

Annuity Trust for a Period of Time You Choose

It is also possible to establish a charitable remainder trust for a fixed time period of up to 20 years. Such a trust may be useful if you would like to retain income to meet your needs over a limited time frame. It is also possible to create such a trust to provide income for one or more loved ones for a particular term of years.

Example

George would like to make a gift that will provide regular payments of a specific amount for a period of time. One option would be a charitable remainder annuity trust funded with \$500,000 that will make fixed payments of 5% of \$500,000, or \$25,000, for a period of 5 years. If the trust earns 6% per year, the charitable remainder amount will be **\$528,185**.

Over that time payments totaling \$125,000 will be received. A portion of the payments may be taxed at lower rates than other income. Because the remainder of the trust will be devoted to charitable use at the end of the 5-year period, there is an immediate federal charitable income tax deduction of **\$389,225**.

If assets that had increased in value were used to fund the trust, no capital gains tax would be due at the time the trust is established. Through the use of this plan it is possible to make a significant gift over a 5-year period while retaining a source of income that allows a donor to also meet short-term personal needs.

To summarize the benefits received:

1. A fixed and predictable income of \$25,000 per year for 5 years.
2. An immediate charitable deduction of \$389,225 that can be used to reduce federal (and perhaps state) income tax for as many as six tax years.
3. No capital gains tax is due when assets transferred to trust are sold. (A portion of the annual payments may include some of the capital gain and may then be taxed at lower rates.)
4. A gift estimated at \$528,185 will be received at the end of the 5-year time period.

NOTE: This trust **Passed** the 10% remainder interest test. If it failed you must either reduce the annuity rate or the term of the trust. By law, the annuity rate cannot be less than 5%.

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Please Note: For purposes of providing contribution credit to the donor for the gift of a future interest, the value of the future remainder interest in today's dollars is \$394,691.

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Source URL (retrieved on 11/29/2022 - 19:32): <https://afpcc.givingplan.net/pp/annuity-trust-period-time-you-choose/5494>