



Community Foundation Study Examines Wealth Transfer in Wisconsin

What will your planned giving practice look like over the next few decades?

A new report, commissioned by Wisconsin's Certified Community Foundations and conducted by the Nebraska Community Foundation/Center for Rural Entrepreneurship, finds Wisconsinites have accumulated wealth totaling \$687 billion. The report, released in early September, projects those funds will change hands between the World War II Generation, Baby Boomers, Gen X and Gen Y by 2050, with \$105 billion changing hands between 2000 and 2010. Just consider the impact.

In Winnebago County, \$19.1 Billion is projected to be passed from one generation to the next by 2050, with \$2.9 Billion being transferred by 2010.

A Historic Opportunity

The projected transfer presents an unprecedented opportunity for charitable investments. It simultaneously defies the perception that Wisconsinites do not possess the means to give.

By contrast, this research demonstrates **almost everyone can do something.**

For that reason, we are encouraging local residents to count their community among their heirs, by making a bequest or life gift to strengthen their communities.

“When we talk about funds changing hands like this, people automatically think of children and grandchildren,” said Eileen Connolly-Keesler, Executive Director of the Oshkosh Area Community Foundation. “We’re asking residents to think about their communities as well, as one of their heirs. This is another opportunity to make our communities stronger.”

For example, if 5% of the wealth transfer is retained for charitable investments, Wisconsin's quality of life will be forever enhanced. In the first 10 years, 5% gifts to endowments would translate into \$145 Million—spinning off \$7.25 Million EVERY year thereafter for charitable purposes in Winnebago County.

“Just think of the impact. This is an unprecedented opportunity to assist those who want to help their communities and don't know how or even think they have the ability to,” said Connolly-Keesler. “The worst thing that could happen is to see a disproportionately high share of those funds go to taxes.”

The transfer of wealth is in its earliest stages. The time is right to help residents understand how they can capitalize on this opportunity. The state's future will reflect our efforts today. As a Certified Community Foundation, we can help you help your clients. Whatever their favorite causes, we can facilitate a gift that will make good things happen.

For complete results of the study and the findings for the counties in your area, or to learn more, visit www.OshkoshAreaCE.org or call Karlene, 920-426-3993, at the Oshkosh Area Community Foundation.

✓ PlanningTip

New IRA Charitable Rollover Provision FAQ's

The Pension Protection Act of 2006 permits individuals to rollover up to \$100,000 from an individual retirement account (IRA) directly to a qualifying charity without recognizing the assets transferred to the qualifying charity as income.

The effective date is retroactive to distributions from IRAs in taxable years beginning after December 31, 2005. This provision is time-limited. For more information visit <http://www.pgdc.com/wis/item/?itemID=375587>.

✓ Upcoming Seminar

On November 29, 2006, the Oshkosh Area Community Foundation will host a Family and Charitable Planning with Retirement Accounts Seminar. The featured speaker is Christopher Hoyt, Professor of Law at the University of Missouri Kansas City. Continuing education credits will be offered. Brochure and registration information will be sent out later this month.

✓ FreeLunch

Want to learn more ways the Community Foundation can help you help your clients? Let us buy lunch—and fill you in. To schedule, call Karlene or Eileen at (920) 426-3993.

Charitable Remainder Trusts Funded with Real Estate

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The Charitable Remainder Trust (CRT) is one of the most popular gift planning techniques for today's donors. By funding a CRT with real estate the donor can possibly avoid or postpone capital gains tax liability. The trust invests the proceeds from the sale of real estate. The trust will pay an income to the donor (and/or others as designated) for life or a term not to exceed 20 years. The donor is able to increase their annual cash flow, avoid an immediate capital gains tax, and receive a charitable tax deduction while removing an asset from their gross estate and eliminating the burdens of owning a particular property.

General Considerations

Real estate may or may not be suitable for transfer to a CRT and if so, is certainly more appropriately transferred to certain types of CRTs.

