To: P&G Employees
From: John Cornetet, CPA, J.D., CFP 513-771-2444

Re: Charitable Remainder Trust

A Charitable Remainder Trust (CRT) is a great vehicle to diversify out of P&G stock, avoid capital gains tax and aid the charity of your choice. The terms of a CRT are: income at a state rate for your life or your life and your spouse's life, with the remainder going to charity. You get to use the money for your lifetime and the principal of the Trust passes to the charity when you die.

The characteristics of a CRT are as follows:

1. The Trust is irrevocable.

2. Income is stated as a percentage of the value of the Trust payable yearly. The minimum is 5%. The maximum rate is a stated formula but can be in the low teens. Most people will pick an income stream of 5% to 8%. If due to capital appreciation, the value of the Trust grows, you get a raise. You can also get a decrease if the value of the Trust declines. Another option is to fix the income distribution each year at the beginning, like an annuity.

3. The term of the Trust can be for a term of years (maximum 20), one life or two lives.

4. Capital gains on the sale of P&G within the Trust are non-taxable. In a CRT, capital gains are taxed to the remainderman. The remainderman is a charity, therefore no taxes are paid.

5. You can pick one or more charities and maintain the flexibility of changing the charities.

6. When you transfer the P&G stock into the Trust, you get an immediate charitable deduction. The amount of the deduction depends upon your age and the income percentage you retain. The deduction can range from 8% to 35% of the value of the contribution.

Example: You sell $500,000 worth of P&G stock with a cost basis of $100,000. You would pay a capital gains tax on $400,000 at 15% or $60,000 plus about $25,000 to Ohio. The net to invest would be $415,000. In a CRT you transfer the stock to the Trust and then sell it. There is no capital gains tax paid by the Trust. Therefore, you keep the entire $500,000 working for you. At a 5% return, your cash flow is $25,000 per year rather than $20,750. Furthermore, you would get a charitable deduction for $50,000 which saves you about $12,000 in income taxes.

Some clients couple the CRT with a life insurance policy. The life insurance policy is the wealth replacement to your children. The charity receives the Trust, your children receive the life insurance, and the government receives nothing. Win! Win! Win!

I have done CRTs for as small as $100,000. Thus, you do not have to give millions to use this technique. The creation of the Trust cost between $1,000 and $1,500. An income tax return for the Trust must be prepared annually.