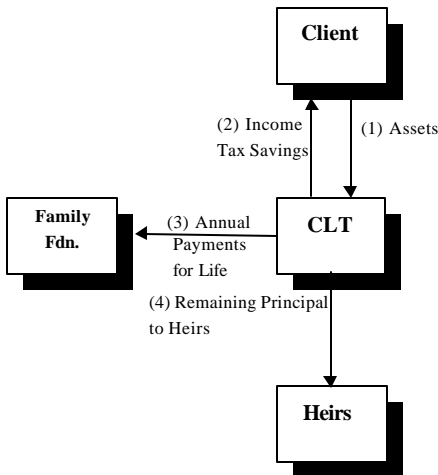


**THE COMMON
PLANNING TOOLS
AND TECHNIQUES OF
OUR PROFESSION**

CLT WITH SHORTENED LE



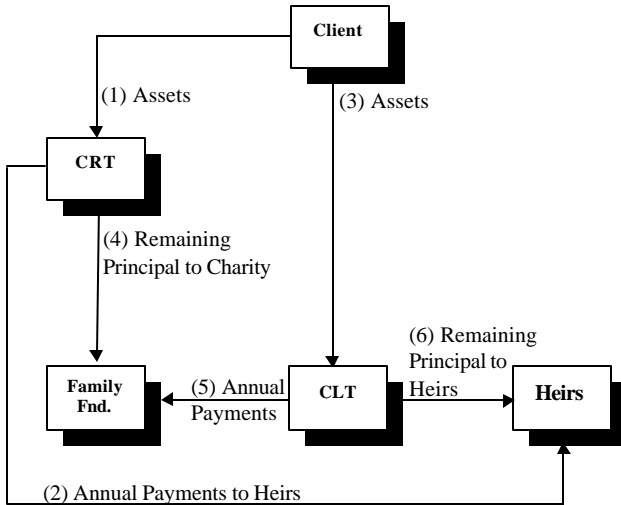
(1) Assets are transferred into the Charitable Lead Annuity Trust (CLT). The life expectancy of the grantor is taken from the IRS's tables to calculate the remainder interest. The remainder interest is calculated based on the number of years the average person of the grantor's age is expected to live. If the grantor person does not live to life expectancy, the trust will terminate and the beneficiaries will receive the remaining assets sooner than the table anticipates. The grantor has the flexibility to determine the amount of the contributions, the payout rate and the length of time the trust will be in existence. In this example, the trust was set up to remain in existence only while the grantor is alive.

(2) If this is a Grantor CLT, the contributions will generate an income tax deduction equal to the income interest. All income then earned during the term of the trust will be included as income on the personal income tax return of the grantor. If this were a Non-Grantor CLT, there would be no income tax deduction upon the contribution of assets, but no future income of the trust would be included on the personal income tax return of the grantor.

(3) The CLT will distribute an annual payment to the grantor's Family Foundation until the death of the grantor when the trust terminates.

(4) The heirs will receive the remaining principal of the trust upon the death of the grantor.

CRT WITH CLT



(1) A Charitable Remainder Trust (CRT) will be created under the terms of your Living Trust or Will upon your death. This CRT is a tax-exempt trust, meaning that the trust can trade securities in a tax-free environment. Because of the tax-exempt nature of the trust, this trust will be able to avoid any taxes on repositioning the portfolio to a new investment style.

(2) The CRT will provide a significant annual income to the heirs for the term of the trust.

(3) Also, upon the grantor's death, a Charitable Lead Annuity Trust (CLT) will be created under the terms of the Living Trust or Will. A formula contained in the Living Trust

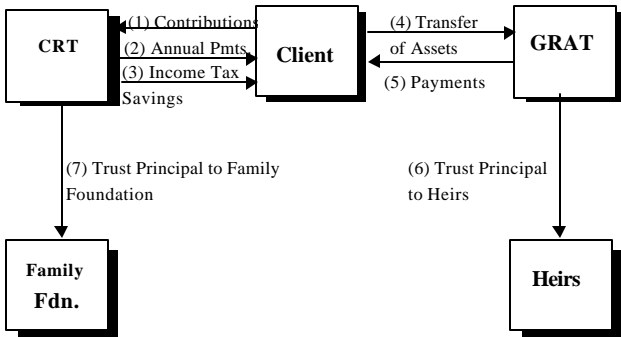
or Will determines the percentage payout/length of years of this trust.

