Taxes on sale of real property - CRUT

**SPEAKERS**

Carey Berger

Hi, I'm Carey Berger with The BSR Group, and honest this is the last one, we are talking about options having to do with taxes on the sale of a piece of real property. This one's pretty sophisticated, and it has a very specific use and when it's needed and when it's used right, it is very powerful, but it is complicated. So we're going to take just a minute, we're going to talk about a charitable remainder trust. Okay, first word's charitable, meaning you have to have a philanthropic desire. And I have to tell this story because I love it friend of mine, Donny Ray Thomas, down in Louisiana is telling this story, and he was in the audience and we're talking about charitable giving and how you have to have a philanthropic desire and Donny Ray stands up and he says, "philanthropic, desire? Philanthropic, we don't talk that way! Philanthropic desire, what do you kiss your mother with that mouth?!" I just... I'm sorry, I thought that was the funniest thing I've ever seen. He was wonderful, he still is. But anyhow, back to if you have philanthropic desire, if you have a charitable desire, or a reason you want to give to a charity, whether it be a university, or whether that be a church, or whatever it winds up being, oftentimes your best choice is going to be some form of greater community foundation. They have the ability to let you utilize self directed funds that you can go ahead and be in control of to give very specific gifts. There's some magnificent ones around the country that I've been blessed to work with over the years, and I'd be happy to talk with you about those. But with a charity, whether it be Community Foundation, or the Cancer Society, or whomever, that's the first word of charitable remainder trust. You have the ability to go ahead and sell an asset and then give it to them and then let them sell it. At that point doesn't matter, it becomes like kind. It was real estate, and now they're gonna put it into stocks and bonds, or they're gonna put it into whatever they choose to put in, that's fine. They will pay the tax, because you gave the gift to them. Well, guess what, they'll pay the tax at their tax rate. Their tax rate's, zero. So for that reason, there is no tax to the receiving group, which is the charity. Now that's no longer yours. Okay, so what good did this do me if I gave up my asset? Well, it does do you good because there's the remainder trust component, which means that the charity has the ability to get some of that money back to you. Usually it's in the form of an income stream. You should expect it to be less than 5% per year off of the total value. But remember, that's the total value, not the amount that's been reduced by the amount of tax. So with a large capital gains bill facing you, if you were to then invest it, after you paid that tax bill, you'd have to get a much bigger than 5% number to be able to net the same number of dollars, because you're working with a smaller pool. By using the charities tax rate, you can go ahead and get a smaller return to you, and it's based on a larger amount of money, and so it's a good return for you. Meanwhile, of course, the charity gets to go ahead and receive the remainder amount. So when you're done receiving your income, they get what's left. Alright, so again, I put in $100, I get out $5 a year, for 10 years, I received 50, I got it for 20 years, got to the whole 100 whatever it is, when I end that period, whether it be at my death, or at a period certain that we've set up in the agreement, the charity now receives whatever's left. They receive that (what should still be $100), because they're investing it to produce an income stream so that the principle is preserved. That's the logic. By the way, you can go ahead and take it another step, and you can take some of the money that you receive on annual basis, you can buy a life insurance policy for that same $100 or $200, or whatever number you can afford, at that point, then yes, the charity will receive the remainder interest of the the gift that you gave, but your heirs will receive the life insurance proceeds which will be equal to or in excess of what charity got. Meanwhile, you got the difference in income between what the charity paid you and what you paid out in income insurance premiums. It's pretty slick. It makes a lot of sense. But it has to start with a philanthropic desire. With all due respect to Donny Ray Thomas, it's not a dirty word. And if you do have that desire to serve some other charity, you really should talk with them, or let me help you. And in discussing the possibility of some form of a CRUT there's lots of different variations on this. Trust me the details are not as important as the concept. Start with a desire for charity. Start with the desire for income for yourself and consider the possibility of replacing the income or the the asset for your family through insurance. And this thing can be pretty darn powerful. It can be complicated, but I'm going to give you one more story on complicated. You all might have a cell phone of some sort, right? It's very likely that if you were to open that thing up and look inside, it is intensely complicated. However, in terms of the interface, the parts that you touch, if got a good one, they're pretty simple. I touch this, this happens. Even I can understand it. That's the way that a complicated plan works as well is that it may be complicated in terms of what's going on behind the scenes, but its interface with you can be fairly simple. And same thing will go if you're working with a good charity, and good resources, you'll be able to make something complicated, feel comfortable, so that you can take that action if it's appropriate for you. That was the most complicated of the discussions on dealing with the taxation of real property sale. But hopefully it got you thinking, as all these do here is we work at the crossroads of business and family at the Crossroads Program. I'm Carey Berger with The BSR Group. Thank you.