Arizona Community Foundation and Affiliates

Providing for the community while protecting yourself and your family

A trust is an arrangement in which legal title to assets is transferred to a trustee to be held on behalf of specified beneficiaries during the term of the trust. Commonly, the benefit received is the payment of the income earned by the assets. When the term of the trust ends, the remaining property passes to another beneficiary.

Charitable Remainder Trusts

A charitable remainder trust pays you and/or another beneficiary an amount of money for the beneficiary's life or a specified term not exceeding 20 years. At the end of the trust term, the remainder is then paid to a charitable beneficiary, the Arizona Community Foundation in this case.

Charitable remainder trusts offer tax benefits and a great deal of flexibility. Payments may be made to you throughout your life, and then directed to your spouse or another beneficiary after your death. Or, the trust may be set up by your will, benefiting a loved one for his or her lifetime. The eventual distribution to the Arizona Community Foundation will take effect only at the death of the trust's beneficiaries. A charitable remainder trust can be an annuity trust or a unitrust, and each provides its own set of benefits for your future financial planning.

A Charitable Remainder Annuity Trust makes payments to the donor in a fixed dollar amount each year. The payment amount must, according to law, equal at least 5 percent of the fair market value of the asset initially placed in the trust. You may not add to an annuity trust in future years. This is a particularly suitable option for a beneficiary who needs the security of a fixed annual income.

A Charitable Remainder Unitrust requires an annual payout of at least 5 percent of the fair market value of the trust's assets. The amount the income beneficiary receives each year will increase or decrease as the asset values change, and you may add to the principal of a unitrust in future years, receiving a tax benefit with each continued contribution. The variable nature of the unitrust payment may provide the beneficiary with a hedge against inflation, assuming growth in value of the trust assets is comparable to or better than the inflation rate.

Benefits

Whether you choose to set up an annuity trust or a unitrust, you enjoy a number of benefits including professional management of the assets in the trust and a degree of financial protection. You also receive an immediate federal income-tax deduction for the year the charitable remainder trust is established.

Annuity Trust Example

Gene Jones, 76, set up a charitable remainder annuity trust and funded it with $500,000. He named himself and his wife as income beneficiaries at $25,000 per year (a 5 percent annuity rate) for the rest of their lives. At their deaths, ACF will receive the trust principal which will establish the "Gene and Mary Jones Fund."

Unitrust Example

Sheila Ryan, 65, transferred $300,000 to a unitrust. She elected to receive 6 percent of the fair market value of the unitrust assets each year, payable quarterly for her lifetime. During the first year, she receives $18,000 (6 percent of $300,000) and the assets appreciate in value to $310,000. So, during the second year, Sheila is paid $18,600 (6 percent of $310,000). Each subsequent year the same valuation and payment process is followed.