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Estate Planning With Disregarded Entities*

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ESTATE PLANNING WITH DISREGARDED ENTITIES*

By
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I. INTRODUCTION

Despite a myriad of variations, sophisticated wealth shifting generally encompasses the interaction and blending of several important components – trusts, leverage strategies and the use of entities to obtain valuation discounts.

A. Entities

Typically, the preferred entities for leveraged wealth shifting are FLPs, LLCs and S Corporations.

B. Valuation Reduction Strategies

1. A critical element of moving wealth outside of the transfer tax system is the ability to obtain valuation discounts – i.e., ". . . . passing on more value than meets the taxable eye in the transfer." George Cooper, *A Voluntary Tax? New Perspectives on Sophisticated Estate Tax Avoidance*, 77 Col. L. Rev. 161, 171 (March 1977).
2. In certain cases, discounting is unimportant because of the so-called "Tax Burn". In others, such as real estate, discounting remains meaningful.

C. Trusts

1. Dynastic
2. Income tax defective as to grantor (IRC §§ 671-677) or to beneficiary (IRC § 678)
3. Split-interest trusts, principally GRATs.

D. IDGTs, BDITs and GRATs

Two of the principal and most popular wealth shifting techniques to disgorge existing wealth are:

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1. Installment note sales to Income Tax Defective Grantor Trusts (“IDGTs”) or Beneficiary Defective Inheritor’s Trusts (“BDITs”) - Non-controlling interests in entities are sold to an income tax defective trust in exchange for an installment note, generally interest only with a balloon payment; and
2. Grantor Retained Annuity Trusts (“GRATs”) – Assets are transferred to a trust in exchange for an annuity substantially equal in value to the transferred property.

E. Leverage

Under both techniques, it is desirable for the estate owner to:

1. Transfer discountable income-producing assets to the trust; and
2. Receive payment back in assets, such as cash, which are not discountable.

Because the intention is to pay the note or annuity out of cash flow, low cash. Flowing assets often present a challenge to the planner.

F. The “Estate Planner’s Dream Scenario” components – “Freeze, “Squeeze” and “Burn”.

1. “Freeze” – Installment sales and GRATs are estate freezing techniques designed to freeze the estate at the current level and pass on post-transfer appreciation tax free.
   a. See I.D. above
   b. More accurately they would be described as “leaky” freezes since the interest paid or attributable is “leaked” back to the transferor.

2. “Squeeze” – Valuation Discounts
   a. Discounting in most instances is the least powerful of the three components.
   b. Discounting is also most susceptible to IRS audit.

3. “Burn” – The “Tax Burn” is estate depletion resulting from income tax grantor trust status.
   a. By paying tax on the trust income the grantor is reducing his/her estate for both transfer tax and creditor exposure purposes.
   b. Over time, for most transfers, the tax burn will generally be more powerful than both the freeze and squeeze components combined.
   c. Indeed, too much economic success in a grantor trust can result in economic hardship to the transferor. See the Jerry Hesch and David Handler, “*Evaluating the Sometimes Surprising Impact of*

Grantor Trusts on Competing Strategies to Transfer Wealth", 68th NYU Institute on Federal Taxation, 2009.

II. ENHANCING WEALTH SHIFTING BY ADDING THE "DISREGARDED ENTITY" COMPONENT

A. In addition to the three components listed above:

1. Use of entities;
2. Valuation discounting; and
3. Trusts, particularly defective, dynastic trusts

We would like to use (where factually appropriate), entities which are "disregarded" for income tax purposes.

B. The use of disregarded entities is particularly beneficial for one or more of the following fact patterns:

1. The asset being transferred has low cash flow or cash flow insufficient to pay
   - (a) The GRAT annuity; or
   - (b) The installment obligation

   out of cash flow. The goal is to avoid "in-kind" payments to the grantor that would be subject to valuation discounts.
2. The client would like to magnify the wealth shift.
3. The entity has low basis assets that we would like to use in the wealth shifting process, but which we would like to receive back so that they will receive a step-up in basis at death.

III. ESTATE PLANNING WITH DISREGARDED ENTITIES COMBINES:

A. Income tax defective trusts;

1. IDGTs
2. BDITs
3. GRATs

B. A disregarded entity; and

C. Leverage:

1. Transferring discounted assets to a trust; and
2. Receiving back assets which are not subject to a valuation discount.

IV. WHAT IS A "DISREGARDED ENTITY" FOR INCOME TAX PURPOSES

A. A single owner entity that has not elected to be classified as an association (corporation). IRC §7701; Treas. Reg §§301.7701-1(a); and 301.7701-2(c)(2).

1. The existence of the entity is ignored.
2. It is a "tax nothing".

B. Reg. Section 301.7701-3(a) provides rules for the classification of certain business entities for federal tax purposes. A business entity that is not classified as a corporation is a "domestic eligible entity" and, in the absence of an election, the domestic eligible entity is "[d]isregarded as an entity separate from its owner if it has a single owner." Reg. Section 301.7701-3(b)(1)(ii) Under Reg. Sections 301.7701-1(a) and 301.7701-2(c)(2), an entity with a single member is disregarded as an entity separate from its owner "for federal tax purposes."

C. The "disregarded entity" concept is similar to the "defective trust" concept. The existence of the entity is recognized for transfer tax and creditor purposes, but not recognized for income tax purposes. These characteristics are common to both income tax defective trusts and disregarded entities.

1. For income tax purposes the entity does not exist.
2. The entity existence is respected for:
    a. Transfer tax purposes
        i. Estate, gift and GSTT;
        ii. Therefore, discounts are obtainable.
    b. Creditor protection purposes
        i. State property law controls.
        ii. Therefore, benefits such as creditor protection, exist.
3. The Service ruled in Rev. Rul. 2004-88 that although a disregarded is entity not recognized for federal income tax purposes, the entity exists under state law and state law controls the owner's rights and economic interests.

D. Under Revenue Procedure 2002-69, an entity wholly owned by a husband and wife as community property will be treated as a disregarded entity if the spouses treat is as a disregarded entity for federal tax purposes.

1. If the spouses treat the entity as a partnership for federal tax purposes and

file the appropriate partnership returns, the IRS will accept the position that the entity is a partnership for federal tax purposes.

2. However, the Rev. Proc. requires the entity to be wholly owned by the spouses as community property under the laws of a state <u>and</u> be treated as owned only by the spouses for federal tax purposes (separate requirements).

3. Therefore, if the entity is partly owned by an irrevocable, grantor trust (even if a grantor trust to both spouses), that part of the entity is not owned by the spouses (as community property or otherwise) under the laws of a state, and therefore the entity cannot be taxed as a disregarded entity.

E. An entity with more than one legal owner, such as a partnership or LLC, can be a disregarded entity for income tax purposes. Rev. Rul. 2004-77 provides that an eligible entity with two owners under local law can be treated as a disregarded entity.

