

ESTATE PLANNING • CHARITABLE GIVING

# The Charitable Remainder Trust

Give to Charity, Keep an Income Stream, and Defer a Capital Gains Bill

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## Key Takeaways

- A Charitable Remainder Trust (CRT) lets you transfer appreciated assets, receive income for life or a term of years, and direct whatever remains to charity at the end.
- It delivers two tax benefits at once: the trust can sell the appreciated asset without an immediate capital gains tax, and you receive a partial charitable deduction in the year you fund it.
- The IRS requires that at least 10% of the contribution be projected to remain for charity. That rule sets the ceiling on your payout rate.
- A CRT is irrevocable, and the remainder goes to charity rather than heirs. A separate life insurance strategy can replace that value for the family.

## Why This Matters

What if giving to charity could also pay you income? It sounds too good to be true, but it is real, it has existed for decades, and most people have never heard of it. Taxes are a drag on a portfolio, and some people feel strongly enough about minimizing them that they will sacrifice returns to do it. A Charitable Remainder Trust takes that instinct and turns it into something productive: instead of a portion of your money going to taxes, it generates income for you during your lifetime and then lands somewhere that reflects your values.

This paper explains how a CRT works, the one IRS rule that governs it, the two tax benefits that make it distinctive, who it tends to fit, and the honest tradeoffs. It is educational and not individualized tax or legal advice; a CRT must be structured by a qualified attorney and coordinated with your tax professional.

## How It Works

You transfer assets into the trust, often appreciated stock, real estate, or a business interest. That contribution is partially tax deductible. The trust pays you income, either for a set number of years or for the rest of your life. When the trust ends, whatever remains goes to the charitable organization you have chosen.

There are three main types. One pays a fixed dollar amount each year regardless of markets. One pays a fixed percentage of the trust's value, recalculated annually, so your income can grow if the portfolio grows. A third is designed for people who do not need income right away, letting the trust accumulate and pay out more significantly later. The right type depends on your age, income needs, tax situation, and timeline, but the mechanics are the same across all three: income to you now, charity later.

## The 10% Remainder Rule

The IRS has one core requirement for a CRT to qualify. At the time you set it up, the IRS runs a projection based on your age, your payout rate, and an interest rate it publishes monthly, calculating what charity is expected to receive at the end. That projected amount must equal at least 10% of what you contribute on day one.

Fund a trust with \$500,000 and the IRS needs to see that charity is on track to receive at least \$50,000 when it ends. That is the floor. Practically, the 10% rule limits how aggressive your payout rate can be: the more income you take, the less is projected to remain for charity, and push too hard and the trust fails the test, costing you the tax benefits. Picture a dial, maximum income to you on one end, maximum gift to charity on the other. The rule tells you how far you can turn it toward yourself. Most people land in the 5% to 8% annual payout range, depending on age and goals.

## The Two-Part Tax Benefit

This is where a CRT separates itself from almost every other planning strategy, because it delivers both benefits at once.

### Capital Gains Deferral on the Way In

Suppose you own stock, real estate, or a business interest worth far more than you paid. Sell it outright and the capital gains tax takes a serious bite before you see a dollar. Transfer it into a CRT instead, and the trust can sell it without that immediate tax, so the full proceeds stay inside the trust, working for you and generating income. Consider a couple who built a business now worth \$5 million on an original cost of \$1 million. Sold outright, they face capital gains on \$4 million of appreciation. Contributed to a CRT, the trust sells it and the full value stays at work inside the trust.

### A Charitable Deduction in the Year You Fund It

In the same year you fund the trust, you receive a partial charitable income tax deduction. The deduction is not the full contribution; it is based on the present value of what charity is projected to receive at the end, which ties back to the 10% rule. The IRS also limits how much of the deduction you can use in a single year, typically 30% of adjusted gross income for this type of contribution, with any unused portion carrying forward for up to five additional years. So a large deduction is not lost; it is spread out over time.

*Capital gains deferred on the way in, a meaningful deduction in the year you fund it, and a reliable income stream for life. That combination is what makes this strategy worth a serious conversation.*

## Who This Is For

This is not only for the ultra-wealthy. CRTs are used by retirees converting appreciated assets into lifetime income, by business owners facing significant capital gains after a sale, and by investors holding stock or real estate that has grown substantially. You typically need somewhere between \$100,000 and \$250,000 in appreciated assets and a genuine interest in charitable giving.

The charitable remainder does not have to go to an institution you have never met. A family can establish its own private foundation, name it, seat family members on the board, and direct grants toward causes they care about, including scholarship programs for future generations. Done correctly, with the right legal framework and an objective selection process, this is entirely legitimate. It is not a DIY project, and it must be structured by an attorney who knows this space.

## The Honest Tradeoffs

Two things must be clear before anyone signs. First, the moment you transfer assets into the trust, it is irrevocable; you cannot change your mind and take them back. Second, at the end, the remainder goes to charity, not directly to your heirs. For some families that is a dealbreaker, and that is a completely valid reason to walk away.

There is, however, a common way to address the second concern, called wealth replacement. The increased income from the CRT can fund a life insurance policy held inside an irrevocable life insurance trust. At your death, that benefit can pass to your heirs outside your taxable estate. In many cases the children end up with more than they would have inherited from the original asset, the charity still receives its remainder, and you captured the tax benefits along the way. Whether this fits depends entirely on your circumstances.

## The Bottom Line

People often say, "I want to make a difference, but I also need to take care of myself." With a CRT, you may not have to choose. It can let you defer capital gains on the way out, take a partial deduction on the way in, generate income during your lifetime, and leave behind something that reflects your values. It is not about being wealthy. It is about being intentional with what you have built, and it requires the right legal and tax guidance to do correctly.

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## References and Sources

The following sources support the figures, rules, and statements described in this paper. They are provided for verification and for compliance review.

Internal Revenue Service. "Charitable Remainder Trusts." IRS.gov. <https://www.irs.gov/charities-non-profits/charitable-remainder-trusts>

Internal Revenue Code §664 (Charitable remainder trusts) and Treasury Regulations thereunder.

Internal Revenue Service. Publication 526, "Charitable Contributions." <https://www.irs.gov/publications/p526>

Internal Revenue Service. "Section 7520 Interest Rates." Used in the 10% remainder projection. <https://www.irs.gov/businesses/small-businesses-self-employed/section-7520-interest-rates>

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