	(1,137,806)	118,428,515
Year 5	118,428,515	710,571	2,842,284	5,210,855	-	(2,207,626)	(1,264,224)	123,720,376
Year 6	123,720,376	742,322	2,969,289	5,443,697	-	(2,262,816)	(1,373,565)	129,239,302
Year 7	129,239,302	775,436	3,101,743	5,686,529	-	(2,319,387)	(1,471,884)	135,011,739
Year 8	135,011,739	810,070	3,240,282	5,940,517	-	(2,377,372)	(1,563,516)	141,061,720
Year 9	141,061,720	846,370	3,385,481	6,206,716	-	(2,436,806)	(1,651,584)	147,411,897
Year 10	147,411,897	884,471	3,537,886	6,486,123	-	(2,497,726)	(360,864)	155,461,787

Credit Shelter Trust

	Financial & Other Assets						
	Beginning of Year	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year
Year 1	11,180,000	67,080	268,320	491,920	-	(62,492)	11,944,828
Year 2	11,944,828	71,669	286,676	525,572	-	(91,353)	12,737,393
Year 3	12,737,393	76,424	305,697	560,445	-	(114,675)	13,565,284
Year 4	13,565,284	81,392	325,567	596,873	-	(134,270)	14,434,845
Year 5	14,434,845	86,609	346,436	635,133	-	(151,429)	15,351,595
Year 6	15,351,595	92,110	368,438	675,470	-	(167,074)	16,320,539
Year 7	16,320,539	97,923	391,693	718,104	-	(181,871)	17,346,388
Year 8	17,346,388	104,078	416,313	763,241	-	(196,302)	18,433,719
Year 9	18,433,719	110,602	442,409	811,084	-	(210,724)	19,587,090
Year 10	19,587,090	117,523	470,090	861,832	-	(225,403)	20,811,132

Schedule 24
Hal Happyeverafter
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust with her unified credit; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (FL)	23.80%
Ordinary Income and Health Care Tax Rate (FL)	40.80%
Annual Consumption from these Sources (increasing 2.5% per year)	$2,000,000

Assumptions:	
Holdco LLC Valuation Discount	30.00%
Intra-Family Interest Rate (Mid-Term) - January 2018	2.18%

Hal Happyeverafter

	Financial & Other Assets									
	Beginning of Year	Income	Tax Free Income	Growth	LLC Distributions	Note Payments	Trust Distributions	Consumption from these Sources	Income Taxes	End of Year
Year 1	-	-	-	-	47,520	3,504,844	-	(2,000,000)	(552,364)	1,000,000
Year 2	1,000,000	6,000	24,000	44,000	59,148	2,713,142	-	(2,050,000)	(796,290)	1,000,000
Year 3	1,000,000	6,000	24,000	44,000	67,645	2,945,419	-	(2,101,250)	(985,814)	1,000,000
Year 4	1,000,000	6,000	24,000	44,000	73,855	3,143,732	-	(2,153,781)	(1,137,806)	1,000,000
Year 5	1,000,000	6,000	24,000	44,000	78,393	3,319,457	-	(2,207,626)	(1,264,224)	1,000,000
Year 6	1,000,000	6,000	24,000	44,000	81,710	3,480,672	-	(2,262,816)	(1,373,565)	1,000,000
Year 7	1,000,000	6,000	24,000	44,000	84,134	3,633,138	-	(2,319,387)	(1,471,884)	1,000,000
Year 8	1,000,000	6,000	24,000	44,000	85,905	3,780,983	-	(2,377,372)	(1,563,516)	1,000,000
Year 9	1,000,000	6,000	24,000	44,000	87,199	3,927,190	-	(2,436,806)	(1,651,584)	1,000,000
Year 10	1,000,000	6,000	24,000	44,000	88,145	37,185,462	-	(2,497,726)	(1,728,309)	34,121,572

Holdco LLC

	Financial & Other Assets						Ownership		
	Beginning of Year	Income	Tax Free Income	Growth	Distributions	End of Year	Hal	Credit Shelter Trust	Grantor Trust
Year 1	110,000,000	660,000	2,640,000	4,840,000	(4,752,000)	113,388,000	1.0%	10.2%	88.8%
Year 2	113,388,000	680,328	2,721,312	4,989,072	(5,914,762)	115,863,950	1.0%	10.2%	88.8%
Year 3	115,863,950	695,184	2,780,735	5,098,014	(6,764,508)	117,673,375	1.0%	10.2%	88.8%
Year 4	117,673,375	706,040	2,824,161	5,177,628	(7,385,502)	118,995,702	1.0%	10.2%	88.8%
Year 5	118,995,702	713,974	2,855,897	5,235,811	(7,839,325)	119,962,059	1.0%	10.2%	88.8%
Year 6	119,962,059	719,772	2,879,089	5,278,331	(8,170,979)	120,668,273	1.0%	10.2%	88.8%
Year 7	120,668,273	724,010	2,896,039	5,309,404	(8,413,351)	121,184,374	1.0%	10.2%	88.8%
Year 8	121,184,374	727,106	2,908,425	5,332,112	(8,590,477)	121,561,540	1.0%	10.2%	88.8%
Year 9	121,561,540	729,369	2,917,477	5,348,708	(8,719,921)	121,837,174	1.0%	10.2%	88.8%
Year 10	121,837,174	731,023	2,924,092	5,360,836	(8,814,518)	122,038,607	1.0%	10.2%	88.8%

Schedule 24
Hal Happyeverafter
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust with her unified credit; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust

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Assumptions:	
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Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (FL)	23.80%
Ordinary Income and Health Care Tax Rate (FL)	40.80%
Annual Consumption from these Sources (increasing 2.5% per year)	$2,000,000

Assumptions:	
Holdco LLC Valuation Discount	30.00%
Intra-Family Interest Rate (Mid-Term) - January 2018	2.18%

Credit Shelter Trust

	Financial & Other Assets							
	Beginning of Year	Income	Tax Free Income	Growth	LLC Distributions	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	482,976	-	(62,492)	420,484
Year 2	420,484	2,523	10,092	18,501	601,155	-	(91,353)	961,402
Year 3	961,402	5,768	23,074	42,302	687,520	-	(114,675)	1,605,390
Year 4	1,605,390	9,632	38,529	70,637	750,636	-	(134,270)	2,340,554
Year 5	2,340,554	14,043	56,173	102,984	796,760	-	(151,429)	3,159,087
Year 6	3,159,087	18,955	75,818	139,000	830,469	-	(167,074)	4,056,254
Year 7	4,056,254	24,338	97,350	178,475	855,102	-	(181,871)	5,029,649
Year 8	5,029,649	30,178	120,712	221,305	873,105	-	(196,302)	6,078,646
Year 9	6,078,646	36,472	145,887	267,460	886,261	-	(210,724)	7,204,003
Year 10	7,204,003	43,224	172,896	316,976	895,876	-	(225,403)	8,407,572

Schedule 24
Hal Happyeverafter
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust with her unified credit; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust

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Assumptions:	
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Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (FL)	23.80%
Ordinary Income and Health Care Tax Rate (FL)	40.80%
Annual Consumption from these Sources (increasing 2.5% per year)	$2,000,000

Assumptions:	
Holdco LLC Valuation Discount	30.00%
Intra-Family Interest Rate (Mid-Term) - January 2018	2.18%

GST Tax Exempt Grantor Trust for Happyeverafter Children & Grandchildren

	Financial & Other Assets								
	Beginning of Year	Income	Tax Free Income	Growth	LLC Distributions	Note Payments	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	4,221,504	(3,504,844)	-	-	716,660
Year 2	716,660	4,300	17,200	31,533	5,254,459	(2,713,142)	-	-	3,311,010
Year 3	3,311,010	19,866	79,464	145,684	6,009,343	(2,945,419)	-	-	6,619,948
Year 4	6,619,948	39,720	158,879	291,278	6,561,012	(3,143,732)	-	-	10,527,103
Year 5	10,527,103	63,163	252,650	463,193	6,964,171	(3,319,457)	-	-	14,950,824
Year 6	14,950,824	89,705	358,820	657,836	7,258,800	(3,480,672)	-	-	19,835,313
Year 7	19,835,313	119,012	476,048	872,754	7,474,115	(3,633,138)	-	-	25,144,104
Year 8	25,144,104	150,865	603,458	1,106,341	7,631,467	(3,780,983)	-	-	30,855,252
Year 9	30,855,252	185,132	740,526	1,357,631	7,746,460	(3,927,190)	-	-	36,957,811
Year 10	36,957,811	221,747	886,987	1,626,144	7,830,497	(37,185,462)	-	-	10,337,724

Note #1 Between Hal Happyeverafter and Grantor Trust

	Beginning of Year Principal	Interest @ 2.18%	Note Payments	End of Year Principal
Year 1	57,224,000	1,247,483	(3,504,844)	54,966,639
Year 2	54,966,639	1,198,273	(2,713,142)	53,451,770
Year 3	53,451,770	1,165,249	(2,945,419)	51,671,599
Year 4	51,671,599	1,126,441	(3,143,732)	49,654,308
Year 5	49,654,308	1,082,464	(3,319,457)	47,417,315
Year 6	47,417,315	1,033,697	(3,480,672)	44,970,340
Year 7	44,970,340	980,353	(3,633,138)	42,317,556
Year 8	42,317,556	922,523	(3,780,983)	39,459,096
Year 9	39,459,096	860,208	(3,927,190)	36,392,114
Year 10	36,392,114	793,348	(37,185,462)	-

Note #1 Calculation		
Holdco LLC Value		110,000,000
Holdco LLC Valuation Discount		(33,000,000)
Holdco LLC Discounted Value		77,000,000
Portion to be Transferred to GST Tax Exempt Grantor Trust	88.8%	68,404,000
Gift Portion (from Hal Happyeverafter)	14.5%	11,180,000
Sells for Note (Note #1)	74.3%	57,224,000

Schedule 24
Hal Happyeverafter
Hypothetical Technique: First spouse to die bequests estate to surviving spouse; surviving spouse gifts his lifetime gift and the DSUE amounts to a grantor trust; Hal sells the remaining non-managing member interests to the grantor trust

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (FL)	23.80%
Ordinary Income and Health Care Tax Rate (FL)	40.80%
Annual Consumption from these Sources (increasing 2.5% per year)	$2,000,000

Assumptions:	
Holdco LLC Valuation Discount	30.00%
Intra-Family Interest Rate (Mid-Term) - January 2018	2.18%

Hal Happyeverafter

	Financial & Other Assets									
	Beginning of Year	Income	Tax Free Income	Growth	LLC Distributions	Note Payments	Trust Distributions	Consumption from these Sources	Income Taxes	End of Year
Year 1	-	-	-	-	47,520	3,567,336	-	(2,000,000)	(614,856)	1,000,000
Year 2	1,000,000	6,000	24,000	44,000	59,148	2,804,495	-	(2,050,000)	(887,643)	1,000,000
Year 3	1,000,000	6,000	24,000	44,000	67,645	3,060,095	-	(2,101,250)	(1,100,490)	1,000,000
Year 4	1,000,000	6,000	24,000	44,000	73,855	3,278,003	-	(2,153,781)	(1,272,077)	1,000,000
Year 5	1,000,000	6,000	24,000	44,000	78,393	3,470,886	-	(2,207,626)	(1,415,653)	1,000,000
Year 6	1,000,000	6,000	24,000	44,000	81,710	3,647,746	-	(2,262,816)	(1,540,639)	1,000,000
Year 7	1,000,000	6,000	24,000	44,000	84,134	3,815,008	-	(2,319,387)	(1,653,755)	1,000,000
Year 8	1,000,000	6,000	24,000	44,000	85,905	3,977,285	-	(2,377,372)	(1,759,818)	1,000,000
Year 9	1,000,000	6,000	24,000	44,000	87,199	4,137,914	-	(2,436,806)	(1,862,307)	1,000,000
Year 10	1,000,000	6,000	24,000	44,000	88,145	31,588,522	-	(2,497,726)	(1,953,712)	28,299,229

Holdco LLC

	Financial & Other Assets						Ownership	
	Beginning of Year	Income	Tax Free Income	Growth	Distributions	End of Year	Hal	Grantor Trust
Year 1	110,000,000	660,000	2,640,000	4,840,000	(4,752,000)	113,388,000	1.0%	99.0%
Year 2	113,388,000	680,328	2,721,312	4,989,072	(5,914,762)	115,863,950	1.0%	99.0%
Year 3	115,863,950	695,184	2,780,735	5,098,014	(6,764,508)	117,673,375	1.0%	99.0%
Year 4	117,673,375	706,040	2,824,161	5,177,628	(7,385,502)	118,995,702	1.0%	99.0%
Year 5	118,995,702	713,974	2,855,897	5,235,811	(7,839,325)	119,962,059	1.0%	99.0%
Year 6	119,962,059	719,772	2,879,089	5,278,331	(8,170,979)	120,668,273	1.0%	99.0%
Year 7	120,668,273	724,010	2,896,039	5,309,404	(8,413,351)	121,184,374	1.0%	99.0%
Year 8	121,184,374	727,106	2,908,425	5,332,112	(8,590,477)	121,561,540	1.0%	99.0%
Year 9	121,561,540	729,369	2,917,477	5,348,708	(8,719,921)	121,837,174	1.0%	99.0%
Year 10	121,837,174	731,023	2,924,092	5,360,836	(8,814,518)	122,038,607	1.0%	99.0%

