



COMMUNITY
FOUNDATION
OF WESTERN MASSACHUSETTS

Charitable Lead Trusts

A Charitable Lead Trust is a simple way to make significant charitable gifts now while transferring substantial assets to beneficiaries or yourself later. A charitable lead trust makes regular distributions to a charitable fund at the Community Foundation for a specific period of time. When the trust terminates, the remaining assets are transferred back to you or to your heirs, usually with significant transfer tax savings. A charitable lead trust can be established for a specified number of years, or it can end upon the death of the donor.

Below are answers to frequently asked questions about Charitable Lead Trusts.

Q. How do I establish a charitable lead trust?

A. Discuss your philanthropic and planning goals with your professional advisor and the Foundation's Philanthropic Services team. The Foundation can provide a sample trust agreement for you to review with your advisor. You will decide which type of charitable fund you want to establish, and the Foundation will create a simple fund agreement letter for your signature. After the trust is established, your fund will begin receiving regular distributions from it.

Q. Who is a charitable lead trust for?

A. A lead trust is ideal for someone who:

- can afford to set aside a portion of their assets for a certain number of years;
- wants to ensure their heirs receive an inheritance—but not immediately;
- wants to reduce estate taxes;
- owns securities, real estate, or other assets that they expect to increase in value over the term of the trust.

Q. How are funds invested?

A. Our funds are professionally invested under the supervision of expert community volunteers. Funds are pooled and invested with other assets of the Foundation for fuller diversification, with each fund accruing its own share of the earnings. Each fund is accounted for separately. We offer a specially designed portfolio for remainder and lead trusts. We provide quarterly financial statements for all fund donors.

Q. What are the administrative fees and investment expenses?

A. The Foundation does not charge for administering charitable lead trusts. The expenses of investing the donated assets will always be charged as part of the cost of administering the trust, as will the expense of providing annual tax reporting (currently \$250). The secondary fund established to receive the annual payments from the Lead Trust will be charged the appropriate fee according to our fee schedule currently in effect.

Q. What happens at the conclusion of a lead trust?

A. When the trust terminates, the remaining assets are transferred back to you or to your heirs, usually with significant transfer tax savings.

Q. What are the tax benefits with a lead trust?

A. Charitable lead trusts are not exempt from income tax. Their tax benefit is primarily in the reduction of the estate tax. Assets may be passed to heirs based on their value at the date of gift—which can save substantial taxes on assets that appreciate during the trust’s term. When the trust terminates, the trust principal is returned to you or distributed to your children or others you may designate at reduced tax cost or tax-free.

Q. What level of flexibility and choice do I have as a donor?

A. Together with us and your advisor, we will determine how long the trust should last and the amount of the charitable distributions. Annual distributions can be a fixed percentage of trust assets or a fixed dollar amount. You can recommend which nonprofit organizations you wish to support and/or you can involve your children. The fund can bear your name; the name of your family, business, or someone you would like to honor; or a name that will not identify you at all.