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 or the beneficiary's lifetime. The trust agreement may also be written to distribute income to two beneficiaries for a period of time or life.

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 Charitable Remainder Trust 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 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 Children's Hospital of The King's Daughters. This, the "charitable remainder," gives the trust its name.

There are several Charitable Remainder Trusts, each with its own unique benefits. The ***charitable remainder annuity trust*** is an individually managed trust that pays the beneficiaries a predictable 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 a fixed percentage of the trust's current value, reassessed annually. Thirdly, a ***charitable remainder flip unitrust*** holds an asset for a period of time, paying actual earnings, if any, to the beneficiaries, and then "flips" to a standard-payment unitrust when an anticipated event occurs, such as the sale of the property held by the trust.

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Annuity Trust Example: Bob owns stock currently valued at $500,000 which he purchased several years ago for $250,000. He transfers the stock to a charitable remainder annuity trust, bypassing capital gains taxes of $37,500 and gaining a charitable tax deduction this year. His annuity trust pays him 6% annually (or $30,000, $15,000 more than he was earning previously at a rate of 3%). At his death, CHKD receives the remainder of the trust.

Unitrust Example: Bob owns stock currently valued at $500,000 which he purchased several years ago for $250,000. He transfers the stock to a charitable remainder unitrust, bypassing capital gains taxes of $37,500 and gaining a charitable tax deduction this year. His unitrust pays him 6% of the trust's current value each year (or $30,000 the first year). In this scenario, the annual payments may vary from year to year as the trust's value changes. At his death, CHKD receives the remainder of the trust.

Flip Unitrust Example: Bob owns a vacation home which he no longer uses. He transfers ownership of the home to a flip unitrust. While the home is in the unitrust, he 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 Bob receiving 6% of the trust's current value each year. At his death, CHKD receives the remainder of the trust.

All donors who make planned gifts to Children's Hospital of The King's Daughters qualify for membership in *The Beth Duke Legacy Society*, our special group of donors who have committed to remembering CHKD as part of their legacy. For more information, please contact our office at 757-668-7070.