PLANNED GIFTS

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE

BEQUESTS

Your client may want to consider leaving a portion of their estate to The Community Foundation of Middle Tennessee. A donor may create or add to a permanent fund through a bequest. The Community Foundation and the fund can be named as the residuary beneficiary of the donor's estate, as the recipient of a stated sum or contingent bequest, or as the ultimate recipient of the assets of a charitable remainder trust. A charitable bequest can dramatically reduce estate and inheritance taxes. Because a bequest to The Foundation allows for an unlimited charitable estate tax deduction, and because combined federal and state estate taxes can be significant, bequests can create tax savings that will be passed on to your clients' heirs.

Through The Community Foundation, a bequest creates a permanent legacy that will serve the community for generations to come. The Foundation's administration ensures that donor wishes will continue to be carried out as long as it is possible to do so.

Some arrangements can be structured to provide a life income for donors or loved ones, or for charities. The following section outlines in general terms a selection of these instruments.

TRUSTS

A trust is established when assets are transferred to a trustee to be held on behalf of specified beneficiaries during the trust's term. Commonly, the benefit received is the payment of the income earned by the assets. When the term of the trust ends, the remaining property passes to another beneficiary.

CHARITABLE REMAINDER TRUST

A charitable remainder trust is a separate trust established by a donor with a trustee of the donor's choosing. Two highly structured plans are described in the Tax Reform Act of 1969: the Charitable Remainder Unitrust (CRUT) and the Charitable Remainder Annuity Trust (CRAT). In each case, the donor makes an irrevocable transfer of property to the trust; the donor retains the right to receive income and/or create an income interest for another person; the donor receives a partial income tax deduction in the year of the gift; the donor realizes no immediate capital gains tax on the transfer to or subsequent sale by the trust of appreciated property; and, at the end of the trust, usually at the death of the last income beneficiary, the remaining trust assets are added to or used to create a permanent fund with The Community Foundation of Middle Tennessee.

A charitable remainder trust may be set up during one's lifetime or may be established by a will. The eventual distribution to The Community Foundation of Middle Tennessee will take effect at the death of the trust's income beneficiaries or at the expiration of a fixed term of years specified in the trust.

Charitable remainder trusts themselves are exempt from ordinary income tax. The income distributed to individuals is generally subject to income tax in the name of the recipients. The principal is held for charitable purposes. If donors place highly appreciated property held long-term in the trust, the trustee can sell it without having to pay the capital gains tax realized on the profits of the sale. Low-yielding stocks can be sold and the proceeds reinvested to produce higher income for the income beneficiary.

By creating a charitable remainder trust, your clients can enjoy a number of benefits, including professional management of the assets in the trust and a degree of financial protection. Creating one of these trusts frequently enables donors to realize greater disposable income.

POOLED INCOME FUND

The Community Pooled Income Fund is like a charitable remainder trust except that it consists of assets received from many donors. An initial contribution of $5,000 or more is required to join this fund. Subsequent contributions of $1,000 or more can be made. The donor and/or their designated beneficiary receive all of the income generated by their pro rata share of the Pooled Fund for the duration of their lifetime(s). The Fund is managed using a balanced portfolio to help ensure its future purchasing power.

DEFERRED COMPENSATION PLANS

Such plans often provide a significant source of security for an individual and his/her spouse. If however, these funds have become less important, there may be distinct advantages to using these funds to create a charitable legacy. It is interesting to note that if such funds pass through an estate to children or (or heirs other than a spouse) only 20-28 cents of every dollar will end up in their hands after the government intervenes. A donor can use part or all of this plan to make an outright gift, to create an Advised Fund for the charitable use of his/her heirs, and/or to create a Charitable Remainder Trust for the benefit of his/her spouse. To achieve maximal benefit, these gifts should occur at the person's death.

GIFT OF REMAINDER INTEREST IN RESIDENCE OR FARM WITH RETAINED LIFE ESTATE

Donors can give a remainder interest in their home or farm to at The Community Foundation of Middle Tennessee Properties, LLC while retaining the right to live there. This entitles them to take a charitable income tax deduction for the present value of the remainder interest. The donor deeds the property to The Community Foundation of Middle Tennessee but retains the right to live in the home or on the farm until death. When the life estate expires, the real estate is sold and the proceeds used to support those organizations or purposes your client has identified.

CHARITABLE LEAD TRUST

A charitable lead trust is the reverse of a charitable remainder trust. Under a charitable lead trust, the initial income beneficiary is The Community Foundation of Middle Tennessee, but its interest terminates at a specified time and the trust continues for the benefit of or terminates in favor of one or more individuals, such as the donor's children or grandchildren. Donors do not receive a charitable deduction for federal income tax purposes on the creation of a lead trust unless they choose to be taxed on the trust income. Some people may find that the chance to take a federal income tax deduction in the initial year outweighs the disadvantage of paying taxes on the trust's income in later years. Donors can avoid a negative tax impact by funding the lead trust with tax-exempt securities.

