



Charitable Remainder Trusts

Our focus is where it should be...

On You.
On Your Family.
On Your Future.

888.323.5535
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Personal trusts are among the most useful tools ever devised for the management and distribution of family wealth. Trusts serve a wide range of functions and may be appropriate for a variety of family financial circumstances. First, the basics.

THE FUNDAMENTALS OF A TRUST

- A *trust Grantor*, which is you, the key to the planning process.
- *Beneficiaries*, who may include you, your spouse and other family members, or organizations. The *income beneficiaries* receive payments during the life of the trust, the *remainder beneficiaries* receive the assets when the trust terminates.
- One or more *trustees* who will accept the responsibilities listed in the trust agreement. You may choose an individual or a trust institution or both.
- *Assets*, usually stocks, bonds, mutual funds or other investments, although you may place all sorts of property in a trust.
- *Written instructions* that tell the trustee the trust's purposes, how you want the assets managed, such as through an Investment Policy Statement (IPS), and how to distribute income and principal to the beneficiaries.

THE CHARITABLE REMAINDER TRUST

A *charitable remainder trust* (a "CRT") is one in which a charity has been designated to receive the assets when the trust ends. Because CRTs confer substantial federal tax benefits to the grantor, they are irrevocable subject to a number of special IRS rules for their design.

After meeting with a Garden State Trust Company trust officer to discuss a CRT, the next step in creating a CRT is a meeting with an attorney who will draft the trust document.

A trustee is selected, and after review and signing, the assets are transferred to the trust for management. Trust administration has many facets, including investment and management of trust assets, tax filings, and making distributions in accordance with the terms of the CRT.

TYPES OF COMMON CHARITABLE REMAINDER TRUSTS

- **Charitable remainder unitrusts (CRUTs)** distribute a fixed percentage to a named individual beneficiary or beneficiaries based on the balance of the trust assets (revalued annually), and additional contributions can be made.
- **Charitable remainder annuity trusts (CRATs)** distribute a fixed annuity amount to a named individual beneficiary or beneficiaries each year, and additional contributions are not allowed.

The charitable remainder trust offers grantors eight core benefits, as well as two important benefits for the charity.

1. Income for life. The income benefit may be expressed as a term of years, but in most cases is designed as an income for life. The income may be distributed to the grantor, or to the grantor and spouse for their joint lives, or to another relative for life.

2. Diversification of concentrated assets. When an investment portfolio has one or two dominant assets, the risk of a decline in the value of that asset may impair the entire portfolio. A CRT will normally provide for asset diversification.





3. Avoid federal taxes on capital gains. One enemy of portfolio diversification is the taxation of capital gains. If one holding overperforms and becomes dominant, the owner may be reluctant to sell a portion of the holding to diversify because of the loss in value caused by the tax payment. A CRT does not pay federal taxes on its capital gains.

4. Improved income. A CRT may be designed to provide an income payout of at least 5% annually or perhaps more.

5. More reliable income. With a Charitable Remainder Annuity Trust (a "CRAT") the payout is specified as a specific percent of funding and the annual amount never changes. This will be paid independently of what happens in the financial markets, even if the value of the trust assets declines. In the Charitable Remainder Unitrust (a "CRUT") the income varies with the value of the trust. The unitrust income is a set percentage of the value of trust assets, determined annually. When stock prices are rising, the unitrust payout can provide a growing income during the life of the trust.

6. Charitable income tax deduction. A federal income tax deduction will be allowed for the actuarial value of the interest received by the charity.

7. Estate and gift tax deductions. Similarly, there are deductions from the federal gift and estate taxes for interests that pass to charity.

8. Leverage. These tax savings permit grantors to get "more bang for the buck" from their charitable giving when a CRT is employed for philanthropy. Since the remainder of these trusts are distributed to charity and not family, the additional payout received can go to purchase life insurance to provide replacement dollars to family.

Although charities always welcome outright immediate gifts, they also really appreciate being remainder beneficiaries of CRTs. Two reasons stand out.

1. Major financial support. The remainder interest in a CRT is typically larger than a series of annual gifts.

2. Certainty of future support. Planning for expansion and investment for future endeavors of the charitable organization can be undertaken with greater confidence when there is the certainty of a CRT distribution on the horizon.

WHY NAME GARDEN STATE TRUST AS TRUSTEE?

