Split interest agreements: CRATS and CRUTS, CLATS and CLUTS

By Colette Kamps, CPA

Split interest agreements can be confusing because there are several different types, and each type requires a different accounting treatment. A split interest agreement is exactly that – the interest in an asset is "split" between a beneficiary and a nonprofit organization. The nonprofit's portion is a donation, so let's go through the most common types and the accounting treatment for each.

Charitable Remainder Trust (CRT) with a third-party trustee

There are two types of charitable remainder trusts with third-party trustees:

1. CRAT – A CRT with an annuity/fixed payment
2. CRUT – A CRT where the payment is a percentage of the assets (uni-trust)

In these arrangements, the donor:

- Sets up the CRT
- Donates assets to it
- Determines the portion that will be paid out over a term, and
- Receives a donation deduction

Your nonprofit will receive the remainder amount in the trust at the end of the term, so you would record the present value of your organization's portion of the assets, which is based on the fair value of the assets (obtained from the third-party trustee) and the term (which is usually based on the life of the beneficiary, so mortality tables are used to calculate). A receivable and contribution income is recorded for this amount. The amount is recalculated annually, and the change is recorded to a line item on the Statement of Activities for "change in split interest agreement." When the term ends, the receivable is zeroed out.

Charitable Remainder Trust where the nonprofit holds the assets

This is similar to the CRT with a third-party trustee, except that your nonprofit organization receives and holds the assets (therefore, there is no receivable to record) and has the responsibility to make the payments to the beneficiary. This liability also must be calculated and adjusted annually. The contribution income recorded upon notification of the trust is the difference between the estimated remainder interest to be received and the estimated amounts to be paid out to the beneficiary.

Fast Facts

- 150+ team members
- 50% are CPAs
- Arizona's largest locally owned accounting firm
- Your money stays in the state
- Well-known leader in CPA services for AZ nonprofits
- Nonprofit CPAs volunteer on boards and committees for local charities
- Your team provides complimentary CPE and customized presentations for nonprofit boards and staff

Nonprofit Navigator

Charitable Lead Trust (CLT) with a third-party trustee

In this arrangement, your nonprofit organization receives an annual payout from the assets in the trust for a specified term and records a receivable for the present value of these payments to be received. This is based on:

- The fair value of the assets,
- The term, and
- The annual amount to be received (either a fixed payment or an amount based on a percentage of the assets)

Charitable Lead Trust where the nonprofit holds the assets

This is similar to the CLT with a third-party trustee, but a liability also must be calculated and recorded.

Charitable Gift Annuities (CGAs)

This is like a CRAT, but no trust is established, and your nonprofit organization holds the assets.

Communication is key

The most important first step is to ensure that your Development Department knows to inform the Accounting Department as soon as they are notified that your nonprofit organization is a recipient of a split interest agreement. After that, the accounting fun begins!

If you have any questions, Colette can be reached at (480) 839-4900 or ColetteK@hhcpa.com.

“

Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.