Charitable Remainder Trust | CRT

Fulfill Philanthropic Intent While Retaining Cash Flow & Defering Capital Gains Tax

A charitable remainder trust (CRT) is an irrevocable trust established to provide annual payments to current beneficiaries with the remainder balance distributed to charity. A CRT is typically funded with appreciated assets. The grantor is eligible for an income tax deduction and perhaps a gift or estate tax deduction for the present value of the remainder interest, which will pass to charity.

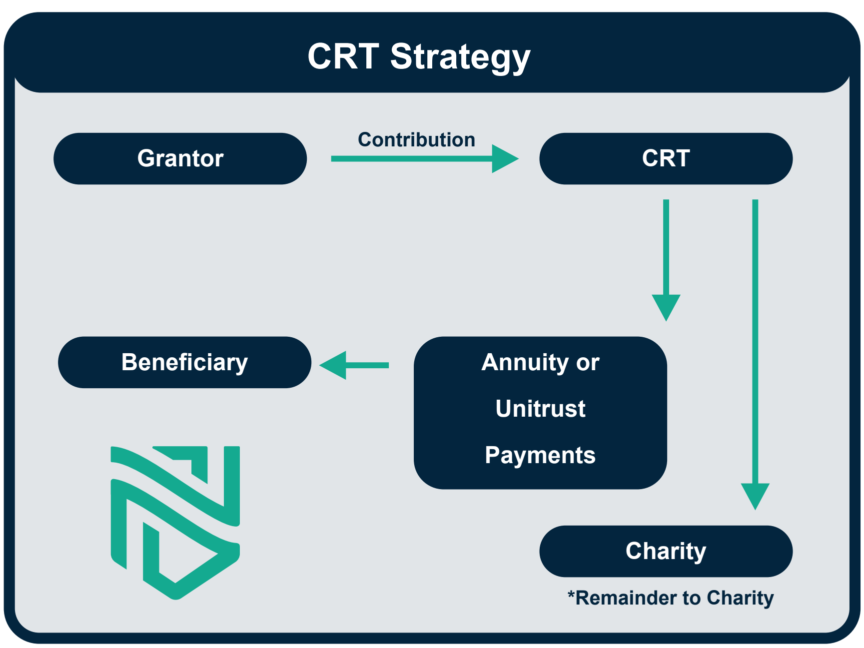
Payments from the trust may be made to an individual or individuals over time, either for life or for a defined term not to exceed 20 years. The designated charity (or charities) receives the remaining principal (remainder interest) at the end of the trust term.

How does it work?

- A CRT is created in the form of a unitrust (fixed percentage of the trust assets detemined and distributed annually) or annuity trust
- Grantor’s choice of the term and payout percentage determines both the income tax and gift or estate tax deduction
- Grantor and/or beneficiary(ies) takes annual distributions based on the annuity or unitrust amounts
- These payments are subject to income tax based upon the character of income earned by the CRT

What are the complications?

- Underperforming assets may deplete trust
- Loss of control over the contributed assets
- Growth on assets exceeding annuity or unitrust passes irrevocably to charity
- If you irrevocably name a beneficiary other than you or your spouse, the present value of that beneficiary’s interest will be considered a gift for gift tax purposes
- Consider generation-skipping transfer tax issues before naming a grandchild or other “skip” person as a beneficiary



CRT USES

Defined Cash Flow

Appropriate for charity-inclined persons with highly appreciated assets who desire a defined stream of cash flow for themselves or their beneficiaries

Diversification

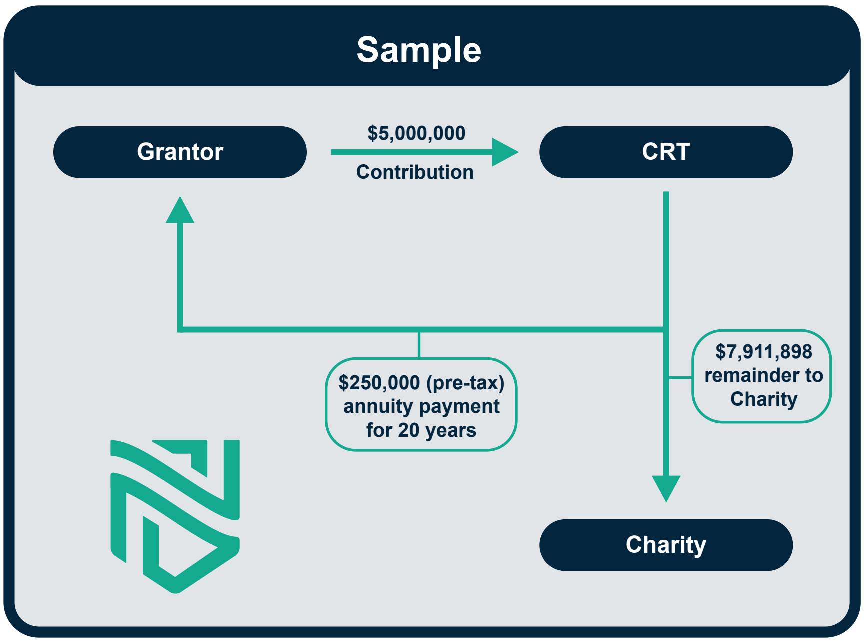
Provides a method of diversifying appreciated assets while deferring the income taxation, potentially increasing the yield from the assets while gaining a current income tax deduction

Sample Profile | CRT Example

Grantor has publicly-traded stock with zero tax cost basis that has a low current yield. Grantor is also charitably-inclined and wants to defer the $1,000,000 of capital gains tax due on a 2020 sale of stock worth $5,000,000.

Assumptions:

- Grantor creates a Charitable Remainder Annuity Trust and transfer $5,000,000 of zero basis stock
- Section 7520 rate is 2.4%*
- Asset growth rate is 6.5%**
- $1,000,000 cash to trust
- Term of 20 years
- Payout percentage to grantor is 5% minimum



Anticipated Results:

- The stock is sold by the Charitable Remainder Annuity Trust and the sales proceeds are invested in a diversified portfolio
- The Charitable Remainder Annuity Trust pays no income tax on the sale
- Grantor receives $250,000 (pre-tax) annually for 20 years, for total payments of $5,000,000 (pre-tax)
- Grantor's income tax is based upon the character of the income earned by the CRAT (including the capital gains from the sale of the stock)
- Charity receives $7,911,898 at the end of the CRT term.
- Grantor converts a concentrated stock position into a diversified portfolio with a higher expected return
- Grantor reduces the risk in portfolio by diversifying concentrated holding

Important Note

*** When determining the relative value of an annuity, a life estate, or a remainder interest, we are to use the International Revenue Code Section 7520 rate. The Section 7520 rate is used to discount the value of annuities, life estates and remainders to present values and is revised monthly. It is equal to 120% of the Applicable Federal Mid-Term Rate. This Section 7520 rate also is commonly referred to as the "Discount Rate", or the "IRS earnings assumption."**

**** The assumed growth rates are for illustrative purposes only and do not represent a projection of investment growth rates for any particular investment vehicle.**