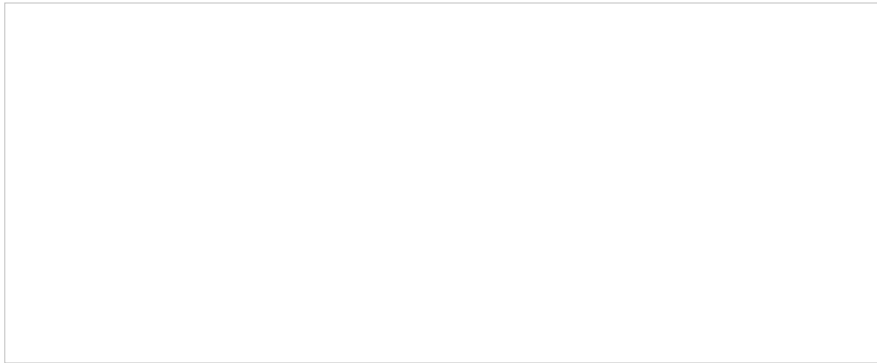


# How is the Deduction Calculated?

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When a donor contributes cash or other assets to a charitable remainder unitrust, the donor not only avoids recognizing capital gain on the sale of the contributed property; but may also receive a current income tax charitable deduction for a portion of the value of the assets transferred to the unitrust.



NOTE: Based on a contribution of \$1,000,000, the term of the trust and a payout rate of 6%, the charitable income tax deduction would be \$360,770, which may save as much as \$139,257 in taxes based on an ordinary income tax bracket of 38.6%.

The deduction is based on the fact the donor is making an irrevocable commitment to a future charitable gift. The amount of the deduction is determined using IRS formulas that calculate the present value of the future gift. Factors used in calculating the deduction include the:

- **fair market value of the assets** transferred on the date of the gift
- **measuring term of the trust**, which may be based on a term of years, the age of the income beneficiaries, or a combination of the two
- unitrust **payout rate**
- income **payment frequency** (annual, semi-annual, quarterly, monthly), and
- Adjusted Applicable Midterm Rate (CFMR) in effect for the month of the gift or (at the election of the donor) during either of the prior two months.

## 10% Rule

In order for the trust to qualify, the present value of the gift must be at least 10% of the fair market value of the assets transferred. Depending on the measuring term of the trust, the 10% rule may limit the number of beneficiaries and/or the payout rate that can be used.

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