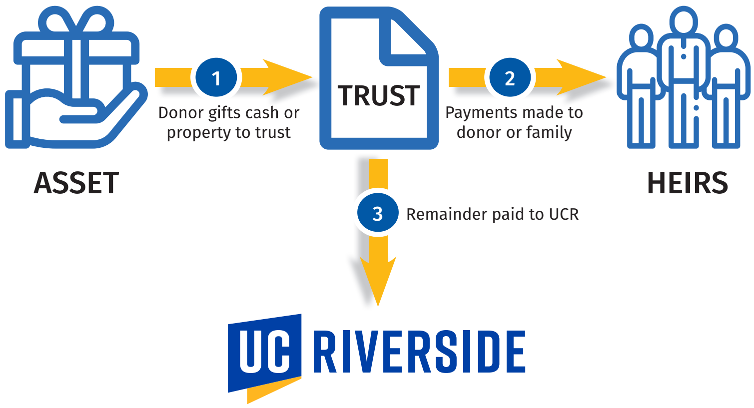

UC RIVERSIDE | Gift Planning

# CHARITABLE REMAINDER TRUST

## WHAT IS A CHARITABLE REMAINDER TRUST?




With a Charitable Remainder Trust (CRT), you transfer cash, an appreciated asset, or other property to a special trust that is invested to generate income for you and any other beneficiaries you select. After all payments have been made, the balance of the trust passes to UC Riverside.

### CREATING A CRT

When you create a CRT during your lifetime, you will receive a charitable income tax deduction for the remainder portion of your gift to UCR. If you establish a CRT as part of your estate plan, your estate may benefit from estate tax savings after you pass away.

### AVOIDING CAPITAL GAINS TAX

You can avoid capital gains tax on the sale of your appreciated assets (i.e. stock and real estate) by transferring these assets to fund a CRT prior to sale. The trust will sell your assets tax-free and reinvest the funds to produce income.

### IRREVOCABLE

The funding property of a CRT cannot be returned to the donor after it is transferred to the trust. Likewise, you cannot change the non-charitable income beneficiaries once the trust is established. You can, however, retain rights to change the trustee, change the charitable beneficiaries, and revoke a non-charitable beneficiary's income interest.

### TWO DIFFERENT TYPES OF CRTS

**Charitable Remainder Annuity Trust & Charitable Remainder Unitrust**
Both types of trusts require a minimum trust payout of 5%. The CRAT and the CRUT differ, however, as to the payout amounts to the income beneficiaries. An annuity trust pays a fixed amount each year based on the date the trust is funded. The unitrust payout amount varies from year to year and is based on a fixed percentage of the trust assets each year. With the unitrust, if the trust grows in value over time, the amount of your payments will grow, as well.

### ADDITIONAL CONTRIBUTIONS

Once a unitrust is established, additional contributions can be made to the trust.

For example, a unitrust may be established during life with a gift of stock and then further funded through your estate.

Additional contributions cannot be made to an annuity trust.

## UNITRUST PAYOUT OPTIONS

Another difference between a charitable remainder unitrust and an annuity trust is the different unitrust payout options. All annuity trusts make the same fixed payment every year.

There are four types of unitrusts:

Standard: A standard unitrust pays a fixed percentage of the trust assets valued each year.

Net Income Plus Make-Up (NIMCRUT): A NIMCRUT pays the lesser of the unitrust's payout percentage or the trust's income earned during the year. If there is a deficit in any year, income in future years in excess of the selected payout percentage may be paid as "make-up" income.

Net Income Only: This trust pays out the lesser of the trust's payout percentage or the trust's income, but there is no option for making up deficits.

FLIP Unitrust: This trust begins as a net income plus make-up trust but has the ability to convert to a standard trust upon the happening of a certain event (i.e. a fixed date, sale of property, birth, death).

## SELECTING THE TRUST PAYOUT PERCENTAGE

When you set up a CRT, you select the desired payout percentage, which must be at least 5% and no more than 50%.

By selecting a low payout percentage (for example, 5% or 6%), you can increase your income over time. Remember, a standard unitrust pays income based on a percentage of trust assets. Selecting a low payout percentage can actually increase your income if the trust earns more than the payout percentage.

The higher the trust payout percentage selected, the more likely that trust will exceed earnings. Because trust income is tied to trust principal, if principal is depleted over time to meet trust payout obligations, trust income may also decline. For this reason, most CRTs are created with a 5% payout.

## HOW ARE TRUST PAYOUTS TAXED?

A beneficiary who receives a CRT payout may be required to pay tax on the amount received. Under the four-tier accounting system, the income is paid in a particular order, often with the income subject to the highest tax paid first. The order of income paid and the tax rate applied to that income is as follows:

### TIER 1: Ordinary Income or Dividends

Ordinary income can be taxed at the highest rates for a beneficiary, whereas dividend income currently receives lower preferential tax rates.

### TIER 2: Capital Gains

Capital gains income is taxed at preferential rates compared to ordinary income. Some types of capital gains, such as gains from the sale of art or short-term gains, can be subject to higher tax rates.

### TIER 3: Tax-Free Income

Once all Tier 1 or Tier 2 income is paid out, any tax-free income, such as the income from municipal bonds, can then be paid.

### TIER 4: Return of Principal

If all Tier 1, 2, or 3 income is paid out and the required payout is still not satisfied, then principal can be paid. Return of principal is not subject to tax.

## TAX CONSEQUENCES OF CRTS

Income Taxation: If set up during life, a CRT can provide an income tax deduction equal to the present value of the remainder interest passing to UCR.

Gift Taxation: If you set up a trust for someone else, there may be a taxable gift. However, there will be no immediate gift tax consequences if you retain a testamentary power of revocation over the individual's income interest or if the gift is passing to a spouse, which will qualify for the unlimited marital deduction.

Estate Taxation: If you set up a trust for someone else and retain a testamentary power to revoke their interest, then the present value of that interest upon your passing is included in your gross estate for estate tax purposes.

Generation-Skipping Transfer Tax: If payouts are made to skip a generation such as grandchildren, then there may be generation-skipping transfer tax due.

## SELECTING A TRUSTEE

**You have several options when it comes to who can serve as trustee of a CRT:**

Bank or Trust Company: They have great expertise in managing trusts and usually charge a fee based on the size and number of trusts managed.

Charity or Nonprofit: They will often charge a significantly discounted fee for their services.

Private Trustee: Yourself or another individual you select. Support from outside experts should be obtained, as the operation of a CRT is complex, requiring accounting and investment expertise.

## A CHARITABLE REMAINDER TRUST BENEFITS YOU

A charitable remainder trust is a great way for you to benefit yourself and your loved ones, while also making a lasting impact at UCR. This trust can provide income, a tax deduction and funds that support our mission. Please contact our Planned Giving team to learn more or view a custom illustration showing how a charitable remainder trust can be of benefit to you.

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