Convert appreciated assets into income with a Charitable Remainder Trust

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A Charitable Remainder Trust (CRT) is a gift of cash or other property to an irrevocable trust. The donor receives an income stream from the trust for a term of years or for life and the named charity receives the remaining trust assets at the end of the trust term. The donor receives an immediate income tax charitable deduction when the CRT is funded based on the present value of the assets that will eventually go to the named charity.

Donors should work with a qualified estate planning attorney and tax advisor to confirm that a CRT will provide the expected results, with respect to both the income tax consequences of the gift as well as the administration of the CRT.

Schwab Charitable does not act as trust or custodian for CRTs. Please consult your legal or tax advisor about your particular circumstances.

Convert appreciated assets into a lifetime or retirement income stream.

CRTs can be structured to defer the payment stream and provide an effective income during retirement.

Couple a CRT with a donor-advised fund.

If a donor decides to change the named charity as beneficiary, a trust amendment must be created resulting in additional legal fees. By naming a donor-advised fund account as the CRT beneficiary, the donor can freely change the benefiting charities at no additional cost. Moreover, the donor can control the amount and timing of distributions to the charity, and can continue to advise on how the charitable dollars are invested.

Reduce your taxes with a charitable income tax deduction.

If the CRT is funded with cash, the donor can use a charitable deduction of up to 60% of Adjusted Gross Income (AGI); if appreciated assets are used to fund the trust, up to 30% of their AGI may be deducted in the current tax year. In addition, if the donor cannot use the whole deduction in the year of the gift, the donor can carry over the deduction for up to five additional tax years.

Defer capital gains tax.

Charitable remainder trusts are particularly suited for funding with appreciated non-cash assets because any capital gains tax will be deferred until the time that income is distributed out to the income beneficiary. This type of contribution can help donors with concentrated positions in their investment portfolios to diversify their portfolios while spreading their capital gains tax burden out over time.

Reduce or eliminate estate taxes.

Because a CRT is irrevocable, assets contributed to a CRT may be removed from your estate for estate tax purposes.

Consider potential gift tax consequences for others.

A donor will usually create a CRT and designate themselves as an income beneficiary. However, the donor can name other non-spouse non-charitable beneficiaries to receive the income from the CRT. If they do, there is a taxable gift to the non-spouse beneficiary when the CRT is funded. The value of the gift to the non-spouse beneficiary is reduced to the present value of the future income payments.

Plan for all taxes on payouts.

With a CRT, the donor must pay tax on the income stream, which is categorized into four tiers: (1) Ordinary income and qualified dividends; (2) capital gains (short-term, personal property, depreciation, long-term capital gain); (3) other tax-exempt income; and (4) return of principal. Only when a higher tier of income is exhausted does the next tier apply.

For questions or assistance with philanthropic planning or charitable giving:

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A donor's ability to claim itemized deductions is subject to a variety of limitations depending on the donor's specific tax situation. Consult your tax advisor for more information.

Gifts of appreciated property can involve complicated tax analysis and advanced planning. The above article is meant only to be a general overview of some of the considerations and is not intended to provide tax or legal guidance. Please consult with your legal or tax advisor.

Although every effort has been made to ensure that the information provided is correct, Schwab Charitable cannot guarantee its accuracy. This information is not provided to the IRS.

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