

## Charitable lead trust

### The concept

A charitable lead trust, or CLT, is a split-interest irrevocable trust to which a donor can transfer property with the income, or lead interest, going to charity for a certain period of time and the remainder interest going to a noncharitable beneficiary, such as members of the donor's family.

### Benefits

The donor can accomplish charitable objectives while leveraging transfers to noncharitable beneficiaries at minimal or no transfer-tax costs.

### Tax considerations

- The value of the gift to the noncharitable remainder beneficiaries is determined at the time of the creation of the CLT by deducting the present value of the charity's income interest from the fair market value of the property transferred to the CLT
- This means that if the present value of the charity's income interest is structured to equal the fair market value of the property transferred to the CLT, the value of the remainder interest going to the noncharitable beneficiaries is zero for gift tax purposes

### Steps

- The donor establishes a CLT and transfers property to it
- The CLT pays the charity its income interest
- The trustee of the CLT uses some of the trust's income to purchase life insurance on the donor, naming the CLT as owner and beneficiary; this makes up for the income interest having gone to charity
- Upon the donor's death, the trustee collects the death proceeds
- At the CLT's termination, the remainder interest — including the death proceeds — is paid to the noncharitable beneficiaries

### How it works

