

“Give a Spigot” to Your Kids

By Ronald D. Philgreen

Ron Philgreen explains and illustrates charitable tax planning with the net income charitable remainder unitrust with a make up provision (NIMCRUT) and standard charitable remainder unitrusts (SCRUT) using his “Charitable Buckets™” concept and tools..

Aunt Bessie had an estate of about \$4.4 million, \$3.8 of which was low cost basis, highly appreciated Proctor & Gamble publicly traded stock (see Chart 1). Although she was a widow, she had no children or grandchildren, but she did have 12 favorite nieces and nephews, ranging in age from 56 to 86, which was exactly how old Aunt Bessie was. Those 12 nieces and nephews were her “kids.” And these same 12 nieces and nephews were already named at different percentages not only in an irrevocable trust that she had created and funded back in 1995 but also in her current will.

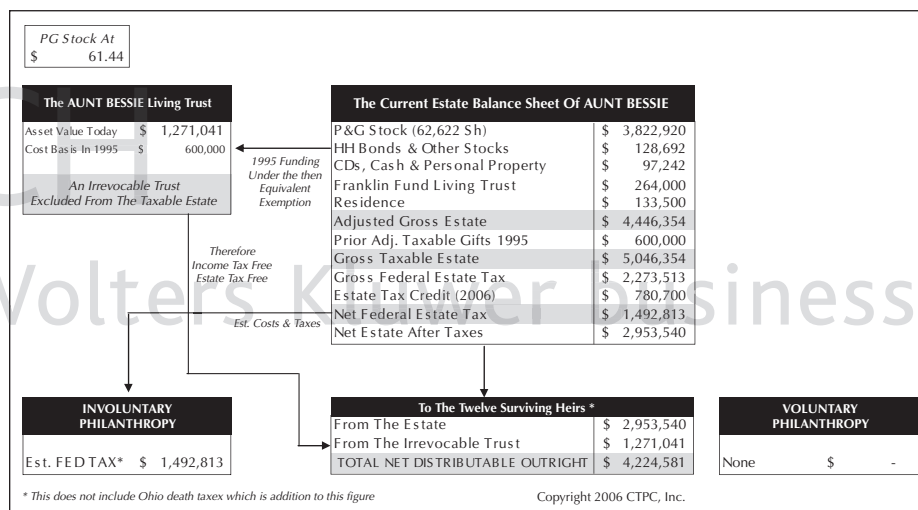
The Problem: Looking for a Solution

Her problem was, of course, a \$1,492,813 federal estate tax problem in the event of her death. Note that in calculating the net federal estate tax, you have to pull back into the estate prior taxable gifts that used up some or all of the equivalent exemption amount, calculate the estate tax, and then take the credit (the tax on the equivalent exemption) against that estimated federal estate tax bite. In this case, the current adjusted gross estate of \$4,446,354 plus the \$600,000 prior gift brought the gross taxable estate to \$5,046,354. After taking the \$780,000 credit (the tax

on the \$2,000,000 equivalent exemption) against the estimated \$2,273,513 gross federal estate tax, the net federal estate tax is \$1,492,813.

Aunt Bessie, at age 86, was medically uninsurable, so a traditional solution of buying life insurance in a wealth replacement trust to offset the federal estate taxes was out of the question. Everybody, including not only Aunt Bessie and her trustee, but also her at-

Chart 1. The Current Estate Distribution Plan of Aunt Bessie



torney, had simply accepted the fact that Uncle Sam was going to get a big chunk of the estate.

The Nephew Who Was Also the Trustee

One of those 12 heirs—let’s call him Tim—was a 65-year-old nephew who happened to be a senior trust officer of a local bank. And he, as an individual (not as a trust officer of the bank) was

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trustee of both Aunt Bessie's irrevocable trust as well as her revocable living trust and executor of her estate. It was Tim's investment advisor that had set up the irrevocable trust back in 1995 and transferred \$600,000 out of her estate, using up her then maximum equivalent exemption. As you can see, those funds have doubled since then and are now worth \$1,271,041.

It was that same investment advisor in his annual reviews with Tim who had continued to keep after him that yesterday's solution back in 1995 was a good move then, but the stock and the estate have kept growing and growing. And the estate tax consequences have grown with that. The estate tax problem has not gone away; it has gotten worse.

One question that finally caught Tim's attention had to do with his fiduciary capacity as a trustee, particularly when the potential heirs after Aunt Bessie's death might begin asking questions such as, "What did you do in your capacity as the trustee to minimize the estate tax consequences in Aunt Bessie's estate?" or "Why didn't you do something to address that \$1,492,813 estate tax bite?" It was those kinds of questions that lurked in the back of his mind, that would haunt him and wake him up in the middle of the night. "Is there anything else that I could have done?" was a question that he kept asking himself. And there was always the fear that one of the heirs would file a lawsuit against him that he had breached his fiduciary capacity by not doing anything about the problem. As a matter of fact, one of the 12 had already been pestering him about Aunt Bessie's estate and trying to find out how much he was going to get as soon as Aunt Bessie died, and even if he could get some money out of her now. That kind of greed had not endeared that nephew to Aunt Bessie, who almost cut him out of the will completely. So Tim had a lot of concerns that troubled him.

The investment advisor kept after him with those kinds of questions until he and Aunt Bessie finally agreed to sit down and talk about some ideas and alternatives that might reduce or mitigate the estate tax problem.

That investment advisor—let's call him Loren—is one of my joint venture associates, who over the last several years has learned by osmosis what charitable tax planning can do as we worked a half dozen cases together. Loren now understands

that charitable tax planning can impact a lot of situations that traditional estate, tax and financial planning simply cannot. Loren called me in to a first conference with Tim, and we began the process of exploring what charitable tax planning might be able to do for Aunt Bessie.

So What Are You Selling?

The first thing that Tim said to me at the beginning of the first conference was a point blank question—"Okay, Mr. Philgreen, What Are You Selling?" I had to think about that one for a minute, but my answer was this: What I am selling is a process and methodology to discover what charitable tax planning can do for you. I am not here to sell life insurance although I sell a lot of life insurance in my practice. I am not here to sell securities such as stocks, bonds, REITS, variable annuities, managed assets, although I end up placing a lot of funds in those instruments. I am not here to sell a product. What I am selling is a process and methodology. Whether it is the imminent sale of low basis, highly appreciated capital assets, such as P&G stock, or farm land across the street from a new shopping center, or the closely held family corporation, which would trigger a long term capital gain tax, or the triple tax bite of estate taxes, inheritance taxes and IRD (income in respect of a decedent) taxes on qualified pension plan assets or the huge bite out of an inheritance that the estate tax can take, all of these situations are problems looking for a solution. And charitable tax planning can address all of those and provide some exciting alternatives and options that traditional approaches usually miss.

