Your Custom Title

Reynolds and Associates
12345 Anywhere Street
San Diego, CA 92127
858-592-6262
www.markreynoldsandassociates.com

Mark Reynolds
Title

Preview

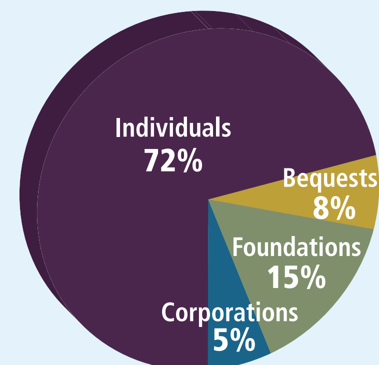
Giving and Receiving

Potential Benefits of a Charitable Remainder Trust

Research suggests that spending money for the benefit of others may lead to greater happiness than spending money on yourself.[1] However, by structuring a donation using a charitable remainder trust (CRT), you might have the best of both worlds — a substantial gift to your favorite charity and a flow of income during your lifetime.

To understand the potential benefits of a CRT, it may be helpful to consider what would typically occur if you sold an asset, such as securities or property, in order to give the proceeds to a charitable organization. In most cases, you would incur capital gains taxes on any appreciation in asset value, which would reduce the value of your charitable contribution (if you paid the taxes out of the proceeds) or require an out-of-pocket expenditure. Although you might receive an income tax deduction in the year of your donation, you would receive no further financial benefit from the contribution.

Sources of Charitable Giving



Source: *Giving USA 2014*, Giving USA Foundation

A STRATEGIC APPROACH

With a CRT, you can donate the asset to the charity by first placing it in the trust. In addition to naming the charitable organization as the first beneficiary, you can designate an income beneficiary — yourself or anyone else you choose — to receive specified payments from the trust for a fixed term (not exceeding 20 years) or for your lifetime (or the lifetime of your surviving spouse or designated beneficiary). Income

payments must be made at least once a year and may be fixed or variable depending on the type of CRT you use. Upon your death (or the death of your surviving spouse or designated beneficiary), the assets in the trust go to the charity.

After the asset is transferred to the charitable trust, the trustee may sell the asset and reinvest the proceeds in income-producing assets without incurring capital gains taxes. This maintains the full asset value to fund your specified income and could increase the ultimate value of the gift to the charity.

Although the annual trust income is usually taxable, you may qualify for an income tax deduction based on the estimated present value of the remainder interest that will eventually go to the charity.

TYPES OF CRTS

There are two types of CRTs: an annuity trust and a unitrust. Both make annual payments to the donor, but the payment structures differ significantly.

A **charitable remainder annuity trust** pays a fixed percentage of the trust's initial value to the donor (or selected beneficiary) each year. The payment can be a specific dollar amount or a fixed percentage of the initial value of the trust.

A **charitable remainder unitrust** pays a set percentage of the trust's annual fair market value to the donor (or selected beneficiary) as income each year. Because the value of the unitrust changes each year and is recalculated on an annual basis, the donor's income can vary from year to year, depending on the performance of the investments in the trust.

A WIN-WIN PROPOSITION

A CRT could offer a win-win proposition for you and your favorite charity. However, it's important to remember that a CRT is an irrevocable trust. Once you've made your decision, you cannot change your mind.

The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional before implementing any trust strategies.

1) Harvard University, 2015

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