Volume I

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The Community Foundation of South Alabama

Planned Giving Handbook

Prepared for the internal use only of the Community Foundation of South Alabama and its endowment partners.
All donors must be cautioned to consult with and rely exclusively on their own attorneys or other financial advisors for tax and legal advice.

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Planned Giving

What Is Planned Giving?

Most giving is somewhat planned but not always. People give spontaneously for causes and needs that move them on the spot. Usually that giving is from their monthly income.

Some planned giving is also in the form of regular gifts each month from their monthly income. *Planned giving is that giving that usually comes from sources other than the regular monthly income, i.e., from the donor's "net worth."*

Examples of resources used for planned giving are securities such as stocks and bonds; property such as collections of art, coins or other valuables; real estate such as homes, vacation homes no longer needed, lots never used; and life insurance cash values, or policies no longer needed.

Gifts such as these tend to be larger and often intend to meet larger needs beyond the donor's monthly budgeted items. *They come in the form of bequests, trusts, gift annuities, or outright gifts* and can become endowments that maintain the principal and allow only the growth over time for spending. Often these gifts are to perpetuate the donor's annual gift after they are gone.

Donors generally make these kinds of gifts because of their love and concern for others and how particular charitable organizations reflect that love and concern. Often, a major motivational factor is gratification over having been served by the charity or school at a critical time in the life of the donor. It becomes a natural response from faithful stewardship practices during their lifetime. These gifts are special offerings of love that contribute to enabling the charity or school to continue to help others.

When a charitable organization has solid endowment program in place, such as the formal one adopted by each of the Kresge Phase II Challenge Grant Endowment Partners, a donor usually has a feeling of security about the future use of the gift. Being wise stewards (both donor and recipient) requires that we have assurances that our gifts are protected for their intended use, managed with responsible procedures, and cared for with the same love and concern that came with the gifts. Planned giving goes beyond just asking for gifts. It requires that the recipient have in place and follow disciplined procedures for accepting endowment gifts and managing them wisely.

The Community Foundation is committed to helping its endowment partners to effectively use the many available tools needed to grow their endowments and wisely use the planned gifts from their faithful supporters. The Foundation also can issue Charitable Gift Annuities for the benefit of its endowment partners to those of their donors who are residents of Alabama.

Planned giving is not a replacement for annual giving but a complement to the total funding of your charitable organization. Your organization can reap the rewards of sowing a well thought out and responsible plan for seeking, receiving and managing these planned gifts.

Philanthropy In Uncertain Times

by Robert F. Sharpe Jr. Robert F. Sharpe Co., Memphis, TN

This article is excerpted in part from a presentation Mr. Sharpe made on the impact of current economic and tax law changes at The American Bankers Association Trust, Asset Management & Marketing Conference in New York on January 28, 2002.

Throughout its history, an important factor in American life has been the vital role charities and philanthropic institutions have played in an economic, political and cultural mix that includes business, government and private philanthropy.

In challenging economic times, much of the public's focus is put on the health of the business sector. The continued existence of government is not seriously questioned, as taxing power assures its survival as long as business activity continues. Governments continue even in the worst of economic times. But what of the nonprofit sector? How does this sector fare during difficult economic times? Is it societal "fluff" that exists only during times of prosperity, or is it something that is resistant to the economic downturns that periodically affect the for-profit sector?

Our system of taxation is designed to result in the involuntary redistribution of wealth to a certain degree via progressive income, gift and estate taxes. The system is also designed, however, to recognize and to some extent subsidize an alternative system of voluntary wealth redistribution via the nonprofit sector. That is the underlying rationale for the charitable deduction from income, gift and estate taxes. There are, however, limits to the voluntary redistribution of income represented by the caps on the amount of charitable gifts that can be deducted for purposes of determining taxable income. These limits are currently 50 percent of adjusted gross income (AGI) for gifts of cash and the 30 percent of AGI limitation for gifts of property. The original charitable deduction introduced in 1917 was limited to 20 percent of AGI, so over the years lawmakers have seen fit to expand the amount of income one can divert to charitable purposes on a tax-free basis.[1]

No limit applies to the amount of wealth that can be devoted to charitable purposes through the estate. If desired, one can devote an entire lifetime's accumulation of wealth to the support of educational, religious, charitable, cultural and other activities and in so doing completely bypass estate taxes that would otherwise be due.

As a result of changes in attitudes in America over the past 20 years, we have increasingly come to rely on the nonprofit sector, and funds that are voluntarily directed there for philanthropic purposes, to meet needs that would otherwise be met by government or business, or not at all. Likewise in both western Europe and the re-emerging economies of eastern Europe, there appears to be a trend toward more reliance on certain social ends being accomplished with funds voluntarily donated to nonprofits/NGOs.

What does history teach us about charitable giving in times of economic distress? Note that in almost every year for the past 32 years, giving by individuals in America has increased. The most recently reported results for 2000 indicate that over $150 billion was voluntarily donated by individuals to America's nonprofits.[2] The only exception was 1987 when equity markets lost 20 percent or more of their value in a period of days. Even then, charitable giving dropped less than 5 percent.

Americans have consistently shifted the ways they make their gifts during times of economic slowdown. During the Great Depression of the 1930s the historical record indicates that overall giving in America dropped somewhat at the onset of economic hard times, but then grew steadily through the mid to late 1930s before rapidly accelerating during and following World War II.

Other evidence indicates that Americans shifted the ways they made their gifts during the Depression years. The New York Times reported on April 3, 1939 that giving to higher education, especially to the leading institutions of the time, held steady or actually increased during the Depression. Excerpts from an article entitled "Gifts to Colleges Hold During Slump" shed light on the predominant form of gifts during that time period:

"A survey of gifts and bequests to 49 American colleges and universities since 1930 indicated yesterday that gift receipts declined only 2.3 percent for the nine years from 1930 to 1938, compared with the nine previous years of prosperity.

The survey, made by the John Price Jones Corporation, showed a trend toward a concentration of gifts to fewer and larger institutions. Four of them received more money during the depression years than in the years of prosperity, while other colleges and universities received much less. Although [outright] gifts showed a decrease in depression years, the amount of bequests showed a sharp increase." — NYT, April 3, 1939.[5]

History reveals, therefore, that during times of economic distress, charitable giving in America typically continues, although increases may come primarily in the form of bequests and other testamentary gifts. These methods of giving were actively encouraged during the period from 1900 to 1930. One example of organized planned gift development efforts from that time comes from the annual report of Baldwin Wallace College published in 1910. In a section devoted to requesting support for the College, it is stated:

Whoever would like to support the annuity plan of the college with a larger gift should apply to the president for more information. In this plan, the donor himself receives the interest on his gift as long as he lives — a good plan for those who need the interest to support themselves. Whoever would like to remember the college with a bequest of either a larger or a smaller sum should use the following form:[6]

Over the years, bequests, gift annuities, charitable trusts and similar plans have proven to represent particularly resilient means of making charitable gifts as they appear to be much less sensitive to both short and long-term spikes and dips in the economy and may be seen as a way to hedge fund development efforts against hard times. In fact, these methods of giving far predate our current civilization. Note the excerpt from a treatise entitled *A History of Trusts and Charitable Foundations:*

"Long before the practice of making Wills and Testaments had developed, the leaving of property in perpetuity to other than paternal heirs was encouraged in both Egypt and Chaldea and was implicit in early Judaism. The Greeks first developed a concept of a "living legal heir" to whom property could be given in perpetuity during a person's life with the consent of his natural heirs. In the first century B.C., the Roman law modified this concept so that associations were considered as "sentient reasonable beings" and "immutable undying persons," and by the first century A.D. were permitted to receive bequests."[7]

Understanding Current Trends

One of the keys to understanding trends in philanthropy in uncertain economic times is to consider the "anatomy" of a charitable gift. Each gift has five parts — "who" makes it?, "why" do they make it?," "what" do they give?, "when" do they give it?, and "how" is the gift structured? Most charitable gifts are made immediately in the form of cash and represent a portion of the discretionary dollars that may currently reside in a checking account. Some who have been fortunate enough to enjoy gains from investments may choose to fund their gifts using property that has increased in value since it has been owned. Our tax laws in effect encourage this type of gift, as the lack of a "sale or exchange" results in avoidance of capital gain that would otherwise be due.

There have always been times when, for a variety of economic and personal reasons, donors will turn to somewhat more sophisticated means of completing their gifts using a variety of tools such as trusts, annuity contracts, insurance and other so-called "split interest" gifts. These gifts, along with bequests via wills and trusts are sometimes collectively referred to as "planned gifts."

During tougher economic times, more persons appear to be interested in planning gifts in ways that allow them to maintain income and/or access to principal if needed. This is perhaps one explanation for the previously referenced growth of philanthropy via estate gifts during the Depression years.

Since the 1930s, however, we have developed a much broader array of gift vehicles to help persons with the means and inclination to "vote with their dollars" during more difficult economic times. Because many of these alternative gift techniques involve the use of trusts, annuities, insurance and similar vehicles, it is essential that the estate and financial planning community be sensitive to their use, as clients may increasingly be turning to these means to fund their gifts. For example, one major medical research institution that is now embarking on a $1 billion funding effort is projecting that some $400 million of that amount will come in the form of realized bequests and irrevocable trusts, gift annuities and other deferred gifts completed during the campaign. This is not uncommon in today's environment.

The Most Attractive Vehicles

While many planned gifts will continue to be completed through the use of charitable remainder trusts, gift annuities and other traditional planning tools, other gift planning vehicles may now offer special advantages for charitable entities and those who wish to support them. As returns on equities and interest rates fluctuate over time, they create various climates that are more or less conducive to various types of gift planning vehicles.

One of the more attractive means of making larger charitable gifts in today's environment, for example, is through the use of the charitable lead trust. The lead trust holds special attraction in times when donors may be less comfortable with the idea of irrevocably transferring large amounts of their accumulated wealth for charitable use. In times when less wealth is being created, philanthropically inclined persons may be more interested in preserving what they have for the eventual benefit of their loved ones. The lead trust offers a way to accomplish both goals.

While "new" to some planners, the roots of the charitable lead trust can be traced to statutes enacted in England in the 16th century. Quoting from the aforementioned treatise on the history of charitable trusts:

"During the reign of Henry VIII, further restraints were placed on the creation of trusts for religious purposes with the enactment in 1531-32 of a statute that reiterated the Mortmain doctrine denying [religious] corporations the right to hold land without license, and prohibited the creation of trusts for religious uses of more than 20 years. Thus, the whole weight of the law as well as of policy was

exerted to mold the charities of England to secular ends and to assist donors in creating the great charitable institutions which were so profoundly to alter the structure of the English society."[8]

Trusts similar in form to modern day charitable lead trusts were thus utilized as exceptions to legal prohibitions against the perpetual transfer of property for religious purposes.

The economic environment today favors charitable lead trusts in ways that have not been seen since the 1970s. This plan was extremely popular during that time period. A 1977 Columbia Law Review article entitled "A Voluntary Tax? New Perspectives on Sophisticated Estate Tax Avoidance," prominently featured the charitable lead trust as a primary tool for use in reducing or totally eliminating the impact of the estate tax.[9]

Floating Rates

This was the case because prior to 1983 the discount rate used to determine the present value of the charitable interest represented by payments from a lead trust was set at an artificially low 6 percent. That rate was raised to 10 percent in 1983, effectively crippling the use of charitable lead trusts. In 1989, the current system of causing the discount rate to "float" with the federal midterm funds rate caused the rate to increase to as high as 11.6 percent in May, 1989. In a remarkable shift over the past decade, the statutory discount rate has fallen to 4.8 percent as recently as December, 2001. The rate for February, 2002 was 5.6 percent, lower than it was during the prime years for charitable lead trusts in the 1970s.

In addition to taking advantage of a favorable interest rate environment, the charitable lead trust offers an effective way to "leverage" the increases in gift and estate tax exemption amounts that became effective January 1, 2002. This can be especially true for those who wish to make significant charitable gifts while not depriving younger heirs of an eventual inheritance.

Example: Barbara and Harold are both age 55. Barbara recently inherited $5 million from her mother. She and her siblings each inherited that amount. Her mother's estate was in the range of $25 million and taxes amounting to several million dollars were paid at her death. Needless to say, Barbara is pleased to learn that Congress passed legislation in 2001, that may eventually result in her estate not being subject to this tax again at her death. She and her husband have already accumulated a significant amount of wealth and they have used all of the exemption amount available to them under the pre-2001 tax act law.

Barbara and Harold are pleased to learn that they are now each entitled to make an additional $325,000 in tax-free gifts as the gift and estate tax exemption amount rose to $1 million on January 1, 2002.

Barbara and Harold had a daughter who died at the age of 12. They would like to make a significant gift in her memory to fund research and treatment of the disease that took her life. They have two other children, ages 24 and 26. Neither of them has yet found gainful employment and Barbara and Harold are worried that they may have been given too much too soon.

Barbara and Harold have been urged to consider creating a private foundation as part of their long-range financial planning. They are reluctant to transfer large sums irrevocably at this time as they are uncertain whether estate taxes will continue to be a consideration. As an interim step, one of their advisors suggested that a good way to make use of the additional $325,000 they have available in estate tax exemption beginning in 2002 is through the use of a charitable lead trust.

They are pleased to learn that they can place $2 million, about 20 percent of their net worth, into charitable lead trusts that will pay 6.8 percent to a fund for cancer research for 15 years. This will result in a gift stream of $1,020,000 from each of them over 15 years, a total gift between them of $2,040,000.

Barbara and Harold file gift tax returns and report gifts of $1 million each in the form of the lead trust remainders to their children. Because of the intervening income interest to charity, the charitable gift tax deduction is $675,090 each, leaving $324,100 taxable to each, which is almost exactly the amount of the $325,000 additional exemption to which they are entitled beginning January 1, 2002.

Through wise planning, they have each made a significant gift to fund research for a 15 year period, while they have used the lead trust to increase the amount they could give to their children from $325,000 each in the form of an outright gift which they don't want them to have today, to a $1 million gift they will receive in 15 years after they have had the chance to become self sufficient. Each child is told that, barring special circumstances, they will receive no more assistance from their parents for the next 15 years. The children could receive the trust corpus tax free in ten years if the payout was increased to 8.88 percent. Barbara and Harold are pleased that their children will receive this portion of their inheritance at a time that is appropriate without the payment of estate taxes, regardless of whether the planned elimination of the estate tax actually occurs.

Creating a Permanent Endowment

Is there a way to also create a permanent endowment using the charitable lead trust? If the charitable recipient of the lead trust payments in the above example devoted half of the lead income interest each year for research purposes and placed the remaining amount in a perpetual endowment fund in memory of the daughter, a significant endowment would remain at the time of the termination of the lead trust.

Note: from the perspective of the trustee of the trust, it will manage a $2 million trust for 15 years and a $1.5 million endowment trust which remains to be managed following the termination of the lead trust.

A Temporary Private Foundation?

Suppose in the example above that Barbara and Harold had wished to transfer $10 million to their children tax free. The term and payout referred to above would not be sufficient to accomplish that result. They could, however, change the payout rate to 7.5 percent for a period of 25 years. Their children would receive their inheritance tax free in their early 50s and gifts totaling $18,750,000 would be made to charitable interests during the time the trust was in existence.

In some cases, people like Barbara and Harold may be advised to create perpetual private foundations and allow their children to draw salaries to serve as managers, in lieu of payment of 50 percent or more in estate taxes. While that can be good advice, consider how a wealthy couple might respond when told there was a way to achieve the avoidance of the estate tax without permanently depriving their children of their wealth! The lead trust can be seen as a vehicle that in essence accomplishes that result. What if the 7.5 percent return is not achieved? Some of the corpus will be distributed to charity in satisfaction of the annuity payments and the family may receive somewhat less. But what corpus does the family ultimately receive in the case of a private foundation? None.

Some donors may choose to direct all or a portion of the funds paid from the lead trust to a donor advised fund sponsored by a community foundation or other entity and provide that their children advise on the disposition of all or a portion of the income from their inheritance while they wait to receive it. The children can thus learn about the philanthropic responsibilities their parents believe comes with their wealth before they enjoy the benefits of its complete ownership.

Creating a "Flexible Endowment"

In today's environment there are many philanthropically inclined persons who have amassed substantial wealth but are still in the "accumulation" phase of life, and do not yet feel comfortable in parting with large amounts of their capital, because they are not yet "finished" with it. This will be increasingly true as a larger percentage of wealthy persons who are philanthropically inclined come from the ranks of the baby boomers who are now in the age range of 37 to 55.

Entrepreneurs and those with significant equity holdings in entrepreneurial ventures have accounted for much of the wealth that has been created during the past 20 years. Traditionally, such persons do not engage in philanthropy until later in life after they have retired and "cashed out" their capital. That is often not from a lack of interest, but rather the perceived lack of ability to make significant gifts from illiquid assets. The capital they have is a precious commodity that was obtained through bootstrapping earnings, borrowing, or the sale of equity interests in their enterprise.

These persons may also have much higher levels of risk tolerance than those who manage charitable endowment funds. They sometimes believe they can earn much greater returns on their capital than endowment managers, and many times they are correct.

During recent years, leading institutions including Cornell University and others, have pioneered a concept known as Flexible Endowments, Virtual Endowments, or other similar appellations.

Whatever they may be called, such gifts typically involve one or more of the following features:

- A donor makes a gift commitment of a substantial sum.
- Annual payments are made equal to the charity's opportunity cost.
- The eventual endowment amount is indexed at rate of growth of charity's endowment assets.
- The commitment is fulfilled at time of sale of business, death, or some other agreed upon time.

The term, "flexible endowment" was coined to describe the flexibility experienced from the perspective of the donor. The term "virtual endowment," on the other hand, is sometimes used to describe this gift vehicle from the perspective of the charitable recipient, as it is the immediate beneficiary of a flow of income very similar to what would have been enjoyed had the donor transferred full ownership to the capital.

Example: John, age 48, is the founder of a very successful business. He started the business on a shoestring 15 years ago. Today it enjoys a market capitalization of $100 million. John has sold much of the equity in the company over the years to raise working capital. He now owns $25 million worth of the stock and does not wish to further dilute his ownership in the company. He believes that his shares will grow in value rapidly over time and be worth more than $500 million in ten years when he plans to sell his remaining stake in the business and retire. His income is now in the range of $2 million per year.

John was rated as capable of making a $5 million gift to a campaign for endowment. After being asked for this gift, he responded that he was flattered to be considered to be capable of making a gift of this size, but he did not have liquid assets sufficient to fund the gift, and he was not in a position at this point to take more capital out of his company to make it possible to make this gift, as he does not want to decrease his percentage of ownership or seem to be evidencing to fellow investors a lack of confidence in the future of his firm. He also believes that if he keeps his capital employed in his company, his stock value will grow at a projected rate of 14 percent annually, twice the 7 percent total return anticipated by the managers of the charity's endowment funds.

