



Ways to Give And What to Give

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WAYS TO GIVE SUMMARY

Bequests

Leave your legacy by making a gift in your will to friends, family and charitable organizations. A bequest is one of the simplest ways to give to remember those causes you care about most.

Retained Life Estate

One of your valued possessions, your home, can become a valued gift to us even while you are still living in it, and even if you want your spouse or other survivor to live there for life. This arrangement is called a retained life estate.

Charitable Gift Annuity

The concept of the charitable gift annuity in America dates back to 1843, when a merchant in Boston first donated a gift of money to the American Bible Society in exchange for a flow of income. Today, the concept includes valuable tax benefits for donors. But perhaps more valuable than the financial advantages is the satisfaction donors gain by helping to continue our mission and good works.

Charitable Remainder Trust

What are your plans for the future? While there is no single way to achieve all of your personal and financial goals, there is one strategy that can meet many of your needs. It's called a charitable remainder trust. In the right circumstances, this plan can increase your income, reduce your taxes, unlock appreciated investments, rid you of investment worries and ultimately provide very important support.

Charitable Lead Trust

If your goal is to provide an inheritance for your children, but you would also like to make a significant charitable gift through your estate, find out how a charitable lead trust can help you satisfy both objectives. It's a charitable lead trust that can provide a significant charitable gift through your estate and provide an inheritance to your children.

WHAT TO GIVE SUMMARY

Gifts of Cash

The simplest way to give. However, you can deduct a cash gift for income tax purposes only in the year in which you contribute it. Your cash gifts are deductible up to 50 percent of your adjusted gross income for the taxable year, but any excess is deductible over the next five years.

Gifts of Life Insurance

You can donate a life insurance policy to us or simply name us as the beneficiary. For the gift of a paid-up policy, you will receive an income tax deduction equal to the lesser of the cash value of the policy or the total premiums paid. To qualify for the federal charitable contribution deduction on a gift of an existing policy, you must name us as owner and beneficiary.

Gifts of Real Estate

If you own property that is fully paid off and has appreciated in value, an outright gift may be the simplest solution. You can deduct the fair market value of your gift, avoid all capital gains taxes and remove that asset from your taxable estate. You can transfer the deed of your home or farm to us now and keep the right to use the property for your lifetime and that of your spouse.

Gifts of Securities: Closely Held Stock

Closely held stock, that which is not publicly traded, can also be used as a charitable gift even if you want to maintain a control position in the stock.

Gifts of Securities

The best stocks to donate are those that have increased greatly in value, particularly those producing a low yield. Even if it is stock you wish to keep in your portfolio, by giving us the stock and using cash to buy the same stock through your broker, you will have received the same income tax deduction but will have a new, higher basis in the stock.

Gifts of Retirement Plan Assets

Did you know that nearly half your retirement plan assets can be eaten away by taxes at your death? Learn how to preserve more of your estate for the people and organizations that matter most in your life.

WAYS TO GIVE: FURTHER DETAIL

Bequests

If you plan to make a charitable gift by will, please think it through carefully. Then, meet with your attorney to discuss and update your will. Tell him or her exactly what you want to do. Be as clear as possible in describing what you want given to whom.

Let Us Know. We hope you'll tell us when you have named DFEE in your will. We would very much like the opportunity to thank you for your generosity.

The official legal bequest language for DFEE is:

"I, [name], of [city, state, ZIP], give, devise and bequeath to Durango Foundation for Educational Excellence, [written amount or percentage of the estate or description of property] for its unrestricted use and purpose."

If you prefer to remain anonymous, your gift will be kept completely confidential. But at the same time, recognition of your gift can encourage others to do the same. Whatever the case, we will honor your wishes, because we appreciate your support immensely. And, if you have any other specific requests for a bequest, please contact the DFEE at (970) 385-1491 for assistance.

Various Bequest Options

Here are eight generally accepted ways to make a bequest. You might discuss them with your attorney as you prepare to update your will.

1. Specific bequest.

This is a gift of a specific item to a specific beneficiary. For example, "I give my golf clubs to my nephew, John." If that specific property has been disposed of before death, the bequest fails and no claim can be made to any other property. (In other words, John wouldn't receive the value of the golf clubs instead.)

2. General bequest.

This is usually a gift of a stated sum of money. It will not fail, even if there is not sufficient cash to meet the bequest. For example, "I give \$50,000 to my daughter Mary." If there is only \$2,500 cash in the estate, other assets must be sold to meet the bequest.

3. Contingent bequest.

This is a bequest made on condition that a certain event must occur before distribution to the beneficiary. For example, "I give \$50,000 to my son, Joe, provided he enrolls in college before age 21." A contingent bequest is specific in nature and fails if the condition is not met. (A contingent bequest is also appropriate if you want to name a secondary beneficiary, in case the primary beneficiary doesn't survive you.)

4. Residuary bequest.

This is a gift of all the "rest, residue and remainder" of your estate after all other bequests, debts and taxes have been paid. For example, you own property worth \$500,000, and you intend to give a child \$50,000 by specific bequest and leave \$450,000 to a spouse through a residuary bequest. If the debts, taxes and expenses are \$100,000, there would only be \$350,000 left for the surviving spouse. Rather, you should divide your estate according to *percentages* of the residue (rather than specifying dollar amounts), to ensure that your beneficiaries receive the proportions you desire.

The previous items can apply in the case of bequests to individual heirs or bequests to charitable organizations.

The following items are special considerations when you plan a charitable bequest to help support the mission of the Durango Foundation for Educational Excellence.

5. Unrestricted bequest.

This is a gift for our general purposes, to be used at the discretion of our governing board. A gift like this—without conditions attached—is the most useful, as it allows us to determine the wisest and most pressing need for the funds at the time of receipt and to build the DFEE annuity fund so that the organization can become self-sustaining and insure its mission and charter works continue into perpetuity.

6. Restricted bequest.

This type of gift allows you to specify how the funds are to be used. Perhaps you have a special purpose or project in mind. If so, it's best to consult us when you make your will to be certain your intent can be carried out.

7. Honorary or memorial bequest.

This is a gift given "in honor of" or "in memory of" someone. We are pleased to honor your request and have many ways to grant appropriate recognition.