One of the biggest challenges in charitable tax planning is to get prospective clients to take the time to go through that process and allow us to get them through the learning curve to understand the basic "chessplayers" and then the integrated "chessmoves" that should be considered and employed.

"Charitable Buckets™" **Technology**

I always start with my published educational animated graphic software presentation called "Charitable Buckets™," which uses the visual analogy of a charitable bucket to teach the concept of the charitable remainder unitrust. So we talk about who owns the "Bucket," what type and what size "Spigot" goes on the "Bucket," what happens when the "Bucket"

turns upside down, and so on. Charitable remainder unitrusts are a very powerful technique, but they are very sophisticated, complex and complicated. And it does not really help when our financial planning, legal and tax community throws around acronyms like “NIMCRUT” and “SCRUT,” which do not communicate a thing to the average layperson.

We took Tim through the “Charitable Bucket™” presentation, and then began talking specifically about what Aunt Bessie could do. We ended up giving this strategy a name, “Give a Spigot to Your Kids!”. Whether the “Kids” are children and grandchildren or nieces and nephews, it is the second generation to whom an Aunt Bessie wants her estate to go to when she dies. Standing between that gift and the receipt by the heirs is a federal estate tax after the equivalent exemptions have been used up.

Although it took over a year to design, redesign, explain, teach, chart and cash flow this case, going

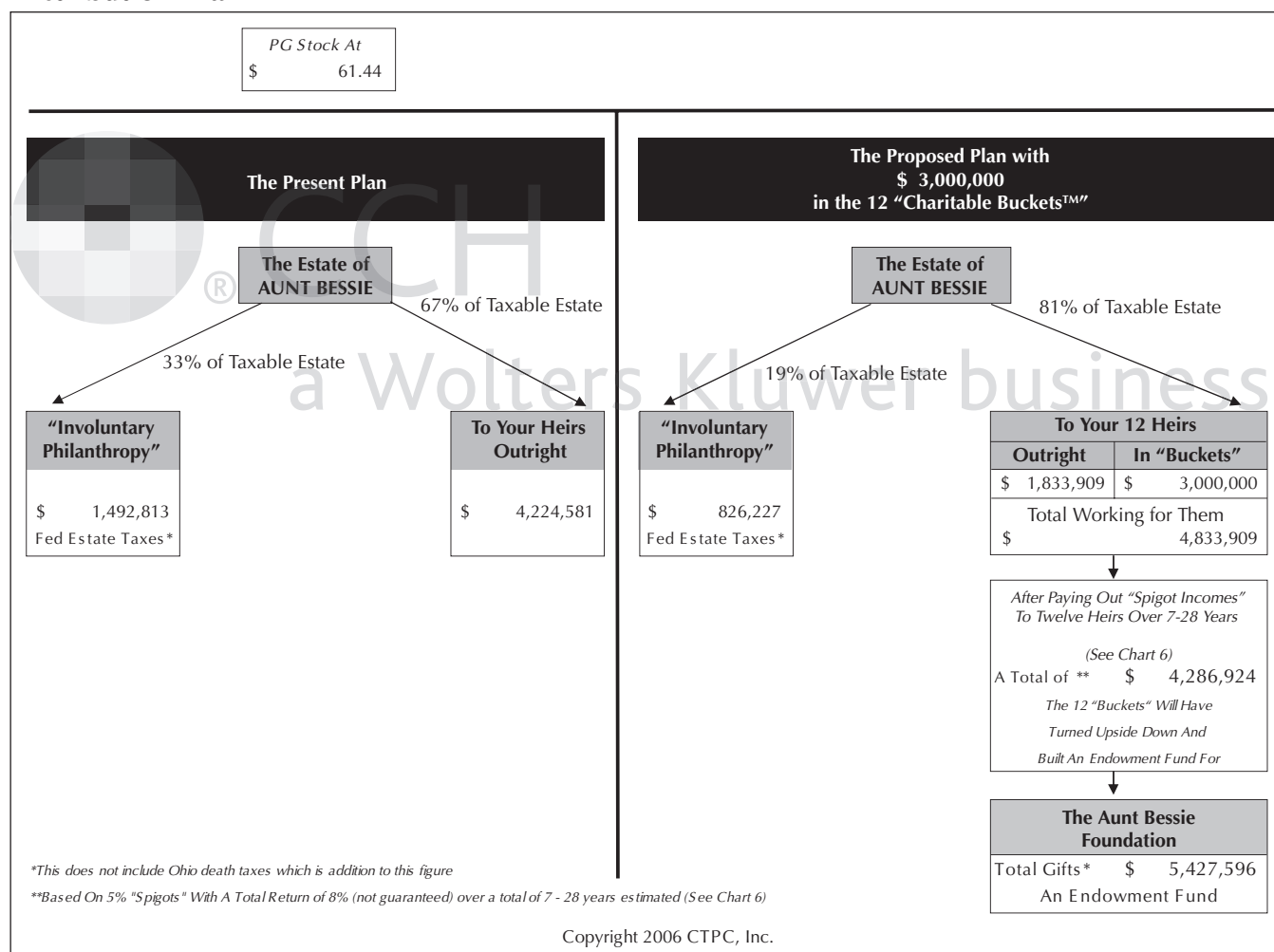
back and forth to the drawing board four or five times before we got it done, the end result was the creation and funding of 12 “Charitable Buckets™” (also known as NIMCRUTS—Net Income Charitable Remainder Unitrusts With A Make-Up Provision).

The Proposed Solution

In Chart 2, we demonstrate the impact upon the Federal Estate Taxes in her estate if she were to create and fund 12 “Charitable Buckets™” with \$3.0 million dollars of her P&G stock.

The estate taxes would be reduced by \$656,583 (from \$1,492,813 to \$826,227), and the 12 heirs would receive \$1,833,909 outright and \$3 million in the “Buckets,” or a total of \$4,833,909 working for them the rest of their lives. This is in comparison to the existing plan in which they would have \$4,224,581 working for them from the outright distribution.

