



## Charitable remainder trusts

Receive an income stream today while planning your future charitable impact

*The following information and opinions are provided courtesy of Wells Fargo Bank, N.A.*

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*Establishing a charitable remainder trust can help you accomplish several planning goals, including creating a current income stream for yourself and/or beneficiaries, and donating remaining assets to a charitable organization. When structured properly, you can also receive tax benefits. The flexibility of these trusts allows you to customize to your specific needs.*

A charitable remainder trust combines the benefit of a current income stream with a future gift to charity. This giving vehicle provides income to one or more individuals during life or a term of up to 20 years with the remainder distributed to a qualifying charitable organization.

Donors can choose from various types of charitable remainder trusts, with the most common being a charitable remainder unitrust (CRUT). A CRUT offers a variable payout with additional flexible options while a charitable remainder annuity trust (CRAT) pays a fixed amount.

### Overview



#### **Grantor**

The grantor establishing the charitable remainder trust makes an irrevocable gift of assets to fund the trust; grantor may receive an immediate tax deduction



#### **Income beneficiaries**

A percentage or fixed amount of income is distributed at least annually to grantor and/or other beneficiaries



#### **Remainder to charity**

Remaining assets will be distributed to qualified charitable organization(s) at the end of the trust term

## Is a charitable remainder trust a good fit for your needs?

- Is philanthropy one of your objectives?
- Do you want a current income stream while also leaving a legacy gift to charity?
- Are you considering gifting highly appreciated assets?
- Do you have additional assets that you might want to contribute to the charitable remainder trust later?
- Are you looking for tax efficiency?

## Benefits of a charitable remainder trust

- Converts highly appreciated assets into an income stream
- You may be able to claim a charitable deduction and reduce your income tax
- Defers capital gains from gifted assets
- Removes assets from your gross estate
- Offers flexibility to meet your needs (see box in next column)

## Flexibility to meet your goals

- Income payment options include fixed, variable, deferred, or may be based upon a triggering event
- Income payments can be made for life or multiple lives, as well as a term of up to 20 years
- Remainder beneficiary options are qualified public charities, donor advised funds, or private foundations
- Grantor may retain the ability to add or change charitable beneficiaries
- Variations of this strategy can include incorporation of life insurance
- Trust administration may be handled by an individual or corporate trustee

## Other considerations

- The income stream is subject to limits
- The income stream is taxable
- Making the gift is a permanent decision
- Income tax deduction varies based on remainder amount and tax status of charitable beneficiary



## How it works

A charitable remainder trust offers your family the potential for income today while providing a future gift to a nonprofit. The following illustration demonstrates the opportunity this long-term approach may have in achieving both financial and charitable goals.



### Situation

#### Client profile

Ms. Smith is a retired executive and holds \$2 million in highly appreciated stock with a cost basis of \$500,000.

#### Goals

- Ms. Smith would like to have income to supplement her retirement.
- She wants a long-term approach to help several nonprofits.
- She anticipates federal estate tax liability and seeks tax efficiency.
- Wants to sell highly appreciated stock while minimizing her capital gains tax.



### Action

#### Trust established

Ms. Smith, with her attorney, creates a charitable remainder trust.

- Ms. Smith funds the trust with \$2 million in stock.
- Trustee sells appreciated stock with no capital gains tax at trust level, which leaves the full proceeds to be reinvested inside the trust.
- The charitable remainder trust makes payments to Ms. Smith for life.
- Remainder of trust assets distributed to charity.



### Projected outcomes\*

#### Total payments to beneficiaries

- Ms. Smith will receive an estimated \$2.43 million in total payments.
- Charities will receive an estimated \$2.97 million at the end of the projection.

#### Taxes

- Charitable donation deduction: \$739,912
- Income tax savings: \$273,767
- Capital gains tax on stock at trust level: \$0

#### Estate planning

Ms. Smith's taxable estate is potentially reduced by \$2 million, plus appreciation.

#### Projection assumptions

20-year unitrust projection begins in 2022 based on single life; investment return 7%; federal ordinary income tax rate 37%; long-term capital gains tax rate 20%; net investment income surtax 3.8%; no state income tax; Internal Revenue Code 7520 rate 5% September 2023; 7% unitrust payout rate.

\*Calculations are for illustration purposes and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on a variety of factors including timing of your gift.

## How we can help

When you work with Wells Fargo Bank Philanthropic Services to establish your charitable remainder trust, experienced and credentialed philanthropic specialists will help you define your mission, values, and area of focus. Then, our specialized charitable administration team will provide ongoing account management and oversight to protect and fulfill the philanthropic objectives established by the trust. Backed by these professional services, you can create an effective strategy that meets your estate planning and philanthropic goals.

### Discover more

To learn more about the benefits and potential tax advantages of creating a charitable remainder trust, please contact your advisor or philanthropic specialist.

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