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On Eagles' Wings

A SERIES OF GIFT PLANNING NEWSLETTERS FOR ALUMNI AND FRIENDS OF FLORIDA GULF COAST UNIVERSITY

The Charitable Remainder Trust

Our most popular life income gift agreement

Welcome to the second issue of *On Eagles' Wings*, the planned giving newsletter for members of the Florida Gulf Coast University family. This issue features The Charitable Remainder Trust — our most popular life income gift agreement.

A charitable remainder trust for FGCU provides lifetime income, a charitable tax deduction, relief from capital gains tax, and a charitable gift to advance higher education in Southwest Florida. Because the funding of a charitable remainder trust with highly appreciated assets allows you to sell those assets without paying any capital gains taxes — **CRTs are ideal** for assets with a low cost basis and highly appreciated value. I would be happy to provide you with a personal illustration of how a charitable remainder trust would work to your advantage.

You may also be interested in the many ways charitable gifts can be used. I would be delighted to provide you and your guests with a tour of the University so that you may see how charitable gifts have made a significant difference in the lives of students at FGCU. And if you have not been on campus recently, this would be an excellent opportunity for you to see one of the fastest growing universities in the country! Until then, best wishes for an enjoyable Season.

Warmest regards,

Pete

Peter C. Lefferts, Ed.D.
Director of Planned Giving

A Gift and an Income

If you would like to increase your spendable income, reduce your present and future tax liability and help Florida Gulf Coast University in educating tomorrow's leaders — all at the same time — you should take the time to investigate a favorable gift planning arrangement known as the charitable remainder trust.

The United States Congress authorized the charitable remainder trust to encourage the generous support of philanthropic institutions. Since its creation, thousands of people have used this popular planning tool to make future gifts to worthy universities such as FGCU, and to enhance their personal investment, tax, retirement and estate plans. They have found that, with careful planning, the charitable remainder trust can be an effective financial planning strategy, as well as a generous and personally satisfying charitable gift.

What Is a Charitable Remainder Trust?

The charitable remainder trust is quite simple in concept. You, the donor, irrevocably transfer money or property to the trust. The trust agreement, drafted by your attorney, directs a trustee of your choosing to:

- invest the assets that were given in trust;
- pay a specified annual income to you and/or another designated beneficiary for life or for a specified period of years; and
- distribute the remaining trust assets to FGCU after the income benefits conclude.

Our mission: Graduates celebrate during 2003 spring commencement.

You Receive an Immediate Tax Deduction

When you transfer property to a charitable remainder trust, you will qualify for an immediate charitable tax deduction. Depending on your age at the time of the gift and the amount of income which you reserve, you may receive a very substantial tax deduction.

Howard, as a good example, is 70 years old and intends to reserve a lifetime income equal to 6 percent of his $150,000 charitable remainder annuity trust…$9,000 a year for as long as he may live. Based on the valuation rules, Howard will be able to deduct approximately $61,300 as a charitable contribution…even though the trust principal will not transfer to FGCU until after his death.

Note: We can provide the exact amount of the charitable deduction that will currently be allowable for any trust you may want to consider. There is, of course, no obligation for a personal illustration.

You Determine the Payout Arrangement

One of the most important characteristics of a charitable remainder trust is its flexibility. For example:

- You may reserve a fixed-dollar income (*e.g.*, $10,000 a year for life) or an income that will vary with the periodic value of the trust (*e.g.*, 6 percent of the value of the trust as calculated each year). The fixed-income version is called a *charitable*

Special Features of the Charitable Remainder Unitrust

The charitable remainder ***unitrust*** provides a variable payout based upon a fixed percentage of the trust's value as calculated each year. The donor selects the payout rate, which must be at least 5 percent, when creating the trust. The donor can also make additional gifts to the trust at any time.

