Charitable Remainder Unitrusts

A Complete Guide

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CHARITABLE REMAINDER UNITRUST

The Gift That Pays You Back

When you make a gift to our organization, there is nothing more gratifying than the knowledge that you are making a meaningful contribution toward the future. Because your gift is important to us, we want to be certain that it makes a contribution to your future as well. One of the ways to accomplish this is through a charitable remainder unitrust.[1]

The charitable remainder unitrust allows you to set aside a portion of your assets as a gift for our organization while you maintain — and even enhance — your present and future income. Here are some potential benefits you receive from a charitable remainder unitrust:

* Increase current income from appreciated assets
* Obtain a generous income tax charitable deduction
* Bypass an onerous penalty capital gains tax
* Save estate taxes and probate costs
* Further our organization's goals

HOW TRUSTS WORK

When you establish a charitable remainder unitrust, you donate cash or property to fund the trust. You then decide what percentage of the fair market value of the trust assets you wish to receive as income. For example, you may donate $1 million in cash to a unitrust and receive 8% income per year.

With the unitrust, you have a wonderful hedge against inflation. As the value of the trust rises, so does your income. In this way, if the trust increases dramatically, you are assured of receiving a share of that increase.

Conversely, if the value of the unitrust declines for some reason, you still receive your fixed percentage, but your income payment is smaller. You may also give additional assets to the unitrust after it has been established, adding to the trust's value and increasing the income paid to you.

ADVANTAGES OF A UNITRUST

The charitable remainder unitrust is an ideal gift in many circumstances. Consider a unitrust if:

* You have made a charitable bequest in your will
* You want to increase income for yourself, your spouse, or another person
* You want to enhance your retirement income
* You own highly appreciated stock or real estate that provides a low income
* You own a highly appreciated business
* You are considering selling any of your appreciated assets.

SAVING CAPITAL GAINS TAXES

Does this sound familiar? You own an appreciated asset, such as stock or real estate, and you would like to sell it. Your cost basis, however, is so much lower than the current fair market value that you will be hit by an onerous capital gains tax after the sale. You are virtually trapped by this wonderful asset.

ILLUSTRATION

Mr. Smithson purchased ABC stock 15 years ago for $200,000. This growth stock is now worth $1 million and pays him approximately 2% income per year, or $20,000. While selling the stock would net an impressive $800,000 profit, it would also trigger a hefty capital gains tax of $120,000.

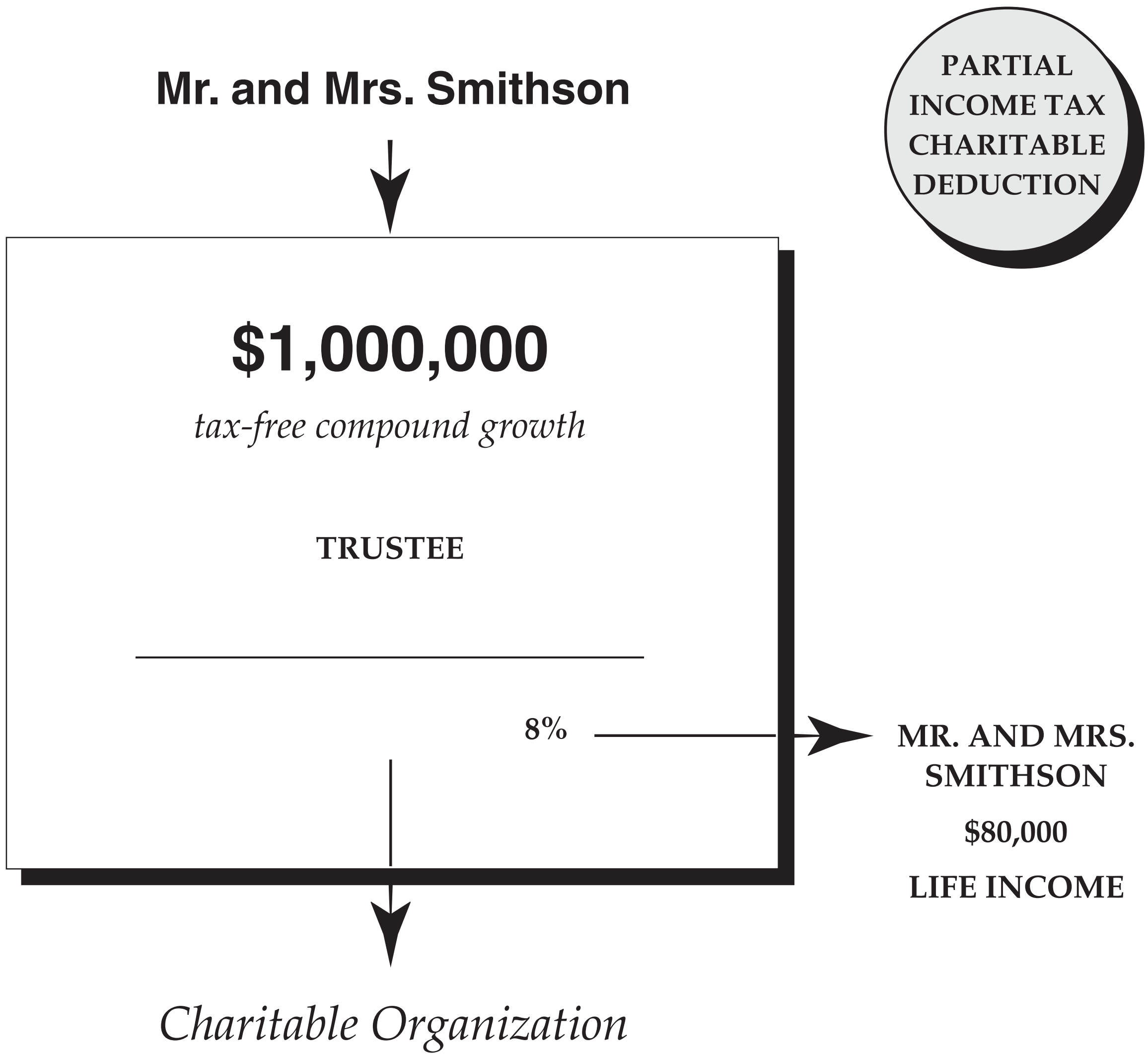
Mr. Smithson does not wish to incur this penalty tax, yet he would like to increase the income from this stock. His solution is to transfer the stock into a charitable remainder unitrust. The trustee then sells the highly appreciated stock free of any capital gains tax.[2]

Mr. Smithson sets up the trust to pay income equal to 8% of the value of the trust assets. Since the trust assets in the first year equal $1 million, his income from the unitrust is $80,000, four times more than he earned from the stock prior to making the gift.

In addition to freeing him from the penalty capital gains tax, the gift also provides him with a substantial income tax charitable deduction between 40% and 60% of the value of the property transferred into the trust. He takes a deduction of 30% of his adjusted gross income for a period of six years until the full amount is deducted. Mr. Smithson has quadrupled his income from that asset. He has also saved substantial federal income tax, avoided the capital gains tax, and eliminated estate tax.

You should consider transferring highly appreciated assets into a charitable remainder unitrust when you are considering the sale of any of the following:

* Appreciated growth stock
* Appreciated real estate
* Appreciated family business
* Any property with appreciated value



MR. AND MRS. SMITHSON

Results

INCREASE IN INCOME

20,000 TO 80,000

INCOME TAX SAVINGS

175,000

CAPITAL GAIN TAX SAVINGS

120,000

ESTATE TAX SAVINGS

450,000

INCOME TAX SAVINGS

As you have seen, the income tax savings from a unitrust can be significant. If you itemize deductions, you obtain a charitable deduction in the year you make the contribution, a deduction that can be carried over for five additional tax years. The amount of the deduction is based on the fair market value of the trust assets, the age of the income recipient, the percentage of income to be paid and the number of payments per year and the federal mid-term rate of the month.

The following chart illustrates the tax deduction available for a gift of $200,000 from which the contributor wishes to receive a 7% annual income. This illustration is for educational purposes only. The charitable deduction in each case depends on your unique circumstances and the specific date of the gift.

Age	*Charitable Deduction*
50	$38,000
60	$58,000
70	$86,000
80	$118,000

Based on 5.0% AFR.

If the contributor wishes the income to go to two people, the deduction would be slightly reduced. Unitrusts also can be established to run for a specific number of years, rather than for the life of a recipient, which would change the amount of the deduction.

Depending on the property given (cash, stock, real estate, tax-free bonds, etc.), you can deduct 30%-50% of your adjusted gross income.[3] If the entire deduction is not used in the first year, it can be carried over for five more years until the deduction is expended.[4]

