

# Charitable Remainder Annuity Trusts

## Future Giving with Immediate Benefits

By Mary Lynn Kirby

As I've said on many occasions – Georgia is a great place to live for many reasons, one of which is that Georgians, particularly Fayette Countians, are very generous people when it comes to charitable giving.

When we think of charitable giving, we usually think of donating cash, vehicles or used clothing. However, there are additional avenues available. One example is a Charitable Remainder Annuity Trust (CRAT) that allows you, the donor, to receive an immediate income tax deduction for a future gift to a charity, and at the same time, you or someone you choose, receive a consistent stream of income.

In consideration of this type of giving, there are four questions you need to answer. First, how much money, property or securities do you want to transfer to the CRAT? Second, how much money do you want to receive each year? Third, how long do you want to receive this stream of income – as long as you live, or for a specific number of years? Fourth, what tax exempt organization do you want to receive your future gift?

For example, say you decide to transfer \$100,000 to a CRAT to benefit your favorite charity and you want to receive a fixed amount of \$6,000 per year. Next you determine that you want to receive an income stream for as long as you live.

Now that you've answered the primary questions, the next step is to determine the amount of the income tax deduction that results. To do this, you will need to calculate today's value of the future gift you are donating. This is done by consulting an actuarial table and monthly discount rates, both provided by the IRS, and applying the resulting factor to the amount of annual income you have chosen. If we assume that the factor is 8.3031, you multiply this factor by the amount

of the annual income (the annuity) you want to receive, or \$6,000 in our example. The result of \$49,818.60 is the present value of the stream of income you will receive during your lifetime. The remaining \$50,181.40 (i.e. \$100,000 minus \$48,818.60) is your immediate income tax deduction that will be attributable to the future gift the designated charity will receive.

The advantages to establishing a CRAT are (1) you receive an immediate income tax deduction; (2) you choose what tax-exempt organization receives your "future gift"; and (3) you, or the individual of your choice, receive a constant stream of income. The disadvantages of this type of trust are (1) the trust is irrevocable (you cannot reclaim assets transferred or add assets later); (2) there are some limitations on the amount of the annuity and the amount of the future gift; and (3) the income stream is subject to income taxes at the time of receipt.

Due to the complexity and specific requirements of a CRAT, you should always consult an experienced estate planning attorney if you are considering this type of charitable giving.

A Charitable Remainder Annuity Trust is a wonderful way to donate cash or appreciated property to a charity of your choice, as long as you meet the requirements and are comfortable with the irrevocable nature of the trust. — *fw*



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