(4) At the end of the term of the CRT, the remaining value in the CRT will pass to the Family Foundation.

(5) The CLT will distribute a significant amount of money annually during the term of the trust to your Family Foundation.

(6) The heirs will receive the remaining balance in the CLT after the trust terminates.

CRT with GRAT



(1) A major goal of the planning process is to ensure your annual cash flow needed to maintain your lifestyle. You can generate a major portion of this income need by placing low yielding, highly appreciated securities into a Charitable Remainder Trust (CRT). Under special provisions of the Internal Revenue Code, this is a tax-exempt trust, meaning that the trust can sell stock or any other highly appreciated asset while incurring no current capital gains taxes and then reinvest in a diversified portfolio of securities. Either you, your spouse or both can serve as trustee(s) and delegate administrative and compliance duties to a third-party administrator. The trustee(s) will control all the investment decisions.

(2) The CRT will provide an annual income to you for your lifetime. Since there is no up-front capital gains tax paid to reduce the principal amount, this income stream is more than you would have otherwise if you had paid the tax and invested the remainder. This trust can either be based on a term of years or a single or joint life expectancy.

(3) For making this contribution, you will enjoy a charitable income tax deduction. You can use this deduction up to an amount equal to 30 percent of your adjusted gross income. Any portion of the deduction exceeding this 30 percent limit may be carried over and used for an additional five years.

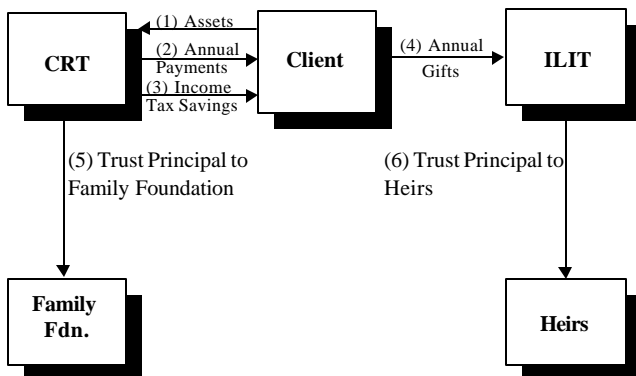
(4) Other assets are then transferred into a Grantor Retained Annuity Trust (GRAT). This trust is for a term of years. You have the flexibility to determine the amount of the contributions, the payout rate and the length of time the trust will be in existence. In order for this strategy to work effectively, the grantor must survive the term of the trust. If not, there will be estate inclusion for all or part of the remaining trust principal.

(5) The GRAT will distribute an amount of money annually during the term of the trust to you. This means a significant amount of money will be returned to you and/or your spouse during the term of the trust.

(6) The heirs will receive the remaining balance in the GRAT after the trust terminates.

(7) At the end of the term of the trust, the remaining value in the CRT will pass to your Family Foundation.

CRT with ILIT



(1) A major goal of the planning process is to ensure the annual income you will need to maintain your lifestyle. You can generate a major portion of this income need by placing low yielding, highly appreciated securities into a Charitable Remainder Trust (CRT). Under special provisions of the Internal Revenue Code, this is a tax-exempt trust, meaning that the trust can sell stock or any other highly appreciated asset while incurring no capital gains tax and then reinvest in a diversified portfolio of securities. Either or both of you can serve as trustee(s) of this trust and delegate administrative and compliance duties to a third-party administrator. The trustee will control all the investment decisions.

(2) The CRT will provide an annual income to you for your lifetime. Since there was no up-front capital gains tax paid to reduce the principal amount, this income stream is more than you would have otherwise if you had paid the tax and invested the remainder. This trust can either be based on a single or joint life expectancy.

(3) For making this contribution, you will enjoy a charitable income tax deduction. You can use this deduction up to an amount equal to 30 percent of your adjusted gross income. Any portion of the deduction exceeding this 30 percent limit may be carried over and used for an additional five years.

(4) To ensure that the assets given away to charity will be adequately replaced for your heirs' inheritance, you could establish an Irrevocable Life Insurance Trust (ILIT) and immediately begin making annual gifts to the trust. These gifts could be made under the gift tax annual exclusion which permits each taxpayer to give away up to \$10,000 per donee each year without any gift tax liability. These small gifts can result, over the course of several years, in a significant reduction in your gross estate and in your estate tax liability. If you wish to ensure your heirs' inheritance regardless of the year of your death, the trustee of this trust may then use those gifts to purchase a life insurance policy on your life or on the joint lives of you and your spouse. Alternately, you may prefer to have the trustee purchase investments if you are comfortable assuming you will live to normal life expectancy.

