



Pioneer Bank & Trust

Trust & Investments

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Ask a trust officer: Charitable trusts

DEAR TRUST OFFICER:

What is a charitable remainder trust?

—BUDDING PHILANTHROPIST

DEAR BUDDING:

A charitable remainder trust is a tool for dividing your wealth between private and philanthropic beneficiaries. Private persons—yourself, you and your spouse, other family members, there are no restrictions—receive the income from the trust. The trust may last for a set number of years, or for the life of an income beneficiary, or for the joint lives of more than one beneficiary. When the trust ends, the charity receives all the remaining assets.

The income from the trust is determined under one of two formulas. With a *charitable remainder annuity trust*, a specific dollar amount is paid every year to the income beneficiary, regardless of what happens in the financial markets. The alternative is a *charitable remainder unitrust*, from which a specific percentage of the trust's value is paid out each year. The advantage of the annuity is that it can't go down. It is an income stream that the beneficiary can plan on receiving. The advantage of the unitrust is that the amount of income will go up over time as the value of the trust assets goes up. That offers the possibility of inflation protection.

Income and gift tax charitable deductions are available when the charitable trust is funded, because such a transfer is irrevocable. Another important benefit is tax-free diversification of concentrated holdings, or tax-free conversion of a valuable asset into an income stream. When an appreciated asset is transferred to the charitable trust, the tax deductions are determined by full fair market value. If the trust sells the asset, there is no tax on the capital gain—in effect, the capital gains tax is forgiven. *Example:* The owner of a Stradivarius violin needed to transform the value of the instrument into his retirement income. He did so by transferring the violin to a charitable remainder trust, naming himself as the income beneficiary.

See your tax advisors to learn more.

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