ALTERNATIVE MINIMUM TAX

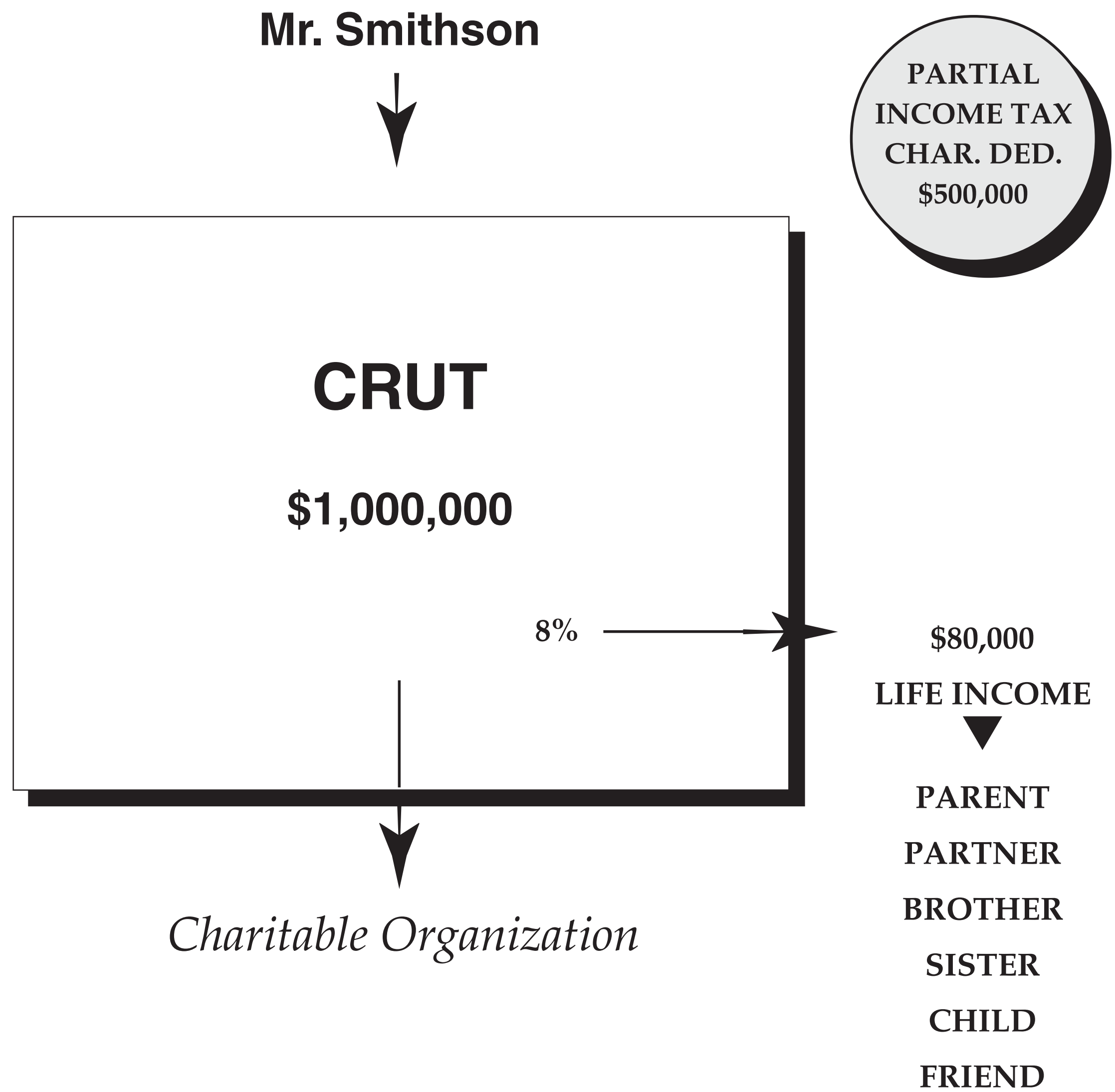
The Alternative Minimum Tax (AMT) was designed by Congress to prevent some taxpayers from taking so many deductions that they owed no taxes at all.[5]

A gift of appreciated property to a charitable remainder unitrust is not a preference item under the AMT.

ESTATE TAX SAVINGS

If you establish a unitrust with yourself as the income beneficiary, your estate will pay no estate taxes on the property because the estate will receive an estate tax charitable deduction for your gift to a charitable organization. If your spouse is also a beneficiary, the combined marital and charitable tax deductions will eliminate estate taxes in both estates.

If someone other than your spouse is an income beneficiary, the unitrust income payments may be subject to gift or estate tax. However, the amount of either tax is reduced by the value of the unitrust that eventually passes to a charitable organization. It is often important that the trust contain special language to eliminate gift tax.



RESULTS

* Provides Income to Non-Spouse
* Income Tax Deduction of $500,000
* Gift to Non-Spouse of $500,000
* Possible Gift Tax Unless Mr. Smithson Uses Unified Tax Credit Exemption to Avoid Payment of Gift Tax

OTHER TAXING MATTERS

When you receive income from a charitable remainder unitrust, the income is taxed according to how it is earned by the trust. It is often possible for the trust to pay income to you at favorable capital gains rates or, in some cases, tax-free. The Internal Revenue Service has a four-tier system it uses to determine how this income is taxed.[6]

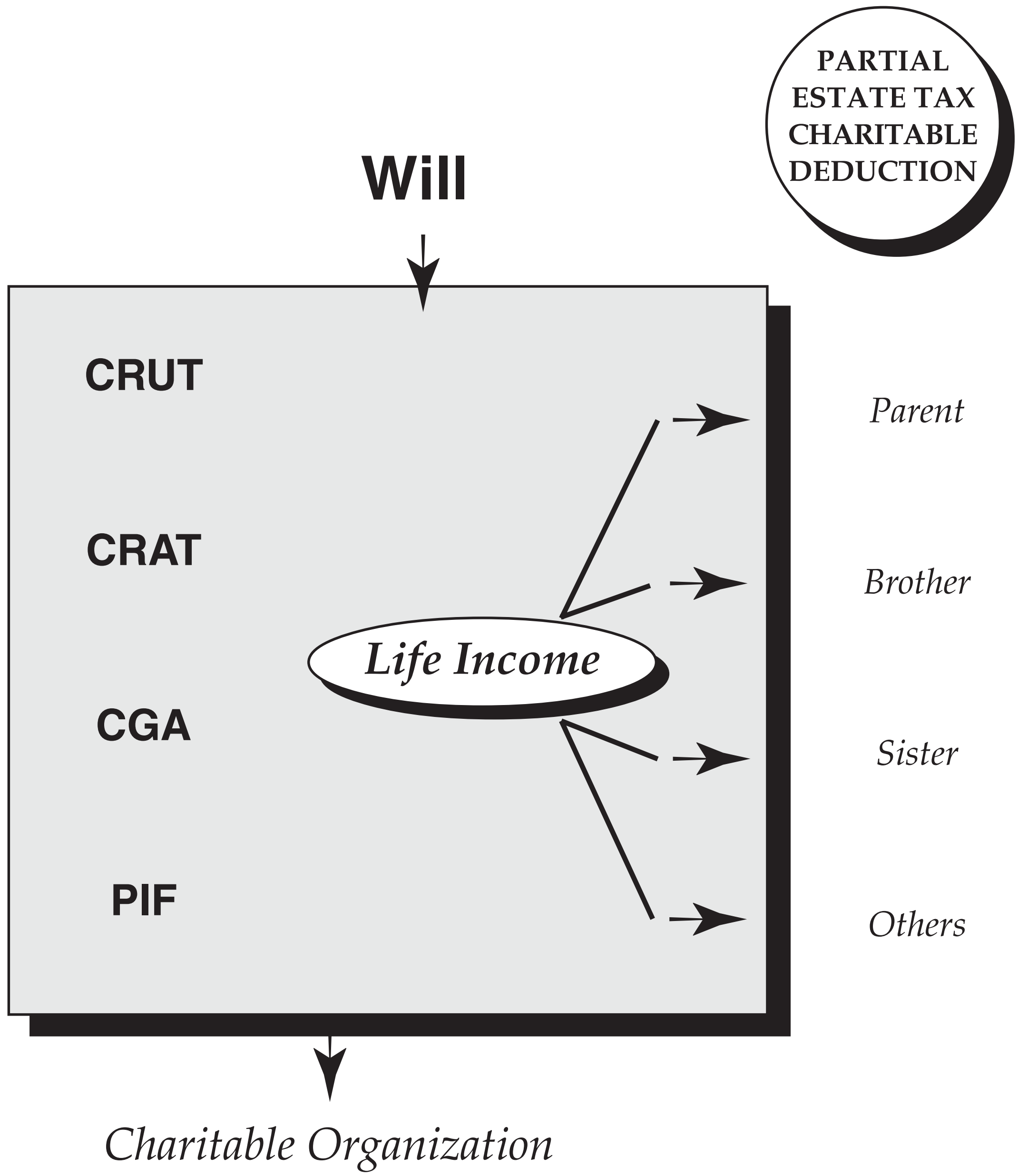
1) Ordinary income
2) Long-term capital gains
3) Tax-free income
4) Tax-free distribution of principal

This means that the money earned by the trust is distributed to you in the form of ordinary income first, followed by capital gains income, and finally by tax-free income.[7]

ESTABLISH A UNITRUST IN YOUR WILL

If life income is not an important factor for you, you can create a unitrust in your will to provide a life income for your survivors. If your estate is subject to estate tax, the unitrust offers an excellent way to save estate tax and increase a survivor's income.

TESTAMENTARY LIFE INCOME GIFTS



RETIREMENT UNITRUST

You can make the most of your retirement income while saving taxes through the use of a charitable retirement unitrust. A typical plan uses a "net income-plus makeup" unitrust, and one of its most appealing features is its flexibility.[8]

You select:

* The amount you will add to the plan each year
* The trustee
* The amount of retirement income you will receive

You can then:

* Take a current income tax deduction
* Maximize your retirement income
* Avoid the penalty capital gains tax

HOW THIS PLAN DIFFERS

The charitable retirement plan differs from other plans in that you establish it 10-15 years before you retire. Until your retirement, you continue to add to the trust assets, but you also receive a modest income from those assets. The amount you receive may be an annual percentage of the trust's fair market value or the income it generates, whichever is less.

While you are still working, your purpose is to increase the value of the trust as much as possible. The trust assets can be sold and invested for maximum growth, and you pay no capital gains tax.

Also, you may choose to reinvest your income from the trust back into the trust principal. By donating this trust income, you may help offset federal income tax.

After you retire, the fund's objective changes — it is now invested to yield the maximum income to you and your spouse. Your trustee can use the "makeup" provision to make up any shortfall in your income from earlier years.

