

FORTY-THREE OF THE BEST CREATIVE TAX PLANNING IDEAS WE SEE FOR
TRUSTS[©]

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Table of Contents

- I. THE PRIMARY IMPORTANCE OF GOALS-BASED PLANNING FOR THE SUCCESSFUL SUCCESSION OF THE FAMILY WEALTH IRRESPECTIVE OF THE STATUS OF THE TAX LAW. 1
 - A. The Importance of First Determining a Client’s Goals That Determine the Estate Plan’s Essential Strategies..... 1
 - 1. The prevalence of tax driven wealth preservation focus and four suggested rules to change the priority of that focus..... 1
 - 2. Estate plans developed around the stewardship purpose of the family wealth..... 1
 - 3. Organizational pattern of a purpose-based estate plan: 3
 - 4. Compatibility of strategies and legal structures with the stated purpose of family wealth. 3
 - B. Once the Purpose and Use of the Family’s Capital Has Been Determined, Trust Planning Strategies Should Be Developed to Maximize the Investment Risk-Adjusted, After-Tax Wealth That May Be Applied to Those Purposes and Uses..... 3
- II. BRIEF INTRODUCTION TO NON-GRANTOR TRUSTS, GRANTOR TRUSTS, SPOUSAL GRANTOR TRUSTS AND (“BDOTs”). 4
 - A. Non-Grantor Trusts..... 4
 - B. Grantor Trusts. 5
 - C. Spousal Grantor Trusts. 5
 - D. Beneficiary Deemed Owner Trusts 6
 - 1. IRC Section 678(a)(1) application..... 6
 - 2. IRC Section 678(a)(2) application..... 6
 - 3. IRC Section 678 application because of operation of IRC Section 1361(d)(3). 6

III.	THE ADVANTAGES AND CONSIDERATIONS OF NON-GRANTOR TRUSTS.....	6
A.	Advantages of a Non-Grantor Trust.	6
1.	Non-grantor trusts can be used to lower state income taxes by locating the trust in a state that has low, or no, state income tax.....	6
2.	The technique.....	7
3.	Advantages of the technique.....	7
4.	The IRC Section 643(f) considerations of the technique.....	8
5.	Non-grantor trust beneficiaries, who live in a state with a high state income tax, can have the beneficial use of the non-grantor trust assets and still avoid or reduce income taxes in the beneficiary’s residence state associated with that use.	8
6.	Non-grantor trusts can be used to lower some federal income taxes.....	10
7.	Non-grantor trusts can be used to save transfer taxes.....	10
B.	Considerations of a Non-Grantor Trust.	11
1.	If the non-grantor trust is a complete gift, the transfer is subject to gift taxes unless the transfer qualifies for the marital or charitable deduction.....	11
2.	As noted above, a non-grantor trust is subject to very high income taxes and surtaxes to the extent distributions are not made to beneficiaries.	11
C.	Mitigation Strategies of the Income Tax Considerations Noted in <i>Supra</i> Section B.2.....	11
1.	The trustee of the non-grantor trust could invest in assets that are very income tax efficient.....	11
2.	The trustee of the non-grantor trust could use a two class partnership to shift income of a non-grantor trust residing in a high state income tax state to a low state income tax state.	20
3.	Using the drop down QSST strategy to tax the non-grantor trust at the beneficiary’s low individual income tax rate without making distributions on a net basis to the beneficiary or giving the beneficiary of the trust the right to vest the income of the trust to the beneficiary.	26

- 4. In appropriate cases, the non-grantor trust could be converted to a BDOT (for a discussion of the advantages and considerations of a BDOT *see infra* Section VI), which removes the incidence of taxation from the trust to the beneficiary. The non-grantor trust could be converted to a BDOT by the sale technique (*see infra* Section VI.B.4.), a decanting technique, exercise of a power of appointment by a power holder, a reformation technique, or some other means. 30
- 5. If the grantor of the non-grantor trust is living, the non-grantor trust could be converted to a grantor trust by the grantor borrowing from the trust. *See infra* Section IV.A.6. 30
- 6. In a discretionary non-grantor trust the trustee could have the power to make discretionary distributions to a BDOT (*see infra* Section VI) for the benefit of a beneficiary of the discretionary trust, which will, in effect, shift the taxable income of the non-grantor trust equal to the distributions to the beneficiary. In comparison to simply making outright distributions to a beneficiary the advantages of a trust for the beneficiary, assuming the BDOT only withdraws enough to pay the beneficiary's income taxes, will be preserved. 30
- 7. In a discretionary non-grantor trust the trustee could have the power to make discretional distributions to a sub S corporation owned by a QSST (*see supra* Section III.C.3.) for the benefit of the discretionary trust, which to the extent distributions are made will, in effect, shift the taxable income of the non-grantor trust equal to the distributions to the beneficiary. Assuming the subchapter S corporation only distributes enough cash to the QSST so that the beneficiary can pay his income taxes, in comparison to simply making distributions to a beneficiary, the advantages of a trust for the beneficiary will be preserved. 31

IV. ADVANTAGES AND CONSIDERATIONS OF GRANTOR TRUSTS. 31

- A. Advantages of Grantor Trust Status..... 31
 - 1. Gift tax free payment of income tax. 31
 - 2. Tax-free swapping out of low-basis assets. 32
 - 3. Transfer tax advantage of tax-free freeze transactions. 36
 - 4. The advantage of locating income tax inefficient asset classes inside a grantor trust that is not subject to estate taxes. 38
 - 5. Flexibility advantages of the SIDGT. 40
 - 6. Advantages and considerations of borrowing from a grantor trust..... 42

B.	Other Considerations of Grantor Trust and the SIDGT Technique.....	49
1.	State income tax considerations.....	49
2.	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.	49
3.	If the assets decrease in value, the gift tax exemption equivalent may not be recoverable.	50
4.	There may be gain recognition considerations with respect to the note receivable or note payable that may exist with the grantor trust as the death of the donor, but not with the LAIDGT technique (<i>see infra</i> Section IV.B.10 for a discussion of the LAIDGT technique).....	50
5.	There may be income realization considerations with respect to a note payable that may exist with the grantor trust at the death of the donor.	51
6.	On the death of the grantor there will be no step-up in basis in the assets owned by the grantor trust.	52
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.	52
8.	At some point, the grantor may not be able to afford the income taxes associated with the grantor trust. At that point, if the grantor renounces the retained powers that make it a grantor trust, then the trust becomes a non-grantor trust unless the original drafting of the trust provides that the trust becomes a BDOT under those circumstances (<i>see supra</i> Section VI for the discussion of BDOTs). If the trust becomes a non-grantor trust, then the trust has the high income taxes of a non-grantor trust and other considerations of a non-grantor trust (<i>see the discussion supra</i> Section III.B.2).	53
9.	When the grantor dies then the trust becomes a non-grantor trust unless the original drafting of the trust provides that the trust becomes a BDOT under those circumstances (<i>see the discussion infra</i> Section VI).....	53
10.	Mitigation of some of the considerations of the SIDGT technique: contribution of a leveraged LLC interest to a grantor trust (“LAIDGT” technique).....	53

C.	The LAIDGT Technique in Combination with Preferred Interests When One Spouse Owns Most of the Assets and the Donor Wishes to Benefit the Donor’s Family, Spouse and Favorite Charitable Causes.	61
1.	The technique.....	61
2.	Advantages of the LAIDGT technique in combination with preferred interests.	63
3.	Charitable considerations of the LAIDGT technique in combination with preferred interests.	70
D.	The RPM Grantor Trust Technique When One Spouse Owns Most of the Assets.	74
1.	The technique.....	74
2.	Advantages of the technique.	78
3.	Considerations of the technique.....	82
E.	The Advantages and Considerations of a Transferor Creating a Grantor Trust for the Benefit of the Transferor’s Spouse and That Transferor’s Spouse Creates a Grantor Trust for the Benefit of the Transferor That is Not Reciprocal of the Trust the Transferor Created.	84
1.	What is the technique?	84
2.	Advantages of the RPM Trust and the LAIDGT technique.	86
3.	Considerations of the RPM Trust technique (<i>see supra</i> Section IV.D.3.) and the LAIDGT technique (<i>see supra</i> Section IV.C.3.).	86
4.	Consideration that if the Reciprocal Trust Doctrine applies, the spouse beneficiary of the trust will also be considered the grantor of the trust and the transfer tax advantage of the technique will be lost.	86
F.	The Gifting and Selling Low Basis Assets to a Grantor Trust Where an Older Generation is a Beneficiary and is Subject to an Older Generation’s General Power of Appointment and Estate Taxes (“UPIDGT”) Technique.	93
1.	Income tax and basis enhancing advantages of the UPIDGT technique.	94
2.	Transfer tax advantages of the UPIDGT technique.	94
3.	Considerations of the UPIDGT technique.	95

V.	ADVANTAGES AND CONSIDERATIONS OF SPOUSAL GRANTOR TRUSTS.....	97
A.	The Advantages of a Transferor Selling Assets to a Trust That Names the Transferor as a Beneficiary, Gives the Transferor a Testamentary Special Power of Appointment and Under Which the Transferor’s Spouse is Considered the Income Tax Owner (“Spousal Grantor Trust”).....	97
1.	What is the technique?	97
2.	Transfer tax advantage of the technique.	101
3.	Income tax advantages of the technique.	101
B.	Considerations of the Technique.	102
1.	Federal income tax considerations.....	102
2.	State income tax considerations.....	102
3.	It is prudent to file gift tax returns.	102
4.	Reciprocal trust doctrine considerations.	103
5.	Some commentators have expressed the consideration that if it is possible for a current creditor, or any future creditor, of the assigning beneficiary to reach part of the assets of the spousal grantor 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 Sections 2036 or 2038.....	103
6.	When the spousal grantor dies then the trust becomes a non-grantor trust unless the original drafting of the trust provides that the trust becomes a BDOT (<i>see</i> the discussion <i>infra</i> Section VI). If the trust becomes a non-grantor trust, then the trust has the high income taxes of a non-grantor trust and the other considerations of a non-grantor trust (<i>see</i> the discussion <i>supra</i> Section III.B.).	104
VI.	THE ADVANTAGES AND CONSIDERATIONS OF THE BDOT UNDER IRC SECTION 678(a)(1).....	104
A.	IRC Section 678(a)(1) Overview.....	105
1.	IRC Section 678(a)(1) ownership because of power to vest corpus or income of the subject trust.	105
2.	Grantor’s ownership trumps beneficiary ownership.....	105

3.	Extremely leveraged sales to BDOTs is a no rule area.....	105
B.	Transfer Tax Advantages of Sales to LLCs Owned by BDOTs.	105
1.	Overview of technique.....	106
2.	Application of IRC Section 678(a)(1).....	107
3.	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.	110
4.	The BDOT technique may be able to be used to transfer assets from a trust that is a non-grantor trust to a newly created trust.....	111
5.	A BDOT may be able to be used as an exit strategy from a closely held family C corporation.	115
6.	Consider using the BDOT technique, in combination with an accumulation trust, to facilitate IRA planning for descendants.	118
7.	Using the BDOT technique to lengthen the transfer tax and income tax benefit of a grantor trust in which the grantor’s spouse is a beneficiary.....	119
8.	Using the BDOT technique to lengthen the transfer tax and income tax benefit of a grantor trust in which there is a primary beneficiary, other than the grantor’s spouse.	120
9.	Post-mortem uses of BDOTs.	121
C.	Income Tax Advantages of the Technique.	124
1.	The technique has all of the income tax advantages of the SIDGT technique or the LAIDGT technique.	124
2.	What does it mean for a “portion” to be treated as owned under IRC Section 678?.....	125
3.	Sales to a Single-Member LLC owned by grantor trusts or BDOTs as alternative technique if Rev. Rul. 85-13 is revoked by the IRS or deemed not to apply to BDOTs.	127
4.	Failing to take the withdrawing income is not relevant to the IRC Section 678 analysis.....	129
5.	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.	129

6.	The BDOT has many income tax advantages that a complex trust does not have.	129
7.	Capital losses can be passed through to the beneficiary of the BDOT. ...	130
8.	The capital gains benefit of a residence that is inherent under IRC Section 121 will be available to sales of residences owned by a BDOT.	130
9.	There are increased opportunities for charitable planning because the inherent limitations under IRC Section 642(c) will be eliminated.	130
10.	A BDOT should avoid overlapping state fiduciary income taxation.	130
11.	Other uses of beneficiary-owned trusts.	130
12.	Beneficiary ownership of state source income.	131
D.	Considerations for all BDOT techniques.	132
1.	Avoiding a wealth transfer tax caused by lapse of a general power.	132
2.	Adverse transfer tax consequences if creditors can reach BDOT assets.	133
3.	The sale of assets to a BDOT has most of the considerations of a LAIDGT or SIDGT, with the following exceptions,	134
4.	It may be important to have an independent trustee of the BDOT, or a protector who has the power to remove the withdrawal beneficiary's power to withdraw net taxable income for a future year or years.	134

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

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

1. The prevalence of tax driven wealth preservation focus and four suggested rules to change the priority of that focus.

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

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

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

2. Estate plans developed around the stewardship purpose of the family wealth.

It is enlightening to contrast conventional *tax driven wealth preservation plans* with plans which have been formulated for clients who were initially asked (perhaps through the vehicle of many open-ended questions): "What is the purpose (or stewardship mission) of your family

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).

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 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, Trust Planning Strategies Should Be Developed to Maximize the Investment Risk-Adjusted, After-Tax Wealth That May Be Applied to Those Purposes and Uses.

Planning almost always begins with the use of trusts. There are trust planning strategies that reduce both the income taxes on capital and its income and the transfer taxes on capital. Trust 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 most creative trust planning strategies that reduce both taxes including the proposed surtaxes that exists under the House of Representatives legislation in the Build Back Better ACT ("BBB"), if those taxes become law.

This paper is organized to discuss some of the most creative trust planning strategies by discussing non-grantor trusts (the taxable income of the trust is taxed to the trust, except for trust distributions), grantor trusts (the taxable income of the trust is taxed to the grantor), spousal

grantor trusts (the taxable income of the trust is taxed to the spouse of the beneficiary), and BDOTs (the taxable income of the trust is taxed to the beneficiary of the trust).

The federal income tax rates for 2022 for an individual include a top rate on ordinary income of 37%, a top rate on long-term capital gains and qualified dividends of 20% and a surtax on net investment income of 3.8%. The current draft of BBBA legislation passed by the House of Representatives would maintain these rates, but also adds a high income surcharge that would impose an additional 5% tax on a taxpayer’s modified adjusted gross income (“MAGI”) in excess of \$10 million and an additional 3% tax on MAGI in excess of \$25 million. In calculating MAGI charitable deductions are not taken into account.

The federal income tax rates for 2022 for non-grantor trusts and estates include a top rate on ordinary income of 37%, a top rate on long-term capital gains and qualified dividends of 20% and a surtax on net investment income of 3.8%. The current draft of BBBA passed by the House of Representatives would maintain these rates, but also adds a high income surcharge that would impose an additional 5% tax on a trust’s AGI or an estate’s MAGI in excess of \$200,000 and an additional 3% tax on AGI in excess of \$500,000. Thus, in 2022 the total proposed highest marginal rate, including surtaxes, for non-grantor trusts and estates is 48.8%. In calculating the MAGI, charitable deductions that are allowable under IRC Section 642(c), can be taken. See the following chart:

	Individuals						Trusts and Estates		
	Married Filing Jointly (MFJ)			Single (S)			Current Law	Proposed	
	Current Law	Proposed	Proposed	Current Law	Proposed	Proposed			
	2021	2022 ¹	2022 ¹	2021	2022 ¹	2022 ¹	2021	2022 ¹	2022 ¹
Income Tax - Highest Marginal Tax Rate	37%	37%	37.0%	37%	37%	37.0%	37%	37%	37.0%
Start of Bracket ²	\$ 628,300	\$ 647,850	\$ 647,850	\$ 523,600	\$ 539,900	\$ 539,900	\$ 13,250	\$ 13,450	\$ 13,450
Long-Term Capital Gains & Qualified Dividends	20%	20%	20%	20%	20%	20%	20%	20%	20%
Start of Bracket ²	\$ 501,600	\$ 517,200	\$ 517,200	\$ 445,850	\$ 517,200	\$ 517,200	\$ 13,250	\$ 13,700	\$ 13,700
Health Care Surtax on Net Investment Income ³	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Medicare Surtax ⁴	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	n/a
Proposed High Income Surtax ⁵	n/a	5%	5%	n/a	5%	5%	n/a	5%	5%
Additional Proposed High Income Surtax ⁵	n/a	3%	3%	n/a	3%	3%	n/a	3%	3%
Combined Highest Federal Tax Rate ⁶	40.8%	40.8%	48.8%	40.8%	40.8%	48.8%	40.8%	40.8%	48.8%
Combined Highest Federal Tax Rate (LTCG & QDI)	23.8%	23.8%	31.8%	23.8%	23.8%	31.8%	23.8%	23.8%	31.8%

(1) Note that certain tax rates and thresholds indicated for 2022 are estimates at the time of publication, based on draft legislation available.

(2) The "Start of Bracket" threshold amounts refer to the Taxable Income (TI) where the rate starts to apply.

(3) The Health Care Surtax illustrated above is assessed on Net Investment Income ("NII"), and when MAGI is in excess of \$250,000 (MFJ), \$200,000 (S), \$13,250 Trusts.

(4) The Medicare Surtax illustrated above includes the 1.45% employer, 1.45% employee, and 0.9% individual surtax, assessed on earned income, with the surtax component applying on Medicare wages in excess of \$250,000 (MFJ), \$200,000 (S).

(5) The High Income Surtaxes currently proposed of 5% and an additional 3% would be assessed on MAGI in excess of \$10,000,000 and \$25,000,000 respectively for individuals (MFJ & S), and \$200,000 and \$500,000 respectively for non-grantor trusts and estates.

(6) Note that the Combined Highest Federal Rates do not include State or Local income taxes, which may apply based on the taxpayer's State of residency.

II. BRIEF INTRODUCTION TO NON-GRANTOR TRUSTS, GRANTOR TRUSTS, SPOUSAL GRANTOR TRUSTS AND (“BDOTS”).

A. Non-Grantor Trusts.

Non-grantor trusts are treated as separate taxpayers. Non-grantor trusts are currently taxed in 2022 at the highest rate when the taxable income exceeds \$13,700. However, non-grantor trusts enjoy deductions from taxable income for amounts required to be distributed to the trust beneficiaries or are properly paid or credited to them. See IRC Sections 651 and 661. A corresponding amount of income is included in the gross income of the beneficiaries. See IRC

Sections 652 or 662. With respect to charitable beneficiaries of a non-grantor trust, the non-grantor trust can receive a deduction for amounts of gross income paid for charitable purposes. *See* IRC Section 642(c). One of the chief considerations of a non-grantor that makes distributions to individual beneficiaries to mitigate income taxes and surtaxes (if BBBA passes) of the non-grantor trust is that the distributed assets are subject to that individual's creditors and testamentary desires, which may be different than the stewardship goals of the creator of the trust.

B. Grantor Trusts.

The grantor of a trust may be treated as the deemed owner for income tax purposes of all or a portion of the trust if certain provisions exist in the trust document. *See* IRC Sections 671-677 and 679. These provisions may not cause the trust assets to be included in the grantor's estate for estate tax purposes. For instance, the following provisions may cause the grantor to be the deemed owner for income tax purposes of all or a portion of the trust, but do not cause the trust assets to be included in the grantor's estate for estate tax purposes: the retained power by the grantor or another non-adverse party to substitute property of equivalent value; trust allows a non-adverse party to make fair market loans to the grantor or the grantor's spouse without adequate security; the trust provides that income or corpus could be distributed to the grantor's spouse; the trust provides that a person has the power to expand the class of beneficiaries; the grantor's spouse is a trustee of a trust in which the trustee has the power to make discretionary distributions of income or principal; a related or subordinate person to the grantor is trustee who may make distributions among a class of beneficiaries; and the trustee has authority to acquire to pay life insurance premiums from income of the trust on the life of the grantor or the grantor's spouse and does so. The IRS has conceded that the payment of income taxes on the income of a grantor trust is not a gift to the trust beneficiaries. *See* Rev. Rul. 2004-64.

Thus, as long as the grantor is alive, and has not renounced the retained powers that make the trust a grantor trust, neither the trust nor the beneficiaries of the trust will pay a surtax (if BBBA passes).

C. Spousal Grantor Trusts.

A spousal grantor trust is a trust in which the deemed income tax owner is the spouse of the beneficiary. A transaction between the beneficiary of the spousal grantor trust and the spousal grantor trust is treated as a transaction between the beneficiary and his or her spouse. A transfer between spouses is treated as a non-recognition event for income tax purposes. *See* IRC Section 1041. The beneficiary spouse could sell assets to the spousal grantor trust without any capital gains consequences. Any assets the beneficiary spouse sells for adequate and full consideration will not be included in the spousal beneficiary's estate. The spousal grantor trust could be designed to allow the beneficiary's spouse to modify the remainder provisions through a special power of appointment. *See* IRC Sections 2036, 2038 and 2041.

Thus, as long as the spouse who is the grantor is alive, and has not renounced the powers that make the trust a grantor trust to that spouse, neither the trust nor the beneficiaries of the trust will pay a surtax (if BBBA passes).

D. Beneficiary Deemed Owner Trusts.

BDOTs are trusts in which the deemed owner of the trust assets for income tax purposes is the beneficiary of the trust because IRC Section 678 applies. There are three methods where IRC Section 678 can apply to a trust. In each of these methods the trust cannot have provisions that would make the trust a grantor trust. *See* IRC Section 678(b).

1. IRC Section 678(a)(1) application.

A beneficiary is the deemed income tax owner of any portion of a trust in which the beneficiary has a power “exercisable solely by himself to vest corpus or income of that portion in himself, herself or itself.” If an individual has the power to vest only the taxable income of the trust, IRC Section 2041 may not apply. If the withdrawal beneficiary sells assets to the trust for adequate and full consideration those assets will not be included in the withdrawal beneficiary’s estate. *See* IRC Sections 2036, 2038 and 2041.

2. IRC Section 678(a)(2) application.

A beneficiary is the deemed income tax owner of any portion of a trust in which that person has “previously partially released or otherwise modified” an IRC Section 678(a)(1) vesting power and retains control that would cause the grantor to be treated as the trust owner. For purposes of this paper, these trusts will be referred to as “beneficiary defective inheritor’s trusts” or “BDITs.”

3. IRC Section 678 application because of operation of IRC Section 1361(d)(3).

With respect to stock of a subchapter S corporation owned by a trust, if the requirements of IRC Section 1361(d)(3) are met, the income beneficiary of a trust that holds subchapter S stock will be considered the deemed income tax owner of that subchapter S stock. Such a trust will be referred to as a qualified subchapter S trust or a “QSST.”

III. THE ADVANTAGES AND CONSIDERATIONS OF NON-GRANTOR TRUSTS.

A. Advantages of a Non-Grantor Trust.

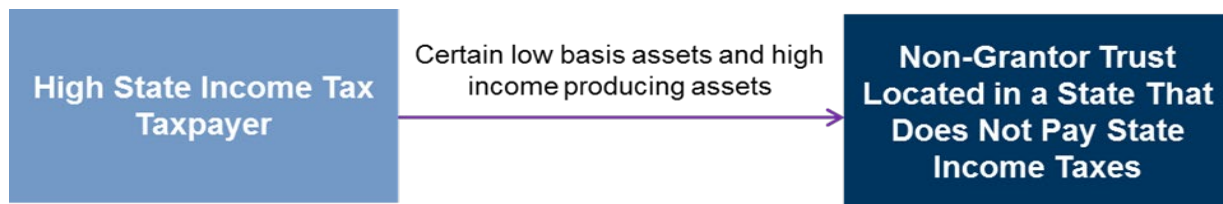
1. Non-grantor trusts can be used to lower state income taxes by locating the trust in a state that has low, or no, state income tax.

While the top bracket for non-grantor trusts starts at a relatively low level, approximately \$13,450 in 2022, and if BBBA passes, with a 5% surtax for income above \$200,000 and an additional 3% surtax for modified adjustable gross income in excess of \$500,000 (for a top marginal bracket of 48.8%), there are circumstances in which a non-grantor trust can save federal income taxes. The non-grantor trust may have deductions available to it that the beneficiaries of the non-grantor trust may not have available. Under the circumstances noted below, a non-grantor trust can also be a state income tax savings tool. Gifts and loans to a non-grantor trust can be a great estate planning tool, if the assets of the non-grantor trust grow above any interest carry that may exist.

The non-grantor trust's chief tax utility may be its ability to save state income taxes. Obviously, some states have much higher income tax rates than other states. Eight states do not have any state income taxes. Several more states do not subject income accumulated in non-grantor trusts that are created in those states to their state income taxes. The problem of high state income taxes could be particularly acute, if the taxpayer anticipates that sometime in the future he may sell some valuable low basis assets.

2. The technique.

A taxpayer who lives in a high income tax state may have low basis assets that he anticipates may be sold in the near future. That taxpayer may also have income producing securities from which he does not need the income for his consumption needs. That taxpayer could transfer those assets to a non-grantor trust whose situs is in a state that does not have any state income taxes on the income earned and accumulated by those trust assets. See a diagram of the technique below:



3. Advantages of the technique.

- a. Substantial state income taxes could be saved.
- b. The taxpayer using his or her increased gift tax exemptions could create a non-grantor trust in a state that does not tax that trust income, which could save income taxes and transfer taxes.
- c. A non-grantor trust used for these purposes could be created without paying gift taxes: by the use of the taxpayer's exemption; by creating a trust that is incomplete for gift tax purposes; or by creating a marital deduction trust that qualifies as a QTIP trust and is designed to be a non-grantor trust with respect to the principal earnings of the QTIP trust.
- d. There could be multiple non-grantor trusts, subject to the discussion of certain considerations with respect to IRC Section 643(f).

4. The IRC Section 643(f) considerations of the technique.

IRC Section 643(f) provides that two or more trusts that have substantially the same primary beneficiaries or beneficiaries, and a principal purpose of such trusts is the avoidance of income tax, the trusts will be treated as one trust. The final regulations backed off of the proposition that just because the trusts save income taxes it does not necessarily mean the principal purpose of such trusts is avoidance of income taxes.

5. Non-grantor trust beneficiaries, who live in a state with a high state income tax, can have the beneficial use of the non-grantor trust assets and still avoid or reduce income taxes in the beneficiary's residence state associated with that use.

a. Factors determining the situs of the trust for state income tax purposes.

- (1) Non-grantor trusts can be designed to not be subject to state income taxes of a high tax state if the resident trust requirements of the high tax state do not apply.
- (2) The rules determining which state (or states) will assert jurisdiction to tax a trust's undistributed income are complex and vary from state to state. More than one state may assert the right to tax all or part of such income.
- (3) One or more of the residence of the trust creator, the residence of the beneficiaries, the residence of the trustees, the location of trust assets, the source of trust income and the trust's principal place of administration may be predicates for taxation.
- (4) A state's general rule may have exceptions, and exceptions to the exceptions. For example, in general a trust created by a New York resident or decedent is subject to New York income tax. There is an exception for a trust with no New York trustees and no assets located in or income sourced to New York. There is an exception to the exception for a trust that is an "ING" trust, a non-grantor trust that is an incomplete gift for federal purposes, which is treated as a grantor trust for New York purposes.
- (5) In *North Carolina v. Kaestner Family Trust*³, the U.S. Supreme Court held unconstitutional a North Carolina

³ 588 U.S. ___ (2019),

statute taxing undistributed trust income solely on the basis of a beneficiary's residence in North Carolina.

- b. There are circumstances in which non-grantor trust beneficiaries, who live in a high state income tax state, can receive tax free benefits of that trust located in a low state income tax state.
 - (1) The trustee might give beneficiaries the free use of trust assets such as a residence.⁴
 - (2) The trustee could make loans to the beneficiaries on very favorable terms.
 - (a) The beneficiary could invest the proceeds of the loan in assets that could produce investment income to pay any interest (if there is interest) on that loan. If the beneficiary's investment income is not high enough to deduct the interest the trust could distribute cash which would carry out the amount of investment income that would allow the beneficiary to deduct the interest. That trust distribution could be made up to 65 days after the tax year in which the interest payments are made, provided a timely election is made under IRC Section 663(b).
 - (b) A consideration of the loan technique is that the IRS could take the view that the loan is a tax avoidance loan, if the IRS finds the principal purpose of the loan is to save income taxes. However, the trustee may have non-tax reasons for making the loan.
 - (3) The technique of distributing low basis property intended for sale in the near term from a low tax state trust to the high tax state beneficiary in a manner whereby the beneficiary could sell the distributed property without paying any state and federal taxes.
 - (a) IRC Section 643(e)(3) allows a trustee to elect to recognize gain on the distribution of property to the beneficiary.

⁴ See *Plant v. Comm'r*, 30 BTA 133 (1934) acq. 1976-1 CB1 aff'd.; 76 F2d 8 (2nd Cir. 1935); PLR 8341005.

(b) The distribution of property may carry out trust income to the beneficiary, if that distribution carries out D.N.I. The election may increase the DNI carried out to the beneficiary because the fair market value of the distributed property, rather than its basis, will be used for purposes of determining the amount distributed. However, if capital gains are not otherwise included in the trust's DNI, the gain recognized by the trust on the distribution may not itself be included in the trust's DNI, thereby giving the beneficiary in a high tax state increased basis without subjecting the gain to state tax at the beneficiary's rate.⁵

(4) Non-grantor trust income in a low tax state could be trapped by making distributions to another trust before it is distributed to a beneficiary who lives in a high tax state.

Assume a discretionary trust has the power to make distributions to not only a beneficiary but also a trust for a beneficiary. Assume in year 1 the discretionary trust, located in a low tax state ("Trust 1"), allocates its income to a trust, which is also located in a low tax state ("Trust 2"), for a beneficiary. Trust 2 will pay income tax on that distributed income. In year two, at the beginning of the year, the assets in Trust 2 could be distributed to the beneficiary who resides in the high tax state. The high tax state beneficiary will only pay income tax on the income earned by Trust 2 in year two.

6. Non-grantor trusts can be used to lower some federal income taxes.
 - a. Non-grantor trusts may have the ability to increase IRC Section 199A deduction thresholds.
 - b. Non-grantor trusts may have the ability to mitigate the SALT limitation for income tax years 2022 to 2025.
 - c. Non-grantor trusts could expand the sale of qualified small business stock (QSBS) from capital gains treatment.
7. Non-grantor trusts can be used to save transfer taxes.
 - a. A non-grantor trust can be designed in a manner whereby the assets of the trust are not subject to the estate taxes of the grantor of the trust.

⁵ See Treasury Regulations Section 1.643-3(a) and (b) (providing that capital gains generally are not included in DNI unless they are allocated to income, allocated to corpus but treated consistently by the fiduciary as part of a distribution to a beneficiary or allocated to corpus but actually distributed to the beneficiary).

- b. A non-grantor trust can be designed in a manner whereby the assets of the trust are not subject to the estate taxes of the beneficiaries of the trust.
- B. Considerations of a Non-Grantor Trust.
 - 1. If the non-grantor trust is a complete gift, the transfer is subject to gift taxes unless the transfer qualifies for the marital or charitable deduction.
 - 2. As noted above, a non-grantor trust is subject to very high income taxes and surtaxes to the extent distributions are not made to beneficiaries.
- C. Mitigation Strategies of the Income Tax Considerations Noted in *Supra* Section B.2.
 - 1. The trustee of the non-grantor trust could invest in assets that are very income tax efficient.
 - a. To the extent the trustee wishes to allocate investments to bond investments, the trustee could purchase income tax free municipal bonds.
 - b. To the extent the trustee wishes to allocate investments to marketable equity investments, the trustee could invest part or all of the marketable equity allocation to low turnover equity investments and/or a tax loss harvesting index strategy.
 - (1) The after income tax benefit for the trustee of a non-grantor trust investing in low turnover investments.

For the trustee of a non-grantor trust, who is subject to income taxes, annual percentage turnover of an asset class is a key determinant of the after-tax annual rate of return. The term annual percentage turnover rate means that annual percentage of the asset class that is sold every year. Every time there is a sale in the asset portfolio, that portfolio will be reduced for the trustee by the amount of taxes associated with that sale. Those taxable sales can be a considerable drag on performance. Other potential drags on performance include fees, whether the fees are income tax deductible, and friction costs, such as the timing delay between determining an attractive investment and the acquisition of that investment.

Consider the following example:

Example 1: Comparing Index Investing with Managed Funds

Bob Bottomline asks his accountant to assume that an ETF index fund, in which a non-grantor trust may invest, has a 5% annual turnover rate and in the next 20 years will grow, exclusive of dividends, at 10.5% a year, after the fund's fees and expenses, and will pay dividends

equal to 2% a year of the then value of the stock portfolio.⁶ (In other words, the ETF index fund will annually return pre-tax, after fees, expenses and friction costs, 10.5% a year, excluding dividend income.) Bob asks his accountant to also assume the portfolio will be sold in 20 years. Bob determines that an index fund that starts with \$1,000,000 dollars (under the above assumptions) with a 5% turnover rate will grow to \$7,460,899 in 20 years after taxes if the fund is sold in 20 years. (See *infra* Schedule 1.)

Bob asks his accountant to compare the ETF index fund to a somewhat more actively managed “beta” indexed fund with a 20% turnover rate, and in particular to determine what annual return, after fees and expenses, the active beta index fund would have to earn in order to equal the result of the ETF index fund, assuming the same dividend rate as the ETF index fund. Bob asks his accountant to also assume the portfolio will be sold at the end of 20 years. Bob also asks the same questions with respect to a tax aware managed fund, with an assumed 30% annual turnover, and a hedge fund with an assumed 100% annual turnover.

Bob’s accountant reports the results under Column (1) in the following Table 1 (*see infra* Schedule 1). The annual improvement that is necessary to equal the result of other funds are illustrated in Columns A(2), A(3) and A(4) in Table 1 below.

Table 1
(These Calculations Do Not Include the Proposed Surtaxes Under BBBA)

Equity Fund's Annual Turnover of Assets	Fund is Owned by a Non-Grantor Trust for 20 Years and is Not Subject to Estate Taxes			
	(1)	(2)	(3)	(4)
Indexed Fund with 5% Annual Turnover	10.50%	N/A	N/A	N/A
Active Beta Indexed Fund with 20% Annual Turnover	11.29%	7.55%	N/A	N/A
Tax Aware Managed Fund with 30% Annual Turnover	11.60%	10.45%	2.70%	N/A
Hedge Fund with 100% Annual Turnover	15.28%	45.54%	35.32%	31.77%

- (1) These calculations ignore the effect of investment management fees, state income taxes and investment friction costs.
(2) % annual improvement necessary to equal fund with 5.0% annual turnover.
(3) % annual improvement necessary to equal fund with 20.0% annual turnover.
(4) % annual improvement necessary to equal fund with 30.0% annual turnover.

⁶ According to Bloomberg, the mean average annual return of the S&P 500 Index (if it had existed then) from December 1, 1935 (which is after the 1933 and 1934 Securities Acts were passed) to December 1, 2021 is 12.5%, if dividends of the index had been reinvested. According to Bloomberg, the median average annual return from December 1, 1935 of the S&P 500 Index (if it had existed then) to December 1, 2021 is 15.42%, if dividends of the index had been reinvested.

The rate of turnover or the rate of sales makes a significant difference in the result (*see* the Columns under A in Table 1 above). It should be noted that the calculations of Table 1 ignore the increased management fees, state income taxes and investment friction costs of funds that are not index funds. Despite ignoring those important private investor considerations, it is clear that an asset class consisting of stocks that can be indexed with a 5% annual turnover will produce a net better result for the long term private investor, with a 20-year investment horizon, than managed funds (unless a managed fund's pre-tax annual return beats the market rate of return by a substantial amount).

Over a 20-year period, a so-called active beta index fund with a 20% annual turnover, that has the same dividend rate as a 5% annual turnover index fund will need to have a 7.55% annual equity return *improvement* over a 5% annual turnover index fund that that annually has an equity return of 10.5% (*see* Column A(2) of Table 1 above). Over a 20-year period, a so-called tax aware managed fund with a 30% annual turnover, that has the same dividend rate as a 5% annual turnover index fund, will need to have a 10.45% annual equity return *improvement* over a 5% annual turnover index fund that annually has an equity return of 10.5% (*see* Column A(2) of Table 1 above). Over a 20-year period, a hedge fund with a 100% annual turnover, that has the same dividend rate as a 5% annual turnover index fund, will need to have a 45.54% annual equity return *improvement* over a 5% annual turnover index fund that annually has an equity return of 10.5% (*see* Column A(2) in Table 1 above). Obviously, the above differences would be much higher if the proposed BBBA surtaxes become law.

The reason why a low turnover index fund for the long-term non-grantor trust investor who, after 20 years, significantly outperforms higher turnover investment funds is low turnover significantly reduces the annual tax drag of changing investments.

- (2) The after income tax benefit for the trustee of a non-grantor trust investing in a tax loss harvesting strategy that simulates the gross return of an index fund.
 - (a) The goals of this strategy are to: (i) earn a gross pre-tax return similar to that of the index benchmark; (ii) produce substantially all of the return in the form of qualified dividends, realized losses and unrealized gains; and (c) try to obtain the same volatility of return relative to the index benchmark.
 - (b) The mechanics of the strategy are to invest in 200 or more stocks that are designed to duplicate the return and volatility of the benchmark index and to realize losses in the portfolio when they appear. The proceeds of any sale of stock are then re-invested in a stock that, as much as possible, tracks the performance and volatility of the stock that is sold. In that manner the "wash sale" rules of IRC Sec. 1091(d) are avoided and the index tracking

goal of the strategy is maintained. The mechanics of the strategy are executed with a computer applying algorithms built into software.

- (c) The advantages of the strategy.
 - (i) The strategy is appropriate for investors who expect net realized capital gains from other sources.
 - (ii) The strategy is appropriate for investors who have charitable intent and wish to donate low basis stocks to charity.
 - (iii) Statistical experience of Goldman Sachs.

Goldman Sachs manages a tax loss harvesting fund that is designed to track the S&P 500 Index and other indexes. From the inception date of the fund (July 1, 1999) until September 1, 2020, the fund outperformed the S&P 500 Index, before taxes, fees and expenses, with a 6.61% annualized equity return (ignoring dividends) compared to 6.33% annualized equity return for the S&P 500 Index (ignoring dividends). The tax loss harvesting fund, for that period, also outperformed the S&P 500 Index, before fees and expenses, by a 2.91% annualized return using an after-tax rate of return. This analysis assumes the fund was not completely liquidated on 9/01/2020, which would generate more taxes than a similar liquidation of an S&P 500 index fund. Other investment banks may have had similar results with their funds that use a tax loss harvesting strategy that simulates the gross return of an S&P 500 index fund. Of course, past performance does not guarantee future results, which may vary.

- (d) Considerations of investing in a tax loss harvesting fund that has a pre-tax return similar to a benchmark
 - (i) The investment will have greater fees and expenses than the benchmark fund.
 - (ii) The investment will lead to a lower basis than a benchmark index fund.

- c. To the extent the trustee wishes to invest in equity investments that have a high turnover, or otherwise are income tax inefficient, the trustee may wish to consider using a variable life insurance investment for those asset classes.

- (1) What is variable life insurance?

Unlike whole life insurance, which is invested in an insurance company's general fund, a variable life insurance policy may be invested in a variety of investment options at the choice of the owner of the variable life insurance policy. Since the owner of a variable life insurance

policy has access to a variety of investment options, variable life insurance policies often have a higher upside potential than whole life insurance policies. Another difference is that variable life insurance is much more flexible with the timing and amount of premium payments. On the death of the insured, similar to term and whole life insurance, the proceeds of the insurance that are payable to the beneficiary are received income tax free. *See* IRC Section 101. Additionally, the policy owner can either withdraw his investment in the variable life insurance contract (withdrawals are generally done on a FIFO basis) or take a loan from the insurance company using his policy as collateral (policy loans are generally income tax free).

A private placement variable life insurance policy is another type of variable life insurance policy, which generally has a wider variety of available investment options. The cost of the life insurance component of the private placement variable life insurance policy is usually designed to be as low as possible and still qualify as life insurance under IRC Section 7702. That design, in many cases, got a boost with an appropriations bill (H.R. 133) that was signed into law on December 27, 2020, which included a positive change in IRS Sec. 7702 interest rate assumptions that is applicable to life insurance policies issued on or after January 1, 2021. IRC Section 7702 sets limits on premiums, cash values and death benefits for life insurance policies in order to qualify for preferential income tax treatment under IRC Section 101. In order to meet the definition of life insurance, a policy must pass one of two tests so that death benefits are income tax free and the inside build-up of cash value is not taxable. The two tests are the cash value accumulation test (CVAT) and the guideline premium test (GPT). The applicable test is selected upon issuance of the policy and cannot be changed. Both are actuarial tests based on interest rate assumptions. Prior to December 31, 2020, depending on the design of the policy, there were fixed 4% and 6% minimum effective rates under these tests. Starting January 1, 2021, these rates were changed to a market based rate called the “Insurance Interest Rate.” The Insurance Interest Rate for the calendar year 2021 and the calendar year 2022 is 2%.

Under IRC Section 7702A, a policy must pass certain funding and timing of funding tests in order to not be categorized as a Modified Endowment Contract (“MEC”). If the policy fails those tests and becomes a MEC, loans or withdrawals from the policy are taxed as taxable gain before cost basis. If a policy is classified as a MEC, withdrawals are also subject to the pre-age 59-½ penalty (for owners that age or lower) in addition to LIFO treatment. It appears that, because of the new assumed interest rate changes, insurance carriers can now accept additional premium dollars without creating a MEC. However, there are no changes to the cash value corridor factors, so the cash value to death benefit relationship remains the same.

The change in the interest rate assumptions may also allow an investor to increase the total premium deposit he can make in a private placement life insurance (“PPLI”) investment account, and not cause it to be considered a MEC. In addition, the drag on return caused by mortality expense may be lowered. PPLI is also proportionately less expensive than its retail equivalents because of agent compensation. Agent compensation for certain retail policies can be as high as 120% of the first year premium. Agent compensation for PPLI tends to be expressed as a percentage of cash value in the 0.2% range with minimum front-end premium-based compensation.

- (2) What are the advantages for the trustee of a non-grantor trust locating the trust's tax inefficient asset class allocations in a variable life insurance policy?
- (a) Because of the arbitrage between the net after expenses tax free return of a variable life insurance contract and the net after expenses taxable return of holding the inefficient asset classes outside a variable life insurance contract, the insurance may make considerably more wealth available to the investor's family over time depending on the rate of return and the expenses of the variable policy in comparison to alternative investments.
 - (b) Investments in an investment class (*e.g.*, a total stock market index fund) can be changed to another investment class (*e.g.*, a high yield bond fund) without paying any income tax on that change of asset class.
 - (c) An investor who has reached retirement could exchange his variable life insurance policy for an annuity contract on an income tax free basis under IRC Section 1035.
 - (d) A variable life insurance policy often can be transferred to a trust that will not be taxable in his estate at a lower value than the amount of the life insurance proceeds.
- (3) What are the considerations for the trustee of a non-grantor trust locating the trust's tax inefficient asset class allocations in a variable life insurance policy?
- (a) The insured needs to be insurable and take a medical examination.
 - (b) There are extra fees and expenses that do not exist for investments outside of a life insurance policy.
 - (i) Mortality and expense risk charges (these are the costs to provide the actual death benefit).
 - (ii) Sales and administrative fees will be charged (these are costs to cover an agent's commission, set up costs, costs to maintain

the policy and the insured's ongoing expenses).

- (iii) Surrender charges and withdrawal fees if the policy is surrendered (in certain cases, the cash value of the policy may not be equal to its actual surrender value for the first 10 to 15 years of coverage).
 - (iv) Policy loan interest, if the investor borrows money using the policy as collateral.
 - (v) If an investor cashes in his variable policy before his death, he will pay ordinary income taxes on the net proceeds that exceed his investment in the policy.
 - (vi) State premium taxes and federal DAC taxes will be charged.
- (c) To qualify as a private placement variable life insurance purchaser, a prospective policy owner must meet the criteria as an "accredited investor" and "qualified purchaser" under SEC rules.
- (d) Investments in a variable life insurance contract must meet the requirements under IRC Section 817. The investments in the segregated asset account must be adequately diversified. Although the policy owner can choose among various funds offered by the insurance company, he or she cannot engage in conduct deemed to be "investor control." The policy owner cannot direct investments within an investment fund held in the policy. There cannot be any prearranged agreement between the account manager and the policy owner to invest any amounts in any particular asset. Otherwise, the separate account's income will be currently taxable to the investor. The funds need to be insurance dedicated funds that meet the requirements of IRC Section 817.
- (4) What is a deferred variable annuity contract?
- (a) A deferred variable annuity contract with an insurance company is an agreement for the insurance company to pay the buyer a regular stream of income, or a lump sum, at some future

date. There are three basic types of deferred annuities: fixed, indexed and variable. Fixed annuities promise a specific, guaranteed rate of return in the account. Indexed annuities provide a return that is based on the performance of a particular market index, such as the S&P 500. The return on variable annuities is based on the performance of a portfolio of funds chosen by the annuity owner. The investor can receive income over a set period of time like 20 years, or for the investor's lifetime. Assets of deferred annuities grow on a tax deferred basis. The owners of deferred annuities pay ordinary income taxes on the profit of the annuity contract only when the proceeds of the annuity contract are received.

- (5) What are the advantages for a trustee of a non-grantor trust locating the trust's tax inefficient asset classes in a variable deferred annuity?
 - (a) Even though IRC Section 72(u)(1) generally provides that if the annuity contract is held by a person who is not a natural person, the contract will not be treated as an annuity contract for federal income tax purposes and the income on such contract will be treated as ordinary income received or accrued by the owner during such taxable year, the reasoning of PLR 202118002 may open up planning opportunities for a single beneficiary non-grantor trust that invests in a deferred variable annuity contract.

The letter ruling was issued for the benefit of co-trustees of the trust who intended to purchase a single premium deferred annuity contract for a trust in which the beneficiary is the sole lifetime income and principal beneficiary. The subject trust is to be owner and beneficiary of the annuity contract during the life of the trust beneficiary. The trust beneficiary is to be the measuring life for the annuity contract. The trust analyzed under PLR 202118002 is taxable under IRC Section 641 and is not a grantor trust under IRC Section 671.

The IRS rules in this PLR that IRC Section 72(u)(1) would not apply to a non-grantor trust with those beneficial provisions for one lifetime beneficiary. Thus, the favorable income tax benefits and deferred benefits of a deferred annuity contract may be available to non-grantor trust ownership, if the trust is held for one beneficiary who is the sole income and principal beneficiary and that beneficiary is the measuring life for the annuity contract.

- (b) While the annuity payments that exceed the basis of a variable deferred annuity are taxed at ordinary rates, the build-up of the ordinary income investments inside the deferred variable annuity are not subject to income taxes until the annuity is paid.
- (c) If, at the time that the deferred annuity is to be paid to the investor, he does not need the annuity payments, and if part or all of his stewardship goals involve supporting charitable causes, the investor may receive an income tax charitable deduction to the extent the annuity proceeds are allocated to charity.
- (d) The investor does not need to be insurable unless there is a life insurance component to the contract.
- (e) Unlike a 401(k) or an IRA, there are no limits to how much you can save per year. Deferred variable annuities do not have any contribution limits, making them powerful complements to traditional retirement savings vehicles.
- (f) Most deferred variable annuity contracts allow the investor to borrow money unless they are held in a tax-sheltered account like a 401(k) account or an IRA. These loans do not trigger income taxes or penalties. The loan contract sets out the payback period and interest rate. Any interest paid increases the cash value of the deferred variable annuity. The investor can also pledge the annuity as collateral for a loan. It may fit an investor's future stewardship goals to borrow certain sums from his annuity contract for certain retirement consumption needs and to bequeath the annuity contract assets (which includes his loan balance) to his favorite charity. The balance of the loan payments he individually owes should be deductible from his estate for estate tax purposes.
- (g) A private placement deferred variable annuity ("PPVA") generally has certain advantages over other deferred variable annuity contracts. There are typically no surrender charges, the costs are typically less and a PPVA typically allows for greater flexibility with investment options.

- (6) What are the considerations for a trustee of a non-grantor trust locating the trust's tax inefficient asset class allocation in a deferred variable annuity?
- (a) The annuity payments paid to the investor, above his investment in the contract, will be taxed at ordinary income rates.
 - (b) There is poor liquidity with an investment in a deferred variable annuity contract. It may be costly for the investor to get his money back ahead of schedule due to possible surrender charges.
 - (c) If the investor takes a lump sum withdrawal or cancels the contract before the investor turns 59-½, the investor could owe a 10% withdrawal penalty on top of the ordinary income taxes on the profit of the deferred variable annuity contract.
 - (d) There will be fees and expenses of the deferred variable annuity contract above asset management fees and those fees and expenses may be high.
 - (e) A variable deferred annuity must meet the requirements of IRC Section 817 that the segregated asset account must be adequately diversified and cannot be subject to investor control.

2. The trustee of the non-grantor trust could use a two class partnership to shift income of a non-grantor trust residing in a high state income tax state to a low state income tax state.
- a. Scenario 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 2: Old Non-Grantor, Complex Trust Enters into a Two-Class Partnership with a New Grantor GST Trust

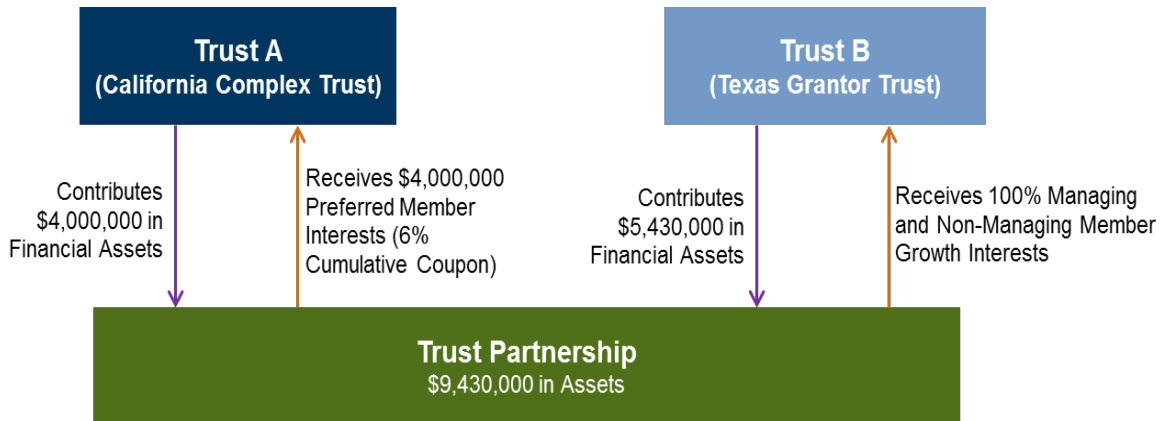
Gomer Gonetotexas is a discretionary beneficiary of a GST Complex trust that was created in California and is subject to California state income tax law ("Trust A"). Gomer now lives in Texas. Gomer has a \$20,000,000 estate and does not need or want any distributions from Trust A. The beneficiaries of 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. (For a discussion of grantor trusts see *supra* Section IV.) 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:

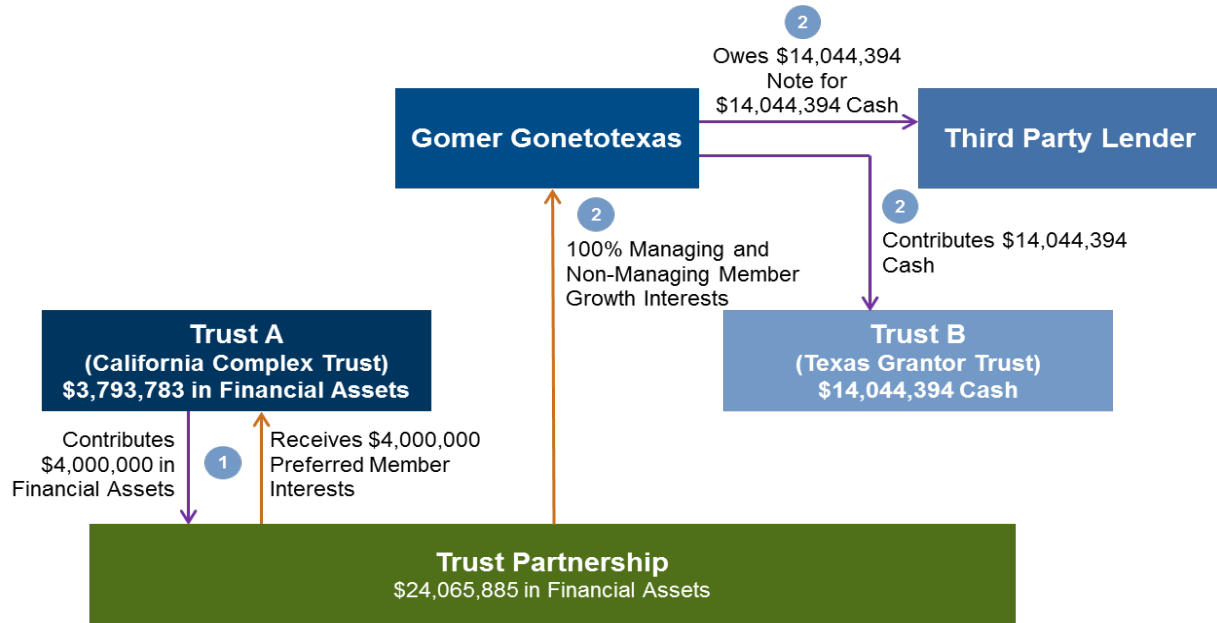
Transaction 1 (Scenario A):



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 IV.A.2. That transaction is illustrated below:

Eighteen Years After Scenario A, Gomer Borrows Cash from Third Party Lender and Buys Trust B's Growth Interest in the Trust Partnership for its Fair Market Value



It is assumed that the partnership is terminated shortly before Gomer's death and the third party lender is then paid

b. Income tax advantages of Scenario A.

- (1) 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 2 below (*also see infra* Schedule 2). 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 2
(This Table Does Not Include the Effect the Proposed Surtaxes May Have Under BBBA)

	Gonetexas 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		Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost			
		California Complex Trust	Texas Grantor Trust									
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

- (2) This technique may be easier to manage than some of the other trust income tax savings techniques.
- (3) If the two trusts have identical provisions the valuation rules under IRC Section 2701 may not apply.

IRC Section 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.⁷ 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 2 above (*also see* attached Schedule 2). 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.

c. Considerations of Scenario A.

- (1) A party may not exist that could create a grantor trust that could invest and receive a preferred partnership interest.

⁷ See Treas. Reg. §25.2511-1(g)(1) and *Saltzman v. Comm.*, 131 F.3d 87 (2nd Cir., 1997).

- (2) The technique is complex.
- (3) 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 VIII.B.9.d.
- (4) 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.
- (5) The IRS may argue that the valuation rules of IRC Section 2701 apply despite the identical provisions and beneficial interests of the two trusts.
- (6) 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.

d. 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.

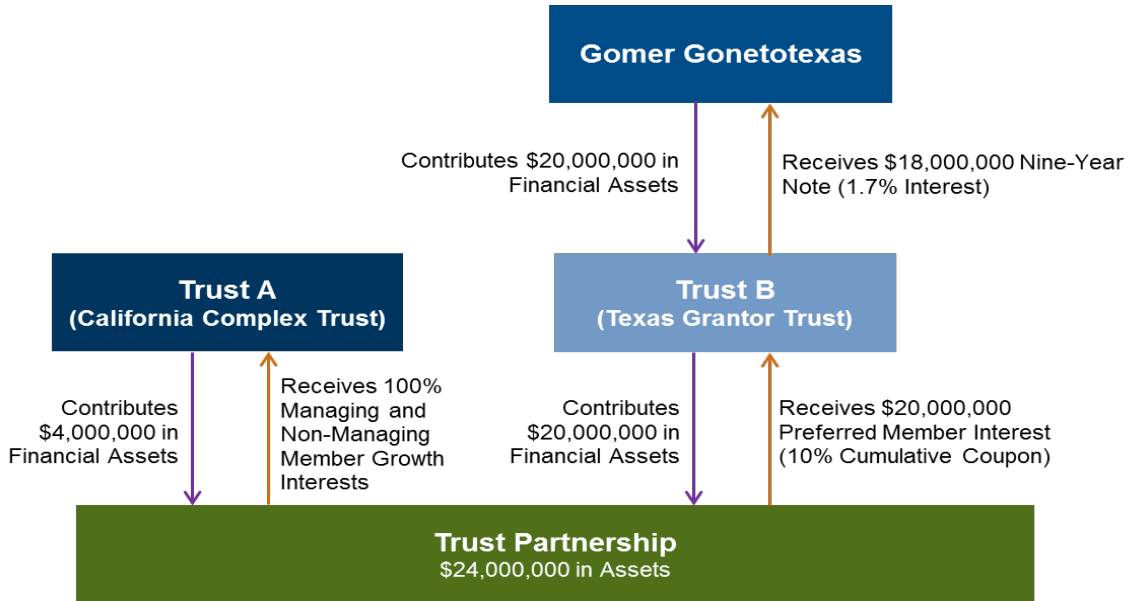
Consider the following example:

*Example 3: 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 2, 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 2, in exchange for a nine-year note that pays an AFR interest rate.

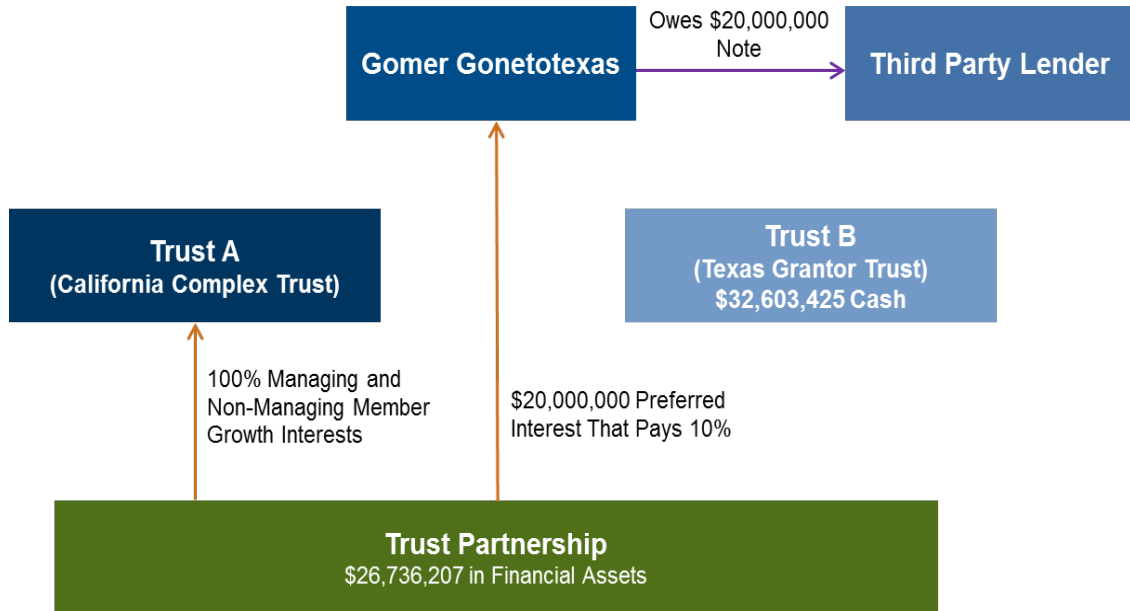
This example is illustrated below:

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



e. Income tax advantages of Scenario B.

- (1) Significant state income taxes and the investment opportunity costs associated with those state income taxes can be saved with this technique.

See Table 3 below and attached Schedule 3. 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 3, \$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.

Table 3

	Gonotexas 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		Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost			
		California Complex Trust	Texas Grantor Trust									
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

- (2) 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 III.C.2.a.

f. Considerations of Scenario B.

Scenario B has many of the same considerations that are discussed *supra* Section III.C.2.c.

3. Using the drop down QSST strategy to tax the non-grantor trust at the beneficiary's low individual income tax rate without making distributions on a net basis to the beneficiary or giving the beneficiary of the trust the right to vest the income of the trust to the beneficiary.

a. The technique.

Many trust documents creating non-grantor 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 be a QSST for that part of the trust that will own a subchapter S investment. In order to ameliorate fiduciary

concerns about following the trust grantor's intent, 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. It is assumed the beneficiary will not have a limited power of appointment over the QSST.

Under IRC Sections 678(a) and 1361(d)(1)(B) a QSST is ignored for income tax purposes, at least with respect to any income generated by a subchapter S stock that is held in the trust. The IRS confirmed IRC 678(a) trust treatment of subchapter S stock owned by a QSST as to the beneficiary of the QSST in Revenue Ruling 92-84.⁸ 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 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.

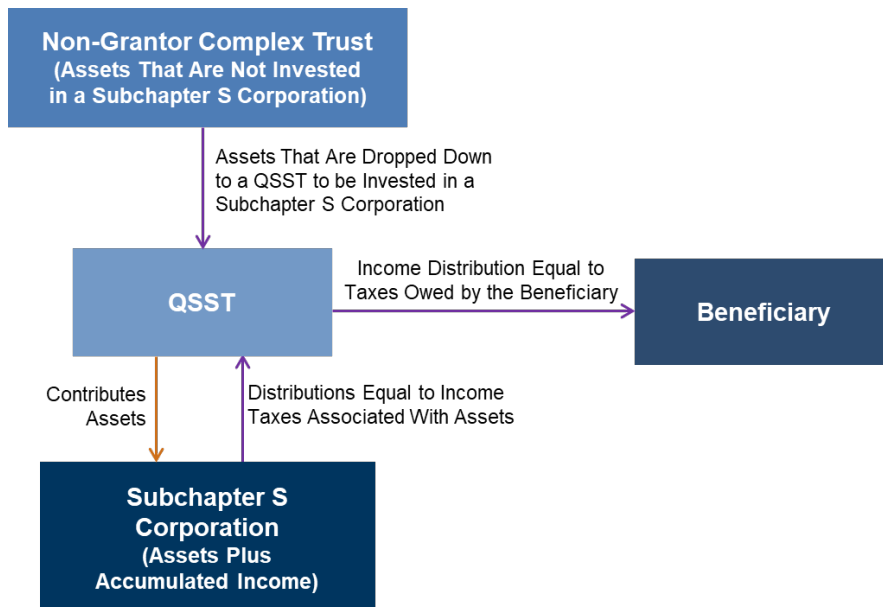
Accordingly, where a grantor or another person is treated as the owner of property constituting corpus under subpart E, the trust is disregarded as a separate entity and any gain or loss on the sale of such corpus is treated as gain or loss of such person,

⁸ See Rev. Rul. 92-84, 1992-2 C.B. 216.

It should be noted that the IRS revoked Rev. Rul. 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 Section 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 contributes and converts part of the trust assets to QSST, the trustee could manage the QSST and the subchapter S corporation it owns 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:



b. Income tax and basis enhancing advantages of the technique.

If only an amount equal to the income taxes the beneficiary must pay is distributed by the S corporation to the QSST, on a net basis after income tax, the beneficiary will not receive any cash that could be spent, bequeathed or transferred in a manner the grantor of the complex trust did not intend.

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.

There is not any concern about the effect of any lapse of withdrawal rights. Unlike the income withdrawal trust, or as it is sometimes known, the BDOT, or certain other Section 678 beneficiary grantor trust techniques (such as the BDIT), 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 Section 678 trust (only the subchapter S stock owned by the trust). The transfer tax, income tax considerations and creditor protection considerations that may accrue from the existence of a withdrawal right, and from its lapse, are not present in this technique.

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 taxes under Section 1411 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 Section 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.

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.

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 owned 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.

c. Considerations of the technique.

- (1) The federal income tax considerations with utilizing a subchapter S corporation.

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 a Section 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.

- (2) 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 Section 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.

- (3) 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.

4. In appropriate cases, the non-grantor trust could be converted to a BDOT (for a discussion of the advantages and considerations of a BDOT *see infra* Section VI), which removes the incidence of taxation from the trust to the beneficiary. The non-grantor trust could be converted to a BDOT by the sale technique (*see infra* Section VI.B.4.), a decanting technique, exercise of a power of appointment by a power holder, a reformation technique, or some other means.
5. If the grantor of the non-grantor trust is living, the non-grantor trust could be converted to a grantor trust by the grantor borrowing from the trust. *See infra* Section IV.A.6.
6. A discretionary non-grantor trust could give the trustee the power to make discretionary distributions to an existing BDOT (*see infra* Section VI) for the benefit of a beneficiary of the discretionary trust. Which will, in

effect, shift the taxable income of the non-grantor trust equal to the distributions to the beneficiary. In comparison to simply making outright distributions to a beneficiary the advantages of a trust for the beneficiary, assuming the BDOT only withdraws enough to pay the beneficiary's income taxes, will be preserved.

7. In a discretionary non-grantor trust, the trustee could have the power to make discretionary distributions to an existing sub S corporation owned by a QSST (*see supra* Section III.C.3.) for the benefit of the beneficiary of the discretionary trust. Which, to the extent distributions are made, will, in effect, shift the taxable income of the non-grantor trust to the beneficiary. Assume the subchapter S corporation only distributes enough cash to the QSST that allows the beneficiary to pay his income taxes. In comparison to simply making distributions to a beneficiary, this technique has the advantages of a trust being preserved for the protection of the beneficiary.

IV. ADVANTAGES AND CONSIDERATIONS OF GRANTOR TRUSTS.

A. Advantages of Grantor Trust Status.

1. Gift tax free payment of income tax.

For wealthy individuals, perhaps the most powerful feature of grantor trusts is that they permit the grantor to pay income taxes on trust income, without the payment of those taxes being treated as a gift for gift tax purposes.⁹ The grantor trust can earn tax-free returns during the grantor's lifetime, even as the grantor's own estate is depleted by the payment of income taxes. The combination of (a) tax-free growth for beneficiaries and (b) depletion of the grantor's personal estate often produces a dramatic transfer of wealth from the grantor to the trust. If the trust passes outside of the grantor's estate for estate tax purposes, the wealth that is effectively shifted through grantor trust status is never taxed by the estate and gift tax system.

- a. Mismatch between gift and estate tax completion and income tax ownership.

The opportunity to shift wealth through the grantor's payment of income taxes on grantor trust income arises because of a mismatch between the grantor trust rules, on the one hand, and the rules governing gift completion and gross estate inclusion, for gift and estate tax purposes, on the other. In particular, it is possible for a grantor to make a completed gift to a trust that will pass outside of the grantor's gross estate for estate tax purposes, yet still cause the trust to be treated as owned by the grantor for income tax purposes.¹⁰

⁹ Rev. Rul. 2004-64.

¹⁰ *See generally* Bramwell and Vara, "Basis of Grantor Trust Assets at Death: What Should Treasury Do?" 160 Tax Notes 793 (August 6, 2018).

- b. The IRS position is that the grantor's payment of income tax of a grantor trust is not a gift to the beneficiaries of the grantor trust. In Rev. Rul. 2004-64, the IRS conceded that the payment of income taxes on the income of a grantor trust is not a gift for gift tax purposes. In so ruling, the IRS abandoned the position that the payment of income taxes, at least in some circumstances, could be treated as a taxable for gift tax purposes.¹¹
- (1) Rev. Rul. 2004-64. The position of Rev. Rul. 2004-64 is sound for at least two reasons. First, a gift for gift tax purposes requires some voluntary act,¹² which is missing where the grantor is required by law to pay tax. Second, a gift is a transfer of property for less than adequate and full consideration in money or money's worth. When the grantor of a trust pays income tax on trust income, his or her transfer of funds to the revenue collector is in exchange for the extinguishment of the grantor's obligation for the amount of the tax paid.
 - (2) Is there a possible risk if grantor controls grantor trust strings? Perhaps the grantor does make a voluntary transfer (in the form of payment of income taxes) if the grantor controls whether a trust is a grantor trust or not, such as where the only grantor trust "string" is the grantor's power to substitute assets of equivalent value under IRC Section 675(4)(C). So long as Rev. Rul. 2004-64 is in force, however, this argument is foreclosed to the IRS.¹³

2. Tax-free swapping out of low-basis assets.

Another commonly exploited advantage of grantor trust status is that it permits the grantor to transact with a trust without income tax consequence.¹⁴ For example, the grantor may transfer cash or high-basis assets to the grantor trust in exchange for low-basis assets. The grantor may then die holding the low basis assets, which will qualify at death for a step up in

¹¹ Cf. PLR 9444033, modified by PLR 9543049

¹² *Estate of DiMarco v. Comm'r*, 87 T.C. 653, 658 (1986) (“[Taxpayer] never made a taxable gift of any property interest in the survivor’s income benefit because we find no act by decedent that qualifies as an act of ‘transfer’ of an interest in property”), acq. in result, 1990-2 C.B. 1; *see also Harris v. Comm'r*, 340 U.S. 106, 115 (1950) (“[A] gift tax is an exaction which does presuppose the voluntary transfer of property and not a transfer in obedience to law”) (Frankfurter, J., dissenting);

¹³ *See Rauenhorst v. Comm'r*, 119 T.C. 157, 170-71 (2002) (“[The IRS] may not ... litigate against the officially published rulings of the Comm'r without first withdrawing or modifying those rulings.”).

¹⁴ *See, e.g.*, Rev. Rul. 85-13.

basis under IRC Section 1014(a).¹⁵ At the same time, when grantor trust status terminates at the grantor's death, the trust will hold the cash or high-basis assets, even though the trust's property may pass outside the grantor's estate for estate tax purposes.

a. Ensuring there are no gift tax implications with a swap.

An exchange of assets between the grantor and another party, such as a swap of low-basis assets from a grantor trust in exchange for cash or high-basis assets, is not a gift for gift tax purposes, if the exchange is for full and adequate consideration in money or money's worth.¹⁶ Thus, if the fair market values in the exchange are identical, the transfer will not be a taxable gift.

(1) Ensuring full and adequate consideration.

It is good practice for the grantor and the grantor trust to enter into a binding defined value contract which obligates the grantor to pay an amount equal to the full fair market value of the property transferred to the grantor.

(2) IRS safe harbor on retained power of substitution.

If the grantor swaps assets pursuant to a power of substitution described in IRC Section 675(4), the trust instrument, in order to comply with an IRS safe harbor against gross estate inclusion under IRC Sections 2036, 2038, and 2042,¹⁷ may require the grantor to certify and the trustee to confirm with a defined value contract that the substituted assets acquired are of equivalent value.

b. IRS position that grantor activities with grantor trusts are also ignored.

The ability to swap assets tax free, and for the grantor to enter into other activities with the grantor trust on an income tax free basis, is made possible by the well-entrenched IRS position, set forth in Rev. Rul. 85-13, that a grantor trust is ignored for income tax purposes and does not "retain its vitality as a separate entity."¹⁸ Since Rev. Rul. 85-13, the IRS has emphatically reiterated that the grantor is the owner of grantor trust assets for all income tax purposes and has applied the principle in a wide variety of contexts.¹⁹ On one occasion, the IRS

¹⁵ Section 1014(a) generally provides that property acquired or passing from a decedent receives a basis equal to its fair market value on the date of the decedent's death or the alternate valuation date, if the Section 2032 estate tax alternate valuation date election is made. As most property tends to appreciate, and well-advised taxpayers typically realize losses before death, the fresh basis at death under section 1014(a) is commonly referred to, including in this outline, as a basis "step-up."

¹⁶ IRC § 2512(b); Treas. Reg. § 25.2511-1(g); Treas. Reg. § 25.2512-8.

¹⁷ Rev. Rul. 2008-22; Rev. Rul. 2011-28.

¹⁸ Rev. Rul. 85-13; *but see Rothstein v. U.S.*, 735 F.2d 704 (2d Cir. 1984), non-acq. 1985-7 IRB 28.

¹⁹ *See, e.g.*, Rev. Rul. 88-103 (involuntary conversions under section 1033); Rev. Rul. 2004-86 (tax-free exchanges under section 1031); Rev. Rul. 2008-13 (transfers of life insurance for value under Section 101); PLR

even held that a grantor trust is ignored for purposes of an excise tax.²⁰ Treas. Reg. § 1.1001-2(c) Example 5, which provides the grantor of a grantor trust “is treated as the owner of the entire trust,” apparently gives the position of Rev. Rul. 85-13 the force of law.²¹

Sales and purchases by a grantor of a grantor trust are disregarded for income tax purposes even when the grantor does not have any rights or powers with respect to the corpus of the trust, but does have rights or powers with respect to the income of the trust. See IRC Section 677.

If there are any exceptions to the principle that grantor activities with grantor trusts are ignored, they are few and narrow.²²

- c. A grantor of a grantor trust, by the grantor swapping assets with the grantor trust, can create basis enhancing opportunities.

Swapping out low basis assets achieves a basis step up artificially. Indeed, the artificial step up is more favorable than the IRC Section 1014(a) change of basis. IRC Section 1014(a) generally imposes a fresh basis at death equal to the fair market value of property on the date of the decedent's death or the alternate valuation date, if an IRC Section 2032 alternate valuation date election is made. Thus, if property has declined in value, IRC Section 1014(a) may cause a step down in basis rather than a step up. The grantor of a grantor trust can avoid this adverse result by swapping out only the appreciated assets, and leaving in trust any property with a basis

9152011 (exemption from tax on interest income under Section 871(i)); PLR 200104005 (exclusion of gain from the sale of a residence under Section 121); PLR 9031022 (characterization of interest under sections 163(h) and 469); PLR 9141046 (non-taxable acquisition of qualified replacement property under Section 1042).

²⁰ Rev. Rul. 87-61.

²¹ Though Treas. Reg. § 1.1001-2(c) Example 5 was issued before Rev. Rul. 85-13 was published, it effectively established by regulation the position in an earlier ruling, Rev. Rul. 77-402, which also states that the grantor of a grantor trust is “the owner of all the trust property for Federal income tax purposes.” That said, the theory that a grantor’s activities with a grantor trust are indeed ignored for income tax purposes was rejected by the Second Circuit in *Rothstein v. U.S.*, 735 F.2d 704 (2d Cir. 1984), non-acq. 1985-1 C.B. 184.

