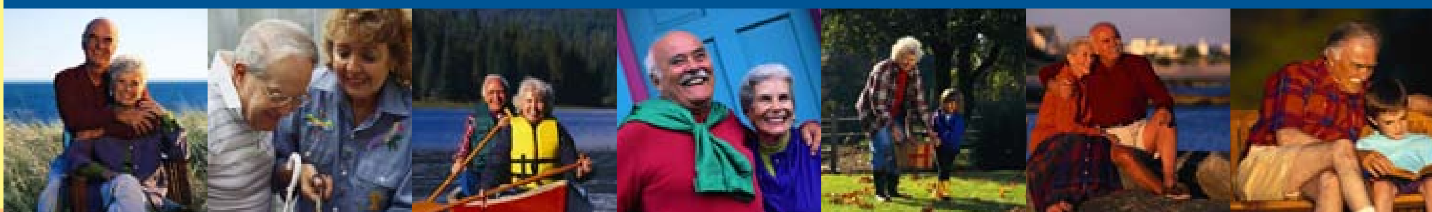
Charitable Remainder Trust
Planning Guide



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Legal Stuff

The information contained in this guide is for educational purposes only, it is not intended to be professional tax or legal advice; consult a tax advisor about your specific situation. We also reserve the right to refuse to generate a proposal or report for any situation we feel is not appropriate for a Charitable Remainder Trust.

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Tactical Wealth Advisors, LLP Securities and investment advisory services are located at 8226 Village Harbor Dr., Cornelius, NC 28031, phone number 800-535-4720.

Introduction

Well, the good news is you own a highly appreciated asset. Congratulations, things have gone well with your investment. The bad news is the taxes you are faced with now that you are ready to sell that appreciated asset are something you are not very happy about.

That is likely the main reason you are now reading this material. You are looking for some alternatives to sharing those gains with the IRS. That is exactly what a Charitable Remainder Trust (CRT) can provide, an alternative to paying capital gains taxes. But that's not all; the benefits go far beyond avoiding taxes. You actually go in the opposite direction and receive an immediate charitable tax deduction. You gain additional income in most cases for as long as you and even your spouse live. Monies that would have gone to taxes are eventually left to a charity a school or a religious organization. The nice part of that is you get to decide where those monies ultimately go, not the government.

So, you have a choice, sell your asset outright and share the gains with the government in the form of immediate taxes or retain the monies, use them for lifetime income, receive an immediate tax deduction and in the end you decide where those monies will eventually go.

This guide is designed to give you a basic understanding of a Charitable Remainder Trust and how you can take advantage of its many benefits. However, it is important to mention that this guide is not designed to be a "do it yourself" solution for someone looking to establish a CRT. Every situation is different and there are literally too many variables to list. This is not an area of financial planning where you want to attempt to do it yourself as seemingly small errors can cause major problems and even cause the trust to be disqualified by the IRS and therefore lose it's tax exempt status.

A properly executed and managed CRT requires a competent estate planning attorney, a tax professional knowledgeable in CRT's and a financial advisor that understands how to properly manage the assets inside of a CRT.

This guide has been written in a way that explains CRT's so that the average person can get a basic understanding of the process involved to complete a charitable giving solution with all the benefits that a Charitable Remainder Trust can deliver.

The goals are:

