

CHARITABLE REMAINDER TRUSTS

A charitable remainder trust may prove to be an attractive planned giving option if the donor is looking to secure both income and meaningful tax relief during their lifetime.

Working through trust and estates lawyers, a donor establishes a charitable remainder trust by transferring property to a trust. The donor is considered to have disposed of the property to be transferred to a charity at some later date, usually upon the death of the donor. Once the charity is named as the beneficiary of the trust, it cannot be removed or revoked.

After death, the assets are then passed on to the designated charity.

Advantages

It can provide significant tax relief during the donor's lifetime. Because charitable remainder trust tends to be used for larger charitable donations, the tax credit issued back to the donor is often of considerable value.

They can provide an additional source of income. Once assets are donated to the trust, any income generated can be paid back to the donor.

Charitable remainder trust also allows the donor to retain control and use of the assets within the trust. By retaining this control, the donor can find comfort knowing that they still have a say in how the trust's assets are managed.

- Upon the death of the donor, assets held within the trust will not be subject to probate or estate administration fees
- The donation cannot be contested by dependants or other beneficiaries of the estate

Issues to Consider

Because charitable remainder trusts can be complicated and require that expertise of a lawyer, they are commonly expensive to set up and maintain. Experts suggest that donors only consider this option when planning gifts in excess of \$200,000.

Once a charity is named the beneficiary, the donor cannot change their mind.

The income from the investments held within the trust is taxable in the donor's hands until death. However, this shortcoming must be weighed against the considerable benefit that the initial tax credit provides.

Because of the difficulty in valuing the "residual interest" of some assets, professional advice should be sought before choosing the assets to be transferred into the trust.

Tips

- A donor may have to obtain a professional evaluation of the trust's assets to determine its residual value
- The donor should only consider allowing the proceeds of the trust to pass on to charity after both spouses die.