

Doing Well by Doing Good--A Case for CRTs

Bob Kirby, Former Parent

Several years ago I found myself in the position of holding a very low cost security that was subject to a call at the current market price by another party. I was certain that the security would be called and therefore faced the prospect of having the value of the asset reduced by about 25% due to federal and state capital gains taxes. Having always been a reluctant taxpayer without much confidence in what government was likely to do with my dollars once received, I looked around for some acceptable alternative.

An attorney friend suggested that I consider a charitable remainder trust (CRT). By contributing my stock to a CRT I would receive a number of benefits. First, the stock could be sold without any capital gains tax and the total proceeds reinvested for my benefit as a lifetime income beneficiary and for the benefit of the ultimate charitable beneficiaries. Second, I would receive an immediate tax deduction based on the present value of the trust assets discounted by the actuarial expectancy of me or any co-beneficiary of the trust. If you are in the Social Security age bracket, this deduction might be somewhere near 30% of the asset value of the contributed stock. Third, you can select any reasonable rate of return from the trust to be paid to you annually for the remainder of your life and that of you and/or your spouse. If the asset contributed to the CRT had a market value of \$1 million and you selected a rate of return of 6% or 7% you and/or your spouse would be guaranteed \$60,000 or \$70,000 per year certain for the rest of your lives.

When considering a charitable remainder trust, I think of a line from an old Tom Lehrer song, "Doing well while doing good." A CRT is probably most appropriate for a person who owns an asset of considerable value that produces very little current income when that person is beyond his earning years. This kind of holding might be in a ranch or in the stock of a growing technology company reinvesting all its earnings to maintain its future growth. Those kinds of assets look great on your personal balance sheet but don't go very far in terms of buying groceries or paying the rent. My CRT gives both me and my wife a certain given level of income that will provide for us no matter what happens to other assets we may own.

Cordially,

Bob Kirby