



THE Future PLANNER

Office of Gift Planning

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Give a Gift That Comes Back

Have you ever considered making charitable gifts as part of your long-range plans—but worried that such gifts might jeopardize your family's future financial security?

Fortunately, there is an answer to this dilemma. A charitable lead trust can be a wonderful way to meet both charitable and personal financial objectives.

Setting the stage

Federal gift and estate tax rates now begin at 45% of the first dollar over \$1.5 million and can reach 48% or more at the \$2.5 million level.

While an unlimited amount of assets can be given during lifetime or at death to one's spouse free of these taxes, this merely postpones rather than eliminates the problem. Taxes will still be due on the surviving spouse's estate.

Single people who wish to conserve their estates for heirs often face the estate and gift tax challenges even more directly.

Charitable solutions

There is currently no limit on the amount that can be devoted to charitable use free of federal estate and gift taxes. But doesn't this solu-

tion permanently deprive your heirs of property distributed in this way?

Not necessarily. The charitable lead trust is a gift planning tool approved by Congress that allows you to devote property to charitable use for a period of time and reduce or eliminate estate and gift taxes while also providing that the property be ultimately enjoyed by loved ones.

Save taxes

Tax savings afforded by charitable lead trusts may thus help you pass property to children, grandchildren, or other loved ones more economically.

The following pages feature more information on how this special way of making gifts can benefit you, your loved ones, and your other charitable interests.

INSIDE THIS ISSUE

- Understanding the charitable lead trust
- Enjoy multiple advantages for loved ones
- The many uses of a lead trust

Lead Trusts Offer Flexibility

A charitable lead trust can be used to achieve a number of goals that at first glance might seem to conflict:

- You can make a significant gift.
- Your gift can be part of a plan that assures all or a portion of the assets used to fund your gift will be available to you and/or your loved ones at a time you designate.
- You may be able to provide your heirs with a larger inheritance than might otherwise be possible.
- You can reduce or eliminate income, estate, and gift taxes now and in future years as well.

Read on for more information on how this exciting gift plan can benefit you and the ones you love while at the same time allowing you to make a significant charitable gift.

Trusts Offer Tax Benefits

Federal tax laws and regulations encourage the use of charitable lead trusts. Congress has provided that taxpayers may, in effect, voluntarily choose where their property is distributed instead of having a portion of their life's accumulation of assets distributed to others via the estate and gift tax system.

Each year many Americans take advantage of this alternative, resulting in significant funding for charitable purposes while providing tax-favored inheritances for heirs at a time the donor selects.

Understanding the Lead Trust

The charitable lead trust is an exciting planning tool that offers a way to make a gift to both your charitable interests and your loved ones. While lead trusts can be structured in a number of ways, they typically share the following characteristics:

1. A lead trust makes payments in amounts you specify to a charitable recipient for a period of time you choose.

2. The assets are then distributed to the heirs of your choosing in the amounts you determine, largely or completely free of estate and gift taxes.

The lead trust thus offers you a way to make a series of charitable gifts over a period of time while delaying an inheritance for heirs until a time when they may be more mature and able to better utilize the property they receive. Or, if you prefer, the assets may be returned to you after fulfilling a gift commitment.

A case in point

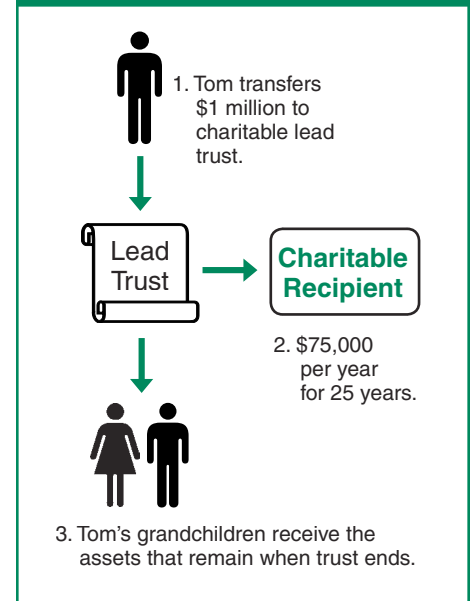
Tom Grant, a widower, has a \$5 million estate consisting of his home, retirement accounts, investment portfolio, and other assets. If he leaves his estate outright to his family, taxes could amount to \$2 million or more depending on a number of factors.

He has considered making a substantial charitable gift in memory of his wife as part of his estate plans, but would like to do so in a manner that does not result in "disinheriting" his children and grandchildren.

How a lead trust can help

With the help of his attorney and accountant, Tom establishes a

How a Lead Trust Works



charitable lead trust and transfers \$1 million in assets to the trust. The trust will pay \$75,000 a year to charitable interests for 25 years, after which it will distribute the assets to his grandchildren when they are in their early thirties (see diagram).

