

Planned Endowment Gifts

Clinton A. Schroeder, Esq.

Robert A. Harding, Esq.

Gray Plant Mooty

500 IDS Center

80 South Eighth Street

Minneapolis, Minnesota 55402

612.632.3000

clinton.schroeder@gpmlaw.com

Miles W. McNally, CLU, ChFC

F. Thomas McNally

Mc & D., Inc

1314 Marquette Ave

Suite 706

Minneapolis, MN 55403

612.673.9125

miles.mcnally@mdlinc.com

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This publication is made with the understanding that the authors are not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional in the field of law, accounting, or insurance should be sought. Remainder Interest and Deduction calculations have been adapted from *PG Calc* Incorporated, 129 Mount Auburn Street, Cambridge, MA, 02138. **Note: Discount Rate under IRC Section 7520(a) for calculations is the September 2007 rate of 5.8%.**

INTRODUCTION

This booklet provides a concise summary of the most common methods of making charitable gifts—many while retaining income interests, with current tax deductions generated for remainder gifts.

The examples demonstrate the three principal advantages of the deferred or “life income” gift plans:

- **Current** Charitable Tax Deduction for the remainder interest
- **Potentially enhanced income stream**, either for life or a period of years
- **Avoidance of current taxation** on long-term capital gains

In addition, several other methods of making gifts (effective at death) are described in the next several pages, including

- Bequest by Will or Revocable Trust
- Testamentary Charitable Remainder Trusts
- Use of IRA or Qualified Plan
- Charitable Retirement Plan (IRA) Rollover
- User of Variable (Deferred) Annuities
- Charitable “Lead” Trust

An exciting solution to the maintenance cost of an expensive vacation home involves retention of a Life Estate for donor & spouse, and gift of the Remainder Interest to charity in exchange for a gift annuity. At older donor ages, annuity income can exceed taxes and maintenance costs, in which case the donors can enjoy free use of the vacation property for their lifetimes – with a major deductible gift of the property (and future growth) to charity! This concept is explained under the Gift Annuity tab.

The final page “*Which Plan is Best*” makes suggestions of the first and second choice, based on the needs of the donor and spouse.

Discount factors used throughout in the examples use the Applicable Federal Funds Rate + 20% of 5.8% (for September 2007). The AFR is adjusted monthly.

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CHARITABLE REMAINDER ANNUITY TRUST

WHAT IT IS...

Transfer of Property to Trustee, with fixed income retained

- Fixed Sum (at least 5% of initial value)
- Payable at least annually to someone (other than the charity)
- Duration of Income: up to 20 years or for life (typically for one or two lives)

HOW IT WORKS...

DONOR:

signs trust agreement
selects self and/or others as beneficiaries
decides amount of income to be paid
decides duration of payments
transfers property to trustee
deducts present value of gift
(fair market value less present value of income stream)

TRUSTEE:

invests property to sustain income
pays fixed income to beneficiary
distributes property to charity when specified period for payments expires

CHARITY:

receives unrestricted capital gift when payment period ends

ADVANTAGES...

- ✓ Gift to charity without loss of income
- ✓ Current income tax deduction allowed for future gift
- ✓ Funding with appreciated asset generates no capital gains

DONOR CAN RETAIN GUARANTEED INCOME DURING HIS OR HER LIFETIME

CHARITABLE REMAINDER ANNUITY TRUST EXAMPLE

Robert Larson is a single male, age 75, who has municipal bonds with a present market value of about \$50,000, with a current yield of 3.5%. He has indicated that on his death he wishes to have these bonds go to charity. What plan might be an alternative to waiting until donor's death to make the gift?

VALUATION OF ANNUITY TRUST GIFT

Transfer of Bonds to Annuity Trust.....	\$ 50,000
(Fair Market Value @ Transfer)	
Age of Donor	75
Payments of Specified Amount	3,250.00
(Selected by Donor @ 6.5%, payable annually at end of year)	
Table S present worth of single life annuity*	7.3235
Present Value of Annuity Interest.....	23,801.50
Present Value of Remainder Interest	\$ 26,198.50
To Charity (the tax deduction)	

CONCLUSION

Donor retains current tax-free income	\$ 3,250
(Provided Trustee retains Municipal Bonds)	
Donor makes charitable gift.....	26,199
which may be deducted against taxable income (may be deducted over current and 5 succeeding years)	
Charity receives Bonds at Donor's death.....	\$ 50,000

CAUTION!

If donated property is appreciated securities, annuity payment taxed on pass-through basis first as ordinary income, then as capital gain income, then as tax-free income, then as principal. If prior agreement exists that appreciated property will be reinvested in tax-exempt bonds, *donor may be taxed on capital gain.* (Rev Rul 60-370)

*Regulations §20.2031; Discount Rate under IRC Sec. 7520(a) for Sept, 2007

Charitable Remainder Annuity Trust

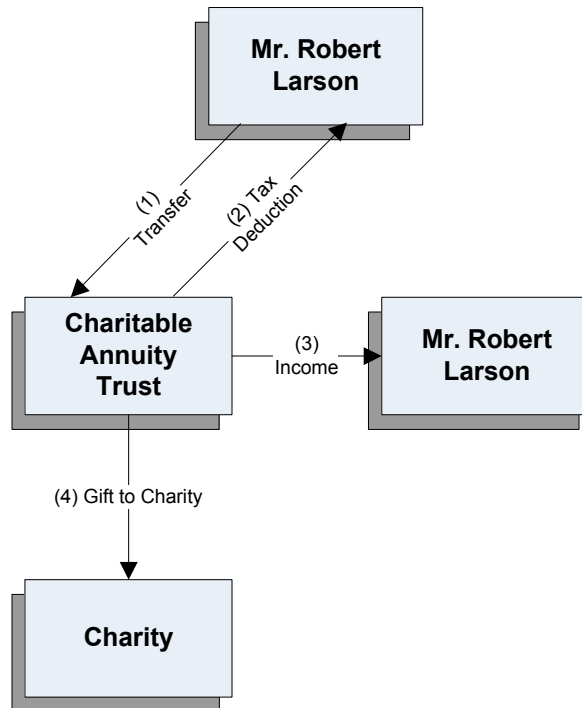
Mr. Robert Larson will create a Charitable Remainder Annuity Trust which will pay fixed income to Mr. Larson for his lifetime. The charity will receive the asset at his death

STEP 1: Mr. Larson transfers \$50,000 in Bonds to the trust and selects 6.5% annuity rate paid annually for his life.

STEP 2: Mr. Larson receives a current income tax deduction of \$26,199.

STEP 3: Mr. Larson receives \$3,250 in income every year, even if trustee must invade principal to pay income.

STEP 4: At the end of the term of the trust, the charity will receive the remainder of the assets in the trust.



- ☞ By donating the remainder interest to charity now, Mr. Larson generates a substantial tax deduction (which can be used to offset other taxable income)
- ☞ Mr. Larson selects the income level at the time of the gift, and receives that income for his lifetime.
- ☞ The Trustee pays the fixed income desired to Mr. Larson for his lifetime, and pays the principal of the trust to the Charity at his death.

