

## **Establishing A Legacy Creative Giving Management**

*To give away money is any easy matter and in any man's power. But to decide to whom to give it, and how large and when, and for what purpose and how, is neither in every man's power nor an easy matter.*  
--Aristotle

The making of appropriate, significant contributions is an art. And, like any art, it is a living, creative process that adapts to the changing needs and wishes of the donor.

Each year, thousands of people contribute their time, talents, and money to America's charitable religious, educational, cultural, service, and healthcare organizations. Indeed, private philanthropy is the foundation of every charitable endeavor, and it is our hope that you will want to continue this tradition.

The nation's tax laws recognize the role of charitable organizations in meeting public needs that are of benefit to society. As a result, incentives are provided to encourage charitable gifts. Thoughtful donors plan their contributions to minimize the after-tax cost while securing allowable benefits for themselves and their families.

The virtually annual revisions of the tax code over the last decade have made it imperative to make informed choices in financial and tax planning. Throughout these changes, the traditional benefits of thoughtful charitable giving have been preserved, and planned giving enjoys an enhanced role in ordering one's affairs to attain both philanthropic and financial goals.

Depending on the specific arrangement, donors can expect some or all of the following benefits of thoughtful charitable planning:

- satisfaction from providing the means to favored charities to fulfill their purposes;
- income-tax savings through the charitable deduction for the value of the gift;
- avoidance of the capital-gain tax on contributions of appreciated, long-term, capital-gain property with respect to certain gifts;

- retained income rights for the life of a donor and/or other beneficiaries;
- the possibility of increased spendable income with certain arrangements;
- elimination of federal estate tax on the value of the interest in property passing to charity upon the donor's death; and
- reduced estate-settlement costs.

This guide discusses only the federal tax incentives for the making of charitable contributions. In many cases, state income-, inheritance-, and estate- and gift-tax benefits will enhance the advantages of proposed arrangements.

We strongly urge prospective donors to consult with their own tax and legal advisors for a full discussion of the tax implications of their planned gifts.

The discussion of income- and estate-tax reductions from planned gifts that follows is not meant to imply that these are reasons for making a charitable gift. Rather this booklet is intended to provide guidance in selecting the most beneficial way to make your commitment, keeping in mind your personal goals and objectives.

**Note:** The allowable deductions for charitable gifts, other than out right gifts, are subject to monthly revision in accordance with Treasury regulations. The charitable deductions shown in this guide reflect a representative rate and are for illustrative purposes only. We would be glad to assist you and your advisors in determining the exact deduction for gifts you may be considering.

## OUTRIGHT GIFTS

### Gifts of Cash

Simplicity and ease of delivery are the major factors in making cash the most popular type of charitable gift. A gift of cash is considered made on the date it is hand-delivered or mailed. So a year-end contribution made by a check that is mailed in late December is deductible for that year even though it is not received by the charity until January.

Because of the charitable deduction, the net cost to the donor who makes a cash contribution will be lower than the face value of the gift.

For example, the net cost of a \$1,000 cash gift to a donor in the 36% marginal tax bracket is only \$640.

Gifts of cash are deductible up to 50% of a donor's AGI (adjusted gross income). Any excess can be carried over for five years.

### Gifts of Appreciated Property

A viable alternative to a cash gift is a gift of property. With careful planning charitable gifts of *certain types of assets* will provide even greater tax benefits to the donor than a gift of equivalent value in cash.

The most favorable tax benefits are generated by contributions of appreciated, long-term, capital-gain securities and real estate. **Reason:** In addition to receiving a charitable deduction for the full, fair-market value of such a gift, the donor escapes any potential tax on the capital-gain element in the gifted property and any sales commission that would be payable upon sale of the asset. **Note:** *The holding period for long-term treatment is more than one year.*

**Example:** Mr. A, who is in the 36% income-tax bracket, owns securities currently valued at \$20,000, which he purchased several years ago for \$5,000. He contributes the securities to charity and realizes a \$20,000 charitable deduction that saves him \$7,200 in income taxes (36% of \$20,000).