These trusts can be drafted with great flexibility. For example, the trust can allow income and principal to be used

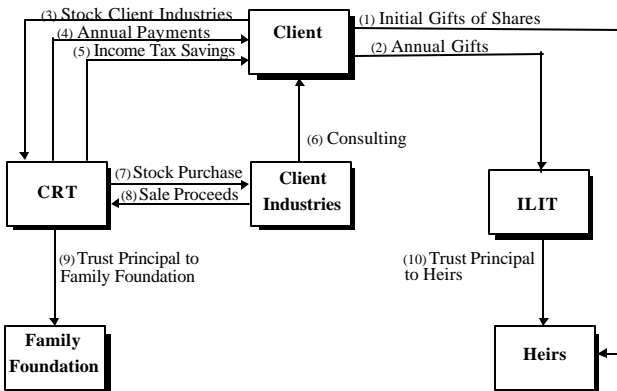
for a child or grandchild's health, education, maintenance and support, and grant the child or grandchild the power to determine who among your descendants should receive the trust assets when the child or grandchild passes away. The child can even serve as a trustee of his or her trust, although it may also be appropriate for the child to serve as a co-trustee with an advisor.

To preserve this wealth for generations, we could make the trust a Dynasty Trust. Because the Dynasty Trust will continue for the benefit of your grandchildren and other descendants, it may be subject to the Generation-Skipping Transfer Tax. However, each taxpayer is entitled to a generation-skipping tax exclusion of \$1,000,000 per taxpayer, which can be properly allocated to avoid this tax.

(5) At your death, the remaining value in the CRT will pass to your Family Foundation.

(6) At your death, the proceeds from the ILIT would be distributed to your children or grandchildren, or kept in trust for their benefit.

CHARITABLE STOCK BAIL OUT PLAN



(1) The clients owned 100 percent of the stock in a closely held business worth approximately \$5 million. The business was a C corporation. The first thing we recommended was a transfer of one percent of the company stock to the children working in the company. The parents retained 99 percent ownership.

(2) The family then established an Irrevocable Life Insurance Trust (ILIT), funded over the next three years. This funding was accomplished using only annual exclusion gifts. Three other children, not involved in the business, were the primary beneficiaries of this trust.

(3) The parents made annual transfers of company stock into a Charitable Remainder Trust (CRT) starting in the fourth year. From that point forward, there was an additional owner of the business—the CRT.

(4) Through a series of capital gains tax sheltered stock sales, the CRT will provide an annual income of approximately \$5.4 million over the parents' lifetimes. This is \$5.4 million of "new" income for the parents since the stock of the company was not paying dividends due to the adverse tax treatment. (Dividends are nondeductible to the corporation, so we find that most closely held C corporations are non-dividend paying for this reason.) In essence, we have turned non-income-producing assets into income producing ones when the stock is subsequently sold, without the adverse tax consequences usually required to do so.

(5) In addition, the transfers of company stock to the CRT over the next 25 years are going to save \$480,000 in income taxes from the deductions as the stock is transferred.

(6) The parents contracted with the company to provide consulting services for an annual fee of \$100,000 per year.

(7) Each year when the stock transfers into the CRT, the corporation can make a decision whether it wants to retire some outstanding stock. If it does, the corporation announces its interest in buying the outstanding shares of stock to all stockholders. The children would not typically be interested in selling their shares of stock. The parents would not sell any stock because of the capital gains taxes. The CRT, however, would sell its shares. The company buys the stock back and

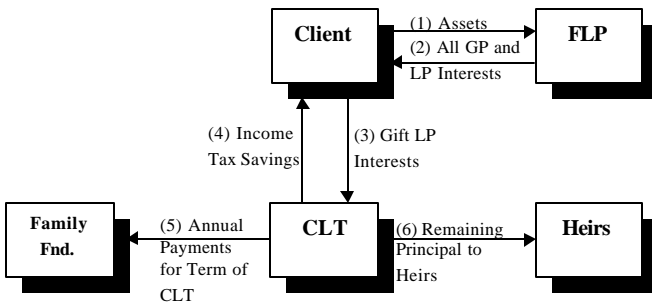
retires it as treasury stock. This will continue to be done over the next 25 years. The ownership of the company will continually shift year by year to the children. In 16 years, the children will have voting control of the business. If the parents live to life expectancy, they will have transferred the entire value of the company to the two children. They will have paid no capital gains tax and no gift tax. They also will not have paid any estate tax at death, because the business is now outside of their estates.

