

GIVE LATER, SAVE NOW Using a Specialized Trust to Reap Tax Benefits

If you would like to donate significant assets to TB Vets, but you want to do it when you pass away and retain the related income or use of the property during your lifetime, then a “Charitable Remainder Trust” could provide you with an interesting opportunity.

A “Charitable Remainder Trust” is an irrevocable trust that holds property for the ultimate benefit of a charity. Typically, the donor transfers property into the trust and, under its terms, becomes the income beneficiary for his or her lifetime.

Meanwhile, if you were considering this gift to TB Vets, they would have a “remainder, or future residual interest”, which won’t be distributed until after you pass away. It’s the residual interest, not the property transferred to the trust, that can be treated as a charitable gift in the year you transfer the property to TB Vets. What can you transfer to this type of trust? Cash, stocks, bonds, real estate or other personal assets can be used, which is generally at fair market value for tax purposes, so you may realize a capital gain, however the donation credit’s value should more than offset any potential tax liability. In most cases, the older you are, the higher the value of the residual interest and the gift. Income earned in the trust is taxable and will generally be taxed in your hands.

Who Benefits?

The major benefit of the strategy is the current donation credit. When a will leaves a substantial portion of an estate to charity, the donor may not be able to fully utilize the maximum donation credit since it’s limited to net income in the year of death (as well as the immediately preceding year). Transferring a portion of one’s assets to a charitable remainder

trust lowers the absolute value of the gift, but it lets the donor benefit from tax savings during his or her lifetime. Unused donation credits can be carried forward for up to 5 years and ultimately increase the value of the estate.

Assets transferred to a charitable remainder trust during a person’s lifetime also don’t form part of his or her estate and therefore won’t be subject to probate fees. Finally, because the donation is not considered a testamentary gift, the property is not accessible to individuals who might challenge the will.

Of course, along with the benefits, there are risks. A charitable remainder trust is irrevocable, so the property cannot revert to the owner. The donor must be comfortable with giving up the capital today and there is no option to encroach on the capital in the event of a financial emergency.

For donors who are uncertain about their financial futures, this can be a difficult commitment, so they should be ultra-solvent. In addition, donors should be aware that there are professional fees associated with the establishment of the trust and annual fees for its administration.

Having said that, this type of charitable opportunity could enable a donor to make a significant gift during their lifetime, secure a current donation credit, all the while seeing the good work that TB Vets continues to do with the funds while they are alive.

Next Issue: “How to get the right Charitable Giving Advice when Drawing up Your Will”

The information provided above is just one of the many ways you can provide a significant gift to your favourite charity. Please talk with a professional advisor to see what options are best for you.