1. In Rev. Rul. 2004-77, a partnership was owned by a corporation and an LLC wholly-owned by the corporation. Although they were partners under local law, because one of these partners, the LLC, was a disregarded entity as to the other partner, the corporation was treated as owning the entire partnership for income tax purposes.
2. Other Examples
    a. Individual and a defective trust in a partnership
    b. FLP which owns 100% of an LLC; and
    c. FLP with LLC general partner (if 100% of the LLC is owned by an individual and the remaining partnership interests are owned by the same individual).

F. The "check-the-box" regulations classification that the entity is disregarded will not prohibit the use of the "willing buyer/willing seller" valuation rules and the applicable Regs. for transfer tax purposes in a hypothetical transaction. <u>*Pierre v. Comm'r*</u>., 133 T.C. No. 2 (Aug 24, 2009).

1. The proper rule is that state law controls in the determination of what has been transferred in the valuation process. This rule has been wrongfully ignored in some recent cases in which the IRS and courts have applied a "step transaction doctrine."
2. Logical rationale: The value of an asset for Federal gift and estate tax purposes is its fair market value. "The fair market value is the price at which the property would change hands between a willing buyer and a

willing seller, neither being under any compulsion to buy or sell, and both having reasonable knowledge of relevant facts." Reg. Sections 20.2031-1(b) and 25.2512-1: Rev. Rul. 59-60, 1959 1 C.B. 237. Even if an LLC is disregarded as an entity separate from its owner, the restrictions placed upon the underlying property by virtue of the LLC agreement cannot be ignored because a willing buyer would purchase the property subject to those restrictions. Disregarding the LLC as an entity does not cause one to disregard the legal rights and obligations of its owners for purposes of determining fair market value. Whether those rights and restrictions are disregarded for gift and estate tax purposes is the subject of Section 2703. Moreover, if an LLC or partnership owned by a grantor and grantor trust was not recognized and treated as a partnership for gift tax purposes, Code Section 2701 could be easily circumvented. A partnership could have preferred and common interests that do not comply with Code Section 2701, but if the partnership were not recognized as such for gift purposes, Section 2701 would not be violated.

3. **In Revenue Ruling 2004-88** (I.R.B. 20014-32 (Aug. 9, 2004)), the Service recognized that despite non-recognition of a disregarded entity for federal income tax purposes, the entity nonetheless exists for state law purposes and therefore has meaningful legal impact on the owners' rights and economic interests. In that ruling, the Service stated, "Although the regulations under Sections 301.7701-1 through 301.7701-3 provide that a disregarded entity is disregarded for all federal tax purposes, these regulations do not alter state law, which determines a partner's status as a general partner…Although LLC is a disregarded entity for federal tax purposes, LLC remains a partner in P and is the sole general partner authorized to bind the partnership under state law."
4. In **Estate of Mirowski v. Comm'r** (95 T.C. Memo 2008-74 (Mar. 26, 2008), Mrs. Mirowski was the sole owner of an LLC when she transferred LLC units to trusts for her children. The Tax Court recognized the limitations imposed on the donee's rights by the LLC agreement and state law when it held that valuation discounts applied to the interests transferred for estate (and gift) tax purposes.
5. In **Pierre v. Comm'r** (133 T.C. No. 2 (Aug. 24, 2009), the Tax Court specifically ruled on whether a single member LLC would be disregarded for federal gift tax purposes. Suzanne Pierre, the sole owner of an LLC, transferred her entire interest in the LLC to two trusts for the benefit her children. She transferred 9.5 percent to each trust as a gift, and sold 40.5 percent to each trust as a sale for a note, all at the same time. Valuation discounts were applied for lack of marketability and control when valuing the interests for federal gift tax purposes.

   The Service argued that, because the LLC was a disregarded entity, the transfers should be treated as transfers of the underlying assets, thereby negating any valuation discounts. The Tax Court disagreed, holding that LLC interests were transferred for gift tax purposes. First, the court noted, "As we said in *Knight v. Commissioner*, supra at 513 (citing *United States* *v. Nat. Bank of Commerce*, supra at 722, *United States v. Rodgers*, 461 U.S. 677,683 (1983), and *Aquilino v. United States*, 363 U.S. 509,513 (1960)): 'State law determines the nature of property rights, and Federal law determines the appropriate tax treatment of those rights.'"

The Tax Court held that the check-the-box regulations do not change this result. The court emphasized that the regulations classify entities for tax purposes, but they do not apply to disregard an LLC in determining how a donor must be taxed under the Federal gift tax provisions on a transfer of an ownership interest in the LLC. "If the Check-the-box regulations are interpreted and applied as respondent, they go far beyond classifying the LLC for tax purposes… To conclude that because an entity elected the classification rules set forth in the check-the-box regulations, the long, established Federal gift tax valuation regime is overturned as to single-member LLCs would be 'manifestly incompatible' with the Federal estate and gift tax statutes as interpreted by the Supreme Court."

Ultimately, the Tax Court held that because the LLC was recognized under New York law as an entity separate and apart from its members, there was no state law "legal interest or right" in the LLC assets, and Federal law could not create a property right in those assets. Consequently, the gift tax liability was determined by the value of the transferred LLC interests and not by a hypothetical transfer of the underlying assets.

In a second Tax Court opinion for *Pierre* (TC Memo. 2010-106, 99 TCM 1436, May 13, 2010.), the court determined whether Suzanne Pierre transferred a 50% interest to each trust, or whether the portions comprising the gift (9.5%) and sale (40.5%) should be valued separately. Because the gift and sale took place on the same date, the court treated them as part of a single part-gift/part-sale. As a result, the lack of control discount was reduced because a 50% interest could block the appointment of a new manager.

6. "While we accept that the check-the-box regulations govern how a <u>single-member LLC</u> will be taxed for Federal tax purposes, i.e., as an association taxed as a corporation or as a disregarded entity, we do not agree that the check-the-box regulations apply to disregard the LLC in determining how a <u>donor</u> must be taxed under the Federal gift tax provisions on a transfer of an ownership interest in the LLC. … To conclude that because an entity elected the <u>classification</u> rules set forth in the check-the-box regulations, the long established Federal gift tax valuation regime is overturned as to single-member LLCs would be 'manifestly incompatible' with the Federal estate and gift tax statutes as interpreted by the Supreme Court." <u>*Pierre v. Comm'r.*</u> (Emphasis supplied)

7. In **Estate of Anne Y. Petter v. Commissioner** (TC Memo, 2009-280, 98 TCM 534, December 7, 2009, aff'd U.S. Court of Appeals, Ninth Circuit; DKT. No. 10-71854, August 4, 2011.), Anne Petter formed a single member LLC and made gifts of LLC interests to grantor trusts for her

daughters. The case focused on valuation issues and a formula clause allocating the LLC interests between the trusts and charities. The fact that the LLC was a disregarded entity was mentioned in a footnote, but had no bearing on the gift tax valuation.