In addition, Mr. A avoids the potential capital-gain tax on his \$15,000 paper profit for a further savings of \$3,000 (20% of \$15,000).

Thus, the net cost of the gift of \$20,000 in appreciated securities to Mr. A is only \$9,800 (or \$20,000 less \$7,200 less \$3,000). In other words, the cost of the gift is only 43% of the face value of the transfer

(8,600 divided by \$20,000). **Note:** The net cost of the gift may be further reduced because of state-tax advantages.

The full, fair-market value of gifts of long-term, capital-gain securities or real estate is deductible up to 30% of a donor's AGI. Any amount in excess of the 30% ceiling can be carried forward for five years.

A donor considering a gift of property that has gone down in value would be better off to sell the property to realize a deductible loss and then contribute the proceeds to charity and obtain a charitable deduction. This procedure assures recognition and deductibility of the loss.

## Bargain Sales

A donor who wants to recover a portion of the value of property that he or she wishes to contribute to charity may consider entering into a bargain-sale transaction with the charity. In effect, a bargain sale is a sale of property to charity for less than its fair-market value. The bargain sale price may be any amount mutually acceptable to the charity and the donor. Some donors are willing to sell the property for an amount equal to their cost basis. Then they recover their investment and get a deductible for the appreciated element. The tax law states, however, that the recovered portion cannot be treated wholly as basis, but rather as part basis and part reportable capital gain.

**Example:** Mrs. Brown 's real estate appraised at \$120,000, which she inherited from her parents. Her basis in the property is \$40,000 and she offers to sell it to a charitable organization for that amount. As a result:

- Mrs. B receives \$40,000 from the charity;
- She can deduct the contributed portion of \$80,000 for income-tax purposes; however;
- She must also report a capital gain of \$26,667. (The reportable capital gain is arrived at by dividing the sale price of \$40,000 by the fair-market value of the property--\$120,000--and multiplying the result by the gain--\$80,000.)

### INCOME PRODUCING PLANS

#### **Charitable Remainder Trusts and Pooled Income Funds**

Introduced by the Tax Reform Act of 1969, charitable remainder trust and pooled income funds have become increasingly popular because of the financial -and estate-planning opportunities they afford.

The charitable remainder trust is similar to other types of trusts except that the amount distributed at its termination (*the remainder* in legal parlance) is paid to a charitable beneficiary. A donor transfers property irrevocably to a trust and specifies:

- the amount of income to be distributed,
- to whom it is to be paid,
- the duration of payments (a period of years or the beneficiary's lifetime), and

- the charity that will received the remainder.

An important feature common to all these arrangements is that they offer an escape from the age-old investment dilemma of the "locked-in" position: an investor may want to dispose of an investment position for various reasons (*e.g., to protect a profit, or to reinvest for a higher yield*) but is inhibited from acting because of the potential capital-gain tax on the appreciation.

Funding a charitable remainder trust or pooled income fund with appreciated, long-term, capital-gain securities or real estate can augment the available tax benefits because the grantor can avoid the potential capital-gain tax that would result from an outright sale of the property. Avoidance of capital-gain tax coupled with a current charitable income-tax deduction can substantially reduce the cost of such a transfer.

## Unitrust

The primary feature of the unitrust is that it provides for payment to the income beneficiary in an amount that may vary. The payment must equal a fixed percentage of the net fair-market value of the trust assets as valued annually. The grantor determines the fixed percentage upon creation of the unitrust. It must be at least 5%. Depending on the donor's financial-planning objectives, a choice may be made to emphasize the charitable deduction (*by choosing a lower rate*) or the *annual return* (*by selecting a higher rate*).

