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 **PNC**  
WEALTH MANAGEMENT

# *Life Income Gifts as Retirement Income*

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# CHARITABLE GIFT ANNUITY (“CGA”)

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## Charitable gift annuity

- A contract between a non-charitable beneficiary and a charity. The charity, in return for a transfer of assets, agrees to pay a fixed amount of money to one or two donors for life, not a term of years. Assets pass to charity upon the death of the donor or donors.
- Governed by the states with rates suggested by the American Council on Gift Annuities ([www.acga-web.org](http://www.acga-web.org))
- The payout is based upon the age of the donor(s) and remains the same for the life of the contract. Generally not offered to donors younger than age 60. The fixed payment is not inflation protected but is frequently higher than payments from other fixed investments.

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# CHARITABLE REMAINDER TRUST (“CRT”)

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## Charitable Remainder Trust (“CRT”)

- Irrevocable trust funded with a gift of cash or property
- Donor (and/or another non-charitable beneficiary) retains the right to an income stream of either a fixed amount, Charitable Remainder Annuity Trust (“CRAT”), or a fixed percentage, Charitable Remainder Unitrust (“CRUT”)
- Income interest must be at least 5% and no more than 50% of the value of the trust
- Income paid for a specified number of years (no more than 20) or life
- May provide donor with an immediate income tax deduction
- May permit asset sale without any immediate capital gains tax
- The actuarial value of the charity’s remainder interest at the time of creation must be at least 10% of the CRT’s fair market value
- At the end of the trust term, the qualified charity specified in the trust document receives the property in the trust and any appreciation (donor may retain a power to change charitable beneficiaries)

Source: Internal Revenue Code (“IRC”) Section 664

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# CHARITABLE REMAINDER TRUST (“CRT”)

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## Lifetime

- Potential cash flow increase
- Investment diversification
- Potential income tax deduction
- Potential gift tax deduction
- May defer/avoid capital gains tax

## After Death

- Cash flow
- Potential estate tax deduction
- May defer/avoid income tax on IRA-type assets

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# CHARITABLE REMAINDER TRUST (CRT) TAXATION

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## Tax Exempt Entity

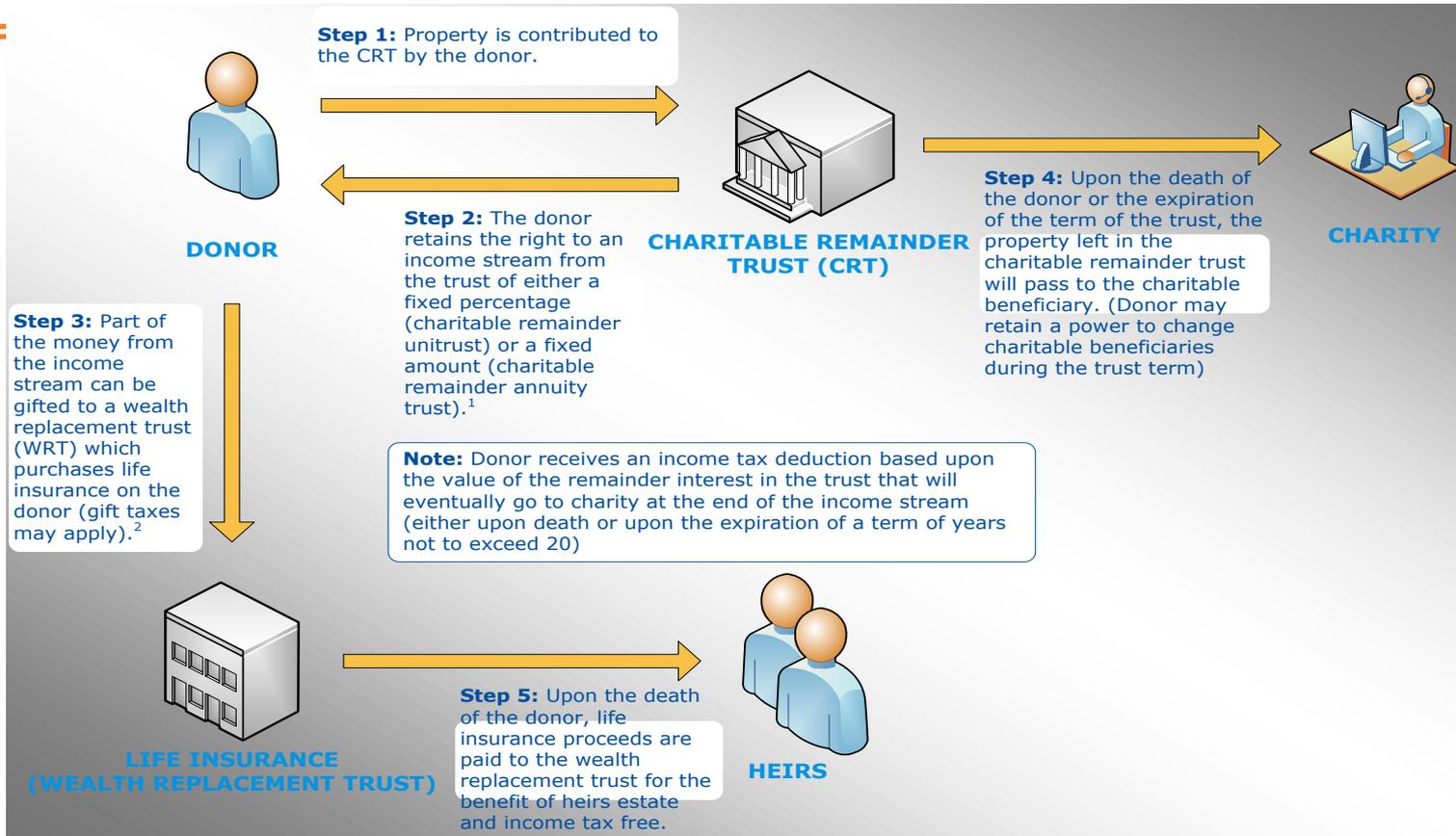
- Ability to sell highly appreciated assets without current taxation to donor
  - Highly appreciated stock
  - Highly appreciated property

