Planned Giving Opportunities

A brief guide to the tax advantages

Caltech

Pasadena, California
Planned giving is as easy as (1) making a charitable gift, and (2) saving taxes. We’d like to make it even easier with this introduction on some of the best ways to give- and save. Please consult the Caltech Y Development Office or your financial advisor with further questions.

**GIFTS OF CASH**

Gifts of cash are fully deductible- up to a maximum of 50% of the donor’s gross adjusted income. For example, if a donor’s gross adjusted income for this year is $50,000, up to $25,000 of charitable gifts may be deducted in that year. Any excess can generally be carried forward and deducted over as many as five subsequent years.

**GIFTS OF STOCK**

If a donor owns stock, it is more often tax-wise to contribute stock than cash.

This is because gifts of appreciated securities offer a two-fold tax saving. First, the donor avoids paying any capital-gains tax on the increase in the value of the stock. Second, the donor receives an income-tax deduction for the full market value of the stock at the time of the gift. Example:

> If a donor purchased securities many years back for $2,000, and those same securities are currently worth $20,000, an outright gift of those securities would generate a charitable deduction of the full $20,000. Additionally, there is no tax on the $18,000 appreciation of the value.

To benefit from these tax advantages, the donated securities must have been held by the donor(s) for at least one year.

Gifts of appreciated securities are fully deductible up to a maximum of 30% of the donor(s) gross income. Any excess can generally be carried forward and deducted over as many as five subsequent years.

> Donors should always consult with accountants or tax advisors for the advantages (and potential drawbacks) of making a planned gift, based upon particular circumstances.

**GIFTS OF LIFE INSURANCE**

A gift of life insurance can provide a significant charitable deduction. Donors can purchase a new policy or contribute a policy that is currently owned, but no longer needed. To receive a charitable donation, designate the Caltech Y as both the owner and the
beneficiary of the life-insurance policy. Donors should check with insurance agents for
details. Example:

Mr. Brown owns a $250,000 life-insurance policy with a current cash
value of $75,678. By transferring the policy to the Y as the new owner
and beneficiary, Mr. Brown receives a current charitable deduction of
$75,678. As the Caltech Yl pays the premiums after the donation is made,
these subsequent premium payments are tax-deductible each year.

GIFTS OF REAL ESTATE

Gifts of real estate can also be tax-wise. A residence, vacation home, farm, acreage, or
vacant lot may have so appreciated in value through the years that its sale would mean a
sizeable capital-gains tax. By making a gift of this property as an alternative, donors would
avoid the capital-gains tax, and, simultaneously, receive a charitable deduction for the full
fair-market value of the asset.

Donors can also make a gift of their home, farm, or vacation home so that a couple can
continue to use it for its lifetime, all the while receiving current income-tax
deductions.Example:

Mr. and Mrs. Brown own a vacation home by the lake that they would
like to continue using. Its fair-market value is $150,000. By donating the
home to the school now, but retaining the right to use it for the remainder
of their lifetimes, the Browns are able to achieve a current income-tax
charitable-contribution deduction of approximately $62,500. (The exact
amount will depend upon the Browns’ ages, the useful life of the house,
and other factors.)

LIFE INCOME GIFTS
(How to increase income, receive a charitable deduction, and avoid capital-gains
taxes)

If donors own stock that is yielding low dividends (2-3%), a life-income gift may be
appropriate. Donors could transfer the stock to the Caltech Y and establish a Charitable
Remainder Unitrust or Charitable Remainder Annuity Unitrust that would yield a 5% or
greater annual return. The income would be paid to the donors or a designee for life, after
which the assets would be distributed to the Y outright. Through such an arrangement,
donors would be increasing potential income all the while making meaningful (and tax-
deductible) contributions. Example:

Mrs. Brown, age 67, purchased securities many years back for
$10,000  and those same securities are today worth $100,000. The
dividend yield for these securities is 2% annually, and thus she receives
$2,000 per year. By transferring the securities to a charitable remainder
trust and specifying that she wants a 6% return for life, she could:
1. Triple her annual income (from the current $2,000 to $6,000);
2. Avoid the capital-gains tax otherwise incurred on the sale of the securities, and;
3. Be entitled to a charitable-contribution deduction of approximately $54,000. (the amount depends upon the age of the donor, the rate of return specified in the trust, the size of the gift, and other factors.)

CHARITABLE LEAD TRUSTS

Charitable lead trusts are the reverse of the life-income gifts described previously. The income from the trust is first paid the Caltech Y as the charity’s interest leads the way (thus the name of the trust.)

Under this arrangement, donors transfer assets to a trustee who makes payments to the Y (and potentially other charities) for a pre-determined number of years, after which the assets are transferred to the donors’ heirs. The charitable lead trust allows donors to pass assets on to their children and grandchildren either completely free or free of all estate and gift taxes.

BEQUESTS

The Caltech Y can be named as a beneficiary in donors’ wills in any number of simple ways. An outright gift, either a designated dollar amount or percentage of an estate, could be specified. The Y could be named as a remainder beneficiary to receive funds only after specific funds have been paid to individual beneficiaries.

Note: it may be helpful to know that donors can easily add the Caltech Y to their wills through an amendment to the will called a codicil; thus the entire will does not need to be redrafted.

IN CONCLUSION

This brochure cannot tell potential donors everything they need to know about the concepts of planned giving and which methods would be the most advantageous for any particular financial and estate-planning situation. Attorneys, accountants, and tax advisors should be consulted to better understand how these rules apply to a given situation. Not all the available methods of giving could be included in this brochure, and not all of the tax ramifications of each gift vehicle could be discussed.

The Caltech Y’s Office of Development would be pleased to provide you with additional information on the advantages of gift planning.
Insert Forms here for Gift of Cash
Insert form here for Gift of Life Insurance
Insert form here for Gift of Real Estate
Insert form here for Life Income Gift
Insert form here for Charitable Lead Trusts
Insert form here for Bequest