

## 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.