

QUESTIONS & ANSWERS ABOUT Charitable Lead Trusts

How Can BSS Help With My CLT?

First, Believers Stewardship Services, Inc. (“BSS”) can serve as an educator to you on the uses of a CLT as part of your estate planning and as a facilitator in establishing and funding your CLT. Since we provide these services free of charge, you can also be sure that if we advise you that a CLT is appropriate for your situation, we do so because we believe it, not because we stand to profit.

Second, you can name The Believers Fund (our “donor advised fund”) as the charitable recipient of the CLT income. We will then ask you to provide us with written instructions as to which charities you want to receive the income and in what proportions. This adds flexibility because you can change your charitable beneficiaries any time simply by informing BSS in writing rather than formally amending the trust instrument, which incurs additional legal fees.

Like any other trust arrangement, a CLT must have a trustee. Your choices with a CLT are to serve as trustee yourself or to select another individual, a commercial trustee, or a nonprofit trustee organization to serve as trustee. Even if you choose to serve as trustee of your own CLT, you may wish to retain a third-party administrator to assist with the management, bookkeeping, and tax filing duties of the trustee. One of the services offered by BSS is serving as trustee or administrator of Charitable Lead Trusts. Whether you wish to serve as your own trustee or select another trustee, we would be happy to assist you with your CLT or any other aspect of your estate planning.

noncharitable beneficiaries. Instead of paying \$90,000 in estate tax, however, he will pay only \$15,000 in gift tax (saving \$85,000 in transfer taxes). In addition, if the value of the bonds in the CLT increases, he will not owe any estate tax on that increased value. By establishing this CLT, the donor is able to reduce his transfer taxes (leaving more to his heirs) and continue his current giving patterns without a significant change in lifestyle.

What Are the Benefits of a CLT?

The example above illustrates some of the benefits a CLT can offer. By way of review and further explanation, however, the major benefits of a CLT are:

- **Leveraged Death Exemption.** *The entire asset passes to heirs and other beneficiaries while requiring only a fraction of its value to be included for death tax purposes;*
- **Growth Free of Debt Tax.** *All growth in the asset after transfer will pass to heirs and other beneficiaries free of estate and transfer taxes.*
- **Honors Charitable Desires.** *The income from the CLT goes to charity, allowing you to continue your pattern of supporting the Lord’s work.*
- **Professional Management.** *If you appoint a corporate trustee or third-party administrator, you can have professional assistance in managing the CLT assets.*

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What is a Charitable Lead Trust?

The Charitable Lead Trust (“CLT”) is the less popular cousin of the Charitable Remainder Trust (“CRT”). More specifically, a CLT is an irrevocable trust that can provide significant estate and transfer tax savings while allowing the donor to meet lifetime charitable giving goals. The donor transfers an asset to the CLT for his or her lifetime or for a term of years, during which the income generated will go to one or more charities selected by the donor. At the end of the CLT term, the remaining assets pass to one or more noncharitable beneficiaries (typically the donor or his heirs). Any capital appreciation in the asset’s value will pass free of transfer taxes (i.e., gift and estate taxes), and the total amount of transfer taxes paid will be lower than an outright bequest of lifetime gift to the same heirs.

What Are the Types of CLTs?

Like the CRT, one common way of categorizing a CLT looks at how the payout is determined. In the most common types of CLTs, the income payout will take one of two forms:

- **Annuity Payment.** *With a Charitable Lead Annuity Trust (“CLAT”), the charitable beneficiary receives a specified percentage each*

year of the value of the assets placed in the trust at its creation. The payment amount each year does not vary, even if the value of the trust assets increases or decreases. Regulations do permit, however, the trust instrument to specify from the outset that different payout percentages will apply in different years.

- **Unitrust Payment.** *With a Charitable Lead Unitrust (“CLUT”), the amount paid each year is a specified percentage of the value of the assets in the trust as computed on January 1 of that year. The amount paid to charity each year can vary, depending upon the value of the assets in the trust that year.*

How Long Do Assets Remain In the Trust?

The term of a CLT may be for a specified term of years or for the life or lives of an individual or individuals. The term may also be a combination of these options (e.g., the donor’s life plus a term of years thereafter). At the end of the CLT term, the assets remaining in trust pass to the noncharitable beneficiaries specified in the trust instrument. Most frequently, the donor will receive that assets himself or herself if the term is a specified number of years, whereas the donor’s heirs are the typical recipients of trust assets if the term is the life of the donor.

Who Is a Typical CLT Candidate?

The reason CLTs are less common than CRTs is that they work well for a much more limited profile of clients. The typical CLT candidate:

- *Has a moderate to large taxable estate;*
- *Has a pattern of charitable giving;*
- *Holds one or more assets with growth potential; and*
- *Desires to pass certain of those assets to heirs or other noncharitable beneficiaries.*

What Are the Tax Consequences?

The tax benefits of a CLT will depend upon the goals of the donor and the actual structure of the trust instrument. Depending on the circumstances, a CLT may provide tax benefits in two areas:

- **Income Tax.** *A CLT may allow a large, one-time income tax deduction for a portion of the value of assets transferred into trust, or it may allow for annual deductions based upon the income given to charity each year of the trust term. Which method used will hinge on the donor’s particular income situation. Since the donor will normally be treated as the taxable recipient of all income from the CLT, care must be taken to ensure the method chosen best*

matches anticipated deduction needs. The income tax deduction typically is not the main motivation for using a CLT, but it may work well for a donor who has a large bonus or other sudden infusion of income for which a large initial charitable deduction will help spread the income tax consequences over several years.

- **Gift and Estate Taxes.** *The more common motivation for using a CLT is to leverage the amount that can be left to heirs free of transfer taxes. Again, depending upon the donor’s goals and the type of CLT chosen, the CLT may allow the donor to use an asset to help the Lord’s Work during his or her lifetime, while leaving that asset to heirs or other individuals at death in a way that saves transfer taxes where they apply. In addition to saving transfer taxes on the value of the asset placed into the CLT, the donor may also be able to avoid transfer tax on all capital appreciation of the asset that passes to heirs.*

How About an Example?

Let us assume a 60-year-old donor contributes \$15,000 per year to his assembly and other Christian ministries. Assume further that he has a \$200,000 bond portfolio that pays him \$15,000 per year and that he faces an estate tax on these bonds of about \$90,000 at death.

If this donor establishes a CLT with his bond portfolio, he can use the income from the bonds to make the same charitable gifts he currently makes. Upon his death, the assets remaining in the CLT will be distributed to his heirs or other