DONOR STORY: Joel & Bridget Sutton

Giving Pre-Merger Stock to a CRT

Joel & Bridget Sutton, both 60, own an investment portfolio including $500,000 of a single company's stock they bought several years ago for $100,000. The company recently announced an all-cash merger, which means Joel & Bridget must sell the stock in the next 60 days. Their financial advisor reminded them that the stock sale will trigger a capital gain tax of $100,000.

Sensing their concern about the looming capital gain tax, their financial advisor suggests a plan that will defer capital gain taxes, create an immediate income tax deduction, increase their retirement cash flow and remove the stock from their taxable estate. The financial advisor recommends moving the stock portfolio to a 6% Standard Charitable Remainder Unitrust (SCRUT) that will pay an annual variable cash flow to Joel & Bridget during their lives.

At their death, the assets remaining in the SCRUT, will go to a donor-advised fund (DAF) at Renaissance Charitable Foundation. Joel and Bridget's children will advise Renaissance Charitable Foundation regarding ongoing charitable distributions from the DAF.

Benefits of Sutton CRT	
Income Tax Deduction	$107,000
Before-Tax Lifetime Cash Flow	$1,164,000
Donor-Advised Fund	$888,000
Initial Capital Gain Deferred	$100,000

Key Features of SCRUTs

- SCRUTs provide an annual, variable cash flow to the income beneficiary so they are well-suited for clients desiring a continuous, predictable cash flow.
- Like most CRUTs, SCRUTs can accept additional contributions after the initial funding.
- SCRUTs must make a payment to the income beneficiary every year.
- Whatever remains at the end of the noncharitable term is paid to one or more charities.
- The required annual distribution listed in the SCRUT document must meet certain tests including being between 5% and 50% of the annual market value of the SCRUT.

Assumptions:

- CMFR = 2.2%. Deduction may be limited and will be spread over multiple years. Consult a tax advisor.
- Marginal Federal and state dividend and capital gain tax rates of 25%.
- Marginal Federal and state income tax rate of 41.86%.
- CRT produces 2% dividend yield and 6% capital appreciation.
- Joel and Bridget can also benefit her heirs through life insurance or separate planning.
- Joel and Bridget must transfer the stock to the CRT **before** the merger requires the CRT to sell the stock and without their voting for the merger.

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