Charitable Trusts

A charitable trust can play a very important role in estate planning. These types of trusts provide gift tax and estate tax benefits that are not available through other kinds of trusts. Income benefits are normally split up between a non-charitable beneficiary and a charitable beneficiary. This is also known as a split-interest trust. The three most common types of charitable trusts are charitable remainder trusts, charitable lead trusts, and pooled income funds.

Charitable Remainder Trust

The charitable remainder trust (CRT) is the most common type of charitable trust. A CRT is tax-exempt and has both a charitable and noncharitable beneficiary. The noncharitable beneficiary receives income for the term of the trust. The charitable beneficiary receives what is known as the “remainder” once the term of the trust is up.

During the term of the CRT, the noncharitable beneficiary will receive an annual payment from the trust. The payment is either a fixed dollar amount or a fixed percentage of the CRT’s annual fair market value. The remaining assets will pass to the named charitable beneficiary at the end of the trust term.

Additional benefits associated with a CRT include:

- An income tax deduction to the donor for assets contributed to a CRT. The deduction equals the present value of the charitable beneficiary’s remainder interest.
- Contributions to a CRT are removed from the donor's taxable estate.
- Contributions to a CRT will typically not result in gift taxes.

Charitable Lead Trust

The charitable lead trust (CLT) is similar to a CRT because there is a split-interest between the charitable and noncharitable beneficiaries. However, a CLT is not tax-exempt.

During the term of the CLT, a charitable beneficiary retains an income interest. At the completion of the trust term, a noncharitable beneficiary receives the remaining trust assets. A CLT can be designed so that the annual payments to the charity are a fixed dollar amount or percentage of the CLT’s annual fair market value.

Additional benefits associated with a CLT include:

- Assets transferred to a CLT appreciate outside the donor's taxable estate.
- Assets left to a CLT through bequest will reduce the amount subject to estate tax. An estate tax deduction is available in an amount equal to the present value of the lead interest to charity.

- An income tax deduction equal to the present value of the lead interest to charity may be available if the CLT is created as a grantor trust. This means that the trust's creator (donor) assumes the CLT's tax liability throughout the term of the trust.

Pooled Income Fund

The pooled income fund is another version of a split-interest trust that has both charitable and noncharitable beneficiaries. Annual payments are made to the noncharitable beneficiary for the remainder of their life. At the death of the noncharitable beneficiary, the decedent’s remaining share of the pooled income fund is paid to a charitable beneficiary.

A pooled income fund is similar to a large CRT with multiple donors whose donations are pooled together to be managed. All income is divided and distributed to the income beneficiaries.

Additional benefits associated with a pooled income fund include:

- Contributions to a pooled income fund are removed from the donor's taxable estate.
- The donor receives an income tax deduction equal to the current value of the charity’s remainder interest in the donation.
- A pooled income fund is much easier and less expensive to establish and administer than a CRT.

Charitable trusts can be a key tool in the estate planning process. Selecting the property type of charitable trust to meet your individual goals is essential. Suppose you aim to reduce or eliminate estate taxes, convert appreciated assets into lifetime income, or reduce current income taxes with a charitable deduction. In that case, a charitable trust can be a great option.