8. Endowed bequest.

This bequest allows you to restrict the principal of your gift, requiring us to hold the funds permanently and use only the investment income they generate. Creating an endowment in this manner means that your gift can continue giving indefinitely.

RETAINED LIFE ESTATE

One of your valued possessions, your home, can become a valued gift to Durango Foundation for Educational Excellence even while you are still living in it, and even if you want your spouse or other person to live there for life. This arrangement is called a retained life estate.

You Retain Rights, Responsibilities and Tax Savings

By deeding your home to us now, you can obtain a sizable income tax deduction this year. The amount depends on the value of the property and your age (and the age of any person given life use). In addition, you retain the right to rent your home or make improvements to it. You continue to have responsibility for maintenance, insurance and property taxes.

Example: *Ellen, age 65, a widow, deeds her home to us, though she plans to live there for the rest of her life. The market value of the property is \$200,000 (the house, \$160,000, and the land, \$40,000). Using the required IRS table to discount the gift based on Ellen's life expectancy and a 4.6 percent charitable midterm federal rate and future depreciation of the house, her accountant determines her income tax deduction to be in excess of \$81,000.*

Any personal residence qualifies for this tax deduction--a farm (with or without the house), vacation home, condominium, even stock in a cooperative housing corporation.

Your gift to us must be an irrevocable remainder interest. In other words, after your life use and that of any survivor, the foundation receives the property outright.

Tax Savings for Partial Use

Even a home you don't occupy year-round may qualify. For example, you could give the foundation a one-half interest in a vacation home. You would continue to use the property for six months of each year while we, as half owner, would use it for the remaining six months. As a result, you'd be entitled to an income tax charitable deduction based on half the property's fair market value.

Life Income From Home Transferred to a Trust

If you don't want to live in your unmortgaged home any longer, consider transferring it to a charitable remainder trust. The trustee can then sell the property and invest the proceeds in income-producing securities. You'll receive an income for life--and so can a survivor you name. The trust principal becomes ours, without exposure to estate taxes when spouses are the only income beneficiaries.

When you transfer appreciated property that has been held long-term, you won't pay any tax on the capital gain. And you'll benefit from a substantial current income tax deduction.

Personal Satisfaction, Too

A gift of your home is a tangible and enduring testimonial of your interest in our goals. And your satisfaction in giving complements your important tax savings.

Charitable Gift Annuity

The concept of the charitable gift annuity in America dates back to 1843, when a merchant in Boston first donated a gift of money to the American Bible Society in exchange for a flow of income. Today, the concept includes valuable tax benefits for donors. But perhaps more valuable than the financial advantages is the satisfaction donors gain by helping to continue the mission and good works of Durango Foundation for Educational Excellence.

Gift Annuities Defined

A gift annuity is a simple, contractual agreement between a donor and the foundation in which you transfer assets to us in exchange for our promise to pay one or two annuitants payments for life.

By donating through a gift annuity, you: (1) contract for a fixed payment for yourself or yourself and another individual, if you choose, and (2) make a gift to the foundation. If you itemize deductions on your tax return, savings from the charitable deduction reduce the net cost of the gift.

For a period of years, based on a government table of life expectancies, a portion of each payment received is considered a nontaxable return of your investment in the gift. This further increases your after-tax dollars available for spending or investing.

An annuity funded with appreciated property results in these additional advantages: (1) the gain allocated to the gift portion completely avoids the capital gains tax, and (2) the portion of gain to be recognized can be spread over the expected term of the contract (provided that the donor is a primary annuitant and the annuity interest is assignable only to the charitable organization).

With a deferred payment gift annuity, the start of payments is delayed until a specific date, initially determined by the donor. Deferral of payments increases the initial income tax charitable deduction, tax savings and the annuity rate. However, it also reduces the nontaxable amounts to be received. This option is appealing to younger donors who wish to improve future income, such as at retirement.

Understanding Annuity Rates

Annuity rates are higher for older annuitants and lower for younger annuitants, based on life expectancy. As a result, gift annuity contracts are generally more appealing to older donors because the purchasing power of a fixed dollar return can shrink over any long period, even with modest inflation.

Rates are also adjusted according to the number of annuitants, with rates for two-life contracts often lower due to the extended life expectancy. The age of an annuitant is the age reached at the nearest birthday when the contract is made, and rates are the same for men and women.

A specific annuity rate is a matter of agreement between the donor and the issuing charitable organization. Below you'll see how one-life annuity rates increase with age. These rates are recommended by the American Council on Gift Annuities and are re-determined periodically.

One Life		Two Lives	
Your Age	Rate of Return	Ages	Rate of Return
50	5.3%	65/65	5.6%
55	5.5%	70/70	5.9%
60	5.7%	75/75	6.3%
65	6.0%	80/80	6.9%
70	6.5%	85/85	7.9%
75	7.1%	90/90	9.3%
80	8.0%		
85	9.5%		
90	11.3%		

*Please be advised that the DFEE might not offer CGAs at the above ages and rates and that CGAs are not available in all states. Contact Durango Foundation for Educational Excellence for specific information.

A Case Study of Benefits

Linda, age 75, plans to donate a maturing \$25,000 certificate of deposit. Since she needs continuing income, Linda decides to use the cash for a one-life charitable gift annuity that we will issue at the suggested rate of 7.1 percent. Payments will be made quarterly. At the time of purchase, the charitable midterm federal rate (a figure used in calculating the charitable deduction) is 4.6 percent.

Although Linda's annuity rate is 7.1 percent, her actual earnings will be higher. Because Linda itemizes income tax deductions, she earns a federal income tax charitable deduction of \$10,742. With a marginal income tax rate of 28 percent, the tax savings of \$3,008 will reduce the net cost of the gift to \$21,992. Her annual payments of \$1,775 will mean an effective rate of total return of 8.1 percent, which is Linda's annual payment expressed as a percentage of the net cost. Secondly, for the next 12.4 years, more than half of every dollar Linda receives will be considered a return of her investment in the contract and will not be subject to tax.

