

A Guide to CLATs, CRATs and CRUTs

Charitable Lead Annuity Trust (CLAT)

Core Structure: A CLAT is an irrevocable trust where a designated charity receives a fixed annuity payment for a specified number of years, after which the remaining assets are transferred to non-charitable remainder beneficiaries, typically family members.

Immediate Tax Benefits: For lifetime CLATs designed as grantor trusts, the settlor receives a single-year income tax deduction in the year the gift is made. This is particularly beneficial for individuals with high single-year income or taxable gain.

Tax-Efficient Wealth Transfer: The value of the gift to heirs is discounted for tax purposes because they must wait until the charitable term ends. Many CLATs are "zeroed-out" gifts, resulting in the use of little to no gift tax exemption. To the extent the assets in the trust exceed the payout to charity, all remaining value passes to the beneficiaries free of gift or estate taxes.

Flexible Timing: A CLAT can be established either during your lifetime to offset current income tax or as a testamentary trust at death to reduce or eliminate estate tax liability.

Summary of a Charitable Lead Annuity Trust (CLAT)

Overview and Purpose: A Charitable Lead Annuity Trust (CLAT) is a sophisticated estate planning tool created by transferring property into an irrevocable trust. The primary objective is twofold: to provide a consistent stream of support to a charitable recipient for a set period (the "charitable term") and to eventually transfer the remaining assets to family members or other heirs with significant tax advantages.

Operation During the Charitable Term: Once established, the trust pays a fixed annuity—a specific percentage of the trust's initial value—to a charity each year. This payment remains constant regardless of whether the trust's actual value fluctuates, providing predictability for the charity and certainty regarding tax deductions for the donor. During this term, no distributions can be made from the trust for any purpose other than the specified charitable payments.

Taxation and Grantor Status: Many lifetime CLATs are structured as grantor trusts, meaning the trust's income is taxable to the creator on their personal tax return (Form 1040). While the creator must report this income in subsequent years, the trade-off is an immediate and substantial income tax deduction in the year the trust is funded. This allows individuals to offset a large tax liability from a single year with a heavily leveraged deductible gift. Alternatively, testamentary CLATs created at death are often used to generate an estate tax charitable deduction, potentially eliminating estate tax liability entirely.

Distribution to Heirs: At the end of the charitable term, the "lead" interest ends, and the remainder interest is distributed to individual beneficiaries. A key advantage of this structure is "gift tax leverage." Because the IRS discounts the future value of the gift to individuals based on the value of the annuity passing first to charity, the donor can transfer significant wealth while using little to none of their gift tax exemption. Any investment growth or appreciation that occurs within the trust during the charitable term passes to the heirs free of gift or estate tax.

