

the HOPE Advisor

Ideas for gift and estate planning from Hope College

Summer 2006

Discover the Joy of Giving Without Using Cash

When thinking about making a charitable gift to an organization that has touched your heart, such as Hope College, a gift of cash might immediately come to mind. But professional advisors agree that cash is not always the most efficient asset to donate. A gift using an appreciated asset like real property or securities can provide you with a double tax benefit. The growth in these assets is generally subject to long-term capital gain if the property owner sells the property—which has a maximum tax rate of 15 percent. When you donate an appreciated asset, however, you avoid all capital gains tax. Plus, you still receive a charitable income tax deduction for the full value of the property. Compare these benefits with a gift of cash in the chart to the right.

As you can see, using appreciated property rather than cash lowers the net cost of your gift.

We are available to help

If you would like to discuss a gift of property to help fulfill the mission of Hope College while meeting your needs, please give us a call.

Before giving Hope College a gift of cash, consider the tax benefits of using an appreciated asset as the basis for your charitable gift.



The ongoing major renovation of Lubbers Hall will greatly expand its usefulness.

Compare the Benefits: Real Estate vs. Cash Gift

	Give \$300,000 in Real Estate	Give \$300,000 In Cash
Fair market value of gift	\$300,000	\$300,000
Cost basis	\$50,000	NA
Capital gain if otherwise sold	\$250,000 avoided	NA
Federal capital gains tax savings (\$250,000 × 15%)	\$37,500 avoided	NA
Income tax savings in a 35 percent federal tax bracket from a \$300,000 charitable deduction (\$300,000 × 35%)	\$105,000	\$105,000
Total tax savings	\$142,500 (\$37,500 + \$105,000)	\$105,000
Net cost of gift (\$300,000 - \$142,500 total tax savings)	\$157,500	\$195,000

CRAT vs. CRUT: Which is Right for You?

Charitable remainder trusts (CRTs) are a type of charitable gift that provides income to you and/or others you designate over a period of years. At the end of the trust term, the remaining principal goes to a charitable organization of your choice. CRTs come in two basic forms: charitable remainder annuity trusts (CRATs) and charitable remainder unitrusts (CRUTs). The major difference lies in the formula used to calculate payments to the income beneficiary.

Fixed Versus Variable Payments

The income beneficiary of a CRAT receives a percentage of the trust assets valued on the date the assets are initially contributed to the trust. For example, if you contributed assets worth \$500,000 to a CRAT with a 6 percent payout, you would receive \$30,000 each year, regardless of how the trust assets performed.

The payout from a CRUT is based on a percentage of the trust assets revalued each year. For example, if you contributed \$500,000 of assets to a CRUT with a 6 percent payout, you would receive \$30,000 only in the first year. The next year's payment would be higher or lower than \$30,000, depending on whether the trust assets increased or decreased.



All are proud of the accomplishments of the Hope College Class of 2006.

The two types of charitable remainder trusts offer different benefits to the donor, but both provide valuable support to Hope College.


If a given annuity and unitrust were identical in every way except for how the payout was calculated, and the earnings from both equaled the payout, there would be no difference to the income beneficiary. The difference would occur only when the CRUT earns more or less than the payout. In the first example, the only way you would not receive \$30,000 from your annuity trust would be if the principal were exhausted, because an annuity trust makes a fixed payment. For that reason, CRATs are generally considered safer in a down market and are generally perceived as less desirable from the donor's perspective in an up market.

By contrast, a unitrust's payment varies with the trust's returns. For that reason, your payout would be more closely tied to the market. In an up market, you might receive an ever-increasing income stream from a CRUT. In a down market, you might receive a decreasing amount. Whether your income stream increases or decreases depends on the market, but also on the payout percentage you have chosen. For that reason, most advisors typically recommend that unitrust donors who want an increasing income stream choose a more conservative payout percentage.

Which is Right for You?

CRUTs are often recommended for donors with a long life expectancy because they need inflation protection and can usually assume more risk. By contrast, CRATs are often considered most appropriate for older donors who seek protection from market swings and to whom inflation protection is less important.

Another basic, but not to be overlooked, difference between an annuity trust and a unitrust is



that it is generally simpler (and therefore less costly) to administer a CRAT than a CRUT. That is because an annuity trust payout need only be calculated once in the first year while unitrust payments must be calculated each year.

A final difference between the two types of trusts is that additional assets may be added to a unitrust but not to an annuity trust. For example, if you transferred stock to a CRT in year one and wanted to transfer additional shares of stock to the


same trust in year two, you could do so with a unitrust but not with an annuity trust. If your trust were an annuity trust, you would need to establish a new CRAT for the additional shares.