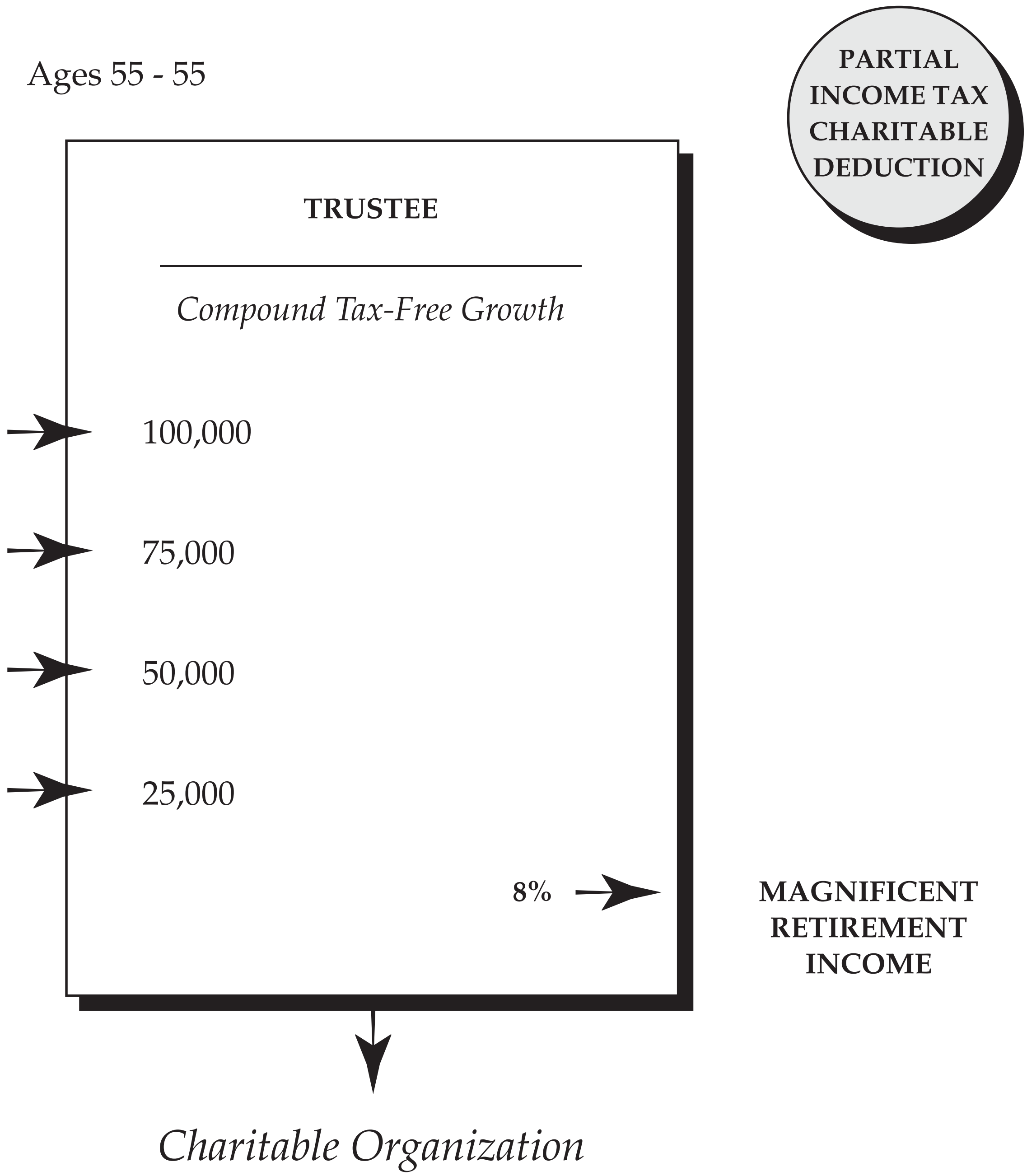
Thus, it provides you with maximum retirement income for the rest of your life and that of your spouse. After both donor and spouse die, the remainder of the trust passes to our organization.

MAKE THE GIFT OF A LIFETIME

A charitable retirement plan may provide you with the opportunity to make that "gift of a lifetime" not only to our organization, but to your own financial future.

CHARITABLE RETIREMENT PLAN
(YEARLY)

Illustration



CHARITABLE REMAINDER ANNUITY TRUSTS

The Reliable Life Income Gift

Charitable gifts are important tools to achieve the goals we believe in. Yet many of us believe that our current need for income means we must delay philanthropic gifts until after death.

With a charitable remainder annuity trust, that simply isn't true. You can make a generous gift now and attain a better financial return than you can from your current assets. How is it possible? Because the charitable remainder annuity trust provides you with a life income — the gift that pays you back.

OBTAINING A LIFE INCOME

The charitable remainder annuity trust is known as a life income gift because once you have made the gift, it pays you income for the rest of your life, or the life of another, if you desire.[9] When you contribute assets to an annuity trust, you determine what percentage of the trust's fair market value you would like to receive as income. That's all there is to it.

SOME CONCRETE BENEFITS

There are a number of benefits to be obtained from annuity trusts:

* An annuity trust provides reliable, stable income that is not subject to market fluctuations
* Your gift generates an income tax deduction that can be carried forward for five additional years
* By transferring appreciated assets to the trust, you avoid the penalty capital gains tax on the sale of those assets
* You often avoid estate taxes.

CREATING THE CHARITABLE REMAINDER ANNUITY TRUST

You can use cash, real estate, or any other asset to establish the charitable remainder annuity trust. Appreciated assets are an excellent choice for the trust because the trust relieves you from paying a penalty capital gains tax when those assets are sold.[10]

Illustration

Mr. Fields places $1 million into a charitable remainder annuity trust. He wishes to receive as income 7% of the trust's value, or $70,000. Because it is an annuity trust, he will receive $70,000 each year for the rest of his life, regardless of how the trust performs.

RULES FOR ANNUITY TRUSTS

You must elect to receive no less than 5% from a charitable remainder annuity trust, which must be paid to you or another beneficiary for life.[11] After your lifetime, the trust terminates and the remainder of the trust passes to the charitable organization.[12]

If the trust earns less than your specified income in any year, you will still receive the income. The trustee has the authority to invade the trust's principal in order to make the payments to you.

At the time of your gift, you obtain a current income tax deduction of 50% of your adjusted gross income (for a cash contribution), which can be carried over into the next five years until the deduction is used.[13] For other types of assets (appreciated stock or real estate), up to 30% of your adjusted gross income may be deducted, again for a total of six years.[14]

APPRECIATED ASSETS

When you fund the trust using appreciated assets, you take an even bigger step in reducing your tax liability. If you sell a highly appreciated asset, the difference between what you paid (the cost basis) and its current fair market value falls under the federal capital gains tax.

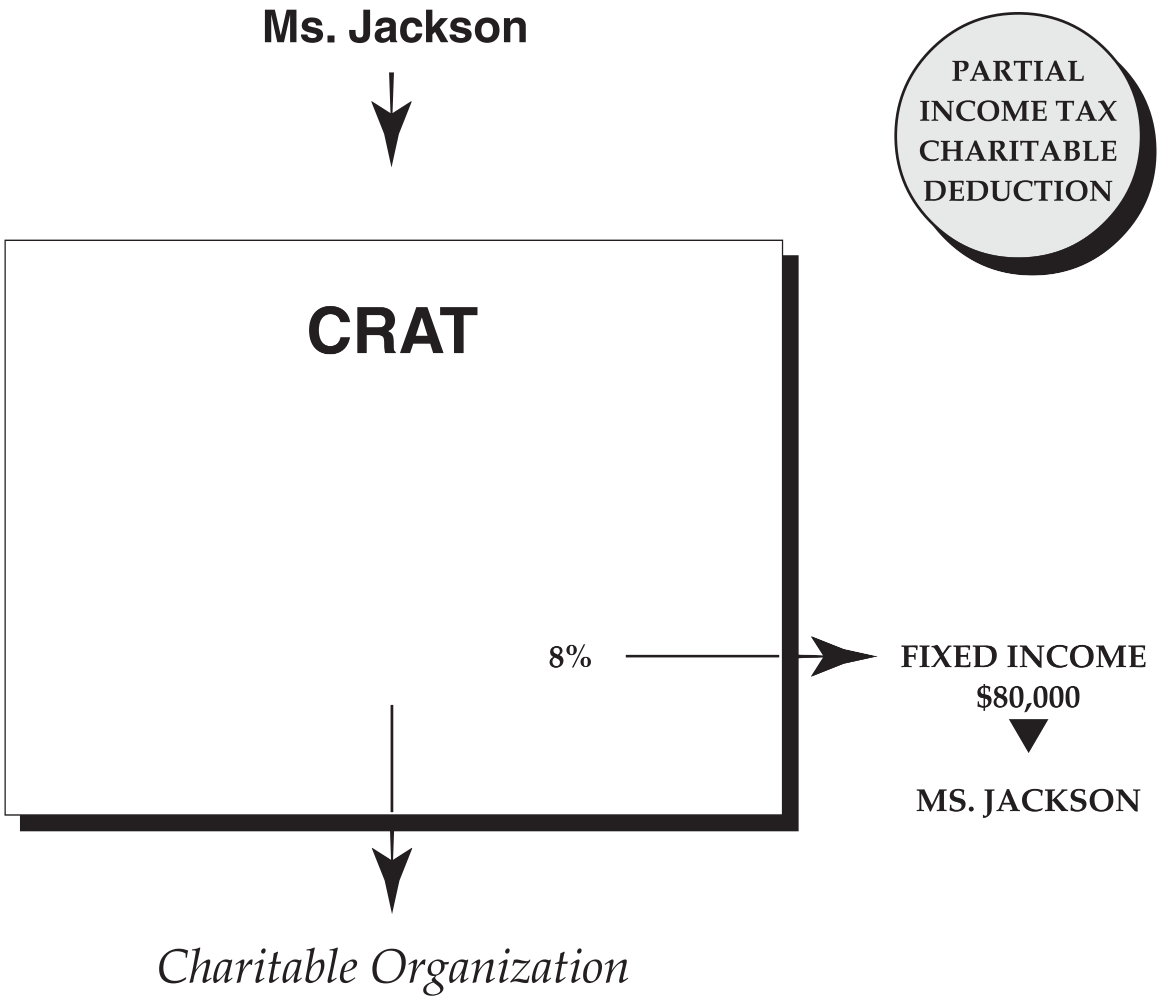
Because of this, you may feel locked into this asset, even though you would like to increase the income you receive from it. By placing the asset in a charitable remainder annuity trust, you can boost the income from the asset significantly, achieve a current and future income tax deduction, and bypass the penalty capital gains tax, and avoid estate taxes on the asset when it eventually benefits our organization.

Illustration

Ms. Jackson bought TYZ Company stock ten years ago at a cost of $200,000. The stock performed beyond her expectations, and is now worth $1 million. The annual income she receives from the stock is about 2%, or $20,000. She would like to increase this income, but selling the stock would make her vulnerable to a $120,000 capital gains tax.

