

Lead Trust

A **charitable lead trust** combines current support for favorite charities with future gifts to family.

A charitable lead trust may be appropriate if ...

- You want to provide immediate support for your favorite charitable causes.
- You want to pass assets to younger family members at a reduced tax cost.
- You are considering a gift of \$1 million or more.

How does a charitable lead trust work?

A charitable lead trust provides income to the Foundation on terms that you decide. After all payments have been made, the assets remaining in the trust are either returned to you or used to support your loved ones.

What benefits will I enjoy?

Charitable lead trusts can help you to maximize the support you provide to charitable causes and to loved ones, while minimizing your overall tax liability. As its name suggests, a lead trust “leads off” with a stream of payments to the Foundation to support your favorite educational causes. Those payments are made on a schedule that you select – annually or more frequently—for a specific number of years or for the lifetime of one or more individuals. Payments may either be set at a fixed dollar amount (an annuity) or at a percentage of the value of the trust assets as they increase or decrease each year (a unitrust).

Trusts for loved ones

After all charitable payments have been made, the most common type of lead trust passes its remaining assets to children or grandchildren (or to trusts for their benefit). Often referred to as a “non-grantor lead trust,” this type does not generate an income tax deduction. Rather, it minimizes the transfer tax – gift, estate and/or generation-skipping (GST) – on the assets that will pass to your loved ones.

Those transfer taxes are determined at the time the trust is established, based on the present (i.e., discounted) value of the future gift to your loved ones. No further tax is imposed, even if the assets you contribute to the trust increase significantly in value before they pass to your loved ones. Today’s low interest rates have the effect of further discounting the taxable portion of your gift, making it possible to reduce substantially or even eliminate all tax on the future gift to your loved ones. (Note: If you intend to benefit your grandchildren through your lead trust, unitrust payments will generally yield greater GST tax savings than annuity payments.)

Trusts for you

A less common type of lead trust returns all trust assets to you after the charitable term is complete. Often referred to as a “grantor lead trust,” this type generally is not used to minimize gift, estate or GST taxes. Instead, a grantor lead trust generates an income tax charitable deduction – often a very sizeable one, as the immediate deduction reflects the present value of all future distributions to the Foundation. This accelerated deduction can be especially useful in high-income years to offset substantial tax liabilities from, for instance, the sale of a business or other major assets. Again, today’s low interest rates effectively increase the tax savings that the trust will generate.

How do I set establish a charitable lead trust?

You will need an attorney’s assistance to create a lead trust. You may also want to involve your tax and/or financial advisors in this process. Because lead trusts can be somewhat complex, we recommend that you work with advisors who specialize in estate planning and charitable giving. We also recommend that you select a trustee with experience in administering charitable lead trusts. The Foundation is unable to serve as trustee. However, many trust companies, wealth managers and attorneys are well-equipped to serve in this role.

Your trust document may specify how the distributions to the Foundation are to be used. Most donors prefer to direct those payments to a new or existing fund within the Foundation. You may also choose to support the community’s most compelling needs as they change through time by leaving the trust distributions unrestricted.

How a charitable lead trust works:

1. You transfer cash, securities or other property to trust.



2. The trust makes annual payments to fund you establish at Foundation.



3. Fund supports educational causes you select.



4. When the trust term ends, remaining assets transfer to loved ones.

Please contact Julie or Lori at the AEF office at 920-832-1517 if we can assist you in reaching your charitable goals.