²² See Prop. Treas. Reg. § 1.108-9(c)(1), (2) (cancellation of indebtedness rules only apply if the grantor, not the grantor trust, is bankrupt or insolvent); T.D. 9829 (declining to expand definition of eligible partner to include grantor trusts for purposes of Section 6221(b), concerning partnership audits); PLR 200920031 (holding that gain is recognized by the grantor upon an in-kind satisfaction of a charitable annuity by a charitable lead annuity trust, despite that it was a grantor trust for income tax purposes, and distinguishing Rev. Rul. 55-410, which holds that gain is not recognized by an individual upon satisfying a charitable pledge obligation in kind). In addition, the rules in Section 1361 limiting the persons eligible to hold shares in S corporations provide an example of a statutory exception to the general treatment of a grantor trust as sharing an identity with its grantor. Section 1361(c)(2)(A)(i) permits a trust to hold shares in an S corporation if it is a grantor trust but only if it is owned by a single taxpayer and that taxpayer is a U.S. citizen or resident. If the grantor trust were ignored for purposes of these rules, each grantor of a grantor trust with multiple owners would be treated as the owner of the stock owned by the trust and, if U.S. citizens or residents, would be treated as eligible shareholders. Similarly, under Section 1361(c)(2)(A)(v), an electing small business trust (an “ESBT”) is an eligible shareholder. If the ESBT is also a grantor trust treated as owned by a nonresident alien, the trust is an eligible shareholder notwithstanding Section 1361(b)(1)(c)’s general prohibition against nonresident alien shareholders.

that is higher than fair market value in the hands of the trust, so that the inherent loss is (presumably) preserved.

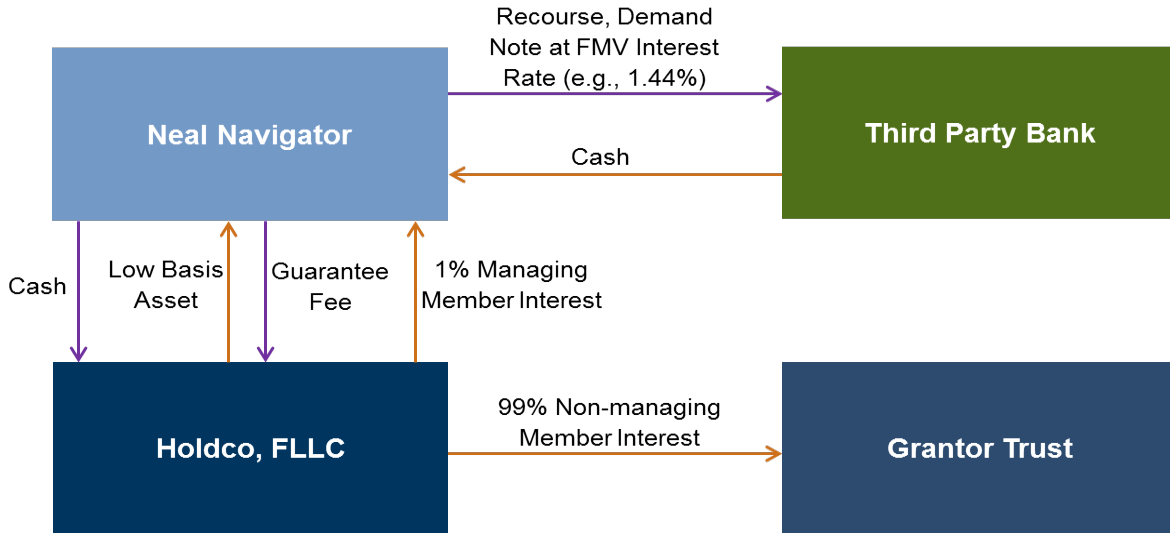
The grantor may not have any high basis assets, or cash, to swap. If that is the case, consider a recourse third party loan of cash to the grantor from a third party lender. (While it may be tempting for the donor to simply purchase low basis assets from the disregarded entity, it is not clear what the disregarded entity's basis in the note is – the note's basis may be only equal to the basis of the purchased assets and capital gains consequences could accrue to the trust when the note is paid.) 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.

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:



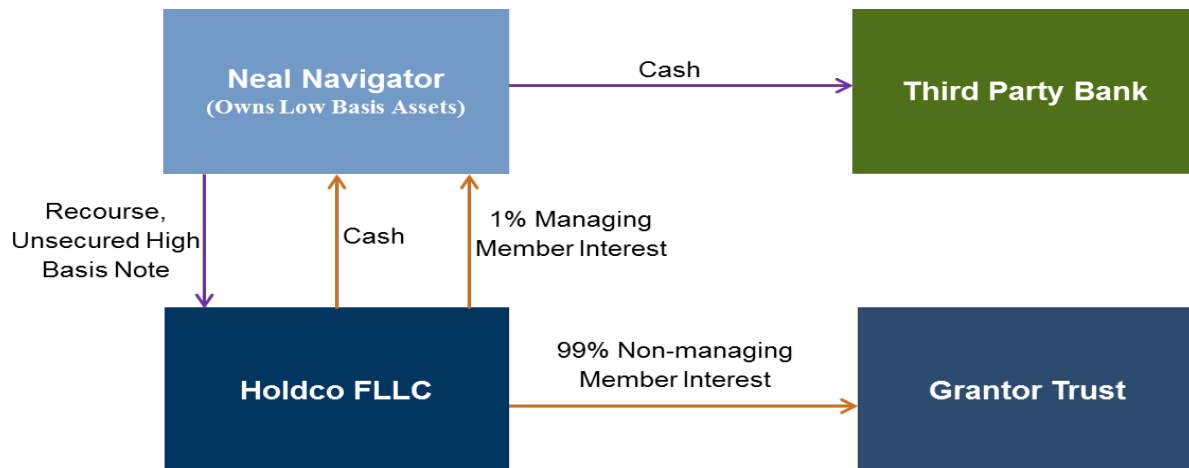
Hypothetical Transaction 2:

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.

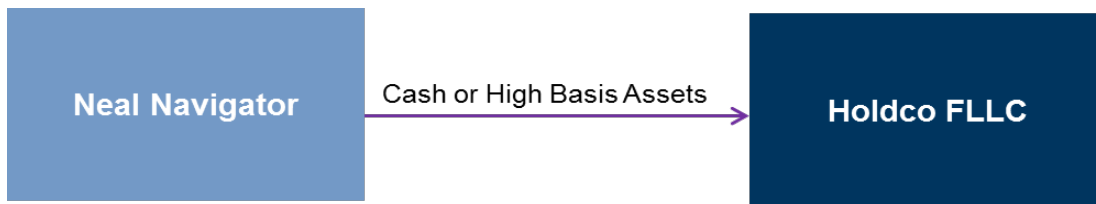
Hypothetical Transaction 2 is illustrated below:



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:



3. Transfer tax advantage of tax-free freeze transactions.

A final conventional use of grantor trusts is to enter into tax-free transactions that have the effect of shifting value, including future investment returns, from the grantor to the grantor trust.

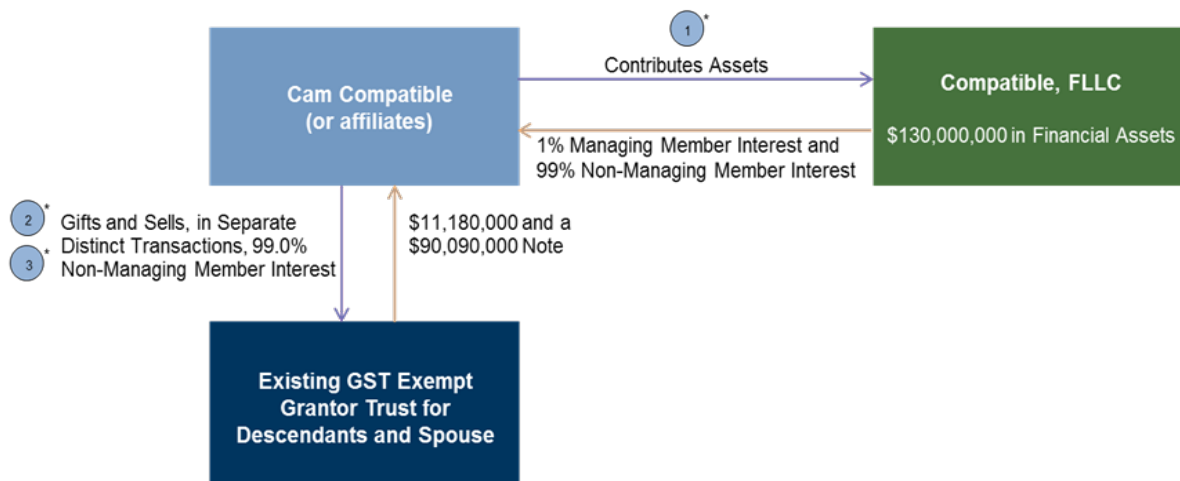
If the grantor sells a low basis asset to a grantor trust (referred to below as the “SIDGT” technique), the taxpayer will pay less estate tax, because his estate is liable for the income taxes and health care taxes associated with that sale. A trust that does not pay income taxes and health care taxes 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 the SIDGT technique, 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 4: Cam Compatible Creates a Grantor Trust for the Benefit of His Spouse and Family and Makes Certain Sales to That Trust ("SIDGT") Technique

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 (which is equal to his then gift tax and GST tax exemption) 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.

As noted above, 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.²³ Thus, no gain or loss is realized by the grantor or the trust. The basis of the property transferred into the

²³ See PLR 9010065 (Dec. 13, 1989).

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.

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 also 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 Section 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 Sections 7872 and 1274(d).

4. 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 more level.

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 income 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.

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 4 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 20 years, depending upon how a fund is located (also *see* attached Schedule 4). This table also illustrates the significant wealth management advantages for the private investor who: (i) engages in estate planning using grantor trusts; and (ii) optimizes location of tax inefficient asset classes in estate tax protected grantor trusts to ameliorate income tax inefficiencies.

Table 4
(These Calculations Ignore the Effect of Any Future BBBA Surtaxes)

Equity Fund's Annual Turnover of Assets	Estate Planning Techniques											
	Fund is Not Subject to Estate Taxes but Grantor's Estate is Subject to Estate Taxes								Fund is Held in a Non-Grantor Trust and Remaining Unrealized Income is Taxed in 20 Years			
	Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 20 Years the Day Before Grantor's Death				Fund is in a Grantor Trust at Investor's Death and Remaining Unrealized Income is Taxed in 20 Years the Day After Grantor's Death				Fund is Held in a Non-Grantor Trust and Remaining Unrealized Income is Taxed in 20 Years			
	A				B				C			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Indexed Fund with 5% Annual Turnover ⁽⁵⁾	7.56%	N/A	N/A	N/A	7.86%	N/A	N/A	N/A	8.32%	N/A	N/A	N/A
Active Beta Indexed Fund with 20% Annual Turnover ⁽⁶⁾	7.86%	3.94%	N/A	N/A	7.98%	1.49%	N/A	N/A	8.92%	7.19%	N/A	N/A
Tax Aware Managed Fund with 30% Annual Turnover ⁽⁷⁾	7.96%	5.32%	1.33%	N/A	8.04%	2.28%	0.77%	N/A	9.14%	9.83%	2.46%	N/A
Equity or Hedge Fund with 100% Annual Turnover ⁽⁸⁾	9.11%	20.55%	15.98%	14.46%	9.23%	17.38%	15.66%	14.77%	11.95%	43.59%	33.96%	30.74%

- (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) % annual improvement necessary to equal fund with 5.0% annual turnover.
- (3) % annual improvement necessary to equal fund with 20.0% annual turnover.
- (4) % annual improvement necessary to equal fund with 30.0% annual turnover.
- (5) 100% short-term realized gains in year 1, 0% short-term realized gains and 100% long-term realized gains in years 2-20.
- (6) 100% short-term realized gains in year 1, 10% short-term realized gains and 90% long-term realized gains in years 2-20.
- (7) 100% short-term realized gains in year 1, 12% short-term realized gains and 88% long-term realized gains in years 2-20.
- (8) 100% short-term realized gains in years 1-20.

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 20-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 before the grantor's death, a 100% turnover fund (e.g., certain hedge funds) needs to earn 9.11% before taxes to double the value of the investment after taxes in 20 years and a 5% turnover fund (e.g., S&P 500 index fund) needs to earn 7.56% before taxes to double the investment after taxes in 20 years. *See* Column A in above

Table 4. Stated differently, a 20.55% 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 A(2)). Contrast this result with those same funds being held in the taxpayer's estate, if those same types of funds are not in a grantor trust. See and compare Table 1 located in Section III.C.1.b.

- b. 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.

5. 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 Section 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 Section 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.²⁴

- c. A donor, under the SIDGT technique (coupled with a transfer of an entity interest in which the donor has investment control), 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, if that limited control is compliant with IRC Section 2036(a)(2).²⁵

A donor, under the SIDGT techniques, 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, if that limited control is compliant with IRC Section 2036(a)(2) and IRC Section 2038. The holding of *Powell v. Comm'r*, 148 TC 18 (2017) needs to be considered. That case held, if there is not a substantive non-transfer tax reason for the creation of the partnership,²⁶ that a decedent's right to amend a limited liability agreement and/or terminate the agreement, with the consent of all other partners, was a retained interest within the meaning of IRC Section 2036(a)(2). It should be noted that many commentators have criticized that holding because it is inconsistent with Supreme Court case law and other authorities. The Supreme Court held in *Helvering v. Helmholz*, 295 U.S. 93 (1935), that a joint power to alter beneficial enjoyment, amend an agreement or terminate an agreement is not sufficient to produce inclusion in the gross estate if it merely reproduces rights already available under applicable state law. Therefore, the *Powell* holding that the partners' collective right to terminate the partnership agreement by unanimous agreement resulted in estate taxation under IRC Sections 2036 or 2038 may be in error because under state law partners always have that right.²⁷ A detailed discussion of *Powell* and steps for minimizing risk of gross estate inclusion of entity assets is beyond the scope of this paper.

²⁴ See Treas. Reg. § 1.1001-2(e), Ex. 5; *Madorin v. Commissioner*, 84 T.C. 667 (1985); Rev. Rul. 77-402, 1977-2 C.B. 722.

²⁵ A thorough discussion of steps that need to be taken to avoid IRC Section 2036(a)(2) by a taxpayer is beyond the scope of this paper. 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 ¶ 602.1 (June, 2013).

²⁶ See the discussion *supra* Section II.2.d.(3)(c). for a list of potential non-transfer tax reasons for the creation of a family limited partnership (FLP) or a family limited liability company (FLLC).

²⁷ See also *Tully Estate v. Comm'r*, 528 F.2d 1401 (Ct. Cl. 1976).

6. Advantages and considerations of borrowing from a grantor trust.

As discussed below, a grantor may wish to borrow funds from a grantor trust. The reasons for doing so and the associated risks are discussed below, together with possible solutions.

There are several reasons that a grantor may wish to borrow from a grantor trust. These strategies have gift, estate, and/or income tax risks.

a. Source of liquidity.

A grantor may borrow from a grantor trust for the straightforward reason that the grantor seeks additional liquidity. It may be easier, less time-consuming, or less costly for the grantor to borrow from a trust created by the grantor than from a third party, such as a bank.

b. Financing payment of income taxes.

As discussed above, grantor trust status permits the grantor to pay income taxes on grantor trust income, so that the trust can earn tax-free returns, even as the grantor's own wealth is depleted by the payment of income taxes. The grantor may wish to borrow from the trust in order to finance the grantor's payment of income taxes on the trust's income.

State law or the governing instrument frequently authorizes the trustee of a grantor trust to reimburse the grantor for the income taxes on trust income.²⁸ The IRS has ruled that the mere existence of such a power, if discretionary with a trustee who is not related or subordinate to the grantor, will not cause the trust to be included in the grantor's gross estate under IRC Section 2036(a)(1).²⁹ The existence of the power, combined with other circumstances, may, however, cause the trust to become subject to estate tax at the grantor's death. Cautious practitioners, therefore, often advise against reimbursing the grantor. Some even draft trust instruments that forbid reimbursement altogether. Borrowing from the grantor trust may be an alternative to reimbursement when reimbursement may be prohibited or risky. In addition, if the grantor's debt obligation is either repaid during lifetime or deducted for estate tax purposes under IRC Section 2053(a)(3), borrowing is more efficient than reimbursing, as it avoids leakage of trust assets from the trust to the grantor.

c. Borrowing without income tax on interest.

A possible advantage of the grantor borrowing from a grantor trust is that the loan to the grantor will be ignored for income tax purposes under Rev. Rul. 85-13. Thus, the trust will not be subject to tax on interest income (and the grantor will not have an interest deduction). If

²⁸ See, e.g., New York's Estates, Powers and Trusts Law ("NY EPTL") 7-1.11 (authorizing reimbursement to the creator of the trust out of principal an amount equal to the any income taxes on any portion of the trust principal with which the creator is charged).

²⁹ Rev. Rul. 2004-64. A problem exists if the discretionary power to reimburse would give the grantor's creditors rights in the trust property under state law. Many states have enacted statutes preventing this. See, e.g., New York's Estates, Powers and Trusts Law ("NY EPTL") 7-3.1(d).

instead the grantor borrows from an individual member of the grantor's family, the lender would have interest income on the loan. If the interest is classified as personal interest under IRC Section 163(h), the borrower would not have a corresponding interest deduction.

d. Turning on grantor trust status for a non-grantor trust.

Borrowing from a non-grantor trust may turn on grantor trust status. Under IRC Section 675(3), the grantor of a trust is treated as the owner of any portion of a trust with respect to which the grantor has borrowed the corpus or income in any year in which the loan is outstanding for any portion of the year. An exception applies if the loan was made by a trustee, other than the grantor or a related or subordinate party, and the loan provided for adequate interest and security.³⁰ Even if the grantor repays the loan entirely before the end of the year, the grantor is still treated as the owner for the entire year.³¹ IRC Section 675(3) may also cause grantor trust status for the entire year, even though the loan was not in existence at the beginning of the year.³²

If the grantor wishes to turn on grantor trust status through an actual borrowing, an important question is what portion is treated as owned by the grantor as a result of the borrowing. The IRS has taken the position in litigation that any borrowing causes the entire trust to be treated as owned by the grantor.³³ The Tax Court, however, has instead applied a formula approach, at least in one set of circumstances.³⁴

e. Using IRC Section 675(3) to acquire appreciated assets from a non-grantor trust to use to make charitable gifts.

The grantor of a non-grantor trust may want to use an appreciated asset held by the trust to make a gift to charity. If the grantor purchases the asset for cash, the trust would recognize gain. If the grantor purchases the asset for an unsecured note, there will be no gain recognition because the purchase turns the trust into a grantor trust, at least to the extent of the purchased property and the note used to purchase it.³⁵

³⁰ IRC § 675(3); Treas. Reg. § 1.675-1(b)(3).

³¹ Rev. Rul. 86-82.

³² *Mau v. U.S.*, 355 F. Supp. 909 (D. Hawaii 1973).

³³ *Benson v. Comm'r*, 76 T.C. 1040, 1045 (1981) ("It is best to wait for a case clearly presenting the problem to analyze fully respondent's 'entire trust' contention."); *Bennett v. Comm'r*, 79 TC 470 (1982) ("We reject respondent's contention that the grantor is taxable on all the trust income whenever he borrows any of such income").

³⁴ *Bennett v. Comm'r*, 79 TC 470 (1982). In *Bennett*, the portion owned by the grantor was equal to a fraction equal to the loan balances on the last day of the taxable year, divided by the total trust income for the years when the loans were outstanding.

³⁵ IRC § 675(3); *Rothstein v. Comm'r*, 735 F.2d 704 (2nd Cir. 1984); Rev. Rul. 85-13. The *Rothstein* case treated the sale for a note as both a borrowing under IRC Sec. 675(3) and a sale in which the grantor received a cost basis in the purchased assets and the trust realized gain that was in turn reportable by the grantor under IRC Sec. 671. The trust's gain, however, was reported on the installment basis under IRC Sec. 453, so the transaction was not an immediate "wash". Rev. Rul. 85-13 has effectively superseded *Rothstein* on the question of gain realization, but the case still supports the proposition that a sale for a note is a borrowing that "turns on" grantor trust status.

- f. “Reverse” installment sale to lock in estate tax exclusion before it expires.

The gift and estate tax exclusion amount is currently \$12,060,000, indexed for inflation, but reverts to \$5 million, plus inflation adjustments, after 2025.³⁶ Under regulations promulgated by the IRS and the Treasury Department, a taxable gift before 2026 must use up the entire enhanced exclusion amount to have the effect of preserving the benefit of the enhanced exclusion after 2025.³⁷ Taxpayers unwilling to part with assets in order to use up the enhanced exclusion could instead make an initial gift, but then purchase the assets back from the trust in exchange for a note. In this manner, the grantor could use up the enhanced exclusion yet effectively retain ownership of all of his or her assets. If the trust is a grantor trust, no gain or loss would be recognized on the purchase, and any interest on the note would not be subject to tax. Care should be taken to make sure the IRS has no basis for taking the position that the note is not a real note. For instance, a taxpayer with \$15,000,000 in assets could create a single member LLC with a \$12,060,000 preferred interest in a 6% coupon with most of the rest of her assets contributed for a growth interest. The taxpayer could gift the preferred interest to a grantor trust after obtaining a qualified appraisal confirming its fair market value. Assuming the preferred interest is properly structured, IRC Section 2701 will not apply because the taxpayer does not transfer any interest in the LLC that is “subordinate” to the interests retained by the taxpayer. At a later date, the taxpayer could purchase most of the preferred interest from the trust in exchange for a note that pays interest at the AFR. The transfer and repurchase of the preferred interest should be separate and independent transactions.

- g. Guarantee favorable, stable returns to grantor trust.

A grantor may wish to borrow money from an irrevocable grantor trust in order to provide the trust with a favorable rate of return on investments, so that assets can grow during the grantor’s lifetime free of further gift or estate tax. For example, the grantor could borrow low-income producing assets, such as cash, in exchange for an unsecured note paying interest comparable to rates for junk bonds or other high-yield investments if that interest rate is equal to a fair market value rate. The hoped-for outcome is that the grantor’s payment of the interest and principal will cause the trust to earn a higher rate of return than it otherwise could, but without the grantor being deemed to make a taxable gift. See the discussion *infra* at IV(B)(2)(a).

- h. Gift tax risks of borrowing from a grantor trust.

Both the grantor and the beneficiaries have potential gift tax risks if the grantor borrows from an irrevocable trust.

³⁶ IRC § 2010(c)(3)(C).

³⁷ Treas. Reg. § 20.2010-1(c). See T.D. 9984 (Nov. 26, 2019).

(1) Gift tax risks to borrower.

If the grantor borrows from an irrevocable trust, the borrowing will not be treated as a gift by the grantor for gift tax purposes, provided that the value of the grantor's obligation to repay is no greater than the borrowed cash.³⁸ Normally, the grantor will not be treated as making a gift so long as the face amount of the obligation is equal to the borrowed cash. The value of a note, however, is determined in part by comparing the interest rate on the note to the prevailing interest rates on the market.³⁹ In theory, therefore, an excessively generous interest rate payable to the grantor trust could cause the grantor to be treated as having made a taxable gift at the time of the borrowing.

For gift tax purposes, a gift occurs, if at all, when a binding promise is made rather than when the obligation is satisfied.⁴⁰ Thus, the grantor's repayment of a loan from a grantor trust is not treated as a gift for gift tax purposes.

(2) Gift tax risks to beneficiaries.

A trustee who makes a loan on favorable terms to the grantor – such as if the loan is unsecured or bears interest at low rate – may breach the trustee's duties to the beneficiaries, such as the duties of loyalty and prudence. The beneficiaries, in turn, may have a claim of breach of fiduciary duty against the trustee. Remedies may include voiding the transaction. Beneficiaries who fail to assert a claim for breach of fiduciary duty, and instead consent to or acquiesce in the loan, could conceivably be making an indirect gift to the grantor by permitting the value of their beneficial interests to be impaired by the loan.⁴¹

(3) Estate tax risks of borrowing from a grantor trust.

Borrowing from a grantor trust can present estate tax risks.

(a) Gross estate inclusion risk.

IRC Section 2036(a)(1) generally provides that property transferred during lifetime is included in the decedent's estate if the decedent retained for life, or for any period which does not in fact end before death (or any period not ascertainable without reference to death), the use,

³⁸ IRC § 2512(b); Treas. Reg. § 25.2511-1(g); Treas. Reg. § 25.2512-8.

³⁹ Rev. Rul. 81-286; *Blackburn v. Comm'r*, 20 T.C. 204 (1953). If instead the grantor makes a loan to the trust, then Section 7872 overrides this principle and provides a hurdle rate of interest in determining the value of the note for gift tax purposes. *Frazee v. Comm'r*, 98 T.C. 554, 590 (1992); *Estate of True v. Comm'r*, TC Memo 2001-167; PLR 9535026; PLR 9408018; *see also* Joint Committee on Taxation, General Explanation of the Revenue Provisions of the Deficit Reduction Act of 1984 at 529 ("[T]he amount of the gift [in the case of a gift loan] is to be determined under section 7872 . . . even if the applicable Federal rate is less than a fair market rate).

⁴⁰ *Comm'r v. Copley's Estate*, 194 F.2d 364, 365 (7th Cir. 1952); *Harris v. Comm'r*, 178 F.2d 861, 864 (2d Cir. 1949), *rev'd on other grounds*, 340 U.S. 106 (1950); Rev. Rul. 79-384; Rev. Rul. 84-25.

⁴¹ Rev. Rul. 84-105 (holding that a beneficiary makes an indirect gift by acquiescing in a diversion of trust property); *see also* Rev. Rul. 81-264; Rev. Rul. 86-39.

possession, right to income, or other enjoyment of the transferred property. For example, an estate inclusion risk may be present if payments under a promissory note given to the grantor in exchange for property are related to or determined by reference to the income produced by the property.⁴²

A retained interest need not be legally enforceable, though, in order for it to cause property transferred during lifetime to be included in the decedent's estate for estate tax purposes. On the contrary, property may be included in the gross estate based on an understanding, express or implied, regarding the decedent's use, possession, or right to income or other enjoyment.⁴³ In the context of a grantor borrowing from an irrevocable trust, the IRS could contend that, if the grantor-decedent borrowed on favorable terms, such as at a below-market interest rate, the borrowing is evidence of an implied understanding that the grantor would be given the enjoyment or right to income of the trust property.⁴⁴

Many trusts, even those intended to be grantor trusts, have provisions requiring that any loan to the grantor or spouse be for adequate interest and security to comply with IRC Sec. 675(2) and (3), where the intent is to use specific provisions (power of substitution, power to purchase insurance, etc.) to turn grantor trust status on or off without a lending power inadvertently turning it on. Such a provision, if respected by the trustee, should defeat the contention that the grantor retained an interest in the trust through the ability to borrow.

(b) IRC Section 7872 rate may not be an IRC Section 2036 safe harbor.

IRC Section 7872, where it applies, tests the interest rate charged on an individual's loan in order to determine whether it is a below-market loan. If the loan is below-market gift loan, the lender is deemed to make one or more gifts in the form of foregone interest. A gift loan is a below-market loan where the foregoing of interest is in the nature of a gift. There is no foregone interest, however, so long as the rate is at least equal to the applicable federal rate, as determined under IRC Section 7872. In this way, IRC Section 7872 acts as a safe harbor for gift tax purposes.⁴⁵ IRC Section 7872 does not, however, apply to determine whether a decedent retained a right to the income or enjoyment of property transferred during lifetime within the meaning of IRC Section 2036(a)(1). The use of the IRC Section 7872 rate, therefore, does not protect against an inference that the grantor, by receiving loans on favorable terms, retained the right to income or enjoyment of trust property within the meaning of IRC Section 2036(a)(1). On the contrary, as the IRC Section 7872 rate is typically less than the interest rate that an arms-

⁴² See *Fidelity-Philadelphia Trust Co. v. Smith*, 356 U.S., 274 (1958).

⁴³ Treas. Reg. § 20.2036-1(c)(1)(i); Rev. Rul. 2004-64; *Linderme v. Comm'r*, 52 T.C. 305 (1969); *Gynn v. U.S.*, 437 F.2d 1148 (4th Cir. 1971); *Maxwell v. Comm'r*, 3 F.3d 591 (2d Cir. 1993); *Reichardt v. Comm'r*, 114 T.C. 144 (2000); *Kerdolff v. Comm'r*, 57 T.C. 643 (1972); *Paxton v. Comm'r*, 86 T.C. 785 (1986).

⁴⁴ Cf. *Rosen v. Comm'r*, T.C. Memo. 2006-115 (applying Section 2036(a)(1) to assets of a family limited partnership, in part on the grounds that the decedent received unsecured purported advances).

⁴⁵ *Frazer v. Comm'r*, 98 T.C. 554, 590 (1992); *Estate of True v. Comm'r*, TC Memo 2001-167; PLR 9535026; PLR 9408018.

length lender would charge, the use of the IRC Section 7872 rate may backfire and increase the risk of estate tax on trust assets (although no case or ruling has yet held so). A possible fix is to consider the LAIDGT technique. *See* the discussion *supra* Section IV.B.10.

(c) Additional IRC Section 2035(a) three-year tail risk.

IRC Section 2035(a) provides that if a decedent relinquished a power during the three-year period before death, and retention of the power would have caused gross estate inclusion under IRC Section 2036(a)(1), then the value of the gross estate shall include the property with respect to which the power was released.⁴⁶ Under this Section, if a loan to the grantor is treated as evidence of an understanding that the decedent would retain the right to income or enjoyment of trust property under IRC Section 2036(a)(1), then repaying or otherwise cleaning up the loan may not prevent gross estate inclusion unless the grantor survives an additional three years.

(d) Non-deductibility of estate tax risk.

A grantor who borrows cash or other assets from an irrevocable trust, and dies obligated to repay the trust, does not augment his or her estate for estate tax purposes so long as the cash or other assets borrowed and included in the grantor's gross estate is offset by a corresponding deduction for the debt obligation. A deduction is generally allowable under IRC Section 2053(a)(3) for claims against the decedent's estate. However, as discussed below, the IRS could argue on various grounds that a deduction should not be allowed.

(i) General requirements of deduction under IRC Section 2053(a)(3).

In general, a claim is deductible under IRC Section 2053(a)(3) if it represents a personal obligation of the decedent, it existed at the time of the decedent's death, and it is enforceable against the decedent's estate and not unenforceable when paid.⁴⁷ In addition, unless an exception applies, the claim must either be actually paid by the estate or must meet certain requirements to ensure that the amount of the debt is ascertainable.⁴⁸ To ensure deductibility, it is usually wise to have the debt repaid as soon as possible after the decedent's death.

⁴⁶ Section 2038(a)(1) has its own three-year relinquishment rule. However, as Section 2038 does not apply based on a mere understanding, it seems that this three-year rule is unlikely to apply.

⁴⁷ Treas. Reg. § 20.2053-4(a)(1).

⁴⁸ Treas. Reg. § 20.2053-4(a)(1); Treas. Reg. § 20.2053-1(d)(4).

(ii) Full and adequate consideration requirement.

A deduction for a claim founded on a promise or agreement – such as the grantor’s agreement to repay a loan – is only allowed to the extent that the promise or agreement was bona fide and in exchange for full and adequate consideration in money or money’s worth.⁴⁹ If the grantor borrowed on terms excessively favorable to the grantor trust (such as if the interest rate is above-market), then the IRS could deny a IRC Section 2053(a)(3) deduction on the theory that the grantor’s repayment obligation was not contracted for full and adequate consideration, but instead was a device for transferring wealth under cover of a deduction for claims against the estate.

(iii) General factors of bona fide loan.

In general, including for purposes of IRC Section 2053(a)(3), courts apply a number of factors in order to determine whether a purported debt is bona fide.⁵⁰ These factors include: (1) The name given to an instrument underlying the transfer of funds; (2) the presence or absence of a fixed maturity date and a schedule of payments; (3) the presence or absence of a fixed interest rate and actual interest payments; (4) the source of repayment; (5) the adequacy or inadequacy of capitalization; (6) the identity of interest between creditors and equity holders; (7) the security for repayment; (8) the transferee's ability to obtain financing from outside lending institutions; (9) the extent to which repayment was subordinated to the claims of outside creditors; (10) the extent to which transferred funds were used to acquire capital assets; and (11) the presence or absence of a sinking fund to provide repayment. Any failure by the trust to deal with the grantor as a third-party lender creates a risk that the IRS would attempt to deny an estate tax deduction for the debt on the theory that the debt was not bona fide.

(iv) Additional factors if claim involves family members or beneficiaries.

Treas. Reg. § 20.2053-1(b)(2) provides that, except in the case of certain charitable claims, “[n]o deduction is permissible to the extent it is founded on a transfer that is essentially donative on character (a mere cloak for a gift or bequest).” If a claim involves family members, a related entity, or beneficiaries, additional factors are considered to determine whether a claim is bona fide.⁵¹

⁴⁹ IRC § 2053(c)(1)(A); Treas. Reg. § 20.2053-4(d)(6).

⁵⁰ See, e.g., *Rosen v. Comm’r*, T.C. Memo. 2006-115; *Miller v. Comm’r*, T.C. Memo. 1996-3, aff’d, 113 F.3d 1241 (9th Cir. 1997); *Todd v. Comm’r*, TC Memo. 2011-123, aff’d per curiam, 486 Fed Appx 423 (5th Cir. 2012).

⁵¹ Treas. Reg. § 20.2053-1(b)(2)(ii).

- (v) Inherent risk given factors of bona fide loan.

Given that whether a loan from a grantor trust is bona fide will depend on the facts and circumstances, it is, at a minimum, important to be cautious in the implementation and administration of the loan. Any defect in the course of dealing could be used as leverage by the IRS against an estate seeking to deduct the debt at death. Again, a possible fix is to consider the LAIDGT technique. See the discussion *supra* IV.B.10.

B. Other Considerations of Grantor Trust and the SIDGT Technique.

1. State income tax considerations.

Many states have a state income tax, but not all have similar provisions to the federal tax law with respect to grantor trusts. It is not clear that all states which respect grantor trust status 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.

- 2. 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 equitable tax 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 4.⁵² 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 in the SIDGT technique, or the gift of the FLLC interest in the LAIDGT technique, 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, estate and gift tax law should be applied in a manner that follows a state property law analysis.⁵³ 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

⁵² 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).

⁵³ See *United States v. Bess*, 357 U.S. 51 (1958); *Morgan v. Commissioner*, 309 U.S. 78 (1940).

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 or gift of an interest in a leveraged entity to such a trust should have an economic risk/reward to the trust. 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. A detailed discussion of strategies and best practices for ensuring that discounts will be upheld against attack under the Step Transaction Doctrine is outside the scope of this paper.

3. 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 is not recovered unless the trust assets can be pulled back into the gross estate at death. Consequently, it is almost always advisable to include provisions that make it possible to toggle on gross estate inclusion, should that be desirable.⁵⁴

4. There may be gain recognition considerations with respect to the note receivable or note payable that may exist with the grantor trust as the death of the donor, but not with the LAIDGT technique (*see infra* Section IV.B.10 for a discussion of the LAIDGT technique).

Under the facts of Revenue Ruling 85-13, 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.

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

⁵⁴ For more on gross estate toggling planning, see Bramwell and Mullen, "Toggling Gross Estate Inclusion On and Off: A Powerful Strategy," *Estate Planning*, Vol. 44, No. 3 (2017).

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 contributes 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.⁵⁵

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). Also, if this is a concern, it could be mitigated by the trustee of the grantor trust borrowing cash from a third party lender and using that cash to eliminate the note owed by the trust to the grantor. The grantor could then use that cash to buy the lowest basis assets owned by the trust. The trustee of the trust could then use the cash it received from the grantor for its purchase of the lowest basis assets to retire its third party lender debt.

5. There may be income realization considerations with respect to a note payable that may exist with the grantor trust at the death of the door.

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 creates a trust with part of the assets of his estate. The decedent then directs that the executor purchases 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. The

⁵⁵ 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 Trust, 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).

It should be noted that in addressing the relevance of Reg. §§ 1.1001-2(c) Ex. 5, *Madorin*, 84 T.C. 667 (1985) and Rev. Rul. 77-402, the author(s) of CCA 200923024 observed:

“We would also note that the rule set forth in these authorities is narrow, insofar as it only affects inter vivos lapses of grantor trust status, not that caused by the death of the owner **which is generally not treated as an income tax event.**” (emphasis added).

consequences of repaying a note issued to a grantor trust after grantor trust status turns off are discussed in detail below in this paper.

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.

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.

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.⁵⁶ 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,⁵⁷ the transferor's spouse,⁵⁸ charity⁵⁹ or a trust in which the grantor has retained an interest that makes the gift incomplete.⁶⁰

⁵⁶ 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).

⁵⁷ E.g., the excess could be transferred to a grantor retained annuity trust under IRC Section 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.

⁵⁸ E.g., the excess could be transferred to a spouse or a marital deduction trust pursuant to a formula marital deduction clause.

⁵⁹ 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.

⁶⁰ David A. Handler & Deborah V. Dunn, "The LPA Lid: A New Way to 'Contain' Gift Revaluations," 27 Estate Planning 206 (June 2000).

A discussion of formula valuation clauses is outside the scope of this paper. Taxpayers who employ them during lifetime should be aware that even if a formula clause is successful in defining the value of a gift, the formula clause leaves open for future IRS challenge the amount of property transferred.⁶¹

8. At some point, the grantor may not be able to afford the income taxes associated with the grantor trust. At that point, if the grantor renounces the retained powers that make it a grantor trust, then the trust becomes a non-grantor trust unless the original drafting of the trust provides that the trust becomes a BDOT under those circumstances (*see supra* Section VI for the discussion of BDOTs). If the trust becomes a non-grantor trust, then the trust has the high income taxes of a non-grantor trust and other considerations of a non-grantor trust (*see* the discussion *supra* Section III.B.2).
9. When the grantor dies then the trust becomes a non-grantor trust unless the original drafting of the trust provides that the trust becomes a BDOT under those circumstances (*see* the discussion *infra* Section VI).
10. Mitigation of some of the considerations of the SIDGT technique: contribution of a leveraged LLC interest to a grantor trust (“LAIDGT” 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, and to create basis enhancing opportunities that do not exist with the SIDGT technique, a donor may wish to instead create a leveraged entity in which he retains a convertible note and transfers the non-managing equity interest in that entity to a grantor trust. This technique is the LAIDGT. Consider the following example.

Example 5: Cam Compatible Creates a Leveraged Single Member LLC with a Convertible Note and Then Contributes His Non-Managing Interests to a Grantor Trust

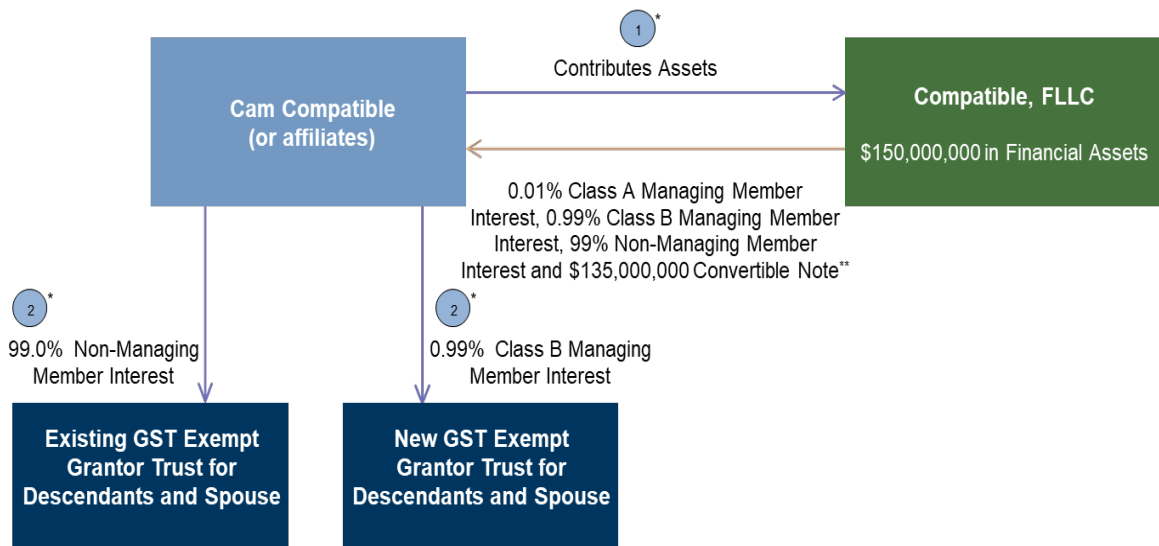
Cam Compatible owns \$150,000,000 in financial assets. Cam and affiliates (who are not recognized for income tax purposes) contribute \$150,000,000 in assets to a FLLC and receive a 0.1% Class A managing member interest, a 0.99% Class B managing member interest, a 99% non-managing member interest and a \$135,000,000 convertible note (Transaction 1). The note could be converted at any time at the option of the holder to that number of Compatible, FLLC non-managing member interests 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. The terms of the trust treat his wife,

⁶¹ For an explanation of why formula clauses fail to achieve finality, see the Bramwell and Dillion, “Not Another Wandry Article: Real Issue with *Wandry* Formulas,” 41 Estate Planning (May 2014).

Carolyn, as the discretionary beneficiary and give her certain powers of appointment over the trust.

Due to considerations with respect to retaining entity distribution, amendment and liquidation powers, Cam could retain the 0.01% Class A managing member interest and transfer the 0.99% Class B managing member interest. The Class A managing member interests would control all entity managing member decisions, including investment management decisions that are not delegated to the Class B managing member interest. The Class B managing member interests would control all distribution, amendment and liquidation decisions.

Cam could give his Class B managing member interest to a grantor trust in which the initial trustee is an advisor or family member he trusts. Cam could have the power to replace the trustee of that donee trust with a new trustee, as long as the replacement trustee is not related or subservient. Assuming a 25.5% valuation discount for the transferred member interests, the technique is illustrated below:



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

** The retained note in the LAIDGT technique 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 or a private annuity.

a. Income tax and basis enhancing advantages of the technique.

- (1) The LAIDGT has all of the income tax and basis enhancing advantages of the SIDGT technique and additional advantages that are unique to retaining a convertible note from a single member FLLC.

IRC Sections 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 Section 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 Section 671 in computing the taxable income and credits of the grantor is treated as if received or paid directly to the grantor.⁶² Thus, if the private investor contributes assets to an IDGT, 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.⁶³ If a limited liability company is owned by the grantor and/or grantor trusts all of these concepts also apply. In addition, because of IRS regulations, it is clear that all donor activities with a single member LLC (including sales and purchases) are disregarded for income tax purposes. See the discussion *infra* Section IV.B.10.a.(2).

Under Rev. Rul. 85-13,⁶⁴ 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 Section 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.⁶⁵

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.⁶⁶ 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, or a single member FLLC, 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 the donor paying the income taxes of a grantor trust is generally the most effective wealth transfer technique.

⁶² Treas. Reg. § 1.671-2(c).

⁶³ See Rev. Rul. 2004-64, 2004-2 C.B. 7.

⁶⁴ Rev. Rul. 85-13, 1985-1 C.B. 184.

⁶⁵ 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).

⁶⁶ See P.L.R. 9010065 (Dec. 13, 1989).

- (2) There is greater authority that a sale to a single member FLLC in the LAIDGT technique will be treated as a non-taxable sale to a disregarded entity for income tax purposes than there is for a sale to a grantor trust in the SIDGT technique.

It is clear that a single member FLLC is disregarded for all income tax purposes, including all single member activities (e.g., sales and purchases with the single member FLLC).⁶⁷ In *Rothstein v. Commissioner*⁶⁸ the Second Circuit ruled that a purchase from a grantor trust is not ignored because the phrase under IRC Section 671 “shall be treated as the owner of the trust assets” *only* applies for purposes of including the trust’s income and deductions and does not address donor activities (including sales and purchases) with respect to that trust. *See also* the commentaries of Mark Asher⁶⁹ and Jeff Pennell.⁷⁰ As noted above in Rev. Rul. 85-13, however, the IRS announced that it would not follow *Rothstein*.⁷¹

- (3) The retained note in the LAIDGT technique 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.

⁶⁷ See Treas. Reg. § 301.7701-3(a); Treas. Reg. § 301.7701-3(b)(1)(ii) and Treas. Reg. § 301.7701-2(a).

⁶⁸ *Rothstein v. Commissioner*, 735 F.2d 704 (2nd Cir. 1984).

⁶⁹ Mark L. Asher, When to Ignore Grantor Trusts: The Precedents, a Proposal, and a Prediction, 41 Tax. L. Rev. 253 (1986).

⁷⁰ Jeffrey N. Pennell, “(Mis) Conceptions About Grantor Trusts,” 50th Annual Southern Federal Tax Institute.

⁷¹ To the extent that the IRS can distinguish Rev. Rul. 85-13, *Rothstein* makes it possible for the IRS to argue that a trust treated as owned by another person is not disregarded for all tax purposes. This concern arises, for example, in the case of a BDOT, as discussed later in this paper. The use of a single-member FLLC may help alleviate this concern.

- (b) IRC Section 754 elective basis increase in underlying assets.

If there is automatic conversion at the moment of death, an IRC Section 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.

It should be noted that this basis enhancing advantage also exists with the classic preferred interest freeze in which the taxpayer retains a preferred interest and transfers the growth interest to his descendants. However, in the preferred interest freeze the coupon is generally much higher than the AFR interest rate in order to have the fair market value of the preferred to equal the par value of the preferred. *See* Rev. Rul. 83-120.

- (c) Support for position regarding valuation of note.

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

- (d) Additional investment flexibility for holder.

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

- (e) Ability to turn disregarded entity status on and off.

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.

- (4) There may need to be substantive equity in the trust from prior gifts (is 10% equity enough?) before the sale is made in the SIDGT technique in order for the note not to be treated as a retained interest in the trust under Equitable Tax Principles. That consideration may not exist with the LAIDGT technique.

The note needs to be treated as a note for tax purposes. Generally, estate and gift tax law follows state property law.⁷² Thus, there needs to be a strong likelihood that the note will be paid and the capitalization of the trust in the SIDGT technique should not be too “thin.”⁷³ If the

⁷² *See United States v. Bess*, 357 U.S. 51 (1958); *Morgan v. Commissioner*, 309 U.S. 78 (1940).

⁷³ In the corporate context *see* IRC Section 385(b); *Miller v. Commissioner*, T.C. Memo 1996-3, 71 T.C.M. (CCH) 1674; *see also* IRC Section 385 (titled “Treatment of Certain Interests in Corporations as Stock or Indebtedness”); Notice 94-47, 1994-1 C.B. 357. *See also*, Staff of the Joint Committee on Taxation, “Federal Income Tax Aspects of Corporate Financial Structures,” JCS-1-89, at 35-37 (1989), noting that various courts have determined that the following features, among others, are characteristic of debt:

assets of the trust in the SIDGT technique 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 Section 2702 and, thus, all of the assets of the trust could be considered as having been given to the donees without any offsetting consideration for the value of the note. If the note is considered a disguised retained beneficial interest in the trust, instead of a note, the IRS may take the position that IRC Sections 2036 and/or 2038 apply on the death of the taxpayer.⁷⁴ Based on a private letter ruling in 1995⁷⁵ and the statutory make-up of IRC Section 2701, many practitioners and commentators seem to be comfortable with leverage that does not exceed 90%.⁷⁶ In the LAIDGT, since the note is accruing from the FLLC, and not the trust, the “retaining a trust interest” consideration of the SIDGT technique may be avoided. If there is too much leverage with the LAIDGT technique part of the note will be reconstituted as equity in the FLLC and the disappointment will be that not as much equity will be transferred by gift to the recipient trust. Secondly, because the note is convertible in the LAIDGT technique, there is a stronger argument that at all times the note will be repaid.

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).

⁷⁴ 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 Section 677 purposes and IRC Section 2036 purposes.

⁷⁵ PLR 9535026 (May 31, 1995).

⁷⁶ See Martin Shenkman, “Role of Guarantees and Seed Gifts in Family Installment Sales,” 37 Estate Planning 3 (Nov. 2010).

- (5) There may be capital gains considerations with respect to the note receivables and/or note payables that may exist with the grantor trust at the death of the donor under the SIDGT technique, but not with the LAIDGT technique with a convertible note that converts at the death of the holder.
- (6) Transfer tax advantages of the LAIDGT.
 - (a) The LAIDGT technique has all of the transfer tax advantages of the SIDGT technique.
 - (b) The LAIDGT technique can be used to transfer assets from one grantor trust to another when there may be generation-skipping advantages or other advantages in making that transfer.

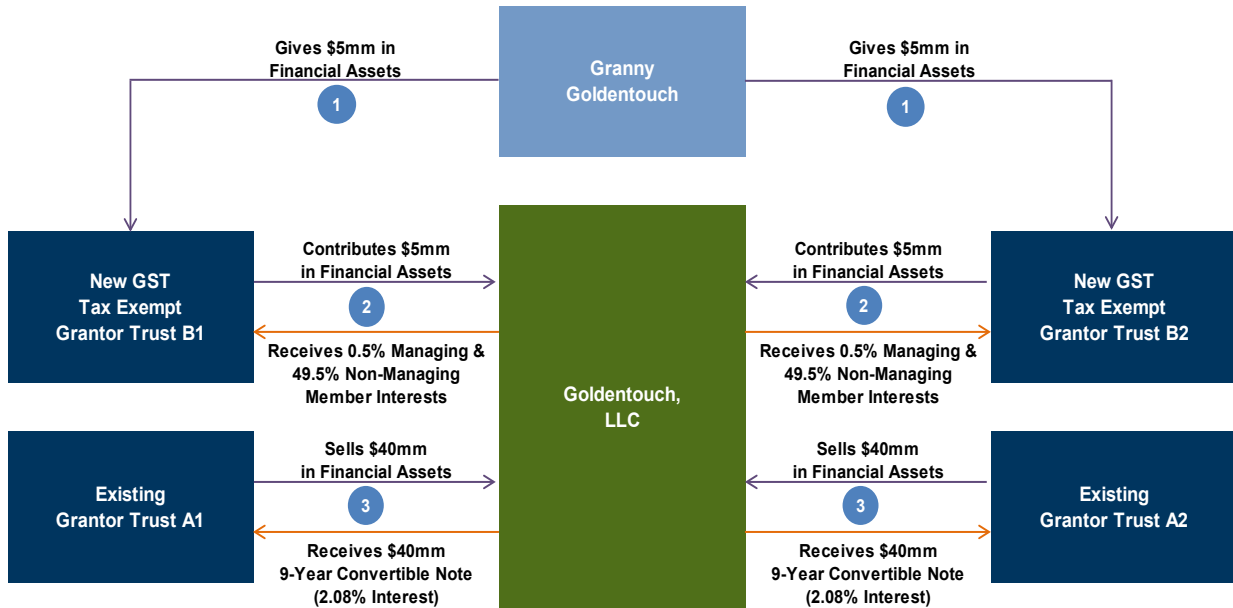
Consider the following example:

Example 6: A Transferor of a Grantor Trust for His Children (Trust A) Would Like to Indirectly Transfer Some of the Growth of the Assets in Trust A to a Grantor Trust for the Benefit of His Children and Future Descendants (Trust B)

Granny Goldentouch (age 60) has created many successful GRATs through the years that have resulted in grantor trusts for each of her two children and each trust has a value of \$40,000,000 (Trust A). Granny has \$10,000,000 in exemption available for gift to dynasty trusts that are grantor trusts. Granny contributes \$5,000,000 each to two dynasty trusts for each of her two grandchildren and their respective descendants (Trust B). Each trust could contribute \$5,000,000 to an LLC. The respective Trust A trusts could sell its assets to the LLC that is owned by the respective dynasty trusts. Granny still has \$75,000,000 in assets after the gifts and plans to spend (inflation adjusted) \$1,250,000.

Granny asks her attorney, Pam Planner, what would be the result in 25 years of this plan. Granny asks Pam to assume the assets will earn 7.4% annual return pre-tax (2% of the return will be taxed at ordinary rates and 5.4% of the return will be taxed at capital gains rates with a 30% turnover rate).

The example is illustrated below:



In 25 years, under the above assumptions, assuming the AFR on the notes and refinanced notes equals 2%, \$353,203,114 in assets will be owned by the grantor dynasty trusts. See the table below and attached Schedule 6.

Table 6

	Goldentouch Beneficiaries		Consumption		IRS Income Tax		Tax Liability of Estate		Total
	Children	Children and Grandchildren	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Embedded Capital Gains Tax Liability	IRS Estate Tax (at 40.0%)	
25-Year Future Values									
No Further Planning	\$504,996,444	\$9,020,000	\$42,697,205	\$62,000,386	\$148,996,173	\$177,366,284	\$11,465,273	\$26,543,030	\$983,084,793
	\$514,016,444		\$104,697,591		\$326,362,456		\$38,008,303		
Hypothetical Technique	\$178,344,003	\$353,703,114	\$42,697,205	\$62,000,386	\$149,610,384	\$177,366,284	\$12,898,432	\$6,464,986	\$983,084,793
	\$532,047,117		\$104,697,591		\$326,976,667		\$19,363,419		
Present Values (discounted at 2.5%)									
No Further Planning	\$272,390,329	\$4,865,303	\$23,030,471	\$33,442,425	\$80,367,133	\$95,669,704	\$6,184,260	\$14,317,060	\$530,266,686
	\$277,255,633		\$56,472,895		\$176,036,838		\$20,501,321		
Hypothetical Technique	\$96,197,077	\$190,784,131	\$23,030,471	\$33,442,425	\$80,698,433	\$95,669,704	\$6,957,293	\$3,487,153	\$530,266,686
	\$286,981,208		\$56,472,895		\$176,368,137		\$10,444,446		

C. The LAIDGT Technique in Combination with Preferred Interests When One Spouse Owns Most of the Assets and the Donor Wishes to Benefit the Donor's Family, Spouse and Favorite Charitable Causes.

1. The technique.

An example that may be a solution for the fact pattern of one spouse having almost all of the marital assets and the spouses wish to use both spouse's exemptions for gifts to their family, is for the spouse with assets to contribute to a GST Trust for his descendants a non-managing interest in a leveraged LLC that owns a portion of his assets. At a later time, a portion of the leverage could be given or bequeathed to the donor's spouse and the donor's favorite charities.

Consider the following example.

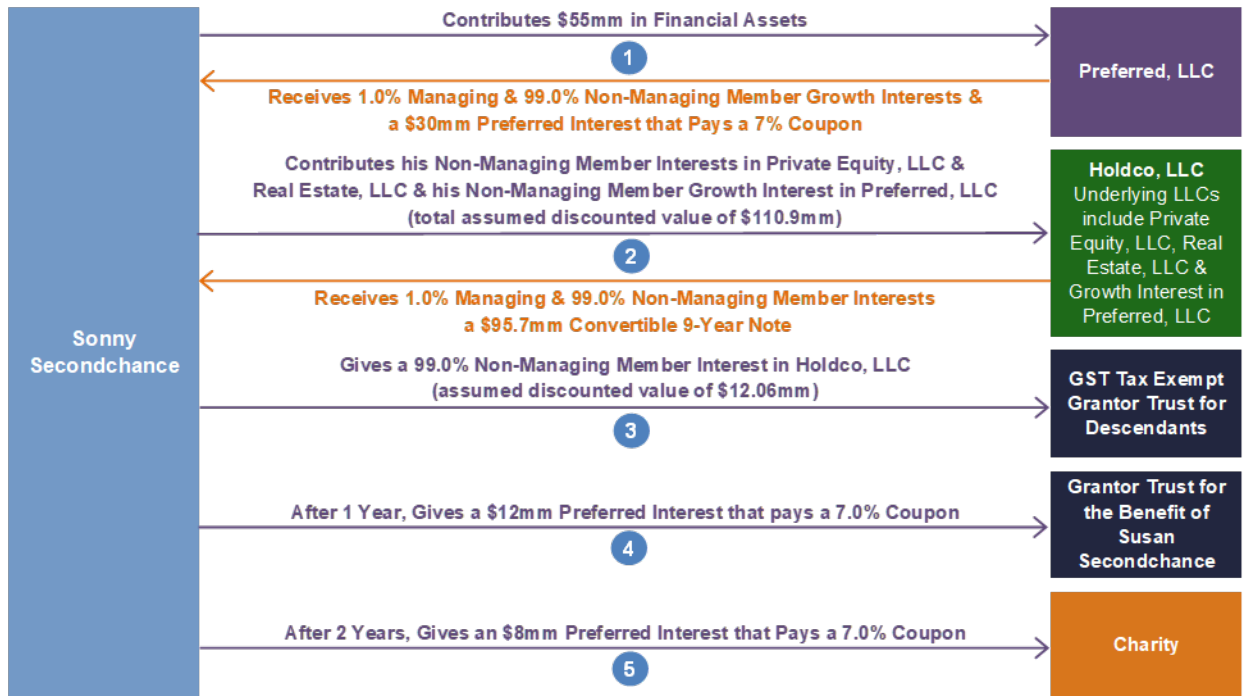
Example 7: Sonny Secondchance Creates a LAIDGT with Part of the Leverage Being Preferred Interests and Sonny Transfers Part of the Preferred Interests to His Wife, Susan Secondchance to His Favorite Charities

Sonny Secondchance and his wife, Susan, wish to enter into an estate planning strategy that eliminates or mitigates transfer taxes for assets passing to descendants from Sonny's prior marriage and allows Sonny to continue managing his assets, allows Sonny and Susan the flexibility to modify future stewardship goals and maintains their current standard of living. Sonny also wishes to optimize, on an after tax basis, his plan to give to charity around \$20,000,000 in present value dollars. Almost all the assets belong to Sonny. Sonny asks his attorney, Pam Planer, if she has any ideas.

Pam says she does, but she would like to confirm some facts and assumptions. Pam understands that Sonny has some real estate investments that have a value of \$75,000,000, which he has contributed to Real Estate LLC. Sonny asks Pam to assume the real estate assets will grow 8% a year with 2% of that return being taxed at ordinary rates and 6% of that return being taxed at capital gain rates with a 10% turnover. Sonny also has made some private equity investments that are in a Private Equity LLC that total \$60,000,000 in value. Sonny asks Pam to assume the private equity assets will grow at 10% a year with 3% of that return being taxed at ordinary rates and 7% of that return being taxed at capital gain rates with a 10% turnover. Sonny also has \$65,000,000 in financial assets that Pam says she will recommend that those assets should be contributed to a separate LLC ("Financial Assets LLC"). Sonny asks Pam to assume the financial assets will grow at 6.5% a year with 0.15% of that return being taxed at ordinary rates and 1.35% of that return is tax free, 1% of the return being taxed at dividend rates and 4% of the return being taxed at capital gain rates with a 30% turnover.

Sonny has some personal real estate and retirement plans for which Pam will not plan. Pam assumes that Sonny's assets that she will plan for will annually grow at 6.5% before income taxes. Pam assumes that Sonny and Susan will consume \$1,000,000 a year and that they have a joint life expectancy of 30 years.

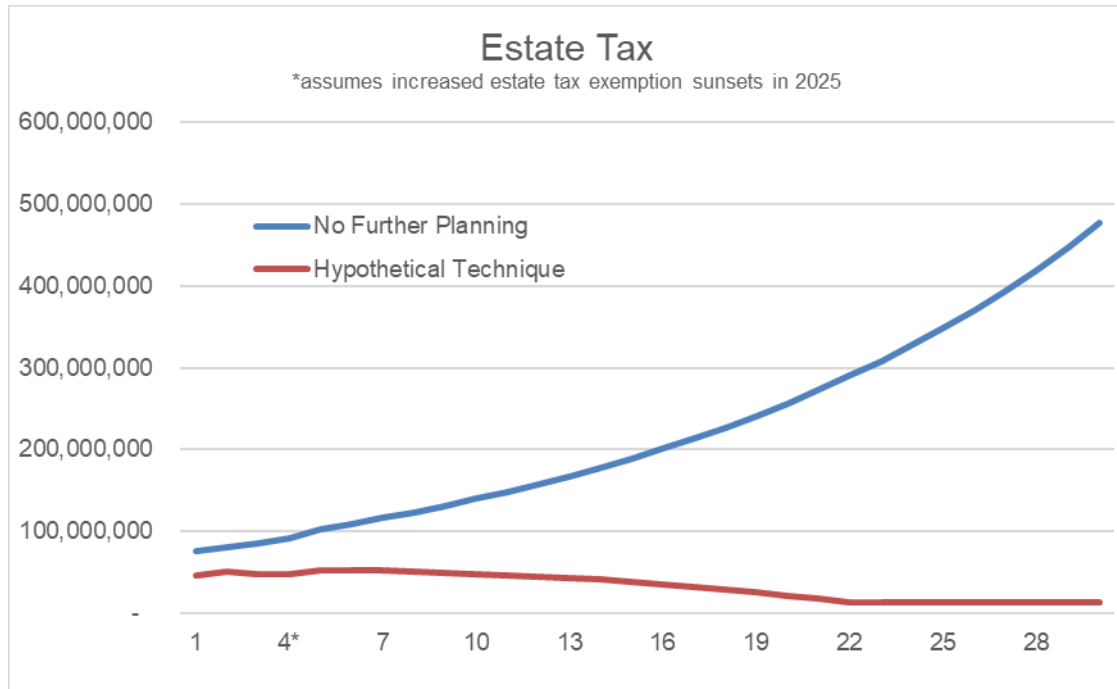
Pam proposes a leveraged LLC that will be structured as follows:



Pam anticipates that Susan will consent to Sonny's gift to the GST Grantor Trust. After one year, Sonny could give \$12,000,000 of his \$30,000,000 retained preferred interest in a Preferred, LLC to a grantor trust for the benefit of Susan that will be taxable in her estate. After two years, Sonny could give \$8,000,000 of his now \$18,000,000 retained preferred interest in Preferred LLC to his favorite public charities. Pam will design the preferred to be IRC Section 2701 compliant. Under principles of Rev. Rul. 83-120, in order to support par value of the preferred, it is assumed the cumulative coupon will be 7%. Assuming Sonny and Susan have a 30-year life expectancy the following table and line graph illustrate the transfer and income tax savings (also see infra Schedule 7).

Table 7

	Secondchance Beneficiaries			Consumption		IRS Income Tax		Tax Liability of Estate		Total (10)
	Charity (1)	Children (2)	Children & Grandchildren (3)	Direct Cost (4)	Investment Opportunity Cost (5)	Direct Cost (6)	Investment Opportunity Cost (7)	Embedded Capital Gains Tax Liability (8)	IRS Estate Tax (at 40.0%) (9)	
30-Year Future Values										
No Further Planning	\$49,626,242	\$706,346,131	\$29,960,000	\$47,575,416	\$72,056,118	\$267,559,933	\$288,578,841	\$0	\$476,230,754	\$1,937,933,435
	\$785,932,373			\$119,631,534		\$556,138,774		\$476,230,754		
Hypothetical Technique	\$49,626,242	\$20,578,876	\$1,045,779,510	\$47,575,416	\$72,056,118	\$269,229,146	\$279,170,544	\$140,198,333	\$13,719,250	\$1,937,933,435
	\$1,115,984,628			\$119,631,534		\$548,399,690		\$153,917,584		
Present Values (Discounted at 3.0%)										
No Further Planning	\$20,445,355	\$291,005,254	\$12,343,123	\$19,600,441	\$29,686,167	\$110,231,150	\$118,890,662	\$0	\$196,200,765	\$798,402,916
	\$323,793,732			\$49,286,608		\$229,121,811		\$196,200,765		
Hypothetical Technique	\$20,445,355	\$8,478,224	\$430,847,311	\$19,600,441	\$29,686,167	\$110,918,843	\$115,014,568	\$57,759,857	\$5,652,149	\$798,402,916
	\$459,770,890			\$49,286,608		\$225,933,411		\$63,412,006		



2. Advantages of the LAIDGT technique in combination with preferred interests.
 - a. Transfer tax advantages of using leverage, valuation discounts and an estate freeze.

*See the results of Table 7 above, the line graph above and *infra* Schedule 7.*

- b. Potential IRC Section 2036 advantage of using preferred interests in the structure.

If the growth member interest is transferred to the donor's family after the preferred member interest is transferred to a family member and a public charity, IRC Section 2036 may not operate to include the transferred growth non-managing interest (or the underlying partnership assets) in the transferor's gross estate, for three 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 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 Section 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 Section 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.⁷⁷

Second, the donor will owe a state law enforceable fiduciary duties to a non-family owner (e.g., the charity), which are real and not illusory. If, according to certain courts, the only owners of a FLP or FLLC are family members then the fiduciary duties with respect to distributions and liquidation are illusory and should be ignored for valuation purposes. If fiduciary duties are illusory, in appropriate cases, IRC Section 2036(a)(2) could apply.

Third, the enactment of IRC Section 2036(c) in 1987 and its subsequent repeal in 1990 demonstrate that going forward Congress intended to address the estate tax consequences of the preferred/common structure *solely* by means of the gift tax rules of Chapter 14 (IRC Section 2701) and *not* by including the transferred common interest in the transferor's gross estate under IRC Section 2036(a)(1). The legislative history of the repeal of IRC Section 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 Section 2036(a)(1) should not apply.

In 1987, the Tax Court in the *Boykin*⁷⁸ case ruled that because of state property law,⁷⁹ the receipt of income from retained preferred stock is only a retention of income from the preferred stock, not from the assets of the entire enterprise and accordingly should be included in a decedent's estate under IRC Section 2033, and not under IRC Section 2036(a)(1). 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.

⁷⁷ *Estate of Kimbell v. United States*, 371 F.3d 257 (5th Cir. 2004); *Church v. United States*, 85 A.F.T.R. 2d (RIA) 804 (W.D. Tex. 2000), *aff'd without published opinion*, 268 F.3d 1063 (5th Cir. 2001) (per curiam), unpublished opinion available at 88 A.F.T.R. 2d 2001-5352 (5th Cir. 2001); *Estate of Bongard v. Comm'r*, 124 T.C. 95 (2005); *Estate of Stone v. Comm'r*, 86 T.C.M. (CCH) 551 (2003); *Estate of Schutt v. Comm'r*, T.C. Memo 2005-126 (May 26, 2005); *Estate of Mirowski v. Comm'r*, T.C. Memo 2008-74; *Estate of Miller v. Comm'r*, T.C. Memo 2009-119; *Rayford L. Keller, et al. v. United States of America*, Civil Action No. V-02-62 (S.D. Tex. August 20, 2009); *Estate of Murphy v. United States*, No. 07-CV-1013, 2009 WL 3366099 (W.D. Ark. Oct. 2, 2009); and *Estate of Samuel P. Black, Jr., v. Comm'r*, 133 T.C. No. 15 (December 14, 2009); and *Shurtz v. Comm'r*, T.C. Memo 2010-21.

⁷⁸ See *Estate of Boykin v. Commissioner*, T.C. Memo 1987-134, 53 T.C.M. (CCH) 345.

⁷⁹ Under certain Supreme Court holdings, in determining the value for gift and estate tax purposes of any asset is transferred, the legal rights and interests inherent in that transferred property must first be determined under state law. See *United States v. Bess*, 357 U.S. 51 (1958); *Morgan v. Commissioner*, 309 U.S. 78 (1940); see also H. REP. NO. 2543, 83rd Cong. 2nd Sess., 58-67 (1954); H.R. REP. NO. 1274, 80th Cong. 2nd Sess., 4 (1948-1 C.B. 241, 243); S. REP. NO. 1013, 80th Cong., 2nd Sess., 5 (1948-1 C.B. 285, 288) where the Committee Reports on the 1948 changes in the estate taxation of community property states: "Generally, this restores the rule by which estate and gift tax liabilities are dependent upon the ownership of property under state law." See also the reports of the Revenue Act of 1932 that define "property" to include "every species of right or interest protected by law and having an exchangeable value." H.R. REP. NO. 708, 72nd Cong., 1st Sess., 27-28 (1932); S. REP. NO. 665, 72nd Cong., 1st Sess., 39 (1932).

In 1987 Congress passed legislation to overturn the result of *Boykin*, IRC Section 2036(c). For a very brief period, 1987 to 1990, IRC Section 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 Section 2033. (While IRC Section 2033 also could have applied in 1987 to include the same partnership interests, Congress was very careful to reverse the traditional priority of IRC Section 2033 inclusion over IRC Section 2036 inclusion with the passage of IRC Section 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 Section 2036(c)) subject to the IRC Section 2036(a) inclusion.

By 1990, it became apparent to many commentators⁸⁰, including this one, IRC Section 2036(a)(1) inclusion, in lieu of IRC Section 2033 inclusion with respect to ownership in partnerships and other “enterprises” should be repealed because of numerous problems.

Commentators were not the only persons by 1990 who concluded that IRC Section 2036(a)(1) inclusion in lieu of IRC Section 2033 inclusion for preferred interest partnerships was poor policy. Several prominent Republican Senators also did. What is perhaps noteworthy is that several powerful Democrat Senators felt the same way (as testimony by Senators Daschle, Boren and Bentsen made clear).⁸¹ Thus, the removal of IRC Section 2036(a) priority over IRC Section 2033 in determining inclusion enjoyed rare bi-partisan consensus. The legislative history associated with the repeal of IRC Section 2036(c)(5) makes clear the strong desire of Congress that IRC Section 2036(a)(1) should not apply to partnerships that have a significant preferred partnership component that is owned differently than the growth interest component.

Congress did retroactively repeal the application of IRC Section 2036(c)(5) inclusion to business and other financial enterprises in lieu of IRC Section 2033 inclusion. Among the reasons cited by the Senate in their legislative history were the following:

The [Senate Finance] committee believes that an across-the-board inclusion rule [application of Section 2036(a)] is an inappropriate and unnecessary approach to the valuation problems associated with estate freezes. The committee believes that the amount of any tax on a gift should be determined at the time of the transfer and not upon the death of the transferor. . . In developing a replacement for current section 2036(c) the committee sought to accomplish several goals: (1) to provide a well-defined and administrable set of rules; (2) to allow business owners who are not abusing the transfer tax system to freely

⁸⁰ S. Stacy Eastland, “The Legacy of IRC Section 2036(c): Saving The Closely Held Business After Congress Made ‘Enterprise’ A Dirty Word.” *Real Property Probate and Trust Journal*, Volume 24, Number 3, Fall 1989; *also see* Richard L. Dees, “Section 2036(c): The Monster That Ate Estate Planning and Installment Sales, Buy-Sells, Options Employment Contracts and Leases,” 66 *Taxes* 876 (1988).

⁸¹ Congressional Record, 101st Congress S. 3113: pp. 1-4 (Oct. 17, 1990).

engage in standard intra-family transactions without being subject to severe transfer tax consequences; and (3) to deter abuse by making unfavorable assumptions regarding certain retained rights.⁸²

Congress adopted the suggestion of numerous commentators and approached the reform with respect to inclusion of partnership interest and corporate interest as a valuation problem. It reaffirmed the traditional inclusion and taxation of partnership interests, in which part of the partnership is held in preferred form, under IRC Section 2511 and IRC Section 2033. The *Boykin* ruling of taxing retained preferred interests under IRC Section 2033, instead of IRC Section 2036, was, in effect, reinstated. The gift taxation of transferred interests in FLPs and FLLCs with bifurcated interests were modified, however, through the passage of new valuation rules under Chapter 14, including IRC Section 2701.

- c. Potential charitable income tax, valuation and IRC Section 2704(b)(2) advantages of preferred interest ownership by a public charity.

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.

- (1) Advantages of the technique.
 - (a) The donor may receive, in the year of the gift of the preferred interest to the charity, 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.

Sonny 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 Sonny's death. Contrast that treatment with a bequest of a dollar amount under Sonny's will. Obviously, Sonny 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 coupon that is to be paid to charity.

Most of the value of the preferred interest is attributable to receiving the coupon until the partnership terminates. 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 until the partnership

⁸² Informal Senate report accompanying the Revenue Reconciliation Bill of 1990 (S. 3209) as printed in the Oct. 18, 1990, Congressional Record, vol. 136, s. 15679 (Daily Edition) (emphasis added).

terminates and the reason the preferred interest will have a fair market value equal to par is because of the right to receive an annual preferred coupon. This timing of the deduction can make a substantial difference in the tax benefit in the amount that passes to charity even if the amount of cash and the timing of the cash received by the charity are exactly the same.

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

The preferred interest income that is allocated to the donor advised fund will not be taxed to the other FLLC members because of operation of IRC Section 704(b). Sonny 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, Sonny receives his preferred interest in exchange for a transfer of his low basis assets. If the FLLC sells those contributed low basis assets, Sonny 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 Section 704(c) should be allocated to the donee, the donor advised fund.

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

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

- (e) The “out of pocket” cost of a gift of a preferred interest to a public charity, or donor advised fund, is much less than comparable cash gifts, because of the above tax advantages.

See above Example 7 and Table 7. The income tax and the investment opportunity cost of the income taxes saved by giving the cash flow from an \$8,000,000 par value preferred interest, instead of cash gifts, is a \$3,188,400 present dollar value improvement to the donor’s family, even though the amount of cash passing to the charity after the preferred is redeemed, and the timing of the cash accruing to the charity (\$20,445,355 in present value dollars), is exactly the same.

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

IRC Section 2701 became effective on October 9, 1990. It is a gift tax valuation statute that applies when a junior equity in a corporation or partnership is transferred to a member of the transferor’s family and a senior interest in the family or partnership with certain discretionary features is retained by the transferor or an ‘applicable family member.’ A liquidation, put, call, or conversion right is automatically regarded as discretionary because it is within the discretion of the holder. Distribution rights trigger the valuation rules of IRC Section 2701 if the transferors hold control of the entity. These discretionary interests are referred to under IRC Section 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 Section 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 Section 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 is 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 Section 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 Section 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 Section 2701, which was passed as part of Chapter 14? The answer is no.⁸³

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).⁸⁴ The Senate legislative history of Chapter 14 indicates that retention of common stock, after the gift of preferred stock, is not a transaction which is subject to the valuation rules under IRC Section 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.

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

Prior to passage of IRC Section 2036(c) in 1987 (which was repealed in 1990) and prior to the passage of IRC Section 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,⁸⁵ 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

⁸³ See IRC Section 2701(c)(1)(B)(i).

⁸⁴ See IRC Secs. 2701(c)(1)(B)(i); 2701(a)(4)(B); Treas. Reg. §25.2701-2(b)(3)(i); see also P.L.R. 9204016 (Oct. 24, 1991).