Chart 2. A Simplified Overview of the Current vs. the Proposed AUNT BESSIE’s Estate Distribution Plan



Converting Involuntary Philanthropy into Voluntary Philanthropy™

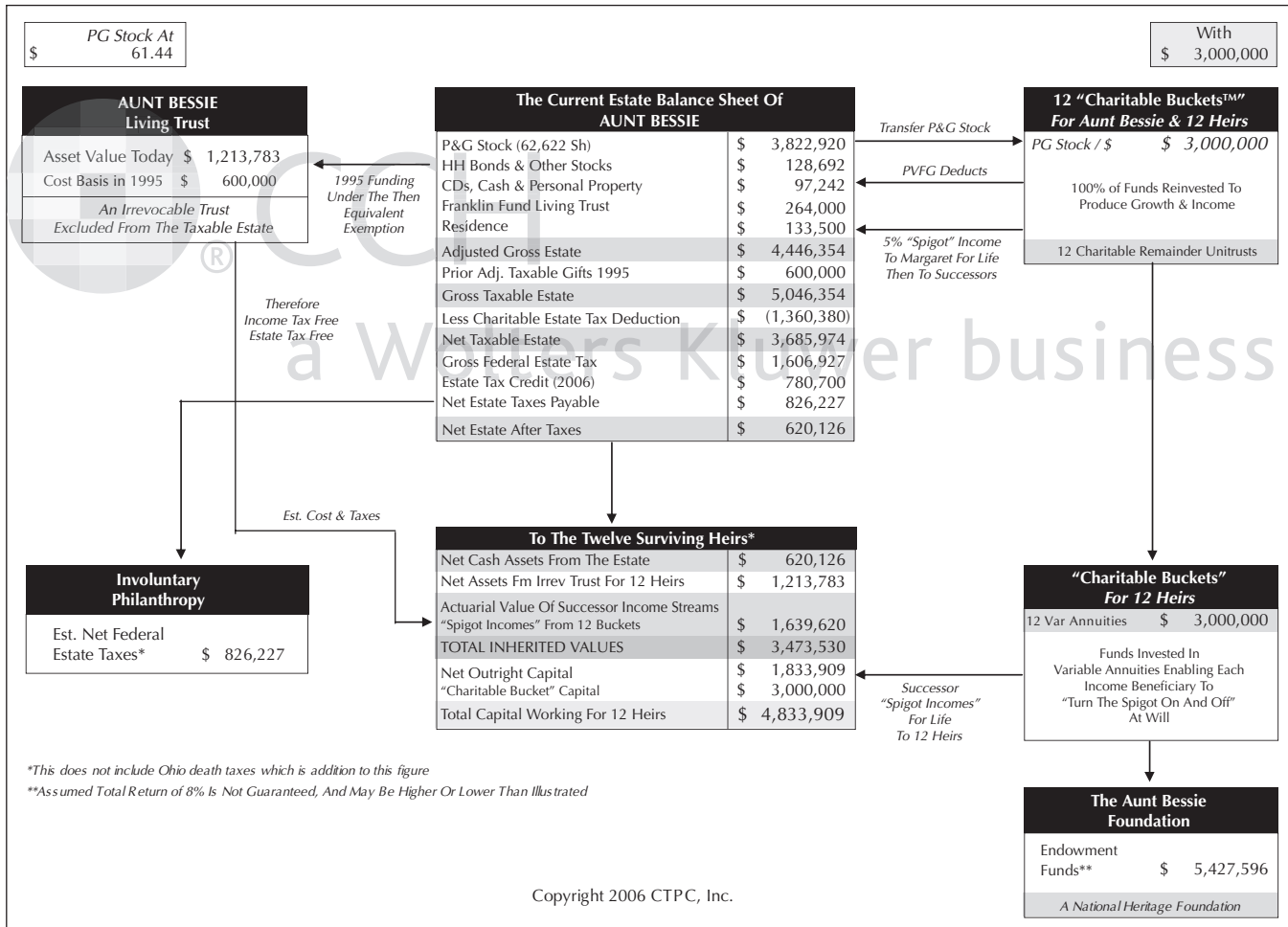
In my seminars and workshops that I have conducted all over the country, some 1,500 plus over the last 35 years, I quite often ask my audience, "How many of you consider yourself to be a Philanthropist?" We might get a few hands, but most people do not look at themselves that way, and certainly do not publicly identify themselves as such. Then I ask the next question, which is a set up: "How many of you paid income taxes last year?" And of course, they all raise their hands. "That is what we call 'Involuntary Philanthropy!'" And they laugh, and they all get the point. The slogan of my firm, "Where Involuntary Philanthropy Converts to Voluntary Philanthropy™" describes the purpose in charitable tax planning.

A point that is important in pre-qualifying a prospective candidate for this process and methodology is that

charitable tax planning does not convert nongivers into givers, but it does turn little givers into big givers. To drag a "nongiver" down the aisle to the alter of "charitable giving" is hard work, and it usually does not work. On the other hand, if your client is also a giver, not only of money but also of time, talent, identification and heart, charitable tax planning is an easy sell. Aunt Bessie had been a giver throughout her life, and has several favorite charities, including her own church where she has been a member since childhood, and a children's home in the area. So when we presented the idea of reducing taxes (both income taxes as well as estate taxes, doing something good for her "Kids" and, at the same time, creating deferred charitable gifts to create an endowment fund in her family foundation to support her favorite charities, she loved it.

In Chart 3, we demonstrate how we calculated the reduced estate taxes and demonstrated not only how much money was working for the nieces and nephews, but also

Chart 3. A Proposed Charitable Estate Distribution Plan Assuming a 12 "Charitable Buckets™" Strategy for 12 Adult Heirs (Nieces and Nephews) of AUNT BESSIE



the creation of millions of dollars in her Foundation downstream. The \$656,685 reduction of federal estate taxes (Involuntary Philanthropy™) also results in not only more capital working for the 12 nieces and nephews, but also creates millions of deferred charitable gifts (Voluntary Philanthropy™) to her foundation downstream.

In Chart 4, we show the ages and percentages that each of the twelve nieces and nephews were to receive and the charitable income tax deductions that Aunt Bessie would receive, representing the PVFG (present discounted value of the future charitable gifts) from funding the 12 “Charitable Buckets™.” This also shows the amount that each heir would receive outright plus what would be working in their respective “Charitable Bucket™”—the total working capital for each one, which went up.

