CHARITABLE REMAINDER TRUST (CRT)

Countless families have used Charitable Remainder Trusts (CRT) to increase their income, save taxes, and benefit charities. A CRT lets you convert highly appreciated assets like stocks or real estate into lifetime income.

Here are some key benefits of a Charitable Remainder Trust

- Reduce your income taxes.
- Reduce or eliminate your estate taxes.
- Pay no capital gains tax when the asset is sold.
- Benefit one or more charities.
- Receive more income over your lifetime than if you had sold the asset yourself.
- Gain protection from creditors if you gift the asset.
- Leave more to your heirs by using a life insurance trust to replace the gifted asset.

A CRT is an irrevocable trust that generates a potential income stream for you, as the donor to the CRT, or other beneficiaries, with the remainder of the donated assets going to your favorite charity or charities, such as the Arts Council of Moore County.

This charitable giving strategy generates income and can enable you to pursue your philanthropic goals while also helping provide for living expenses. CRTs can offer flexibility and some control over your intended charitable beneficiaries, as well as lifetime income, thereby helping with retirement, estate planning and tax management.

How a Charitable Remainder Trust Works

A CRT is a "split interest" giving vehicle that allows you to make contributions to the trust and be eligible for a partial tax deduction, based on the CRT's assets that will pass to charitable beneficiaries. You can name yourself or someone else to receive a potential income stream for a maximum of 20 years, or for the life of one or more non-charitable beneficiaries, and then name one or more charities to receive the remainder of the donated assets.

There are Two Main Types of Charitable Remainder Trusts:

Charitable Remainder Annuity Trusts (CRATs) distribute a fixed annuity amount each year and additional contributions are not allowed.

Charitable Remainder Unitrusts (CRUTs) distribute a fixed percentage based on the balance of the trust assets (revalued annually) and additional contributions can be made.

Contributions to CRATs and CRUTs are an irrevocable transfer of cash or property, and both are required to distribute a portion of income or principal to either the donor or another beneficiary. At the end of the specified lifetime or term for the income interest, the remaining trust assets are distributed to one or more charitable remainder beneficiaries.

How a charitable remainder trust works

1. Make a partially tax-deductible donation - Donate cash, stocks, or non-publicly traded assets, such as real estate, private business interests and private company stock and become eligible to take a partial tax deduction. The partial income tax deduction is based on the type of trust, the term of the trust, the projected income payments, and IRS interest rates that assume a certain rate of growth of trust assets.

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How a Charitable Remainder Trust Works (continued)

2. You or your chosen beneficiaries receive an income stream - Based on how the trust is set up, you or your stated beneficiaries can receive income annually, semi-annually, quarterly, or monthly. All CRTs must annually distribute a minimum of 5% but no more than 50% of the trust's assets.

3. After the specified timespan or the death of the last income beneficiary, the remaining CRT assets are distributed to the designated charitable beneficiaries - When the CRT terminates, the remaining assets are distributed to the charitable beneficiary, which can be public charities or private foundations. Depending on how the CRT is established, the trustee may have the power to change the CRT's charitable beneficiary during the lifetime of the trust.

Key Benefits - Preserve the value of highly appreciated assets: For those with significantly long-term appreciated assets, including non-income-producing property, a CRT allows you to contribute that property to the trust and when the trust sells it is exempt from tax. By donating the assets in-kind to the CRT, you will preserve the full fair market value of the assets rather than reduce it by large capital gains taxes, allowing more money for the income and charitable beneficiaries.

Income Tax Deductions - With a CRT, you have the potential to take a partial income tax charitable deduction when you fund the trust, which is based on a calculation on the remainder distribution to the charitable beneficiary.

Tax Exempt - The CRT's investment income is exempt from tax. This makes the CRT a good option for asset diversification. You may consider donating low-basis assets to the trust so that when sold, no income tax is generated to you, and you eliminate the capital gains tax on the sale of the asset. However, the named income beneficiary will pay income tax on the income received.

