


PG Calc YOUR BEST PLANNED GIVING SUCCESS

What Color Is Your CRT?



Date: June 24, 2021
 Time: 1:00 – 2:30 Eastern
 Presenter: Jeffrey Frye
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 PG Calc

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CRTs Come in All Colors and Flavors



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1. Charitable Remainder Annuity Trust (CRAT)

Charitable Remainder Annuity Trust (CRAT)

- Donor establishes CRAT with governing trust document
- Annual payout to beneficiary is specified percentage of original funding value (from 5% to 50%)
- Can be for 1 or more lives, a term of years (up to 20), or a combination
- One or more charities receive remainder
- CRAT is tax-exempt; distributions taxed under 4-tier rules
- Minimum 10% charitable remainder value
- Cannot exceed 5% probability of corpus exhaustion

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1. Charitable Remainder Annuity Trust (CRAT)

Charitable Remainder Annuity Trust (CRAT)

- **Most typical donor:** relatively older person, risk-averse, prefers future stream of income whose amount never changes
- **Positive attributes:** payment amounts never change, easy to establish and manage; generally better for charity; alternative to CGA
- **Negative attributes:** Erosion of corpus, possibility of exhaustion, not available to younger donors, loss of future purchasing power in fixed-amount beneficiary distributions

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1. Charitable Remainder Annuity Trust (CRAT)

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1. Charitable Remainder Annuity Trust (CRAT)

Summary of Benefits

5% Charitable Remainder Annuity Trust

ASSUMPTIONS:

Beneficiary Age	72
Cash Donated	\$500,000.00
Payout Rate	5%
Payment Schedule	Quarterly 31 end

BENEFITS:

Charitable Deduction	\$212,835.00
Annual Payments	\$25,000.00
Probability of Corpus Exhaustion	9.85%

***** WARNING *****
This trust would not qualify for charitable tax benefits because its 9.85% chance of being drawn down to 50 or 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 a 2% increase (Rev. Proc. 2016-42) or by lowering the payout rate or shortening the term.

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1. Charitable Remainder Annuity Trust (CRAT)

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
Years to Exhaustion	22.88870
Probability of Corpus Exhaustion (Passes 5.00% Test)	4.77%


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1. Charitable Remainder Annuity Trust (CRAT)

It's all in the numbers, you know



"In a way, I am kind of famous. But you've probably never heard of me unless you happen to read my account books."

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1. Charitable Remainder Annuity Trust (CRAT)

Summary of Benefits Projection for Stella Chadwick

5% Charitable Remainder Annuity Trust

Assumptions:

- Funded with \$500,000 cash
- Projection runs for 18 years
- Measuring life is 72
- Management fees are 1% of principal

Benefits:

Charitable Deduction:	\$212,835
Annual distribution to Stella:	\$25,000
Total Management Fees:	\$104,754

Total payments to Stella before taxes:	\$450,000
Total payments to Stella after taxes:	\$355,239
Estimated charitable remainder:	\$646,947

Total benefit: \$1,002,186

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2. Standard Charitable Remainder Unitrust (S-CRUT)

Standard Charitable Remainder Unitrust

Same as charitable remainder annuity trust, except:

- Annual payout to beneficiary is specified percentage of trust market value, as revalued each year on a specified date (usually first business day of year)
- Donor can add to CRUT (receives additional deduction)

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2. Standard Charitable Remainder Unitrust (S-CRUT)

Standard Charitable Remainder Unitrust

- **Most typical donor:** relatively younger donors, less risk-averse, interested in future stream of income that increases over time
- **Positive attributes:** payment amounts usually go up, easy to establish and manage, larger deduction than CRAT, favorable treatment of long-term capital gains
- **Negative attributes:** Risk of investment losses, corpus value can decline, payments can go down, remainder may be less.

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2. Standard Charitable Remainder Unitrust (S-CRUT)

Summary of Benefits Projection for Harold and Betty Jackson 5% Charitable Remainder Unitrust

Assumptions:
 Funded with \$600,000 in appreciated securities; \$120,000 cost basis
 Projection runs for 33 years
 Measuring lives are 63 and 61
 Management fees are 1% of principal

Benefits:	
Charitable deduction:	\$177,570
First full year payment to Harold & Betty:	\$30,000
Total management fees:	\$241,882
Total payments to Harold & Betty before taxes:	\$1,157,331
Total payments to Harold & Betty after taxes:	\$766,767
Estimated charitable remainder:	\$821,050
Total benefit:	\$1,587,817

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3. Net Income Charitable Remainder Unitrust (NICRUT)

Net Income Charitable Remainder Unitrust (NICRUT)

- Most typical donor:** not as age-specific; more risk tolerant; comfortable with modest stream of income that grows steadily over time
- Positive attributes:** payment amounts usually go up, easy to establish and manage, good vehicle for less liquid assets, favorable treatment of long-term capital gains, highest possible charitable remainder
- Negative attributes:** Risk of investment losses, payments may never go up substantially, payments can go down.

