Charitable Trusts

The purpose of a trust is to set aside money or other assets to accomplish some financial objectives without the worry of money management. Charitable trusts offer the additional advantage of tangible economic benefits for the donor while providing for the RMS after the death of the donor(s). Some gift options produce income for the donor or the donor's named beneficiaries. Cash or other assets are donated to the charitable trust with the donor or other beneficiary(ies) receiving an income interest for life or a term of years. Charitable trusts come in several types, each of which are designed to accomplish specific donor objectives and are discussed below.

The four most common charitable trusts are:

Charitable Remainder Annuity Trust (CRAT)
Charitable Remainder Unitrusts (CRUT)
Revocable Living Trusts
Charitable Lead Trusts

Charitable Remainder Annuity Trust (CRAT)

To establish a Charitable Remainder Annuity Trust (CRAT), the donor transfers cash or appreciated assets to a trustee to be held for the benefit of the RMS. During the donor's lifetime, the trustee makes guaranteed fixed payments (determined at the time the trust is established) to the donor. The donor may also be designated a second surviving beneficiary to receive the payments.

The CRAT is tax-exempt by virtue of the fact if there is a charitable beneficiary of the remainder interest, RMS becomes the beneficiary. Because of its versatility, the CRAT is one of the most popular life income vehicles. Advantages include:

*You are entitled to an income tax deduction for the present value of the remainder interest.
*Any capital gain on appreciated assets is bypassed.
*You or other beneficiaries receive an income interest for life or a term of years.
*You help river managers by providing needed resources for services and programs.

You can use many different kinds of property and assets to fund CRATs. They are life income instruments where you or your trustee, financial advisor, or attorney retains control over the trust assets, within limits of the agreement. While CRATs are tax-exempt, the income produced is not necessarily so, depending on the type of asset producing the income. CRATs pay a fixed amount annually while the charitable remainder unitrusts (CRUTs - discussed below) pay a variable amount annually.

Rather than paying a percentage of the net fair market value of trust assets (revalued each year), the CRAT pays a fixed dollar amount, based on the initial fair market value of the property placed in the trust. CRATs are for those who want a fixed sum and do not want to worry about the vagaries of the market. This strategy can be carried even further if the trustee purchases high-quality corporate bonds. The purchase of tax-exempt bonds will yield tax-exempt income. In the CRAT, no matter how much the corpus grows, the annuity amount never changes, so it may not be appropriate where the funding assets are expected to appreciate. In general, CRATs are popular with conservative donors with conservative assets producing predictable income. Although circumstances vary, CRATs seem to favor older donors who are not worried about the ravages of inflation.

If you wish to reduce your dependence on equities, secure an increased and steady income and make a gift to the RMS, this might be the alternative for you. Of course, you would prefer to make this change without erosion due to capital gains tax. An appropriate and efficient solution is to select your most highly appreciated assets, or those with the least potential for further growth, and transfer them to a CRAT. You must specify a set amount of annual income you (or another income beneficiary) would like to receive from the trust, which may actually end up being two or three times the dividend rate of the stock you transferred.
The income could last your lifetime (plus the lifetime of a subsequent income beneficiary, i.e., your spouse) or a term of years. A CRAT is a tax exempt trust that pays income to the donor's designee. After the trust term ends, the charity you name, e.g., the RMS receives the remainder of the assets in the trust. The year you establish the CRAT, you receive an income tax charitable deduction. This amount depends on the number of beneficiaries named to

receive income from the trust, their life expectancies, the amount of income the CRAT will distribute to them (including how frequently the payments are made), and the current interest rate.

Examples: Jamie, age 75, places $100,000 of stock currently generating $1,200 per year (cost basis, $70,000) in a one-life CRAT paying 6 percent in semi-annual installments (with an applicable federal interest rate at the time of 6 percent). So, she will receive $6,000 annually. She is allowed a charitable deduction of $55,948, which in her 30 percent tax bracket saves her $16,784 of income tax. In addition, she avoids the capital gains tax on her $30,000 appreciation in value, which amounts to a $6,000 savings at the 20 percent tax rate. The net cost of the $100,000 gift was only $77,216, and she increased her income by $4,800, or five times the original income stream.

