

“The Amazing Charitable Remainder Trust”

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Accounts Receivable Tax

Building Permit Tax

CDL license Tax

Cigarette Tax

Corporate Income Tax

Dog License Tax

Federal Income Tax

Federal Unemployment Tax

Fishing License Tax

Food License Tax

Fuel permit tax

Gasoline Tax

Hunting License Tax

Inheritance Tax

Interest expense

Inventory tax

IRS Interest Charges IRS

Penalties (tax on top of tax)

Liquor Tax

Luxury Taxes

Marriage License Tax

Medicare Tax

Property Tax

Real Estate Tax

Service charge taxes

Social Security Tax

Road usage taxes

Sales Tax

Recreational Vehicle Tax

School Tax

State Income Tax

State Unemployment Tax

Telephone federal excise tax

Telephone federal universal service fee tax

Telephone surcharge taxes

Telephone minimum usage surcharge tax

Telephone recurring and non-recurring charges tax

Telephone state and local tax

Telephone usage charge tax

Utility Taxes

Vehicle License Registration Tax

Vehicle Sales Tax

Watercraft registration Tax

Well Permit Tax

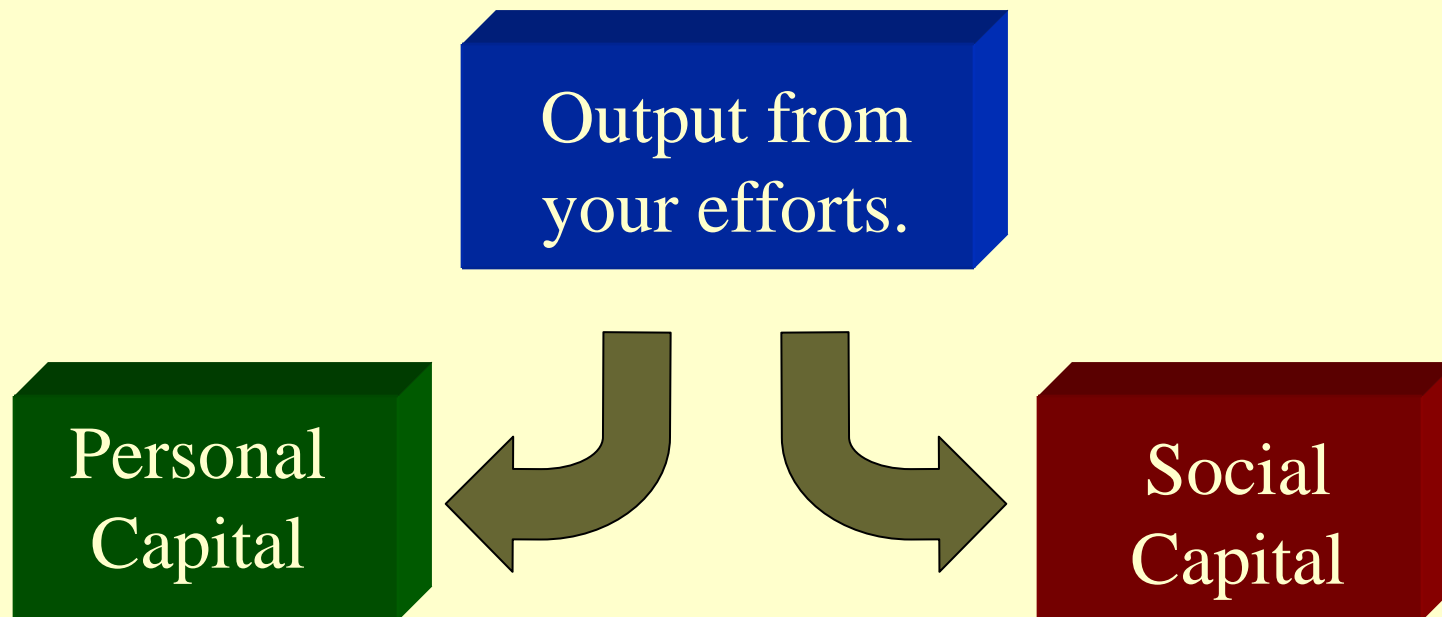
Workers Compensation Tax

Taxes: Let me count the ways

- ▶ Due when we work – Income taxes
- ▶ Due when we buy things – Sales taxes
- ▶ Due when we reinvest – Taxes on dividends/income
- ▶ Due when we sell at a gain – Capital gains taxes
- ▶ Due when we own property – Property taxes
- ▶ Due when we retire – Social Security taxes
- ▶ Due when we give things away – Gift taxes
- ▶ Due when we leave to heirs – Estate taxes
- ▶ Sometimes dual taxation – IRA*

The Social Contract

- ▶ In consideration of society's enabling of your success, you will pay at least half of everything you will ever touch back to society.



