SCHWAB CHARITABLE®

Leverage Your Philanthropy with Today's Low Interest Rates using a Charitable Lead Trust ("CLT")

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Schwab Charitable does not act as trust or custodian for charitable lead trusts. Please consult your legal or tax advisor about your particular circumstances.

A **Charitable Lead Trust (CLT)** is a gift of cash or other property to an irrevocable trust. A named charity receives an income stream from the trust for a term of years. Depending on how the trust is structured, the donor enjoys a current income, gift, or estate tax deduction on the donated assets. After the income stream period ends, the remainder assets are distributed to the non-charitable beneficiaries.

- **The lower the federal interest rate, the higher the income or gift tax deduction.** The lower the current IRS 7520 interest rate is, the higher the present value calculation for the stream of payments to the charitable beneficiary. This translates into:
    - A higher income tax deduction for Grantor CLTs
    - A lower remainder value subject to gift and estate tax for Non-Grantor CLTs
- **Couple a Charitable Remainder Trust (CRT) with a Donor-Advised Fund (DAF).** There are two types of CLTs and each affords different tax benefits:
- **Donor controls tax benefits through the structure of the trust.** If the CRT is funded with cash, the donor can use a charitable deduction of up to 60% of Adjusted Gross Income (AGI); if appreciated assets are used to fund the trust, up to 30% of their AGI may be deducted in the current tax year. In addition, if the donor cannot use the whole deduction in the year of the gift, he/she can carry over the deduction for up to five additional years.
    - ***Grantor CLT –*** Most often used for donors experiencing a significant income event. A grantor trust is a trust in which the donor is treated as the owner of the trust for income tax purposes. With this structure, the donor receives an immediate tax deduction but the trust assets return to the donor after the trust term ends. The charitable deduction the donor received at the funding of the trust is recaptured over the trust term because the donor is taxed on the CLT income, including the payouts to charity. Tax-exempt investments in the trust help to minimize the donor's tax liability.
    - ***Non-Grantor CLT –*** Reduce Gift and/or Estate Tax. The lower the remainder value (the gift to the non-charitable beneficiary), the lower the potential gift tax cost. Remainder value can even be zeroed out by adjusting the charitable lead payment amount and duration. If the CLT assets appreciate at a rate that exceeds the 7520 rate, the value of the excess investment return will be distributed to your remainder beneficiaries at the end of the term free of estate or gift tax.
- **Couple a CLT with a DAF.** Many donors name their donor-advised fund account as the lead beneficiary. This allows the donor to maintain advisory privileges over the charitable funds to better strategize his/her charitable giving during lifetime and after death.

For donors seeking to benefit charitable causes during lifetime while enjoying gift and estate tax savings, a Non-Grantor CLT naming a DAF account as the lead beneficiary may be a great option. Donors should work with a qualified estate planning attorney and tax advisor to confirm that a properly structured CLT will provide the expected results with respect to the tax consequences of the gift as well as the administration of the CLT.

A donor's ability to claim itemized deductions is subject to a variety of limitations depending on the donor's specific tax situation. Consult your tax advisor for more information.

Gifts of appreciated property can involve complicated tax analysis and advanced planning. The above article is meant only to be a general overview of some of the considerations and is not intended to provide tax or legal guidance. Please consult with your legal or tax advisor.