



Ways of Giving

To THE NATIONAL OUTDOOR LEADERSHIP SCHOOL

Charitable Lead Trusts

Estate and gift taxes can consume almost half of a large estate, reducing the inheritance for your children or grandchildren by a heart-breaking amount. You can overcome this difficulty through a charitable lead trust, which provides a way to make a magnificent philanthropic gift while protecting your wealth for future generations.

PRESERVE YOUR ESTATE

A valuable and often-overlooked tool for individuals with sizeable estates, a charitable lead trust allows you to provide current annual support to NOLS and eventually transfer property to heirs with significantly lower gift and estate taxes.

Established during life or through a will, lead trusts sometimes provide a larger inheritance to heirs than an outright bequest or taxable gift. To create a charitable lead trust, you transfer securities, real estate, business interests, oil and gas properties, or similar properties to a trust for NOLS' benefit.

The charitable lead trust pays income to NOLS for a fixed term of years. At the end of the trust term, the assets go to a non-charitable beneficiary, such as a child or grandchild. The assets often appreciate, and they are transferred with lower gift or estate tax.

ILLUSTRATION

Mr. and Mrs. Phil Andrews would like for their grandchildren to inherit \$10 million from their estate. Three of the four Andrews children took NOLS courses, and the Andrews would also like to make a significant contribution to the school's scholarship endowment to enable others to have similar wilderness experiences.

They know that when their children receive the estate, the \$10 million inheritance is reduced to \$5.3 million by a 47% federal estate tax. When their grandchildren inherit the \$5.3 million, it is subject to the 47% estate tax again. The government now has swallowed \$7.2 million of the Andrews' generous gift, leaving \$2.8 million for their grandchildren.

A charitable lead trust allows the Andrews to make a generous gift that is free of gift, estate and generation-skipping taxes, thereby protecting their assets for their children and grandchildren.

A CHARITABLE GIFT AT WORK

Instead of letting the \$10 million pass to their heirs through a will, the Andrews transfer the assets to a charitable lead trust. The trustee invests the assets to generate income and pays one or more charitable organizations a percentage of the trust assets for a lifetime or a specified term of years; in the Andrews' case, for 25 years. At the end of the term, the trust principal, which has increased in value, goes to the Andrews' grandchildren free of gift, estate and generation skipping taxes.

The Andrews specified that 8% of the trust income would be paid in equal amounts each year to three separate nonprofit organizations, one of which is NOLS. At \$800,000 per year, the Andrews will eventually donate a total of \$20 million to their three favorite charitable organizations, while protecting the \$10 million trust principal and any additional appreciation for their grandchildren.

WHY YOU SHOULD CONSIDER THIS GIFT

If you have a substantial estate, the charitable lead trust may be the best way for you to protect and preserve it for your children and grandchildren. If you are familiar with the charitable remainder trust, you know that it takes care of specified loved ones first, leaving the remainder to charity.

However, a charitable lead trust takes care of NOLS first, with the trust principal eventually going to whomever you designate. The lead trust is especially beneficial if you are in a high gift or estate tax bracket.

Thus, a charitable lead trust can:

- Protect your property for heirs,
- Save estate, gift and inheritance taxes,
- Save generation-skipping transfer tax, and
- Provide a major philanthropic gift.

The lead trust is also beneficial if your charitable deductions exceed the allowed percentage of adjusted gross income. By using a charitable lead trust, you can make a gift to NOLS that is not subject to the giving limits that apply to the income tax charitable deduction.

TYPES OF CHARITABLE LEAD TRUSTS

There are two types of charitable lead trusts: the charitable lead unitrust and the charitable lead annuity trust. Regardless of the type, you create a lead trust by making an irrevocable transfer of funds for the benefit of NOLS for a lifetime or a specified term of years.

Charitable Lead Unitrust

When you establish a charitable lead unitrust, you decide what percentage of the fair market value of the trust assets you wish to go to NOLS. For example, you may decide that 8 percent of the trust's value will be paid to the charitable beneficiaries. Because it is a unitrust, the amount paid out is based upon the annual revaluation of the trust and can vary from year to year.

Charitable Lead Annuity Trust

As with other types of annuity trusts, the charitable lead annuity trust pays a fixed dollar amount that is guaranteed to remain stable. You can either set a dollar amount or a percentage of the initial trust value. Either way, the payout to NOLS will remain the same for the entire term of the trust, regardless of how the trust performs.

OBTAINING AN INCOME TAX CHARITABLE DEDUCTION

Charitable lead trusts are important tools to help save estate and gift taxes. However, if it is crucial that you receive a current income tax charitable deduction, you can structure a grantor lead trust to accomplish this goal.

In a grantor lead trust, the assets you contribute to the trust are returned to you, rather than to another person, at the end of the term of years.

Advantages of a Grantor Lead Trust:

- Obtain a current charitable income tax deduction
- Make a generous gift without permanently giving up the property, and
- Receive principal and accumulated income after a term of years.

Although the donor of a grantor lead trust receives a current income tax charitable deduction, the income paid to the charitable organization is taxed to the grantor each year. If you anticipate changing to a lower tax bracket in the near future, such as following retirement, this can be an advantageous way to reduce income taxes.

An even more attractive alternative is to fund the grantor lead trust with tax-exempt bonds. This provides a current income tax charitable deduction and you owe no tax on tax-free income paid to the charitable organization.

TESTAMENTARY LEAD TRUST

Creating a charitable lead trust allows you to avoid some or all estate and generation-skipping taxes when making an eventual gift to family members. The gift, estate, and generation-skipping tax deductions are based on the term of years, the payout to the charitable organization, and the federal mid-term rate of the month.

JOIN THE NOLS SUMMIT TEAM

An additional benefit to using a charitable lead trust to fund a donation is membership in the NOLS Summit Team, our recognition society for donors who include NOLS in their estate plans or other long-term giving strategy.

Through their generous commitments of current and future support, NOLS Summit Team members are creating a legacy for wilderness education.

CONTACT NOLS FOR MORE INFORMATION

None of us donates to NOLS simply to save taxes. Each of us gives for our own personal reasons: a belief in 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.

The charitable lead trust provides you an opportunity to make exceptional current gifts while protecting your assets for children and grandchildren. We would welcome the opportunity to talk with you and your advisors about these and other tax-smart ways to achieve your goals.



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