

Chester County COMMUNITY FOUNDATION



INFORMATION FOR ATTORNEYS AND FINANCIAL PLANNERS

Down deep, most individuals want to make a positive difference in this world—and most would like others to remember them for their unique personal contributions. Psychologists call this immortality striving.

Harry R. Tyler, CFP of Tyler Wealth Counselors of West Chester, calls this the "Kilroy Was Here" complex. Notes Harry, "Since the majority of us are not artists who leave behind great works, our legacy must be expressed in other ways. As gift planners, our job is to find and nurture this desire until our clients are motivated to create a permanent legacy for the good of society."

Continues Harry, "With planned gifts, advisors have the opportunity to show clients how to turn lives of professional success into lives of personal significance creating a win-win for everyone and social capital for future generations. Assuming the seeds of philanthropy can be found and nurtured, there are few of life's financial objectives that cannot be improved upon with a well designed planned giving strategy".

Miguel D. Pena, Esquire of the Wilmington, Delaware law firm of Potter Anderson & Corroon, LLP, agrees. "The following chart illustrates the tax effects of various estate planning techniques and demonstrates how a coordinated planned giving strategy can help you maximize the benefits of charitable gifts for both the charity and your non-charitable beneficiaries."

WHERE YOUR NEST EGG GOES



Tax Collector



Heirs



Charity

"In order for anything once alive to have meaning, its effects must remain alive in eternity some way."

Anonymous

*Let your legacy
make a difference in
Chester County*

The Lincoln Building
28 W. Market Street | West Chester, PA 19382
(610) 696-8211 voice | (610) 696-8213 fax | info@chescofc.org
www.chescofc.org



ILLUSTRATION OF TAX EFFECTS

SCENARIO	TAX DUE	BENEFICIARY RECEIVES	CHARITY RECEIVES	TOTAL ASSETS TRANSFERRED
Outright Transfer Amount: \$1,000,000	\$490,000	\$510,000	\$0	\$510,000
Transfer to CRAT Amount: \$1,000,000	\$364,499	\$50,000 per year for 20 years (\$1,000,000)	\$1,367,856 at end of 20 year period	\$2,367,856
Transfer to CRUT Amount: \$1,000,000	\$312,944	5% of trust balance for 20 years (\$1,077,164)	\$1,166,960 at end of 20 year period	\$2,244,124
Transfer to CLAT Amount: \$1,000,000	\$125,501	\$1,367,856 at end of 20 year period	\$50,000 per year for 20 years (\$1,000,000)	\$2,367,856
Transfer to CLUT Amount: \$1,000,000	\$177,057	\$1,166,960 at end of 20 year period	5% of trust balance for 20 years (\$1,077,164)	\$2,244,124

**This chart is based upon the following assumptions: a \$1,000,000 gift; 6% annual growth; all payments made annually; applicable federal estate tax rate is 49%; the IRS §7520 rate is 3.0% as of July 2003.*

Each month the Treasury publishes a percentage rate that is used to determine the present value of annuities, interests for life or for a term of years, and remainder or reversionary interests. This is known as the "Section 7520 Rate," or "Charitable Federal Midterm Rate."

Per Marc Hoffman of the Planned Giving Design Center, because interest rates are at their lowest in over thirty years, charitable gift planners should explore the role that charitable lead annuity trusts (CLAT) can play in helping clients accomplish their philanthropic, personal financial, and estate planning objectives.

Likewise, the charitable remainder unitrust (CRUT), which comprises over 90% of all remainder trusts created, continues as an effective asset conversion vehicle that is virtually unaffected by a lower Charitable Federal Midterm Rate (CFMR).

Conversely, planners should carefully examine the appropriateness of charitable remainder annuity trusts (CRAT), because such trusts currently offer lower relative deductions to their unitrust counterparts and may fail the 5% probability and/or 10% present value qualification tests.

With respect to charitable gift annuities (CGA), some donors may want to take advantage of higher annuity rates that will be offered until year-end.

And it may come as a surprise to many planners that the Charitable Federal Midterm Rate is not used in calculations for pooled income funds (PIF) at all, and therefore, is immaterial.

In the case of a gift of a remainder interest in personal residence or farm—a life estate agreement (LEA)—the Charitable Federal Midterm Rate is used to discount the value of the retained life estate. Accordingly, the lower the discount rate, the less the discount; hence, the greater the present value of the remainder interest.

To summarize, Mark Hoffman, Editor-in-Chief of the Planned Giving Design Center says, "In a nutshell, CLATs, CRUTs and LEAs are in, PIFs are neutral, and while CLUTs, CRATs and CGAs are not completely out, they are definitely less attractive purely from a deduction standpoint."

With all that lingo, this is why the Community Foundation is proud to help donors and nonprofits navigate the world of planned giving philanthropy in order to leave a legacy, stoking those "Kilroy Was Here" coals.