

Planned Giving Toolkit for Professional Advisors



Leave10
KITSAP



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***“The best time to plant
a tree was 20 years ago.
The next best time is
now.”***

— CHINESE PROVERB



LEAVE 10 KITSAP MISSION

The mission of Leave 10 Kitsap is to build better communities by educating, inspiring and encouraging as many people as possible to leave at least 10% of their estate to charity.

WHY AS AN ADVISOR SHOULD I CARE ABOUT THIS CONVERSATION? WHAT'S IN IT FOR ME?

Here are a few reasons why advisors should care:

- You will enhance your relationship with your client in almost unimaginable ways, really learn the client's story, and move from being the client's attorney, accountant or financial advisor to becoming their "trusted advisor."
- You will add a new dimension to your relationship with your client.
- Your client will likely invite the next generation in on the conversation, and you may participate in intergenerational planning.
- Your client will be better off and, not surprisingly, so will you.

FOUNDING NONPROFIT PARTNERS OF LEAVE 10 KITSAP



STARTING THE CONVERSATION: UNLOCKING YOUR CLIENT'S HIDDEN PHILANTHROPIST

Developed by Julie Lytle Nesbit, Matt Wesley, Tom Fowler and Lorraine del Prado

What

Advisors need to have conversations with their clients about philanthropy. Studies have shown that many people would appreciate and value the advice of their trusted advisors in helping them attain their philanthropic goals, but those conversations are not often happening. When they do, many advisors focus on the technical and tax aspects of giving, but clients often prefer to talk about their passions and the impact they want their gift to have.

Why

People have different motivations for giving. It is important for the advisor to discover the motivations to facilitate the right gift at the right time. In so doing, the advisor is adding value to the business relationship with the client.

How

Advisors can start by asking probing questions to discover the client's attitude toward philanthropy. Such bridging questions include:

- How, specifically, do you wish to be remembered by your family, friends and community?
- If you had one year left in your life, how would you spend your time and resources?
- What do you consider the highest purpose of your life?
- What do you consider the highest purpose served by your assets?
- If you were given \$10 million dollars and you had to give it away, which causes provide the opportunity to fulfill your passions in life?
- To gauge interest that can comfortably open the door to a deeper conversation, the advisor can ask the following questions:
- Do you volunteer? Where do you volunteer? What do you find satisfying about it?

- What first motivated you to be involved in that particular charitable organization or organizations?
- What role has giving back to the community played in your life? Or, how has giving back positively impacted your life?
- Do you give to or are you actively involved in any specific charitable organizations?
- Are there charities that you have supported for a long time?
- Do your children share your charitable interests? How have they been involved?
- What have you tried to teach your children about giving back?
- What do you consider to be indicators of a charity's effectiveness?

Once the client's attitude toward giving is confirmed, the advisor can ask exploring questions that go much deeper:

- How do you give money to the organizations you believe in?
- What do you perceive as the advantages and disadvantages of philanthropy in your life?
- Are there any organizations that have had significant impacts on your life? How have they shaped your priorities and values?
- Do you have a strategy for charitable giving?
- Does your giving go beyond tax savings, to involve your core values and your family?

"Effective philanthropy requires a lot of time and creativity - the same kind of focus and skills that building a business requires."

— BILL GATES



- What role would you like philanthropy to play in your life?
- Compared to your peers, do you think you tend to give more or less time to philanthropic concerns?
- Do you want to involve your family in philanthropic giving? If so, how would you do that?

Lastly, the advisor should ask questions that open the door for the client to take actions such as:

- In what areas do you wish to make a permanent impact?
- Is it your desire to make a single significant contribution to transform that program or to provide a steady source of support for it over the long term?
- Have you ever thought of including gifts to charitable organizations in your estate plans after you have adequately provided for your loved ones?
- Would you want your family to learn how to be philanthropic together?
- What holds you back from engaging more deeply in philanthropy?
- What steps do you want to take to advance your current charitable giving strategy?
- What are your takeaways from this conversation about philanthropy?
- Do you mind if I follow up periodically with you on this conversation?





DETERMINING CLIENT STRATEGIES

Why

To best serve your clients and help them to achieve their philanthropic goals.

How

Ask questions and listen. An advisor should continue to ask questions and listen until they have a complete understanding of the client's current situation and goals.

What

Determine what philanthropic strategy will best meet the client's philanthropic goals.

