Charitable Remainder Trust

With the ever-changing landscape of taxes, it is growing increasingly difficult to understand how legislation affects clients and could possibly impact their financial future. As a leader in the financial services industry for the past 30 years, we get it. That's why HD Vest Financial Services® is constantly seeking ways to share the latest knowledge we acquire with you. We've created the Taxes & Investments: Timely and Timeless Strategies Series to share timely information and provide our Advisors and their clients with practical information and ideas they can build on.

A Charitable Remainder Trust (CRT) is an irrevocable trust that allows charitably inclined individuals to receive a potential income stream for a period of years on assets that will ultimately be left to the charity of their choice all the while enjoying an immediate, partial tax deduction.

How it Works[1]:

A CRT is established by creating a trust and transferring property, typically highly appreciated assets, that is ultimately intended to go to charity. When the trust is established, it is structured with a donor or a named individual who will receive income payments and a named charity as the remainder beneficiary. The chosen charity serves as the trustee of the trust and manages the assets in order to produce income.

The CRT specifies if the income beneficiary will receive either a fixed amount each year or a percentage of the value of the trust each year (minimum of 5%, maximum of 50%). The CRT also specifies if the income beneficiary will receive said amount for a period of years (possibly extending for the individual's life) or for a period not to exceed 20 years. At the end of the term the remaining assets go to the charity.

Tax Advantages[1]:

One major tax benefit of a CRT is an immediate deduction against ordinary income tax. This deduction is not necessarily the entire amount transferred. This deduction is limited to the present value of the ending balance of the trust's assets designated for the charity. For example, if an individual were to transfer $100,000 to a CRT and expects to receive back a total of $20,000 of income over the chosen term, the amount of the gift (present value of the ending balance) would be $80,000. Any deduction that cannot be taken in the first year is available for five additional years after the initial year of the transfer.

Another tax advantage is that a CRT may eliminate capital gains tax for gifts of long-term appreciated securities. When the appreciated assets are gifted to the charity, the donor receives the deduction for the gift at the appreciate value but does not have to pay the capital gains tax to sell the security.

Finally, when the trust property eventually goes to the charity outright (at your death or the end of the specified payment period), it's no longer a part of the donor's estate, thus it is not subject to federal estate tax.

Considerations[1]:

A CRT is irrevocable. This means that once the assets are placed in the trust they cannot be removed.

A charitable remainder trust is a very effective tool to receive a current income stream, an immediate tax deduction, and leave the remainder to a specified charity. It is important to discuss this opportunity with your HD Vest Advisor to ensure that it is appropriate for your goals and overall financial plan. A CRT is a complex financial services tool that requires the expertise of a variety of professionals to establish correctly.

Source:
[1]IRS code section 664- http://www.irs.gov/instructions/i5227/ch02.html

If you are not currently an HD Vest Advisor but are interested in learning more about partnering with us to offer financial services, contact a Business Development consultant at (800) 742-7950.