



Charitable Lead Trusts (Also known as CLTs)

A Charitable Lead Trust is designed to reduce beneficiaries' taxable income by first donating a portion of the trust's income to a charitable organization such as Marklund, and then, after a specified period of time, transferring the remainder of the trust to the beneficiaries.

The whole idea of a CLT is to reduce taxes upon the estate left by the deceased. This is done by donating to a charity (ies) from the estate until all taxes are reduced. Once this is accomplished, the estate is then transferred to the beneficiaries, who typically will face lower taxes.

The best candidates for CLTs are donors who give annually to charity and have an income large enough to take advantage of the charitable tax deduction for the entire amount put into the trust. The federal deduction for charitable donations is capped at 50% of a person's income, though it can be carried forward for five years.

Community Foundations are ideal venues for CLTs because they allow clients to make and direct a significant charitable gift while preserving family wealth for the next generation. A donor can make sure that their favorite charity continues to receive an annual gift for a set number of years, while passing the remainder on to their heirs at a low estate tax cost.

At the time assets are placed in a CLT, a donor receives a current gift tax deduction equal to the present value of the income stream that will be going to charity. If the CLT is a guaranteed annuity, the lower the interest rate that is used for this calculation.

Typically, assets transferred to a CLT will not be included in a client's estate. This makes CLTs good vehicles for transferring assets that are expected to increase substantially in value after the trust is created—provided the trust will not need to liquidate the assets to meet its obligations to the charity. CLTs can also be advantageous when there is a significant difference between the current interest rate and the fund's expected return—another good reason to establish a CLT when interest rates are low.

There are some important issues to consider when considering a CLT:

- They are irrevocable—that is, the trust cannot be changed or revoked if the estate tax law changes or if the donor's financial situation changes.
- The recommended minimum is one million dollars.
- CLTs work best with low-basis assets because increases in value after the trust is created will not be included in the client's estate.

Questions?

Contact Natalie Sarby, Individual Giving Manager at 630-593-5461 or nsarby@marklund.org

Or...

Contact your attorney, financial planner or local Community Foundation for more details!