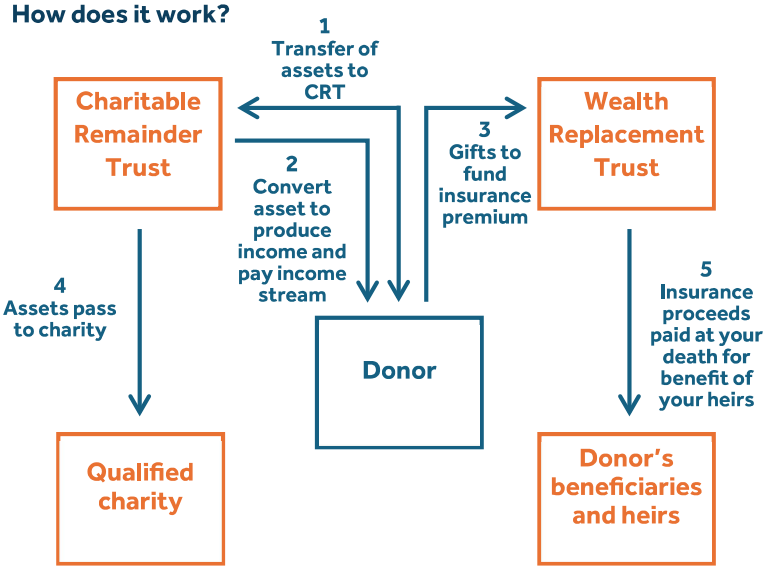
A resource for families and individuals

Guardian Wealth Advanced Markets

Giving to charity, enhancing cash flow, and maintaining a legacy

Throughout your life, you have been very generous with your wealth and your time, giving back to your favorite charities and organizations. You would, however, like to make a bigger impact on your community and society with a larger gift but you have several concerns. The first is the weakness and uncertainty in the current economy and investment market. You are not sure that you want to give away assets that you may need in the future to support your lifestyle. The second is that even if you could give away assets without jeopardizing your future, you're concerned that you would be leaving less to your children and heirs. You are also concerned about the impact of estate taxes on your estate. These competing interests are causing indecision and a lack of confidence in what to do.

How does it work?



One Solution: The Charitable Remainder Trust with a Wealth Replacement Trust

A Charitable Remainder Trust (CRT) is an irrevocable trust with significant income tax advantages. It is referred to as a split-interest trust because it has both charitable and non-charitable beneficiaries. It also serves dual purposes: (1) to provide you with a stream of income, and (2) to have the balance of that asset eventually go to your favorite charity. A Wealth Replacement Trust (WRT) is an irrevocable life insurance trust that has significant estate tax and legacy benefits. It allows for the purchase of life insurance inside of the trust, thereby keeping the insurance proceeds out of your taxable estate. The beneficiaries of this trust, however, are your children so the insurance proceeds can "replace" the assets that you donate to charity using the CRT technique. The premiums for the insurance are paid using a portion of the income stream that you receive from the CRT leaving you with no out-of-pocket expense. As a result, the assets used to fund the CRT can be used to provide you with an income stream and to ultimately benefit charity, all without reducing the legacy you leave to your children and heirs.

1. The CRT is structured in a manner that allows you to make a gift to the trust in return for a stream of income (the "income interest"). The beneficiary of the income interest can also be someone else whom you designate although this may result in gift tax consequences. The income stream can come as a fixed dollar amount (Charitable Remainder Annuity Trust or CRAT), or as a fixed percentage of the assets in the trust (Charitable Remainder Unitrust or CRUT). Typically the gift may be one of highly appreciated assets whose outright sale may result in a substantial capital gains tax liability, or low income-producing assets that can be converted to current income, or a combination of both. When the gift is made into the trust, you will receive a current charitable income tax deduction based upon the present value of the interest that will ultimately pass to the charity (the "remainder interest"). Income earned by the trust is not currently taxable. Instead, the income tax recognition may be spread out over the number of years in which trust assets are distributed.

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2. The trustee sells the transferred assets at full market value. There is no current capital gains tax liability upon this sale. The proceeds of the sale are then utilized to purchase an investment that will provide income either for your lifetime or for a period of years depending upon how the trust was designed. The income is paid to you on a yearly basis until the end of the trust term.
3. From the income stream received from the CRT, you make a gift to the wealth replacement trust each year in an amount that would satisfy the insurance premium. The WRT is the purchaser, owner and beneficiary of the life insurance.
4. Upon the expiration of the income interest or upon your death, the assets that remain in the CRT will go to the qualified charity that you designated in the trust. Since the asset was removed from your estate at the inception of the trust, no estate taxes will be levied.
5. Upon your death, the insurance proceeds will be paid to the WRT for the benefit of your children or other beneficiaries. Since the life insurance was purchased by the WRT upon the formation of that trust, the death proceeds will not be included in your taxable estate and hence, no estate taxes will be levied on these benefits.

Advantages

- You can make a significant contribution to charity without sacrificing your own needs for income and/or leave a generous legacy to your children and heirs.
- You receive a charitable income tax deduction based upon the present value of the remainder interest of the CRT assets going to charity.
- Using highly appreciated assets to fund the CRT still results in the avoidance of current capital gains taxes when the assets are sold by the trust.
- You reduce your estate for estate tax purposes by giving away assets to charity.
- There is no legacy reduction resulting from the gift to charity because of the Wealth Replacement Trust.
- There is little, if any, out-of-pocket expense to fund the Wealth Replacement Trust.
- Gifts of money by the donor to the WRT, to fund premium payments for life insurance owned by the trust, allow the donor to leverage the power of life insurance to provide a death benefit significantly greater than the premium amount.
- The insurance proceeds in the WRT cam "replace" the value of the assets donated to charity.
- Properly designed, the WRT can be fairly flexible in how trust assets are used for the beneficiaries while maintaining a level of creditor protection over the trust assets.
- Gifts of money to the Wealth Replacement Trust allow the donor to leverage their annual gift tax exclusion, lifetime estate and gift tax exemption, unified credit and generation skipping transfer tax exemption. The life insurance purchased, owned and held in a properly designed WRT, will not be included in the donor's taxable estate.

Please consult with your Guardian financial advisor if you have any questions concerning this document.

The Guardian Life Insurance Company of America

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