

Charitable Lead Trusts

Defined

A charitable lead trust (CLT) is an irrevocable trust that pays either an annuity or a unitrust amount to charity for the term of the trust and distributes the remaining trust assets after the trust term to the grantor or named beneficiary.

Types

Charitable Lead Unitrust (CLUT)

Structured to pay a fixed percentage of the trust assets each year, valued annually, to charity.

Charitable Lead Annuity Trust (CLAT)

Structured to pay a fixed dollar amount or fixed percentage of the initial value of the trust assets to charity each year.

Grantor Charitable Lead Trust

Entitles the donor to a current income and gift tax charitable deduction when the trust is funded equal to the present value of the charitable interest. Trust income of a grantor lead trust is taxed to the grantor. At death, the trust is subject to tax as a complex trust.

Non-Grantor Charitable Lead Trust

Entitles the donor to a gift tax charitable deduction. Non-grantor CLTs, including testamentary trusts, are taxed as complex trusts but allowed an income tax charitable deduction under Code Section 642(c) for the amounts paid annually to charity. This charitable deduction offsets any gains, losses or income from the trust. Taxable income in excess of the amount allowed as an income tax charitable deduction is taxed to the trust.

How It Works

A CLT requires a trust agreement and ongoing tax compliance. It is typically funded with cash or assets expected to appreciate in value. However, funding with appreciated assets may be less desirable because the trust is not tax-exempt. The donor can structure the trust to best accomplish their charitable, estate and tax planning goals including choosing the CLT duration, the payout percentage or amount, payment frequency, and charitable and individual beneficiaries.



Beginning with the date that the trust is funded, charitable distributions occur at a frequency defined in the trust document. The charitable beneficiary receives payments directly from the trust. The trustee ensures that the trust is administered properly, that the charitable beneficiary receives distributions and that tax filings are completed.

Lead trusts have termination provisions based on a set term of years or the life of the grantor. Upon termination, the remaining trust assets pass to a remainder beneficiary designated by the grantor at the inception of the trust.

Advantages	Considerations
<ul style="list-style-type: none"> • Immediate charitable income tax deduction for the total present value of charitable contributions (Grantor CLT only) 	<ul style="list-style-type: none"> • Loss of control of assets
<ul style="list-style-type: none"> • Flexible terms to meet estate and tax planning needs 	<ul style="list-style-type: none"> • Loss of access to assets for future spending needs
<ul style="list-style-type: none"> • Potential to pass assets to remainder beneficiaries transfer tax-free 	<ul style="list-style-type: none"> • Taxable income and gains reportable to you for trust term (Grantor CLT only)
<ul style="list-style-type: none"> • Can be set up during your life or after your death through your will 	<ul style="list-style-type: none"> • Potential recapture of income tax charitable deduction for grantor CLT if grantor status is terminated during the term of the trust
	<ul style="list-style-type: none"> • Limited ability to diversify concentrated positions or to sell low cost basis assets
	<ul style="list-style-type: none"> • Setup and administrative costs

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