

Combining CRTs and Support Trusts Provides Security for Children With Special Needs

Ron and Selma are a wealthy, charitable couple in their early 80s. Their son Donald, age 52, is disabled and unable to care for himself. Due to Donald's special needs, Ron and Selma's parental role has carried on all their lives. They are especially concerned about Donald's ability to survive financially after their deaths.

Unable to leave a legacy to Donald outright, Ron and Selma would nevertheless like to find a tax-advantaged way to provide for his financial future while assuring the continued availability of the funds. After discussing their needs with a tax advisor, they were relieved to discover that by combining a charitable remainder trust (CRT) with a support trust, they could provide for Donald after their deaths while reducing their estate tax through charitable giving.

Support Trusts Provide for Beneficiaries With Special Needs

A trust established to support a disabled person like Donald is referred to as a support trust. The main advantage of a support trust is that it circumvents having to pay income directly to Donald, who cannot attend to his own financial affairs. The trust can provide for a mandatory payment each year for Donald's life, and the trustee may also have discretion to pay amounts exceeding the mandatory payment on Donald's behalf. Arrangements may even provide for wholly discretionary payments to be determined by the trustee.

Funding a Support Trust With a CRT

A CRT pays income at least annually to one or more beneficiaries, as long as one of them is noncharitable, and pays assets remaining in the trust at the end of its term to a charity. The amount paid to the noncharity beneficiary each year depends on the trust type. For annuity trusts, the amount is based on the value of the assets when they are contributed to the trust, but for unitrusts, the amount is based on the value of the assets as recomputed each year. In both trust types, the annual annuity or unitrust amount must be payable to, or for the use of, a named beneficiary.

Ron and Selma provide in their wills for both a CRT and a support trust to be set up on the surviving spouse's death. They plan to fund the CRT with assets that will generate substantial income, such as cash or marketable securities. The CRT will pay all its income annually to the support trust.

As mentioned earlier, a CRT must pay income to, or for the use of, a named beneficiary. Payments to the support trust satisfy this requirement if the CRT names Donald as the lifetime beneficiary and the support trust's only function is to administer the payments on Donald's behalf.

Tax Advantages

The estate of the surviving spouse will enjoy a tax deduction based on the present value of the remainder interest that passes to the charity at Donald's death. If the trustee of the CRT sells the assets during Donald's life, there will be no adverse tax consequences because the proceeds are ultimately earmarked for the charity.

CRTs Can Meet Your Needs

Through the combined use of a CRT and a support trust, parents of a disabled child can have peace of mind knowing that their child will be adequately provided for after their deaths. At the same time, they can gain the tax benefits of charitable giving, leaving a greater amount of money available for the child's future needs. Aside from providing for disabled children, CRTs have many other uses. If you'd like to know more about how CRTs can meet your needs, give us a call.