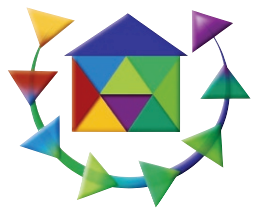
Charitable Lead Unitrust

Udell Associates

From Estate Planning to Wealth Enjoyment

Charitable Lead Unitrust



Key Benefits

- Income stream for grantor's favorite charity (which could include grantor's private foundation).
- Assets eventually transferred to children with estate and gift taxes reduced or eliminated.
- Unlike a CLAT (Charitable Lead Annuity Trust), a CLUT can be used effectively with "generation skipping" planning to benefit multiple generations of the grantor's family without estate taxes or generation skipping transfer taxes.
- Can be used with certain other planning techniques to further reduce gift and estate taxes.

Please see page 7 of this booklet for important information concerning the planning technique illustrated herein.

Charitable Lead UniTrust

Scenario

Bob would like to make a large gift to his children, and perhaps include his grandchildren. The asset that Bob has in mind is presently worth $1,000,000, but is expected to grow in value at a high rate (9%) and produce significant income (5%) for the foreseeable future. He has been informed that gifting this type of asset, now, could save a large amount of estate taxes at his death. However, he also is aware that such a large gift would require him to use his entire $1,000,000 lifetime gift tax exemption to avoid gift tax, and he wonders whether there might be a better way to transfer the asset to his family. Bob also is interested in providing financial support for his favorite charity.

After some consideration, Bob decides to implement a planning technique known as a Charitable Lead Unitrust (“CLUT”). Bob will create an irrevocable trust for the benefit of his favorite charity and his children. An amount will be paid annually to the charity for a specified period (Bob chose 14 years). This amount will be determined annually by multiplying the current value of the CLUT’s assets by a percentage (Bob chose 12%). At the end of this period, the charity’s interest ends and the remaining assets are distributed to Bob’s children (or retained in trust for their benefit).

Charitable Lead Unitrust

Construction

1 Bob creates an irrevocable trust, known as a Charitable Lead Unitrust, or “CLUT”, under which his favorite charity will receive a stream of income, based on a percentage of the value of the trust assets, for a period of 14 years. The remaining trust assets at the end of this period will be transferred to Bob’s family (or retained in trust for their benefit).

2 Upon creation of the trust, Bob transfers a selected asset to the trustee of the CLUT. For federal gift tax purposes, the amount gifted to the CLUT is divided into 2 separate gifts, based on IRS actuarial tables. The charity’s portion is gift tax free. The family’s portion is a taxable gift ($167,016), which can be sheltered from gift tax by Bob’s gift tax exemption.

3 The charity receives an annual payment from the CLUT for 14 years, determined by multiplying the value of the trust assets by 12%. At the end of this period, the charity’s interest in the trust ends.

4 When the charity’s interest ends, the assets are transferred, estate and gift tax free, to the Bob’s family outright or retained in trust for their benefit.

