

Charitable Remainder Trust

What Is a Charitable Remainder Trust?

A charitable remainder trust may be the solution for someone who wants to donate property to a charity during lifetime and receive an immediate income tax deduction, while reserving an income from the property for themselves, their spouses or even for other family members.

Using a charitable remainder trust, the donor receives an immediate charitable income tax deduction based on the present value of the charity's remainder interest. The income beneficiary (donor, spouse, other family member) receives an income from the trust for life or a stated number of years, and the trust principal (the remainder) is distributed to the charity at the end of the income period.

A charitable remainder trust is especially advantageous for donors with highly-appreciated assets, such as growth stocks and mutual funds or raw land, that need to be sold and converted to income-producing assets.

Advantages

- The donor can give highly-appreciated property to the trust and eliminate capital gains tax on the appreciation when the gifted asset is sold by the charity.
- Non-income-producing property can become income producing, since the charity can sell the asset and use the proceeds to purchase income-producing assets.
- The income beneficiary (donor, spouse, other family member) may realize an increase in current income.
- A current income tax deduction is available to taxpayers who itemize.
- The size of the donor's estate is reduced for federal estate tax purposes.

Disadvantages

- Donation of property to the trust is irrevocable.
- Income paid to someone other than the donor or donor's spouse may incur gift tax and/or generation skipping transfer tax.