

Charitable Remainder Trusts: A Way of Giving Back by Paying it Forward

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Many of our clients look to explore the ways in which they can give back to their favorite charities. One of the avenues worth considering is using a charitable remainder trust (CRT). CRTs are an excellent way to support your favorite charities in the future while providing an income stream now for yourself and your heirs and reducing the estate tax burden to your heirs in the future.

How Charitable Remainder Trusts Work

A CRT is an estate planning document, similar to a trust, that you might create to manage your assets and avoid probate. To set up a CRT, you transfer the chosen asset(s) to the trust, which a trustee then manages. You can serve as the trustee of a CRT; you could also appoint your spouse, your child, or even the charity. The trustee is responsible for investing or managing the donated assets and distributing income to you and your other income beneficiaries for your lifetime or a specified period. At the end of the trust term, the remaining assets are transferred to the charitable organizations of your choice as a charitable contribution.

Types of Charitable Remainder Trusts

There are two primary types of CRTs: charitable remainder annuity trusts (CRATs) and charitable remainder unitrusts (CRUTs). A CRAT pays a fixed income stream based on the initial value of the trust assets, while a CRUT pays a variable income stream based on the value of the assets determined each year.

Which type of trust you choose will depend upon your personal financial goals and circumstances. A CRAT may be a better option if you want a fixed income stream and are more concerned about the stability of that income. In comparison, a CRUT may be a better option if you wish to add assets over time, are more comfortable with fluctuations in income, and wish to potentially benefit from increases in the value of the trust assets over the trust term.

Benefits of Charitable Remainder Trusts

Clearly, one of the primary benefits of a CRT is that you can receive income from the trust while also benefiting your favorite charity. The reason why CRTs are particularly useful is because many of our clients have highly appreciated assets with a low-cost basis, such as stocks or real estate. Instead of selling those assets, paying capital gains taxes, and then donating what is left of the proceeds to the charity, a CRT allows you to donate the highly appreciated assets to the CRT and have the CRT sell the asset, thus avoiding the capital gains tax entirely. Moreover, you are entitled to take federal and possibly a state income tax deduction for making the charitable donation to a CRT. Additionally, CRTs can provide significant estate planning benefits. Because the assets in the trust are ultimately transferred to a charitable organization, they are removed from your estate, reducing estate taxes for your heirs.

CRTs can be an excellent way to support a charity while also receiving financial benefits. If you are interested in setting up a CRT, it is important to work with a qualified estate planning attorney who can help you determine the best course of action for your individual circumstances.