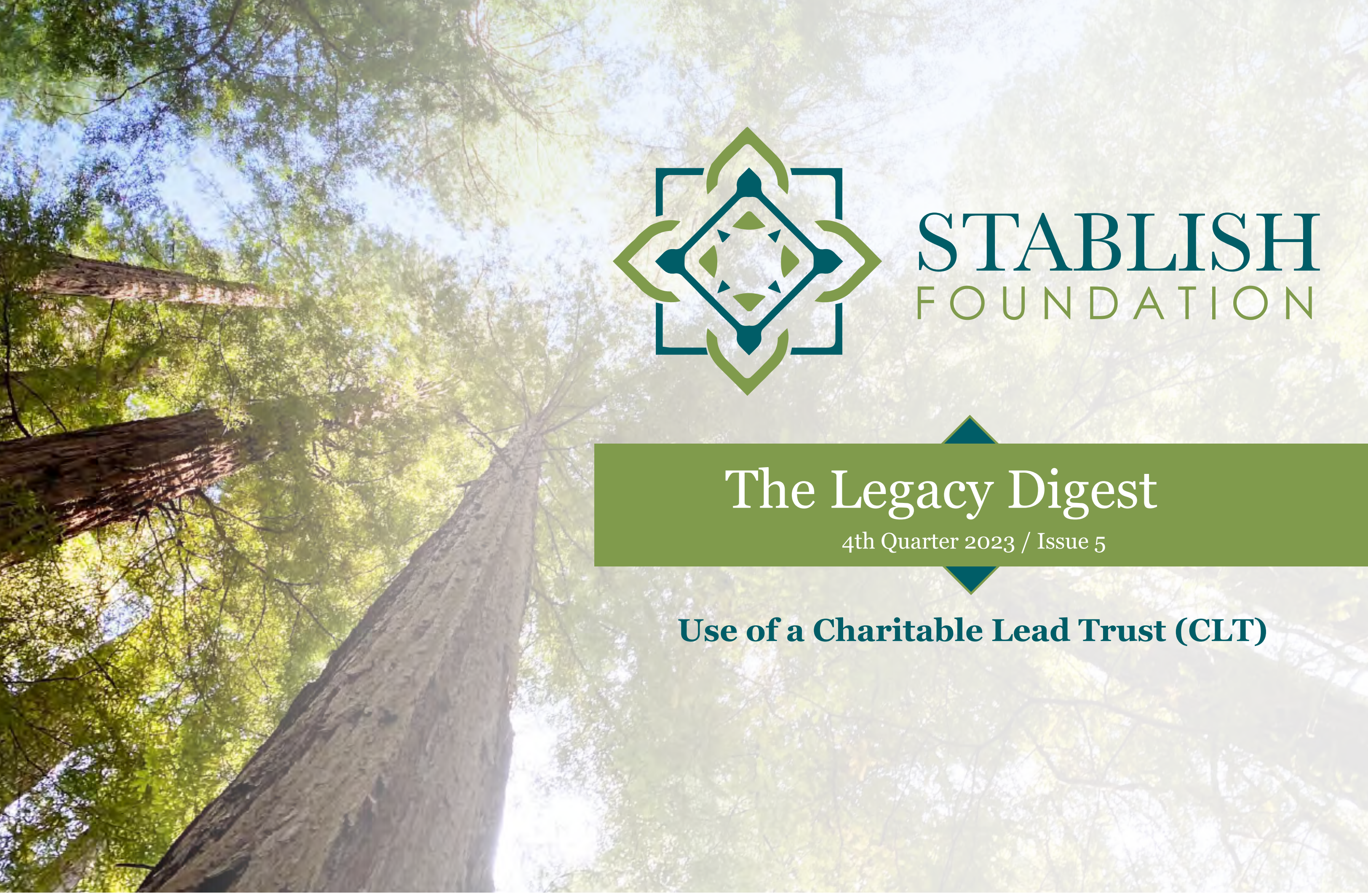


STABLISH FOUNDATION

The Legacy Digest

4th Quarter 2023 / Issue 5

Use of a Charitable Lead Trust (CLT)

In the last issue of The Legacy Digest, we wrote about some uses of the Charitable Remainder Trust (CRT). A Charitable Lead Trust (CLT) is the opposite of a CRT.

