

# Unitrust and Sale

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Prepared for  
Mr. Valued Client  
and  
Mrs. Valued Client

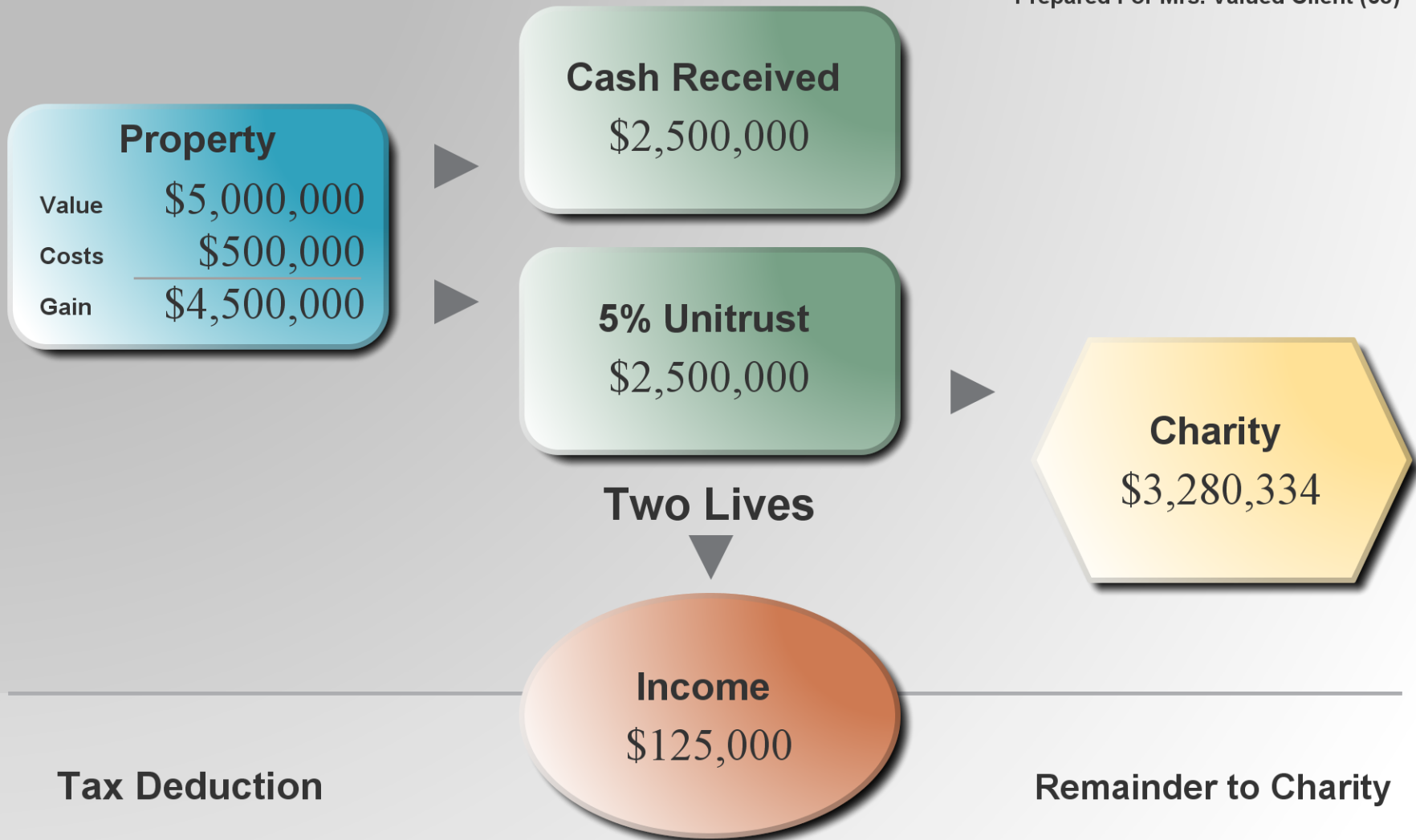
**A SERVICE PROVIDED BY  
Randy Huston**

