Charitable Remainder Annuity Trust Presentation Input Screen

Annuity Trust Questions

Case Name	----- NEW CASE -----
Name for Reports	Betty Anthropist
Date of Transfer	Sep 14, 2017
Trust Period Measured by	Lives (L)
Payment Frequency	Quarterly
Payment Date	End
Calculate Annuity Rate	No
Annual Annuity Rate	5.000000%

Beneficiary Information

	First Name	Date of Birth	IRS Age	Use
Donor	Betty	Sep 14, 1942	75	Yes

Selection Method for AFMR	Use Best Rate

Gift Asset Questions

Gift Asset Type	Cash
Value of Asset Transfer	1,000,000

v2016.6

Charitable Remainder Annuity Trust

Prepared for Betty Anthropist

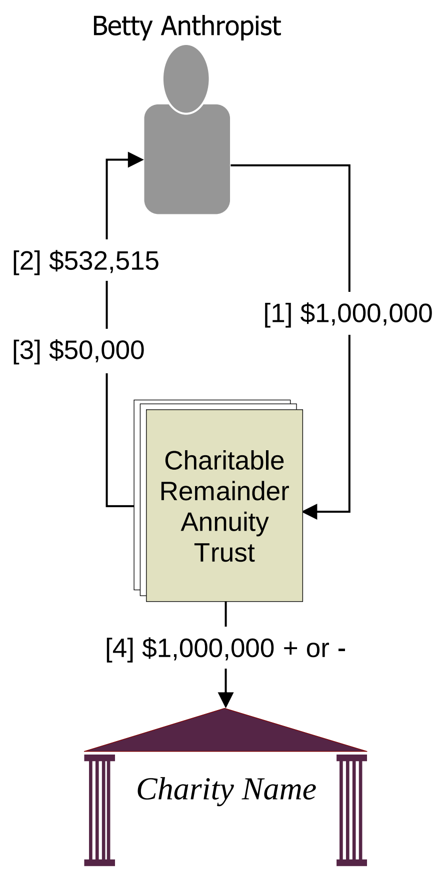
Prepared by Your Name

Table of Reports

What is a Charitable Remainder Annuity Trust?

A **charitable remainder annuity trust** is a custom designed and individually managed trust to which you transfer cash or other assets that you would like to convert into an income stream. The trust is tax-exempt; therefore, when it sells any appreciated assets, it pays no ordinary income or capital gains tax. Furthermore, you may receive an income tax deduction for a significant portion of your gift.

The trust, which you may control, manages the trust assets and pays you (and your spouse or others) an annual income for life, a term of years, or combination, after which, the trust assets are distributed or held for the benefit of the charitable organization(s) you have selected.



[1] Betty Anthropist will transfer assets valued at $1,000,000 to the trust.

[2] Additionally, an income tax deduction of $532,515 will be generated, which may save as much as $210,876 in taxes.

[3] The trust will distribute income based on the payout rate of 5.0%. The income for the first full year will be approximately $50,000.

[4] When the trust terminates, the value of the trust, based on the $1,000,000 transferred, plus any growth or less any loss in trust value, will be transferred to Charity Name.

Tax and Financial Benefits

Charitable remainder annuity trusts offer several significant tax and financial benefits:

Capital Gains Deferral

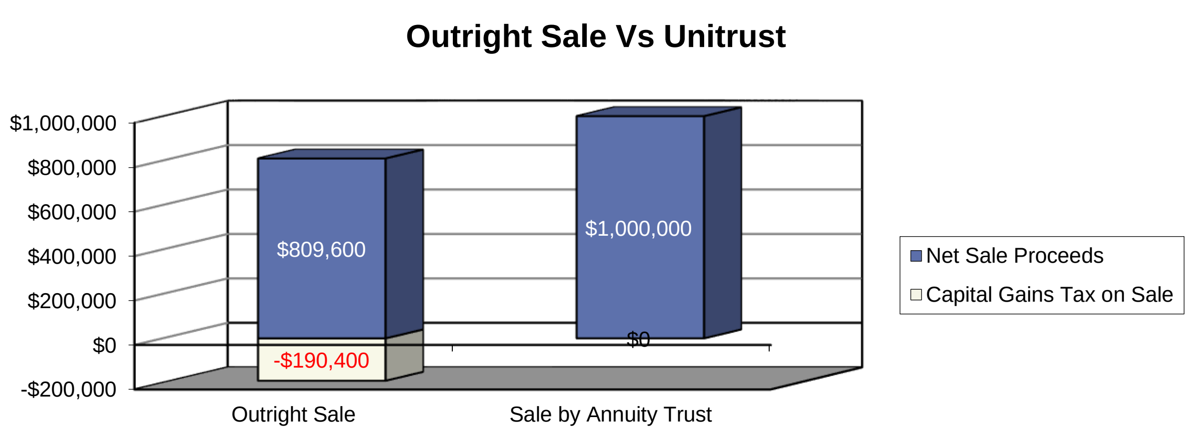
Charitable remainder annuity trusts are frequently created by philanthropic individuals who own highly appreciated assets they are reluctant to sell because they would incur a significant capital gains tax.

