

# KEYS TO EFFECTIVE GIVING

## Charitable Lead Trust

A publication for  
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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 AFR rate 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 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 charitable lead trust. In addition, they will have created a \$1.2 million charitable legacy for their favorite charity(s).

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The JESUS Film Project is a ministry of Campus Crusade for Christ International



**Max Tax Plan**

Total Estate Value: ..... \$6,000,000

Uncle Sam

Estate Tax: ..... \$450,000

Heirs: ..... \$5,550,000

Charity: ..... \$0

Family &amp; Charity: ..... \$5,550,000

**Tax Wise Plan**

Total Estate Value: ..... \$6,000,000

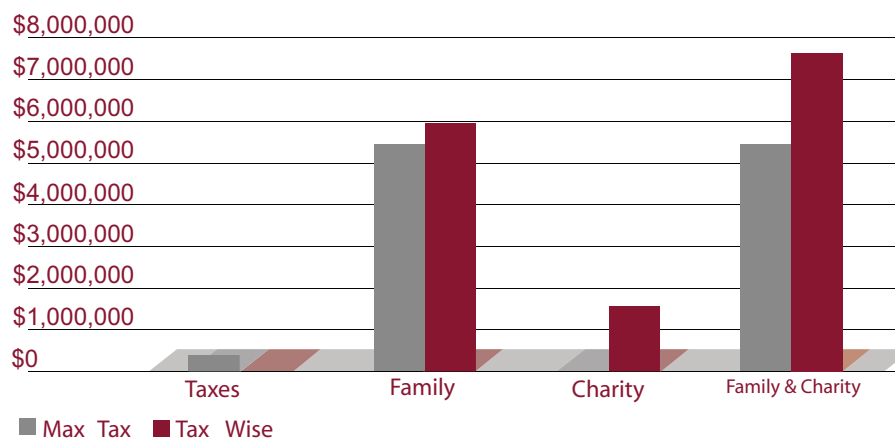
Uncle Sam

Estate Tax: ..... \$0

Heirs: ..... \$6,000,000

Charity: ..... \$1,200,000

Family &amp; Charity: ..... \$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?** If the remaining principal is to go to children, the annuity payout is a preferable option, as it guarantees the payout rate and would typically result in a higher charitable deduction. For grandchildren, it is recommended that the unitrust payout rate option be used. Consult your tax advisor.

■ **Living or Testamentary CLT?** Another factor is whether to fund the CLT during one's lifetime or upon his or her death. If the goal is to freeze assets at their present value and move them to a situation where they can grow tax-free, then a living CLT would be the better option. However, if one cannot "afford" to give away the asset(s), principal and/or income during one's lifetime, then a testamentary CLT would be more beneficial. Also, the desired degree of control of the assets during one's lifetime is a consideration.

For additional  
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You can also  
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■ **Carry over verses Step-up in Basis?** If the CLT is funded during one's lifetime, then the basis of the assets in the trust carry over to the heirs. However, if the CLT is funded at death, then the assets will receive a step-up in the basis, which then passes to the heirs.

■ **Timing of Gifts and Distribution?** The timing of when the heirs should receive distributions from the CLT is another consideration. Among many factors that one would need to consider in determining the period of the trust is, what are the ages of the heirs? A donor can have their CLT structured so that portions of the principal are distributed to the heirs upon reaching a certain age, for example 30.

### Additional Strategies and Planning Techniques:

■ **Multi-layer CLT:** If one doesn't want the entire principal distributed at once, they can "layer" them from the lead trust and control the timing when one or more heirs will receive the principal.

■ **Double Discount Lead Trust:** Another powerful strategy is to combine a family limited partnership (FLP) with the charitable lead trust. This yields a "double discount:" the first discount is a valuation discount assigned to the FLP, the second is a charitable deduction "discount." Combining these two discounts will leverage the amount of wealth which is passed on to the heirs.

■ **The Tandem Trust Plan:** The Tandem Trust utilizes a CLT in combination with a CRT. During the intervening years between when the lead trust is funded and when the heirs actually receive the distribution of the principal, a charitable remainder trust (CRT) can be set up to pay them income. Typically, the CRT's term is concurrent with that of a lead trust so that the income payments from the CRT will stop when heirs receive the final distribution from the CLT.

### The 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](mailto:info@gcfccc.org) to start the process today.

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