

# CHARITABLE LEAD TRUST

A Charitable Lead Trust (“CLT”) is a means by which you can make a present gift of income to a charity, but ultimately pass the income-producing asset to your family. There are two primary types of charitable lead trusts: the Charitable Lead Annuity trust (“CLAT”) and the Charitable Lead Unitrust (“CLUT”). Each can be an effective estate planning technique. A charitable lead trust provides for the income from a cash or income-producing asset to be made payable to a qualified charitable organization or organizations selected for a period of years or life. When the charitable organization’s income interest ends, your family will have full ownership of the asset.

This type of estate planning device is appropriate if you are able to part with the assets and income now, in return for substantial tax savings later. Frequently, CLTs are used to replace your annual charitable gifts. A CLT You should consider a CLT if you are concerned about the potential estate tax burden on your estate. However, the Generation Skipping Transfer Tax rules will apply to this form of trust if the trust assets will ultimately be distributed to your grandchildren and/or other “skip persons.”

## How does it work?

The creation of CLT is a gift by the donor to the non-charitable beneficiary(ies). The amount of the gift is calculated based on the present value of the remainder interest, determined under IRS tables after taking into consideration the term of the trust and the amount of the specified payment to the charitable organization. By altering the annuity payment and the length of the trust term, a CLT may be designed that has a remainder interest with little or no present value. Since a gift tax is imposed only on the present value of the remainder interest, the donor can pass assets to beneficiaries without the imposition of a transfer tax. The “cost” of a CLT with a remainder interest with little or no present value is that it requires (1) a longer term before the beneficiaries receive the asset or (2) a higher annuity payment, which reduces the value of assets that actually pass to the beneficiaries.

## Important Characteristics

1. The income must be paid to one or more qualified charitable organizations.
2. The charitable payout must be either a unitrust amount (fixed percentage) or an annuity amount (fixed dollar).
3. The donor may make additional contributions to a CLUT, but not a CLAT.
4. The payout period may be the life of one beneficiary, the lives of two or more beneficiaries, a period of years, or the lives of two or more beneficiaries plus a period of years.
5. No limit is imposed on the period of years during which income payments can be paid to the qualified charity or charities. However, some states rules against perpetuities may apply.
6. The gift must be irrevocable.
7. The donor will save federal gift and estate taxes.

**Benefits of a CLT**

1. You may make a major gift to a charity and still preserve the benefit of the assets for your heirs.
2. Depending on your estate tax bracket, you may be able to substantially reduce estate and gift taxes, allowing you to pass more wealth to your family and less to the IRS.
3. You may transfer specific assets, such as income producing property, to your heirs with little or no transfer tax.
4. You provide a significant benefit for the charities and causes which you support!

Please contact Ann Merriam Feinberg, director of development, at [amerriamfeinberg@conncf.org](mailto:amerriamfeinberg@conncf.org) or 203-753-1315 for examples fitting your particular circumstances.

***Charitable lead trusts are governed by complex laws. You should consult with your attorney and/or accountant before taking any action based on the information contained in this memorandum.***