

From: Eileen Alexanderson <[REDACTED]>
To: 'Jeffrey Epstein' <jeevacation@gmail.com>
Subject: FW: Leon Black Children-use of Gift and GST tax exemptions
Date: Thu, 13 Dec 2012 19:40:53 +0000

I reached out to Elyse for input on the kids trusts we have been speaking about. I then ran the output of that conversation by Ada. Below is her response to Elyse. Just thought this input would be helpful as you think about it also. I also have input from Ralph Lerner on the art foundation. Would like to speak about cashflow also. I am leaving for a doctors appt but just finished all the #s we needed, will clean up the presentation and send to you in the morn. I left a phone message for Harry this morn. Going out looking at space tomorrow afternoon.

From: Clapp, Ada [mailto:[REDACTED]]
Sent: Thursday, December 13, 2012 9:59 AM
To: Elyse G. Kirschner ([REDACTED])
Cc: Eileen Alexanderson
Subject: Leon Black Children-use of Gift and GST tax exemptions

Hi Elyse,

I was speaking with Eileen earlier about the plan for Leon's children to make exemption gifts by year end. I understand that you are considering having the 4 children create an LLC and in exchange for a 25% interest, they would each give the LLC his or her promissory note for \$5 million. Thereafter, they would each transfer a 25% interest in the LLC to a new 2012 Trust.

I have a few questions about this proposal and one big concern.

It is my understanding that only one or possibly two of the children have any real entitlement to assets at this point—that is Ben and possibly Josh in respect of the distribution they should have received from the 1992 Trust. I also understand that Alex and Victoria do not have sufficient assets to make a promissory note from them a viable alternative, as they would not be creditworthy borrowers. Since there is no collateral and no other assets from which a lender could reasonably expect repayment, I am afraid the IRS will not view the exchange of their notes for LLC interests as a bona fide loan. Rather I am worried that the IRS will argue that Ben and Josh—who are creditworthy—made a gift to their siblings of 50% of the value of the LLC (or \$5 MM, as the LLC would only be valued at \$10 million in this scenario). Could Trustees guarantee their notes? Would they want to without charging a fee?

Assuming everyone's note is valid, how do you value the LLC? Would you simply not take a discount, assume the notes are all valued at face and therefore assume everyone's note is valued at \$5 million? Or are you suggesting a formula gift to be followed by an appraisal later (in which case, are you not concerned about the Service's non-acquiescence in Wandry?). Can you even acquire an interest in an LLC that has nothing in it on an installment basis?

I can understand the benefit of using the exemptions for Ben and possibly Josh, who now have (or may have) significant assets and won't want for anything. I wonder though whether it makes sense to do this exercise for Victoria or Alex, who may not generate sufficient wealth of their own to give away \$5 million of assets. With the LLC idea, you will have to pick up and report interest income each year and then find the funds for the children to pay the tax.

If there is a possibility of making a distribution from an trust that is not-GST exempt, it might make sense to do that in order to have the children re-gift it to a new trust to allocate GST exemption. Even though we may just be trading one gift tax exemption for another, there is real value in protecting the funds from GST tax.

Please let me know if you have some time to discuss tomorrow.

Best regards,

Ada Clapp

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