Leverage Your Philanthropy with Today's Low Interest Rates Using a Charitable Lead Trust ("CLT")

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Charitable lead trusts involve complicated tax analysis and advanced planning. Please consult with your legal or tax advisor about your particular circumstance. Schwab Charitable does not act as trustee or custodian for charitable lead trusts and cannot provide legal or tax advice. This article is meant for educational purposes only.

A **Charitable Lead Trust (CLT)** is a gift of cash or other property to an irrevocable trust. A named charity receives an income stream from the trust for a term of years. Depending on how the trust is structured, the donor enjoys a current income, gift, or estate tax deduction on the donated assets. After the income stream period ends, the remainder assets are distributed to the non-charitable beneficiaries.

- **The lower the federal interest rate, the higher the income or gift tax deduction.** The lower the current IRS 7520 interest rate is, the higher the present value calculation for the stream of payments to the charitable beneficiary. This translates into:
  - A higher income tax deduction for Grantor CLTs
  - A lower remainder value subject to gift and estate tax for Non-Grantor CLTs
- **Donor controls tax benefits through the structure of the trust.** The deduction in the year of the transfer is limited to 30% of the donor's adjusted gross income. This is true even if cash is used to fund the trust, as the trust income is considered "for the use of" the charitable beneficiary. Any excess amount not deductible in the year the trust is established can be carried over and deducted (subject to the 30% limitation) for up to five additional years.

  There are two types of CLTs and each affords different tax benefits:
  - ***Grantor CLT***—This is most often used for donors experiencing a significant income event. A grantor trust is a trust in which the donor is treated as the owner of the trust for income tax purposes. With this structure, the donor receives an immediate income tax deduction, with the trust assets distributed to the donor or another non-charitable beneficiary after the trust term ends. The charitable deduction the donor received at the funding of the trust is recaptured over the trust term because the donor is taxed on the CLT income, including the payouts to charity. Tax-exempt investments in the trust help to minimize the donor's tax liability.
  - ***Non-Grantor CLT***—This is used to reduce gift and/or estate tax. The lower the remainder value (the gift to the non-charitable beneficiary), the lower the potential gift tax cost. Remainder value can even be zeroed out by adjusting the charitable lead payment amount and duration. If the CLT assets appreciate at a rate that exceeds the 7520 rate, the value of the excess investment return will be distributed to remainder beneficiaries at the end of the term free of estate or gift tax.
- **Couple a CLT with a donor-advised fund.**
  - CLT donors have the option to name their donor-advised fund account as the lead charitable beneficiary. This allows the donor to maintain advisory privileges over the charitable funds, once gifted to their donor-advised fund account, to better strategize his/her charitable giving during lifetime and after death.
  - For donors seeking to benefit charitable causes during their lifetime while enjoying gift and estate tax savings, a non-grantor CLT naming a donor-advised fund account as the lead charitable beneficiary may be a great option. Donors should work with a qualified estate planning attorney and tax advisor to confirm that a properly structured CLT will provide the expected results with respect to the tax consequences of the gift as well as the administration of the CLT.

A donor's ability to claim itemized deductions is subject to a variety of limitations depending on the donor's specific tax situation. Donors should consult their tax advisors for more information.