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Unique Tax and
Financial Planning
Opportunities with
Charitable Trusts—
Where Giving and
Getting Meet

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The Opportunity for Charitable Planning

- Favorable tax deductibility laws
 - Qualified charitable distribution from IRA offsets 100% of that income
 - Donation of cash to public charity can offset up to 60% of AGI
 - Donations of appreciated property to charitable organizations can avoid recognition of gain
 - Increased interest rates also increase charitable income tax deduction for contributions to charitable remainder trusts
 - Charitable lead trusts can accelerate deduction for contributions of future years into current year
- Many people in Utah are charitably inclined, and many are already making regular charitable contributions

The Opportunity for Charitable Planning

- **General Rule:** Tax deductions (gift and income tax) are not allowed for charitable gifts of partial or future interests
- **Exception:** Split-interest gifts made in trust may qualify for current deductions if trust meets numerous strict requirements

Two Families of Charitable Trusts

CHARITABLE LEAD TRUSTS

Charity gets income at least annually for a term of years or life, called a lead interest

After term, remainder goes to non-charitable beneficiaries (kids/grandkids, perhaps)

Performance over 7520 rate can avoid gift and estate taxes

CHARITABLE REMAINDER TRUSTS

Non-charitable beneficiary gets income at least annually for a term of years or life

After term, remainder goes to charitable beneficiary

Ideal for appreciated property, valuable for retirement planning

Charitable Lead Trusts

- Important Characteristics:
 - Can be testamentary or inter vivos, can be grantor or non-grantor.
 - Pays income at least annually to charity, in either annuity or unitrust amount (CLAT or CLUT).
 - No minimum or maximum distribution requirements.
 - If taxed as grantor trust, the present value of the charity's income interest is deductible from income taxes as a charitable contribution, up to 30% of donor's AGI.
 - Present value determined with IRS 7520 rate
 - Rate can be that of current month, or either of the prior two months
 - March 2025 5.4%; April 2025 5.0%; May 2025: **5.0%**

Charitable Lead Trusts

- Important Characteristics:
 - Any growth above 7520 rate (5.0% in 5/2025) will inure to the benefit of remainder beneficiaries, like in a GRAT
 - Average 7520 rate over the last 36 years is...
 - 4.85%

Charitable Lead Trusts



- CLAT EXAMPLE #1: Flat Annuity:
 - Kevin Q. Client (pictured) wants to create a large income tax deduction and transfer some property to his heirs with as little transfer tax as possible. He earns \$1,000,000 and pays approximately \$100,000 annually in donations to his church
 - Kevin creates a 10-year CLAT with his church as the charitable beneficiary; every year, the church gets \$100,000
 - An irrevocable trust for the benefit of his children is the remainder beneficiary

Charitable Lead Trusts

- CLAT EXAMPLE #1: Flat Annuity:
 - Kevin funds the CLAT with the PV of the charity's interest (calculated with the 7520 rate): \$772,173.49
 - Kevin gets an income tax deduction for the entire amount, carrying over for up to 5 years the excess over 30% of his AGI
 - The CLAT earns 8% on its funds, leaving \$218,408.41 for his beneficiaries, free of gift and estate tax

Charitable Lead Trusts

- CLAT EXAMPLE #1: Flat Annuity

Year	Annual Payments to Charity	Remainder Interest	Add'l Tax Savings
\$772,173.49			
1	-\$100,000.00		\$90,900.00
2	-\$100,000.00		\$90,900.00
3	-\$100,000.00		\$32,805.85
4	-\$100,000.00		
5	-\$100,000.00		
6	-\$100,000.00		
7	-\$100,000.00		
8	-\$100,000.00		
9	-\$100,000.00		
10	-\$100,000.00	\$218,408.41	
Total to Charity:	\$1,000,000.00		

Charitable Lead Trusts

- CLAT EXAMPLE #1: Flat Annuity:
 - Given Kevin's income, he would save an additional \$90,900 in taxes above his normal charitable deduction in both Years 1 and 2, and \$32,802.85 in Year 3.
 - Kevin uses \$772,173.49 to pay \$1,000,000 in charitable contributions he was already making, realizes \$214,602.85 in additional tax savings over the first three years, and transfers \$218,408.41 free of gift and estate taxes to his beneficiaries.

