



## Receive Income for Life With a Deferred Gift

### *Consider the Benefits of a Charitable Remainder Unitrust*

The charitable remainder unitrust opens the door to many benefits for you and your charities of choice. You receive income for your lifetime while avoiding up-front long-term capital gains tax on the sale of highly appreciated assets that you've owned longer than one year. Upon the death of the final income beneficiary, the balance passes to the charities you select. It is this deferred gift that creates your charitable income tax deduction.

#### Benefits of a Charitable Remainder Unitrust

1. Provides an annual income to you for your lifetime (or for a fixed term not to exceed 20 years)
2. Allows an immediate charitable income tax deduction
3. Avoids up-front capital gains tax on the sale of highly appreciated assets
4. May increase your income to more than the amount previously generated by the contributed assets
5. Grants a deferred gift to your chosen charity

#### How It Works

A unitrust is created when you give assets to a trust you create. While the trust is in force, you receive an annual income. At the end of the trust's term, the remainder goes to a charitable organization such as ours.

Because the unitrust is an irrevocable charitable gift, you receive an income tax deduction in the year you make the gift to the trust. Each year, the trust pays the trust beneficiaries a variable amount equal to a fixed percentage of the trust's value.

#### 4 Ways to Structure a Unitrust

**1. The regular payment unitrust.** This version makes payments to the income beneficiaries at the rate specified in the trust agreement, even if invasion of the trust principal is required. This is the most common type of unitrust.

**2. The net income unitrust.** This type bases payments on the fixed percentage of the value of the trust or the actual amount of income earned by the trust, whichever is less. Unlike the regular payment unitrust, this version does not invade the principal. It is used by donors who want to give non-income-producing assets to the trust.

**3. The net income with makeup unitrust.** This trust is similar to the net income unitrust, but it provides that in any year the trust income exceeds the fixed percentage payout, the excess must be used to make up for any prior deficiencies. This trust is often used for retirement income planning because of its flexibility.

**4. The flip trust.** This type of unitrust begins as a net income or net income with makeup unitrust and "flips," or changes, to a regular payment unitrust during the trust's term. Real estate is typically used to fund this type of trust.



## Case in Point

Bob and Sharon, aged 65 and 63, are in the 28 percent tax bracket and will have a taxable estate at the second death. They own stock valued at \$300,000, for which they paid \$75,000 15 years ago. The stock pays an annual dividend of \$6,000.

With Bob about to retire, the couple decides that these assets should be reinvested in securities paying better than a 2 percent return. If they sell this stock for \$300,000, however, they will incur a federal long-term capital gains tax (at 15 percent) of \$33,750 on the \$225,000 gain. To avoid losing the use of this income-producing property, they decide to combine their retirement income objective with a charitable gift.

They create a two-life, 5 percent charitable remainder unitrust using a net income with makeup provision and fund it with their stock. The 5 percent annual payout increases the income received from the assets and generates an income tax deduction of \$100,755 assuming a charitable midterm rate of 2.4 percent. The net income plus makeup provision protects the principal and remainder interest.

### The unitrust solves three significant problems for Sharon and Bob:

1. Income from current assets is increased
2. They avoid up-front capital gains tax on the sale of the stock
3. Estate taxes are reduced as a result of the charitable deduction when the remainder interest passes to the charitable organization

## Add Up the Benefits

Please call us so we can discuss how these ideas could fit your particular circumstances.

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**Indian River County Habitat For Humanity International**

**The Development Department**

Phone: (772) 562-9860 x209

Fax: (772) 562-8732

**E-mail:** Pgibbs@irchabitat.org

4568 N US Highway 1

Vero Beach, FL 32967

**Web site:** <http://www.irchabitat.org>