In deciding whether to use a CRAT or a CRUT, it is important to work with a planner who is experienced with charitable remainder trusts to help you evaluate your options.

A Twist on Charitable Remainder Trusts

A Flip CRUT Offers Tax Advantages for Hard-to-Sell Assets

Suppose you would like to make a significant gift to Hope College but you also need to assure your future income stream. Everything you have learned about charitable remainder unitrusts (CRUTs) suggests that they might help you reach those goals.

 Suppose also that you have a valuable asset that is not readily marketable, such as real estate or a closely held business you would like to use to make your gift. Under these circumstances, a special variation of a unitrust, called a flip charitable remainder unitrust (flip CRUT) may be for you.

A flip CRUT is a hybrid between a standard unitrust and another variation of unitrust called a net income CRUT. A standard unitrust pays the

donor a percentage of the trust assets valued each year, regardless of the income earned by the trust. A net income CRUT pays the donor the lesser of the payout percentage specified in the trust or the actual income earned by the trust in a given year. So, if the trust assets aren't earning income, as they may not from vacant real estate or a closely held business, no distributions are made from the trust.

A flip CRUT begins its life as a net income CRUT and "flips" to a standard CRUT upon a triggering event, such as the sale of the unmarketable asset. It flips its payout structure to a standard unitrust when the trustee sells the real estate or other unmarketable asset. The trustee distributes a regular payment stream the calendar year following the asset's sale.

A flip CRUT can be a useful strategy under the right circumstances. Remember to consult your tax advisor to determine the best strategy for you. Please feel free to contact Hope College regarding any questions or comments you may have at (616) 395-7779.

The Lifestyle You Deserve

Make sure your retirement plans cover your lifestyle needs. For more information, use the enclosed reply card to request the FREE brochure, **Retirement Income Plans: Ways To Pay You More.**

The Joy of Recognition: Be Anonymous No More

Let us know about your planned gift to Hope College so you can enjoy the additional fulfillment of inspiring philanthropy in others.

Any planned gift you create helps us build a secure future. You can multiply the result of your gift if you will take just one more step. Do not remain anonymous. Allow us to publicly acknowledge the fact that you have made a bequest or created another type of planned gift to Hope College.

You can share as much or as little information as you want: just your name, or your whole life story. Whatever you do will be helpful to Hope College in several important ways. Plus, sharing your story can be an affirming experience for you.

Letting others know about your personal commitment to us inspires people who may be considering such a gift. You help dispel the myth that planned giving is too complex. It makes other

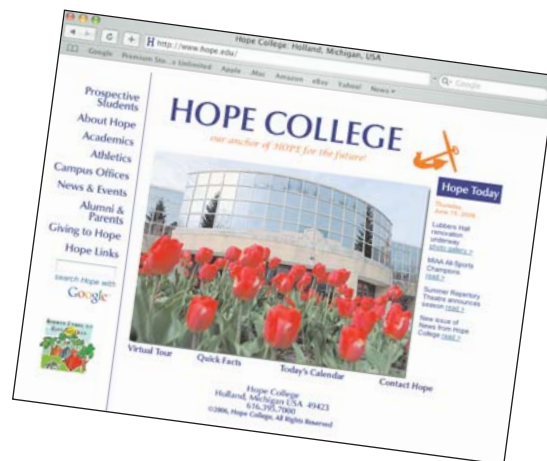
donors feel more comfortable giving if they know you have already done so. You can feel good about setting an example that encourages philanthropy and strengthens our future.

Although not all planned gifts are realized within the donor's lifetime, lifetime recognition allows you to enjoy a connection to your gift now and adds a personal touch to what will someday be accomplished through your philanthropy. Many years from now, through your example you will still be encouraging others to give. Your planned gift says you care about the future of this community and this organization. Allow us to share the news of your gift so others will come forward and join you in your dedication to make a difference.

Build Your Gift Today Free Online Tools

If you want to make a lasting gift to support the important work of Hope College but you are not sure what type of planned gift best meets your objectives, check out our **Build Your Gift** feature at www.hope.edu/advancement. Click on **Giving Opportunities** and select **Planned Giving**. Simply answer a few quick questions about your financial and philanthropic goals, and the system will recommend a planned gift that may be right for you.

Within minutes, you can identify a planned gift that will meet your needs and ours. Give **Build Your Gift** a try today. When it comes to creating a legacy for the future, there is no time like the present!



HOPE COLLEGE

Office of Gift Planning

P.O. Box 9000

Holland, MI 49422-9000

Direct: (616) 395-7775

Toll Free: (800) 238-8220

Fax: (616) 395-7111