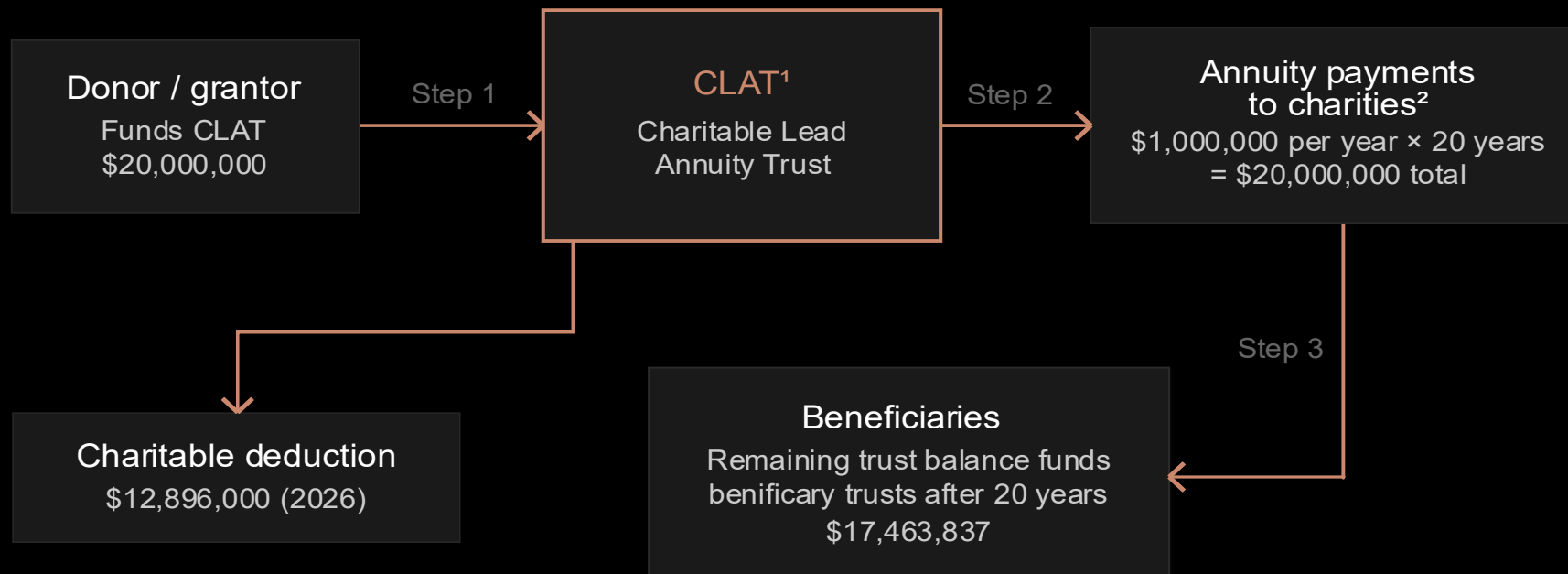
Trust Administration and Management: Due to strict tax regulations, the creator of the trust cannot serve as Trustee. The Trustee is responsible for making periodic distributions to the charitable beneficiaries, managing investments, and ensuring the trust complies with the Internal Revenue Code.

Grantor CLAT

Parameters

Initial funding: \$20,000,000
Term: 20 yr
Annuity: \$1M/yr (5% payout)

\$7520 Rate: 4.6% (April 2026)
Assumed Annual Growth: 4.6%



¹ Tax-free trust portfolio minimizes or eliminates income tax attributable to the Grantor in years 2+

² Charity may be a donor-advised fund for more flexibility & oversight by the Grantor

Description of a Charitable Remainder Annuity Trust (CRAT)

Fixed Income Stream: A CRAT pays a fixed annuity amount every year to the donor or other non-charitable beneficiaries, providing a predictable income stream that does not change regardless of the trust's investment performance.

Irrevocable Charitable Gift: It is an irrevocable "split-interest" trust where the "lead" interest is paid to private individuals for a term of years or life, and the "remainder" interest is distributed to one or more qualified charities at the end of the term.

Strict Contribution Rules: A CRAT does not allow additional contributions after the initial funding of the trust.

Tax-Exempt Status: The trust itself is a tax-exempt entity, meaning it does not pay federal income tax on capital gains when it sells appreciated assets; instead, the tax liability is passed to the beneficiaries incrementally as they receive their annual distributions.

Summary of a Charitable Remainder Annuity Trust (CRAT)

Overview and Purpose: A Charitable Remainder Annuity Trust (CRAT) is a specialized irrevocable trust designed for individuals who wish to generate a steady income stream while ultimately making a significant gift to charity. It is known as a "split-interest" strategy because it divides the trust's value between non-charitable beneficiaries (often the donor or their spouse) and charitable organizations.

Predictable Annual Distributions: The defining characteristic of a CRAT is its fixed annuity payment. Upon creation, the donor sets a specific dollar amount or a fixed percentage of the initial fair market value to be paid out at least annually. This payment must be at least 5% but no more than 50% of the trust's initial value. Because the payment is fixed at the outset, it offers more predictability than other charitable trusts; however, the donor cannot make additional contributions to a CRAT once it is established.