The unitrust payment must be made at least annually but may be made at more frequent intervals such as semi-annually or quarterly. The unitrust may be set up for the lives of the beneficiaries or for a term of years not exceeding twenty. The amount paid to beneficiaries each year is determined by multiplying the payout rate by the value of the trust assets. For example, a 6% unitrust valued at \$100,000 its first year will pay out \$6,000. If the trust assets are valued at \$110,000 in its second year, the payout will be \$6,600. The variable nature of the unitrust payments may provide a hedge against inflation--assuming a growth in value of the trust assets comparable to the inflation rate.

The grantor is allowed a charitable deduction equal to the present value of the charitable organization's remainder interest in the unitrust, as determined by reference to Treasury Regulations. The deduction, a percentage of the amount that funds the trust, is based on the fair-market value of the asset transferred, the payout rate chosen, and either the age and number of beneficiaries or the term of years.

**Example:** Mr. and Mrs. D, both 70, own \$100,000 worth of mutual fund shares, which they purchased a number of years ago for \$20,000. This particular fund has emphasized growth, and the dividend yield is a modest 3%. They would like more money to spend during their retirement years but hesitate to sell their shares and reinvest for income because of the capital-gain tax they would pay.

To achieve their objectives, they contribute the shares to a unitrust and select a 6% payout rate. Their income immediately increases from \$3,000 to \$6,000 per year and will grow over time if trust assets appreciate in value.

Moreover, the gift results in a charitable deduction of \$38,113, which in their 36% bracket translates into a net tax savings of \$13,721. In

addition, they avoid a potential capital-gain tax of \$16,000 (20% of \$80,000). Thus, total tax savings \$29,721, reducing the net cost of the gift to \$70,279. Based on net cost, \$6,000 income they receive is equivalent to a 8.5% yield.

The unitrust can be funded with cash or--ideally--with long-term, highly appreciated, capital-gain securities or real estate. The governing instrument of all unitrusts may include a provision to permit additional contributions. The attraction of this feature is that the grantor need not establish a new trust each time he or she wishes to make an additional gift.

## Annuity Trust

The annuity trust shares many common features with the unitrust, the principal difference being the manner of calculating the payment to the income beneficiary. Whereas the unitrust provides for a payout that may *vary*, the annuity trust provides for a *fixed* payout. This amount must equal a *sum certain* of not less than 5% of the initial fair-market value of the gift in trust. Another difference is that an annuity trust cannot permit additional contributions.

A deduction for the present value of the charitable remainder interest and avoidance of capital-gain tax on the transfer of appreciated, long-term, capital-gain property are among the benefits available to the grantor of the annuity trust. The fixed-payout feature of the annuity trust may make it particularly suitable to meet the financial needs of an older beneficiary.

**Example:** Mr. F supplements his 84-year-old mother's annual income with \$6,000 of his own after-tax earnings. Given his 31% tax bracket, he must earn \$8,696 to net the \$6,000 he gives his mother.

Instead of continuing these payments with after-tax dollars, he transfers \$100,000 of securities to an annuity trust and directs that the trustee pay his mother a sum of certain \$7,500 a year for life. Even if she must pay a modest amount of tax, her income will increase.

Mr. F increases his spendable income. While he gives up the dividends earned by the securities (currently \$4,000 per year), he retains the larger amount he had been paying to his mother each year. Moreover, he realizes a charitable deduction of \$66,367, which saves \$20,574 in income tax, and he avoids the capital-gain tax on the appreciation of the securities.

The present value of his mother's annuity interest of \$33,633 (\$100,000 less \$66,367) is considered a gift by Mr. F. Any potential gift tax could be offset by the annual gift-tax exclusion and Mr. F's unified credit.

Income-producing securities or cash are most suitable for funding an annuity trust.

## Charitable Lead Trust

The charitable lead trust is the reverse of the charitable remainder trust in that it provides for a gift of an income interest from property to charity for a term of years-of any duration-after which the property either reverts to the donor or passes to a non-charitable beneficiary designated by the donor.

The income interest for the charity must be in the form of an annuity or a fixed percentage of the value of the trust property determined annually.

