



## **PLANNED GIVING TO WILMINGTON CHRISTIAN SCHOOL**

Current and annual gifts, though always welcome and needed, are not the only way to contribute to the mission and ministry of Wilmington Christian School. *Planned* Gifts play a crucial role in the long-term financial health of WCS.

Generally, a planned gift means a gift that takes more thought and planning than simply writing a check. This can take many forms that fall into three major categories:

1. Gifts Which Are Not Completed Until Your Death
2. Current Gifts
3. Gifts that Return Income to You in a Tax Advantaged Way

### ***Gifts Which Are Not Completed Until Your Death***

You may prefer to leave your assets and cash flow alone until your death, and instead make your gift through your estate. Even though WCS cannot use such a gift immediately, it will be critically important for the long-term financial strength of WCS and will help ensure that we can meet the opportunities and challenges the future will present. There are three very common ways to make a planned gift now that will take effect at your death:

- ✓ Bequests and Gifts Designated in Wills or Revocable Trusts
- ✓ Gifts of Retirement Account Assets
- ✓ Gifts of Life Insurance Proceeds

### ***Bequests and Gifts Designated in Wills or Revocable Trusts***

A bequest is a gift from your estate as designated by your will. If you use revocable trusts in your estate planning, you will more likely make such a gift by making a provision for the gift in your revocable trust.

A bequest is easy to arrange. It is not payable until death, so it does not affect your assets or cash flow during your lifetime. It is private – your will is not filed or made public until your death. And, it is revocable – you can change the provisions in your will or revocable trust at any time until death.

A bequest can deliver a specific gift (“I bequeath the sum of Ten Thousand (\$10,000) Dollars”), or a percentage of the balance remaining in your estate after taxes, expenses and specific bequests have been paid – what’s known as the residue of your estate (“I bequeath Ten Percent of the residue of my estate...”).

A charitable bequest or trust distribution is deductible for federal estate tax purposes, and there is no limit on the deduction your estate can claim. In addition, the gift is usually exempt from state inheritance taxes.

Since we will likely not receive your bequest until far into the future, its terms should be as general as possible – to avoid benefiting a project that we no longer pursue or terms that will be difficult to meet. Two specific areas to which you may make a bequest are to the “Wilmington Christian School Tuition Assistance Endowment Fund”, and the “Wilmington Christian School General Endowment Fund.” Please consult us if you are considering a bequest for a specific purpose other than these two endowment funds.

If you have already written your will or trust, you can make an amendment to add Wilmington Christian School. Your attorney can prepare the simple document, (a “codicil” for a will and an “amendment” to a trust), which adds a new bequest or gift to us while reaffirming the other terms of your will.



## ***Gifts of Retirement Plans***

Your largest asset may be your **retirement plan** – your 401(k), 403(b), IRA, or other such accounts. When you plan your estate, it may seem natural to automatically designate a child or other relative as the successor beneficiary of the account after your death, then use other assets to make a charitable gift to Wilmington Christian School.

But there's a tax trap in such an arrangement: the IRS considers the balance left in your retirement account to be untaxed income. The income tax is in addition to estate tax on the retirement account balance. For estates fully subject to the estate tax, well over half of the value of the retirement plan can be consumed in taxes before your child, relative or friend receives it:

***There is a sensible charitable alternative:*** Name Wilmington Christian School as a beneficiary of your retirement plan, and use other assets, not subject to income tax, to make gifts to your heirs. Since we are a non-profit organization, we won't pay income tax on the distribution (nor will the gift be subject to estate tax); meanwhile your heirs will receive other assets of your estate without the burden of extra income taxes.

## ***Gifts of Life Insurance***

You may be surprised to learn that your surplus, paid-up life insurance policies can be used to fund a gift to Wilmington Christian School. If, for instance, you acquired several life insurance policies when your family was younger, with the children now grown the coverage may be more than you need. If you donate a policy, your charitable deduction will be the lesser of the fair market value of the policy – we can guide you in determining – or your cost basis, which is the total of your net premium payments.

Alternately, your annual income may be healthy, but you know that ongoing family obligations will make it difficult for you to accumulate capital. You want to make a significant gift to Wilmington Christian School, but wonder how you will gather the resources to do so. If you take out a new life insurance policy as a gift, you can deliver a large benefit to us from income rather than capital. You will make deductible annual gifts to us in the amount of the premium payments; we will, in turn, pay the premiums to the insurer.

You can also transfer ownership of an existing policy, which is not yet paid up. Your charitable deduction will be determined in the same way as if you had given us a paid-up policy. We reserve the right to surrender your policy or to keep it in force; you can make deductible gifts to offset our premium payments if we elect to continue the policy.

## ***Current Gifts***

Some current gifts require additional thought and planning than simply writing a check to an annual fund. If the size is larger than usual or the type of property is not cash, this would fall into the category of planned gifts. The most common types of current gifts are the following:

### ***Cash***

It is, of course, the simplest transaction to make. You are limited only by your cash flow and your inclination to draw from your cash reserves. The advantage is that you may be able to deduct the value of the cash gift on your income tax return.

