

# Testamentary Charitable Lead Trust

**OBJECTIVE:** To zero out estate taxes and increase one's charitable giving by paying an annuity over a period of time to favorite charities. Once this period has ended, the remaining trust assets are distributed to a trust for retirement income and/or transfers to family.

## CLIENT SUITABILITY

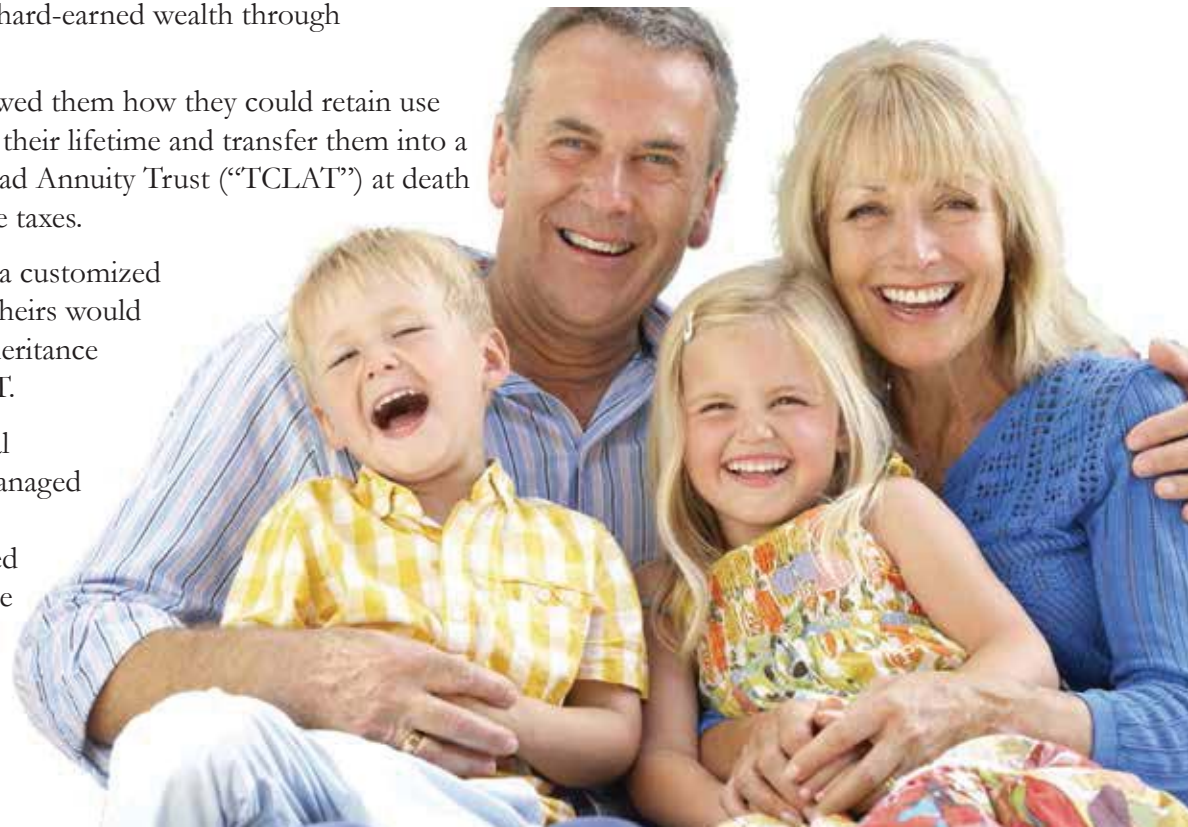
- A desire to lower taxes
- A desire to increase one's legacy and charitable contribution
- A desire to maximize one's legacy while keeping control of your assets during lifetime

Thomas and Virginia Smith wanted a low-cost way to direct their tax savings to their family and favorite charities. The Smiths did not want their children to pay estate taxes on the portion of the parents' estate that exceeded the parents' remaining lifetime exemption (\$4 million). Instead, the Smiths wanted to accumulate the money that would have been wasted on estate taxes in a family foundation that could be managed by the children. The Smiths hoped to have their children meet annually to make decisions about investing the foundation assets and disbursing a portion of the earnings to charities that uphold the Smiths' values. Thomas and Virginia believed strongly in having the family participate in voluntary philanthropy instead of simply letting 40% of their taxable estate pass to the Treasury Department, which would disburse the Smiths' hard-earned wealth through involuntary philanthropy.