Schedule 24
Hal Happyeverafter
Hypothetical Technique: First spouse to die bequests estate to surviving spouse; surviving spouse gifts his lifetime gift and the DSUE amounts to a grantor trust; Hal sells the remaining non-managing member interests to the grantor trust

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (FL)	23.80%
Ordinary Income and Health Care Tax Rate (FL)	40.80%
Annual Consumption from these Sources (increasing 2.5% per year)	$2,000,000

Assumptions:	
Holdco LLC Valuation Discount	30.00%
Intra-Family Interest Rate (Mid-Term) - January 2018	2.18%

Grantor Trust for Happyeverafter Children

	Financial & Other Assets								
	Beginning of Year	Income	Tax Free Income	Growth	LLC Distributions	Note Payments	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	4,704,480	(3,567,336)	-	-	1,137,144
Year 2	1,137,144	6,823	27,291	50,034	5,855,614	(2,804,495)	-	-	4,272,412
Year 3	4,272,412	25,634	102,538	187,986	6,696,863	(3,060,095)	-	-	8,225,338
Year 4	8,225,338	49,352	197,408	361,915	7,311,647	(3,278,003)	-	-	12,867,658
Year 5	12,867,658	77,206	308,824	566,177	7,760,932	(3,470,886)	-	-	18,109,911
Year 6	18,109,911	108,659	434,638	796,836	8,089,269	(3,647,746)	-	-	23,891,567
Year 7	23,891,567	143,349	573,398	1,051,229	8,329,218	(3,815,008)	-	-	30,173,753
Year 8	30,173,753	181,043	724,170	1,327,645	8,504,572	(3,977,285)	-	-	36,933,898
Year 9	36,933,898	221,603	886,414	1,625,092	8,632,721	(4,137,914)	-	-	44,161,814
Year 10	44,161,814	264,971	1,059,884	1,943,120	8,726,373	(31,588,522)	-	-	24,567,639

Note #1 Between Hal Happyeverafter and Grantor Trust

	Beginning of Year Principal	Interest @ 2.18%	Note Payments	End of Year Principal
Year 1	53,870,000	1,174,366	(3,567,336)	51,477,030
Year 2	51,477,030	1,122,199	(2,804,495)	49,794,734
Year 3	49,794,734	1,085,525	(3,060,095)	47,820,165
Year 4	47,820,165	1,042,480	(3,278,003)	45,584,642
Year 5	45,584,642	993,745	(3,470,886)	43,107,501
Year 6	43,107,501	939,744	(3,647,746)	40,399,499
Year 7	40,399,499	880,709	(3,815,008)	37,465,200
Year 8	37,465,200	816,741	(3,977,285)	34,304,656
Year 9	34,304,656	747,842	(4,137,914)	30,914,584
Year 10	30,914,584	673,938	(31,588,522)	-

Note #1 Calculation		
Holdco LLC Value		110,000,000
Holdco LLC Valuation Discount		(33,000,000)
Holdco LLC Discounted Value		77,000,000
Portion to be Transferred to Grantor Trust	99.0%	76,230,000
Gift Portion (from Hal Happyeverafter)	29.0%	22,360,000
Sells for Note (Note #1)	70.0%	53,870,000

Schedule 25

Mr. Harvey Happywithkids

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mr. Happywithkids has a life expectancy of 10 years)

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	10-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust with her unified credit and balance of estate goes to a marital deduction trust				
Mr. Harvey Happywithkids	172,367,263	-	-	0.00%
Happywithkids Children	-	95,044,358	74,248,500	41.93%
Happywithkids Children & Grandchildren	20,811,132	34,357,075	26,839,692	15.16%
Consumption - Direct Cost	11,203,382	11,203,382	8,752,064	4.94%
Consumption - Investment Opportunity Cost	4,344,673	4,344,673	3,394,052	1.92%
IRS Income Tax - Direct Cost	13,238,320	13,238,320	10,341,754	5.84%
IRS Income Tax - Investment Opportunity Cost	4,690,485	4,690,485	3,664,199	2.07%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	414,058	323,461	0.18%
IRS Estate Tax (@ 40%)	-	63,362,905	49,499,000	27.96%
Total	**226,655,255**	**226,655,255**	**177,062,723**	**100.00%**
Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust				
Mr. Harvey Happywithkids	48,357,192	-	-	0.00%
Happywithkids Children	-	27,346,315	21,362,898	12.07%
Happywithkids Children & Grandchildren	143,342,505	142,293,544	111,159,489	62.78%
Consumption - Direct Cost	11,203,382	11,203,382	8,752,064	4.94%
Consumption - Investment Opportunity Cost	4,344,673	4,344,673	3,394,052	1.92%
IRS Income Tax - Direct Cost	14,717,018	14,717,018	11,496,911	6.49%
IRS Income Tax - Investment Opportunity Cost	4,690,485	4,690,485	3,664,199	2.07%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	3,828,961	2,991,178	1.69%
IRS Estate Tax (@ 40%)	-	18,230,877	14,241,932	8.04%
Total	**226,655,255**	**226,655,255**	**177,062,723**	**100.00%**
Hypothetical Technique: first to die spouse creates a credit shelter trust that is converted to a QSST; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust				
Mr. Harvey Happywithkids	48,357,192	-	-	0.00%
Happywithkids Children	-	27,346,315	21,362,898	12.07%
Happywithkids Children & Grandchildren	143,342,505	142,293,544	111,159,489	62.78%
Consumption - Direct Cost	11,203,382	11,203,382	8,752,064	4.94%
Consumption - Investment Opportunity Cost	4,344,673	4,344,673	3,394,052	1.92%
IRS Income Tax - Direct Cost	14,717,018	14,717,018	11,496,911	6.49%
IRS Income Tax - Investment Opportunity Cost	4,690,485	4,690,485	3,664,199	2.07%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	3,828,961	2,991,178	1.69%
IRS Estate Tax (@ 40%)	-	18,230,877	14,241,932	8.04%
Total	**226,655,255**	**226,655,255**	**177,062,723**	**100.00%**

Schedule 25

Mr. Harvey Happywithkids

Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust with her unified credit and balance of estate goes to a marital deduction trust

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000

Mr. Harvey Happywithkids

	Financial Assets							
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Trust Distributions**	**Consumption**	**Income Taxes**	**End of Year**
Year 1	99,820,000	598,920	2,395,680	4,392,080	-	(1,000,000)	(557,954)	105,648,726
Year 2	105,648,726	633,892	2,535,569	4,648,544	-	(1,025,000)	(810,050)	111,631,682
Year 3	111,631,682	669,790	2,679,160	4,911,794	-	(1,050,625)	(1,009,972)	117,831,829
Year 4	117,831,829	706,991	2,827,964	5,184,600	-	(1,076,891)	(1,174,321)	124,300,173
Year 5	124,300,173	745,801	2,983,204	5,469,208	-	(1,103,813)	(1,314,896)	131,079,676
Year 6	131,079,676	786,478	3,145,912	5,767,506	-	(1,131,408)	(1,440,110)	138,208,054
Year 7	138,208,054	829,248	3,316,993	6,081,154	-	(1,159,693)	(1,555,986)	145,719,770
Year 8	145,719,770	874,319	3,497,274	6,411,670	-	(1,188,686)	(1,666,872)	153,647,475
Year 9	153,647,475	921,885	3,687,539	6,760,489	-	(1,218,403)	(1,775,933)	162,023,052
Year 10	162,023,052	972,138	3,888,553	7,129,014	-	(1,248,863)	(396,632)	172,367,263

Credit Shelter Trust

	Financial Assets						
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Beneficiary Distributions**	**Income Taxes**	**End of Year**
Year 1	11,180,000	67,080	268,320	491,920	-	(62,492)	11,944,828
Year 2	11,944,828	71,669	286,676	525,572	-	(91,353)	12,737,393
Year 3	12,737,393	76,424	305,697	560,445	-	(114,675)	13,565,284
Year 4	13,565,284	81,392	325,567	596,873	-	(134,270)	14,434,845
Year 5	14,434,845	86,609	346,436	635,133	-	(151,429)	15,351,595
Year 6	15,351,595	92,110	368,438	675,470	-	(167,074)	16,320,539
Year 7	16,320,539	97,923	391,693	718,104	-	(181,871)	17,346,388
Year 8	17,346,388	104,078	416,313	763,241	-	(196,302)	18,433,719
Year 9	18,433,719	110,602	442,409	811,084	-	(210,724)	19,587,090
Year 10	19,587,090	117,523	470,090	861,832	-	(225,403)	20,811,132

Schedule 25

Mr. Harvey Happywithkids

Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Happywithkids Family LLC Valuation Discount	30.00%

Mr. Harvey Happywithkids

	Financial Assets									
	Beginning of Year	Income	Tax Free Income	Growth	LLC Distributions	Note #1 Payments	Credit Shelter Trust Distributions	Consumption	Income Taxes	End of Year
Year 1	1,000,000	6,000	24,000	44,000	33,000	1,450,954	-	(1,000,000)	(557,954)	1,000,000
Year 2	1,000,000	6,000	24,000	44,000	34,452	1,726,598	-	(1,025,000)	(810,050)	1,000,000
Year 3	1,000,000	6,000	24,000	44,000	35,968	1,950,629	-	(1,050,625)	(1,009,972)	1,000,000
Year 4	1,000,000	6,000	24,000	44,000	37,550	2,139,661	-	(1,076,891)	(1,174,321)	1,000,000
Year 5	1,000,000	6,000	24,000	44,000	39,203	2,305,507	-	(1,103,813)	(1,314,896)	1,000,000
Year 6	1,000,000	6,000	24,000	44,000	40,928	2,456,590	-	(1,131,408)	(1,440,110)	1,000,000
Year 7	1,000,000	6,000	24,000	44,000	42,728	2,598,951	-	(1,159,693)	(1,555,986)	1,000,000
Year 8	1,000,000	6,000	24,000	44,000	44,608	2,736,950	-	(1,188,686)	(1,666,872)	1,000,000
Year 9	1,000,000	6,000	24,000	44,000	46,571	2,873,765	-	(1,218,403)	(1,775,933)	1,000,000
Year 10	1,000,000	6,000	24,000	44,000	361,317	48,666,776	-	(1,248,863)	(1,875,331)	46,977,899

Happywithkids Family LLC

	Financial Assets					
	Beginning of Year	Income	Tax Free Income	Growth	Owner Distributions	End of Year
Year 1	110,000,000	660,000	2,640,000	4,840,000	(3,300,000)	114,840,000
Year 2	114,840,000	689,040	2,756,160	5,052,960	(3,445,200)	119,892,960
Year 3	119,892,960	719,358	2,877,431	5,275,290	(3,596,789)	125,168,250
Year 4	125,168,250	751,010	3,004,038	5,507,403	(3,755,048)	130,675,653
Year 5	130,675,653	784,054	3,136,216	5,749,729	(3,920,270)	136,425,382
Year 6	136,425,382	818,552	3,274,209	6,002,717	(4,092,761)	142,428,099
Year 7	142,428,099	854,569	3,418,274	6,266,836	(4,272,843)	148,694,935
Year 8	148,694,935	892,170	3,568,678	6,542,577	(4,460,848)	155,237,512
Year 9	155,237,512	931,425	3,725,700	6,830,451	(4,657,125)	162,067,963
Year 10	162,067,963	972,408	3,889,631	7,130,990	(36,131,694)	137,929,298

	Ownership		
	Harvey Happywithkids	Credit Shelter Trust	GST Tax Exempt Grantor Trust
Year 1	1.0%	10.2%	88.8%
Year 2	1.0%	10.2%	88.8%
Year 3	1.0%	10.2%	88.8%
Year 4	1.0%	10.2%	88.8%
Year 5	1.0%	10.2%	88.8%
Year 6	1.0%	10.2%	88.8%
Year 7	1.0%	10.2%	88.8%
Year 8	1.0%	10.2%	88.8%
Year 9	1.0%	10.2%	88.8%
Year 10	1.0%	10.2%	88.8%

Schedule 25

Mr. Harvey Happywithkids

Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Happywithkids Family LLC Valuation Discount	30.00%

Happywithkids Credit Shelter Trust

	Financial Assets							
	Beginning of Year	Income	Tax Free Income	Growth	LLC Distributions	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	335,400	-	(62,492)	272,908
Year 2	272,908	1,637	6,550	12,008	350,158	-	(91,353)	551,908
Year 3	551,908	3,311	13,246	24,284	365,565	-	(114,675)	843,638
Year 4	843,638	5,062	20,247	37,120	381,649	-	(134,270)	1,153,447
Year 5	1,153,447	6,921	27,683	50,752	398,442	-	(151,429)	1,485,815
Year 6	1,485,815	8,915	35,660	65,376	415,973	-	(167,074)	1,844,665
Year 7	1,844,665	11,068	44,272	81,165	434,276	-	(181,871)	2,233,575
Year 8	2,233,575	13,401	53,606	98,277	453,384	-	(196,302)	2,655,942
Year 9	2,655,942	15,936	63,743	116,861	473,333	-	(210,724)	3,115,092
Year 10	3,115,092	18,691	74,762	137,064	3,672,294	-	(225,403)	6,792,500

