FIDATO WEALTH®
COMPREHENSIVE FIDUCIARY ADVICE

FLASH REPORT

CHARITABLE LEAD TRUSTS CAN HELP YOU TO HELP MANY

If you're like many investors, you may feel you're in a kind of tug-of-war between two financial goals: 1) leaving money to your heirs and 2) benefiting organizations that are meaningful to you and that help people who need it.

The good news: There are philanthropic tools that can potentially help you strike the right balance for you between those two objectives. One such tool is called a charitable lead trust, or CLT. The basic mechanics of a CLT are well established:

1. **Establish a charitable lead trust and fund it.** You can establish a charitable lead trust while alive or through your estate plan. To fund it, you contribute assets (cash or publicly traded securities are common candidates) to the trust, which invests and manages those assets.

2. **The trust sends payments to one or more charities.** The trust provides an annual income payment to a chosen charity (or charities, as the case may be). These charitable payments can go on for a fixed number of years or for the lifespan of an individual. There is no required minimum (or maximum) payment to the charity, as long as a payment is made annually.

3. **The remaining assets are distributed to you or your loved ones.** At the end of the charitable trust term, the remaining assets are distributed to non-charity beneficiaries. Ideally, the trust assets have grown over time—leaving a nice amount of wealth left over.

That said, CLTs have additional complexities and rules that you need to understand. Example: A CLT is an irrevocable trust. That means once you put assets into one, you cannot change your mind later and pull them out. So charitable intent is key. You probably don't want to even think about creating and funding a CLT unless you're certain you want some of your wealth to go to one or more charities.

If you are willing to fund this type of irrevocable trust, however, you have the potential to receive certain tax benefits. For example:

- **Tax-deferred growth.** The assets in the CLT can be structured to grow tax- deferred, if you utilize proper planning and appropriate investment vehicles. (More on this later.)
- **Tax deduction.** When you create and fund the CLT, you may get an income tax deduction. There are different tax deductions depending on factors that include (but aren't limited to) the assets being used and the projected payments to charity.
- **Avoidance of other taxes.** The beneficiaries of the trust receive the assets free of estate and gift taxes.

CLATS, CLUTS AND OTHER FLAVORS OF CLTS

A CLT can be established as either a charitable lead annuity trust (CLAT) or a charitable lead unitrust (CLUT). With a CLAT, the charity gets a specific, consistent amount of money each year—the annual payment doesn't fluctuate. With a CLUT, by contrast, the charity receives a specific, consistent percentage of the trust's assets valued annually—meaning the exact amount of money paid to the charity can rise or fall from year to year.

In addition, there are two overall types of CLTs—grantor and non-grantor—that differ in ways that can impact tax-related issues.

1. **Grantor CLTs allow the grantor to take an immediate income tax charitable deduction.** However, the grantor will have to pay taxes on the trust's income throughout the trust's term—effectively eroding some of that up-front deduction over time.
2. **Non-grantor CLTs are set up so the trust itself—not the grantor—is considered the owner of the assets.** Therefore, the grantor doesn't get an immediate tax deduction when gifting assets to the trust—and it's the trust that pays the taxes on the income generated. Additionally, the trust is eligible to claim an unlimited income tax deduction for the distributions of funds to the charity.

CLTs are seen as beneficial by many individuals and charitable organizations for reasons that include:

- **Regular income and meaningful giving.** Charities like CLTs because the trusts can potentially enable them to receive a steady stream of income annually, helping them with planning around their mission and purpose.
- **Possible tax advantages.** As noted, depending on several factors, donors may be able to receive an immediate tax deduction—which may be particularly advantageous if the donor generated a much larger than usual amount of income in a particular year.
- **Family financial benefits.** A CLT can ensure that your chosen heirs receive some of your wealth without incurring estate taxes. And if the assets in the trust grow tax-deferred, your heirs could benefit by receiving more wealth than they may have otherwise.

But CLTs also come with risks and issues that need to be weighed carefully when deciding whether to use this type of trust. As already noted above, they're irrevocable. In addition:

- **The value can fluctuate.** Because the assets in a CLT are invested, they can fall in value as well as rise. There's no guarantee that your heirs will ultimately receive the amount of wealth you hoped they would when setting up the trust.
- **They're sensitive to interest rates.** Often, CLTs are viewed as better options when interest rates are relatively low. That's because the IRS applies a discount rate to CLTs, known as the 7520 rate, that rises and falls along with overall interest rates. If assets in the CLT outperform the 7520 rate, the excess earnings will pass to the non-charity beneficiaries free of transfer tax. The higher the rate, the more difficult it is to achieve such outperformance—and the greater the risk that there will be a smaller amount of excess earnings to pass on.

Charitable trusts are usually complicated and subject to specific IRS rules, so anyone considering establishing a charitable trust, including a charitable lead trust, should consult with their legal or tax advisor.

Fidato Wealth LLC is a Registered Investment Adviser. Please note that the use of the term "SEC Registered Investment Adviser" and description of Fidato Wealth LLC and/or our associates as "registered" does not imply a certain level of skill or training. This brochure is solely for informational purposes. Advisory services are only offered to clients or prospective clients where Fidato Wealth LLC and its representatives are properly licensed or exempt from licensure. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Fidato Wealth LLC unless a client service agreement is in place. If you are not the intended recipient, or the employee or agent responsible for delivering the message to the intended recipient, you are notified that any review, copying, distribution or use of this transmission is strictly prohibited. If you have received this transmission in error, please (i) notify the sender immediately by e-mail or by telephone and (ii) destroy all copies of this message. Please note that trading instructions through email, fax or voicemail will not be taken, as your identity and timely retrieval of instructions cannot be guaranteed.

If you do not wish to receive marketing emails from this sender, please send an email to sayhello@fidatowealth.com. This article was published by the VFO Inner Circle, a global financial concierge group working with affluent individuals and families and is distributed with its permission. Copyright 2025 by AES Nation, LLC. Fidato Wealth is not affiliated with AES Nation, LLC. AES Nation, LLC is the creator and publisher of the VFO Inner Circle Flash Report.

TONY D'AMICO, CFP®
FIDATO WEALTH LLC

7530 Lucerne Drive, Suite 400, Middleburg Heights, OH 44130
Office: 440-572-5552
FidatoWealth.com