Instead of selling this highly appreciated asset, she transfers the stock into a charitable remainder annuity trust. She obtains:

* An immediate tax deduction which can be used up to 30% of her gross income over a period of six years
* Guaranteed annual payments that quadruple her previous income from the asset
* Relief from the penalty capital gains tax when the asset is sold
* An estate tax charitable deduction when the gift benefits our organization
* The joy of making a philanthropic gift



A NOTE ON THE ALTERNATIVE MINIMUM TAX

A gift of appreciated property is not subject to the alternative minimum tax.

OTHER TAXING MATTERS

When you receive income from a charitable remainder annuity trust, the income is taxed according to how the trust earned it.[15]

The Internal Revenue Service has a four-tier system it uses to determine how this income is taxed.

1) Ordinary income
2) Long-term capital gains
3) Non-taxable income
4) Tax-free distribution of principal

This means that the money earned by the trust is distributed to you in the form of ordinary income first, then by capital gains, and finally by tax-free income.[16]

Illustration

Mrs. Roberts' charitable remainder annuity trust, which pays her $80,000 per year, earned ordinary income equal to $100,000 in its first year. It also earned $200,000 in capital gains income.

The trustee is obligated to distribute all ordinary income first. Therefore, her $80,000 payment is made from the ordinary income, and she pays taxes on it at her ordinary rate, which is 35%.

In its second year, the trust earns $20,000 in ordinary income without any other type of earnings. This is added to the remaining ordinary income from the previous year (or years), for a total of $40,000 in ordinary income. The trustee's payment to Mrs. Roberts consists of $40,000 in ordinary income and $40,000 in capital gains, which were earned by the trust in the previous year.

<u>WHY TAX-EXEMPT BONDS ARE TAX-WISE</u>

The IRS tax structure makes the funding of your annuity trust extremely important. If you already own tax-exempt bonds, you understand the benefits of income that is free from federal and state income taxes. When you use these bonds to fund a charitable remainder annuity trust, you can realize even greater savings.

* Current income tax deduction, useable over a period of six years
* Tax-free income
* A magnificent gift to our organization

Illustration

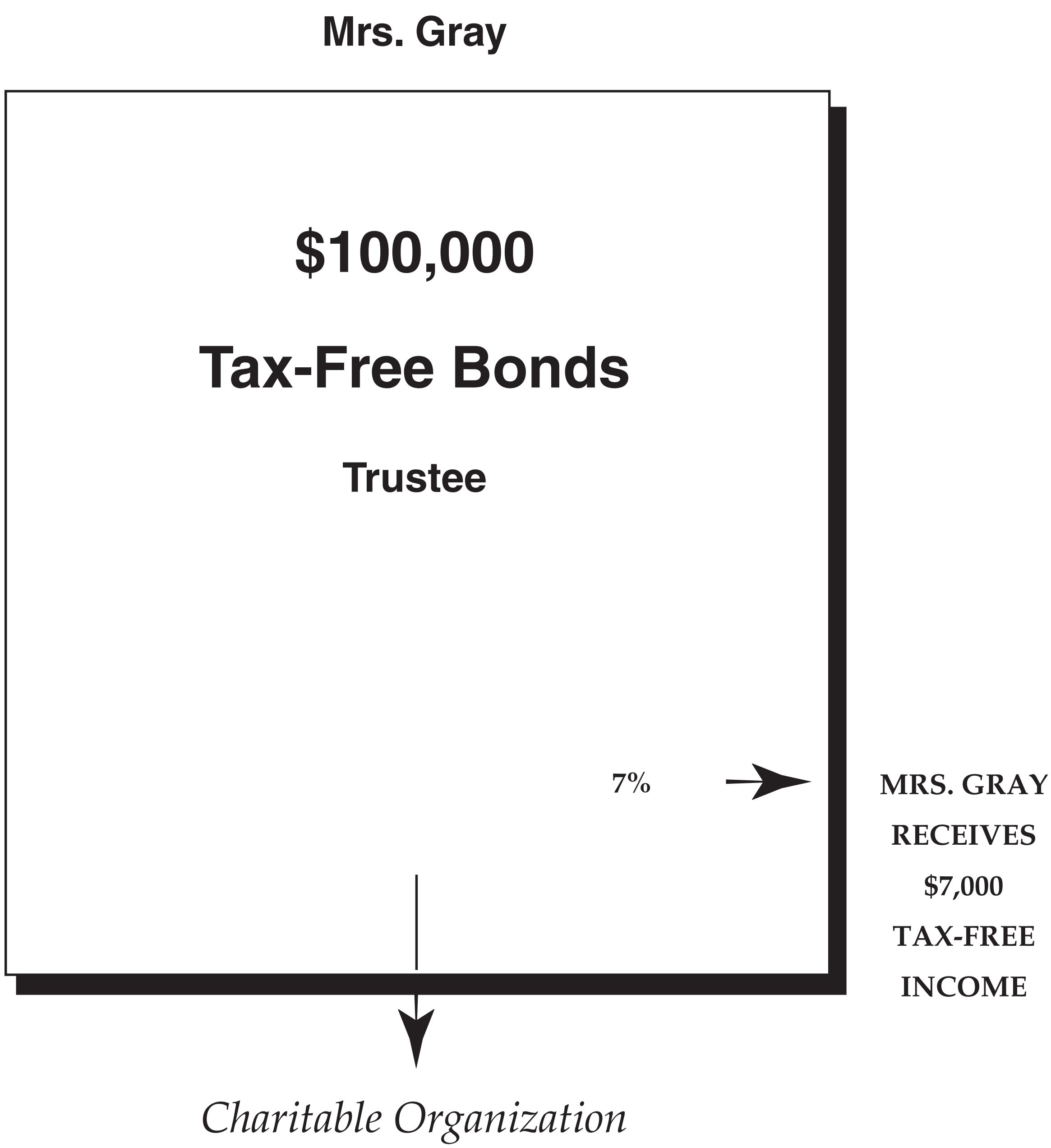
Mrs. Gray funds her charitable remainder annuity trust with tax-exempt bonds worth $100,000. Her tax deduction is calculated using IRS standards based on her age, the amount of the trust, and the income she will receive. The deduction totals $45,000, and because she is in the 35% tax bracket, this provides a current income tax savings of $15,750. She then receives $7,000 annually, which is tax-free, because the money earned by the trust is tax-free.

There may be a time when she pays a tax on the income from the trust, such as when a bond matures and is sold. This would be distributed at the more favorable capital gains rate, however, and once that income is distributed, her income returns to its tax-free status.

MRS. GRAY

Charitable Remainder Annuity Trust

(TAX EXEMPT BONDS)



DETERMINING YOUR TAX DEDUCTIONS

The amount of your charitable deduction depends upon the age of the income beneficiary or beneficiaries and the percentage of income received from the trust. The smaller the income percentage, the larger your deduction. The following table shows the percentage of the gift that can be deducted when the trust has one income beneficiary.

For example, if you are age 70 and you elect to receive 7% income from your charitable remainder annuity trust, you can deduct 43% of the gift used to fund the trust. For a $100,000 gift, you would receive a $43,000 deduction.

Age	*Percentage of Income from Gift*					
	5%	6%	7%	8%	9%	10%
50	0.41	0.29	0.17	0.00	0.00	0.00
55	0.44	0.33	0.22	0.00	0.00	0.00
60	0.49	0.38	0.28	0.00	0.00	0.00
65	0.53	0.44	0.35	0.00	0.00	0.00
70	0.59	0.51	0.43	0.34	0.00	0.00
75	0.65	0.58	0.51	0.44	0.00	0.00
80	0.71	0.65	0.59	0.53	0.47	0.00

CAUTION: This table is based on a 7% AFR. The grey shaded area either fails the 5% probability test or does not provide a 10% charitable gift, and therefore a qualified charitable remainder annuity trust is not possible at these payout percentages. Calculations change with the rate of the month.

SAVING ESTATE TAXES

Charitable remainder annuity trusts offer a way to save estate taxes as well as income taxes. The savings depends upon who receives the trust income.

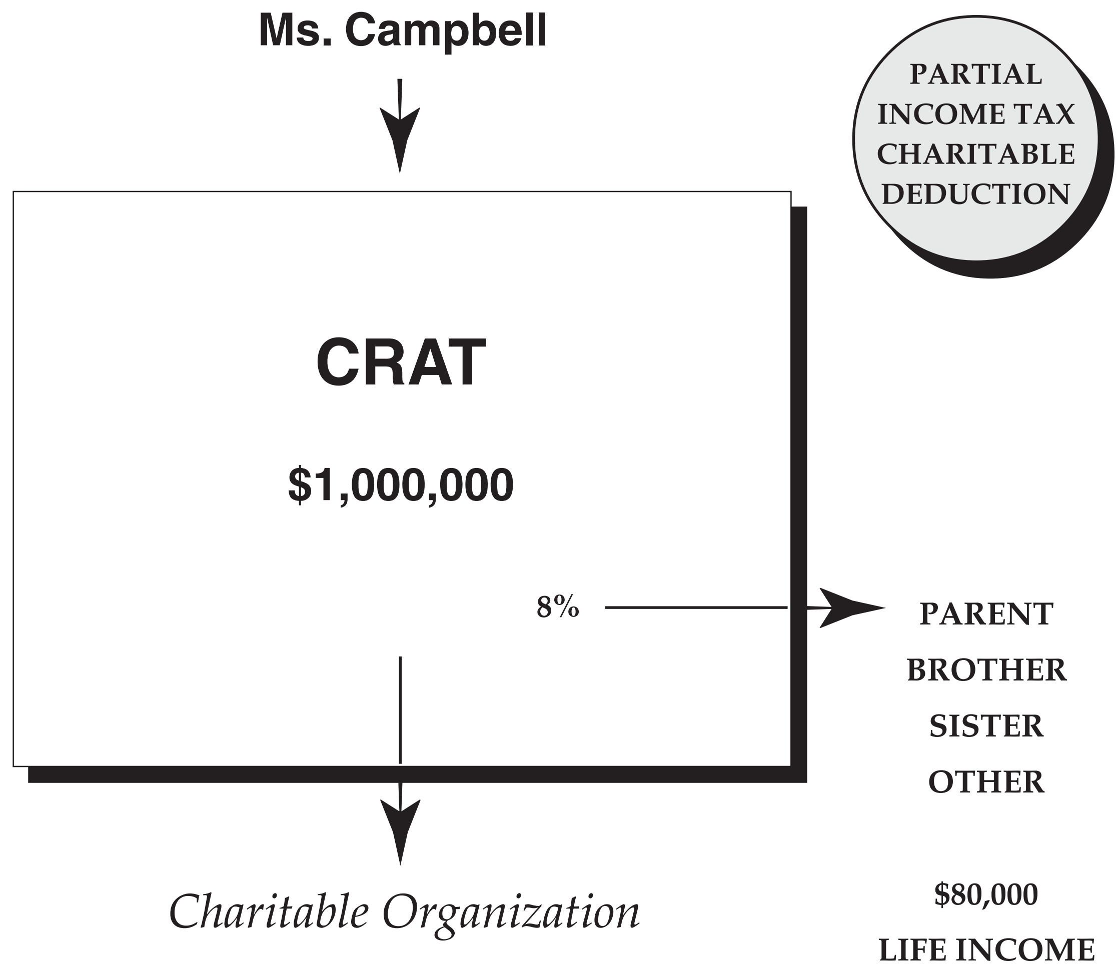
1) You are the sole beneficiary. Your estate will pay no estate tax.