Planned Giving

After subsequent discussions, John agreed to fund a flexible endowment in the amount of $5 million. The terms of his gift are as follows:

- He makes an irrevocable, legally enforceable pledge in the amount of $5 million.
- Each year, John pays an amount equal to an agreed upon percentage of the flexible endowment amount or the actual percentage of endowment spending for that year, as agreed upon at the time the gift commitment is completed.
- The virtual endowment amount is indexed upward or downward depending on the growth or decline in the charity's endowment assets (the adjustment could alter natively be tied to CPI or some other index).
- John agrees to complete payment of the indexed flexible endowment amount at the end of a specified period of time, at a time of his choosing, or at his death. The pledge is backed by a contingent bequest or other testamentary gift.

John pays an amount equal to the percentage of endowment spending applied against the amount of his virtual endowment. The virtual endowment amount is indexed upward or downward depending on the growth or decline in the charity's endowment assets.

John agrees to pay the indexed virtual endowment amount at the end of a specified period of time, at a time of his choosing, or at his death. The pledge is backed by a contingent bequest or other testamentary gift.

Both John and the charity consider this gift commitment to be a "win-win" situation.

Looking ahead ten years, if the charity experiences a total return on its endowment of 7 percent, spends 4 percent on programs, and leaves 3 percent in its endowment funds, John's "completion amount" at that time would have been indexed to $6.5 million.

If John's stock grows at an annual rate of 14 percent, in ten years John will be able to complete his commitment while netting over $70 million on a sale of his stock after payment of the pledge balance and all of the annual payments over the years. Because of the growth rate differential, it will require just 8.4 percent of his assets to satisfy the pledge in ten years rather than the 20 percent of his assets it would require today. If the arrangement continued and John's estate fulfilled the pledge at his death in an estimated 25 years, it would require less than 2 percent of the anticipated value of the stock to complete a pledge that would be indexed to $10.1 million at that time.

Note that for whatever period the commitment remains outstanding the charity is receiving payments from John each year equal to the 4 percent of the "endowment" it would be spending if the funds were in hand. If the flexible endowment is in existence for ten years, in addition to the final payment of the indexed endowment principal amount, John will have paid a total of $2.3 million over time. Over 25 years, John would have made annual payments to he charity $7.3 million.

In the example above, while one may legitimately question whether John will actually earn 14 percent on his capital over the years, the fact remains that many persons in John's position believe they can return significantly more on their capital than those who are managing assets for traditional endowment returns. In other cases, especially in times of economic uncertainty, a donor may simply feel they must continue to maintain access to their capital. While they are not comfortable with transfer of underlying assets, they may have sufficient income to "monetize" their endowment pledge from the charity's perspective until such time as they have the means and/or the confidence to completely fulfill their gift.

There are a number of variations on the plan outlined above. As noted in the example, the annual payment can be tied to the actual rate endowment spending of the charity, or an initial amount could be agreed upon and then indexed using the consumer price index (CPI). Likewise, the "endowment" amount could be indexed by the amount of the change in CPI or other index rather than the growth experienced by the charity. This removes the effect of investment and spending rate fluctuations that may occur that are beyond the control of the donor.

From a gift crediting standpoint, a flexible, or virtual, endowment will often be announced as a gift for the full value of the commitment, as the charitable recipient has all the practical benefits it would have if the funds were resident in its endowment fund.

Elimination of the estate tax would have little impact on this gift as it functions as a substitute for a current gift. With no estate tax, donors would have a greater incentive to fulfill the pledge during lifetime when income and capital gains tax savings could be realized, as there would be no tax advantage to a bequest and capital gains taxes would, under current law, no longer be avoided at death due to the scheduled elimination of the "stepped up" basis at death.

Conclusion

The world we live in is constantly changing. Economic cycles come and go. There is perhaps no historical precedent for the amount of wealth that has been created over the past several decades. Some may continue to build their wealth. Others may lose a portion of what they have accumulated. In any event, short of a complete economic meltdown, history tells us that philanthropic activity will continue and will in all likelihood grow. At the same time, demographic realities tell us that business and governments both in the U.S. and abroad will be hard pressed to provide for the needs of aging baby boomers at the same levels as previous generations. As a result, nonprofits and NGOs will in all likelihood be called upon to do more than in the past.

During more challenging economic times the form of charitable gifts can be expected to change. But regardless of economic cycles, there will apparently always be those among us who have been given to a philanthropic spirit. Those persons tend to be among our brighter lights, those who for whatever reason decide use a portion of the energy they have stored in the form of their accumulated capital to point the way to a better future for us all. One of the most rewarding aspects of the role of estate and financial planners and representatives of charitable interests is the privilege of helping these special people accomplish their goals in ways they may never have thought possible.

Endnotes

1. *The New York Times,* July 12, 1917.
2. *Giving U.S.A. 2001,* AAFRC Trust for Philanthropy.
3. *Id.*
4. Andrews, F. Emerson, *Philanthropic Giving.* Philadelphia: Russell Sage Foundation, 1950.
5. *The New York Times,* April 3, 1939.
6. Annual report of Baldwin Wallace College, 1910.
7. Kutner, Luis, *Legal Aspects of Charitable Trusts and Foundations,* Chicago: Commerce Clearing House, 1970.
8. *Id.*
9. Cooper, George, *A Voluntary Tax? New Perspectives on Sophisticated Estate Tax Avoidance,* Columbia Law Review, March 1977, New York: Columbia University.

Planned Giving

Planned Giving One-liners for Bulletins and Publications

1. Preparing an estate plan is good stewardship and a way of saying thanks to God, expressing your love and concern for family, and showing charity toward others.

2. Remember, if you have no will or trust, the laws of your state will determine who will inherit your property at your death. State laws do not include Spring Hill College or any other charity as a beneficiary.

3. Consider naming Spring Hill College as a beneficiary in your will or living trust. The gift could be a set dollar amount, a percentage of your estate, the remainder after other gifts are made, or a gift of part of the estate left if designated heirs are deceased.

4. Did you know that there is no limitation to the size of a charitable gift that may be given to Spring Hill College at the time of your death. No matter how large, the gift is deductible for federal estate purposes.

5. Think about the part you want to play in assuring the future of Spring Hill College. You have the opportunity to support the college in many ways. Naming Spring Hill as a beneficiary in your estate plan or the making of an endowment gift can assure your continued participation in this ministry far into the future.

6. Giving to Spring Hill College through your will is the most common way to continue your support beyond your lifetime. When your estate plan is prepared, consider a gift to Spring Hill College.

7. Life insurance is a way to make a larger gift to Spring Hill College than you might otherwise be able to afford. Consider naming Spring Hill as a beneficiary of any insurance policy.

8. Our trustees and president enthusiastically support planned giving to Spring Hill College. Contact the development office for more information.

9. We accept endowment gifts. The income will be used for special projects of the college. The principal of the gift is never spent and continues indefinitely.

10. Anyone can give an endowment gift. Any size gift may be made as an endowment. You may do this now or as part of your estate plan.

11. Under current laws, appreciated securities and real estate can be deductible for federal income tax purposes at their present fair market value. In most cases, the appreciation is not taxed to you at all. Consider using such outright gifts to pay your pledge, for special gifts, or toward an endowment.

12. Consider gifting property to the college now, while keeping the annual income until your death. You may even give your home and keep the use of the property until your death. A current federal income tax deduction is available for the value of such gifts to Spring Hill.

13. A gift can be made to Spring Hill College by selling the college an asset at less than current value. The difference between the sales price and the current value is a gift to the college. This gift can qualify for a federal income tax deduction.

14. Consider transferring the ownership of some of your life insurance to the college. The cash value, when given, plus the annual premium, can qualify for a federal income tax deduction.

15. Consider naming Spring Hill College as a beneficiary of your life insurance or retirement plan. If you have named other beneficiaries, consider naming the college as a secondary or backup beneficiary in case the first beneficiary is deceased at the time of your death.

16. You may specify that your bank accounts are in trust for Spring Hill College. You retain total control over the account during your life. However, the property passes to the college at your death, without probate.

17. Stocks and bonds are an excellent means of making a gift to Spring Hill College. You can be entitled to a federal income tax deduction, if you give these securities to Spring Hill during your lifetime. Ask your professional advisors for assistance.

18. If you are a stockholder in a closely-held corporation, consider having the corporation make a gift to Spring Hill College. Like individuals, corporations can deduct charitable gifts.

19. Some corporations have programs to match gifts that are made to charities by their employees. This is a way of effectively increasing your gift to Spring Hill, if it is available. Ask your employer.

20. Spring Hill College will consider gifts of jewelry, art, coin collections, antiques, mineral rights and related items. These gifts can be made during your lifetime or at death. Contact your tax advisor for more information about how to calculate your tax deduction.

21. Retirement funds present new opportunities for giving to the church. You may want to name the church as the beneficiary of your individual retirement account or other retirement funds, in the event that you or other family members die before receiving all of the funds.

22. Real estate offers opportunities for giving to Spring Hill College. Consider the gift of vacant land, condominium, commercial property, home, farm, or other types of real estate. You could be entitled to a federal income tax deduction for the fair market value of the property at the time the gift is made.

23. Consider making a gift of your personal residence or farm to Spring Hill now and continuing to live there until your death. An immediate income tax deduction may be available for this arrangement. Maintenance costs might also be shared. At your death the property would be available for use by Spring Hill.

24. Trusts allow you to make a gift to Spring Hill College in the future. You may set up the trust now, keep the income for yourself or other beneficiaries as long as you choose, or for life. Spring Hill College would receive the property after that. Current income tax deductions may be available.

25. Charitable Remainder Trusts or Charitable Lead Trusts allow you to make a gift to Spring Hill College of income or principal, while keeping one or the other for yourself or other beneficiaries. We urge you to investigate these possibilities with your tax advisor.

26. Memorial gifts meet two important needs at once. They allow you to express your feelings at the loss of a loved one. In addition, the gift to Spring Hill helps support its time honored and unique educational mission. Appropriate cards are sent to the bereaved family indicating the fact that your memorial gift was made without disclosing the amount of the gift.

27. The Trustees and President of Spring Hill College enthusiastically supports the college's planned giving program. If you are interested in making any special gifts to Spring Hill, feel free to discuss this with a member to the college's development staff. They will help put you in touch with appropriate advisors.

28. Have you received an inheritance? If so, consider gifting part of the inheritance to Spring Hill College, in memory of the loved one who remembered you. You can make this gift now or in your estate plan.

29. Consider making an endowment gift to Spring Hill College for a scholarship fund or other memorial in the name of your family. In this manner, your family name can live on forever. Feel free to discuss any special programs or projects you would like to support with a member to the college's development staff.

30. If a special friend or relative precedes you in death, consider commemorating this individual through a memorial gift to Spring Hill. This will show your appreciation for this treasured relationship and help the college. An acknowledgment card will be sent to the surviving family, letting them know of your gift, without disclosing the amount.

31. Consider giving the use of your property to your heirs for the duration of their life, but having the property left at their death pass to Spring Hill College as a memorial. Your surviving beneficiaries will have the use of the property for their life. The property will help the college's time honored and unique educational mission.

32. Did you know that the state has made a will for you if you have no will yourself? These laws might not leave your property to the people you wish. These laws definitely don't leave any property to a time honored and unique educational mission or any other charity. Shouldn't you prepare a will or living trust?

33. How long has it been since you updated your will? Does it carry out your wishes? Does it leave any gift to allow the college to carry on its time honored and unique educational mission?

34. You can share your commitment to Spring Hill beyond your lifetime by signing your estate planning documents now. You will have the satisfaction of knowing that whatever you do not use in this life, will continue after your death to help shape the lives and character of those who come after us.

35. Have you written and signed a will or living trust? If not, the state will do it for you, and state intestacy laws do not include any gifts to Spring Hill College.

36. When you make your estate planning documents, consider naming Spring Hill College as your final beneficiary.

37. There are many reasons to update your estate planning documents. One is to include a gift to Spring Hill College.

38. Have circumstances changed since you last updated your estate plan? Do your current estate planning documents carry out your commitments to the college? If not, amend your documents now.

39. Did you know that an estimated 70% of all people who die do not have a will or living trust? Without proper estate planning, no charity can receive gifts from your estate. Be sure your estate planning is up to date. Do you know who your heirs will be? Is Spring Hill College a beneficiary of your estate?

40. Proper estate planning can reduce administrative time, expense and inconvenience. Document your estate planning properly. Consider giving Spring Hill College the administrative costs and taxes you could save.

41. Remember Spring Hill College in your will and living trust.

42. Who needs estate planning? Every adult who is legally competent, who owns anything and cares about who receives it at the time of their disability or death. In addition, estate planning is necessary for anyone who wants to leave a bequest for Spring Hill College.

43. Have you moved to another state since signing your estate planning documents? If so, consider having the documents checked by an attorney in the new state. In addition, consider naming Spring Hill College as a beneficiary.

44. Your will is the proper place to name the guardians for your children. Pick your guardians yourself, rather than leaving this decision to the probate courts. In addition, consider naming Spring Hill College as a beneficiary.

45. Who will receive your property if you and your immediate family are deceased? Consider naming Spring Hill College as the final beneficiary in your estate plan.

46. Good stewardship requires us to think of the future. Have your estate plan prepared now and include a gift to Spring Hill College.

47. Avoiding probate or minimizing estate taxes at death requires proper planning. When you are doing this planning, consider including a gift to Spring Hill College.

48. The gifts you make in your estate plan can carry on your charitable support after your death. Consider making a gift to Spring Hill College in your estate plan.

49. Don't wait to have your estate plan prepared. None of us knows when his or her life will end. Prepare your estate plan now and remember that a gift to Spring Hill College will help others even after your death.

50. Be sure that your estate planning documents are properly prepared. A homemade will can result in unnecessary expense and delay. When your documents are prepared, consider naming Spring Hill College as a beneficiary.

51. A gift to Spring Hill College is a testimony to the faith and the confidence you have in the college's unique and time-honored Jesuit tradition of educational excellence for the body, mind and spirit.

52. Did you know that owning all of your assets jointly may result in paying federal estate taxes that might be avoided through proper estate planning? Ask your tax advisor and consider having your advisor add Spring Hill College to your estate plans as a beneficiary.

53. The costs of having your estate plan prepared can be a terrific bargain. You may save many times the cost in taxes and administrative expenses to your heirs. The estate planning can also make it possible for you to make a gift to Spring Hill College.

54. Did you know that you can name Spring Hill College as a beneficiary of your estate in several ways. Consider gifting the college a specific amount, a percentage of your estate, the remainder of the estate after other gifts are made, or gifts whose beneficiaries predecease you.

Ways to Give

There are many ways to make charitable contributions that support and help assure Spring Hill's future ability to provide a quality education to students of excellence regardless of their economic backgrounds. A well-planned gift can combine financial and charitable objectives by providing tax benefits and helping you achieve personal goals.

The most common ways to make a gift are the following:

Outright Gifts

Cash: Checks, cash or money orders are simple, immediate ways to give. They provide the Spring Hill with funds for immediate use and a donor with immediate satisfaction. You may also make a multi-year commitment, payable over time.

Securities: These are ideal gifts, particularly if the securities have appreciated in value, because of the charitable tax deduction a donor may receive. If sold by an individual, the proceeds are subject to the capital gains tax. If donated, however, the gift value is the fair market value of the stock on the delivery date to the Spring Hill College.

Real Estate: The benefits are similar to those provided by securities. The gift is determined by the appraised value of the real estate. It may be advantageous to give real estate to Spring Hill College, and possibly realize income and estate tax savings, especially if the property has appreciated in value.

Personal Property: Objects of art, rare books, furniture, coin/stamp collections, automobiles, boats, and other such items may be donated to Spring Hill College.

Bequest

A bequest to "The Trustees of Spring Hill College" can be for a designated dollar amount, a percentage of your estate or a specific piece of property. It can be designated for either general or restricted purposes. A charitable bequest reduces the taxable portion of your estate for federal tax purposes.

Life Insurance

A new or existing life insurance policy can make an excellent gift. A modest annual premium payment for a new policy can become a significant contribution, without affecting other assets intended for family members. By designating "The Trustees of Spring Hill College" as the owner and beneficiary of a policy, you may qualify for an immediate tax deduction.

Gift Annuities

A Charitable Gift Annuity can provide a substantial gift to the permanent endowment for the benefit of Spring Hill College maintained at he Foundation, while providing income, estate and gift benefits. Money can be paid to a person, a couple or family members, depending upon the income arrangement created. The Charitable Gift Annuity should complement your personal financial plans.

"Split-Interest" Trusts

Charitable Remainder or Lead Trusts can be used to make a significant gift to the Spring Hill while simplifying estate plans. These should be set up with the support of professional planners and can accomplish any number of financial goals while helping to assure a quality education for future generations of Spring Hillians.

Points to Remember

Plan your charitable giving. This will help you maximize both your tax advantages and your ability to support the mission of Spring Hill.

Identify your objectives. Develop a clear picture of the benefits you want for yourself, your spouse, your family, your friends and Spring Hill.

Keep good records. This is particularly important for establishing the fair market value of personal and real property contributions.

To include the Spring Hill in planned gift documents, the legal title is: The Trustees of Spring Hill College.

For More Information, Contact:

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Wills Emphasis Programs

How To Plan and Successfully Carryout a Wills Emphasis Program for Your Organization

Introduction

After an endowment program is established, an appropriate first step in promoting your planned efforts is to enter into a wills emphasis program. Such an emphasis provides a welcome and appreciated service to your supporters and friends as they plan ahead for the care of family and loved ones and will also serve to encourage gifts to endow the future of your philanthropy.

It is estimated that approximately 70% of all Americans die without a will. In addition, many wills prove to be outdated and inappropriate to the circumstances and commitments at the time of death. It is likely that there are a great number of your supporters and friends who do not have a will. And of those who do, only a few have included a charitable bequest.

Purpose of Wills Emphasis

The purpose of your wills emphasis effort is threefold:

1. To challenge each supporter and friend to make a will without delay.
2. To persuade each supporter and friend to review their will annually. and update it in light of changed circumstances and commitments.
3. To encourage each supporter and friend to endow his or her values by including some provision in the will for the future support of your philanthropy.

A Checklist for Planning Your Organization's Wills Emphasis Program

FIRST STEPS

- Have an endowment development strategy in place. Be prepared to receive not only lifetime planned gifts but also bequests.
- Consider who from among your volunteers and staff should be responsible for planning and promoting the program — perhaps a task force appointed by your governing body, an existing committee, etc.
- Have individuals of that group learn more about your wills emphasis.
- Use the assistance in planning and carrying out the program by the Community Foundation's staff.
- Schedule a meeting with the planning group, allowing about 1-_ hours for the meeting.

