# Charitable Trusts: Advanced Planning Tips

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While higher tax rates have increased high-net-worth clients' interest in charitable remainder trusts (CRTs), increasing the lettering that goes with CRTs also may increase the planning possibilities.

"Going beyond the standard CRAT or CRUT to a NIMCRUT or a Flip CRUT adds a tremendous amount of flexibility," says George Chamberlin, principal at Richmond, Virginia-based Mentor RIA Consulting. "An advisor can help clients receive income when it's most needed."

All CRTs are either CRATS (annuity trusts) or CRUTs (unitrusts), and both versions have a 5% minimum. A CRAT funded with $1 million, for example, pays a flat amount of at least $50,000 a year to the income beneficiaries. A $1 million CRUT, on the other hand, pays a fixed percentage of trust assets to the income beneficiaries, so the payout would start at a minimum of $50,000 (5% of $1 million), then vary each year as the trust fund waxes or wanes.

In any event, money remaining in the trust when the income beneficiaries have been paid out (often after death) will go to charitable beneficiaries.

**NIMCRUT**

Advisors may prefer the CRUT to the CRAT because the payout to the income beneficiaries can increase over time, if the trust assets grow faster than the payout. Going a step further, a NIMCRUT (net income with makeup CRUT) will pay out whichever is less, the trust's net income for the year or the pre-set percentage. If a 5% NIMCRUT only nets 1% of income in a given year, the trust will pay the income beneficiary 1% that year while the 4% shortfall is tracked in a makeup account.

"To hold down the trust income, a NIMCRUT might be funded with assets that don't produce income," says Chamberlin. "Alternatively, the trust might be funded with income-producing assets that the trust sells and reinvests, perhaps in zero-coupon bonds or variable annuities." If this occurs while the donor is reporting a high income, the upfront tax deduction can offset some of the highly-taxed income while little or no taxable income flows from the NIMCRUT.

Later, the trust's investment policy can change so that net income is produced. "Then the amount in the makeup account can be paid out," says Chamberlin. "That could be when the donor retires or when the donor wants to set up a college fund for a newborn grandchild, for example." (In another version, a net-income-only CRUT, there is no makeup amount to distribute.)

**FLIP CRUT**

In some cases, a NIMCRUT can be structured as a Flip CRUT. After a pre-specified event occurs, the trust flips to a standard CRUT, paying out a fixed percentage (5% or more) of trust income each year.

"A Flip CRUT can work well, for example, where a married couple funds a NIMCRUT with non-income producing property or illiquid assets and sets a trigger for the trust to flip to a standard CRUT at the first death," says Chamberlin. "Then the standard CRUT can provide a regular flow of income to the survivor and the remainder will pass to the designated charity at the second death. The period between funding the trust and the flip event will allow for potential growth in the value of the trust assets but will not generate taxable income for the couple prior to that trigger event."

According to Chamberlin, who holds a law degree, certain types of trigger events can meet the flip requirements, including the sale of illiquid assets, the donor's death, birth of a descendant and the donor's reaching a certain age.

"It's important to have an experienced attorney draft these types of trusts," he says, "but a financial advisor also can play an important role by working with the client to find out when income probably won't be needed and when the donor expects to want the cash flow."