

Charitable Remainder Trust– Lifetime Income with Growth Potential

What is a Charitable Remainder Trust?

A Charitable Remainder Trust (CRT) is a Trust that provides you an annual payout for your lifetime or for a term of years that has been specified. The benefit to Home Missions is delayed with a CRT because of the interest reserved for you, the donor. Once the Trust ends, Home Missions will receive the assets held in the Trust. A CRT is a separate legal entity with a distinct federal tax identification number. A CRT also requires annual tax returns be filed with the IRS and the income beneficiary will receive a Form K-1 annually for their tax return.

When should I use a Charitable Remainder Trust?

A CRT is most beneficial for the gifting of appreciated assets when you desire to retain an income interest from the gifted property. Typical examples include (1) appreciated stock with little or no dividend payout, (2) real estate and (3) business interests. CRT's are also occasionally funded with cash when a donor desires to generate a current charitable income tax deduction through an irrevocable charitable gift, but desires to retain an income interest in the gifted property.

Can I provide for my children with a Charitable Remainder Trust?

Yes. Gift tax implications need to be considered if the CRT is funded during your lifetime. CRT's can also be funded upon death for the benefit of your children. This type of gifting arrangement reduces the value of your taxable estate and provides for a payout stream to your children for a period of years, rather than an immediate gift at the time of your death.

Can I make additional contributions to our CRT in future years?

Yes. CRT's which are of the Unitrust payment method described later, do allow for future contributions to the Trust. The additional contribution will increase the amount of your payout and will generate an additional charitable income tax deductions. CRT's, which are of the Annuity payment method, do not allow for future contributions to the Trust. However, you may establish more than one CRT.

Do Charitable Remainder Trusts provide tax advantages?

Yes. With a CRT, you receive a current charitable income tax deduction based upon the present value of the remainder interest which will pass to charity at the termination of the Trust. Since there is an interest reserved for the non-charitable beneficiary, the value of the deduction is less than the actual value of the property placed in the CRT. The value of the charitable deduction is computed based upon guidelines in the IRS tax code.

How much will my annual payout be?

Your annual payout is selected by you at the time the Trust is created. The minimum percentage selected must be at least 5%. The maximum allowable percentage depends upon your age or the term of the Trust. The annual payout in a CRT can take one of two forms:

- With an *Annuity Trust*, a specified percentage of the value of the assets originally placed in the Trust is paid each year to you or other non-charitable beneficiaries. The amount of the payment does not vary, even if the value of the assets in the Trust increases or decreases.
- The Unitrust amount is a specified percentage of the value of the assets in the Trust, as computed on January 1 of each year. The amount paid each year can vary depending upon the value of the assets in the Trust on the first day of each year. An important point to consider when selecting the payout percentage is that if you select a higher rate, it is more likely that the value of the Trust assets will decrease in value, resulting in a decreasing annual payout amount.

How do I set up a Charitable Remainder Trust?

A CRT is a rather complicated legal document that requires legal expertise to establish correctly. The CRT document must be signed before the Trust can be funded and the specific wording of the Trust may vary depending on the type of asset that will fund the Trust. It is best to consult both your tax accountant and your attorney before executing a CRT.

Keep in mind these facts about Charitable Remainder Trusts:

1. Your gift is irrevocable. Once the gift is made you will receive payments each year but the initial gift cannot be returned to you.
2. Only a portion of the initial gift is tax deductible since you have reserved an annual payout from the Trust.
3. Your payout rate is fixed. Once the Trust is established, the payout rate cannot be changed.

This is general information and not intended to be tax or legal advice. Please consult your own advisors.

