Put the Federal Government on a Tax Diet with a CRT

Do your donors know how this retirement tool can save them money while benefiting your organization?

BY JOHN H. LANG

A CHARITABLE REMAINDER trust (CRT) is a retirement planning and estate planning tool that can be financially beneficial to your donors and result in a significant future gift to your 501(c)(3) nonprofit organization. Here's how it works.

A couple works and sacrifices their entire adult lives to build a successful business. Their children are raised, educated, and have moved away. Now it's time to think of themselves. The opportunity to retire is approaching. None of their children plans to take over the business, so one logical option is to sell it, invest the proceeds of the sale, and live off the income it produces.

Now for the bad news: Because of the success they have earned through their hard work and sacrifice, they will have the privilege of paying the federal government up to 28 percent of the value of what they have acquired as capital gains taxes. State income taxes may add even more to their bill. For this couple, a CRT is a retirement plan worth considering. What are its benefits?

1. They can avoid all capital gains taxes on the sale of the business, leaving them with a larger nest egg to fund their retirement.
2. They may be able to reduce their income taxes by at least 30 percent for as long as six years, depending on the degree of appreciation in their business.
3. They can help leave their heirs a significant tax free inheritance.
4. They can assure that their retirement nest egg cannot be lost as a result of extraordinary expenses such as long-term nursing home care.

Long used by the wealthy, a CRT should be explored by anyone who owns highly appreciated assets, such as a small business or farm, real estate, or even an investment portfolio. The assets a couple places in a CRT will go to the nonprofit organizations of their choice upon their death.

A CRT SHOULD BE EXPLORED BY ANYONE WHO OWNS HIGHLY APPRECIATED ASSETS, SUCH AS A SMALL BUSINESS OR AN INVESTMENT PORTFOLIO.

Think of it this way: They will *have to* give away some of their money regardless of what they do. These are their options: They can sell the business and hand over huge amounts of capital gains, income, and perhaps inheritance taxes to the government to distribute as *it* sees fit. Or they can use a CRT to put the federal government on a serious tax diet. A CRT assures that the money they must eventually give away goes to the organizations and programs of their choice.

Like any financial plan there are pluses and minuses. A CRT's disadvantages include:

1. The trust is irrevocable. While the couple is entitled to earn the income generated by the trust for the remainder of their lives, they cannot get at the income generating assets.

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WITH A CRT, A COUPLE CAN AVOID CAPITAL GAINS TAXES, LEAVING THEM WITH A LARGER NEST EGG TO FUND THEIR RETIREMENT.

2. A CRT cannot be used if a family member plans to take over the business or for a sale that has already been arranged.

3. A CRT is not a "do-it-yourself" project. Creating and managing a CRT requires the services of a competent lawyer, tax accountant, and financial products provider. Do-it-yourself wills and "lawyer-on-a-disk" computer software cannot produce the exacting trust language required to create a CRT. The annual income tax calculations required by the IRS are usually too complex for the do-it-yourself tax preparer or for tax preparation computer software. And a financial products professional needs to provide the investment and insurance products to implement the CRT.

A CRT is not for everyone, but it is worth exploring. You will be doing your supporters a service by telling them about this planned giving tool. Let them know that not only can a CRT provide for their retirement needs, but it's a way to provide for their heirs and to financially support the organizations that have sustained and enriched their lives. ■

Selected References

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These publications are available through the Society for Nonprofit Organizations' Resource Center. For ordering information, see the Society's *Resource Center Catalog*, included in this issue, or contact the Society at 6314 Odana Road, Suite 1, Madison, Wisconsin 53719 (800–424–7367).

Planned Giving Software Resources

ParaGon planned giving software, Blackbaud, 4401 Belle Oaks Drive, Charleston, South Carolina 29405–8530 (phone 800–443–9441, Ext. 307 or 803–740–5400; fax 803–740–5410).

Planned Giving Manager (PGM) software, PG Calc Incorporated, 129 Mount Auburn Street, Cambridge, Massachusetts 02138 (phone 617–497–4970; fax 617–497–4974).