Charitable Lead Annuity Trust (Living Grantor Trust)

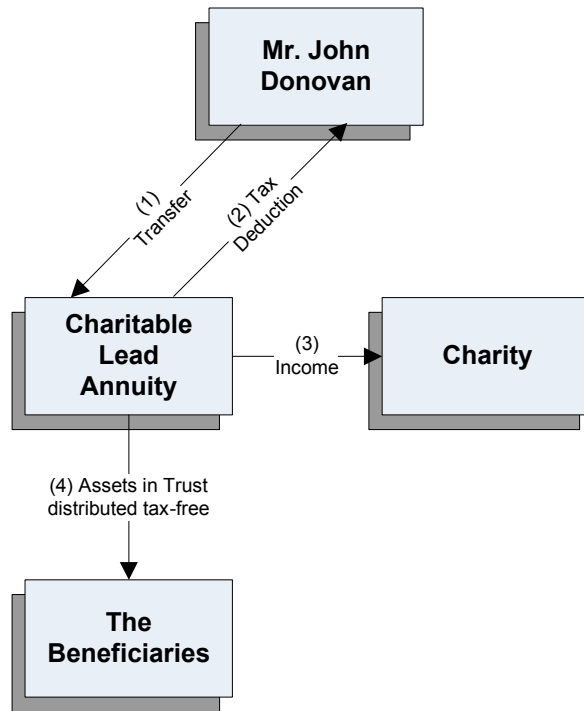
John Donovan, will create a 6% Living Charitable Lead Trust, which will pay income to the charity until the end of the trust, at which time the assets are given to the beneficiaries (typically heirs).

STEP 1: John transfers \$500,000 to the trust.

STEP 2: John makes a charitable gift of \$295,215 and the heirs' remainder gift is discounted to \$204,785 (a gift of a future interest).

STEP 3: The charity receives \$30,000 in income every year for a period of 15 years. John pays income tax on the trust's entire income (including income paid to charity).

STEP 4: At the end of the term of the trust (15 years), the beneficiaries receive the assets (including any appreciation) without paying any taxes or probate fees.



- ☞ Donor gifts stock to heirs today, reserving income stream of fixed amount (\$30,000 annually) to designated charities for 15 years
- ☞ Donor makes current deductible charitable gift of \$295,215
- ☞ Heirs must wait 15 years to receive Trust Assets (until income stream to charity stops), but receive any appreciation free of tax
- ☞ Gift Tax Value of current gift to heirs discounted by present value of income stream to charity (considered Grantor Trust, so Donor will be taxed on entire Trust Income)

Discount Rate under IRC Section 7520(a) for Sept, 2007

Charitable Lead Annuity Trust (Living Non-Grantor Trust)

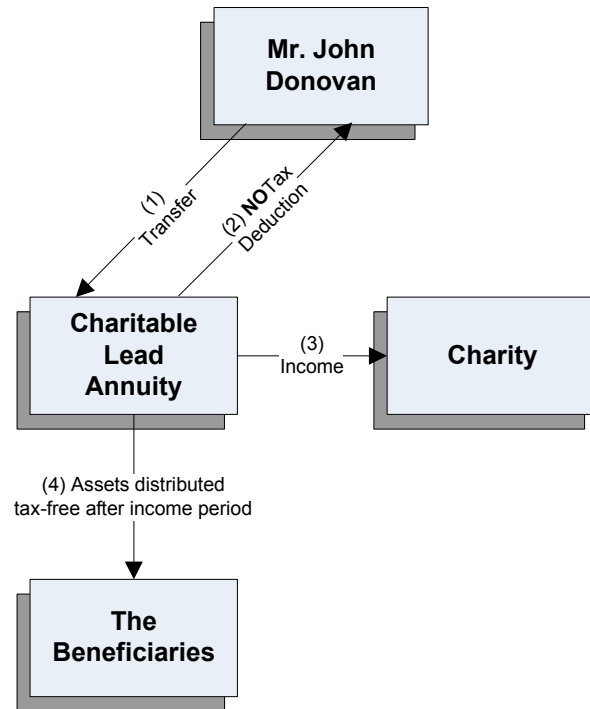
John Donovan, will create a 6% Living Charitable Lead Trust, which will pay income to the charity until the end of the trust, at which time the assets are given to the beneficiaries.

STEP 1: John transfers **\$500,000** to the trust.

STEP 2: John receives no income tax deduction, but the taxable gift to heirs is discounted to **\$204,785**.

STEP 3: The charity receives **\$30,000** in income every year for a period of 15 years. The Trust pays taxes on the trust's income, less deduction for annual payment to charity.

STEP 4: At the end of the term of the trust (15 years), the beneficiaries receive the assets (including any appreciation) without paying any taxes or probate fees.



- ☞ Donor gifts stock to heirs today, reserving income stream of fixed amount (\$30,000 annually) to designated charities for 15 years
- ☞ Heirs must wait 15 years to receive Trust Assets (until income stream to charity stops), but receive any appreciation free of tax
- ☞ Gift Tax Value of current gift discounted by present value of income stream to charity (since considered non-Grantor Trust, the Trust is taxed on Trust Income less charitable deduction for annual payment to Charity)

Discount Rate under IRC Section 7520(a) for Sept, 2007

CHARITABLE REMAINDER UNITRUST

WHAT IT IS. . .

Transfer of Property to Trustee, with income retained

- Fixed Percentage (at least 5%) of trust's market value (redetermined annually)
- Payable at least annually to someone (other than Charity)
- Duration of Income: up to 20 years or for life (typically for one or two lives)

HOW IT WORKS. . .

DONOR:

- signs trust agreement
- selects self and/or others as beneficiaries
- decides percentage and duration of income to be paid
- transfers property to trustee
- deducts present value of gift
(fair market value less value of income stream)

TRUSTEE:

- invests property to provide income
- pays directed percentage to beneficiary
- distributes property to charity when specified period expires

CHARITY:

- receives unrestricted capital gift when payment period ends

ADVANTAGES. . .

- ✓ Gift to charity without loss of income
- ✓ Current income tax deduction allowed for future gift
- ✓ Funding with appreciated asset generates no current taxable capital gain
- ✓ Income at desired percentage, without regard to current investment return

**INCOME VARIES WITH MARKET CHANGES,
WITH POSSIBLE HEDGE AGAINST INFLATION**

CHARITABLE REMAINDER UNITRUST EXAMPLE

Mrs. Gray, age 80, owns stock in Apex Company (currently worth \$200,000), which she inherited from her husband (stock then worth \$80,000). Dividends are only \$2,000 per year. Mrs. Gray would like to convert the stock to a high income investment, and avoid paying taxes on the appreciation over basis. She is willing to donate the stock to charity, but needs more income for her lifetime.