Traditional Planning Opportunities

- Retirement Planning
- Education Planning
- Risk Analysis & Insurance Planning
- Tax Planning
- Business Succession Planning
- Investment Management
- Cash Flow Analysis
- Philanthropic Planning
- Legacy Goals
- Estate Planning

Special Issues to Consider in Relation to Charitable Gifts

- Determining your client's financial capacity.
- Anxieties about losing assets that provide sufficient income for needs and wants.
- How to address clients' discomfort with making irrevocable gifts.
- Understanding that a perception of abundance is more mental than financial.
- How family dynamics and communication issues can affect philanthropic plans.
- How to accommodate each succeeding generation's need to differentiate themselves from the previous generation.
- Establishing incremental steps versus all or nothing.

Strategies to Accomplish Charitable Goals

- Transfer on Death (TOD) or Payable on Death (POD) Accounts
- IRA Beneficiary Designation
- Bequest under Last Will & Testament or Revocable Trust
- Work with Kitsap Community Foundation or Bainbridge Community Foundation
- Charitable Remainder Trust
- Charitable Lead Trust
- Donor Advised Fund
- Private Foundation

(See the appendices for more information on these and other strategies)

Obstacles to Achieving Charitable Goals

- Fear of disappointing family or friends, sense of obligation, or being influenced by someone.
- Fear of the unknown, such as future health issues.
- Fear of running out of money.
- Fear of losing control or being pressured or influenced if starting a conversation with family members about options.

Oftentimes, clients face obstacles that keep them from achieving their charitable goals. An advisor can help their client identify and overcome the obstacle by providing education and planning.



BUILDING YOUR TEAM — INCLUDE A CHARITABLE-GIVING ADVISOR

Advisors assisting clients with estate planning or lifetime tax planning should ask the client to introduce them to their other advisors, such as their attorneys, financial advisors, wealth managers, insurance advisors, and accountants. It is a good idea for the group to become acquainted, either on the phone or in person.

Include a Charitable Giving Advisor

Ask your client if he or she has any interest in charitable giving either for personal or tax-planning reasons. If your client is interested, bring a charitable-giving advisor onto the client team of advisors.

In the same manner that you'd recommend your client engage a financial advisor to assist with managing investments, you should recommend that your client bring on a charitable-giving advisor to advise on and potentially manage their charitable giving. See the next page for a discussion of the types of charitable giving advisors.

Why

With the creation of a team of advisors to provide planning support to a family, several positive results occur. First, ideas can be vetted from multiple angles, such as cash flow, tax and legal aspects, as well as from the nonprofits' perspectives. Second, the vetting of ideas will help to reduce the probability of a negative outcome in one of these functional areas. Finally, the team can look for opportunities that may not be evident to one advisor alone.

"It is up to us to live up to the legacy that was left for us, and to leave a legacy that is worthy of our children and of future generations."

— CHRISTINE GREGOIRE





How

Let clients know that it is in their best interest — and that of their family legacy — for their advisors to work together in supporting their charitable goals.

Charitable Giving Advisors

Community Foundation Personnel. A major purpose of a community foundation is quite literally to help donors achieve their charitable goals. Community foundation personnel are trained to work with donors or potential donors to (a) help those donors determine what charitable giving best fits their desires and (b) structure their charitable giving to best achieve their charitable, planning and tax goals.

Additionally, community foundations offer a suite of tools specifically designed to give donors maximum flexibility to achieve their charitable goals both while they are alive and after they have passed away. In other words, community foundations offer advice and implementation. They do not charge for their consulting time.

Individual Nonprofits. If your client wants to donate to a specific nonprofit, you could contact that nonprofit to ask if they can help advise the gift. Nonprofit development professionals at larger nonprofits are often experts in planned giving and maximizing the impact of a gift. They know the complexities of their specific organization and issue, so they can help determine the best arrangement for a contribution, ensuring a gift will be executed according to your client's wishes.

Philanthropic Consultants can assist in pinpointing a client's long-term personal goals and the role philanthropy can play in helping a client to achieve those goals. They can help by supporting and guiding a client through the process, and can facilitate the execution of philanthropic goals and interests. These consultants usually charge by the hour.

Family Legacy Consultants help families identify, build and sustain human, social and cultural capital as the basis of wealth planning and family success over generations. These consultants usually charge by the hour.

Philanthropic/Experiential Travel Facilitators can help clients engage in philanthropy in ways that are hands-on and personally fulfilling.



