

## **"SHARK-FIN" CHARITABLE LEAD ANNUITY TRUSTS**

Jul 30, 2010

Typically, a charitable lead annuity trust ( a "CLAT") provides for level annuity payments to the charity during the trust's term. For the trust to be effective in transferring value to the remainder beneficiaries, who are usually family members, the total return inside the trust must exceed the required annuity payments; otherwise, such payments will consume the entire value of the trust's assets and no property will then pass to the remainder beneficiaries. A "Shark-Fin" CLAT is designed so that small payments, such as \$1,000 per year, are made in the early years of the trust term, with a very large payment required in the last year or two. By proceeding in that manner, fluctuations in value of trust assets in the early years become less of a factor in assuring assets will be available for distribution at the end of the term.

A CLAT may be designed as a grantor trust, providing a charitable income tax deduction to the grantor upon its creation and funding; however, the grantor would be subject to income tax on the income generated inside the trust during its term. Therefore, the nature of the assets held in the trust and the income generated are significant factors in the design of a grantor CLAT. A CLAT may also be designed as a non-grantor trust, which would not provide a charitable income tax deduction. Both types of CLATs provide a gift or estate tax charitable deduction equal to the present value of the annuity payments, using the required federal interest rates, which are currently very low.

## MEET THE TEAM



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