VNRC VERMONT NATURAL RESOURCES COUNCIL

The VNRC Environmental Guardian Program: Supporting Environmental Protection Through Planned Giving

Planned giving offers donors a powerful opportunity to express their hopes and dreams for Vermont's future. Your generous gift will ensure that VNRC remains a strong and effective voice for Vermont's environment for generations to come.

What Is Planned Giving? Planned giving (or "charitable gift planning") refers to the process of making a charitable gift of estate assets to a nonprofit organization, a gift that requires consideration and planning in light of the donor's overall estate plan.

Planned giving is a type of charitable giving which provides the donor with significantly greater financial and tax advantages than an outright transfer of money or property. As such, it can be an attractive and effective option by which nonprofit organizations raise much-needed funds.

With the assistance of a qualified professional advisor, you can create a special charitable gift that is both personally satisfying and beneficial to you, your family and VNRC. The following information will help you get started.

What Planned Giving Involves. Planned giving involves wills and bequests, annuities, and charitable remainder trusts, as well as other gift arrangements.

Potential Benefits of Planned Giving

- Increase current income for you and others
- Reduce your income tax
- Avoid capital gain tax
- Pass assets to family members at a reduced tax cost
- Make significant donations to VNRC

Bequests

One of the easiest ways to make a gift to VNRC is through a bequest in your will. These gifts provide critical support for the future of VNRC and its mission to protect Vermont's natural resources and environment for present and future generations.

Bequests to VNRC are deductible from your gross estate and can therefore offer estate tax savings. There is no limit on the amount you can leave to VNRC or to other charitable organizations through your will. If you wish, you can specify a particular use for your bequest or leave it unrestricted.

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There are several types of bequests:

Specific Bequests: You can name VNRC as the direct beneficiary of a stated amount of money, a particular piece of property, or a stated percentage of your estate. The suggested wording for a specific bequest is:

> I give, devise, and bequeath to the Vermont Natural Resources Council, a nonprofit charitable organization with offices in Montpelier, Vermont, the sum of $__________(or describe any real or personal property), to be used for its general purposes.

Residuary Bequests: You can designate that VNRC receive all or a portion of the remainder of your estate once all specific bequests (to family and friends) have been satisfied. The suggested wording for a residuary bequest is:

> I give, devise, and bequeath to the Vermont Natural Resources Council, a nonprofit charitable organization with offices in Montpelier, Vermont, all (or ______%) of the rest, residue and remainder of my estate, to be used for its general purposes.

Contingent Bequests: Often, individuals provide that assets should go to family or friends. However, it is important to provide for a contingent beneficiary to receive assets in case your named individual beneficiaries do not survive you. The suggested wording for a contingent bequest is:

> If any of the above-named beneficiaries should predecease me, I hereby bequeath his or her share to the Vermont Natural Resources Council, a nonprofit charitable organization with offices in Montpelier, Vermont, to be used for general purposes.

Revocable Living Trusts: Some donors prefer to plan the distribution of their estates through revocable living trusts. Like wills, living trusts can be changed while the donor is still alive. However, living trusts have several advantages over wills. If the living trust is properly funded, the trustee can distribute much or all of the donor's estate without the expense or delay of probate. If the donor owns real estate that requires management, such as a farm, the trustee can step in to make management decisions should the donor become incapacitated.

Living trusts may be more time-consuming to set up than a will, but the beneficiaries of the estate will realize the cost savings in the end. Because the donor usually reserves the right to revoke or modify a living trust, the donor may not realize any immediate income tax benefits. However, if properly drafted, a living trust can have the same beneficial estate tax savings as a will at one's death. *Please seek the advice and* *guidance of a competent attorney and or financial advisor before executing any will or living trust*

Life Income Gifts

Charitable life income arrangements can allow you to increase your income, receive a charitable contribution deduction, avoid capital gains tax and support the work of VNRC.

If you own stock that is paying you low dividends or real estate that is costing you money each year to maintain, a life income gift may be especially attractive. Such gifts can provide you and your beneficiary with income for life, while creating significant income tax and estate tax benefits. Some of the most popular life income gifts include:

Charitable Gift Annuities. Charitable gift annuities are the simplest form of life income gift. They give the donor an immediate tax deduction and regular income payments for life, while providing long-term financial support to VNRC.

Charitable gift annuities can be funded with virtually any type of property and are relatively easy to establish. They are most useful when a donor owns an appreciated asset that earns a relatively low rate of return, such as appreciated securities, or one that costs the donor money to maintain, such as land. Charitable gift annuities enable a donor to convert assets producing low income to higher guaranteed annual income.

Most donors who establish a charitable gift annuity are in their mid-sixties or older, are individuals who are not concerned about inflation and who would prefer to receive a fixed payment for life. Here's how a charitable gift annuity works:

You would irrevocably donate cash or securities, with a minimum value of $5,000, to VNRC. In return, VNRC enters into a contract agreeing to pay you and, if desired, one other beneficiary, a fixed annuity for life, usually on a quarterly basis. The annuity rate—calculated as a percentage of the gift—would depend on the age of the beneficiaries when the gift is made, and is based on uniform gift annuity rates recommended by the American Council on Gift Annuities. Although the annuity payments may be subject to capital gains taxes, the tax is greatly reduced and can be spread out over the period of the donor's life expectancy.

