Charitable Remainder Trusts: What, Where, Who, Why, When, and How?

If you've represented charitable families over the years, you've certainly heard the term "charitable remainder trust," sometimes called a "CRT." You might have even helped clients set them up.

For most attorneys, CPAs, and financial advisors, CRTs don't come along every day. Because a CRT can be such an effective planning tool in certain situations, it's useful to have at least a basic level of knowledge about how they work.

Here are six important points to keep in mind.

What is it? Your client establishes a CRT as a standalone trust. The trust pays an income stream to the client (and potentially other beneficiaries such as a spouse or children) for life or for a period of years. According to the trust's terms, whatever assets are left when the income stream ends will pass to a charity, such as your client's fund at the Chester County Community Foundation.

Where does the charitable deduction figure in? Because the transfer of assets to the CRT is irrevocable, your client is eligible for an up-front charitable income tax deduction in the amount of the present value of the charity's future interest, calculated according to IRS-prescribed rules and interest rates. Remember also that assets held in a CRT are excluded from your client's estate for estate tax purposes.

Who is it for? The ideal client to establish a CRT is typically someone who owns highly appreciated assets, including marketable securities, real estate, or closely-held business interests. That's because a CRT allows these assets to be sold within the trust without triggering immediate capital gains taxes, enabling the proceeds to be reinvested.

Why are some trusts called CRATs and CRUTs? A "charitable remainder annuity trust" ("CRAT") is a type of CRT that distributes a fixed dollar amount each year to the income beneficiary. Your client cannot make additional contributions to a CRAT. A "charitable remainder unitrust" ("CRUT"), on the other hand, is a type of CRT that distributes a fixed percentage (at least 5%) annually based on the balance of the trust assets (revalued every year). Your client can make additional contributions to a CRUT during lifetime.

When is a CGA a better fit? The tax laws permit a client over the age of 70 ½ to make a once-per-lifetime transfer from an IRA of up to $54,000 (2025 limit) to a CRT or other split-interest vehicle, such as a charitable gift annuity (CGA). This is sometimes called a "Legacy IRA." Because the cost of setting up a CRT usually means that a $54,000 CRT is impractical, a client who wants to leverage the Legacy IRA opportunity may lean toward a CGA instead.

How can I learn more? As is the case with any question you encounter from a client about charitable giving techniques, the Chester County Community Foundation is honored to be your first call. We can help you navigate the options and identify strategies that are likely to best meet a client's needs.

We look forward to working with you!

For more information, contact the Chester County Community Foundation:
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