⁸⁵ Rev. Rul. 83-120, 1983-2 C.B. 170.

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.

- (h) Another advantage is that both the Tax Court and the 5th Circuit Court have held that IRC Section 2704(b)(2) prohibitions against applicable restrictions in a partnership do not apply because of operation of IRC Section 2704(b)(3)(B) since a non-family member (a charity) owns a preferred interest.⁸⁶

The IRS has a significant burden, if applicable restrictions do not exist in a partnership or LLC agreement under IRC Section 2704(b)(2), in taking the position a partnership or LLC should be treated as not existing for transfer tax purposes because of the operation IRC Section 7701(a)(2):

7701(a)

~~–When used in this title [income, transfer taxes] where not otherwise distinctly expressed or manifestly incompatible with the intent thereof–~~

7701(a)(2)

Partnership And Partner – The term “partnership” includes a syndicate, group, pool, joint venture, or other unincorporated organization, through or by means of which any business, financial operation, or venture is carried on, and which is not, within the meaning of this title, a trust or estate or a corporation; and the term “partner” includes a member in such a syndicate, group, pool, joint venture, or organization. *Emphasis added.*

- 3. Charitable considerations of the LAIDGT technique in combination with preferred interests.
 - a. Despite state property law, the IRS may take the position that the gift of the preferred interest of an FLLC to public charities should be considered a non-deductible partial gift of the underlying assets of the FLLC.

IRC Section 170(f)(3) denies an income tax charitable deduction, and IRC Section 2522(a)(2) denies a gift tax charitable deduction, for a contribution of an interest in property that

⁸⁶ See *Kerr v. Comm.*, 292 F3d 490 (5th Cir. 2002).

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 Section 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).

The Tax Court in the *Estate of John Boykin*⁸⁷ 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 Sonny's other interests in the FLLC. The separate preferred interest is transferred in its entirety. In this example, all of Sonny'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 Section 170(f)(3).

On the gift tax side (see IRC Section 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.⁸⁸

⁸⁷ *Estate of Boykin v. Commissioner*, T.C. Memo. 1987-134, 53 T.C.M. 345. See also *Hutchens Non-Marital Trust v. Comm'r*, 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 Section 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 Todd Angkatavanich, Jonathan G. Blattmachr and James R. Brockway, “Coming Ashore – Planning for Year 2017 Offshore Deferred Compensation Arrangements: Using CLAT's, PPLI and Preferred Partnerships and Consideration of the charitable Partial Interest Rules,” 39 ACTEC Law Journal 103, 130-145, 152-153. The authors discuss *McCord v. Comm'r*, 120 T.C. 358(2003), rev'd and remanded, 461 F.3d 614 (5th Cir. 2006), *Church v. United States*, 85 AFTR 2d 2000-804 (W.D. Texas 2000), aff'd 268 F.3d 1063 (5th Cir. 2201), and *Estate of Strangi v. Comm'r*, 115 T.C. 478 (2000), aff'd in part and remanded in part, 293 F.3d 279 (5th Cir. 2002), on remand 85 T.C.M. (CCH) 1331 (2003), aff'd 417 F.3d 468 (5th Cir. 2005) and conclude that a gift of a preferred interest to a charity should not be considered a gift of a partial interest because the courts follow the entity rule in determining the property rights associated with a partnership interest. The authors also conclude the argument is strengthened if the gift of a preferred interest is made to a qualifying trust (e.g., a charitable lead trust) and/or the donor only owns the donated preferred interest and does not own any other interest in the partnership.

⁸⁸ See *United States v. Bess*, 357 U.S. 51 (1958) and *Morgan v. Commissioner*, 309 U.S. (1940).

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

Despite state property law, there is a possibility that the IRS could attempt to deny a charitable deduction for a contribution of preferred units. Treas. Reg. §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 Section 170(f)(2), the deduction will not be allowed." *Id.* The IRS may take the position that Section 170(f)(3) can apply despite the fact that a contributed interest becomes a separate property interest for federal tax purposes as a result of the transfer. For instance, the 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 FLLCs 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 26.67% of the value of the preferred units in Example 7 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 200108012 (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).

In Example 7 there is a two-year delay in the gift of the preferred to the public charity and some of the preferred interest was created, given away and retained for other purposes.

- 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 Section 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 Section 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 Section 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 Section 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 Section 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.

D. The RPM Grantor Trust Technique When One Spouse Owns Most of the Assets.

1. The technique.

The RPM Trust involves a transfer of assets to a trust in which donor's spouse has an income or annuity interest for a specified term or life (which also makes the trust a grantor trust to the donor). The remainder of the RPM Trust passes to a separate grantor trust (the "Remainderman Trust"), which could be a generation-skipping trust. The transfer to the trust is gift tax-free because (i) the spouse's income or annuity interest in the RPM Trust qualifies for the gift tax marital deduction, and (ii) the Remainderman Trust pays the donor the actuarial value of the remainder interest when the RPM Trust is created. The RPM Trust assets are not included in either the donor's estate (because the donor has no retained interest in the trust) or the spouse's estate (because the spouse does not have a general power of appointment and there is no QTIP election) at their subsequent deaths. This technique has been extensively described by David Handler.⁸⁹

Example 8: Creation of a RPM Trust

As part of Robby Remainder's estate planning, he wishes to use an existing GST grantor trust and the gift tax marital deduction to facilitate a transfer to a trust for the benefit of his wife, Reba Remaining, which upon her death will pass to the trustee of that existing GST grantor trust.

⁸⁹ David A. Handler & Deborah V. Dunn, "GRATs and RPM Annuity Trusts: A Comparison," 29 Tax Mgmt. Est., Gifts & Tr. J. 4 (July 8, 2004) and Handler and Dunn, "RPM Trusts: Turning the Tables on Chapter 14," 139 Trusts and Estates 31 (July 2000).

First Transaction:

Previously, Robby has contributed assets to a GST grantor trust, which became a partner in a FLP (“Financial Assets, FLP”). Robby contributed \$20,000,000 in financial assets to the trust (and Reba consented to that gift on the gift tax return), which the trustee invested, for pooling of interest reasons, into a partnership and received a 20% interest. Robby contributed \$60,000,000 of his financial assets and \$20,000,000 of his alternative investments into the partnership and received a 2.6% general partnership and a 79% limited partnership interest.

Second Transaction:

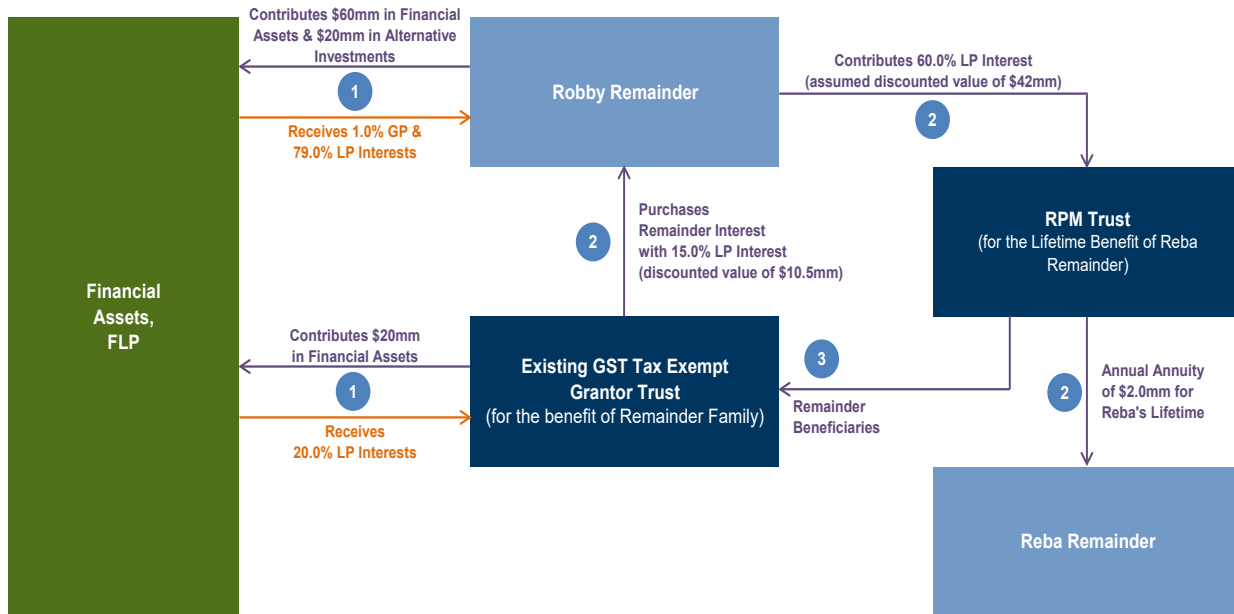
At a later date, Robby contributed 60% of his limited partnership interest to a trust (the “RPM Trust”) for the benefit of his wife, Reba Remainder, which was to last during her lifetime and the existing GST grantor trust becomes the Remainderman Trust by paying Robby 3/10 of that amount (a 15% partnership interest) in exchange for the remainder interest in the RPM Trust. Under the terms of the trust Reba is to receive an annual annuity, which will produce a remainder value equal to 3/10 of the fair market value of the RPM Trust. There is “price adjustment” language in determining the annuity amount so that the remainderman will pay the correct amount. Assuming at the time of the creation of the RPM Trust, the IRC Section 7520 rate is 2.6%, Reba is 60 years of age and that the partnership valuation discount is 30%, the annual annuity should be \$2,017,740. It is assumed that over a 25-year period the financial assets will annually earn 7.4% (with 0.6% being taxed at ordinary rates, 2.4% being tax free and 4.4% being taxed at capital gains rates with a 30% turnover rate). It is assumed that over a 25-year period the alternative investments will annually earn 8% (with 7% being taxed at ordinary rates and 1% being taxed at capital gains rates with a 30% turnover rate).

Third Transaction:

Upon her death, all of the assets of the RPM Trust (the 60% limited partnership interest and any cash that has accumulated in the trust from distributions that exceeded \$2,017,740) are to pass to the existing GST grantor trust. If Reba Remainder lives 25 years, the GST grantor trust will receive 60% of a partnership that has \$260,396,939 in assets and an additional \$71,334,397 in financial assets that has accumulated in the RPM Trust.

The desired result of this technique is that there will be no gift taxes on the creation of the RPM Trust because of the marital deduction. The terminable interest rule will not apply because adequate consideration has been paid for the remainder interest and the requirements of IRC Section 2702 are met. There will be no estate taxes on Reba’s death because she is not the grantor of the RPM Trust, the QTIP election has not been made and Reba does not possess a general power of appointment.

An illustration of the technique is below:



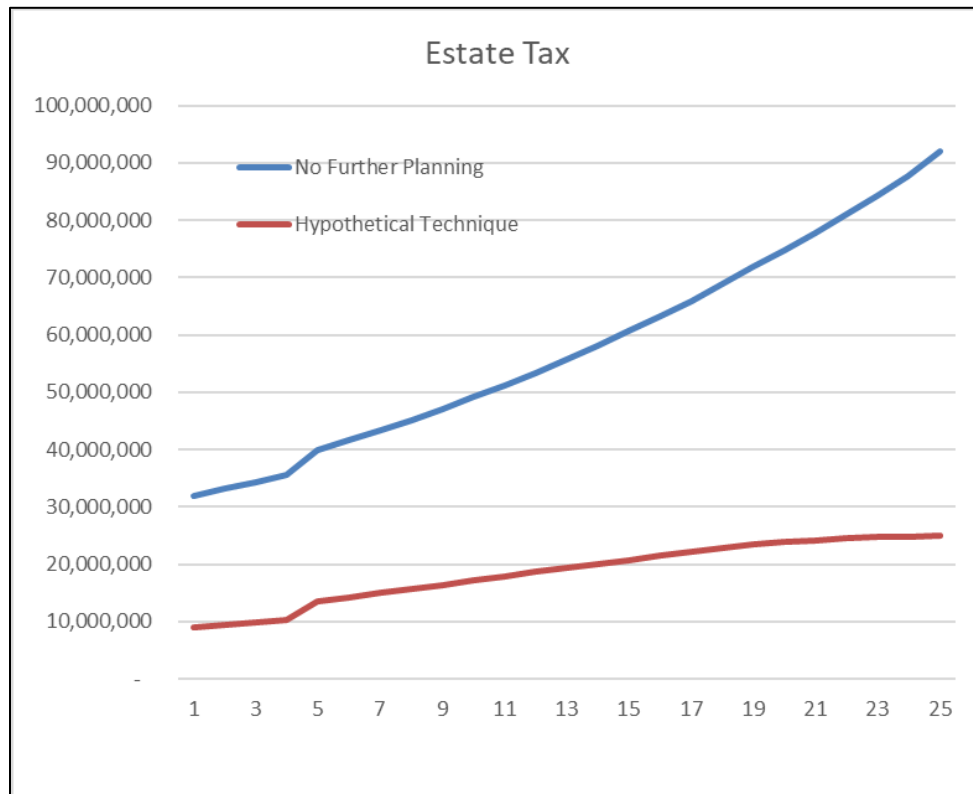
It is important that Reba Remainder only has a straight income or annuity interest in the RPM Trust. If she has the right to receive distributions under an ascertainable or discretionary standard, her interest would be hard to value and it would be very difficult to effectuate the technique.

IRC Section 2523(b)(1) provides that no gift tax marital deduction is allowed if the spouse receives a life estate or other interest in a trust and upon termination of the trust the trust assets pass to someone else “for less than adequate and full consideration in money or money’s worth” (the so-called “terminable interest rule”). Thus, in order to not run afoul of the terminable interest rule, it is crucial that full consideration be paid for the remainder interest of the RPM Trust. The RPM Trust could provide that all of the income or an annuity amount goes to the grantor’s spouse. Generally, at times of high interest rates it is more advantageous to provide income interest for the donor spouse and in times of low interest rates, it is more advantageous to provide for an annuity for the donor’s spouse. The Remainderman Trust, unless it is very clear that it is an old and cold trust, should be created by someone other than the grantor (in order not to run afoul of the terminable interest rule) or the beneficiary of the RPM Trust in order to prevent the application of IRC Section 2702 under the joint purchase rules. This Example 8 assumes that the existing grantor trust that becomes the Remainderman Trust is clearly an old and cold trust.

See the table below (also see attached Schedule 8) which summarizes the benefit of the RPM Trust under the facts of above Example 8 and which assumes Robby and Reba have a joint life expectancy of 25 years.

Table 8

	Remainder Beneficiaries		Consumption		IRS Income Tax		Tax Liability of Estate		Total
	Children	Children and Grandchildren	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Embedded Capital Gains Tax Liability	IRS Estate Tax (at 40.0%)	
25-Year Future Values									
No Further Planning	\$134,479,327	\$124,106,275	\$45,574,080	\$64,207,503	\$62,798,432	\$78,995,137	\$2,335,519	\$92,079,552	\$604,575,824
	\$258,585,602		\$109,781,583		\$141,793,568		\$94,415,070		
Hypothetical Technique	\$61,152,461	\$260,297,332	\$45,574,080	\$64,207,503	\$64,598,103	\$78,995,137	\$4,784,019	\$24,967,188	\$604,575,824
	\$321,449,794		\$109,781,583		\$143,593,240		\$29,751,207		
Present Values (discounted at 3.0%)									
No Further Planning	\$64,228,076	\$59,273,848	\$21,766,435	\$30,665,861	\$29,992,881	\$37,728,517	\$1,115,457	\$43,977,707	\$288,748,780
	\$123,501,924		\$52,432,296		\$67,721,398		\$45,093,163		
Hypothetical Technique	\$29,206,756	\$124,319,456	\$21,766,435	\$30,665,861	\$30,852,414	\$37,728,517	\$2,284,874	\$11,924,468	\$288,748,780
	\$153,526,212		\$52,432,296		\$68,580,931		\$14,209,342		



2. Advantages of the technique.

- a. Tax advantages of creating a grantor trust and transferring assets to the grantor trust with significant lifetime leverage, which could result in a significant amount being transferred to the remainder trust net of transfer taxes.
- b. The near term death of the grantor, or the grantor's spouse, generally does not affect the technique like the death of a grantor of a GRAT.

If the grantor should pass away before the end of the term of the RPM Trust, assuming the grantor has been paid full consideration⁹⁰ to create the RPM Trust, there should not be any gift tax or estate tax consequences to the grantor. If the donor's spouse should die before the end of a term-of-years RPM Trust, the amount included in the spouse's estate should only be the actuarial value of the remaining annuity payments.

- c. The appreciation of the assets will be out of the grantor's estate and the spouse of the grantor's estate.

Only the consideration received by the grantor, to the extent it has not been spent during the grantor's lifetime, will be included in his estate. The appreciation associated with the purchase of the Remainderman Trust (using that consideration) will not be included in the grantor's estate, assuming full consideration was paid for the creation of the RPM Trust.

- d. The grantor and the grantor's spouse will have available for their consumption needs the consideration paid by the Remainderman Trust and the distributions paid pursuant to the beneficial provisions of the RPM Trust (and perhaps the Remainderman Trust).

As illustrated in Example 8, while significant assets could be eventually transferred to a generation-skipping trust for the benefit of the grantor's family under this technique, the grantor will indirectly have use of much of the assets originally contributed to the grantor by the GST Trust and the grantor's spouse will have available cash flow under the terms of the RPM Trust. A significant advantage of this technique is that a significant transfer of wealth escapes the estate tax, yet cash flow will be available to the donor and the donor's spouse for their consumption needs with respect to the transfer. In Example 8, 60% of the partnership is designed to pass transfer tax free to the GST Trust, while 95% of the partnership distributions are available to either Robby or Reba during their lifetimes.

⁹⁰ Of course, full consideration does not have any estate tax significance here, where the grantor has no retained interest or power. It is highly significant in preventing a gift by qualifying the spouse's interest under the terminable interest rule and offsetting the transfer of the remainder.

- e. There is more flexibility in the design of the structure in comparison to a grantor retained annuity trust that meets the requirements of IRC Section 2702 (“GRAT”) because IRC Section 2702 does not apply to the technique and it is easier to do leveraged GST planning in comparison to a GRAT.

IRC Section 2702 does not apply because the donor does not retain an interest in either the RPM Trust, or the Remainderman Trust. The joint purchase rule of IRC Section 2702 is not applicable because the donor’s spouse has not paid any consideration for her term interest. *See* Treas. Reg. § 25.2702-4(c).⁹¹ There is an exception under the joint purchase rule for joint trusts for family members, if the term interest is donated. If this exception to the joint purchase rule did not exist, the spouse would be treated as making a large taxable gift under IRC Section 2702 whenever an inter vivos QTIP trust is created.

If IRC Section 2702 does not apply, then there may be more flexibility in designing the trust in comparison to a classic GRAT. For instance, a more significant appreciation than 20% a year could occur over the term of years in designing the annual increases in the annuity amount. That could be a very valuable advantage for an asset that is anticipated to have very low cash flow in the early years and significant cash flow in the later years of its existence (e.g., as a closely held business interest). The trustee of the RPM Trust could pay the annuity amount with notes. If it is a term RPM Trust the term could be one year.

Since the ETIP rules do not apply to the technique, the Remainderman Trust may be a generation-skipping trust. The growth of the RPM Trust assets could exceed what the growth of the GST trust would have been without the purchase of the remainder interest.

- f. The life estate version of the technique could also serve as a qualified personal residence trust (QPRT) substitute and could be a very good vehicle for planning for art.

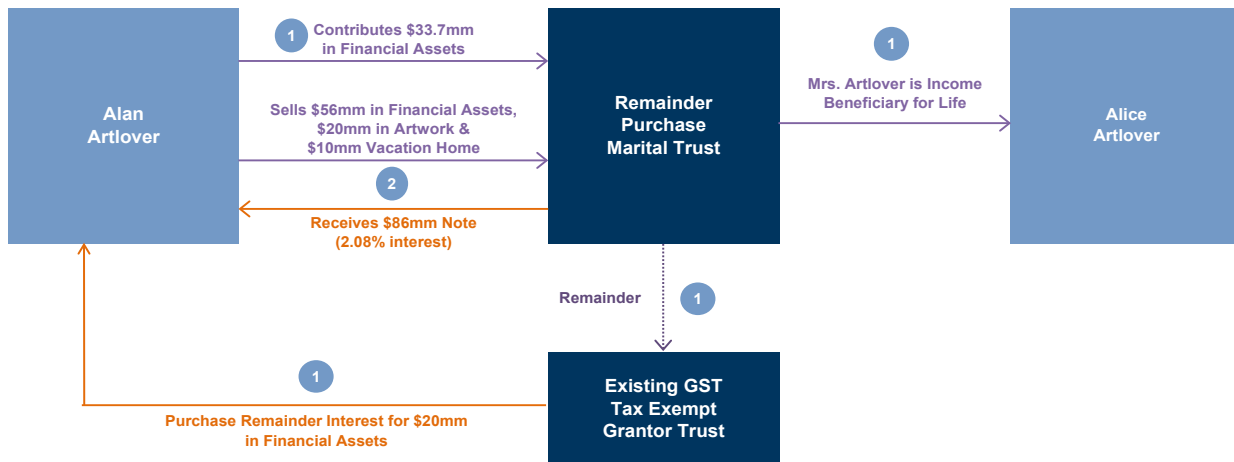
The RPM Trust could be an income only trust for the life of the grantor’s spouse or a set number of years. The RPM Trust and the Remainderman Trust could be funded with cash and near cash that is easy to value.

Example 9: Using the RPM Trust to Transfer Art and Personal Residences

Assume the donor’s spouse (Alice Artlover) is 60 years of age and the IRC Section 7520 rate is 2.6%. Assume the donor (Alan Artlover) owns \$80,000,000 in financial assets, a \$10,000,000 vacation home and \$20,000,000 in artwork. An existing GST grantor trust has \$20,000,000 in financial assets. In consideration for a payment of \$20,000,000 in cash by the

⁹¹ The Regulation says: “For purposes of this paragraph (c), the amount of the individual’s gift will not exceed the amount of consideration furnished by that individual for all interests in the property.” *Emphasis added.* If the spouse is a beneficiary of the Remainderman Trust, will (s)he be deemed to have furnished a part of the consideration paid by the Remainderman’s Trust for its remainder interest in the RPM Trust, and therefore to have made a taxable gift to that extent? It would appear for state law property purposes (if that is determinative) that (s)he would not be considered as furnishing any consideration under those circumstances.

GST remainderman, the donor (Alan Artlover) contributes \$13,667,200 to the income or life estate only RPM Trust for the benefit of Alice Artlover, for as long as she lives. After the RPM Trust is funded, Alan Artlover could loan and sell (pursuant to a defined allocation assignment) \$56,000,000 in financial assets, his \$10,000,000 vacation home and his \$20,000,000 in artwork for a nine-year \$86,000,000 note that pays the midterm AFR rate of 2.08%. In future years, the note could be refinanced.



The technique would have a mortality advantage over a qualified personal residence trust under IRC Section 2702 (“QPRT”) because there is no mortality risk, if the donor of the spouse dies during the term. Limitations under a QPRT for what constitutes a personal residence and the two-residence limit also would not apply. After the RPM Trust ends the donor (if then living) could purchase the house and the art back from the Remainderman Trust (designed to be a grantor trust), which is prohibited by the QPRT rules. Unlike a QPRT, the RPM Trust would not have to be converted to an annuity trust if the residence is sold during the term of the RPM Trust.

There should not be any capital gains taxes associated with the donor’s sale of the personal residence, or the art, because the RPM Trust will be treated as a grantor trust to the donor under IRC Section 677(a).

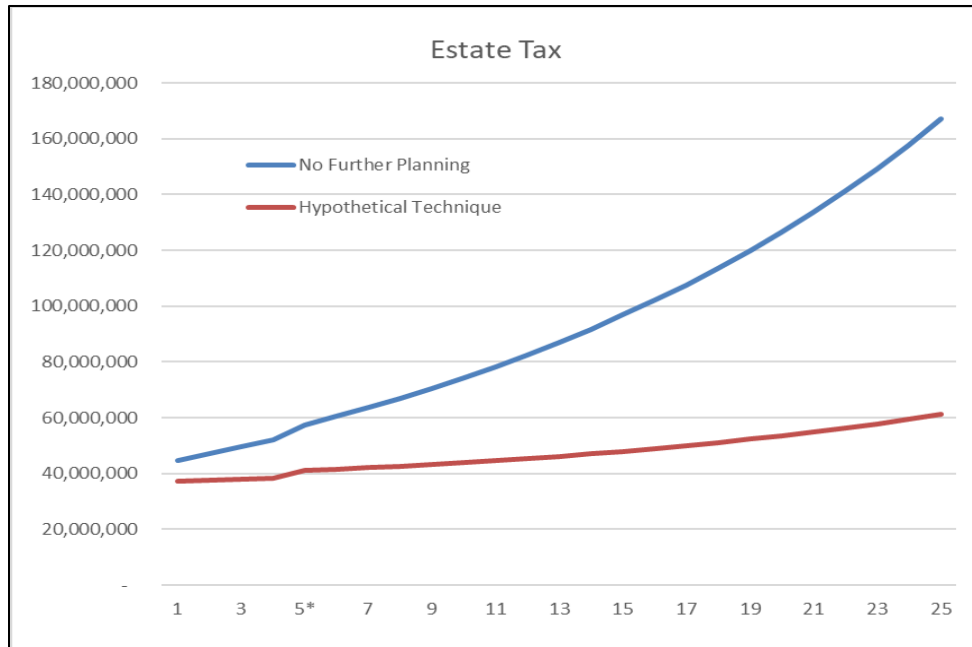
There may be gift tax consequences if the consideration received for the RPM Trust is not equal to the fair market value of the donor’s residence or art that is sold. The use of a defined value allocation formula in the sale assignment may ameliorate the gift tax concern. If there is not a gift by the donor to the RPM Trust because the consideration is adequate, neither the residence nor the art will be included in the donor or the donor spouse’s estate under IRC Section 2036. IRC Section 2036 should not apply to the donor because the donor does not have any interest in the RPM Trust. Staying married to one’s spouse should not constitute retaining an interest in a trust solely for the spouse’s benefit.⁹² IRC Section 2036 will not apply to the donor’s spouse because the donor’s spouse is not the transferor of the residence or the art.

⁹² See Rev. Rul. 70-155, 1970-1 C.B. 189, which contains this ending paragraph:

Assuming the value of the artwork and vacation home grow at 8% a year and the financial assets grow 7.4% a year, before income taxes, and the donor's spouse lives 25 years, significant estate taxes could be saved and a significant amount can be transferred to the GST trust. See the table below and attached Schedule 9.

Table 9

	Artlover Beneficiaries		Consumption		IRS Income Tax		Tax Liability of Estate		Total
	Children	Children & Grandchildren	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Embedded Capital Gains Tax Liability	IRS Estate Tax (at 40.0%)	
25-Year Future Values									
No Further Planning	\$239,463,053	\$127,666,275	\$64,628,987	\$84,587,881	\$51,988,337	\$62,417,802	\$2,335,519	\$168,175,369	\$801,263,221
	\$367,129,328		\$149,216,868		\$114,406,138		\$170,510,888		
Hypothetical Technique	\$81,697,285	\$387,802,991	\$64,628,987	\$84,587,881	\$53,390,206	\$62,417,802	\$5,606,547	\$61,131,523	\$801,263,221
	\$469,500,276		\$149,216,868		\$115,808,007		\$66,738,070		
Present Values (discounted at 2.5%)									
No Further Planning	\$129,164,118	\$68,861,987	\$34,860,267	\$45,625,907	\$28,042,020	\$33,667,575	\$1,259,757	\$90,712,211	\$432,193,841
	\$198,026,105		\$80,486,174		\$61,709,594		\$91,971,968		
Hypothetical Technique	\$44,066,747	\$209,177,284	\$34,860,267	\$45,625,907	\$28,798,175	\$33,667,575	\$3,024,119	\$32,973,768	\$432,193,841
	\$253,244,031		\$80,486,174		\$62,465,749		\$35,997,887		



Continued occupancy under the facts stated above may be distinguished from the husband-wife cases involving co-occupancy by the donor with the donee, such co-occupancy, where the donor and donee are husband and wife, does not of itself support an inference of an agreement or understanding as to retained possession or enjoyment by the donor. *Estate of Allen D. Gutchess*, 46 T.C. 554 (1966), acquiescence, C.B. 1967-1, 2.

3. Considerations of the technique.

- a. It requires a spouse beneficiary.

Obviously, for this technique to be effectuated the client must be married and the client must be willing to benefit his or her spouse.

- b. The RPM Trust cannot have a divorce clause, but it could be an advantageous technique to use in pre-divorce planning.

In certain situations, if a divorce is contemplated, it may be advantageous for one of the spouses to create a RPM Trust for the other spouse with the remainder interest being purchased by a grantor trust that was previously created for the couple's descendants. The RPM Trust could be designed to fit the agreed goals of the contemplated divorce division. The additional goal of saving future transfer taxes may also be achieved.

- c. It is crucial that the Remainderman Trust pay full consideration.

This technique is only viable, if easy to value assets are used, or proportionate interests in the same entity are used. Otherwise, as discussed above, even a small gift could cause this technique to be potentially fatal under IRC Section 2036, because of the inadequacy of the offset under IRC Section 2043. More importantly, if a small gift is involved, the RPM Trust would not qualify for the gift tax marital deduction because of the terminable interest rule.

- d. The step transaction doctrine could apply.

If the Remainderman Trust is funded by the Grantor of the RPM Trust, it is very important that the Remainderman Trust be an old and cold trust at the time it purchases its remainder interest. It needs to be funded independent of the RPM Trust transaction so that the remainder interest in the RPM Trust is deemed transferred for full consideration: absent full consideration for the remainder, the gift tax marital deduction may not be allowed for the transfer to the spouse of the term interest in the RPM Trust, because the nondeductible terminable interest rule may be deemed to apply.

- e. The need for "substance" with respect to the purchase by the Remainderman Trust.

While an annuity trust can be designed whereby the remainder interest has a very small value (e.g., \$1,000), it may be important that there be much greater substance to the remainder purchase in order to be supported by existing case law. The cases that have supported the proposition that IRC Section 2036 does not apply to purchases of remainder interests have all involved substantial purchased remainders.

- f. It is crucial that the remainder and term interests in the RPM Trust be transferred simultaneously.

If the remainder interest is transferred before the term interest, or vice versa, IRC Section 2702 will apply to the transfer of the remainder interest, resulting in a taxable gift equal to the value of the term interest. One way to achieve the desired simultaneity is to create the RPM Trust as a revocable trust that becomes irrevocable upon receipt of the consideration from the Remainderman Trust.

- g. The interest on the note received by the selling spouse will be taxable income to that selling spouse and there will be a corresponding deduction to the spouse who created the grantor trust.

The Tax Court has held that because interest is not “gain,” subject to non-recognition under IRC Section 1041, the interest payments are includible in the selling spouse’s income.⁹³ The character of the interest paid by the grantor trust and the deductibility of the interest payments by the selling spouse is based on the property transferred by the selling spouse in the transaction. The Tax Court rejected the Service’s argument that any interest paid under a debt between spouses should be automatically characterized as personal because it relates to a transfer between spouses.⁹⁴

- h. The RPM Trust transaction will only be a profitable transaction to the Remainderman Trust if the assets subject to the remainder purchase grow faster than what the consideration utilized by the Remainderman Trust would have otherwise increased.

The transaction will not be a profitable transaction for the Remainderman Trust unless the assets that are subject to the RPM Trust transaction grow faster than the assets would have otherwise grown if it had been held by the Remainderman Trust. Like many estate planning techniques, the success of the technique depends on the prudence of the investments subject to the technique.

⁹³ *Cipriano v. Commissioner*, T.C. Memo 2001-157, aff’d 91 AFTR 2d 2003-608 (3rd Cir. 2003).

⁹⁴ *Seymour v. Commissioner*, 109 T.C. 279 (1997) (qualified residence interest); *Armacost v. Commissioner*, T.C. Memo 1998-150 (investment interest).

- E. The Advantages and Considerations of a Transferor Creating a Grantor Trust for the Benefit of the Transferor's Spouse and That Transferor's Spouse Creates a Grantor Trust for the Benefit of the Transferor That is Not Reciprocal of the Trust the Transferor Created.

1. What is the technique?

A couple's estate tax planning goals, consumption needs and flexible stewardship goals may be obtained of spousal lifetime access trusts ("SLATs") that are not reciprocal. Consider the following example of a grantor creating a Remainder Purchase Marital Trust that names his or her spouse as the annuity and/or income beneficiary, that grantor's spouse creates a much different arrangement using the LAIDGT technique:

Example 10: Neal and Nancy Navigator Create Different Trusts for the Benefit of Each Other and Make Different Transfers to Those Trusts

Neal and Nancy Navigator live in a community property state and all of their considerable remaining wealth is community property (\$45,000,000 in assets). They tell their attorney, Ray Reciprocal, that they would be interested in using their current remaining gift tax and GST tax exemptions, if their lifestyle needs could be met, and if they could maintain flexibility with their future stewardship goals.

In 2012 Neal, with Nancy's consent on the gift tax return, gave \$10,000,000 of his separate property to a GST grantor trust (Trust 1) for his and Nancy's descendants. Neither Nancy nor Neal are beneficiaries of those trusts. As of 2022, the value of the Trust 1 assets has grown to \$18,000,000.

In 2022 Ray first suggests that Neal and Nancy partition their community property so that they each own \$20,000,000 in assets.

At a later time, in an independent transaction, Neal conveys \$20,000,000 in financial assets to an RPM Trust for the benefit of Nancy, as long as she is living (Transaction 1). The RPM Trust will provide for an annual annuity of \$900,000 to be paid to Nancy, as long as she is living. Both Neal and Nancy are 62 years of age. On Nancy's death, the RPM Trust will terminate in favor of the GST grantor trust (Trust 1) that Neal had previously created. The trustee of that GST grantor trust purchases the remainder interest in the RPM Trust for full and adequate consideration. The purchase price is \$3,600,000 in financial assets and a contingent annuity of \$984,510 paid by Trust 1 to Neal if he survives Nancy. It is assumed that at the time of the purchase, that the IRC Sec. 7520 rate was 3.0%.⁹⁵

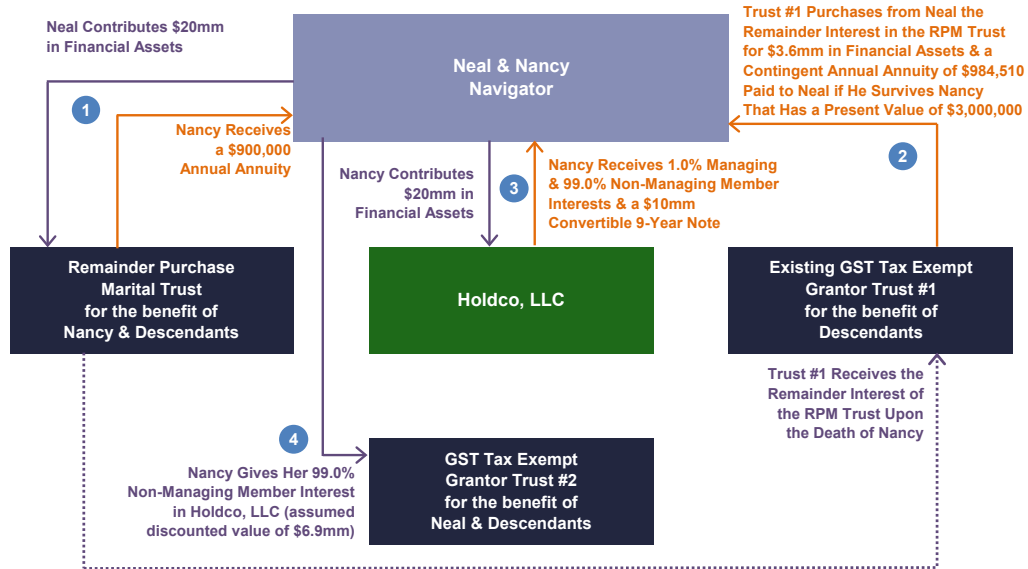
Nancy, at a different time, contributes \$20,000,000 to a limited liability company using the LAIDGT technique (Transaction 2). Nancy receives back from the LLC a \$10,000,000 convertible note, a 1% managing member interest and a 99% non-managing member interest. Nancy transfers her non-managing member interest to a GST grantor trust (Trust 2) in which Neal is the initial discretionary beneficiary under an ascertainable standard (Transaction 3).

⁹⁵ The calculations were made using GRAT lifetime tables for a 62-year old assuming an IRC Section 7520 rate of 3% to determine the value of the remainder interest.

Ray assumes that the valuation discount of the non-managing member interest of the LLC is 30%.

It is assumed that Neal and Nancy's consumption needs are \$600,000 a year, as adjusted by inflation.

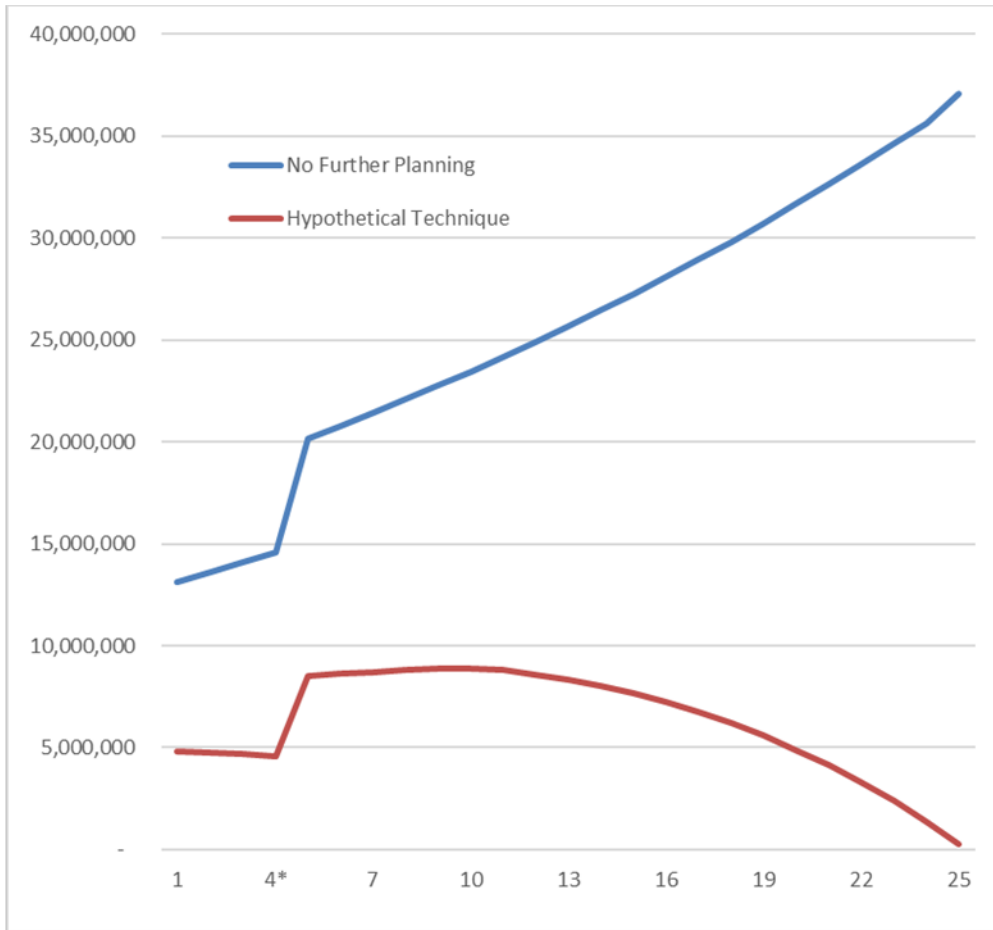
This technique is illustrated below:



Neal and Nancy understand the investment and creditor protection advantages of entering into the FLLC and the various trusts. However, they ask their attorney, Ray Reciprocal, what estate tax advantages they would gain from this plan. Ray assumes that Neal and Nancy will average a 6.5% rate of return before taxes on their financial assets before taxes. The assumed inflation rate is 3% a year. It is assumed that Nancy is the surviving spouse and she has a 25-year life expectancy. The chart below compares no further planning to the planning that Neal and Nancy wish to engage (see Schedule 10 attached to this paper).

Table 10

	Navigator Beneficiaries		Consumption		IRS Income Tax		Tax Liability of Estate		Total (9)
	Children (1)	Children & Grandchildren (2)	Direct Cost (3)	Investment Opportunity Cost (4)	Direct Cost (5)	Investment Opportunity Cost (8)	Embedded Capital Gains Tax Liability (7)	IRS Estate Tax (at 40.0%) (8)	
25-Year Future Values									
No Further Planning	\$55,611,545	\$101,152,074	\$21,875,559	\$24,991,662	\$31,008,202	\$30,845,129	\$1,586,510	\$37,074,363	\$304,145,044
	\$156,763,619		\$46,867,220		\$61,853,332		\$38,660,873		
Hypothetical Technique	\$431,396	\$190,236,010	\$21,875,559	\$24,991,662	\$31,873,096	\$30,845,129	\$3,604,594	\$287,598	\$304,145,044
	\$190,667,407		\$46,867,220		\$62,718,225		\$3,892,192		
Present Values (Discounted at 3.0%)									
No Further Planning	\$26,560,383	\$48,310,794	\$10,447,889	\$11,936,157	\$14,809,690	\$14,731,806	\$757,726	\$17,706,922	\$145,261,367
	\$74,871,177		\$22,384,045		\$29,541,496		\$18,464,648		
Hypothetical Technique	\$206,037	\$90,857,778	\$10,447,889	\$11,936,157	\$15,222,768	\$14,731,806	\$1,721,574	\$137,358	\$145,261,367
	\$91,063,815		\$22,384,045		\$29,954,574		\$1,858,933		



*The exemptions change on January 1, 2026.

2. Advantages of the RPM Trust and the LAIDGT technique.
 - a. The advantages of creating a RPM Trust.

See the discussion *supra* Section IV.D.2.

- b. The advantages of creating a LAIDGT.

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

3. Considerations of the RPM Trust technique (*see supra* Section IV.D.3.) and the LAIDGT technique (*see supra* Section IV.C.3.).
4. Consideration that if the Reciprocal Trust Doctrine applies, the spouse beneficiary of the trust will also be considered the grantor of the trust and the transfer tax advantage of the technique will be lost.

Generally, if a client creates a trust for his benefit, the trust assets will be included in his estate under IRC Secs. 2036 or 2038 or both. This is true even if the client's retained interest in the trust is purely discretionary and held by an independent trustee under most state's laws. The

IRS' position is that a client could create a creditor relationship, and a creditor of the client would have the ability to receive the trust assets because of the public policy of most states that prohibits self-settled trusts from being "spendthrift" trusts. Since the client would have the ability to create a creditor relationship at any time, if the client is domiciled in a state that has that public policy, the client has, in effect, retained a power which would make the trust taxable in the client's estate either under IRC Sec. 2036 or IRC Sec. 2038.⁹⁶ Even in those states that do not have a public policy prohibiting self-settled trusts from being protected from creditors, the Federal Bankruptcy Act in 2005 may be applicable to bring the assets of those trusts back into the client's estate if the prerequisites of that statute can be demonstrated.⁹⁷ It does not matter for estate tax inclusion purposes that a current creditor relationship does not exist; the key for estate tax inclusion purposes is that the creditor relationship could be established.⁹⁸

If a transferor cannot create a trust for his own benefit and have that trust escape estate taxation, can a transferor's spouse create a trust for the benefit of the transferor and escape estate taxation, if the donor also creates a trust for the benefit of that spouse? In other words, may spouses create trusts for the benefit of each other with both trusts escaping estate taxation, even though those trusts could not be self-settled to escape estate taxation?

The IRS has available the equitable doctrine called the Reciprocal Trust Doctrine⁹⁹ to include trusts in a grantor's estate, even though the trust is not for the benefit of the grantor, if the grantor's spouse also creates a trust for the benefit of that grantor. Probably since the time the estate tax was created planners have explored how far trusts could be created using reciprocal beneficiaries in order to address estate tax concerns and still have access to the gifted property. A conflict developed between the various circuit courts with respect to those boundaries, which was resolved by the Supreme Court in *U.S. v. Grace*, 395 U.S. 316 (1969). This case remains the seminal case on the reciprocal trust doctrine.

On December 15, 1931, Mr. Grace executed an instrument creating a trust in which the income was to be paid to his wife, and such portion of the trust principal as the trustees deemed advisable. Mrs. Grace was also granted a limited power to appoint the property. Two weeks later, Mrs. Grace created a trust that was a virtual mirror image of the trust Mr. Grace created for her benefit. The Supreme Court found that subjective intent in creating the trust is irrelevant. The Court held that "application of the reciprocal trust doctrine is not dependent upon a finding

⁹⁶ Rev. Rul. 76-103, 1976-1 C.B. 293; *Estate of Paxton v. Commissioner*, 86 T.C. 785 (1986) and cases cited therein.

⁹⁷ See *Battley v. Mortensen*, Adv. D.Alaska, No. A09-90036-DMD, May 26, 2011; Section 548 of the Bankruptcy Code, 11 U.S.C. Section 548; See Gideon Rothschild, "Did Bankruptcy Reform Act Close the 'Loophole' for the Wealthy?," 107 Tax Notes 492 (Apr. 2005). Also see the discussion in Section II I 3 h, Section IV A 3 h and Section V A 3 g of this paper.

⁹⁸ Rev. Rul. 76-103, 1976-1 C.B. 293.

⁹⁹ See Paul E. Van Horn, "Revisiting the Reciprocal Trust Doctrine," 30 Tax Mgmt. Est., Gifts & Tr. J. 224 (July 14, 2005).

that each trust was created as quid pro quo for the other.”¹⁰⁰ The Supreme Court found that the equitable reciprocal trust doctrine would apply under the *Grace* facts.

The Supreme Court’s opinion in *Grace* sets forth the two-part test for the application of the reciprocal trust doctrine: (i) the trusts must be interrelated and (ii) the trusts arrangement, to the extent of mutual value, must leave the settlors in approximately the same economic position as if they had created the trust naming themselves as the life beneficiaries. There is obviously some uncertainty as to the application of these tests. The interrelated test is not defined. The second test would seem to require that the settlors be beneficiaries of the subject trusts in substantially the same manner; however, certain cases have expanded the doctrine to include trusts in which the settlor is not a beneficiary.¹⁰¹

If the reciprocal trust doctrine applies, the transfer tax result is determined by “uncrossing” the transfers. Then there is a determination of a basis for taxation. Stated differently, after the trusts are uncrossed, if a deemed transferor retains an economic interest, or retained power over the beneficial enjoyment of the property, then that property would be included in the deemed transferor’s estate.

The Supreme Court in *Grace* considered three factors that were present under the *Grace* facts, which were indicators that the trusts were interrelated: (i) creation of the trusts at approximately the same time, (ii) the fact that trusts had substantially identical terms, and (iii) they were part of a single transaction designed and carried out by the decedent. Other factors the Court considered included the identity of the beneficiaries and the trustees.

For the planner, it is perhaps instructive to look at authorities in which it has been held that the trusts were not interrelated, for purposes of applying the reciprocal trust doctrine, even though they were created by husband and wife. In the *Estate of Levy*,¹⁰² trusts were created by husband and wife on the same date pursuant to consultations with the same attorneys. The trusts had the exact same number of shares of stock in the same company. Each of the trusts named the other as trustee and each of the trusts had as the residual beneficiary their son. The wife had a lifetime power to appoint the principal and income of the trust her husband created for her. The husband did not have a similar power. The Tax Court held that this difference, the existence of a broad lifetime special power of appointment in one of the trusts, was sufficient to escape classification as being interrelated as required by the *Grace* court. Because of that broad special power of appointment, the Tax Court held that the spouses had significantly different interests in the assets and control over the assets. The Tax Court held that the reciprocal trust doctrine did not apply because the interrelated part of that doctrine does not reach transfers in trust that create different interests.

¹⁰⁰ Id. at 324.

¹⁰¹ For instance, see *Bischoff v. Commissioner*, 69 T.C. 32 (1977); *Exchange Bank and Trust Company of Florida v. United States*, 694 F.2d 1261 (Fed. Cir. 1982); *Krause v. Commissioner*, 497 F.2d 1109 (6th Cir. 1974), aff’g, 57 T.C. 890 (1972); *Sather v. Commissioner*, 251 F.3d 1168 (8th Cir. 2001); *Schuler v. Commissioner*, 282 F.3d 575 (8th Cir. 2002).

¹⁰² T.C. Memo. 1983-453, 46 T.C.M. (CCH) 910.

In Private Letter Ruling 9643013 the IRS held that the trust did not meet the interrelated test of the reciprocal trust doctrine. Under the facts of the private letter ruling the husband and wife each created trusts for their descendants. The trusts were similar in that the husband and wife named the other as the trustee of the trust together with a third party “distribution” trustee who would control all discretionary distributions. There were differences in the trust provisions. In the trust created by the wife, she named her husband as a permissible beneficiary. In the trust created by the husband, the wife was given an inter vivos special power to appoint the trust property. In the trust created by the wife a special power was given to the distribution trustee. The IRS concluded that the above differences were enough to find the interrelated test inapplicable.

In Private Letter Ruling 200426008, the IRS determined that there were enough differences in two irrevocable life insurance trusts, which prevented the finding of interrelatedness under the reciprocal trust doctrine. One of the trusts gave a spouse certain powers over the trust, if their son predeceased them, a contingent power to withdraw up to 5% of the trust property into a contingent marital trust. After the death of one of the spouses and their son, the other spouse had a special testamentary power over a contingent marital trust and an inter vivos testamentary special power to appoint the trust property not held in the contingent marital trust among certain beneficiaries. The other spouse did not have those powers under the companion trust. There were other differences. The husband was not a permissible beneficiary of the wife’s trust until three years after the date of death of the wife and, at that point, he could receive distributions only if his net worth and annual income were less than certain specified amounts.

There is authority holding that the reciprocal trust doctrine may not apply where one of the two trusts is designed so that it has no interests or powers causing includability, even if the trusts were uncrossed. In a Field Service Advisory dated September 27, 1993,¹⁰³ Associate Chief Counsel stated, “We do not think it would be advisable, under the facts presented, to try to extend the reciprocal trust concept to a situation in which one of the trusts is uncrossed to treat a beneficiary who unilaterally obtained a beneficial interest, as the transferor of the property held in the trust created in the trust for him.” Similarly, the Service held in Private Letter Ruling 9104001¹⁰⁴ that if one of the two trusts has no interests or powers causing includability, even if uncrossed, the reciprocal trust doctrine would not be applicable with respect to both trusts. Under this private letter ruling the husband had no interest in the trust that the wife created. However, the wife had an interest in the trust the husband created for her. The children were ultimately the beneficiaries of both trusts.

Advisors typically take into account all of the following crucial considerations in order to not run afoul of the reciprocal trust doctrine:

¹⁰³ 1993 WL 1609188.

¹⁰⁴ P.L.R. 9104001 (Oct. 29, 1990).

(i) The spouses may wish to use fundamentally different types of estate planning techniques in order to fund trusts for the other spouse. The husband may wish to create a trust that is a grantor trust to him and then sell assets to that trust. The wife may wish to first sell and contribute assets to a single member FLLC and at a later time contribute those FLLC interests to the GRAT. Obviously, these two trusts function as substantially different types of trusts for estate planning purposes.

(ii) Consider having different vesting options with respect to the two trusts. The trust created by the husband may be a dynasty trust that has the potential for lasting several generations. The trust created by the wife may be a trust that after the husband's death vests at several different ages for the benefit of their children.

(iii) Consider different distribution options. The trust created by the husband for the benefit of his wife may be a purely discretionary trust that has an independent trustee to determine the distributions to any beneficiary. The trust created by the wife for the benefit of the husband might be a support trust based on ascertainable standards relating to the health, education, maintenance and support of the husband.

(iv) Consider different powers of appointment. The husband may give his wife a very limited special testamentary power of appointment in which she could appoint the assets of the trust to issue, spouses of issue and certain defined charities (perhaps a private foundation that has been previously created). The wife may give the husband a broad inter vivos and testamentary power of appointment in which the trust properties can be appointed to any person other than the husband's estate or creditors of the husband.

(v) Consider different beneficiaries other than husband and wife. In order to steer clear of the reciprocal gift analysis under *Sather and Schuler*, consider having different beneficiaries of the trust other than husband and wife. For instance, husband may create a trust that benefits wife and their grandchildren and their spouses, subject to the wife's power of appointment. The wife may create a trust that benefits the husband and all of their children, but does benefit spouses of children, subject to any power of appointment that she gives to husband.

(vi) Consider having different trustees of the two trusts. Husband could create a trust in which an independent trustee is the trustee. Wife could create a trust in which her husband is the trustee.

(vii) Consider having different assets in the two trusts. Husband could create a trust in which a limited partnership interest is the chief asset of the trust. Wife could create a trust in which a member interest in a FLLC is the chief asset of the trust. The FLP and the FLLC could have substantive differences in their provisions and could own different assets. Another alternative is that only one of the spouses creates a family entity and the other spouse uses financial assets for his or her planning.

(viii) Consider having substantive timing differences as to the creation of the two trusts. Husband could create his trust at a time that is substantially different with respect to the valuation of the assets that are contributed to the trust his wife creates.

Obviously, the greater the differences between the two trusts the greater the chance that the reciprocal trust doctrine will not be applied.

The safest approach is generally thought to be for only one spouse to create a trust for the benefit of the other spouse and to rely on other planning techniques (e.g., converting the note into a private annuity for the benefit of one spouse) to give the flexibility that a couple desires.

a. The considerations of creating a RPM Trust.

See the discussion *supra* Section IV.D.3.

b. The considerations of creating a LAIDGT.

See the discussion *supra* Section IV.C.3.

c. Consideration of not having enough resources for the surviving spouse after the first spouse dies with non-reciprocal SLATs and a suggested solution.

Consider the following example:

Husband (“H”) and Wife (“W”) each have \$13,000,000 of separate property financial assets. They are each considering creating, with a \$12,000,000 contribution, a SLAT for the benefit of the other spouse, which will not be reciprocal of any trusts created for his or her benefit. They are concerned that after the first spouse dies there will be only one SLAT left to satisfy the survivor’s then consumption and last illness medical needs.

They live in a state in which creditors cannot reach a new trust for the benefit of the spouse grantor created by the beneficiary of the SLAT through the exercise of a broad testamentary special power of appointment. However, they and their advisors are worried that under equitable tax doctrines an understanding that the power would be exercised in favor of the grantor may be proved. If the IRS is successful proving that understanding exists, then estate tax inclusion would apply.

A potential alternative solution is for H and W to each purchase a survivor private annuity, that is only paid if he or she survives his spouse, for the amount of \$1,000,000 from the SLAT, in which each is the grantor, but not the beneficiary. Each spouse is 62 years old.¹⁰⁵

If that strategy is effectuated, what would be the annual annuity for the surviving spouse from the SLAT of which the spouse is the grantor?

¹⁰⁵ The life expectancy of a 62-year old person is around 21 years.

From pages 7 and 8 of Version 3A from IRS Publication 1457:

Example 1 of IRS Publication 1457: Based on a 7520 rate of 3%, the present worth of \$1.00 due at the death of the last to die of two persons each aged 62 is 0.48439. On page 129 in Table R(2) Section 2.1 will be found the older age 62 and the younger age 62. Across those ages, under the column 3% is the remainder fact 0.48439.

Example 2 of IRS Publication 1457: Based on a 7520 rate of 3%, the present worth of the right to receive the use of \$1.00 until the death of the last to die of two persons aged 62 and 62 is 0.5156, determined as follows:

$$\begin{aligned} \text{Remainder Factor from Example 1} &= 0.48439 \\ \text{Income Factor} &= 1.00000 - 0.48439 \\ &= 0.51561 \end{aligned}$$

Example 3 of IRS Publication 1457: Based on a 7520 rate of 3%, the present worth of an annuity of \$1.00 per annum payable at the end of each year until the death of the last to die of two persons aged 62 is 17.187, determined as follows:

$$\begin{aligned} \text{Income Factor from Example 2} &= 0.51561 \\ \text{Annuity Factor} &= 0.51661 \div 0.03 \\ &= 17.187 \end{aligned}$$

Example 5 of IRS Publication 1457: Based on a 7520 rate of 3%, the present worth of an annuity of \$1.00 per annum payable annually for such a person ages 62 survives a person aged 62 is 3.0472, determined as follows:

$$\begin{aligned} \text{Joint and Survivor Annuity Factor from Example 3} &= 17.187 \\ \text{Single Life Annuity Factor, Age 62 from} & \\ \text{Table S (3.0)} &= 14.1398 \\ \text{Required Annuity Factor} &= 17.187 - 14.1398 \\ &= 3.0472 \end{aligned}$$

Thus, if H purchases for \$1,000,000 from the SLAT grantor trust H created in which W is the initial beneficiary for an annual annuity that is only paid if he survives W, H will be entitled to an annual annuity of \$328,170.12, if he survives W.

Under those circumstances (H survives W), no annuity will be paid to W's estate from the SLAT grantor trust W created for H as the initial beneficiary for W's \$1,000,000 annuity purchase, because she did not survive H.

In conclusion, under the above circumstances, H will have access to a SLAT¹⁰⁶ in which W created for H's benefit, that no longer has the contingent annuity liability. Secondly, H will also be paid an annual annuity of \$328,170.12 from the grantor SLAT trust H created. H and W decide that is an adequate "cushion" for consumption and last illness medical needs. They go forward with the non-reciprocal SLAT trust technique, coupled with the above survivor private annuity strategy.

F. The Gifting and Selling Low Basis Assets to a Grantor Trust Where an Older Generation is a Beneficiary and is Subject to an Older Generation's General Power of Appointment and Estate Taxes ("UPIDGT") Technique.

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 Section 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 Section 1014(e). For a discussion of defined value assignments *see supra* Section IV.A.3.a.(12). If the sale price is equal to the value of the low basis asset there is not a gift and IRC Section 1014(e) does not apply, even if the older generation beneficiary dies within one year.

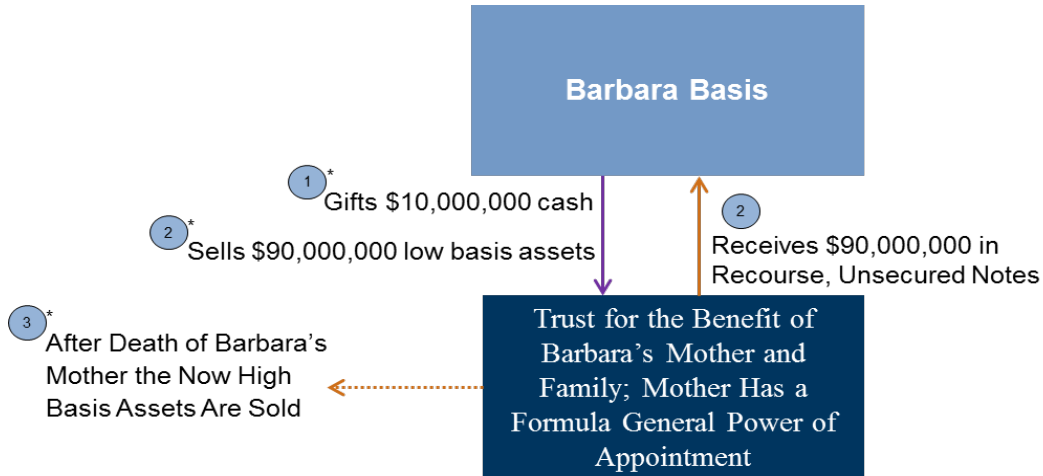
If the older generation beneficiary's estate is small, that general power of appointment may not result in any estate taxes being assessed against his estate. The general power of appointment could be designed so that it may not be exercised unless approved by a non-adverse party such as an independent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

Example 11: Barbara Basis Creates a UPIDGT 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 formula general power of appointment over the trust. The formula could be drafted to include that amount in Gmom Basis' estate that does not result in an estate tax for her estate. 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.

¹⁰⁶ For income tax efficiency reasons, the terms of that SLAT could convert to a BDOT on W's death.

The technique is illustrated below:



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

1. Income tax and basis enhancing advantages of the UPIDGT technique.
 - a. This technique has the same advantages as a SIDGT.

See discussion *supra* IV.A.3.a.(1), (2) (3), (4) and (5).

- b. The assets of the trust will receive a step-up in basis on the older generation beneficiary's death equal to the fair market value of the assets, if net value rule of treas. reg. §2053-7 does not apply.

The non-depreciable trust assets could be sold after the older generation beneficiary's death and reinvested without capital gains tax consequences.

2. Transfer tax advantages of the UPIDGT technique.
 - a. The assets of the trust may be generation-skipping tax protected.
 - b. 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.
 - c. Also consider the income and transfer tax advantages that could accrue if the older generation exercises her testamentary formula general power of appointment in favor of a BDOT in which the younger generation creator of the UPIDGT is the initial beneficiary. See *infra* Section VI.B.

This technique is discussed in further detail below. That exercise of the general power of appointment must be independent and there must not be any prior understanding that the older generation would so exercise that power.

- d. A BDOT could become, under those circumstances, an ideal trust for the younger generation (Barbara) to sell her individual assets to the BDOT, or the younger generation could use the LAIDGT technique with that BDOT.

3. Considerations of the UPIDGT technique.

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

Even though the assets of the trust will receive a step-up in basis on the older generation beneficiary's death, the grantor's note does not. Under the logic of Revenue Ruling 85-13, the note does not exist as long as the grantor status of the trust is maintained. 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.

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

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

- c. Many of the same considerations for the use of a grantor trust and a sale to a grantor trust would also be present for this technique.

These considerations are discussed in further detail above.

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

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 Section 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

- (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).

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 Section 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 Section 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 Section 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.

- e. 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 5. 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.

It should be noted that this consideration should not exist, if the older generation beneficiary exercises her general power of appointment in favor of a BDOT in which the younger generation UPIDGT creator is the initial BDOT beneficiary (see the discussion below), because the BDOT will be a grantor trust to that younger generation creator.

- f. IRC Section 1014(b)(9) needs to be considered for property that has depreciated.

IRC Section 1014(b)(9) (but none of the other paragraphs of IRC Section 1014(b)) 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.¹⁰⁷ 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 to the trust, or the partnership could terminate. IRC Section 1014(b)(4) should apply to the depreciated real estate under those circumstances and the depreciated asset should receive a step-up in basis.

V. ADVANTAGES AND CONSIDERATIONS OF SPOUSAL GRANTOR TRUSTS.

A. The Advantages of a Transferor Selling Assets to a Trust That Names the Transferor as a Beneficiary, Gives the Transferor a Testamentary 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?

- a. If the taxpayer is a beneficiary of a spousal grantor trust and holds a power of appointment over its assets, the taxpayer's sale of property to the trust will permit the taxpayer to benefit from the

¹⁰⁷ See Treas. Reg. § 1.1014-6.

property's future income and appreciation and to direct how others will enjoy it without exposing the property's income or appreciation to estate tax in the estate of either spouse.

Because the spouse will be liable for the income tax attributable to the spousal grantor trust's investment income, the value of the property in the trust will be able to generate tax free returns for its beneficiaries.¹⁰⁸

Beneficiary sales to a Spousal Grantor Trust may constitute effective estate planning. It is an attractive estate planning technique because it has the advantages of the SIDGT technique with the additional advantage that the selling taxpayer is also a beneficiary of the trust.

Consider the following example:

*Example 12: Ann and Aaron Appointment Wish to Create
GST Grantor Trusts and Maintain Maximum Flexibility*

Ann and Aaron Appointment approach their attorney, Ray Reciprocal, and tell him they would like to transfer their assets 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. The trusts will be grantor trusts to the spouse who creates the trust.

Aaron creates a limited liability company (Financial Assets, LLC) with \$65,000,000 in business assets and private equity investments and receives a 1.0% managing member interest and a 99.0% non-managing member interest that has a value of \$45,045,000 after considering valuation discounts (Transaction 1 below). It is assumed the valuation discounts for the transfers of non-managing interests is equal to 30%.

Aaron creates another limited liability company (Holdco, LLC) with the non-managing member interests in Financial Assets, LLC, non-managing interests in his closely held businesses (which, after discounts, are worth \$99,792,000) along with \$5,000,000 in financial assets in return for a 1.0% managing member interest, a 99.0% non-managing member interest and a \$134,900,000 convertible 9-year note. Due to possible tax considerations with respect to retaining unfettered distributions rights, Aaron may wish to receive 0.01% Class A and 0.99% Class B managing member interests. The Class B managing member interest would control all distribution decisions, including the decision of whether to terminate the LLC. Aaron could give his Class B managing member interest to a trust in which trusted family members or advisors are trustees and under which Aaron could replace the trustees with new trustees as long as the replacement trustees are not related or subordinate. Aaron could retain the Class A managing

¹⁰⁸ The spouse's payment of income taxes on the spousal grantor trust's income will not be subject to gift tax. Rev. Rul. 2004-64. If the taxpayer and the taxpayer's spouse file joint income tax returns, the taxpayer will be able to pay the tax liability if he or she chooses to do so.

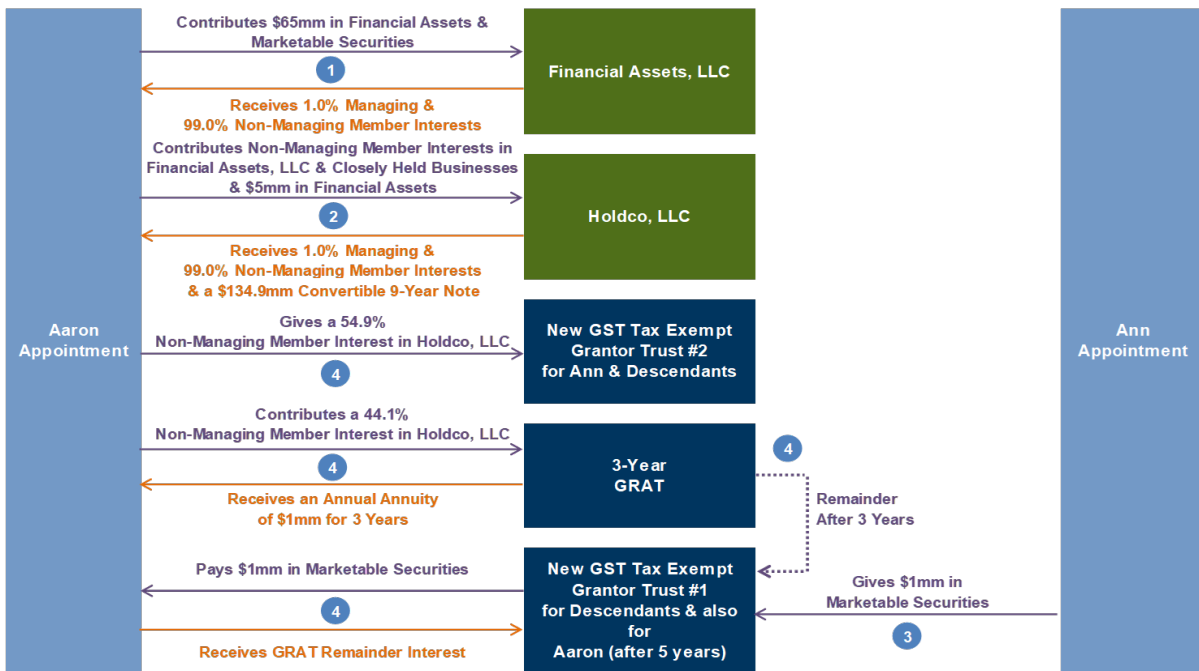
member interest, which would control all decisions not delegated to the Class B managing member interest, including all investment decisions.

The note received by Aaron could be payable over a term of years for a fixed rate or on demand and bear interest at a variable rate which compounds monthly, although actual payments could be less frequent. The note could be convertible to a private annuity based on Aaron's life expectancy or to that amount of non-managing member interests equal to the then outstanding principal of the note at the election of the trustee. The note could be designed to be automatically converted at the death of Aaron to that amount of non-managing member interests equal in value to the then outstanding principal of the note (Transaction 2 below).

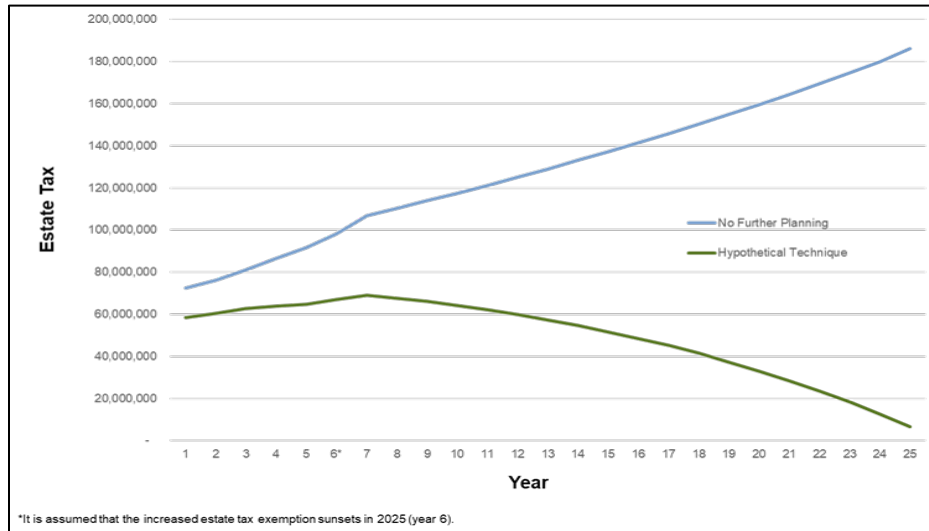
Ann gives \$1,000,000 in financial assets to a grantor trust for the benefit of her family and also for the benefit of Aaron after 5 years (GST Grantor Trust 1) (Transaction 3 below). Aaron will not have a power of appointment over the trust Ann creates.

The non-managing member interest in Holdco is assumed to have a 20% valuation discount. Aaron gives, pursuant to a defined allocation assignment, a 49.5% non-managing member interest in Holdco, LLC (assumed discounted value of \$5,855,900) to a grantor trust for the benefit of Ann and his family (GST Grantor Trust 2). He could allocate his remaining non-managing member interest to a 3-year grantor retained annuity trust (GRAT). Aaron could provide in the GRAT trust agreement that the remainder interest will be paid to the GST Grantor Trust 1 in return for \$1,000,000 in financial assets paid from GST Grantor Trust 1 (Transaction 4 below).

An illustration of the technique is below:



**Line Graph Showing the Advantage of the Technique,
Under the Facts of Example 12, Over 25 Years**



Transfers of hard-to-value property to a GRAT have a distinct advantage over transfers to ordinary trusts. The regulations permit the taxpayer to insure against valuation risk by determining the amount of the retained annuity with reference to the value of the property transferred to the GRAT as finally determined for gift tax purposes.¹⁰⁹

A sale of a remainder interest in a GRAT to a spousal grantor trust may be an attractive alternative for a taxpayer who is willing to forgo control over the future increase in value of the transferred hard-to-value property but would like to retain some possibility of access to those gains. The use of the GRAT should eliminate the gift and estate tax valuation risk.

Table 11

Summary of Hypothetical Results for \$307,000,000 of Assets (see attached appendix for detailed calculations) Post Death Scenarios (assuming Mr. and Mrs. Appointment have a joint life expectancy of 25 years)									
	Appointment Beneficiaries		Consumption		Lifetime IRS & State Income Tax		Tax Liability of Estate		Total (9)
	Children (1)	Children & Grandchildren (2)	Direct Cost (3)	Investment Opportunity Cost (4)	Direct Cost (5)	Investment Opportunity Cost (6)	Embedded Capital Gains Tax Liability (7)	IRS Estate Tax (at 40.0%) (8)	
25-Year Future Values									
No Further Planning	\$402,476,534	\$121,209,327	\$119,552,174	\$140,651,390	\$213,965,437	\$275,197,726	\$6,733,601	\$186,250,244	\$1,466,036,433
	\$523,685,861		\$260,203,563		\$489,163,163		\$192,983,845		
Hypothetical Technique	\$11,540,013	\$649,667,823	\$119,552,174	\$140,651,390	\$215,900,630	\$275,197,726	\$46,822,890	\$6,703,787	\$1,466,036,433
	\$661,207,836		\$260,203,563		\$491,098,357		\$53,526,677		
Present Values (Discounted at 2.5%)									
No Further Planning	\$217,092,055	\$65,379,171	\$64,485,317	\$75,866,036	\$115,410,943	\$148,439,064	\$3,632,041	\$100,461,629	\$790,766,256
	\$282,471,225		\$140,351,353		\$263,850,007		\$104,093,670		
Hypothetical Technique	\$6,224,574	\$350,424,710	\$64,485,317	\$75,866,036	\$116,454,768	\$148,439,064	\$25,255,826	\$3,615,959	\$790,766,256
	\$356,649,284		\$140,351,353		\$264,893,832		\$28,871,786		

¹⁰⁹ Treas. Reg. § 25.2702-3(b)(1)(ii)(B).

2. Transfer tax advantage of the technique.

Even though the selling spouse is a beneficiary, the assets that are sold will not be included in the selling spouse's estate if the sale is for adequate and full consideration. Easy to value assets that are sold can easily be sold for adequate and full consideration.

3. 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 Sections 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 Section 1041.¹¹⁰ Therefore, there should be no capital gains tax consequences to the transactions explored above.¹¹¹

However, interest on notes issued as consideration for a sale to a spousal grantor trust will be recognized for income tax purposes, because IRC Section 1041 does not prevent inter-spousal interest from being taxable. Generally, assuming the asset sold to the spousal grantor trust is itself an investment asset, 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 IV.A.2.

¹¹⁰ See also CCA 201343021 ("Accordingly, we conclude that a trust that is treated as a grantor trust is ignored as a separate entity apart from the owner for all federal income tax purposes.").

¹¹¹ *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, until the IRS reverses its holding in Rev. Rul. 85-13, it seems that Rothstein may be ignored. See also the discussion *supra* Section IV.B.3.

- c. The technique has the asset class location advantage of the SIDGT technique.

See supra Section IV.A.4.

B. Considerations of the Technique.

1. 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.

2. State income tax considerations.

See discussion supra Section IV.B.1.

