

CHARITABLE LEAD TRUST

Charitable gifting not only reflects one's charitable goals, but also reduces the estate tax burden upon the individual's estate. However, charitable gifts unfortunately reduce the wealth that passes to the individual's heirs at death. A Charitable Lead Trust ("CLT") is a tax-advantaged philanthropic strategy that reduces estate taxes by making a gift to a charitable beneficiary while also preventing the exclusion of the individual's heirs from inheriting assets of the estate.

A CLT established at death is primarily used in conjunction with an overall estate plan to reduce the gift and estate tax on the transfer of high growth assets to heirs. A decedent's Will or revocable trust leaves assets to a trust which makes distributions to a charitable beneficiary for a specific term. At the end of the trust term, the trust distributes the remaining trust assets and growth it has realized to a designated non-charitable beneficiary, usually children or grandchildren (the "Remainder Beneficiary"). The value of using a charitable lead annuity trust is that the original assets receive a gift and estate tax deduction based on the present value of the income stream given to charity. At the end of the trust term, the trust terminates and all remaining trust assets, including growth, are transferred to the Remainder Beneficiary free of gift or estate taxes.

By establishing a testamentary CLT, the decedent has made a gift of the assets to a charitable beneficiary while growth on those assets passes to the decedent's heirs estate tax free. The CLT is extremely beneficial in that it allows a reduction or elimination of the transfer taxes imposed on the transfer of assets to the Remainder Beneficiary, as well as the opportunity to make a gift to a charitable beneficiary without removing the heirs as the ultimate recipient of the estate.

Annuity vs. Unitrust Payment

The stream of payments to the charitable beneficiary can be an "annuity" payment or a "unitrust" payment. A guaranteed "annuity" payment is a fixed percentage of the *initial value* of the trust principal. This establishes a fixed dollar amount that must be paid to charity each year regardless of the trust asset performance. A "unitrust" payment is a fixed percentage of the trust principal *revalued annually*, resulting in an annual payout that fluctuates in dollar amount with trust performance.

If the assets are expected to appreciate at a high rate, utilizing an annuity payment leaves more assets to the Remainder Beneficiary. However, should those assets underperform, the Remainder Beneficiary could potentially receive nothing. A unitrust payment, on the other hand, assures that a certain percentage, regardless of asset performance, passes to the Remainder Beneficiary. In this scenario, though, if the assets perform well, a smaller percentage of the trust assets make it to the Remainder Beneficiary.