- Reduces or eliminates estate taxes. Since the donated assets generate a charitable estate tax deduction at the death of the income beneficiary, estate taxes may be decreased or eliminated.
- Provides an income stream, often for life. When assets are donated to a CRT and sold, the money generated from the sale may be placed in an income-producing investment. This income is then distributed according to the trust provisions. For some types of CRTs, principal may also be distributed. Because there have been no capital gains taxes paid, the amount invest may be greater than if the assets had been sold out of a CRT and had been subject to capital gains or estate taxes.
- Benefits the charity of your choice. When the trust ends, the assets remaining in the trust pass to the charity of your choice.
- Helps maximize your estate for your beneficiaries. With a CRT, you can choose to use some of your tax savings and CRT income to make annual gifts to a WRT (ILIT). The ILIT buys a life insurance policy on the life of the CRT donors. When the last donor/income beneficiary dies, the assets in the charitable trust pass to the Foundation. A properly structured ILIT will allow the life insurance proceeds to pass to your beneficiaries without any estate or income taxes due. A CRT with an ILIT provides a way to maximize the benefit to your beneficiaries by minimizing the taxes on the estate assets. That's because the life insurance proceeds paid out by the ILIT are not included in your estate and also are not subject to either state or income taxes.

Example: William, age 75, and Mona, age 74, decide to place $200,000 in a Wealth Replacement Trust with the AALAS Foundation, which pays an annual income of 6%, or $12,000. The $12,000 annual income is used to pay the premium for a $250,000 second-to-die insurance policy. Upon the death of the second spouse, AALAS received $250,000 from the trust, and the heirs receive $250,000 from the insurance policy, free of income tax, estate tax and inheritance tax.

6. Charitable Remainder Unitrust: A Gift with Income that Fluctuates

The Charitable Remainder Unitrust, like the annuity trust, provides for a deferred gift to charity while you retain an income. Unlike the annuity trust, the income from a unitrust rises or falls annually with the value of the assets placed in the trust.

You determine the annual payout percentage when the gift is made. Each year, this percentage of the current value of the trust assets is paid to you or another named beneficiary. If the value of the trust investments increases, you receive more income. Your income will be less if the value of the assets decreases. At your death (or the death of your surviving spouse), whatever remains in the trust is distributed to the Foundation.

Also, unlike the annuity trust, additions can be made to the unitrust; a tax deduction is allowed for a portion of each amount contributed.

Example: Roger is a retired laboratory animal veterinarian. He is concerned about the misinformation constantly being distributed by "animal rights" organizations. He decides to place $100,000 in a unitrust with the AALAS Foundation. His unitrust pays 5%, providing him with $5,000 the first year. Next year the assets rise to $110,000 (assuming the performance value of the assets went up), raising his income to $5,500.

Roger is entitled to a deduction of almost $57,000 (based on IRS gift tables, the deductions he would get). He avoids capital gains tax at the time the trust is created. Had he sold his stocks and invested the after-tax proceeds, his income would be substantially less. He may also invest his tax savings for more annual income.

7. Retirement Accounts: Creative Giving Through Retirement Plans

Retirement vehicles, such as employer retirement programs and pension plans that can be rolled over into Individual Retirement Accounts (IRAs), and self-established IRAs may also be used to benefit a favorite cause while simultaneously reducing tax payments.

In almost all cases the funds used by an employer or an individual to fund a retirement program are placed into the program free of any federal or state income tax. This benefits the individual by permitting the funds that would otherwise have been used to pay taxes to be invested to produce additional income for retirement. However, as funds are withdrawn from the plan they are subject to income taxes. Also, any funds not used for retirement purposes that remain in the plan upon the passing of the person covered by the plan remain subject to income tax. Moreover, if the remaining funds under the plan go to someone other than the immediate family (spouse or children) of the person whom the retirement plan covered, the income tax is due on the entire amount paid over in the year it is received. Designating that sums remaining at death pass to a tax-exempt organization avoids the payment of income tax on these retirement funds.

An individual with a favorite cause, such as an AALAS member who has dedicated his or her life to benefiting the world through the proper use of laboratory animals and would like to see this work continued, and who is fortunate enough to have sufficient retirement funds from sources other than his or her IRA, can designate the funds in the IRA or a portion thereof to the AALAS Foundation. This permits funds that would otherwise go to pay income taxes to be used to directly benefit a favorite cause.

Example: Judy has been conscientious about putting away money for her golden years and has accumulated a substantial sum in various retirement programs.

Judy has always intended to leave a sum to a cause that has meant much to her, the AALAS Foundation. Examining her situation, she determines that her retirement funds have grown beyond her probable needs. After consulting with advisors, it is determined that a better financial plan for her and her immediate family and other designated individual beneficiaries would be to leave property and assets outside of her IRA to this group and to make a charitable gift to the Foundation from her IRA.

