

Essex Library Association

Charitable Giving Guide

The Essex Library Association is a tax-exempt, 501(c)(3) non-profit organization. Contributions to the Library are deductible for income tax purposes. There are many ways to make gifts to the Library, which is explained in the following pages. It would be important to consult with a licensed attorney and/or financial advisor to find the most advantageous method for you and for the Library.

I. CASH

The gift of cash is the simplest and most common method of giving. An outright cash donation provides:

- Immediate tax advantage to the donor
- Assistance to the Library as needed
- Satisfaction to the donor of seeing his or her generosity put to immediate use
- Receive a full charitable deduction, and apply it against a larger percentage of your taxable income than a deduction for a property gift.

II. STOCK AND OTHER APPRECIATED PROPERTY

A gift of appreciated property, such as securities, is an attractive charitable device offering the donor significant tax savings. You receive gift credit and an immediate income tax deduction for the fair market value of the securities on the date of transfer, no matter what you originally paid for them.

- You pay no capital gains tax on the securities you donate.
- You have the satisfaction of making a significant gift now or funding an endowment building gift that benefits the Essex Library later.

The donor will reap more favorable tax treatment by donating the appreciated property directly to the Library, rather than giving the Library the proceeds of the sale.

III. TANGIBLE PERSONAL PROPERTY

Gifts of tangible personal property (i.e., an appraisable book collection) may be eligible for similar favorable tax treatment as gifts of appreciated property, such as:

- Avoidance of taxation on appreciation of property; and
- Full charitable deduction, if certain rules are met.

Generally, the donor may deduct the full fair market value of the gift if the property's use is related to the Library's exempt function; for instance, a valuable book for the Library's collection.

A gift not related to the Library's exempt function, such as an automobile, is also welcome although different tax rules may apply. This gift method is designed for objects of substantial value and will be subject to donor's seeking an appraiser's estimate and certain other tax return disclosures.

IV. LIFE INSURANCE

Life insurance policies offer the donor an innovative method of making a gift. By donating a properly structured policy to the Library, the donor may achieve both substantial income and estate tax savings.

A new life insurance policy may be taken out naming the Library as its owner and irrevocable beneficiary. The annual premiums may be deductible for income tax purposes. In addition, the policy will be exempt from federal and local estate tax purposes upon the donor's death and will not be included in the donor's taxable estate.

An existing policy may be an appropriate charitable gift if the original coverage is no longer needed. Among the options a donor may pursue is to:

- Liquidate the policy and donate the proceeds to the Library, or
- Give a policy that is not fully paid up to the Library as sole owner and beneficiary. Such a gift allows the donor to deduct the present value of the policy as a current charitable income tax deduction. If the donor continues to make premium payments to maintain the policy, such payments will qualify for a charitable income tax deduction. Moreover, if the gift is properly structured, the life insurance policy will not be included in the donor's taxable estate.

V. LIFETIME GIFT OF PERSONAL RESIDENCE

The gift of one's home may in certain instances be a rewarding method of supporting the Library. By retaining a Life Estate in the property, the donor may transfer ownership of his or her home to the Library, while retaining the right to live there as long as he or she wishes. A gift of a personal residence may be particularly attractive if the residence has greatly appreciated in value and could create a large tax liability in the owner's estate.

If A Life Estate Is Elected:

The donor must maintain the property for as long as he or she lives there. A charitable income tax deduction may be allowed (based upon the age of the donor and the fair market value of the property) for the value of the future interest that is conveyed to the Library.

Tax on the appreciation of the property is avoided. Upon termination of the life estate, the property will transfer to the Library.

VI. TESTAMENTARY BEQUESTS

Because the Library is a 501(c)(3) organization, gifts made to it under one's Will are eligible for the charitable estate and gift deduction. By leaving a legacy to the Library, a donor may reduce his or her estate tax liability.

A donor may make a testamentary gift in several forms:

OUTRIGHT BEQUEST

A specific dollar amount may be given outright to the Library. In addition to money, specific assets such as securities, real estate or tangible personal property may be given to the Library under the donor's Will.

Sample Legacy Language:

"I give, devise and bequeath the sum of \$ _____ to the Essex Library Association, in Essex, Connecticut, to be used by it in support of its general charitable purposes."

RESIDUARY BEQUEST

The remainder of an estate, or a set percentage of the remainder, may be left to the Library, after all specific legacies, as well as debts, taxes and expenses have been paid.

Sample Legacy Language:

"I give, devise and bequeath all the rest, residue and remainder of my estate (or _____% of my residuary estate) to the Essex Library Association, in Essex, Connecticut, to be used by it in support of its general charitable purposes."

CONTINGENT BEQUEST

The donor may provide in his or her Will that the Library will receive a gift only if certain circumstances are met. As an example, the donor may stipulate that the Library receive a bequest only if a named beneficiary does not survive the donor.

Sample Legacy Language:

I give, devise and bequeath the sum of \$ _____ to XYZ, provided that XYZ is alive at the time of my death. In the event that XYZ does not survive me, I give, devise and bequeath such sum to the Essex Library Association, in Essex, Connecticut, to be used by it in support of its general charitable purposes."

