Charitable Trusts: Good for Charity – Good for You!

By **Patricia Lampert**

IF YOU OWN YOUR OWN BUSINESS AND ARE THINKING ABOUT RETIRING, you are probably concerned with the taxable liability that takes place at the point of sale, and you should be! Some savvy entrepreneurs are ahead of the game because they figured out that they can convert their hard-to-value business assets into income generating assets and receive a generous tax deduction. They have most likely established a type of charitable trust.

Charitable Remainder Trust: (income to beneficiary – assets to charity)

This type of trust permits a donor to convert highly appreciated assets (for example, stocks or real estate or business) into lifetime income while paying no capital gains tax when the asset is sold and estate tax since the assets are removed from the taxable estate.

Transferring is done by re-registering the assets into the name of the trustee of the trust. An appraisal of the hard-to-value assets contributed is required by a qualified appraiser to confirm fair market value. The trustee then makes payments to the donor (and or income beneficiaries) for the rest of his or her life, or for a specific term of years up to twenty years. The trustee may sell the assets at fair market value and reinvest the sales proceeds. At the end of the term, or life of the income beneficiary, the remaining assets (used to generate the income) are transferred to the charity. This ultimate transfer to the charity is what generates the tax benefits. Although the trust is irrevocable, the donor is permitted to serve as trustee of the trust and maintain investment management control over assets. You will either have to **select a fixed payout of income (CRAT- Charitable Remainder Annuity Trust) or a variable payout of income (CRUT- Charitable Remainder Unitrust).** The percentage of the tax deduction for each type of trust varies depending on the payout rates.

Charitable Lead Trust: (income to charity – assets to heirs)

The charitable lead trust is the reverse of the charitable remainder trust in that the trust pays the charity first and the remainder of the trust goes to the intended beneficiaries of the donor at the time of the donor's death. The donor gets to pass on assets in the future at a discounted value and may also receive a tax deduction for the charities' interest

General Tax Treatment of Charitable Trusts:

The income tax deduction for appreciated assets into the trusts is limited to 30 percent of the donor's contribution base and 50 percent if cash is donated. There are specific IRS rules to calculate exact allowable contribution amounts.

General – Other Charitable Organization Options:

Charitable Pooled Trusts:

Larger charities offer an alternative to the charitable remainder trust in the form of an irrevocable pooled income fund. It is an entity completely administered by the charity at no cost to the donor, but has no control over investments.

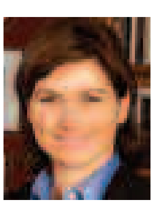
Private Foundations:

These types of foundations are usually most appropriate for large contributors and do not provide charitable services, but make grants to qualified charities.

Community Foundations:

These public charities are a collection of endowments for the long term benefit of a geographic area. There are a number of advantages to community foundations besides the obvious of giving back to your community.

In summary, you can either set up your own charitable trust account and maintain some control or participate in already established charitable organizations designed to make it easy for you to contribute your assets or cash. In our immediate area, there are several hospitals such as The Washington Hospital and Canonsburg Hospital that are very much in need of your donations of bequests no matter what the size. •



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