



Charitable Remainder Trusts (CRTs): A Strategic Tool for Giving and Income Generation

A Charitable Remainder Trust (CRT) offers a unique opportunity for donors to contribute to charitable causes while retaining an income stream from the donated assets. CRTs are irrevocable trusts that provide income to the grantor (or other non-charitable beneficiaries) for a specified period, with the remaining assets eventually passing to designated charities. This dual benefit structure makes CRTs a powerful estate planning and philanthropic tool.

Benefits of Charitable Remainder Trusts

- **Reduction in Estate Size:** Assets transferred to a CRT are immediately removed from the grantor's estate, which can generate potentially significant estate tax savings. If the grantor and/or spouse are the income beneficiaries, no gift taxes are due on the transfer.
- **Income Tax Deduction:** Donors receive a charitable income tax deduction based on the expected value of assets that will remain in the trust for the charity. The deduction amount is influenced by several factors:
 - The income amount and period (higher or longer income payments reduce the deduction)
 - The age of the income recipient (older recipients receive larger deductions)
 - Current IRS interest rates (7520 rate)
 - Note: A minimum of 10% of the value of the assets initially transferred must ultimately pass to the charity for the CRT to qualify.
- **Increased Cash Flow:** Donors can increase their cash flow by contributing highly appreciated, non-income-producing assets to the CRT. As a charitable entity, the CRT can sell the assets without triggering capital gains tax, and the proceeds are reinvested into income-producing assets.
- **Significant Charitable Gifts:** At the end of the trust term, the remaining assets are transferred to the designated charity. If the CRT grows at a rate exceeding the required payments to the income beneficiaries, the assets available for charity may increase over time.
- **Increased Inheritance for Heirs:** Many donors use CRT income to purchase life insurance, which can help offset estate taxes on other assets, ensuring a larger inheritance for heirs.





Charitable Remainder Trust Requirements

To enjoy the tax benefits associated with CRTs, the trust must meet certain criteria:

- **Income Interest:** The CRT must make payments to one or more non-charitable beneficiaries of at least 5% and no more than 50% of the trust's value annually.
- **Charitable Remainder Annuity Trust (CRAT):** The income beneficiary receives a fixed payment each year, regardless of trust income. If income is insufficient, the trustee must invade the principal.
- **Charitable Remainder Unitrust (CRUT):** Payments are based on a fixed percentage of the annually revalued trust assets.
 - **NIM-CRUT:** A variation where the trustee pays the lesser of the fixed percentage or the trust's net income, with the ability to make up deficiencies in later years when income exceeds the fixed percentage.
 - **FLIP-CRUT:** A CRUT that starts by paying only net income (often used for hard-to-sell assets). After a triggering event, such as the sale of those assets, it converts to a standard CRUT.
- **Trust Term:** Payments must be made for a period not exceeding 20 years or the lifetime of one or more individuals alive when the trust is created.
- **Charitable Interest:** At least 10% of the trust's fair market value must pass to the charity at the time of asset transfer.

Additional Contributions

- CRATs do not allow additional contributions once established.
- CRUTs may allow for future contributions, depending on the terms of the trust.

Taxation of CRT Distributions

CRTs are generally exempt from taxes unless they generate unrelated business income. However, income beneficiaries are taxed on distributions based on a tiered system, with the least desirable income sources taxed first:

- Ordinary income
- Capital gains
- Tax-exempt income
- Return of principal

Conclusion

Charitable Remainder Trusts offer a powerful combination of philanthropy and financial planning. By providing income to the donor or beneficiaries while also supporting charitable causes, CRTs help donors achieve their financial and legacy goals. With careful planning, CRTs can enhance cash flow, reduce tax liabilities, and create potentially significant gifts for charity while preserving wealth for future generations.





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