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The non-grantor lead trust is the most common form of charitable lead trust.

During the trust term, typically a fixed number of years, the trust makes payments to one or more charities. When the trust terminates, it distributes its remaining principal to individuals named by the donor, typically family members.

A non-grantor lead trust is treated as an independent taxable entity that is responsible for all of its own taxes and accounting. It pays tax on income, including realized capital gain income, that is in excess of its charitable payments.

The donor of a non-grantor trust earns a gift tax deduction equal to the present value of the income stream that the trust will distribute to charity during its term. The funding amount minus the gift tax deduction represents a taxable gift from the donor to the ultimate beneficiaries of the trust. A lead trust is a gift of a future interest and is therefore not eligible for the annual gift tax exclusion.

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