

# **Charitable Remainder Unitrust**

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Prepared for  
Mr. and Mrs. Valued Client

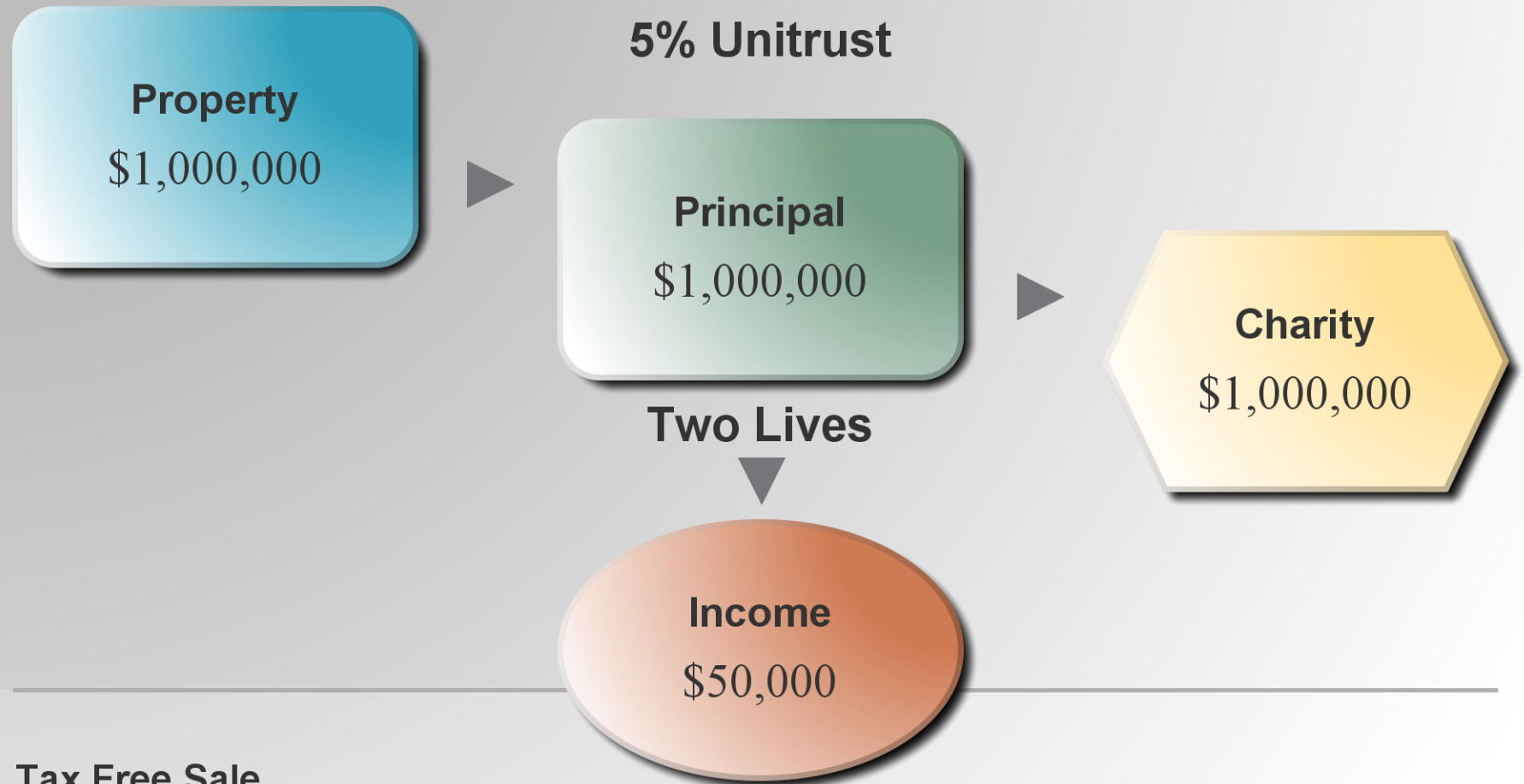
**A SERVICE PROVIDED BY  
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# Charitable Remainder Unitrust

Prepared For Mr. Valued Client (62)  
Prepared For Mrs. Valued Client (62)



