



# Leaving a Legacy

YOUR GUIDE TO CHARITABLE GIVING

STIFEL

## About Stifel

Stifel is a full-service investment firm with a distinguished history of providing securities brokerage, investment banking, trading, investment advisory, and related financial services to individual investors, institutions, corporations, and municipalities. Established in 1890 and headquartered in St. Louis, Missouri, Stifel is one of the nation's leading firms.

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One of the benefits of financial success is having the ability to give back to your community through charitable giving. Gifts to charity may take many forms, such as a contribution to a university alumni association, a donation to fund an area arts program, or an endowment to help build a new wing of a hospital or research center. Many charities rely heavily on contributions, both large and small, from individual supporters.

Whether you want to make a charitable gift during your lifetime, or at your death, there are a variety of tools that you may consider incorporating into your financial plan that will allow you to benefit charitable organizations and leave a lasting legacy for future generations.

### Outright Gifts

The most common form of charitable gift is a gift of cash or other assets directly to the charity of your choice. If you make a contribution directly to a charity, the charity can use the funds immediately for whatever needs are most urgent, and you obtain an income tax deduction that may help you reduce your income tax burden.



## Deferred Gifts

Another common type of charitable gift is a deferred gift. While this term implies that the donor defers making the gift until some future time, in reality, the donor does indeed make an immediate gift to charity. However, the charity's enjoyment of that gift may be deferred until some time in the future.

There are five common forms of deferred gifts: the gift annuity, donor-advised fund, pooled income fund, charitable remainder annuity trust, and charitable remainder unitrust. While these tools share some common attributes, each is a separate form of gift with its own distinguishing characteristics.

### *Gift Annuity*

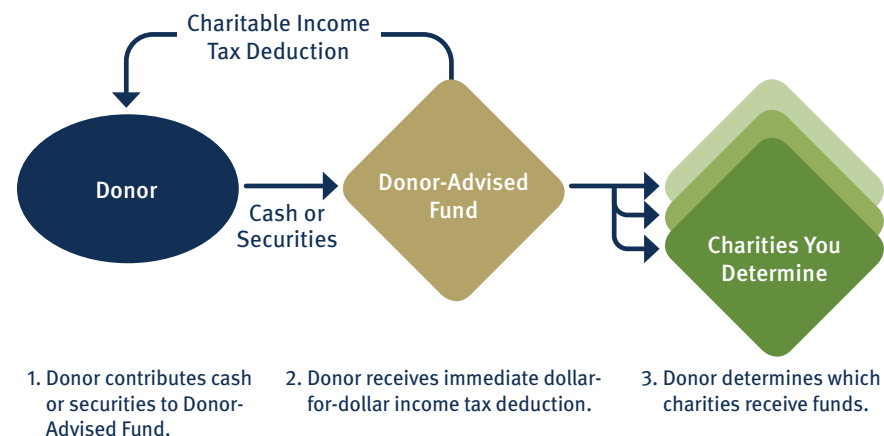
A charitable gift annuity is a popular type of deferred gift. With a gift annuity, the donor transfers cash or other assets, such as securities, to a charity in exchange for the charity's promise to pay an annuity to the donor and/or other named beneficiaries. It is a contract between the charity and the donor, with the donor making a contribution and the charity guaranteeing an income stream.

The value of the charitable gift is equal to the difference between the value of the contribution and the value of the annuity. The income that is paid to the income beneficiary is treated as a combination of a return of their original investment and ordinary income. The portion that represents a return of the original investment would be received free of income tax, while the ordinary income would be subject to taxation.

In general, gift annuities are appropriate for donors who want to make a smaller contribution, with minimal initial paperwork and little ongoing administration, and who want to retain income from that contribution. It is important to examine the stability of the charity when considering a gift annuity. The donor is simply receiving an unsecured promise of payment from the charity, and that payment could be compromised if the charity has financial difficulties.

### *Donor-Advised Funds*

A Donor-Advised Fund (DAF) is a charitable giving vehicle created and administered by a charitable organization to which individual donors contribute assets. Each donor's contributions are held in a separate account earmarked for charitable giving. The donor receives an immediate dollar-for-dollar charitable deduction equal to the market value of the property contributed and avoids any taxable capital gain. The one downside is that any contribution is considered an irrevocable gift. This means that once you make a contribution, the DAF has legal control over the assets. However, you, or your representative, retain the ability to make investment and distribution recommendations.



