WEALTH ADVISER

Turning Bothersome Rentals into Hassle-Free Income

By KELLY KEARSLEY

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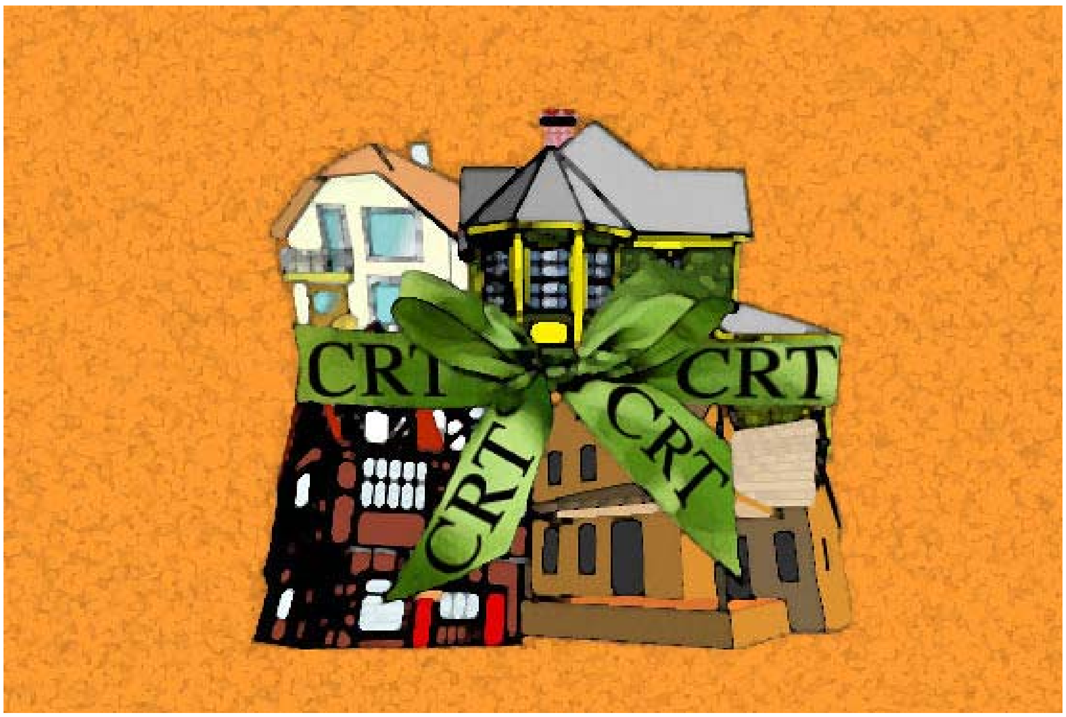

Managing the tenants, maintenance and repairs on seven rental homes was wearing on the client.

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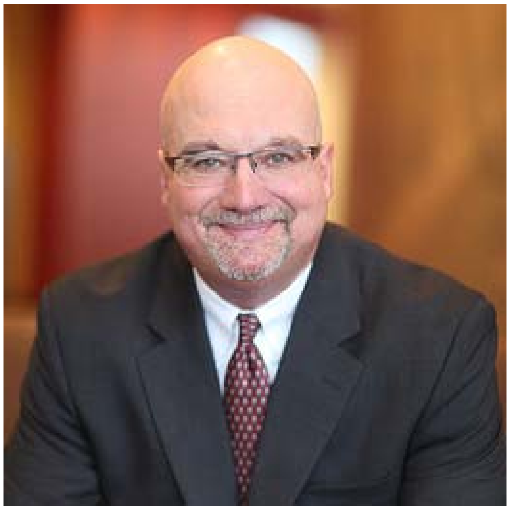
Now in his mid-60s, the man had accumulated the properties over two decades, and they were worth about $1.2 million.

“He could have kept living on the rental income, but he was tired of doing all the rest of the work,” says Dan Cuprill, president of Matson & Cuprill, which manages $170 million for 210 clients in Cincinnati.

The client spent much of his life working in manual labor or unskilled positions. His real-estate investments represented about 80% of his net worth, and they were a crucial piece of his retirement plan.

The client's first thought was just to sell the properties. However, because he'd owned the homes for so long, he would pay steep capital-gains taxes on the proceeds. Mr. Cuprill estimated his client would have owed about $240,000.

But the adviser had another idea. He proposed placing the seven homes into a charitable remainder trust. The client could then sell the homes without paying capital-gains taxes, receive steady cash flow for the rest of his life, and get a tax deduction in the process.



Dan Cuprill

The concept of donating his assets to charity was new to the client, who didn't have a history of making charitable donations. So rather than focusing on the charitable component of the trust, Mr. Cuprill highlighted the income and tax advantages of the CRT, which he knew his client would find appealing.

"He said that he'd rather give his money to charity than to Uncle Sam," the adviser says.

Working with an attorney, Mr. Cuprill created the CRT and then had his client transfer the properties. The real estate sold for more than $1 million. That money stayed in the trust, and Mr. Cuprill invested it in a 50/50 mix of short-term government bonds and index mutual funds.

The man withdraws about 5% from the CRT, which has been more than $60,000 a year thanks to performance of the market. He's also making use of the $500,000 tax deduction he received for the donation to the CRT, claiming a portion of it each year. And he took some pride in designating the beneficiaries of his trust, focusing on health-related charities with causes that were close to his family's heart, including a children's hospital and a cancer organization.

The strategy did present one hiccup, though. "He essentially disinherited his kids," Mr. Cuprill says. To remedy that, he recommended that his client spend about $9,000 a year to purchase a $500,000 life-insurance policy that would go to his children.

A CRT was something this client would never have considered on his own. But it provided him with the financial security he needed, solved his tax problem and benefited a few nonprofit causes.

Mr. Cuprill says that clients often come to advisers with a clear idea of what they think they want to do, but which might not be the best plan. "If you can tell the client to slow down and not focus immediately on implementation, you can bring more value," he says.

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