



Exchange of Income Interest Charitable Remainder Unitrust for a Charitable Gift Annuity

Some charitable remainder unitrust (CRUT) income beneficiaries may be interested in receiving an annuity amount rather than income from a unitrust. There are a number of reasons a beneficiary might consider such an arrangement. The downturn in the economy may be reducing the payout the beneficiary is receiving. A change in the beneficiary's financial situation may prompt them to look for a more secure income stream. By releasing the beneficiary's interest in the CRUT, the charity receives the trust principal sooner.

The IRS has permitted a donor to terminate his interest in a CRUT. In exchange, the Service permitted the donor to substitute the income from the CRUT for a charitable gift annuity issued by the charity that was the recipient of the remainder interest in the CRUT. The donor was entitled to a deduction for the difference between the value of the CRUT income interest and the value of the income interest in the annuity. PLR 200152018.

How can you model such an arrangement in Planned Giving Manager (PGM)? The first step is to calculate the value of the beneficiary's income interest. To compute this amount, use Program 1, Deduction Calculations and Narratives:

1. Select the Non-Charitable Interest Dollars chart.
2. In Gift Date/IRS Discount Rate, enter the date on which the revocation of the CRUT income interest becomes effective.
3. Use the lowest discount rate available to maximize the value of the income interest.
4. Enter the birthdays of all income beneficiaries in Lives and/or Fixed Term on the date of renunciation.
5. Since the gift is a charitable remainder unitrust enter the Principal as the value of the unitrust assets on the date of reassignment. (The cost basis is irrelevant for this calculation.)
6. The payout amount, payment frequency, and timing should be the same as the original CRUT.
7. Click View to see the Non-Charitable Interest Dollars chart. The number on this chart is the present value of the income interest in the CRUT.

Now model a gift annuity illustration using the non-charitable interest amount as the funding amount for the gift annuity:

1. Select the Summary of Benefits, Taxation of Gift Annuity Payments and Non-Charitable Interest Dollars chart.
2. In Gift Date/IRS Discount Rate, enter the date on which the assets will be transferred from the CRUT to fund the annuity.



3. Use the highest discount rate available to maximize the charitable deduction.
4. Enter the birthdays of all income beneficiaries in Lives and/or Fixed Term on the date of renunciation.
5. Enter the Principal as the value of the non-charitable interest amount from the calculation above. The cost basis will be zero for this calculation.
6. Select the Charitable Gift Annuity as your gift option and choose the annuity rate, payment frequency, and timing chosen by the income beneficiaries.

If the present value of the income interest in the gift annuity (found on the Non-charitable Interest Dollars chart in step 2 above) is less than the present value of the income interest in the CRUT (found on the Non-charitable Interest Dollars chart in step 1 above) the income beneficiary is entitled to an additional income tax deduction equal to the difference between the two.

Let's look at an example. Donors, born 6/30/21 and 7/13/1923 established a 9% straight payout charitable remainder unitrust in 1996 funded with \$100,000. As of January 1, 2002 the fair market value of the trust had declined to \$65,274. Their before-tax income in 2001 from the trust had declined to around \$5,000. The beneficiaries were looking to protect their income in future years.

First, calculate the value of the donor's income interest in the CRUT:

Deduction Calculations

Non-Charitable Interests for \$65,274 Gift

	Charitable Unitrust 9%
Income Rate	
Two Lives 81 79	\$39,984
One Life 81 [6/30/1921]	\$30,080
One Life 79 [7/13/1923]	\$32,432
Gift Date 1/31/2002	

Since both beneficiaries will be exchanging their entire income interest, the two life number, \$39,984, is the value of their income interest in the CRUT.



Second, calculate the charitable gift annuity and use \$39,984 as the funding amount of the CGA:

Deduction Calculations

Non-Charitable Interests for \$39,904 Gift

	Charitable Gift Annuity 7.7%
Income Rate	
Two Lives 81 79	\$25,243
One Life 81 [6/30/1921]	\$18,335
One Life 79 [7/13/1923]	\$20,048
Gift Date 1/31/2002	

The present value of the income interest in the CRUT was \$39,984 and the present value of the income interest in the gift annuity is \$25,243. Therefore, these donors would be entitled to a charitable income tax deduction for the difference between, the two, \$14,741. In addition, they would receive income for life as follows:



Deduction Calculations

Summary of Benefits

7.7% Charitable Gift Annuity

ASSUMPTIONS:

Annuitants	[6/30/1921] 81
	[7/13/1923] 79
Date of Gift	1/31/2002
Principal Donated	\$39,904.00
Cost Basis	\$0.00
Annuity Rate	7.7%
Payment Schedule	quarterly at end

BENEFITS:

Annuity	\$3,072.64
Capital Gain Income	\$1,988.00
Ordinary Income	\$1,084.64

The total reportable capital gain of \$25,242.87 must be reported over 12.7 years, until all of the gain is reported. After 12.7 years, the entire annuity becomes ordinary income.

If you have additional questions about this or any other topic relating to PG Calc software or services, please call Dyke Tilt, Jeff Lydenberg, Nancy Cioto or Bonnie Weinberg in PG Calc Client Services at 888-474-2252 (888-4PG-CALC).