

Tax-saving charitable trusts

When you structure a charitable gift properly, you can be generous to yourself as well: With a *charitable remainder trust*, you can receive regular income from your donation for as long as you live. At the same time you can realize significant tax savings. And your deferred gift to charity may actually *increase* your income for years to come.

When you place assets in a charitable remainder trust, you may retain the right to receive an income from the assets for life, or choose a period of not more than 20 years. When you die, or when the trust comes to an end, the trust “remainder” is distributed to the charity that you have named.

It’s also your choice whom to name to receive income from the trust. You may name your spouse and yourself as income beneficiary, or you may name one or more other people to receive the income from your gift. But understand that a charitable remainder trust is irrevocable. You may not revise or cancel your gift once you have set up the trust, and you cannot touch the assets once they’re in the trust, even in an emergency.

The tax savings

You can take an immediate income tax deduction in the year that you set up the trust, even though the charity won’t receive the gift for years to come. The amount that you can deduct generally ranges from 20% to 50% of the assets placed in the trust. A number of factors must be taken into account to determine the deduction. IRS provides the necessary tables.

When a charitable trust is funded with assets, such as securities, that have grown in value over the years, there is a potential for avoiding capital gains tax when you place these assets in trust.

By donating such assets, you avoid the capital gains tax that you would have paid had you sold them and reinvested the proceeds yourself. Because you have designated a charity as remainder beneficiary, the trustee can sell the assets and reinvest without paying tax. Result: The immediate charitable deduction and elimination of capital gains tax often greatly improves your income. Special tax rules apply when you make gifts of appreciated property. Consult your tax adviser for details.

Unitrust or annuity trust?

Charitable remainder trusts come in two formats.

An *annuity trust* is a good choice if you are looking for a reliable income stream. Your income is calculated as a fixed-dollar amount, equal to 5% or more of the initial assets placed in the trust.

The great advantage of an annuity trust is the certainty of receiving the same income every year. Once the amount is set, however, it cannot be changed. The potential drawback is that inflation can erode the real value of your income payments.

With a *unitrust* you gain the potential for income growth that can help keep pace with inflation. You receive a fixed percentage (again, at least 5%) of the unitrust's market value each year. Unlike an annuity trust, a unitrust need not be funded all at once. You can make additions every year if you wish.

The downside of a unitrust is that the trust's value can dip from time to time, reducing the amount of income that you receive. Also, your charitable deduction will be lower than for an annuity trust.

Then, too, there are estate and gift tax savings that accompany charitable remainder trusts. Like direct bequests by a will, a deferred charitable gift is deductible for federal estate tax purposes at the donor's death.

Savings in federal gift tax are possible when you name someone else, say, a brother or sister, to receive the income from the trust. Your taxable gift is limited to the value of the trust's income interest. There is no gift tax on the charity's remainder interest.

This discussion is by no means complete. If you would like to explore the many possibilities of giving with charitable remainder trusts, please contact us.

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Any developments occurring after January 1, 2008, are not reflected in this article.