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TAX AND WEALTH ADVISOR ALERT: CHARITABLE REMAINDER TRUSTS, A DYNAMIC ESTATE PLANNING TOOL TO REDUCE TAXES AND DO GOOD

Charitable Remainder Trusts (CRTs) are a powerful tool for those looking to support their favorite causes while also securing a steady income stream for themselves or their loved ones. These trusts are essentially a way to give cash or other property to an irrevocable trust, with the donor receiving an income stream for a set term of years or for life, while the remaining assets go to the named charity at the end of the trust term.

One of the biggest benefits of CRTs is the immediate income tax charitable deduction that donors receive when they fund the trust. This deduction is based on the present value of the assets that will eventually go to the charity and can be a significant reduction in the donor's overall tax burden.

Another great feature of CRTs is that they can be structured to defer the payment stream, making them an effective income stream during retirement. Additionally, donors can couple a CRT with a Donor-Advised Fund (DAF) to have even more control over how their charitable dollars are invested and distributed.

For donors with highly appreciated assets, CRTs are an excellent way to defer capital gains taxes. When appreciated property is contributed to a CRT, the capital gains tax is deferred until the time that it is distributed out to the income beneficiary, allowing the donor to diversify their position in a tax-effective manner.

Funds or property contributed to a CRT may be removed from the donor's estate for estate tax purposes which may reduce estate taxes in some cases. However, there may be gift tax consequences if the donor names a non-spouse non-charitable beneficiary to receive the income from the CRT.

It's important to note that with a CRT, the individual recipient of the distributions from the CRT during the term of the CRT must pay tax on such distributions, and it is categorized into four tiers: (1) income and dividends; (2) capital gains; (3) tax-exempt income; and (4) return of principal.

In summary, CRTs coupled with a DAF can be a great option for donors seeking a current or future income stream. It is recommended that clients work with a qualified estate planning attorney to confirm that a CRT will provide the expected results from a tax and administration perspective.