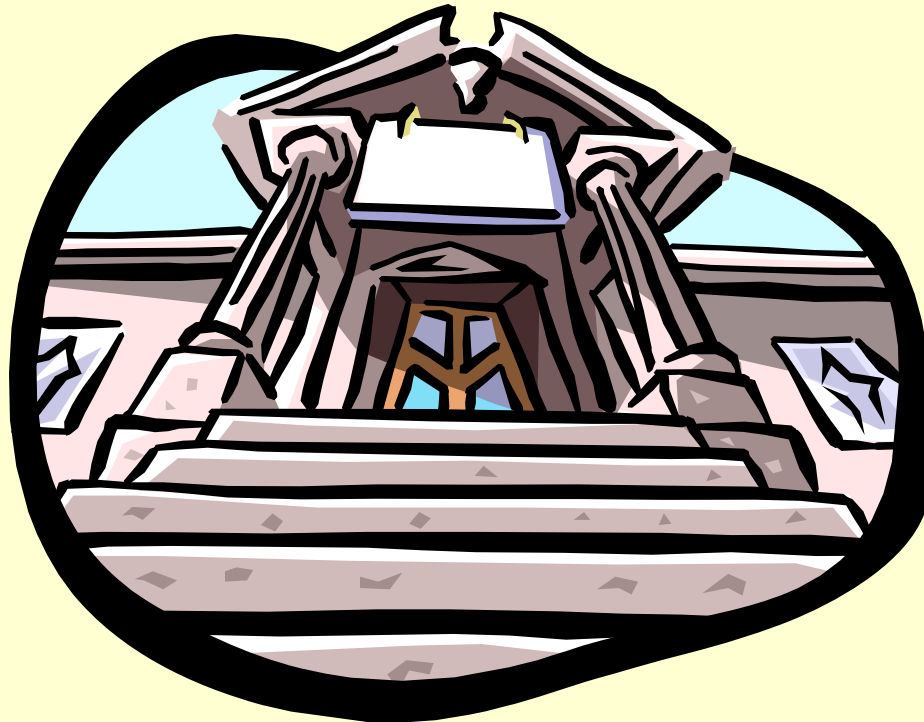


# Charitable Trusts

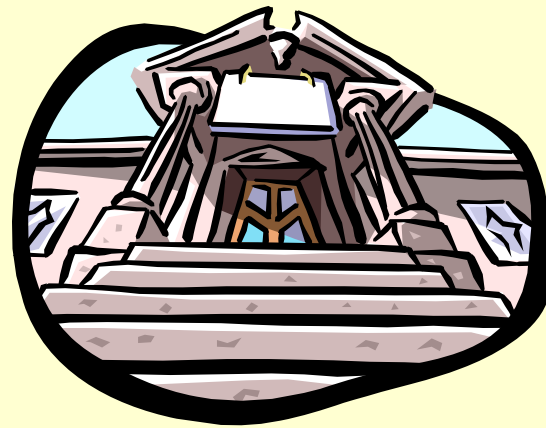
Important Estate and Tax Planning Tools



# Charitable Trusts

## Important Estate and Tax Planning Tools

- **May increase income**
- **Produce income, estate, and gift tax deductions**
- **Benefit worthy charitable organizations**



# Key Trust Types

- **Charitable Remainder Trust (CRT)**
  - **CRT Variations**
- **Charitable Lead Trust (CLT)**



# Charitable Remainder Trust (CRT)

- **A CRT permits an estate owner to:**
    - **increase the income potential from a highly appreciated asset**
    - **obtain an income tax deduction and reduce estate taxes**
    - **benefit a charitable organization**
    - **change charities which will receive trust remainder**
-

# Charitable Remainder Trust (CRT)

- **Tax implications:**

- **delays impact of capital gains tax, permitting *full* use of highly appreciated asset(s) for investment**
  - **creates a partial income tax deduction based upon IRS formula**
  - **reduces estate or gift taxes because the remainder of the trust is distributed to the charity**
-

