

Appendix 7

Advanced & Creative Plan Examples:

Tax Qualified Charitable Trusts and Charitable Annuity Plans

Estate Taxes are paid to the federal government by only a very few estates [less than 3%] because of the federal law's high dollar value of an estate before it becomes taxable. A number of state governments collect Estate Taxes on estates that are much smaller than the federal level. Some states still have an Inheritance Tax that is paid to the state government by the beneficiaries. Estate taxes are paid out of the estate before any assets are distributed to the named beneficiaries.

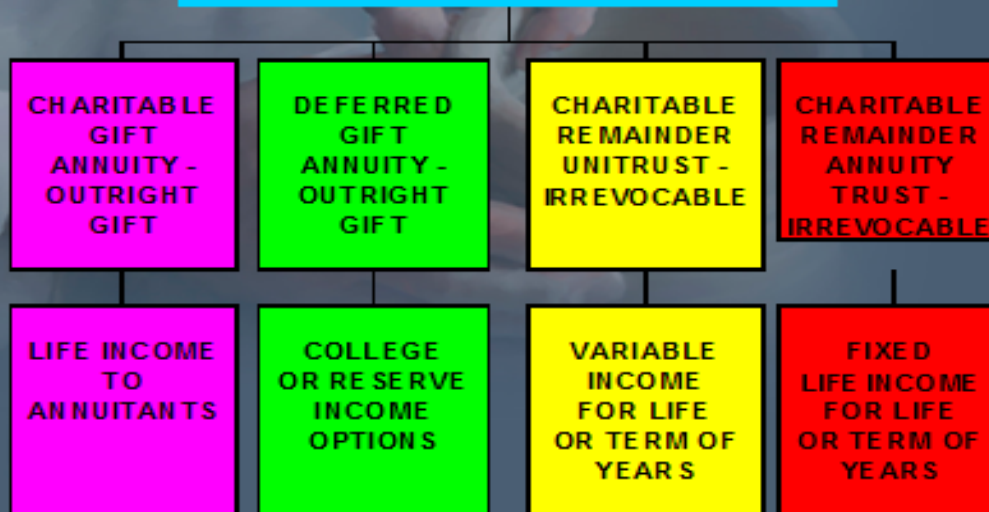
The only way to avoid Estate Taxes or Inheritance Taxes is to remove the asset or assets from your taxable estate. Of course, you can do that by simply giving it away, which may require a Gift Tax Return to be filed with the Internal Revenue Service.

The following two charts give other methods of "Tax Qualified" asset transfers to remove assets from your taxable estate and allow you to continue with a degree of control over the assets and the benefits thereof as long as you wish to or as long as you live.

The case studies that are illustrated in this Appendix are not designed to offer legal advice or investment counsel. And, we are only giving you a few illustrations—not involving all of the **life design options** on the following two charts.

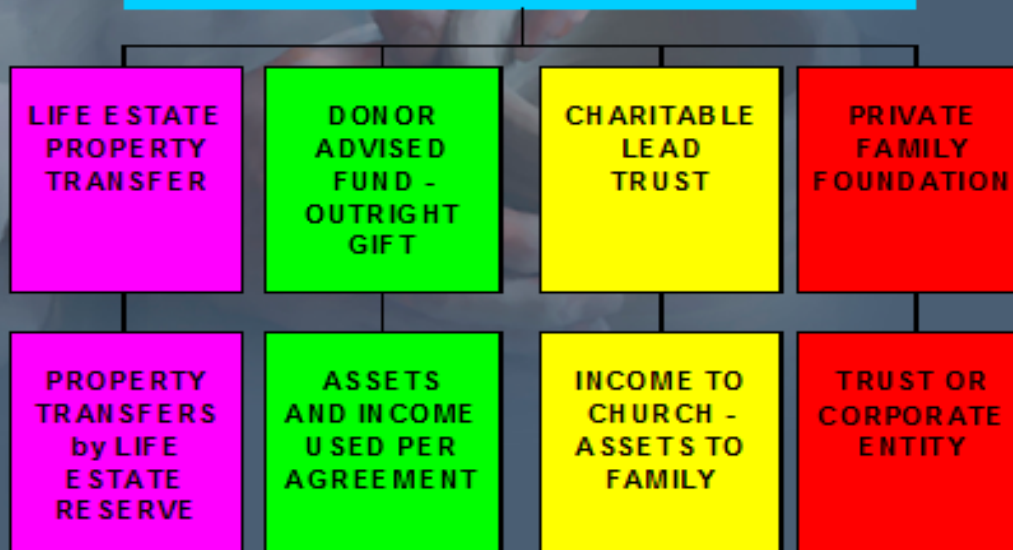
Life Design Options

Philanthropic Transfer Options



Life Design Options-2

Philanthropic Transfer Options - 2



Advanced Gift Plan Stories—Case by Case

Preamble:

The question has been asked about my practice as a Planned Giving Consultant: “**How** do you decide to”, and “**When** do you propose a particular charitable gift plan model in your Estate Design Proposal?”

In addition to the process you will read here, I’ve also had phone calls from constituent donors who have been advised to consider a Charitable Remainder Trust by their CPA or by their local Conference Treasurer. In the intake process, if you were to invite me to help you, I would meet with you to get acquainted, to explain the program and the process, and to explore your wishes. If you ask me to help you go through my 28-page data form, we would proceed in that direction at your convenience. The form and its attachments call for:

1. Personal, family and financial information.
2. Your planning goals—beneficiaries of your plan.
3. People you wish to serve in your place as fiduciary functionaries. Executor of your Will; Power of Attorney for finance; Power of Attorney for Health care; and Trustee/Successor Trustee of a Living Revocable Trust.
4. Copy of financial account statements.
5. Beneficiary designations of life insurance and retirement plans.
6. Copy of property deed(s) and property insurance information.
7. Ownership documentation for business interests.
8. All other asset information.
9. Debt information.
10. Copy of existing Will & Trust, if any.

The purpose of this exercise is to create an “Attorney Packet” along with your Legacy Design Proposal for you to take to your attorney—which is all done according to your expressed wishes, your values, priorities and goals. An NAD Certified Planned Giving Consultant or Trust Officer may help you organize your information and add copies of your asset documents such as property deeds, statements of your financial accounts, and etc. That way, your lawyer will be able to learn quickly what she/he needs to know in order to do the job he/she is engaged to do.

As you progress through the Estate Data Form, it is often helpful to learn the issues and options-in-planning at each of the form’s sections, if you were to tell me about an *appreciated* asset that you don’t need—perhaps it is a challenge to manage, such as appreciated income producing real property or livestock or a vacant lot, etc., I quickly pray; I may describe the concept of a life-income gift plan in its very brief terms, to test the idea with you.

Step 1 is to prepare your Attorney Packet and Plan Design.

Step 2. If you told me about such assets as mentioned above, and you were open to explore the concept, I would bring illustrated plan analyses suited to those specific assets. I typically bring illustrations of 3 optional gift plan models, such as a Charitable Gift Annuity or a Deferred Flexible Charitable Gift Annuity or a Charitable Remainder Unitrust or Charitable Remainder Annuity Trust and/or other such illustrations.

As I explain about how each of the 3 options work that I’ve chosen to share—the most significant consideration that normally would influence your selection is usually based on your level of comfort or lack of comfort with the concept of your income being subject to the equities market and fluctuating annually based on the stock market. For those who can only

find comfort with a fixed-income plan, the one form or another of the charitable gift annuity and the annuity trust become the only viable options. The primary goal here is to satisfy your need with your comfort and delight.

Step 3. If you become interested in going forward, or at least asking your CPA and/or other tax or legal advisor to review and advise you (which I normally suggest), then I offer to meet with you and them as a member of your advisory team.

Step 4. If you give me a green light to move forward, I give it top priority in my work. I would then meet with you again to discuss the issues and optional provisions of design for the Trust or Annuity Agreement that is to be prepared by your legal counsel—so you would have sufficient information to tell the drafting lawyer what you want. I would offer to go with you to the Attorney if you wish.

If you select a Charitable Remainder Unitrust *you would design the key provisions by reviewing the issues and options with me as your planned giving consultant. The issues and options are explained in a Charitable Remainder Trust Questionnaire—a checklist of questions to consider with multiple choice selections to be made. A copy of the said questionnaire is available upon request. It was created by Attorney Lynda Moerschbaecher of San Diego.*

Step 5. I would then prepare a discussion draft of the Trust Agreement—using the Crescendo Pro software—customizing it to your wishes and the particular remainderman's nomenclature. I would share such an agreement draft with your Attorney (I will have talked to the lawyer and obtained his/her acceptance of my offer to provide it). The attorney may or may not be one I've interviewed and included on my list of lawyer referrals sent to you.

To narrow down the optional gift plan models to show you, I prayerfully use the *Gift Plan Analyzer* in the Crescendo Pro software, in which there are 8 options for evaluative comparisons and select a few for illustrations:

1. No Gift and No Sale of Property
2. Sell Property, Pay Tax and Reinvest
3. One or Two Life Unitrust-CRUT
4. One or Two Life Annuity Trust-CRAT
5. Living Pooled Income Fund
6. Living Charitable Gift Annuity-CGA (Immediate pay & Deferred Flexible pay annuity)
7. Life Plus Term of Years Unitrust
8. Term of Years Unitrust

Some of the following advanced gift plan cases were published on pages 215-225 of the 2007 book by Paul S. Damazo, *80 Proven Ways to Become a Millionaire – All you need is 2 or 3*. I had supplied my friend Paul with power point flow charts in 1999 for use in his public seminars and then updated them and supplied the narrative descriptions for publication in his book.

