

Charitable Lead Annuity Trust lowers tax

An increasing number of individuals who are looking for a way to contribute to their favorite charity, while at the same time having plenty of money left over for their heirs, are turning to Charitable Lead Annuity Trusts (CLATs).

CLATs were developed in the 1970s, (Jacqueline Kennedy Onassis' estate contained several), and they are increasing in popularity with philanthropy-minded, high net worth individuals who also want to make sure there's plenty of money to leave their heirs. When used in conjunction with an irrevocable life insurance trust (ILIT), a CLAT is a turnkey tamper-proof process that can help meet the investor's estate planning and charitable goals while minimizing the tax liabilities. Essentially, the CLAT is a way to rent assets to a charity, doled out as income

over a predetermined period of time. At the end of the term the principal reverts to the donor's heirs.

When a CLAT is created, the investor transfers cash or property to the CLAT, which then donates a set amount of money for a pre-determined number of years to a charity of the donor's choice. At the end of the CLAT term, the charity returns the principal, which then goes to the donor's heirs.

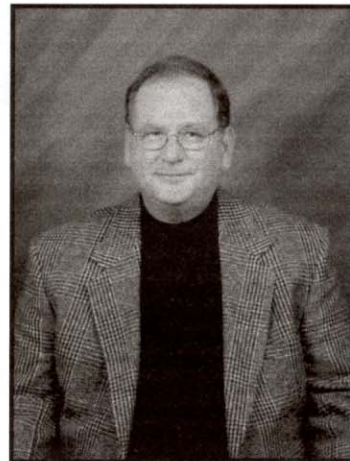
The second component is the ILIT, which provides a way for the charitable organization to continue to receive additional funding even after the donor dies. The charity uses proceeds from the CLAT to buy life insurance, using either the donor or the donor's spouse as the insured life. The charity is named the beneficiary and thereby continues to benefit financially after the donor (or the donor's spouse) has deceased and does

so without raising the value of the donor's estate.

On top of establishing a steady income stream, there are additional tax benefits associated with CLATs. Tax benefits now include capital gains tax savings on the donation of appreciated property and charitable deductions for the year of the donation. As Frank Simon, Jr. of P.R.O.F.I.T. Financial LLC in Findlay, Ohio noted, "you're going to have to pay taxes, but you have a choice. You can either pay it to the government or to a charity of your choosing. What do you want to do?"

Simon shared an example of a CLAT / ILIT plan. Visualize a donor using a \$5 million donation to create a CLAT. The CLAT will distribute an amount equal to 8% of the trust assets (in this case, \$400,000) each year for 19 years

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Frank Simon, Jr.

CLAT

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to the donor's designated charitable organization. The charity may invest those amounts and use the interest however it deems fit. The charity will use a portion of the CLAT payment it receives to buy a life insurance policy to be held by the ILIT on the donor. At either the end of the CLAT term or the donor's death, the CLAT principal is distributed to the donor's beneficiaries, most likely his / her heirs. When the donor dies, the proceeds from the life insurance policy held by the ILIT will be paid to the chosen charitable organization.

The CLAT / ILIT combination can create a win-win situation for all parties because the relationship between the donor and the charity is a structured one, which cannot be tampered with. The only risks, according to Simon, can occur at the creation of the CLAT. The risks involve making too large of an investment in the initial CLAT and designating too short of a term for it. A financial advisor can help calculate what investment and term is right for each individual donor. As a rule, Simon stated, to be most effective the donor should have a net worth of \$3 million and use a minimum investment of \$100,000 to form the CLAT.