RAYMOND JAMES

A donor's guide to charitable remainder annuity trusts

Receive guaranteed income while preserving a philanthropic gift to a charity of your choice.

A charitable remainder annuity trust helps investors pursue two goals – income generation and philanthropic giving – while also providing tax benefits.

Financial planning for philanthropic giving is inherently complex. It must balance your desire to support the organizations that matter most to you against your other financial goals.

For many, these competing concerns mean charitable giving goes unplanned, or gets left as a year-to-year decision or solely as part of an estate plan. Actively involved donors, however, recognize the benefits to an organization when funding is easier to predict. And financial planners know that there are tax benefits that are only available for those who commit to giving strategies.

A charitable remainder annuity trust is one option donor-investors can use to balance these interests.

A GIFT THAT GIVES THREE WAYS

A charitable remainder annuity trust is both an income-generating annuity and a vehicle for charitable giving. And assets transferred to the trust are tax-deductible as a charitable gift.

The donor, called the "grantor," transfers assets to the trust, typically stocks, private business interests, real estate or cash. The trust's non-cash assets are then sold. As the trust is a tax-exempt entity, the sale does not create tax liability. The sum value of the grantor's gift is then reinvested by the trustee under an income-generating investment strategy.

TAX DEDUCTION

Since the trust is a tax-exempt entity, grantors typically donate assets that would cause high capital gains taxes if otherwise sold. To maximize the relative benefit of the gift, donors sometimes align the creation of the trust with a year when they have a higher-than-normal tax liability.

ANNUITY INCOME

The trust pays regular income to a non-charitable beneficiary – typically the grantor – based on a percentage of the initial value of the trust, between 5% and 50%, as specified at the creation of the trust. Income paid is treated as regular income and incurs income tax liability for the beneficiary.

CHARITABLE REMAINDER

At the end of the term of the trust, up to 20 years or upon the death of annuity beneficiaries, the trustee sells the trust's investment assets. The value – the "remainder" – is given to the charities specified by the grantor.

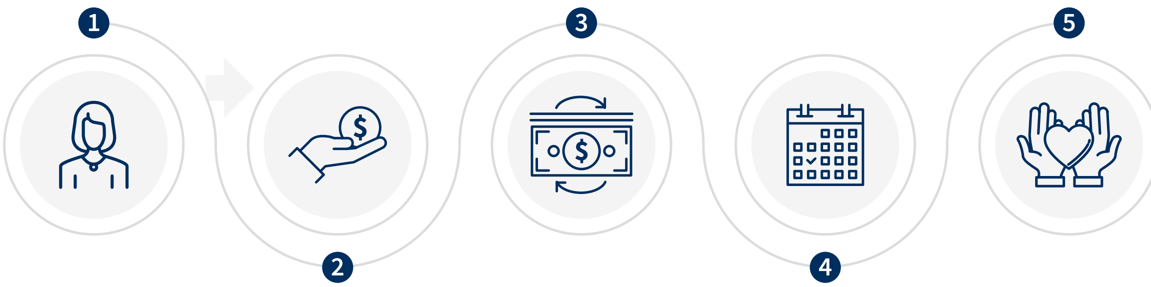
IRA CHARITABLE DISTRIBUTIONS

Under the SECURE Act 2.0, which was signed into law in 2022, grantors can make a one-time charitable distribution of up to $50,000 from their IRA to a charitable remainder annuity trust. These distributions follow special rules, so it's important to consult with your tax professional before choosing to make such distributions.

CLEAR DIRECTIONS AND FOLLOW THROUGH

A charitable remainder annuity trust is an "irrevocable" trust. Once assets are transferred to it, they are no longer the property of the donor or the donor's estate. A trustee executes the terms of the trust, which cannot be modified once initiated. Because of the substantial financial and legal obligations required to execute the trust, the trustee should be a financial professional or corporate trustee with the experience and resources to manage charitable remainder annuity trusts.

HOW CHARITABLE REMAINDER ANNUITY TRUSTS WORK



1. The grantor transfers assets to an irrevocable trust and benefits from a one-time tax deduction for their value.
2. The trustee sells the assets on behalf of the trust, which is a tax-exempt entity.
3. The proceeds of the sale are reinvested.
4. For the length of the term, the trust pays a non-charitable beneficiary a fixed income based on the initial value of the trust's assets.
5. At the end of the term, the remaining value of the trust is given to the selected charity.

TOOLS TO SUPPORT YOUR FINANCIAL AND PHILANTHROPIC GOALS

Charitable remainder annuity trusts are just one of several financial vehicles designed to help philanthropically minded investors make a charitable commitment that also supports their personal financial goals. To select the right option, the specific details of one's life and goals matter.

If you are considering making a philanthropic gift to an organization, consider having a conversation with that organization's financial and investment advising team on how to maximize your impact. Often, financial advisors who support institutions' financial well-being also support donors' personal financial well-being.

Speak with a financial advisor to find out how to support charitable causes as part of a personalized financial plan.

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