



HIGHTOWER
Trust Company

CASE STUDY

Charitable Lead Annuity Trust (CLAT)

CLIENT PROFILE: Devon is a single father and a highly successful professional with four daughters. Because of his success and efforts to plan for the future, Devon has amassed a sizeable taxable estate. Upon this year's sale of the franchise he works for, he will be paid a significant cash bonus for his long-term contributions. This bonus, like his other assets, will be managed by Alex, his Hightower advisor. In his discussions with Alex, Devon indicated he is concerned about the significant tax bill he will pay this year due to the bonus, which is in addition to the large salary he already receives. There is uncertainty regarding his position moving forward, and he anticipates he will be in a lower tax bracket in future years. Given these circumstances Devon feels that now is the time to start the foundation he has always wanted and bring his daughters into its management. Additionally, Devon is continuously looking to implement strategies to grow his children's inheritance.



CHALLENGE: Devon wants to help protect assets for the benefit of his children, and he wants to minimize this year's income tax impact on his total wealth. He is concerned about estate taxes, potential creditor claims, and assets being distributed according to his wishes. Lastly, he wants to involve his children in charitable activities and build a legacy of giving back.

SOLUTION: A GRANTOR CHARITABLE LEAD ANNUITY TRUST (CLAT) could be an ideal solution for Devon to address his immediate concerns regarding income tax planning while achieving charitable and legacy goals. His advisor Alex determined that introducing his client to this concept, making a referral to an estate planning attorney he trusts and naming Hightower Trust Company as an independent trustee may meet Devon's needs. Below are the primary benefits of a CLAT:

01

ASSET PROTECTION & INHERITANCE: By establishing a CLAT, Devon can transfer assets (in this case, cash) into the trust, effectively removing them from his estate. This provides protection against potential creditor claims and lawsuits and ensures that the assets are preserved for beneficiaries. And Devon can reinvest the funds he would have paid in taxation.

02

TAX EFFICIENCY: Transferring assets into a CLAT can help mitigate taxes, as Devon will be able to claim an immediate charitable income tax deduction for the present value of payments to be made to charity in the future, with a five-year carry-forward for any unused deduction. The payments to his foundation also qualify for a charitable gift tax deduction. And since the assets are removed from Devon's estate, they may reduce the overall taxable estate, potentially lowering the estate tax burden for his daughters. Lastly, the remainder will transfer to his children estate and gift tax-free.

03

CHARITABLE LEGACY: Devon's daughters have indicated they would like to run the foundation, determine the mission, manage the grant application process and choose the charities to support, etc. The CLAT will go a long way toward funding and growing the foundation and support purposeful work for his children, and he can experience the joy of giving while living.

04

TRUST ADMINISTRATION: Since the charity is a private foundation, the grantor should not serve as trustee of the CLAT to ensure the funds are not pulled back into his estate. An independent corporate trustee like Hightower Trust Company can prepare statements, tax returns and administer the trust according to governing law and ensure Devon's intent.

RESULTS: Use of a CLAT provided Devon with a comprehensive solution to offset taxes in an unusually high income year and fulfill charitable intentions while legacy building.

CONCLUSION

Charitable Lead Annuity Trusts offer a unique opportunity to contribute to a public or private charity, offset taxable income and transfer assets to heirs. Hightower Trust Company specializes in supporting advisors with clients' complex planning needs with the goal of delivering positive outcomes for both clients and advisors.

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