



THE COMMUNITY FOUNDATION
OF SOUTHERN WISCONSIN, INC.

*PROFESSIONAL
ADVISORS
HANDBOOK*

*A QUICK RESOURCE GUIDE TO HELP
YOUR CLIENTS WITH CHARITABLE GIVING*

OUR SHARED VISION

The lives of all people in the communities we serve will be touched by the Community Foundation.

OUR MISSION

We match personal philanthropy with community needs.

We will be there. For *good*. For *ever*.

OUR GUIDING PRINCIPLES AND CORE VALUES

WE BELIEVE:

- All Citizens of Southern Wisconsin deserve a respected, trustworthy and approachable steward of their charitable funds.
- The Community Foundation serves as a catalyst for improving the quality of life in our region.
- Our work will foster inclusivity
- In promoting open dialog, creating strategic alliances, and sharing of knowledge,
- In action with integrity and accountability to our communities,
- In offering opportunities for empowering donors and grant recipients.

INTRODUCTION

The Community Foundation of Southern Wisconsin invites attorneys, estate planners, accountants, insurance professionals, trust officers, and consultants in the financial service sector to use this HANDBOOK to guide their clients in considering the intrinsic values of charitable gifts, their material advantages, and the intangible benefits to donors and their successive generations.

Beyond the information made available here, the Community Foundation offers itself as a free professional resource to advisors and their clients. We will work with you to answer questions, resolve concerns, and design funds that positively address your clients' community and philanthropic interests.

We view ourselves as excellent stewards who hold resources given to us by donors to benefit the community. We are not the ultimate beneficiaries of any gifts that we receive. The true beneficiaries are the residents of our communities who will enjoy improvements to their lives because generous donors made gifts to their community through the Community Foundation of Southern Wisconsin. We take our stewardship responsibility very seriously, and we are ready, in fact, eager, to discuss our stewardship of the resources entrusted to us as we carry out our mission.

Your inquiries are always kept confidential, just as our anonymous donors' identities are protected. Please call (608) 758-0883 or send e-mail correspondence to info@cfsw.org.

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PART ONE: LEGAL & FINANCIAL STANDING

Service Delivery Area

The Community Foundation of Southern Wisconsin, Inc. (CFSW) is a public charity incorporated under the laws of the State of Wisconsin and tax exempt under Section 501(c)3 of the Internal Revenue Code.

The CFSW serves the seven counties of Crawford, Grant, Green, Iowa, Lafayette, Rock, and Walworth through 16 Community Funds and more than 500 other funds established to match personal philanthropy with community needs.

Founded in 1992, the Community Foundation is governed by a volunteer, 15-member Board of Directors. Each year more than 100 additional volunteers serve on a variety of advisory boards, committees and task forces.

Since its operations commenced with the hiring of staff in 1992, assets to benefit Southern Wisconsin have grown to more than \$27 million.

Any individual or entity may establish a fund at the Community Foundation. Although residents and non-profit organizations in Southern Wisconsin are our primary concern, funds may be established to benefit charitable organizations anywhere in the United States, and, in certain circumstances, anywhere in the world.

The Foundation's competitive community grants program awards grants to non-profit, 501(c)3 organizations in Southern Wisconsin. Designated or Donor Advised Funds in the Community Foundation may support local, regional, national, or international organizations.

We enthusiastically welcome opportunities to collaborate with individuals or organizations when that collaboration will lead to the improvement of the quality of life in Southern Wisconsin.

PART TWO: TYPES OF FUNDS

A Brief Summary

Community Fund

- Offers maximum flexibility for community use; the board has broad discretion to apply the earnings to meet community needs as they evolve
- Supports a variety of projects and programs each year through the community grants program
- **Is a priority for the Community Foundation's growth in its capacity to serve southern Wisconsin**
- Named funds can be started with a contribution of \$10,000

Advised Fund

- Offers the most involvement of your client or client's family; the donor may recommend to the board how and when the grants should be made
- Named fund can be started with a contribution of \$25,000

Field of Interest Fund

- Benefits donor's broad interests
- Asks the Foundation Board to meet community needs within a broad area such as basic needs, education, or arts
- Named fund can be started with a contribution of \$10,000

Scholarship Fund

- Many criteria can be used to select student recipients
- Helps students pay college expenses

There is a real need for a large scholarship fund to support Southern Wisconsin students attending universities, colleges and technical schools

- Fund can be started with a contribution of

\$20,000 so that a \$1,000 award can be made each year

Agency and Designated Funds

- Can benefit one or more organizations in the community that the donor selects
- Can be started by the organization (agency) as a part of its ongoing support
- Lets the organization tend to its mission while the Foundation uses its expertise to manage resources, including management of funds, audited accounts, and other required reporting
- Can provide assurance to donors that money will be used as they intend
- Can provide for contingent beneficiaries if supported organizations cease to exist
- Gives public-spirited persons a trusted vehicle to support the non-profit infrastructure of the community
- Named fund can be started with a contribution of \$10,000

Legacy Fund

- Donors can support the operations of the Community Foundation

Supporting Organizations Fund

- Better for most families than private foundations. More details available.

