COMMUNITY FIRST FOUNDATION

The Power of Philanthropy

Frequently Asked Questions — Charitable Remainder Trusts

What is a charitable remainder trust (CRT)?

A charitable remainder trust (CRT) is a trust that provides an income for the named beneficiary or beneficiaries (usually the donor is one) for a term of years or for a lifetime. When the trust term ends, the remaining trust assets go to the designated charity. At the time the trust is funded, the donor receives a tax deduction for the present value of the remainder interest expected to go to charity.

Are there different types of CRTs?

Yes, there are two types of CRTs:

- The charitable remainder annuity trust (CRAT) and
- The charitable remainder unitrust (CRUT).

The primary difference between a CRAT and a CRUT is the form of the payout to the non-charitable beneficiaries. The CRAT distributes an annual fixed income that is a percentage of the value of the gifted assets at the time the trust is created and funded. The CRUT distributes an annual income that is a percentage of the trust assets as revalued every year (so the income payout can vary from year to year).

What type of CRT should I choose? A CRAT or a CRUT?

That depends. Some people (often retirees) choose a CRAT because they prefer a fixed income. However, others (such as working professionals) choose a CRUT because of its variable payout and the different variations of the CRUT that provide options for retirement planning.

How much of an income can I expect from a CRAT?

You select the payout based on a percentage of the value of the trust assets at the time the CRAT is funded.

For example, Geoffrey creates a CRAT with $250,000 of stock. He chooses an annual payout rate of 5%. Every year, Geoffrey will receive $12,500 (5% of $250,000) for the rest of his life.

What does it mean that a CRT is an irrevocable trust?

A revocable trust can be modified or terminated altogether. But a charitable remainder trust is irrevocable and its terms cannot be changed or the trust cannot be terminated prematurely. However, a donor may retain the right to change the charitable beneficiaries.

Why should I create a CRT?

A CRT is a great way to make a gift and retain an income. A CRT is an especially good way to convert appreciated, low-yielding securities or property into a sizeable income stream. A CRT is also a good way to avoid potential capital gains taxation on appreciated property (the transfer of assets to a CRT does not trigger capital gains). You can enjoy these benefits while fulfilling your philanthropic goals.

Provided for information purposes only. Always check with your tax and financial advisors before implementing any gift plan.