There is no question that some of the heirs would rather have had whatever they get outright, so that they can do whatever they want with their inheritance gift. The

Chart 4. The Charitable Tax Deductions from the Funding Of 12 “Charitable Buckets”™ by Aunt Bessie With \$3,000,000

	PG Stock At \$61.44 Per Share	Age Of 2nd Benef	ILIT Distrib %	PG Stock \$3,000,000 Same %	Charitable Tax Deduct Factor 5% Spigots	Charitable Tax Deduction 5% Spigots	Remainder-man 5% Spigot 8% Total Return*	Actuarial Value Of Inherited “Spigot”	Net Outright \$1,833,909 Inheritance	Total VALUE OF Inheritance	Total Capital Working For Each
1	“Charitable Bucket™” For Niece #1	86	5%	\$150,000	73.810%	110,715	\$179,108	\$39,285	\$91,695	\$130,980	\$241,695
2	“Charitable Bucket™” For Nephew #2	83	2%	\$60,000	65.600%	39,360	\$78,286	\$20,640	\$36,678	\$57,318	\$96,678
3	“Charitable Bucket™” For Niece #3	74	6%	\$180,000	55.947%	100,705	\$264,336	\$79,295	\$110,035	\$189,330	\$290,035
4	“Charitable Bucket™” For Niece #4	69	7%	\$210,000	49.882%	104,752	\$347,098	\$105,248	\$128,374	\$233,621	\$338,374
5	“Charitable Bucket™” For Niece #5	67	7%	\$210,000	47.395%	99,530	\$357,511	\$110,471	\$128,374	\$238,844	\$338,374
6	“Charitable Bucket™” For Nephew #6	66	11%	\$330,000	46.156%	152,315	\$578,657	\$177,685	\$201,730	\$379,415	\$531,730
7	“Charitable Bucket™” For Nephew #7	65	12%	\$360,000	44.925%	161,730	\$631,262	\$198,270	\$220,069	\$418,339	\$580,069
8	“Charitable Bucket™” For Nephew #8	64	11%	\$330,000	43.702%	144,217	\$596,017	\$185,783	\$201,730	\$387,513	\$531,730
9	“Charitable Bucket™” For Niece #9	62	12%	\$360,000	41.280%	148,608	\$689,797	\$211,392	\$220,069	\$431,461	\$580,069
10	“Charitable Bucket™” For Nephew #10	61	10%	\$300,000	40.084%	120,252	\$592,076	\$179,748	\$183,391	\$363,139	\$483,391
11	“Charitable Bucket™” For Niece #11	57	10%	\$300,000	35.410%	106,230	\$646,977	\$193,770	\$183,391	\$377,161	\$483,391
12	“Charitable Bucket™” For Niece #12	56	7%	\$210,000	34.270%	71,967	\$466,471	\$138,033	\$128,374	\$266,407	\$338,374
					9/1/06						
TOTALS 100%				\$3,000,000		1,360,380	5,427,596	1,639,620	1,833,909	3,473,530	4,833,909
					Charitable Tax Deduction Totals From 12 Buckets	1,360,380	5,427,596	1,639,620	1,833,909	3,473,530	4,833,909

concept of giving them an income stream that they could never outlive coming from a base they could never destroy resonated with Aunt Bessie who, in her lifetime, has seen inheritances from deceased friends become totally decimated by heirs who were not equipped mentally or emotionally to handle a

big lump-sum inheritance.

Chart 5 breaks out the exact amount of the proposed \$3 million of P&G stock that we proposed placing into each of the twelve nieces' and nephews' "Charitable Buckets™" based on their respective percentage participations.

Chart 5. A Proposed Transfer to 12 "Charitable Buckets™" from Aunt Bessie Transfer PG Stock Worth \$3,000,000 "Give Them a Spigot" and Reduce Estate Taxes to \$826,227