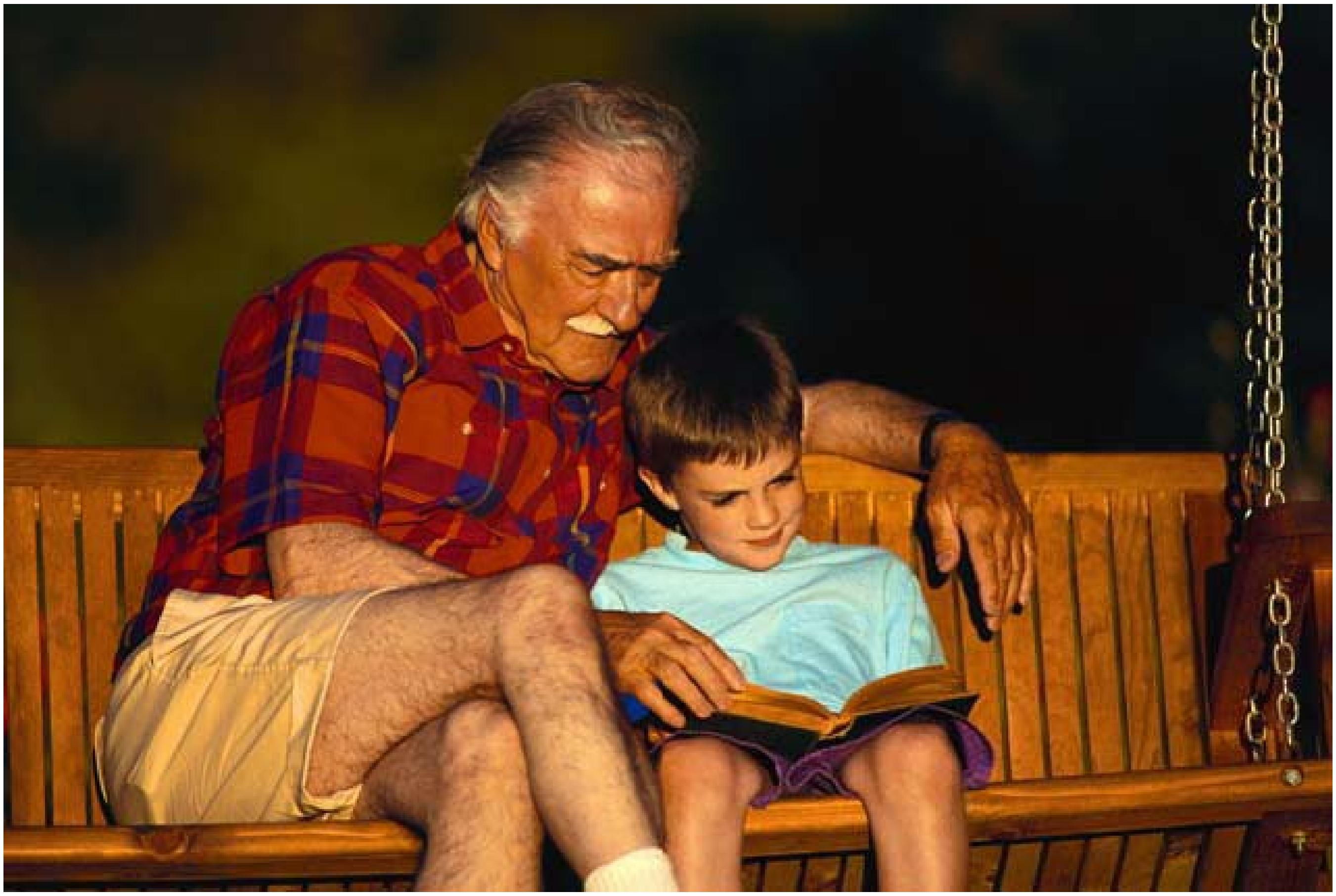
- To give you an understanding of Estate Planning using the Charitable Remainder Trust.
- Provide an easy to follow questionnaire that you can use to generate a personalized Charitable Remainder Trust proposal.
- Give you the resources to establish your CRT in a cost effective and timely manner.
- Give you access to financial professionals that are highly proficient in the area of Charitable Estate Planning that can manage your CRT assets appropriately and at a very competitive cost.

FREE CRT Proposal

At the end of this guide you will find a one page questionnaire, at no cost you can complete it and fax it back to receive your own customized CRT proposal.

Many financial planning firms charge as much as $500.00 for this type of detailed custom report. Charitable Remainder Trusts are our specialty. We are happy to offer this valuable service with no cost or obligation. We are here to help, so go ahead and read this guide, it will help you determine if the CRT is an option you should consider for your portfolio, if you think it is, complete and fax the questionnaire to get the specific answers to your situation.

We think you'll be amazed when you see what this product can do for you, your family and the charities of your choice.



Charitable giving with a Charitable Remainder Trust can be the answer to your income needs. Not only can you benefit yourself, but you can also benefit your family and leave behind a legacy.

If you're like many people today that own highly appreciated assets such as real estate, stocks, mutual funds or even a business, a Charitable Remainder Trust is something you must be aware of. Maybe you are reluctant to sell because of the significant capital gains taxes you would owe. Or you may be looking for ways to increase your income or diversify your portfolio but don't want to pay a hefty tax to do so. Just the thought of selling those highly appreciated assets, having to pay the taxes and reinvesting the substantially reduced amount is enough to keep you from making proper changes to your investment portfolio. Fortunately, there may be a solution to your dilemma - The Charitable Remainder Trust.

A Charitable Remainder Trust, also known as a CRT, was created with the tax reform act of 1969. It's an irrevocable trust designed to convert an investor's highly appreciated assets into a lifetime income stream without generating estate and capital gains taxes. CRT's have become very popular in recent years because they not only represent a valuable tax-advantaged investment, but also enable you to provide a gift to one or more charities that have special meaning to you.

A CRT can:

- Eliminate immediate capital gains taxes on the sale of appreciated assets, such as stocks, bonds, real estate and a business.
- Reduce estate taxes of up to 47% that your heirs might have to pay upon your death.
- Reduce current income taxes with an immediate charitable tax deduction.
- Increase your income throughout the rest of your life.
- Create a significant Charitable Gift.
- Avoid probate and maximize the assets your family will receive after your death when adding a wealth replacement strategy to the CRT.
- Create a lasting legacy by naming a Private Foundation or a Donor Advised Funds Account to receive the charitable remainder from your CRT.

When you establish a CRT, you or other beneficiaries, such as your spouse or other family members, receive income from the trust for life, multiple lives a term of up to 20 years or a combination of each.

When the trust ends, the remaining assets pass to the qualified charity or charities of your choice.

The CRT tax advantages, this is the area that drives most people to begin looking into a CRT. First off, you need to realize that your contributions made to a Charitable Remainder Trust are irrevocable. The government supports charitable giving as it helps to relieve pressure for similar programs that charities provide that would otherwise fall back on the government. However, by allowing you to avoid capital gains and receive an immediate tax deduction, you must also realize that any assets you transfer to a CRT is an irrevocable gift and can not be reversed later on down the line.