PLANNING MEETING

At the planning meeting, begin with basic information about wills emphasis including:

- The importance of making and updating a will.
- The purpose for a wills emphasis: to challenge each supporter and friend to make a will, to persuade each supporter and friend with a will to make a periodic review, and to invite them to remember your philanthropy in their will.

Consider the use of a wills survey or other way of determining the need for a wills emphasis program in your organization.

Identify professionals, such as the volunteer lawyers associated with the Foundation's Professional Advisor Committee, who will be available to assist.

Develop a plan for a specific period, perhaps six or nine months, being sure that it fits into other existing development plans of your organization and into any special programs and activities you may schedule. Consider using the following elements in your plan:

- Articles in your newsletters or other publications.
- Special mailing with a brochure.
- Small group meetings (existing groups or special groups) in the homes of your friends and supporters.
- A wills event for your organization, with the volunteers from the Foundations Professional Advisor Committee invited in as presenters.
- Opportunities for individual counseling and referral.
- Acknowledgment of bequests with thank you notes and with membership in a bequest society you may have or establish such as the *Heritage Society.*

IMPLEMENTATION

- Make a detailed proposal to your governing board for adoption or approval.
- Implement the wills emphasis program as planned by the committee.
- As closure, plan an evaluation and reporting time to your governing board.

Why Wills Are Important In Estate Planning

A guide for development professionals in discussing wills and bequests

There are two fundamental advantages wills have over other planned giving devices.

1. **Everybody knows what a will is.** Unlike trusts, life estate contracts, and many other instruments, we may assume that our people already know what a will is. Many do not understand what a will can *do,* but they at least know what a will is.
2. **Everyone needs a will.** Some folks are convinced that they don't need a will. Joint ownership, small estates, and lack of heirs are commonly cited reasons some persons feel they don't need a will. Yet it is a fact that few persons are completely happy with the way their property will be distributed if they die without a will. Even if an unusual person should wish to allocate property completely consistent with the law of descent and distribution of property in his/her state, a charitable organization can raise one indisputable claim. No bequest can be made without a will.

If one believes that their time here on earth is incomplete without a specifying charitable bequest in their estate plan, a will is a necessity to make it happen.

Begin your planned giving emphasis with education about wills. People know what you're talking about, but most folks don't have one yet.

Surveys consistently report what probate courts substantiate — most people don't have wills. While over $120 million is piling up in probate courts each week with intestate estates, less than half the population has a will. According to a recent study, only 15% in the U.S. has a will in which they have included a bequest for charitable purposes. The most commonly cited reason for not doing so, as incredible as it may seem, is, "It never occurred to me." Clearly this presents a huge resource for growth.

What Are the Advantages of Someone Including Spring Hill College in Their Will?

Religiously, everything. By remembering the college, you acknowledge your debt to God and express your continuing commitment to furthering the college's unique and time-honored tradition of academic excellence even after your death. Charitable giving has become an accepted part of our society for many reasons. Aside from humanitarian, moral and religious aspects, tax benefits have assumed increasing importance. The government actually encourages people to leave money and property to educational, charitable, and religious institutions by exempting them from inheritance taxes. Any property you leave for charitable purposes to such eligible charitable organizations is tax exempt.

How Long Is a Will Good?

A will is valid until it is changed or revoked. However, marriage of the testator (the name given to the person whose will it is) after a will has been written may substantially alter the effect of the will. A change in other circumstances, such as tax laws, marriages, births or deaths in a family, divorces, or even a substantial change in the nature or amount of a person's property holdings may make a change in a will desirable, to confirm to a testator's wishes under the new conditions.

Do Your Values End with Your Death?

Everything we possess is the gift of God. We are stewards of all we own and we are stewards of what we shall leave in this world when we depart this life. Only we have the privilege and responsibility to decide what shall be done with our possessions here and hereafter. Through a will, caring persons can assure themselves that their values will not end with their death. Through wills people cannot only deepen their own spiritual life, but they can expand service to others far beyond their own lifetime. They can help the great work of the college in their own community and through the world.

Your Will, Why Do You Need Legal Advice?

Good intentions are not enough for drawing a valid will. Your intentions must be stated in accordance with the laws of your state and expressed in language that cannot be misinterpreted. Only a competent attorney can help you draw your will so that it can carry out your wishes exactly. Remember, you will not be present to clarify any misunderstandings. A valid will must clearly express your intention, using appropriate language to provide for the transfer of property interests under the existing laws.

When You Include The College In Your Will

A bequest in your will may be directed to support the general support of the college or to one or more specific purposes. For example, you may wish to make a bequest in your will to provide for capital improvements or a scholarship fund or some specific equipment. The college's development staff can assist you in the selection of specific bequests.

Before You Make Your Will

1. Make a list of all your assets — money, property, valuables — and the exact name in which title is held.
2. Prepare a list of loved ones and friends whom you wish to remember in your will.
3. Write down the name of the college and any charitable causes or institutions to which you wish to make requests.
4. Write out exactly how you wish your assets to be distributed.
5. Discuss with a member of the college's development staff how you can exercise your "will power" help in furthering the mission of the college.
6. Make an appointment to see your attorney; show him/her your memorandum, and ask him/her to draw a will for you in accordance with your wishes.

The cost of preparing a will is very nominal in terms of the importance of it being done right. Your attorney can advise you about appointing an executor, taxes to be paid or saved, and other helpful suggestions.

Review Your Will

A will expresses the manner in which a person wishes his or her estate to be distributed in the event of his or her death. Since situations and circumstances change, it should be kept up-to-date. Some of the events which may affect your will are: births, deaths or disability, marriages, divorces of beneficiaries or executor, changes in manner of holding property, change of residence, changes in laws, change in economic conditions, and many others. Since your attorney should prepare a will, it should be also kept up-to-date through frequent interviews with him or her.

Stewardship Through a Will

Many voices in our day emphasize the wisdom of making a will. These add strength to our conviction that the college renders a service when it encourages its alums and friends to make wills. A will enables one to continue special interests after death; perpetuates one's influence and personality for generations; guarantees safekeeping of the mission of the college; and influences lives, which follow. A will enables one to not only touch the future but also to assure that their values will positively touch and affect the generations of the future.

A Will — the "Moment of Truth"

You face the "moment of truth" when you become actively concerned about your will. Memorable events and interests in your life may flash before you as you recall those people and situations most meaningful to you. Your family and loved ones and your college, which nurtured and shaped you during your life, will be of primary concern. By making a will, a person plans the disposition of the fruits of an entire life's work, the welfare and future of loved ones, and the strengthening of the causes and institutions, which have meant most in one's life.

About Those Do-It-Yourself Wills

Drawing a will is not a "do-it-yourself" proposition. Only a skilled lawyer has the special education and experience to draft a will. Computer generated or pre-printed will forms were one simply "fills in the blanks" and believes they are saving a lawyer's fee can be disastrous. Ready-made wills necessarily must be designed for a hypothetical average person. And in real life, nobody is "average" in assets and circumstances, or in hopes and plans for the future welfare of dependents and loved ones. Certainly the causes and institutions to which each individual is devoted are as different as night and day. To be valid, your will must declare your own personal intentions as to the distribution of your possessions. A shortcut that purports to "save" lawyer's fees could prove the world's worse bargain for your heirs and beneficiaries — and the college and other causes that are important to you.

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Your Will

The Advantages of a Will

- You direct the way your assets will be handled after your death, not the laws of the state.
- You can provide for special family needs.
- You can plan for a business or farm to remain in the family.
- You can extend your values beyond your lifetime.
- No matter how large or small your estate, writing a will is basic to good stewardship. Careful estate planning makes sure those you love, family, friends, and the charitable organizations that reflect your values, are provided for.

Who Needs a Will

Every adult should have a will. If you die without one, the laws of your state, not you, will decide how your assets are to be distributed, and your heirs night have to pay out unnecessary extra expenses and taxes. To avoid this, you need to arrange for someone to see that your wishes are carried out after you die:

- an executor or personal representative who works with your attorney to settle your estate.
- a guardian entrusted to care for your minor or dependent children.
- a trustee to manage the assets of any trust your will may establish.

Be certain to choose an alternate for each of your representatives in case the person named cannot serve when needed.

How To Write a Will

When writing a will, it is important to ask the help of an attorney, who can express your wishes in proper legal language. Most will write a simple will for a reasonable fee. For large estates, it may help to include other financial professionals on your estate planning team.

To be certain that your will reflects your beliefs and values, it may also be helpful, before consulting a lawyer and a financial expert, you should consider consulting the planned giving staff of the charitable organizations you wish to favor.

How To Provide for Loved Ones

The financial needs of your survivors are a primary concern when writing a will, and these needs change over time. When deciding how your estate should be distributed, family needs should be a major concern.

- If your spouse with young children survives, the entire estate should generally go to your surviving spouse.
- If both you and your spouse die and minor children survive, only the children should benefit from the estate, in most cases.
- When your youngest child becomes independent, you may decide you are able to designate a larger portion of your estate to support the work of an agency you care about.
- Special provisions should always be made for children with disabilities
- Your survivors may benefit from your having a testamentary trust. A trust is an excellent way to provide for minor children if both you and your spouse die. It can also be used to save death taxed in larger estates, provide for disabled or spendthrift children, or manage assets left to a surviving spouse.
- If you and your spouse or your entire family die at the same time, most wills have a "common disaster" provision.
- If you are a parent and die leaving minor children, the estate is generally left to your children, often in the form of a testamentary trust.
- If your entire family dies, the "common disaster" provision gives you the opportunity to direct a greater portion of your estate to support people and programs you care about.

What To Consider

There are a number of ways to reflect your beliefs and values in a will.

- You can use the opportunity to express your values, perhaps by adding a statement reflecting those ideas and ideals in your opening paragraph that have been your guidestars during your life.
- You can include words that say writing a will is more than a routine business transaction for you.
- You can make fair, sensible, adequate provisions for your loved ones in keeping with their needs and the size of your estate.
- You can record your wishes on such matters as who should receive specific family heirlooms and keepsakes.
- You can make arrangements to support your favorite charitable endeavor by including the correct legal language such as that appearing in the next section.

Specimen Bequests Clauses

UNRESTRICTED GENERAL LEGACY

I give to the Trustees of Spring Hill College in Mobile, Alabama the amount of $________dollars for the general purposes of the college.

GIFT FOR A SPECIFIC PURPOSE

I give to the Trustees of Spring Hill College in Mobile, Alabama the amount of $___________dollars to be added to its endowment and to apply a portion of the growth in its value through investment and reinvestment be used for needs based student scholarships. If in the determination of the Trustees the purposes of the college would be better served by using income or principal, or both, for the college's general purposes, the income and/or principal, or both, may be so used.

A SPECIFIC LEGACY

I give my entire art collection consisting of paintings and sculptures to the Trustees of Spring Hill College in Mobile, Alabama

GIFT OF RESIDUARY ESTATE

I give the residue of the property owned by me at my death, real and personal and wherever situated, to the Trustees of Spring Hill College in Mobile, Alabama, for the general purposes of the college.

CONTINGENT GIFT OF RESIDUARY ESTATE

I give the residue of the property owned by me at my death, real and personal and wherever situated, to my sister Mary Jane Doe, if she survives me If my sister does not survive me, I give my residuary estate to the Trustees of Spring Hill College in Mobile, Alabama, for the general purposes of the college.

AMOUNT OF GIFT DEPENDENT ON THE SIZE OF THE ESTATE

I give the amount of $________dollars or______ percent of my gross estate (which shall mean if there is a federal estate tax in effect at my death, my adjusted gross estate as finally determined for federal estate tax purposes), whichever is the lesser, to the Trustees of Spring Hill College in Mobile, Alabama, for the general purposes of the college.

DIRECTIONS THAT THE CHARITABLE GIFT BE FREE OF TAXES

I direct that no estate or inheritance taxes be paid from the share of any property given to the Trustees of Spring Hill College in Mobile, Alabama.

PROVISION PROVIDING FOR PAYMENT OF A PLEDGE

I direct my executor to pay to the Trustees of Spring Hill College in Mobile, Alabama, any balance that is due or will become due under the terms of any pledge or pledges made by me to the college during my lifetime.

How to "Endow" Your Annual Gift to Charity

If you have been giving an annual gift each year to a particular charitable organization you may wish to endow that gift forever. By placing a provision in your Will (or in a codicil to your Will), you can provide income to your favorite charity in perpetuity.

Here is how it can work: (It is assumed that your bequest will grow through investment and reinvestment at a rate of 5% each year. However, the actual income will probably grow overtime — due to growth of principal.)

A BEQUEST OF	WILL PROVIDE ANNUAL INCOME TO THE CHARITY OF
$2,000	$ 100
$5,000	$ 250
$10,000	$ 500
$15,000	$ 750
$20,000	$ 1,000
$50,000	$ 2,500
$100,000	$ 5,000
$200,000	$10,000

When To Review Your Will

A will is a document that should change as your life situations change. Good times to make a review are

- every three to four years,
- if your marital status changes,
- when you have a child,
- when your children become independent,
- when you move to another state,
- when a significant financial change occurs,
- when tax laws change,
- when you want to change an executor, trustee, or guardian,
- when you want to change the charities you chose to support.

Writing a will may sound complicated, but its not. Start now and touch the future by "endowing" your values.

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Ten Common Estate Planning Mistakes

You have worked a lifetime to build your financial assets and you don't want to let them slip out of your hands. But that's exactly what could happen if you're not protected by a well-thought-out estate plan.

The following examples illustrate common estate-planning misconceptions and mistakes.

1. **Most People Don't Think of Themselves as Having an Estate.**
   Everything you own is part of your estate. If you don't plan properly, your estate may not be distributed as you wished.

2. **Underestimating the Size of Your Estate.**
   Many people may not be aware of the federal estate tax Unified Credit or they don't believe that their total estate is greater than the Unified Credit equivalent, which is the amount that would be shielded from estate taxes. (For more details about the Unified Credit, see Point 6).Your estate's value is comprised of everything you own or have ownership in, such as a life insurance policy, a business interest and any personal assets.

3. **Relying Solely on a Will for Estate Planning.**
   A will does not prevent the court from controlling assets for an heir who is a minor or incapacitated. Nor does it control all of your assets, such as those that are jointly owned or have beneficiary designations.

4. **Thinking a Revocable Living Trust Will Save on Estate Taxes.**
   A common misconception is that assets in a living trust will pass estate tax free. Living trusts are revocable and assets placed in a living trust are still included in the grantor's estate and subject to estate taxes.

5. **Not Funding a Living Trust.**
   Some people establish a living trust, but they fail to retitle their assets into the trust.

6. **Leaving Everything to Your Spouse.**
   By leaving everything to your spouse, you may lose the opportunity to use the Unified Credit. The Unified Credit allows you to pass up to $1,000,000 in 2002 to your heirs, free from estate taxes and this amount adjusts under the 2001 tax act up to zero in 2010. Special planning should be done to incorporate this strategy into your estate plan, so that your spouse can benefit from the available credit if you die while there is still an estate tax or if you believe that the "repeal" of the estate tax will itself be repealed.[1]

7. **Owning the Majority of Your Assets Jointly.**
   Unfortunately, assets that are owned jointly cannot be used to fund the Unified Credit.

8. **Owning Life Insurance in Your Own Name.**
   Life insurance proceeds can dramatically inflate an estate's total value if the policy is owned by the insured, because it is included in the owner's estate. Gifting an insurance policy to an Irrevocable Life Insurance Trust removes the value from the estate and provides liquidity for the heirs. However, gift taxes could arise from the transfer and the owner must outlive the gift for three years, or the proceeds will be included in the estate.

9. **Not Planning for the Payment of the Estate Tax.**
   Estate tax payments are generally due within nine months of death. This deadline could force the family to borrow, liquidate or sell assets, such as a business interest, securities, or withdraw assets from retirement plans to pay estate taxes. Life insurance placed in an irrevocable trust can be a cost-efficient way of providing the necessary money for your family to pay estate taxes and other costs.

10. **Not Keeping an Estate Plan Current.**
    Failure to keep your estate plan up to date during life transitions may result in the improper disposition of property to your heirs, as well as in higher levels of taxation.

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[1]The estate tax is a very expensive tax. In 2002, it starts at 41% of every dollar over $1 million, and quickly goes up to 50%. As shown below, the federal individual gift and estate tax exemption is $1 million in 2002 and 2003. Note that the estate tax is scheduled to be "repealed" in 2010, but it comes back in 2011 with a $1 million exemption.

2002 & 2003........$1 million
2004 & 2005........$1.5 million
2006-2008...........$2 million
2009....................$3.5 million
2010....................NA (repealed)
2011....................$1 million

In addition, family-owned businesses and farms that qualify can take a special deduction of up to $675,000, for a total exemption of up to $1.3 million. (This deduction will be eliminated in 2004.)

St. Mary's Home Roll of Honor Society

Because I care deeply about the children that St. Mary's Home serves, I have included St. Mary's Home in my estate plan. I understand that this makes me eligible for membership in the St. Mary's Home Roll of Honor Society.

☐ I have included St. Mary's Home in my estate plan, and I prefer not to share the specifics at this time.

☐ I have included St. Mary's Home in my will for a specific gift of _____% of my estate.

☐ I have included St. Mary's Home in my will for a specific gift of $_____ from my estate.

☐ I have included St. Mary's Home in a trust in which I directed that a specific gift from my trust of $_____ be distributed to St. Mary's Home.

☐ I have included St. Mary's Home as a beneficiary of my IRA with ________________ to the extent of _____% thereof [or, as applicable $_____].

☐ I have included St. Mary's Home as a beneficiary of my life insurance policy with ________________ in the face amount of $____________to the extent of _____% thereof [or, as applicable $_____].

MY NAME

MY ADDRESS, CITY, STATE AND ZIP CODE

MY PHONE NUMBER

MY DATE OF BIRTH

Thank you for including St. Mary's Home in your personal estate planning. The children who depend on St. Mary's Home to provide them with a lifeline to a normal future will benefit from your kindness in countless ways.

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Taxes and Planned Giving

Tax Basics on Charitable Giving

The Government helps your donors be philanthropists with tax incentives that greatly reduce the out-of-pocket cost of charitable gifts and in many cases enable them to contribute much more than originally imagined.

Here is a rundown of the rules. Unless otherwise stated, it is assumed that an individual makes the gift to a public charity (e.g., school, church, hospital, community foundation) or a private operating foundation (e.g., museum, library). Currently only *itemizers* can deduct their charitable gifts. At the present time, bills being seriously considered by Congress would allow a non-itemizer charitable deduction. Other increased tax benefits would be available. But first, here are the existing rules.

