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A non-grantor charitable lead unitrust is a gift plan defined by federal tax law that allows an individual to transfer assets to family members at reduced tax cost while making a generous gift to a charity.

The donor irrevocably transfers assets, usually cash or securities, to a trustee of her choice, such as a bank trust department. The donor receives a gift tax deduction equal to the value of the income stream promised to the charity. Unlike income tax deductions, gift tax deductions are not subject to IRS limitations.

During the lead unitrust's term, the trustee invests the unitrust's assets. Each year, the trustee pays a fixed percentage of the unitrust's current value, as revalued annually, to charity. If the unitrust's value goes up from one year to the next, its payout to charity increases proportionately. Likewise, if the unitrust's value goes down, the amount it donates also goes down. These payments are used for the charitable purpose the donor designates.

The lead unitrust's term may be for a specific number of years (10-20 years is common), one or more lifetimes, or a combination of the two. Payments are made out of trust income, or trust principal if the trust income is not adequate. If trust income exceeds the charitable payment in a given year, the trust pays income tax on the excess.

When the lead unitrust term ends, the unitrust distributes all of its accumulated assets to family members or other beneficiaries named by the donor. The donor may add funds to her unitrust whenever she likes.

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Charitable Lead Unitrust