

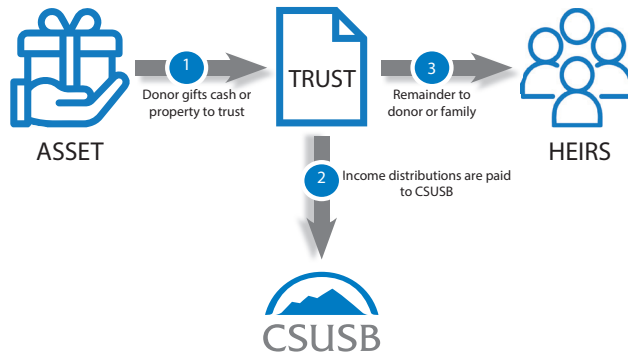


**CHARITABLE
LEAD TRUST**
GIFT GUIDE


CALIFORNIA STATE UNIVERSITY
SAN BERNARDINO

Planned Giving

WHAT IS A CHARITABLE LEAD TRUST?



A charitable lead trust disperses annual gifts to CSUSB while providing substantial tax savings to you each year. When the trust term ends, you receive the remaining assets.

HOW DOES A CHARITABLE LEAD TRUST WORK?

A charitable lead trust is a trust designed to provide financial support to one or more organizations for a period of time, with the remaining assets eventually going to family members or other beneficiaries to provide for their security.

This giving method is created when you establish and then fund a trust. Depending on the type of charitable lead trust, you can expect to receive gift, estate, and income tax savings.

TWO TYPES OF CHARITABLE LEAD TRUSTS

Family or Non-Grantor Lead Trust

By far the most common type of charitable lead trust, a family or non-grantor lead trust transfers the trust assets to your family or other selected beneficiaries at the end of the trust term. The primary benefit of a family lead trust is that you receive a gift or estate tax deduction for the present value of the charitable interest.

Grantor Lead Trust

Unlike a family lead trust, the assets in a grantor lead trust return to you, the grantor, at the end of the trust term. In addition to receiving a gift tax deduction for the gift made to CSUSB, you also benefit from an income tax deduction. However, you must report all of the trust's income on your personal income tax return. This type of trust is sometimes invested in tax-free municipal bonds to reduce or eliminate the annual tax on trust income.

Super Grantor Lead Trust (Hybrid)

This is a type of grantor lead trust that transfers the trust assets to your family at the end of the trust term instead of the assets reverting back to you. While the trust assets pass to your family similar to the family or non-grantor lead trust, the trust is drafted as a grantor lead trust. You receive an income tax deduction for the present value of the charitable gifts made. As with a grantor lead trust, all of the trust's income must be reported on your personal income tax return each year.

CHARITABLE LEAD TRUST TAXATION

HOW CHARITABLE LEAD TRUST PAYOUTS ARE TAXED

Unlike a charitable remainder trust, a charitable lead trust is a taxable trust. All income and capital gains the trust accumulates are subject to tax. The treatment of lead trust income depends on whether the trust is a family lead trust or grantor lead trust.

Family Lead Trust Taxation

With a family (or non-grantor) lead trust, the trust is taxable and must file its own tax return each year. Fortunately, there is an unlimited income tax deduction for amounts the trust distributes to CSUSB. Any income or capital gains that are not part of the annual distribution are subject to tax. Since the trust is taxable on accumulations, it is undesirable to sell all of the appreciated assets transferred to the trust, as they will be subject to capital gains taxes.

Grantor Lead Trust Taxation

One benefit of a family lead trust is that the trust pays any income or capital gains taxes due. With a grantor or super grantor lead trust, trust income must be reported as taxable income on the grantor's personal tax return. In addition, income or capital gains is taxable to the grantor. For this reason, a common strategy is to fund a grantor lead trust with appreciated stock. There is a large tax savings in the first year and modest tax payments during the remaining years.

CHARITABLE LEAD TRUST TAX BENEFITS

GIFT OR ESTATE TAX DEDUCTION BENEFITS

A lead trust makes payments to CSUSB in one of two ways:

A lead trust qualifies for a charitable gift or estate tax deduction based on the present value of the payments made to CSUSB. The gift tax deduction enables you to give significant assets to your family during life at a reduced or zero gift cost. For example, assume you establish a \$1 million lead trust and receive a gift tax deduction of \$400,000. That would allow you to pass on \$1 million to family with a taxable gift of only \$600,000. The estate tax deduction permits you to pass on significant assets from your estate to your family at a reduced or zero estate tax cost.