Learn More

Charitable gift annuities are an excellent method of achieving your philanthropic goals and gaining substantial tax benefits. As with most contract agreements, however, before establishing a charitable gift annuity, it is best to consult knowledgeable professionals.

CHARITABLE LEAD TRUST

When people think about providing an inheritance to children and making a significant charitable gift through their estates, a vehicle known as the "charitable lead trust" is an excellent method to accomplish both objectives.

A charitable lead trust is a trust that the estate owner establishes either during life (an inter vivos trust) or at death (a testamentary trust). The income from the trust flows to a charitable organization, like Durango Foundation for Educational Excellence, typically for a stated number of years. After that period, the assets inside the trust are then distributed. The fact that the assets will one day be transferred to another person means that this trust has one further distinction: it is a "nongrantor" trust, as opposed to a grantor trust. "Nongrantor" means the trust assets are not owned by the person who established the trust, and the assets are not going to be returned to him or her someday. (A "grantor" trust is one in which the assets will eventually be distributed back to the donor. As a result, the donor is subject to tax on the assets.)

The Tax Benefits

Of all the charitable vehicles available to donors, the charitable lead trust is among the most complex. However, a nongrantor lead trust does offer the advantage of providing excellent tax benefits to the estate owner.

Let's take a look at an example of how the trust works: A person transfers \$1 million to the trust. The donor does *not* receive an income tax deduction. And, Durango Foundation for Educational Excellence receives an income for 20 years. That income is either a fixed dollar amount or a percentage of the trust value as it is determined each year. For our purposes, let's assume that the foundation is to receive \$50,000 each year. This means that we will receive \$1 million over a 20-year period, a wonderful gift for the foundation. At the end of that time, the assets in the trust, which may or may not have grown in value, are then distributed (in our example) to a child or even a grandchild with extra planning.

How does this gift impact the donor? As mentioned earlier, the donor receives no income tax deduction. This fact makes it difficult for many people, including attorneys, to understand the benefit to the donor. In fact, the donor may have to pay a gift tax for the privilege of establishing a charitable lead trust.

A Look at the Issues

When the gift is established, the IRS requires a calculation to be made to determine the present value of the amount going to the child someday; in our case, in 20 years. Let's say that value, based on the data we have assumed, is \$400,000. This means that the value to the foundation over the years, as calculated by the IRS, is \$600,000. If the donor is subject to tax

and he or she is at the 46 percent marginal level, the gift tax due on establishing the gift could be nearly \$200,000. Not a good deal. Or is it?

When the gift is established, the tax paid is the only tax that will ever be due on that transfer. As far as the IRS is concerned, the transfer is being made on the day of the gift, not in 20 years. Now, consider the possibility that the trust has grown over the years, which is highly likely. And, let's say the value is ultimately \$3 million. This means that the child will receive \$3 million and no tax is due. If that asset were transferred outright at that time, the estate tax at the 46 percent rate assigned to that asset would be \$1.38 million, far more than the \$200,000 (even in inflation-adjusted terms) paid 20 years earlier. Further, during that time, the foundation has an annual income from the trust of \$50,000.

Clearly, there are many issues to consider, both legal and personal, when considering the establishment of a charitable lead trust. In the end, you may find that such a trust represents one of the best ways to help Durango Foundation for Educational Excellence while planning a deferred transfer of assets to children.

WHAT TO GIVE: FURTHER DETAIL

Gifts of Cash

If you itemize deductions on your tax returns, the first tangible benefit of making a gift of cash to Durango Foundation for Educational Excellence today is an income tax charitable deduction for the full value of the gift in most cases. The resulting reduction in income taxes payable lowers the net cost of the gift. If you are subject to state and/or local income taxes as well as federal, the combined marginal rate (after the federal deduction for those income taxes paid) should be taken into consideration in determining the gift's net cost.

If you don't usually itemize deductions, you may want to consider it for any tax year in which you make a sizable charitable donation. One technique used by people who have few itemized deductions is to alternate between years in which they take the standard deduction and make few charitable gifts, and the years in which they give double their desired annual philanthropic support and shift to itemizing.

Beware of the annual limitation on the use of charitable deductions claimed for gifts to public charitable organizations, which for any specific year is 50 percent of your adjusted gross income (AGI) for cash gifts. Any unused deductible amounts can be carried over and used for as many as five additional years, if necessary.

If you predict that your estate will be subject to estate tax at your death, keep in mind that you receive a federal gift tax charitable deduction for the value of gifts of cash made during your lifetime. Since the value also is removed from your future estate, it completely eliminates the federal estate tax. This savings reduces the net cost of your charitable gifts.

Outright Gifts and Their Results

Cash gift.

A cash gift by check is one of the most common methods for making an outright charitable contribution. For cash gifts of \$250 and more, donors must have written confirmation from the charitable donee, as canceled checks are no longer sufficient proof of a deductible gift.

To illustrate the net cost of a \$1,000 cash gift, assume the gift is made by a taxpayer with a combined state and federal marginal income tax rate of 36 percent. The amount of the tax bracket, multiplied by the amount of the gift, is subtracted from the gift to determine the net cost to the donor.

$36\% \times \$1,000 = \360 $\$1,000 - \$360 = \$640$. Therefore, the net cost of the donor's gift is \$640.

Gifts of Life Insurance

When you first bought a life insurance policy, you probably hoped to ensure the financial stability of your family should something happen to you or your spouse. Have your circumstances changed since then?

Life insurance can be a tool with many purposes. For example, it can provide liquidity for paying taxes and other expenses at death. But, believe it or not, some of the most satisfying uses for life insurance policies are connected with charitable giving!

If you have a life insurance policy you no longer need, you might contribute it to a charitable cause in which you believe. Purchasing a new policy and naming Durango Foundation for Educational Excellence as beneficiary is another possibility. Before making a purchase of new insurance, please contact Durango Foundation for Educational Excellence

Perhaps you are considering a sizable bequest to the foundation, provided your family's future inheritance is not affected. Life insurance can play a part in meeting this goal, too, by replacing for your heirs the amount donated.

This versatility of life insurance makes revisiting its uses a good idea, and that's what this information will help you do.