(8) If the corporation put out an offer to buy, and the CRT decided to sell, the corporation would buy the stock for cash. The CRT would then reinvest those proceeds into a diversified portfolio.

(9) After both parents pass away, the CRT terminates. It funnels millions into the Family Foundation. The distribution privileges are with all five children. They play an equal role in philanthropy for their local community. We avoid the upfront capital gains taxes on the potential sale of the company. We also get the company to the children in the business without estate tax. Additionally, we increase the parents' income because non-income-producing assets are converted into income-producing ones.

When both parents die, their remaining Unified Credit amounts go to the children not involved in the business. The ILIT will terminate and pass to the children not in the business income and estate tax free. All five children will have approximately \$5 million each.

FLP WITH CLT



(1) You can fund this Family Limited Partnership (FLP) with cash, securities (marketable and nonmarketable), real estate and other assets. This partnership allows you to retain control over all income distributions from the partnership units, even if the Limited Partner (LP) units are given away to your heirs. You do this by acting as a controlling General Partner (GP) throughout your life. An FLP can also promote your family's ideals in important ways. In particular, your family can:

- Meet regularly to discuss how assets can be invested to further the family's purpose, virtues and values
- Jointly make investment decisions that maintain current income levels or improve returns generated by the assets
- Provide a large measure of immunization of your assets from the claims of future creditors and predators
- Keep control and ownership of assets within the family by preventing ownership from falling into the hands of in-laws upon the divorce or death of a child and from falling into the hands of any person outside the family
- Teach other family members fiscal and investment responsibility
- Amend or revoke the FLP more easily than other estate planning tools such as Irrevocable Trusts

(2) Because the LP interests in the FLP will have liquidity, marketability, and minority interest constraints, it is reasonable to assume there will be a valuation adjustment. A qualified appraiser must establish reasonable adjustments after evaluating the terms of the partnership agreement and assets used to fund the FLP. The value will likely be based in part on valuation adjustments applied to similar partnerships. After you establish and fund the FLP, you will receive GP and LP interests.

(3) The LP interests can then be transferred into a Charitable Lead Annuity Trust (CLT). The term of this trust could be either the life expectancy of the donor or a term of years. You have the flexibility to determine the amount of the contributions, the payout rate and the length of time the trust will be in existence. Due to the valuation adjustments, the payout rate of the CLT will be greater than the underlying rate

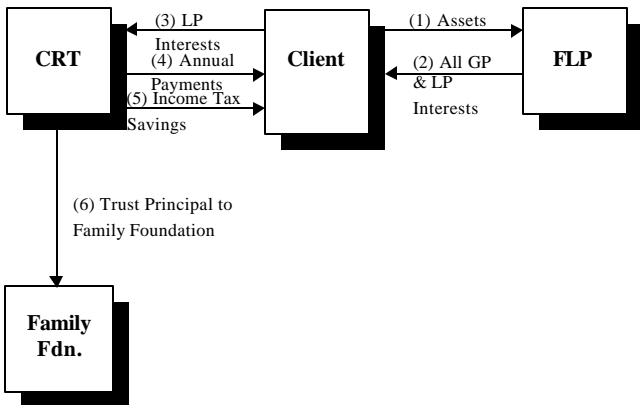
of return on the assets inside the FLP. An example is as follows: Assume a 25-percent valuation adjustment on the limited FLP interest and a six-percent rate of return on assets. An asset worth \$100,000 will yield \$6,000 annually. With that asset inside the FLP, the adjusted value will be \$75,000. The \$6,000 will then equate to an eight-percent yield ($\$6,000 \div \$75,000$) on that adjusted value. This will shorten the length of time that the CLT will have to be in existence.

(4) If this is a Grantor CLT, the contributions will generate an income tax deduction equal to the income interest. All income then earned during the term of the trust will be included as income on the personal income tax return of the grantor. If this is a Non-Grantor CLT, there will be no income tax deduction upon the contribution of assets, but no future income of the trust will be included on the personal income tax return of the grantor.

(5) The CLT will distribute an amount of money annually during the term of the trust to your Family Foundation. This could total a significant amount of money during the term of the trust that will be given to your Family Foundation.

(6) The heirs will receive the remaining balance in the CLT after the trust terminates.

