Charitable Remainder Trusts: Frequently Asked Questions

Unity Foundation of La Porte County

Paying it Forward: Philanthropy Matters

What is a charitable remainder trust (CRT)?

A charitable remainder trust (CRT) is a trust that provides an income for the named beneficiary or beneficiaries (usually the donor is one) for a term of years or for a lifetime. When the trust term ends, the remaining trust assets go to the designated charity. At the time the trust is funded, the donor qualifies for a tax deduction for the present value of the remainder interest expected to go to charity.

Are there different types of CRTs?

Yes, there are two types of CRTs:

- The charitable remainder annuity trust (CRAT) and
- The charitable remainder unitrust (CRUT).

The primary difference between a CRAT and a CRUT is the form of the payout to the non-charitable beneficiaries. The CRAT distributes an annual fixed income that is a percentage of the value of the gifted assets at the time the trust is created and funded. The CRUT distributes an annual income that is a percentage of the trust assets as revalued every year (so the income payout can vary from year to year).

What type of CRT should I choose? A CRAT or a CRUT?

That depends. Some people (often retirees) choose a CRAT because they prefer a fixed income. However, others (such as working professionals) choose a CRUT because of its variable payout or because different types of CRUTs provide different options for retirement planning.

How much of an income can I expect from a CRAT?

You select the payout based on a percentage of the value of the trust assets at the time you fund the CRAT.

> For example, Geoffrey creates a CRAT with stock worth $250,000. He chooses an annual payout rate of 5%. Every year, Geoffrey will receive $12,500 (5% of $250,000) for the rest of his life.

What does it mean that a CRT is an irrevocable trust?

A revocable trust can be modified or terminated, but the terms of an irrevocable trust cannot be changed and the trust cannot be terminated prematurely. However, you may retain the right to change the charitable beneficiaries.

Why should I create a CRT?

A CRT is a great way to make a gift and retain an income. A CRT is an especially good way to convert appreciated, low-yielding securities or property into a beneficial income stream. A CRT is also a good way to avoid potential capital gains taxation on appreciated property (the transfer of assets to a CRT does not trigger capital gains). You can enjoy these benefits while fulfilling your philanthropic goals.

Your community foundation received accreditation from the National Standards for U. S. Community Foundations. In partnership with the Community Foundation Committee of the Indiana Philanthropy Alliance, your community foundation is pleased to provide this information to you.

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