

A Charitable Lead Trust (CLT) is a powerful estate planning tool, especially for those who prioritize tax efficiency in their financial planning. It enables you to support charitable causes while strategically managing your estate for the benefit of your heirs. Let's explore how CLTs work, their advantages, and the significant tax benefits they offer.

What Is a Charitable Lead Trust?

A Charitable Lead Trust is an irrevocable split-interest trust where one party (a charitable organization) receives an income stream from the trust, and another party (typically the grantor or their beneficiaries) receives the remaining trust assets at the end of the income period.

There are two types of CLTs: **Grantor CLT** and **Non-Grantor CLT**

Grantor CLT

In a Grantor CLT, the grantor (or spouse) receives the remaining trust assets after the income period. Some of the advantages include:

1. The grantor can claim an income tax deduction equal to the present value of the promised income stream to charity. This type of CLT is effective for people seeking income tax deductions rather than estate tax deductions.
2. A charitable organization receives a steady flow of funds for the specified period. For a Grantor CLT, the income period is for a specified term of years.

Consult with your financial professional to determine the ideal trust duration for your goals.

Non-Grantor CLT

In a Non-Grantor CLT, someone other than the grantor or spouse (typically children) receives the remainder of assets after the income period. This type of CLT is considered a gift to the remainder recipient. However, the value of the gift for gift tax purposes is reduced by the present value of the income interest received by the charity. It's important to note that there is no immediate income tax benefit for the grantor. Some of the advantages include:

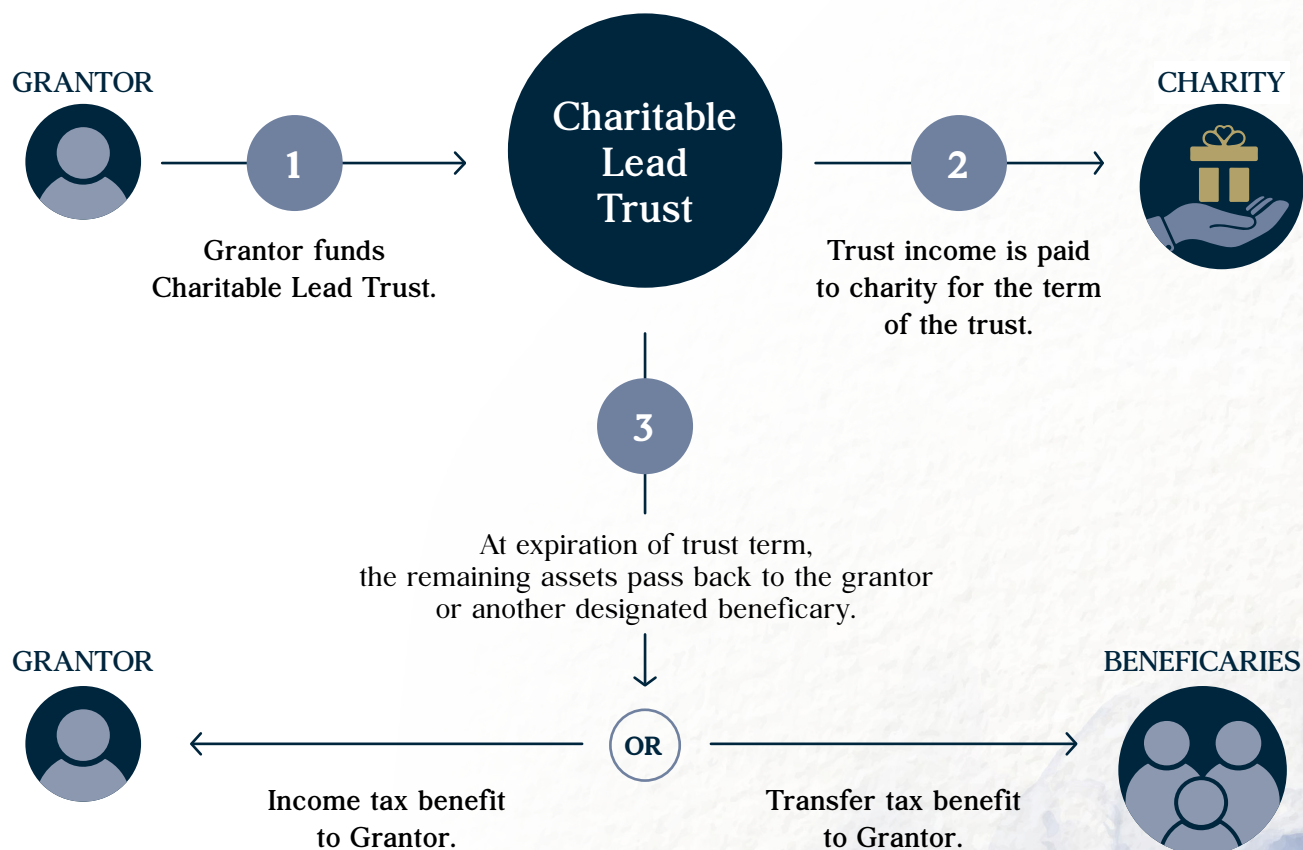
1. Value of the asset (and any future growth) is immediately removed from the grantor's estate. This is especially advantageous if assets are contributed that are expected to appreciate rapidly. The potential estate tax savings can be significant.
2. The value of the gift to the grantor's heirs is reduced for gift tax purposes by the present value of the income stream that goes to charity.
3. A charitable organization receives a steady flow of funds for the specified period. For a Non-Grantor CLT, the income period can be for a specified term of years or for the life of the grantor.

Grantor Charitable Lead Trust Scenario

Phil has \$1 million of assets that he expects to appreciate considerably in the future. He would like to pass down his assets to his children. Phil estimates that if he holds onto the assets, it could be worth \$4 million in 15 years and create about \$2 million in estate taxes. He decides to gift the assets to his children now and avoid the estate tax bill.

To save even more taxes, Phil decides to use a CLT. He gifts the \$1 million of assets into the CLT with a \$70,000 annual payout for 15 years to his favorite charity. Because of the charity's income

interest, the IRS might value the gift to his children at \$400,000. Phil's unified credit covers the gift tax on \$400,000. If the assets grow by more than 7%, Phil's children may receive much more than \$1 million in 15 years even though the gift was only valued at \$400,000 for tax purposes. The charity receives a significant gift, Phil's children will ultimately receive the assets, and Phil avoided paying the estimated estate taxes on \$4 million.



TIP: A charity with a donor-advised fund program can receive the payments from a lead trust.

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