3. It is prudent 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 consequences¹¹² and arguably there should not be any further open issue with respect to IRC Section 2036, even if the grantor/seller is a beneficiary of the trust.¹¹³ 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 Section 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 Section 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 Section 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. However, it is unclear if filing gift tax returns will run the statute of limitations on all IRC Section 2036 issues.

¹¹² *See* IRC Section 2504(c).

¹¹³ *See* IRC Section 2001(b); Treas. Reg. Section 20.2001-1(b). *See, however,* the discussion *infra* Section VI.C.3.(b)(4).

4. 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.¹¹⁴ 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).

5. Some commentators have expressed the consideration that if it is possible for a current creditor, or any future creditor, of the assigning beneficiary to reach part of the assets of the spousal grantor 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 Sections 2036 or 2038.

Even if an assigning spouse/beneficiary does not have any current creditors, or any future creditors, if the assigning beneficiary *could* create a creditor relationship under which part of the spousal 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 beneficiary, under certain assumptions, could still create a future creditor relationship that could access the trust.

The IRS may also 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, or because of federal bankruptcy laws. If 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 17 states permitting self-

¹¹⁴ *See U.S. v. Grace*, 396 U.S. 316 (1969); *Estate of Levy*, T.C. Memo 1983-453, 46 T.C.M. (CCH) 910; PLR 9643013; and PLR 200426008.

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.

However, most commentators believe the IRS will not make the bankruptcy-based argument, or the extreme version of the fraudulent transfer argument, discussed above. If the mere *possibility* of voiding a transfer to a spousal grantor trust on fraudulent transfer grounds made a trust a non-grantor trust, this would automatically make *every* inter vivos trust a non-grantor trust until the statute of limitations ran out, and even this would be hard to discern, since it may be ten years or longer depending on the court and circumstances. The IRS would more likely adopt a more reasoned approach to avoid such absurdity, such as that espoused in qualified disclaimer regulations,¹¹⁵ which state that the mere possibility of a disclaimer being voided under fraudulent transfer law does not disqualify it, but the *actual* voiding of the transfer would. This would also be a logical way to analyze the potential effect of such claims for spousal grantor/non-grantor trust purposes as well – if a settlor’s creditors succeed in piercing an irrevocable trust on fraudulent transfer grounds it certainly causes grantor trust status, but not until then.

6. When the spousal grantor dies then the trust becomes a non-grantor trust unless the original drafting of the trust provides that the trust becomes a BDOT (*see* the discussion *infra* Section VI). If the trust becomes a non-grantor trust, then the trust has the high income taxes of a non-grantor trust and the other considerations of a non-grantor trust (*see* the discussion *supra* Section III.B.).

VI. THE ADVANTAGES AND CONSIDERATIONS OF THE BDOT UNDER IRC SECTION 678(a)(1).

Some trusts, sometimes referred to as “beneficiary-owned” trusts or, historically, as *Mallinkrodt* trusts, are treated under IRC Section 678(a) as owned, in whole or in part, by a person other than the grantor.¹¹⁶

Although IRC Section 678 refers to a “person other than the grantor” being considered the income tax owner of a portion of a trust, the person is commonly referred to, including in this outline, as a “beneficiary” of the trust.

¹¹⁵ Treas. Reg. § 25.2518-1(c).

¹¹⁶ In *Mallinkrodt v. Nunan*, 146 F.2d 1 (8th Cir. 1945) – which was decided before subchapter J was enacted – the beneficiary was treated as the owner for income tax purposes of undistributed income that the beneficiary had the power to withdraw.

A. IRC Section 678(a)(1) Overview.

1. IRC Section 678(a)(1) ownership because of power to vest corpus or income of the subject trust.

Under IRC Section 678(a)(1), a person other than the grantor is treated as the owner of any portion of a trust with respect to which that person has a power, “exercisable solely by himself,” to vest the corpus or the income of such portion in himself, herself, or itself.¹¹⁷ Although the IRS does not appear to have embraced the term, in recent years, trusts treated as owned by a person other than the grantor under IRC Section 678(a)(1) have been referred to as BDOTs.”¹¹⁸

2. Grantor’s ownership trumps beneficiary ownership.

IRC Section 678(b) provides that IRC Section 678(a) does not apply “with respect to a power over income” if the grantor is otherwise treated as the owner of under IRC Sections 671-677 and IRC Section 679. Although IRC Section 678(b) refers to a power over “income,” the IRS has consistently viewed a grantor trust string with respect to corpus as overriding beneficiary ownership under IRC Section 678(a).¹¹⁹ To achieve IRC Section 678(a) beneficiary ownership, therefore, it is essential, if the grantor is still living, to negate all possible grantor trust strings with respect to the grantor.

3. Extremely leveraged sales to BDOTs is a no rule area.

Perhaps reflecting IRS concerns with aggressive IRC Section 678(a) extremely leveraged sale planning, the IRS will not ordinarily rule on IRC Section 678 status “if the trust purchases the property from that person with a note and the value of the assets with which the trust was funded by the grantor is nominal compared to the value of the property purchased.”¹²⁰

B. Transfer Tax Advantages of Sales to LLCs Owned by BDOTs.

This section analyzes the technique of a transferor selling assets for a note to a limited liability company owned by a third party created trust that is a BDOT in which the selling

¹¹⁷ Treas. Reg. § 1.678(a)-1 (first sentence). For an example of IRC Section 678(a)(1) trust or BDOT, see PLR 201633021. *See also* Rev. Rul. 67-241; Rev. Rul. 81-6.

¹¹⁸ For an in-depth discussion of the BDOT technique, see Ed Morrow “IRC § 678(a)(1) and the “Beneficiary Deemed Owner Trust ‘(BDOT)’ (Leimberg Information Services, Inc., September 5, 2017), updated at SSRN: <https://ssrn.com/abstract=3165592>. It could be noted that this paper differs in certain respects from Mr. Morrow’s paper as to how the withdrawal right could be designed. For instance, there may be certain IRC Section 678 concerns for a tax year if the beneficiary does not have the unfettered right to withdraw net taxable income for the full year. *See also* IRC Sections 678 and 671 and Treas. Reg. §§ 1.678(a)-1, 1.671-2 and 1.671-3.

¹¹⁹ PLRs 200949012, 200729005, 2007320101, 200603040, 9309023; *cf.* Rev. Rul. 81-6; *see also* Treas. Reg. § 1.671-2(b) (distinguishing, for purposes of the grantor trust regulations, between “income,” which means income for tax purposes, and “ordinary income,” which means income under fiduciary accounting principles).

¹²⁰ Rev. Proc. 2020-3.

transferor is the primary beneficiary of the BDOT. For instance, consider the following provisions of a BDOT:

The primary beneficiary has the power for all portions of the trust “to vest the income therefrom” (as that phrase is used in IRC Section 678(a)(1)) in any calendar year of the trust to the primary beneficiary. If that power to vest the income of the trust in a calendar year of the trust is not exercised in a calendar year that power shall lapse. The power to vest the income from all portions of the trust includes the power to withdraw in any calendar year of the trust all of the income of the trust earned by all of the trust assets, whether the income is ordinary or capital gains income. That withdrawal power, if exercised, can be satisfied by the trustee by distributing to the primary beneficiary the accounting income, corpus assets and/or proceeds of the corpus of all portions of the trust. The independent trustee (or protector) may amend the trust to terminate the primary beneficiary’s right to vest the income of the trust for any period of time, but any termination shall be prospective and shall only affect the right to vest the income of the trust accruing after the effective date of the amendment.

That primary beneficiary of a BDOT is sometimes referred to below as the “Income Withdrawal Right Beneficiary.”

Assume during each calendar year of the BDOT the primary beneficiary notifies the trustee of the BDOT that he or she desires “to withdraw in satisfaction of the primary beneficiary’s withdrawal right that amount of accounting income, proceeds of corpus sales and/or corpus that is the greater of (i) that amount of net taxable income that the primary 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 primary beneficiary of the BDOT because of that withdrawal right; or (iii) that amount of net taxable income that exceeds 5% of the value of the corpus of the trust.”

1. Overview of technique.

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 BDIT, which generally is only funded with \$5,000 of assets when it is created. Under IRC Section 678(a)(1), if a beneficiary of a third party created trust has the unilateral power to “vest income” of all portions of the trust in himself, then the trust is disregarded for income tax purposes, the beneficiary is treated as the owner of all of the trust assets, and the net taxable¹²¹ income of the trust is taxable to the beneficiary. In order to vest income of the trust, the beneficiary of the trust should have the unilateral power to withdraw all of the net taxable income of the trust to himself, with all of the assets of the trust

¹²¹ While the term "net taxable income" is not a defined term under trust property law the elements of net taxable income can be determined under trust property law.

being available to satisfy that withdrawal power, including the trust's accounting income, the trust's corpus and the trust's proceeds from sales of the trust corpus.¹²²

2. Application of IRC Section 678(a)(1).

IRC Section 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. . .” (Emphasis added.)

The reference to “income” in Section 678(a)(1) is taxable income and not accounting income. If a beneficiary of a BDOT has the right to withdraw 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.

Assume a grantor of a trust sells assets to a trust which gives the grantor the right to withdraw all realized income of the trust from whatever the source, including all accounting income and realized capital gains income of that trust. That withdrawal right could be satisfied from any asset or cash source of the trust, including accounting income, sale proceeds of the corpus and the corpus. That sale should be disregarded for income tax purposes, because, as the holding of Rev. Rul. 85-13 states, “the same person owns the asset for income tax purposes before and after the sale,” and also because of the authority of IRC Sections 671, and 677, Treas. Reg. §§ 1.671-2, 1.671-3, 1.677(b)(2), 1.677(c)(2), and 1.677(g), example 2. Likewise, a sale by a beneficiary of a trust to a trust in which the beneficiary has the same withdrawal right that the grantor has in the above example, should be disregarded under the authorities noted in IRC Section 678, and Treas. Reg. § 1.678(a)-1, *because the beneficiary is treated as owning the asset that is sold for income tax purposes both before and after the transaction*. Furthermore, if there is a sale by the beneficiary of a BDOT to a LLC, in which the sole owner of the LLC is that BDOT, there is *greater authority under the Treasury Regulations that the sale is disregarded than the sale by a grantor to a grantor trust*. See the discussion *supra* Section IV.B.10.a.(3). Consider the following example:

¹²² Such a withdrawal power should distinguish the holding of the court in *Fish v. U.S.*, 432 F.2d 1278 (9th Cir. 1970) and the IRS in Revenue Ruling 85-88, 1982-2 C.B. 201 that the 5% lapsed protection from transfer taxes provided by IRC Sections 2514(e) and 2041(b)(2) is only measured by 5% of the accounting income of the trust when the withdrawal right only applies to accounting income. If the measure is all of the net taxable income, and that withdrawal power can be satisfied out of the entire accounting income, and/or corpus, and/or proceeds of the corpus of the trust, the 5% lapsed protection is increased to be measured by 5% of the trust corpus under IRC Sections 2514(e) and 2041(b)(2). See Treas. Reg. § 25.2514-3(c)(4).

*Example 13: A Parent Creates a \$2,000,000 BDOT for the Benefit
of Her Daughter; Daughter Sells Significant Assets in Two Different
Cascading Sales for Notes to a Limited Liability Company Owned by the BDOT*

In 2016, Betsy Bosddaughter created a single member LLC with a 0.01% Class A managing member interest, a 0.99% Class B managing member interest and a 99% non-managing member interest and the LLC 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 by her will, or 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.) The terms of the BDOT provide Granny's daughter, Betsy Bosddaughter, the power to withdraw in any calendar year of the BDOT all of the net taxable income of the BDOT. The terms of the BDOT provide that withdrawal power can be satisfied out of the entire income, corpus, or proceeds of the 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.

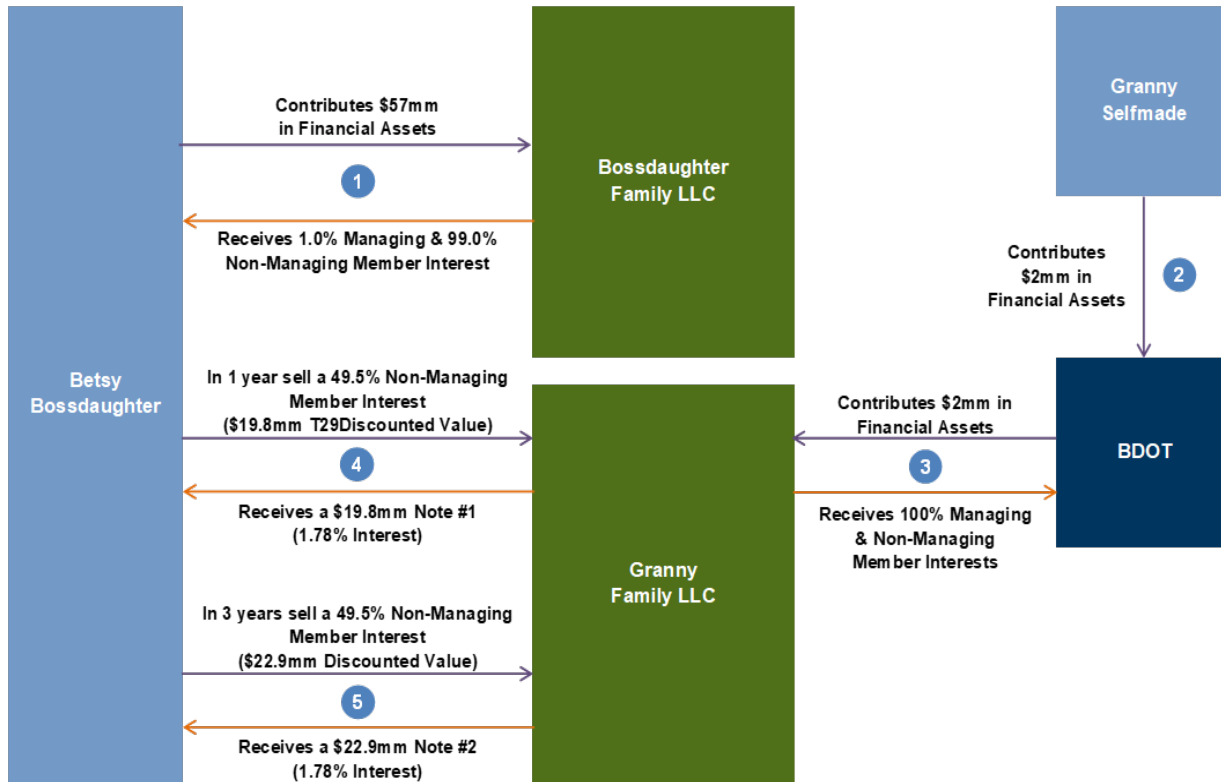
In 2018, the BDOT contributes its \$2,000,000 to Granny Family LLC. Later, in 2018, Betsy sells a 49.5% non-managing member interest in Bosddaughter Family LLC to Granny Family LLC, which is owned by the BDOT, in exchange for \$19,750,500 note (Transaction 3 below). Due to IRC Section 2036 considerations with respect to retaining entity distribution, amendment and liquidation powers, Betsy could retain the 0.01% Class A managing member interest and transfer the 0.99% Class B managing member interest. The Class A managing member interests would control all entity managing member decisions, including investment management decisions that are not delegated to the Class B managing member interest. The Class B managing member interests would control all distribution, amendment and liquidation decisions. Betsy could give her Class B managing member interest to a grantor trust in which the initial trustee is an advisor or family member she trusts. Betsy could have the power to replace the trustee of that donee trust with a new trustee, as long as the replacement trustee is not related or subservient.

It is assumed there is a 30% valuation discount associated with the sold 49.5% non-managing member interest. The assets in the LLC and the \$2,000,000 in the BDOT outside of its ownership of the LLC annually grow at 6% per year pre-tax. In 2021, Betsy sells her remaining 49.5% non-managing member interest in her LLC 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 LLC to pay her income taxes. Betsy plans to first look to payments on the note receivable from Granny Family LLC, which is owned by 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 assets of Granny Family LLC that is owned by the BDOT when the notes are 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. After the notes are totally paid, 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 the table below and attached Schedule 11 for a summary of those calculations based on the above assumptions and assuming Betsy dies in 30 years.

Table 12

	Bosdaughter Beneficiaries		Consumption		IRS Income Tax		Tax Liability of Estate		Total
	Children	Children & Grandchildren	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Embedded Capital Gains Tax	IRS Estate Tax (@ 40%)	
30-Year Future Values									
No Further Planning	\$84,778,260	\$34,657,505	\$43,902,703	\$60,266,542	\$26,310,348	\$32,272,303	\$159,477	\$56,518,840	\$338,865,979
	\$119,435,766		\$104,169,246		\$58,582,651		\$56,678,317		
Hypothetical Technique - BDOT	\$0	\$172,950,276	\$43,902,703	\$60,266,542	\$27,346,891	\$32,272,303	\$2,127,264	\$0	\$338,865,979
	\$172,950,276		\$104,169,246		\$59,619,194		\$2,127,264		
Present Values (discounted at 2.5%)									
No Further Planning	\$40,417,415	\$16,522,712	\$20,930,293	\$28,731,633	\$12,543,266	\$15,385,584	\$76,029	\$26,944,944	\$161,551,877
	\$56,940,128		\$49,661,926		\$27,928,850		\$27,020,973		
Hypothetical Technique - BDOT	\$0	\$82,452,779	\$20,930,293	\$28,731,633	\$13,037,430	\$15,385,584	\$1,014,157	\$0	\$161,551,877
	\$82,452,779		\$49,661,926		\$28,423,015		\$1,014,157		

3. 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 Section 2514(e)(2) and IRC Section 2041(b)(2)), that amount remains in the trust in a manner that will not be subject to gift taxes and estate taxes. Almost all states have legislation that protects the protected lapse portion described in IRC Sections 2514(e)(2) and 2041(b)(2) from creditors.¹²³ 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, corpus or proceeds of the corpus of the trust) that exceeds 5% of the value of the corpus of the trust. It should be noted that under this Example 13, 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.

- a. 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.
- b. A sale by an income right withdrawal beneficiary to a BDOT Has all of the transfer tax advantages of a LAIDGT.

¹²³ If applicable state law does not protect the lapsed portion from the beneficiary’s creditors, the lapsed portion may be subject to estate tax at the beneficiary's death under IRC Sections 2038 and 2041.

- c. The BDOT technique has a greater safety valve than the SIDGT or a LAIDGT for protecting the seller, since the seller both has withdrawal rights in and is a beneficiary of the BDOT.
- 4. The BDOT technique may be able to be used to transfer assets from a trust that is a non-grantor trust to a newly created trust.

Can a trust be a deemed owner of another trust under IRC Section 678 under the treasury regulations? Yes.

- a. Treas. Reg. § 1.671-2(a)(6), Example 8 confirms that under IRC Section 678(a)(1) a trust can be the deemed income tax owner of another trust.

That example in the regulations provides as follows:

"Example 8. G creates and funds a trust, T1, for the benefit of G's children and grandchildren. After G's death, under authority granted to the trustees, in the trust instrument, the trustees of T1 transfer a portion of the assets of T1 to another trust, T2, and retain a power to revoke T2 and revest the assets of T2 in T1. Under paragraph (e)(1) and (5) of this section, G is the grantor of T1 and T2. In addition, because the trustees of T1 have retained a power to revest the assets of T2 in T1, T1 is treated as the owner of T2 under section 678(a)."

- b. PLR 201633021 (8/12/2016) also held that a trust can be a withdrawing income beneficiary of another trust that is designed to be a BDOT.

The key provisions of that PLR are as follows:

"Facts

...

The governing document for Trust 1 (Trust 1 Agreement) authorizes Trustee, at any time, to distribute all of any portion of the net income or principal or both of Trust 1 directly to any one or more of the Beneficiaries living at the time of such distribution or to the trustees of any trust of which such Beneficiary is a beneficiary.

Pursuant to the authority granted to the Trustee under the Trust 1 Agreement, the Trustee proposes to transfer funds from Trust 1 to Trust 2 which also benefits Beneficiaries. Beneficiaries' rights to distributions under the Trust 2 agreement are the same as those under the Trust 1 Agreement.

The governing document of Trust 2 (Trust 2 Agreement) provides that Trust 1 retains the power, solely exercisable by Trust 1, to revest the net income of Trust 2 in Trust 1; provided, however, that such power shall lapse on the last day of such calendar year.

The Trust 2 agreement provides that income includes (i) any dividends, interest, fees and other amounts characterized as income under § 643(b) of the Code, (ii) any net capital gains realized with respect to assets held less than twelve months, and (iii) any net capital gains realized with respect to assets held longer than twelve months.

Law and Analysis

...

Section 1.671-2(e)(5) provides that if a trust makes a gratuitous transfer of property to another trust, the grantor of the transferor trust generally will be treated as the grantor of the transferee trust. See also § 1.671-2(e)(6), Example 8.

...

Conclusion

Trust 1 will be treated as the owner of the portion of Trust 2 over which they have the power to withdraw under § 678(a). Accordingly, Trust 1 will take into account in computing their tax liability those items which would be included in computing the tax liability of a current income beneficiary, including expenses allocable to which enter into the computation of distributable net income. Additionally, Trust 1 will also take into account the net capital gains of Trust 2." (Emphasis added.)

c. The technique.

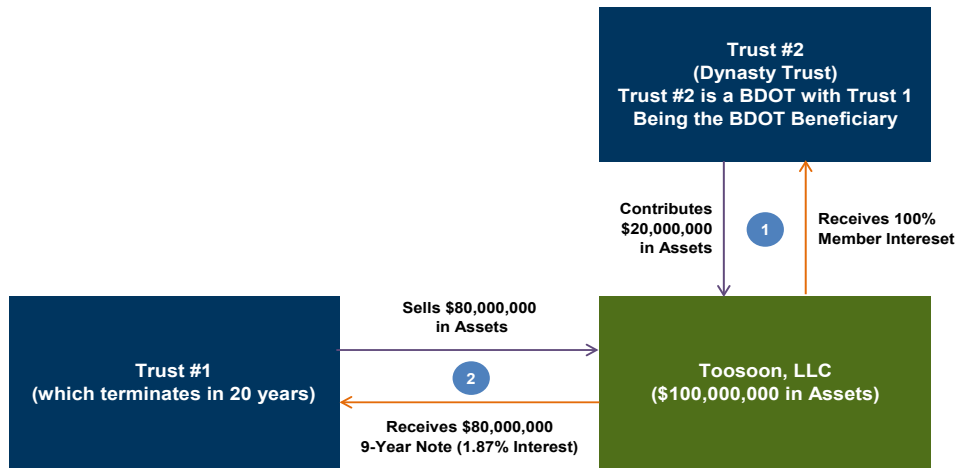
Consider the following example:

Example 14: The Trustee of a Trust Which Will Actuarially Terminate in About 20 Years and Which is the Deemed Income Tax Owner of a Long-Term Dynasty Trust, Could Sell Its Assets to a Single Member LLC That is Created By the Trustee of Long-Term Dynasty Trust

Tom Toosoon is a trustee of a trust which will actuarially terminate in about 20 years ("Trust 1"). "Trust 2" is a dynasty trust in which Trust 1 is the deemed income tax owner because the creation of Trust 2 gave Trust 1 the right to vest income of Trust 2 in a manner which made Trust 1 the deemed income tax owner. The beneficiaries of Trust 1 are also the initial beneficiaries of Trust 2 and each of those individuals has a broad special testamentary power of appointment over their beneficial share of trust 2.

Tom Toosoon, as trustee of Trust 1, a non-grantor trust, sells trust assets for a nine-year note that pays the AFR rate, to an LLC that is disregarded for income tax purposes that is created by Trust 2 (which is also a non-grantor trust). The note is designed to be refinanced from time to time. The beneficiaries of Trust 1 ask Tom Toosoon to assume the value of Trust 1 is \$80,000,000 and the value of Trust 2 is \$20,000,000. The assets of Trust 1 and Trust 2 will earn on the average 7.4% a year before income taxes. Of that 7.4% return, the beneficiaries of Trust 1 ask Tom Toosoon to assume 0.6% of that return will be taxed as ordinary income, 2.4% of the return will be tax-free and 4.4% of the return will be taxed as capital gains with a 30% turnover rate. The beneficiaries also assume that on the average 3% of what the value of Trust 1 would

be if a sale is not made will be distributed out of Trust 1 to the beneficiaries. The beneficiaries assume no distributions will be made out of Trust 2 to the beneficiaries, unless Trust 1 is no longer in existence. The technique could be illustrated as follows:



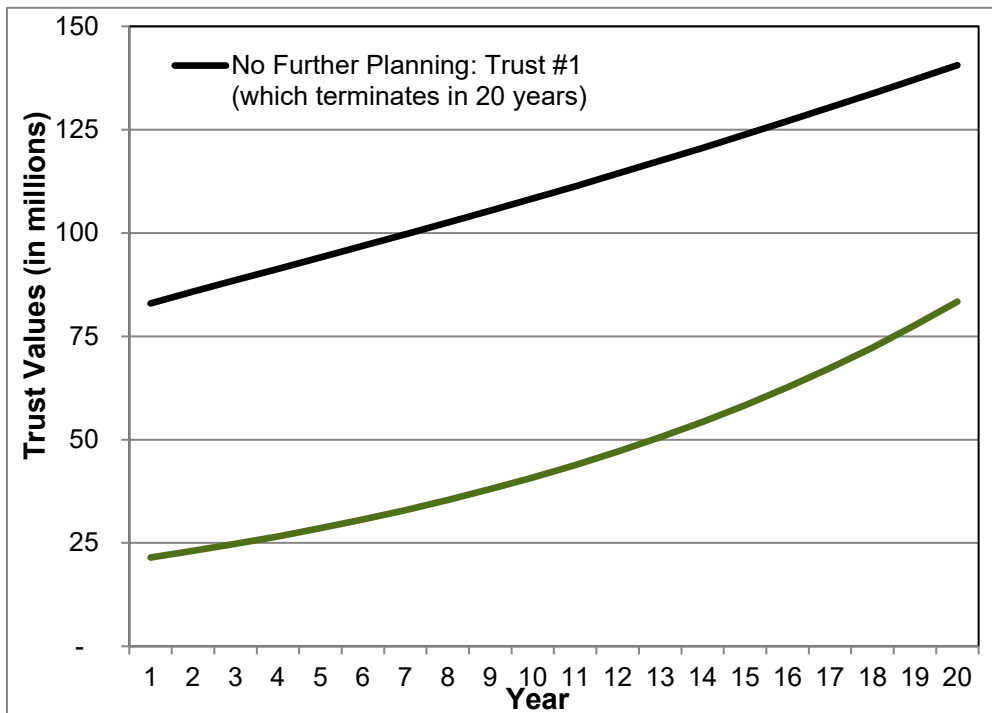
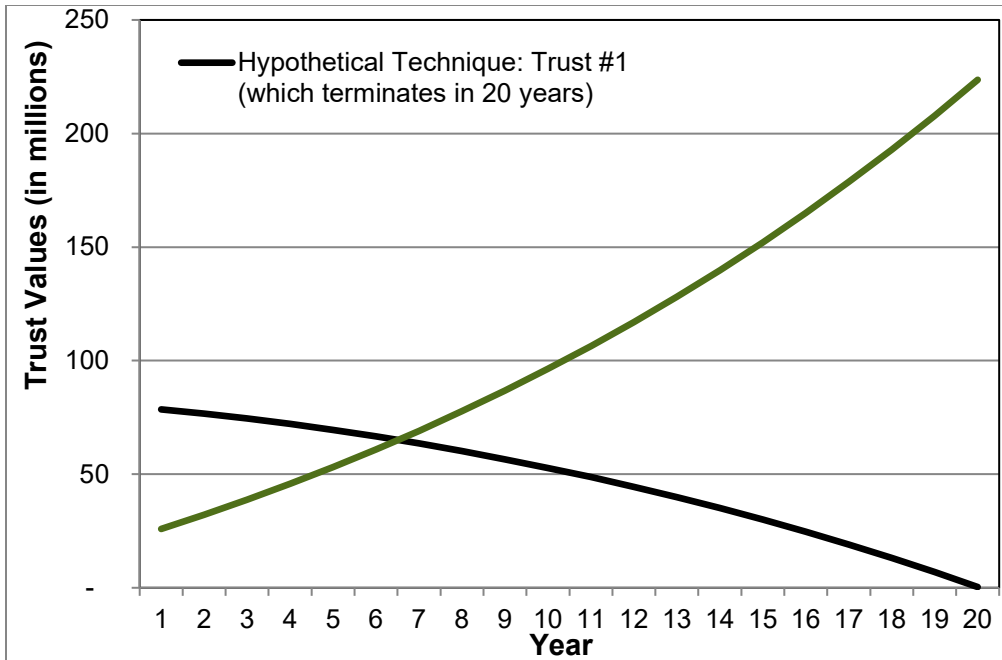
d. Advantages of the technique

- (1) Wealth will be indirectly transferred from Trust 1 to Trust 2 because Trust 1 is paying all of the income taxes generated by the trust assets by both Trust 1 and Trust 2 and because the earnings and growth of the combined trusts is projected to be much higher than the projected 1.87% interest carry.

The table below (also see attached Schedule 12) demonstrates the significant transfer from Trust 1 to Trust 2 that could occur over 20 years.

Table 13

	Trust #1 Beneficiaries	Trust #2 Beneficiaries
20-Year Future Values		
No Further Planning	\$140,597,305	\$83,390,317
Hypothetical Technique Using BDOT and Sale from One Trust to Another Trust	\$334,556	\$223,653,066
Present Values (discounted at 2.5%)		
No Further Planning	\$85,802,450	\$50,890,687
Hypothetical Technique Using BDOT and Sale from One Trust to Another Trust	\$204,170	\$136,488,967



- (2) The BDOT combined with a sale from one trust to another may be superior to the technique of decanting from one trust to another trust. In some states the option of a successful decanting of a particular trust may not exist.
 - e. Consideration of the technique.
 - (1) The technique has the considerations of using the BDOT technique. *See discussion supra* Section VI.B.7.
 - (2) The technique could be disadvantageous to the beneficiaries of the withdrawing power selling trust unless they are also beneficiaries and/or the objects of their bounty are beneficiaries of the trust.
- 5. A BDOT may be able to be used as an exit strategy from a closely held family C corporation.
 - a. The technique.

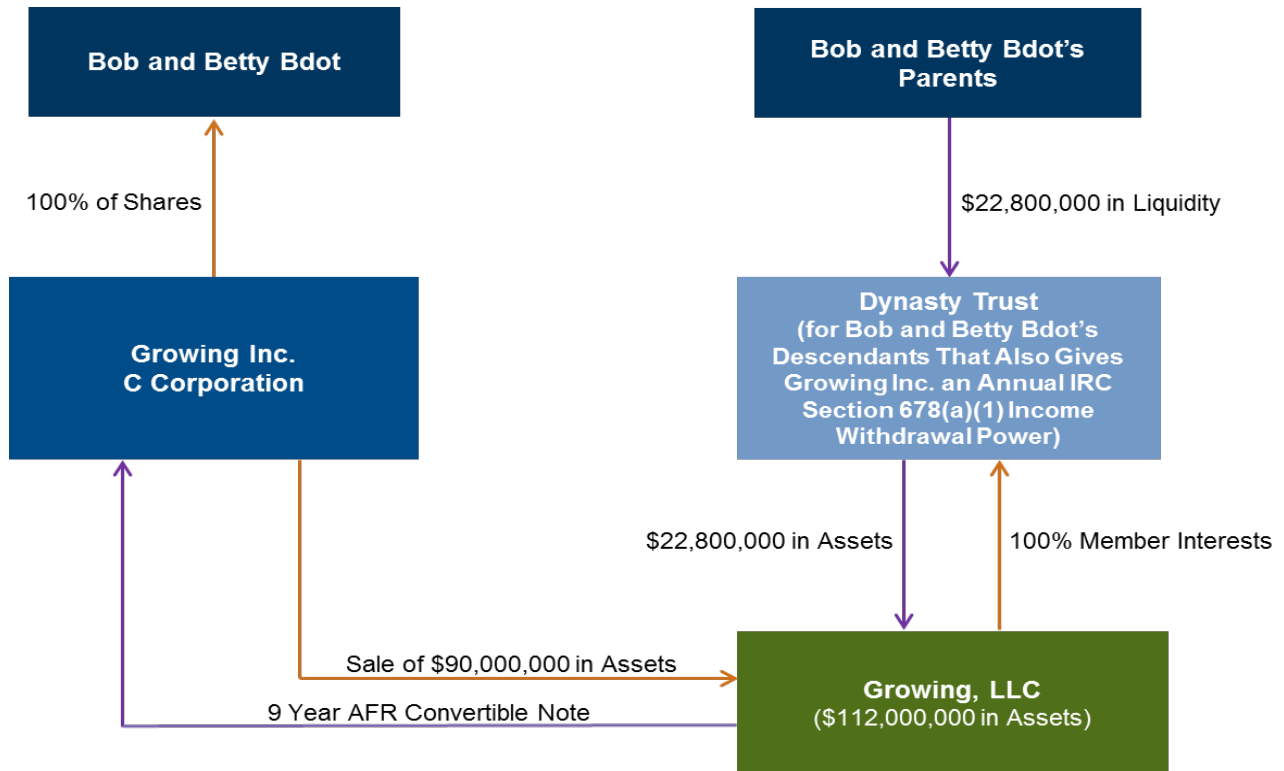
Consider the following example.

Example 15: Using a BDOT as an Exit Strategy from a C Corporation

Growing Inc. is owned by Bob and Betty Bdot. Growing Inc. has \$90,000,000 in assets, but desires additional capital. Growing Inc. is projected to annually earn 10% a year before income taxes. Third parties could create a dynasty trust (e.g., parents of Bob and Betty) for the discretionary benefit of Bob and Betty's descendants, and also gives Growing Inc. the annual lapsing right to withdraw all of the net taxable income of the trust. The dynasty trust created by Bob and Betty's parents does not have provisions which would make it a grantor trust to Bob and Betty's parents. Growing Inc. has the right to satisfy that annual lapsing withdrawal right out of all portions of the BDOT. Also consider the key assumptions infra Section III.E.3.b. The provisions of the BDOT provide that an independent trustee could terminate the C corporation's future annual lapsing rights in future years.

The BDOT creates a single member LLC. Growing Inc. through a sale, or sales, for full consideration, transfers the assets of Growing Inc. to the BDOT created LLC. The consideration that Growing Inc. receives is a note that pays an AFR interest that can be convertible at any time to that amount of member interests that are equal in value to the then outstanding principal of the note.

Example 15 is illustrated below:



b. Key Assumptions of Example 15.

- The note payable to Growing Inc.'s grantor trust could be convertible to that amount of member interests of Growing, LLC that are equal to the outstanding principal of the note.
- It is assumed that the interest rate during the life of the loan, and any refinancing of the loan, will be 2.38%.
- It is assumed the LLC assets will annually grow at 10% a year with 4 ½% of that return being taxed at ordinary rates for the next 30 years.
- It is assumed that the note will annually be serviced in a manner that allows Growing Inc. to pay its corporate income taxes.
- It is assumed that the annual lapsing withdrawal right of Growing Inc. will never exceed 5% of the net value of the BDOT. If there is ever a sale of the assets of Growing, LLC, Growing Inc. will have a significant withdrawal right, assuming the independent trustee has not, by the time

of the sale, eliminated the withdrawal right for that sale year. If the withdrawal right has not been eliminated by the independent trustee's actions, Growing Inc. could withdraw the proceeds of the realization of the capital and other taxable income above 5% of the net value of the BDOT. After paying 21% corporate taxes on that income, the net amount could perhaps be loaned by Growing Inc. to Growing, LLC.

- c. Results under the key assumptions of Example 15.
- Under Treas. Reg. § 25.2511-1(h)(1), Bob and Betty would be deemed donors for transfer tax purposes to the BDOT if Growing Inc. does not withdraw any taxable income in any taxable year that exceeds 5% of the net value of the BDOT.
 - See the table (Scenario A) below (also see attached Schedule 13). In 30 years, Growing Inc. C Corporation will have very few assets in comparison to Growing, LLC.

Table 14

	Bob & Betty Bdot's		Consumption		IRS Income Tax		Income Tax Liability of Estate		Cost Benefit of Technique (9)	Total (10)
	Children (1)	Children and Grandchildren (2)	Direct Cost (3)	Investment Opportunity Cost (4)	Direct Cost (5)	Investment Opportunity Cost (6)	Embedded Corporate Tax (7)	IRS Estate Tax (at 40%) (8)		
30-Year Future Values										
No Further Planning, Except Gift to GST	\$852,488,158	\$165,875,648	\$43,902,703	\$87,042,815	\$150,922,210	\$294,358,049	\$131,157,229	\$251,663,715	\$0	\$1,977,410,527
	\$1,018,363,806		\$130,945,518		\$445,280,259		\$382,820,944			
Hypothetical Technique - Scenario A*	\$22,282,902	\$1,524,453,937	\$43,902,703	\$87,042,815	\$163,218,176	\$325,384,223	\$0	\$14,855,268	(\$203,729,498)	\$1,977,410,527
	\$1,546,736,839		\$130,945,518		\$488,602,399		\$14,855,268			
Hypothetical Technique - Scenario B**	\$125,646,428	\$1,044,047,423	\$43,902,703	\$87,042,815	\$251,783,492	\$560,671,528	\$0	\$68,045,635	(\$203,729,498)	\$1,977,410,527
	\$1,169,693,851		\$130,945,518		\$812,455,021		\$68,045,635			
Present Values (Discounted at 2.5%)										
No Further Planning, Except Gift to GST	\$406,417,493	\$79,080,002	\$20,930,293	\$41,497,025	\$71,951,060	\$140,333,047	\$62,528,250	\$119,978,835	\$0	\$942,716,004
	\$485,497,495		\$62,427,318		\$212,284,106		\$182,507,085			
Hypothetical Technique - Scenario A*	\$10,623,211	\$726,772,263	\$20,930,293	\$41,497,025	\$77,813,072	\$155,124,548	\$0	\$7,082,140	(\$97,126,548)	\$942,716,004
	\$737,395,474		\$62,427,318		\$232,937,620		\$7,082,140			
Hypothetical Technique - Scenario B**	\$59,901,016	\$497,741,972	\$20,930,293	\$41,497,025	\$120,035,938	\$267,296,050	\$0	\$32,440,259	(\$97,126,548)	\$942,716,004
	\$557,642,987		\$62,427,318		\$387,331,988		\$32,440,259			

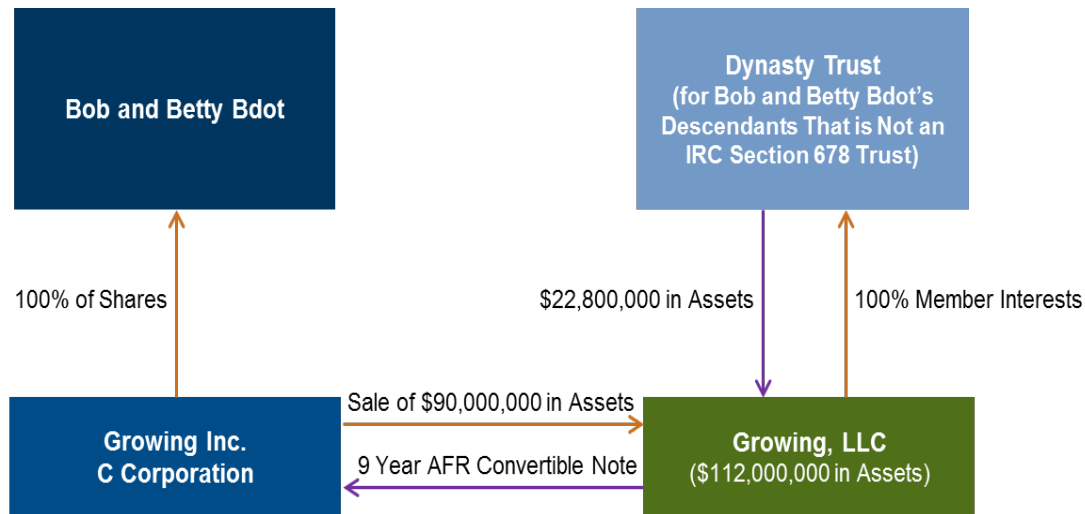
*Growing Inc. enters into a non-taxable sale of its assets to Growing, LLC which is owned by a dynasty trust.

**Growing Inc. enters into a taxable sale of its assets to Growing, LLC which is owned by a dynasty trust.

- d. Considerations of the technique.
- (1) There is no direct authority that the technique works.

- (2) If the technique does work, it may only be attractive in certain intra-family transfer situations.
- (3) IRC Sections 269 and 482 would not appear to apply.

However, the IRS, under equitable tax principles, may be able to re-characterize the transaction as a taxable sale to the LLC and that the c corporation is not the income tax owner of the LLC. However, in general, the courts are reluctant to allow the IRS to use equitable tax doctrines to override the benefits the internal revenue code clearly intends.¹²⁴ In other words, the IRS may be able to re-characterize the transaction as follows:



However, even if the IRS is able to re-characterize the transaction, the table above notes that the results are better than no further planning.

- (4) If no further planning occurs except a gift to the GST trust, see the results in table above.
6. Consider using the BDOT technique, in combination with an accumulation trust, to facilitate IRA planning for descendants.
 - a. After passage of the Secure Act, IRAs must terminate in 10 years for descendants who are older than the age of majority.
 - b. A conduit trust for a descendant who is older than the age of majority will terminate in 10 years.

¹²⁴ 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. Comm'r*, 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. Comm'r*, No. 16-1712 (6th Cir. 2017); *Wright v. Comm'r*, 804 F.3d 877 (6th Cir., 2016); and *Pilgrim's Pride Corp. v. Comm'r*, 779 F.3d 311 (5th Cir., 2015).

- c. An accumulation trust for a descendant will not have to terminate in 10 years. However, the balance in the subject IRA will all be paid to the accumulation trust after 10 years which will be taxed at the trust's high tax rate.
 - d. If the accumulation trust for the descendant is designed to be a BDOT, the IRA proceeds will be taxed at the descendant's income tax rates, which may be much lower than the trust's income tax rates.
 - e. In future years the taxable income of the trust will also be taxable at the descendant's income tax rates, which may be much lower than the trust's income tax rates.
 - f. If the beneficiary withdraws from the trust only that amount necessary to pay income taxes associated with the trust, the beneficiary will maximize the creditor protection and other benefits of the trust.
7. Using the BDOT technique to lengthen the transfer tax and income tax benefit of a grantor trust in which the grantor's spouse is a beneficiary.
- a. A grantor trust could be drafted to provide that the trust's grantor's spouse becomes an "income withdrawal beneficiary" after the grantor trust is no longer a grantor trust because of the grantor's death.
 - b. If this technique is used, the grantor should also bequeath any outstanding notes in which the grantor is the creditor of the subject trust to the grantor's spouse who becomes the "income withdrawal beneficiary."

Consider the following example:

Example 16: On the Death of the Grantor the Grantor Trust That Benefitted His Spouse is Converted to a BDOT in Which His Spouse is the Income Withdrawal Beneficiary

Sam Selfmade asks his attorney, Nancy Numbers, to compare the amount that would pass on the death of his wife, Sally, if she survives him by 15 years if a grantor trust he is going to create becomes a non-grantor trust on his death in comparison to that trust instead becoming a BDOT with Sally as the income withdrawal beneficiary, assuming she only withdraws enough to pay her income taxes. Sam asks Nancy to assume the trust will have \$15,000,000 in assets that earn 6.5% pre-income tax. The favorable results of the BDOT alternative are noted in the table below and infra Schedule 14.

Table 15
(These Calculations Assume the Proposed Surtaxes Under BBBA Are Enacted)

	Sally Selfmade's Children & Grandchildren (1)	Lifetime IRS Income Tax		Embedded Capital Gains Tax Liability (4)	Total (5)
		Direct Cost (2)	Investment Opportunity Cost (3)		
15-Year Future Values					
Grantor SLAT Becomes a Non-Grantor Trust	\$30,906,033	\$4,664,052	\$2,202,075	\$805,455	\$38,577,615
		\$6,866,127			
Grantor SLAT Becomes a BDOT	\$32,473,028	\$3,588,950	\$1,678,635	\$837,001	\$38,577,615
		\$5,267,585			
Present Values (Discounted at 3.0%)					
Grantor SLAT Becomes a Non-Grantor Trust	\$19,837,406	\$2,993,678	\$1,413,428	\$516,991	\$24,761,503
		\$4,407,106			
Grantor SLAT Becomes a BDOT	\$20,843,201	\$2,303,611	\$1,077,452	\$537,239	\$24,761,503
		\$3,381,062			

8. Using the BDOT technique to lengthen the transfer tax and income tax benefit of a grantor trust in which there is a primary beneficiary, other than the grantor's spouse.
 - a. A grantor trust could be drafted to provide that the trust's primary beneficiary becomes an "income withdrawal beneficiary" after the grantor trust is no longer a grantor trust because the retained powers by the grantor no longer apply, or because of the grantor's death.
 - b. If this technique is used, the grantor should also bequeath any outstanding notes in which the grantor is the creditor of the subject trust to the primary beneficiary who becomes the "income withdrawal beneficiary."
 - c. Consider the following example:

Example 17: On the Death of the Grantor of the Grantor Trust That Benefits His Son is Converted to a BDOT in Which His Son is the Income Withdrawal Beneficiary

Sam Selfmade asks his attorney, Nancy Numbers, to compare the amount that would pass on the death of his son, if he survives him by 25 years if a grantor trust he creates becomes a non-grantor trust on his death in comparison to that trust instead becoming a BDOT with Sonny as the income beneficiary and Sonny only withdraws enough to pay his income taxes. Sam asks

Nancy to assume that the trust will have \$15,000,000 in assets that earn 6.5% pre-income tax. The favorable result of the BDOT alternative are noted in the table below and in Schedule 15.

Table 16
(These Calculations Assume the Proposed Surtaxes Under BBBA Are Enacted)

	Sally Selfmade's Grandchildren (1)	Lifetime IRS Income Tax		Embedded Capital Gains Tax Liability (4)	Total (5)
		Direct Cost (2)	Investment Opportunity Cost (3)		
25-Year Future Values					
Grantor Trust Becomes a Non-Grantor Trust on the Death of the Grantor	\$50,166,000	\$10,781,428	\$10,157,175	\$1,310,883	\$72,415,487
		\$20,938,603			
Grantor Trust Becomes a BDOT on the Death of the Grantor	\$54,681,939	\$8,486,608	\$7,834,065	\$1,412,875	\$72,415,487
		\$16,320,673			
Present Values (Discounted at 3.0%)					
Grantor Trust Becomes a Non-Grantor Trust on the Death of the Grantor	\$23,959,561	\$5,149,270	\$4,851,123	\$626,085	\$34,586,040
		\$10,000,393			
Grantor Trust Becomes a BDOT on the Death of the Grantor	\$26,116,399	\$4,053,251	\$3,741,593	\$674,797	\$34,586,040
		\$7,794,844			

9. Post-mortem uses of BDOTs.

a. BDOT trusts created by deceased spouse for the surviving spouse.

In standard credit shelter trust planning, both the credit shelter trust and the QTIP marital deduction trust could be designed to be a BDOT for the benefit of the surviving spouse; the credit shelter trust could contribute its assets to an LLC; and, after that contribution, the QTIP marital deduction trust could sell its assets to the LLC owned by the credit shelter trust.

b. The technique.

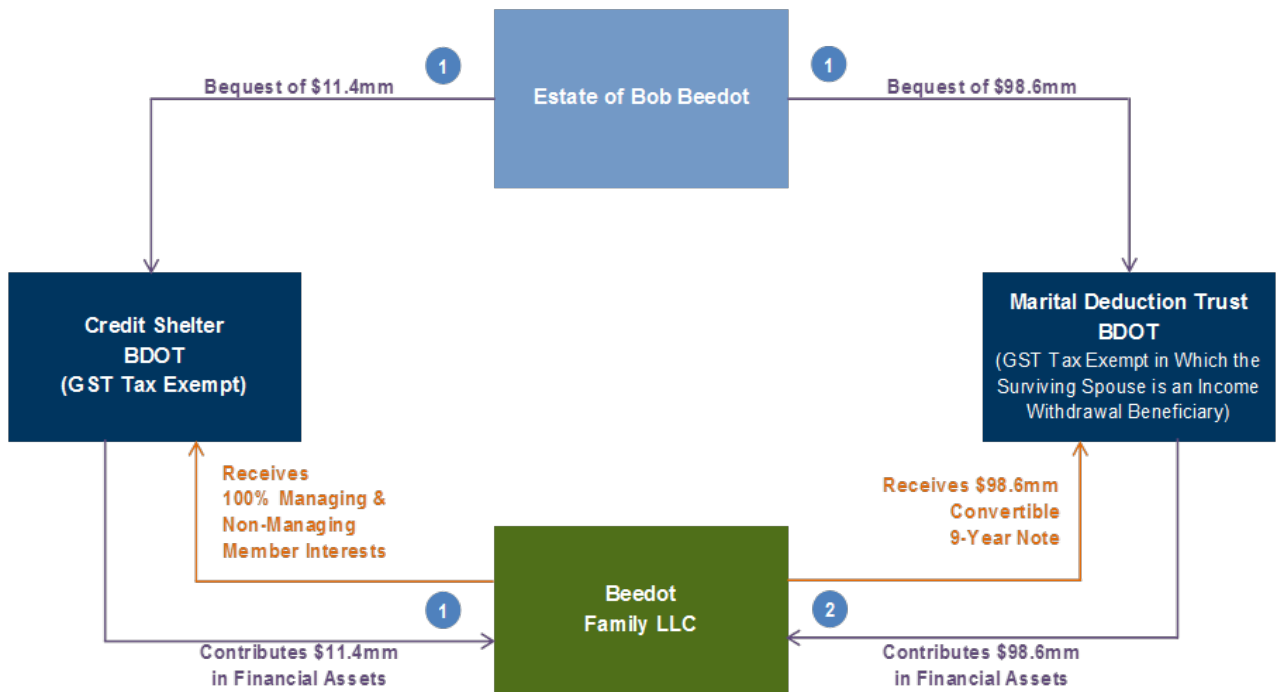
If both the credit shelter trust and the QTIP marital deduction trust are designed to be BDOTs with respect to the surviving spouse, then any sales by the QTIP marital deduction trust to an LLC owned by the two trusts will be ignored for income tax purposes. An LLC could be created by the credit shelter trust and perhaps the surviving spouse. If the QTIP marital deduction trust sells its asset to the LLC owned by 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 QTIP marital deduction trust will pass to the LLC owned by 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 QTIP marital deduction trust for her living expenses and income tax expenses, which could deplete the QTIP marital deduction trust during the surviving spouse's lifetime, if those distributions exceed the QTIP marital deduction trust's interest income. Consider the following:

Example 18: Designing Both a Credit Shelter Trust and a QTIP Marital Deduction Trust to Be a BDOT in Order to Use Leveraged Disregarded Trust Planning

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 QTIP 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 QTIP marital deduction trust to be BDOTs, and the use of sales between the trusts.

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 credit shelter trust could create a single member LLC with managing and non-managing interests (Transaction 1 below). The QTIP marital deduction trust could sell its assets to the LLC owned by the credit shelter trust (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:



- c. Income tax and basis enhancing advantages of the technique.
- (1) 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.
 - (2) 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.
 - (3) All of the income tax and basis enhancing advantages of creating an IDGT are present with this technique.
- d. Transfer tax advantages of the technique.
- (1) 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 QTIP marital deduction trust that is taxed as a complex trust.

Using the synergies of a sale of the QTIP marital deduction assets to the credit shelter trust's LLC paying the notes with pre-income tax dollars, with the surviving spouse paying all of the income taxes. Youra's calculations indicate that \$31,209,383 in estate taxes could be saved with this technique, assuming Dot lives 10 years after the death of Bob in comparison to traditional credit shelter and QTIP planning. See the table below and attached Schedule 16.

Table 17

	Beneficiaries		Consumption		IRS Income Tax		Tax Liability of Estate		Total
	Beedot Children	Beedot Children & Grandchildren	Direct Cost	Investment Opportunity Cost	Direct Cost	Investment Opportunity Cost	Embedded Capital Gains Tax	IRS Estate Tax (@ 40%)	
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 QTIP marital deduction trust	\$86,316,764	\$33,626,679	\$11,203,382	\$4,344,673	\$22,869,455	\$8,306,361	\$401,492	\$57,544,509	\$224,613,316
	\$119,943,444		\$15,548,055		\$31,175,816		\$57,946,001		
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 creates an LLC; the marital deduction trust sells assets to the LLC	\$39,502,690	\$107,033,451	\$11,203,382	\$4,344,673	\$24,254,461	\$8,306,361	\$3,633,172	\$26,335,126	\$224,613,316
	\$146,536,141		\$15,548,055		\$32,560,822		\$29,968,298		

- (2) The surviving spouse's rights with respect to assets owned by the QTIP marital deduction trust and the credit shelter trust, and cash flows produced by those assets, are substantial.
- e. Considerations of the technique.
- (1) This technique has the same considerations as the creation of a BDOT and a sale to an LLC owned by a BDOT.
 - (2) 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, unless gross estate inclusion can be toggled on in order to restore gift tax exemption.
 - (3) The QTIP marital deduction trust must also give the surviving spouse the right to withdraw all the trust's accounting income for life in addition to giving the surviving spouse the right to withdraw the net taxable income for life.

A spouse's right to withdraw accounting income satisfies the regulations applicable to marital trusts, including QTIP trusts.¹²⁵ Another alternative is to give the surviving spouse the right to withdraw the net taxable income and to require the accounting income to be distributed. If accounting income is required to be distributed, and if the surviving spouse is also given the right to withdraw the net taxable income, does the trust remain a wholly grantor trust under IRC Section 678 because of the spouse's power to withdraw net taxable income? The answer should be yes, because the grantor trust rules prevail over the otherwise applicable trust rules.¹²⁶

C. Income Tax Advantages of the Technique.

1. The technique has all of the income tax advantages of the SIDGT technique or the LAIDGT technique.

The BDOT is treated as a grantor trust to the beneficiary based on IRC Section 678, which is basically a codification of the *Mallinckrodt* case.¹²⁷ Thus, a sale by the beneficiary of the BDOT to the BDOT, under the regulations under IRC Sections 671-677, 678 and 1001, would appear to have the same advantages as the SIDGT technique or the LAIDGT technique.

Revenue Ruling 85-13, 1985-1 C.B. 184, citing the authority of *Dobson v. Commissioner*, 1 B.T.A. 1082 (1925) and other authorities concluded that "a transaction cannot

¹²⁵ See Treas. Reg. §§ 20.2056(B)-5(f)(8) and 20.2056(B)-7(d)(2).

¹²⁶ See Treas. Reg. § 1.671-2(d).

¹²⁷ *Mallinckrodt v. Nunan*, 146 F.2d 1 (8th Cir. 1945).

be recognized as a sale for income tax purposes if the same person is treated as owning the purported consideration both before and after the transaction.” (Emphasis added.) Under the facts of that ruling the grantor has control over, and the use of, the entire corpus. The ruling considers whether transactions a grantor has with a grantor trust are disregarded for income tax purposes. The ruling holds that transactions and other activities by the grantor of the trust, with respect to a grantor trust, will be disregarded. The ruling also cited several authorities, which hold that when the grantor of a grantor trust is treated as the income tax owner of the trust for income tax purposes, the grantor is also considered the owner of the trust assets for income tax purposes.

The analysis of Rev. Rul. 85-13 with respect to the tax nature of a grantor’s transactions with a grantor trust is contrary to the Second Circuit’s analysis in *Rothstein v. United States*, 735 F.2d 704 (2nd Cir. 1984). In that case, the Second Circuit held that while a grantor of a grantor trust is treated as the owner of a grantor trust’s assets for purposes of determining income, deductions, and credits attributable to the trust, the grantor trust is not disregarded for income tax purposes with respect to any transactions or activities the trust may have with the grantor. The IRS in Rev. Rul. 85-13 announced it would not follow the analysis in *Rothstein*.

2. What does it mean for a “portion” to be treated as owned under IRC Section 678?

In the context of the holding of Rev. Rul. 85-13 what does the term “portion” mean when that term is used in IRC Section 678? Does it mean, under IRC Section 678(a)(1), “income” portion as opposed to “corpus” portion that the beneficiary is the deemed income tax owner of? Or does it mean, under IRC Section 678(a)(1), that undivided interest of the trust that the beneficiary is the deemed income tax owner of in which a person could vest in himself either that undivided interest’s corpus income or ordinary income? It would appear that it means the beneficiary is the deemed owner for income tax purposes of that undivided interest of the trust.

Perhaps the beginning point of the analysis of what is the meaning of the term “portion” under IRC Section 678(a)(1), is Treas. Reg. § 1.678(a)-1(a). The key part of the first sentence of that regulation provides “where a person other than the grantor of a trust has a power exercisable solely by himself to vest ... the income of any portion of a ... trust in himself, he is treated under section 678 (a) as the owner of that portion” (Emphasis added.)

The last sentence of Treas. Reg. § 1.678(a)-1(a) incorporates, for purposes of IRC Section 678(a)(1), the grantor trust rules, which describe generally how the income tax rules work under IRC Section 671(a)(1) for any deemed income tax owner of any portion of a trust under IRC Section 671, Treas. Reg. §§ 1.671-2 and 1.671-3. These rules apply also in determining the treatment for any deemed income tax owner of any portion of an IRC Section 678(a)(1) trust: “See [IRC] 671 and [Treas. Reg.] §§ 1.671-2 and 1.671-3 for rules for treatment of items of income, deductions and credit where a person is treated as the owner of all or only a portion of a trust.”

See also the authorities under Footnote 35 where it notes that Treas. Reg. § 1.1001-2(c) Example 5 established by regulation the position in Rev. Rul. 77-402 that the grantor of a grantor trust is “the owner of all property for federal income tax purposes.” Presumably, that is true

even if the grantor of the grantor trust only has powers or rights over the ordinary income and capital gains income of the trust and does not have powers or rights over the corpus of the trust. See IRC Sections 677(a)(1) and (a)(2).

Similar to IRC Sections 677(a)(1) and (a)(2), under IRC Section 678(a)(1), an Income Withdrawal Right Beneficiary may only have the right to vest taxable income (*i.e.*, ordinary income and capital gains income), and not corpus, in himself, but that is enough for the Income Withdrawal Right Beneficiary to be the deemed owner for income tax purposes of all of the trust property. For instance, assume a grantor of a trust that is taxed under IRC Section 677(a)(1) in which the grantor's spouse has a right to receive the income of the trust, but not the corpus (e.g., a QTIP trust). If the grantor purchases a highly appreciated asset from that IRC Section 677(a)(1) trust for a long term note that is adequately secured with a fair market interest rate (and thus, IRC Section 675 does not apply) that purchase will be disregarded by the IRS from income tax purposes even though the spouse has no rights over the corpus. Otherwise, a significant basis benefit, and a pre-tax compounding benefit, might accrue (see the IRS reasoning and policy reasons of the IRS in Rev. Rul. 85-13).

If IRC Section 671, Treas. Reg. §§ 1.671-2 and 1.671-3 are incorporated in analyzing the operation of IRC Section 678, then the rationale of Rev. Rul. 85-13 for not recognizing a taxable sale by the deemed owner would also seem to apply. Since an Income Withdrawal Right Beneficiary has the power to withdraw the taxable income from all trust assets and the power to satisfy that withdrawal right from either the accounting income, sale proceeds of the corpus, or the corpus of all portions of the trust, that Income Withdrawal Right Beneficiary should be the deemed income tax owner of all of the assets of the subject trust, including any consideration that is sold to the trust.¹²⁸ It does not matter under Rev. Rul. 85-13 whether IRC Section 671 applies because of a grantor's retention of rights and powers over corpus, corpus and income, or ordinary income and capital gains income only (*see* IRC Section 677). Similar to the application of Rev. Rul. 85-13 to an income only IRC Section 677 trust, it would appear Rev. Rul. 85-13 should apply to an IRC Section 678(a)(1) trust that is structured with an Income Withdrawal Right Beneficiary who only has powers and rights to vest ordinary income and capital gains income.

Certain of the key provisions of Treas. Reg. §§ 1.671-2 and 1.671-3, which are applied to IRC Section 678(a)(1) by the regulations under IRC Section 678(a)(1), are as follows:

“§ 1.671-2 Applicable principles.

(a) Under IRC Section 671 a grantor or another person includes in computing his taxable income and credits those items of income, deduction, and credit against tax which are attributable to or included in any portion of a trust of which he is treated as

¹²⁸ Indirect support for this conclusion can also be found in *Bennett v. Comm'r*, 79 TC 470 (1982), which held that a grantor was treated as the owner of a larger portion of the trust than the portion that the grantor had actually borrowed. By the same reasoning, the deemed ownership of an Income Withdrawal Right Beneficiary should be greater than the amounts that he or she may actually withdraw. Further support can be drawn from PLR 201633021, in which a power to withdraw “any dividends, interest, fees” and other amounts of fiduciary accounting income created deemed ownership over all income of a trust, including capital gains income.

the owner. IRC Sections 673 through 678 set forth the rules for determining when the grantor or another person is treated as the owner of any portion of a trust. The rules for determining the items of income, deduction, and credit against tax that are attributable to or included in a portion of the trust are set forth in §1.671-3.

(b) Since the principle underlying subpart E (IRC Section 671 and following), part I, subchapter J, chapter 1 of the Code, is in general that income of a trust over which the grantor or another person has retained substantial dominion or control should be taxed to the grantor or other person rather than to the trust which receives the income or to the beneficiary to whom the income may be distributed, it is ordinarily immaterial whether the income involved constitutes income or corpus for trust accounting purposes. . . .” (Emphasis added.)

“§ 1.671-3 Attribution or inclusion of income, deductions, and credits against tax.

(a) When a grantor or another person is treated under subpart E (section 671 and following) as the owner of any portion of a trust, there are included in computing his tax liability those items of income, deduction, and credit against tax attributable to or included in that portion.” (Emphasis added.)

Under Section 671, Treas. Reg. §§ 1.671-2 and 1.671-3 there does not appear to be any difference in the key characteristics of how a grantor of an IRC Section 677 grantor trust is treated and an Income Withdrawal Right Beneficiary of a BDOT is treated, if the withdrawal right is of ordinary income and capital gains income generated by all trust assets and if all portions of the trust can be used to satisfy the withdrawal right.

While there may be transfer tax differences between a corpus withdrawal beneficiary and an Income Withdrawal Right Beneficiary of a BDOT, there do not appear to be any income tax differences. As a consequence, the Income Withdrawal Right Beneficiary of the BDOT under Example 15 should be considered, for income tax purposes, as the owner of the low basis asset both before and after the sale. Under the reasoning of Rev. Rul. 85-13 the sale should be disregarded for income tax purposes.

3. Sales to a Single-Member LLC owned by grantor trusts or BDOTs as alternative technique if Rev. Rul. 85-13 is revoked by the IRS or deemed not to apply to BDOTs.

Rev. Rul. 85-13 is an IRS analysis of a grantor deemed owner trust and whether activities and transactions by a grantor are disregarded. However, under IRC Sections 671-678 and the regulations thereunder, there is no explicit authority that activities and transactions by a grantor are to be disregarded. What if the IRS argued that it is not bound by Rev. Rul. 85-13 with respect to an Income Withdrawal Right Beneficiary of a BDOT and it will follow the analysis in *Rothstein*?

If the taxpayer is worried about that potential IRS argument, the taxpayer should consider selling to a single member LLC that is created by a BDOT in which the taxpayer is considered the deemed income tax owner. It appears the writer of the regulations in 1996, dealing with single member LLCs, clearly rejected the Rothstein court’s analysis, which was decided 12 years

earlier, with respect to activities and transactions with single member LLCs. See Treas. Reg. § 301.7701-3(a); Treas. Reg. § 301.7701-3(b)(1)(ii) and Treas. Reg. § 301.7701-2(a). The “disregarded” income tax protection of a single member LLC is broader than the grantor trust income tax protection. The regulations make clear not only that the income, deductions and credits of the single member LLC are treated as if the income tax owner of the LLC owns the assets of the LLC, but in addition that all activities and transactions that the LLC has with the LLC owner are treated for income tax purposes as if those transactions were transactions a sole proprietor would have with himself. In particular, Treas. Reg. § 301.7701-2 provides:

“Its *activities* are treated in the same manner a sole proprietorship . . . of the owner. (Emphasis added.)

In other words, the *Rothstein* court’s reasoning as to why “activities” should not be disregarded with respect to grantor trusts should not apply to activities with respect to single member LLCs.

Assuming the Income Withdrawal Right Beneficiary of a BDOT is considered the income tax owner of any single member LLC formed by the BDOT (see the above analysis), then the above single member LLC income tax regulations would appear to be authority for the proposition that any sale or similar activity by the Income Withdrawal Right Beneficiary of a low basis asset to a single member LLC owned by a BDOT should also be disregarded.

This analysis seems compelling at a technical level, but it has yet to be approved by the IRS or a court. It remains possible that the IRS or a court would take a policy-oriented “big picture” approach and ask why, if a sale by the Income Withdrawal Right Beneficiary to the BDOT would not be disregarded, putting a disregarded entity between the Beneficiary and the BDOT should alter the result.

Summary of conclusions.

- Case law, regulatory and revenue ruling authorities provide that if a taxpayer sells an asset, and if that taxpayer is deemed to be the income tax owner of that asset both before and after the sale, that sale is disregarded for income tax purposes.
- IRC Section 678(a)(1) provides that a person who has the right to vest income of an undivided portion of a trust shall be treated as the income tax owner of that undivided portion.
- Since IRC Section 678(a)(1) and Treas. Reg. § 1.678(a)-1 provide that IRC Section 671, Treas. Reg. §§ 1.671-2 and 1.671-3 apply to an IRC Section 678(a)(1) trust, the Income Withdrawal Right Beneficiary of the IRC Section 678(a)(1) trust should be treated the same as a grantor of a grantor trust. There do not appear to be any income tax differences between a corpus withdrawal beneficiary and an Income Withdrawal Right Beneficiary of the IRC Section 678(a)(1) trust.
- There is no specific regulatory authority under either IRC Section 671, Treas. Reg. §§ 1.671-2 or 1.671-3 that activities and transactions that either a grantor of a grantor trust has with that grantor trust, or an Income Withdrawal Right Beneficiary has with

an IRC Section 678(a)(1) trust, are to be disregarded for income tax purposes. There is case law authority that those activities should not be disregarded. *See Rothstein v. United States*, 735 F.2d 704 (2nd Cir 1984).

- There is authority under Rev. Rul. 85-13, 1985-1 CB 184 that activities and transactions that a grantor has with a grantor trust are disregarded because the taxpayer owns the asset before and after the transaction. The analysis inherent in that revenue ruling should indicate that activities and transactions that an Income Withdrawal Right Beneficiary has with an IRC Section 678(a)(1) trust should also be disregarded. PLR 202022002 (May 29, 2020) arguably supports that analysis.
- There is specific regulatory authority that activities and transactions that a deemed income tax owner of a single member LLC has with that LLC are disregarded for income tax purposes. That regulatory authority is broader than the regulatory authority that exists for activities and transactions a grantor has with a grantor trust. That regulatory authority is also broader than the regulatory authority that exists for activities and transactions an Income Withdrawal Right Beneficiary has with an IRC Section 678(a)(1) trust.
 4. Failing to take the withdrawing income is not relevant to the IRC Section 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.¹²⁹

5. 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.
6. The BDOT has many income tax advantages that a complex trust does not have.
 - a. The taxable income is taxed at the beneficiary's marginal income tax rate, which is frequently lower than the trust's marginal federal income tax rate.
 - b. The taxable income is taxed at the beneficiary's marginal state income tax rate, which is frequently lower than the trust's marginal state income tax rate.

The beneficiary may move to a state with low or no state income taxes and the concerns with a high-income tax state's "resident trust" requirement would be eliminated.

¹²⁹ *Trust No. 3 v. Comm'r*, 285 F.2d 102 (7th Cir., 1960).

- c. The beneficiary of a BDOT can take an IRC Section 179 expense deduction while a complex trust's ability to take that deduction is limited.¹³⁰
- d. 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 may not apply while under the same circumstances it may apply to a complex trust.
- e. The BDOT can be a shareholder of an S corporation without some of the considerations of an ESBT or a QSST.

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.

- 7. Capital losses can be passed through to the beneficiary of the BDOT.

Assets that have a capital loss could be distributed in kind.

- 8. The capital gains benefit of a residence that is inherent under IRC Section 121 will be available to sales of residences owned by a BDOT.
- 9. There are increased opportunities for charitable planning because the inherent limitations under IRC Section 642(c) will be eliminated.

The beneficiary can withdraw assets that accrued from sources other than gross income in satisfaction of its withdrawal rights, and those assets can then be contributed by the beneficiary to charities.

- 10. A BDOT should avoid overlapping state fiduciary income taxation.

The beneficiary-owner, however, could be subject to overlapping state individual income taxation.

- 11. Other uses of beneficiary-owned trusts.
 - a. Interest-free loans to beneficiary.
 - (1) The potential problem.

The treatment of a below-market loan from a trust to a beneficiary of the trust to whom distributions of income may or are required to be made is not clear. Although beneficiary loans are not specifically listed in the portion of IRC Section 7872 that lists the below-market loans to which IRC Section 7872 applies, there is some concern that the IRS could take the position

¹³⁰ IRC Section 179(d)(4).

that they are “tax avoidance loans.” A tax avoidance loan is any below-market loan one of the principal purposes of which is the avoidance of any Federal tax. It could be argued that the principal purpose of an interest free beneficiary loan is to provide the beneficiary with interest-free enjoyment of the loaned funds. But the trustee could, if income taxes were not considered, arrange for the same interest-free enjoyment by distributing the interest paid by the beneficiary back to the beneficiary.

(2) The beneficiary-owned trust solution.

If the beneficiary is treated as the owner of a trust, loans from the trust to the beneficiary should be ignored for income tax purposes. If it is undesirable to give the beneficiary complete income tax ownership of the trust, ownership could be limited to the income from that portion of the trust that the trustee intends to lend to the beneficiary.

12. Beneficiary ownership of state source income.

a. The Potential problem.

At least two states, New Jersey and New York, impose state income tax on trusts that were funded by state domiciliaries if the trusts earn income that is sourced within the state.¹³¹ When trusts invest in pass-through entities, it is difficult to ensure that at least some small portion of the trust’s share of the pass-through entities’ income will not consist of income sourced in one of these states.

b. The beneficiary-owned trust solution.

Give one of the beneficiaries of the trust a withdrawal power over all income sourced in New York, in the case of a trust funded by a New York domiciliary, or sourced in New Jersey in the case of a trust funded by a New Jersey domiciliary. If this is done, IRC Section 678 should cause the trust income sourced in the applicable state to be treated as owned for income tax purposes by the beneficiary, not the trust. When the trust files its annual Form 1041, it will not include in its gross income the state sourced income treated as owned by the beneficiary. It will show that portion of the income as owned by the beneficiary on a separate schedule attached to the Form 1041.

c. Difficulty that source income may not be traceable.

Practical problems may be suggested by the fact that although the pass-through entity will show the trust as having received state sourced income, the trust is unlikely to ever receive a distribution clearly traceable to that income. That raises the question as to how the beneficiary’s withdrawal right can have any economic significance. One solution is to have the beneficiary sell his or her right to receive the state sourced income back to the trust. Because the beneficiary is required to include the state sourced income in his or her gross income, the beneficiary will have a basis in the right to that income equal to the amount of the income. The

¹³¹ NY Tax L. § 605 (b)(3)(D); NJSA §§ 54A:1-2(o)(2)–(3), 54A:2-1(b)(6); instructions to 2018 Form NJ-1041 at 1, 24.

payment from the trust to the beneficiary in exchange for that right should not cause the beneficiary to recognize any additional income.

D. Considerations for all BDOT techniques.

1. Avoiding a wealth transfer tax caused by lapse of a general power.

In order to receive the lapse of power transfer tax protection of IRC Sections 2041(b)(2) and 2514(e)(2), it is important that the withdrawal power applies against all of the income earned by all of the BDOT trust assets and can be satisfied from the trust's accounting income, sale proceeds of the corpus of the BDOT trust, and corpus of the BDOT trust. Because the beneficiary has a right to withdraw trust income, IRC Section 2036(a) could apply to a contribution to the trust by the beneficiary other than a bona fide sale for full and adequate consideration. It is therefore 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. See below for a discussion of the third requirement of whether creditors can reach those fund.

In order to meet the statutory requirements of IRC Sections 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 Sections 2041(b)(2) and 2514(e)(2). Secondly, the use of hanging powers of withdrawal could also mitigate the transfer tax issue.

Rev. Rul. 66-87¹³² 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. See Treas. Reg. § 25.2514-3(c)(4).

In light of the above considerations, the beneficiary of a BDOT who does not wish to be out of pocket gift taxes or income taxes on a net basis, may wish to notify the trustee of the

¹³² Rev. Rul. 66-87, 1966-1 C.B. 217.

BDOT, in any calendar year, that he or she desires to withdraw in satisfaction of the beneficiary's withdrawal right that amount of the accounting income, proceeds of corpus sales and/or corpus 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.

2. Adverse transfer tax consequences if creditors can reach BDOT assets.

Creditors might, under state law, have the right to reach BDOT assets either because withdrawals were not taken or because a sale was for inadequate consideration. In both of those circumstances the BDOT beneficiary would become a deemed settlor of a portion of the BDOT in addition to the original settlor. The amount that could be included in the BDOT beneficiary's estate, if the sale is for inadequate consideration may be considerable, depending on the growth of the asset that is sold between the time of the sale and the beneficiary's death. Because of the operation of IRC Sections 2036 and 2043, the full value of the sold asset will be included in the beneficiary's estate minus the value of the note at the time of the sale. In that event, the 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.

Even if an assigning beneficiary does not have any current creditors, or any future creditors, if the assigning 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 beneficiary's estate for estate tax purposes. In addition to arguing that the sale is not for adequate and full consideration for gift tax purposes, the IRS could take the position the sale is not adequate for creditor protection purposes under the relevant state property law.

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.

Of course, independent of creditor rights considerations, a sale for inadequate consideration by the withdrawing beneficiary will include the full value of the BDOT at the withdrawing beneficiary's death minus the original value of the note receivable because of the withdrawing beneficiary's retained income rights. *See* IRC Sections 2036(a)(1) and 2043. In order to avoid the consequences of a sale for inadequate consideration, strong consideration should be given to the BDOT beneficiary using a defined value allocation assignment or a defined dollar transfer when he makes the sale.