Tax Advantages and Wealth Preservation: CRATs offer three primary tax benefits:

- **Immediate Income Tax Deduction:** The donor is eligible for a present-year income tax deduction on the calculated value of the "remainder interest" that will eventually go to the charity.
- **Capital Gains Tax Deferral:** Because the trust is tax-exempt, it can receive highly appreciated, low-basis assets (such as equities, bitcoin, or real estate) and sell the assets without paying immediate capital gains tax. This preserves the full fair market value of the assets to be reinvested, likely resulting in a higher net income stream for the beneficiaries than if the assets had been sold outside the trust.
- **Incremental Taxation:** Capital gains and other income earned by the trust are only taxed to the individual beneficiaries as they receive their annual distributions, spreading the tax liability over the duration of the initial term of the trust.

Structural Requirements and Termination: To qualify under IRS rules, the trust must be structured so that the charitable remainder interest is expected to be at least 10% of the initial value of the assets contributed. The term of the trust can be for the life of one or more beneficiaries or for a fixed period of no more than 20 years. When the initial term ends or the last income beneficiary passes away, the remaining assets in the trust are distributed to the designated charitable beneficiaries, which can include public charities or private foundations.

CRAT

Parameters

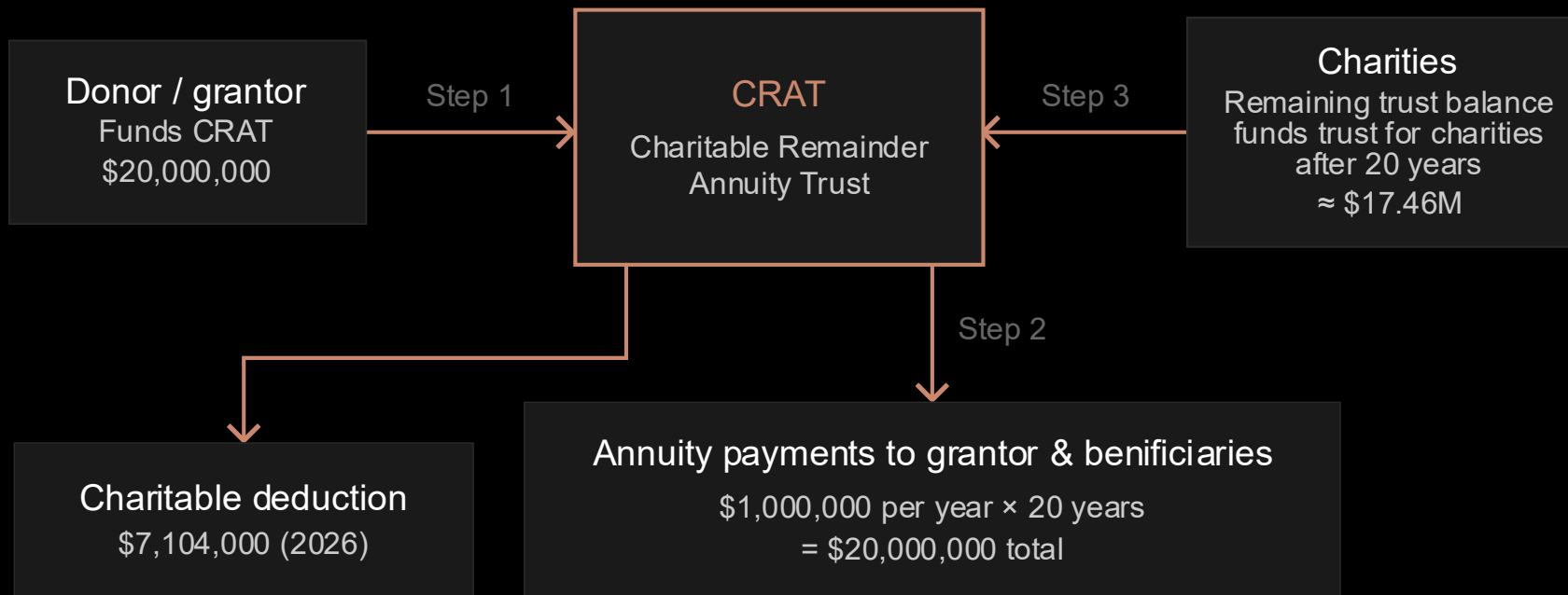
Initial funding: \$20,000,000

Term: 20 yr

Annuity: \$1M/yr (5% payout)

\$7520 Rate: 4.6%

Assumed Annual Growth: 4.6%



Description of a Charitable Remainder Unitrust (CRUT)

Variable Income Stream: A CRUT pays non-charitable beneficiaries a fixed percentage of the trust's fair market value, revalued annually; this means the actual dollar amount of the payment fluctuates based on the trust's investment performance.

Irrevocable Split-Interest Structure: It is an irrevocable trust where a "lead" interest is paid to the donor or other beneficiaries for a term of years or life, after which the "remainder" interest passes to one or more qualified charities.

Tax-Efficient Asset Diversification: As a tax-exempt entity, the CRUT can sell highly appreciated assets (such as stocks or real estate) without paying immediate capital gains tax, allowing the full proceeds to be reinvested.

Flexibility for Future Funding: A CRUT permits additional contributions of cash or property after the trust has been initially established.

