What Color Is Your CRT?

PG Calc Webinar

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Introduction

The venerable Charitable Remainder Trust serves as the ideal split-interest gift vehicle in a significant number of donor situations. In this paper, we'll look at the different types of CRTs that are available to planned giving donors. Our examples will include using a CRT to supplement retirement income, to convert real estate into a source of income, or to create a substitute for the now defunct "stretch" IRA. We will also touch on proposed tax changes that would affect the appeal of the charitable remainder trust to many donors, should they become law.

1. Charitable Remainder Annuity Trust

The Charitable Remainder Annuity Trust (CRAT) is probably the best place to start, because, in some respects, it is the simplest version of the Charitable Remainder Trust. Like all CRTs, it is created by a donor through a governing trust document, and the process is generally completed with some degree of legal assistance. The trust document names a person or entity to serve as Trustee – which can be the donor – and the trust becomes its own legal entity. The trust itself is exempt from taxation, but the Trustee must obtain a tax identification number for the trust upon its creation, and an informational tax return must be filed for each calendar year.

The CRAT is set up to pay a percentage of the initial funding amount to the donor – or to some other person or persons – in each calendar year. Federal tax laws require the payout percentage to be somewhere between 5% and 50%, however, in recent years, virtually all CRATs have been written with the minimum 5% payout rate. Unlike other CRTs, the beneficiary distribution amount never changes, regardless of how many years the trust exists. Upon the death of the beneficiary (or final beneficiary), the corpus of the trust is distributed to one or more charitable remainder entities. CRATs may be established for a specific term of years – up to a maximum of 20 – but generally they are written to make payments for the remaining life of one or more beneficiaries.

The donor of the Charitable Remainder Annuity Trust receives an income tax deduction for a portion of the initial funding amount. The precise amount of the deduction is computed using formulae mandated by the IRS, but essentially, the deduction represents a conservative estimate of the future remainder value of the trust, discounted to present value. There are limits on the amount of charitable deductions that each donor can take in any given year, based on the donor's Adjusted Gross Income. If the donor is unable to use all of the deduction in the year the trust is funded, the donor may use the deduction – or portions thereof – in as many as 5 additional "carry-forward" years.

The CRAT is especially popular with older donors, and others who wish to establish a specific dollar amount of distributions each year. No matter how much the trust corpus grows in value – or diminishes in value – the amount of the beneficiary distribution will not change. The payments last as long as there are sufficient assets remaining in the trust. The risk of the CRAT, however, is that the principal value may decline to the point that the requisite distributions become unsustainable. Every type of CRT involves the risk of principal erosion, but only the CRAT bears the possibility of becoming fully exhausted– the point at which all assets are depleted.

That is why there is a special probability of exhaustion test that only the CRAT must pass. The likelihood of the trust being wiped out must not exceed 5%, or the trust will not qualify as a CRAT. Computing the probability a CRAT will exhaust its principal is a two-step process. First, using the IRS discount rate as the assumed annual return on the CRAT's investments, you determine how many years it will take for the CRAT's principal to shrink to $0. Second, you use the mortality table mandated by the IRS for computing CRAT charitable deductions (2000CM) to determine the probability the income beneficiary(ies) will live that long. If that probability is more than 5%, the CRAT fails the 5% test. Under current conditions (with the IRS discount rate stuck at 1.2% for several months), a 5% CRAT that makes quarterly payments will not qualify with an income beneficiary under the age of 75. The CRAT passes the minimum charitable remainder test of 10%, but it has more than a 5% chance of becoming completely depleted prior to the passing of the beneficiary.

Here is an example of how the numbers work: Stella Chadwick is a widow who wishes to establish a $500,000 CRAT with cash. The CRAT will pay Stella 5% of the initial funding value each year for the rest of her life. In June 2021, if Stella is only 72 years old, the CRAT would pass the 10% minimum charitable remainder test, as the charitable deduction theoretically would be $212,835.00. But the trust would not qualify as a Charitable Remainder Annuity Trust, because there is a 9.95% probability that the trust will become exhausted. On the other hand, if Stella is 75 years old, the CRAT passed both the 10% minimum charitable remainder test AS WELL AS the probability of exhaustion test; with the donor and beneficiary being 75 instead of 72, the probability of corpus exhaustion goes down to 4.77%, which is below the 5% threshold. The charitable deduction for Stella at 75 would be $248,075.00.

In 2016, the IRS introduced special language that may be used in the governing trust document to work around the limitation of the probability of exhaustion test. The clause specifies that, if the corpus of the trust drops to 10% of the original funding value, plus interest computed using the IRS discount rate, the trust will terminate and distribute at that point to the remainder charity or charities. With the special clause, the trust will qualify as a tax-exempt CRAT, and the donor will be entitled to a charitable deduction. So in our example, if Stella is 72 years old and wishes to establish the 5% CRAT now, the trust will qualify so long as the governing trust document incorporates the additional clause from the 2016 ruling.

Please see Appendix I for the calculations for a Charitable Remainder Annuity Trust established by a 72-year-old donor, and Appendix II for the CRAT established by a 75-year-old donor.

2. Standard Charitable Remainder Unitrust

While the Charitable Remainder Annuity Trust is the simplest version of CRTs, the Standard Charitable Remainder Unitrust is certainly the most popular. As with all CRTs, the S-CRUT is established by the donor working with an attorney; a governing trust document is created, naming a person or entity to serve as Trustee. The donor transfers cash or other property into the trust, and the initial funding value is established.

For the first year, the payment to the donor – or whomever is named as beneficiary – is computed by multiplying the original funding amount times the payout percent, and then prorated based on the numbers of days that the trust existed. As with a CRAT, the payment must be at least 5% and no more than 50%, and most S-CRUTs in recent years have been written lowest possible rate of 5%. Beginning in the 2nd year, which is the first *full calendar year*, the amount of the beneficiary distribution will be based on the market value of the assets of the trust on the annual valuation date; the beginning-of-year market value times the payout percentage rate is the amount of distribution to the beneficiary that year. Technically this date can be any date in the year, but generally, it is the first day of the year, or the first business day of the year.

The S-CRUT incorporates a certain degree of uncertainty, in that the beneficiary distribution amount may go up (when the market value increases), or down (when the market value decreases). There is no way to predict specific investment results, of course, but generally speaking, an S-CRUT with a 5% payout rate should be able to maintain its original funding value, or even grow a little, based on average market returns over the past 25 years.

Let's look at the example of a 5% CRUT being considered by Harold and Betty Jackson, who are 63 and 61, respectively. They would like to use appreciated securities as the initial funding asset, knowing that the capital gains treatment will be advantageous through the trust. Right now, if they contribute $600,000 to a 5% CRUT, which will make payments to them for the rest of their lives, their charitable deduction will be $177,570. Moreover, let's say that the cost basis of the stock is only $120,000. Were they to sell the shares outright, they would have to report $480,000 in realized capital gain. Currently, the maximum federal capital gains tax rate is 20%, and many states also tax realized gains. Harold and Betty could be looking at tax for this calendar year of $100,000 or more.

With the S-CRUT, the cost basis of the stock transfers into the trust, and the long-term capital gains are only realized upon the sale of the stock inside the trust. Those capital gains – called "pre-contribution" capital gains – are only taxed when they become part of the beneficiary distributions. If the trust assets earn dividends and interest of $15,000 in the first full year, the Trustee will have to use some of the principal to make the mandatory $30,000 beneficiary distribution. In addition, the management fees will wipe out a portion of the earned income. This means the amount of earned income available to distribute to the beneficiaries is only $8,730. Where does the other $21,270 come from? The IRS rules stipulate that if the net accounting income is insufficient to make the beneficiary payments, the Trustee must use some of the realized capital gains to complete the beneficiary distributions. So, the other $21,270 that is paid out as part of the total $30,000 will be categorized and taxed as long-term capital gains.

When donors are in their early 60s, and they are considering establishing a Standard Charitable Remainder Trust with significant assets, they are likely interested in creating a larger and more sustainable flow of income for their retirement years. Of course, the premise is that they are hoping to make a substantial gift to charity with what's left in the trust when it ends, but the S-

CRUT can produce a steadily-increasing flow of income to its beneficiaries in future years, as well. If we assume an income yield of 2.5%, and rate of principal appreciation of 4.5%, and a management fee of 1%, the annual total beneficiary distribution will increase from $30,000 in the first full year to $40,664 in 2052, the theoretical average remaining life expectancy for these two ages (based on the mortality tables we use today). Of course, we know that in the real world, the rate of income, and especially the rate of capital appreciation, can vary widely, but we are using numbers that are reasonable for average rates of return over the long run for routine split interest trust investments.
[For an extensive discussion on determining reasonable investment assumptions for trust projections, please see our Feature Article from February 16, 2021: https://www.pgcalc.com/support/knowledge-base/pg-calc-featured-articles/2020-the-best-and-worst-of-times]

In addition to the beneficiary distribution increasing over time, we also note the principal value of the trust assets growing over time. The corpus that starts out at $600,000 increases to a value of $821,050 after 32 years. That is a significant increase in the amount of the charitable gift – and it doesn't necessarily stop there. Harold and Betty could well live far past their statistical life expectancy, which would make the value of the residuum even higher. This example clearly illustrates how the S-CRUT provides substantial monetary benefits for not only the donors, but also, for the remainder charity.

Please see Appendix III for the calculations for a Standard Charitable Remainder Unitrust funded with highly appreciated securities.

