Charitable Remainder Unitrusts

INVEST IN THE FUTURE

COLUMBIA UNIVERSITY
Office of Gift Planning

CHARITABLE REMAINDER UNITRUSTS

Charitable remainder unitrusts (or CRUTs) are versatile financial planning vehicles that allow you to donate generously to Columbia while supporting yourself and loved ones for life. In addition to receiving an immediate tax deduction for a portion of your gift, you can also avoid immediate capital gains tax on any appreciated assets, such as securities or real estate, you use to fund the trust. You and/or your chosen beneficiaries receive an income stream for the duration of the trust, after which the remaining principal and growth come to Columbia to provide significant support for the parts of the University that mean the most to you.

You can choose to invest your unitrust alongside the University's robust endowment, managed by the Columbia University Investment Company (CIMC), or in a more traditional portfolio designed to reflect the marketplace. The endowment investment option allows you or your chosen beneficiaries to benefit from the same return and strategic management integral to the University's success and long-term growth. By investing in Columbia's future, you can plan for your own.

For more information on investment options for your unitrust, please see our separate brochure, *Investing Charitable Remainder Unitrusts at Columbia University.*

"Establishing a charitable remainder unitrust at Columbia was a win-win proposition for me. I wanted to give back to Columbia because of the financial aid I received as a student, but I was also interested in adding an income stream to my portfolio.

"I know that Columbia is investing wisely in its future, and I wanted to both share in and contribute to the success it envisions. I'm actively planning a financial future for my family, and my CRUT is a part of that plan."

Alex Li '73CC

SUPPORT YOURSELF AND LOVED ONES...

- Direct a gift of at least $100,000 in cash, securities, or real property to establish your charitable remainder unitrust.
- Deduct a portion of your gift—the amount the IRS estimates will eventually come to Columbia—from your taxes in the year the trust is established.
- Designate beneficiaries of the income stream produced by the trust. This can be you, you and a spouse, or another loved one of your choosing.
- Decide the term and percentage of the trust. The percentage is multiplied by the trust's value each year to arrive at the amount that will be paid to its beneficiaries in that year. The trust can last for the lifetimes of its beneficiaries or for a specified term of up to 20 years.
- Depending on the performance of trust investments, you may see significant growth in both the income stream flowing to your beneficiaries and your eventual gift to Columbia at the end of the trust.

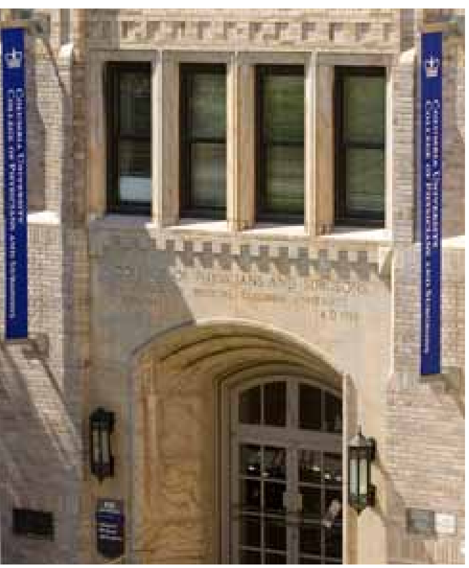
...THEN SUPPORT THE UNIVERSITY

When you establish your CRUT, you can direct Columbia to use the remainder to support any part of the University's mission. For example, you can:

- endow your annual support in perpetuity;
- create a fund supporting fellowships in a field of critical need;
- provide competitive financial aid by naming an endowed scholarship in memory of a loved one;
- enable our students to succeed after graduation by funding an entrepreneurship or advising program;
- or support pioneering programs in sustainable development or medical research.

As the remainder of your trust will ultimately come to Columbia, the Office of Gift Planning can work with you to designate a purpose that reflects your wishes.

ESTABLISHING YOUR CRUT



CHOOSING A TRUSTEE

Columbia University is willing to serve as trustee of CRUTs created for Columbia's benefit without charging trustee fees. The University works with BNY Mellon to administer all trusts. While you may choose to act as your own trustee, most donors appreciate the convenience of having Columbia serve in that role.