PG Stock at \$61.44

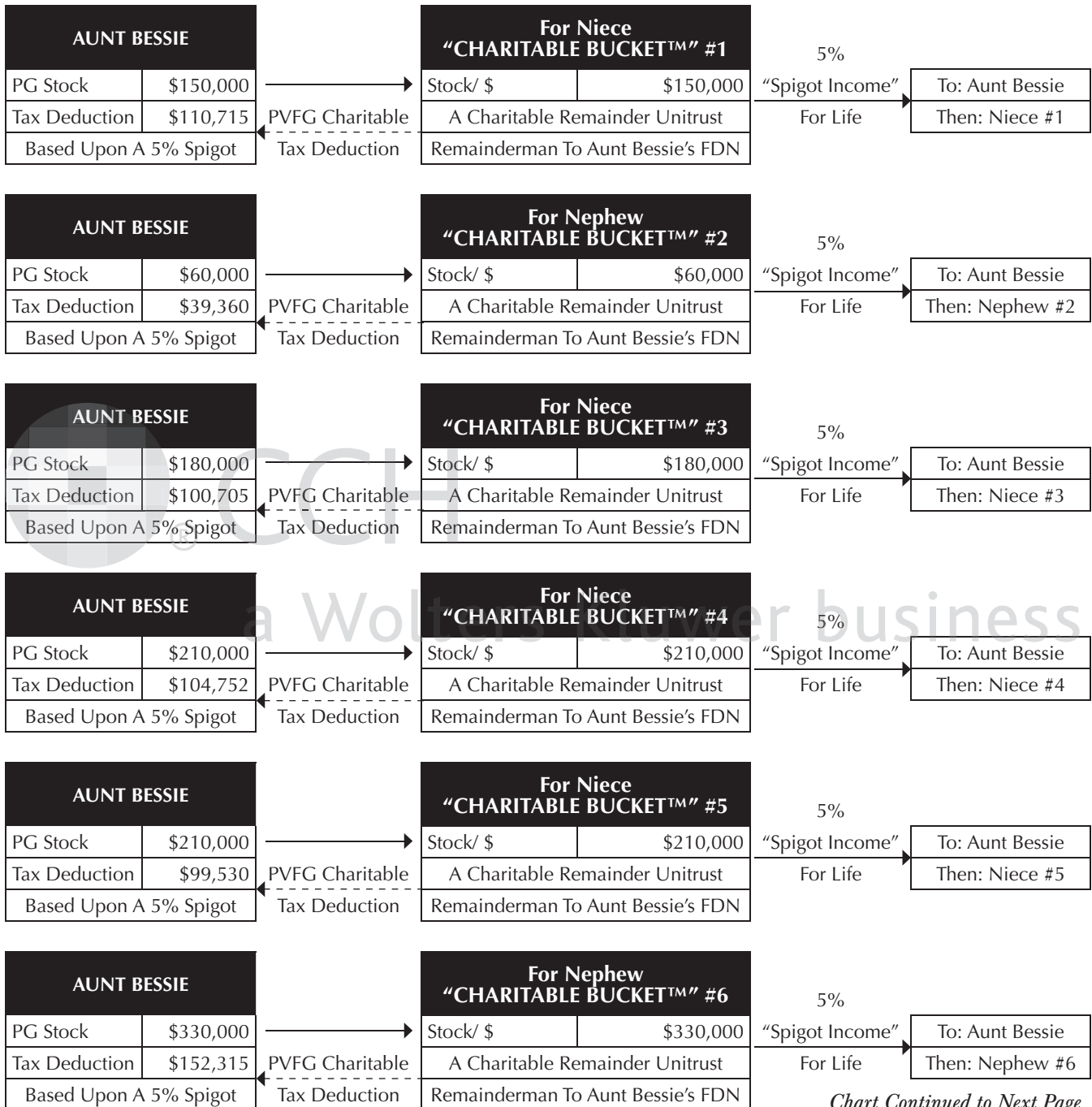


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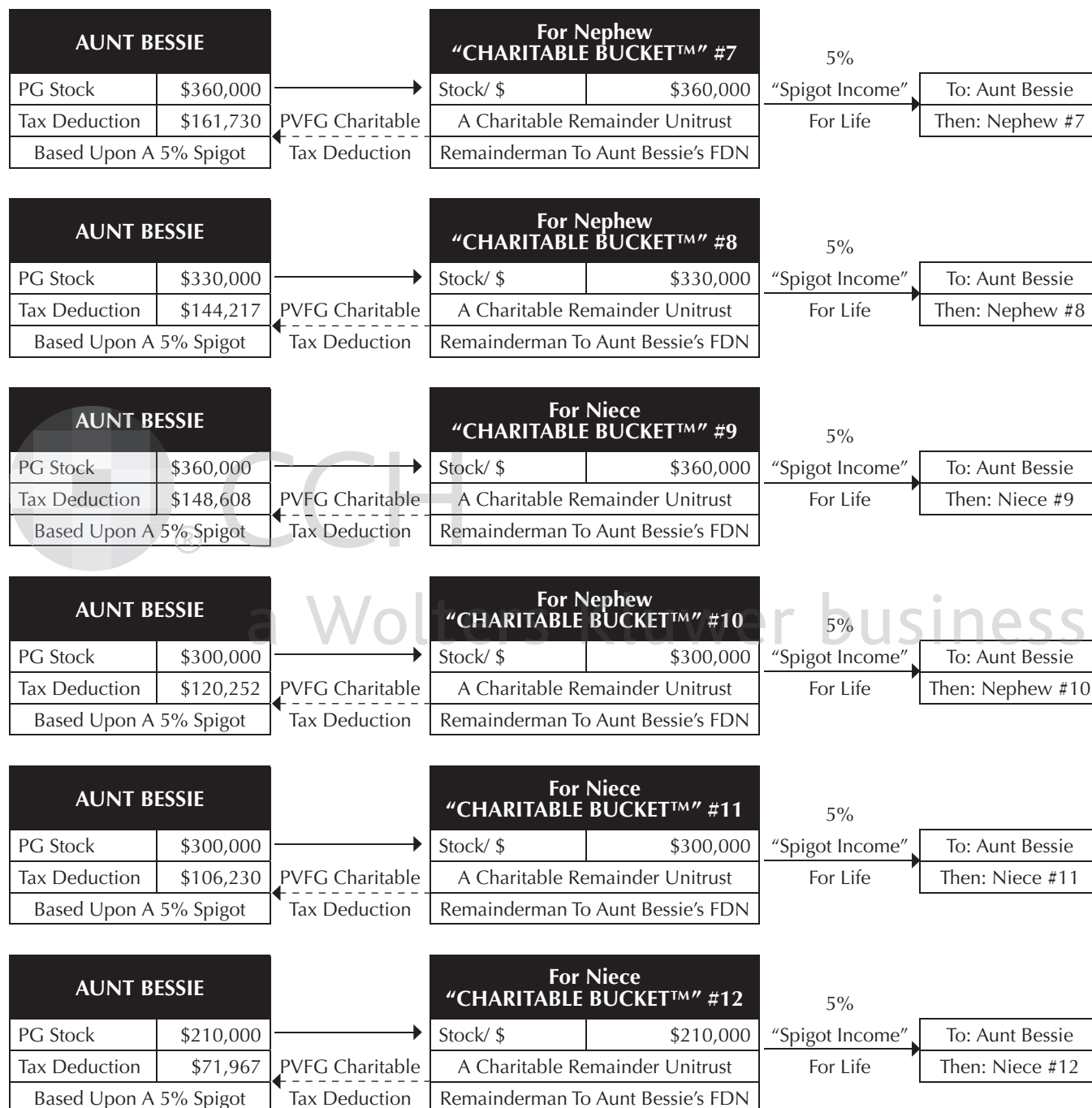
How Aunt Bessie Finally “Got It!”

One of the challenges of our profession is making sure that our clients fully understand what we are proposing to them. We certainly laid out the five benefits of a “Charitable Bucket™” strategy:

- 1) A PFVG Charitable Income Tax Deduction up front outside the “Bucket”
- 2) The avoidance of long term capital gains taxes inside each “Charitable Bucket™” when the charitable remainder unitrust sold the P&G stock tax free
- 3) The Multiple Tiered Income Treatment on “Spigot”

Chart 5. A Proposed Transfer to 12 “Charitable Buckets™” from Aunt Bessie
Transfer PG Stock Worth \$3,000,000 “Give Them a Spigot” and Reduce Estate
Taxes to \$826,227 (continued from previous page...)

PG Stock at \$61.44



- ot Income" when Aunt Bessie and/or the nieces and nephews chose to take a distribution
- 4) The tax-free compounding of undistributed income inside the "Bucket"
- 5) The charitable estate tax deduction in her estate when she dies equal to the then PVFG of the

deferred charitable gifts when each of the 12 Charitable Buckets™ turn upside when each niece and/or nephew dies downstream
 With all the charts and calculations and numbers, even though we used the visual analogy of the Charitable Bucket™, which has been so effective in teaching

Chart 6.
PLAN "A" 12 "Charitable Buckets™" on Their Way to Aunt Bessie's Foundation
Funded with \$3,000,000 PG Stock