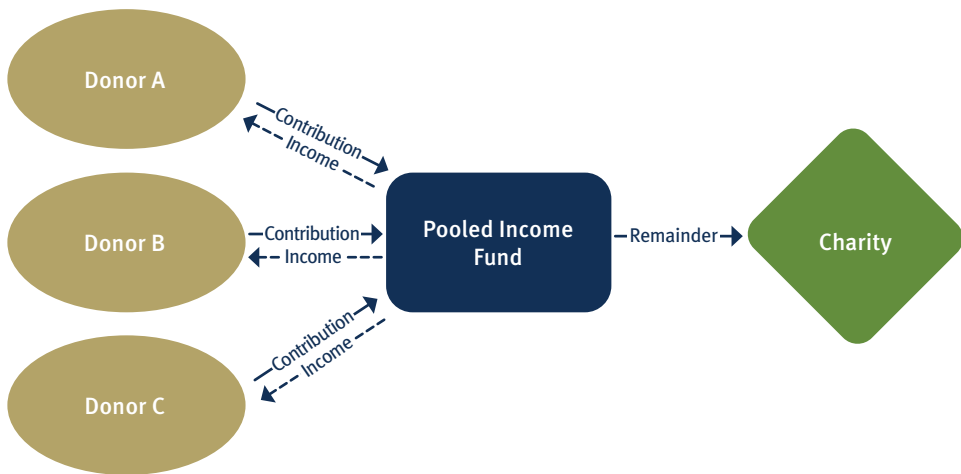
DAFs are generally a good vehicle for people who want to make charitable gifts using a low-cost strategy that provides administrative convenience and flexibility. Those individuals who utilize donor-advised funds are not interested in retaining an income stream from the contributed assets.

### **Pooled Income Fund**

Like a DAF, a Pooled Income Fund (PIF) is a charitable giving vehicle created and administered by a charitable organization to which individuals contribute assets. The property transferred to the PIF is commingled with the contributions of all other donors and managed as one large pool of assets. The named beneficiaries receive income, with the amount of that income being determined by the rate of return earned each year on the fund. At the death of the named income beneficiary, that portion of the fund is distributed to the charity or charities selected by the donor.

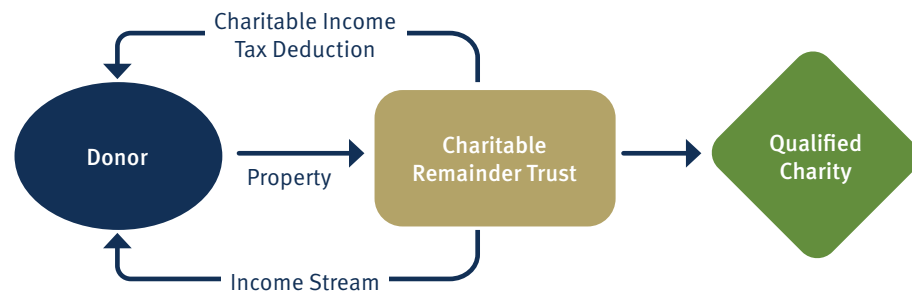
A gift to a PIF is irrevocable, and the donor receives an immediate income tax deduction. The deduction is not a dollar-for-dollar deduction, as it is with an outright gift to charity or a DAF, but rather is a percentage of the contribution to the fund.

PIFs are generally good vehicles for people who want to make a smaller contribution, with very little paperwork or ongoing administration, and who want to retain an income stream from the contributed assets.



### **Charitable Remainder Trust**

A Charitable Remainder Trust (CRT) is an irrevocable trust from which income is paid to certain individuals (typically the donor and donor's spouse) and the remainder passes to charity. The donor contributes assets, retains an income stream, and upon trust termination, the assets become the outright property of the charitable beneficiary.



1. Donor transfers property to trust and receives immediate income tax deduction.
2. During trust term, income is paid to the donor.
3. After term of trust ends, property remaining in trust is distributed to qualified charity.

Under the terms of the trust, a specified amount (not less than 5% and not more than 50%) of the trust's assets is paid to one or more beneficiaries on an annual or more frequent basis. The CRT can last for the lifetime of an individual (or individuals) or for a period of years (not to exceed 20 years). The charitable beneficiary may be a public charity or a private foundation created by the donor. When the trust terminates, the remainder must pass to charity.

There are two primary types of Charitable Remainder Trusts:

- Charitable Remainder Annuity Trusts
- Charitable Remainder Unitrusts

With a Charitable Remainder Annuity Trust (CRAT), the donor transfers property to a trust, receives an income stream, and the remainder passes to charity. The income is a fixed amount determined at the creation of the trust. No additional contributions may be made to this trust. Because the income payment is a fixed amount, the payment remains the same regardless of whether the trust assets increase or decrease in value.



A Charitable Remainder Unitrust (CRUT) is similar to the annuity trust. However, the calculation of the required annual income payment is different. The unitrust requires annual, or more frequent, payments to the income beneficiary based on a fixed percentage of the net fair market value of the trust assets valued each year. As such, the unitrust payments will vary each year, depending on whether the trust assets have increased or decreased in value. Unlike the annuity trust, additional contributions may be made to a unitrust.

