Tax Aware

Combining Charitable Remainder Unitrusts and Tax-Aware Strategies to Diversify Low-Basis Stock

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We show how combining charitable remainder unitrusts (CRUTs) with tax-aware strategies can help investors diversify low-basis stock and enhance after-tax wealth accumulation. While direct-indexing strategies offer some ability to offset gains distributed by the CRUT, their effectiveness is limited. In contrast, tax-aware long-short factor strategies provide two key advantages: the potential to outperform a passive index before tax and the ability to realize high net losses, which can offset a large portion of the CRUT's capital gain distributions. As a result, pairing a CRUT with tax-aware long-short factor strategies leads to significantly better long-term after-tax wealth outcomes compared to direct indexing or a market index fund. Beyond financial benefits, a CRUT-based approach allows investors to achieve philanthropic goals. Our findings suggest that investors and their advisors should integrate philanthropy and investment management to optimize wealth preservation and charitable impact.

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