GST Tax Exempt Grantor Trust Created by Harvey Happywithkids

	Financial Assets								
	Beginning of Year	Income	Tax Free Income	Growth	LLC Distributions	Note #1 Payments	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	2,931,600	(1,450,954)	-	-	1,480,646
Year 2	1,480,646	8,884	35,536	65,148	3,060,590	(1,726,598)	-	-	2,924,206
Year 3	2,924,206	17,545	70,181	128,665	3,195,256	(1,950,629)	-	-	4,385,225
Year 4	4,385,225	26,311	105,245	192,950	3,335,848	(2,139,661)	-	-	5,905,918
Year 5	5,905,918	35,436	141,742	259,860	3,482,625	(2,305,507)	-	-	7,520,074
Year 6	7,520,074	45,120	180,482	330,883	3,635,860	(2,456,590)	-	-	9,255,829
Year 7	9,255,829	55,535	222,140	407,256	3,795,838	(2,598,951)	-	-	11,137,648
Year 8	11,137,648	66,826	267,304	490,057	3,962,855	(2,736,950)	-	-	13,187,739
Year 9	13,187,739	79,126	316,506	580,261	4,137,221	(2,873,765)	-	-	15,427,088
Year 10	15,427,088	92,563	370,250	678,792	32,098,083	(48,666,776)	-	-	-

Schedule 25

Mr. Harvey Happywithkids

Traditional Credit Shelter Planning: First to die spouse creates a credit shelter trust; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Happywithkids Family LLC Valuation Discount	30.00%

Note #1 Between Mr. Happywithkids and GST Tax Exempt Grantor Trust

	Beginning of Year Principal	Interest @ 2.18%	Note Payments	End of Year Principal
Year 1	57,224,000	1,247,483	(1,450,954)	57,020,529
Year 2	57,020,529	1,243,048	(1,726,598)	56,536,979
Year 3	56,536,979	1,232,506	(1,950,629)	55,818,856
Year 4	55,818,856	1,216,851	(2,139,661)	54,896,045
Year 5	54,896,045	1,196,734	(2,305,507)	53,787,273
Year 6	53,787,273	1,172,563	(2,456,590)	52,503,245
Year 7	52,503,245	1,144,571	(2,598,951)	51,048,864
Year 8	51,048,864	1,112,865	(2,736,950)	49,424,780
Year 9	49,424,780	1,077,460	(2,873,765)	47,628,475
Year 10	47,628,475	1,038,301	(48,666,776)	-

Note #1 Calculation		
Happywithkids Family LLC Value		110,000,000
Happywithkids Family LLC Valuation Discount	30.0%	(33,000,000)
Happywithkids Family LLC Discounted Value		77,000,000
Portion to be Transferred to GST Tax Exempt Grantor Trust	88.8%	68,404,000
Gift Portion	14.5%	11,180,000
Sells for Note (Note #1)	74.3%	57,224,000

Schedule 25
Mr. Harvey Happywithkids
Hypothetical Technique: first to die spouse creates a credit shelter trust that is converted to a QSST; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Happywithkids Family LLC Valuation Discount	30.00%

Mr. Harvey Happywithkids

	Financial Assets									
	Beginning of Year	Income	Tax Free Income	Growth	Happywithkids Family LLC Distributions	Note Payments	QSST Distributions	Consumption	Income Taxes	End of Year
Year 1	1,000,000	6,000	24,000	44,000	33,000	1,450,954	62,492	(1,000,000)	(620,446)	1,000,000
Year 2	1,000,000	6,000	24,000	44,000	34,452	1,726,598	91,353	(1,025,000)	(901,403)	1,000,000
Year 3	1,000,000	6,000	24,000	44,000	35,968	1,950,629	114,675	(1,050,625)	(1,124,647)	1,000,000
Year 4	1,000,000	6,000	24,000	44,000	37,550	2,139,661	134,270	(1,076,891)	(1,308,592)	1,000,000
Year 5	1,000,000	6,000	24,000	44,000	39,203	2,305,507	151,429	(1,103,813)	(1,466,325)	1,000,000
Year 6	1,000,000	6,000	24,000	44,000	40,928	2,456,590	167,074	(1,131,408)	(1,607,184)	1,000,000
Year 7	1,000,000	6,000	24,000	44,000	42,728	2,598,951	181,871	(1,159,693)	(1,737,857)	1,000,000
Year 8	1,000,000	6,000	24,000	44,000	44,608	2,736,950	196,302	(1,188,686)	(1,863,174)	1,000,000
Year 9	1,000,000	6,000	24,000	44,000	46,571	2,873,765	210,724	(1,218,403)	(1,986,657)	1,000,000
Year 10	1,000,000	6,000	24,000	44,000	361,317	48,666,776	225,403	(1,248,863)	(2,100,733)	46,977,899

Happywithkids Family LLC

	Financial Assets						Ownership		
	Beginning of Year	Income	Tax Free Income	Growth	Owner Distributions	End of Year	Harvey Happywithkids	Sub S	GST Tax Exempt Grantor Trust
Year 1	110,000,000	660,000	2,640,000	4,840,000	(3,300,000)	114,840,000	1.0%	10.2%	88.8%
Year 2	114,840,000	689,040	2,756,160	5,052,960	(3,445,200)	119,892,960	1.0%	10.2%	88.8%
Year 3	119,892,960	719,358	2,877,431	5,275,290	(3,596,789)	125,168,250	1.0%	10.2%	88.8%
Year 4	125,168,250	751,010	3,004,038	5,507,403	(3,755,048)	130,675,653	1.0%	10.2%	88.8%
Year 5	130,675,653	784,054	3,136,216	5,749,729	(3,920,270)	136,425,382	1.0%	10.2%	88.8%
Year 6	136,425,382	818,552	3,274,209	6,002,717	(4,092,761)	142,428,099	1.0%	10.2%	88.8%
Year 7	142,428,099	854,569	3,418,274	6,266,836	(4,272,843)	148,694,935	1.0%	10.2%	88.8%
Year 8	148,694,935	892,170	3,568,678	6,542,577	(4,460,848)	155,237,512	1.0%	10.2%	88.8%
Year 9	155,237,512	931,425	3,725,700	6,830,451	(4,657,125)	162,067,963	1.0%	10.2%	88.8%
Year 10	162,067,963	972,408	3,889,631	7,130,990	(36,131,694)	137,929,298	1.0%	10.2%	88.8%

Schedule 25

Mr. Harvey Happywithkids

Hypothetical Technique: first to die spouse creates a credit shelter trust that is converted to a QSST; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Happywithkids Family LLC Valuation Discount	30.00%

Sub S

	Financial Assets							**Ownership**
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Happywithkids Family LLC Distributions**	**Sub S Distributions**	**End of Year**	**QSST**
Year 1	-	-	-	-	335,400	(62,492)	272,908	100.0%
Year 2	272,908	1,637	6,550	12,008	350,158	(91,353)	551,908	100.0%
Year 3	551,908	3,311	13,246	24,284	365,565	(114,675)	843,638	100.0%
Year 4	843,638	5,062	20,247	37,120	381,649	(134,270)	1,153,447	100.0%
Year 5	1,153,447	6,921	27,683	50,752	398,442	(151,429)	1,485,815	100.0%
Year 6	1,485,815	8,915	35,660	65,376	415,973	(167,074)	1,844,665	100.0%
Year 7	1,844,665	11,068	44,272	81,165	434,276	(181,871)	2,233,575	100.0%
Year 8	2,233,575	13,401	53,606	98,277	453,384	(196,302)	2,655,942	100.0%
Year 9	2,655,942	15,936	63,743	116,861	473,333	(210,724)	3,115,092	100.0%
Year 10	3,115,092	18,691	74,762	137,064	3,672,294	(225,403)	6,792,500	100.0%

Schedule 25

Mr. Harvey Happywithkids

Hypothetical Technique: first to die spouse creates a credit shelter trust that is converted to a QSST; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
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Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Happywithkids Family LLC Valuation Discount	30.00%

Credit Shelter QSST (GST Tax Exempt) Created by Mrs. Happywithkids

	Financial Assets							
	Beginning of Year	Income	Tax Free Income	Growth	Sub S Distributions	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	62,492	(62,492)	-	-
Year 2	-	-	-	-	91,353	(91,353)	-	-
Year 3	-	-	-	-	114,675	(114,675)	-	-
Year 4	-	-	-	-	134,270	(134,270)	-	-
Year 5	-	-	-	-	151,429	(151,429)	-	-
Year 6	-	-	-	-	167,074	(167,074)	-	-
Year 7	-	-	-	-	181,871	(181,871)	-	-
Year 8	-	-	-	-	196,302	(196,302)	-	-
Year 9	-	-	-	-	210,724	(210,724)	-	-
Year 10	-	-	-	-	225,403	(225,403)	-	-

GST Tax Exempt Grantor Trust Created by Harvey Happywithkids

	Financial Assets								
	Beginning of Year	Income	Tax Free Income	Growth	Happywithkids Family LLC Distributions	Note #1 Payments	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	2,931,600	(1,450,954)	-	-	1,480,646
Year 2	1,480,646	8,884	35,536	65,148	3,060,590	(1,726,598)	-	-	2,924,206
Year 3	2,924,206	17,545	70,181	128,665	3,195,256	(1,950,629)	-	-	4,385,225
Year 4	4,385,225	26,311	105,245	192,950	3,335,848	(2,139,661)	-	-	5,905,918
Year 5	5,905,918	35,436	141,742	259,860	3,482,625	(2,305,507)	-	-	7,520,074
Year 6	7,520,074	45,120	180,482	330,883	3,635,860	(2,456,590)	-	-	9,255,829
Year 7	9,255,829	55,535	222,140	407,256	3,795,838	(2,598,951)	-	-	11,137,648
Year 8	11,137,648	66,826	267,304	490,057	3,962,855	(2,736,950)	-	-	13,187,739
Year 9	13,187,739	79,126	316,506	580,261	4,137,221	(2,873,765)	-	-	15,427,088
Year 10	15,427,088	92,563	370,250	678,792	32,098,083	(48,666,776)	-	-	-

Schedule 25

Mr. Harvey Happywithkids

Hypothetical Technique: first to die spouse creates a credit shelter trust that is converted to a QSST; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Happywithkids Family LLC Valuation Discount	30.00%

Note #1 Between Harvey Happywithkids and GST Tax Exempt Grantor Trust

	Beginning of Year Principal	Interest @ 2.18%	Note Payments	End of Year Principal
Year 1	57,224,000	1,247,483	(1,450,954)	57,020,529
Year 2	57,020,529	1,243,048	(1,726,598)	56,536,979
Year 3	56,536,979	1,232,506	(1,950,629)	55,818,856
Year 4	55,818,856	1,216,851	(2,139,661)	54,896,045
Year 5	54,896,045	1,196,734	(2,305,507)	53,787,273
Year 6	53,787,273	1,172,563	(2,456,590)	52,503,245
Year 7	52,503,245	1,144,571	(2,598,951)	51,048,864
Year 8	51,048,864	1,112,865	(2,736,950)	49,424,780
Year 9	49,424,780	1,077,460	(2,873,765)	47,628,475
Year 10	47,628,475	1,038,301	(48,666,776)	-

Note #1 Calculation		
Happywithkids Family LLC		110,000,000
Happywithkids Family LLC Valuation Discount	30.0%	(33,000,000)
Happywithkids Family LLC Discounted Value		77,000,000
Happywithkids Family LLC to be Transferred to GST Ta	88.8%	68,404,000
Gift Portion (from Harvey Happywithkids)	14.5%	11,180,000
Sells for Note (Note #2)	74.3%	57,224,000

Schedule 26
Mrs. Benny Beneficial
Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mrs. Beneficial has a life expectancy of 10 years)