V. GRATs WITH DISREGARDED ENTITIES

A. The ideal GRAT structure occurs when the grantor transfers discountable, income-producing assets into the trust in exchange for an annuity which is paid from the cash flow generated by the gifted property (a closely held business generally fits that profile).

B. The annuity must be paid at least annually (Treas. Regs. § 25.2702-3).

C. If cash is unavailable, the payment would ordinarily be paid "in-kind" with a portion of the transferred asset.

1. In such instance, the valuation discount must be applied to the in-kind payment, sharply reducing the effectiveness of the wealth shift.
2. A new, and often expensive, appraisal must be obtained.
3. Although GRATs are generally considered "safe" transactions from a valuation standpoint, that safety exists for the initial funding and not for the payment of the annuity. See Craig L. Janes, "Grantor Retained Annuity Trust: Avoiding the Petards in an Otherwise Safe Harbor," Estate Planning May, 2006 for an outstanding article discussing some of the risks associated with the operation of GRATs, including the payment of the annuity.

D. Use a graduated GRAT, increasing the annuity by 20% per annum.

E. If the cash flow is moderate relative to the value of the property, which often occurs with real estate (for example), one option is to expand the annuity term in the GRAT in order to pay the annuity in cash.

1. Extending the term often results in a significant reduction in the annuity payments in the early years.
2. That reduction, particularly because it is applied to the discounted gift, is often sufficient to handle the annuity payments in the early years.
3. That option, however, extends the risk of estate tax inclusion on account of the failure of the grantor to survive the term, which might:
    a. be a tolerable risk, or
    b. be hedged by acquiring life insurance.
4. In many instances, even an extended term will not enable the

annuity to be paid solely with cash flow for the entire term. The problem becomes more acute as time passes, since the annuity will continue to rise.

5. Often a time will come when the annuity can not be paid with existing and accumulated cash flow.

F. Consider, as an illustration, a fact pattern that we encountered in our office several years ago where the client has several parcels of real estate with a 5% cash flow and a projected 5% annual appreciation. Assume each parcel is worth $10 million. To simplify the mathematics, assume further our appraiser felt that a 40% valuation discount was appropriate and that the client has 3 children. At the time we did the transaction, the AFR was 5%. See Exhibit A for the structure.

1. The client could create a single member LLC (our client created separate LLCs for each parcel because of the desire to limit liability) that would be taxed as a "disregarded entity" for income tax purposes, but the entity wrapper would be recognized for gift tax purposes.
2. The client would transfer non-controlling interests in the LLC to the GRATs.
    a. In our situation, the client transferred 1/3 of each LLC to each GRAT.
    b. The client can retain the 1% controlling interest if desired.
3. The GRAT should be designed as a graduated GRAT with annuity payments increasing by 20% per annum as authorized by Treas. Reg. § 25.2702-3(b)(1)(ii)(A).
    a. An increasing annuity will make it easier for the annuity payments to be paid with cash flow in the earlier years.
    b. See Exhibit B which illustrates that with a level GRAT the cash flow is unable to fully fund the annuity, and Exhibit C which shows that with a graduated GRAT the annuities can be funded during the initial few years.
4. In the later years, when cash flow is insufficient to pay the annuity, the grantor can purchase assets from the disregarded entity (e.g., 100% of a parcel of realty) so that the disregarded entity has cash to distribute to the GRATs to fund the annuity.
    a. If the grantor purchased interests in the entity from the separate GRATs, the purchase price would be subject to a valuation discount.
    b. By aquiring an asset from the entity itself, there would not be a discount since the entire asset (the real estate itself, such as an office building, or shopping center) would be purchased.
    c. This enables us to achieve the preferred goal of discountable assets gifted to the GRAT and cash back in payment of the annuity.

d. Because the entity is a “disregarded entity” and the GRATs are “grantor” trusts, the sale is income tax-free.
e. In our case (the client with several parcels of real estate with a 5% cash flow), we placed one-third interests in three entities into three 10-year GRATs. If the economic projections are accurate, we will be able to acquire (without discount) one property from an LLC and the cash flow problem will be solved.

5. Because the real estate in our example was low and negative basis real estate, the client will be acquiring all of the real estate from the entities.
   a. The purchase price can be paid with high basis assets, cash, notes or a combination.
   b. By receiving the low and/or negative basis real estate, it will be includable in the transferor’s gross estate at death which will entitle it to a step-up in basis. IRC § 1014(b).
   c. The transferor’s estate will not increase as a result of the transaction because the transferor will purchase the real estate for fair market value (not discountable).
   d. The note should not need to be at the then current AFR, but may be at actual market value.
   e. The transaction will be income tax free. IRC § 7701; Rev. Rul. 85-13

G. Can a client do a GRAT/disregarded entity strategy with an investment partnership (or LLC) consisting of all or a substantial portion of publicly traded securities?

1. Yes, provided that the advisor properly designs and implements the entity and the client follows proper procedures. See also, Stacy Eastland, *Defending the Family Limited Partnership – Estate of Elaine Smith White v. Comm. In the Tax Court*, CCH Financial and Estate Planning, ¶ 31,961. See also *Pierre v. Comm’r*, 133 T.C. No. 2 (August 24, 2009).
2. There appears to be specific authorization in IRC § 761(a) for a partnership for investment purposes.

H. The conventional planning with publicly traded stocks is to use single asset, two-year rolling GRATs.

1. The virtue of this conventional planning is illustrated in Exhibit D.
2. However, conventional rolling GRATs do not:
   a. Allow for funding with discountable assets;
   b. Lock in present low interest rates;
   c. Enable the grantor to fully exploit the very low early payment feature of a graduated GRAT;

d. Take advantage of the disregarded entity concept;
e. Lock in the strategy, protecting against a possible change in the law.
f. Permit planning with hard to value assets, such as real estate or a closely held business.

3. In many instances, a longer-term, graduated GRAT funded with non-controlling interests in a disregarded entity may be significantly superior to the conventional short-term rolling GRAT approach.

VI. IDGTs / BDITs WITH DISREGARDED ENTITIES

A. Similar to a GRAT, an ideal IDGT (or BDIT) structure involves a grantor transferring discountable, income-producing assets into the IDGT(s), BDITs or a combination in return for a note, payable for a period of time with interest only and a balloon payment of principal at the end of the term.

1. The preferred plan is to pay the interest and balloon payment with cash or other assets that are not subject to a valuation discount.
2. The preferred plan is difficult to achieve with assets that produce little or no cash flow.

B. Assume that the client (who has three children) owns some real estate, in a single member LLC with a 1.5% cash flow and a projected 5% appreciation. The real estate is worth $10 million and our appraiser felt that a 40% valuation discount was appropriate.

