



Tax Aware

A Brief Guide to the Mathematics and Taxation of Charitable Remainder Unitrusts

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This paper provides a practical guide for financial planners and wealth management professionals on charitable remainder unitrusts (CRUTs). It systematizes the information that would be helpful for modeling and analyzing CRUTs. The first half of the paper covers the basic terms of a CRUT, such as the fixed percentage, annual valuation, payment timing and frequency, and the length of the payment period, as well as more advanced topics, such as net income, make-up, and flip provisions. These terms are then used to derive the formulas for unitrust payments and charitable residual interest. The second half of the paper addresses the taxation of CRUTs and their beneficiaries, with particular attention to the handling of low-basis assets and the potential for triggering deemed sale regulations. It also describes the punitive treatment of unrelated business taxable income (UBTI) and stresses the importance of avoiding investments that could generate it. A hypothetical case study is used to illustrate the application of CRUTs in financial and charitable planning.

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