

Maximize Charitable Giving

WHILE MINIMIZING ESTATE TAXES USING CLTS AND CRTS



 The Private Trust Company, N.A.

 LPL Financial

If passing along accumulated wealth to your heirs in the most tax-efficient manner possible while supporting a charity is important to you, a split-interest trust may be the right tool. With split-interest trusts, the financial interest is split between two beneficiaries — typically a charitable beneficiary and a non-charitable beneficiary.

Two of the most popular types of split-interest trusts are Charitable Remainder Trusts (CRTs) and Charitable Lead Trusts (CLTs). The two vehicles are related, yet fundamentally different. They essentially work in opposite fashions. A CLT pays income to a charitable beneficiary for a certain period of time, after which the remaining assets in the trust (the remainder interest) passes to a non-charitable beneficiary or beneficiaries, such as children or grandchildren, or even the donor. With a CRT, the assets placed in trust provide a stream of income to non-charitable beneficiaries for a period of time, after which the assets become the property of a charity. Income tax, capital gains tax, and estate and gift tax differ significantly between CLTs and CRTs. As a result, you should seek the advice of a qualified tax and trust professional before determining which strategy is better for your situation.

Charitable Lead Trusts

A CLT can be set up to pay either a fixed annuity or a unitrust amount to a charitable organization, which means that it can pay either a fixed dollar amount each year or a fixed percentage of the fair market value of the trust's assets. While there is no limit on the amount of time a CLT can remain in effect, it must be for either a predetermined number of years or until the death of the donor. CLTs are often the tool of choice for individuals with assets that have a high potential for future appreciation. They may also be well suited for those with heirs who are minors or otherwise not ready to assume full control of significant assets. By creating and funding a CLT, a grantor can make final arrangement for the disposition of an estate, but defer the date at which beneficiaries actually receive and control the property. In the meantime, the charity of choice receives immediate and ongoing benefits. When the assets do eventually pass to the non-charitable beneficiaries, they are not subject to the federal estate tax.

However, keep in mind that the grantor is not able to claim an income tax deduction for making contributions to a CLT. In addition, the grantor may have to pay a federal gift tax on a portion of each contribution, albeit only on the value of the remainder interest earmarked for non-charitable beneficiaries.

Also remember that while a CLT allows assets to pass to heirs with no federal estate taxes, a CLT is not a tax-free entity. Any income the trust generates in excess of the amount paid to charity is still taxable. And the sale of appreciated assets held within the trust may trigger capital gains taxes.

Charitable Remainder Trusts

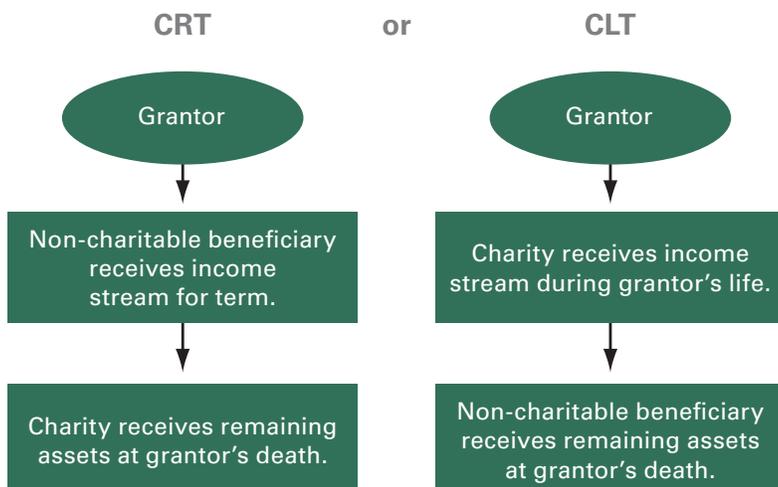
In the eyes of a charity, a CRT is the mirror image of a CLT. A CRT first pays income to non-charitable beneficiaries before permanently awarding ownership of its assets to the charity. But in the eyes of Uncle Sam and taxpayers, the most significant differences lie elsewhere.

First and foremost, a CRT is a tax-exempt entity. For this reason, CRTs can be extremely useful for individuals who want to sell appreciated assets, such as investors eager to liquidate highly appreciated, concentrated stock portfolios in order to reallocate the money within more diversified portfolios or to create income streams for themselves or beneficiaries.

In addition, a grantor can claim a tax deduction for his or her donation to a CRT equal to the present value of the charitable remainder interest. And although a CRT's assets are ultimately distributed to the charity free of estate and gift taxes, the non-charitable beneficiaries of a CRT must pay income taxes on the income received from the trust.

As with CLTs, CRTs are classified according to their payment methods. A charitable remainder annuity trust pays a fixed dollar amount at least annually, whereas a charitable remainder unitrust pays a fixed percentage of the fair market value of the trust's assets. According to IRS guidelines, each type of CRT must pay no less than 5% and no more than 50% of its fair market value annually. A CRT may remain in effect for life or for a predetermined period of time, not to exceed 20 years.

Summary



Points to Remember

1. Split-interest trusts have the potential to help families and individuals simultaneously address two important aspects of a wealth transfer strategy: charitable giving and tax-efficient estate planning. The two main types of split-interest trusts are CLTs and CRTs.
2. A CLT pays income to a charitable beneficiary for a period of time, after which the assets in the trust become the property of non-charitable beneficiaries. A CRT is just the opposite: It pays income to non-charitable beneficiaries before ultimately handing over its assets to a charity.
3. With a CLT, the grantor cannot claim an income tax deduction and must pay a federal gift tax on the value of the contribution earmarked for non-charitable beneficiaries. However, assets pass to heirs without being subject to estate taxes.
4. With a CRT, the grantor can claim a tax deduction for a portion of each contribution, and assets pass to heirs without gift or estate taxes.
5. A CLT may be appropriate for donors with heirs who are minors or heirs not yet ready to assume control of assets. A CRT, which is tax exempt, may be appropriate for people who want to sell highly appreciated assets without triggering capital gains taxes.

Member FINRA/SIPC

www.lpl.com

 The Private Trust Company, N.A.

 LPL Financial

Neither LPL Financial nor its advisors are in the business of providing tax or legal advice, and nothing presented herein should be construed as such.

LPL Financial advisors offer access to Trust Services through The Private Trust Company, N.A., an affiliate of LPL Financial

PTC-00020-0412
Tracking #1-074677 (Exp. 06/14)