A charitable lead trust in which the donors and their spouses are not taxed on the trust's income and that transfers the remainder of the assets to other family members allows the ultimate transfer of the property to be made at a low transfer tax cost. This mechanism is especially useful for property which is likely to appreciate. Charitable lead trusts are most sensible for a donor whose family can afford to relinquish the income from the gifted property during the term of the lead trust.

It is possible to establish a lead trust either during your client's lifetime or in a will. A charitable lead trust created in a will can substantially reduce the estate taxes payable at the time of death because of the charitable deduction for The Foundation's interest in the annuity or unitrust payment. The value of the charitable interest depends on the length of the trust, the amount or percentage to be paid out each year, the applicable federal discount rate, and the frequency of payment. The saving in estate taxes means that family members might receive substantially more than if the property were left to them at your client's death.

Similarly, if a charitable lead trust is created during your client's lifetime, generally the income tax is eliminated on the income from the assets placed in the trust. Donors can also reduce the gift tax on the property eventually passing to their children or grandchildren.

LIFE INSURANCE

The Concept

Many donors have several charities they have supported during their lifetimes. While doing their estate planning, they are conscious of the need to endow their support of these favorite charities. Insurance policies often have often been a favorite vehicle to continue support of favorite charities but have suffered from certain disadvantages. To cover multiple charities would require multiple policies, and any adjustment of the amounts or the charities would require new policies and, perhaps, financial loss. And, modest policies to many charities were often not priced as competitively as larger policies.

We can now offer an alternative. A single policy can be issued to benefit many local charities. The policy will be owned by The Community Foundation of Middle Tennessee. The donor will be the insured and The Community Foundation of Middle Tennessee will be the beneficiary. At the time the policy is purchased, a Letter of Instruction will be sent to The Community Foundation directing them as to how the policy proceeds are to be divided. Multiple charities can be named for restricted or unrestricted gifts.

The Advantages

Because one large policy can cover many charities, the cost is more competitive than the use of multiple smaller policies. Charities can be added or deleted and the percentage allocated can be changed with a simple revision of the Letter of Instruction and without notifying the final beneficiary. The normal advantages of flexibility of policy size and terms are maintained. The Community Foundation charges no fee for being a conduit for the insurance proceeds until the policy matures or lapses. Premium payments could be funded with cash or with the donation of appreciated securities to The Community Foundation.

Tax Advantages

Premium payments to this type of policy would be fully tax deductible for federal income tax purposes to the extent allowable by law. Gifts of securities would be deductible at the fair market value of the securities but subject to certain limitations on deductibility as a percentage of adjusted gross income. A donor cannot deduct both the premium payment and the gift of securities used to make that payment. Capital gains tax would be avoided on security gifts used to fund premium payments. The entire asset would be free of probate and federal and state inheritance or estate taxes.

Restrictions

All proceeds must go toward endowment funds held within The Foundation -- whether unrestricted for The Foundation or designated for the benefit of other agencies. In this way, you make it possible to provide a continuous stream of income each year for these worthy causes. All funds in this program will be charged the customary fee applicable at the time the policy matures or lapses. Any securities used to fund premium payments must be readily marketable and free of restrictions. By law, The Community Foundation must have the final discretion in awarding the insurance proceeds. The Community Foundation will not advance any funds for any purpose including the payment of premiums and the payment of benefits to charities. Should premium payments not be provided for The Foundation's use, the policy will lapse and the residual value will be placed in an unrestricted fund named for the donor.

By assigning a life insurance policy to The Community Foundation of Middle Tennessee, your clients can support the causes and charities they believe in. A gift of life insurance enables donors to make a much larger gift than they might have thought possible, and a gift of insurance may not reduce their current stream of income. Gifts of life insurance are particularly attractive for younger individuals who want to make a significant gift in the future, or for older individuals whose families' security do not rely on death benefits. Many people have established a fund with an existing or new life insurance policy as the asset. A donor who irrevocably transfers a life insurance policy to The Community Foundation of Middle Tennessee can claim an income tax deduction for the policy's cost basis or an amount roughly equal to the cash surrender value, whichever is less. The deduction is limited to 50% of the donor's adjusted gross income with a five-year carryover for any excess. To be entitled to a deduction, the donor must make The Community Foundation of Middle Tennessee the owner and beneficiary of the policy and give up all incidents of ownership: the rights to change the beneficiary, borrow against the policy, and have dividends applied against the premiums. An income tax deduction is also available for any contributions to The Foundation to pay for any ongoing premium payments on the policy. Any type of fund may be established with an insurance policy.