

CRT Misconceptions You Should Know About

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CRT Misconceptions You Should Know About

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Charitable Remainder Trusts and High Net Worth Clients In 2024

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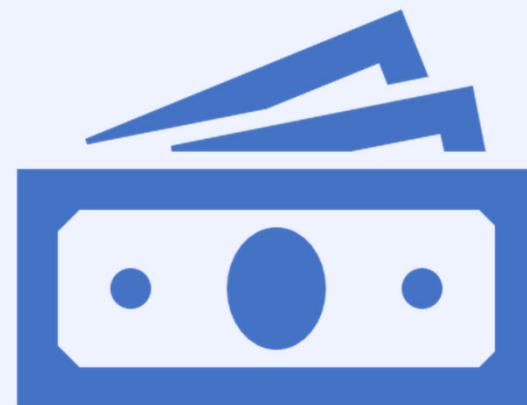
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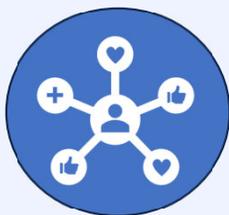
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Types of CRTs

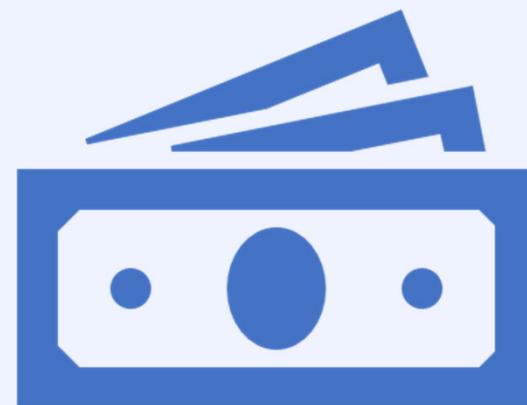
- Crats
- Cruts
 - Standard
 - NimCrut
 - Flip





Uses of CRTs

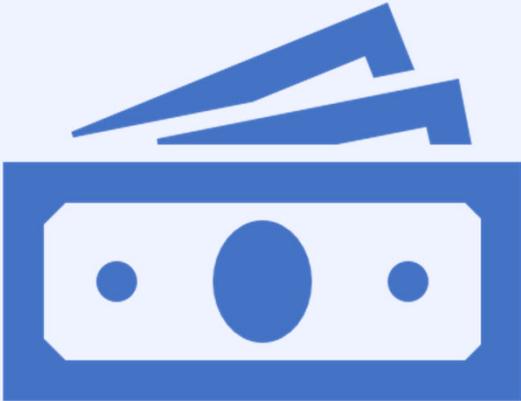
- Income
- Deduction
- Deferral
- Estate/Discounting