There are several benefits received by creating a charitable remainder trust.

- The donor receives an immediate income tax charitable deduction for a portion of the contribution, which may result in immediate tax savings.
- The trust is structured to provide an income stream either for life or for a term of years not to exceed 20 years.
- If structured properly, the CRT is tax-exempt, which means that the donor can contribute highly appreciated assets to a CRT and the trustee can sell those assets in the CRT without triggering capital gains tax.
- Because no capital gains tax is paid on the sale of the appreciated assets, there is a greater pool of capital available in the trust to reinvest for income.
- Because the remaining assets in the trust are distributed to a qualified charity, the donor's estate is reduced by the amount of the gift.

Charitable remainder trusts are generally useful when a donor wants to make a substantial charitable gift and obtain certain income tax benefits from that gift, but also wants to retain an income stream from the assets and defer the charity's use of the gift until some time in the future. While a donor can contribute a variety of different types of assets to a CRT, these trusts tend to provide more substantial benefits if the contributed assets are highly appreciated and have a minimal yield.

## Immediate Gifts

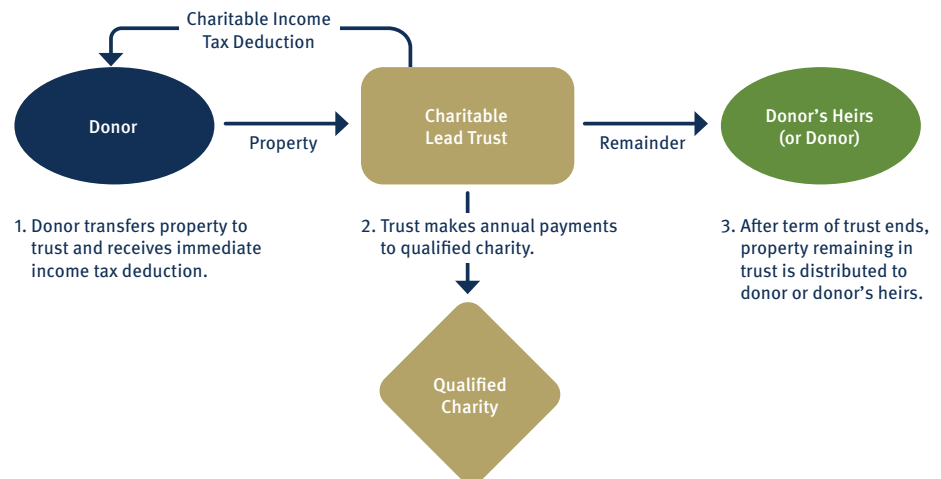
### *Charitable Lead Trust*

If you are looking for a charitable vehicle which provides a benefit to the charity now, instead of deferring that benefit until some time in the future, then a Charitable Lead Trust (CLT) may be an option. This is a charitable tool that takes the income and remainder interest of a CRT and, in effect, reverses them.

A CLT is a type of irrevocable trust that provides income to the charity for a specified period of years with a remainder interest passing back to the donor or other beneficiary at the termination of the trust. Thus, it is basically the opposite of the CRT.

There are two primary types of Charitable Lead Trusts:

- Charitable Lead Annuity Trusts
- Charitable Lead Unitrusts



With a Charitable Lead Annuity Trust (CLAT), the income interest paid to the charitable beneficiary is in the form of an annuity, or a fixed amount each year. A Charitable Lead Unitrust (CLUT), on the other hand, provides for a variable income stream to the charitable beneficiary. In a CLUT, the income interest is a fixed percentage of the fair market value of the trust assets, as revalued each year. Thus, the income to the charity may change, depending on the increase or decrease in the value of the trust assets.

With either a CLAT or a CLUT, if the income in the trust is not sufficient to make the required annual payment to the charitable beneficiary, then principal must be distributed to make up the difference. There is no minimum or maximum payout percentage, as there is in a CRT. And the term of a charitable lead trust can be either for the life of an individual (or individuals), or for a term of years. The trust may also be structured with a combination of these, including both lives and a term of years. A CLT may either be created during the lifetime of the donor (intervivos) or at the donor's death (a testamentary trust).

For income tax purposes, a contribution to an intervivos CLT is only eligible for an income tax deduction if the donor (grantor) is treated as the owner of the income interest, which results in all income being taxed to the donor as it is received by the trust. A gift or estate tax charitable deduction is generated depending upon whether the gift to the trust is made during lifetime or at death.

