How a Charitable Lead Annuity Trust Works

The donor transfers an asset to the trustee of a Charitable Lead Annuity Trust (CLAT). Each year thereafter, the trust pays a fixed dollar amount to selected charities. A current income tax deduction is generally allowed for the present value of the income interest paid to the charities.

At the end of the term of the trust, the remaining assets pass to the donor's heirs, spouse, or sometimes back to the donor, if living.

CHARITY OF DONOR CLAT CHOICE Transfers asset to Trustee pays fixed Receives fixed Asset CLAT. dollar amount each dollar amount year to the selected Annual each year. Receives income charity for the term **Payout** tax deduction.1 Income Tax of the trust. Deduction¹ After the trust is terminated the remaining trust assets pass to the person or persons selected by the donor

FINAL BENEFICIARIES

These beneficiaries could be the donor, if the trust was set to last only a term of years, or it could be the donor's spouse, children, grandchildren², etc., which may also produce an estate tax reduction.

¹ The income tax deduction, allowable only to grantor trusts, is based on a government determined applicable federal rate and may have to be spread over more than one year, if it exceeds certain percentage of income limitations.

² Choosing grandchildren (or later descendants) to receive the assets when the trust terminates may trigger the Generation-Skipping Transfer Tax (GSTT).

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