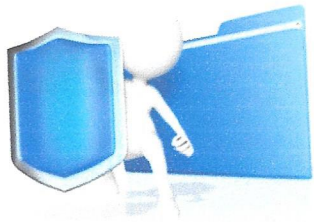


Charitable Remainder Trusts

Protect the value of appreciated assets



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Morgan Stanley

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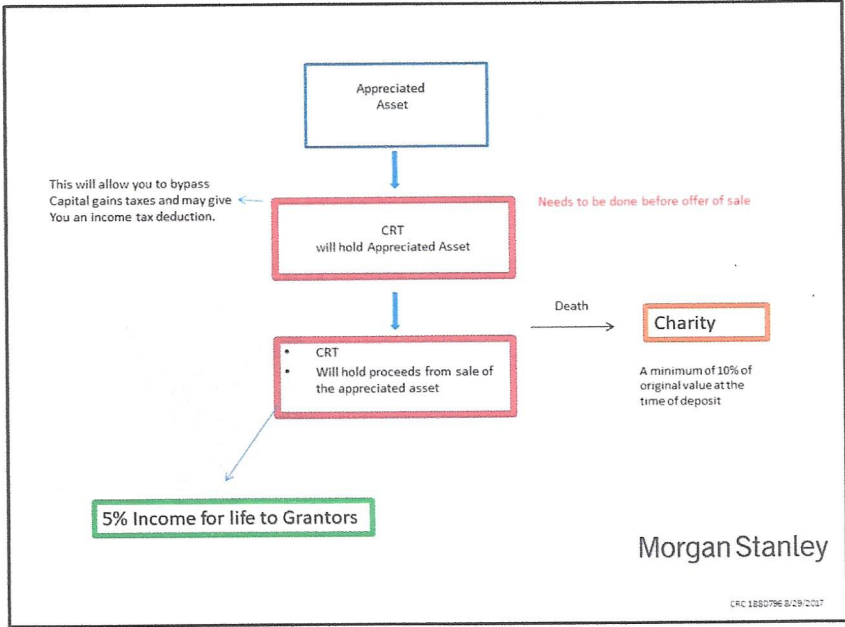
Charitable Remainder Trust

- Bypass Taxes
- Increase Income
- Charitable Gift



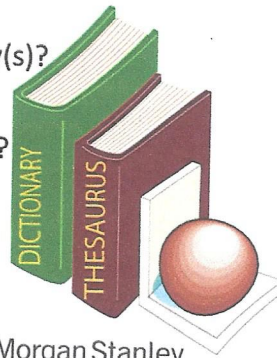
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Definitions

- What can go in the trust?
- Who can be the income beneficiary(s)?
- How do you determine the income?
- Who can be the charity?



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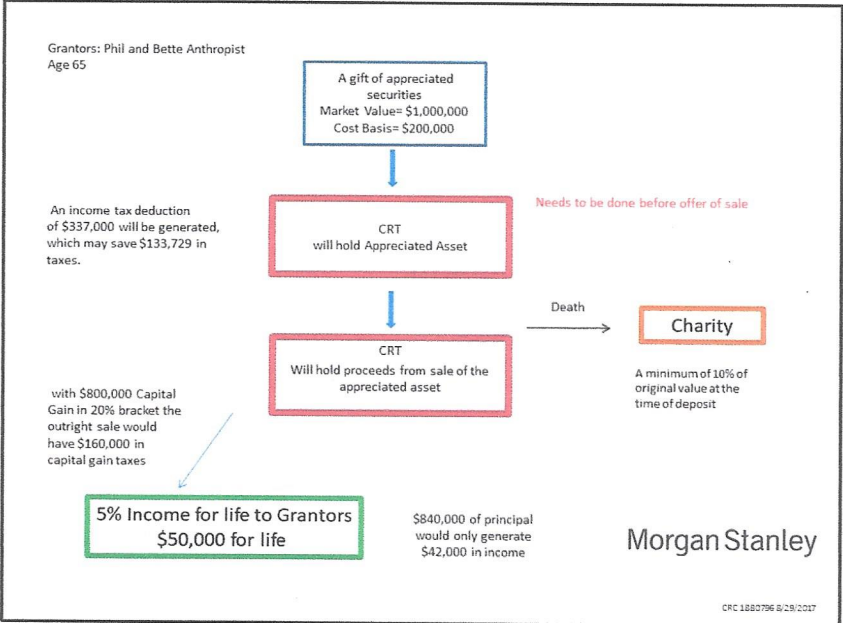
Beneficiaries

