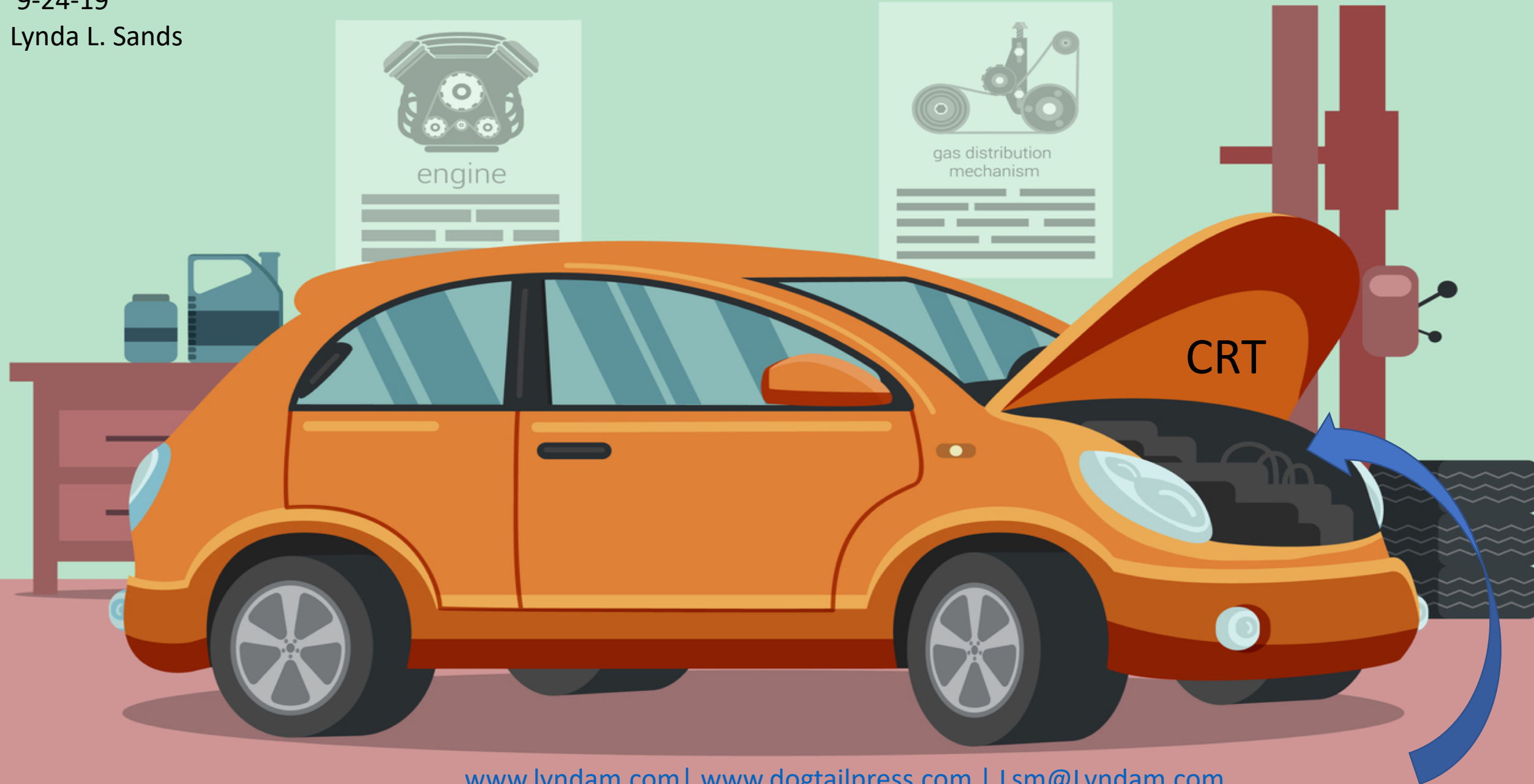


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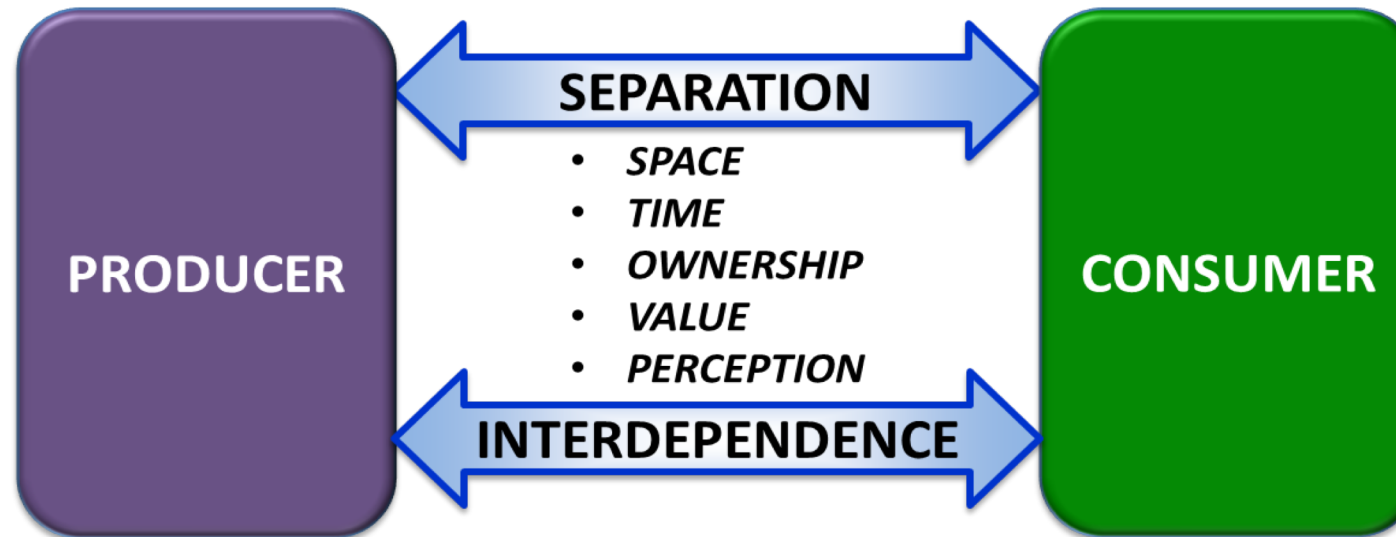
Lynda L. Sands

UNDER THE HOOD OF THE CRT



UNDER THE HOOD OF THE CHARITABLE REMAINDER TRUST

MARKETING: *Closing the Gaps*



UNDER THE HOOD OF THE CHARITABLE REMAINDER TRUST

- Step One:** Find your largest, but yet realistic market
- Step Two:** Segment the market into target
- Step Three:** Find your ICA or ICAs—ideal customer avatar. Design “products” in advance
- Step Four:** Research the competition and find your “unique selling proposition” or USP
- Step Five:** Create channels of communication to reach each market segment, get responses
- Step Six:** In the one-on-one, tailor the gift design/structure → 5 steps in planning process



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5 STEPS IN THE PLANNING PROCESS

1. MOTIVATION
2. DESIGN
3. DRAFTING
4. ASSET TRANSFERS
5. ADMINISTRATION



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FINANCIAL MOTIVATIONS

- ✓ Income Replacement
- ✓ Conversion To Cash Flow
- ✓ Diversification
- ✓ Retirement Planning
- ✓ Tax Deductions, Gain avoidance, Tax exemption
- ✓ Estate and Gift Planning



UNDER THE HOOD OF THE CHARITABLE REMAINDER TRUST

PERSONAL MOTIVATIONS

Needs, wants, hopes, goals
Fears, insecurities, concerns

CRT IDEAL Formula:

I = Income increase/diversify

D = Deductions

E = Exempt trust

A = Avoid gain



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Quick view of types of CRT: Start with the simplest

CRAT Percent X **Initial** Value

Start simply, and then...



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Then --Add one feature

CRAT SCRUT Percent X *Yearly* Value



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Then-- Add Just One More Feature



Percent X Yearly Value **OR Net**
Income if Less



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Once More, Add Just One Feature