PART TWO: TYPES OF FUNDS (CONTINUED)

1. UNRESTRICTED ENDOWMENTS

Unrestricted Endowment Funds are permanent endowments. Grants are awarded by the Board of Directors of the Community Foundation of Southern Wisconsin each year. Unrestricted funds allow distributions that best meet the community's most pressing needs in the arts, education, health, human services, youth, and development of community. These needs change over time.

The Community Foundation typically uses the grants from our unrestricted funds to support the Community Grants Program of the Foundation which allows Southern Wisconsin non-profit organizations to request financial support for programs or projects that will improve the quality of life in the community. This effort is managed by staff and the Grants Committee of the Foundation which includes members of the Board of Directors and a group of active and informed community volunteers.

There is a need for significant growth in unrestricted endowments within the Foundation to enable us to better meet the community's changing needs.

Current Unrestricted Endowments in the Foundation:

Argyle Community Fund
Benton Community Fund
Blanchardville/Hollandale Area Fund
Cabin Fund
Community Enhancement Fund
Darlington Community Fund
Edgerton Community
Elkhorn Community Fund
Evansville Community Fund
Janesville Community Fund
Kersten Fund
Lancaster Community Fund
Milton Fund
Monroe Fund
New Glarus Community Fund
Platteville Community Fund
Shullsburg Community Fund
South Wayne Community Fund

Requirements to Create a Named Unrestricted Endowment Fund

A named fund can be created with a gift of \$10,000 or more. Each named fund is listed in our annual report. Gifts may be made at any time and in any amount to augment any existing fund.

Clients best suited for Unrestricted Endowment Funds:

- The client who wishes to provide maximum flexibility to meet community needs as they arise. This client realizes that community agencies and needs change over time and wants his or her gift to remain flexible enough to respond to those changes. This client realizes that no one can accurately foretell what the community's needs will be 50 years from now.
- The client whose motivation is to "give something back to the community" in a general way, rather than to support a specific charity
- The client who has broad charitable interests.
- The client who is considering a private foundation for broad charitable purposes.

2. ADVISED FUNDS

An Advised Fund allows the donor the most involvement in the work of the Community Foundation. Under this option, the donor can create a fund without naming any specific charitable institutions as grant recipients. The donor retains the right to make recommendations to the Board of Directors of the Community Foundation on grants to charitable organizations of his or her choice over time. (For legal reasons, to protect the tax advantages of the gift, the board must ratify the grant recommendations.) The donor's spouse, children, and heirs may serve as advisors to the fund if so listed in the fund agreement.

The donor gets a full charitable deduction to the maximum allowed by law in the year that the fund is created (subject to IRS regulations). For tax-reporting purposes, the donor needs only to document gifts to the fund, not the many grants that will eventually be made from the fund.

Some donors will wish to manage this process with little assistance from the Foundation. Others will ask the Foundation to provide information on community needs and priorities from time to time, or to help the donors make grant decisions in a particular field of interest. The foundation is glad to work with the donors in this way. As an added service to the donor, the Community Foundation oversees grants from Advised Funds and conducts a due diligence review of grantees to make certain that all grantees are legitimate charitable organizations. Grants can be made to organizations or programs outside our area provided that the Community Foundation can verify the tax exempt status of the grantee.

Types of Advised Funds

Advised Funds allow donors to simplify and consolidate all their charitable giving without the legal and administrative burdens of running a private foundation. These funds may be established in either of two forms:

•Permanent Advised Fund

Such funds are maintained as endowments with distributions calculated to grow the market value of the fund over the long term to provide larger annual distributions and to work in the community until the end of time.

•Temporary Advised Fund

Allows the balance to be spent out completely if in keeping with the donor's charitable intent.

Requirements for Creating an Advised Fund

A minimum gift of \$25,000 is recommended to establish a **Permanent Advised Fund**. Funds can be established with a lesser gift with the intent to reach the goal within a predetermined time period. A simple agreement with the donor is required to establish the fund. Additional contributions may be made throughout the donor's lifetime or through a variety of planned gifts or estate planning arrangements.

A **Temporary Advised Fund** can be established if, after conversation with the donor, it is determined that such an arrangement is well suited to the charitable intent of the donor and the mission of the Foundation.

PART TWO: TYPES OF FUNDS (CONTINUED)

Using an Advised Fund as part of Family Wealth Management

A family has established an Advised Fund in the Community Foundation of Southern Wisconsin with a generous contribution and subsequent additions through the donation of appreciated securities and arrangements in a variety of planned giving vehicles. The intent is to involve multiple generations of this fine family in making decisions about community needs and making contributions to support those needs. What a tremendous legacy to leave to the community and the family.

