Tax Matters

CRUTs, Tax-Aware Strategies, and Concentrated Stock Diversification

April 1, 2025

In an earlier post, we discussed how VPFs can be combined with tax-aware long-short strategies to tax-efficiently reposition a concentrated low-basis stock into a diversified portfolio with pre-tax alpha potential.

For charitably inclined investors, Charitable Remainder Unitrusts (CRUTs) offer an alternative solution with the following advantages:

- Allow an investor to pursue long-term philanthropic goals,
- Provide a charitable tax deduction in the year of contribution to the CRUT,
- Offer instant diversification of concentrated stock,
- Give the investor exposure to the performance of the assets held by the CRUT,
- Provide an investor with an income stream for multiple years,
- Defer the recognition of gain realized upon the sale of the stock until CRUT payments are received.

Our two latest papers focus on CRUTs. In the first, we demystify the mechanics of CRUTs and the taxation of their non-charitable beneficiaries. We explain that while the gain realized upon selling a concentrated low-basis stock within a CRUT does *not* result in an immediate tax liability, it will *still* be distributed to the investor over multiple years along with the CRUT payments. For this reason, a profitable and tax-efficient strategy held outside the CRUT may help the investor both accumulate wealth and offset some of those gain distributions.

Our second paper builds on the first. It shows that tax-aware long-short strategies can be a better choice for capital outside the CRUT than Direct Indexing. These strategies generate pre-tax active returns at the same time as they realize net capital losses. They also have been shown to realize substantially higher and more consistent net capital losses than Direct Indexing. Importantly, they can be funded with assets that the investor already holds outside the CRUT without the need to sell them—such as stocks, ETFs, mutual funds, and treasuries. Furthermore, they are not tied to an equity benchmark; investors can choose a benchmark that better aligns with their investment goals.

When implemented well, CRUTs can be a valuable tool, combining wealth preservation with philanthropy

When implemented well, CRUTs can be a valuable tool, combining wealth preservation with philanthropy. Our latest papers are meant to help investors maximize the benefits of these strategies.

This document is not intended to, and does not relate specifically to any investment strategy or product that AQR offers. It is being provided merely to provide a framework to assist in the implementation of an investor's own analysis and an investor's own view on the topic discussed herein.

This document has been provided to you solely for information purposes and does not constitute an offer or solicitation of an offer or any advice or recommendation to purchase any securities or other financial instruments and may not be construed as such. The factual information set forth herein has been obtained or derived from sources believed by the author and AQR Capital Management, LLC ("AQR") to be reliable but it is not necessarily all-inclusive and is not guaranteed as to its accuracy and is not to be regarded as a representation or warranty, express or implied, as to the information's accuracy or completeness, nor should the attached information serve as the basis of any investment decision. This document is not to be reproduced or redistributed to any other person. The information set forth herein has been provided to you as secondary information and should not be the primary source for any investment or allocation decision. Past performance is not a guarantee of future performance. Diversification does not eliminate the risk of experiencing investment losses.

This material is not research and should not be treated as research. This paper does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of AQR. The views expressed reflect the current views as of the date hereof and neither the author nor AQR undertakes to advise you of any changes in the views expressed herein.

The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Charts and graphs provided herein are for illustrative purposes only. The information in this presentation has been developed internally and/or obtained from sources believed to be reliable; however, neither AQR nor the author guarantees the accuracy, adequacy or completeness of such information. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. Diversification does not eliminate the risk of experiencing investment losses.

The information in this paper may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this document, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.