

Charitable Trust - When and Why to Consider?

May 20, 2025 | David P. Veniskey, CPA, AEP | EFPR Advisory, LLC
100 South Clinton Ave. Suite 1500
Rochester, NY 14604
585-340-5166
dveniskey@efpradvisory.com



What Are We Discussing

Split-Interest Gift

- Gift whereby grantor has a retained interest.

The donor either:

1. Transfers to the charitable beneficiary an immediate economic enjoyment in the property with a remainder of the underlying assets to a non-charitable beneficiary later (e.g., a charitable lead trust). Often used in estate planning to reduce estate tax liability; or
 2. Transfers to the non-charitable beneficiary (often the grantor or their family) immediate (or deferred) economic enjoyment in the property with eventual remainder to one or more qualified charities
- **Today's presentation will focus on #2, Charitable Remainder trusts**

Why Do It?

1. Income Stream for Life or Term of Years

- How it works: The donor (or designated beneficiaries) receives a fixed income (Charitable Remainder Annuity Trust, CRAT) or a percentage of the trust's assets (Charitable Remainder Unitrust, CRUT) for life or up to 20 years.
- Benefit: Provides consistent, predictable income during retirement or other periods.

2. Immediate Charitable Income Tax Deduction

- How it works: Upon funding the CRT, the donor receives a charitable income tax deduction for the present value of the remainder interest that will go to charity (subject to AGI limitations, generally 30%–60%).
- Benefit: Reduces current-year tax liability.

Why Do It? (continued)

3. Avoidance of Immediate Capital Gains Tax on Sale of Appreciated Assets

- How it works: Donors can contribute appreciated assets (e.g., stocks, real estate) to the CRT. The trust can then sell those assets without incurring immediate capital gains tax because the CRT is tax-exempt.
- Benefit: Full value of the asset (before tax erosion) can be reinvested, potentially generating more income for the donor.
- Avoiding capital gains can sometimes avoid higher thresholds for increased Medicare premiums.

4. Estate Tax Reduction

- How it works: Assets transferred to the CRT are removed from the donor's taxable estate.
- Benefit: May reduce or even eliminate federal estate taxes upon death, preserving more wealth for heirs and charity.

Why Do It? (continued)

5. Charitable Legacy

- How it works: After the income period ends, the remainder of the trust assets passes to one or more named charities.
- Benefit: Enables the donor to make a meaningful, lasting impact on causes that matter to them.

6. Asset Diversification and Professional Management

- How it works: CRTs are typically managed by professional trustees (banks, investment firms, or nonprofits), allowing for diversified investments.
- Benefit: Provides access to professional asset management and diversification.

Benefits to Charity

- Once made, the deferred gift cannot be revoked and is more valuable than an unenforceable pledge, although the specific charitable beneficiary can be changed (maybe);
- Charity may receive a larger gift than if the donor had made an outright gift, since it is hoped that the property will appreciate in value.
- Donor stewardship opportunities- Engage and recognize donor

What Are Specific Steps / Required Filings

- Trust agreement
- Obtain an EIN
- Gift tax return
- Annual info return for split-interest trusts- Form 5227
- Unrelated Business Taxable Income (UBTI): Must file Form 990-T if the trust has UBTI.
- Administration and recordkeeping (Serena presentation)

Residual (Remainder) Beneficiary Requirements

The remainder beneficiary of a CRT must be an organization described in Internal Revenue Code (IRC) Section 170(c). This includes:

- Public charities
- Private operating foundations
- Private non-operating foundations (commonly referred to as "private foundations")

Types of Charitable Remainder Trusts

Charitable Remainder Annuity Trust

- A Charitable Remainder Annuity Trust (CRAT) provides for periodic payments of a sum certain based upon a percentage of the Fair Market Value of assets computed as of the initial funding of the trust. Once established the payments typically do not change unless over or under valuation or in the year of termination.

