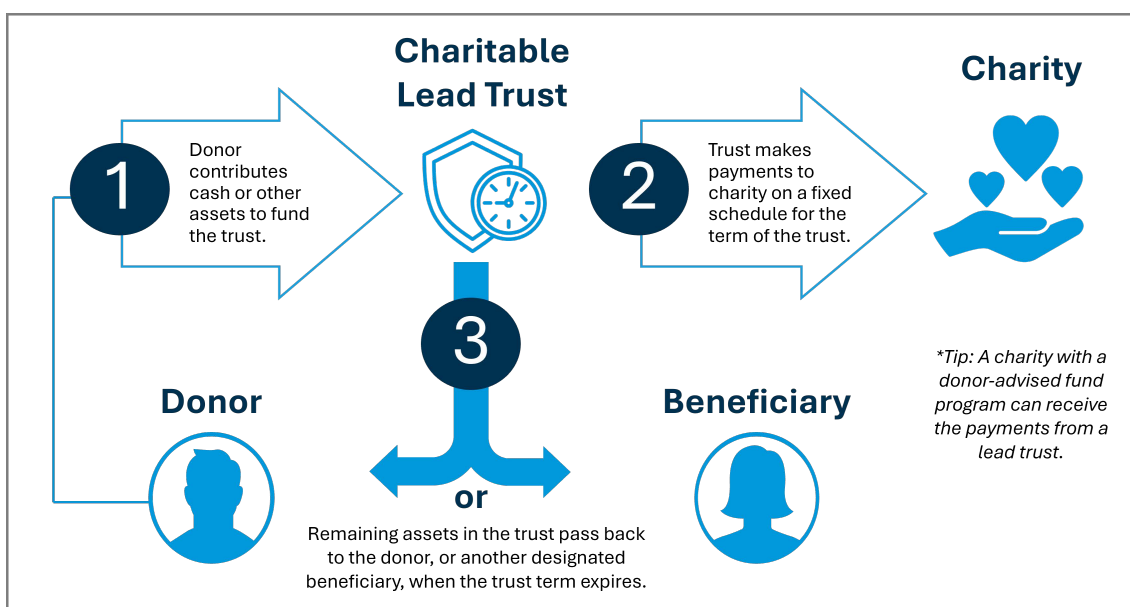


Building Your Philanthropic Legacy: Charitable Lead Trust

Is a Charitable Lead Trust (CLT) Right for Me?

Charitable lead trusts (CLTs) are a type of trust that allows a donor to contribute assets to a trust, which then makes payments to a charity on a fixed schedule for a certain term. At the end of the term, the remaining assets in the trust pass back to the donor or to another designated beneficiary.



A CLT Works as Follows:

The donor contributes assets to the trust, which then makes payments to a charity on a fixed schedule for a certain term. At the end of the term, the remaining assets in the trust pass back to the donor or to another designated beneficiary.

- The donor contributes assets to the trust, which then makes payments to a charity on a fixed schedule for a certain term. At the end of the term, the remaining assets in the trust pass back to the donor or to another designated beneficiary.
- The trust makes payments to a charity on a fixed schedule for a certain term. At the end of the term, the remaining assets in the trust pass back to the donor or to another designated beneficiary.
- The remaining assets in the trust pass back to the donor or to another designated beneficiary at the end of the term.

While the assets can revert back to the donor at the end of the term, such a result achieves no wealth transfer objective.

The income from a Charitable Lead Trust is distributed in one of two ways:

- The trust makes payments to a charity on a fixed schedule for a certain term. At the end of the term, the remaining assets in the trust pass back to the donor or to another designated beneficiary.
- The remaining assets in the trust pass back to the donor or to another designated beneficiary at the end of the term.

Selecting the Right CLT...

Both types of Charitable Lead Trusts provide an income stream to the designated charities for the term of the trust, which is typically a set number of years or the lifetime of one or more individuals. After the trust term ends, the remaining assets are distributed to the non-charitable beneficiaries, such as the grantor's children or grandchildren.

The choice between an annuity trust or unitrust structure depends on the grantor's goals and the expected performance of the trust assets. Annuity trusts provide more certainty in the charitable payouts, while unitrusts allow the charity to benefit from potential growth in the trust. CLATs have the added benefit that the taxable gift can be zeroed-out. Another difference is that at the inception of the trust, the donor's Generation-Skipping Transfer (GST) tax exemption can be allocated to a CLUT, but not to a CLAT. In the case of a CLAT, the GST exemption must be allocated at termination of the trust.

This difference allows the donor to leverage his/her GST exemption when setting up a CLUT based on the actuarial (rather than the actual) value of the remainder.

Unlike a Charitable Remainder Trust, a CLT is a taxable trust. CLTs can be structured either as a grantor trust or non-grantor trust for income tax purposes. If it is a grantor trust, the grantor is treated as the owner of the assets for tax purposes and can claim an immediate income tax deduction for the present value of the charitable payments, subject to certain AGI limitations. In that case, all future income of the trust is taxable to the grantor. If the CLT is a non-grantor trust, the trust pays the taxes and receives charitable tax deductions annually. Because a CLT is a taxable trust, funding it with highly appreciated property is not tax-efficient. However, a CLT can be created at death and the property used to fund the trust can benefit from a stepped-up basis, thus reducing future taxes.

The CLT is a sophisticated gift planning vehicle, and as with all such vehicles, professional counsel should be retained to fully analyze the effectiveness of a particular vehicle given a particular set of circumstances.

About 1919 Investment Counsel

1919 is a registered investment advisor. Its mission for more than 100 years has been to provide investment counsel and insight that helps families, individuals, and institutions achieve their financial goals. The firm is headquartered in Baltimore and has offices across the country in Birmingham, Cincinnati, New York, Philadelphia, San Francisco, and Vero Beach. 1919 seeks to consistently deliver an extraordinary client experience through its independent thinking, expertise, and personalized service. To learn more, please visit our website at 1919ic.com.

The views expressed are subject to change. Any data cited have been obtained from sources believed to be reliable. The accuracy and completeness of the data cannot be guaranteed. Individuals should consult their tax advisors before acting on any information contained herein. **Circular 230 Disclosure:** Any advice contained herein is not intended or written to be used, and cannot be used, for purposes of avoiding tax penalties that may be imposed on any taxpayer. The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. No part of this material may be reproduced in any form, or referred to in any other publication, without the express written permission of 1919 Investment Counsel, LLC ("1919"). This material contains statements of opinion and belief. Any views expressed herein are those of 1919 as of the date indicated, are based on information available to 1919 as of such date, and are subject to change, without notice, based on market and other conditions. There is no guarantee that the trends discussed herein will continue, or that forward-looking statements and forecasts will materialize. This material has not been reviewed or endorsed by regulatory agencies. Third party information contained herein has been obtained from sources believed to be reliable, but not guaranteed. There is no guarantee that employees named herein will remain employed by 1919 for the duration of any investment advisory services agreement. 1919 Investment Counsel, LLC is a registered investment advisor with the U.S. Securities and Exchange Commission. 1919 Investment Counsel, LLC, a subsidiary of Stifel Financial Corp., is a trademark in the United States. 1919 Investment Counsel, LLC, One South Street, Suite 2500, Baltimore, MD 21202. ©2024, 1919 Investment Counsel, LLC.