The transfer of debt-free assets to a qualified charitable remainder annuity trust is not considered a sale or exchange. Therefore, you do not realize any capital gain when you transfer appreciated assets to the trust.[1]

In addition, charitable remainder annuity trusts are conditionally exempt from both federal and state income tax.[2] This means the trust does not pay any ordinary income or capital gains taxes when it sells appreciated assets. Income and capital gains are taxable only when they are received by the trust's income recipients under the four-tier system of income accounting.

Increased Cash Flow

A charitable remainder annuity trust can sell contributed assets tax-free, therefore 100% of your gift can be reinvested to produce income. This often means greater income than if you had sold the asset on a taxable basis outside the trust and then reinvested the after-tax proceeds.



NOTE: The ability of the annuity trust to sell assets without paying capital gains tax preserves capital for the creation of income. The above graph assumes an asset value of $1,000,000 with a cost basis of $0. Based on a 23.8% capital gains tax bracket, the outright sale without the trust produces a capital gains tax of $190,400, reducing the amount available for the creation of income to $809,600. The outright sale produces income of $40,480 while the annuity trust produces level income of $50,000, assuming a 5% annuity rate.

Tax and Financial Benefits

Current Income Tax Deduction

When you create a charitable remainder annuity trust, you are making a current commitment to a future charitable gift. Because the trust is irrevocable, you may qualify to receive a current income tax deduction for a portion of your gift.

The combination of avoiding capital gains on the sale of contributed assets and a current income tax deduction often means that instead of writing a check at tax time, you might receive one.

Retained Control

Even though gifts to a charitable remainder annuity trust are irrevocable, you can retain the right to choose who manages and administers your trust; as well as the power to substitute the charitable organization(s) that will ultimately receive the remainder interest.

Charitable Remainder Annuity Trust Income Example

Income is level for the entire term of the trust unless the trust assets are exhausted.

NOTE: With proper investment management and a conservative annuity rate selection, the annuity trust can provide level income over the life of the trust. When the trust investments produce a rate of return in excess of the annuity rate of the trust, the excess is added to the trust's value, thereby increasing the gift to charity.

Consistent Cash Flow

Charitable remainder annuity trusts pay you a fixed amount of income each year regardless of fluctuations in trust value. With a conservative annuity rate and prudent investment management, the trust can provide you with a cornerstone of financial security.

Continuity of Management

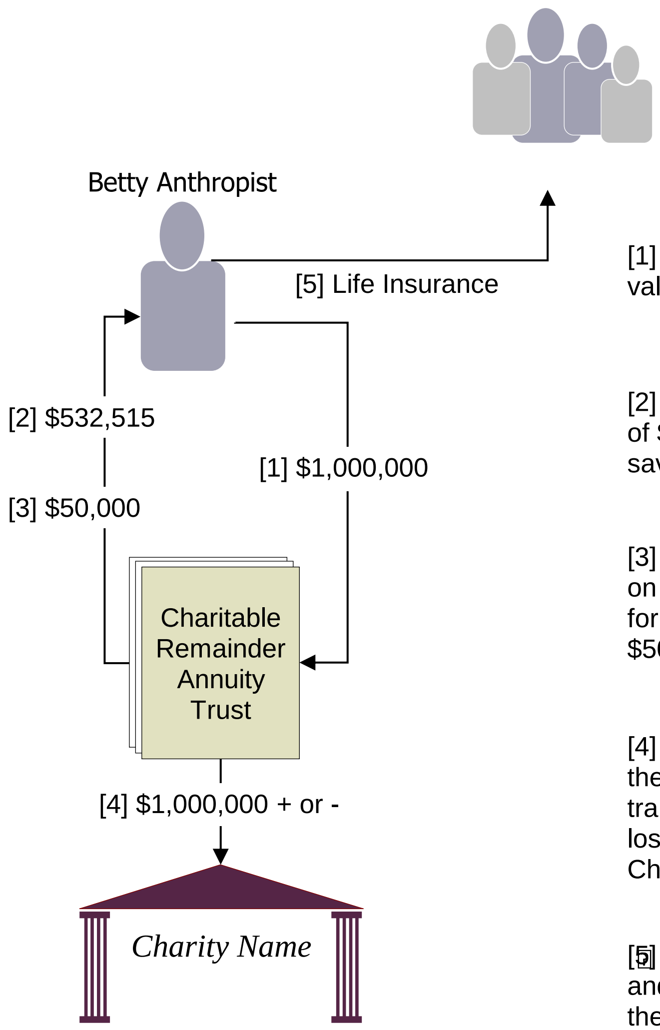
The charitable remainder annuity trust not only provides the means to dispose of "high management" assets, such as real property, it also supplies a mechanism to provide professional investment management during your later years when it may be needed most. Charitable remainder annuity trusts offer you the peace of mind of knowing that in the event you become incapacitated or disabled, the trust assets will be professionally managed and administered to maintain the uninterrupted flow of your income.

