



COMMUNITY  
FOUNDATION  
OF SOUTHERN WISCONSIN



# *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.

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# 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 guide to assist 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 are excellent stewards of the 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](mailto:info@cfsw.org).

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# PART ONE: OVERVIEW

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## LEGAL STANDING

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.

## FINANCIAL STANDING

Since 1992, assets to benefit Southern Wisconsin have grown to more than \$33 million.

## SERVICE AREA

The CFSW serves the nine counties of Crawford, Grant, Green, Iowa, Lafayette, Rock, Sauk, Vernon, and Walworth through 16 Community Funds and more than 530 other funds established to match personal philanthropy with community need.

Any individual or entity may establish a fund through 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.

## GOVERNANCE

Founded in 1992, the Community Foundation is governed by a 15-member volunteer board of directors from across the service area. Each year more than 200 additional volunteers serve on a variety of advisory boards, committees, and task forces.

## SERVICE TO COMMUNITY

The Foundation's competitive community Grants program awards funds 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.

The Community Foundation's 170 scholarship funds benefit hundreds of students in the Southern Wisconsin region each year.

Since 1992, funds held by the Community Foundation have made more than \$32 million in grant and scholarship awards.

***We enthusiastically welcome opportunities to collaborate with individuals or organizations to improve the quality of life in Southern Wisconsin.***

## CFSW SERVICE AREA:

- CRAWFORD COUNTY
- GRANT COUNTY
- GREEN COUNTY
- IOWA COUNTY
- LAFAYETTE COUNTY
- ROCK COUNTY
- SAUK COUNTY
- VERNON COUNTY
- WALWORTH COUNTY

# PART TWO: TYPES OF FUNDS

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## A BRIEF SUMMARY

### *UNRESTRICTED ENDOWMENT*

- Offers maximum grant making flexibility.
- Grants are made upon the recommendation of the fund's advisory board which has broad discretion meet needs as they evolve.
- Named fund can be started with a contribution of **\$10,000**.

*Community Funds, a type of Unrestricted Fund, are a priority in the Community Foundation's efforts to serve Southern Wisconsin. Community Funds support a variety of projects and programs each year through the community grants program.*

### *DONOR 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 are made.
- Named funds can be started with a contribution of **\$25,000**.

### *FIELD OF INTEREST FUND*

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

### *SCHOLARSHIP FUND*

- Helps students pay college expenses.
- Many criteria can be used to select student recipients.
- Named fund can be started with a contribution of **\$20,000**. A balance of \$25,000 provides an award of

approximately \$1,000 each year.

### *DESIGNATED OR AGENCY FUND*

- Benefits one or more organizations in the community that the donor selects.
- Can be started by an organization (agency) as a part of its ongoing operating support.
- Lets an organization tend to its mission while the Foundation uses its expertise to manage resources, including management of funds, audited accounts, and other required reporting.
- Provides 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 funds can be started with a contribution of **\$10,000**.

### *CFSW LEGACY FUND*

- A special endowment fund created to support the operations of the Community Foundation.

### *SUPPORTING ORGANIZATIONS FUND*

- A fund that operates similarly to that of a private foundation.
- Offers less administrative responsibilities than a private foundation.

# PART TWO: TYPES OF FUNDS (CONTINUED)

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## 1. UNRESTRICTED ENDOWMENT

Unrestricted Endowment Funds are permanent endowments that focus on meeting a community's most pressing needs, whether those be in the arts, community development, education, the environment, health, human services, youth, or other areas.

### FEATURES:

- Community Foundation Board of Directors authorizes grant distributions each year.
- Grants are used to support the community grants program of the Foundation.
- Non-profit organizations from Southern Wisconsin are encouraged to apply for grants for programs or projects that 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 community volunteers.

### REQUIREMENTS TO CREATE A NAMED UNRESTRICTED ENDOWMENT FUND

A named fund can be created with a gift of **\$10,000** or more. Additional gifts may be made at any time and in any amount to augment any existing fund.