FLP WITH CRT



(1) See preceding technique (FLP with CLT), item (1), for explanation of FLP.

(2) Because the LP interests in the FLP will have liquidity, marketability and minority interest constraints, it is reasonable to assume there will be a valuation adjustment. A qualified appraiser must establish reasonable adjustments after evaluating the terms of the partnership agreement and assets used to fund the FLP. The value will likely be based in part on valuation adjustments applied to similar partnerships. After you establish and fund the FLP, you will receive GP and LP interests.

(3) A major goal of the planning process is to ensure the annual income you need to maintain your lifestyle. You can generate a portion of this income need by placing low yielding, highly appreciated securities into a Charitable Remainder Trust (CRT). This is a tax-exempt trust, meaning that the trust can sell stock or any other highly appreciated asset while incurring no capital gains taxes and then reinvest in a diversified portfolio of securities. Administrative and compliance duties can be delegated to a third-party administrator.

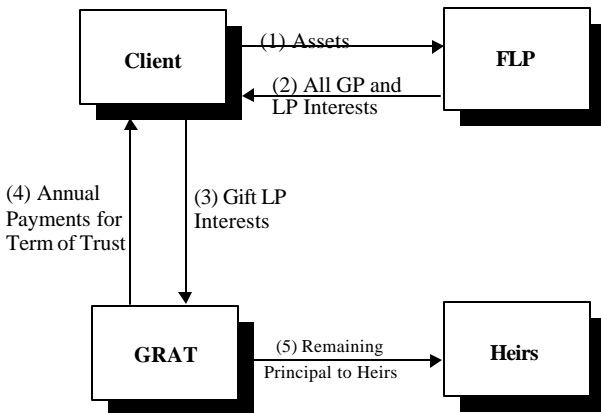
By structuring this CRT as a Net Income Make-up Charitable Remainder Unitrust (NIMCRUT), you create maximum control over taxable income in the account. The FLP structure gives you the ability to recognize or not recognize income depending on your needs. If you choose not to draw the income during your life, the tax dollars that would ordinarily have been paid will instead compound tax-deferred and pass to your family foundation or preferred charities at your death. These charities will reflect your family's mission and virtues. The uniqueness of this plan design, in essence, is that you can control the income.

(4) The CRT will provide an annual income to you for your lifetime. Since there was no up-front capital gains tax paid to reduce the principal amount, this income stream is more than you would have otherwise received had you paid the tax and invested the remainder. This trust can either be based on a term of years or a single or joint life expectancy.

(5) For making this contribution, you will enjoy a charitable income tax deduction. You can use this deduction up to an amount equal to 30 percent of your adjusted gross income. Any portion of the deduction exceeding this 30 percent limit may be carried over and used for an additional five years.

(6) At the end of the term of the trust, the remaining value in the CRT will pass to your Family Foundation.

FLP WITH GRAT



(1) See previous technique (FLP with CLT), item (1), for explanation of FLP.

(2) Because the LP interests in the FLP will have liquidity, marketability, and minority interest constraints, it is reasonable to assume there will be a valuation adjustment. A qualified appraiser will have to establish reasonable adjustments after evaluating the terms of the partnership agreement and assets used to fund the FLP. The value will likely be based in part on valuation adjustments applied to similar partnerships. After you establish and fund the FLP, you will receive GP and LP interests.

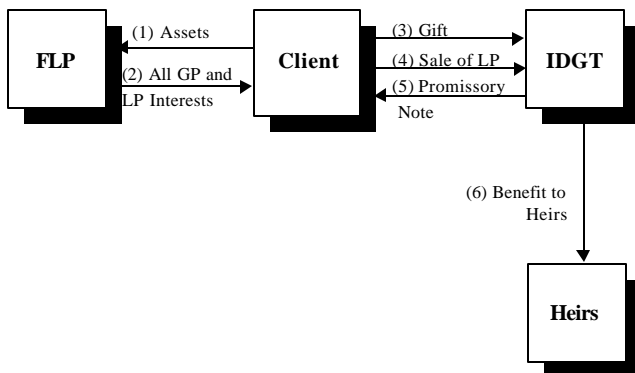
(3) The LP Interests are then transferred into a Grantor Retained Annuity Trust (GRAT). This trust is for a term of

years. You have the flexibility to determine the amount of the contributions, the payout rate and the length of time the trust will be in existence. In order for this strategy to work effectively, you must survive the term of the trust. If you do not, there will be estate inclusion for all or part of the remaining trust principal. Because of the valuation adjustments, the payout rate of the GRAT will be greater than the underlying rate of return on the assets inside the FLP. An example is as follows. Assume a 25-percent valuation adjustment on the limited FLP interest and a six-percent rate of return on assets. An asset worth \$100,000 will yield \$6,000 annually. With that asset inside the FLP, the adjusted value will be \$75,000. The \$6,000 will then equate to an eight-percent yield ($\$6,000 \div \$75,000$) on that adjusted value. This will shorten the length of time that the GRAT will have to be in existence.

