An Update

Administration and Investment Strategies for a Charitable Remainder Trust was affected by several recent tax law changes.

Pages 6 and 7 discuss the "four-tier" system of taxing CRT distributions and note that qualified dividends and long-term capital gains are taxed at a maximum 15% rate. A 20% top rate for qualified dividends and long-term gains now applies to taxpayers in the 37% top tax bracket. Accordingly, the Tier 2 capital gain distributions of CRTs will consist first of any short-term gain, then 28% (collectibles) gain, followed by 25% gain (unrecaptured §1250 gain) and finally "regular" long-term gain, which will be taxed at 20% or 15%.

Tier 1 distributions of ordinary income will now be taxed at rates as high as 37%, except for qualified dividends, which will be distributed after all other ordinary income, and taxed at either 20% or 15%.

A 3.8% Medicare surtax on net investment income (including capital gains, interest, rents, royalties and the taxable portion of annuities) took effect in 2013. The tax applies to charitable remainder trust distributions of trust income earned and distributed after 2013. Distributions of tax-exempt interest and principal (Tiers 3 and 4) also are unaffected.

Due to lower AFR rates currently in effect, the deduction in the example on page 10 would be $16,699 (2.2%).

American Institute for Cancer Research