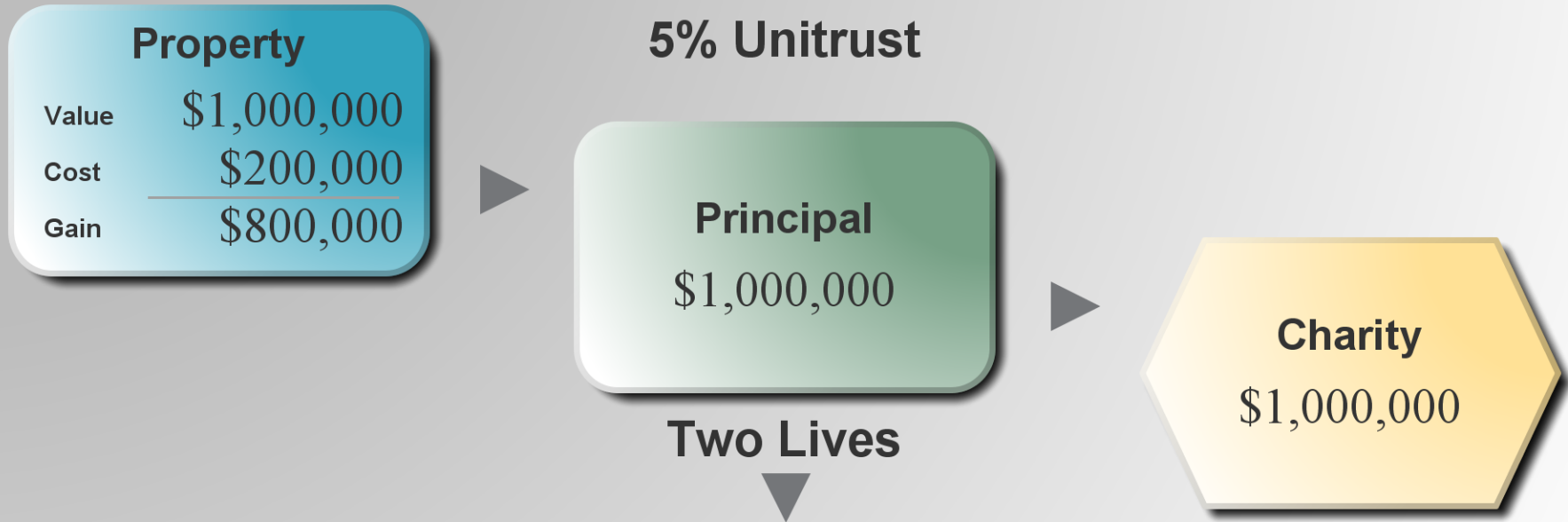
**Tax Free Sale  
Income Tax Deduction**

**Remainder to Charity**

This educational illustration is not professional tax or legal advice; consult a tax advisor about your specific situation. See data sheets for assumptions.

# Charitable Remainder Unitrust

Prepared For Mr. Valued Client (62)  
Prepared For Mrs. Valued Client (62)



**1. Give asset, sell Tax-Free.**  
Bypass up to \$800,000 gain may save \$224,000. Income tax deduction of \$296,030 may save \$127,293.

**2. UT annual income \$50,000.**  
Increased income \$50,000 over prior \$0 income. Estimated income in 33.3 years \$1,665,000. Effective pretax rate 5.73%.

**3. If trust earns 5%, pays 5%, then grows by 0%. After two lives, trust passes without probate to charity.**

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# Charitable Remainder Unitrust

The Charitable Remainder Unitrust is a special trust that pays income to family members. After all of the income payments have been completed, the remainder is distributed to qualified charities. The person who establishes the trust may select the unitrust percentage, the persons to receive the income from the trust, and the charities which will receive the principal of the trust after all income payments are completed. The major benefits of the trust are (i) Bypass of Capital Gains Tax, (ii) Increased Income and (iii) a Charitable Income Tax Deduction.

## **Bypass Capital Gains**

Investments of property eventually mature. At certain times, it is wise to sell and reinvest. The unitrust is an ideal method for a tax-free reinvestment, since the qualified unitrust bypasses the capital gains tax. If the unitrust earns more than the payout percent, this gain is permanently bypassed. However, if trust earnings are less than the payout percent, most unitrusts will pay out the earnings and some corpus. In this case, part of the capital gain may be paid out. Fortunately, any capital gain payout is taxed at capital gain rates.

