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Looking Ahead: The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

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# Why CLAT? It's a Triple Win

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The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

## Charitable Lead Trusts allow clients to “Do Well while Doing Good”

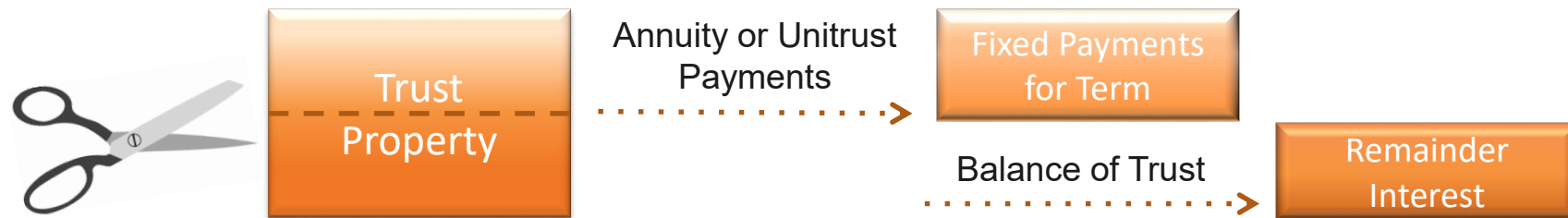
- Achieve philanthropic goals
- Produce a safe & effective wealth transfer to family & other desired beneficiaries
- Reduce or eliminate taxes through significant income tax deduction(s)



# Charitable Trusts: CLTs (and CRTs)

The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

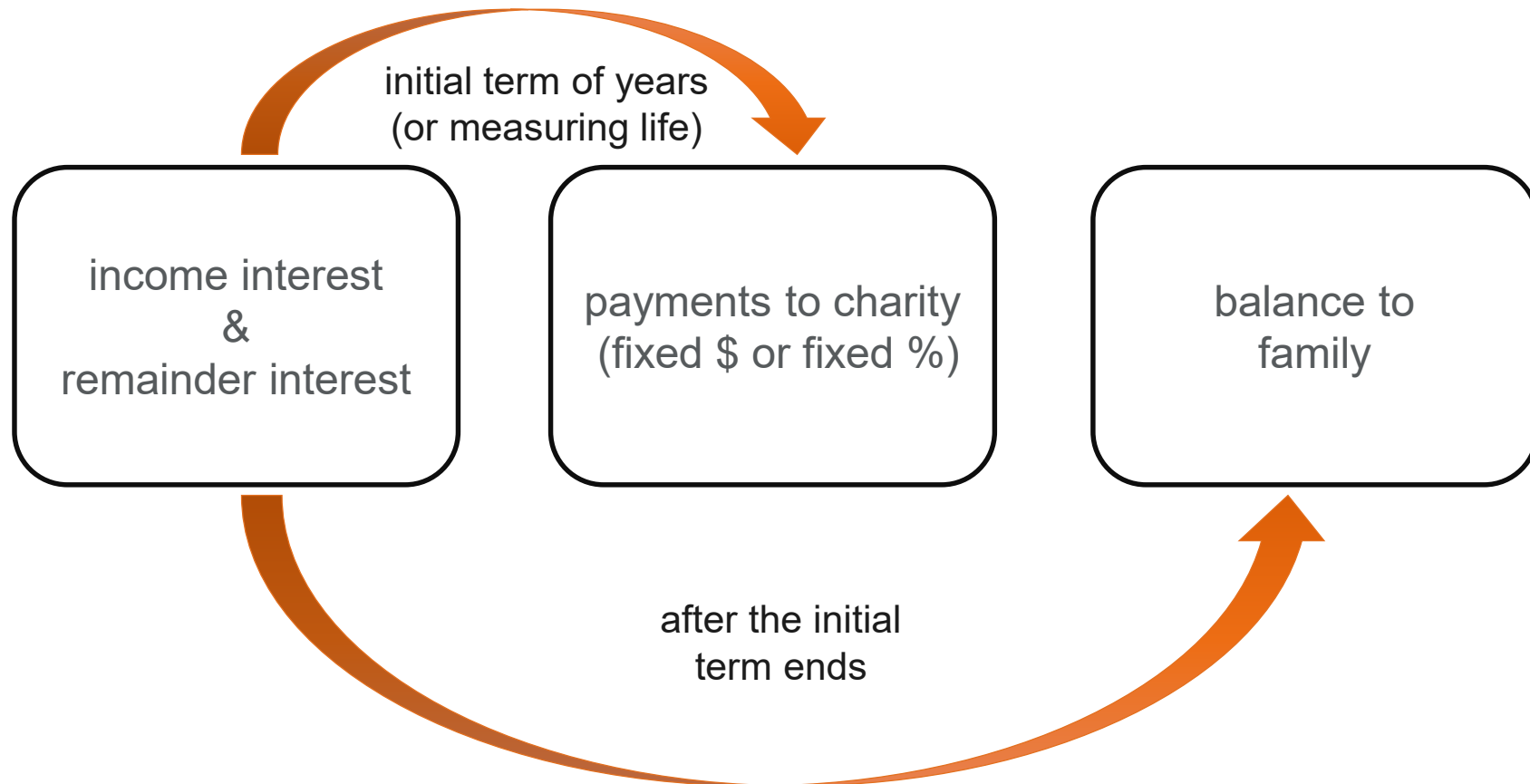
- “Split Interest Trust” – the beneficial interests in the trust are divided into charitable and non-charitable interests