- At the time of gift, at least 10% must be left to charity
- Public or private charity
- Donor Advised Fund
- Family members – parents, siblings, spouse



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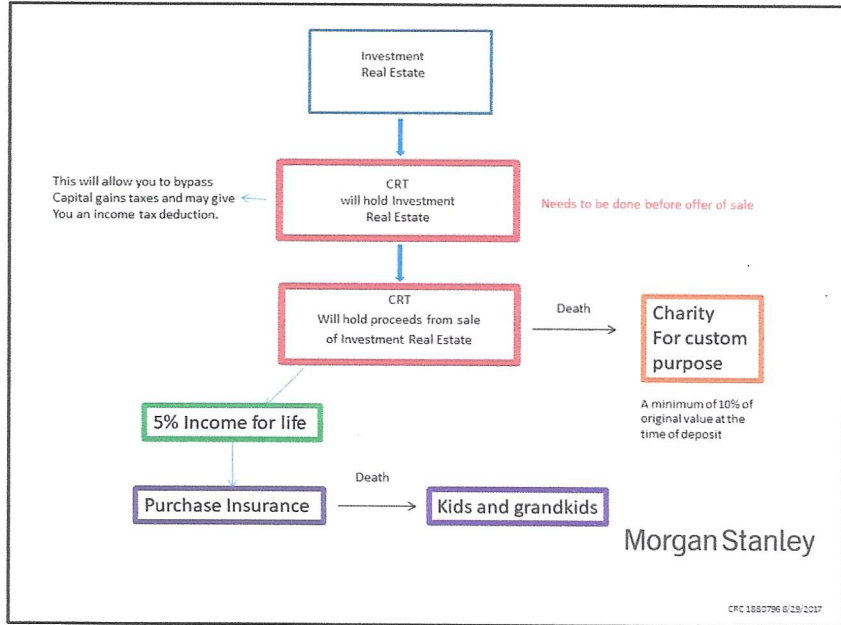
What if:

- I'm not that charitable and want the asset to go to my kids
- I need some cash out of the sale
- It may take some time to sell the appreciated asset



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Grantors:
Jim and Sandy Martinez
Both Age 65

Investment Real Estate
 Cost Basis: 400,000
 Market Value: 800,000

This will allow you to bypass Capital gains taxes and may give You an income tax deduction.
 Charitable Deduction: \$335,984
 Income Tax Savings: \$158,011

Based on a 20% Capital Gains rate the outright sale would have owed taxes of \$143,000 (20% Fed, 12% CA and 3.8% net investment income).

Outright sale would only produced \$32,850 after the taxes are paid.

CRT
 will hold Investment Real Estate

Needs to be done before offer of sale

- CRT
- Will hold proceeds from sale of Investment Real Estate
- \$800,000

Death →

Charity
 For custom purpose

5% Income for life
 \$49,111

Total Before Tax benefit \$1,031,333

A minimum of 10% of original value at the time of deposit. Gift to Charity \$1,212,533

Purchase Insurance

Death →

Kids and grandkids

\$800,000 from Insurance Policy

Second to die policy, \$9,000 per year premium

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Distributing the Income



- Must be between 5 and 50%
- Five payout formats:
 - **Annuity** – same amount regardless of value of trust assets
 - **Standard** – fixed % of annual value of trust assets
 - **Net Income** – pays lesser of full fixed % or actual income

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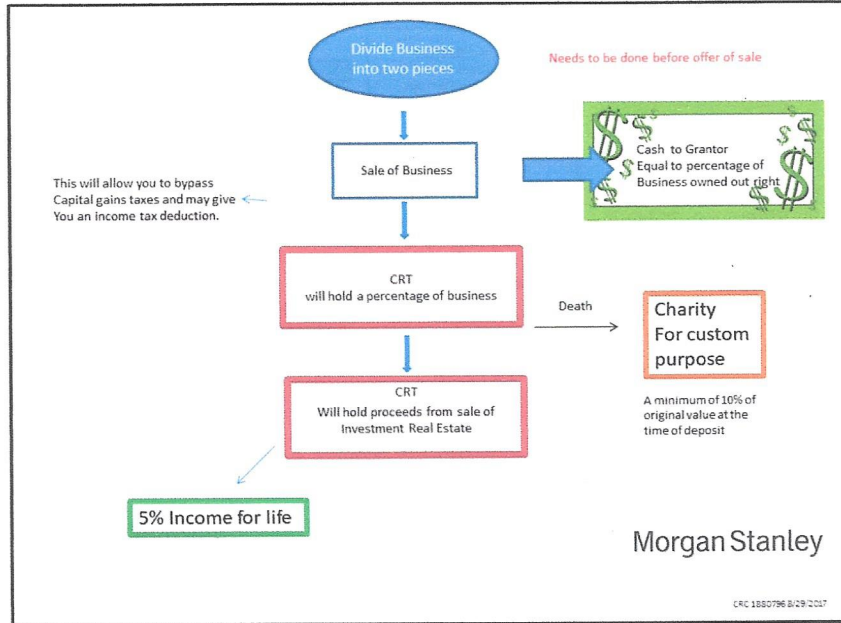
Distributing the Income (cont.)

