Presidential Yacht Potomac

LONG-TERM CHARITABLE PLANNING STRATEGIES

Much of the funding for the Potomac Association's educational programs, historical programs, ship's restoration and maintenance comes from Friends of the Potomac, and annual gifts of cash and property from its supporters. Donors have also included provisions in their wills and other estate planning documents as a means to provide additional support for the museum. Bequests, both large and small, have benefited the museum in many ways. By including the Potomac Association in your estate plan, you ensure the continuation of our restoration and maintenance of the historic Presidential Yacht Potomac, our ongoing educational and historical programs for school children for generations to come.

For some individual, annual cash gifts are the primary means by which they support charitable organizations, but most of us are unable to make a major charitable gift during our lifetime. However, we can make a large contribution through our estate with a bequest or other planned gift. Most planned gifts are made via a bequest in a will or trust, and the Potomac Association.

A planned gift can provide a variety of financial benefits to you, including a substantial tax deduction, enhanced lifetime income, and in some cases, tax-free income or tax liability protection. Perhaps most importantly, a planned gift fulfills philanthropic goals. Described in this document are simple definitions of;

- Assignments of retirement plan benefits
- Revocable trusts
- Gift annuities
- Charitable trusts
- Gifts of securities and real estate

Also described are the tax benefits and planning opportunities for each of these vehicles.

<u>Charitable Planning – A Brief Overview:</u>

Charitable planning strategies are personal decisions as to type of property, form of transfer, value, timing, effect on cash flow, and on the achievement of long-term goals. Many individuals have discovered that varying one or more of these factors may achieve dramatic results that benefit the donor, charity or both.

For example, a donor who is considering selling appreciated property in order to make a gift might consider making a gift of the property itself. Depending upon the type of property contributed, individuals may be entitled to claim a charitable deduction for the full fair market value of the gift. The gain realized boy the charitable organization upon a subsequent sale of the property is not subject to tax.

A number of charitable planning strategies exist that may be appropriate for donors for whom and immediate cash gift is not the most effective planning tool. These strategies not only enable donors to benefit a charitable organization whose mission they support, but may also be designed to achieve other tax and non-tax goals, such as:

- Portfolio diversification
- Provision for a fixed income
- Provision for asset management
- Income tax cost minimization on sale of appreciated assets
- Transfer of assets to heirs at a reduced tax cost

The tax and financial implications of these planning vehicles differ for each donor, thus you should consult with your tax advisor with regard to the impact on your specific financial situation. Because establishing an estate plan that best suits your needs and fulfills your charitable wishes takes time and expertise, we encourage you to discuss these and other options with your tax or legal advisor for further details.

Also, to assist you with charitable giving, the Potomac Association offers a complimentary consultation with a member of the museum's planned giving advisory team. We encourage you to use this opportunity to explore the many benefits of creating a family financial plank, regardless of your current financial status. These individual consultations are the gift of local financial professionals, friends of the museum wishing to partner with us in creating a giving legacy.

IRAs, 401(K), 403(B) and other Retirement Plan Assets

If you are planning on including the museum in your estate plans, consideration should be given to a testamentary gift of your interest in you retirement plans. A charitable transfer of retirement plan assets may be an effective way to eliminate a potentially substantial tax burden.

Although individual retirement accounts (IRAS), 401(k)s, 403(b)s and other retirement plans are intended to provide benefits at retirement, many individuals are discovering that they may have significant retirement plan balances at death. There may be dramatic and unintended tax consequences if such assets are retained at death.

Retirement plans deserve special attention in estate planning because a distribution after the employee's death could be subject to both estate tax when the assets are included in the employee's estate, as well as income tax when the benefits are distributed. Thus, for example, and IRA cold be subject to a 50% estate tax on date-of-death value plus additional income tax on distributions to the beneficiary after death. The combined estate and income e tax may exceed 80%.

Tax benefits:

- A transfer of an IRA/401 (k)/403(b) to a tax-exempt charitable organization provides an estate tax deduction to the estate.
- Although distributions are still income in respect of decedent, there is no impact on the charity because non-profit organizations are not subject to income tax.

Planning opportunities:

- Individuals with large amounts of retirement plan assets may use these assets to satisfy charitable objectives and optimize tax benefits, while using other assets to satisfy bequests to non-tax-exempt beneficiaries such as friends and families.

To designate the Potomac Association as the beneficiary of your retirement plan assets, contact your personnel office or plan administrator for ht appropriate form.

Charitable Remainder Trusts and Charitable Leads Trusts;

A trust is a separate legal entity created by a trust document. Property is transferred to the trust to be held and administered in accordance with the terms of the trust. The donor may receive a charitable contribution tax deduction based on the value of the property interest passing to charity.

Charitable trusts are based on the principle that the ownership of property can be divided into two distinct interests:

- The right to use or receive income form property (a "life estate" or "income interest"): and
- The right to receive what remains of the property after termination of the life or income interest(the "remainder Interest")

Each of these property rights has a value that can be determined using actuarial tables. Charitable remainder trusts and charitable lead trusts are planning vehicles that are based on this split interest concept.

Charitable Remainder Trusts:

A charitable remainder trust (CRT) is a trust that provides for the payment of income to a noncharitable beneficiary for a specified number of years or for life. The income may be a fixed amount or a percentage of the value of trust assets. A charitable beneficiary receives any property that remains in the trust at the end of the specified period.