- The Smiths' advisers showed them how they could retain use of all of their assets during their lifetime and transfer them into a Testamentary Charitable Lead Annuity Trust ("TCLAT") at death in order to "zero out" estate taxes.

- Their attorney generated a customized report to illustrate how the heirs would receive a larger financial inheritance if the Smiths used a TCLAT.

- When adding the financial inheritance to the capital managed by the heirs in the family foundation, the heirs realized that they could control more than twice as much capital if using a TCLAT instead of letting assets pass to the IRS.



## HYPOTHETICAL RESULT

- A greater contribution to charity and one's beneficiaries
- A decrease in taxes
- A simple plan that allows changes any time up until death

**THOMAS and VIRGINIA**  
Contribute \$1,666,667 of residual discounted estate assets to TCAT

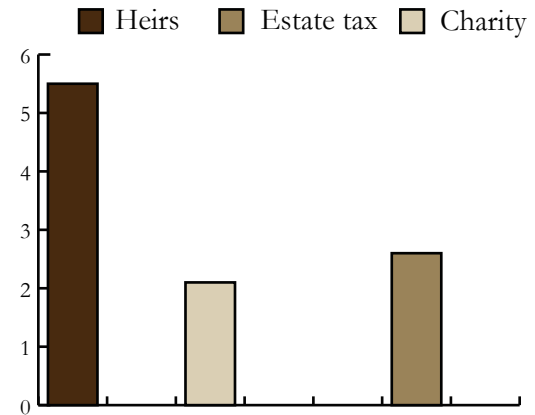
## STRATEGY DIAGRAM

**TCLAT**  
Make 15 annual distributions of \$143,681 to the Family Foundation, which totals \$2,155,215 over the term of the trust. Remainder interest passes to heirs

**FAMILY FOUNDATION**  
Makes distributions to charity as determined by Board of Directors

**CHILDREN**  
Receive the assets remaining in the TCLAT at the date of termination, projected to be worth \$5,531,334

## VALUE AT END OF TCLAT TERM



	TCLAT	Status Quo
Heirs	5.5	3.1
Estate Tax	0.0	2.6
Charity	2.1	0.0

- 1) Thomas and Virginia Smith scheduled a meeting at MVM Law to have their attorney generate an illustration with numbers like those on this page.
- 2) The Smiths had their attorney update their living trust with a revocable 'TCLAT' provision. The updated living trust gave the Smiths the right to change the 'TCLAT' at any time until death. Their heirs had limited rights to revoke the 'TCLAT' provision following the Smiths' deaths.
- 3) The Smiths met with their children to create guidelines for a family board. The family agreed to meet at least annually before and after the death of Thomas and Virginia to review how the Smiths should use 'TCLAT' distributions to fund charities that would honor the Smiths' legacy.
- 4) The Smiths met with their children to discuss the expected inheritance for each child. The children saw that they would receive reasonable wealth transfers during the lives of Thomas and Virginia and at the death of Thomas and Virginia. Therefore, the children did not mind waiting until the end of the term of the 'TCLAT' to receive a portion of their inheritance. The parents and children agreed to shorten the term of the 'TCLAT' (thereby generating less than a 100% estate tax deduction) if the children would be too old at the end of the 'TCLAT' term.
- 5) The Smiths agreed to meet with their attorney periodically to review which trusts should complement the 'TCLAT' in order to transfer appropriate assets to the children regardless of when Thomas and Virginia die.

## Matsen Voorhees Mintz LLP



*Maximizing Value with Integrated Estate, Business, Tax, and Asset Protection Planning™*

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