Charitable Remainder Trust

Individuals who have substantial accumulated assets are often interested in supporting philanthropic causes. At times, however, their charitable sentiments may conflict with their need to ensure they have adequate cash flow for current income. These same individuals often seek to reduce or avoid capital gains taxes — and, for additional tax planning purposes, their financial advisors may recommend that they seek as many tax deductions as possible. One estate planning solution that can help in these situations is the Charitable Remainder Trust (CRT). A CRT:

1) Is an irrevocable trust that is created with the help of an estate planning attorney;
2) Contains provisions that define the term of the trust — typically, either the donor's lifetime (or the lifetimes of the donor and spouse), or a term of 20 years or less; and
3) Enables the donor to contribute money or assets to the trust, and the trustee to sell the appreciated property without paying capital gains taxes.

With a CRT, the trust will pay out a stream of income to the donor or the trust beneficiaries for the term of the trust. At the end of the term, whatever remains in the trust goes to the charity designated in the trust document.

Creating a Charitable Remainder Trust

Susan and Paul Smith were once very successful corporate executives of publicly traded companies. They used their skills to open and operate a very successful business which they hope to pass on to their children. Throughout the years, they held onto the stock of their former employers, received from stock options and incentive grants. Now, as they start thinking about retirement, they would like to sell the stock, but are concerned about the taxes that they would owe due to the significant appreciation of the stock. In addition, the Smiths know that they have been very fortunate in life and have regularly given back to their communities and alma maters for giving them the education that helped them be successful. After discussing the situation with their financial professional, the Smiths received a recommendation that they decided to pursue:

- The Smiths will work with their attorney to create a Charitable Remainder Trust (CRT).
- The CRT is established for the duration of both Susan's and Paul's lifetimes — and is funded with the stock that they own in their former corporate employers.
- The trustee sells the stock and uses the proceeds to pay income generated by the trust to the Smiths each year.
- When the second of the Smiths passes away, the money remaining in the trust is donated to the charity the Smiths designated in the CRT.

This planning technique allows the Smiths to take a charitable income tax deduction for the present value of the charity's interest in the trust, which is calculated using a specific formula. (If the Smiths are unable to use the entire tax deduction in one year, the unused portion could be carried forward over the next 5 years.) It also offers the Smiths a way to generate a form of retirement income they can count on. In addition, the Smiths can use a portion of that income to fund a Wealth Replacement Trust ("WRT"). (See the Guardian flyer on the WRT for more information.) The WRT can help to replace the wealth contributed to charity — which can then benefit the couple's children or other loved ones after the second death.

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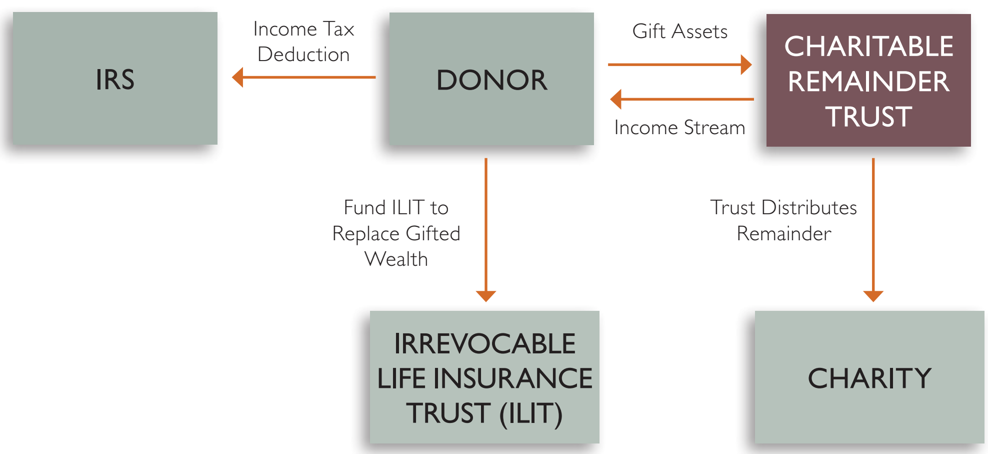
How It Works



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