Stone Carvings

eNotes from the Director of Advancement

February Carvings

Wait A While' Trust

Bill and Clara were talking to their attorney Susan about their family.

Clara: "It may be time to start the inheritance process. Our children are now ages 35, 37 and 38. We might want to give them something during the next few years."

Bill: "Susan, when we spoke by phone, you thought that we might consider a 'Wait A While' trust."

Clara: "How does that work?"

Bill: "Well, the trust is funded with property and pays a fixed amount to charity for a period of years."

Susan: "We might think about a trust that pays for 12 years. You already make gifts to charity so we just would make those same gifts out of the trust. After 12 years, the trust will be distributed to the children. They will then be ages 47, 49 and 50."

Clara: "That's probably a very good time to pass property to them. They may still have children in college and they also will be thinking seriously about investing for their future retirement."

Bill: "Is this the right time to consider a 'Wait A While' trust?"

Susan: "You have come at a good time. Your estate is continuing to grow, both of you have prepared very well for your retirement and this is a good time to think about this trust."

Clara: "Is 12 years a typical length of time for this trust? As I understand the trust, our children will receive our inheritance after that period of time."

Susan: "You may choose the time. Twelve years is a very good option. We can fund the trust with a fairly substantial amount so that there will be a good start to their inheritance at that time. When we fund the trust, there will be a requirement to file a gift tax return and use part of the gift exemption that each of you have. However, you won't actually have to pay any gift tax at that time. In addition, this may save future estate tax. While it's very difficult to know exactly what the estate tax picture will be like in the future, there is a good probability that there will be an estate tax and this trust will produce large tax savings."

Bill: "Is this the primary reason to set up this lead trust? Our desire is to start planning for our children's inheritance."

Susan: "It is a very good reason. Another reason is to help your favorite charities with the payouts for the 12 years."

Clara: "I like the idea of starting the inheritance for children. With our growing estate, there will eventually be a larger distribution. By the time the children receive this first inheritance, they will be more mature. In addition, we'll still be here to offer advice and counsel."

Bill: "We thought that we might start this with about $500,000. We have a portfolio of stocks and bonds that has grown over the years. With this amount and some potential growth in the trust, each of our three children would receive about $200,000 after the trust has made the 12 years of payments to charity."

Susan: "A good idea is to transfer a securities portfolio that is comprised of around 60% stocks and 40% bonds. The bond income will be used first to pay the charities. With the bond income and stock dividends, we can take care of most of the payout. I suggest that the trust pay an annuity amount equal to 5% of the value. If you fund the trust with $500,000, then there would be $25,000 paid to charity each year. If we can earn more than 5% each year, the growth will be transferred to children at the end of 12 years."

Clara: "This sounds like a very good idea. Bill, let's move forward and ask Susan to prepare the documents. I know that this will be great for our children and for our favorite charities."

Charitable Lead Trust Solution

The "Wait a While" trust is called a charitable lead annuity trust. Bill and Clara plan to transfer $500,000 in stocks and bonds to the trust. Because it is an annuity trust, it pays an initial 5% of $500,000 or $25,000 fixed amount to the charity. Over a period of 12 years, the trust will pay $300,000 to charity.

Bill and Clara may select the charities when the trust is created or they may permit children to select charities each year. While most donors select the charities, it's also permissible to allow children to select part or all of the charities to receive the distribution.

The trust's stocks and bonds will continue to be invested. If the total return is 6.5%, it would grow to $630,000 over the 12 year period. Each of the three children would then receive approximately $210,000.

The trust may be funded with appreciated property. When the children receive their initial inheritance, there may be appreciation. However, the children will have two easy solutions to avoid paying any capital gains tax. If they are making gifts to charity, they may retain their cash income and use the appreciated stocks to make their charitable gifts. This will bypass the capital gain. Alternatively, if they do wish to sell, they could sell part for cash and transfer the balance into a two-life charitable remainder unitrust. The charitable savings from the trust would offset the gain on the part sold and again there would be no capital gains tax paid by the children.

Gift and Estate Taxes

Attorney Susan will file a Form 709 Gift Tax Return. She will report a gift of $500,000 with a charitable gift deduction of $245,000. There will be a taxable transfer of $255,000. However, this is significantly less than the $5.45 million gift exemption available to both Bill and Clara. Therefore, there will be no payment of gift tax now. Because the amount of the gift is fixed, if there is a substantial estate tax when Bill and Clara pass away, there will be added estate tax savings.