Maximize Your Social Capital

- ▶ Complete tax elimination is legally impossible
- ▶ You can maximize your social capital for yourself first, but also the parts of society that you care about—or you can let Congress choose.
- ▶ Society's a beneficiary—but so are you.
- ▶ You are the trustee—maximizing the corpus for you, your family, and what you stand for.



Basics of a Trust

A Trust Initially has Three Parties

▶ Grantor(s)

▶ Trustee(s)

▶ Beneficiary(s)

▶ Two basic kinds

(Revocable & Irrevocable)

Revocable Trusts Generally

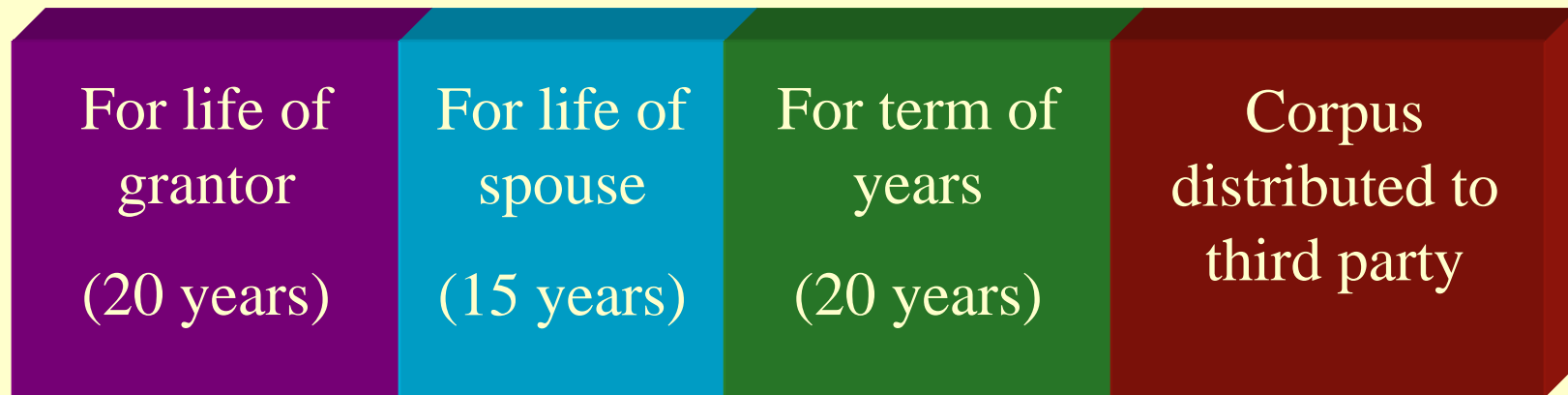
- ▶ May be terminated or changed by grantor
- ▶ Uses grantor's tax ID number
- ▶ No creditor/lawsuit protection to grantor
- ▶ Includable in grantor's estate
- ▶ No intrinsic tax advantages
- ▶ May incorporate testamentary trusts

Irrevocable Trusts Generally

- ▶ May NOT be terminated/changed by grantor*
- ▶ Uses separate tax ID number
- ▶ Creditor & lawsuit protection*
- ▶ NOT includable in grantor's estate*
- ▶ Possible significant tax advantages
- ▶ Effective at “splitting an interest”