Gift and Estate Planning

Transferring assets to a charitable remainder annuity trust that pays income to you (and/or your spouse) completely avoids both gift and estate taxes. Naming others, such as children or grandchildren, as income recipients can reduce your gift and/or estate taxes as well.

Tax and Financial Benefits

In addition to the gift and estate tax savings generated by the trust itself, the cash flow created by the charitable remainder annuity trust can be coordinated with other estate planning techniques. The most common combination involves the transfer of cash from the donor to an irrevocable trust, or directly to family members, that is then used to purchase life insurance on the life or lives or the donors. This concept of "wealth replacement" often enables donors to give more to charity without disinheriting their heirs.



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[3] The trust will distribute income based on the payout rate of 5.0%. The income for the first full year will be approximately $50,000.

[4] When the trust terminates, the value of the trust, based on the $1,000,000 transferred, plus any growth or less any loss in trust value, will be transferred to Charity Name.

[5] Life insurance proceeds pass to heirs and replace the value of the asset gifted to the trust.

1. Transferring debt-encumbered assets to a charitable remainder annuity trust may cause the trust to fail to qualify and is not recommended.
2. A trust that has "unrelated business taxable income" (UBTI) loses its tax-exemption for that year and pays income tax in the same manner as taxable trusts (including capital gains tax on the sale of appreciated assets). With proper management, however, UBTI can be avoided.

How Annuity Trusts Distribute Income

A charitable remainder annuity trust pays an amount each year equal to a fixed percentage of the fair market value of the trust's assets on the date they are transferred to the trust. The annuity rate, which is chosen when the trust is created, must be at least 5% and can be no more than 50%. The resulting annuity amount is distributed each year throughout the entire life of the trust regardless of fluctuations in the annual value of the trust. Payments to the income beneficiaries can be made once per year, or in equal weekly, monthly, quarterly, or semi-annual installments.

Selection of the annuity rate is very important. An annuity rate that is to high will cause the trust to fail the 5% probability test and the 10% remainder interest test. It is important to note that the ability to set the annuity rate as high as 50% is a limit set by federal law and is not prudent. The maximum annuity rate that should be set is one that the trust assets can comfortably earn.

Taxation of Annuity Trust Distributions

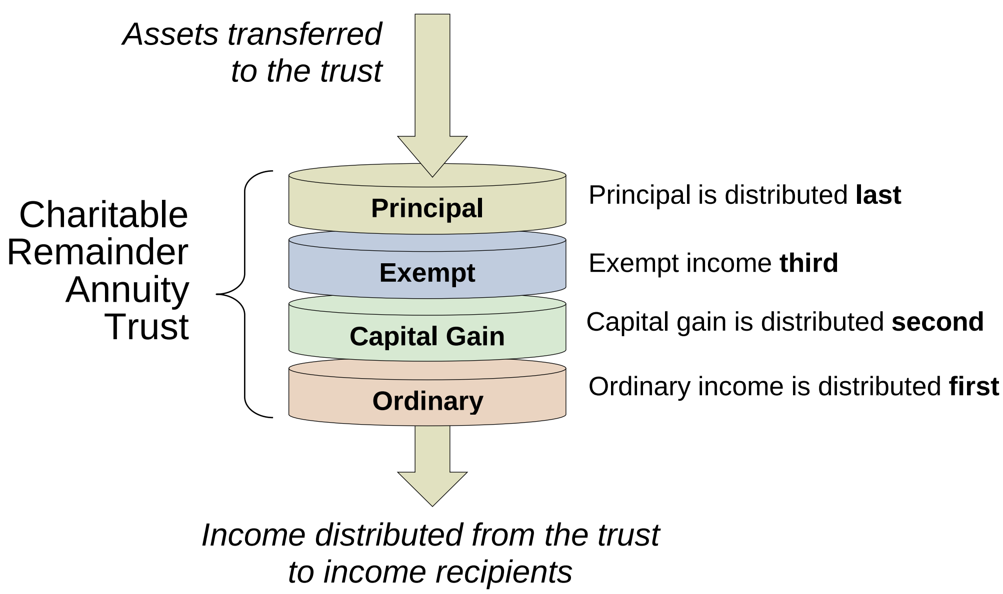
Distributions from a charitable remainder annuity trust are taxed to income recipients based on what is known as the "four-tier system" of taxation. The system prioritizes the order in which income is distributed from the trust.

