CHARITABLE REMAINDER TRUSTS (CRTs)

Secondary Planning Options

At its inception, a CRT is usually a perfect fit for a client's situation. It's just the right kind of CRT, has just the right payout rate, has just the right beneficiaries, etc. But a CRT is an irrevocable trust—its terms cannot be changed—and usually spans decades of a client's life. Over time, this combination—an inflexible trust on one hand and a client's changing life on the other—can lead to a misalignment between the client's situation and the CRT.

Increasingly, advisors are informing their clients with CRTs about the secondary planning options available to them.

CRT Income Interest Sale

A client's income interest in their CRT is a capital asset that can be bought, sold, or reinvested—just like other capital assets (e.g., stocks, bonds, real estate). The list of reasons that people sell their CRT income interests is much longer than the list of reasons they set them up in the first place. Most CRTs creations are driven, in one form or another, by tax considerations. Most sales of CRT income interests, on the other hand, occur because something has changed since the CRT was created. A partial list of things that can changes follows.

- Cash needed for an investment opportunity
- Desire for increased flexibility
- Desire to maximize value of CRT interest*
- Desire for simplification
- Divorce
- Lack of cash for charitable needs

CRT Rollover

A CRT Rollover enables clients to, in effect, make strategic changes to their CRTs. Although each Rollover has a unique set of circumstances, some of the typical benefits include:

- Adding children as income beneficiaries
- Adding a spouse as income beneficiary
- Deferring taxable income from a CRT
- Increasing total trust income
- Fixing underperforming NIMCRUTs

Rollovers can also benefit advisors, as they often extend the life of a CRT—and the advisor's responsibilities with respect to the CRT (e.g., tax returns, trusteeship, asset management)—for years into the future.

** Most often, an income beneficiary can sell their income interest for more than the value of holding it or what they would receive if they terminated the CRT according to 7520 rules.*

Surprisingly, many clients with CRTs are still unaware that there are options available outside of waiting for future distributions from their CRTs. At Sterling, our goal is to fix this lack of awareness by working with advisors to review their clients' CRTs. We are happy to review any CRT on a no-name basis and without charge. Please direct review requests to:

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Examples on reverse side

Example—Income Interest Sale

Kim Edgar set up a CRT in the mid-1990s with her husband Bruce. Two decades later, her life circumstances had fundamentally changed. First, she and her husband had decided that a divorce was in their best interests, as they had simply grown apart over the years. Second, Kim, a self-described "health junkie," had reached a point in her career in which she was looking to launch her own nutrition consulting business. She came to Sterling with two goals: 1) to decouple herself from the CRT that she and her husband were joint beneficiaries of, and 2) to access liquidity so she could launch her new business.

Kim's advisors determined that a sale of her CRT income interest was the best option. We broached the subject with Bruce, who quickly agreed that selling the income interest and going their separate ways would be an ideal scenario. Three weeks later, Sterling completed the transaction and Kim and Bruce split the proceeds. Not only does Kim now have greater financial freedom and the means to start her own business, she's also been able to travel and spend more time with her kids.

Visit our website to hear Kim's story first-hand and learn more about Sterling's CRT Program.

Example—CRT Rollover

To illustrate one of the benefits of the Rollover, consider the story of Marty and Carole Hambel. Marty had used appreciated stock to fund a 7% net income with makeup charitable remainder unitrust (NIMCRUT) with himself and his wife listed as income beneficiaries. Unfortunately, Marty's wife passed away after he set up the trust. After he remarried several years later, Marty started to become concerned that his new wife, Carole, would suffer a reduction in living standards if he predeceased her. (Because Marty was the only beneficiary listed on the trust, all the assets in the trust were set to go to charity upon his death.) Marty wanted to take care of his wife, but he also didn't want to pay a hefty capital gains tax. He ultimately decided to roll his current NIMCRUT into a SCRUT and add Carole as a beneficiary. Now the trust will continue to make payments for Carole's entire lifetime, instead of stopping when Marty passes.

Visit our website to hear Marty and Carole's story first-hand and learn more about Sterling's CRT Program.

About Sterling

Sterling Foundation Management is the oldest national foundation management firm in the United States and a leading provider of charitable consulting services to some of the country's largest and most active private foundations. Sterling is also the nation's preeminent provider of secondary planning services for charitable remainder trusts. Sterling's critically acclaimed book, *Managing Foundations and Charitable Trusts*, is largely regarded as the definitive guide to managing charitable entities.