(4) The GRAT will distribute an amount of money annually during the term of the trust to you. This could total a significant amount of money that will be returned to you and/or your spouse during the term of the trust.

(5) The heirs will receive the remaining balance in the GRAT after the trust terminates.

FLP with IDGT



(1) See previous technique (FLP with CLT), item (1), for explanation of FLP.

(2) Because the LP interests in the FLP will have liquidity, marketability and minority interest constraints, it is reasonable to assume there will be a valuation adjustment. A qualified appraiser will have to establish reasonable adjustments after evaluating the terms of the partnership agreement and assets used to fund the FLP. The value will likely be based in part on valuation adjustments applied to similar partnerships. After you establish and fund the FLP, you will receive GP and LP interests.

(3) A gift should be made to a trust that is designed to be a Grantor Trust. An Intentionally Defective Grantor Trust (IDGT) is a trust that includes specific provisions designed to make the income of the trust taxable to the grantor. This is accomplished by allowing the grantor to retain certain administrative powers, such as the right “to reacquire the trust corpus by substituting other property of equivalent value” which, under the grantor trust rules in IRC Section 671-678, causes the grantor to be deemed the owner of the trust assets for income tax purposes. The idea is to include a provision that causes the trust to be a Grantor Trust for income tax purposes while still excluding the trust assets from the grantor’s estate for estate tax purposes. This special feature makes it possible for the grantor to engage in income tax-free transactions with the trust.

(4) The grantor sells the LP interest to the IDGT for a promissory note. When you, as a grantor, sell an asset to your IDGT, it is treated as though you have sold it to yourself, and the transaction is ignored for federal capital gain and income tax purposes. Assuming the sale is at fair market value, there is no gift and no recognition of any gain or loss on this transaction. Likewise, the interest payments received by the grantor on the promissory note in connection with the asset purchase do not result in a tax deduction to the trust, nor do they constitute taxable income to the grantor. The grantor does, however, continue to pay tax on the income earned by the assets in the IDGT. This shift of the income tax liability from the trust and/or its beneficiaries back to the grantor results in the added benefit of reducing the grantor’s estate

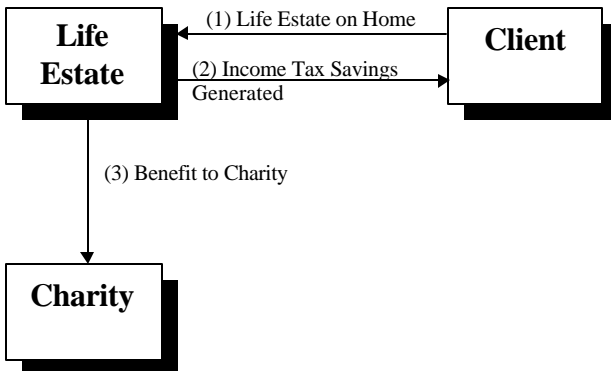
even further while enabling the assets in the IDGT to grow and have that appreciation excluded for estate tax purposes.

As long as the grantor does not retain any rights or powers that would otherwise cause inclusion under IRC Sections 2036 or 2038, then the trust assets will be excluded from his estate. Only the unpaid balance, if any, on the promissory note is included in the grantor's estate.

(5) In payment for the LP Units, the IDGT issues the grantor a fixed term promissory note bearing interest at the then current Applicable Federal Interest Rate. Over the term of the note, the grantor will receive principal and interest payments from the IDGT. As GPs of the FLP, you will have the flexibility to determine whether the FLP will distribute cash and/or in-kind portions of the underlying assets in the FLP to the IDGT to fund the note payments. If you continue to control the GP, you can continue to receive ongoing compensation from the FLP in payment for services as GP.