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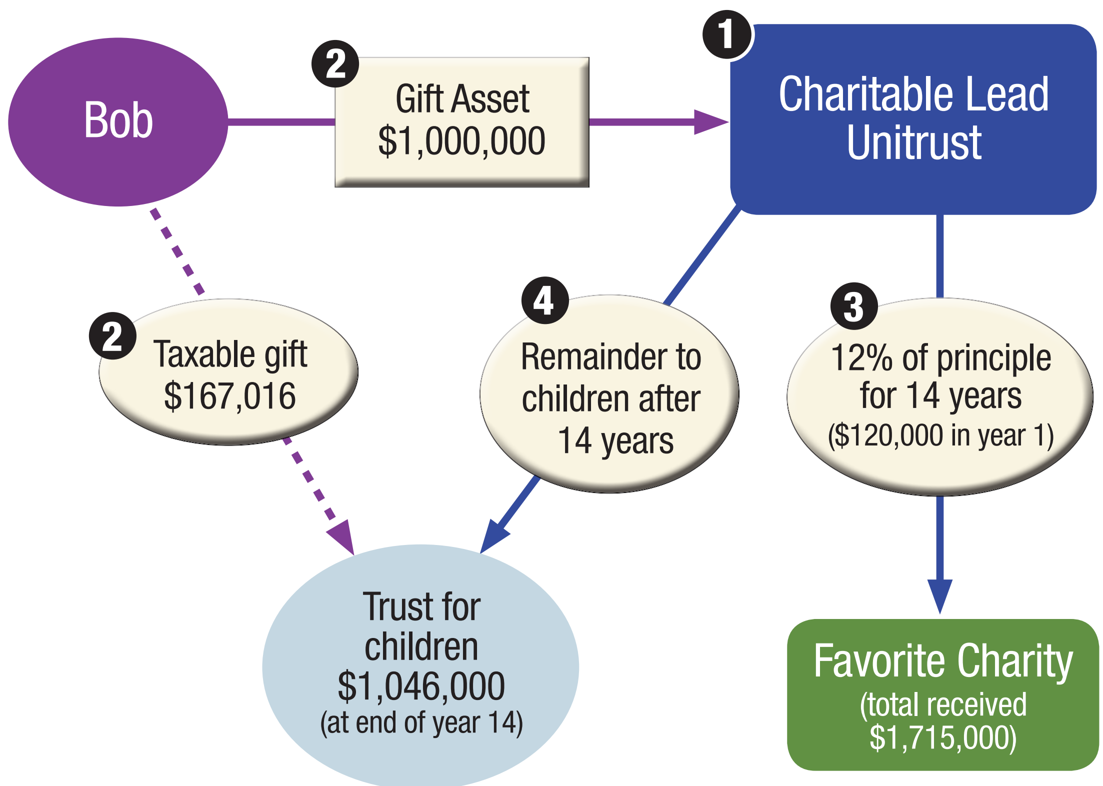

Charitable Lead Unitrust

Technical Notes

A Charitable Lead UniTrust (or, "CLUT") is a special type of irrevocable "split interest" trust in which an income stream, based on a percentage of the value of the trust assets, is payable to a qualifying charity for a specified period of time, with the remainder of the trust's assets to be transferred to one or more non-charitable beneficiaries (e.g., the grantor's children or grandchildren) after the charity's income interest ends.

Creative use of the CLUT offers the potential for significant estate and gift tax savings. Properly designed, the CLUT allows the grantor (i.e., creator) of the trust to accomplish philanthropic goals (which could include funding his or her own private foundation) and eventually transfer a large amount of wealth to his or her family, free of estate and gift taxes. It is possible to design the trust to provide income tax benefits for the grantor; however, tax planning with the CLUT typically focuses on minimizing or eliminating estate and gift taxes on the trust assets transferred to the grantor's family.

Generally, the trust should be funded with assets that can produce a substantial stream of income, while having strong potential for significant future growth in value. Note that this technique can be implemented either during the grantor's lifetime or at the grantor's death (via a testamentary trust). Other planning techniques may be used with the CLUT to enhance charitable benefits and the amount of wealth that is ultimately transferred to the children.

Unless otherwise stated in this booklet, actuarial calculations are based on the assumptions that the client is 65 years old and the Applicable Federal Rate (AFR) is 5.0%.

This booklet is intended solely for the purpose of illustrating conceptually how a particular estate planning technique might work, based on various assumptions. Whether the planning technique is appropriate for you will depend on your goals and your specific situation. This booklet has been prepared to accurately reflect our understanding of existing tax and regulatory laws in effect at the time of printing, and it assumes the continuation of such laws. However, the information in this booklet should not be interpreted as legal or tax advice, and the reader is strongly encouraged to seek guidance from his or her own legal and tax advisors concerning legal and tax consequences of the planning technique. Any amounts shown that relate to life insurance are hypothetical in nature and are not guaranteed. Any assumed investment returns shown are based on hypothetical investments.

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