### CURRENT UNRESTRICTED ENDOWMENTS

*(Note: Most of the unrestricted endowment funds of the Community Foundation are Community Funds, created for the betterment of a specific community in Southern Wisconsin.)*

- Argyle Community Fund**
- Benton Community Fund**
- Blanchardville/Hollandale Area Fund**
- Community Enhancement Fund**
- Crawford County Community 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**

### *CLIENTS BEST SUITED FOR UNRESTRICTED ENDOWMENT FUNDS:*

- Those whose motivation is to “give something back to the community” in a general way, rather than to support a specific charity.
- Those who realize that community agencies and needs change over time and want their gifts to remain flexible enough to respond to those changes.
- Those who have broad charitable interests and/or are considering a private foundation for broad charitable purposes.

## 2. DONOR ADVISED FUND

Donor Advised Funds allow donors to simplify and consolidate all their charitable giving without the legal and administrative burdens of running a private foundation. Donor Advised Funds offer donors maximum latitude in grant distributions.

### FEATURES:

- Donors may recommend grant recipients on own or with Foundation assistance. Foundation can provide information on community needs/priorities or help donors make grant decisions in a particular field of interest.
- Grants can be made to organizations or programs outside Southern Wisconsin area provided that the Foundation can verify the charitable tax exempt status of the grantee.
- Donors make grant recommendations to the Community Foundation's Board of Directors. (To protect the tax advantages of the gift, the board must ratify the grant recommendations.)
- Foundation reviews potential grantees to make certain they are legitimate charitable organizations.
- Donor's spouse, children, and heirs may serve as advisors to the fund, if so listed in the fund agreement.
- In year that the fund is created, donor receives a full charitable deduction to the maximum allowed by law (subject to IRS regulations). For tax-reporting purposes, donor only needs to document gifts to the fund. Donor does not need to document the many grants that will eventually be made from the fund.

### TWO TYPES OF DONOR ADVISED FUNDS

A Donor Advised Fund may be established in either of two forms:

#### •PERMANENT ADVISED FUND

A Permanent Advised Fund is an endowment invested to grow the market value of the fund over the long term to provide larger annual distributions and to work in the community in perpetuity.

#### •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** is a non-endowed fund that 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)

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### ***EXAMPLE: USING A DONOR ADVISED FUND AS PART OF FAMILY WEALTH MANAGEMENT***

*The Smith-Jones family has established an Advised Fund through the Community Foundation of Southern Wisconsin with a generous contribution. In the years following the Fund's establishment, the family adds to the Fund through the donation of appreciated securities and arrangements in a variety of planned giving vehicles. The Smith-Jones family's intent is to involve future generations in making decisions about community needs and contributions to support those needs.*

*What a tremendous legacy to leave to the community and the family!*

### ***CLIENTS BEST SUITED FOR DONOR ADVISED ENDOWMENT FUNDS:***

- Want maximum flexibility to give to varying charities or to change beneficiaries over time.
- Want to involve spouse or children in charitable giving.
- Are considering a private foundation but would like to avoid the requirements of a private foundation and enjoy the favored tax status that such Donor Advised Funds provide compared to private foundations. (See page 22.)
- Currently make cash gifts to numerous charities but would save substantially in income taxes by making gifts of appreciated securities instead.
- Want to maintain a steady level of charitable giving but whose income fluctuates.
- Would like to make a tax-deductible gift because of an exceptionally high income year but also would like to defer making grants until a later time.
- Would like anonymity in the creation of the fund or in grant-making from the fund.
- Are charitably inclined but would appreciate administrative support with the details.

### 3. FIELD OF INTEREST FUND

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.

#### FEATURES:

- Donor names the purpose of the fund, such as Women’s Issues, Youth and Children, Health, or the Arts.
- Grant recommendations are generated by the Grants Committee of the Community Foundation which identifies projects/ programs that can most effectively accomplish the goal of the Fund.
- Grants Committee recommends grants to the Foundation’s Board of Directors.

#### REQUIREMENTS TO CREATE A FIELD OF INTEREST FUND

A 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 at the same time as 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.

