



KEYS TO EFFECTIVE GIVING

Charitable Lead Trust

The Charitable Lead Trust (CLT) is a powerful tax planning and wealth transfer tool, one which donors and their professional advisors should not overlook. It provides donors with several opportunities to leverage and transfer unlimited amounts of wealth free of gift and estate taxes, control the timing over their heirs' inheritance and redirect tax dollars from the I.R.S. to ministry and charities they care about, creating a personal lasting legacy.

Although the Charitable Remainder Trust (CRT) has often been the planning tool of choice, the "other" charitable trust—the non-grantor charitable lead trust (CLT), is gaining the attention of planners and donors. One of the reasons for the growing interest has been that the current low Applicable Federal Rate (AFR) increases the tax leveraging impact of the CLT, making it even more attractive.

The extraordinary growth of the net worth of Americans over the past sixty years has created a challenge for owners: *How to transfer net worth to future generations in a protective way without tax depletion?* The Charitable Lead Trust is a tool that provides a means for lowering and/or completely eliminating estate taxes and is a worthy alternative to explore.

The Design

The CLT trust document is drafted and then, either during the lifetime of the donor or upon his or her death, assets are placed into the trust. For a temporary period of time, one or more charitable organizations are given the right to receive income from the trust. The donor, however, reserves the right to direct who will ultimately receive the remainder interest of the principal at the end of the pre-determined trust period (term). Typically, the recipient would be the heirs. Depending upon the terms and the payout rates of the CLT, an unlimited amount of wealth can be passed to heirs free of gift and estate taxes.

A Case Illustration

Consider a married couple with a \$6 million estate that includes a \$1 million life insurance policy in an Irrevocable Life Insurance Trust (ILIT). If both were to pass away in 2008, utilizing the basic A-B Living Trust plan, the survivor of the estate would still face a tax of \$450,000.

If the couple were to employ a testamentary charitable lead trust upon the death of the survivor, they can eliminate the estate tax and shift more to heirs and charity. Upon the death of the survivor, the heirs will receive \$4.5 million of their inheritance. The remaining \$1.5 million inheritance (plus any appreciation) will pass on to them tax-free via the life insurance policy (ILIT) and the charitable lead trust. In addition, they will have created a \$1.2 million charitable legacy for their favorite charity(s).

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	Max Tax Plan	Tax Wise Plan
Total Estate Value:	\$6,000,000	\$6,000,000
Uncle Sam Estate Tax:	\$450,000	\$0
Heirs:	\$5,550,000	\$6,000,000
Charity:	\$0	\$1,200,000
Family and Charity:	\$5,550,000	\$7,200,000

The Objective

Achieving a Zero Gift or Estate Tax result depends upon several factors. The basic formula is: Corpus-charitable deduction = taxable gift.

There are a number of ways to increase the charitable deduction to

equal 100% of the value of the Corpus. First, the payout rate of the trust can be increased within reason. Second, the trust's term can be lengthened. Third, the trustee can select the lowest AFR rate available in calculating the charitable deduction. A fourth way is to leverage either the donor's lifetime gift tax exemption or the estate tax exemption. Consult your tax advisor.

Planning Strategies and Considerations

- **Annuity or Unitrust Payout?** Which heir determines which option is best? Consult your tax advisor.
- **Living or Testamentary CLT?** When is best to fund a CLT—during lifetime or at death—is a consideration.
- **Carry Over verses Step-Up in Basis?** When the CLT is funded—lifetime or at death—determines the value of the asset(s) and may impact heirs.
- **Timing of Gifts and Distribution?** When is best for heirs to receive the distribution: It can be scheduled or at a certain age.

Additional Strategies/Techniques:

- **Multi-Layer CLT:** Several CLTs can be used (staggered) and distributions can be scheduled for heirs.
- **Double Discount Lead Trust:** A family limited partnership (FLP) can be combined with a CLT and provide multiple benefits.
- **Tandem Trust Plan:** A CLT can be combined with a CRT leveraging the benefits of both.

Help That Can Benefit You

The JESUS Film Project, in partnership with the Great Commission Foundation of Campus Crusade for Christ, provides a full array of gift and estate planning services without obligation. A team of experienced professionals can help you think through your best options, then come alongside your advisor(s) and help ensure your plan achieves your family, tax avoidance and charitable goals. Please contact us today at 800-449-5454 or e-mail info@gcfccc.org to start the process today.

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