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	10-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust with his unified credit and balance of estate goes to a marital deduction trust				
Mrs. Benny Beneficial	170,489,930	-	-	0.00%
Beneficial Children	-	93,917,958	73,368,559	41.81%
Beneficial Children & Grandchildren	20,811,132	34,357,075	26,839,692	15.30%
Consumption - Direct Cost	11,203,382	11,203,382	8,752,064	4.99%
Consumption - Investment Opportunity Cost	4,344,673	4,344,673	3,394,052	1.93%
IRS Income Tax - Direct Cost	13,116,840	13,116,840	10,246,855	5.84%
IRS Income Tax - Investment Opportunity Cost	4,647,358	4,647,358	3,630,509	2.07%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	414,058	323,461	0.18%
IRS Estate Tax (@ 40%)	-	62,611,972	48,912,372	27.88%
Total	**224,613,316**	**224,613,316**	**175,467,563**	**100.00%**
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust				
Mrs. Benny Beneficial	47,111,552	-	-	0.00%
Beneficial Children	-	26,598,931	20,779,043	11.84%
Beneficial Children & Grandchildren	142,726,557	141,707,595	110,701,747	63.09%
Consumption - Direct Cost	11,203,382	11,203,382	8,752,064	4.99%
Consumption - Investment Opportunity Cost	4,344,673	4,344,673	3,394,052	1.93%
IRS Income Tax - Direct Cost	14,579,793	14,579,793	11,389,711	6.49%
IRS Income Tax - Investment Opportunity Cost	4,647,358	4,647,358	3,630,509	2.07%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	3,798,962	2,967,743	1.69%
IRS Estate Tax (@ 40%)	-	17,732,621	13,852,695	7.89%
Total	**224,613,316**	**224,613,316**	**175,467,563**	**100.00%**
Hypothetical Technique: first to die spouse creates a BDOT; surviving spouse sells LLC interest to the the BDOT and gifts and sells remaining non-managing member interests to a new GST tax exempt grantor trust				
Mrs. Benny Beneficial	40,200,353	-	-	0.00%
Beneficial Children	-	22,452,212	17,539,632	10.00%
Beneficial Children & Grandchildren	149,637,757	148,590,142	116,078,382	66.15%
Consumption - Direct Cost	11,203,382	11,203,382	8,752,064	4.99%
Consumption - Investment Opportunity Cost	4,344,673	4,344,673	3,394,052	1.93%
IRS Income Tax - Direct Cost	14,579,793	14,579,793	11,389,711	6.49%
IRS Income Tax - Investment Opportunity Cost	4,647,358	4,647,358	3,630,509	2.07%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	3,827,614	2,990,126	1.70%
IRS Estate Tax (@ 40%)	-	14,968,141	11,693,088	6.66%
Total	**224,613,316**	**224,613,316**	**175,467,563**	**100.00%**

Schedule 26
Mrs. Benny Beneficial
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust with his unified credit and balance of estate goes to a marital deduction trust

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000

Mrs. Benny Beneficial

	Financial Assets							
	Beginning of Year	Income	Tax Free Income	Growth	Trust Distributions	Consumption	Income Taxes	End of Year
Year 1	98,820,000	592,920	2,371,680	4,348,080	-	(1,000,000)	(552,364)	104,580,316
Year 2	104,580,316	627,482	2,509,928	4,601,534	-	(1,025,000)	(801,879)	110,492,380
Year 3	110,492,380	662,954	2,651,817	4,861,665	-	(1,050,625)	(999,715)	116,618,476
Year 4	116,618,476	699,711	2,798,843	5,131,213	-	(1,076,891)	(1,162,311)	123,009,042
Year 5	123,009,042	738,054	2,952,217	5,412,398	-	(1,103,813)	(1,301,352)	129,706,546
Year 6	129,706,546	778,239	3,112,957	5,707,088	-	(1,131,408)	(1,425,166)	136,748,257
Year 7	136,748,257	820,490	3,281,958	6,016,923	-	(1,159,693)	(1,539,719)	144,168,215
Year 8	144,168,215	865,009	3,460,037	6,343,401	-	(1,188,686)	(1,649,314)	151,998,663
Year 9	151,998,663	911,992	3,647,968	6,687,941	-	(1,218,403)	(1,757,085)	160,271,077
Year 10	160,271,077	961,626	3,846,506	7,051,927	-	(1,248,863)	(392,344)	170,489,930

Beneficial Credit Shelter Trust

	Financial Assets						
	Beginning of Year	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year
Year 1	11,180,000	67,080	268,320	491,920	-	(62,492)	11,944,828
Year 2	11,944,828	71,669	286,676	525,572	-	(91,353)	12,737,393
Year 3	12,737,393	76,424	305,697	560,445	-	(114,675)	13,565,284
Year 4	13,565,284	81,392	325,567	596,873	-	(134,270)	14,434,845
Year 5	14,434,845	86,609	346,436	635,133	-	(151,429)	15,351,595
Year 6	15,351,595	92,110	368,438	675,470	-	(167,074)	16,320,539
Year 7	16,320,539	97,923	391,693	718,104	-	(181,871)	17,346,388
Year 8	17,346,388	104,078	416,313	763,241	-	(196,302)	18,433,719
Year 9	18,433,719	110,602	442,409	811,084	-	(210,724)	19,587,090
Year 10	19,587,090	117,523	470,090	861,832	-	(225,403)	20,811,132

Schedule 26

Mrs. Benny Beneficial

Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beneficial Family LLC Valuation Discount	30.00%

Mrs. Benny Beneficial

	Financial Assets									
	Beginning of Year	Income	Tax Free Income	Growth	Beneficial Family LLC Distributions	Note #1 Payments	Trust Distributions	Consumption	Income Taxes	End of Year
Year 1	-	-	-	-	47,520	2,504,844	-	(1,000,000)	(552,364)	1,000,000
Year 2	1,000,000	6,000	24,000	44,000	59,148	1,693,732	-	(1,025,000)	(801,879)	1,000,000
Year 3	1,000,000	6,000	24,000	44,000	67,645	1,908,695	-	(1,050,625)	(999,715)	1,000,000
Year 4	1,000,000	6,000	24,000	44,000	73,855	2,091,347	-	(1,076,891)	(1,162,311)	1,000,000
Year 5	1,000,000	6,000	24,000	44,000	78,393	2,252,771	-	(1,103,813)	(1,301,352)	1,000,000
Year 6	1,000,000	6,000	24,000	44,000	81,710	2,400,864	-	(1,131,408)	(1,425,166)	1,000,000
Year 7	1,000,000	6,000	24,000	44,000	84,134	2,541,279	-	(1,159,693)	(1,539,719)	1,000,000
Year 8	1,000,000	6,000	24,000	44,000	85,905	2,678,095	-	(1,188,686)	(1,649,314)	1,000,000
Year 9	1,000,000	6,000	24,000	44,000	87,199	2,814,289	-	(1,218,403)	(1,757,085)	1,000,000
Year 10	1,000,000	6,000	24,000	44,000	108,145	47,833,180	-	(1,248,863)	(1,855,296)	45,911,166

Beneficial Family LLC

	Financial Assets						Ownership		
	Beginning of Year	Income	Tax Free Income	Growth	Owner Distributions	End of Year	Wendy Beneficial	Credit Shelter Trust	GST Tax Exempt Grantor Trust
Year 1	110,000,000	660,000	2,640,000	4,840,000	(4,752,000)	113,388,000	1.0%	10.2%	88.8%
Year 2	113,388,000	680,328	2,721,312	4,989,072	(5,914,762)	115,863,950	1.0%	10.2%	88.8%
Year 3	115,863,950	695,184	2,780,735	5,098,014	(6,764,508)	117,673,375	1.0%	10.2%	88.8%
Year 4	117,673,375	706,040	2,824,161	5,177,628	(7,385,502)	118,995,702	1.0%	10.2%	88.8%
Year 5	118,995,702	713,974	2,855,897	5,235,811	(7,839,325)	119,962,059	1.0%	10.2%	88.8%
Year 6	119,962,059	719,772	2,879,089	5,278,331	(8,170,979)	120,668,273	1.0%	10.2%	88.8%
Year 7	120,668,273	724,010	2,896,039	5,309,404	(8,413,351)	121,184,374	1.0%	10.2%	88.8%
Year 8	121,184,374	727,106	2,908,425	5,332,112	(8,590,477)	121,561,540	1.0%	10.2%	88.8%
Year 9	121,561,540	729,369	2,917,477	5,348,708	(8,719,921)	121,837,174	1.0%	10.2%	88.8%
Year 10	121,837,174	731,023	2,924,092	5,360,836	(10,814,518)	120,038,607	1.0%	10.2%	88.8%

Mrs. Benny Beneficial

Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beneficial Family LLC Valuation Discount	30.00%

Beneficial Credit Shelter Trust

	Financial Assets							
	Beginning of Year	Income	Tax Free Income	Growth	Beneficial Family LLC Distributions	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	482,976	-	(62,492)	420,484
Year 2	420,484	2,523	10,092	18,501	601,155	-	(91,353)	961,402
Year 3	961,402	5,768	23,074	42,302	687,520	-	(114,675)	1,605,390
Year 4	1,605,390	9,632	38,529	70,637	750,636	-	(134,270)	2,340,554
Year 5	2,340,554	14,043	56,173	102,984	796,760	-	(151,429)	3,159,087
Year 6	3,159,087	18,955	75,818	139,000	830,469	-	(167,074)	4,056,254
Year 7	4,056,254	24,338	97,350	178,475	855,102	-	(181,871)	5,029,649
Year 8	5,029,649	30,178	120,712	221,305	873,105	-	(196,302)	6,078,646
Year 9	6,078,646	36,472	145,887	267,460	886,261	-	(210,724)	7,204,003
Year 10	7,204,003	43,224	172,896	316,976	1,099,148	-	(225,403)	8,610,845

GST Tax Exempt Grantor Trust Created by Wendy Beneficial

	Financial Assets								
	Beginning of Year	Income	Tax Free Income	Growth	Beneficial Family LLC Distributions	Note #1 Payments	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	4,221,504	(2,504,844)	-	-	1,716,660
Year 2	1,716,660	10,300	41,200	75,533	5,254,459	(1,693,732)	-	-	5,404,420
Year 3	5,404,420	32,427	129,706	237,794	6,009,343	(1,908,695)	-	-	9,904,995
Year 4	9,904,995	59,430	237,720	435,820	6,561,012	(2,091,347)	-	-	15,107,630
Year 5	15,107,630	90,646	362,583	664,736	6,964,171	(2,252,771)	-	-	20,936,994
Year 6	20,936,994	125,622	502,488	921,228	7,258,800	(2,400,864)	-	-	27,344,268
Year 7	27,344,268	164,066	656,262	1,203,148	7,474,115	(2,541,279)	-	-	34,300,580
Year 8	34,300,580	205,803	823,214	1,509,226	7,631,467	(2,678,095)	-	-	41,792,196
Year 9	41,792,196	250,753	1,003,013	1,838,857	7,746,460	(2,814,289)	-	-	49,816,990
Year 10	49,816,990	298,902	1,195,608	2,191,948	9,607,225	(47,833,180)	-	-	15,277,492

Mrs. Benny Beneficial

Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust; surviving spouse gifts and sells LLC interests to a new GST tax exempt grantor trust

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beneficial Family LLC Valuation Discount	30.00%

Note #1 Between Wendy Beneficial and GST Tax Exempt Grantor Trust

	Beginning of Year Principal	**Interest @ 2.18%**	**Note Payments**	**End of Year Principal**
Year 1	57,224,000	1,247,483	(2,504,844)	55,966,639
Year 2	55,966,639	1,220,073	(1,693,732)	55,492,980
Year 3	55,492,980	1,209,747	(1,908,695)	54,794,032
Year 4	54,794,032	1,194,510	(2,091,347)	53,897,195
Year 5	53,897,195	1,174,959	(2,252,771)	52,819,383
Year 6	52,819,383	1,151,463	(2,400,864)	51,569,981
Year 7	51,569,981	1,124,226	(2,541,279)	50,152,928
Year 8	50,152,928	1,093,334	(2,678,095)	48,568,167
Year 9	48,568,167	1,058,786	(2,814,289)	46,812,664
Year 10	46,812,664	1,020,516	(47,833,180)	-

Note #1 Calculation		
Beneficial Family LLC Value		110,000,000
Beneficial Family LLC Valuation Discount	30.0%	(33,000,000)
Beneficial Family LLC Discounted Value		77,000,000
Portion to be Transferred to GST Tax Exempt Grantor Trust	88.8%	68,404,000
Gift Portion	14.5%	11,180,000
Sells for Note (Note #1)	74.3%	57,224,000

Schedule 26
Mrs. Benny Beneficial
Hypothetical Technique: first to die spouse creates a BDOT; surviving spouse sells LLC interest to the the BDOT and gifts and sells remaining non-managing member interests to a new GST tax exempt grantor trust

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beneficial Family LLC Valuation Discount	30.00%

Mrs. Benny Beneficial

	Financial Assets									
	Beginning of Year	Income	Tax Free Income	Growth	Beneficial Family LLC Distributions	Notes #1 & #2 Payments	BDOT Distributions	Consumption	Income Taxes	End of Year
Year 1	-	-	-	-	-	2,614,856	-	(1,000,000)	(614,856)	1,000,000
Year 2	1,000,000	6,000	24,000	44,000	-	1,844,232	-	(1,025,000)	(893,232)	1,000,000
Year 3	1,000,000	6,000	24,000	44,000	-	2,091,015	-	(1,050,625)	(1,114,390)	1,000,000
Year 4	1,000,000	6,000	24,000	44,000	-	2,299,472	-	(1,076,891)	(1,296,582)	1,000,000
Year 5	1,000,000	6,000	24,000	44,000	-	2,482,594	-	(1,103,813)	(1,452,781)	1,000,000
Year 6	1,000,000	6,000	24,000	44,000	-	2,649,648	-	(1,131,408)	(1,592,240)	1,000,000
Year 7	1,000,000	6,000	24,000	44,000	-	2,807,283	-	(1,159,693)	(1,721,589)	1,000,000
Year 8	1,000,000	6,000	24,000	44,000	-	2,960,302	-	(1,188,686)	(1,845,616)	1,000,000
Year 9	1,000,000	6,000	24,000	44,000	-	3,112,211	-	(1,218,403)	(1,967,809)	1,000,000
Year 10	1,000,000	6,000	24,000	44,000	-	42,455,915	-	(1,248,863)	(2,080,699)	40,200,353

