



TAILORED TO FIT Charitable Remainder Trusts

IRS-qualified charitable remainder trusts are wonderful arrangements for the generous of heart. They are very flexible in form and can be tailored to fit your particular situation. Some trusts are designed to handle assets that are not immediately marketable - real estate, for instance, or closely held stock. Some trusts can accept only one gift transfer; some can accept an unlimited number of contributions. Some pay a fixed income, and some pay a variable amount.

All charitable remainder trusts are irrevocable; assets transferred to the trust cannot be “taken back” by the donor. All charitable trusts make payments to individuals, either for life or for a set number of years. Charitable gifts are made after the trust terminates to the organizations listed in the trust document.

The Charitable Remainder Annuity Trust (CRAT)

An annuity trust pays a fixed dollar amount every year, based on a percent of your initial contribution to the trust. The annuity amount must be at least 5% of the fair market value of your gift. No additional gifts are permitted. Cash and readily marketable securities are appropriate assets to gift. The IRS requires that the likelihood that trust assets will be depleted before any gift is made to charity be no more than 5%.

If trust assets appreciate in value, payments remain fixed: the charity’s interest increases. If trust assets decline, payments remain fixed: the charity’s interest declines and is subject to depletion.

The Charitable Remainder Unitrust (CRUT)

Unitrust payments vary from one year to the next. Called the “unitrust amount,” what you receive in one calendar year is determined by multiplying the fair market value of the trust on the first day of that year by a fixed percentage stated in the trust document. The unitrust percentage must be at least 5%. The IRS also requires that at least 10% of the initial value of the trust will remain for charitable purposes at the end of the trust term.

Example: If the trust is worth \$250,000 and the unitrust rate is set at 5%, then you will receive \$12,500 that year. The following year is likely to be different.

Additional gifts are allowed to unitrusts, and payments are adjusted to reflect increased trust value. If the value of the trust assets increases in subsequent years, both the payments and the charity's interest will increase. If the asset value drops, both the payments and the charity's interest will decrease. In addition to cash and readily marketable assets, unitrusts work very well for gifts of non-income producing property or assets that are not readily marketable.

Net Income Unitrust

Both annuity trusts and simple unitrusts must begin to make the required payments immediately once the trust is funded. In addition, those payments must be made regardless of trust income or appreciation, even if it means dipping into principal.

A net income unitrust, on the other hand, is subject to different rules regarding payments than those applied to CRATs and simple CRUTs. The net income unitrust makes payments only to the extent that, after expenses, it has income to distribute. If the trust has no income, there will be no payment made to you.

The net income trust gives the trustee some breathing room between the transfer of real property and the obligation to make payments to the income beneficiary, you. There is no absolute guarantee on the timing of a completed sale of real estate, and the net income provision gives the trustee time to find a buyer, sell trust assets at the best possible price, invest the net proceeds, and begin to generate income for payments to the income beneficiaries.

Example: A trust worth \$250,000 with a unitrust rate of 5%. In the first year, the trust holds real estate and sells it after 3 months. The first payment from the trust to the income beneficiaries may be small, and let's say the total net income earned by the trust that year is \$10,000.

Even though the total amount payable to the income beneficiaries for this initial year is the unitrust amount of \$12,500 (5% of \$250,000), the total amount actually paid to the income recipients is \$10,000 because a net income CRUT pays the lesser of two figures: the net income of the trust **OR** the unitrust amount.

Flip Unitrust

Most donors do not want a charitable remainder trust payment limited to net income forever. Given a choice they would rather receive \$12,500 in payment than \$10,000. Fortunately, there is a way to make this happen, beginning with the first day of the calendar year following a "triggering event" that is specified in the governing trust document. Called a "flip unitrust," the IRS allows a net income unitrust to become a simple unitrust, and after that change is made the trust must remain a simple unitrust.

There are rules for what qualifies as a triggering event, and one is the sale of not-readily-marketable trust assets such as real estate. If you were to set up a net income unitrust with a flip triggered upon the sale of the real property held by the trust, then your trust would remain a net income unitrust from the date of sale until January 1st of the next calendar year.

In today's investment climate, the UUA suggests that you consider a unitrust rate of 5% or 6%. This permits a balanced investment strategy that will allow the trust to appreciate in value over time, securing you steadily increasing payments and preserving a significant gift to the charitable beneficiaries 25-30 years from now.

Are there minimum requirements?

Yes, \$100,000 is the minimum initial gift from readily marketable assets (cash & securities). The preferred minimum initial gift of real estate is \$250,000. Income beneficiaries must be at least 40 years old and there can be no more than two income beneficiaries. The Unitarian Universalist Association will be named for at least 10% of the trust remainder.

Can my congregation benefit from my gift?

Yes, any UU congregation, church, or fellowship in the U.S.A. may receive what remains of your gift. Districts, UU theological schools, camps and conference centers, or other UU entities may also be named. To help the Association to continue to provide this free service, we hope you will give at least 25% to the UUA, but you are free to give all or part of your gift to any UU entity.

How will a Trust work for me?

To request an estimate of benefits you might enjoy, please contact:

Office of Legacy Gifts
Unitarian Universalist Association
25 Beacon Street
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Toll-free: (888) 792-5885
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