Charitable Remainder Unitrust

- A Charitable Remainder Unitrust (CRUT) provides for periodic payments based upon a percentage of the net Fair Market Value computed on an annual valuation. There are three basic forms of charitable remainder Unitrusts, they are:
 - "Standard"
 - Income only
 - Income only with makeup provisions

Annuity Trust

Advantages

- Known annual payments
- Valuation only once
- Flexibility in selecting and redesignating charitable remainderman
- Good for beneficiary when investment return declines.
- Income interest taxed by tier system
- Beneficiary, charity, donor or bank can be trustee
- Can invest in tax-exempts
- Can be for a term of years
- Transfer does not cause recognition of gain

Disadvantages

- If principal declines in value, the trust may run out of money
- No additional contributions
- Difficult to use unless property returns income
- No increased benefit to annuitant beneficiary when investment return increases.
- Technical drafting and administration
- Distribution to beneficiary not taxed as favorably as gift annuity
- May require trustee fees/administrative expenses

Unitrusts

Advantages

- Beneficiary's payout reflects appreciation in asset value when investment return increases.
- Income taxed by tier system
- Flexibility in selecting and redesignating charitable remainderman
- Can receive additional contributions
- Beneficiary, charity, donor, or bank can be trustee
- Can be for a term of years
- Can invest in tax-exempts
- Can be funded with assets that procedure no or meager income(e.g. real estate)
- Income only option

Disadvantages

- Must be valued annually
- Technical drafting and administration
- More difficult to understand and explain than the annuity trust
- May require trustee fees/administrative expenses
- Must be valued annually
- Technical drafting and administration
- More difficult to understand and explain than the annuity trust

Tax Effects Upon Creation of Trust

Income Tax - A donor is entitled to an income tax deduction equal to the present value of the charitable remainder interest. Reg. 1.170A-6(b)(2); Reg. 1.664-2(c); Reg. 1.664-4(a).

Unitrust

In general terms, the charitable deduction for a charitable remainder unitrust is the present value of the remainder interest of the trust. In as much as the payout amount from the trust is recalculated for each payout, the remainder interest is difficult to value. Based upon Reg. Section 1.644-4(b) an adjusted payout rate is calculated.

The adjusted payout rate is determined by multiplying the fixed percentage (in our example 8%) by the payout factor in IRS Publication 1458, Actuarial Values Beta Volume, the F Tables which for our example is .967769. Therefore the adjusted payout rate is 7.742 % ($.08 \times .967769$).

The next part of the calculation is to determine the valuation factor (table U (1) , U (2) and/or D as applicable). In our example it is a single life factor. Because the adjusted payout rate falls between the factors listed in the tables, it is necessary to interpolate the correct valuation factor. Our interpolated factor is 0.25973.

The last step is to simply multiply the fair market value of the assets transferred into the trust times the valuation factor. This results in the donor's charitable deduction of \$129,865 ($500,000 \times .25973$). This deduction is limited to the normal charitable contribution deduction rules on the return of the donee.

Tax Effects Upon Creation of Trust

- **Income Tax** - A donor is entitled to an income tax deduction equal to the present value of the charitable remainder interest. Reg. 1.170A-6(b)(2); Reg. 1.664-2(c); Reg. 1.664-4(a).
- **Gift Tax** - A donor is entitled to a gift tax deduction equal to the present value of the charitable remainder interest given to a qualified charitable beneficiary. IRC 2522(c)(2)(A).
- **Estate Tax**-In trusts in which the Donor has retained an interest for life, as in a single life unitrust or annuity trust, the full date of death value of the trust will be included in the decedent/donor's estate under IRC 2036 as a transfer with a retained life estate. The estate will be entitled to an equal offsetting charitable deduction, resulting in no tax on the trust property.
- In joint life trusts of which the donor and his spouse are the income beneficiaries, if the donor is the survivor, the full value is included in his estate then offset by the charitable deduction. If the spouse is the survivor, the full value is included in the donor/decedent's estate. The charitable income interest of the surviving spouse qualifies for the estate tax marital deduction and the remainder interest qualifies for the charitable deduction, again resulting in no tax.

