

FROM THE PROFESSIONALS

From the Professionals is a tri-annual column of finance and investing tips from different members of the professional services industry. The opinions represented here are authorized by the following firm, and may not reflect those of the Pinchot Institute for Conservation.

Getting the Most Out of Your Appreciated Assets: The Charitable Remainder Trust

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Do you own highly appreciated assets, such as stocks, real estate or a closely held business? If you do, a Charitable Remainder Trust (CRT) may play a crucial role in your estate plan, helping you achieve any or all of the following objectives:

- Diversify a highly appreciated asset without incurring immediate capital gains tax on the sale
- Create a potentially lifelong payment stream
- Receive a possible income tax deduction
- Reduce your estate tax liability
- Provide for a charity of your choice

THE CHARITABLE REMAINDER TRUST

Through a Charitable Remainder Trust, you can contribute appreciated assets to charity while you (or another non-charitable beneficiary) have the right to a fixed payment stream from those assets for a predetermined period—your lifetime, the combination of your lifetime and another per-

son's, or a term of up to 20 years. When the payment stream terminates, the remainder of the trust assets passes to charity.

TAX BENEFITS

Because a CRT is a tax-exempt entity, assets sold within the trust are not subject to capital gains tax at the time they are sold. While capital gains tax may be imposed at a later date on distributions from the trust, the ability to defer these taxes allows the full value of the assets to be reinvested to immediately work for your benefit. Thus, you may be able to convert the full value of assets that may formerly have provided you with little or no income into a significant payment stream.

When you contribute assets to a CRT during your lifetime, you may be entitled to a charitable income tax deduction based on the present value of the remainder interest that passes to charity after the non-charitable payment stream terminates. This deduction cannot exceed a certain percentage of your adjusted gross income, but may be carried forward five years after the initial year of your contribution. Therefore, you may receive the benefit of an income tax deduction for up to six years. Further, because of the gift tax charitable deduction, the amount remaining in the trust transferred to charity is not subject to federal gift taxes.

Contributing highly appreciated assets to a CRT also reduces your estate by removing both the asset and all future appreciation on that asset (exclusive of any payments you receive from the trust). This may save you considerable estate taxes.

PROVIDING FOR YOUR HEIRS

Suppose you are concerned about providing for your heirs as well as your favorite charity. You can replace all or part of the value of the property transferred to the CRT with an asset replacement strategy like this:

- Establish an irrevocable life insurance trust (ILIT). The trust would purchase a life insurance policy on the life of the donor. At the donor's death, the life insurance proceeds could be distributed to the trust's beneficiaries—presumably family members.
- Make annual gifts to the ILIT. You can use some of the payment stream from the CRT and the income tax savings from the charitable income tax deduction for this purpose. If the trust is drafted with particular provisions, the gifts may qualify for the annual gift tax exclusion or they may count toward one's \$1 million lifetime gift tax exclusion amount.

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multiflora rose and *Japanese honeysuckle* pose to native plants and animals. They emphasized how foresters who work with timber companies and small private landowners can play an important role in controlling the spread of invasive plants.

The group also discussed plans for its 2005 annual meeting, when the Gifford Pinchot Chapter of SAF will host a larger, regional session.

GREY TOWERS BEGINS FEES FOR TOURS

Beginning Memorial Day weekend, the U.S. Forest Service began charging a nominal fee for house tours. These fees will help fund improved and expanded visitor services, including interpretive and educational programs, and can be used to help offset the cost of maintaining the historic site. The majority of fees collected at Grey Towers will be spent at Grey Towers.

The fee will be charged only for guided house tours. Access to the gardens and grounds will remain free of charge. Four "fee free" days will be scheduled throughout the year. School groups and conference attendees will not be charged a fee and the Forest Service reserves the right to waive fees for individuals and groups assisting in the accomplishment of the mission and goals of the Forest Service at Grey Towers.

For more information on the Grey Towers tour schedule or the new fees, please call 570-296-9624 or visit us on the web at www.fs.fed.us/gt.

NY-NJ HIGHLANDS WEB PAGE

A new Internet site that enables anyone with an ordinary computer the ability to view and query digital mapped data of the NY-NJ Highlands Region is now available. Developed by Rutgers University's Center for Remote Sensing and Spatial Analysis, the interactive site is located at: <http://crssa.rutgers.edu>.

The new internet map server has far-reaching benefits for audiences, including decision-makers, educators, and the general public. This resource is maintained and up-dated by CRSSA with funding from the U.S. Forest Service. Those whose computers are suitably equipped can also find digital maps in GIS format available for download.

For more information phone the NY-NJ Highlands office at Grey Towers at 570-296-9625.

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- The trustee of the ILIT may then use the gifts to purchase life insurance on your life, or a second-to-die policy on you and your spouse. The trustee is both policy owner and beneficiary.
- Life insurance proceeds received by the beneficiaries of the ILIT generally are not subject to income taxes and are not included in your gross estate at death. Thus using the CRT and the ILIT, you may be able to contribute significantly greater assets to charity and actually pass on more of your wealth to your beneficiaries!

Estate planning can help you preserve the assets you have carefully accumulated. Bear in mind that these strategies are subject to the complex laws and regulations governing estate and gift tax, income tax and private foundations. To be effective, an estate plan should be designed and implemented by specialists. As with all such matters, you should consult with your attorney and tax advisors to help devise a plan appropriate for you.

Selecting a trustee for your CRT is an equally important decision. The trustee may be responsible for investing and reinvesting trust assets, making periodic accountings and filings to trust beneficiaries and appropriate tax authorities, and numerous other administrative functions. You should consider using a professional trustee receive the benefits of ongoing relationship management, objectivity and proper trust administrative services.

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