

The Charitable Remainder Trust

A charitable remainder trust is a “split interest” giving vehicle that allows you to make contributions to the trust and be eligible for a partial tax deduction, based on the CRT’s assets that will pass to charitable beneficiaries. You can name yourself or someone else to receive a potential income stream for a term of years, no more than 20, or for the life of one or more non-charitable beneficiaries, and then name one or more charities to receive the remainder of the donated assets.

There are two main types of charitable remainder trusts:

- **Charitable remainder annuity trusts (CRATs)** distribute a fixed annuity amount each year, and additional contributions are not allowed.
- **Charitable remainder unitrusts (CRUTs)** distribute a fixed percentage based on the balance of the trust assets (revalued annually), and additional contributions can be made.

Contributions to CRATs and CRUTs are an irrevocable transfer of cash or property and both are required to distribute a portion of income or principal, to either the donor or another beneficiary. At the end of the specified lifetime or term for the income interest, the remaining trust assets are distributed to one or more charitable remainder beneficiaries.

Functional Variations of CRTs:

Net Income Charitable Remainder Unitrust (NICRUT):

Like, a standard CRT, there is an irrevocable transfer assets to the trust. During the term of the trust, the trustee invests the assets and pays a fixed percentage of the value, as revalued annually, to the income beneficiaries. Should the trust earn less income than the pre-determined fixed percentage (a minimum of 5% is required), it will only distribute what is earned. This feature ensures trust principal remains intact at all times. When the trust ends, principal passes to charity for the purpose you designate.

Net Income with Makeup Charitable Remainder Unitrust (NIMCRUT):

Very similar to a NICRUT, but if, in a later year, the trust earns more than the fixed percentage, it will make up its earlier shortfall to the extent its earned income exceeds its fixed percentage. Often this structure is used as a way to supplement retirement income.

Key Benefits of CRTs:

Preserves Value of Highly Appreciated Assets:

For those with significantly long-term appreciated assets, including non-income-producing property, a CRT allows you to contribute that property to the trust and when the trust sells it is exempt from tax. By donating the assets in-kind to the CRT, you’ll preserve the full fair market value of the assets rather than reduce it by large capital gains taxes, allowing more money for the income and charitable beneficiaries.

Income Tax Deductions:

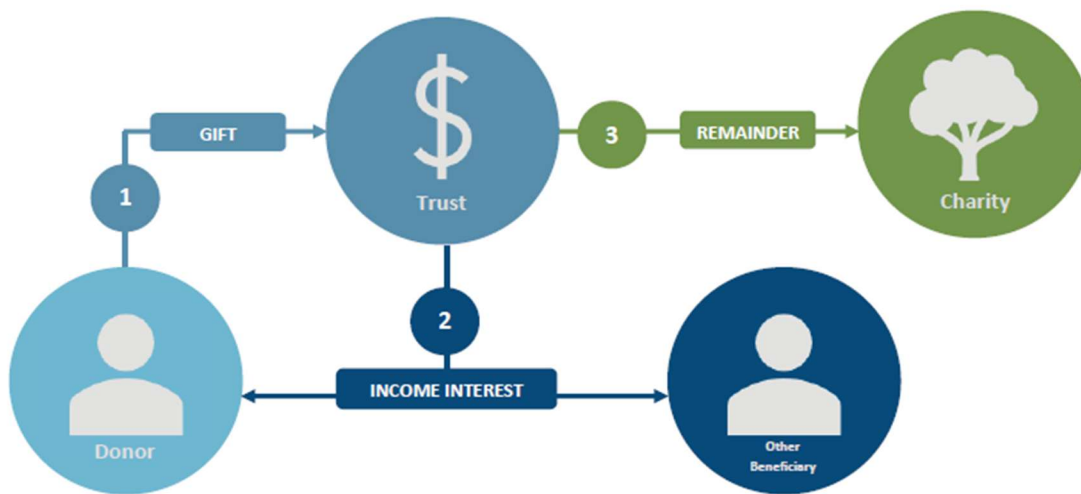
With a CRT, you have the potential to take a partial income tax charitable deduction when you fund the trust, which is based on a calculation on the remainder distribution to the charitable beneficiary.

Tax Exempt:

The CRT's investment income is exempt from tax. This makes the CRT a good option for asset diversification. You may consider donating low-basis assets to the trust so that when sold, no income tax is generated to you and you eliminate the capital gains tax on the sale of the asset. However, the named income beneficiary will pay income tax on the income stream received.

Planning *Solutions*

The Charitable Remainder Trust Visualized



1

GIFT

The donor makes a partially tax-deductible donation to fund the trust.

2

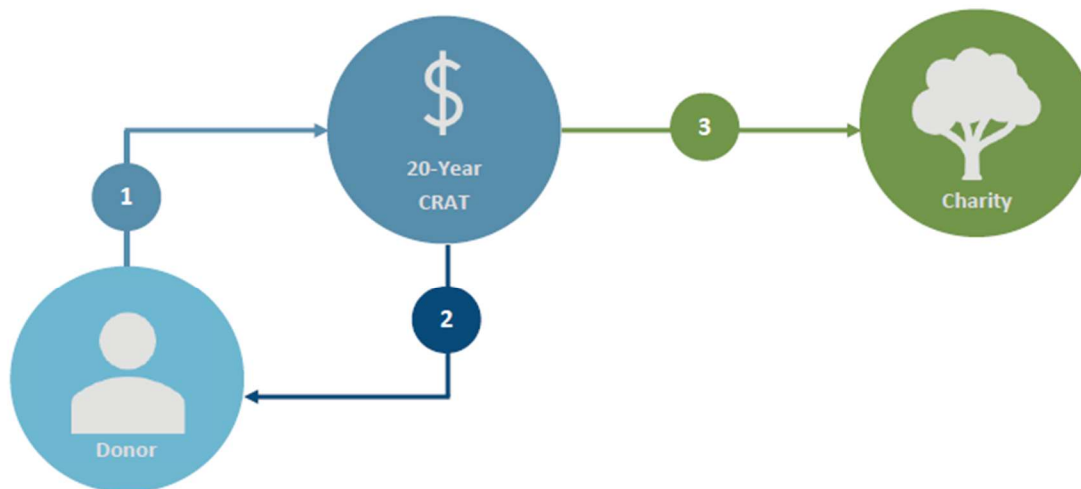
INCOME INTEREST

The trust pays you or your designated beneficiaries an income stream. The annual amount must be at least 5% and no more than 50%.

3

REMAINDER

When the trust terminates, the remaining assets are distributed to your designated charitable beneficiaries.



1

GIFT

The donor contributes \$1 million to a CRAT with a 20-year term. The statutory IRS discount rate when the CRAT is funded is 1.6%.

2

INCOME INTEREST

The trust pays you an annual annuity of \$50,000.

3

REMAINDER

At the end of the CRAT term, the appreciated remainder is paid to your designated charitable beneficiaries.