Under the four-tier system, to the extent the trust produces any ordinary income in the current or prior years, these amounts are considered distributed first. Capital gains (including gains on the sale of contributed assets) come next, followed by tax-exempt income, and finally trust principal, which is also tax-exempt. As a result, the taxation of income distributions depends entirely on the tax character of the assets contributed, if and when those assets are sold, and the types of income the trust subsequently earns on its investments.

As a general rule, when highly appreciated long-term capital gain property is transferred to the trust, sold and reinvested in a balanced portfolio of stocks and bonds, a portion of the income distributions will generally be taxable as capital gains and a portion as ordinary income. Conversely, if tax-exempt bonds are transferred and the trustee continues to hold them, the income distributions will be tax-exempt if no other tiers of income exist in the trust.

After the close of each year, a Form K-1 that describes the tax character of the income distributions is sent to each beneficiary of the trust for use in preparing their taxes.

Four-Tier System of Taxation



How Long Does Income Last

A CRAT can be designed to operate for the **life of one or more individuals, a term of up to 20 years, or a combination of life and term**. In most cases, CRATs are designed to pay income to the donor or donors for their lifetimes.

Trust Term Options

*The **Red vertical line** indicates end of trust term.*

[1] Lives Trust terminates at the end of the lives of all beneficiaries

The trust lasts for the lives of all beneficiaries, then terminates and the assets pass to charity.

[2] Term of Years Trust terminates at the end of a term of years

The trust lasts for a term of years written in the trust document, not to exceed 20 years.

[3] The Shorter of Lives or Term of Years

Term of years
Lives of beneficiaries

The trust lasts for a term of years not to exceed 20 or the lives of the beneficiaries, whichever is the shorter of the two.

[4] The Longer of Lives or Term of Years

Term of years
Lives of beneficiaries

The trust lasts for a term of years not to exceed 20 or the lives of the beneficiaries, whichever the longer of the two.

[5] Lives, Limited to a Term of Years, following Other Lives

1st Life beneficiaries
Term of years
2nd Life beneficiaries

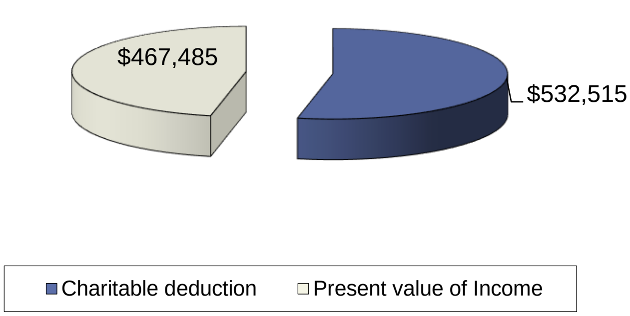
The trust pays income to a first set of life beneficiaries (the parents, as an example), then to a second set of beneficiaries (the children, as an example) for their lives or a term of years, the shorter of (as in option [3]).

Planning Note: When an income beneficiary of a trust is other than the donor or donor's spouse, such as a child or grandchild of the donor, gift and estate tax ramifications of the trust design should be reviewed by the donor's counsel.

How the Deduction is Calculated

When a donor contributes cash or other assets to a charitable remainder annuity trust, the donor not only avoids recognizing capital gain on the sale of the contributed property, but may also receive a current income tax charitable deduction.

Charitable Deduction



NOTE: Based on a contribution of $1,000,000, the term of the trust and a payout rate of 5%, the charitable income tax deduction would be $532,515, which may save as much as $210,876 in taxes based on an ordinary income tax bracket of 39.6%.

The deduction is based on the fact the donor is making an irrevocable commitment to a future charitable gift. The amount of the deduction is determined using IRS formulas that calculate the present value of the future gift. Factors used in calculating the deduction include the:

- **fair market value of the assets** transferred on the date of the gift
- **measuring term of the trust**, which may be based on a term of years, the age of the income beneficiaries, or a combination of the two
- **annuity rate**
- **income payment frequency** (annual, semi-annual, quarterly, monthly, weekly), and
- **Charitable Federal Midterm Rate** (CFMR) in effect for the month of the gift or (at the election of the donor) during either of the prior two months

10% Rule

In order for the trust to qualify, the present value of the gift must be at least 10% of the fair market value of the assets transferred. Depending on the measuring term of the trust, the 10% rule may limit the number of beneficiaries and/or the annuity rate that can be used.

5% Probability Test

In addition to the 10% rule, a charitable remainder annuity trust that is measured by the lives of one or more individuals must satisfy the 5% probability test. Under this test, the trust will not qualify if the probability exceeds 5% that it will exhaust its assets prior to charity receiving the remainder interest.

Claiming the Charitable Deduction

As discussed in the previous section, when the donor makes a contribution to a charitable remainder annuity trust, the deduction is based on the present value of the future charitable gift. However, there are limitations and reduction rules that may limit or reduce the amount of deduction the donor can claim on their income tax return in any given year.