Summary

The "Wait a While" trust is an excellent plan to start an inheritance. It allows Bill and Clara to continue to benefit favorite charities for a period of years and then transfer the principal to children or other family members.

Their attorney Susan will file a gift tax return, but in virtually all cases there will be no gift tax payable because of the gift exemption. In all probability, the "Wait A While" trust will save a major future estate tax. Finally, it allows Bill and Clara to start an inheritance for the children and to give them advice and counsel on the best use of the funds.

(Thanks to Concordia Irvine for the info above.)

Previous Carvings:

You Don’t Necessarily Need a Lawyer:

A common concern from donors in planned giving discussions is the involvement of an attorney. Many donors are interested in giving but are hesitant about the cost of hiring an attorney to facilitate their gift plan. Or they are concerned about the time and effort a change in their legal estate plans might entail.

In many cases, retirement accounts (IRAs, 401(k)s, etc.), bank accounts, CDs, and life insurance policies have a one-page beneficiary designation form that requires only a few minutes to fill out and send to the proper holding company.

The gift process can be as simple as adding a pay-on-death (P.O.D.) or a transfer-on-death (T.O.D.) provision. You can ask your financial advisor or bank manager for the forms. You retain control of the funds during your lifetime, and your charitable organization receives what is left in the account when you pass away.

THE POWER OF A TRUST

AS A PARENT, YOUR VISION OF HOW YOUR LEGACY IS PASSED ON TO THE NEXT GENERATION and beyond probably doesn't linger on legal vehicles. But such structures are key to achieving your goals.

When it comes to distributing assets, many families turn to trusts. Depending on your circumstances, they can minimize estate taxes, protect your estate from future mistakes by your heirs and maintain privacy by avoiding probate and the inherent costs of probate.

A revocable living trust lets you keep control of your assets while you're alive. Although assets usually pass directly to your heirs, bypassing probate, a revocable trust won't spare you from estate taxes. If that's your main goal, then an irrevocable trust, which effectively removes assets from your estate, is the way to go. A lifetime asset protection trust might be in order if you have concerns about the ability of your heirs to preserve your estate. Beneficiaries are protected against creditors, bankruptcy - even future ex-spouses - because assets belong to the trust, not the beneficiary.

Whichever trust you choose, consider inserting a personal message to your heirs to breathe life into an otherwise sterile document. For instance, you might include the stories behind family heirlooms. Or, instead of imposing edicts and tying distributions to certain achievements, express why you value education or entrepreneurship, etc. This is the last message we get to leave. When it comes in a positive and warm way, it has a tremendous effect.

Previous Carvings

WHAT IS THE PURPOSE OF A PROPER ESTATE PLAN?

To identify and nominate the right decision maker to make decisions on your behalf, both during your lifetime - in a situation where you are unable to make decisions, and after your death.

Second, to avoid probate court and the associated probate fees.

Third, to control the distribution of your valuable assets, so they are distributed in accordance with your wishes, and to the extent possible, protect assets within your trust from being reached by creditors of your beneficiaries.

Fourth, to minimize expenses, including but not limited to estate taxes.

Fifth, to maximize assets to be distributed to your named beneficiaries.

WHAT ARE YOUR OPTIONS RE: DISTRIBUTION OF ASSETS AT DEATH?

Do Nothing. (Strongly not recommended)

Hold real and personal property in Joint Tenancy/Pay on Death arrangements. (This is risky - subject to losing property to creditors or litigation)

Prepare a Will. (Better than nothing)

Prepare a true estate plan; one involving at least;

- **A Will**
- **A Revocable Living Trust**
- **Powers of Attorney for Healthcare and Financial Affairs**

Did you know that you can receive an immediate tax deduction and receive a lifetime stream of income by donating real estate to your favorite charity, including qualifying educational institutions?

Whether you own rental property, farmland, commercial property, or the family home or cabin, there are a variety of philanthropic strategies that you can incorporate into your estate plan.

BENEFICIARY DESIGNATIONS

In the most recent updates to his "American Charitable Bequests Demographics" study, Russell James suggests that fewer individuals are using planning documents such as Wills and Trusts.

Among the reasons for this shift, James points to greater use of beneficiary designations, transfer on death (TOD) and pay on death (POD) designations as easy cost effective ways to transfer assets such as checking and savings account funds, retirement plan assets, annuities and life insurance policies.

