# Prudential Trust Services

## Charitable Remainder Trust

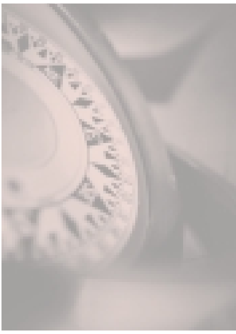
*Turn appreciated assets into current income for yourself and a future philanthropic gift*

Prudential Financial

Growing and Protecting Your Wealth℠

## Convert appreciated assets into an income stream now and a charitable gift later, while reducing your taxes.

Like many people these days, you may be thinking of donating appreciated assets to a charitable organization. That's an excellent way to make an important gift, with the additional reward of a current tax deduction.



By establishing a Charitable Remainder Trust (CRT), you can arrange to make this charitable gift at a future date. In the meantime, you or your family will be able to receive regular income from the assets you're gifting – income that can last a lifetime.

***Donating an appreciated asset to a CRT allows you to:***

- ***Convert it into a stream of income without incurring capital gains tax***
- ***Ultimately benefit a designated charity***
- ***Capture an immediate tax deduction for your gift***

## What advantages does a CRT offer?

By establishing a CRT, you can support a favorite charity, college, foundation, or other nonprofit organization while benefiting yourself and your family. Among the advantages:

### Tax-advantaged diversification.

When the major holding in your portfolio is a highly appreciated asset, you may be reluctant to sell it because of the potentially hefty capital gains tax bill. By transferring it to a CRT, you can convert it into more diversified or potentially higher-yielding income investments — free of capital gains tax.

### More spendable income.

Because the assets you transfer to the trust aren't taxed, the full proceeds are available for reinvestment by the trustee. This means you can potentially realize more spendable income from the CRT's conversion of the asset than if you had sold it yourself.

### A current income tax deduction.

In acknowledgment of the importance of charitable giving, Congress has made it possible for CRT contributions to be tax-deductible. (Your gift may also qualify for state and local income tax deductions.) Deductions are calculated on the present value of your future gift. Generally, the older you are and the smaller your income interest, the larger your deduction will be.

### No capital gains tax liability.

At the long-term capital gains rate of 20%, selling a $300,000 investment with a basis of $30,000 would cost you $54,000 in tax. But because a CRT is tax-exempt, it can sell appreciated assets like these without paying federal capital gains tax (or state and local tax, in most cases).

### Tax-free growth to maximize your charitable gift.

Undistributed earnings or capital gains in the trust normally accumulate tax-free, allowing them to grow faster than if they were taxed. Income is taxed only when distributed to income beneficiaries.

### A smaller taxable estate.

Assets you transfer to the CRT are removed from your estate. This allows you to enjoy a stream of income without owning the asset that produces it – and thus avoid estate tax on the asset(s) transferred to the CRT. (Although the estate tax will ease gradually through 2009, it is repealed for only one year: 2010. Barring further action by Congress, it will return in 2011 at 2001 rates.)

## What is a trust?

A trust is a legal entity set up to hold, administer, or distribute assets for the benefit of someone else – its beneficiaries. Trusts may be revocable (which means that you can amend, revoke, or terminate them anytime) or irrevocable (which means they can't be changed). An irrevocable CRT may not be altered or terminated once you have created it.

To define the trust's purpose, a Trust Agreement is drafted by an attorney, following the instructions of the trust's grantor. The grantor must name one or more trustees responsible for managing and distributing trust assets in accordance with the agreement.

## Choosing the right trustee.

Many trust grantors initially consider naming as their trustee an individual they know – someone who is familiar with the beneficiaries and their needs. But the fiduciary responsibility for proper management of investment, recordkeeping, and tax preparation tasks can overwhelm an inexperienced trustee. The solution may be to name co-trustees: a relative or friend, and a corporate trustee such as Prudential Bank.

As trustee of your CRT, Prudential offers you and your beneficiaries several advantages:

- Extensive trust experience
- Strong corporate stability
- Efficient portfolio management
- Investment expertise

- Effective tax management
- Objectivity to ensure that your wishes are carried out, helping avoid potential conflict among beneficiaries
- Simplicity and convenience for loved ones who may not be financially knowledgeable or understand what needs to be done

Prudential trust clients have the added benefit of continuity through their Prudential financial professional. In fact, this continuity is often the determining factor in choosing Prudential over other trust services providers.