Charitable Remainder Unitrust

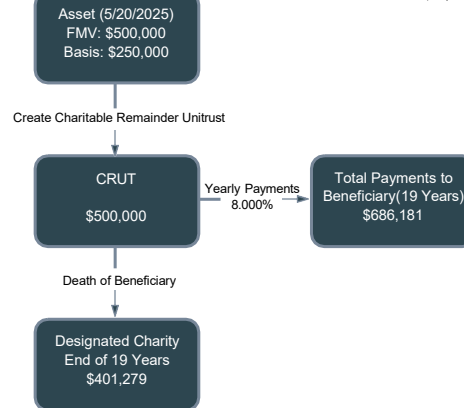
Trust Type:	Life
Transfer Date:	5/20/2025
\$7520 Rate:	5.4%
FMV of Trust:	\$500,000
Deduction Type:	Income Tax Deduction
Lives:	2
Ages:	73, 71
Percentage Payout:	8.000%
Payment Period:	Quarterly
Months Valuation Precedes Payout:	3
Interpolation:	Yes, Use Interpolation
CRUT Economic Type:	Normal
Growth Rate:	4.00%
Income Rate:	3.00%
Mortality Table:	2010CM
Cost Basis:	\$250,000
Charity Type:	50%
Capital Gains Rate:	30.6%

Income Tax Inputs

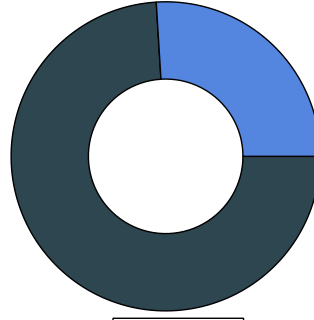
Inflation Rate:	0.00%
Adjusted Gross Income:	\$400,000.00
Itemized Deductions:	\$10,000
Filing Status:	Joint
Age:	1
Age of Spouse:	1
Long-Term Capital Gain:	\$100,000
28% Rate Capital Gain:	\$0
Qualified Dividends:	\$80,000
Unrecaptured \$1250 Gain:	\$0
Net Investment Income:	\$100,000

Charitable Remainder Unitrust

Payout Sequence Factor:	\$0.967769
Adjusted Payout Rate:	7.742%
Interpolation:	
Factor at 7.6%:	0.26584
Factor at 7.8%:	0.25724
Difference:	0.00860
$(7.742\% - 7.6\%) / 0.20\% = X / 0.00860$; Therefore $X = 0.00611$	
Life Remainder Factor at 7.6% Less X:	0.25973
Present Value of Remainder Interest = \$500,000 x 0.25973:	\$129,865.00
Donor's Deduction:	\$129,865.00
Donor's Deduction as Percentage of Amount Transferred:	25.9730%
Present Value of Charitable Interests:	\$370,135.00
Present Value of Noncharitable Interests:	\$69,670.00



Charitable Remainder Unitrust



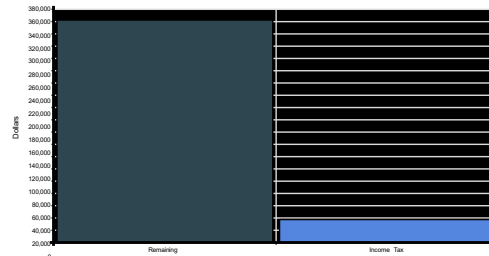
Economic

Year	Beginning Principal	Principal Growth	Income Accrued/Recd	Payment Distribution	Remainder
1	\$500,000	\$19,400	\$14,845	\$40,000	\$494,245
2	\$494,245	\$19,177	\$14,674	\$39,540	\$488,557
3	\$488,557	\$18,956	\$14,505	\$39,085	\$482,933
4	\$482,933	\$18,738	\$14,339	\$38,635	\$477,375
5	\$477,375	\$18,522	\$14,173	\$38,190	\$471,881
6	\$471,881	\$18,309	\$14,010	\$37,750	\$466,450
7	\$466,450	\$18,098	\$13,849	\$37,316	\$461,081
8	\$461,081	\$17,890	\$13,690	\$36,886	\$455,774
9	\$455,774	\$17,684	\$13,532	\$36,462	\$450,528
10	\$450,528	\$17,481	\$13,376	\$36,042	\$445,343
11	\$445,343	\$17,279	\$13,222	\$35,627	\$440,217
12	\$440,217	\$17,080	\$13,070	\$35,217	\$435,151
13	\$435,151	\$16,884	\$12,920	\$34,812	\$430,142
14	\$430,142	\$16,690	\$12,771	\$34,411	\$425,191
15	\$425,191	\$16,497	\$12,624	\$34,015	\$420,298
16	\$420,298	\$16,308	\$12,479	\$33,624	\$415,460
17	\$415,460	\$16,120	\$12,335	\$33,237	\$410,678
18	\$410,678	\$15,934	\$12,193	\$32,854	\$405,951
19	\$405,951	\$15,751	\$12,053	\$32,476	\$401,279
Summary	\$500,000	\$332,798	\$254,662	\$686,181	\$401,279