1. The client could contribute by gift $300,000 of cash or cash equivalents to IDGTs for each of the client's three children and their descendants.
2. The client would then sell 1/3 of the LLC to each IDGT for a note paying interest only, plus a balloon payment of principal.
3. Each trust would have its $300,000 seed money plus $50,000 of current cash flow to pay the interest.
   a. **The** current cash flow in the entity is 1.5% of $10 million or $150,000.
   b. Thus, each trust will have available cash flow of $50,000, if distributed, in addition to its available seed money.
   c. If the interest on the note is 2.5% per annum, annual interest payments of $50,000 per trust are payable to the client (2.5% x $2 million).

Planning Note – The installment interest is applied against the FMV of each interest transferred, (the discounted interest), while the cash flow is based on the proportionate ownership of the entity and is not discounted. In effect, the discount reduces the "hurdle" amount.

d. There is projected cash flow shortage.
e. The initial seed money and available annual cash flow can be used to pay the note.
f. The seed money can be used to fund the cash flow short-fall.

C. Because there possibly will be other needs for the cash flow, such as building or repairs, we will be faced with the dilemma of insufficient cash or cash equivalents to pay the note payments.

D. One option is to make the payment "in-kind."

1. The payment in-kind would be income tax-free. See Rev. Rul. 85-13.
2. Appropriate discounts would have to be taken for assets paid in-kind, which would leak wealth from the trust and adversely affect the wealth transfer.

E. At such time as the available cash in the IDGT is insufficient to pay its debt obligations (interest or principal) the client can purchase the underlying asset from the entity (the LLC).

1. By acquiring the asset from the LLC, the client would be acquiring the entire interest in the asset.
2. The acquisition of 100% interest in the asset from the LLC would avoid the discount, applicable to an in-kind payment; in effect, leaving the discount plus the post-transfer appreciation in IDGT.
3. Thus, both the post-transfer appreciation and the discount is shifted to the IDGT.

F. The client would receive a step-up in basis on the property acquired. IRC § 1014.

G. There is no gain on the purchase of the asset from the LLC because:

1. The entity is "disregarded" and
2. Rev. Rul. 85-13 provides that the existence of the IDGTs are essentially ignored.

VII. BASIS CONSIDERATIONS

A. Wealthy clients often face a dilemma with low basis and negative basis assets, especially real estate.

B. Should they retain them until death and obtain a step-up in basis?

1. That would result in full estate tax inclusion.
2. Discounts are generally unavailable if they owned a 100% interest.
   a. Available discounts would adversely affect the basis step-up.
   b. Thus, there are competing factors.
   c. A moderate discount will increase the estate tax.
   d. A larger discount will result in a lower basis.
3. Inability to take advantage of the tax-inclusive nature of the gift tax.
4. Transfer tax savings using a dynastic trust, as well as creditor protection and other virtues of trusts can be forever.

C. Or should they forego the basis step-up and engage in wealth shifting which can forever eliminate the transfer tax exposure?

1. "In fact, we haven't got an estate tax, what we have is, you pay an estate tax if you want to; if you don't want to, you don't have to." Professor A. James Casner, Estate and Gift Taxes: Hearings before the House Ways and Means Committee 94th Congress, 2d. Sess., pt. 2, 1335 (March 15-23, 1976).
2. Voluntary taxes? "The perpetual generation-skipping trust may have been the ultimate estate-planning scheme for those who had the foresight to establish one."
   "… it appears possible to create…a perpetual trust, permanently eliminating future transfer taxes."
   "For an intervening generation now the beneficiary of a generation skipping trust, estate planning is no problem, because the trust is already the best possible built-in estate plan." George Cooper "A Voluntary Tax? New Perspectives on Sophisticated Estate Tax Avoidance," The Brookings Institution, Washington D.C. (1979), P 57, 58.

D. Primary considerations, negative features of FLP transfer, particularly low and negative basis real estate:

1. Lock-in effect – children, grandchildren, etc. are locked in to being co-owners forever.
   a. If a recipient dies owning the asset, there will be a basis step-up to its fair market value at date of death, subject to valuation adjustments.
   b. If the interest is owned by a partnership, the step-up is subject to a IRC § 754 election being made.

c. Passes the same income tax exposure from the client to the inheritors.
d. This will create sibling conflicts at some time.
e. Each family unit will want their own control, distribution patterns, investments, advisors.

2. Because the basis will not step-up at death, income will not be sheltered by new depreciation.

VIII. QUALIFIED PERSONAL RESIDENCE TRUSTS ("QPRTs") AND ALTERNATIVE SOLUTIONS

A. QPRTs are popular estate planning vehicles.

1. They are significantly over-used.
2. Transferring interests in a "disregarded entity" holding a residence to GRATs and/or IDGTs appears to be superior to QPRTs.

B. What is a QPRT?

1. The grantor transfers his residence (preferably an undivided interest in the residence to separate QPRTs so as to obtain valuation discounts) to a qualified trust.
2. The grantor retains two rights:
   a. The right to use and occupy the residence for a specified term, and
   b. A contingent reversionary interest if the grantor dies during the term.
3. Both retained interests, the term use and the contingent reversionary interest, are capable of valuation, and reduce the gift to the QPRT.
4. If the grantor survives the term, the residence will pass to the remainder beneficiary without a further gift.
5. If the grantor does not survive the term, the residence will be included in the grantor's estate.

C. Primary negative features of QPRTs which can be mitigated or eliminated using the QPRT alternatives:

1. Mortality risk;
2. Large gift;
3. Prohibition against reacquisition (See Treas. Reg. § 25.2702-5(c)(9)); and
   a. To live in after the term.
   b. To obtain step-up in basis at death.
4. Complex rigid regulatory requirements.

D. Alternatives – House GRAT and/or House IDGT using "Disregarded Entity."

Steps

1. Client places residence into a disregarded entity such as an LLC.
2. Client transfers non-controlling interests in the LLC to GRATs, IDGTs or a combination.
3. In order to continue to live in the residence, client must pay fair market rent to the entity. The rental will vary depending upon the location of, the size of and the current market for the residence.
4. Payments of rent to the LLC can be distributed pro rata to the members of the LLC and can fund:
    a. The annuity for a GRAT; and/or
    b. The interest payments for a note sale to an IDGT. The interest payments, plus the "seed" money will be available to pay interest on the note.
5. At such time as the available cash can not pay the annuity, or note, the client can acquire the residence from the entity for the then FMV of the residence.
    a. Such action would leave in the GRAT or IDGT both the appreciation of the residence and the discount applied at the initial transfer.
    b. The disregarded entity enables the client to "reacquire" the residence, an impermissible act in a QPRT
        1. To own and use the residence rent-free.
        2. To obtain a basis step-up at death.

E. Comparative Illustrations

1. Assume a 60-year old client owns a residence worth $2 million; a reasonable discount would be 30% (note that a non-controlling interest in an LLC, or similar entity, owning a residence would generally receive a larger discount than a fractional interest would receive); fair annual rental is 3%; anticipated growth is 2% and the AFR is 3.4%.**

2. Exhibit E is a QPRT
    a. Gift is $599,172.00.
    b. Client must survive the term of 15 years.
    c. No right to reacquire.
    d. ETIP rule precludes generation-skipping trust.

