Is A Charitable Remainder Trust Right For Your Estate Plan?

You might have several goals you'd like your estate plan to achieve. They may include giving to your favorite charity and leaving a significant amount to your loved ones under favorable tax terms. One estate planning technique that may allow you to accomplish both goals is the use of a charitable remainder trust (CRT).

A CRT In Action

Typically, you set up one of two types of CRTs and fund it with assets such as cash and securities. The trust then pays out income to the designated beneficiary or beneficiaries — perhaps yourself or your spouse — for life or a term of 20 years or less. If it suits your needs, you may postpone taking income distributions until a later date. In the meantime, the assets in the CRT continue to grow.

When using a CRT you may be eligible for a current tax deduction based on several factors, including the value of the assets at the time of the transfer, the ages of the income beneficiaries and the government's Section 7520 rate. This may result in a deduction of tens or even hundreds of thousands of tax dollars. As a general rule, the greater the payout to you (and consequently the lower the calculated amount that ultimately goes to charity), the lower the deduction.

Because the Tax Cuts and Jobs Act limits certain itemized deductions and increases the standard deduction through 2025, consider transferring assets in a year in which you expect to itemize. Further, the deduction for appreciated assets is generally limited to 30% of your adjusted gross income (AGI). However, if the 30%-of-AGI limit applies, you can carry forward any excess for up to five years.

Types Of CRTs

There are two types of CRTs, each with its own pros and cons:

- A charitable remainder annuity trust (CRAT) pays out a fixed percentage (ranging from 5% to 50%) of the trust's initial value and doesn't allow additional contributions once it's funded.
- A charitable remainder unitrust (CRUT) pays out a fixed percentage (ranging from 5% to 50%) of the trust's value, recalculated annually, and allows additional contributions.

CRATs offer the advantage of uniform payouts, regardless of fluctuations in the trust's value. CRUTs, on the other hand, allow payouts to keep pace with inflation because they increase as the trust's value increases. And, as noted, CRUTs allow you to make additional contributions. One potential disadvantage of a CRUT is that payouts shrink if the trust's value declines.

Appointing Trustees

When you set up a CRT, you must appoint the trustee who'll manage its assets. This should be someone with the requisite financial knowledge and a familiarity with your personal situation. Thus, it could be a professional or an entity, a family member, or a close friend.

Because of the potentially significant dollars at stake, many trust creators opt for a professional who specializes in managing trust assets. If you're leaning in this direction, interview several candidates and choose the best one for your situation, considering factors such as experience, investment performance and the level of services provided.

Know that a trustee is obligated to adhere to the terms of the trust and follow your instructions. Thus, you still maintain some measure of control if someone else is handling these duties. For instance, you may retain the right to change the trustee if you become dissatisfied or designate a different charity to receive the remainder assets.

Look Before You Leap

Finally, be aware that a CRT is irrevocable. In other words, once it's executed, you can't undo it. So, you must be fully committed to this approach before taking the plunge.

A CRT may be coordinated with other estate planning techniques. For example, it's often supplemented by another trust or a life insurance policy to even things out for family members when the remainder goes to charity. Contact your estate planning advisor to learn whether a CRT might be a good fit to achieve your estate planning goals.

SIDEBAR: There's A New CRT Option On The Table

Individuals older than age 70½ may opt to transfer up to $100,000 of funds directly from their IRAs to qualified charities. These qualified charitable distributions (QCDs) aren't taxable or tax-deductible but count as required minimum distributions.

Beginning in 2023, qualified individuals may take advantage of a one-time opportunity to use a QCD to fund a charitable remainder annuity trust, a charitable remainder unitrust or a charitable gift annuity. The limit on such split-interest gifts is $50,000.

Be aware that there are many moving parts with the new QCD option. Simply put, it's not for everyone.

Weinstock Manion

1875 Century Park East, Suite 2000
Los Angeles, CA 90067
(P) 310 553-8844 | (F) 310 553-5165
www.weinstocklaw.com