

GRANTOR CHARITABLE LEAD TRUST

Accelerate your income tax deduction with a “grantor CLT”

A **Grantor Charitable Lead Trust** – often called a “Grantor CLT” – allows donors to have an impact at Duke each year for a number of years, but receive a charitable income tax deduction all at once, in the year the trust is created. Because of this “accelerated” income tax deduction, this trust may be ideal for someone seeking to offset the tax impact of an income windfall, a bonus or a company sale. It may also be a good match for those seeking to offset increased tax liability resulting from recent tax reform measures passed by Congress.

Benefits

- An immediate income tax deduction accelerated to the first year of the trust for all charitable gifts to be made over the life of the trust.
- A source of income to Duke, directed to the area most important to you.
- Almost any type of asset may be contributed; cash and high basis stock are most common because they minimize tax recognition by the donor for trust activities.

How it works

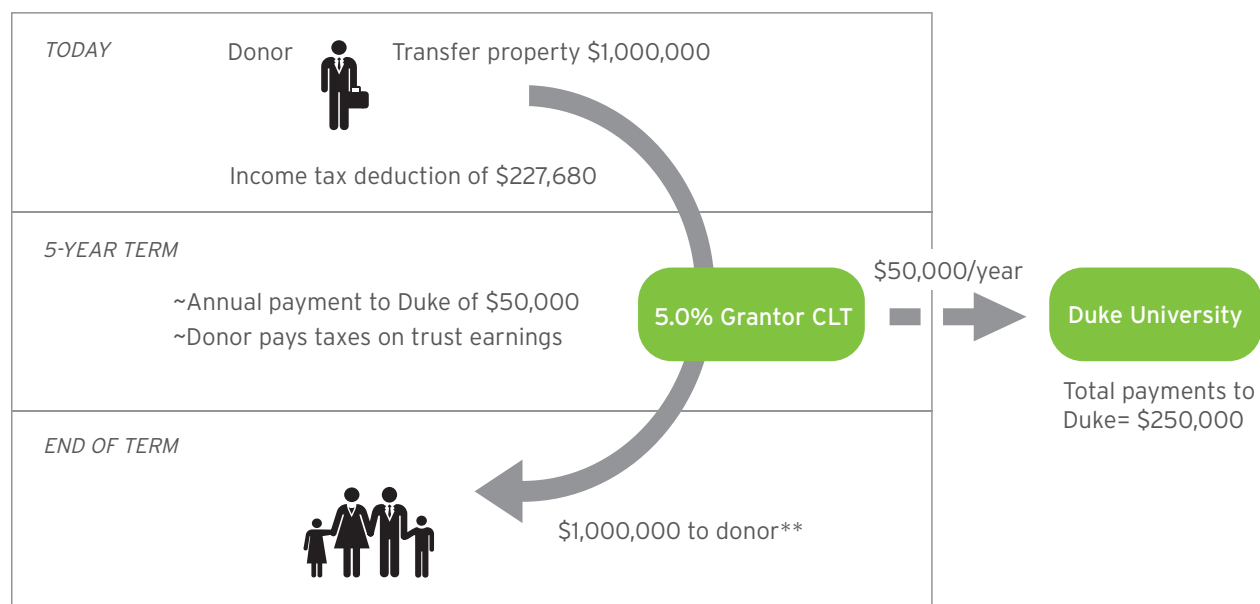
A grantor CLT lasts for a specific period of time, set forth in the trust document. This “term” is usually between three and seven years. Each year, the trust makes a fixed payment to charity. In the year the donor establishes the trust, she receives an income tax deduction based on the present value of the payments that the trust will distribute to charity, even though those charitable payments are made over several years. At the end of the term, the assets remaining in the trust are returned to the donor or pass to heirs.

The donor should be aware that the trust is irrevocable and not tax-exempt. All income and capital gains realized by the trust will be passed through to the donor for tax purposes — as if the donor was holding and investing the assets directly.

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For example, consider a grantor CLT funded with a gift of \$1 million in February 2019. The trust will pay Duke a fixed amount of \$50,000 (a rate of 5% percent) each year for five years. In 2019, the donor is allowed a charitable income tax deduction of \$227,680, a potential tax savings of over \$84,000*. As the trust assets are invested, the donor will recognize tax on any earnings in the trust as if the donor was holding the assets directly. The donor will receive all remaining assets back at the end of the five-year trust term.

In our example, if the assets have appreciated at 5% each year, at termination the donor will receive approximately the same amount as the original trust contribution. The amount returned by the trust to the donor will vary according to the earnings of the trust.



* Assumption: Donor in the highest marginal federal income tax bracket; state income taxes not considered. The income tax deduction recognized upon creation of a grantor CLT is limited to 30% of the donor's adjusted gross income that year. If the grantor of the CLT passes away during the term of the trust, all or a portion of the initial tax deduction may be recaptured.

** Assumption: The trust investments appreciate at a rate of 5% each year.

The tax impact of a charitable lead trust relies, in part, on an underlying "discount rate" published each month by the IRS. The illustration above relates solely to a lead trust established in February 2019. Please contact Duke's Office of Gift Planning for an updated illustration.

Connect with us to get started

Duke University's Office of Gift Planning has charitable planning experts available to work with you and your financial advisors to explore charitable giving strategies that support your financial goals now and in the future.

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