A donor is not entitled to a charitable deduction for federal income-tax purposes on the creation of a charitable lead trust unless the donor remains taxable on the trust income. However, for certain individuals the opportunity to obtain a federal income- tax deduction in the year of the establishment of the trust outweighs the disadvantages of being taxable on the trust's income in later years. And, strategies such as funding the gift with tax-exempt securities can avoid negative tax consequences, even when the donor remains taxable on the income.

A charitable lead trust in which neither the donor nor the spouse is taxable on the trust income and which names other family members as the remaindermen affords other benefits. Such a trust allows property to be transferred to eventual family beneficiaries at a low transfer cost and is particularly attractive for property with a high appreciation potential. Of course, a charitable lead trust is practical only for a donor whose family can forgo income from the transferred property during the period of the charity's interest. A charitable lead trust may be established either during the donor's life or through the donor's will.

**Example:** Mr. K creates a charitable lead trust and funds it with securities currently valued at \$500,000 and directs that the trust is to pay an art museum \$40,000 annually for 15 years. At the termination of the trust, the assets are to be distributed to his children. Under the Treasury tables, the income interest of the museum in the trust (which is not deductible by the donor for income-tax purposes) is valued at \$352,480 and the children's remainder interest at \$147,520 (or \$500,000 less \$352, 480).

Assume that at Mr. K's death the trust assets have appreciated to \$1,000,000. Nevertheless, for purposes of determining his transfer-tax liability, only the value of the gift to the children at the time the trust was created (\$147,520) will be taken into account. The balance of

\$852,480 (\$1,000,000 less \$147,520) will escape any transfer tax. Had Mr. K not established the lead trust, the entire \$1,000,000 would have been taxed in his estate.

A donor who is considering a charitable lead trust in his or her estate - or income-tax planning is encouraged to discuss this subject with tax and legal advisors.

### **WHY YOU NEED A WILL**

Did you know that 7 out of 8 Americans die without a Will?

Much to the detriment of their families, many individuals overlook the importance of a valid Will, and, unfortunately, never get around to writing one.

Drawing a Will is the way to assure that the fruits of your life's labors are distributed in accordance with your wishes, and that your heirs are appropriately provided for. A Will enables you to:

- **direct the distribution of your property** the way you intend
- **provide security for your loved ones**, allowing for the special health or educational needs of a family member, or to make allowances for the varying income needs of your heirs
- **select a guardian for your minor children** rather than permitting the state to determine who is a suitable guardian
- **name a personal representative for your estate** instead of having it settled by a court-appointed administrator
- **minimize taxes and administrative costs**, to preserve as much of the estate as possible, by using various cost-saving and tax-saving opportunities
- **make charitable distributions** to support programs and causes you believe to be worthwhile

Because some assets, such as life insurance or retirement plan benefits, may pass outside of a Will, your Will should be part of a comprehensive estate plan.

## **IF YOU DON'T HAVE A WILL**

If you should die intestate, that is, without a Will, your assets will be disposed of in accordance with state law, regardless of your personal wishes or the special needs of family members.

Failure to write a Will may lead to unfavorable consequences no matter how small or how large the estate.

### **Estate distribution**

If you die intestate, assets will be distributed in accordance with state law, often defeating your own wishes. Under the laws of intestacy, property must be distributed according to a prescribed formula (which varies from state to state), and the court has no discretion to correct even an obviously inequitable distribution of assets.

A widowed spouse, for instance, may receive less than her minor children do. Or the special needs of a disabled child may go unaddressed. Often, property will pass to a beneficiary who, by reason of age or inexperience, is incapable of managing it properly.

### **SOME COMMON MISCONCEPTIONS ABOUT WILLS**

#### **"My wife (or husband) and I own everything jointly. "**

In the first place, it is unlikely that this is entirely accurate. Often overlooked are company retirement and death benefits. Moreover, in some states, the laws of community property may take precedence over joint tenancies.