(6) At the end of the term of the trust, the remaining value in the IDGT will pass to the beneficiaries of the trust. After completion of the note term, you can terminate the grantor trust status and shift the income tax liability to the trust and/or its beneficiaries. You also have the ability to continue to receive ongoing compensation from the FLP in payment for services as GP.

LIFE ESTATE AGREEMENT



(1) In many cases it may make sense to contribute the remainder interest in your personal residence to your Family Foundation and retain a life estate interest in the residence over your and your spouse's lifetimes. This technique is termed "Life Estate Agreement." During your lifetime and the lifetime of the survivor, you continue to maintain your home and to pay the taxes and insurance. However, you get an up-front tax deduction today for a gift that will not be completed until the time of your death (or the sale of the property).

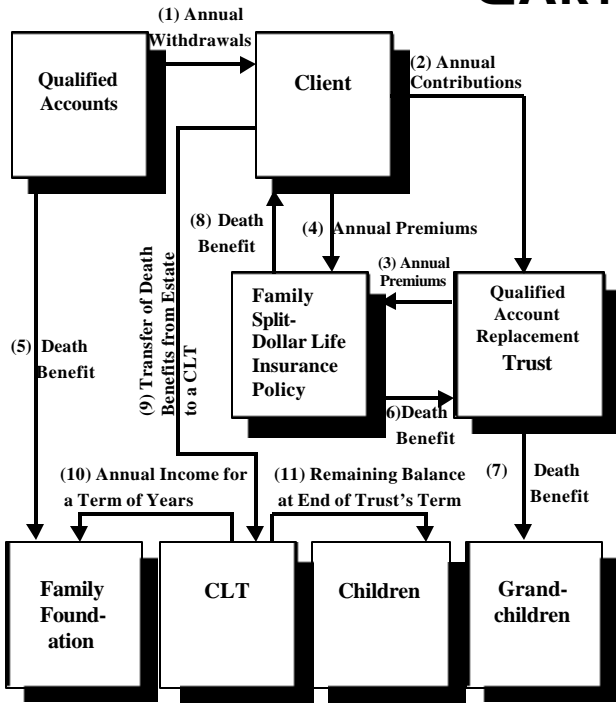
If you decide to sell the home, you and the Foundation can enter into a joint sale since the home is now owned partly by you (the lifetime interest) and partly by the Foundation (the remainder interest for which you received a tax deduction). The sale proceeds are divided among you and the Foundation based on your respective shares of ownership as determined using IRS actuarial tables. You also have flexibility with your retained lifetime interest. You can (1) give it away to charity or others, (2) transfer it to your CRT when you wish to sell it, or (3) later combine the Life Estate Agreement with other estate planning techniques such as a Qualified Personal Residence Trust.

You should be able to use the Life Estate Agreement technique for all residences. The term "personal residence" means any property used by its owner(s) as a personal residence, although such property need not be used as the principal residence [I.R.C. Section 170(f)(3)(B)(i) Treas. Reg. Section 1.170A-7(b)(3)]. Thus, a remainder interest in a taxpayer's vacation home that is used as a personal residence qualifies for the deduction [Treas. Reg. Sec. 1.170A-7(b)(3)].

(2) For your transfer of the remainder interest, you will receive an income tax deduction.

(3) The home will be distributed to the Family Foundation as per the Life Estate Agreement.

QART



(1) The clients' income exceeds their needs. Therefore, specific income amounts may be targeted for the Qualified Account Replacement Trust (QART) technique. Unneeded qualified accounts are an excellent source for this income, especially since required minimum distributions occur at age 70 ½ and three levels of taxation (as high as 75%) are accessed on them at death.

(2) The clients gift the equivalent term cost of joint survivor life coverage (US 38) on themselves to a QART. To the extent that it exceeds annual gifting exclusions, this transfer is subject to federal gift taxes.

(3) The QART enters into a split-dollar joint survivor life insurance contract with the clients. The QART pays the US

38 cost and is designated as the beneficiary of the net death benefit (death benefit minus premiums loaned to date).

(4) The clients loan the remaining portion of the premiums due to the split-dollar policy. The total premium loans will be repaid either after a period of years or at the second death. The clients do not have collateral rights or cash value access to the policy during the split-dollar arrangement. Because it is a loan and not a gift, this portion of the premium is not subject to federal gift taxes.

(5) After the second death, the qualified account balance is directed to a charity, preferably a Family Foundation or a Donor Advised Fund (DAF) at a local community foundation.

(6) The split-dollar policy pays the net death benefit (death benefit minus premiums loaned to date) to the QART.

