

# Steve and Michelle Caine

## A NIMCRUT Trust creates retirement income



Steve and Michelle Caine, both age 45, recently received a stock gift from Michelle's mother valued at \$500,000. While discussing how to invest this asset with their financial advisor, they were shocked to learn that Mom's basis in the stock of \$100,000 would mean they would owe \$77,000 in capital gain tax if they sold it.

At a meeting with their financial planner, Steve and Michelle learned that a charitable remainder trust can be used to avoid the capital gain tax on the sale of the stock. Because they expect to continue working and don't need cash flow from the stock, the Caines and their financial advisor decide that a Net Income with Make-up Charitable Remainder Unitrust (NIMCRUT) is the appropriate trust format to provide flexible retirement income. By contributing to a 5% NIMCRUT, the Caines will receive an income tax charitable deduction of \$72,000. The proceeds from the sale will be reinvested in a portfolio, which they expect to grow in value at 8% per year but generate little or no income for the next 20 years.

At their retirement age, the NIMCRUT will change its investment strategy to generate approximately 3% income per year. While they could choose to never switch investments, this is their starting plan. Steve and Michelle understand that distributions from the trust will be limited to the "net income" earned by the NIMCRUT. However, they believe that by allowing for a twenty-year growth period, they are increasing the likelihood that their NIMCRUT will distribute "net income" in the future.

By transferring their stock to a NIMCRUT, the Caines avoided the capital gain tax and created a residual source of future income and a social inheritance to charities in their hometown.

### NIMCRUTs Basics:

- Tax-exempt, irrevocable trust.
- Pays the lesser of the fiduciary accounting income or the unitrust amount.
- Fiduciary accounting income is income determined under state trust law. Fiduciary accounting income is an income classification system that is distinct from taxable income.
- The unitrust amount is determined by multiplying the value of the trust (usually at the beginning of the year) by a fixed percentage determined at the trust's inception.
- If the fiduciary accounting income is less than the unitrust amount, the difference is tracked for a possible future "make-up" distribution.
- If the fiduciary accounting income is greater than the unitrust amount, it must be distributed to the extent fiduciary accounting income was less than the unitrust amount in prior years.
- Income deferral can be achieved by selecting investments that do not produce fiduciary accounting income.

### Benefits of Caine NIMCRUT

Income Tax Deduction	\$72,000
Flexible Pre-Tax Lifetime Cash Flow	\$3,090,000
Charity	\$7,307,000
Initial Capital Gain	\$77,000

### Assumptions:

- 8% total annual return on trust assets.
- CMFR = 3.4%. Deduction may be limited. Consult a tax advisor.
- Marginal Federal and state income tax rate of 38.25%.
- Marginal Federal and state capital gain tax rate of 19.25%.

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.

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