

# More Information About Lead Trusts

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**The charitable lead trust** can be a way for you to reduce or eliminate gift and estate taxes that might otherwise be paid while you provide for a source of gifts to Midwestern University for a period of years. The number of years the trust exists, the amount that is paid each year, and other factors determine the amount of the gift and estate tax deduction.

## Example

Mr. and Mrs. Walker would eventually like to provide a gift to one or more heirs. An advisor has estimated it will be necessary to give them a much larger amount for them to receive the desired gift after gift and/or estate taxes. Instead of making a gift to the heirs today, a better alternative may be to fund a charitable lead trust in the amount of \$1,000,000 that would first benefit their charitable interests before becoming a gift to heirs. The trust will make payments for charitable purposes each year equal to 6% of the amount used to fund the trust, or \$60,000. No income tax will be owed on the earnings of the trust, because they are devoted to charitable use. The payment amount will be fixed and will not change over the term of the trust, which it is decided will be 20 years.

At the end of the 20-year period, charitable gifts totaling \$1,200,000 have been made. If the trust earns 7% the heirs named in the trust will receive \$1,409,955. Because of the charitable gifts to be made from the trust over the term of the trust, there will be a gift tax deduction of **\$60,000** allowed at the time the trust is created. Even if the assets in the trust grow in value during the term of the trust, there will be no additional gift or estate tax due when the heirs receive the funds at the termination of the lead trust.

## To summarize the results:

- Payments in the amount of 6% of the initial trust value of \$60,000 per year, will be made for 20 years, for a total of \$1,200,000.
- Heirs will enjoy a gift of approximately \$1,409,955 at the end of the trust term based on an assumed net trust earnings rate of 7%.
- A gift tax deduction of **\$60,000** will reduce the taxable portion of the assets placed in trust to **\$940,000**.
- No tax will be due on the income from the property used to fund the trust unless it is more than the amount required to make the payments to charity each year.



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The assumed date of transfer for this example is September 22, 2020. This example has used the September 2020 IRC Section 7520 discount rate of 0.4% to optimize the charitable deduction.

**NOTE:** This calculation is provided for educational purposes only. The type of assets transferred, the actual date of the gift, and other factors may have a material effect on the amount or use of your deduction. You are advised to seek the advice of your tax advisors before implementing a gift of this type.

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