

Charitable Remainder Trusts: Creating a Lasting Impact While Ensuring Income

Charitable Remainder Trusts (CRTs) offer a unique blend of financial security and philanthropic impact. They allow individuals to secure a steady income during their lifetime while leaving a legacy that supports the charitable causes they care about most. By combining personal financial benefits with long-term charitable giving, CRTs are an excellent tool for those who wish to align their assets with their faith and values. This article compares CRTs with other charitable and financial tools, helping you determine if this strategy is the right fit for your goals.

How Charitable Remainder Trusts Work

A CRT is a tax-exempt, irrevocable trust designed to reduce the taxable estate, provide income for the donor or designated beneficiaries, and ultimately benefit a charity. Here's how it works:

- **Funding the Trust:** You transfer assets, such as cash, securities, or real estate, into the trust.
- **Income Distribution:** The trust provides annual income to you or your designated beneficiaries for a specified term or life.
- **Charitable Remainder:** After the income period ends, the remaining trust assets go to the chosen charity.

Key Benefits of CRTs:

- Regular income for life or a set term
- Immediate income tax deductions
- Bypassing capital gains taxes on donated assets
- Reducing the size of the taxable estate

Comparison with Other Charitable and Financial Tools

- **CRTs vs. Charitable Gift Annuities (CGAs)**
 - **Payout Structure:** CRTs offer variable or fixed payments based on trust performance, while CGAs provide guaranteed fixed payments.
 - **Flexibility:** CRTs accommodate various assets, including real estate, whereas CGAs are usually funded with cash or securities.
 - **Charitable Impact:** Both provide for charities, but CRTs often allow for larger and more flexible contributions.
- **CRTs vs. Donor-Advised Funds (DAFs)**
 - **Timing of Giving:** CRTs provide income during the donor's life, with the charitable gift occurring after the term ends. DAFs allow for immediate grant-making.
 - **Control:** Donors maintain more control over grant timing with DAFs, while CRTs follow a fixed structure.
 - **Tax Benefits:** Both offer significant tax advantages, but CRTs also generate lifetime income.
- **CRTs vs. Bequests in Wills**
 - **Immediate Benefits:** Unlike bequests, CRTs offer immediate tax deductions and income benefits during the donor's lifetime.

- Legacy Timing: Bequests take effect after death, while CRTs enable donors to see the impact of their giving.

Practical Considerations

When evaluating CRTs, consider these factors:

- Eligibility: CRTs are ideal for those with appreciated assets, such as stocks or real estate, seeking to bypass capital gains taxes.
- Legal Structure: CRTs require legal and financial expertise to establish and manage effectively.
- Charitable Partner: Select a charity aligned with your values and capable of managing CRT proceeds responsibly.
- Flexibility: Determine whether a fixed or variable payout structure suits your financial needs.

Real-World Example

A couple owned a vacation home that had significantly appreciated in value. Maintaining the property had become burdensome, so they decided to use it to fund a CRT. By transferring the home into the trust, they bypassed capital gains taxes, received a sizable income tax deduction, and secured annual payments for their retirement. After their lifetimes, the remainder will support the Catholic Church, leaving a legacy aligned with their faith.

Is a CRT Right for You?

Charitable Remainder Trusts offer a compelling solution for those seeking to secure lifetime income while leaving a lasting charitable legacy. By understanding how CRTs compare to other options and consulting with financial and legal advisors, you can make an informed decision that aligns with your values and goals. Explore the transformative potential of a CRT today and discover how it can help you achieve financial stability while advancing the mission for the causes that matter to you. If you have any questions or would like more information, contact The OCF philanthropy team at 714.282.3021 or info@OrangeCatholicFoundation.org.

Please note The Orange Catholic Foundation does not provide tax, legal or accounting advice. This material is prepared and made available for informational purposes only.

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