**These illustrations use an AFR which is currently higher than present rates. It is the AFR that was in effect at the time this outline was originally prepared. Because current rates are generally considered low, but are going up, we feel that the old rate is more reflective of the future than current rates.

3. Exhibit F is a House GRAT
    a. Gift is $5.01.
    b. Client must survive the term of 15 years.
    c. Right to reacquire.
    d. ETIP rule precludes generation-skipping trust.
    e. Discount locked in if client survives term.
4. Exhibit G is a House IDGT
    a. Gift of $160,000.00 is made, however, income tax-free growth is shifted from estate.
    b. No survivorship requirement.
    c. Right to reacquire.
    d. No ETIP concerns. IDGT may be generation-skipping trust.
    e. Discount is locked in immediately.

IX. QPRTs v. GRATs

A. Unified Credit Used

1. QPRTs can use substantial amounts of unified credit.
2. GRATs can be structured to use an insignificant amount of unified credit.
   ✓ GRATs win

B. Term-risk of Inclusion

1. In order to reduce the gift attributable to a QPRT, a longer term must be used, which increases the risk of the grantor dying during the term.
2. The term of a GRAT can be compressed, depending upon the anticipated cash flow and exit strategy if cash flow is insufficient to make future annuity payments.
   ✓ GRAT wins

C. Right to Reacquire Residence

1. The grantor of a QPRT is prohibited from reacquiring the residence contributed.
2. The grantor of a "House GRAT" funded with a disregarded LLC can reacquire the residence from the disregarded LLC.
   ✓ GRAT wins
3. The ability to re-acquire the residence in order to obtain a basis step-up at death is more meaningful as income tax rates escalate.

D. Regulatory Rules

1. QPRTs face stricter regulatory requirements.

2. GRATs are subject to less onerous requirements.
   ✓ GRATs win

E. Ability to Do Technique with Very Expensive Homes Without Paying Gift Tax

1. Problematic with QPRTs because the gift will be larger or the term will be longer.
2. Available with GRATs because the gift can be minimized by extending the term and the residence can be purchased from the disregarded entity prior to the expiration of the term.
   ✓ GRATs win

X. QPRTs v. IDGTs Sales

A. Sale v. Gift

1. QPRTs generally use a greater amount of unified credit.
2. Installment note sales to IDGTs use no unified credit in sale (sale for note equal to asset sold) except for seed money to fund IDGT.
   ✓ IDGT sales win

B. Survivorship Feature

1. The grantor of a QPRT must survive the term to avoid inclusion of the residence in the grantor's estate.
2. There is no survivorship requirement for IDGTs; the instant the sale is made to the IDGT, the discount and post-transfer appreciation is out of the grantor's estate.

C. Right to Reacquire Property

1. The grantor is prohibited from reacquiring the transferred residence from a QPRT.
2. The grantor of an IDGT may reacquire the residence contributed to the disregarded LLC for equivalent value.
   ✓ IDGT sales win
3. The ability to reacquire the residence in order to obtain a basis step-up at death is more meaningful as income tax rates escalate.
   ✓ IDGT sales win

D. Regulatory Rules

1. QPRTs face stricter regulatory requirements.
2. IDGTs do not have any regulatory requirements.
   ✓ IDGT sales win

E. Generation Skipping

1. QPRTs are prohibited from generation-skipping because of the ETIP rules.
2. IDGTs are generally structured as generation-skipping trusts and the ETIP rules do not apply to IDGTs.
   ✓ IDGT sales win

XI. THE "DOUBLE LLC" STRATEGY

A. Basic structure of installment sale to an IDGT

1. An installment sale to an IDGT in exchange for a promissory note is a very popular wealth transfer strategy that offers many significant benefits.
2. Generally, this technique is used to sell non-controlling interests in entities such as limited partnerships, LLCs and corporations (particularly S corporations) to defective dynastic trusts, taking advantage of valuation discounts.
3. The trust is set up as a grantor trust by intentionally violating one or more of the grantor trust rules (IDGT).
4. Typically, the note is structured as interest-only for a period of time with a balloon payment of principal at the end of the term and a right of prepayment without penalty.
5. The trust should be "seeded" with sufficient assets to sustain treatment as a sale rather than risking being recast as a transfer with a retained interest.

B. Undercapitalization risk

1. If the debt-to-equity ratio of the IDGT is too high, the IRS could attempt to recharacterize the sale to the IDGT as a gift (or part gift) with a retained income interest, exposing the transaction to IRC § 2036.
2. To avoid a "form over substance" or "sham" argument by the IRS, conservative practioners believe that the IDGT should be independently funded with some seed money.
3. It appears that 10% has been the rule of thumb that most practioners have used as the amount of "seed money" necessary to support the integrity of an installment note sale transaction. See, however, *McDermott v. Comm'r*, 13 T.C. 468 (1949), acq 1950-1 C.B. 3 where the debt/equity ratio was 19.6 to 1. (Equity was 5.6%).

4. The 10% rule of thumb is based upon an informal conversation Byrle Abbin had with the IRS. Byrle commented: "….Informally, IRS has indicated that the trust should have assets equal to 10 percent of the purchase price to provide adequate security for payment of the acquisition obligation." Byrle M. Abbin, *[S]he Loves Me, [S]he Loves Me Not – Responding to Succession Planning Needs Through a Three-Dimensional Analysis of Considerations to be Applied in Selecting from the Cafeteria of Techniques,* 31 U. of Miami Institute on Estate Planning, Ch. 13 (1997), p. 13-9; See also LTR 9535026, which was issued to Byrle as a result of that meeting.

C. The "Double LLC" Concept (See Exhibit H)*

1. The concept is designed to honor the 10% rule of thumb while expanding the amount that can be transferred.
2. Byrle Abbin has told me that he understood that the 10% rule of thumb means really a 9:1 debt to equity ratio and not 10:1.
3. Assume that the trust has $1 million of assets; LLC1 holds $15 million of assets and LLC2 holds $50 million of assets.
   a. Assume a 40% valuation discount on the value of the LLC units.
   b. The IDGT could purchase a 99% interest in LLC1 (assuming that the interest was a non-controlling interest or, alternatively, was sold by H and W equally) for just under $9 million without exceeding the 10% rule. The trust pays $1 million as a down payment and issues a promissory note for the remaining $8 million.
   c. LLC1 subsequently purchases a 99% interest in LLC2 for about $33.3 million.
   d. Because LLC1 has $15 million of assets and no debt, it also is within the 10% rule of thumb and could purchase up to $135 million of property for a note.
4. Because LLC1 is owned entirely by the grantor and a grantor trust (the IDGT) there is only one owner of LLC1 (the grantor) for income tax purposes.
   a. Accordingly, LLC1 should be disregarded as an entity separate from the grantor for income tax purposes and no taxable event occurs upon LLC1's purchase of LLC2 units from the grantor.
   b. This is supported by Rev. Rul. 2004-77, in which a partnership was owned by a corporation and an LLC wholly-owned by the corporation. Although there were two partners under local law, because one of those partners (the LLC) was a disregarded entity as to the other partner, the corporation was treated as holding all of the LLC's interests in the partnership.
   c. As a result, the partnership had only one owner for federal tax purposes and the partnership was disregarded as an entity for federal tax purposes.

