



Charitable lead trusts

Make a charitable impact today and provide for your heirs tomorrow

The following information and opinions are provided courtesy of Wells Fargo Bank, N.A.

A charitable lead trust allows you to donate to charity during your lifetime, potentially receiving tax benefits, while also providing for beneficiaries at the end of the trust term. While there is flexibility in how the trust is structured, careful consideration is necessary to make sure the trust helps meet your needs and provides the benefits you want today and tomorrow.

You can establish a charitable lead trust to provide payments to one or more qualifying charitable organizations over a selected term of years or for your lifetime. At the time of its creation, you may be eligible for a significant gift tax deduction. After the stated term ends, the remaining assets are distributed to your named beneficiaries.

Overview



Grantor

The grantor establishing the charitable remainder trust makes an irrevocable gift of assets to fund the trust; grantor may receive an immediate gift tax deduction



Charity

The grantor selects one or more qualified charitable organizations to receive distributions at least annually



Beneficiaries

Following a fixed term or upon death, remaining assets pass to heirs or other beneficiaries

Is a charitable lead trust a good fit for your needs?

- Is philanthropy one of your objectives?
- Do you have multiple estate planning goals?
- Would you like to see your money have an impact during your lifetime?
- Would you prefer to spread your charitable gifts over a number of years, yet still have remaining assets for family or other individual beneficiaries?
- Do you have highly appreciated assets—typically valued at more than \$1 million—that you are interested in gifting?
- Would you like to potentially reduce your gift or estate tax?

Benefits of a charitable lead trust

- Generates an income stream to a nonprofit during your lifetime so you can see the impact of your gift
- Removes the assets from your gross estate for possible reduction/elimination of gift and estate taxes
- Creates immediate income tax deduction for donor if structured as grantor or super-grantor trust

- Helps to capitalize on tax savings in a low-interest rate environment
- Offers flexibility to meet your needs

Flexibility to meet your goals

- Terms can be fixed, or based on the lifetime of the grantor
- Income stream may be structured as a percentage or fixed amount of the assets
- Charitable interest can include qualified public charities, donor advised funds, or private foundations
- Remainder beneficiary may be one or more individuals or structured as a trust
- Trust administration may be handled by an individual or corporate trustee
- By naming a trust as a beneficiary, it's possible to address additional goals

Other considerations

- Income and gains may be taxable to grantor or trust
- Assumptions for interest rates and appreciation of assets will greatly impact outcomes
- Trust remainder may be reduced if trust assets underperform the IRS Discount Rate (for example, the March 2025 IRS Discount Rate is 4%)
- Generation-skipping tax may apply

How it works

A charitable lead trust offers your family the potential to impact a nonprofit in your lifetime and plan for the tax-efficient transfer of assets to the next generation. The following illustration provides an example of how a charitable lead trust can be set up and the benefits it offers.



Situation

Client profile

Mr. and Mrs. Miller are retired executives with a net worth of \$25 million. They have ample liquid reserves to fund lifestyle needs.

Goals

- The Millers want to immediately benefit a nonprofit.
- They also hope to leave assets to the next generation.
- The Millers have not used their lifetime gift and estate tax exemption amount and would like to act now to capitalize on the current low-interest rate environment.



Action

Trust established

Mr. and Mrs. Miller, with their attorney, create a charitable lead trust (Super Grantor Trust).

- The Millers fund the trust with \$1 million in stock.
- The charitable lead trust makes payments for 20 years to charity.
- At the end of the term, the remainder of trust assets is distributed to the beneficiaries.



Projected outcomes*

Income to charity

Trust invests \$1 million proceeds, generating an approximate annual payment of \$81,609 to the charitable beneficiary for a period of 20 years.

Remainder to beneficiary

Following a 20-year term, the assets valued at \$524,083 pass to named beneficiaries.

- 7% investment return
- 37% federal ordinary income tax
- 20% long-term capital gains rate
- Internal Revenue Code Section 7520 rate: 5.4% (March 2025)

Estate planning

The Millers' taxable estate is potentially reduced by \$1 million, plus appreciation:

- Gift and income tax deduction: \$1 million
- Taxable gift amount: \$0

*Calculations are for illustration purposes and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on a variety of factors including timing of your gift.

This is an example of solving for a zeroed-out CLAT, which is an estate and/or gift tax planning strategy designed to produce a "zero-tax" result (i.e., estate and gift taxes can be mitigated or potentially eliminated).

How we can help

When you work with Wells Fargo Bank Philanthropic Services to establish your charitable lead trust, experienced and credentialed philanthropic specialists will help you define your mission, values, and area of focus. Then, our specialized charitable administration team will provide ongoing account management and oversight to protect and fulfill the philanthropic objectives established by the trust. Backed by these professional services, you can create an effective strategy that meets your philanthropic and estate planning goals.

Discover more

To learn more about the benefits and potential tax advantages of creating a charitable lead trust, please contact your advisor or philanthropic specialist.

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