Here are some different variations of the unitrust:

- The regular **charitable remainder unitrust** pays out the stated percentage (even if the trustee must invade the principal), and can act as a hedge against inflation if the trust assets increase in value.
- The **net income unitrust** pays out either the stated percentage or the income actually earned by the trust, whichever is less, and is often used by donors when funding the trust with non-income producing assets (such as real estate).
- The **net income unitrust with a make-up provision** includes a feature which enables the donor to make up any payout deficits accrued in a net income unitrust (in years when the trust earns less than the stated payout percentage). It is most often used as a way to enhance retirement income.
- The so-called "**flip unitrust**" can start out with one type and payout formula and later switch to another. This gives added flexibility.

We will be happy to provide you with more information about the different forms of unitrusts and will help you tailor a trust to fit your specific objectives.

remainder annuity trust; the variable-income version is a *charitable remainder unitrust*.

- Income payments of a charitable remainder trust typically range from 5 percent to 8 percent of the initial value of the gift or the periodic value of the trust.
- You may direct annual income payments to yourself and/or another individual beneficiary for life or for a specified period of up to 20 years.
- You may even name more than one beneficiary or name successor beneficiaries to begin receiving the income if the primary beneficiary passes away (though this will reduce the amount of your immediate income tax deduction). The value of the charity's interest must be at least 10 percent of the value of the trust.

Naples resident Kathryn Beeken and her late husband William funded a Charitable Remainder Trust that will create and endow *The William and Kathryn Beeken Scholarship Fund* for undergraduate students.

You Choose the Property to Fund Your Trust

You can fund your charitable remainder trust with cash, stocks and bonds, real property, life insurance or other property interests. Low yielding, highly appreciated property is often a good choice because this generally results in the avoidance of capital gains tax when the property is transferred to the trust or when it is sold by the trustee.

So, if you own property that generates little or no income and has gone up in value — sometimes called a "locked-in position" — a charitable remainder trust can be a great way to convert the appreciated property to an income stream without incurring capital gains tax!

A Win/Win Arrangement — for You and FGCU

Carol, for example, bought a growth stock several years ago for $12,000. It proved to be an excellent investment, and is now worth $110,000. But the stock pays only a meager annual dividend of 1.8 percent, or $1,980. And now, at age 80, Carol wants a high and secure annual income.

If she sells the stock she will keep only about $85,000 after paying sales commissions and a $14,700 capital gains tax. This, invested at 5 percent, would provide her with an annual income of $4,250.

Carol can transfer the property to a charitable remainder annuity trust for the ultimate benefit of FGCU. Since there is no capital gains tax, the full $110,000 can be reinvested. If she directs the trust to pay her a 7 percent annual income, she will receive $7,700 every year for life. What's more, Carol can deduct approximately $58,950 as a charitable contribution. In Carol's 35 percent tax bracket, a $58,950 deduction will produce tax savings of about $20,632. Investing this $20,632 tax savings at 5 percent would add another $1,031 to Carol's annual income. Her combined income would be $8,731, or $4,481 more than she would earn by selling the stock and reinvesting the after-tax proceeds.

Both Carol and FGCU benefit from the charitable remainder trust — clearly a win/win situation.

Special Planning Opportunities

Charitable remainder trusts can be used to address many specific planning needs. For example:

Accelerate your bequest. If your will includes a bequest to FGCU, consider the alternative of a charitable remainder trust. You can transfer the amount of the bequest to a trust that will generate income for your lifetime, give rise to immediate and substantial tax savings, and lower probate costs. The trust assets would be transferred to FGCU at the time of your death.

Divert part of your income. A charitable remainder trust can be a great way to build an educational fund or other nest egg for a child or grandchild. In fact, one form of charitable remainder trust, established for a specific term of years rather than for life, is ideal for tuition savings plans.

Meet the needs of a survivor. You can make a bequest to a charitable trust that will provide an income to a spouse or other loved one, with the trust principal passing to FGCU only after the income benefits have concluded. The trust may also help to minimize estate taxes.

We would be pleased to provide you with more information about this form of charitable gift. Please send for a complimentary copy of ***The Charitable Remainder Trust — A Gift and an Income*** by using the enclosed reply card or by contacting Pete Lefferts at (239) 590-1077 or PlannedGifts@fgcu.edu.

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