Secondly, if all of your assets are indeed owned jointly, a potential tax problem may result, involving gift as well as estate taxes. A competent tax advisor should be consulted about the implications.

#### **"My estate is too small."**

Your net worth may be more than you realize. Add up the value of your home and furnishings, your automobile, bank accounts, insurance policies, pension benefits, personal property, and you'll see that your estate is probably worth more than you had imagined.

Even if you have few assets, if you have minor children, you'll need a Will to designate a guardian if there should be no surviving spouse. Then, too, the smaller the estate the more important it is to avoid costly delays which can quickly deplete its value.

**"My spouse already has a Will."**

That's fine, but what if both husband and wife die in a common disaster? If the spouse with the Will is determined to have died first, the estate may still pass under the state's intestacy laws, producing tax problems, administrative complications, and perhaps adverse consequences for minor children.

**"I don't have an attorney."**

This can be easily remedied by seeking recommendations from people you know who have been pleased with the way their attorney handled the drafting of a Will. Also, most local bar associations maintain a referral service, and will be happy to provide you with the names of several attorneys in your area who specialize in Wills and estate planning.

These reasons, too, may sound familiar:

**"I'm too young to need a Will."**

**"Preparing a Will is too expensive."**

**"I have no children to be concerned about."**

**"My relatives are aware of my wishes."**

If you have any doubts about the adequacy of your own reasons for not writing a Will, we'd suggest talking to someone knowledgeable such as your attorney, financial planner, insurance agent or clergyman.

## **DRAWING YOUR WILL**

1. The first step is to **make a list of all the family members, friends and organizations you would like to provide for**. You should accurately record each beneficiary's full name and address, as well as their relationship to you.
2. **Next, prepare a full inventory of your assets and a complete list of your debts**. Include full descriptions, current fair market value, original cost basis, and how each asset is owned, whether separately, jointly, or as community property. Your list of debts should include full names and addresses of all creditors.
3. **Make a list of all important documents** such as birth certificates, marriage licenses, insurance policies, mortgages and deeds. Carefully record the location of these papers.
4. **Decide what specific objectives you would like to accomplish**. This would include such details as naming a guardian to care for minor children. If income continuation to family members is one of your goals, determine how much annual income will be needed after your death, and consider what steps must be taken to assure this income. Treat each separate objective similarly.
5. **Select an appropriate individual to represent your estate**. Make certain that the person is made aware of an executor's responsibilities, is capable of discharging those duties, and is willing to serve in this capacity. An alternate executor or executrix should be selected to settle the estate in the event the first becomes unwilling or unable to do so.
6. **Consult an attorney** to help you work out the details of your estate plan and to prepare the Will.

### **HELPING YOUR LAWYER HELP YOU**

You can greatly simplify-and cut the cost of-consultations with your attorney if you undertake the preparatory work suggested in the preceding section. Since you are paying for a lawyer's time, the more time you save your attorney, the lower the cost should be. This extra effort will help assure the thoroughness and integrity of your estate plan as well as save you money.

When you meet with your attorney, be certain to bring copies of your social security records, recent income tax returns, military service records, mortgages, deeds, insurance policies, and other important documents.

## **SAFEGUARDING YOUR WILL**

Unless your Will can be located upon your death, it won't matter how skillfully it was drafted. It must, therefore, be kept where it can easily be found by your executor, and where it would not be lost, stolen or mislaid.

Many people choose to keep their Will in their attorney's safe or in a safe deposit box. If a bank or trust company is to serve as your executor or co-executor, it may hold the Will in its own vault for safekeeping.

In any event, you should keep an unsigned copy with your personal effects, along with a letter giving the location of the original. To be on the safe side, you may also wish to tell a trusted relative or close friend where the original Will is located.

## Charitable Bequests

Each year thousands of individuals exercising their privilege to determine the final distribution of their estates designate that a portion of their assets be used for the benefit and support of American's charitable organizations. Gifts by will have become an integral part of the American philanthropic tradition, because such gifts enable a person to make significant contributions that may not have been possible during life.