Indirect Use of Insurance for Wealth Replacement

In recent years, probably the greatest increase in using life insurance in philanthropic plans has been to replace for heirs of an estate a value being given, by one means or another, to a charitable organization like the Durango Foundation for Educational Excellence.

A significant outright charitable gift might reduce the projected value of inheritances for family members. However, depending on the age, health and marginal income tax rate of the donor(s), income tax savings from use of the charitable deduction can be enough to purchase life insurance, whose death benefits equal the value of the gift.

Example: *Joan makes a charitable gift of a building that has appreciated in value since she acquired it long ago. She knows that, among other benefits, this allows her estate to realize greater tax savings than if she had bequeathed the building to her children. (She might also have sold the building, but then she would have been forced to pay capital gains tax.) She then purchases life insurance for the benefit of her children, an expense that she would have paid anyway in taxes, had it not been for the charitable deduction she received for her gift to us. Instead of receiving a building, her children will receive cash from the insurance policy—and all of this happens outside the probate process.*

If your projected estate is taxable, ownership of life insurance by another person (which also keeps death benefits out of the probated, taxable estate)

might also be considered. It's even possible to make annual gifts of the premium amounts to the beneficiary/policy owner and utilize your gift tax annual exclusions.

Gift of an Existing Policy

You may own an insurance policy that has a substantial cash surrender value, yet the original purpose for the protection no longer applies. The policy might have been purchased initially to provide financial security for a spouse now deceased, to educate children now grown or for liquidity to pay death taxes when liquid assets were in short supply. This policy can be a sort of hidden asset, available to be used for your philanthropic purposes.

If you choose to name Durango Foundation for Educational Excellence as the beneficiary of a policy that is not paid up and also assign all incidents of ownership of the policy to us, several good things happen. You receive an immediate income tax charitable deduction for the lesser of the premiums you have paid or the "interpolated terminal reserve" value of the policy. This is similar to the cash surrender value, a figure available from the insurer.

If you itemize deductions on your tax return, your actual income tax savings depends on your marginal tax rate. A person who does not normally itemize may find the additional charitable deduction boosts his or her total itemized deductions above the standard deduction.

For a paid-up policy, the deduction is the cost of replacing the coverage with a comparable policy. In either situation, the tax deduction cannot be greater than your net investment in the policy (total premiums paid less any dividends received).

When death benefits under the policy are removed from a taxable estate, there may be a future estate tax savings if your estate would have otherwise been subject to tax.

If premiums on the policy are still payable, there are two options to be considered. You may stipulate that the assignment of ownership of the policy at its current value is the total charitable gift, immediately available for our use. In that case, we might surrender the policy for cash. Or we might decide to accept an amount of paid-up insurance. In either case, you are relieved of the obligation to make further premium payments.

However, an alternative may be even more attractive. The policy can remain in force so that the larger, original face amount will become your gift. You pledge to make unrestricted gifts at least annually, which we will use to pay the premiums. The gifts are deductible, and the policy is thereby kept in force with pretax instead of after-tax dollars for a lower actual cost.

A further potential advantage is to make annual gifts in the form of marketable capital gains property otherwise to be sold, such as appreciated

stock. Avoidance of the capital gains tax is a second tax savings, not possible when paying premiums directly to the insurer.

Use of Beneficiary Clause as a Revocable Gift Arrangement

Other options are available if you would rather retain ownership of a policy as an asset for your own financial security or that of others. They include:

- naming Durango Foundation for Educational Excellence as the only or a partial primary beneficiary of the policy, with the right to change the beneficiary clause as owner of the policy;
- naming us as the contingent beneficiary, receiving the death benefits only if a named individual beneficiary predeceases you;
- creating a separate trust named to receive death benefits, with trust terms providing first for financial support of one or more named individuals for specific terms of years or for life, after which the trust terminates and its assets pass to us;
- naming the foundation as the residual beneficiary of an annuity settlement option available under some policies.

These plans do not produce a current income tax charitable deduction, but they can provide the satisfaction of knowing we will receive some benefits if certain events take place and the arrangement is left unchanged. Any amounts payable to us at your death will not be subject to federal estate tax.

New Policy for Future Charitable Gifts

Many of our friends and regular donors who would like to make a significant future gift to the foundation at a relatively low cost can do so through a new life insurance policy. With increasing longevity, older persons can now purchase insurance at more affordable premium costs than were possible in the past. Retired individuals enjoying a surprisingly high standard of living can use some annual discretionary income to perpetuate their support of our work, without depleting their financial reserves or reducing the projected inheritances of family members.

In most states, you can enter into a new insurance contract with a qualified charitable organization such as ours as both the beneficiary and owner of the policy. Gifts to the foundation to cover premiums are deductible for those who itemize and can be in the form of capital gain property for a second tax savings.

Greater leverage is possible when two donors, usually wife and husband, purchase a two-life, second-to-die policy. With two lifetimes before payment of benefits, a desired future gift to us may be obtained for substantially fewer premium dollars. These policies are available even if one spouse is not insurable and are generally more economical than a policy only on the insurable spouse.

A type of insurance sometimes used by charitable donors is a policy for which a specific number of years of premium payments is projected-but not guaranteed-after which the premium payments can be taken from the policy's cash value. It should be kept in mind that the out-of-pocket premium requirement may continue for a longer period than previously projected, or even reappear, if the policy cannot generate the assumed internal return required to keep the policy in force.

Covering premium costs with annual gifts to us for an extra year or two will increase values and lessen the possibility of renewed premium payments or a reduced paid-up amount of benefits. Policies that are not so interest-sensitive should be considered as an alternative.

What About Term Insurance?

Term insurance, such as coverage by a group policy through your employer, has no cash value, so assigning ownership would have no tax advantage.

When term coverage is provided by your employer, the cost attributable to any coverage in excess of \$50,000 may be included in your taxable income. However, if we are the sole beneficiary under the policy, such cost is not included in your taxable income, nor will benefits be part of your estate.

Term insurance can be used to guarantee the payment of a substantial pledge of gifts to us payable over a period of years, without potentially obligating your estate. If allowed by the policy, the term life insurance policy death benefit on you, the donor, can be reduced annually as installments are paid on the pledge, with the policy dropped when the gift is complete.

