Help a Charity, Keep a Deduction, and Transfer an Asset to the Kids

A Charitable Lead Annuity Trust is another strategy that can help protect your wealth during a down economy

The charitable lead annuity trust (CLAT) pays a set dollar amount annually to a charity of your choice, while possibly providing you with a deduction. When the trust expires, your family receives the asset that funded the trust.

This strategy is a good idea if you don't need an asset's income and want to help a charity but ultimately want to transfer the asset to your loved ones.

A CLAT is basically the opposite of a charitable remainder trust. Once funded with assets, the income is paid to the charity for a period of time. Upon termination of the trust, the asset transfers to you or you heirs.

Example. Dad puts $500,000 worth of stock into a 20-year CLAT that provides $45,000 a year to a charity to pay for scholarships. The stock's annual earnings increase the CLAT’s value. After 20 years, the initial principal and any growth will transfer to Dad's son and daughter.

For gift tax purposes, only the remainder interest (what the IRS projects Dad's trust to be worth at the end of 20 years) is subject to tax. The benefits for Dad: He makes an immediate impact for a charity, and he substantially reduces estate and gift taxes.

Before setting up a CLAT, you should keep two cautionary thoughts in mind:

- First, to protect your lifestyle, be certain that you won't need the income that the asset generates.
- Second, carefully structure the CLAT so that its assets will not be entirely depleted by the end of the designated term.

A CLAT can be an attractive and successful strategy to protect wealth during difficult economic times. It pays out a handsome donation to a charity – sometimes for decades – while protecting the asset it holds for your heirs.

- Questions? Contact attorney Ronald P. Adams