BNY MELLON
WEALTH MANAGEMENT

Charitable Remainder Trusts

Defined

A charitable remainder trust (CRT) is an irrevocable trust that allows the donor or other non-charitable beneficiary to receive annual payments for life or a specified term of years (up to 20), with the remainder then passing to a charity.

Types

Charitable Remainder Annuity Trusts

A charitable remainder annuity trust (CRAT) is created to pay its named beneficiary/beneficiaries a fixed income stream each year. The amount will be determined at the onset of the trust and will be either a dollar amount or a fixed percentage of initial fair market value of the assets contributed to the trust. This amount cannot be less than 5% nor more than 50% of the initial value of the trust contribution.

Once funded, no additional contributions are allowed.

Charitable Remainder Unitrust – Straight Payout

A charitable remainder unitrust (CRUT) is created to pay its named beneficiary/beneficiaries a fixed percentage of the annual net fair market value of the trust's assets. The payout cannot be less than 5% nor more than 50% of the annual fair market value. The annual payment amount will increase or decrease depending on the value of trust assets at the revaluation date. Unlike the charitable remainder annuity trust, additional contributions are allowed to be made.

Charitable Remainder Unitrust – Net-Income and Net-Income with Makeup Payout

A charitable remainder unitrust can be a (1) straight unitrust, (2) a net income unitrust, (3) a net income unitrust with a makeup provision or (4) a so-called "flip" unitrust.

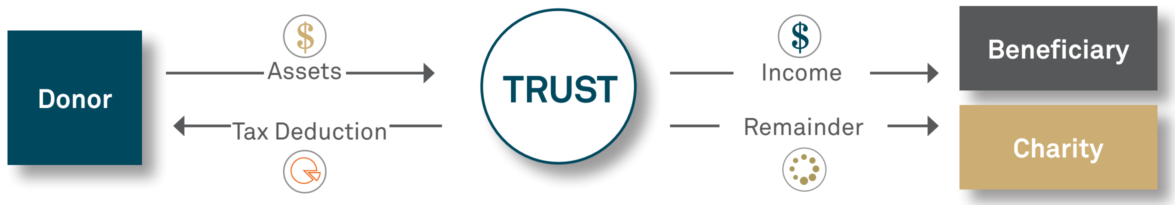
A net-income paying charitable remainder unitrust (NICRUT) is a variation of the straight payout designed to pay the lesser of the fixed percentage or the actual net income earned on investments.

The net-income with makeup charitable remainder unitrust (NIMCRUT) offers the same annual payout provisions as the NICRUT but allows for the shortfall of actual income to be tracked and distributed in subsequent years when the income exceeds the percentage payout.

A NICRUT or NIMCRUT can include a flip provision. This provision will allow a trust with an income-only payout to switch to a straight payout trust after a designated period of time or after a specified triggering event.

How It Works

A CRT requires a trust agreement and can be structured to best accomplish a donor's charitable, estate- and tax-planning goals including choosing the CRT duration, the payout percentage or amount, payment frequency, and charitable and individual beneficiaries. CRTs can be funded with cash or appreciated assets though most asset types, except assets that will generate unrelated business taxable income, are acceptable. In the year the trust is funded, the donor will be entitled to an income tax deduction that will be calculated based on the terms and payout rate.



Beginning with the date that the charitable trust is funded, the donor or the other non-charitable named beneficiary will begin to receive an annual stream of income per the terms of the agreement. The charitable remainder trust is exempt from income tax; thus, appreciated assets may be contributed to the trust and sold without income tax consequences. This allows 100% of the sales proceeds to be reinvested rather than just the after-tax proceeds. The annuity or unitrust payments received by the beneficiary of the charitable remainder trust are deemed to have come from the following sources, in the order mentioned below:

1. Ordinary income
2. Capital gain
3. Tax-free income
4. Corpus

When the trust ends, either upon the death of the lifetime beneficiary or the designated term date, the remaining assets are distributed to the named charitable beneficiaries.

Advantages	Considerations
• Ability to diversify highly appreciated assets while deferring income taxation	• Underperforming assets may deplete the trust
• Increases cash flow for donor or other non-charitable beneficiary	• Loss of access to assets for future spending needs
• Permits current-period income tax charitable deduction	• Taxable income
• Removes assets from taxable estate	• Setup and administrations costs

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