Types of CRTs

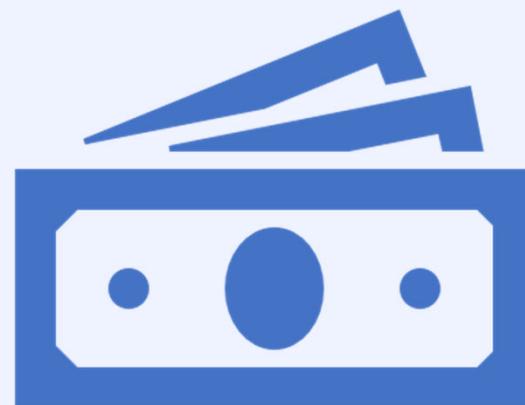
- Crats





Types of CRTs

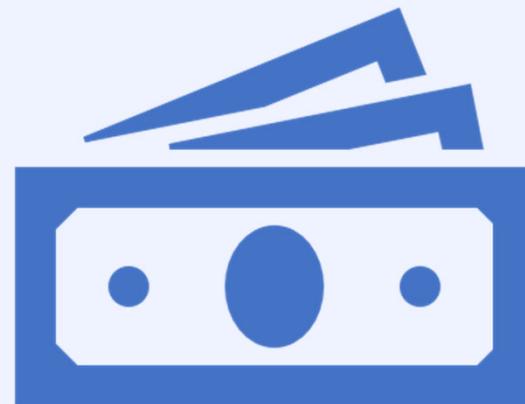
- Cruts
- Standard





Types of CRTs

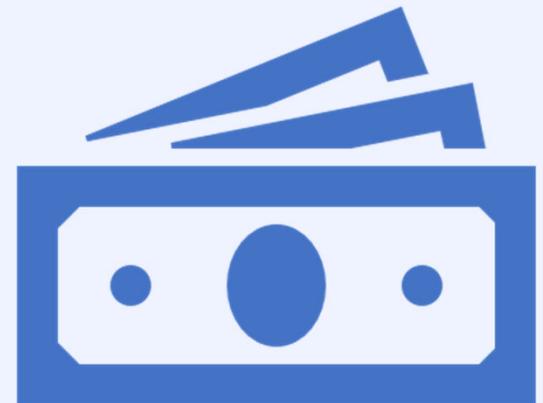
- Cruts
- NimCrut

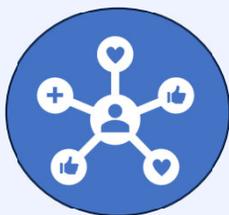




Types of CRTs

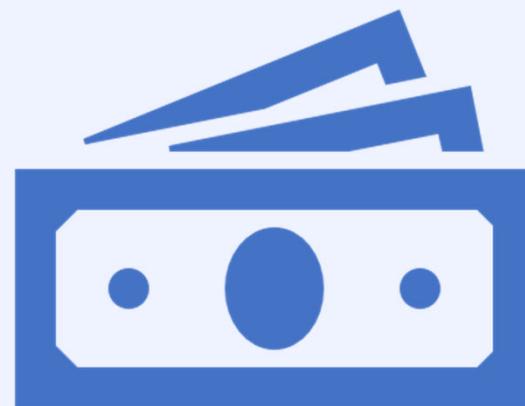
- Flip





Uses of CRTs

- Income
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- Deferral
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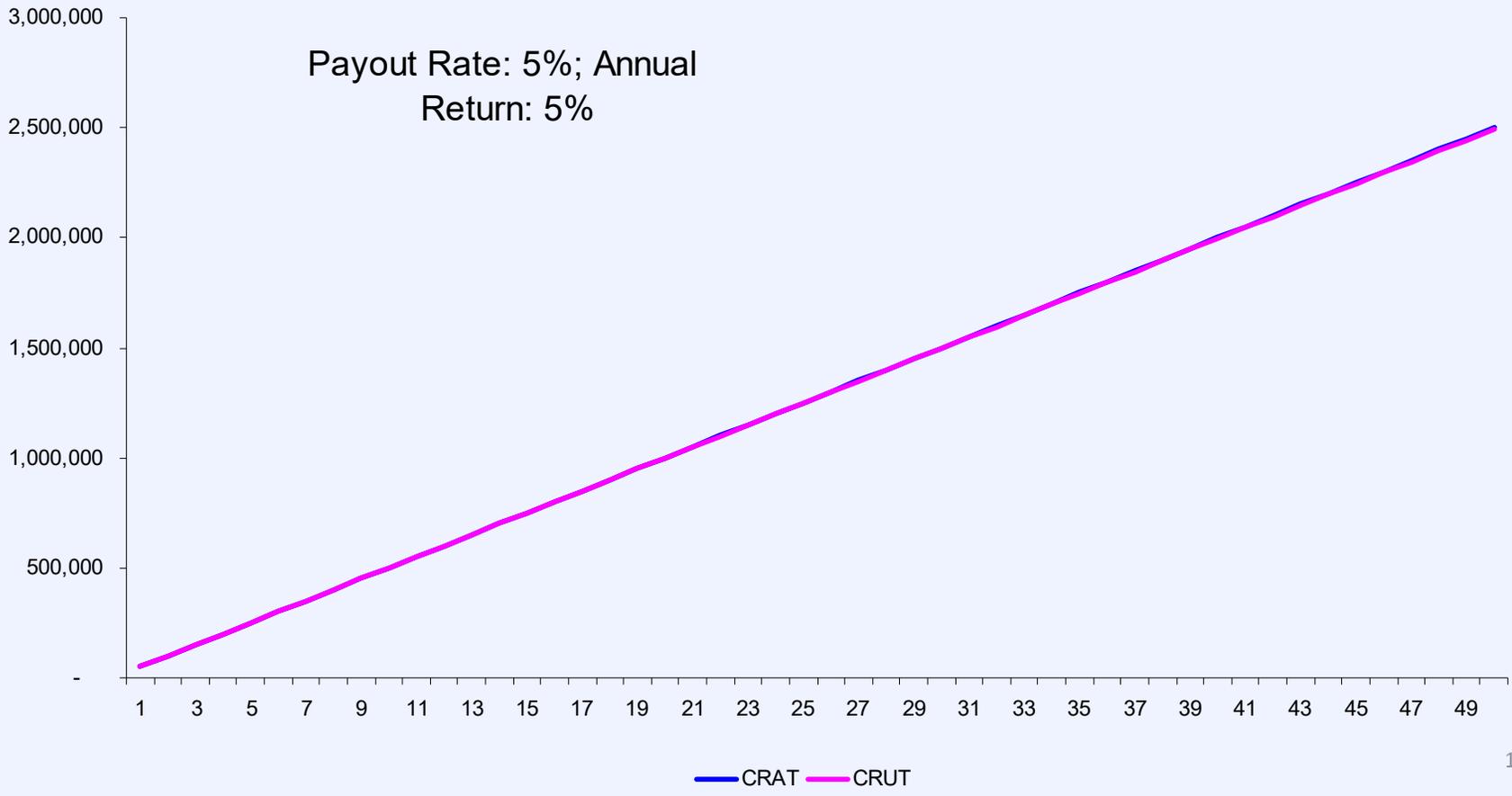


Crat vs Crut

	CRAT	CRUT
Minimum Deduction	10%	10%
5% Probability of Exhaustion Test?	Yes	No
Better if Returns are greater than 5%	No	Yes