**Yellowstone Trust Administration, Inc.  
P.O. Box 80367  
Billings, MT 59108  
Phone 800-572-6394 Fax 406-255-8685  
yellowstoneta@yellowstoneta.com**

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# Unitrust and Sale

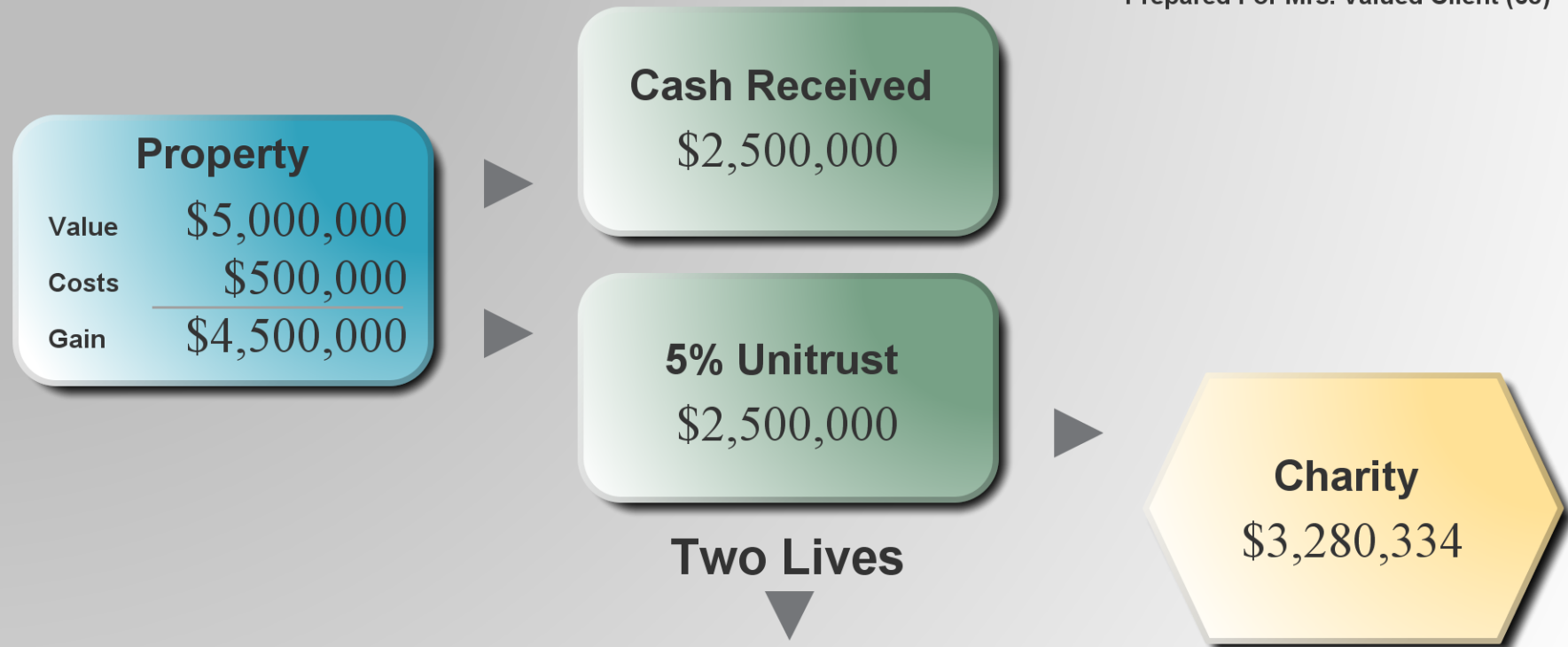
Prepared For Mr. Valued Client (68)  
Prepared For Mrs. Valued Client (68)



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# Unitrust and Sale

Prepared For Mr. Valued Client (68)  
Prepared For Mrs. Valued Client (68)



1. Gift \$2,500,000 to trust. Bypass up to \$2,250,000 gain may save \$630,000. Tax deduction \$944,600. Taxable gain \$2,250,000 on cash part. Net Cash to donors \$2,276,178.

2. Unitrust Income of \$125,000. Increased income \$125,000 over prior \$0 income. Estimated income in 27.3 years \$3,901,669. Effective return rate 5.97%.