RECOMMENDATION

Transfer stock to Charitable Remainder Unitrust, retaining an 8% lifetime income based on annual market value. The Trustee can sell stock (with no Capital Gains Tax) and purchase investments for growth and income. Trustee pays donor 8% of market value, selling investments if necessary to generate funds. When Mrs. Gray dies, Trustee pays principal to Charity.

VALUATION OF GIFT TO CHARITY

Annual Income @ 8% for life to Mrs. Gray	\$ 16,000
(Rate selected by Mrs. Gray – taxed on pass-through basis)	
Capital Gains Tax Payable by Mrs. Gray	0
Charitable Gift* @ age 80	\$112,782
(Mrs. Gray may deduct up to 30% of her adjusted gross income; excess can be carried forward up to 5 years.)	

INCOME VARIATIONS

When she creates the trust, Mrs. Gray can select an alternate format: trust can provide that Mrs. Gray receives actual trust income if less than specified percentage with “makeup” provision if trust income exceeds percentage in later year.

*Regulations §1.664-4(b)(5); Discount Rate under IRC 7520(a) for Sept, 2007

Charitable Remainder Unitrust

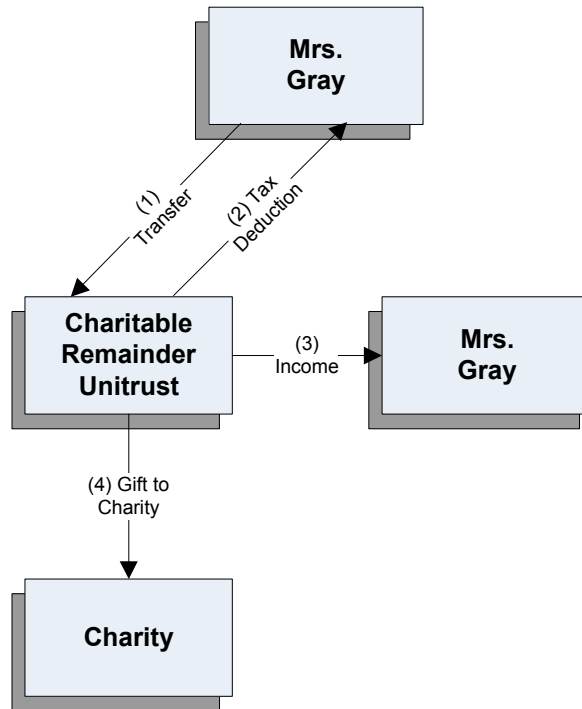
Mrs. Gray will create a Charitable Remainder Unitrust which will pay income to Mrs. Gray for her life, at which time the charity will receive the remainder.

STEP 1: Mrs. Gray transfer's \$200,000 to the trust; trustee may reinvest property to generate higher income or growth.

STEP 2: Mrs. Gray receives a current income tax deduction of \$112,782

STEP 3: Mrs. Gray receives 8% of the annual value of the trust as income each year.

STEP 4: At the end of the term of the trust, the charity will receive the remainder of the assets in the trust.



- ☞ By donating the remainder interest to charity now, Mrs. Gray generates a substantial tax deduction (which can be used to offset other taxable income).
- ☞ Mrs. Gray selects the percentage income at the time of the gift (which may be greater than the income generated by the property).
- ☞ The Trustee can sell the property (without the Capital Gain being taxed to Mrs. Gray) and reinvest to produce growth and/or higher income. The Trustee pays the principal of the trust to the Charity at her death.

Discount Rate under IRC Section 7520(a) for Sept, 2007

REMAINDER UNITRUST ONE LIFE

Effect of Various Payout Rates

Mrs. Gray

INPUT ASSUMPTIONS:

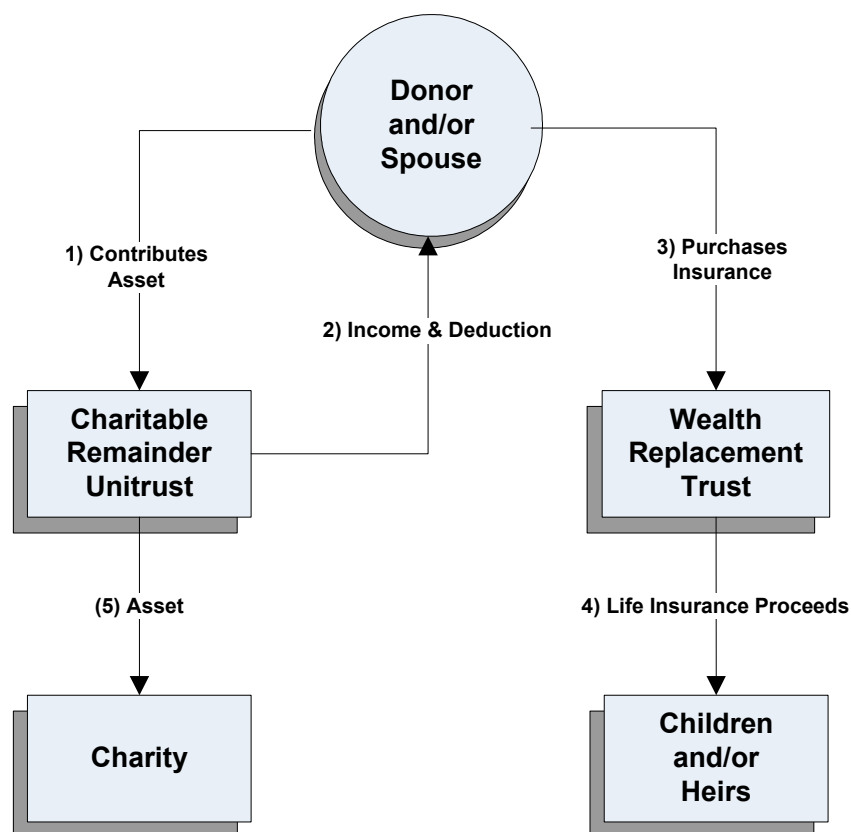
Date of transfer 12/13/2007
 Fair market value of property transferred\$ 200,000.00
 Unitrust payout rate See below
 Payment Frequency..... Annually
 Number of months between the valuation date
 and the first payout for the first full taxable year of the trust 12
 IRC § 7520(a) election to use September 2007 discount rate of 5.8%
 The mortality table is based on the census taken in..... 1990
 Adjusted cost basis of property transferred \$ 80,000.00
 Mrs. Gray's age on the date of the gift is 80

Payout Rate	Deduction Factor 5.8%*	Deduction Amount
5.00%	0.68923	137,846
5.50%	0.66580	133,160
6.00%	0.64346	128,692
6.50%	0.62216	124,432
7.00%	0.60184	120,368
7.50%	0.58243	116,486
8.00%	0.56391	112,782
8.50%	0.54621	109,242
9.00%	0.52929	105,858
9.50%	0.51311	102,622
10.00%	0.49764	99,528
11.00%	0.46865	93,730
12.00%	0.44206	88,412
13.00%	0.41763	83,526
14.00%	0.39514	79,028
15.00%	0.37441	74,882

