Giving Through Charitable Remainder Trusts

Unitarian Universalist Congregation

1301 Gladewood Drive

Blacksburg, Virginia 24060

Phone: 540-552-9716

Web: www.uucnrv.org

Email: administrator@uucnrv.org

Giving … and Receiving

Over the years, a number of special financial and estate planning tools have been developed to help you make charitable gifts while your also enjoy dependable income, tax savings and other welcome benefits.

The *charitable remainder trust* is an example. Through the use of this popular plan, you may be able to achieve one or more of the following goals:

- Increased income from low-yielding assets.
- Reduction or elimination of taxes that could otherwise be due.
- Diversification of investments and the potential for tax-free growth of assets.
- Creation of a source of income for children, parents, and/or other loved ones.
- The enjoyment that comes from making a gift that might not otherwise be possible.

What is a trust?

What we refer to as "trusts" have developed over time to help transfer property when many interests and objectives need to be accomplished.

There are many types of trusts, all of which have been designed to help meet various planning needs.

A trust document may be relatively simple or complex. Trusts should always be drafted or reviewed by your advisors. You may choose to serve as the manager, or trustee, of your trust or engage the services of others to do so.

The Charitable Dimension

For many years, the charitable remainder trust has been used as a way to make charitable gifts after first meeting other important financial needs.

Over the years, Congress has expressly approved and provided for generous income, gift and estate tax savings for those who wish to make gifts using the special plan.

How to create a charitable remainder trust

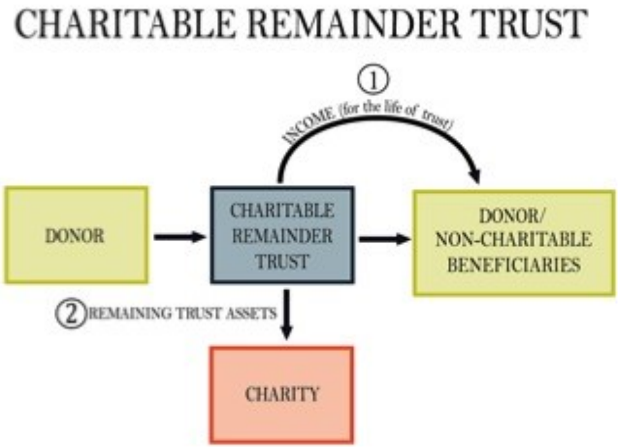
With the help of advisors, you transfer cash or other appropriate property to a trust created under applicable state and federal laws.

You may specify that payments from the trust be made to you and/or one or more other persons for life. Alternatively, you may choose to provide for income for a period of time up to 20 years, or certain combinations of lives and a term of years.

When the trust ends, the property remaining in the trust (the *charitable remainder*) is transferred to one or more charitable interests you designate.

Because amounts transferred to the trust will be used for charitable purposes in the future, you are entitled to a federal income tax deduction equal to the value of the gift portion of the trust. This deduction can be used to reduce your tax bill for a period of up to six years.

How it works



Increase earnings from assets

Investment assets that are worth more than they cost but yield little income can be placed in a charitable trust, sold and the proceeds reinvested in other ways. Because the trust assets will ultimately be used for charitable purposes, the capital gain realized on the sale is not subject to tax at the time of the sale.

The entire net proceeds of the sale are thus available to grow and earn income, and any returns beyond what is necessary to meet payments to trust beneficiaries are allowed to accumulate inside the trust tax free.

Plan for retirement

Through a charitable remainder trust, you can enhance your retirement income while enjoying the knowledge that funds remaining when the trust ends will be devoted to charitable uses you choose.

Example: Mr. Hamilton, 62, is planning to retire in a few years. His assets include securities that he has acquired over a period of years. The securities have grown in value over time but yield no income.

He decides to use a portion of his securities to fund a charitable remainder trust. The trust can sell the assets, pay no capital gains tax at the time of sale and reinvest the entire net proceeds in a way that will yield tax-favored payments for him in the future.

Because the full value of the securities will be available to invest, Mr. Hamilton may receive more income each year for the remainder of his life than if he has sold his investments and reinvested the proceeds on his own.

Another benefit he enjoys is the charitable income tax deduction to which he is entitled in the year of his gift. The savings from this deduction can be significant and, when combined with other tax savings, the final cost of making his gift can be greatly reduced.

As an added benefit, he is assured that the amounts placed in his charitable remainder trust will be removed from his taxable and probate estate and thus not be subject to state and/or federal estate taxes and other expenses that could apply a the time of this death.

