



CHARITABLE REMAINDER TRUSTS

Your guide to one of the most powerful, flexible financial planning strategies available today



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WHAT IS A CHARITABLE REMAINDER TRUST?

A charitable remainder trust is a legal entity authorized by Congress that enables you to simultaneously make a charitable gift, realize a tax deduction and reduce taxable assets from your estate, while generating income for yourself, your family or anyone you choose. Additionally, charitable remainder trusts can last an entire lifetime or for a specified period.

This type of trust was created by Congress as part of the tax code in the late 1960s in order to encourage giving gifts to religious, educational and community organizations. Charitable remainder trusts offer numerous benefits and an extraordinary degree of flexibility, making them an ideal part of any financial plan.

This brochure describes what the various types of charitable remainder trusts are and how they may enhance your financial plan. Charitable remainder trusts are uniquely flexible and can be designed to reflect your circumstances and wishes in a highly customizable fashion. Of course, with any change in financial strategy, we recommend you consult with your financial advisor. He or she can help you identify whether a charitable remainder trust is right for you and, if so, assist you in selecting and creating the most appropriate trust for your needs.

DETERMINING WHETHER A CHARITABLE REMAINDER TRUST IS RIGHT FOR YOU

When trying to decide whether a charitable remainder trust would benefit you, it may be helpful to consider the following:

- You own an asset — such as stock or real estate — that you feel could be put to better use because
 - It produces little or no income
 - It takes too much time and effort to manage
 - It's too heavily weighted in your portfolio and you feel you'd benefit from greater diversification
- You're reluctant to sell this asset because
 - Its sale would create a substantial tax liability
 - It has sentimental value to you or your family
- This asset would be more beneficial if used to create
 - An ongoing stream of income for you or a designated beneficiary(ies)
 - Significant tax savings — now and in the future
 - An endowment for a preferred charity or foundation

Establishing a charitable remainder trust effectively addresses all these points, enabling you to:

- Potentially earn more income by diversifying your investment portfolio
- Protect your assets from creditors, to the extent that applicable laws allow
- Realize an income tax deduction based on the fair market value of your asset
- Avoid capital gains tax on your asset when it's sold by the trust
- Create federal estate and gift-tax savings for your heirs
- Establish an endowment for the charity or charities of your choice

Upon your death and/or the death of all other beneficiaries, the remaining assets in the trust go to the charity(ies) you specified. Charities may include churches, not-for-profit universities, hospitals and community foundations, or you can set up your own family foundation. In addition, you can reserve the right to change the named charities by last will and testament any time during your life.

THE TWO MOST POPULAR TYPES OF CHARITABLE REMAINDER TRUSTS

Charitable remainder unitrust

This trust pays a percentage of the trust's value every year as income to you or to others you name. You select the percentage when you create the trust. The amount of income must be at least 5% of the fair market value of trust assets, valued annually, and the charity's remainder interest must be at least 10% at the time of contribution. You may make as many contributions as you wish to this type of trust. Following the death of the beneficiaries, or at the conclusion of the term of years specified by you in the trust, the trust assets go to the charity(ies) or foundation(s) you named.

Charitable remainder annuity trust

This trust provides a set dollar amount each year to you and to those you specify. The annual payment must be 5% or more of the initial value of assets in the trust, and it continues for the life of all income recipients, or for a specific term up to 20 years. Then, the remainder goes to the charity(ies) or foundation(s) you named. Unlike the unitrust, charitable remainder annuity trusts allow only one contribution. Note that in order for the trust to qualify for favorable tax treatment, the charity's remainder interest must be at least 10% at the time assets are contributed.

BENEFITS OF A CHARITABLE REMAINDER TRUST

A properly designed trust can benefit you in a number of ways:

Increased income

By donating an asset that produces little or no income (land, low dividend stock, etc.) to the trust, and by having the trust sell that asset and purchase a portfolio of higher yielding assets, it's possible for you — as a beneficiary of the trust — to substantially increase your income. Some people use a portion of this additional income to pay for life insurance owned by a life insurance trust. The proceeds from that insurance pass tax-free to heirs, replacing the value of the assets contributed to the trust. The chart below illustrates how the trust generates these benefits.

Investment diversification

By contributing one large asset and having the trust purchase suitable investments, you can take advantage of one of the time-tested principles of successful investing: diversification. A diversified portfolio tends to lessen volatility and increase returns.

Protection from creditors

By contributing assets to an appropriately drafted trust, you can receive all of the benefits of a charitable remainder trust and protect your assets from creditor claims — now and in the future.

Creation of a personal or family legacy

As the creator of a charitable remainder trust, you can enjoy personal satisfaction and recognition for contributing to a worthy cause in your community, your house of worship or a favored college or university; and you can continue to benefit from lifetime income from the wealth you've amassed. Additionally, a charitable remainder trust can often be tied to testamentary family foundations, which your children or other family beneficiaries can manage for years to come.