Charitable Remainder Unitrust: Income Tax Summary

Income Tax Summary for 2025

Adjusted Gross Income:	\$400,000.00
Deductions:	<u>\$139,865.00</u>
Taxable Income:	\$260,135.00
Regular Tax (Tax Tables):	\$48,126.40
Tax per Schedule D:	\$33,654.20
Tax Due:	<u>\$37,454.20</u>
Effective Average Tax Rate:	9.36%
Effective Marginal Tax Rate:	12.00%
Marginal Tax Rate on Investment Income:	15.80%
Regular Standard Deduction:	\$30,000.00
Additional Elderly Deductions:	<u>\$0.00</u>
Standard Deduction:	\$30,000.00
Itemized Deductions:	\$10,000.00
Phaseout Amount:	<u>\$0.00</u>
Adjusted Itemized Deductions:	\$139,865.00

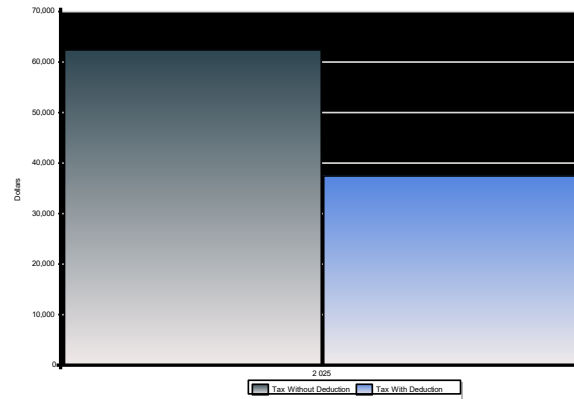


This scenario is a hypothetical illustration based on the assumptions you entered via the inputs inside the program. It is to be used solely as a conceptual guide to understand and quantify your planning needs. It would be wise to consider this illustration together with all other information you deem necessary in making your investment decisions. This illustration is not a guarantee of the performance of any specific investment. Actual performance from your investments and assets may vary. This illustration is not legal or tax advice. You should consult with your attorney and accountant to review this information and determine its appropriateness for your particular situation. The provider of this illustration provides no guarantee and assumes no responsibility or liability for the accuracy of the information provided (including whether the interest rate you have selected is in fact "reasonable") or for your reliance based on this information.

Charitable Remainder Unitrust: Income Tax Savings

Capital Gains Tax Savings: \$76,500

Year	Deduction Taken	Remaining Deduction	Tax if No Deduction	Tax With Deduction	Tax Savings
2025	\$129,865	\$0	\$62,428	\$37,454	\$24,974



Charitable Remainder Unitrust

This calculation determines your deduction for a contribution to a charitable remainder unitrust. It also calculates your deduction as a percentage of the amount transferred.

When a charitable remainder unitrust is established, a donor transfers cash and/or property to an irrevocable trust but retains (either for himself or for one or more non-charitable beneficiaries) a variable annuity (payments that can vary in amount, but are a fixed percentage) from that trust. At the end of a specified term, or upon the death of the beneficiary (or beneficiaries, and the donor and the donor's spouse can be the beneficiaries), the remainder interest in the property passes to the charity the donor has specified.

The principal difference between a charitable remainder unitrust and a charitable remainder annuity trust is that a unitrust pays a varying annuity. In other words, the amount paid is likely to change each year. The payable amount is based on annual fluctuations in the value of the trust's property. As it goes up, so does the annuity paid each year. If it drops in value, so will the annuity.

