

Charitable Remainder Trust

When you create a charitable remainder trust, you irrevocably transfer money, securities or other assets to a trust that will then pay you an income for life or for a period of years. If you wish, the trust also can pay an income to another beneficiary of your choice. At the death of the surviving beneficiary, the remaining principal in the trust goes to Community SeniorServ.

You can design your trust to fit your own special needs. First, you decide how much you'd like to put into the trust. Second, you determine the income you'd like to receive from the donated assets. The rate of income return you select must be at least 5 percent. Usually, the rate selected is 5 percent to 8 percent. The best rate for you will depend upon the number of beneficiaries you select and their ages. Third, you decide which type of charitable remainder trust will work best for you.

Choosing a charitable remainder trust is a little like shopping for a new car, the right one depends on your personal needs. Luckily, CRTs come in five variations. We can help you and your professional advisors decide the method that will work best for you.

1. Annuity trust. This type of trust pays you a fixed dollar amount, which works well if you want reliable income.

2. Standard unitrust. A unitrust pays you a variable amount equal to a stated percentage of the net fair market value of the trust assets as recalculated yearly, providing a possible hedge against inflation.

3. Flip unitrust. Set up as either of the last two types, this trust converts to a standard unitrust on a triggering event, such as the sale of an "unmarketable" asset used to fund the trust. Consider this trust if you are making a gift of real estate.

And many other types of remainder trusts.....

Which Is Better: Annuity Trust or Unitrust?

Whether you choose an annuity trust or a unitrust depends primarily on your economic outlook. With an annuity trust, you receive the same fixed amount each year that you choose at the beginning. This is advantageous when you want to be certain of the dollars you'll receive. If you're concerned about the possibility of recessionary times and falling market values, the annuity trust has greater appeal. Although you can't add to this annuity trust later in order to increase your income, you can always create a new trust for that purpose.

In comparison, a unitrust may be a hedge against inflation. If you foresee economic growth resulting in appreciation of the trust's assets, you'll favor a unitrust. The valuation can rise or fall, but over time a well-managed unitrust may offer better protection of your purchasing power than fixed dollar payments. A further advantage is that if you want to enlarge the trust later, you can make additional contributions without the cost of creating and administering more than one trust.

Marvelous Tax Benefits

Now look at the major and wide-ranging tax savings you can realize when you create a charitable remainder trust.

First, when you fund the trust, you immediately obtain the benefit of a sizable income tax charitable deduction. This is equal to the present value of the remainder interest ultimately payable to Community SeniorServ, based on Internal Revenue Service tables of life expectancy factors. The older the beneficiary, the greater the charitable deduction.

You can fund your charitable remainder trust with cash, securities or other property. Highly appreciated assets that generate low current income are an ideal funding medium.

While you'd be reluctant to sell such assets directly because of the tax you would pay on the gain, you can transfer them to the trust without incurring the capital gains tax. The trust could sell the assets without incurring any tax and then reinvest the proceeds in order to secure a higher current income yield.

Perhaps over the years your personal investments have grown handsomely, but you now realize that their yield is grossly inadequate. Unfortunately, if you sell and reinvest in higher yielding securities, you'll lose part of your gain to taxes.

The answer? Transfer your appreciated securities to a charitable remainder trust. In return for your gift, you might get an income two to four times greater than the current dividend from the typical growth stock.

Example: *Krista, aged 75, owns several stocks with a market value of \$100,000, but they pay dividends of only \$2,000 a year, or 2 percent of market value. She decides to transfer these securities to a charitable remainder annuity trust that will pay her \$7,000 a year, increasing her gross income by \$5,000.*

If Krista sold her stocks instead, she would pay an enormous tax on her capital gain. Their cost basis is \$30,000, compared to the current market value of \$100,000, resulting in a gain of \$70,000. At a federal capital gains tax rate of 15 percent, the tax would be \$10,500. This would leave her with only \$89,500 to reinvest, so she would have to find stocks that pay a dividend of more than 8 percent to receive the same \$7,000 her trust can pay her.

For more information about the various types of charitable remainder trusts please call Phil Beukema at (714) 229-3362.