Creating an Irrevocable Life Insurance Trust

At the beginning of this article, we discussed the purchase of life insurance as a means of replacing for your heirs the value of a gift to us. We covered situations in which you name the beneficiary as the new owner of the policy. For larger amounts and multiple heirs, an irrevocable life insurance trust (also called a wealth replacement trust) may be preferable as owner of the policy, typically with a bank trust department or trust institution as trustee. An insurance wealth replacement trust can work well in conjunction with a charitable remainder trust. When you establish a charitable remainder trust, you fund it with assets that will provide you (or another beneficiary) income for life, and then we receive the remainder. Besides the initial income tax deduction for funding the trust and the resulting tax savings, your income from reinvested trust assets is typically improved, and often it's a way to avoid capital gains tax liability. These savings free money for contributions to the trust to pay the insurance premiums.

When the trust ends, its assets pass to Durango Foundation for Educational Excellence, or to more than one charitable organization in accordance with your wishes, without being subject to tax. The life insurance death benefits pass to heirs from the wealth replacement trust untaxed, having previously

been transferred as annual gifts to heirs covered by gift tax exclusions, use of credits or reduced gift tax payments.

To avoid a federal gift tax on contributions to the trust to cover premium costs, the insurance beneficiaries can be given a temporary right to withdraw each contribution for their own direct use. These "Crummey powers" (named after a court case) qualify the transfers as present interests that can utilize annual federal gift tax exclusions. While it would thwart the estate plan if the heirs exercised those powers, their right to withdraw may not be restricted orally or in writing.

Find Out More

At this level of family and philanthropic distributions, it is especially critical to have a skilled planning team with expertise in finance, law, taxes and insurance. The benefit of the best advice possible is well worth the cost.

Gifts of Real Estate

Original founders of successful businesses oftentimes hold assets that are greatly appreciated. In many instances, the basis can be practically zero.

If you've owned your home or other real estate for a long time, no doubt it has increased in value significantly. What happens if you sell the property?

First of all, the sale is subject to capital gains tax on the property's appreciation. If the property has been your main home for at least two of the past five years, you can exclude up to \$250,000 of gain (\$500,000 for married couples). However, this opportunity to avoid capital gains tax doesn't apply if the property is a vacation home, land or any real estate other than your primary residence. Plus, there's the cost of marketing and selling real estate, which also takes time and effort, even if you use professional assistance.

Before you sell real estate, consider a new option. If you'd like to help fulfill our mission, your property opens the door to a unique giving opportunity: donate the property to us. You can give the property outright, place it in trust, retain the use of it for life or give it by will. All of these methods will enable you to enjoy personal financial benefits while supporting our work in a meaningful way.

Let's look at the various federal rules used to figure your tax savings, and apply them to certain kinds of gifts to show how you can benefit.

Tax Benefits of an Outright Gift

When you make an outright gift of real property held for more than a year, you obtain an income tax charitable deduction equal to the property's full fair market value. This deduction lets you reduce the cost of making the gift and frees cash that otherwise would have been used to pay taxes.

By donating the property to us, you also avoid capital gains tax on the property's appreciation. Furthermore, the transfer isn't subject to the gift tax, and the gift reduces your taxable estate.

Example: *Mary gives us a vacation cottage she no longer uses. It originally cost \$50,000 but is now worth \$150,000. She gets a \$150,000 charitable deduction, which represents a tax savings of \$42,000 in her 28 percent tax bracket. And she completely avoids tax on the \$100,000 of appreciation. Now she no longer has to maintain the cottage, and the property won't be taxable in her estate.*

Your deduction for a gift of appreciated real estate in any year is generally limited to 30 percent of your adjusted gross income, with a five-year carryover of the unused deduction. If you elect to base your charitable deduction on the cost of the property, this raises your AGI limitation to 50

percent with a five-year carryover, but this has implications for all gifts made during or carried over to that year.

For real estate you've held only short-term, your charitable deduction is limited to the property's cost basis, but there's still no tax on the appreciation. The deduction may be claimed up to 50 percent of your adjusted gross income, again with a five-year carryover for any excess value. Your gift is usually effective when a properly executed and notarized deed, suitable for recording, is delivered. The amount of your deduction for a gift of real estate (if more than \$5,000) must be substantiated by a qualified appraisal of its fair market value.

Give Your Home But Enjoy Life Use

Let's assume you like the tax advantages a charitable gift of real estate would offer, but you want to continue living in your personal residence for your lifetime. You'd like to retain the right to rent your house or make improvements. You may also want a survivor (perhaps your spouse) to enjoy life occupancy. But, ultimately, you'd like for a charitable organization to receive the property.

By deeding your home to us now, subject to all these rights, you can still obtain valuable tax savings. This arrangement is called a retained life estate. Even though the non-profit would not actually take possession of the residence until after the lifetimes of the tenants you've named, you receive an immediate income tax charitable deduction because the gift cannot be revoked. The amount of the deduction depends on the value of the property and your age (and the age of any other person given life use).

Setting up a retained life estate through us is possible if you want someone other than a spouse to have use of the property after your lifetime. Leaving a home to a spouse through a will or some form of joint ownership generally does not result in a federal estate tax under current laws. However, if you want one of your children or a relative or friend to live in the home after your lifetime, you may find that estate taxes will have to be paid to leave the property to that person.

With this kind of gift, you retain the rights and responsibilities of ownership—other than disposing of the property after your death. That is, you may continue to live as you have with no interference from the foundation. You may even decide to move out temporarily or permanently. Should you rent the home, all of the rent belongs to you.

You can make a retained life estate arrangement with any personal residence, including a farm, vacation home, condominium or stock in a cooperative housing corporation (if it's used by you). A farm may include acreage with or without a house.

Obtain a Life Income From Your Gift

Instead of making an outright gift of real property or establishing a retained life estate, you can use un-mortgaged property to fund a qualified charitable remainder trust. Once the property has been transferred to the trust, the trustee can then sell it and invest the proceeds in income-producing securities, which become the source for lifetime income payments to you and any other recipient you name. When the trust terminates, we receive the remainder (without exposure to estate taxes when spouses are the only income beneficiaries).

