




**COVID-19**

UPDATE:  
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**Coronavirus / COVID-19  
Response Team**


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**Philanthropy & COVID-19:  
Charitable Lead Annuity  
Trusts**

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## Today's Topics

- CLAT Tax Benefits
- Webinar Audience Challenge
- Nongrantor CLAT Example
- Double Discount Lead Trust
- Super CLAT

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## Charitable Lead Annuity Trust

- Tax efficient vehicle used to transfer property with great potential to appreciate to children
- Typically funded with a combination of publicly traded stocks and real estate
- Assets are frozen on date of transfer to trust
- To the extent trust assets appreciate in excess of Section 7520 rate, wealth is shifted free of transfer tax
- Gift and/or income tax deduction

## Charitable Lead Annuity Trust

- Lead income interest paid to charity
- Upon expiration of lead interest term, assets are transferred to children
- CLATs are very attractive during periods of low interest rates
- Low Section 7520 rate provides a larger charitable tax deduction for CLAT
- Excellent vehicle for leveraging lifetime exemption

## Webinar Audience Challenge

- Gentleman has a spare \$336,115,860
- He has \$11,580,000 in lifetime exclusion
- In a 15 year time frame, is it possible for him to do the following:
  - Make gifts to charity;
  - Transfer more than \$336,115,860 to his children; and
  - Pay zero dollars in transfer taxes?
  - Yes or No?

## Nongrantor CLAT to the Rescue?

Original Property FMV \$336,115,860	Trust Principal \$336,115,860	Trust to Family \$609,903,544
<ul style="list-style-type: none"> <li>• Gift asset to lead trust, charitable gift tax deduction of \$240,386,702</li> </ul>	<ul style="list-style-type: none"> <li>• Income of 5% to charity for 15 years</li> </ul>	<ul style="list-style-type: none"> <li>• After term of years, trust distributed to family</li> </ul>
<ul style="list-style-type: none"> <li>• Deduction reduces taxable gift from \$336,115,860 to \$95,729,158</li> </ul>	<ul style="list-style-type: none"> <li>• First year income of \$16,805,793</li> </ul>	<ul style="list-style-type: none"> <li>• \$273,787,684 of growth transferred to family saves \$109,515,073 in gift or estate taxes</li> </ul>
	<ul style="list-style-type: none"> <li>• Total charitable payments in 15 year of \$252,086,895</li> </ul>	<ul style="list-style-type: none"> <li>• (During trust term capital appreciation of 6% and ordinary income of 2% assumed)</li> </ul>

## Another Alternative...

- Combine an FLP or an FLLC with a CLAT
- Asset contributed to an FLP or FLLC may be discounted in value
- Minority Interest Discount
- Lack of Control Discount
- Lead interest to charity provides gift tax deduction

## Double Discount Lead Trust

Original Property FMV \$252,086,895	Trust Principal \$252,086,895	Trust to Family \$609,903,544
<ul style="list-style-type: none"> <li>• \$336,115,860</li> <li>• 25 percent FLP discount</li> <li>• Discounted value \$252,086,895</li> </ul>	<ul style="list-style-type: none"> <li>• Income of 6.67% to charity for 15 years</li> </ul>	<ul style="list-style-type: none"> <li>• After term of years, trust distributed to family</li> </ul>
<ul style="list-style-type: none"> <li>• Gift asset to lead trust, charitable gift tax deduction of \$242,506,895</li> </ul>	<ul style="list-style-type: none"> <li>• First year income of \$16,814,196</li> </ul>	<ul style="list-style-type: none"> <li>• Discounted value of \$457,256,540 after term of 15 years</li> </ul>
<ul style="list-style-type: none"> <li>• Deduction reduces taxable gift from \$252,086,895 to \$11,580,000</li> </ul>	<ul style="list-style-type: none"> <li>• Total charitable payments in 15 year of \$252,212,938</li> </ul>	<ul style="list-style-type: none"> <li>• (During trust term capital appreciation of 6% and ordinary income of 2% assumed)</li> </ul>

## CLAT is a Taxable Trust

- If assets held within the trust are sold, gain will be triggered
- Consider naming a CRUT as the remainder beneficiary to the CLAT
- Opportunity to bypass upfront gain with a CRUT
- Appreciated assets can be sold within the CRUT, and the portfolio may then be diversified

## Super CLAT

- Not included in gross estate of grantor
- Income taxed to the grantor for income tax purposes
- Income and gift tax deduction available
- Retained power is usually held by a non-adverse party to reacquire trust assets. Sec. 675(4)



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## Back to Work Resource Center

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- Practical Guidance – tools to effectively, safely and confidently return to work incorporating best practices from outside organizations, including community partners such as Spectrum Health
- Industry Specific Guidance – pages devoted to industries singled



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