3. Net Income Charitable Remainder Unitrust

The Net Income Charitable Remainder Unitrust (NICRUT) is a less popular version of the CRUT, but for a few donors, it does make sense. Like the CRAT and the S-CRUT, it is created by the donor with legal assistance. Upon receiving the original funding, the Trustee or its agent determines the initial funding value, and computes the tentative beneficiary distribution for the calendar year (prorated for the first partial year). But the NICRUT has an additional provision that the allows the Trustee to distribute *only the net income earned for the year if that net income is less than the computed payout amount.*

This version of the CRT is particularly attractive for donors who are interested in seeing the corpus of the trust grow over time, and who are not concerned about receiving the full percentage payout each year. With today's environment of historically low interest rates on bonds, and relatively low dividend yields on stocks, it is highly unlikely that a CRT will earn anywhere near 5% - especially if management fees take a bite out of the income. Since less money is being paid out to the beneficiary, as compared to the S-CRUT, there is a higher probability of the value of the trust increasing over time. Interestingly, however, the charitable deduction is computed in exactly the same manner as the deduction for an S-CRUT.

In our example for Harold and Betty Jackson, we modeled a Standard Charitable Remainder Unitrust, but let's look at how it would work for a Net Income Charitable Remainder Unitrust. The funding assumptions will remain the same - $600,000 of long-term securities with a cost basis of $120,000. And the charitable deduction will remain the same, at $177,570. But let's look at what changes with the income and principal aspects. If the trust is a NICRUT, the income paid out to Harold and Betty as beneficiaries will be only the 2.5% income earned each year from the trust assets. And if the management fee is 1%, the net income will be only 1.5%. So the distributions to Harold and Betty will be significantly less if the trust is a NICRUT. In the first full year, the Jacksons will only receive $8,730 as the beneficiary distribution, and their distributions increase to $35,706 in 2052 after 32 years.

On the other hand, look at what happens to the principal value of the trust. Because only the net earned income is being paid out, the trust corpus grows much more quickly, and the remainder after 25 years is significantly greater. With the S-CRUT, the projected residuum is $821,050, but with the NICRUT, the projected remainder is $2,564,418. Yes, that's right! The principal grows over 32 years to more than 4 times the original funding amount. The offset to the much higher residuum is that the payments to Harold and Betty total only $635,162. But maybe that's ok with them – remember that for some donors, they are only looking for a modest stream of income from their split interest gift arrangements. Don't rule out the possibility that your potential trust donors are looking to maximize the charitable benefits of the gift, not the personal benefits of the gift.

Please see Appendix IV for the calculations for a Net Income Charitable Remainder Unitrust.

4. Net Income With Makeup Charitable Remainder Unitrust

The Net Income With Makeup Charitable Remainder Unitrust is a variation of the NICRUT, as described above, but it has an additional provision allowing for the "making up" of underpayments in previous years. The Trustee of NIMCRUT keeps a running total of the shortfalls in years when the trust's net income is less than its payout percentage. If the NIMCRUT earns more net income than its payout percentage in a later year, it can distribute all of its net income so long as its net shortfall remains above $0. If the trust earns more income than the payout percentage rate in any given calendar year, the Trustee will distribute any "excess" income to make up for any years of underpayment.

For example, when a 5% NIMCRUT earns net income of 3%, it will distribute 3% of its value and add 2% of its value to its cumulative shortfall total. If the NIMCRUT earns 6% net income the next year, it will distribute all of its net income that year, which will reduce its cumulative shortfall total by 1% of the trust's value. If it earns 7% net income the following year, it will distribute only 6% of its value: the 5% unitrust amount plus the remaining 1% shortfall from prior years.

A NIMCRUT can make sense for a donor who wants to fund the trust with an illiquid asset and preserve principal for the charity. The net income provision gives the Trustee time to find a buyer without the need to distribute more than the available net income. Once the asset is sold, the trustee can invest to generate income, thereby increasing distributions, while the net income provision continues to protect against erosion of the remainder that will go to the charity.

With interest rates and dividend yields markedly below 5% these days, the likelihood of any making up of payments for previous years of underpayments is extremely unlikely in the near future, as long as the definition of net income is limited to dividends, interest, rents, and royalties. There is an additional possibility with the NIMCRUT, however, that the governing trust document can be written to include post-contribution capital gains as being part of the "net income." In that case, the trust may very well have "excess net income" in future years, in which case the underpayments from previous years could be made up in later years.

Let's use our previous example for Harold and Betty Jackson and show what would happen with a NIMCRUT. If the trust document were written to include post-contribution capital gains as part of distributable income, the trust would provide substantially more in distributions to the donors, but of course, the value of the residuum would be much less. If we assume that the funding assets are sold in the first year, and we have the same income, appreciation, and expense assumptions as noted previously, the beneficiary distribution in 2022 would be $8,730. That is with the trust functioning as just a net income trust. But once the funding assets are sold, the Trustee is now able to distribute the net income earned PLUS the realized capital gains from the NEW investments. We'll assume that the realized capitals gains amount to approximately 1% of total principal value each year; that means the beneficiary distribution in the second year – 2023 – jumps to $15,456, and the annual distribution amount steadily grows to $44,899 in 2054. On the principal value side, the total corpus value grows to $1,885,206 at the end of 2052. That's more than three times the funding amount! In this example, we can see a sort of happy medium, between the S-CRUT, which seems to favor the donors' interest over the charity's interest; and the NICRUT, which seems to favor the charity's interest over the donors' interest. The numbers for beneficiary distributions and total value of corpus fall right in between the numbers of the other CRUTs.

Which trust is best for the Jacksons? That's really for them to decide, but the gift planning officer can be enormously helpful by running these different scenarios.

Please see Appendix V for the calculations for a Net Income With Makeup Charitable Remainder Unitrust.

5. Flip Charitable Remainder Unitrust

The Flip Charitable Remainder Unitrust is actually a hybrid gift vehicle that starts as a NICRUT, then becomes a standard CRUT in the year after a specified triggering event occurs. The triggering event can be the sale of an "unmarketable" asset, a specific date, or any other event outside the donor's control. The flip CRUT is often used when the funding asset is real estate or some other asset that may take time to sell. Like a NICRUT, the trustee has time to find a buyer without the need to distribute more than the net income available.

Once the funding asset is sold, the trust can flip to an S-CRUT. The trustee can then invest to maximize total return, knowing the trust will distribute its unitrust percentage each year regardless of its net income. The Flip CRUT makes sense for a donor who wants the trust to distribute its unitrust percentage every year once the funding asset is sold, even if it must dip into principal some years to do it.

Here's an example of a Flip CRUT to be used in conjunction with an illiquid asset: Reynaldo and Isabel Garcia, who are 71 and 70, respectively, are considering using their vacation home to fund a Charitable Remainder Unitrust. They purchased the home many years ago for $65,000, and now it is valued at $750,000. Because it is not their primary residence, they would realize $685,000 in long-term capital gains. If they are NOT in the top federal income tax bracket, their capital gains tax rate would be 15%, so their federal capital gains taxes would be $102,750. But their state may also tax capital gains, which could push their tax bill up by tens of thousands of dollars.

If the Garcias fund a Flip CRUT instead, the capital gains will be realized inside the trust, and only a modest amount of gains will be distributed (and taxed) each year. We could be VERY optimistic and assume that the property will sell during the remainder of 2021, but let's err on the side of caution. If we assume that the property is sold in 2022, that means the trust will convert to a standard CRUT on January 1, 2023. Starting in 2023, the Garcias would receive a distribution each calendar year that is 5% of the market value on the first day of each calendar year.

We would assume that there is no income in the trust for the first full year, which is 2022, and as a net income trust, that means the Garcias would receive nothing from the trust that year. Also, please note that the broker's commission of 6% makes a noticeable dent in the total market value. But once the trust flips, the Garcias will receive $35,250 in 2023, and we would expect the amount to increase over the long run.

The Flip CRUT can also be used as a supplemental retirement plan: the donor makes an expected retirement date the flip triggering event. Distributions will be limited to net income before that date, and the trust will switch to standard unitrust amounts at the beginning of the next calendar year.

Building on our previous example, let us suppose that the funding assets are appreciated securities instead of real estate. That means the Trustee will sell those funding assets as quickly as possible. But the trust will remain as a net income unitrust until calendar year 2026, because the Garcias have established December 31, 2025, as the official triggering event (their presumed time of full retirement). Beginning in January of 2026, the trust will become a standard CRUT, and the Garcias will begin receiving standard unitrust amounts instead of net income.

With those parameters, we see that the beneficiary distribution in 2022 is only $10,913, and it increases to $12,453 in 2025. But upon the conversion to a standard unitrust in 2026, the beneficiary jumps to $44,719 and rises to $53,570 in 2052. That is exactly the results that some donors are looking for in a Flip CRUT designed for retirement purposes – the beneficiary distributions are modest during the pre-flip years, but after the flip, the beneficiary distribution amount increases dramatically to a level that will be significant and meaningful in the years of full retirement.

Please see Appendix VI for an example of a Flip Charitable Remainder Unitrust funded with real estate, and Appendix VII for a Flip Charitable Remainder Unitrust funded for retirement purposes.

6. Flip With Makeup Charitable Remainder Unitrust

A Flip with makeup CRUT is similar to a Flip CRUT, but it allows income shortfalls to be made up later during the pre-flip period. In instances where the triggering event is the sale of an unmarketable asset, the makeup provision is unlikely to come into play. In the case where the triggering event is a specific date, the makeup provision is more likely to increase the amounts distributed, especially if post-contribution capital gain has been defined in the trust document as distributable income.

Let’s suppose that the Garcias intend to fund the trust with appreciated securities, whose market value is $750,000 and whose cost basis is $65,000. If they use the securities to establish a Flip Charitable Remainder Unitrust, they will avoid immediate taxation on the capital gains, and they will start to receive a modest stream of income. But if they incorporate language into the governing trust document that calls for recognizing post-contribution capital gains as part of income, they will create a Flip Charitable Remainder Unitrust with Makeup instead. This means that the beneficiary distribution amounts in the pre-flip years could be more than just the amount of dividends and income received. If the new investments result in 1% of realized capital gains each year going forward, those capital gains will be included in the beneficiary distribution as part of the “net distributable income.” It will be very similar to the NIMCRUT example we did for the Jacksons, except that trust will flip to a Standard CRUT after five years, at which point the shortfall and makeup aspects become moot.