3. If trust earns 6.00%, pays 5%, then grows by 1%. After two lives, trust passes without probate to charity.

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# UNITRUST AND SALE

Everyone should have adequate liquidity to provide for his or her ongoing needs and that possible "rainy-day." A person who has a highly appreciated low yield asset may be very interested in a charitable remainder unitrust in order to sell the asset and bypass the capital gains, but he or she may also need a certain amount of liquidity. The combination of a taxable sale outside a trust of a portion of the asset and a tax-free sale inside a unitrust for the balance of the asset provides a donor with both liquidity and significant tax savings.

## **Sale of a Portion of the Property**

If part of a property is sold, an appropriate percentage of the total value is allocated to the part sold and the same percentage of the adjusted cost basis is also allocated to the part sold. For example, if 25% of the value is allocated to the sale part, then 25% of the cost basis will also be allocated to that part. When the property is sold, a long term capital asset will be subject to the long term capital gains tax. Thus, capital gains tax could be payable on the portion sold, less the basis allocated to the sale. However, because the balance of the property has been transferred to a charitable remainder unitrust, the charitable deduction may offset entirely or in part the taxable portion of the gain. In many cases it may be possible to sell part through the unitrust and sell the balance outright for cash, with the charitable deduction completely offsetting the taxable gain on the transfer. With the sale and unitrust, care must be taken that there is not a prearranged sale prior to funding the unitrust. When property is transferred to a unitrust, the trustee must be able to select the purchaser and sale price.

## **Charitable Remainder Unitrust**

The major advantages of the charitable remainder unitrust include (i) Bypass of Capital Gains Tax, (ii) Increased Income, and (iii) Charitable Income Tax Deduction. With a sale and unitrust, the tax deduction from the charitable trust may offset part or all of the taxable gain from the portion that has been sold outside the trust. It may be possible to structure the sale and trust so that a donor ends up with cash from the sale and no net taxable gain because the taxable gain is offset by a charitable deduction. In addition to the above three benefits, the donors receive income for both of their lives and enjoy additional savings in probate costs and estate taxes. This combination sale and gift is excellent for converting highly appreciated low yield property into both liquidity and an excellent investment asset with little or no capital gains tax.