If you itemize, you will benefit from a substantial current income tax deduction. The amount of the deduction is determined by your age when the trust is created, the value of the trust assets, and the annual percentage or amount to be paid to you. And when you transfer appreciated property, you won't pay any tax on the capital gain.

Tax Savings for Partial Use

ay you have a home you don't occupy year-round. You can make a deductible gift to us of an undivided interest, allowing us exclusive use of the property for part of each year.

A vacation home can be ideal for this purpose. For example, you could give us a half interest. You would continue to use the property for six months of each year while we, as half owner, would use it for the remaining six months. You receive an income tax deduction for the fractional interest contributed to us, based upon its market value. That interest will also escape estate taxes.

You can also give Durango Foundation for Educational Excellence a remainder interest in the part of the property you retain. Then you receive an additional income tax deduction, based on your age and other factors.

Bargain Sale Tax Benefits

You can sell long-term appreciated real estate to us for less than its value, subject to our consent. This transaction is part gift and part sale. You receive a charitable deduction for the difference between the sale price and the higher fair market value.

Example: *Ellen sold the home she purchased many years ago for \$30,000 to a philanthropic institution for the same amount, even though it was really worth \$90,000 at the time of the sale. Her charitable contribution is \$60,000 (\$90,000 fair market value less \$30,000 sale price).*

Ellen does incur a capital gain in this type of transaction, but it's much less than for a sale at full market value. She is treated as having sold one-third of the property, so one-third of the \$30,000 basis, or \$10,000, is allocated to the sale portion. Therefore, she has a gain of \$20,000 (\$30,000 received from the sale less \$10,000 basis attributable to the sale portion). However, \$40,000 of the appreciation attributable to the gift escapes taxation. Plus, she receives a \$60,000 charitable deduction.

A bargain sale accomplishes the gift and provides you with immediate cash, while also relieving you of the time, effort and costs of a normal sale.

Keeping Mineral Rights When Giving Real Estate

You can make a partially deductible gift of your entire interest in certain real estate, reserving the right to subsurface minerals and the access to them (but not surface mining rights).

However, there's an important restriction. Your contribution must be to a qualified organization and exclusively for conservation purposes. Otherwise, you won't receive an income, estate or gift tax deduction. Conservation purposes include public outdoor recreation and scenic enjoyment, protection of plant and wildlife habitats, and preservation of historic structures and land.

Giving Real Estate Through Your Will

If making an irrevocable gift of the property through one of the options we've discussed is not to your liking, consider giving it to us in your will. Because your will is revocable (that is, you can change your mind at any time during your life), you will not be able to take an income tax deduction, but the property will not be taxed in your estate.

If you wish, you can give another person life use before unrestricted ownership passes to us. Or you can bequeath full title to an individual if that person survives you, with our organization as the contingent recipient. When an individual is given life use, it is best to make it clear that he or she is responsible for maintenance, insurance, repairs and improvements.

If you don't need to make a new will now for any other reason, ask your attorney to draw a brief codicil for this purpose.

Suitable Property to Donate

Agricultural land tends to return a low percentage of its market value. This is especially true of absentee-owned land, where the owner's profit is often reduced by tenant shares and farm manager's fees. Also, the profitability varies, depending on the weather and commodity markets, making this type of land suitable for a charitable gift in exchange for a life income arrangement.

Real property, such as vacant land, has a cost of ownership (property taxes and insurance, for example) with no offsetting return. And a vacation home that is no longer used enough to justify the investment, costs and responsibilities may be suitable as a gift.

Also, not all property automatically rises in value. An older commercial building in a declining neighborhood may be worth as much to the donor currently, in terms of the charitable income tax deduction from an outright gift, as it is likely to be worth in the future estate. Or it may be used to fund a charitable remainder trust paying an income for life. And developed

investment or commercial property may provide significant capital gains tax savings when used to make a gift and avoid potential depreciation recapture as well.

A Summary of the Benefits

A charitable gift of real estate is advantageous for many reasons.

- Either an outright gift or a remainder interest results in valuable income and estate tax deductions, and tax on the capital gain can be avoided.
- A "bargain sale" to us gives you some money back and reduces your capital gains tax exposure.
- A gift in your will assures that the value of the property will qualify for a charitable deduction for estate tax purposes.
- Giving us outright use of the property now will free you from the responsibilities and costs of looking after it.

Find Out More

You create a tangible and enduring testimonial of your interest in our goals when you give your home or other real property. It's one of the most fitting contributions you can make. Your personal satisfaction is complemented by significant tax benefits.

You may have questions about appraisals, tax savings and other details. You'll also want to know which gift arrangement is best for you.

Gifts of Retirement Plan Assets

Like many Americans, you are probably aware that the accumulation of assets in your retirement plan is the basis for a financially secure future. To preserve your retirement assets after your lifetime, consider the benefits of using them in a totally different way.

Retirement accounts are often exposed to income taxes and estate taxes, at a combined marginal rate that could rise to 65 percent or even higher on large, taxable estates. Yet many of these taxes can be avoided or reduced through a carefully planned charitable gift.

Other considerations come into play when deciding on using retirement plan assets for charitable giving. Your account can pass directly to a charitable organization as your primary beneficiary, or it can be transferred to a deferred giving arrangement that will pay an income for life to a family member, after which the remaining assets pass to the organization. You might even consider a deferred gift that is designed to pay a life income to yourself.

How Retirement Accounts Are Taxed

Qualified retirement plans are those that receive favorable income tax treatment during an employee's lifetime. No income tax is due on the funds as contributed, and no income tax is due on the earnings and appreciation while in the plan. You pay taxes on the funds only when you receive them. Such plans come in many forms: a defined benefit or contribution pension plan, money purchase pension, profit-sharing plan, annuity plan, 401(k) or 403(b) plan, stock bonus plan, Employee Stock Ownership Plan (ESOP) or simplified employee pension (usually a SEP-IRA) from your workplace, and Keogh accounts and Individual Retirement Accounts (IRAs) you set up for yourself.

Generally, the undistributed balance of qualified retirement plans is fully includable in your gross estate for estate tax purposes. Since the funds in retirement accounts usually represent deferred compensation that has not been subject to income tax, giving the accounts to individual heirs exposes the funds to income taxes. Your retirement dollars can be seriously depleted by this double taxation.

