

ROLLING ORANGE

Creating a Charitable Lead Annuity Trust

Planning for your family's financial future?
Minimize taxes while helping Stanford.

THE
STANFORD
CHALLENGE

Seeking Solutions, Educating Leaders

Through a Stanford charitable lead annuity trust, you can make significant annual gifts to Stanford, benefit from the proven investment expertise of the Stanford Management Company, and reduce the tax burden on your heirs.

Creating a Charitable Lead Annuity Trust



REBECCA SMITH VOGEL

Are you concerned about the tax consequences of leaving money to your children? Do you intend to support Stanford during your lifetime through generous annual gifts? Creating a charitable lead annuity trust (CLAT) at Stanford may be the most advantageous way for you to realize your philanthropic and wealth management goals.

This type of trust¹ is recognized under provisions of the Internal Revenue Code and has been employed in the estate plans of high net worth individuals for many years. A CLAT makes a fixed annual payment to charity for a stated period of years, after which the remaining assets are transferred to your children or other named beneficiaries. This gift to your heirs is valued for gift and estate tax purposes at its “present value” as of the date the trust is established, utilizing a discount rate issued by the IRS that varies from month to month. The tax advantages are greatest when a trust is created while interest rates are low.

A CLAT is a mutually beneficial arrangement. In addition to substantial tax savings for you and your heirs, this form of giving provides Stanford an assured flow of funds for a period of years, allowing better planning and budgeting.

¹ There are several other types of charitable lead trusts not discussed in this document. Please consult your advisors and/or contact the professional staff in the Office of Planned Giving for further information.



REBECCA SMITH VOGEL



CHUCK PAINTER

IS A CHARITABLE LEAD ANNUITY TRUST RIGHT FOR YOU?

- Are you and/or your estate subject to gift and/or estate taxes?
- Do you want to make significant annual gifts to Stanford, perhaps in amounts larger than you can typically deduct from your income taxes?
- Do you have either cash or assets likely to appreciate significantly that you can part with now?
- Do you believe that investments will earn a compound annual return over the period of the trust that is more than the current IRS discount rate?
- Do you want to maximize your children's (or others') inheritance?
- Would you prefer your children (or others) wait a number of years for this inheritance?

If the answer to some or all of these questions is “yes,” a CLAT may be a good option for you. By having your heirs wait for a period of years to receive their gift, all the assets distributed from the trust at the end of that time will pass to them free of gift and estate taxes. Because their right to receive the remaining trust assets is established at the time the trust is created, there may be a current gift tax payable. By creating a CLAT, however, you are entitled to a significant tax deduction that will reduce—or even eliminate entirely—the gift tax, depending on the size of the annual payout to Stanford and the number of years the trust will make such payouts before the children or other designated beneficiaries get the remaining assets.

TAX BENEFITS OF A CHARITABLE LEAD ANNUITY TRUST

Income Tax

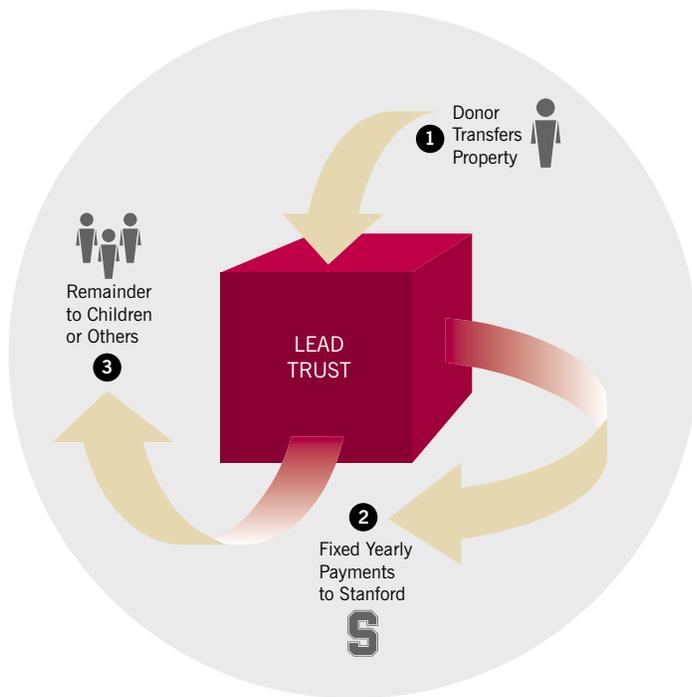
There are no income tax charitable deductions for this type of trust. But the income produced by the trust assets is no longer a part of your personal taxable income, and the annual payments to Stanford are deductible from the trust's taxable income. This may be especially advantageous if you tend to exceed your charitable deduction limit on your income taxes each year.