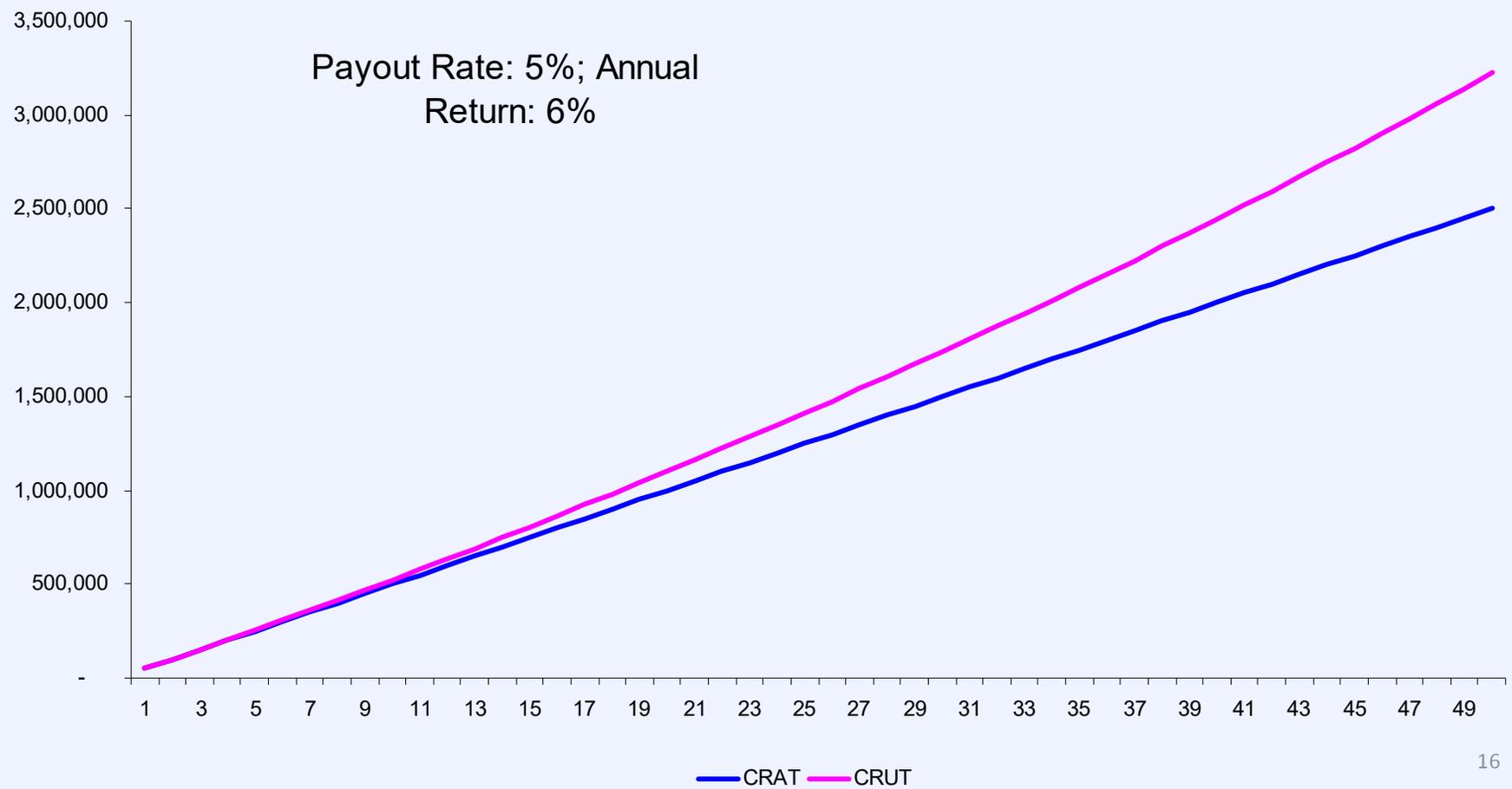
Crat vs Crut

Cumulative Distributions: CRAT vs. CRUT

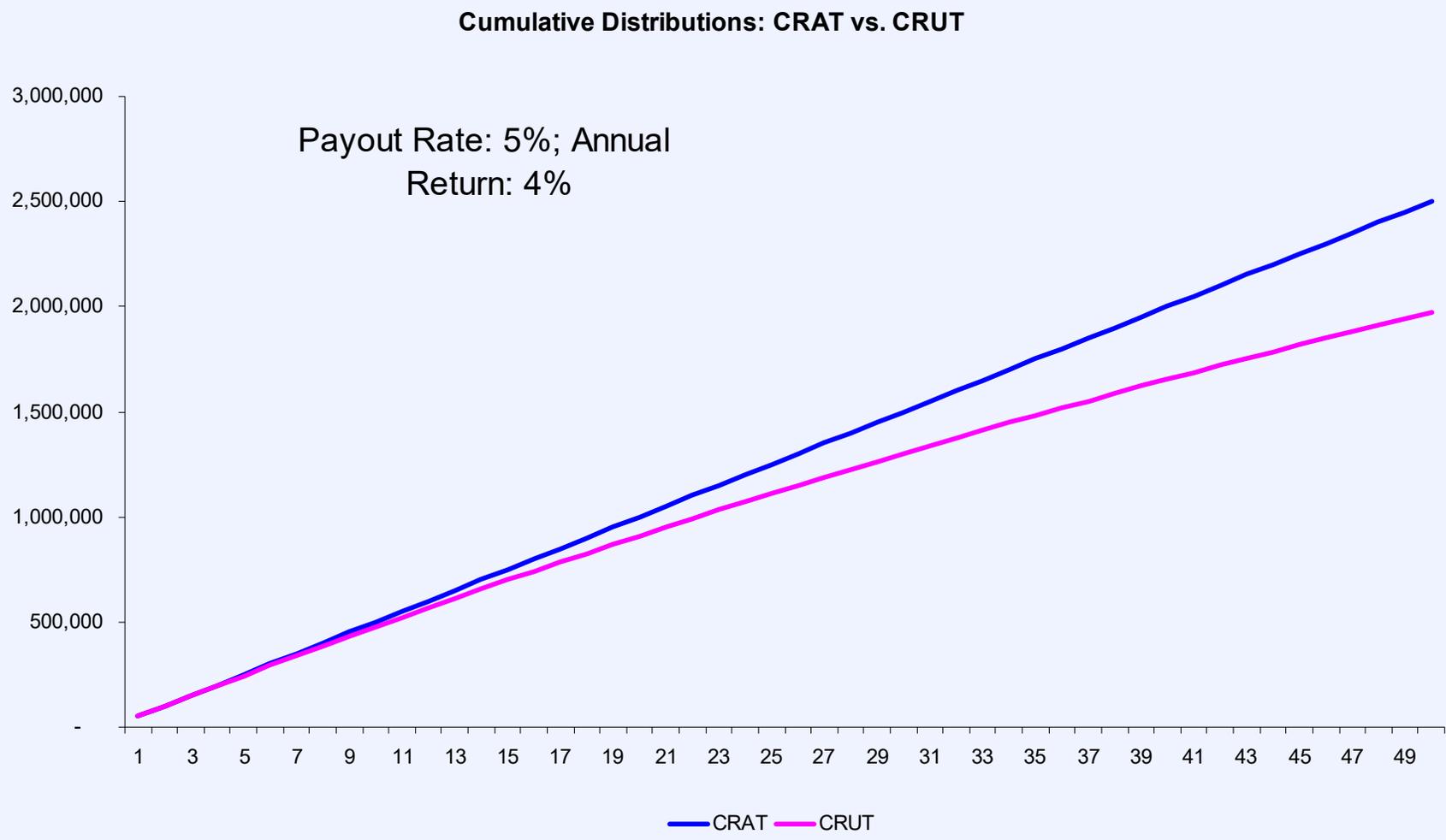


Crat vs Crut

Cumulative Distributions: CRAT vs. CRUT

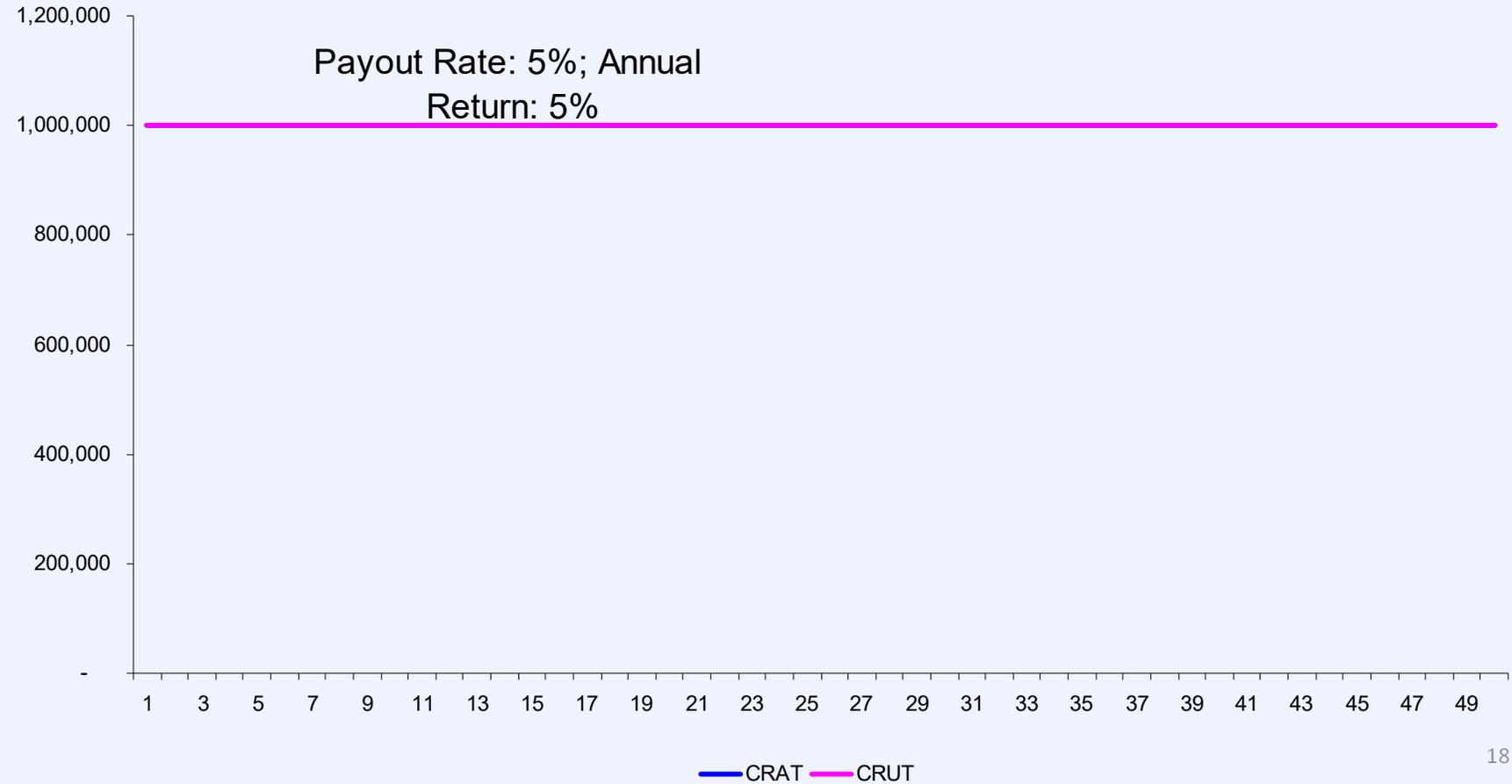


Crat vs Crut



Crat vs Crut

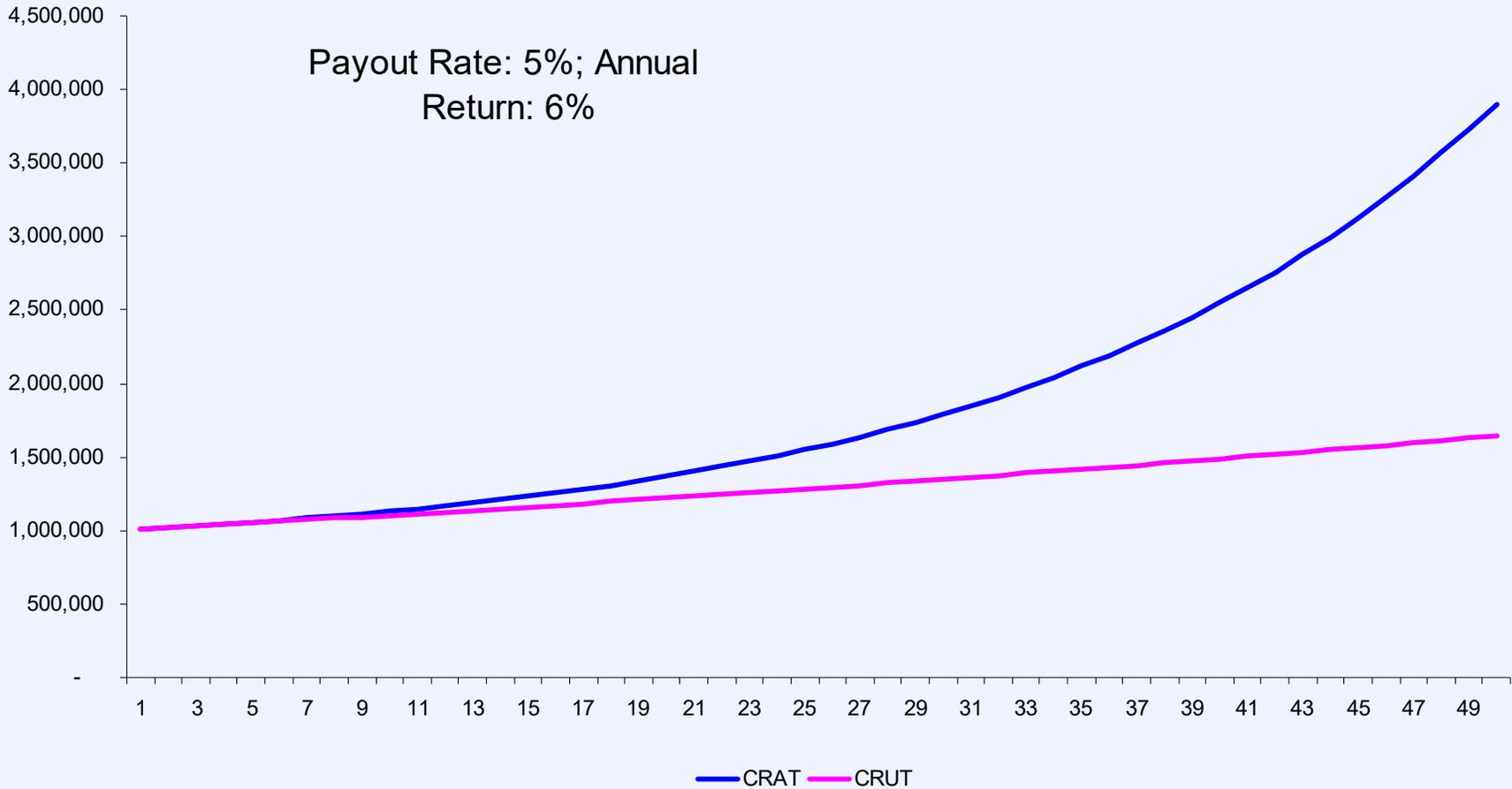