In our previous example for the Garcias, the income was modest during the pre-flip years, but with the appropriate language in the governing trust document, the beneficiary distributions in the pre-flip years could be more significant. With our numbers stated above, the beneficiary distribution in 2022 would be $18,488 and would rise to $20,497 in 2025. After the conversion to a standard unitrust, the beneficiary distribution jumps to $43,032 in 2026 and rises to $51,549 in 2052.

Does it really make much of a difference to have the additional makeup provision on the Flip CRUT? Here’s how the totals stack up: with the “regular” Flip CRUT, the beneficiary distributions to the Garcias total 1,027,062 and the estimated residuum totals 1,081,641; whereas with the Flip CRUT with makeup, the beneficiary distributions total $ 1,021,309 and the estimated residuum totals 1,040,829.

In this comparison, we can see that the total value of the benefit drops somewhat with the inclusion of paying out post-contribution realized gains in the pre-flip years, but the donors might favor getting more income in those pre-flip years. They may prefer to receive more income in the pre-flip years in exchange for less income in the post-flip years. Every donor and every situation is unique, and there is no one answer that works best for everyone. Using these projections can help donors to understand the likely effects of their choices, and thus, help the donors to choose the best solution for them. Either way, the remainder charity comes out with a very nice gift in the end.

Please see Appendix VIII for the calculations for a Flip With Makeup Charitable Remainder Unitrust.

7. Testamentary Charitable Remainder Unitrust

In many respects, the Testamentary Charitable Remainder Unitrust is identical to a regular S-CRUT (or another variation of a CRUT), but what makes it distinct is that the funding does not occur until the donor's death. Typically, the governing language for the T-CRUT is incorporated into the donor's will, or into the donor's revocable living trust. Upon the death of the donor, the administrator or executor of the estate is responsible for working with a Trustee to facilitate the funding of the trust. In most cases, the beneficiaries of the T-CRUT are members of the donor's family. It can be either for the lives of the beneficiaries, for a term of years, or for some combination thereof.

The testamentary CRUT is not a new concept, but it has received considerably more attention over the past year and a half because of the Secure Act, which became effective in January of 2020. That tax legislation significantly narrowed the availability of the so-called "stretch IRA," which previously allowed recipients of an inherited IRA, such as children, to spread their withdrawals over their life expectancy. Now, all inherited IRA assets must be withdrawn by the heir within 10 years, unless the heir is the deceased's spouse or a disabled person. In light of this change, there has been a dramatic uptick in conversations about using a testamentary CRUT as a substitute for the stretch IRA, to be funded with the residue of an IRA at death.

The IRA assets remaining at death represent income that has never been taxed during life. There are a number of ways the assets can be distributed, but in most cases, they will be taxed, one way or another. If they are distributed to the donor's estate, they will be taxed at the donor's tax rate; if they are distributed directly to the kids – without being rolled over into new IRAs – they will be taxed at the children's tax rates. If they are transferred into one or more new IRAs for the children, the taxation will occur as distributions are then made to the kids.

There are only a few exceptions regarding the taxation of the residue. If the remaining assets of the IRA are transferred directly to a qualified charitable organization, there will be no tax levied; the entire amount will pass to the charity free of taxation. But there are a couple of additional possibilities for avoiding taxation on the residue of the remaining IRA assets, which involve the use of split interest charitable gift arrangements.

If the residue of an IRA is transferred to a charity upon the owner's death, it is possible for the charity to issue a charitable gift annuity – or a number of CGAs – to one or more of the owner's family members. The principal funding amounts will not be taxed for IRD purposes; there is no income tax levied at the time of death. The taxation will occur as the CGA payments are made; the payments will be taxed completely as ordinary income. The CGA is outside the scope of this conversation, but the same concept exists with the use of a charitable remainder unitrust.

The IRA residue can be transferred to a CRUT upon the death of the owner, and there will be no income tax on the money at the time of death or transfer. The CRUT can be written for the benefit of one or more individuals, either for lives, or a term of years, or a combination of the two, enabling distributions for well beyond the new 10-year limit applicable to many inherited IRAs. The only taxation on the money is when the payments are distributed to beneficiaries; the distribution amounts will be taxed fully as ordinary income until all the money from the IRA has been distributed through the trust. This solution is not for everyone, however. A key difference between funding a CRUT and transferring IRA assets to an inherited IRA is that the heir will have full access to all the IRA assets, not just unitrust payment amounts. The CRUT makes sense only if the donor has charitable intent.

In an example where the IRA residue is $1,000,000, the direct payout to the kids would result in close to $400,000 in federal income tax; in contrast, the transfer to a CRUT instead would save that much in federal income tax. The only "downside" is that the CRUT distributions to the kids would be fully taxed as ordinary income (as opposed to being considered a combination of ordinary income, capital gains, and even tax-free income in other trust situations). Many donors and advisors are looking at the T-CRUT nowadays and realizing how it can serve as a sort of substitute for the stretch IRA, while also providing a significant gift to charity. The T-CRUT that is funded with $1,000,000 and that pays 5% each year to the beneficiaries, for a specific term of 20 years, could result in an estimated remainder to charity of $1,209,363 after distributing $1,096,141 to the kids in the form of beneficiary distributions.

Please see Appendix IX for an example of a Testamentary Charitable Remainder Unitrust funded with the residue of an IRA.

8. Proposed Tax Changes

There are always proposed tax changes blowing in the wind, and it’s impossible to keep track of every possibility, but with the new Biden administration and a new Congress, there are a couple of major concepts that merit some attention.

Proposed Changes to Capital Gains Taxes

The American Families Plan proposed by the Biden Administration includes a long list of initiatives aimed at expanding government support of children and families. It would cover much of the cost of these initiatives through a series of tax changes that include a major overhaul in the tax treatment of capital gains. It is far from certain that these tax changes will become law, but it is worthwhile to examine how they might affect the behavior of donors if they were to become law.

The American Families Plan proposes a near-doubling of the tax rate on long-term capital gains from 20% to 39.6% for taxpayers with taxable income greater than $1 million. Believe it or not, there are over 500,000 U.S. taxpayers who make that much each year. For these donors, the tax benefits of giving long-term appreciated assets to charity will be greatly increased. Between income tax savings, and avoiding capital gains tax and the 3.8% Medicare surtax, they could save over $0.80 in taxes for every $1 of long-term appreciated assets they give to charity rather than sell themselves. The more highly appreciated the asset, the more they will save. Today, these same donors can save up to about $0.60 for every $1 of long-term appreciated assets they give to charity. Put another way, their cost of giving could be cut in half, from about $0.40 per $1 given to less than $0.20 per $1 given. Expect gifts of appreciated assets from these donors to increase substantially if this dramatic increase in their federal capital gains tax rate becomes law.

The American Families Plan proposes another change in the federal taxation of capital gains that would affect a far larger swath of donors than those with incomes greater than $1 million: elimination of the step-up in cost basis for inherited gains over $1 million ($2.5 million per couple when combined with existing real estate exemptions). As a result, instead of 0.1% of estates facing federal taxation, closer to 10% would. Estates would pay a 39.6% capital gains tax on gains passing to heirs that exceed the applicable exemption amount – 43.4% when you include the 3.8% Medicare surtax. If the estate were large enough to also owe federal estate tax, federal estate tax would also apply. Capital gains tax owed would be deductible from the estate taxable amount, so the total tax rate on the gains would be about 62%. Compare that to 40% today. Estate gifts of appreciated assets to charity would be exempt from federal taxation, creating a strong tax incentive for donors with more than $1 million of capital gain in their estate to transfer at least some of those appreciated assets to charity.

Example: A donor dies with an estate worth $8 million and a cost basis of $3 million. The estate includes no retirement assets. If the donor gives a $1 million asset with a $100,000 cost basis to charity rather than to heirs, under current law the donor’s estate would save no taxes. Under the proposed law, the donor’s estate would save $390,600 in taxes, a strong incentive to give the asset to charity.

If the donor's estate were worth $30 million instead, and therefore would owe a 40% federal estate tax on some of the estate, the tax savings from giving the $1 million asset to charity under current law would be $400,000. Under the proposed law, however, it would be $634,360. That is, the cost of giving the asset would decline from $0.60/dollar given to less than $0.37/dollar given. Donors with large estates would have an even stronger incentive to give appreciated assets to charity than donors with estates too small to owe federal estate tax.

Proposed changes to how capital gains are taxed during life, and at death, would create strong tax incentives for wealthy donors to give long-term appreciated assets to charity throughout their lives and through their estates. Time will tell, however, whether a dramatic increase in the top federal capital gains tax rate or a repeal of the step-up in cost basis at death actually becomes law. The negotiation process in Congress over these and other tax proposals is likely to be lengthy and heated. The end result is anyone's guess, but some sort of increase in the federal taxation of capital gains is a real possibility. Should that occur, charities should be able to attract more appreciated property gifts as a result.

To see the full discussion regarding the proposed American Families Plan, please see our May 17, 2021 blog post: https://info.pgcalc.com/changes-to-capital-gains-could-boost-giving.

More Proposed Changes to Capital Gains Taxes

On May 28, 2021, the Biden Administration released a general explanation of its revenue proposals for Fiscal Year 2022. The so-called "Green Book" provides more detail on these proposals than had been available previously. Of especial interest to gift planners, under the heading "Treat transfers of appreciated property by gift or on death as realization events," pages 62-64 discuss the Administration's proposed changes to the taxation of capital gain when assets are transferred during life and at death. We reviewed some of these proposed changes regarding outright gifts and bequests of appreciated assets in a previous blog post, but until now there was no detail on how transfers to split-interest gifts would be treated.

After describing that an owner who transfers an appreciated asset, either during life or at death, would realize a capital gain at the time of transfer, the explanation discusses exceptions to that general treatment, saying:

Certain exclusions would apply. Transfers by a decedent to a U.S. spouse or to charity would carry over the basis of the decedent. Capital gain would not be recognized until the surviving spouse disposes of the asset or dies, and appreciated property transferred to charity would not generate a taxable capital gain. The transfer of appreciated assets to a split-interest trust would generate a taxable capital gain, with an exclusion allowed for the charity's share of the gain based on the charity's share of the value transferred as determined for gift or estate tax purposes.

