Charitable Remainder Unitrust

A **Charitable Remainder Unitrust** is a gift vehicle which irrevocably transfers the remainder interest of an asset's value to the charitable institution upon the death of named income beneficiaries or at the end of a specified term of years. The donor can name him or herself and/or others as income recipients, with payments made concurrently or consecutively. This trust arrangement may be created for the lifetimes of the beneficiaries or for a term of no more than 20 years.

In a **Unitrust**, the donor creates a formal trust arrangement through which donated assets are transferred to a trustee. This agreement must meet Internal Revenue Code requirements. The donor cannot stipulate in the trust agreement that the original assets placed in the trust be retained for the life of the trust. These assets may be held separately and managed as a single fund, according to the investment strategy of the trustee. The trustee may be the donor, the institution, an individual other than the donor, or a bank or trust company selected by the donor.

The donor receives a tax deduction for the charitable remainder interest in the year the trust is established. Any portion of the deduction not used in that year may be carried over for up to five more years, within the limitations of the law. There is no capital gains tax due on appreciated securities contributed to the **Unitrust**.

In general, **Unitrust** gifts are defined by the manner in which income is paid to beneficiaries. Definitions and stipulations of these differing Unitrust arrangements follow:

1. A **Straight Unitrust** must pay a fixed percentage of the net fair market value (FMV) of its assets, as valued at least annually, to the designated beneficiaries. Although it cannot be less than five percent (5%+), the fixed percentage is established by the donor when the trust is created and cannot be changed. Additional contributions may be added at any time.

   The amount of the annual payment is determined by multiplying the FMV of the trust times the specified percentage. Consequently, if the FMV of the trust's assets rises, the amount of the annual payment rises; if the FMV goes down, the amount of the annual payment reflects that downward turn.

2. An **Income-Only Unitrust** agreement stipulates that the trust will distribute either the actual amount of income earned or the established percentage payout rate, whichever is less. This is the best way to handle gifts of real estate which may be difficult to sell and temporarily provide no income. Until the property has been sold and the trust is generating income, no payments are due to the beneficiary(ies) and the trust remains intact.

3. An **Income Only Unitrust with Make Up Provision** uses excess income from the trust to pay the beneficiary(ies) income lost during the years when earnings were insufficient. This type of trust arrangement can be used to reduce income in the early years of the trust, then pay out larger amounts later, as the assets in the trust earn a higher rate of return.

The points made above are intended to
outline a **Charitable Remainder Unitrust**; it is recommended to
thoroughly check all details with your charitable and financial advisors before proceeding.

An Example Of How A Charitable Remainder Unitrust Works

*A **Charitable Remainder Unitrust** Offers the Opportunity*
to Make A Gift of Real Estate to
*the **Community Foundation***
That Produces Income for Life and
Saves in Income, Capital Gains, and Estate Taxes

When Edith and Frank Simpson reached 60 and 61 years old respectively, they were considering making a gift to the **XYZ Institution.** They wanted to donate their vacation home — worth $500,000 — to the **Community Foundation**.

Making a gift actually produced income for both their lifetimes. Mr. and Mrs. Simpson will realize $877,040 in before-tax income over the course of their projected lives. They will also gain an income-tax deduction, in the year of the gift, of $89,252.

A Charitable Remainder Unitrust pays the real estate donor 6 percent annually and, upon the death of a named income beneficiary, transfers the value left in the trust to the Community Foundation.

Please consult with your tax and legal advisors and with a representative of the Community Foundation before making a gift.

Community Foundation Charitable Remainder Unitrust

Charitable Remainder Unitrust

Gift - $500,000

BENEFIT TO COMMUNITY FOUNDATION

Value of the Trust After 30.4 years	=	$540,749

BENEFIT TO DONOR

Before-Tax Benefits to Donor	=	$877,040
Income Tax Deduction for the Donor (In the Year of the Gift)	=	$89,252

ASSUMPTIONS:
The Trust is established in 2004 and runs for the lives of the Simpsons, projected to be 30.4 years. The Principal is $500,000 and has a cost basis of 20%. The Trust returns 4% annually, with 2% growth.

Life Income Projections

Summary of Benefits— Charitable Remainder Unitrust

ASSUMPTIONS:

Projection begins in 2000 and runs for 29 years.
Measuring lives age 60, 61.
Original principal is $500,000. Cost basis is 20%.
Donor income tax bracket is 39.6%, 20% for capital gains.
Beneficiary income tax bracket is 39.6%, 20% for capital gains.

	Charitable Unitrust 6%
Gross Principal	$500,000
Charitable Deduction	$ 89,252
Tax Savings	$29,453
Cost of Gift	$470,547
Income	4%
Capital Appreciation	2%
Total Before-Tax Benefit To Income Recipients	$877,040
Total After-Tax Benefit To Income Recipients	**$609,338**
Benefit to CHARITY	**$540,749**
Total Benefit	**$1,150,087**

IRS Discount Rate is 5.0%

The information in this chart is general in nature. Please see your tax advisor to verify all figures.