CASE STUDY EXAMPLE FOR FUNDING CRT FLIP UNITRUST

Mr. and Mrs. Zingg are modestly wealthy and have several types of assets. Among those is crypto currency valued at $500,000 for which they had paid $50,000 some years back. They are both 65 years old and in good health. Over the years they have made numerous charitable contributions and now wish to make a “dramatic impact” donation of the crypto currency to a favorite charity. At the same time, they are seeking the benefit of an income stream such a gift might provide to support their retirement plans.

An option to consider is funding a Charitable Remainder Flip Unitrust with their crypto. The Zinggs would act as trustee for the Trust, liquidate the crypto on behalf of the Trust and purchase investment real estate with the proceeds. The Trust terms call for the Zinggs to receive monthly payments based on an annual rate of interest of 5%. and the Trust’s assets value. These payments start after the real estate is purchased and go on until the second spouse dies. Once the real estate has been purchased the Zinggs will resign as Trustees and name a new Trustee to administrate the Trust.

In addition to creating a legacy through their philanthropy they covert a non-income producing asset (crypto) into one that provides a life-long income.

The tax benefits include spreading their recognized capital gains exposure over the life expectancy of both donors. i.e. joint life expectancy of 20 years equates to only a 5% capital gain tax per year on the gain attributed to the crypto donated. This allows a large portion of the tax recognized to remain in the Trust and grow along with the value of the real estate acquired in the second step of the transactional flow.

The Zinggs are also entitled to a charitable donation deduction for a portion of the gift. Assume in this case that deduction is claimed for $150,000. That deduction can be used against 30% of their Adjusted Gross Income in the year of the donation and a five year carry forward for any unused portion. Assuming the Zinggs are in the 35% Federal Tax Bracket, the tax saving would be worth another $45,000.

To advise and help facilitate this arrangement the Zinggs and the Trust would hire Robert Steele and Chase Magnuson as consultants. Their knowledge and expertise in the crypto and non-profit fundraising worlds allow them to effectively complete a multiple staged process this gifting arrangement requires.

Benefits:

1. Fulfilling the Donor's philanthropic legacy
2. Donor's converting non-income producing asset to an income stream
3. Spreading of capital gains taxes
4. Opportunity to claim and use a sizeable charitable tax deduction
5. Help in the Donor's estate planning goals
6. Remain as Trustees for control over selection of the replacement asset that best meets their comfort level and required income stream
7. The use of consultant helps the process be seamless

Issues to be addressed:

1. Trust administration by Donors and replacement Trustee
2. Documented history for date of crypto purchase
3. Appraisals
4. Prudent Investor Rule
5. Liquidation timeline for sale of crypto
6. Remainderman protection
7. Due diligence on Trust's real estate acquisition
8. Donor's self-dealing
9. Debt for acquisition impact on CRT's status
10. Trustee liability
11. Trust fees (administration, consultants)
12. Naming of more than one remainderman

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