Ways of Giving

To The National Outdoor Leadership School

LIFE INCOME GIFTS—THE DONATION THAT PAYS YOU BACK

Charitable Remainder Trusts

Did you know that you can donate an asset to NOLS now and continue to receive income from that property? We call it a "life-income gift"—the gift that pays you back. As the name implies, a life income gift pays you income for life or a term of up to 20 years and lets you realize your philanthropic goals. The following gifts pay income and often save taxes—income, capital gains and estate taxes—for you and your heirs.

This document discusses charitable remainder trusts; the two types of remainder trusts are unitrusts and annuity trusts. Another type of life income gift is the charitable gift annuity, which is described in a separate article.

CHARITABLE REMAINDER UNITRUSTS

Through a charitable remainder unitrust, you can set aside a portion of your assets as a gift and still maintain—often even increase—your present and future income. And the tax savings are significant.

To establish a charitable remainder unitrust, you transfer cash or property to a trust. You then select a trustee to pay income to you and/ or whomever you designate (a spouse, children, grandchildren or other beneficiaries). You decide what percentage value of the trust assets you wish to receive as income. For example, you may donate $1 million in cash to a unitrust. You and your spouse then elect to receive 7 percent income per year based on the annual valuation of the unitrust. In the first year, your payment is $70,000.

Your income from the unitrust is based on the trust's annual valuation, so the unitrust often offers a hedge against inflation. As the value of the trust rises, so does your income. If the trust's value increases dramatically, you are assured of receiving a share of that increase. Conversely, if the value of the unitrust declines for some reason, you still receive your fixed percentage, but your income payment is smaller.

This trust is one of the most flexible charitable gift plans available. The trust can accept cash, securities, land, residential property or other forms of assets. You may also make additional gifts to the unitrust after it is established, increasing the trust's value and the income paid to you or another beneficiary.

TAX SAVINGS

The tax advantages of a charitable remainder unitrust are significant. First, because NOLS is a non-profit, you receive a substantial income tax charitable deduction the year the unitrust is created. The amount of that deduction depends on several factors: the age of the income beneficiaries, the percentage payout you designate, and the actual value of the property assigned to the trust.

Secondly, you save capital gains tax. The assets held in the charitable trust can be sold free of capital gains taxes, so the full proceeds are available to reinvest. Highly appreciated assets, such as real estate or securities, are therefore an excellent choice for a charitable remainder unitrust.

Finally, by creating a charitable remainder unitrust, you can reduce or eliminate the federal estate tax that would otherwise be due on the distribution of those assets. Transferring assets to a trust can also reduce your estate's probate costs.

The unitrust can be established for one or two life-times or for a term of up to 20 years. At the end of the term, the trust assets become a wonderful gift to NOLS, allowing the school to continue the work you have supported over the years.

Benefits of a charitable remainder unitrust frequently include:

- Increased income, as well as income for your spouse or another survivor,
- Current income tax savings,
- Capital gains tax savings,
- Reduced federal estate taxes,
- Savings on probate costs, and
- A magnificent gift to NOLS and the future of wilderness and leadership education.

ILLUSTRATION 1

Mr. Smithson is a long-term supporter of NOLS. He purchased ABC stock 15 years ago for $200,000. This growth stock is now worth $1 million and pays him about 2 percent income per year, or $20,000. While selling the stock would net an impressive $800,000 profit, it would also trigger a hefty capital gains tax of $160,000.

Mr. Smithson does not wish to incur this penalty tax, yet he would like to increase his income from this stock. He decides to transfer the stock into a charitable remainder unitrust; the trustee then sells the stock free of capital gains tax.

The trustee retains the full $1 million to reinvest, rather than the $840,000 that would have been available if Mr. Smithson had sold the stock himself.

Mr. Smithson sets up the trust to pay 7 percent income, so his income from the unitrust the first year is $70,000, over three times what he earned from the stock before the gift.

Not only has Mr. Smithson increased his income and eliminated the capital gains tax, he also receives a substantial income tax deduction. The actual deduction depends on several factors, including the value of the trust assets, Mr. Smithson's age, the percentage payout Mr. Smithson designates when he establishes the trust, and the number of payments per year. If the deduction is too large to take in the first year, he can carry it over for up to five additional years.

