

Advanced Charitable Planning

HCM Private Wealth Services



Two Charitable Vehicles for Two Objectives

Charitable Lead Annuity Trust (CLAT)

- Trust that makes annual distributions to one or more charities for a specified number of years, and then **distributes the trust assets back to the client in a non-taxable transaction.**
- Receive income tax savings NOW from future annual gifts to a charity
- Can be funded with liquid assets or non-liquid assets such as rental real estate, S Corp stock, LLC or LP interests

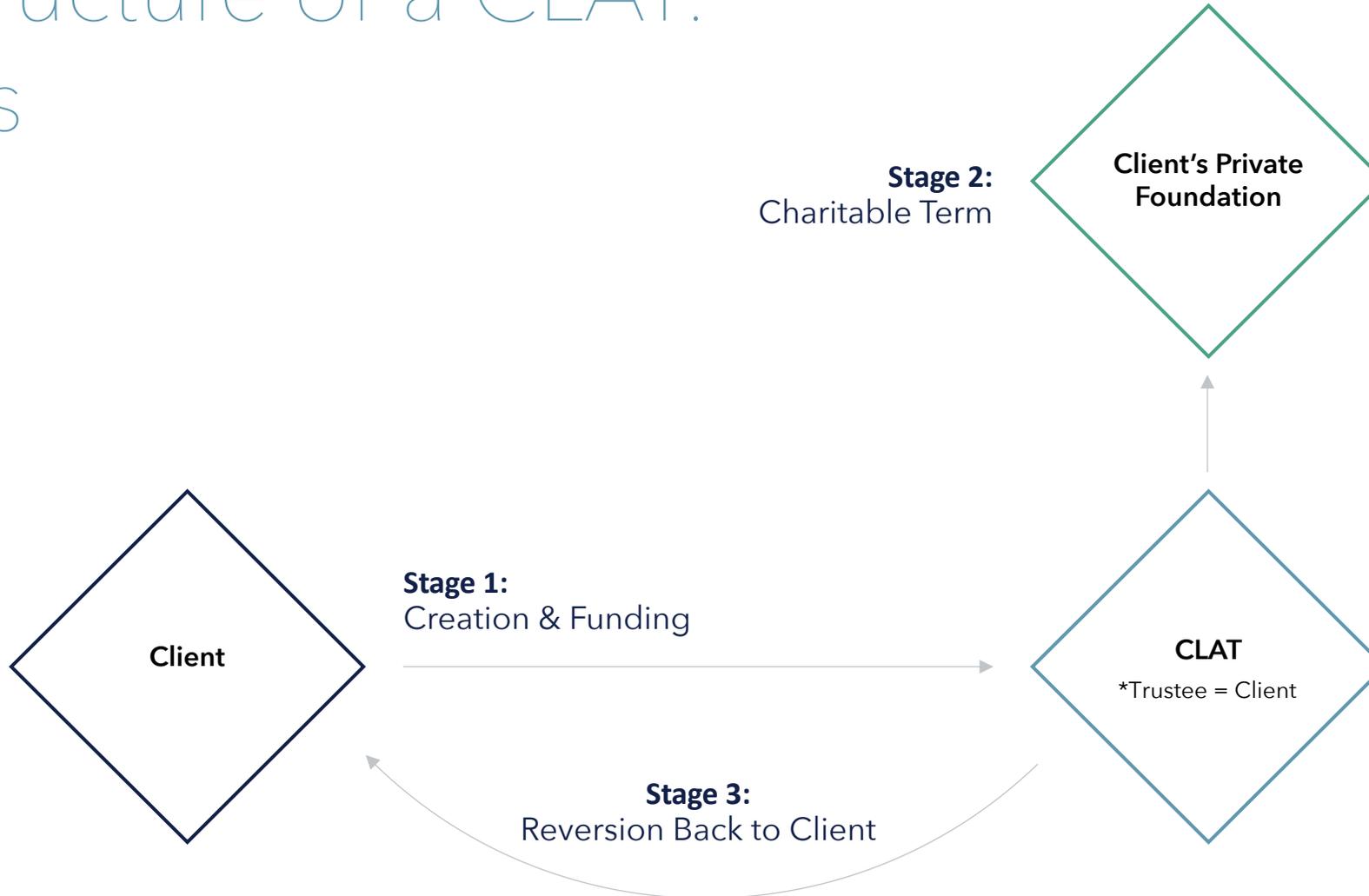
Private Foundation

- Distinct, tax-exempt legal entity governed by its own set of bylaws, articles of incorporation, etc.
- Establish a permanent legacy with added tax and estate benefits
- Reduction of income tax liability; tax-advantaged growth of assets in PF; avoidance of cap gains taxes for appreciated assets; reduction/elimination of estate taxes.

