Many people want to do good and still maintain a legacy. If you want to give to charity, leave your family well provided for, and avoid having your legacy drastically reduced by estate taxes, consider a Charitable Lead Annuity Trust (CLAT).

**WHAT IS A CLAT?**
A CLAT entitles a charity (or charities) to payments, for a period of time you choose, from assets you have given to the trust. When that period ends, any assets left go to beneficiaries you identified when the trust was created. Importantly, there should be no gift or estate taxes on the transfer of those assets when they go to your beneficiaries.

**Benefits of a CLAT include:**

- The ability to structure the CLAT to give you an income tax charitable deduction, which can help reduce the tax bill associated with extraordinary taxable events (e.g., the sale of a business).
- Locking in current asset valuation for estate and gift tax purposes. If your assets continue to appreciate, your heirs would receive any appreciation free of transfer taxes.
- Assets that may grow free of income and capital gains tax if the CLAT is structured as a grantor trust—you would pay the tax on the income earned by the trust. This allows you to leave more to heirs and have a smaller taxable estate. (See “Types of Charitable Lead Annuity Trusts,” page 2.)
- Capacity to use a CLAT to fund a family foundation over time. All or part of the trust’s charity payments could go into the foundation. Using a CLAT to fund a foundation gradually gives the foundation time to get organized and select worthy causes.¹
  - Ability to manage the investment of the assets.

(See “Five key reasons to consider a Charitable Lead Annuity Trust,” at right.)

**FIVE KEY REASONS TO CONSIDER A CHARITABLE LEAD ANNUITY TRUST**

A CLAT may be an appropriate strategy for you if you:

1. Would like to benefit charity during your lifetime.
2. Enjoy a level of income that exceeds your current and foreseeable needs.
3. Would like to offset a large income tax bill.
4. Want to minimize gift and estate taxes.
5. Have assets that may appreciate rapidly or generate considerable income.

**HOW A CLAT WORKS**
Your professional advisors can help you set up a CLAT. Some of the steps involved may be:

1. Determining how long you want the CLAT to last, typically identifying a term of years.
2. Funding the CLAT with cash, securities and/or other assets.
3. Structuring a CLAT so that the entire contribution qualifies for a gift tax charitable deduction and will not therefore be subject to gift tax. Whether tax is due is based on how long the CLAT is to last, how large the annuity payments to charity will be, and the Internal Revenue Service’s estimate of how much of the trust’s assets will remain for your beneficiaries after the trust makes the required payments to charity, which in turn are based on interest rates at the time you fund the CLAT.
4. Providing a fixed dollar amount to the charities of your choosing each year. If the growth of the assets in the CLAT exceeds the annual payout every year, the surplus at the end of the CLAT term may pass tax-free to family members.
5. Passing the remaining assets to heirs at the end of the CLAT term, either outright or in trust. Because these assets were already technically subject to gift tax (Step 3), even if no gift tax was paid or lifetime gift tax exclusion was used, they are not subject to estate or gift taxes when passing to family, even though the assets may have appreciated considerably.

¹ The grantor of the CLAT cannot control the assets received by the private foundation from the CLAT. It can be advantageous for a private foundation in the United States not to receive all its funding at once, as private foundations are required to give away at least 5% of their assets annually.
TYPES OF CHARITABLE LEAD ANNUITY TRUSTS

Grantor: At creation, you receive a tax deduction based on the present value of the trust’s required future distributions to charity (typically, the entire amount gifted to the trust). During the CLAT’s term, you pay taxes on the trust’s income and/or capital gains each year. As a result, the CLAT assets are able to grow free of income tax.

Non-Grantor: At creation, you receive no tax deduction. During the CLAT term, the trust itself pays taxes on its income and capital gains. The trust’s tax liability is offset each year by a tax deduction as it pays the required annuity to charity.