Gift Tax

Your gift tax charitable deduction is calculated based on the number of years the trust will make payments to Stanford, the payout rate chosen, and the IRS discount rate in the month the trust is funded. A lower IRS discount rate, a higher payout to Stanford, and a longer charitable term will result in a larger deduction, and in some cases will make the entire gift to your children tax free.

Estate Tax

If you make a CLAT gift while you are living, the transferred assets will be out of your estate, eliminating probate fees and inheritance taxes on those assets. You may also provide for a testamentary CLAT in your estate plans, which can substantially reduce—or even eliminate—the estate tax on the gift.



HOW DOES IT WORK?

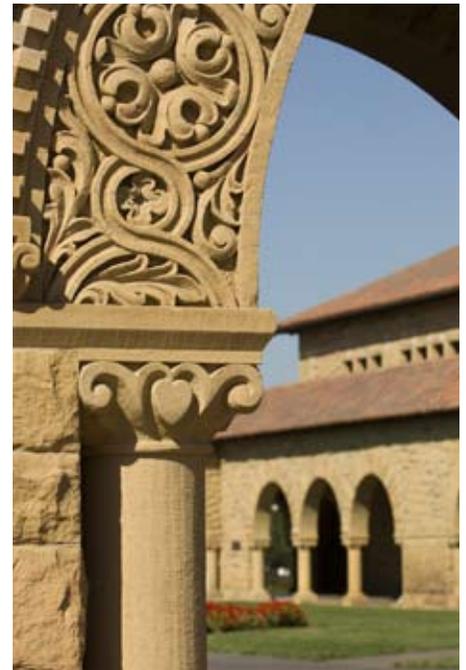
Richard Mita is in high income, gift, and estate tax brackets, and he has used all of his \$1 million gift tax exemption for lifetime gifts. He would like to make a substantial gift to Stanford, using assets that he wants to eventually go to his children. If he makes an outright gift now to his children, he will incur substantial gift tax. If he defers making his gift, and the assets meanwhile appreciate in value—as he expects they will—the eventual gift tax (or estate tax, if given by will) could be even higher, because the tax will be based upon the appreciated value of the assets at the time of the gift.

Instead of giving the assets directly to his children, Richard funds a CLAT with suitable assets (usually cash or assets that have a high likelihood of significant appreciation) currently valued at \$1 million. Paying a fixed 7.5 percent annuity (\$75,000) to Stanford for 20 years will result in a full \$1 million gift tax deduction, which “zeroes out” the value of the gift for tax purposes so that when the trust terminates, all the remaining assets will pass to the children free of gift and estate taxes. If the trust term were reduced to 15 years, the gift tax deduction would be \$846,300, meaning that there would be a taxable gift to the children in the amount of only \$153,700. At current gift tax rates, the maximum tax would be \$69,165. This reflects the fact that the children would receive their gift earlier and less would be paid out to Stanford. By further reducing the term to 10 years, the gift tax deduction would be \$617,380, meaning that there would be a taxable gift to the children in the amount of \$382,620. At current gift tax rates, the maximum tax would be \$172,179. (These figures assume a 4 percent IRS discount rate for the month in which the trust is funded.)

If the assets have grown at a steady 10 percent annual return (6 percent above the IRS discount rate we assumed in our example for calculating the tax deduction, above), the children will receive around \$2.4 million at the end of 20 years; \$1.8 million at the end of 15 years; or \$1.4 million at the end of 10 years. In each case, these amounts will be distributed to the children free of gift and estate tax. And of course, Stanford will have received a total of \$1,500,000, \$1,125,000, or \$750,000, respectively.



L. A. CICERO/STANFORD NEWS SERVICE



L. A. CICERO/STANFORD NEWS SERVICE



L. A. CICERO/STANFORD NEWS SERVICE



HOW DO I CREATE A CHARITABLE LEAD ANNUITY TRUST WITH STANFORD?

The steps necessary to establish such a trust are relatively simple:

1. Determine who will act as trustee. Stanford is willing to serve in many cases.
2. Sign a trust agreement establishing the trust. Stanford has sample forms and examples of documents used by others.
3. Transfer assets into the trust name.