Clients best suited for Advised Endowment Funds:

- The client who wants maximum flexibility to give to varying charities or to change beneficiaries over time.
- The client who wants to involve spouse or children in charitable giving.
- The client who is considering a private foundation but would like to avoid the requirements of a private foundation and enjoy the favored tax status that such an arrangement provides compared to private foundations.
- The client who currently makes cash gifts to numerous charities but would save substantially in income taxes by making gifts of appreciated securities instead.
- The client who wants to maintain a steady level of charitable giving but whose income fluctuates.
- The client who has an exceptionally high income year in which he or she would like to make a tax-deductible gift but would like to defer making grants until a later time.
- The client who would like anonymity in the creation of the fund or in grant-making from the fund.
- Persons who are charitably inclined but would appreciate administrative support with the details.

3. FIELD OF INTEREST FUNDS

Field of Interest funds allow donors to address a cause or issue that is important to them without being locked in to one specific charity. The donor names the purpose of the fund, such as Women's Issues, Youth and Children, Health, or the Arts, and the grants committee of the Community Foundation identifies the projects or programs that can most effectively accomplish the goal at any given time, and recommends grants to the Board of Directors. The majority of these grants will be made through the competitive grants program of the Foundation.

Requirements to Create a Field of Interest Fund

A new field of interest fund can be created with a gift of \$10,000 or more. The fund may be named to honor a family member or any other individual that the donor wishes to honor. If a field of interest fund is contemplated as part of an estate plan, it is a good idea to complete the fund agreement along with the planning document. That provides the best opportunity for making sure the intent of the donor is faithfully carried out. Fund Agreement samples may be obtained by calling the Foundation office at (608) 758-0883.

Clients best suited for Field of Interest Funds:

- The client who has an abiding interest in a particular charitable cause (such as the Arts, Women's Issues, Community Beautification) rather than a particular charitable organization.
- The client who may be considering a private foundation to support a cause.
- The client who recognizes that charitable organizations change in effectiveness over time.
- The client wishing to establish a memorial to an individual by recognizing that person's interest in or accomplishments in a given area of charitable concern.
- The client who realizes that specific needs of the community will change over time but who always wants to focus his or her support in a broad area of concern.

PART TWO: TYPES OF FUNDS (CONTINUED)

4. DESIGNATED ENDOWMENTS

A Designated Endowment benefits one or more nonprofit organizations, religious institutions, or civic activities. If that fund is created by the organization for its own benefit, it is called an Agency Endowment. The specified charity benefits from the Community Foundation's investment management capabilities, permanence, and influence with prospective supporters. The donor has the assurance that the funds will be well managed, the support from the fund will be dependable, and that the intent of the donor will be safeguarded. This service is provided to help strengthen the nonprofit organizations. The Foundation provides the proven financial management results while the nonprofit organization focuses on doing the work that defines its purpose. We truly believe that the entire community is better because of these collaborations. The Agency Endowment option and Designated Endowments can serve any nonprofit 501(c)3 organization in the United States, including colleges, universities, churches, and non-profit hospitals.

In this arrangement, individuals make a gift of endowment funds to the Foundation to be set aside for the benefit of one or more nonprofit organizations. The Foundation invests these funds in the same manner as other assets of the Foundation. The organizations receive annual grants according to the spending policy of the Foundation in effect at the time. The current policy calls for a 4.5 percent payout to the nonprofit organization based on a twelve quarter rolling average of the fund balance. Any additional appreciation is added back to the specific fund for inflation protection and real growth which will cause increased payments to the nonprofit in later years.

The Community Foundation includes these funds in its annual audit as well as its fiduciary information tax returns. The funds are also included in the marketing efforts of the Foundation, inviting donors to support any of the funds that are in keeping with their charitable interests.

Creating an Agency Endowment

A nonprofit organization has received its first significant gift as a bequest of \$100,000. It is clear that the donor wished this to be an endowment. The nonprofit has no background in making long-term investment decisions. It wants to make a distinct separation between endowed funds and current operating funds. The nonprofit organization opens a fund in the Community Foundation, receives annual income, and is able to focus on providing the services that it was established to provide. This contributes to the increased success of the organization which can attract more donors to support the endowment, clearly a benefit to the entire community.

If a donor wishes to establish a Designated Endowment as part of a planned giving scenario, it is wise to also complete the fund agreement at the time that the gift document is drafted. This is the best way to ensure that the intent of the donor is understood and protected. Fund agreement samples can be obtained by calling (608)758-0883.

Requirements to Create a Designated Endowment

An endowment can be created with a gift of \$10,000 or more. As of this writing, there are more than 82 Designated Endowments and 91 Agency Endowments in the Foundation. Donors may make gifts to any of these funds or establish their own fund if a naming opportunity is important.

The Foundation is always grateful when donors elect to establish a fund or support one of the existing funds that directly support the operations of the Community Foundation.

