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## Charitable Lead Annuity Trusts (CLAT)

A Charitable Lead Annuity Trust (CLAT) is created by transferring cash or other assets to an irrevocable trust. A charity receives fixed annuity (principal and interest) payments from the trust for the number of years you specify. At the end of that term, assets in the trust are transferred to the noncharitable remainderman named when your trust is established. Usually, this person is a child or grandchild, but anyone, even someone who is not related to you, can be named

You can set up a CLAT during your lifetime or at your death. Both corporations and individuals may establish lead trusts.

You can set up a CLAT so that you will receive an immediate and sizeable income tax deduction. In the second and following years, you must report the income earned by the trust even though it is actually paid to the charity in the form of an annuity.

What is the advantage of a trust that produces a high deduction in the first year but requires you to report income you don't receive in later years? One advantage is the acceleration of the deduction.

For example, suppose you have just won the lottery, closed an incredibly large case, or sold a very highly appreciated asset. Perhaps you reasonably expect that in future years, your income will drop considerably. It is good planning to have a very high deduction in a high bracket year even if you have to report that income in lower bracket years. You are spreading out the income (and the tax) over many years.

Another advantage of the CLAT is that it allows a "discounted" gift to family members. Under present law, the value of a gift is determined at the time the gift is made. The family member remainderman must wait for the charity's term to expire; therefore, the value of that remainderman's interest is discounted for the "time cost" of waiting. In other words, the cost of making a gift is lowered because the value of the gift is decreased by the value of the annuity interest donated to charity.

When the assets in the trust are transferred to the remainderman, any appreciation on the value of the assets is free of either gift or estate taxation in your estate.

Many people set up CLATs at death through their wills. The present value of the charity's annuity stream is deductible for estate tax purposes. Since your heirs do not pay estate taxes on the charity's portion, the money that otherwise would have been paid in estate taxes can instead be invested. During the term of that trust, increased investment income can help pay for the fixed annuity promised to the charity - and if there is any "surplus", that extra income can be compounded for your heirs and pass to them - gift tax free - when the trust ends.

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