FUNDING YOUR CRUT

Charitable remainder unitrusts are very flexible vehicles and can be funded with many different assets. Cash is one of the most common ways to fund a CRUT, but using other assets, such as appreciated securities or real estate, can help you avoid paying capital gains taxes on the sale of these assets. Capital gains tax is levied federally, and many states also impose their own tax on capital gains. A CRUT, however, is tax-exempt, so if you donate appreciated assets to a CRUT and the trustee sells them, the trust will not pay tax on the capital gain. You will be funding the unitrust with the full fair market value of the property, less expenses of sale, rather than the after-tax proceeds. That full amount will be invested to produce an income for you and your loved ones.

There are some special considerations when funding a unitrust with real estate. Prior to creating a trust and accepting a gift, the trustee must conduct due diligence by arranging for a property inspection. Columbia must understand how the property will be marketed and how much the trust is likely to receive when the property sells. The University will also need to make certain there are no environmental problems that could entail future liability. In order for you to take an income tax deduction of more than $5,000 for this kind of gift, you will need to obtain a qualified appraisal. The appraisal must meet certain requirements that are set forth in detail in the instructions for IRS Form 8283, which you will be required to file with your income tax return. The appraisal must not be done earlier than 60 days before the gift is made, and it must be received before your tax return is due.

DETERMINING BENEFICIARIES AND A UNITRUST PERCENTAGE

The income from a unitrust varies each year, based on the value of the trust's assets. When you establish the trust, you and Columbia will agree to a fixed percentage, which must be at least 5 percent. This unitrust percentage will be multiplied by the value of the trust assets at the beginning of each year to determine the distribution for that year. In years when the trust assets appreciate, the distribution will increase; if asset values decline, distributions will decrease.

Because a unitrust itself is tax-exempt, there is no tax on the capital gains or other income earned. Any growth compounds tax-free within the trust and should provide for a higher future payout. Deciding a payout rate is an important calculation. For example, a 5 percent payout rate pays less in early years but allows the trust to grow more over time. A 7 percent payout rate pays out more in earlier years, but the payments do not grow as much. The Office of Gift Planning can provide you with calculations tailored to your individual situation.

Though many individuals name themselves as the beneficiary of their unitrust, income can be paid to more than one person, either concurrently or consecutively. It often makes sense for married individuals to provide income to themselves and their spouses, though it is important to note that with more income beneficiaries, the amount of your income tax deduction decreases.

The beneficiaries you designate will receive an income from the unitrust in regular payments, usually on a quarterly basis, for their lifetimes—or for a period not to exceed 20 years. This income is taxable, however, either as ordinary income or capital gain, depending on the trust's investment in a given year. Each February, all beneficiaries will receive a Schedule K-1 form summarizing the taxability of income received.

STRUCTURING YOUR CRUT

Standard Unitrust

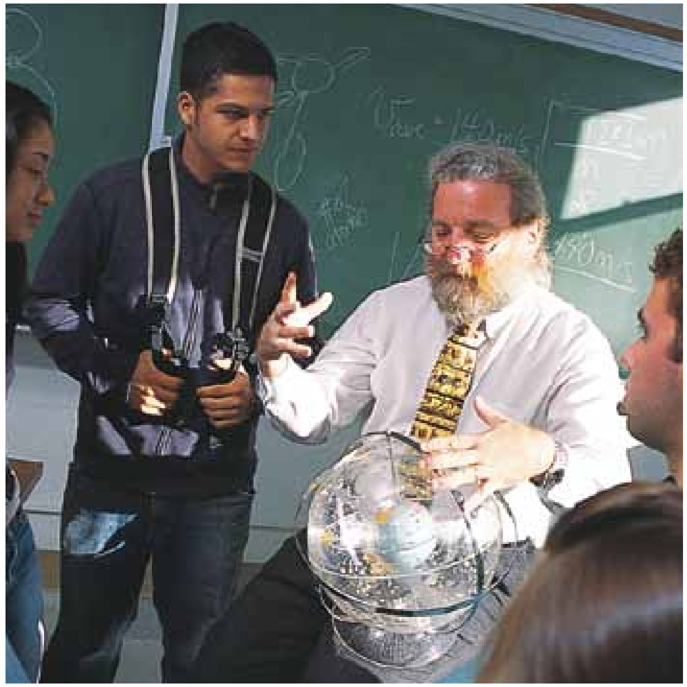
A standard unitrust is funded with a gift of either cash or appreciated marketable securities. Your annual income, distributed quarterly, depends on the agreed upon unitrust percentage as applied to the trust principal's value on January 1 each year. For example, if you create a 6 percent unitrust with property valued at $200,000, you would receive $12,000 in the trust's first year. In the second year, if the value of the trust assets has increased to $205,000, the distribution for that year would be increased to $12,300. While a standard unitrust may allow your payments to grow over time, it is important to point out that there is no guarantee that trust assets will appreciate each year.