A qualified retirement plan often makes a large, taxable distribution shortly after an employee's death. As a general rule, qualified plans other than IRAs will specify how quickly distributions must be made from the plan. In the case of an IRA, if the owner dies before reaching the required beginning date, the plan benefits must generally be distributed within five years, but a designated beneficiary may stretch the distributions over his or her life or life expectancy. If the owner dies after the required beginning date, then the entire balance can be distributed over the longer of what would have been the deceased owner's remaining life expectancy or the designated

beneficiary's remaining life expectancy. Only a surviving spouse can roll over an inherited distribution to his or her own IRA and benefit from further income tax deferral; all other beneficiaries are taxed according to the above rules.

Income in Respect of a Decedent

The IRS labels estate assets that were not previously included in a decedent's taxable income as items that generate "income in respect of a decedent" (IRD). In plain language, these are assets that would have been taxed as income had the recipient lived long enough to receive them. In addition to qualified retirement plans, IRD items include accrued interest on Certificates of Deposit and savings bonds, unused vacation pay, non-qualified stock options, deferred payments of capital gains and other undistributed but earned income. Among all your assets, the largest IRD source will probably be your retirement accounts.

By donating retirement assets, those funds avoid both estate and IRD taxes, and you can be certain that 100 percent of the balance of your retirement funds will support your philanthropic objectives. Generally, the cost to individual heirs will be modest.

Example: *Bill is considering adding a charitable bequest to his will, with the residue of his estate passing to his children. Instead, he should name Durango Foundation for Educational Excellence as beneficiary of his profit-sharing account. The death benefit passing to the organization will not only qualify for the estate tax charitable deduction but will also pass free of any income tax obligation. His children will benefit from this change because, rather than getting the profit-sharing account proceeds that are subject to income tax, they will receive other assets of his estate that are free of income taxes.*

For example, Bill owns stocks that have a low cost basis. He can secure a further tax advantage by leaving these to his children. They will receive a step-up in the income tax basis to the date-of-death value of the stocks. Since the basis is the amount from which any gain or loss will be figured when the new owner ultimately sells the property, this means there will never be a tax on the appreciation that occurred during his lifetime. The person who inherits the property will owe tax only on appreciation after the time of Bill's death.

How to Donate Your Retirement Account

The simplest way to leave the balance of a retirement account to us after your lifetime is to list us as the beneficiary on the beneficiary form provided by your plan administrator. Never make a beneficiary change, however, before discussing your desires with your professional advisor. For an IRA or Keogh plan you administer personally, notify the custodian in writing and keep a copy with your valuable papers.

If you are married, your surviving spouse is entitled by law to receive the entire amount in these qualified plans: money purchase pension, profit-sharing plan, 401(k) plan, stock bonus plan, ESOP or any defined benefit or annuity plan (though not an IRA). In order for the assets to be transferable to the foundation, your spouse must execute a written waiver (even though you may designate a charitable organization as beneficiary on your employer's forms). Your spouse can execute one after your death, if necessary. In that case, the document must also include a qualified disclaimer.

If you prefer to make your spouse the primary beneficiary of the retirement account, you can name the foundation as the secondary beneficiary.

Perhaps you want your children to benefit from your retirement account, too. In that case, you might designate a specific amount to be paid to us, before the division of the rest among your children.

Tax Precautions and Options for Charitable Transfers

Being cautious in the way you designate your charitable bequest will assure that you are not setting your estate up for some disadvantageous tax consequences.

Suppose your will provides that your retirement plan assets are to be used to fulfill a specific bequest to Durango Foundation for Educational Excellence. A problem could arise if your estate were required to recognize the plan distribution as taxable income while not being able to claim an offsetting charitable income tax deduction. To sidestep this problem, your will should provide that payments to the foundation are to be made from IRD items. A different way to avoid this problem is to omit any reference to the charitable contribution in your will and instead simply designate the charitable organization as the successor beneficiary on the retirement plan forms provided by your employer.

Once you reach age 70 1/2, you are required to begin taking payments from your qualified retirement plans if you have not yet done so. The IRS rules make it easy to name a charitable organization as the primary or contingent beneficiary. Under the regulations, designation of a charitable organization as the beneficiary of any portion of the plan benefits will not increase the employee's minimum required distribution, despite the fact that the organization would not qualify as a designated beneficiary. It is preferable to make certain that the amounts are paid to the charitable organization before Sept. 30 of the year following the employee's death.

Life Income for Survivor

Another tax-benefiting possibility is to transfer retirement assets at death to a tax-exempt deferred giving plan, such as a charitable remainder unitrust or a charitable remainder annuity trust. The trust beneficiary you designate will receive an income for life, either a fixed percentage of the value of the trust

assets as revalued annually or a fixed dollar amount. Thereafter, the remaining principal will support our work.

By naming a deferred giving plan as the ultimate beneficiary of your retirement account, income taxes can be deferred over the life of the income beneficiary you designate. This may offer the only income tax deferral opportunity for your heirs if your retirement plan requires an immediate distribution.

Example: *Under the rules governing her company's profit-sharing plan, Anne's account must be distributed within five years after her death. She estimates that when she dies, the account balance could be at least \$200,000. If she were to name her daughter, Sandy, as the beneficiary, the entire amount would go to Sandy as ordinary, taxable income, incurring probable federal and state income taxes of more than \$40,000. In addition, a federal estate tax of more than \$90,000 would be due if Anne's other assets equaled more than the amount exempt from estate tax. Less than \$70,000, or 35 percent, of the \$200,000 could be left for her daughter after payment of all the taxes!*

Instead, Anne creates a charitable remainder unitrust and names it as the beneficiary of her profit-sharing plan. She arranges for the unitrust to pay 7 percent of the value of the assets to Sandy each year for life. The net result is significant income tax deferral. The entire \$200,000 can be invested to produce investment income. The estate tax on the value of Sandy's interest must be paid from other assets. The partial estate tax charitable deduction for the present value of the charitable remainder interest will reduce Anne's estate tax.