Splitting an Interest

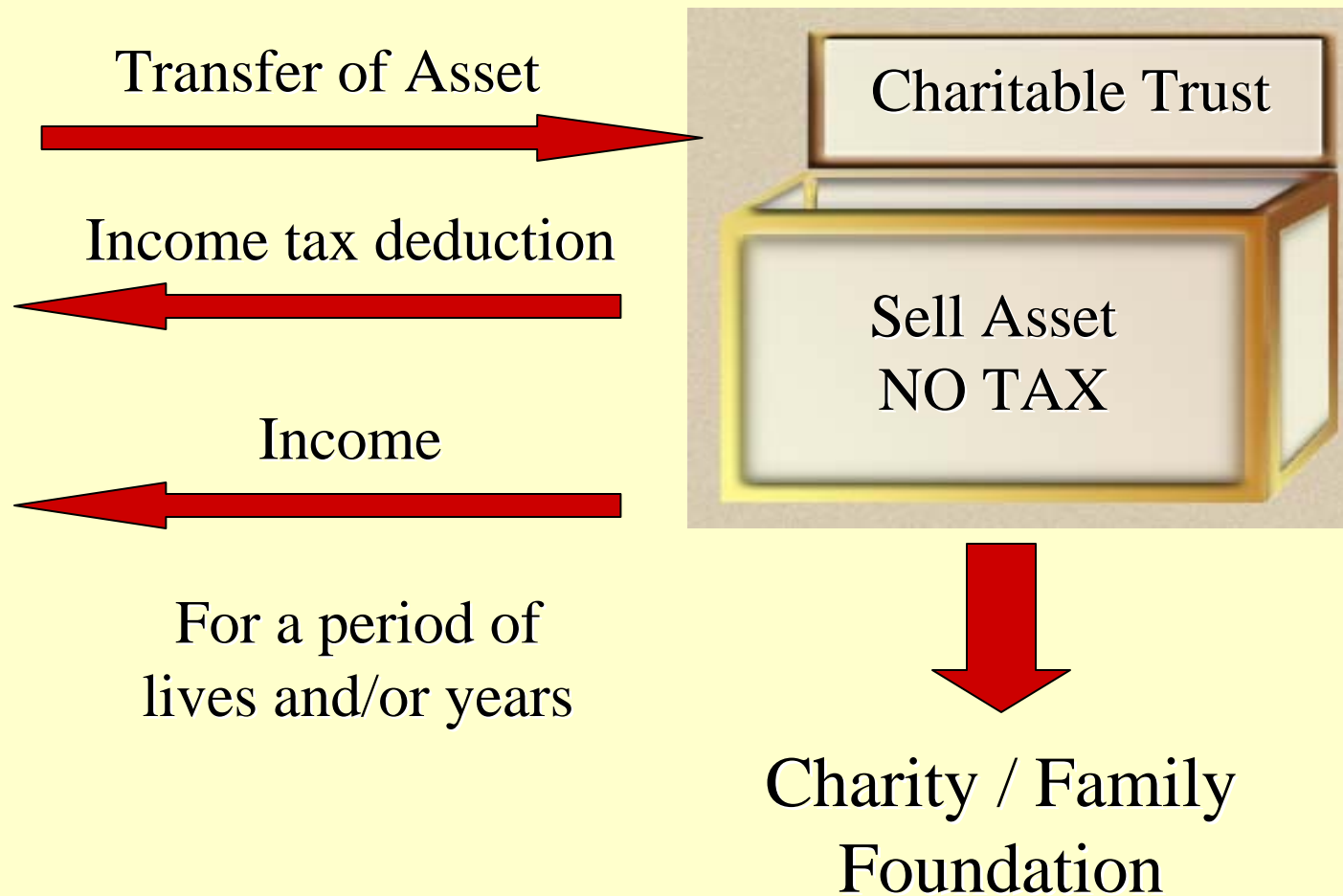
- ▶ Corpus (Trust Assets) are invested for the benefit of the current income beneficiary specified for the period as per the trust documents



- ▶ Trustee is responsible for making things happen: choose trustees wisely (name a corporate backup)

The Basic CRT Concept

→ Removed from Estate for tax Purposes



Charitable Remainder Trust

IRC § 664(d)(2) et seq.

- ▶ Tax-Exempt Irrevocable Trust
- ▶ Can be for live(s) and/or 20 year term
- ▶ Income must be between 5% & 50%
- ▶ Must pass 10% remainder test
- ▶ Two basic types of CRT's:
CRATS & CRUTS

CRATS v. CRUTS

Annuity Trust

- 1. Fixed annuity payout based on initial value**
- 2. No risk of a decrease in payments, but no chance of an increase**
- 3. No additional contributions**
- 4. Generally better for older income beneficiaries**

Uni Trust

- 1. Fixed percentage of trust value as figured on Jan 1 each year**
- 2. 5-8% payout generally best**
- 3. Generally better for 20 year term or younger beneficiaries**
- 4. Three other variations of the CRUT**

