

# Making a Difference

## *Creative Ways to Leave Your Own Legacy*



### **Foreword**

Most of us, if given the chance, would like to leave some kind of lasting legacy to show that our lives have made a difference in society; that in some way, we have contributed to an important work or cause that will benefit the lives of others for generations to come. In the past, only a privileged few could create such legacies. But today, with the tax-favored ways of giving, many more of us can participate in this adventure and experience the intense joy that comes from being able to make a difference.

Giving can be very satisfying and rewarding, especially when donors combine it with their financial and estate planning. This process (often called planned giving) is becoming increasingly popular with donors, and for good reason. Many donors are able to do more for their favorite charities while also enjoying greater tax and financial benefits.

You may very well be able to save more taxes, increase your retirement income, or provide more cost-effective support for a loved one such as a spouse, child, grandchild, or an

elderly parent. But you also have the opportunity to make your personal statement, to make a larger gift than might otherwise be possible, to help shape our future, and to leave a lasting legacy for generations to come.

In this booklet we will highlight some of the opportunities available to you in planned giving — to give you food for thought. What specific plan is best for you will depend on your personal circumstances. Your tax and financial advisors should always be consulted in the decision-making process. Of course, we are willing and able to work with both you and your advisors to help ensure the intended result of your planned gift.



## Gifts of Cash

Cash is the most popular — and simplest — way to make a gift. Your gift is immediately available to support our programs, and every dollar you give is deductible in the year you make your gift.

Thus, a person in a 33% combined state and federal income tax bracket can give \$1,000 to a qualified charity at an after-tax cost of \$670; and a person in a 41% combined bracket can give \$1,000 at an after-tax cost of only \$590.

### Limitations on the Charitable Deduction

The income tax charitable deduction generally cannot exceed 50% of your adjusted gross income (AGI). For example, a donor with an AGI of \$90,000 can deduct cash gifts of up to \$45,000. However, the amount of the gift in

excess of this 50% limitation can be carried over and deducted the next year.

## Gifts of Marketable Securities

Gifts of long-term appreciated securities are the most popular type of outright property gift. These securities are often individual stocks, but may be bonds or shares of mutual funds. Outright gifts of securities can be made quickly and easily and can enable you to do more with your gift because of the tax benefits.

For appreciated property held long-term, the full fair market value of securities given to charity is generally deductible. For example, if you give shares of a stock that is now worth \$10,000, you can deduct this full amount on your income tax return (subject to certain income limitations), even though you may have bought the stock for substantially less.

The value of the stock — and the amount of your charitable contribution — is the mean between the highest and lowest selling price on the date of the gift, or the mean between the bid and asked price on the date of the gift. If possible your gift should be made on a day when the market value of the stock is relatively high.

A charitable gift of securities is not considered a sale of the securities and does not result in any capital gains tax. This is an important tax reward provided by Congress to encourage gifts of appreciated property. No matter how much the securities have appreciated in value, a charitable gift will not make any part of your paper profit taxable. The result: a charitable deduction is allowed for profits that have never been taxed to you. And, if we sell the securities, we keep every penny of the proceeds since we are exempt from income tax.

### Limitations on the Charitable Deduction.

The income tax charitable deduction allowable for a gift of long-term appreciated securities cannot exceed 30% of your adjusted gross income in the year of the gift. Any excess over 30% can be carried over and deducted for up to five years.

In addition, there is an important exception to the general statement that the full fair market value of the stock or bond is deductible. If a

sale of the security on the date of the gift would give rise to ordinary income or short-term capital gain — as distinguished from a long-term capital gain — the charitable deduction is limited to your “adjusted cost basis” for the security, not its fair market value.

## Gifts of Real Estate

When appreciated real estate is given to us, capital gains taxes can be completely avoided and the full fair market value of the property is generally deductible as a charitable contribution. (We are assuming that the real estate has been held long-term and that the donor is not in the business of buying and selling real property.)

### *Gift of a Fractional Interest in Real Estate*

Federal tax laws permit a donor to take a charitable deduction for gifts of fractional interests in real estate. This type of gift can be especially rewarding if you own a vacation home that you use only part of the year.

