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MATSUMURA LAW FIRM

Wills, Trusts, Probate
And Estate Planning

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A Charitable Remainder Trust Provides Income Tax and Estate Tax Savings While Fulfilling Charitable Intent

NOTE:
[New Address Below!](#)
Effective Oct 1, 2007.
Please Update Your
Records !

5674 Stoneridge Drive
Suite 202
Pleasanton, CA 94588
(next to the courthouse)

Phone, Email, Fax and Web
unchanged

Tel | 925.218.8984
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How Does a Charitable Remainder Trust Work?

Reward Yourself with Tax Savings while Providing for Charity

A charitable remainder trust (CRT) is a great estate planning vehicle to reduce estate tax liability, to “tap into” the appreciation of an asset without paying income tax, and to fulfill charitable intentions.

How CRTs Work. The person setting up the CRT is called the settlor. A CRT can be created with one or two settlors (i.e., single person or husband and wife). The settlor is typically the income beneficiary of the CRT. The

proceeds are available to be invested for higher-yielding assets. The income from the re-invested assets accumulate tax-free.

4. The income beneficiary (oftentimes the settlor and/or a child and/or a spouse) receiving annual income from the CRT for a specific number of years or for life. If the income is measured as a percentage of the trust assets, the CRT is a “unitrust”. If the income is a fixed dollar amount, the CRT is an “annuity” trust.

5. Upon the income beneficiary’s passing, the remainder interest passes to the settlor’s selected charity or charities. None of the trust principal is included in the settlor’s estate for estate tax purposes.

settlor chooses one or more charities as remainder beneficiaries.

1. The CRT document is executed by the settlor.

2. The settlor contributes highly appreciated stock and/or highly appreciated real estate to the CRT. The transfer of the assets is a gift. Since the CRT is a charitable entity, the settlor can receive an immediate income tax deduction for the contribution. No gift tax is due on the gift because it is being made to a charitable entity. The fair market value (FMV) of the asset is removed from the settlor’s estate, thereby eliminating estate tax on the asset upon death.

3. The CRT thereafter sells the contributed asset. No income tax will be due upon sale because the CRT is a charitable entity. Because no tax is due, the entire sale

Conditions of a CRT. CRTs are complex trusts, and must be established with certain parameters.

For example, in setting up a CRT, annual payments to the income beneficiary must be at least 5% of the value of the trust’s assets, but cannot exceed 50%.

The present value of the remainder interest passing to the charity(ies) must be at least 10% of the amount contributed. (The value of the remainder interest is calculated based upon the settlor’s life expectancy according to IRS tables and the federal applicable rate in effect at the time the CRT is created.) Due to these conditions, individuals in their 20s and 30s are usually

(continued on reverse)

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How Does a Charitable Remainder Trust Work? (continued)

limited to CRTs with fixed terms of up to 20 years, rather than life-time terms.

Since the immediate income tax deduction is figured from IRS tables based upon age, older individuals will receive a greater income tax deduction. Deductions cannot exceed 50% of your gross adjusted income, but any deductions not used in the year of contribution may be carried forward.

principal, revalued annually, (\$45,000 for the first year) for their joint lifetimes. This gift produces an immediate income tax deduction of \$55,000 and H and W save \$80,000 in capital gains taxes because the CRT is not subject to tax when the second home is sold. The full sales proceeds are available for reinvestment in higher yielding investments. H and W have also removed a \$500,000 asset from their estates, possibly saving \$225,000 in estate taxes. Upon the death of the

Advantages of a CRT

- ⇒ **Creates an immediate income tax deduction**
- ⇒ **Reduces estate taxes due to charitable gift**
- ⇒ **Allows sale of highly appreciated assets without capital gains tax**
- ⇒ **Permits re-allocation of investments without income tax**
- ⇒ **Increases funds net income potential to donor**
- ⇒ **Leaves a legacy for charity**

Although the CRT is an irrevocable trust, the settlor can change the CRT's charitable beneficiaries at any time.

Illustration. Husband (H) and Wife (W), ages 60 and 58, have a second home with a fair market value of \$500,000. The cost basis of the home is \$100,000. H and W decide to transfer the second home to the CRT which will pay them a 9% return on trust

(next column above)



survivor of them, the remaining CRT assets will pass to H and W's selected charity or charities.

Although the CRT does remove assets from H and W's estate, and thereby making them unavailable for their children's inheritances, H and W may use the annual income from the CRT to purchase a life insurance policy on their lives with a face amount of \$500,000 to replace the inheritance.

Conclusion. The CRT enables donors to make a major gift to favorite charities without sacrificing income. With careful planning, a CRT may enhance a donor's income and estate tax savings and provide financial benefits while making a charitable gift that would otherwise be impossible. ★

About Me

I graduated cum laude from the University of the Pacific in Stockton, CA with a degree in Business Administration. I received my law degree (J.D.) from King Hall School of Law at U.C. Davis, and was admitted to the California State Bar in 1993. I completed my Masters in Taxation (LL.M.) at Golden Gate University in San Francisco in 1998.

I have practiced exclusively in the area of estate planning, probate and trust administration for approximately nine years.

In my non-work hours, I support Cal football, the SF Giants, the Sacramento Kings, and play tennis! ☺

Next Issue:
What is a Special Needs Trust?