LEADERSHIP FOUNDATION
A North American Baptist Seminary

Create a legacy...

provide a lifetime of income

Charitable Remainder Trusts
Support through Charitable Remainder Trusts

Supporting Sioux Falls Seminary through a charitable remainder trust is a generous way to make a legacy gift that will significantly enhance the seminary’s ministry while providing lifetime income for the investor. In the right circumstances, it is truly a win-win for both the donor and the seminary. Charitable remainder trusts, often referred to as trusts or CRTs, can provide an immediate income tax deduction and return annual income to a donor. Depending on how a donor funds the remainder trust, it is possible to reduce capital gains and even estate taxes.

What is a charitable remainder trust? 
A charitable remainder trust is an independently managed account that receives payments to beneficiaries. A CRT may continue either for the lives of the beneficiaries or for a fixed term of up to 20 years. When the trust terminates, the remaining assets will be transferred to Sioux Falls Seminary.

CRTs are funded with cash or appreciated property (stocks, bonds, land). The trust payments will be paid to you on a quarterly, semi-annual, or annual basis until the trust ends.

Who should consider a CRT? 
A charitable remainder trust is most useful when a donor has substantial resources or owns highly appreciated assets that earn a low rate of return (like stock) or cost the donor money to maintain (such as land).

A CRT will provide a charitable income tax deduction for the donor if at least 10% of the amount contributed to the trust will ultimately pass to a charity when the donor dies.

What are the benefits? 
When assets are transferred to a remainder trust and then sold, no capital gains tax is due on the sale. This enables you to convert a low-earning asset into a high-earning one without a significant loss of capital due to taxation.

You may take a charitable tax deduction in the year the trust acquires the asset. The amount of the deduction depends upon the value of the property, the number and ages of the beneficiaries, and the annual payout rate selected.

If you cannot use the entire deduction in the year the trust is established, the unused deduction may be carried forward for up to five years to reduce your taxable income in subsequent years.

Since a remainder trust is not part of your estate, it may also lower estate taxes. Upon the conclusion of the CRT, the remaining assets will pass to Sioux Falls Seminary without the expense of probate.

What are the disadvantages? 
The major disadvantage is that the donor and heirs will no longer have access to the trust principal. Therefore, before establishing a CRT, donors should carefully consider a trust in light of other resources and an overall financial plan to ensure the ability to meet future needs.

Can I use real estate to fund a CRT? 
Land can be an excellent asset to fund a remainder trust. Because land that has been owned for a long time is often greatly appreciated (worth significantly more than when it was first acquired), a sale would trigger a large capital gains tax for the owner. When land is used to fund the remainder trust, no capital gains tax is due upon the sale of the land.

How is payment to the beneficiaries determined? 
A unitrust provides income to a beneficiary as a fixed percentage of the trust’s assets, which is recalculated annually. This payment must be at least five percent of the asset. The actual dollars paid will fluctuate annually as the value of the trust’s assets change.

Example: 
How a CRT can work for a donor

A 70-year old donor establishes a unitrust paying 6% annually, and funds the trust with land valued at $1,000,000. This land was originally acquired for $200,000. By giving the asset to Sioux Falls Seminary, the donor bypasses $800,000 in gains, which may save up to $120,000 in capital gains tax. Additionally, the donor receives a tax deduction of $467,130 in the year the trust is established, saving more than $130,000 in income tax.

The unitrust provides annual income to the donor of $60,000. If the trust earns greater than 6%, the annual income to the donor increases accordingly. Over the life of the trust, it is expected that the donor will receive $1,091,000 in income. After the life of the donor, the remaining amount in the CRT, estimated at more than $1.1 million, passes to Sioux Falls Seminary without probate.

Charitable Unitrust

<table>
<thead>
<tr>
<th>Property</th>
<th>6% Unitrust</th>
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<tbody>
<tr>
<td>Value</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Cost</td>
<td>$200,000</td>
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<tr>
<td>Gain</td>
<td>$800,000</td>
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<table>
<thead>
<tr>
<th>Principal</th>
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<tbody>
<tr>
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<table>
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<tr>
<th>SFS</th>
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<tr>
<td>$1,153,297</td>
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1. Give asset, sell tax free. Bypass up to $800,000 gain may save $120,000. Income tax deduction of $467,130 may save $130,796.
2. UT annual income $60,000. Estimate income in 17 years $1,091,731. Effective pretax rate 6.90%.
3. If trust earns 6.84%, pays 6%, then grows by 0.84%. After lifetime, trust passes without probate to charity.