**Example:** Mary and Jim own a \$300,000 vacation home that they use for only two months of the year. They can give our institution a 50% interest in the property, secure a tax deduction for the value of our interest in the property, and still have a right to use and occupy the property for up to half the year.



### *Gift of a Remainder Interest in a Personal Residence or Farm*

A special provision of the tax law allows an immediate income tax charitable deduction for a gift of a remainder interest in your home or farm. You retain an absolute right to occupy

the home or farm for your life (or the life of a family member). The property passes to us only after termination of the life estate(s).

The charitable deduction allowable for this future gift is the present value of our right to receive the property at some later date. The age of the life tenant is the primary factor in determining the present value of our deferred interest and the charitable deduction. The gift is deductible in the year of the transfer (subject to the income limitations).

## Gifts of Tangible Personal Property

Antiques, artwork, jewelry, and book collections are just a few examples of tangible personal property that our friends have used to make charitable gifts to us. The full fair market value of such assets is generally deductible provided the gift asset is used for our charitable exempt purpose. Otherwise, the deduction is limited to your adjusted cost basis.

While the maximum capital gains tax rate for most other long-term appreciated assets has been reduced to 15%, the maximum rate for certain tangible personal property considered “collectibles” remains 28%. The upshot is that a well-planned gift of collectibles may generate a larger capital gains tax savings than other long-term appreciated property (28% vs. 15%), assuming, of course, it is used for our charitable exempt purpose. Our development team can help you plan your gift so that you reap the maximum tax benefits.

## Gifts of Life Insurance

Many of our friends have life insurance policies that are no longer needed for their security or that of their families. A good example might be a policy acquired to assure a child’s education, when the child is now out of school.

When a donor gives us a life insurance policy that is paid up, the fair market value the donor can deduct is the cost to replace the policy with a single-premium policy. Or, if premiums remain to be paid on the policy, the fair market value is considered to be the interpolated terminal reserve (slightly less than the cash

surrender value) plus unearned premiums. In either case, the donor should deduct the either the fair market value or the cost basis (whichever is less).

## Gifts of Closely Held Stock

A charitable gift of closely held stock presents a unique opportunity for some of our supporters, especially if the closely held corporation has substantial accumulated profits. The reason: After the gift has been made, the corporation can buy back the stock and retire it, so long as there's no prearranged plan. Of course, the fair market value of the closely held stock is deductible as a charitable contribution and there is no capital gains tax no matter how much the stock has appreciated in value.

**Example:** Henry owns 85% of the stock of a successful advertising business worth about \$1,000,000. The corporation has substantial accumulated profits, but Henry would realize taxable income if these profits were distributed to him. Since he has a minimal basis in his stock, Henry is unwilling to subject \$850,000 of appreciation to the 15% capital gains tax (\$127,500 in capital gains taxes).

Instead, Henry gives 5% of the corporate stock to our institution and deducts \$50,000 as a charitable contribution. Later, his corporation buys the stock for \$50,000 from our organization.

"In my 35% tax bracket, I gained \$17,500 tax savings from the charitable deduction," Henry explains, "and I still own a controlling interest in the corporation."

## Life Income Plans — Gifts with a Retained Income

In addition to outright transfers of cash or property, gifts can be made with a right to retain income. Such arrangements — often called life income gift plans — are becoming increasingly popular with donors because both donor and charity can benefit.

Under a well-planned life income arrangement, you often can increase your spendable income, reduce taxes and, at the same time,

make a gift that will have a substantial impact on our future. You benefit now and we benefit later, after you have enjoyed all of your financial and tax benefits.

## Charitable Remainder Trusts

One method of making a gift with a retained right to income is a charitable remainder trust. A charitable remainder trust will provide:

- An income for you and/or your beneficiaries selected by you for life or a period of up to 20 years.
- An immediate and substantial income tax charitable deduction (subject to the annual AGI limitations).
- The potential avoidance of current capital gains taxes when the trust is funded with long-term appreciated property.
- Reducing the donor's estate to avoid or reduce death taxes.
- A substantial reduction of probate costs and estate taxes.

