



**PLANNING**

# Sherwood Oaks

CHRISTIAN CHURCH

## **CHARITABLE CASE IN POINT**

*ISSUE 2*

2700 E. Rogers Road, Bloomington, IN 47401

**Sherwood Oaks Christian Church**

## CHARITABLE CASE IN POINT

We trust you found our first issue of Charitable Case in Point to be of interest and value, and by this time have been able to use the concept we illustrated to better serve the clients who look to you for financial and estate planning advice.

### AN IMPORTANT PHILOSOPHY

There is an old saying in the marketplace... you have heard it many times. It is, "No deal is a good deal unless it's good for all parties involved."

This philosophy is emerging even stronger with the "win-win" philosophy. The "winning through intimidation" mentality has been replaced with the philosophy that, "I only win when I help you win."

This issue's Case in Point is one which well fits this philosophy. As you review it, you'll agree that everyone wins (with the possible exception of the Internal Revenue Service).

- Your client wins by reducing tax liabilities, increasing and providing future financial security.
- The charitable organization wins with the substantial value made available for future endowment.
- And you win, not only in the satisfaction of having served your client well, but also with continuing services, such as sale of product, management of assets, preparation of legal instruments, continuing accounting services, trustee fees, etc.

We trust you will find this Case in Point to be of interest and value.

### THE CASE IN POINT

In reviewing the estate design which was prepared as part of his overall estate planning process, the client noted that a primary objective was to secure property

to provide income during retirement years. This would solve two major problems:

- The client was highly invested in heavily leveraged real estate. If family and future security were guaranteed, the client would be willing to take greater risks, thus hopefully increasing return.
- An offer had just been received on one property for \$1.5 million, which was purchased several years ago for \$60,000. But to accept the offer, other property would have to be found to exchange for this property. Because without an exchange, a substantial capital gains tax would have to be paid on the sale of this property.

### THE CHARITABLE SOLUTION

We suggested that the client consider the establishment of a special charitable trust. The current offer would be refused and the client would transfer this property to the trust, prior to attempting to market the property.

Because of the special provisions of the trust, there would be no capital gains tax implications at the time of the client's transfer to the trust, nor would the client pay a capital gains tax when the property is later sold by the trust.

The trust could continue to hold the property or, in this particular case, it would seem more practical for the trustee to pursue the offer which had been made on the property.

Because the client was only 45 years of age, the trust was specially designed with a low income payout of 5% of the trust value. With the low payout, the trustee can invest the assets for growth, and any amounts earned by the trust in excess of the payout will accumulate tax-free.

Because of this tax-free growth, assuming a 10% return in the trust, the assets will accumulate to nearly \$4.5 million at the client's projected retirement age of 65.



And the projected income from the trust, at retirement age, will be in excess of \$200,000 per year.

The trust could be designed with another unique advantage. The trustee would be required to pay the actual earnings of the trust until retirement. In pre-retirement years, the trustee invests in appreciating assets which do not produce income. At the client's projected retirement the accumulated amounts within the trust, still assuming our 10% return, will exceed \$10 million.

At the client's retirement, the trust can "flip" to a standard payout trust. The retirement income to the client is projected to be \$500,000 per year.

#### ***Impact of Trust Upon Current Income Tax Planning***

Due to the unique design of the trust, the client will be allowed a federal income tax charitable deduction in the amount of \$219,210, which can be taken in the year of the gift, and if necessary, carried over for five additional years. Because the client is in a 42% combined state and federal income tax bracket, this results in an actual income tax savings of approximately \$92,000.

#### ***How the Client Used This Tax Savings***

The client chose to use the tax savings resulting from the charitable deduction to purchase a life insurance policy, to replace the value of the property in the estate, for family members.

Through the use of another trust, specially qualified to hold life insurance, the client can distribute the value of the property to family at death, free of probate and estate tax.

#### ***Benefit to Charitable Organization***

Assuming that the client and spouse live to average life expectancy (and the trust pays 5% income to the client, with a 10%

annual rate of combined growth and earnings), it is projected that the trust will have grown to approximately \$33 million, at the end of the client's life expectancy. And the assets remaining in the trust will be available to charity to carry out its important work.

### **SUMMARY OF BENEFITS**

We began this newsletter with a saying, "No deal is a good deal unless it's good for all parties involved." This appears to be a transaction where everyone wins.

- The client has immediate tax advantages in the form of a charitable deduction and avoidance of capital gains tax.
- The property is segregated irrevocably in a trust, with protection from the liabilities which might exist on other properties.
- The trustee is free to manage the assets so that income can be paid to the client in pre-retirement years, or accumulated tax-free in the trust for post-retirement needs.
- The trustee can move from one investment to another, without capital gains tax implications.
- The value of the property is irrevocably set aside for family members, through the use of life insurance, and is distributed free of probate and estate tax.
- At the death of the client, substantial assets are available for a charitable cause with which the client was involved during lifetime.

#### ***Comparison***

To further illustrate the benefits of the charitable remainder unitrust, let's compare a sale of the property with a transfer to a unitrust. To make an "equal" comparison, rather than assuming assets are compounded inside the trust, we will assume earnings equal to payout. (See chart on following page.)



	Sale Without Trust	Sale With Trust
Property Value	\$1,500,000	\$ 1,500,000
Tax on Gain	316,800	0
Charitable Deduction Tax Savings	0	92,068
Available to Produce Income	1,183,200	1,592,068
Minimum Amount to Family	650,760	1,500,000
Amount to Charity	0	1,500,000

## CONCLUSION

While we realize that you might not be working with individuals who fit this "ideal" set of circumstances, we're sure there are clients with whom you work, who should consider this type of special trust as part of their planning. If you have such a client, may we suggest one of two things to you.

- If you will furnish us with the data for your client, we will be happy to prepare a personalized presentation with tax implications, based upon your client's circumstances. Please call us and let's talk about the particulars.
- Or if you prefer, we would be happy to forward to you a Special Planning Report providing you with full details on the charitable remainder unitrust as a planning tool. Please call our office, or use the enclosed response card to receive your copy.

With this letter is a form which you may use in forwarding information to us for a personalized presentation. You may wish to make several copies of this form, to have available when you have clients with whom we can be of assistance. This form should contain all the information we need to provide this service for you.

## RESPONSE CARD

- Please send me the Special Planning Report offered in *Issue 2 of Charitable Case in Point*.
- I have a client whom I believe could benefit from this type of vehicle. Please contact me to further discuss its possibilities.

*Name*

---

*Address*

---

*City*

*State*

*Zip*

---

*Profession*

*Daytime Phone*

---

### Sherwood Oaks Christian Church

2700 E. Rogers Road, Bloomington, IN 47401

**PHONE: 812.334.0206**

**E-MAIL: rclark@socc.org**

**Note:** The information in this newsletter is of a general nature only, and should not be interpreted as legal advice. Illustrations were calculated using a 5% mid-term AFR rate. The rate in effect in the month of a transfer or in either of the two months preceding the transfer will be used to calculate the charitable deduction available for a specific gift. Return on investment based on Standard & Poors average since 1926 with total return investing.



© Lifestyle Giving, Inc., 2007