



Situation

- Divorcing couple's CRT income interest tied them together financially

Solution

- Sell income interest and split the cash proceeds

Results

- Sale decoupled clients from jointly-owned asset
- Sale brought the couple \$500,000 more than next best option
- Sale was a quicker and simpler process than next best option
- Sale removed the CRT's administrative burden

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SALE OF CRT INCOME INTEREST

Case Study: Divorcing Couple with a CRT

In 2007, Mr. and Mrs. Jensen set up a charitable remainder unitrust (CRUT) to defer capital gains tax on the sale of stock in a biotech company. They were both income beneficiaries of the trust, which paid them 11% annually for a fixed term of twenty years.

Ten years later, the Jensens were divorced. The vast majority of their assets had been divided and disbursed, but the two were still connected financially in a way that neither liked: they co-owned the right to receive income from their CRUT for the remaining term.

The Jensens advisors were looking to terminate the CRUT—thereby allowing the two to decouple from the jointly-owned asset—and split the proceeds. But a termination is a long, expensive process, often requiring court involvement, so the Jensens asked for alternatives.

Their advisors first examined splitting the CRUT, which would result in two trusts in which the ex-spouses would own separate interests. But the Jensens weren't thrilled with the idea of continuing to pay for compliance and administration on trusts they really wanted to get rid of. In addition, though they would own interests in separate trusts, the trusts would still serve as a constant reminder of their ex-spouse.

Their advisors then found Sterling and learned about the sale option. Similar to a termination, the sale would result in a lump sum of cash the Jensens could split between each other. However, there were two distinct advantages of selling their income interest instead of terminating the CRUT:

- 1. The sale would net the Jensens \$500,000 more than what they would receive in a termination.**
- 2. The sale would take less than four weeks to complete and would not require court involvement, while the termination would take several months and potentially court involvement.**

Given the clear financial benefit of selling their income interest, coupled with the simple procedure handled by Sterling, the Jensens elected to proceed with the sale. Three weeks after deciding to pursue a sale, the transaction was closed.