Outright Charitable Gifts

Gifts of money. Deductible up to 50 percent of donor's ad-justed gross income. [1]Five-year carryover allowed for any "excess."[2]

Securities and real estate held long term. Deductible at the full present fair market value, with no tax on the appreciation.[3] Deductible up to 30 percent of adjusted gross income. [4]Five-year carryover allowed for any excess.[5]

Ceiling election. Under an election, a donor can increase the ceiling to 50 percent of adjusted gross income (with a five-year carryover for any "excess") by making the same gift, but reducing the amount deemed contributed for all long-term property gifts during the year by 100 percent of the appreciation, and similarly reducing the deemed contribution for long-term property gifts being carried over from earlier years.[6]

Securities and real estate held short term. Deduction is for cost basis or current fair market value, whichever is lower.[7] Deductible up to 50 percent of adjusted gross income. [8]Five-year carryover for any "excess."[9]

Ordinary income property (sale would result in ordinary income).[10]

For gifts of inventory, Sec. 306 stock, collapsible-corporation stock, crops, artworks created by the donor (and other "ordinary income" property gifts), deduction allowed for property's cost basis or current fair market value, whichever is lower.[11] Deductible up to 50 percent of adjusted gross income.[12] Five-year carryover allowed for any "excess."[13]

Tangible personal property (e.g., works of art, antiques, books) held long term. Reg. Sec. 1.170A-4. Related gifts. Deduction is full present fair market value, with no tax on the appreciation, if use of the property is related to donee's exempt function (*e.g.*, gift of painting to art museum or to school for its art gallery). Deductible up to 30 percent of adjusted gross income.[14] Five-year carryover allowed for any "excess."[15] Deductible up to 50 percent of adjusted gross income (with five-year carryover for any "excess") if same election made as for gift of long-term securities or real estate, above.

Unrelated gifts. Reg. Sec. 1. 170A-4 (b) (3). If gift is unrelated to donee's exempt function, deduction is for the cost basis or current fair market value, whichever is less.[16] Deductible up to 50 percent of adjusted gross income.[17] Five-year carryover allowed for any 14 excess."[18]

Gift of work of art without the copyright. Gift or bequest of work of art qualifies for gift and estate tax charitable deductions (but not income tax deduction) even though copyright itself isn't transferred to charity, when:

- the donee is a public charity described in IRC Sec. 501 (c) (3) that is not a private foundation (under IRC Sec. 509) and
- the use is related to the donee's charitable purpose.[19]

Tangible personal property held short term. Same as gifts of short-term securities and real estate, above.

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1. IRC Sec. 170(b)(1)(A); Reg. Sec. 1.170 A-8(b).
2. IRC Sec. 170(d)(1); Reg. Sec. 1.170 A-10(b).
3. *Campbell*, 209 F2d 331 (CA-5, 1954).
4. IRC Sec. 170(b)(1)(C)(i); Reg. Sec. 1.170A-8(d)(1).
5. IRC Sec. 170(b)(1) (C) (ii).
6. IRC Sec. 170 (b) (1) (C) (iii); IRC Sec. 170 (e) (1); Reg. Sec. 1. 170 A-8 (d) (2).
7. IRC Sec. 170 (e) (1) (A); Reg. Sec. 1. 170A-4 (a) (1).
8. IRC Sec. 170(b)(1)(A).
9. IRC Sec. 170(d)(1); Reg. Sec. 1.170A-10.
10. Reg. Sec. 1. 170A-4 (b) (1).
11. IRC Sec. 170 (e) (1) (A); Reg. Sec. 1.170A-4 (a) (1).
12. IRC Sec. 170(b)(1)(A).
13. IRC Sec. 170(d) (1); Reg. Sec. 1.170A-10(b).
14. IRC Sec. 170 (b) (1) (C) (i).
15. IRC Sec. 170(b) (1)(C)(ii).
16. IRC Sec. 170(e)(1)(B)(i).
17. IRC Sec. 170(b)(1)(A).
18. IRC Sec. 170 (d) (1)
19. IRC Sec. 2055 (e) (4); Reg. Sec. 20.2055-2 (e)(1)(ii); IRC Sec. 2522 (c) (3); Reg. Sec. 25.2522(c)-3(c)(1) (ii).

Bargain sales. Charitable contribution is the difference between fair market value and sale price of long-term securities and real estate.[20]

Capital gain implications. cost basis of property must be allocated between portion of property "sold" and portion of property "given" to charity, based on fair market value of each. Appreciation allocable to sale is subject to capital gains tax; appreciation allocable to gift is not. IRC Sec. 1011(b); Reg.Secs.1.1011-2 and 1.170A-4 (c) (2).

Caveat — Outright gift of mortgaged property is considered a bargain sale. Reg. Sec. 1. 10 1 1-2(a)(3); *Guest,* 77 TC 9 (198 1).

Partnership gifts. Contributions not deductible on partnership return, but deductible by individual partners. IRC Sec. 702 (a) (4); Reg. Sec. 1. 170A-1 (h) (7). The basis of each partner's partnership interest is decreased — but not below zero — by the partner's share of the partnership's basis in the contribution. Rev. Rul. 96-11, 1996-1 CB 140.

Corporate gifts. Ceiling on deductibility is 10 percent of taxable income. IRC Sec. 170(b) (2). Five-year carryover for any "excess" IRC Sec. 170 (d) (2). Corporation on accrual basis may elect to deduct a gift on this year's tax return even though payment made in next Tax Year if gift authorized by board this tax year and payment made within 2% months of the close of this tax year. IRC Sec. 170 (a) (2); Reg. Sec. 1.170A-11(b).

Corporations meeting certain tests get enhanced deductions for gifts of inventory (used by charity for the ill, needy or minors), or scientific equipment (used by colleges, universities or qualified scientific research organizations for research, experimentation or research @g). Deduction is for:

- the property's basis plus half of the appreciation or
- twice the property's basis, whichever is lower. IRC Secs. 170(e) (3) and (4); Reg. Sec. 1.170A.

Gifts of computer technology and equipment for educational purposes from kindergarten through twelfth grade and for public libraries can qualify for the larger deduction (when tests are met), provided the gifts are made before 2004.

Outright Gifts to Private Foundations (Other Than Private Operating Foundations)

Securities, real estate and tangible personal property held long term. Deduction is for cost basis or current fair market value, whichever is lower. IRC Sec. 170 (e) (1) (B) (ii).

Exception for "pass-through" foundations. Deduction allowed for full present fair market value where private foundation, within 2½ months following the year of receipt, gives an amount equal to all such gifts to public charities (schools, churches, etc.) or private operating foundations. IRC Secs. Reg. Sec. 1. 170A-9 (g) (2) (iv),170 (b) (1) (A) (vii), (E) (ii) and (iii);

Note: Unless tangible personal property is put to a "related" use, deduction is nevertheless limited to the lesser of current fair market value and cost basis. IRC Sec. 170 (e) (1) (B) (i)

Long-term appreciated publicly traded securities — special rule. A deduction for the full fair market value is allowable for contributions of stock for which (as of the contribution date) market quotations are readily available on an established securities market. This special treatment is available to the extent that the contribution — along with all prior contributions of stock in the same corporation by the donor and the donor's family — do not exceed 10 percent of the value of the corporation's outstanding stock.

Caution: Appreciated publicly traded stock subject to SEC rule 144 is deductible at cost basis. LR 9247018, LR 9320016, LR 9734034, LR 9746050. But SEC rule 145(e) stock (allowed to be sold under that rule) is deductible at present market value. LR 9320007.

Ordinary-income and short-term property gifts. Deduction is for the lesser of cost basis and current fair market value. IRC Sec. 170 (e) (1) (A).

Ceilings on deductibility. Thirty percent of adjusted gross income for cash and ordinary income property. IRC Sec. 170(b) (1) (B). Twenty percent of adjusted gross income for gifts of capital gain property. IRC Sec. 170(b) (1) (D) (i).

Exception for "Pass-through" foundations: If certain distribution requirements are met, ceiling may be 30 percent or 50 percent of adjusted gross income, with five-year carryover for any "excess" IRC Secs. 170(b)(1)(A)(vii), (C)(iii).

Carryover. Five-year carryover for "excess" gifts. IRC Sec. 170(b)(1)(B).

Reduction for Some Itemizers

Taxpayers must reduce their itemized deductions (except medical expenses, casualty and theft losses, and investment interest) by an amount that equals 3 percent of adjusted gross income over $132,950 (over $66,475 if married filing separately) in 2001. This amount is adjusted annually for inflation. In any event, the 3 percent rule won't take away more than 80 percent of the itemized deductions that are subject to that rule.

Delivery Dates

Determines valuation and year of deduction.[21] Here are the rules:

Gifts of securities. If mailed, date of mailing is delivery date; if delivered to charity by other means or if hand delivered, date received by charity is delivery date. If securities delivered to donor's bank or broker (as donor's agent) or to the issuing corporation (or its agent) instructing corporation to reissue in charity's name, delivery date is date securities transferred to charity on corporation's books (date on new stock certificate having charity's name).

Gifts by check. If mailed, date of mailing is delivery date; if delivered to charity by other means, date received by charity is delivery date.

Gifts of artworks and other tangible personal property. Date property received by charity is delivery date.

Real estate gifts. Date charity receives properly executed deed is delivery date (unless state law requires deed to be recorded for title to pass; in that case, recording date is delivery date).

Pledges. Deductible in year fulfilled — not when made. IRC Sec. 170 (a) (1). Satisfying pledge with property does not give rise to taxable gain or deductible loss. Rev. Rul. 55-410, 195,5-1 CB 297.

Determining Fair Market Value Securities. When there is a market for securities on a stock exchange or over the counter. Fair market value is mean between high and low on date of delivery (bid and asked prices on date of delivery if quoted selling prices not available). Reg. Sec. 20.2031-2. Same rule for closed-end investment company shares.

Valuation of mutual fund shares (open-end investment companies). Fair market value is redemption price ("bid").[22]

Real estate, works of art and other property not traded on an exchange or over the counter. Fair market value is price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts. Reg. Sec. 1. 170A-1 (c) (2). Valuation is substantiated by expert appraisals. (See below.) Cost of appraisal is an IRC Sec. 212(3) deduction (subject to 2 percent floor on miscellaneous itemized deductions). Percent of adjusted gross income ceiling on charitable contributions is inapplicable. Rev. Rul. 67-461, 1967-2 CB 125. For guidelines to be used in making appraisals, see Rev. Proc. 66-49, 1966-2 CB 1257 and Reg. Sec. 1.170A-13(c).

Substantiating Charitable Deductions

Strict appraisal, appraisal summary and information reporting requirements are imposed when property gifts (other than marketable securities) are claimed as income tax charitable deductions. The rules apply to property contributions claimed at over $5,000 per item or group of similar items, whether or not donated to the same charity ($10,000 for closely held stock, but appraisal summary is required if claimed value is over $5,000).

Easier (but still detailed) reporting rules apply for property gifts valued at $5,000 or under. Reg. Sec. 1.170A-13; see Form 8283.

To deduct any gift of $250 or more, a donor must have written substantiation from the charity (including a good faith estimate of the value of any goods or services given to the donor in exchange for the gift). IRC Sec. 170(f) (8). For quid pro quo gifts over $75, charity must inform donor that gift deduction is limited to excess of amount (or value of property transferred) over value received by donor. IRC Sec. 6115; Regs. Sees. 1.170A-l(h); -13(f); 1.6115-1; IRS Pub. No. 1771.

Reporting by Donees, Penalties

Charities, charitable remainder trusts and charitable lead trusts disposing of donated property (subject to the appraisal requirements) within two years of receiving the gift must report its disposition to IRS and the donor. IRC Sec. 605OL; Reg. Sec. 1.605OL-1; see Form 8282.

Penalties. Penalties imposed for failure to comply. IRC Secs. 6721, 6722 and 6724. Civil and criminal penalties imposed for negligence, fraud and valuation overstatements. IRC Secs. 6662, 6663, 7206 and 7207.

Services. No charitable deduction for value of personal services rendered free for charity. *Grciitt,* 84 TC 809 (1985), ajrci by CA-4 in unpublished opinion (9/11/86). Reg. Sec. 1.170A-l(g); Rev. Rul. 162, 1953-2 CB 127; Rev. Rul. 67-236, 1967-2 CB 103.

Unreimbursed Volunteer Expenses

Deductible when incurred in rendering services for charity. Rev. Rul. 55-4,1955-1 CB 291. Optional standard mileage rate of 14(per mile for unreimbursed automobile expenses. IRC Sec. 170(i). Ceiling is 50 percent of adjusted gross income, with a five-year carryover. *Rockefeller,* 76 TC 178, *affd.* 676 E2d 35 (CA-2, 1982); Rev. Rul. 84-61, 1984-1 CB 39. No deduction allowed for charitable travel expenses if "there is a significant element of personal pleasure, rec-reation or vacation" in the travel. IRC Sec. 1700).

20. IRC Sec. 170 (e) (2); *Magnolia Dev. Corp.,* 19 TCM 934; *Waller,* 39 TC 665 *(Acq.); Gladstein,* (DC) 68-1 USTC 9l97; *Gamble,* (DC) 68-1 USTC 9393.
21. Reg. Sec.1.170A-1 (b).

22. *Cartwright,* 411 U.S. 546 (1973).

Taxes and Planned Giving

Unreimbursed babysitting expenses incurred to render volunteer services are not deductible. Rev. Rul. 73-597,1973-2 CB 69.

Patron's Gifts; Purchasing Athletic Tickets

Contribution is amount transferred by donor minus value of theater ticket, meal or other privilege donor is entitled to receive. Rev. Rul. 67-246, 1967-2 CB 104; Rev. Rul. 86-63, 1986-1 CB 88. See Rev. Proc. 92-49, 1992-1 CB 987 and Rev. Proc. 98-61, 1998-2 CB 811 for special *de minimis* rule.

Payments for right to purchase athletic tickets. A special rule applies when a donor makes a charitable contribution to or for a college or university and is thereby entitled to purchase tickets to athletic events. IRC Sec. 170(l); Reg. Sec. 1.170A-13(f) (14).

Installment Obligations

Gift of installment obligations (gain reported under IRC Sec. 453) accelerates remaining deferred gain in year of gift. Rev. Rul. 55-157,1955-1 CB 293.

Charitable Loans

No income, gift or estate tax deductions for interest-free loan or rent-free use of property. IRC Sec. 170 (f) (3) (A); Reg. Sec. 1. 170A-7 (a); IRC Secs. 2522 (c) (2) and 2055 (e) (2).

Exceptions: Although uncharged interest is generally imputed to lender of interest-free loan, regulations exempt charitable loans up to $250,000 per charity. Temp. Reg. Sec. 1.7872-5T(b) (9). Rent-free loan of artwork to public charity for a related use is exempt from gift tax. IRC Sec. 2503(g).

Depreciable Property

Deduction reduced by what would have been taxed as ordinary income (under IRC Secs. 1245 or 1250) if property had been sold. IRC Sec. 170(e) (1) (A).

Life Insurance Gifts

Donor names charity beneficiary and irrevocably assigns incidents of ownership to it.

Caution: Charity must have an "insurable interest" in donor's life under state law. LR 9110016.

Gift of policy on which premiums remain to be paid. Income tax deduction is slightly above cash surrender value. Reg. Sec. 25.2512-6 (a). However, if that amount exceeds policy's cost basis, deduction is for cost basis. IRC Sec. 170(e) (1) (A). Continued payment of premiums gives donor deduction for annual premiums. *Awrey,* 25 TC 643 (1955).

Gift of fully paid-up policy. Income tax deduction is generally replacement cost. Reg. Sec. 25.2512-6(a). However, if that amount exceeds policy's cost basis, deduction is for cost basis. IRC Sec. 170 (e) (1) (A).

Endowment policy. Charitable deduction for value minus amount that would be taxed as ordinary income on a sale. IRC Sec. 170 (e) (1) (A). But see Reg. Sec. 1.170A-4 (a).

Caveat — Donor has ordinary income of difference between cost and maturity value in year charity receives proceeds. Rev. Rul. 69-102, 1969-1 CB 32; *Friedman,* 41 TC 428, *affd.* 346 F.2d 506 (CA-6, 1965).

Charitable Remainder Trusts

Charitable remainder unitrust. Specifies that the income beneficiary is to receive annual payments determined by multiplying a fixed percentage (at least 5 percent but not more than 50 percent) by the net fair market value of the trust assets, as determined each year. For each contri-bution to the trust, the value (determined under IRC Sec. 7520) of the remainder interest must be at least 10 percent of the net fair market value of the property as of the date the property is contributed to the trust. IRC Sec. 664 (d) (2) (D). On the death of the beneficiary (or survivor beneficiary, if there is more than one), charity gets the remainder. IRC Sec. 664 (d) (2).

A variation **(NIM-CRUT)** calls for the trustee to pay only trust income if actual income is less than stated percentage. Deficiencies in distributions (i.e., where trust income is less than stated percentage) are made up in later years if trust income exceeds the stated percentage. Under another variation (NI-CRUT), deficiencies are not made up. IRC Sec. 664 (d) (3); Reg. Sec. 1.664-3 (a) (1) (i) (b).

Regulations authorize "flip" unitrusts, a net income charitable remainder unitrust that switches to a standard (fixed percentage) charitable remainder unitrust on an allowable triggering event (e.g., sale of closely held stock) specified in the trust agreement. Appraisal requirements on charitable remainder unitrusts funded with "unmarketable assets" are imposed when the donor, the donor's spouse, a beneficiary or a related or subordinate party is the trustee. The regulations prohibit precontribution capital gain as NIM-CRUT and NI-CRUT income. (TD 8791.)

Charitable remainder annuity trust. Specifies a fixed dollar amount (at least 5 percent but not more than 50 percent of the initial net fair market value of transferred property) paid annually to the income beneficiary for fife. The value of the charitable remainder interest (determined under IRC Sec. 7520) must be at least 10 percent of the initial net fair market value of all property placed in the trust. IRC Sec. 664(d) (1) (D). On the death of the beneficiary (or survivor beneficiary, if there is more than one), charity gets the remainder. IRC Sec. 664(d) (1).

For charitable remainder trusts, the 50 percent maximum annual payout requirement applies to transfers to trusts after June 18, 1997. The 10 percent minimum remainder interest requirement is effective for transfers to trusts after July 28, 1997. The 10 percent requirement doesn't apply to transfers in trust under a will executed before July 29, 1997 if the decedent: died before 1999 without having republished the will or was on July 28, 1997 under a mental disability to change the disposition of his or her property and didn't regain competence to dispose of the property before he or she died.

Regulations give a host of rules for charitable remainder unitrust and annuity trust payments after year-end to satisfy the prior year's required payout. (TD 8791; TD 8926.)