Finally, the remainder of Mr. Smithson's unitrust will become a generous gift to NOLS at the end of the trust term.

Partial summary of Mr. Smithson's Tax and Income Benefits	
Unitrust contribution:	$1,000,000
Cost Basis:	$200,000
Tax-free Capital Gain:	$800,000
Capital Gains Tax Savings (15% of $800,000):	$120,000
Additional Income (in first year, $70,000-$20,000):	$50,000

CHARITABLE RETIREMENT REMAINDER UNITRUSTS

Donors can establish a charitable unitrust that is designed to maximize future income rather than focusing on current needs. With a charitable retirement unitrust, you can build future retirement income, save taxes, and make a meaningful gift to NOLS.

For example, you establish a charitable retirement unitrust 10-15 years before you retire. To do so, you transfer cash, stocks, land or other assets to a trust. The goal during these pre-retirement years is to invest for maximum growth. If you create the unitrust with highly appreciated assets that provide low income, the trustee can sell those assets and reinvest for maximum growth. You pay no capital gains tax on the sale once the property has been transferred to the trust.

While you are still working, you can continue to add to the trust assets, but you also receive a modest income from those assets. The amount you receive may be an annual percentage of the trust's fair market value or the income it generates, whichever is less. You may return this income to the unitrust if you wish, helping it grow and saving more federal income tax.

After you retire, the unitrust assets are reinvested again to yield maximum income—again without incurring capital gains taxes. Your trustee can use the "makeup" provision to make up any shortfall in your income payments from earlier years. Thus, the trust provides you with maximum retirement income for the rest of your life and that of your spouse.

Eventually, the trust will revert to NOLS as a charitable gift. One of the most appealing features of this type of charitable gift is its flexibility. You select the amount you put in the plan each year, the trustee, the date when you retire and how much income you, or you and your spouse will receive.

As with charitable remainder unitrusts, retirement unitrusts often provide big income tax savings. The size of the deduction will depend on several factors: the value of the property held in trust, the age of the beneficiaries and whether additional contributions are made to the trust. You can claim the gift as a charitable deduction in the year you establish the trust—up to 30 percent of your adjusted gross income. If the deduction exceeds the 30 percent limit, you have five years to carry it forward until the full amount is deducted. This gift strategy also frequently generates substantial estate tax savings and reduces probate costs for your estate.

Benefits of a retirement unitrust often include:

- Current income tax deduction,
- Increased future retirement income,
- Portfolio diversification,
- Elimination of the penalty capital gains tax on the sale of appreciated assets, and
- A donation for future generations of NOLS students.

ILLUSTRATION 2

Tim and Betty Russell, both 55, are looking ahead to their retirement in ten years at age 65. They met in 1974 on a NOLS Mountaineering course, and it's important to them to leave a legacy at NOLS. They also want to be sure that their financial needs are well met when they retire.

The Russells transfer stock valued at $400,000 into a t rust that will pay them 6 percent a year or actual income earned, whichever is less. The securities are sold and re-invested in high-growth stocks. During their pre-retirement years, the Russells gift their unitrust income back to the trust, thereby building the principal, adding to their future retirement income, and generating additional federal income tax benefits. At age 65 the Russells retire, and by this time the value of their assets has increased significantly. The trustee adjusts the investments again, this time to produce maximum income, and the trust provides the Russells a marvelous retirement income for their lifetimes.

In the year they establish the plan, the Russells claim a charitable deduction of up to 30 percent of their adjusted gross income. Any portion of the charitable deduction that exceeds the 30 percent limit can be carried forward for the next five years, allowing the Russells to deduct up to 30 percent of their adjusted gross annual income until the full amount is deducted. The Russells also generated additional income tax benefits by gifting income back to the trust for the first ten years.

Eventually the assets pass to NOLS as a gift—creating a lasting legacy for wilderness education.

CREATE A UNITRUST TO MEET COLLEGE EXPENSES

Much like the retirement unitrust discussed above, you can establish a charitable remainder unitrust to help pay future college expenses for children or grandchildren. Instead of establishing a trust for one or two lifetimes, these trusts are generally created for a set time period of up to 20 years.

The following example demonstrates the unique benefits and attributes of this type of unitrust.

