openlands

conserving nature for life

# Green Legacy Society Information

## BEQUESTS

Many individuals find that a bequest is an effective instrument for making a gift to Openlands. Generally, charitable bequests will lower your estate taxes.
If you already have a will and wish to add Openlands, you only have to complete a codicil (a simple legal instrument to modify your will). The following are suggested forms for making various types of bequests:

- Specific Bequest: You leave a specific sum of money or specific assets to Openlands
- Percentage of the Estate: You leave a percentage of your assets to pass through your will to Openlands
- Residual Beneficiary: You name Openlands as the ultimate and final beneficiary of your will after payment of other bequests and estate expenses
- Contingent Bequest: You name Openlands as the beneficiary of your estate only if others named in your will are not living at the time of your death
- Testamentary Trust: You include a provision in your will to provide lifetime income to your spouse and/or other beneficiaries, after which the assets of the trust are given to Openlands

## LIFE INSURANCE

If you are like many living on a modest income, you can still make a charitable donation without affecting your financial needs by naming Openlands as the sole or partial beneficiary in your life insurance policy or your retirement plan. There are different ways a gift of life insurance can be made in order to accomplish your charitable goals while meeting estate or financial needs.

**Openlands as Beneficiary:** Openlands can be the primary or secondary beneficiary of your life insurance policy, while you still retain ownership and access to the policy's cash. With this type of charitable giving the proceeds will still be included in your taxable estate because the life insurance policy is still under your name. However, you benefit through a charitable estate tax deduction and the insurance proceeds do not go through probate.

**Openlands as Owner:** This type of donation provides you with immediate tax benefits. When you assign the irrevocable insurance policy to Openlands, you will be allowed an immediate federal income-tax deduction and there will be no estate taxes since Openlands owns the policy. You have the option to pay the premiums directly to the insurance company or to Openlands, which in turn pays the premiums. With an existing policy, you can transfer ownership of the policy to Openlands.

## RETIREMENT ASSETS

Many individuals are surprised to learn their heirs will receive relatively little of the balance of IRAs, 401(k) plans, and others after estate, income, and other taxes are deducted. Since retirement plans typically accumulate tax-free earnings, the balance of your retirement account is most likely subject to double taxation - income tax and estate tax. Careful planning may minimize these taxes.

**IRA Rollover Provision – Established in 2006 and considered for extension annually**
Recent legislation extends the opportunity to those who:

- Are age 70 1/2 or older; and
- Own an IRA

The law, originally titled Pension Protection Act of 2006, allows IRA owners to make distributions directly from their IRA to one or more charities without the distributions being included in taxable income and subject to withholding. Previously, if you wanted to use IRA funds for a charitable contribution, you had to withdraw money from your IRA and then contribute it. The amount you withdrew was taxable, and the deduction for the contribution may or may not have offset the tax. Another benefit of this legislation is that the funds transferred from your IRA to a charity count towards your mandatory withdrawal.

**Example:** Suppose Nancy has $700,000 in an IRA and will be required to withdraw approximately $35,000 this year, and suppose further that Nancy wants to contribute $10,000 to Openlands. She can authorize the company investing her IRA to transfer $10,000 to Openlands and $25,000 to herself. The $10,000 distributed to Openlands will not be subject to tax, but does count towards her required withdrawal.
Making charitable contributions from an IRA rather than other assets is appropriate for those who:

- Are already giving at their 50% deduction limit;
- Do not itemize deductions;
- Would not be able to deduct all of their charitable contributions because of deduction limitations;
- May lose some of their itemized deductions because of their income level; or
- Are required to take distributions but do not need them for living expenses.

This law allows distributions to be either undesignated or directed to a specific purpose of Openlands General Endowment. Certain limitations apply to these non-taxable charitable distributions from an IRA:

- They cannot exceed $100,000 per year per spouse;
- They must be made to a public charity; Gifts to Openlands qualify!
- The gifts must be outright (i.e., they cannot establish a gift annuity or fund a charitable remainder trust); and
- These tax-free distributions can only be made through December 31 (in years when Congress has extended this provision).