ENDOWMENT GIFT

The donor may wish to leave a gift to the Essex Library Endowment Fund to be used in accordance with the terms of such endowment.

Sample Legacy Language:

“I give, devise and bequeath the sum of \$ _____ (or all the rest, residue and remainder of my estate) to the Essex Library Association, in Essex, Connecticut, to be used toward the Essex Library Endowment Fund, the income only of which is to be used for the general charitable purposes of the Essex Library Association.

RESTRICTED GIFTS:

Although the most useful bequest to the Library is an unrestricted one, some donors may wish to make a gift for a specific purpose. In order to assure that such gift will always remain productive, the following clause is suggested:

Sample legacy Language:

“If at anytime in the judgment of the Trustees of the Essex Library Association the designated use of this bequest is no longer practicable or appropriate, then the Trustees shall use the bequest in support of the general charitable purposes of the Library, giving due consideration, where possible, to my special interest, as described above.”

CHARITABLE REMAINDER TRUST

A Charitable Remainder Trust is created by transferring property, such as cash or securities, to a trustee under a trust agreement that provides the donor or designated beneficiary with income for life or a fixed number of years. The trust may be set up either during the donor’s lifetime or through his or her Will. At the end of the life income interests, the Library may use the remaining trust principal for its charitable purposes.

A remainder trust may be particularly attractive for a donor who holds highly appreciated and /or low-yield investments, because it allows conversion of assets into higher yield assets without incurring tax on the appreciation. The income to the donor may thereby be increased. In addition, the donor receives an immediate income tax deduction for the present value of what the Library will receive upon termination of the trust. The amount is based on the annual payout rate and the age(s) of the life beneficiaries.

The advantage of the Charitable Remainder Trusts are summarized below:

- conversion of highly appreciated assets without capital gain taxation;
- lifetime annuity income;
- avoidance of estate tax on trust assets;
- significant current income tax charitable deduction; and

- terrific benefit to the Library, on which it can base its future endeavors.

In order for a donor to obtain a deduction for a Charitable Remainder Trust, it must be set up either as an “Annuity Trust” or a “Unitrust”, as defined by the IRS. A brief description follows:

Annuity Trust

An Annuity trust provides a fixed income stream. An Annuity Trust pays a guaranteed annuity at a fixed amount based on a percentage (as specified by the donor) which must be at least 5% of the initial fair market value of the trust. Should the trust earn less than the specified amount in any given year, the shortfall can be made up from the trust principal. Thus a fixed sum of income is guaranteed to the income beneficiary yearly. The trust may run for two or more lives, or for a period not to exceed twenty years. Upon termination, the trust corpus would be payable to the Library. Additional funds may not be added to the trust once it is created.

An Annuity Trust may be attractive if (a) predictable income is sought, (b) no additional funds will be added to the trust, and (c) a large charitable deduction is sought in the year in which the trust is created.

Unitrust

A Unitrust provides for flexible annual income. A Unitrust pays a guaranteed annuity at a fixed percentage (as specified by the donor), which must be at least 5% of the net fair market value of the trust, determined annually. Because the net value is recomputed every year, the income payments may vary from year to year. Moreover, the donor may, at his or her discretion, add additional funds to the trust. Thus, the donor is provided with flexible annual income. In the event that annual earnings drop below the specified percentage, the trust corpus need not be invaded. Instead, shortfalls can be made up in the following years when the income yield is higher. This trust may run for two or more lives, or for a set period not to exceed twenty years.

The Unitrust is an attractive vehicle for donors who (a) foresee an inflationary economy and find yearly income adjustments attractive and /or (b) wish to make additions to the trust after creation.

CHARITABLE LEAD TRUST

Unlike the remainder trusts described above, a Charitable Lead Trust is designed to pay income to the Library FIRST, for a fixed number of years, and upon termination of the trust, pay the remainder assets either to the donor or to designated beneficiaries. The charitable lead trust, which may be set up either during the donor’s lifetime or under his or her Will, allows a donor to transfer income-producing assets to the beneficiaries at a reduced tax cost. Moreover, taxes may also be avoided on the appreciation of the corpus during the term of the trust.

Charitable Lead Trusts are attractive to donors who seek a large charitable deduction upon creation of the trust. In order to qualify for the charitable deduction, the charitable lead trust must be set up as either a qualified “Guaranteed Annuity” or “Unitrust” interest. The rules governing charitable lead trusts are quite complex, and beyond the scope of these guidelines. As

with all of the charitable devices discussed above, it is recommended that the donor consult a professional for guidance.

The advantage of the Charitable Lead Trust are summarized below:

- Provides income to charity for a term of years or a term measured by individual lives;
- Significant Gift and Estate Tax reduction.

Questions?

This document is provided for informational purposes. If you questions regarding the information provided or would like to make a gift to the Library, please consult with an attorney or other tax professional. There are many qualified tax attorneys and professionals in the Essex area.