

CHARITABLE LEAD TRUST

The Charitable Lead Trust is the opposite of the Charitable Remainder Trust. It provides income payments to one or more charitable organizations first. Then the property in the trust reverts back to the donor or family members at the end of the term of the trust.

There are two basic types of Charitable Lead Trusts that provide either a fixed amount of income or variable amount of income to one or more charitable organizations during the term of the trust.

One type is called the Income Lead Trust or Grantor Lead Trust. This type of trust allows the donor to make a gift to one or more charitable organizations and select an end point for the term of the trust, at which time the assets of the trust are distributed back to the donor. This type of trust provides an income tax deduction based upon the present value of the income payments to charity. The earnings of the trust are reportable as income to the donor. Consequently, this type of trust is usually funded with cash or tax-free bonds.

The other type is the Family Lead Trust or Nongrantor Lead Trust. This type of trust provides an attractive way to pass appreciating assets to family with minimum, if any, gift taxes. This type of trust does not provide any income tax deduction. However, it provides a discount on the value of the assets placed in the trust based upon the term of the trust and the value of the income payments given to charity. In addition, any growth in the value of the assets while in the trust is not subject to any gift or estate tax when they are distributed to family upon the termination of the trust.

When the donor's family receives the assets of the trust they will carry over the trust's basis (which is the same as the donor's basis) for determining capital gains. This loss of a step-up basis is offset by the fact that the family is receiving an appreciated asset without incurring gift or estate taxes.

A Charitable Lead Trust may be established either during the donor's life or as a bequest in the donor's will.