Trust Asset Value: CRAT vs. CRUT



Crat vs Crut

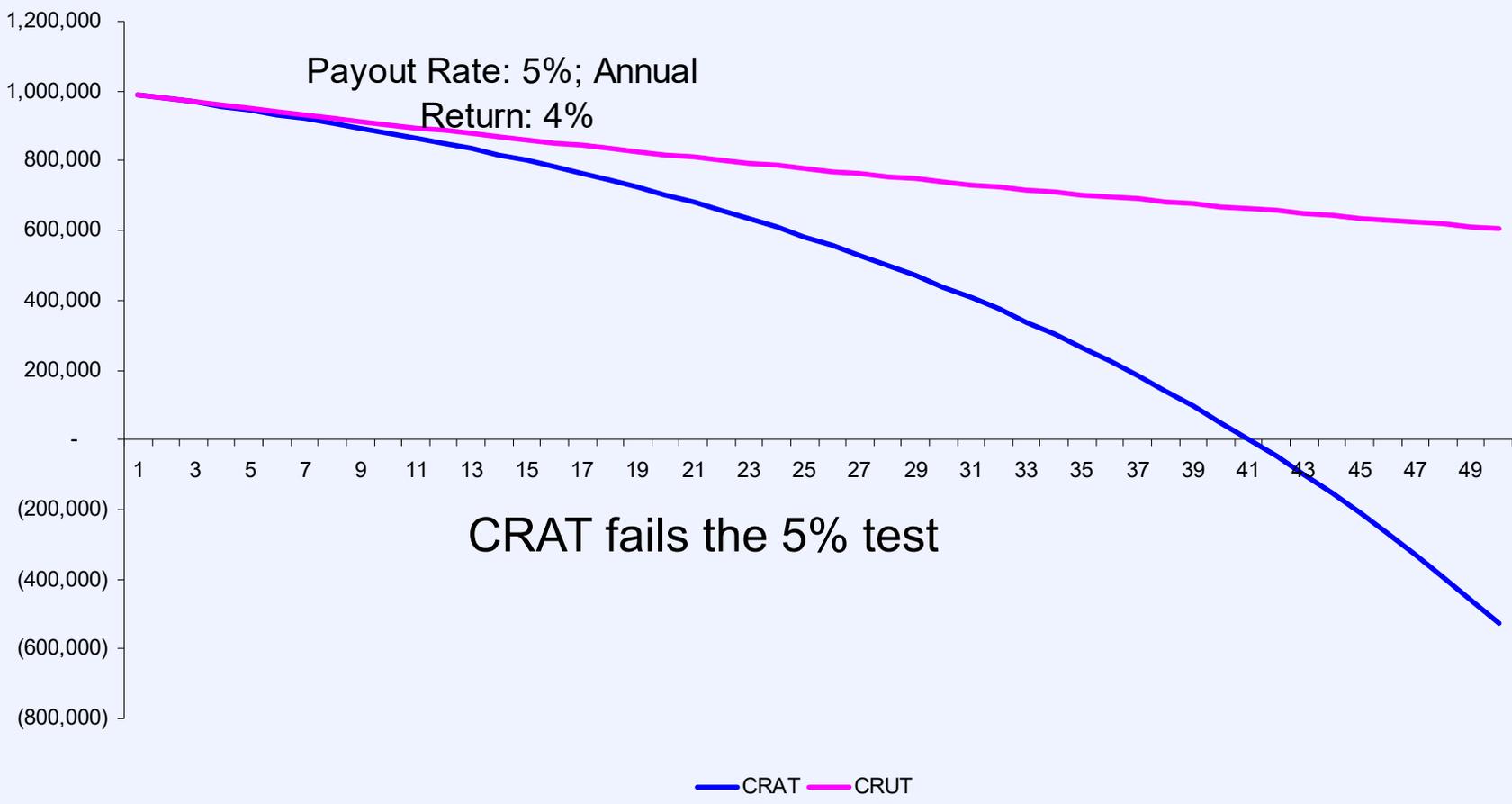
Trust Asset Value: CRAT vs. CRUT

Payout Rate: 5%; Annual
Return: 6%



Crat vs Crut

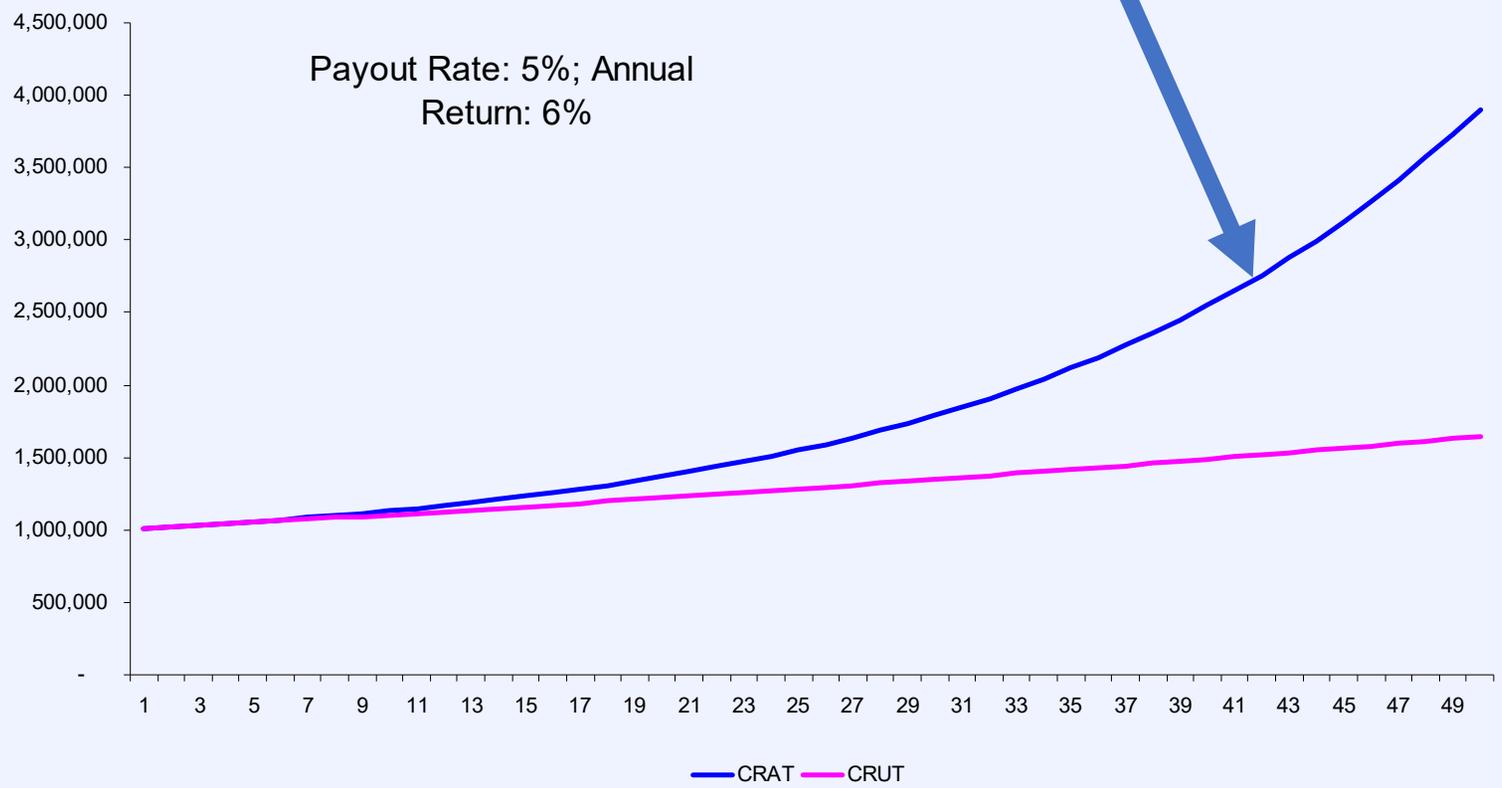
Trust Asset Value: CRAT vs. CRUT



Who Likes a Crat?

Charity Gets This

Trust Asset Value: CRAT vs. CRUT



Which CRUT?

	Standard	Nim	Flip
Deduction Minimum	10%	10%	10%
Pays Every Year, Regardless of Income	Yes	No	Depends
Suitable for Illiquid Contribution?	No	Yes	Yes
Suitable for Non or Low Income assets?	?	Yes	Depends

When Does a Crut Make Financial Sense?

