Case Study:

Charitable Remainder Trust (CRT)

Concept:

A CRT is a "split interest trust" that provides income for life (or for a term of years) to one or more income beneficiaries. After the term expires or the income beneficiaries pass away, the trust assets pass to one or more charitable beneficiaries. When one contributes cash or assets to a CRT, one is generally entitled to an income tax charitable deduction equal to the "present value of the remainder interest."

Client Profile:

Jim and Mary sold shares of the company they owned jointly with another partner. They faced a significant capital gain tax liability. Jim and Mary also wanted to reduce their potential estate liability.

Collaborative Design:

With their tax advisors and legal counsel, Jim and Mary established a CRT naming their favorite charities as charitable beneficiaries. The CRT was funded with low basis stock worth $2,000,000.

Result:

Jim and Mary received a $626,100 charitable income tax deduction from their gift of $2,000,000 to the CRT. Jim and Mary will receive annual trust income of 5% of the trust value for life (both lives), as Trust Income Beneficiaries. Jim and Mary also established an Irrevocable Life Insurance Trust (ILIT) as a "wealth replacement trust" for the benefit of their children. Upon their deaths, the CRT remainder assets will pass on to the charitable beneficiaries income and estate tax free. ILIT assets will pass on to their children income and estate tax free, "replacing" the assets Jim and Mary gifted to the CRT.