The amount of your tax deduction will depend on the type of asset being contributed, the amount contributed, the age(s), number of income beneficiaries, the types of charities named in the document and the IRS rate of the month in effect for the month the gift is made to the CRT.

Capital Gains
One of the most rewarding benefits a Charitable Remainder Trust provides is the ability to contribute appreciated assets to the CRT and then turn around and sell those assets without incurring any capital gains tax liability.

Hypothetical Example:

You own a piece of rental property worth $500,000; you paid $200,000 for the property 10 years ago. If you sell the property you are faced with federal capital gains tax and in most states you also have state capital gains to consider as well. By transferring the property to a CRT and then selling the property you pay no capital gains tax maintaining the full net sales value inside the trust that will now generate an income stream. On top of that you will also receive a charitable tax deduction. We will talk about the deduction in more detail in just a bit.

This is a hypothetical illustration and is not intended to reflect the actual performance of any particular security.

Estate Taxes
All contributions to a Charitable Remainder Trust are separate from your estate and in most cases are not subject to estate taxes or probate. Let's look at it this way; you set up your CRT and then gift your asset(s) to the trust. By doing so, you just gave away the asset to charity. It is no longer in your estate and when you pass away, the remaining value is received by the charity(s).

CRT Income
This is an area that is widely misunderstood. First off, you need to realize that the income may be subject to income taxes. You gifted an asset that you may have avoided capital gains tax when the asset was sold and you also received a charitable tax deduction. Now you will receive income for as long as several lives, but that income is taxable. The tricky part is understanding how it's taxed.

CRT's need to follow four-tier accounting. This means that management of the trust will also entail trying to balance the focus between investing to provide for income with growth while trying to keep an eye on what levels the income distributions are being taxed. This makes the typical managed portfolio more involved as well as making sure that proper record keeping is used for the purpose of filing the CRT's tax return at the end of each year.

Below is a chart that shows the tiers and the order in which income flows out to the income recipients from a CRT.

Four-Tier Income Distributions from a CRT

Tier 1	**Ordinary Income**
Tier 2	**Realized Capital Gains**
Tier 3	**Tax Exempt**
Tier 4	**Principal**

As mentioned before, it's important that you have the help of qualified professionals to help you establish this type of estate planning vehicle the proper way. In this instance you need to be sure that the professionals doing the CRT tax returns are well versed in four-tier accounting as it pertains to CRT's.

As far as the investment professional you use to manage the CRT assets, they should also be aware of this income distribution flow and try to implement a growth and income strategy that can work with the CRT's cash flow and the four tier accounting structure.

Example:

You establish the CRT and the financial advisor recommends purchasing an Annuity with the trust assets. All gains from Annuities are taxed as ordinary income. This would mean all the gains received from the CRT would be taxed at federal and state income tax rates as ordinary income (Tier 1). This is not to say that an annuity is not an appropriate investment in a CRT, just that it is not a tax efficient investment inside many of the different types of CRT's.

A better alternative may be to look at a diversified Equity and Mutual Fund portfolio. This way you have the opportunity to realize income distributions from Tiers 2 and 3.

Moving on to the next CRT income area, we have the rate of income you're able to receive from the CRT. All CRT's must have a minimum of a 5% income distribution. The maximum allowable income is 50%, but before you get all excited, there is a formula that needs to be applied to determine the maximum income allowed and that formula is based on several different criteria. This is often called the "10% Remainder Interest Test"

The two main factors of this test are the age or ages of the income recipients. The older the donor(s) the higher the income allowed. The IRS also puts out the "Rate of the Month." This is a number that fluctuates based off of current prevailing interest rates.

So, we know that a 5% income must be distributed from the CRT, now you need to determine the maximum allowed based on the criteria for your situation, let's look at a hypothetical example.

Example:

> **John and Jane Smith both ages 65 have $1,000,000 they would like to contribute to a CRT. Based on IRS tables their joint life expectancy is 29.3 years. The current "Rate of the Month" is 5.1. (We have a software program that calculates the maximum income amounts and also shows what the tax deduction will be). In this case the maximum amount of income the Smith's are allowed to receive is 8.15%. Therefore their income range is 5% (the minimum for all CRT's) to 8.15%. They now need to pick any number between those two points. Let's say they decide on 7%. That income percent cannot be changed as the tax deduction they will receive uses that 7% figure as part of the calculation in determining the deduction.**
>
> *This is a hypothetical illustration and is not intended to reflect the actual performance of any particular security.*

Tax Deduction

The most important thing to realize about the tax deduction is that when you transfer an asset to the Charitable Remainder Trust, no monies were actually received by any charities. The monies are in the account and the full account value is invested and used to generate the income stream from the CRT. The CRT may even be set up to pay out income for a Husband, Wife and the life of their two children. It may be a few decades or more before any charity receives any monies from the CRT. The IRS classifies CRT's as a "split interest" trust. Just as the name sounds, the interest in the CRT is split between the people receiving the income and the monies that will eventually go to charity.

So, because of this the IRS devised a formula to determine the interest likely to go to charity and then bases the tax deduction from that future value in today's dollars. This is called the "Present Value of a Future Gift".

The main factors are:

Life Expectancy - If a 90 year old widow sets up a CRT the remainder is likely to be received by the charity much sooner than a couple both aged 63. The widow is much less likely to deplete a large chunk of the monies from the CRT during the remainder of her life thus leaving a larger amount to charity. She therefore will receive a larger tax deduction.

