



The Opportunities of Charitable Remainder Trusts

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What is the Episcopal Church Foundation (ECF)?

Overview:

- Independent and lay-led foundation
- ECF's mission is to strengthen the **leadership** and **financial** capabilities of Episcopal congregations, dioceses, and other institutions
- ECF carries out this mission through a wide array of programs including...



Leadership Resources

- ECF Vital Practices (ecfp.org)
- Vestry Resource Guide
- Fellowship Partners Program
- Educational Events
- Vital Teams

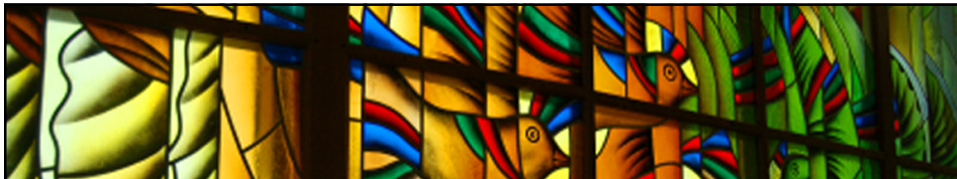
Financial Resources

- Capital Campaigns
- Planned Giving
- Endowment Management
- Educational Events



Agenda

- Introductions
- Overview of Charitable Giving Rules
- Charitable Remainder Trusts



Introductions:
David Leibell
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Tax Incentives For Charitable Giving

- Tax Code Encourages Charitable Giving
 - Income, Gift and Estate Tax Deductions
- Tax Incentives More Favorable For:
 - Lifetime gifts vs. testamentary gifts
 - Public charity gifts vs. private foundation gifts
 - Appreciated property gifts vs. cash gifts



Income Tax Charitable Deduction

- Transfer Must:
 - Be made to a qualified charity
 - Be a contribution and not a payment for goods or services
 - Be made in cash or other qualified property
 - Not exceed a specific percentage of donor's AGI
- Donor Must Itemize



Organizations To Which Contributions Are Deductible

- Public Charities
 - “Traditional” charities, such as churches, colleges, hospitals
 - Supporting organizations, community foundations and donor advised funds
- Private Foundations
 - Family and corporate foundations
 - Private operating foundations (deductible at public charity “rates”)



AGI Limitations

- Public Charity Donees
 - Cash: up to 50% of AGI
 - LTCG property: up to 30% of AGI
- Private Foundation Donees
 - Cash: up to 30% of AGI
 - LTCG property: up to 20% AGI
- 5-year Carry forward for Unused Deduction

Fair Market Value VS. Basis Deduction Limitation

- Public Charity Donees
 - General rule: fair market value deduction
 - Tangible personal property: fair market value deduction only for related use property

- Private Foundation Donees
 - General rule: deduction limited to basis
 - Exceptions:
 - Private operating foundation donees
 - Qualified appreciated stock



Charitable Deduction Rules

	<u>Public Charity</u>	<u>Private Foundation</u>
Cash	FMV/50% AGI	FMV/30% AGI
Appreciated Marketable Securities	FMV/30% AGI	FMV/20% AGI
Real Estate	FMV/30% AGI	Basis/20% AGI
Closely-Held Business	FMV/30% AGI	Basis/20% AGI
Tangible Personal Property	FMV (for related use only)/30%AGI	Basis/20% AGI
Ordinary Income Property	Basis/50% AGI	Basis/20% AGI

Transfers That Qualify For Charitable Deduction

- Since 1969 Tax Act Only Certain Contributions are Deductible
- Outright Gifts are Generally Deductible
 - Including gifts of undivided fractional or percentage interests in property
- Retained Interest Gifts Only Deductible if in Specific Form
 - Remainder interest in personal residence or farm
 - Conservation easement
 - Pooled income fund
 - Charitable lead trust
 - Charitable remainder trust
 - Charitable gift annuities



Charitable Remainder Trust Fundamentals

- Irrevocable trust
- Income stream payable to one or more non-charitable beneficiaries
 - For life or for a fixed term
- Remainder interest payable to charity





Setting Up A CRT

- Lifetime vs. term of years.
- Single or multiple non-charitable beneficiaries.
- Two types of CRTs:
 - Charitable Remainder Annuity Trust (CRAT)
 - Charitable Remainder Unitrust (CRUT)

CRT Fundamentals Continued: Tax And Financial Advantages

- Trust pays no income tax
- Tax-free diversification vehicle
- Grantor gets estate, gift and income tax deductions
- Increased cash flow
- Income deferral (NIMCRUT)
- Funding with illiquid assets (FLIPCRUT)