3. The sale of assets to a BDOT has most of the considerations of a LAIDGT or SIDGT, with the following exceptions,
 - a. 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, may make the gift an incomplete gift.
 - b. The disregarded income tax status can remain longer because of the seller's beneficial interest in the trust, which is not the case with the SIDGT or LAIDGT techniques.

There is a greater safety valve protection for the BDOT seller's lifestyle needs because the seller is also a beneficiary of the BDOT.

- c. There may be a greater opportunity to convert the retained note to a private annuity.
4. It may be important to have an independent trustee of the BDOT, or a protector who has the power to remove the withdrawal beneficiary's power to withdraw net taxable income for a future year or years.

An independent trustee, or a protector, exercising that power could protect the trust from the beneficiary's creditors and protect the trust from a significant withdrawal if it is anticipated that there will be taxable income from a future significant realization event. However, if the independent trustee has not negated the beneficiary's withdrawal power, and if there is a significant realization event, the beneficiary could withdraw that amount of taxable income above 5% of the trust assets, pay the associated tax and then loan the difference back to the BDOT. Consider the following example:

Example 19: If a Significant Sale Which Will Generate Significant Taxes Will Occur is it Better Over a Thirty Year Period That an Existing BDOT Convert to a Non-Grantor Trust for Thirty Years (Scenario A) Convert to a Non-Grantor Trust for One Year and Back to a BDOT for Twenty-Nine Years (Scenario B), or Remain a BDOT for Thirty Years with a Significant Distribution in Year One Above 5% of the Value of the BDOT and the BDOT Beneficiary Loans the Net Proceeds After Income Taxes Back to the BDOT

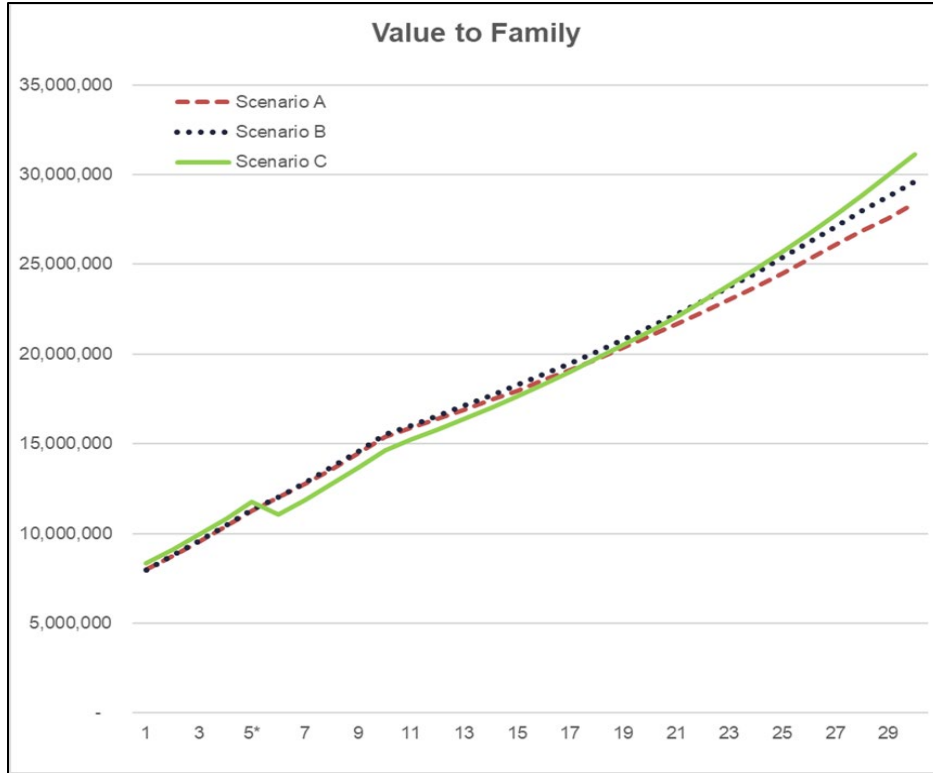
Jim Smith currently earns \$1,000,000 a year and has a 30-year life expectancy. His estate is currently \$4,000,000. Jim needs \$300,000 a year for his consumption needs. Jim plans to work for 10 more years. Jim is also a beneficiary of a BDOT that is GST exempt and has \$5,000,000 in zero basis assets. The independent trustee informs Jim that in the coming year those assets will be sold. Under those circumstances, what actions should be taken by the independent trustee and Jim to maximize the value of the BDOT in 30 years. Assume the proceeds of the sale annually earn 6.5% before taxes. Of that 6.5% return, assume 0.15% is taxed at ordinary rates, 1.35% is tax free, 1% is taxed at dividend rates and 4.0% is taxed at capital gains rates with a 30% turnover rate. The independent trustee has the power to convert the BDOT to a non-grantor trust.

The advisors for the independent trustee and Jim explore what actions each could take to maximize the value of the BDOT that is a GST trust. Is the best course of action for the independent trustee to convert the BDOT to a non-grantor trust for 30 years (Scenario A)? Is the best course of action for the independent trustee to convert the BDOT to a non-grantor trust for only one year with Jim in the future 29 years withdrawing from the trust during the BDOT year only that amount necessary to pay his income taxes (Scenario B)? Or, is the best course of action for the independent trustee to not convert the BDOT to a non-grantor trust and have Jim withdraw trust assets above 5% of the value of the trust assets and pay the taxes on the sale, loan the net proceeds back to the trust and in the future not withdraw any amounts from the BDOT to pay income taxes and rely on the payments on the note to provide the cash flow to pay his income taxes (Scenario C)?

As the following table and line graph illustrate, under the above facts, Scenario C produces the best result for the future beneficiaries of the subject trust assuming Jim lives longer than 16 years (*see* Schedule 17).

Table 18

	Smith		Consumption		Lifetime IRS Income Tax		Tax Liability of Estate		Total
	Children (1)	Children & Grandchildren (2)	Direct Cost (3)	Investment Opportunity Cost (4)	Direct Cost (5)	Investment Opportunity Cost (6)	Embedded Capital Gains Tax Liability (7)	IRS Estate Tax (at 40.0%) (8)	
30-Year Future Values									
Scenario A	\$0	\$28,037,050	\$14,272,625	\$21,616,836	\$13,000,803	\$33,906,327	\$359,525	\$0	\$111,193,165
	\$28,037,050		\$35,889,460		\$46,907,130		\$359,525		
Scenario B	\$0	\$29,221,227	\$14,272,625	\$21,616,836	\$12,538,242	\$33,155,406	\$388,830	\$0	\$111,193,165
	\$29,221,227		\$35,889,460		\$45,693,648		\$388,830		
Scenario C	\$105,293	\$30,569,161	\$14,272,625	\$21,616,836	\$12,451,497	\$31,629,902	\$477,656	\$70,196	\$111,193,165
	\$30,674,454		\$35,889,460		\$44,081,399		\$547,852		
Present Values (Discounted at 3.0%)									
Scenario A	\$0	\$11,550,893	\$5,880,132	\$8,905,850	\$5,356,159	\$13,968,958	\$148,120	\$0	\$45,810,112
	\$11,550,893		\$14,785,982		\$19,325,117		\$148,120		
Scenario B	\$0	\$12,038,759	\$5,880,132	\$8,905,850	\$5,165,590	\$13,659,588	\$160,193	\$0	\$45,810,112
	\$12,038,759		\$14,785,982		\$18,825,178		\$160,193		
Scenario C	\$43,380	\$12,594,089	\$5,880,132	\$8,905,850	\$5,129,852	\$13,031,101	\$196,788	\$28,920	\$45,810,112
	\$12,637,469		\$14,785,982		\$18,160,953		\$225,708		



The above example illustrates that whether or not BDOT status is to end by the actions of an independent trustee, and for how long, needs to be carefully analyzed.

Schedule 1

Fund is Owned by Investor and is Not Subject to Estate Taxes

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Tax Aware Managed Fund 30% Turnover	Hedge Fund 100% 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	10.500%	11.293%	11.597%	15.281%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	10.500%	11.293%	11.597%	15.281%
Turnover Rate (% of Capital Gains Recognized/Year) - Years 1-9	5.000%	20.000%	30.000%	100.000%
Turnover Rate (% of Capital Gains Recognized/Year) - Year 10	100.000%	100.000%	100.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Dividend Income 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%
Increase Over Indexed Fund	N/A	7.55%	10.45%	45.54%
Increase Over Active Beta Indexed Fund	N/A	N/A	2.70%	35.32%
Increase Over Tax Aware Managed Fund	N/A	N/A	N/A	31.77%

Indexed Fund - 5% Turnover - 10.500% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-20 - Realized Gains are 100% Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	End of Year
Year 1	1,000,000	20,000	105,000	(6,902)	1,118,098
Year 2	1,118,098	22,362	117,400	(7,906)	1,249,954
Year 3	1,249,954	24,999	131,245	(9,966)	1,396,232
Year 4	1,396,232	27,925	146,604	(12,207)	1,558,554
Year 5	1,558,554	31,171	163,648	(14,649)	1,738,725
Year 6	1,738,725	34,774	182,566	(17,317)	1,938,748
Year 7	1,938,748	38,775	203,569	(20,240)	2,160,852
Year 8	2,160,852	43,217	226,889	(23,446)	2,407,512
Year 9	2,407,512	48,150	252,789	(26,971)	2,681,481
Year 10	2,681,481	53,630	281,555	(30,850)	2,985,816
Year 11	2,985,816	59,716	313,511	(35,125)	3,323,918
Year 12	3,323,918	66,478	349,011	(39,842)	3,699,566
Year 13	3,699,566	73,991	388,454	(45,051)	4,116,960
Year 14	4,116,960	82,339	432,281	(50,810)	4,580,770
Year 15	4,580,770	91,615	480,981	(57,181)	5,096,185
Year 16	5,096,185	101,924	535,099	(64,233)	5,668,975
Year 17	5,668,975	113,380	595,242	(72,044)	6,305,553
Year 18	6,305,553	126,111	662,083	(80,700)	7,013,046
Year 19	7,013,046	140,261	736,370	(90,296)	7,799,381
Year 20	7,799,381	155,988	818,935	(1,313,405)	7,460,899

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Tax Aware Managed Fund 30% Turnover	Hedge Fund 100% 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	10.500%	11.293%	11.597%	15.281%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	10.500%	11.293%	11.597%	15.281%
Turnover Rate (% of Capital Gains Recognized/Year) - Years 1-9	5.000%	20.000%	30.000%	100.000%
Turnover Rate (% of Capital Gains Recognized/Year) - Year 10	100.000%	100.000%	100.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Dividend Income 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%
Increase Over Indexed Fund	N/A	7.55%	10.45%	45.54%
Increase Over Active Beta Indexed Fund	N/A	N/A	2.70%	35.32%
Increase Over Tax Aware Managed Fund	N/A	N/A	N/A	31.77%

Active Beta Indexed Fund - 20% Turnover - 11.293% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-20 - 10% of Realized Gains are Short Term and 90% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	End of Year
Year 1	1,000,000	20,000	112,926	(13,975)	1,118,951
Year 2	1,118,951	22,379	126,359	(16,378)	1,251,311
Year 3	1,251,311	25,026	141,306	(22,004)	1,395,639
Year 4	1,395,639	27,913	157,604	(27,519)	1,553,636
Year 5	1,553,636	31,073	175,446	(33,044)	1,727,111
Year 6	1,727,111	34,542	195,036	(38,687)	1,918,003
Year 7	1,918,003	38,360	216,593	(44,549)	2,128,407
Year 8	2,128,407	42,568	240,353	(50,724)	2,360,603
Year 9	2,360,603	47,212	266,574	(57,306)	2,617,083
Year 10	2,617,083	52,342	295,537	(64,385)	2,900,576
Year 11	2,900,576	58,012	327,551	(72,054)	3,214,084
Year 12	3,214,084	64,282	362,954	(80,408)	3,560,912
Year 13	3,560,912	71,218	402,120	(89,545)	3,944,705
Year 14	3,944,705	78,894	445,460	(99,571)	4,369,488
Year 15	4,369,488	87,390	493,429	(110,599)	4,839,707
Year 16	4,839,707	96,794	546,529	(122,750)	5,360,280
Year 17	5,360,280	107,206	605,316	(136,157)	5,936,645
Year 18	5,936,645	118,733	670,402	(150,962)	6,574,817
Year 19	6,574,817	131,496	742,468	(167,325)	7,281,457
Year 20	7,281,457	145,629	822,267	(788,454)	7,460,899

Schedule 1

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Tax Aware Managed Fund 30% Turnover	Hedge Fund 100% 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	10.500%	11.293%	11.597%	15.281%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	10.500%	11.293%	11.597%	15.281%
Turnover Rate (% of Capital Gains Recognized/Year) - Years 1-9	5.000%	20.000%	30.000%	100.000%
Turnover Rate (% of Capital Gains Recognized/Year) - Year 10	100.000%	100.000%	100.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Dividend Income 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%
Increase Over Indexed Fund	N/A	7.55%	10.45%	45.54%
Increase Over Active Beta Indexed Fund	N/A	N/A	2.70%	35.32%
Increase Over Tax Aware Managed Fund	N/A	N/A	N/A	31.77%

Tax Aware Managed Fund - 30% Turnover - 11.597% Growth Rate

Year 1 - Realized Gains are Short Term; Years 2-20 - 12% of Realized Gains are Short Term and 88% are Long Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	End of Year
Year 1	1,000,000	20,000	115,972	(18,955)	1,117,017
Year 2	1,117,017	22,340	129,543	(21,652)	1,247,248
Year 3	1,247,248	24,945	144,646	(28,584)	1,388,254
Year 4	1,388,254	27,765	160,998	(34,942)	1,542,075
Year 5	1,542,075	30,842	178,837	(41,037)	1,710,717
Year 6	1,710,717	34,214	198,395	(47,111)	1,896,215
Year 7	1,896,215	37,924	219,908	(53,351)	2,100,697
Year 8	2,100,697	42,014	243,622	(59,912)	2,326,420
Year 9	2,326,420	46,528	269,799	(66,928)	2,575,821
Year 10	2,575,821	51,516	298,723	(74,516)	2,851,544
Year 11	2,851,544	57,031	330,699	(82,787)	3,156,487
Year 12	3,156,487	63,130	366,064	(91,852)	3,493,828
Year 13	3,493,828	69,877	405,186	(101,820)	3,867,071
Year 14	3,867,071	77,341	448,472	(112,805)	4,280,079
Year 15	4,280,079	85,602	496,369	(124,930)	4,737,119
Year 16	4,737,119	94,742	549,373	(138,326)	5,242,908
Year 17	5,242,908	104,858	608,030	(153,135)	5,802,662
Year 18	5,802,662	116,053	672,946	(169,512)	6,422,148
Year 19	6,422,148	128,443	744,789	(187,630)	7,107,750
Year 20	7,107,750	142,155	824,299	(613,306)	7,460,899

Schedule 1

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Assumptions:	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Tax Aware Managed Fund 30% Turnover	Hedge Fund 100% 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	10.500%	11.293%	11.597%	15.281%
Blended Rate of Return Taxed at Short Term and Long Term Capital Gains Rates	10.500%	11.293%	11.597%	15.281%
Turnover Rate (% of Capital Gains Recognized/Year) - Years 1-9	5.000%	20.000%	30.000%	100.000%
Turnover Rate (% of Capital Gains Recognized/Year) - Year 10	100.000%	100.000%	100.000%	100.000%
Long Term Capital Gain and Health Care Tax Rate	23.800%	23.800%	23.800%	23.800%
Dividend Income 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%
Increase Over Indexed Fund	N/A	7.55%	10.45%	45.54%
Increase Over Active Beta Indexed Fund	N/A	N/A	2.70%	35.32%
Increase Over Tax Aware Managed Fund	N/A	N/A	N/A	31.77%

Equity or Hedge Fund - 100% Turnover - 15.281% Growth Rate

Years 1-20 - All Realized Gains are Short Term

	Beginning of Year	Dividend Income	Growth	Income Tax Payments	End of Year
Year 1	1,000,000	20,000	152,814	(67,108)	1,105,706
Year 2	1,105,706	22,114	168,967	(74,202)	1,222,585
Year 3	1,222,585	24,452	186,828	(82,045)	1,351,819
Year 4	1,351,819	27,036	206,577	(90,718)	1,494,714
Year 5	1,494,714	29,894	228,413	(100,307)	1,652,714
Year 6	1,652,714	33,054	252,557	(110,910)	1,827,416
Year 7	1,827,416	36,548	279,254	(122,634)	2,020,584
Year 8	2,020,584	40,412	308,773	(135,597)	2,234,171
Year 9	2,234,171	44,683	341,412	(149,931)	2,470,336
Year 10	2,470,336	49,407	377,501	(165,779)	2,731,465
Year 11	2,731,465	54,629	417,405	(183,303)	3,020,196
Year 12	3,020,196	60,404	461,527	(202,679)	3,339,448
Year 13	3,339,448	66,789	510,313	(224,104)	3,692,447
Year 14	3,692,447	73,849	564,257	(247,793)	4,082,760
Year 15	4,082,760	81,655	623,902	(273,986)	4,514,331
Year 16	4,514,331	90,287	689,852	(302,948)	4,991,521
Year 17	4,991,521	99,830	762,773	(334,971)	5,519,154
Year 18	5,519,154	110,383	843,402	(370,379)	6,102,560
Year 19	6,102,560	122,051	932,555	(409,531)	6,747,635
Year 20	6,747,635	134,953	1,031,131	(452,820)	7,460,899

Schedule 2

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%

Schedule 2
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 2

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 2

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 2

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 2

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 2

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 2

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%

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 2

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:	
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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 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 2

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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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%

Gomer Gonetotexas (Texas Resident)

	Beginning of Year Financial Assets	Income	Growth	FLP Terminates	Note Payments	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 2

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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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%

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)	-

Schedule 2

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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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 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

Schedule 2

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%

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 2

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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Assumptions:	
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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%

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 3

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 3
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 3

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 Taxes	End of Year Financial Assets
	Assets	Income	Growth	Consumption		
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 3

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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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 3

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%

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 3

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%

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 3

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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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
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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 3

Gomer Gonetotexas

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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 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 3

Gomer Gonetotexas

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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 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 3

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 3

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 3

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 3

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 4

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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	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Assumptions:				
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 4

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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	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Assumptions:				
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 4

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%

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 4

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 4

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	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Assumptions:				
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 4

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	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Assumptions:				
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 4

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	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Assumptions:				
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 4

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	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Assumptions:				
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

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	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Assumptions:				
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 4

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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	Indexed Fund 5% Turnover	Active Beta Indexed Fund 20% Turnover	Managed Fund 50% Turnover	Managed Fund 200% Turnover
Assumptions:				
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 4

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 4

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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 4

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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 4

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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 5 - 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 5 - 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 5 - 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 6
Granny Goldentouch**

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mrs. Goldentouch has a 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				
Granny Goldentouch	75,377,574	-	-	0.00%
Goldentouch Children	476,647,172	504,996,444	272,390,329	51.37%
Goldentouch Children and Grandchildren	-	9,020,000	4,865,303	0.92%
Consumption - Direct Cost	42,697,205	42,697,205	23,030,471	4.34%
Consumption - Investment Opportunity Cost	62,000,386	62,000,386	33,442,425	6.31%
IRS Income Tax - Direct Cost	148,996,173	148,996,173	80,367,133	15.16%
IRS Income Tax - Investment Opportunity Costs	177,366,284	177,366,284	95,669,704	18.04%
IRS Income Tax - Embedded Long Term Capital Gains Tax ⁽¹⁾	-	11,465,273	6,184,260	1.17%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	26,543,030	14,317,060	2.70%
Total	\$983,084,793	\$983,084,793	\$530,266,686	100.00%

Hypothetical Technique				
Granny Goldentouch	15,182,466	-	-	0.00%
Goldentouch Children	180,233,813	178,344,003	96,197,077	18.14%
Goldentouch Children and Grandchildren	355,994,257	353,703,114	190,784,131	35.98%
Consumption - Direct Cost	42,697,205	42,697,205	23,030,471	4.34%
Consumption - Investment Opportunity Cost	62,000,386	62,000,386	33,442,425	6.31%
IRS Income Tax - Direct Cost	149,610,384	149,610,384	80,698,433	15.22%
IRS Income Tax - Investment Opportunity Costs	177,366,284	177,366,284	95,669,704	18.04%
IRS Income Tax - Embedded Long Term Capital Gains Tax ⁽¹⁾	-	12,898,432	6,957,293	1.31%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	6,464,986	3,487,153	0.66%
Total	\$983,084,793	\$983,084,793	\$530,266,686	100.00%

Calculations of Remaining Exemption⁽²⁾	
Assumed Estate and Gift Tax Exemption Available per Taxpayer	11,400,000
Assumed Prior Gifts per Taxpayer	1,400,000
Future Exemption Available in 25 Years per Person (assumes 2.5% inflation)	9,020,000

(1) Post death amounts to children and grandchildren are reduced by the embedded capital gain tax liability. This capital gains tax is only paid when those assets are sold.

(2) Assumes valuation discounts apply at death. For purposes of these calculations, it is assumed that the increased estate tax exemption sunsets in 2025.

Schedule 6 - Granny Goldentouch

No Further Planning

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Assumptions:	
Total Estimated Rate of Return Over Next 25 Years	7.40%
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	5.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%
Annual Consumption (+2.5% per year)	\$1,250,000

Granny Goldentouch

	Financial Assets					End of Year
	Beginning of Year	Income	Growth	Consumption	Income Taxes	
Year 1	85,000,000	1,700,000	4,590,000	(1,250,000)	(1,982,574)	88,057,426
Year 2	88,057,426	1,761,149	4,755,101	(1,281,250)	(2,535,765)	90,756,661
Year 3	90,756,661	1,815,133	4,900,860	(1,313,281)	(2,980,549)	93,178,824
Year 4	93,178,824	1,863,576	5,031,656	(1,346,113)	(3,351,315)	95,376,628
Year 5	95,376,628	1,907,533	5,150,338	(1,379,766)	(3,672,540)	97,382,192
Year 6	97,382,192	1,947,644	5,258,638	(1,414,260)	(3,961,693)	99,212,521
Year 7	99,212,521	1,984,250	5,357,476	(1,449,617)	(4,231,291)	100,873,339
Year 8	100,873,339	2,017,467	5,447,160	(1,485,857)	(4,490,358)	102,361,752
Year 9	102,361,752	2,047,235	5,527,535	(1,523,004)	(4,745,451)	103,668,066
Year 10	103,668,066	2,073,361	5,598,076	(1,561,079)	(5,001,397)	104,777,028
Year 11	104,777,028	2,095,541	5,657,959	(1,600,106)	(5,261,801)	105,668,621
Year 12	105,668,621	2,113,372	5,706,106	(1,640,108)	(5,529,419)	106,318,572
Year 13	106,318,572	2,126,371	5,741,203	(1,681,111)	(5,806,417)	106,698,618
Year 14	106,698,618	2,133,972	5,761,725	(1,723,139)	(6,094,552)	106,776,624
Year 15	106,776,624	2,135,532	5,765,938	(1,766,217)	(6,395,305)	106,516,572
Year 16	106,516,572	2,130,331	5,751,895	(1,810,373)	(6,709,976)	105,878,450
Year 17	105,878,450	2,117,569	5,717,436	(1,855,632)	(7,039,749)	104,818,074
Year 18	104,818,074	2,096,361	5,660,176	(1,902,023)	(7,385,739)	103,286,849
Year 19	103,286,849	2,065,737	5,577,490	(1,949,573)	(7,749,031)	101,231,472
Year 20	101,231,472	2,024,629	5,466,499	(1,998,313)	(8,130,699)	98,593,589
Year 21	98,593,589	1,971,872	5,324,054	(2,048,271)	(8,531,831)	95,309,413
Year 22	95,309,413	1,906,188	5,146,708	(2,099,477)	(8,953,539)	91,309,294
Year 23	91,309,294	1,826,186	4,930,702	(2,151,964)	(9,396,973)	86,517,244
Year 24	86,517,244	1,730,345	4,671,931	(2,205,763)	(9,863,326)	80,850,431

Schedule 6 - Granny Goldentouch

No Further Planning

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Assumptions:	
Total Estimated Rate of Return Over Next 25 Years	7.40%
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	5.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%
Annual Consumption (+2.5% per year)	\$1,250,000

Year 25	80,850,431	1,617,009	4,365,923	(2,260,907)	(9,194,881)	75,377,574
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Schedule 6 - Granny Goldentouch No Further Planning

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Long-Term Capital Gains Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%
Annual Consumption (+2.5% per year)	\$1,250,000

Existing Grantor Trusts A

	Financial Assets					
	Beginning of Year	Income	Growth	Beneficiary Distributions	Income Taxes	End of Year
Year 1	80,000,000	1,600,000	4,320,000	-	-	85,920,000
Year 2	85,920,000	1,718,400	4,639,680	-	-	92,278,080
Year 3	92,278,080	1,845,562	4,983,016	-	-	99,106,658
Year 4	99,106,658	1,982,133	5,351,760	-	-	106,440,551
Year 5	106,440,551	2,128,811	5,747,790	-	-	114,317,151
Year 6	114,317,151	2,286,343	6,173,126	-	-	122,776,621
Year 7	122,776,621	2,455,532	6,629,938	-	-	131,862,090
Year 8	131,862,090	2,637,242	7,120,553	-	-	141,619,885
Year 9	141,619,885	2,832,398	7,647,474	-	-	152,099,757
Year 10	152,099,757	3,041,995	8,213,387	-	-	163,355,139
Year 11	163,355,139	3,267,103	8,821,177	-	-	175,443,419
Year 12	175,443,419	3,508,868	9,473,945	-	-	188,426,232
Year 13	188,426,232	3,768,525	10,175,017	-	-	202,369,773
Year 14	202,369,773	4,047,395	10,927,968	-	-	217,345,136
Year 15	217,345,136	4,346,903	11,736,637	-	-	233,428,676
Year 16	233,428,676	4,668,574	12,605,149	-	-	250,702,398
Year 17	250,702,398	5,014,048	13,537,930	-	-	269,254,376
Year 18	269,254,376	5,385,088	14,539,736	-	-	289,179,200
Year 19	289,179,200	5,783,584	15,615,677	-	-	310,578,461
Year 20	310,578,461	6,211,569	16,771,237	-	-	333,561,267
Year 21	333,561,267	6,671,225	18,012,308	-	-	358,244,800
Year 22	358,244,800	7,164,896	19,345,219	-	-	384,754,916
Year 23	384,754,916	7,695,098	20,776,765	-	-	413,226,779
Year 24	413,226,779	8,264,536	22,314,246	-	-	443,805,561

Schedule 6 - Granny Goldentouch

No Further Planning

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Assumptions:	
Total Estimated Rate of Return Over Next 25 Years	7.40%
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Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	5.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%
Annual Consumption (+2.5% per year)	\$1,250,000

Year 25	443,805,561	8,876,111	23,965,500	-	-	476,647,172
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Schedule 6 - Granny Goldentouch Hypothetical Technique

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Assumptions:

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Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	5.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%
Annual Consumption (+2.5% per year)	\$1,250,000

Assumptions:

IRS Applicable Federal Rate (Mid-Term)	1.87%
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Granny Goldentouch

	Financial Assets					End of Year
	Beginning of Year	Income	Growth	Consumption	Income Taxes	
Year 1	75,000,000	1,500,000	4,050,000	(1,250,000)	(1,982,574)	77,317,426
Year 2	77,317,426	1,546,349	4,175,141	(1,281,250)	(2,535,765)	79,221,901
Year 3	79,221,901	1,584,438	4,277,983	(1,313,281)	(2,980,549)	80,790,491
Year 4	80,790,491	1,615,810	4,362,687	(1,346,113)	(3,351,315)	82,071,559
Year 5	82,071,559	1,641,431	4,431,864	(1,379,766)	(3,672,540)	83,092,548
Year 6	83,092,548	1,661,851	4,486,998	(1,414,260)	(3,961,693)	83,865,443
Year 7	83,865,443	1,677,309	4,528,734	(1,449,617)	(4,231,291)	84,390,578
Year 8	84,390,578	1,687,812	4,557,091	(1,485,857)	(4,490,358)	84,659,266
Year 9	84,659,266	1,693,185	4,571,600	(1,523,004)	(4,745,451)	84,655,597
Year 10	84,655,597	1,693,112	4,571,402	(1,561,079)	(5,001,397)	84,357,635
Year 11	84,357,635	1,687,153	4,555,312	(1,600,106)	(5,261,801)	83,738,194
Year 12	83,738,194	1,674,764	4,521,862	(1,640,108)	(5,529,419)	82,765,293
Year 13	82,765,293	1,655,306	4,469,326	(1,681,111)	(5,806,417)	81,402,396
Year 14	81,402,396	1,628,048	4,395,729	(1,723,139)	(6,094,552)	79,608,482
Year 15	79,608,482	1,592,170	4,298,858	(1,766,217)	(6,395,305)	77,337,988
Year 16	77,337,988	1,546,760	4,176,251	(1,810,373)	(6,709,976)	74,540,650
Year 17	74,540,650	1,490,813	4,025,195	(1,855,632)	(7,039,749)	71,161,277
Year 18	71,161,277	1,423,226	3,842,709	(1,902,023)	(7,385,739)	67,139,449
Year 19	67,139,449	1,342,789	3,625,530	(1,949,573)	(7,749,031)	62,409,164
Year 20	62,409,164	1,248,183	3,370,095	(1,998,313)	(8,130,699)	56,898,431
Year 21	56,898,431	1,137,969	3,072,515	(2,048,271)	(8,531,831)	50,528,813
Year 22	50,528,813	1,010,576	2,728,556	(2,099,477)	(8,953,539)	43,214,929
Year 23	43,214,929	864,299	2,333,606	(2,151,964)	(9,396,973)	34,863,897
Year 24	34,863,897	697,278	1,882,650	(2,205,763)	(9,863,326)	25,374,736

Schedule 6 - Granny Goldentouch Hypothetical Technique

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Assumptions:

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Rate of Return Taxed at Capital Gains Rates	5.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%
Annual Consumption (+2.5% per year)	\$1,250,000

Assumptions:

IRS Applicable Federal Rate (Mid-Term)	1.87%
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Year 25	25,374,736	507,495	1,370,236	(2,260,907)	(9,809,092)	15,182,466
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Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%
Annual Consumption (+2.5% per year)	\$1,250,000

Assumptions:	
IRS Applicable Federal Rate (Mid-Term)	1.87%

Year 25	407,346,608	8,146,932	21,996,717	(81,496,000)	-	355,994,257
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50.0%	50.0%
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Long-Term Capital Gains Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%
Annual Consumption (+2.5% per year)	\$1,250,000

Assumptions:

IRS Applicable Federal Rate (Mid-Term)	1.87%
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Existing Grantor Trusts A

	Financial Assets						
	Beginning of Year	Income	Growth	Note Payments	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	1,496,000	-	-	1,496,000
Year 2	1,496,000	29,920	80,784	1,496,000	-	-	3,102,704
Year 3	3,102,704	62,054	167,546	1,496,000	-	-	4,828,304
Year 4	4,828,304	96,566	260,728	1,496,000	-	-	6,681,599
Year 5	6,681,599	133,632	360,806	1,496,000	-	-	8,672,037
Year 6	8,672,037	173,441	468,290	1,496,000	-	-	10,809,768
Year 7	10,809,768	216,195	583,727	1,496,000	-	-	13,105,690
Year 8	13,105,690	262,114	707,707	1,496,000	-	-	15,571,512
Year 9	15,571,512	311,430	840,862	1,496,000	-	-	18,219,803
Year 10	18,219,803	364,396	983,869	1,496,000	-	-	21,064,069
Year 11	21,064,069	421,281	1,137,460	1,496,000	-	-	24,118,810
Year 12	24,118,810	482,376	1,302,416	1,496,000	-	-	27,399,602
Year 13	27,399,602	547,992	1,479,578	1,496,000	-	-	30,923,172
Year 14	30,923,172	618,463	1,669,851	1,496,000	-	-	34,707,487
Year 15	34,707,487	694,150	1,874,204	1,496,000	-	-	38,771,841
Year 16	38,771,841	775,437	2,093,679	1,496,000	-	-	43,136,957
Year 17	43,136,957	862,739	2,329,396	1,496,000	-	-	47,825,092
Year 18	47,825,092	956,502	2,582,555	1,496,000	-	-	52,860,149
Year 19	52,860,149	1,057,203	2,854,448	1,496,000	-	-	58,267,800
Year 20	58,267,800	1,165,356	3,146,461	1,496,000	-	-	64,075,617
Year 21	64,075,617	1,281,512	3,460,083	1,496,000	-	-	70,313,213
Year 22	70,313,213	1,406,264	3,796,914	1,496,000	-	-	77,012,391
Year 23	77,012,391	1,540,248	4,158,669	1,496,000	-	-	84,207,308
Year 24	84,207,308	1,684,146	4,547,195	1,496,000	-	-	91,934,649

Schedule 6 - Granny Goldentouch Hypothetical Technique

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Assumptions:

Total Estimated Rate of Return Over Next 25 Years	7.40%
Rate of Return Taxed at Ordinary Rates	2.00%
Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	5.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%
Annual Consumption (+2.5% per year)	\$1,250,000

Assumptions:

IRS Applicable Federal Rate (Mid-Term)	1.87%
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Year 25	91,934,649	1,838,693	4,964,471	81,496,000	-	-	180,233,813
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**Schedule 6 - Granny Goldentouch
Hypothetical Technique**

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Annual Consumption (+2.5% per year)	\$1,250,000

Assumptions:	
IRS Applicable Federal Rate (Mid-Term)	1.87%

GST Tax Exempt Grantor Trusts B

	Financial Assets						
	Beginning of Year	Income	Growth	Goldentouch LLC Distributions	Beneficiary 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	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-
Year 18	-	-	-	-	-	-	-
Year 19	-	-	-	-	-	-	-
Year 20	-	-	-	-	-	-	-
Year 21	-	-	-	-	-	-	-
Year 22	-	-	-	-	-	-	-
Year 23	-	-	-	-	-	-	-
Year 24	-	-	-	-	-	-	-

Schedule 6 - Granny Goldentouch Hypothetical Technique

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Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%
Annual Consumption (+2.5% per year)	\$1,250,000

Assumptions:

IRS Applicable Federal Rate (Mid-Term)	1.87%
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Year 25	-	-	-	-	-	-	-
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Schedule 6 - Granny Goldentouch Hypothetical Technique

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Assumptions:	
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Rate of Return Tax Free	0.00%
Rate of Return Taxed at Capital Gains Rates	5.40%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Long-Term Capital Gains Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%
Annual Consumption (+2.5% per year)	\$1,250,000

Assumptions:	
IRS Applicable Federal Rate (Mid-Term)	1.87%

Note Between Existing Grantor Trusts A and Goldentouch, LLC

	Beginning of Year Balance	Interest @ 1.87%	Note Payments	End of Year Balance
Year 1	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 2	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 3	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 4	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 5	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 6	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 7	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 8	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 9	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 10	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 11	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 12	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 13	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 14	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 15	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 16	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 17	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 18	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 19	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 20	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 21	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 22	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 23	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 24	80,000,000	1,496,000	(1,496,000)	80,000,000
Year 25	80,000,000	1,496,000	(81,496,000)	-

Schedule 7
Sonny and Susan Secondchance

Hypothetical Integrated Income and Estate Tax Plan Comparisons

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	30-Year Future Values		Present Values (Discounted at 3.0%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning Except a Gift at Death of \$8mm				
Sonny and Susan Secondchance	1,220,536,885	-	-	0.00%
Charity	41,626,242	49,626,242	20,445,355	2.56%
Secondchance Children	-	706,346,131	291,005,254	36.45%
Secondchance Children & Grandchildren	-	29,960,000	12,343,123	1.55%
Consumption - Direct Cost	47,575,416	47,575,416	19,600,441	2.45%
Consumption - Investment Opportunity Cost	72,056,118	72,056,118	29,686,167	3.72%
IRS Income Tax - Direct Cost	267,559,933	267,559,933	110,231,150	13.81%
IRS Income Tax - Investment Opportunity Cost	288,578,841	288,578,841	118,890,662	14.89%
IRS Income Tax - Embedded Capital Gain Tax Liability ⁽¹⁾	-	-	-	0.00%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	476,230,754	196,200,765	24.57%
Total	\$1,937,933,435	\$1,937,933,435	\$798,402,916	100.00%
Hypothetical Technique - LAIDGT with Gifts of Preferred Interest to Spouse and Charity				
Sonny and Susan Secondchance	52,198,126	-	-	0.00%
Charity	49,626,242	49,626,242	20,445,355	2.56%
Secondchance Children	-	20,578,876	8,478,224	1.06%
Secondchance Children & Grandchildren	1,168,077,843	1,045,779,510	430,847,311	53.96%
Consumption - Direct Cost	47,575,416	47,575,416	19,600,441	2.45%
Consumption - Investment Opportunity Cost	72,056,118	72,056,118	29,686,167	3.72%
IRS Income Tax - Direct Cost	269,229,146	269,229,146	110,918,843	13.89%
IRS Income Tax - Investment Opportunity Cost	279,170,544	279,170,544	115,014,568	14.41%
IRS Income Tax - Embedded Capital Gain Tax Liability ⁽¹⁾	-	140,198,333	57,759,857	7.23%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	13,719,250	5,652,149	0.71%
Total	\$1,937,933,435	\$1,937,933,435	\$798,402,916	100.00%
	No Further Planning	Hypothetical Technique		
Calculations of Remaining Estate Tax Exemption⁽²⁾				
Current Gift and Estate Exemption (2 taxpayers)	24,120,000	24,120,000		
Assumed Prior Gifts Made	-	(12,060,000)		
Future Estate Tax Exemption Available in 30 years (2 taxpayers, assumes 3.0% inflation)	29,960,000	17,900,000		

(1) Post death amounts to Children & Grandchildren are reduced by the embedded capital gain tax liability. This capital gains tax is only paid when those assets are sold.

(2) For purposes of these calculations, it is assumed that the increased estate tax exemption sunsets in 2025.

Schedule 7

Sonny and Susan Secondchance

No Further Planning Except a Gift at Death of \$8mm

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Assumptions:	Financial Assets	Private Equity	Real Estate
Total Estimated Pre-Tax Rate of Return	6.50%	10.00%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	3.00%	2.00%
Rate of Return Tax Free	1.35%	0.00%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	7.00%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	10.00%
Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
Charitable Gifts - No Further Planning Beginning Year 3	\$560,000		

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%

Sonny Secondchance (and affiliates) - continued following page

	Financial & Marketable Securities											End of Year Total Including LLCs
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Private Equity LLC Distributions	Real Estate LLC Distributions	Charitable Gifts	Consumption from these Sources	Income Taxes	End of Year	
Year 1	65,000,000	97,500	877,500	650,000	2,600,000	1,800,000	1,500,000	-	(1,000,000)	(1,933,580)	69,591,420	213,291,420
Year 2	69,591,420	104,387	939,484	695,914	2,783,657	1,926,000	1,590,000	-	(1,030,000)	(2,378,284)	74,222,578	227,186,578
Year 3	74,222,578	111,334	1,002,005	742,226	2,968,903	2,060,820	1,685,400	(560,000)	(1,060,900)	(2,586,337)	78,586,029	241,414,809
Year 4	78,586,029	117,879	1,060,911	785,860	3,143,441	2,205,077	1,786,524	(560,000)	(1,092,727)	(2,981,249)	83,051,746	256,385,279
Year 5	83,051,746	124,578	1,121,199	830,517	3,322,070	2,359,433	1,893,715	(560,000)	(1,125,509)	(3,365,503)	87,652,247	272,172,269
Year 6	87,652,247	131,478	1,183,305	876,522	3,506,090	2,524,593	2,007,338	(560,000)	(1,159,274)	(3,745,792)	92,416,508	288,849,263
Year 7	92,416,508	138,625	1,247,623	924,165	3,696,660	2,701,315	2,127,779	(560,000)	(1,194,052)	(4,127,400)	97,371,222	306,490,380
Year 8	97,371,222	146,057	1,314,511	973,712	3,894,849	2,890,407	2,255,445	(560,000)	(1,229,874)	(4,514,620)	102,541,710	325,171,486
Year 9	102,541,710	153,813	1,384,313	1,025,417	4,101,668	3,092,735	2,390,772	(560,000)	(1,266,770)	(4,911,054)	107,952,604	344,971,079
Year 10	107,952,604	161,929	1,457,360	1,079,526	4,318,104	3,309,227	2,534,218	(560,000)	(1,304,773)	(5,319,828)	113,628,368	365,971,026
Year 11	113,628,368	170,443	1,533,983	1,136,284	4,545,135	3,540,872	2,686,272	(560,000)	(1,343,916)	(5,743,748)	119,593,691	388,257,200
Year 12	119,593,691	179,391	1,614,515	1,195,937	4,783,748	3,788,734	2,847,448	(560,000)	(1,384,234)	(6,185,413)	125,873,816	411,920,047
Year 13	125,873,816	188,811	1,699,297	1,258,738	5,034,953	4,053,945	3,018,295	(560,000)	(1,425,761)	(6,647,294)	132,494,799	437,055,118
Year 14	132,494,799	198,742	1,788,680	1,324,948	5,299,792	4,337,721	3,199,392	(560,000)	(1,468,534)	(7,131,803)	139,483,738	463,763,583
Year 15	139,483,738	209,226	1,883,030	1,394,837	5,579,350	4,641,361	3,391,356	(560,000)	(1,512,590)	(7,641,333)	146,868,976	492,152,733
Year 16	146,868,976	220,303	1,982,731	1,468,690	5,874,759	4,966,257	3,594,837	(560,000)	(1,557,967)	(8,178,299)	154,680,287	522,336,488
Year 17	154,680,287	232,020	2,088,184	1,546,803	6,187,211	5,313,895	3,810,528	(560,000)	(1,604,706)	(8,745,168)	162,949,053	554,435,924
Year 18	162,949,053	244,424	2,199,812	1,629,491	6,517,962	5,685,867	4,039,159	(560,000)	(1,652,848)	(9,344,481)	171,708,439	588,579,812
Year 19	171,708,439	257,563	2,318,064	1,717,084	6,868,338	6,083,878	4,281,509	(560,000)	(1,702,433)	(9,978,875)	180,993,566	624,905,181
Year 20	180,993,566	271,490	2,443,413	1,809,936	7,239,743	6,509,750	4,538,399	(560,000)	(1,753,506)	(10,651,102)	190,841,689	663,557,917
Year 21	190,841,689	286,263	2,576,363	1,908,417	7,633,668	6,965,432	4,810,703	(560,000)	(1,806,111)	(11,364,047)	201,292,376	704,693,388
Year 22	201,292,376	301,939	2,717,447	2,012,924	8,051,695	7,453,012	5,099,345	(560,000)	(1,860,295)	(12,120,744)	212,387,699	748,477,110
Year 23	212,387,699	318,582	2,867,234	2,123,877	8,495,508	7,974,723	5,405,306	(560,000)	(1,916,103)	(12,924,392)	224,172,434	795,085,450
Year 24	224,172,434	336,259	3,026,328	2,241,724	8,966,897	8,532,954	5,729,624	(560,000)	(1,973,587)	(13,778,371)	236,694,262	844,706,378
Year 25	236,694,262	355,041	3,195,373	2,366,943	9,467,770	9,130,261	6,073,402	(560,000)	(2,032,794)	(14,686,260)	250,003,998	897,540,260
Year 26	250,003,998	375,006	3,375,054	2,500,040	10,000,160	9,769,379	6,437,806	(560,000)	(2,093,778)	(15,651,851)	264,155,813	953,800,711
Year 27	264,155,813	396,234	3,566,103	2,641,558	10,566,233	10,453,235	6,824,074	(560,000)	(2,156,591)	(16,679,168)	279,207,492	1,013,715,495
Year 28	279,207,492	418,811	3,769,301	2,792,075	11,168,300	11,184,962	7,233,519	(560,000)	(2,221,289)	(17,772,486)	295,220,684	1,077,527,488
Year 29	295,220,684	442,831	3,985,479	2,952,207	11,808,827	11,967,909	7,667,530	(560,000)	(2,287,928)	(18,936,349)	312,261,191	1,145,495,706
Year 30	312,261,191	468,392	4,215,526	3,122,612	12,490,448	12,805,663	8,127,582	(560,000)	(2,356,566)	(17,535,103)	333,039,744	1,220,536,885

Schedule 7

Sonny and Susan Secondchance

No Further Planning Except a Gift at Death of \$8mm

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Assumptions:	Financial Assets	Private Equity	Real Estate
Total Estimated Pre-Tax Rate of Return	6.50%	10.00%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	3.00%	2.00%
Rate of Return Tax Free	1.35%	0.00%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	7.00%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	10.00%
Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
Charitable Gifts - No Further Planning Beginning Year 3	\$560,000		

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%

Private Equity, LLC

	Financial & Marketable Securities							Private Equity				Ownership	
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Private Equity Income	Owner Distributions	End of Year	Beginning of Year	Growth	End of Year	End of Year Total	Sonny Secondchance
Year 1	-	-	-	-	-	1,800,000	(1,800,000)	-	60,000,000	4,200,000	64,200,000	64,200,000	100%
Year 2	-	-	-	-	-	1,926,000	(1,926,000)	-	64,200,000	4,494,000	68,694,000	68,694,000	100%
Year 3	-	-	-	-	-	2,060,820	(2,060,820)	-	68,694,000	4,808,580	73,502,580	73,502,580	100%
Year 4	-	-	-	-	-	2,205,077	(2,205,077)	-	73,502,580	5,145,181	78,647,761	78,647,761	100%
Year 5	-	-	-	-	-	2,359,433	(2,359,433)	-	78,647,761	5,505,343	84,153,104	84,153,104	100%
Year 6	-	-	-	-	-	2,524,593	(2,524,593)	-	84,153,104	5,890,717	90,043,821	90,043,821	100%
Year 7	-	-	-	-	-	2,701,315	(2,701,315)	-	90,043,821	6,303,067	96,346,889	96,346,889	100%
Year 8	-	-	-	-	-	2,890,407	(2,890,407)	-	96,346,889	6,744,282	103,091,171	103,091,171	100%
Year 9	-	-	-	-	-	3,092,735	(3,092,735)	-	103,091,171	7,216,382	110,307,553	110,307,553	100%
Year 10	-	-	-	-	-	3,309,227	(3,309,227)	-	110,307,553	7,721,529	118,029,081	118,029,081	100%
Year 11	-	-	-	-	-	3,540,872	(3,540,872)	-	118,029,081	8,262,036	126,291,117	126,291,117	100%
Year 12	-	-	-	-	-	3,788,734	(3,788,734)	-	126,291,117	8,840,378	135,131,495	135,131,495	100%
Year 13	-	-	-	-	-	4,053,945	(4,053,945)	-	135,131,495	9,459,205	144,590,700	144,590,700	100%
Year 14	-	-	-	-	-	4,337,721	(4,337,721)	-	144,590,700	10,121,349	154,712,049	154,712,049	100%
Year 15	-	-	-	-	-	4,641,361	(4,641,361)	-	154,712,049	10,829,843	165,541,892	165,541,892	100%
Year 16	-	-	-	-	-	4,966,257	(4,966,257)	-	165,541,892	11,587,932	177,129,825	177,129,825	100%
Year 17	-	-	-	-	-	5,313,895	(5,313,895)	-	177,129,825	12,399,088	189,528,913	189,528,913	100%
Year 18	-	-	-	-	-	5,685,867	(5,685,867)	-	189,528,913	13,267,024	202,795,937	202,795,937	100%
Year 19	-	-	-	-	-	6,083,878	(6,083,878)	-	202,795,937	14,195,716	216,991,652	216,991,652	100%
Year 20	-	-	-	-	-	6,509,750	(6,509,750)	-	216,991,652	15,189,416	232,181,068	232,181,068	100%
Year 21	-	-	-	-	-	6,965,432	(6,965,432)	-	232,181,068	16,252,675	248,433,742	248,433,742	100%
Year 22	-	-	-	-	-	7,453,012	(7,453,012)	-	248,433,742	17,390,362	265,824,104	265,824,104	100%
Year 23	-	-	-	-	-	7,974,723	(7,974,723)	-	265,824,104	18,607,687	284,431,792	284,431,792	100%
Year 24	-	-	-	-	-	8,532,954	(8,532,954)	-	284,431,792	19,910,225	304,342,017	304,342,017	100%
Year 25	-	-	-	-	-	9,130,261	(9,130,261)	-	304,342,017	21,303,941	325,645,958	325,645,958	100%
Year 26	-	-	-	-	-	9,769,379	(9,769,379)	-	325,645,958	22,795,217	348,441,175	348,441,175	100%
Year 27	-	-	-	-	-	10,453,235	(10,453,235)	-	348,441,175	24,390,882	372,832,058	372,832,058	100%
Year 28	-	-	-	-	-	11,184,962	(11,184,962)	-	372,832,058	26,098,244	398,930,302	398,930,302	100%
Year 29	-	-	-	-	-	11,967,909	(11,967,909)	-	398,930,302	27,925,121	426,855,423	426,855,423	100%
Year 30	-	-	-	-	-	12,805,663	(12,805,663)	-	426,855,423	29,879,880	456,735,303	456,735,303	100%

Schedule 7
Sonny and Susan Secondchance

No Further Planning Except a Gift at Death of \$8mm

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Assumptions:	Financial Assets	Private Equity	Real Estate
Total Estimated Pre-Tax Rate of Return	6.50%	10.00%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	3.00%	2.00%
Rate of Return Tax Free	1.35%	0.00%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	7.00%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	10.00%
Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
Charitable Gifts - No Further Planning Beginning Year 3	\$560,000		

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%

Real Estate, LLC

	Financial & Marketable Securities							Real Estate				Ownership	
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Real Estate Income	Owner Distributions	End of Year	Beginning of Year	Growth	End of Year	End of Year Total	Sonny Secondchance
Year 1	-	-	-	-	-	1,500,000	(1,500,000)	-	75,000,000	4,500,000	79,500,000	79,500,000	100%
Year 2	-	-	-	-	-	1,590,000	(1,590,000)	-	79,500,000	4,770,000	84,270,000	84,270,000	100%
Year 3	-	-	-	-	-	1,685,400	(1,685,400)	-	84,270,000	5,056,200	89,326,200	89,326,200	100%
Year 4	-	-	-	-	-	1,786,524	(1,786,524)	-	89,326,200	5,359,572	94,685,772	94,685,772	100%
Year 5	-	-	-	-	-	1,893,715	(1,893,715)	-	94,685,772	5,681,146	100,366,918	100,366,918	100%
Year 6	-	-	-	-	-	2,007,338	(2,007,338)	-	100,366,918	6,022,015	106,388,933	106,388,933	100%
Year 7	-	-	-	-	-	2,127,779	(2,127,779)	-	106,388,933	6,383,336	112,772,269	112,772,269	100%
Year 8	-	-	-	-	-	2,255,445	(2,255,445)	-	112,772,269	6,766,336	119,538,606	119,538,606	100%
Year 9	-	-	-	-	-	2,390,772	(2,390,772)	-	119,538,606	7,172,316	126,710,922	126,710,922	100%
Year 10	-	-	-	-	-	2,534,218	(2,534,218)	-	126,710,922	7,602,655	134,313,577	134,313,577	100%
Year 11	-	-	-	-	-	2,686,272	(2,686,272)	-	134,313,577	8,058,815	142,372,392	142,372,392	100%
Year 12	-	-	-	-	-	2,847,448	(2,847,448)	-	142,372,392	8,542,344	150,914,735	150,914,735	100%
Year 13	-	-	-	-	-	3,018,295	(3,018,295)	-	150,914,735	9,054,884	159,969,620	159,969,620	100%
Year 14	-	-	-	-	-	3,199,392	(3,199,392)	-	159,969,620	9,598,177	169,567,797	169,567,797	100%
Year 15	-	-	-	-	-	3,391,356	(3,391,356)	-	169,567,797	10,174,068	179,741,864	179,741,864	100%
Year 16	-	-	-	-	-	3,594,837	(3,594,837)	-	179,741,864	10,784,512	190,526,376	190,526,376	100%
Year 17	-	-	-	-	-	3,810,528	(3,810,528)	-	190,526,376	11,431,583	201,957,959	201,957,959	100%
Year 18	-	-	-	-	-	4,039,159	(4,039,159)	-	201,957,959	12,117,478	214,075,436	214,075,436	100%
Year 19	-	-	-	-	-	4,281,509	(4,281,509)	-	214,075,436	12,844,526	226,919,963	226,919,963	100%
Year 20	-	-	-	-	-	4,538,399	(4,538,399)	-	226,919,963	13,615,198	240,535,160	240,535,160	100%
Year 21	-	-	-	-	-	4,810,703	(4,810,703)	-	240,535,160	14,432,110	254,967,270	254,967,270	100%
Year 22	-	-	-	-	-	5,099,345	(5,099,345)	-	254,967,270	15,298,036	270,265,306	270,265,306	100%
Year 23	-	-	-	-	-	5,405,306	(5,405,306)	-	270,265,306	16,215,918	286,481,225	286,481,225	100%
Year 24	-	-	-	-	-	5,729,624	(5,729,624)	-	286,481,225	17,188,873	303,670,098	303,670,098	100%
Year 25	-	-	-	-	-	6,073,402	(6,073,402)	-	303,670,098	18,220,206	321,890,304	321,890,304	100%
Year 26	-	-	-	-	-	6,437,806	(6,437,806)	-	321,890,304	19,313,418	341,203,722	341,203,722	100%
Year 27	-	-	-	-	-	6,824,074	(6,824,074)	-	341,203,722	20,472,223	361,675,946	361,675,946	100%
Year 28	-	-	-	-	-	7,233,519	(7,233,519)	-	361,675,946	21,700,557	383,376,502	383,376,502	100%
Year 29	-	-	-	-	-	7,667,530	(7,667,530)	-	383,376,502	23,002,590	406,379,092	406,379,092	100%
Year 30	-	-	-	-	-	8,127,582	(8,127,582)	-	406,379,092	24,382,746	430,761,838	430,761,838	100%

Schedule 7

Sonny and Susan Secondchance

No Further Planning Except a Gift at Death of \$8mm

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Assumptions:	Financial Assets	Private Equity	Real Estate
Total Estimated Pre-Tax Rate of Return	6.50%	10.00%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	3.00%	2.00%
Rate of Return Tax Free	1.35%	0.00%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	7.00%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	10.00%
Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
Charitable Gifts - No Further Planning Beginning Year 3	\$560,000		

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%

Charity

	Financial & Marketable Securities						
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Charitable Gifts	End of Year
Year 1	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	-	-
Year 3	-	-	-	-	-	560,000	560,000
Year 4	560,000	840	7,560	5,600	22,400	560,000	1,156,400
Year 5	1,156,400	1,735	15,611	11,564	46,256	560,000	1,791,566
Year 6	1,791,566	2,687	24,186	17,916	71,663	560,000	2,468,018
Year 7	2,468,018	3,702	33,318	24,680	98,721	560,000	3,188,439
Year 8	3,188,439	4,783	43,044	31,884	127,538	560,000	3,955,688
Year 9	3,955,688	5,934	53,402	39,557	158,228	560,000	4,772,807
Year 10	4,772,807	7,159	64,433	47,728	190,912	560,000	5,643,040
Year 11	5,643,040	8,465	76,181	56,430	225,722	560,000	6,569,837
Year 12	6,569,837	9,855	88,693	65,698	262,793	560,000	7,556,877
Year 13	7,556,877	11,335	102,018	75,569	302,275	560,000	8,608,074
Year 14	8,608,074	12,912	116,209	86,081	344,323	560,000	9,727,599
Year 15	9,727,599	14,591	131,323	97,276	389,104	560,000	10,919,892
Year 16	10,919,892	16,380	147,419	109,199	436,796	560,000	12,189,685
Year 17	12,189,685	18,285	164,561	121,897	487,587	560,000	13,542,015
Year 18	13,542,015	20,313	182,817	135,420	541,681	560,000	14,982,246
Year 19	14,982,246	22,473	202,260	149,822	599,290	560,000	16,516,092
Year 20	16,516,092	24,774	222,967	165,161	660,644	560,000	18,149,638
Year 21	18,149,638	27,224	245,020	181,496	725,986	560,000	19,889,364
Year 22	19,889,364	29,834	268,506	198,894	795,575	560,000	21,742,173
Year 23	21,742,173	32,613	293,519	217,422	869,687	560,000	23,715,414
Year 24	23,715,414	35,573	320,158	237,154	948,617	560,000	25,816,916
Year 25	25,816,916	38,725	348,528	258,169	1,032,677	560,000	28,055,016
Year 26	28,055,016	42,083	378,743	280,550	1,122,201	560,000	30,438,592
Year 27	30,438,592	45,658	410,921	304,386	1,217,544	560,000	32,977,100
Year 28	32,977,100	49,466	445,191	329,771	1,319,084	560,000	35,680,612
Year 29	35,680,612	53,521	481,688	356,806	1,427,224	560,000	38,559,852
Year 30	38,559,852	57,840	520,558	385,599	1,542,394	560,000	41,626,242

Schedule 7

Sonny and Susan Secondchance

Hypothetical Technique - LAIDGT with Gifts of Preferred Interest to Spouse and Charity

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Assumptions:	Financial Assets	Private Equity	Real Estate
Total Estimated Pre-Tax Rate of Return	6.50%	10.00%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	3.00%	2.00%
Rate of Return Tax Free	1.35%	0.00%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	7.00%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	10.00%
Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
IRS Applicable Federal Rate (mid-term)	1.40%		

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Private Equity, LLC - Valuation Discount	30.00%
Real Estate, LLC - Valuation Discount	30.00%
Preferred, LLC - Valuation Discount	30.00%
Preferred, LLC - Preferred Interest	\$30,000,000
Preferred, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	20.00%
Charitable Deduction Taken Across Years 3 and 4	\$8,000,000

Sonny and Susan Secondchance (and affiliates)

	Financial & Marketable Securities														End of Year Total Including LLCs, Preferred & Note	
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Private Equity LLC Distributions	Real Estate LLC Distributions	Preferred, LLC Distributions	Holdco, LLC Growth Distributions	Holdco Preferred Coupon	Note Payments	Trust Distributions	Consumption from these Sources	Income Taxes		End of Year
Year 1	10,000,000	15,000	135,000	100,000	400,000	18,000	15,000	-	-	2,100,000	1,339,138	-	(1,000,000)	(1,933,580)	11,188,558	140,544,047
Year 2	11,188,558	16,783	151,046	111,886	447,542	19,260	15,900	-	-	1,260,000	1,339,138	840,000	(1,030,000)	(2,378,284)	11,981,829	141,575,601
Year 3	11,981,829	17,973	161,755	119,818	479,273	20,608	16,854	-	-	700,000	1,339,138	840,000	(1,060,900)	(629,802)	13,986,546	135,836,343
Year 4	13,986,546	20,980	188,818	139,865	559,462	22,051	17,865	-	-	700,000	1,339,138	840,000	(1,092,727)	(2,439,081)	14,282,918	136,407,786
Year 5	14,282,918	21,424	192,819	142,829	571,317	23,594	18,937	-	-	700,000	1,339,138	840,000	(1,125,509)	(3,384,770)	13,622,699	136,043,084
Year 6	13,622,699	20,434	183,906	136,227	544,908	25,246	20,073	-	-	700,000	1,339,138	840,000	(1,159,274)	(3,770,021)	12,503,336	135,241,191
Year 7	12,503,336	18,755	168,795	125,033	500,133	27,013	21,278	-	-	700,000	1,339,138	840,000	(1,194,052)	(4,155,700)	10,893,730	133,972,618
Year 8	10,893,730	16,341	147,065	108,937	435,749	28,904	22,554	-	-	700,000	1,339,138	840,000	(1,229,874)	(4,546,391)	8,756,155	132,201,372
Year 9	8,756,155	13,134	118,208	87,562	350,246	30,927	23,908	-	-	700,000	1,339,138	840,000	(1,266,770)	(4,945,905)	6,046,603	129,885,301
Year 10	6,046,603	9,070	81,629	60,466	241,864	33,092	25,342	-	-	700,000	3,624,225	840,000	(1,304,773)	(5,357,518)	5,000,000	126,953,385
Year 11	5,000,000	7,500	67,500	50,000	200,000	35,409	26,863	-	-	700,000	5,200,788	840,000	(1,343,916)	(5,784,143)	5,000,000	123,473,548
Year 12	5,000,000	7,500	67,500	50,000	200,000	37,887	28,474	-	-	700,000	5,681,326	840,000	(1,384,234)	(6,228,454)	5,000,000	119,484,824
Year 13	5,000,000	7,500	67,500	50,000	200,000	40,539	30,183	-	-	700,000	6,183,019	840,000	(1,425,761)	(6,692,980)	5,000,000	114,960,332
Year 14	5,000,000	7,500	67,500	50,000	200,000	43,377	31,994	-	-	700,000	6,708,337	840,000	(1,468,534)	(7,180,175)	5,000,000	109,870,431
Year 15	5,000,000	7,500	67,500	50,000	200,000	46,414	33,914	-	-	700,000	7,259,725	840,000	(1,512,590)	(7,692,463)	5,000,000	104,182,711
Year 16	5,000,000	7,500	67,500	50,000	200,000	49,663	35,948	-	-	700,000	7,839,641	840,000	(1,557,967)	(8,232,285)	5,000,000	97,861,947
Year 17	5,000,000	7,500	67,500	50,000	200,000	53,139	38,105	-	-	700,000	8,450,589	840,000	(1,604,706)	(8,802,127)	5,000,000	90,870,026
Year 18	5,000,000	7,500	67,500	50,000	200,000	56,859	40,392	-	-	700,000	9,095,144	840,000	(1,652,848)	(9,404,547)	5,000,000	83,165,837
Year 19	5,000,000	7,500	67,500	50,000	200,000	60,839	42,815	-	-	700,000	9,775,975	840,000	(1,702,433)	(10,042,196)	5,000,000	74,705,150
Year 20	5,000,000	7,500	67,500	50,000	200,000	65,097	45,384	-	-	700,000	10,495,865	840,000	(1,753,506)	(10,717,841)	5,000,000	65,440,461
Year 21	5,000,000	7,500	67,500	50,000	200,000	69,654	48,107	-	-	700,000	11,257,727	840,000	(1,806,111)	(11,434,377)	5,000,000	55,320,828
Year 22	5,000,000	7,500	67,500	50,000	200,000	74,530	50,993	-	-	700,000	15,628,657	840,000	(1,860,295)	(12,194,851)	8,564,035	44,256,045
Year 23	8,564,035	12,846	115,614	85,640	342,561	79,747	54,053	-	132,462	700,000	-	840,000	(1,916,103)	(333,009)	8,677,847	45,237,106
Year 24	8,677,847	13,017	117,151	86,778	347,114	85,330	57,296	-	141,200	700,000	-	840,000	(1,973,587)	(356,945)	8,735,201	46,218,318
Year 25	8,735,201	13,103	117,925	87,352	349,408	91,303	60,734	-	150,516	700,000	-	840,000	(2,032,794)	(379,723)	8,733,025	47,200,321
Year 26	8,733,025	13,100	117,896	87,330	349,321	97,694	64,378	-	160,451	700,000	-	840,000	(2,093,778)	(401,843)	8,667,573	48,183,327
Year 27	8,667,573	13,001	117,012	86,676	346,703	104,532	68,241	-	171,045	700,000	-	840,000	(2,156,591)	(423,667)	8,534,526	49,167,234
Year 28	8,534,526	12,802	115,216	85,345	341,381	111,850	72,335	-	182,343	700,000	-	840,000	(2,221,289)	(445,457)	8,329,052	50,151,706
Year 29	8,329,052	12,494	112,442	83,291	333,162	119,679	76,675	-	194,391	700,000	-	840,000	(2,287,928)	(467,409)	8,045,849	51,136,233
Year 30	8,045,849	12,069	108,619	80,458	321,834	128,057	81,276	-	207,239	700,000	-	840,000	(2,356,566)	(411,716)	7,757,119	52,198,126

Schedule 7

Sonny and Susan Secondchance

Hypothetical Technique - LAIDGT with Gifts of Preferred Interest to Spouse and Charity

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Assumptions:	Financial Assets	Private Equity	Real Estate
Total Estimated Pre-Tax Rate of Return	6.50%	10.00%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	3.00%	2.00%
Rate of Return Tax Free	1.35%	0.00%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	7.00%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	10.00%
Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
IRS Applicable Federal Rate (mid-term)	1.40%		

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Private Equity, LLC - Valuation Discount	30.00%
Real Estate, LLC - Valuation Discount	30.00%
Preferred, LLC - Valuation Discount	30.00%
Preferred, LLC - Preferred Interest	\$30,000,000
Preferred, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	20.00%
Charitable Deduction Taken Across Years 3 and 4	\$8,000,000

Private Equity, LLC

	Financial & Marketable Securities					Private Equity				Ownership				
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Private Equity Income	Owner Distributions	End of Year	Beginning of Year	Growth	End of Year	End of Year Total	Sonny	Holdco, LLC
Year 1	-	-	-	-	-	1,800,000	(1,800,000)	-	60,000,000	4,200,000	64,200,000	64,200,000	1.0%	99.0%
Year 2	-	-	-	-	-	1,926,000	(1,926,000)	-	64,200,000	4,494,000	68,694,000	68,694,000	1.0%	99.0%
Year 3	-	-	-	-	-	2,060,820	(2,060,820)	-	68,694,000	4,808,580	73,502,580	73,502,580	1.0%	99.0%
Year 4	-	-	-	-	-	2,205,077	(2,205,077)	-	73,502,580	5,145,181	78,647,761	78,647,761	1.0%	99.0%
Year 5	-	-	-	-	-	2,359,433	(2,359,433)	-	78,647,761	5,505,343	84,153,104	84,153,104	1.0%	99.0%
Year 6	-	-	-	-	-	2,524,593	(2,524,593)	-	84,153,104	5,890,717	90,043,821	90,043,821	1.0%	99.0%
Year 7	-	-	-	-	-	2,701,315	(2,701,315)	-	90,043,821	6,303,067	96,346,889	96,346,889	1.0%	99.0%
Year 8	-	-	-	-	-	2,890,407	(2,890,407)	-	96,346,889	6,744,282	103,091,171	103,091,171	1.0%	99.0%
Year 9	-	-	-	-	-	3,092,735	(3,092,735)	-	103,091,171	7,216,382	110,307,553	110,307,553	1.0%	99.0%
Year 10	-	-	-	-	-	3,309,227	(3,309,227)	-	110,307,553	7,721,529	118,029,081	118,029,081	1.0%	99.0%
Year 11	-	-	-	-	-	3,540,872	(3,540,872)	-	118,029,081	8,262,036	126,291,117	126,291,117	1.0%	99.0%
Year 12	-	-	-	-	-	3,788,734	(3,788,734)	-	126,291,117	8,840,378	135,131,495	135,131,495	1.0%	99.0%
Year 13	-	-	-	-	-	4,053,945	(4,053,945)	-	135,131,495	9,459,205	144,590,700	144,590,700	1.0%	99.0%
Year 14	-	-	-	-	-	4,337,721	(4,337,721)	-	144,590,700	10,121,349	154,712,049	154,712,049	1.0%	99.0%
Year 15	-	-	-	-	-	4,641,361	(4,641,361)	-	154,712,049	10,829,843	165,541,892	165,541,892	1.0%	99.0%
Year 16	-	-	-	-	-	4,966,257	(4,966,257)	-	165,541,892	11,587,932	177,129,825	177,129,825	1.0%	99.0%
Year 17	-	-	-	-	-	5,313,895	(5,313,895)	-	177,129,825	12,399,088	189,528,913	189,528,913	1.0%	99.0%
Year 18	-	-	-	-	-	5,685,867	(5,685,867)	-	189,528,913	13,267,024	202,795,937	202,795,937	1.0%	99.0%
Year 19	-	-	-	-	-	6,083,878	(6,083,878)	-	202,795,937	14,195,716	216,991,652	216,991,652	1.0%	99.0%
Year 20	-	-	-	-	-	6,509,750	(6,509,750)	-	216,991,652	15,189,416	232,181,068	232,181,068	1.0%	99.0%
Year 21	-	-	-	-	-	6,965,432	(6,965,432)	-	232,181,068	16,252,675	248,433,742	248,433,742	1.0%	99.0%
Year 22	-	-	-	-	-	7,453,012	(7,453,012)	-	248,433,742	17,390,362	265,824,104	265,824,104	1.0%	99.0%
Year 23	-	-	-	-	-	7,974,723	(7,974,723)	-	265,824,104	18,607,687	284,431,792	284,431,792	1.0%	99.0%
Year 24	-	-	-	-	-	8,532,954	(8,532,954)	-	284,431,792	19,910,225	304,342,017	304,342,017	1.0%	99.0%
Year 25	-	-	-	-	-	9,130,261	(9,130,261)	-	304,342,017	21,303,941	325,645,958	325,645,958	1.0%	99.0%
Year 26	-	-	-	-	-	9,769,379	(9,769,379)	-	325,645,958	22,795,217	348,441,175	348,441,175	1.0%	99.0%
Year 27	-	-	-	-	-	10,453,235	(10,453,235)	-	348,441,175	24,390,882	372,832,058	372,832,058	1.0%	99.0%
Year 28	-	-	-	-	-	11,184,962	(11,184,962)	-	372,832,058	26,098,244	398,930,302	398,930,302	1.0%	99.0%
Year 29	-	-	-	-	-	11,967,909	(11,967,909)	-	398,930,302	27,925,121	426,855,423	426,855,423	1.0%	99.0%
Year 30	-	-	-	-	-	12,805,663	(12,805,663)	-	426,855,423	29,879,880	456,735,303	456,735,303	1.0%	99.0%

Schedule 7

Sonny and Susan Secondchance

Hypothetical Technique - LAIDGT with Gifts of Preferred Interest to Spouse and Charity

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Assumptions:	Financial Assets	Private Equity	Real Estate
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Rate of Return Tax Free	1.35%	0.00%	0.00%
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Rate of Return Taxed at Capital Gain Rate	4.00%	7.00%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	10.00%
Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
IRS Applicable Federal Rate (mid-term)	1.40%		

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
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Private Equity, LLC - Valuation Discount	30.00%
Real Estate, LLC - Valuation Discount	30.00%
Preferred, LLC - Valuation Discount	30.00%
Preferred, LLC - Preferred Interest	\$30,000,000
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Holdco, LLC - Valuation Discount	20.00%
Charitable Deduction Taken Across Years 3 and 4	\$8,000,000

Real Estate, LLC

	Financial & Marketable Securities					Real Estate				Ownership				
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Real Estate Income	Owner Distributions	End of Year	Beginning of Year	Growth	End of Year	End of Year Total	Sonny	Holdco, LLC
Year 1	-	-	-	-	-	1,500,000	(1,500,000)	-	75,000,000	4,500,000	79,500,000	79,500,000	1.0%	99.0%
Year 2	-	-	-	-	-	1,590,000	(1,590,000)	-	79,500,000	4,770,000	84,270,000	84,270,000	1.0%	99.0%
Year 3	-	-	-	-	-	1,685,400	(1,685,400)	-	84,270,000	5,056,200	89,326,200	89,326,200	1.0%	99.0%
Year 4	-	-	-	-	-	1,786,524	(1,786,524)	-	89,326,200	5,359,572	94,685,772	94,685,772	1.0%	99.0%
Year 5	-	-	-	-	-	1,893,715	(1,893,715)	-	94,685,772	5,681,146	100,366,918	100,366,918	1.0%	99.0%
Year 6	-	-	-	-	-	2,007,338	(2,007,338)	-	100,366,918	6,022,015	106,388,933	106,388,933	1.0%	99.0%
Year 7	-	-	-	-	-	2,127,779	(2,127,779)	-	106,388,933	6,383,336	112,772,269	112,772,269	1.0%	99.0%
Year 8	-	-	-	-	-	2,255,445	(2,255,445)	-	112,772,269	6,766,336	119,538,606	119,538,606	1.0%	99.0%
Year 9	-	-	-	-	-	2,390,772	(2,390,772)	-	119,538,606	7,172,316	126,710,922	126,710,922	1.0%	99.0%
Year 10	-	-	-	-	-	2,534,218	(2,534,218)	-	126,710,922	7,602,655	134,313,577	134,313,577	1.0%	99.0%
Year 11	-	-	-	-	-	2,686,272	(2,686,272)	-	134,313,577	8,058,815	142,372,392	142,372,392	1.0%	99.0%
Year 12	-	-	-	-	-	2,847,448	(2,847,448)	-	142,372,392	8,542,344	150,914,735	150,914,735	1.0%	99.0%
Year 13	-	-	-	-	-	3,018,295	(3,018,295)	-	150,914,735	9,054,884	159,969,620	159,969,620	1.0%	99.0%
Year 14	-	-	-	-	-	3,199,392	(3,199,392)	-	159,969,620	9,598,177	169,567,797	169,567,797	1.0%	99.0%
Year 15	-	-	-	-	-	3,391,356	(3,391,356)	-	169,567,797	10,174,068	179,741,864	179,741,864	1.0%	99.0%
Year 16	-	-	-	-	-	3,594,837	(3,594,837)	-	179,741,864	10,784,512	190,526,376	190,526,376	1.0%	99.0%
Year 17	-	-	-	-	-	3,810,528	(3,810,528)	-	190,526,376	11,431,583	201,957,959	201,957,959	1.0%	99.0%
Year 18	-	-	-	-	-	4,039,159	(4,039,159)	-	201,957,959	12,117,478	214,075,436	214,075,436	1.0%	99.0%
Year 19	-	-	-	-	-	4,281,509	(4,281,509)	-	214,075,436	12,844,526	226,919,963	226,919,963	1.0%	99.0%
Year 20	-	-	-	-	-	4,538,399	(4,538,399)	-	226,919,963	13,615,198	240,535,160	240,535,160	1.0%	99.0%
Year 21	-	-	-	-	-	4,810,703	(4,810,703)	-	240,535,160	14,432,110	254,967,270	254,967,270	1.0%	99.0%
Year 22	-	-	-	-	-	5,099,345	(5,099,345)	-	254,967,270	15,298,036	270,265,306	270,265,306	1.0%	99.0%
Year 23	-	-	-	-	-	5,405,306	(5,405,306)	-	270,265,306	16,215,918	286,481,225	286,481,225	1.0%	99.0%
Year 24	-	-	-	-	-	5,729,624	(5,729,624)	-	286,481,225	17,188,873	303,670,098	303,670,098	1.0%	99.0%
Year 25	-	-	-	-	-	6,073,402	(6,073,402)	-	303,670,098	18,220,206	321,890,304	321,890,304	1.0%	99.0%
Year 26	-	-	-	-	-	6,437,806	(6,437,806)	-	321,890,304	19,313,418	341,203,722	341,203,722	1.0%	99.0%
Year 27	-	-	-	-	-	6,824,074	(6,824,074)	-	341,203,722	20,472,223	361,675,946	361,675,946	1.0%	99.0%
Year 28	-	-	-	-	-	7,233,519	(7,233,519)	-	361,675,946	21,700,557	383,376,502	383,376,502	1.0%	99.0%
Year 29	-	-	-	-	-	7,667,530	(7,667,530)	-	383,376,502	23,002,590	406,379,092	406,379,092	1.0%	99.0%
Year 30	-	-	-	-	-	8,127,582	(8,127,582)	-	406,379,092	24,382,746	430,761,838	430,761,838	1.0%	99.0%

