



## HOBART AND WILLIAM SMITH COLLEGES

Office of Advancement

### Charitable Lead Trust

The charitable lead trust (CLT) makes payments to Hobart and William Smith Colleges now, while reducing your tax costs for transferring assets to your heirs. With a charitable lead trust, you irrevocably transfer assets to a trustee and provide that payments will be made to The Colleges for a certain number of years during your or another's life. Then the principal is passed to your children or other heirs at greatly reduced gift and estate tax cost and, in some instances, avoiding them all together. The charitable lead trust may appeal to individuals who wish to make a gift while retaining property in their family.

### Is a CLT right for you?

A charitable lead trust could be the right gift if you...

- have substantial assets which are not needed for your own financial security,
- would like to provide for your family or other heirs, as generously as possible
- want to reduce your income gift and estate taxes, and probate costs,
- have as your planning objective to preserve the value of your estate, or reduce your income tax, and,
- would like your gift to provide a stream of payments to The Colleges, meaning your gift will make an immediate impact.

### How does it work?

- You irrevocably transfer cash, securities, or other property to a trust.
- Each year, during its term, the trust pays a percentage of its value or a fixed amount to The Colleges.
- When the trust ends, the trustee transfers the remaining principal and appreciation to your family or other heirs you name.

### What are the benefits?

- You make a substantial annual gift to The Colleges.
- You are not taxed on the annual income generated, but you also do not receive an income tax deduction each year. (It is possible to receive an income tax deduction up front. Please speak with us for more information.)
- You pass the remaining principal to your heirs at greatly reduced gift and estate taxes.
- You benefit from professional management of the assets during the term of the trust.
- You enjoy a gift tax deduction for the present value of The Colleges's income interest

**Specific tax implications of a CLT of which you should be aware.**

When you transfer assets to a charitable lead trust, you are making a taxable gift to the individuals who will receive your trust's principal when it ends. However, your gift of payments to The Colleges earns you a charitable gift tax deduction in the year of your gift that will reduce your taxable gift. In addition, the assets in your charitable lead trust are removed from your taxable estate. This means that any growth in the value of your trust's assets during its term can be passed on to your heirs completely free of taxes.

A charitable lead trust is a taxable trust, that pays income tax to the extent its income exceeds charitable distribution to The Colleges during the year. A careful trustee can balance your lead trust's income against its charitable payments to minimize income taxes.