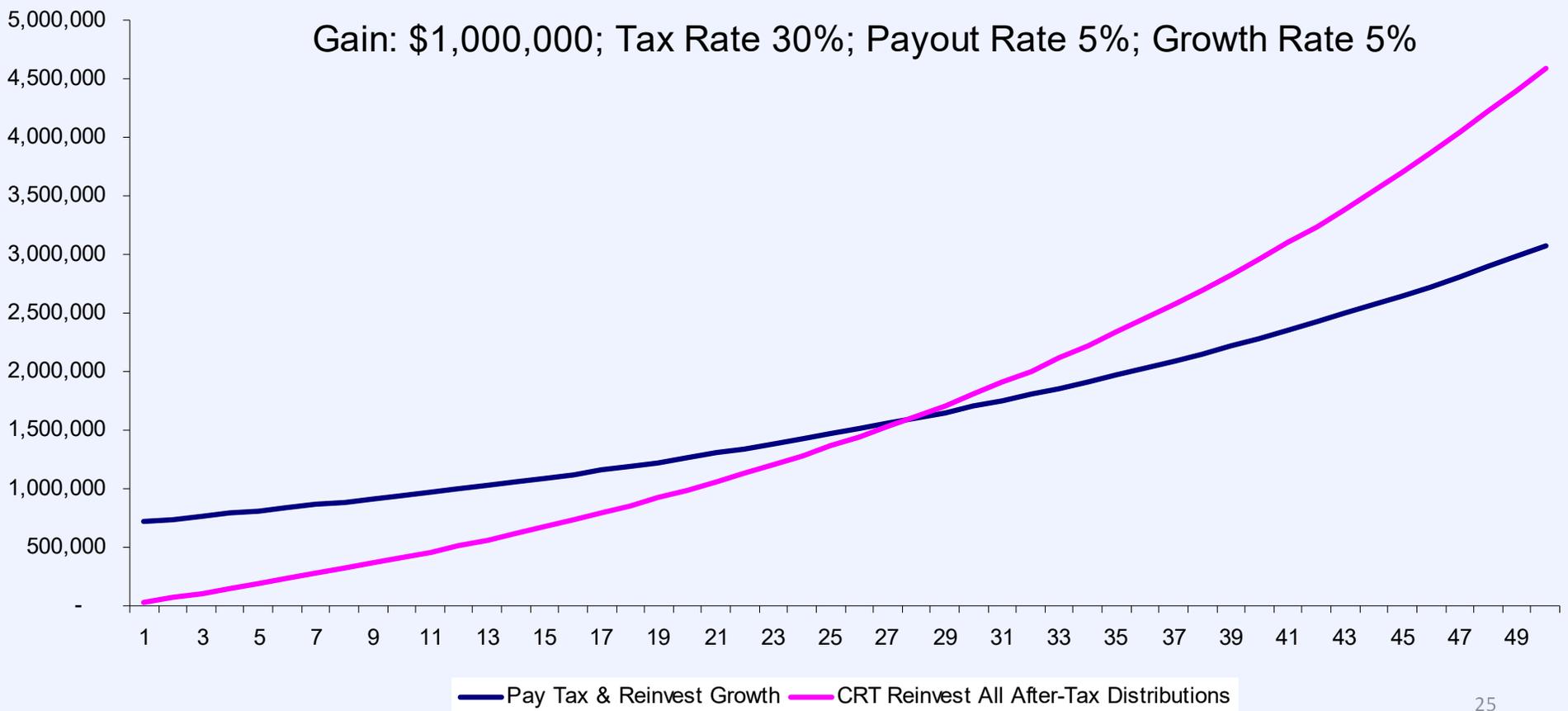
<i>Benefit</i>	<i>Costs</i>
Income Tax Deduction	Irrevocable*
Deferral of Capital Gain Tax	Cash Flow Only*

*We'll return to these later

Implications of Cash Flow Only

When Do We Get to Breakeven with \$1 Million Going into a CRT?

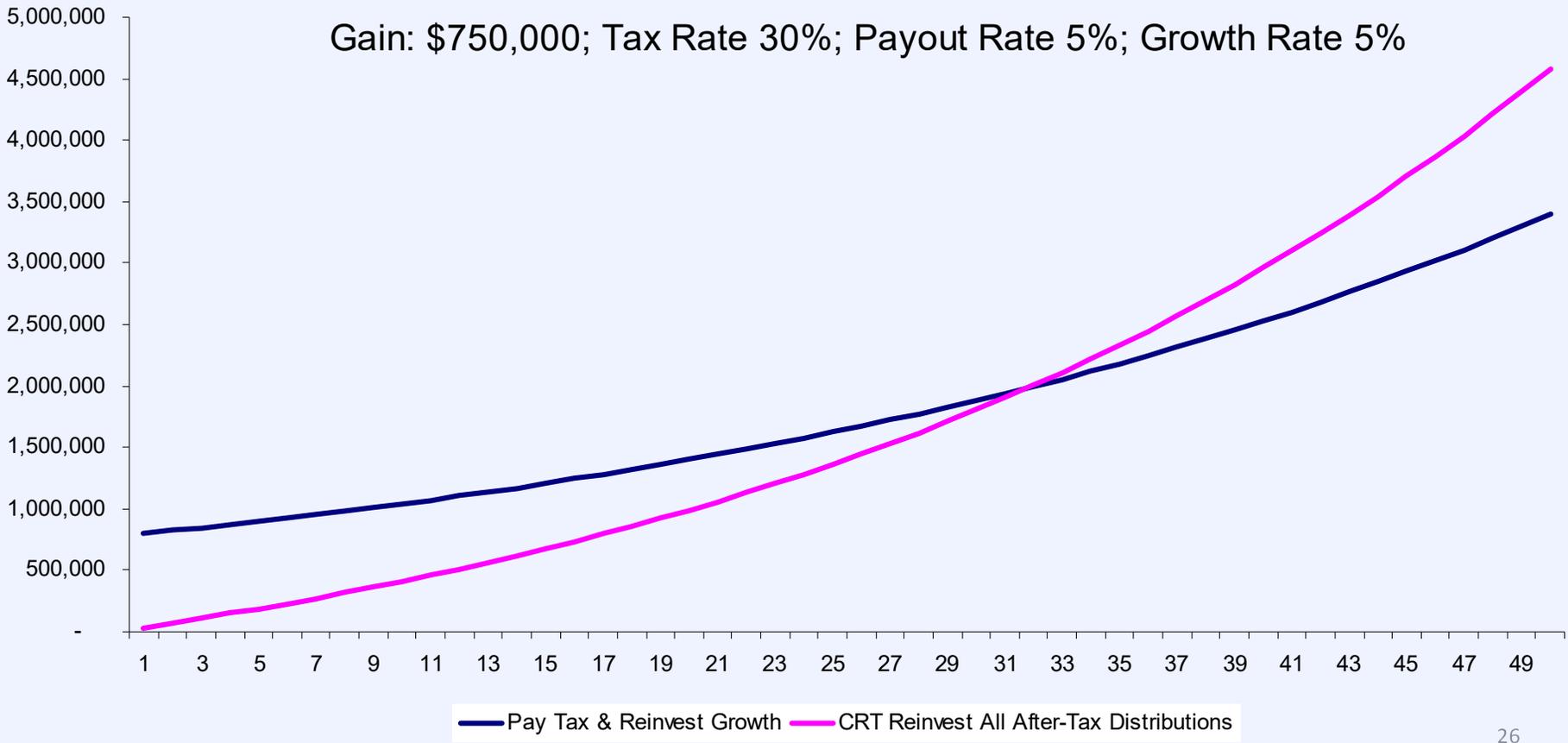
Gain: \$1,000,000; Tax Rate 30%; Payout Rate 5%; Growth Rate 5%



Implications of Cash Flow Only

When Do We Get to Breakeven with \$1 Million Going into a CRT?