By listing the AALAS Foundation as beneficiary of her IRA for the sum of $10,000 this entire amount is tax exempt and will benefit the AALAS Foundation. If passed to an individual, $2,500 of this amount (assuming a conservative 25% tax bracket) would go for income taxes.

This option has the additional benefit of allowing Judy, should her fortunes change, to use the entire amount of her IRA for her support during her lifetime.

If you would like more free information, please contact Mr. John Roberts, Morgan Keegan & Company, Inc. (1-800-598-4415), AALAS and AALAS Foundation Investment Consultants.

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aalas FOUNDATION
phone: 901-754-8620
email: foundation@aalas.org
http://foundation.aalas.org

Ways of Planned Giving to the AALAS Foundation

aalas FOUNDATION

Dear AALAS Member:

Giving to causes you support is a satisfying way to personally demonstrate your commitment to those causes. Also, in many cases, your gift can benefit you as well as well as the beneficiary. As you will see in the following pages, the AALAS Foundation offers many ways that will allow you to affirm your belief in AALAS Foundation and its outreach programs.

AALAS advances responsible care and use of laboratory animals to benefit people and animals.

The AALAS Foundation provides funding for initiatives to promote the awareness of research animal care and animal contributions to biomedical research, safety testing, and education.

Sincerely,
AALAS Foundation

Terminology:

Codicil. Legal document that amends a will.

Charitable Remainder Trust (CRT). Irrevocable Trust that pays income to one or more individuals until the Grantor's death; at which time the balance, which is tax free, passes to a designated charity.

Charitable Gift Annuity (CGA). A type of CRT which provides for a deferred gift to a charity while paying the donor a fixed lifetime income.

Charitable Remainder Unitrust (CRU). A type of CRT which provides for a deferred gift to a charity while paying the donor a lifetime income. Unlike the annuity trust, the income from an unitrust rises or falls annually with the value of the assets placed in the trust.

Trustee. An individual, bank or brokerage firm, who is responsible for making all decisions for the trust. The decisions include investing for the trust, distributing income to donor, filing tax returns, etc.

Wealth Replacement Trust (WRT). A type of CRT which uses the income from the trust to buy a Survivorship Life Insurance Policy. Upon the death of the donors, the trust pays out its proceeds to the charity and the insurance policy pays its proceeds completely free from income tax, estate tax, and inheritance tax directly to the heirs.

1. Your Personal Will: Benefiting Your Loved Ones and the AALAS Foundation

In addition to being one of the simplest ways to distribute your estate, your will can also be a creative vehicle through which you may make a thoughtful gift to the AALAS Foundation.

After providing for the needs of your family, you may chose to bequeath a certain dollar amount, specific property, annuities, stocks, a percentage of your estate or what is left after provisions have been made for loved ones. If your will is already written, your attorney may be able to prepare a simple codicil to provide for such a gift.

General Bequest Codicil Language

I give, devise and bequeath to the AALAS Foundation, 9190 Crestwyn Hills Dr., Memphis, TN 38125, the sum of $__________ (or here otherwise describe the gift) for its general purposes as such shall be determined by its Board of Directors.

Residuary Bequest Codicil Language*

All the rest, residue and remainder of my property, both real and personal, and wheresoever situated, I give, devise and bequeath to the AALAS Foundation, 9190 Crestwyn Hills Dr., Memphis, TN 38125, for its general purposes as such shall be determined by its Board of Directors.

**A residuary bequest may be divided among several beneficiaries by listing the percentage each share is to receive.*

2. Charitable Gift Annuity (CGA): A Gift Providing Payments for Life

Many people may wish to make a gift to support the AALAS Foundation's activities, but at the same time wish to make certain that they have financial security for their retirement years. A charitable gift annuity may be the solution.

Through a CGA it is possible to make a charitable gift while meeting the long-term needs of yourself or a loved one. Through this medium you may choose to transfer cash, appreciated stocks, bonds and mutual funds to the Foundation. In exchange, you, your spouse or someone whom you designate will receive annual payments from the gift for life.

You receive a tax deduction for the year in which the gift is made, and a portion of the annual payment is tax free for a period of years. At your death, or the death of a designated survivor (if they outlive you), the gift portion of the amount originally transferred continues to support the work of the Foundation.

Through a gift annuity you may enjoy the satisfaction of making a substantial gift while knowing that you have been prudent in planning for your future economic needs and those of others who depend on you. Please be sure to check with your advisor(s) as the Federal rules may change, and the rules may also vary in some states.

