A win-win proposition: A CRT can benefit you and your favorite charity

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Are you a multitasker? If so, you may appreciate an estate planning technique that can convert assets into a stream of lifetime income, provide a current tax deduction and leave the remainder to your favorite charity — all in one fell swoop. It's the aptly named charitable remainder trust ("CRT").

A CRT in action

You can set up one of two CRT types: a charitable remainder annuity trust ("CRAT") or a charitable remainder unitrust ("CRUT") and fund it with assets you own. The trust then pays out income to the designated beneficiary or beneficiaries — for example, the trust creator or a spouse — for life or a term of 20 years or less. Alternatively, if certain requirements are met, you can choose to have income paid to your children, other family members or an entity.

A CRAT pays out an annuity amount based on a percentage of the initial fair market value of the assets contributed to it. A CRUT pays out an unitrust amount based on a percentage of the fair market value of the trust property determined annually. There are also different types of CRUTs, such as a (i) net income CRUT ("NICRUT") that pays out the lesser of net income or the unitrust amount each year, and (ii) net income with deficit make-up provision CRUT ("NIMCRUT") that pays out the lesser of net income or the unitrust amount each year, but if the net income is less than the unitrust amount, the deficit will be paid out in years when net income exceeds the unitrust amount.

Typically, a CRT is funded with income-producing assets, such as real estate, securities and even stock in your own company. (Note: S corporation stock can't be used for this purpose.) These assets may be supplemented by cash deposits or the transfer can be all cash.

When you transfer assets to the CRT, you qualify for a current income tax deduction based on the value of the remainder interest passing to charity determined at the time of creation. The value of the charitable remainder interest is based several factors, including the value of the assets at the time of transfer, the ages of the income beneficiaries and the Section 7520 rate. Generally, the greater the payout, the lower the deduction.

A matter of control

An important decision relating to a CRT is naming the trustee to manage its affairs. The trustee should be someone with the requisite financial acumen and knowledge of your personal situation. Accordingly, it could be an advisor, an institutional entity, a family member, a close friend or even you.

Because of the significant dollars at stake, many trust creators opt for a professional, perhaps someone who specializes in managing trust assets. If you're leaning toward this option, interview several candidates and consider factors such as experience, investment performance and level of services provided.

If you decide to take on the task yourself, consider using a third-party professional to handle most of the paperwork and provide other support.

During the CRT's term, it's the trustee — not the charity — who calls the shots. The trustee is obligated to adhere to the terms of the trust and follow your instructions. Therefore, you still maintain some measure of control. In fact, you may retain the right to change the trustee if you become dissatisfied or designate a different charity to receive the remainder assets.

Is a CRT right for you?

The short answer is that it depends on your specific circumstances. Be aware that a CRT is irrevocable. In other words, once it's executed, there's no going back and you generally can't make other changes. So, you must be fully committed to this approach. Please contact us with any questions.

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The Law Office of Eugene Gorrin, LLC
17 Watchung Avenue, Suite 204
Chatham, NJ 07928
973.701.9300
egorrin@gorrinlaw.com
www.gorrinlaw.com