

[admin](#) - Tue, 2/11/2014 - 16:24

The 5% probability test is a test described in Revenue Ruling 77-374 that requires all charitable remainder annuity trusts (CRAT) that will make payments for one or more lifetimes to have less than a 5% chance of corpus exhaustion. The test is conducted using the same facts used to compute the provisional charitable deduction for the gift.

If a CRAT fails the 5% test, no deduction is allowed. It is also questionable whether the trust will qualify as a charitable remainder trust.

The higher the IRS discount rate used to compute the deduction, the lower the computed probability that the trust corpus will be exhausted. If the discount rate used is greater than or equal to the adjusted payout rate of the trust, the trust cannot fail the 5% test. The adjusted payout rate is the stated payout rate of the trust multiplied by the payment frequency adjustment factor that appears in Table K.

The 5% probability test does not apply to charitable remainder unitrusts (CRUTs), nor to CRATs that will last for a fixed term of years.

[Print](#)

Categories

[Charitable Remainder Annuity Trust](#)