# CHARITABLE GIVING

Converting an Asset to an Income Stream with a CRT

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## CONVERTING AN ASSET TO AN INCOME STREAM WITH A CRT

## SUMMARY

Investors sometimes find themselves "locked in" to investments they would rather sell. They hold low-yielding, highly appreciated property—such as real estate, marketable securities, etc.—but they balk at selling these assets because of the capital gains tax liability that would result.

A charitable remainder trust (CRT) can be a solution that will help investors escape taxes, generate retirement income and meet personal philanthropic goals.

### WHAT'S A CHARITABLE REMAINDER TRUST?

A CRT is a "split-interest" gift in which the trust pays an income to the donor (or someone chosen by the donor) for a number of years, then distributes the remainder of the trust assets to a designated charity. The income payout from the CRT may last for up to 20 years or for the lifetime of the named non-charitable beneficiaries. The trust must make income payouts at least annually, and when the trust term expires, the named charity receives the remaining assets.

### WHAT ARE THE ADVANTAGES?

By transferring an appreciated asset to a CRT, a donor can convert an under-performing asset into an income stream. The typical result is:

- A dramatic increase in the donor's income
- Deferral of capital gains taxes on both the transfer and the subsequent sale of the property by the CRT
- An immediate federal income tax charitable deduction for donors who itemize
- The personal satisfaction that comes from making a significant contribution to charity

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## THE TAX PICTURE: SUMMING UP

Normally, selling appreciated assets results in capital gains tax liability on the excess of the selling price over the seller's basis. The top federal tax rate on realized capital gains ranges from a top rate of 20% for most capital assets held for more than one year, to 25% on certain depreciable real estate, to 28% for collectibles held more than a year, to 37% for assets held for one year or less. Plus, higher-income taxpayers pay a 3.8% surtax on all net investment income, and that includes capital gains.

By contrast, appreciated property transferred to a CRT is not subject to capital gains tax when the donor transfers property to the trust, nor when the trustee sells the property. It is important to note that part of each annual income payout may be taxed as capital gain to the donor.

After a CRT sells the appreciated property without incurring capital gains tax, it can invest the proceeds. In addition, the donor may qualify for a federal income tax charitable deduction based on the present value of the charity's remainder interest.

The overall benefit directly related to the donor's initial gift of low-yielding appreciated property to a CRT can be substantial—steady income payouts from the CRT, tax savings and the personal satisfaction that comes with making a significant gift to charity.

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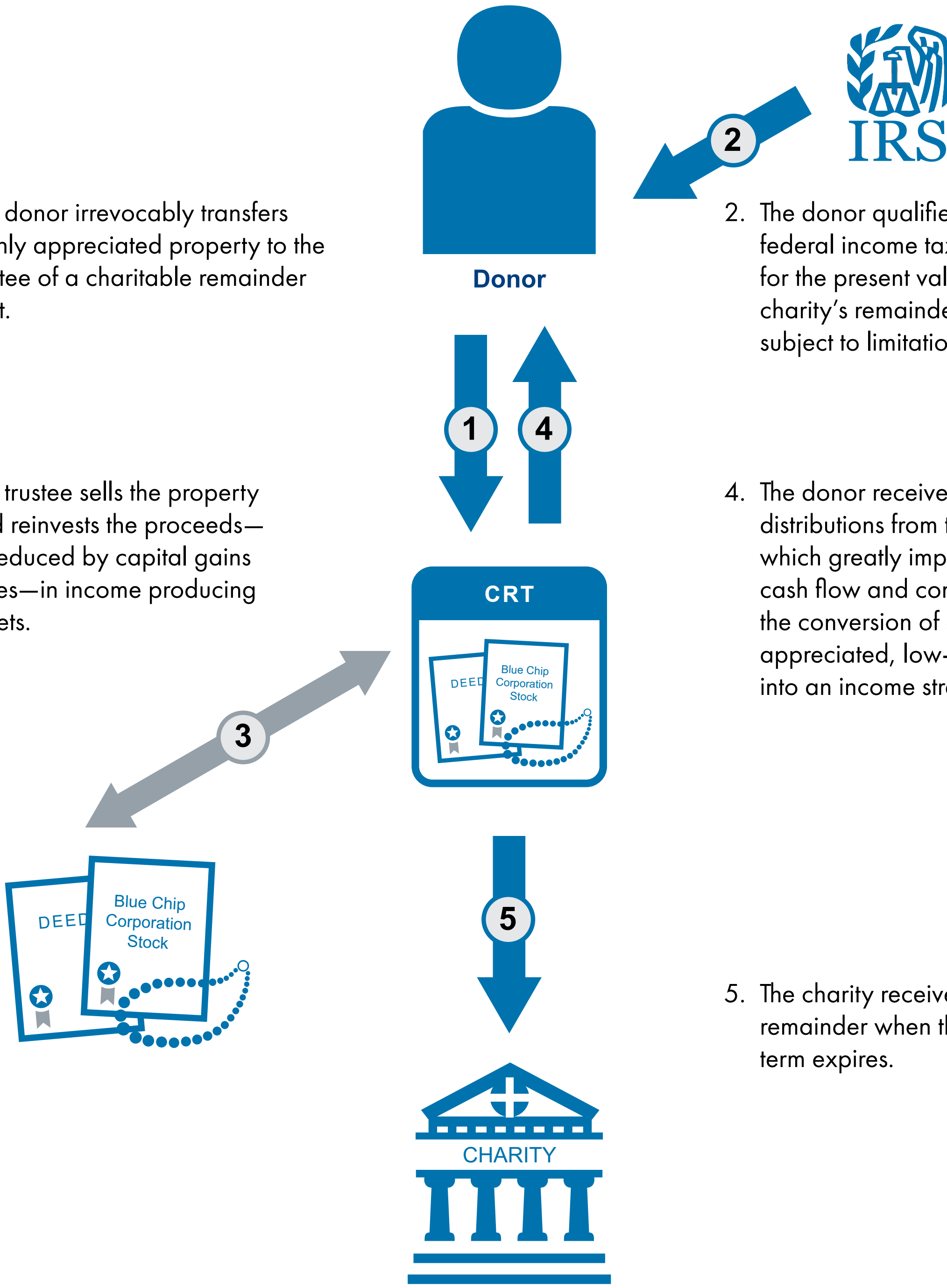


1. The donor irrevocably transfers highly appreciated property to the trustee of a charitable remainder trust.
2. The donor qualifies for a federal income tax deduction for the present value of the charity's remainder interest, subject to limitations.
3. The trustee sells the property and reinvests the proceeds—unreduced by capital gains taxes—in income producing assets.
4. The donor receives income distributions from the CRT, which greatly improve cash flow and complete the conversion of a highly appreciated, low-income asset into an income stream.
5. The charity receives the remainder when the trust term expires.