



CHARITABLE GIVING

Charitable Remainder Annuity Trust vs. Unitrust

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CHARITABLE REMAINDER ANNUITY TRUST VS. UNITRUST

SUMMARY

WHAT IS A CHARITABLE REMAINDER TRUST?

A charitable remainder trust is a qualified “split-interest” gift providing donors the opportunity to benefit a favorite charity without sacrificing needed income. The trust pays the named beneficiaries an annual income until the end of the trust term, then distributes the remaining assets to one or more charities.

The charity’s projected remainder interest must be at least 10% of the initial value of the trust. Distributions from the trust to non-charitable beneficiaries may last for a term of up to 20 years, or for the beneficiary’s lifetime. The trust must make income payouts at least annually, and when the trust expires, the named charity receives the trust principal.

WHAT ARE THE TYPES OF CHARITABLE REMAINDER TRUSTS?

Charitable remainder trusts are irrevocable and come in two basic forms—the charitable remainder annuity trust (CRAT) and the charitable remainder unitrust (CRUT).

Every year the CRAT pays out a fixed percentage—at least 5% but no more than 50%—of the initial value of the trust assets. The donor cannot make additional contributions to a CRAT after the initial contribution.

The CRUT also pays out a fixed percentage of the trust’s value, but the payout is recalculated every year as a percentage of the value of the trust assets at that time. The donor selects the payout rate when creating the trust (at least 5% but not more than 50%). The donor can make additional gifts to a CRUT at any time.

ARE THERE OTHER VARIATIONS?

A CRAT comes in only one form. A CRUT, however, comes in several variations, each of which offers unique advantages.



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A net income unitrust pays out either the stated percentage of trust assets as valued every year or the income actually earned by the trust (whichever is less).

Another choice is the net income unitrust with make-up provision (NIMCRUT). This variation includes a provision letting the donor make up any payout deficits in years when the trust earned less income than the stated payout percentage.

Finally, a flip unitrust begins as a net income unitrust and later switches to a straight unitrust. This gives the donor added flexibility to fund the unitrust with illiquid assets such as real estate or closely held stock, and to switch the form of payout after the asset is sold.

WHICH TRUST IS THE RIGHT CHOICE?

Each donor's personal objectives will determine the best option among the charitable remainder trust variations.

The CRAT is better for donors who want a fixed stable income. Donors can be assured of receiving the same fixed payment even if the value of the trust assets declines.

The CRUT is a good fit for donors who want a hedge against inflation. It's also attractive to donors who intend to fund the trust with illiquid assets such as real estate; some unitrust designs can defer payments until the asset is sold.

The flexibility of trusts is particularly evident in the choices available to individuals who want to remember a favorite charity and still need income from the assets ultimately intended for the charity. It's simply a matter of choosing the trust design that best fits the donor's objectives.



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