How a Charitable Remainder Unitrust Works

The donor transfers an asset to the trustee of the charitable remainder unitrust (CRUT) and receives a set percentage of the trust value for each year thereafter. A current income tax deduction is also available.

When the donor or other named beneficiary dies or the trust term ends, the remaining trust assets pass to one or more designated charities.

DONOR

- Transfers asset to CRUT.
- Receives annual payout.[1]
- Receives income tax deduction.[2]

Asset

% of Trust Annually

Income Tax Deduction

CRUT

- Trustee sells asset and reinvests for greater return.
- Pays no capital gain tax due on the appreciation at the time of sale.
- Trustee pays a percentage of trust assets as valued each year.

After the beneficiary is deceased, remaining trust assets pass to the charity.[3]

CHARITABLE ORGANIZATION

- Receives any assets remaining in the trust when the beneficiary is deceased.

[1] The annual annuity payout is taxed under a four-tier system. Generally speaking, ordinary income is paid first, followed by capital-gain, other income, and trust principal.

[2] This deduction may have to be spread over more than one year, if it exceeds certain percentage of income limitations.

[3] If a surviving spouse "elects" to claim a part of a deceased spouse's estate, the income and estate tax benefits of a CRUT may be lost.

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