Charitable Lead Trusts

- Growth Considerations:
 - Problem: this example, and most projections, assume *even* growth. Outside of fixed income instruments, and especially in recent years, returns are seldom that even
 - Consider three quick comparisons with an identical “annualized” rate of return; \$10 million contribution, zeroed out at 7520 rate of 2.0% for level annual payment of \$1.094 million:
 - Flat return
 - Variable return, early positives
 - Variable return, early negatives

Charitable Lead Trusts

Year	Return Path 1	Return Path 2	Return Path 3
1	9.3%	10.1%	-22.1%
2	9.3%	1.3%	-11.9%
3	9.3%	37.6%	-9.1%
4	9.3%	23.0%	21.0%
5	9.3%	33.4%	28.6%
6	9.3%	28.6%	33.4%
7	9.3%	21.0%	23.0%
8	9.3%	-9.1%	37.6%
9	9.3%	-11.9%	1.3%
10	9.3%	-22.1%	10.1%
Annual Return:	9.3%	9.3%	9.3%
Remainder:	\$8,063,035	\$14,968,763	\$1,457,102

Charitable Lead Trusts

- The Power of Backloading:
 - Keeping the early annuity payments to charity small and increasing it over time can compensate for inconsistent rates of return, and produce greater benefits to the charity and the remainder beneficiary.
 - CLATs, like GRATs, are more likely to succeed in transferring wealth when the annuity amount increases.

Charitable Lead Trusts



- CLAT EXAMPLE #2: Shark Fin
 - Rather than a flat payment every year, the charity gets very little in the early years, and makes up the missing payments in the last (or later) years.
 - Kevin Q. Client again, same facts as initial example.
 - This time, the charity only gets \$1,000 a year for the first 9 years, and a balloon payment of \$1,246,212 in Year 10.

Charitable Lead Trusts

- CLAT EXAMPLE #2: Shark Fin

Year	Annual Payments to Charity	Remainder Interest	Add'l Tax Savings
\$772,173.49			
1	-\$1,000.00		\$90,900.00
2	-\$1,000.00		\$90,900.00
3	-\$1,000.00		\$32,805.85
4	-\$1,000.00		
5	-\$1,000.00		
6	-\$1,000.00		
7	-\$1,000.00		
8	-\$1,000.00		
9	-\$1,000.00		
10	-\$1,246,212	\$407,366.94	
Total to Charity:	\$1,255,212		

Charitable Lead Trusts

- CLAT EXAMPLE #2: Shark Fin

	FLAT ANNUITY	SHARK FIN
Contribution:	\$772,173	\$772,173
Benefit to Charity:	\$1,000,000	\$1,246,212
Remainder:	\$218,408	\$407,367
Total Wealth Transfer:	\$1,218,408	\$1,662,579