The use of the charitable lead trust will allow Tom to make charitable gifts he never thought possible while providing what may be a larger inheritance for his heirs. He can do this because he is able to bypass federal gift and estate taxes on:

- The \$1 million placed in the trust
- All future growth in the value of the assets in the trust

For more information on the many giving options offered by the lead trust, please contact us. We will be happy to help you and your advisors as you plan your financial future.

Trusts Offer Tax Benefits

Q. What types of assets can be used to fund a charitable lead trust?

A. The choice of asset to fund a lead trust is important. Income producing property and/or investments that are growing in value at a rate sufficient to fund the required payments are usually the best choice. Remember that any net growth in the assets after making required payments to charity will pass to heirs free of gift and estate taxes.

Q. Can a lead trust be created through a person's will?

A. Charitable lead trusts can be created and funded during lifetime or through your will. The greatest tax advantage, however, will often come from creating a lead trust during life so that future appreciation in the assets used to fund the trust will pass to heirs free of gift and estate taxes.

Q. Can a lead trust return its assets to the donor?

A. A lead trust may provide that assets be returned to the donor at the end of the trust term. This type of lead trust, known as a “grantor trust,” can be useful to make a gift over time with assets returned later in life. From an overall tax planning perspective, however, this alternative may be less desirable because any assets returned to the donor will be subject to tax in the donor's estate, and while there may be initial income tax savings for the donor, all the income of the trust (even the income paid to charity) will be attributed to the donor for federal income tax purposes.

Q. Is there an income tax charitable deduction for setting up a charitable lead trust?

A. The answer is usually no unless the trust will return the assets to the donor. Even when there is an income tax deduction, the savings are usually temporary because, as mentioned above, the donor must report income as earned by the trust in future years. Special planning techniques may sometimes be used to reduce or eliminate this tax.

Q. Are there capital gains tax savings when property that has increased in value is given to heirs through a charitable lead trust?

A. No capital gains tax is due at the time securities, real estate, or other property that has increased in value is transferred to a charitable lead trust. Capital gains tax will only be due on any gain realized beyond what is necessary to make payments to charity from the trust each year. When the trust terminates and the property in it is transferred to heirs, they will not pay capital gains tax until such time as they sell all or a portion of the property.

Q. Does a charitable lead trust have to be set up for a specific time period?

A. No. A charitable lead trust can run for as long or as short a time as the donor wishes. It can last for a person's lifetime or for a specific number of years. As a rule of thumb, the longer the trust lasts, the greater the tax benefits.



Examples of Trust Terms*

Payout Rate	Term	Percent of Deduction
7%	20 Years	82%
8%		94%
7%	25 Years	91%
8%		100%
7%	Couple Ages 60 & 65	87%
8%		93%

*Calculated with 6% AFMR.

The Many Uses of a Lead Trust

Funding Gifts Today

Charitable bequests and certain other plans provide for gifts in future years. A charitable lead trust, because it provides payments beginning immediately, can serve as a temporary funding source to meet your charitable objectives while also fulfilling other goals.

Join the increasing number of people who are choosing to take advantage of the planning opportunities provided by the charitable lead trust.

They have learned that a lead trust can be used to meet a variety of financial and estate planning challenges.

Timing an inheritance

If you have children or other relatives whom you believe are now too young to receive an inheritance, a charitable lead trust can allow you to make charitable gifts, eliminate gift and estate tax liabilities, and at the same time determine exactly when younger heirs will receive their inheritance. A 10-year-old child, for example, could receive a tax-free inheritance after the expiration of a 25-year period when she is 35 years of age.

A tax-free retirement plan

For some people, the charitable lead trust offers a way to provide a

tax-favored retirement plan for children or others who are now young adults. For example, a trust for a period of 20 years for children in their forties could result in their receiving a generous retirement fund when they are in their sixties. This plan helps provide economic security for heirs during retirement years while leaving them with an incentive to provide for themselves while they are younger.

Skipping a generation

A lead trust can also be used to provide an inheritance for grandchildren or other younger heirs in situations where their parents are, or will be, financially secure. This planning tool can be a good way to take maximum advantage of amounts you are allowed to leave to such heirs free of estate tax.

More information about how a charitable lead trust can enhance your planning is available upon request.

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By setting up a charitable lead trust, you will be able to make continuous and generous gifts to any of the 100 or more charitable, educational, and pastoral ministries of the Archdiocese of New York. You can also provide for your loved ones' future financial security while enjoying significant estate and gift tax savings.

For a confidential, complimentary, and no-obligation meeting with the Archdiocese of New York's Director of Gift Planning, please call: 212-371-1000, ext. 3319.