Ideal Clients for Designated Endowments:

- The client who wants to support a specific charity but wants the Foundation to protect the donor's intent and manage the investment.
- The client who wants to make a gift to a new or struggling charity but wants to make sure the power of the endowment is preserved.
- The client who wants to support more than one charity through one gift.

Creating a Designated Endowment

A local financial consultant has a client who has been making significant annual gifts to her favorite charity. As a part of the client's estate plan, the consultant suggests creating a Designated Endowment in the Community Foundation of Southern Wisconsin that would make regular gifts in the client's name in perpetuity, so that her current support and generosity is extended past her lifetime. She gets an income tax deduction equal to the market value of the assets used to create the endowment, avoids capital gains tax, if applicable, and has the value of the gift removed from her estate. The client has the assurance that the funds will be well managed and that, in the event the charity no longer operates at some time in the future, the Community Foundation will select a charitable use for her fund's support that most closely mirrors her intent.

PART TWO: TYPES OF FUNDS (CONTINUED)

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5. SUPPORTING ORGANIZATIONS

Supporting Organizations, sometimes called Supporting Foundations, are charitable organizations that have their own boards of directors but are organized and operated to carry out the purposes of the public charity (i.e. the Community Foundation) which they support. The donor must have less than 50 percent of the voting control of the organization, which is typically addressed by giving the Community Foundation the right to elect the majority of the supporting organization's Board of Directors, and allowing the donor to elect the remainder of the board.

Such an organization has a separate identity and makes its own decisions regarding charitable grants from the funds of the organization

Although such organizations provide many of the advantages of a private foundation, they are treated as a public charity for tax purposes rather than a private foundation. There are several advantages of this treatment, including:

- The ability to deduct the maximum fair market value of appreciated marketable securities given to the supporting organization. Private Foundations do not get this benefit.
- Increasing the adjusted gross income limitations of the donor for charitable deductions compared to gifts to private foundations from 30 percent to 50 percent for cash and from 20 percent to 30 percent for gifts of appreciated property.
- Avoiding private foundation transaction rules.
- Avoiding the excise tax on investment income.

In the case of the Community Foundation, a supporting organization must serve the same purpose of the Community Foundation which means making charitable gifts for the benefit of the community. The Community Foundation staff will support the administrative needs of the supporting organization, and may assist by reviewing grant requests, if desired.

Requirements for Creating a Supporting Organization

Supporting organizations should only be considered if the contemplated gifts exceed \$1,000,000 and the objectives of the donor cannot be achieved through a Donor Advised Fund or Field of Interest Fund. The organizational documents of such organizations must be approved by the Community Foundation and the Internal Revenue Service.

PART THREE: METHODS OF GIVING

How does a public-minded individual work with the Community Foundation of Southern Wisconsin to make Southern Wisconsin a better place? The following are charitable giving techniques that your client can use to establish or augment one of the various types of funds offered by the Foundation.

1. GIFTS BY WILL OR LIVING TRUSTS

A testamentary gift is the simplest way for many donors to make a significant and lasting gift to their community. After the needs of spouses, children, and other loved ones have been addressed, many individuals find it satisfying to know that a portion of their resources will support the causes they cared about during their lifetime.

When you are involved in the estate planning process with a client, asking the simple question ***“are there any charitable interests you would like to support through your will?”*** can be very meaningful to your client.

A testamentary gift also can significantly reduce the federal estate tax and the state inheritance tax due at the donor’s death. Because a bequest to create a named fund in the Community Foundation qualifies for an unlimited charitable deduction and because combined federal and estate taxes can exceed 55 percent on larger estates, a testamentary gift can create a dramatic tax saving for the estate. Thus, many individuals can make significant testamentary gifts at a relatively small cost to their heirs.

A testamentary gift to establish a named charitable endowment fund in the Community Foundation creates a permanent legacy—in the donor’s name or in the name of a loved one—that will serve the community forever.

The donor may establish a Donor Advised Fund, a Designated Fund, a Scholarship fund, a Field of Interest Fund, an Unrestricted Fund, an Operating Endowment by bequest, or may gift to an existing fund.

A fund in the Community Foundation of Southern Wisconsin can be created through a specific bequest of cash or property, a percentage bequest, a residual bequest, or a contingent bequest.

Example of Bequest to the Community Foundation by Will

A local attorney has a client with a relatively modest estate who does not have any close relatives. The client’s closest living relatives are some cousins whom she rarely sees. This client is interested in benefiting her community and the people who live here after her death. The client recently executed a will in which she leaves a fairly substantial percentage of her estate to establish an Unrestricted Fund in the Community Foundation. She feels that the Community Foundation will use her bequest to best meet the changing needs of the community.

PART THREE: METHODS OF GIVING (CONTINUED)

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Will Language

The following language has worked well for inclusion in the will of a donor who wishes to make the community a better place by leaving a bequest through the Community Foundation of Southern Wisconsin to be used in any number of ways that can be selected by the donor.