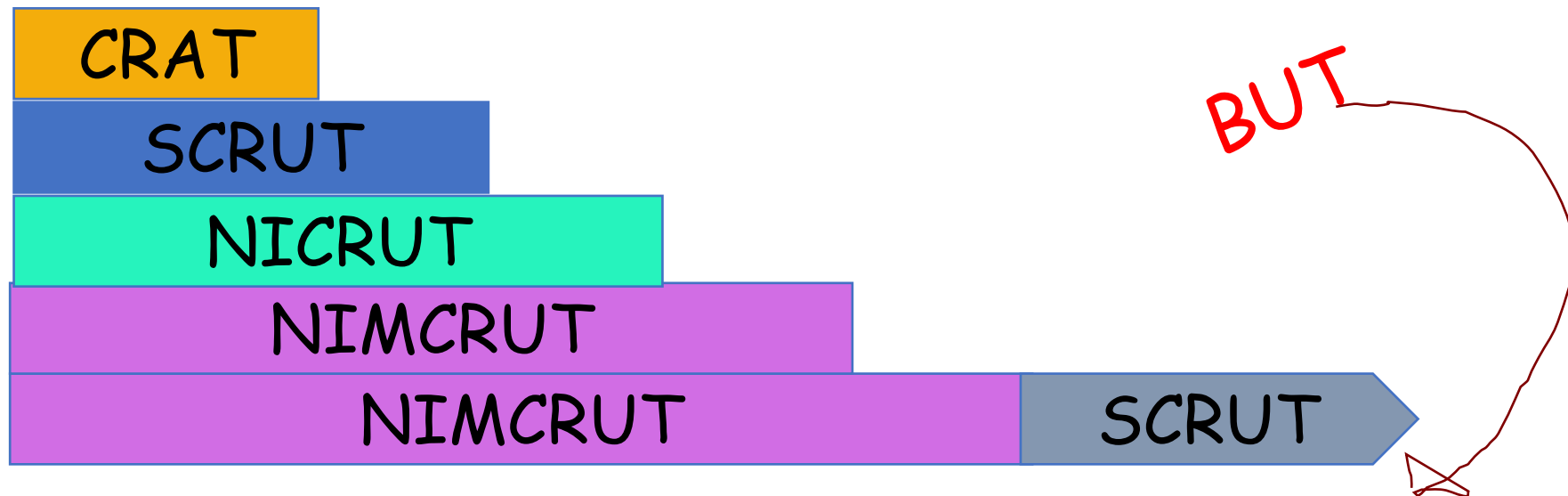


Percent X Yearly Value OR Net
Income if Less, **PLUS** Deficiency IOU



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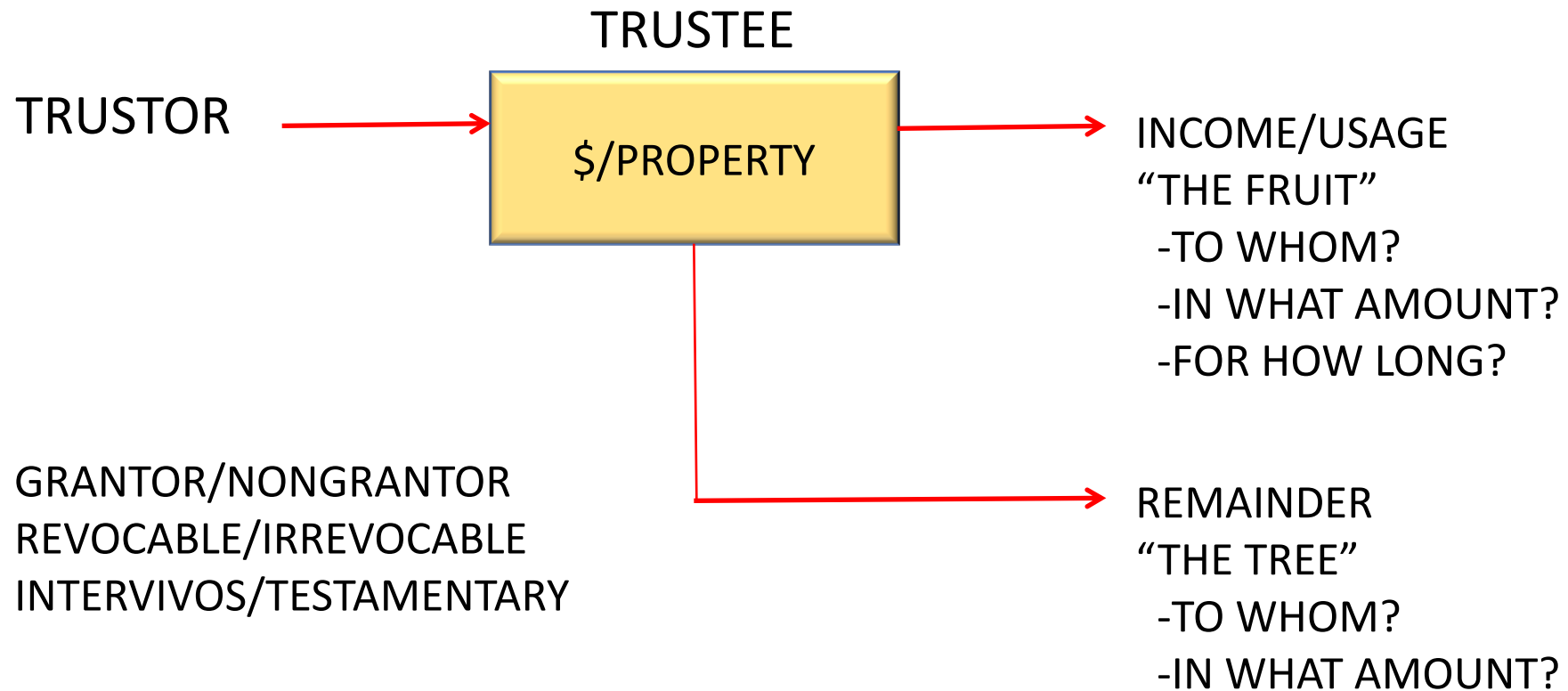
AND JUST ONE MORE