- Charitable interest may be “lead” or “remainder”
- Donor may retain an interest or give it to other beneficiaries
- Planning may be “inter-vivos” or “testamentary”
- Potential for substantial savings in income, estate & gift taxes

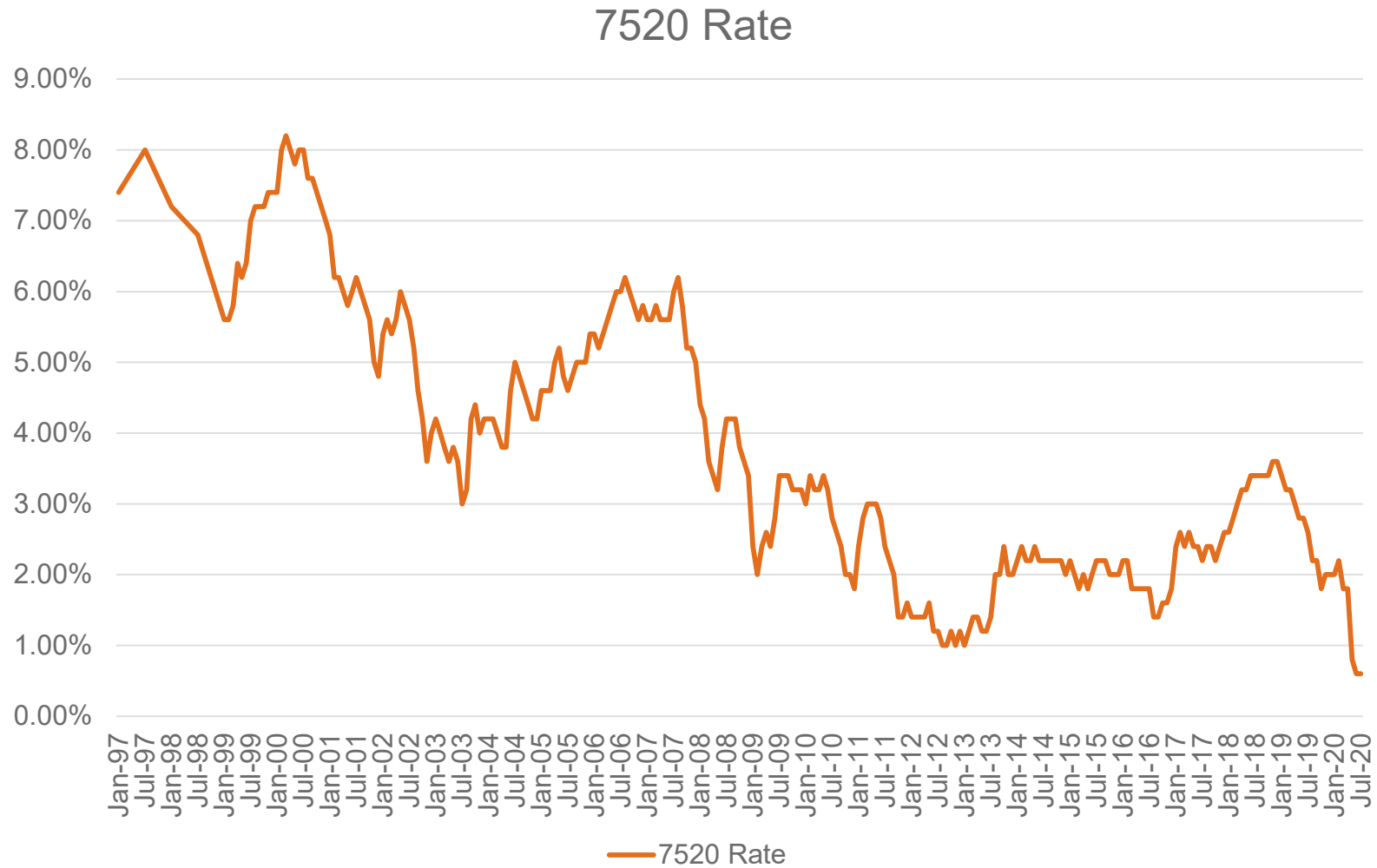
# Charitable Lead Trusts: CLATs (and CLUTs)

