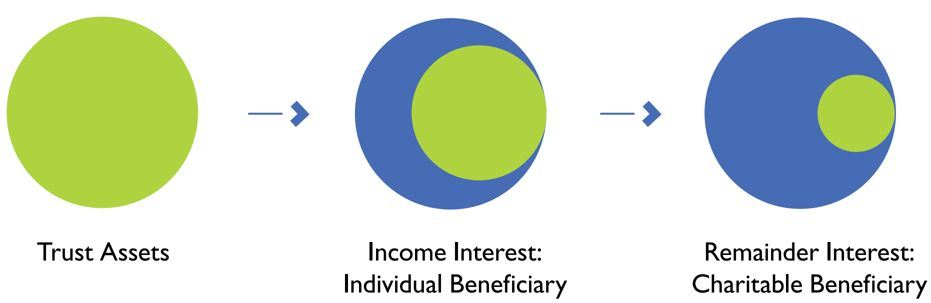
CHARITABLE REMAINDER TRUSTS (CRTs)

in Estate Planning

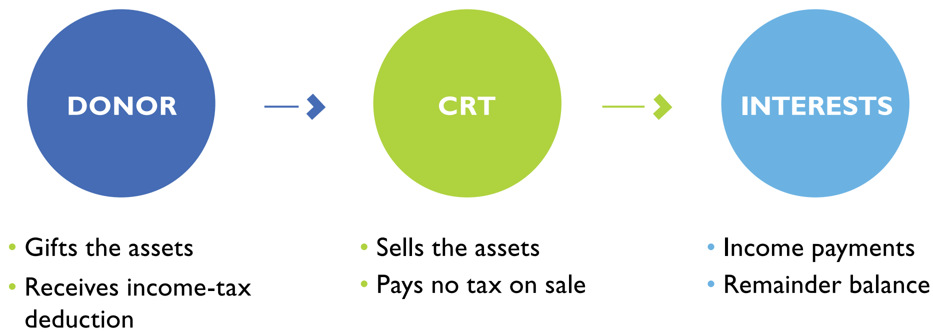
What is a CRT?

A charitable remainder trust (CRT) is an irrevocable trust that has current and future beneficiaries. An individual (or individuals) receives payments (at least annually) for a set period of time, often for a lifetime. At the end of this period, a charity or charities chosen by the trust's creator (the donor) then receives the balance of the trust's assets. Since there are both the individual beneficiary's income interest and the charitable beneficiary's remainder interest, these trusts are known as split interest trusts.



CRTs During Life

Donors often create CRTs during life for charitable purposes with at least two principal tax benefits: an income tax deduction for the future gift to charity and tax deferral on the sale of highly appreciated assets. This tax deferral is possible because the CRT is a tax-exempt entity as a result of its charitable remainder beneficiary.

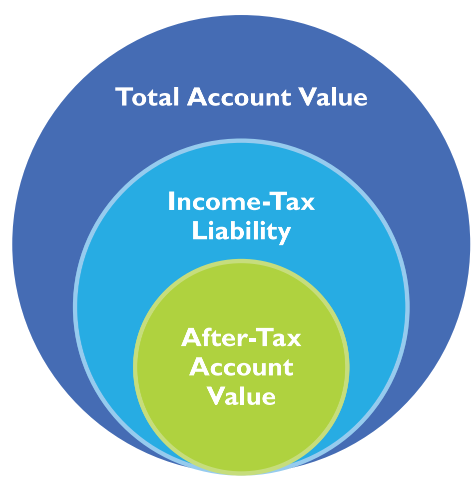


CRTs at Death

Donors also may create CRTs in their wills or trusts at death. This is often done when a donor wishes to name a CRT as the beneficiary of his or her IRA or other retirement plan. The balance of this discussion will focus on this type of planning.

