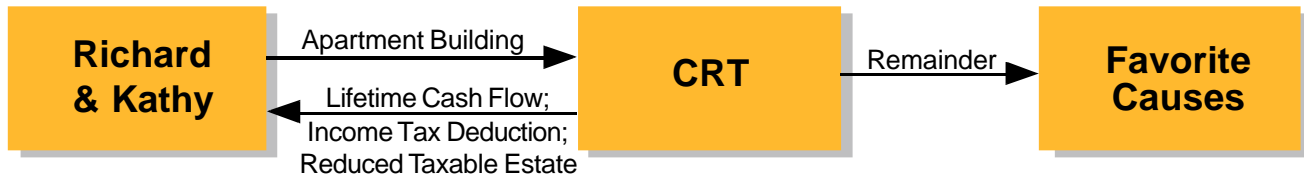


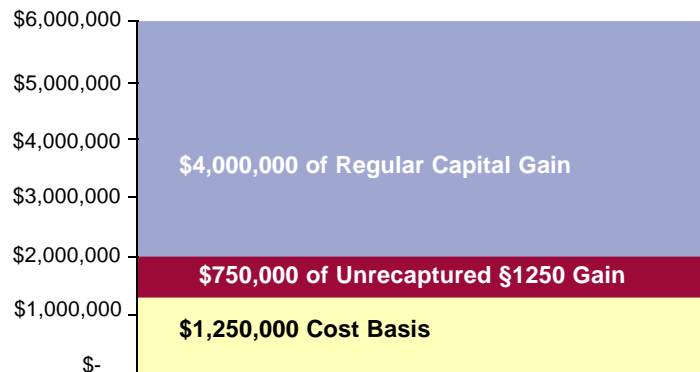
Case Strategy: *Using a CRT to Sell Section 1250 Real Property*

BATES

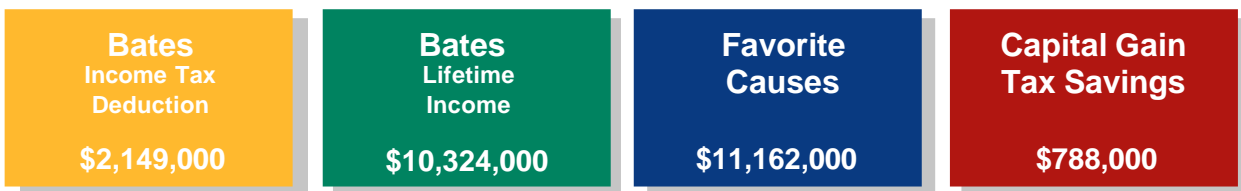


Richard and Kathy Bates, age 70 and 69, respectively, want to retire and spend more time traveling. To meet these goals, they decide to sell an apartment building they purchased in 1987 for \$2,000,000 which recently appraised for \$6,000,000. After claiming \$750,000 of depreciation, their current basis is \$1,250,000. They are concerned about the effect of capital gain tax on the remaining \$4,750,000 which would leave them with only \$5,288,000 to invest toward their retirement and travel goals.

To make matters worse, the Bates' CPA explains that depreciated real property is subject to a higher capital gain tax rate (25%) for the portion of the capital gain attributable to depreciation. This is referred to as unrecaptured section 1250 gain.



At a meeting with their financial planner, Richard and Kathy learn how a charitable remainder trust (CRT) can sell the apartment building without paying capital gain tax and preserve the full \$6,000,000 thereby enhancing their retirement income. The Bates are thrilled with the benefits of a CRT. Acting on their planner's advice, they create a 6% CRT that sells the apartment building and pays them a lifetime cash flow initially based on the full \$6,000,000 sales proceeds. As an extra benefit, because the Bates' CRT will leave a substantial gift to charity in the future, Richard and Kathy can claim an income tax charitable deduction and reduce their taxable estate.



Assumptions:

- AFR = 5.0%. Total Return rate of CRT portfolio = 9%.
- Federal income tax rate = 35%. Federal capital gains tax rate = 15%.
- State tax rates assumed to be 0%.
- 10% of original cost basis allocated to the land.
- Depreciated on a straight-line basis over 39 years.
- Richard and Kathy can benefit their heirs through life insurance or separate planning.
- The property in the CRT cannot be used by or sold to the Bates' family.
- Assumes the property is not subject to a mortgage.

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.