# TRUST BENEFITS FOR FAMILY AND CHARITY

Years	PRINCIPAL 6.000% Return 1.000% Growth	UT INCOME PAYMENTS 5%Pmt.	TOTAL OF UT INCOME PAYMENTS	INCOME AFTER TAX 43% TAX	INCOME TAX SAVINGS	TOTAL OF BENEFITS AFTER TAX
0	\$2,500,000					
1	2,525,000	\$125,000	\$125,000	\$71,250	\$406,178	\$477,428
2	2,550,250	126,250	251,250	71,963	0	549,391
3	2,575,753	127,513	378,763	72,682	0	622,073
4	2,601,510	128,788	507,550	73,409	0	695,482
5	2,627,525	130,076	637,626	74,143	0	769,625
6	2,653,800	131,376	769,002	74,884	0	844,510
7	2,680,338	132,690	901,692	75,633	0	920,143
8	2,707,142	134,017	1,035,709	76,390	0	996,533
9	2,734,213	135,357	1,171,066	77,153	0	1,073,686
10	2,761,555	136,711	1,307,777	77,925	0	1,151,611
11	2,789,171	138,078	1,445,854	78,704	0	1,230,316
12	2,817,063	139,459	1,585,313	79,492	0	1,309,808
13	2,845,233	140,853	1,726,166	80,286	0	1,390,094
14	2,873,686	142,262	1,868,428	81,089	0	1,471,183
15	2,902,422	143,684	2,012,112	81,900	0	1,553,083
16	2,931,447	145,121	2,157,233	82,719	0	1,635,802
17	2,960,761	146,572	2,303,805	83,546	0	1,719,348
18	2,990,369	148,038	2,451,843	84,382	0	1,803,730
19	3,020,272	149,518	2,601,362	85,225	0	1,888,955
20	3,050,475	151,014	2,752,375	86,078	0	1,975,033
21	3,080,980	152,524	2,904,899	86,939	0	2,061,972
22	3,111,790	154,049	3,058,948	87,808	0	2,149,780
23	3,142,908	155,589	3,214,538	88,686	0	2,238,465
24	3,174,337	157,145	3,371,683	89,573	0	2,328,038
25	3,206,080	158,717	3,530,400	90,469	0	2,418,507
26	3,238,141	160,304	3,690,704	91,373	0	2,509,880
27	<b>3,270,522</b>	<b>161,907</b>	<b>3,852,611</b>	<b>92,287</b>	<b>0</b>	<b>2,602,167</b>
28	3,303,227	163,526	4,016,137	93,210	0	2,695,377
29	3,336,260	165,161	4,181,298	94,142	0	2,789,518
30	3,369,622	166,813	4,348,111	95,083	0	2,884,602
31	3,403,319	168,481	4,516,593	96,034	0	2,980,636
32	3,437,352	170,166	4,686,758	96,995	0	3,077,631
33	3,471,725	171,868	4,858,626	97,965	0	3,175,595
34	3,506,442	173,586	5,032,212	98,944	0	3,274,539
35	3,541,507	175,322	5,207,534	99,934	0	3,374,473
36	3,576,922	177,075	5,384,610	100,933	0	3,475,406
37	3,612,691	178,846	5,563,456	101,942	0	3,577,348
38	3,648,818	180,635	5,744,090	102,962	0	3,680,310
39	3,685,306	182,441	5,926,531	103,991	0	3,784,301
<b>TRUST DURATION</b>		<b>27.3 YEARS</b>		<b>CHARITABLE DEDUCTION</b>		<b>\$944,600</b>
<b>FAMILY 27.3 YRS</b>		<b>\$2,630,130</b>		<b>INCOME TAX SAVINGS</b>		<b>\$406,178</b>
<b>CHARITY 27.3 YRS</b>		<b>\$3,280,334</b>		<b>TOTAL INCOME 27.3 YRS</b>		<b>\$3,901,669</b>
<b>P. VALUE 3%/27.3 YRS</b>		<b>\$1,463,733</b>		<b>TYPE INCOME</b>		<b>ORDINARY</b>

\* 6.114650% Return adjusted to 6.000000% for Quarterly payments.

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# CHARITABLE UNITRUST

Donor:	Gift Amount:	Gift Date:
Mr. and Mrs. Valued Client	\$2,500,000	04/05/2021
<b>Beneficiary(ies)</b>		
1st Person:	Date of Birth:	Age**
Mr. Valued Client	04/05/1953	68
2nd Person:	Date of Birth:	Age**
Mrs. Valued Client	04/05/1953	68
Cost Basis:	Payment Frequency:	(Payments at End of Selected Period)
\$500,000	Quarterly	
**Year changes at six months from birth date		

Calculation		
(A) Unitrust Percentage	5%	(A)
(B) Factor for Adjusted Payout Rate	0.993804	(B)
<small>IRS Pub 1458, Table F AFR of the Month: <u>1.0%</u></small>		
(C) Adjusted Payout Rate (A x B)	4.96900%	(C)
(D) Nearest table rate below (C)	4.80%	(D)
(E) Factor at Line (D) rate	0.39002	(E)
<small>(IRS Pub. 1458, Table U(2))</small>		
(F) Nearest table rate above (C)	5.00%	(F)
(G) Factor at Line (F) rate	0.37560	(G)
<small>(IRS Pub. 1458, Table U(2))</small>		
(H) Line (E) Minus Line (G)	0.01442	(H)
(I) Line (C) Minus Line (D)	0.16900%	(I)
(J) Line (I) Divided by 0.2%	0.84500	(J)
(K) Line (H) Times Line (J)	0.01218	(K)
(L) Line (E) Minus Line (K)	0.37784	(L)
(M) Line (L) Times Gift Amount	<b>\$944,600.00</b>	(M)
<b>PRESENT VALUE OF REMAINDER INTEREST</b>		
<b>(N) TAX BRACKET &amp; SAVINGS 43.00%</b>	<b>\$406,178.00</b>	(N)

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