MARINER

Charitable Giving

Specialized Trusts Tailored to Your Goals

Trusts are powerful tools for estate planning, including charitable giving. They can deliver tax benefits, allow their creators control over asset distribution and even provide ongoing income.

But while all trusts share three basic elements—a trustee, one or more beneficiaries and trust property—their structures can be as different as the needs and goals of their creators. A case in point: Both charitable remainder trusts and charitable lead trusts are types of irrevocable trusts used to facilitate charitable giving, but each comes in specialized versions. Let's take a look at how each type of specialized trust can be useful in helping to achieve specific philanthropic and estate planning goals.

Understanding Charitable Remainder Trusts

Charitable remainder trusts (CRTs) enable grantors or named beneficiaries, potentially including charities, to earn income during the donor's lifetime, after which remaining assets are distributed to a charity or charities. These trusts must pay out at least 5% of their value annually to beneficiaries. The use of CRTs has at least three key tax advantages. Donors are generally entitled to an immediate charitable deduction upon formation of the trust. Assets donated through a CRT are subtracted from the grantor's taxable estate. And the trusts pay no income tax on investment income, including the sale of appreciated assets.

CRATs and CRUTs

There are two primary types of CRTs: charitable remainder annuity trusts (CRATs) and charitable remainder unitrusts (CRUTs). The key difference has to do with how income is distributed: CRATs pay a fixed dollar amount annually, while CRUTs pay a variable dollar amount based on a percentage of the trust's annual value. Let's look at the reasons a grantor—the person creating the trust—might choose one over the other.

The Case for CRATs

CRATs are often favored by those seeking fixed, predictable income. Here are two hypothetical examples:

John: A retired senior executive with $10 million in assets, John wants a stable income stream to supplement Social Security and other retirement accounts. While he has a relatively large portfolio, he is risk averse by nature. John sets up a CRAT with $2 million to guarantee a fixed income, which allows him to enjoy retirement without fretting over stock market volatility.

Sarah: A 60-year-old executive, Sarah owns $5 million worth of illiquid shares in her privately held company. She plans to retire soon but wants to wait to sell her shares until their value rises. By placing a portion of her shares into a CRAT, Sarah converts part of her illiquid holdings into a fixed annual income while deferring capital gains taxes and ensuring a future charitable contribution.

The Case for CRUTs

CRUTs, on the other hand, are often the choice of entrepreneurs, investors and younger high-net-worth individuals who expect their assets to appreciate. They prefer variable income that can potentially increase over time, and they like the fact that CRUTs, unlike CRATs, allow them to make additional contributions in the future. Examples of how they might be used:

Lisa: A 45-year-old entrepreneur with $10 million in assets, Lisa expects shares in her successful start-up to appreciate significantly. She sets up a CRUT, contributing $3 million of her shares. She will receive a percentage of the trust's value each year, and if the company grows and her trust's value increases as she expects, Lisa's income will rise. She also likes the flexibility to contribute more assets later.

Mark: The owner of $15 million in stocks and real estate, Mark, 50, prefers market-driven returns to fixed income. He creates a CRUT with $5 million, expecting the value to grow with market performance. Mark is comfortable with fluctuating income and is confident that his payouts will increase as the market rises. He also plans to contribute more assets over time as his portfolio expands, maximizing both his charitable impact and personal income.

Understanding Charitable Lead Trusts

Charitable lead trusts (CLTs) provide a period of income not to the trust's grantor but to their designated charities. These trusts are designed to be terminated at a certain date, upon which their remaining assets are disbursed to beneficiaries free of estate and gift taxes. As with charitable remainder trusts, CLTs come in two flavors: charitable lead annuity trusts, or CLATs, and charitable lead unitrusts, or CLUTs. The main difference will be familiar: CLATs pay a fixed annual amount to charity, while CLUTs pay a percentage of the trust's fluctuating value annually.

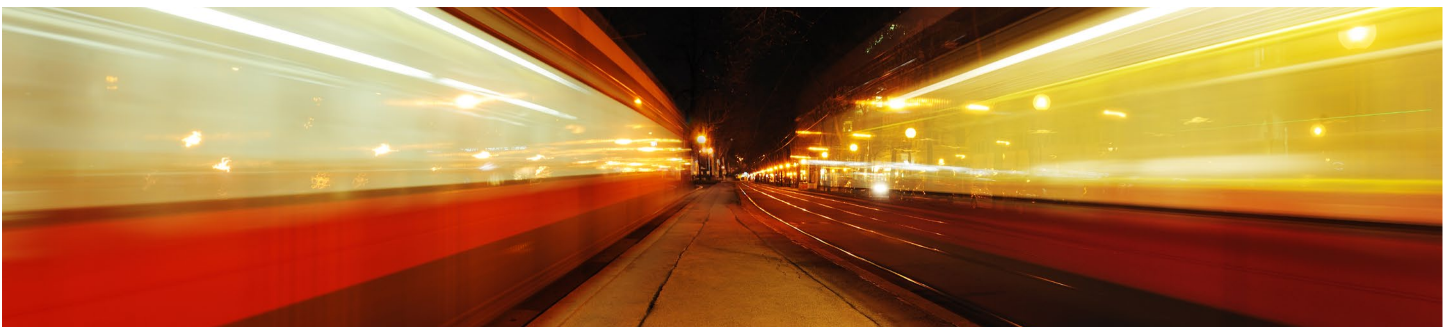
CLATs and CLUTs in Action

Let's look at a hypothetical scenario where a CLAT makes sense. David is a 50-year-old senior executive at a Fortune 500 company with significant assets. He wants to support his favorite local nonprofit while ensuring that his kids benefit in the future. He sets up a CLAT with $2 million. Every year, the nonprofit will receive exactly $100,000. After 20 years, the remaining balance will be passed to David's children, helping to provide them with financial security.

On the other hand, a CLUT is a good choice for Rachel. A 50-year-old successful entrepreneur, she wants to give back to her community. She funds a CLUT with $3 million. Her designated charity will receive 5% of the trust's annual value every year, meaning that if the trust assets appreciate, the charity will receive more dollars. After 15 years, the trust's remaining balance will go to Rachel's daughter.

Getting Even More Specialized

These are simplified examples, and CLUTs, CLATs, CRUTs and CRATs all have specialized versions that offer additional flexibility or features. But the bottom line is this: Whatever your objectives for estate planning and charitable giving, there's a type of trust that's likely to fit your needs very well.



Some Important Considerations

It’s important to take into account the cost of setting up and managing a trust over time. For smaller asset amounts, alternative vehicles such as donor-advised funds may be more cost effective. And bear in mind that no matter which kind of trust you use, selecting a competent trustee is vital. Trustees must manage assets responsibly, obey their legal obligations and ensure that the trust carries out its intended purposes.

TAPPING SPECIALIZED GUIDANCE

To explore which type of trust might be the best match for your situation and goals, reach out to your wealth advisor, who can work with Mariner’s trust team to design a trust that helps ensure your wishes are carried out.

For more information visit: **mariner.com**

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