


# A charitable remainder trust can provide tax benefits and more

If you're thinking about making a large gift to charity before year end, options besides an outright gift of cash are worth considering. One alternative is a charitable remainder trust (CRT). Funding one this year will provide a 2026 income tax deduction and other tax and nontax benefits. It may be particularly beneficial if you'd like to tax-efficiently divest a concentrated stock position and create an income stream for yourself.

**How a CRT works**

A CRT is an irrevocable trust to which you contribute cash, stock or other assets. If you name yourself as the income beneficiary, the trust pays you income for life or a term of up to 20 years. At the end of the term, it distributes the remaining assets to one or more charities you've chosen. (You can instead name someone else as the income beneficiary, but the tax consequences will differ somewhat from what's discussed here.)

When you fund the trust, you qualify for an itemized charitable income tax deduction (subject to applicable limits) equal to the present value of the charitable beneficiaries' remainder interest. But be aware that, beginning in 2026, charitable contributions generally are deductible only to the extent they exceed 0.5% of your adjusted gross income.

There are two types of CRTs, each with its own pros and cons:

**1. Charitable remainder annuity trust (CRAT).** A CRAT pays a fixed dollar amount, generally determined as a percentage of the trust's initial value, and doesn't allow additional contributions once it's funded.

**2. Charitable remainder unitrust (CRUT).** A CRUT pays out a fixed percentage of the trust's value *recalculated annually* and may allow additional contributions, depending on its terms.

CRATs offer the advantage of uniform payouts, regardless of fluctuations in the trust's value. CRUTs, on the other hand, allow payouts to increase as the trust's value increases. And, as noted, CRUTs may permit additional contributions. One potential disadvantage of a CRUT is that payouts shrink if the trust's value declines.

To ensure that a CRT is a legitimate charitable giving vehicle, IRS guidelines require the present value of the charitable remainder interest to be at least 10% of the trust assets' value at the time they're contributed. The computation of the present value is affected by several factors, including the length of the trust term (or your age if payouts are made for life), the size of annual payouts and an IRS-prescribed Section 7520 rate.

**Diversifying your portfolio**

A CRT can help you reduce single-stock exposure and defer taxes if you own highly appreciated shares that would generate a large capital gain if sold. Because a CRT is generally exempt from income tax, it can sell shares transferred to it without paying tax on the gain. The CRT can then invest the proceeds in a variety of stocks and bonds, which helps diversify your overall investment position because of your income interest in the trust. You can also invest the payments you receive in other securities to further diversify.

As the income beneficiary, you'll generally owe some capital gains tax when you receive the payments. But the payments will be spread over time, so much of the liability may be deferred. Plus, a portion of each payment may be considered tax-free return of principal. This can help reduce or avoid your exposure to the top 20% long-term capital gains tax rate or the 3.8% net investment income tax.

Be aware that CRT distributions follow tax-ordering rules and may be taxed as capital gain or other income before being treated as a return of principal. The specific results will depend on a variety of factors.

**Is a CRT a fit?**

A CRT may be a good fit for you if you can contribute appreciated assets and would like to receive payments over time. But the trust is irrevocable and comes with complex tax rules. We can estimate your potential deduction and assess the overall income tax impact before you decide whether to set up a CRT and make a year-end contribution.

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