"Achieving Successful Outcomes"

Compound Interest

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DOING WELL WHILE DOING GOOD: CRAWFORD'S GUIDE TO CHARITBALE TRUSTS

For individuals with highly appreciated investments and a desire to support charitable causes, a Charitable Remainder Trust (CRT) offers a strategic way to accomplish both goals. CRTs can be particularly advantageous for individuals with highly appreciated investments that are concentrated or produce a low level of current income. A CRT allows you to convert appreciated assets into a stream of income, while also securing a charitable legacy, diversifying investments, avoiding immediate capital gains taxes, and gaining a current-year income tax deduction. At Crawford, we believe our investment philosophy, focused on consistent income, long-term growth, and preserving capital, is well suited for the management of CRTs.

A CRT is an irrevocable trust that enables you to transfer assets such as stocks, real estate, or other assets into the trust. The trust then sells those assets (without triggering immediate capital gains taxes), reinvests the proceeds, and pays you and/or your spouse (or other beneficiaries) an income stream for life *or* for a period of up to 20 years. When the term ends, the remaining assets go to one or more charities of your choosing.

To qualify as a CRT, the IRS requires two things. First, the trust must last no more than 20 years, unless it's structured to pay income for the life of the beneficiary(ies). And second, at least 10% of the initial value of the trust must be expected to go to charity, based on an actuarial present-value calculation. This is referred to as the 'remainder interest.' A key factor in this calculation is the IRS's Section 7520 interest rate, which changes monthly and influences how much of the trust is expected to be left as remainder for the charity, and therefore how much income the beneficiaries can receive. There are two categories of CRTs: the Charitable Remainder Annuity Trust (CRAT) and the Charitable Remainder Unitrust (CRUT).

A CRAT pays a fixed dollar amount each year. As described above, the amount is based on the initial value of the trust assets, the IRS interest rate at the time of funding, and the expected remainder left to charity. No additional contributions can be made after it is created. This is best for people who want predictable, fixed income. This could be someone nearing retirement and looking to diversify from a concentrated stock holding.

On the other hand, rather than a fixed dollar amount, a CRUT pays a fixed percentage of the trust's value, recalculated annually. The income percentage can be anywhere from 5% to 50% and is set at the time the trust is created. Because the payout is based on the trust's annual value, income can vary from year to year. However, unlike a CRAT, additional contributions to a CRUT are permitted after the initial funding. With our focus on high-quality, stable investments and long-term orientation toward growth and capital preservation, a CRUT invested with Crawford can sustain higher distributions over time, as the principal value is more likely to remain intact and continue to grow compared to traditional approaches. This is suitable for those seeking flexibility, growth potential, or who plan to fund the trust with assets that may be difficult to sell.

There are several types of CRUTs, each with unique features, listed below:

- Standard CRUT: Pays the stated income percentage (5% - 50%) annually, regardless of the income produced by the trust's underlying investments.
- NICRUT (Net Income CRUT): Limits distributions to actual income earned by the trust's investments; if income is lower than the fixed percentage, only the actual income is paid out. Missed amounts cannot be made up later.
- NIMCRUT (Net Income with Makeup CRUT): Like a NICRUT, except unpaid amounts can be made up in future years when income is higher. This makes it more flexible and quite popular.
- FLIP CRUT: Starts as a NIMCRUT and "flips" to a standard CRUT after a triggering event such as selling an illiquid asset or reaching a certain age. This can be useful when funding the trust with assets that don't produce income immediately or need to be held for a period of time.
- Testamentary CRUT (T-CRUT): Created upon death, often funded with retirement accounts to provide income for heirs, preserve capital, and save on income tax.

Deciding which structure is right for you is an important step, one we are well-equipped to guide you through. Regardless of the approach, the benefits of a CRT are multifaceted. First, you avoid immediate capital gains tax on appreciated assets and get an immediate opportunity to diversify a concentrated asset position. Additionally, you get an immediate income tax deduction based on the expected future value of the gift to charity. You also reduce estate taxes by removing donated assets from your taxable estate and create income for retirement or beneficiaries. All of this is achieved while supporting charitable causes you care about and leaving a meaningful legacy. It is important to note that it is possible to designate a Donor Advised Fund as the remainder beneficiary, removing the need to identify specific charities when the trust is created.

There are some important considerations to mention. CRTs are irrevocable, meaning once they are set up, you cannot change the terms or reclaim the assets. The income received is also taxable, depending on the trust's earnings and the IRS's four-tier distribution rules. Ongoing administration (and associated cost) is required, including annual asset valuations and IRS reporting. We also note that some charities have the capability to administer these types of trusts at favorable rates.

CRTs fit well with Crawford's investment strategy. Our focus on stable income through dividends, high-quality investments, and long-term preservation and growth makes us a strong partner in managing CRT assets. After an appreciated position is sold inside the trust, our approach is aligned to provide reliable income distributions while aiming to preserve your charitable legacy.

Crawford's investment philosophy aligns naturally with CRTs. By focusing on high-quality companies with sustainable and rising dividends, we seek to preserve and grow the trust's capital while generating a dependable stream of income to support ongoing distributions. This disciplined approach helps CRT assets sustain either a fixed payment or a percentage-based payout, depending on the trust structure, while ensuring your charitable legacy remains intact. In short, our investment discipline combines income, growth, and capital preservation, and when applied to a CRT, it allows you to meet your income needs today while safeguarding your philanthropic goals for the future.