PG Stock at \$61.44										
Trust	"Bucket" #1		"Bucket" #2		"Bucket" #3		"Bucket" #4		"Bucket" #5	
Year	A NIECE		A NEPHEW		A NIECE		A NIECE		A NIECE	
	Principal*	Income*	Principal*	Income*	Principal*	Income*	Principal*	Income*	Principal*	Income*
1	\$150,000	\$7,500	\$60,000	\$3,000	\$180,000	\$9,000	\$210,000	\$10,500	\$210,000	\$10,500
2	\$154,500	\$7,725	\$61,800	\$3,090	\$185,400	\$9,270	\$216,300	\$10,815	\$216,300	\$10,815
3	\$159,135	\$7,957	\$63,654	\$3,183	\$190,962	\$9,548	\$222,789	\$11,139	\$222,789	\$11,139
4	\$163,909	\$8,195	\$65,564	\$3,278	\$196,691	\$9,835	\$229,473	\$11,474	\$229,473	\$11,474
5	\$168,826	\$8,441	\$67,531	\$3,377	\$202,592	\$10,130	\$236,357	\$11,818	\$236,357	\$11,818
6	\$173,891	\$8,695	\$69,556	\$3,478	\$208,669	\$10,433	\$243,448	\$12,172	\$243,448	\$12,172
7	\$179,108	\$8,955	\$71,643	\$3,582	\$214,929	\$10,746	\$250,751	\$12,538	\$250,751	\$12,538
8	7 YEARS	\$57,468	\$73,792	\$3,690	\$221,377	\$11,069	\$258,274	\$12,914	\$258,274	\$12,914
9	↓ "Spigot Income" Distributed		\$76,006	\$3,800	\$228,019	\$11,401	\$266,022	\$13,301	\$266,022	\$13,301
10			\$78,286	\$3,914	\$234,859	\$11,743	\$274,002	\$13,700	\$274,002	\$13,700
11	↓		10 YEARS	\$34,392	\$241,905	\$12,095	\$282,222	\$14,111	\$282,222	\$14,111
12				"Spigot Income" Distributed	\$249,162	\$12,458	\$290,689	\$14,534	\$290,689	\$14,534
13	↓				\$256,637	\$12,832	\$299,410	\$14,970	\$299,410	\$14,970
14					\$264,336	\$13,217	\$308,392	\$15,420	\$308,392	\$15,420
15	↓			14 YEARS	\$153,777	\$317,644	\$15,882	\$317,644	\$15,882	\$15,882
16						"Spigot Income" Distributed	\$327,173	\$16,359	\$327,173	\$16,359
17	↓					\$336,988	\$16,849	\$336,988	\$16,849	\$16,849
18						\$347,098	\$17,355	\$347,098	\$17,355	\$17,355
19	↓					18 YEARS	\$245,852	\$357,511	\$17,876	\$17,876
20							"Spigot Income" Distributed		19 YEARS	\$263,727
21	↓									"Spigot Income" Distributed
22										
TO AUNT BESSIE'S FOUNDATION										
Totals	\$179,108		\$78,286		\$264,336		\$347,098		\$357,511	
	\$179,108		\$257,394		\$521,730		\$868,828		\$1,226,339	

\$3,000,000 of Stock Transferred
 To Twelve Buckets
 *Assumption of 8% Total Return, 5% Spigot
 Income Distribution Not Guaranteed

the complexities of charitable remainder unitrusts, she still had mental indigestion and a bewildered “deer in the headlight” look as we tried to explain it all. Even

though she had implicit trust in her nephew, the trust officer, I really wanted to make sure that she understood it before she did it.

Chart 6. PLAN “A” 12 “Charitable Buckets™” on Their Way to Aunt Bessie’s Foundation
Funded with \$3,000,000 PG Stock (Continued from previous page...)

PG Stock at \$61.44										
Trust	“Bucket” #6		“Bucket” #7		“Bucket” #8		“Bucket” #9		“Bucket” #10	
	A NEPHEW		A NEPHEW		A NEPHEW		A NIECE		A NEPHEW	
Year	Principal*	Income*	Principal*	Income*	Principal*	Income*	Principal*	Income*	Principal*	Income*
1	\$330,000	\$16,500	\$360,000	\$18,000	\$330,000	\$16,500	\$360,000	\$18,000	\$300,000	\$15,000
2	\$339,900	\$16,995	\$370,800	\$18,540	\$339,900	\$16,995	\$370,800	\$18,540	\$309,000	\$15,450
3	\$350,097	\$17,505	\$381,924	\$19,096	\$350,097	\$17,505	\$381,924	\$19,096	\$318,270	\$15,914
4	\$360,600	\$18,030	\$393,382	\$19,669	\$360,600	\$18,030	\$393,382	\$19,669	\$327,818	\$16,391
5	\$371,418	\$18,571	\$405,183	\$20,259	\$371,418	\$18,571	\$405,183	\$20,259	\$337,653	\$16,883
6	\$382,560	\$19,128	\$417,339	\$20,867	\$382,560	\$19,128	\$417,339	\$20,867	\$347,782	\$17,389
7	\$394,037	\$19,702	\$429,859	\$21,493	\$394,037	\$19,702	\$429,859	\$21,493	\$358,216	\$17,911
8	\$405,858	\$20,293	\$442,755	\$22,138	\$405,858	\$20,293	\$442,755	\$22,138	\$368,962	\$18,448
9	\$418,034	\$20,902	\$456,037	\$22,802	\$418,034	\$20,902	\$456,037	\$22,802	\$380,031	\$19,002
10	\$430,575	\$21,529	\$469,718	\$23,486	\$430,575	\$21,529	\$469,718	\$23,486	\$391,432	\$19,572
11	\$443,492	\$22,175	\$483,810	\$24,190	\$443,492	\$22,175	\$483,810	\$24,190	\$403,175	\$20,159
12	\$456,797	\$22,840	\$498,324	\$24,916	\$456,797	\$22,840	\$498,324	\$24,916	\$415,270	\$20,764
13	\$470,501	\$23,525	\$513,274	\$25,664	\$470,501	\$23,525	\$513,274	\$25,664	\$427,728	\$21,386
14	\$484,616	\$24,231	\$528,672	\$26,434	\$484,616	\$24,231	\$528,672	\$26,434	\$440,560	\$22,028
15	\$499,155	\$24,958	\$544,532	\$27,227	\$499,155	\$24,958	\$544,532	\$27,227	\$453,777	\$22,689
16	\$514,129	\$25,706	\$560,868	\$28,043	\$514,129	\$25,706	\$560,868	\$28,043	\$467,390	\$23,370
17	\$529,553	\$26,478	\$577,694	\$28,885	\$529,553	\$26,478	\$577,694	\$28,885	\$481,412	\$24,071
18	\$545,440	\$27,272	\$595,025	\$29,751	\$545,440	\$27,272	\$595,025	\$29,751	\$495,854	\$24,793
19	\$561,803	\$28,090	\$612,876	\$30,644	\$561,803	\$28,090	\$612,876	\$30,644	\$510,730	\$25,536
20	\$578,657	\$28,933	\$631,262	\$31,563	\$578,657	\$28,933	\$631,262	\$31,563	\$526,052	\$26,303
21	20 YEARS	\$443,361	20 YEARS	\$483,667	\$596,017	\$29,801	\$650,200	\$32,510	\$541,833	\$27,092
22		"Spigot Income"		"Spigot Income"	21 YEARS	\$473,162	\$669,706	\$33,485	\$558,088	\$27,904
23		Distributed		Distributed		"Spigot Income"	\$689,797	\$34,490	\$574,831	\$28,742
24						Distributed	23 YEARS	\$584,152	\$592,076	\$29,604
25								"Spigot Income"	24 YEARS	\$516,397
26								Distributed		"Spigot Income"
27										Distributed
TO AUNT BESSIE'S FOUNDATION										
	\$578,657		\$631,262		\$596,017		\$689,797		\$592,076	
Totals	\$1,804,996		\$2,436,258		\$3,032,275		\$3,722,072		\$4,314,148	