Case Study

Bob and Mary Clark

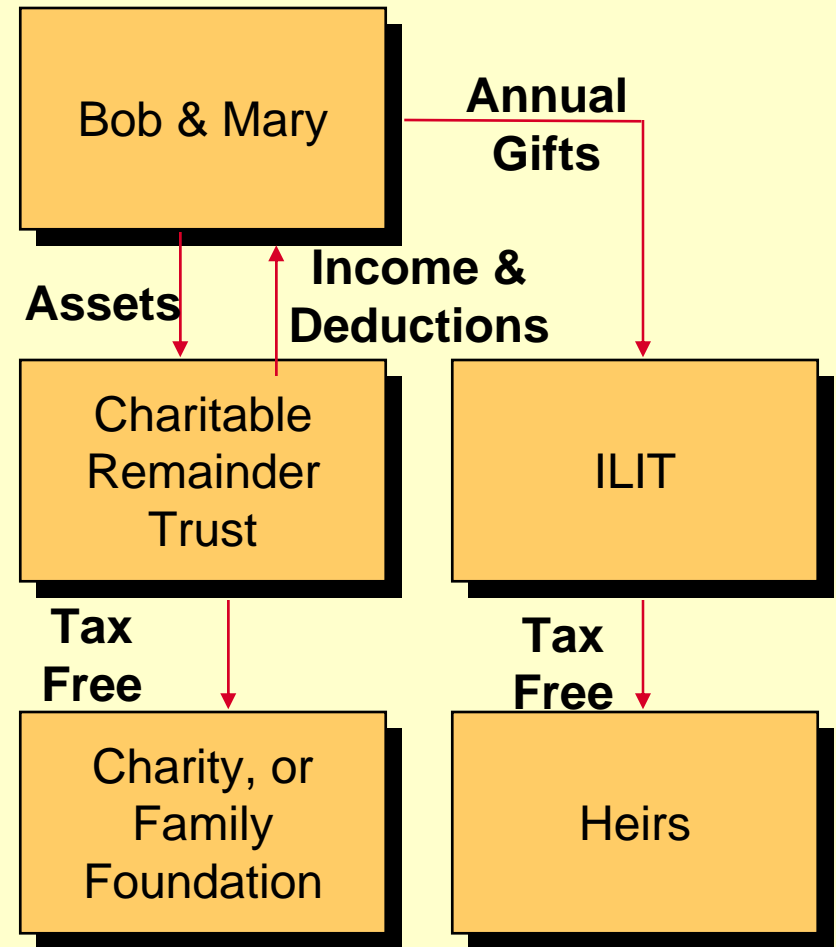
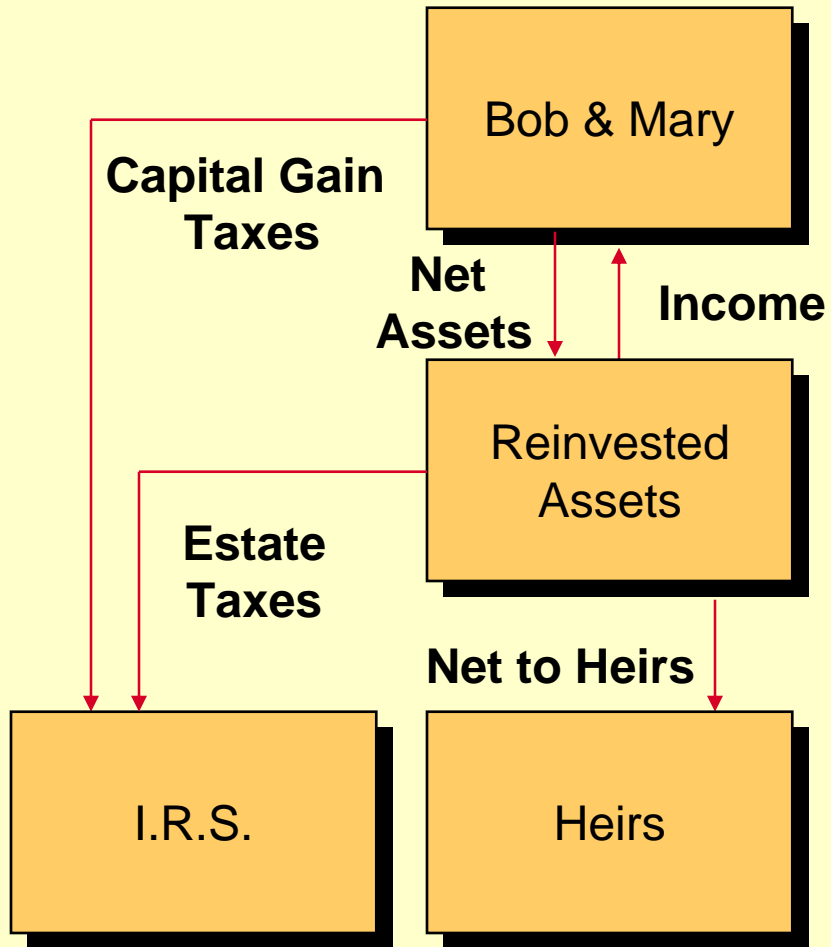
Bob & Mary Clark

- Bob is 68, Mary is 65
- Total Net Worth = \$5 Million
- Own Stock worth \$1,000,000
- Stock Pays 2% Dividend
- Cost Basis in Stock is \$100,000
- Need to Diversify, Increase Income
- They have Two Children
- Have a Traditional Estate Plan

Estate and Gift Tax Rates (2001 Tax Act)

Year	Top Estate and Gift Tax Rates	Estate Tax Exemption Amount	Gift Tax Exemption Amount
2002	50%	\$1 million	\$1 million
2003	49%	\$1 million	\$1 million
2004	48%	\$1.5 million	\$1 million
2005	47%	\$1.5 million	\$1 million
2006	46%	\$2 million	\$1 million
2007	45%	\$2 million	\$1 million
2008	45%	\$2 million	\$1 million
2009	45%	\$3.5 million	\$1 million
2010	<u>Gift tax only</u> – top individual rate under table (35% currently)	Not applicable – estate tax repealed	\$1 million
2011	55%	\$1 million	\$1 million

Outright Sale vs. CRT / ILIT



The Power of the CRT: Keeping More Capital at Work

	<u>Outright Sale</u>	<u>CRT & ILIT</u>
Current Value of Asset	\$1,000,000	\$1,000,000
Cost Basis in Asset	\$ 100,000	\$ 100,000
Capital Gain on Sale	\$ 900,000	\$ 900,000
Capital Gain Tax on Sale (21%)	\$ 189,000	\$ 0
Capital to Reinvest	\$ 811,000	\$1,000,000