## **Increased Income**

Mature investment properties frequently are earning two, three or four percent per year. The capital gains tax-free reinvestment through the unitrust might enable a person to sell through a trust without tax an asset earning a low rate of return and reinvest in an asset earning a higher rate of return. The increased earnings can then be passed on to the income recipients using the unitrust income produced by higher yield investments. Over the years, family members can reinvest the additional income and acquire even greater economic security.

## **Income Tax Deduction**

After the completion of all income payments, the principal or corpus is distributed to charity. Even though charity might not receive anything for many years, the government permits the trust grantor (the person who establishes the irrevocable trust) to take an immediate income tax deduction. The deduction is a percentage of the value of the property transferred to the trust and is calculated using the ages of the donors and the unitrust percentage selected. Many trust donors use their current tax savings for additional investments. They are able to enjoy the maximum return from their charitable trust payments and also benefit at the same time from substantial income tax savings.

# Charitable Remainder Unitrust

## Unitrust Percentage

Each grantor may select the unitrust percentage. The unitrust percentage may amount to five percent or more of the value of the trust. Each year the trust accountant determines the fair market value of the trust. The unitrust then pays the selected percent of the fair market value to the family. For instance, if a trust is valued at \$100,000 and the trust grantor selected a 6% unitrust percentage, the accountant would multiply the 6% times the \$100,000 in value and distribute \$6,000 that year. If earnings were 7% or 8% and the trust distributed 6%, the extra 1% or 2% would be added to principal. Since the income payments depend upon the value in trust, many persons select a lower percentage and then hope to benefit from the growth of the trust value during the later years of the trust.

## Duration of Income

In addition, the trust grantor may also select the time for which payments are to be made. This time may be one life, two or more lives, or a term of one to twenty years. The current illustration shows a trust which pays income for two lives. After the income recipients have passed away, the trust corpus will then be distributed to charity.

## Charitable Remainder

Finally, the trust grantor may select the charities that will receive the trust remainder (the corpus of the trust after all income payments are completed). The entire corpus could be distributed to one charity, or the corpus may be divided among several charities. The selection of the charities is entirely under the control of the trust grantor.

## Trustee

Each unitrust must have a trustee. The trustee can be a commercial institution such as a bank or trust company, a charity, an individual or a combination of two of these three options. The trustee will carefully invest the property, conduct any sales and file the appropriate information and tax forms. Since the trust may last for many years, it is important to select a trustee in whom the donor has confidence.

# CHARITABLE REMAINDER UNITRUST

## Two Lives

IRS Form 709 Gift Value of \$703,970.00

|                            |                    |            |
|----------------------------|--------------------|------------|
| Donor:                     | Gift Amount:       | Gift Date: |
| Mr. and Mrs. Valued Client | \$1,000,000.00     | 04/05/2021 |
| <b>Beneficiary(ies)</b>    |                    |            |
| Person:                    | Date of Birth:     | Age*       |
| 1st: Mr. Valued Client     | 04/05/1959         | 62         |
| 2nd: Mrs. Valued Client    | 04/05/1959         | 62         |
| Cost Basis:                | Payment Frequency: |            |
| \$200,000.00               | Quarterly          |            |

Age\* - Year changes at six months from birth date.

### Calculation

|   |                     |     |
|---|---------------------|-----|
| (A) Unitrust Percentage   | 5.00%               | (A) |
| (B) Factor for Adjusted Payout Rate<br>IRS Pub 1458, Table F<br>AFR of the Month: <u>1.0%</u> | 0.993804            | (B) |
| (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<br>(IRS Pub. 1458, Table U(2))                                    | 0.30800             | (E) |
| (F) Nearest table rate above (C)  | 5.00%               | (F) |
| (G) Factor at Line (F) rate<br>(IRS Pub. 1458, Table U(2))                                    | 0.29383             | (G) |
| (H) Line (E) Minus Line (G)   | 0.01417             | (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)   | 0.01197             | (K) |
| (L) Line (E) Minus Line (K)   | 0.29603             | (L) |
| (M) Line (L) Times Gift Amount<br>PRESENT VALUE OF REMAINDER INTEREST                         | <b>\$296,030.00</b> | (M) |
| (N) TAX BRACKET AND SAVINGS <u>43.00%</u>   | <b>\$127,292.90</b> | (N) |

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