The long-term benefits of Charitable Lead Annuity Trusts (CLATs)



# Why now? Look At Those Section 7520 Rates!

The long-term benefits of Charitable Lead Annuity Trusts (CLATs)



# Leftover Exemption?

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The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

- CLATS can be structured to...
  - Optimize the donor's deduction,
  - Work with projected cash flow or
  - Use leftover applicable exemption amount
- Assume ... Donor contributes \$5 million, using about \$1 million of gift/estate exemption
- Charity gets a 16.289% annuity interest (an annuity of \$814,450/year)
- Assuming a 7520 Rate of 0.6%, donor gets an up-front deduction of almost \$4 million
- Assuming an annual total return of 8%, after 5 years...
  - Charity will receive payments totaling \$4.07 million
  - Over \$2.5 million will be left in trust for the family



# No Exemption? Get Something For Nothing

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The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

- CLATS can be “zeroed out” - No gift or exemption use is required
- Great for clients who don’t have leftover exemption or who are subject to state gift tax
- Safer in volatile market conditions
- So assume ... Donor contributes \$5 million but uses no exemption
- Charity gets a 20.361% annuity interest (an annuity of \$1,018,072/year)
- Assuming a 7520 Rate of 0.6%, donor gets an up-front deduction \$5 million
- Assuming an annual total return of 8%, after 5 years...
  - Charity will receive payments totaling \$5.09 million
  - Over \$1.37 million will be left in trust for the family

# CLAT Example: How Big is the Annuity?

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The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

- Annuity % depends on trust term and interest rate
- Uses government rate (“7520 rate”) in effect at inception
  - @ 20 yrs & 0.6% → annuity is ~ 5.32%
  - @ 10 yrs & 0.6% → annuity is ~ 10.33%
  - @ 5 yrs & 0.6% → annuity is ~ 20.36%
- If actual growth exceeds 0.6% the family “wins”
- If the CLAT makes 8% the family will get:
  - Over 27% of the initial value of a 5 year CLAT
  - Over 66% of the initial value of a 10 year CLAT
  - Over 222% of the initial value of a 20 year CLAT



# Charitable Lead Trust: Value of Remainder Interest

The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

End / Begin	0
Payments / year	1
7520 Rate	0.60%
Deduction / Remainder	Remainder

		Trust Payout									
		CLAT	1.00%	2.00%	3.00%	4.00%	5.00%	6.00%	7.00%	8.00%	9.00%
Trust Term	5	95.1%	90.2%	85.3%	80.4%	75.4%	70.5%	65.6%	60.7%	55.8%	50.9%
	6	94.1%	88.2%	82.4%	76.5%	70.6%	64.7%	58.9%	53.0%	47.1%	41.2%
	7	93.2%	86.3%	79.5%	72.7%	65.8%	59.0%	52.2%	45.3%	38.5%	31.7%
	8	92.2%	84.4%	76.6%	68.8%	61.1%	53.3%	45.5%	37.7%	29.9%	22.1%
	9	91.3%	82.5%	73.8%	65.1%	56.3%	47.6%	38.8%	30.1%	21.4%	12.6%
	10	90.3%	80.6%	71.0%	61.3%	51.6%	41.9%	32.3%	22.6%	12.9%	3.2%
	11	89.4%	78.8%	68.2%	57.5%	46.9%	36.3%	25.7%	15.1%	4.5%	0.0%
	12	88.5%	76.9%	65.4%	53.8%	42.3%	30.7%	19.2%	7.6%	0.0%	0.0%
	13	87.5%	75.1%	62.6%	50.1%	37.7%	25.2%	12.7%	0.2%	0.0%	0.0%
	14	86.6%	73.2%	59.8%	46.4%	33.1%	19.7%	6.3%	0.0%	0.0%	0.0%
	15	85.7%	71.4%	57.1%	42.8%	28.5%	14.2%	0.0%	0.0%	0.0%	0.0%
	16	84.8%	69.6%	54.4%	39.1%	23.9%	8.7%	0.0%	0.0%	0.0%	0.0%
	17	83.9%	67.8%	51.7%	35.5%	19.4%	3.3%	0.0%	0.0%	0.0%	0.0%
	18	83.0%	66.0%	49.0%	31.9%	14.9%	0.0%	0.0%	0.0%	0.0%	0.0%
	19	82.1%	64.2%	46.3%	28.4%	10.5%	0.0%	0.0%	0.0%	0.0%	0.0%
	20	81.2%	62.4%	43.6%	24.8%	6.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	21	80.3%	60.6%	41.0%	21.3%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%
	22	79.4%	58.9%	38.3%	17.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	23	78.6%	57.2%	35.7%	14.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	24	77.7%	55.4%	33.1%	10.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	25	76.8%	53.7%	30.5%	7.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