#### SAMPLES OF CURRENT FIELD OF INTEREST FUNDS HELD BY THE COMMUNITY FOUNDATION :

- All Excellence in Education funds
- Argyle Park Fund
- Cabin Fund
- Tim Cullen Government Intern Fund
- Robert & Marian Graham Community Fund
- Alvah Lloyd & Lulu Lloyd Charitable Fund
- Jane Lysaght Memorial Fund
- Clifford and Dorothy Reasa Fund for Historic Preservation
- Women’s Fund

#### *CLIENTS BEST SUITED FOR FIELD OF INTEREST FUNDS:*

- Have an abiding interest in a particular charitable cause (such as the arts, women’s issues, community beautification) rather than a particular charitable organization.
- Wish to establish a memorial to an individual by recognizing that person’s interest in or accomplishments in a given area of charitable concern.
- Recognize that charitable organizations change in effectiveness over time.
- May be considering a private foundation to support a cause.

## PART TWO: TYPES OF FUNDS (CONTINUED)

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### 4. DESIGNATED OR AGENCY ENDOWMENT

Designated Endowments are created by individuals who make gifts to the Foundation to be set aside for the benefit of 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.

#### FEATURES:

- Organization receives annual grants according to the **spending policy\*** of the Foundation in effect at the time.
- Organization can focus on doing the work that defines its purpose while the Community Foundation provides proven financial management results.
- Fund strengthens the nonprofit organization.
- Designated or Agency Endowment can serve any nonprofit 501(c)(3) organization in the United States, including colleges, universities, churches, and non-profit hospitals, schools or libraries.
- 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.

#### REQUIREMENTS TO CREATE A

#### DESIGNATED OR AGENCY ENDOWMENT:

A Designated or Agency 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 they wish to establish a fund in their name.

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.

#### \*CFSW SPENDING POLICY

The current spending policy calls for an annual **4 to 6 percent payout** to the nonprofit organization based on a twelve quarter rolling average of the fund balance.

For example, under the current policy, an organization whose fund balance averages \$100,000 over the past 12 quarters can be assured of a \$4,000 annual grant payout.

Any additional appreciation is added back to the specific fund for inflation protection and real growth which will create increased payments to the nonprofit in later years.

## ***CLIENTS BEST SUITED FOR DESIGNATED ENDOWMENTS:***

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

### ***EXAMPLE: 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.*

### ***EXAMPLE: CREATING AN AGENCY ENDOWMENT***

*The Good Works organization has received its first significant gift in the form of a \$100,000 bequest. It is clear that the donor wished this to be an endowment. Good Works has no background in making long-term investment decisions. It wants to make a distinct separation between endowed funds and current operating funds. Good Works opens a fund with 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.*

## **5. THE COMMUNITY FOUNDATION'S LEGACY FUND**

The Community Foundation of Southern Wisconsin has its own administrative endowment called the Legacy Fund. Donors who wish to support the Community Foundation may make a gift to the Legacy Fund or establish a new fund for that purpose. The Community Foundation is always grateful when for donors elect to support the Legacy Fund.

# PART TWO: TYPES OF FUNDS (CONTINUED)

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## 6. SUPPORTING ORGANIZATION

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.

### FEATURES:

- A Supporting Organization has a separate identity and makes its own decisions regarding charitable grants from the funds of the organization.
- A Supporting Organization must serve the same purpose of the Community Foundation which means making charitable gifts for the benefit of the community.
- 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.
- The Community Foundation staff will support the administrative needs of the Supporting Organization, and may assist by reviewing grant requests, if desired.

### DIFFERENCES FROM PRIVATE FOUNDATION

For tax purposes, supporting organizations are treated as a public charity rather than a private foundation, although they may have many of the advantages of a private foundation.

There are several advantages of this treatment:

- 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 from 30 to 50 percent for cash and from 20 to 30 percent for appreciated property.
- Avoiding private foundation transaction rules.
- Avoiding the excise tax on investment income.

### REQUIREMENTS FOR CREATING A SUPPORTING ORGANIZATION

Supporting organizations are an option only if the contemplated gifts exceed **\$1 million** and the objectives of the donor cannot be achieved through a Donor Advised or Field of Interest Fund. The organizational documents must be approved by the Community Foundation and the Internal Revenue Service.

A private foundation may become a Supporting Organization provided they meet the IRS requirements.

# PART THREE: METHODS OF GIVING

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*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. GIFT BY WILL OR LIVING TRUST

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 charitable deduction, 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.