*I give, devise and bequeath to the Community Foundation of Southern Wisconsin, Inc., a Wisconsin nonprofit corporation, _____
(describe bequest-- for example "Ten Thousand Dollars" or " all the residue of my estate" or 5% of all the residue of my estate) to be used in all furtherance of the charitable purposes of the Community Foundation as defined in and subject to the provisions of its Articles of Incorporation and Bylaws.*

If the amount of the bequest meets the minimum contribution requirement for the establishment of a new fund (\$10,000), the donor may elect to create a separately identifiable fund by name and purpose by adding language from one of the four options that follow. Foundation staff will be happy to discuss this with the client's attorney to make certain that the client's wishes are scrupulously carried out.

Named Fund/ Discretionary Purpose

This bequest will be used to establish a fund within the Community Foundation of Southern Wisconsin, Inc., to be known as the _____ Fund. I direct that the grants from the Fund, according to the spending policy of the Foundation, be used exclusively for the charitable purposes set forth in the Articles of Incorporation and Bylaws of the Community Foundation of Southern Wisconsin as determined from time to time by the Board of Directors.

Named Fund/ Field of Interest

This bequest will be used to establish a fund within the Community Foundation of Southern Wisconsin, Inc., to be known as the _____ Fund. I direct that the grants from the Fund, according to the spending policy of the Foundation, be used to support agencies, programs or projects in the area of _____ (specific charitable area or geographic area, for example " youth programs" or " health care for the indigent poor" or "charitable programs in Greentown.")

Will Language...continued

Named Fund/ Designated Agency

This bequest will be used to establish a fund within the Community Foundation of Southern Wisconsin, Inc., to be known as the _____ Fund. (Can be named for the donor or the agency, for example "The John Smith Fund" or the "First Presbyterian Church Endowment Fund.") I direct that the income of the Fund, according to the spending policy of the Foundation, be used to support

*(insert purpose, for example "The YMCA" or "maintenance or improvement of the physical facilities of First Presbyterian Church") **Note that it is possible to specify that the fund support the operation of the Community Foundation.***

Named Fund/Donor Advised

This bequest will be used to establish a fund within the Community Foundation of Southern Wisconsin, Inc., to be known as the _____ Fund (can be named for the donor or a loved one). I direct that an Advisory Committee consisting of _____, _____, and _____ make written recommendations from time to time to the Board of Directors concerning grants from the Fund. Such recommendation should be in keeping with the general charitable purposes of the Community Foundation. I understand that the Board of Directors has the authority to accept or reject these recommendations.

Note:

In the event that a situation arises that is not covered by one of the options above, we will do our best to work with you so that your client's philanthropic goals can be realized. As mentioned above, it is probably the better part of wisdom to involve Foundation staff in a discussion at the time the bequest is drafted, to insure that the intentions of the client are clearly understood. This is particularly important in a testamentary advised fund.

PART THREE: METHODS OF GIVING (CONTINUED)

2. CHARITABLE REMAINDER TRUSTS

Through a charitable remainder trust, a donor places assets (generally valued at \$250,000 or more) in trust and specifies that either a fixed dollar amount or a fixed percentage of the trust's value will be paid to a beneficiary (usually the donor, spouse, or children) for a period of years or for the life of the beneficiary.

At the same time, the donor specifies that the principal remaining at the end of the trust term will go to a fund in the Community Foundation which may also be created at the same time as the trust to benefit the donor's preferred charity.

Advantages of a Charitable Remainder Trust

Although the assets do not directly benefit a charity until the end of the trust term, the

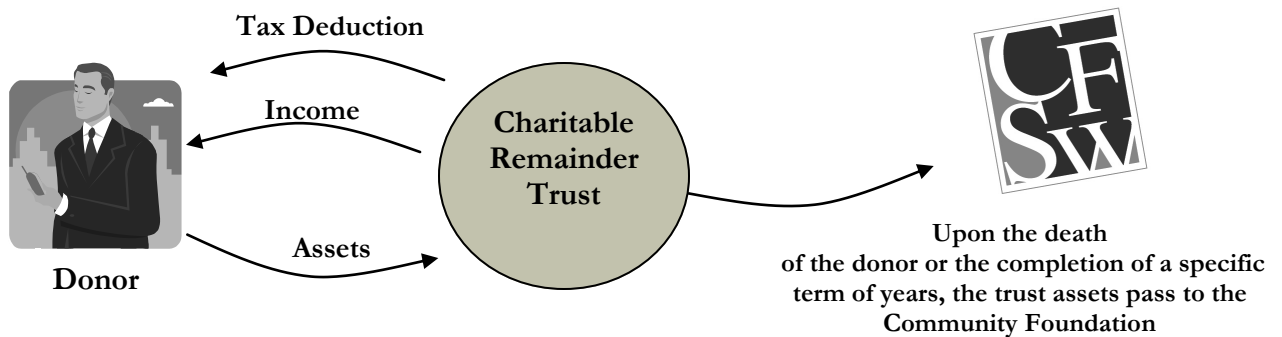
donor gets an *immediate charitable deduction* for the discounted present value of the remainder gift, thus reducing current income taxes.

