Charitable Remainder Trusts

Many individuals want to balance their desire to be charitable with their need for current income. A Charitable Remainder Trust (CRT) typically established with assets of $100,000 or more, addresses these goals through an irrevocable gift that provides a lifetime stream of income.
A donor creates a CRT and funds it with assets such as cash, securities, or real estate. The donor (or a specified beneficiary) receives payments from the trust for a period of time—up to 20 years. The trust agreement may also be written to distribute income to two beneficiaries for a period of time or over a lifetime.

The donor receives an income tax deduction when the CRT is funded and the donor's taxable estate is reduced by the value of the gift. When you fund a CRT with appreciated assets, capital gains taxes are avoided. But, if you were to sell the appreciated assets and fund the CRT with the proceeds (cash), you would be responsible for the capital gains taxes on the appreciation.

When the last income recipient dies or at the end of the trust term, the remaining trust assets are distributed to Spectrum Health Foundation. This, the "charitable remainder," gives the trust its name.

There are several CRT, each with unique benefits. The charitable remainder annuity trust is an individually managed trust that pays the beneficiaries a predicable fixed dollar amount or fixed percentage of the initial value of the assets which funded the trust. By comparison, the charitable remainder unitrust is an individually managed trust that pays beneficiaries income as fixed percentage of the trusts current valued, reassessed annually. Thirdly, a charitable remainder FLIP unitrust holds an asset for a period of time, paying actual earnings, if any, to the beneficiaries, then "flips" to a standard payment unitrust when an anticipate event occurs, such as the sale of the property held by the trust.

Examples:

Annuity Trust: Sally, age 75, owns stock currently valued at $500,000 which she purchased several years ago for $250,000. She transfers the stock to a charitable remainder annuity trust, bypassing capital gains taxes of $37,500 and gaining a charitable income tax deduction of $242,000 this year. Her annuity trust pays her 5 percent annually (or $25,000, $10,000 more than she was earning previously at a rate of 3 percent). At her death, Spectrum Health Foundation receives the remainder of the trust.

Unitrust: Sally, as 65, owns stock currently valued at $500,000 which she purchased several years ago for $250,000. She transfers the stock to a charitable remainder unitrust, bypassing capital gains taxes of $37,500 and gaining a charitable income tax deduction of $233,000 this year. Her unitrust pays her 5 percent of the trust's current value each year (or $25,000 the first year). In this scenario, the annual payments may vary from year to year as the trust's value changes. In year five if Sally's unitrust has increased to $520,000 she would receive a payment of $26,000. Likewise if the value decreases her payment would decrease. At her death, Spectrum Health Foundation receives the remainder of the trust.

FLIP Unitrust: Sally, age 70, owns a vacation home which she no longer uses. She transfers ownership of the home to a FLIP unitrust. While the home is in the unitrust, she receives earnings from rental income on the vacation home. When the vacation home is sold for $500,000, the unitrust "flips" to a standard unitrust. The assets in the trust are valued annually, and the income changes, with Sally receiving 6 percent of the trust's current value each year. At her death, Spectrum Health Foundation receives the remainder of the trust.

For more information visit our website at give.spectrumhealth.org/plannedgiving.