Family, Home, and Job: Charitable Lead Trusts for Major Deductions

Filing Guide

Report contributions to charitable trusts on Schedule A. Your deduction to a qualified reversionary grantor trust is limited to 30% of that year's AGI; however, you can carry forward any unused balance for up to five years.

CLTs file Form 1041, and report income back to you on Schedule K-1.

Land Mines

If you establish a CLT and designate someone other than yourself as remainder beneficiary, you'll generally be treated as making a taxable gift of that remainder interest to that beneficiary. This may eat up your gift tax annual exclusion ($18,000 per person in 2024) for that beneficiary and also cut into your gift/estate tax unified credit.

Potential Savings

Up to $220 in income tax for every $1,000 donated to the trust, up to 30% of AGI.

A charitable lead trust ("CLT") is a "split interest" trust with an income payable to charity for a specified period, and the remainder reverting back to the donor or other noncharitable beneficiaries. While there are several ways to structure CLTs, with different tax consequences, one variety -- a "qualified reversionary grantor" trust -- can be an effective strategy if you have windfall income in a specific year and you want to avoid tax on that income but you still need the asset. Depending on how you structure the trust and invest its assets, your gift can actually pay for itself.

A CLT splits the trust assets into two pieces:

1. First, there's an income interest payable to charity for a fixed period of years or the life of one or more individuals. This can be a fixed dollar amount (called an "annuitrust") or percentage of assets (a "unitrust"). It can also grow over time in a series of steps or with a balloon payment at the end.
2. When the income interest ends, the trust assets revert back to you or another noncharitable beneficiary.

A "grantor" CLT lets you deduct the full net present value of the interest you donate to charity in the year you establish the trust. This value is based on several factors, including the IRS "discount rate" for the month you make the gift, the amount of income you reserve for yourself, and the amount of time the charity keeps its interest.

> **Example:** You establish a CLT with $1 million when the discount rate is 1.4%. If you give the charity a 5% annuitrust income interest for 20 years and keep the remainder interest for yourself, your deduction will be $636,271. If you bump the annuitrust up to 5.77%, you can deduct close to the full $1 million you transfer into trust.

Income from a grantor CLT will be taxable back to you. This makes it important to invest trust assets in a tax-efficient manner.

You can fund a CLT with cash, securities, real estate, or any combination of assets.