Income Percent – Let's look at two people both age 70 who set up a CRT each with $500,000, one took a 5% income for life and the other took 7.5% for life. The IRS looks at this and says the account drawing 5% will likely have a higher amount left over to flow to the charity when the income recipient passes away. Therefore the donor taking 5% will have a higher charitable tax deduction.

Now let's look at the deduction itself. Again the best way to illustrate this is with another hypothetical example:

George and Martha Washington both age 70 set up an 8% CRT with a gift of real estate property valued at $750,000. Using the IRS guidelines they will receive a charitable tax deduction of $275,000. That $275,000 deduction can now be used at a rate of 30% of their Adjusted Gross Income (AGI). This means that if their total AGI for the year is $200,000 they can deduct up to 30% of that amount or $60,000. They have the $275,000 in deductions and use the full $60,000 of that amount for this year. They now have $215,000 in deduction remaining. They will have an additional 5 years to use up that remainder, again by using it at a rate of 30% of their AGI each year. Any unused portion beyond that point is lost.

This is a hypothetical illustration and is not intended to reflect the actual performance of any particular security.

It's important to point out here that the deduction can be used in the current year the gift is made and can be carried forward five (5) additional years for a total of six (6).

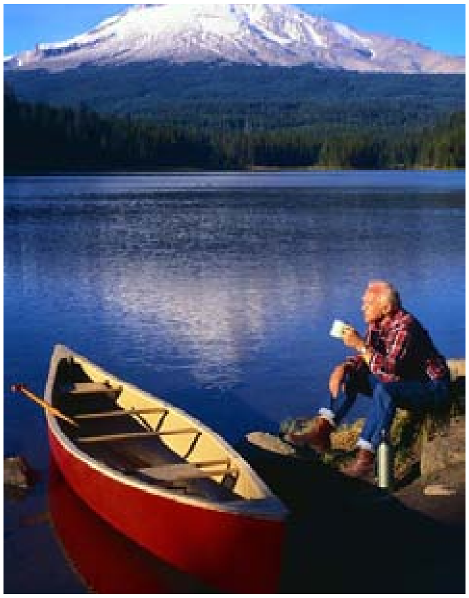
Establishing a Charitable Remainder Trust requires some good planning and the advice of a few qualified professionals.

The first step is to establish the actual trust itself. This is a legal document that should be drafted and customized to your particular situation and the asset or assets you wish to place inside the CRT.

We have an attorney that we work with that charges $1,000 to draft the standard CRT Trust Document. You can then have your local attorney review it for completeness. The typical costs usually found to draft a CRT document ranges from 2 to 10 Thousand. Because of volume we are able to pass on a reduced cost.

Once your trust is drafted you will need to obtain a Tax ID# for your new CRT. This can be done directly online using a form provided on the IRS web site at www.irs.gov. This is also something we can do for you as well if you like. We do not charge for that service when you are using us to manage your CRT assets.

Next you will simply transfer your asset(s) to the Charitable Trust. If it is stock you will simply transfer the shares to your new CRT brokerage account. This is where we are finally compensated. As Financial Advisors with our own CTA, CPO and RIA we are able to open and manage your CRT account.



It is important to mention again that this is a specialized type of account and needs to be managed very differently than the typical brokerage account that most financial advisors are accustomed to managing. Margin, REIT's, Hedge Funds, Limited Partnerships, and other investments can create situations for the CRT that may cause it to loose its tax-exempt status. An advisor who is not familiar with the proper management of CRT assets and manages an account as they would a typical brokerage account can cause the trust to lose its tax-exempt status and not even realize what they have done. It wouldn't be until tax time when the errors would be discovered and by then it would be too late to rectify. This situation would be very damaging to the CRT income beneficiaries. It isn't that managing a CRT is difficult; it just requires knowledge of how to do it properly to avoid these potentially costly errors.

If you are considering using someone other than us to manage your CRT account. Be sure to use our "Financial Advisor Questionnaire" It is located on the main page of our web site at: www.CharitableRemainderTrust.com

If you are gifting Real Estate you will need to follow a few additional guidelines.

First off, the Real Estate needs to be unencumbered. That is it has to be owned free and clear of any loans, pledges, etc. The IRS will not let you gift an asset that is not actually fully owned by you.

You can gift a portion of real estate. For example you own a property valued at $1,000,000, you can gift a percent of that property. Say 40%. At the sale, 40% will go into the CRT account and 60% is sold outright as it normally would. You can then use the tax deduction from the CRT portion to help offset the gains from the outright sale portion.
This can also be used when the property has a loan on it. Example, there was a $200,000 loan on the property. You could pay off the loan, gift 40% to the CRT. Sell the property and use the proceeds from the 60% retained portion to repay the loan you took to pay off the $200,000 debt the property had.

You also need to consider the use of a Wealth Replacement Trust prior to establishing the CRT. This involves purchasing a Life Insurance Policy to replace the asset you gifted to the CRT. We will review Wealth Replacement Trusts in a later chapter. At this point it is just important to qualify for the Life Insurance Policy that the Wealth Replacement Trust will own prior to gifting your asset(s) to the CRT. If your health prohibits you from purchasing the Life Insurance Policy or the costs are too high, then the CRT may not be a good option if it is important to you that you replace the gift to your heirs.