5. However, for gift tax or sales purposes, the asset is valued by the value of what the donee (or purchaser) receives.
6. In Rev. Rul. 2004-88, the Service recognized that despite non-recognition of an entity for federal income tax purposes, the entity nonetheless exists for state law purposes and therefore has a meaningful legal impact on the owners' rights and economic interests. In that ruling, the Service stated, "Although the the regulations under sections 301.7701-1 through 301.7701-3 provide that a disregarded entity is disregarded for all federal tax purposes, these regulations do not alter state law, which determines a partner's status as a general partner …. Although LLC is a disregarded entity for federal tax purposes, LLC remains a partner in P and is the sole general partner authorized to bind the partnership under state law."
7. Thus, LLC1 should be treated as having two owners (the grantor and the trust) for gift tax purposes and should not be disregarded as an entity under IRC § 7701 for gift tax purposes.
    a. Therefore, the sale of LLC2 units to LLC1 should not be treated as a sale of LLC2 units to the grantor trust for gift tax purposes and the trust should not be treated as exceeding the 10% rule of thumb.
    b. The sale of LLC2 units to LLC1 should be treated as such, and LLC1's debt to equity ratio considered as one of several factors in determining whether the note issued by LLC1 is debt or equity.
8. For the same reasons, if the grantor dies owning units in an LLC that is wholly owned by the grantor and a grantor trust, the LLC will have two owners for estate tax purposes.
    a. As a result, valuation discounts may apply in determining the estate tax value of the grantor's LLC units.
    b. Moreover, the LLC would not be disregarded for purposes of the basis adjustment under Section 1014 even though basis is an income tax concept, because the basis is adjusted to the "value placed on such property for purposes of the Federal estate tax." Treas. Reg. § 1.1014-1(a). Thus, the basis in the grantor's LLC units will be adjusted to the (discounted) estate tax value of the LLC units.
9. The authors note that, at first blush, the "Double LLC" concept seems risky. However, the components of the Double LLC strategy, standing alone, are more traditional. The "Double LLC" concept is not a strategy for every client and the client should be advised of the potential risks

XII. S CORPORATIONS OWNED BY DISREGARDED ENTITIES

A. Permissible Owner - S corps owned by disregarded entities

1. Ordinarily, a partnership or LLC is not qualified to own S corporation stock

2. However, if the entity is a disregarded entity treated as owned by an individual (or other permissible S corporation shareholder), then the disregarded entity is a permissible shareholder. For example, it is permissible for S corporation stock to be owned by an LLC that is wholly owned by grantor trusts and the grantor.
3. Risk if client dies, S Corp status may be disqualified.

B. Can you do a preferred freeze with S corporation stock using a disregarded entity?

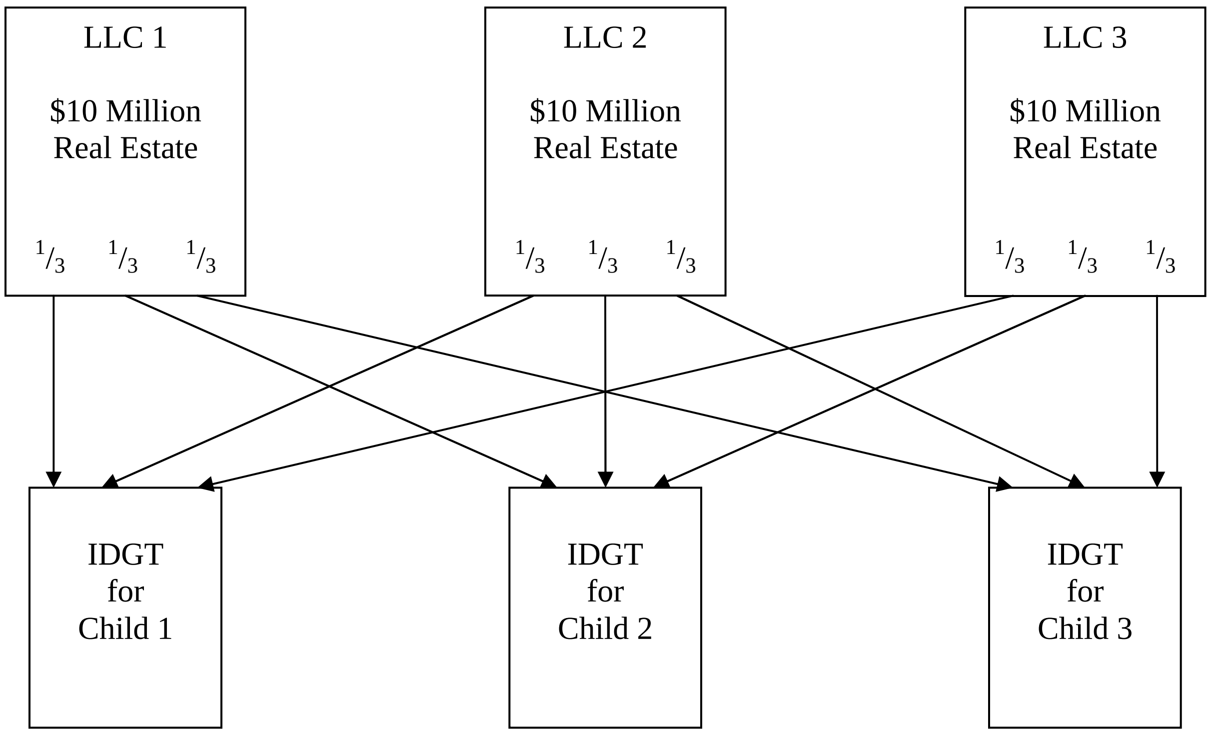
1. Client creates an LLC with preferred and common interests.
2. Client contributes S Corp stock to the LLC
3. Client initially owns 100% of the LLC
4. Client may transfer either preferred interests, common interests, or both to grantor trusts.
5. Under Rev. Rul 200-77 the aggregate interests are deemed to be owned by the client.
6. Thus, the LLC will still be a disregarded entity during client's life and we will not have violated the ownership rules applicable to S Corporation Stock
7. Although technically correct, we would advise not proceeding unless a ruling was obtained in advance.