Bequests can take various forms. The following samples of several types of bequests are included for your advisor's consideration in preparing your will.

**General bequest:** A general bequest is one of the most popular ways to make a charitable gift by will. With this bequest you simply leave a specified dollar amount to the designated charity.

**Example:** I give [INSERT DOLLAR AMOUNT] to XYZ Charity, to be used for its exempt purposes.

**Specific bequest:** A specific bequest is another popular type of charitable bequest. With such a bequest, you designate that a charitable organization is to receive a specific piece of property.

**Example:** I give [INSERT DESCRIPTION OF PROPERTY] to XYZ Charity, to be used for its exempt purposes.

**Residuary bequest:** A residuary bequest is used to give the charitable organization all (or a portion thereof) of an estate owner's property after all debts, taxes, expenses, and all other bequests have been paid.

**Example:** I give the rest of the property I own at my death to XYZ Charity, to be used for its exempt purposes.

**Percentage bequest:** The bequest can be expressed as a percentage of the estate or of the residuary estate.

**Example:** I give [INSERT THE DESIRED PERCENTAGE] % of my estate to XYZ Charity, to be used for its exempt purposes.

**Contingent bequest:** When writing your will, it is important to plan for the situation when the beneficiary of a bequest dies before you or disclaims the property. In anticipation of such an occurrence, a charitable organization may be named as the alternate or contingent beneficiary. This will ensure that the property will pass to the designated charity rather than to unintended beneficiaries.

**Example:** If [INSERT NAME] predeceases me or disclaims any interest in [DESCRIBE PROPERTY], I give such property to XYZ Charity, to be used for its exempt purposes.

**Restricted bequest:** The samples of bequest provisions suggested above are designated to provide unrestricted gifts. However, you may prefer to restrict your bequest for a specific purpose. For example, if you wish to memorialize a family member or an honored colleague, you can establish a named fund that will provide support for a program in which you (or the honored person) are particularly interested.

A restricted bequest usually should be made in the broadest terms possible consistent with your interests. This guards against the possibility of the purpose of your gift becoming obsolete (such as by discovery of a cure for a disease).

**Example:** I give [INSERT DOLLAR AMOUNT] to XYZ Charity. This gift shall be held as a permanent endowment to be known as the [INSERT PERSON'S NAME] Fund, only the income of which may be used to support the [INSERT EXEMPT PURPOSE FOR WHICH THE GIFT IS TO BE USED]. If the president (or executive director) of XYZ Charity determines that it is not feasible or economical to use the income of the fund for the purpose stated above, the income of the fund may be used for such exempt purposes of XYZ Charity as the president (or executive director) directs.

## UPDATING YOUR WILL

Even if you already have a Will, it should be reviewed periodically. Changes in your personal circumstances, your financial objectives, or in the tax laws are virtually inevitable.

Yesterday's provisions may therefore not meet today's needs. Your Will should be reviewed, if, since it was last drawn:

- You have either married or divorced
- You have retired
- Any children or grandchildren have been born or adopted
- Any beneficiaries have died or become incapacitated
- Any beneficiaries have been married or divorced
- Any beneficiaries have become financially independent
- Your net worth has increased or decreased substantially
- You have incurred any substantial new debts
- Any of your retirement plan benefits have changed
- You have acquired or canceled any life insurance
- You have purchased or acquired additional property
- You have disposed of property which you had specifically bequeathed
- There have been any applicable changes in the tax laws
- Your executor or your children's guardian has become unable or unwilling to carry out his or her duties

Not every change in your circumstances or in the tax law requires a complete redrafting of the Will. Often, the necessary changes may be made simply by adding a Codicil (an amendment) to your present Will.

### **HOW AN ESTATE IS SETTLED**

Estate settlement procedures often seem long and unnecessarily complex. They are intended, however, to minimize the possibility of fraud, and to assure that your objectives in distributing your estate are accomplished.

