

Charitable Lead Trusts



Bowdoin

Charitable Lead Trusts

Charitable lead trusts are used to transfer assets to loved ones and reduce gift and estate taxes by a significant amount or eliminate them entirely. These trusts also allow a donor to provide immediate support to Bowdoin each year for a specific time period—either for a person's lifetime, or for a term of years.

Charitable lead trusts are often attractive to wealthier donors looking to overcome substantial gift or estate tax issues. Gifts are typically larger in value—about \$1 million or more.

Establishing a lead trust

To begin, a donor works with advisors to establish a charitable lead trust and transfers assets to it. This transaction is irrevocable. The donor chooses the dollar amount that Bowdoin (and possibly other charities) will receive from the trust each year and determines the term of the trust.

Some annual payout amounts can eliminate gift and estate tax liability related to the trust's ultimate transfer of assets to the donor's heirs. Generally, the charitable payout rate can be lower in a low-interest rate environment, leaving more assets to pass to heirs when the trust term ends.

Features

- Transfers assets to heirs with reduced/eliminated estate and gift tax.
- Provides a reliable source of income to Bowdoin, designated by the donor.
- Almost any type of asset may be contributed; cash and stock are most common.

Example of how it works

A donor establishes a charitable lead trust with a ten-year term and funds it with a gift of \$2 million. The terms of the trust call for Bowdoin to receive an annual fixed payment each year of the trust's existence of \$120,000 (a rate of 6.0 percent), then, when the trust ends in year ten, the assets remaining in it will pass to heirs free of gift or estate tax regardless of the amount of the transfer. If the trust's investments achieve an annual return of 7 percent, the heirs will receive more than \$2,276,000—free of gift or estate taxes—and Bowdoin will have received \$1,200,000 by the time the trust ends.*

For more information, go to bowdoin.edu/gift-planning or contact the Office of Gift Planning at giftplanning@bowdoin.edu or 207-725-3172.

Please note that we are prohibited from giving legal or financial advice, and none of the information above should be interpreted as such. We encourage you to consult with your own legal counsel or financial advisor before deciding on whether to proceed with a gift.

*The tax benefits of this type of lead trust are typically related to reducing or eliminating gift and estate taxes. The lead trust is a taxable trust and is entitled to receive an unlimited income tax deduction for the charitable distributions it makes each year. A charitable lead trust does not provide the donor with an income tax deduction. The impact of a charitable lead trust relies, in part, on the IRS discount rate published each month. The example herein relates to a lead trust established in September 2018.