

### Charitable Remainder Trust:

In a charitable remainder trust (CRT), a donor transfers property to a trustee. The trust may be created during the donor's lifetime or in his or her Will. Generally, on at least an annual basis, the trustee makes specified payments to one or more non-charitable beneficiaries selected by the donor (which may include the donor). When the CRT ends, the trustee distributes the trust property to a charity selected by the donor or the beneficiaries – hopefully CFPA. When the donor creates a CRT, he or she is eligible for an income tax charitable deduction based on a portion of the value of the assets transferred. The size of the deduction depends upon the present value of the remainder interest that passes to charity when the CRT ends. When a donor makes a donation of appreciated property to a CRT, she or she gains additional tax savings due to the fact that he or she can defer or possibly eliminate payment of capital gains taxes on the property's appreciation. The trustee can sell the appreciated assets without incurring tax liability and reinvest the proceeds in higher income producing property.

For example: Mrs. A has assets valued at \$2,000,000 and a serious interest in several charities. Her two children are financially secure, both from their own earnings and an inheritance they received from their paternal grandfather. Within Mrs. A's stock portfolio is a block of stock she purchased many years ago. This stock has a cost basis of \$50,000, a current market value of \$500,000 and a current yield of 2%. If Mrs. A sells the stock in order to reinvest for a higher yield, the sales proceeds will be reduced by a capital gains tax of approximately \$67,500. This will leave her with net proceeds of \$422,500 to reinvest. In the alternative, Mrs. A can create a Charitable Remainder Unitrust for her own benefit, giving herself the right to receive annual payments equal to 6% of the market value of the trust fund revalued annually. She expects the trustee to achieve a total return higher than 6%, and a unitrust will permit her to receive higher payments as the trust value rises. Mrs. A's gift to the unitrust would have these tax consequences:

Transfer to trust \$500,000

Actuarial value of Mrs. A's right to Receive 6% per year for life,

Revalued annually 285,000+/-

Income tax charitable deduction 215,000+/-

Increase in Mrs. A's annual income 20,000\*

Was  $2\% \times \$500,000 = \$10,000$

CRUT = \$30,000\*