# CLAT Example: How Big is that Annuity Again?

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The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

- Annuity % can also be designed to increase
- Total \$ passing to charity may increase up to 20% per year
  - @ 20 yrs & 0.6% → initial annuity is ~ 0.59%
  - @10 yrs & 0.6% → initial annuity is ~ 4.015%
  - @ 5 yrs & 0.6% → initial annuity is ~ 13.71%
- Again, if actual growth exceeds 0.6% the family “wins”
- But this time if the CLAT makes 8% the family will get:
  - about 30% of the initial value of a 5 year CLAT
  - about 80% of the initial value of a 10 year CLAT
  - about 300% of the initial value of a 20 year CLAT

# A Real Life Example

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The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

- Gift Date: July 2003
- 7520 Rate: 3.0%
- Term: 5 Years
- Initial Funding: \$2.95 million
- Gift: \$33,050
- Annual Distribution: \$644,942
- Total to Charity: \$3.2 + million
- Projected Remainder: ~ \$696,000
- Actual Remainder ~ \$4.8 million

# Income Tax Considerations: Grantor or Non-Grantor

The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

	<b>Grantor CLAT</b>	<b>Non-Grantor CLAT</b>
Who pays income tax?	donor	trust
Who gets a deduction?	donor	trust
When is that deduction?	when trust is created	when income is paid to charity
How much deduction?	present value of payments to charity	amount actually paid to charity

# Charitable Lead Annuity Trust – Example: The Jackie O Plan

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The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

- One or more CLATs established at donor's death
- Each pays an annuity to charities during the term
- Each CLAT is “zeroed out” so entire original value plus interest goes to charities
- Remainder passes in trust to family beneficiaries
- Entire trust passes estate tax free

# TCLAT Example: How Big is the Annuity?

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The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

- Annuity % depends on trust term and interest rate
- Uses government interest rate (“7520 rate”) in effect at death
  - @ 20 yrs & 3.0% → annuity is ~ 6.72%
  - @ 15 yrs & 3.0% → annuity is ~ 8.38%
  - @ 10 yrs & 3.0% → annuity is ~ 11.72%
- If actual growth exceeds 3.0% the family “wins”
- If the CLAT makes 8% the family will get:
  - over 46% of the initial value of a 10 year CLAT
  - over 89% of the initial value of a 15 year CLAT
  - over 136% of the initial value of a 20 year CLAT

# Charitable Lead Trust: Value of Remainder Interest

The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

End / Begin	0
Payments / year	1
7520 Rate	3.00%
Deduction / Remainder	Remainder

		Trust Payout										
		CLAT	1%	2.00%	3.00%	4.00%	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%
Trust Term	5	95.4%	90.8%	86.3%	81.7%	77.1%	72.5%	67.9%	63.4%	58.8%	54.2%	
	6	94.6%	89.2%	83.7%	78.3%	72.9%	67.5%	62.1%	56.7%	51.2%	45.8%	
	7	93.8%	87.5%	81.3%	75.1%	68.8%	62.6%	56.4%	50.2%	43.9%	37.7%	
	8	93.0%	86.0%	78.9%	71.9%	64.9%	57.9%	50.9%	43.8%	36.8%	29.8%	
	9	92.2%	84.4%	76.6%	68.9%	61.1%	53.3%	45.5%	37.7%	29.9%	22.1%	
	10	91.5%	82.9%	74.4%	65.9%	57.3%	48.8%	40.3%	31.8%	23.2%	14.7%	
	11	90.7%	81.5%	72.2%	63.0%	53.7%	44.5%	35.2%	26.0%	16.7%	7.5%	
	12	90.0%	80.1%	70.1%	60.2%	50.2%	40.3%	30.3%	20.4%	10.4%	0.5%	
	13	89.4%	78.7%	68.1%	57.5%	46.8%	36.2%	25.6%	14.9%	4.3%	0.0%	
	14	88.7%	77.4%	66.1%	54.8%	43.5%	32.2%	20.9%	9.6%	0.0%	0.0%	
	15	88.1%	76.1%	64.2%	52.2%	40.3%	28.4%	16.4%	4.5%	0.0%	0.0%	
	16	87.4%	74.9%	62.3%	49.8%	37.2%	24.6%	12.1%	0.0%	0.0%	0.0%	
	17	86.8%	73.7%	60.5%	47.3%	34.2%	21.0%	7.8%	0.0%	0.0%	0.0%	
	18	86.2%	72.5%	58.7%	45.0%	31.2%	17.5%	3.7%	0.0%	0.0%	0.0%	
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	20	85.1%	70.2%	55.4%	40.5%	25.6%	10.7%	0.0%	0.0%	0.0%	0.0%	
	21	84.6%	69.2%	53.8%	38.3%	22.9%	7.5%	0.0%	0.0%	0.0%	0.0%	
	22	84.1%	68.1%	52.2%	36.3%	20.3%	4.4%	0.0%	0.0%	0.0%	0.0%	
	23	83.6%	67.1%	50.7%	34.2%	17.8%	1.3%	0.0%	0.0%	0.0%	0.0%	
	24	83.1%	66.1%	49.2%	32.3%	15.3%	0.0%	0.0%	0.0%	0.0%	0.0%	
	25	82.6%	65.2%	47.8%	30.3%	12.9%	0.0%	0.0%	0.0%	0.0%	0.0%	