From PG Calc - PG Calc Software, ©2007

CAUTION! If charity is Trustee, it must agree to payout rate, which affects value of remainder payable to charity

Replacing Asset Value for Heirs

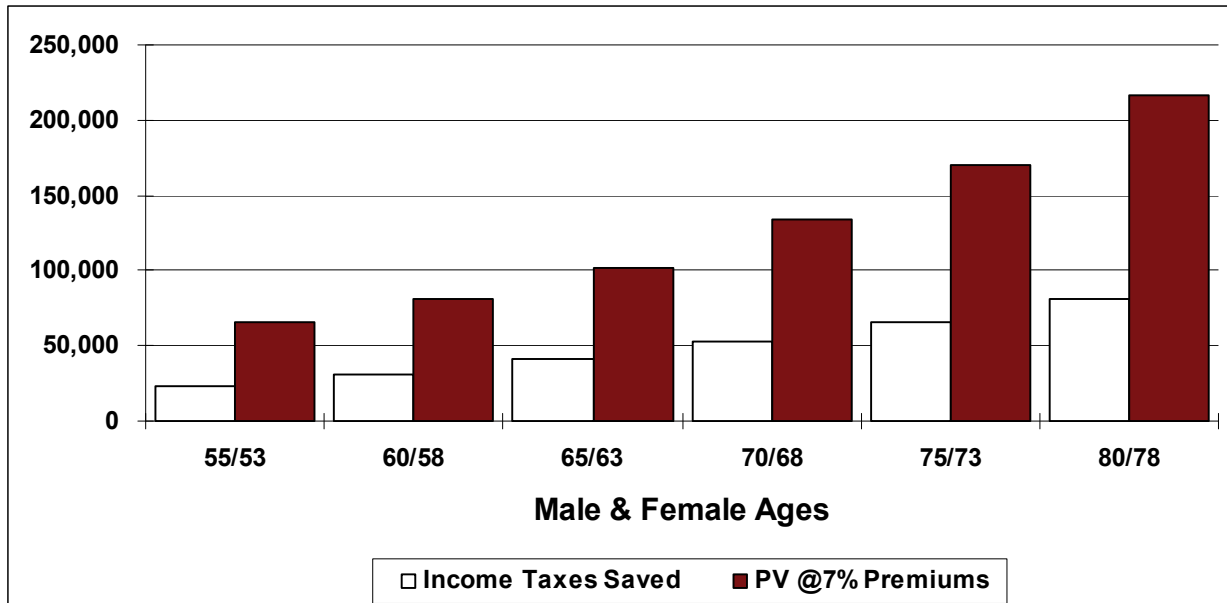


Tax Effective Charitable Gift/Wealth Replacement

- 1) Donor transfers appreciated property to Unitrust, retaining income stream of selected percentage of principal (without tax liability on realized capital gain).
- 2) Donor **receives income tax deduction** for present value of remainder interest (directed to charity) and **receives income stream for lifetime of donor and spouse**.
- 3) Using tax savings and increased income, donor contributes cash annually to a properly drafted irrevocable “Wealth Replacement” trust, which purchases and pays premiums on survivorship life insurance on donors’ lives to **replace all or part of the donated asset value to heirs**.
- 4) At death of donor and spouse, insurance proceeds pass **estate and income tax-free**^{*} to the heirs, replacing all or part of the asset value directed to charity.
- 5) Principal of the Charitable Remainder Unitrust is distributed to the charity at the second death, creating a major contribution to the Charity’s Capital Funds.

* Proceeds excluded from taxable estate if (1) properly drafted Irrevocable Trust created before insurance purchase, and Trustee applies for insurance, or (2) donor who owns insurance policy transfers it to Irrevocable Trust and dies more than 3 years later.

100% WEALTH REPLACEMENT
Tax Savings on \$500,000 7% Unitrust



To Fund Survivorship (“Second to Die”) Life Premiums
PARTIAL WEALTH REPLACEMENT

Male Ages	Female Ages	Charitable Deduction	Income Taxes Saved @40%	Present Value 7% Of Premiums	% of Wealth Replaced
55	53	67,210	23,524	65,802	35.75%
60	58	89,390	31,286	81,375	38.45%
65	63	116,775	40,871	101,999	40.07%
70	68	149,945	52,481	134,375	39.06%
75	73	188,565	65,998	170,448	38.72%
80	78	232,030	81,211	216,679	37.48%

- 1) Although income stream retained for lifetime of either donor, charitable gift of remainder interest creates current tax deduction, usable over 6 years up to 30% Adjusted Gross Income if appreciated property.
- 2) Dividend Additions purchased in earlier years enable dividends to offset premiums after 12-16 years*, with future premiums paid by applying current dividends and **surrender of additions. The Wealth Accumulation Trust is a separate taxpayer**, so Trustee should invest in tax-deferred property. (Present Value assumed @ 7%)
- 3) If asset retained in donor’s estate, value may be eroded by Federal Estate Tax at a rate of 45%, so partial replacement creates gain in value to heirs.

* Based upon 2007 standard, non-smoker rates and dividend projections of Life Insurance Company. Dividends payable on current scale – all dividend projections **NOT GUARANTEED**.

POOLED INCOME FUND

WHAT IT IS. . .

Transfer of Property to pooled trust (pooled income fund), with **income retained**

- **Earned income** paid annually to one or more individuals for life
- Contribution **pooled with** those of **other donors**

HOW IT WORKS. . .

DONOR:

transfer property to an existing pooled income fund maintained by charity
selects one or two beneficiaries
deducts present value of gift
(fair market value of transferred property less present value
of income stream)

CHARITY:

invests pooled income fund's property to generate income
(other than in tax-exempt securities)
pays income for life to donor and/or other beneficiaries
receives appropriate portion of pooled income fund's assets at
death of survivor beneficiary

ADVANTAGES. . .

- ✓ Ultimate gift to Charity without loss of income
- ✓ Current income tax deduction allowed for future gift
- ✓ Values based on current market value, without triggering taxable capital gain
- ✓ Beneficiary and/or donor retains lifetime income

**LIFE INCOME VARIES WITH MARKET CHANGES, WITH
POSSIBLE OFFSET AGAINST INFLATION**

POOLED INCOME FUND EXAMPLE

Virginia Sanborn purchased shares in several mutual funds that have done well, and are now worth \$30,000. She wishes to lock in the values and higher income for retirement. She wants to protect against future inflation, direct the value of the shares to her favorite charity, and avoid paying capital gains taxes.

RECOMMENDATION

She transfers her mutual fund shares to the Charity's pooled income fund and is assigned units representing an income interest. The Fund Manager can sell those shares (with no Capital Gains Tax). She receives a pro-rata share of the income generated by the Fund.

VALUATION OF GIFT TO CHARITY

Assumed Income on \$30,000 market value.....	\$ 2,100
(Based on Pooled Income Fund's historical return of 7%)	
Capital Gains Tax payable by Virginia.....	0
Charitable Gift* @ age 70	\$ 13,337
(Virginia may deduct up to 30% of her adjusted gross income in Charitable Tax Deductions; excess may be carried forward up to 5 years)	

ADDITIONAL CONTRIBUTIONS

Virginia can acquire additional units at any time, if she likes the way the Fund is administered. Her income will reflect the earnings of the Fund, and may increase or decrease as the income from the Fund's investments changes.

