

CHARITABLE TRUSTS

A charitable trust is a trust established for the dual purpose of donating to charity and providing for a noncharitable beneficiary (such as your children).

When a charitable trust is used, the gift to charity is also referred to as a split-interest gift because the gift is split between a charitable beneficiary and a noncharitable beneficiary.

What is a charitable trust?

In a charitable trust, one party (usually the noncharitable beneficiary) receives the first, or lead, interest in the trust property, and the second party (usually the charity) receives the remainder, or second-in-line, interest. What this means is that for a period of years or for life, the first party receives an income stream from the donated trust property in the form of annual payments, and thereafter the second party receives the remaining property in a lump sum.

In the charitable trust arrangement, the charity's right to enjoyment and possession of the gift is either delayed (when the noncharitable beneficiary has the first interest in the donated property) or limited by a period of years (when the charity has the first interest in the donated property). Ordinarily, this would mean no tax deductibility for your gift due to the general rule that a gift to charity must be immediate and unconditional in order for it to be deductible for income tax purposes.

However, Congress has approved the tax deductibility of split-interest gifts to charity, as long as they are implemented as one of a number of special trusts created by Congress for this purpose. If you comply with all the requirements of such charitable trusts, you will receive federal income, gift and estate tax benefits.

ATLANTIC TRUST

PRIVATE WEALTH MANAGEMENT

What are the different types of charitable trusts?

There are four main types of charitable trusts.

Charitable remainder annuity trust (CRAT)

In a charitable remainder annuity trust, or CRAT, the noncharitable beneficiary has the first interest, and the charitable beneficiary has the remainder interest in the trust property. The trust pays out a fixed amount of income to the noncharitable beneficiary every year (an annuity) for the term of the trust, and then the remaining assets pass to the charity.

Charitable remainder unitrust (CRUT)

The charitable remainder unitrust, or CRUT, is similar to the CRAT in that the noncharitable beneficiary has the first interest, and the charitable beneficiary has the remainder interest. However, instead of paying out a fixed amount each year, a CRUT pays the noncharitable beneficiary a fluctuating amount each year, equal to a specified percentage of the total value of the trust assets for that year. At the end of the trust term, the remaining assets pass to charity.

Tip: There are three variations on a CRUT that revolve around how the noncharitable beneficiary is paid. These subtrusts are called the net income with makeup charitable remainder unitrust (NIMCRUT), the net income only charitable remainder unitrust (NI-CRUT) and the flip charitable remainder unitrust (Flip-CRUT).

Pooled income fund

A pooled income fund is similar to a CRAT and CRUT in that the noncharitable beneficiary has the first interest, and the charity has the remainder interest. However, unlike these individual created trusts, a pooled income fund is established and managed by the charity. It consists of donations from several donors and operates similarly to a mutual fund. The charity pays the noncharitable beneficiary a fluctuating amount each year, depending on the total income of the fund for that year. At the end of the trust term, the remaining assets pass to the charity.

Charitable lead trust

A charitable lead trust is the reverse of the above-named trusts. In a charitable lead trust, the charity has the first or lead interest, and the noncharitable beneficiary has the remainder interest. The trust pays the charity a certain amount every year for the term of the trust (you can specify either the annuity or unitrust method), and then the remaining assets pass to the noncharitable beneficiary.

© Copyright 2011, Forefield, Inc. All rights reserved.

Atlantic Trust Private Wealth Management includes Atlantic Trust Company, a division of Invesco National Trust Company (a limited-purpose national trust company) and Stein Roe Investment Counsel, Inc. (a registered investment adviser), both of which are wholly-owned subsidiaries of Atlantic Trust Group, Inc.

Reprinted with permission from Forefield, Inc. Atlantic Trust and Invesco are not affiliated with Forefield, Inc. While Atlantic Trust believes the information presented in this article to be reliable and current, Atlantic Trust was not involved in writing the article and cannot guarantee its accuracy. Further circulation, disclosure, or dissemination of all or any part of this material is prohibited. This article is provided for educational & informational purposes only and is not an offer of investment advice or financial products.

There is no guarantee that these views will come to pass. Past performance does not guarantee future comparable results. To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein. Atlantic Trust does not provide legal advice, and the information contained herein should only be used in consultation with your legal, accounting and tax advisers.

Investment Products Offered are Not FDIC-Insured, May Lose Value and are Not Bank Guaranteed.

For Public Use 2011

Atlanta 404 881 3400	Chicago 312 368 7700	New York 212 259 3800
--------------------------------	--------------------------------	---------------------------------

Austin 512 651 7800	Denver 720 221 5000	San Francisco 415 433 5844
-------------------------------	-------------------------------	--------------------------------------

Baltimore 410 539 4660	Houston 713 214 7640	Washington, D.C. 202 783 4144
----------------------------------	--------------------------------	---

Boston 617 357 9600	Newport Beach 949 660 0080	www.atlantictrust.com
-------------------------------	--------------------------------------	---

ATLANTIC TRUST

PRIVATE WEALTH MANAGEMENT