More Capital = More Cash Flow

	<u>Outright Sale</u>	<u>CRT & ILIT</u>
Capital to Reinvest	\$ 811,000	\$1,000,000
Gross Income (7% Total Return, 8% Payout Rate)	\$ 64,880	\$ 80,000
Net Income (less 30% Taxes)	\$ 45,416	\$ 56,000
Lifetime Net Income (26 years)	\$1,180,816	\$1,456,000
Tax Savings from Deduction (21.735% Deduction * 30% bracket = Savings)	\$ 0	\$ 65,205
Cost of Wealth Replacement (ILIT) (\$25K x 12 years ~ \$1MM 2nd to Die)	\$ 0	\$ 300,000
Lifetime Spendable Cash Flow	\$1,180,816	\$1,221,205

(Note: Both plans significantly increase cash flow over current level.)

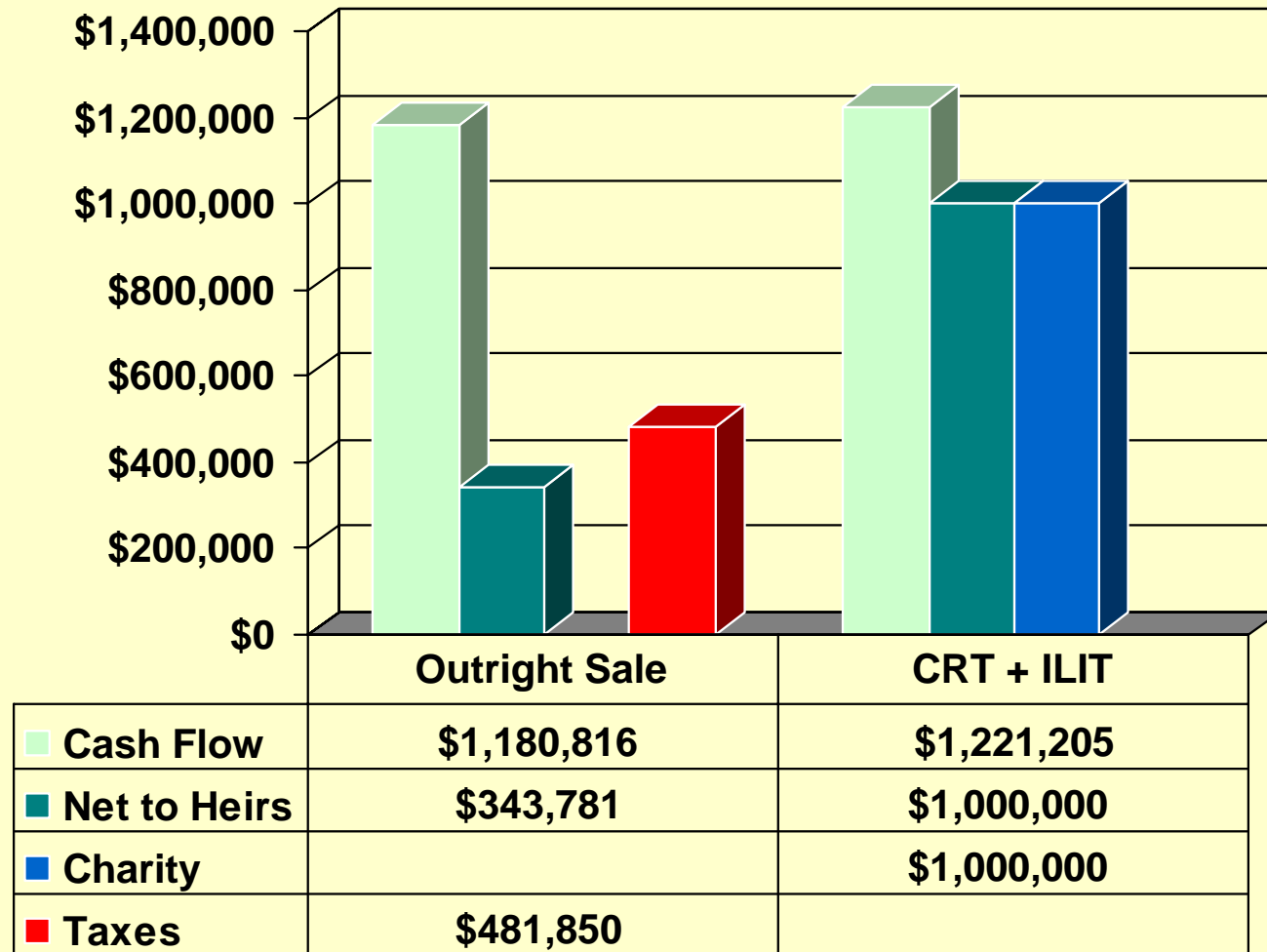
More Benefit to Heirs

	<u>Outright Sale</u>	<u>CRT & ILIT</u>
Value in Gross Estate	\$ 636,632	\$ 0
Value in Taxable Estate	\$ 636,632	\$ 0
Estate Tax (Assume 46%)	\$ 292,850	\$ 0
Proceeds from ILIT	\$ 0	\$1,000,000
Net Benefit to Heirs	\$ 343,781	\$1,000,000