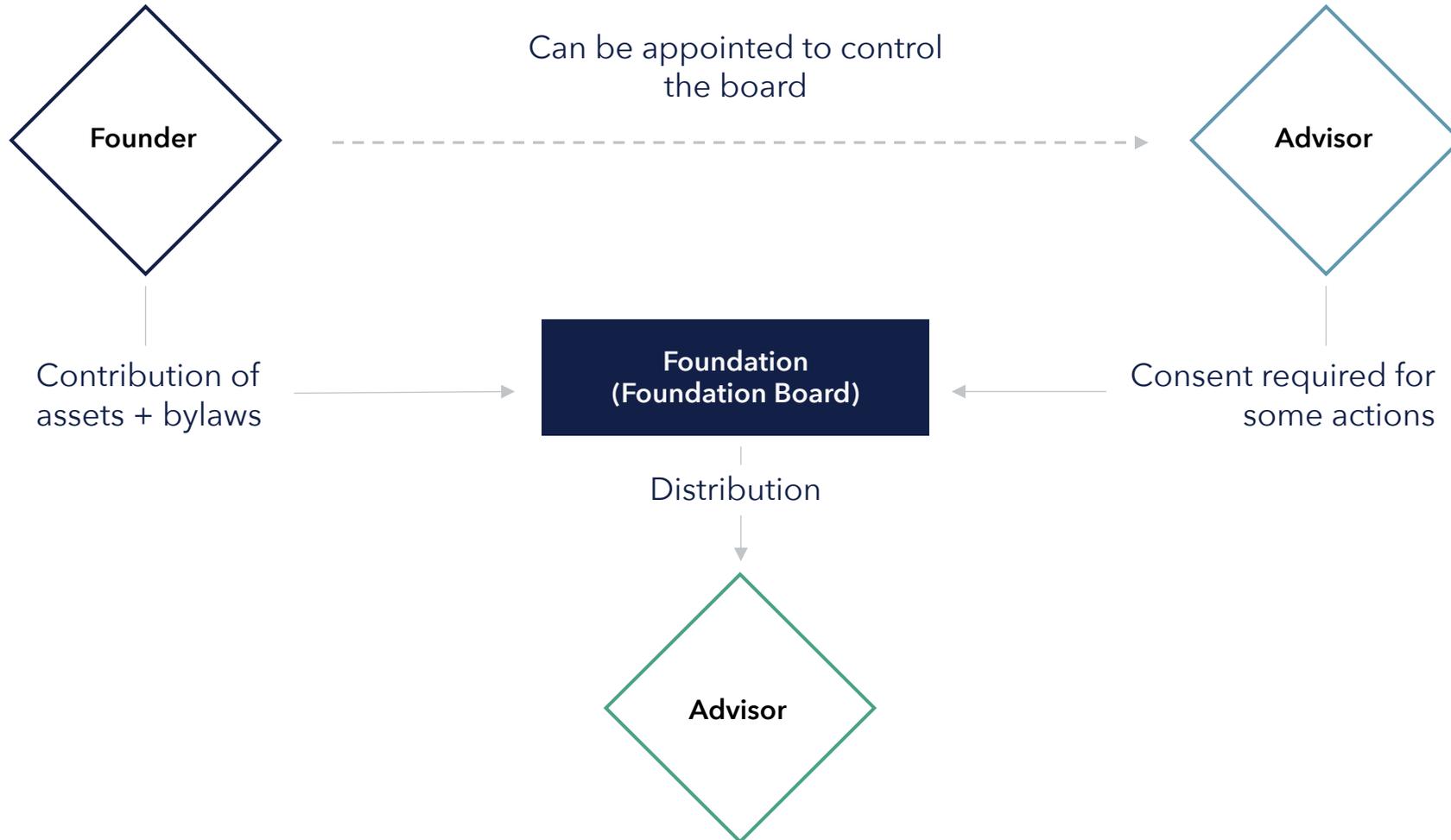
Objectives

- 1. Give Efficiently**
- 2. Reduce Taxes**

Basic Structure of a CLAT: 3 Stages



Private Foundation – Simple Structure

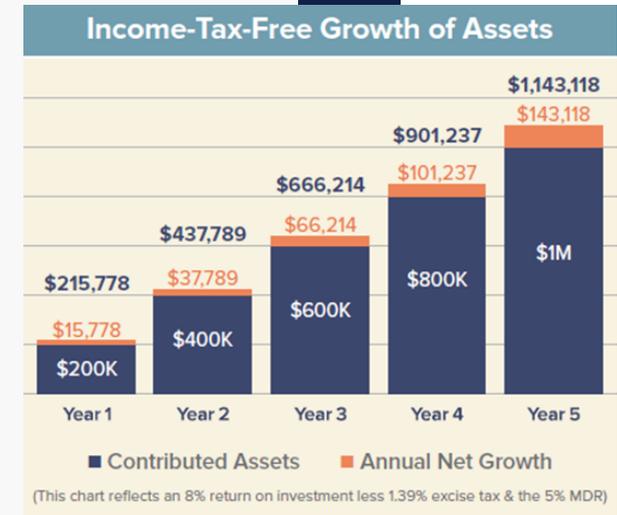


Private Foundation - Essentials

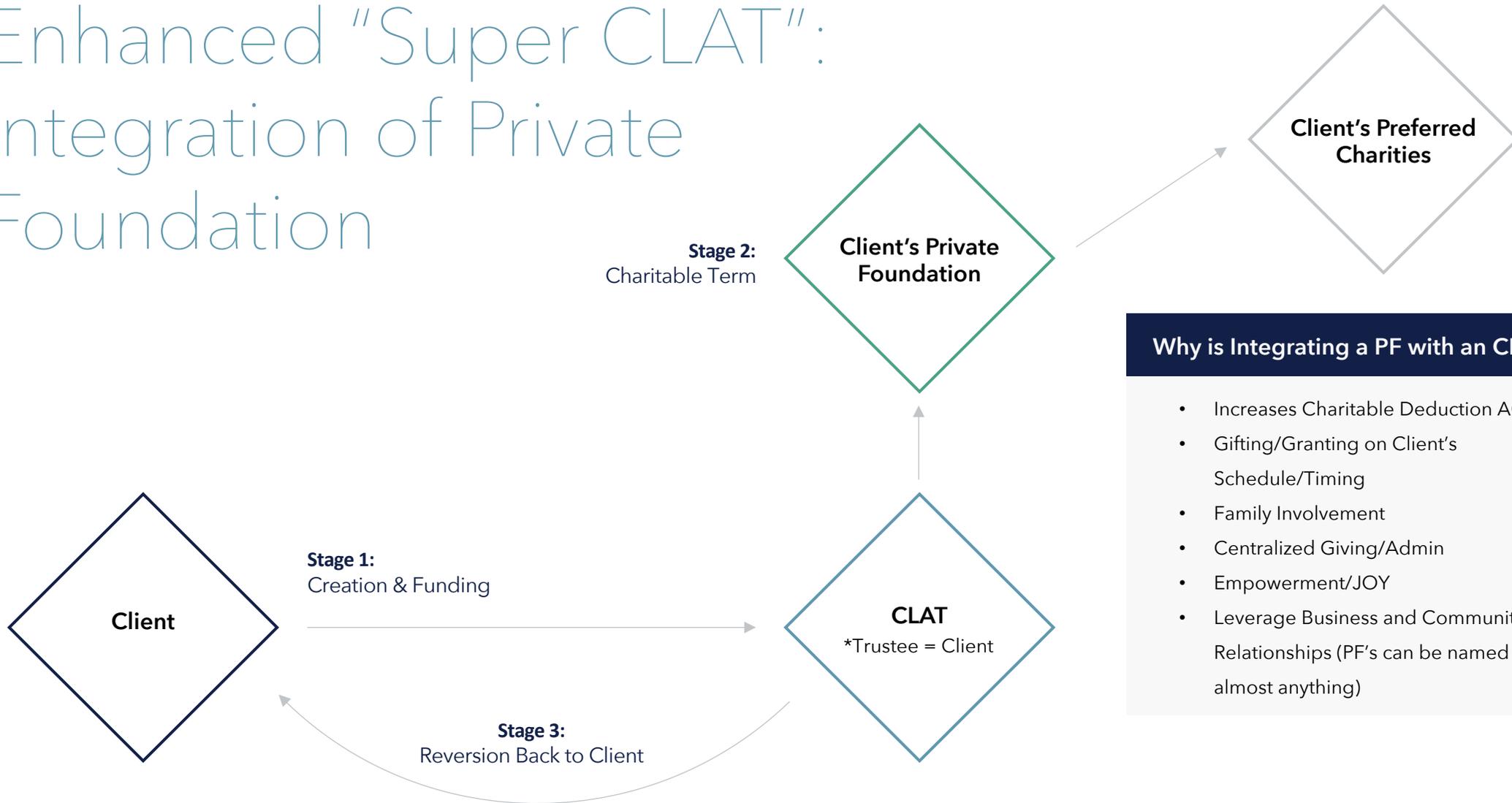
- Viable for clients with significant net worth who want to leave a legacy behind
- Ability to pull income out of the private foundation as long as you are assisting in running the foundation and the salary level passes with the IRS
- Assets are removed out of your estate and are protected from creditors
- Immediate charitable deduction for donating assets (Can be used in years of income spikes alongside CLATs)
- Assets managed within the foundation are not burdened with capital gains tax; instead, the sale of appreciated assets are assessed a nominal 1.39% excise tax (Can be a great solution for a very highly appreciated asset to donate into the Foundation)