The gift plan models illustrated herein may be used by you as ideas from which to select for further consideration as part of an overall Legacy Design plan of transfers, subject to advice of your tax and/or legal advisor(s).

Remember, this information is not intended to provide you with advice for any specific situation. Advice from a qualified attorney and/or tax accountant should always be obtained

before implementing any of the strategies described here. The word “property” may refer to real estate, stocks, bonds, mutual funds, or other assets.

The income tax deductions are based on the AFR (Applicable Federal Rate), which is set *each month* according to IRS regulations. One thing you may be certain of—the numbers will be different if you try these out on gift planning software for two reasons:

1. Payout rates for charitable gift annuities fluctuate from time to time with the money market.
2. AFR (Applicable Federal Rates) are set each month by the IRS.

Benefits of these plans include the opportunity of tax-free compounding and other tax advantages. In all of these Cases, the donor realizes a win win situation by making a gift to God’s work they had not expected to be able to do while receiving life income without any management responsibilities (unless they are their own Trustee of a trust).

The cases I’ve chosen to present to you here were all very exciting for me to participate in with the donors because of the fun challenge on most of them; more importantly, because of the great level of satisfaction realized by the donors in all cases. However, this type of gift planning has accounted for less than 10% of the total dollar value of estate & trust gifts to God’s work that He has allowed me to participate in as a member of the donor(s)’ team of advisors. In my experience, most estate gifts have come from regular plans of Wills and Revocable Living Trusts.

These cases and other similar ones were brought to me after sometime in 1992 when I began praying something like, “Lord, please bring people to me for this service whose heart is tender toward God, who have assets, and are open to the Holy Spirit’s instruction to designate support for Your work when they die.” I enjoyed my work and had a passion for it as a calling of

the Lord, but was weary of hearing the question: “How much do we have to give to get your services?” I prefer heart-activated donors because I recognize that the functions of a full-service Planned Giving & Trust Services Department of a Seventh-day Adventist organization is a *limited resource*. I was therefore, eager to find a way for the Lord to spend my time productively by Him leading me to authentic, heart-activated donors so my time on the payroll will not be wasted, but will rather generate USEFUL resources for a finished work.

The flow chart illustrations have been generated on CresPlus software from Crescendo Interactive Inc. of Camarillo, California.

Case 1: \$10,000 cash gift to fund a Charitable Gift Annuity. At age 80, Mary’s CDs are paying a low interest rate and she wishes to receive a higher level of income from them. She writes a check for \$10,000 to her favorite Adventist organization in exchange for a Life Income Annuity Agreement.

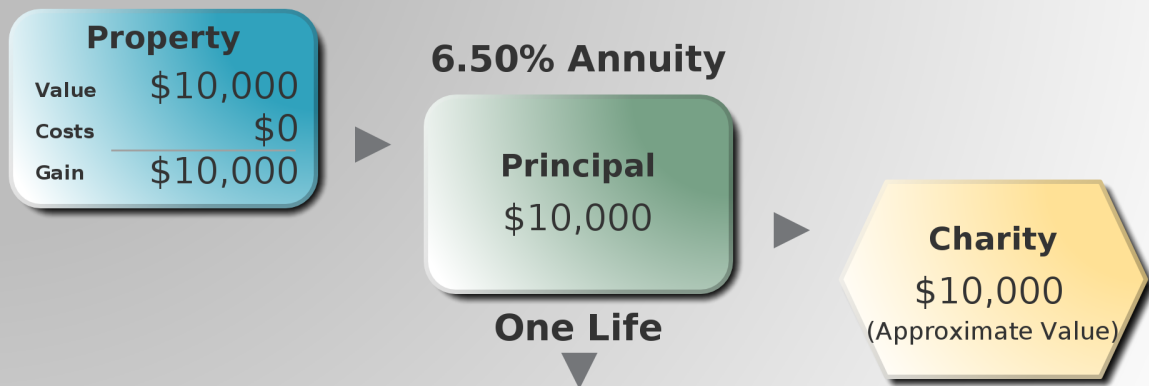
Mary immediately begins receiving \$800 per year for life in quarterly payments of \$200. For 10 years \$511 will be tax free, then it will all be taxable.

The denominational organization invests Mary’s gift during her lifetime. At the end of Mary’s life, the organization will use the remaining gift in its mission as specified by Mary in the Gift Annuity Agreement.

I’ve had the joy of helping many donors with this plan. Some have done one each year for several years. Notice the flow chart illustration below that was given to Mary:

Charitable Gift Annuity

Prepared For Mary Donor (80)



1. Gift property to charity. Partial bypass \$10,000 gain may save \$560. Income tax deduction of \$5,598 may save \$560.

2. Annuity of \$650.00 for one life. Tax-free amount \$0.00. Estimated one life payout of \$8,385. Effective payout rate 6.9%.

3. Annual payments for one life. Property passes to charity with no probate fees. There are also no estate taxes.

This educational illustration is not professional tax or legal advice; consult a tax advisor about your specific situation. See data sheets for assumptions.

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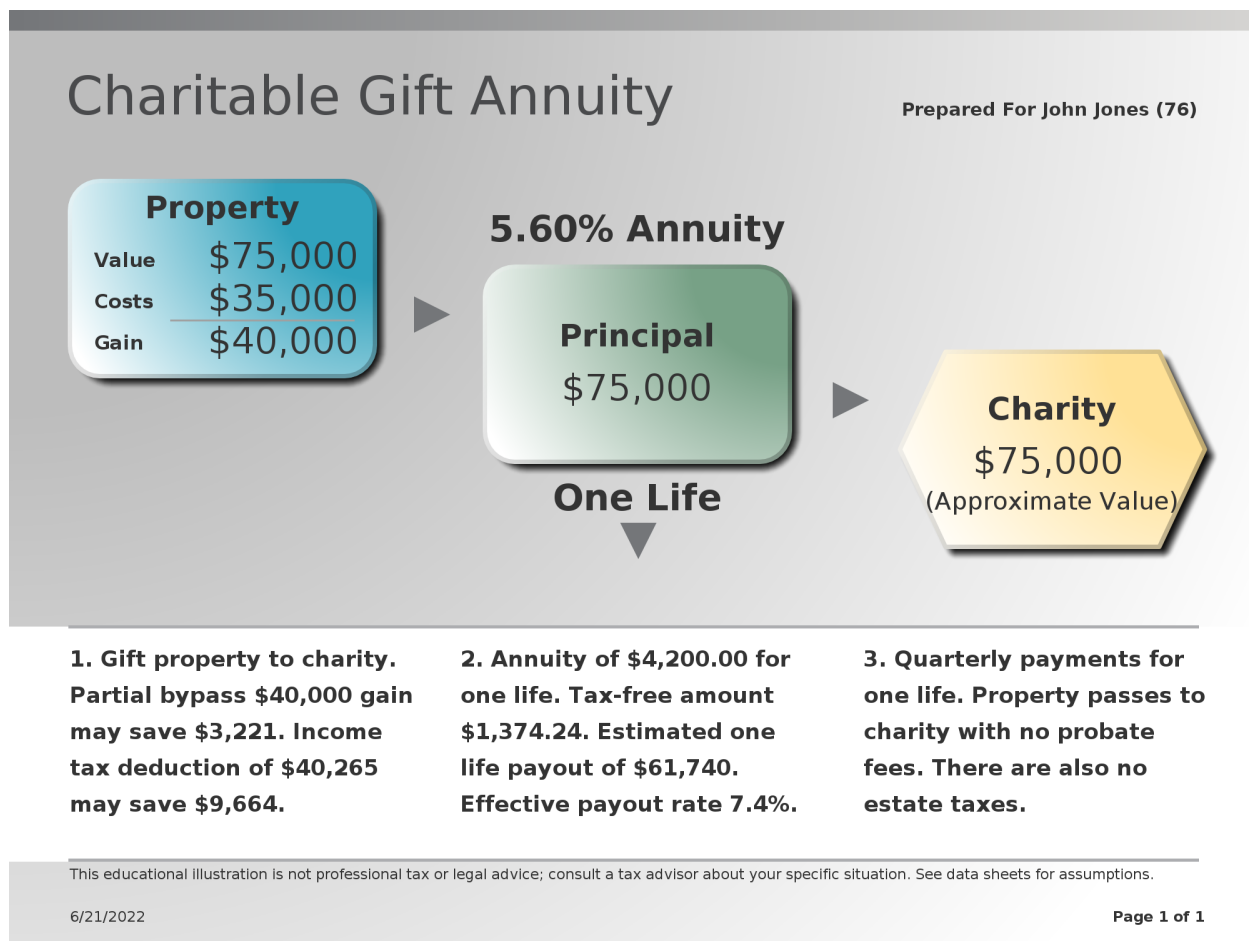
Case 2: Gift Annuity with a \$75,000 Property Gift by John Jones:

John's property (stocks or real estate) has appreciated and he would like a higher income with no management responsibilities. He transfers the property to his favorite Adventist organization as a gift in exchange for a Life Income Annuity Agreement. At 76, John receives \$5,400 each year in monthly installments. Part is tax-free income. He also enjoys the tax advantages of a partial bypass of the capital gains and may take a charitable income tax deduction of \$36,904.

The denominational organization sells the property and invests the money as long as John lives. Then it goes to the Lord's work as directed by John in the annuity agreement.

