Temporary Gifts

It's possible to contribute merely the income from securities or other property temporarily and enjoy substantial income tax or gift and estate tax benefits. We're talking about an exciting gift technique called the "charitable lead trust."

The concept is simple: You transfer income-producing property to a trust for a number of years, and later the property either comes back to you or goes to family members or other beneficiaries. Trust income is paid to the charity while the trust is in force. Where do the tax savings come in? Let's look first at the situation where a donor wants a large income tax charitable deduction and also wants to get the trust property back after a few years.

A donor can transfer tax-free municipal bonds to a charitable lead trust lasting almost any number of years (this technique usually is effective only with tax-exempt securities). He or she will be entitled to an income tax charitable deduction in the year the trust is established.

For example, if the trust is funded with $100,000 and is to last five years, and the charity is to get exactly $5,000 a year, the donor can deduct more than $23,500 (depending on current IRS deduction tables) in the year of the gift and be assured of getting the bonds back. The donor's tax savings could even be used to purchase more tax-free municipals.

Truly significant gift tax or estate tax savings are available if income-producing property passes to family members at the end of the trust. The trust can last for any number of years, and you will reduce your taxable income during the term of the trust. A gift tax charitable deduction is available for the charitiy's right to receive the trust income, and this deduction can reduce or even eliminate the gift or estate taxes that might normally occur in transferring property to your heirs.

As an example: suppose a father has $7 million in stock that he wants to give to his daughter. The stock has had a steady 6% yield, which probably will continue. If he gave the stock to his daughter, he might owe gift tax on $1.75 million. However, if he instead transfers the stock to a lead trust that will pay a charity $420,000 a year for 22 years, with the stock then passing to his daughter, he can reduce or will completely eliminate any gift or estate taxes (depending on current IRS deduction tables). And even if the stock increases in value while in the trust, there will be no additional tax.

Note: The above example involves a trust of $7 million, but transfer tax savings can also be realized with gifts of smaller amounts.