This type of trust is used when the donor wants to provide benefit to the charity now, but also wants to retain some interest in the property either for the donor, the donor's family, or some other beneficiary. The donor can set the trust up to pay the remainder to his or her heirs with reduced gift tax consequences, which allows the donor to maximize what is passed on to heirs while minimizing the tax associated with that transfer.

### ***Qualified Charitable Distributions***

A Qualified Charitable Distribution (QCD) is an income tax-free gift from an Individual Retirement Account (IRA) to a qualified charity. Individuals are eligible to make QCDs upon reaching age 70½. While a withdrawal from an IRA is usually considered income, a QCD up to \$100,000 is excluded from taxable income. QCDs can be particularly beneficial after an individual reaches age 72 and must begin taking required minimum distributions. To qualify as a QCD, the gift must be made to a public charity and not a private foundation, supporting organization, donor-advised fund, or split-interest charitable trust. QCDs may help you further your charitable goals while simultaneously lowering your tax bill.



## **Charitable Bequests**

Some donors aren't concerned about immediate income tax deductions and want to maintain complete control over their assets while they are alive. For these people, a charitable bequest may be advantageous. There are many types of bequests that can be made, and three common ones are: outright bequests, bequests with life insurance, and bequests with retirement plan assets.

### ***Outright Bequests***

An outright bequest to a charity can be one of the simplest ways to make a gift at death. Such gifts may arise from any one of several different legal documents, including the donor's last will and testament or revocable living trust.

The bequest may be in the form of a specific dollar amount (e.g., "\$5,000 to be paid to XYZ Charity") or may be stated as a percentage or fractional share of the remaining estate (e.g., "30% of my estate shall be paid to the XYZ Charity"). With the percentage or fractional share bequest, the amount of the bequest will increase or decrease depending upon the change to the value of the estate between execution of the document and the actual date of death. One may also make a bequest of a specific asset (e.g., "I bequeath my 1999 Ford Thunderbird to the XYZ Charity").



Outright charitable bequests are an effective estate tax savings device, because all transfers are fully deductible based on the fair market value of the property given to the charity.

#### ***Bequests With Life Insurance***

Naming a charity as the beneficiary of a life insurance policy is another alternative charitable bequest. By naming a charity as the beneficiary of a life insurance policy, the estate will be allowed an estate tax charitable deduction for the face amount paid to the charity.

#### ***Bequests With Retirement Plan Assets***

Retirement plan assets may be an excellent choice to leave to a charitable organization at death because of the income and estate tax benefits that can be achieved. Retirement plan assets generally produce ordinary income when received either before or after death. Individual Retirement Accounts (IRAs), deferred compensation plans, and other qualified plan assets are subject to ordinary income tax upon the death of the plan participant or IRA account holder, and the tax must be paid by the beneficiary. In addition, the proceeds are included in the estate of the decedent and may be subject to estate tax, depending on the total value of the estate.

An alternative to this would be to name a charity as the beneficiary of the retirement plan assets. There would be no income tax due, as the assets would pass to an organization that is exempt from income tax. In addition, estate tax would be avoided, as the estate would receive an estate tax charitable deduction.

There are a number of ways to include charity in your overall financial and estate plan, and the tool that fits your situation will depend on your individual goals and objectives. Your planning team can help you determine which will best fit your needs.

The team, consisting of your tax professional, your estate attorney, and your Stifel Financial Advisor, can help you make the process easy. Your Stifel Financial Advisor can help you examine your situation and discuss your objectives. Your tax professional can determine the tax benefits that may be achieved by implementing one or more of the tools described. And your legal professional can prepare the legal documents necessary to put your plan in place.

We want to help you fulfill your charitable goals. To learn more about how you can leave a legacy for your family and community, contact your Stifel Financial Advisor today.

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Asset Allocation

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College and Higher Education Planning | 529 Plans | Education Savings Accounts

Common Stocks

Consulting Services

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Control and Restricted Stock Transactions | Rule 10b5-1 Plans

Equity Line of Credit

Estate Planning

Exchange Traded Funds and Notes

Financial Planning

Fixed Income Investments | Certificates of Deposit | Collateralized Mortgage Obligations (CMOs)  
Corporate Bonds | Government and Agency Securities | Municipal Bonds

Insurance | Business Owner Needs | Disability Insurance (Individual and Group)  
Life Insurance (Individual and Business Policies) | Long-Term Care Insurance

Investment Advisory Programs

Investment Banking

IRAs | Traditional, Roth, and Rollovers

Lending Services | Mortgage Lending | Specialized Lending

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Options

Preferred Stocks

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Retirement Plans | 401(k) Plans | 403(b) Plans | Profit Sharing Plans | Money Purchase Plans  
SEP IRAs | SIMPLE IRAs | Defined Benefit Plans

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Delaware Trust Services

Unit Investment Trusts

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