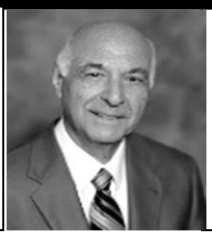
Financial, Legal & Tax Advisory

Published by The Center for Financial, Legal & Tax Planning, P.C.



Roman A. Basi, President of The Center, is an Attorney, CPA, Real Estate Broker, and Title Insurance Agent. Roman speaks and advises The Center's clientele on such matters as Business Law, Succession, Estate & Tax Planning, and Real Estate.



Dr. Bart A. Basi, Senior Advisor of the Center for Financial, Legal & Tax Planning, P.C., is an expert on closely-held companies, an attorney, and CPA. He is a member of the American Bar Association's Tax Committee on Closely-Held Businesses and Business Planning.

Tax Deferral Vehicle: Charitable Remainder Trusts

In the Mergers and Acquisitions (M&A) world, tax deferral/minimization is at the forefront of everyone's mind. Sellers want to keep as much money as possible in their pocket without giving it to the Federal Government. Whether their goals are to reinvest in another business venture, retire, or fulfill their philanthropic duties, many tax strategies can help. For those who want to pursue a philanthropic path, Charitable Remainder Trusts (CRT) are a great option. 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. In order to set these up, a donation is made by the trustor that then provides them with a partial tax deduction. Afterwards, income is dispensed to either the trustor or one of the noncharitable beneficiaries for a specified period of time. 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 of time. This period can be no longer than either 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 trustor's partial tax deduction depends on the trust's type and term, projected income payments to the charitable beneficiaries, and IRS-set interest rates.

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 different 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 be at least 5% but no more than 50% of the initial value of the assets in the trust. CRUTs distribute based upon a fixed percentage of the balance of the trust, which is revalued each year.

The annual amount will fluctuate but is based within 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's 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, P.C. (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 through our website, www.taxplanning.com, or by phone at (618) 997-3436

BASI, BASI & ASSOCIATES AT THE CENTER FOR FINANCIAL, LEGAL & TAX PLANNING, P.C.

SCAN ME!

TO VIEW OUR WEBSITE

INFO@TAXPLANNING.COM

CHECK OUR WEBSITE ONLINE, OPEN YOUR PHONE CAMERA AND SCAN THIS QR CODE

4501 W DEYOUNG ST., SUITE 200 | MARION, IL 62959

618-997-3436

WWW.TAXPLANNING.COM

WWW.FACEBOOK.COM/TAXPLANNINGATTHECENTER

WWW.LINKEDIN.COM/COMPANY/BASIBASIASSOCIATES/

TWITTER.COM/_TAXPLANNING

WWW.INSTAGRAM.COM/BASIBASIANDASSOCIATES/