Net Income Unitrust

A net income unitrust is often used for a gift of property that may not be able to be sold immediately, such as real estate or other illiquid assets. In the standard unitrust described earlier, current tax law requires that quarterly income distributions begin at the end of the quarter in which the gift is made; the trustee cannot postpone distributions. As a result, in the early quarters of a standard unitrust funded with real estate, the trustee would be required to distribute the only asset held in the trust—an undivided interest in the property. This is difficult for the trustee and disadvantageous for beneficiaries. As a solution, a net income unitrust directs the trustee to pay to you the lesser of the unitrust amount described above or the actual net income earned by the trust during the year. From this type of trust, a beneficiary receives only "income," represented by interest, dividends, and rents. In these days of low interest and dividend rates, it is often difficult to meet the stated percentage rate, even if it is 5 or 6 percent. When the assets are eventually sold, the trust will invest the proceeds and thereby produce greater income for distribution. The expenses of sale, including real estate commissions, taxes, and insurance and maintenance costs, are split between trust income and principal.

Flip Unitrusts

A flip unitrust defers income payments until a future time when the income switch "flips" on. Until that predetermined time, the trust pays net income only. If no net income is produced, the trust pays nothing to the income beneficiaries. Once the "flip" event occurs, the trust converts or "flips" to a standard unitrust that pays a defined percentage of the fair market value of the assets, as of the first day of the year following the occurance of the triggering event, to the beneficiaries. This "flip" feature is beneficial for gifts of nonliquid or hard-to-value assets. By defining the "flip" event as the sale of the asset, the trust pays little or no income until the asset is sold. This protects the trust from having to pay income when its assets are in nonliquid form. Once the asset is sold and the trust becomes liquid, the trust "flips" to a standard unitrust. A flip unitrust can also help build a supplemental, tax-deferred retirement plan. The "flip" feature allows you



to donate assets now, but defer or limit income payments until the date of your retirement. In the meantime, you can watch the principal in the trust grow tax-free until your income payments begin.

CALCULATING CHARITABLE DEDUCTIONS

In the year of the gift, you will qualify for a federal income tax charitable deduction equal in value to Columbia's remainder interest in the gifted property. This is the amount the Internal Revenue Service believes the assets in the trust will be worth (in today's dollars) when they ultimately come to Columbia at the end of the trust. The charitable deduction calculation takes into account the age of the income beneficiaries and the payout rate. The older and fewer the beneficiaries, and the lower the payout rate, the larger the charitable deduction will be.

You may not be able to deduct the entire charitable gift in the year you create the unitrust. When you donate appreciated assets to fund the trust, your charitable deduction is limited to 30 percent of your adjusted gross income. If you make gifts of cash, your charitable deduction is limited to 50 percent of your adjusted gross income. You may carry forward any unused portion of the charitable deduction and apply it over the next five years. Unlike other life income gifts, you can also make additional gifts to the trust during its term and receive additional tax deductions, all while increasing the income your gift provides to the individuals you wish to benefit.

In addition to the income tax benefits of establishing a charitable remainder trust, your estate may have reduced probate costs and estate taxes.

Columbia's Office of Gift Planning serves the entire University, and our staff would be happy to answer your questions about charitable remainder unitrusts and other planned gifts. While we always recommend consulting your financial advisers, we have the expertise to discuss many different charitable vehicles that can help you support Columbia in the way that best suits your financial needs.

Please contact us for more information:

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