# Charitable Remainder Annuity Trust vs. Unitrust

## 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 value of the remainder interest to charity calculated 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 CRAT pays a fixed percentage (at least 5%) 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 CRUT, by contrast, pays a fixed percentage (at least 5%) of the trust's value as determined annually. Thus, the payout is adjusted each year as the value of the trust assets goes up or down. A donor can make additional contributions to a charitable remainder unitrust.

## The Variations...

- A **straight charitable remainder unitrust** makes annual distributions based on a payout rate that is a set percentage of trust assets. A payout tied to the trust's annual value can act as a hedge against inflation when the trust assets increase, but can also mean a lower annual payout in years when 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** (NIMCRUT) 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 CRAT and a CRUT depends on the donor's particular wishes and priorities.
- A **CRAT** 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 **CRUT** 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 illiquid 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.

## The Charitable Remainder Annuity Trust vs. Unitrust

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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 |
| **3** | When the trust ends, the trust remainder is transferred to the charity. |