Precautions on Transfers to Deferred Giving Plans

As with charitable bequests, similar problems may arise with deferred giving plans. If the retirement plan distributes to the estate and then the will distributes to a deferred giving plan, this may result in taxable income from the transfer of retirement assets to the deferred giving plan. The estate, of course, is entitled to claim only a partial charitable deduction for the value of the remainder interest that will pass to the charitable organization.

Again, the simple solution is to make the deferred giving plan the beneficiary of all or a portion of the retirement plan assets, so that they will bypass the estate's reportable income.

Draw Life Income From Charitable Rollover

So far, our discussion has related to arrangements after your lifetime, but you may use retirement plan assets to benefit yourself during your lifetime and us thereafter using a charitable remainder trust.

You arrange a lump-sum distribution from your qualified plan. Then, you contribute the after-tax amount to a charitable remainder trust that assures

you an income for life while committing the remaining assets to us after your lifetime. This results in an income tax charitable deduction that may partially offset the tax on the lump-sum distribution. (Each situation must be analyzed individually to determine the exact financial benefits. We recommend the counsel of a financial professional.)

Valuable Estate Planning Strategy

While donating the balance in a retirement plan account may be the most tax-effective means of supporting our mission, it is also a relatively new area of estate planning. Please seek guidance from an attorney and other professionals who are thoroughly versed in this field of tax law.

Gifts of Securities

A stock portfolio is often among the most valuable assets you own, and one that carries substantial capital gain—appreciation in value. The downside to assets that have increased in value over the years is that the federal government is prepared to levy taxes of up to 15 percent on your capital gain from securities. With careful planning, you can reduce or even avoid federal capital gains tax. We can show you how charitable giving may be one of your best defenses against capital gains taxes.

As stock prices increase, so do the taxes you owe on the capital gain, which are generally charged at a rate of 15 percent (5 percent if you are in the 10 percent tax bracket). But when you donate publicly traded stocks held long term (owned for more than one year) to a qualified charitable organization such as Durango Foundation for Educational Excellence, you avoid all capital gains taxes. Plus, you may take the full fair market value of the stock gift as a charitable deduction on your income taxes. The maximum deduction you may take within a given tax year is 30 percent of your adjusted gross income. If you are unable to take the entire deduction in one year, you may carry the excess deduction forward for five additional years.

Even if you own stock you wish to keep in your portfolio, giving us the stock and using cash to buy the same stock through your broker provides the same income tax deduction with a new, higher basis in the stock.

If you have stock losses, sell the stock yourself to realize the loss and take the deduction for tax purposes. Then generate a charitable deduction by donating the cash proceeds of the sale to the foundation.

How Much of Your Estate Will Go to Taxes?

For managing your capital gains, three aspects of the federal tax rate structure are significant.

1. The spread between the top federal tax rate applied to long-term gain and the highest tax rates applied to ordinary income is significant. Long-term capital gains tax rate is 15 percent for most assets (28 percent for some). Current tax rates for ordinary income exceeding specified amounts in each tax bracket are 10 percent, 15 percent, 25 percent, 28 percent, 33 percent, and 35 percent. For taxpayers who fall within the higher tax brackets, long-term capital gains tax is more attractive than ordinary income tax.
2. Both estate and gift taxes are computed using the unified rate schedule, where the rates of tax range from 45 percent up to 46 percent.
3. The tax on generation-skipping transfers of assets is a flat 46 percent. Should you pay capital gains tax now, instead of a higher gift or estate tax later?

Ways to Take Advantage of Your Capital Gains'

You can achieve many desirable tax benefits through your philanthropic plans, but there are several noncharitable strategies that should also be considered for reducing your taxable estate.

Tax deferral.

There is no taxable gain on appreciation until an asset is sold or exchanged.

Capital losses.

Capital losses incurred can offset other taxable income.

Excludable lifetime gifts to others.

Gifts to heirs during your lifetime qualify for the gift tax exclusion of \$12,000 per recipient per year (indexed for inflation) or \$24,000 if your spouse joins in the gifts. The recipients, however, inherit the cost basis of the original owners.

Stepped-up basis for heirs.

Most appreciating assets held for distribution to heirs in the estate settlement process completely avoid the capital gains tax. If they are part of a taxable estate, however, the unified estate and gift tax will be on the higher appreciated fair market value. In larger estates, this future transfer tax may exceed a current capital gains tax and requires careful analysis.

If such assets remain in the estate, to be transferred to heirs at the stepped-up value at the date of death (or an alternate valuation date six months later), this becomes the new basis for the heirs and reduces their capital gains tax liability when the assets are sold.

Using Gains to Achieve Your Philanthropic Objectives

Income tax charitable deductions have become increasingly significant in reducing taxable income, particularly since tax reform has eliminated many other tax deductions.

When appreciated property held long term (owned more than one year) is used for a charitable gift and the property is otherwise to be sold by the donor for market or other reasons, two tax savings result. First, the donor is entitled to a charitable deduction for the full fair market value rather than the original cost, and second, the donor avoids the capital gains tax. A third, smaller savings results from avoidance of any commission cost, which is incurred by charitable trust.

Whenever income tax deductions for gifts to publicly supported charitable organizations are claimed for gifts of long-term capital gain property, the total of such deductions that can be used in a particular year is limited to 30 percent of the donor's adjusted gross income, rather than the 50 percent

annual limitation for cash gifts. For most donors, the total deduction is typically all usable, since it can be carried forward for five years.

Charitable gift options come in many shapes and sizes. We are happy to provide projections of results from any of the following plans that may be of particular interest.

Outright Gift of Capital Gain Property

Bob gives us shares of publicly traded stock he has held for more than one year. Their fair market value (the average of high and low trades for the day of the gift multiplied by the number of shares) is \$12,000; their original cost, \$5,000. His marginal federal income tax rate is 28 percent, and he is not subject to state or local income taxes.

The \$4,410 of total taxes (\$1,050 capital gains + \$3,360 income tax) avoided that the government "contributed" to the gift transaction nearly equals Bob's net cost, and Bob has made a gift of \$12,000 to his favorite charitable organization.

Please check with Durango Foundation for Educational Excellence before making any gifts of this type. C