SIMPLE IDEAS TO SHARE WITH YOUR CLIENTS TO GET STARTED



- Every November, the Association of Fundraising Professionals Advancement Northwest Chapter presents one of the largest National Philanthropy Day events in the country. Invite your clients to this inspiring and uplifting community event.
- Share Save Spend is a concept to help individuals and families to develop healthy money habits that honor their values and enhance their financial well-being. There are several websites and books on the topic, as well as banks, including Seattle's own Moonjar money box for children.
- Encourage your client – even help to arrange – a site visit to a favorite charity to learn more about its work and challenges, and how their support makes a difference.
- Introduce your client to their local Community Foundation. Community Foundations are neutral charitable-giving advisors who can answer all of your client's questions, help your client plan, and help your client make the philanthropic impact that they wish to make locally, nationally, or internationally.

Bainbridge Community Foundation

bainbridgecf.org
Jim Hopper,
Executive Director
206-842-0433

Kitsap Community Foundation

www.kitsapfoundation.org
Geoff Ball,
President and CEO
360-698-3622

Charitable Giving Tools That You Can Use for Your Clients



BEQUEST INTENTION FORM

Confidential

Nature of Bequest

1. Please describe the nature of your bequest intention: (check all that apply)

- Will Revocable "Living" Trust IRA or Other Retirement Account
 Life Insurance Policy Charitable Remainder Trust Other (please describe)
-

Estimate

2. Please provide an estimate of the current value of your bequest intention:
\$ _____

Statement

3. In telling you of my/our intention, I/we do not intend to create any legal obligation to [ORGANIZATION] either personally or for my/our estate. It is simply a statement of my present intentions, and I have the option to change my plans at any time. I am providing this information solely to assist the [ORGANIZATION] in its future development plans.

Full name(s)

Address	City	State	Zip
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Signature(s)	Date
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SAMPLE LANGUAGE FOR CHARITABLE BEQUESTS*

The following samples may be helpful to you or your client's attorney in facilitating your client's legacy gift to one or more specific nonprofits.

NOTE: Your client's attorney may be able to prepare a codicil to their will or an amendment to their living trust. It is usually not necessary to revise the entire document.

Making an Unrestricted Bequest to a Specified Nonprofit

These are examples of language that will result in a gift going to one or more specified nonprofit organizations with no restrictions placed on how the nonprofit(s) use the gift.

Specific Bequest

"I give to [ORGANIZATION] of [ORGANIZATION TOWN], Washington [ORGANIZATION EIN] the sum of \$_____ (OR all my right, title and interest in the following described property _____) to be used in such manner as the Board of Directors of said organization shall, in its sole discretion, determine."

Residuary Bequest

"I give to [ORGANIZATION] of [ORGANIZATION TOWN], Washington [ORGANIZATION EIN] the residue of my estate to be used in such manner as the Board of Directors of said organization shall, in its sole discretion, determine."

Proportional Bequest

"I give to [ORGANIZATION] of [ORGANIZATION TOWN], Washington [ORGANIZATION EIN] [A STATED PERCENTAGE OR A FRACTION OF THE RESIDUE OF MY ESTATE] to be used in such manner as the Board of Directors of said organization shall, in its sole discretion, determine."

Contingent Bequest

"In the event that [NAME OF SPOUSE, CHILD, SIBLING, OR OTHER HEIR] shall not survive me, then I give the same to [ORGANIZATION] of [ORGANIZATION TOWN], Washington [ORGANIZATION EIN] to be used in such manner as the Board of Directors of said organization shall, in its sole discretion, determine."

WORKING WITH COMMUNITY FOUNDATIONS

Community Foundations manage a number of different types of funds to help individuals and families meet their charitable goals. They can provide solutions to complex charitable plans, since they often have the resources to manage more complex gifts than do some small or medium-sized nonprofits. In addition, they can help individuals and families give to multiple organizations, specific causes, and/or support multi-generational giving and anonymous giving.

Options Available through a Community Foundation

To employ any of the options below or have a more detailed discussion about them, contact:

Bainbridge Community Foundation

www.bainbridgecf.org

Jim Hopper, Executive Director

Phone: 206-842-0433

Email: jim@bainbridgecf.org

Kitsap Community Foundation

www.kitsapfoundation.org

Geoff Ball, President and CEO

Phone: 360-698-3622

Email: geoff@kitsapfoundation.org

CREATE A DONOR ADVISED FUND – MAXIMUM FLEXIBILITY

Perhaps your client doesn't want to decide anything now. Perhaps they just want to leave assets to a charitable fund and give their kids or grandkids the joy of deciding what nonprofits to give their assets to, in their name, after they've passed away. If that's the case, your client will want to set up a donor advised fund at a community foundation.