2) You and your spouse are beneficiaries. When you die, combined marital and charitable deductions eliminate the estate tax.

3) A person who is not your spouse is the trust's income beneficiary. This gift is subject to gift or estate tax, but the tax is reduced by the amount of the trust that will eventually provide for the charitable organization.

THE GIFT WITHOUT SACRIFICE

As you can see, you can enjoy the thrill of making a philanthropic gift without sacrificing income or security.



RESULTS

* Magnificent Income for Non-Spouse
* Current Income Tax Deduction of 500,000
* Gift of 500,000 to Non-Spouse
* Ms. Campbell May Use Her Unified Tax Credit Exemption to Avoid Payment of Gift Tax
* Magnificent Gift for Our Organization

GIFTS OF FAMILY CORPORATE STOCK

Protecting Assets for Your Heirs

With careful planning and management, a gift of closely held stock can accomplish a variety of financial and personal goals. First, it can increase a donor's spendable income while reducing the possibility of a penalty tax for accumulated earnings. Second, it can assist in transferring a closely held business to children and other private beneficiaries while saving federal estate and state inheritance taxes. And third, it can provide a way for a donor to experience the enormous joy of giving and the satisfaction of accomplishment that comes with making a major charitable gift.[17]

People who own closely held family businesses are building colleges, universities, hospitals, conservation societies and other philanthropic organizations throughout the nation. Often they are entrepreneurs with great energy and many years of successful business experience to devote to building and improving the organizations they choose to support. They often are children of the Great Depression who seek to give to society the benefits they missed earlier in life because of economic hardship.

This article will focus on some of the benefits these philanthropists are reaping as they make charitable gifts of closely held stock.

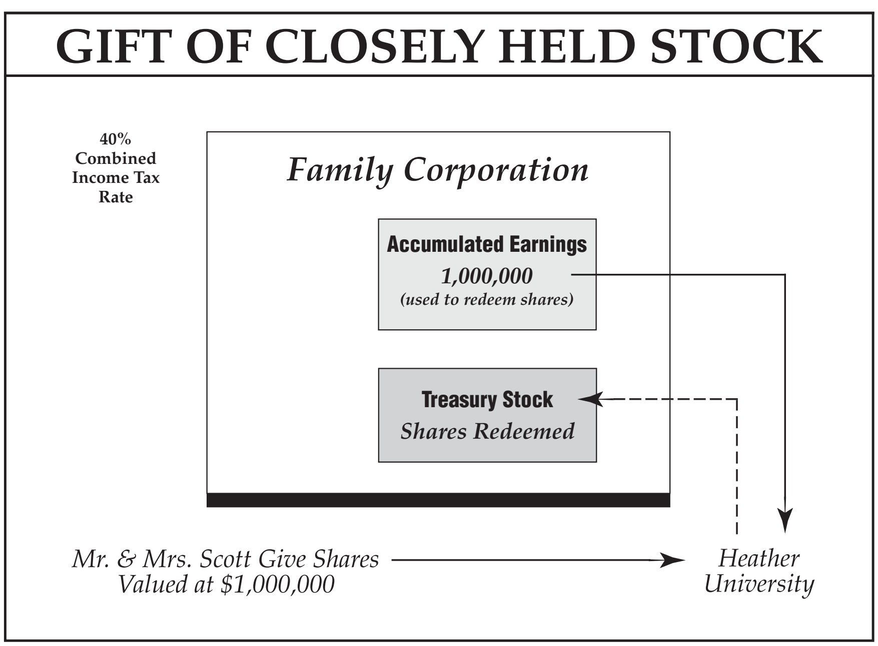
SAVING FEDERAL INCOME TAX

Lewis and Marie Scott own 100% of the stock in Great Scott Windows, a closely held corporation. Their income this year is subject to a 40% combined federal and state income tax rate. The Scotts make a $1,000,000 gift of 100 shares of their family corporate stock to Heather University, and the family corporation later re-purchases the stock. Under the Palmer Case, it is of course critical that the donors and the charity do not enter into a prior agreement that the charity will sell the stock back to the family corporation.[18]

While the rules do not allow the donors to tell the charitable organization how to manage the gift of stock, it is in the best interests of the charity to re-sell to the family corporation because closely held stock rarely pays dividends.

When Great Scott Windows redeems the stock, it reduces corporate accumulated earnings and thus the gift may reduce the possibility of a penalty accumulated earnings tax.

The gift is simple. The Scotts obtain a qualified appraisal of the gift of stock, and then make the gift to Heather University.[19] Following the gift, Great Scott Windows then makes an independent decision to redeem the stock from the University. The gift may be illustrated as follows:



The Scotts feel the joy of making a major gift, and their $1,000,000 income tax charitable deduction can increase their spendable income by as much as $400,000.

The income tax deduction for this gift is typically deductible up to 30% of adjusted gross income because it is a gift of long-term stock. Any unused charitable deduction can be carried forward into five additional years beyond the year of the gift and applied up to 30% of adjusted gross income in each of those years.

INCREASING SPENDABLE INCOME AND ELIMINATING ESTATE TAX

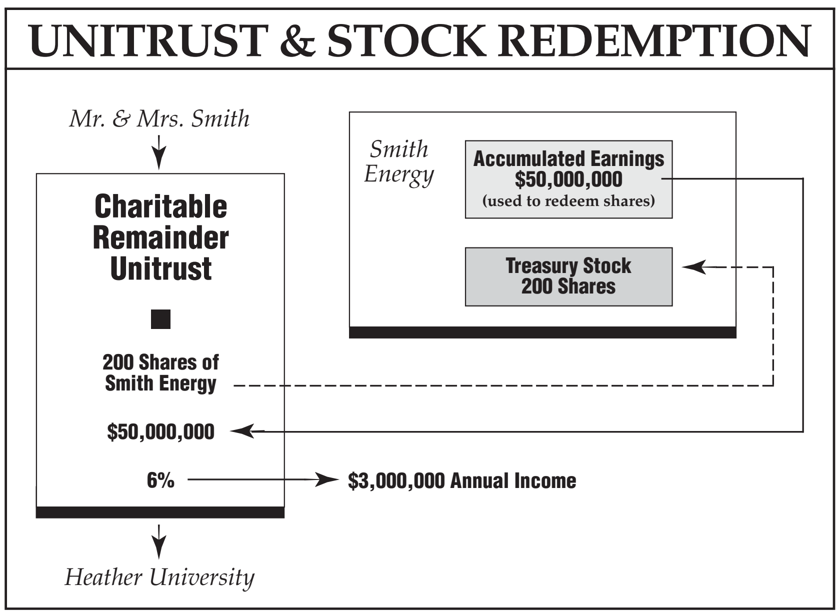
John and Mary Smith own 100% of the stock in their family corporation, Smith Energy. They started the business with a modest capital investment and a good idea. Twenty years of careful planning and hard work produced a healthy business valued at $50,000,000.

The Smiths have two children: Tim, a talented but struggling artist living in Paris, and Katie who has recently returned from a four-year international marketing apprenticeship in Germany. Katie is blessed with a high degree of business acumen and recently has shown a keen interest in Smith Energy. Mr. and Mrs. Smith's objectives are clear. They want to:

1) enjoy the remainder of their lives with an excellent income,
2) transfer the family business to Katie without incurring a confiscatory estate tax and
3) provide fairly for Tim.

THE SOLUTION

John and Mary transfer Smith Energy stock to Katie, using their unified tax credits and also their annual exclusion gifts over a period of years.[20] As a result of the transaction, Mr. and Mrs. Smith now own 200 shares of their family corporation and Katie owns 100 shares. Meanwhile, Smith Energy has continued to grow, and the 200 combined shares of John and Mary are still worth $50,000,000. Here's the solution.



Mr. and Mrs. Smith transfer their remaining shares of Smith Energy to a charitable remainder unitrust.[21] The gift to the unitrust provides these benefits:

- increased spendable income
- significant income tax savings
- capital gains tax savings
- estate tax savings
- the joy of major philanthropy.

INCREASING SPENDABLE INCOME

In the example above, Mr. and Mrs. Smith transfer $50,000,000 of closely held stock to a charitable remainder unitrust paying 6% income. Their income increases by $3,000,000 annually, and the unitrust continues to provide them with a comfortable income for the rest of their lives. The unitrust also provides a hedge against inflation because the 6% income payment will be based on the worth of the trust assets each year.[22] For this reason, the annual income payment could double during their lifetimes, with appropriate investment of the trust assets.

