

# Charitable Remainder Trusts

## Frequently Asked Questions



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The mission of CFMC is to connect donors and their charitable giving with our evolving community needs in order to enhance quality of life for current and future generations through impact grant making.

## What is a charitable remainder trust?

A charitable remainder trust (CRT) is a trust that provides an income for the named beneficiary or beneficiaries (usually the donor is one) for a term of years or for a lifetime. When the trust term ends, the remaining trust assets go to the designated charity. At the time the trust is funded, the donor qualifies for a tax deduction (subject to limitations) for the present value of the remainder interest expected to go to charity.

**NOTE:** Beginning in 2026, only gift amounts that exceed 0.5% of your adjusted gross income will qualify for a deduction. In addition, donors in the top 37% tax bracket will have their deductions capped at 35%.

## What are the main benefits?

While setting up a trust requires a bit of effort and expense, it can be worth considering if you want to:

- Reduce income taxes
- Convert appreciated assets into a lifetime income stream
- Bypass the capital gains tax
- Make a gift that benefits our work now or in your will

## Are there different types of CRTs?

There are two main types of charitable remainder trusts—a charitable remainder annuity trust (CRAT) and a charitable remainder unitrust (CRUT). They differ in a couple of key ways:

- 1. Income payments.** A CRAT distributes an annual fixed income that is a percentage of the value of the gifted assets at the time the trust is created and funded. This provides a steady, reliable income stream and can be a good way to lock in a high interest rate. A CRUT distributes an annual income that is a percentage of the trust assets as revalued each year. This provides a variable payment that can serve as a hedge against inflation.
- 2. Flexibility.** A CRAT comes in just one form and cannot accept additional contributions. A CRUT is more flexible—there are four different types, each designed to accomplish various planning goals, and you can make additional contributions if you choose.

## Should I choose a CRAT or a CRUT?

That depends. Some people (often retirees) choose a CRAT because they prefer a fixed income. However, others (often working professionals) choose a CRUT because of its variable payout or because different types of CRUTs provide different options for retirement planning.

## How much of an income can I expect?

You select a percentage of the initial trust assets (for a CRAT) or of the trust assets as revalued each year (for a CRUT). Either way, the percentage must fall between 5% and 50%. However, keep in mind that the value at the end of the trust term (the amount that goes to charity) must be at least 10% of the initial trust assets.

For example, Geoffrey creates a CRAT with stock worth \$250,000. He chooses an annual payout rate of 5%. Every year, Geoffrey will receive \$12,500 (5% of \$250,000) for the rest of his life.\*

### PLANNING NOTE

Older donors interested in the steady income of a charitable remainder annuity trust should compare the trust with a charitable gift annuity, which may be able to provide higher income payments.

## How should I fund a CRT?

Most often, donors fund a CRT with non-producing appreciated property held for over one year so they can bypass the capital gains tax that would otherwise be due on the assets.

If you are an IRA owner age 70½ or older, you can choose to fund a new CRT by making a one-time, tax-free distribution from the IRA of up to \$54,000 (in 2025) that counts toward your RMD if one is due. Spouses should plan to combine distributions from their own IRAs into a single CRT to reach the typical minimum funding amount of \$100,000. Note that a CRT funded from an IRA has slightly different rules compared to a regular CRT.

## What does it mean that a CRT is an irrevocable trust?

A revocable trust can be modified or terminated, but the terms of an irrevocable trust cannot be changed and the trust cannot be terminated prematurely. However, you may retain the right to change the charitable beneficiaries.

\* All examples are for illustrative purposes only.



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