Each New Layer Brings a Cascade of New Rules



UNDER THE HOOD OF THE CHARITABLE REMAINDER TRUST



UNDER THE HOOD OF THE CHARITABLE REMAINDER TRUST

- ✓ PERMISSIBLE DONORS
- ✓ PERMISSIBLE TRUSTEES
- ✓ PERMISSIBLE BENEFICIARIES
- ✓ PERMISSIBLE REMAINDERMEN
- ✓ PERMISSIBLE LIFE OR TERM OF YEARS

**WHEW! YOU REALLY HAVE TO
STAY WITHIN THE RULES!**



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PERMISSIBLE TRUSTEES

- ✓ Individuals (Caution-valuations, experience, understanding, trust accounting)
- ✓ Commercial Trustee
- ✓ Private, Professional Trustee
- ✓ Charitable Organization



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PERMISSIBLE RECIPIENTS

- ✓ One or more “persons,” one of which is not a 170(c) organization
- ✓ Class—life term, “lives in being” only
—term of years, “in being” doesn’t matter
- ✓ Sprinkling power—independent trustee
- ✓ Entity—only for term of years
- ✓ Another trust for life of an individual (Rev. Rul. 2002-20)



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PERMISSIBLE REMAINDERMEN

TO OR FOR THE USE OF:

170(c) Organizations

501(c)(3) What's the difference?

See chart of 501(c)(3)s in materials



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GO TO CASE #1 IN HANDOUT

ONE CASE

THREE POTENTIAL OUTCOMES



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ISSUES IN DESIGN

Deduction issues
(Grantor)

Income issues
(Beneficiary)

Asset issues
(The Planner)

Charity issues
(The PG office)

Trustee issues
(Donor/beneficiary)

These are standard in most cases



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THE DEDUCTION ISSUES

- ✓ Factors
 - to whom
 - for how long
 - in what amount
 - AFR
 - Frequency of payment
- ✓ Tables— Table F
- ✓ Minimum 10% rule
- ✓ Remainder interest vs life interest



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ISSUES PRESENT FOR ALL CRTS

- ✓ Valuation
- ✓ Short years
- ✓ Investments
- ✓ Four-tier system
- ✓ Definition of income 643(b)
- ✓ Chapter 42 rules—Prohibited Transactions
- ✓ UBI and DFI
- ✓ Redesignation of Charity



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GO TO CASE #2 IN HANDOUT

ONE CASE

TWO POTENTIAL OUTCOMES



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ASSET TRANSFERS—

- ✓ Correct paperwork
- ✓ Understand who really holds title
- ✓ Proper execution
- ✓ Many problems occur here/delays



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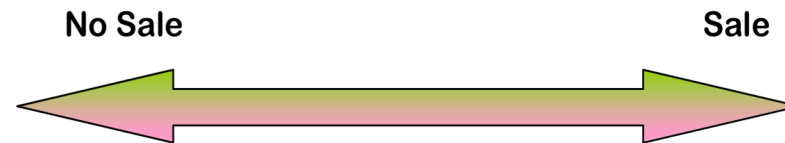
Assets Are Where The Problems Occur!!

- ✓ Title/no title
- ✓ Incomplete records
- ✓ Undisclosed entity ownership
- ✓ Buy-sell agreements, buy-sell provisions in LLC or P/S, pre-arranged sale
- ✓ Costs of sale
- ✓ Carrying costs if not sold immediately
- ✓ Asset already in escrow
- ✓ Debt/encumbrances/liens



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IS THERE A PRE-ARRANGED SALE?



Does not depend on passage of title

Is a tax concept only

ISSUE OF CONTROL, NOT TIMING

1—Can the donee/trustee walk away from the deal?

2—Can the donee/trustee amend any term?

3—Can the donee/trustee finalize significant terms?



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UNRELATED BUSINESS INCOME AND DEBT-FINANCED INCOME
100%--CONFISCATORY TAX

SEND IT IN! EVERY CENT

WHY???

WHO THOUGHT THIS WAS A GOOD IDEA
AND LOBBIED FOR IT???



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UBI = Income that is taxable

- Trade or business
- Unrelated to the charitable purpose
- Regularly carried on

DFI = Debt-financed income

- Debt incurred
- In order to acquire income-producing property
- Before, during or after acquisition



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REGULAR TERMINATION

- Last regular payment
- Prorated to end of term

EARLY TERMINATION

- Sale of income interest
- Gift of income interest
- Gift of income interest for CGA
- Revocation of survivor's interest
- Qualified contingency happens



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THAT'S ALL FOLKS!

I HOPE YOU ENJOYED THE CLASS

