

THE CHARITABLE REMAINDER TRUST

You may have an asset you plan to give to (*Full Name of Charity*) eventually, but for now you need the income it provides. One possibility, of course, is to leave it as a gift in your will (a bequest) to (*Charity*) after your death.

There is also another option you may wish to consider: a charitable remainder trust (CRT), where you can make your gift now – and continue to enjoy the income it generates for the rest of your life. Besides income, you will also receive a donation receipt that will result in a current tax credit, reducing the amount of income tax you pay. When the trust terminates, the principal will pass to (*Charity*), to be used for our general purposes or in the special ways that you have designated.

Q: Can the income from a charitable remainder trust continue to a surviving spouse?

A: Yes, the trust agreement can be written to cover the life of your spouse as well as your own life. If you prefer, income can be paid for a fixed number (or 'term') of years.

Q: How much income will I receive?

A: You will receive the entire net income of the trust. For example, if the trust holds stocks and bonds, you would receive the dividends and interest, less any trustee fees or administrative expenses.

Q: How is the amount of the donation receipt determined?

A: The donation receipt will be for the present value of the trust remainder that eventually will be distributed to (*Charity*). The amount depends on the amount contributed, the age(s) of the donor and any other income beneficiary, and an appropriate discount rate (the lower the rate, the larger the donation receipt). Consider an example:

*Ray S, age 70, transfers property worth \$250,000 to a charitable remainder trust. When he funds the trust, he receives a donation receipt for \$120,675 which, assuming a 50-percent combined tax credit, will translate into tax savings of \$60,337. After his death, the trust will terminate and the principal will be used by the (*Charity*) for the purposes he directed. The amount of the donation that may be claimed in any given year is limited to 75 percent of the donor's income for that year, but the excess may be carried forward up to five years beyond the year of the gift.*

Q: If I transfer appreciated property to the trust, will I be taxed on the capital gain?

A: When you fund your CRT with 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 remainderer.

Suppose that Ray S. 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 percent 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 owing on this would be \$16,798 (assuming a combined tax rate of 46.4-percent), he has a tax credit of \$60,337 available 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 because only part of the capital gain is taxable and because the amount of your 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.

Q: Who can serve as trustee of a charitable remainder trust?

A: The trustee could be a trust company or an individual in which you have confidence, or you may name yourself and continue to manage the investments. Although (*Charity*) does not serve as trustee, it can acquaint you with trustee options and help you facilitate the gift.

No matter who serves as trustee, the trust must be irrevocable, and you cannot encroach on the principal. Trustee fees and any other expense must also be paid from trust income.

Q: Besides the tax savings, what are the advantages of a charitable remainder trust?

A: The trust property is not subject to probate tax. Thus, your privacy is protected, and the gift is not as subject to challenge as a charitable bequest might be. Also, if you select an outside trustee, you are freed from management responsibility.

THE CHARITABLE REMAINDER TRUST --

It's a versatile giving technique you can tailor to your own situation. We'll be glad to help you!

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

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