Note that it is not required to use a Life Insurance Policy with a CRT, it is just another planning tool that is commonly used in addition to the CRT.

Because we have seen Real Estate more than any other asset gifted to a CRT in recent years we put together the following step by step Real Estate Gifting Outline.

Step One
Go thru underwriting for a life policy to get a firm quote. You need to know that you are insurable and what the cost will be to replace the gifted asset for your heirs. If the numbers don't work, then it just isn't a good fit for you.

Step Two
Get the property appraised. Your charitable tax deduction will be based off the appraisal value not the actual sales price. The property should sell within 10% of the appraisal so as to not be scrutinized by the IRS. Example: (Appraisal for a tax deduction valuation at $1,000,000 and if the property sells for $750,000, the IRS frowns on that.)

Step Three
Draft a CRT document and have it signed off with an attorney. Again we can assist you with this and save you money thru our affiliation with Renaissance.

Step Four
Get a Tax ID# for the CRT.

Step Five
Transfer the property title to the CRT.

Step Six
Now you can list the property for Sale.

Step Seven
Sell the property and go to closing and sign off on the sale as the trustee of your CRT.

Step Eight
The proceeds from the sale go to your CRT Brokerage account. We can set up that account for you prior to closing so the assets have an account to receive the proceeds from the sale.

Step Nine
Distributions for income are made to you from the CRT (Typically Quarterly).

Step Ten
File the annual federal and state CRT tax returns. This is done for you as a part of the services offered thru Renaissance.

Step Eleven
Adjust annual Unitrust income based off of year-end trust values. This is a big one a lot of financial advisors don't know about and/or forget to do. Again, this is a big error area for financial advisors, it's easy to avoid, if the advisor knows how to manage CRT assets properly.

Multiple assets and securities can be contributed to establish your account. You simply complete the donor information paperwork, and fund the account by writing a check to the Fund directly or submitting an asset transfer form.

You may use any of the following to fund a CRT.

Cash

Cash is the one asset that you can contribute to a CRT and get a larger rate of tax deduction. Other assets can be deducted at a rate of 30% of your adjusted gross income as we talked about in chapter two, when gifting CASH to a CRT that rate is increased to 50%.

Publicly traded stocks and mutual funds

Publicly traded stocks and mutual funds can be transferred from their existing account to a CRT account. Publicly traded stocks and mutual funds represent two of the easiest ways to fund a CRT.

Restricted, closely held or non-publicly traded securities

If the contribution involves restricted stock or other non-publicly traded securities, please contact us toll free at 800-535-4720 for assistance. These assets may be transferred to a CRT after careful review of their current structure and holding.

Real Estate

As we mentioned earlier, Real Estate has been the most common asset used to fund a CRT in recent years. Again the most important thing is that the property be completely unencumbered.

Business

This is another area where we need to closely review the structure of the business and the way it is held. Generally a company owned as an S Corp cannot be transferred to a CRT. LLC, C Corp stock and partnerships will require a review to determine if they can be transferred to a CRT. Again, call us toll free at 800-535-4720 to review these types of holding with us.

Annuity Trust (CRAT)
An Annuity Trust, also called a Charitable Remainder Annuity Trust or CRAT, pays a fixed percentage of the initial value of trust assets with a 5% minimum income required to be paid out to the income beneficiary annually. For example, a CRAT with an initial value of $2,000,000 and a 5% payout would pay $100,000 annually to the income beneficiary, regardless of investment performance. Income distribution is mandatory and principal may be invaded to satisfy the requested payout. No additions to the principal may be made after the trust is established.

An Annuity Trust is usually used for someone who wants a guaranteed income stream each and every year. Regardless of the performance of the trust, the income is paid each year without change.

Unitrust (CRUT)
A Unitrust, also called a Charitable Remainder Unitrust or CRUT is one of the most common types of CRT. It requires that a fixed percentage (minimum 5%) of the annual value of trust assets be paid to the income beneficiary. For example, a CRUT with a value of $2,000,000 and a 5% payout would pay $100,000 to the income beneficiary in that year. If the investment performance for that year was 10% and the value of the trust on the valuation date was $2,100,000 the income beneficiary would receive $105,000 in that subsequent year. Another benefit of the Charitable Remainder

Unitrust is that it will allow for additional contributions. The Unitrust will generally produce higher amounts of income but a smaller tax deduction.

A Unitrust is good for someone looking for a specific percentage return. This can be used to keep up with inflation if the trust value continues to grow over the years.

Net Income with Makeup (NIMCRUT)
A Net Income with Makeup Charitable Remainder Trust or NIMCRUT is a type of trust that requires that a fixed percentage (minimum of 5%) of the annual value of trust assets be credited to the income beneficiary, or if less, the net income of the trust for that year, with any deficiencies to be made up in later years when trust income exceeds the required set percentage amounts for such years.

If a deferred annuity contract is used to fund a NIMCRUT, the trustee has discretion as to the timing of distribution of income, and therefore, unlike other CRTs, a NIMCRUT can allow for the buildup of income. Using an Annuity as a funding vehicle for a NIMCRUT allows for greater control of income and flexibility. Since the trust is exempt from tax, the buildup is also without tax.

