NC Foundation

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Deferring Taxes Using a Charitable Remainder Trust

A charitable remainder trust may be a way for you to defer taxes and make a future charitable gift, but it can be a little tricky to navigate.

When considering retirement, many farmers and ranchers realize they face perhaps their largest income tax liability the year they retire because of the sale of the build-up in commodity inventories and sale of fully depreciated equipment. An option that can defer these taxes is a charitable remainder trust (CRT). A CRT is a tax-qualified trust. Any assets sold by a CRT are sold on a tax-free basis.

A CRT provides three benefits: 1) bypass of income taxes on the sale of the assets inside the CRT; 2) increased income from the tax-free sale of assets inside the trust and tax-free growth of the assets inside of the CRT; and 3) a future charitable gift.

Let's break down how a CRT operates:

- Contribute grain/cattle/equipment to a CRT (the rancher/farmer may still be able to deduct the expenses of their operation).
- The CRT sells the grain/cattle/equipment tax-free.
- The CRT provides an income – either fixed or variable – to the rancher/farmer. The income can be for the life of the rancher/farmer and his/her spouse. Or, the income payments can be guaranteed to be paid for a fixed number of years (up to 20 years). This option is popular because if the rancher/farmer passes, the remaining income payments can continue to family members.
- Ordinary income tax is owed on the income payments from the CRT.
- At the end of the trust, the remaining asset will go to the community or a charity of the rancher's/farmer's choice.

Here is a real-life situation of how a rancher and his wife, who were retiring and wanted their children to inherit their ranch, used a CRT to make a tax-free sale of cattle. Since they were planning to lease the ranch, they wanted to sell the cattle. Their tax preparer informed them that due to cattle sales they were looking at incredible tax issues if they continued to sell their cattle. After exploring their options, they decided to establish a CRT. Prior to taking the next load of cattle to the sale barn, a CRT agreement was put into place. The CRT then delivered the cattle to the sale barn. The cattle were sold tax-free in the CRT's name. As a result, the amount of income generated by the CRT was more than double the income that would have been generated from the net proceeds of an outright sale of the cattle. Plus, the couple are making a future charitable gift of the remainder of the CRT.

Table 1 shows a comparison of the outright sale of the cattle versus the tax-free sale by the CRT.

A charitable remainder trust may be a way for you to defer taxes and make a future charitable gift, but it can be a little tricky to navigate. If you are interested, make sure to review this with your tax advisor. Nebraska Cattlemen Foundation has been working with Nebraska Community Foundation to provide charitable gift planning services to its friends. To learn more about the benefits of a CRT, feel free to contact NCF staff Jana Jensen at (308) 588-6299 or *janajensen@nebcommfound.org*, or Jim Gustafson at (402) 323-7341 or *jgustafson@nebcommfound.org*. We welcome your calls and/or emails and would enjoy helping you understand the benefits of CRTs and how they can help you accomplish your charitable intentions. ▪NC▪

Table 1

Sale		**Charitable Remainder Trust**	
Sale of Cattle	$526,000	Sale of cattle by CRT	$526,000
Less federal, state and self-employment taxes (57.14%)	($300,556)	Less tax	$0
Net cash to invest	$225,444	Net cash invested by CRT	$526,000
Annual yield	x 5%	Annual payout by CRT	x 5%
Annual Income	$11,272	Annual income	$26,300