## Four Tiered Tax on Distributions

- Ordinary income
- Capital gains
- Tax exempt income
- Return of basis/principal

*The amounts received are treated as ordinary income until all of the CRT's ordinary income for the year of the distribution and undistributed ordinary income for prior years has been distributed. After all of the ordinary income has been distributed, capital gains are distributed, followed by other (including tax exempt) income, and finally principal. Internal Revenue Code § 664(b); Treasury Regulation § 1.664-1(d).*

# CHARITABLE REMAINDER TRUST (CRT)



1. 26 USC 664(d)(1) and (d)(2)
2. 26 USC 2501(a)(1) and 26 USC 2503(b)(1)

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## WHO MIGHT BE A CRT CANDIDATE?

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### A Suitable Candidate May Be Someone Who Has:

- Philanthropic intent
- Highly appreciated assets
- Concern regarding current and future taxes
- Concentrated wealth desiring greater diversification
- Non-income producing assets that wants lifetime income
- Entered the preservation stage of their life
- Large retirement account/IRA in second marriage

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## CRT CONCLUSION

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### Possible Advantages:

- Charitable gift
- Donor receives cash flow for life or term of years
- Potential immediate income tax deduction for donor
- May minimize the impact of capital gains, gift and estate taxes
- Ability to diversify a concentrated position

### Possible Disadvantages:

- Trust is irrevocable
- Terms of trust can not be changed (donor may retain a power to change charitable beneficiaries during the trust term)
- Assets passing to charity do not pass to heirs

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***Vice President and Senior Trust Advisor***  
***PNC Wealth Management***

As a Senior Trust Advisor, Susan Fisher is responsible for the administrative and fiduciary aspects of client relationships for Trusts, IRA's and Investment Management accounts. She works with a team of specialists in the areas of financial planning, investments and private banking services to help clients meet their financial goals.

Susan brings to PNC Wealth Management a depth of banking experience, including both Institutional and Individual Trust Services, Financial Planning and Wealth Management, Charitable Planning and Foundation services as well as Credit Analyst services in Commercial Lending in banking institutions in both New York and Southeastern Pennsylvania. Susan is a frequent speaker on the topics of Best Financial Practices and Planned Giving for Donors and NonProfits.

Susan holds a Bachelor of Science degree in Business Administration from Houghton College in New York, a Masters Degree in Education from Chestnut Hill College and holds a Charitable Gift Planning Advisor certification also. Susan serves on the Board of Directors of the North Penn YMCA, the Bucks County Historical Society (Mercer Museum) and the Bucks County Estate Planning Council. She holds a NASD Series 6, 7 and 63 securities licenses, a Life and Health Insurance License and is a CERTIFIED FINANCIAL PLANNER™.

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