Tax benefits

A charitable remainder trust can provide three key tax benefits:

- A personal income tax deduction. Contributions to organizations recognized in section 501(c)(3) of the Internal Revenue Code are usually tax-deductible, while contributions to most foreign charities are not. The amount of the tax deduction depends primarily on
 - The value of the trust asset
 - The amount of income or percentage of principal paid annually by the trust
 - The age(s) of those receiving trust-generated income
 - Discount rates set monthly by the IRS
- No immediate capital gains tax. You do not incur any income tax for assets contributed to, or consequently sold by, the trust. This is especially important if you have highly appreciated assets in your portfolio, such as stocks, bonds, mutual

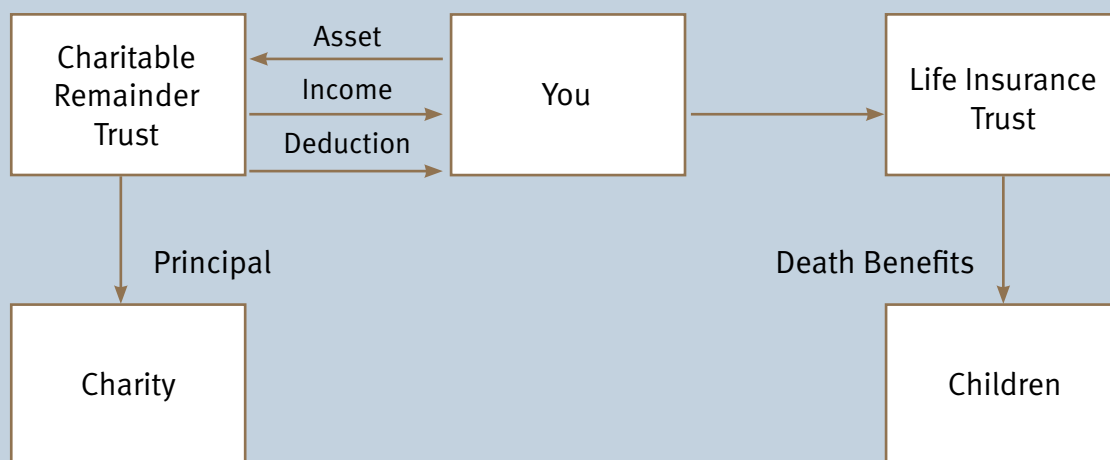


funds or real estate that was purchased or inherited years ago. In fact, you can usually take a tax deduction based on the asset's full market value. So not only do you avoid paying capital gains tax, but the amount of your tax deduction is equal to a percentage of what you paid for the asset along with its increased value.

- Federal estate and gift-tax savings. Assets in a charitable remainder trust are not subject to estate and gift taxation, which can be as high as 45%. Depending on the year in which the trust is established, the tax rate will vary and range from 45% to 55%.



HOW A CHARITABLE REMAINDER TRUST WORKS



UNDERSTANDING THE TAX ADVANTAGE

John Smith, age 59, owns non-dividend-paying stock, which he received from a trust upon the death of his mother. The stock is worth \$1,000,000, but has a tax cost basis of \$100,000. John and his wife, Mary, also age 59, are in the 35% federal tax bracket and wish to diversify their portfolio, increase their income and create tax deductions.

John donates the stock to a charitable remainder unitrust, choosing a 5% payout for himself and his wife combined. Based on their ages and the payout rate, John and Mary will receive a charitable income tax deduction of \$279,000, which will reduce their taxes by \$97,650 in the year they create the trust. Further, let's assume the trust sells the stock and invests the proceeds of \$1,000,000 in a high quality growth and income fund, earning a total return of 8%. John and Mary will receive a stream of income.

Alternatively, if John donates the stock to a charitable remainder unitrust with a 5% payout for his life only, they will collectively receive a tax deduction of \$389,030 thereby reducing their taxes by \$136,160 in the year they create the trust. The income and appreciation of trust principal would be the same. John could then use a portion of the income to purchase life insurance for Mary's benefit should he predecease her.

Note: This is an example only. Actual tax deductions will vary depending on the age of the donor(s), life expectancy(ies) and IRS discount rate, which is reset monthly.

ESTABLISHING A CHARITABLE REMAINDER TRUST

Perhaps you'd like to enrich the organizations that share your philosophical, social or religious beliefs. Maybe you'd like to create new programs to meet specific needs in your community. Or perhaps you'd like to enjoy the recognition, business advantages or personal satisfaction that can come from making a deferred gift during your lifetime. These and many other goals can be achieved with a charitable remainder trust.

If you'd like to enjoy the flexibility and benefits afforded by establishing a charitable remainder trust, start by determining its suitability based on your age, net worth and the level of income you expect in the years ahead. You should also factor in any financial goals you have in mind for your children or other beneficiaries. Consider to whom your gift will be directed and what form it will take — appreciated property, such as securities in your portfolio, or cash. Then select a trustee to administer your trust, someone who has specific experience and expertise in charitable trusts. And finally, inform yourself about the complexities of charitable contributions.

Trusts can be complicated, so it's important to utilize the services of a professional financial advisor. With the kind of experienced help your financial advisor can provide, you will be able to design a trust that continues to qualify legally, while meeting your personal and investment goals for years to come.

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