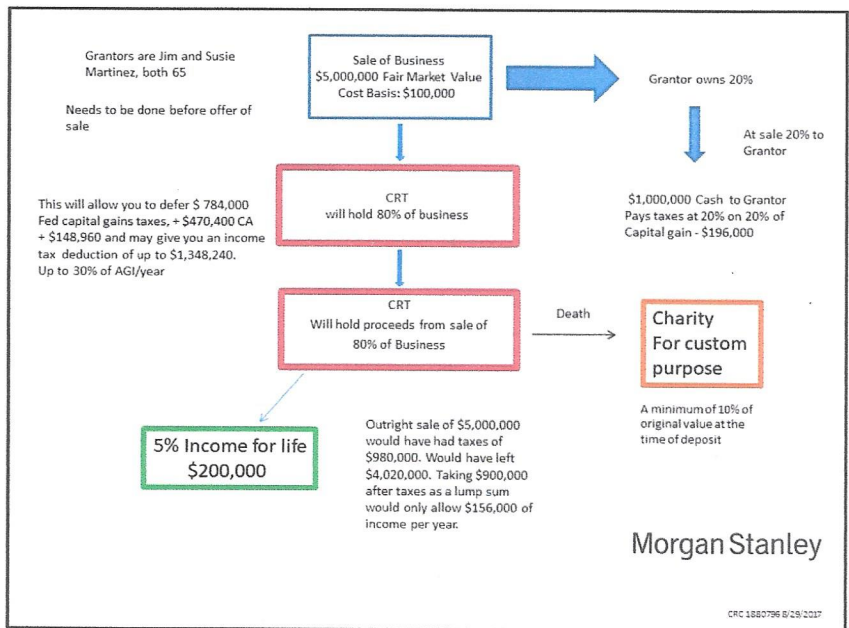
- **Net Income with Make-Up** – to the extent income exceeds the amount required, the trust can distribute excess income to make up for prior years deficiencies
- **Flip** – it begins life as a Net Income or NIMCRUT and converts to a standard trust in the year following a “triggering” event, i.e. sale of asset



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Taxation of Distributions

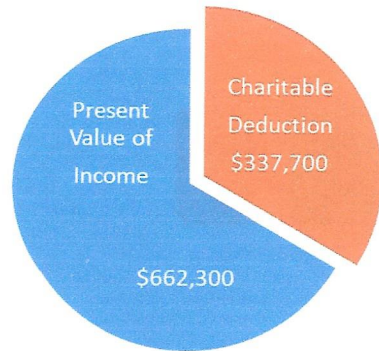


Four Tier System of Taxation

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How the deduction is Calculated



- Fair market value
- Measure Term of Trust
- Payout rate
- Income payment frequency
- Charitable Federal Midterm Rate

10% Rule - to qualify the present value of the charitable gift must be at least 10% of the fair market value.

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Claiming the Charitable Deduction

- Type of property given
- How it is given
- Type of charitable organization

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Claiming the Charitable Deduction

- Long Term Capital Gain Property
 - Up to 30% of AGI to a public charity
 - Up to 20% of AGI to a private non-operating charity
- Gifts of other than publically traded securities to private non-operating charity are limited to the **lesser** of cost basis or fair market value.

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Claiming the Charitable Deduction

- Cash
 - 50% of AGI to a public charity
 - 30% of AGI to a private non-operating charity
- Ordinary Income Property
 - 50% of AGI to a public charity
 - 30% of AGI to a private non-operation charity
- Carryover rule
 - You may carryover for up to five years

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Questions



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