Note that Mr. Hamilton has also provided for management of his assets should he need it in later years. The assets are set aside in such a way that they are permanently reserved to provide income for him while eventually funding his charitable interests.

More income today

It is also possible to establish a charitable remainder trust for a specified number of years. This may be done in order to produce increased income for a limited period of time before funding a charitable gift.

Example: George and Mary, ages 59 and 57, would like to make a significant gift over the next 10 years, but also need to provide funds for expenses such as their daughter’s wedding and son’s graduate education.

They have substantial assets that have grown in value over the years but now provide little income.

They are pleased to learn that they can place these assets in a charitable remainder trust that will pay them a generous fixed income each year for the next 10 years.

George and May will be entitled to a significant income tax deduction.

They will owe little income tax on the payments received from the trust. They can use their new source of income to help fund educational and other expenses. They might also choose to use all or a portion of the income and tax savings to purchase life insurance payable to their loved ones that will help replace the assets used to fund their trust.

Care for older relatives

You can also create a charitable remainder trust that will pay a fixed or variable income to one or more older relatives or friends for the remainder of their lifetimes.

As in the previous examples, a charitable income tax deduction is allowed. In this case, it is based on the life expectancy of the income recipient. The older the income beneficiary (ies), the greater your tax savings.

Summary of benefits

The trusts described in this booklet can be used at different points in life to meet a variety of personal financial and philanthropic goals. Various types of trusts are available, depending on your nees.

Fixed income. If you prefer fixed payments that will not change over time, consider what is known as a *charitable remainder annuity trust.*

An annual payout amount is determined at the time the trust is crated, and that payment continues for the duration of the trust, regardless of the performance of the trust assets.

Variable income. If you prefer payments that fluctuate with the value of assets or the earnings of your trust, another options exists. Known as a *charitable remainder unitrust,* this type of trust offers payments each year equal to a percentage of the value of the assets as determined each year. If you wish, you can specify that an amount equal to the actual earnings be paid, if that amount is less than the percentage of the trust assets specified.

Flexible timing. All of the types of trust described here can be created for one or more persons' lives or a period of time up to 20 years. Or, if you prefer, you may specify that the trust will last for one or more lives or for up to 20 years, whichever is a longer, or shorter, period of time.

A charitable remainder trust can be created during your lifetime or through a provision in your estate plan for the benefit of a surviving loved one.

Income payments will be received periodically according to the payment schedule agreed upon when the trust is established.

Tax Benefits and Considerations

As noted previously, charitable income, estate and gift tax deductions are allowed for a substantial portion of the amount transferred to a charitable remainder trust. Deductions are based on a number of factors, including how long the trust is expected to exist, the anticipated earnings of the trust, the amount and timing of payments to beneficiaries and whether the payments are fixed or variable.

The assets in the trust may be included in your estate. Because the property in the trust is designated for charitable use, however, its value is fully deductible, resulting in no net gift or estate tax liability. Estate or gift tax may be due if income is payable during lifetime or at death to someone other than you and/or your spouse.

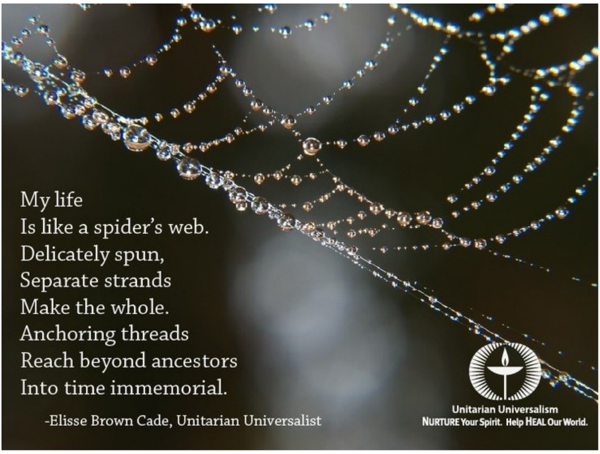
Minimizing tax on payments

The tax rate applied to payments from a charitable remainder trust will vary depending on the type of income earned by the trust. For example, taxes on capital gain and dividend income may be significantly lower than the taxes you pay on salary, interest and other income.

For this reason, many trustees will choose to invest for maximum amounts of capital gain and other tax-favored income.

Flexibility in problem solving

As you can see, charitable trusts can help you achieve a number of planning goals.



If you would like more information about gift opportunities that may be helpful as you make your plans, please call or write:

Unitarian Universalist Association
Office of Legacy Gifts
24 Farnsworth Street
Boston, MA 02210-1409
(888) 792-5885

For further information, contact Lisa Evanylo (552-9716) or Bill Baker (552-1727).

Notes:

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