SEI Private Trust Company

Personal Trust Services

Charitable Lead Trusts.

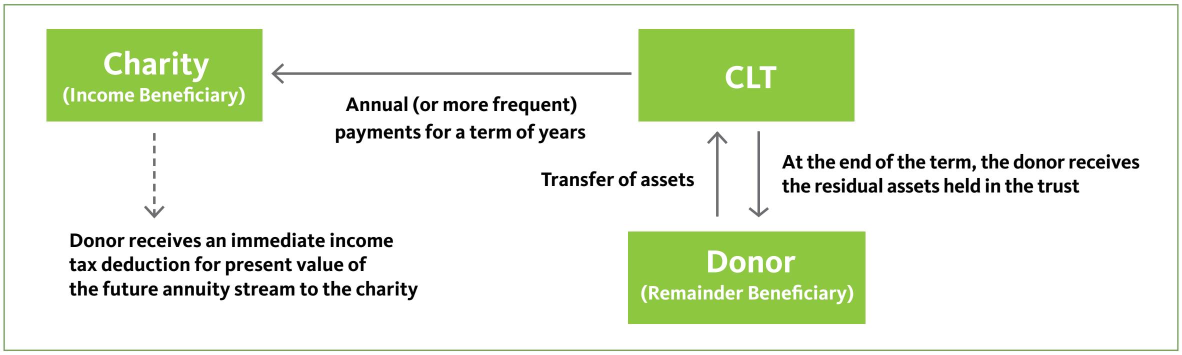
Today, there are more ways than ever to realize your personal vision of philanthropy. The best way to make it happen—while making the most of your giving—is to understand the vehicles available to you, such as a Charitable Lead Trust.

Overview

A Charitable Lead Trust (CLT) allows you to place assets into an irrevocable trust. An irrevocable trust is a type of trust where its terms cannot be modified, amended or terminated without the permission of the grantor's named beneficiary or beneficiaries.[1] The charities you choose will then receive an income stream for the term of the trust. That term can be a specified number of years, or as long as you live. When the trust ends, the remaining assets will pass to your heirs, or to you, depending on the type of CLT you have created.

Here's how it works:

1. Name a charity or charities as the income beneficiary of the trust.
2. Appoint a beneficiary to receive the assets at the end of the trust's term (or the assets can be returned to you).
3. Contribute assets into the trust from your estate.
4. The trust pays income to the designated charity or charities for the remainder of your life or the term of the trust.
5. After the trust ends, the trust passes the remaining assets to the designated non-charity beneficiary.



Two types of charitable lead trusts can help you achieve your estate planning goals

You can establish a CLT so that the remaining assets can be transferred either to your heirs or to you. This feature allows you to further customize the trust to help meet your financial, family and charitable giving goals. Consider these options:

Grantor Charitable Lead Trust –This type of CLT passes the remaining assets back to you at the termination of the trust. A Grantor CLT is designed to provide a current income tax deduction while retaining assets for your future use. Since trust income is taxable to the grantor, consider tax-managed equity and municipal bonds in the investment strategy.

Non-Grantor Charitable Lead Trust –This type of CLT passes the remaining assets to your heirs at the termination of the trust. A Non-Grantor CLT is designed to help transfer assets from your taxable estate. Here the trust income and the charitable deduction are at the trust level. Consider tax managed equity and municipal bonds in the trust's investment strategy.

In addition, both a Non-Grantor CLT and a Grantor CLT can be set up in one of two ways:

Charitable Lead Annuity Trust (CLAT) –This type of trust pays a fixed distribution (e.g., $25,000) to a charity every year based on the value of the trust at the time of funding.

Charitable Lead Unitrust (CLUT) –This type of trust pays a variable income distribution (e.g. 5%) to a charity that will increase or decrease based on the annual valuation of the trust.

Is a CLT right for me?