A CRT could provide, for example, that 5% of the value of the property contributed to the trust cold be paid to the donor for life, after which the property remaining in the trust would pass to charity. The CTR is a tax-exempt entity and therefore does not pay tax on its income. Income payments to the non-tax-exempt beneficiary my be taxable, however:

Tax benefits:

- A charitable income tax deduction is available for trusts created and funded during life.
- An estate tax charitable deduction is available for trusts crated at death.
- Capital gains tax my be deferred or avoided on the sale of appreciated property by the trust.

Planning opportunities

- A donor with highly appreciated stock may use the CRT to sell appreciated stock and diversify their investment portfolio while deferring the majority of the capital gains tax.
- A CRT may be used to provide future cash flow.
- A CRT may be created during lifetime or at death
- In conjunction with life insurance, a donor may be able to benefit both charitable organizations and non-charitable beneficiaries, such as family members.

Charitable Lead Trusts:

A charitable lead trust is the charitable remainder trust in reverse; i.e., the charitable organization receives the income interest, while non-charitable beneficiaries receive the balance remaining in trust at the end of the income period.

Tax benefits:

- Allows for the transfer of property to heirs at reduced tax cost.

Planning opportunities:

- May be appropriate for a donor with excess current income.
- Allows the donor to transfer property (particularly appreciating property) to non-charitable beneficiaries at reduced tax cost.
- The charitable lead trust is a vehicle for providing immediate income to the charitable organization.

Remainder Interest in Residence or Farm

The tax law generally does not permit a charitable deduction for transfers of less than one's entire interest in property (a "partial interest"). An important exception to this rule is that which allows a charitable deduction for a remainder interest in a personal residence or farm.

Under this provision, a donor my make a gift of a remainder interest in a residence or farm, while continuing to retain the right to use the residence or farm during his or her lifetime. A charitable income tax deduction is available based on the value of the remainder interest in the residence or farm at the time of the gift.

Tax Benefits:

- Allows for a current income tax charitable contribution deduction based on the vale of the remainder interest passing to charity.
- Allows the donor to continue to live in the residence or to operate the farm.

Planning opportunities:

- For donors for whom the residence or farm is a significant asset, this planning vehicle provides a means to achieve current income tax benefits while retaining use of the gifted property.

Bargain Sales

A Bargain sale is a sale of property in which the proceeds received by the seller are less than the fair market value of the property. A bargain sale to charity is treated as part sale and part donation. A bargain sale allows the seller to receive some proceeds from the sale, as well as a charitable contribution tax deduction.

Tax benefits:

- Allow for a charitable contribution deduction roughly measured by the excess of the fair market value of the contribution over the consideration received.

Planning opportunities:

- A bargain sale may be appropriate for a donor who cannot make a gift of his or her entire interest outright, but needs to receive some consideration for the transfer.

Life Insurance Policies

Life insurance is often an important component of lifetime family planning. It can assist individuals in securing and achieving financial goals. Life insurance can also be a powerful tool for charitable giving.

There are a number of alternative approaches to making gifts of life insurance. The outright transfer to charity of a paid-up policy is perhaps the most straightforward approach. Another alternative might involve the contribution of a policy with premiums that remain payable. While a donor may make a gift of a new policy to charity, older policies may also be gifted. This may be appropriate when family circumstances have changed that allow consideration of a charitable gift of existing insurance.

Tax benefits:

- The gift can be "leverage;" i.e., a relatively small amount of premiums may generate a substantial benefit.
- Simplicity of transfer and administration.
- May have minimal impact on cash flow
- Potential income tax deduction

Planning opportunities:

- As financial milestones are achieved, the role of insurance in one's financial plan my change,
- Opportunities may exist to use existing insurance to satisfy charitable objectives
- A significant legacy my be generated through a relatively small investment.

Although gifts of insurance may result in significant benefits for donors and charity, insurance planning and its related tax issues can be complex. It is important that donors consult with their professional advisors before proceeding with gifts of life insurance.

The Presidential Yacht Potomac Society

If you have named the Potomac Association as a beneficiary in your will or estate plan, we hope you will share this with us so that we can express our gratitude and include you in the Presidential Yacht Potomac Society. Membership in the Presidential Yacht Potomac Society is open to anyone who has made a lasting gift through a will, estate plan, life-income or other deferred gift to the Potomac Association. We want to acknowledge you for you thoughtful gift and vision. When you step forward, you inspire others to step forward as well. The Presidential Yacht Potomac Society benefits include:

- Listing of your name on our donor plaque on board the Presidential Yacht Potomac, and in our newsletter, *Potomac Currents*.
- Invitations to Presidential Yacht Potomac Society special events.
- A complimentary History Cruise for you and your guest.

Please contact the Potomac Association at 510-627-1667 if you are interested in receiving the How to Include the Potomac Museum in your Will or Trust handout, a consultation with a member of the museum's planned giving advisory team or joining the Presidential Yacht Potomac Society.

The Potomac Association is a tax-exempt 501 (c) 3 organization; Federal tax identification number 93-0830589

This document is not intended as legal or financial advice. Please consult your personal advisors for the applicability of these charitable panning strategies to your particular situation.