

SELLING A CONCENTRATED POSITION USING A CHARITABLE REMAINDER TRUST

Multiple strategies are available to help owners of concentrated stock positions mitigate risk and minimize taxes, but a charitable remainder trust may allow them to do that and more, including:

- Sell their shares in a tax-efficient manner
- Receive an income tax deduction
- Reduce the risk of ownership
- Reallocate into a more suitable portfolio
- Gain a lifetime stream of income
- Benefit the charitable organizations of their choice

What is a charitable remainder trust?

A *charitable remainder trust* (CRT) is an irrevocable split-interest trust created to benefit two types of beneficiaries:

1. A noncharitable income beneficiary (e.g., the concentrated stock owner), who is entitled to a stream of income throughout the trust term
2. A remainder beneficiary (i.e., a charitable organization), which receives all of the remaining trust assets at the end of the trust term

How does the CRT work?

Because a charitable organization is the remainder beneficiary, a CRT is tax-exempt, so it can sell assets without incurring the taxes otherwise associated with such a sale. Therefore, it is an excellent candidate for receiving and liquidating contributions of highly appreciated concentrated stock positions.

Additional potential benefits of a CRT

- The trust owner receives an income stream for a term of years (up to 20) or for his or her lifetime.

- Upon transfer of the shares, the owner receives a federal income tax deduction equal to the present value of the charitable beneficiary's remainder interest. Some states also offer an income tax deduction.
- Although the income stream is taxable to the recipient, because of the unique accounting associated with the CRT, the tax character of the income may comprise long-term capital gain versus ordinary income.
- The CRT can meet the owner's charitable planning goals.
- Assets remaining in the CRT at trust expiration, or when the income beneficiary dies, pass to charity and are not included in the owner's taxable estate.

Considerations

For those who own a concentrated stock position, the CRT can be an excellent strategy to liquidate a portion of their shares to reduce risk, access income, reduce the taxable estate, and benefit charitable. Implementing a CRT requires the services of a qualified estate planning attorney.

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