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Reducing Taxes through Estate Planning

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Estate planning may seem to be a consideration for only the wealthy. However, Scripture provides broad application on the topic of inheritance. Numbers 27 and 36 prescribe for the Jews the order of inheritance. Deuteronomy 21 prescribes the appropriate percentage distribution of an estate. Matthew 21 and Luke 15 contain parables involving bequests. Paul tells us in 1 Timothy 5:8 that if one fails to provide for one's family they have denied the faith and are an infidel. The concept of a spiritual inheritance is highlighted in Ephesians 5:5; Colossians 3:24; Hebrews 9:15; and 1 Peter 1:4. Add to these the many other principles that deal with stewardships and we find a rich body of truth to guide financial decisions involving the distribution of an estate.

Estate planning is nothing more than a plan by which one can legally and effectively reduce estate taxes. A thoughtful estate plan can accomplish this by providing gifts to family members, other individuals, or charitable causes. Currently, you can give up to $11,000 ($22,000 with your spouse) per year to each of your children or any other recipient free of gift taxes. If your children are young or you prefer not to give them cash, you may want to consider establishing a custodial account under the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA). Under these arrangements, future gifts and investment earnings can accumulate under your supervision as custodian and with the benefit of reduced tax liability.

One of the most satisfying ways to reduce your estate is through charitable giving. How can you balance charitable giving, tax management, and the need to generate a reliable income for yourself and your family? A Charitable Remainder Trust (CRT) may be one solution to this planning challenge, especially if you have highly appreciated assets or if they are concentrated in the stock of one company. With a Charitable Remainder Trust, you can (1) continue to enjoy income from the assets you allocate to charity; (2) receive a current charitable deduction on your income tax; and (3) delay the recognition of capital gain for tax purposes.

A CRT is an irrevocable trust that provides income to you or individuals you choose for life or for up to 20 years. At the end of the trust's term, remaining assets pass to the charities you specify when the trust is established. Because the trust is exempt from income taxes, it can sell the assets, diversifying your portfolio, and realigning the trust towards income generation, without reducing the value of the trust as a result of the capital gains taxes that you would have to pay as an individual. The immediate tax benefits can be substantial.

CRT's are broadly divided into two types:
Charitable Remainder Annuity Trusts (CRAT) - This arrangement pays you or your family a fixed, annual annuity calculated as a percentage of the original amount you contribute to the trust (minimum 5%).
Charitable Remainder Unitrust (CRUT) - With this arrangement, you receive a percentage of the trust assets valued on an annual basis (minimum 5%). You may make additional contributions to a CRUT.

With a CRT, the designated charities will receive the trust's assets at the end of its term. By paring life insurance with a charitable remainder trust through a Wealth Replacement Trust (WRT), your objectives of providing for both a favorite charity and children can be achieved. A WRT uses life insurance to create an inheritance for heirs at the same time the charity receives the trust assets. With a WRT, you create a separate irrevocable life insurance trust (ILIT) to keep proceeds of the policy outside of your taxable estate. The trustee purchases life insurance and pays the premiums with annual gifts you make to the trust or pays with the tax savings from the creation of the CRT or the increased income generated by the trust. Upon your death, the insurance proceeds are paid to your heirs, tax free.

These are just a couple of legal and popular ways to maximize the transfer of your wealth to your heirs. The tax laws and provisions made by the government are designed to stimulate charitable giving and offer significant tax advantages for those who choose to give twice, once to their heirs and once to their favorite charities. This is a rather unique benefit of being a taxpayer in the United States and fits within biblical principles and precepts.

If you have any questions on this topic, you may want to call your own tax advisor or call Mark Robbins, Executive Director, BBC Foundation (800) 451-8668. The BBC Foundation can provide you personal guidance and materials to help you gain a greater understanding of whether this type of estate planning tool may be advantageous to you.

BBC Foundation has been ministering to churches and individuals regarding biblical stewardship since 1992. Send your questions on finances and stewardship to: BBC Foundation, 538 Venard Rd., Clarks Summit, PA 18411. Phone: (800) 451-8668, website: bbcfoundation.org; e-mail: info@bbcfoundation.org