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Using a Charitable Remainder Trust (CRT) for "Double Duty": *Retirement and Estate Planning*

A charitable gift made during a person's lifetime can serve as a valuable estate planning technique that offers three important tax benefits:

1. Estate Tax Break – A lifetime charitable gift removes assets and future appreciation from the transferor's estate.

2. Avoidance of Capital Gains – By giving away appreciated securities, the transferor avoids capital gains tax that would have been imposed if the donated assets had been sold.

3. Current Income Tax Deduction – The fair market value of a charitable gift may qualify for a current income tax deduction in the year the gift is made.

A Charitable Remainder Trust (CRT) can be an attractive way to make lifetime gifts to a charity. In addition to the benefits listed above, it also can provide a *fourth* important benefit – a **lifetime income** for the individuals who are named as the income beneficiaries at the time of the trust's creation.

How a CRT Works

A CRT is an irrevocable trust that names one or more qualified charities as beneficiaries. It is created by a grantor through the use of a trust document – and is often funded with appreciated assets, such as low-basis stocks.

- Once stocks have been transferred to the trust, they may be sold by the trustee (i.e., the individual or entity that manages the trust) and the assets can be repositioned to increase income and diversification.
- Since the trust is a tax-exempt entity, no capital gains tax is due on the sale of trust assets.
- The grantor (and/or any other designated income beneficiaries) receives an income from the trust during his or her lifetime.
- Upon the death of the last income beneficiary, the "remainder" of money in the trust passes to the designated charity and the trust terminates.

Benefits for the Grantor/Beneficiaries

- Because the transfer is irrevocable and the grantor gives up control of the trust assets, they are removed from the grantor's taxable estate.
- The trust generates a current income tax deduction for the grantor/donor in the year the gift is made, although adjusted gross income limitations on the charitable deduction should be considered as well.
- The trust provides lifetime income for one or two income beneficiaries.

How the CRT Tax Deduction is Calculated

The current tax deduction allowed on contributions to a CRT is determined by IRS formula, which is based on the present value of the remainder projected to be left to the charity. The formula calculates the discounted value of projected annual income payments to income beneficiaries over the payout period. The total discounted value of these payments is subtracted from the fair market value of assets contributed, and the IRS allows a current tax deduction equal to the remainder. In general, the older the grantor is at the time the trust is established, the greater the current tax deduction will be as a portion of the total value contributed.

Who Can Take Advantage of CRTs?

CRTs can have the most advantages for those individuals who:

- are age 50 or older;
- have a strong desire to give their time and/or money to charity;
- are in a fairly high federal tax bracket; and
- would like to avoid ongoing investment management responsibility, while receiving a steady flow of retirement income that they can't outlive.

Those individuals who are interested in creating a CRT should consult qualified financial and legal professionals for more guidance on whether or not this technique would be a viable strategy, based on their long-term financial goals and objectives.

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