### The Charitable Remainder Annuity Trust

Typically, this type of charitable remainder trust instructs the trustee to pay a fixed income to the donor (and/or other beneficiaries) each year for life, and to transfer the property to a qualified charitable institution such as ours upon the death of the donor or other designated income beneficiary(ies).

For example, a donor transfers assets worth \$300,000 to a charitable remainder trust and directs that an income of \$15,000 a year be paid to her for as long as she lives. The trustee is to hold and invest the property during the life of the donor and will make the required payments to the donor each year out of income or principal. Upon the death of the donor, the trust property will be paid to our institution.

### The Charitable Remainder Unitrust

The charitable remainder unitrust differs from the annuity trust in one very important way — rather than a fixed-dollar income, the unitrust arrangement must provide for income payments that vary with the annual value of the

trust. Specifically, the unitrust must direct that the trust assets be valued each year and that a specified percentage of the value be paid to the individual beneficiary or beneficiaries. If the value of the trust assets goes up, the annual payments go up. But the reverse is also true — the annual payments will decrease if the value of the trust assets decreases.

One other feature of the unitrust should be noted: You can make additional contributions to a unitrust, whereas they are prohibited with an annuity trust.

Otherwise, the unitrust is quite similar to an annuity trust. The donor can select the individual beneficiaries, fix the percentage of value that will be paid to these beneficiaries, and direct the period of time during which income benefits will be paid. The trust can be funded with most kinds of property, and the donor can select the trustee. The donor can name one or more qualified charities to receive the trust property when the income rights terminate.

### **An Immediate Charitable Deduction**

Subject to AGI limitations, our tax laws allow an immediate income tax deduction for a gift to a charitable remainder trust, even though income is to be paid to the donor (and/or other beneficiaries) for life. The exact amount of the charitable deduction depends on: (1) the value of the property transferred to the trust; (2) the amount of income benefits that are payable each year to individual beneficiaries; (3) the approximate length of time the income benefits will be paid; and (4) the interest rates prevailing at the time the gift is made.

Despite the tax and financial benefits of a charitable remainder trust, you should consider such a trust only if it fits in with your broad estate, tax and financial plans. While the charitable remainder trust is the most flexible of the life income plans, there are other life income plans worth exploring.

### **The Charitable Gift Annuity**

A gift annuity is an agreement between you and our organization under which we agree to pay you fixed payments for your life (and/or the life of your chosen beneficiary). The amount of the annuity is based on the age of the annuitant(s) and the amount of the gift.

The gift annuity is very popular for several reasons: It requires only a modest contribution and you can fund it with cash or marketable securities. You can receive an immediate income tax charitable deduction for the gift (subject to AGI limitations), and possibly spread out any capital gains tax liability. What's more, part of your annuity payments may be federal income tax-free. As a donor you can select the payment intervals (usually quarterly) and name your beneficiaries (usually yourself and/or another).

Middle-aged professionals, particularly those who regularly max out their annual retirement plan contributions, may want to consider the deferred gift annuity. Under this arrangement, you receive your income tax deduction now during your high income years and postpone your annuity payments until later (usually after retirement) when you may be in a lower tax bracket. In so doing, you can effectively supplement your retirement savings and make a substantial gift, one that can leave a lasting legacy for us. Your payments are greater than with a regular gift annuity, as well.



### **The Pooled Income Fund**

A pooled income fund is a charitable trust that operates somewhat like a mutual fund. Your gift is combined with those of other donors, and you receive an assigned unit based on the amount of your gift. The fund then pays you a quarterly income — your pro rata share of the fund's income — based on the experience of the fund. You receive an income tax charitable deduction for the present value of our remainder interest.

The pooled income fund may appeal to middle-aged donors who wish to receive a variable income, one that can grow with the fund and possibly serve as a hedge against inflation. Additional contributions can be made to the fund to provide further benefits to the donor and our institution. It's another way that you are rewarded for creating a charitable legacy.

## The Charitable Lead Trust

The charitable lead trust is almost a mirror image of the charitable remainder trust. Under a lead trust arrangement, an annual income from the trust is paid to a qualified charitable organization such as ours for a specified period of years, with the principal of the trust passing to non-charitable beneficiaries (often your children or grandchildren) upon expiration of the trust.