SAVING FEDERAL INCOME TAX

The federal income tax charitable deduction is based upon the present value of the charitable remainder unitrust.[23] The size of the charitable deduction is affected by these factors: 1) the fair market value of the trust assets on the date of the gift, 2) the ages of the income recipients, 3) the percentage of income to be paid, 4) the number of payments each year and 5) the federal mid-term rate.[24] The charitable deduction is often in the range of 30% to 40% of the value of the property transferred to the trust, and thus it may save a significant amount of federal income tax.[25]

SAVING CAPITAL GAINS TAX

The trustee of the unitrust often sells the closely held stock back to the family corporation. The unitrust minimizes the capital gains tax on the sale.[26] Once again, there can be no pre-arranged sale.[27] Moreover, it is essential that the trustee carefully follow the procedures specified in Section 4941(d)(2)(F) to avoid falling victim to the self-dealing rules.28

ELIMINATING ESTATE TAX

Returning to the Smiths, John and Mary have made a charitable gift of their entire ownership interest (200 shares) in Smith Energy to the unitrust. Therefore, they no longer own an interest in the family business they labored to create. If Smith Energy redeems the gift stock from the unitrust, Katie will own the 100 outstanding shares, and with them, the business. Thus, the family corporation started by her parents will pass to her without a confiscatory transfer tax.

The gift plan is relatively simple:

TRANSFER OF FAMILY BUSINESS

Estate Plan of John & Mary Smith

BEFORE THE UNITRUST

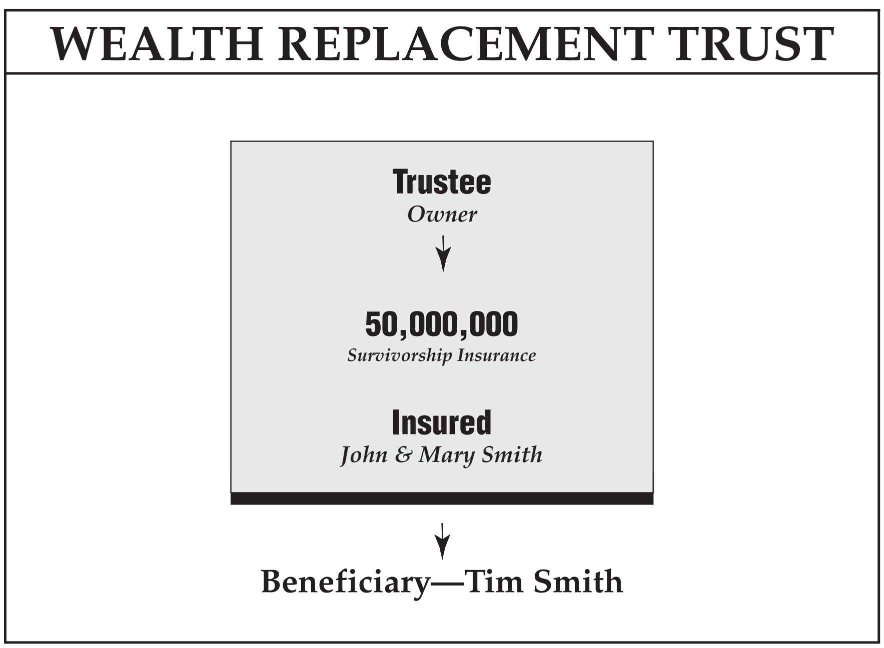
	# SHARES	% BUSINESS
Mr. & Mrs. Smith	200	67%
Katie	100	33%

AFTER THE UNITRUST

	# SHARES	% BUSINESS
Mr. & Mrs. Smith	0	0%
Katie	100	100%

CARING FOR THE PRODIGAL

To fulfill their final objective, Mr. and Mrs. Smith establish a wealth replacement trust (a life insurance trust funded with a *second-to-die* policy) to provide for their artist son Tim. The wealth replacement trust performs exactly as its name implies. It *replaces* the wealth in the unitrust—which eventually provides for a charitable organization—with a federal estate tax-free inheritance for the son who is not actively involved in the family business. This trust provides a way for wealth to build income tax-free and a way to transfer property without shouldering the burden of estate taxes. And it enables Tim to follow his dream, just as his parents followed theirs.



RETIREMENT PLANS AND UNITRUSTS

The Planned Giving Program exists to encourage you to plan your charitable gifts to your maximum advantage. Our purpose is to help you plan your gifts in the way which provides the greatest benefit for you, your family, and your charitable interests.

For many, the best method of deferred giving is a Retirement Plan gift. Retirement Plans are often subject to extremely high tax rates which result in an unintended major gift to the federal government. Retirement Plan tax rates are often in the 50-60% range, and the result is unplanned philanthropy for the federal government. We would like to help you control the disposition of your retirement plan assets for your family and help you substitute your charitable interests instead of making an unintended gift to the government.

CONFISCATORY TAXATION

Retirement Plans are often subject to tax rates which practically confiscate the pension plan for the government. Many qualified pension plans are eventually subject to the following taxes:

1. Federal Estate Tax .... 45% Rate
2. Federal Income Tax .... 35% Rate
3. Generation Skipping Tax .... 45% Rate

MARRIED IRA ACCOUNT OWNER WITH CHILDREN

100% Marital Deduction

Primary Beneficiary

Spouse

Estate Tax and Income Tax

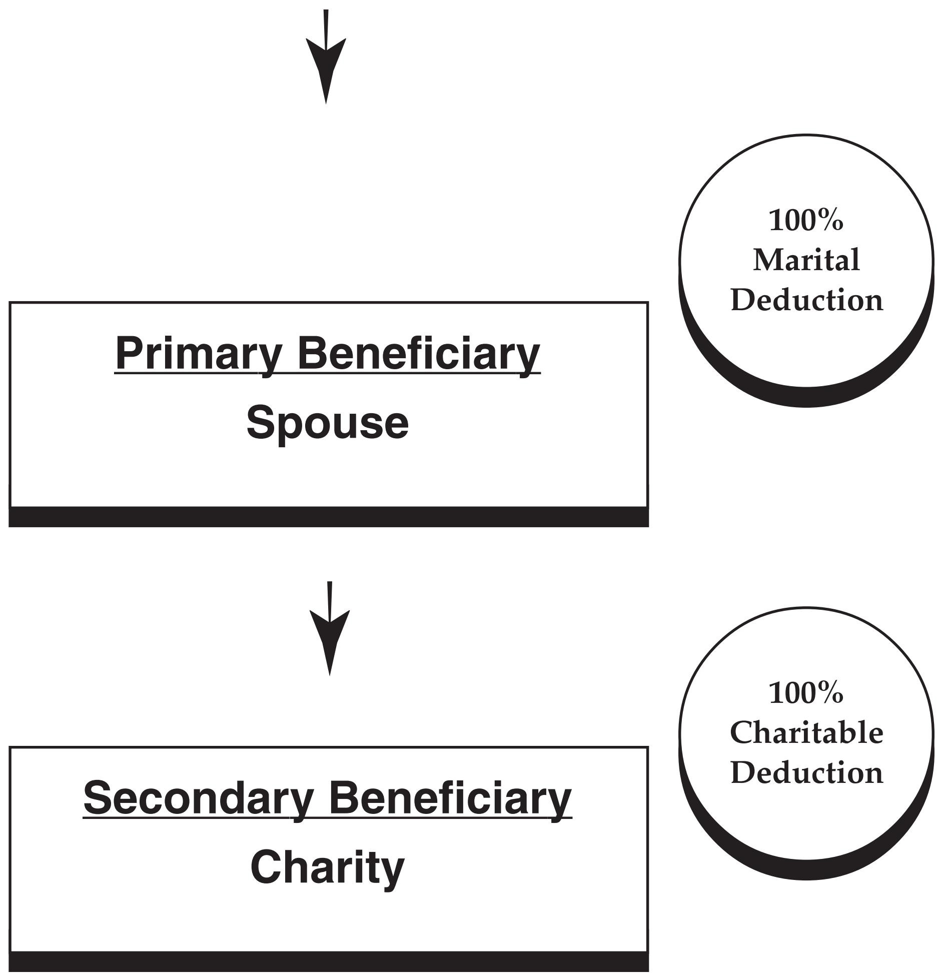
Secondary Beneficiaries

Child 20%
Child 20%
Child 20%
Child 20%
Charity 20%

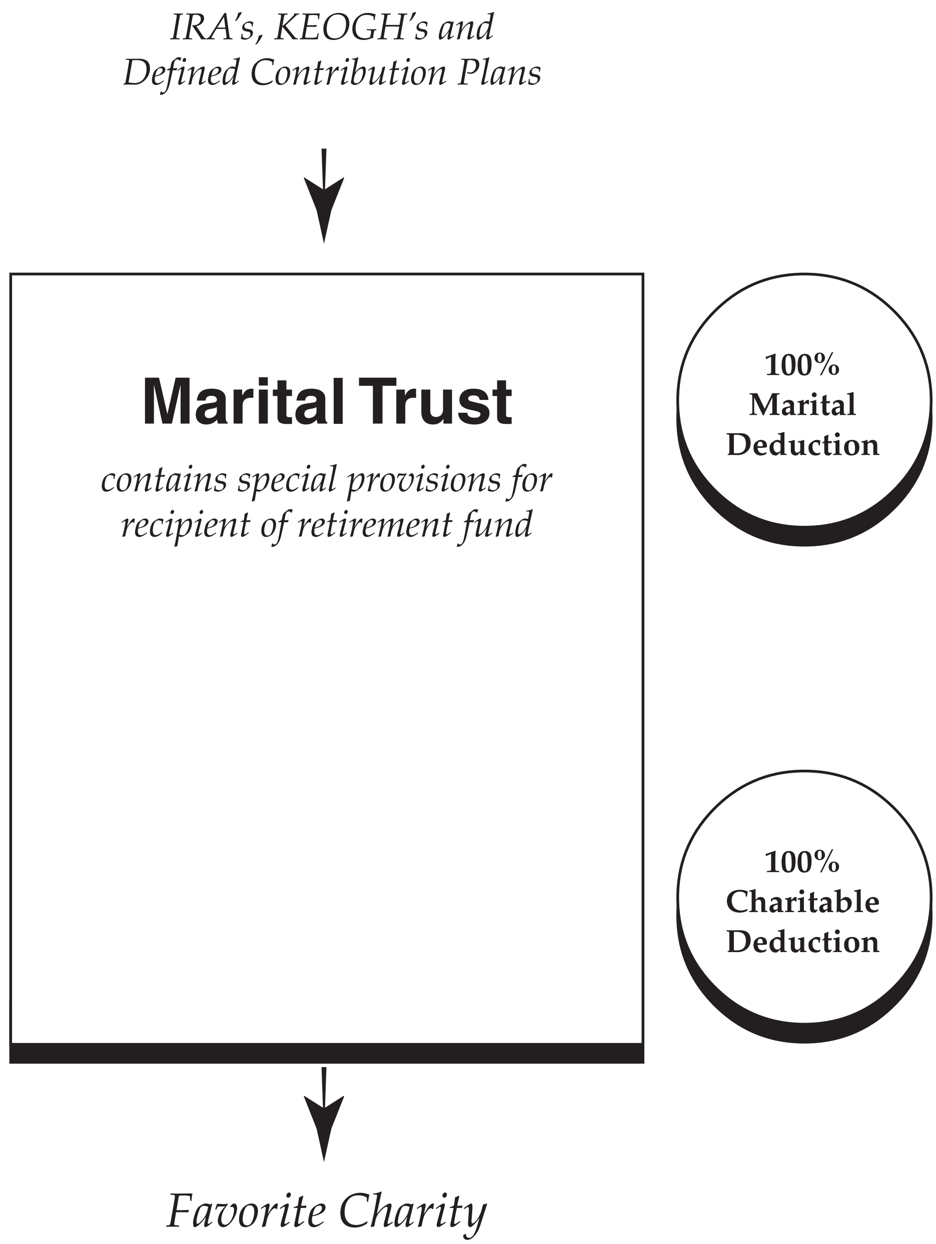
20% Income and Estate Tax Charitable Deduction