Beneficial Family LLC

	Financial Assets						Ownership		
	Beginning of Year	Income	Tax Free Income	Growth	Owner Distributions	End of Year	Wendy Beneficial	Credit Shelter BDOT	GST Tax Exempt Grantor Trust
Year 1	110,000,000	660,000	2,640,000	4,840,000	(4,752,000)	113,388,000	0.0%	50.0%	50.0%
Year 2	113,388,000	680,328	2,721,312	4,989,072	(5,914,762)	115,863,950	0.0%	50.0%	50.0%
Year 3	115,863,950	695,184	2,780,735	5,098,014	(6,764,508)	117,673,375	0.0%	50.0%	50.0%
Year 4	117,673,375	706,040	2,824,161	5,177,628	(7,385,502)	118,995,702	0.0%	50.0%	50.0%
Year 5	118,995,702	713,974	2,855,897	5,235,811	(7,839,325)	119,962,059	0.0%	50.0%	50.0%
Year 6	119,962,059	719,772	2,879,089	5,278,331	(8,170,979)	120,668,273	0.0%	50.0%	50.0%
Year 7	120,668,273	724,010	2,896,039	5,309,404	(8,413,351)	121,184,374	0.0%	50.0%	50.0%
Year 8	121,184,374	727,106	2,908,425	5,332,112	(8,590,477)	121,561,540	0.0%	50.0%	50.0%
Year 9	121,561,540	729,369	2,917,477	5,348,708	(8,719,921)	121,837,174	0.0%	50.0%	50.0%
Year 10	121,837,174	731,023	2,924,092	5,360,836	(130,853,125)	-	0.0%	50.0%	50.0%

Mrs. Benny Beneficial

Hypothetical Technique: first to die spouse creates a BDOT; surviving spouse sells LLC interest to the the BDOT and gifts and sells remaining non-managing member interests to a new GST tax exempt grantor trust

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beneficial Family LLC Valuation Discount	30.00%

Credit Shelter BDOT (GST Tax Exempt) Created by Benny Beneficial

	Financial Assets								
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Beneficial Family LLC Distributions**	**Note #1 Payments**	**Beneficiary Distributions**	**Income Taxes**	**End of Year**
Year 1	-	-	-	-	2,376,000	(1,119,280)	-	-	1,256,720
Year 2	1,256,720	7,540	30,161	55,296	2,957,381	(1,268,276)	-	-	3,038,822
Year 3	3,038,822	18,233	72,932	133,708	3,382,254	(1,515,059)	-	-	5,130,889
Year 4	5,130,889	30,785	123,141	225,759	3,692,751	(1,723,516)	-	-	7,479,810
Year 5	7,479,810	44,879	179,515	329,112	3,919,663	(1,906,638)	-	-	10,046,341
Year 6	10,046,341	60,278	241,112	442,039	4,085,489	(2,073,692)	-	-	12,801,568
Year 7	12,801,568	76,809	307,238	563,269	4,206,676	(2,231,327)	-	-	15,724,233
Year 8	15,724,233	94,345	377,382	691,866	4,295,239	(2,384,346)	-	-	18,798,719
Year 9	18,798,719	112,792	451,169	827,144	4,359,960	(2,536,255)	-	-	22,013,529
Year 10	22,013,529	132,081	528,325	968,595	65,426,562	(15,459,959)	-	-	73,609,134

GST Tax Exempt Grantor Trust Created by Wendy Beneficial

	Financial Assets								
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Beneficial Family LLC Distributions**	**Note #2 Payments**	**Beneficiary Distributions**	**Income Taxes**	**End of Year**
Year 1	-	-	-	-	2,376,000	(1,495,576)	-	-	880,424
Year 2	880,424	5,283	21,130	38,739	2,957,381	(575,956)	-	-	3,327,000
Year 3	3,327,000	19,962	79,848	146,388	3,382,254	(575,956)	-	-	6,379,496
Year 4	6,379,496	38,277	153,108	280,698	3,692,751	(575,956)	-	-	9,968,374
Year 5	9,968,374	59,810	239,241	438,608	3,919,663	(575,956)	-	-	14,049,740
Year 6	14,049,740	84,298	337,194	618,189	4,085,489	(575,956)	-	-	18,598,954
Year 7	18,598,954	111,594	446,375	818,354	4,206,676	(575,956)	-	-	23,605,997
Year 8	23,605,997	141,636	566,544	1,038,664	4,295,239	(575,956)	-	-	29,072,123
Year 9	29,072,123	174,433	697,731	1,279,173	4,359,960	(575,956)	-	-	35,007,464
Year 10	35,007,464	210,045	840,179	1,540,328	65,426,562	(26,995,956)	-	-	76,028,623

Mrs. Benny Beneficial

Hypothetical Technique: first to die spouse creates a BDOT; surviving spouse sells LLC interest to the the BDOT and gifts and sells remaining non-managing member interests to a new GST tax exempt grantor trust

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%
Rate of Return Tax Free	2.40%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beneficial Family LLC Valuation Discount	30.00%

Note #1 Between Wendy Beneficial and BDOT

	Beginning of Year Principal	Interest @ 2.18%	Note Payments	End of Year Principal
Year 1	27,320,000	595,576	(1,119,280)	26,796,296
Year 2	26,796,296	584,159	(1,268,276)	26,112,179
Year 3	26,112,179	569,246	(1,515,059)	25,166,365
Year 4	25,166,365	548,627	(1,723,516)	23,991,476
Year 5	23,991,476	523,014	(1,906,638)	22,607,853
Year 6	22,607,853	492,851	(2,073,692)	21,027,012
Year 7	21,027,012	458,389	(2,231,327)	19,254,074
Year 8	19,254,074	419,739	(2,384,346)	17,289,467
Year 9	17,289,467	376,910	(2,536,255)	15,130,122
Year 10	15,130,122	329,837	(15,459,959)	-

Note #1 Calculation		
Beneficial Family LLC Value		110,000,000
Beneficial Family LLC Valuation Discount	30.0%	(33,000,000)
Beneficial Family LLC Discounted Value		77,000,000
Portion to be Transferred to BDOT	50.0%	38,500,000
Gift Portion (from Benny Beneficial Bequest)	14.5%	11,180,000
Sells for Note (Note #1)	35.5%	27,320,000

Note #2 Between Wendy Beneficial and GST Tax Exempt Grantor Trust

	Beginning of Year Principal	Interest @ 2.18%	Note Payments	End of Year Principal
Year 1	27,320,000	595,576	(1,495,576)	26,420,000
Year 2	26,420,000	575,956	(575,956)	26,420,000
Year 3	26,420,000	575,956	(575,956)	26,420,000
Year 4	26,420,000	575,956	(575,956)	26,420,000
Year 5	26,420,000	575,956	(575,956)	26,420,000
Year 6	26,420,000	575,956	(575,956)	26,420,000
Year 7	26,420,000	575,956	(575,956)	26,420,000
Year 8	26,420,000	575,956	(575,956)	26,420,000
Year 9	26,420,000	575,956	(575,956)	26,420,000
Year 10	26,420,000	575,956	(26,995,956)	-

Note #2 Calculation		
Beneficial Family LLC		110,000,000
Beneficial Family LLC Valuation Discount	30.0%	(33,000,000)
Beneficial Family LLC Discounted Value		77,000,000
Beneficial Family LLC to be Transferred to GST Tax Exempt Grantor Trust	50.0%	38,500,000
Gift Portion (from Wendy Beneficial)	14.5%	11,180,000
Sells for Note (Note #2)	35.5%	27,320,000

Schedule 27
Dot Beedot

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mrs. Beedot has a life expectancy of 10 years)

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	10-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust with his unified credit and balance of estate goes to a marital deduction trust				
Dot Beedot	157,501,338	-	-	0.00%
Beedot Children	-	86,124,803	67,280,558	38.34%
Beedot Children & Grandchildren	19,290,941	32,858,879	25,669,304	14.63%
Consumption - Direct Cost	11,203,382	11,203,382	8,752,064	4.99%
Consumption - Investment Opportunity Cost	4,344,673	4,344,673	3,394,052	1.93%
IRS Income Tax - Direct Cost	23,662,299	23,662,299	18,484,950	10.53%
IRS Income Tax - Investment Opportunity Cost	8,610,683	8,610,683	6,726,652	3.83%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	392,061	306,278	0.17%
IRS Estate Tax (@ 40%)	-	57,416,535	44,853,706	25.56%
Total	**224,613,316**	**224,613,316**	**175,467,563**	**100.00%**
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust and balance of estate goes to a marital deduction trust; the credit shelter trust and the marital deduction trust create an LLC; the marital trust sells LLC interest to the credit shelter trust				
Dot Beedot	62,590,679	-	-	0.00%
Beedot Children	-	29,178,407	22,794,125	12.99%
Beedot Children & Grandchildren	112,809,402	123,128,879	96,188,083	54.82%
Consumption - Direct Cost	11,203,382	11,203,382	8,752,064	4.99%
Consumption - Investment Opportunity Cost	4,344,673	4,344,673	3,394,052	1.93%
IRS Income Tax - Direct Cost	25,054,497	25,054,497	19,572,533	11.15%
IRS Income Tax - Investment Opportunity Cost	8,610,683	8,610,683	6,726,652	3.83%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	3,640,523	2,843,971	1.62%
IRS Estate Tax (@ 40%)	-	19,452,272	15,196,083	8.66%
Total	**224,613,316**	**224,613,316**	**175,467,563**	**100.00%**
Hypothetical Technique: first to die spouse creates a credit shelter trust, that is a BDOT, and a marital deduction trust, that is also a BDOT; the credit shelter trust and the marital deduction trust create an LLC; the marital deduction trust sells LLC interests to the credit shelter trust				
Dot Beedot	46,752,258	-	-	0.00%
Beedot Children	-	19,675,355	15,370,356	8.76%
Beedot Children & Grandchildren	128,657,873	139,000,798	108,587,202	61.88%
Consumption - Direct Cost	11,203,382	11,203,382	8,752,064	4.99%
Consumption - Investment Opportunity Cost	4,344,673	4,344,673	3,394,052	1.93%
IRS Income Tax - Direct Cost	25,044,447	25,044,447	19,564,682	11.15%
IRS Income Tax - Investment Opportunity Cost	8,610,683	8,610,683	6,726,652	3.83%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	3,617,074	2,825,653	1.61%
IRS Estate Tax (@ 40%)	-	13,116,903	10,246,904	5.84%
Total	**224,613,316**	**224,613,316**	**175,467,563**	**100.00%**

Schedule 27

Dot Beedot

Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust with his unified credit and balance of estate goes to a marital deduction trust

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	2.40%
Rate of Return Tax Free	0.60%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	43.40%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000

Mrs. Benny Beneficial

	Financial Assets							
	Beginning of Year	Income	Tax Free Income	Growth	Trust Distributions	Consumption	Income Taxes	End of Year
Year 1	98,820,000	2,371,680	592,920	4,348,080	-	(1,000,000)	(1,339,762)	103,792,918
Year 2	103,792,918	2,491,030	622,758	4,566,888	-	(1,025,000)	(1,624,500)	108,824,094
Year 3	108,824,094	2,611,778	652,945	4,788,260	-	(1,050,625)	(1,855,769)	113,970,683
Year 4	113,970,683	2,735,296	683,824	5,014,710	-	(1,076,891)	(2,050,749)	119,276,875
Year 5	119,276,875	2,862,645	715,661	5,248,182	-	(1,103,813)	(2,221,649)	124,777,901
Year 6	124,777,901	2,994,670	748,667	5,490,228	-	(1,131,408)	(2,377,172)	130,502,886
Year 7	130,502,886	3,132,069	783,017	5,742,127	-	(1,159,693)	(2,523,546)	136,476,861
Year 8	136,476,861	3,275,445	818,861	6,004,982	-	(1,188,686)	(2,665,258)	142,722,205
Year 9	142,722,205	3,425,333	856,333	6,279,777	-	(1,218,403)	(2,805,571)	149,259,674
Year 10	149,259,674	3,582,232	895,558	6,567,426	-	(1,248,863)	(1,554,689)	157,501,338

Beneficial Credit Shelter Trust

	Financial Assets						
	Beginning of Year	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year
Year 1	11,180,000	268,320	67,080	491,920	-	(151,574)	11,855,746
Year 2	11,855,746	284,538	71,134	521,653	-	(185,322)	12,547,750
Year 3	12,547,750	301,146	75,286	552,101	-	(213,400)	13,262,883
Year 4	13,262,883	318,309	79,577	583,567	-	(237,705)	14,006,632
Year 5	14,006,632	336,159	84,040	616,292	-	(259,587)	14,783,535
Year 6	14,783,535	354,805	88,701	650,476	-	(280,015)	15,597,502
Year 7	15,597,502	374,340	93,585	686,290	-	(299,686)	16,452,031
Year 8	16,452,031	394,849	98,712	723,889	-	(319,105)	17,350,376
Year 9	17,350,376	416,409	104,102	763,417	-	(338,648)	18,295,656
Year 10	18,295,656	439,096	109,774	805,009	-	(358,594)	19,290,941