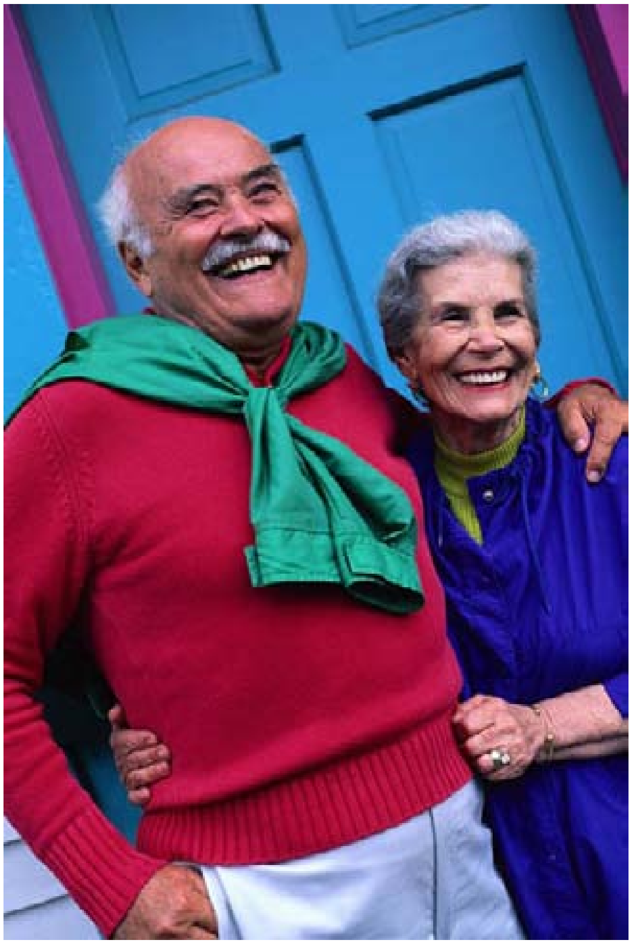
An important note is that, unlike the other types of CRTs, NIMCRUTs do not allow invasion of principal for the payout of income. If there is insufficient income to meet the payout, the income beneficiary must wait until sufficient income exists. Until such time however, the income beneficiary's "make-up account" will continue to build. Once income is sufficient, the income beneficiary will be entitled to the entire buildup in the "make-up account."

A NIMCRUT is best used for someone who doesn't need immediate income. Generally, if income is expected to start in 5 years or longer, a NIMCRUT can be considered. This will make it more likely that income will be available to meet any payout requirements.

FLIP CRUT
The Flip CRUT is typically used with an asset that may take time to sell. Raw land is a good example. The property may take a while to sell. Because a Unitrust requires income to be paid annually, raw land may cause a situation where there is no income to pay out. The Flip Trust is a good solution as it starts off as a NIMCRUT and then "Flips" to a standard CRUT. This solves the problem associated with using an illiquid asset with a CRT.

WASH CRT
This is more of a concept or strategy not a trust type. It is used to try to match the charitable tax deduction to offset the capital gains on a normal taxable sale. We talked about this a little earlier where an asset is split with a portion gifted to the CRT and a portion retained and sold as it normally would be without a CRT. The tax deduction is used to offset as much of the taxable portion so as to attempt to "wash out the taxes".
Give us a call to run the figures for you on a wash CRT with an asset you may be looking to use. We can give you an idea of what portion would be sold outright and what portion would need to go to the CRT. This has also been a very common strategy with highly appreciated real estate as there is usually recapture of depreciation as well as capital gains taxes due on a traditional sale. The CRT avoids both recapture and capital gains taxes. The "WASH CRT" provides a way to sell a portion and gift a portion for a potentially net zero taxable situation.

In addition to having a qualified financial professional who can properly manage your CRT assets it is highly advised that the use of a Third party Administrator is used. Their roll is to help in the actual drafting of your Charitable trust document, process and distribute the required ongoing income payments, handle the required four tier accounting and complete the annual CRT tax returns.



We have teamed up with what we beleive to be the most cost effective administrator of CRT's in the country, CRTPRO out of American Fork, UT. CRTPRO charges a flat fee of just $600.00 per year for their complete CRT adminisration services. This includes the four tier accounting, tax returns for the trust, annual income recalculations and income distribution notice. All this information is also available online through a customized and secure web portal set up specifically for your CRT. Together with our knowledge of managing CRT assets, CRTPRO's experience in administration, you have a top quality team managing and administering your CRT.

For more information log onto www.CRTPRO.com or contact Jeff Drollinger directly at 800.422.3316 and be sure to mention that you were referred by CharitableRemainderTrust.com

Let's look at a hypothetical example:

George and Martha Washington own a strip mall that they originally built 20 years ago in the suburbs of a major city. Their cost to build at the time was 3.5 Million Dollars. They have since depreciated their cost basis down to 1.5 Million Dollars. The city has now grown dramatically and the suburbs now look more like a part of the city. The Washington's are older and looking to do some estate planning and diversify what is now the bulk of their estate as the strip mall is now valued at 20 Million Dollars.

