CRATs, CRUTs, and CLT's

What is the Difference?

A charitable remainder annuity trust or CRAT distributes a fixed amount as an annuity each year; no additional contributions can be made to a CRAT.

Meanwhile, a charitable remainder unitrust or CRUT distributes a fixed percentage of the value of the trust, which is recalculated annually.

Charitable Remainder Annuity Trust (CRAT)

A charitable remainder annuity trust (CRAT) is a separately invested and managed charitable trust that pays you and/or other beneficiaries a fixed annuity for life or for a term of years (up to 20). You receive a charitable income tax deduction for a portion of the value of the assets you place in the trust. By law, no additional gifts to the trust are permitted once the trust is initially funded. After the annuity trust terminates, the balance or "remainder interest" goes to Southwestern Baptist Theological Seminary (SWBTS) to be used as you designate. You get flexibility to invest and manage your gift plan, as well as the security of stable income.

You can receive stable, predictable income equal to no less than 5% of the original gift. And at the same time, you avoid all upfront capital gains tax on any appreciated assets you contribute to the annuity trust. So, you will receive income that may be taxed favorably while you reduce your estate tax liability.

Steps:

1. Contact our office to let us know of your intention or if you have any questions.
2. You can transfer cash, securities, or other appreciated property into a trust. The required minimum for this type of gift is $100,000.
3. The trust makes fixed annual payments to you or to beneficiaries you name.
4. When the trust terminates, the remainder passes to SWBTS to be used as you have directed.

Charitable Remainder Unitrust (CRUT)

A charitable remainder unitrust (CRUT) is a tax-exempt irrevocable trust designed to reduce the taxable income of individuals by first dispersing income to the beneficiaries of the trust for a specified period of time and then donating the remainder of the trust to the designated charity.

A CRUT is separately invested and pays a percentage of its principal, revalued annually, to you and/or other income beneficiaries you name for life or a term of years (up to a maximum of 20). You receive a charitable income tax deduction for a portion of the value of the assets you place in the trust. After the unitrust terminates, the balance or "remainder interest" goes to the seminary to be used as you designate.

You can use almost any asset to fund a unitrust, including cash, publicly traded stocks and bonds, closely held stock, partnership interests, and real estate. You can tailor your unitrust to meet many financial or estate planning goals. You can choose to receive income beginning immediately or you can structure the trust and its investments to defer most of your income to a future time. If you are insurable, you can even use some of the income or tax savings produced by your plan to purchase a life insurance policy that replaces your gift and flows to your heirs outside of your estate. SWBTS can assist you and your advisors as you design the right unitrust to achieve your goals.

Steps:

1. Contact SWBTS Advancement Office to alert us and if you have any questions.
2. Transfer cash, securities, or other appreciated property into a trust. The required minimum for this type of gift is $100,000.
3. The trust pays a percentage of the value of its principal, which is valued annually, to you or beneficiaries you name.
4. You may use your real estate to fund a charitable remainder unitrust (CRUT), which may be structured to provide lifetime income for you and/or others, or income for a term of years.
5. When the trust terminates, the remainder passes to SWBTS to be used as you have directed.

Points to Consider:

- Receive income for life or a term of years in return for your gift.
- Receive an immediate income tax deduction for a portion of your contribution.
- Pay no up-front capital gains tax on appreciated assets you give.
- You can make additional gifts to the trust as your circumstances allow for additional income and tax benefits.

Additional Comments:

The recently enacted SECURE Act mandates that most beneficiaries of Retirement Plan Assets other than a spouse must withdraw all funds and pay taxes on them within a 10 year period. This can result in much larger taxes for beneficiaries and result in these no further financial benefits after the 10 year period. Donors wanting to mitigate the annual taxes and provide lifetime income benefits for heirs may want to consider leaving their Retirement Plan Assets to a charitable remainder trust. The real beauty of this plan is the ultimate support it provides for the seminary.

FLIP Unitrust (Professional Retirement Unitrust)
A FLIP Unitrust defers income payments until a future date when the income switch "flips" on. Until that predetermined time, the trust pays net income only. If no net income is produced, the trust pays nothing. Once the "flip" event occurs, the trust converts or "flips" to a standard unitrust that pays a defined percentage of the fair market value of the assets to the beneficiaries beginning January 1st of the following year. This flexible feature allows the trust to defer income payments until the sale of an illiquid asset, such as real estate, or to flip on a particular date set up at the time of the trust. If you set up a Professional Retirement Unitrust, the trust "flips" at your pre-determined retirement date, meaning that it then provides you with supplemental income in retirement starting January 1 of the following year. This is a great way to make a gift and supplement retirement at the same time.

Charitable Lead Trust (CLT)

A charitable lead trust (CLT) is a gift of cash or other property to an irrevocable trust. SWBTS receives an income stream from the trust for a term of years. Depending on how the trust is structured, the donor enjoys a current income, gift, or estate tax deduction on the donated assets.

If you want to provide an enduring income stream to SWBTS and you have a large, taxable estate, a CLT can do that for a term of years with the remainder interest of the trust passing to family members. The charitable deduction then is based on the actuarial value of income stream to SWBTS.

Though CLTs are not tax exempt, they can greatly reduce or eliminate gift or estate tax on trust assets passing to family members. CLTs should be managed and thoughtfully designed with oversight.

Due to its complex nature, SWBTS recommends that, should you choose a Charitable Lead Trust, it should be carefully reviewed by the your attorney and tax advisors to ensure that it is compatible with your entire estate plan.

Contact us for Assistance:

Email: giving@swbts.edu

Phone: 817-921-8830

Office of Institutional Advancement
Southwestern Baptist Theological Seminary
P,O, Box 22500
Fort Worth, Texas 76122