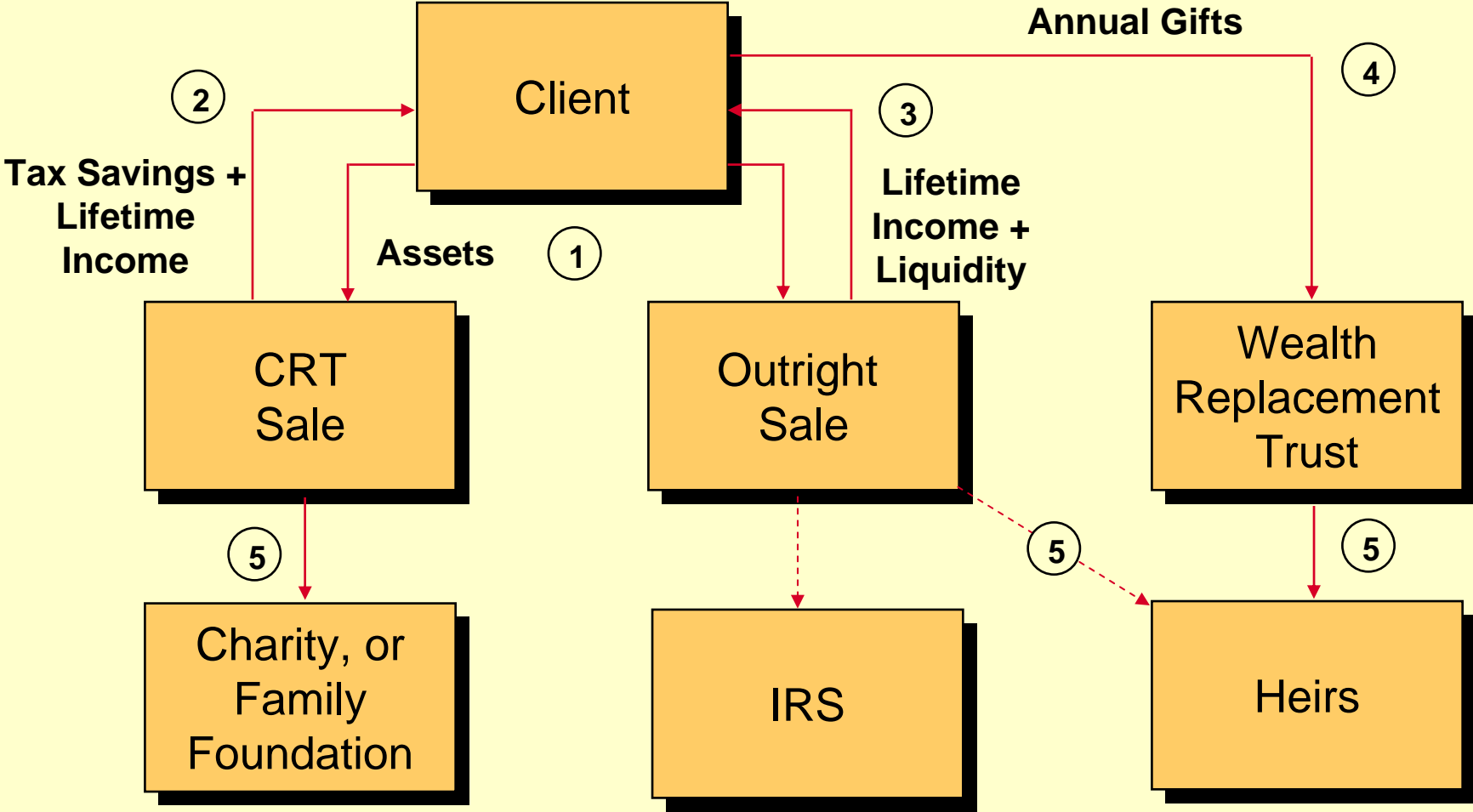
More Benefit to Society

	<u>Outright Sale</u>	<u>CRT & ILIT</u>
Capital Gain Taxes	\$189,000	\$ 0
Estate Taxes	\$292,850	\$ 0
Capital Gain + Estate Tax	\$481,850	\$ 0
Charitable Gifts (Remainder)	\$ 0	\$ 770,044
Total Benefit to Society	\$481,850	\$ 770,044

Outright Sale vs. CRT + ILIT



Split Sale with Wealth Replacement



Two Generation CRT Case Study

Mildred - Age 80
Estate Value = \$3 Million
Includes \$1 Million Stock
(Near \$0 basis, low dividend)
Daughter Louise - Age 60



Immediate Concerns & Objectives:

Increase Mildred's Income & Diversify

Additional Concerns & Objectives:

*Reduce Estate Taxes, Louise's Future Needs
and her Ability to Manage Resources*

What's the Catch?

