Charitable Planning

Charitable Remainder Trust: Helping Charity While Helping Yourself

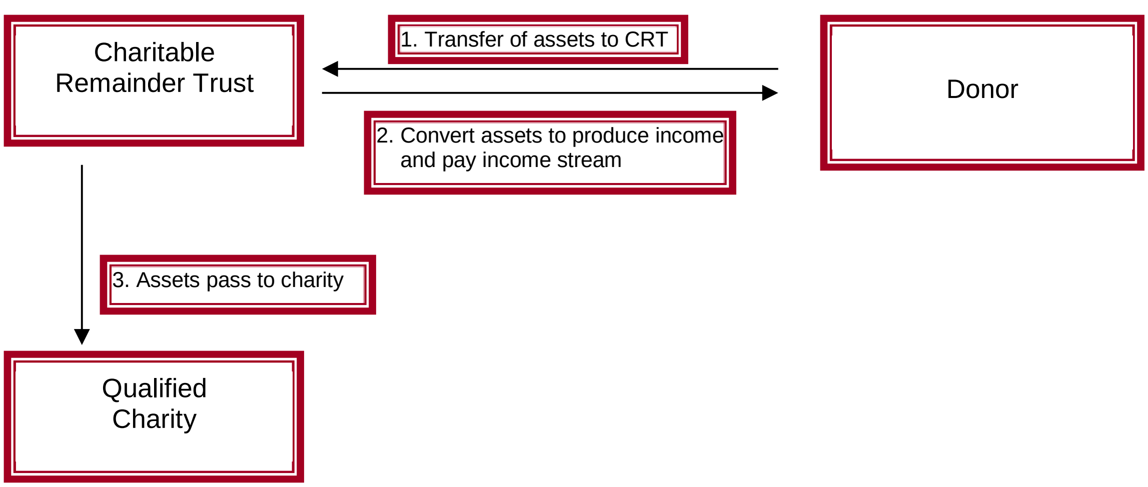
You're at a point in your life where you would like an additional source of income. You have assets but due to your investment savvy, these assets have grown significantly since you purchased or invested in them. Perhaps those assets are real estate holdings or other non-income producing capital assets. They could also be stock that you have owned for decades. To sell them would result in large capital gains. At the same time, you are very charitably inclined. You know that giving away highly appreciated assets to charity is one of the best income tax strategies around for philanthropists. However, given the current economic uncertainty, you're not sure if you can afford to simply give away these assets to charity but you really want to help.

One Solution: The Charitable Remainder Trust

Using a Charitable Remainder Trust (CRT) can be the answer to your problem. A CRT is an irrevocable trust with significant income tax advantages. It is also commonly known as a split-interest trust because it has both charitable and non-charitable beneficiaries. It also serves dual purposes: (1) to provide you with a stream of income (the "income interest") for a certain term of years or for your lifetime, and (2) to have the balance of that asset eventually go to your favorite charity (the "remainder interest"). As a result, the assets used to fund the CRT can be used to provide you with an income stream and to ultimately benefit charity.

When the gift is made into the trust, you will receive a current charitable income tax deduction based upon the present value of the remainder interest which will ultimately pass to the charity. Income earned by the trust is not currently taxable. Instead, the income tax recognition may be spread out over the number of years in which trust assets are distributed. The trustee can sell the transferred assets. There is no current capital gains tax liability upon this sale. The proceeds of the sale are then utilized to purchase an investment that will provide income to fulfill the income interest. You've now used a highly appreciated asset to satisfy your income needs and your charitable intent with no adverse tax consequences.

How Does It Work?



The Guardian Life Insurance Company of America, 7 Hanover Square, New York, NY 10004

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How Does It Work?

1. The CRT is structured in a manner that allows you to make a gift to the trust in return for a stream of income (the "income interest"), either for your lifetime or for a term of years. The beneficiary of the income interest can also be someone else whom you designate, although there may be gift tax consequences in doing so. The income stream can come as a fixed dollar amount per year (Charitable Remainder Annuity Trust or CRAT), or as a fixed percentage of the assets in the trust at the beginning of each year (Charitable Remainder Unitrust or CRUT).
2. The trustee sells the transferred assets at full market value and reinvests the proceeds in income-producing assets. The income is paid to you on a yearly basis until the end of the trust term.
3. Upon the expiration of the income interest or upon your death, the assets that remain in the trust will go to the qualified charity that you designated in the trust. Since the asset was removed from your estate at the inception of the trust, no estate taxes will be levied.

Advantages

- You can make a significant contribution to charity without sacrificing your own needs for income.
- You receive a charitable income tax deduction for the present value of the remainder interest of the CRT assets going to charity.
- Using highly appreciated assets to fund the CRT still results in the avoidance of current capital gains taxes when the assets are sold by the trust.
- You reduce your estate for estate tax purposes by giving away assets to charity.
- In the CRUT version, additional assets can be gifted into the trust after its initial creation. This is not allowed in the CRAT variation.
- If you have a concern that you are reducing the legacy that you may be leaving to your children or other heirs because of the remainder interest going to charity, you may wish to implement the CRT in tandem with another estate planning technique known as the Wealth Replacement Trust. The Wealth Replacement Trust purchases life insurance using a portion of the income stream that you receive from the CRT for premiums. At your death, the life insurance proceeds will "replace" the value of the assets going to charity.

Please consult with your Guardian Financial Representative if you have any questions concerning this document.

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