

CHARITABLE REMAINDER TRUST

A charitable remainder trust enables your client to make a significant charitable gift to the community, which is tax deductible in the year of the gift, while retaining a life income interest for himself or another beneficiary. The charitable remainder trust is used primarily for gifts over \$200,000. The charitable gift annuity and pooled income fund are generally more suitable for gifts under \$200,000 due to their lower cost and ease of establishment. The Foundation staff can provide examples and calculations to meet your client's particular circumstances.

Charitable remainder trusts fall into two categories:

- **Charitable remainder annuity trust** pays a fixed dollar amount annually to the income beneficiary.
- **Charitable remainder unitrust** pays a fixed percentage of the value of the trust, revalued annually, to the income beneficiary. Unitrusts have several variations to meet your financial and tax planning needs.

For both types of trust, the remainder interest is distributed at the death of the income beneficiary to establish or add to an existing fund at the Connecticut Community Foundation.

Example of a Charitable Remainder Unitrust:

John Doe, age 70, transfers \$300,000 in appreciated stock to a charitable remainder unitrust. The stock has a cost basis of \$100,000 and pays an annual dividend of 1%. According to the terms of the trust agreement, Mr. Doe will receive annual income based on 5% of the value of the trust, revalued each year, during his/her lifetime.

The dollar amount received will vary from year to year.

Benefits*

- The gift value for which Mr. Doe receives a charitable tax deduction in the year of the gift is \$160,872.
- Mr. Doe will receive annual income based on 5% of the market value of the trust, revalued annually. In the first year the approximate income will be \$15,000, an increase of \$12,000 over the current yield on the stock.
- Mr. Doe avoids federal capital gains tax that he would have incurred if he had sold the stock.
- Mr. Doe has the satisfaction of making a generous gift to the community through the remainder of his gift that will be used to establish the John Doe Fund for the Arts at the Connecticut Community Foundation.

*Based on a IRS Discount Rate of 4.2%

Example of a Charitable Remainder Annuity Trust:

John Doe, age 70, transfers \$300,000 in appreciated stock to a charitable remainder annuity trust. The stock has a cost basis of \$100,000 and pays an annual dividend of 1%. According to the terms of the trust agreement, Mr. Doe will receive \$15,000 every year during his/her lifetime representing 5% of the market value of the trust at its inception.

The amount received will be the same from year to year.

Benefits*

- The gift value for which Mr. Doe receives a charitable tax deduction in the year of the gift is \$152,163.
- Ever year, Mr. Doe will receive \$15,000 in annual income based on 5% of the market value of the trust at its inception and representing an annual increase of \$12,000 over the current yield on the stock.
- Mr. Doe avoids federal capital gains tax that he would have incurred if he had sold the stock.
- Mr. Doe has the satisfaction of making a generous gift to the community through the remainder of his gift that will be used to establish the John Doe Fund for the Arts at the Connecticut Community Foundation.

*Based on a IRS Discount Rate of 4.2%

Administration

The Connecticut Community Foundation does not act as trustee for charitable remainder trusts nor does it draw up trust agreements. However, the Foundation staff will work with you and your clients to provide calculations for the allowable tax deductions given the age of the donor and the type of trust.

Sample trust agreements and other information on trusts are also available from the Foundation staff. The trustee can be an individual, financial institution or other organization.

