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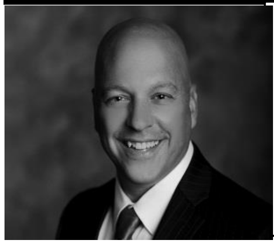

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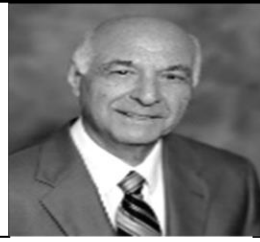

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## *Charitable Remainder Trusts*

In the Mergers and Acquisitions (M&A) world, tax deferral/minimization is at the forefront of everyone's mind. In the case of sellers, they are looking to net as much money as possible into their pocket without having to give it up to the Federal Government. Whether their goals are to re-invest in another business venture, retire, or even fulfill their philanthropic duties, there are many different tax strategies out there. For those who which to take a philanthropic path, Charitable Remainder Trusts (CRT) are a perfect option for you.

A charitable remainder trust is a "split-interest" giving vehicle that enables individuals to generate income while also pursuing their philanthropic goals.

These trusts are often used to reduce taxable income as they are tax-exempt and irrevocable. To set these up, a donation is made by the trustor who then provides them with a partial tax deduction. Afterward, income is dispensed to either the trustor or one of the noncharitable beneficiaries for a specified period. How exactly does this trust work? As noted above, once assets are donated into the trust, one or more noncharitable beneficiaries are paid out over a stated period. This period can be no longer than 20 years or the life of one or more of the noncharitable beneficiaries.

Payments are eligible to be made annually, semi-annually, quarterly, or monthly. Upon expiration of the time period, the remaining assets are transferred to the charitable beneficiary(s). Assets eligible to be transferred to a CRT include cash, stocks, real estate, private business interests, and private company stock. The partial tax deduction the trustor is eligible to receive is based upon the trust's type and term, along with the projected income payments to the charitable beneficiaries and interest rates set by the IRS.

With a CRT being irrevocable, the trustor has removed it from their estate. This avoids the probate process, is not subject to estate taxes, and allows immediate transfer to beneficiaries. There are two types of CRTs: Charitable Remainder Annuity Trust (CRAT) and Charitable Remainder Unitrust (CRUT). CRATs distribute a fixed annuity each year to the noncharitable beneficiaries. The annuity amount is always the same and must at least be 5% but no more than 50% of the initial value of the assets in the trust. CRUTs are distributed based on a fixed percentage of the balance of the trust, which is revalued each year.

The annual amount will fluctuate but is based on the same 5% and 50% limit as CRATs. The main difference between CRAT and CRUT is that a CRAT does not allow for any additional contributions. How do CRTs relate to those in the M&A field? Well, it is simple. Business owners who are in the market to sell, can donate their business to a CRT, receive a tax deduction as mentioned above, and not have to pay capital gains on the sale of the company. You would only have to pay tax on the distributions from the trust.

Along with this, since the trust does not pay any taxes, it allows for any assets in the trust to grow tax-free. At The Center for Financial, Legal & Tax Planning, Inc., (The Center) our M&A team is equipped with attorneys and CPAs who are very knowledgeable when it comes to tax deferral vehicles such as a CRT. If you are interested in exploring the sale of your business and the tax implications, please feel free to reach out at our website, www.taxplanning.com, or by phone at (618) 997-3436.

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