SUPPORT THE ENTIRE COMMUNITY BUT LEAVE THE DECISION MAKING TO THE FOUNDATION

Maybe your client just wants to make a large gift or leave a legacy for the general support of the community. They don't want to pick and choose particular nonprofits. If that's the case, then Unrestricted Gift is what they want. The community foundation will use the funds to support the most pressing areas of needs.

THEY ALREADY KNOW EXACTLY WHICH NONPROFITS THEY WANT TO SUPPORT

Maybe your client is interested in donating to a few specific nonprofits but they'd like the assets to be invested and granted out over time. If that's the case, then they're looking for a "designated fund." With this type of fund, they donate assets into their designated fund, and the community foundation then distributes those funds to the specific nonprofits designated by the client over the years.

PICK A CAUSE OR SECTOR AND LET US FIND THE NONPROFITS THAT FIT BEST

Let's say your client wants to donate a sum of money through their estate that will support a certain type of charitable activity or area of nonprofit work. For instance, maybe they want their legacy to provide assistance to handicapped people, counseling programs for veterans, support for the arts or education, donations only to nonprofits in a certain town or region, etc. In this case, they're looking for an "area-of-interest fund." With this fund, the community foundation will seek out and select the nonprofits that best serve the purpose specified by your client.

ESTABLISH A SCHOLARSHIP

A community foundation can manage a scholarship fund for your client that is set up to meet the criteria that they want. If they want to set up a scholarship specifically for students to attend Olympic College, contact the Olympic College Foundation.

BEQUEST TO AN EXISTING FUND AT A COMMUNITY FOUNDATION

The following language provides an easy way for your client to make a gift through your client's will or trust to a fund that your client has set up at Bainbridge Community Foundation or Kitsap Community Foundation. We suggest that your client set up the fund at the Community Foundation now even if your client doesn't intend to fund it until later.

Donor Advised Fund

"I give [DESCRIBE THE SPECIFIC, RESIDUARY OR PROPORTIONAL BEQUEST YOU WISH TO MAKE] to [COMMUNITY FOUNDATION NAME] of [COMMUNITY FOUNDATION TOWN], Washington [COMMUNITY FOUNDATION EIN] to be placed into the [INSERT THE NAME OF DONOR ADVISED FUND] at [COMMUNITY FOUNDATION NAME], a fund of the Community Foundation which is administered in accordance with the terms and conditions of the Fund Agreement on file with the Community Foundation, a copy of which is attached hereto and incorporated by reference."

Designated Fund

"I give [DESCRIBE THE SPECIFIC, RESIDUARY OR PROPORTIONAL BEQUEST YOU WISH TO MAKE] to [COMMUNITY FOUNDATION NAME] of [COMMUNITY FOUNDATION TOWN], Washington [COMMUNITY FOUNDATION EIN] to be placed into the [INSERT THE NAME OF DESIGNATED FUND] at [COMMUNITY FOUNDATION NAME], a fund of the Community Foundation which is administered in accordance with the terms and conditions of the Fund Agreement on file with the Community Foundation, a copy of which is attached hereto and incorporated by reference."

Area of Interest Fund

"I give [DESCRIBE THE SPECIFIC, RESIDUARY OR PROPORTIONAL BEQUEST YOU WISH TO MAKE] to [COMMUNITY FOUNDATION NAME] of [COMMUNITY FOUNDATION TOWN], Washington [COMMUNITY FOUNDATION EIN] to be placed into the [INSERT THE NAME OF AREA OF INTEREST FUND] at [COMMUNITY FOUNDATION NAME], a fund of the Community Foundation which is administered in accordance with the terms and conditions of the Fund Agreement on file with the Community Foundation, a copy of which is attached hereto and incorporated by reference."

Scholarship Fund

"I give [DESCRIBE THE SPECIFIC, RESIDUARY OR PROPORTIONAL BEQUEST YOU WISH TO MAKE] to [COMMUNITY FOUNDATION NAME] of [COMMUNITY FOUNDATION TOWN], Washington [COMMUNITY FOUNDATION EIN] to be placed into the [INSERT THE NAME OF SCHOLARSHIP FUND] at [COMMUNITY FOUNDATION NAME], a fund of the Community Foundation which is administered in accordance with the terms and conditions of the Fund Agreement on file with the Community Foundation, a copy of which is attached hereto and incorporated by reference."

Bequest to a New Fund at a Community Foundation

We suggest that your client set up the fund at the Community Foundation now even if your client doesn't intend to fund it until later. But if your client would prefer to not set up the fund now, your client or your client's attorney can use the language below to set up the fund simultaneously with the bequest being made.

