

Tax and Financial Benefits

Charitable remainder unitrusts offer several significant tax and financial benefits:

Capital Gains Deferral

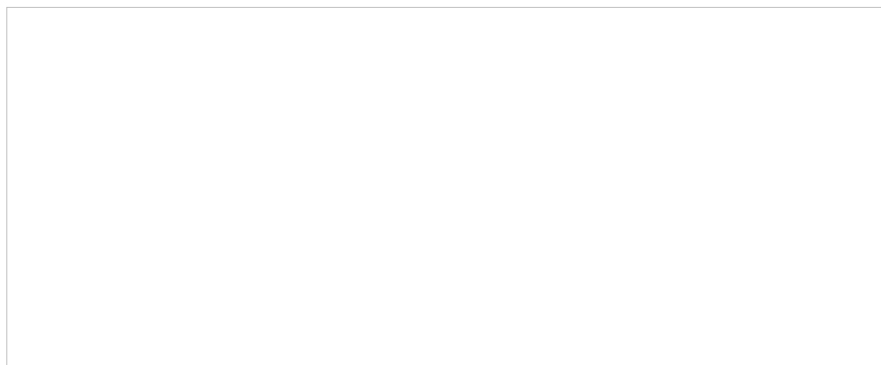
Charitable remainder unitrusts are frequently created by philanthropic individuals who own highly appreciated assets they are reluctant to sell because they would incur a significant capital gains tax.

The transfer of debt-free assets to a qualified charitable remainder unitrust is not considered a sale or exchange. Therefore, you do not realize any capital gain when you transfer appreciated assets to the trust.[1]

In addition, charitable remainder trusts are conditionally exempt from both federal and state income tax.[2] This means the trust does not pay any ordinary income or capital gains taxes when it sells appreciated assets. Income and capital gains are taxable only when they are received by the trust's income recipients under the four-tier system of income accounting. The ability to sell assets without paying capital gains tax increases the amount of capital available for the creation of income to the beneficiaries of the trust.

Increased Cash Flow

Because a charitable remainder unitrust can sell contributed assets tax-free, 100% of your gift can be reinvested to produce income. This often means greater income than if you had sold the asset on a taxable basis outside the trust and then reinvested the after-tax proceeds.

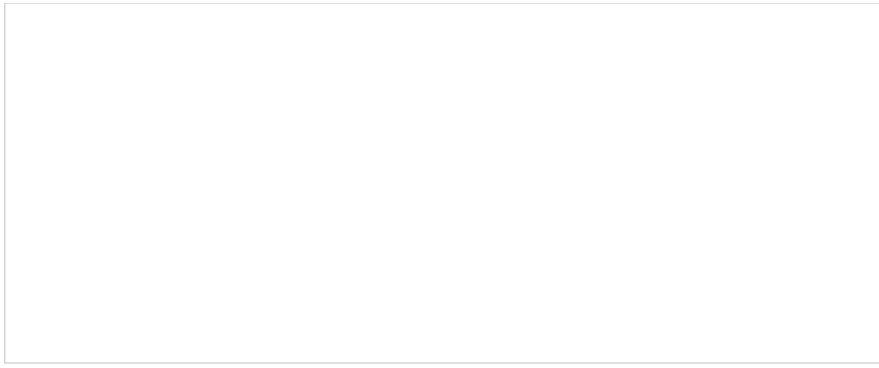


NOTE: The ability of the unitrust to sell assets without paying capital gains tax preserves capital for the creation of income. The above graph assumes an asset value of \$1,000,000 with a cost basis of \$100,000. Based on a 20% capital gains tax bracket, the outright sale without the trust produces a capital gains tax of \$180,000, reducing the amount available for the creation of income to \$820,000. The outright sale produces income of \$49,200 while the unitrust produces income of \$60,000, assuming a 6% rate of return.

Current Income Tax Deduction

When you create a charitable remainder unitrust, you are making a current commitment to a future charitable gift. Because the trust is irrevocable, you may qualify to receive a current income tax deduction for a portion of your gift.

The combination of avoiding capital gains on the sale of contributed assets and a current income tax deduction often means that instead of writing a check at tax time, you might receive one.



NOTE: With proper investment management and a conservative payout rate selection, the unitrust can provide increasing income over time. When the trust investments produce a rate of return in excess of the payout rate of the trust, the excess is added to the trust's value. The income paid from the trust is based on the value of assets in the trust, thus income increases. Likewise, reductions in trust value will generate a reduction in income.

Retained Control

Even though gifts to a charitable remainder unitrust are irrevocable, you can retain the right to choose who manages and administers your trust; as well as the power to substitute the charitable organization(s) that will ultimately receive the remainder interest.

Continuity of Management

The charitable remainder unitrust not only provides the means to dispose of "high management" assets, it also supplies a mechanism to provide professional investment management during a person's later years when it may be needed most. Charitable remainder unitrusts offer you the peace of mind of knowing that in the event you become incapacitated or disabled, trust assets will be professionally managed and administered to maintain the uninterrupted flow of your income.

Gift and Estate Tax Planning

Transferring assets to a charitable remainder unitrust that pays income to you (and/or your spouse) completely avoids both gift and estate taxes. Naming others, such as children or grandchildren, as income recipients can reduce your gift and/or estate taxes as well.

In addition to the gift and estate tax savings generated by the trust itself, the cash flow created by the charitable remainder trust can be coordinated with other estate planning techniques. The most common combination involves transfer of cash from the donor to an irrevocable life insurance trust, or directly to family members, that is then used to purchase insurance on the life or lives of the donor or donors. Commonly referred to as a wealth replacement trust, the concept often enables donors to give more to charity without disinheriting their heirs by replacing the asset given to charity with life insurance proceeds paid for by the additional income and income tax savings created by the trust.

- [1] Mr. Phil Anthropist will transfer assets valued at \$1,000,000 to the trust.
- [2] Additionally, an income tax deduction of \$360,770 will be generated, which may save as much as \$139,257 in taxes.
- [3] The trust will distribute income based on the payout rate of 6.0%. The income for the first full year will be approximately \$60,000.
- [4] When the trust terminates, the value of the trust, based on the \$1,000,000 transferred, plus any growth or less any loss in trust value, will be transferred to Charity.
- [5] Life insurance proceeds pass to heirs and replace the value of the asset gifted to the trust.

Footnotes:

1. Transferring debt-encumbered assets to a charitable remainder unitrust may cause the trust to fail to qualify and is not recommended.

2. A trust that has "unrelated business taxable income" (UBTI) loses its tax-exemption for that year and pays income tax in the same manner as taxable trusts (including capital gains tax on the sale of appreciated assets). With proper management, however, UBTI can be avoided.

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