Considering retirement plan assets alone, here are some reasons for using beneficiary designations:

- **It's one of the easiest gifts you can make.**
- **You avoid the cost and hassle of visiting your attorney to update your Will or Trust.**
- **You can still make use of your retirement assets during your life.**

Your gift is revocable; You can change your mind at any time by completing a new beneficiary form.
You can provide for your loved ones and favorite charities in a more tax efficient manner by giving them assets that step-up in basis as opposed to high-tax assets

HOW TO SAVE MONEY AND AVOID TAX WITH GIFTS OF STOCK

If you have appreciated stock and you make cash contributions to charities like Christ Our Rock Lutheran High School, you can save money and avoid tax with gifts of your appreciated stock instead of cash. The benefits of giving stock include: Avoid capital gains taxes up to 23.8%; receive an income tax deduction for the full amount of your gift; and use the cash that you had planned to contribute to purchase more stock at a step up in basis.

You can take a stock gift further by using it to fund a charitable gift annuity or charitable remainder trust. These plans can pay you income for life and provide additional tax benefits. Call or email me (include your age) and I will get you a free illustration of potential benefits for you.

Note: This information is not intended as tax, legal or financial advice.

Watch out for IRS scams! The IRS will never contact you via email or phone. They always send letters first when they have questions about your return. Don't fall for fraudulent inquiries.

IRIT's

When to Use a Life Insurance Trust

A very beneficial estate planning strategy is to create a trust that owns life insurance. To gain the maximum benefit from this trust, it is irrevocable after it is created. Your advisor will usually call this an irrevocable life insurance trust (ILIT).

Benefits of an ILIT

Management. If you have a substantial estate and plan to pass a significant inheritance to children, a trust enables you to select the child or the financial institution that will be best qualified to manage significant assets.

Income Rather Than Principal. A trust is an excellent method.The trustee can also have discretion to distribute principal, or at an age you select the trust property can be given to your children.

Tax Savings. If your estate is more than the federal exemption, it may in future years be subject to taxes at a very high rate. For individuals who support charity, a great plan is to create a trust or make charitable gifts with the majority of the estate and replace the gifted property with an insurance trust. You can create a two-life charitable remainder trust and benefit from a tax-free sale and life income for themselves. After they pass away, their children will benefit from the insurance proceeds in the ILIT.

How Does the ILIT Work?

ILIT Goals. If you have a large estate, a very important goal is to make sure the ILIT is not subject to estate tax. In order to protect the ILIT from taxes, you cannot retain specific powers over the trust or the life insurance. Specifically, you cannot have the right to cash in the policy, to borrow against it, or even to designate the beneficiaries. The policy is purchased with the trust as the beneficiary and will not be changed after it is first acquired by the trust.

Gift of Premiums. You will need to make annual gifts to the ILIT to pay the insurance premiums. Because you can use your annual exclusion,you are able to fund a very substantial policy ($14,000 for each parent times three children equals as much as $84,000 per year in 2015—with indexing of the annual exclusion, it may be more in future years). When you transfer the premium amount to the trustee, your children each receive a special right known as a "Crummey" power, named after the first person to use this concept. Under their Crummey power, the children have 30 days to spend the money. With appropriate parental guidance, the children do not spend the money and it may then be used for payment of insurance premiums. Because the 2015 annual exclusion gift of $14,000 requires the child to be able to spend the money for a short period of time, the Crummey power is an essential part of

the ILIT.

ILIT Insurance Policies. There are two ways for the insurance policy to be transferred to the ILIT. The first and preferred method is for the ILIT to actually purchase a new policy. However, if you or your spouse are not insurable, in some cases an existing policy is given to the ILIT. If you give an existing policy to the ILIT, in order for the ILIT to be estate tax free you must survive for at least three years.

Trustee

Child as Trustee. Many parents will select one of the children as trustee, preferably one with good financial skills. The child frequently serves for a reduced fee or no fee. The disadvantage for the child serving as trustee is that he or she may have conflicts with other siblings.

Financial Institution as Trustee. The second option is for a bank or trust company to serve as trustee. If the insurance trust is quite large, the objective nature of the bank or trust institution may make this a good option. In considering a bank or financial institution as trustee, Steve and Susan should understand the costs for the investment and administration services of the bank after the insurance proceeds have been received and the trust is funded.

ILIT Options

Income. After your demise, the trustee will invest the insurance proceeds and pay income to the beneficiaries. Some trusts last until the beneficiary has reached a specific age, or the trust may last for their lifetimes. The primary goal of many parents is to provide an additional level of economic security for the children. This income stream will provide payouts for the rest of their lifetimes.

