Charitable Corner

STRATEGIES FOR DONORS

Overview of Charitable Remainder Trusts

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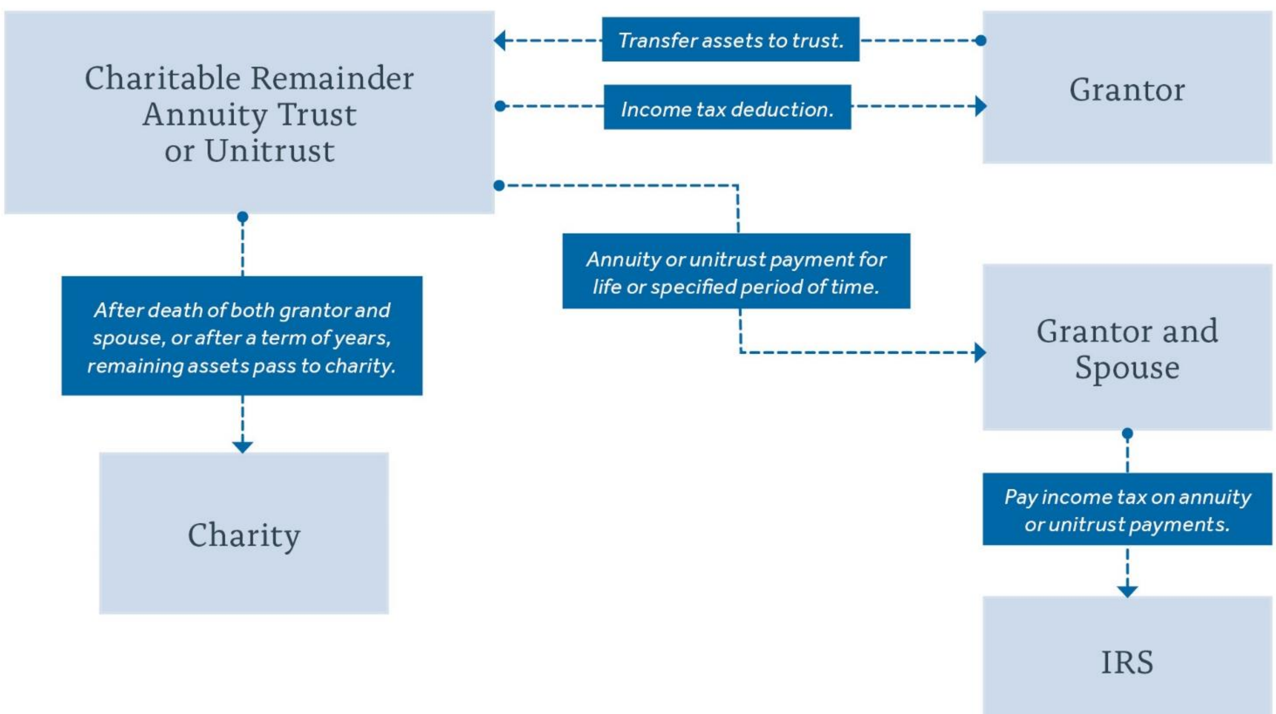
Gifts to a charitable remainder trust (CRT) provide income to the donor for life or for a specified term of years not to exceed 20 years. At the end of the trust term, the charity receives the remainder of the property. Assets contributed to a CRT generate a current income tax deduction to the donor, based on the discounted value of the future gift to charity. The size of the deduction varies with the age of the taxpayer, the payout term, and the size of the annual payout in relation to the value of the donated property.

The CRT is a good option if an immediate charitable deduction is desired but there is also a need for an income stream to the donor or another person. The CRT is also a good option where a donor establishes by will a CRT to provide for heirs, with the remainder passing to charities of his/her choosing.

Low-basis securities or real estate often are attractive assets for such donations. The assets may pay little income to the donor, yet if he/she sells the asset, substantial capital gains would be due. However, if the assets are transferred to a CRT, then such assets can be liquidated income tax-free since the CRT is a tax-exempt entity. The proceeds can be reinvested to provide increased income to the donor. The donor pays income tax only as the payments are received from the trust. It is crucial, however, that the donor transfer the assets to the CRT in advance of any agreement to sell the assets to a third party.

Two types of CRTs exist: charitable remainder annuity trust (CRAT) and charitable remainder unitrust (CRUT). The primary difference between them is the method of calculating the payment to the donor or donor's beneficiary, as detailed below.



CRAT versus CRUT

- A CRAT is an arrangement in which property is donated in exchange for fixed annuity payments to the donor or the donor's beneficiary. Annual payments must amount to at least 5% of the fair market value of the donated property at the time of the gift. If a fixed term (as opposed to a life term) is used, it cannot exceed 20 years. Additional contributions cannot be made after the initial funding.
- A CRUT is similar to a CRAT but differs because the payout to the donor or beneficiary may vary each year. Where the CRAT pays a fixed percentage of the original value of the trust assets, the CRUT pays a percentage of the trust assets as revalued each year. CRUTs also allow additional contributions in subsequent years.

Options to terminate a CRT

If for some unforeseen reason, the CRT is no longer necessary (perhaps due to a substantial inheritance or minimized income needs), then the CRT may be terminated. The options include selling the CRT income interest for cash, accelerating the gift to the charity, and rolling the CRT income interest into a new CRT for other beneficiaries, typically children and/or grandchildren, thereby converting the future CRT income into income for those other beneficiaries. All of these options will have a tax impact on the terminating persons, so prudence suggests that tax advice be sought before entering into any of these options.