SCHUBERT & COMPANY
FAMILY WEALTH ADVISORS

Charitable Pooled Trust (CPT)

Powerful Planning Tool for 2023

What is a CPT?

Referred to in the tax code as a "pooled income fund", a CPT is a split-interest trust where the donor sets aside a sum of money to be donated to charity once the donor, or in the case of a couple – donors, passes away. While the donor(s) are alive, the income generated by the funds is paid out annually to the donor(s). The donor(s) receives a current charitable deduction (discounted based on life expectancy) for the deferred gift to charity. The CPT is asset protected and is not includible in the estate of the donor for estate tax purposes.

Why is a CPT a powerful planning tool for 2023?

There is a current disconnect between the interest rate identified in the tax code for calculating the charitable deduction (2.2%) for contributions to a CPT and the actual investment return likely to be earned by the CPT and paid out each year to the donors. The tax code did not anticipate the rapid rise in interest rates we have seen in the past 12 months. Contributions into charitable split-interest trusts (CPTs, CRT's, etc) are usually discounted at the assumed distribution rate when calculating the charitable deduction at time of funding. However, the rules governing CPTs, for 2023 use a discount rate of 2.2%, while the actual investment performance of the trust is likely higher than that. This "arbitrage" between the current investment environment and the tax code rules governing CPTs provides a huge potential tax and cash flow benefit for donors who value reducing their 2023 tax bill, like the idea of receiving annual income over their lifetime, and desire to designate some portion of their estate to go to charity after they pass away.

How big is the expected donation to a CPT in 2023?

In general, for donors between ages 45 and 70, you can use the youngest age for the couple as an approximation for the % deduction in 2023. For a single person, it would be slightly higher than their age. For example, if a Husband, age 52 and a wife age 50, funded a CPT in 2023, the charitable deduction on their 2023 tax return would be right around 50% of the value contributed.

Are there additional income tax benefits beyond the contribution deduction?

YES! CPTs do not pay any tax on the gains resulting from the sale of contributed assets. So, when you use appreciated stocks, bonds or mutual funds to fund your CPT, you avoid all taxes on the gains built into the contributed asset. If you do not have appreciated investments to use, the next best asset for funding is Cash.

Are there any estate tax benefits to contributing money into a CPT?

Yes!! Assets held by the CPT which are generating income payouts to the donors for their lifetime are NOT included in the gross estate of the donor for estate tax purposes. They are owned by the charity, not the donor. Thus, contributions into CPTs are an excellent way for high-net-worth donors to reduce their taxable estate,

5900 South Lake Forest Dr., Suite 280, McKinney, TX 75070 | 972-422-1010

avoid needing to file a gift tax return, and simultaneously receive a huge ordinary income tax deduction. CPTs can be powerful for estate tax planning in addition to the income tax benefits.

What investment benefits does a CPT provide?

All CPTs are treated as "institutional class" investors. As such, CPTs have access to a wide range of cost-effective and highly diversified investment options not available to the broader investing public. Schubert & Company (SCO) managed CPTs are built to provide current annual income with a lower risk of loss of principle while significantly diversifying away from traditional stocks and bonds . SCO CPTs contain a healthy allocation to first lien, senior secured, floating rate private debt through a highly diversified combination of institutional investment providers in the private debt arena. Additionally, SCO works with First Trust, one of the largest institutional providers of buffered ETFs, and includes multiple different buffered ETFs in our CPTs providing significant downside protection to the CPTs equity allocation. SCO CPTs serve as an excellent source of diversification combined with professional institutional class investment management complimenting most donor's overall investment portfolio well.

Who owns and controls the assets inside the CPT?

Every CPT must have a charitable entity that "sponsors" the CPT and serves in role of trustee for the members of the pool. It is extremely important to work with a reputable charity with an established knowledge of CPTs and experience managing CPTs. Schubert & Company partners with Christian Community Foundation, dba Waterstone, a large Christian donor advised fund company based on Colorado Springs, CO to serve as the charitable sponsor of the SCO CPTs. Waterstone is heavily experienced in CPT trust administration and currently has more assets under management in the CPT arena than any other Christian principled charity. For more information about Waterstone go to www.waterstone.org.

What happens to the CPT funds after both donors pass away?

The funds are deposited into a donor advised family giving fund in honor of the donors who have passed. The donors usually provide instructions to the charity sponsor of the CPT telling them who or how they desire the funds to be donated to operating charities. Often donors name descendants to be the "advisors" telling the charitable sponsor when and how to donate the funds in the CPT. The family giving funds can be held for multiple years, invested for growth, and can have a generational impact on philanthropic thinking and activity by the heirs of the donors for many years after they are gone.

IMPORTANT DISCLOSURES