Tax Matters

CRUTs, Tax-Aware Strategies, and Concentrated Stock Diversification

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In an earlier post, we discussed how VPFs can be combined with tax-aware long-short strategies to tax-efficiently reposition a concentrated low-basis stock into a diversified portfolio with pre-tax alpha potential.

For charitably inclined investors, Charitable Remainder Unitrusts (CRUTs) offer an alternative solution with the following advantages:

- Allow an investor to pursue long-term philanthropic goals,
- Provide a charitable tax deduction in the year of contribution to the CRUT,
- Offer instant diversification of concentrated stock,
- Give the investor exposure to the performance of the assets held by the CRUT,
- Provide an investor with an income stream for multiple years,
- Defer the recognition of gain realized upon the sale of the stock until CRUT payments are received.

Our two latest papers focus on CRUTs. In the first, we demystify the mechanics of CRUTs and the taxation of their non-charitable beneficiaries. We explain that while the gain realized upon selling a concentrated low-basis stock within a CRUT does *not* result in an immediate tax liability, it will *still* be distributed to the investor over multiple years along with the CRUT payments. For this reason, a profitable and tax-efficient strategy held outside the CRUT may help the investor both accumulate wealth and offset some of those gain distributions.

Our second paper builds on the first. It shows that tax-aware long-short strategies can be a better choice for capital outside the CRUT than Direct Indexing. These strategies generate pre-tax active returns at the same time as they realize net capital losses. They also have been shown to realize substantially higher and more consistent net capital losses than Direct Indexing. Importantly, they can be funded with assets that the investor already holds outside the CRUT without the need to sell them—such as stocks, ETFs, mutual funds, and treasuries. Furthermore, they are not tied to an equity benchmark; investors can choose a benchmark that better aligns with their investment goals.

> *When implemented well, CRUTs can be a valuable tool, combining wealth preservation with philanthropy*

When implemented well, CRUTs can be a valuable tool, combining wealth preservation with philanthropy. Our latest papers are meant to help investors maximize the benefits of these strategies.