If you own assets that have appreciated significantly over the years, you may be able to profit more by *giving them away* than by selling them.

By setting up a charitable remainder trust (CRT), you can transform a future tax liability into a current tax break, receive a steady source of income for the rest of your life and leave a gift to your favorite charity.

Here's how it works. Let's say you invested $100,000 years ago in a stock that's now worth $350,000. One option is to sell the stock now and use the proceeds to help finance your retirement. But you'll owe capital gains taxes on your profit and you may owe state taxes too.

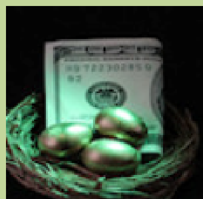
Instead, you set up a CRT to benefit one or more charities and transfer the stock to the trust. Because the trust is tax-exempt, it can sell the shares and reinvest the entire $350,000 in a portfolio that you administer.

You receive income generated by the trust assets for the rest of your life. The assets are no longer in your taxable estate because when you die, the charity or charities get the remainder of the trust. In exchange for your future gift, you escape capital gains tax and get an immediate tax deduction for a portion of the value of the assets transferred to the trust.

Despite the advantages, CRTs aren't for everyone. For one thing, if you give away assets, your heirs won't receive them. Some people handle that by buying life insurance or setting up a Wealth Replacement Trust so their children still receive an inheritance (see the right-hand box below).

What About the Kids?

With a charitable remainder trust, you may be worried about giving away a large share of your children's inheritance.



You may want to consider buying life insurance or setting up a "Wealth Replacement Trust" to make up the difference for your children.

This trust owns, pays premiums on, and is the beneficiary of a second-to-die life insurance policy. The idea is the policy replaces your children's lost inheritance.

You give money to the trust every year to finance the policy. The premium, once established, remains stable for life. Upon the death of the second spouse, your children receive the life insurance proceeds from the trust. The proceeds are tax-free.

Here are seven basic steps involved in a CRT:

Step 1. When you establish the trust, you become the trustee. You can name a successor to act as trustee if you later become incapacitated.

Step 2. You designate a charity or non-profit organization to receive the remainder of the CRT after you die.

Step 3. You donate appreciated assets, such as stock, real estate or a business, to the CRT. There is no limit on the amount. The CRT generally sells the assets and buys income-producing investments, such as dividend-paying stocks.

Step 4. You get a tax deduction for the charitable gift. The exact write-off depends on your age and the income payments you receive. Part of your deduction may be delayed, but unused deductions can be carried forward for five years.

Step 5. As trustee, you invest the proceeds from the CRT's sale of the assets. Any gains are tax-free because the CRT is tax exempt.

Step 6. The trust pays you income for life or for the trust term. The payments depend on the type of CRT you set up. There are two basic types:

- **An annuity trust,** which pays out a fixed amount each year.
- **A unitrust**, which pays out a fixed percentage each year based on the value of the assets in the trust. If the trust assets increase in value, so does your income.

Step 7. When the last beneficiary dies, or at the end of the trust term, the assets are distributed to the charity or charities that you have designated.

A charitable remainder trust may be a good vehicle for you to reduce taxes and benefit a worthy cause while preserving your financial stability. Consult with your estate-planning adviser to see if it's right for you.