\$3,000,000 of Stock Transferred to Twelve Buckets
 *Assumption of 8% Total Return, 5% Spigot
 Income Distribution Not Guaranteed

Chart 6. (Continued from previous page...)
PLAN "A" 12 "Charitable Buckets™" on Their Way to Aunt Bessie's Foundation Funded with \$3,000,000 PG Stock

PG Stock at \$61.44				
Trust	"Bucket" #11		"Bucket" #12	
	A NIECE		A NIECE	
Year	Principal*	Income*	Principal*	Income*
1	\$300,000	\$15,000	\$210,000	\$10,500
2	\$309,000	\$15,450	\$216,300	\$10,815
3	\$318,270	\$15,914	\$222,789	\$11,139
4	\$327,818	\$16,391	\$229,473	\$11,474
5	\$337,653	\$16,883	\$236,357	\$11,818
6	\$347,782	\$17,389	\$243,448	\$12,172
7	\$358,216	\$17,911	\$250,751	\$12,538
8	\$368,962	\$18,448	\$258,274	\$12,914
9	\$380,031	\$19,002	\$266,022	\$13,301
10	\$391,432	\$19,572	\$274,002	\$13,700
11	\$403,175	\$20,159	\$282,222	\$14,111
12	\$415,270	\$20,764	\$290,689	\$14,534
13	\$427,728	\$21,386	\$299,410	\$14,970
14	\$440,560	\$22,028	\$308,392	\$15,420
15	\$453,777	\$22,689	\$317,644	\$15,882
16	\$467,390	\$23,370	\$327,173	\$16,359
17	\$481,412	\$24,071	\$336,988	\$16,849
18	\$495,854	\$24,793	\$347,098	\$17,355
19	\$510,730	\$25,536	\$357,511	\$17,876
20	\$526,052	\$26,303	\$368,236	\$18,412
21	\$541,833	\$27,092	\$379,283	\$18,964
22	\$558,088	\$27,904	\$390,662	\$19,533
23	\$574,831	\$28,742	\$402,382	\$20,119
24	\$592,076	\$29,604	\$414,453	\$20,723
25	\$609,838	\$30,492	\$426,887	\$21,344
26	\$628,133	\$31,407	\$439,693	\$21,985
27	\$646,977	\$32,349	\$452,884	\$22,644
28	27 YEARS	\$580,195	\$466,471	\$23,324
		"Spigot Income"	28 YEARS	\$450,775
		Distributed		"Spigot Income"
				Distributed
				Spigot Inc
				\$4,286,924
Totals	\$4,961,126		\$5,427,596	Distributed

\$3,000,000 of Stock Transferred To
 12 Buckets
 *Assumption of 8% Total Return, 5% Spigot Income Distribution Not Guaranteed

And then we got to a new creation of mine entitled TWELVE "Charitable Buckets™" On Their Way To Aunt Bessie's Foundation. See Chart 6.

And then, all of a sudden, the lights turned on and a gleam came into her eyes as she comprehended what we were asking her to consider doing.

She Got It!

"Give a Spigot to Your Nieces and Nephews," giving them an income stream that they can never outlive coming from a base they can never destroy, and when they do not need that income anymore, the "Charitable Bucket™" turns upside down and the "remainder" goes to her foundation.

Some "Buckets" will probably last only seven years, and some may last as long as 28 years (based upon actuarial life expectancies of each niece and nephew). Chart 6 uses as assumption of five-percent "Spigots" and a total return of eight percent to show that if that happened, the "Buckets" would have distributed "spigot income" of \$4,286,924, and her foundation would end up with \$5,427,596 over those 28 years. The layout of the charts allows me to go into the charts and change one assumption, like changing the total return from eight percent to six percent or eight percent to 10 percent, and all the charts and graphs which are linked together through replicate formulas change instantly. So we can play the "what if" scenarios to demonstrate different levels of funding, different "spigot sizes," and different impact of various total returns.

When I laid out Charts 6A, 6B and 6C side by side ... SHE GOT IT.

The rest of it was academic.

Chart 7 illustrated the "Open Spigot" (from what the attorneys call a SCRUT/standard charitable remainder unitrust) in comparison to a NIMCRUT/net income with a makeup provision charitable remainder unitrust ... what would happen if Aunt Bessie opened the Spigots on her 12 "Charitable Buckets™" at two percent (to equalize the dividend income that she has historically been receiving on her P&G stock) for as long as she lived (actuarially seven years), and then the nieces and nephews opened their Spigot to five-percent levels thereafter? Each niece and nephew would be in charge of their

Bucket as each one was named successor trustee and successor income beneficiary respectively.

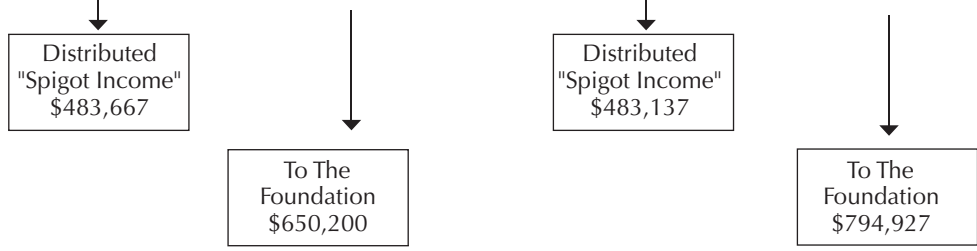
Chart 8 was a comparison showing the impact of various levels of funding, and Chart 9 is the addendum that showed the ages and life expectancies of the twelve nieces

and nephews, which matched the percentage distributions that was already in her will and irrevocable trust.