Schedule 27
Dot Beedot
Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust and balance of estate goes to a marital deduction trust; the credit shelter trust and the marital deduction trust create an LLC; the marital trust sells LLC interest to the credit shelter trust

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	2.40%
Rate of Return Tax Free	0.60%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	43.40%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beedot Family LLC Valuation Discount	30.00%

Dot Beedot

	Financial Assets							
	Beginning of Year	Income	Tax Free Income	Growth	Trust Distributions	Consumption	Income Taxes	End of Year
Year 1	-	-	-	-	1,622,736	(1,000,000)	(622,736)	-
Year 2	-	-	-	-	1,645,959	(1,025,000)	(620,959)	-
Year 3	-	-	-	-	1,669,548	(1,050,625)	(618,923)	-
Year 4	-	-	-	-	1,693,510	(1,076,891)	(616,620)	-
Year 5	-	-	-	-	1,717,852	(1,103,813)	(614,039)	-
Year 6	-	-	-	-	1,742,581	(1,131,408)	(611,172)	-
Year 7	-	-	-	-	1,767,702	(1,159,693)	(608,009)	-
Year 8	-	-	-	-	1,793,225	(1,188,686)	(604,539)	-
Year 9	-	-	-	-	1,819,155	(1,218,403)	(600,752)	-
Year 10	-	-	-	-	64,436,179	(1,248,863)	(596,637)	62,590,679

Beedot Family LLC

	Financial Assets						Ownership
	Beginning of Year	Income	Tax Free Income	Growth	Owner Distributions	End of Year	Credit Shelter BDOT
Year 1	110,000,000	2,640,000	660,000	4,840,000	(2,491,336)	115,648,664	100.0%
Year 2	115,648,664	2,775,568	693,892	5,088,541	(2,834,822)	121,371,844	100.0%
Year 3	121,371,844	2,912,924	728,231	5,340,361	(3,119,793)	127,233,567	100.0%
Year 4	127,233,567	3,053,606	763,401	5,598,277	(3,365,344)	133,283,507	100.0%
Year 5	133,283,507	3,198,804	799,701	5,864,474	(3,585,049)	139,561,437	100.0%
Year 6	139,561,437	3,349,474	837,369	6,140,703	(3,788,595)	146,100,388	100.0%
Year 7	146,100,388	3,506,409	876,602	6,428,417	(3,982,925)	152,928,892	100.0%
Year 8	152,928,892	3,670,293	917,573	6,728,871	(4,173,049)	160,072,581	100.0%
Year 9	160,072,581	3,841,742	960,435	7,043,194	(4,362,622)	167,555,330	100.0%
Year 10	167,555,330	4,021,328	1,005,332	7,372,435	(67,145,022)	112,809,402	100.0%

Dot Beedot

Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust and balance of estate goes to a marital deduction trust; the credit shelter trust and the marital deduction trust create an LLC; the marital trust sells LLC interest to the credit shelter trust

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	2.40%
Rate of Return Tax Free	0.60%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	43.40%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beedot Family LLC Valuation Discount	30.00%

Credit Shelter Trust (GST Tax Exempt)

	Financial Assets								
	Beginning of Year	Income	Tax Free Income	Growth	Beedot Family LLC Distributions	Note Payments	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	2,491,336	(1,622,736)	-	(868,600)	-
Year 2	-	-	-	-	2,834,822	(1,645,959)	-	(1,188,863)	-
Year 3	-	-	-	-	3,119,793	(1,669,548)	-	(1,450,245)	-
Year 4	-	-	-	-	3,365,344	(1,693,510)	-	(1,671,834)	-
Year 5	-	-	-	-	3,585,049	(1,717,852)	-	(1,867,197)	-
Year 6	-	-	-	-	3,788,595	(1,742,581)	-	(2,046,015)	-
Year 7	-	-	-	-	3,982,925	(1,767,702)	-	(2,215,222)	-
Year 8	-	-	-	-	4,173,049	(1,793,225)	-	(2,379,824)	-
Year 9	-	-	-	-	4,362,622	(1,819,155)	-	(2,543,467)	-
Year 10	-	-	-	-	67,145,022	(64,436,179)	-	(2,708,844)	-

Marital Deduction Trust

	Financial Assets							
	Beginning of Year	Income	Tax Free Income	Growth	Note Payments	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	1,622,736	(1,622,736)	-	-
Year 2	-	-	-	-	1,645,959	(1,645,959)	-	-
Year 3	-	-	-	-	1,669,548	(1,669,548)	-	-
Year 4	-	-	-	-	1,693,510	(1,693,510)	-	-
Year 5	-	-	-	-	1,717,852	(1,717,852)	-	-
Year 6	-	-	-	-	1,742,581	(1,742,581)	-	-
Year 7	-	-	-	-	1,767,702	(1,767,702)	-	-
Year 8	-	-	-	-	1,793,225	(1,793,225)	-	-
Year 9	-	-	-	-	1,819,155	(1,819,155)	-	-
Year 10	-	-	-	-	64,436,179	(64,436,179)	-	-

Dot Beedot

Traditional Credit Shelter Planning: first to die spouse creates a credit shelter trust and balance of estate goes to a marital deduction trust; the credit shelter trust and the marital deduction trust create an LLC; the marital trust sells LLC interest to the credit shelter trust

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	2.40%
Rate of Return Tax Free	0.60%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	43.40%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beedot Family LLC Valuation Discount	30.00%

Note Between Marital Deduction Trust and Credit Shelter (BDOT) Trust

	Beginning of Year Principal	Interest @ 2.18%	Note Payments	End of Year Principal
Year 1	65,820,000	1,434,876	(1,622,736)	65,632,140
Year 2	65,632,140	1,430,781	(1,645,959)	65,416,962
Year 3	65,416,962	1,426,090	(1,669,548)	65,173,503
Year 4	65,173,503	1,420,782	(1,693,510)	64,900,776
Year 5	64,900,776	1,414,837	(1,717,852)	64,597,760
Year 6	64,597,760	1,408,231	(1,742,581)	64,263,411
Year 7	64,263,411	1,400,942	(1,767,702)	63,896,651
Year 8	63,896,651	1,392,947	(1,793,225)	63,496,373
Year 9	63,496,373	1,384,221	(1,819,155)	63,061,439
Year 10	63,061,439	1,374,739	(64,436,179)	-

Note Calculation		
Beedot Family LLC Value		110,000,000
Beedot Family LLC Valuation Discount	30.0%	(33,000,000)
Beedot Family LLC Discounted Value		77,000,000
Portion Owned by Credit Shelter Trust	14.5%	11,180,000
Marital Deduction Trust Sells for Note	85.5%	65,820,000

Schedule 27
Dot Beedot
Hypothetical Technique: first to die spouse creates a credit shelter trust, that is a BDOT, and a marital deduction trust, that is also a BDOT; the credit shelter trust and the marital deduction trust create an LLC; the marital deduction trust sells LLC interests to the credit shelter trust

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Assumptions:	Financial Assets
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	2.40%
Rate of Return Tax Free	0.60%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	43.40%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beedot Family LLC Valuation Discount	30.00%

Mrs. Dot Beedot

	Financial Assets							
	Beginning of Year	Income	Tax Free Income	Growth	Trust Distributions	Consumption	Income Taxes	End of Year
Year 1	-	-	-	-	3,491,336	(1,000,000)	(1,491,336)	1,000,000
Year 2	1,000,000	24,000	6,000	44,000	2,760,822	(1,025,000)	(1,809,822)	1,000,000
Year 3	1,000,000	24,000	6,000	44,000	3,045,793	(1,050,625)	(2,069,168)	1,000,000
Year 4	1,000,000	24,000	6,000	44,000	3,291,344	(1,076,891)	(2,288,453)	1,000,000
Year 5	1,000,000	24,000	6,000	44,000	3,511,049	(1,103,813)	(2,481,236)	1,000,000
Year 6	1,000,000	24,000	6,000	44,000	3,714,595	(1,131,408)	(2,657,187)	1,000,000
Year 7	1,000,000	24,000	6,000	44,000	3,908,925	(1,159,693)	(2,823,231)	1,000,000
Year 8	1,000,000	24,000	6,000	44,000	4,099,049	(1,188,686)	(2,984,363)	1,000,000
Year 9	1,000,000	24,000	6,000	44,000	4,288,622	(1,218,403)	(3,144,219)	1,000,000
Year 10	1,000,000	24,000	6,000	44,000	3,470,294	(1,248,863)	(3,295,431)	-

Beedot Family LLC

	Financial Assets						Ownership
	Beginning of Year	Income	Tax Free Income	Growth	Owner Distributions	End of Year	Credit Shelter BDOT
Year 1	110,000,000	2,640,000	660,000	4,840,000	(3,491,336)	114,648,664	100.0%
Year 2	114,648,664	2,751,568	687,892	5,044,541	(2,760,822)	120,371,844	100.0%
Year 3	120,371,844	2,888,924	722,231	5,296,361	(3,045,793)	126,233,567	100.0%
Year 4	126,233,567	3,029,606	757,401	5,554,277	(3,291,344)	132,283,507	100.0%
Year 5	132,283,507	3,174,804	793,701	5,820,474	(3,511,049)	138,561,437	100.0%
Year 6	138,561,437	3,325,474	831,369	6,096,703	(3,714,595)	145,100,388	100.0%
Year 7	145,100,388	3,482,409	870,602	6,384,417	(3,908,925)	151,928,892	100.0%
Year 8	151,928,892	3,646,293	911,573	6,684,871	(4,099,049)	159,072,581	100.0%
Year 9	159,072,581	3,817,742	954,435	6,999,194	(4,288,622)	166,555,330	100.0%
Year 10	166,555,330	3,997,328	999,332	7,328,435	(50,222,552)	128,657,873	100.0%

Dot Beedot

Hypothetical Technique: first to die spouse creates a credit shelter trust, that is a BDOT, and a marital deduction trust, that is also a BDOT; the credit shelter trust and the marital deduction trust create an LLC; the marital deduction trust sells LLC interests to the credit shelter trust

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	2.40%
Rate of Return Tax Free	0.60%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	43.40%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beedot Family LLC Valuation Discount	30.00%

Credit Shelter BDOT (GST Tax Exempt) Created by Bob Beedot

	Financial Assets								
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Beedot Family LLC Distributions**	**Note Payments**	**Beneficiary Distributions**	**Income Taxes**	**End of Year**
Year 1	-	-	-	-	3,491,336	(3,491,336)	-	-	-
Year 2	-	-	-	-	2,760,822	(2,760,822)	-	-	-
Year 3	-	-	-	-	3,045,793	(3,045,793)	-	-	-
Year 4	-	-	-	-	3,291,344	(3,291,344)	-	-	-
Year 5	-	-	-	-	3,511,049	(3,511,049)	-	-	-
Year 6	-	-	-	-	3,714,595	(3,714,595)	-	-	-
Year 7	-	-	-	-	3,908,925	(3,908,925)	-	-	-
Year 8	-	-	-	-	4,099,049	(4,099,049)	-	-	-
Year 9	-	-	-	-	4,288,622	(4,288,622)	-	-	-
Year 10	-	-	-	-	50,222,552	(50,222,552)	-	-	-

Marital Deduction Trust

	Financial Assets								
	Beginning of Year	**Income**	**Tax Free Income**	**Growth**	**Beedot Family LLC Distributions**	**Note Payments**	**Beneficiary Distributions**	**Income Taxes**	**End of Year**
Year 1	-	-	-	-	-	3,491,336	(3,491,336)	-	-
Year 2	-	-	-	-	-	2,760,822	(2,760,822)	-	-
Year 3	-	-	-	-	-	3,045,793	(3,045,793)	-	-
Year 4	-	-	-	-	-	3,291,344	(3,291,344)	-	-
Year 5	-	-	-	-	-	3,511,049	(3,511,049)	-	-
Year 6	-	-	-	-	-	3,714,595	(3,714,595)	-	-
Year 7	-	-	-	-	-	3,908,925	(3,908,925)	-	-
Year 8	-	-	-	-	-	4,099,049	(4,099,049)	-	-
Year 9	-	-	-	-	-	4,288,622	(4,288,622)	-	-
Year 10	-	-	-	-	-	50,222,552	(3,470,294)	-	46,752,258

Dot Beedot

Hypothetical Technique: first to die spouse creates a credit shelter trust, that is a BDOT, and a marital deduction trust, that is also a BDOT; the credit shelter trust and the marital deduction trust create an LLC; the marital deduction trust sells LLC interests to the credit shelter trust

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Assumptions:	**Financial Assets**
Total Estimated Rate of Return	7.40%
Rate of Return Taxed at Ordinary Rates	2.40%
Rate of Return Tax Free	0.60%
Rate of Return Taxed at Capital Gains Rates	4.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains and Health Care Tax Rate	23.80%
Ordinary Income and Health Care Tax Rate	43.40%

