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You could be good to yourself with this charitable remainder unitrust

While you may have heard of a charitable trust to save on income taxes, you may not know about a multiple-lives charitable trust, which may be an even better deal for you.

If you create a plain vanilla charitable remainder trust, you put assets into the trust, which provides you (and your spouse) with lifetime income from those assets. You also get an income tax deduction at the time you put assets in the trust, which later will go to your favorite charity after you (and your spouse) pass away.

Rather than putting cash in the charitable trust, though, you typically fund it with appreciated assets to avoid paying capital gains on them. Thus, you get income on the nontaxed appreciated assets instead of lower income on assets reduced by capital gains tax.

The problem with this gambit if you have children: Both the assets and subsequent income go to the charity after you (and your spouse) pass away. That leaves your child(ren) out in the cold.

The solution to this problem is very simple, asserts Morrie W. Reiff, president of Planned Asset Management Inc., an Encino financial planning firm. He suggests a "multiple-lives charitable remainder unitrust."

It will guarantee income for your lifetime (and that of your spouse) and your child(ren)'s lifetime(s) after your death (and your spouse's), Reiff assures.

Not until after you (and your spouse) and your child(ren) have passed away do the trust assets and subsequent income from them pass to the charity, he says. Actually, Reiff says, you could include your grand-child(ren) among the trust's beneficiaries, too, to receive lifetime income after the first two

generations die.

However, he cautions against a charitable remainder unitrust with three generations among the beneficiaries. Not more than two generations may be beneficiaries, Reiff says, if the charitable tax deduction is to be used to offset taxes on your receipt of pension plan payments.

The charitable tax deduction is based on the "present value of the future value" of the assets you put in the trust, he says. The actual amount of the complex deduction, Reiff says, is based on an Internal Revenue Service table.

All or a portion of the deduction may be taken for the year in which you put the assets in the trust and five subsequent years until all the deduction is used, he says. However, the deduction in any one year may not exceed 30 percent of your adjusted gross income in that year, Reiff adds.

In setting up a multiple-lives charitable remainder unitrust, you should name yourself as the trustee, he says, and your certified public accountant as the administrator. Further, you should set up the trust as "selfdirected," Reiff continues, so you can determine the selling and investing of the trust assets through your administrator.

Since it is a charitable trust, it pays no capital gains tax and no income tax if the minimum amount is paid the beneficiary(ies) each year, Reiff says. Actual payments received, of course, are taxable income to you and the other taxable recipient(s).

A multiple-lives charitable remainder unitrust may be structured in three different ways as to the beneficiary payments, he says. Reiff opts for the type whereby a fixed percent of the value of the assets, computed at the start of each year, must be paid to the beneficiary(ies) that year.

The minimum amount that must be paid out each year is 5 percent of the start-of-the-year assets, he reports. And that's the percentage he recommends.

Reiff reasons stock prices average a reinvested growth rate of 9 percent a year over a number of years. Thus, paying out 5 percent a year leaves an average 4 percent of growth each year, he calculates, so actual dollars paid out each year should increase to offset inflation.

Reiff further advises you to set up the trust so your child(ren) will receive only a "contingent gift." This, he remarks, enables you to cut out of the trust any child(ren) not measuring up to your standards.

With taxes saved by the charitable deduction from your donation of assets to the charitable trust, establish and (help) fund an "irrevocable insurance trust," Reiff advises. If you have the spare cash, he suggests, you and your spouse should fund the trust with \$1.2 million to pay for the life insurance policy's premium(s).

That amount, of course, will take full advantage of the lifetime estate tax exemption (\$600,000 for you and \$600,000 for your spouse), Reiff says. Your using a "joint survivors" policy, he says, will provide about \$4 million in coverage payable to that trust's beneficiary(ies) after you and your spouse die.

When paid, that money will be subject to neither estate nor income taxes, Reiff says. The tax-free proceeds from the life policy can be used by your heir(s) to (help) pay estate taxes on other inherited assets so they won't have to be sold just to pay taxes.

Commenting on buying life policies, he declares it "imperative" that they be provided by carriers representing the utmost in financial integrity. That is, Reiff says, that they don't make assumptions out of line with their actual current experience.

Asked to name meeting these criteria, he quickly ticks off: All American Life, and New York Life.

Accurate premiums, of course, can't be identified until you and your spouse have been evaluated by any insurance company. Evaluation involves complete reviews of your and your spouse's medical histories and records, Reiff says, as well as routine physicals for you both at the insurers expense.

Premium costs naturally will vary depending on the interpretation of your health histories by each insurance carrier. For this reason, Reiff concludes, apply for coverage from more than one carrier, and evaluate the merits of each carrier's ultimate underwriting decision.