And a few weeks later, we created and funded 12 “Charitable Buckets™” in one four-and-a-half-hour closing conference. The attorney, who at first was very

Chart 7. A Comparison of “Open Spigots” vs. “Open at 2% (Dividend Equivalent) to Aunt Bessie and Then Open at 5% Thereafter” for Aunt Bessie’s “Charitable Bucket™” for Nephew # 8

PG Stock At \$61.44												
Illustrating a “Spigot Size” of 5%							And a Total Return of 8% Not Guaranteed					
		THE “OPEN SPIGOT”					Vs.	THE “OPEN SPIGOT AT 2%” WHILE BESSIE’S ALIVE, THEN 5% THEREAFTER				
Year	Bessie Age	Neph Age	The “BUCKET” At Beg. of Year	“Open” Spigot 5%	Total Return* 8%	The “BUCKET” At End of Year		The “BUCKET” At Beg. of Year	Open 2% 5%	Total Return* 8%	The “BUCKET” At End of Year	Total Deferred “Spigot Income”
1	86	65	\$360,000	\$18,000	\$28,800	\$370,800		\$360,000	\$7,200	\$28,800	\$381,600	\$10,800
2	87	66	\$370,800	\$18,540	\$29,664	\$381,924		\$381,600	\$7,632	\$30,528	\$404,496	\$11,448
3	88	67	\$381,924	\$19,096	\$30,554	\$393,382		\$404,496	\$8,090	\$32,360	\$428,766	\$12,135
4	89	68	\$393,382	\$19,669	\$31,471	\$405,183		\$428,766	\$8,575	\$34,301	\$454,492	\$12,863
5	90	69	\$405,183	\$20,259	\$32,415	\$417,339		\$454,492	\$9,090	\$36,359	\$481,761	\$13,635
6	91	70	\$417,339	\$20,867	\$33,387	\$429,859		\$481,761	\$9,635	\$38,541	\$510,667	\$14,453
7	92	71	\$429,859	\$21,493	\$34,389	\$442,755		\$510,667	\$10,213	\$40,853	\$541,307	\$15,320
8		72	\$442,755	\$22,138	\$35,420	\$456,037		\$541,307	\$27,065	\$43,305	\$557,546	\$15,320
9		73	\$456,037	\$22,802	\$36,483	\$469,718		\$557,546	\$27,877	\$44,604	\$574,272	\$15,320
10		74	\$469,718	\$23,486	\$37,577	\$483,810		\$574,272	\$28,714	\$45,942	\$591,501	\$15,320
11		75	\$483,810	\$24,190	\$38,705	\$498,324		\$591,501	\$29,575	\$47,320	\$609,246	\$15,320
12		76	\$498,324	\$24,916	\$39,866	\$513,274		\$609,246	\$30,462	\$48,740	\$627,523	\$15,320
13		77	\$513,274	\$25,664	\$41,062	\$528,672		\$627,523	\$31,376	\$50,202	\$646,349	\$15,320
14		78	\$528,672	\$26,434	\$42,294	\$544,532		\$646,349	\$32,317	\$51,708	\$665,739	\$15,320
15		79	\$544,532	\$27,227	\$43,563	\$560,868		\$665,739	\$33,287	\$53,259	\$685,711	\$15,320
16		80	\$560,868	\$28,043	\$44,869	\$577,694		\$685,711	\$34,286	\$54,857	\$706,283	\$15,320
17		81	\$577,694	\$28,885	\$46,216	\$595,025		\$706,283	\$35,314	\$56,503	\$727,471	\$15,320
18		82	\$595,025	\$29,751	\$47,602	\$612,876		\$727,471	\$36,374	\$58,198	\$749,295	\$15,320
19		83	\$612,876	\$30,644	\$49,030	\$631,262		\$749,295	\$37,465	\$59,944	\$771,774	\$15,320
20		84	\$631,262	\$31,563	\$50,501	\$650,200		\$771,774	\$38,589	\$61,742	\$794,927	\$15,320



ASSUMPTIONS: Not Guaranteed*	
Transfer Of PG Stock	\$3,000,000
“Spigot” Size	5%
“Bucket” Total Return	8%

skeptical, came around and worked with us. It was certainly some kind of a record for me as the “Charitable Bucket Guy” who has been doing this for over 40 years, but it was also a wonderful illustration of what 86-year-old Aunt Bessie, and others like her can do with a little support from her nephew and trustee, the

persistence of my associate who recognized a situation that needed charitable tax planning, and my creativity in some innovative charts and graphs.

Not only did Aunt Bessie Get It, She Did It ...

SHE GAVE “SPIGOTS” TO HER 12 NIECES AND NEPHEWS.

Chart 8. The Bottom Line Results of Various Funding Levels for Aunt Bessie’s 12 “Charitable Buckets™” with 12 Successor “Spigot Incomes”

PG Stock At \$61.44	VOLUNTARY TRANSFER TO BUCKETS	Outright To 12 Heirs	In Buckets Working For 12 Heirs	Total Capital Working For 12 Heirs	INVOLUNTARY GIFT TO THE IRS*
If Aunt Bessie Transferred	\$3,000,000 (See TAB 2)	\$1,833,909	\$3,000,000	\$4,833,909	\$826,227
If Aunt Bessie Transferred	\$2,344,000 (See TAB 3)	\$2,344,149 50% Outright	\$2,344,000 50% In Trust	\$4,688,149	\$971,987
If Aunt Bessie Transferred	\$2,000,000 (See TAB 4)	\$2,611,714	\$2,000,000	\$4,611,714	\$1,048,423
If Aunt Bessie Transferred	\$1,000,000 (See TAB 5)	\$3,389,519	\$1,000,000	\$4,389,519	\$1,270,618
If Aunt Bessie Transferred	\$- (See TAB 1)	\$4,224,581	\$-	\$4,224,581	\$1,492,813

*This is the estimated Federal Estate Taxes only, and does not include Ohio death taxes which is addition to this figure

Figure 9. The 12 Surviving Heirs (Nieces and Nephews) of Aunt Bessie

		% Distribution	Date of Birth	Actual Age*	Life Expectancy
	Aunt Bessie		10/7/19	86	7
1	“Charitable Bucket™” For Niece #1	5%	6/11/20	86	7
2	“Charitable Bucket™” For Nephew #2	2%	8/27/23	83	10
3	“Charitable Bucket™” For Niece #3	6%	9/29/31	74	14
4	“Charitable Bucket™” For Niece #4	7%	9/6/36	69	18
5	“Charitable Bucket™” For Niece #5	7%	7/12/39	67	19
6	“Charitable Bucket™” For Nephew #6	11%	10/31/39	66	20
7	“Charitable Bucket™” For Nephew #7	12%	3/15/41	65	20
8	“Charitable Bucket™” For Nephew #8	11%	4/28/42	64	21
9	“Charitable Bucket™” For Niece #9	12%	1/1/44	62	23
10	“Charitable Bucket™” For Nephew #10	10%	5/16/45	61	24
11	“Charitable Bucket™” For Niece #11	10%	7/7/49	57	27
12	“Charitable Bucket™” For Niece #12	7%	10/16/49	56	28
	*As Of September 6, 2006	100%			

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