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# Balance *sheet*

## Charitable Remainder Trusts

By Mark L. Schroeder, CPA

There is a very powerful estate planning tool that may enable you to reduce your liability for income and estate taxes and diversify your assets in a tax-advantaged manner. It is called a charitable remainder trust (CRT). Here is how it works.

A CRT is an irrevocable trust that makes annual or more frequent payments to you, typically until you die. What remains in the trust then passes to a qualified charity of your choice. A number of advantages may flow from the CRT.



First, you will obtain a current income tax charitable contribution deduction for the value of the charity's interest in the trust. The deduction is permitted when the trust is created even though the charity must wait to receive anything.

Second, the CRT is a vehicle that can enhance your investment return. Because the CRT pays no income taxes, the CRT can generally sell an appreciated asset without recognizing any gain. This enables the trustee to reinvest the full amount of the proceeds and thus generate larger payments to you for your life.

The trust will be eligible for the estate tax charitable deduction if it passes to one or more qualified charities at your death. If you wish to replace the value of the contributed property for heirs who might otherwise have received it, you could use some of your cash savings from the charitable income tax deduction to purchase a life insurance policy on your life for the benefit of your heirs. Often, through the leveraging effect of life insurance, it is possible to pass on assets of greater value than those contributed to the CRT. In this way, your heirs are not deprived of property they had expected to inherit.

A CRT is a very complex arrangement, but it is also an invaluable planning tool in the right circumstances. If you would like to discuss whether a CRT might be appropriate for you, please call our office.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.  
You cannot rely upon this information for avoiding tax penalties.