Also, the trust assets are removed from the donor's estate *saving estate taxes* at the time of death.

The trust is a tax-exempt entity and *does not pay capital gains taxes* on the sale of donated appreciated assets. Thus the donor can often *increase his or her annual income while diversifying financial assets*.

The donor has the satisfaction of knowing that the remainder of the trust assets will be used to benefit the community as he or she has specified.

How Charitable Remainder Trusts Work



Clients for whom the Charitable Remainder Trust is an ideal vehicle:

- The client who has accumulated appreciated but low paying assets.
- The client who wants to increase current income without incurring capital gains taxes.
- The client who wants to reduce estate taxes.
- The client who wants to make a significant future charitable gift but needs the asset to produce income.

3. WEALTH-REPLACEMENT TRUSTS

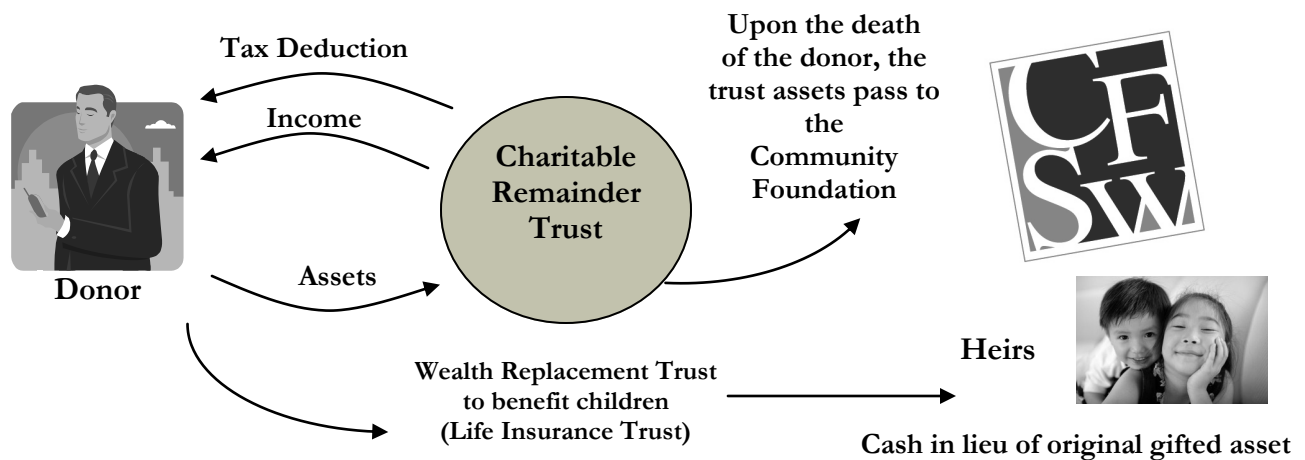
The wealth-replacement trust uses life insurance in addition to a charitable remainder trust, to increase the amounts received by heirs.

Advantages of the Wealth-Replacement Trust

- More income for the donor
- Income tax deduction for the donor
- Cash from insurance for heirs—outside estate
- Gift to the community

The Community Foundation prefers not to serve as the trustee of Charitable Remainder Trusts that name the Foundation as a remainder beneficiary. It is our belief that a conflict of interests is inherent in such arrangements. However, each case will be discussed on an individual basis, and it is possible for the Foundation to provide these services after a discussion with the donor and the donor's advisors makes it clear that this would be in the best interests of all parties to the agreement.

How Wealth Replacement Trusts Work



PART THREE: METHODS OF GIVING (CONTINUED)