The implication for split-interest trusts, which we presume to include charitable remainder trusts (CRTs), pooled income funds (PIFs), and charitable lead trusts (CLTs), appears to be that capital gain allocable to the non-charitable portion would be taxed to the donor at the time of transfer. For example, if a CRT were funded with an asset in which the donor has a $100,000 capital gain and the CRT earned a charitable deduction equal to 60% of the funding amount, the donor would be taxable on $40,000 of the capital gain.

For years, the deferral or avoidance of capital gains tax has been a popular selling point for funding a CRT or PIF with appreciated assets. Applying an immediate tax to some of this gain would reduce this tax incentive and depress donor interest in CRTs or PIFs. The explanation raises some questions, however, whose answers could moderate the effect.

The donor would have a $1 million lifetime exclusion ($2 million per married couple) available to offset the reportable gain. The donor would also have a $250,000 exclusion ($500,000 per married couple) for all residences (not only principal residences). The exclusion under current law for capital gain on certain small business stock would also be available. Donors whose gain is within these exclusions should not be taxed under the new realization rules. Donors who will exceed these exclusions will also face the new capital gains tax with other types of transfers by gift or at death. The ability not to pay tax on the portion of the gain allocated to the charity and offset the remaining gain with a charitable deduction may be relatively appealing.

The excerpt quoted above includes the following:

1. Capital gain in a transfer by a decedent to a U.S. spouse will not be recognized until the surviving spouse disposes of the asset or dies.
2. Appreciated assets transferred to charity would not generate a taxable gain.

What does this mean for a CRT whose income beneficiaries are the donor and the donor’s spouse? Whatever doesn’t go to the donor or the donor’s spouse will go to charity, so arguably no gain should be taxable at the time of the gift in this case. From a tax policy standpoint, the charitable community could point out to Congress that the four-tier taxation that applies to CRTs already ensures that capital gain is taxed unless it goes to charity, so imposing a tax on some of this gain at the outset is unnecessary regardless of who the beneficiaries are.

There are additional concerns and questions about the impact on charitable gift annuities, charitable lead trusts, retained life estates, and pooled income funds, but they are beyond the scope of this paper. For more information, please see our June 3, 2021 blog post: https://info.pgcalc.com/https/info.pgcalc.com/biden-administration-details-proposed-taxation-of-split-interest-trusts.

The Biden Administration proposes January 1, 2022, as the effective date for these changes. That leaves open a window for donors to make split-interest gifts in 2021 before the new rules, whatever their final form, would take effect.

There's a lot to digest in the Administration's revenue plan, and many modifications surely are in store before a final bill is reached. There's also time for the charitable community to influence what those changes are. The treatment of capital gain in assets used to fund a split-interest trust would be a good place to start.

9. Conclusion

As we have seen, the Charitable Remainder Trust comes in a surprising range of colors – or flavors – or shapes - whichever metaphor you prefer. Some variations appear to favor the interests of the donors, whereas others seem to favor the benefit to charitable organizations. In many cases, with careful and thoughtful adjustments, the trusts can achieve a true balancing of the interests. But there is no one-size-fits-all solution – each donor comes to the table with different assets, different life circumstances, different tolerances of risk, and so on. Moreover, the rules are always changing, and will continue to do so.

The gift planning professional can run an impressive array of calculations and projections, but in the end, they are only sophisticated estimates, whose purpose is simply to provide guidance to the donors and other relevant parties. The calculations and projections need to serve as *pieces* of the discussion, and they should be reviewed and discussed as part of a thoughtful and discerning process. With clear objectives, with the right parameters, and with adept management, Charitable Remainder Trusts can serve as successful split interest gift arrangements, rewarding the donor *and* providing essential support to the world of charitable organizations.

Appendix I

Summary of Benefits

5% Charitable Remainder Annuity Trust

ASSUMPTIONS:

Beneficiary Age	72
Cash Donated	$500,000.00
Payout Rate	5%
Payment Schedule	quarterly at end

BENEFITS:

Charitable Deduction	**$212,835.00**
Annual Payments	$25,000.00
Probability of Corpus Exhaustion	9.95%

*** WARNING ***
This trust would not qualify for charitable tax benefits because its 9.95% chance of being drawn down to $0 is greater than 5% (Rev. Rul. 77-374). But, the trust can qualify by including a provision to terminate in favor of charity if the trust falls below 10% of its initial value plus 1.2% interest (Rev. Proc. 2016-42) or by lowering the payout rate or shortening the term.

Appendix I (continued)

Actuarial Calculations

5% Charitable Remainder Annuity Trust

ASSUMPTIONS:

[1]	Beneficiary Age	72
	Date of Gift	6/24/2021
[2]	Cash Donated	$500,000.00
[3]	Payout Rate	5%
[4]	Payment Schedule	quarterly at end
[5]	Discount Rate under IRC Section 7520(a) for 6/2021	1.2%

CALCULATIONS:

[6]	Value of $1 for measuring lives/term on [1], years on [11] (Reg. 25.7520-3(b)(2)(v) Example 5)	11.4351
[a]	Adjustment factor for schedule on [4], rate on [5] (Table K in IRS Publication 1457 (5-2009))	1.0045
[b]	Adjusted value of $1 ([6] x [6a]) (Reg. 20.2031-7(d)(2)(iv))	11.4866
[7]	Remainder factor (1.0 - ([6b] x [3]))	0.42567
[8]	Annual Payment ([2] x [3])	$25,000.00
[9]	Value of Life Interest ([6b] x [8])	$287,165.00
[10]	**CHARITABLE DEDUCTION** ([2] - [9])	**$212,835.00**
[11]	Number of Years to Corpus Exhaustion	22.88870
[12]	Probability of Corpus Exhaustion (FAILS 5.00% Probability Test of Rev. Rul. 77-374)	9.95%

*** WARNING ***
This trust would not qualify for charitable tax benefits because its 9.95% chance of being drawn down to $0 is greater than 5% (Rev. Rul. 77-374). But, the trust can qualify by including a provision to terminate in favor of charity if the trust falls below 10% of its initial value plus 1.2% interest (Rev. Proc. 2016-42) or by lowering the payout rate or shortening the term.

Appendix I (continued)

Summary of Benefits Projection

ASSUMPTIONS:
Projection runs for 18 years.
Measuring life age is 72.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Information on income and capital appreciation assumptions can be found on the Investment Assumptions chart.
Management fees: 1% of principal.

	Charitable Annuity Trust 5%
Property Donated	$500,000
Property Type	cash
Annual Payment	$25,000
Charitable Deduction	$212,835
Income Tax Savings	$89,391
Investment Assumptions	
Annual Income	2.5%
Annual Appreciation	4.5%
Sell Asset in First Year	Yes
Total Management Fees	$104,754
Total Benefit To Payment Recipient	**$450,000**
Total After-Tax Benefit To Payment Recipient	**$355,239**
Benefit to THE CHARITY	**$646,947**
Total Benefit	**$1,002,186**

Column 1: FAILS 5% probability test, 9.95% chance of corpus exhaustion.

Appendix II

Summary of Benefits

5% Charitable Remainder Annuity Trust

ASSUMPTIONS:

Beneficiary Age	75
Cash Donated	$500,000.00
Payout Rate	5%
Payment Schedule	quarterly at end

BENEFITS:

Charitable Deduction	**$248,075.00**
Annual Payments	$25,000.00

Appendix II (continued)

Actuarial Calculations

5% Charitable Remainder Annuity Trust

ASSUMPTIONS:

[1]	Beneficiary Age Date of Gift	75 6/24/2021
[2]	Cash Donated	$500,000.00
[3]	Payout Rate	5%
[4]	Payment Schedule	quarterly at end
[5]	Discount Rate under IRC Section 7520(a) for 6/2021	1.2%

CALCULATIONS:

[6]	Value of $1 for measuring lives/term on [1], years on [11] (Reg. 25.7520-3(b)(2)(v) Example 5)	10.0319
	[a] Adjustment factor for schedule on [4], rate on [5] (Table K in IRS Publication 1457 (5-2009))	1.0045
	[b] Adjusted value of $1 ([6] x [6a]) (Reg. 20.2031-7(d)(2)(iv))	10.0770
[7]	Remainder factor (1.0 - ([6b] x [3]))	0.49615
[8]	Annual Payment ([2] x [3])	$25,000.00
[9]	Value of Life Interest ([6b] x [8])	$251,925.00
[10]	**CHARITABLE DEDUCTION** ([2] - [9])	**$248,075.00**
[11]	Number of Years to Corpus Exhaustion	22.88870
[12]	Probability of Corpus Exhaustion (Passes 5.00% Probability Test of Rev. Rul. 77-374)	4.77%

Appendix II (continued)

Summary of Benefits Projection

ASSUMPTIONS:
Projection runs for 16 years.
Measuring life age is 75.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Information on income and capital appreciation assumptions can be found on the Investment Assumptions chart.
Management fees: 1% of principal.

	Charitable Annuity Trust 5%
Property Donated	$500,000
Property Type	cash
Annual Payment	$25,000
Charitable Deduction	$248,075
Income Tax Savings	$104,192
Investment Assumptions	
Annual Income	2.5%
Annual Appreciation	4.5%
Sell Asset in First Year	Yes
Total Management Fees	$91,625
Total Benefit To Payment Recipient	**$400,000**
Total After-Tax Benefit To Payment Recipient	**$318,516**
Benefit to THE CHARITY	**$622,133**
Total Benefit	**$940,650**

Appendix III

Summary of Benefits Projection

ASSUMPTIONS:
Projection runs for 33 years.
Measuring life ages are 63 and 61.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Information on income and capital appreciation assumptions can be found on the Investment Assumptions chart.
Management fees: 1% of principal.