*Regulations §20.2031; Discount Rate under IRC Sec. 7520(a) for Sept, 2007

Pooled Income Fund

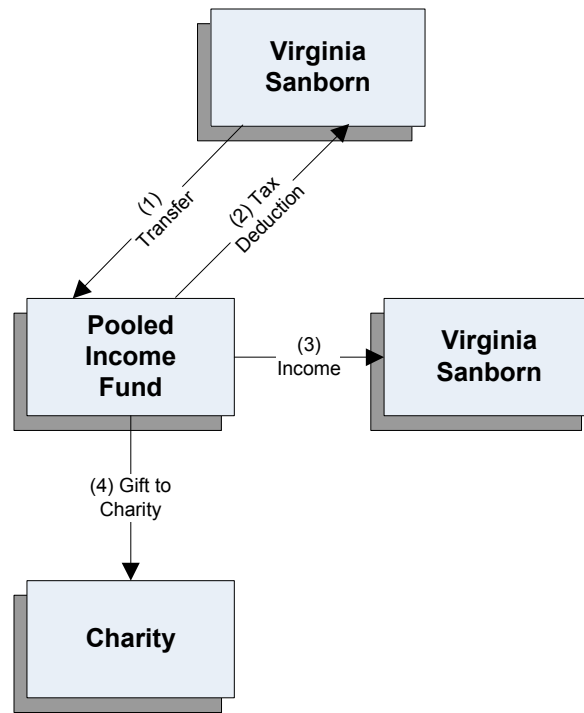
Virginia transfers her mutual fund shares for units to her Charity's Pooled Income Fund and receives units in the Fund. The Fund will pay income to Virginia for her lifetime, with Charity receiving the remainder attributable to her units at death.

STEP 1: Virginia transfers \$30,000 of mutual fund shares to her Charity's Pooled Income Fund and receives units in the fund.

STEP 2: Virginia receives a current income tax deduction of \$13,337.

STEP 3: Virginia receives the income allocated to her units in the Fund.

STEP 4: At Virginia's death, the Fund Manager pays the value of her units to Virginia's charity.



- ☞ By donating the remainder interest to her Charity now, Virginia generates a substantial tax deduction (which can be used to offset taxable income)
- ☞ Virginia “locks in” the gains on her mutual fund investments, converts the shares to high income units (without paying capital gains tax)
- ☞ The Pooled Fund Manager pays Virginia her share of the Fund income, and pays her share of the Fund to her Charity at Virginia's death

CHARITABLE GIFT ANNUITY

WHAT IT IS. . .

- An **annuity** for one or two lives payable directly by the Charity, with all of the **Charity's assets backing** the annuity payments.

HOW IT WORKS. . .

DONOR:

transfers cash or appreciated property to Charity in exchange for its promise to pay annuity

ANNUITANT:

acquires Life Annuity from Charity (with amount of the annuity based on the age of the annuitant at the time of the transaction)
recovers "basis" (investment in the annuity) tax-free over annuitant's lifetime
if donor is an annuitant, spreads "bargain sale" gain over lifetime

CHARITY:

receives outright transfer of capital gift equal to fair market value of donor's transfer minus present value of annuity
commits full faith and credit of the institution to pay annuity for life of annuitant

ADVANTAGES. . .

- ✓ Annuity typically represents high income, which Charity pays using investment earnings and part of principal spread over donor's lifetime
- ✓ Charitable tax deduction for value of gift component
- ✓ Basis recovered tax-free over annuitant's life expectancy
- ✓ Charity receives capital gift

**DONOR INCREASES INCOME BY CONSUMING
EARNINGS AND SOME PRINCIPAL OVER LIFETIME**

CHARITABLE GIFT ANNUITY EXAMPLE

Henry Walker will retire at age 72 from Zero Tool Company. He has a pension account that will provide him with an adequate retirement income, and \$30,000 in a savings account, currently giving him a 1% return (before tax). Mr. Walker would like to give a substantial gift to his Charity's Endowment Fund, but would like to increase and retain the income from his savings at least until he dies.

RECOMMENDATION

Acquire Charitable Gift Annuity from his Charity

VALUATION OF GIFT TO CHARITY

Yearly Annual payment @ 6.7% for life to Mr. Walker\$ 2,010

Charitable Gift* @ age 72\$13,714
(Mr. Walker may deduct up to 50% of his adjusted gross; excess carried forward up to 5 years.)

ANALYSIS OF ANNUITY INCOME

Yearly payments for life\$ 2,010
(Guaranteed by his Charity)

Tax-free portion\$ 1,156
Net Investment in contract recovered tax-free
(\$17,183 over his expected lifetime of 14.1 years)

Taxable Portion.....\$ 854

Tax\$ (299)

After-tax Income.....\$1,711

Equivalent pre-tax return 8.8%
(if in 35% tax bracket)

Discount Rate under IRC Section 7520(a) for Sept, 2007

Charitable Gift Annuity

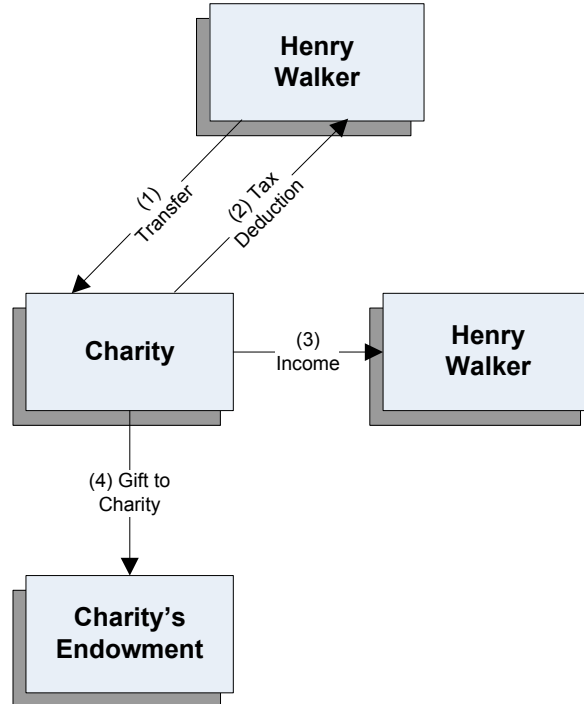
Henry Walker will retire at age 72 from Zero Tool Company, and wishes to increase income from his savings account.

STEP 1: Henry acquires a gift annuity from his Charity with \$30,000 in savings.

STEP 2: Henry receives a current income tax deduction of \$13,714 (46%).

STEP 3: Henry receives lifetime annuity of \$2,010 (6.7%) from the Charity's Endowment, \$1,156 considered tax-free until he recovers his basis in 2020, then all taxable

STEP 4: At Henry's death, the Charity Trustees transfer the principal to the Endowment as unrestricted funds.



