THE CHARITABLE REMAINDER TRUST

You may have an asset – a sum of cash, appreciated securities or real estate – that you'd like to become your gift to ***(Full Name of Charity)*** but for now, you need the income it provides. One possibility, of course, is to leave it as a bequest after your death. But there is another option: with a charitable remainder trust (CRT), you can make your gift *now* – and *continue to receive the income* for your lifetime, the joint lives of yourself and your spouse, or a specified term of years.

Unlike a future bequest, which yields no immediate tax benefit, a CRT provides you with a donation receipt in the year of your gift. Also, placing the property in trust frees you from management responsibility and removes the property from your estate, guaranteeing your privacy.

Consider an example:

> Sheldon M., age 70, wants to establish an endowed fund with ***(Full Name of Charity)*** in memory of his deceased wife, but he is reluctant to give up any of his investment income. He transfers property worth $250,000 to a charitable remainder trust from which his net income will be approximately $15,000 a year for life. When he funds the trust, he receives a donation receipt for $120,675, which, assuming a 46.4-percent combined tax credit, will translate into tax savings of $55,993. After his death, the trust principal will be used to create the endowment.

The tax benefits

The donation receipt Mr. M. receives represents the present value of the future gift (the "charitable remainder") which ***(Charity)*** will receive at his death. It is an actuarially computed figure based on the amount contributed, the age of the donor, and an appropriate discount rate (the lower the rate, the larger the donation receipt). The amount of the donation, which may be claimed in any given year, is limited to 75 percent of the donor's net income for that year, but the excess may be carried forward up to five years beyond the year of the gift. If Mr. M's income were $100,000, he would need one additional year to achieve maximum tax savings.

Funding your trust with appreciated property

The assets you use to fund your CRT may include securities and real estate, and often these will have increased in value during your ownership. When you transfer property that has appreciated in value and you are the income beneficiary, you will be taxed on 50 percent of the gain attributable to the charitable remainder. Consider this example:

> Suppose that Sheldon M. funds his trust with $250,000 worth of listed stock for which he paid $100,000 some years ago. The total gain on the stock is $150,000. The computed present value of the charitable remainder is $120,675, or 48.27% of the entire $250,000 trust. Therefore, he recognizes $72,405 of gain (48.27% of $150,000), and $36,202 (50% of $72,405) is taxable. Although the tax on this would be $16,798 (assuming a combined tax rate of 46.4-percent), he has a tax credit of $60,337 from the donation receipt. Thus, he *offsets the tax* entirely on the gain and realizes net tax savings of $43,539.

No matter how much taxable gain is attributable to the charitable remainder of your trust, the tax credit resulting from your donation receipt will always exceed the tax on the gain, unless you have named someone other than yourself as income beneficiary. This is true even though the capital gain is taxable, because the amount of the donation receipt you can claim for credit is now 100 percent of the taxable gain arising from the gift plus 75 percent of your other income.

Giving your personal residence

You love the old house, but it's simply too big for your present needs. If you move to smaller quarters and donate the house to fund your trust, you will recognize no capital gain whatsoever; no matter how much it has appreciated in value. The trustee will sell the house and invest the full proceeds to earn new income for you, and at your death or the expiration of your trust, ***(Full Name of Charity)*** will receive a significant and very welcome gift.

THE CHARITABLE REMAINDER TRUST is a versatile giving technique that you can tailor to your own situation. You designate the trustee who will administer it (any qualified institution or individual). But these are important decisions, and because the trust, once established, is *irrevocable*, you should seek the guidance of your personal financial and legal advisors. A ***(Charity)*** representative can assist you along the way.

Full Name of Charity
Street
City, Province, Postal Code
Telephone
Email
Website

The purpose of this publication is to provide general information, not to render legal advice. In addition, changes in the tax structure may affect the examples presented here. You should consult your own lawyer or other professional advisor about the applicability of this information to your own situation.