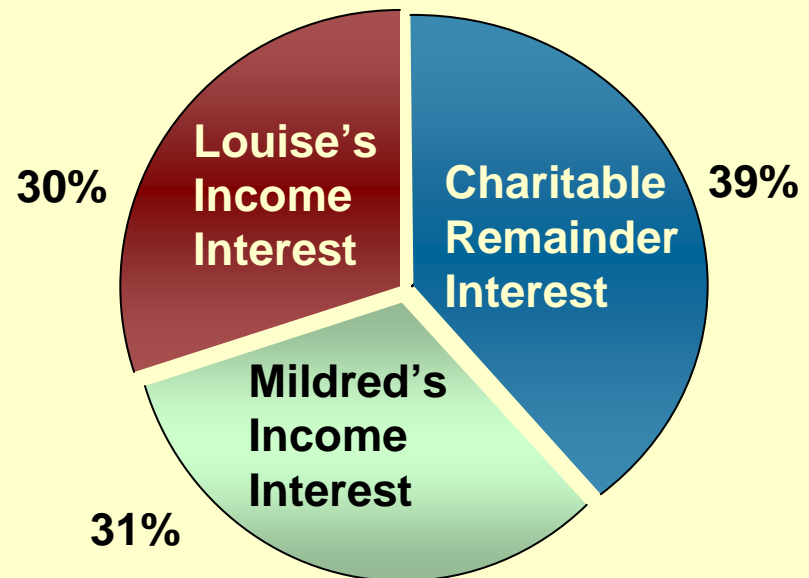
Two Generation CRTs have the potential to create tremendous benefits to family and society, but there are complex tax issues that must be analyzed in detail:

- **Income Tax Issues**
- **Gift Tax Issues**
- **Estate Tax Issues**

Income Tax & Gift Tax Analysis

- Calculate the Present Value of Louise's Income Interest & Charity's Interest
 - ✓ Calculate Remainder Interest with both Mildred and Louise as Income Beneficiaries
 - ✓ Louise's Income interest is the fraction remaining after Mildred's & Charity's Interests

5% Unitrust
Two Life - Age 80 & 60
Remainder Interest = 39%
Mildred's Interest = 31%
 $100\% - 39\% - 31\% = 30\%$
Louise's Interest = 30%



Income Tax & Gift Tax Analysis

Total Trust Value
\$1,000,000

- Value of Remainder Interest	\$ 390,000 ¹
- Value of Mildred's Interest	\$ 310,000
<hr/>	
= Value of Louise's Interest	\$ 300,000 ²

¹This is Mildred's Income Tax and Gift Tax Charitable Deduction.

²This would be a Current Taxable Gift to Louise, if Mildred did not retain the right to revoke Louise's income interest.

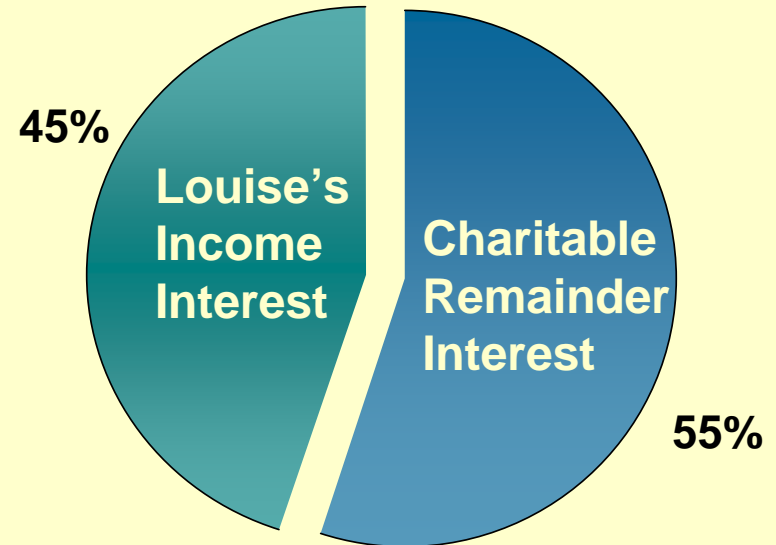
Projected CRT Value in Estate

- Initial CRT Value = \$1,000,000
- Earnings Assumption = 8%
- Payout Assumption = 5%
- Net Growth Assumption = 3%
- Mildred's Life Expectancy = 10 yrs.
- Projected Value (FV) = \$1,344,000

at Mildred's Life Expectancy (rounded)