The Washington's are also very active with a small local non-profit in town that helps homeless women with children. It is a shelter that feeds and houses the families and works with the women to get back on their feet by helping them find employment and eventually their own housing. The shelter has had a hard time recently finding the space to house these families.

The Washington's decide to sell their strip mall using a combination of a Charitable Remainder Trust and an outright sale by splitting the interest in the property.

For their income needs they put 10 Million into the CRT and sell the property with the other 10 Million retained as their own. The CRT Tax Deduction is used to help offset some of the taxes on the retained property portion of the sale.

After the sale they donate 1 Million Dollars to the local shelter from the portion of the sale proceeds from the retained portion of the property. They will use the monies to purchase two adjacent properties to the shelter and use the homes on those properties to greatly expand the shelter's ability to house more families.

The Washingtons also established a 2 Million Dollar Private Foundation, again with proceeds from the retained portion of the sale. They will use the foundation to donate monies each year to support the on going management expenses of the shelter. They also named their Private Foundation as the recipient of the remainder interest of their Charitable Remainder Trust. The Washingtons have also stipulated that their children and grandchildren take over the Private Foundation when they pass away and use the monies to continue to support the local shelter.

This is a hypothetical illustration and is not intended to reflect the actual performance of any particular security.

If you have any additional questions or would like a free consultation, feel free to contact us toll free at 800-535-4720. We can assist in setting up either type of account. We are here to help you explore Donor Advised Funds and Private Foundations to help you determine if they're an appropriate option for you and your goals.

We've already established that the remainder proceeds of a Charitable Remainder Trust are left to a charity or charities of the donor's choosing. An alternative to naming a typical charity, school or educational institution is to set up your own charitable entity. This can easily be accomplished using Donor Advised Funds.

The process is very easy and can be completed with an easy to understand four-page form. There is no need for an attorney to draft legal documents nor the requirement to file any tax returns for the Donor Advised Funds account. You can name the account just about anything you like.

For example:

The John and Mary Smith Foundation
The John and Mary Smith Charitable Fund for the Arts
The John and Mary Smith Scholarship Foundation
The David Smith Memorial Foundation

You can name your children and or grandchildren as your Donor Advisors. They would control the assets received from the CRT proceeds into the Donor Advised Funds account. They would be responsible for deciding when, who and what amounts are to be distributed from the account. They can make donations on behalf of the Donor Advised Funds account or if they choose, anonymously.

Another alternative is to set up the account to pay out on a systematic basis. For example: You decide to fund an annual scholarship at your alma mater. You may be able to pre-designate in the Donor Advised Funds application that a set percentage, say 5% of the annual value be distributed to fund a scholarship in your name. The account can then go on in perpetuity leaving an ongoing legacy in your name.

Take a look at Donor Advised Funds when the expected remainder amount from the Charitable Trust will be under two million dollars. Also for those looking to set up a pre-determined ongoing distribution to fund a legacy as outlined in the example above. Donor Advised Funds may be appropriate for those donors that do not have anyone they would like to name to manage the assets once they pass away. The donor can still establish a legacy by naming pre-determined specific guidelines to be carried out on their behalf.

For more information visit our web site at DonorAdvisedFunds.com

The first thing we should mention here is that a Private Foundation is not used to receive the assets from a CRT upon the donors passing for the purpose of letting the children manage it to generate them an income stream. There have been a number of seminars that look to sell expensive tax planning strategies that mention this as a strategy. Where it is true that this can be done, it is important to note that the IRS looks at this very closely. A Private Foundation is required to file a 990PF tax return annually. On page 6 of the return you need to list the Foundation managers, the hours they spent managing the foundation and the total amount of compensation they were paid. The income needs to be "reasonable". The typical non-operating foundation may take about 5 to 25 hours per year to manage. At say $25.00 per hour that is not the kind of income you are likely thinking you would like your children to receive. The best way to look at this is to consider how much you would be willing to pay the neighbors kids down the street to manage your Private Foundation. That is a good measure of the "reasonable" compensation amount. With that said, lets move on to the typical uses of a Private Foundation with a CRT.

A Private Foundation can be named to receive the remainder proceeds from a Charitable Remainder Trust. Donor Advised Funds work well for Remainder amounts under two million dollars due to establishment and administration costs. Also for those people who do not have anyone to name as a successor donor advisor. And for those who want to pre-establish an endowment that can run automatically after their passing.

A Private Foundation is typically used for amounts over two million dollars. This is mainly due to the increased management responsibilities, liability exposure and expenses associated with Private Foundations.

A Private Foundation can also work well in a situation where a donor of a Charitable Remainder Trust has established their own non-profit 501(c) charitable organization or has a desire to set one up in the future. In many cases the donor is or will be active on the board of that charity as well. In this situation the Private Foundation can provide a little more flexibility and options to accomplish more specific goals with the charity it is designed to support.

For more information visit our web site at PrivateFoundation.com

A Wealth Replacement Trust, also known as an Irrevocable Life Insurance Trust is used to hold a life insurance policy outside of an estate if structured properly in order to avoid Income and Estate Taxes. Because the trust is a separate entity from the insured's estate, the Life Insurance is not a part of the net worth and therefore not subject to estate tax. Life insurance death benefits are not subject to Income Tax. Therefore, the proper use of a Wealth Replacement Trust will enable the heirs to receive the Death Benefit free and clear of Estate and Income tax.

