

## Donor CRT Information Form

### ANALYZING CHARITABLE REMAINDER TRUSTS FOR YOUR PROSPECTS

#### Definition of a Charitable Remainder Trust

A qualified charitable remainder trust is an irrevocable trust that requires the trustee to distribute income to one or more non-charitable beneficiaries every year for the rest of their lives or for a fixed number of years (not exceeding twenty).

The income, which must be distributed at least annually, may be either:

- 1) A fixed amount of money that is not less than 5% of the initial fair market value of the trust assets. This constitutes an "Annuity Trust", or
- 2) An amount of money equal to a fixed percentage that is not less than 5% of the fair market value of the trust assets. In this case the value of the trust assets are determined on a fixed date each year, producing variable income. This constitutes a "Unitrust".

#### Questions That Need To Be Answered

Because the donor has made an irrevocable commitment to have the trust principal pass to a qualified charity, the trust generates an immediate income tax deduction. Under the Tax Reform Act of 1997, that deduction must be at least 10% of the value of the gift contributed to the trust.

The trust also is exempt from tax and as a result pays no capital gains tax when appreciated property given to the trust is sold and the proceeds reinvested. This bypass of capital gains tax is often the most important financial benefit to your prospect. In addition, those named as income beneficiaries receive income from the property for the rest of their lives, or for a fixed term of not more than twenty years.

An attorney, accountant, or planned giving specialist with appropriate computer software can provide you with initial answers to the following questions:

1. What tax deduction will your prospects receive?
2. What will their savings be from bypassing capital gains tax?
3. What will be the approximate amount of income that the income beneficiaries of the trust will receive over their lifetimes?
4. What are the financial consequences if your prospects put a percentage interest of appreciated property, real estate, for example, into the charitable trust rather than the full property?
5. What will occur if your prospects use an insurance trust for their heirs at the time they set up a charitable trust?
6. What is the charity likely to receive after the death of the last income beneficiary of the trust?

#### Questions You Need To Ask

1. To determine the immediate income tax deduction the following must be known:
  - Birth dates of all the income beneficiaries
  - Type of trust being used (unitrust or annuity trust?)
  - Payout rate of the trust (or fixed amount if annuity trust)
  - Fair market value of gift to the trust

- Date when the property will be transferred to the trust
  - Your prospect's combined federal and state tax bracket
2. To determine the benefit from bypassing capital gain you need to find out:
- All of the above plus:
  - The tax basis of the property given to the trust
  - The amount of debt, if any, on the property
  - How much cash, if any, your prospects will receive if they have given a percentage interest of the property rather than all of it
3. To project long-term income flow from the trust you need to estimate with your prospect:
- All of the above plus:
  - A reasonable annual average yield from the trust after expenses, e.g., five percent? seven percent? eight percent?
  - The trust payout rate, if a unitrust, or fixed annual amount, if an annuity trust.
4. To project the impact of establishing an irrevocable insurance trust for family members together with a charitable remainder trust, you need to find out:
- All of the above, plus:
  - Face value of the policy
  - Annual premium
  - Number of years premium must be paid
  - Estimated size of total estate (for estate tax purposes)

The enclosed planned giving work sheet guides you through all the questions mentioned above.

### **Some Cautions**

A professional analysis usually can summarize on one page the tax deduction, capital gain bypass, projected income flow, and the growth or diminishment of trust principal. Supporting pages provide additional detail, including 40-year cash flow projections, and a work sheet showing the assumptions used in developing the analysis.

**The analysis, however, must be used in the context of the prospects' total estate, family, and financial circumstances. Your organization is only providing an educational tool and is not offering your prospects legal or financial advice. The analysis is only as good as the assumptions behind it. The value of appreciated property, for example, may be sometime under- or overstated, the projected yield of the trust may be too optimistic. The analysis, however, is an effective starting point for your prospect to begin learning about whether a charitable remainder trust may or may not work for them. The following worksheet is adapted from what the Coach has been using for years as a Crescendo subscriber.**

PLANNED GIVING WORK SHEET

Today's Date \_\_\_\_\_

1st Person \_\_\_\_\_ Birth Date \_\_\_\_\_

2nd Person \_\_\_\_\_ Birth Date \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ Zip \_\_\_\_\_

Phone number \_\_\_\_\_ Current Tax Bracket \_\_\_\_\_

Gift Date \_\_\_\_\_ Payment Frequency (circle one):  
 Monthly; Quarterly; Semi-annual; Annual

	Annuity Trust 1L/2L	Pooled Fund 1L/2L	Unitrust 1L/2L	Unitrust + Sale 1L/2L	Unitrust 1L/2L + ____yrs
Fair Market Value					
Cost Basis					
Current % Return					
Total Return %					
Income Payout %					
1st Payment Date					

Type of Asset to fund trust (circle one): Cash; Stock; Real Estate;

Debt on Property: \_\_\_\_\_

Cash (if any) to donor at time of sale \_\_\_\_\_

Property held for one year or more?  Yes  No

Use of \$125,000 one-time deduction?  Yes  No

Approximate cost of new residence to offset gain: \$ \_\_\_\_\_

If insurance trust: Total value of estate: \$ \_\_\_\_\_

Number of heirs: \_\_\_\_\_

Face value of policy: \$ \_\_\_\_\_

Yearly premium: \$ \_\_\_\_\_

Number of years premium paid: \_\_\_\_\_

Growth rate of insurance: \_\_\_\_\_