



HIGHTOWER  
Trust Company

# CASE STUDY

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### Charitable Remainder Unitrust (CRUT)

**CLIENT PROFILE:** Ashley has been a director with an oil and gas corporation for the greater portion of her career, starting in 1998 just after receiving her graduate degree in geology. She receives a third of each year's compensation in three-year vesting RSUs. She has been able to live on the cash flow from her salary and has never touched these shares, which have continued to appreciate. Although she is not worried about the concentration, Helen, her Hightower advisor, is and has recommended that she consider starting to divest and diversify. They are considering multiple strategies. One problem Ashley has is the cost basis of the RSUs from her first ten years of working is quite low, and selling them will result in high capital gains taxes. She has done basic estate planning and has no dependents needing support, so she has decided she may do some gifting to her goddaughters and potentially to a charity, although she doesn't have the time to focus on charitable planning given her current responsibilities.



**CHALLENGE:** It would be prudent for Ashley to reduce her concentration in corporate stock, but this may cause a large taxable event.

**SOLUTION:** One strategy Helen mentioned was an **IRREVOCABLE CHARITABLE REMAINDER UNITRUST (CRUT)**, and she ran some illustrations to show how it would work. Ashley could make a gift of appreciated shares to the CRUT and receive an immediate income tax deduction for the present value of the remainder interest that will pass to charity, up to 30% of AGI, with a five-year carry-forward for any unused deduction. The shares could then be sold within the CRUT without having to pay capital gains taxes. The cash proceeds could be invested by Helen, and the CRUT will make payments to named beneficiaries for a chosen period up to twenty years. The payments will be set as a fixed percentage of 5% to 50% of the fair market value of the assets at the time the trust is established. The beneficiaries could be herself and/or her two goddaughters. CRUT assets will be revalued every year, and income payments will reflect valuation. These payments will be taxed at the capital gains tax rate. Investment returns greater than the payout rate will remain in the trust and grow. A minimum of 10% of the initial gift value will be distributed to the charity as remainder beneficiary at the termination of the trust.

Helen made a referral to an estate planning attorney she trusts and suggested naming Hightower Trust Company as an independent trustee to administer the CRUT and provide the appropriate tax compliance and oversight. The named charitable beneficiary could be a donor-advised fund for Ashley that she could use to fund future donations to the charities she might get involved in and support, but she does not need to figure out which charities at this time. Below are the primary benefits of a CRUT:

01

**DIVERSIFICATION:** By establishing a CRUT and funding with the highly appreciated shares, Ashley can reduce her concentration in corporate stock by a third in this case, while doing some gifting and avoiding taxation on the highest capital gains shares. This strategy can be used by itself or in combination with other strategies to minimize her concentration over time.

02

**TAX EFFICIENCY:** Ashley may be eligible for an income tax deduction based on the present value of the remainder interest that will go to her donor-advised fund. Transferring the appreciated RSUs to the CRUT can help minimize capital gains tax when the shares are sold. Also, the value of the remaining trust assets distributed to her donor-advised fund will not be included in the grantor's estate, potentially reducing estate tax liability.

03

**CHARITABLE LEGACY:** Additional payments can be made at any time to a CRUT. Income payments are tied to the changing value of the trust assets, which means the payment amount will fluctuate, but additional assets mean additional charitable contributions. Ashley can continue to grow the charity she will focus on in the future and experience the joy of giving while living.

04

**TRUST ADMINISTRATION:** An independent corporate trustee like Hightower Trust Company can prepare statements, tax returns and administer the trust according to governing law and ensure Ashley's intent.

**RESULTS:** Use of a CRUT provided Ashley with a solution to reduce a concentration, as well as gift to family and her own charity that she can focus on in the future.

## CONCLUSION

**CRUTs offer a unique opportunity to eliminate concentrations, contribute to a charity, and minimize capital gains taxes and gift to beneficiaries. Hightower Trust Company specializes in supporting advisors with clients who have complex planning needs, with the goal of delivering positive outcomes for both clients and advisors.**

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