For the Boys.

Charitable Remainder Trusts

Do you own any appreciated assets (like stocks, real estate or even valuable works or art) that pay little or nothing in the way of income? What if you could convert one or more of those assets into something that pays you up to five or even ten times more income every year without paying any capital gains tax AND help The Kiski School and other favorite charities at the same time? Too good to be true? Not at all! There is a time-honored way to do just that—it's called a Charitable Remainder Trust.

How it works

A Charitable Remainder Trust is a separately invested and managed charitable trust that makes income payments to you, and/or any beneficiaries you name, for life or a specific number of years. When the trust ends, the principal passes to The Kiski School to be used for the specific purpose or purposes you designate. You can choose the trustee of your remainder trust—for example, The Kiski School, a commercial bank or trust company, or a qualified financial advisor. When you transfer assets into the trust, your trustee typically sells them and reinvests the proceeds in a diversified portfolio. The minimum gift for a remainder trust is usually $100,000, but for those who can afford a gift of this size, the benefits can be enormous.

Benefits to you

1. *Pay no capital gains tax*
   Since a remainder trust is a charitable trust, you will owe no capital gains tax on any appreciated assets you transfer to the trust. The practical effect of this feature is to allow you to diversify your invested assets and increase your income without paying any capital gains tax. On a contribution of $100,000 to the trust, you could save as much as $20,000 in capital gains tax (the capital gains tax rate on assets you have held longer than one year is currently 20% if you are in the top 39.6% income tax bracket).
2. *Receive a charitable deduction*
   You will receive a charitable income tax deduction for a portion of your gift to the trust. The amount of your deduction will be based on the market value of your property on the date of transfer (it doesn't matter how much you originally paid for it) LESS the present value of the income stream that will be paid to you and/or your income beneficiaries over the expected term of the trust. The deduction can be as much as 50% or more of your gift to the trust.
3. *Multiply your income as much as ten-fold*
   Your income payments from a remainder trust are negotiable, but are usually between 5% (the minimum allowable by law) and 8%. If your assets were yielding 1% in dividends or interest before you gave them to the trust, a remainder trust could

increase your investment income as much as eight-fold. Not a bad result, especially when you consider all of the other advantages.

4. *Receive tax-advantaged income*
   Your income from a remainder trust is tax-advantaged. Depending on how your trust is invested, a portion of your income may be treated by IRS as tax-free income or capital gains income (taxable at 15%-20% depending on your tax bracket) for federal income tax purposes. By contrast, interest and dividend income is treated as ordinary income and taxed at your current bracket (currently, up to 37.0%).
5. *Lower your estate tax liability*
   Any assets you contribute to a remainder trust are removed from your estate, reducing your estate tax liability. If you have a taxable estate, this could matter.
6. *Name more than one charity*
   You can name multiple charities to receive the principal of your trust when it ends. Just assign each a percentage interest. This is a real advantage to those with multiple charitable interests.
7. *Enjoy maximum flexibility*
   You can contribute almost any kind of asset to your trust, including cash, stocks, bonds, closely-held stock, partnership interests, real estate, and, in some cases, valuable art or antiques. You can choose to receive variable income or fixed annuity income. You can add to your remainder trust (unitrusts only) whenever you like. You can even defer income to a time in the future when you need it most, such as retirement, and let your trust principal grow tax-free.

Basic types of CRTs

Unitrust

The Charitable Remainder Unitrust distributes a fixed percentage of the trust assets—re-valued annually—to income beneficiaries. This method results in variable income, depending on investment performance in the previous year. If your income beneficiaries have more than 10 to 15 years of life expectancy, you may prefer a unitrust because their income can grow if the assets grow over time. Also, you can make additional gifts to a unitrust.

Annuity Trust

The Charitable Remainder Annuity Trusts pays a fixed annuity income based on the initial value of the trust. Annuity trust payments do not change over time and are usually preferred by older income beneficiaries who prefer income security. No additional gifts are permitted, however.

Flip Unitrust

A specialized version of the unitrust, a flip Unitrust allows you to defer or limit income payments until a future event, such as your 65th birthday or the sale of an illiquid asset, such as real estate, at which time the trust "flips" and begins to pay a standard unitrust amount. Trust assets accumulate tax-free until the "flip" event, resulting in higher effective payouts.

Example

A married couple, ages 67 and 65 in the 39.6% federal income tax bracket, establishes a Charitable Remainder Unitrust with $100,000 of appreciated stock, originally purchased for $20,000. The unitrust pays them 5.0% of the trust assets re-valued annually for their joint lives. The trust earns 8.0% average total return over its life. An IRS discount rate of 2.4% is used to value the charitable deduction.

Trust principal	$100,000
Income tax deduction	$35,140
Income tax savings (39.6%)	$13,915
Cap. gains tax savings (20%)	$16,000
Income (Year 1)	$5,000
Projected after-tax benefit to payment recipients	$113,234
Projected benefit to Kiski	$203,279

WARNING: This example is for illustrative purposes only and is not intended as legal or tax advice. Consult your legal and tax advisors prior to making any material decisions based on this data.

Like to learn more?
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