The following flow chart was given to John as an illustration of his Charitable Gift

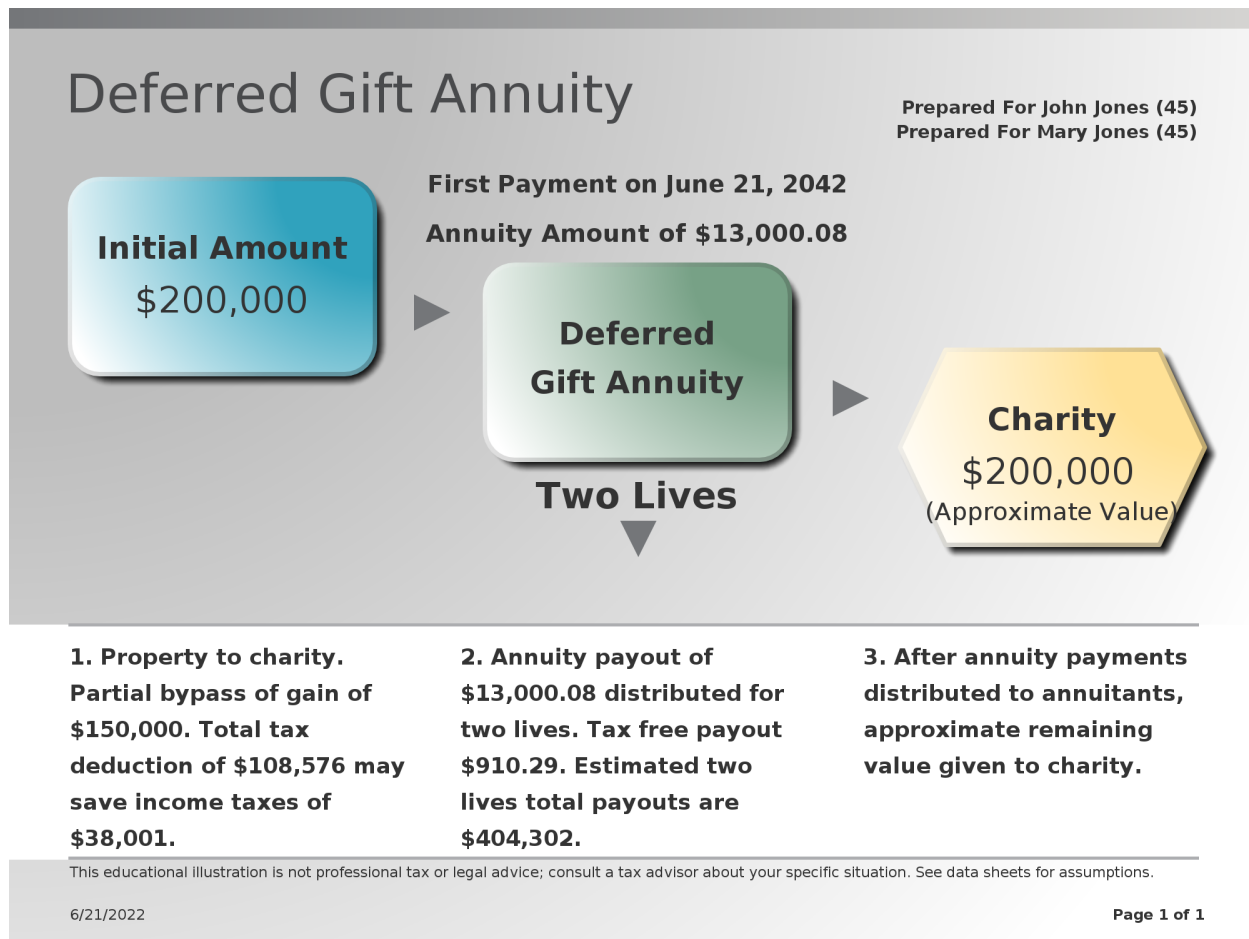
Annuity:



Case 3: Retirement Annuity with a \$200,000 Property Gift--At 45 years of age, John and Mary have made a successful investment which they would like to put away for future income. They transfer the \$200,000 asset to their chosen Adventist organization as a gift in exchange for a Deferred Annuity Income Agreement. They specify they would like the flexibility of electing to start the income at any time between the ages of 55 and 85. At their normal retirement age of 67, their annual income would be \$35,600 or almost \$3,000 every month for as long as either of them is living. At age 67, their life expectancy is 24 years

which would give them an income of \$811,998, and more if they live longer. All assets of the Seventh-day Adventist organization that issued their annuity agreement are pledged to pay them as promised. John and Mary realize several income tax benefits now and part of the income is tax-free for a term of years.

John and Mary Jones at the ages of 45, appreciated receiving the following flow chart as an illustration of how this Deferred 20 years Retirement Annuity plan works that they decided on:



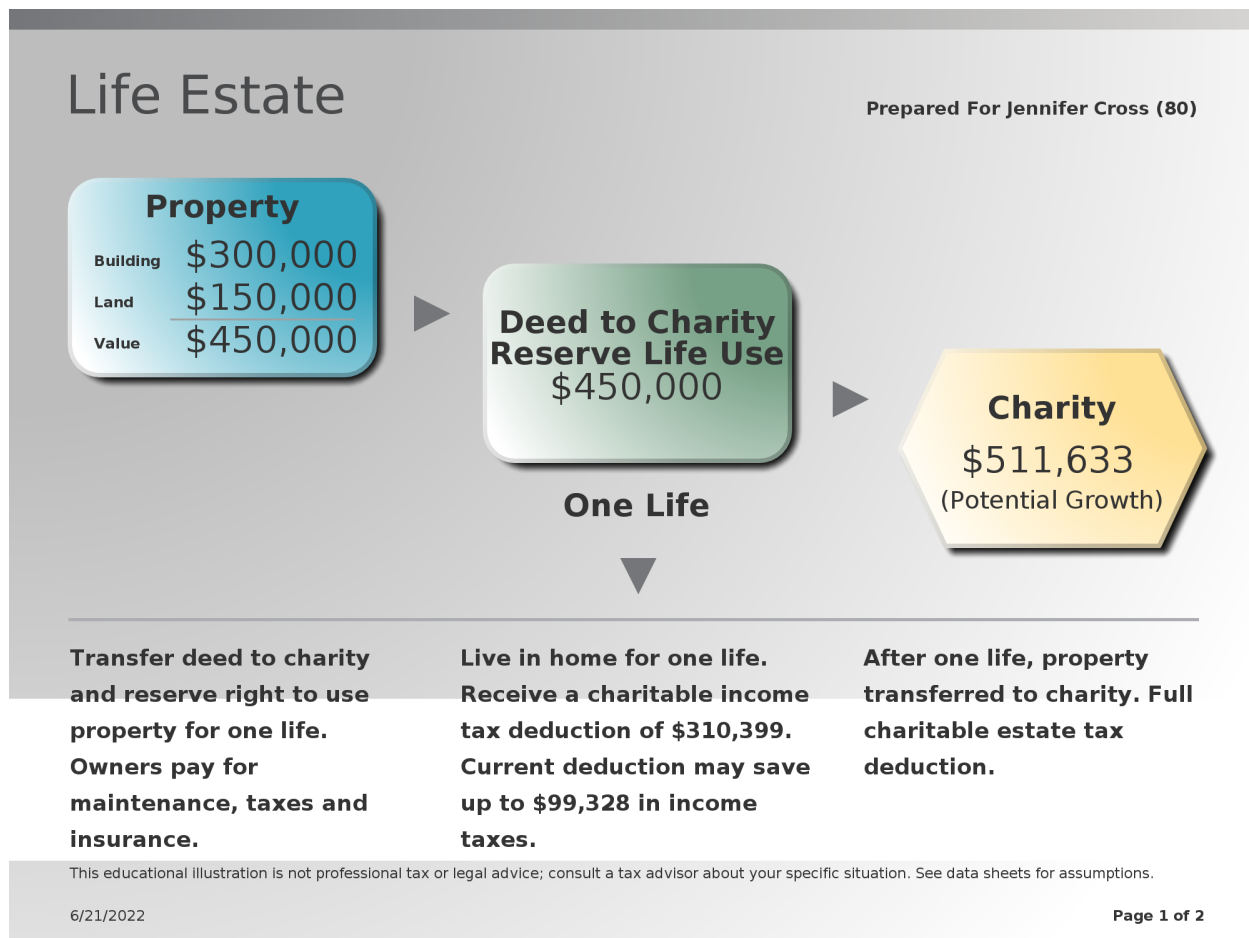
Case 4: Life Estate Reserved Gift

If you like your home or farm where you live, you don't plan to move again, and you would like to give your property to your favorite Adventist organization, you may sign a deed

transferring the property to that organization and specify in the deed your reservation of ownership rights as long as you live or elect to give up those rights.

The amount of your immediate income tax deduction is based on your age on the day you sign the deed. The deduction may be carried forward up to five additional years.