Schedule 7

Sonny and Susan Secondchance

Hypothetical Technique - LAIDGT with Gifts of Preferred Interest to Spouse and Charity

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Assumptions:	Financial Assets	Private Equity	Real Estate
Total Estimated Pre-Tax Rate of Return	6.50%	10.00%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	3.00%	2.00%
Rate of Return Tax Free	1.35%	0.00%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	7.00%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	10.00%
Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
IRS Applicable Federal Rate (mid-term)	1.40%		

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Private Equity, LLC - Valuation Discount	30.00%
Real Estate, LLC - Valuation Discount	30.00%
Preferred, LLC - Valuation Discount	30.00%
Preferred, LLC - Preferred Interest	\$30,000,000
Preferred, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	20.00%
Charitable Deduction Taken Across Years 3 and 4	\$8,000,000

Holdco, LLC

	Financial & Marketable Securities											Growth Ownership	
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Private	Real Estate	Preferred,	Note	Owner	End of Year	Sonny	GST Tax Exempt Grantor Trust #2
						Equity LLC	LLC	LLC					
Year 1	-	-	-	-	-	1,782,000	1,485,000	-	(1,339,138)	-	1,927,862	1.0%	99.0%
Year 2	1,927,862	2,892	26,026	19,279	77,114	1,906,740	1,574,100	-	(1,339,138)	-	4,194,875	1.0%	99.0%
Year 3	4,194,875	6,292	56,631	41,949	167,795	2,040,212	1,668,546	-	(1,339,138)	-	6,837,161	1.0%	99.0%
Year 4	6,837,161	10,256	92,302	68,372	273,486	2,183,027	1,768,659	-	(1,339,138)	-	9,894,124	1.0%	99.0%
Year 5	9,894,124	14,841	133,571	98,941	395,765	2,335,838	1,874,778	-	(1,339,138)	-	13,408,720	1.0%	99.0%
Year 6	13,408,720	20,113	181,018	134,087	536,349	2,499,347	1,987,265	-	(1,339,138)	-	17,427,761	1.0%	99.0%
Year 7	17,427,761	26,142	235,275	174,278	697,110	2,674,301	2,106,501	-	(1,339,138)	-	22,002,230	1.0%	99.0%
Year 8	22,002,230	33,003	297,030	220,022	880,089	2,861,503	2,232,891	-	(1,339,138)	-	27,187,630	1.0%	99.0%
Year 9	27,187,630	40,781	367,033	271,876	1,087,505	3,061,808	2,366,864	-	(1,339,138)	-	33,044,360	1.0%	99.0%
Year 10	33,044,360	49,567	446,099	330,444	1,321,774	3,276,134	2,508,876	-	(3,624,225)	-	37,353,029	1.0%	99.0%
Year 11	37,353,029	56,030	504,266	373,530	1,494,121	3,505,464	2,659,409	-	(5,200,788)	-	40,745,061	1.0%	99.0%
Year 12	40,745,061	61,118	550,058	407,451	1,629,802	3,750,846	2,818,973	-	(5,681,326)	-	44,281,984	1.0%	99.0%
Year 13	44,281,984	66,423	597,807	442,820	1,771,279	4,013,405	2,988,112	-	(6,183,019)	-	47,978,811	1.0%	99.0%
Year 14	47,978,811	71,968	647,714	479,788	1,919,152	4,294,344	3,167,398	-	(6,708,337)	-	51,850,839	1.0%	99.0%
Year 15	51,850,839	77,776	699,986	518,508	2,074,034	4,594,948	3,357,442	-	(7,259,725)	-	55,913,808	1.0%	99.0%
Year 16	55,913,808	83,871	754,836	559,138	2,236,552	4,916,594	3,558,889	-	(7,839,641)	-	60,184,048	1.0%	99.0%
Year 17	60,184,048	90,276	812,485	601,840	2,407,362	5,260,756	3,772,422	-	(8,450,589)	-	64,678,599	1.0%	99.0%
Year 18	64,678,599	97,018	873,161	646,786	2,587,144	5,629,009	3,998,768	-	(9,095,144)	-	69,415,340	1.0%	99.0%
Year 19	69,415,340	104,123	937,107	694,153	2,776,614	6,023,039	4,238,694	-	(9,775,975)	-	74,413,095	1.0%	99.0%
Year 20	74,413,095	111,620	1,004,577	744,131	2,976,524	6,444,652	4,493,015	-	(10,495,865)	-	79,691,748	1.0%	99.0%
Year 21	79,691,748	119,538	1,075,839	796,917	3,187,670	6,895,778	4,762,596	-	(11,257,727)	-	85,272,359	1.0%	99.0%
Year 22	85,272,359	127,909	1,151,177	852,724	3,410,894	7,378,482	5,048,352	-	(15,628,657)	-	87,613,239	1.0%	99.0%
Year 23	87,613,239	131,420	1,182,779	876,132	3,504,530	7,894,976	5,351,253	-	-	(13,246,229)	93,308,100	1.0%	99.0%
Year 24	93,308,100	139,962	1,259,659	933,081	3,732,324	8,447,624	5,672,328	-	-	(14,119,952)	99,373,126	1.0%	99.0%
Year 25	99,373,126	149,060	1,341,537	993,731	3,974,925	9,038,958	6,012,668	-	-	(15,051,626)	105,832,379	1.0%	99.0%
Year 26	105,832,379	158,749	1,428,737	1,058,324	4,233,295	9,671,685	6,373,428	-	-	(16,045,113)	112,711,484	1.0%	99.0%
Year 27	112,711,484	169,067	1,521,605	1,127,115	4,508,459	10,348,703	6,755,834	-	-	(17,104,537)	120,037,731	1.0%	99.0%
Year 28	120,037,731	180,057	1,620,509	1,200,377	4,801,509	11,073,112	7,161,184	-	-	(18,234,296)	127,840,183	1.0%	99.0%
Year 29	127,840,183	191,760	1,725,842	1,278,402	5,113,607	11,848,230	7,590,855	-	-	(19,439,085)	136,149,795	1.0%	99.0%
Year 30	136,149,795	204,225	1,838,022	1,361,498	5,445,992	12,677,606	8,046,306	-	-	(20,723,912)	144,999,532	1.0%	99.0%

Schedule 7

Sonny and Susan Secondchance

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Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
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Assumptions (continued):	
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Private Equity, LLC - Valuation Discount	30.00%
Real Estate, LLC - Valuation Discount	30.00%
Preferred, LLC - Valuation Discount	30.00%
Preferred, LLC - Preferred Interest	\$30,000,000
Preferred, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	20.00%
Charitable Deduction Taken Across Years 3 and 4	\$8,000,000

Grantor Trust #1 Created by Sonny for the Benefit of Susan

	Financial & Marketable Securities					Holdco, LLC			Income Taxes	End of Year
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Preferred Coupon	Beneficiary Distributions			
Year 1	-	-	-	-	-	-	-	-	-	-
Year 2	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 3	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 4	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 5	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 6	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 7	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 8	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 9	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 10	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 11	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 12	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 13	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 14	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 15	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 16	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 17	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 18	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 19	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 20	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 21	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 22	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 23	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 24	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 25	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 26	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 27	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 28	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 29	-	-	-	-	-	840,000	(840,000)	-	-	-
Year 30	-	-	-	-	-	840,000	(840,000)	-	-	-

Schedule 7

Sonny and Susan Secondchance

Hypothetical Technique - LAIDGT with Gifts of Preferred Interest to Spouse and Charity

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Assumptions:	Financial Assets	Private Equity	Real Estate
Total Estimated Pre-Tax Rate of Return	6.50%	10.00%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	3.00%	2.00%
Rate of Return Tax Free	1.35%	0.00%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	7.00%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	10.00%
Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
IRS Applicable Federal Rate (mid-term)	1.40%		

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Private Equity, LLC - Valuation Discount	30.00%
Real Estate, LLC - Valuation Discount	30.00%
Preferred, LLC - Valuation Discount	30.00%
Preferred, LLC - Preferred Interest	\$30,000,000
Preferred, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	20.00%
Charitable Deduction Taken Across Years 3 and 4	\$8,000,000

GST Tax Exempt Grantor Trust #2 Created by Sonny for the Benefit of Descendants

	Financial & Marketable Securities								End of Year
	Beginning of Year	Income	Tax Free Income	Dividends	Holdco, LLC		Beneficiary Distributions	Income Taxes	
				Growth	Growth Distributions				
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	-	-	-	-	-	-	-	-	-
Year 21	-	-	-	-	-	-	-	-	-
Year 22	-	-	-	-	-	-	-	-	-
Year 23	-	-	-	-	-	13,113,767	-	(12,669,466)	444,301
Year 24	444,301	666	5,998	4,443	17,772	13,978,753	-	(13,503,693)	948,241
Year 25	948,241	1,422	12,801	9,482	37,930	14,901,110	-	(14,393,210)	1,517,776
Year 26	1,517,776	2,277	20,490	15,178	60,711	15,884,662	-	(15,341,321)	2,159,772
Year 27	2,159,772	3,240	29,157	21,598	86,391	16,933,491	-	(16,351,702)	2,881,946
Year 28	2,881,946	4,323	38,906	28,819	115,278	18,051,953	-	(17,428,378)	3,692,847
Year 29	3,692,847	5,539	49,853	36,928	147,714	19,244,694	-	(18,575,712)	4,601,864
Year 30	4,601,864	6,903	62,125	46,019	184,075	20,516,673	-	(19,798,405)	5,619,253

<-Grantor Trust status removed in year 23

Schedule 7

Sonny and Susan Secondchance

Hypothetical Technique - LAIDGT with Gifts of Preferred Interest to Spouse and Charity

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Assumptions:	Financial Assets	Private Equity	Real Estate
Total Estimated Pre-Tax Rate of Return	6.50%	10.00%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	3.00%	2.00%
Rate of Return Tax Free	1.35%	0.00%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	7.00%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	10.00%
Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
IRS Applicable Federal Rate (mid-term)	1.40%		

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Private Equity, LLC - Valuation Discount	30.00%
Real Estate, LLC - Valuation Discount	30.00%
Preferred, LLC - Valuation Discount	30.00%
Preferred, LLC - Preferred Interest	\$30,000,000
Preferred, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	20.00%
Charitable Deduction Taken Across Years 3 and 4	\$8,000,000

Charity

	Financial & Marketable Securities					
	Beginning of Year	Income	Dividends	Growth	Preferred Coupon	End of Year
Year 1	-	-	-	-	-	-
Year 2	-	-	-	-	-	-
Year 3	-	-	-	-	560,000	560,000
Year 4	560,000	8,400	5,600	22,400	560,000	1,156,400
Year 5	1,156,400	17,346	11,564	46,256	560,000	1,791,566
Year 6	1,791,566	26,873	17,916	71,663	560,000	2,468,018
Year 7	2,468,018	37,020	24,680	98,721	560,000	3,188,439
Year 8	3,188,439	47,827	31,884	127,538	560,000	3,955,688
Year 9	3,955,688	59,335	39,557	158,228	560,000	4,772,807
Year 10	4,772,807	71,592	47,728	190,912	560,000	5,643,040
Year 11	5,643,040	84,646	56,430	225,722	560,000	6,569,837
Year 12	6,569,837	98,548	65,698	262,793	560,000	7,556,877
Year 13	7,556,877	113,353	75,569	302,275	560,000	8,608,074
Year 14	8,608,074	129,121	86,081	344,323	560,000	9,727,599
Year 15	9,727,599	145,914	97,276	389,104	560,000	10,919,892
Year 16	10,919,892	163,798	109,199	436,796	560,000	12,189,685
Year 17	12,189,685	182,845	121,897	487,587	560,000	13,542,015
Year 18	13,542,015	203,130	135,420	541,681	560,000	14,982,246
Year 19	14,982,246	224,734	149,822	599,290	560,000	16,516,092
Year 20	16,516,092	247,741	165,161	660,644	560,000	18,149,638
Year 21	18,149,638	272,245	181,496	725,986	560,000	19,889,364
Year 22	19,889,364	298,340	198,894	795,575	560,000	21,742,173
Year 23	21,742,173	326,133	217,422	869,687	560,000	23,715,414
Year 24	23,715,414	355,731	237,154	948,617	560,000	25,816,916
Year 25	25,816,916	387,254	258,169	1,032,677	560,000	28,055,016
Year 26	28,055,016	420,825	280,550	1,122,201	560,000	30,438,592
Year 27	30,438,592	456,579	304,386	1,217,544	560,000	32,977,100
Year 28	32,977,100	494,657	329,771	1,319,084	560,000	35,680,612
Year 29	35,680,612	535,209	356,806	1,427,224	560,000	38,559,852
Year 30	38,559,852	578,398	385,599	1,542,394	560,000	41,626,242

Schedule 7

Sonny and Susan Secondchance

Hypothetical Technique - LAIDGT with Gifts of Preferred Interest to Spouse and Charity

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Assumptions:	Financial Assets	Private Equity	Real Estate
Total Estimated Pre-Tax Rate of Return	6.50%	10.00%	8.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	3.00%	2.00%
Rate of Return Tax Free	1.35%	0.00%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	7.00%	6.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	10.00%	10.00%
Consumption from these sources (+3.0% / year) - Years 1-5	\$1,000,000		
IRS Applicable Federal Rate (mid-term)	1.40%		

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Private Equity, LLC - Valuation Discount	30.00%
Real Estate, LLC - Valuation Discount	30.00%
Preferred, LLC - Valuation Discount	30.00%
Preferred, LLC - Preferred Interest	\$30,000,000
Preferred, LLC - Preferred Coupon	7.00%
Holdco, LLC - Valuation Discount	20.00%
Charitable Deduction Taken Across Years 3 and 4	\$8,000,000

Note Between Sonny and Holdco, LLC

	Beginning of Year Principal	Interest @ 1.4%	Note Payments	End of Year Principal
Year 1	95,652,727	1,339,138	(1,339,138)	95,652,727
Year 2	95,652,727	1,339,138	(1,339,138)	95,652,727
Year 3	95,652,727	1,339,138	(1,339,138)	95,652,727
Year 4	95,652,727	1,339,138	(1,339,138)	95,652,727
Year 5	95,652,727	1,339,138	(1,339,138)	95,652,727
Year 6	95,652,727	1,339,138	(1,339,138)	95,652,727
Year 7	95,652,727	1,339,138	(1,339,138)	95,652,727
Year 8	95,652,727	1,339,138	(1,339,138)	95,652,727
Year 9	95,652,727	1,339,138	(1,339,138)	95,652,727
Year 10*	95,652,727	1,339,138	(3,624,225)	93,367,641
Year 11	93,367,641	1,307,147	(5,200,788)	89,474,000
Year 12	89,474,000	1,252,636	(5,681,326)	85,045,310
Year 13	85,045,310	1,190,634	(6,183,019)	80,052,926
Year 14	80,052,926	1,120,741	(6,708,337)	74,465,329
Year 15	74,465,329	1,042,515	(7,259,725)	68,248,119
Year 16	68,248,119	955,474	(7,839,641)	61,363,951
Year 17	61,363,951	859,095	(8,450,589)	53,772,457
Year 18	53,772,457	752,814	(9,095,144)	45,430,127
Year 19	45,430,127	636,022	(9,775,975)	36,290,173
Year 20*	36,290,173	508,062	(10,495,865)	26,302,371
Year 21	26,302,371	368,233	(11,257,727)	15,412,877
Year 22	15,412,877	215,780	(15,628,657)	-
Year 23	-	-	-	-
Year 24	-	-	-	-
Year 25	-	-	-	-
Year 26	-	-	-	-
Year 27	-	-	-	-
Year 28	-	-	-	-
Year 29	-	-	-	-
Year 30	-	-	-	-

Note and Gift Calculations		
Private Equity, LLC	99.0%	59,400,000
Private Equity, LLC - Valuation Discount		(17,820,000)
Real Estate, LLC	99.0%	74,250,000
Real Estate, LLC - Valuation Discount		(22,275,000)
Preferred, LLC - Less Preferred	99.0%	24,750,000
Preferred, LLC - Valuation Discount		(7,425,000)
Holdco, LLC - Other Assets		-
Holdco, LLC - Total Assets		110,880,000
Note	86.3%	(95,652,727)
Holdco, LLC - Net Value		15,227,273
Holdco, LLC - Valuation Discount		(3,045,455)
Holdco, LLC - Discounted Value		12,181,818
Gift to GST Tax Exempt Grantor Trust	99.0%	12,060,000

*Notes could be refinanced at the then mid-term rate.

Schedule 8
Robby and Reba Remainder

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mr. and Mrs. Remainder have a joint life expectancy of 25 years)

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	25-Year Future Values		Present Values (Discounted at 3.0%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning				
Robby Remainder	233,838,879	-	-	0.00%
Remainder Children	-	134,479,327	64,228,076	22.24%
Remainder Children and Grandchildren	119,161,793	124,106,275	59,273,848	20.53%
Consumption - Direct Cost	45,574,080	45,574,080	21,766,435	7.54%
Consumption - Investment Opportunity Cost	64,207,503	64,207,503	30,665,861	10.62%
IRS Income Tax - Direct Cost	62,798,432	62,798,432	29,992,881	10.39%
IRS Income Tax - Investment Opportunity Costs	78,995,137	78,995,137	37,728,517	13.07%
IRS Income Tax - Embedded Long Term Capital Gains Tax ⁽¹⁾	-	2,335,519	1,115,457	0.39%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	92,079,552	43,977,707	15.23%
Total	\$604,575,824	\$604,575,824	\$288,748,780	100.00%
Hypothetical Technique				
Robby and Reba Remainder	93,399,650	-	-	0.00%
Remainder Children	-	61,152,461	29,206,756	10.11%
Remainder Children and Grandchildren	257,801,351	260,297,332	124,319,456	43.05%
Consumption - Direct Cost	45,574,080	45,574,080	21,766,435	7.54%
Consumption - Investment Opportunity Cost	64,207,503	64,207,503	30,665,861	10.62%
IRS Income Tax - Direct Cost	64,598,103	64,598,103	30,852,414	10.68%
IRS Income Tax - Investment Opportunity Costs	78,995,137	78,995,137	37,728,517	13.07%
IRS Income Tax - Embedded Long Term Capital Gains Tax ⁽¹⁾	-	4,784,019	2,284,874	0.79%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	24,967,188	11,924,468	4.13%
Total	\$604,575,824	\$604,575,824	\$288,748,780	100.00%
Calculations of Remaining Exemption ⁽²⁾				
Assumed Estate and Gift Tax Exemption Available per Taxpayer	12,060,000			
Assumed Prior Gifts per Taxpayer	20,000,000			
Future Exemption Available in 25 Years per Person (assumes 3.0% inflation)	3,640,000			

(1) Post death amounts to children and grandchildren are reduced by the embedded capital gain tax liability. This capital gains tax is only paid when those assets are sold.

(2) Assumes valuation discounts apply at death. For purposes of these calculations, it is assumed that the increased estate tax exemption sunsets in 2025.

Robby and Reba Remainder
No Further Planning

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Assumptions:	Financial Assets	Alternative Investments
Total Estimated Rate of Return Over Next 25 Years	7.40%	8.00%
Rate of Return Taxed at Ordinary Rates	0.60%	7.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	1.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Long-Term Capital Gains Tax Rate	23.80%	
Ordinary Income Tax Rate	40.80%	
Annual Consumption (+3.0% per year)	\$1,250,000	

Robby Remainder

	Financial Assets								Alternative Investments			
	Beginning of Year	Income	Tax Free Income	Growth	Alternative Investments Income	Consumption	Income Taxes	End of Year	Beginning of Year	Growth	End of Year	End of Year Total
Year 1	60,000,000	360,000	1,440,000	2,640,000	1,400,000	(1,250,000)	(1,018,368)	63,571,632	20,000,000	200,000	20,200,000	83,771,632
Year 2	63,571,632	381,430	1,525,719	2,797,152	1,414,000	(1,287,500)	(1,228,246)	67,174,187	20,200,000	202,000	20,402,000	87,576,187
Year 3	67,174,187	403,045	1,612,180	2,955,664	1,428,140	(1,326,125)	(1,397,297)	70,849,795	20,402,000	204,020	20,606,020	91,455,815
Year 4	70,849,795	425,099	1,700,395	3,117,391	1,442,421	(1,365,909)	(1,538,611)	74,630,581	20,606,020	206,060	20,812,080	95,442,661
Year 5	74,630,581	447,783	1,791,134	3,283,746	1,456,846	(1,406,886)	(1,661,495)	78,541,709	20,812,080	208,121	21,020,201	99,561,910
Year 6	78,541,709	471,250	1,885,001	3,455,835	1,471,414	(1,449,093)	(1,772,586)	82,603,531	21,020,201	210,202	21,230,403	103,833,934
Year 7	82,603,531	495,621	1,982,485	3,634,555	1,486,128	(1,492,565)	(1,876,641)	86,833,115	21,230,403	212,304	21,442,707	108,275,822
Year 8	86,833,115	520,999	2,083,995	3,820,657	1,500,989	(1,537,342)	(1,977,093)	91,245,319	21,442,707	214,427	21,657,134	112,902,453
Year 9	91,245,319	547,472	2,189,888	4,014,794	1,515,999	(1,583,463)	(2,076,448)	95,853,561	21,657,134	216,571	21,873,705	117,727,267
Year 10	95,853,561	575,121	2,300,485	4,217,557	1,531,159	(1,630,966)	(2,176,557)	100,670,361	21,873,705	218,737	22,092,443	122,762,804
Year 11	100,670,361	604,022	2,416,089	4,429,496	1,546,471	(1,679,895)	(2,278,816)	105,707,728	22,092,443	220,924	22,313,367	128,021,094
Year 12	105,707,728	634,246	2,536,985	4,651,140	1,561,936	(1,730,292)	(2,384,307)	110,977,435	22,313,367	223,134	22,536,501	133,513,936
Year 13	110,977,435	665,865	2,663,458	4,883,007	1,577,555	(1,782,201)	(2,493,894)	116,491,225	22,536,501	225,365	22,761,866	139,253,091
Year 14	116,491,225	698,947	2,795,789	5,125,614	1,593,331	(1,835,667)	(2,608,293)	122,260,946	22,761,866	227,619	22,989,484	145,250,430
Year 15	122,260,946	733,566	2,934,263	5,379,482	1,609,264	(1,890,737)	(2,728,123)	128,298,660	22,989,484	229,895	23,219,379	151,518,039
Year 16	128,298,660	769,792	3,079,168	5,645,141	1,625,357	(1,947,459)	(2,853,940)	134,616,718	23,219,379	232,194	23,451,573	158,068,290
Year 17	134,616,718	807,700	3,230,801	5,923,136	1,641,610	(2,005,883)	(2,986,265)	141,227,817	23,451,573	234,516	23,686,089	164,913,905
Year 18	141,227,817	847,367	3,389,468	6,214,024	1,658,026	(2,066,060)	(3,125,599)	148,145,043	23,686,089	236,861	23,922,950	172,067,992
Year 19	148,145,043	888,870	3,555,481	6,518,382	1,674,606	(2,128,041)	(3,272,441)	155,381,900	23,922,950	239,229	24,162,179	179,544,079
Year 20	155,381,900	932,291	3,729,166	6,836,804	1,691,353	(2,191,883)	(3,427,292)	162,952,339	24,162,179	241,622	24,403,801	187,356,140
Year 21	162,952,339	977,714	3,910,856	7,169,903	1,708,266	(2,257,639)	(3,590,669)	170,870,770	24,403,801	244,038	24,647,839	195,518,608
Year 22	170,870,770	1,025,225	4,100,898	7,518,314	1,725,349	(2,325,368)	(3,763,108)	179,152,079	24,647,839	246,478	24,894,317	204,046,396
Year 23	179,152,079	1,074,912	4,299,650	7,882,691	1,742,602	(2,395,129)	(3,945,166)	187,811,640	24,894,317	248,943	25,143,260	212,954,900
Year 24	187,811,640	1,126,870	4,507,479	8,263,712	1,760,028	(2,466,983)	(4,137,432)	196,865,314	25,143,260	251,433	25,394,693	222,260,007
Year 25	196,865,314	1,181,192	4,724,768	8,662,074	1,777,629	(2,540,993)	(2,479,744)	208,190,239	25,394,693	253,947	25,648,640	233,838,879

Robby and Reba Remainder

No Further Planning

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Assumptions:	Financial Assets	Alternative Investments
	Total Estimated Rate of Return Over Next 25 Years	7.40%
Rate of Return Taxed at Ordinary Rates	0.60%	7.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	1.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Long-Term Capital Gains Tax Rate	23.80%	
Ordinary Income Tax Rate	40.80%	
Annual Consumption (+3.0% per year)	\$1,250,000	

GST Tax Exempt Grantor Trust

	Financial Assets						
	Beginning of Year	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year
Year 1	20,000,000	120,000	480,000	880,000	-	-	21,480,000
Year 2	21,480,000	128,880	515,520	945,120	-	-	23,069,520
Year 3	23,069,520	138,417	553,668	1,015,059	-	-	24,776,664
Year 4	24,776,664	148,660	594,640	1,090,173	-	-	26,610,138
Year 5	26,610,138	159,661	638,643	1,170,846	-	-	28,579,288
Year 6	28,579,288	171,476	685,903	1,257,489	-	-	30,694,155
Year 7	30,694,155	184,165	736,660	1,350,543	-	-	32,965,523
Year 8	32,965,523	197,793	791,173	1,450,483	-	-	35,404,971
Year 9	35,404,971	212,430	849,719	1,557,819	-	-	38,024,939
Year 10	38,024,939	228,150	912,599	1,673,097	-	-	40,838,785
Year 11	40,838,785	245,033	980,131	1,796,907	-	-	43,860,855
Year 12	43,860,855	263,165	1,052,661	1,929,878	-	-	47,106,558
Year 13	47,106,558	282,639	1,130,557	2,072,689	-	-	50,592,443
Year 14	50,592,443	303,555	1,214,219	2,226,068	-	-	54,336,284
Year 15	54,336,284	326,018	1,304,071	2,390,796	-	-	58,357,169
Year 16	58,357,169	350,143	1,400,572	2,567,715	-	-	62,675,600
Year 17	62,675,600	376,054	1,504,214	2,757,726	-	-	67,313,594
Year 18	67,313,594	403,882	1,615,526	2,961,798	-	-	72,294,800
Year 19	72,294,800	433,769	1,735,075	3,180,971	-	-	77,644,615
Year 20	77,644,615	465,868	1,863,471	3,416,363	-	-	83,390,317
Year 21	83,390,317	500,342	2,001,368	3,669,174	-	-	89,561,200
Year 22	89,561,200	537,367	2,149,469	3,940,693	-	-	96,188,729
Year 23	96,188,729	577,132	2,308,529	4,232,304	-	-	103,306,695
Year 24	103,306,695	619,840	2,479,361	4,545,495	-	-	110,951,390
Year 25	110,951,390	665,708	2,662,833	4,881,861	-	-	119,161,793

**Robby and Reba Remainder
Hypothetical Technique**

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Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Long-Term Capital Gains Tax Rate	23.80%	
Ordinary Income Tax Rate	40.80%	
Annual Consumption (+3.0% per year)	\$1,250,000	

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	30.00%
IRS §7520 Rate	2.60%

Robby and Reba Remainder

	Financial Assets								
	Beginning of Year	Income	Tax Free Income	Growth	Financial Assets, FLP Distributions	RPM Annuity	Consumption	Income Taxes	End of Year
Year 1	-	-	-	-	1,330,000	2,017,470	(1,250,000)	(1,018,368)	1,079,102
Year 2	1,079,102	6,475	25,898	47,480	1,371,860	2,017,470	(1,287,500)	(1,228,246)	2,032,539
Year 3	2,032,539	12,195	48,781	89,432	1,415,395	2,017,470	(1,326,125)	(1,397,297)	2,892,391
Year 4	2,892,391	17,354	69,417	127,265	1,460,678	2,017,470	(1,365,909)	(1,538,611)	3,680,056
Year 5	3,680,056	22,080	88,321	161,922	1,507,783	2,017,470	(1,406,886)	(1,661,495)	4,409,252
Year 6	4,409,252	26,456	105,822	194,007	1,556,789	2,017,470	(1,449,093)	(1,772,586)	5,088,117
Year 7	5,088,117	30,529	122,115	223,877	1,607,778	2,017,470	(1,492,565)	(1,876,641)	5,720,679
Year 8	5,720,679	34,324	137,296	251,710	1,660,835	2,017,470	(1,537,342)	(1,977,093)	6,307,879
Year 9	6,307,879	37,847	151,389	277,547	1,716,050	2,017,470	(1,583,463)	(2,076,448)	6,848,271
Year 10	6,848,271	41,090	164,359	301,324	1,773,516	2,017,470	(1,630,966)	(2,176,557)	7,338,506
Year 11	7,338,506	44,031	176,124	322,894	1,833,330	2,017,470	(1,679,895)	(2,278,816)	7,773,643
Year 12	7,773,643	46,642	186,567	342,040	1,895,593	2,017,470	(1,730,292)	(2,384,307)	8,147,356
Year 13	8,147,356	48,884	195,537	358,484	1,960,412	2,017,470	(1,782,201)	(2,493,894)	8,452,047
Year 14	8,452,047	50,712	202,849	371,890	2,027,897	2,017,470	(1,835,667)	(2,608,293)	8,678,906
Year 15	8,678,906	52,073	208,294	381,872	2,098,164	2,017,470	(1,890,737)	(2,728,123)	8,817,919
Year 16	8,817,919	52,908	211,630	387,988	2,171,333	2,017,470	(1,947,459)	(2,853,940)	8,857,848
Year 17	8,857,848	53,147	212,588	389,745	2,247,530	2,017,470	(2,005,883)	(2,986,265)	8,786,181
Year 18	8,786,181	52,717	210,868	386,592	2,326,886	2,017,470	(2,066,060)	(3,125,599)	8,589,056
Year 19	8,589,056	51,534	206,137	377,918	2,409,539	2,017,470	(2,128,041)	(3,272,441)	8,251,173
Year 20	8,251,173	49,507	198,028	363,052	2,495,631	2,017,470	(2,191,883)	(3,427,292)	7,755,686
Year 21	7,755,686	46,534	186,136	341,250	2,585,311	2,017,470	(2,257,639)	(3,590,669)	7,084,080
Year 22	7,084,080	42,504	170,018	311,700	2,678,737	2,017,470	(2,325,368)	(3,763,108)	6,216,032
Year 23	6,216,032	37,296	149,185	273,505	2,776,069	2,017,470	(2,395,129)	(3,945,166)	5,129,262
Year 24	5,129,262	30,776	123,102	225,688	2,877,479	2,017,470	(2,466,983)	(4,137,432)	3,799,362
Year 25	3,799,362	22,796	91,185	167,172	2,983,144	2,017,470	(2,540,993)	(4,279,416)	2,260,721

**Robby and Reba Remainder
Hypothetical Technique**

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Assumptions:	Financial Assets	Alternative Investments
Total Estimated Rate of Return Over Next 25 Years	7.40%	8.00%
Rate of Return Taxed at Ordinary Rates	0.60%	7.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	1.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Long-Term Capital Gains Tax Rate	23.80%	
Ordinary Income Tax Rate	40.80%	
Annual Consumption (+3.0% per year)	\$1,250,000	

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	30.00%
IRS §7520 Rate	2.60%

Financial Assets, FLP

	Financial Assets							Alternative Investments				Ownership		
	Beginning of Year	Income	Tax Free Income	Growth	Alternative Investments Income	Owner Distributions	End of Year	Beginning of Year	Growth	End of Year	End of Year	Robby Remainder	GST Tax Exempt Trust	RPM Trust
Year 1	80,000,000	480,000	1,920,000	3,520,000	1,400,000	(3,800,000)	83,520,000	20,000,000	200,000	20,200,000	103,720,000	35.0%	5.0%	60.0%
Year 2	83,520,000	501,120	2,004,480	3,674,880	1,414,000	(3,919,600)	87,194,880	20,200,000	202,000	20,402,000	107,596,880	35.0%	5.0%	60.0%
Year 3	87,194,880	523,169	2,092,677	3,836,575	1,428,140	(4,043,986)	91,031,455	20,402,000	204,020	20,606,020	111,637,475	35.0%	5.0%	60.0%
Year 4	91,031,455	546,189	2,184,755	4,005,384	1,442,421	(4,173,365)	95,036,839	20,606,020	206,060	20,812,080	115,848,919	35.0%	5.0%	60.0%
Year 5	95,036,839	570,221	2,280,884	4,181,621	1,456,846	(4,307,951)	99,218,460	20,812,080	208,121	21,020,201	120,238,661	35.0%	5.0%	60.0%
Year 6	99,218,460	595,311	2,381,243	4,365,612	1,471,414	(4,447,968)	103,584,072	21,020,201	210,202	21,230,403	124,814,475	35.0%	5.0%	60.0%
Year 7	103,584,072	621,504	2,486,018	4,557,699	1,486,128	(4,593,650)	108,141,771	21,230,403	212,304	21,442,707	129,584,478	35.0%	5.0%	60.0%
Year 8	108,141,771	648,851	2,595,403	4,758,238	1,500,989	(4,745,243)	112,900,009	21,442,707	214,427	21,657,134	134,557,143	35.0%	5.0%	60.0%
Year 9	112,900,009	677,400	2,709,600	4,967,600	1,515,999	(4,903,000)	117,867,609	21,657,134	216,571	21,873,705	139,741,315	35.0%	5.0%	60.0%
Year 10	117,867,609	707,206	2,828,823	5,186,175	1,531,159	(5,067,188)	123,053,784	21,873,705	218,737	22,092,443	145,146,227	35.0%	5.0%	60.0%
Year 11	123,053,784	738,323	2,953,291	5,414,367	1,546,471	(5,238,084)	128,468,151	22,092,443	220,924	22,313,367	150,781,518	35.0%	5.0%	60.0%
Year 12	128,468,151	770,809	3,083,236	5,652,599	1,561,936	(5,415,980)	134,120,749	22,313,367	223,134	22,536,501	156,657,250	35.0%	5.0%	60.0%
Year 13	134,120,749	804,724	3,218,898	5,901,313	1,577,555	(5,601,178)	140,022,062	22,536,501	225,365	22,761,866	162,783,928	35.0%	5.0%	60.0%
Year 14	140,022,062	840,132	3,360,529	6,160,971	1,593,331	(5,793,992)	146,183,033	22,761,866	227,619	22,989,484	169,172,517	35.0%	5.0%	60.0%
Year 15	146,183,033	877,098	3,508,393	6,432,053	1,609,264	(5,994,755)	152,615,086	22,989,484	229,895	23,219,379	175,834,466	35.0%	5.0%	60.0%
Year 16	152,615,086	915,691	3,662,762	6,715,064	1,625,357	(6,203,809)	159,330,150	23,219,379	232,194	23,451,573	182,781,723	35.0%	5.0%	60.0%
Year 17	159,330,150	955,981	3,823,924	7,010,527	1,641,610	(6,421,515)	166,340,677	23,451,573	234,516	23,686,089	190,026,765	35.0%	5.0%	60.0%
Year 18	166,340,677	998,044	3,992,176	7,318,990	1,658,026	(6,648,247)	173,659,667	23,686,089	236,861	23,922,950	197,582,616	35.0%	5.0%	60.0%
Year 19	173,659,667	1,041,958	4,167,832	7,641,025	1,674,606	(6,884,396)	181,300,692	23,922,950	239,229	24,162,179	205,462,871	35.0%	5.0%	60.0%
Year 20	181,300,692	1,087,804	4,351,217	7,977,230	1,691,353	(7,130,373)	189,277,922	24,162,179	241,622	24,403,801	213,681,723	35.0%	5.0%	60.0%
Year 21	189,277,922	1,135,668	4,542,670	8,328,229	1,708,266	(7,386,604)	197,606,151	24,403,801	244,038	24,647,839	222,253,990	35.0%	5.0%	60.0%
Year 22	197,606,151	1,185,637	4,742,548	8,694,671	1,725,349	(7,653,533)	206,300,822	24,647,839	246,478	24,894,317	231,195,139	35.0%	5.0%	60.0%
Year 23	206,300,822	1,237,805	4,951,220	9,077,236	1,742,602	(7,931,627)	215,378,058	24,894,317	248,943	25,143,260	240,521,318	35.0%	5.0%	60.0%
Year 24	215,378,058	1,292,268	5,169,073	9,476,635	1,760,028	(8,221,370)	224,854,692	25,143,260	251,433	25,394,693	250,249,385	35.0%	5.0%	60.0%
Year 25	224,854,692	1,349,128	5,396,513	9,893,606	1,777,629	(8,523,269)	234,748,299	25,394,693	253,947	25,648,640	260,396,939	35.0%	5.0%	60.0%

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Hypothetical Technique**

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Assumptions:	Financial Assets	Alternative Investments
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Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	1.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Long-Term Capital Gains Tax Rate	23.80%	
Ordinary Income Tax Rate	40.80%	
Annual Consumption (+3.0% per year)	\$1,250,000	

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	30.00%
IRS §7520 Rate	2.60%

GST Tax Exempt Grantor Trust

	Financial Assets								End of Year
	Beginning of Year	Income	Tax Free Income	Growth	Financial Assets, FLP Distributions	RPM Remainder	Beneficiary Distributions	Income Taxes	
Year 1	-	-	-	-	190,000	-	-	-	190,000
Year 2	190,000	1,140	4,560	8,360	195,980	-	-	-	400,040
Year 3	400,040	2,400	9,601	17,602	202,199	-	-	-	631,842
Year 4	631,842	3,791	15,164	27,801	208,668	-	-	-	887,267
Year 5	887,267	5,324	21,294	39,040	215,398	-	-	-	1,168,322
Year 6	1,168,322	7,010	28,040	51,406	222,398	-	-	-	1,477,176
Year 7	1,477,176	8,863	35,452	64,996	229,683	-	-	-	1,816,170
Year 8	1,816,170	10,897	43,588	79,911	237,262	-	-	-	2,187,829
Year 9	2,187,829	13,127	52,508	96,264	245,150	-	-	-	2,594,878
Year 10	2,594,878	15,569	62,277	114,175	253,359	-	-	-	3,040,258
Year 11	3,040,258	18,242	72,966	133,771	261,904	-	-	-	3,527,142
Year 12	3,527,142	21,163	84,651	155,194	270,799	-	-	-	4,058,949
Year 13	4,058,949	24,354	97,415	178,594	280,059	-	-	-	4,639,370
Year 14	4,639,370	27,836	111,345	204,132	289,700	-	-	-	5,272,383
Year 15	5,272,383	31,634	126,537	231,985	299,738	-	-	-	5,962,277
Year 16	5,962,277	35,774	143,095	262,340	310,190	-	-	-	6,713,676
Year 17	6,713,676	40,282	161,128	295,402	321,076	-	-	-	7,531,564
Year 18	7,531,564	45,189	180,758	331,389	332,412	-	-	-	8,421,312
Year 19	8,421,312	50,528	202,111	370,538	344,220	-	-	-	9,388,709
Year 20	9,388,709	56,332	225,329	413,103	356,519	-	-	-	10,439,992
Year 21	10,439,992	62,640	250,560	459,360	369,330	-	-	-	11,581,882
Year 22	11,581,882	69,491	277,965	509,603	382,677	-	-	-	12,821,618
Year 23	12,821,618	76,930	307,719	564,151	396,581	-	-	-	14,166,999
Year 24	14,166,999	85,002	340,008	623,348	411,068	-	-	-	15,626,425
Year 25	15,626,425	93,759	375,034	687,563	426,163	71,334,397	-	-	88,543,341

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Assumptions:	Financial Assets	Alternative Investments
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Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	1.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	30.00%
Long-Term Capital Gains Tax Rate	23.80%	
Ordinary Income Tax Rate	40.80%	
Annual Consumption (+3.0% per year)	\$1,250,000	

Assumptions (continued):	
Financial Assets, FLP Valuation Discount	30.00%
IRS §7520 Rate	2.60%

RPM Trust

	Financial Assets							End of Year
	Beginning of Year	Income	Tax Free Income	Growth	Financial Assets, FLP Distributions	RPM Distributions	Remainder to GST Trust	
Year 1	-	-	-	-	2,280,000	(2,017,470)	-	262,530
Year 2	262,530	1,575	6,301	11,551	2,351,760	(2,017,470)	-	616,247
Year 3	616,247	3,697	14,790	27,115	2,426,392	(2,017,470)	-	1,070,771
Year 4	1,070,771	6,425	25,699	47,114	2,504,019	(2,017,470)	-	1,636,557
Year 5	1,636,557	9,819	39,277	72,009	2,584,770	(2,017,470)	-	2,324,963
Year 6	2,324,963	13,950	55,799	102,298	2,668,781	(2,017,470)	-	3,148,321
Year 7	3,148,321	18,890	75,560	138,526	2,756,190	(2,017,470)	-	4,120,017
Year 8	4,120,017	24,720	98,880	181,281	2,847,146	(2,017,470)	-	5,254,574
Year 9	5,254,574	31,527	126,110	231,201	2,941,800	(2,017,470)	-	6,567,742
Year 10	6,567,742	39,406	157,626	288,981	3,040,313	(2,017,470)	-	8,076,598
Year 11	8,076,598	48,460	193,838	355,370	3,142,851	(2,017,470)	-	9,799,647
Year 12	9,799,647	58,798	235,192	431,184	3,249,588	(2,017,470)	-	11,756,939
Year 13	11,756,939	70,542	282,167	517,305	3,360,707	(2,017,470)	-	13,970,189
Year 14	13,970,189	83,821	335,285	614,688	3,476,395	(2,017,470)	-	16,462,908
Year 15	16,462,908	98,777	395,110	724,368	3,596,853	(2,017,470)	-	19,260,546
Year 16	19,260,546	115,563	462,253	847,464	3,722,285	(2,017,470)	-	22,390,642
Year 17	22,390,642	134,344	537,375	985,188	3,852,909	(2,017,470)	-	25,882,988
Year 18	25,882,988	155,298	621,192	1,138,851	3,988,948	(2,017,470)	-	29,769,807
Year 19	29,769,807	178,619	714,475	1,309,872	4,130,638	(2,017,470)	-	34,085,941
Year 20	34,085,941	204,516	818,063	1,499,781	4,278,224	(2,017,470)	-	38,869,055
Year 21	38,869,055	233,214	932,857	1,710,238	4,431,962	(2,017,470)	-	44,159,857
Year 22	44,159,857	264,959	1,059,837	1,943,034	4,592,120	(2,017,470)	-	50,002,336
Year 23	50,002,336	300,014	1,200,056	2,200,103	4,758,976	(2,017,470)	-	56,444,015
Year 24	56,444,015	338,664	1,354,656	2,483,537	4,932,822	(2,017,470)	-	63,536,225
Year 25	63,536,225	381,217	1,524,869	2,795,594	5,113,962	(2,017,470)	(71,334,397)	-

RPM Annuity Calculation		
Financial Assets, FLP		100,000,000
Financial Assets, FLP Valuation Discount		(30,000,000)
Financial Assets, FLP Discounted Value		70,000,000
Robby Remainder Initial Ownership	80%	56,000,000
GST Trust #1 Initial Ownership	20%	14,000,000
Robby Contributes to RPM	60%	42,000,000
GST Trust #1 Purchases Remainder	15%	10,500,000
RPM Payout Percent & Annuity	4.8035%	2,017,470

Schedule 9

Alan and Alice Artlover

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mr. and Mrs. Art have a joint life expectancy of 25 years)

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

	25-Year Future Values		Present Values (Discounted at 2.5%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning				
Alan and Alice Artlover	418,478,422	-	-	0.00%
Art Children	-	239,463,053	129,164,118	29.89%
Art Children and Grandchildren	119,161,793	127,666,275	68,861,987	15.93%
Consumption & Maintenance - Direct Cost	64,628,987	64,628,987	34,860,267	8.07%
Consumption & Maintenance - Investment Opportunity Cost	84,587,881	84,587,881	45,625,907	10.56%
IRS Income Tax - Direct Cost	51,988,337	51,988,337	28,042,020	6.49%
IRS Income Tax - Investment Opportunity Costs	62,417,802	62,417,802	33,667,575	7.79%
IRS Income Tax - Embedded Capital Gains Tax Liability ⁽¹⁾	-	2,335,519	1,259,757	0.29%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	168,175,369	90,712,211	20.99%
Total	\$801,263,221	\$801,263,221	\$432,193,841	100.00%

Hypothetical Technique				
Alan and Alice Artlover	153,668,808	-	-	0.00%
Art Children	-	81,697,285	44,066,747	10.20%
Art Children and Grandchildren	382,569,538	387,802,991	209,177,284	48.40%
Consumption & Maintenance - Direct Cost	64,628,987	64,628,987	34,860,267	8.07%
Consumption & Maintenance - Investment Opportunity Cost	84,587,881	84,587,881	45,625,907	10.56%
IRS Income Tax - Direct Cost	53,390,206	53,390,206	28,798,175	6.66%
IRS Income Tax - Investment Opportunity Costs	62,417,802	62,417,802	33,667,575	7.79%
IRS Income Tax - Embedded Capital Gains Tax Liability ⁽¹⁾	-	5,606,547	3,024,119	0.70%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	61,131,523	32,973,768	7.63%
Total	\$801,263,221	\$801,263,221	\$432,193,841	100.00%

Calculations of Remaining Exemption⁽²⁾	
Assumed Estate and Gift Tax Exemption per Taxpayer	11,400,000
Assumed Prior Gifts per Taxpayer	10,000,000
Future Exemption Available in 25 years (assumes 2.5% inflation) - 2 taxpayers, after prior gifts	10,840,000

(1) Post death amounts to children and grandchildren are reduced by the embedded capital gain tax liability. This capital gains tax is only paid when those assets are sold.

(2) For purposes of these calculations, it is assumed that the increased estate tax exemption sunsets in 2025.

Schedule 9
Alan and Alice Artlover
No Further Planning

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Assumptions:	Financial Assets	Vacation Home & Artwork
Total Estimated Rate of Return	7.40%	8.00%
Rate of Return Taxed at Ordinary Rates	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income and Health Care Tax Rate	40.80%	
Long-Term Capital Gains and Health Care Tax Rate	23.80%	
Annual Consumption (+2.5% per year)	\$1,250,000	
Maintenance Exp. for Home and Art (as a % of value)	1.00%	

Alan and Alice Artlover

	Financial Assets								Vacation Home			Artwork			End of Year Total
	Beginning of Year	Income	Tax Free Income	Growth	Maintenance Expense	Consumption from these Sources	Income Taxes	End of Year	Beginning of Year	Growth	End of Year	Beginning of Year	Growth	End of Year	
Year 1	80,000,000	480,000	1,920,000	3,520,000	(300,000)	(1,250,000)	(558,960)	83,811,040	10,000,000	800,000	10,800,000	20,000,000	1,600,000	21,600,000	116,211,040
Year 2	83,811,040	502,866	2,011,465	3,687,686	(324,000)	(1,281,250)	(808,447)	87,599,360	10,800,000	864,000	11,664,000	21,600,000	1,728,000	23,328,000	122,591,360
Year 3	87,599,360	525,596	2,102,385	3,854,372	(349,920)	(1,313,281)	(1,004,081)	91,414,431	11,664,000	933,120	12,597,120	23,328,000	1,866,240	25,194,240	129,205,791
Year 4	91,414,431	548,487	2,193,946	4,022,235	(377,914)	(1,346,113)	(1,162,676)	95,292,396	12,597,120	1,007,770	13,604,890	25,194,240	2,015,539	27,209,779	136,107,064
Year 5	95,292,396	571,754	2,287,017	4,192,865	(408,147)	(1,379,766)	(1,296,155)	99,259,965	13,604,890	1,088,391	14,693,281	27,209,779	2,176,782	29,386,562	143,339,808
Year 6	99,259,965	595,560	2,382,239	4,367,438	(440,798)	(1,414,260)	(1,412,986)	103,337,158	14,693,281	1,175,462	15,868,743	29,386,562	2,350,925	31,737,486	150,943,388
Year 7	103,337,158	620,023	2,480,092	4,546,835	(476,062)	(1,449,617)	(1,519,207)	107,539,222	15,868,743	1,269,499	17,138,243	31,737,486	2,538,999	34,276,485	158,953,950
Year 8	107,539,222	645,235	2,580,941	4,731,726	(514,147)	(1,485,857)	(1,619,134)	111,877,986	17,138,243	1,371,059	18,509,302	34,276,485	2,742,119	37,018,604	167,405,892
Year 9	111,877,986	671,268	2,685,072	4,922,631	(555,279)	(1,523,004)	(1,715,878)	116,362,797	18,509,302	1,480,744	19,990,046	37,018,604	2,961,488	39,980,093	176,332,936
Year 10	116,362,797	698,177	2,792,707	5,119,963	(599,701)	(1,561,079)	(1,811,696)	121,001,168	19,990,046	1,599,204	21,589,250	39,980,093	3,198,407	43,178,500	185,768,918
Year 11	121,001,168	726,007	2,904,028	5,324,051	(647,677)	(1,600,106)	(1,908,249)	125,799,222	21,589,250	1,727,140	23,316,390	43,178,500	3,454,280	46,632,780	195,748,392
Year 12	125,799,222	754,795	3,019,181	5,535,166	(699,492)	(1,640,108)	(2,006,777)	130,761,987	23,316,390	1,865,311	25,181,701	46,632,780	3,730,622	50,363,402	206,307,091
Year 13	130,761,987	784,572	3,138,288	5,753,527	(755,451)	(1,681,111)	(2,108,229)	135,893,584	25,181,701	2,014,536	27,196,237	50,363,402	4,029,072	54,392,475	217,482,295
Year 14	135,893,584	815,362	3,261,446	5,979,318	(815,887)	(1,723,139)	(2,213,347)	141,197,336	27,196,237	2,175,699	29,371,936	54,392,475	4,351,398	58,743,872	229,313,145
Year 15	141,197,336	847,184	3,388,736	6,212,683	(881,158)	(1,766,217)	(2,322,735)	146,675,829	29,371,936	2,349,755	31,721,691	58,743,872	4,699,510	63,443,382	241,840,902
Year 16	146,675,829	880,055	3,520,220	6,453,736	(951,651)	(1,810,373)	(2,436,901)	152,330,916	31,721,691	2,537,735	34,259,426	63,443,382	5,075,471	68,518,853	255,109,195
Year 17	152,330,916	913,985	3,655,942	6,702,560	(1,027,783)	(1,855,632)	(2,556,286)	158,163,703	34,259,426	2,740,754	37,000,181	68,518,853	5,481,508	74,000,361	269,164,244
Year 18	158,163,703	948,982	3,795,929	6,959,203	(1,110,005)	(1,902,023)	(2,681,293)	164,174,495	37,000,181	2,960,014	39,960,195	74,000,361	5,920,029	79,920,390	284,055,080
Year 19	164,174,495	985,047	3,940,188	7,223,678	(1,198,806)	(1,949,573)	(2,812,296)	170,362,733	39,960,195	3,196,816	43,157,011	79,920,390	6,393,631	86,314,021	299,833,765
Year 20	170,362,733	1,022,176	4,088,706	7,495,960	(1,294,710)	(1,998,313)	(2,949,655)	176,726,897	43,157,011	3,452,561	46,609,571	86,314,021	6,905,122	93,219,143	316,555,611
Year 21	176,726,897	1,060,361	4,241,446	7,775,983	(1,398,287)	(2,048,271)	(3,093,725)	183,264,405	46,609,571	3,728,766	50,338,337	93,219,143	7,457,531	100,676,674	334,279,416
Year 22	183,264,405	1,099,586	4,398,346	8,063,634	(1,510,150)	(2,099,477)	(3,244,856)	189,971,487	50,338,337	4,027,067	54,365,404	100,676,674	8,054,134	108,730,808	353,067,699
Year 23	189,971,487	1,139,829	4,559,316	8,358,745	(1,630,962)	(2,151,964)	(3,403,407)	196,843,044	54,365,404	4,349,232	58,714,636	108,730,808	8,698,465	117,429,273	372,986,953
Year 24	196,843,044	1,181,058	4,724,233	8,661,094	(1,761,439)	(2,205,763)	(3,569,737)	203,872,489	58,714,636	4,697,171	63,411,807	117,429,273	9,394,342	126,823,615	394,107,911
Year 25	203,872,489	1,223,235	4,892,940	8,970,390	(1,902,354)	(2,260,907)	(1,771,625)	213,024,167	63,411,807	5,072,945	68,484,752	126,823,615	10,145,889	136,969,504	418,478,422

Schedule 9

Alan and Alice Artlover

No Further Planning

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Assumptions:	Financial Assets	Vacation Home & Artwork
Total Estimated Rate of Return	7.40%	8.00%
Rate of Return Taxed at Ordinary Rates	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income and Health Care Tax Rate	40.80%	
Long-Term Capital Gains and Health Care Tax Rate	23.80%	
Annual Consumption (+2.5% per year)	\$1,250,000	
Maintenance Exp. for Home and Art (as a % of value)	1.00%	

Existing GST Tax Exempt Grantor Trust for G Family Descendants

	Financial Assets						
	Beginning of Year	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year
Year 1	20,000,000	120,000	480,000	880,000	-	-	21,480,000
Year 2	21,480,000	128,880	515,520	945,120	-	-	23,069,520
Year 3	23,069,520	138,417	553,668	1,015,059	-	-	24,776,664
Year 4	24,776,664	148,660	594,640	1,090,173	-	-	26,610,138
Year 5	26,610,138	159,661	638,643	1,170,846	-	-	28,579,288
Year 6	28,579,288	171,476	685,903	1,257,489	-	-	30,694,155
Year 7	30,694,155	184,165	736,660	1,350,543	-	-	32,965,523
Year 8	32,965,523	197,793	791,173	1,450,483	-	-	35,404,971
Year 9	35,404,971	212,430	849,719	1,557,819	-	-	38,024,939
Year 10	38,024,939	228,150	912,599	1,673,097	-	-	40,838,785
Year 11	40,838,785	245,033	980,131	1,796,907	-	-	43,860,855
Year 12	43,860,855	263,165	1,052,661	1,929,878	-	-	47,106,558
Year 13	47,106,558	282,639	1,130,557	2,072,689	-	-	50,592,443
Year 14	50,592,443	303,555	1,214,219	2,226,068	-	-	54,336,284
Year 15	54,336,284	326,018	1,304,071	2,390,796	-	-	58,357,169
Year 16	58,357,169	350,143	1,400,572	2,567,715	-	-	62,675,600
Year 17	62,675,600	376,054	1,504,214	2,757,726	-	-	67,313,594
Year 18	67,313,594	403,882	1,615,526	2,961,798	-	-	72,294,800
Year 19	72,294,800	433,769	1,735,075	3,180,971	-	-	77,644,615
Year 20	77,644,615	465,868	1,863,471	3,416,363	-	-	83,390,317
Year 21	83,390,317	500,342	2,001,368	3,669,174	-	-	89,561,200
Year 22	89,561,200	537,367	2,149,469	3,940,693	-	-	96,188,729
Year 23	96,188,729	577,132	2,308,529	4,232,304	-	-	103,306,695
Year 24	103,306,695	619,840	2,479,361	4,545,495	-	-	110,951,390
Year 25	110,951,390	665,708	2,662,833	4,881,861	-	-	119,161,793

Schedule 9
Alan and Alice Artlover
Hypothetical Technique

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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	Financial Assets	Vacation Home & Artwork
Assumptions:		
Total Estimated Rate of Return	7.40%	8.00%
Rate of Return Taxed at Ordinary Rates	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income and Health Care Tax Rate	40.80%	
Long-Term Capital Gains and Health Care Tax Rate	23.80%	
Annual Consumption (+2.5% per year)	\$1,250,000	
Maintenance Exp. for Home and Art (as a % of value)	1.00%	

Assumptions (continued):	
IRS §7520 Rate	2.60%
IRS Applicable Federal Rate (Mid-Term)	2.08%
Life Estate Remainder for a 60 Year Old Person (based on 2.6% interest)	59.405%

Alan and Alice Artlover

	Financial Assets								
	Beginning of Year	Income	Tax Free Income	Growth	RPM Trust Distributions	Note Payments	Consumption from these Sources	Income Taxes	End of Year
Year 1	10,332,800	61,997	247,987	454,643	601,216	1,788,800	(1,250,000)	(558,960)	11,678,483
Year 2	11,678,483	70,071	280,284	513,853	695,577	1,788,800	(1,281,250)	(808,447)	12,937,371
Year 3	12,937,371	77,624	310,497	569,244	793,225	1,788,800	(1,313,281)	(1,004,081)	14,159,400
Year 4	14,159,400	84,956	339,826	623,014	894,237	1,788,800	(1,346,113)	(1,162,676)	15,381,443
Year 5	15,381,443	92,289	369,155	676,784	998,686	1,788,800	(1,379,766)	(1,296,155)	16,631,235
Year 6	16,631,235	99,787	399,150	731,774	1,106,642	1,788,800	(1,414,260)	(1,412,986)	17,930,142
Year 7	17,930,142	107,581	430,323	788,926	1,218,173	1,788,800	(1,449,617)	(1,519,207)	19,295,122
Year 8	19,295,122	115,771	463,083	848,985	1,333,341	1,788,800	(1,485,857)	(1,619,134)	20,740,112
Year 9	20,740,112	124,441	497,763	912,565	1,452,206	1,788,800	(1,523,004)	(1,715,878)	22,277,005
Year 10	22,277,005	133,662	534,648	980,188	1,574,821	1,788,800	(1,561,079)	(1,811,696)	23,916,349
Year 11	23,916,349	143,498	573,992	1,052,319	1,701,231	1,788,800	(1,600,106)	(1,908,249)	25,667,835
Year 12	25,667,835	154,007	616,028	1,129,385	1,831,476	1,788,800	(1,640,108)	(2,006,777)	27,540,645
Year 13	27,540,645	165,244	660,975	1,211,788	1,965,586	1,788,800	(1,681,111)	(2,108,229)	29,543,699
Year 14	29,543,699	177,262	709,049	1,299,923	2,103,583	1,788,800	(1,723,139)	(2,213,347)	31,685,830
Year 15	31,685,830	190,115	760,460	1,394,177	2,245,476	1,788,800	(1,766,217)	(2,322,735)	33,975,905
Year 16	33,975,905	203,855	815,422	1,494,940	2,391,262	1,788,800	(1,810,373)	(2,436,901)	36,422,911
Year 17	36,422,911	218,537	874,150	1,602,608	2,540,925	1,788,800	(1,855,632)	(2,556,286)	39,036,013
Year 18	39,036,013	234,216	936,864	1,717,585	2,694,433	1,788,800	(1,902,023)	(2,681,293)	41,824,595
Year 19	41,824,595	250,948	1,003,790	1,840,282	2,851,735	1,788,800	(1,949,573)	(2,812,296)	44,798,281
Year 20	44,798,281	268,790	1,075,159	1,971,124	3,012,762	1,788,800	(1,998,313)	(2,949,655)	47,966,947
Year 21	47,966,947	287,802	1,151,207	2,110,546	3,177,421	1,788,800	(2,048,271)	(3,093,725)	51,340,727
Year 22	51,340,727	308,044	1,232,177	2,258,992	3,345,596	1,788,800	(2,099,477)	(3,244,856)	54,930,004
Year 23	54,930,004	329,580	1,318,320	2,416,920	3,517,144	1,788,800	(2,151,964)	(3,403,407)	58,745,397
Year 24	58,745,397	352,472	1,409,890	2,584,797	3,691,891	1,788,800	(2,205,763)	(3,569,737)	62,797,747
Year 25	62,797,747	376,786	1,507,146	2,763,101	3,869,630	87,788,800	(2,260,907)	(3,173,495)	153,668,808

Schedule 9
Alan and Alice Artlover
Hypothetical Technique

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	Financial Assets	Vacation Home & Artwork
Assumptions:		
Total Estimated Rate of Return	7.40%	8.00%
Rate of Return Taxed at Ordinary Rates	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income and Health Care Tax Rate	40.80%	
Long-Term Capital Gains and Health Care Tax Rate	23.80%	
Annual Consumption (+2.5% per year)	\$1,250,000	
Maintenance Exp. for Home and Art (as a % of value)	1.00%	

Assumptions (continued):	
IRS §7520 Rate	2.60%
IRS Applicable Federal Rate (Mid-Term)	2.08%
Life Estate Remainder for a 60 Year Old Person (based on 2.6% interest)	59.405%

Life Estate Remainder Purchase Marital Trust

	Financial Assets								Vacation Home			Artwork			End of Year Total
	Beginning of Year	Income	Tax Free Income	Growth	Note Payments	Maintenance Expense	Trust Distributions	End of Year	Beginning of Year	Growth	End of Year	Beginning of Year	Growth	End of Year	
Year 1	89,667,200	538,003	2,152,013	3,945,357	(1,788,800)	(300,000)	(601,216)	93,612,557	10,000,000	800,000	10,800,000	20,000,000	1,600,000	21,600,000	115,212,557
Year 2	93,612,557	561,675	2,246,701	4,118,952	(1,788,800)	(324,000)	(695,577)	97,731,509	10,800,000	864,000	11,664,000	21,600,000	1,728,000	23,328,000	121,059,509
Year 3	97,731,509	586,389	2,345,556	4,300,186	(1,788,800)	(349,920)	(793,225)	102,031,695	11,664,000	933,120	12,597,120	23,328,000	1,866,240	25,194,240	127,225,935
Year 4	102,031,695	612,190	2,448,761	4,489,395	(1,788,800)	(377,914)	(894,237)	106,521,090	12,597,120	1,007,770	13,604,890	25,194,240	2,015,539	27,209,779	133,730,869
Year 5	106,521,090	639,127	2,556,506	4,686,928	(1,788,800)	(408,147)	(998,686)	111,208,018	13,604,890	1,088,391	14,693,281	27,209,779	2,176,782	29,386,562	140,594,579
Year 6	111,208,018	667,248	2,668,992	4,893,153	(1,788,800)	(440,798)	(1,106,642)	116,101,171	14,693,281	1,175,462	15,868,743	29,386,562	2,350,925	31,737,486	147,838,657
Year 7	116,101,171	696,607	2,786,428	5,108,452	(1,788,800)	(476,062)	(1,218,173)	121,209,622	15,868,743	1,269,499	17,138,243	31,737,486	2,538,999	34,276,485	155,486,108
Year 8	121,209,622	727,258	2,909,031	5,333,223	(1,788,800)	(514,147)	(1,333,341)	126,542,846	17,138,243	1,371,059	18,509,302	34,276,485	2,742,119	37,018,604	163,561,450
Year 9	126,542,846	759,257	3,037,028	5,567,885	(1,788,800)	(555,279)	(1,452,206)	132,110,731	18,509,302	1,480,744	19,990,046	37,018,604	2,961,488	39,980,093	172,090,823
Year 10	132,110,731	792,664	3,170,658	5,812,872	(1,788,800)	(599,701)	(1,574,821)	137,923,603	19,990,046	1,599,204	21,589,250	39,980,093	3,198,407	43,178,500	181,102,103
Year 11	137,923,603	827,542	3,310,166	6,068,639	(1,788,800)	(647,677)	(1,701,231)	143,992,242	21,589,250	1,727,140	23,316,390	43,178,500	3,454,280	46,632,780	190,625,021
Year 12	143,992,242	863,953	3,455,814	6,335,659	(1,788,800)	(699,492)	(1,831,476)	150,327,900	23,316,390	1,865,311	25,181,701	46,632,780	3,730,622	50,363,402	200,691,303
Year 13	150,327,900	901,967	3,607,870	6,614,428	(1,788,800)	(755,451)	(1,965,586)	156,942,328	25,181,701	2,014,536	27,196,237	50,363,402	4,029,072	54,392,475	211,334,802
Year 14	156,942,328	941,654	3,766,616	6,905,462	(1,788,800)	(815,887)	(2,103,583)	163,847,790	27,196,237	2,175,699	29,371,936	54,392,475	4,351,398	58,743,872	222,591,663
Year 15	163,847,790	983,087	3,932,347	7,209,303	(1,788,800)	(881,158)	(2,245,476)	171,057,093	29,371,936	2,349,755	31,721,691	58,743,872	4,699,510	63,443,382	234,500,475
Year 16	171,057,093	1,026,343	4,105,370	7,526,512	(1,788,800)	(951,651)	(2,391,262)	178,583,605	31,721,691	2,537,735	34,259,426	63,443,382	5,075,471	68,518,853	247,102,458
Year 17	178,583,605	1,071,502	4,286,007	7,857,679	(1,788,800)	(1,027,783)	(2,540,925)	186,441,284	34,259,426	2,740,754	37,000,181	68,518,853	5,481,508	74,000,361	260,441,645
Year 18	186,441,284	1,118,648	4,474,591	8,203,416	(1,788,800)	(1,110,005)	(2,694,433)	194,644,700	37,000,181	2,960,014	39,960,195	74,000,361	5,920,029	79,920,390	274,565,090
Year 19	194,644,700	1,167,868	4,671,473	8,564,367	(1,788,800)	(1,198,806)	(2,851,735)	203,209,067	39,960,195	3,196,816	43,157,011	79,920,390	6,393,631	86,314,021	289,523,088
Year 20	203,209,067	1,219,254	4,877,018	8,941,199	(1,788,800)	(1,294,710)	(3,012,762)	212,150,266	43,157,011	3,452,561	46,609,571	86,314,021	6,905,122	93,219,143	305,369,409
Year 21	212,150,266	1,272,902	5,091,606	9,334,612	(1,788,800)	(1,398,287)	(3,177,421)	221,484,878	46,609,571	3,728,766	50,338,337	93,219,143	7,457,531	100,676,674	322,161,552
Year 22	221,484,878	1,328,909	5,315,637	9,745,335	(1,788,800)	(1,510,150)	(3,345,596)	231,230,212	50,338,337	4,027,067	54,365,404	100,676,674	8,054,134	108,730,808	339,961,020
Year 23	231,230,212	1,387,381	5,549,525	10,174,129	(1,788,800)	(1,630,962)	(3,517,144)	241,404,342	54,365,404	4,349,232	58,714,636	108,730,808	8,698,465	117,429,273	358,833,614
Year 24	241,404,342	1,448,426	5,793,704	10,621,791	(1,788,800)	(1,761,439)	(3,691,891)	252,026,133	58,714,636	4,697,171	63,411,807	117,429,273	9,394,342	126,823,615	378,849,747
Year 25	252,026,133	1,512,157	6,048,627	11,089,150	(87,788,800)	(1,902,354)	(180,984,912)	-	63,411,807	5,072,945	-	126,823,615	10,145,889	-	-

Schedule 9
Alan and Alice Artlover
Hypothetical Technique

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	Financial Assets	Vacation Home & Artwork
Assumptions:		
Total Estimated Rate of Return	7.40%	8.00%
Rate of Return Taxed at Ordinary Rates	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income and Health Care Tax Rate	40.80%	
Long-Term Capital Gains and Health Care Tax Rate	23.80%	
Annual Consumption (+2.5% per year)	\$1,250,000	
Maintenance Exp. for Home and Art (as a % of value)	1.00%	

Assumptions (continued):	
IRS §7520 Rate	2.60%
IRS Applicable Federal Rate (Mid-Term)	2.08%
Life Estate Remainder for a 60 Year Old Person (based on 2.6% interest)	59.405%

Existing GST Tax Exempt Grantor Trust for G Family Descendants

	Financial Assets							Vacation Home			Artwork			End of Year Total	
	Beginning of Year	Income	Tax Free Income	Growth	RPM Remainder	Beneficiary Distributions	Income Taxes	End of Year	Beginning of Year	Growth	End of Year RPM Remainder	Beginning of Year	Growth		End of Year RPM Remainder
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 22	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 24	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 25	-	-	-	-	177,115,282	-	-	177,115,282	-	-	68,484,752	-	-	136,969,504	382,569,538

Schedule 9
Alan and Alice Artlover
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	Financial Assets	Vacation Home & Artwork
Assumptions:		
Total Estimated Rate of Return	7.40%	8.00%
Rate of Return Taxed at Ordinary Rates	0.60%	0.00%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gains Rates	4.40%	8.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income and Health Care Tax Rate	40.80%	
Long-Term Capital Gains and Health Care Tax Rate	23.80%	
Annual Consumption (+2.5% per year)	\$1,250,000	
Maintenance Exp. for Home and Art (as a % of value)	1.00%	

Assumptions (continued):	
IRS §7520 Rate	2.60%
IRS Applicable Federal Rate (Mid-Term)	2.08%
Life Estate Remainder for a 60 Year Old Person (based on 2.6% interest)	59.405%

Note Between Mr. Artlover and RPM Trust

	Beginning of Year Principal	Interest @ 2.08%	Note Payments by RPM Trust	End of Year Principal
Year 1	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 2	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 3	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 4	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 5	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 6	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 7	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 8	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 9	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 10*	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 11	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 12	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 13	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 14	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 15	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 16	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 17	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 18	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 19	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 20*	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 21	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 22	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 23	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 24	86,000,000	1,788,800	(1,788,800)	86,000,000
Year 25	86,000,000	1,788,800	(87,788,800)	-

Note Calculation	
Financial Assets	56,000,000
Artwork	20,000,000
Vacation Home	10,000,000
	<u>86,000,000</u>

*Note could be refinanced at the then mid-term rate.

Schedule 10

Neal & Nancy Navigator

Hypothetical Integrated Income and Estate Tax Plan Comparisons

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	25-Year Future Values		Present Values (Discounted at 3.0%)	Percentage of Total
	Pre-Death	Post Death		
No Further Planning				
Neal & Nancy Navigator	108,525,908	-	-	0.00%
Navigator Children	-	55,611,545	26,560,383	18.28%
Navigator Children & Grandchildren	86,898,584	101,152,074	48,310,794	33.26%
Consumption - Direct Cost	21,875,559	21,875,559	10,447,889	7.19%
Consumption - Investment Opportunity Cost	24,991,662	24,991,662	11,936,157	8.22%
IRS Income Tax - Direct Cost	31,008,202	31,008,202	14,809,690	10.20%
IRS Income Tax - Investment Opportunity Cost	30,845,129	30,845,129	14,731,806	10.14%
IRS Income Tax - Embedded Capital Gain Tax Liability ⁽¹⁾	-	1,586,510	757,726	0.52%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	37,074,363	17,706,922	12.19%
Total	\$304,145,044	\$304,145,044	\$145,261,367	100.00%
Hypothetical Technique - LAIDGT and RPM				
Neal & Nancy Navigator	9,628,994	-	-	0.00%
Navigator Children	-	431,396	206,037	0.14%
Navigator Children & Grandchildren	184,930,604	190,236,010	90,857,778	62.55%
Consumption - Direct Cost	21,875,559	21,875,559	10,447,889	7.19%
Consumption - Investment Opportunity Cost	24,991,662	24,991,662	11,936,157	8.22%
IRS Income Tax - Direct Cost	31,873,096	31,873,096	15,222,768	10.48%
IRS Income Tax - Investment Opportunity Cost	30,845,129	30,845,129	14,731,806	10.14%
IRS Income Tax - Embedded Capital Gain Tax Liability ⁽¹⁾	-	3,604,594	1,721,574	1.19%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	287,598	137,358	0.09%
Total	\$304,145,044	\$304,145,044	\$145,261,367	100.00%
	No Further Planning	Hypothetical Technique		
Calculations of Remaining Estate Tax Exemption ⁽²⁾				
Current Gift and Estate Exemption (2 taxpayers)	24,120,000	24,120,000		
Assumed Prior Gifts Made	(10,000,000)	(16,930,000)		
Future Estate Tax Exemption Available in 25 years (2 taxpayers, assumes 3.0% inflation)	15,840,000	8,910,000		

(1) Post death amounts to Children & Grandchildren are reduced by the embedded capital gain tax liability. This capital gains tax is only paid when those assets are sold.

(2) For purposes of these calculations, it is assumed that the increased estate tax exemption sunsets in 2025.