	Charitable Unitrust 5%
Property Donated	$600,000
Cost Basis	$120,000
Property Type	long term gain
Average Annual Payment	$35,071
Charitable Deduction	$177,570
Income Tax Savings	$74,579
Investment Assumptions	
Annual Income	2.5%
Annual Appreciation	4.5%
Sell Asset in First Year	Yes
Total Management Fees	$241,882
Total Benefit To Payment Recipient	**$1,157,331**
Total After-Tax Benefit To Payment Recipient	**$766,767**
Benefit to THE CHARITY	**$821,050**
Total Benefit	**$1,587,817**

Column 1: Payment schedule is quarterly, 3 months delay.

Appendix III (continued)

Detailed Cash Flow Analysis

ASSUMPTIONS:
Projection runs for 33 years.
Measuring life ages are 63 and 61.
Principal donated is $600,000. Cost basis is $120,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.

5% Charitable Remainder Unitrust

Year	Year-End Principal	Appreciation	Income	Mgmt Fees	Payments to Beneficiary	Tax-Free Portion	After-Tax Payments
		(4.5%)	(2.5%)	(1%)			
2021	$600,000						
2022	605,730	$27,000	$15,000	$6,270	$30,000	$0	$19,876
2023	611,515	27,258	15,143	6,330	30,287	0	20,066
2024	617,355	27,518	15,288	6,390	30,576	0	20,257
2025	623,250	27,781	15,434	6,451	30,868	0	20,451
2026	629,202	28,046	15,581	6,513	31,163	0	20,646
2027	635,211	28,314	15,730	6,575	31,460	0	20,843
2028	641,278	28,585	15,880	6,638	31,761	0	21,042
2029	647,402	28,857	16,032	6,701	32,064	0	21,243
2030	653,585	29,133	16,185	6,765	32,370	0	21,446
2031	659,826	29,411	16,340	6,830	32,679	0	21,651
2032	666,128	29,692	16,496	6,895	32,991	0	21,858
2033	672,489	29,976	16,653	6,961	33,306	0	22,066
2034	678,911	30,262	16,812	7,028	33,624	0	22,277
2035	685,395	30,551	16,973	7,095	33,946	0	22,490
2036	691,940	30,843	17,135	7,162	34,270	0	22,705
2037	698,549	31,137	17,299	7,231	34,597	0	22,922
2038	705,220	31,435	17,464	7,300	34,927	0	23,140
2039	711,955	31,735	17,630	7,370	35,261	0	23,361
2040	718,754	32,038	17,799	7,440	35,598	0	23,585
2041	725,618	32,344	17,969	7,511	35,938	0	23,810
2042	732,547	32,653	18,140	7,583	36,281	0	24,037
2043	739,543	32,965	18,314	7,655	36,627	0	24,267
2044	746,606	33,279	18,489	7,728	36,977	0	24,498
2045	753,736	33,597	18,665	7,802	37,330	0	24,732
2046	760,934	33,918	18,843	7,877	37,687	0	24,969
2047	768,201	34,242	19,023	7,952	38,047	0	25,207
2048	775,537	34,569	19,205	8,028	38,410	0	25,448
2049	782,944	34,899	19,388	8,104	38,777	0	25,691
2050	790,421	35,232	19,574	8,182	39,147	0	25,936
2051	797,969	35,569	19,761	8,260	39,521	0	26,184
2052	805,590	35,909	19,949	8,339	39,898	0	26,434

Appendix III (continued)

Detailed Cash Flow Analysis (continued)

2053	813,283	36,252	20,140	8,418	40,280	0	26,686
2054	821,050	36,598	20,332	8,499	40,664	0	26,941
Total	**$821,050**	**$1,041,598**	**$578,666**	**$241,882**	**$1,157,331**	**$0**	**$766,767**

Appendix III (continued)

Taxation Schedule Appendix III

ASSUMPTIONS:
Projection runs for 33 years.
Measuring life ages are 63 and 61.
Principal donated is $600,000. Cost basis is $120,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Income is 2.5%. Appreciation is 4.5%.
Management fees: 1% of principal.

5% Charitable Remainder Unitrust

Year	Payments to Ben.	Ordinary Income (45.8%)	Capital Gain (28.8%)	Capital Tier	After-Tax Payments
2022	$30,000	$8,730	$21,270	$459,646	$19,876
2023	30,287	8,813	21,473	439,982	20,066
2024	30,576	8,898	21,678	420,986	20,257
2025	30,868	8,983	21,885	402,634	20,451
2026	31,163	9,068	22,094	384,904	20,646
2027	31,460	9,155	22,305	367,776	20,843
2028	31,761	9,242	22,518	351,229	21,042
2029	32,064	9,331	22,733	335,243	21,243
2030	32,370	9,420	22,950	319,800	21,446
2031	32,679	9,510	23,170	304,880	21,651
2032	32,991	9,600	23,391	290,467	21,858
2033	33,306	9,692	23,614	276,543	22,066
2034	33,624	9,785	23,840	263,090	22,277
2035	33,946	9,878	24,067	250,095	22,490
2036	34,270	9,972	24,297	237,540	22,705
2037	34,597	10,068	24,529	225,411	22,922
2038	34,927	10,164	24,764	213,693	23,140
2039	35,261	10,261	25,000	202,373	23,361
2040	35,598	10,359	25,239	191,437	23,585
2041	35,938	10,458	25,480	180,872	23,810
2042	36,281	10,558	25,723	170,666	24,037
2043	36,627	10,659	25,969	160,805	24,267
2044	36,977	10,760	26,217	151,279	24,498
2045	37,330	10,863	26,467	142,077	24,732
2046	37,687	10,967	26,720	133,186	24,969
2047	38,047	11,072	26,975	124,597	25,207
2048	38,410	11,177	27,233	116,300	25,448
2049	38,777	11,284	27,493	108,283	25,691

Appendix III (continued)

Taxation Schedule (continued)

2050	39,147	11,392	27,755	100,539	25,936
2051	39,521	11,501	28,020	93,058	26,184
2052	39,898	11,610	28,288	85,830	26,434
2053	40,280	11,721	28,558	78,848	26,686
2054	40,664	11,833	28,831	72,102	26,941
Total	**$1,157,331**	**$336,783**	**$820,548**	**$72,102**	**$766,767**

Appendix IV

Summary of Benefits Projection

ASSUMPTIONS:
Projection runs for 33 years.
Measuring life ages are 63 and 61.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Information on income and capital appreciation assumptions can be found on the Investment Assumptions chart.
Management fees: 1% of principal.

	Net Income Unitrust 5%
Property Donated	$600,000
Cost Basis	$120,000
Property Type	long term gain
Average Annual Payment	$19,247
Charitable Deduction	$177,570
Income Tax Savings	$74,579
Investment Assumptions	
Annual Income	2.5%
Annual Appreciation	4.5%
Sell Asset in First Year	Yes
Total Management Fees	$456,182
Total Benefit To Payment Recipient	**$635,162**
Total After-Tax Benefit To Payment Recipient	**$344,258**
Benefit to THE CHARITY	**$2,564,418**
Total Benefit	**$2,908,676**

Column 1: Payment schedule is quarterly, 3 months delay.

Appendix IV (continued)

Detailed Cash Flow Analysis

ASSUMPTIONS:
Projection runs for 33 years.
Measuring life ages are 63 and 61.
Principal donated is $600,000. Cost basis is $120,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.

5% Net Income Unitrust

Year	Year-End Principal	Appreciation	Income	Mgmt Fees	Payments to Beneficiary	Tax-Free Portion	After-Tax Payments
		(4.5%)	(2.5%)	(1%)			
2021	$600,000						
2022	627,000	$27,000	$15,000	$6,270	$8,730	$0	$4,732
2023	655,215	28,215	15,675	6,552	9,123	0	4,945
2024	684,700	29,485	16,380	6,847	9,533	0	5,167
2025	715,511	30,811	17,117	7,155	9,962	0	5,400
2026	747,709	32,198	17,888	7,477	10,411	0	5,643
2027	781,356	33,647	18,693	7,814	10,879	0	5,897
2028	816,517	35,161	19,534	8,165	11,369	0	6,162
2029	853,260	36,743	20,413	8,533	11,880	0	6,439
2030	891,657	38,397	21,332	8,917	12,415	0	6,729
2031	931,782	40,125	22,291	9,318	12,974	0	7,032
2032	973,712	41,930	23,295	9,737	13,557	0	7,348
2033	1,017,529	43,817	24,343	10,175	14,168	0	7,679
2034	1,063,318	45,789	25,438	10,633	14,805	0	8,024
2035	1,111,167	47,849	26,583	11,112	15,471	0	8,385
2036	1,161,169	50,003	27,779	11,612	16,167	0	8,763
2037	1,213,422	52,253	29,029	12,134	16,895	0	9,157
2038	1,268,026	54,604	30,336	12,680	17,655	0	9,569
2039	1,325,087	57,061	31,701	13,251	18,450	0	10,000
2040	1,384,716	59,629	33,127	13,847	19,280	0	10,450
2041	1,447,028	62,312	34,618	14,470	20,148	0	10,920
2042	1,512,145	65,116	36,176	15,121	21,054	0	11,411
2043	1,580,191	68,047	37,804	15,802	22,002	0	11,925
2044	1,651,300	71,109	39,505	16,513	22,992	0	12,462
2045	1,725,608	74,308	41,282	17,256	24,026	0	13,022
2046	1,803,261	77,652	43,140	18,033	25,108	0	13,608
2047	1,884,407	81,147	45,082	18,844	26,237	0	14,221
2048	1,969,206	84,798	47,110	19,692	27,418	0	14,861
2049	2,057,820	88,614	49,230	20,578	28,652	0	15,529
2050	2,150,422	92,602	51,445	21,504	29,941	0	16,228
2051	2,247,191	96,769	53,761	22,472	31,289	0	16,958
2052	2,348,314	101,124	56,180	23,483	32,697	0	17,722

Appendix IV (continued)

Detailed Cash Flow Analysis (continued)

2053	2,453,989	105,674	58,708	24,540	34,168	0	18,519
2054	2,564,418	110,429	61,350	25,644	35,706	0	19,352
Total	**$2,564,418**	**$1,964,418**	**$1,091,343**	**$456,182**	**$635,162**	**$0**	**$344,258**

Appendix IV (continued)

Taxation Schedule

ASSUMPTIONS:
Projection runs for 33 years.
Measuring life ages are 63 and 61.
Principal donated is $600,000. Cost basis is $120,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Income is 2.5%. Appreciation is 4.5%.
Management fees: 1% of principal.

