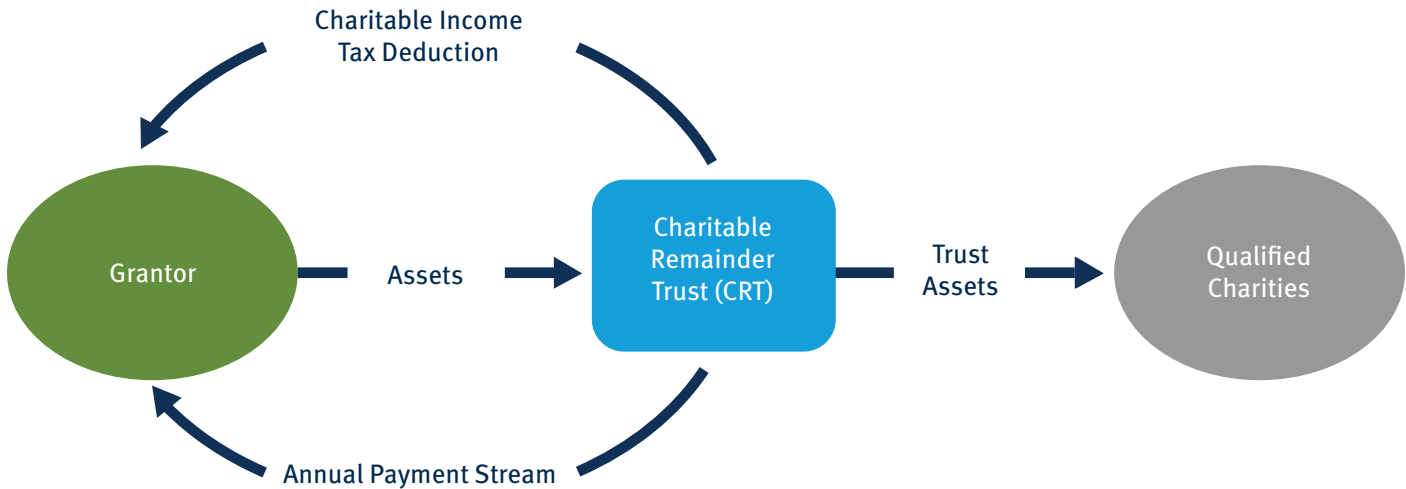




Deferring Capital Gains Taxes Through a Charitable Remainder Trust (CRT)

A Charitable Remainder Trust (CRT) is a potentially powerful strategy that may provide substantial estate and income tax benefits while fulfilling philanthropic objectives. A primer on CRTs is provided below.



1. Grantor transfers assets to CRT and receives immediate income tax deduction.
2. During trust term, annual payment is distributed to the grantor.
3. After end of trust term, assets remaining in trust are distributed to qualified charities.

Color Key	
	Assets subject to probate, included in taxable estate, and eligible for a step up in cost basis.
	Assets avoid probate, not included in taxable estate, and not eligible for a step up in cost basis.

Irrevocable Trust. A CRT is an irrevocable trust to which the grantor (creator of the trust) transfers highly appreciated assets in exchange for an annual payment stream.

Annual Payment Stream. The value of the annual payment stream must be at least 5% of the value of the trust assets but not more than 50% of the value of the trust assets. The trust can be structured so that the value of the payment stream is based on either (i) the initial value of the trust assets (fixed payment) or (ii) the value of the trust assets each year (fluctuating payment).

Term of Trust. The term of the trust (i.e., the period during which the grantor will receive the annual payment stream) can be for the lifetime of an individual (or individuals) or a period of years (not to exceed 20 years).

Beneficiaries. The beneficiaries of the trust must be one or more qualified charities. The named charities receive assets at the end of the trust term. The grantor may be able to change the beneficiaries prior to the end of the trust term.

Charitable Deduction. The grantor receives an immediate charitable income tax deduction. However, this is not a dollar-for-dollar deduction. Instead, the value of the deduction represents the present value of the assets projected to be distributed to charities at the end of the trust term. The value of the annual payment stream paid to the grantor impacts the size of the deduction. A larger annual payment stream results in a smaller charitable deduction, whereas a smaller annual payment stream results in a larger charitable deduction. If a taxpayer can't use the entire deduction amount in the year of contribution, he or she has five additional years to apply the deduction.

Deferral of Capital Gains Taxes. As the IRS considers a CRT a charitable entity, the CRT does not owe taxes. Accordingly, the trust does not owe capital gains taxes when it sells trust assets. Instead, the grantor will pay any income tax generated by the trust as he or she receives annual payments. The type of income generated is separated into tiers.¹ Accordingly, capital gains generated by a sale within a CRT enable the grantor to potentially spread the income tax consequences over many years.

Estate Tax Savings. Like all charitable contributions, the amount contributed to the CRT is removed from the grantor's estate.

For more information about the benefits of a CRT, contact your local attorney, tax professional, and Stifel Financial Advisor.

¹Tier 1 consists of ordinary income such as interest income and dividends. Tier 2 consists of capital gains that are not taxed as long-term capital gains (for example, short-term gains). Tier 3 consists of long-term capital gains. Tier 4 consists of non-taxable income.

Stifel does not provide legal or tax advice. You should consult with your legal and tax advisors regarding your particular situation.