Ability to Distribute Principal. The trustee may be given permission to distribute principal. This could be based upon such standards as health, education, maintenance and support, or may be discretionary with the trustee.

Income Taxes on New Trust Income. While the insurance proceeds are tax free to the trust as long as there has been no violation of the insurance

guidelines, the new income that is earned and distributed to the children will be taxable. If the income were retained in the trust, the trust would pay the tax. However, because most income would be distributed to the children, they will pay the ordinary income or capital gains tax on their trust distributions.

December Stone Carvings

Charitable Gift Annuities! A Gift Annuity can be exchanged for cash or stock in amounts of $5,000 or more. A simple agreement is drafted by a charity that offers gifts annuities and a predetermined (age dependent) fixed income is paid to the named beneficiary(ies) for life. The capital gain income is realized over one's life expectancy and an upfront tax deduction is allowed for the present value of the projected charitable remainder. THIS IS AN ESPECIALLY DESIRABLE OPTION FOR SENIORS HOLDING APPRECIATED ASSETS AND DESIRING TAX-FAVORED INCOME.
---Thanks for this info from Concordia Irvine

Charitable Lead Trust - This trust pays income to the institution for a set number of years or over the donor's lifetime. When the trust terminates, the balance is returned to the donor or the donor's heirs. This is a good way to transfer assets from a donor to the heirs virtually tax free. (This is different than the Charitable Remainder Trust mentioned last month and listed below.)

Retirement Accounts - Donors may name the institution as the successor beneficiary of all or a portion of their individual retirement account (IRA), 401(k) or other retirement plan. This is the best gift to leave to charity as the charity will not pay taxes on the gift. If such a gift is left to heirs, substantial income taxes will be paid to the IRS.

What is an endowment?
An endowment gift is a permanent investment in the future of Christ Our Rock and its commitment to furthering Christ's Great Commission. Endowed funds are invested, rather than used as cash for immediate needs. An endowment can be generated for a specific purpose, such as faculty development or scholarships. The gift to create the endowment can be made from cash, stock, life insurance, real estate, crop sales or other assets. The gift is invested and only the earnings from the gift are used each year for the purpose designated by the donor.

Why are endowments important?
Since the capital cannot be used, the income generated from an endowment is an important source of revenue. Endowed funds create a foundation for fiscal growth and stability, while generating a reliable portion of income for scholarships and academic programs.
Endowments are created for many uses and universities with substantial endowments enjoy strong academic reputations and are able to attract the finest professors and maintain the best libraries and facilities. Prospective students will note the improvements that endowed funds provide when assessing an institution. Endowments provide the financial stability to weather the

ups and downs of the economy.

How to create a named endowment
Donors make a gift of $25,000 or pledge payments over 5 years to create the permanent investment. Many donors establish endowments and fund them through their estate gifts.

Encouraging Generosity in Your Children and Grandchildren

Much of what we teach our young is accomplished by setting good examples. One of these examples may be demonstrating good stewardship.

Nurturing natural inclination toward helping others can also build their self-esteem, reinforce the joys of giving, and teach the importance of Christian community and financial responsibility.

When mentoring your children and grandchildren through the giving process, consider the following:

- Discuss the importance of giving as God has given us.
- Together, visit charities that you're considering supporting. This lets your grandchildren see firsthand whom they'll be benefiting.
- Allow them to choose an organization or program to benefit. You may be pleasantly surprised by the sensitivity of their selections.
- At regular intervals—perhaps yearly—discuss how their donations were used and ask if they wish to benefit the same charity or another one.
- **Share and encourage your children and grandchildren by matching their gifts to their selected organizations.**

We thank Dennis Cox of Concordia University Irvine for much of the information in Stone Carvings.

"GIVE IT TWICE"
TESTAMENTARY CHARITABLE REMAINDER UNITRUST

A Testamentary Charitable Remainder Unitrust can be an important part of your overall estate plan. They are a wonderful way to help you keep on giving to both family and your selected nonprofits. These trusts can help you spread out an inheritance to your heirs over many years, provide tax savings and help you achieve your financial goals. The trust can be funded by cash, securities, real estate, etc. Highly appreciated assets are often used to fund a TCRAT because the trustor can avoid a lot of capital gain taxation, since the appreciated assets are sold by a tax-exempt charitable trust.

Contact me, Kirk Mueller, Chad Knolhoff, your CPA or your financial advisor to learn more about this great testamentary trust.

Some materials in these announcements are reworded or taken from friends at our Concordia Universities.