Charitable Remainder Trust (CRT)

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Disclosure #1

- This presentation shows how a CRT works. There are various entities that should be considered. They include GDOTs, GRATs, GRUTs, IDGTs, ILITs, FLIPs, QPRTs and various other combinations of letters from the English alphabet. It is normal for a client to enjoy the benefit of multiple entities.

Disclosure #2

- IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

Charitable Remainder Trust (CRT)

- Before showing a sample of how a CRT works lets first look at how a transaction might look without a CRT and then compare that with a transaction using a CRT.
  - The examples throughout this presentation are hypothetical and for illustrative purposes only.

NOT Using a CRT

- Henry owns a shopping center[①] valued at $8 Million with little basis and no mortgage.
- He is 70 and is tired of making decisions and dealing with day to day hassles.
- He has two fantastic daughters who are a school teacher and a nurse.
- They have little interest or ability in running their fathers business.

① In lieu of a shopping center Henry could own an $8,000,000 plumbing business or auto dealership.

NOT using a CRT

- If Henry sells the shopping center the following takes place:
  - Henry pays 20% (+/-) tax on the gain leaving \$6.4 Mil to produce income.
  - When Henry dies he pays \$3.2 Mil in estate taxes (His total estate is \$30 Mil) on the shopping center alone
  - His two daughters receive \$1.6 each by splitting the \$3.2 Mil.

USING THE CRT

Using the CRT

- Henry gifts (donates) his shopping center to Henry's Charitable Trust. This is irrevocable.
- Henry receives a deduction for making the gift.
- Please keep in mind that while the shopping center is now owned by Henry's CRT, Henry can receive the income from the Trust activity for life depending on how the trust document is written and the charity or charities do not receive the Trust corpus until Henry dies.

Using the CRT

- Since the charity does not receive their funds (assets) until some unknown time in the future, Henry does not receive $8,000,000 deductions- he receives something less.

- You receive an income tax charitable deduction for the present value of the charity's remainder interest in the CRT in the year the gift is made, or an estate tax deduction when the assets go to the charity.

Using the CRT

- Henry receives an immediate charitable income tax deduction for a portion of the property gifted.

Using the CRT

- Henry then takes the deduction amount from the IRS, and purchases a life insurance policy owned for example, by his wife with his daughters, the beneficiary, receiving the death benefit net of tax.
- This strategy is dependent on insurability. Life insurance products contain fees, such as mortality and expense charges, and may contain restrictions, such as surrender periods.

Using the CRT

- Henry's CRT then sells the shopping center and pays no tax.
- Henry's sale efforts must not be related to the creation of the CRT. Henry must not have knowledge of a pending sale or contract prior to the creation of the CRT.
- Henry receives income from the sales proceeds in the CRT for life.
- The charity or charities receive the assets in the CRT when Henry dies in hopefully 30 years.
- Henry gets his name on the side of some building buying immortality.

Summary

Not Using CRT

Subject to capital gains tax, income taxes and estate taxes.

Using CRT

Avoid capital gains on the sale of assets, receive an income tax deduction for a portion of the property gifted, donor potentially receives an estate tax deduction.

Notes

- 1. This presentation is not legal advice.
- 2. This presentation is not accounting advice.
- 3. These figures are for example only. No one individual will have these exact numbers.
- 4. This model is designed to send the reader to a competent estate planning attorney (not a civil litigator) and their accountant. This author would enjoy being considered to join the planning team.
- 5. There are:
  - Charitable Remainder Trusts
  - Charitable Lead Trusts
  - Payments to the Trust creators may be fixed (annuity trust) or variable (unitrust).
  - Which one of these will work for you?

Notes cont.…

- 6. Much of this presentation is addressed in IRC Section 664.
- 7. Each type of trust is the best for someone. You need to be interviewed as to your goals and objectives. You will be asked about your assets and liability's. Proposals will be possible which could likely include two or more trusts or entities. Each will likely have an advantage for you. You will be unable to make an informed decision until the “numbers are crunched”. Be opened minded. Your team of your accountant, planner, and attorney will guide you.
- 8. We can not “foot note” everything here. You must visit your advisors to build a plan for you.

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