How payments are taxed to recipient. For unitrusts and annuity trusts, amounts paid to the recipient retain the character they had in trust. Each payment is treated as follows:

- *First,* as ordinary income to the extent of the trust's ordinary income for the year and undistributed ordinary income for prior years;
- *Second,* as capital gain to the extent of the trust's capital gain for the year and undistributed capital gain for prior years (which can be offset by any capital losses the beneficiary may have from other investments);
- *Third,* as tax-exempt income to the extent of the trust's exempt income for the year and undistributed exempt income for prior years;
- *Fourth,* as a tax-free distribution of principal. IRC Sec. 664(b); Reg. Sec. 1.664-1(d); Notice 98-20, 1998-13 IRB 1.

Proposed regulations would revise IRC Sec. 643(b)'s definition of income for NIM-CRUTs and NI-CRUTs to take into account changes in how a state's laws define trust accounting income (proposed 2/14/01).

Unitrusts and annuity trusts are exempt from taxation. But a trust is not exempt in any year it has income that would be taxable unrelated business income if the trust were an exempt organization — IRC Sec. 664(c) — and must make quarterly estimated payments of unrelated business income tax. IRC Secs. 6654(l), 6655. Payments to income beneficiary still taxed as described above.

Governing instrument requirements. To assure charitable deductions and avoid adverse tax consequences, governing instrument must contain specific provisions.[23] IRS is in the process of updating its specimen unitrust and annuity trust agreements.

Income tax charitable deduction. Allowed for value of remainder interest — computed using Treasury tables. IRC Sec. 170 (f) (2) (A).

Unitrusts — Reg. Secs. 1.664-3(d) and 4; IRS Pub. 1458.

Annuity trusts — Reg. Secs. 1.664-2 (c) and 20.2031-7 IRS Pub. 1457. See below for discussion of Treasury tables.

Caveat — Annuity trust must meet "5 percent probability test" of Rev. Rul. 77-374, 1977-2 CB 329. But see Moor, 43 TCM 1530 (1982). A 1978 General Counsel's Memorandum (GCM 37770) proposed a ruling to IRS (but not issued by IRS) that would in limited circumstances — depending on the facts of each case — apply Rev. Rul. 77-374 to charitable remainder unitrusts.

Capital gain. No capital gain incurred on transfer of unmortgaged appreciated assets to trust. Rev. Rul. 55-275, 1955-1 CB 295; Rev. Rul. 60-370, 1960-2 CB ' 203. Similarly, there is no capital gain to donor on a sale by trust (except as taxable under fourtier system, see above).

Exception: Gain taxable to donor if trust assets sold and invested in tax-exempt securities pursuant to agreement between donor and trustee. Rev. Rul. 60-370, 1960-2 CB 203.

Caveat — Don't fund unitrusts or annuity trusts with mortgaged property or donor-created undivided interests. LR 9015049 and LR 9114025.

Estate tax. IRC Sec. 2055(e) (2) (A).

One-life (donor is beneficiary). Fair market value of trust principal at death included in gross estate and then deductible as charitable contribution — resulting in a wash.

Two-life (funded with donor's separate property, donor is first beneficiary and another is to be survivor beneficiary). The fair market value of trust principal at donor's death is included in his or her gross estate, but is then fully deductible as charitable contribution if second beneficiary does not survive. If second beneficiary survives, charitable remainder (based on the survivor's age at the donor's death) is deductible charitable contribution.

Amount includable in gross estate may be less than entire trust principal if entire trust corpus not needed to generate income sufficient to pay unitrust or annuity trust amount. Rev. Rul. 82-105, 1982-1 CB 133; Rev. Rul. 76-273, 1976-2 CB 268.

Gift tax. IRC Sec. 2522 (c) (2) (A). Value of the charitable remainder is fully deductible, so charitable gift is immune from gift tax. Where there is a life interest other than donor s, there is a gift by donor to non-charity beneficiary of value of beneficiary's life interest. Value of that gift depends on type of property ownership and when other beneficiary's payments are to begin. It is often possible for donor to avoid gift tax (when donor is one of the beneficiaries) by reserving right to revoke life beneficiary's interest *by Will only.* Reg. Sec. 1.664-3 (a) (4); Rev. Rul. 74-149, 1974-1 CB 157.

23. See Reg. Secs. 1.664-1 through 1.664-3; IRC Secs. 508(e) and 4947 (a) (2); Rev. Rul. 72-395, 1972-2 CB 340; Rev. Rul. 82-128, 1982-2 CB 71; Rev. Rul. 82-165, 1982-2 CB 117; Rev. Rul. 88-81, 1988-2 CB 127; Rev. Rul. 92-57, I992-2 CB 123; Rev. Proc. 89-20, 1989-1 CB 841; Rev. Proc. 89-21, 1989-1 CB 842; Rev. Proc. 90-30, 1990-1 CB 534; Rev. Proc. 90-31, 1990-1 CB 539; Rev. Proc. 90-32, 1990-1 CB 546; Rev. Proc. 98-56, 1998-2 CB 667.

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Gift and estate tax marital deductions. When donor's U.S.-Citizen spouse is the only other beneficiary, a marital deduction is allowed for the spouses life interest. IRC Secs. 2056 (b) (8) and 2523(g). And a charitable deduction is allowed for the remainder interest. IRC Secs. 2055 (e) (2) and 2522 (c) (2). Thus, no transfer tax. For 2001 gifts to alien spouses gift tax $106,000 annual exclusion (adjusted annually for inflation) may be available and estate tax marital deduction may be available if QDOT rules are met. Reg. Sec. 20.2056A-2(b).

Substantiating charitable deductions. To deduct a gift of $250 or more, a donor must have written substantiation from the charity (including a good faith estimate of the value of any goods or services given to the donor in exchange for the gift). If no goods or services were provided, the acknowledgment must so state. IRC Sec. 170(o (8); Reg. Sec. 1.170A-13(0(2). The substantiation rules don't apply, however, to charitable remainder unitrusts or annuity trusts. Reg. Sec. 1.170A-13 (f) (13).

Pooled Income Funds

Donor transfers money or securities to public charity (only charities described in IRC Sec. 170(b) (1) (A) (i), (ii), (iii), (iv), (v) or (vi) can have pooled income funds). Charity adds donor's gift to its separately maintained pooled income fund, where it is invested together with similar gifts of other donors.

Each donor gets his or her pro rata share of pooled income fund earnings each year for life. In come the beneficiary receives is taxed as ordinary income. On the income beneficiary's death, the charity removes assets from the fund equal to his or her share and uses them for its charitable purposes.

Donor's pooled fund gift can also provide life income for a survivor (e.g., spouse). IRC Sec. 642 (c) (3), (4), (5); Reg. Secs. 1.642(c)-5 and -6. For the rules governing pooled income funds maintained by community foundations, see Rev. Rul. 96-38, 1996-2 CB 44.

Governing instrument requirements. To assure charitable deduction and avoid adverse tax consequences, governing instrument must contain specific provisions. See Reg. Secs. 1.642 (c)-5 and -6; IRC Secs. 508(e) and 4947 (a) (2); Rev. Rul. 82-38, 1982-1 CB 96; Rev. Rul. 90-103, 1990-2 CB 159; Rev. Rul. 92-81,1992-2 CB 119; Rev. Proc. 88-53, 1988-2 CB 712.

Income tax charitable deduction. Allowed for the value of the remainder interest, determined using Treasury tables. IRC Sec. 170(f) (2) (A); Reg. Sec. 1.642(c)-6(d); IRS Pub. 1457. See below for discussion of Treasury tables.

Capital gain. No capital gain incurred on transferring unmortgaged appreciated assets to pooled income fund. (See above.) Fund takes over donor's basis and holding period in assets. Reg. Sec. 1.642(c)-5(a)(3). No capital gain to donor or fund if fund sells long-term assets. IRC Sec. 642 (c) (3). (But see proposed regulations (2/14/01) revising IRC Sec. 6410(b)'s definition of income to take into account how a state's laws define trust accounting income.) Gain on sale of short-term assets is taxable to fund.

Estate tax. IRC Sec. 2055(e) (2) (A).

One-life plan (donor is beneficiary). Value of donor's share in fund at death includable in gross estate, but then fully deductible as charitable contribution — resulting in a wash.

Two-life plan (funded with donor's separate property, donor is first beneficiary and another is to be survivor beneficiary). Value of donor's share in fund at death includable in his or her gross estate, but then fully deductible as charitable contribution if second beneficiary does not survive. If second beneficiary survives, charitable deduction for remainder interest is based on survivor's age at donor's death.

Marital deduction. The general rules of IRC Secs. 2056(b) (7) and 2523(o apply (terminable interests qualifying for the marital deduction). Thus, the donor's units in the pooled income fund, pursuant to QTIP election for a U.S.-citizen spouse, are eligible for the marital deduction. The property will be included in the spouse's estate at spouse's death but, because the spouse's life estate ends and the property passes outright to the charitable remainder organization, an estate tax charitable deduction is allowed to the surviving spouse's estate. See Reg. Sec. 20.2056(b)-7(b), Example 13. For alien spouse rules, see above.

Gift tax. IRC Sec. 2522 (c) (2) (A). Value of the charitable remainder is fully deductible, and thus charitable gift is immune from gift tax. Where there is life interest other than donor's, there is gift by donor to non-charity beneficiary of value of beneficiary's life interest. Value of the gift depends on type of property ownership and when other beneficiary's payments are to begin.

It is often possible to draw contract so that gift is not deemed made to non-charity beneficiary by reserving right to revoke life beneficiary's interest *by will only.* Reg. Sec. 1.642(c)-5(b)(2). Use this method when a donor's spouse is the second beneficiary in a two-life inter vivos pooled fund gift because the surviving spouse's future interest does not qualify for QTIP gift tax election, for U.S.-citizen spouse or $101,000 (in 1999) exclusion for alien spouse. This figure is adjusted annually for inflation.

Substantiating charitable deductions. To deduct a gift of a remainder interest of $250 or more, a donor must have an acknowledgment from the charity stating that the gift was transferred to the charity's pooled income fund and stating whether any goods or services (in addition to the income interest in the fund) were provided in exchange for the transfer. If no goods or services were provided, the acknowledgment must so state. The acknowledgment need not include a good faith estimate of the income interest. Reg. Sees. 1.170A-13 (@ (2), (13).

Gift Annuities (immediate and Deferred)

Donor transfers money or property to charity in exchange for its promise to pay fixed amount annually to donor (and a survivor, if desired) for life. Transfer is part gift and part purchase of an annuity.

Income tax charitable deduction. Computed using Treasury tables. Rev. Rul. 84-162, 1984-2 CB 200; IRS Pub. 1457. See below for discussion of Treasury tables.

How beneficiary taxed. Annuitant's income payment is part return of principal and part interest; only the interest portion is taxable.

Determining amount received tax free — the exclusion ratio. The exclusion ratio is a fraction — numerator is the value of the annuity (determined under Rev. Rul. 84-162, *supra*); denominator is expected return (determined using tables in Reg. Sec. 1.72-9).

Entire annuity payment becomes taxable if annuitant out-lives his or her life expectancy. IRC Sec. 72 (b) (2). If annuitant dies before reaching life expectancy, unrecovered investment in the annuity is an itemized deduction on last income tax return. IRC Sec. 72 lb) (3); see IRC Sec. 67 (b) (10). Effective for annuities with starting dates after 1986.

Capital gain implications when appreciated property used to fund gift annuity. There is capital gain when gift annuity is funded with appreciated property. Amount of gain is smaller, however, than it would be on sale.

Further, gain is not all reportable in year of transfer — as it would be on a sale of property. Gain is reported ratably over annuitant's life expectancy when annuity is nonassignable and donor is an annuitant. Reg. Sec. 1.1011-2 (a) (4) and (c), Example 8.

Estate tax. IRC Sec. 2039.

One-life (donor is annuitant). No estate tax.

Two lives (funded with donor's separate property, donor is first annuitant and second individual is to be survivor annuitant). If second annuitant doesn't survive donor, no estate tax. If second annuitant survives, included in donor's gross estate is value of annuity (determined by survivor's age on donor's death). Any estate tax paid by donor's estate attributable to annuity is deductible by survivor over his or her life expectancy. Reg. Sec. 1.691(d)-l(c).

Gift tax. IRC Sec. 2522 (c) (2) (A).

One-life (donor is annuitant). No gift tax.

Two-life (funded with donor's separate property, donor is first annuitant and another is to be survivor annuitant). Gift to survivor of future and terminable interest; hence, no annual exclusion or marital deduction.

Suggestion: Gift tax an survivor's interest can be avoided if donor reserves right to revoke survivor's annuity. Reg. Sec. 25.2511-2(c).

Marital deduction. One-life gift annuity for U.S.-citizen spouse qualifies for unlimited gift and estate tax marital deductions. IRC Secs. 2056(b)(7)(B) and 2523 (D (2), (3). Two-life spousal joint and survivor annuity qualifies for marital deduction as QTIR IRC Secs. 2056(b)(7)(C) and 2523 (O (6). For alien spouse rules, see above.

Deferred payment annuity (payments begin more than one year after gift). Income tax charitable deduction. Rev. Rul. 84-162, 1984-2 CB 200. Exclusion ratio not determined until payments begin; estate and gift tax implications same as above for "immediate" annuities.

Substantiating charitable deductions. When the gift portion of a charitable gift annuity is $250 or more, a donor must have an acknowledgment from the charity stating whether any goods or services in addition to the annuity were provided to the donor. If no goods or services were provided, the acknowledgment must so state. The acknowledgment need not include a good faith estimate of the annuity's value. Reg. Secs. 1.170A-13(f)(2), (16).

Charitable Lead Trusts

Trust makes payments to designated charity for term of years, with reversion to donor (or spouse) at end of term. To avoid income tax to donor on trust income, reversionary interest must be worth less than 5 percent of trust corpus. IRC Sec. 673 (a).

Instead of reversion to donor or spouse, lead trust can provide payments to charity for a number of years or for a term measured by a qualifying life, with remainder to family members — reducing (and sometimes eliminating) gift and estate taxes on passing property "down the line." Only one or more of the following individuals may be used as measuring lives: the donor; the donor's spouse; an individual who, with respect to all remainder beneficiaries (other than charities) is either a lineal ancestor or the spouse of a lineal ancestor of those beneficiaries. The requirement that all noncharitable remainder beneficiaries are lineal descendants of the individual who is the measuring life, or that individual's spouse, is satisfied if there is less than a 15 percent probability that individuals who are not lineal descendants will receive any trust corpus.

Note: When the trust's duration is measured by a term of years, any individual in the world can be the remainder person. (TD 8923.) Be sure to take the generation-skipping transfer tax into account.

Income tax charitable deduction. Only if:

- income paid to charity is taxed to the donor, and
- charity's interest is a guaranteed annuity or unitrust interest. IRC Sec. 170(f)(2)(B); Reg. Sec. 170A-6(c) (2).

Ceiling on deduction is 30 percent of adjusted gross income, with a five-year carryover for any "excess." IRC Sec. 170 (b) (1) (B). Different rules may apply if the beneficiary of the lead interest is a non-operating private foundation. IRC Sec. 170 (b) (1) (D).

Caution: The deduction is "recaptured" if donor ceases to be treated as owner before trust terminates (e.g., donor dies). IRC Sec. 170 (f) (2) (B).

Taxes and Planned Giving

Gift and estate tax. To avoid gift and estate tax implications on charity's income interest, the interest should be a guaranteed annuity or unitrust interest. IRC Secs. 2522 (c) (2) (B) and 2055 (e) (2)(B); Reg. Secs. 25.2522 (c)-3 (c)(2) and 20.2055-2 (e) (2); Rev. Rul.77-300, 1977-2 CB 352.

Computing value of charity's lead unitrust and lead annuity trust interests. See above for citations to tables for computing value of charitable remainder interests; use those tables to calculate value of lead interests.

Caution: Rev. Rul. 82-128, 1982-2 CB 71, dealing with charitable remainder trusts, could apply to charitable lead trusts.

Capital gain. If donor has reversionary interest, donor is taxed on gain in year realized by trust. If no reversionary interest, capital gain taxable to trust.

Beginning in 1998, there's no generation-skipping tax on remainder to grandchild whose parent isn't living on the trust's creation; nor for remainder to grandnephew or grandniece if parent is not alive at the trust's creation and the trust grantor has no lineal descendants. IRC Sec. 2651 (e).

Substantiating charitable deductions. To deduct a gift of $250 or more, a donor must have written substantiation from the charity (including a good faith estimate of the value of any goods or services given to the donor in exchange for the gift). If no goods or services were provided, the acknowledgment must so state. IRC Sec. 170(0 (8); Reg. Sec. 1.170A-13(0(2). The substantiation rules don't apply, however, to charitable lead trusts. Reg. Sec. 1.170A-13(O (13).

Gifts of Future Interest in Real Property with Retained Life Estate

If property is a personal residence or farm, income tax deduction allowed for value of remainder interest, taking straight-line depreciation or cost depletion into account, discounted by Applicable Federal Rate (AFR — see below). Need not take depreciation or depletion into account in computing estate and gift tax deductions, but still discount with AFR. IRC Sec. 170(f)(3)(B)(i); Reg. Sec. 1.170A-7(b)(3) and (4); Reg. Sec. 1.170A-12(a); IRC Sec. 2522 (c); Reg. Sec. 25.2522(c)-3(c)(2)(ii) and (iii); IRC Sec. 2055(e)(2); Reg. Sec. 20.2055-2 (e) (2) (ii) and (iii); Rev. Rul. 76-473, 1976-2 CB 306. IRS Pubs. 1457, 1458 and 1459. See below for discussion of Treasury tables.

Substantiating charitable deductions. To deduct a gift of $250 or more, a donor must have written substantiation from the charity (including a good faith estimate of the value of any goods or services given to the donor in exchange for the gift). If no goods or services were provided, the acknowledgment must so state. IRC Sec. 170(0 (8); Reg. Sec. 1.170A-13(0(2). IRS substantiation regulations don't mention remainders in personal residences and farms. Reg. Sec.1.170A-13 (f).

Pointer: Unless IRS says otherwise, consider that the substantiation rules apply to those gifts.

Gifts of future interest in tangible personal property with retained life estate. No federal income, gift or estate tax charitable deduction for gift of tangible personal property (e.g., work of art, furniture, antiques) when donor or close family member retains life estate. IRC Secs. 170(a)(3) and 2522(c)(2); Reg. Sec. 25.2522(c)-3(c)(1)(i); IRC Sec. 2055(e) (2); Reg. Sec. 20.2055-2 (e) (1) (i).

Reforming defective split Interest charitable gifts
Most faulty split-interest charitable gifts may be reformed to qualify for tax benefits if certain requirements are satisfied and deadlines met. IRC Sec. 2055(e) (3).

Treasury Tables for Split Interest Gifts

Interest assumption is pegged to 120 percent of Federal mid-term interest rate based on average market yield of U.S. obligations. IRC Sec. 7520; Reg. Secs. 1.7520-2, -3. "Applicable Federal Rate" changes monthly; thus, donor's deduction for split-interest gift depends on rate in month transfer is made.

Two-month lookback: Donor generally has option to use rate for current month or either of two previous months. Special rules govern pooled income funds.

Treasury issued actuarial tables are almost always used to value split-interest transfers. But the tables are disregarded when a "terminally ill person' is the measuring life or when the income beneficiary or remainder person won't get the expected benefit Reg. Secs. 1.7520-3(b); 20.7520-3(b) and 25.7520-3(b).

IRS Relaxes Substantiation Requirements

An IRS notice (Notice 2002-25) released March 27, 2002 that relaxes the substantiation rules a bit for donors who gave to charities in the wake of the September 11, 2001 terrorist attacks could be seen as an indication of the agency's renewed emphasis on "customer" service.

According to Notice 2002-25, the IRS will give donors who made charitable contributions of $250 or more between September 11 and December 31, 2001, until October 15, 2002, to either obtain a written acknowledgement from the donee, as required under section 170(f)(8), or to acquire evidence of a good faith effort to obtain the documentation. Evidence of a good faith effort could include a copy of a letter or e-mail message sent to the donee organization "requesting a written acknowledgement that meets the requirements of section 170(f)(8)," the notice says.

Under section 170(f)(8) a donor who gives $250 or more in cash or property to a charity must obtain a written acknowledgement from the donee on or before the due date — including extensions — of the tax return reporting the contribution. (An individual taxpayer who receives one extension to file his Form 1040 must file by August 15; if the IRS grants the individual a second extension, the return is due October 15.)

The relief provided in Notice 2002-25 assists donee organizations as well as donors. In the notice the Service explains it "has become aware that, due to the overwhelming number of charitable contributions made in the wake of September 11th, many donee organizations are unable to supply donors with the required acknowledgements in a timely manner." Absent Notice 2002-25, donee organizations would have had less than three weeks to provide acknowledgements to all individual taxpayer donees who wanted to file their tax returns by April 15.

"Common Sense" approach. "I think the IRS deserves praise for this notice," former Treasury official Catherine E. Livingston told Tax Analysts. Livingston, now with Caplin & Drysdale, Washington, noted that "the events of September 11 were extraordinary, and the failure to get receipts to donors is a consequence of the unusual climate those events created for charitable giving. The cost in any inappropriately claimed deductions is more than outweighed by the benefit of treating taxpayers with common sense," she added.

Proposed Increased Tax Incentives to Charitable Giving

Congresswoman Jennifer Dunn (R-WA) last year introduced the Neighbor-to-Neighbor Act (H.R. 824). It wasn't passed, but a version of it might pass this year. A summary of her original proposal appears in the footnote below.[24]

Endnotes

1. Abbreviations used: IRC = Internal Revenue Code of 1986; Reg. = U.S. Treasury Regulation; Rev. Rul. = Revenue Ruling; Rev. Proc. = Revenue Procedure; TD = Treasury Decision; PL = Public Law; LR = Letter Ruling (not a precedent).
2. To be effective, delivery must be unconditional and the stock certificate must be property endorsed. If the stock certificate is not endorsed, donor should give the charity a properly endorsed power and the stock certificate.

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1. **Non-itemizer charitable deduction.** The 70 percent of taxpayers who take the standard deduction would be allowed to deduct their charitable contributions — up to $7,600 on a joint return and up to $4,550 for singles. Those amounts are keyed to the personal exemption.
2. **Tax-free distributions from Individual Retirement Accounts for charitable gifts.** A tax-free rollover — beginning at age 59½ — would be allowed from IRAs to make out right gifts and life-income gifts to unitrusts, annuity trusts, pooled income funds and gift annuities. Allowable beneficiaries of a life income plan (funded with an IRA) could be one or more of the IRA owner, his or her spouse and a charity. All income received from unitrusts, annuity trusts, pooled income funds and gift annuities would be taxable as ordinary income. No income tax charitable deduction would be allowed for IRAs rolled over for outright or life income charitable gifts.
3. **The charitable deduction removed from the 3 percent reduction rule.** Currently taxpayers must reduce their charitable and other itemized deductions (except medical expenses, casualty and theft losses, and investment interest) by an amount that equals 3 percent of adjusted gross income over $132,950 (over $66,475 if married filing separately) in 2001. (These amounts are adjusted annually for inflation.) Taxpayers with high adjusted gross incomes (people who make sizable charitable gifts) can have up to 80 percent of their itemized charitable deductions wiped out by the 3 percent rule. The charitable deduction would no longer be subject to this rule.
4. **All gifts to publicly supported charities would be deductible up to 50 percent of adjusted gross income.** The current 30 percent AGI ceiling for gifts of long-term appreciated securities, real estate and "related use" tangible personal property would be increased to 50 percent (the same as the current AGI ceiling for gifts of cash, short-term assets and "unrelated-use" tangible personal property).
5. **Five-year carryover extended to 10 years.** Gifts that exceed the AGI ceiling would be deductible — until exhausted — up to 50 percent of AGI for 10 years.
6. **A charitable deduction on the prior year's tax return — at a donor's election — for gifts made by April 15.**

President Bush has stated that he wants a charitable deduction for non-itemizers and favors tax-free rollovers of IRAs to charity. It isn't known whether the President's rollover proposal will include rollovers to life income plans or be limited to outright charitable gifts.

When Is a Gift Complete?

Frequent questions that often arise in planned giving include: when is a gift complete, how must the assets donated be valued, and in addition to a thank you, what else is required to properly acknowledge the gift. While your charity is only legally obligated to substantiate the planned gift, good donor stewardship suggests that the charity also indicate on the gift receipt when the planned gift was complete, its value (at least for cash or publicly traded securities) and the contribution amount.

Timing

A gift of cash or stock is complete when the donor relinquishes "dominion and control" of the donated asset. If the donor sends a check or endorsed stock certificate via the U.S. Postal Service, the gift is complete upon mailing, which is sometimes referred to as the "mailbox" rule. The gift to charity is complete upon mailing because the sender cannot recall the mail once he drops it in the mailbox.

This is not the case if the check or stock comes via a private delivery service like UPS or Fed Ex. Why? Because the private delivery service works for the sender and the donor could recall the package any time before delivery. Such a gift is only complete and can only be valued upon receipt by the charity.

Many donors have brokerage accounts and hold their stock in street name. In that case, the donor can tell his broker to transfer securities from his account into the account of the charity. The gift is complete when the brokerage firm transfers title, not when the donor instructs his broker to transfer the shares.

Substantiation

The charitable recipient of any contribution of $250 or more must supply substantiation in a contemporaneous written acknowledgment of the contribution. IRC Sec. 170(f)(8). An acknowledgement meets the requirements if it includes the amount of cash and/or a description (but not value) of any property other than cash contributed. It must also indicate whether the charity provided any goods or services in consideration of the gift and, if it did, a description and good faith estimate of the value of those goods or services.

If a donor claims a charitable deduction of more than $500 for a gift of non-cash property, he must complete Part A of Form 8283 and attach it to his tax return. Reg. Sec. 1.170A-13(b)(3).

There are further requirements for gifts of property other than cash or publicly traded securities with a total claimed value of more than $5,000 or more than $10,000 for certain non-publicly traded securities. The donor, in addition to satisfying the substantiation requirements listed above, including filing Form 8283, must obtain a "qualified appraisal" for each security donated. The appraiser must complete the appraisal summary in Part B of Form 8283. Reg. Sec. 1.170A-13(c).

Valuation

There can be no dispute as to the value of cash. A cash gift is valued at its face amount. Securities present more complex valuation issues. Publicly traded securities are valued at the average of the high and low share price on the date of transfer. Reg. Sec. 20.2031-2 and 25.2512-2. Once a charity controls a gift of securities, any risk of fluctuation in value is borne by the charity.

For example, suppose your donor funds a gift annuity at the Community Foundation with securities valued at $10,000 on the day of the gift. If the foundation takes several days to sell the securities by which time the stock is only worth $9,000, the foundation will still have to pay the annuity based on the $10,000 valuation at funding and the donor is entitled to a deduction based on the value on the date of gift, $10,000.

Conclusion

There's nothing like the elation and relief that comes with closing a planned gift. But it will serve you well not to forget what comes next. *Your best donors in the future are your current donors.* There is a greater probability of receiving additional gifts if you provide your donor with proper substantiation for a planned gift and helpful information on how to claim the deduction.

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Charitable and "Special-Interest" Gifts

An Introduction to Tax-Exempt Trusts

The focus here relates solely to split-interest, tax-exempt trusts.

"I don't want to give my money to a charity…I want to decrease my taxes…"

When discussing tax-exempt trusts, one must understand that the intent of Congress in establishing tax-exempt trusts was to promote the influx of money into charitable organizations. The discussion of charitable intent can take place in another venue, but regardless of ones intent, a tax-exempt trust is one that must include a charitable organization. Often, a charitable organization need not be named at the outset, but eventually during the life of the trust.

The Community Foundation supports the ideal of promoting the influx of money to qualified charitable organizations. Consequently, you can use the Community Foundation's expertise to achieve that ideal, while using the tax exempt trust to appeal to more people who otherwise would never have an opportunity or desire to give to your charity.

It is important to note that the establishment of a 4tax-exempt trust does not necessarily demand a charitable intention or sacrifice on the part of the trustee. Tax-exempt trusts can be beneficial to virtually anyone seeking to decrease their tax liabilities, improve their income, or establish a retirement income. Tax-exempt trusts are fast becoming a preferred investment and/or tax saving device.

The Problem

Before we talk about how and why the Trust works, and what it could mean to the financial security of you and your family, lets review the tax problem faced by people who would like to sell property (land, buildings, stocks, a business, etc.) that has increased in value.

The Penalty for Selling at a Profit

Stan and Deloris Hill (not their real names) are a typical case. Almost 30 years ago, they bought a farm and land in a small, South Alabama community for $48,000. They worked hard, made a decent living, and raised four children. Now, however, they're ready to retire (both are 60). The children have no interest in farming.

Selling the land seems like a good idea, and so Stan and Deloris have it appraised. They discover they have a bumper crop…current value: $360,000! The Hills are ecstatic until they visit with an accountant friend who tells them about capital gains tax.

The accountant explains that if they sell the land, they will realize a gain of $312,000 (remember, they paid only $48,000 for it). He tells them that, under current tax law, their gain is taxable at 28%. Tax due and payable when they sell the farm: $87,360! With this suddenness of a hurricane, the Hills bumper crop has taken a hard hit. I knew it was too good to be true, Stan tells Deloris. Before they sink into despair, however, the accountant explains that there is a highly attractive route around the problem one you need to know about.

The Advantages of Using a Trust Rather than Selling Outright

The accountant suggests that the Hills forget about selling the land outright. She advises them to transfer it into a Trust with themselves as trustees. This will enable them to sell the land free of capital gains tax. The proceeds from the sale can then be used to fund the Trust. The accountant lists the many advantages the Hills will realize:

- Avoidance of capital gains tax, as already noted. They will have the full selling price of $360,000 to invest and from which to earn income rather than the $272,640 they would have if they had sold the property outright.
- Income for the rest of their lives (after the death of the first spouse, the survivor will continue to receive the income). They can set the payout rate, but it must be a minimum of 5%.
- An immediate charitable deduction for the portion of the Trust assets that will eventually pass to the charity (IRS mortality tables and discount rates are used to make this calculation). For the Hills, assuming a 7% payout rate, the deduction will amount to $71,939 (the lower the payout rate, the greater the deduction). If they exceed the charitable deduction limit in a single year, they can carry it over for up to five additional years.
- Avoidance or reduction of estate tax, because the property placed in the Trust will be removed from the Hill's estate. Moreover, the assets will avoid probate proceedings.
- Relief from paying expenses associated with owning the land (taxes and insurance), and relief from management responsibilities.
- Satisfaction of knowing they will be making a substantial gift to a charity or charities of their choosing, to be used in accordance with their wishes.

Charitable "Special-Interest" Gifts

- The accountant points out that establishing the Trust need not reduce the size of the Hill children's inheritance and adds:

Your children can be provided for in various ways, including the use of asset replacement insurance. Premiums for the insurance can be funded in most cases with the contribution deduction savings, plus the increased cash flow you will get as a result of avoiding capital gains tax. Your children will receive as much or more that they would have received if the Trust had not been used.

- For the Hills and for countless others in similar situations its as simple as black and white: Transfer into a Trust property that has grown in value; don't sell it.

Selling vs. Using a Trust — A Line-By-Line Comparison for the Case of Stan & Deloris Hill

	SELL	TRUST
PROCEEDS FROM SALE OF ASSET	$360,000	$360,000
CAPITAL GAINS TAX	$78,000	$0 *
NET AVAILABLE TO INVEST	$282,000	$360,000
CHARITABLE DEDUCTION	$0	$71,939
TAX SAVINGS	$0	$22,301
ANNUAL PAYMENTS THE HILLS WOULD RECEIVE		
Year 1	$25,200	$25,200 **
Year 23	$0	$31,367
Year 30	$0	$33,639
DURATION OF PAYMENTS	23 years	Lifetime
LIFE EXPECTANCY	30 years	30 years
EXPECTED TOTAL PAYMENTS	$642,655	$867,579
NET TO HEIRS	$0	$360,000
GIFT TO CHARITY	$0	$485,226
TOTAL EXPECTED FAMILY BENEFIT	$642,655	$1,168,474 ***

* Trust is tax-exempt, so it pays no capital gains tax
** Based on 7% payout rate and total earnings of 8% on $360,000
*** Total income plus insurance proceeds plus charitable deduction tax savings minus before-tax insurance costs

Here's More Good News About Tax-Exempt Trusts

- They are sanctioned and approved by the IRS (prescribed in Section 664 of the IRS Code)
- They have assets and a trustee (and YOU can be the trustee!)
- They have an income beneficiary (again, YOU can be the beneficiary)
- They make it possible to foster the work of a qualified charitable organizations. (those recognized under section 501 (c)(3) of the IRS code)

The information in this document is presented in summary form. ALL DONORS MUST CONSULT WITH AND RELY EXCLUSIVELY ON THEIR OWN ATTORNEYS OR OTHER FINANCIAL ADVISORS FOR TAX AND LEGAL ADVICE.

Helpful Terms

Tax-Exempt Trust: A trust in which all interests (or rights), income interests as well as remainder interests, are devoted to nonprofits. Such trusts are often perpetual and, generally, are private foundations under U.S. tax law. Example: John Doe creates a perpetual trust that is to pay its income annually (and as prescribed by the private foundation rules) to nonprofits selected by the trustee.

Trusts are separate legal entities or "legal fictions," like corporations. That is, they are mere concepts that the law, aided by the human psyche, has allowed to act like people — owning property, filing tax returns, making contracts, etc.

CLUT (Charitable Lead Unitrust): A charitable lead trust which pays a fixed percentage of its annual value to a nonprofit or a private foundation. An alternative form can pay the greater of a fixed percentage of the trust's annual value or its net income. Compare with charitable remainder unitrust.

CRAT (Charitable Remainder Annuity Trust): Even though recipients of charitable remainder annuity trusts receive annuities, they are referred to in the Regulations and generally in this book as recipients, not annuitants. Compare with charitable remainder unitrust.

CRUT (Charitable Remainder Unirust): Compare with charitable remainder annuity trust.

NICRUT (Net Income Charitable Remainder Unitrust): Example: A charitable remainder unitrust which calls for payment to the recipients of 5% of the annual value of the trust's assets but not more than the actual net income of the trust.

NIMCRUT (Net Income Charitable Remainder Unitrust with Makeup Provisions): Example: A charitable remainder unitrust which calls for payment to the recipient of 5% of the annual value of the trust's assets but not more than the actual net income of the trust, except that in any year in which net income exceeds 5% of the trust's value for that year, the trustee must distribute that excess to makeup deficits from years in which the net income was less than the 5% of the value.

Pooled Income Fund: A trust described in paragraph (5) of Internal Revenue Code Subsection 642(c).

Charitable "Special-Interest" Gifts

Classic Uses of CRT's – Is Your Donor's Situation Similar?

Here are some opportunities where a charitable trust could be an ideal solution:

- Individuals with a history of current giving who would like to create an ongoing family philanthropic program.
- Professionals with extra large qualified retirement plans and a desire to improve control of distributions to heirs.
- Owners of family businesses with widely scattered heirs likely to sell after inheriting this asset.
- The owner of a closely held business who wants to sell with more favorable tax treatment.
- The owner of a low income or non-income asset who needs more current income.
- A retiring farmer with last year's crop to sell and no expenses to offset income.
- An executive with much of his or her net worth concentrated in employer's company stock and a need to diversify.
- Corporate stockholders using partial redemptions seeking preferred tax positions.
- Owners of under performing and low-basis non-leveraged real estate or personal property.
- The owner of a highly appreciated stock portfolio who would like to move from growth to income assets.
- Highly compensated individuals looking to set aside additional retirement savings without IRC section 415 limitations.
- Parents who want to establish a secure source of life-time funding for a disabled or financially irresponsible child.
- Employees with Incentive Stock Options (Qualified) seeking tax relief and diversification.
- Business owners owning stock after an Initial Public Offerings (IPO) seeking to minimize capital gains tax losses.

Remember, charitable trusts aren't for all donors. There must be some charitable intent, as there is often a significant gift to charity involved; all too often the concept is pitched as a tax dodge or as a way to sell financial products. Instead, it should be part of an integrated financial and estate plan designed to solve problems

Do You Ask Your Donors for Non-Cash Gifts?

Fact: 95% of all wealth is found in property, equities and other non-cash assets. Only 5% of available wealth is in cash.

Fact: Most wealthy donors could give significantly more of their wealth to your charity, if they were simply asked to give their non-cash assets.

Fact: Most development operations spend the majority of their resources pursuing cash gifts.

Fact: If your organization is not aggressively pursuing non-cash gifts, you are missing out on the largest pool of potential charitable gifts to your organization.

Fact: The community foundation is uniquely equipped to assist you in making these gifts to become productive for your organization.

How to Give Away Your Taxes

Capturing Social Capital is more than enlightened self-interest; it is a means of asserting control over assets you have spent a lifetime accumulating. When exploring estate-planning techniques, normally you must include powers of attorney, wills, trusts, business agreements and the use of gifts. Planned gifting programs are best utilized within a complete estate plan, and offer the donor a great opportunity to give away tax liabilities. After all, the joy of giving allows you the choice of transferring assets to children, charity or Congress. Of the planning tools used, charitable giving may be more powerful than you have imagined, but too many professional advisors have avoided it.

What will contributing to a charity do for you? It will make your life more interesting, more exciting, more flexible, more fun and more meaningful.

Changes in lifestyle, economy and government programs have greatly influenced trends in modern charitable giving. Typically, the institutional priority today is a more donor driven philanthropy instead of the traditional needs driven approach. In order to compete for limited donor support, charities have to move from a *gift getting mentality to a problem solving manner of thinking.*

Organizations can best accomplish this shift in mindset by developing partnerships with their donors. Charities with a proactive outlook in their development efforts will be able to better respond to the changes in the gifting environment. This flexible approach allows institutions the continued opportunity to provide improved services and support to their clients.

In order to understand their future partners, today's charities must better understand family dynamics and motivations. Prosperous families recognize that they are in jeopardy and must address those risks to protect both their wealth and the individuals in their family. These risks include a lack of feeling competent, no cohesiveness, too little commitment to something more important than self and guilt about having wealth.

Unfortunately, there is a lack of information about property and money management, and nobody is trained to inherit wealth. The solution is to work with charitable groups and family foundations. This mentoring activity allows younger family members to learn how to manage assets, plan and budget before they inherit the bulk of their noncharitable bequests.

Besides preserving wealth, the elder generation wants to create a significance that survives them; so gifting programs can create a sense of immortality. Whether or not clients have purely charitable interests, most families have community or social issues that influence their outlook. By establishing a trust or foundation to support these activities, death will not interfere with the transfer of an important value system.

Often gifts are made by charitable bequests, but this may be the worst tool to shift assets, as it creates an obligation in the estate that may come before other necessary distributions.

As an alternative, the government recognized two components to a charitable gift in 1969 by dividing the income and remainder interest. Four of these split-interest planning tools now have the potential to both give something away and still keep the use of it.

Of these, Charitable Remainder Trusts, have recently been popularized as powerful tax reduction techniques. In reality, they allow donors the opportunity to give away assets, retain an income stream, take tax deductions and still retain control over the ultimate disposition of the remainder gift. Besides a need for tax deductions, donors must also have charitable intent and a desire to maintain control.

Remainder trusts may guarantee a fixed amount for life or a term of years based on either a fixed annuity calculation or a percentage of the trust's annual value. Of the four types of trusts best known by their acronyms (CRAT, SCRUT, NICRUT, NIMCRUT), the Net Income with Make-Up Charitable Remainder Unitrust or "spigot trust" is the most flexible.

Each trust has very different applications, depending on needs for future gifts, flexibility, donor tax deductions, income and control. Charitable Lead or Income Trusts are designed to pass the principal of a gift to heirs after a charity has received an income stream for a period of time. If the asset produces more than the required income payout, all of the future appreciation and the asset itself will pass back to the heirs without further estate tax obligations. These techniques are best understood as enlightened self-interest because both good works and family priorities are promoted.

For donors with purely charitable inclinations, the next three tools address some of the security issues that most concern the older client. While these techniques do not preserve any assets for the family, they are more practical as a means of supporting charitable works and giving final control to the philanthropic institution.

Charitable Gift Annuities are programs in which the institution must guarantee a lifetime of income for the donor, but any unused funds revert to the charity at the

donor's death. This technique is most useful for the very elderly or those with no family wealth to pass along to heirs.

Pooled Income Funds, owned and run by the Community Foundation or your charity, are similar to mutual funds. The institution is then required to pay the donor each year's investment proceeds on a proportional basis. Ultimately, the principal amount will pass to the charity and be used at their discretion. Life insurance may also be purchased and gifted to a charity in a direct program that offers a guaranteed benefit for donors with a fixed budget. Charitable gifting is not limited to the ultra-wealthy, as any sized estate plan may benefit from its use.

To evaluate the best use of gifts within the estate planning blueprint, experienced legal, tax and financial advisors should be consulted.

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The Charitable Remainder Annuity Trust: Security for the Future

Nearly everyone has heard of "trusts." There are "living trusts," "bypass trusts," "family trusts," "charitable remainder trusts," and countless other variations of this important estate and financial planning tool. Trusts are effective tools because of their remarkable flexibility, which makes them an increasingly common component of estate plans.

Trusts enjoy widespread use for good reason: They help relieve the tension of complex financial decisions and, if properly implemented, can reduce the harsh impact of taxes on the property they hold. Thus shielded, the property in a trust may grow to provide increased benefits. Most often, trusts are established because of concern for someone else's needs. For example, a trust may be set up to provide security for family members.

While considering their financial plans, many of Spring Hill's alumni and friends have discovered the "charitable remainder trust." These individuals create charitable remainder trusts that provide security for themselves or others, while benefiting Spring Hill College. Flexibility and tax advantages make charitable remainder trusts a potent planning tool.

Some of the most frequently asked questions about charitable remainder trusts are answered below in summary form.

What Is a Charitable Remainder Trust?

A gift to Spring Hill College through a charitable remainder trust is accomplished by the creation of an irrevocable trust, established by a donor with the assistance of his or her attorney.

Assets such as cash, appreciated stock, bonds or real estate are contributed to the trust, which is managed by a trustee. The trustee may sell the assets and reinvest the sale proceeds. The trust makes regular payments to beneficiaries named by the donor at the time the trust was established. These payments can be made for the lifetime(s) of the beneficiary(ies) or for a specified term of up to twenty years. After the lifetime of the last surviving beneficiary, or at the end of the specified term, the trust terminates. The trust principal or "remainder" interest is then distributed to Spring Hill College for the purposes designated by the donor.

There are two types of charitable remainder trusts: the annuity trust and the unitrust. The charitable remainder annuity trust provides a fixed annual payment stated as an amount, or as a percentage of the value of the initial trust assets. The annual payment amount will not change over the term of the trust. The charitable remainder unitrust provides a variable annual payment, based on a percentage of the trust assets as revalued annually. Donors who prefer certainty in the annual payment amount might prefer the annuity trust. Those who prefer more flexibility might select the unitrust.

In addition to the annual payment method, the annuity trust and the unitrust differ significantly in features and advantages. Please contact the Spring Hill College Office of Development at 251-380-2283 for more information on the unitrust.

How Does the Annuity Trust Work?

The hallmark of the charitable remainder annuity trust is its ability to provide a stream of payments that does not vary during the term of the trust. This feature makes the trust a good vehicle for donors who want predictable payments from their gift.

The annuity trust provides for the annual payment stated as a fixed percentage — at least 5 percent — of the fair market value of the trust assets at the time of transfer into the trust. The donor selects the amount of the fixed percentage at the time he or she establishes the annuity trust.

Consider Joe Bruin's gift of $100,000 cash through an annuity trust. Joe selects a payout percentage of 6%. For his lifetime, Joe will receive 6% or $6,000 from the trust, so long as the trust's assets remain sufficient.

If an annuity trust's total earnings in any one-year are not sufficient to make the stated payout for that year, the trustee will have to use principal to make the payout. If the trust's earnings exceed the payout percentage, the excess is added to principal. The additional earnings do not affect the payout. If the donor wants his or her payments from the trust to increase and decrease when the trust's total asset value increases and decreases, the donor should choose the unitrust.

Thus, payments from an annuity trust are not guaranteed, but will be paid so long as the trust's assets remain sufficient to make the payment. If the trust's assets are exhausted, the trust will terminate.

Are There Any Income Tax Advantages from this Gift?
Gifts to charitable remainder annuity trusts create several attractive tax benefits. A donor who creates a charitable remainder annuity trust makes a gift. Accordingly, if filing an itemized Income Tax Return that year, the donor can claim an income tax charitable deduction for the value of Spring Hill College's "remainder" interest.

The remainder interest is calculated using U.S. Treasury tables, based on the beneficiary's(ies') age(s) (or the term of a trust if it is for a term of years), the selected payout percentage, and the Applicable federal (interest) rate." The amount of the income tax charitable deduction is the discounted present value of the remainder that will be distributed to Spring Hill College at the end of the trust's term. The value of the donor's income tax charitable deduction increases with lower payout amounts and shorter trust terms.

Is Capital Gain Tax Payable on a Gift of Appreciated Property?
When an individual sells appreciated property, the entire amount of capital gain realized is taxed in the year of the sale. By contrast, when a donor establishes a charitable remainder trust with long-term appreciated property, such as securities, the trust sells the property. Because the trust is tax exempt (unless it has "unrelated business taxable income"), it generally pays no capital gain tax on the property's appreciation when it sells and reinvests the trust assets.

Are There Estate Tax Savings with an Annuity Trust?
Establishing a charitable remainder annuity trust reduces the size of the donor's estate, which can therefore reduce estate taxes. Assets in an annuity trust also avoid probate and the associated costs of estate administration.

Can a Testamentary Annuity Trust be created by an Individual's Will or Revocable Trust?
A donor may create an annuity trust during life, or at death via a Will or revocable trust. A trust created by an individual's Will or revocable trust sometimes is called a "testamentary annuity trust." A donor's estate benefits from an estate tax charitable deduction for the discounted present value of the trust's remainder interest, which will ultimately benefit Spring Hill College.

What Type of Assets Qualify for this Gift Arrangement?
Cash and marketable securities are the most common sources of funding for a charitable remainder annuity trust. Real estate usually is not a suitable asset for this type of trust.

The Spring Hill Development Office is pleased to assist individuals in determining the most advantageous asset to use to fund an annuity trust. The Office also can provide illustrations of the amount of payments, the income tax charitable deduction, and, if applicable, the capital gain consequences.

Who Serves as Trustee of an Annuity Trust?
Many donors choose as trustee an institution such as TIAA/CREF, a bank trust department, a friend, a relative or a professional advisor. Donors who select a professional trustee enjoy the benefits of their trusts while the trust's investment professionals manage the trust portfolios. In some cases, a donor might choose to serve as trustee of his or her own trust.

Who Can be the Beneficiary of an Annuity Trust?
The donor can name the person(s) who will receive payments from the trust. The donor need not be a beneficiary. Payments can be made to one person for life, and then to one or more successors, or jointly to two or more individuals for their joint lifetimes, and then to the survivor(s).

How Long Can an Annuity Trust Last?
Payments can be structured for a term of years, not to exceed 20 years. In the alternative, payments can be made for the life or lives of the named beneficiaries. Designating beneficiaries other than the donor(s) will necessitate a review of the gift and estate tax consequences thereof.

How Does Spring Hill College Benefit From an Annuity Trust?
After the final payment is made to the individual beneficiary(ies) of an annuity trust, the trust terminates. What assets remain in the terminated annuity trust — the remainder — are distributed to Spring Hill College for the purposes specified by the donor.

Whether a donor's interest lies in the humanities, the fine or performing arts, business, technology, law, science, medicine, athletics or other areas, that donor's gift can be a unique expression of his or her interests and concerns. The Spring Hill College Office of Development helps each donor shape a gift that reflects his or her unique interests in the College.

Are Other Planning Opportunities Available?
The charitable remainder annuity trust is only one of the many ways to make gifts to Spring Hill College. Many other gift arrangements also enable a donor to make a gift while retaining revenue from the asset. Each arrangement offers unique advantages, allowing donors to tailor their gifts to meet their unique personal financial and philanthropic goals.

What Are Some of Spring Hill College's Special Gift Arrangements?
Spring Hill College offers a full range of planned gift opportunities. In addition to charitable remainder annuity trusts, these opportunities include charitable remainder unitrusts, immediate payment gift annuities, deferred payment gift annuities, bequests and gifts through living trusts, gifts of remainder interests in homes or farms, and charitable lead trusts.

Whether the gift is made during a donor's life, or on the donor's death, there are potential tax savings to be enjoyed. The appropriate arrangement for each donor varies according to the donor's age, the type of assets being used, and the donor's own financial needs and goals.

How Can a Prospective Donor Learn More About the Charitable Remainder Annuity Trust?
To explore the opportunities and rewards of Spring Hill College Charitable Remainder Annuity Trust, donors or their advisors may contact the College's Development Office. Experienced professionals work confidentially with donors and their advisors to create gifts that blend each donor's financial and personal objectives with the academic and programmatic priorities of Spring Hill College.

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Charitable "Special-Interest" Gifts

Wealth Replacement Trust

Perhaps you would like to make a sizable contribution to Spring Hill College now to help meet our current needs, but you don't want to reduce the estate you will pass to your family. The solution? Purchase life insurance.

"Sounds like a good idea," you say, "but then I'll have to pay the premiums on the policy." True enough, but depending on your age, health and top tax bracket, the income tax savings from your charitable gift may be enough to cover the premium cost.

Assuming your estate is taxable, dollar-for-dollar asset replacement isn't necessary. A smaller amount of insurance can be enough to restore your family's after-tax inheritance. If you are married, a second-to-die policy can offer the most coverage per premium dollar.

Strategies Avoid Tax

If you own the insurance policy, ultimately the proceeds will be included in your taxable estate. The remedy: If your sole heir to the policy value is a responsible adult, make him or her the policy owner and beneficiary. Then give that individual a yearly amount adequate to pay the premium, utilizing your annual gift tax exclusion.

For multiple heirs or a larger gift, take advantage of an exceptional plan called a "wealth replacement trust" and name your spouse, children or other individuals as trust beneficiaries. The trust is the owner of the policy and eventually will receive and manage the proceeds. The trust is irrevocable, and if designed correctly, the insurance will be excluded from your taxable estate. You transfer enough money to the trust each year so that the trustee can pay the policy premiums.

To avoid any gift tax (or use of your estate and gift tax credit) on yearly gifts to the trust over the annual gift tax exclusion, the trust agreement must give your beneficiaries the temporary right each year to withdraw these funds. However, should your beneficiaries exercise this power, the insurance may lapse due to insufficient funds to pay the yearly premium.

Your estate planning lawyer and our development staff can help design a plan that preserves your estate's value while fulfilling your desire to benefit our cause. Please call Rinda Mueller at 251-380-2285, or e-mail her at rmueller@shc.edu for more information.

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Charitable Gift Annuities

What Is a Gift Annuity? How It Works.

One of the oldest and simplest life-income arrangements, a CGA is a simple contract between you and the Community Foundation of South Alabama for the benefit of Spring Hill College. In exchange for your irrevocable gift of cash, securities, or other assets, the foundation agrees to pay one or two annuitants you name a fixed amount each year for life. The Gift Annuity payments are based on the rates recommended by the American Council on Gift Annuities and are *not* meant to be competitive with commercial annuities. The payments are guaranteed by the general resources of the foundation, and backed up by a segregated reserve account. Minimum initial gift is $10,000; additional gifts of $5,000.

Different Types of CGAs

There are three basic types of CGAs, and they each meet different needs.

Immediate Payment: With this type of gift annuity, your payments begin as soon as the contract takes effect. For example, if you elect quarterly payments, payments begin at the end of the quarter in which you make your gift. Annuitants must be age 55 or older.

Deferred Payment: This option allows younger donors and annuitants to defer the start of payments until they have reached retirement age. Like an immediate payment gift annuity, you can take a charitable deduction in the year you make your gift. Because payments are deferred, however, you or your designated annuitants will receive substantially higher income payments later.

Flexible Payment: This option allows you and your designated annuitants to elect to start receiving payments on any one of a range of dates beginning at least one year after your gift. These dates and their corresponding payment amounts must be listed in your agreement.

What Are the Advantages?

1. It costs nothing to set up a CGA.
2. Relatively small amounts can be contributed to a CGA.
3. Your income payments are fixed and guaranteed by the assets of the College.
4. CGAs pay relatively high rates. Currently, rates go as high as 11%.
5. You will be entitled to take a charitable income tax deduction for the gift portion of your annuity in the year you make your gift, with up to 5 additional years to take any unused deduction. By electing an annuity rate lower than that designated by the American Council on Gift Annuities, you can increase both your charitable tax deduction and your ultimate gift to Spring Hill.
6. You will pay capital gains tax only on the projected income benefit from your gift. If you name yourself as an income beneficiary, your reduced capital gains tax liability will also be spread out over the life of the contract.

Example (based on 6.2% IRS discount rate)

You donate $50,000 of appreciated stock, originally purchased for $2,500, to a Charitable Gift Annuity with payments to begin immediately:

	AGE 70	AGE 75	AGE 80
ANNUITY RATE	7.5%	8.2%	9.2%
ANNUAL PAYMENT	$3,750	$4,100	$4,600
CHARITABLE DEDUCTION*	$17,850	$20,020	$22,359

How Do I Set Up a CGA?

It's easy. Read the Foundation's Disclosure Statement and then just email the Foundation's Office. The Foundation will prepare a gift annuity contract and help you transfer your assets to the Foundation. It will pay you or your designated annuitant(s) the agreed-upon percentage in the contract as a fixed income payment for life and when the contract matures the death payment benefits will be distributed to the Foundation's permanent endowment for Spring Hill College.

Other Possible Uses

One of your financial and estate planning objectives may be the supplemental support of a person other than younger, direct heirs — possibly an older sibling, a dependent parent, a friend or a former employee.

If your desire to help does not extend to heirs of the recipient, who could be the major beneficiaries of a lump-sum gift, a one-life charitable gift annuity agreement can be set up so that someone other than the donor receives the annuity payments. The age of the person receiving the annuity payments, rather than the age of the donor, determines the annuity rate and other results.

The present value of the charitable gift portion is an income tax deduction for the donor(s). The actuarial value of the income interest is a taxable gift to the individual. As a present interest, however, it qualifies for the annual gift tax exclusion of $10,000 ($20,000 if a husband and wife join in making the gift).

Other potential advantages include the reduction of the donor's taxable estate by the amount used for the annuity contract. If the recipient outlives the donor, the income

is continued, and there is no need to establish a trust and pay for its management.

Somewhat younger donors find that deferred charitable gift annuity contracts combine philanthropy with improved retirement income. Many tax law changes have limited the amount of pretax earned income that can be sheltered from tax and invested for later financial security. For some, Individual Retirement Accounts are no longer deductible. Others with qualified salary reduction plans may find that their annual contributions are limited by nondiscrimination rules.

A retirement income plan can be enhanced through a series of deferred charitable gift annuity contracts, using excess discretionary income to fund the annuity each year leading to retirement (when the payments are scheduled to begin). Advantages to this type of arrangement include the following:

- Partial tax deduction for each amount transferred.
- Continuation of the process beyond the age of 70½ when qualified plans must start payments.
- Use of any source of funds, not just earned income as required by qualified pension plans.
- No limitation on the amount used.

Areas Worth Reviewing

When considering a life income gift arrangement, consult your financial and estate planning advisors.

Professional advisors will probably want to review these key areas: the balance between fixed income and variable income with growth potential; the option of using capital gain property; and the unified estate and gift tax implications of plans being considered.

Fixed versus variable income. In general, older donors are more likely to favor fixed-income giving methods such as a charitable gift annuity. They may have less tolerance for risk and fewer years of future inflation about which to worry.

With longer life expectancies, however, all donors of life income gifts should consider maintaining diversity within their investments to offset the effect of inflation.

Use of long-term capital gain property. When marketable appreciated property such as common stock is exchanged for a gift annuity, the capital gains tax implications should be considered.