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3. Net Income Charitable Remainder Unitrust (NICRUT)

Summary of Benefits Projection for Harold & Betty Jackson

ASSUMPTIONS:
 Projection runs for 33 years.
 Measuring life ages are 63 and 61.
 Management fees: 1% of principal.

	Net Income Unitrust %
Property Donated	\$600,000
Cost Basis	\$120,000
Average Annual Payment	\$19,247
Charitable Deduction	\$177,570
Total Management Fees	\$456,182
Total Payments to Harold & Betty Before Taxes	\$635,162
Total Payments to Harold & Betty After Taxes	\$344,258
Benefit to THE CHARITY	\$2,564,418
Total Benefit	\$2,908,676

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3. Net Income Charitable Remainder Unitrust (NICRUT)

Detailed Cash Flow For Harold & Betty

ASSUMPTIONS:
 Projection runs for 33 years.
 Measuring life ages are 63 and 61.
 Principal donated is \$600,000. Cost basis is \$120,000.

5% Net Income Unitrust

Year	Year-End Principal	Appreciation (4.5%)	Income (2.5%)	Mgmt Fees (1%)	Payments to Beneficiary	Tax-Free Portion	After-Tax Payments
2021	\$600,000						
2022	627,000	\$27,000	\$15,000	\$6,270	\$6,730	\$0	\$4,732
2023	656,215	28,215	16,075	6,552	6,123	0	4,945
2024	684,700	28,485	16,380	6,847	5,533	0	5,167
2025	715,511	30,811	17,117	7,155	4,962	0	5,400
2026	747,709	32,198	17,868	7,477	4,411	0	5,643
2027	781,356	33,647	18,693	7,814	3,879	0	5,897
2028	816,517	35,161	19,534	8,165	3,369	0	6,162
2029	853,260	36,743	20,413	8,533	2,880	0	6,439
2030	891,657	38,397	21,332	8,917	2,415	0	6,729
2031	931,782	40,125	22,291	9,318	1,974	0	7,032
2032	973,712	41,930	23,295	9,737	1,557	0	7,348
2033	1,017,529	43,817	24,343	10,175	1,168	0	7,679
2034	1,063,318	45,789	25,438	10,633	805	0	8,024
2035	1,111,167	47,849	26,583	11,112	471	0	8,385
2036	1,161,169	50,003	27,779	11,612	167	0	8,763

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4. Net Income With Makeup Charitable Remainder Unitrust (NIMCRUT)

Net Income With Makeup Charitable Remainder Unitrust (NIMCRUT)

- Same as an S-CRUT in all respects . . .
- ***HOWEVER*** - Trust pays net income for any year in which net income is LESS than computed unitrust amount
- ***MOREOVER*** - Trustee keeps track of yearly **underpayments** and *makes up shortfall in future years* when net income *exceeds* computed unitrust amount

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4. Net Income With Makeup Charitable Remainder Unitrust (NIMCRUT)

Net Income Charitable Remainder Unitrust (NIMCRUT)

- **Most typical donor:** not as age-specific; more risk tolerant; comfortable with modest stream of income that grows steadily over time
- **Positive attributes:** payment amounts usually go up, especially when definition of income includes post-contribution capital gains, good vehicle for less liquid assets, favorable treatment of long-term capital gains
- **Negative attributes:** Risk of investment losses, still no invasion of principal to pay full unitrust amount, payments can go down, and may never go up significantly

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4. Net Income With Makeup Charitable Remainder Unitrust (NIMCRUT)

Summary of Benefits Projection

ASSUMPTIONS:
 Projection runs for 33 years.
 Measuring life ages are 63 and 61.
 Management fees: 1% of principal.

	Makeup Unitrust 5%
Property Donated	\$600,000
Cost Basis	\$120,000
Charitable Deduction	\$177,570
Total Management Fees	\$236,847
Total Payments to Harold & Betty Before Taxes	\$1,174,305
Total Payments to Harold & Betty After Taxes	\$636,473
Benefit to THE CHARITY	\$832,875
Total Benefit	\$1,469,348

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5. Flip Charitable Remainder Unitrust (F-CRUT)

Flip Charitable Remainder Unitrust (F-CRUT)

- **Most typical donor:** younger donors, more risk tolerant, not looking for significant income right away
- **Positive attributes:** payment amounts usually go up dramatically after flip; good vehicle for less liquid and highly-appreciated assets (especially real estate), also good for retirement planning
- **Negative attributes:** Less liquid assets may take much longer to sell; real estate must be maintained until sold, modest net income MUST be distributed during pre-flip years

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5. Flip Charitable Remainder Unitrust (F-CRUT)

Summary of Benefits Projection For Reynaldo & Isabel Garcia

ASSUMPTIONS:
 Projection runs for 24 years.
 Measuring life ages are 71 and 70.
 Management fees: 1% of principal.

	Flip Unitrust
	5%
Property Donated	\$750,000
Cost Basis	\$65,000
Charitable Deduction	\$312,233
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

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5. Flip Charitable Remainder Unitrust (F-CRUT)

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 bracketed is 45.0%, 42% for tax savings, and 28.8% for capital gains.