The tax rules are designed so taxpayers cannot use the charitable deduction alone to completely eliminate their income tax liability. Therefore, the amount of charitable deduction the donor can claim in any given year is limited to a percentage of their income. The percentage depends on:

- the type of property given,
- how it is given,
- and the type of charitable organization to which it is given.

Furthermore, the amount of the deduction may be reduced based on the type of property contributed.

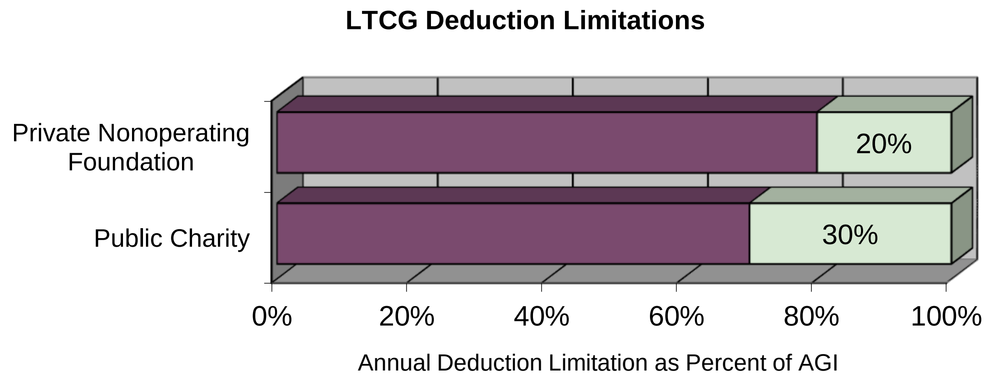
The following rules apply for federal income tax purposes. The rules for state income tax purposes may vary. We urge you to review these rules with your tax professionals.

Long-Term Capital Gain Property

Most charitable remainder annuity trusts are funded with long-term capital gain property. If the remainder interest will be paid to a public charity, the fair market value of the property is used to calculate the discounted present value of your gift. You can claim the resulting amount as a deduction against up to 30% of your adjusted gross income in the year you create the trust.

If your contribution consists of an asset other than publicly-traded securities and you name a private nonoperating foundation as remainderman, the deduction is based on the lesser of the asset's fair market value and your cost basis. The resulting deduction is subject to a 20% income limitation.

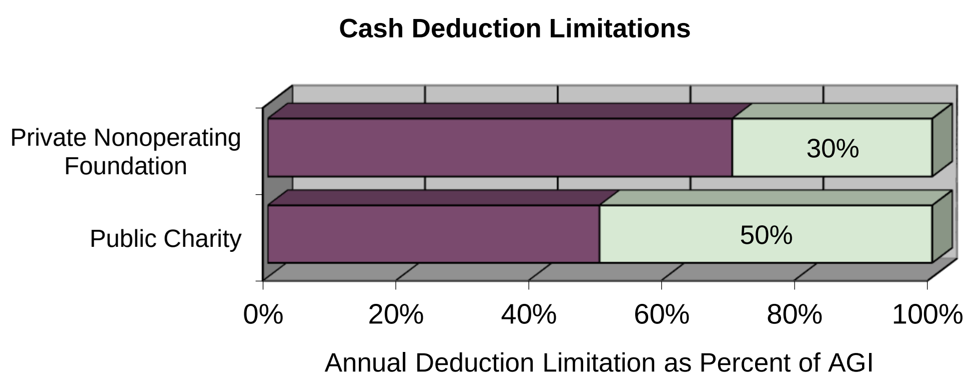
Claiming the Charitable Deduction



NOTE: Contributions to Private Nonoperating Foundations of LTCG assets other than publicly traded stock are not only limited to 20% of AGI, but the deduction is based on the lesser of the FMV of the asset or its cost basis. This may dramatically reduce the deduction.

Cash

If you contribute cash to a trust that names a public charity[3] as the remainder beneficiary, you can use the deduction against up to 50% of your adjusted gross income in the year you create the trust. If the remainder interest will be paid to a private nonoperating foundation, the deduction is subject to a 30% limitation.

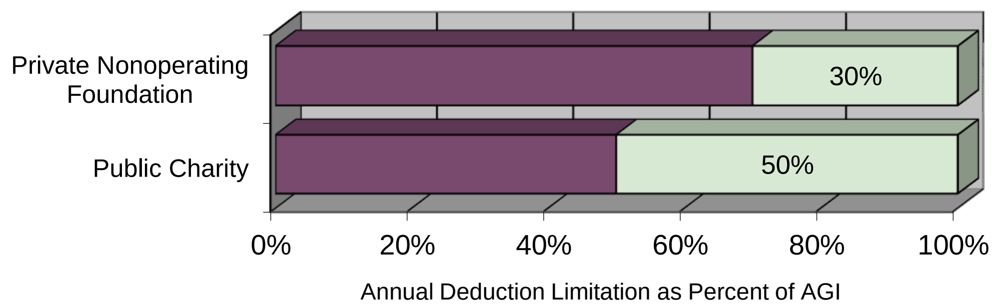


Claiming the Charitable Deduction

Ordinary Income Property

If you fund the trust with property that if sold would produce ordinary income, your deduction is subject to a 50% income limitation; however, the deduction is calculated based on the lesser of the property's value or your adjusted cost basis. If you name a private nonoperating foundation as remainderman, the income limitation is reduced to 30%.

