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A non-grantor charitable lead annuity trust 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 annuity trust's term, the trustee invests the trust's assets and provides a fixed dollar amount each year to charity. These payments are used for the charitable purpose the donor designates and continue until the trust term ends or until the highly unlikely event that the trust distributes all its assets. The trust'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. The payments are made out of trust income, or trust principal if the trust income is not adequate. If trust income during a given year exceeds the annual charitable payment, the trust pays income tax on the excess.

When the lead annuity trust term ends, the annuity trust distributes all of its accumulated assets to family members or other beneficiaries named by the donor.

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