Schedule 10
Neal & Nancy Navigator
No Further Planning

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Assumptions:	
Total Estimated Pre-Tax Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+3.0% / year)	\$600,000

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%

Neal & Nancy Navigator (and affiliates)

	Financial & Marketable Securities							
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Consumption from these Sources	Income Taxes	End of Year
Year 1	45,000,000	67,500	607,500	450,000	1,800,000	(600,000)	(368,424)	46,956,576
Year 2	46,956,576	70,435	633,914	469,566	1,878,263	(618,000)	(512,658)	48,878,096
Year 3	48,878,096	73,317	659,854	488,781	1,955,124	(636,540)	(625,597)	50,793,035
Year 4	50,793,035	76,190	685,706	507,930	2,031,721	(655,636)	(716,980)	52,721,966
Year 5	52,721,966	79,083	711,747	527,220	2,108,879	(675,305)	(793,703)	54,679,886
Year 6	54,679,886	82,020	738,178	546,799	2,187,195	(695,564)	(860,661)	56,677,853
Year 7	56,677,853	85,017	765,151	566,779	2,267,114	(716,431)	(921,337)	58,724,145
Year 8	58,724,145	88,086	792,776	587,241	2,348,966	(737,924)	(978,219)	60,825,071
Year 9	60,825,071	91,238	821,138	608,251	2,433,003	(760,062)	(1,033,094)	62,985,544
Year 10	62,985,544	94,478	850,305	629,855	2,519,422	(782,864)	(1,087,256)	65,209,485
Year 11	65,209,485	97,814	880,328	652,095	2,608,379	(806,350)	(1,141,655)	67,500,096
Year 12	67,500,096	101,250	911,251	675,001	2,700,004	(830,540)	(1,196,997)	69,860,065
Year 13	69,860,065	104,790	943,111	698,601	2,794,403	(855,457)	(1,253,818)	72,291,695
Year 14	72,291,695	108,438	975,938	722,917	2,891,668	(881,120)	(1,312,539)	74,796,996
Year 15	74,796,996	112,195	1,009,759	747,970	2,991,880	(907,554)	(1,373,499)	77,377,748
Year 16	77,377,748	116,067	1,044,600	773,777	3,095,110	(934,780)	(1,436,983)	80,035,538
Year 17	80,035,538	120,053	1,080,480	800,355	3,201,422	(962,824)	(1,503,239)	82,771,785
Year 18	82,771,785	124,158	1,117,419	827,718	3,310,871	(991,709)	(1,572,492)	85,587,751
Year 19	85,587,751	128,382	1,155,435	855,878	3,423,510	(1,021,460)	(1,644,953)	88,484,542
Year 20	88,484,542	132,727	1,194,541	884,845	3,539,382	(1,052,104)	(1,720,826)	91,463,108
Year 21	91,463,108	137,195	1,234,752	914,631	3,658,524	(1,083,667)	(1,800,314)	94,524,229
Year 22	94,524,229	141,786	1,276,077	945,242	3,780,969	(1,116,177)	(1,883,621)	97,668,506
Year 23	97,668,506	146,503	1,318,525	976,685	3,906,740	(1,149,662)	(1,970,954)	100,896,342
Year 24	100,896,342	151,345	1,362,101	1,008,963	4,035,854	(1,184,152)	(2,062,528)	104,207,924
Year 25	104,207,924	156,312	1,406,807	1,042,079	4,168,317	(1,219,676)	(1,235,855)	108,525,908

Schedule 10
Neal & Nancy Navigator
No Further Planning

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Assumptions:	
Total Estimated Pre-Tax Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+3.0% / year)	\$600,000

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%

Existing Grantor Trust #1 (GST Tax Exempt)

	Financial & Marketable Securities							End of Year
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Beneficiary Distributions	Income Taxes	
Year 1	18,000,000	27,000	243,000	180,000	720,000	-	-	19,170,000
Year 2	19,170,000	28,755	258,795	191,700	766,800	-	-	20,416,050
Year 3	20,416,050	30,624	275,617	204,161	816,642	-	-	21,743,093
Year 4	21,743,093	32,615	293,532	217,431	869,724	-	-	23,156,394
Year 5	23,156,394	34,735	312,611	231,564	926,256	-	-	24,661,560
Year 6	24,661,560	36,992	332,931	246,616	986,462	-	-	26,264,561
Year 7	26,264,561	39,397	354,572	262,646	1,050,582	-	-	27,971,758
Year 8	27,971,758	41,958	377,619	279,718	1,118,870	-	-	29,789,922
Year 9	29,789,922	44,685	402,164	297,899	1,191,597	-	-	31,726,267
Year 10	31,726,267	47,589	428,305	317,263	1,269,051	-	-	33,788,474
Year 11	33,788,474	50,683	456,144	337,885	1,351,539	-	-	35,984,725
Year 12	35,984,725	53,977	485,794	359,847	1,439,389	-	-	38,323,732
Year 13	38,323,732	57,486	517,370	383,237	1,532,949	-	-	40,814,775
Year 14	40,814,775	61,222	550,999	408,148	1,632,591	-	-	43,467,735
Year 15	43,467,735	65,202	586,814	434,677	1,738,709	-	-	46,293,138
Year 16	46,293,138	69,440	624,957	462,931	1,851,726	-	-	49,302,192
Year 17	49,302,192	73,953	665,580	493,022	1,972,088	-	-	52,506,835
Year 18	52,506,835	78,760	708,842	525,068	2,100,273	-	-	55,919,779
Year 19	55,919,779	83,880	754,917	559,198	2,236,791	-	-	59,554,564
Year 20	59,554,564	89,332	803,987	595,546	2,382,183	-	-	63,425,611
Year 21	63,425,611	95,138	856,246	634,256	2,537,024	-	-	67,548,276
Year 22	67,548,276	101,322	911,902	675,483	2,701,931	-	-	71,938,914
Year 23	71,938,914	107,908	971,175	719,389	2,877,557	-	-	76,614,943
Year 24	76,614,943	114,922	1,034,302	766,149	3,064,598	-	-	81,594,915
Year 25	81,594,915	122,392	1,101,531	815,949	3,263,797	-	-	86,898,584

Schedule 10

Neal & Nancy Navigator

Hypothetical Technique - LAIDGT and RPM

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Assumptions:	
Total Estimated Pre-Tax Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+3.0% / year)	\$600,000

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Holdco, LLC - Valuation Discount	30.00%
RPM Trust Annuity	\$900,000
IRS Applicable Federal Rate (mid-term)	2.51%
§7520 Rate	3.00%

Neal & Nancy Navigator (and affiliates)

	Financial & Marketable Securities												End of Year Total Including LLC and Notes	
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Holdco, LLC Distributions	Cash Portion of RPM Remainder Purchase	Note Payments	RPM Annuity	Trust Distributions	Consumption from these Sources	Income Taxes		End of Year
Year 1	5,000,000	7,500	67,500	50,000	200,000	5,000	3,600,000	251,000	900,000	-	(600,000)	(368,424)	9,112,576	19,218,066
Year 2	9,112,576	13,669	123,020	91,126	364,503	3,082	-	251,000	900,000	-	(618,000)	(512,658)	9,728,318	19,841,572
Year 3	9,728,318	14,592	131,332	97,283	389,133	3,199	-	251,000	900,000	-	(636,540)	(625,597)	10,252,720	20,374,128
Year 4	10,252,720	15,379	138,412	102,527	410,109	3,321	-	251,000	900,000	-	(655,636)	(716,980)	10,700,852	20,830,820
Year 5	10,700,852	16,051	144,462	107,009	428,034	3,450	-	251,000	900,000	-	(675,305)	(793,703)	11,081,849	21,220,805
Year 6	11,081,849	16,623	149,605	110,818	443,274	3,584	-	251,000	900,000	-	(695,564)	(860,661)	11,400,528	21,548,922
Year 7	11,400,528	17,101	153,907	114,005	456,021	3,726	-	251,000	900,000	-	(716,431)	(921,337)	11,658,520	21,816,824
Year 8	11,658,520	17,488	157,390	116,585	466,341	3,875	-	251,000	900,000	-	(737,924)	(978,219)	11,855,055	22,023,764
Year 9	11,855,055	17,783	160,043	118,551	474,202	4,031	-	251,000	900,000	-	(760,062)	(1,033,094)	11,987,508	22,167,142
Year 10	11,987,508	17,981	161,831	119,875	479,500	4,195	-	251,000	900,000	-	(782,864)	(1,087,256)	12,051,770	22,242,876
Year 11	12,051,770	18,078	162,699	120,518	482,071	4,367	-	251,000	900,000	-	(806,350)	(1,141,655)	12,042,497	22,245,648
Year 12	12,042,497	18,064	162,574	120,425	481,700	4,547	-	251,000	900,000	-	(830,540)	(1,196,997)	11,953,270	22,169,068
Year 13	11,953,270	17,930	161,369	119,533	478,131	4,737	-	251,000	900,000	-	(855,457)	(1,253,818)	11,776,695	22,005,774
Year 14	11,776,695	17,665	158,985	117,767	471,068	4,936	-	251,000	900,000	-	(881,120)	(1,312,539)	11,504,457	21,747,480
Year 15	11,504,457	17,257	155,310	115,045	460,178	5,145	-	251,000	900,000	-	(907,554)	(1,373,499)	11,127,339	21,385,003
Year 16	11,127,339	16,691	150,219	111,273	445,094	5,365	-	251,000	900,000	-	(934,780)	(1,436,983)	10,635,218	20,908,254
Year 17	10,635,218	15,953	143,575	106,352	425,409	5,596	-	251,000	900,000	-	(962,824)	(1,503,239)	10,017,040	20,306,218
Year 18	10,017,040	15,026	135,230	100,170	400,682	5,838	-	251,000	900,000	-	(991,709)	(1,572,492)	9,260,785	19,566,912
Year 19	9,260,785	13,891	125,021	92,608	370,431	6,092	-	251,000	900,000	-	(1,021,460)	(1,644,953)	8,353,415	18,677,339
Year 20	8,353,415	12,530	112,771	83,534	334,137	6,359	-	251,000	900,000	-	(1,052,104)	(1,720,826)	7,280,816	17,623,426
Year 21	7,280,816	10,921	98,291	72,808	291,233	6,639	-	251,000	900,000	-	(1,083,667)	(1,800,314)	6,027,727	16,389,958
Year 22	6,027,727	9,042	81,374	60,277	241,109	6,933	-	673,335	900,000	-	(1,116,177)	(1,883,621)	5,000,000	14,960,497
Year 23	5,000,000	7,500	67,500	50,000	200,000	7,179	-	1,888,437	900,000	-	(1,149,662)	(1,970,954)	5,000,000	13,333,985
Year 24	5,000,000	7,500	67,500	50,000	200,000	7,255	-	2,014,425	900,000	-	(1,184,152)	(2,062,528)	5,000,000	11,540,786
Year 25	5,000,000	7,500	67,500	50,000	200,000	7,315	-	6,267,702	900,000	-	(1,219,676)	(2,100,748)	9,179,593	9,628,994

Schedule 10
Neal & Nancy Navigator
Hypothetical Technique - LAIDGT and RPM

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Assumptions:	
Total Estimated Pre-Tax Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+3.0% / year)	\$600,000

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Holdco, LLC - Valuation Discount	30.00%
RPM Trust Annuity	\$900,000
IRS Applicable Federal Rate (mid-term)	2.51%
§7520 Rate	3.00%

Remainder Purchase Marital Trust Created by Neal for the Benefit of Nancy

Financial & Marketable Securities								
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Annual Annuity Paid to Nancy	Income Taxes	End of Year
Year 1	20,000,000	30,000	270,000	200,000	800,000	(900,000)	-	20,400,000
Year 2	20,400,000	30,600	275,400	204,000	816,000	(900,000)	-	20,826,000
Year 3	20,826,000	31,239	281,151	208,260	833,040	(900,000)	-	21,279,690
Year 4	21,279,690	31,920	287,276	212,797	851,188	(900,000)	-	21,762,870
Year 5	21,762,870	32,644	293,799	217,629	870,515	(900,000)	-	22,277,456
Year 6	22,277,456	33,416	300,746	222,775	891,098	(900,000)	-	22,825,491
Year 7	22,825,491	34,238	308,144	228,255	913,020	(900,000)	-	23,409,148
Year 8	23,409,148	35,114	316,023	234,091	936,366	(900,000)	-	24,030,743
Year 9	24,030,743	36,046	324,415	240,307	961,230	(900,000)	-	24,692,741
Year 10	24,692,741	37,039	333,352	246,927	987,710	(900,000)	-	25,397,769
Year 11	25,397,769	38,097	342,870	253,978	1,015,911	(900,000)	-	26,148,624
Year 12	26,148,624	39,223	353,006	261,486	1,045,945	(900,000)	-	26,948,285
Year 13	26,948,285	40,422	363,802	269,483	1,077,931	(900,000)	-	27,799,923
Year 14	27,799,923	41,700	375,299	277,999	1,111,997	(900,000)	-	28,706,918
Year 15	28,706,918	43,060	387,543	287,069	1,148,277	(900,000)	-	29,672,868
Year 16	29,672,868	44,509	400,584	296,729	1,186,915	(900,000)	-	30,701,604
Year 17	30,701,604	46,052	414,472	307,016	1,228,064	(900,000)	-	31,797,208
Year 18	31,797,208	47,696	429,262	317,972	1,271,888	(900,000)	-	32,964,027
Year 19	32,964,027	49,446	445,014	329,640	1,318,561	(900,000)	-	34,206,689
Year 20	34,206,689	51,310	461,790	342,067	1,368,268	(900,000)	-	35,530,123
Year 21	35,530,123	53,295	479,657	355,301	1,421,205	(900,000)	-	36,939,581
Year 22	36,939,581	55,409	498,684	369,396	1,477,583	(900,000)	-	38,440,654
Year 23	38,440,654	57,661	518,949	384,407	1,537,626	(900,000)	-	40,039,297
Year 24	40,039,297	60,059	540,531	400,393	1,601,572	(900,000)	-	41,741,851
Year 25	41,741,851	62,613	563,515	417,419	1,669,674	(900,000)	-	43,555,071

Schedule 10
Neal & Nancy Navigator
Hypothetical Technique - LAIDGT and RPM

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Assumptions:	
Total Estimated Pre-Tax Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+3.0% / year)	\$600,000

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Holdco, LLC - Valuation Discount	30.00%
RPM Trust Annuity	\$900,000
IRS Applicable Federal Rate (mid-term)	2.51%
§7520 Rate	3.00%

Existing Grantor Trust #1 for the Benefit of Descendants (GST Tax Exempt)

	Financial & Marketable Securities								
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Cash Portion of RPM Trust Remainder Purchase*	Beneficiary Distributions	Income Taxes	End of Year
Year 1	18,000,000	27,000	243,000	180,000	720,000	(3,600,000)	-	-	15,570,000
Year 2	15,570,000	23,355	210,195	155,700	622,800	-	-	-	16,582,050
Year 3	16,582,050	24,873	223,858	165,821	663,282	-	-	-	17,659,883
Year 4	17,659,883	26,490	238,408	176,599	706,395	-	-	-	18,807,776
Year 5	18,807,776	28,212	253,905	188,078	752,311	-	-	-	20,030,281
Year 6	20,030,281	30,045	270,409	200,303	801,211	-	-	-	21,332,249
Year 7	21,332,249	31,998	287,985	213,322	853,290	-	-	-	22,718,846
Year 8	22,718,846	34,078	306,704	227,188	908,754	-	-	-	24,195,571
Year 9	24,195,571	36,293	326,640	241,956	967,823	-	-	-	25,768,283
Year 10	25,768,283	38,652	347,872	257,683	1,030,731	-	-	-	27,443,221
Year 11	27,443,221	41,165	370,483	274,432	1,097,729	-	-	-	29,227,030
Year 12	29,227,030	43,841	394,565	292,270	1,169,081	-	-	-	31,126,787
Year 13	31,126,787	46,690	420,212	311,268	1,245,071	-	-	-	33,150,028
Year 14	33,150,028	49,725	447,525	331,500	1,326,001	-	-	-	35,304,780
Year 15	35,304,780	52,957	476,615	353,048	1,412,191	-	-	-	37,599,591
Year 16	37,599,591	56,399	507,594	375,996	1,503,984	-	-	-	40,043,564
Year 17	40,043,564	60,065	540,588	400,436	1,601,743	-	-	-	42,646,396
Year 18	42,646,396	63,970	575,726	426,464	1,705,856	-	-	-	45,418,412
Year 19	45,418,412	68,128	613,149	454,184	1,816,736	-	-	-	48,370,609
Year 20	48,370,609	72,556	653,003	483,706	1,934,824	-	-	-	51,514,698
Year 21	51,514,698	77,272	695,448	515,147	2,060,588	-	-	-	54,863,154
Year 22	54,863,154	82,295	740,653	548,632	2,194,526	-	-	-	58,429,259
Year 23	58,429,259	87,644	788,795	584,293	2,337,170	-	-	-	62,227,160
Year 24	62,227,160	93,341	840,067	622,272	2,489,086	-	-	-	66,271,926
Year 25	66,271,926	99,408	894,671	662,719	2,650,877	-	-	-	70,579,601

*Calculation of Purchase of RPM Trust Remainder	
Fair Market Value of RPM Trust	20,000,000
Annual Payout 4.5%	900,000
Remainder Based on Nancy's Age	6,600,000
Purchase Remainder with Cash	3,600,000
Purchase Price of Contingent Annual Annuity of \$984,510 if Neal Survives Nancy	3,000,000

Schedule 10
Neal & Nancy Navigator
Hypothetical Technique - LAIDGT and RPM

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Assumptions:	
Total Estimated Pre-Tax Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+3.0% / year)	\$600,000

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Holdco, LLC - Valuation Discount	30.00%
RPM Trust Annuity	\$900,000
IRS Applicable Federal Rate (mid-term)	2.51%
§7520 Rate	3.00%

GST Tax Exempt Grantor Trust #2 Created by Nancy for the Benefit of Descendants and Also for Neal (after 5 yers)

	Financial & Marketable Securities								
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Holdco, LLC Distributions	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	-	495,000	-	-	495,000
Year 2	495,000	743	6,683	4,950	19,800	305,153	-	-	832,328
Year 3	832,328	1,248	11,236	8,323	33,293	316,683	-	-	1,203,112
Year 4	1,203,112	1,805	16,242	12,031	48,124	328,790	-	-	1,610,104
Year 5	1,610,104	2,415	21,736	16,101	64,404	341,502	-	-	2,056,262
Year 6	2,056,262	3,084	27,760	20,563	82,250	354,850	-	-	2,544,769
Year 7	2,544,769	3,817	34,354	25,448	101,791	368,865	-	-	3,079,044
Year 8	3,079,044	4,619	41,567	30,790	123,162	383,581	-	-	3,662,762
Year 9	3,662,762	5,494	49,447	36,628	146,510	399,032	-	-	4,299,874
Year 10	4,299,874	6,450	58,048	42,999	171,995	415,257	-	-	4,994,623
Year 11	4,994,623	7,492	67,427	49,946	199,785	432,292	-	-	5,751,565
Year 12	5,751,565	8,627	77,646	57,516	230,063	450,179	-	-	6,575,596
Year 13	6,575,596	9,863	88,771	65,756	263,024	468,961	-	-	7,471,971
Year 14	7,471,971	11,208	100,872	74,720	298,879	488,682	-	-	8,446,331
Year 15	8,446,331	12,669	114,025	84,463	337,853	509,388	-	-	9,504,730
Year 16	9,504,730	14,257	128,314	95,047	380,189	531,130	-	-	10,653,668
Year 17	10,653,668	15,981	143,825	106,537	426,147	553,960	-	-	11,900,116
Year 18	11,900,116	17,850	160,652	119,001	476,005	577,930	-	-	13,251,554
Year 19	13,251,554	19,877	178,896	132,516	530,062	603,099	-	-	14,716,005
Year 20	14,716,005	22,074	198,666	147,160	588,640	629,527	-	-	16,302,072
Year 21	16,302,072	24,453	220,078	163,021	652,083	657,276	-	-	18,018,982
Year 22	18,018,982	27,028	243,256	180,190	720,759	686,412	-	-	19,876,629
Year 23	19,876,629	29,815	268,334	198,766	795,065	710,734	-	-	21,879,344
Year 24	21,879,344	32,819	295,371	218,793	875,174	718,227	-	-	24,019,728
Year 25	24,019,728	36,030	324,266	240,197	960,789	724,225	-	-	26,305,235

Schedule 10
Neal & Nancy Navigator
Hypothetical Technique - LAIDGT and RPM

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Assumptions:	
Total Estimated Pre-Tax Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+3.0% / year)	\$600,000

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Holdco, LLC - Valuation Discount	30.00%
RPM Trust Annuity	\$900,000
IRS Applicable Federal Rate (mid-term)	2.51%
§7520 Rate	3.00%

Note #1 Between Nancy and Holdco, LLC

	Beginning of Year Principal	Interest @ 2.51%	Note Payments	End of Year Principal
Year 1	10,000,000	251,000	(251,000)	10,000,000
Year 2	10,000,000	251,000	(251,000)	10,000,000
Year 3	10,000,000	251,000	(251,000)	10,000,000
Year 4	10,000,000	251,000	(251,000)	10,000,000
Year 5	10,000,000	251,000	(251,000)	10,000,000
Year 6	10,000,000	251,000	(251,000)	10,000,000
Year 7	10,000,000	251,000	(251,000)	10,000,000
Year 8	10,000,000	251,000	(251,000)	10,000,000
Year 9	10,000,000	251,000	(251,000)	10,000,000
Year 10*	10,000,000	251,000	(251,000)	10,000,000
Year 11	10,000,000	251,000	(251,000)	10,000,000
Year 12	10,000,000	251,000	(251,000)	10,000,000
Year 13	10,000,000	251,000	(251,000)	10,000,000
Year 14	10,000,000	251,000	(251,000)	10,000,000
Year 15	10,000,000	251,000	(251,000)	10,000,000
Year 16	10,000,000	251,000	(251,000)	10,000,000
Year 17	10,000,000	251,000	(251,000)	10,000,000
Year 18	10,000,000	251,000	(251,000)	10,000,000
Year 19	10,000,000	251,000	(251,000)	10,000,000
Year 20*	10,000,000	251,000	(251,000)	10,000,000
Year 21	10,000,000	251,000	(251,000)	10,000,000
Year 22	10,000,000	251,000	(673,335)	9,577,665
Year 23	9,577,665	240,399	(1,888,437)	7,929,627
Year 24	7,929,627	199,034	(2,014,425)	6,114,235
Year 25	6,114,235	153,467	(6,267,702)	-

Note and Gift Calculations	
Holdco, LLC - Other Assets	20,000,000
Holdco, LLC - Total Assets	20,000,000
Note	50.0% (10,000,000)
Holdco, LLC - Net Value	10,000,000
Holdco, LLC - Valuation Discount	(3,000,000)
Holdco, LLC - Discounted Value	7,000,000
Gift to GST Tax Exempt Grantor Trust #2	99.0% 6,930,000

*Note could be refinanced at the then mid-term rate.

Schedule 11

Betsy Bosddaughter

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mrs. Bosddaughter 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 Bosddaughter	164,627,101	-	-	0.00%
Bosddaughter Children	-	84,778,260	40,417,415	25.02%
Bosddaughter Children & Grandchildren	11,486,982	34,657,505	16,522,712	10.23%
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	26,310,348	26,310,348	12,543,266	7.76%
IRS Income Tax - Investment Opportunity Cost	32,272,303	32,272,303	15,385,584	9.52%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	159,477	76,029	0.05%
IRS Estate Tax (@ 40%)	-	56,518,840	26,944,944	16.68%
Total	338,865,979	338,865,979	161,551,877	100.00%
Hypothetical Technique				
Betsy Bosddaughter	1,383,540	-	-	0.00%
Bosddaughter Children	-	-	-	0.00%
Bosddaughter Children & Grandchildren	173,694,000	172,950,276	82,452,779	51.04%
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	27,346,891	27,346,891	13,037,430	8.07%
IRS Income Tax - Investment Opportunity Cost	32,272,303	32,272,303	15,385,584	9.52%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	2,127,264	1,014,157	0.63%
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 Bosddaughter				
Current Gift and Estate Exemption	11,400,000			
Assumed Gifts Made	-			
Future Estate Tax Exemption Available in 30 years (assumes 2.5% inflation)	23,330,000			

Schedule 11
Betsy Bosdaughter
No Further Planning

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Assumptions:	Financial Assets
Total Estimated Pre-Tax Rate of Return Over Next 30 Years - Financial Assets	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	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	\$1,000,000

Betsy Bosdaughter

	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)	(270,810)	59,149,190
Year 2	59,149,190	354,895	1,419,581	1,774,476	-	(1,025,000)	(369,690)	61,303,451
Year 3	61,303,451	367,821	1,471,283	1,839,104	-	(1,050,625)	(445,490)	63,485,544
Year 4	63,485,544	380,913	1,523,653	1,904,566	-	(1,076,891)	(505,275)	65,712,511
Year 5	65,712,511	394,275	1,577,100	1,971,375	-	(1,103,813)	(554,031)	67,997,417
Year 6	67,997,417	407,985	1,631,938	2,039,923	-	(1,131,408)	(595,283)	70,350,571
Year 7	70,350,571	422,103	1,688,414	2,110,517	-	(1,159,693)	(631,523)	72,780,389
Year 8	72,780,389	436,682	1,746,729	2,183,412	-	(1,188,686)	(664,517)	75,294,009
Year 9	75,294,009	451,764	1,807,056	2,258,820	-	(1,218,403)	(695,523)	77,897,724
Year 10	77,897,724	467,386	1,869,545	2,336,932	-	(1,248,863)	(725,440)	80,597,284
Year 11	80,597,284	483,584	1,934,335	2,417,919	-	(1,280,085)	(754,914)	83,398,123
Year 12	83,398,123	500,389	2,001,555	2,501,944	-	(1,312,087)	(784,414)	86,305,510
Year 13	86,305,510	517,833	2,071,332	2,589,165	-	(1,344,889)	(814,287)	89,324,664
Year 14	89,324,664	535,948	2,143,792	2,679,740	-	(1,378,511)	(844,792)	92,460,840
Year 15	92,460,840	554,765	2,219,060	2,773,825	-	(1,412,974)	(876,128)	95,719,389
Year 16	95,719,389	574,316	2,297,265	2,871,582	-	(1,448,298)	(908,453)	99,105,801
Year 17	99,105,801	594,635	2,378,539	2,973,174	-	(1,484,506)	(941,895)	102,625,749
Year 18	102,625,749	615,754	2,463,018	3,078,772	-	(1,521,618)	(976,564)	106,285,111
Year 19	106,285,111	637,711	2,550,843	3,188,553	-	(1,559,659)	(1,012,558)	110,090,001
Year 20	110,090,001	660,540	2,642,160	3,302,700	-	(1,598,650)	(1,049,966)	114,046,785
Year 21	114,046,785	684,281	2,737,123	3,421,404	-	(1,638,616)	(1,088,873)	118,162,102
Year 22	118,162,102	708,973	2,835,890	3,544,863	-	(1,679,582)	(1,129,361)	122,442,885
Year 23	122,442,885	734,657	2,938,629	3,673,287	-	(1,721,571)	(1,171,513)	126,896,374
Year 24	126,896,374	761,378	3,045,513	3,806,891	-	(1,764,611)	(1,215,410)	131,530,136
Year 25	131,530,136	789,181	3,156,723	3,945,904	-	(1,808,726)	(1,261,139)	136,352,079
Year 26	136,352,079	818,112	3,272,450	4,090,562	-	(1,853,944)	(1,308,786)	141,370,473
Year 27	141,370,473	848,223	3,392,891	4,241,114	-	(1,900,293)	(1,358,442)	146,593,967
Year 28	146,593,967	879,564	3,518,255	4,397,819	-	(1,947,800)	(1,410,201)	152,031,604
Year 29	152,031,604	912,190	3,648,758	4,560,948	-	(1,996,495)	(1,464,160)	157,692,845
Year 30	157,692,845	946,157	3,784,628	4,730,785	-	(2,046,407)	(480,908)	164,627,101

Schedule 11 - Betsy Bosddaughter
No Further Planning

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<u>Assumptions:</u>	Financial Assets
Total Estimated Pre-Tax Rate of Return Over Next 30 Years - Financial Assets	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	23.80%
Ordinary Income and Health Care Tax Rate	40.80%

<u>Assumptions (continued):</u>	
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 11
Betsy Bosddaughter
Hypothetical Technique

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Assumptions:	
Total Estimated Pre-Tax Rate of Return Over Next 30 Years - Financial Assets	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	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)	1.78%
Bosddaughter Family LLC Valuation Discount	30.00%

Betsy Bosddaughter

	Financial Assets									
	Beginning of Year	Income	Tax Free Income	Growth	Bosddaughter Family LLC Distributions	Notes #1 and #2 Payments	Trust Distributions	Consumption	Income Taxes	End of Year
Year 1	-	-	-	-	863,550	1,407,260	-	(1,000,000)	(270,810)	1,000,000
Year 2	1,000,000	6,000	24,000	30,000	889,457	445,234	-	(1,025,000)	(369,690)	1,000,000
Year 3	1,000,000	6,000	24,000	30,000	916,140	519,975	-	(1,050,625)	(445,490)	1,000,000
Year 4	1,000,000	6,000	24,000	30,000	943,624	578,541	-	(1,076,891)	(505,275)	1,000,000
Year 5	1,000,000	6,000	24,000	30,000	19,246	1,578,598	-	(1,103,813)	(554,031)	1,000,000
Year 6	1,000,000	6,000	24,000	30,000	19,824	1,646,868	-	(1,131,408)	(595,283)	1,000,000
Year 7	1,000,000	6,000	24,000	30,000	20,418	1,710,798	-	(1,159,693)	(631,523)	1,000,000
Year 8	1,000,000	6,000	24,000	30,000	21,031	1,772,172	-	(1,188,686)	(664,517)	1,000,000
Year 9	1,000,000	6,000	24,000	30,000	21,662	1,832,264	-	(1,218,403)	(695,523)	1,000,000
Year 10	1,000,000	6,000	24,000	30,000	22,312	1,891,991	-	(1,248,863)	(725,440)	1,000,000
Year 11	1,000,000	6,000	24,000	30,000	22,981	1,952,017	-	(1,280,085)	(754,914)	1,000,000
Year 12	1,000,000	6,000	24,000	30,000	23,670	2,012,831	-	(1,312,087)	(784,414)	1,000,000
Year 13	1,000,000	6,000	24,000	30,000	24,381	2,074,796	-	(1,344,889)	(814,287)	1,000,000
Year 14	1,000,000	6,000	24,000	30,000	25,112	2,138,191	-	(1,378,511)	(844,792)	1,000,000
Year 15	1,000,000	6,000	24,000	30,000	25,865	2,203,237	-	(1,412,974)	(876,128)	1,000,000
Year 16	1,000,000	6,000	24,000	30,000	26,641	2,270,110	-	(1,448,298)	(908,453)	1,000,000
Year 17	1,000,000	6,000	24,000	30,000	27,440	2,338,960	-	(1,484,506)	(941,895)	1,000,000
Year 18	1,000,000	6,000	24,000	30,000	28,264	2,409,919	-	(1,521,618)	(976,564)	1,000,000
Year 19	1,000,000	6,000	24,000	30,000	29,112	2,483,105	-	(1,559,659)	(1,012,558)	1,000,000
Year 20	1,000,000	6,000	24,000	30,000	29,985	2,558,632	-	(1,598,650)	(1,049,966)	1,000,000
Year 21	1,000,000	6,000	24,000	30,000	30,885	2,636,605	-	(1,638,616)	(1,088,873)	1,000,000
Year 22	1,000,000	6,000	24,000	30,000	31,811	2,717,132	-	(1,679,582)	(1,129,361)	1,000,000
Year 23	1,000,000	6,000	24,000	30,000	32,765	2,800,319	-	(1,721,571)	(1,171,513)	1,000,000
Year 24	1,000,000	6,000	24,000	30,000	33,748	2,886,273	-	(1,764,611)	(1,215,410)	1,000,000
Year 25	1,000,000	6,000	24,000	30,000	34,761	2,975,104	-	(1,808,726)	(1,261,139)	1,000,000
Year 26	1,000,000	6,000	24,000	30,000	35,804	3,779,054	-	(1,853,944)	(1,308,786)	1,712,127
Year 27	1,712,127	10,273	41,091	51,364	36,878	-	1,407,002	(1,900,293)	(1,358,442)	-
Year 28	-	-	-	-	37,984	-	3,320,017	(1,947,800)	(1,410,201)	-
Year 29	-	-	-	-	39,124	-	3,421,532	(1,996,495)	(1,464,160)	-
Year 30	-	-	-	-	40,297	-	3,523,561	(2,046,407)	(1,517,451)	-

Schedule 11 - Betsy Bosddaughter
Hypothetical Technique

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Assumptions:	
Total Estimated Pre-Tax Rate of Return Over Next 30 Years - Financial Assets	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	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)	1.78%
Bosddaughter Family LLC Valuation Discount	30.00%

Granny Family LLC

	Financial Assets								Ownership
	Beginning of Year	Income	Tax Free Income	Growth	Bosddaughter Family LLC Distributions	Notes #1 & #2 Payments	Owner Distributions	End of Year	BDOT
Year 1	2,000,000	12,000	48,000	60,000	846,450	(1,407,260)	-	1,559,190	100.0%
Year 2	1,559,190	9,355	37,421	46,776	871,844	(445,234)	-	2,079,351	100.0%
Year 3	2,079,351	12,476	49,904	62,381	897,999	(519,975)	-	2,582,137	100.0%
Year 4	2,582,137	15,493	61,971	77,464	924,939	(578,541)	-	3,083,463	100.0%
Year 5	3,083,463	18,501	74,003	92,504	1,905,374	(1,578,598)	-	3,595,246	100.0%
Year 6	3,595,246	21,571	86,286	107,857	1,962,535	(1,646,868)	-	4,126,628	100.0%
Year 7	4,126,628	24,760	99,039	123,799	2,021,411	(1,710,798)	-	4,684,839	100.0%
Year 8	4,684,839	28,109	112,436	140,545	2,082,053	(1,772,172)	-	5,275,811	100.0%
Year 9	5,275,811	31,655	126,619	158,274	2,144,515	(1,832,264)	-	5,904,610	100.0%
Year 10	5,904,610	35,428	141,711	177,138	2,208,851	(1,891,991)	-	6,575,746	100.0%
Year 11	6,575,746	39,454	157,818	197,272	2,275,116	(1,952,017)	-	7,293,390	100.0%
Year 12	7,293,390	43,760	175,041	218,802	2,343,370	(2,012,831)	-	8,061,532	100.0%
Year 13	8,061,532	48,369	193,477	241,846	2,413,671	(2,074,796)	-	8,884,099	100.0%
Year 14	8,884,099	53,305	213,218	266,523	2,486,081	(2,138,191)	-	9,765,034	100.0%
Year 15	9,765,034	58,590	234,361	292,951	2,560,663	(2,203,237)	-	10,708,362	100.0%
Year 16	10,708,362	64,250	257,001	321,251	2,637,483	(2,270,110)	-	11,718,237	100.0%
Year 17	11,718,237	70,309	281,238	351,547	2,716,608	(2,338,960)	-	12,798,979	100.0%
Year 18	12,798,979	76,794	307,176	383,969	2,798,106	(2,409,919)	-	13,955,105	100.0%
Year 19	13,955,105	83,731	334,923	418,653	2,882,049	(2,483,105)	-	15,191,355	100.0%
Year 20	15,191,355	91,148	364,593	455,741	2,968,510	(2,558,632)	-	16,512,715	100.0%
Year 21	16,512,715	99,076	396,305	495,381	3,057,566	(2,636,605)	-	17,924,439	100.0%
Year 22	17,924,439	107,547	430,187	537,733	3,149,293	(2,717,132)	-	19,432,066	100.0%
Year 23	19,432,066	116,592	466,370	582,962	3,243,771	(2,800,319)	-	21,041,443	100.0%
Year 24	21,041,443	126,249	504,995	631,243	3,341,085	(2,886,273)	-	22,758,741	100.0%
Year 25	22,758,741	136,552	546,210	682,762	3,441,317	(2,975,104)	-	24,590,478	100.0%
Year 26	24,590,478	147,543	590,171	737,714	3,544,557	(3,779,054)	-	25,831,410	100.0%
Year 27	25,831,410	154,988	619,954	774,942	3,650,893	-	(4,425,836)	26,606,352	100.0%
Year 28	26,606,352	159,638	638,552	798,191	3,760,420	-	(4,558,611)	27,404,543	100.0%
Year 29	27,404,543	164,427	657,709	822,136	3,873,233	-	(4,695,369)	28,226,679	100.0%
Year 30	28,226,679	169,360	677,440	846,800	3,989,430	-	(4,836,230)	29,073,479	100.0%

Schedule 11 - Betsy Bossgaughter
Hypothetical Technique

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Assumptions:	
Total Estimated Pre-Tax Rate of Return Over Next 30 Years - Financial Assets	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	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)	1.78%
Bossgaughter Family LLC Valuation Discount	30.00%

BDOT Created by Granny Selfmade

	Financial Assets							End of Year
	Beginning of Year	Income	Tax Free Income	Growth	Granny Family LLC Distributions	Beneficiary Distributions	Income Taxes	
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	-	-	-	-	-	-	-	-
Year 21	-	-	-	-	-	-	-	-
Year 22	-	-	-	-	-	-	-	-
Year 23	-	-	-	-	-	-	-	-
Year 24	-	-	-	-	-	-	-	-
Year 25	-	-	-	-	-	-	-	-
Year 26	-	-	-	-	-	-	-	-
Year 27	-	-	-	-	4,425,836	(1,407,002)	-	3,018,833
Year 28	3,018,833	18,113	72,452	90,565	4,558,611	(3,320,017)	-	4,438,557
Year 29	4,438,557	26,631	106,525	133,157	4,695,369	(3,421,532)	-	5,978,708
Year 30	5,978,708	35,872	143,489	179,361	4,836,230	(3,523,561)	-	7,650,099

Schedule 11 - Betsy Bossgaughter
Hypothetical Technique

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Assumptions:	
Total Estimated Pre-Tax Rate of Return Over Next 30 Years - Financial Assets	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	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)	1.78%
Bossgaughter Family LLC Valuation Discount	30.00%

Notes #1 and #2 Between Betsy Bossgaughter and Granny Family LLC

	Beginning of Year Principal	Interest @ 1.78%	Note Payments	End of Year Principal
Year 1	19,750,500	351,559	(1,407,260)	18,694,799
Year 2	18,694,799	332,767	(445,234)	18,582,333
Year 3	18,582,333	330,766	(519,975)	18,393,124
Year 4	18,393,124	327,398	(578,541)	18,141,980
Year 5	18,141,980	322,927	(1,578,598)	16,886,309
Year 6*	39,782,552	708,129	(1,646,868)	38,843,813
Year 7	38,843,813	691,420	(1,710,798)	37,824,435
Year 8	37,824,435	673,275	(1,772,172)	36,725,539
Year 9	36,725,539	653,715	(1,832,264)	35,546,989
Year 10	35,546,989	632,736	(1,891,991)	34,287,734
Year 11	34,287,734	610,322	(1,952,017)	32,946,038
Year 12	32,946,038	586,439	(2,012,831)	31,519,647
Year 13	31,519,647	561,050	(2,074,796)	30,005,901
Year 14	30,005,901	534,105	(2,138,191)	28,401,815
Year 15	28,401,815	505,552	(2,203,237)	26,704,130
Year 16	26,704,130	475,334	(2,270,110)	24,909,354
Year 17	24,909,354	443,387	(2,338,960)	23,013,781
Year 18	23,013,781	409,645	(2,409,919)	21,013,507
Year 19	21,013,507	374,040	(2,483,105)	18,904,442
Year 20	18,904,442	336,499	(2,558,632)	16,682,310
Year 21	16,682,310	296,945	(2,636,605)	14,342,650
Year 22	14,342,650	255,299	(2,717,132)	11,880,817
Year 23	11,880,817	211,479	(2,800,319)	9,291,977
Year 24	9,291,977	165,397	(2,886,273)	6,571,102
Year 25	6,571,102	116,966	(2,975,104)	3,712,963
Year 26	3,712,963	66,091	(3,779,054)	-
Year 27	-	-	-	-
Year 28	-	-	-	-
Year 29	-	-	-	-
Year 30	-	-	-	-

Note #1 Calculations		
Bossgaughter Family LLC Value		57,000,000
Bossgaughter Family LLC Valuation Discount		(17,100,000)
Bossgaughter Family LLC Discounted Value		39,900,000
Amount Transferred to Granny Family LLC via Note #1	49.5%	19,750,500

Note #2 Calculations		
Bossgaughter Family LLC Value - End of Year 5		66,078,622
Bossgaughter Family LLC Valuation Discount		(19,823,587)
Bossgaughter Family LLC Discounted Value		46,255,036
Amount Transferred to Granny Family LLC via Note #2	49.5%	22,896,243

*Beginning year principal includes Note #2 principal.

Bossgaughter Family LLC Value - End of Year 27	
Bossgaughter Family LLC Value - End of Year 27	126,613,473

Schedule 12

Tommy Toosoon & Family

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Trust #1 terminates in 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				
Toosoon Children	140,597,305	140,597,305	85,802,450	33.72%
Toosoon Children and Grandchildren	83,390,317	83,390,317	50,890,687	20.00%
Consumption - Direct Cost	64,545,053	64,545,053	39,389,970	15.48%
Consumption - Investment Opportunity Cost	64,947,508	64,947,508	39,635,577	15.58%
IRS Income Tax - Direct Cost	34,068,773	34,068,773	20,791,182	8.17%
IRS Income Tax - Investment Opportunity Costs	29,402,628	29,402,628	17,943,569	7.05%
Total	\$416,951,583	\$416,951,583	\$254,453,436	100.00%
Hypothetical Technique Using BDOT and Sale from One Trust to Another Trust				
Toosoon Children	334,556	334,556	204,170	0.08%
Toosoon Children and Grandchildren	223,653,066	223,653,066	136,488,967	53.64%
Consumption - Direct Cost	64,545,053	64,545,053	39,389,970	15.48%
Consumption - Investment Opportunity Cost	64,947,508	64,947,508	39,635,577	15.58%
IRS Income Tax - Direct Cost	34,068,773	34,068,773	20,791,182	8.17%
IRS Income Tax - Investment Opportunity Costs	29,402,628	29,402,628	17,943,569	7.05%
Total	\$416,951,583	\$416,951,583	\$254,453,436	100.00%

Schedule 12
Tommy Toosoon & Family
No Further Planning

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Assumptions:	
Total Estimated Rate of Return Over Next 20 Years	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 Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%

Assumptions:	
Trust #1 Beneficiary Distributions	3.00%

Existing Trust 1

	Financial Assets						
	Beginning of Year	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year
Year 1	80,000,000	480,000	1,920,000	3,520,000	(2,400,000)	(558,960)	82,961,040
Year 2	82,961,040	497,766	1,991,065	3,650,286	(2,488,831)	(803,696)	85,807,630
Year 3	85,807,630	514,846	2,059,383	3,775,536	(2,574,229)	(992,196)	88,590,969
Year 4	88,590,969	531,546	2,126,183	3,898,003	(2,657,729)	(1,141,645)	91,347,327
Year 5	91,347,327	548,084	2,192,336	4,019,282	(2,740,420)	(1,264,220)	94,102,389
Year 6	94,102,389	564,614	2,258,457	4,140,505	(2,823,072)	(1,368,564)	96,874,330
Year 7	96,874,330	581,246	2,324,984	4,262,471	(2,906,230)	(1,460,824)	99,675,977
Year 8	99,675,977	598,056	2,392,223	4,385,743	(2,990,279)	(1,545,388)	102,516,332
Year 9	102,516,332	615,098	2,460,392	4,510,719	(3,075,490)	(1,625,402)	105,401,648
Year 10	105,401,648	632,410	2,529,640	4,637,673	(3,162,049)	(1,703,137)	108,336,183
Year 11	108,336,183	650,017	2,600,068	4,766,792	(3,250,086)	(1,780,248)	111,322,727
Year 12	111,322,727	667,936	2,671,745	4,898,200	(3,339,682)	(1,857,962)	114,362,965
Year 13	114,362,965	686,178	2,744,711	5,031,970	(3,430,889)	(1,937,201)	117,457,735
Year 14	117,457,735	704,746	2,818,986	5,168,140	(3,523,732)	(2,018,680)	120,607,196
Year 15	120,607,196	723,643	2,894,573	5,306,717	(3,618,216)	(2,102,969)	123,810,943
Year 16	123,810,943	742,866	2,971,463	5,447,682	(3,714,328)	(2,190,542)	127,068,083
Year 17	127,068,083	762,408	3,049,634	5,590,996	(3,812,042)	(2,281,807)	130,377,271
Year 18	130,377,271	782,264	3,129,055	5,736,600	(3,911,318)	(2,377,133)	133,736,737
Year 19	133,736,737	802,420	3,209,682	5,884,416	(4,012,102)	(2,476,864)	137,144,290
Year 20	137,144,290	822,866	3,291,463	6,034,349	(4,114,329)	(2,581,333)	140,597,305

Schedule 12
Tommy Toosoon & Family
No Further Planning

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Assumptions:	
Total Estimated Rate of Return Over Next 20 Years	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 Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%

Assumptions:	
Trust #1 Beneficiary Distributions	3.00%

Existing Trust 2

	Financial Assets						
	Beginning of Year	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	End of Year
Year 1	20,000,000	120,000	480,000	880,000	-	-	21,480,000
Year 2	21,480,000	128,880	515,520	945,120	-	-	23,069,520
Year 3	23,069,520	138,417	553,668	1,015,059	-	-	24,776,664
Year 4	24,776,664	148,660	594,640	1,090,173	-	-	26,610,138
Year 5	26,610,138	159,661	638,643	1,170,846	-	-	28,579,288
Year 6	28,579,288	171,476	685,903	1,257,489	-	-	30,694,155
Year 7	30,694,155	184,165	736,660	1,350,543	-	-	32,965,523
Year 8	32,965,523	197,793	791,173	1,450,483	-	-	35,404,971
Year 9	35,404,971	212,430	849,719	1,557,819	-	-	38,024,939
Year 10	38,024,939	228,150	912,599	1,673,097	-	-	40,838,785
Year 11	40,838,785	245,033	980,131	1,796,907	-	-	43,860,855
Year 12	43,860,855	263,165	1,052,661	1,929,878	-	-	47,106,558
Year 13	47,106,558	282,639	1,130,557	2,072,689	-	-	50,592,443
Year 14	50,592,443	303,555	1,214,219	2,226,068	-	-	54,336,284
Year 15	54,336,284	326,018	1,304,071	2,390,796	-	-	58,357,169
Year 16	58,357,169	350,143	1,400,572	2,567,715	-	-	62,675,600
Year 17	62,675,600	376,054	1,504,214	2,757,726	-	-	67,313,594
Year 18	67,313,594	403,882	1,615,526	2,961,798	-	-	72,294,800
Year 19	72,294,800	433,769	1,735,075	3,180,971	-	-	77,644,615
Year 20	77,644,615	465,868	1,863,471	3,416,363	-	-	83,390,317

Schedule 12

Tommy Toosoon & Family

Hypothetical Technique Using BDOT and Sale from One Trust to Another Trust

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Assumptions:

Total Estimated Rate of Return Over Next 20 Years	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 Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%

Assumptions:

Trust #1 Beneficiary Distributions (same as No Further Planning)	
IRS Applicable Federal Rate (Mid-Term)	1.87%

Existing Trust #1

Financial Assets								
	Beginning of Year	Income	Tax Free Income	Growth	Note Payments	Beneficiary Distributions	Income Taxes	End of Year
Year 1	-	-	-	-	2,958,960	(2,400,000)	(558,960)	-
Year 2	-	-	-	-	3,292,527	(2,488,831)	(803,696)	-
Year 3	-	-	-	-	3,566,425	(2,574,229)	(992,196)	-
Year 4	-	-	-	-	3,799,374	(2,657,729)	(1,141,645)	-
Year 5	-	-	-	-	4,004,640	(2,740,420)	(1,264,220)	-
Year 6	-	-	-	-	4,191,635	(2,823,072)	(1,368,564)	-
Year 7	-	-	-	-	4,367,054	(2,906,230)	(1,460,824)	-
Year 8	-	-	-	-	4,535,668	(2,990,279)	(1,545,388)	-
Year 9	-	-	-	-	4,700,892	(3,075,490)	(1,625,402)	-
Year 10	-	-	-	-	4,865,186	(3,162,049)	(1,703,137)	-
Year 11	-	-	-	-	5,030,334	(3,250,086)	(1,780,248)	-
Year 12	-	-	-	-	5,197,644	(3,339,682)	(1,857,962)	-
Year 13	-	-	-	-	5,368,090	(3,430,889)	(1,937,201)	-
Year 14	-	-	-	-	5,542,412	(3,523,732)	(2,018,680)	-
Year 15	-	-	-	-	5,721,185	(3,618,216)	(2,102,969)	-
Year 16	-	-	-	-	5,904,870	(3,714,328)	(2,190,542)	-
Year 17	-	-	-	-	6,093,850	(3,812,042)	(2,281,807)	-
Year 18	-	-	-	-	6,288,451	(3,911,318)	(2,377,133)	-
Year 19	-	-	-	-	6,488,966	(4,012,102)	(2,476,864)	-
Year 20	-	-	-	-	7,030,218	(4,114,329)	(2,581,333)	334,556

Schedule 12

Tommy Toosoon & Family

Hypothetical Technique Using BDOT and Sale from One Trust to Another Trust

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Assumptions:

Total Estimated Rate of Return Over Next 20 Years	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 Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%

Assumptions:

Trust #1 Beneficiary Distributions (same as No Further Planning)	
IRS Applicable Federal Rate (Mid-Term)	1.87%

Toosoon, LLC

	Financial Assets							Ownership
	Beginning of Year	Income	Tax Free Income	Growth	Note Payments	Owner Distributions	End of Year	Existing Trust #2
Year 1	100,000,000	600,000	2,400,000	4,400,000	(2,958,960)	-	104,441,040	100.0%
Year 2	104,441,040	626,646	2,506,585	4,595,406	(3,292,527)	-	108,877,150	100.0%
Year 3	108,877,150	653,263	2,613,052	4,790,595	(3,566,425)	-	113,367,634	100.0%
Year 4	113,367,634	680,206	2,720,823	4,988,176	(3,799,374)	-	117,957,464	100.0%
Year 5	117,957,464	707,745	2,830,979	5,190,128	(4,004,640)	-	122,681,677	100.0%
Year 6	122,681,677	736,090	2,944,360	5,397,994	(4,191,635)	-	127,568,486	100.0%
Year 7	127,568,486	765,411	3,061,644	5,613,013	(4,367,054)	-	132,641,500	100.0%
Year 8	132,641,500	795,849	3,183,396	5,836,226	(4,535,668)	-	137,921,303	100.0%
Year 9	137,921,303	827,528	3,310,111	6,068,537	(4,700,892)	-	143,426,587	100.0%
Year 10	143,426,587	860,560	3,442,238	6,310,770	(4,865,186)	-	149,174,968	100.0%
Year 11	149,174,968	895,050	3,580,199	6,563,699	(5,030,334)	-	155,183,582	100.0%
Year 12	155,183,582	931,101	3,724,406	6,828,078	(5,197,644)	-	161,469,523	100.0%
Year 13	161,469,523	968,817	3,875,269	7,104,659	(5,368,090)	-	168,050,178	100.0%
Year 14	168,050,178	1,008,301	4,033,204	7,394,208	(5,542,412)	-	174,943,480	100.0%
Year 15	174,943,480	1,049,661	4,198,644	7,697,513	(5,721,185)	-	182,168,112	100.0%
Year 16	182,168,112	1,093,009	4,372,035	8,015,397	(5,904,870)	-	189,743,682	100.0%
Year 17	189,743,682	1,138,462	4,553,848	8,348,722	(6,093,850)	-	197,690,865	100.0%
Year 18	197,690,865	1,186,145	4,744,581	8,698,398	(6,288,451)	-	206,031,537	100.0%
Year 19	206,031,537	1,236,189	4,944,757	9,065,388	(6,488,966)	-	214,788,905	100.0%
Year 20	214,788,905	1,288,733	5,154,934	9,450,712	(7,030,218)	-	223,653,066	100.0%

Schedule 12

Tommy Toosoon & Family

Hypothetical Technique Using BDOT and Sale from One Trust to Another Trust

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Assumptions:

Total Estimated Rate of Return Over Next 20 Years	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 Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%

Assumptions:

Trust #1 Beneficiary Distributions (same as No Further Planning)	
IRS Applicable Federal Rate (Mid-Term)	1.87%

Existing Trust #2

	Financial Assets							
	Beginning of Year	Income	Tax Free Income	Growth	Toosoon, LLC Distributions	Beneficiary 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	-	-	-	-	-	-	-	-
Year 13	-	-	-	-	-	-	-	-
Year 14	-	-	-	-	-	-	-	-
Year 15	-	-	-	-	-	-	-	-
Year 16	-	-	-	-	-	-	-	-
Year 17	-	-	-	-	-	-	-	-
Year 18	-	-	-	-	-	-	-	-
Year 19	-	-	-	-	-	-	-	-
Year 20	-	-	-	-	-	-	-	-

Schedule 12

Tommy Toosoon & Family

Hypothetical Technique Using BDOT and Sale from One Trust to Another Trust

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Assumptions:

Total Estimated Rate of Return Over Next 20 Years	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 Tax Rate	23.80%
Ordinary Income Tax Rate	40.80%

Assumptions:

Trust #1 Beneficiary Distributions (same as No Further Planning)	
IRS Applicable Federal Rate (Mid-Term)	1.87%

Note Between Existing Trust #1 and Toosoon, LLC

	Beginning of Year Principal	Interest @ 1.87%	Note Payments	End of Year Principal
Year 1	80,000,000	1,496,000	(2,958,960)	78,537,040
Year 2	78,537,040	1,468,643	(3,292,527)	76,713,156
Year 3	76,713,156	1,434,536	(3,566,425)	74,581,266
Year 4	74,581,266	1,394,670	(3,799,374)	72,176,562
Year 5	72,176,562	1,349,702	(4,004,640)	69,521,623
Year 6	69,521,623	1,300,054	(4,191,635)	66,630,043
Year 7	66,630,043	1,245,982	(4,367,054)	63,508,970
Year 8	63,508,970	1,187,618	(4,535,668)	60,160,920
Year 9	60,160,920	1,125,009	(4,700,892)	56,585,037
Year 10*	56,585,037	1,058,140	(4,865,186)	52,777,991
Year 11	52,777,991	986,948	(5,030,334)	48,734,606
Year 12	48,734,606	911,337	(5,197,644)	44,448,299
Year 13	44,448,299	831,183	(5,368,090)	39,911,393
Year 14	39,911,393	746,343	(5,542,412)	35,115,324
Year 15	35,115,324	656,657	(5,721,185)	30,050,796
Year 16	30,050,796	561,950	(5,904,870)	24,707,875
Year 17	24,707,875	462,037	(6,093,850)	19,076,063
Year 18	19,076,063	356,722	(6,288,451)	13,144,334
Year 19	13,144,334	245,799	(6,488,966)	6,901,166
Year 20	6,901,166	129,052	(7,030,218)	-

*Could be refinanced at the then mid-term rate.

Schedule 13

Bob and Betty Bdot

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mr. and Mrs. Bdot have a joint life expectancy of 30 years)

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	30-Year Future Values		Present Values (Discounted)	Percentage of Total
	Pre-Death	Post Death ⁽¹⁾		
No Further Planning Except for Creation of a Dynasty Trust				
Bob and Betty Bdot	1,258,889,102	-	-	0.00%
Bdot Children	-	852,488,158	406,417,493	43.11%
Bdot Children and Grandchildren	142,295,648	165,875,648	79,080,002	8.39%
Consumption - Direct Cost	43,902,703	43,902,703	20,930,293	2.22%
Consumption - Investment Opportunity Cost	87,042,815	87,042,815	41,497,025	4.40%
IRS Income Tax - Direct Cost	150,922,210	150,922,210	71,951,060	7.63%
IRS Income Tax - Investment Opportunity Cost	294,358,049	294,358,049	140,333,047	14.89%
IRS Income Tax - Embedded Corporate Tax	-	131,157,229	62,528,250	6.63%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	251,663,715	119,978,835	12.73%
Total	\$1,977,410,527	\$1,977,410,527	\$942,716,004	100.00%

Hypothetical Technique - Scenario A				
Bob and Betty Bdot	60,718,170	-	-	0.00%
Bdot Children	-	22,282,902	10,623,211	1.13%
Bdot Children and Grandchildren	1,500,873,937	1,524,453,937	726,772,263	77.09%
Consumption - Direct Cost	43,902,703	43,902,703	20,930,293	2.22%
Consumption - Investment Opportunity Cost	87,042,815	87,042,815	41,497,025	4.40%
IRS Income Tax - Direct Cost	163,218,176	163,218,176	77,813,072	8.25%
IRS Income Tax - Investment Opportunity Cost	325,384,223	325,384,223	155,124,548	16.46%
IRS Income Tax - Embedded Corporate Tax	-	-	-	0.00%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	14,855,268	7,082,140	0.75%
Investment Opportunity Cost/(Benefit) of Technique	(203,729,498)	(203,729,498)	(97,126,548)	-10.30%
Total	\$1,977,410,527	\$1,977,410,527	\$942,716,004	100.00%

Hypothetical Technique - Scenario B				
Bob and Betty Bdot	193,694,088	-	-	0.00%
Bdot Children	-	125,646,428	59,901,016	6.35%
Bdot Children and Grandchildren	1,044,045,398	1,044,047,423	497,741,972	52.80%
Consumption - Direct Cost	43,902,703	43,902,703	20,930,293	2.22%
Consumption - Investment Opportunity Cost	87,042,815	87,042,815	41,497,025	4.40%
IRS Income Tax - Direct Cost	251,783,492	251,783,492	120,035,938	12.73%
IRS Income Tax - Investment Opportunity Cost	560,671,528	560,671,528	267,296,050	28.35%
IRS Income Tax - Embedded Corporate Tax	-	-	-	0.00%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	68,045,635	32,440,259	3.44%
Investment Opportunity Cost/(Benefit) of Technique	(203,729,498)	(203,729,498)	(97,126,548)	-10.30%
Total	\$1,977,410,527	\$1,977,410,527	\$942,716,004	100.00%

	No Further Planning	Hypothetical Techniques
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Calculations of Remaining Estate Tax Exemption⁽³⁾		
Current Gift and Estate Exemption	22,800,000	22,800,000
Assumed Prior Gifts Made	-	-
Future Estate Tax Exemption Available in 30 years (assumes 2.5% inflation)	23,580,000	23,580,000

(1) Post death amounts to children and grandchildren are reduced by the embedded corporate tax liability. This capital gains tax is only paid when those assets are sold.

(2) Assumes valuation discounts apply at death.

(3) The increased estate tax exemption is due to sunset in 2025 but for purposes of these calculations, we assumed the exemption remains in effect.

Schedule 13

Bob and Betty Bdot

No Further Planning Except for Creation of a Dynasty Trust

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Assumptions:	Financial Assets	Growing Inc. Non-Financial Assets
Total Estimated Pre-Tax Rate of Return Over 30 Years	7.40%	10.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	4.50%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	5.50%
Annual Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income Rate	40.80%	
Long Term Capital Gain & Dividend Rate	23.80%	
Corporate Income Tax Rate		21.00%
Consumption from these sources (increases 2.5% per year)	\$1,000,000	

Assumptions (continued):	
Growing Inc. Valuation Discount	50.00%

Bob and Betty Bdot

	Financial Assets						
	Beginning of Year	Income	Tax Free Income	Growth	Consumption from these Sources	Income Taxes	End of Year
Year 1	25,000,000	150,000	600,000	1,100,000	-	(1,000,000)	25,710,260
Year 2	25,710,260	154,262	617,046	1,131,251	-	(1,025,000)	26,389,131
Year 3	26,389,131	158,335	633,339	1,161,122	-	(1,050,625)	27,048,773
Year 4	27,048,773	162,293	649,171	1,190,146	-	(1,076,891)	27,697,749
Year 5	27,697,749	166,186	664,746	1,218,701	-	(1,103,813)	28,342,082
Year 6	28,342,082	170,052	680,210	1,247,052	-	(1,131,408)	28,985,988
Year 7	28,985,988	173,916	695,664	1,275,383	-	(1,159,693)	29,632,405
Year 8	29,632,405	177,794	711,178	1,303,826	-	(1,188,686)	30,283,358
Year 9	30,283,358	181,700	726,801	1,332,468	-	(1,218,403)	30,940,218
Year 10	30,940,218	185,641	742,565	1,361,370	-	(1,248,863)	31,603,887
Year 11	31,603,887	189,623	758,493	1,390,571	-	(1,280,085)	32,274,925
Year 12	32,274,925	193,650	774,598	1,420,097	-	(1,312,087)	32,953,640
Year 13	32,953,640	197,722	790,887	1,449,960	-	(1,344,889)	33,640,150
Year 14	33,640,150	201,841	807,364	1,480,167	-	(1,378,511)	34,334,424
Year 15	34,334,424	206,007	824,026	1,510,715	-	(1,412,974)	35,036,318
Year 16	35,036,318	210,218	840,872	1,541,598	-	(1,448,298)	35,745,588
Year 17	35,745,588	214,474	857,894	1,572,806	-	(1,484,506)	36,461,907
Year 18	36,461,907	218,771	875,086	1,604,324	-	(1,521,618)	37,184,872
Year 19	37,184,872	223,109	892,437	1,636,134	-	(1,559,659)	37,914,008
Year 20	37,914,008	227,484	909,936	1,668,216	-	(1,598,650)	38,648,770
Year 21	38,648,770	231,893	927,570	1,700,546	-	(1,638,616)	39,388,543
Year 22	39,388,543	236,331	945,325	1,733,096	-	(1,679,582)	40,132,643
Year 23	40,132,643	240,796	963,183	1,765,836	-	(1,721,571)	40,880,308
Year 24	40,880,308	245,282	981,127	1,798,734	-	(1,764,611)	41,630,702
Year 25	41,630,702	249,784	999,137	1,831,751	-	(1,808,726)	42,382,904
Year 26	42,382,904	254,297	1,017,190	1,864,848	-	(1,853,944)	43,135,910
Year 27	43,135,910	258,815	1,035,262	1,897,980	-	(1,900,293)	43,888,619
Year 28	43,888,619	263,332	1,053,327	1,931,099	-	(1,947,800)	44,639,837
Year 29	44,639,837	267,839	1,071,356	1,964,153	-	(1,996,495)	45,388,260
Year 30	45,388,260	272,330	1,089,318	1,997,083	-	(2,046,407)	46,589,473

Schedule 13 - Bob and Betty Bdot

No Further Planning Except for Creation of a Dynasty Trust

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Assumptions:	Financial Assets	Growing Inc. Non-Financial Assets
	Total Estimated Pre-Tax Rate of Return Over 30 Years	7.40%
Rate of Return Taxed at Ordinary Income Rate	0.60%	4.50%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	5.50%
Annual Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income Rate	40.80%	
Long Term Capital Gain & Dividend Rate	23.80%	
Corporate Income Tax Rate		21.00%
Consumption from these sources (increases 2.5% per year)	\$1,000,000	

Assumptions (continued):	
Growing Inc. Valuation Discount	50.00%

Dynasty Trust

	Financial Assets						Income Taxes	End of Year
	Beginning of Year	Income	Tax Free Income	Growth				
Year 1	22,800,000	136,800	547,200	1,003,200	-	(127,443)	24,359,757	
Year 2	24,359,757	146,159	584,634	1,071,829	-	(186,301)	25,976,078	
Year 3	25,976,078	155,856	623,426	1,142,947	-	(233,864)	27,664,444	
Year 4	27,664,444	165,987	663,947	1,217,236	-	(273,825)	29,437,787	
Year 5	29,437,787	176,627	706,507	1,295,263	-	(308,817)	31,307,366	
Year 6	31,307,366	187,844	751,377	1,377,524	-	(340,723)	33,283,388	
Year 7	33,283,388	199,700	798,801	1,464,469	-	(370,899)	35,375,460	
Year 8	35,375,460	212,253	849,011	1,556,520	-	(400,329)	37,592,915	
Year 9	37,592,915	225,557	902,230	1,654,088	-	(429,741)	39,945,050	
Year 10	39,945,050	239,670	958,681	1,757,582	-	(459,676)	42,441,308	
Year 11	42,441,308	254,648	1,018,591	1,867,418	-	(490,553)	45,091,411	
Year 12	45,091,411	270,548	1,082,194	1,984,022	-	(522,703)	47,905,473	
Year 13	47,905,473	287,433	1,149,731	2,107,841	-	(556,396)	50,894,082	
Year 14	50,894,082	305,364	1,221,458	2,239,340	-	(591,864)	54,068,380	
Year 15	54,068,380	324,410	1,297,641	2,379,009	-	(629,313)	57,440,127	
Year 16	57,440,127	344,641	1,378,563	2,527,366	-	(668,935)	61,021,761	
Year 17	61,021,761	366,131	1,464,522	2,684,958	-	(710,912)	64,826,460	
Year 18	64,826,460	388,959	1,555,835	2,852,364	-	(755,426)	68,868,192	
Year 19	68,868,192	413,209	1,652,837	3,030,200	-	(802,657)	73,161,781	
Year 20	73,161,781	438,971	1,755,883	3,219,118	-	(852,792)	77,722,960	
Year 21	77,722,960	466,338	1,865,351	3,419,810	-	(906,025)	82,568,434	
Year 22	82,568,434	495,411	1,981,642	3,633,011	-	(962,556)	87,715,943	
Year 23	87,715,943	526,296	2,105,183	3,859,501	-	(1,022,597)	93,184,325	
Year 24	93,184,325	559,106	2,236,424	4,100,110	-	(1,086,371)	98,993,595	
Year 25	98,993,595	593,962	2,375,846	4,355,718	-	(1,154,114)	105,165,007	
Year 26	105,165,007	630,990	2,523,960	4,627,260	-	(1,226,074)	111,721,143	
Year 27	111,721,143	670,327	2,681,307	4,915,730	-	(1,302,518)	118,685,990	
Year 28	118,685,990	712,116	2,848,464	5,222,184	-	(1,383,724)	126,085,029	
Year 29	126,085,029	756,510	3,026,041	5,547,741	-	(1,469,992)	133,945,329	
Year 30	133,945,329	803,672	3,214,688	5,893,594	-	(1,561,636)	142,295,648	

Schedule 13
Bob and Betty Bdot
Hypothetical Technique - Scenario A

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Assumptions:	Financial Assets	Growing Inc. Non-Financial Assets
	Total Estimated Pre-Tax Rate of Return Over 30 Years	7.40%
Rate of Return Taxed at Ordinary Income Rate	0.60%	4.50%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	5.50%
Annual Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income Rate	40.80%	
Long Term Capital Gain & Dividend Rate	23.80%	
Corporate Income Tax Rate		21.00%
Consumption from these sources (increases 2.5% per year)	\$1,000,000	

Assumptions (continued):	
IRS Applicable Federal Rate (mid-term)	2.38%

Bob and Betty Bdot

	Financial Assets							End of Year
	Beginning of Year	Income	Tax Free Income	Growth	Growing Inc. Distributions	Consumption from these Sources	Income Taxes	
Year 1	25,000,000	150,000	600,000	1,100,000	-	(1,000,000)	(139,740)	25,710,260
Year 2	25,710,260	154,262	617,046	1,131,251	-	(1,025,000)	(198,688)	26,389,131
Year 3	26,389,131	158,335	633,339	1,161,122	-	(1,050,625)	(242,529)	27,048,773
Year 4	27,048,773	162,293	649,171	1,190,146	-	(1,076,891)	(275,742)	27,697,749
Year 5	27,697,749	166,186	664,746	1,218,701	-	(1,103,813)	(301,488)	28,342,082
Year 6	28,342,082	170,052	680,210	1,247,052	-	(1,131,408)	(322,000)	28,985,988
Year 7	28,985,988	173,916	695,664	1,275,383	-	(1,159,693)	(338,853)	29,632,405
Year 8	29,632,405	177,794	711,178	1,303,826	-	(1,188,686)	(353,160)	30,283,358
Year 9	30,283,358	181,700	726,801	1,332,468	-	(1,218,403)	(365,706)	30,940,218
Year 10	30,940,218	185,641	742,565	1,361,370	-	(1,248,863)	(377,044)	31,603,887
Year 11	31,603,887	189,623	758,493	1,390,571	-	(1,280,085)	(387,565)	32,274,925
Year 12	32,274,925	193,650	774,598	1,420,097	-	(1,312,087)	(397,543)	32,953,640
Year 13	32,953,640	197,722	790,887	1,449,960	-	(1,344,889)	(407,171)	33,640,150
Year 14	33,640,150	201,841	807,364	1,480,167	-	(1,378,511)	(416,586)	34,334,424
Year 15	34,334,424	206,007	824,026	1,510,715	-	(1,412,974)	(425,880)	35,036,318
Year 16	35,036,318	210,218	840,872	1,541,598	-	(1,448,298)	(435,119)	35,745,588
Year 17	35,745,588	214,474	857,894	1,572,806	-	(1,484,506)	(444,349)	36,461,907
Year 18	36,461,907	218,771	875,086	1,604,324	-	(1,521,618)	(453,598)	37,184,872
Year 19	37,184,872	223,109	892,437	1,636,134	-	(1,559,659)	(462,886)	37,914,008
Year 20	37,914,008	227,484	909,936	1,668,216	-	(1,598,650)	(472,224)	38,648,770
Year 21	38,648,770	231,893	927,570	1,700,546	-	(1,638,616)	(481,619)	39,388,543
Year 22	39,388,543	236,331	945,325	1,733,096	-	(1,679,582)	(491,071)	40,132,643
Year 23	40,132,643	240,796	963,183	1,765,836	-	(1,721,571)	(500,579)	40,880,308
Year 24	40,880,308	245,282	981,127	1,798,734	-	(1,764,611)	(510,138)	41,630,702
Year 25	41,630,702	249,784	999,137	1,831,751	-	(1,808,726)	(519,743)	42,382,904
Year 26	42,382,904	254,297	1,017,190	1,864,848	-	(1,853,944)	(529,385)	43,135,910
Year 27	43,135,910	258,815	1,035,262	1,897,980	-	(1,900,293)	(539,055)	43,888,619
Year 28	43,888,619	263,332	1,053,327	1,931,099	-	(1,947,800)	(548,741)	44,639,837
Year 29	44,639,837	267,839	1,071,356	1,964,153	-	(1,996,495)	(558,430)	45,388,260
Year 30	45,388,260	272,330	1,089,318	1,997,083	18,541,597	(2,046,407)	(4,524,011)	60,718,170

Schedule 13

Bob and Betty Bdot

Hypothetical Technique - Scenario A

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Assumptions:	Financial	Growing Inc.
	Assets	Non-Financial Assets
Total Estimated Pre-Tax Rate of Return Over 30 Years	7.40%	10.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	4.50%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	5.50%
Annual Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income Rate	40.80%	
Long Term Capital Gain & Dividend Rate	23.80%	
Corporate Income Tax Rate		21.00%
Consumption from these sources (increases 2.5% per year)	\$1,000,000	

Assumptions (continued):	
IRS Applicable Federal Rate (mid-term)	2.38%

Dynasty Trust (BDOT) - Assets other than its Interest in Growing, LLC

	Financial Assets							End of Year
	Beginning of Year	Income	Tax Free Income	Growth	Growing, LLC Growth Distributions	Beneficiary Distributions	Income Taxes	
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	-	-	-	-	-	-	-	-
Year 21	-	-	-	-	-	-	-	-
Year 22	-	-	-	-	-	-	-	-
Year 23	-	-	-	-	-	-	-	-
Year 24	-	-	-	-	-	-	-	-
Year 25	-	-	-	-	-	-	-	-
Year 26	-	-	-	-	-	-	-	-
Year 27	-	-	-	-	-	-	-	-
Year 28	-	-	-	-	-	-	-	-
Year 29	-	-	-	-	-	-	-	-
Year 30	-	-	-	-	-	-	-	-

Schedule 13
Bob and Betty Bdot
Hypothetical Technique - Scenario A

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Assumptions:	Financial	Growing Inc.
	Assets	Non-Financial Assets
Total Estimated Pre-Tax Rate of Return Over 30 Years	7.40%	10.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	4.50%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	5.50%
Annual Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income Rate	40.80%	
Long Term Capital Gain & Dividend Rate	23.80%	
Corporate Income Tax Rate		21.00%
Consumption from these sources (increases 2.5% per year)	\$1,000,000	

Assumptions (continued):	
IRS Applicable Federal Rate (mid-term)	2.38%

Growing, Inc Grantor Trust

	Financial Assets								
	Beginning of Year	Income	Tax Free Income	Growth	Note Payments	Dynasty Trust Distributions	Beneficiary Distributions to Growing Inc.	Income Taxes	End of Year
Year 1	-	-	-	-	2,142,000	-	(1,065,960)	-	1,076,040
Year 2	1,076,040	48,422	-	59,182	2,142,000	-	(1,162,483)	-	2,163,161
Year 3	2,163,161	97,342	-	118,974	2,142,000	-	(1,267,745)	-	3,253,732
Year 4	3,253,732	146,418	-	178,955	2,142,000	-	(1,382,540)	-	4,338,565
Year 5	4,338,565	195,235	-	238,621	2,142,000	-	(1,507,729)	-	5,406,693
Year 6	5,406,693	243,301	-	297,368	2,142,000	-	(1,644,254)	-	6,445,109
Year 7	6,445,109	290,030	-	354,481	2,142,000	-	(1,793,141)	-	7,438,479
Year 8	7,438,479	334,732	-	409,116	2,142,000	-	(1,955,510)	-	8,368,817
Year 9	8,368,817	376,597	-	460,285	2,142,000	-	(2,132,581)	-	9,215,117
Year 10	9,215,117	414,680	-	506,831	2,142,000	-	(2,325,686)	-	9,952,943
Year 11	9,952,943	447,882	-	547,412	2,142,000	-	(2,536,277)	-	10,553,960
Year 12	10,553,960	474,928	-	580,468	2,142,000	-	(2,765,937)	-	10,985,419
Year 13	10,985,419	494,344	-	604,198	2,142,000	-	(3,016,393)	-	11,209,568
Year 14	11,209,568	504,431	-	616,526	2,142,000	-	(3,289,527)	-	11,182,997
Year 15	11,182,997	503,235	-	615,065	2,142,000	-	(3,587,394)	-	10,855,903
Year 16	10,855,903	488,516	-	597,075	2,142,000	-	(3,912,232)	-	10,171,261
Year 17	10,171,261	457,707	-	559,419	2,142,000	-	(4,266,485)	-	9,063,902
Year 18	9,063,902	407,876	-	498,515	2,142,000	-	(4,652,815)	-	7,459,477
Year 19	7,459,477	335,676	-	410,271	2,142,000	-	(5,074,128)	-	5,273,297
Year 20	5,273,297	237,298	-	290,031	2,142,000	-	(5,533,590)	-	2,409,037
Year 21	2,409,037	108,407	-	132,497	6,142,000	-	(6,034,656)	-	2,757,285
Year 22	2,757,285	124,078	-	151,651	6,046,800	-	(6,581,095)	-	2,498,718
Year 23	2,498,718	112,442	-	137,430	6,951,600	-	(7,177,013)	-	2,523,178
Year 24	2,523,178	113,543	-	138,775	7,832,600	-	(7,826,891)	-	2,781,204
Year 25	2,781,204	125,154	-	152,966	8,689,800	-	(8,535,616)	-	3,213,508
Year 26	3,213,508	144,608	-	176,743	9,523,200	-	(9,308,516)	-	3,749,543
Year 27	3,749,543	168,729	-	206,225	9,332,800	-	(10,151,402)	-	3,305,895
Year 28	3,305,895	148,765	-	181,824	10,142,400	-	(11,070,612)	-	2,708,273
Year 29	2,708,273	121,872	-	148,955	10,928,200	-	(12,073,056)	-	1,834,244
Year 30	1,834,244	82,541	-	100,883	29,690,200	-	(31,707,868)	-	-

