Graduated Charitable Lead Annuity Trust (GCLAT)

WHAT IS IT & WHERE IS THE OPPORTUNITY?

What is a CLAT?

A Charitable Lead Annuity Trust (CLAT) is a split-interest trust that is designed to pay a fixed and determinable benefit to a charitable organization for either a specific number of years or for the life of the donor.

What is a Graduated Charitable Lead Annuity Trust (GCLAT)?

A GCLAT is a type of charitable trust that allows individuals to provide increasing annual support for charitable causes while benefiting their families from investment returns that exceed a specified threshold. By utilizing a GCLAT, individuals receive an up-front income tax charitable deduction for the present value of distributions that will be made to charity over a fixed term of years. Assets remaining in the GCLAT at the end of that term of years pass to the remainder beneficiaries entirely free of any gift or estate tax (without requiring the use of any gift or estate tax exemption).

How Does it Work?

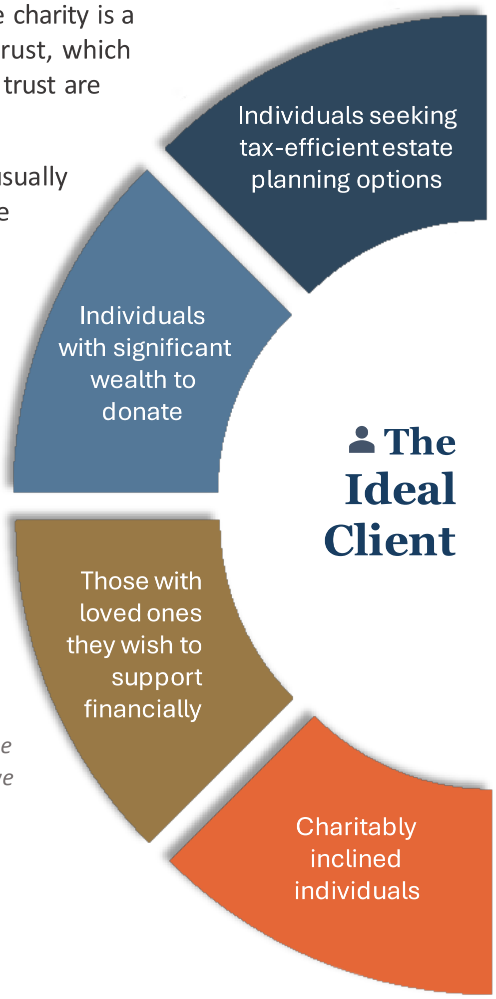
In a GCLAT, the donor transfers cash into the trust and receives an immediate income tax deduction equal to the present value of the annuity stream that is scheduled to be made to the charity. The trust then invests the cash and makes annual payments to one or more charitable organizations for a specified term. The amount of the initial payment to the charity is a predetermined percentage of the initial fair market value of the assets transferred to the trust, which then increases each year during the term. At the end of the term, the remaining assets in the trust are typically distributed to the donor’s children.

The unique feature of a GCLAT is that the annual payment to charity increases over time, usually at a fixed rate or based on a predetermined formula for the term. This allows the charitable organization(s) to receive an increasing income stream over time.

Using Life Insurance

If the GCLAT’s cash is solely invested in stocks and bonds, the trust eventually generates income that will be taxable to the donor – effectively causing a recapture of some (or all) of the initial deduction. Instead, if the GCLAT use the cash to purchase a cash value life insurance policy*, the GCLAT can borrow cash from the policy on a tax-free basis to make the charitable distributions, avoiding the generation of any income. Then, any residual cash value at the end of the GCLAT term will also be accessible by the remainder beneficiary (or beneficiaries) on a tax-free basis. Purchasing a life insurance policy may also significantly increase the value of the assets that are distributed to the non-charitable beneficiaries at the end of the GCLAT term.

**Due to the structure of cash value life insurance policies, a small portion of the initial contribution to the program is invested in other assets such as stocks, bonds, and/or money market accounts to cover the first five years of annual payments to charity.*



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