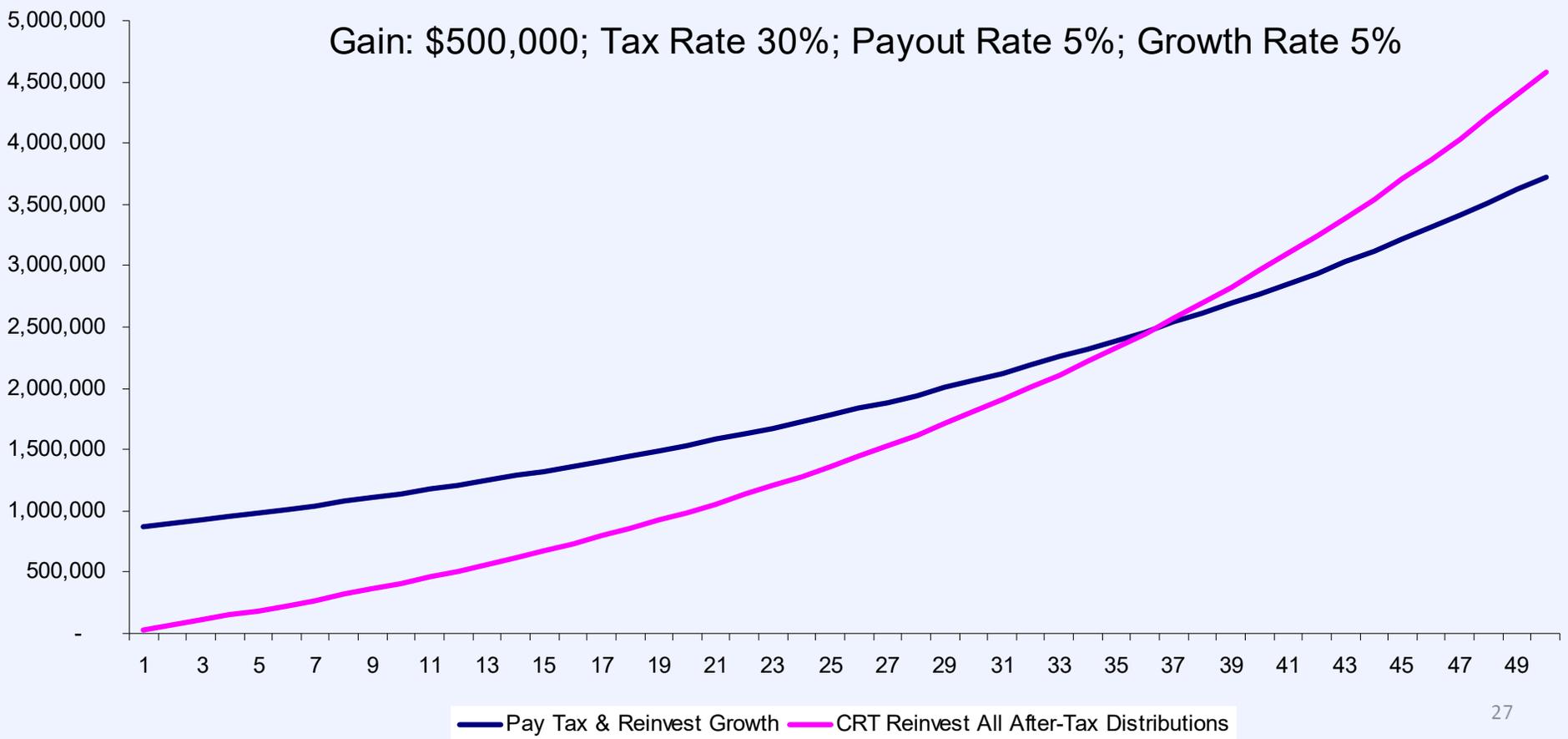
Gain: \$750,000; Tax Rate 30%; Payout Rate 5%; Growth Rate 5%



Implications of Cash Flow Only

When Do We Get to Breakeven with \$1 Million Going into a CRT?

Gain: \$500,000; Tax Rate 30%; Payout Rate 5%; Growth Rate 5%



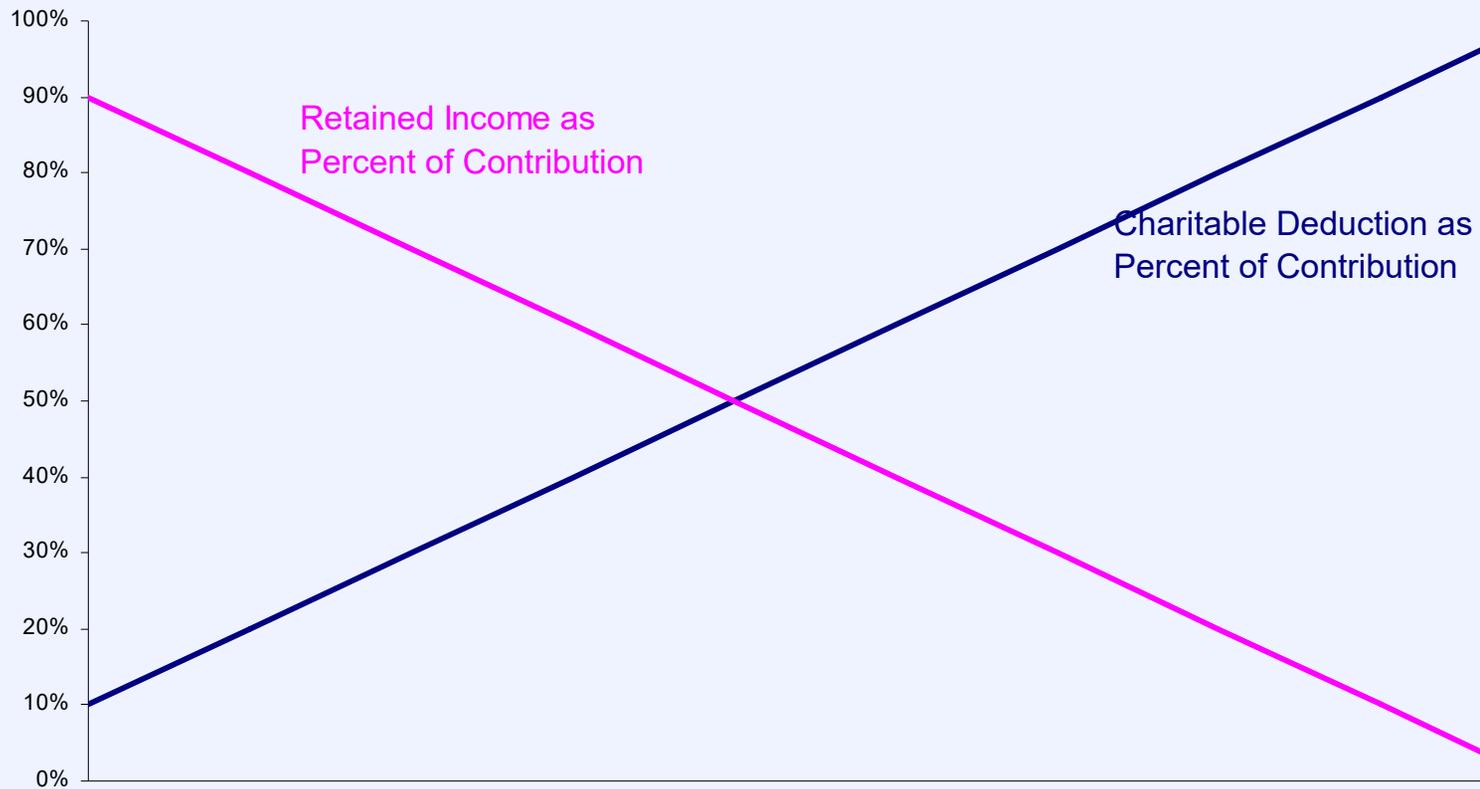
Tradeoff:

Tax Deduction

VS.