Ordinary Income Property Deduction Limitations



NOTE: The deduction for contributions to Private Nonoperating Foundations of ordinary income assets is based on the lesser of the FMV of the asset or its cost basis. This may dramatically reduce the deduction.

Carryover Rule

In all cases, if you cannot use all of your deduction in the year of your contribution, you can carry any excess deduction over up to five more tax years, if necessary.

Your deduction can be used in the year of the gift and 5 additional years

[3] For purposes of this discussion, public charities are described in IRC §170(b)(1)(A). They include all qualified charitable organizations except private nonoperating foundations.

Questions and Answers

Following are frequently asked questions regarding charitable remainder annuity trusts:

Are charitable remainder annuity trusts recognized by the IRS?

Yes, charitable remainder annuity trusts were formally created by the Tax Reform Act of 1969 and are described section 664 of the Internal Revenue Code. Charitable remainder annuity trusts are qualified for income, gift, and estate tax purposes. There are over 80,000 charitable remainder trusts in operation today.

Who can receive income from the annuity trust?

In most cases, income is paid to the donor and their spouse. In addition, other individuals (such as children or grandchildren) can receive income; however, the donor must consider the possible gift and estate tax implications of such transfers.

If you name an individual other than yourself or your spouse as an income recipient of a charitable remainder annuity trust, you may trigger gift or estate tax on the transfer. These rules can be fairly complex. Consult your professional advisors.

What is the highest payout rate I can select?

The tax rules say the maximum allowable annuity rate is 50%. As a practical rule, however, most trusts carry annuity rates of between 5% and 10%.

There are several reasons. First, most charitable remainder annuity trusts are designed to pay income to the donor for their lifetimes. A trust with a 50% annuity rate would quickly exhaust its assets.

People who create charitable remainder annuity trusts want their income to remain constant from year to year. To accomplish this, they choose an annuity rate that, given a conservative investment return, will enable the trust to meet or exceed its payment obligations and operating expenses.

The second and third reasons are even more important. Recent changes in the tax rules require that in order for a charitable remainder annuity trust to be qualified for income, gift, and estate tax purposes, the present value of the future charitable gift (i.e., your income tax deduction) must be at least 10% of the amount transferred to the trust. This rule is designed to ensure that a portion of trust ultimately is distributed to charity.

Finally, annuity trusts are subject to the 5% probability test. Under this test, if the probability exceeds 5% that the trust will exhaust its assets prior to charity receiving a gift, the trust will not qualify. Like the 10% test, this test is sensitive to the annuity rate and prevailing interest rates. This test applies only to trusts that are measured by the live of one or more individuals. Trusts that are designed to operate for a fixed term of years are exempt.

Questions and Answers

Although these tests may seem complicated, there is no need to worry because they can be easily performed to ensure qualification prior to your trust being created.

What types of assets can be contributed to a charitable remainder annuity trust?

Most charitable remainder annuity trusts are funded with cash or marketable securities. Because charitable remainder annuity trusts must pay the required annuity amount each year without exception, transferring illiquid or non-income-producing assets such as certain real estate, tangible personal property such as art and other collectibles, or stock in a privately-held C-corporation must be approached with great care.

Can I make additional contributions to a charitable remainder annuity trust?

No. Unlike a charitable remainder unitrust, which can receive additional contributions, a charitable remainder annuity trust cannot. For this reason, the unitrust is generally the preferred vehicle if additional contributions are contemplated or might become necessary to pay unforeseen expenses (e.g., in the case of a trust funded with real property).

What types of assets should NOT be contributed to a charitable remainder annuity trust?

In addition to the cautions discussed in the previous two questions, there are a few types of assets that are not generally compatible with charitable remainder annuity trusts. They include real property that is debt-encumbered or that is contaminated with hazardous materials, and assets that produce unrelated business taxable income such as sole proprietorships, certain partnerships, and some types of real estate.

Can I name more than one charitable beneficiary to receive the remainder interest?

Yes, there is no limit on the number of charitable organizations that can benefit from your trust. In addition, you can name them irrevocably or reserve the right to change them if you desire. In addition, you can designate how the proceeds will be used.

At what level of financial contribution does a charitable remainder annuity trust make sense?

A charitable remainder annuity trust is an individually designed and drafted trust instrument. The trust is also individually managed and is required to file annual tax and information returns with the IRS and state tax authorities. The average amount held by charitable remainder trusts nationally is approximately $300,000; however, the availability of automated administration and investment management makes smaller amounts possible.