The wealth Replacement trust is commonly used in addition to a CRT as a means of replacing the asset that was gifted to the CRT. The concept is very straight forward, if you gift $1,000,000 to a CRT, you can replace it with a $1,000,000 life insurance policy. As outlined above, owning the policy inside of the Wealth replacement trust allows the heirs to receive the death benefit 100% tax-free.

We are very proficient in the area of Life Insurance as it is something we commonly put in place with clients who have done a CRT. We only use policies that have a Guaranteed Death Benefit so that we know the policy will be in force as long as the premiums are paid. As independent reps we also have the ability to shop for the best premium and often submit the case to two or three companies to let them compete for the business. More times than not this strategy has lead to a lower cost policy. Give us a call toll free at 800-535-4720 for a FREE Life Insurance Quote.

A common way to reduce the costs of the life policy is to use a second to die life insurance policy. This is a life insurance policy that insures the lives of two people. The death benefit does not payout to the beneficiaries until the death of the second insured. This is usually set up when we have a CRT that is also paying out for the lives of two people. It matches up nicely as income being used to pay the policy premiums stop when the second income beneficiary passes away. That is when the Death Benefit kicks in and pays out to the heirs just as the gifted asset would likely have been transferred to them had it not been used in the CRT.

What is the main purpose of having second to die life insurance?
It is primarily used to cover the estate taxes that become due when the second spouse passes away. By using the leveraging ability of Life insurance to provide the capital to pay for Estate taxes that otherwise could substantially reduce the estate value as it is passed onto the heirs. Because two lives are being insured it's possible to reduce the over all cost of the policy and also provide coverage when one spouse may not be insurable if they attempted to purchase a policy on their own life individually.

How Should the Policy be owned?
The ownership of a second to die life policy is very important. If the policy is not structured, funded or owned properly it could cause the policy death benefit to be included in the estate of the deceased insured. That would increase the overall estate and create a larger estate tax exposure. That's the complete opposite of what the typical second to die policy is designed for. Because you want to be sure that the policy has no incidence of ownership by the insured, either family members or a Wealth Replacement Trust owns most policies.

What if one of the insured individuals has a negative health history?
Because the death proceeds from the policy are not paid until the second person passes away, it is usually not a
problem to obtain a second to die life policy as long as one of the individuals to be insured is in good health.

How do the policy premiums differ with a Second to Die Life Insurance Policy?
Because you are insuring two lives and no death proceeds are paid until the second insured passes away, the
premiums tend to be lower than if one policy was purchased on the life of each insured.

What is the best way to go about purchasing a Second to die Life Insurance Policy?
Because the ultimate cost is based on the underwriting results obtained from the doctor records, interview and physical that needs to be done on the insured individuals, the final cost isn't known until the underwriters have reviewed all the material information. An illustration is provided prior to underwriting to give a best efforts estimate based on preliminary information provided to the agent. The best way to proceed with this type of policy purchase is to review an initial illustration and determine if the policy suits your needs and goals. If so, submit an application and go through the underwriting procedure. There is no cost for this and the only way to determine your true policy premiums. As mentioned earlier, we usually submit the case to two or three companies to let them compete for your business.

It isn't that you absolutely cannot place certain assets into a CRT; the issue is the ramifications of doing so make it a bad decision to use them in a CRT.

Encumbered Real Estate

Non-Qualified Stock Options

Existing Annuities with built up gains

S Corporation Stock

Accounts Receivable

Trust Deeds

Qualified Retirement Assets (IRA's, 401k's, etc.)

There are a few others, but these are the more common assets we are asked about. The reasons for each vary; we decided to skip all the details as to why as it still boils down to you do not want to place these assets into a CRT due to their adverse affects.

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Charitable Remainder Trust (CRT) Proposal Questionnaire:

☐ If you are looking to gift Real Estate, the property is unencumbered or it has an encumbrance or loan that can be satisfied or paid off easily.

☐ The amount that you are looking to contribute to the CRT is at least $250,000.

If both boxes are checked above, complete the remainder of this form to generate a FREE Charitable Remainder Trust proposal. If both boxes are not checked, it is highly unlikely that a CRT will fit your situation. You can contact us to review your situation with us toll free at 800-535-4720

First Donors Name ______________________________

First Donors Date of Birth ____________________

Mailing Address to send completed proposal: ______________________________

____

Phone # ______________________________

Second Donors Name (optional) ______________________________

Second Donors Date of Birth ____________________

Approximate Income Tax Bracket (circle one) 15% 25% 28% 33% 35%

Description of asset(s) to be transferred to CRT ______________________________

____

Approximate Value of assets(s) to be transferred into a CRT $ ____________

Approximate income now being generated from this asset if any: ________%

Approximate Cost Basis (purchase cost) of the asset(s) $ ____________________

Approximate amount of depreciation taken on the property if any $ ____________________

List from 1 to 4 the order of importance regarding a possible CRT.

Increase Current Income ______ A Charitable Tax Deduction ______

Donate to Charity(s) ______ Avoid Capital Gains ______

Please Fax your completed form to (413) 714-7974

For assistance with this form contact one of our Planned Giving Advisors at: 800-535-4720.