

Now is the Time to Gift: the Charitable Lead Annuity Trust

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Today's low interest rates and depressed asset valuations are creating a tremendous opportunity to plan with Charitable Lead Annuity Trusts ("CLATs"). The CLAT sprang to public attention upon the death of Jacqueline Kennedy Onassis, whose will provided for a testamentary Charitable Lead Annuity Trust (CLAT) to benefit her children. By using a CLAT, Jacqueline Kennedy Onassis' estate was able to claim a charitable deduction of 97% of CLAT assets. What could be better, we might ask: benefiting one's favorite charities and gifting to one's children with minimal tax at the same time. As a result of remarkably low interest rates and depressed asset values, it's not just millionaires who might benefit from a CLAT. Like Jacqueline, individuals with little or lots to give can benefit a

charity for a term of years through CLATs, leaving a remainder to their children. The more that the assets grow, the more can pass to one's beneficiaries tax-free. In this article, attorney John Martin explores why individuals might choose to set up a CLT.

The gift that keeps on giving. With proper planning and foresight, a CLAT allows one to give to charity and provide for non-charitable beneficiaries in ways that outright gifts would not allow. Suppose for instance, that Jack Spear gives \$100,000 to a 2-year CLAT that pays an annuity of \$50,000 per year to the SPCA of San Francisco. Assume that the applicable interest rate is 5% and that CLAT assets grow by 7% compounded annually. This would result in a \$92,970 charitable interest. At the end of the trust term, the amount in the trust would be \$10,991, which is equal to would pass to the beneficiaries without additional gift tax. Thus, Jack has gifted to charity and his children, all while reducing the tax costs of doing so.

This article is intended to provide general information about estate planning strategies and should not be relied upon as a substitute for legal advice from a qualified attorney. Treasury regulations require a disclaimer that to the extent this article concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law.

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