

CHARITABLE TRUSTS CAN
BE IMPORTANT COMPONENTS
OF ANY ESTATE PLANNING
PROGRAM.

For clients with substantial wealth and the desire to create a legacy, you may want to discuss establishing a charitable trust. The Tax Reform Act of 1969 created the Charitable Remainder Trust (CRT), which has been increasingly used by many wealthy Americans to implement charitable giving programs. These offer unique tax and estate planning opportunities.

A CRT is an irrevocable trust designed to permit an individual to donate assets to charity while retaining a lifetime income stream without generating estate taxes or incurring capital gains taxes. When a CRT is established, the donor receives income from the trust for life or for a term of up to 20 years. When the grantor/beneficiary dies, the trust ends and the remaining assets are distributed to the named charity or charities. While a CRT is an irrevocable trust, some grantors prefer to retain the right to change the charitable beneficiaries.

There are two basic types of CRT's: a Charitable Remainder Annuity Trust (CRAT) and a Charitable Remainder Unitrust (CRUT). While the tax benefits are similar, there are two major differences. The amount of the distributions from a CRAT are determined when the trust is funded and it is a fixed percentage or dollar amount that never changes. Also, once funded, the CRAT may not accept additional contributions. Distributions from a CRUT are a percentage of the trust assets that is determined annually, based on the fair market value of the trust and other factors. A CRUT may accept additional contributions.

Benefits of a CRT

A CRT may potentially:

- Eliminate capital gains taxes on the sale of appreciated assets, such as stocks, bonds, real estate, or other assets;
- Reduce estate taxes;
- Reduce current income taxes;
- Create an income stream for life (and the life of the spouse); and
- Create a significant charitable gift.

As with all trusts, it is important for the client to work with a team that includes an attorney with expertise in establishing CRTs. As the financial advisor, you will play an important role in managing the assets within the trust so long as the trust remains funded.

An Income Stream for Life

Generally, a CRT must distribute to the income beneficiary at least 5% of the net fair market value of its assets annually. However, there are variations to the CRUT, such as a net income CRT (NICRUT) or a net income with make-up provision CRT (NIMCRUT).

Net income is typically defined as trust accounting income in accordance with the governing instrument and applicable state law. Also, a qualified attorney may recommend a CRT that allows a grantor to “flip” from a NIMCRUT to a standard CRT. When choosing a payout percentage it is important to remember that when the trust is funded, the calculation of the remainder interest, or charitable deduction, must equal at least 5% of the fair market value of the trust. Additionally, when determining the appropriate payout, consideration should be given to market conditions and future reduction of principal.

Funding and Planning with a CRT to Give Clients the Most Benefit

Clients may receive the most tax benefit by funding a CRT with highly appreciated assets like stocks or property. The low cost basis but high appreciated value of these assets may help clients eliminate or defer the capital gains tax on substantially appreciated assets. CRT's, because they benefit a charity, qualify for an income tax deduction. The amount of the deduction is the actuarial value of the remainder interest to the charity.

A qualified attorney may also suggest combining a CRT with a legacy or life insurance trust. Upon the death of the grantor, the legacy trust receives the proceeds from the life insurance owned by a trust on the life of the grantor and may provide for distributions to heirs as well as a favorite charity.

About Advisory Trust

Advisory Trust is part of the Wilmington Trust corporate family, which has been in the wealth management business for 105 years, serving as trustee and advisor for prominent individuals, families, and foundations. Founded in Wilmington, Delaware, in 1903 by T. Coleman du Pont, one of the great industrialists and entrepreneurs in our nation's history, the Wilmington Trust corporate family currently serves wealth advisory clients in all 50 states and 36 countries.

Advisory Trust has offices in Wilmington, Delaware, and Phoenix, Arizona, and currently oversees approximately \$1.3 billion in assets for more than 1,200 personal trust accounts, providing tax and administration services.

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The foregoing is provided as an overview and discussion of some of the attributes which may be available by using a trust and should not be used as a substitute for legal advice. Advisory Trust does not engage in the practice of law, nor provide legal advice. Due to the complexity of estate and wealth planning issues, a qualified financial planning, tax and/or legal professional should be consulted before making any decision regarding estate and wealth planning.

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