Cool Moves In The New Tax Climate

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You can taxwisely provide for yourself, your family and causes you care about.

OK, you're not subject to the estate tax (less than one-tenth of one percent are). Here are ways to get tax benefits right now for assets that don't go to charity until the end of life.

The ways are charitable life-income plans that pay you (and/or another) life income with an eventual gift to charities. These plans provide income tax charitable deductions now and avoid or minimize capital gains taxes on changing investments. Plus, you have the satisfaction of knowing that you've provided for important causes.

Here's a rundown of the various types of gifts that pay you (and/or another) life income.

A charitable remainder trust created during lifetime gives an itemizer an income tax charitable deduction now for gifts going to charity at death—for the value of the remainder interest—for a gift that pays the donor (and/or another) life income before the charity gets the trust assets.

The value of your charitable deduction in the year you make your life-income gift is based on the amount of your gift, your age (and that of any other income recipient), the income you'll receive and current interest assumptions. Based on that information, charities can tell you, without obligation, the benefits for review by you and your advisers.

The life income can be: **(1)** favorably taxed; and **(2)** capital gains on the sale and reinvestment of appreciated assets used to fund the trust can be avoided, reduced or spread over the years.

CHARITABLE REMAINDER TRUSTS
High-Speed Overview

STAN-CRUT—standard charitable remainder unitrust. Pays the income beneficiary an amount determined by multiplying a fixed percentage of the fair market value (FMV) of the trust assets, valued each year. On the death of the beneficiary or survivor beneficiary (or at the end of the trust term if the trust is measured by a term of years not to exceed 20 years), the charity gets the remainder. The fixed percentage can't be less than 5 percent. (The five percent requirement applies to all types of charitable remainder trusts.)

NIM-CRUT—net-income-with-makeup charitable remainder unitrust. Pays only the trust's income if the actual income is less than the stated percentage multiplied by the trust's FMV. Deficiencies in distributions (*i.e.,* where the unitrust income is less than the stated percentage) are made up in later years if the trust income exceeds the stated percentage. This trust is used when the trust is funded with non-marketable assets.

FLIP-CRUT—a trust created as a NIM-CRUT. On a qualified triggering event (*e.g.*, the sale of an unmarketable asset used to fund the trust or the happening of a specified event), it switches to a STAN-CRUT.

CRAT—charitable remainder annuity trust. Pays the income beneficiary a fixed dollar amount (at least annually) specified in the trust instrument. On the death of the beneficiary or survivor beneficiary (or at the end of the trust term if the trust is measured by a term of years not to exceed 20 years), charity gets the remainder. The fixed dollar amount must be at least 5 percent of the value of the assets funding the trust..

GIFT ANNUITIES

This life-income gift differs from the charitable remainder annuity trust (CRAT). The CRAT's assets are in a separate trust and the donor looks to that trust for his or her payments.

A gift annuity on the other hand is an arrangement where a donor irrevocably transfers money or property to a qualified charity in return for its promise to pay the donor, another individual or both, fixed and guaranteed payments for life. The value of the consideration paid by the donor to the charity exceeds the actuarial value of the payments made by the charity to the annuitant. Payments may begin immediately under an immediate charitable gift annuity ("CGA") or may be deferred until a future time—more than one (1) year from the gift ("deferred payment gift annuity" or "DPGA").

The transferred assets become a part of the charity's general assets and the annuity payments are backed by all the charity's assets—not just the transferred property.

The donor, as an itemizer, is entitled to a current income tax charitable deduction. Furthermore, a gift annuity can provide favorable taxation of life-income payments, reduce capital gains taxation on changing investments and in most cases, the capital gain can be reported ratably over the life expectancy period. And it enables a donor to have the joy of giving now (not possible with a bequest).

GIFTS OF REMAINDERS IN PERSONAL RESIDENCES AND FARMS

The donor gives away a remainder interest—keeping lifetime enjoyment. The personal residence need not be a principal residence. And a donor can also give a remainder interest in a farm even though he or she retains the right to life enjoyment. A life estate may be retained for one or more lives. Or the life estate may be retained for a term of years.

Capital gain. Capital gain is generally not taxable on a transfer of an appreciated residence or farm to charity. Gain is, however, taxable to a donor who donates property subject to an indebtedness, whether or not the charity assumes the debt.

All these gifts are the best of all worlds: making a charitable gift, keeping life income or life enjoyment of a personal residence or farm **and** getting tax benefits now.

Ask your favorite charities about these gifts. They'll give you the details for your situation for review by you and your adviser—without obligation.

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