# Types of CRTs

- **Charitable Remainder Unitrust (CRUT)**
  - **Charitable Remainder Annuity Trust (CRAT)**
  - **Variations**
    - **Net Income CRUT with Make Up Provisions (NIMCRUT)**
    - **Flip Trust**
-

# Charitable Remainder Unitrust (CRUT)

## Donor:

- **Makes gift(s) of property to irrevocable trust**
    - **charitable organization is beneficiary**
  - **Receives an annual fixed % distribution equal to at least 5% of the *yearly net market value* of the trust assets**
  - **Receives distribution for a period of time (not more than 20 years) or for life with remainder of the trust paid to charity**
-

# CRUT

## Key benefits:

- **Delays impact of capital gains tax**
    - **Permits *full* use of highly appreciated asset(s) for investment**
    - **Increases potential net income to donor which may keep pace with inflation**
  - **Creates immediate income tax deduction**
  - **Reduces estate taxes through charitable gift**
-



# CRUT

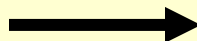
## Other benefits:

- **Allows control over investment choices**
    - **May change investments without income tax on gains**
  - **Trust can receive multiple gifts over time**
  - **Provides long lasting value to charity of choice**
-

## Asset



**Transfer  
To CRUT**



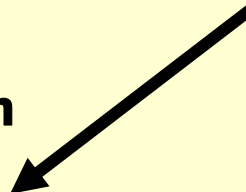
## CRUT

**Diversifies  
Portfolio &  
Produces  
Annual  
Distribution**

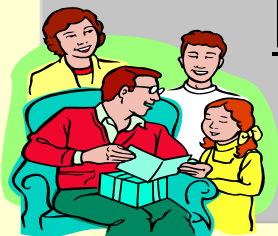


- Income Tax Deduction
- Full Use of Asset

**Fixed %  
Distribution of  
Trust Market  
Value for Certain  
Period or Life**



## Distribution Recipients



- Possible Higher Realized Income for Recipients

**At end of  
Distribution  
Period**



## Charitable Organization

**Receives Remainder  
From CRUT**



- Removes Asset from Estate
- Leaves Legacy to Charity

# Charitable Remainder Annuity Trust (CRAT)

## Donor:

- **Makes one gift of property to irrevocable trust**
    - **charitable organization is final beneficiary**
  - **Receives a specific annual distribution equal to at least 5% of the *initial* net market value of the trust assets**
  - **Receives distribution for a period of time (not more than 20 years) or for life with remainder of the trust paid to charity**
-

# CRAT

## Key benefits:

- **Delays impact of capital gains tax**
    - **Permits *full* use of highly appreciated asset for investment**
    - **Increases potential net income to donor**
  - **Creates immediate income tax deduction**
  - **Reduces estate taxes through charitable gift**
-

# CRAT

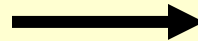
## Other benefits:

- **Allows control over investment choices**
    - **May change investments without income tax on gains**
  - **Provides long lasting value to charity of choice**
  - **Provides certain fixed income payment to lifetime beneficiaries**
-

