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A net income charitable remainder unitrust ("unitrust") is a gift plan defined by federal tax law that allows a donor to provide income to herself and/or others while making a generous gift to charity. The income may continue for the lifetimes of the beneficiaries, a fixed term of not more than 20 years, or a combination of the two.

The donor irrevocably transfers assets, usually cash, securities, or real estate, to a trustee of her choice, such as a bank trust department. The donor receives an income tax deduction equal to the trust's remainder value to the charity, subject to IRS 30%/50% limitations. The remainder value to charity must be at least 10% of the funding amount.

During the unitrust's term, the trustee invests the unitrust's assets. Each year, the trustee distributes to the income beneficiaries a fixed percentage of between 5% and 50% of the unitrust's value, as revalued annually, or its net income, whichever is less. Payments may be made annually, semiannually, quarterly, or monthly.

If the unitrust's value goes up from one year to the next, its payout increases proportionately. However, if the unitrust earns less income during a given year than the fixed percentage it is supposed to distribute, the unitrust distributes only what it earned. This "net income" feature guarantees that trust principal is never invaded to make a distribution. If the trust earns more than the fixed percentage during a later year, the unitrust will make up its earlier shortfall to the extent that its earned income exceeds its fixed percentage.

If the unitrust's value goes down from one year to the next, the maximum amount it can distribute also goes down. For this reason, it may be advantageous to choose a relatively low payout percentage so that the unitrust assets can grow, which in turn will allow the unitrust's maximum yearly payments to grow.

When the unitrust term ends, the unitrust's principal passes to charity, to be used for the purpose the donor designates. The donor may add funds to her unitrust whenever she likes.

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