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A grantor charitable lead unitrust is a gift plan defined by federal tax law that allows an individual to retain ultimate possession of an asset while making a generous gift to charity.

The donor transfers assets, usually cash or securities, to a trustee of choice, such as a bank trust department. The donor receives an income tax deduction equal to the value of the income stream promised to the charity. Because the gift is deemed to be "for the use of" the charity, the deduction is subject to IRS 20%/30% 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.

Although the grantor trust's term may be for one or more lifetimes, a specific number of years (10-20 years is common) is almost always used. Payments are made out of trust income, or trust principal if the trust income is not adequate.

When the grantor lead trust term ends, its charitable payments cease and the trust returns all of its accumulated assets back to the donor.

Because the donor retains ultimate possession of a grantor lead trust's assets, all taxable income earned by the trust during its term, including income distributed to charity, is taxable to the donor. For this reason, grantor lead trusts sometimes are invested to earn tax-free income. The donor may add funds to her unitrust whenever she likes.

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