Example: Mr. Coleman, 79, and his wife, Mary, 75, wish to make a CGA gift to the AALAS Foundation as part of their long-range financial plan. If they give $10,000 for a gift annuity agreement, under current rates the annual payments to the Colemans would be $650 (6.5%). These payments will be made as long as either of them lives. (The amount of the annual payment is slightly less than it would be for covering only one life.)

When the couple files their income tax return annually, the IRS tables show that the amount of their charitable gift was $3,529*. If they are in a 30% tax bracket, this amounts to $1,000 in tax savings. It could be invested for additional income, giving them an effective yield of over 7%. In addition, for several years a portion of each year's payment is tax free. *(From IRS tables, based on age and life expectancy.)

3. Life Insurance: A Large Gift at Little Cost

A gift of life insurance can be a welcome gift to the AALAS Foundation. Needs for life insurance change as life goes on. Children become self-sufficient and investments may provide unexpected income and security. As a result, not all life insurance coverage may be needed for the reason originally purchased.

One of the simplest ways to a make a significant gift in the future is to name the Foundation to receive all or a portion of the proceeds of a policy no longer needed for family protection. Such a gift entitles you to an estate tax charitable deduction. If you desire an income tax deduction you may, for example, transfer ownership of an existing policy to the Foundation. Another way to make a gift of life insurance is to purchase a new policy naming the Foundation as beneficiary or co-beneficiary. If the ownership of the policy is transferred to one or more beneficiaries, the annual premium payments are deductible from income taxes.

Example: Oliver and Priscilla purchased a $300,000 life insurance policy on Oliver's life in 1975. Since they have provided for their children with other assets and their advisors tell them they will not owe any estate tax, they have decided to change the beneficiaries to provide a $100,000 gift to the AALAS Foundation to establish a named endowment to support their interest in outreach programs. The remaining $200,000 is to be paid to their grandchildren in equal shares.

4. Charitable Remainder Annuity Trust (CRT): A Gift With an Income that Never Changes

A Charitable Remainder Annuity Trust (CRT) is a way to make a gift to the AALAS Foundation while allowing you to retain income from your property for life or for a period you specify. Your funds are invested and pay you a fixed income.

Trust payments can be a welcome supplement to your retirement plan or a way to increase income from low-yield assets. Management of assets for you or a surviving spouse is another benefit of an annuity trust.

When the trust ends at your death (or the death of your surviving spouse, or at the end of a period you have specified), whatever remains in the trust is distributed to the charitable beneficiary you have chosen, such as the Foundation.

The payments you receive each year will be at least 5% of the amount placed in trust. You determine the exact amount when the trust is created.

A tax deduction is allowed at the time you create your trust. Its size depends upon your age, payment percentage and other factors.

Example: Rachel, 64, decides to place $200,000 in an annuity trust with the AALAS Foundation, which will pay her an annual income of 6%, or $12,000. She funds the trust with stocks valued at $200,000 (which originally cost her $80,000), that were yielding her $4,000. With the trust, she triples her income from these assets, avoids capital gains tax on the appreciation of the stocks, and receives an income tax deduction of approximately $90,000. She also removes the property from her estate.

5. Wealth Replacement Trust (WRT): A Gift to the Foundation; Property to your Heirs

When assets are transferred into a CRT, upon the death of the last income beneficiary, the trust's remaining assets are distributed to the designated beneficiaries. While significant tax and other benefits are enjoyed by those who create such a Trust, they often ask, "What about my heirs? I would like my heirs to get some benefit from the assets I am transferring to the Trust."

How it Works:

The WRT, a type of Irrevocable Life Insurance Trust (ILIT), is established. The heirs are named as beneficiaries of the Trust. The Trust buys a survivorship life insurance policy (one policy insuring both husband and wife), or a single life policy if the creator of the Trust is single. The policy pays out at the death of the last income beneficiary which is the same time the CRT pays out to the designated charities. The Trust Beneficiaries (the heirs) receive the policy proceeds which are moneys completely free from income tax, estate tax and inheritance tax. In this way the heirs receive more in value than they would have received had they inherited the property outside the Trust. The premium payments required by the policy are paid by "gifts," in the form of cash, made to the heirs through the Trust. In this way, money is transferred to the WRT. This money is considered gifts to the trust beneficiaries, your heirs. The Trustee of the Trust uses such money to pay the premiums of the life insurance policy. By structuring this part of your estate plan this way, your heirs are afforded a wonderful gift – they receive the value of wealth in the most economically efficient way possible.

Benefits of the WRT:

By using a WRT (or ILIT), the value of your property can pass to heirs, and can probably do so under more favorable tax and financial conditions than the heirs would have enjoyed had they inherited the property outside the CRT.