PLANNED GIVING
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Planned Giving Today serves the planned giving community as a practical resource for education, information, inspiration and professional linkage. It helps gift planners enable others to give generously, prudently and joyfully.

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A Trust for Younger Donors

BY K. GENE CHRISTIAN

For years, most of us have considered a Charitable Remainder Trust (CRT) only for our wealthier, older clients. Today, however, that thinking has begun to change. Why? Because people in their 50s — during their peek income earning years — have come to realize that with a 30-40 year life expectancy, a CRT can provide an additional tax shelter to complement their existing 401k, IRAs and/or KEOGH plans. It's one more leg to place under their retirement planning stools . . . and they don't have to be wealthy to take advantage of it! Consider the following story:

Scott and Judy Hall, ages 55 and 53, are professional people. He's a CPA, and she is a mortgage broker. Their two children are now out of college, and their cash flow is suddenly much higher than it has ever been. Judy's work in particular has been very profitable during this prolonged low interest-rate environment. They enjoy going to fund-raising auctions and banquet events that raise money, but they've never really considered themselves capable of being noteworthy philanthropists.

They continue to faithfully "max out" their company-sponsored retirement plans, their 401ks and IRAs. However, there is still a significant amount of money they would like to invest for retirement years, utilizing existing tax shelters to the greatest extent possible. When they began to look at various options side-by-side, it dawned on Scott that a CRT might suit them very well.

Three Primary Reasons

There were three primary reasons why they decided to establish — and begin to annually fund — a CRT.

1. First, and most importantly, every single dollar they place in the CRT will enjoy tax-free compounding for their remaining life expectancy. That was huge! When Scott considered every other investment option, he realized that tax-free compounding for several decades would allow their CRT to easily be worth more than twice as much money in their later years compared to other more traditional investments that would be taxed along the way.

2. Second, by funding their CRT each year, they were entitled to a charitable income-tax deduction of nearly 23 percent of the amount they transferred. For example, each year they placed $25,000 in the CRT and received a $5,750 charitable tax deduction. Not a huge amount Scott surmised, but the tax savings they enjoyed every year, then invested for return, would also amount to a very large "pot" of money by the time they were in their 80s.

3. And finally, Scott calculated that their federal and state tax bracket would remain quite high during all of their retirement years. With a careful investment strategy, at the point Scott and Judy wanted to begin receiving retirement income from their CRT, the "lion's share" of money they received would be taxed at long-term capital gain rates rather than higher ordinary income rates. So, if they receive payments from their CRT for 20 years, the tax savings on annual income will be very large as well.

In the final analysis, Scott and Judy determined that at least one of them would probably live to actuarial life expectancy. In other words, it was statistically probable that they would receive 35-40 years of tax-free compounding, 15-20 years of charitable deductions, and income that would be taxed at very low rates from their CRT at whatever point they wanted to begin receiving it.

The Charitable Factor

Scott and Judy had several deep and interesting conversations on their way to creating a CRT. However, the most interesting conversation of all focused on the tremendously large charitable gift they would ultimately leave to charity.

Someday the liberal arts college where they met during undergraduate school will very likely have a larger building to house the business program. Don't be surprised if it's named "Hall Hall."

CRTs aren't just for the wealthy! With careful analysis, many, many of our existing "regular" donors may also be candidates for charitable "retirement" trusts! ◆

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