Planning Consideration: The IRA account at the death of the surviving spouse can be spread over the child's lifetime, and the amount that provides for charity totally escapes income tax and estate tax.

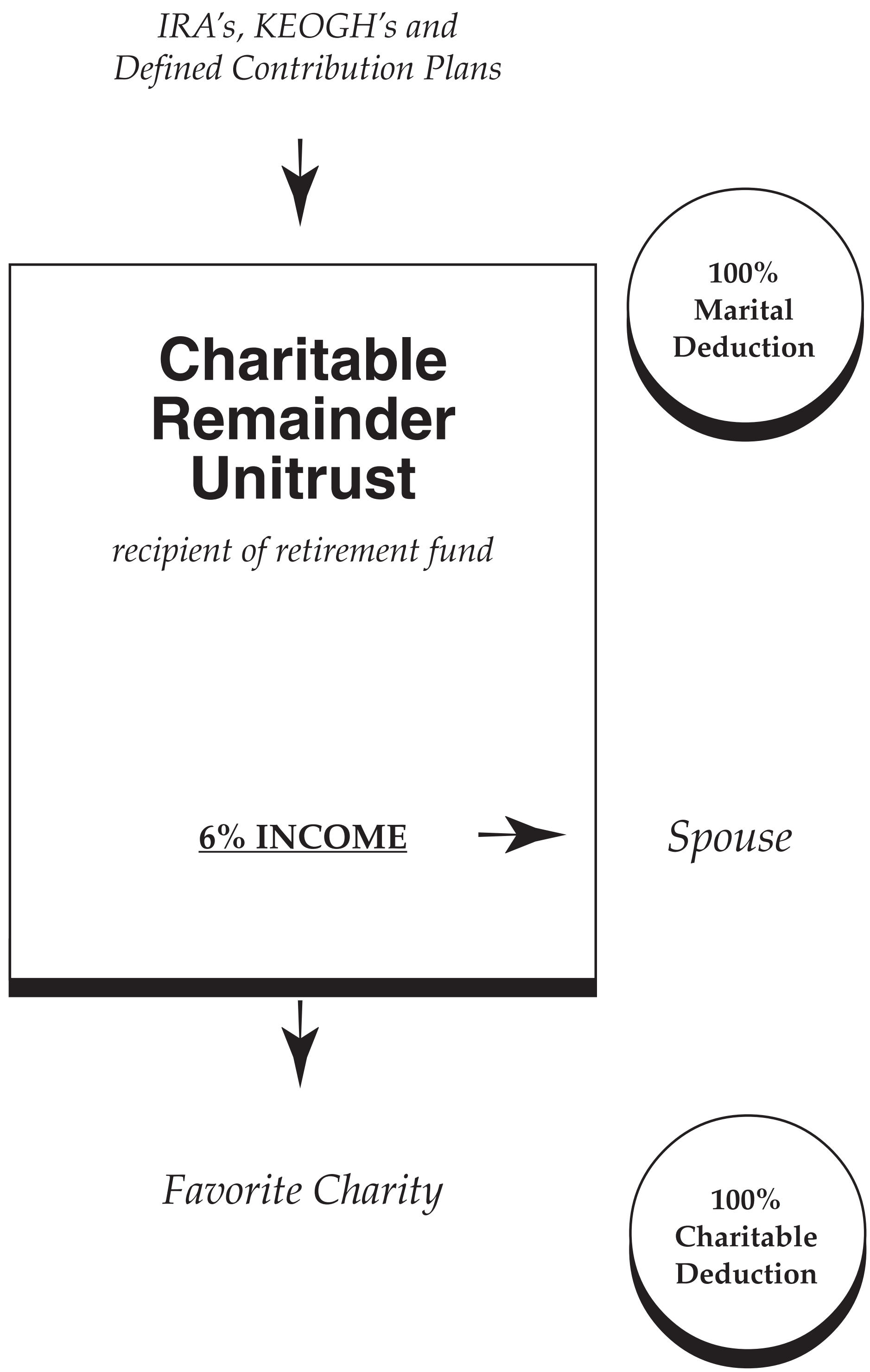
MARRIED IRA ACCOUNT OWNER WITHOUT CHILDREN



