SAN FRANCISCO PLAYHOUSE

Charitable Remainder Trusts

A Charitable Remainder Trust (CRT) is an irrevocable trust that provides you with a stream of income for the rest of your life. On your death, everything left in the trust goes to a charity of your choice. For a married couple, the stream of income continues after the first spouse dies. In addition, you get an *immediate* charitable deduction on your taxes when you establish the trust. You can act as trustee of the trust and have total control over the investments.

There are two types of CRTs:

1. Annuity trusts, which pay you a *fixed* amount of money every year .
2. Unitrusts, which pay you a *percentage* of the *total value* of the trust every year.

CRTs are particularly effective when you have appreciated assets.

Example: Assume you have stock that you purchased for $50,000 that is now worth $100,000. If you sell it, *you will have a taxable gain*. If instead, you contribute it to a CRT and then sell it there will be *no taxable gain* because the CRT is treated as a charity. The entire $100,000 is available to invest and provide funds make payments to you.

Example: If a 65-year-old person creates a CRT and contributes $100,000 and elects to take a stream of income equal to 7 percent of the value of the trust every year, that person will get $7,000 the first year and will have a charitable deduction of $34,610 the first year. The income payable in subsequent years depends on the value of the assets. If the value goes up, the income will be more than $7,000. The person who creates the trust determines how to invest the funds to maximize the value and income.

One drawback to creating a CRT is the need to prepare a separate income tax return for the trust each year. The trust does not pay income tax, but it must file an informational return with the IRS and the State of California.

If you are interested in creating a CRT and naming The San Francisco Playhouse as the charitable beneficiary, we can put you in touch with an attorney who will provide more information and prepare the legal documents at no cost to you.

Donation of Stock

If you are interested in making a charitable donation and own stock, mutual funds, or other investments that have increased in value, you may want to consider the income tax benefits of donating the investment. If you sell the investment, you will owe income tax on the gain. On the other hand, if you donate the investment, you will have no gain and you will get a tax deduction for the current fair market value of the investment, *not the amount you paid for it.*