Like a Charitable Remainder Trust, a **Charitable Lead Trust** can be created when the client/donor contributes appreciated property to the trust. And like a CRT, a CLT can accept any type of property, such as cash, stocks, bonds, real estate, etc. However, while a CRT makes annual payments to the Donor and then distributes the trust assets to the designated charities upon the Donor's death; a CLT makes annual contributions to the Donor designated charities until the death of the donor and then distributes the remaining assets to the individual beneficiaries selected by the donor. Therefore, a Charitable Lead Trust provides a family wealth transfer, as well as fulfilling the current charitable goals of the Donor.

For incomes tax purposes, a CLT can be drafted as a grantor trust or a non-grantor trust. With a grantor trust, the Donor receives an upfront income tax deduction on the formation of the trust, but is then responsible for the income taxes on the future trust income. With a non-grantor trust, a separate taxpaying trust is created and allowed an unlimited charitable income tax deduction for the income paid to the charity or charities; however, the Donor does not receive a charitable tax deduction on their personal income taxes.

So, should you consider creating a Charitable Lead Trust? Here is one example where a CLT may provide a solution for a Donor. The Donor has a large potential estate tax exposure and wants to support his favorite charity during his/her lifetime. The Donor creates a 10-year **Charitable Lead Annuity Trust (CLAT)** funded with $5,000,000, which will make annual payments of $500,000 to his/her chosen charity and, upon the Donor's death, will pay the remainder to the Donor's son.

The value of the charity's annuity is calculated pursuant to the actuarial valuations of Section 7520 of the Internal Revenue Code. If we assume that the actuarial value of the annuity on the date of the gift was $3,900,000, the remainder interest payable to the son or the son's trust is valued at $1,100,000. The Donor and his/her advisor must determine whether it should be a grantor or non-grantor trust. The non-grantor trust may provide the most estate tax benefit to the Donor's estate. Gift taxes are due based on the value of the remainder interest.

Obviously, the decision for the Donor to use a grantor or a non-grantor trust is complicated and requires significant services and advice from a tax professional. Also, because of the significant limitations on itemized deductions from charitable giving in the current tax environment, the decision should probably be focused more on the estate tax savings than the income tax benefits. However, every Donor has a different financial, tax and philanthropic situation.

In another example, a Donor and his/her family are very philanthropic and a charitable organization that they wish to support wants to build a new building that requires the organization to place a mortgage on the building. A CLAT could be created by the Donor to make the mortgage payments. Assuming the mortgage is a 20-year mortgage, the CLAT would make payments for the 20-year period and the remainder interest would pass to the Donor's beneficiaries. In this case, a non-grantor CLAT would probably be used since the availability of a current charitable deduction is limited. If the assets contributed to the CLAT are appreciated properties, the income tax gain is avoided and both the philanthropic and the wealth transfer benefits are obtained.

As the above indicates, deciding to use a Charitable Lead Trust is a complicated process and requires significant planning, as well as income and estate tax advice. Stablish Foundation can provide assistance in this process and can act as the trustee for the CLT. We work closely with a Donor's estate and tax professionals to accomplish their philanthropic and personal objectives and help them to create their Legacy. ◆

We want to hear from you, what are your questions?

Go to www.stablish.org/contact and send us a message. Or call Amy Hafenbrack, Stablish Executive Director, at 952-854-9188.

Featured Charity

Theater Latte Da

THEATER LATTÉ DA

THEATER MUSICALLY

https://www.latteda.org/

Currently celebrating their 26th season, this small, award-winning theater exclusively produces musical theater.

