BAIRD
Private Wealth Management

Charitable Remainder Trust
(CRT)

You have real estate, stocks or other assets that have increased substantially in value. You would like to sell these assets to take advantage of the income they generate. But, if you sell the assets, you will incur a huge tax liability.

Have you considered gifting your appreciated assets to a charitable remainder trust (CRT)?

Insurance Services

Erica Kroll, CLU®
VP, Senior Insurance Specialist

Nina Rose
VP, Insurance & Annuity Specialist

Blake Panosh, CLU®, ChFC®
SVP, Annuity & Insurance Manager

The Advantages of a CRT

- CRTs offer a strategic solution to income taxes. When you contribute your appreciated assets to the CRT, the trust may sell the assets without incurring capital gains tax. In fact, you will receive an income tax deduction for the value of the assets that you contributed to the trust. The value of these assets, which will eventually pass to the charity you've selected, is referred to as the "remainder interest." As a separate tax-exempt entity, the CRT should not have to pay income taxes on any earned income.
- A CRT can be created during your life or through another trust or your will after death. If you're like most people, you will probably have the CRT created during your lifetime. However, CRTs can also be created through another trust or under your will to take effect when you die. CRTs created after your death should qualify for an estate tax charitable deduction.

The Disadvantages of a CRT

- You only have access to the trust's income, not its assets. This means that the income beneficiary's payments are limited to the amount stated in the trust. No additional payments can be made, no matter what the need may be.
- The CRT income beneficiary may have to pay taxes on the income received.[1]
- When the income beneficiary dies, the assets in the trust are passed to the charity, not to the income beneficiary's children or other non-charitable beneficiaries.

Getting More from a CRT through a Wealth Replacement Strategy

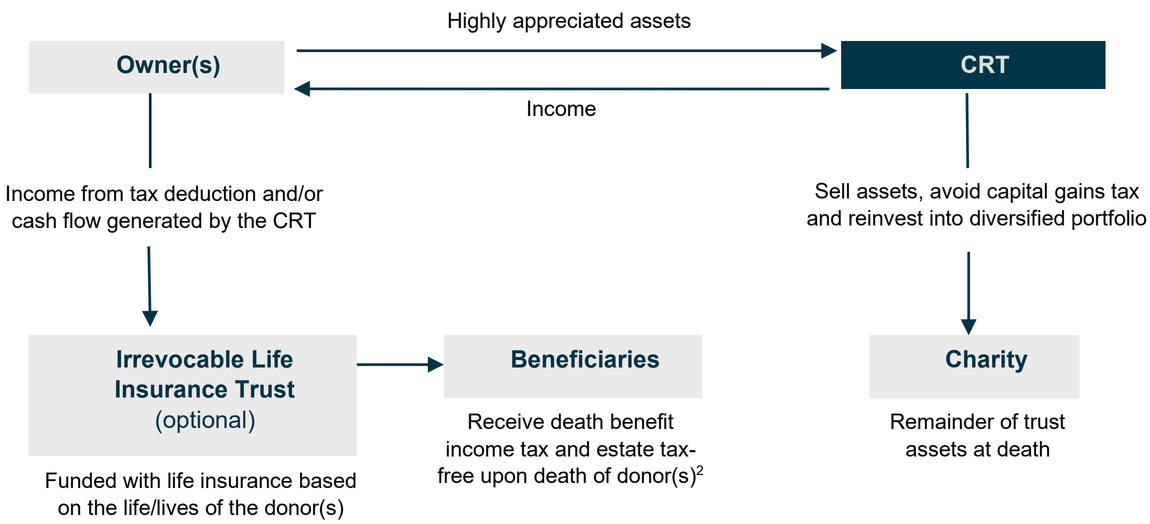
When you create and fund a CRT, you and your designated beneficiary receive an income stream as designated in the trust. Eventually the charity of your choice receives the assets.

But what about your heirs? Can you replace the value of the assets you gave away so that your heirs receive the maximum amount possible?

One solution is to implement a wealth replacement strategy alongside your CRT by adding an irrevocable life insurance trust (ILIT). By using some of the income and tax savings from the CRT to purchase life insurance owned by an ILIT covering the life of the income beneficiary, the insurance proceeds replace the value of the assets given to the charitable trust. This means your heirs receive the assets but in the form of an estate tax-free death benefit.

How a CRT works:

The below diagram illustrates the structure of a CRT in general and shows the addition of an optional wealth replacement strategy using an Irrevocable Life Insurance Trust.



By combining a wealth replacement strategy with a CRT, you can generate an income stream for the rest of your life, receive tax advantages, donate to your favorite charity and provide a death benefit to your heirs that is both income and estate tax free. Keep in mind that neither Baird nor its Financial Advisors render legal or tax advice. You should consult your personal attorney or tax advisor regarding your particular situation.

CRTs can be very helpful under the right circumstances. However, the documents needed to create a CRT are very complex, and the process can be costly. Before considering a CRT, you should consult all of your advisors. Your Baird Financial Advisor will be happy to work in a team with you and your other advisors to help you meet your needs.

With a CRT, you can:

- Help support your alma mater, church or other favorite charity
- Give your highly appreciated assets to a trust
- Achieve a substantial income tax deduction
- Take advantage of the income generated by the assets
- Avoid the estate tax that would be due on these assets upon your death

[1]Income Taxation of Payments from the CRT to the Donor:
- As ordinary income to the extent of the trust's ordinary income for the year and undistributed income for previous years
- As capital gain to the extent of the trust's capital gain for the year and undistributed capital gain for previous years
- As other income (including tax-exempt income) to the extent of such income of the trust for the year and such undistributed income for previous years
- As a distribution of trust principal

[2]Depends on terms of properly structured Irrevocable Life Insurance Trust.