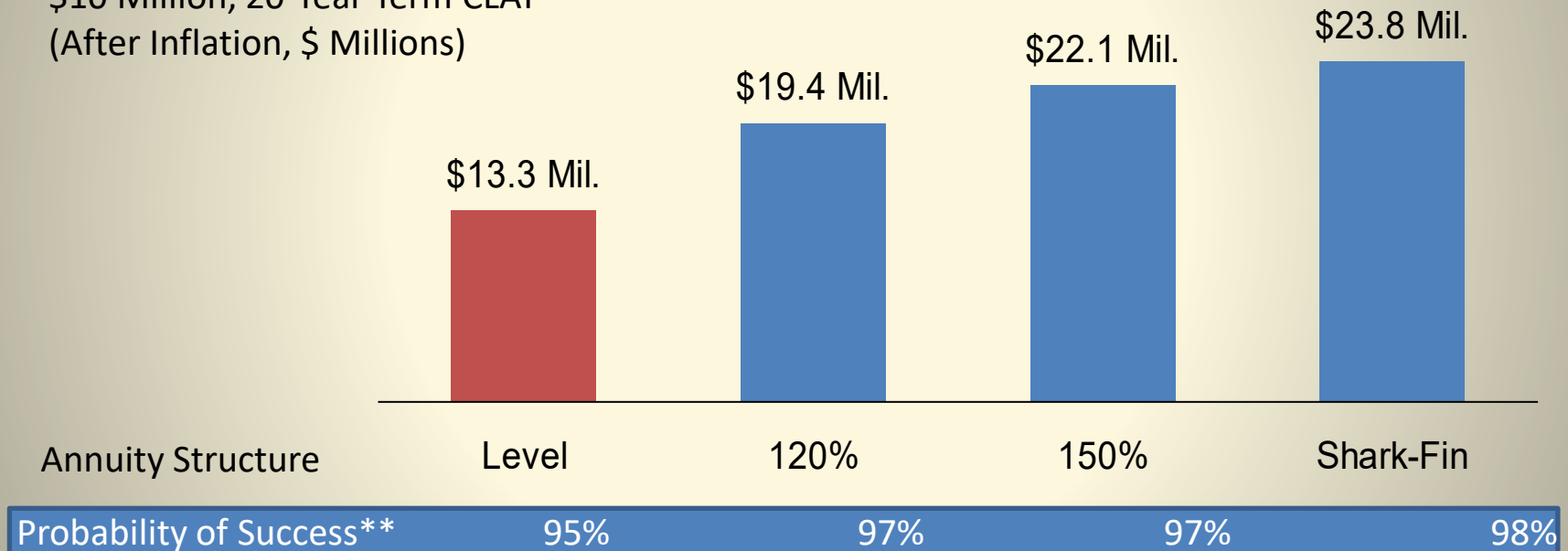
Charitable Lead Trusts

- SHARK FIN V. TUNA FIN
 - How does the Shark-fin CLAT compare to annuities that increase by 20%, or 50%, year over year?
 - Bernstein Global Wealth Management study:

Grantor CLAT

Median Wealth Transferred*

\$10 Million, 20-Year Term CLAT
(After Inflation, \$ Millions)



*Median inflation-adjusted grantor CLAT remainder assuming \$10 million zeroed-out 20-year CLAT funded at 1.8% 7520 rate, invested 100% global equity.

**Probability of remainder interest >\$0.

Charitable Lead Trusts

- CLATs v. GRATs v. IDGTs
 - How do Shark-fin CLATs stack up against other popular and effective wealth transfer techniques like GRATs and installment sales to IDGTs?

INFLATION-ADJUSTED REMAINDER VALUES (MEDIAN) \$10 MILLION INITIAL FUNDING, YEAR 20		
Installment Sale to IDGT	GRAT	Grantor Shark- Fin CLAT
\$21.9 Mil	\$23.6 Mil	\$28.5 Mil

Charitable Lead Trusts

- Remember To Exercise Caution!!
 - CLATs are subject to the private foundation rules in IRC 4941-4946, so be careful!
 - Self-dealing rules
 - Excess business holdings rules
 - Jeopardy investment rules
 - Limiting charitable income tax deduction to less than 60% of PV of charity's interest gets the trust out of 4943 and 4944.

Charitable Lead Trusts

- Potential Client Profile:
 - Client has charitable motives, whether already making regular charitable contributions or inclined to do so
 - Client has large taxable estate or current need to reduce income tax liability
 - Perhaps a client with taxes in 2025-2026 for a Roth IRA conversion, a sold business, or exercised stock options. A CLT could be used to offset much if not all of the taxes.
 - Client has (appreciating) assets to contribute. May be cash, interests in closely held business (subject to restrictions), other property

Charitable Remainder Trusts

- Important Characteristics:
 - Pay income at least annually to non-charitable beneficiary (usually grantor and/or spouse), in either annuity or unitrust amount (CRAT or CRUT), for a term of years or life. Remainder goes to charitable beneficiary.
 - The present value of the charity's remainder interest is deductible from income taxes as a charitable contribution, up to 30% of donor's AGI.
 - Present value determined with IRS 7520 rate.
 - Higher 7520 rate means higher remainder interest and, hence, higher income tax deduction.

Charitable Remainder Trusts

- Important Characteristics:
 - Must pay out minimum of 5% and maximum of 50% of trust property per year. Remainder interest must be at least 10% of initial value of trust. (DIFFERENT FROM CLTs)
 - Grantor can reserve right to change charity.
 - Trust is generally tax exempt—most gain on assets contributed to trust is not taxable to the trust. Income beneficiary is taxed on income received.
 - Donor may contribute business or property with built-in gain; if trust sells, it pays no tax. BUT SEE EXCEPTION FOR UBTI!
 - CRTs also don't pay 3.8% Obamacare surtax.

Charitable Remainder Trusts

- Taxation of Income Beneficiary:
 - WIFO (including surtax)
 - UBTI



Charitable Remainder Trusts

- CRT EXAMPLE #1: Unitrust for Life (20-yr expect.)
 - Brigham J. Client (pictured), age 65, has appreciated property worth \$1,000,000 and tax basis of \$200,000. If Brig sells, he'll have capital gains taxes of \$227,600.
 - Brig contributes the property to a CRUT, which later sells the property and pays no tax.
 - Full \$1,000,000 is invested at 7.5%, and Brig and his wife (he only has one) receive 6% annually of the balance of the property for the rest of their lives.
 - Remainder goes to Charity, and Brig gets current income tax deduction for PV of remainder interest: **\$281,040.**

Charitable Remainder Trusts

- CRT EXAMPLE #1: Unitrust for Life (20-yr expect.)

