Presbyterian FOUNDATION

NEW COVENANT TRUST COMPANY

Trusts have many uses and can be a great benefit when properly established and managed. Whether revocable or irrevocable, or a qualified charitable trust or not, the Presbyterian Foundation's New Covenant Trust Company can help you determine an appropriate strategy to achieve your objectives. Our team of trust professionals can be a valued partner, working to understand your circumstances and how to apply the options available to you to best serve your objectives.

Personal Trusts include:

- Revocable Trusts
- Marital Trusts
- Wealth Replacement Trusts
- Testamentary Trusts
- Charitable Trusts
- Charitable Remainder Trusts
- Charitable Lead Trusts

Revocable Trusts

A revocable trust is created to accept ownership of your assets during your lifetime. This is appealing for several reasons:

- You may retain complete management, control, use and distribution of your trust assets. If you prefer, you can designate someone else to serve as trustee for you.
- You select an alternative trustee in the event you become incapacitated. The trustee will manage the trust funds for you. The trust should clearly state how to determine incapacity.
- You can add or remove assets from the trust or change any of the terms at any time you determine in your sole discretion.
- At your death, the trust becomes irrevocable and provides for the distribution or the continued management of the remaining assets in the trust by the successor trustee. The distribution is private; no involvement of probate.

Marital Trusts

Federal tax deductions let all your assets pass to your spouse, who is a U.S. citizen, tax-free. What if you want to relieve your spouse of the burden of managing assets or minimizing estate taxes? What happens upon your spouse's death? Two relatively simple trusts can provide valuable answers to these estate-planning questions.

As with outright gifts to a spouse who is a U.S. citizen, a Qualified Terminable Interest Property Trust (QTIP) trust is designed so that all assets in the trust qualify for the unlimited marital deduction. One purpose of the trust is to avoid estate taxes upon the death of the first spouse. Additionally, the trust can have independent trustee control that can manage the assets for the surviving spouse, and can determine the contingent beneficiaries, who usually are children.

A Credit Shelter Trust (CST), also known as a family trust or bypass trust fully utilizes the combined tax credit (exemption equivalent) allowed to each individual. The exemption equivalent amount typically funds the CST while the remaining balance of your estate funds the QTIP trust. Assets in a CST are not included in your spouse's estate, so they pass estate tax-free to beneficiaries after your spouse's death. While your spouse is alive, he or she can enjoy the use of the income earned by the CST assets.

Wealth Replacement Trusts

Today, many estate planners are recommending combining charitable giving with an irrevocable life insurance trust, also known as a wealth replacement trust. A wealth replacement trust restores the assets of your estate that have been used to make a charitable gift, and can be designed to provide your heirs with inheritances free of estate taxes. Advantages to the wealth replacement trust include:

- You remove assets from your estate that could incur large estate taxes.
- You are allowed to claim charitable contributions.
- Your heirs usually receive a comparable amount to that which they would have received had you not created the trust.
- The charitable organization you designate receives significant support.

The wealth replacement trust may be structured so that you set up a charitable remainder trust to receive the income and tax benefits. At the same time, you set up an irrevocable life insurance trust that names your heirs as beneficiaries and someone other than yourself as trustee. The wealth replacement trust buys an insurance policy on your life, usually in an amount equal to your charitable gift. Every year, you transfer assets to the wealth replacement trust (using income from the charitable remainder trust) to cover the cost of trust administration and the life insurance.

Testamentary Trusts

Trusts can be established during one's lifetime, or in a will to be created upon death. In either case, the benefits can be similar. In essence, a testamentary trust provision in a person's will stipulates that upon death the decedent's estate (or part) is to be held "in trust" for the benefit of others rather than paid out entirely and immediately. New Covenant Trust Company's trust professionals can offer guidance about creating such provisions in your will.

Charitable Trusts

By helping you align your financial needs with your stewardship goals, New Covenant Trust Company works with you in support of your Presbyterian values. A charitable trust professionally managed and administered by New Covenant Trust Company will provide long-term income as well as a future gift to a mission or ministry of your choice. Charitable Trusts come in many varieties. We will work with you and your tax professional to determine the best trust vehicle for your family and philanthropic needs.

A **Charitable Remainder Trust** is an irrevocable trust that provides payments for your lifetime, the lifetimes of others, or a set term of years. These payments can be made to you or other income recipients. After the lifetime of the payment recipient(s) or the expiration of the term of years, the remaining trust assets become available for the work of your church or designated ministry according to your wishes.

Reasons You May Want to Consider a Charitable Remainder Trust

- Desire to support the work of a church or ministry
- Increase income for yourself or others
- Create charitable contribution deduction
- Capture long-term capital gain without immediate taxation
- Diversify portfolio assets
- Reduce estate size and potential tax

A **Charitable Lead Trust(CLT)** exists for a term of years or a lifetime, during which time the trust makes payments to a charitable beneficiary you name. When the charitable term ends, trust assets are either returned to you or released to other persons you name. Transferring assets to a Charitable Lead Trust can remove them from your estate and pass them to heirs with little or no tax liability. A gift tax discount arises because of the charitable interest preceding your heir's interest.

Example: You make a $500,000 gift to a twenty-five year CLT paying $30,000 per year to charity before passing to your children. The gift to your children is valued at only a fraction of $500,000.

A CLT pays either a fixed amount to charity, or a fixed percentage of the trust's value determined annually. By structuring a CLT to return assets to you, you may obtain an income tax deduction for the charitable interest. In the example above, if the assets revert to you after twenty-five years, the charitable interest is a large portion of the $500,000.

For more information about trust services or any other service provided by New Covenant Trust Company, please contact us at 800-858-6127 or by email. Contact your tax advisor to determine how these trusts would actually affect your estate.