Unrestricted Gift

An unrestricted gift helps address needs in your client's community as it changes over time. Unrestricted funds broadly support the Community Foundation's grantmaking and programming to ensure well-being and vitality of the community for years to come.

"I give [DESCRIBE THE SPECIFIC, RESIDUARY OR PROPORTIONAL BEQUEST YOU WISH TO MAKE] to [COMMUNITY FOUNDATION NAME] of [COMMUNITY FOUNDATION TOWN], Washington [COMMUNITY FOUNDATION EIN] to be used in such a manner as the Board of Directors thereof shall direct."

Area of Interest Fund

Donors who feel strongly about a particular cause or geographical area may want to establish an Area of Interest Fund. For example, your client may wish to support environmental causes, youth programs, the arts or charitable activities in certain neighborhoods. If your client chooses to fund an area of interest on a scale larger than their community, their local Community Foundation will work with other community foundations to direct grants to appropriate organizations throughout that state, region or country.

"This gift shall be used to establish the [INSERT THE NAME OF AREA OF INTEREST FUND], an Area of Interest Fund at [COMMUNITY FOUNDATION NAME]; distributions from which shall be devoted to the support of [NAME PARTICULAR CHARITABLE AREA OF INTEREST] and so distributed according to the judgment of the Community Foundation's Board of Directors."

Designated Fund

Donors with strong ties to a particular organization or institution may want to establish a Designated Fund, usually endowed, for its benefit. A Designated Fund may help a theater, a food bank, a school or any other charitable organization(s) beyond the donor's lifetime. If the beneficiary organization ceases to exist, loses its tax-exempt status or changes its mission, the Community Foundation will redirect the support to a similar organization.

"This gift shall be used to establish the [INSERT THE NAME OF DESIGNATED FUND], a Designated Fund at [COMMUNITY FOUNDATION NAME]; distributions from which shall be devoted to the support of [NAME(S) OF THE CHARITABLE ORGANIZATION(S) TO BE SUPPORTED] for the purpose of [DESCRIBE PURPOSE, IF ANY] and so distributed, subject to the

Community Foundation's Board of Directors' determination that these organizations are qualified Section 501(c)(3) charities described in Section 509(a)(1), (2) or (3) of the Internal Revenue Code and that their purposes are consistent with the Community Foundation's charitable purposes and its mission."

Donor Advised Fund

Donors who want other family members to take an active role in grantmaking from the fund may establish a Donor Advised Fund. This allows the person(s) your client designates as advisor to recommend charitable organizations to receive grants. The Community Foundation helps the fund's advisor by verifying its charitable status of recommended grantee organizations and consulting with the advisor to identify organizations the advisor may want to support.

"This gift shall be used to establish the [INSERT THE NAME OF DONOR ADVISED FUND], a Donor Advised Fund at [COMMUNITY FOUNDATION NAME]; which shall be established at my death, for which I appoint [INSERT NAME(S) OF FUND ADVISORS] of [INSERT FUND ADVISOR ADDRESS] to serve as the Fund's advisors, and

administered in accordance with the terms and conditions of the Fund Agreement or Letter of Intent which is attached hereto.”

Scholarship Fund

Donors who wish to support students pursuing advanced education may want to establish a Scholarship Fund. Scholarship Funds can be established to adhere to certain criteria including academic focus, area of study, etc.

“This gift shall be used to establish the [INSERT THE NAME OF AREA OF INTEREST FUND], an Area of Interest Fund at [COMMUNITY FOUNDATION NAME]; distributions from which shall be devoted to the support of [NAME PARTICULAR CHARITABLE AREA OF INTEREST] and so distributed according to the judgment of the Community Foundation’s Board of Directors.”

Supporting Organizations

Your client may make a bequest for the purpose of establishing a Type I supporting organization at their local Community Foundation. Unlike the fund options described above, a supporting organization is a separate legal entity with its own Section 501(c)(3) and public charity status. In order to qualify as a Type I supporting organization, the organization must meet specific IRS requirements. Please contact your local Community Foundation to provide more information about this giving option.

*Please note that the information contained herein is not intended to provide specific legal or financial advice and should not be relied upon as a substitute for such professional advice. Leave 10 Kitsap encourages you to seek professional legal, estate planning and financial advice before deciding on a course of action.

CHARITABLE TRUSTS & ANNUITIES*

Charitable Remainder Trust

A charitable remainder trust provides a payment stream to the donor and/or other individuals for life or a term up to 20 years (“the income interest”).

When the trust ends, its assets are distributed to one or more charitable organizations (“the charitable remainder interest”). The donor may save income taxes and/or estate taxes when establishing the trust. A charitable remainder trust is irrevocable and must meet certain IRS requirements.

