Charitable Lead Trust (CLT)

A Charitable Lead Trust (CLT) is a type of irrevocable trust designed to provide financial support to a charitable organization for a predetermined period, after which the remainder of the trust is transferred to non-charitable beneficiaries, such as family members. The CLT is a tool for philanthropic individuals to support their favorite causes while simultaneously providing for their heirs and potentially reducing their income and/or estate tax liabilities.

DESCRIPTION OF STRATEGY

The grantor contributes assets into the CLT, which then pays a series of annual payments to a chosen charity for a specified term of years or a lifetime. The annual payment is in the form of a fixed annuity or a unitrust payment based on a fixed percentage of the CLTs assets at each anniversary of the CLT. After the term ends, the remaining assets in the trust are transferred to the grantor's designated non-charitable beneficiaries. The actuarial value of this remainder interest is considered a gift by donor to such beneficiary. If the trust is set up as a grantor trust for income tax purposes, the grantor receives an income tax charitable deduction equal to the actuarial value of the charities' annuity or unitrust payments. However, the grantor will pay all the income taxes on the CLT's assets during the term. If the CLT is not a grantor trust for income tax purposes, the grantor does not receive an income tax deduction for income tax purposes. The CLT will be responsible for taxes with respect to any income on the CLT's assets but will receive a charitable deduction for each annuity or unitrust payment to the charity. So, unlike a CRT, a CLT is not a tax-exempt entity. In either case, the CLT assets will not be included in the grantor's estate upon death.

KEY BENEFITS

Philanthropic Goals	A CLT allows the grantor to support charitable organizations through a series of payments over time.
Estate and Gift Tax Savings	The value of the charitable gift can be deducted from the grantor's gift or estate tax.
Wealth Transfer	After the charitable term ends, the remaining trust assets pass to the non-charitable beneficiaries, potentially with significant tax savings.

KEY BENEFITS (CONTINUED)

Zeroed Out	A CLT, much like a GRAT, can have a zero gift for the remainder beneficiaries. Likewise, the beneficiaries will receive the growth on the CLT assets at the end of the term in excess of the 7520 rate.

RISKS/DRAWBACKS

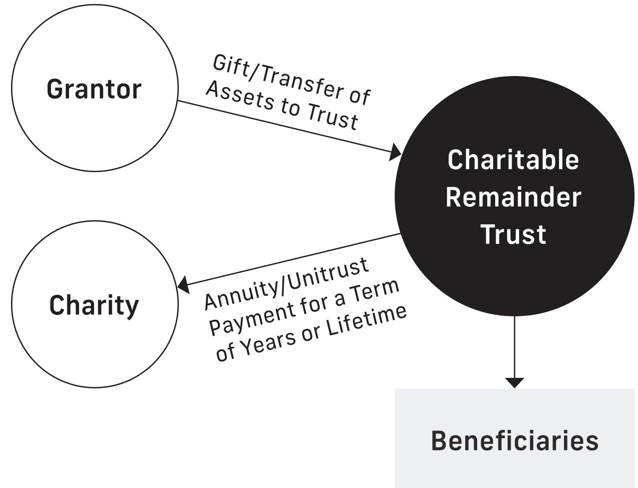
Irrevocability	Once the CLT is established, the decision is generally irreversible.
Market Risk	If the trust assets don't perform well, the non-charitable beneficiaries may receive less than expected.
Not Tax-Exempt	A CLT, unlike a CRT, is not a tax-exempt entity. Either the grantor or the CLT will pay income tax on the CLT's income generated by it's assets.
Long-term Commitment	The grantor must commit to a fixed series of payments to the charity, which might be challenging in changing financial circumstances.

OPPORTUNITIES TO UTILIZE

Charitable Intentions	Those with strong philanthropic goals may use a CLT to support their favorite charitable organizations while also providing for their heirs.
Estate Planning	CLTs can be an effective tool in estate planning for individuals with very large estates, particularly when combined with other strategies. Once a CLT is established, the assets are out of the grantor's estate and will end up either with the charity or the remainder beneficiaries.
Low Interest Rate Environment	CLTs are most efficient when interest rates are low. A low interest rate will generally result in more assets passing to the non-charitable beneficiaries at the end without further estate or gift tax.

How it Works?

- With a 4.2% 7520 rate, a $1M gift to a CLAT with a 20-year term paying an annuity to charity of $50,000 creates a charitable deduction of $667,640.
- With a 6% growth rate, the beneficiaries would receive $1,367,855 in 20 years.



GIFT CALCULATION

Amount gifted	$1,000,000
Less: Annuity/Unitrust to Charity	$667,640
Value of gift to beneficiary	**$332,360**

Example above is for illustrative purposes only. It does not reflect any actual situation. Growth rate is illustrative and does not reflect performance of any investments. Information is subject to change without notice.