Thus, the lead trust is a technique for making a “temporary gift” of income to a charity and eventually passing the property to individual beneficiaries. Because the value of the charitable interest is tax-deductible for gift and estate tax purposes, the lead trust often is used to reduce these transfer taxes while ultimately passing ownership to family members.

*Example:* Margo's will establishes a \$1,000,000 lead trust which directs that the sum of \$50,000 be paid to a designated charity each year for ten years after her death. At the end of ten years, the trustee is directed to transfer all the trust assets to Margo's daughter. While Margo will not realize any income tax benefit for this trust, at her death her estate will be able to claim an estate tax charitable deduction for the present value of the charity's interest, even though her daughter ultimately is likely to receive \$1,000,000 (or more if the property appreciates in value while held in trust). Just as importantly, Margo has the personal satisfaction of knowing she will provide \$500,000 over a ten-year period to help support her favorite charity.

## Charitable Bequests

The most popular planned gift is the simple charitable bequest. Bequests are popular because they give you the opportunity to leave

a lasting legacy. When you make a charitable bequest, you retain full use of your property during life, so there is no disruption of your lifestyle, and no immediate out-of-pocket costs. You simply direct that part of your estate go to one or more of your favorite charities. That's one reason why it's so important that you have a will. A will gives you the opportunity to direct the use of your “social capital” through bequests; without a will, the government may very well make that decision for you.

Since a charitable bequest can take many forms, you have considerable flexibility. You can leave a specific asset, a specific sum of money, a percentage of your estate or what remains of your estate after you have provided for other beneficiaries. You can designate exactly how you want your bequest to be used or leave it unrestricted so that we have the flexibility to meet our ever-changing needs. Most importantly, you can change any bequest provision during your life, which means you remain in complete control of the process.

### GIFTS OF RETIREMENT ASSETS

More and more astute donors use retirement account assets in their charitable gift planning. The reason is that retirement account assets left to loved ones may be subject to higher taxation than other types of assets. By using retirement account assets to fund your charitable bequest (and leaving different assets to family members) you may be able to reduce taxes that otherwise would be imposed on those assets and leave more to your intended beneficiaries.

While a bequest offers no income tax benefits, it is fully deductible for estate tax purposes when basic requirements are met. And, keep in mind, for estates that are subject to the estate tax, the tax rates are higher than income tax rates.

If you wish to make a bequest (or you have already done so) it's important to let us know for two reasons: One, we want the opportunity

to thank you for your commitment and generosity. Two, we also want to help you plan your bequest so that you get the most satisfaction out of it. Whether your bequest is large or modest, good planning can magnify its impact.

We invite you to consider the impact you can have through a charitable bequest. Making a bequest is quite easy. Or, if you already have a will, you can have your attorney include us through a simple codicil (an amendment to your will). We can provide you and your attorney with the suggested language for the various forms of bequests or other pertinent information which may be helpful to you.

### **Alternatives to a Bequest**

There are other ways to make a “bequest” type of arrangement without a will. You can make similar beneficiary designations with a life insurance policy, a revocable trust or retirement plan. Making a charitable organization the beneficiary of a retirement plan can provide income tax relief for your heirs in addition to other potential estate tax savings.

We will be happy to discuss with you the best way to include us in your plans. Whether you

make a bequest to us under your will or include us as a beneficiary in one of your other plans, keep in mind: These arrangements are revocable, which means you can maintain control over your assets and make changes in your beneficiary designations should circumstances so dictate.

While tax savings are usually confined to estate taxes, the potential savings can be tremendous in view of the severity of the estate tax. But, more importantly, you have the opportunity to direct your hard-earned assets to a charitable cause that you know can make a difference in the quality of life in our society.

### **A Final Word**

The purpose of this booklet has been to introduce the options for planned giving. Because of the tax benefits deliberately provided by Congress, you can give different kinds of assets, give them in different ways, and strategically plan so that you can do more for your favorite charities while doing more for yourself. As a result, you, and so many others, can experience the joy of giving and leaving a legacy that will be remembered for generations to come.