IRAs and IRD

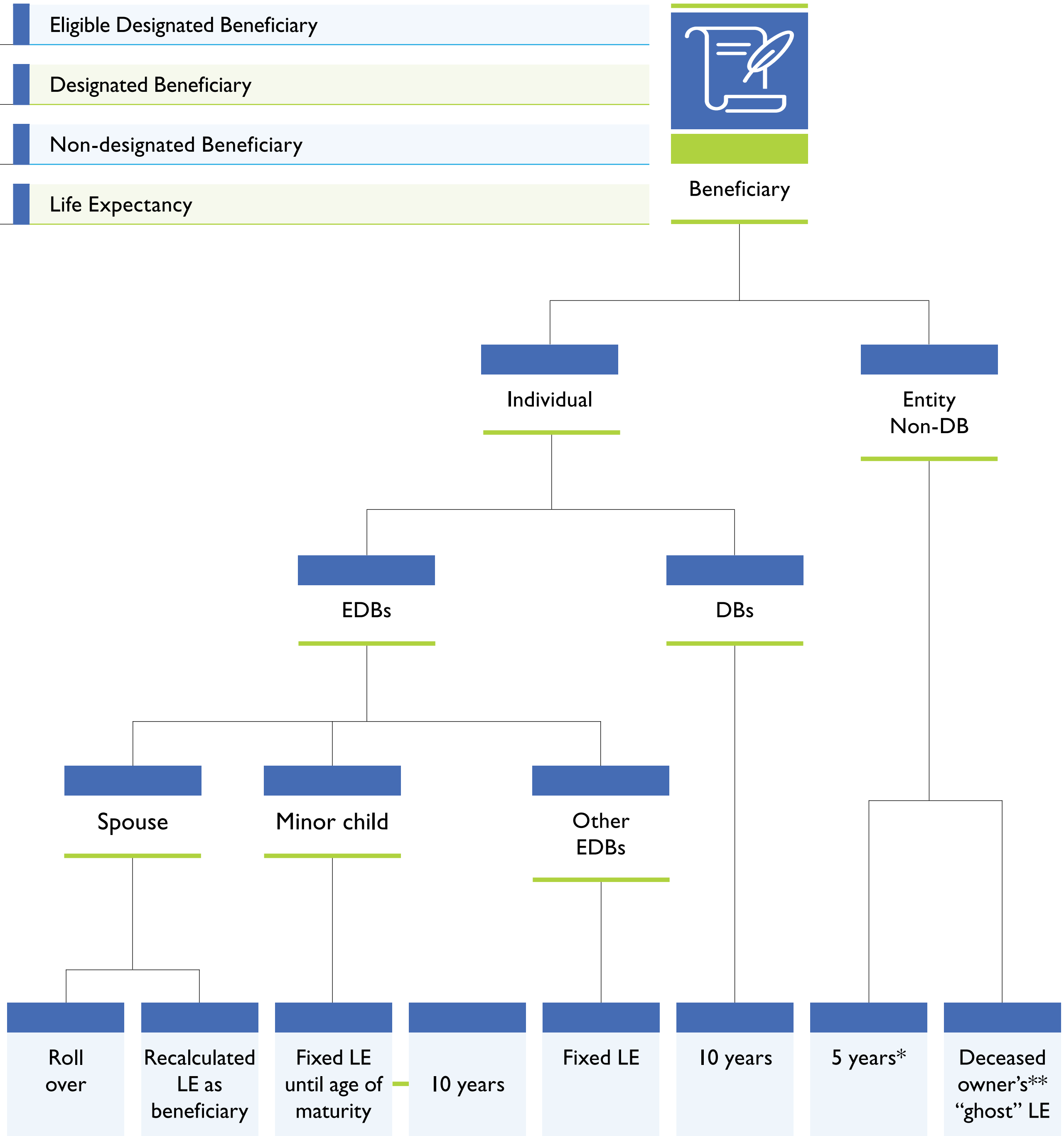
Most retirement accounts, including traditional IRAs, are funded with assets before they are taxed. Generally, the income tax on these assets is paid when they are later withdrawn from the account. The tax may be paid by the owner during his or her life or by the IRA beneficiary following the owner's death. The income tax liability that a retirement account beneficiary "inherits" along with the asset itself is known as income in respect of a decedent or IRD.



Beneficiary Payout Period

Plans inherited in 2020 or later

EDB	Eligible Designated Beneficiary
DB	Designated Beneficiary
Non-DB	Non-designated Beneficiary
LE	Life Expectancy



*Owner's death before 4/1 of year following owner's reaching RMD age (RBD).

