

# Charitable Remainder Unitrust

A charitable remainder unitrust pays you a variable income while providing for a future gift to the University of Washington. You create a unitrust by executing a written trust agreement and making a gift to the trust. The trustee of the unitrust then pays you a fixed percentage of the value of the trust's assets as revalued annually. You can receive this income for life or a term of up to 20 years. When the unitrust ends, its assets are distributed to the University of Washington for the educational purpose you specify. You are entitled to a current income tax charitable deduction for part of the value of the assets you contribute to the trust, and you will save on capital gains tax if you use appreciated assets to fund the trust.

For many, a unitrust is an ideal way to fund future University endowments—for scholarships, fellowships, research funds, or other purposes—that bear their names and support the University in perpetuity. Unitrusts also appeal to those who want relief from the ongoing responsibility of managing some of their assets, such as real estate, while continuing to receive lifetime income.

The ultimate benefit, however, is the satisfaction of knowing that a unitrust gift will provide important future support for the University of Washington.

## Frequently Asked Questions

**What assets can I contribute?** You can contribute cash, marketable securities, or other property to fund a unitrust. Contributions of marketable stocks and bonds that have increased in value are ideal because you may benefit from capital gains tax savings. Assets that may take longer to sell, such as real estate or closely held stock, can also be used to establish a unitrust, but the trust must initially limit payments to “net income.” After the property is sold and the proceeds are reinvested, the trust can “flip” to a regular unitrust that pays a fixed percentage of its value each year.

**How is the unitrust's payout rate determined?** The payout rate is negotiated between you and the UW, taking into consideration the age of the income beneficiary(ies), the fair market value of the gift, and what you want to support at the UW. By law the rate cannot be less than five percent. A low payout rate results in a larger income tax deduction, a larger future gift to the University, and a greater chance that the trust will grow in value. If the trust grows, so will your income.

**Who can receive income from the trust?** You, your spouse (or both of you), your parents, children, or others can be beneficiaries of the trust. In deciding on the income beneficiaries, you should be careful to limit the anticipated term of the trust to ensure that adequate funding remains to accomplish your ultimate educational purpose.

**Will I pay taxes on my trust income?** Beneficiaries are taxed on payments received from a unitrust based on a four-tier taxation system set forth in the Internal Revenue Code. Payments are usually a mix of ordinary income and capital gain. The University, as trustee, will provide an annual statement of income tax information for each beneficiary's tax return.

**Who can serve as trustee?** Although you can establish a trust privately with a trustee of your choice, a bank or yourself for example, the University generally serves as trustee of most charitable remainder trusts that ultimately benefit it.

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## Tax Consequences

**Income tax charitable deduction:** You are entitled to a current income tax charitable deduction for the present value of the unitrust remainder that the University will receive in the future. You can claim the deduction in the year you create the unitrust and use it to offset either 30% or 50% of your adjusted gross income. If these percentage limitations prevent you from using the entire deduction in the first year, you may carry forward the unused deduction for up to five additional years.

**Capital gains tax treatment:** A charitable remainder unitrust is tax exempt. Therefore, the trustee can sell appreciated assets without incurring an up-front capital gains tax, so the entire net proceeds of a sale are available for investment for your benefit.

## Six Steps to Creating a Unitrust

- You or your advisor contacts our planned giving staff to discuss how you want to support the University and the assets available to fund a unitrust.
- Our planned giving staff provides information and illustrations of the benefits of the proposed gift.
- A meeting is scheduled between you, your advisor if you wish, and members of our planned giving staff to review the unitrust illustrations and refine your educational purpose.
- The terms of the gift are finalized and a sample unitrust document is prepared. You review the sample unitrust agreement with your attorney or other advisor knowledgeable about unitrusts.
- The unitrust agreement is finalized and you and the University, as trustee, sign it. You transfer the assets to the UW, as trustee. The gift is now complete.
- The University provides follow-up information to aid you in reporting your gift to the IRS and claiming appropriate deductions.

Unitrust gifts may be completed within a week or may take several months, depending upon individual circumstances. Each charitable remainder unitrust is the product of successful teamwork among donors, their advisors, and the University's planned giving staff. Everyone benefits from this collaboration – the donor who receives tax benefits, the beneficiary who receives income from the unitrust, and the University, which receives a future gift to support students, faculty, or programs.

If you would like to learn more about a charitable remainder unitrust, we invite you to call the Office for Planned Giving for a confidential consultation.

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