

## Diversifying concentrated stock positions

Because no capital gain is recognized on contributions to the U.S. Legacy Income Trusts (Trusts), holders of low-basis stock and other appreciated securities can use Trust contributions to reduce portfolio concentration risk, increase income, protect against longevity risk and support favorite qualified charitable organizations after they pass away, all in a tax-efficient manner. Donors can apply the charitable income tax deduction received on Trust contributions to further augment after-tax income, fund gifts to family members or for other purposes.

### Case Study - California resident

A 72 year-old top-bracket individual taxpayer living in California holds an outsized position in a stock acquired years earlier with a cost basis of zero (founder's shares). The taxpayer and their spouse, age 70, seek to reduce their exposure to the stock, enhance after-tax income, protect against longevity risk and provide for the support of favorite charities following the second of their deaths.

#### Conventional Solution

Sell \$1 million of shares and use net proceeds to buy a bond portfolio

#### Pay capital gains tax

- Realized long-term capital gain (LTCG) equals 100% of position value
- Combined federal and state LTCG tax rate of 38.2%<sup>1</sup>

#### No charitable income tax deduction

*Dollars available for investment: \$618,000*

#### Invest in taxable bond portfolio

- Assumed yield of 3.60%<sup>5</sup>

*Annual pretax income: \$22,644*

#### Pay tax on investment income

- Assumed treatment as ordinary investment income
- Combined federal and state income tax rate of 55.4%<sup>7</sup>

**Annual after-tax income: \$10,394**

**Annual after-tax yield on funding amount: 1.04%**

#### Advanced Solution

Contribute \$1 million of shares to fund a Trust III.2 account

#### Pay no capital gains tax

#### Charitable income tax deduction

- 50.42% of Trust contribution is deductible<sup>2</sup>
- Combined federal and state income tax rate of 50.3%<sup>3</sup>

*Dollars available for investment: \$1,000,000<sup>4</sup>*

#### Receive Trust account distributions

- Assumed yield of 6.10%<sup>6</sup> (equals Trust III.2 distribution rate as of 9/30/24)

*Annual pretax income: \$61,000*

#### Pay tax on investment income

- Assumed treatment as qualified dividend income (QDI)<sup>8</sup>
- Combined federal and state income tax rate of 37.0%<sup>9</sup>

**Annual after-tax income: \$38,369**

**Annual after-tax yield on funding amount: 3.84%**

Advanced Solution potentially yields **3.69 times as much** after-tax income.

The Trusts are pooled income funds of the U.S. Charitable Gift Trust® (Gift Trust), a tax-exempt public charity offering donor-advised funds. The Trusts and Gift Trust are sponsored by Eaton Vance Management, a longtime leader in wealth management solutions.

To learn more about the Trusts, please refer to the Trusts' current Information Statements available at [uslegacyincometrusts.org](https://uslegacyincometrusts.org) or call us at **800.836.2414**.

<sup>1</sup>20.0% federal LTCG tax + 3.8% federal net investment income tax + 13.3% California income tax.

<sup>2</sup>Based on Trust contribution made in 2024 with two individual income beneficiaries, ages 72 and 70. Does not consider the limitation on the donor's federal and state itemized deduction in the year of contribution for qualified charitable gifts that may apply or the partial phaseout of state itemized deductions.

<sup>3</sup>37.0% federal ordinary income tax + 13.3% California income tax.

<sup>4</sup>Assumes that the Donor contributes \$1,000,000 to the Trust and realizes tax savings equal to the contribution amount multiplied by the charitable income tax deduction percentage (50.4%) and combined federal and state income tax rate (50.3%) that apply. The realized tax savings is \$253,618.

<sup>5</sup>Assumed yield is based on the distribution rate as of September 30, 2024 of a representative broad-based U.S. investment-grade taxable bond mutual fund.

<sup>6</sup>Trust distributions to income beneficiaries are not guaranteed, may fluctuate with changes in economic conditions, may not grow over time at rates consistent with inflation and may decline. Different from the purchase of a bond portfolio, a contribution to a Trust represents an irrevocable commitment with no possibility of return of principal.

<sup>7</sup>37.0% federal ordinary income tax + 3.8% federal net investment income tax + 13.3% California income tax.

<sup>8</sup>Not all Trust distributions may be treated as QDI.

<sup>9</sup>20.0% federal QDI tax + 3.8% federal net investment income tax + 13.3% California income tax.

This case study is for illustrative purposes only. Each prospective Donor and income beneficiary should consult his or her own tax advisors as to the specific tax consequences of contributing property to and/or receiving income distributions from a Trust, including the application and effect of state and local income tax and other tax laws.

### Important Information and Disclosures

The Trusts are pooled income funds described in Internal Revenue Code Section 642(c)(5) established in 2022 by the Gift Trust as part of the Gift Trust's U.S. Legacy Income Trust program, which it established in 2019.

To comply with federal law applicable to pooled income funds, the Trusts do not accept contributions of federally tax-exempt securities or shares of funds holding federally tax-exempt securities. The Trusts also do not accept contributions of securities that have been held by the Donor for one year or less. Subject to the approval of Eaton Vance Trust Company (Trustee), the Trusts may accept contributions of publicly traded securities subject to restrictions. The Trusts do not accept contributions of privately-held securities or cryptocurrency. All transferred property must be free and clear of any liens, encumbrances or other adverse claims. Depending on the Donor's relationship to his or her designated income beneficiaries, a contribution to a Trust may have gift or estate tax consequences for the Donor; naming certain individuals as income beneficiaries may also have generation-skipping transfer tax implications for the Donor or income beneficiaries. See "Tax Considerations" in the Trusts' current Information Statements (Information Statements).

All Trust activities and the participation of Donors and income beneficiaries in the Trusts are subject to the requirements of state and federal law, the terms and conditions of the Trusts' Declarations of Trust, the Trusts' Information Statements and the completed application form submitted by each Donor. The Gift Trust's Board of Directors reserves the right to modify the Trusts' program at any time, subject to the provisions of the Trusts' Declarations of Trust and state and federal law.

Any contribution to a Trust, once accepted by the Trustee, represents an irrevocable commitment. Contributions cannot be rescinded or changed, and are subject to the exclusive legal control of the Trusts, the Trustee and the Gift Trust's Board of Directors.

Donors to the Trusts should be motivated by charitable intent. As charitable giving vehicles, the Trusts should not be treated as, and are not designed to compete with, investments made for private gain. An intention to benefit the Gift Trust and one or more qualified charitable organizations eligible for support by the Gift Trust should be a significant part of the decision to contribute to a Trust.

The tax consequences of contributing to a Trust will vary based on individual circumstances. Prospective Donors should consult their own tax advisors. Nothing in this document or the Trusts' Information Statements should be construed as tax advice.

Distributions to income beneficiaries are not guaranteed by any party, and are subject to investment risk. In considering potential changes in annual target distribution rates, the Trustee will assess the Trusts' long-term earnings potential and seek to balance the interests of current and future income beneficiaries and the charitable remainder interests.

Neither the Trusts nor the Gift Trust has been registered under federal securities laws, pursuant to available exemptions.

Neither the Trusts nor the Gift Trust is guaranteed or insured by the United States or any of its agencies or instrumentalities. Contributions are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of, or guaranteed by, any depository institution.

Eaton Vance Distributors, Inc. is a paid solicitor of certain Trusts and the Gift Trust, receiving compensation as described in the Trusts' Information Statements and in the Gifting Booklet of the Gift Trust's donor-advised funds.