5% Flip Unitrust

Year	Year-End Appreciation Principal	Income (4.5%)	Mgmt Payments to Fees (2.5%)	Beneficiary (1%)	Tax-Free Portion	After-Tax Payments
2021	\$750,000					
2022	783,750	\$33,750	\$18,750	\$7,838	\$10,913	\$0
2023	818,019	35,269	19,884	8,180	11,404	0
2024	855,875	36,856	20,475	8,559	11,917	0
2025	894,389	38,514	21,397	8,944	12,453	0
2026	922,900	40,248	22,300	9,346	12,999	0
2027	951,553	41,632	23,273	9,436	13,547	0
2028	980,259	41,020	22,789	9,526	14,095	0
2029	1,009,017	41,412	23,006	9,617	14,643	0
2030	1,037,920	41,807	23,226	9,709	15,191	0
2031	1,066,877	42,206	23,448	9,801	15,739	0
2032	1,095,919	42,609	23,672	9,895	16,287	0
2033	1,125,068	43,016	23,898	9,989	16,835	0
2034	1,154,265	43,427	24,126	10,085	17,383	0
2035	1,183,569	43,842	24,357	10,181	17,931	0
2036	1,212,982	44,261	24,589	10,278	18,479	0
2037	1,242,445	44,683	24,824	10,376	19,027	0
2038	1,271,918	45,110	25,061	10,476	19,575	0
2039	1,301,663	45,541	25,300	10,576	20,123	0

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6. Flip With Makeup Charitable Remainder Unitrust (FLIM-CRUT)

Flip With Makeup Charitable Remainder Unitrust (FLIM-CRUT)

- Trust functions as *combination* of NIMCRUT and S-CRUT
- For all years leading up to and including the year of triggering event, trust pays net income only if net income is LESS than computed unitrust amount

MOREOVER

- Trust may make up shortfall payments during pre-flip years, especially if definition of net income includes post-contribution capital gains
- At beginning of next calendar year after triggering event, trust "flips" (converts) to an S-CRUT, and pays computed unitrust amount regardless of how much income earned

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6. Flip With Makeup Charitable Remainder Unitrust (FLIM-CRUT)

Flip With Makeup Charitable Remainder Unitrust (FLIM-CRUT)

- Most typical donor:** not age specific, somewhat more risk tolerant, hoping for modest and increasing income stream
- Positive attributes:** payment amounts go up after the sale of appreciated assets AND also after the flip; good vehicle for less liquid and highly-appreciated assets (especially real estate)
- Negative attributes:** Less liquid assets may take much longer to sell; real estate must be maintained until sold, income during pre-flip years may still be modest (depending on amount of "new" realized gains)

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6. Flip With Makeup Charitable Remainder Unitrust (FLIM-CRUT)

Summary of Benefits Projection For Reynaldo & Isabel Garcia

ASSUMPTIONS:
 Projection runs for 24 years.
 Measuring life ages are 71 and 70.
 Management fees: 1% of principal.

	Flip Makeup Unitrust
Property Donated	\$750,000
Cost Basis	\$65,000
Charitable Deduction	\$312,233
Total Management Fees	\$229,886
Total Benefit To Payment Recipient	\$1,021,309
Total After-Tax Benefit To Payment Recipient	\$687,256
Benefit to THE CHARITY	\$1,040,829
Total Benefit	\$1,708,085

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7. Testamentary Charitable Remainder Unitrust (T-CRUT)

TESTAMENTARY PLAN WITHOUT T-CRUT:

Original principal is \$1,000,000 retirement plan.
Donor income tax bracket is 37%.

BEQUEST TO FAMILY

Gross Principal	\$1,000,000
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

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7. Testamentary Charitable Remainder Unitrust (T-CRUT)

TESTAMENTARY PLAN WITH T-CRUT:

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%.

5% CHARITABLE REMAINDER UNITRUST

Gross Principal	\$1,000,000
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

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8. Proposed Tax Changes

American Families Plan

- Capital gains tax rate would be doubled from 20% to 39.6% for taxpayers with income > \$1 million.
- Step-up in cost basis would be eliminated for inherited gains over \$1 million (\$2.5 million per couple when combined with existing real estate exemptions).
- Taxable estates would increase from 0.1% of all estates to nearly 10% of all estates. Estates would pay a 39.6% capital gains tax.
- Proposed changes to taxation of capital gains would create strong tax incentives for wealthy donors to give long-term appreciated assets to charity throughout their lives and through their estates.

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8. Proposed Tax Changes

“GreenBook” (Revenue proposals for FY 2022)

- Capital gains on transfers of appreciated property by gift or upon death would be taxed.
- No tax on gains if transfers are 100% charitable gifts.
- Capital gains on non-charitable portions of split interest gift arrangements, such as CRTs, would be taxed.

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9. Conclusion

Thank you for your time and attention!

We appreciate the great work you are all doing!


Stay safe and be well.

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Questions?



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Still Have a Question?

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