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Situation

- Client did not need the taxable income her CRT was forcing her to take
- Client would rather see her two daughters benefit from the trust

Solution

- Use rollover to redirect CRT's financial benefit to client's daughters

Results

- Created $5,200,000 income stream for client's daughters
- Removed $2,075,000 of taxable income for client
- Generated $135,000 tax deduction for client

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

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ROLLOVER OF CRT INCOME INTEREST

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

Shirley MacDonald was the surviving lifetime beneficiary of a charitable remainder trust (CRT). The CRT, which had $2,185,000 in assets, paid Shirley 5% each year. But she had sufficient sources of income outside of the CRT and did not like how the CRT forced distributions to her that, if given the choice, she would elect to defer so she did not have to pay the related taxes.

Shirley's CPA estimated she would pay close to a million dollars in taxes on the $2,075,000 of income he projected the CRT would distribute to Shirley over her remaining lifetime. Shirley viewed those taxes as completely unnecessary since she wasn't reliant on the income.

Under the CRT's current arrangement, Shirley's two daughters would receive no direct benefit from the trust. Shirley wanted to 1) redirect the CRT's financial benefit to her daughters, and 2) remove the tax burden from her own picture.

Sterling helped Shirley's advisors transfer her CRT income interest to a new CRT with Shirley as the immediate lifetime income beneficiary and her daughters as successor lifetime income beneficiaries. The new CRT was structured so Shirley can defer distributions from the CRT over her remaining lifetime, over which period the trust grows tax free. This up-front deferral period significantly increases the total amount of income distributed to Shirley's daughters after her passing.

Using her financial advisor's projections regarding the new CRT's future growth and assuming Shirley and her daughters live to their life expectancies, the new CRT will distribute about $5,200,00 of income to her daughters. Shirley also received a tax deduction of about $135,000 (the IRS calculation of the new CRT's eventual payment to charity).[1]

In effect, the rollover enabled Shirley to convert $2,075,000 of future income she did not need into $5,200,000 of future income for her daughters. She also avoided paying taxes on the converted income and received a tax deduction. According to her CPA, the total tax savings to Shirley were well in excess of $1,000,000.

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