M Financial Group™

ADVANCED MARKETS INSIGHT

M Financial Group's Advanced Markets Insights are designed to help clients understand sophisticated planning strategies and their applications.

M Financial Group continues to lead the industry in insurance due care and client advocacy, providing valuable insight and analysis that delivers significant value to clients.

Charitable Lead Trust Variations

What Is a Charitable Lead Trust?

In a charitable lead trust (CLT), a donor establishes a trust to provide a stream of payments to a charity. At the end of the trust term, the donor (or his/her heirs) receives any assets remaining in the trust.

CLTs can provide income, gift, and/or estate tax benefits, while also meeting charitable giving goals, and can be designed to fit a wide range of situations.

Grantor or Non-Grantor Trusts[1]

A CLT will be either a grantor or a non-grantor trust. The main differences are as follows:

Grantor Charitable Lead Trust

- The donor receives an immediate income tax[2, 3] and gift tax[4] charitable deduction equal to the present value of the future payments to charity.
- The donor is taxed on the income from the trust as it is earned.
- The trust's primary purpose is to convert future charitable contributions into a present income tax deduction.

Non-Grantor Charitable Lead Trust

- The donor does not receive an income tax charitable deduction.
- The donor will receive an immediate gift tax charitable deduction equal to the present value of the future payments to charity.
- Income of the trust is taxed to the trust.
- The trust receives unlimited income tax charitable deductions[5] for payments to charity.
- This trust is most often used as an estate tax reduction technique.

Remainder Interest

If the grantor has a reversionary interest, any assets remaining in the trust (the "remainder interest") returns to the grantor at the end of the trust term. Alternatively, the remainder may pass to the grantor's heirs.

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1 A trust that violates one or more of the rules found in Internal Revenue Code Sections 673-678 is deemed a "Grantor" trust.

2 A maximum deduction of 30% of adjusted gross income can be taken in the first year. Any unused deduction may be carried forward for up to 5 years.

3 If the grantor does not survive the Term of a Term Trust, all or a portion of the initial income tax deduction taken by the donor will be recaptured. The CLT will continue as a separate income taxpayer, with charitable deductions allowed for payments to charity.

4 Favorable gift tax treatment is not available if the grantor retains the right to change the designation of the charity that is to receive the annuity payments.

5 If the lead trust has Unrelated Business Tax Income under IRC Sec. 512, it will be restricted to a 50% charitable income tax deduction under IRC Sec. 170 & Sec. 681.

Annuity Trusts and Unitrusts

To be a "Qualified" Trust, eligible for favorable tax treatment, CLTs generally take one of two forms:

- In a charitable lead annuity trust (CLAT), the charity receives a guaranteed sum, paid at least annually.
- In a charitable lead unitrust (CLUT), the charity receives a fixed percentage of the trust assets each year for the term of the trust.

Inter Vivos or Testamentary

The CLT may be established as an "inter vivos" trust (during life) or as a "testamentary" trust (at death). The testamentary CLT makes payments to charity after the donor's death and passes the remainder to the donor's heirs. A testamentary CLT cannot be a grantor CLT.

Term of the Trust

The trust pays an income stream to the charity for:

- A specified term of years;
- The life of an individual (or individuals)[6]; or
- The life of an individual(s) plus a term of years.

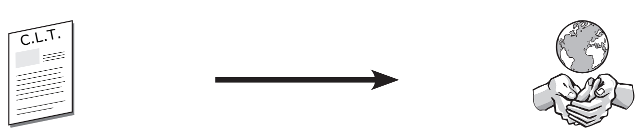
Considerations

- Contributions to a CLT do not always generate an income tax deduction.
- Lead trusts must comply with many rules. The trust document should prohibit activities such as self-dealing, inappropriate investments, excess business holdings, and taxable expenditures.

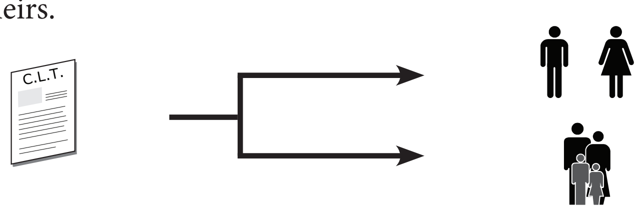
Charitable Lead Trust

1. A donor transfers property to a charitable lead trust.

2. A charity receives payments for the term of the trust.



3. At the end of the trust term, the remaining assets revert back to the donor or pass to the donor's heirs.



6 A CLT may be written for the life of the donor, the lives of the donor and spouse, or for a person who is a common ancestor of all remaindermen.

For More Information

To learn more, please contact:

M Sales Support team
800.656.6960
msalessupport@mfin.com

M Financial Group
1125 NW Couch Street, Suite 900
Portland, OR 97209
800.656.6960
www.mfin.com