Charitable Lead Trust

A charitable lead trust is a trust arrangement that pays current annual income to the nonprofit organization for a specified period of years, with the trust principal reverting to the donor or the donor’s family when the trust ends. The annual income payment by the trust is similar to an outright gift of cash, for the charity is free to use the cash as soon as it is received, subject, of course, to any restrictions placed on the gift by the donor.

Charitable Gift Annuity

A charitable gift annuity is a simple contract between the donor and the charity whereby the donor makes an irrevocable transfer of cash or property to the charity. In return for the contributed property, the charity agrees to pay a fixed amount of money each year for the lifetime of one or two individuals. The payout rate offered by a charity will depend on the number of annuitants and their ages. The annuitants have the option to defer receiving their annuity payments until some future date, provided that this decision is made at the time the contract is entered into. Many charities offer charitable gift annuities to their donors because they are easy to explain and require minimal administrative time and expense to implement.

To discuss options, please contact your local community foundations or your nonprofit of interest.

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IRA & QUALIFIED RETIREMENT PLANS*

Retirement plan assets are some of the most tax efficient assets to transfer to charity upon death. Distributions directly to heirs from most IRAs and qualified retirement plans at the end of your client's life can be subject not only to income tax and estate tax, but potentially to other types of taxes as well. By transferring assets in your client's IRAs and certain qualified plans to a Community Foundation or specific nonprofit at death, your client can fulfill their charitable goals and your client's heirs can completely avoid any taxation.

Exception: distributions to individuals from Roth IRAs and Roth 401(k) plans are normally not subject to income tax, although they can be subject to estate and generation-skipping transfer taxes.

Naming a Nonprofit as Your IRA or Qualified Plan Beneficiary

Your client can designate a specific nonprofit(s) as your client's IRA or qualified retirement plan beneficiary. In addition, your client can also designate a Community Foundation or your client's "fund" at the Community Foundation as your client's beneficiary. These funds can be used to establish the charitable fund of your client's choice at the Community Foundation.

To name a nonprofit or a Community Foundation as beneficiary, contact your client's IRA or qualified retirement plan administrator and request a "change of beneficiary" form.

Using an IRA to Establish a Charitable Remainder Trust

Another option for using your client's IRA or qualified retirement plan to accomplish your client's philanthropic objectives is to designate a charitable remainder trust as the beneficiary at the end of your client's life. In so doing, your client will provide life income to one or more surviving family members as well as an eventual gift to the specified nonprofit or "fund" at a Community Foundation.

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LIFE INSURANCE GIFTS

Whether your client donates an older policy that your client no longer needs, takes out a new policy to fund a major charitable project or your client's family fund, or settles on some other arrangement, life insurance offers a unique way to leverage relatively modest annual payments into a sizable charitable gift. The following methods are the most common for using life insurance to support a nonprofit or your client's fund at a Community Foundation.

Name a Nonprofit or a Community Foundation as the Successor Beneficiary

Your client may currently own a policy naming his or her spouse or another individual as the beneficiary. Your client could name a specific nonprofit, a Community Foundation, or your client's fund at a Community Foundation as the successor beneficiary in the event this person predeceases your client. While this option offers no immediate tax benefits, it does have the advantage of removing the life insurance proceeds from your client's taxable estate.

Name a Nonprofit or a Community Foundation as Primary Beneficiary

If your client purchased a policy several years ago but your client's chosen beneficiary no longer needs the protection, your client can designate a specific nonprofit, a Community Foundation, or your client's fund at a Community Foundation to receive the benefit. Under this option, your client's estate would receive a charitable deduction and the death benefit would pass to the nonprofit or Foundation tax-free.

Donate an Existing Policy

If your client has an older insurance policy which your client no longer needs and would like a current income tax deduction, your client can donate it to a specific nonprofit or to a

Community Foundation. As long as all of the rights of ownership are transferred to the nonprofit or Community Foundation, your client will receive a current income tax deduction. Examples of policies that may no longer be needed:

- Business insurance after the business has been sold
- Income replacement insurance after you have retired
- Estate insurance when your estate is no longer subject to estate tax
- Mortgage insurance after the mortgage has been repaid

Purchase a New Policy and Donate It

Your client can purchase a new policy on your client's life and name a nonprofit or a Community Foundation as the owner. The premiums are paid annually by your client's contributions to the nonprofit or Community Foundation, which are tax deductible. In the event your client ceases paying the annual premium, the nonprofit or Community Foundation reserves the right to cash in the policy or convert it so that it provides paid-up coverage.

