

Planning *Solutions*

The Charitable Lead Trust

A charitable lead trust (CLT) is an irrevocable trust designed to provide financial support to one or more charities for a period of time, with the remaining assets eventually distributing to family members or other beneficiaries.

A charitable lead trust can be funded either during the lifetime of the individual creating the trust or by will. It is a strategy most frequently used by the charitably inclined for estate or gift tax planning purposes. It can potentially provide benefits such as an income tax deduction or estate or gift tax savings on assets ultimately passed to the individuals designated as remainder beneficiaries. At the same time, the trust distributes regular payments to benefit a preferred charity or charities during the term of the trust.

There are two main types of charitable lead trusts:

- Charitable lead annuity trusts (CLATs) distribute a fixed annuity amount each year, and additional contributions are not allowed.
- Charitable lead unitrusts (CLUTs) distribute a fixed percentage based on the balance of the trust assets (revalued annually), and additional contributions can be made.

Variations of CLTs

Grantor CLT

In a grantor charitable lead trust, the grantor can take an immediate income tax charitable deduction for the present value of the future payments that will be made to the charitable beneficiary, subject to applicable deduction limitations depending on whether the beneficiary is a public charity or a private foundation. However, this benefit should be considered in conjunction with the fact that the trust's investment income is taxable to the grantor during the trust's term.

Reduction of Estate Taxes

In the case of a non-grantor trust where trust assets pass to heirs, the property contributed to the trust will be considered part of the donor's estate, but the donor's estate will be eligible for an estate tax charitable deduction for the value of the interest paid to the charity. This may not only reduce the amount of tax your estate has to pay upon your death, but it may also preserve wealth for your heirs.

Non-Grantor CLT

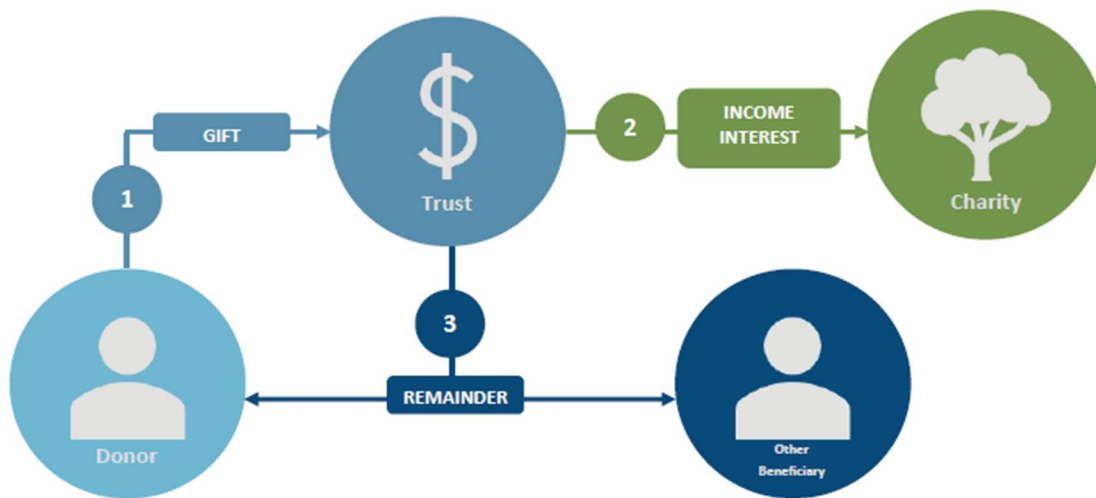
With non-grantor charitable lead trust, the trust—and not the grantor—is considered the owner of the trust assets. Accordingly, the grantor is not eligible to take an income tax deduction for the present value of the lead interest to charity. It is the trust itself that pays tax on its undistributed net income, and the trust is able to claim an unlimited income tax charitable deduction for its distributions to the charitable beneficiary. However, this trust structure offers greater benefits for transfer tax purposes.

Reduction of Gift Taxes

If you make a contribution to a non-grantor charitable lead trust during your lifetime, you may be eligible for a gift tax charitable deduction, based on the present value of the interest going to the charity. However, if the remainder beneficiary of a charitable lead trust is someone other than yourself, then you might be subject to gift tax on the value of the remainder interest. It's important to note, however, that it may be possible to structure the specific terms of the trust, such as length of term and payout percentage, in a way that could potentially eliminate gift taxes on the remainder amount passing to the end beneficiary.

Planning Solutions

The Charitable Lead Trust Visualized



1

GIFT

The donor contributes cash or other assets to fund the trust.

2

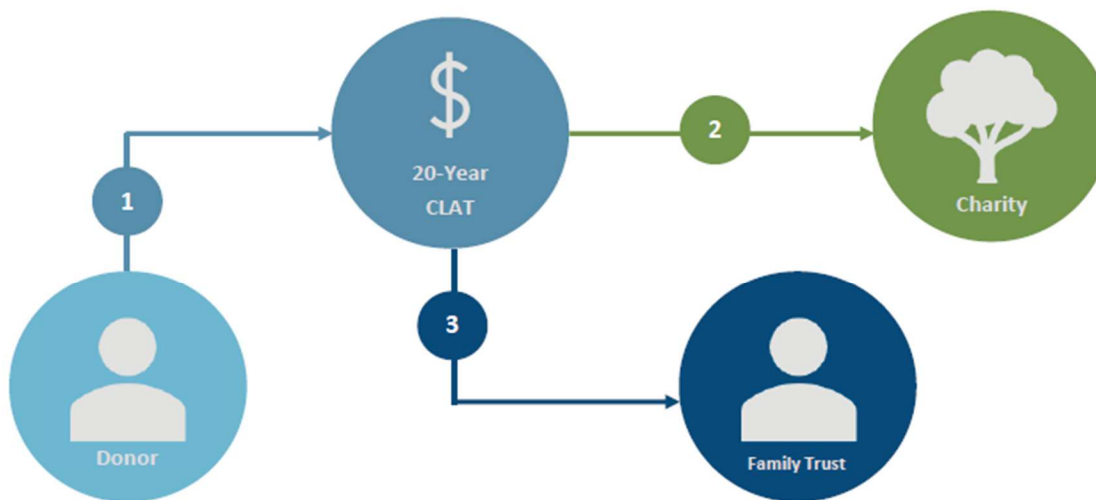
INCOME INTEREST

The trust pays a designated charity an income stream for the term of the trust.

3

REMAINDER

When the trust terminates, the remaining assets are passed to the donor or other designated beneficiary.



1

GIFT

The donor contributes \$1 million to a CLAT with a 20-year term. The statutory IRS discount rate when the CLAT is funded is 2.2%.

2

INCOME INTEREST

The trust pays a designated charity an annual annuity of \$62,350.

3

REMAINDER

When the trust terminates, the remaining assets are passed to the Family Trust. Because the trust was designed with a "zero remainder", there should not be any applicable exclusion used for the gift to the Family Trust.