



CHARITABLE GIVING

Wealth Replacement Technique

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WEALTH REPLACEMENT TECHNIQUE

SUMMARY

WHY WEALTH REPLACEMENT?

Sometimes, philanthropically minded donors hesitate to make substantial charitable gifts out of a concern that gifts could compromise the financial security of their families. In cases like this, “wealth replacement” (also called capital replacement) creates an opportunity to satisfy the dual goals of providing for beneficiaries and supporting a favored charity.

HOW DOES THE ARRANGEMENT WORK?

The wealth replacement technique uses a charitable remainder trust, an irrevocable life insurance trust and a life insurance policy. The donor first sets up and transfers cash or property to a charitable remainder trust (CRT), which will pay the donor an income for life or for a term of up to 20 years.

The donor then sets up an irrevocable life insurance trust (ILIT) in which the donor has no interest or incidents of ownership. The donor uses each year’s income payments from the CRT to make annual gifts to the irrevocable life insurance trust. The ILIT then uses those funds to pay the annual premiums on the life insurance policy. When structured correctly, at the donor’s death, the charity receives a substantial gift of the remaining CRT assets, and the ILIT receives the life insurance proceeds and uses them as directed to benefit the donor’s heirs.

WHAT ARE THE BENEFITS?

From a tax standpoint, the donor qualifies for a federal income tax deduction for the present value of the charity’s remainder interest in the CRT. Additionally, the donor pays no capital gains tax upon the transfer of appreciated property to the CRT. Finally, if ownership is structured properly, the strategy removes both the donated property and the life insurance from the donor’s gross estate for federal estate tax purposes.

Donors using the wealth replacement technique typically find that the greatest benefit is the opportunity to make a substantial gift to a favorite charity without compromising a family’s financial security. The answer lies in using trusts and life insurance to replace assets donated to charity.



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