

## Rare but Useful: Planning with Charitable Lead Trusts

“Charitable lead trust” is far from a household word, and you might not run across the need for one very often in your practice. They sure do come in handy in certain client situations, though. At the Chester County Community Foundation, we are happy to establish a donor-advised fund or another type of fund to serve as the income beneficiary of a charitable lead annuity trust, or “CLAT,” established by a client.



It’s worth briefly reviewing the basics of a CLAT because they are having a moment! Here’s what’s going on:

- The Internal Revenue Service issued Private Letter Ruling [202614004](#) on April 3, 2026, addressing whether a CLAT can be terminated early by accelerating its remaining payments to charity.
- The ruling involved a CLAT that so significantly outperformed expectations that the trustee proposed distributing all remaining annuity payments in a lump sum to a donor-advised fund, and then winding down the trust.
- The IRS concluded that this early termination would not trigger self-dealing penalties, would not be treated as a taxable expenditure, and would not result in a termination tax—largely because the payment was made to a qualified public charity and fulfilled the trust’s charitable purpose.

Of course, as is the case with all private letter rulings, PLR 202614004 represents the IRS’s non-precedential interpretation of tax law and is binding only between the IRS and the specific taxpayer who requested the ruling. Still, private letter rulings are often cited to show the IRS’s probable position.

So why is this seemingly obscure private letter ruling [relevant](#) as an indicator of the IRS’s likely position in similar future situations? Here’s why:

- CLATs are generally subject to private foundation rules, including strict prohibitions on self-dealing with “disqualified persons.” In this instance, however, the IRS emphasized that a public charity (including a donor-advised fund sponsor) is not considered a disqualified person for these purposes, allowing the accelerated payment without adverse consequences.
- PLR 202614004 highlights that charitable planning vehicles like CLATs may offer more flexibility than previously assumed, particularly when circumstances change or when a trust significantly outperforms projections. What’s more, the ruling reinforces the importance of understanding how technical rules—such as self-dealing restrictions—apply differently depending on the type of charitable recipient involved.

Charitable lead trusts are extremely complex and can be structured in different ways to achieve a client’s specific tax objectives. Still, as you work with charitably inclined clients, keep an eye out for a scenario that may be well-suited for a charitable lead annuity trust:

- The client, whose net worth is likely to be subject to estate tax, owns rapidly appreciating assets (such as pre-IPO stock).
- The client wants to transfer significant wealth to heirs in a tax-efficient way.
- The client wants to make immediate and meaningful charitable gifts while they are living.

A client like this could establish a CLAT and name a donor-advised fund at the Community Foundation as the income beneficiary. The CLAT would make fixed annual payments to the donor-advised fund for a term of years. The donor-advised fund, in turn, could support the client’s favorite charities via the client’s grant recommendations.

At the end of the trust term, any remaining assets in the CLAT would pass to the client's children or other heirs, often without triggering additional gift or estate tax, assuming the trust was structured properly and investment performance meets or exceeds IRS assumptions.

For clients who want to enjoy charitable giving during their lifetimes and reduce estate and gift taxes on highly appreciating assets, a CLAT is worth a look.

Remember that a CLAT is just one of hundreds of charitable giving vehicles through which the Chester County Community Foundation can help your clients achieve their charitable and estate planning goals. As always, please reach out to the Community Foundation team when working with a charitable client, regardless of where that client is along the charitable giving journey.

For more information, contact the Chester County Community Foundation:

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