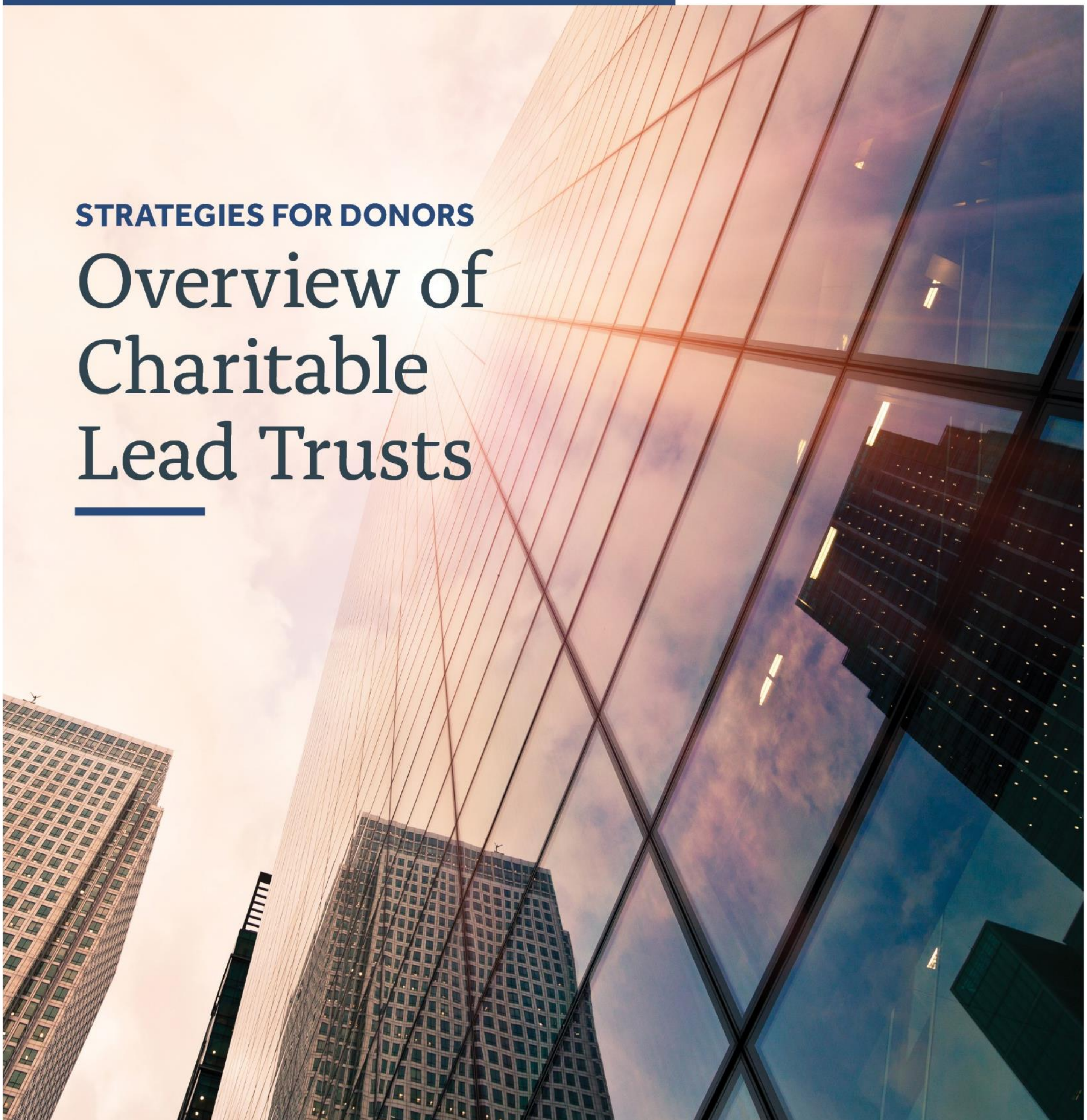
Charitable
Corner

STRATEGIES FOR DONORS

Overview of Charitable Lead Trusts



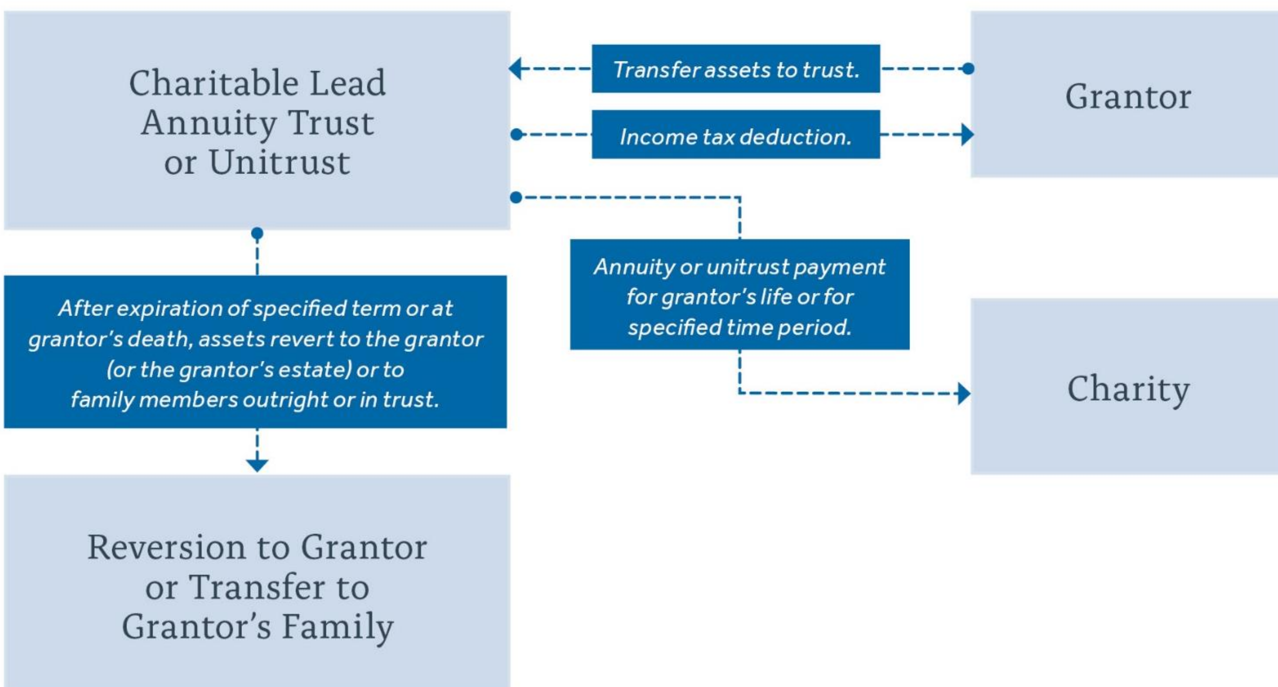
Overview of Charitable Lead Trusts

A charitable lead trust (CLT) is designed to provide an income flow to charity for a period of time, after which the donated property may be returned to the donor or distributed to other non-charity beneficiaries. A CLT is one of the few charitable giving techniques that can generate an income, gift, and estate tax deduction.

A CLT may be appropriate where a donor (1) is charitably inclined, (2) has a desire to reduce income tax, (3) owns an income-producing asset yet does not need the income currently, and (4) would like to retain the asset's principal or pass it on to other beneficiaries. A gift to a CLT is considered a gift "for the use of" (not a gift "to") charity, which reduces the income tax deduction.

Typically, CLTs are used to transfer property to family members of a younger, more remote generation at little to no gift tax liability. Because the family member will not receive benefits from the property for a number of years, the value of the gift can be discounted, often substantially. (Discounted value simply acknowledges the time value of money concept – that a dollar to be received in the future is worth less than a dollar today.) CLTs do not have a minimum or maximum charitable payout requirement. The trust instrument can either designate a charitable beneficiary or can allow the trustee to make the selection. If the grantor retains a continuing right to designate the charitable beneficiary after the trust is established, the trust assets will be included in the grantor's taxable estate.

Two types of CLTs exist: charitable lead annuity trust (CLAT) and charitable lead unitrust (CLUT). The primary difference between them is the method of calculating the payment to charity, as detailed below.



CLAT versus CLUT

- A CLAT pays the charity a fixed annuity amount each year, which can be a fixed dollar amount or a percentage of the initial gift to the trust. The payment is determined at the creation of the trust; therefore, additional contributions cannot be made to a CLAT. A CLAT may be preferable if the grantor expects the assets to increase in value, since appreciation favors the non-charitable beneficiaries.
- A CLUT pays the charity a percentage of the fair market value of the trust assets, re-calculated annually. With a CLUT, additional contributions can be made after the CLUT's creation since the payments are recalculated each year. With a CLUT, appreciation of the assets in a CLUT favors both the charity and the remainder interest. The CLUT must be revalued each year, which is costly.