A gift to a charitable remainder unitrust will qualify for income and gift tax charitable deductions (or an estate tax charitable deduction) only if the following conditions are met:

- A fixed percentage (not less than 5% nor more than 50%) of the net fair market value of the assets is paid to one or more non-charitable beneficiaries who are living when the unitrust is established. The charity's actuarial interest must be at least 10% of any assets transferred to the trust.
- The unitrust assets must be revalued each year, and the fixed percentage amount must be paid at least once a year for the term of the trust, which must be a fixed period of 20 years or less, or must be until the death of the noncharitable beneficiaries, all of whom must be living at the beginning of the trust.
- No sum can be paid except the fixed percentage during the term of the trust and at the end of the term of the trust; the entire balance of the trust's assets must be paid to one or more qualified charities.

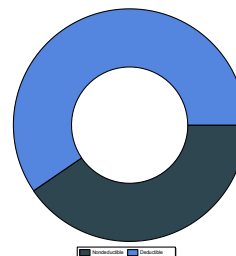
The donor receives an immediate income tax deduction for the present value of the remainder interest that will pass to the charity at the end of the term.

Because a charitable remainder unitrust is exempt from federal income tax (the income and gains of the trust are only taxed when they are distributed to the noncharitable beneficiaries as part of the fixed percentage of trust assets distributed each year), they are frequently used to defer income tax on gains about to be realized. For example, if a donor has an appreciated asset that is about to be sold, the donor can give the asset to a charitable remainder unitrust, reserving the right to received a fixed percentage of the value of the trust for life, and for the life of the donor's spouse as well, and the asset can then be sold by the trust and the proceeds of sale reinvested without payment of any federal income tax on capital gains. The capital gains will be taxable to the donor (or the donor's spouse) only as they are distributed to the donor as part of the annual distributions from the trust.

A variation of the CRUT (which pays a fixed percentage of the value of the trust assets, regardless of income) is the net-income CRUT, or "NICRUT," which pays either the fixed percentage or the income actually received by the trust, whichever is less. A variation of the "NICRUT" is the net-income-with-makeup CRUT, or "NIMCRUT." This can be used if the income is less than the fixed percentage, the deficiency can be paid in a future year, as soon as the trust has income, which exceeds the fixed percentage. An additional variation is a "flip" unitrust, which is a trust that changes from a NIMCRUT to a regular CRUT upon the occurrence of a specific event, such as the sale of a specific asset that was contributed to the trust and was not expected to produce much income. However, NICRUTs, NIMCRUTs and "flip" CRUTs are valued in the same way as a regular CRUT for the purpose of determining the income, estate, and gift tax charitable deduction.

Charitable Remainder Annuity Trust

Trust Type:	Life
Transfer Date:	5/1/2025
\$7520 Rate:	5.4%
Deduction Type:	Income Tax Deduction
FMV of Trust:	\$1,000,000
Lives:	1
Age:	75
Percentage Payout:	5.000%
Payment Period:	Annual
Growth of Trust:	7.00%
Payment Timing:	End
Exhaustion Method:	IRS
Economic Schedule Compounding:	Annual
Mortality Table:	2010CM
Cost Basis:	\$250,000
Charity Type:	20%
Capital Gains Rate:	30.6%
Inflation Rate:	0.00%
Adjusted Gross Income:	\$1,300,000.00
Itemized Deductions:	\$90,000
Filing Status:	Single
Age:	75
Age of Spouse:	1
Long-Term Capital Gain:	\$0
28% Rate Capital Gain:	\$0
Qualified Dividends:	\$170,000
Unrecaptured §1250 Gain:	\$0
Net Investment Income:	\$320,000
Amount of Annuity:	\$50,000.00
One Life Annuity Factor:	8.0902
Payout Frequency Factor:	1.0000
Present Value of Annuity = Annual Payout times Factors:	\$404,510.00
Charitable Remainder = FMV of Trust less PV of Annuity:	\$595,490.00
Charitable Deduction for Remainder Interest:	\$595,490.00
Donor's Deduction as Percentage of Amount Transferred:	59.5490%



