

# Charitable Lead Trusts

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## About the Presenter – Hayden Taylor

- Hayden Taylor is a partner at Eisenhower Carlson PLLC, a full-service civil law firm in Tacoma. Since its founding in 1914 by Ed Eisenhower, brother of president Dwight Eisenhower, Eisenhower Carlson has proudly represented banks, businesses and families across a broad range of business, trust and estate, real estate and litigation matters.
- Hayden's practice focuses on estate planning for individuals and families, including creating thoughtful and tax-efficient structures for the transition of assets to family, friends, charitable organizations and others.
- Hayden received his law degree from the University of Washington School of Law after receiving an undergraduate degree in mechanical engineering from the University of Southern California. Hayden is an engaged member of the Tacoma-Pierce County business and philanthropic community.

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## Introduction – Charitable Lead Trusts

- *Donor makes a charitable gift of the income stream produced by the assets, for a period of time*
  - Donor funds trust that pays an income stream to a charity, or charities, for a term of years or one or more lifetimes
  - A trustee invests and manages the trust's assets. Cash, securities, land, etc.
  - At the end of the term, the remaining assets are returned to the donor or family member (or other non-charitable beneficiary)

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## Lead Trust - Parties

- 1. The Donor makes a gift of assets to the trust.
- 2. The Trustee manages the assets and handles payments to the charity.
- 3. The Beneficiary (the charity) receives the income stream.
  - Income stream can be a dollar amount (charitable lead annuity trust "CLAT") or a percentage of assets (charitable lead unitrust "CLUT") .
- 4. The Remainder Beneficiary (the Donor, a family member, or other non-charity) receives the remaining trust assets at the end of the term.
- *A lead trust can be established during life or upon death*

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## Benefits to Donors

- 1. Lead trusts are ideal for wealthy donors looking to make a sizeable charitable gift, but allows them to ultimately keep the bulk of the wealth within the family.
- 2. The charity receives the payments for the term of years, and the assets are ultimately passed along to loved ones.
- 3. Depending on the type of lead trust, donors can receive charitable income tax deductions, as well as gift and estate tax deductions

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## Benefits to Charities

- 1. The charity begins receiving immediate, regular payments.
- 2. The lead trust allows a charity to “lock in” a payment stream that gives stability to budgets and programs.
- 3. A lead trust is an attractive option for a donor to support the charity and, ultimately, family.

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## Disadvantages

- 1. A lead trust is relatively complex, with significant legal and administrative costs.
- 2. The lead trust usually requires a large pledge to make it worthwhile (several hundred thousand or more).
- 3. The trust is irrevocable and the Donor cannot access the trust assets for the duration of the trust.
- 4. The lead trust tends to work better in lower interest rate environments.

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## Types of CLTs

- Grantor and Non-Grantor Trusts
- Grantor: donor can take immediate income tax charitable deduction for the present value of the future payments that will be made to the charitable beneficiary
  - Trust's investment income is taxable to donor during the term
  - Reduce income taxes: used to mitigate income spikes (sale of business, bonus, etc.)
- Non-Grantor: trust is considered owner of assets. Trust pays tax on undistributed net income, but otherwise distributions to charitable beneficiary are tax free.
  - Reduce gift and estate taxes:
    - Donor receives gift or estate tax deduction (inter vivos or testamentary trust)
    - Used to transfer assets to next generation

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## Distinguished from Charitable Remainder Trusts

- A lead trust is the opposite of a charitable remainder trust ("CRT"). A CRT distributes an income stream to a non-charitable beneficiary (the donor, family, etc.), with the remaining balance to charity.

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## What Assets May be Used?

- A wide range of assets can be used to fund charitable lead trusts, including (but not limited to):
  - Cash
  - Publicly Traded Securities (stocks, bonds, etc.)
  - Some types of closely held stock
  - Real Estate
  - Assets with high appreciation potential can suitable, particularly for non-grantor CLTs – gift/estate tax benefits

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## Lead Trust with DAF

- Combine a lead trust with a Donor Advised Fund.
- A donor can name charity sponsoring a Donor Advised Fund (DAF) as the beneficiary of a charitable lead trust.
- The DAF will receive payments from the lead trust, and the donor can recommend grants from the DAF to the favored charities.

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## Example Charitable Donation using CLT (1)

- *Mrs. Peterson has an estate valued at \$10 million. She is very committed to the mission of her favorite nonprofit, and provides it with significant annual financial gifts. She is also interested in transferring assets to her children in the most tax-efficient manner possible.*
- *Mrs. Peterson will transfer a \$2,000,000 apartment complex to a charitable lead annuity trust. The trust will pay a \$140,000 annuity amount to the nonprofit for a period of fifteen years, ten months; after which, the trust assets will be distributed to her children. Based on this scenario, Mrs. Peterson will receive a charitable contribution gift tax deduction in an amount of \$1,375,000. The net taxable gift is \$625,000 and can be offset by Mrs. Peterson's unified gift and estate tax credit. As a result, the children will receive the property, including any appreciation that occurs over the trust period; completely gift and estate tax free.*

• Source: Planned Giving Design Center, *Charitable Lead Trust*, Marty McKeever, May 3, 2013

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## Example

### Charitable Donation using CLT (2)

- *Mrs. Green is considering a \$50,000 annual pledge to her favorite nonprofit for a period of five years. In the absence of a charitable lead trust, she can claim a charitable contribution income tax deduction for the payments to charity in each year they are actually made. As an alternative, Mrs. Green transfers \$1,000,000 in tax-exempt bonds to a grantor charitable lead annuity trust. The trust is designed to pay \$50,000 per year to charity for a period of five years; after which, the trust will terminate and return its assets back to Mrs. Green.*
- *Under this scenario, Mrs. Green will receive a charitable contribution deduction equal to the present value of the income interest being transferred to charity. The total amount to be distributed to charity over the five-year period is \$250,000. The present value of the income interest is calculated to be \$205,524. The deduction can be used by the grantor subject to the percentage limitation and reduction rules of IRC §170 (limited to 60% of adjusted gross income for a public charity and 30% of AGI for a private nonoperating foundation)*

• Source: Planned Giving Design Center, *Charitable Lead Trust*, Marty McKeever, May 3, 2013

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## Final Meeting is Nov. 21<sup>st</sup>

### Basics of Planned Giving for Generalists - Session #7

#### Putting it all Together –

How to recognize and talk with a Planned Giving prospective donor. Situations to look for, verbal cues to watch for in a conversation. How to get help when you need advice.

All available instructors will be on hand to answer your questions or review their topics. Bring your ideas, comments and tough cases you may be working on.



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