Retained Income Stream

Tradeoff Between Charitable Deduction and Retained Income Stream



Split is Actuarially Calculated

- “Arbitrage” potential
- To extent client’s discount rate is higher than assumed discount rate

Multi-generational trust

- When actuarials permit
- Can last 2 generations
- Exceed breakeven is likely

Policy impact of deferral

Cost of Capital	Long Bond Rate \approx 4%
Expected Return	60/40 Portfolio \approx 7.3%*
Government's "partnership percentage"	\sim 24%

* Source: MSIM, Bloomberg, FactSet, Haver, Global Financial Data. Data range from 1820 to September 30, 2023

Drawbacks:

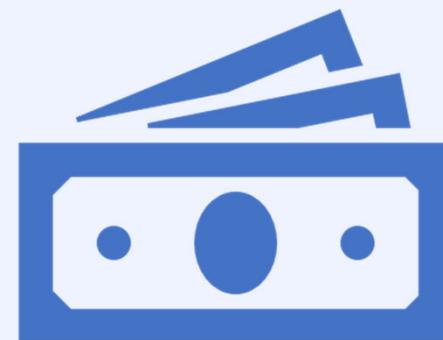
- Irrevocable
- Limited to Cash Flow

Secondary Market

- Overcomes part of irrevocability
- Provides Access to Lump Sum without invading trust

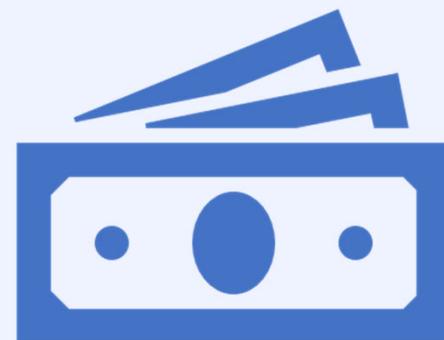
Exiting – Four Main Options

- Secondary
- Termination
- Gift
- Tax-free Exchange



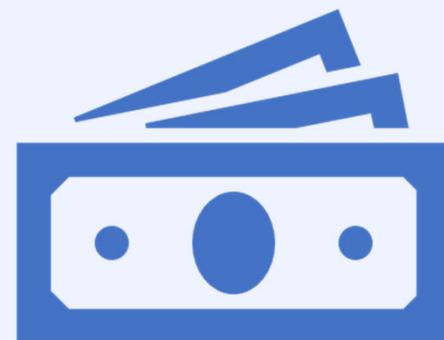
Secondary

- Sale
- NPV +/-
- Capital Gain
- Zero Basis
- Sterling is market leader



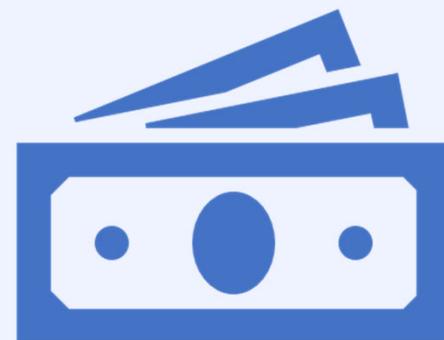
Termination

- With recipient charity
- 7520
- Capital Gain
- Zero Basis



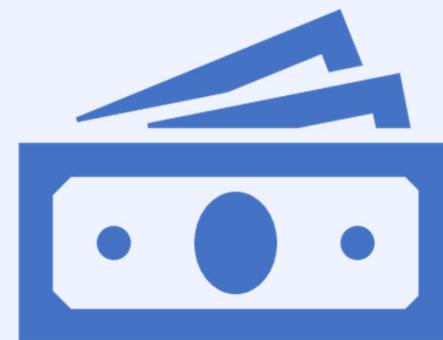
Gift

- No consideration
- 7520
- FMV deduction
- 30% AGI limit in most cases

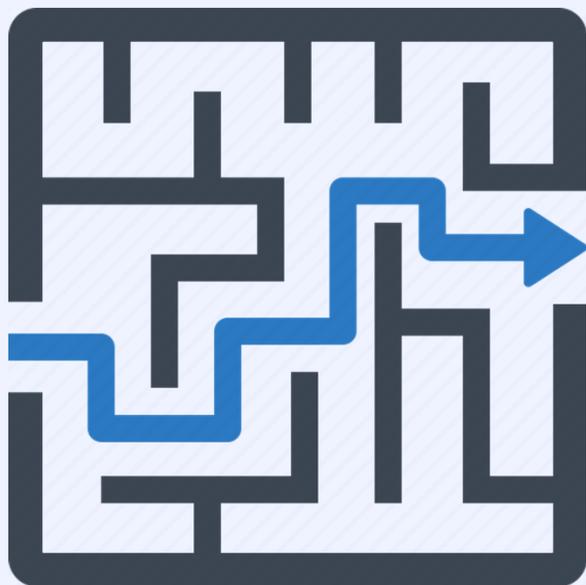


Tax-Free Exchange

- New Trust
 - Name desired beneficiaries
 - Fund with Old Interest
 - Income tax deduction
- New Trust Sells
 - No tax on proceeds in trust
 - Longer trust life



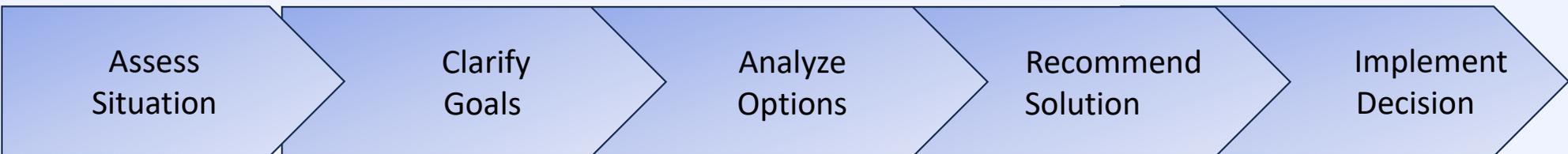
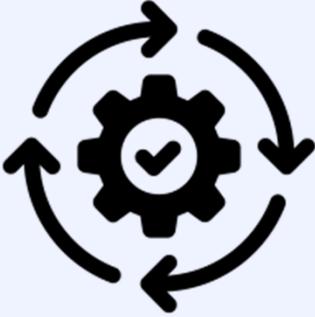
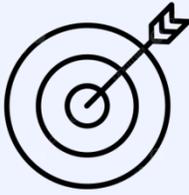
Client Will Make *Some* Decision



You Can:

1. Guide them through the decision
2. Help them decide
3. Implement

Sterling's Five Step Process



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