Charitable Remainder Annuity Trust

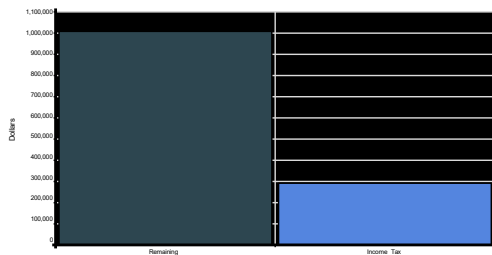
Economic

Year	Beg. Balance	Payment	Growth	End Balance
1	\$1,000,000	\$50,000	\$70,000	\$1,020,000
2	\$1,020,000	\$50,000	\$71,400	\$1,041,400
3	\$1,041,400	\$50,000	\$72,898	\$1,064,298
4	\$1,064,298	\$50,000	\$74,501	\$1,088,799
5	\$1,088,799	\$50,000	\$76,216	\$1,115,015
6	\$1,115,015	\$50,000	\$78,051	\$1,143,066
7	\$1,143,066	\$50,000	\$80,015	\$1,173,080
8	\$1,173,080	\$50,000	\$82,116	\$1,205,196
9	\$1,205,196	\$50,000	\$84,364	\$1,239,560
10	\$1,239,560	\$50,000	\$86,769	\$1,276,329
11	\$1,276,329	\$50,000	\$89,343	\$1,315,672
12	\$1,315,672	\$50,000	\$92,097	\$1,357,769
13	\$1,357,769	\$50,000	\$95,044	\$1,402,813
Total	\$1,357,769	\$650,000	\$1,052,813	\$1,402,813

Charitable Remainder Annuity Trust: Income Tax Summary

Income Tax Summary for 2025

Adjusted Gross Income:	\$1,300,000.00
Deductions:	<u>\$350,000.00</u>
Taxable Income:	\$950,000.00
Regular Tax (Tax Tables):	\$308,520.25
Tax per Schedule D:	\$279,620.25
Tax Due:	\$291,780.25
Effective Average Tax Rate:	22.44%
Effective Marginal Tax Rate:	37.00%
Marginal Tax Rate on Investment Income:	40.80%
Regular Standard Deduction:	\$15,000.00
Additional Elderly Deductions:	<u>\$2,000.00</u>
Standard Deduction:	\$17,000.00
Itemized Deductions:	\$90,000.00
Charitable Deductions:	<u>\$260,000.00</u>
Phaseout Amount:	<u>\$0.00</u>
Adjusted Itemized Deductions:	\$350,000.00



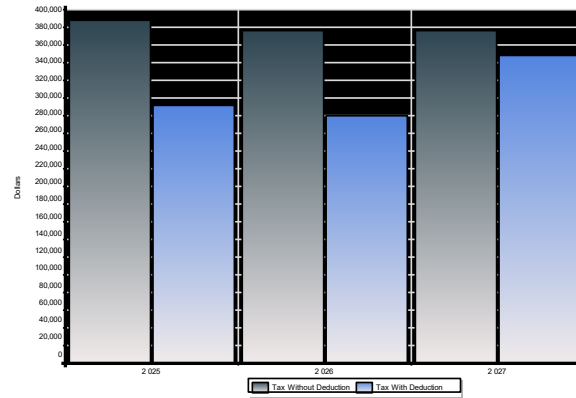
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Charitable Remainder Annuity Trust: Income Tax Savings

Income Tax Savings

Capital Gains Tax Savings: \$229,500

Year	Deduction Taken	Remaining Deduction	Tax if No Deduction	Tax With Deduction	Tax Savings
2025	\$260,000	\$335,490	\$387,980	\$291,780	\$96,200
2026	\$260,000	\$75,490	\$376,211	\$280,011	\$96,200
2027	\$75,490	\$0	\$376,211	\$348,279	\$27,931



Charitable Remainder Annuity Trust

This calculation determines the value of the noncharitable beneficiary's annuity (nondeductible) and the value of the charitable remainder interest (deductible) for a gift made through a charitable remainder annuity trust.

When a charitable remainder annuity trust is established, a gift of cash or property is made to an irrevocable trust. The donor (and/or another noncharitable beneficiary) retains an annuity (fixed payments of principal and interest) from the trust for a specified number of years or for the life or lives of the noncharitable beneficiaries. At the end of the term, the qualified charity specified in the trust document receives the property in the trust and any appreciation.

