

want to consider acquiring life insurance in a WRT to replace the value of the CRT assets ultimately passing to charity instead of to loved ones. To keep the value of the life insurance death benefit out of your estate (and that of your spouse) you must be very careful to follow the WRT dance steps to ensure proper ownership of the life insurance from the outset.

WRT Dance Steps

First, you create a WRT. While you may not serve as a Trustee (nor should your spouse), you may select the current and successor Trustees. The beneficiaries of the WRT will be your loved ones.

Second, you (and your spouse) make gifts to the Trustee on behalf of the WRT beneficiaries in an amount roughly equal to the insurance premiums. The Trustee then provides written notice of the completed gift to each WRT beneficiary and that each beneficiary has a designated period of time (typically, at least 30 days) to request distribution of their respective share of the gift. After the designated period has lapsed, the Trustee applies for the appropriate life insurance and pays the initial premium. [Note: This annual gifting ritual continues until your death (or the death of your spouse, if an insured and your survivor).]

Third, assuming all of the WRT dance steps have been followed, the death benefit will be estate tax free when paid to the WRT for your loved ones. This will replace the value of the CRT assets paid to the charity.

Finally, seek appropriate legal counsel. It will be time and money well spent.

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VOLUNTARY
PHILANTHROPY



Many taxpaying Americans are involuntary philanthropists because they fail to maximize the tax incentives available under the Internal Revenue Code to become voluntary philanthropists in support of the charities of their own choosing.

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Are you a gracious giver, perhaps even a philanthropist? If you are a taxpayer, then the answer is yes.

During your lifetime, your wealth is subject to taxes in a variety of forms. Income taxes levied on your wages, interest and dividends, and capital gains taxes extracted on the sale of your appreciated assets may tend to make April 15th one of your least favorite days each year.

Voluntary Taxes

Our tax system is voluntary in its form, but the civil and criminal penalties for noncompliance make the process involuntary in its substance. Thankfully for our national defense and other essential programs of the federal government, most taxpayers voluntarily comply with the Internal Revenue Code (IRC) and pay their fair share.

Beyond the essentials of government, however, are there any programs funded by the federal government you personally consider nonessential and perhaps even wasteful? If there are, then you are an involuntary philanthropist by your financial support of such causes as selected by Congress and the White House. Perhaps there are private sector charities you deem more worthy of your tax dollars? Chances are you already support these charities. If so, then you really should know about IRC § 664 and how you may turn your involuntary philanthropy into tax-savvy voluntary philanthropy.

IRC § 664

Charitable tax deductions have been part of the IRC since its inception. Why? The government's own research determined that private sector charities deliver social services more cost-effectively than the government itself. The government, in turn, sought to encourage increased charitable giving to private sector charities by enacting IRC § 664 in 1969. In essence, IRC § 664 permits split-interest gifts, making it attractive for taxpayers to have their cake and eat it too!

A Charitable Remainder Trust (CRT) is a popular split-interest gifting technique. Through a CRT, you may increase your current income, enjoy current income tax deductions and leave a substantial financial legacy for your favorite charity (or charities) upon your death (or upon the death of your spouse, if later).

Here is how it works. First, you create a CRT and contribute an asset to it. [Note: Appreciated assets that would be subject to capital gains taxation were you to sell them yourself, are commonly contributed because they tend to be low income producers and have a low income tax basis.]

Second, the CRT sells the asset without capital gains taxation and then reinvests the proceeds in an income-producing portfolio that grows income tax free inside the CRT.

Third, you (and your spouse) receive an enhanced lifetime income plus valuable income tax deductions for up to six years.

Fourth, upon your death (or the death of your spouse, if later), the CRT distributes any remaining CRT assets probate-free to your selected charities and your estate receives a charitable estate tax deduction for the value of the distributed assets.

Family Matters

As the saying goes, charity begins at home. Accordingly, many Americans want to maximize the wealth they ultimately transfer to their children and grandchildren.

While the CRT provides a lifetime income and tax benefits to the taxpayer (and spouse), it correspondingly reduces the estate eventually

Perhaps there are private sector charities you deem more worthy of your tax dollars? Then you should know about tax-savvy philanthropy.



available to loved ones.

This is obviously one of the major drawbacks to CRT planning. However, there is a tax-savvy strategy available to replace the value of the CRT assets for the benefit of loved ones.

The Trifecta

In the world of high-stakes wagering on horse races, winning the Trifecta requires picking not only the winner of the race, but also the second and third place finishers. When it comes to gracious giving, most taxpayers would prefer to benefit their charities first, themselves second, their loved ones third ... and the IRS dead last. This Charitable Planning Trifecta can be achieved through a carefully coordinated financial and legal strategy that includes both a Charitable Remainder

Trust (CRT) and a Wealth Replacement Trust (WRT).

The Trifecta Challenge

The creation of a CRT helps your charity finish first, with you (and your spouse) a close second. Before the charity inherits the assets held in the CRT upon your death (or upon the death of your spouse, if later), you enjoy a lifetime income from the CRT and valuable charitable tax deductions. However, when the charity inherits the assets, they are forever unavailable to your loved ones. That is where the WRT comes in.

The WRT Solution

With your CRT generating income sweetened by income tax deductions, you may have a total annual income in excess of the amount necessary to maintain your lifestyle. If so, then you may

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