



Creating a Charitable Remainder Trust

What is a Charitable Remainder Trust?

A Charitable Remainder Trust is a formal trust which is created by you, (*the Settlor*), in which you give property (usually cash) to an individual or professional organization (*the Trustee*), to hold in trust for yourself (*the life tenant*) for your life time. On your death, the property held in trust goes to the charity or charities of your choice (*the residuary beneficiary*). The gift is irrevocable: once the funds are given, they cannot be taken back.

How does it work? An Example

Mr. Jones is 85 years old, has capital funds which are in excess of his requirements. He wishes to benefit BC Schizophrenia Society (BCSS) and wants to ensure the benefit will occur on his death. He is also aware of the tax relief charitable giving can provide. After consulting with his advisors, Mr. Jones takes \$200,000 and creates a trust with the assistance of his lawyer, which provides that he alone receives the income generated from the trust for the rest of his life. He gives up all right to the capital of the trust. He names BCSS as the residuary beneficiary of the trust. The lawyer draws up the irrevocable trust in consultation with BCSS, and obtains an actuarial calculation of the present value of the \$200,000 based on Mr. Jones' life expectancy. Let's assume this valuation is \$167,000.00.

BCSS will issue a charitable tax receipt for \$167,000 to Mr. Jones, which he can use to offset tax otherwise payable in the current year, and for 5 years into the future until the value of the receipt is used up. Should he die prior to the receipt being used fully, the donation receipt may be applied to the return required in the year of death and the prior year as well, with no limitation.

What are the benefits to this type of trust?

Mr. Jones has the income for the rest of his life from his trust. He has a tax receipt for \$167,000 which he can start using now and for five years forward. BCSS has a committed gift of \$200,000 which will be available on the death of Mr. Jones, outside of his will and other estate planning matters. The matter is private and confidential, and cannot be contested. Mr. Jones may choose to direct his gift to be used to support Programs/Services or Research.

This form of planned giving is of most benefit where there are larger sums of money available to be used in a creative manner for the benefit of both the donor and the charity. Property such as real property and securities may be used, and can be structured, with professional advice, to avoid capital gains tax. The benefits are greater for the person over 70 years of age, who wishes to maintain income, and has other income which attracts the payment of tax. Please consult with your professional advisors to ensure this type of gift is appropriate.

If you would like further assistance or information please contact:

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