EXHIBITS

* Several exhibits are based on an actual case therefore they have not been adjusted to reflect current lower interests. In order to make reasonable comparisons, other exhibits reflect the same AFR.

** Because of the economy, IRS Tables are evolving and the advisor should do his or her own forecasting based upon the actual client facts and rates at the time of the proposed transaction.

Exhibit A – Disregarded Entity



* Note that the Trust vehicle can be Grantor Trusts, GRATs or a combination of the two.

Exhibit B – Level GRAT

Facts:

A typical client owning a business using a level GRAT with a 40% discount, cash flow is 5%, growth is 5%, § 7520 rate is 5%.

Grantor Retained Annuity Trust	9/12/2005
Type of Calculation:	Term
Transfer Date:	9/2005
§7520 Rate:	5.00%
Grantor's Age(s):	
Income Earned by Trust:	5.00%
Term of Trust:	10
Total Number of Payments:	10
Annual Growth of Principal:	5.00%
Pre-discounted FMV:	$10,000,000
Discounted FMV:	$6,000,000
Percentage Payout:	12.95051%
Exhaustion Method:	IRS
Payment Period:	Annual
Payment Timing:	End
Vary Annuity Payments?	No
Is Transfer To or For the Benefit of a Member of the Transferor's Family?	Yes
Is Interest in Trust Retained by Transferor or Applicable Family Member?	Yes
With Reversion?	No

***** §2702 IS Applicable *****

Base Term Certain Annuity Factor:	7.7217
Frequency Adjustment Factor:	1.0000
Annual Annuity Payout:	$777,030.60
Initial Amount of Payment Per Period:	$777,030.60
Value of Term Certain Annuity Interest	$5,999,997.18
Value of Grantor's Retained Interest:	$5,999,997.18
(1) Taxable Gift (Based on Term Interest):	$2.82

Economic Schedule

Principal value based on Pre-discounted FMV of contributed property

Year	Beginning Principal	5.00% Growth	5.00% Annual Income	Annual Payment	Remainder
1	$10,000,000.00	$500,000.00	$512,500.00	$777,030.60	$10,235,469.40
2	$10,235,469.40	$511,773.47	$524,567.81	$777,030.60	$10,494,780.08
3	$10,494,780.08	$524,739.00	$537,857.48	$777,030.60	$10,780,345.96

4	$10,780,345.96	$539,017.30	$552,492.73	$777,030.60	$11,094,825.39
5	$11,094,825.39	$554,741.27	$568,609.80	$777,030.60	$11,441,145.86
6	$11,441,145.86	$572,057.29	$586,358.73	$777,030.60	$11,822,531.28
7	$11,822,531.28	$591,126.56	$605,904.73	$777,030.60	$12,242,531.97
8	$12,242,531.97	$612,126.60	$627,429.76	$777,030.60	$12,705,057.73
9	$12,705,057.73	$635,252.89	$651,134.21	$777,030.60	$13,214,414.23
10	$13,214,414.23	$660,720.71	$677,238.73	$777,030.60	$13,775,343.07
Summary	$10,000,000.00	$5,701,555.09	$5,844,093.98	$7,770,306.00	$13,775,343.07

Exhibit C – Graduated GRAT

Facts: A typical client owning a business using a graduated GRAT with a 40% discount, cash flow is 5%, growth is 5%, § 7520 rate is 5%.

Grantor Retained Annuity Trust 9/12/2005

Type of Calculation:	Term
Transfer Date:	9/2005
§7520 Rate:	5.00%
Grantor's Age(s):	
Income Earned by Trust:	5.00%
Term of Trust:	10
Total Number of Payments:	10
Annual Growth of Principal:	5.00%
Pre-discounted FMV:	$10,000,000
Discounted FMV:	$6,000,000
Percentage Payout:	5.35492%
Exhaustion Method:	IRS
Payment Period:	Annual
Payment Timing:	End
Vary Annuity Payments?	Yes
Is Transfer To or For the Benefit of a Member of the Transferor's Family?	Yes
Is Interest in Trust Retained by Transferor or Applicable Family Member?	Yes
With Reversion?	No

***** §2702 IS Applicable *****

Base Term Certain Annuity Factor:	18.6744
Frequency Adjustment Factor:	1.0000
Annual Annuity Payout:	$321,295.20
Initial Amount of Payment Per Period:	$321,295.20
Annual Annuity Payment Growth:	20.00%
Value of Term Certain Annuity Interest	$5,999,995.08
Value of Grantor's Retained Interest:	$5,999,995.08
(1) Taxable Gift (Based on Term Interest):	$4.92

Economic Schedule
Principal value based on Pre-discounted FMV of contributed property

Year	Beginning Principal	5.00% Growth	5.00% Annual Income	Annual Payment	Remainder
1	$10,000,000.00	$500,000.00	$512,500.00	$321,295.20	$10,691,204.80
2	$10,691,204.80	$534,560.24	$547,924.25	$385,554.24	$11,388,135.05
3	$11,388,135.05	$569,406.75	$583,641.92	$462,665.09	$12,078,518.63

4	$12,078,518.63	$603,925.93	$619,024.08	$555,198.11	$12,746,270.53
5	$12,746,270.53	$637,313.53	$653,246.36	$666,237.73	$13,370,592.69
6	$13,370,592.69	$668,529.63	$685,242.88	$799,485.27	$13,924,879.93
7	$13,924,879.93	$696,244.00	$713,650.10	$959,382.33	$14,375,391.70
8	$14,375,391.70	$718,769.59	$736,738.82	$1,151,258.79	$14,679,641.32
9	$14,679,641.32	$733,982.07	$752,331.62	$1,381,510.55	$14,784,444.46
10	$14,784,444.46	$739,222.22	$757,702.78	$1,657,812.66	$14,623,556.80
Summary	$10,000,000.00	$6,401,953.96	$6,562,002.81	$8,340,399.97	$14,623,556.80

Exhibit D – Advantages of Short Term GRATs

Table A – Growth Pattern		
Year	% Growth	Value at Year End
1	15%	$1,150,000
2	7%	$1,230,500
3	-10%	$1,107,450
4	-5%	$1,052,076
5	6%	$1,115,202
6	10%	$1,226,722

Table B – 6-Year GRAT			
Year	% Growth	Payment to Grantor	Value at Year End
1	15%	$197,000	$953,000
2	7%	$197,000	$822,710
3	-10%	$197,000	$543,439
4	-5%	$197,000	$319,267
5	6%	$197,000	$141,423
6	10%	$197,000	$0

Table C – 3 Successive 2-Year GRATs					
Year	Initial Principal	% Growth	Payment to Grantor	Value of GRAT at Year End	Payment to Remainder Beneficiary
FIRST GRAT	$1,000,000				
1		15%	$537,800	$612,200	
2		7%	$537,800	$117,254	$117,254
SECOND GRAT	$1,113,246				
1		-10%	$598,704	$403,217	
2		-5%	$598,704	$0	$0
THIRD GRAT	$951,825				
1		6%	$511,891	$497,044	
2		10%	$511,891	$34,857	$34,857