Here is an example of a Charitable Gift Annuity:

> A donor, age 72, owns $5,000 in stock. Current dividends are $200 (4%) annually. She donates the stock to a charitable organization. The charitable organization will pay her an annuity of $400 per year (8%) for life. The donor claims a $2,213 tax deduction on her federal income tax return.

Charitable Remainder Unitrusts. A charitable remainder unitrust through VNRC is an excellent vehicle to enable you to make a major gift to support our work while receiving income for life.

A form of life-income gift, charitable remainder unitrusts can provide a donor with an immediate income tax deduction, increased annual income and, depending upon how a donor funds the charitable remainder unitrust, may reduce capital gains and estate taxes. More complex than gift annuities, charitable remainder trusts are recommended when a donor's gift has a value of at least $50,000 and when the income beneficiaries are not yet 75 years of age.

A charitable remainder unitrust can be especially attractive to individuals who own highly appreciated assets and wish to convert these assets to higher annual income. Here's how a charitable remainder unitrust works:

You would irrevocably donate cash or appreciated property (stock, bonds, land or other marketable property) to the trust (minimum value of $50,000). There is no capital gains tax due on the sale of the assets to the Trust.

You and/or other named beneficiaries would receive income from the Trust based on a set percentage of the fair market value of the Trust, as revalued each years. You would choose this percentage when the Trust is established (minimum 5%). These payments can be made for the lifetime of the named beneficiary(ies) or for a pre-established number of years, not to exceed twenty.

Depending upon the assets used to fund the trust, a trustee manages the cash or real property (generally selling the property and reinvesting the proceeds) to generate income for the beneficiaries. The Trustee can be either one or more individuals and/or a trust department, and in some cases, can be the donor. Usually the trustee makes quarterly payments to the income beneficiaries that may continue either for the lives of the beneficiaries or for a fixed term of up to 20 years. The Trustee then pays the remaining assets in the trust to the charity or charities named in the trust for whatever use the donor originally stipulated.

A charitable remainder trust is most useful when a donor has substantial resources and owns highly-appreciated assets that earn a low rate of return (like stock), or may even cost the donor money, like land. When the assets are transferred to the trust and then sold, no capital gains tax is due on the sale, thereby preserving the maximum amount of principal for reinvestment. The donor is therefore able to convert a low-earning asset into a high-earning one without a significant loss of capital. If the donor sells the asset outright, instead of through the trust, state and federal taxes may take as much as 25% of its value.

The donor also benefits by gaining a charitable income tax deduction in the year the trust acquires the asset. The amount of the deduction depends upon the value of the donated property, the number and ages of the income beneficiaries, and the annual payout rate selected. If the donor cannot use the deduction in the year the trust is established, he/she can carry the unused deduction forward for up to five years and apply it against subsequent income. Since a remainder trust in not part of the donor's estate, it also lowers one's estate taxes. Moreover, the assets in a charitable remainder trust pass without the expense and delay of probate. And finally, charitable remainder trusts provide significant long-term support for charities like VNRC, including the establishment of permanent endowment funds.

How is the amount of the payment determined? Charitable remainder trusts take two forms: a "unitrust" provides income to a beneficiary as a fixed percentage of the trust's assets, which the trustee recalculates annually. This payment must be at least 5% of the assets. The actual dollars paid will fluctuate annually as the value of the trust's assets changes. The second, called an "annuity trust," provides income to a beneficiary as a fixed payment that equals or exceeds 5% of the original value of the assets contributed. The annuity trust payment remains constant, regardless of changes in the trust value. Most donors use the unitrust model because if the principal in the trust grows, so will the annual income payments. Conversely, if the principal in a unitrust decreases in value, the annual payment to the donor will also decrease.

How is the tax deduction determined? The income tax deduction for a charitable remainder trust is a function of several factors, including:

1. The value of the donated asset;
2. The type of remainder trust (unitrust or annuity trust);
3. The annual income rate selected;
4. The number and ages of the income beneficiaries (or, in the case of a fixed term, then number of years in the term);
5. The federal discount rate, which changes monthly.

How does a Charitable Remainder Trust compare to a Charitable Gift Annuity? Charitable remainder trusts are often recommended for donors who want to make a planned gift with a value of $10,000 or more, wish to retain lifetime control over investment of the assets so they can invest for growth and/or income as they desire from time to time, and want to make additional contributions to the trust over time as their assets and personal objectives permit. Charitable remainder trusts also work well where the beneficiaries are relatively young, allowing principal and annuity payments to appreciate over their remaining lifetimes. Conversely, charitable gift annuities work well for gifts between $5,000 and $100,000, or where the donor wants to be assured of regular, fixed income payments for his or her lifetime.

Bequests, Charitable Gift Annuities, and Charitable Remainder Trusts are only a few of the many ways in which to make gifts to the Vermont Natural Resources Council. Other gift arrangements enable a donor to make a gift during the donor's life while retaining income from the asset, and each offers distinct advantages. Please consult your professional financial advisor for more information.

The information provided in this document is presented in summary form. All donors must consult with and rely exclusively on their own attorney or other financial advisors for tax and legal advice.