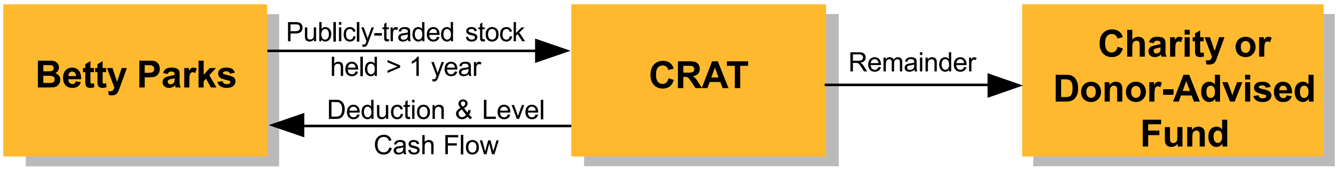
Case Strategy: *Using a CRAT to Increase Income*

PARKS



Betty Parks (77) was widowed 12 years ago, at which time her husband, Tom, left her a publicly-traded stock valued at $500,000. Although this stock is now valued at $2,000,000, it produces only $25,000 of dividend income annually and is not diversified. Betty needs another $40,000 of annual income that is dependable and regular. In addition, she wants to make annual gifts of $22,000 to her two children.

If Betty sells the portfolio, she will have to pay $289,000 in capital gain tax on the appreciation. However, if she contributes the stock to a CRAT, the trust, as a non-tax paying entity, can sell the stock without incurring a tax liability. The CRAT can then invest the entire proceeds from the sale of the stock in a diversified portfolio of stocks and bonds. In addition, Betty will receive an income tax deduction of $1,125,000 and a level cash flow of $120,000 (6% of the portfolio's initial value) for the rest of her life.

Betty's CRAT allows her to save a substantial amount in taxes, diversify her portfolio, take advantage of the ability to invest the entire proceeds from the sale of her stock, receive a substantially increased lifetime cash flow that is level and dependable and, as an added benefit, create a legacy by leaving money to charities or a donor-advised fund that will support causes that are meaningful to Betty.

Key Features of CRATs

- CRATs provide a <u>level</u> cash flow to the income beneficiary so it is well-suited for clients desiring a continuous, predictable cash flow.
- Although the trust document often lists a dollar amount, the payout rate must be between 5% and 50% of the initial FMV of the CRAT's initial funding.
- Unlike most other CRTs, CRATs can never accept additional contributions after the initial funding.
- CRATs must make a payment to the noncharitable beneficiary each year.

Income Tax Deduction	Before Tax Life-time Income	Charity	Capital Gain and Transfer Taxes
$1,125,000	$1,320,000	$2,666,000	$0
	$1,110,000*	$1,926,000*	

**Sum of the inflation-adjusted cash flows. Inflation assumed to be 3%.*

Assumptions:

Combined Federal and state income tax rate of 38.25%.
Combined Federal and state capital gain tax rate of 19.25%.
2% dividend yield and 6% capital appreciation. CRT payout rate = 6%.
AFR=5%. Deduction may be limited. Consult a tax advisor.

For more details about this strategy contact us at CharitableRemainderTrust.com or call 800-535-4720.

This example is hypothetical and for educational use only. The situations, tax rates or return numbers do not represent any actual clients or investments. There is no assurance that the rates depicted can or will be achieved. Actual results will vary. Please consult with legal and tax counsel about the suitability of this plan before proceeding.

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