# TCLAT Example: How Big is that Annuity Again?

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The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

- Annuity % can also be designed to increase
- Total \$ passing to charity may increase up to 20% per year
  - @20 yrs & 3.0% → initial annuity is ~ 0.84%
  - @15 yrs & 3.0% → initial annuity is ~ 1.91%
  - @10 yrs & 3.0% → initial annuity is ~ 4.71%
- Again, if actual growth exceeds 3.0% the family “wins”
- But this time if the CLAT makes 8% the family will get:
  - about 57% of the initial value of a 10 year CLAT
  - about 96% of the initial value of a 15 year CLAT
  - about 150% of the initial value of a 20 year CLAT



# Questions

# Looking Ahead

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The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

Monday,  
July 20

Reducing Tax Burdens with  
Intentionally Defective Grantor  
Trusts (IDGT)

With James Dougherty and  
Rebecca O'Toole

9 AM PT/  
12 PM ET

Registration links for each series  
presentation will be available in the  
Resource Center.

# Steven J. Chidester

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Partner | Rancho Santa Fe

Steven is a partner in the private client and tax team.

He focuses his practice on estate planning, trust and estate administration, charitable giving and representing tax-exempt organizations. He has designed and used computer modeling to show the economic consequences of various estate planning and charitable giving techniques.

He is also experienced in the area of executive compensation, focusing on compensation and intermediate sanctions issues for tax-exempt organizations. Steven has represented exempt organizations in IRS audits, in civil and probate court, and before state Attorneys General.

He has been recognized as a Super Lawyer since 2013, Best Lawyers in America® since 2011 for Non-Profit Charities Law and Trusts and Estates, and has achieved a Martindale-Hubbell® AV Rating and a First Distinguished Service Award - Partnership for Philanthropic Planning of Greater Los Angeles - Annual Western Regional Planning Giving Conference 2012



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# Karen E. Yates

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Karen is a partner in the Trust, Estates and Charitable Planning team.

Karen's practice is focused on wealth planning. She works with individuals, families and family offices providing legal advice on wealth transfer tax planning and fiduciary administration. As part of the wealth planning process, Karen regularly advises on business succession, charitable giving, and income tax planning for individuals, estates, trusts and business entities, including family offices and private trust companies.

A significant portion of Karen's practice involves restructuring trusts to increase efficiency, address changed circumstances and better suit the needs of the families they benefit.

Karen is admitted to practice in Connecticut, New York, Massachusetts, Pennsylvania, Washington, DC and the United States Tax Court. She is a fellow of the American College of Trust and Estate Counsel (ACTEC), and a member of the Society of Trust and Estate Practitioners (STEP) as well as serving on the Community Foundation of Greater New Haven's Professional Advisor Council and the Executive Committee of the Estates and Probate Section of the Connecticut Bar Association.



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Lawton is an associate on the private client and tax team.

He focuses his practice on domestic and international tax, trust, and estate planning for high net worth individuals and their families.

He regularly advises donors with respect to planned giving structures and counsels public charities, private foundations, and other tax-exempt organizations on formation, tax, and regulatory matters.

He has particular experience with advising fiduciaries in relation to the estate administration process, especially on post-mortem estate planning and charitable deduction issues.



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# Thank you!

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