

Charitable Lead Trust



Description

An irrevocable Charitable Lead Trust generates a potential income stream for Camp Fire First Texas, with the remaining assets eventually going to family members or other beneficiaries.

Key characteristics

- Tax benefits vary; you may be eligible to take a deduction for value the of interest passing to Camp Fire, but you cannot take an immediate deduction for the whole contribution
- May eliminate capital gains tax for gifts of long-term appreciated securities
- You choose the term of the trust and the annual payout to Camp Fire
- Not taxed on income earned by trust
- You may be able to donate many types of assets
- Requires setup and ongoing maintenance costs

Details

A Charitable Lead Trust (CLT) is often thought of as the inverse of a Charitable Remainder Trust (CRT). A CLT is an irrevocable trust that provides a fixed amount or a percentage of the trust assets paid to a charity, such as a private foundation, for a term of years or for the life of an individual or individuals. The remainder interest is either retained by the donor or given to a non-charitable beneficiary, usually a family member. A CLT is often created for lifetime giving and for estate planning purposes.

The tax benefits of a CLT vary depending on its precise form. For income tax purposes, a CLT can be structured as a grantor trust, meaning the income earned by the trust is taxable to the grantor, or a non-grantor trust, meaning the income earned by the trust is taxable to the trust.

In a grantor CLT, the grantor can take an immediate charitable contribution deduction for the income interest, subject to applicable percentage limitations depending on whether a public charity or a private foundation is the beneficiary. However, this benefit is mitigated by the fact that the income is taxable to the grantor during the term with no offsetting of future charitable deductions as the amounts are paid to the charity.

In a non-grantor CLT, the income is taxable to the trust as earned and the deduction to the trust for the charitable donation subject to the percent limitations described above, a very important benefit of CLTs. For estate and gift tax purposes, there are other benefits of a CLT. If the contribution to the CLT is made during the donor's lifetime, then they will also be eligible for a gift tax deduction with the interest going to charity. If the remainder beneficiary is not the donor, then the donor could be subject to gift tax on the actuarial value of the remainder interest.

Details continued on next page.

** The Council reserves the right to refuse any proposed gift. Unless otherwise approved by Camp Fire First Texas, gifts may not be directly or indirectly subjected by a donor to any material restriction or condition that would prevent the Council from freely and effectively employing the transferred asset, or the income derived therefrom, in furtherance of its exempt purposes.*



Charitable Lead Trust Continued



Details Continued

It is possible to structure the CLT so that the gift tax is zero, as long as a certain type of CLT, non-grantor Charitable Lead Annuity Trust (CLAT), is used. If the assets in the trust return more than the IRS-assumed rate when the CLT was established, then the donor can effectively transfer wealth to his or her heirs at minimal or no gift tax cost. If the contribution is made at death, the donor will be eligible for an estate tax deduction for the value of the interest passing to charity. As with the gift tax, it is possible to structure the bequest so that there is no estate tax related to the interest ultimately passing to heirs.

Although there can be significant tax benefits to establishing a CLT, the donor should be aware of the potential implications of the generation-skipping transfer tax. If the remainder beneficiaries are or could be the donor's grandchildren, when a distribution from the trust is made to these beneficiaries, the distribution will be subject to this tax unless the donor or the donor's estate is able to allocate the donor's generation-skipping tax exemption to the transfer or bequest. This tax can be significant. If the donor is considering such a transaction, they should consult with their advisor to determine the most effective structure of the CLT to enable the donor to take best advantage of their available generation-skipping tax exemption.

