BENTLEY UNIVERSITY

Create Variable Income Now: Charitable Remainder Unitrust

A charitable remainder unitrust can help you maintain or increase your income while making a significant gift to Bentley.

If your unitrust grows, your payments will grow too, providing a hedge against inflation. A unitrust provides more flexibility than other life income plans.

A *charitable remainder unitrust* could be right for you if:

- You want to provide income for yourself or others.
- You want the possibility of income growth.
- You want to save income taxes or capital gains taxes.
- You want to choose the person who administers your gift and guides its investments.
- You want to make a generous gift to Bentley.
- You are considering a gift amount of $50,000 or more.

Separate trust

A charitable remainder unitrust is a tax-exempt trust governed by a trust agreement. You choose the trustee who is responsible for administering the unitrust and guiding the investment of its assets.

Irrevocable gift

A charitable remainder unitrust is an irrevocable arrangement. Once you transfer assets to the trust, you cannot change your mind and get the assets back. This requirement assures that whatever value remains in your unitrust when it ends will go to support Bentley.

Payments vary with value of unitrust

Each year, your unitrust will distribute a fixed percentage of its current value, as revalued annually. If your unitrust's value goes up from one year to the next, its payments will increase proportionally. Likewise, if your unitrust's value goes down, its payments will also go down.

Remaining assets to Bentley

When your unitrust ends, all of its remaining principal will become available to support Bentley.

You choose the payment percentage

You choose the percentage of your unitrust's value that it must pay each year to its income beneficiaries. The payment percentage must be at least 5%. It may be to your advantage to choose a relatively low payment percentage so that your unitrust's assets have the best chance to grow. If the value of your unitrust grows, so will its payments. A payment rate of 5% to 6% is typical. Payments are usually made in annual, semiannual, or quarterly installments.

Payment flexibility

You can include special payment provisions in your unitrust that make it a good way to give debt-free real estate or other illiquid assets that may take time to sell. In this situation, you can limit your unitrust's payments to its net income or its unitrust percentage, whichever is less. This way, your trustee can take the time necessary to sell your assets at a fair price. If your unitrust's net income is less than its unitrust percentage during this time, then it will distribute its net income only. This "net income" limitation can last for the entire term of your unitrust or just until a specific event occurs, such as the sale of your gift asset.

Who can receive payments?

You decide who will get the payments from your unitrust. Usually, this will be you, or you and your spouse. You can, however, select other people to receive the payments. For example, you may wish to provide income for parents, a sibling, or children.

How long do payments last?

While most unitrusts last for one or two lives, other terms are possible. A unitrust can last for more than two lives, for a specific length of time of up to 20 years, or for a combination of lives and years.

Tax benefits

- Earn an immediate income tax charitable deduction.
- Avoid capital gains tax.
- May reduce estate taxes and probate costs.

You will receive an income tax charitable deduction in the year of your gift. If you cannot use the entire deduction in the year of the gift, you may carry forward your unused deduction for up to five additional years. If you give appreciated securities to fund your unitrust, you will not pay any capital gains tax when you make your gift.

In addition, because a unitrust is a tax-exempt trust, it will not pay any capital gains tax when it sells these assets. This means that your trustee will be able to reinvest the full value of the assets you donate. By removing the gift assets from your estate, you may also reduce estate taxes if your estate exceeds the then applicable estate tax credit. You may also reduce probate costs when your estate is settled. The amount of these savings will depend on the size of your estate and on estate tax law in force at the time your estate is settled.

Taxation of payments

The taxation of unitrust payments depends on the trust's past distributions and investment performance. Payments from a unitrust are typically taxed as ordinary income. If the trust is funded with appreciated assets, a portion of the payments could be taxed at lower capital gains tax rates in some years. It is even possible for a portion of the payments to be tax-free in years when there is not enough ordinary income and capital gain income to make the payments.

Add funds anytime

You can make additional gifts to your unitrust anytime. Additions earn an additional income tax charitable deduction that may save you income taxes if you itemize your deductions. You will also increase future payments without the effort and expense of creating a new unitrust.

Assets to consider giving

The following assets make excellent sources for funding your charitable remainder unitrust:

- Cash that you currently have in a savings account, bank CD, money-market fund, or other safe but low-yielding investment.
- Securities, especially highly-appreciated securities.
- It is also possible to create a unitrust using real estate that is debt-free or other illiquid assets that may take time to sell.

Example

Audrey is 76 years old and her husband John is 75. Many of the stocks in their portfolio have appreciated substantially in value over the many years Audrey and John have owned them. They are enthusiastic about making a major gift to support Bentley, but they also would welcome a way to receive greater income from their investments without paying a big capital gains tax.

After consulting with their advisor, Audrey and John find that a 5% charitable remainder unitrust funded with $500,000 in assets will meet their needs perfectly. They fund their unitrust with $400,000 in stocks plus $100,000 from a money market fund. They paid a total of $75,000 for the stocks, which currently produce about 2% in dividends each year. Their money market fund has been earning about 2% interest annually.

Benefits

- Audrey and John will receive $25,000 in payments in the first year of their unitrust, significantly increasing the income they had been receiving from these assets. If the income and appreciation of the trust's investments, net of costs and fees, total 7% annually, their payments will grow to over $33,647/year* in 16 years.
- Audrey and John will receive an immediate income tax charitable deduction of about $251,165**.
- Audrey and John's trustee will be able to sell their stock immediately in order to diversify their unitrust's investments without paying any capital gains tax.
- Assuming its investments earn a 7% net annual return on the unitrust's investments, over $686,393* will be left in Audrey and John's unitrust to support Bentley when their unitrust terminates.

*The future payment amounts and principal amount remaining for Bentley will be lower if the Audrey and John's unitrust earns less than 7% annually.
**Audrey and John's income tax charitable deduction will vary slightly depending on the timing of their gift.

NEXT STEPS:

To receive further information about a charitable remainder unitrust, or to learn more about how your gift can help Bentley, please contact Liz Siladi, Director of Gift Planning and Senior Philanthropic Advisor, or Kris Otto, Associate Director of Gift Planning.

- call **Liz at 781-891-2475 or Kris at 781-891-2586**
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