A Lasting Legacy
How to make an enduring contribution to an independent school through planned giving

By Helen A. Colson
The school you support is part of an extraordinary heritage.

You know what an independent education has meant to you, your children, or your grandchildren. All benefit richly from excellent teachers, personal attention, and exceptional offerings. But independent K–12 education also makes enormous contributions to society as a whole by preparing young people for success in a changing world.

You’re probably aware that annual and capital gifts help fuel the people and programs that make your school so special. But independent schools need more. They need a sound financial base upon which to continue to grow, innovate, and serve broader communities. Schools are lasting institutions, and they need funds to educate children for the long term.

You can make an enduring contribution to a deserving school through planned giving. It’s a remarkable type of philanthropy that may help you make a more significant gift than you thought possible and receive significant tax and financial benefits as well.

Find out how to make a planned gift and provide a legacy that will allow future generations to benefit from the education that has meant so much to you.
PLANNED GIVING’S VALUE TO SCHOOLS AND YOU

Why give to an independent school?
Your generosity makes a real difference in the lives of children. Independent schools’ exceptional work helps each new generation grow into healthy, successful adults.

In addition, your philanthropic gifts are especially valuable — and valued — at an independent school because it has many fewer supporters than a university or a large charity does. So your contribution has a greater impact and is even more appreciated. Each gift counts.

What is planned giving?
Planned giving is an array of charitable gift options that enable you to give generously to your school while creating potential financial benefits for you and your family. Some planned gifts provide donors like you with lifelong income. Other types let you use tax planning techniques to maximize a gift, minimize its impact on your estate, or both.

Planned gift vehicles generally fall into two categories:
1. **Outright gifts**, such as gifts of appreciated securities, that benefit the school now
2. **Deferred gifts**, such as bequests, that the school will receive at a later date

They may be one of the following:
- **The gift of an asset**, such as stocks or bonds that have grown in value, real estate, or benefits from a retirement account
- **A gift provided by a financial vehicle**, such as a charitable lead or remainder trust

Your school will work with you to structure a gift option that will help you meet your financial and philanthropic goals while helping the school as well.

You can make planned gifts whenever you are ready. Perhaps you are reviewing your tax and estate plan with an attorney, planning your retirement, or selling a business. You may have received a bonus or welcomed grandchildren. Or you may have inherited significant assets. Situations like these can trigger a discussion on how a planned gift can provide an option that’s just right for you — one that that permits you to make a larger gift than you thought possible and receive significant tax and financial benefits as well.

What are the benefits of planned gifts to you as the donor?
Planned giving may enable you to support your school generously and, at the same time, accomplish the following:
- **Reduce or avoid income, capital gains, and/or estate taxes**
- **Increase your income now or when you retire**
- **Pass assets on to your children or grandchildren when and how you wish**
- **Provide an estate for your spouse while paying less in taxes**
- **Donate your home and continue to occupy it for life**
- **Sell a business without paying high taxes**
- **Give more generously than you otherwise could by combining outright and deferred support**
- **Show your admiration for the school now with a gift that will not reduce your current income or assets**
- **Be recognized for your gift immediately, even if the school is to receive it later**

How do you make a planned gift?
- **Consider the possibilities.** Meet with your school’s development officer to discuss the different programs the school offers and to see how your needs align.
- **Get independent advice.** Once you have talked to the school’s advocate, consult your own attorney or financial planner to make sure the proposed gift suits your circumstances, needs, and plans.
• **Be patient.** Particularly if your gift is complex, your attorney or financial adviser may wish to meet with a school representative about the details and timing. In addition, most schools have Gift Acceptance Committees that review proposed planned gifts to make sure they’re compatible with the school’s mission and needs.

• **Think ambitiously.** Of course, you could just write a check, which is the easiest way to make a gift. But let’s say you want to give more than your currently available cash. Perhaps, in order to be far more generous, you could combine an outright and deferred gift and, in the process, make the largest gift of your lifetime and even the largest gift your school has ever received.

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**Why Should You Tell the School About Your Gift?**

Some donors of bequests and other types of deferred gifts do not share their gift plans. “I like the thought that my bequest will be a big surprise after I am gone,” one donor said. But there are two good reasons to tell your school about a deferred gift arrangement now, even if the school won’t receive it for many years.