**Owner's death on or after RBD.

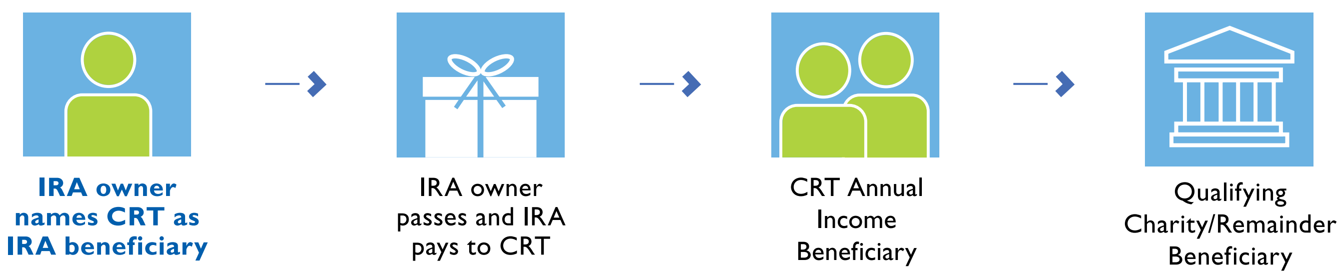
CRTs as IRA Beneficiaries

When paying the income tax due on the IRA during the owner's life (so that the beneficiary won't have to) has been considered but dismissed, an alternative form of planning may be to name a CRT as the IRA beneficiary. Here are some reasons this might be considered. The IRA owner is:

- Looking to extend the 10-year period an individual beneficiary is given to pay the tax.
- Concerned about an individual beneficiary's ability to manage the gift and is aware of the complications and limitations of naming a trust.
- Aware that an individual beneficiary has—or may have in the future—creditor issues.
- Positioning the gift as a source of lifetime income for an individual beneficiary; and/or
- Charitably inclined but does not wish to gift the entire IRA.

How This Works

Following the IRA owner's death, the CRT receives the IRA assets. No tax is due then, as the CRT is tax-exempt. Depending on the terms of the CRT, the individual beneficiary or beneficiaries of the CRT begin receiving payments at least annually. These payments are most often a stated percentage of the trust's annual value, between 5% and 50%, and may be for life or a period of years, not to exceed 20 years. The individual beneficiary pays tax on these payments as he or she receives them. At the end of this period, what remains in the CRT is paid to charity.



Taxation of CRT Payments

The income beneficiary will usually owe tax on the CRT payments he or she receives. The type of tax owed is based on a complicated set of rules where the income of the CRT is categorized into one of four tiers: ordinary income, capital gains, tax-exempt or principal. CRT payments are distributed in this order from the income of the CRT.

Types of CRTs

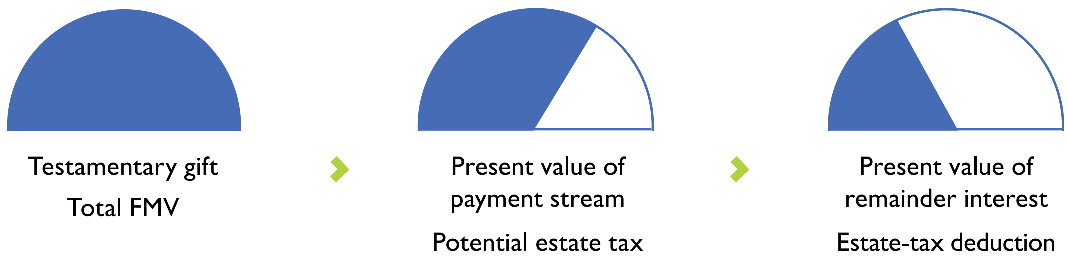
CRTs are categorized by the way the payment to the individual beneficiary is determined. The three most popular CRTs are the standard charitable remainder unitrust (**SCRUT**), the net income with makeup charitable remainder unitrust (**NIMCRUT**) and the flip charitable remainder unitrust (**flip-CRUT**).

SCRUT	NIMCRUT	FLIPCRUT
Payout to Income Beneficiary: A fixed percent of CRT assets determined each year.	**Payout to Income Beneficiary:** The lesser of a fixed percent of CRT assets or the income the CRT assets generate. Additionally, when income is less than the fixed percent, the shortage can be distributed in later years when income exceeds the fixed percent.	**Payout to Income Beneficiary:** Initially follows payouts of NICRUT or NIMCRUT. Flips to payout of SCRUT on January I of the year following the year containing a "triggering event" stated in the trust: (I) on a specific date, or (2) a single event that occurs that is not at the discretion or control of the trustee(s) or any person(s).

Estate Tax

The donor may receive an estate-tax deduction for the present value of the remainder interest that is gifted to charity.

Tax Treatment of Testamentary Gifts to CRTs



The Fine Print

CRTs have specific rules to gain and maintain their tax-exempt status. For example, the payment amount to the individual beneficiary may not be less than 5% or more than 50% of the value of trust assets. Also, the present value of the assets expected to be paid to charity may not be less than 10% of the value of the gift to the CRT. When establishing and administering a CRT, it is important to work closely with tax and financial professionals who know these charitable-planning rules.

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