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A balloon charitable lead annuity trust is a type of charitable lead annuity trust. Sometimes called a “shark fin” trust, it shares all characteristics of a standard charitable lead annuity trust except that its payments to charity are not the same fixed amount every year. Instead, the payments are a relatively small amount during all but the final year or final few years of the trust, and then increase dramatically to a large “balloon” amount to be paid in the final year or final few years of the trust. The pattern of payments must be defined in a payment schedule that is included with or in the lead trust instrument.

Starting payments to the charity at a low amount and then switching to one or a few large balloon payments at the end of the trust term can be advantageous to the heirs of the trust. This approach to payments gives the trust assets an excellent opportunity to grow in value during all but the last year or last few years of the trust. As a result, the assets inside the trust typically have more opportunity to grow in value and accumulate tax-free for the ultimate benefit of the donor’s heirs.

A typical balloon payment schedule for a 20-year lead annuity trust funded with \$1 million would be \$1,000/year for the first 19 years of the trust, followed by a \$1 million payment in the twentieth and final year of the trust. If the donor wishes the charitable deduction to be 100% of the \$1 million funding amount, the balloon payment would be even more than \$1 million. The only requirement is that the amount of each payment is knowable from a schedule that is included with the original trust instrument.

This calculation can be created in our Planned Giving Manager (PGM) software. If you are a PGM license holder, see the Help section in the software for more details.

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