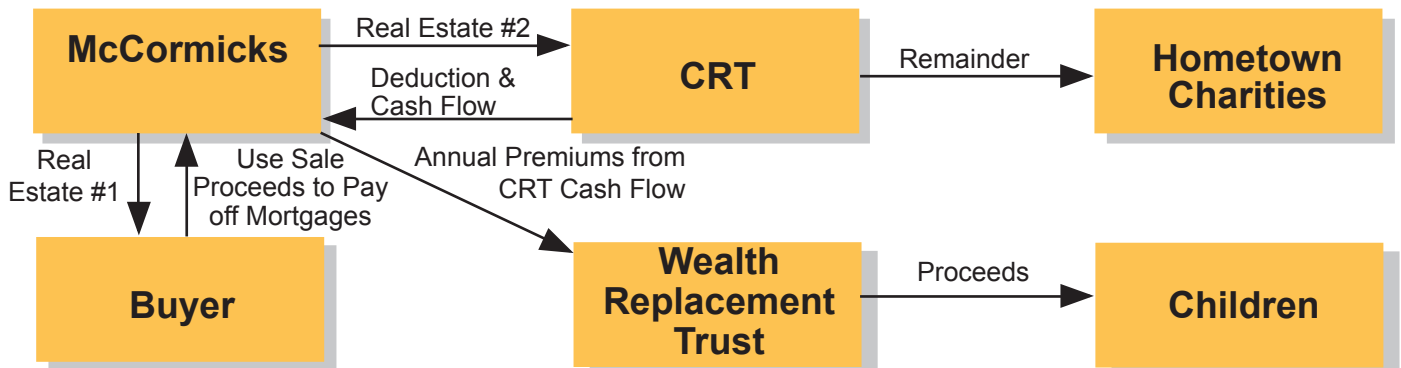


Case Strategy: *Sale of Commercial Property*

M^cCORMICK



Larry and Beverly McCormick, age 65 and 63, want to retire to a warmer climate that is closer to their two children. The McCormicks also want to make significant gifts to nonprofit organizations that benefit the residents of their long-time hometown; thereby creating a legacy that will last after they leave the city.

Several years ago the McCormicks purchased two commercial buildings on the outskirts of town for \$250,000 each. These buildings have become prime real estate properties that have appreciated in value to \$3 million each. Each building is currently encumbered by a \$500,000 mortgage.

The McCormicks are concerned that their objectives to provide inheritances for their children and contribute to their community won't be met due to the tax liability they will incur when they sell the highly appreciated real estate.

At a meeting with their financial planner, they learn how a tax-exempt charitable remainder trust (CRT) can meet their goals. By controlling their social capital — the wealth they cannot keep that usually goes toward taxes — the McCormicks will reduce their capital gain tax liability, avoid estate taxes, receive an income tax deduction, receive a lifetime cash flow, and create a lasting legacy in their hometown.

Putting their new plan in place, the McCormicks first sell one of the buildings outright and use the net proceeds to pay off the mortgages on both properties. They then give the second building to a newly-created CRT which sells the building. Because the CRT is tax-exempt, the full amount of the sale proceeds is available for investment.

The sales proceeds are invested to produce a cash flow consistent with the 6% CRT payout rate selected by the McCormicks. Using a portion of this cash flow and the tax savings from the income tax charitable deduction, the McCormicks are able to make gifts to a Wealth Replacement Trust to purchase life insurance that will benefit their children. When the CRT matures at the death of the last CRT income beneficiary, the remaining CRT assets will be paid to the hometown charities selected by the McCormicks.

Larry & Beverly
Before-Tax
Lifetime Cash Flow

\$7,436,000

Children

\$4,415,000

Charities

\$4,648,000

Taxes Saved
Estate Tax Saved
\$1,050,000
Capital Gain Tax Saved
\$489,000

Assumptions:

CMFR = 2.2%. Annual investment return = 8%.
The McCormicks' adjusted gross income is sufficient to utilize all of the \$792,000 income tax charitable deduction.

Marginal Federal and state income tax rate = 38.25%.

Marginal Federal and state dividend and capital gain tax rates = 19.25%.

Annual second-to-die life insurance premium is \$32,000 for life.

Selling expenses are assumed to be 7% of the real estate value.

The property in the CRT cannot be used by or sold to the McCormicks or their family.

If the property was depreciable, capital gain tax may be higher.

For more details about this strategy or any other charitable or trust case, please call Renaissance at 800.843.0050.

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This example is hypothetical and for educational use only. The situations, tax rates or return numbers do not represent any actual clients or investments. There is no assurance that the rates depicted can or will be achieved. Actual results will vary. Please consult with legal and tax counsel about the suitability of this plan before proceeding.

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