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. 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.

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 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

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.

2. Charitable Remainder Trust

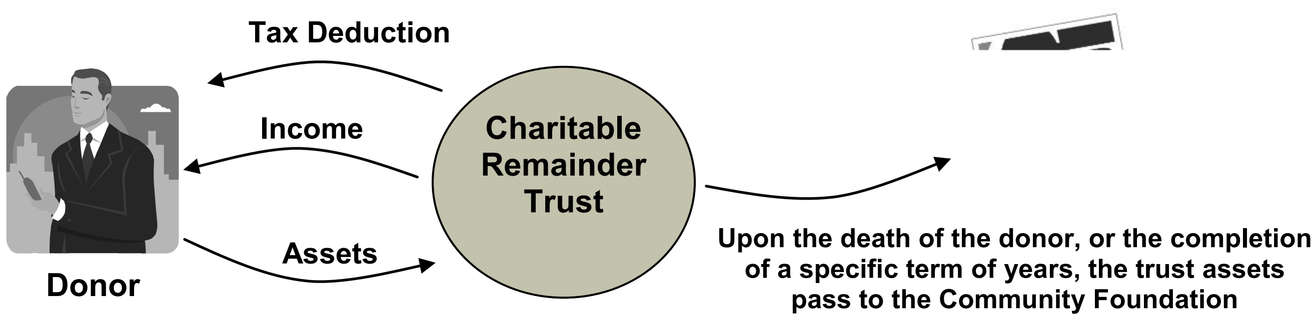
Through a charitable remainder trust, a donor places assets, generally valued at $250,000 or more, in trust and specifies that either a fixed dollar amount or a fixed percentage of the trust's value will be paid to a beneficiary, usually the donor, spouse, or children for a period of years or for the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

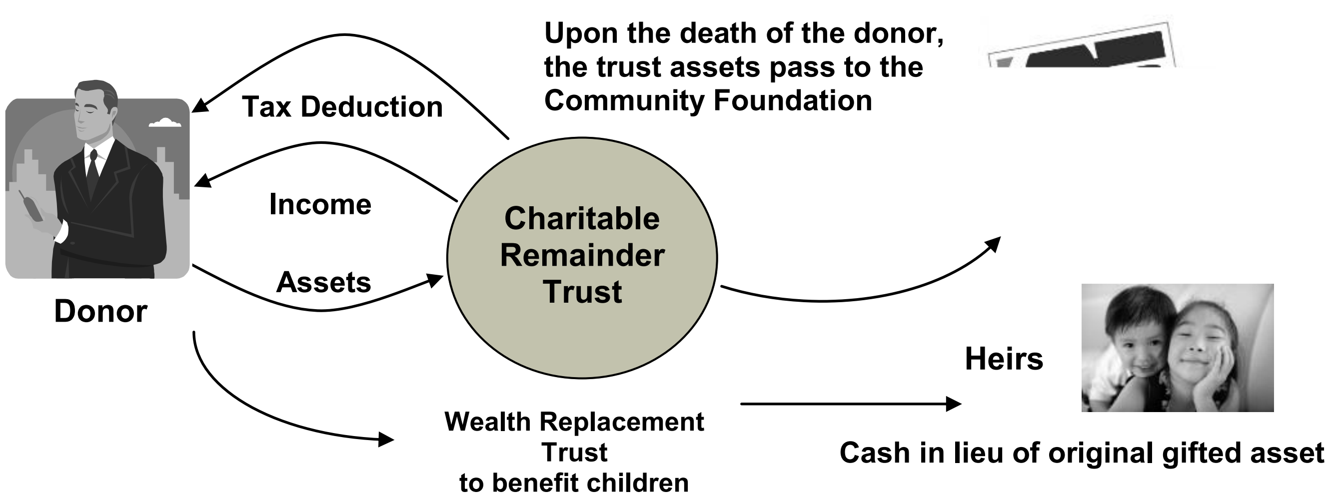
The wealth-replacement trust uses life insurance in addition to a charitable remainder trust, to increase the amounts received by heirs.

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

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.*

How Wealth-Replacement Trusts Work



4. OUTRIGHT GIFT

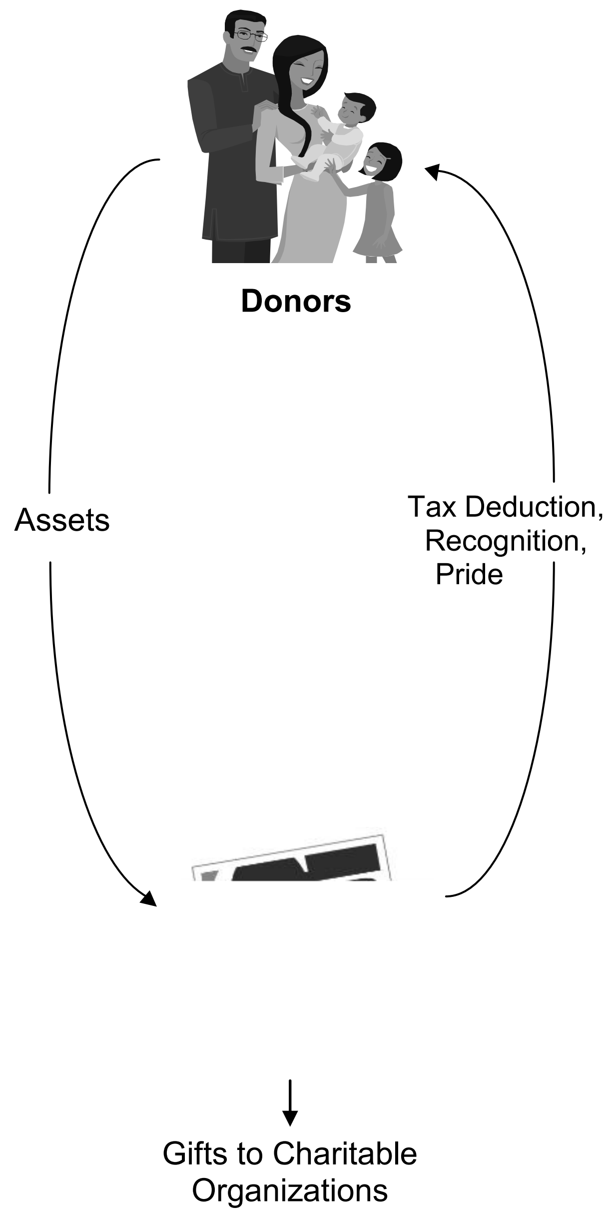
Donors may create or add to their funds with gifts of cash, publicly traded or closely held securities, real estate, and other assets. All gifts are subject to the various limitations as to deductibility applicable to different types of gifts made to public charities.

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.

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.