UNIVERSITY OF WYOMING FOUNDATION

CHARITABLE LEAD TRUST

A Gift Arrangement to Meet Both Charitable and Family Goals

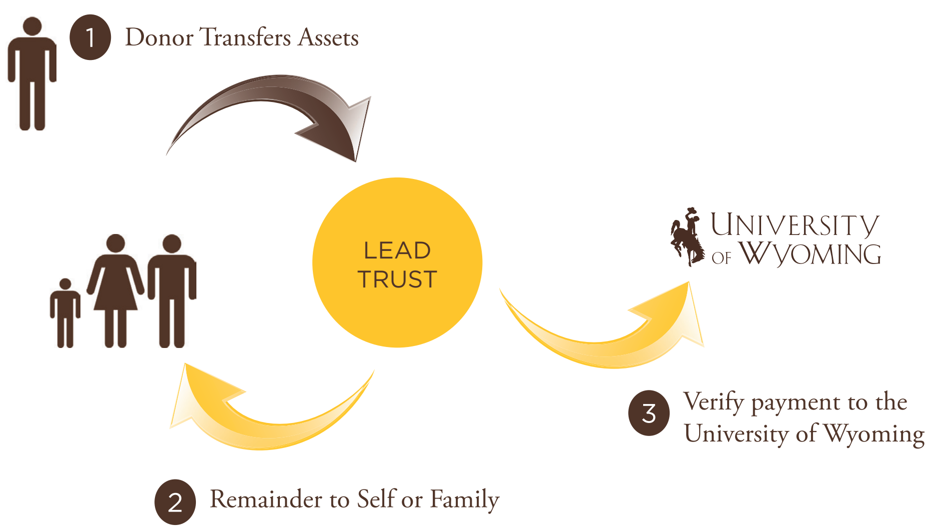
WHAT IS A CHARITABLE LEAD TRUST?

A charitable lead trust, or CLT, is a gift that allows a donor to make a gift to charity while at the same time reserve assets for heirs or for personal use. Think of a CLT as lending capital to a charity for a period of time- the charity benefits during that period and the donor retains full control thereafter. Although seemingly complicated, a CLT can provide the following benefits:

- Achieve charitable gift goals while retaining assets for self or heirs.
- Transfer substantial assets from a donor's estate to beneficiaries with reduced taxes
- Making a positive impact at UW- potentially into perpetuity

HOW DOES A CLT WORK?

A Charitable Lead Trust, or CLT, is a gift arrangement wherein a donor transfers assets into a trust with a term of a fixed number of years or a lifetime. The trust makes an annual distribution to a charity over the trust term and, upon the end of the term, the corpus of the trust reverts either back to the donor or the donor's heirs or beneficiaries.



HOW DOES A CLT SAVE ON TAXES?

The tax deduction for a CLT functions differently based on who will ultimately receive the assets from the trust:

Grantor receives remainder: When a CLT is created, an assumption is made at that time as to the value of the remainder interest and therefore an assumption as to the value of what the donor gave to the charity (not necessarily the same as what the charity received). For example, when $100,000 is transferred into a trust, with a 5% annual charitable payout, for 10 years, a calculation is made, based on the IRS discount rate at the time of the transfer, to determine the charitable deduction. Using November 2017 rates, the remainder interest on a $100,000 gift is $55,553 which results in a charitable deduction of $44,447.

Grantor's heirs receive remainder: When a person makes a gift to their heirs during his or her lifetime, the IRS assesses a tax- known as the gift tax. A donor setting up a CLT wherein the remainder goes to the donor's heirs, will incur gift tax assessed on the value of the remainder of the trust going to the donor's heirs. Using the same example as above, a $100,000 transfer into trust results in a $55,553 gift to the donor's heirs. If the donor has used all of their allowable gift tax exclusion (in 2017, the gift tax exclusion is $5,490,000), meaning they have previously given more than the exclusion amount to their heirs, the tax they will have to pay is $22,221.20, or 40% of the amount given to heirs. At first glance this doesn't seem like a benefit. However, assuming the trust grows at a higher rate than the annual charitable payout, the donor is not taxed on the amount of remainder that is larger than the assumed value at the time when the trust was created. For example, assume that the assets transferred into the trust increased in value from $100,000 to $150,000 over the 10-year term of the lead trust (even with the annual $5,000 payout to charity). In this situation, $105,553 went to the donor's heirs whereas he or she only paid tax on a gift of $55,553, a savings of over $20,000 in taxes. Increase the initial transfer to $1,000,000 and you can start to see how this tool can help a person save big on taxes.

HOW MUCH IS THE ANNUAL PAYOUT TO THE CHARITY?

The donor chooses the payout rate based on their charitable and family goals and the nature of the assets transferred into trust. The donor also chooses whether to have a fixed charitable payout (annuity trust) or a variable payout based on a percentage of the trust value at the time of the payout (unitrust). Unlike a charitable remainder trust that requires a minimum payout of 5%, there is no similar requirement with a charitable lead trust.

WHAT KIND OF ASSETS CAN BE USED?

A donor can use a variety of assets including cash, real estate, and securities to create a charitable lead trust. Income producing assets and assets that are expected to appreciate rapidly are most favorable for a CLT wherein the remainder interest goes to a donor's heirs.

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