Mr. and Mrs. Shaver, ages 65 and 60, use $100,000 of appreciated stock to fund a six percent CRAT. They will receive an immediate income tax deduction for the present value of the remainder interest of the trust. They also will begin receiving payments of $6,000 per year which will continue for as long as either one of them lives. After their deaths, the trust will terminate and the proceeds will be distributed to the RMS.

Charitable Remainder Unitrusts (CRUT)

A Charitable Remainder Unitrusts (CRUT) is similar in concept to a CRAT, but one key difference is unitrust payment amounts vary from year to year. CRUTs provide payments to the donor for life or a term of up to 20 years. At the end of the term, the remaining assets in the trust pass to the RMS. Once you establish a CRUT, the RMS must begin making regular payments to you, at least annually. They are determined by multiplying the percentage stipulated in the trust by the fair-market value of the assets which are revalued each year.

Example: If Mr. and Mrs. Jay had funded a CRUT instead of a CRAT (example above), they would still receive six percent of the total funds each year, but the amount of their payments would vary as the value of the assets in the trust increased or decreased. By the end of the first year, assuming the value of the trust assets had grown to $105,000, the Jones' payments would have increased to $6,300. If the value of the assets had decreased to $95,000, their payment would have gone down to $5,700.

CRUTs come in three basic flavors:

*The straight percentage unitrust (CRUT) pays a fixed percentage of the net fair market value of the trust assets valued annually.

*The net income unitrust (NICRUT) pays the lesser of net income or the fixed percentage of the net fair market value.

*The net income with makeup trust (NIMCRUT), pays the lesser of net income or the fixed percentage, but adds a twist -- in years when the trust's net income is less than the fixed percentage there is a deficit account established, and the deficit is "made up" in years when the net income is greater than the fixed percentage. Another variation, the flip trust, allows the trust to "flip" from a NICRUT or NIMCRUT to a straight CRUT upon the occurrence of some triggering event, i.e., birth, death, or the sale of certain trust assets. The trust is often funded with appreciated assets that are delivering a low yield.

The tax benefits for a CRUT is similar to those of a CRAT. They include:
*An immediate charitable income tax deduction
*Avoiding capital gains taxes on long-term appreciated property used to fund the trust
*Payments for the life of the donor, and if desired, a secondary beneficiary, each of which could receive favorable tax treatment determined by trust activities.
*A legacy to the RMS to help perpetuate a commitment to the profession of river management

Charitable Lead Trusts

This type of trust would name RMS as a current beneficiary of an irrevocable trust. RMS would receive payments on an annual basis from the trust as determined by the donor at the time the trust is created, and the donor's named beneficiaries receive the remaining assets when the trust ends. Some donors could support RMS by using income from assets they eventually want returned to their family. The Charitable Lead Trust is the perfect vehicle for this type of gift. These types of trusts are typically designed to leverage the benefit of giving to both RMS and to the

heirs of the donor(s). A gift tax charitable deduction for the actuarial value of any payment stream to RMS will reduce the gift tax value of the transfer to any heirs.

Example: A donor may sate that RMS is to receive 4 percent of the value of the assets in the trust for 20 years, after which the remainder of the assets will be given to the donor's child. The RMS could use the payment each year to support a specific RMS need. If the donor wishes, the RMS could accumulate the money for a designated endowment fund in the donor's name or in the name of some other family member.

This trust option has some tax benefits which are dependent upon the terms of the trust when it is created. At the end of the period, the donor would have three options:

*The donor could have the principal of the trust returned
*The donor could renew the trust for another five years and receive another income tax deduction
*The donor's economic situation might permit transferring the entire principal of the trust to the RMS to establish an endowment.

Revocable Living Trusts

Many individuals are interested in making a substantial gift to the RMS, but feel more comfortable having access to their funds. This may be accomplished through a Revocable Living Trust. Because the gift is revocable, the donor does not receive an income tax deduction, but whatever funds eventually go to the RMS are deductible for estate tax purposes, if applicable.

Example: Nate Gibson, age 60, has been making small contributions to the RMS for a number of years. He would now like to make a $25,000 commitment, but is concerned he may need the money if he were to become ill or disabled. Through a revocable trust agreement, he could transfer the $25,000 and retain the right to receive the income from the trust each year for as long as he lives. The trust would contain a clause allowing him to withdraw his assets at any time during his lifetime. Following his death, the trust assets would be distributed to the RMS.