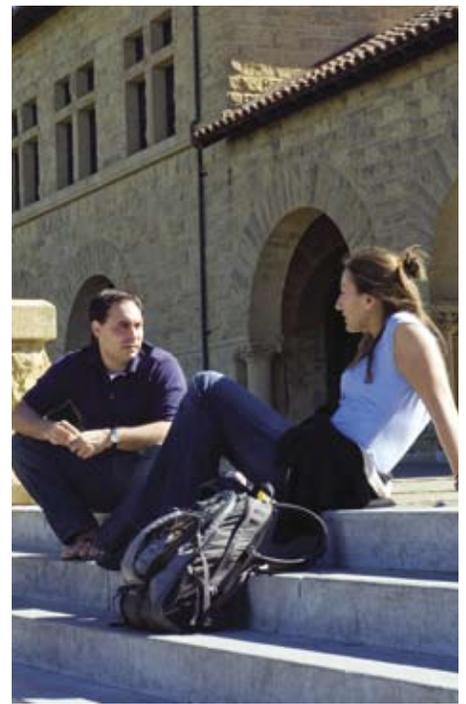
A FEW THINGS TO CONSIDER

- CLATs are taxable trusts, subject to tax on any ordinary or realized capital gains income. The amounts paid by the trust to Stanford are deductible, but any realized income in excess of that amount will be subject to the usual federal and state income taxes.
- CLATs are irrevocable and not subject to amendment. Once established, they remain in effect according to their terms. No distribution from the trust is allowed even in the event of family hardship, financial reversals, or medical emergencies.
- The assets distributed from a CLAT do not have a “stepped-up” basis, so the sale of any appreciated assets eventually distributed to your children or other individual, non-charity beneficiaries will be subject to capital gains taxes.
- There is no guarantee that the investment return on the trust assets will exceed the IRS discount rate used to calculate the “present value” of the gift to the children; in fact, there is no assurance of any particular return.
- Because the annual payments to Stanford are fixed, it is possible that all of the trust assets could be consumed prior to the end of the trust term, so that nothing would be available for distribution to your heirs.

Depending upon your personal and family situation and the particular assets you hold, a number of related matters should be discussed. The professional staff in the Office of Planned Giving can help you and your advisors design the arrangement that is best for your circumstances.



REBECCA SMITH VOGEL



MICHAEL SILVA

A CLAT is an easy and effective way to support Stanford while preserving wealth for your family. And during The Stanford Challenge, there are many exciting opportunities to support the university and the world beyond. The Stanford Challenge is a five-year campaign aimed at seeking solutions to complex, global problems and educating the next generation of leaders. For example, the campaign includes university-wide initiatives on three major themes—human health, the environment and sustainability, and international peace and security. Whether the goal is curing cancer, preserving the health of the world’s oceans, or understanding the root causes of terrorism, the opportunities created by The Stanford Challenge have the potential to make a real difference in people’s lives all over the world.

Please visit the campaign Web site for more information at: thestanfordchallenge.stanford.edu.



MAI NGUYEN

HERE ARE JUST A FEW EXAMPLES OF WAYS THAT YOU MIGHT OPT TO SUPPORT STANFORD THROUGH YOUR CHARITABLE LEAD ANNUITY TRUST:

- Create a scholarship endowment that will carry your name or that of someone you wish to honor in perpetuity while helping to ensure that Stanford can continue to admit the most qualified applicants, regardless of their financial need.
- Establish a fund to support innovative multidisciplinary research through one of the three initiatives on human health, the environment and sustainability, or international peace and security.
- Support Stanford’s efforts to improve K–12 education.
- Help Stanford infuse creativity throughout the curriculum through the Arts Initiative.
- Provide a graduate fellowship in an area that is most interesting to you.
- Enable Stanford to stay at the forefront of scientific and technological research by helping us build cutting-edge facilities.
- Support a specific sports program.

Note: Matching funds may be available. Check with the Office of Planned Giving for details.



CONTACT US

For more information about establishing a charitable lead annuity trust at Stanford, please contact:

Office of Planned Giving
Frances C. Arrillaga Alumni Center
326 Galvez Street
Stanford, CA 94305-6105

1.800.227.8977, Ext. 54358 (T)
650.723.6570 (F)

planned.giving@stanford.edu (E-mail)

plannedgiving.stanford.edu (Web)