Assumptions (continued):	
Consumption (+2.5% per year)	$1,000,000
Intra-Family Interest Rate (mid-term)	2.18%
Beedot Family LLC Valuation Discount	30.00%

Note Between Marital Deduction Trust and Credit Shelter (BDOT) Trust

	Beginning of Year Principal	**Interest @ 2.18%**	**Note Payments**	**End of Year Principal**
Year 1	69,174,000	1,507,993	(3,491,336)	67,190,657
Year 2	67,190,657	1,464,756	(2,760,822)	65,894,592
Year 3	65,894,592	1,436,502	(3,045,793)	64,285,301
Year 4	64,285,301	1,401,420	(3,291,344)	62,395,376
Year 5	62,395,376	1,360,219	(3,511,049)	60,244,546
Year 6	60,244,546	1,313,331	(3,714,595)	57,843,282
Year 7	57,843,282	1,260,984	(3,908,925)	55,195,341
Year 8	55,195,341	1,203,258	(4,099,049)	52,299,550
Year 9	52,299,550	1,140,130	(4,288,622)	49,151,059
Year 10	49,151,059	1,071,493	(50,222,552)	-

Note Calculation		
Beedot Family LLC Value		110,000,000
Beedot Family LLC Valuation Discount	30.0%	(33,000,000)
Beedot Family LLC Discounted Value		77,000,000
Portion Owned by Credit Shelter Trust	10%	7,826,000
Marital Deduction Trust Sells for Note	90.0%	69,174,000

Schedule 28

Zelda Zerobasis

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Zelda Zerobasis has a life expectancy of 20 years)

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	20-Year Values Pre-Death	20-Year Values Post Death	Present Values (Discounted at 2.50%)	Percentage of Total
No Further Planning: Bequeaths Estate to Family; Assumes $8.53mm Estate Tax Exemption Available				
Zelda Zerobasis	82,891,476	-	-	0.00%
Zerobasis Children	-	44,616,886	27,228,389	31.89%
Zerobasis Children and Grandchildren	-	8,530,000	5,205,611	6.10%
Consumption	12,772,329	12,772,329	7,794,581	9.13%
Consumption - Investment Opportunity Cost	13,053,175	13,053,175	7,965,974	9.33%
Opportunity Cost/(Benefit) of Borrowing from 3rd Party Lender	-	-		
IRS Income Tax	15,575,474	15,575,474	9,505,259	11.13%
IRS Income Tax - Investment Opportunity Cost	15,627,875	15,627,875	9,537,238	11.17%
IRS Estate Taxes @ 40%	-	29,744,590	18,152,259	21.26%
Total	**$139,920,329**	**$139,920,329**	**$85,389,311**	**100.00%**
Hypothetical Technique: Bequeaths Remaining Estate to Family; Assumes $3.19mm Estate Tax Exemption Available				
Zelda Zerobasis	8,416,063	-	-	0.00%
Zerobasis Children	-	3,135,638	1,913,589	2.24%
Zerobasis Children and Grandchildren	79,407,794	82,597,794	50,407,034	59.03%
Consumption	12,772,329	12,772,329	7,794,581	9.13%
Consumption - Investment Opportunity Cost	13,053,175	13,053,175	7,965,974	9.33%
Opportunity Cost/(Benefit) of Borrowing from 3rd Party Lender	(11,079,903)	(11,079,903)	(6,761,743)	-7.92%
IRS Income Tax	22,247,774	22,247,774	13,577,170	15.90%
IRS Income Tax - Investment Opportunity Cost	15,103,098	15,103,098	9,216,982	10.79%
IRS Estate Taxes @ 40%	-	2,090,425	1,275,726	1.49%
Total	**$139,920,329**	**$139,920,329**	**$85,389,311**	**100.00%**

Calculations of Remaining EstateTax Exemptions (assumes 2.5% inflation)	No Further Planning	Hypothetical Technique
Current Estate Tax Exemption	5,340,000	5,340,000
Prior Gifts Made	-	(5,340,000)
Future Exemption Available in 20 years	8,530,000	3,190,000

Schedule 28
Zelda Zerobasis
Asset Page

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	Zelda Zerobasis
Assets*	
FMV: Financial Assets	$5,000,000
Assumed Basis: Financial Assets	$5,000,000
FMV: Other Asset	$40,000,000
Assumed Basis: Other Asset	$0
Total Assets:	**$45,000,000**
Total Assumed Basis:	**$5,000,000**

* Information provided by client. There is no proposed planning for Zelda Zerobasis' other assets.

Schedule 28
Zelda Zerobasis
No Further Planning: Bequeaths Estate to Family; Assumes $8.53mm Estate Tax Exemption Available

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Assumptions:	**Financial Assets**	**Other Asset**
Total Estimated Rate of Return	7.40%	5.00%
Rate of Return Taxed at Ordinary Rates	0.60%	3.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	2.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (TX)	25.00%	
Ordinary Income and Health Care Tax Rate (TX)	44.60%	
Annual Consumption from these Sources (increasing 2.5% per year)	$500,000	

Zelda Zerobasis

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Other Asset Income	Consumption from these Sources	Income Taxes	End of Year Financial Assets	Beginning of Year Other Asset	Growth	End of Year Other Asset	End of Year Financial & Other Assets
Year 1	5,000,000	30,000	120,000	220,000	1,200,000	(500,000)	(565,080)	5,504,920	40,000,000	800,000	40,800,000	46,304,920
Year 2	5,504,920	33,030	132,118	242,216	1,224,000	(512,500)	(590,351)	6,033,433	40,800,000	816,000	41,616,000	47,649,433
Year 3	6,033,433	36,201	144,802	265,471	1,248,480	(525,313)	(613,679)	6,589,395	41,616,000	832,320	42,448,320	49,037,715
Year 4	6,589,395	39,536	158,145	289,933	1,273,450	(538,445)	(635,835)	7,176,180	42,448,320	848,966	43,297,286	50,473,466
Year 5	7,176,180	43,057	172,228	315,752	1,298,919	(551,906)	(657,373)	7,796,856	43,297,286	865,946	44,163,232	51,960,088
Year 6	7,796,856	46,781	187,125	343,062	1,324,897	(565,704)	(678,694)	8,454,322	44,163,232	883,265	45,046,497	53,500,819
Year 7	8,454,322	50,726	202,904	371,990	1,351,395	(579,847)	(700,093)	9,151,397	45,046,497	900,930	45,947,427	55,098,824
Year 8	9,151,397	54,908	219,634	402,661	1,378,423	(594,343)	(721,788)	9,890,892	45,947,427	918,949	46,866,375	56,757,267
Year 9	9,890,892	59,345	237,381	435,199	1,405,991	(609,201)	(743,946)	10,675,662	46,866,375	937,328	47,803,703	58,479,365
Year 10	10,675,662	64,054	256,216	469,729	1,434,111	(624,431)	(766,695)	11,508,645	47,803,703	956,074	48,759,777	60,268,422
Year 11	11,508,645	69,052	276,207	506,380	1,462,793	(640,042)	(790,141)	12,392,895	48,759,777	975,196	49,734,972	62,127,867
Year 12	12,392,895	74,357	297,429	545,287	1,492,049	(656,043)	(814,371)	13,331,604	49,734,972	994,699	50,729,672	64,061,276
Year 13	13,331,604	79,990	319,958	586,591	1,521,890	(672,444)	(839,460)	14,328,129	50,729,672	1,014,593	51,744,265	66,072,394
Year 14	14,328,129	85,969	343,875	630,438	1,552,328	(689,256)	(865,478)	15,386,004	51,744,265	1,034,885	52,779,151	68,165,155
Year 15	15,386,004	92,316	369,264	676,984	1,583,375	(706,487)	(892,490)	16,508,966	52,779,151	1,055,583	53,834,734	70,343,699
Year 16	16,508,966	99,054	396,215	726,394	1,615,042	(724,149)	(920,559)	17,700,963	53,834,734	1,076,695	54,911,428	72,612,391
Year 17	17,700,963	106,206	424,823	778,842	1,647,343	(742,253)	(949,746)	18,966,178	54,911,428	1,098,229	56,009,657	74,975,835
Year 18	18,966,178	113,797	455,188	834,512	1,680,290	(760,809)	(980,116)	20,309,040	56,009,657	1,120,193	57,129,850	77,438,890
Year 19	20,309,040	121,854	487,417	893,598	1,713,895	(779,829)	(1,011,731)	21,734,244	57,129,850	1,142,597	58,272,447	80,006,691
Year 20	21,734,244	130,405	521,622	956,307	1,748,173	(799,325)	(837,846)	23,453,580	58,272,447	1,165,449	59,437,896	82,891,476

Schedule 28
Zelda Zerobasis
Hypothetical Technique: Bequeaths Remaining Estate to Family; Assumes $3.19mm Estate Tax Exemption Available

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Assumptions:	Financial Assets	Other Asset
Total Estimated Rate of Return	7.40%	5.00%
Rate of Return Taxed at Ordinary Rates	0.60%	3.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	2.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (TX)	25.00%	
Ordinary Income and Health Care Tax Rate (TX)	44.60%	
Annual Consumption from these Sources (increasing 2.5% per year)	$500,000	

Assumptions (continued):	
Holdco, LLC - Preferred Non-Managing Member Interest	$40,000,000
Holdco, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	40.00%
Note #1 - 3rd Party Interest Rate	4.00%
Note #2 - Intra-Family Interest Rate (mid-term)	1.93%
Note #3 - Interest Rate	8.00%
Zelda Zerobasis Managing Member Growth Interest	1.00%
GST Exempt Grantor Trust Non-Managing Member Growth Interest	99.00%

Zelda Zerobasis

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Holdco Growth Distributions	Loan Proceeds	Holdco Preferred Distributions	Note Payments from GST Trust	Holdco Terminates and Pays Preferred	3rd Party Note Payments	Note Payments to Holdco	Consumption from these Sources	Income Taxes	End of Year Financial Assets
Year 1	2,000,000	12,000	48,000	88,000	7,324	-	2,800,000	275,257	-	(1,200,000)	-	(500,000)	(209,160)	3,321,421
Year 2	3,321,421	19,929	79,714	146,143	8,200	-	2,800,000	275,257	-	(1,200,000)	-	(512,500)	(311,954)	4,626,208
Year 3	4,626,208	27,757	111,029	203,553	8,849	30,000,000	2,800,000	275,257	-	(31,200,000)	(2,400,000)	(525,313)	(395,338)	3,532,003
Year 4	3,532,003	21,192	84,768	155,408	9,069	-	2,800,000	275,257	-	-	(2,400,000)	(538,445)	(821,458)	3,117,794
Year 5	3,117,794	18,707	74,827	137,183	9,347	-	2,800,000	275,257	-	-	(2,400,000)	(551,906)	(805,379)	2,675,828
Year 6	2,675,828	16,055	64,220	117,736	9,631	-	2,800,000	275,257	-	-	(2,400,000)	(565,704)	(801,169)	2,191,854
Year 7	2,191,854	13,151	52,604	96,442	9,922	-	2,800,000	275,257	-	-	(2,400,000)	(579,847)	(805,638)	1,653,744
Year 8	1,653,744	9,922	39,690	72,765	10,220	-	2,800,000	275,257	-	-	(2,400,000)	(594,343)	(816,547)	1,050,708
Year 9	1,050,708	6,304	25,217	46,231	10,525	-	2,800,000	1,275,257	-	-	(2,400,000)	(609,201)	(832,331)	1,372,710
Year 10	1,372,710	8,236	32,945	60,399	10,838	-	2,800,000	1,255,957	-	-	(2,400,000)	(624,431)	(851,900)	1,664,754
Year 11	1,664,754	9,989	39,954	73,249	11,159	-	2,800,000	1,236,657	-	-	(2,400,000)	(640,042)	(874,502)	1,921,216
Year 12	1,921,216	11,527	46,109	84,534	11,487	-	2,800,000	1,217,357	-	-	(2,400,000)	(656,043)	(899,626)	2,136,560
Year 13	2,136,560	12,819	51,277	94,009	11,824	-	2,800,000	1,198,057	-	-	(2,400,000)	(672,444)	(926,929)	2,305,173
Year 14	2,305,173	13,831	55,324	101,428	12,170	-	2,800,000	1,178,757	-	-	(2,400,000)	(689,256)	(956,190)	2,421,237
Year 15	2,421,237	14,527	58,110	106,534	12,524	-	2,800,000	1,159,457	-	-	(2,400,000)	(706,487)	(987,276)	2,478,626
Year 16	2,478,626	14,872	59,487	109,060	12,888	-	2,800,000	1,140,157	-	-	(2,400,000)	(724,149)	(1,020,115)	2,470,825
Year 17	2,470,825	14,825	59,300	108,716	13,261	-	2,800,000	1,120,857	-	-	(2,400,000)	(742,253)	(1,054,682)	2,390,849
Year 18	2,390,849	14,345	57,380	105,197	13,644	-	2,800,000	1,101,557	-	-	(2,400,000)	(760,809)	(1,090,984)	2,231,180
Year 19	2,231,180	13,387	53,548	98,172	14,037	-	2,800,000	1,082,257	-	-	(2,400,000)	(779,829)	(1,129,055)	1,983,697
Year 20	1,983,697	11,902	47,609	87,283	17,482	-	2,800,000	3,324,957	40,000,000	-	(32,400,000)	(799,325)	(6,657,540)	8,416,063