Summary of a Charitable Remainder Unitrust (CRUT)

Overview and Core Mechanism: A Charitable Remainder Unitrust (CRUT) allows a donor to provide for their own financial needs—or the needs of others—while ensuring a future legacy for a charitable organization. Like a CRAT, it is a "split-interest" trust because the benefits are divided: the non-charitable lead interest is paid out first, and the charitable remainder interest is distributed at the trust's termination.

The Unitrust Payment Structure: The hallmark of a CRUT is its varying annuity amount. Unlike a CRAT, which pays a set dollar amount based on the trust's initial value, a CRUT pays a percentage (at least 5% but no more than 50%) of the trust's value as determined each year. Consequently, if the trust's assets grow, the beneficiary's annual payment increases; if the trust's value declines, the payment decreases. For the trust to remain qualified, the actuarial value of the charity's eventual remainder interest must be at least 10% of the initial value of the contributed assets.

Tax Advantages and Wealth Preservation: CRUTs offer significant tax incentives to donors:

- **Immediate Income Tax Deduction:** The donor receives a partial income tax deduction in the year of the gift, calculated based on the present value of the remainder interest that will eventually pass to the charity.
- **Capital Gains Tax Deferral:** Because the trust is a tax-exempt entity, it does not recognize capital gains when it sells appreciated assets. This allows donors to contribute "low-basis" assets (e.g., founder's equity, bitcoin, crypto, real estate), sell them through the trust, and reinvest the full fair market value without a large immediate tax hit.
- **Incremental Taxation:** Capital gains tax is only realized by the beneficiaries incrementally as they receive their annual distributions.

Term Limits and Strategic Variations: The duration of a CRUT can be set for a fixed period of no more than 20 years, or for the life expectancy of the non-charitable beneficiaries. Furthermore, there are several variations of CRUTs to meet specific needs: "Straight" CRUTs pay the fixed percentage regardless of income; NICRUTs and NIMCRUTs limit payments to the trust's actual income in certain years; and "Flip-CRUTs" convert from one type to another upon a triggering event, such as the sale of a hard-to-value asset. At the end of the specified term, the remaining assets are distributed to the designated public charities or private foundations.

CRUT

Parameters

Initial funding: \$20,000,000

Term: 20 yr

Annual Payout Rate: 5%

\$7520 Rate: 4.6%

Assumed Annual Growth: 4.6%

