CHARITABLE REMAINDER TRUST

A charitable remainder trust (CRT) is a life income gift that pays variable income to a beneficiary (or you) while providing for a future gift to Skagit Valley College Foundation. CRT's can be funded with a gift of cash or property and generates a current income tax deduction for the donors. This type of trust is attractive to donors who want to make a substantial gift to Skagit Valley College while retaining a variable annual income. Benefits for the donors include an annual income based on the changing value of the trust assets, a current income tax deduction, and potential capital gains tax savings on appreciated assets.

CHARITABLE REMAINDER TRUSTS: HOW THEY WORK

A charitable remainder trust is funded by donor(s) with cash or property. The CRT pays to the individual beneficiaries, which can be you or another person, a fixed percentage of its assets as revalued annually. This percentage is determined when the trust is established. Individual beneficiaries may receive this income for life or a specified term of up to 20 years. When the trust terminates, its assets are distributed to Skagit Valley College for the purpose specified by the donors.

How do I create a CRT? A charitable remainder trust is created when you and a trustee sign an agreement establishing the terms of the trust and you transfer property to the trustee to fund the trust.

What assets can I contribute? You can fund a charitable remainder trust with cash, marketable securities, or other property. Contributions of marketable stocks and bonds that have increased in value are ideal because you may benefit from capital gains tax savings. Appreciated assets that may take longer to sell, such as real estate or closely held stock, can be used to establish a CRT, but the trust must contain a clause limiting distributions to "net income."

How is the trust's payout rate determined? The payout rate of a CRT is negotiated between the beneficiary of the trust (SVC) and the donors, taking into consideration the age of the donors, the fair market value of the gift, and other factors. In negotiating the payout rate, we seek to balance the donor's financial and philanthropic goals. The payout rate cannot be less than five percent of the trust.

Who can be a beneficiary of the trust's income? Individual income beneficiaries may include you, your spouse, your parents, or other individuals you specify in the trust agreement. In designating beneficiaries, you should be careful to limit the anticipated length of the trust term to ensure that adequate funding remains to accomplish your ultimate charitable goal.

Who can serve as trustee? Banks, financial institutions, SVC Foundation and, less commonly, donors may also serve as trustee.

TAX IMPLICATIONS

Charitable deduction: You will receive a current charitable income tax deduction in the year you create a trust. Any unused deduction may be carried forward for up to five additional years. Your financial advisor, attorney, or tax professional can help you estimate this deduction, which is based on Internal Revenue Service (IRS) formulas that take into account the income to be paid to individual beneficiaries.

Capital gains tax treatment: For most donors, appreciated assets donated to a charitable remainder trust are not subject to up front capital gains tax when sold by the trust. This favorable tax treatment heightens the appeal of using these assets to fund a CRT.

Taxation of income distributions: Taxation of income payments from a CRT is determined under rules prescribed by the IRS. Each beneficiary's income will be subject to differing taxation rates based on the type of income received. Generally, income distributions will be taxable as ordinary income or capital gains. Occasionally, a beneficiary may receive some non-taxable income from the trust.

Skagit Valley College Foundation is a 501(c)(3) non-profit corporation as defined by the IRS. For more detailed information please visit our website at www.skagitfoundation.org or contact the staff at SVC Foundation.

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