

Charitable Trust benefits donor and beneficiary

By ELEANORE SZYMANSKI

Q: My brother-in-law told me there are ways to give to charity, get an income tax deduction, and receive guaranteed income for the rest of my life _ all at the same time. This sounds too good to be true. Is he putting me on?

_ L.J., Princeton

A: The vehicle to which your brother-in-law refers is probably a Charitable Trust. And, yes, all three factors you mentioned _ charitable gift, current income tax deduction and lifetime income are all part of that picture.

Keep in mind that dealing with trusts is not as simple as it sounds, however, and the tax deduction will be less than the full amount of the gift. The IRS has established a set of rules to set up a Charitable Trust. These rules govern the specific amount of the donor or grantor's (person setting up the Trust and making the gift) income tax deduction.

A Charitable Remainder Trust (CRT) is only one of many such vehicles. When establishing a CRT, the donor really makes a gift to the charity. The money or security actually changes hands and is no longer under the donor's control. However, because the donor also wants something back from the charity, in the form of future income, the IRS does not permit an income tax deduction currently for the full amount of the gift.

The amount of the income tax deduction is tied to two things: (1) The percent of the gift amount that the donor wants to receive as income over his/her lifetime; and (2) The period of years or term of the trust, which is usually based on life expectancy.

As you might expect, the higher the annual payout percentage and the longer the payout period, the lower the tax deduction allowed by the IRS. In the winter 2005 issue of The Estate Planner, The American Institute for Cancer Research provided the following example of income tax deductions for a \$100,000 Unitrust CRT:

With a payout percent of 5 percent, the deduction would be \$77,992, \$60,828, \$47,443 or \$37,004 at 5-, 10-, 15- and 20-year terms, respectively.

With a payout percent of 8 percent, the deduction would be \$66,773, \$44,587, \$27,773 or \$19,882 at the same terms as above.

Establishment of CRTs and other charitable trusts requires stringent adherence to very specific IRS rules. Charities are well aware of this factor and are generally well prepared to make this task easier. Many charitable organizations have their own legal experts who will prepare the Trust document at no cost to the donor and that accomplishes the specific wishes of the donor.

An intriguing way to use a Charitable Remainder Trust when the donor wishes annual income to go to family members for a period of time in the future would be to name the Trust as the beneficiary of all or part of an IRA. At the death of the owner, the IRA passes to the CRT-beneficiary. Because no income taxes are paid by the Trust on the IRA, the full amount of the IRA goes into the Trust. The Trust would then have a larger amount of principal on which to pay out income to family members over time.

The tax issues with charitable giving are certainly important and were designed to benefit individuals and charities alike. However, most folks should begin not with the tax benefits, but with a genuine desire to help a specific cause or charity. This can involve a lot of work, time and money, which may not make up for the tax breaks. For some, a CRT is a perfect marriage of charitable leanings, tax benefits and income requirements. For others, some other way of giving to charity might work better.

Q: I have an IRA and am receiving my IRA distributions. I am single. Can I name my church as beneficiary of my IRA?

_ AC, Hamilton

A: The answer is yes, you certainly may name your church as the beneficiary of your IRA. Naming a church or other charity as beneficiary of an IRA stretches your dollars and makes your church very happy. Even though no income tax was ever paid on amounts within your IRA account, the church will receive the full amount of the IRA, and no one has to pay those dreaded income taxes.

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