Specific procedures vary from state to state, but follow a general pattern:

- Soon after a person's death, the last Will must be located and filed with the court along with a petition to admit the Will to probate .
- A notice is published for all interested parties, including those who may wish to contest the Will, and a hearing is then held to determine the Will's validity.
- If the Will is admitted to probate, an executor (usually the person nominated in the Will) is appointed by the court, or, if no executor has been named, the court will appoint an administrator.
- A notice to creditors is filed shortly thereafter, so that an opportunity to present claims against the estate is available.
- During this time, the executor must assemble, manage, and preserve all estate assets, and file an inventory and appraisal of all property.
- Unchallenged claims against the estate are paid by the executor, and hearings are set to determine the validity of other claims.
- Federal, state and local taxes must be paid, and the decedent's final income tax return must be filed.
- Finally, the court must interpret the Will, supervise final distribution of all testamentary gifts, and approve a final accounting of the estate submitted by the executor.

Your executor has significant responsibilities in settling your estate, although with the guidance of a good lawyer the task need not be unduly burdensome.

You must make certain, however, that the person you select is fully aware of his or her responsibilities and is willing to undertake them. This is your best assurance that your estate will be handled as you intended.

## **PLANNED GIFTS OF LIFE INSURANCE**

Many, if not most, people own some form of life insurance. The principal reason for the almost universal acceptance of life insurance is its unique ability to meet the varied protection needs of an increasingly sophisticated society.

An important but frequently overlooked role of life insurance is the one it can play in planned charitable giving. Life insurance itself can be the direct funding medium of a gift, permitting the donor to make a substantial gift for a relatively modest annual outlay. Life insurance can also be used to replace an asset that has been given to a charitable organization.

**A charitable organization as beneficiary:** A donor can name a charitable organization as the primary beneficiary of a life-insurance policy. The donor retains ownership of the policy and has access to the policy's cash value. Although the face value of the policy will be included in the donor's gross estate, no federal estate-tax liability will result from the inclusion of the policy because of the charitable deduction.

Since the donor retains ownership of the policy, no income-tax charitable deduction is allowed for the value of the policy upon designation of the charitable organization as the beneficiary or for subsequent premium payments.

A donor can also name a charitable organization as a successor beneficiary to receive the proceeds in the event the primary beneficiary(ies) are not longer living. Once again, should the proceeds be paid to the charity, the donor's estate will be allowed an estate-tax charitable deduction.

**A charitable organization as owner:** A donor who wishes more immediate tax benefits may wish to consider the irrevocable assignment of an insurance policy to a charitable organization. Upon such an assignment, the donor is allowed an immediate federal income-tax charitable deduction for the lesser of the policy's fair-market value or the net premiums paid. An income-tax deduction for contributions to enable the charity to pay subsequent premiums is also allowed.

**Examples:** A number of years ago, Mr. O purchased a \$50,000 whole-life policy to ensure funds for his children's education. The annual premium for the policy is \$1,000. His children's have graduated and

are now financially independent. The policy, which he still owns, has a cash value of \$22,000, and the net premiums paid equal \$23,000.

Mr. O assigns the policy to ABC University. In his 31% tax bracket he realizes an immediate tax savings of \$6,820. In future years, Mr. O increases his annual gifts by \$1,000 a year to ABC University which, in turn, pays the insurance premium. Mr. O realizes an annual tax deduction of \$1,000, based on his annual gifts for that purpose.

In order to obtain an income-tax charitable deduction for an assignment of life insurance to a charitable organization, the donor cannot retain any rights (*such as the right to change the beneficiary*) in the policy.

**Wealth-replacement option:** One of the most important and sophisticated roles of life insurance in planned giving is its potential use in replacing the value of an asset that has been given to a charity. **How it works:** After a donor makes a gift to a charitable organization, the tax savings produced by the charitable deduction are used by his or her children or an irrevocable trust to purchase and pay the premiums on a life-insurance policy on the donor's life. Such an arrangement can assure that the interests of family beneficiaries will not be adversely affected.