Real estate should not be transferred to a charitable remainder annuity trust (CRAT) or to a standard charitable remainder unitrust (SCRUT) unless:

- 1- each year the property produces enough income to cover trust expenses and the payment obligation,
- 2- there is virtual certainty that the trust will be able to liquidate the real estate prior to the end of the first taxable year of the trust, or the trust is funded not only with real estate, but also with liquid assets sufficient to ensure the trust's obligations can be met without resort to deeding small fractions of the property to more beneficiaries.

When real estate is to be contributed, a net income charitable remainder unitrust (NICRUT) or a net income with make-up provision charitable unitrust (NIMCRUT) with a "flip" provision is preferred. Such a trust affords the trustee and indefinite amount of time to sell the property without concern about making any unitrust payments, and once the real estate is liquidated the trustee

is then permitted to invest with the objective of maximizing total return.

Selecting a Trustee

The three most common trustee options are (1) a charity, such as a Community Foundation, that is also a remainder beneficiary, (2) the donor themselves, and (3) fiduciary. The charity as the trustee will need to take the time to do a thorough review of the advisability of accepting any particular piece of property. If a donor doesn't want to assume ongoing trust administration, but is concerned that an external trustee might not obtain their perceived best price for the property, the donor could serve as trustee initially, but then reassign or enter into a co-trustee relationship with the charity, once the trust sold the property. The charity may prefer the donor to serve as trustee prior to the sale of the property.

Tax Implications

- 1- Charitable Deductions: The donor receives income and gift tax deductions for the present value of the remainder interest of the trust. If the deduction exceeds \$5,000, which is almost always the case with a charitable remainder trust, a qualified appraisal and submission of Form 8283 will be required.
- 2- Recognition of Capital Gain: One of the main advantages of charitable remainder trust is the fact that the trust is tax-exempt and, consequently, will NOT be on the realized gain when it sells appreciated property. Of course, to the extent of the beneficiaries' income consists of realized gain, it will be taxed to them as received.
- 3- Gift or Estate Tax Deduction: If the trustor is the only beneficiary, the entire value of the trust will be included in the estate at death, but the trustor's estate will be allowed an estate tax charitable deduction for the remainder passing to charity, with the result that no estate tax will be payable on trust assets.

If the trustor's spouse is the only income beneficiary, other than the trustor, the spouse's income interest automatically qualifies for the gift or estate tax marital deduction. Again no gift or estate tax will be payable on trust assets.

If the trustor is the initial beneficiary and is succeeded by one or more other non-spousal beneficiaries, and the trustor has retained the right to revoke by will the successor(s) interest(s), the trustor will not have made a completed gift to that (those) beneficiary(ies) when the trust is created and will not have to pay any gift tax. The entire value of the trust will be included in the estate at death, but the estate will be allowed an estate charitable deduction for the value of the charitable remainder interest.

Gift of Mortgaged Property

The transfer of mortgaged property to a CRT has many consequences. Charitable organizations including Community Foundations are often advised not to accept mortgaged property for CRTs.

Charitable Remainder Trust Funded with a Fractional Interest in Real Estate

Sometimes donors are unwilling to transfer their entire interest in real estate to a CRT. Possibly, they have reached retirement age and are planning to move from the large family estate into a smaller retirement home, and they need cash for the new home as well as payments during their retirement years.

Created for professional advisors, *advisor impact* is a quarterly newsletter of the Oshkosh Area Community Foundation.

The Community Foundation is a non-profit organization established to help donors create lasting legacies.

For more information:

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FY 2006 Oshkosh Area Community Foundation Achievements

- ✓ The Community Foundation raised more than \$12 million.
- ✓ 71 new charitable funds were established by various individuals, families, and area organizations
- ✓ The Community Foundation awarded more than \$7.5 million in grants to area non-profits and \$250,000 in scholarships to local students.

For good. For ever. SM