



## **Solving a Client's Tax Problem The CBN Case Study**

Client is a widow in her '60's who was receiving \$200,000 as a staged payment from her deceased husband's business in that year. Her net worth is approximately \$1.5 million. Her investment portfolio is in tax free municipals and, therefore, the business buyout payment will comprise almost all of her taxable income. The weighted average federal tax bracket on the payment would be approximately 30% and cost \$60,000 in tax.

She has one daughter in her '30's who is financially independent from the mother, but not affluent.

The client is deeply religious and charitably inclined, but cannot afford to give away large amounts of assets to the detriment of her own support or her daughter's inheritance.

### **Solution**

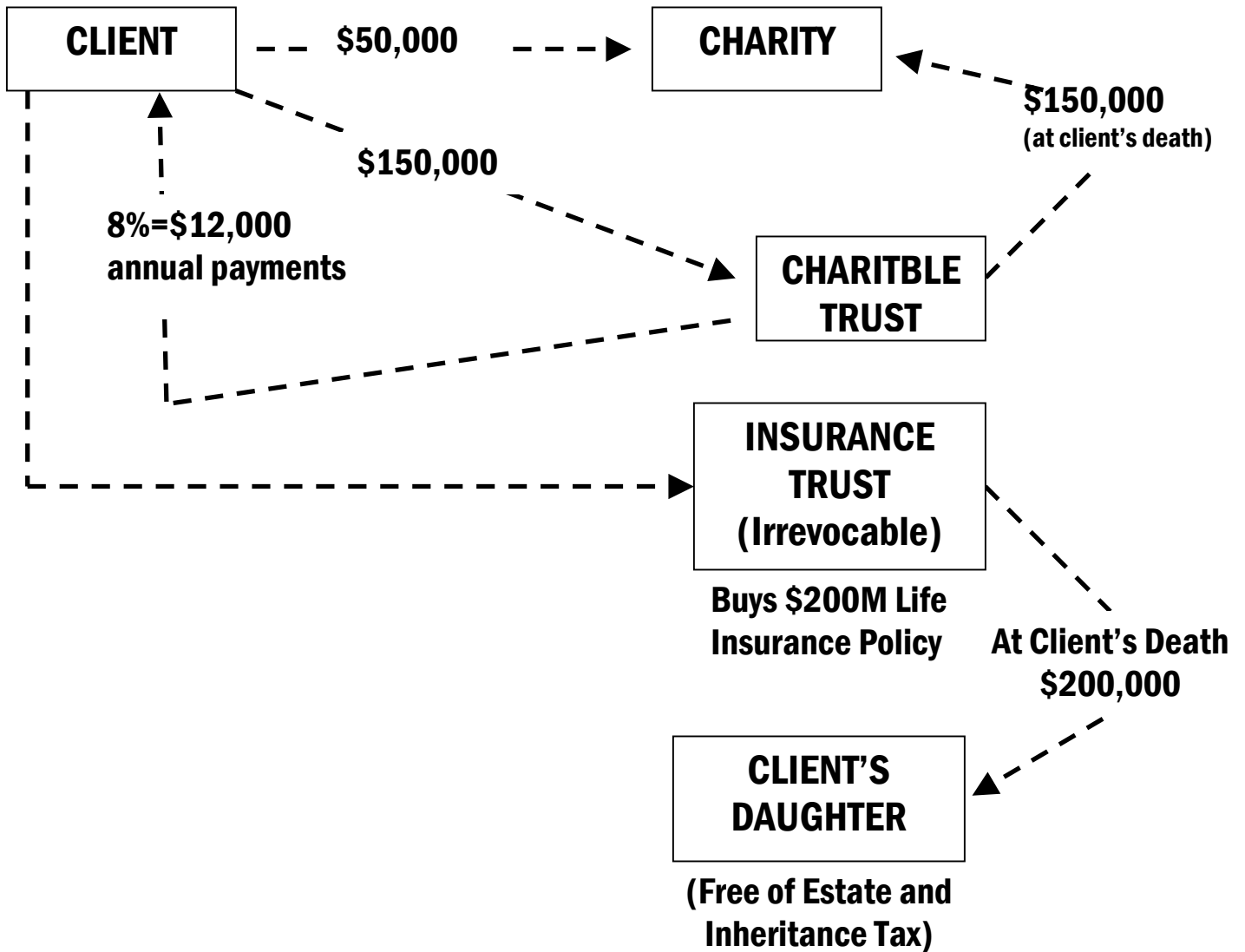
The client gifted \$50,000 outright to CBN University and \$150,000 to a Charitable Remainder Unit Trust. She received a \$50,000 charitable contribution deduction for the outright gift and a \$37,000 present value charitable deduction for the remainder trust. Together with \$10,000 of gifting she had already done that year, the total offset was \$97,000, or about one-half of the taxable income for the year. That's the limit for offsetting adjusted gross income in any year. Additionally, the attorney's fees for creating the trust were also deductible.

The Charitable Remainder Trust will pay the client 8%, or \$12,000, per year for the rest of her life. Upon her death, the principle reverts to the charity.

Simultaneously with the above, the client established an insurance trust and gifted the first-year's premium to purchase a \$200,000 life insurance policy naming her daughter as beneficiary. There are plenty of funds to pay the premium each year and still have lots left over for her living standard from the \$12,000 that the Remainder Trust will pay her each year of her life.

## CBN Case Study

### Charitable Remainder Unit Trust and Irrevocable Insurance Trust



#### Benefits to Client and Her Estate

- |   |          |                            |
|---|----------|----------------------------|
| 1. \$50,000 gift deduction  | \$87,000 | Deduction                  |
| 2. \$37,000 present value deduction of \$150,000 charitable trust gift.                 | x 30%    | Average tax bracket        |
|   | \$26,000 | Immediate income tax saved |
| 3. \$98,000 estate and inheritance taxes saved.   |          |                            |
| 4. Major gift to charity of choice replaced at death to daughter outside of the estate. |          |                            |

## **Benefits**

### **To the client:**

- ◆ Saved approximately \$30,000 in current year income tax
- ◆ Will save about \$98,000 in federal and state death taxes.
- ◆ Preserved the \$200,000 gift for her daughter via the insurance trust. Also, created the opportunity to guide the use of the \$200,000 by her daughter, if she wished, by including special trust provisions. (She did not in this case.)
- ◆ Became very important contributor to her favorite charity. In this case, she has made several appearances both before and after the contribution on the CBN TV interview program
- ◆ Most importantly to this client, she has the satisfaction of knowing that she has funded scholarships that will help students at CBN remembered long after she is gone.

### **To the charity:**

- ◆ A \$50,000 outright gift that immediately begins funding two scholarships
- ◆ A deferred gift of \$150,000 that will someday fund many more
- ◆ No expense as the income for the donor comes from the fully funded trust and the legal fees were paid by the client

### **To the advisors:**

- ◆ They were paid for their legal, accounting, investment and insurance professionals skills
- ◆ Satisfaction in helping a client, a worthwhile charity and also from doing something creative and out of the daily ordinary.