



## *Guide to Charitable Giving*

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### ***TESTAMENTARY CHARITABLE GIFTS***

Testamentary gifts are an attractive way to donate to the Society of St. Vincent de Paul. The term “testamentary charitable gifts” refers to any gift to the Society of St. Vincent de Paul, Sonoma County (“SVdP-Sonoma”) which takes place at an individual’s death--whether that be under the individual’s last will and testament, revocable living trust designed to avoid probate, beneficiary designation under a life insurance policy or IRA, a “pay on death” registration under a bank or money market account, or a “transfer on death” registration for a stock, bond, brokerage account, home, automobile, etc.

Testamentary gifts will qualify for a full estate tax deduction, and the donor can provide for the Society of St. Vincent de Paul without losing control over the assets during his or her lifetime. Gifts can be made to The Society of St. Vincent de Paul National Council either in an unrestricted manner or with a request that the gift be added to the Society’s endowment fund, for the long-term benefit of the Society of St. Vincent de Paul. Gifts can also be made for other restricted or specific program, purposes, if so desired by the donor.

**The proper legal title, which should be used to designate the Society of St. Vincent de Paul, District Council of Sonoma County as beneficiary of a testamentary gift, is:**

***“Society of St. Vincent de Paul, District Council of Sonoma County” or  
“Society of St. Vincent de Paul, Sonoma.”***

Testamentary gifts to the Society of St. Vincent de Paul can be in the form of a percentage of the donor’s estate, or a specific dollar amount. (For example: “I give, devise and bequeath to the Society of St. Vincent de Paul Council of the United States to benefit the programs of the Society, \_\_\_ percent of my estate [or \$\_\_\_\_\_], to be used by the Society’s officers in carrying out the Society’s objectives and purposes.”)

The donor can provide the Society of St. Vincent de Paul with an *outright bequest*, or he or she can create a *deferred gift*, which will first benefit an individual or individuals for life, then pass to the Society of St. Vincent de Paul. Charitable remainder trusts, gifts of a remainder in a personal residence, charitable lead trusts and charitable gift annuities are all described below, and are all viable testamentary options. (The donor needs only to select life beneficiaries and to draft his or her will or revocable living trust accordingly.)

The value of the Society of St. Vincent de Paul interest under any of these various giving techniques will qualify for the unlimited estate tax charitable deduction. However, because the gifts are not made during the donor’s lifetime, an income tax deduction for the charitable gifts will generally not be available to the donor estate.

A donor can provide an income tax benefit to his or her heirs by using his or her qualified retirement plan benefits or IRAs as the vehicle for making charitable gifts at death. For example, a donor planning to make a \$100,000 testamentary gift to the Society may choose instead to leave



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\$100,000 of his or her IRA to SVdP-Sonoma at death. In this fashion, the donor's heirs would not be liable for income tax on any amount when the qualified retirement plan benefits or IRA proceeds are paid to the Society of St. Vincent de Paul. (The Society, since it is a tax-exempt entity, would also not be subject to income tax on the qualified retirement plan benefits or IRA proceeds.) The portion of the qualified retirement plan benefits or IRA proceeds which passes to the Society of St. Vincent de Paul will qualify fully for the unlimited estate tax charitable deduction. Income and estate tax advantages may also be obtained by designating a tax-exempt charitable remainder trust (discussed below) as beneficiary of all or a portion of an individual qualified retirement plan or IRA benefits.

### ***ADVANTAGES OF LIFETIME GIVING***

A lifetime (as opposed to testamentary) gift to the Society of St. Vincent de Paul may result in a total tax benefit of approximately 90 percent of the value of the donated asset. This is because the lifetime gift may result in a savings of approximately 40 percent in combined federal and state income taxes, and approximately 50 percent in combined federal and state estate taxes, for a total tax savings of approximately 90 percent of the value of the donated assets. If appreciated assets rather than cash are donated to the Society, the tax savings can be even greater, as described more fully below.

When you make gifts to the Society of St. Vincent de Paul during your lifetime, you receive a two-fold advantage. Not only do you benefit the Society of St. Vincent de Paul today, but you also receive a gift tax as well as an income tax charitable deduction. Although your gifts must be irrevocable to gain these tax advantages, there are also ways to implement your lifetime charitable gifts that will allow you to use the donated property or receive the income the property generates during your lifetime (or during the joint lifetimes of you and your spouse).

*An outright gift of cash, securities or tangible personal property* is the simplest and most immediate way to give to the Society of St. Vincent de Paul. To maximize the tax benefit you receive from an outright gift, you should consider donating property that has appreciated in value. You will then not only avoid estate taxes on the donated property, but you will also receive an income tax deduction for the full value of the donated property (subject to certain limitations on how much may be deducted in any one year).

For example, if an individual donates *stock* to the Society of St. Vincent de Paul having a fair market value of \$100,000 and a cost basis \$10,000, the individual receives an income tax charitable deduction of \$100,000 and avoids any tax on the \$90,000 appreciation in the value of the stock. The Society, in turn, may sell the stock tax-free and realize a net gift of \$100,000. (If the donor had instead sold the stock and donated the proceeds to the Society, the donor would have had to pay capital gains tax on the stock appreciated value.) Tangible personal property (works of art, jewelry, silver, antiques, coin or stamp collections, etc.) that has appreciated in value may also be an attractive gift vehicle; however, if the donated property (certain restrictions apply) has a use to the Society of St. Vincent de Paul which is unrelated to its exempt purpose, the deduction will be limited



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to the donor's cost basis in the property rather than the property fair market value. (This may not be a problem for donations of items that have a fair market value, which is less than the donor's cost basis. An automobile may fall into this category, for example, if it has not been depreciated in the donor's business for tax purposes.) In addition to the income tax savings achieved, any asset, which is donated to the Society of St. Vincent de Paul, will be removed from the donor's taxable estate for federal and state estate tax purposes.