5% Net Income Unitrust

Year	Payments to Ben.	Ordinary Income (45.8%)	Capital Tier	After-Tax Payments
2022	$8,730	$8,730	$480,000	$4,732
2023	9,123	9,123	480,000	4,945
2024	9,533	9,533	480,000	5,167
2025	9,962	9,962	480,000	5,400
2026	10,411	10,411	480,000	5,643
2027	10,879	10,879	480,000	5,897
2028	11,369	11,369	480,000	6,162
2029	11,880	11,880	480,000	6,439
2030	12,415	12,415	480,000	6,729
2031	12,974	12,974	480,000	7,032
2032	13,557	13,557	480,000	7,348
2033	14,168	14,168	480,000	7,679
2034	14,805	14,805	480,000	8,024
2035	15,471	15,471	480,000	8,385
2036	16,167	16,167	480,000	8,763
2037	16,895	16,895	480,000	9,157
2038	17,655	17,655	480,000	9,569
2039	18,450	18,450	480,000	10,000
2040	19,280	19,280	480,000	10,450
2041	20,148	20,148	480,000	10,920
2042	21,054	21,054	480,000	11,411
2043	22,002	22,002	480,000	11,925
2044	22,992	22,992	480,000	12,462
2045	24,026	24,026	480,000	13,022
2046	25,108	25,108	480,000	13,608
2047	26,237	26,237	480,000	14,221
2048	27,418	27,418	480,000	14,861
2049	28,652	28,652	480,000	15,529

Appendix IV (continued)

Taxation Schedule (continued)

2050	29,941	29,941	480,000	16,228
2051	31,289	31,289	480,000	16,958
2052	32,697	32,697	480,000	17,722
2053	34,168	34,168	480,000	18,519
2054	35,706	35,706	480,000	19,352
Total	**$635,162**	**$635,162**	**$480,000**	**$344,258**

Appendix V

Summary of Benefits Projection

ASSUMPTIONS:
Projection runs for 33 years.
Measuring life ages are 63 and 61.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Investment assumptions change during projection. See Investment Assumptions chart for
Management fees: 1% of principal.

	Makeup Unitrust 5%
Property Donated	$600,000
Cost Basis	$120,000
Property Type	long term gain
Charitable Deduction	$177,570
Income Tax Savings	$74,579
Total Management Fees	$236,847
Total Benefit To Payment Recipient	**$1,174,305**
Total After-Tax Benefit To Payment Recipient	**$636,473**
Benefit to THE CHARITY	**$832,875**
Total Benefit	**$1,469,348**

Column 1: Payment schedule is quarterly, 3 months delay.

Appendix V (continued)

Detailed Cash Flow Analysis

ASSUMPTIONS:
Projection runs for 33 years.
Measuring life ages are 63 and 61.
Principal donated is $600,000. Cost basis is $120,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.

5% Net Income with Makeup Unitrust

Year	Year-End Principal	Appreciation	Income	Mgmt Fees	Payments to Beneficiary	Tax-Free Portion	After-Tax Payments
		(4.5%)	(2.5%)	(1%)			
2021	$600,000						
2022	627,000	$27,000	$15,000	$6,270	$8,730	$0	$4,732
		(0.75%)	(6.25%)				
2023	631,703	4,703	39,188	6,317	32,870	0	17,816
2024	636,440	4,738	39,481	6,364	33,117	0	17,949
2025	641,214	4,773	39,778	6,412	33,365	0	18,084
2026	646,023	4,809	40,076	6,460	33,616	0	18,220
2027	650,868	4,845	40,376	6,509	33,868	0	18,356
2028	655,749	4,882	40,679	6,557	34,122	0	18,494
2029	660,667	4,918	40,984	6,607	34,378	0	18,633
2030	665,622	4,955	41,292	6,656	34,635	0	18,772
2031	670,615	4,992	41,601	6,706	34,895	0	18,913
2032	675,644	5,030	41,913	6,756	35,157	0	19,055
2033	680,712	5,067	42,228	6,807	35,421	0	19,198
2034	685,817	5,105	42,544	6,858	35,686	0	19,342
2035	690,961	5,144	42,864	6,910	35,954	0	19,487
2036	697,229	5,182	43,185	6,961	35,137	0	19,044
2037	704,149	5,229	43,577	7,025	34,861	0	18,895
2038	711,138	5,281	44,009	7,094	35,207	0	19,082
2039	718,196	5,334	44,446	7,165	35,557	0	19,272
2040	725,324	5,386	44,887	7,236	35,910	0	19,463
2041	732,523	5,440	45,333	7,308	36,266	0	19,656
2042	739,793	5,494	45,783	7,380	36,626	0	19,851
2043	747,135	5,548	46,237	7,453	36,990	0	20,048
2044	754,551	5,604	46,696	7,527	37,357	0	20,247
2045	762,040	5,659	47,159	7,602	37,728	0	20,448
2046	769,603	5,715	47,627	7,678	38,102	0	20,651
2047	777,241	5,772	48,100	7,754	38,480	0	20,856
2048	784,955	5,829	48,578	7,831	38,862	0	21,063
2049	792,746	5,887	49,060	7,908	39,248	0	21,272
2050	800,614	5,946	49,547	7,987	39,637	0	21,483

Appendix V (continued)

Detailed Cash Flow Analysis (continued)

2051	808,560	6,005	50,038	8,066	40,031	0	21,697
2052	816,585	6,064	50,535	8,146	40,428	0	21,912
2053	824,690	6,124	51,037	8,227	40,829	0	22,129
2054	832,875	6,185	51,543	8,309	41,234	0	22,349
Total	**$832,875**	**$198,646**	**$1,445,381**	**$236,847**	**$1,174,305**	**$0**	**$636,473**

Appendix V (continued)

Taxation Schedule Appendix V

ASSUMPTIONS:
Projection runs for 33 years.
Measuring life ages are 63 and 61.
Principal donated is $600,000. Cost basis is $120,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Management fees: 1% of principal.
Information on income and capital appreciation assumptions can be found on the Investment Assumptions chart.

5% Net Income with Makeup Unitrust

Year	Payments to Ben.	Ordinary Income (45.8%)	Ordinary Tier	Capital Tier	After-Tax Payments
2022	$8,730	$8,730	$0	$480,000	$4,732
2023	32,870	32,870	0	507,000	17,816
2024	33,117	33,117	0	507,000	17,949
2025	33,365	33,365	0	507,000	18,084
2026	33,616	33,616	0	507,000	18,220
2027	33,868	33,868	0	507,000	18,356
2028	34,122	34,122	0	507,000	18,494
2029	34,378	34,378	0	507,000	18,633
2030	34,635	34,635	0	507,000	18,772
2031	34,895	34,895	0	507,000	18,913
2032	35,157	35,157	0	507,000	19,055
2033	35,421	35,421	0	507,000	19,198
2034	35,686	35,686	0	507,000	19,342
2035	35,954	35,954	0	507,000	19,487
2036	35,137	35,137	1,086	507,000	19,044
2037	34,861	34,861	2,777	507,000	18,895
2038	35,207	35,207	4,484	507,000	19,082
2039	35,557	35,557	6,209	507,000	19,272
2040	35,910	35,910	7,951	507,000	19,463
2041	36,266	36,266	9,710	507,000	19,656
2042	36,626	36,626	11,486	507,000	19,851
2043	36,990	36,990	13,280	507,000	20,048
2044	37,357	37,357	15,092	507,000	20,247
2045	37,728	37,728	16,921	507,000	20,448
2046	38,102	38,102	18,769	507,000	20,651
2047	38,480	38,480	20,636	507,000	20,856
2048	38,862	38,862	22,521	507,000	21,063

Appendix V (continued)

Taxation Schedule (continued)

2049	39,248	39,248	24,424	507,000	21,272
2050	39,637	39,637	26,346	507,000	21,483
2051	40,031	40,031	28,288	507,000	21,697
2052	40,428	40,428	30,249	507,000	21,912
2053	40,829	40,829	32,229	507,000	22,129
2054	41,234	41,234	34,229	507,000	22,349
Total	**$1,174,305**	**$1,174,305**	**$34,229**	**$507,000**	**$636,473**

Appendix V (continued)

Unitrust Makeup Analysis Appendix V

ASSUMPTIONS:

Projection runs for 33 years.
Measuring life ages are 63 and 61.
Principal donated is $600,000. Cost basis is $120,000.
See Detailed Cash Flow Analysis for investment assumptions.