- ☞ The gift to Henry's Charity generates a substantial tax deduction (which can be used to offset taxable income)
- ☞ Henry increases his income by converting savings to a lifetime annuity, with part of the income tax free (return of original investment)
- ☞ The Charity guarantees the annuity income to Henry for life, and transfer the principal remaining at his death to the Charity's Endowment Fund.

LIFE ESTATE RETAINED, REMAINDER EXCHANGED FOR GIFT ANNUITY

WHAT IT IS. . .

- A fixed annuity for lifetimes of donor and/or spouse (payable directly by the charity), in exchange for a remainder interest in a residence or vacation home.

HOW IT WORKS. . .

DONORS:

- Deed residence or vacation home to charity, subject to a retained life estate for themselves
- Pay expenses and continue to use property
- Receive annuity income for both lifetimes
- Retain right (jointly with Charity) to sell property, with proceeds apportioned to donors and charity (based on relative values of remaining Life Estate and Remainder)

CHARITY:

- Receives transfer of ownership, subject to life estate agreement retained by donors
- Pays fixed annuity for lives of donors
- Shares proceeds with donors if property sold by joint agreement
- Becomes sole owner at surviving donor's death

ADVANTAGES. . .

- ✓ Donors enjoy full use of property during lifetime, with annuity income helping to pay taxes and maintenance expense
- ✓ Charitable tax deduction for value of charitable gift resulting from exchange of remainder for gift annuity
- ✓ Children can use property without expense during parents' lifetime
- ✓ Later sale of property gives donors choice to retain cash value of life estate (subject to capital gains taxes), or donate life estate to charity

RETAINED REMAINDER EXCHANGED FOR GIFT ANNUITY EXAMPLE

Todd and Mary McKenzie (ages 82&80 enjoy their \$1,000,000 vacation home on the fabulous Florida Gulf Shore, but question their continued use in their 80's. Taxes and maintenance costs have climbed to \$30,000, and none of their children can afford to retain it. Selling today would trigger large capital gain taxes on gain over their \$200,000 basis. Their attorney suggested a novel charitable solution.

RECOMMENDATION

Deed property to the Charity, retaining a Life Estate. Gift remainder to the Charity in exchange for a Charitable Gift Annuity

VALUATION OF GIFT TO CHARITY

(Qualified Appraisal and Form 8283 required)

Actuarial value of Life Estate in \$1,000,000 residence	\$ 498,665
Actuarial value of remainder in \$1,000,000 residence	501,335
Gift resulting from transfer of remainder to Charity in exchange for gift annuity	\$ 231,993

ANALYSIS OF ANNUITY INCOME

Annual Life Annuity at current ages 82 & 80	\$ 35,595
Estimated after-tax Income (2007 to 2018)	31,197
Estimated after-tax Income thereafter	28,137
Estimated taxes and maintenance expense	30,000
Estimated after-tax overhead*	24,750

INCOME TAX DEDUCTION

Estimated Charitable Gift

\$ 231,993
(McKenzies may deduct up to 30% of their adjusted gross income; excess carried forward up to 5 years)

FUTURE STEPS

If parties agree to sell property at a later date, proceeds are shared, based on values of the life estate and remainder interest at that time

If donors desire to avoid capital gains taxes on a future sale, they could contribute the Life Estate to the Charity.

The Life Estate terminates at second death; the Charity then owns the property outright, including any growth in market value

*Gain over basis taxed as Capital Gain, basis recovered tax-free over life expectancy. Overhead based on \$15K real estate taxes, \$15K maintenance costs, tax bracket 40% and 20%.

CHARITABLE LIFE INSURANCE

WHAT IT IS. . .

Annual Investment for Charity

- Systematic payment of premiums on policy owned by charity
- Creation of Ultimate Capital Fund for Charity

HOW IT WORKS. . .

DONOR:

- applies for new insurance (or transfers existing contract to charity)
- decides annual future income commitment by selection of premium
- vests ownership of insurance policy (including right to designate beneficiary) in charity
- deducts payment of each annual premium as charitable contribution

CHARITY:

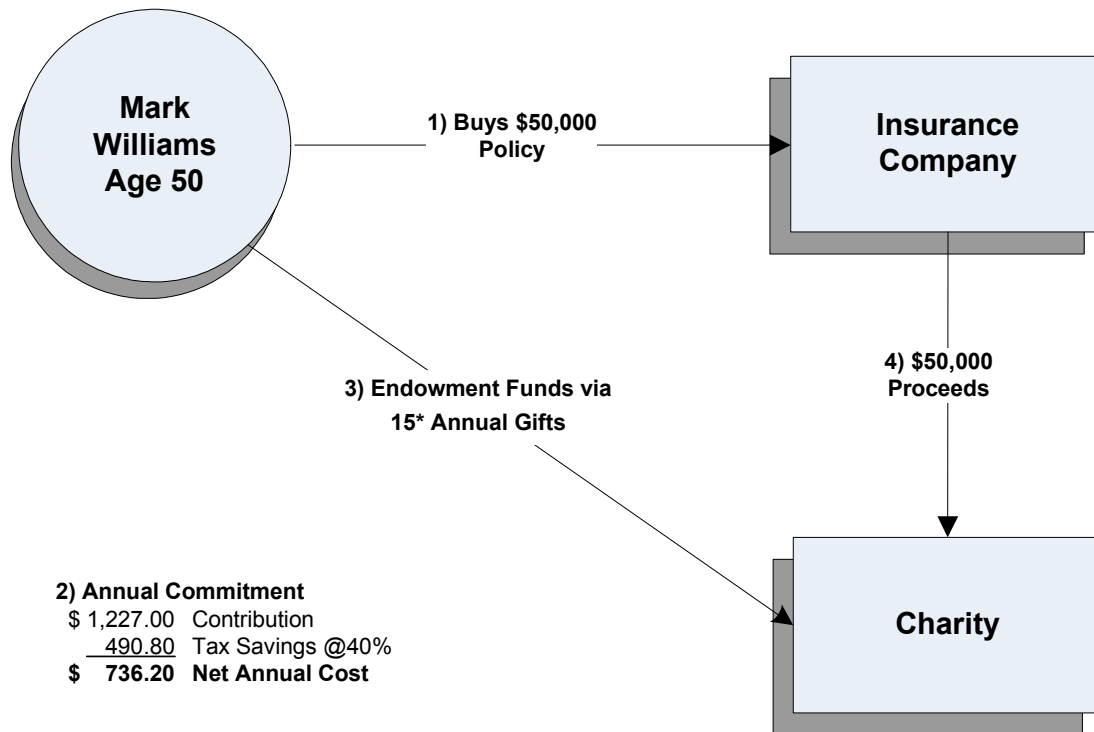
- receives annual dividends
- owns increasing cash values
- receives proceeds as capital gift at death of donor.

ADVANTAGES. . .

