

**Charitable Lead Trusts:
Rebranding & Reinvention of a Classic**

Presenters:

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Outcome: Two Questions

- 1) If my client/donor is encouraged to create a Charitable Lead Trust, what should I advise?
- 2) How and when should I recommend a Charitable Lead Trust to my client/donor or prospective client/donor?

Basics of Lead Trusts

- Transfer Cash, Securities, or Property to Trust
- Donor Chooses Trust Term & Payout
- Trust Payout Goes to Charity Each Year
- Trust Assets Return to Donor or Family
- Income, Gift and/or Estate Tax Deduction

Best Candidates for CLT

- Significant “Cash Out” Event
 - Sold Highly Appreciated Real Estate or Stock
 - Received Large Bonus or Contingency Fee
 - Sale of Business or Exercised Options
- Annual High Income or Big Cash Position
- Over \$5M/\$10M Taxable Estate
- “dip your toe in” First Big Gift



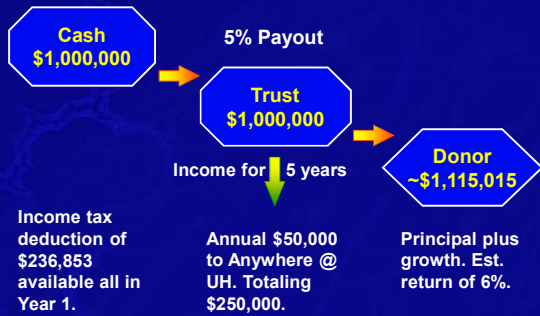
Lead Trust Types

- 1) Grantor Lead Trust**
 - * Income Tax Deduction
- 2) Family (Nongrantor) Lead Trust**
 - * Gift or Estate Tax Deduction
- 3) Super Lead Trust**
 - * Income & Gift Tax Deduction

1. Mega Current Giving

- Total Giving = \$300-335 Billion
- Corporations = 5%
- Foundations = 15%
- Estate Gifts = 8%
- Individuals = 72%

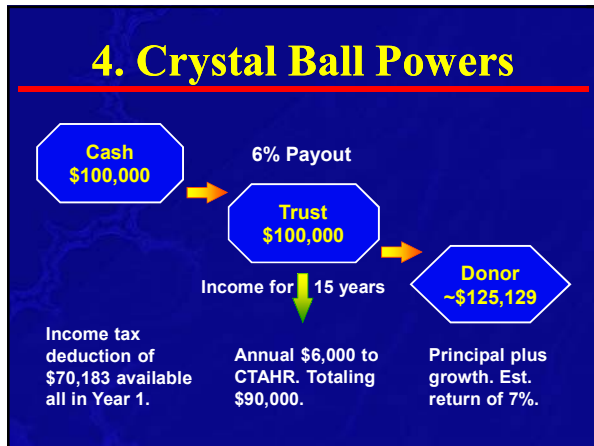
2. Donor Psychology



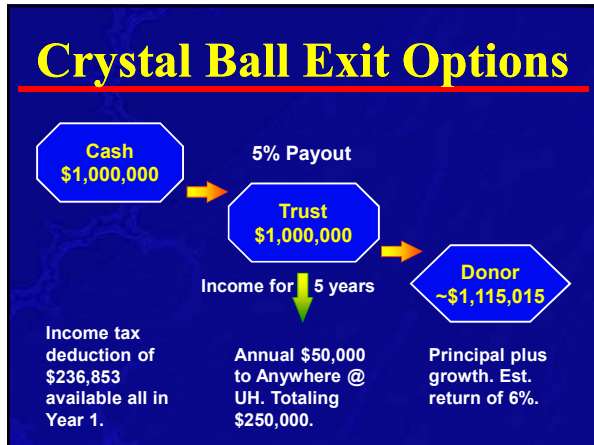
3. Alt. to Pledges (#1 Megatrend)

- Often non-binding
- If binding, will charity enforce?
- Tax deduction as pledge fulfilled
- No guarantees (insolvency, upset, change mind)

4. Crystal Ball Powers



Crystal Ball Exit Options



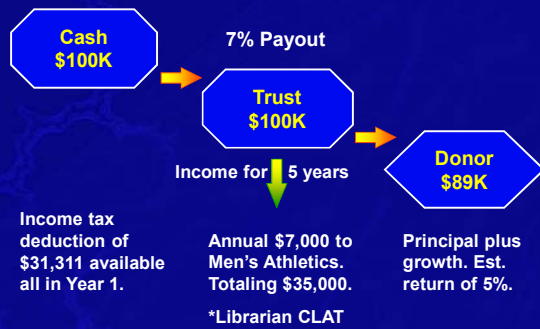
5. Flexible and Better ...

