

Charitable Trusts – An Overview

If you are planning your estate and wish to give part of it to charity, you may be a candidate for a charitable trust. A charitable trust is a unique giving opportunity because it not only allows you to give to the charity of your choice on your schedule, but it also allows you to secure a current income-tax deduction.

If you make your charitable contribution in your Will, the amount of your contribution will be deductible for estate-tax purposes. So you pay no estate tax on the donated assets. However, a lifetime charitable trust allows you to make the gift, avoid estate taxes on the donated assets, and get a current income-tax deduction at the time you make the gift without having to give up total control of the amount given.

Charitable Remainder Trust

Say you want to donate some of your assets to charity, but you'd also like to see the income from those assets go to yourself, someone in your family, or another beneficiary for a certain amount of time. A charitable remainder trust will allow you to do that. When you set up the trust, you can designate yourself or any other person to receive income from the trust for life or up to 20 years. Your designated charity will receive the remaining assets at the end of that time period.

But how can you determine the amount of the deduction if the charity will not actually receive its gift until some future date? And where does the current income-tax deduction fit in? IRS tables and formulas must be used to determine the value of a future gift to charity. Of course, the higher the value of your gift, the higher your deduction will be. You can deduct the value of your gift for income-tax pur-

poses, assuming all tax law requirements are met.

Usually the charitable remainder trust is set up as either a unitrust, which pays the income beneficiary a percentage of the trust fund each year, or an annuity trust, which pays a fixed dollar amount each year.

Suppose you are 65 years old and want to contribute \$1 million to charity. You set up a charitable remainder trust with the \$1 million and arrange for \$50,000 of trust income to be paid to you annually for life. You would be entitled to an immediate income-tax charitable contribution deduction of about \$506,000 (within tax law limits). In addition, at your death, the entire value of the assets passing to the charity would avoid estate taxes. (Note that the estate tax is being temporarily phased out, with complete repeal scheduled for 2010.)

The Charitable Lead Trust

You can also name the charity as the income beneficiary of your trust. The charity would then receive the annual income payments from the trust, and you, your family or whoever else you choose will receive the remainder. This is a good strategy if you have little immediate need for additional income and are willing to give up the income for the income-tax advantage. In this type of trust, as with the charitable remainder trust, the IRS tables determine the value of your gift, and hence, your deduction. That is based on the amount of income the charity receives each year and the number of years the trust is operative.

If you would like more information on charitable trusts, please don't hesitate to call or, better yet, visit us at Bay Trust Company.



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