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Tax-free income is earned income that is not subject to income tax.

For example, municipal bonds generate income that is subject neither to federal income tax nor state income tax in the state of origin. Taxpayers who pay income tax in the state of origin are said to enjoy doubly tax-free income.

A charitable remainder trust (CRT) may distribute tax-free income if it invests in municipal bonds and does not have enough undistributed ordinary income and capital gain income to meet its payment obligation. You can illustrate the taxation of a CRT in PGM by producing the Taxation Schedule in Life Income Projections. The taxation depends on the payout rate of the trust and the investment assumptions you enter.

A gift annuity usually distributes payments that are partially free from taxation. Technically speaking, this portion of the annuity escapes taxation because it is deemed a return of principal, not because it is tax-free income.

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