

How are payouts from the unitrust taxed?

Most unitrust payouts are taxed as ordinary income. However, there can also be some capital gains or tax-exempt amounts, depending on how the trust was funded and how the trust assets are invested. The trustee (Covenant Trust Company) provides you with tax information every year that tells you exactly how to report the payout you received from the unitrust.

Is there more than one type of CRUT?

Yes. The *straight* unitrust pays the stated percentage even if the trust earned less and it means paying out principal. The *net income* unitrust pays out what the unitrust earns, as long as it does not exceed the stated percentage. *Net income with make-up* allows any deficiencies in income from years when the trust may not have earned the stated percentage to be made up in future years when the trust earns more than the stated percentage. You can also have a unitrust that lasts for a specific period of years (maximum 20) rather than for life.

Can you show me how a CRUT works?

Here's an example. Let's assume that you are 65 years of age and your wife is 62. You want to use \$100,000 of appreciated securities to fund a Charitable Remainder Unitrust with a payout rate of 6% for life. Your cost basis (what you paid) for the stocks is \$50,000, and you are in the 25% federal income tax bracket. Your securities currently earn a 3% dividend. Once you transfer the securities to your unitrust, the trustee sells them. You do not have to pay the capital gains tax on the \$50,000 of appreciation, a tax saving of roughly \$7,500. You would receive a charitable deduction of about \$26,800 on your federal income tax. Your payout for the first calendar year of the trust would be \$6,000 (6% of \$100,000.) Assuming the trust actually earned 7%, your payout for the second year would be \$6,060 (6% of \$101,000.) After the death of both you and your wife, your chosen Covenant ministries would receive approximately \$130,000, based on these assumptions.

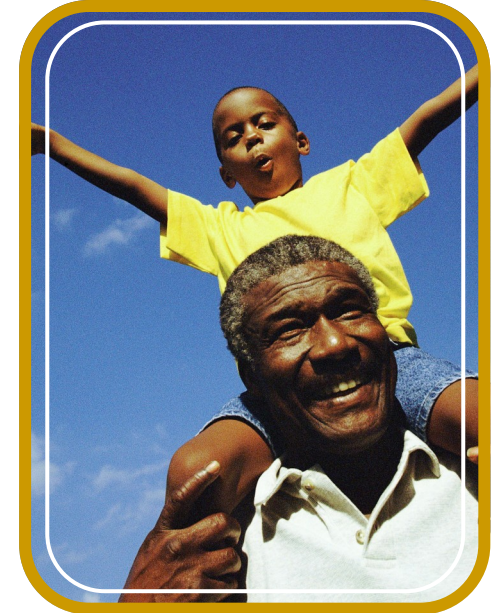
Where can I learn more?

We are happy to provide a personalized example showing exactly how a Charitable Remainder Unitrust might apply to your situation. Contact your local Financial Services Representative through our website at www.CovenantTrust.com, or call our office toll-free at 800-483-2177.

Information contained in this brochure is for purposes of information and education only, and is not intended as either tax or legal advice. Consult your personal tax and/or legal advisor for specific information.



Q & A ABOUT CHARITABLE REMAINDER UNITRUSTS AT COVENANT TRUST COMPANY



 **COVENANT TRUST COMPANY®**
your financial services partner

trustee services • asset management • retirement planning • legacy planning

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What is a Charitable Remainder Unitrust?

A Charitable Remainder Unitrust (CRUT) is an irrevocable deferred gift to one or more charitable organizations. Assets—cash, securities or real estate—are transferred to a trustee, and the donor receives income for life. After the death of the last income beneficiary, the property remaining in the trust is distributed to one or more charitable ministries of the donor’s choice. Where Covenant Trust Company® serves as trustee, Covenant ministries must be designated to receive at least 50% of the charitable portion.

When should I consider a CRUT?

You should consider a charitable remainder unitrust:

- if you want to make a significant deferred gift that results in an income tax deduction, regular payouts to you, and then ultimately benefits one or more Covenant ministries
- if you have highly appreciated securities or real estate that you want to use to make a charitable deferred gift
- if you want a stream of income that may be greater than what the funding assets are currently earning
- only if you have in excess of \$150,000 in additional assets beyond those used to fund the CRUT

How much does a unitrust pay?

A fixed percentage (referred to here as the “stated percentage”) is determined at the time the unitrust documents are prepared. Each year you receive that percentage multiplied by the fair market value of the trust assets on December 31 of the previous year.

Can the CRUT provide payouts for my spouse or someone else?

Yes. Both you and another person can receive payouts from the unitrust for your lifetime. Most unitrusts are for one or two lives.

Can I use real estate to fund a unitrust?

Yes, although there are several things to consider first. The real estate cannot be mortgaged, and you must be able to provide clear title. You must provide complete environmental information. The property must have sufficient value to be sold; however the sale may not be “arranged” prior to placing the property in the unitrust. You are required to provide a current appraisal of the property.

Are there income tax benefits to a CRUT?

One of the benefits of a charitable remainder unitrust is that the trust assets are not counted as part of your estate for probate or estate tax. Because property transferred to the trust will be used for charitable purposes in the future, gift, estate and income tax deductions are allowed in the year of the gift. You receive a charitable contribution deduction on your federal income tax for the charitable portion of the unitrust. Any unused portion of the charitable contribution can be carried forward up to five additional years. Charitable remainder trusts can result in tax-free diversification and growth of investments. If you fund with cash, it is deductible up to 50% of your adjusted gross income (AGI). If you use securities or real estate to fund the CRUT, you can deduct up to 30% of your AGI. If you use appreciated securities or real estate to fund your CRUT, you also eliminate capital gains tax. Assets that have appreciated in value but don’t earn much income can be used to fund a unitrust. Then the trustee can sell them and reinvest in higher-yielding assets. Because the trust results in a deferred charitable gift, the capital gain realized on the sale is not subject to tax when the assets are sold. This means the entire proceeds from the sale of the funding assets is available to provide income. Any income beyond what is required to make payments to the income beneficiaries is allowed to accumulate inside the unitrust tax free. *It’s important to remember that the trustee must be the one to sell the assets once they are funded into the unitrust.*