Facts: $1 million asset transferred to a 6-year GRAT; AFR 5%

Comparative Results **Table B – 6-Year GRAT** – no wealth shift due to poor performance in years 3 and 4

Table C – 3 Successive 2-Year GRATs – wealth shift of $152,111

Adopted from Carlyn S. McCaffrey, Richard A. Oshins, Noel C. Ice, *Planning with GRATs*, New York University 62nd Institute of Federal Taxation 2004

Exhibit E - QPRT

Facts:

60-year old client owning residence worth $2 million transfers residence to QPRT (assume the application of a 30% discount on the residence, a fair annual rental of 3%, anticipated growth is 2% and the § 7520 rate is 3.4%)

Qualified Personal Residence Trust

Transfer Date:	9/2009
§ 7520 Rate:	3.40%
Principal:	$1,400,000
Grantor's Current Age:	60
Term of Trust	15
After-Tax Growth	2.00%
Comb. Death Tax Bracket:	45.00%
With Reversion?	Yes

Grantor's Age When Trust Term Ends:	75
Value of Nontaxable Interest Retained by Grantor:	$800,828
Taxable Gift (Present Value of Remainder Interest):	$599,172
Property Value After 15 Years:	$1,884,216
Potential Death Tax Savings:	$578,270
Qualified Annuity that Must be Paid Annually (if Entire Trust Ceases to be a QPRT):	$77,867

Exhibit F – House GRAT

Facts:
60-year old client owning residence worth $2 million transfers residence to disregarded LLC, then transfers interests in LLC to GRAT (assume the application of a 30% discount, a fair annual rental of 3%, anticipated growth is 2% and the § 7520 rate is 3.4%)

Grantor Retained Annuity Trust

Type of Calculation:	Term
Transfer Date:	9/2009
§ 7520 Rate:	3.40%
Grantor’s Age:	60
Income Earned by Trust	3.00%
Term:	15
Total Number of Payments:	15
Annual Growth of Principal:	2.00%
Pre-discounted FMV:	$2,000,000
Discounted FMV:	$1,400,000
Percentage Payout:	1.99264%
Exhaustion Method:	IRS
Payment Period:	Annual
Payment Timing:	End
Vary Annuity Payments:	Yes
With Reversion:	No

****§2702 IS Applicable****

Base Term Certain Annuity Factor:	50.1845
Frequency Adjustment Factor:	1.0000
Initial Annual Annuity Payout:	$27,896.96
Initial Amount of Payment Per Period:	$27,896.96
Annual Annuity Payment Growth:	20.00%
Value of Term Certain Annuity Interest	$1,399,994.99
Value of Grantor’s Retained Interest:	$1,399.994.99
Taxable Gift (Based on Term Interest):	$5.01

Economic Schedule
Principal Value Based on Pre-Discounted FMV of Contributed Property

Year	Beginning Principal	2.00% Growth	3.00% Annual Income	Annual Payment	Remainder
1	$2,000,000.00	$40,000.00	$60,600.00	$27,896.96	$2,072,703.04
2	$2,072,703.04	$41,454.06	$62,802.90	$33,476.35	$2,143,483.65
3	$2,143,483.65	$42,869.67	$64,847.55	$40,171.62	$2,211,129.25
4	$2,211,129.25	$44,222.59	$66,997.22	$48,205.95	$2,274,143.11
5	$2,274,143.11	$45,482.86	$68,906.54	$57,847.14	$2,330,685.37
6	$2,330,685.37	$46,613.71	$70,619.77	$69,416.56	$2,378,502.29
7	$2,378,502.29	$47,570.05	$72,068.62	$83,299.88	$2,414,841.08
8	$2,414,841.08	$48,296.82	$73,169.68	$99,959.85	$2,436,347.73
9	$2,436,347.73	$48,726.95	$73,821.34	$119,951.82	$2,438,944.20
10	$2,438,944.20	$48,778.88	$73,900.01	$143,942.19	$2,417,680.90
11	$2,417,680.90	$48,353.62	$73,255.73	$172,730.62	$2,366,559.63
12	$2,366,559.63	$47,331.19	$71,706.76	$207,276.75	$2,278,320.83
13	$2,278,320.83	$45,566.42	$69,033.12	$248,732.10	$2,144,188.27
14	$2,144,188.27	$42,883.77	$64,968.90	$298,478.52	$1,953,562.42
15	$1,953,562.42	$39,071.25	$59,192.94	$358,174.22	$1,693,652.39
Summary	$2,000,000.00	$677,221.84	$1,025,991.08	$2,009,560.53	$1,693,652.39

Exhibit G – House IDGT

Facts:
60-year old client owning residence worth $2 million transfers residence to disregarded LLC, then transfers interests in LLC to via installment note sale to IDGT (assume the application of a 30% discount, a fair annual rental of 3%, anticipated growth is 2% and the mid-term AFR is 2.87%)

Intentionally Defective Grantor Trust

FMV of Gift to IDGT:	$160,000
Pre-Discount Value of LLC Interests Sold to Trust:	$2,000,000
Discount Applied to LLC Interests:	30.00%
Term of Note:	9 years
Applicable Federal Rate:	2.87%
Net Growth:	2.00%
Fair Market Rental:	3.00%
Value of LLC Interests (no discounts) Sold to IDGT:	$2,000,000
Discounted Value of LLC Interests Sold to IDGT:	$1,400,000
Total Discounted Value of IDGT Assets (with Gifts):	$1,560,000
Net Value of Dynasty Trust Assets at End of Note (no Discount):	$789,459
Amount Given to Trust:	$160,000
Amount Removed from Estate:	$789,459

Economic Schedule

Year	Undiscounted Value (beginning of year)	2.0% Growth	3.0% Annual Rental	Interest and Principal on Note	Undiscounted Value (end of Year)
1	$2,160,000.00	$43,200.00	$60,000.00	$40,180.00	$2,223,020.00
2	$2,223,020.00	$44,460.40	$60,000.00	$40,180.00	$2,287,300.40
3	$2,287,300.40	$45,746.01	$60,000.00	$40,180.00	$2,352,866.41
4	$2,352,866.41	$47,057.33	$60,000.00	$40,180.00	$2,419,743.74
5	$2,419,743.74	$48,394.87	$60,000.00	$40,180.00	$2,487,958.61
6	$2,487,958.61	$49,759.17	$60,000.00	$40,180.00	$2,557,537.78
7	$2,557,537.78	$51,150.76	$60,000.00	$40,180.00	$2,628,508.54
8	$2,628,508.54	$52,570.17	$60,000.00	$40,180.00	$2,700,898.71
9	$2,700,898.71	$54,017.97	$60,000.00	$1,440,180.00	$1,374,736.68

Exhibit H – "Double LLC Strategy"