A donor receives an income tax charitable deduction when he or she donates an insurance policy on his or her life to the Society. In the case of a whole life policy, the amount of the deduction is generally approximately equal to the policy's cash surrender value. If the donor continues paying the premiums on the policy after it is donated to the Society, he or she will also receive an income tax charitable deduction each year for the premiums paid during that year. For federal estate and gift tax purposes, neither the premium payments nor the policy proceeds will be subject to tax, because of the unlimited estate and gift tax charitable deduction.

A charitable remainder trust is an ideal vehicle for making a lifetime charitable gift to the Society, without losing the income generated by the donated property. A charitable remainder trust is an arrangement that places assets of your choice in trust. During your lifetime, you receive all or a portion of the income generated by the trust assets (and, if desired, a portion of the principal of the trust) each year. After your death (or after the deaths of both you and your spouse), the trust assets pass to the Society.

Several tax advantages accompany a gift by you to a charitable remainder trust. First, you will receive an immediate income tax deduction for the present value of the Society of St. Vincent de Paul's interest in the trust that comes into existence at your death (or at your spouse death). [The tax law requires that the value of the Society's remainder interest in the trust be equal to at least 10% of the fair market value of the property that is contributed to the trust, as of the date it is contributed.] Second, the trust will be able to sell any donated securities or other appreciated assets tax-free, thus allowing the trustee to reinvest the full amount of the proceeds from the sale in assets which will provide a much higher level of current income for you and your spouse. Finally, the trust assets will effectively be removed from your (and your spouse's) taxable estate for federal and state estate tax purposes.

If desired, a portion of the income tax savings and additional income generated by the reinvested assets can be used to purchase a life insurance policy on your life (or on the joint lives of you and your spouse), which can then replace the value of the donated assets, so that your family inheritance is not affected by the gift.

For example, assume an individual who is 70 years old donates stock with a fair market value of \$100,000 and a cost basis of \$10,000 to a charitable remainder annuity trust. Assume further that the stock is currently paying an annual dividend of 1%. The trustee sells the stock tax-free and reinvests the proceeds in other assets that yield 7%, and pays the income to the donor. The donor income will increase by 6%, and he or she will receive an income tax deduction equal to approximately 34% of the value of the donated assets (based upon the I.R.S. discount rate in effect for the month of February, 2005), for the value of the Society of St. Vincent de Paul's remainder interest in the trust. If desired, the individual may then use all or a portion of his or her increased



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income and income tax savings to purchase life insurance to replace the value of the assets which pass to the Society upon the individual's death.

There are two types of charitable remainder trusts: annuity trusts and unitrusts. The charitable remainder annuity trust offers a fixed-amount payout each year while the charitable remainder unitrust pays out a fixed percentage of the value of the trust assets, which are revalued annually. Although the annuity trust provides no protection against inflation, it eliminates the hassle and expense of revaluing the trust assets each year. The unitrust requires more administration costs but offers the life beneficiaries more control over the flow of income. As the donor, you can choose the type of charitable remainder trust that is best suited for your needs.

A gift of a remainder interest in your personal residence, farm or vacation home represents another simple way to take advantage of the tax savings associated with lifetime charitable gifts, but without losing the use of the property or the income it may generate during your lifetime (or the lifetime of you and your spouse). You (and your spouse) can transfer your home, farm or vacation property (certain restrictions apply) to the Society of St. Vincent de Paul and continue to live in it, use it, or receive the income it generates. In all cases, you will receive an immediate income and gift tax deduction equal to the present value of the property that the Society of St. Vincent de Paul will receive at your death. The specific amount of your income and gift tax deduction will depend primarily upon your life expectancy and the value of the donated property.

A charitable lead trust is an arrangement that places assets of your choice in trust for your (and your spouse's) life or for a period of years. During the trust term, the Society of St. Vincent de Paul will receive a fixed amount annually from the trust. When the trust terminates, the trust assets (including any appreciation in value) are distributed to the beneficiaries you designate.

The tax advantages to be gained from establishing a charitable lead trust are that the donor may be entitled to an income and gift tax charitable deduction equal to the present value of the Society's interest in the assets transferred to the trust (again discounted at the I.R.S. discount rate in effect on the date of the gift), and any appreciation in the value of the trust assets after the creation of the trust escapes gift and estate taxes entirely.

For example, assume an individual age 70 creates a charitable lead trust of \$100,000 that will pay the Society \$7,000 for the donor's life, with the trust assets passing to the donor's heirs after his or her death. At the time the trust is created, the individual receives an income and gift tax charitable deduction of approximately \$65,900, or 65.9% of the value of the trust assets (based upon the I.R.S. discount rate in effect for the month of February 2005), and pays estate and gift taxes based upon the value of the beneficiaries' remainder interest in the trust, or on only 34.1% percent of the value of the trust assets. Any appreciation in the value of the trust assets occurring during the trust term will escape the estate and gift taxes entirely.

Please note: you should consult with a tax advisor prior to proceeding with any of the above-described charitable giving techniques. For further information on any of the above topics, please contact Vicky Smirnoff, Manager of Development. Her telephone number is 707-584-1579, x205.