When you set up one of these plans, you should receive an illustration and explanation for a **Life Estate Gift Reserved** gift plan [as noted in the deed] like the following Illustration and Explanation:



LIFE ESTATE RESERVED If a person owns a home or a farm and intends to continue to live in the property for life, he or she can still receive substantial income tax savings. The tax savings are accomplished through a life reserved agreement. The donor simply retains use of the home or farm for life, and deeds the remainder interest in the property to a qualified charity so that the charity will own the property after the owner passes away. The life estate in the illustration is for one life. Income Tax Deduction The life estate is accomplished very easily by preparing a deed from the owner to the charity. On the deed the owner reserves the right to use the property

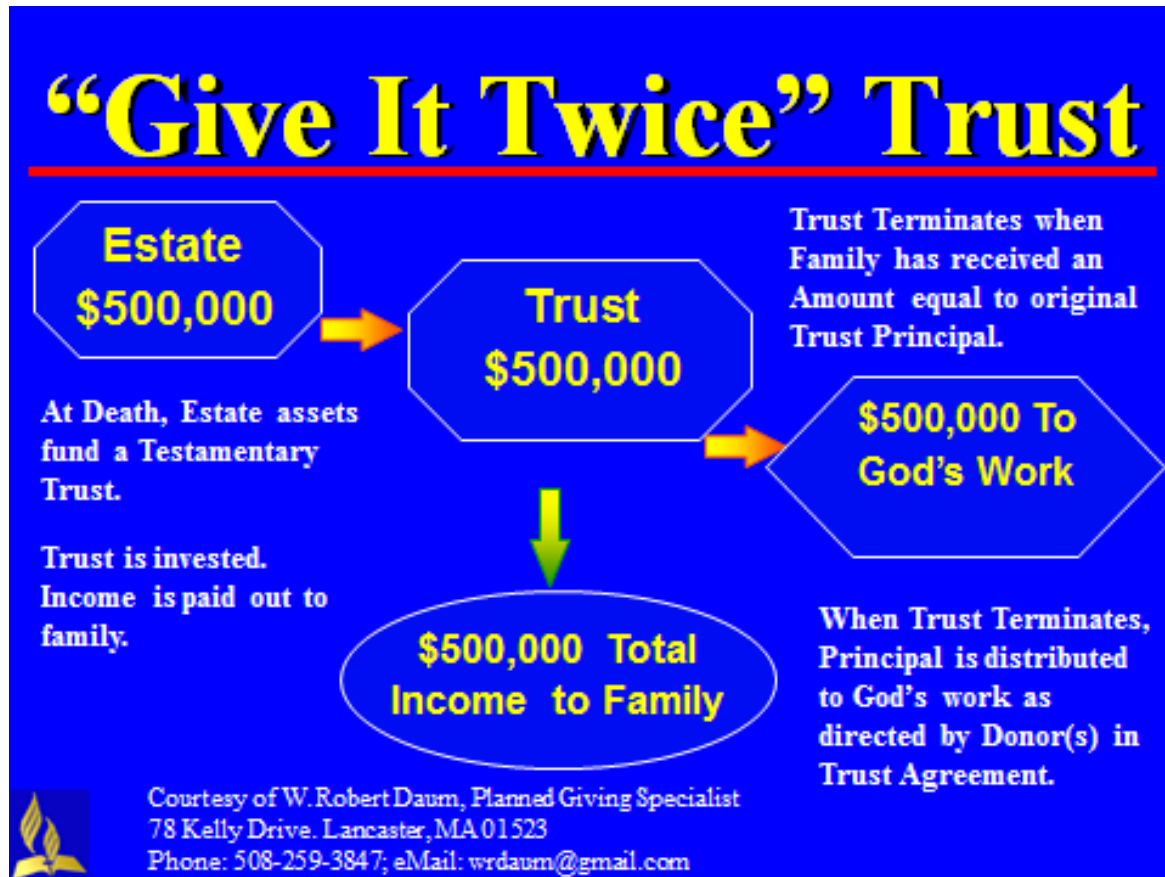
for one or two lifetimes. The property must be appraised and the donor will receive a current income tax deduction for the present value of the remainder interest gifted to charity. This deduction could save a substantial amount of current income taxes and is especially attractive for a person who plans to transfer the property to charity by will. Buildings If there are buildings on the property, then the deduction computations will consider the value of the buildings and the useful life of the buildings. The depreciation schedule will be utilized, but given the long term value of many buildings, a long useful life may be assumed and there will still be a very substantial charitable deduction. Lifetime Use A major benefit of the life reserved option is that a donor continues to enjoy full use of the property during his or her lifetime and also has the immediate benefit of a current income tax deduction. In addition, when the donor passes away, there will be savings in both probate costs and estate taxes. This educational illustration is not professional tax or legal advice; consult a tax advisor about your specific situation. See data sheets for assumptions

Case 5: “Give it Twice” Trust—\$500,000 Estate

The “Give it Twice” trust plan is popular with some people. This means you may give it to your family and to an Adventist organization too. You set up a Revocable Living Trust or provide for one in your Will to be established upon your death. Either way, you continue to own and manage all of your assets as long as you live.

Upon your death, your Trustee is instructed to hold and invest the assets of your estate and pay the income to named members of your family each month. The trust ends when the family has received an amount equal to the value of the assets at the time of your death. When the trust ends, the assets are distributed to the Adventist organization to be used as you specified in your documents.

When you set up such a plan, you should receive an illustration like the following one:



Case 6: Vacant Lot Funded Income Enhancement Annuity

Henry and Karin Harp (not their real names) had just taken early retirement from their professional jobs at age 62 and 60. They called for help in updating their old Last Will And Testament plan.

I met with them at their home and began the process of completing my 28-page data form. They mentioned a vacant lot they had owned for about 35 years. When a sub-division was being developed in a rural town, they bought a 1-acre lot for \$5,000, but never built there.

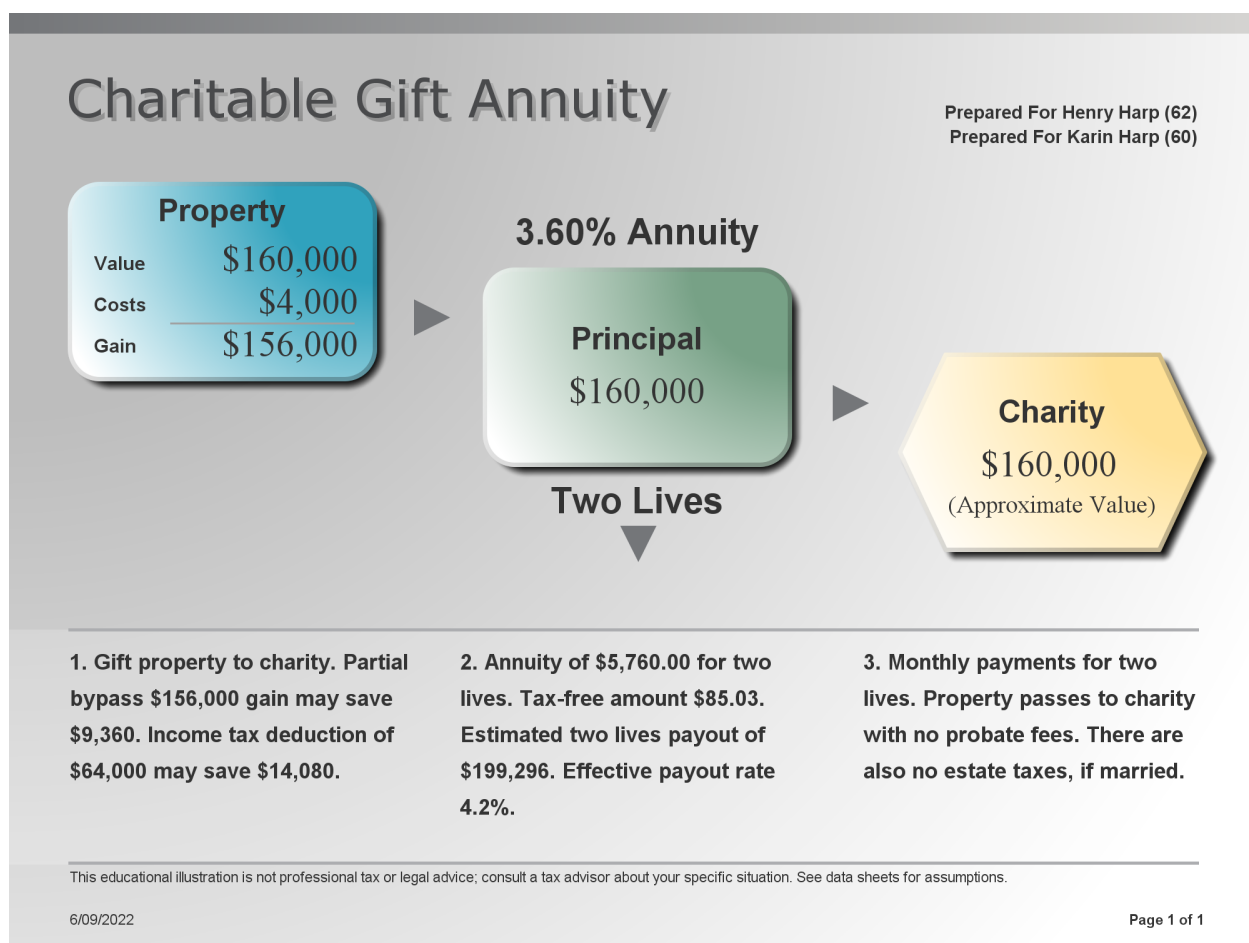
Now, the desirable sub-division had been fully built out for a long time, except a very few lots such as theirs. Their lot had large trees growing there; they paid the annual property

taxes and costs of weed control. When I suggested the idea of converting that lot into a life-income deferred gift plan, they were very interested.

The flow chart below shows how the resulting plan worked out. Henry and Karin are receiving about \$625.00 monthly for their joint lifetimes—about \$85.00 of it is tax-free for the 30 years of their joint life expectancy—a great retirement income enhancement for them, and the timing of the charitable deduction occurred in the year he exercised his S.O.P option with company stock, which created a tax problem for them that was solved by this gift plan:

A win-win-win situation that made the donors delightfully happy—long term.