Schedule 28
Zelda Zerobasis
Hypothetical Technique: Bequeaths Remaining Estate to Family; Assumes $3.19mm Estate Tax Exemption Available

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Assumptions:	Financial Assets	Other Asset
Total Estimated Rate of Return	7.40%	5.00%
Rate of Return Taxed at Ordinary Rates	0.60%	3.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	2.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (TX)	25.00%	
Ordinary Income and Health Care Tax Rate (TX)	44.60%	
Annual Consumption from these Sources (increasing 2.5% per year)	$500,000	

Assumptions (continued):	
Holdco, LLC - Preferred Non-Managing Member Interest	$40,000,000
Holdco, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	40.00%
Note #1 - 3rd Party Interest Rate	4.00%
Note #2 - Intra-Family Interest Rate (mid-term)	1.93%
Note #3 - Interest Rate	8.00%
Zelda Zerobasis Managing Member Growth Interest	1.00%
GST Exempt Grantor Trust Non-Managing Member Growth Interest	99.00%

Holdco, LLC

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Other Asset Income	Note Payments from Zelda Zerobasis	Proceeds from Asset Sale	Loan to Zelda Zerobasis	Preferred Coupon	Growth Distributions & Holdco Termination	End of Year Financial Assets	Beginning of Year Other Asset	Growth	Sale of Assets	End of Year Other Asset	End of Year Financial & Other Assets
Year 1	33,000,000	198,000	792,000	1,452,000	1,200,000	-	-	-	(2,800,000)	(732,408)	33,109,592	40,000,000	800,000	-	40,800,000	73,909,592
Year 2	33,109,592	198,658	794,630	1,456,822	1,224,000	-	-	-	(2,800,000)	(819,997)	33,163,705	40,800,000	816,000	-	41,616,000	74,779,705
Year 3	33,163,705	198,982	795,929	1,459,203	1,248,480	2,400,000	-	(30,000,000)	(2,800,000)	(884,853)	5,581,447	41,616,000	832,320	-	42,448,320	48,029,767
Year 4	5,581,447	33,489	133,955	245,584	1,273,450	2,400,000	-	-	(2,800,000)	(906,938)	5,960,985	42,448,320	848,966	-	43,297,286	49,258,271
Year 5	5,960,985	35,766	143,064	262,283	1,298,919	2,400,000	-	-	(2,800,000)	(934,685)	6,366,332	43,297,286	865,946	-	44,163,232	50,529,564
Year 6	6,366,332	38,198	152,792	280,119	1,324,897	2,400,000	-	-	(2,800,000)	(963,095)	6,799,242	44,163,232	883,265	-	45,046,497	51,845,739
Year 7	6,799,242	40,795	163,182	299,167	1,351,395	2,400,000	-	-	(2,800,000)	(992,190)	7,261,591	45,046,497	900,930	-	45,947,427	53,209,018
Year 8	7,261,591	43,570	174,278	319,510	1,378,423	2,400,000	-	-	(2,800,000)	(1,021,992)	7,755,379	45,947,427	918,949	-	46,866,375	54,621,754
Year 9	7,755,379	46,532	186,129	341,237	1,405,991	2,400,000	-	-	(2,800,000)	(1,052,524)	8,282,745	46,866,375	937,328	-	47,803,703	56,086,448
Year 10	8,282,745	49,696	198,786	364,441	1,434,111	2,400,000	-	-	(2,800,000)	(1,083,808)	8,845,972	47,803,703	956,074	-	48,759,777	57,605,748
Year 11	8,845,972	53,076	212,303	389,223	1,462,793	2,400,000	-	-	(2,800,000)	(1,115,869)	9,447,498	48,759,777	975,196	-	49,734,972	59,182,470
Year 12	9,447,498	56,685	226,740	415,690	1,492,049	2,400,000	-	-	(2,800,000)	(1,148,734)	10,089,927	49,734,972	994,699	-	50,729,672	60,819,599
Year 13	10,089,927	60,540	242,158	443,957	1,521,890	2,400,000	-	-	(2,800,000)	(1,182,430)	10,776,042	50,729,672	1,014,593	-	51,744,265	62,520,308
Year 14	10,776,042	64,656	258,625	474,146	1,552,328	2,400,000	-	-	(2,800,000)	(1,216,984)	11,508,813	51,744,265	1,034,885	-	52,779,151	64,287,964
Year 15	11,508,813	69,053	276,212	506,388	1,583,375	2,400,000	-	-	(2,800,000)	(1,252,427)	12,291,413	52,779,151	1,055,583	-	53,834,734	66,126,146
Year 16	12,291,413	73,748	294,994	540,822	1,615,042	2,400,000	-	-	(2,800,000)	(1,288,790)	13,127,229	53,834,734	1,076,695	-	54,911,428	68,038,657
Year 17	13,127,229	78,763	315,053	577,598	1,647,343	2,400,000	-	-	(2,800,000)	(1,326,106)	14,019,880	54,911,428	1,098,229	-	56,009,657	70,029,537
Year 18	14,019,880	84,119	336,477	616,875	1,680,290	2,400,000	-	-	(2,800,000)	(1,364,409)	14,973,232	56,009,657	1,120,193	-	57,129,850	72,103,082
Year 19	14,973,232	89,839	359,358	658,822	1,713,895	2,400,000	-	-	(2,800,000)	(1,403,735)	15,991,412	57,129,850	1,142,597	-	58,272,447	74,263,859
Year 20	15,991,412	95,948	383,794	703,622	1,748,173	32,400,000	59,437,896	-	(2,800,000)	(107,960,846)	-	58,272,447	1,165,449	(59,437,896)	-	-

Schedule 28

Zelda Zerobasis

Hypothetical Technique: Bequeaths Remaining Estate to Family; Assumes $3.19mm Estate Tax Exemption Available

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Assumptions:	Financial Assets	Other Asset
Total Estimated Rate of Return	7.40%	5.00%
Rate of Return Taxed at Ordinary Rates	0.60%	3.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	2.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (TX)	25.00%	
Ordinary Income and Health Care Tax Rate (TX)	44.60%	
Annual Consumption from these Sources (increasing 2.5% per year)	$500,000	

Assumptions (continued):	
Holdco, LLC - Preferred Non-Managing Member Interest	$40,000,000
Holdco, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	40.00%
Note #1 - 3rd Party Interest Rate	4.00%
Note #2 - Intra-Family Interest Rate (mid-term)	1.93%
Note #3 - Interest Rate	8.00%
Zelda Zerobasis Managing Member Growth Interest	1.00%
GST Exempt Grantor Trust Non-Managing Member Growth Interest	99.00%

GST Exempt Grantor Trust Created by Zelda Zerobasis for the Benefit of her Descendants

	Beginning of Year Financial Assets	Income	Tax Free Income	Growth	Holdco Growth Distributions	Holdco Terminates	Note Payments to Zelda Zerobasis	Beneficiary Distributions	Income Taxes	End of Year Financial Assets
Year 1	-	-	-	-	725,084	-	(275,257)	-	-	449,827
Year 2	449,827	2,699	10,796	19,792	811,797	-	(275,257)	-	-	1,019,655
Year 3	1,019,655	6,118	24,472	44,865	876,004	-	(275,257)	-	-	1,695,857
Year 4	1,695,857	10,175	40,701	74,618	897,869	-	(275,257)	-	-	2,443,962
Year 5	2,443,962	14,664	58,655	107,534	925,338	-	(275,257)	-	-	3,274,897
Year 6	3,274,897	19,649	78,598	144,095	953,464	-	(275,257)	-	-	4,195,447
Year 7	4,195,447	25,173	100,691	184,600	982,268	-	(275,257)	-	-	5,212,921
Year 8	5,212,921	31,278	125,110	229,369	1,011,772	-	(275,257)	-	-	6,335,193
Year 9	6,335,193	38,011	152,045	278,749	1,041,998	-	(1,275,257)	-	-	6,570,739
Year 10	6,570,739	39,424	157,698	289,113	1,072,969	-	(1,255,957)	-	-	6,873,987
Year 11	6,873,987	41,244	164,976	302,455	1,104,710	-	(1,236,657)	-	-	7,250,716
Year 12	7,250,716	43,504	174,017	319,031	1,137,247	-	(1,217,357)	-	-	7,707,159
Year 13	7,707,159	46,243	184,972	339,115	1,170,605	-	(1,198,057)	-	-	8,250,038
Year 14	8,250,038	49,500	198,001	363,002	1,204,814	-	(1,178,757)	-	-	8,886,598
Year 15	8,886,598	53,320	213,278	391,010	1,239,903	-	(1,159,457)	-	-	9,624,653
Year 16	9,624,653	57,748	230,992	423,485	1,275,903	-	(1,140,157)	-	-	10,472,623
Year 17	10,472,623	62,836	251,343	460,795	1,312,845	-	(1,120,857)	-	-	11,439,586
Year 18	11,439,586	68,638	274,550	503,342	1,350,765	-	(1,101,557)	-	-	12,535,324
Year 19	12,535,324	75,212	300,848	551,554	1,389,698	-	(1,082,257)	-	-	13,770,379
Year 20	13,770,379	82,622	330,489	605,897	1,730,692	66,212,672	(3,324,957)	-	-	79,407,794

Schedule 28
Zelda Zerobasis
Hypothetical Technique: Bequeaths Remaining Estate to Family; Assumes $3.19mm Estate Tax Exemption Available

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Other Asset
Total Estimated Rate of Return	7.40%	5.00%
Rate of Return Taxed at Ordinary Rates	0.60%	3.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	2.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Long-Term Capital Gains, Dividend and Health Care Tax Rate (TX)	25.00%	
Ordinary Income and Health Care Tax Rate (TX)	44.60%	
Annual Consumption from these Sources (increasing 2.5% per year)	$500,000	

Assumptions (continued):	
Holdco, LLC - Preferred Non-Managing Member Interest	$40,000,000
Holdco, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	40.00%
Note #1 - 3rd Party Interest Rate	4.00%
Note #2 - Intra-Family Interest Rate (mid-term)	1.93%
Note #3 - Interest Rate	8.00%
Zelda Zerobasis Managing Member Growth Interest	1.00%
GST Exempt Grantor Trust Non-Managing Member Growth Interest	99.00%

Note #1 - 3rd Party Note

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	30,000,000	1,200,000	(1,200,000)	30,000,000
Year 2	30,000,000	1,200,000	(1,200,000)	30,000,000
Year 3	30,000,000	1,200,000	(31,200,000)	-
Year 4	-	-	-	-
Year 5	-	-	-	-
Year 6	-	-	-	-
Year 7	-	-	-	-
Year 8	-	-	-	-
Year 9	-	-	-	-
Year 10	-	-	-	-
Year 11	-	-	-	-
Year 12	-	-	-	-
Year 13	-	-	-	-
Year 14	-	-	-	-
Year 15	-	-	-	-
Year 16	-	-	-	-
Year 17	-	-	-	-
Year 18	-	-	-	-
Year 19	-	-	-	-
Year 20	-	-	-	-

Note #2 Between Zelda Zerobasis and GST Exempt Grantor Trust

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	14,262,000	275,257	(275,257)	14,262,000
Year 2	14,262,000	275,257	(275,257)	14,262,000
Year 3	14,262,000	275,257	(275,257)	14,262,000
Year 4	14,262,000	275,257	(275,257)	14,262,000
Year 5	14,262,000	275,257	(275,257)	14,262,000
Year 6	14,262,000	275,257	(275,257)	14,262,000
Year 7	14,262,000	275,257	(275,257)	14,262,000
Year 8	14,262,000	275,257	(275,257)	14,262,000
Year 9	14,262,000	275,257	(1,275,257)	13,262,000
Year 10	13,262,000	255,957	(1,255,957)	12,262,000
Year 11	12,262,000	236,657	(1,236,657)	11,262,000
Year 12	11,262,000	217,357	(1,217,357)	10,262,000
Year 13	10,262,000	198,057	(1,198,057)	9,262,000
Year 14	9,262,000	178,757	(1,178,757)	8,262,000
Year 15	8,262,000	159,457	(1,159,457)	7,262,000
Year 16	7,262,000	140,157	(1,140,157)	6,262,000
Year 17	6,262,000	120,857	(1,120,857)	5,262,000
Year 18	5,262,000	101,557	(1,101,557)	4,262,000
Year 19	4,262,000	82,257	(1,082,257)	3,262,000
Year 20	3,262,000	62,957	(3,324,957)	-

Note #3 Between Holdco and Zelda Zerobasis

	Beginning of Year Principal	Interest	Note Payment	End of Year Principal
Year 1	-	-	-	-
Year 2	-	-	-	-
Year 3	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 4	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 5	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 6	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 7	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 8	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 9	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 10	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 11	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 12	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 13	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 14	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 15	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 16	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 17	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 18	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 19	30,000,000	2,400,000	(2,400,000)	30,000,000
Year 20	30,000,000	2,400,000	(32,400,000)	-