The legislation offers a welcome incentive to donors who want to use the money in their IRAs to make charitable gifts. The legislation makes the process simple and assures these donors their gifts will not increase their taxes. To qualify for IRA rollover treatment, the donor must direct the IRA manager to transfer funds directly to charity. A withdrawal followed by a contribution will still have to be reported as income. Donor advised funds and supporting organizations are not eligible. Neither do outright distributions to charity from employer-sponsored retirement plans, such as Simple IRAs, 401(k)s, and 403(b)s. Note that Roth IRA distributions ordinarily are not taxable, so the tax benefits of the new IRA rollover don't apply to Roth IRAs.

**Gifts through retirement plans can generate tax benefits that allow you to fulfill charitable goals and to plan for a secure retirement. This way can be especially beneficial if you have accumulated substantial retirement assets and wish to reduce income and estate taxes.**

Naming Openlands as a beneficiary of all or part of your IRA or retirement plan can achieve both estate tax and income tax savings, leaving your family and loved ones assets not subject to additional income taxes. Simply use your plan's beneficiary form so Openlands can receive an outright distribution from your IRA or retirement following your death. Be sure to let your plan administrator know that Openlands is a charitable organization (tax identification number 36-26-49603). Do not use retirement assets to satisfy a bequest in your will, or the estate may end up paying more taxes - use your plan's beneficiary designation form.

**Life Income Gifts:** If you have adequate income from sources other than qualified retirement or excess income assets, your retirement assets can be used to make a lifetime charitable gift.
Once you reach age 70 1/2, you must begin taking minimum distributions out of your IRA or retirement plan. Income tax on minimum distributions can be offset by a charitable deduction to Openlands. Generally, funds in qualified retirement plans grow tax-free over time, and income tax is assessed only when you withdraw from the plan. If you would like an income tax deduction, offsetting some, if not all, of the income tax due, you may want to make an outright gift to Openlands after withdrawing money from your retirement plan and pay the income tax on the amount withdrawn. By giving a gift in this manner you will receive an income tax break while removing a portion from your estate, thereby avoiding estate taxes.

**Gifts Effective at Death:** Retirement assets may be subject to income taxes in your estate. To avoid this tax you can include a statement in your will or trust to direct the "income in respect of decedent" (tax due on the income earned in your retirement plan) to Openlands. Since Openlands is tax-exempt, you avoid both income tax and estate tax and can then leave your heirs estate gifts not subject to double taxation.
You may want to transfer the balance of your IRA or retirement plan at your death to a charitable remainder trust with your spouse or other heirs receiving an income for their lifetimes or for a period of years. Your spouse will avoid estate tax, and other beneficiaries will have a reduction in the estate tax. In both cases, the transfer of assets would not trigger income tax upon death, and your heirs could receive more than if they had received the retirement assets outright.

## CHARITABLE REMAINDER TRUSTS

A charitable remainder trust is a powerful tool for: (1) providing funds for you and your loved ones; and (2) making a generous gift to Openlands. It allows you to transfer assets into a separately managed trust which will provide you and/or your beneficiaries with payments for life or for a specific term of years.

**Charitable Remainder Unitrusts**: A unitrust provides variable income based on a percentage of the fair market value of the assets, which are revalued annually. A unitrust can be funded with cash, securities, marketable real estate, or personal property. You also have the opportunity to add to the unitrust any time you wish. One of the advantages of the unitrust is that income from the trust can increase as the trust principal grows over time. With a well-managed unitrust, you should see your income steadily increase each year. Distribution to the beneficiaries of a unitrust is generally established at a set percent of the annual fair market value of the trust. You are subject to income tax on your receipt of that payment, depending on the type of income earned by the trust.

**Charitable Remainder Annuity Trusts**: An annuity trust provides a fixed income based on a percentage of the initial fair market value of the property on the date of the gift, to a maximum of two beneficiaries age 55 or older. Once initiated, additional contributions cannot be made to the trust. The annuity trust can be funded with cash or securities. An annuity trust appeals to individuals who want to avoid risk.

## CHARITABLE LEAD TRUSTS

Charitable lead trusts are similar to charitable remainder trusts in every way except they reverse the recipients: (1) They provide funds for Openlands today; and (2) they make a generous gift to your loved ones in the future. The charitable lead trust allows you to transfer assets into a separately managed trust that will provide Openlands with payments for life or for a specific term of years. Upon its dissolution, the corpus of the trust reverts back to your loved ones.