Charitable Remainder Trust
Case Study

Family OFFICE SERVICES

How the Smiths reduced their income and estate taxes and increased funds to their heirs and favorite charities with a Charitable Remainder Trust

CASE STUDY ▲ SUPER CLAT

Thomas and Virginia Smith own a large block of low-basis stock. Now that the stock has grown to such an enormous value, Virginia is not comfortable having so much value tied up in one stock. Thomas, on the other hand, is hesitant to diversify because of the steep capital gains tax they would face if they sold the stock. They have considered giving some of the stock to charity, but they are afraid that they might need the income during their retirement years ahead.

Solutions

Their Wealth Adviser showed them how a Charitable Remainder Trust could address their income tax concerns while guaranteeing future income for retirement. Their plan (illustrated on the following page) also provides income for their favorite charities as well as a comfortable nest egg for their heirs, which will pass to them free of gift and estate taxes.

Results

As a result of implementing a Charitable Remainder Trust, the Smiths created a source of guaranteed income for their retirement while dramatically reducing their current income tax liability. They established a tax-advantaged fund for their favorite charities; created an inheritance for their children and grandchildren that will pass estate tax free; and fulfilled the following goals:

- Reduced federal estate taxes
- Funded favorite charities
- Generated an income tax deduction
- Protected assets from creditors
- Diversified their assets tax-free
- Maximized tax-free compounding
- Managed the timing of taxable income

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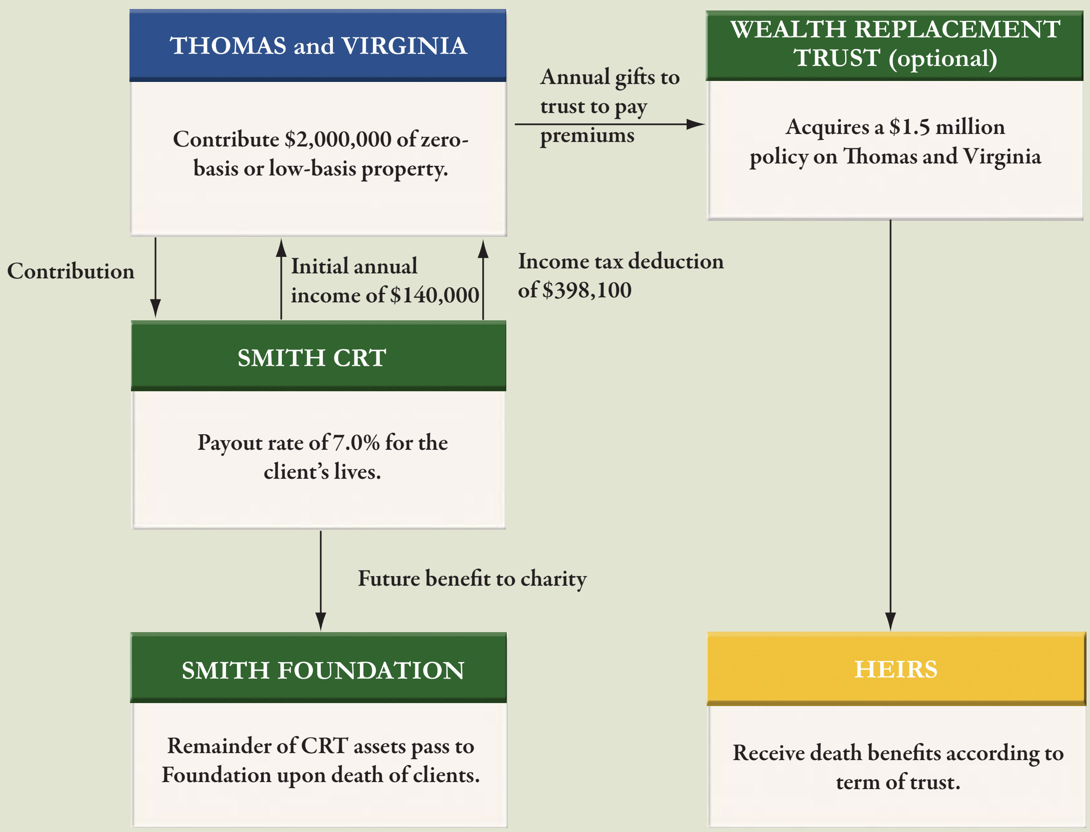
FLOW CHART ▲ BAR CHART

CHARITABLE REMAINDER TRUST

STRATEGY DIAGRAM



	Taxable Sale	CRT	CRT with WRT
Heirs	$ 1,638,842	$ 0	$ 1,500,000
Estate Tax	1,340,871	0	0
Spendable Income	1,810,112	2,110,112	1,810,112
Charity	0	2,971,894	2,971,894

DESIGN ▲ CONCEPTS

1 Thomas and Virginia contribute $2 million of highly appreciated marketable securities to a Charitable Remainder Trust.

2 For their contribution, the Smiths receive an income tax deduction of $398,100.

3 The Smiths receive an annual distribution of 7%, or $140,000 from the Trust.

4 The Smiths establish an Irrevocable Life Insurance Trust (ILIT) and instruct the trustee to purchase a $1.5 million policy on their lives.

5 The Smiths have sufficient cash flow from the CRT to make annual gifts to the ILIT to fund the policy.

6 Upon the death of Thomas and Virginia, the remaining trust corpus passes to the Smith Foundation.

7 At the same time, proceeds from the $1.5 million insurance policy pass estate-tax free to Thomas and Virginia's heirs.

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