Concentrated Stock Position Diversification: What Are The Alternatives

- Sell and Reinvest
- Charitable Remainder Trust
- Financial Products
 - Collars



Concentrated Stock Position Diversification: Example

- Grantor and spouse, both age 65, in 35% income tax bracket
- Grantor owns appreciated stock:
 - FMV is \$1,000,000
 - Tax basis is \$100,000
 - Produces no dividends
- Grantor wants to diversify to reduce market risk
- Grantor wants increased cash flow





Sell And Reinvest (NO CRT)

Fair market Value of Stock	\$1,000,000
Capital Gains Tax	\$ 135,000
Net Proceeds From Sale	\$ 865,000
Annual Income From Proceeds if invested at 6%	\$ 51,900

Benefits: Diversification, Increased Cash Flow
 Negatives: Payment of Capital Gains Tax

Diversification With 6% Standard CRUT

Capital Gains Tax	\$ 0
Net proceeds From Sale	\$ 1,000,000
First Year's CRUT Payout	\$ 60,000
Income Tax Deduction	\$ 100,000
Income From Tax Savings (\$100,000 x .35 x .06)	\$ 2,100
Total First Year Income	\$ 62,100
Increase in Income With CRUT	\$ 10,200





Benefits And Risks Of Diversifying With The CRUT

- Benefits:
 - Diversification
 - Avoidance of Federal and State Capital Gains Tax
 - Income Tax Charitable Deduction
 - Increased Cash Flow
- Negatives:
 - Choosing Wrong Payout Percentage
 - Loss of Access to Trust Principal
 - Children Do Not Receive Trust Remainder (Consider Life Insurance)
 - Economic Benefits Achieved



Variations On The Theme: Additional Types of CRUTs

- Net Income with Make-up CRUT (NIMCRUT)
- FLIP CRUT



NIMCRUT Basics

- Grantor Has Right to Receive Annually the Lesser Of:
 - Fixed percentage of annual trust value, or
 - Trust “Accounting Income.”
- Makeup Account Created



Cash Flow Comparison

Annual Cash Flow All Years With No CRUT	\$ 49,000
Annual Cash Flow All Years With Standard 6% CRUT	\$ 62,160

Flow with 6% NIMCRUT:

Years 1-20	\$ 0
Years 21-27	\$ 538,000
Years 27 +	\$ 400,000 or more



NIMCRUT Problems

- Benefits dependent on investment strategy and vagaries of market
- Makeup account may never actually be fully distributed

The FLIPCRUT

- FLIPCRUT starts out as a NIMCRUT or NICRUT
- “Flips” to standard CRUT on January 1 of year following occurrence of “Triggering Event” defined in trust instrument
- Triggering Event must not be discretionary
- Triggering Event can include:
 - Specific date
 - Sale of unmarketable asset (e.g. real estate)
 - Single event beyond control of any person (e.g. marriage, divorce, death, or birth of child)





When To Consider A FLIPCRUT

- Real Estate
- Closely-held Business Interest
- Tangible Personal Property
- Caveats:
 - NO Pre-arranged Sale
 - Caution on unrelated Business Income
 - Beware of Self-dealing (§ 4941)
 - Mortgaged Property?

The Four Tier System: Worst-In, First-Out

- Each payment is treated as follows:
 - First tier: Ordinary income.
 - Second tier: Capital gain.
 - Third tier: Tax-exempt income.
 - Fourth tier: Tax-free return of principal



Recorded Webinars to Empower your Leaders

- Basics of Planned Giving for Parish Leaders
- Basics of Endowment Management for Parish Leaders
- Prospective Donors of Planned Gifts
- Basics of a Capital Campaign
- Annual Stewardship
- Vestry Leadership 101

For links to recordings visit: www.ecfvp.org



Upcoming Free Live Webinars

- ***Vision & Planning***
 - May 8, 2014 – 7:00 PM – 8:00 PM Eastern Time
- ***Major Donors for Dioceses***
 - May 13, 2014 – 1:00 PM – 2:00 PM Eastern Time
- ***What is Vital Teams?***
 - May 13, 2014 – 2:00 PM – 3:00 PM Eastern Time
- **Basics of a Capital Campaign**
 - May 14, 2014 – 7:00 PM – 8:00 PM Eastern Time

Check our website, under Events, for more info.





At your service

ECF always available to assist at (800) 697-2858

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