Purchase a Life Insurance Policy for Wealth Replacement

A Wealth Replacement Life Insurance Trust is a special type of irrevocable life insurance trust that creates tax-free life insurance dollars for your beneficiaries upon your death to replace assets that you gave to charity during life. With proper structure and procedures, transfers to the trust to pay premiums are not subject to gift tax.

Distributions of death benefits through the trust to your heirs should not be includable in your client's taxable estate.

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WAYS THAT A PRIVATE FOUNDATION CAN WORK WITH A COMMUNITY FOUNDATION

If your client has his or her own private foundation, or if you decide to create a private foundation rather than create your family foundation at a Community Foundation, there are still ways that a Community Foundation can be very helpful to your and your client's private foundation.

For many years, creating a separate legal entity called a private foundation was the most effective way for a high net-worth, charitably inclined family to manage their giving and philanthropy. People used these private foundations as their family foundation. However, now that a tool called a "donor advised fund" has been blessed by the Internal Revenue Service, community foundations have developed a way of creating family foundations for people using donor advised funds. Savvy individuals and estate planning professionals these days understand that the most effective, tax-efficient, and inexpensive way to create a family foundation is through a community foundation.

While using the community foundation to create your client's family foundation provides a large number of benefits over creating a private foundation, there are still a couple of benefits to the private foundation structure. (1) Family members can be paid by their private foundation "reasonable" compensation for managing their foundation. A family foundation at a community foundation can not pay any family members. (2) Family members have ultimate control over how the private foundation assets are invested. A community foundation has ultimate control over how a family foundation assets are invested, although the community foundation will listen to any investment preferences the family may have. (3) Some people worry that they are losing some "control" if they use a community foundation because, legally, they are giving the assets to the community foundation rather than to their own private foundation. Anyone who actually uses a community foundation as their family foundation will tell you that control is not an issue, but, still, some people aren't comfortable with the sense of losing some control.

CONVERTING A PRIVATE FOUNDATION INTO A FAMILY FOUNDATION AT A COMMUNITY FOUNDATION

Over time private foundations can face challenges in a variety of ways:

- The original purpose may no longer apply or there is a need to update the philanthropic mission to meet changing community needs.
- Financial factors, such as rising operational and investment management costs, may make it difficult for a private foundation to serve effectively and may be draining funds from the charitable purpose.
- It can be difficult to keep up with new and changing government regulations.
- It may be a challenge to meet the annual 5% payout requirement.
- The founder may prefer that his or her family focus on philanthropy, rather than on the foundation's investments and administration.
- The death of the founder or the foundation's primary administrator may bring about a challenge to find a successor.

In any of these scenarios, converting a private foundation into a fund at the Community Foundation may be the solution. Working with a Community Foundation, eliminates administrative burden while maximizing charitable giving with the grantmaking expertise of community foundation staff.

THE TERMINATION PROCESS

The first step is to create a fund at a Community Foundation and choose the name of the fund. Simply complete a fund agreement with the help of Community Foundation staff. Staff will discuss the options with you to make it easy to get started.

Next, begin the process of terminating your private foundation by transferring assets to a Community Foundation pursuant to guidelines of the Community Foundation. The IRS permits a streamlined, less expensive means of terminating private foundations if they transfer their assets to a public charity that has been in existence for over 5 years.

Once your fund is open and your assets have been transferred, a Community Foundation will do the legwork for you with regard to managing your fund and providing you with solid ideas for your grantmaking. We handle the administrative details while you focus on your giving.

Other Options for Private Foundations

If your client's aren't ready to terminate the private foundation, Community Foundations can be the recipients of Private Foundation's grantmaking dollars with an ultimate goal of granting those funds to areas of critical need. Granting to any area of a Community Foundation, including grantmaking programs, endowment, or other funds, meets eligibility for the Private Foundation's 5% payout requirement.

GIFTS OF REAL ESTATE

Outright Gift of Real Estate

Your client may give real estate directly to a specific nonprofit, a Community Foundation, or your client's fund at a Community Foundation, subject to that organization's Gift Acceptance Policy.

When your client makes an outright gift of real property held for more than a year, your client obtains an income tax charitable deduction equal to the property's full fair market value. This deduction lets your client reduce the cost of making the gift and frees cash that otherwise would have been used to pay taxes. Your client also avoids tax on any long-term capital gain.

If your client doesn't already have a fund at a Community Foundation, the proceeds from the sale of the property can then be used to create the fund of your client's choosing at the Community Foundation. This is an extremely tax efficient way to set up a Donor Advised Fund.