	YR. 1	YR. 2	YR. 3	YR. 4	YR. 5
Year Beginning	\$0	\$215,778	\$437,789	\$666,214	\$901,237
Annual Contrib.	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
8% Growth	\$16,000	\$33,262	\$51,023	\$69,297	\$88,099
1.39% Excise Tax	-\$222	-\$462	-\$709	-\$963	-\$1,225
5% MDR	\$0*	-\$10,789	-\$21,889	-\$33,311	-\$45,062
Net Growth	\$15,778	\$22,011	\$28,425	\$35,023	\$41,881
Year End	\$215,778	\$437,789	\$666,214	\$901,237	\$1,143,118

*Foundations are not required to satisfy an MDR in their initial tax year.



Enhanced "Super CLAT": Integration of Private Foundation



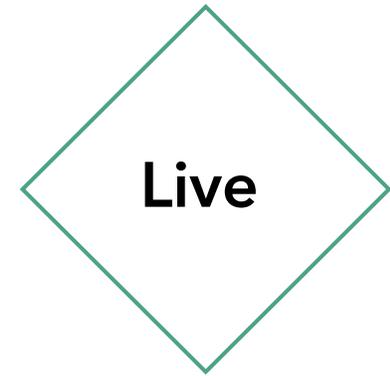
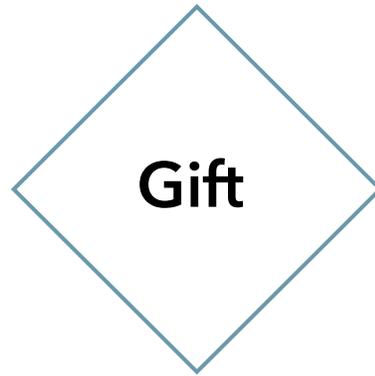
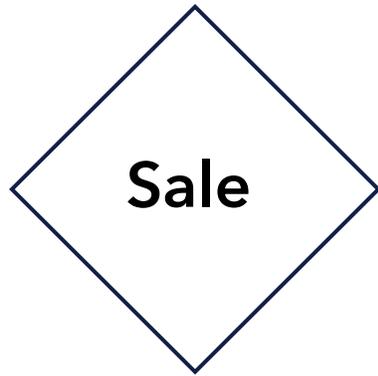
Why is Integrating a PF with an CLAT better?

