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## Charitable remainder trust produces cash flow, less tax

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Guest Columnists

If you're like many investors today, you own appreciated assets, such as stock or real estate, that you are reluctant to sell because of the significant capital gains taxes you would owe.

At the same time, you may be looking to increase your cash flow or diversify your holdings. That would mean selling those valuable assets, paying the applicable taxes and reinvesting at less than the asset's full value.

Fortunately, there is a solution to this investment dilemma — the charitable remainder trust.

A charitable remainder trust is an irrevocable trust that is designed to convert an investor's highly appreciated assets into a lifetime income stream without generating estate and immediate capital gains taxes. It has become very popular in recent years because it not only represents a valuable tax-advantaged investment, but also enables you to provide a gift to one or more charities that have special meaning to you.

By establishing a charitable remainder trust, you can:

- Eliminate immediate capital gains taxes on the sale of appreci-

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ated assets, such as stocks, bonds, real estate and other taxes.

- Reduce estate taxes of up to 55 percent that your heirs might have to pay upon your death.

- Reduce current income taxes.

- Increase spendable income throughout your lifetime.

- Make a significant future charitable gift.

- Receive the benefits of tax-free compounding.

- Avoid probate.

- Maximize the assets your family will receive after your death.

When you establish a charitable remainder trust, you or another beneficiary, such as your spouse or another family member, receive income from the trust for life or for a term of up to 20 years. When the trust ends, the remaining assets

pass to the qualified charity or charities of your choice.

Here's how it works:

You irrevocably transfer cash, securities or other property you own into a charitable remainder trust. As a result of this transfer, you lower the taxable value of your estate and provide significant estate tax savings to your heirs.

You select the type of trust based on your individual needs. There are two types — an annuity trust and a unit trust. The type of trust you select will determine how much income you receive from the charitable remainder trust.

If you choose an annuity trust, you will receive annual fixed payments. The amount you receive is equal to a fixed percentage, which must equal at least 5 percent of the initial fair market value of the assets in the trust. Once an annuity trust is created, you cannot add to it.

If you choose a unit trust, you will receive variable payments. In this case, you receive lifetime payments based on the value of your assets in the trust. Your payments are equal to a percentage of the value of the trust as it is revalued each year and must be at least 5 percent. Unlike the annuity trust, you may make additional contributions to a unit trust after it is created.

You receive an immediate charitable income tax deduction based on your age or the ages of those named as income beneficiaries, the distribution rate chosen and the value of the assets put into the trust. (Any excess deduction may be carried over for up to five additional years.)

If the assets are sold within the charitable remainder trust, the trust pays no immediate capital gains tax because it is considered a tax-exempt entity.

At the termination of the trust, the trust assets will be distributed to the qualified charity or charities you have selected. (You have the ability to change the charity or charities at any time during the life of the trust.)

If you would like more information about the benefits of adding a charitable remainder trust to your estate plan, contact your financial adviser. He or she can work with your legal and tax advisers to help you determine how the charitable remainder trust — and other trust alternatives, including living trusts and irrevocable life insurance trusts — can best meet your wealth preservation planning needs.

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