Charitable Remainder Trusts and Green Lake Foundation

Have you thought about how you might include the Green Lake Church in your estate plans? This idea is relevant at any age but is probably of more direct concern to those of us in the "golden years". As we have reported in the Newsletter in the past year, the Green Lake Church is now in an excellent position - thanks to the creation of the Green Lake Foundation - to encourage and benefit from such planning. The Foundation provides us with considerable flexibility as to the kinds of gifts that can be accepted and ways in which they can be managed. The Foundation is structured in such a way that any assets it receives will be for the benefit of the Green Lake Church and its mission. In the coming months we will be developing strategies to help those in the congregation who would like to explore various options for the long-term support of the church.

In order to make this process a bit less intimidating, we will provide occasional short pieces in the Newsletter describing different methods that are available for providing such support. The obvious ways include cash gifts, or gifts of stock, or real estate, or naming the Foundation as a beneficiary in a life-insurance policy and so on. There are however, more interesting options that we will discuss. One of those is the Charitable Trust. There are several varieties of Trusts and we will focus on only one this month.

A "trust" is a legal creation (there are many mythical animals in the tax zoo) which has special status as far as the Internal Revenue Service (IRS) is concerned. A "trust" is a financial instrument that allows a person to manage assets in very specific ways prescribed by law, depending on how the "trust" is structured. A "charitable trust" is one designed specifically to help a person manage their charitable contributions in special ways. A very specific form of charitable trusts is the "Charitable Remainder Trust".

In the case of a Charitable Remainder Trust (CRT), a person may wish to make a charitable contribution, but has no significant liquid assets (cash) to make that possible. However, the individual may have other tangible assets (such as real estate, what else?) that are not very liquid or which provide the individual with an income stream to supplement other income during retirement. The CRT provides a mechanism to achieve both goals: the charitable contribution and the income stream for personal needs. Here is how it works.

The donor, with the help of the Foundation and with advice from professionals, first creates a CRT, and then the donor transfers the appropriate income-producing asset (such as an apartment or rental property) to the CRT in return for a continuing income stream. When the person dies, whatever is left of the asset (the "remainder") is transferred by the Trust to the Foundation for the benefit of the Church.

There are several important advantages to such a transaction. First, because the Trust is NOT a tax-paying entity (it is exempted by the IRS for just such purposes), assets can be transferred without having to pay any capital gains taxes either at the time of transfer or at the time of death (in other words, the asset does not show up in the value of the donor's estate). In addition, the donor receives an immediate income tax deduction based on the value of the asset transferred to the CRT less an actuarial calculation of an equivalent amount that the donor will receive as the ongoing income stream. This kind of donation can have very advantageous tax and estate planning benefits to a donor especially if the donor has assets that have a low "basis" (in other words, the donor has already taken considerable depreciation for tax purposes over the years and now the asset, if disposed of in the normal manner, would result in a large capital gains tax liability).

In short, the Charitable Remainder Trust is a creative vehicle whereby a donor can achieve multiple goals simultaneously by benefiting the chosen charity, by ensuring an appropriate income stream for life, and by reducing tax liability to the donor's "estate" (the assets the donor leaves behind upon death).

The Charitable Remainder Trust is just one type of charitable trust. In subsequent Newsletters we will discuss other species in the tax zoo. If you would like to explore these topics, please feel free to contact me or any of the other members of the Foundation Board.

Alvin Kwiram, Chair
Green Lake Foundation Board