This plan is conceived to be a **Post-retirement Income Enhancement Annuity** that is guaranteed by the organization that issues the annuity.



By now, you may be wondering how we got all the way to this result when we began with an unimproved vacant lot in a mature residential sub-division.

Issues that we studied and prayed over:

1. Marketability was the major issue. Was there a market for this lot? What was the market value? They thought it might be worth about \$100,000 to \$110,000. Who could we ask for help?
2. Finding an effective real estate broker was essential.
3. The lot would need to be engineered for septic system support and wetlands.
4. A water well would be required.
5. The lot would have to be surveyed.
6. The lot would have to be appraised by a bona fide real estate appraiser to determine market value.
7. The one-acre minimum lot size had doubled to two-acres since they bought it several decades before. But, the town waived that for them.
8. We entered into an agreement between the donors and my employing organization that...
 - a. I/we would contract for all of the above listed services;
 - b. my employing organization would advance the money to pay for the services as a loan;
 - c. if the donors agreed to hold us harmless for any potential liability incurred by having contractors on the property; and
 - d. reimburse us for said advanced money if we never took title to the property.
9. Henry made it clear that he did not want to be involved in finding a buyer or caring for any of the steps outlined above. He took me to see and walk the property; he introduced

me to the folks at the town office—about a 3-hour drive from my office. (I never visited the town again; never met any of the professionals in person that I dealt with—such was the value of prayer).

Here is what I did, which was based of a seminar by Charles Schultz at Crescendo Interactive, a software company, and based on a number of my similar experiences with such opportunities in Michigan, California, New England and Hawaii.

At each small step of the way, my Gift Acceptance & Trust Administration Committee (GATAC) gave me most helpful advice and support, and made the decisions.

Knowing that each case is unique, I saturated this whole matter in prayer before doing anything, and again at each of the following steps—praying until I knew what to do first and next [at each step] with an overall sense of direction.

The example of King David of Israel inspired me in this. Three times the enemy's army appeared against him; he "inquired of the Lord" and each time the Lord gave David a different strategy and tactic, which resulted in victory. See 1 Samuel 30:1-10; 2 Samuel 5:17-21; 22-25;

I called and asked the folks at the town office for the names of local banks and bank mortgage officers who makes home loans in the town.

I interviewed two such loan officers—asking them for names of the realtors who dominate the market in that town.

I interviewed 2 or 3 realtors—asking them the following questions: "Would you please describe your experience with the market in your town and your sense of values and market activity with vacant lots." I learned that vacant lots are in very short supply with a reasonable demand. "Would you be willing to work with me on the basis of an informal

listing?” I told them about the property and that the owners had expressed an interest in making a charitable gift to my employing organization, the Seventh-day Adventist Church; that we would only accept the property into our organization’s name if/when we were rather certain of its marketability.

After the interviews and prayer—I selected a realtor to work with, a choice that must have been ordered by the Lord as you may notice in this narrative.

We agreed that...

- She would treat this like any other listing, except she could not publish it on the local multiple listing
- I would sign a listing agreement only when it appeared that we had at least one or more potential buyers

The next big step was to decide on a listing price. The realtor recommended an appraiser—gave me a few names. I interviewed 2 or 3 and after praying, selected an appraiser, which again proved to be the very best choice.

In the meantime, word had gone around the community and I had at least 2 calls from other realtors. One of them sent me a list of comparable sales during the previous several years, which indicated the market value might be \$60,000. That realtor also was an interested party—her husband was a builder who had an interest in building a spec house there. I called her later with the appraised value and she expressed no interest.

The realtor that I had chosen also had a husband who was a building contractor. After consulting with him, she said he offered to pay us \$125,000 for the lot. Even though I was tempted, I told her that we must get an appraisal before deciding on a price.

The appraisal came in at a range of \$170,000 to \$175,000, which he acknowledged to be an unusually short range of value.

The next step was to have the lot surveyed. The realtor referred me to a local surveyor, which went very well at a reasonable cost.

Then we made a difficult decision about engineering. The realtor gave me the name and number of an engineer who is both competent and reasonable, AND who had credibility big time with all of the applicable governing town committees, including the all-important Board of Health and the Wetlands Commission.

He identified and flagged the wetlands and reported to the Town's Wetlands Commission and obtained approval of his plan.

He performed a perk test and reported the results to the Town's Board of Health and obtained approval of his plan.

He drew a plot plan that detailed the elevation levels on a continuous basis—indicating the wetlands, where the septic system would be installed, where the driveway would be created, and where the house would stand and its specific orientation. He described the number of bedrooms and the square footage of the house that the septic system would support. He presented his drawing to the Town Building Committee and obtained approval for a building permit to be issued.

By the time all of the foregoing steps were completed, the appraisal was legally stale by date, for our fiduciary* purposes. Therefore, we took all of this most valuable information to the appraiser for a refreshed and updated market valuation. The appraisal now came in at \$185,000 to \$200,000, and the appraiser told me on the phone that he would personally write us a check to buy it for \$175,000 if we could not get a better price for it.

We contracted with an attorney to represent us in the acquisition of the property as a gift to us—a lawyer who is a real estate specialist in the state jurisdiction. He did the title search and scrutinized all of the paper work on our behalf, advised us accordingly, and the deal was completed between him and the donor's independent legal counsel.

The realtor had done her excellent work of searching for a buyer. The property sold at \$190,000 in the right time. The donors asked us to use that money to...

Repay my employing organization for all of our advanced property development and legal expenses.

Make outright gifts to their local church for evangelism and to their alma mater schools for Christian education.

Fund a \$160,000 Charitable Gift Annuity Agreement. We agreed on the Deferred

Flexible model of gift annuity to safeguard any unexpected delay in the sale.

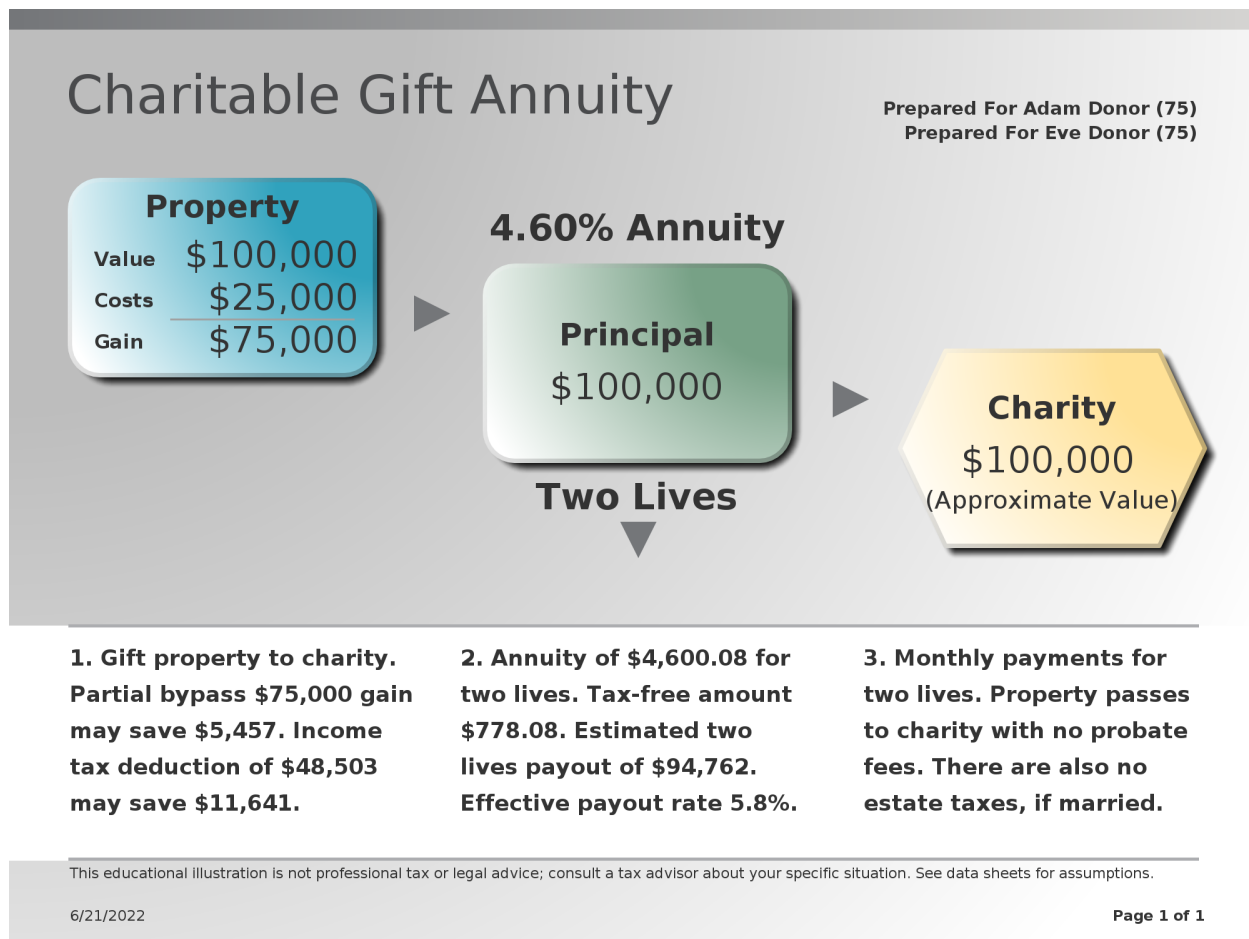
**Fiduciary:* a person to whom property or power is entrusted for the benefit of another.