- ✓ Gifts to charity on a preset budget basis
- ✓ Current income tax deduction allowed for each premium

**PREMIUMS MAY BE TERMINATED AT ANY TIME,
IF FINANCIAL CIRCUMSTANCES CHANGE**

Charitable Endowment Via Life Insurance



For annual contribution of \$1,227 for 15 years* net total—\$18,405
 Gift of \$50,000 is created for the Charity

Amount of Charitable Bequest:		\$ 50,000
Total Contribution (\$1,227 for 15 years)*	\$ 18,405	
Less Tax Savings at 40%	<u>7,362</u>	
Net cost to fund \$50,000 Bequest:*		\$ <u>11,043</u>

1. Mark Williams purchases a \$50,000 life insurance policy, vesting ownership in Charity.
2. Via annual contributions for approximately 15 years* the gift may be self-completing.
3. Cash values increase annually, carried as assets in the Charity. Commitment to pay premiums to the “dividend offset point” assures the Charity of the \$50,000 and creates an irrevocable gift in the major category.
4. At the death of Mr. Williams, proceeds are paid directly to the Charity.

*Number of Premiums based on Current Dividend Schedule – **NOT GUARANTEED**. A change in dividends may increase or decrease the number of premiums required.

CHARITABLE LIFE INSURANCE

PROPOSED PLAN - \$50,000 LIFE INSURANCE POLICY (owned by Charity)

Age at Issue	Annual Premium	Years to Div Offset*	Total Premiums*	Total Death Benefit (@ 78)*
40	779	17	13,243	72,660
45	977	16	15,632	63,877
50	1,227	15	18,405	58,635
55	1,558	14	20,272	56,201
60	1,985	13	25,805	58,391
65	2,569	11	28,259	59,571
70	3,477	10	34,770	59,507

*Premiums based on Year 2007 standard, non-smoker rates and dividend projections of typical Life Insurance Company. Dividends based on current scale. All dividend projections not guaranteed and most likely will change (more or less premiums required). Actual rates based on the medical underwriting by insurance company selected.
Note: If female donor, deduct 5 years from current age!

OPTIONS IF CIRCUMSTANCES CHANGE

Current tax deduction allowed for amount of premium contributed annually.
 Contributions may be stopped at any time. Charity may then decide whether to continue premiums, exchange for reduced paid-up policy, or surrender for cash.

BEQUEST BY WILL OR REVOCABLE TRUST

WHAT IT IS. . .

Remembrance of Charity by Capital Gift

- Valued Support for Charity after annual support ended

HOW IT WORKS. . .

DONOR:

directs Personal Representative or Trustee to pay fixed amount or percentage of residuary estate to charity

retains right to change amount or to name different charity

if estate exceeds estate tax exemption, reduces estate tax by deduction for charitable gift

CHARITY:

receives capital gift at death of donor

can continue to enjoy annual gifts during donor's life, since bequest costs nothing during lifetime

ADVANTAGES. . .

- ✓ Estate Tax Deduction
- ✓ Bequest may be changed at any time during life
- ✓ Enables donor to assure charity that annual giving will not terminate

**DONOR RETAINS PRINCIPAL AND INCOME
DURING HIS OR HER LIFETIME**

HOW TO CREATE YOUR ESTATE PLAN

WHY YOU SHOULD ESTABLISH AN ESTATE PLAN

Without An estate plan (a will or revocable trust), your possessions will pass by State Law. Distribution will be arbitrary, based on legal formulas. No consideration will be given to age, health, or financial need. **Only you** can truly decide the appropriate distribution of your property.

HOW TO PROCEED

First, prepare a list of everything you own, such as money, real estate, tangible personal property, investments, insurance policies, retirement accounts.

Second, list the people, organizations, and causes that mean the most to you – such as your heirs, your church, college, or hospital.

Third, divide your possessions among those on second list.

Fourth, name the person who will carry out your wishes – relative, friend, attorney, bank, or trust company. This person is your personal representative, or if you have a revocable trust, your trustee.

FORMALIZING YOUR ESTATE PLAN

Contact an attorney to put your wishes on paper, and to document your wishes so no one can change your wishes after you're gone.

It is a simple process, and legal consultation is reasonably priced – far less than the cost to your heirs if no estate plan!

Your estate plan stands until you change it – either by rewriting it, or by an amendment or “codicil.”

**YOUR ESTATE PLAN CARRIES OUT YOUR WISHES AS TO
WHO, WHAT AND WHEN - AS ONLY YOU CAN SAY**

TESTAMENTARY CHARITABLE REMAINDER TRUST

WHAT IT IS. . .

Remembrance of Charity by Deferred Gift via Charitable Remainder Trust under Estate Plan

- Income retained for lifetime of spouse or child with remainder to Charity

HOW IT WORKS. . .

DONOR:

provides for Trust (annuity trust or unitrust) in estate plan with trust paying income of x% of initial or annual market value for lifetime of spouse or child

retains right (while living) to delete trust from estate plan or to fund with different amount

for estate in excess of estate tax exemption, reduces estate taxes by charitable deduction of present value of deferred gift

TRUSTEE:

reinvests property to earn total return to satisfy percentage yield and pay income to spouse or child for life

CHARITY:

receives unrestricted capital gift at death of spouse or child

ADVANTAGES. . .

- ✓ Marital Deduction if spouse is sole income beneficiary
- ✓ Estate Tax Deduction for charitable remainder gift
- ✓ Trust may be changed or deleted during donor's lifetime
- ✓ Charity receives capital gift when trust ends.

**DONOR POTENTIALLY REDUCES ESTATE TAXES,
RETAINS INCOME FOR THE SPOUSE OR CHILD,
AND CREATES CHARITABLE GIFT WHEN BENEFICIARY DIES**

BEQUEST OF IRA OR QUALIFIED PLAN

WHY USE RETIREMENT FUNDS FOR A CHARITABLE BEQUEST?

Qualified Retirement Plans and IRA's have not been taxed as income before distribution. At death, balances are included for estate tax purposes, and also taxed as income when received by your beneficiaries (with partial credit for estate tax paid).

Funding a charitable bequest with such retirement accounts avoids both taxes and is therefore the best asset to leave charity.

HOW TO PROCEED:

First, secure a change of beneficiary form from your retirement plan Trustee or IRA custodian.

Second, direct a fraction, percentage, or all of the IRA to your selected charity(s), with the balance payable to family or friends.

Third, sign the beneficiary form, and ask your spouse to consent to the distribution (spouse's signature must be notarized or witnessed by a plan representative if qualified plan).

ADVANTAGES:

- ✓ Bequest avoids income tax and estate tax
- ✓ Family members do not receive a bequest subject to income tax, and can inherit other assets generally free of income taxes (with stepped-up basis)
- ✓ Amounts directed to charity are not irrevocable until death, so beneficiaries or percentages can be changed.

CAUTION

Use fraction or percentage to charity; specifying a dollar amount may trigger income tax liability to estate. (Considered "pecuniary transfer")

CHARITABLE ROLLOVER WITH RETIREMENT PLAN OR IRA

WHAT IT IS. . .