Fund options for testamentary gifts include:

- Donor Advised Fund
- Designated Fund
- Scholarship Fund
- Field of Interest Fund
- Unrestricted Fund
- Operating Endowment by bequest
- Gift to an existing fund

A fund can be created through a specific bequest of cash or property, a percentage bequest, a residual bequest, or a contingent bequest.

### ***EXAMPLE: BEQUEST TO THE COMMUNITY FOUNDATION BY WILL***

*A local attorney has a client, Rachel, who has a relatively modest estate and does not have any close relatives. Rachel’s closest living relatives are some cousins whom she rarely sees. Rachel is interested in benefiting her community and the people who live here after her death. Rachel 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

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***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 carefully 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 charitable 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

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### 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: It is possible to specify that the fund support the operations 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. It is wise to involve Community 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)

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## 2. CHARITABLE REMAINDER TRUST

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 creates a fund in the Community Foundation and specifies that the principal remaining at the end of the trust term will go to that fund to benefit the donor's preferred charitable goals.

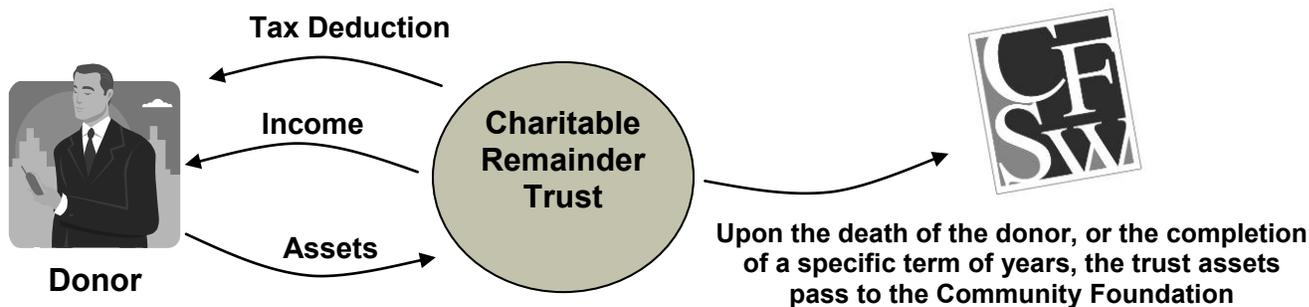
### ADVANTAGES OF A CHARITABLE REMAINDER TRUST

- Donor receives an immediate charitable deduction for the discounted present value of the remainder gift, thus reducing current

income taxes. This is available to the donor even though the assets do not directly benefit the charity until the end of the trust term.

- Trust assets are removed from the donor's estate saving estate taxes at the time of death.
- 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.
- 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 BEST SUITED FOR CHARITABLE REMAINDER TRUST:*

- Have accumulated appreciated but low paying assets.
- Want to increase current income without incurring capital gains taxes.
- Want to reduce estate taxes.
- Want to make a significant future charitable gift but need the asset to produce income.

### 3. WEALTH-REPLACEMENT TRUST

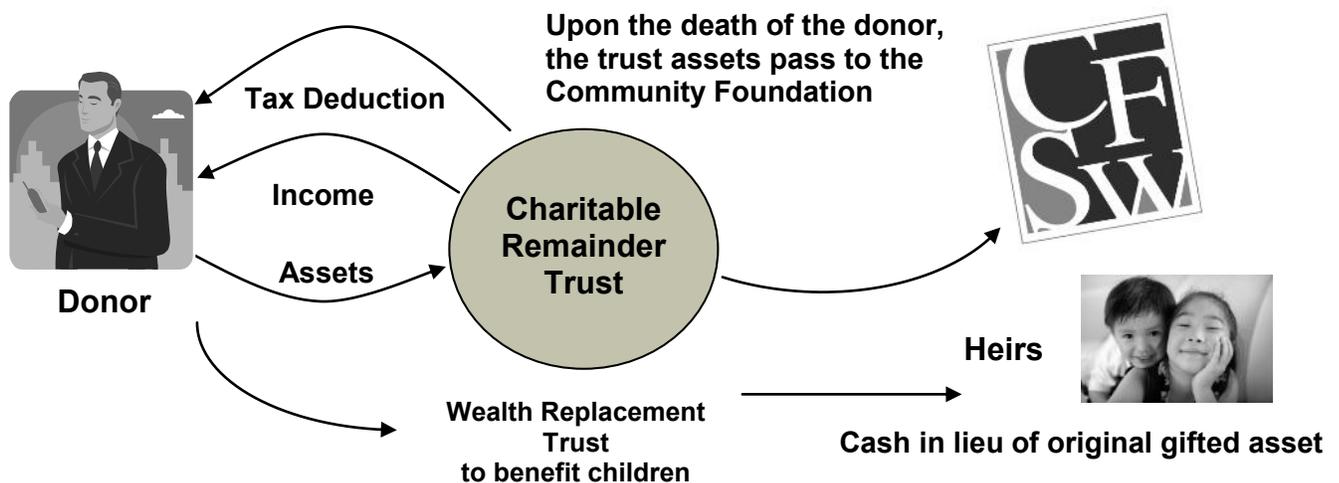
The wealth-replacement trust uses life insurance in addition to a charitable remainder trust, to increase the amounts received by heirs.