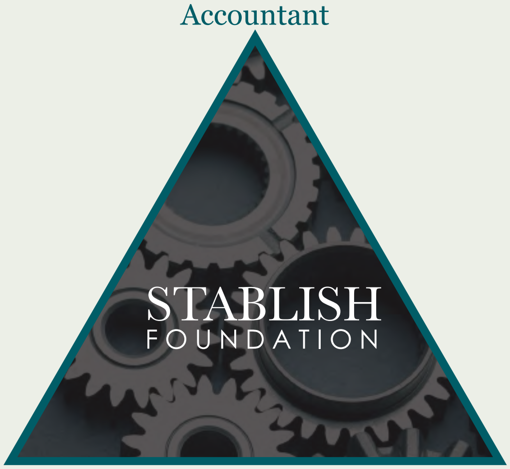
Housed in the historic Ritz Theater in northeast Minneapolis, Theater Latte Da has produced eighty-seven mainstage musical productions to a cozy 248-seat audience.

They seek to provide modern connections through musical storytelling, incorporating diverse voices throughout.

The non-profit Theater Latte Da was voted Favorite Theater Company in 2023 by Minnesota Women's Press. They would love to welcome you to their next musical production. www.latteda.org

Creating Your Legacy

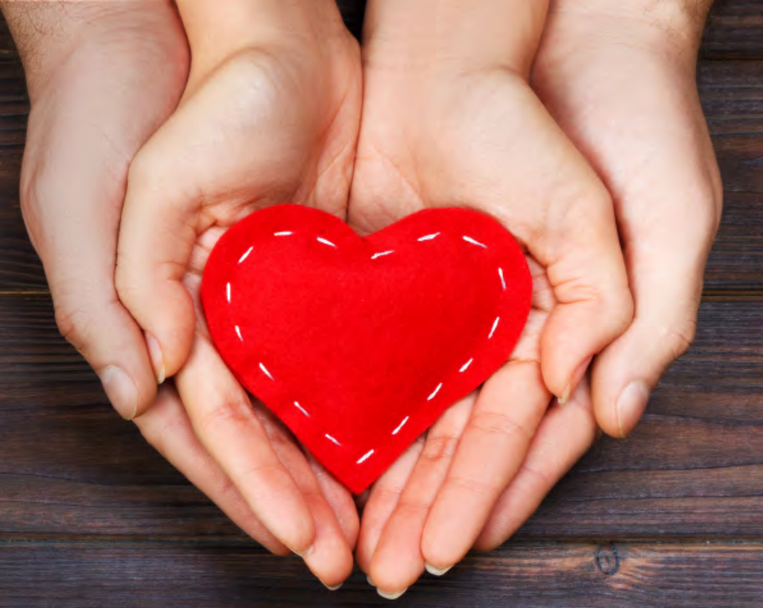
Accountant



Financial Planner

Estate Attorney

Creating Your Legacy is a Strategic Partnership between Stablish, your Financial Advisor, your Tax Advisor and your Estate Attorney. Stablish Foundation can lead your team and coordinate this process for you.



"We love our Donor Advised Fund. It has become a family affair! Shortly after starting the fund, we asked our daughters if they would like to be a part of the gifting decisions. Getting a very positive response, we allocated a percentage of the gifting amount to each daughter so they could choose their own charities. We respect their choices, and they see the priorities that we parents have chosen. It's a win-win for now and a preparation for how the family's fund can and will be handled for years to come. And . . . they said that choosing their charities is one of their favorite things to do each year!"

Karen and John, Donors

Why Stablish

Stablish values the importance of personal trust relationships when managing your money and creating your Legacy.

Therefore, in addition to coordinating with your tax and estate planning advisors, we can set up your Stablish account with your personal financial advisor. He or she will be able to meet with the Stablish Investment Committee regularly and offer their recommendations on how to invest your account's assets.

This ensures that your Stablish account is segregated from others and is in keeping with your overall investment goals.

STABLISH FOUNDATION

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