ROLLOVER OF CRT INCOME INTEREST

Case Study: Reduce Taxable Income & Create Immediate Income Stream for Children

Situation

- Client doesn't need the taxable income she was receiving from her CRT
- Client wants to help her son financially

Solution

- Rollover to create immediate income stream for client's son

Results

- Created $1,750,000 of income for client's son
- Son's income stream starts immediately
- Reduced client's taxable income by $440,000
- Generated $300,000 tax deduction for client

To watch our interview with Susan's CPA, visit www.SterlingFoundations.com/Rollover-Interview

Susan was the sole lifetime beneficiary of a net income with make-up charitable remainder unitrust (NIMCRUT) paying the lesser of 5% and trust income each year. In recent years, the trust was distributing about $55,000, which was less than 2% of the trust's $3,200,000 value.

Susan's CPA, Karen Covel, was familiar with Sterling's experience with CRTs, having completed a sale transaction through Sterling for a different client. She reached out to Sterling to see what could be done for someone in Susan's situation. Karen explained to Sterling that Susan's planning goals revolved around her son, Anthony, who has three children in college. Susan was looking for ways to help him financially.

Sterling explained the range of options available and Karen immediately identified the rollover as an ideal fit. Susan didn't need any of the income from the NIMCRUT, and Sterling explained that a rollover would remove that taxable income stream from her picture. More importantly, the rollover would create an income stream for Anthony. Sterling provided two illustrations of how Anthony could benefit.

1. In one scenario, Susan was the immediate income beneficiary but would defer all income, allowing the trust to grow tax free over her remaining lifetime. At her passing the trust would pay Anthony, the successor income beneficiary, for his remaining lifetime.
2. In the other scenario, Anthony was the sole/immediate income beneficiary. While the trust wouldn't benefit from the initial deferral period, Susan's son would receive income immediately.

The first scenario would generate more total income for Anthony, but it was more important to Susan that the new CRT benefited him right away since he was paying tuition at three universities. She quickly decided to move forward with the second scenario.

In effect, the rollover enabled Susan to convert about $440,000 of income she didn't need into about $1,750,000 of income for her son. She also received a tax deduction of about $300,000 (the IRS calculation of the new CRT's eventual payment to charity).[1]

[1] To see our full review of Susan's rollover and the related cash flow projections, e-mail CRT@Sterling-Foundations.com with "Susan's Rollover Review" as the subject.

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