

CHARITABLE GIFTS THAT PAY INCOME



Charitable Remainder Trusts

Charitable remainder trusts allow your client to convert a highly appreciated asset like stock or real estate into a charitable gift that pays them income for the rest of their lives. It reduces their income taxes now and estate taxes when they die. They pay no capital gains tax when the asset is sold.

How does it work?

- Your client transfers an appreciated asset into an irrevocable trust naming the Community Foundation as trustee. The asset is removed from your client's estate, so no estate taxes will be due on it when they die. Your client also receives an immediate charitable income tax deduction.
- The trustee (the Community Foundation) then sells the asset at full market value, paying no capital gains tax, and re-invests the proceeds in income-producing assets. For the rest of your client's life, the trust pays them an income. When they die, the remaining trust assets go to the Community Foundation and will be used to support the charitable cause(s) your client designated before their death.

Here's a (fictional) example: Ted and Latisha are both retired and own an office building in downtown Everett. They have a wide variety of charitable interests ranging from parks to libraries to human service organizations. They are tired of maintaining this piece of property, and want to sell it, but do not want to pay the significant capital gains taxes that this sale would incur.

Client opportunity:

Ted and Latisha place the property in a charitable remainder trust and name the Community Foundation as trustee and beneficiary. They received a federal income tax charitable deduction up to 30% of their AGI. The trust sells the property and invests the proceeds. The trust pays Ted and Latisha a set dollar amount in income four times a year for the rest of their lives. After Ted and Latisha die, the Community Foundation receives the remainder value of the trust. The Community Foundation places the gift in a Designated Fund that makes grants to nonprofits previously designated by Ted and Latisha.