1. **You can be certain that you and the school agree on how to use the funds.** Perhaps you would like to endow a math room in memory of a legendary teacher or provide financial aid to worthy students. It is important to know that the school understands your intent.

2. **You will inspire other prospective donors by publicly acknowledging your commitment.** In that way, your future generosity will help the school today.

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**10 PLANNED GIFTS AND HOW THEY WORK**

The following are examples of planned giving possibilities. As you consider whether one of these could help you create a lasting legacy for an independent school, keep these practical points in mind.

• **The numbers are based on circumstances that may not apply to your gift.** Always consult your tax adviser for specifics.

• **Tax rates and actuarial tables may change over time.**

• **The tax estimates use typical state income and estate tax rates, as well as federal tax rates.** However, you should be aware that significant differences often exist among the states.
1

Bequest

YOUR GIFT:
You leave a bequest to the school in your will. A bequest is the simplest type of deferred gift; often you can arrange it by adding a simple codicil to your existing will. A bequest permits you to make a generous gift without affecting your income or assets during your lifetime. You have several options. You may leave the school
• a specific bequest of cash, securities, or other assets;
• a percentage of your entire estate; or
• your residuary estate, which is what is left after other estate obligations have been paid.

YOUR BENEFIT:
• The amount that passes to the school will not be subject to estate tax upon your death. These tax savings can be substantial; in a large estate, they may approach half the value of the bequest.

EXAMPLES
In her will, Ms. A gives $20,000 to her school in cash, marketable securities, or a combination of both. The gift is unrestricted, meaning that the school can apply the funds where the need is greatest. This $20,000 portion of Ms. A’s estate will not be subject to estate tax.

Under his will, Mr. B gives 25 percent of his residuary estate to his school. The school commits to adding the bequest to its endowment fund. This 25 percent of Mr. B’s estate will not be subject to estate tax.

Mrs. C’s will provides that, if her husband does not survive her, her entire residuary estate will go to her grandchildren’s school for endowment. The school agrees that income from this share of the endowment will support its science program. If Mrs. C survives her husband, Mrs. C’s residuary estate will not be subject to estate tax.

2

Appreciated Securities

YOUR GIFT:
You make an immediate outright gift of appreciated stock that you have held for more than one year and that produces little or nothing in the way of dividends.

YOUR BENEFIT:
• You receive a current income tax deduction for the full fair market value of the gift on the date you make it.
• The gift of stock will be out of your estate and therefore not subject to an estate tax upon your death.
• If the stock has appreciated in value, you avoid a capital gains tax that would have been due if you sold the stock rather than donating it.

EXAMPLE
Mr. D owns a block of Berkshire Hathaway stock. His cost for the stock, which he bought many years ago, was $50,000; its current value is $200,000. The stock does not pay any dividends. He donates the stock to his school. In the year of his gift, Mr. D receives an income tax deduction of $200,000. He also avoids a capital gains tax of approximately $40,000, which would have been due in capital gains and other taxes if he had sold the stock. And, upon his death, there will be no estate tax on the stock.
3 Personal Property

YOUR GIFT:
You make a gift of valuable personal property that you have owned for more than one year. (Types of valuable personal property include fine art, book collections, antique maps, a grand piano, etc.) The school wants the property and can use it in its educational program.

YOUR BENEFITS:
• You receive a current income tax deduction for the appraised value of the property.
• The property will not be subject to estate tax upon your death.
• If the property has grown in value, you avoid a capital gains tax that would have been due if you had sold it.

EXAMPLE
Mrs. E owns a portfolio of valuable antique maps that she inherited from her grandmother many years ago and which the school agrees to keep and display rather than sell. The maps were worth $10,000 when her grandmother died; their current value is $40,000.

In the year she makes the gift, Mrs. E receives an income tax deduction of $40,000. She also avoids a capital gains tax and possibly other taxes of approximately $8,000 that she would have owed had she sold the maps. And, upon her death, there will be no estate tax on the maps.

4 Retirement Assets

YOUR GIFT:
You make a deferred gift of the balance remaining at your death in one or more of your retirement plans — your IRA, 401(k), or profit-sharing or pension plan. Often this type of gift comes from individuals who contributed to retirement plans early in their careers but, as their wealth increased, they (and their heirs) no longer depend upon these assets.

