

## A Car like this Deserves a Trust

**Scenario:** Andrew, 72 and Rebecca, 68

In 1968, Andrew paid \$55,000 for a 1955 Mercedes-Benz 300SL Gullwing and also spent about \$45,000 to refurbish it. He anticipates a sales price of \$1.5 million.



**Desired outcome:** Create a lifetime income stream for retirement. Reduce taxation.

If Andrew and Rebecca sell the car at auction, their long term capital gain on the sale will be about \$1.4 million. The entire gain will need to be included on their tax return, which will skyrocket them to the highest marginal tax rates, along with exposure to the dreaded alternative minimum tax (AMT).

<b>Sale Price</b>	<b>\$ 1,500,000</b>
<b>Cost Basis (original price paid)</b>	<b>\$ (100,000)</b>
<b>Taxable long term capital gain</b>	<b>\$ 1,400,000</b>
<b>Federal taxes due</b>	<b>\$ 328,333</b>
<b>State taxes due</b>	<b>\$ 80,878</b>
<b>Net cash to Andrew and Rebecca</b>	<b>\$ 1,090,789</b>

The total tax bill attributed solely to the sale of the car would be \$409,211. This represents over 29% of their gain on the car.<sup>i</sup>

**If Andrew and Rebecca plan for an 8% payout of their investable \$1 million, they are looking at an annual retirement income stream of about \$80,000.**

Let's look at another option for Andrew and Rebecca—a Charitable Remainder Trust. By transferring the title of the Gullwing to their newly established, *tax-exempt* Trust before the sale, they avoid the taxes.

<b>Sale Price</b>	<b>\$ 1,500,000</b>
<b>Federal taxes due</b>	<b>\$ 0</b>
<b>State taxes due</b>	<b>\$ 0</b>
<b>Net investable cash held in the Trust</b>	<b>\$ 1,500,000</b>
<b>Charitable Deduction</b>	<b>\$ 370,425</b>

Additionally, Andrew and Rebecca get a tax deduction of over \$370,000<sup>ii</sup> that they can use to offset their current income taxes. Since they can't use the tax deduction all in one year, they can roll the deduction forward for another five years.

**If Andrew and Rebecca plan for an 8% payout of the investable \$1.5 million, they are looking at an annual retirement income stream of about \$120,000.**

<sup>i</sup> Actual AGI of \$150,025 before sale, with \$20,719 in federal taxes. After sale, AGI is increased to \$1,550,025 with total federal taxes due of \$349,052. Georgia state taxes due of \$81,407 after sale compared to \$529 without sale. Difference of total tax paid is \$409,211. The effective tax rate on the \$1.4 million gain is thus 29.23%. All calculations based on 2015 tax law and standard deductions.

<sup>ii</sup> Actual deduction is \$370,425.