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Charitable Remainder Trusts

You would like to make a charitable donation to a cause you care about, perhaps to a charity, or to an educational or cultural institution. But you're not quite ready to give up all the benefits of the asset you'd like to donate. By creating a charitable remainder trust for a qualified charity, you can contribute to your charity, increase your income and save on taxes. This way, you get the best of all worlds.

How Does It Work?

A charitable remainder trust (CRT) allows you to convert an asset that is worth a significant amount, such as stock or real estate, into income without having to pay capital gains taxes on the asset when it is sold. It can also help you save a significant amount on current income taxes and on potential estate taxes when you die by removing a large chunk of assets from your taxable estate.

When you transfer your asset into the irrevocable CRT, the trustee of the CRT can sell your asset without your having to pay any capital gains taxes. The money then gets re-invested into income-producing assets and you receive an income for either the rest of your life, or for a specific term of years up to 20 years. When you die or the term expires, the money that remains in the trust goes to the charity or institution you have selected.

CRAT vs. CRUT

There are two ways in which you can receive your income from a CRT. One way is through a charitable remainder annuity trust (CRAT), where you receive a pre-determined, fixed dollar payment each year. The other way is the charitable remainder unitrust (CRUT), where you receive a fixed percentage of the trust's value every year, rather than a static dollar amount. The advantage of using a CRUT is that it can provide 'inflation protection' – if the trust value grows each year, so too will the income amount you receive, helping to combat inflation. (However, receiving your income through a CRUT also means that if the trust's investment portfolio performs poorly in a given year, you will receive less money.)

What About My Children?

You might ask: “If I give away a highly appreciated asset, will my children's inheritance suffer?” If you have a large estate, it is possible that the asset you're giving to a CRT is only a small percentage of your total assets, so your children will still receive a significant inheritance in any case. However, you can ensure your children receive the benefit of your full estate by replacing the value of the CRT asset with an irrevocable life insurance trust.

Irrevocable Life Insurance Trusts

Here's how it works: You use some of the income you receive from the CRT to fund an irrevocable life insurance trust. The trust buys life insurance on your life. When you die, the life insurance proceeds remain out of your taxable estate and the proceeds are available to your heirs immediately, free from probate and generally free from income taxes. Creating a life insurance trust may be an affordable way to replace wealth given to a CRT.

Too Good to Be True?

A charitable remainder trust really can give you the best of all worlds – you get a tax break, and a cause you care about gets much-needed funds. And you still receive income from the asset, even after giving it away. Keep in mind, while the CRT is a very useful tool, it is also complicated because tax laws are constantly changing. Please make sure to consult with your tax, legal and accounting professionals regarding your particular circumstances.

Philanthropic donations have always been the cornerstone of cultural, educational and charitable organizations. A charitable remainder trust can allow you to make a significant contribution as well. For further information on how insurance and other financial solutions can be used in connection with a charitable remainder trust, contact **Jason M. Woodward, J.D.** today at financialattorney@gmail.com.