## **The Gift Annuity: The Gift That Pays You a Guaranteed Income for LIFE**

Charitable gift annuities have been a positive, well accepted form of "life income gift" for a number of years and now they are even more attractive than ever! Many people have found the rate of return they get from a charitable gift annuity beats the return on most standard investments.... Plus there are no investment worries. A charitable gift annuity becomes a gift that you cannot outlive.

### **WHAT IS A CHARITABLE GIFT ANNUITY?**

A charitable gift annuity is a contract between you and the **National Parkinson Foundation, Inc.** You contribute cash, securities or marketable property to the NPF and in return you receive a guaranteed fixed income for life, and if desired, for the lifetime of another beneficiary as well, (known as a joint annuity).

This income is guaranteed by the NPF and is paid on a quarterly, semi-annual or annual basis. Additionally, 33 percent to 75 percent of the income you receive is tax-free (as determined by official Treasury tables). Rates are determined by the age of the donor and/or beneficiary on the date of the gift.

### **WHAT BENEFITS DO YOU RECEIVE?**

Unlike other forms of charitable retained income gifts, your charitable gift annuity guarantees income for life for yourself, and a beneficiary, if desired. There are other advantages to setting up a Charitable gift annuity with the NPF:

- **Increased income.**
- **Income tax benefit.** Part of your annual income (can be anywhere from 33% to 75%) is considered a tax-free return of capital, excluding it from your gross income until you reach your life expectancy. If the gift consists of appreciated property (such as stocks or bonds), then a large portion of the capital gains tax is avoided.
- **Estate tax benefit.** Probate costs and federal estate taxes are avoided.
- **Charitable deduction benefit.** The portion of the transaction that is considered a gift (usually in the 40%-50% range) is eligible to be included as a charitable contribution on the itemized deduction section of your federal income tax return.

- **Simple & easy to create.** A simple contract is all that is needed to create a gift annuity - no lengthy trust documents need to be drawn up.
- **Low minimum gift.** A gift annuity may be created with a gift starting as low as \$10,000.00.
- **Future gift.** Finally, you receive the personal satisfaction of knowing that your gift will continue the National Parkinson Foundation's work for the future. You will be providing a significant future gift to benefit the research and programs available through the NPF - with the possibility of finding the cure earlier of PD.

### **HOW DOES THE NATIONAL PARKINSON FOUNDATION BENEFIT?**

Your gift will allow us to plan for the future of the **National Parkinson Foundation, Inc.** Your charitable gift annuity will allow the NPF to continue to meet the needs of the Parkinson community.

1) **Single gift annuity.** At your death, that part of your gift that was not used to provide income to you, then becomes available to the NPF.

2) **Joint gift annuity.** Joint annuities can be set up to pay income for your life, then for the life of your beneficiary. If you choose a joint annuity you will receive income for your life and at your death your beneficiary will continue the benefits. At your beneficiary's death the remainder of your gift will be available to the NPF. If your beneficiary were to pre-decease you then at your death the remainder of the gift becomes available to the NPF.

## Gift Annuity Inquiry Form

\* A detailed information package will be customized for you if you fill out and send the following form:

If you have any problems displaying this form you may e-Mail your responses to: [mailbox@parkinson.org](mailto:mailbox@parkinson.org).

Or print this page and Fax the information to (305)243-2186.

NOTE: \* indicates information is required

\*NAME:

\*ADDRESS:

\*CITY:

\*STATE:       \*ZIP:

\*PHONE:

\*DATE OF BIRTH:       \*SOCIAL SECURITY #:

\*BENEFICIARY NAME:

\*BENEFICIARY DATE OF BIRTH:

\*BENEFICIARY SOCIAL SECURITY #:

**\*I am interested in an annuity in the amount of:**   **\*I want to receive payments:**

\$10,000.00

Quarterly

\$25,000.00

Semi-annually

\$50,000.00

Annually

Other: