

Letter on Charitable Trusts Funded with Cash or Stock

Dear

I am pleased to respond to your request to our organization for information on creating a charitable trust with cash or stock. Such highly liquid, easy-to-value assets make establishing charitable trusts relatively simple compared with the transfer of real estate or other hard-to-value assets.

Stock contributions to your charitable trust are usually sold and invested in a diversified portfolio by the trustee to pay you income, usually for life. Some charitable trusts last a specific term of years - twenty years is the longest term allowed - rather than for life. After the death of all income beneficiaries or the expiration of the specified term, what remains in the trust must pass entirely to nonprofit organizations.

Tax Benefits

Your trust provides you with some important tax benefits:

- 1) **An immediate income tax deduction for a percentage of your gift.** (I will be happy to give you an idea of the size of your deduction. I simply need to know the ages of the income beneficiary (ies) and the payment rate of the trust.)
- 2) **No tax on the sale of stock.** Donors considering a contribution of appreciated stock often find the bypass of capital gains tax their most important tax benefit. Sometimes thousands of dollars that would have gone in taxes remain in the trust generating income to the donors and a future benefit to good causes.
- 3) **Avoidance of estate tax.** Upon the death of the last surviving income beneficiaries, whatever remains in the trust passes free of estate tax to the cause of your choice. Be careful, however. If you name someone who is not your spouse as an income beneficiary, there may be gift tax or estate tax consequences. Call us for more information.

Funding a Trust with Appreciated Stock

Consider the investor who has enjoyed significant appreciation of stock in one company and is now seeking the comfort of greater diversification. With a conventional sale, the investor faces a substantial tax on the capital gain. The same stock, sold by a charitable trust, allows the same diversification while bypassing capital gains tax. In addition, the donor's charitable deduction, assuming the stock has been held for at least twelve months, will be based on the full value of the stock at time of transfer.

Types of Trusts

There are two basic types of charitable trusts:

An **annuity** trust will pay you a **fixed** amount each year. Your payment never changes. Older people and others interested in predictable income often find annuity trusts attractive. The minimum payment must be five percent of the face value of your gift. The maximum allowable payment is determined by current economic circumstance and your age. Too high a payment will disqualify the trust from the beginning. We can help you determine the maximum payment allowed.

A **unitrust** pays **variable** income. The income is determined each year based on a fixed percentage that you select when you establish your unitrust. The unitrust has the advantage of providing you with a possible hedge against inflation; if the value of your unitrust increases, your income increases with it. Of course, your income will decline if your unitrust decreases in value. The trustee simply applies the percentage requirement to the value of the unitrust each year. By law, your unitrust must pay you at least 5% of principal. You may choose a higher payment rate if you wish. Selecting the highest rate possible may not work in your best interests, because the value of the unitrust corpus may decline under the strain of meeting the higher payment rate, and your income may decline as well. A lower payment rate may allow your trust to grow and your income to grow with it. Also, for technical reasons, too high a payment rate may disqualify the unitrust at the outset. But what is “too high” or “too low” varies from donor-to-donor. Most donors simply choose a payment rate that fits their financial and charitable objectives and meets legal requirements. It’s easy to tell if your unitrust meets IRS requirements: your charitable deduction must be at least 10% of the face value of the gift. Call us for an estimate of your deduction.

Selecting a Trustee

Trustees of charitable trusts range from banks and trust companies, to individuals with experience in trust management, to someone selected by the donor, to the donor. There can be complications in acting as trustee yourself, but it can be done if you understand and comply with the trust requirements and have the technical help needed to do the trust accounting, investing, and administration.

The basic advantages of charitable trusts are not difficult to understand: bypass of capital gains tax on the sale of appreciated property, lifetime income, immediate income tax benefits, reduction of estate tax, and the satisfaction of providing for good causes. There are even ways of helping your heirs that we cannot cover in this letter. But the first thing you should do is find out if a charitable trust makes sense for you.

For More Information

Our organization will be happy to provide you with tax and income calculations tailored to your particular situation. All information is provided confidentially and without cost or obligation. We hope this information will help you, under the guidance of your professional advisers, to make an informed decision as to whether a charitable trust meets your financial and philanthropic objectives. Any information provided by our organization, however, is not meant as a substitute for legal or financial advice. We encourage you to consult with qualified independent counsel.

I look forward to providing you with further information and thank you for your inquiry.

Sincerely,

P.S. I enclose information on remembering our organization in your will.

How to remember our organization in your estate plan.

Four of the most popular forms bequests can take are:

A fixed amount of money or a designated property:

"I give to (legal name and tax identification number), located in (City), (State), \$ _____
(or describe the real or personal property, including exact location.)

A percentage of the estate:

"I give to (legal name and tax identification number), located in (City), (State), _____%
of my estate."

A residual bequest:

"I give all the residue of my estate, including real and personal property, to (legal name and tax identification number), located in (City), (State).

A double-purpose bequest. You can provide a relative or friend with income for life through a special gift to our organization. You can do this by establishing a charitable trust through your Will. Upon your death, the trust pays income to the person you designate. After that person's death, whatever remains in the trust passes to our organization. Call our organization at (phone) for further information.

If you wish to have your bequest applied to a specific program, simply add "...for the benefit of (name of program)" to the language suggested above.

Consult an attorney when preparing legal documents.

We Want To Thank You

Dear

Our organization is pleased to recognize those who have left charitable bequests, established charitable trusts, or used some other form of estate planning to support our work. To enroll in our Legacy Circle, which honors those who have made this commitment, fill out and mail this form:

(Your organization's contact person)
(Address)

Dear (name of contact person),

Check one:

- I have remembered your organization through a bequest in my will or trust or through some other form of estate gift. Please enroll me in your Legacy Circle. You may publish my name.
- I have remembered your organization through a bequest in my will or trust or through some other form of estate gift. Please enroll me in the Legacy Circle. **Do not, however, publish my name.**

Donor comments (optional): _____

Name(s) (Please Print) _____

Address _____

City _____ State ____ Zip _____

Signature _____

Date _____

(Written documentation of your bequest is *not* required for Legacy Circle membership. However, if you wish to provide us with documentation, you need send only a copy of the page from your will, living trust or other legal document that references your gift and a simple identification of the document itself such as the first page. Doing so will help us both to plan for the future and to insure that your wishes are carried out.)