People who choose a CLT typically do so because they want to balance their philanthropic interests with other considerations, such as:

- A need for an effective tax planning tool to help produce a significant income tax deduction or to save on estate taxes when passing assets on to heirs
- A desire to maintain control of principal assets
- The ability to forgo income from those assets for a period of time

How can a CLT benefit me, my family and my charity?

The greatest philanthropic benefit of your CLT is that it provides income to a charity that is important to you, while at the same time helping to meet your income tax and estate planning needs.

Other potential benefits include:

- Your money is working for you and your heirs
- You maintain control over the investment of your assets
- You may enjoy significant income tax benefits, and possibly estate and gift tax benefits
- There is a possible generation-skipping tax charitable deduction
- You can help maximize wealth transfer while reducing transfer taxes
- You establish a legacy by providing income to your favorite charities in your family name

What is the role of my advisor and SEI Private Trust Company (SPTC)?

Your advisor can work with you to:

- Integrate your CLT with your other estate and financial plans
- Help determine which type of CLT best meets your needs
- Recommend the most appropriate investments to fund the trust
- SPTC can serve as a discretionary trustee, which includes investment authority and performing all of the administrative activity, recordkeeping and required tax preparation. SPTC can also serve as trustee or as your trustee's agent and perform all of the administrative activity, recordkeeping and required tax preparation. In any case, SPTC will work closely with your advisor in the transfer of assets and administration, and if applicable, the trust management.

SPTC Case Study: Charitable Lead Trust (CLT)

The Smiths are in their 60s and have sold a piece of commercial real estate to support their retirement years. The tax gain was substantial, and the Smiths are looking for a way to save on taxes. The advisor learned at a meeting with the Smiths that they also have charitable wishes.

The advisor discussed a few planning options, such as direct gifts to charitable organizations, a donor-advised fund, and a charitable lead trust that could help with both tax and charitable matters.

Together, the advisor and the Smiths developed a charitable lead trust strategy, and the advisor provided the following:

A 5% Grantor Charitable Annuity Trust of $1,000,000 with a term of 15 years. This means that the trust would make charitable contributions of $50,000 each year for 15 years. After the trust term expires, the remaining amount in the trust would be transferred back to the Smiths.

The Grantor CLT generates a charitable tax deduction, which can help the Smiths save on taxes. The Smiths chose an annual $50,000 from CLT to their favorite charity for two reasons. First, they plan to invest in an equity-focused strategy in an effort to generate the returns to cover the annual payout. Second, the higher the payout, the larger the charitable deduction in the year the trust is funded. The Smiths wanted the trust to terminate before they turned 80 years old. They can use the trust proceeds at its termination to supplement their lifestyle.

The charitable deduction generated is $603,580.[2] Essentially, the Smiths are getting the present value of the future charitable contributions in the year they need the tax deduction most. Because the Smiths are in the highest federal tax bracket, the tax savings is $223,325 ($603,580 x 37%).

Each year, the trust will issue a Form K-1 to the Smiths. They should consider tax management for the trust assets since they will need to pick up trust income on their personal return after investment and administration costs.

The Smiths will work with their estate attorney to draft a trust document (for a separate fee). SPTC does not draft documents as part of their administrative duties.

The Smiths liked the CLT idea because it:

1. Created a much-needed tax deduction
2. Satisfied some of their charitable planning
3. Gave comfort that the remaining trust assets, if any, will be returned to them or their estate at a future date
4. Was designed and executed in a relatively straightforward way
5. Kept things simple; they decided to have the trust administered by a corporate trustee, which includes tax return preparation

The Smiths should be able to meet their goals and objectives using a charitable lead trust. The CLT can solve their financial needs, and the charitable contributions mean something important to them.

Consider the disadvantages of a CLT, too:

- Does not qualify for income tax deduction unless you are also the owner of the charitable lead trust
- Requires an irrevocable commitment
- Requires the charitable payment to be made each year, regardless of whether there is sufficient trust income available
- Charitable trusts are subject to specific IRS rules

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[1] Investopedia

[2] The charitable income deduction was calculated using Crescendo Planning Software Version 2019-2. The planning software does not consider state or local taxes.

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