4. OUTRIGHT GIFTS

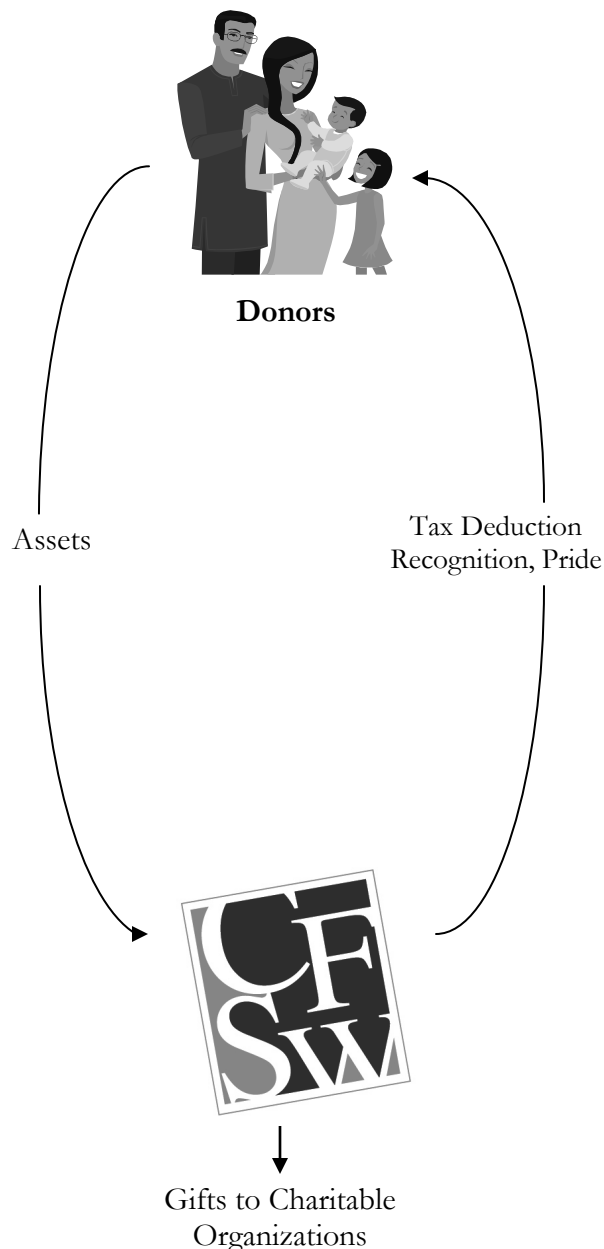
Donors who establish personal philanthropic funds in the Community Foundation during their lifetimes receive a priceless benefit: the joy of watching their philanthropic gift at work. Unless they choose to remain anonymous, their generosity will be recognized both by the beneficiaries of their support and the community as a whole.

An outright gift accomplishes three important tax objectives:

1. A charitable income tax deduction in the year of the gift.
2. The reduction of the gross estate for future estate tax purposes.
3. The elimination of capital gains taxes (on the increase in value over cost basis) on appreciated property.

Donors may create or add to their funds with gifts of cash, publicly traded or closely held securities, real estate, and other assets. All gifts are subject to the various limitations as to deductibility applicable to different types of gifts made to public charities.

How Outright Gifts Work



5. LIFE INSURANCE

Many people find that in their later years, when children have grown and their educational costs are completed, they no longer need all the insurance they did when they were younger. The most common, simple, and straightforward gift of life insurance is the outright gift of a paid-up, but unneeded policy. The donor receives a charitable deduction equal to the replacement value, or the donor's cost, whichever is less.

Younger donors who are earning a moderate income but have not yet accumulated substantial assets can also use life insurance to make significant gifts. They purchase insurance, naming their philanthropic fund in the Community Foundation as owner and irrevocable beneficiary. Each year they pay the premium, which is fully deductible as a charitable contribution. At death, the proceeds pass to the fund free of estate taxes.

6. CHARITABLE LEAD TRUSTS

A lead trust is essentially the opposite of a remainder trust. That is, a donor places assets in trust and specifies that a fixed amount or fixed percentage of the value each year will be paid to charity for a period of years. At the end of the trust term, the principal of the trust passes intact to a named beneficiary (or beneficiaries).

7. QUALIFIED RETIREMENT PLANS AND IRA BENEFITS

Many middle-aged and retirement-age persons have accumulated significant assets in one or more kinds of qualified retirement plans. These plans are made up of untaxed contributions which have been allowed to grow tax free. When both husband and wife die, 70 percent or more of the value of these assets can be taken in

income, estate, and generation-skipping taxes.

During life, these account owners face *minimum distribution* rules that require, under penalty, the taxable distribution of a certain portion of the account annually.

Faced with these burdensome tax rules, many individuals seek methods to make more of these assets available to family members or to other recipients of their choice rather than see the majority of the assets consumed in taxes.

In many cases, the greatest reduction in estate and income taxes results from using these assets to satisfy charitable desires at the account owner's death. In some cases, this approach is combined with the use of lifetime distributions from the account to fund the purchase of life insurance to replace the assets that would otherwise pass to children and other family members were it not for the burdensome tax environment for qualified plans and IRAs.

Because of the tax burden on these kinds of assets at death, persons who have already decided to make gifts often find that it is prudent to withdraw funds from a qualified plan or IRA rather than deplete other assets that are not taxed as heavily at death. In some situations, a donor can receive a distribution from the qualified plan or IRA (which is subject to income tax) and make a charitable contribution in the same year without negative income tax consequences. This strategy has the benefit of allowing the donor to make the charitable contribution while living and to preserve the assets that will be taxed *least* at death.

PART THREE: METHODS OF GIVING (CONTINUED)

Using Retirement Benefits to Fund a Charitable Gift Through the Community Foundation

A local attorney has a client who is 60 years old, married, and has very substantial assets in a qualified retirement plan. The client's wife is currently the beneficiary at death of the retirement plan benefits. The client and his wife have other assets, and it is unlikely that they will need all the assets of the qualified plan. The client is charitably inclined and wants to use a portion of his assets to benefit the community by supporting local charities, including the church where he and his wife are 50 year members. It appears that taxes will consume approximately two thirds of the assets in the qualified plan if the client's children are the ultimate beneficiaries.