5% Net Income with Makeup Unitrust

Year	Payments to Beneficiary	Unitrust % Amount	Net Income	Shortfall	Amount Madeup	Year-End Makeup Balance
2022	$8,730	$30,000	$8,730	$21,270	$0	$21,270
2023	32,870	31,350	32,870	0	1,520	19,750
2024	33,117	31,585	33,117	0	1,532	18,218
2025	33,365	31,822	33,365	0	1,543	16,674
2026	33,616	32,061	33,616	0	1,555	15,119
2027	33,868	32,301	33,868	0	1,567	13,553
2028	34,122	32,543	34,122	0	1,578	11,974
2029	34,378	32,787	34,378	0	1,590	10,384
2030	34,635	33,033	34,635	0	1,602	8,782
2031	34,895	33,281	34,895	0	1,614	7,168
2032	35,157	33,531	35,157	0	1,626	5,542
2033	35,421	33,782	35,421	0	1,638	3,903
2034	35,686	34,036	35,686	0	1,651	2,253
2035	35,954	34,291	35,954	0	1,663	589
2036	35,137	34,548	36,224	0	589	0
2037	34,861	34,861	36,552	0	0	0
2038	35,207	35,207	36,915	0	0	0
2039	35,557	35,557	37,281	0	0	0
2040	35,910	35,910	37,651	0	0	0
2041	36,266	36,266	38,025	0	0	0
2042	36,626	36,626	38,402	0	0	0
2043	36,990	36,990	38,784	0	0	0
2044	37,357	37,357	39,169	0	0	0
2045	37,728	37,728	39,557	0	0	0
2046	38,102	38,102	39,950	0	0	0
2047	38,480	38,480	40,346	0	0	0
2048	38,862	38,862	40,747	0	0	0
2049	39,248	39,248	41,151	0	0	0
2050	39,637	39,637	41,560	0	0	0
2051	40,031	40,031	41,972	0	0	0

Appendix V (continued)

Year	Payments to Beneficiary	Unitrust % Amount	Net Income	Shortfall	Amount Madeup	Year-End Makeup Balance
2052	40,428	40,428	42,389	0	0	0
2053	40,829	40,829	42,809	0	0	0
2054	41,234	41,234	43,234	0	0	0
Total	**$1,174,305**	**$1,174,305**	**$1,208,534**	**$21,270**	**$21,270**	**$0**

Appendix VI

Summary of Benefits Projection

ASSUMPTIONS:
Projection runs for 24 years.
Measuring life ages are 71 and 70.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Investment assumptions change during projection. See Investment Assumptions chart for

	Flip Unitrust 5%
Property Donated	$750,000
Cost Basis	$65,000
Property Type	long term gain
Reinvested Principal	$705,000
Charitable Deduction	$312,233
Income Tax Savings	$131,138
Total Benefit To Payment Recipient	**$1,016,785**
Total After-Tax Benefit To Payment Recipient	**$637,524**
Benefit to THE CHARITY	**$1,111,714**
Total Benefit	**$1,749,238**

Column 1: Payment schedule is quarterly, 3 months delay.

Appendix VI (continued)

Detailed Cash Flow Analysis

ASSUMPTIONS:
Projection runs for 24 years.
Measuring life ages are 71 and 70.
Principal donated is $750,000. Cost basis is $65,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Cost of sale is 6% on 1/1/2022.

5% Flip Unitrust

Year	Year-End Principal	Appreciation	Income	Payments to Beneficiary	Tax-Free Portion	After-Tax Payments
		(0%)	(0%)			
2021	$750,000					
	-45,000					
Sale	705,000					
2022 Flip	705,000	$0	$0	$0	$0	$0
		(4.5%)	(2.5%)			
2023	719,100	31,725	17,625	35,250	0	22,102
2024	733,482	32,360	17,978	35,955	0	22,544
2025	748,152	33,007	18,337	36,674	0	22,995
2026	763,115	33,667	18,704	37,408	0	23,455
2027	778,377	34,340	19,078	38,156	0	23,924
2028	793,945	35,027	19,459	38,919	0	24,402
2029	809,823	35,728	19,849	39,697	0	24,890
2030	826,020	36,442	20,246	40,491	0	25,388
2031	842,540	37,171	20,650	41,301	0	25,896
2032	859,391	37,914	21,064	42,127	0	26,414
2033	876,579	38,673	21,485	42,970	0	26,942
2034	894,110	39,446	21,914	43,829	0	27,481
2035	911,993	40,235	22,353	44,706	0	28,030
2036	930,233	41,040	22,800	45,600	0	28,591
2037	948,837	41,860	23,256	46,512	0	29,163
2038	967,814	42,698	23,721	47,442	0	29,746
2039	987,170	43,552	24,195	48,391	0	30,341
2040	1,006,914	44,423	24,679	49,359	0	30,948
2041	1,027,052	45,311	25,173	50,346	0	31,567
2042	1,047,593	46,217	25,676	51,353	0	32,198
2043	1,068,545	47,142	26,190	52,380	0	32,842
2044	1,089,916	48,085	26,714	53,427	0	33,499
2045	1,111,714	49,046	27,248	54,496	0	34,169

Appendix VI (continued)

Detailed Cash Flow Analysis (continued)

Total	**$1,111,714**	**$915,106**	**$508,392**	**$1,016,785**		**$0**	**$637,524**

Appendix VI (continued)

Taxation Schedule

ASSUMPTIONS:
Projection runs for 24 years.
Measuring life ages are 71 and 70.
Principal donated is $750,000. Cost basis is $65,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Cost of sale is 6% on 1/1/2022.
Information on income and capital appreciation assumptions can be found on the Investment Assumptions chart.

5% Flip Unitrust

Year	Payments to Ben.	Ordinary Income (45.8%)	Capital Gain (28.8%)	Capital Tier	After-Tax Payments
2022	$0	$0	$0	$640,000	$0
2023	35,250	17,625	17,625	623,134	22,102
2024	35,955	17,978	17,978	606,974	22,544
2025	36,674	18,337	18,337	591,498	22,995
2026	37,408	18,704	18,704	576,687	23,455
2027	38,156	19,078	19,078	562,521	23,924
2028	38,919	19,459	19,459	548,981	24,402
2029	39,697	19,849	19,849	536,049	24,890
2030	40,491	20,246	20,246	523,708	25,388
2031	41,301	20,650	20,650	511,940	25,896
2032	42,127	21,064	21,064	500,730	26,414
2033	42,970	21,485	21,485	490,062	26,942
2034	43,829	21,914	21,914	479,921	27,481
2035	44,706	22,353	22,353	470,293	28,030
2036	45,600	22,800	22,800	461,164	28,591
2037	46,512	23,256	23,256	452,521	29,163
2038	47,442	23,721	23,721	444,350	29,746
2039	48,391	24,195	24,195	436,639	30,341
2040	49,359	24,679	24,679	429,377	30,948
2041	50,346	25,173	25,173	422,553	31,567
2042	51,353	25,676	25,676	416,155	32,198
2043	52,380	26,190	26,190	410,173	32,842
2044	53,427	26,714	26,714	404,597	33,499
2045	54,496	27,248	27,248	399,417	34,169
Total	**$1,016,785**	**$508,392**	**$508,392**	**$399,417**	**$637,524**

Appendix VII

Summary of Benefits Projection

ASSUMPTIONS:
Projection runs for 24 years.
Measuring life ages are 71 and 70.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Investment assumptions change during projection. See Investment Assumptions chart for
Management fees: 1% of principal.

	Flip Unitrust 5%
Property Donated	$750,000
Cost Basis	$65,000
Property Type	long term gain
Charitable Deduction	$312,233
Income Tax Savings	$131,138
Total Management Fees	$238,429
Total Benefit To Payment Recipient	**$1,027,062**
Total After-Tax Benefit To Payment Recipient	**$674,833**
Benefit to THE CHARITY	**$1,081,641**
Total Benefit	**$1,756,473**

Column 1: Payment schedule is quarterly, 3 months delay.

Appendix VII (continued)

Detailed Cash Flow Analysis

ASSUMPTIONS:
Projection runs for 24 years.
Measuring life ages are 71 and 70.
Principal donated is $750,000. Cost basis is $65,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.

5% Flip Unitrust

Year	Year-End Principal	Appreciation	Income	Mgmt Fees	Payments to Beneficiary	Tax-Free Portion	After-Tax Payments
		(4.5%)	(2.5%)	(1%)			
2021	$750,000						
2022	783,750	$33,750	$18,750	$7,838	$10,913	$0	$5,915
2023	819,019	35,269	19,594	8,190	11,404	0	6,181
2024	855,875	36,856	20,475	8,559	11,917	0	6,459
2025	894,389	38,514	21,397	8,944	12,453	0	6,750
Flip							
2026	902,930	40,248	22,360	9,346	44,719	0	29,628
2027	911,553	40,632	22,573	9,436	45,147	0	29,911
2028	920,259	41,020	22,789	9,526	45,578	0	30,197
2029	929,047	41,412	23,006	9,617	46,013	0	30,485
2030	937,920	41,807	23,226	9,709	46,452	0	30,776
2031	946,877	42,206	23,448	9,801	46,896	0	31,070
2032	955,919	42,609	23,672	9,895	47,344	0	31,367
2033	965,048	43,016	23,898	9,989	47,796	0	31,666
2034	974,265	43,427	24,126	10,085	48,252	0	31,969
2035	983,569	43,842	24,357	10,181	48,713	0	32,274
2036	992,962	44,261	24,589	10,278	49,178	0	32,582
2037	1,002,445	44,683	24,824	10,376	49,648	0	32,893
2038	1,012,018	45,110	25,061	10,476	50,122	0	33,207
2039	1,021,683	45,541	25,300	10,576	50,601	0	33,525
2040	1,031,440	45,976	25,542	10,677	51,084	0	33,845
2041	1,041,290	46,415	25,786	10,779	51,572	0	34,168
2042	1,051,234	46,858	26,032	10,881	52,065	0	34,494
2043	1,061,274	47,306	26,281	10,985	52,562	0	34,824
2044	1,071,409	47,757	26,532	11,090	53,064	0	35,156
2045	1,081,641	48,213	26,785	11,196	53,570	0	35,492
Total	**$1,081,641**	**$1,026,728**	**$570,404**	**$238,429**	**$1,027,062**	**$0**	**$674,833**

Appendix VII (continued)

Taxation Schedule

ASSUMPTIONS:
Projection runs for 24 years.
Measuring life ages are 71 and 70.
Principal donated is $750,000. Cost basis is $65,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Management fees: 1% of principal.
Information on income and capital appreciation assumptions can be found on the Investment Assumptions chart.