## Asset



**One-time  
Transfer  
To CRAT**



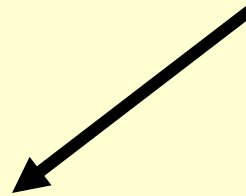
## CRAT

**Diversifies  
Portfolio &  
Produces  
Annual  
Distribution**

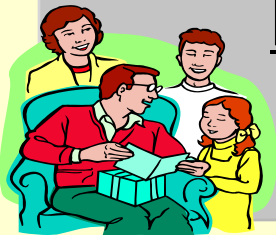


- Income Tax Deduction
- Full Use of Asset

**Fixed Amount  
Distribution of  
Initial Trust  
Value for Certain  
Period or Life**



## Distribution Recipients



- Possible Higher Realized Income for Recipients

**At end of  
Distribution  
Period**



## Charitable Organization

**Receives Remainder  
From CRAT**



- Removes Asset from Estate
- Leaves Legacy to Charity

# Net Income CRUT with Make Up Provisions (NIMCRUT)

## Donor:

- **Makes gift(s) of property to charitable remainder unitrust (CRUT)**
    - **charitable organization is final beneficiary**
  - **Receives income from the trust up to an annual fixed % equal to at least 5% of the *yearly net market value* of the trust assets**
  - **If “trust income” is *not sufficient* to pay out the full fixed percentage in any given year, the trust may *make up this deficiency* in future years when the trust income is higher**
-

# **NIMCRUT**

## **Key benefits:**

- **Permits income payment flexibility**
  - **Creates an additional retirement income source with no limits on contributions, no early withdrawal penalties, and no minimum distribution requirements**
-



# NIMCRUT

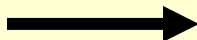
## Other benefits:

- **Delays impact of capital gains tax**
    - **Permits *full* use of highly appreciated asset(s) for investment**
    - **Increases potential net income to donor which may keep pace with inflation**
  - **Creates immediate income tax deduction**
  - **Reduces estate taxes through charitable gift**
-

## Asset



**Transfer  
To  
NIMCRUT**



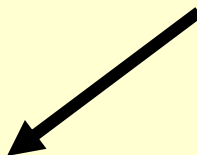
## NIMCRUT

**Diversifies  
Portfolio &  
Produces  
Annual  
Income**

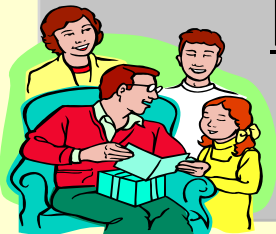


- Income Tax Deduction
- Full Use of Asset

**Income Up to Fixed % of  
Trust Market Value for  
Certain Period or Life**



## Distribution Recipients



- Avoids invasion of trust principal, paying out only income generated
- Allows trust to make up any income deficiencies