Year	Trust Principal	Annual Pmts to Brig
1	\$1,000,000.0	\$64,500.0
2	\$1,010,500.0	\$65,177.3
3	\$1,021,110.3	\$65,861.6
4	\$1,031,831.9	\$66,553.2
5	\$1,042,666.1	\$67,252.0
6	\$1,053,614.1	\$67,958.1
7	\$1,064,677.1	\$68,671.7
8	\$1,075,856.2	\$69,392.7
Etc.	Etc.	Etc.
20	\$1,219,523.1	\$78,659.2
	Rem. to Charity	Total to Brigham
	\$1,232,328.1	\$1,427,158.4
Total Wealth:	\$2,659,486.5	Tax Deduction: \$281,040.0

Charitable Remainder Trusts

- CRT EXAMPLE #1A: CG Taxes and Investing

Year	Trust Principal	Annual Pmts to Brig
1	\$772,400.0	\$48,777.1
2	\$764,173.9	\$48,257.6
3	\$756,035.5	\$47,743.6
4	\$747,983.7	\$47,235.2
5	\$740,017.7	\$46,732.1
6	\$732,136.5	\$46,234.4
7	\$724,339.2	\$45,742.0
8	\$716,625.0	\$45,254.9
Etc.	Etc.	Etc.
20	\$630,219.0	\$39,798.3
Rem. to Heirs.	Rem. to Charity	Total to Brigham
\$623,507.1	\$0.0	\$882,871.8
Total Wealth:	\$1,506,378.9	Taxes Paid: \$227,600.0

Charitable Remainder Trusts

- CRT EXAMPLE #1: Unitrust for Life (20-yr. expect.)

	Using the CRT	No CRT
Benefit to Charity/Heirs:	\$1,232,328	\$623,507
Payments to Brigham:	\$1,427,158	\$882,872
Total Wealth Transfer:	\$2,659,487	\$1,506,379
Tax Deduction/ Taxes Paid:	\$281,040	\$227,600

Charitable Remainder Trusts

- CRT EXAMPLE #1: Unitrust for Life (20-yr expect.)
 - Brigham may opt to use some of the income tax savings from the \$281,040 deduction, together with the increased annual cash flow, to purchase life insurance through an ILIT to replace the wealth being transferred out of his estate.
 - Net result is income tax savings now, a stream of income for life, an increased legacy for his heirs, and a large charitable gift in the future.

Charitable Remainder Trusts

- Variations To Get Around 5% Minimum:
 - NICRUT: Net Income Charitable Remainder Unitrust
 - Pays the lesser of the actual net income of the trust or a unitrust amount (% of the trust assets as valued at the beginning of each year)
 - Grantor can make additional contributions at any time, and get additional tax deductions

Charitable Remainder Trusts

- Variations To Get Around 5% Minimum:
 - NIMCRUT (do not call your wife this): Net Income with Makeup Charitable Remainder Unitrust
 - Pays the lesser of the actual net income of the trust or a unitrust amount (% of the trust assets as valued at the beginning of each year).
 - Can invest in property that doesn't produce income for some time, like whole life insurance, deferred annuities, or zero-coupon bonds.
 - In years when income exceeds unitrust amount, missed unitrust payments can be made up.

Charitable Remainder Trusts

- Variations To Get Around 5% Minimum:
 - FLIP CRUT: Begins as a NiCRUT or NIMCRUT, and then at the occurrence of some future event (if permissible under the Treasury Regs), the trust “flips” and becomes a conventional CRUT.
 - Make-up payments may be lost or retained, depending on the way the instrument is drafted.
 - These variations can provide excellent retirement planning opportunities, particularly when donor wants to delay the income stream for a time, then have it on a regular schedule.

Charitable Remainder Trusts



- CRT Example #2: NIMCRUT
 - Dr. J, age 50, has an estate of \$5,000,000 and net income of \$500,000 per year. He maintains a large office staff, so a qualified pension or profit-sharing plan is not ideal.
 - He establishes a 20-year term NIMCRUT with 8% payout and funds it with an investment product that will pay no income until he retires at 70.
 - He makes an initial contribution of \$500,000 and each year thereafter until he retires, he contributes an additional \$150,000.

Charitable Remainder Trusts

- CRT Example #2: NIMCRUT
 - His charitable deduction is a function of his age, so the amount of his deduction increases each year with add'l contributions.
 - Although 100% of the contribution is not deductible, as would have been the case with a qualified plan, the good Dr. is entitled to 100% of the unitrust payout.
 - No distributions are made for the first 20 years. At the end of the term, when Dr. J retires, the property begins to produce income.
 - Immediate payment of \$5,276,034 will be made to the Doc as a makeup for the 20 years of no payments. He also gets an 8% return on the remaining funds for the rest of his life.

