



# Charitable Lead Trust

Philanthropic-minded individuals sometimes wish to use their accumulated assets to benefit their favorite charities **and** family members. Such individuals often want to enjoy the impact of their donations during their lifetime, but wish to have any remaining assets revert to their loved ones upon their death. A Charitable Lead Trust (CLT) is a planning solution that can help in these instances. A CLT:

- 1) is an irrevocable trust that is created during the donor's lifetime or upon the donor's death with the help of an estate planning attorney; and
- 2) contains provisions that define the term of the trust — typically, either for the donor's lifetime (or the lifetimes of the donor and spouse), or a specified term of years, or for the life of an individual<sup>1</sup> and a fixed term of years.

With a CLT, depending upon the specific goals of the donor, and how the CLT is structured, the trust will pay out a stream of either fixed or variable income to the charity for the term of the trust — at the end of which time, whatever remains in the trust goes to either the donor, his or her estate, or to the beneficiaries designated in the trust document, such as the donor's children. In some instances, a CLT may be structured to provide income, gift, and estate tax benefits and deductions. For instance, it is very common for a CLT to be set up to initiate at the donor's death, particularly if the donor expects to have an estate tax problem. Done correctly, the CLT can eliminate much or all of the estate taxes through an estate tax charitable deduction for the discounted present value of the income stream to the charity, while still leaving remaining assets to family members. Consequently, CLTs are flexible planning tools that can help donors solve their income, gift and/or estate tax problems.

## Creating a Charitable Lead Trust

Camilla Shore is a wealthy retired business woman who wishes to use \$1 million of her assets to provide a stream of income to her three favorite charities over the remainder of her lifetime — with the balance of that money going to her children upon her death. After discussing her wishes with her financial professional, she decides that a CLT could help her achieve her objectives:

- Camilla works with her attorney to create a Charitable Lead Trust (CLT).
- The CLT is established for Camilla's lifetime — and is funded with her \$1 million lump-sum contribution.

- The trustee<sup>2</sup> invests the \$1 million to generate annual income that will be paid to the three charities identified in the trust for the rest of Camilla's life.
- When Camilla dies, the money remaining in the trust will go to her children.

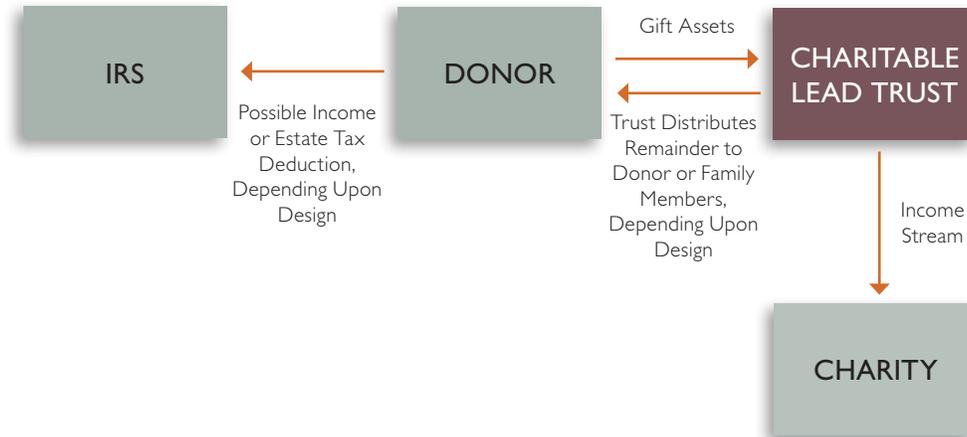
This planning technique allows Camilla to enjoy her philanthropy during her lifetime, while being assured that the balance of the trust assets will pass to her children upon her death.

*Continued...*

<sup>1</sup> The measuring life or lives can only be the donor, donor's spouse, lineal ancestor, or spouse of a lineal ancestor.

<sup>2</sup> As a general rule, the donor should not serve as the trustee.

## How It Works



## Charitable Lead Trusts May Provide Income Tax Deductions

A CLT created during the donor's life may qualify for a charitable deduction for income tax purposes, but not in all cases. It all depends upon how the CLT is set up. Generally, if at the end of the CLT term the balance of the assets revert to the donor, then there may be an income tax charitable deduction. This type of CLT is known as a Grantor CLT. If the remaining trust assets pass on to his or her loved ones, then the donor will generally not be entitled to a deduction. This is known as a Non-Grantor CLT. However, the remaining assets that ultimately pass to the children or other family members can be treated as a taxable gift made by the donor.

*Because the tax treatment of CLTs is fairly complicated, be sure to consult your own tax and legal advisors for guidance on your individual situation.*

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