**At end of  
Distribution  
Period**



## Charitable Organization

**Receives Remainder  
From NIMCRUT**



- Removes Asset from Estate
- Leaves Legacy to Charity

# Flip Trust

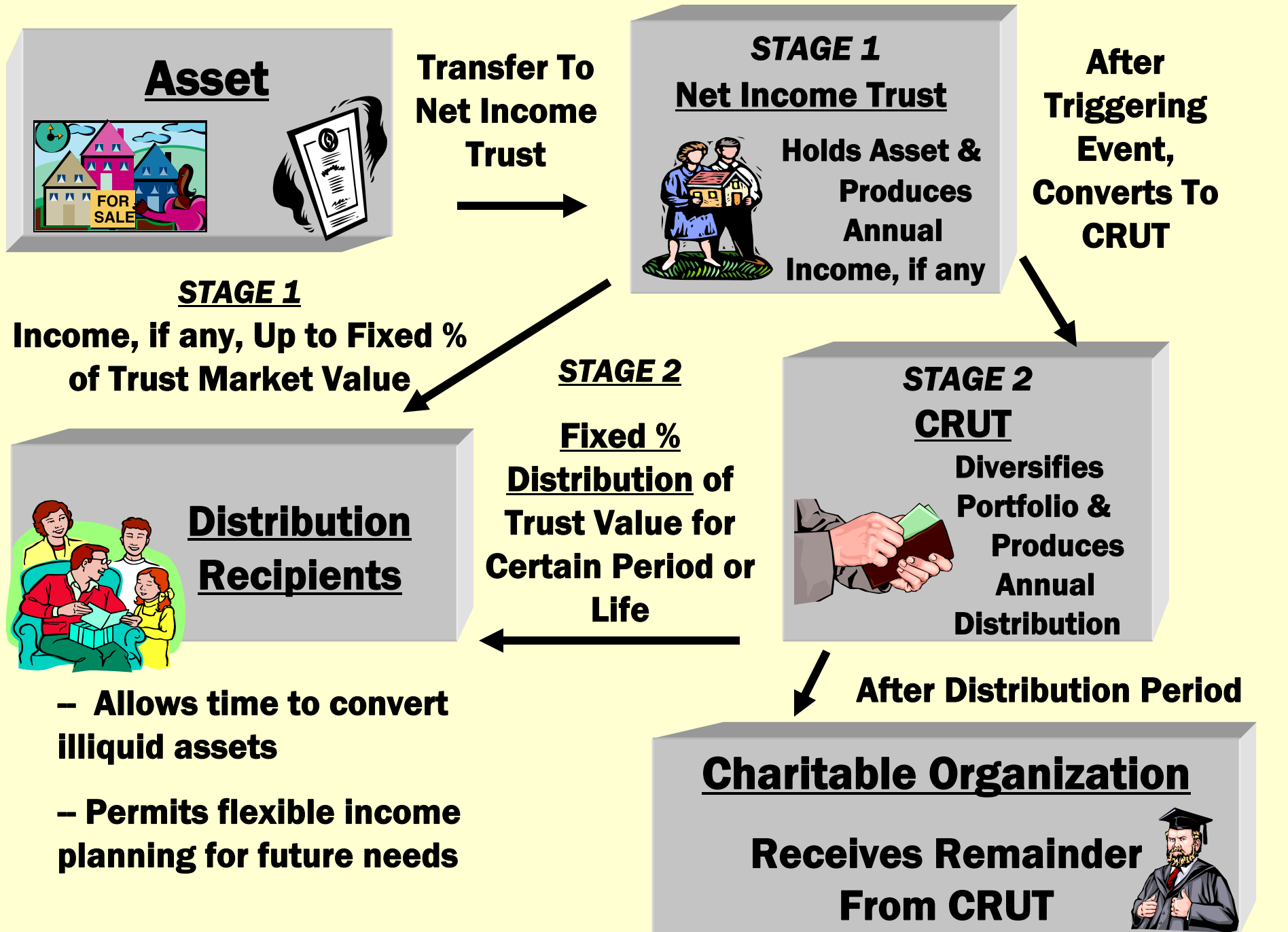
## Donor:

- **Makes gift(s) of property to a net income charitable remainder unitrust, with or without income make up provisions**
    - **Typically uses illiquid assets**
  - **Receives net income from the trust, if any, according to usual net income rules**
  - **After specific event, ie, sale of the assets, marriage, death, divorce, or a particular attained age of the donor, trust is converted to regular CRUT, paying out a fixed % of market value of the trust assets.**
-

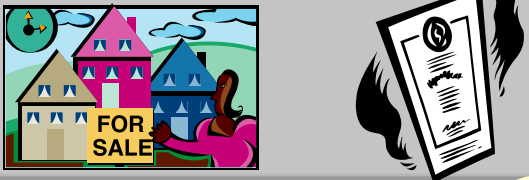
# Flip Trust

## Key benefits:

- **Combines advantages of NIMCRUT and CRUT**
  - **Permits planning for future income needs by paying out flexible income initially, changing to fixed % later when most needed**
  - **Allows appropriate time to convert illiquid assets to income producing ones**
-



**Asset**



**Transfer To Net Income Trust**

**STAGE 1**  
**Net Income Trust**



Holds Asset & Produces Annual Income, if any

**After Triggering Event, Converts To CRUT**

**STAGE 1**

Income, if any, Up to Fixed % of Trust Market Value

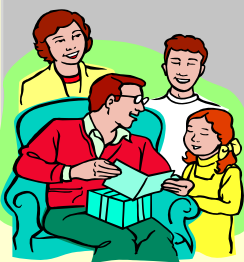
**STAGE 2**

**STAGE 2**  
**CRUT**



Diversifies Portfolio & Produces Annual Distribution

**Distribution Recipients**



Fixed % Distribution of Trust Value for Certain Period or Life

**After Distribution Period**

**Charitable Organization**

Receives Remainder From CRUT



- Allows time to convert illiquid assets
- Permits flexible income planning for future needs