$10MM in assets—possible outcomes with and without a CLAT

<table>
<thead>
<tr>
<th></th>
<th>No Gift to Charity</th>
<th>Outright Gift</th>
<th>Grantor CLAT</th>
<th>Non-Grantor CLAT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>You</strong></td>
<td>$10MM</td>
<td>$4.8MM</td>
<td>$10MM</td>
<td>$10MM</td>
</tr>
<tr>
<td><strong>Charity</strong></td>
<td>$10MM</td>
<td>$10MM</td>
<td>$4.8MM</td>
<td>$10MM</td>
</tr>
<tr>
<td><strong>Trust</strong></td>
<td></td>
<td></td>
<td>$10MM</td>
<td>$10MM</td>
</tr>
<tr>
<td><strong>Charity</strong></td>
<td></td>
<td></td>
<td></td>
<td>$10MM</td>
</tr>
<tr>
<td><strong>Amount to Charity</strong></td>
<td>0</td>
<td>$39.2MM</td>
<td>$19.3MM</td>
<td>$19.9MM</td>
</tr>
<tr>
<td><strong>Amount to Family</strong></td>
<td>$15.8MM</td>
<td>$7.5MM</td>
<td>$20.9MM</td>
<td>$13.5MM</td>
</tr>
</tbody>
</table>

Year 1

Year 20

Total Wealth after Estate Taxes

$12.5MM

$39.2MM

$1.6MM

$19.9MM

$19.9MM

$19.9MM

$13.59MM*

$19.9MM

Amount to Charity

0

$39.2MM

$19.3MM

$19.9MM

Amount to Family

$15.8MM

$7.5MM

$20.9MM

$13.5MM

*Assets passing through the CLAT do not receive a step-up in basis upon death.

Key assumptions: Expected trust term = 20 years; FMV transferred to trust = $10,000,000; annuity payout rate = 0.75%; the arithmetic return is 7.8% and volatility is 12.9%, resulting in a geometric return of 7.1%, of which 3.1% is yield; estate tax rate at termination = 40%; IRS discount rate = 2%; gift tax rate = 40%; present value of annuities to charity = $10,000,000. Charitable deductions may be subject to AGI limitations. The expected arithmetic return is simply the average of all returns, whereas the geometric return represents an estimate of how volatility impacts the arithmetic return; the greater the volatility, the lower the geometric return is relative to the arithmetic return. References to expected returns are not predictions of future performance. The value of any deduction for charitable gifts is calculated assuming that the value of total deductions excluding the gift exceeds 3% of AGI in each analysis year. Effective income tax rate = 50.81%; effective capital gains tax rate = 31.21%; effective tax rates include a federal income tax rate of 39.6%, federal capital gains tax rate of 20%, Medicare surtax of 3.8% and California tax rate of 10.3%. Effective tax rates adjusted for deductibility and the Pease limitation where applicable. Tax rates quoted are those used in a majority of years. Tax rates subject to change; actual rates may be higher or lower than those listed. Taxes on trust income are not subject to Pease adjustments. Actual results may be expected to vary from assumptions, which are made for discussion purposes only.
Charitable Lead Annuity Trust

HOW J.P. MORGAN CAN HELP
A CLAT is an irrevocable trust, and is a commitment that must be made carefully and with the best advice. We can assist you and your professional advisors in a variety of ways.

Professional administration
As your trustee, J.P. Morgan offers:

- **Continuity**—We have helped families for generations, and can oversee your trust for as long as you wish it to endure.
- **Competence**—We have the dedicated resources, knowledge and proficiency to manage complex trusts and wealth-transfer strategies for clients at all stages of their lives.
- **Cost-effectiveness**—A comprehensive, one-stop shop for our clients’ fiduciary needs, we can provide multiple services for a single fee.
- **Control**—Internal audits and controls, combined with regulatory oversight, help assure dependable administration of your trust.
- **Conflict management**—As a professional trustee, we offer guidance that is objective and impartial. We have the dedicated resources, knowledge and proficiency to manage complex trusts and wealth-transfer strategies for clients at all stages of their lives.
- **Client Service**—You will have a team of professionals dedicated to helping you meet your needs, ensuring that you always have someone to contact yet still benefit from a personal touch.

