

Spotting Advanced Planning Issues: The Charitable Remainder Trust

(Part 1 of 2)

For clients who are charitably-minded and who own highly appreciated assets, you might consider the use of a Charitable Remainder Trust (CRT). The CRT is a trust that pays income to individual beneficiaries for either their lifetime or a term of years, with the remainder interest paid to a charity or charities. Because a CRT is irrevocable, and because it requires that the assets eventually be given to charity, the Internal Revenue Code gives the creator several tax benefits. Those benefits include:

- An immediate charitable income tax deduction
- Forgiveness of the asset's capital gains tax
- Removes the asset from the donor's estate, thus eliminating estate tax on that asset
- Allows the donor to serve as trustee (along with an independent trustee) and have a say in trust investments
- Allows assets within the trust to grow tax-free

CRTs come in two basic types: The Charitable Remainder Annuity Trust (CRAT) and the Charitable Remainder Unitrust (CRUT). The CRAT pays a fixed payment every year to the trustmaker. For example, the payments could be set at \$100,000 per year, regardless of the performance of the assets in the trust. The CRUT payment is set at a percentage of the trust assets as valued *each year*. The payment will vary depending on the investment performance and the value of the trust assets.

The benefits of planning with a CRT are best illustrated with a case study.

Highly Appreciated Asset with No Planning: Take the case of Bill and Mary Sample, retired farmers. Bill is 75 and Mary is 72. Their primary asset is 150 acres of farm land, situated on the edge of Lake Michigan and surrounded on three sides by new

housing developments. The acreage has a fair market value of \$15,000,000 but Bill and Mary only paid \$15,000 for it when they were first married 50 years ago. Leasing it out to another farmer yields a very small annual income for the couple.

If Bill and Mary sell their land and receive the \$15,000,000, they might pay in the neighborhood of **\$3,000,000 in federal and state capital gains tax**. If they invest the remaining \$12,000,000 at a 5% yield, the investment would pay them an annual income of \$600,000 before taxes. In addition, the IRS will tax the remaining \$12,000,000 on the death of Bill and Mary. Applying the current marginal estate tax rate of 45%, Bill and Mary will lose **an additional \$5,400,000 in estate taxes, leaving their children with just \$6,600,000 of the original \$15,000,000 asset**.

With that as background, and using the same fact pattern, in our next issue we'll explore the benefits of a Charitable Remainder Trust for Bill and Mary.



KETRA A. MYTICH, LTD.

'Providing Peace of Mind for you and your loved ones'

At this time, we have no upcoming seminars planned.

If you would be interested in attending a future seminar, or setting up a seminar for your organization, please contact our office.

**To attend a program, please RSVP by calling (309) 673-1805, and speaking with Beth, our educational events coordinator. You may also RSVP online at our website www.est-planning.com
Seating is limited.**

If you are interested in providing your clients with a copy of Ketra's book 'Your Life, Your Legacy' please call Vicki for complimentary copies.

KETRA A. MYTICH, LTD.
6809 N. KNOXVILLE AVE., SUITE B.
PEORIA, IL 61614-2866