Facts Used in This Analysis
Deduction Calculation for One Life
Prepared for Betty Anthropist

Beneficiary Information

Name	Relationship	Date of Birth	IRS Age	Age at Mortality
Betty Anthropist	Donor	Sep, 14, 1942	75	88

Donor Contact Information

Address: ____
City: ____________________ State: ____ Zip Code: ____________
Home Phone: ____________ Business Phone: ____________ Fax: ____________
email Address: ____________________________________
Web Address: ____________________________________

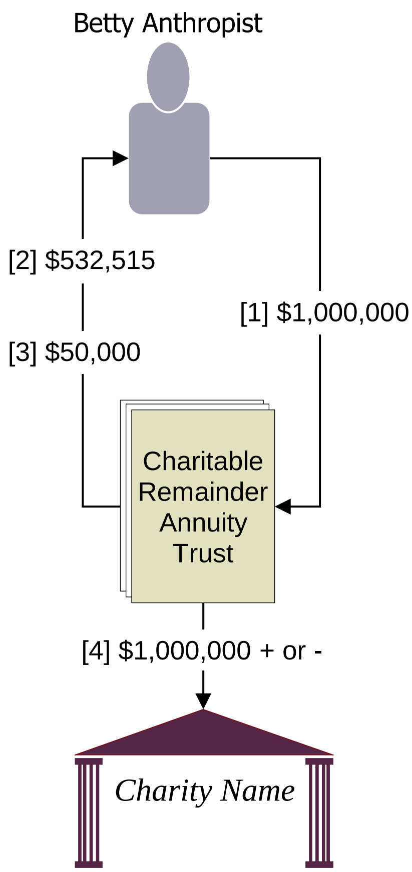
Illustration Information

Date of transfer	September 14, 2017
Ordinary income tax bracket of donor	39.6%
Income interest in this trust is measured by	One Life
Payment frequency	Quarterly
Payment date	September 30, 2017
Annual annuity rate	5%
Selection method for AFMR	Use Best Rate
The discount rate (effective 9/2017) is	2.4%
Type of asset gifted	Cash
Fair market value of asset transferred	$1,000,000

Charitable Remainder Annuity Trust Design Diagram

Income Interest for One Life

Prepared for Betty Anthropist



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[2] Additionally, an income tax deduction of $532,515 will be generated, which may save as much as $210,876 in taxes.

[3] The trust will distribute income based on the payout rate of 5.0%. The income for the first full year will be approximately $50,000.

[4] When the trust terminates, the value of the trust, based on the $1,000,000 transferred, plus any growth or less any loss in trust value, will be transferred to Charity Name.

Additionally, approximately $190,400 in capital gains taxes will be saved upon the sale of the assets transferred to the trust because the trust is tax-exempt.

Assumptions and Results

Type of asset gifted	Cash
Fair market value of asset transferred	$1,000,000
Date of transfer	September 14, 2017
Payment frequency	Quarterly
Annual annuity rate	5%
The discount rate (effective 9/2017) is	2.4%
The mortality table used in the calculation is based on the census taker	2000
10% remainder interest test	Passed
Five-precent probability test (passed or failed)	Passed
Ordinary income tax bracket of donor	39.6%

Charitable Remainder Annuity Trust Summary of Benefits

Summary of Benefits for One Life

Prepared for Betty Anthropist

A. Input Assumptions:

Date of transfer	September 14, 2017
Fair market value of asset transferred	$1,000,000
Annual annuity rate	5%
Payment frequency	Quarterly
The discount rate (effective 9/2017) is	2.4%
The mortality table used in the calculation is based on the census taken in	2000
Type of asset gifted	Cash
Ordinary income tax bracket of donor	39.6%

Beneficiary Name	Age	Term of Income Interest
Betty	75	For life from the start of the trust

B. Summary

Fair market value of asset transferred	$1,000,000
Estimated present value of income interest for beneficiaries (with no investment assumptions)	$467,485
Present value of remainder interest = the tax deduction	$532,515
Present value of remainder interest in annuity trust factor as percent	53.25%
10% remainder interest test	Passed
Five-precent probability test (passed or failed)	Passed
Approximate income tax savings from deduction (over a period of up to 6 years)	$210,876
Approximate first year income (payout rate times value of property transferred)	$50,000

Charitable Remainder Annuity Trust Summary of Benefits Graphs

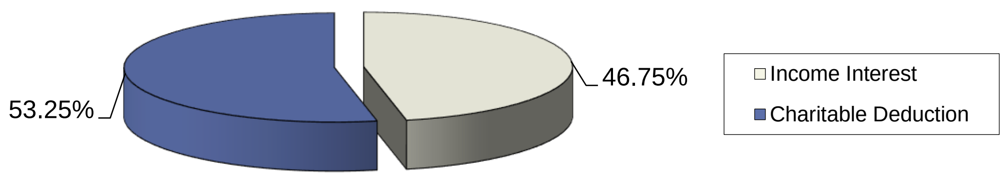
Summary of Benefits Graphs for One Life

Prepared for Betty Anthropist

A. Deduction Summary

Fair market value of asset transferred	$1,000,000
Estimated present value of income interest for beneficiaries (with no investment assumptions)	$467,485
Present value of remainder interest = the tax deduction	$532,515
10% remainder interest test	Passed
Five-precent probability test (passed or failed)	Passed

