

Charitable Lead Annuity Trust

If you are interested in a way to make substantial, annual gifts to Bentley for a period of time and then provide for your family or other heirs, you may find that a charitable lead annuity trust is a powerful, tax-smart way to accomplish your goals.

A charitable lead annuity trust may be right for you if:

- You have substantial assets that you do not currently need for your own financial security.
- You want your gift to make a difference at Bentley starting immediately.
- You also want to provide for your family or other heirs.
- You could benefit from savings on gift taxes, estate taxes, and probate costs.

Separate trust

A charitable lead annuity trust is a separate taxable trust governed by an irrevocable trust agreement. You choose the trustee who is responsible for administering your lead trust and guiding the investment of its assets.

Irrevocable gift

A charitable lead annuity trust is an irrevocable arrangement. Once you transfer assets to create the trust, you cannot change your mind and get the assets back. This requirement assures that all of the payments promised in the trust agreement will go to support Bentley.

Make fixed payments to Bentley each year

Your lead annuity trust makes payments to Bentley each year of a fixed amount for as long as the trust lasts. Your lead trust can make payments to more than one charity, if you wish.

You choose the payment amount

You choose the amount that your lead annuity trust must distribute to Bentley each year. Lead trust donors typically select a payment amount that is likely to preserve a substantial remainder for family or other heirs. Payments are usually made in annual installments, but semiannual or quarterly installments are possible.

Remaining assets to heirs

When your charitable lead annuity trust ends, all remaining principal in the trust will be transferred to the family members or other heirs you choose.

How long can my lead trust last?

While most lead annuity trusts last for a specified term of 10-20 years, other terms are possible. Your lead annuity trust can last for one or more lives or for a specific length of time, or for a combination of lives and years. The term length you choose will depend on when you want your heirs to receive their trust distribution and the size of the gift or estate tax charitable deduction you want the trust to generate, as well as other factors.

Tax benefits

Unlike other charitable trusts, the charitable lead annuity trust generates a gift or estate tax charitable deduction, not an income tax charitable deduction.

- Reduce or eliminate gift or estate tax on gift to heirs if your estate exceeds the then applicable estate tax credit.
- Avoid all gift and estate tax on asset growth.

When you transfer assets to your lead annuity trust, you make a taxable gift to the individuals who will receive your trusts principal when it ends. However, your gift of payments to Bentley earns you a gift or estate tax charitable deduction in the year of your gift that will reduce, and in some cases, eliminate, your taxable gift if your estate exceeds the then applicable estate tax credit.

Some lead annuity trust donors make a point of picking a term length and payout rate that reduces their taxable gift to zero. Doing so eliminates any possibility that they will have to pay gift or estate tax on their gift.

In addition, the assets in your lead annuity trust are removed from your taxable estate. This means that any growth in the value of your trusts assets during its term can be passed on to your heirs completely free of gift and estate taxes.

Taxation of the trust

A lead annuity trust is a taxable trust. However, a lead trust pays income tax only if its income exceeds the amount it pays to Bentley during the year. A careful trustee can balance your lead annuity trusts income against its charitable payments in order to minimize the income taxes paid by the trust.

Lead annuity trusts for grandchildren

Lead annuity trusts for the benefit of grandchildren present special tax planning challenges related to a tax called the generation skipping tax. For example, you may want to consider creating a charitable lead unitrust in this situation, as it is easier to plan for generation skipping tax issues when creating a lead unitrust than when creating a lead annuity trust. Please be sure to talk to your advisors or to us about these tax considerations.

Suitable funding assets

You can fund your lead annuity trust with many different kinds of assets. All of the following assets can work well:

- cash
- securities
- a closely-held business
- commercial property
- a combination of these assets

Assets that are likely to increase substantially in value over time can be especially attractive candidates for transfer into a lead trust.

Unlike with many other planned gifts, it can be problematic to fund a lead trust with highly appreciated property. Since a lead trust is fully taxable, selling a highly appreciated asset may cause the trust to owe taxes that will deplete its principal. You will want to work closely with your advisors to pick an asset or combination of assets that will best achieve your goals for your gift.

Example

Don spent his career building a successful business, which he sold a few years ago for \$10,000,000. He and his wife, Ann, have three children who are in their 30s. Don and Ann have been reviewing their estate plans with an eye toward including a major gift to Bentley. Funding a charitable lead annuity trust offers an excellent way for them to provide generous support to Bentley and pass assets to their three children. Don and Ann choose to create a \$2,000,000 lead annuity trust that will pay \$130,000 to Bentley each year for 20 years.

Benefits

- Don and Anns' three children will split approximately \$2,409,955* when the trust ends.
- Don and Ann will earn a gift tax charitable deduction of \$1,898,780**.
- Assets used to fund the trust will not be taxable in their estate.
- Bentley will receive \$2,600,000 from the trust over 20 years.

* Assumes the trust assets earn a 7% annual net return.

** Don and Anns' estate or gift tax charitable deduction may vary depending on the timing of their gift.

NEXT STEPS:

To receive further information about charitable lead annuity trusts, or to learn more about how your gift can help Bentley, please contact Liz Siladi, Director of Gift Planning and Senior Philanthropic Advisor, or Kris Otto, Associate Director of Gift Planning.

- **call Liz at 781-891-2475 or Kris at 781-891-2586**
- **email Liz at esiladi@bentley.edu or Kris at kotto@bentley.edu**

* We are pleased to provide this information to you; however, it should not be considered professional advice. We encourage you to contact your own legal and/or tax advisor(s) for applicability to your personal circumstances.



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