Schedule 13
Bob and Betty Bdot
Hypothetical Technique - Scenario A

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Assumptions:	Financial Assets	Growing Inc. Non-Financial Assets
Total Estimated Pre-Tax Rate of Return Over 30 Years	7.40%	10.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	4.50%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	5.50%
Annual Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income Rate	40.80%	
Long Term Capital Gain & Dividend Rate	23.80%	
Corporate Income Tax Rate		21.00%
Consumption from these sources (increases 2.5% per year)	\$1,000,000	

Assumptions (continued):	
IRS Applicable Federal Rate (mid-term)	2.38%

Note Between Growing Inc. Grantor Trust and Growing, LLC

	Beginning of Year Principal	Interest @ 2.38%	Note Payments	End of Year
Year 1	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 2	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 3	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 4	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 5	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 6	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 7	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 8	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 9	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 10	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 11	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 12	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 13	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 14	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 15	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 16	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 17	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 18	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 19	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 20	90,000,000	2,142,000	(2,142,000)	90,000,000
Year 21	90,000,000	2,142,000	(6,142,000)	86,000,000
Year 22	86,000,000	2,046,800	(6,046,800)	82,000,000
Year 23	82,000,000	1,951,600	(6,951,600)	77,000,000
Year 24	77,000,000	1,832,600	(7,832,600)	71,000,000
Year 25	71,000,000	1,689,800	(8,689,800)	64,000,000
Year 26	64,000,000	1,523,200	(9,523,200)	56,000,000
Year 27	56,000,000	1,332,800	(9,332,800)	48,000,000
Year 28	48,000,000	1,142,400	(10,142,400)	39,000,000
Year 29	39,000,000	928,200	(10,928,200)	29,000,000
Year 30	29,000,000	690,200	(29,690,200)	-

Schedule 13
Bob and Betty Bdot
Hypothetical Technique - Scenario B

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Assumptions:	Financial Assets	Growing Inc. Non-Financial Assets
	Total Estimated Pre-Tax Rate of Return Over 30 Years	7.40%
Rate of Return Taxed at Ordinary Income Rate	0.60%	4.50%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	5.50%
Annual Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income Rate	40.80%	
Long Term Capital Gain & Dividend Rate	23.80%	
199A Deduction	20.00%	
Corporate Income Tax Rate		21.00%
Consumption from these sources (increases 2.5% per year)	\$1,000,000	

Assumptions (continued):	
IRS Applicable Federal Rate (mid-term)	2.38%

Bob and Betty Bdot

	Financial Assets							End of Year
	Beginning of Year	Income	Tax Free Income	Growth	Growing Inc. Distributions	Consumption from these Sources	Income Taxes	
Year 1	25,000,000	150,000	600,000	1,100,000	-	(1,000,000)	(139,740)	25,710,260
Year 2	25,710,260	154,262	617,046	1,131,251	-	(1,025,000)	(198,688)	26,389,131
Year 3	26,389,131	158,335	633,339	1,161,122	-	(1,050,625)	(242,529)	27,048,773
Year 4	27,048,773	162,293	649,171	1,190,146	-	(1,076,891)	(275,742)	27,697,749
Year 5	27,697,749	166,186	664,746	1,218,701	-	(1,103,813)	(301,488)	28,342,082
Year 6	28,342,082	170,052	680,210	1,247,052	-	(1,131,408)	(322,000)	28,985,988
Year 7	28,985,988	173,916	695,664	1,275,383	-	(1,159,693)	(338,853)	29,632,405
Year 8	29,632,405	177,794	711,178	1,303,826	-	(1,188,686)	(353,160)	30,283,358
Year 9	30,283,358	181,700	726,801	1,332,468	-	(1,218,403)	(365,706)	30,940,218
Year 10	30,940,218	185,641	742,565	1,361,370	-	(1,248,863)	(377,044)	31,603,887
Year 11	31,603,887	189,623	758,493	1,390,571	-	(1,280,085)	(387,565)	32,274,925
Year 12	32,274,925	193,650	774,598	1,420,097	-	(1,312,087)	(397,543)	32,953,640
Year 13	32,953,640	197,722	790,887	1,449,960	-	(1,344,889)	(407,171)	33,640,150
Year 14	33,640,150	201,841	807,364	1,480,167	-	(1,378,511)	(416,586)	34,334,424
Year 15	34,334,424	206,007	824,026	1,510,715	-	(1,412,974)	(425,880)	35,036,318
Year 16	35,036,318	210,218	840,872	1,541,598	-	(1,448,298)	(435,119)	35,745,588
Year 17	35,745,588	214,474	857,894	1,572,806	-	(1,484,506)	(444,349)	36,461,907
Year 18	36,461,907	218,771	875,086	1,604,324	-	(1,521,618)	(453,598)	37,184,872
Year 19	37,184,872	223,109	892,437	1,636,134	-	(1,559,659)	(462,886)	37,914,008
Year 20	37,914,008	227,484	909,936	1,668,216	-	(1,598,650)	(472,224)	38,648,770
Year 21	38,648,770	231,893	927,570	1,700,546	-	(1,638,616)	(481,619)	39,388,543
Year 22	39,388,543	236,331	945,325	1,733,096	-	(1,679,582)	(491,071)	40,132,643
Year 23	40,132,643	240,796	963,183	1,765,836	-	(1,721,571)	(500,579)	40,880,308
Year 24	40,880,308	245,282	981,127	1,798,734	-	(1,764,611)	(510,138)	41,630,702
Year 25	41,630,702	249,784	999,137	1,831,751	-	(1,808,726)	(519,743)	42,382,904
Year 26	42,382,904	254,297	1,017,190	1,864,848	-	(1,853,944)	(529,385)	43,135,910
Year 27	43,135,910	258,815	1,035,262	1,897,980	-	(1,900,293)	(539,055)	43,888,619
Year 28	43,888,619	263,332	1,053,327	1,931,099	-	(1,947,800)	(548,741)	44,639,837
Year 29	44,639,837	267,839	1,071,356	1,964,153	-	(1,996,495)	(558,430)	45,388,260
Year 30	45,388,260	272,330	1,089,318	1,997,083	193,050,676	(2,046,407)	(46,057,171)	193,694,088

Schedule 13

Bob and Betty Bdot

Hypothetical Technique - Scenario B

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	Financial Assets	Growing Inc. Non-Financial Assets
Assumptions:		
Total Estimated Pre-Tax Rate of Return Over 30 Years	7.40%	10.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	4.50%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	5.50%
Annual Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income Rate	40.80%	
Long Term Capital Gain & Dividend Rate	23.80%	
199A Deduction	20.00%	
Corporate Income Tax Rate		21.00%
Consumption from these sources (increases 2.5% per year)	\$1,000,000	

Assumptions (continued):	
IRS Applicable Federal Rate (mid-term)	2.38%

Dynasty Trust - Assets other than its Interest in Growing, LLC

	Financial Assets							End of Year
	Beginning of Year	Income	Tax Free Income	Growth	Growing, LLC Growth Distributions	Beneficiary Distributions	Income Taxes	
Year 1	-	-	-	-	610,272	-	(610,272)	-
Year 2	-	-	-	-	614,212	-	(614,212)	-
Year 3	-	-	-	-	689,703	-	(689,703)	-
Year 4	-	-	-	-	772,037	-	(772,037)	-
Year 5	-	-	-	-	861,834	-	(861,834)	-
Year 6	-	-	-	-	959,770	-	(959,770)	-
Year 7	-	-	-	-	1,066,583	-	(1,066,583)	-
Year 8	-	-	-	-	1,183,077	-	(1,183,077)	-
Year 9	-	-	-	-	1,310,131	-	(1,310,131)	-
Year 10	-	-	-	-	1,448,700	-	(1,448,700)	-
Year 11	-	-	-	-	1,599,830	-	(1,599,830)	-
Year 12	-	-	-	-	1,764,657	-	(1,764,657)	-
Year 13	-	-	-	-	1,944,425	-	(1,944,425)	-
Year 14	-	-	-	-	2,140,487	-	(2,140,487)	-
Year 15	-	-	-	-	2,354,320	-	(2,354,320)	-
Year 16	-	-	-	-	2,587,535	-	(2,587,535)	-
Year 17	-	-	-	-	2,841,888	-	(2,841,888)	-
Year 18	-	-	-	-	3,119,296	-	(3,119,296)	-
Year 19	-	-	-	-	3,421,849	-	(3,421,849)	-
Year 20	-	-	-	-	3,751,824	-	(3,751,824)	-
Year 21	-	-	-	-	4,111,709	-	(4,111,709)	-
Year 22	-	-	-	-	4,504,214	-	(4,504,214)	-
Year 23	-	-	-	-	4,932,295	-	(4,932,295)	-
Year 24	-	-	-	-	5,399,177	-	(5,399,177)	-
Year 25	-	-	-	-	5,908,378	-	(5,908,378)	-
Year 26	-	-	-	-	6,463,733	-	(6,463,733)	-
Year 27	-	-	-	-	7,069,425	-	(7,069,425)	-
Year 28	-	-	-	-	7,730,017	-	(7,730,017)	-
Year 29	-	-	-	-	8,450,485	-	(8,450,485)	-
Year 30	-	-	-	-	9,236,256	-	(9,236,256)	-

Schedule 13
Bob and Betty Bdot
Hypothetical Technique - Scenario B

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Assumptions:	Financial	Growing Inc.
	Assets	Non-Financial Assets
Total Estimated Pre-Tax Rate of Return Over 30 Years	7.40%	10.00%
Rate of Return Taxed at Ordinary Income Rate	0.60%	4.50%
Rate of Return Tax Free	2.40%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.40%	5.50%
Annual Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	0.00%
Ordinary Income Rate	40.80%	
Long Term Capital Gain & Dividend Rate	23.80%	
199A Deduction	20.00%	
Corporate Income Tax Rate		21.00%
Consumption from these sources (increases 2.5% per year)	\$1,000,000	

Assumptions (continued):	
IRS Applicable Federal Rate (mid-term)	2.38%

Note Between Growing Inc. and Growing, LLC

	Beginning of Year Principal	Interest @ 2.38%	Note Payments	End of Year
Year 1	90,000,000	2,142,000	(19,349,820)	72,792,180
Year 2	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 3	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 4	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 5	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 6	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 7	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 8	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 9	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 10	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 11	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 12	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 13	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 14	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 15	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 16	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 17	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 18	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 19	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 20	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 21	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 22	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 23	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 24	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 25	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 26	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 27	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 28	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 29	72,792,180	1,732,454	(1,732,454)	72,792,180
Year 30	72,792,180	1,732,454	(74,524,634)	-

**Sally Selfmade
Schedule 14**

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mrs. Surviving Spouse has a life expectancy of 15 years)

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	15-Year Future Values		Present Values (Discounted at 0.0%)	Percentage of Total
	Pre-Death	Post Death		
Spousal Lifetime Access Grantor Trust Becomes a Non-Grantor Trust				
Sally Selfmade	-	-	-	0.00%
Children	-	-	-	0.00%
Children and Grandchildren	31,711,488	30,906,033	30,906,033	80.11%
IRS Income Tax - Direct Cost	4,664,052	4,664,052	4,664,052	12.09%
IRS Income Tax - Investment Opportunity Cost	2,202,075	2,202,075	2,202,075	5.71%
IRS Income Tax - Embedded Capital Gain Tax Liability ⁽¹⁾	-	805,455	805,455	2.09%
IRS Estate Tax (at 40.0%)	-	-	-	0.00%
Total	\$38,577,615	\$38,577,615	\$38,577,615	100.00%
Spousal Lifetime Access Grantor Trust Becomes a BDOT				
Sally Selfmade	-	-	-	0.00%
Children	-	-	-	0.00%
Children and Grandchildren	33,310,030	32,473,028	32,473,028	84.18%
IRS Income Tax - Direct Cost	3,588,950	3,588,950	3,588,950	9.30%
IRS Income Tax - Investment Opportunity Cost	1,678,635	1,678,635	1,678,635	4.35%
IRS Income Tax - Embedded Capital Gain Tax Liability ⁽¹⁾	-	837,001	837,001	2.17%
IRS Estate Tax (at 40.0%)	-	-	-	0.00%
Total	\$38,577,615	\$38,577,615	\$38,577,615	100.00%

(1) Post death amounts to children and grandchildren are reduced by the embedded capital gain tax liability. This capital gains tax is only paid when those assets are sold.

Sally Selfmade

Schedule 14

Spousal Lifetime Access Grantor Trust Becomes a Non-Grantor Trust

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+0.0% / year)	\$0

	Mrs. Surviving Spouse	Non-Grantor Trust
Assumptions (continued):		
Ordinary Income Tax Rate	40.80%	48.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%	31.80%
IRS Applicable Federal Rate (mid-term)	1.26%	

Spousal Lifetime Access Grantor Trust Becomes a Non-Grantor Trust

	Financial & Brokerage Assets							End of Year
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Beneficiary Distributions	Income Taxes	
Year 1	15,000,000	22,500	202,500	150,000	600,000	-	(115,920)	15,859,080
Year 2	15,859,080	23,789	214,098	158,591	634,363	-	(162,627)	16,727,293
Year 3	16,727,293	25,091	225,818	167,273	669,092	-	(199,679)	17,614,888
Year 4	17,614,888	26,422	237,801	176,149	704,596	-	(230,097)	18,529,759
Year 5	18,529,759	27,795	250,152	185,298	741,190	-	(256,029)	19,478,164
Year 6	19,478,164	29,217	262,955	194,782	779,127	-	(279,006)	20,465,239
Year 7	20,465,239	30,698	276,281	204,652	818,610	-	(300,120)	21,495,359
Year 8	21,495,359	32,243	290,187	214,954	859,814	-	(320,158)	22,572,399
Year 9	22,572,399	33,859	304,727	225,724	902,896	-	(339,688)	23,699,917
Year 10	23,699,917	35,550	319,949	236,999	947,997	-	(359,122)	24,881,290
Year 11	24,881,290	37,322	335,897	248,813	995,252	-	(378,768)	26,119,806
Year 12	26,119,806	39,180	352,617	261,198	1,044,792	-	(398,857)	27,418,736
Year 13	27,418,736	41,128	370,153	274,187	1,096,749	-	(419,565)	28,781,389
Year 14	28,781,389	43,172	388,549	287,814	1,151,256	-	(441,035)	30,211,145
Year 15	30,211,145	45,317	407,850	302,111	1,208,446	-	(463,381)	31,711,488

Sally Selfmade

Schedule 14

Spousal Lifetime Access Grantor Trust Becomes a BDOT

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Assumptions:

Total Estimated Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+0.0% / year)	\$0

Assumptions (continued):

Ordinary Income Tax Rate	Mrs. Surviving Spouse 40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
IRS Applicable Federal Rate (mid-term)	1.26%

Sally Selfmade (and affiliates)

	Financial & Brokerage Assets								End of Year
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Trust Distributions	Consumption from these Sources	Income Taxes	
Year 1	-	-	-	-	-	87,720	-	(87,720)	-
Year 2	-	-	-	-	-	122,897	-	(122,897)	-
Year 3	-	-	-	-	-	150,983	-	(150,983)	-
Year 4	-	-	-	-	-	174,239	-	(174,239)	-
Year 5	-	-	-	-	-	194,272	-	(194,272)	-
Year 6	-	-	-	-	-	212,223	-	(212,223)	-
Year 7	-	-	-	-	-	228,910	-	(228,910)	-
Year 8	-	-	-	-	-	244,920	-	(244,920)	-
Year 9	-	-	-	-	-	260,679	-	(260,679)	-
Year 10	-	-	-	-	-	276,498	-	(276,498)	-
Year 11	-	-	-	-	-	292,612	-	(292,612)	-
Year 12	-	-	-	-	-	309,199	-	(309,199)	-
Year 13	-	-	-	-	-	326,399	-	(326,399)	-
Year 14	-	-	-	-	-	344,325	-	(344,325)	-
Year 15	-	-	-	-	-	363,073	-	(363,073)	-

Sally Selfmade

Schedule 14

Spousal Lifetime Access Grantor Trust Becomes a BDOT

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Assumptions:

Total Estimated Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+0.0% / year)	\$0

Assumptions (continued):

	Mrs. Surviving Spouse
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
IRS Applicable Federal Rate (mid-term)	1.26%

Spousal Lifetime Access Trust

	Financial & Brokerage Assets							End of Year
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Beneficiary Distributions	Income Taxes	
Year 1	15,000,000	22,500	202,500	150,000	600,000	(87,720)	-	15,887,280
Year 2	15,887,280	23,831	214,478	158,873	635,491	(122,897)	-	16,797,056
Year 3	16,797,056	25,196	226,760	167,971	671,882	(150,983)	-	17,737,882
Year 4	17,737,882	26,607	239,461	177,379	709,515	(174,239)	-	18,716,606
Year 5	18,716,606	28,075	252,674	187,166	748,664	(194,272)	-	19,738,913
Year 6	19,738,913	29,608	266,475	197,389	789,557	(212,223)	-	20,809,719
Year 7	20,809,719	31,215	280,931	208,097	832,389	(228,910)	-	21,933,440
Year 8	21,933,440	32,900	296,101	219,334	877,338	(244,920)	-	23,114,193
Year 9	23,114,193	34,671	312,042	231,142	924,568	(260,679)	-	24,355,937
Year 10	24,355,937	36,534	328,805	243,559	974,237	(276,498)	-	25,662,575
Year 11	25,662,575	38,494	346,445	256,626	1,026,503	(292,612)	-	27,038,030
Year 12	27,038,030	40,557	365,013	270,380	1,081,521	(309,199)	-	28,486,303
Year 13	28,486,303	42,729	384,565	284,863	1,139,452	(326,399)	-	30,011,514
Year 14	30,011,514	45,017	405,155	300,115	1,200,461	(344,325)	-	31,617,937
Year 15	31,617,937	47,427	426,842	316,179	1,264,717	(363,073)	-	33,310,030

**Sonny Selfmade
Schedule 15**

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Surviving Spouse Child has a life expectancy of 25 years)

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	25-Year Future Values		Present Values (Discounted at 0.0%)	Percentage of Total
	Pre-Death	Post Death		
Grantor Trust Becomes a Non-Grantor Trust Upon Death of Parent				
Sonny Selfmade	-	-	-	0.00%
Sally Selfmade Grandchildren	51,476,884	50,166,000	50,166,000	69.28%
IRS Income Tax - Direct Cost	10,781,428	10,781,428	10,781,428	14.89%
IRS Income Tax - Investment Opportunity Cost	10,157,175	10,157,175	10,157,175	14.03%
IRS Income Tax - Embedded Capital Gain Tax Liability ⁽¹⁾	-	1,310,883	1,310,883	1.81%
IRS Estate Tax (at 40.0%)	-	-	-	0.00%
Total	\$72,415,487	\$72,415,487	\$72,415,487	100.00%
Grantor Trust Becomes a BDOT Upon Death of Parent				
Sonny Selfmade	-	-	-	0.00%
Sally Selfmade Grandchildren	56,094,814	54,681,939	54,681,939	75.51%
IRS Income Tax - Direct Cost	8,486,608	8,486,608	8,486,608	11.72%
IRS Income Tax - Investment Opportunity Cost	7,834,065	7,834,065	7,834,065	10.82%
IRS Income Tax - Embedded Capital Gain Tax Liability ⁽¹⁾	-	1,412,875	1,412,875	1.95%
IRS Estate Tax (at 40.0%)	-	-	-	0.00%
Total	\$72,415,487	\$72,415,487	\$72,415,487	100.00%

(1) Post death amounts to children and grandchildren are reduced by the embedded capital gain tax liability. This capital gains tax is only paid when those assets are sold.

Sonny Selfmade

Schedule 15

Grantor Trust Becomes a Non-Grantor Trust Upon Death of Parent

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+0.0% / year)	\$0

Assumptions (continued):	Child	Non-Grantor Trust
Ordinary Income Tax Rate	40.80%	48.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%	31.80%
IRS Applicable Federal Rate (mid-term)	1.26%	

Grantor Trust Becomes a Non-Grantor Trust

	Financial & Brokerage Assets							End of Year
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Beneficiary Distributions	Income Taxes	
Year 1	15,000,000	22,500	202,500	150,000	600,000	-	(115,920)	15,859,080
Year 2	15,859,080	23,789	214,098	158,591	634,363	-	(162,627)	16,727,293
Year 3	16,727,293	25,091	225,818	167,273	669,092	-	(199,679)	17,614,888
Year 4	17,614,888	26,422	237,801	176,149	704,596	-	(230,097)	18,529,759
Year 5	18,529,759	27,795	250,152	185,298	741,190	-	(256,029)	19,478,164
Year 6	19,478,164	29,217	262,955	194,782	779,127	-	(279,006)	20,465,239
Year 7	20,465,239	30,698	276,281	204,652	818,610	-	(300,120)	21,495,359
Year 8	21,495,359	32,243	290,187	214,954	859,814	-	(320,158)	22,572,399
Year 9	22,572,399	33,859	304,727	225,724	902,896	-	(339,688)	23,699,917
Year 10	23,699,917	35,550	319,949	236,999	947,997	-	(359,122)	24,881,290
Year 11	24,881,290	37,322	335,897	248,813	995,252	-	(378,768)	26,119,806
Year 12	26,119,806	39,180	352,617	261,198	1,044,792	-	(398,857)	27,418,736
Year 13	27,418,736	41,128	370,153	274,187	1,096,749	-	(419,565)	28,781,389
Year 14	28,781,389	43,172	388,549	287,814	1,151,256	-	(441,035)	30,211,145
Year 15	30,211,145	45,317	407,850	302,111	1,208,446	-	(463,381)	31,711,488
Year 16	31,711,488	47,567	428,105	317,115	1,268,460	-	(486,703)	33,286,032
Year 17	33,286,032	49,929	449,361	332,860	1,331,441	-	(511,088)	34,938,536
Year 18	34,938,536	52,408	471,670	349,385	1,397,541	-	(536,616)	36,672,925
Year 19	36,672,925	55,009	495,084	366,729	1,466,917	-	(563,364)	38,493,301
Year 20	38,493,301	57,740	519,660	384,933	1,539,732	-	(591,406)	40,403,960
Year 21	40,403,960	60,606	545,453	404,040	1,616,158	-	(620,816)	42,409,401
Year 22	42,409,401	63,614	572,527	424,094	1,696,376	-	(651,669)	44,514,344
Year 23	44,514,344	66,772	600,944	445,143	1,780,574	-	(684,041)	46,723,735
Year 24	46,723,735	70,086	630,770	467,237	1,868,949	-	(718,012)	49,042,766
Year 25	49,042,766	73,564	662,077	490,428	1,961,711	-	(753,662)	51,476,884

Sonny Selfmade

Schedule 15

Grantor Trust Becomes a BDOT Upon Death of Parent

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+0.0% / year)	\$0

Assumptions (continued):		Child
Ordinary Income Tax Rate		40.80%
Long Term Capital Gain and Dividend Tax Rate		23.80%
IRS Applicable Federal Rate (mid-term)		1.26%

Sonny Selfmade (and affiliates)

Financial & Brokerage Assets									
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Trust Distributions	Consumption from these Sources	Income Taxes	End of Year
Year 1	-	-	-	-	-	87,720	-	(87,720)	-
Year 2	-	-	-	-	-	122,897	-	(122,897)	-
Year 3	-	-	-	-	-	150,983	-	(150,983)	-
Year 4	-	-	-	-	-	174,239	-	(174,239)	-
Year 5	-	-	-	-	-	194,272	-	(194,272)	-
Year 6	-	-	-	-	-	212,223	-	(212,223)	-
Year 7	-	-	-	-	-	228,910	-	(228,910)	-
Year 8	-	-	-	-	-	244,920	-	(244,920)	-
Year 9	-	-	-	-	-	260,679	-	(260,679)	-
Year 10	-	-	-	-	-	276,498	-	(276,498)	-
Year 11	-	-	-	-	-	292,612	-	(292,612)	-
Year 12	-	-	-	-	-	309,199	-	(309,199)	-
Year 13	-	-	-	-	-	326,399	-	(326,399)	-
Year 14	-	-	-	-	-	344,325	-	(344,325)	-
Year 15	-	-	-	-	-	363,073	-	(363,073)	-
Year 16	-	-	-	-	-	382,728	-	(382,728)	-
Year 17	-	-	-	-	-	403,365	-	(403,365)	-
Year 18	-	-	-	-	-	425,059	-	(425,059)	-
Year 19	-	-	-	-	-	447,880	-	(447,880)	-
Year 20	-	-	-	-	-	471,897	-	(471,897)	-
Year 21	-	-	-	-	-	497,183	-	(497,183)	-
Year 22	-	-	-	-	-	523,809	-	(523,809)	-
Year 23	-	-	-	-	-	551,851	-	(551,851)	-
Year 24	-	-	-	-	-	581,387	-	(581,387)	-
Year 25	-	-	-	-	-	612,499	-	(612,499)	-

Sonny Selfmade

Schedule 15

Grantor Trust Becomes a BDOT Upon Death of Parent

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	6.50%
Rate of Return Taxed at Ordinary Income Rate	0.15%
Rate of Return Tax Free	1.35%
Rate of Return Taxed at Dividend Rate	1.00%
Rate of Return Taxed at Capital Gain Rate	4.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%
Consumption from these sources (+0.0% / year)	\$0

Assumptions (continued):		Child
Ordinary Income Tax Rate		40.80%
Long Term Capital Gain and Dividend Tax Rate		23.80%
IRS Applicable Federal Rate (mid-term)		1.26%

BDOT

Financial & Brokerage Assets								
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Beneficiary Distributions	Income Taxes	End of Year
Year 1	15,000,000	22,500	202,500	150,000	600,000	(87,720)	-	15,887,280
Year 2	15,887,280	23,831	214,478	158,873	635,491	(122,897)	-	16,797,056
Year 3	16,797,056	25,196	226,760	167,971	671,882	(150,983)	-	17,737,882
Year 4	17,737,882	26,607	239,461	177,379	709,515	(174,239)	-	18,716,606
Year 5	18,716,606	28,075	252,674	187,166	748,664	(194,272)	-	19,738,913
Year 6	19,738,913	29,608	266,475	197,389	789,557	(212,223)	-	20,809,719
Year 7	20,809,719	31,215	280,931	208,097	832,389	(228,910)	-	21,933,440
Year 8	21,933,440	32,900	296,101	219,334	877,338	(244,920)	-	23,114,193
Year 9	23,114,193	34,671	312,042	231,142	924,568	(260,679)	-	24,355,937
Year 10	24,355,937	36,534	328,805	243,559	974,237	(276,498)	-	25,662,575
Year 11	25,662,575	38,494	346,445	256,626	1,026,503	(292,612)	-	27,038,030
Year 12	27,038,030	40,557	365,013	270,380	1,081,521	(309,199)	-	28,486,303
Year 13	28,486,303	42,729	384,565	284,863	1,139,452	(326,399)	-	30,011,514
Year 14	30,011,514	45,017	405,155	300,115	1,200,461	(344,325)	-	31,617,937
Year 15	31,617,937	47,427	426,842	316,179	1,264,717	(363,073)	-	33,310,030
Year 16	33,310,030	49,965	449,685	333,100	1,332,401	(382,728)	-	35,092,454
Year 17	35,092,454	52,639	473,748	350,925	1,403,698	(403,365)	-	36,970,098
Year 18	36,970,098	55,455	499,096	369,701	1,478,804	(425,059)	-	38,948,095
Year 19	38,948,095	58,422	525,799	389,481	1,557,924	(447,880)	-	41,031,842
Year 20	41,031,842	61,548	553,930	410,318	1,641,274	(471,897)	-	43,227,014
Year 21	43,227,014	64,841	583,565	432,270	1,729,081	(497,183)	-	45,539,588
Year 22	45,539,588	68,309	614,784	455,396	1,821,584	(523,809)	-	47,975,852
Year 23	47,975,852	71,964	647,674	479,759	1,919,034	(551,851)	-	50,542,432
Year 24	50,542,432	75,814	682,323	505,424	2,021,697	(581,387)	-	53,246,303
Year 25	53,246,303	79,869	718,825	532,463	2,129,852	(612,499)	-	56,094,814

Schedule 16

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 QTIP marital deduction trust				
Dot Beedot	158,101,274	-	-	0.00%
Beedot Children	-	86,316,764	67,430,518	38.43%
Beedot Children & Grandchildren	19,788,171	33,626,679	26,269,108	14.97%
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	22,869,455	22,869,455	17,865,581	10.18%
IRS Income Tax - Investment Opportunity Cost	8,306,361	8,306,361	6,488,916	3.70%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	401,492	313,645	0.18%
IRS Estate Tax (@ 40%)	-	57,544,509	44,953,679	25.62%
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 creates an LLC; the marital deduction trust sells assets to the LLC

Dot Beedot	80,077,816	-	-	0.00%
Beedot Children	-	39,502,690	30,859,438	17.59%
Beedot Children & Grandchildren	96,426,623	107,033,451	83,614,361	47.65%
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	24,254,461	24,254,461	18,947,546	10.80%
IRS Income Tax - Investment Opportunity Cost	8,306,361	8,306,361	6,488,916	3.70%
IRS Income Tax - Embedded Capital Gains Tax Liability	-	3,633,172	2,838,228	1.62%
IRS Estate Tax (@ 40%)	-	26,335,126	20,572,959	11.72%
Total	224,613,316	224,613,316	175,467,563	100.00%

Schedule 16

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 QTIP marital deduction trust

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	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	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	\$1,000,000

Mrs. Benny Beneficial

	Financial Assets							End of Year
	Beginning of Year	Income	Tax Free Income	Growth	Trust Distributions	Consumption	Income Taxes	
Year 1	98,600,000	2,366,400	591,600	4,338,400	-	(1,000,000)	(1,275,253)	103,621,147
Year 2	103,621,147	2,486,908	621,727	4,559,330	-	(1,025,000)	(1,557,028)	108,707,084
Year 3	108,707,084	2,608,970	652,243	4,783,112	-	(1,050,625)	(1,785,633)	113,915,151
Year 4	113,915,151	2,733,964	683,491	5,012,267	-	(1,076,891)	(1,978,154)	119,289,828
Year 5	119,289,828	2,862,956	715,739	5,248,752	-	(1,103,813)	(2,146,735)	124,866,727
Year 6	124,866,727	2,996,801	749,200	5,494,136	-	(1,131,408)	(2,300,030)	130,675,426
Year 7	130,675,426	3,136,210	784,053	5,749,719	-	(1,159,693)	(2,444,238)	136,741,476
Year 8	136,741,476	3,281,795	820,449	6,016,625	-	(1,188,686)	(2,583,825)	143,087,835
Year 9	143,087,835	3,434,108	858,527	6,295,865	-	(1,218,403)	(2,722,037)	149,735,894
Year 10	149,735,894	3,593,661	898,415	6,588,379	-	(1,248,863)	(1,466,214)	158,101,274

Beneficial Credit Shelter Trust

	Financial Assets						End of Year
	Beginning of Year	Income	Tax Free Income	Growth	Beneficiary Distributions	Income Taxes	
Year 1	11,400,000	273,600	68,400	501,600	-	(147,443)	12,096,157
Year 2	12,096,157	290,308	72,577	532,231	-	(181,517)	12,809,756
Year 3	12,809,756	307,434	76,859	563,629	-	(209,826)	13,547,852
Year 4	13,547,852	325,148	81,287	596,105	-	(234,298)	14,316,095
Year 5	14,316,095	343,586	85,897	629,908	-	(256,305)	15,119,181
Year 6	15,119,181	362,860	90,715	665,244	-	(276,830)	15,961,170
Year 7	15,961,170	383,068	95,767	702,291	-	(296,584)	16,845,713
Year 8	16,845,713	404,297	101,074	741,211	-	(316,080)	17,776,216
Year 9	17,776,216	426,629	106,657	782,154	-	(335,699)	18,755,957
Year 10	18,755,957	450,143	112,536	825,262	-	(355,726)	19,788,171

Schedule 16

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 creates an LLC; the marital deduction trust sells assets to the LLC

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	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	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	\$1,000,000
Intra-Family Interest Rate (mid-term)	1.78%
Beedot Family LLC Valuation Discount	30.00%

Mrs. Dot Beedot

	Financial Assets							End of Year
	Beginning of Year	Income	Tax Free Income	Growth	Trust Distributions	Consumption	Income Taxes	
Year 1	-	-	-	-	3,422,696	(1,000,000)	(1,422,696)	1,000,000
Year 2	1,000,000	24,000	6,000	44,000	2,689,545	(1,025,000)	(1,738,545)	1,000,000
Year 3	1,000,000	24,000	6,000	44,000	2,972,084	(1,050,625)	(1,995,459)	1,000,000
Year 4	1,000,000	24,000	6,000	44,000	3,215,342	(1,076,891)	(2,212,452)	1,000,000
Year 5	1,000,000	24,000	6,000	44,000	3,432,852	(1,103,813)	(2,403,039)	1,000,000
Year 6	1,000,000	24,000	6,000	44,000	3,634,269	(1,131,408)	(2,576,861)	1,000,000
Year 7	1,000,000	24,000	6,000	44,000	3,826,516	(1,159,693)	(2,740,822)	1,000,000
Year 8	1,000,000	24,000	6,000	44,000	4,014,591	(1,188,686)	(2,899,905)	1,000,000
Year 9	1,000,000	24,000	6,000	44,000	4,202,140	(1,218,403)	(3,057,737)	1,000,000
Year 10	1,000,000	24,000	6,000	44,000	3,381,809	(1,248,863)	(3,206,946)	-

Beedot Family LLC

	Financial Assets						End of Year	Ownership
	Beginning of Year	Income	Tax Free Income	Growth	Note Payments	Owner Distributions		
Year 1	110,000,000	2,640,000	660,000	4,840,000	(3,422,696)	-	114,717,304	100.0%
Year 2	114,717,304	2,753,215	688,304	5,047,561	(2,689,545)	-	120,516,840	100.0%
Year 3	120,516,840	2,892,404	723,101	5,302,741	(2,972,084)	-	126,463,002	100.0%
Year 4	126,463,002	3,035,112	758,778	5,564,372	(3,215,342)	-	132,605,922	100.0%
Year 5	132,605,922	3,182,542	795,636	5,834,661	(3,432,852)	-	138,985,909	100.0%
Year 6	138,985,909	3,335,662	833,915	6,115,380	(3,634,269)	-	145,636,597	100.0%
Year 7	145,636,597	3,495,278	873,820	6,408,010	(3,826,516)	-	152,587,189	100.0%
Year 8	152,587,189	3,662,093	915,523	6,713,836	(4,014,591)	-	159,864,051	100.0%
Year 9	159,864,051	3,836,737	959,184	7,034,018	(4,202,140)	-	167,491,851	100.0%
Year 10	167,491,851	4,019,804	1,004,951	7,369,641	(83,459,625)	-	96,426,623	100.0%

Schedule 16 - 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 creates an LLC; the marital deduction trust sells assets to the LLC

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	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	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	\$1,000,000
Intra-Family Interest Rate (mid-term)	1.78%
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	Beneficiary 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	-	-	-	-	-	-	-	-

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	-	-	-	-	-	3,422,696	(3,422,696)	-	-
Year 2	-	-	-	-	-	2,689,545	(2,689,545)	-	-
Year 3	-	-	-	-	-	2,972,084	(2,972,084)	-	-
Year 4	-	-	-	-	-	3,215,342	(3,215,342)	-	-
Year 5	-	-	-	-	-	3,432,852	(3,432,852)	-	-
Year 6	-	-	-	-	-	3,634,269	(3,634,269)	-	-
Year 7	-	-	-	-	-	3,826,516	(3,826,516)	-	-
Year 8	-	-	-	-	-	4,014,591	(4,014,591)	-	-
Year 9	-	-	-	-	-	4,202,140	(4,202,140)	-	-
Year 10	-	-	-	-	-	83,459,625	(3,381,809)	-	80,077,816

Schedule 16 - 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 creates an LLC; the marital deduction trust sells assets to the LLC

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Assumptions:	
Total Estimated Rate of Return - Financial Assets	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	40.80%

Assumptions (continued):	
Consumption (+2.5% per year)	\$1,000,000
Intra-Family Interest Rate (mid-term)	1.78%
Beedot Family LLC Valuation Discount	30.00%

Note Between Marital Deduction Trust and Credit Shelter (BDOT) Trust

	Beginning of Year Principal	Interest @ 1.78%	Note Payments	End of Year Principal
Year 1	98,600,000	1,755,080	(3,422,696)	96,932,384
Year 2	96,932,384	1,725,396	(2,689,545)	95,968,236
Year 3	95,968,236	1,708,235	(2,972,084)	94,704,387
Year 4	94,704,387	1,685,738	(3,215,342)	93,174,783
Year 5	93,174,783	1,658,511	(3,432,852)	91,400,442
Year 6	91,400,442	1,626,928	(3,634,269)	89,393,101
Year 7	89,393,101	1,591,197	(3,826,516)	87,157,782
Year 8	87,157,782	1,551,409	(4,014,591)	84,694,600
Year 9	84,694,600	1,507,564	(4,202,140)	82,000,024
Year 10	82,000,024	1,459,600	(83,459,625)	-

Schedule 17

Jim Smith

Hypothetical Integrated Income and Estate Tax Plan Comparisons (assuming Mr. Smith has a life expectancy of 30 years)

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	30-Year Future Values		Present Values (Discounted at 3.0%)	Percentage of Total
	Pre-Death	Post Death		
Scenario A: Existing Trust for Jim Smith & Descendants is a Non-Grantor Trust for 30 Years				
Jim Smith	13,800,402	-	-	0.00%
Smith Children	-	-	-	0.00%
Smith Children and Grandchildren	14,596,173	28,037,050	11,550,893	25.21%
Consumption - Direct Cost	14,272,625	14,272,625	5,880,132	12.84%
Consumption - Investment Opportunity Cost	21,616,836	21,616,836	8,905,850	19.44%
IRS Income Tax - Direct Cost	13,000,803	13,000,803	5,356,159	11.69%
IRS Income Tax - Investment Opportunity Cost	33,906,327	33,906,327	13,968,958	30.49%
IRS Income Tax - Embedded Capital Gain Tax Liability ⁽¹⁾	-	359,525	148,120	0.32%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	-	-	0.00%
Total	\$111,193,165	\$111,193,165	\$45,810,112	100.00%

Scenario B: Existing Trust for Jim Smith & Descendants is a Non-Grantor Trust for 1 Year and a 678(a)(1) Trust for 29 Years				
Jim Smith	13,671,824	-	-	0.00%
Smith Children	-	-	-	0.00%
Smith Children and Grandchildren	15,938,233	29,221,227	12,038,759	26.28%
Consumption - Direct Cost	14,272,625	14,272,625	5,880,132	12.84%
Consumption - Investment Opportunity Cost	21,616,836	21,616,836	8,905,850	19.44%
IRS Income Tax - Direct Cost	12,538,242	12,538,242	5,165,590	11.28%
IRS Income Tax - Investment Opportunity Cost	33,155,406	33,155,406	13,659,588	29.82%
IRS Income Tax - Embedded Capital Gain Tax Liability ⁽¹⁾	-	388,830	160,193	0.35%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	-	-	0.00%
Total	\$111,193,165	\$111,193,165	\$45,810,112	100.00%

Scenario C: Existing Trust for Jim Smith & Descendants is a 678(a)(1) Trust for 30 Years with a Companion Note Strategy				
Jim Smith	14,715,489	-	-	0.00%
Smith Children	-	105,293	43,380	0.09%
Smith Children and Grandchildren	16,506,817	30,569,161	12,594,089	27.49%
Consumption - Direct Cost	14,272,625	14,272,625	5,880,132	12.84%
Consumption - Investment Opportunity Cost	21,616,836	21,616,836	8,905,850	19.44%
IRS Income Tax - Direct Cost	12,451,497	12,451,497	5,129,852	11.20%
IRS Income Tax - Investment Opportunity Cost	31,629,902	31,629,902	13,031,101	28.45%
IRS Income Tax - Embedded Capital Gain Tax Liability ⁽¹⁾	-	477,656	196,788	0.43%
IRS Estate Tax (at 40.0%) ⁽²⁾	-	70,196	28,920	0.06%
Total	\$111,193,165	\$111,193,165	\$45,810,112	100.00%

Calculations of Remaining Estate Tax Exemption⁽²⁾

2022 Gift and Estate Exemption (1 taxpayer)	12,060,000
Assumed Prior Gifts Made	-
Future Estate Tax Exemption Available in 30 years (assumes 3.0% inflation)	14,540,000

(1) Post death amounts to children and grandchildren are reduced by the embedded capital gain tax liability. This capital gains tax is only paid when those assets are sold.

(2) For purposes of these calculations, it is assumed that the increased estate tax exemption sunsets in 2025.

Schedule 17

Jim Smith

Scenario A: Existing Trust for Jim Smith & Descendants is a Non-Grantor Trust for 30 Years

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Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	6.50%	0.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	0.00%
Rate of Return Tax Free	1.35%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	100.00%
Salary (+3.0% / year) - Years 1-10	\$1,000,000	
Consumption from these sources (+3.0% / year)	\$300,000	

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Proposed High Income Surtax	5.00% *
Additional Proposed High Income Surtax	2.00% *

*High income surtaxes applicable to Non-Grantor Trust

Jim Smith

	Financial Assets									
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Salary	Trust Distributions	Consumption from these Sources	Income Taxes	End of Year
Year 1	4,000,000	6,000	54,000	40,000	160,000	1,000,000	-	(300,000)	(431,392)	4,528,608
Year 2	4,528,608	6,793	61,136	45,286	181,144	1,030,000	-	(309,000)	(454,720)	5,089,247
Year 3	5,089,247	7,634	68,705	50,892	203,570	1,060,900	-	(318,270)	(477,260)	5,685,418
Year 4	5,685,418	8,528	76,753	56,854	227,417	1,092,727	-	(327,818)	(499,511)	6,320,368
Year 5	6,320,368	9,481	85,325	63,204	252,815	1,125,509	-	(337,653)	(521,837)	6,997,211
Year 6	6,997,211	10,496	94,462	69,972	279,888	1,159,274	-	(347,782)	(544,506)	7,719,015
Year 7	7,719,015	11,579	104,207	77,190	308,761	1,194,052	-	(358,216)	(567,725)	8,488,863
Year 8	8,488,863	12,733	114,600	84,889	339,555	1,229,874	-	(368,962)	(591,651)	9,309,900
Year 9	9,309,900	13,965	125,684	93,099	372,396	1,266,770	-	(380,031)	(616,411)	10,185,371
Year 10	10,185,371	15,278	137,503	101,854	407,415	1,304,773	-	(391,432)	(642,111)	11,118,651
Year 11	11,118,651	16,678	150,102	111,187	444,746	-	-	(403,175)	(120,524)	11,317,664
Year 12	11,317,664	16,976	152,788	113,177	452,707	-	-	(415,270)	(127,266)	11,510,776
Year 13	11,510,776	17,266	155,395	115,108	460,431	-	-	(427,728)	(132,697)	11,698,551
Year 14	11,698,551	17,548	157,930	116,986	467,942	-	-	(440,560)	(137,193)	11,881,204
Year 15	11,881,204	17,822	160,396	118,812	475,248	-	-	(453,777)	(141,015)	12,058,690
Year 16	12,058,690	18,088	162,792	120,587	482,348	-	-	(467,390)	(144,346)	12,230,769
Year 17	12,230,769	18,346	165,115	122,308	489,231	-	-	(481,412)	(147,312)	12,397,045
Year 18	12,397,045	18,596	167,360	123,970	495,882	-	-	(495,854)	(150,000)	12,556,999
Year 19	12,556,999	18,835	169,519	125,570	502,280	-	-	(510,730)	(152,469)	12,710,005
Year 20	12,710,005	19,065	171,585	127,100	508,400	-	-	(526,052)	(154,757)	12,855,346
Year 21	12,855,346	19,283	173,547	128,553	514,214	-	-	(541,833)	(156,888)	12,992,222
Year 22	12,992,222	19,488	175,395	129,922	519,689	-	-	(558,088)	(158,876)	13,119,752
Year 23	13,119,752	19,680	177,117	131,198	524,790	-	-	(574,831)	(160,727)	13,236,978
Year 24	13,236,978	19,855	178,699	132,370	529,479	-	-	(592,076)	(162,440)	13,342,866
Year 25	13,342,866	20,014	180,129	133,429	533,715	-	-	(609,838)	(164,014)	13,436,300
Year 26	13,436,300	20,154	181,390	134,363	537,452	-	-	(628,133)	(165,440)	13,516,086
Year 27	13,516,086	20,274	182,467	135,161	540,643	-	-	(646,977)	(166,709)	13,580,945
Year 28	13,580,945	20,371	183,343	135,809	543,238	-	-	(666,387)	(167,810)	13,629,510
Year 29	13,629,510	20,444	183,998	136,295	545,180	-	-	(686,378)	(168,728)	13,660,322
Year 30	13,660,322	20,490	184,414	136,603	546,413	-	-	(706,970)	(40,872)	13,800,402

Schedule 17

Jim Smith

Scenario A: Existing Trust for Jim Smith & Descendants is a Non-Grantor Trust for 30 Years

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	6.50%	0.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	0.00%
Rate of Return Tax Free	1.35%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	100.00%
Salary (+3.0% / year) - Years 1-10	\$1,000,000	
Consumption from these sources (+3.0% / year)	\$300,000	

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Proposed High Income Surtax	5.00% *
Additional Proposed High Income Surtax	2.00% *

*High income surtaxes applicable to Non-Grantor Trust

Schedule 17

Jim Smith

Scenario A: Existing Trust for Jim Smith & Descendants is a Non-Grantor Trust for 30 Years

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	6.50%	0.00%
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Rate of Return Tax Free	1.35%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	100.00%
Salary (+3.0% / year) - Years 1-10	\$1,000,000	
Consumption from these sources (+3.0% / year)	\$300,000	

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Proposed High Income Surtax	5.00% *
Additional Proposed High Income Surtax	2.00% *

*High income surtaxes applicable to Non-Grantor Trust

Non-Grantor Trust for the Benefit of Jim Smith & Descendants

	Financial & Brokerage Assets									Single Stock			Total End of Year
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Stock Sale Receipts	Beneficiary Distributions	Income Taxes	End of Year	Beginning of Year	Stock Sale	End of Year	
Year 1	-	-	-	-	-	5,000,000	-	(1,540,000)	3,460,000	5,000,000	(5,000,000)	-	3,460,000
Year 2	3,460,000	5,190	46,710	34,600	138,400	-	-	(25,926)	3,658,974	-	-	-	3,658,974
Year 3	3,658,974	5,488	49,396	36,590	146,359	-	-	(36,368)	3,860,439	-	-	-	3,860,439
Year 4	3,860,439	5,791	52,116	38,604	154,418	-	-	(44,659)	4,066,709	-	-	-	4,066,709
Year 5	4,066,709	6,100	54,901	40,667	162,668	-	-	(51,472)	4,279,572	-	-	-	4,279,572
Year 6	4,279,572	6,419	57,774	42,796	171,183	-	-	(57,289)	4,500,456	-	-	-	4,500,456
Year 7	4,500,456	6,751	60,756	45,005	180,018	-	-	(62,449)	4,730,536	-	-	-	4,730,536
Year 8	4,730,536	7,096	63,862	47,305	189,221	-	-	(67,199)	4,970,822	-	-	-	4,970,822
Year 9	4,970,822	7,456	67,106	49,708	198,833	-	-	(71,712)	5,222,214	-	-	-	5,222,214
Year 10	5,222,214	7,833	70,500	52,222	208,889	-	-	(76,117)	5,485,541	-	-	-	5,485,541
Year 11	5,485,541	8,228	74,055	54,855	219,422	-	-	(80,505)	5,761,597	-	-	-	5,761,597
Year 12	5,761,597	8,642	77,782	57,616	230,464	-	-	(84,945)	6,051,155	-	-	-	6,051,155
Year 13	6,051,155	9,077	81,691	60,512	242,046	-	-	(89,489)	6,354,992	-	-	-	6,354,992
Year 14	6,354,992	9,532	85,792	63,550	254,200	-	-	(94,177)	6,673,889	-	-	-	6,673,889
Year 15	6,673,889	10,011	90,098	66,739	266,956	-	-	(99,040)	7,008,652	-	-	-	7,008,652
Year 16	7,008,652	10,513	94,617	70,087	280,346	-	-	(104,106)	7,360,108	-	-	-	7,360,108
Year 17	7,360,108	11,040	99,361	73,601	294,404	-	-	(109,395)	7,729,121	-	-	-	7,729,121
Year 18	7,729,121	11,594	104,343	77,291	309,165	-	-	(114,928)	8,116,585	-	-	-	8,116,585
Year 19	8,116,585	12,175	109,574	81,166	324,663	-	-	(120,724)	8,523,439	-	-	-	8,523,439
Year 20	8,523,439	12,785	115,066	85,234	340,938	-	-	(126,800)	8,950,663	-	-	-	8,950,663
Year 21	8,950,663	13,426	120,834	89,507	358,027	-	-	(133,173)	9,399,283	-	-	-	9,399,283
Year 22	9,399,283	14,099	126,890	93,993	375,971	-	-	(139,860)	9,870,376	-	-	-	9,870,376
Year 23	9,870,376	14,806	133,250	98,704	394,815	-	-	(146,878)	10,365,073	-	-	-	10,365,073
Year 24	10,365,073	15,548	139,928	103,651	414,603	-	-	(154,246)	10,884,557	-	-	-	10,884,557
Year 25	10,884,557	16,327	146,942	108,846	435,382	-	-	(161,981)	11,430,072	-	-	-	11,430,072
Year 26	11,430,072	17,145	154,306	114,301	457,203	-	-	(170,102)	12,002,925	-	-	-	12,002,925
Year 27	12,002,925	18,004	162,039	120,029	480,117	-	-	(178,629)	12,604,486	-	-	-	12,604,486
Year 28	12,604,486	18,907	170,161	126,045	504,179	-	-	(187,583)	13,236,194	-	-	-	13,236,194
Year 29	13,236,194	19,854	178,689	132,362	529,448	-	-	(196,986)	13,899,561	-	-	-	13,899,561
Year 30	13,899,561	20,849	187,644	138,996	555,982	-	-	(206,859)	14,596,173	-	-	-	14,596,173

Schedule 17

Jim Smith

Scenario A: Existing Trust for Jim Smith & Descendants is a Non-Grantor Trust for 30 Years

This is a hypothetical illustration of mathematical principles and is not a prediction or projection of performance of an investment or investment strategy.

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	6.50%	0.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	0.00%
Rate of Return Tax Free	1.35%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	100.00%
Salary (+3.0% / year) - Years 1-10	\$1,000,000	
Consumption from these sources (+3.0% / year)	\$300,000	

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Proposed High Income Surtax	5.00% *
Additional Proposed High Income Surtax	2.00% *

*High income surtaxes applicable to Non-Grantor Trust

Schedule 17

Jim Smith

Scenario B: Existing Trust for Jim Smith & Descendants is a Non-Grantor Trust for 1 Year and a 678(a)(1) Trust for 29 Years

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	Single Stock
Total Estimated Rate of Return	6.50%	0.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	0.00%
Rate of Return Tax Free	1.35%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	100.00%
Salary (+3.0% / year) - Years 1-10	\$1,000,000	
Consumption from these sources (+3.0% / year)	\$300,000	

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Proposed High Income Surtax	5.00% *
Additional Proposed High Income Surtax	2.00% *
IRS Applicable Federal Rate (mid-term)	1.26%

*High income surtaxes not applicable to Mr. Smith or 678 trusts (after year 1) due to income bracket.

Jim Smith

	Financial Assets									
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Salary	Trust Distributions	Consumption from these Sources	Income Taxes	End of Year
Year 1	4,000,000	6,000	54,000	40,000	160,000	1,000,000	-	(300,000)	(431,392)	4,528,608
Year 2	4,528,608	6,793	61,136	45,286	181,144	1,030,000	20,234	(309,000)	(474,954)	5,089,247
Year 3	5,089,247	7,634	68,705	50,892	203,570	1,060,900	28,348	(318,270)	(505,609)	5,685,418
Year 4	5,685,418	8,528	76,753	56,854	227,417	1,092,727	34,827	(327,818)	(534,338)	6,320,368
Year 5	6,320,368	9,481	85,325	63,204	252,815	1,125,509	40,191	(337,653)	(562,028)	6,997,211
Year 6	6,997,211	10,496	94,462	69,972	279,888	1,159,274	44,812	(347,782)	(589,319)	7,719,015
Year 7	7,719,015	11,579	104,207	77,190	308,761	1,194,052	48,953	(358,216)	(616,678)	8,488,863
Year 8	8,488,863	12,733	114,600	84,889	339,555	1,229,874	52,802	(368,962)	(644,453)	9,309,900
Year 9	9,309,900	13,965	125,684	93,099	372,396	1,266,770	56,495	(380,031)	(672,906)	10,185,371
Year 10	10,185,371	15,278	137,503	101,854	407,415	1,304,773	60,130	(391,432)	(702,241)	11,118,651
Year 11	11,118,651	16,678	150,102	111,187	444,746	-	63,779	(403,175)	(184,303)	11,317,664
Year 12	11,317,664	16,976	152,788	113,177	452,707	-	67,496	(415,270)	(194,762)	11,510,776
Year 13	11,510,776	17,266	155,395	115,108	460,431	-	71,322	(427,728)	(204,019)	11,698,551
Year 14	11,698,551	17,548	157,930	116,986	467,942	-	75,289	(440,560)	(212,482)	11,881,204
Year 15	11,881,204	17,822	160,396	118,812	475,248	-	79,424	(453,777)	(220,439)	12,058,690
Year 16	12,058,690	18,088	162,792	120,587	482,348	-	83,749	(467,390)	(228,095)	12,230,769
Year 17	12,230,769	18,346	165,115	122,308	489,231	-	88,282	(481,412)	(235,594)	12,397,045
Year 18	12,397,045	18,596	167,360	123,970	495,882	-	93,043	(495,854)	(243,043)	12,556,999
Year 19	12,556,999	18,835	169,519	125,570	502,280	-	98,047	(510,730)	(250,516)	12,710,005
Year 20	12,710,005	19,065	171,585	127,100	508,400	-	103,311	(526,052)	(258,068)	12,855,346
Year 21	12,855,346	19,283	173,547	128,553	514,214	-	108,851	(541,833)	(265,739)	12,992,222
Year 22	12,992,222	19,488	175,395	129,922	519,689	-	114,683	(558,088)	(273,559)	13,119,752
Year 23	13,119,752	19,680	177,117	131,198	524,790	-	120,825	(574,831)	(281,552)	13,236,978
Year 24	13,236,978	19,855	178,699	132,370	529,479	-	127,294	(592,076)	(289,734)	13,342,866
Year 25	13,342,866	20,014	180,129	133,429	533,715	-	134,107	(609,838)	(298,120)	13,436,300
Year 26	13,436,300	20,154	181,390	134,363	537,452	-	141,283	(628,133)	(306,723)	13,516,086
Year 27	13,516,086	20,274	182,467	135,161	540,643	-	148,843	(646,977)	(315,552)	13,580,945
Year 28	13,580,945	20,371	183,343	135,809	543,238	-	156,807	(666,387)	(324,616)	13,629,510
Year 29	13,629,510	20,444	183,998	136,295	545,180	-	165,196	(686,378)	(333,924)	13,660,322
Year 30	13,660,322	20,490	184,414	136,603	546,413	-	174,034	(706,970)	(343,484)	13,671,824

Schedule 17

Jim Smith

Scenario B: Existing Trust for Jim Smith & Descendants is a Non-Grantor Trust for 1 Year and a 678(a)(1) Trust for 29 Years

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Salary (+3.0% / year) - Years 1-10	\$1,000,000	
Consumption from these sources (+3.0% / year)	\$300,000	

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Proposed High Income Surtax	5.00% *
Additional Proposed High Income Surtax	2.00% *
IRS Applicable Federal Rate (mid-term)	1.26%

*High income surtaxes not applicable to Mr. Smith or 678 trusts (after year 1) due to income bracket.

Non-Grantor Trust for the Benefit of Jim Smith & Descendants Converts to a 678 Trust After Year 1

	Financial & Brokerage Assets									Single Stock			Total End of Year
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Stock Sale Receipts	Beneficiary Distributions	Income Taxes	End of Year	Beginning of Year	Stock Sale	End of Year	
Year 1	-	-	-	-	-	5,000,000	-	(1,540,000)	3,460,000	5,000,000	(5,000,000)	-	3,460,000
Year 2	3,460,000	5,190	46,710	34,600	138,400	-	(20,234)	-	3,664,666	-	-	-	3,664,666
Year 3	3,664,666	5,497	49,473	36,647	146,587	-	(28,348)	-	3,874,521	-	-	-	3,874,521
Year 4	3,874,521	5,812	52,306	38,745	154,981	-	(34,827)	-	4,091,538	-	-	-	4,091,538
Year 5	4,091,538	6,137	55,236	40,915	163,662	-	(40,191)	-	4,317,297	-	-	-	4,317,297
Year 6	4,317,297	6,476	58,284	43,173	172,692	-	(44,812)	-	4,553,109	-	-	-	4,553,109
Year 7	4,553,109	6,830	61,467	45,531	182,124	-	(48,953)	-	4,800,108	-	-	-	4,800,108
Year 8	4,800,108	7,200	64,801	48,001	192,004	-	(52,802)	-	5,059,314	-	-	-	5,059,314
Year 9	5,059,314	7,589	68,301	50,593	202,373	-	(56,495)	-	5,331,674	-	-	-	5,331,674
Year 10	5,331,674	7,998	71,978	53,317	213,267	-	(60,130)	-	5,618,103	-	-	-	5,618,103
Year 11	5,618,103	8,427	75,844	56,181	224,724	-	(63,779)	-	5,919,501	-	-	-	5,919,501
Year 12	5,919,501	8,879	79,913	59,195	236,780	-	(67,496)	-	6,236,772	-	-	-	6,236,772
Year 13	6,236,772	9,355	84,196	62,368	249,471	-	(71,322)	-	6,570,841	-	-	-	6,570,841
Year 14	6,570,841	9,856	88,706	65,708	262,834	-	(75,289)	-	6,922,656	-	-	-	6,922,656
Year 15	6,922,656	10,384	93,456	69,227	276,906	-	(79,424)	-	7,293,204	-	-	-	7,293,204
Year 16	7,293,204	10,940	98,458	72,932	291,728	-	(83,749)	-	7,683,514	-	-	-	7,683,514
Year 17	7,683,514	11,525	103,727	76,835	307,341	-	(88,282)	-	8,094,659	-	-	-	8,094,659
Year 18	8,094,659	12,142	109,278	80,947	323,786	-	(93,043)	-	8,527,769	-	-	-	8,527,769
Year 19	8,527,769	12,792	115,125	85,278	341,111	-	(98,047)	-	8,984,027	-	-	-	8,984,027
Year 20	8,984,027	13,476	121,284	89,840	359,361	-	(103,311)	-	9,464,678	-	-	-	9,464,678
Year 21	9,464,678	14,197	127,773	94,647	378,587	-	(108,851)	-	9,971,031	-	-	-	9,971,031
Year 22	9,971,031	14,957	134,609	99,710	398,841	-	(114,683)	-	10,504,465	-	-	-	10,504,465
Year 23	10,504,465	15,757	141,810	105,045	420,179	-	(120,825)	-	11,066,430	-	-	-	11,066,430
Year 24	11,066,430	16,600	149,397	110,664	442,657	-	(127,294)	-	11,658,454	-	-	-	11,658,454
Year 25	11,658,454	17,488	157,389	116,585	466,338	-	(134,107)	-	12,282,147	-	-	-	12,282,147
Year 26	12,282,147	18,423	165,809	122,821	491,286	-	(141,283)	-	12,939,204	-	-	-	12,939,204
Year 27	12,939,204	19,409	174,679	129,392	517,568	-	(148,843)	-	13,631,409	-	-	-	13,631,409
Year 28	13,631,409	20,447	184,024	136,314	545,256	-	(156,807)	-	14,360,644	-	-	-	14,360,644
Year 29	14,360,644	21,541	193,869	143,606	574,426	-	(165,196)	-	15,128,890	-	-	-	15,128,890
Year 30	15,128,890	22,693	204,240	151,289	605,156	-	(174,034)	-	15,938,233	-	-	-	15,938,233

Schedule 17

Jim Smith

Scenario C: Existing Trust for Jim Smith & Descendants is a 678(a)(1) Trust for 30 Years with a Companion Note Strategy

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Assumptions:	Financial Assets	Single Stock
Total Estimated Rate of Return	6.50%	0.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	0.00%
Rate of Return Tax Free	1.35%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	100.00%
Salary (+3.0% / year) - Years 1-10	\$1,000,000	
Consumption from these sources (+3.0% / year)	\$300,000	

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Proposed High Income Surtax	5.00% *
Additional Proposed High Income Surtax	2.00% *
IRS Applicable Federal Rate (mid-term)	1.26%

*High income surtaxes not applicable to Mr. Smith or 678 trusts due to income bracket.

Jim Smith

	Financial Assets											End of Year
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Salary	Note Payments	Trust Distributions	Loan to 678 Trust	Consumption from these Sources	Income Taxes	
Year 1	4,000,000	6,000	54,000	40,000	160,000	1,000,000	-	4,750,000	(3,560,000)	(300,000)	(1,621,392)	4,528,608
Year 2	4,528,608	6,793	61,136	45,286	181,144	1,030,000	44,856	-	-	(309,000)	(477,001)	5,111,823
Year 3	5,111,823	7,668	69,010	51,118	204,473	1,060,900	44,856	-	-	(318,270)	(508,476)	5,723,101
Year 4	5,723,101	8,585	77,262	57,231	228,924	1,092,727	44,856	-	-	(327,818)	(537,861)	6,367,006
Year 5	6,367,006	9,551	85,955	63,670	254,680	1,125,509	44,856	-	-	(337,653)	(566,093)	7,047,480
Year 6	7,047,480	10,571	95,141	70,475	281,899	1,159,274	44,856	-	-	(347,782)	(593,852)	7,768,063
Year 7	7,768,063	11,652	104,869	77,681	310,723	1,194,052	44,856	-	-	(358,216)	(621,630)	8,532,050
Year 8	8,532,050	12,798	115,183	85,320	341,282	1,229,874	44,856	-	-	(368,962)	(649,794)	9,342,607
Year 9	9,342,607	14,014	126,125	93,426	373,704	1,266,770	44,856	-	-	(380,031)	(678,621)	10,202,850
Year 10	10,202,850	15,304	137,738	102,029	408,114	1,304,773	44,856	-	-	(391,432)	(708,323)	11,115,909
Year 11	11,115,909	16,674	150,065	111,159	444,636	-	44,856	-	-	(403,175)	(190,755)	11,289,370
Year 12	11,289,370	16,934	152,406	112,894	451,575	-	44,856	-	-	(415,270)	(201,589)	11,451,176
Year 13	11,451,176	17,177	154,591	114,512	458,047	-	44,856	-	-	(427,728)	(211,234)	11,601,396
Year 14	11,601,396	17,402	156,619	116,014	464,056	-	44,856	-	-	(440,560)	(220,098)	11,739,684
Year 15	11,739,684	17,610	158,486	117,397	469,587	-	44,856	-	-	(453,777)	(228,474)	11,865,369
Year 16	11,865,369	17,798	160,182	118,654	474,615	-	44,856	-	-	(467,390)	(236,566)	11,977,518
Year 17	11,977,518	17,966	161,696	119,775	479,101	-	44,856	-	-	(481,412)	(244,525)	12,074,976
Year 18	12,074,976	18,112	163,012	120,750	482,999	-	44,856	-	-	(495,854)	(252,455)	12,156,396
Year 19	12,156,396	18,235	164,111	121,564	486,256	-	44,856	-	-	(510,730)	(260,434)	12,220,254
Year 20	12,220,254	18,330	164,973	122,203	488,810	-	44,856	-	-	(526,052)	(268,519)	12,264,856
Year 21	12,264,856	18,397	165,576	122,649	490,594	-	44,856	-	-	(541,833)	(276,750)	12,288,344
Year 22	12,288,344	18,433	165,893	122,883	491,534	-	44,856	-	-	(558,088)	(285,160)	12,288,694
Year 23	12,288,694	18,433	165,897	122,887	491,548	-	44,856	-	-	(574,831)	(293,774)	12,263,710
Year 24	12,263,710	18,396	165,560	122,637	490,548	-	44,856	-	-	(592,076)	(302,611)	12,211,020
Year 25	12,211,020	18,317	164,849	122,110	488,441	-	44,856	-	-	(609,838)	(311,686)	12,128,068
Year 26	12,128,068	18,192	163,729	121,281	485,123	-	44,856	-	-	(628,133)	(321,015)	12,012,101
Year 27	12,012,101	18,018	162,163	120,121	480,484	-	44,856	-	-	(646,977)	(330,608)	11,860,158
Year 28	11,860,158	17,790	160,112	118,602	474,406	-	44,856	-	-	(666,387)	(340,478)	11,669,059
Year 29	11,669,059	17,504	157,532	116,691	466,762	-	44,856	-	-	(686,378)	(350,635)	11,435,391
Year 30	11,435,391	17,153	154,378	114,354	457,416	-	3,604,856	-	-	(706,970)	(361,088)	14,715,489

Schedule 17

Jim Smith

Scenario C: Existing Trust for Jim Smith & Descendants is a 678(a)(1) Trust for 30 Years with a Companion Note Strategy

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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:	Financial Assets	Single Stock
Total Estimated Rate of Return	6.50%	0.00%
Rate of Return Taxed at Ordinary Income Rate	0.15%	0.00%
Rate of Return Tax Free	1.35%	0.00%
Rate of Return Taxed at Dividend Rate	1.00%	0.00%
Rate of Return Taxed at Capital Gain Rate	4.00%	0.00%
Turnover Rate (% of Capital Gains Recognized/Year)	30.00%	100.00%
Salary (+3.0% / year) - Years 1-10	\$1,000,000	
Consumption from these sources (+3.0% / year)	\$300,000	

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Proposed High Income Surtax	5.00% *
Additional Proposed High Income Surtax	2.00% *
IRS Applicable Federal Rate (mid-term)	1.26%

*High income surtaxes not applicable to Mr. Smith or 678 trusts due to income bracket.

678 Trust for the Benefit of Jim Smith & Descendants

	Financial & Brokerage Assets											Single Stock			Total End of Year
	Beginning of Year	Income	Tax Free Income	Dividends	Growth	Stock Sale Receipts	Loan Proceeds	Note Payments	Beneficiary Distributions	Income Taxes	End of Year	Beginning of Year	Stock Sale	End of Year	
Year 1	-	-	-	-	-	5,000,000	3,560,000	-	(4,750,000)	-	3,810,000	5,000,000	(5,000,000)	-	3,810,000
Year 2	3,810,000	5,715	51,435	38,100	152,400	-	-	(44,856)	-	-	4,012,794	-	-	-	4,012,794
Year 3	4,012,794	6,019	54,173	40,128	160,512	-	-	(44,856)	-	-	4,228,770	-	-	-	4,228,770
Year 4	4,228,770	6,343	57,088	42,288	169,151	-	-	(44,856)	-	-	4,458,784	-	-	-	4,458,784
Year 5	4,458,784	6,688	60,194	44,588	178,351	-	-	(44,856)	-	-	4,703,749	-	-	-	4,703,749
Year 6	4,703,749	7,056	63,501	47,037	188,150	-	-	(44,856)	-	-	4,964,636	-	-	-	4,964,636
Year 7	4,964,636	7,447	67,023	49,646	198,585	-	-	(44,856)	-	-	5,242,482	-	-	-	5,242,482
Year 8	5,242,482	7,864	70,774	52,425	209,699	-	-	(44,856)	-	-	5,538,387	-	-	-	5,538,387
Year 9	5,538,387	8,308	74,768	55,384	221,535	-	-	(44,856)	-	-	5,853,526	-	-	-	5,853,526
Year 10	5,853,526	8,780	79,023	58,535	234,141	-	-	(44,856)	-	-	6,189,149	-	-	-	6,189,149
Year 11	6,189,149	9,284	83,554	61,891	247,566	-	-	(44,856)	-	-	6,546,588	-	-	-	6,546,588
Year 12	6,546,588	9,820	88,379	65,466	261,864	-	-	(44,856)	-	-	6,927,260	-	-	-	6,927,260
Year 13	6,927,260	10,391	93,518	69,273	277,090	-	-	(44,856)	-	-	7,332,676	-	-	-	7,332,676
Year 14	7,332,676	10,999	98,991	73,327	293,307	-	-	(44,856)	-	-	7,764,444	-	-	-	7,764,444
Year 15	7,764,444	11,647	104,820	77,644	310,578	-	-	(44,856)	-	-	8,224,277	-	-	-	8,224,277
Year 16	8,224,277	12,336	111,028	82,243	328,971	-	-	(44,856)	-	-	8,713,999	-	-	-	8,713,999
Year 17	8,713,999	13,071	117,639	87,140	348,560	-	-	(44,856)	-	-	9,235,553	-	-	-	9,235,553
Year 18	9,235,553	13,853	124,680	92,356	369,422	-	-	(44,856)	-	-	9,791,008	-	-	-	9,791,008
Year 19	9,791,008	14,687	132,179	97,910	391,640	-	-	(44,856)	-	-	10,382,567	-	-	-	10,382,567
Year 20	10,382,567	15,574	140,165	103,826	415,303	-	-	(44,856)	-	-	11,012,578	-	-	-	11,012,578
Year 21	11,012,578	16,519	148,670	110,126	440,503	-	-	(44,856)	-	-	11,683,540	-	-	-	11,683,540
Year 22	11,683,540	17,525	157,728	116,835	467,342	-	-	(44,856)	-	-	12,398,114	-	-	-	12,398,114
Year 23	12,398,114	18,597	167,375	123,981	495,925	-	-	(44,856)	-	-	13,159,135	-	-	-	13,159,135
Year 24	13,159,135	19,739	177,648	131,591	526,365	-	-	(44,856)	-	-	13,969,623	-	-	-	13,969,623
Year 25	13,969,623	20,954	188,590	139,696	558,785	-	-	(44,856)	-	-	14,832,792	-	-	-	14,832,792
Year 26	14,832,792	22,249	200,243	148,328	593,312	-	-	(44,856)	-	-	15,752,068	-	-	-	15,752,068
Year 27	15,752,068	23,628	212,653	157,521	630,083	-	-	(44,856)	-	-	16,731,096	-	-	-	16,731,096
Year 28	16,731,096	25,097	225,870	167,311	669,244	-	-	(44,856)	-	-	17,773,762	-	-	-	17,773,762
Year 29	17,773,762	26,661	239,946	177,738	710,950	-	-	(44,856)	-	-	18,884,200	-	-	-	18,884,200
Year 30	18,884,200	28,326	254,937	188,842	755,368	-	-	(3,604,856)	-	-	16,506,817	-	-	-	16,506,817

Schedule 17

Jim Smith

Scenario C: Existing Trust for Jim Smith & Descendants is a 678(a)(1) Trust for 30 Years with a Companion Note Strategy

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Consumption from these sources (+3.0% / year)	\$300,000	

Assumptions (continued):	
Ordinary Income Tax Rate	40.80%
Long Term Capital Gain and Dividend Tax Rate	23.80%
Proposed High Income Surtax	5.00% *
Additional Proposed High Income Surtax	2.00% *
IRS Applicable Federal Rate (mid-term)	1.26%

*High income surtaxes not applicable to Mr. Smith or 678 trusts due to income bracket.

Note Between Jim and 678 Trust

	Beginning of Year Principal	Interest @ 1.26%	Loan	Note Payments	End of Year Principal
Year 1	-	-	3,560,000	-	3,560,000
Year 2	3,560,000	44,856	-	(44,856)	3,560,000
Year 3	3,560,000	44,856	-	(44,856)	3,560,000
Year 4	3,560,000	44,856	-	(44,856)	3,560,000
Year 5	3,560,000	44,856	-	(44,856)	3,560,000
Year 6	3,560,000	44,856	-	(44,856)	3,560,000
Year 7	3,560,000	44,856	-	(44,856)	3,560,000
Year 8	3,560,000	44,856	-	(44,856)	3,560,000
Year 9	3,560,000	44,856	-	(44,856)	3,560,000
Year 10	3,560,000	44,856	-	(44,856)	3,560,000
Year 11	3,560,000	44,856	-	(44,856)	3,560,000
Year 12	3,560,000	44,856	-	(44,856)	3,560,000
Year 13	3,560,000	44,856	-	(44,856)	3,560,000
Year 14	3,560,000	44,856	-	(44,856)	3,560,000
Year 15	3,560,000	44,856	-	(44,856)	3,560,000
Year 16	3,560,000	44,856	-	(44,856)	3,560,000
Year 17	3,560,000	44,856	-	(44,856)	3,560,000
Year 18	3,560,000	44,856	-	(44,856)	3,560,000
Year 19	3,560,000	44,856	-	(44,856)	3,560,000
Year 20	3,560,000	44,856	-	(44,856)	3,560,000
Year 21	3,560,000	44,856	-	(44,856)	3,560,000
Year 22	3,560,000	44,856	-	(44,856)	3,560,000
Year 23	3,560,000	44,856	-	(44,856)	3,560,000
Year 24	3,560,000	44,856	-	(44,856)	3,560,000
Year 25	3,560,000	44,856	-	(44,856)	3,560,000
Year 26	3,560,000	44,856	-	(44,856)	3,560,000
Year 27	3,560,000	44,856	-	(44,856)	3,560,000
Year 28	3,560,000	44,856	-	(44,856)	3,560,000
Year 29	3,560,000	44,856	-	(44,856)	3,560,000
Year 30	3,560,000	44,856	-	(3,604,856)	-