STERLING
FOUNDATION MANAGEMENT LLC

Situation

- Client is in a different situation today than when they created their CRT

Solution

- Sale of CRT income interest creates a large lump sum of cash to redeploy per client's current objectives

Results

- Made immediate gifts to children and grand-children
- Invested in a child's growing business
- Opened college savings plans for grandchildren
- Balance of proceeds invested and will eventually pass to heirs

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SALE OF CRT INCOME INTEREST

Case Study: Client's Situation Changed Since Creating CRT

In 1995, Bill and Sandy created a charitable remainder trust (CRT) to defer the taxes on a real estate sale. At the time, they had two active teenagers and were paying for private school, travel soccer, summer excursions abroad, a large home to keep everyone entertained, etc., so the CRT's unique combination of tax deferral on the real estate sale and the subsequent income stream was a perfect fit. Even after their children moved out, they used the CRT's income to pay college tuition and during a period of travel during early retirement.

But life eventually slowed down for Bill and Sandy. They sold their house and bought a condo near their golf club and regularly visit their children and grandchildren for months at a time. "We're enjoying this slower-paced, simpler phase of life," said Bill.

Their income needs had also decreased, so Bill asked their advisors to find ways to reduce their taxable income. Their CPA, working with Bill and Sandy's investment advisors, was able to largely eliminate all of their unwanted taxable income streams, except one: their CRT.

"That CRT worked well for so many years," said Bill. "But as I look at it now, it's unlike everything else we owned. Our house worked great, but when the kids moved out, we sold it. Our investment advisors have retooled our portfolio as we've gotten older, and we updated our estate planning when the grandkids were born. Heck, we even traded in the Suburban for a sedan. But this CRT, which was such a great fit for so many years, can't be adjusted like those other things were."

But their attorney explained that even the CRT can be dealt with. Bill and Sandy's CRT income interest was a capital asset. And just like the stocks, bonds and real estate they retooled over time, they also have options with their CRT income interest, which he proceeded to explain.

Bill and Sandy strongly considered a CRT rollover, which would create a future income stream for their children and grandchildren, but ultimately chose to sell their income interest because of the flexibility the large cash lump sum gave them. They made immediate gifts to their children and grandchildren, invested in their son's growing real estate development business, and opened 529 college savings plans for each of their grandchildren. The rest went to their investment advisors to manage and eventually pass to heirs.