# Charitable Lead Trust (CLT)

- **A CLT permits an estate owner to:**
    - **Transfer assets to heirs and receive significant estate or gift tax deductions**
    - **Reduce exposure to income tax by providing income to a charitable organization**
-

# CLT

## Donor:

- **Makes a gift of property to irrevocable trust**
    - **charitable organization is income recipient and receives either an annual fixed % of the net fair market value of trust assets or an annual fixed amount for a certain period of time or the life of the donor or another individual.**
  - **Receives either a gift tax charitable deduction or estate tax deduction depending upon whether or not trust is created during lifetime of donor.**
-

# CLT

## Key benefits:

- **Permits transfer of assets to heirs with significantly reduced estate or gift taxes**
  - **Can reduce income taxes**
  - **Flexible planning tool to zero out estate tax**
  - **Can create delayed inheritance/retirement benefit for heirs**
-



# CLT

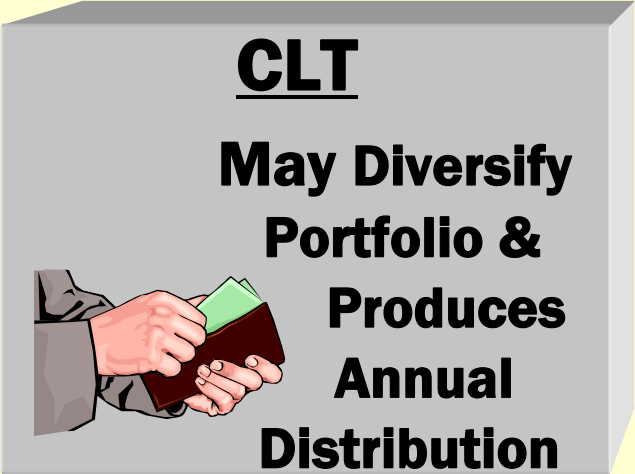
## **Other benefits:**

- **Allows excess return on investment within trust to go to heirs tax free**
  - **May make multiple gifts**
  - **Provides long lasting value to charity**
-



**Transfer  
To CLT**

→



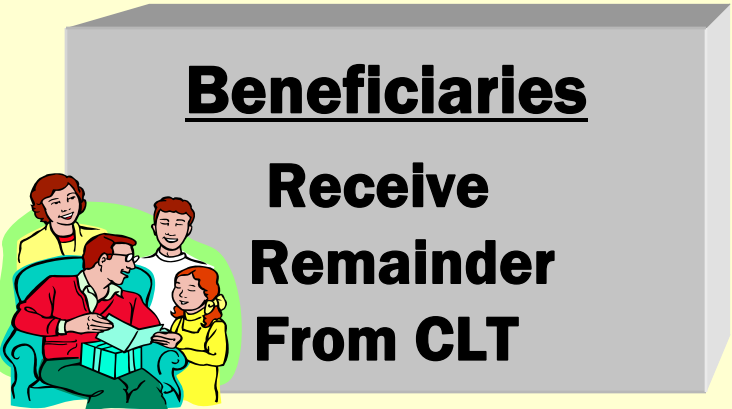
-- Gift or  
Estate Tax  
Deduction

**Distribution for  
Certain Period or Life**



**-- Charity receives income  
immediately**

**At end of  
Distribution  
Period**



**-- Reduced gift or estate taxes on  
the transfer of the trust assets**

# Trusts As A Financial Tool

- **As you can see, charitable trusts are useful to:**
  - **Increase income from low yielding assets**
  - **Transfer assets to heirs on a tax effective basis**
  - **Reduce exposure to income tax or create a deduction by providing a gift to a charitable organization**

**There are many variations to meet your needs.  
Discuss the best choices with your advisor.**

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# Charitable Trusts

Important Estate and Tax Planning Tools

