



Wealth Planning Report

The Power of Charitable Remainder Trusts

DO WELL BY DOING GOOD

A growing number of individuals and families want to use some of their wealth to support the causes and organizations they care about most. From helping those less fortunate to facilitating scientific breakthroughs, from promoting spiritual causes to sharing the arts, philanthropy is a core value for many.

Of course, it's important to engage in smart philanthropy by using certain tools and strategies that can help you have a much bigger charitable impact than you otherwise could—while simultaneously enhancing and maintaining your own financial flexibility.

In short, philanthropic planning can help you—as the old saying goes—“do well by doing good.”

With that in mind, here's a closer look at one philanthropic tool that many charitably minded people and families use: **charitable remainder trusts**. CRTs can be extremely useful and powerful wealth planning tools that allow you to have a major impact on a charity you value while also providing benefits like lower taxes and a regular income stream for retirement.

The ABCs of a CRT

Let's start with some CRT basics and benefits.

- **Income stream.** You place money or appreciated stocks or real estate in a CRT, which then provides an annual income stream. You can designate yourself or other people to receive that income. The income stream can last for your life or the lives of the people you designated. You could also have the income stream last for a term of up to 20 years.
- **Tax-deferred growth.** The assets in the CRT grow tax-deferred. You are taxed only on the income you receive from the CRT.
- **Charitable impact.** Once the term of years is up or the last beneficiary dies, the income stream stops and

the remaining assets in the trust go to one or more charities you selected.

- **Tax deduction.** When you create and fund the CRT, you get an income tax deduction—the size of which is based on the actuarial value of the remainder that the charity should receive.
- **Capital gains tax avoidance.** You can gift highly appreciated assets to a CRT and sell them without paying capital gains taxes. For example, say you have \$1 million worth of stock that you bought 20 years ago for \$200,000. You could sell that stock—and pay \$160,000 in capital gains taxes (assuming a 20 percent rate)—leaving you with \$840,000 for charity. Or you could gift shares to a CRT and pay no capital gains taxes at all—funding the trust with the full \$1 million.

TYPES OF CRTS

- **Charitable remainder annuity trusts.** With a CRAT, you or your designated recipient receive a fixed dollar amount from the trust every year. However, once the amount is set, it cannot be changed. Say, for example, you set the annual amount at \$15,000. That is all you can receive each year, even if assets in the CRAT grow at a high rate. Additionally, you cannot add assets to a CRAT once it's set up and funded.
- **Charitable remainder unitrusts.** With a CRUT, you (or the person you designate) receive a percentage of the current value of the assets in the CRUT. Example: You specify that you want to receive eight percent of the assets in the trust annually. Every year, the assets are reappraised and you get eight percent of that amount. Another difference: You can add more assets to the same CRUT.

You can use a wide variety of assets to fund a CRT. Some examples include:

- Cash, of course
- Stocks and bonds
- Real estate (unmortgaged)

CRAT VS. CRUT

Type	Income distributions	Additional contributions
Charitable remainder annuity trust (CRAT)	A fixed amount each year	Not allowed
Charitable remainder unitrust (CRUT)	A fixed percentage based on the assets in the trust, revalued annually	Allowed, if governing trust instrument permits and unitrust amount takes into account the additional contribution

- Many types of closely held stock (but not S corporations)
- Artwork and collectibles

Case study

To see the potential power of a CRT, consider this example of funding a CRT with appreciated stock:

An investor in her 40s purchased \$600,000 of stock in a new company. After a few years, those shares were worth \$1.8 million. If she cashed out, she would have to pay capital gains taxes of 23.8 percent on the \$1.2 million of appreciation—leaving her with a tax bill just shy of \$300,000.

Instead, she and her advisors set up a CRUT, which enables her to add more assets in the future. The CRUT will last the shorter of 20 years or her lifetime. She will receive 12 percent of the assets each year—or just over \$200,000 the first year. Over the course of 20 years, using assumptions

of a return of 8 percent annually, she will receive approximately \$2.9 million. She will receive a \$180,000 charitable deduction. And at the end of the 20-year term, the charity chosen will receive approximately \$700,000.

Two caveats

- 1. The right intention is crucial.** If you use a CRT, you must have a genuine charitable intent, and preferably a passion. The reason: A CRT is irrevocable—once you put assets in, you cannot get them back.
- 2. It's not a personal piggy bank.** At least 10 percent of the actuarial value of the CRT must go to charity. A CRT that does not meet the 10 percent remainder requirement is not a qualified trust and will lose its tax benefits.

Lastly, choose your charity wisely, to make a real impact. Generous giving that makes a true difference may be the best legacy of all.

This report is an executive summary of our e-book.
For a complete complimentary report, call or email.



Paul Byron Hill, MBA, MFP, MSFS, ChFC®, CFP® is an internationally recognized Certified Wealth Management Professional, Financial Educator and CEO, written about in *Fortune*, *Forbes*, and *Money*, among others. As co-Author of *Retire Abundantly*, Paul has been interviewed by James Malinchak, of ABC-TV's hit series, *Secret Millionaire*, and been interviewed by Dimensional Fund Advisors for their "Value of an Advisor" series. Reuters recognized Paul as one of 500 "Top Advisers," and featured him on their AdvicePoint website homepage.

Paul founded Professional Financial Strategies, Inc. in 1993 as one of the first independent financial and wealth planning advisory firms for affluent and aspiring families. Paul and his firm act as a personal chief financial officer for clients, bringing together a distinctive wealth management process and a network of experts that help families make smart decisions about money for investing wealth, mitigating excessive taxes, protecting assets from unjust loss, and making a real impact in passing a secure legacy to people they love and causes they care about that make a difference.

Paul earned pioneering designations as a Certified Financial Planner (CFP®), and ChFC® (Chartered Financial Consultant). A graduate with distinction from the University of Rochester, Paul earned an MBA in Finance from the Simon Business School. His professional education includes MFP (Master of Science in Financial Planning) and MSFS (Master of Science in Financial Services). Finally, Who's Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award.

Disclosure: Professional Financial Strategies, Inc. is an investment advisor registered with the Securities and Exchange Commission, and is an independent, fee-only firm. CFP® professionals are fiduciaries with a duty of loyalty and care, and licensed by the Certified Financial Planner Board of Standards. A printed copy of the Firm's current disclosure brochure discussing advisory services and fees is available upon request.

ACKNOWLEDGMENT: This article was published by Virtual Family Office Inner Circle, a global financial concierge group working with affluent individuals and families and distributed with permission. Copyright 2018 by AES Nation, LLC. This report is intended for educational purposes only and no discussion or information contained serves as the receipt of, or as a substitute for, personalized investment advice. Professional Financial is neither a law firm nor a certified public accounting firm, and so no portion of this content should be construed as legal or accounting advice. Paul Byron Hill and Professional Financial are not affiliated with AES Nation, LLC. Any awards and honors referenced above were independently granted on the basis of current professional and reference value such as position, noteworthy accomplishments, visibility, prominence, regulatory filings and/or education in the fields of finance and management.