Generation-Skipping Transfer Taxes

Because grandchildren are a common beneficiary of a lead trust, generation-skipping transfer tax (GSTT) may impact the value of the assets passed on to family. Like gift or estate tax, GSTT is a tax on assets transferred to others. Gifts that skip a generation include gifts made to grandchildren. When you establish a lead trust during life and include grandchildren as beneficiaries, you have made a gift to them that can be subject to both gift tax and GSTT. However, just like gift and estate taxes, the GSTT also has a lifetime exemption. This exemption allows you to pass assets from a lead trust to family at a reduced GSTT cost.

CHARITABLE LEAD TRUST PAYOUT OPTIONS

CHARITABLE LEAD TRUST PAYOUTS

A charitable lead trust makes payments to CSUSB in one of two ways:

Lead Annuity Trust

With a lead annuity trust, the trust pays a fixed amount each year regardless of the current value of the trust. There is a potential for growth in the trust because the annuity is fixed and the trust principal can compound. An annuity trust payout is popular for family lead trusts. The fixed payments to CSUSB make it possible to move substantial assets along with growth to family with modest use of the gift exemption.

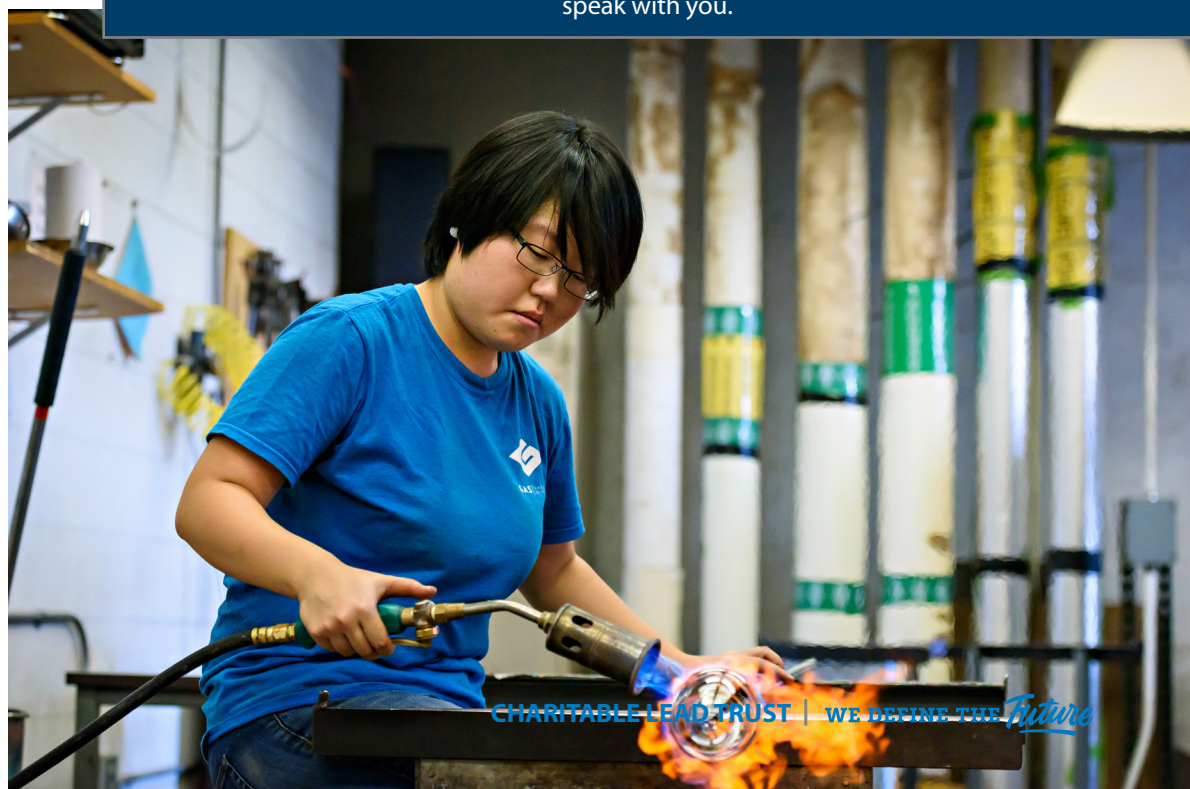
Lead Unitrust

In contrast to a lead annuity trust, a lead unitrust pays a percentage of the trust assets to CSUSB. If the trust goes up in value, the amount paid to CSUSB could increase over time. This means some of the trust's growth passes to CSUSB instead of passing to family at the end of the trust term. Therefore, a lead unitrust payout is used less frequently than a lead annuity trust payout.

ONE GIFT, A LIFETIME INVESTMENT.

A charitable lead trust may be a great solution for you.

You can create your legacy while enabling yourself and your family to benefit from tax savings. Best of all, your gift will help **transform tomorrow** at CSUSB. Contact our Office of Planned Giving today with any questions you may have. We would love to speak with you.





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