Charitable Remainder Annuity Trust

A charitable remainder annuity trust pays you a fixed annual income while providing for a future gift to the University of Washington. You create an annuity trust by executing a written trust agreement and making a gift to the trust. The trustee of the annuity trust then pays you a fixed dollar amount every year for your lifetime or for a term of up to 20 years. You are entitled to an income tax charitable deduction for part of the value of the assets you contribute to the annuity trust, and if you contribute appreciated securities, you will save on capital gains tax as well.

When the annuity trust ends, the remaining trust assets are distributed to the University for the educational purpose you specify in the trust agreement. You may wish to fund an endowment in your name to support scholarships, faculty, or research, to purchase books for the library, or provide unrestricted support for a department or program – the possibilities are nearly endless.

If you want regular, fixed income payments, an annuity trust may appeal to you. The ultimate benefit, however, is the satisfaction of knowing that an annuity trust gift will provide important future support for the University of Washington.

Frequently Asked Questions

What assets can I contribute? An annuity trust must be funded with assets that can be sold readily or that produce sufficient income to enable the trustee to pay the annuity amount when it is due. In general, this means cash or marketable securities. Highly appreciated securities are particularly appropriate for funding an annuity trust because of the capital gains tax benefits discussed below. Assets that may take a while to sell, such as real estate or closely held stock, generally are not appropriate for annuity trusts but may be suitable for a charitable remainder unitrust. (See the University's Charitable Remainder Unitrust brochure.)

How is the annuity amount determined? Under current tax law, the annuity amount must equal at least 5% and no more than 50% of the value of the assets you contribute to the trust. The planned giving staff will work with you to determine an appropriate annuity amount, taking into consideration the age of the income beneficiary or beneficiaries, the fair market value of the trust assets, and other factors that affect the balance between your financial goals and the educational purpose you wish to fund.

Who can receive income from the trust? You, your spouse (or both of you), other family members, or others can be beneficiaries of the annuity trust. If you want to name more than one income beneficiary, they can share the annuity or they can succeed one another as income beneficiaries. Unless the trust is for a term of years, you need to consider the age or ages of the beneficiaries. If the beneficiaries are too young, the assets remaining in the trust at the end of its term may not be enough to accomplish your educational purpose.

Will I pay taxes on my trust income? Beneficiaries are taxed on payments received from an annuity trust based on a four-tier taxation system set forth in the Internal Revenue Code. Payments are usually a mix of ordinary income and capital gain. The University, as trustee, will provide an annual statement of income tax information for each beneficiary's tax return.

Who can serve as trustee? Although you can establish a trust privately with a trustee of your choice, such as a bank or yourself, the University generally serves as trustee of most charitable remainder trusts that ultimately benefit it.

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Tax Consequences

Income tax charitable deduction: You are entitled to a current income tax charitable deduction for the present value of the annuity trust remainder that the University will receive in the future. You can claim the deduction in the year you create the annuity trust and use it to offset either 30% or 50% of your adjusted gross income, depending on what you contribute to the trust. If these percentage limitations prevent you from using the entire deduction in the first year, you may carry forward the unused deduction for up to five additional years.

Capital gains tax savings: A charitable remainder annuity trust is tax exempt. Therefore, the trustee can sell appreciated assets without incurring any up-front capital gains tax, so the entire net proceeds of a sale are available for investment for your benefit.

Six Steps to Creating an Annuity Trust

- You or your advisor contacts our planned giving staff to discuss how you want to support the University and the assets available to fund an annuity trust.
- Our planned giving staff provides information and illustrations of the benefits of the proposed gift.
- A meeting is scheduled between you, your advisor if you wish, and members of our planned giving staff to review the annuity trust illustrations and refine your educational purpose.
- The terms of the gift are finalized and a sample annuity trust document is prepared. You review the sample annuity trust agreement with your attorney or other advisor knowledgeable about annuity trusts.
- The annuity trust agreement is finalized and you and the University, as trustee, sign it. You transfer the assets to the UW, as trustee. The gift is now complete.
- The University provides follow-up information to assist you in reporting your gift to the IRS and claiming the appropriate charitable deduction.

Each charitable remainder annuity trust is the product of successful teamwork among donors, their advisors, and the University's planned giving staff. Everyone benefits from this collaboration— the donor who receives tax benefits, the beneficiary who receives a fixed income from the annuity trust, and the University, which receives a future gift to benefit students, faculty, or programs.

If you would like to learn more about a charitable remainder annuity trust, we invite you to call the Office for Planned Giving for a confidential consultation.

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