**of or pertaining to the relation between a fiduciary and his or her principal*

**a fiduciary capacity; a fiduciary duty.*

**of, based on, or in the nature of trust and confidence, as in public affairs:*

Case 7. Residential Duplex Transferred to Fund a Post-Retirement Income Enhancement Annuity



The flow chart above tells a story of Adam and Eve Donor, a retired couple – both 75 years strong, owned rental houses and one duplex in their town. He was weary of doing the maintenance work on them. The duplex had been totally depreciated in book value for income tax purposes. His income tax preparer had told him what his income tax bite would be if he sold it. He'd had an offer on the table for a few years from a long-term tenant but could not digest the idea of paying the income tax.

We met to update their estate plan documents and I began completing the data form, becoming aware of this situation with the duplex. I went the 2nd time with some computer-generated

illustrations of three optional plans that showed how they could give it to us and continue receiving at least as much income as before, either in a charitable trust with variable income or in a gift annuity with fixed income guaranteed for their joint lifetimes; with no more property management work to care for.

We had the property appraised and did the environmental due diligence, took title and sold it tax free to the tenant, and began paying the donors with monthly checks—a win win situation that made everyone happy. These are much simpler with improved income-producing property.

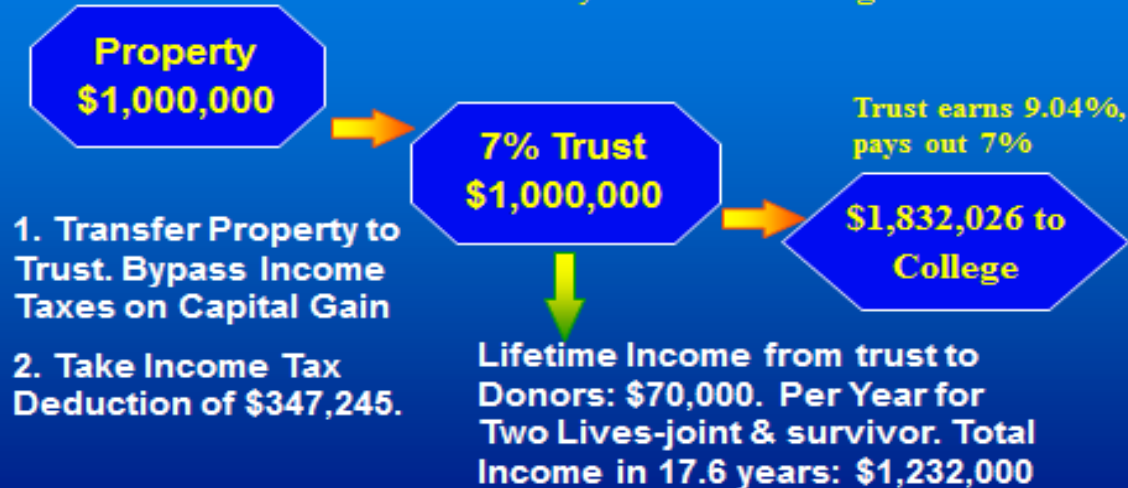
Case 8: Urban Warehouse Funds an Annuity Trust (CRT)

The donor had owned this property for many years; had received good income and tax benefits from it. It was located in a very large urban setting. We followed a pathway with some of the elements described in Case 6 and Case 7 above except the warehouse was vacant with no income and with large expenses for property taxes and utilities. We went back and forth several times to avoid doing this with an Annuity Trust because there can be no delay in paying the agreed amount of income to the donor out of the trust. So, the sale date had to be coordinated very carefully with the date of the trust. The donor continued to insist on this gift plan model, and it worked out.

Being in an urban commercial setting caused a great concern about environmental hazards and toxic waste. Therefore our due diligence was quite thorough on that count. The flow chart below shows how it works with a cooperative market—again, a delightful win win scenario—all saturated in prayer at each step of the way—a most unusual use of this form of the CRT plans.

Annuity Trust w/ Warehouse

John & Mary Donor – both age 75



Courtesy of W. Robert Daum, CSPG
78 Kelly Dr. Lancaster, MA 01523; 508-259-3847

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Case 9: Retirement Income Enhancement Unitrust (CRUT)

When Johnny and Merry Donor (not their real names) retired, they went on Social Security and Medicare. They had no other retirement income plan. They also sold their business in a *tax-free stock exchange*. They transferred 100% of the privately held C corporation stock of their business in exchange for publicly traded stock of a New York Stock Exchange corporation.

The stock they sold caused them to realize capital gain income on a very large proportion of the sale. Their CPA told them they should do a Charitable Remainder Unitrust—and asked them, “Who is your favorite charity.” Johnny came to discuss this plan with me. I created 3 illustrations of options for our discussion.

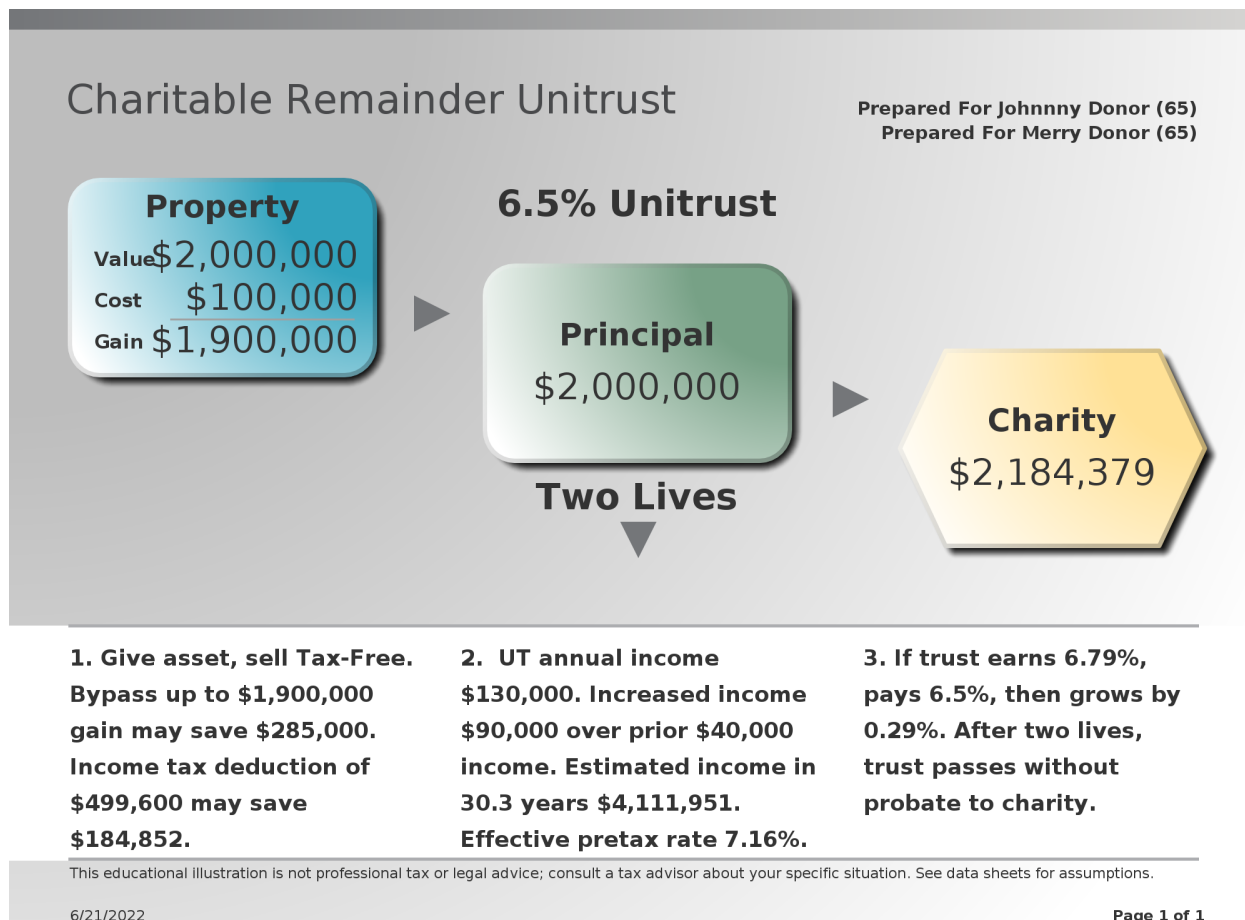
Johnny insisted the trust should pay out at least 10% income to them. I told him that I’ve managed dozens of these trusts with payout rates from 5% (the legal minimum) to 12%; and that the most satisfied income beneficiaries of these trusts are the people with the lowest payout rate

—because the trust’s investment income often exceeds the payout rate. Therefore, the trust asset value grows tax free so that your income from the trust grows accordingly. It is re-set each January. Often, the high payout rates remove capital from the trust so the dollar amount of payout decreases.

When he met with their CPA for his advice, the CPA said, “you don’t want to place yourself in a position of having to speculate with the investment of this kind of money—6 ½ % is a good place to be—and Johnny agreed. So, that is what we did.

Johnny and Merry funded the trust with \$1Million of the publicly traded stock; the stock was sold tax-free because of the IRS Tax Qualified nature of the trust, and they received a little over \$5,400 per month. At the end of the first year, they asked us to distribute from the trust assets a gift of \$50,000 to their local Church for a building project. This left the trust assets at above the initial value of \$1Million. Then, they added a second deposit into the trust of \$1Million, and they began receiving income of \$10,800 per month (\$130,000 per year) to enhance their Social Security income.

The flow chart below illustrates how this **Retirement Income Enhancement Trust** may work if the market cooperates.



