

A man with grey hair and glasses, wearing a light blue button-down shirt, is seated at a desk. He is looking down at a laptop, with his hands on the keyboard. He is wearing a watch on his left wrist and a ring on his left hand. In the background, there is a window with a wooden frame and some papers on the desk.

Charitable Remainder Trusts

Save Taxes, Enjoy a Lifetime Income, and Benefit Charity

For decades, families have used charitable remainder trusts to:

- Reduce income taxes
- Convert assets like stock, real estate or other investments into a lifetime income
- Avoid capital gains tax
- Benefit meaningful charities
- Make a gift now or in a will

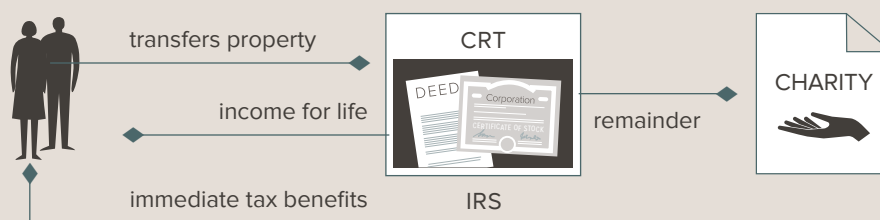
How Does a Charitable Remainder Trust Work?

You transfer money or property to a trust. This removes the property from your estate and allows you to enjoy an immediate income tax deduction if you itemize. The trustee pays you a lifetime income (the trustee sells any appreciated property free of capital gains tax to make the payments). When you die, the remaining assets (the “remainder”) are transferred to us or other named charities.

You name the trust beneficiaries—yourself, your spouse, or anyone you choose. The trustee makes annual income payments for as long as the designated beneficiaries live, or for a specific term of years up to 20. These income payments are based on the value of the trust assets (either at the time the trust is created or varying from year to year). When the trust term ends, the trustee pays out the remaining assets to the designated charities.

STEPS IN A CHARITABLE REMAINDER TRUST

DONOR/BENEFICIARY



1. An individual transfers property to a CRT, avoiding immediate capital gains taxes and qualifying for immediate income tax benefits.
2. The trustee invests the property and the trust pays an annual income to the beneficiaries for life (or for a set number of years).
3. When the payments end, the trust distributes the remaining assets to the selected charities.

A CRT IN ACTION

Genevieve transfers highly appreciated assets worth \$400,000 to a charitable remainder trust, specifying that: (1) \$20,000 will be paid to her each year for as long as she lives, and (2) both income and principal may be used to make the required payments. When Genevieve dies, the remaining property will be distributed to us.

By using a CRT, Genevieve reaps a number of benefits:

- She secures a lifetime income of \$20,000 per year.
- She realizes an immediate and substantial income tax savings if she itemizes, since she can deduct the present value of our charitable remainder interest.
- She avoids any capital gains tax when she transfers her highly appreciated property, even when the trustee sells the property.

BENEFIT #1

A Lifetime Income

The primary benefit of a charitable remainder trust is to provide income to trust beneficiaries for life (or for a set period up to 20 years). The income can be a fixed amount or a fixed percentage of the value of the trust as calculated yearly. This second option allows you an income that will vary with the value of the trust assets. This arrangement can serve as a hedge against inflation, but there is also risk involved since trust assets could decline in value.

Typically, income payments equal 5% of the value of the trust, but the amount is up to you. Within limits (set by the federal law), you can select an amount that accomplishes your targeted objectives.

BENEFIT #2

An Immediate Income Tax Deduction

An obvious tax benefit of a charitable remainder trust is an itemized federal income tax deduction. Even though the charities do not receive funds until all income interests are terminated, you can deduct the present value of the deferred charitable interest, subject to limitations of federal tax law.

Computing the charitable deduction depends in part on the applicable federal rates (AFR). You can choose to use the rate in the month of the gift

or in either of the two preceding months. Generally, the higher the AFR, the larger the charitable deduction. It would be our pleasure to provide you with the estimated deductions for a proposed gift.

CONVERTING AN ASSET INTO INCOME

Peter, age 75, owns a low-dividend-paying stock worth \$300,000. It has appreciated dramatically since he bought it years ago for \$50,000. Peter could sell the stock outright and invest the proceeds, but he would incur a capital gains tax of \$37,500 (15% rate). If he invests the after-tax sales proceeds of \$262,500 in CDs earning 2%, he would realize an income of \$5,250 that year.

However, Peter could instead transfer the stock to a charitable remainder trust that will pay him \$15,000 (5%) a year and also provide an income tax charitable deduction of \$172,160.* If Peter itemizes, this deduction will result in a tax savings of \$60,256 in his 35% tax bracket.

The tax savings and the annual lifetime payouts make a charitable remainder annuity trust a satisfying option for Peter.

* Example assumes an AFR of 3.6% and an annual payout.

BENEFIT #3

Avoiding Capital Gains Tax

Converting a non-producing asset into an income-producing property *without* incurring capital gains tax is a distinct benefit. Under today's tax laws, a charitable remainder trust can be especially rewarding when you fund it with appreciated property. You do not owe any capital gains tax when you transfer the property to the trust. When the trust makes its annual income payout, part of the payout may be taxed at favorable capital gains tax rates, depending on how the trustee invests the assets.

SUPPLEMENTAL RETIREMENT INCOME

Richard transfers appreciated stock worth \$500,000 to a charitable remainder trust that will pay him 5% of the value of the trust or trust income, whichever is less, for his lifetime. Since Richard doesn't need immediate income, the trustee will retain the stock because it has promising growth potential and pays a modest dividend.

The stock is expected to be worth much more in ten years, at which point the trustee will sell the stock and invest the proceeds in higher-yielding securities, and Richard will begin to receive 5% of the value of the trust each year. This annual payment will be a very substantial addition to Richard's retirement income when he reaches age 65.

Richard also gains an immediate tax deduction, and because he itemizes, it significantly reduces his current income tax liability. Just as importantly, he is delighted that his trust arrangement will provide a major gift to us since he has supported our work for many years.

A Final Note

Beyond the countless benefits to society, there are many reasons that motivate individuals like you to consider adopting a charitable remainder trust—from the need to create an income stream during retirement, to the need to dispose of highly appreciated assets in a tax-efficient manner, to a desire to create a family giving tradition.

We would be pleased to talk to you about how you can tailor a charitable remainder trust to meet your specific personal or family needs. In the meantime, if you have any questions or if we can be of service in any way, feel free to contact us.