Charitable Remainder Trust Funded with Real Estate

When real estate is to be contributed, a net-income charitable remainder unitrust (NICRUT) or a net-income with make-up provision charitable remainder unitrust (NIMCRUT) with a "flip" provision is preferred. Until the property sells, payments to beneficiaries are limited to the trust's net income, but beginning on January 1 following the year of the sale, the beneficiaries start receiving a stated percentage of trust assets. The trustee can invest the sales proceeds for total return because payments can be made from realized gain and capital as well as from interest and dividends. In the event that the donor wants to review and accept purchase offers, the donor could be the initial trustee and then resign in favor of an institutional trustee or a Community Foundation following the sale.

Gift of a Remainder Interest in a Personal Residence

The donor deeds the property (which must be either a personal residence or a farm) to a specific nonprofit, a Community Foundation, or your client's fund at a Community Foundation, reserving the right to occupy and otherwise use the property for life or a term

of years. Even though initially the charity receives only a partial interest, it will eventually become the fee simple owner, so long as the Organization and the holder(s) of the life estate(s) do not decide to sell the property to a third party prior to the expiration of the life estate(s).

The term "personal residence" includes a principal residence, a vacation home, condominium, or stock in a cooperative apartment provided that, in all instances, the property is used by the donor as his or her personal residence.

In addition to the deed conveying the property, there should be a contract addressing responsibility for the actual and potential expenses of maintaining the property. The costs of real estate taxes, liability and casualty insurance, utilities, maintenance and minor repairs are customarily borne by the life tenant(s).

The donor is allowed income and gift tax charitable deductions for the value of the property minus the value of the life estate. The lower the charitable midterm federal rate (CMFR), the larger the charitable deduction will be.

It is possible to leave only a fraction of the remainder interest to charity. (See Rev. Rul. 87-37.) A person who wants to divide the value of a home between a charity and children might choose to do this.

Bargain Sale of Real Estate

A bargain sale is a transaction in which a donor knowingly sells property to a charity for less than its appraised fair market value with the intention of making a charitable gift. Assuming applicable requirements are met, the donor is allowed an income tax deduction for the difference between the appraised value and the bargain sale price. The donor is taxed on the gain attributable to the sale portion and avoids tax on the gain attributable to the gift value.

*Please note that the information contained herein is not intended to provide specific legal or financial advice and should not be relied upon as a substitute for such professional advice. Leave 10 Kitsap encourages you to seek professional legal, estate planning and financial advice before deciding on a course of action.

Planning Resources





RECOMMENDED BOOKS

Beating the Midas Touch, Rod Zeeb, Perry Cochell, Tom Fowler

The Charitable Handbook, The National Underwriter

Giving, Philanthropy for Everyone, Esperti, Petterson, Zeeb

The Golden Ghetto, Jessie O’Neill

The Hidden Gifts of Helping, Stephen Post

Inspired Philanthropy: A Step by Step Guide to Creating a Giving Plan and Leaving a Legacy, Tracy Gary

Philanthropy, Heirs and Values, Williams and Pressler

The Price of Privilege, Madeline Levine

Raising Financially Fit Kids, Jolene Godfrey

The Seven Faces of Philanthropy, Russ Prince, Karen File

Six Word Lessons to Build a Sustainable Legacy, Tom Fowler



PROGRAMS AND ORGANIZATIONS

- 21/64 (resources to engage the next generation) (<https://2164.net>)
- The American College Chartered Advisor in Philanthropy (CAP) Program (www.theamericancollege.edu/designations-degrees/cap)
- Association of Fundraising Professionals Advancement Northwest (www.afpadvancementnw.org)
- Bainbridge Community Foundation (www.bainbridgecf.org)
- Kitsap Community Foundation (www.kitsapfoundation.org)
- Leave 10 (www.Leave10.org)
- Leave 10 Kitsap (www.Leave10.org/kitsap)
- Moonjar (share save spend tools and conversation guides) (www.moonjar.com)
- National Association of Charitable Gift Planners (<https://charitablegiftplanners.org>)
- Philanthropy Northwest (www.philanthropy.nw.org)
- Planned Giving.com (<https://plannedgiving.com/about-us/what-is-planned-giving>)
- Social Justice Fund (<https://socialjusticefund.org>)
- Sound Philanthropy (www.soundphilanthropy.com)
- Washington Planned Giving Council (www.wpgc.org)
- Links to many helpful websites: <http://www.nonprofitmatrix.com/legacy-giving>