



## Converting a Charitable Remainder Trust to a Charitable Gift Annuity



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A Charitable Remainder Trust (CRT) is a useful tool that many people have used to accomplish some of their financial goals. It can be used to arrange a gift for charity while reserving the right to draw income for a period of time—typically the lifetime of the donor (or donor and spouse).

One significant advantage of a CRT is the avoidance of the potentially large capital gains tax that can be triggered by the sale of an appreciated asset such as stock or real estate. Another is the income tax deduction available in the year the trust is funded. This double tax savings enables a much larger principal amount for generating the desired income in subsequent years.

From time to time, we meet people who established a CRT years ago and are now dissatisfied with it for one reason or another. Reasons may include the following:

1. The income declines because the annual returns fail to keep up with the stated payout percentage. (Example: The CRT calls for an 8% payout of the trust balance as of the end of the prior year, but the trust earns an average of only 6% per year.)
2. Investment volatility leads to unpredictable income.
3. The investments simply are not performing as desired.
4. The management fees are uncomfortable.
5. The administration is a hassle.



Those who feel stuck in this scenario may be pleased to know that they have options. One is the ability to exchange their CRT for a Charitable Gift Annuity (CGA).

The donor can donate the life income interest in the CRT in exchange for a CGA. This allows the CRT to collapse and the CGA to take over. Through this relatively straightforward solution, all available funds representing the life income interest can be fully used to fund the CGA, and the donor's goals can be realized.

Converting to a CGA results in the following:

1. The income will be fixed, making it reliable and predictable.
2. Income payments will be guaranteed.
3. All administrative details will be handled by the issuing organization.
4. No fees will be charged to the account.

If you are the income beneficiary of a Charitable Remainder Trust, or if you know someone who is, feel free to reach out. The staff at the Dallas Seminary Foundation are always happy to help you explore your options.