**Note:** *The Community Foundation prefers not to serve as the trustee of Charitable Remainder Trusts that name the Community Foundation as a remainder beneficiary. It is our belief that a conflict of interest 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.*

#### ADVANTAGES OF THE WEALTH-REPLACEMENT TRUST

- More income for the donor
- Income tax deduction for the donor
- Cash, from insurance that is outside of the estate, for heirs
- Gift to the community

#### HOW WEALTH-REPLACEMENT TRUSTS WORK



# PART THREE: METHODS OF GIVING (CONTINUED)

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## 4. OUTRIGHT GIFT

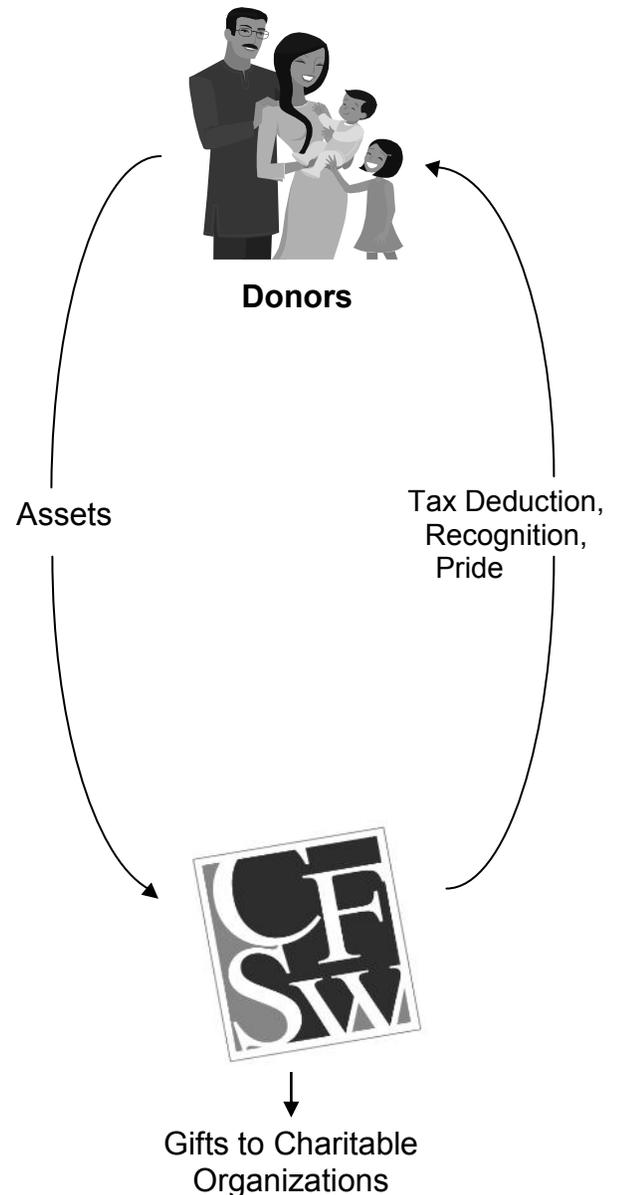
Donors may create or add to their funds with gifts of cash, publicly traded or closely held securities, real estate, and other assets. All gifts are subject to the various limitations as to deductibility applicable to different types of gifts made to public charities.