Income Enhancement Trust Notes:

At the time Johnny and Merry's trust was established, their joint life expectancy was 26.2 years (at least one of them will live that long). They would have paid income taxes on about \$1,900,000 of profit if they had sold the \$2Million of stock in their own name. By transferring ownership of the stock to the trust, it was sold tax free.

As the Trustee of their own trust, they had given up ownership, but they continued to have control of the asset and its management.

They reserved the power to change Trustee and to change the Remainder Beneficiary. At the end of both lives, Johnny and Mary's trust will make a beautiful gift of the remainder value of its assets to the Lord's work *of their choice*, and the trust will be terminated.

Case 10: This chart is a list of the features of the Charitable Gift Annuity plan. It is important to give careful consideration to each of the features of a Charitable Gift Annuity—measuring each one for its potential value to the donor's financial situation and personal agenda.

When you live on a fixed income and the interest you are receiving on your savings account is not sufficient, you might consider setting up a Charitable Gift Annuity with your favorite entity of God's work.

Solution to Pray About

Consider A Gift Annuity

- **Fixed Payments for Life**
- **Rates by Age—Up to 9%**
- **Income Tax Deduction**
- **Partly Tax-Free Payments**
- **Always Transfer before the sale?**



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Case 11: 10-acres Vacant Land to Fund an Education Unitrust (CRT).

One day a member in his late 70s called my number. I drove a few hours to visit him asap. At age 75, John and Mary are looking forward to helping educate their grandchildren in private colleges or universities. Their goal is to give \$10,000 per year of college for each of their 8 grandchildren. Their combined federal and state income tax bracket was 48%, which means they must earn about \$19,000 of income for every \$10,000 gift they make to family. **This chart lists practical personal and family considerations:**

Family on the Altar

- Grandchild Nearing College Age
- Own Appreciated Property
- Want to Help Grandchild
- Desire to Avoid Tax on Sale

How to Send Grandchild to College and Receive a Deduction?



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John and Mary have a parcel of land that they pay taxes and liability insurance on and pay to keep the weeds under control. They paid \$120,000 for it many years ago and today it is worth \$400,000, which means they would pay a big Capital Gains Income Tax if they sold it on the

open market. Not so if they transfer the asset to a Charitable Trust, where it would be sold with no income tax being due.

The range of ages of the grandchildren in this case is such that it will take 20 years to get them all through college, beginning next year. In a 20-year term Charitable Remainder Trust (CRT), the property is sold without the pain of paying a capital gains tax. An income tax deduction of more than \$100,000 is available in the plan illustrated in the next two charts. The big bonus is that the income from the trust is taxed in the grandchild's income tax bracket—usually much lower than 48%. The total amount of money to the donors' favorite Seventh-day Adventist organization at the end of the 20-year trust plus the amount paid to the 8 grandchildren could easily be three times the original value of the property when it was transferred to the trust. In our visit, we discussed the concept of a "Give-it-Three-Times" Trust – a CRT as outlined in the following sequence of charts. They liked the plan very much.

Prayer Solution

Consider a Give-it-Thrice Trust

- **Bypass Gain**
- **Income to Student**
- **Charitable Tax Deduction**

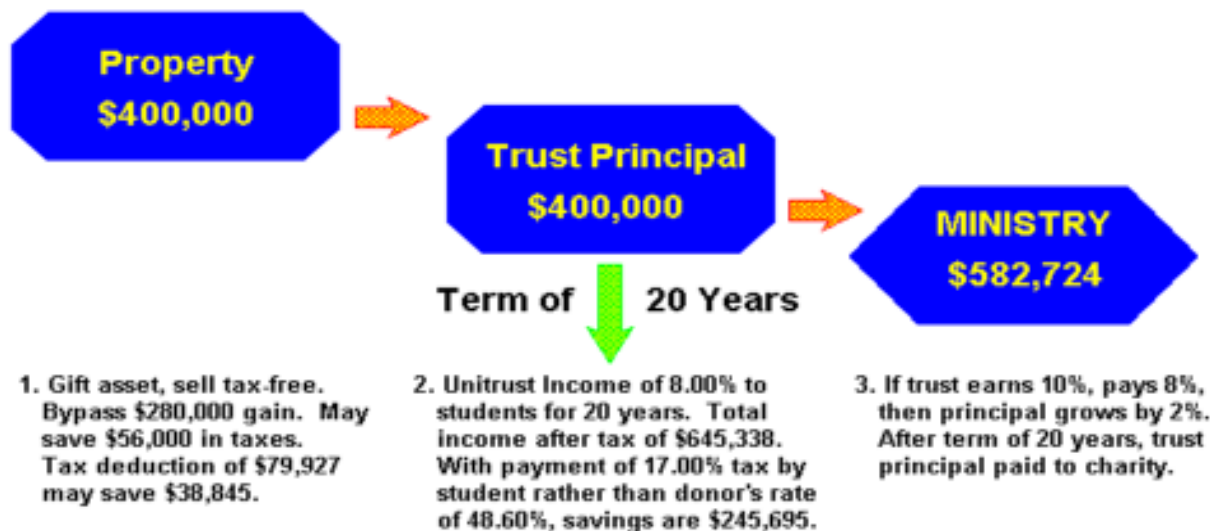


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EDUCATION UNITRUST

Prepared for John Donor

8.00% Unitrust



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An *Education Trust* is an excellent option for individuals with appreciated assets that are marketable when they desire to endow educational benefits to family members and provide tax advantages for themselves. Donor selects the dollar amount of educational benefit to be provided to family members via the Education Trust. The Education Trust is flexible to include as many student beneficiaries as the donor wishes, with the benefits for students continuing as needed to any length of time from 1 to 20 years. The *Education Unitrust (CRT)* income is paid out to an *Education Trust* periodically to be managed and distributed to the students by a Trustee of the donors' choosing. BOTH trusts are IRREVOCABLE. The

Education Trust is administered, construed and governed by the laws of the State as a legal taxable entity. When the Education Trust is established, the donor will have made a substantial gift and will therefore, be required to file a Gift Tax Return, IRS Form 709, by or on the subsequent April 15. There will be a gift tax deduction for the value of the charitable interest, and the balance of the value will be an immediate gift to the student(s) to receive benefits. Your Planned Giving Consultant will provide all of this technical information in understandable language.

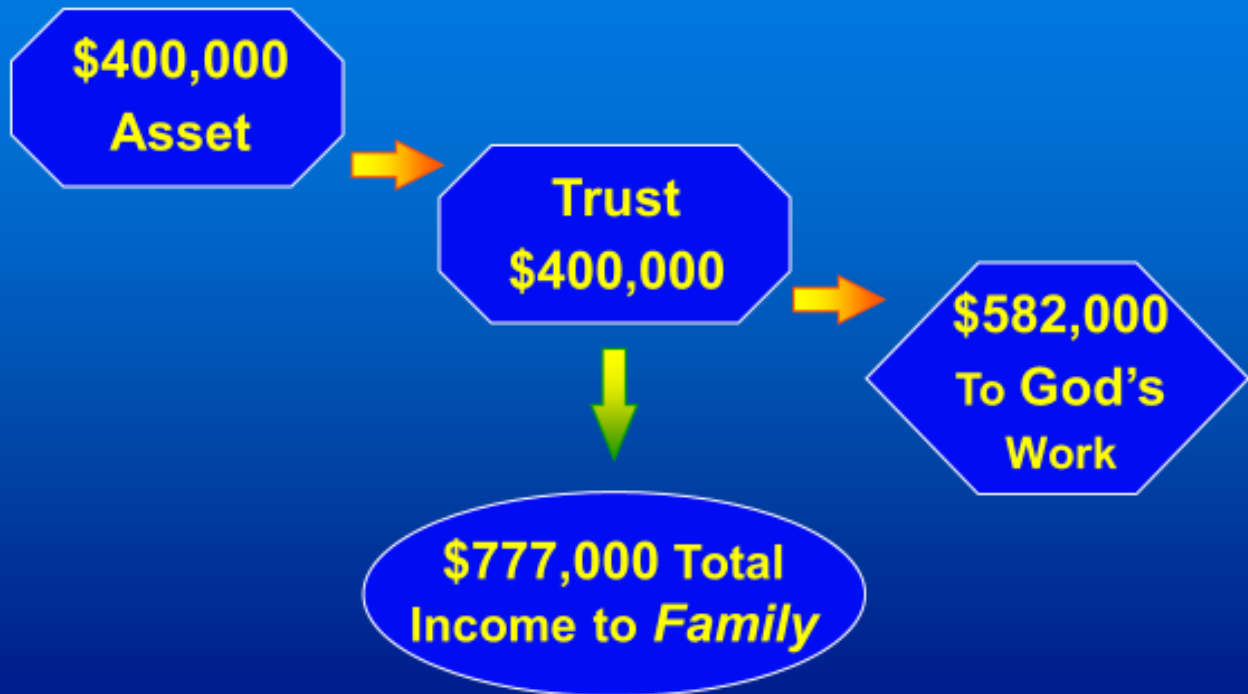
Using appreciated assets, a donor can fund education to family members at a very low cost, or fund the trust with cash. The Education Trust makes payments periodically to any school for the grade level(s) of donors' choice. If needed, more money may be added to the Education Trust anytime.

Donor receives a current income tax deduction for the amount equal to the present value of the remainder interest of the CRT. Donor may bypass capital gains tax, either partially or fully, on the sale of appreciated assets through the CRT, subject to the Four Tier distribution outlined under Section 664(b) of the Federal Tax Code. The Education Trust receives periodic payments from the CRT in the rate and frequency agreed upon and set forth in the documents.