Unique financial modeling capabilities
Your J.P. Morgan Wealth Advisors can help you evaluate how much you can afford to comfortably give away, and the degree to which both your chosen charities and heirs may benefit. Our proprietary analytical and technical tools, such as the Morgan Asset Projection System (MAPS), enable you to assess the performance of trust configurations in a variety of economic scenarios and maximize returns. Working with your tax and legal advisors, we can help you create a CLAT that meets your financial and charitable giving objectives.

Expert guidance on charitable giving
Specialists at The Philanthropy Centre at J.P. Morgan can help you and your professional advisors think through charity selection, the potential impact and effectiveness of your charitable gifts, and the most tax-efficient strategies. Our knowledge, abilities and relationships simplify the challenge of using your CLAT to make the right donations to the right recipients.

Fortress balance sheet
J.P. Morgan is one of the largest asset and wealth managers in the world, with more than $60 billion under investment management and more than $150 billion under supervision. We are the first choice of numerous families and organizations seeking a global financial leader that has weathered all market conditions.

LEARN MORE
It is important to proceed prudently when it comes to your estate-planning needs. Your J.P. Morgan Wealth Advisor can help you and your professional advisors determine whether a CLAT is appropriate for you and, if so, how to make it a reality.
JPMorgan & Co., its affiliates and employees do not provide tax, legal or accounting advice. This material has been prepared for informational purposes only. You should consult your own tax, legal and accounting advisors before engaging in any financial transactions.

Bank products and services are offered by JPMorgan Chase Bank, N.A. and its affiliates. Securities are offered by J.P. Morgan Securities LLC, member NYSE, FINRA and SIPC. All lines of credit are extended at the discretion of J.P. Morgan, and J.P. Morgan has no commitment to extend a line of credit or make loans available under the line of credit. Any extension of credit is subject to credit approval by the lender in accordance with the terms contained in definitive loan documents. Loans collateralized by securities involve certain risks and may not be suitable for all investors. Market conditions can magnify any potential for loss. If the market declines, you may be required to deposit additional securities and/or cash into your account. The securities in your account may be sold to meet a collateral/maintenance call, and J.P. Morgan may sell your securities without contacting you. In exercising its remedies, J.P. Morgan will not be required to marshal assets or act in accordance with any fiduciary duty it otherwise might have. Some or all of the securities sold to meet a margin/maintenance call may be sold at prices higher than their initial cost, which may result in adverse tax consequences. You should consult your tax advisor in order to fully understand the tax implications associated with pledging securities in connection with a margin loan. Please read your client agreement carefully so that you understand your obligations.

In the United Kingdom, this material is approved by J.P. Morgan International Bank Limited (JPMIB) with the registered office located at 25 Bank Street, Canary Wharf, London E14 5JP, registered in England No. 03838766 and is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. In addition, this material may be distributed by: JPMorgan Chase Bank, N.A. (JPMCB) Paris branch, which is regulated by the French banking authorities Autorité de Contrôle Prudentiel et de Résolution and Autorité des Marchés Financiers; JPMorgan Chase Bank, N.A., Bahrain branch, licensed as a conventional wholesale bank by the Central Bank of Bahrain (for professional clients only); JPMorgan Chase Bank, N.A. Dubai branch, regulated by the Dubai Financial Services Authority. With respect to countries in Latin America, the distribution of this material may be restricted in certain jurisdictions. Receipt of this material does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it would be unlawful to make such offer or solicitation. In Hong Kong, this material is distributed by JPMCB Hong Kong branch except to recipients having an account at JPMCB Singapore branch and where this material relates to a Collective Investment Scheme (other than private funds such as private equity and hedge funds), in which case it is distributed by J.P. Morgan Securities (Asia Pacific) Limited (JPMSEAL). Both JPMCB Singapore branch and JPMSEAL are regulated by the Monetary Authority of Singapore. The contents of this document have not been reviewed by any regulatory authority in Hong Kong or Singapore. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

© 2015 JPMorgan Chase & Co. All rights reserved.