



# Wealth Transfer Strategy: The Charitable Lead Trust

## CASE STUDY

Mr. and Mrs. Nittany place \$3 million of closely held stock in a non-grantor Charitable Lead Annuity Trust.

The trust will pay 6.12% of the contribution, or \$183,471 annually, to Penn State.

The Nittanys' 2 children will receive the lead trust assets in 20 years.

## Result:

Children receive over \$5.5 million from the Lead Trust (8% annual investment return assumed).

Gift tax deduction is \$3 million.

Taxable gift to children is zero dollars, which preserves their lifetime gift for exclusion.

Over the course of the trust term (20 years), Penn State will receive \$3.07 million as a result of the Nittanys' lead trust.

*The results in this example are based on a 2% CFMR and may vary due to time of gift and other factors.*

## What is a Charitable Lead Trust?

A charitable lead trust (CLT) is designed to reduce the cost in taxes of transferring assets to the next generation while providing a gift for Penn State now. A CLT minimizes the taxes your beneficiaries pay by first contributing a portion of the trust's overall return to Penn State and then, after a specified period of time, transferring the remainder of the trust to your beneficiaries.

## Why Might a Charitable Lead Trust Be Appropriate for Me?

For people who have significant assets, a CLT provides gift and estate tax relief.

1. Assets valued at \$500,000 or more are contributed irrevocably to a trust. You choose the term of the trust and other specifications.
2. The trust makes regular payments to the purpose of your choice at Penn State (sometimes another charity as well).
3. When the trust term ends, the remaining assets, including any appreciation of the assets, are paid to your designated heirs.
4. The taxable value of the gift to your heirs is offset by a deduction for the present value of the payments that will be made to Penn State.



## What Are the Advantages of a Charitable Lead Trust?

Some of the advantages of a CLT include:

- The present value of the payments provided to Penn State reduces your gift and estate taxes.
- Income earned from trust assets is not included in your individual taxable income.
- The amount and term of the payments to Penn State can be set to reduce or even eliminate the transfer taxes due when the principal passes to your heirs.
- You have the pleasure of providing needed funds through the charitable payments from the trust.
- Your family benefits from the University's expert money management without a fee.

## How Do My Heirs Benefit from a Charitable Lead Trust?

Your heirs enjoy many tax advantages:

- The taxable value of the gift to your heirs is reduced or discounted because they will not actually receive it until some time in the future.
- All appreciation that takes place in the trust, after the payments to Penn State are made, goes gift and estate tax-free to your heirs. (Generation-skipping taxes may apply in some situations; however, they may be minimized through careful planning.)

### BEST ASSETS TO USE

Cash...

maximize this low-yield asset.

Interests...

in family business and/or family limited partnerships.

Income-producing property...

with a high-appreciation potential

(allows eventual transfer to family at a low transfer cost).

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## What Are Some Other Opportunities for Using a CLT?

In the case of closely held stock or other business interests, a charitable lead trust offers an opportunity to retain ownership and control within the family. To minimize gift and estate taxes, the lead trust may be used in combination with other estate planning techniques, such as a family limited partnership or family dynasty trust.

## How Can Penn State's Office of Gift Planning Help?

We are charitable gift planning specialists and have resources available to fully support both your investigation and implementation of gift planning techniques. Our services are professional, confidential, collaborative, and provided without cost or obligation. We encourage you to call on us to provide assistance to you, your family, and your advisers in exploring financial, estate, and charitable planning.

Contact Mike Degenhart, Assistant Vice President, or any of the expert gift planning officers in the Office of Gift Planning at Penn State.

### DISCOUNT RATES ARE LOW

Now is a good time to set up a charitable lead trust.

The present IRS discount rate is a low 2%. (The discount rate is the critical factor in valuing future gifts to a charitable institution over a period of years, just as interest rates underpin the future value of money loaned.)

At the current low discount rate, a charitable lead trust paying 6.12% for 20 years will result in a gift and estate tax deduction that will eliminate 100% of the tax liability on the assets transferred to establish the trust.

If one of your goals is to maximize the transfer of assets to children or grandchildren at the lowest possible tax cost, this is an opportune time to discuss the creation of a charitable lead trust with your financial adviser.