## How a CRT works.

The chief benefit of a Prudential CRT is that money you'd otherwise have paid in taxes can go to work for the charity of your choice. Here's how:

- You transfer appreciated assets to the trust.
- The trustee sells these assets and reinvests the proceeds in an income-producing investment. Since the assets were held by the trust, there is no capital gains tax on the sale.
- The income beneficiary (who may be you, your spouse, children, grandchildren, and/or anyone else you designate) receives income from the trust for life, or a fixed period of 20 years or less.*
- At the end of this term, the charity receives the remaining trust assets and the CRT is dissolved. The value of the remainder interest generally must be at least 10% of the initial value.

* *If the income beneficiary(ies) include someone other than you or your spouse, gift taxes may apply.*

If desired, a CRT can be combined with an Irrevocable Life Insurance Trust. This helps replace the value of the assets you're giving to charity by providing an estate- and generally income-tax-free [Internal Revenue Code 101(a)] cash benefit to your beneficiaries.

*Example: Twenty years ago, Tim bought stock in ABC Company for $300,000. Today, the stock is worth $3 million. Tim has recently retired and would like to increase his income. If he sold his ABC stock, he would incur substantial capital gains tax on its $2.7 million gain. To avoid this tax, Tim transfers his highly appreciated stock into a CRT.*

*Once in the trust, the stock is sold and the proceeds invested in an income-producing portfolio. Since neither Tim nor the trust owes capital gains tax, the entire $3 million can be reinvested. He also receives a substantial income tax deduction equal to the present value of the charitable remainder interest.*

*Here's an example of how Tim could benefit*

| | Taxable Account | CRT |
|---|---|---|
| Current market value | $3 million | $3 million |
| Less: capital gains tax ($2.7 million gain X 20%) | ($540,000) | $0 |
| Investable assets | $ 2.46 million | $ 3 million |
| Annual income @ 8% yield | $196,800 | $240,000 |

**Example is for illustrative purposes only and is not intended to represent any specific investment. Returns will vary depending upon your individual situation.*

CRTs are commonly structured in one of two ways:

**Choose the security of fixed payments with a Charitable Remainder Annuity Trust (CRAT)**. A CRAT pays the income beneficiary a fixed dollar amount every year. You select the amount, based on a percentage (not less than 5% or more than 50%) of the initial value of the assets placed in the trust.

*Example: John Williams transfers $500,000 into a CRAT. He elects to receive an annual income distribution of 8% of the assets' initial value, or $40,000 (500,000 x .08). No matter how the investments in the trust perform, this annual distribution will never change.*

**Or choose the opportunity for inflation protection with a Charitable Remainder Unitrust (CRUT)**. A CRUT pays annual income based on a fixed percentage (not less than 5% or more than 50%) of the current market value of the trust assets. The asset value and distribution amount are recalculated every year. If the trust's investments do well, the distribution should increase. However, if the portfolio declines in value, the distribution amount may decrease. By allowing you to participate in the rewards and risks of the marketplace, a CRUT can help your income keep pace with inflation.

*Example: Mary Jones transfers $500,000 into a CRUT. She elects to receive annual income equal to 8% of the trust's assets at the beginning of each year. In the first year, Mary would receive $40,000. In later years, the amount she receives will depend on the performance of the assets in the trust.*

## Trust Prudential to help you get more value from charitable giving.

We recommend careful consideration before establishing a charitable remainder trust. You'll want to discuss this option in depth with your Prudential financial professional, your tax advisor, and a knowledgeable estate planning attorney.

If you decide that a CRT is right for you, you'll need to make one more decision. Whom should you choose as trustee or co-trustee of your trust?

### Think Prudential Bank.

When you work with the Prudential Trust Services team, you gain the advantage of decades of experience in trust management. Trust consulting is what we do, day after day – so you and your loved ones can expect skilled guidance, year after year. We offer a wide array of trust choices to help you meet your financial objectives.

For more information on a Prudential Charitable Remainder Trust or other financial solutions, please contact your Prudential licensed sales professional or call Prudential Trust Services at **1-800-PRU-TRST (778-8778), option 2**. You'll be able to potentially reduce your tax bill and benefit a favorite charity, while helping to secure a stream of income for yourself, your family, or other beneficiaries.

Neither The Prudential Insurance Company of America, Pruco Securities Corporation, Prudential Securities Incorporated, The Prudential Savings Bank, F.S.B., nor its licensed financial professionals render tax or legal advice. You should consult with an attorney, accountant, and/or tax professional for advice concerning your particular situation.

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EQUAL HOUSING LENDER

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Securities products and services offered through Pruco Securities Corporation, 751 Broad Street, Newark, NJ 07102, or Prudential Securities Incorporated, 199 Water Street, New York, NY 10292, members SIPC.

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13-23901-15 (01/2002)

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