### ***Appreciated Stocks and Bonds***

If you own securities that have grown in value, then you may be liable for a capital gains tax if you sell the asset. If you give such an asset directly to WCS, your income tax deduction is based on the current market value, but you incur no capital gains liability on the transfer to us.



### ***Real estate***

WCS is happy to consider gifts of residential, commercial and undeveloped real estate. We have to review each gift proposal carefully, and sometimes it's not practical for us to accept. As with donations of other types of appreciated property, gifts of real estate secure a charitable income tax deduction for you, based on the fair market value of the property, with no capital gains liability for the transfer to us.

### ***Appreciated Tangible Property***

You may be holding a book collection, artwork, a motor vehicle, or other tangible personal property that you no longer wish to maintain. These assets could bring real benefit to WCS. There are particular IRS requirements to meet before you can deduct a gift of appreciated assets. We will review each gift proposal carefully to make sure that Wilmington Christian School could put the asset to good use.

### ***Business interests***

An interest in a business may also hold value for us. We'll review the proposed gift, and if we agree will work with you and your advisors. Since closely-held stock doesn't trade publicly, a gift of such an asset requires an independent appraisal to establish its fair market value. Your charitable deduction will be based on the appraised market value of the shares, minus any liabilities you may have accrued.

## ***Gifts That Return Income To You In a Tax Advantaged Way***

There is a family of gifts that transfers assets to Wilmington Christian School and then returns income to you. You can use them to convert low-yielding securities to a higher income stream at a greatly reduced capital gains cost. You can receive fixed or variable income, take payments for your lifetime or for a term of years, and direct the income to other beneficiaries. In essence, you make a contribution yet retain benefits from what you gave away.

Your charitable deduction is based on the full market value of the assets you gave, minus the present value of the income interest you retained. The higher the income payout, the lower the deduction.

These flexible, creative gifts address a variety of your planning objectives. For our part, the return of income allows you to consider a more substantial gift to Wilmington Christian School than you might be able to afford in an outright format. Even though we cannot use these gifts until the death of the last income beneficiary, they give WCS long-term financial strength that will sustain it in the future.

### **What are my choices in income gifts?**

A **charitable gift annuity** is the simplest. In return for your gift, we agree by contract to pay you and/or another beneficiary fixed income for life. The income rates and the charitable deduction tend to be higher with a gift annuity than with other life-income gifts. There is also an attractive reduction in the taxation of annuity payments. This gift plan is most appropriate if you are risk-averse in your investing and if long-term fixed income is an appropriate strategy for you.

A **deferred gift annuity** delays the inauguration of income payments to the beneficiaries. In return for this delay, the deferred annuity increases both the income rate and the charitable deduction above those of an annuity starting income payments immediately. If you are currently in high-earnings years, looking for tax deductions and new sources of retirement income, a deferred annuity with income set to start when you turn 65 may fit your needs well. A deferred gift annuity can also be used to direct income to children or grandchildren that they can use for **tuition**.

One other gift returning fixed income, the **charitable remainder annuity trust**, is an individually managed trust instead of a contract. The annuity trust offers you more flexibility: It can pay income to multiple beneficiaries, while the gift annuity is limited to two individuals. It can pay income for a term



of years (up to 20) while a gift annuity can only pay for life. Under certain circumstances an annuity trust can pay all tax-free income, especially if it was funded with tax-free securities.

The most flexible life-income gift also pays you variable income. The **charitable remainder unitrust** pays beneficiaries a fixed percentage of the value of the principal, which is revalued annually. Income in excess of the unitrust amount is reinvested, so that the unitrust's income rate can be applied against an increasing corpus over time. The unitrust can pay multiple beneficiaries, and can pay income for lifetime or a term of years. Like the annuity trust, the unitrust is individually managed, and requires a larger gift to make the management feasible.

A special feature of the unitrust is its ability to grow its principal over time, then reinvest for income, with no capital gains cost. This feature, explained in the text, allows you to build up a fund for later needs, such as college tuition.

A **charitable lead trust** works in reverse from the life-income gifts discussed above. Your gift is placed in a trust that pays income to WCS for a term, then returns the principal to you or your heirs.

The lead trust is a very effective tool to remove a portion of your estate from tax liability. If the assets are to pass to your heirs, any growth in the principal after the trust was inaugurated is exempt from estate tax. Further, the amount subject to tax is reduced by the value of our income interest.

If you have a growing family business or a rapidly appreciating portfolio, and children whom you'd like to benefit, a lead trust may be just what you're looking for.

### ***Contact Wilmington Christian School if you have any questions***

**We can help you if you have any questions about how to make a planned gift to WCS, or if you would like to discuss with a qualified financial advisor (volunteer to the school) how a gift will affect your particular situation.**

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