As noted earlier, the portion of gain to be recognized can be spread over the expected term of the contract. The tax savings generated by the lower tax rates, however, are offset to some degree because the recognition of gain can eliminate some or possibly all of the nontaxable return of the donor's investment in the contract.

Federal estate and gift tax implications. Since transfers between spouses are tax-free through the unlimited marital deduction, naming a spouse as the only, joint or successor annuitant under a gift annuity contract is not subject to the unified federal estate and gift tax.

If a nonspouse is named as the initial annuitant or the successor annuitant, the actuarial value of the entire annuity interest may be subject to gift tax unless the donor retains the right to revoke the annuitant's income interest during life or by will.

A testamentary provision (a provision spelled out by will) for purchase of a charitable gift annuity for a surviving non-spouse produces a partial charitable estate tax deduction and a partial taxable amount if the estate is taxable.

When considering this type of arrangement for a gift annuity contract, you should consult with your financial advisor to realize the full benefits and avoid any tax surprises.

How Are Gift Annuities Taxed?

One reason gift annuities have become enormously popular is that they often provide partially tax-free payments to the annuitants. If they are funded with appreciated property, they can provide capital gain income as well.

But how is the taxation of a gift annuity's payments determined? Perhaps surprisingly, there is method to the IRS's madness.

Investment in Contract and Expected Return

From the IRS's point of view, a gift annuity is a special form of bargain sale. The sale price is the present value of the annuity stream that the charity promises to pay to the annuitants for the rest of their lives. The IRS calls this sale price the investment in contract.

For example, if a donor funds a gift annuity with $10,000 and the deduction available to the donor is $4,000, this means that the annuitants retain an investment in contract of $6,000. The annuitants will get the $6,000 back in installments over their life expectancy as part of their annuity payments.

The IRS also determines the life expectancy of the annuitants in order to determine the total amount of payments the annuitants will receive during this time. The IRS calls this life expectancy the expected return per dollar. This number multiplied by the annuity amount equals the expected return, the total amount of annuity payments that the annuitants will receive over their life expectancy.

For example, if the annuitants have an expected return per dollar of 15 and they receive an annuity of $1,000 per year, their expected return is $15,000.

Determining the Excluded Portion of the Annuity

Once the IRS has determined the investment in contract and expected return, it can compute the portion of each annuity payment that will be treated as tax-free or capital gain income rather than as ordinary income during the life expectancy of the annuitants. This so-called exclusion ratio is simply the investment in contract divided by the expected return. It is the portion of the annuity funding amount that will be returned to the annuitants during their life expectancy divided by the total amount of payments they will receive during the same time span. Since the asset funding the annuity was already taxed in the hands of donor sometime prior to the gift, the portion of it that will be returned to the annuitants with each distribution will not be treated as ordinary income.

In our example, the exclusion ratio would be $6,000/$15,000, or 40%. This means that $400 out of each year's $1,000 in payments will be treated as either tax-free or capital gain income and the other $600 will be treated as ordinary income for the life expectancy of the annuitants. Once the annuitants outlive their life expectancy, all the investment in contract will have been returned and the entire $1,000 annuity will become ordinary income.

Determining Tax-Free and Capital Gain income

Now that we have seen how the annuity payments are divided between ordinary income and excluded portions, let's look at how the excluded portion is divided between tax-free income and capital gain income. If the gift annuity is funded with cash, it's easy. The entire excluded portion is treated as tax-free income. If the gift annuity is funded with appreciated property, however, the computation is more complicated because some of what was tax-free income will now become capital gain income.

When a gift annuity is funded with appreciated property, such as stock, the IRS computes what it calls a bargain sale ratio. The bargain sale ratio is the portion of the annuity funding amount that the IRS considers to have been sold to the charity. In short, it equals the sale price of the annuity (the investment in contract) divided by the annuity funding amount. In our example, the bargain sale ratio is $6,000 / $10,000 or 0.6. This means that 60% of the donor's capital gain in the funding asset will need to be reported.

If the annuity meets certain criteria — and most do — a special rule allows the donor to spread the payment of reportable capital gain over his or her life expectancy. If the capital gain and the investment in contract are both reported over the same life expectancy, which is typically the case, then the amount of capital gain income to report each year bears the same relation to the excluded portion as the donor's gain in the funding asset bears to the fair market value of the funding asset.

In other words, if a donor has an $8,000 gain in a $10,000 funding asset, then 80% of the excluded portion of the annuity will be capital gain income and only 20% tax-free income. In our example, 80% of the $400 excluded portion ($320) would be treated as capital gain income and the other 20% ($80) would be treated as tax-free income. The remaining $600 would still be treated as ordinary income.

Conclusion

The taxation of gift annuity payments can be complicated. Nevertheless, the IRS uses sound logic to determine the taxation of any particular annuity.

Charitable Gift Annuities: Securing an Income for Life

Many alumni and friends of Spring Hill have discovered a unique opportunity: The Spring Hill/Community Foundation of South Alabama Charitable Gift Annuity Program. They have discovered that through this program it is possible to make a gift that is not only a lasting contribution to the College, but also a simple and proven technique for securing a lifetime income and minimizing taxes.

The Spring Hill / Community Foundation of South Alabama Charitable Gift Annuity is both a gift and a life-income arrangement. Through gift annuities established with the Foundation, many donors enjoy fixed income from their gifts for their lifetimes. There are many other benefits as well. Some of the most commonly asked questions about gift annuities are answered below.

What is a Charitable Gift Annuity?

A commercial annuity is a contract between an issuer (usually an insurance company) and an individual (the annuitant), in which the issuer agrees to pay a fixed dollar amount to one or more annuitants for life. Although a charitable gift annuity is similar in concept, it has one important difference: It is issued by a charitable institution that receives the remainder as a gift; in this case, the Community Foundation for the benefit of Spring Hill College. When a donor enters into a gift annuity agreement with the Community Foundation for the benefit of Spring Hill College, he or she receives a lifetime income and at the same time makes a charitable gift to the Foundation for the benefit of Spring Hill College. The net proceeds are added by the Foundation to the College's permanent endowment fund with the Foundation after the lifetime of the annuitant(s).

How Does a Charitable Gift Annuity Work?

In return for a gift of cash or property, the Foundation agrees to pay one or two beneficiaries selected by the donor a fixed, lifetime dollar amount. The Foundation's obligation to pay the annuity is secured by its assets. The donor is entitled to an immediate income tax charitable deduction the year the gift is made. That deduction is based on the difference between the current value of the lifetime annuity and the amount transferred to the Foundation.

Annuity payments can begin immediately or can be deferred for a specified period of time that is at least one year after the date of the gift. If the payments are to begin at a point in the future, such as the donor's retirement, then the gift arrangement is called a "deferred charitable gift annuity."

What Determines the Amount of the Annuity Payment?

The donor's age and the age of any additional beneficiary determines the amount, or annuity rate, a donor receives. As with all other charitable institutions in Alabama which offer gift annuities, the Foundation Charitable Gift Annuity Rates are filed with the Alabama Securities Commission. The older the annuitants, the higher the rate of income. When an annuity is established to provide income for two beneficiaries, rather than one, the annuity rate is lower. This scenario occurs because the life expectancy of two individuals is actuarially longer than one.

What Kind of Property Can Be Used To Fund a Gift Annuity?

Cash and marketable securities are the most common sources of funding for a gift annuity to the Foundation. Gifts of commercial or residential real estate may also be used, depending upon its value, condition, and marketability. In such an instance the amount of the annuity payments will be based on the net amount the Foundation receives after sales costs and expenses.

Can a Donor Designate in Whose Honor or Memory a Gift Annuity is Purchased?

With a charitable gift annuity, any net assets remaining after the lives of the designated beneficiaries will be paid into the permanent endowment of Spring Hill maintained at the Foundation. A donor may wish to pay tribute to a parent, or a spouse, by creating an endowed fund in that person's name. Each donor shares with the others a common desire to contribute permanently to Spring Hill's tradition of excellence.

Are There Any Tax Benefits with a Charitable Gift Annuity?

When a donor establishes a charitable gift annuity with the Foundation, it is considered a charitable gift. Accordingly, if filing an itemized Income Tax Return that year, the donor can claim an income tax charitable deduction. Under the current tax law, when the federal and, for example, the Alabama income tax rates are combined, the rate can approach 50%. Thus, in effect, the charitable deduction reduces the "cost" of making a gift by offsetting income tax that would otherwise be payable by the donor.

As with other types of annuities, a portion of each annuity payment is treated as a tax-free return of the original investment and is not taxed. The staff of the Spring Hill Development Office is always happy to meet with prospective donors, and to provide them with confidential estimates of the income they would receive by establishing charitable gift annuities, and how much of each payment would be tax-free.

Is Capital Gain Tax Payable on a Gift of Appreciated Property?

A portion of the gift escapes capital gain tax entirely because a gift annuity is considered to be partially a gift and partially an annuity. With a contribution of appreciated securities or other property, a donor realizes a capital gain on the amount of the appreciation allocated to the annuity portion (the difference between the value of the property given and that portion treated as a gift).

The amount of capital gain realized through the gift annuity will be smaller than the gain realized if the property were sold. In addition, when an individual sells property, the entire amount of capital gain is realized and taxed in the year of the sale. By contrast, in a gift annuity arrangement, the capital gain is amortized over the actuarial life expectancy of the donor (or joint life expectancy of the donor and a second beneficiary) and reported annually as the annuity is received. If the donor establishes the annuity solely for the benefit of one or two other persons, capital gain is reported entirely in the year of the transfer.

The Staff of the Community Foundation (251-438-5591) is always happy to give prospective donors personalized illustrations of the capital gain advantages their specific charitable gift annuities that would ultimately benefit Spring Hill would offer, which the donors can review with their own advisors.

Can a Gift Annuity be established for the Benefit of Someone Else?

A gift annuity may be established for the benefit of one or two individual beneficiaries. Payments can be made to one person for life, and then to a successor beneficiary, or jointly to two individuals for their joint lifetimes, and then to the survivor for life. Depending upon the ages of the beneficiaries, and their relationship, there may be gift and estate tax consequences.

Can a Charitable Gift Annuity be Part of a Retirement Plan?

A charitable gift annuity is an excellent supplement to a retirement plan. Indeed, its flexibility to meet various planning needs makes the gift annuity quite an attractive option. A donor may choose to receive the payments immediately, or defer them to a later date, usually after retirement. With a deferred gift annuity, a donor benefits two ways: first, by receiving an immediate income tax charitable deduction (thus, deceasing income taxes during high income years) and second, by building retirement income on a tax-sheltered basis. A deferred payment gift annuity also allows the creation of a more significant gift. Because the investment has time to grow during the period income payments are deferred, the donor ultimately receives higher income payments and, simultaneously, creates an even greater legacy for Spring Hill.

Are There any Estate Tax Advantages with Such a Gift?

One of the advantages of this type of gift is that the transferred property avoids estate taxation.

Are Other Planning Opportunities Available?

The Community Foundation Charitable Gift Annuity Program for the benefit of Spring Hill College is only one of many ways to make gifts to Spring Hill. Many other gift arrangements also enable a donor to make a gift while retaining income from the asset. Each arrangement offers unique advantages, allowing donors to tailor their gifts to meet their unique personal financial and philanthropic goals.

What are Some of Spring Hill's Special Gift Arrangements?

Spring Hill College offers a full range of planned gift opportunities. In addition to charitable gift annuities, these opportunities include bequests and gifts through living trusts, charitable remainder trusts, gifts of remainder interests in homes or farms, charitable lead trusts and deferred gift annuities.

Planned gifts can be made during a donor's lifetime. They also can be made in a donor's Will or living trust, designed to take effect only after the donor's death. Whether the gift is made during a donor's life, or upon the donor's death, there are potential tax savings to be enjoyed. The appropriate arrangement for each donor varies according to the donor's age, the type of assets being used, and the donor's own financial needs and goals.

How can a Prospective Donor Learn More About Establishing a Charitable Gift Annuity?

To explore the opportunities and rewards of the Community Foundation Charitable Gift Annuity for the benefit of Spring Hill College, please contact the Development Office. The staff can provide detailed information about income-producing gift arrangements, funding options, and endowments to support specific academic areas or College programs.

The Development Staff will work with each donor to create a distinctive gift that blends his or her financial and personal objectives with the priorities for Spring Hill. The result is a gift that is both personally satisfying and mutually beneficial to the donor and to the College.

This material is presented in summary form. ALL DONORS MUST CONSULT WITH AND RELY EXCLUSIVELY ON THEIR OWN ATTORNEYS OR OTHER FINANCIAL ADVISORS FOR TAX AND LEGAL ADVICE.

Other Good Uses of Gift Annuities

One of your financial and estate planning objectives may be the supplemental support of a person other than younger, direct heirs — possibly an older sibling, a dependent parent, a friend or a former employee.

If your desire to help does not extend to heirs of the recipient, who could be the major beneficiaries of a lump-sum gift, a one-life charitable gift annuity agreement can be set up so that someone other than the donor receives the annuity payments. The age of the person receiving the annuity payments, rather than the age of the donor, determines the annuity rate and other results.

The present value of the charitable gift portion is an income tax deduction for the donor(s). The actuarial value of the income interest is a taxable gift to the individual. As a present interest, however, it qualifies for the annual gift tax exclusion of $11,000 ($22,000 if a husband and wife join in making the gift).

Other potential advantages include the reduction of the donor's taxable estate by the amount used for the annuity contract. If the recipient outlives the donor, the income is continued, and there is no need to establish a trust and pay for its management.

Somewhat younger donors find that deferred charitable gift annuity contracts combine philanthropy with improved retirement income. Many tax law changes have limited the amount of pretax earned income that can be sheltered from tax and invested for later financial security. For some, Individual Retirement Accounts are no longer deductible. Others with qualified salary reduction plans may find that their annual contributions are limited by nondiscrimination rules.

A retirement income plan can be enhanced through a series of deferred charitable gift annuity contracts, using excess discretionary income to fund the annuity each year leading to retirement (when the payments are scheduled to begin). Advantages to this type of arrangement include the following:

- Partial tax deduction for each amount transferred.
- Continuation of the process beyond the age of 70 1/2 when qualified plans must start payments.
- Use of any source of funds, not just earned income as required by qualified pension plans.
- No limitation on the amount used.

Areas Worth Reviewing

When considering a life income gift arrangement, consult your financial and estate planning advisors.

Professional advisors will probably want to review these key areas: the balance between fixed income and variable income with growth potential; the option of using capital gain property; and the unified estate and gift tax implications of plans being considered.

Fixed versus variable income. In general, older donors are more likely to favor fixed-income giving methods such as a charitable gift annuity. They may have less tolerance for risk and fewer years of future inflation about which to worry.

With longer life expectancies, however, all donors of life income gifts should consider maintaining diversity within their investments to offset the effect of inflation.

Use of long-term capital gain property. When marketable appreciated property such as common stock is exchanged for a gift annuity, the capital gains tax implications should be considered.

As noted earlier, the portion of gain to be recognized can be spread over the expected term of the contract. The tax savings generated by the lower tax rates, however, are offset to some degree because the recognition of gain can eliminate some or possibly all of the nontaxable return of the donor's investment in the contract.

Federal estate and gift tax implications. Since transfers between spouses are tax-free through the unlimited marital deduction, naming a spouse as the only, joint or successor annuitant under a gift annuity contract is not subject to the unified federal estate and gift tax.

If a nonspouse is named as the initial annuitant or the successor annuitant, the actuarial value of the entire annuity interest may be subject to gift tax unless the donor retains the right to revoke the annuitant's income interest during life or by will.

A testamentary provision (a provision spelled out by will) for purchase of a charitable gift annuity for a surviving non-spouse produces a partial charitable estate tax deduction and a partial taxable amount if the estate is taxable.

When considering this type of arrangement for a gift annuity contract, you should consult with your financial advisor to realize the full benefits and avoid any tax surprises.

Charitable Gift Annuity Program for the Benefit of Spring Hill College Disclosure Statement

Spring Hill is providing you with this disclosure statement that describes the charitable gift annuity program at the Community Foundation of South Alabama for the benefit of Spring Hill College.

The Charitable Gift Annuity is a contract between a donor and the Community Foundation of South Alabama. The basic terms of the contract are the following:

- The Foundation promises to pay the agreed upon annuity;
- The annuity may not be assigned to a third party (other than the Foundation for the benefit of the College);
- The donor transfers cash or marketable securities to the Foundation in order to make a contribution and in order to establish the annuity.

The Gift Annuity is not an investment. It is a way to provide a fixed income stream to named beneficiaries while making a charitable gift to the College. In this respect, an annuity through the Foundation is much different from a commercial annuity. A charitable gift annuity is exempt from registration requirements of the federal securities laws.

The Board of Directors of the Foundation granted authorization for the Foundation to issue annuities in 2000. A charitable gift annuity is a general obligation of the Foundation and is backed by its assets. It is governed by the laws of Alabama and can only be issued to Alabama residents. The minimum amount required to establish a charitable gift annuity is $10,000, and the minimum age to begin receiving payments is 55. A maximum of two income beneficiaries is permitted.

The Foundation offers gift annuity payment rates that have been carefully calculated to insure that the gift annuity not only provides what the Foundation believes are attractive payments to the donor (or named beneficiary), but also provides a future gift to the permanent endowment of Spring Hill that is maintained with the Foundation. The payment rate is determined by the age of the beneficiary on the date the annuity is funded. The rates are designed to produce an average residuum (future charitable gift) of no less than 50% of the original face value. The Foundation "caps" the rate at 11%, which is the rate payable for a beneficiary aged 86 or older.

The fact that a charitable gift annuity is a gift plan allows the donor to claim a federal income tax charitable deduction. This deduction is based on the age or ages of the beneficiary(ies), and a floating monthly Internal Revenue Service interest rate.

A donor may contribute cash or marketable securities (that have been held at least one year) to the Foundation to establish a deferred gift annuity. If the annuity is funded with cash, future income payments will be reported for income tax purposes partly as ordinary income and partly as tax-free income. If the annuity is funded with appreciated stock, there are favorable capital gain implications. The donor has capital gain only on the appreciation attributable to the value of the deferred annuity (the value of the securities transferred minus the charitable gift portion). Therefore, the gain is smaller than the gain would be if the donor sold the stock on his own.

After the payments begin, the Foundation will provide a 1099R statement to the beneficiary on or before January 31st of each year. This statement will inform the beneficiary how to report the income on their federal tax return.

This disclosure statement is intended to provide helpful information regarding the Community Foundation of South Alabama Deferred Gift Annuity. Personal illustrations that will show you the estimated tax deduction and income payments are available from the College. If you have any questions or wish to see an illustration, please contact one of the following members of the staff of the Community Foundation of South Alabama.

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