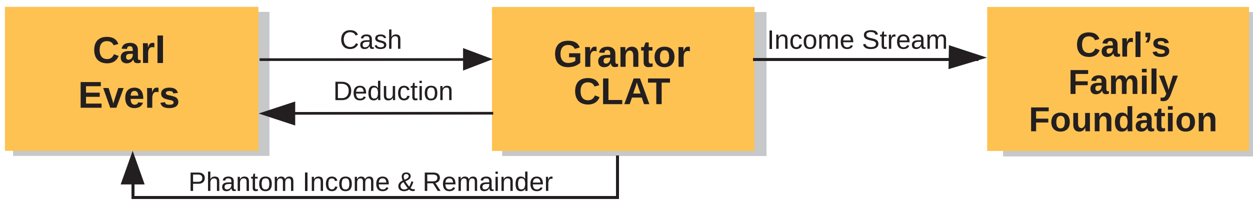
# Case Strategy: *Income Averaging Using a Grantor CLAT*

## EVERS



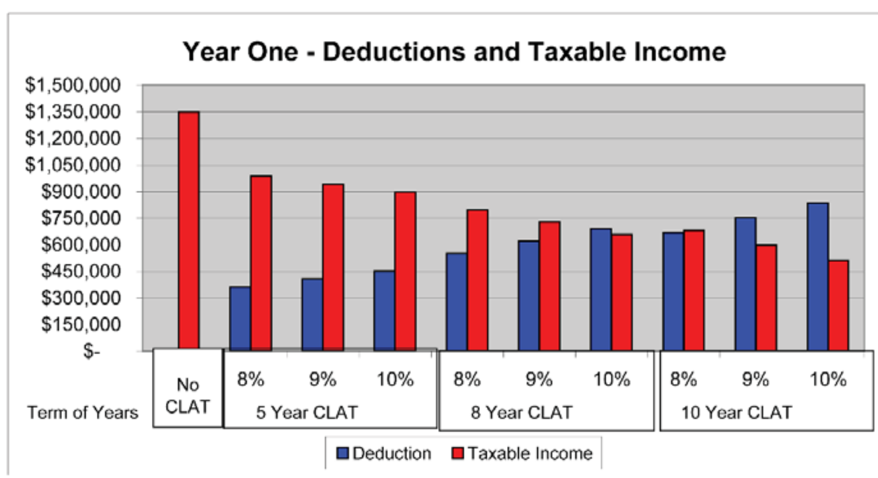

Carl Evers, age 55, is a senior executive for Accountable Inc. After an extremely successful year, Carl's bonus will triple to $1 million. Carl already receives significant income from his salary and other investments. Since Carl is in the highest tax bracket, he is concerned that a large portion of his hard-earned bonus will be heavily taxed.

When Carl consults his financial advisors, they suggest a strategy designed to defer the income tax liability. On their advice, Carl sets up a Grantor Charitable Lead Annuity Trust (Grantor CLAT) and funds it with a portion of his bonus. The Grantor CLAT pays a fixed annual amount to a charity for a fixed term of years, after which time, the remaining balance is transferred back to Carl. In exchange for this stream of income to charity, Carl receives a current income tax charitable deduction. This tax deduction offsets some of the income tax due in the year that he receives the bonus.

Since a Grantor CLAT is a grantor trust, Carl's taxable income includes the taxable income earned by the trust. However, by investing in a portfolio consisting of tax-free bonds and/or growth stocks, Carl can substantially lower his tax burden over the term of the trust.

Through well-calculated planning, Carl's advisors helped him average the income tax burden over several years. This will enable Carl to retain more of his capital in order to fulfill other financial goals. If Carl chose to use a family foundation or donor-advised fund as the recipient of the lead interest, his family could continue to have a positive impact on his favorite charities even after termination of the trust.

The graph to the right compares the first-year benefits of income averaging with a Grantor CLAT over three different time periods.




**Assumptions:**

If Carl dies before the termination of the trust's charitable term, the then FMV of the CLT will be in his gross estate and a portion of his income tax deduction may be recaptured.
CMFR = 3.4%.
Carl's average salary is $350,000.
Depending on the rest of his AGI, Carl's deduction may be limited in the first year and then carried over to the next 5 years.

**For more details about this strategy or any other charitable trust case, please call Renaissance at 800.843.0050.**

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