- Increases Charitable Deduction AGI % Limit
- Gifting/Granting on Client's Schedule/Timing
- Family Involvement
- Centralized Giving/Admin
- Empowerment/JOY
- Leverage Business and Community Relationships (PF's can be named almost anything)

Enhanced “Super CLAT”: Integration of Private Foundation

- If a client regularly contributes substantial amounts to charity and the percentage limitations on charitable deductions result in them being unable to fully deduct their gifts, they **should consider setting up a CLAT that pays to a Private Foundation** that, in turn, makes grants to their favorite charities. CLAT distributions to a Private Foundation are not included when calculating the foundation’s 5% minimum distribution. This permits a significantly greater benefit to the foundation and provides a method to build the value of the foundation to meet a client’s philanthropic goals.
- If the charitable beneficiary is a private foundation, the IRS has ruled that amounts distributed to it by a CLAT will be subject to the 1.39% excise tax on private foundation net investment income only if they are “gross investment income,” i.e., dividends, interest, rents and royalties. Capital gains distributed by a CLT will apparently not be taxed to a private foundation which holds the lead interest.
- While not a “closed loop”, the IRS has approved a CLAT design (nicknamed the “Super CLAT”) which offers grantor trust status and exclusion of the CLAT assets from the grantor’s gross estate.

Illustrative example: Fictional Client



- \$4.65mm sale (Client's share) of Oil & Gas Product Manufacturing in 2024
 - Texas-based company with multiple partners
 - Client's net worth post sale: \$10mm
- Sale is considered as Ordinary Income
 - Usual tax to be paid sans use of CLAT and Private Foundation: **\$1,720,500**
- Client will continue to work for a few years post-sale

- Fund CLAT with \$2mm
- Donate \$150k/yr for 10yrs via CLAT
 - **Immediate charitable deduction from CLAT in 2024: \$1,169,593** (can be increased via annual gift \$ amount or term)
 - **Total Tax savings: \$432,749**
- Private Foundation receives CLAT
- distributions for 10yr term (Total funding value of \$1.5mm). Can also donate more assets into PF for added charitable deduction within AGI limits.

- Maintain philanthropic legacy via Private Foundation now and in the future.
- Can receive a fair income as employee of PF for services rendered. However, traditional portfolio income distributions are assumed for majority of living income expenses.
- Additional donations into Private Foundation will receive charitable deduction as philanthropic needs increase or a tax reduction opportunity comes about - **Ex. Client continues working and wants to offset additional income in future years**
- CLAT value is returned to client at the end of its term

Illustrative example: CLAT Financial Impact

Client Name	Valued Client
Value of Assets Contributed to iCLAT	\$ 2,000,000.00
Type of Assets Contributed to iCLAT	Cash
Desired Term of iCLAT (# of Years)	10
Annual Payments to Charity	\$ 150,000.00
Preferred Charity	Private Foundation
Assumed Annual Income Target Rate	4.00%
Assumed Annual Growth Target Rate	6.00%
IRS §7520 Interest Rate	4.80%
Federal Income Tax Rate	37.00%
State Income Tax Rate	0.00%

Year	Beginning Principle	Target Income Rate	Target Income Amount	Target Growth	Target Growth Amount	Annual Charitable Dist. To Private Foundation	Year-End Principle	Net Growth in Principle
1	\$ 2,000,000.00	4.00%	\$ 80,000.00	6.00%	\$ 120,000.00	\$ 150,000.00	\$ 2,050,000.00	\$ 50,000.00
2	\$ 2,050,000.00	4.00%	\$ 82,000.00	6.00%	\$ 123,000.00	\$ 150,000.00	\$ 2,105,000.00	\$ 55,000.00
3	\$ 2,105,000.00	4.00%	\$ 84,200.00	6.00%	\$ 126,300.00	\$ 150,000.00	\$ 2,165,500.00	\$ 60,500.00
4	\$ 2,165,500.00	4.00%	\$ 86,620.00	6.00%	\$ 129,930.00	\$ 150,000.00	\$ 2,232,050.00	\$ 66,550.00
5	\$ 2,232,050.00	4.00%	\$ 89,282.00	6.00%	\$ 133,923.00	\$ 150,000.00	\$ 2,305,255.00	\$ 73,205.00
6	\$ 2,305,255.00	4.00%	\$ 92,210.20	6.00%	\$ 138,315.30	\$ 150,000.00	\$ 2,385,780.50	\$ 80,525.50
7	\$ 2,385,780.50	4.00%	\$ 95,431.22	6.00%	\$ 143,146.83	\$ 150,000.00	\$ 2,474,358.55	\$ 88,578.05
8	\$ 2,474,358.55	4.00%	\$ 98,974.34	6.00%	\$ 148,461.51	\$ 150,000.00	\$ 2,571,794.41	\$ 97,435.86
9	\$ 2,571,794.41	4.00%	\$ 102,871.78	6.00%	\$ 154,307.66	\$ 150,000.00	\$ 2,678,973.85	\$107,179.44
10	\$ 2,678,973.85	4.00%	\$ 107,158.95	6.00%	\$ 160,738.43	\$ 150,000.00	\$ 2,796,871.23	\$117,897.38
TOTALS:			\$ 918,748.49		\$ 1,378,122.74	\$ 1,500,000.00	\$ 2,796,871.23	\$796,871.23