- Alternative to DAF and PF ...
- No endowment or instability ...
- Significant financial net ...
- Donor's advisor can manage ...
- Sticker shock or deal maker ...
- Longevity or excessive generosity ...
- Easier to "see into" the short-term ...

“S” Corps and Librarians

- Ongoing, Successful Business
- Substantial Cash Flow and Cash Reserves
- Large Annual Tax Liability
- Implement CLT for Term of Years
- “Front Load” Income Tax Deduction
- Charitable Impact and Recognition
- Younger Donor (“don’t want to give a lot”)

6. Low Price & 7. Young @



8. Tax Nibble & 9. Status Quo

- Income Tax Deduction = PV of Trust Payouts
- Taxable Trust (Reportable on Grantor's Form 1040)
- Select Assets and Investments Strategy
- Not Suitable for Diversification or Heavy Selling
- Tax Savings Outweigh Tax Liability*
 - Deduction offsets top tax bracket income
 - *Liability often at long-term capital gains rates
 - *Only a portion of charitable distribution taxable

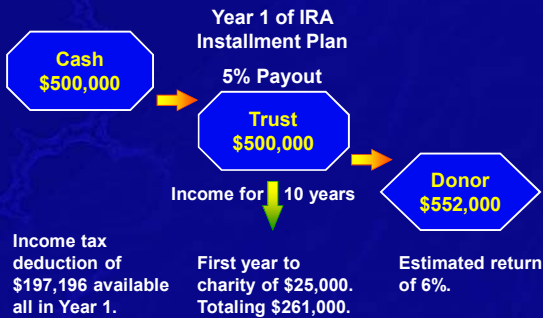
More GRANTOR
Charitable Lead Trusts

CASE STUDIES

Roth IRA Conversions

- Client had IRA of \$1.2M and AGI of \$400K
- Goal: Convert traditional IRA to Roth IRA
- Downside: Significant taxable ordinary income to report with each withdrawal
- **Solution: Spread IRA withdrawal over 3 years**
- **Solution: Fund Grantor CLUT over 3 years**
- Client has new AGI of \$800K each year
- 30% of AGI limitation is \$240K
- Grantor CLUT of \$500K = \$197K tax deduction each year

Roth IRA “Conversion” CLUT



Mutual Fund CLT

- Mutual Fund client, wants to keep the fund
- High income client
- Generous giver to Charity
- High tax problem

- Solution:
- \$100,000 Grantor CLAT
- 5%, 10 years, deduction of \$45,386

Golden Parachute CLT

- Retiring executive
- \$1,000,000 executive retirement payout
- High net worth
- On the board of charity, generous giver

- Solution:
- \$500,000 Grantor CLAT
- 5%, 10 years, \$226,932 immediate deduction

My Marketing Plan

- 1. At all donor PG presentations ...
- 2. In our PG direct mail ...
- 3. During all PG one-on-ones ...
- 4. As part of all advisor PG CEs ...
- 5. Specific training for all MGOs ...

My Marketing Examples

- “Give it, Get it Back” Trusts
- Check box for: “Gifts that return assets back to me”
- For family CLTs: trust principal comes back to you “or your family”

Recipe for CLT Success

1. Include CLT strategies in all of your donor and advisor presentations as well as donor visits
2. Add CLT information to all of your marketing literature (legacy, reply cards, newsletters, annual reports)
3. Educate/Partner with CLT-friendly advisors (*low cost)
4. Encourage and motivate major gift officers to propose Grantor CLTs, Outrights, and Pledges together
5. If you do CRTs, then you can do Grantor CLTs!!!

Want More CLTs?

- Specimen CLUT Forms:
- Rev. Proc. 2008-46 and 2008-45
- Specimen CLAT Forms:
- Rev. Proc. 2007-46 and 2007-45