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.

### TAX ADVANTAGES OF AN OUTRIGHT GIFT:

- Charitable income tax deduction in the year of the gift.
- Reduction of the gross estate for future estate tax purposes.
- Elimination of capital gains taxes (on the increase in value over cost basis) on appreciated property.

### HOW OUTRIGHT GIFTS WORK



## 5. LIFE INSURANCE

Many people find that in their later years, when their 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 have not yet accumulated substantial assets also can 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 Community Foundation 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 other 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 rules, many owners seek methods to make more of these assets available to family members, or others, rather than see the majority of them taken 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 at death on these kinds of assets, 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 gift while living and to preserve the assets that will be taxed *least* at death.

## PART THREE: METHODS OF GIVING (CONTINUED)

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### **EXAMPLE: 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 retirement 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 Charitable Remainder Trust, 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!*

## 8. COMBINING CHARITABLE REMAINDER TRUST WITH RETIREMENT PLAN OR IRA 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.

## 9. 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 of the Community

Foundation 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.

### A REMAINDER INTEREST IN A HOME OR FARM

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:*

- Could use an up-front charitable deduction for the remainder value of the property, thus increasing their current income.
- Seek to reduce estate taxes.
- Want 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
<b>Tax treatment of Cash Gifts</b>	Deductible up to 50% of adjusted gross income (AGI)	Deductible up to 30% of AGI
<b>Tax treatment of gifts of appreciated publicly traded securities</b>	Deductible up to 30% of AGI	Deductible up to 20% of AGI
<b>Tax treatment of closely held stock or real estate</b>	Deduction for full market value up to 30% of AGI	Deduction limited to donor's cost basis up to 20% of AGI
<b>Excise taxes</b>	Exempt	Excise tax on annual net investment income
<b>Required annual distribution</b>	None legally required. Can accumulate income toward a sizable project or grant.	Required to expend 5% annually regardless of earnings
<b>Incorporation and Tax Status</b>	Automatically covered by the status of Community Foundation	Must apply for incorporation and tax exempt status
<b>Privacy</b>	Can have as much privacy as the donor wishes. Community 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.
<b>Investment, accounting, audit, and tax returns</b>	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.
<b>General administration</b>	The Community Foundation handles all administrative functions	Private Foundation trustees must perform, contract, or hire staff for these functions.
<b>Grant administration</b>	The Community Foundation handles this function	Trustees must perform, contract, or hire staff for these services.

# CONTACT INFORMATION

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Please visit our website at **www.cfsw.org**. You will find a wealth of information there.  
Or stop by and visit us. We'd love to see you and to talk with you about what we do.

## **JANESVILLE OFFICE**

26 South Jackson Street, Janesville, WI 53548  
Phone (608) 758-0883      Toll Free (800) 995-2379  
Fax (608) 758-8551      E-mail: [info@cfsw.org](mailto:info@cfsw.org)

### ***Sue Conley***

Executive Director

### ***Jane Maldonis***

Donor Services Representative,  
Rock and Walworth counties

### ***Tina Lorenz***

Chief Financial Officer

### ***Christine Moore***

Communications Director

### ***Kristen Duesdieker***

Grants & Scholarships Manager

### ***Lannie Troon***

Gifts Manager/Administrative Assistant

## **MONROE OFFICE**

P.O. Box 733, Monroe, WI 53566  
Phone (608) 328-4060

### ***Linda Gebhardt***

Donor Services Representative,  
Green and Lafayette counties

### ***Kristine O'Connor***

Administrative Assistant

## **PLATTEVILLE OFFICE**

P.O. Box 81, Platteville, WI 53818  
Phone (608) 778-3344

### ***Barb Daus***

Donor Services Representative,  
Southwest Wisconsin

*There is nothing 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

26 S JACKSON ST JANESVILLE WI 53548



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

*THE COMMUNITY FOUNDATION OF SOUTHERN WISCONSIN  
GRATEFULLY ACKNOWLEDGES*



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*FOR GENEROUSLY UNDERWRITING  
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JOHNSON BANK WEALTH MANAGEMENT  
1 SOUTH MAIN STREET  
JANESVILLE, WI 53545  
(608) 743-1580