

Fall 2016

Nonprofit Newsletter Fall 2016 - It's Time to Explore a Charitable Lead Trust - A Charitable Planning Technique Used by Jackie O.

Transferring wealth to loved ones while achieving charitable goals and minimizing taxes may sound like a lot, but this balancing act can be successfully and efficiently accomplished using a charitable lead trust (CLT). Perhaps one of the most famous CLTs is the one under the will of Jacqueline Kennedy Onassis. It provided annual gifts to charity for 24 years after her death, with the remaining property passing to her grandchildren. Although this CLT was only funded if her children "disclaimed" (refused to accept) the inheritance otherwise provided to them (they did not disclaim), Jackie O. recognized the value of including a CLT in her estate plan and relied on her children to make the ultimate decision of whether the CLT should be implemented after her death. A CLT is an irrevocable trust established during the donor's lifetime or at the donor's death that provides a stream of income to one or more charities for a period of time measured by a term of years, the lifetime of certain persons or a combination of both. Once this period expires, remaining trust property (and any appreciation above the IRS assumed rate of return, currently 1.6 percent) is distributed to non-charitable beneficiaries. The income stream to charity can be structured as an annuity (a fixed amount or percentage of the initial trust property) or as a unitrust (distributions based on the annual fair market value of the trust property). Jackie O. included a CLT in her will to support her charitable passions and ultimately provide for her family. With a testamentary CLT, an estate tax charitable deduction is available to the donor's estate for the value of the interest passing to charity. For lifetime CLTs, income and gift tax charitable deductions may be available. In addition, with a lifetime CLT, the donor has the opportunity to witness the charity's use of the contributions from the CLT, which can be a rewarding benefit. Although Jackie O.'s CLT was never implemented, many other CLTs have been put in place to achieve many goals, including to:

- Replace annual charitable giving with a structure that continues those charitable gifts and also leverages appreciation for non-charitable beneficiaries.
- Leave a portion of an estate to charity and the balance to non-charitable beneficiaries.
- Transfer business interests to non-charitable beneficiaries after using the income stream from the business to satisfy charitable goals.
- Shift an appreciating asset at a modest tax cost to non-charitable beneficiaries after using a portion of the appreciation to make gifts to charity.

For all the reasons discussed above, the use of a CLT should be explored by any charitably inclined donor; it is not a technique reserved for First Ladies and fashion icons.