

CHARITABLE LEAD UNITRUST (CLUT)
(CHARITY IS INCOME BENEFICIARY)
(DONOR'S CHILDREN ARE REMAINDER BENEFICIARIES)

HIGHLIGHTS OF THE PLAN

OVERVIEW

A Charitable lead trust (CLT) is a split-interest Trust set up by a Donor that gives one or more charities designated by the Donor a stream of income during the term of the Trust. It also provides a remainder interest in the property which is returned to the Donor or the Donor's family at the end of the Trust term.

With this technique, the Donor's attorney drafts a CLT document in which a Trustee is named to invest and manage property transferred to the Trust. The Donor transfers cash or other property to the Trust and, depending upon whether the CLT is a Grantor or Non-Grantor Trust, may receive a charitable deduction equal to the present value of the income interest that goes to charity while the Trust is in existence. This present value is determined through the use of government tables and a specified formula. One or more Charities are named to receive a stream of income for a period of years, either for a fixed term of years, for one or more persons' lifetimes, or for a combination of the two. Although there is no minimum period for the term of the Trust, the Trust must not exceed a maximum period determined by the rule against perpetuities in the state under whose laws the Trust was organized.

The remainder interest in the Trust, that is, what is left over after the Charity's interest terminates goes either to the Donor or another person or person's designated by the Donor.

A Charitable lead trust may be created during the Donor's lifetime (Intervivos Trust) or at death in the Donor's will (Testamentary Trust). The primary benefit of a CLT is in the Donor's ability to transfer significant amounts of property to his/her family at a discounted value for estate and gift tax purposes.

TYPES OF CLTS

There are essentially two main types of Charitable Lead Trusts: Charitable Lead Annuity Trusts (CLATs) and Charitable Lead Unitrusts (CLUTs). A Charitable Lead Annuity Trust pays the Charity a fixed percentage of the initial amount of property transferred to the Trust. For example, a contribution of \$100,000 to an 8% annuity Trust would provide a payout to Charity of \$8,000 in the first year and each year thereafter.

A Charitable Lead Unitrust pays a fixed percentage of the value of the Trust property as valued each year. For example, a contribution of \$100,000 to an 8% Unitrust would provide a payout

to Charity of \$8,000 in the first year. If the Unitrust property had an investment return of 10% the second year payout would be 8% of \$110,000, or \$8,800, and so forth.

ADVANTAGES TO THE DONOR

1. The Donor can transfer significant amounts of property to his/her family at a discounted value for estate and gift tax purposes.
2. The Donor in a Grantor CLT can receive a current income tax deduction equal to the present value of the stream of income that will ultimately go to Charity.
3. The Donor's estate and gift taxes are reduced.

ADVANTAGES TO THE CHARITY

1. The charity receives a gift that it might not receive in the absence of a CLT.
2. The Charity receives an income stream from the CLT.

DISADVANTAGES TO THE DONOR

1. The assets in the CLT are inaccessible.
2. The CLT is irrevocable, which means that the income stream given to charity is gone forever.
3. Because of the complexity in setting up and operating a CLT, the document must be drafted by an attorney and administered by a professional administrator.
4. If an income tax deduction is taken, which can be done only in a Grantor CLT, Trust income is taxable to the Donor/Grantor as it accrues.
5. The Donor's family must wait until the Charity's interest terminates to get the property transferred to the CLT.
6. The generation-skipping tax exemption, if applicable, is allocated at the end of the Trust term, rather than when property is transferred to the CLT. Thus, the "freeze" potential of a CLT for multi-generational skips is diminished.