MARRIED IRA ACCOUNT OWNER



MARRIED IRA ACCOUNT OWNER



SURVIVING SPOUSE
WITH CHILDREN AND/OR GRANDCHILDREN

Primary Beneficiaries

Child 20%
Child 20%
Child 20%
Child 20%
Charity..........20%

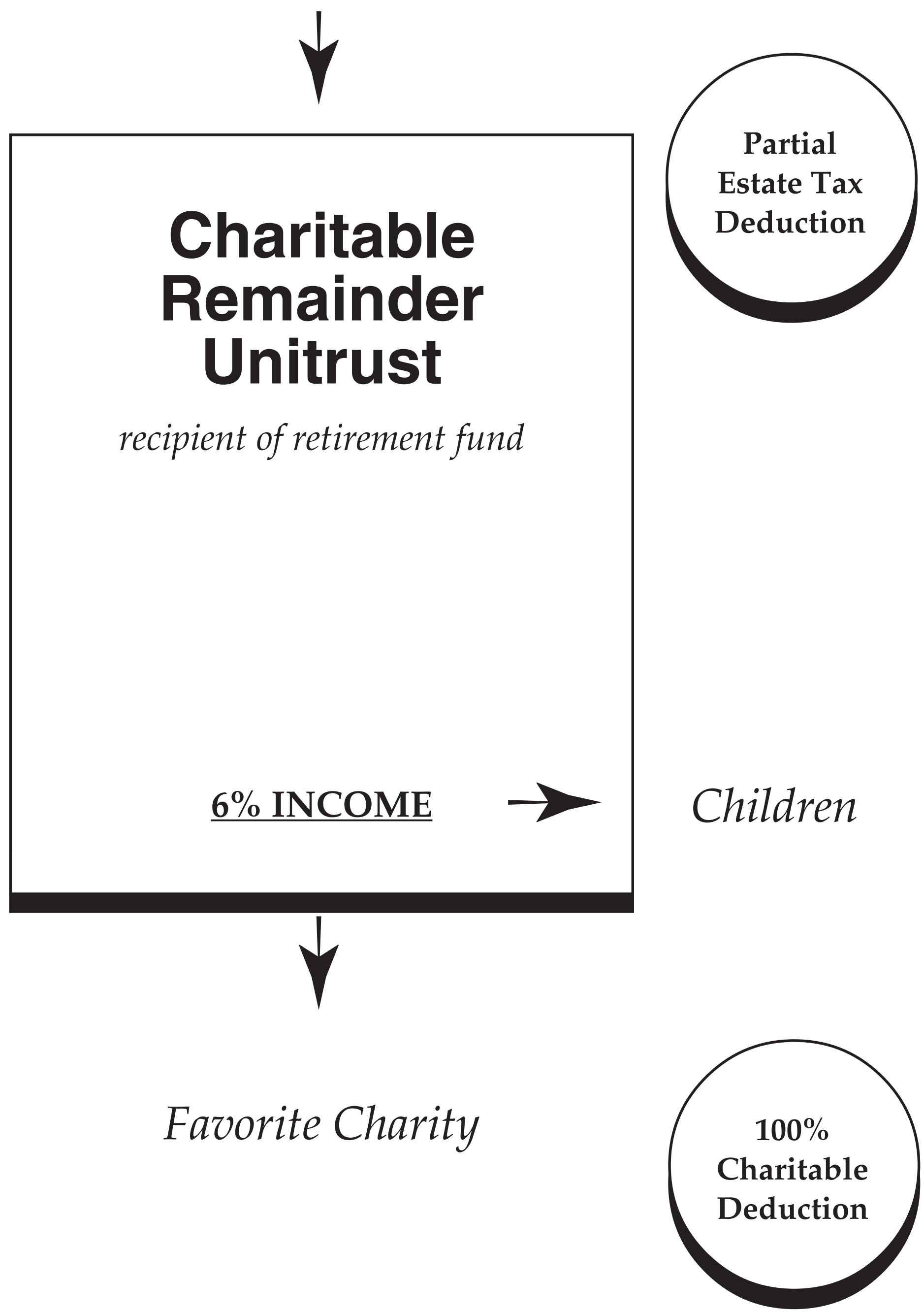
Income and Estate Tax

20% Income and Estate Tax Charitable Deduction

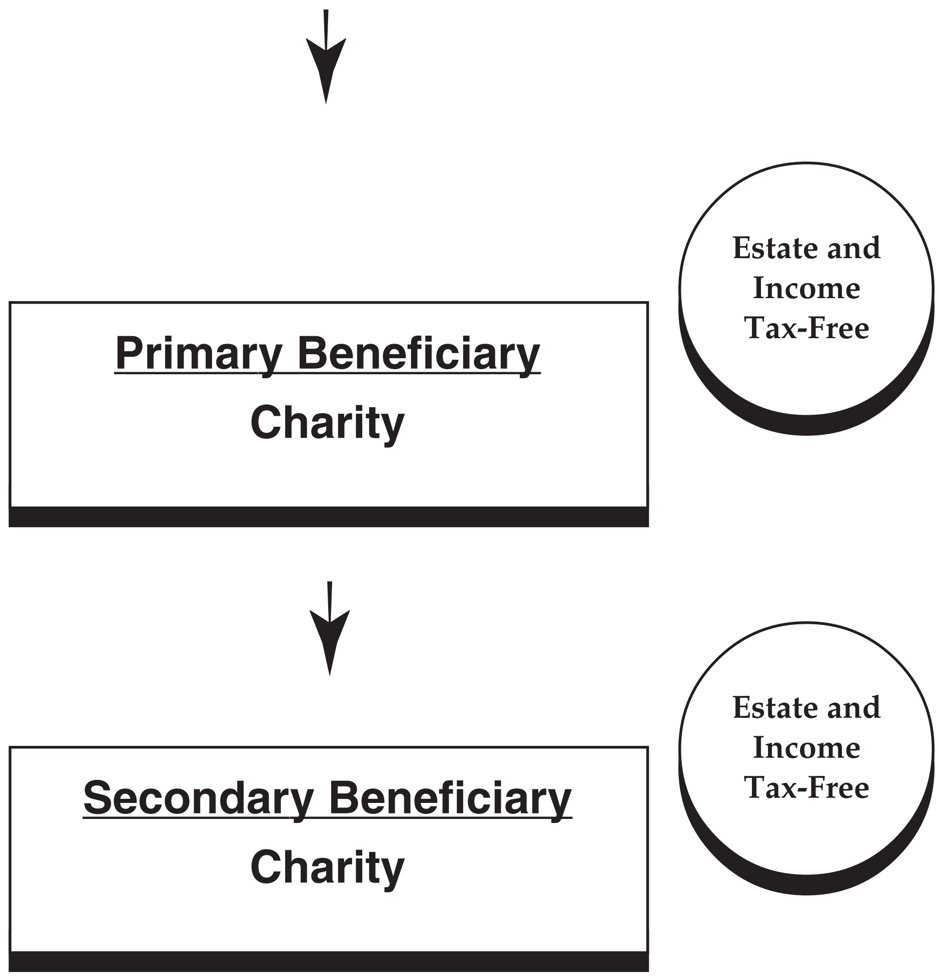
PLANNING CONSIDERATION

The IRA account at the death of the surviving spouse can be spread over each child's lifetime, and the amount that provides for charity totally escapes income tax and estate tax.

SURVIVING SPOUSE
WITH CHILDREN AND/OR GRANDCHILDREN



SINGLE PERSON



SINGLE PERSON

Charitable Remainder Unitrust

recipient of retirement fund

Partial Estate Tax Deduction

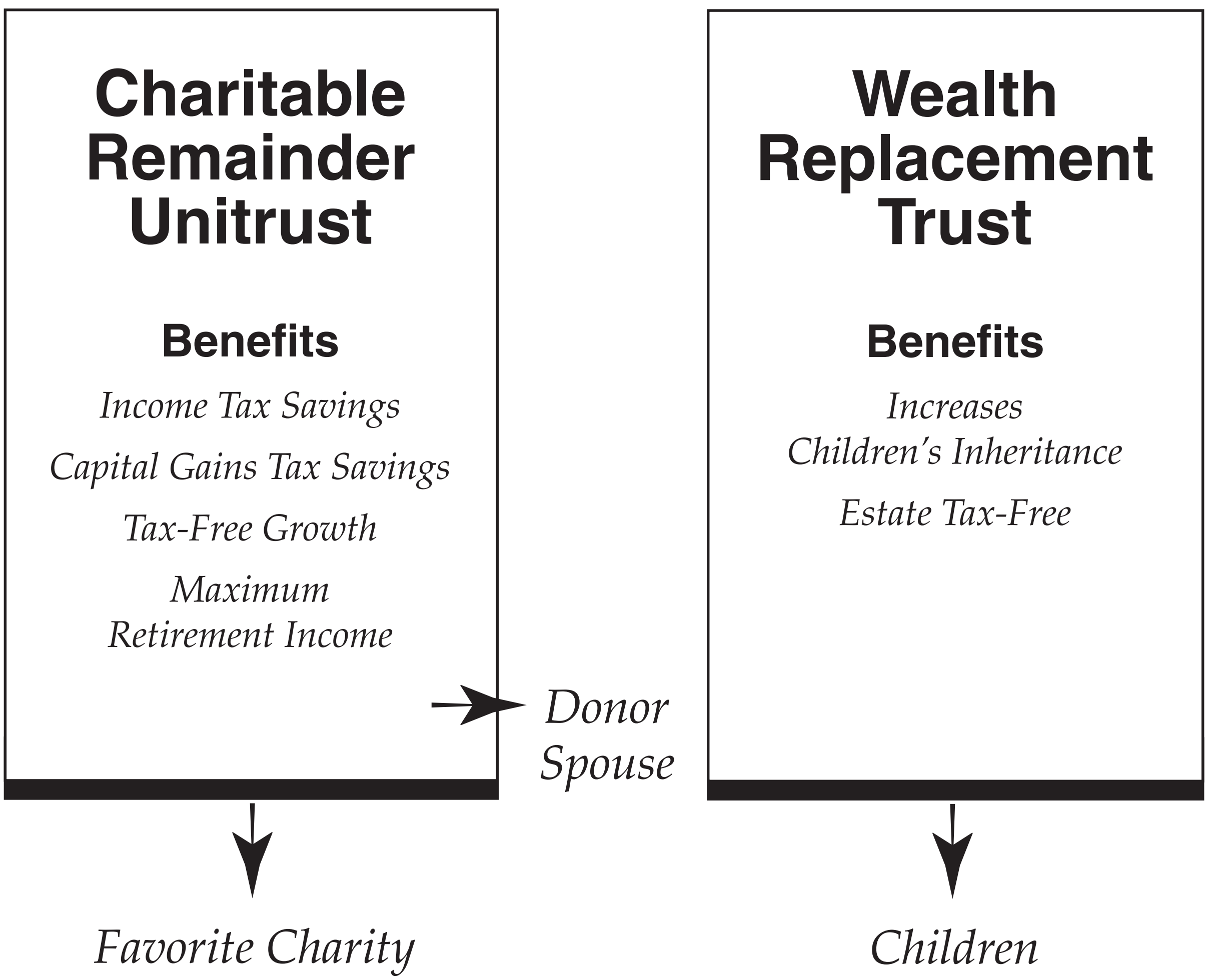
6% INCOME

PARTNER
PARENT
BROTHER
SISTER
OTHER

Favorite Charity

100% Charitable Deduction

HOW TO INCREASE RETIREMENT INCOME AND YOUR CHILDREN'S INHERITANCE



CITED REFERENCES

1 I.R.C. Sec. 664(d)(2)

2 I.R.C. Sec. 664(c)

3 I.R.C. Sec. 170(b)(1)(A), (B) and (C)

4 Ibid.

5 I.R.C. Sec. 55

6 I.R.C. Sec. 664(b)(1) - (4)

7 Ibid.

8 I.R.C. Sec. 664(d)(3)

9 I.R.C. Sec. 664(d)(1)

10 I.R.C. Sec. 664(c)

11 I.R.C. Sec. 664(d)(1)

12 Ibid.

13 I.R.C. Sec. 170(b)(1)

14 I.R.C. Sec. 170(b)(1)(C)

15 I.R.C. Sec. 664(b)

16 Ibid.

17 Palmer Case, 62 T.C. 684

18 Rev. Rul. 78-197, 1978-1 CB-83.

19 The appraisal at fair market value is essential. Rev. Rul. 59 - 60, 1959 - 1 CB - 237. See also Reg. Sec. 20.2031 - 2 (f) and 25.2512 - 2 (f). See Blake, 697 F.2d. 473 (CA - 2, 1982), LR 84 110 29.

20 John and Mary gift 100 shares of stock to Katie when the stock has a lower value.

21 IRC Sec. 664 (d) (2).

22 IRC Sec. 664 (d) (2) (A); Reg. Sec. 1.664 - 3 (a) (1) (i) and 1.664 - 3 (a) (2) (i).

23 Reg. Sec. 1.664 - 4.

24 IRC Sec. 7520.

25 John and Mary may prefer to start slowly and gift their 200 shares to the Unitrust over a number of years. This approach is simple because the Scotts may add family stock to their existing Unitrust. For example, they might gift 50 shares to the Unitrust in the initial year, and fifty additional shares every sixth year thereafter. This strategy may maximize their income tax charitable deduction since it is subject to a 30% of adjusted gross income limitation, and a five year carry forward.

26 Counsel is encouraged to make certain that the Scotts understand the difference between the Unitrust selling the highly appreciated family stock free of a penalty capital gains tax and the taxation of the unitrust income payments which may include some capital gains income. IRC Sec. 664 (c); Reg. Sec. 1.664 - 1 (a) (i). See also Sec. 664 (b); Reg. Sec. 1.664 - 1 (d).

27 The IRS may apply Rev. Rul. 60 - 370 if there is an express or implied agreement which requires the trustee to sell highly appreciated assets and invest in tax - exempt bonds.

28 Under 4947 (a) (2), the self dealing rules are applicable to charitable remainder unitrusts. John and Mary are disqualified persons. However, there is an exception in Sec. 4941 (d) (2) (F) which permits the stock redemption from the Unitrust if all the securities of the same class as those held by the Unitrust are also subject to the same terms, and the Unitrust receives fair market value.

This information is not intended as specific legal advice. Consult your attorney when considering any legal matter. State laws which govern wills and contracts vary and are subject to change.