A corporate trustee, such as Garden State Trust, is not required for the administration of a charitable remainder trust. But there are several important considerations that go into trustee selection, and all of them point to the advantages of using a company such as ours, as opposed to just an individual trustee. We can also work in a co-trustee capacity with someone you designate.

Ready availability. An individual trustee may go on vacation, but Garden State Trust Company does not, nor does it die or move away. There is always someone available to speak with.

Recordkeeping. Detailed systems are needed for trust administration, for accurate accounting to beneficiaries, and for tax reporting. At Garden State Trust we have comprehensive systems in place already, we use them every day. They are essential to our success.

Asset management experience. We are professional investment managers, and we bring that expertise to every trust that we administer.

Deep acquaintance with CRT requirements. We know how CRTs work, what filings are needed, what decisions must be made, when actions must be taken.

Costs. The fees for employing a corporate trustee are typically the same as for giving the job to an individual. With Garden State Trust, the need to hire outside experts to advise the trustee is largely eliminated, which may reduce the overall cost of trust administration.

THE CHARITABLE REMAINDER TRUST IN ACTION

The following examples of Charitable Remainder Trusts do not constitute legal or tax advice.

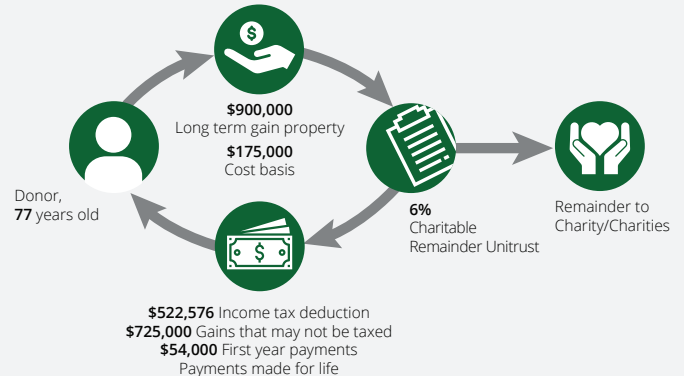
CHARITABLE REMAINDER UNITRUST (CRUT)

EXAMPLE 1

Anna, a solo ager, age 77 has a \$900,000 investment portfolio of very low-cost basis investments currently yielding about 1%. Anna has another \$500,000 in bank deposits.

Anna has a charitable beneficiary in mind. She is genuinely concerned with the rise in the cost of living and is fearful of the taxes she would have to pay on the sale of her stocks. She is also concerned about financial market volatility during these uncertain times.

Anna met with a trust officer from Garden State Trust Company to discuss the benefits of moving her portfolio to a Charitable Remainder Unitrust, naming her preferred charity to receive the assets at her death. By funding the CRUT today and selecting a 6% payout, Anna would increase her income from \$9,000 to \$54,000 while avoiding capital gains taxes on the sale of assets in the investment portfolio. Her projected income tax deduction for creating the trust is \$522,576.

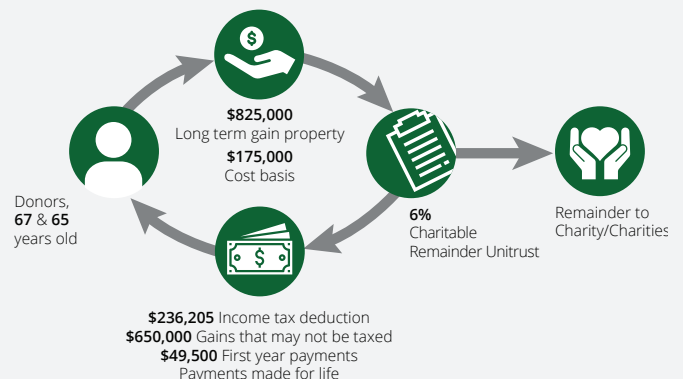


EXAMPLE 2

Jeff (age 67) and his wife, Arlene (age 65) have owned a cottage in upstate New York for at least 25 years. They have decided that they want to travel more in the future and do not want the expense of the upkeep the cottage requires. They paid \$175,000 when they bought the cottage years ago, but today's value is \$825,000. The couple is concerned about the potential capital gains taxes involved should they sell the property. Their plan was always to bequeath the cottage to the local University, because Jeff and Arlene have other significant assets that are going to be left to their kids.

The couple decided the best course of action was to establish a CRUT.

They turned the cottage from annual cost to additional annual income in the amount of \$49,500 first year based on a 6% Charitable Remainder Unitrust. Their expected income tax deduction is \$236,205. The deduction is smaller than for Anna's trust (above) because they are younger, and the trust will last for both of their lives, so the charity will have to wait longer for its remainder.

