

January 5, 2007

## Charitable Organizations – Charitable Remainder Trusts

As one of its final acts, the outgoing 109th Congress included a Christmas bonus provision for charities in the legislation enacted a few days ago and just signed by the President, named the Tax Relief and Health Care Act of 2006. This is a very limited provision, affecting only charitable remainder trusts, but is very important to those partially-charitable vehicles.

Under the prior law, the receipt of any unrelated business income by a charitable remainder trust, even \$1, would cause the trust to lose its tax exempt status entirely, subjecting all of its net income to federal income tax. After having this unfairness pointed out to Congress for several years, it finally responded with a provision that removes this threat of total taxation for the future. Under this new legislation, only the amount of the unrelated business income will be subject to tax, but the tax will be 100 percent of the amount of the income.

So it is still a bad idea to have a charitable remainder trust receive unrelated business income, as is often the case with certain investment partnerships, but at least it will not be the tax disaster it used to be.

The new provision is effective for taxable years beginning after December 31, 2006.

Please let us know if you have any questions about this new legislation.

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