

# Charitable Lead Unitrust

If you are interested in a way to provide substantial, reliable support to Bentley for a period of time – and then pass assets back to your family or to other heirs at reduced gift and estate tax cost, you may find that a charitable lead unitrust is a powerful, tax-smart way to accomplish your goals.

The payment to Bentley is a percentage of the value of the trust each year.

## **A charitable lead unitrust 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 unitrust 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 unitrust 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 payments to Bentley that may vary each year**

Your lead unitrust makes payments to Bentley each year equal to a fixed percentage of its value, as revalued annually. If the value of your lead unitrust increases, its annual payments will increase. If the value of your lead unitrust decreases, its annual payments will also decrease. Your lead trust can make payments to more than one charity, if you wish.

## **You choose the payment rate**

You choose the percentage of its value that your lead unitrust must distribute to Bentley each year. Lead unitrust 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 unitrust ends, all remaining principal in the trust will be transferred to family members or other heirs you choose.

## How long can my lead trust last?

While most lead unitrusts last for 10-20 years, other terms are possible. Your lead unitrust can last for one or more lives, 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, as well as other factors.

## Tax benefits

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

When you transfer assets to your lead unitrust, 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 charitable deduction in the year of your gift that will reduce your taxable gift. In addition, the assets in your lead unitrust 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 unitrust 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 unitrusts income against its charitable payments in order to minimize its income taxes.

## Lead unitrusts for grandchildren

Lead trusts for the benefit of grandchildren present special tax planning challenges related to a tax called the generation skipping tax. Many donors choose to create a charitable lead unitrust in this situation, in particular, 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 us about these tax considerations.

## Suitable funding assets

You can fund your lead unitrust 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 you expect 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 unitrust with highly appreciated property. Since a lead unitrust 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**

Joy, 60, is financially secure. Joy has been wanting to make a leadership gift to Bentley for some time, but has hesitated to part with her assets because of the two young grandchildren she'd like to provide for when they're older.

Joy is delighted to learn that funding a charitable lead unitrust offers an excellent way to provide generous support to Bentley and pass assets to her grandchildren.

Joy chooses to create a \$1,000,000 trust that will pay 6% of its value, as re-valued annually, to Bentley each year for 25 years. By making the trust term 25 years long, Joy delays transferring assets to her grandchildren until they are in their early 30s. By then, she expects them to be mature enough to handle their assets responsibly.

## Benefits

- Joy's grandchildren will split approximately \$1,282,432\* when the trust ends.
- The assets Joy uses to fund the trust will not be taxed in her estate.
- Bentley will receive annual payments from the trust that will increase from \$60,000 to \$76,184\* over 25 years.
- Joy will receive a gift tax charitable deduction of \$776,300.\*\*

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

\*\* Joy's charitable deduction may vary depending on the timing of her gift.

### NEXT STEPS:

To receive further information about charitable lead unitrusts, 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](mailto:esiladi@bentley.edu) or Kris at [kotto@bentley.edu](mailto: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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