Charitable Remainder Trusts

Balancing Your Charitable Wealth Planning

If you are interested in leaving a portion of your estate to a charitable cause, you have a few options from which to choose. A Charitable Remainder Trust (CRT) is designed to allow individuals to make a charitable contribution today and still receive income on the asset(s) contributed. You, as Grantor, or another beneficiary receives income from the trust for a specified number of years. You would receive an immediate income tax deduction and upon your death or expiration of the trust term, the remaining assets in the trust become the property of the charity or charities you have specified in the trust agreement.

Planning Details — There are two types of Charitable Remainder Trusts

Charitable Remainder Annuity Trust (CRAT): The trust you establish designates a fixed dollar amount to be provided to you or your designated beneficiary. This strategy may be especially attractive if you like the assurance of having a consistent, predictable income stream from the trust each year.

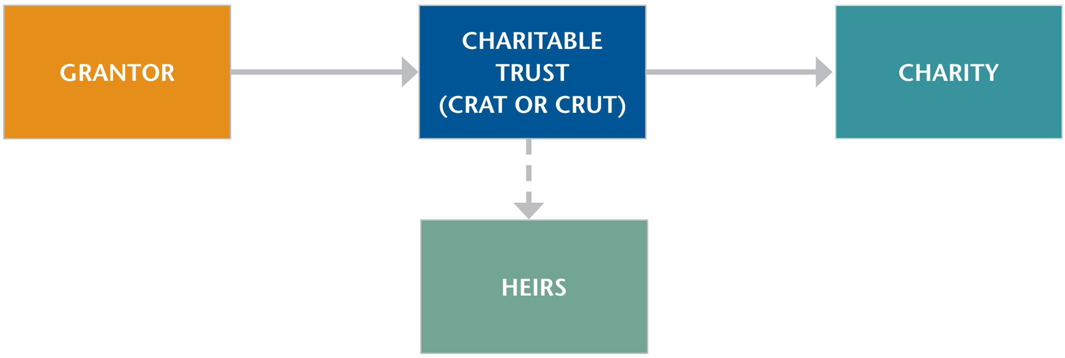
Charitable Remainder Unitrust (CRUT): Designated at the time a trust is established, you set a fixed percentage (minimum 5 percent) of the trust's value to be distributed annually. Based on the date in the trust document, the trust is revalued to determine the payable amount each year. If the trust investments grow over time, the annual payment will also grow. Unlike a CRAT, however, these annual payment amounts are not guaranteed and, if the trust investments decline in value, the annual payment also would decrease. A CRUT is good for someone looking for a specific percentage return. It can be used to keep up with inflation if the trust value continues to grow over the years.

Benefits of a Charitable Remainder Trust:

- Reduce current income taxes with a sizable income tax deduction that can be spread over five years after the initial year of the transfer if the deduction exceeds the adjusted gross income deduction limitation for year the CRT was created.
- Avoid capital gains tax on highly appreciated assets typically associated with the sale or exchange of an appreciated capital asset. However, if the CRT sells the funding asset, any capital gains realized are spread equally over the period of time the CRT makes payments to the income beneficiary. Because the CRT is tax-exempt, it would not have to pay any capital gains taxes. The full value of the contribution can be reinvested to generate income. The trust can simply sell the asset and transfer the money into an investment providing a higher yield.
- Reduce estate taxes that heirs might have to pay upon your death. The asset to charity does not have to reduce the value of the your estate. You can purchase a Second to Die Life Insurance Policy owned by an Irrevocable Life Insurance Trust to replace the entire value of the asset. The insurance proceeds are generally not subject to probate and are received by beneficiaries free from income and estate taxes.

Is a Charitable Remainder Trust right for you?

If you own highly appreciated assets such as real estate or stock that you are reluctant to sell because of the significant lump-sum capital gains taxes you would owe and you are also looking for ways to increase income or diversify your portfolio, the solution may be the CRT.



Examples of CRAT and CRUT

A **CRAT** with an initial value of $2 million and a 5 percent payout would pay $100,000 annually to the named income beneficiary, regardless of investment performance for approximately 25 years. Income distribution is mandatory and principal may be invaded to satisfy the requested payout. No additions to the principal may be made after the trust is established.

An annuity trust is usually used for someone who wants a guaranteed income stream each and every year. Regardless of the performance of the trust, the income is paid each year without change.

A **CRUT** with a value of $2 million and a 5 percent payout would pay $100,000 to the income beneficiary in that year. If the investment performance for the next year was 10 percent and the value of the trust on the valuation date was $2.2 million, the income beneficiary would receive $110,000 in that year. Another benefit of the CRUT is that it allows for additional contributions. The CRUT will generally produce higher amounts of income but a smaller tax deduction.

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