- Charitable Remainder Trust created at death via revocable charitable trust funded with part of Retirement Plan or IRA
- Spouse receives income distribution for life, then designated charity(s) receives the assets in the trust at the second death

HOW IT WORKS. . .

DONOR:

Signs revocable charitable trust agreement now, acts as co-Trustee with Charity, and provides token funding. Charitable remainder trust created at death.

Donor executes a beneficiary form for qualified plan or IRA, naming the charitable remainder trust for all or a portion of the account (Spousal consent required if qualified plan)

At Donor's death, specified percentage of Retirement Plan or IRA directed to charitable remainder trust

Spouse receives income distribution for life.

CHARITY:

At end of the trust term, designated Charity(s) receive assets in the charitable remainder trust.

ADVANTAGES. . .

- ✓ Designation of charitable remainder trust as beneficiary normally does not affect Minimum Required Distributions
- ✓ Participant can change beneficiary designation during life
- ✓ Estate tax charitable deduction for remainder gift, and estate tax marital deduction for income interest
- ✓ Accumulated income in plan never subject to income tax except for income distributed out to spouse during his or her lifetime

**DONOR REDUCES INCOME AND ESTATE TAXES, RETAINS INCOME
FOR THE SPOUSE AND CREATES CHARITABLE GIFT WHEN SPOUSE DIES**

USE OF VARIABLE (DEFERRED) ANNUITIES

WHY USE ANNUITY FOR A CHARITABLE BEQUEST?

Variable (Deferred) Annuities allow tax deferral of gains during the lifetime of the annuitant/purchaser. At death, annuity values are included for estate taxes, and the gain over your basis (purchase price) is *taxed as ordinary income* to your beneficiaries. *(There is **no** step-up in basis at death)*

Unless your spouse is considered a co-owner or contingent owner of the annuity, the annuity contract matures and income benefits must begin. The basis is recovered last, unless proceeds are taken in a lump sum or pro-rata over a fixed number of years, or as a life annuity.

HOW TO PROCEED:

First, request the Insurance Company to include your spouse as co-owner or contingent owner, and request a change of beneficiary form.

Second, direct a fraction, percentage or the entire annuity to your selected charity(s) either outright or to a Charitable Remainder Trust, with the balance payable to your named beneficiaries.

Third, sign the beneficiary form (your spouse's consent is not necessary) retaining the right to change the beneficiary

ADVANTAGES. . .

- ✓ Heirs avoid a bequest which is subject to income tax, and inherit other assets free of income taxes (with stepped-up basis)
- ✓ Amounts directed to charity are not irrevocable until death; beneficiaries or percentages can be changed

TESTAMENTARY CHARITABLE "LEAD" TRUST

WHAT IT IS. . .

Transfer of Property to Trustee, with annual payments to charity and remainder to children or grandchildren

- Fixed percentage of Initial Value (Annuity Trust) or
- Fixed percentage of Annual Market Value (Unitrust)
- Payable at least annually to Charity for term of years
- Remainder payable to heirs (at discounted tax value)

HOW IT WORKS. . .

DONOR:

- creates individual trust agreement (either while living or testamentary)
 - decides amount and duration of income to charity
 - selects heirs to receive trust assets when income stops
- selects charities (now) to receive income
- transfers property to trustee, deducts present value of income stream to charity

TRUSTEE:

- invests or retains property to sustain income
 - pays directed amount to designated charities
 - distributes property to heirs when income period expires
 - pays taxes on trust income (less charitable deduction)

CHARITY:

- receives income for duration of trust

ADVANTAGES. . .

- ✓ Gift to charity combined with remainder with all growth to family members
- ✓ Gift Tax (living) or Estate Tax (testamentary) deduction allowed for present value of income stream to charity
- ✓ Values ultimately transferred to heirs at discounted tax value
- ✓ Income specified at inception of trust (with all future growth on invested assets to family members if Annuity Trust)

**FIXED OR VARIABLE INCOME TO CHARITY FOR LIMITED YEARS,
WITH APPRECIATED ASSETS TO HEIRS AT DISCOUNT**

CAUTION! If grandchildren named as beneficiaries, **Unitrust** format must be used (to avoid generation-skipping tax)

CHARITABLE “LEAD” TRUST EXAMPLE

John Donovan, a widower age 75, owns stock in Donovan Industries, a publicly-held company started by his father. The family has maintained effective control over the years, and John would like to continue family ownership through bequests to his children – successful in their own right. The stock pays a 6% dividend, is thinly traded, but has a strong growth potential. John makes annual gifts to his favorite charity, and would like to contribute to its Endowment Fund.

RECOMMENDATION

Create a Charitable “Lead” Annuity Trust in his will, funded with Donovan Industries’ Stock and other appreciated securities, with 6% of initial market value directed to the Charity’s Endowment Fund for 15 years, with remainder to Donovan children.

VALUATION OF ANNUITY TRUST GIFT

Fair market value of property transferred (Stock)	\$ 500,000
Annual fixed income to Charity for 15 years.....	30,000
Factor for present value of an annuity for..... a term certain (based on Table B)	9.8405
Present Value of Annuity Interest	\$ 295,215 (Estate Tax charitable deduction)
Taxable portion of gift	\$ 204,785 (potentially subject to Estate Taxes)

EFFECTIVE GIFT TO HEIRS AT DISCOUNT

Estimated growth rate of stock	8%
Stock value to heirs (15 years after death).....	\$ 1,586,000
Current remainder value taxable in Estate	\$ 204,785

**HEIRS RECEIVE TRUST ASSETS FREE OF TAX
AFTER INCOME PERIOD TO CHARITY**

WHICH GIFT PLAN IS BEST?

If you wish to:	Best Choice	Next Choice	Tax Savings
Make outright lifetime gift	Appreciated Securities	Cash	Gift of Securities avoids Capital Gains Taxes
Retain full control of income and principal	Bequest of Qualified Plan or Annuity Fraction	Bequest of other assets	Heirs save income taxes on gift of QP
Convert property to high income – guaranteed	Charitable Annuity Trust	Gift Annuity	High – (present value of remainder)
Convert to Variable income (possible offset to inflation)	Charitable Unitrust	Pooled Income Fund	Medium – (present value of remainder)
Preserve income during spouse’s lifetime	Testamentary Unitrust	QTIP Trust	None
Make sizable gift with modest annual payments	New Life Insurance	Existing Life Insurance	High – Annual deduction for annual premium
Enjoy vacation home without overhead expense	Gift of Remainder for Gift Annuity	Gift Life Estate for CRT later	Donors enjoy & control home + tax deduction
Make gift but retain right to change entire gift plan	Qualified Plan or Annuity Fraction	Bequest in Will	Heirs save income taxes if IRA

STEPS TO BE TAKEN

1. Determine amount of gift
2. Decide when gift should be made
3. Choose property for tax-effective gift
4. Minimize impact of gift on self and heirs
5. Consult your attorney or tax advisor before completing gift
6. Don’t wait — Procrastination is the Thief of Time (and taxes!)