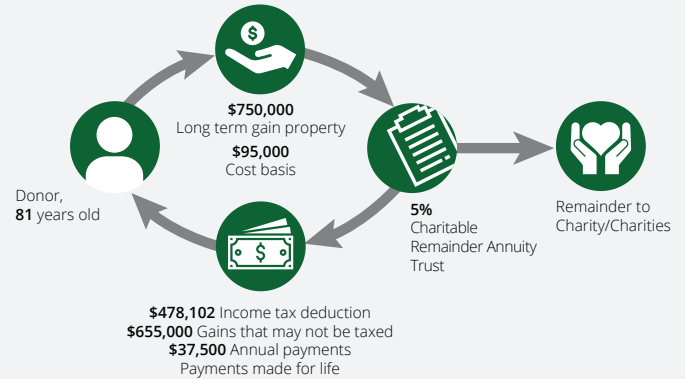


CHARITABLE REMAINDER ANNUITY TRUST (CRAT)

EXAMPLE 3

Jonathan (age 81) has a \$750,000 investment portfolio at a full-service brokerage company. Jonathan lost his wife 5 years ago. They met 60 years ago at their alma mater. They always intended to leave their estates to their alma mater.

Jonathan met with a trust officer at Garden State Trust Company. He was very unhappy with the small income from his portfolio. The portfolio had a very low-cost basis. The trust officer explained the benefits of CRTs and the difference between a CRUT and a CRAT. Jonathan absolutely wanted no fluctuations in his annual income, so he settled on funding a CRAT with a 5% payout. Jonathan's annual income rose from \$11,250 to \$37,500. He will be entitled to an income tax deduction of \$478,102.



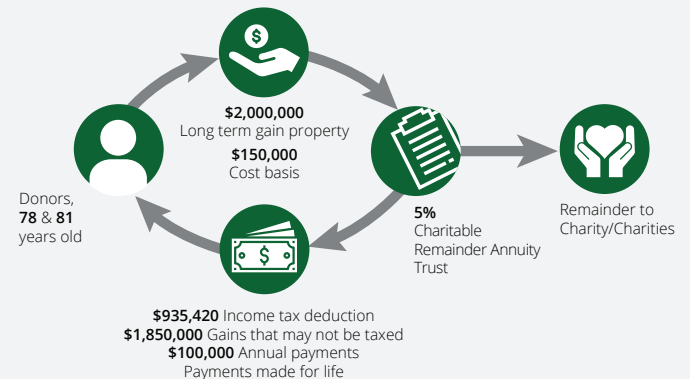
EXAMPLE 4

Ralph (age 78) and his brother Andrew (age 81) have lived together their entire adult lives. Neither brother ever married, and they have no living relatives.

For the past 25 years they have lived in downtown New York City in a condo they inherited from their parents. Each brother has a small pension and collects Social Security. They want to sell the condo and move to a Life Care Community in New Jersey.

The value of the condo was \$150,000 when they inherited it and today it is valued at \$2,000,000. The brothers were going to establish a Scholarship Trust in their family name. They want to avoid capital gains taxes and want dependable payouts just as they get from their pensions and Social Security.

By placing the condo in a 5% CRAT they will receive an annual payout of \$100,000. The income tax deduction for the arrangement comes to \$935,420.



SUMMING UP

How might a Charitable Remainder Trust work for you and your family? You may experiment with our online calculator at <https://gstrustco.com/charitable-remainder-trust-calculator/>. Try out different asset transfers and beneficiaries and compare the CRUT versus the CRAT.

When you are ready, arrange for an in-person consultation with a Garden State Trust Officer. We will be pleased to share our experience and insights with you.



Trust services are a way for anyone of moderate wealth to have a fiduciary, someone who by law needs to put client interests first, to assist in achieving financial goals. Goals such as continued wealth management for the family in the case of dementia or incapacity. The continued care for a special needs child. Maximizing the benefits of charitable giving. Ensuring familial harmony and a smooth transition of wealth so a family business can stay in the family. Our clients are wonderful. Their goals are amazing. In some jobs it can be easy to lose sight of one's mission. At **Garden State Trust Company**, we not only get to see the good that we do for our client's families, but the extension of that into their communities and the world. It's a good job to wake up to!



**Garden State
Trust Company**

Spanning Generations

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