5% Flip Unitrust

Year	Payments to Ben.	Ordinary Income (45.8%)	Capital Gain (28.8%)	Capital Tier	After-Tax Payments
2022	$10,913	$10,913	$0	$685,000	$5,915
2023	11,404	11,404	0	685,000	6,181
2024	11,917	11,917	0	685,000	6,459
2025	12,453	12,453	0	685,000	6,750
2026	44,719	13,013	31,706	799,048	29,628
2027	45,147	13,138	32,009	769,737	29,911
2028	45,578	13,263	32,315	741,420	30,197
2029	46,013	13,390	32,623	714,063	30,485
2030	46,452	13,518	32,935	687,635	30,776
2031	46,896	13,647	33,249	662,103	31,070
2032	47,344	13,777	33,567	637,437	31,367
2033	47,796	13,909	33,887	613,608	31,666
2034	48,252	14,041	34,211	590,587	31,969
2035	48,713	14,176	34,538	568,347	32,274
2036	49,178	14,311	34,868	546,862	32,582
2037	49,648	14,448	35,200	526,105	32,893
2038	50,122	14,586	35,537	506,053	33,207
2039	50,601	14,725	35,876	486,681	33,525
2040	51,084	14,865	36,219	467,966	33,845
2041	51,572	15,007	36,565	449,886	34,168
2042	52,065	15,151	36,914	432,419	34,494
2043	52,562	15,295	37,266	415,545	34,824
2044	53,064	15,442	37,622	399,243	35,156
2045	53,570	15,589	37,981	383,495	35,492
Total	**$1,027,062**	**$331,975**	**$695,087**	**$383,495**	**$674,833**

Appendix VIII

Summary of Benefits Projection

ASSUMPTIONS:
Projection runs for 24 years.
Measuring life ages are 71 and 70.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Investment assumptions change during projection. See Investment Assumptions chart for
Management fees: 1% of principal.

	Flip Makeup Unitrust 5%
Property Donated	$750,000
Cost Basis	$65,000
Property Type	long term gain
Charitable Deduction	$312,233
Income Tax Savings	$131,138
Total Management Fees	$229,886
Total Benefit To Payment Recipient	**$1,021,309**
Total After-Tax Benefit To Payment Recipient	**$667,256**
Benefit to THE CHARITY	**$1,040,829**
Total Benefit	**$1,708,085**

Column 1: Payment schedule is quarterly, 3 months delay.

Appendix VIII (continued)

Detailed Cash Flow Analysis

ASSUMPTIONS:
Projection runs for 24 years.
Measuring life ages are 71 and 70.
Principal donated is $750,000. Cost basis is $65,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.

5% Flip with Makeup Unitrust

Year	Year-End Principal	Appreciation	Income	Mgmt Fees	Payments to Beneficiary	Tax-Free Portion	After-Tax Payments
		(3.5%)	(3.5%)	(1%)			
2021	$750,000						
2022	776,250	$26,250	$26,250	$7,763	$18,488	$0	$10,020
2023	803,419	27,169	27,169	8,034	19,135	0	10,371
2024	831,538	28,120	28,120	8,315	19,804	0	10,734
2025	860,642	29,104	29,104	8,606	20,497	0	11,110
Flip							
		(4.5%)	(2.5%)				
2026	868,861	38,729	21,516	8,994	43,032	0	28,510
2027	877,159	39,099	21,722	9,080	43,443	0	28,782
2028	885,536	39,472	21,929	9,166	43,858	0	29,057
2029	893,993	39,849	22,138	9,254	44,277	0	29,335
2030	902,530	40,230	22,350	9,342	44,700	0	29,615
2031	911,150	40,614	22,563	9,431	45,127	0	29,898
2032	919,851	41,002	22,779	9,522	45,557	0	30,183
2033	928,636	41,393	22,996	9,612	45,993	0	30,471
2034	937,504	41,789	23,216	9,704	46,432	0	30,762
2035	946,457	42,188	23,438	9,797	46,875	0	31,056
2036	955,496	42,591	23,661	9,890	47,323	0	31,353
2037	964,621	42,997	23,887	9,985	47,775	0	31,652
2038	973,833	43,408	24,116	10,080	48,231	0	31,955
2039	983,133	43,822	24,346	10,177	48,692	0	32,260
2040	992,522	44,241	24,578	10,274	49,157	0	32,568
2041	1,002,001	44,663	24,813	10,372	49,626	0	32,879
2042	1,011,570	45,090	25,050	10,471	50,100	0	33,193
2043	1,021,230	45,521	25,289	10,571	50,578	0	33,510
2044	1,030,983	45,955	25,531	10,672	51,062	0	33,830
2045	1,040,829	46,394	25,775	10,774	51,549	0	34,153
Total	**$1,040,829**	**$959,689**	**$582,335**	**$229,886**	**$1,021,309**	**$0**	**$667,256**

Appendix VIII (continued

Taxation Schedule

ASSUMPTIONS:
Projection runs for 24 years.
Measuring life ages are 71 and 70.
Principal donated is $750,000. Cost basis is $65,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Management fees: 1% of principal.
Information on income and capital appreciation assumptions can be found on the Investment Assumptions chart.

5% Flip with Makeup Unitrust

Year	Payments to Ben.	Ordinary Income (45.8%)	Capital Gain (28.8%)	Capital Tier	After-Tax Payments
2022	$18,488	$18,488	$0	$685,000	$10,020
2023	19,135	19,135	0	685,000	10,371
2024	19,804	19,804	0	685,000	10,734
2025	20,497	20,497	0	685,000	11,110
2026	43,032	12,522	30,510	766,446	28,510
2027	43,443	12,642	30,801	738,241	28,782
2028	43,858	12,763	31,095	710,992	29,057
2029	44,277	12,885	31,392	684,668	29,335
2030	44,700	13,008	31,692	659,236	29,615
2031	45,127	13,132	31,995	634,668	29,898
2032	45,557	13,257	32,300	610,933	30,183
2033	45,993	13,384	32,609	588,003	30,471
2034	46,432	13,512	32,920	565,851	30,762
2035	46,875	13,641	33,235	544,450	31,056
2036	47,323	13,771	33,552	523,775	31,353
2037	47,775	13,902	33,872	503,802	31,652
2038	48,231	14,035	34,196	484,506	31,955
2039	48,692	14,169	34,522	465,865	32,260
2040	49,157	14,305	34,852	447,856	32,568
2041	49,626	14,441	35,185	430,459	32,879
2042	50,100	14,579	35,521	413,651	33,193
2043	50,578	14,718	35,860	397,413	33,510
2044	51,062	14,859	36,203	381,727	33,830
2045	51,549	15,001	36,548	366,572	34,153
Total	**$1,021,309**	**$352,449**	**$668,860**	**$366,572**	**$667,256**

Appendix IX

Summary of Benefits

ASSUMPTIONS FOR TESTAMENTARY PLAN:
Projection begins in 2021 and runs for 20 years.
The shorter of fixed term of 20 years or
measuring lives age 56, 54.
Original principal is $1,000,000 retirement plan.
Donor income tax bracket is 37%.
Beneficiary income tax bracket is 40.8%, 23.8% for capital gains.
Value of estate is $5,000,000. Prior taxable gifts are $0.
Basic exclusion is $11,700,000.

	Charitable Unitrust 5%
Gross Principal	$1,000,000
Average Annual Payment	$54,807
Charitable Deduction	$370,470
Total Tax Savings	$370,000
Cost of Gift	$630,000
Income	2.5%
Capital Appreciation	4.5%
Sell Asset in First Year	Yes
Total Management Fees	$229,093
Total Before-Tax Benefit To Payment Recipients	$1,096,141
Total After-Tax Benefit To Payment Recipients	**$648,916**
Benefit to THE CHARITY	**$1,209,363**
Total Benefit	**$1,858,279**

Appendix IX (continued)

Estate without Charitable Plan

ASSUMPTIONS FOR TESTAMENTARY PLAN:
Original principal is $1,000,000 retirement plan.
Donor income tax bracket is 37%.
Value of estate is $5,000,000. Prior taxable gifts are $0.
Basic exclusion is $11,700,000.

	Bequest to Family
Gross Principal	$1,000,000
Tax Consequences to Estate:	
Total Estate	$5,000,000
Taxable Estate	$5,000,000
Applicable Exclusion	$11,700,000
Total Federal Estate Tax	$0
Taxable Estate w/o Prin.	$4,000,000
Tax on Estate w/o Prin.	$0
Estate Tax on Principal	$0
Income Taxable Amount	$1,000,000
Income Tax	$370,000
Effect on Retirement Plan:	
Total Taxes on Principal	$370,000
Effective Tax Rate	37%
Net Bequest to Family	$630,000
Effect on Estate:	
Total Taxes on Estate	$370,000
Net Estate	$4,630,000
Net Bequest to Family	$630,000
Net Remaining Estate	$4,000,000

Appendix IX (continued)

Estate with Charitable Plan

ASSUMPTIONS FOR TESTAMENTARY PLAN:
The shorter of fixed term of 20 years or
measuring lives age 56, 54.
Original principal is $1,000,000 retirement plan.
Donor income tax bracket is 37%.
Beneficiary income tax bracket is 40.8%, 23.8% for capital gains.
Value of estate is $5,000,000. Prior taxable gifts are $0.
Basic exclusion is $11,700,000.

	Charitable Unitrust 5%
Gross Principal	$1,000,000
Tax Consequences to Estate:	
Total Estate	$5,000,000
Charitable Deduction	$370,470
Taxable Estate	$4,629,530
Applicable Exclusion	$11,700,000
Total Federal Estate Tax	$0
Taxable Estate w/o Prin.	$4,000,000
Tax on Estate w/o Prin.	$0
Estate Tax on Principal	$0
Income Taxable Amount	$1,000,000
Income Tax	$0
Effect on Retirement Plan:	
Total Taxes on Principal	$0
Effective Tax Rate	0%
Tax Savings v. Bequest to Family	$370,000
Effect on Estate:	
Total Taxes on Estate	$0
Net Estate	$5,000,000
Charitable Plan	$1,000,000
Net Remaining Estate	$4,000,000