

Charitable lead annuity trusts

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A presentation for the friends of the
IYRS School of Technology & Trades

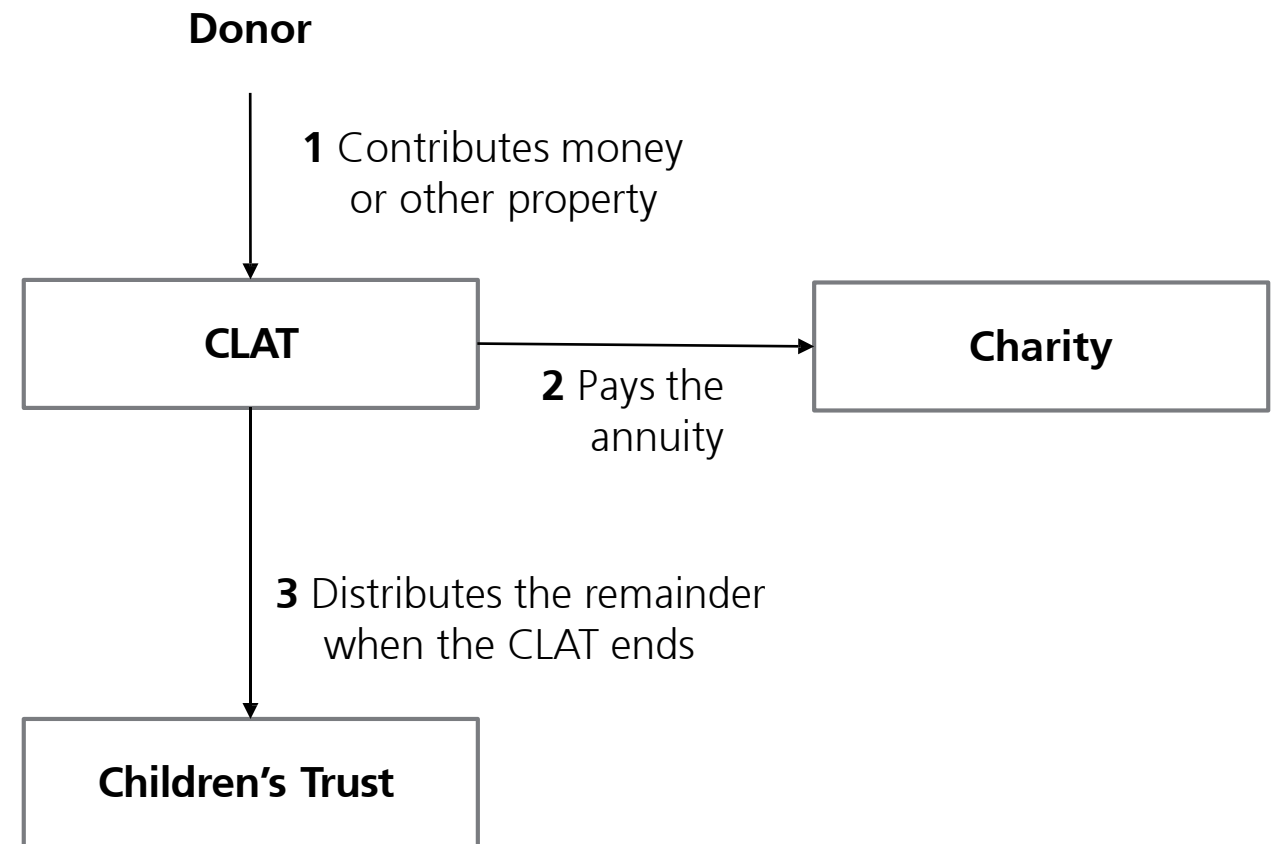
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What is a charitable lead annuity trust?

A charitable lead annuity trust:

- Is an **irrevocable trust**
- Pays an **annuity** to one or more charities
- Lasts typically for a **term of years** (e.g., 10 or 20 years)
- Distributes any **remaining assets** to family or friends (either outright or in trust) when it ends



Why create a charitable lead annuity trust?

A charitable lead annuity trust:

- Supports a donor's **philanthropic goals**
- Potentially **transfers wealth** to the donor's children (or other individuals) when the trust ends, without using any of the donor's lifetime exemption (i.e., the federal gift and estate tax exemption)
- Provides the donor with an **income tax charitable deduction** when the donor contributes assets to the trust (if the trust is designed to be a grantor trust)

Why create a charitable lead annuity trust?

When is a charitable lead annuity trust successful?

- A charitable lead annuity trust usually is successful in transferring wealth to children (or other individuals) when, over the trust's life, its assets grow more than a hurdle rate, which is technically known as the **section 7520 rate**
- In November 2020, the section 7520 rate is 0.4%, which is **historically low**

What are some other important considerations?

- It is possible that the donor's children (or other individuals) won't receive anything when the charitable lead annuity trust ends
- If the trust is a grantor trust, the donor will report the trust's income and gains on the donor's income tax return

What are the current taxes on wealth transfers?

- Under current law, an individual generally has a **\$11.58 million exemption** from federal gift and estate taxes (and thus is often called a lifetime exemption)
- This lifetime exception will **drop by 50%** at the end of 2025 and may drop as soon as next year
- The **gift and estate tax rate currently is 40%** but may increase as soon as next year

How does a charitable lead annuity trust work?

Assumptions

- In November 2020, the donor creates a **zeroed-out CLAT**, contributing \$10 million to the CLAT.
- The CLAT has a **10-year term**.
- The CLAT is a **grantor trust**.
- The 7520 rate is 0.4%, and the annual growth is 7.0%.

Benefits

- In 2020, the donor receives a **\$10 million income tax charitable deduction**, subject to certain limitations.
- Over the trust's 10-year term, **IYRS would receive more than \$10 million**.
- When the CLAT ends in 2030, **the donor's children would receive more than \$5 million** without the donor using any of the donor's lifetime exemption (i.e., the gift and estate tax exemptions).

Projections

| Year | Beginning Value | Growth | Payment to IYRS | Ending Value |
|------|-----------------|-----------|-----------------|--------------|
| 2021 | \$10,000,000 | \$700,000 | \$1,022,100 | \$9,677,900 |
| 2022 | \$9,677,900 | \$677,453 | \$1,022,100 | \$9,333,253 |
| 2023 | \$9,333,253 | \$653,328 | \$1,022,100 | \$8,964,481 |
| 2024 | \$8,964,481 | \$627,514 | \$1,022,100 | \$8,569,895 |
| 2025 | \$8,569,895 | \$599,893 | \$1,022,100 | \$8,147,688 |
| 2026 | \$8,147,688 | \$570,338 | \$1,022,100 | \$7,695,926 |
| 2027 | \$7,695,926 | \$538,715 | \$1,022,100 | \$7,212,541 |
| 2028 | \$7,212,541 | \$504,878 | \$1,022,100 | \$6,695,319 |
| 2029 | \$6,695,319 | \$468,672 | \$1,022,100 | \$6,141,891 |
| 2030 | \$6,141,891 | \$429,932 | \$1,022,100 | \$5,549,723 |

This hypothetical illustration is not a guarantee of future performance. An assumed annual growth rate is used for illustrative purposes only; this is not indicative of actual results or the performance of any particular security or investment. Investing involves risks, including the potential of losing money or the decline in value of the investment.

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