

## Guest Adviser



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For additional information on making a planned gift to Marshfield Clinic, please contact Karen Piel, J.D., C.P.A., planned giving officer, at 1-800-858-5220 or e-mail [piel.karen@marshfieldclinic.org](mailto:piel.karen@marshfieldclinic.org).

**Q: I have heard a lot about charitable lead trusts. What are they and why are they used?**

**A:** A charitable lead trust (“CLT”) is an irrevocable trust that makes payments to at least one charity for a period of years or the lives of one or more individuals. At the end of the charitable lead term, the remaining trust assets are paid to either the settlor, or grantor of the trust, or other noncharitable beneficiaries. CLTs are most effective when created during times of low interest rates. We are currently in a time of extremely low interest rates, making a CLT a very effective charitable gifting technique.

A CLT is structured as either a grantor CLT or a nongrantor CLT. With a grantor CLT, the grantor receives all of the trust assets at the end of the charitable lead term. A grantor CLT is not utilized often because the grantor must recognize the trust income during the charitable lead term. The benefit of a grantor CLT is that the grantor receives an income tax deduction equal to the present value of the payments made to the charity.

Most often, a CLT is structured as a nongrantor CLT because it results in a deferred gift to the remainder beneficiaries, often children or grandchildren, with little or no gift or estate tax ramifications. Even though the grantor does not receive a charitable income tax deduction when the trust is created, the benefits of a nongrantor CLT are:

- The taxable value of the gift to the remainder beneficiaries is discounted, because the heirs will not actually receive it until sometime in the future.
- The taxable value of the gift is also offset by a deduction for the present value of the payments that will be made to charity. The deduction increases as interest rates drop.
- The combination of discounting and the charitable deduction can substantially reduce – or even eliminate – gift taxes on the gift made to heirs.
- Any appreciation in the value of the trust assets, after the payments to charity are made, will pass to the remainder beneficiaries free of gift and estate tax.
- Income earned during the charitable lead term from trust assets is not included in the grantor’s taxable income.
- The grantor is still fulfilling his or her charitable intentions.