Charitable Remainder Trusts Back in Fashion

By Sandy Cairns and Maria Kildall

Planning never goes out of fashion. While the strategies may change with changes in the economy and interest rates, it always makes sense to plan. You just may change what you do.

If you have a taxable estate, a significant portion may go to the government on your passing – both federal and state if you live in Washington. The federal tax rate for gifts and estates over $12.92 million is 40%. The Washington state estate tax rates fall between 10 percent and 20 percent on estates above $2.193 million, depending on the size of your estate. So, if you don't want your default charity to be the IRS, you have some options. One option is to choose charity over government.

Choose Charity

One perspective behind the tax benefits for giving to charity may be that to the extent that private residents support charities that in turn support our residents, then there is less for the government to do for its residents so less tax revenue is needed – hence the tax benefit.

Good News

The good news is that in our current high-interest-rate environment, there are charitable planning strategies that can be particularly effective.

Ways to Give

One can support their favorite charities in many ways — either directly or through a designated or donor-advised fund, during or after life. And giving during life has the added benefit of allowing one to enjoy the impact of their gift in real-time.

Either way, when making gifts to charity, it is good to keep in mind that low basis assets are generally tax efficient because charities aren't going to pay tax like you would. So if you have stock that has appreciated a lot, you may want to consider giving it to charity. This allows you to avoid paying taxes on the appreciated stock while still making a meaningful gift to your favorite charities. Talk to your advisors about your goals and tax-efficient ways of reaching them.

For those who are selling their business and anticipating a large capital gains tax bill, consult with your advisors about making a charitable donation to reduce that impact.

Tax sheltered investments, such as retirement funds, are also tax efficient and relatively easy assets to deploy, as they only require naming the charity in your beneficiary designation.

Higher Interest Rates

A factor that can impact the effectiveness of giving tools is the applicable Section 7520 discount rate published by the IRS. In a higher-interest-rate environment like what we are experiencing now, charitable strategies that tend to work well include Charitable Remainder Trusts (CRT).

A CRT is an irrevocable trust that pays an income beneficiary—typically, an individual, a married couple, or other family member—for a prescribed period. Depending on how it is structured, a CRT may provide an income, gift, or estate tax deduction. At the end of that period, remaining donated assets are distributed to one or more charities named in the trust, which could include a donor advised fund or even your own foundation.

CRTs can be in the form of an annuity (CRAT) or a unitrust (CRUT). A charitable remainder annuity trust (CRAT) pays a fixed income amount whereas a CRUT offers a variable payout with additional flexible options. In both cases, an amount is paid to the current income beneficiary during the term of the trust, and what is left goes to the charity or charities named in the trust.

The donor receives a charitable deduction in the amount of the present value of the charitable remainder interest. Talk to your accountant about the limits.

Just like outright gifts, a CRT can be created during life or in your estate plan. But there is no cookie cutter answer as to what is the best choice for you. Before deciding on a course of action, discuss the pros and cons with your advisors.

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