ILLUSTRATION 3

Cynthia Brown, 67, has a granddaughter, Jane, who is beginning college next year. Mrs. Brown has always planned to help Jane with her college expenses, and she would also like to make a significant contribution to NOLS, where Jane recently completed a life-changing semester course. Mrs. Brown owns a growth stock, currently worth $150,000, that has dramatically increased in value since her late husband bought it for $30,000, The stock typically yields little income—about 2 percent.

Mrs. Brown therefore decides to use this stock to fund a 4-year charitable remainder unitrust. The trustee sells the stock free of capital gains tax and re-invests the full amount to yield a higher return. For 4 years, the trust pays 7 percent ($10,500 in the first year), which Jane uses to help with college expenses.

At the end of the 4-year trust term, the remainder becomes a charitable donation to NOLS. Because of the relatively short term of the trust, Mrs. Brown's charitable deduction amounts to a large percentage of the value of the assets initially placed in the trust.

Of course, you can structure a charitable remainder unitrust to pay college tuition for multiple individuals or to meet other future expenses.

National Outdoor Leadership School
284 Lincoln Street, Lander, Wyoming 82520-2848 • 800-332-4280 • giving.nols.edu

Partial Summary of Mrs. Brown's Tax and Income Benefits	
Contribution:	$150,000
Cost Basis	$30,000
Capital Gain:	$120,000
Trust income Rate:	7%
First Year's Income:	$10,500
Increased Income in the fi rst year ($10,500 - $3,000)	$7,500
Capital Gains Tax Avoided (15% of $120,000)	$18,000

ESTABLISH A UNITRUST IN YOUR WILL

If additional life income is not important to you, you can create a unitrust in your will—a testamentary unitrust—to provide income for your heirs and ultimately make a generous gift to NOLS. If your estate exceeds $2 million, the unitrust offers an excellent way to save estate taxes and increase income for your heirs.

CHARITABLE REMAINDER ANNUITY TRUSTS

All of the gifts described above are charitable remainder unitrusts. A charitable remainder annuity trust is similar to a unitrust, with one fundamental difference—the income you receive is set as a fixed amount when the t rust is established. In this way, you obtain a reliable, stable income that is not subject to market fluctuations.

For example, you might place $60,000 into an annuity trust and wish to receive 6 percent of the trust's value. You will receive annual income of $3,600 for the rest of your life or the term of the trust, regardless of how the trust's investments perform. Most donors elect to receive their trust income in quarterly installments. Unlike a unitrust, additional contributions may not be added to an annuity trust.

You can gain additional advantages from an annuity trust when you fund the trust with tax-free bonds. If you already own tax-exempt bonds, you understand the benefits of income that is free from federal and state income tax. When you make a gift of tax-exempt bonds to an annuity trust, you can realize even greater tax savings. In short, you can retain your tax-free income and take a current charitable tax deduction. And, if you wish, you can invest the savings from the tax deduction into additional tax-free bonds, again securing the benefits of tax-free income.

Benefits of a charitable remainder annuity trust often include:

- Stable income,
- The potential for tax-free income,
- A current income tax charitable deduction,
- No capital gains taxes on the sale of assets in the trust,
- Estate tax savings, and
- An eventual gift to wilderness and leadership education.

JOIN THE NOLS SUMMIT TEAM

An additional benefit to charitable remainder trusts is membership in the NOLS Summit Team, our recognition society for donors who include NOLS in their estate plans or other long-term giving strategies. Through their generous commitments of current and future support, NOLS Summit Team members are creating a legacy for wilderness education.

CALL NOLS FOR MORE INFORMATION

People don't donate to NOLS simply to save taxes. Each of us gives for a variety of personal reasons: a belief in the NOLS mission, a desire to preserve wilderness, a commitment to creating opportunities for wilderness and leadership education, or maybe a compelling interest in the school's past and future achievements. Regardless, most individuals want to stretch their assets to do the most good for the most people.

Life income gifts are among the financial arrangements that allow donors to mesh philanthropic goals with personal and family financial obligations. We would welcome the opportunity to talk with you and your advisors about these and other tax-smart ways to achieve your goals.

NOLS

NOLS Alumni & Development
284 Lincoln Street
Lander, Wyoming 82520-3140
phone: 800.332.4280
email: development@nols.edu
web: giving.nols.edu

This information is not intended as specific legal advice. Consult your attorney when considering any legal matter. State laws that govern wills and contracts may vary and are subject to change.