Most gifts made to a charitable remainder annuity trust qualify for income and gift tax charitable deductions (or in some cases an estate tax charitable deduction). A charitable deduction is permitted for the remainder interest gift only if the trust meets certain criteria.

A trust qualifies as a charitable remainder annuity trust if the following conditions are met:

- The trust pays a specified annuity to at least one non-charitable beneficiary who is living when the trust is created. Annuities can be paid annually, semiannually, quarterly, monthly, or weekly.
- The amount paid, as an annuity, must be at least 5%, but less than 50% of the initial net fair market value of the property placed in the trust. The charity's interest at inception also must be worth at least 10 percent of the value transferred to the trust.
- The annuity is payable each year for a specified number of years (no more than 20) or for the life or lives of the noncharitable beneficiaries.
- No annuity is paid to anyone other than the specified noncharitable beneficiary and a qualified charitable organization.
- When the specified term ends, the remainder interest is transferred to a qualified charity or is retained by the trust for the use of the qualified charity.
- The Internal Revenue Service has also ruled that a trust is not a charitable remainder annuity trust if there is a greater than 5% chance that the trust fund will be exhausted before the trust ends.
- The annuity paid must be a specified amount expressed in terms of a dollar amount (e.g., each non-charitable beneficiary receives \$500 a month) a fraction, or a percentage of the initial fair market value of the property contributed to the trust (e.g., beneficiary receives 5% each year for the rest of his life).

The grantor will receive an income tax deduction for the present value of the remainder interest that will ultimately pass to the qualified charity. Government regulations determine this amount, which is essentially calculated by subtracting the present value of the annuity from the fair market value of the property and/or cash placed in the trust. The balance is the amount that the grantor can deduct when the grantor contributes the property to the trust.

Charitable Gift Annuities

A good alternative to a charitable trust is a Charitable Gift Annuity

Charitable gift annuities are a contract between the donor and a qualified charity. The charity promises to pay to you or a person you designate lifetime income in exchange for your irrevocable gift of assets, usually cash or marketable securities.

Payments from a charitable gift annuity are fixed from the beginning. They neither increase or decrease based on market conditions. Payments are based on the gift annuity rate offered by the charity, the value of the contribution and the number and age of the annuitant(s). The donor does not need to be the annuitant but usually is and the maximum number of annuitants is two. Payments can be made to two annuitants jointly or successively.

The American Council on Gift Annuities periodically schedules a table of suggested gift annuity rates as a guideline for charities. Charities are allowed to set their own rates as long as they do not exceed federal and state laws but most often follow the ACGA guidelines. Charitable annuity rates are lower than those offered by insurance companies so that a significant portion of the contribution will be available for charitable purposes. These types of annuities are useful to donors who are retired and want to increase their cash flow with guaranteed payments and also earn a tax deduction. Part or all of the payments however can be subject to income tax as ordinary income and/or capital gain.



THE COMMUNITY FOUNDATION
Rochester Area Community Foundation

Prepared for:
Dave
May 7, 2025

Summary of Benefits

6.6% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant Age	72
Cash Donated	\$500,000.00
Payout Rate from ACGA2024 Table	6.6%
Payment Schedule	quarterly at end

BENEFITS:

Charitable Deduction	\$197,170.00
Annuity	\$33,000.00
Tax-free Portion	\$20,889.00
Ordinary Income	\$12,111.00

After 14.5 years, the entire annuity becomes ordinary income.

The charitable deduction displayed above is based on an IRS discount rate for a month prior to the month of gift. To take your deduction based on this rate, you must specify it in an election statement that you file with your tax return.



Comparison of Benefits

ASSUMPTIONS :

Beneficiary Age 72

	Charitable Gift Annuity 6.6%	Charitable Unitrust 5%
Principal Donated	\$500,000 (cash)	\$500,000 (cash)

BENEFITS:

Charitable Deduction	\$197,170	\$265,985
Annual Payout	\$33,000 (fixed)	\$25,000 (variable)
Tax-free Portion	\$20,889 (for 14.5 yrs)	
Ordinary Income	\$12,111 *	

* Once all tax-free portions have been distributed, the entire annuity will become ordinary income.

Column 1: Annuity rate is from ACGA2024 table.
Column 2: Payment schedule is quarterly, 3 months delay.

Disclaimers

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