The information given herein is for educational purposes only. It is not intended to provide legal or tax advice. Upon termination of the CRT, the remaining funds go to the Denominational Entity as selected by the donor—to be used for its general purpose of for restricted purposes. The result after the 20-year life of this **EDUCATION**

UNITRUST might look like the chart below:

“Give It Three Times”



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Case 12: Deferred Inheritance Unitrust (CRT)—Give-it-Three Times -- \$1 Million IRA

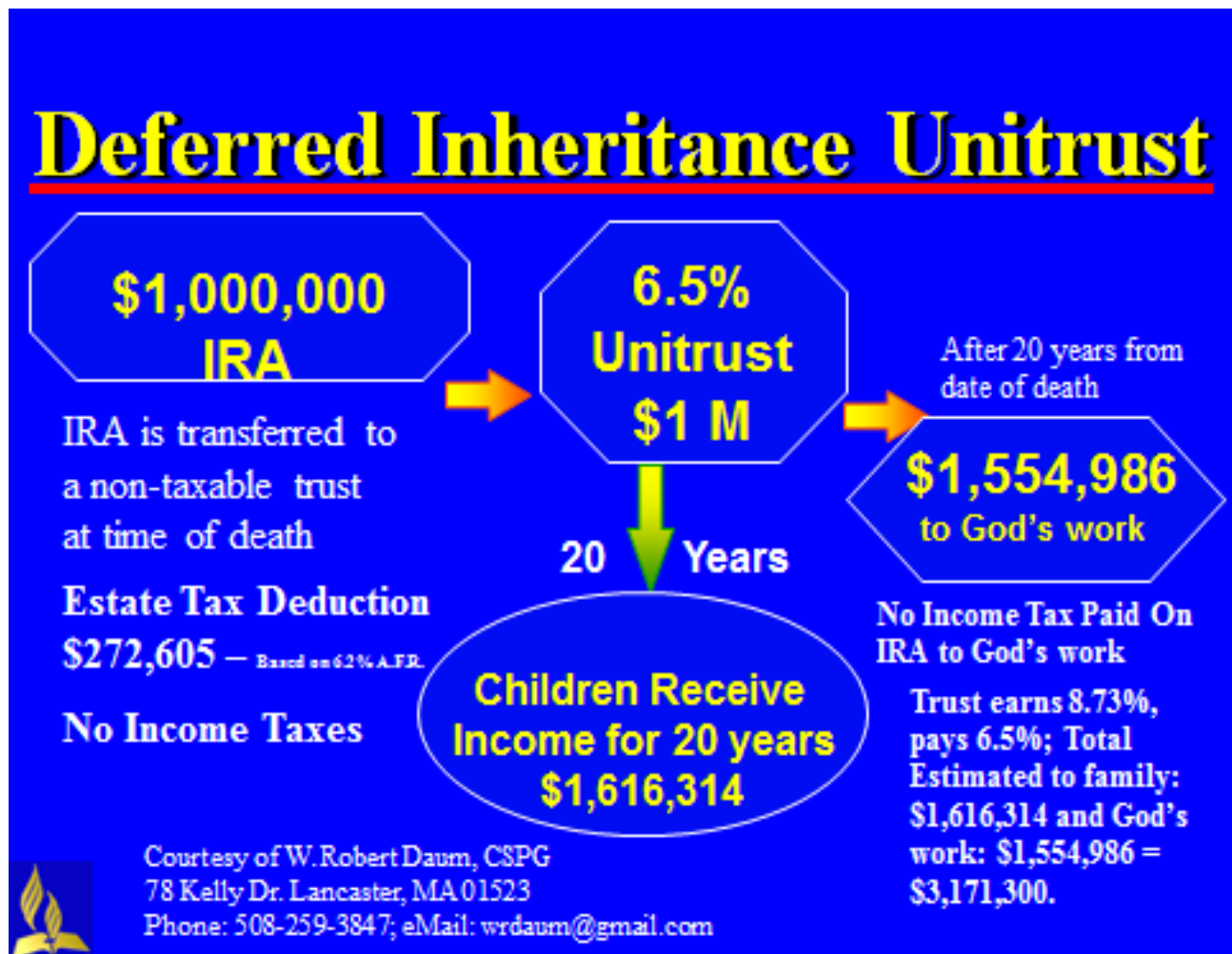
Federal legislation authorizing us to establish Individual Retirement Plans (IRAs) envisioned Americans setting money aside during our working life and spending it during retirement.

And most people with substantial amounts in these financial accounts withdraw only the minimum amount each year because they don't like paying the income taxes on the withdrawals. This means that, for many Americans, IRAs have become an Inheritance Plan rather than a Retirement Plan.

The problem is that children must pay income taxes on the withdrawals too. If the account is subject to federal and state income taxes and estate taxes too, the shrinkage may be as much as 80%.

One possible solution is to set up a Deferred Inheritance Unitrust to pay the IRA out to the children in installments for a term of up to 20 years—at which time the trust ends and the remainder goes to the donor's choice of God's work, where there are no income or estate taxes to pay. Thus a bad asset, when given outright to the children, becomes a good asset when given to God's work—a Give-it-Three Times gift plan.

The flow chart below illustrates how the plan works:

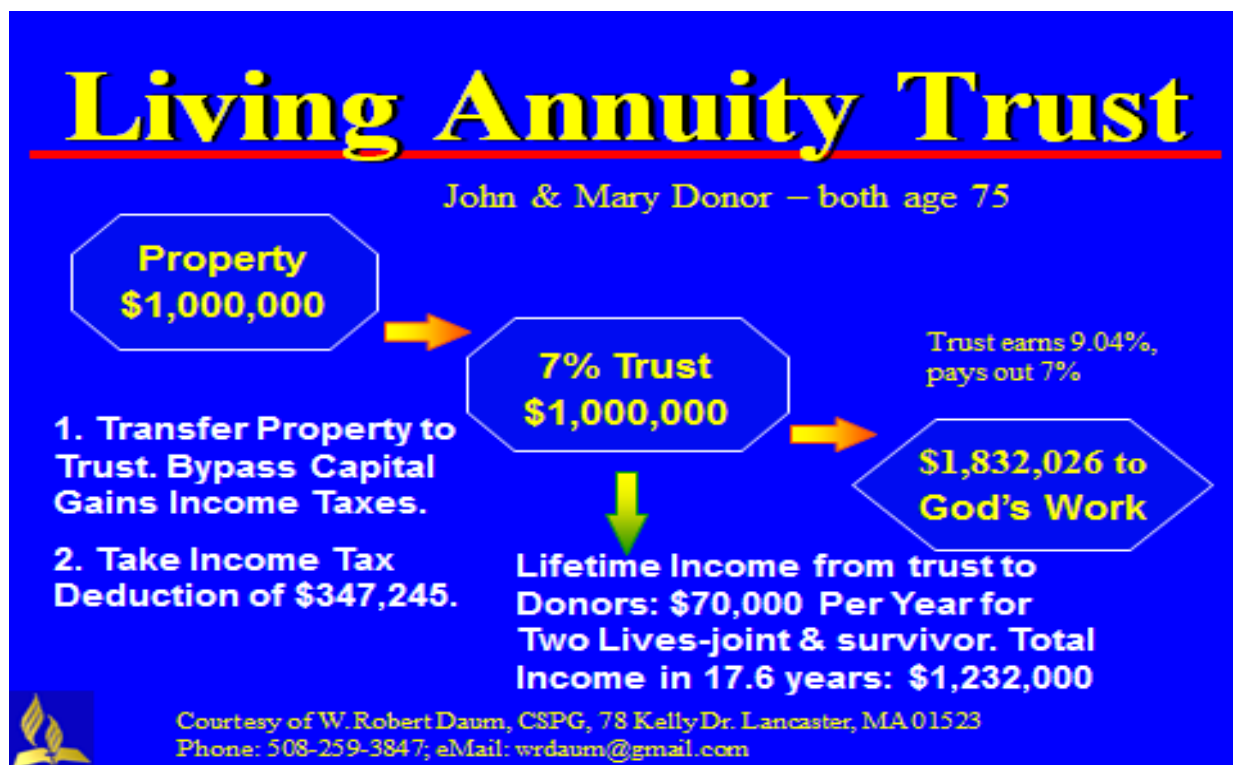


Case 13: Living Annuity Trust (Give-it-Three Times) \$1 Million Property

At age 75, John and Mary own property that has increased in value. They don't like the idea of selling it and paying income taxes on the profit (capital gain). They have a tender heart for God and they want more income to provide for their living expenses. They are not comfortable with income that depends on equity investments in the stock market. They choose a Living Annuity Trust (a Charitable Remainder Trust with the same amount of income every month for as long as they live).

John and Mary keep control of the property even though they give up ownership to the trust. They transfer it to the trust, bypass capital gain taxes, and take an income tax deduction. Their bank account receives a direct deposit each month of more than \$5,800 on the \$1 million trust. During their joint life expectancy of 17.6 years, they will receive \$1,232,000. Of course, the income continues for as long as they live.

The flow chart below shows the calculations to arrive at the above conclusion.



And In Conclusion—so dear reader, you can see there are a great many issues and options in planning today for tomorrow. I hope and pray these stories have held your interest so you may benefit from them and/or so you may share the information with family and friends who might benefit from them. May the Lord be your God and Savior from sin to everlasting life. May you find joy and peace in your final act of faithful stewardship with your end-of-life planning.

Amen.