Tax Savings from Immediate iCLAT Deduction Invested for iCLAT Term	Combined Value of iCLAT Assets & Invested Tax Savings Generated by iCLAT
\$432,749.36	\$ 2,482,749.36
\$476,024.30	\$ 2,581,024.30
\$523,626.73	\$ 2,689,126.73
\$575,989.40	\$ 2,808,039.40
\$633,588.34	\$ 2,938,843.34
\$696,947.17	\$ 3,082,727.67
\$766,641.89	\$ 3,241,000.44
\$843,306.08	\$ 3,415,100.48
\$927,636.69	\$ 3,606,610.53
\$1,020,400.36	\$ 3,817,271.59
\$1,020,400.36	\$ 3,817,271.59

Current Year Immediate Charitable Income Tax Deduction	\$1,169,592.87
Federal Income Tax Savings	\$432,749.36
State Income Tax Savings	\$0.00
TOTAL IMMEDIATE INCOME TAX SAVINGS*	\$432,749.36
*To receive ALL income tax savings on current year tax return, AGI needs to be at least	\$3,898,642.89
Value* of iCLAT Assets at End of Term to Revert to Client	\$ 2,796,871.23
*Illustrated Value, not a guaranteed value	
Total Charitable Distributions to Private Foundation	\$ 1,500,000.00



\$432,749.36
in Immediate Tax Savings



\$2,796,871.23
"Reverts" back to client at end of CLAT term in non-taxable transaction

Illustrative example: Private Foundation Legacy

Ability to elect a charity or multiple charities that you are passionate about; Involve your family to build a multi-generational legacy and create a lasting impact (scholarship funds, medical research, religious causes, etc.)

Donate each year to receive additional charitable deductions and to remove assets from your estate. Combining an initial CLAT deduction in the year of business sale/other liquidity events along with subsequent PF deductions in years of high income is powerful

1.39% excise tax rather than traditional capital gains tax (i.e. allow your assets to grow more efficiently, benefitting you, your family, and your legacy)

Ability for you and your family (if they are involved in the PF management) to take fair and reasonable income/salary (living needs) as part of the required annual distribution

Illustrative example: Additional Considerations

Should a client have significant tax-deferred assets, the CLAT + PF combo allows for a far greater utilization of Roth IRA Conversions from a Traditional or Non-Deductible IRA.

Unless the CLAT and the PF are carefully structured to limit the influence of the donor, the property transferred to the CLAT can be included in the donor's estate at death. To avoid this, the donor's role in the CLAT and the PF should be limited.

Examples of this limited role include:

- Examples of this limited role include:
- If the donor serves as a director or officer of the Family Foundation, the donor may be prohibited from voting on matters concerning the funds received from the CLAT.
- Perhaps the donor does not serve on the Family Foundation's board of directors at all but rather has his or her spouse or children serve on the board.
- In addition, the donor may be prohibited from serving as Trustee of the CLAT.

Speak with us today. Grow with confidence tomorrow

Thank you, we appreciate you taking your time and look forward to speaking with you soon.
Please reach out if you have any questions or concerns and we would be more than happy to clarify.

Phone

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Our service continues as we communicate and support the advisor further, who always remains the central contact for Howard Private Wealth Services.

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