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CRAT AND CRUT

Parman R. Green, UO&E Farm Business Mgmt. Specialist

This article will introduce CRAT and CRUT. If you know CRAT, I'm sure you'll recognize CRUT. CRAT and CRUT went up the no, that's another story. On a more serious note, CRAT is the acronym for charitable remainder annuity trust and CRUT is the acronym for charitable remainder unitrust. While there are a number of ways for making charitable transfers, from the financial security and income tax saving perspectives, CRAT and CRUT have a lot to offer.

To set the stage, let's first look at an immediate and outright transfer of cash or property to your favorite and worthy charitable organization. While this transaction should qualify for a charitable deduction in calculating your income tax, you will be foregoing the income and enjoyment of the cash or property. One of the estate planning principles universally promoted is to provide for your personal income and security for the rest of your life - whether you live to be 85 or 135 years of age.

At the other extreme, you could elect to not give the charity any cash or property during life and elect to make a charitable bequest through your estate settlement. While this action will provide your estate with an estate tax deduction, it will not provide any income tax savings during your life.

The charitable remainder trust is a tax planning tool that almost allows you to have your cake and eat it too. As an example, let's say you would like to leave your favorite college (MU) \$50,000. Instead of making this provision in your will, you could set up a \$50,000 charitable remainder annuity trust during your life. This trust could be set up to provide you with a yearly income as a percentage of the value of the trust. For our example, that might be six (6) percent or \$3,000 per year for the rest of your life. Upon your death, whatever property is in the trust would go to your designated college (MU). Even though the college won't get the trust assets until after your death, you are entitled to a current income tax deduction for the remainder value of the property placed in the trust. The value of the remainder interest is based upon published actuarial tables. The older you are at the time of transfer to the trust, the greater the remainder interest value. These tables do provide for joint lives, so the trust could be established to pay the fixed percentage income to you for life, then for your spouse's life, with the remainder going to the charity upon the last to die.

The charitable remainder unitrust, for the most part, varies from the charitable remainder annuity trust in that the periodic percentage payout is based on the periodic value of the trust, rather than the value of the trust property at the time it was established. This feature offers some additional income protection from inflation during the rest of your life.

Apart from CRAT and CRUT, if you desire to give a charitable remainder

interest of your farmland or your personal residence, this may be accomplished by deed and avoid the necessity of using a trust instrument.

The fact we're transferring a future interest is not a problem or a concern relative to qualifying for the annual gift exclusion, since these types of transfers are to charity. These types of transactions should be made only after considerable thought to insure they accomplish your estate and business planning goals and objectives; and then, only after consulting with your estate planning team.