What assets may be donated to a CRT? You can use the following types of assets to fund a CRT: Cash, publicly traded securities, some types of closely held stock (Note that CRTs cannot hold S-Corp stock), real estate, and certain other complex assets.

Is a CRT right for me? A CRT is a good option if you want an immediate charitable deduction, but also have a need for income to yourself or another person. It is also a good option if you want to establish one in your will to provide for heirs, with the remainder going to charities of your choosing.

Who can receive income from a CRT? Trust income, which is generally taxable in the year it is received, can be paid to you for your lifetime. If you are married, it can be paid for as long as either of you lives.

The income can also be paid to your children for their lifetimes or to any other person or entity you wish, provided that the trust meets certain requirements. In addition, there are gift and estate tax considerations if someone other than you receives it. Instead of lasting for someone's lifetime, a trust can also exist for a set number of years (up to 20).

Do I have to take the income now? No. You can set up the trust and take the income tax deduction now but postpone taking the income until later. By then, with good management, the trust assets will have appreciated considerably in value, resulting in more income for you.

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Gifting the Asset? Consider a Life Insurance Trust

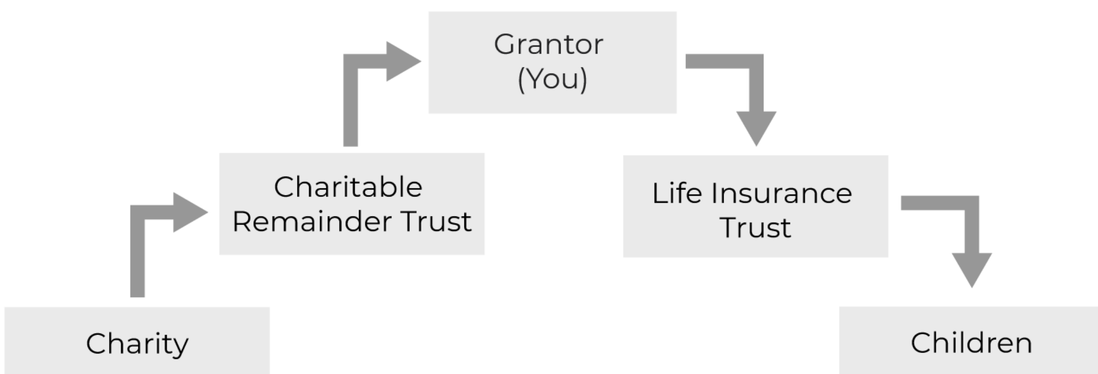
If you have a sizable estate, the asset you place in a CRT may only be a small percentage of your assets. If you give the asset away but are concerned about replacing its value for your children, there is an easy way to do so.

You can use the income tax savings and part of the income you receive from the CRT to fund an irrevocable Life Insurance Trust. The trustee of the insurance trust can then purchase enough life insurance to replace the full value of the asset for your children or other beneficiaries.

There are several benefits to this strategy:

- The insurance proceeds will not be included in your estate, so you avoid estate taxes.
- You can keep the proceeds in the trust for years, making periodic distributions to your heirs.
- Any proceeds remaining in the trust are protected from irresponsible spending and creditors (even spouses)
- Insurance proceeds are available immediately, even if you and your spouse both die tomorrow.
- The proceeds will also be free from probate and income taxes.

Replace Asset with Insurance



Using the income tax savings and part of the income you receive from the charitable remainder trust, you can fund an irrevocable life insurance trust to replace the asset for your children.

If you think a Charitable Remainder Trust would be of value to you and your family, speak with an estate planning attorney experienced in CRTs.

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NOTE: This information is taken from sources believed to be reliable but is not guaranteed as to completeness or accuracy. You are urged to seek the advice of your financial planner, attorney, and/or tax advisor to make certain a contemplated gift fits well into your overall circumstances and planning.

Already included us in your estate plan?

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