Estate Analysis

5% Unitrust
One Life - Attained Age 70
Remainder Interest = 55%
100% - 55% = 45%
Louise's Interest = 45%

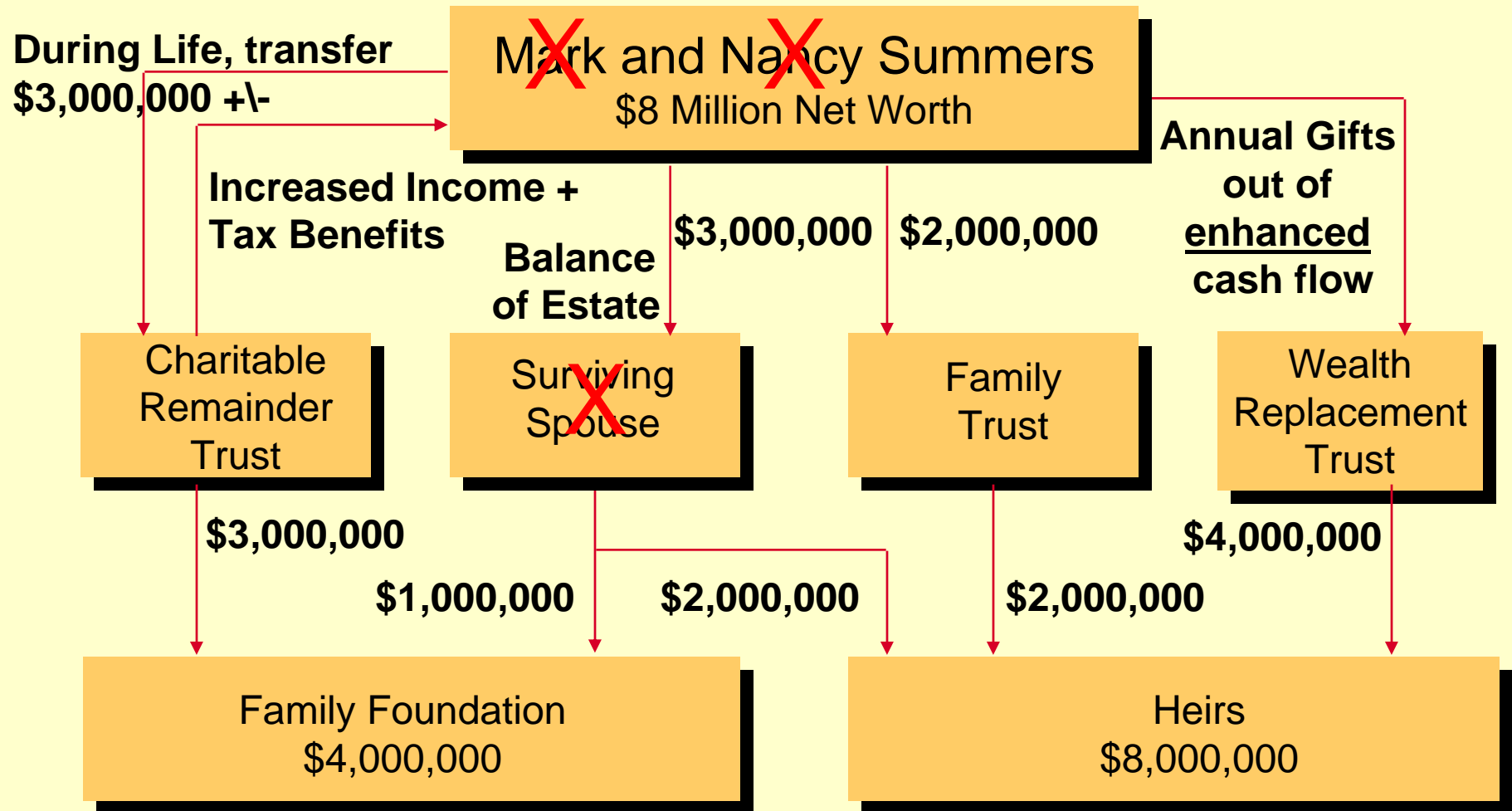


Projected CRT Value at Mildred's = \$1,344,000
Life Expectancy
Estate Tax Charitable Deduction (55%) = \$ 739,200
Louise's Income Interest (45%) = \$ 604,800
<<<Taxable Estate Transfer>>>

Case Study

Mark & Nancy Summers

Zero Tax Estate Plan



The Summers Family Controls \$12,000,000

NOW, WITH THIS ONE-LIFE UNITRUST ILLUSTRATION, WE HAVE A 7% PAY-OUT RATE, NET INCOME WITH MAKE-UP PRIVILEGES OR WE COULD INCREASE IT TO 8% BUT THAT WOULD LOWER YOUR CHARITABLE TAX DEDUCTION AND REDUCE THE POTENTIAL FOR THE GROWTH OF TRUST PRINCIPAL...

WOULD YOU LIKE SOME COOKIES WITH YOUR TEA?



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