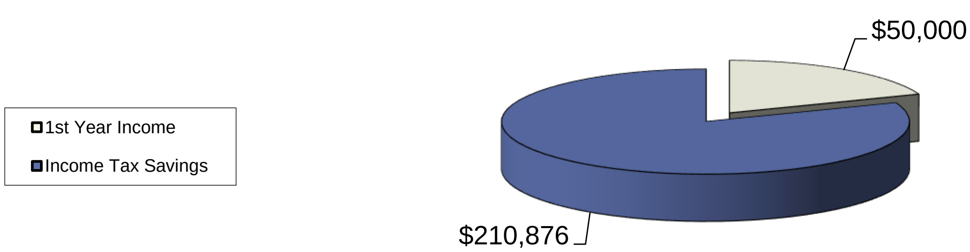
Charitable Deduction



B. Tax Savings and Income Summary

Approximate first year income (payout rate times value of property transferred)	$50,000
Approximate income tax savings from deduction (over a period of up to 6 years)	$210,876

First Year Benefits



Charitable Remainder Annuity Trust Deduction Calculation

Deduction Calculation for One Life

Prepared for Betty Anthropist

A. Input Assumptions:

Date of transfer	September 14, 2017
Fair market value of asset transferred	$1,000,000
Annual annuity rate	5%
Payment frequency	Quarterly
Is payment at beginning or end of payment period	End
The discount rate (effective 9/2017) is	2.4%
The mortality table used in the calculation is based on the census taken in	2000

Beneficiary Name	Age	Term of Income Interest
Betty	75	For life from the start of the trust

B. Calculation of Present Value of Remainder Interest:
(for One Life)

1.	Fair market value of asset transferred	$1,000,000
2.	Annual annuity rate	5%
3.	Annuity amount payable on an annual basis	$50,000
4.	Factor for present worth of an annuity (based on Table S)	9.2663
5.	Line 3 annuity amount times Line 4 factor	$463,315
6.	Adjustment factor for payment frequency (from Table K)	1.009
7.	Adjusted annuity value (Line 5 * Line 6)	$467,485
8.	Amount of first annuity payment if payment is made at beginning of period for a non-term annuity trust (otherwise 0)	$0
9.	Present value of annuity interest (Line 7 + Line 8)	$467,485
10.	Minimum value of annuity interest (lesser of Line 1 and Line 9)	$467,485
11.	Present value of remainder interest = the tax deduction (Line 1 - Line 10)	$532,515

C. Calculation of Tax Deduction for Charitable Remainder Annuity Trust:

1.	Fair market value of asset transferred	$1,000,000
2.	Present value of remainder interest as a percent of the asset transferred	53.2515%
3.	Present value of remainder interest = the tax deduction (Line 1 - Line 10)	$532,515
4.	10% remainder interest test	Passed
5.	5% probability test percentage equals .635058%. The 5% test…	Passed

Five Percent Probability Test for CRAT

Deduction Calculation for One Life

Prepared for Betty Anthropist

A. Input Assumptions:

Date of transfer	September 14, 2017
Fair market value of property transferred	$1,000,000
Annual annuity rate	5%
Payment frequency	Quarterly
Is payment at beginning or end of payment period	End
The discount rate (effective 9/2017) is	2.4%
The mortality table used in the calculation is based on the census taken in	2000

Beneficiary Name	Age	Term of Income Interest
Betty	75	For life from the start of the trust

B. Five Percent Probability Test:

1.	Fair market value of asset transferred (less any beginning of period payment)	$1,000,000
2.	Annuity amount payable on an annual basis	$50,000
3.	Adjustment factor for payment frequency (from Table K)	1.009
4.	Adjusted annuity amount (Line 2 * Line 3)	$50,450
5.	Line 1 divided by Line 4	19.821606
6.	Present worth of annuity (based on Table B) next higher than or equal to factor on Line 5	20.2185
7.	Estimated number of years until trust will be exhausted (years from Table B opposite factor on Line 6)	28
8.	Age of annuitant at creation of trust	75
9.	Age of annuitant at exhaustion of trust	103
10.	Factor from IRS mortality table at age on Line 8	64561
11.	Factor from IRS mortality table at age on Line 9	410
12.	Probability that the annuitant will survive to the exhaustion of the fund (Line 11 / Line 10)	0.635058%
13.	The probability of exhausting the trust fund is less than 5%. This trust passes the 5% probability test.	**Passed**