



Questions & Answers

About Charitable Lead Trusts

A Gift That “Comes Back”

What if there were a way to make a charitable gift using funds that would eventually be returned to you or your loved ones? This is actually possible through the use of a gift planning tool known as a *charitable lead trust*.

Other plans provide income to you or others you choose for life or another period of time. When the time period is over, any remaining funds become a charitable gift.

With a charitable lead trust, on the other hand, payments are made to a charitable organization for a specific time period and the trust assets are then returned to you or others you designate.

If structured properly, any gift or estate tax that might otherwise be due can be greatly reduced or even eliminated.

Read on for answers to some of the frequently asked questions about charitable lead trusts. You may be surprised to discover a gift plan that helps you make a “temporary” gift and achieve what at first may seem to be conflicting goals.

Q. How does a charitable lead trust work?

A. A donor transfers assets to a trust that makes annual or more frequent payments to one or more charitable recipients for a period of time the donor specifies. At the end of the time period, the assets used to fund the trust are returned to the donor or others the donor chooses.

Q. Are the annual payments to the charitable organization always the same?

A. That depends on how the trust is structured. You decide the amount and timing of the trust payments at the time the trust is created. They can be a fixed amount or a percentage of the value of the trust assets as determined each year.

Q. Are there tax benefits with a lead trust?

A. Yes. Because payments from the trust are used for charitable purposes, you can reduce or eliminate income, estate, and gift taxes now and in the future.

Q. What if I would like to make a charitable gift, but also want to provide an inheritance for my heirs?

A. A lead trust may be a wise solution that allows you to achieve both goals.

The trust makes generous gifts to the organization each year for a period of time you determine. At the end of the time period, when your heirs may be more mature and better able to manage their finances, they will receive the assets remaining in the trust.

Because of the charitable gifts made from the trust, little or no estate or gift tax will be due on the amount heirs receive. You may also lessen the impact of any generation-skipping transfer tax.

Q. Can I decide to have the assets in the lead trust returned to me? If so, what are the tax benefits?

A. Yes, you may do so at the end of the specified time period.

You are entitled to an income tax deduction in the year the trust is created for the value of the income payments to charity. The charitable gift will actually be made over a period of years, but you receive tax benefits in the year you create the trust.

Because you receive a tax deduction in advance of the future trust earnings, you will pay any tax that is due on the income from the trust as it is realized.

Q. Who manages the assets in a lead trust?

A. While the lead trust is in existence, the property placed in it is managed by a trustee chosen by you at the time the trust is created. You may serve as trustee or appoint another individual or a professional trustee such as a financial services entity. You can also choose to have the assets managed by your current financial advisor.

The trust will file a tax return each year, but very little in the way of other administration is required to properly manage a charitable lead trust.

Q. How can I set up a charitable lead trust?

A. Charitable lead trusts should be established with the assistance of one or more advisors. Trust documents should be prepared by attorneys in consultation with those who will serve as trustee and/or manage the trust assets.