The attorney determines that the retirement plan is the best place to get the funds to make the client's charitable gifts and makes the following suggestion. The client will establish a testamentary Charitable Remainder Trust and will make provision for the trust to be the beneficiary of the qualified retirement plan. The trust will pay the wife six percent of the value of the trust each year, as long as she lives. When she dies, the remainder beneficiary of the trust will be an endowed fund in the Community Foundation that will support their three favorite charities and their church. The client will begin to draw an amount each year from the plan sufficient to purchase a life insurance policy, equal to the value of the qualified plan that will name his children as beneficiaries. The client will use other resources that are not as heavily taxed to make other gifts to his heirs, upon his death.

- The client makes sure that his wife's financial needs will be met.
- The client leaves a substantial inheritance to his children.
- The full value of the plan (and more because of the growth of the CRT) is used to help his family and the community.
- A very large percentage of his potential tax burden is gone.
- The client gets the satisfaction of being a substantial philanthropist and will be recognized as such (if he wishes) during his lifetime.
- The community receives a substantial gift that will remain in the community and will support four charitable organizations in perpetuity.
- The children understand and applaud their father (and his attorney) for being so wise with family wealth.
- Pretty good thinking all around and the attorney certainly earned his fee!

Combining Charitable Remainder Trusts with Retirement Plans or IRAs At Death

By naming a charitable remainder trust as the beneficiary of a qualified retirement plan or IRA at the death of the owner of the QRP or IRA, an individual can escape the income taxes that would otherwise be assessed, provide income to a spouse or children, and reduce estate taxes.

8. REAL ESTATE GIFTS AND THE COMMUNITY FOUNDATION

Real estate gifts often involve a variety of special considerations. Potential environmental hazards, marketability challenges, assessments, easements, split interest, liens, debts, and other factors often encumber a potential gift of real estate.

The Board of Directors reviews all proposed real estate gifts, whether as direct gifts, within a charitable trust, or as a part of a life estate. Nonprofit organizations throughout Southern Wisconsin can benefit from this expertise in combination with funds at the Community Foundation.

A Remainder Interest in a Home or Farm

Given the inflation in property values over the past few decades, many persons have substantial portions of their net worth tied up in their homes. A life estate contract can allow a client to increase current income by the virtue of the current charitable deduction, remain in the home during his or her lifetime, and provide a substantial gift to charity at death.

Through a retained life estate, a client commits a primary residence, vacation home, or farm to pass to charity at death (giving the charity a remainder interest) while retaining its use during his or her lifetime.

Clients who may find value in the retained life estate:

- The client who could use an up-front charitable deduction for the remainder value of the property, thus increasing their current income.
- The client who seeks to reduce estate taxes.
- The client who wants to relieve heirs of the burden of disposing of the property.

As with the charitable remainder trust, the donor can use a portion of his or her increased current income to purchase life insurance to replace the value of the property for the heirs.

Comparing The Community Foundation and Private Foundations

Issue	A Community Foundation Fund	Private Foundation
Tax treatment of Cash Gifts	Deductible up to 50% of adjusted gross income (AGI)	Deductible up to 30% of AGI
Tax treatment of gifts of appreciated publicly traded securities	Deductible up to 30% of AGI	Deductible up to 20% of AGI
Tax treatment of closely held stock or real estate	Deduction for full market value up to 30% of AGI	Deduction limited to donor's cost basis up to 20% of AGI
Excise taxes	Exempt	Excise tax on net investment income annually
Required annual distribution	None legally required. Can accumulate income toward a sizable project or grant.	Required to expend 5% annually regardless of earnings
Incorporation and Tax Status	Automatically covered by the status of Community Foundation	Must apply for incorporation and tax exempt status
Privacy	Can have as much privacy as the donor wishes. Foundation can act as buffer between donor and grant seekers.	The Foundation is required to file detailed tax returns on grants, fees, investments. These are all public record.
Investment, accounting, audit, and tax returns	The Community Foundation handles all these matters including annual independent audit	Private foundation trustees must either perform these functions or arrange for them to be done.
General administration	The Community Foundation handles all administrative functions	Private Foundation trustees must perform, contract, or hire staff for these functions.
Grant administration	The Community Foundation handles this function	Trustees must perform, contract, or hire staff for these services.

CONTACT INFORMATION

Please visit our website at **www.cfsw.org**. You will find a wealth of information there.

Stop by and visit us. We'd love to see you and to talk with you about what we do.

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There is nothing that we like better than working with you and your client to make Southern Wisconsin a better place to live, work and play.



COMMUNITY
FOUNDATION

OF SOUTHERN WISCONSIN

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*Confirmed in compliance with
National Standards for U.S. Community Foundations*



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