(7) The QART distributes the proceeds to its beneficiaries. Ideally, the proceeds will equal or exceed the balance of the qualified accounts, thus, “replacing” them. Because of life insurance’s Generation Skipping Tax (GST) Exemption, designating grandchildren as beneficiaries can produce significant transfer leverage.

(8) The split-dollar policy returns the total amount of premiums loaned to the clients (if still living) or to the estate of the second spouse to die.

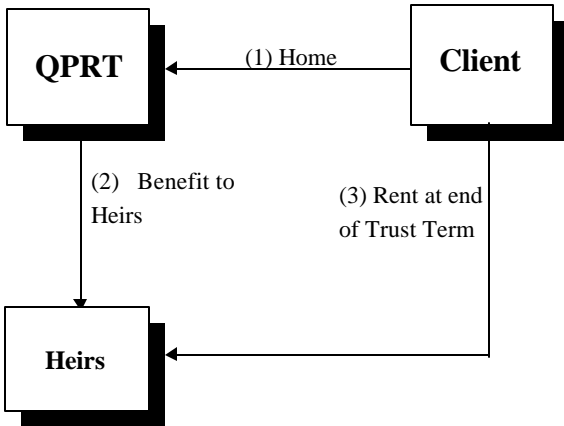
Optional:

(9) The executor of the clients’ estate forwards the proceeds of the split-dollar policy to a Charitable Lead Trust (CLT).

(10) The CLT pays a set income to charity for a predetermined period of years. Again, the charity could be a Family Foundation or DAF. This illustration assumes the CLT produces no remainder interest for tax purposes.

(11) After the term of the CLT is complete, the assets flow to the heirs tax free. Because CLTs are not GST exempt, designating children, not grandchildren, as beneficiaries is recommended.

QRPT



(1) You give your home to a Qualified Personal Residence Trust (QPRT) or a House GRIT [I.R.C. sec. 2702(a)(3)(A)(ii)]. Using this technique, you may transfer an asset of significant value to family members and incur little or no gift tax. (However, you must survive the term of the trust. If you do not, the asset is included in your estate at the value as of your date of death.)

To use this strategy, you create an Irrevocable QPRT and give your home to it while you retain the right to use the property for a specified number of years and, if there is income from the property, pay you the income for the specified number of years. This QPRT is a "Grantor Trust" and all income, if any, is taxable to the grantor(s).

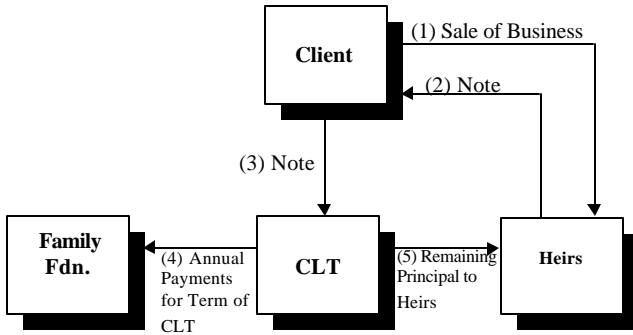
During the term of the QPRT, you will have the right to continue to live in and use the house. You will pay all the costs of maintaining the house as you have always done.

(2) When the trust terminates, the home will be distributed to your heirs as per the terms of the trust.

(3) Since your heirs now own the home, you must pay rent to live in the home. This may or may not be income taxable to your heirs, depending on how this is structured.

The additional benefit to this type of planning is the ability to get more money to your heirs, estate tax free, since rent payments are not subject to gift or estate tax.

TESTAMENTARY SALE OF BUSINESS/NOTE TO CLT



(1) Your estate will sell your business interest for a note upon your death. There will be no capital gains tax to pay on this transaction since the business received a step up in basis at your death. The sale price of the business must be for its appraised value.

(2) A note from the heirs to your estate will be executed. This note should bear a reasonable interest rate and maturity date given the market conditions at that time.

(3) A Charitable Lead Annuity Trust (CLT) will be created under the terms of your Living Trust or Will. A formula contained in your Living Trust or Will determines either the percentage payout or the length of years of this trust. The note can then be given to the trust and have no adverse tax consequences.

(4) The CLT will distribute an amount of money annually during the term of the trust to your Family Foundation. This could total a significant amount of money that will be given to your Family Foundation during the term of the trust.

(5) The heirs will receive the remaining balance in the CLT after the trust terminates.