Charitable Remainder Trusts

Year	Remainder for Charity	Annual Pmts to Dr. J
20	\$3,350,000.0	\$5,694,773.0
21	\$3,350,000.0	\$268,000.0
22	\$3,350,000.0	\$268,000.0
23	\$3,350,000.0	\$268,000.0
24	\$3,350,000.0	\$268,000.0
25	\$3,350,000.0	\$268,000.0
26	\$3,350,000.0	\$268,000.0
27	\$3,350,000.0	\$268,000.0
28	\$3,350,000.0	\$268,000.0
29	\$3,350,000.0	\$268,000.0
30	\$3,350,000.0	\$268,000.0
31	\$3,350,000.0	\$268,000.0
32	\$3,350,000.0	\$268,000.0
33	\$3,350,000.0	\$268,000.0
To Charity:	\$3,350,000.0	Total Inc. to Dr. J: \$9,178,773.0

Charitable Remainder Trusts

- CRT Example #2: NIMCRUT
 - When Dr. J dies, the principal of the NIMCRUT will pass to one or more charities designated by him. He may even designate a private foundation controlled by his widow and children as the charitable recipient.
 - As with other CRTs, Dr. J may use the funds resulting from the annual income tax deduction to buy an insurance policy on his life owned by an ILIT for the benefit of his wife and kiddies. The insurance proceeds will pass to the family free of tax.

Charitable Remainder Trusts

- CRT Example #3: FLIP CRUT
 - If Dr. J. doesn't need or want the large payment in year 20, representing a makeup of the missed income payments, an alternative design produces an even better result for the Doc and the charity—the FLIP CRUT.
 - In year 20, rather than making up missed payments, the trust “flips” from a Net Income CRUT to a regular old CRUT with annual payments of 8% due to him for the rest of his life.
 - The reduced amount he takes in year 20 (i.e., no makeup) leaves more for him and the charity.

Charitable Remainder Trusts

Year	Remainder for Charity	Annual Pmts to Dr. J
20	\$8,374,790.0	\$669,983.0
21	\$8,374,790.0	\$669,983.0
22	\$8,374,790.0	\$669,983.0
23	\$8,374,790.0	\$669,983.0
24	\$8,374,790.0	\$669,983.0
25	\$8,374,790.0	\$669,983.0
26	\$8,374,790.0	\$669,983.0
27	\$8,374,790.0	\$669,983.0
28	\$8,374,790.0	\$669,983.0
29	\$8,374,790.0	\$669,983.0
30	\$8,374,790.0	\$669,983.0
31	\$8,374,790.0	\$669,983.0
32	\$8,374,790.0	\$669,983.0
33	\$8,374,790.0	\$669,983.0
To Charity:	\$8,374,790	Total Inc. to Dr. J: \$9,379,765

Charitable Remainder Trusts

- CRT Example #3: FLIP CRUT

	NIMCRUT	FLIP-CRUT
Payments to Brigham:	\$9,178,773	\$9,379,765
Benefit to Charity:	\$3,350,000	\$8,374,790
Total Wealth Transfer:	\$12,528,773	\$17,754,555

Charitable Remainder Trusts

- Potential Client Profile:
 - Client has charitable motives, or plans to make charitable contributions when they pass away.
 - Client has appreciated property (business interest, investments, real property) and is contemplating selling it.
 - Perhaps a client considering a Roth IRA conversion with a large IRA who is concerned about the tax hit.
 - Client has retirement or estate planning objectives that could be met by establishing a stream of income for remainder of life.

REVIEW OF ADVANTAGES

CHARITABLE LEAD TRUSTS

Current income tax deduction for PV of income interest for charity

Growth above 7520 rate benefits remainder beneficiaries

Property can grow without tax drag, remainder passes free of gift and estate taxes

CHARITABLE REMAINDER TRUSTS

Current income tax deduction for PV of remainder interest for charity

No capital gains or other tax on sale of appreciated property (generally)

Income stream for term or life for noncharitable beneficiary

Conclusion

- Investment performance that exceeds 7520 rate creates great opportunities for those charitably inclined and looking for transfer tax leverage, especially in CLTs.
- CRTs can be great tools for estate and retirement planning, especially with highly appreciated capital assets. Higher 7520 rate increases charitable deduction.
- This presentation only goes over the general concept of these trusts. There are very complex tax laws that govern the wording and operation, and other restrictions and variations not discussed here.

Questions?

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