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THE *Concept...*

- ◆ A charitable remainder trust is a “split-interest” gift paying the donor—or someone chosen by the donor—an income from the trust, and ultimately distributing the trust remainder to a qualified charity.
- ◆ The charity’s projected remainder interest at the inception of the trust must be at least 10% of the trust’s value.
- ◆ Income payouts from the trust must be made annually and may last for a term of up to 20 years, or for the lifetime of the donor and/or other beneficiaries.
- ◆ When the trust term expires, the named charity receives the remaining trust assets.

THE *Distinctions...*

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

- ◆ A charitable remainder annuity trust pays a fixed percentage (at least five percent) of the trust's initial value every year until the trust terminates. The donor cannot make additional contributions to a CRAT after the initial contribution.
- ◆ A charitable remainder unitrust, by contrast, provides a payout based on a fixed percentage of the trust's value as determined annually. The payout is adjusted each year as the value of the trust assets goes up or down. When the donor creates the trust, he or she selects the fixed percentage payout rate (at least five percent).
- ◆ A donor can make additional contributions to a charitable remainder unitrust.

THE *Variations...*

- ◆ A **straight charitable remainder unitrust** distributes an income based on the stated payout rate, even if the trustee needs to invade the principal. A payout tied to the trust's annual value can act as a hedge against inflation when the trust assets increase in value; but the payout will drop if the trust assets decline in value.
- ◆ A **net income unitrust** pays out either the stated percentage or the income actually earned by the trust (whichever is less). Donors funding the trust with non-income producing assets, such as real estate, may prefer this option.

- ◆ A **net income unitrust with a make-up provision**—or NIM-CRUT—includes a provision that allows the trust to make up any payout deficits in years when the trust earned less income than the stated payout percentage. It's most often used to enhance retirement income.
- ◆ A **flip unitrust** begins as a net income unitrust and later switches to a straight unitrust, giving the donor added flexibility. The flip option appeals to donors who want to fund the unitrust with non-liquid assets such as real estate or closely held stock. If the asset is not sold right away and does not earn any income inside the trust, the net-income limitation relieves the trustee from the obligation to pay an annual amount to the income beneficiary (often the donor). However, once the non-liquid asset is sold and the proceeds reinvested, the income beneficiary may prefer a more predictable payout. The flip provision allows the trustee to make the fixed-percentage payout after the “flip” occurs, without being limited to the trust's original net income limitation.

THE *Choice...*

- ◆ Choosing between a charitable remainder annuity trust and a charitable remainder unitrust depends on the donor's particular wishes and priorities. For example:

- ◆ A **charitable remainder annuity trust** is a logical choice for a donor who wants a stable, fixed income, and who is satisfied making only an initial contribution to the trust.
- ◆ A **charitable remainder unitrust** may be more suitable for a donor who wants a potential hedge against inflation, a chance to make additional contributions after the initial contribution, and the opportunity to fund the trust with unmarketable assets such as real estate. In this case, it makes sense to contribute assets that can be readily valued every year, since this is necessary in a charitable remainder unitrust.

THE *Bottom Line...*

Distinctions aside, it's clear that a charitable remainder trust—whether annuity trust or unitrust—gives donors a chance to reward a favorite charity without sacrificing needed income during the period the trust is in effect, along with the flexibility to tailor the trust to fit personal lifestyles and objectives.



SUMMARY


What Is a Charitable Remainder Trust?

A charitable remainder trust is a “split- interest” gift providing donors the opportunity to remember a favorite charity without sacrificing needed income.

With this arrangement, the donor or another selected individual receives income from the trust, with the trust assets—the remainder—ultimately distributed to a selected charity. The charity’s projected remainder interest must be at least 10% of the initial value of the trust. The distributions from the trust to a non-charitable beneficiary may last for a term of up to 20 years, or for the donor’s or other beneficiary’s lifetime. The trust must make income payouts at least annually, and when the trust expires, the named charity receives the trust principal. The trust can pay out income for more than one life, provided the 10% test is satisfied.

What Are the Types of Charitable Remainder Trusts?

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



The charitable remainder annuity trust pays out a fixed percentage—at least five percent—of the initial value of the trust assets. The donor cannot make additional contributions to a CRAT after the initial contribution.


The charitable remainder unitrust also provides 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, which must be at least 5% but cannot be greater than 50%, when creating the trust. The donor can make additional gifts to a CRUT at any time.

Are There Other Variations?

A CRAT comes in only one form. In the case of a CRUT, however, the donor can choose from several variations, each of which offers unique advantages. For example, a net income unitrust pays out either the stated percentage 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 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 non-liquid assets such as real estate or closely held stock, and to switch the form of payout after the non-liquid asset is sold.

Which Trust Is the Right Choice?

Choosing which trust is the best instrument for a particular donor is an exercise tied directly to the donor's own objectives.

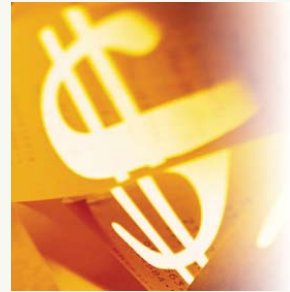
The charitable remainder annuity trust is best for donors who want a stable, fixed income. They can be assured of receiving their fixed payment even if the value of the trust assets declines.

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

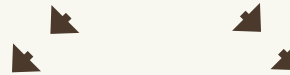
The flexibility of trusts is particularly evident in the choices available to individuals who want to remember a favorite charity, but still need income from the assets ultimately intended for the selected charity. It's simply a matter of choosing the trust design that best fits the donor's priorities.




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1. The donor irrevocably transfers property to the trustee of a charitable remainder trust (CRT) and receives a federal income tax deduction for the present value of the charity's remainder interest, subject to limitations.
2. The trustee pays the donor or other beneficiary either a fixed percentage of the initial value (if an annuity trust) or a specified percentage of the trust assets as revalued each year (if a unitrust). The donor may choose among several variations of the unitrust.
3. When the trust ends, the trust remainder is transferred to the charity.



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