YOUR BENEFITS:
• You avoid two significant taxes: an estate tax due when the retirement funds pass to your heirs upon your death, and an income tax due from your heirs in the year or years when they receive the funds.
• Those taxes, when combined, could be as high as 65 percent of your entire retirement account. If you donated your retirement assets to an independent school, you could leave your heirs a bequest of cash or securities. Your heirs would receive your bequest to them income tax-free.

EXAMPLE
Mr. F, a widower, participates in a 401(k) plan. He originally designated his son as the beneficiary of the remainder of the plan at his death. But Mr. F changes the beneficiary to his school. As a result, he eliminates the income tax and estate tax that would have been due if his son had inherited the plan fund. Instead, Mr. F leaves an equivalent amount to his son in the form of a bequest of cash or securities, which will pass to the son with no income tax due.
5 Retained Life Estate

YOUR GIFT:
You give your school an unmortgaged primary or vacation home but retain a “life estate” that grants you the right to continue to live in it for your lifetime. If you wish, you can rent out your home rather than occupy it. And you can arrange for your spouse to continue to live in it if he or she survives you.

YOUR BENEFITS:
• You will receive a current income tax deduction.
• Your home will not be subject to estate tax upon your death.
• If your home has appreciated in value, you will avoid the capital gains tax you would have owed if you sold it during your lifetime.

EXAMPLE
Mr. and Mrs. G, ages 65 and 60, own a beach house without a mortgage. They give the house to their grandchildren’s school, reserving the right to live in it until both of them die. Mr. and Mrs. G purchased the house many years ago for $200,000. The current value of the house is $600,000.

In the year of their gift, the Gs receive a charitable deduction on their income tax of approximately $300,000, the present value of the school’s future gift. They avoid a capital gains tax of approximately $100,000 that they would have owed if they sold the house during their lifetimes. And, upon their deaths, there will be no estate tax on the house.

6 Charitable Gift Annuity

YOUR GIFT:
You set up a charitable gift annuity, a contract between you and the school. You transfer cash or marketable securities to the school. The school requires that you be 55 or older and contribute at least a minimum amount, perhaps $50,000. The school pays you a fixed amount periodically for life. The older you are, the higher the payout rate will be. Upon your death, the remaining balance passes to the school.

YOUR BENEFITS:
• You can count on a fixed amount of income each year for life — income that will not be subject to fluctuations in the stock market.
• In many cases, the payments will be larger than the income you currently receive from your investments.
• In the year of the transfer to the school, you will receive an income tax deduction for a portion of the amount you transferred.
• A portion of each payment to you will be income tax-free.
• If you wish, you may delay the start of your payments. Deferring the start date will increase the payout rate.
• If you wish, you may designate your spouse to continue to receive payments after your death and for his or her lifetime, before the school receives the funds.

EXAMPLE
Mr. H, age 75, pays $100,000 in cash for a lifetime charitable gift annuity. His school agrees to pay Mr. H $5,800 a year for the rest of his life. Approximately $1,200 of this annual income is subject to income tax, and approximately $4,600 is tax-free. In addition, in the year that Mr. H acquires the annuity, he receives an income tax deduction of approximately $43,000.
Charitable Lead Trust

**YOUR GIFT:**
You create an irrevocable trust that pays annual income to your school for your life or for a specified number of years. When the trust terminates, the principal will go to your heirs. The school, which is the sole beneficiary of the trust, receives a gift of income each year during the term of the trust. Those payments can be a fixed percentage of the initial value of the trust (an annuity trust) or a fixed percentage of the principal as it is revalued annually (a unitrust).

**YOUR BENEFITS:**
- The gift tax value of the gift to your heirs is significantly reduced or entirely eliminated.
- There will be no income tax on the annual income paid to the school.
- At the end of the trust term, any appreciation in the principal will pass income tax-free to your heirs.
- You will control the timing of the distribution of the principal to your grandchildren or others. You may also restrict your grandchildren’s eventual use of the principal for a purpose you select — for example, college tuition.

**EXAMPLE**
Mrs. I, age 65, creates a charitable lead annuity trust and names her accountant as trustee. She transfers $200,000 to the trust. Her school is named as the 5 percent annuity beneficiary during her lifetime, and her grandson is named as the “remainder man” — the one who will receive the principal after the trust terminates.

As a result, the school will receive a payment of $10,000 per year for the rest of Mrs. I’s life. Upon her death, the principal will pass to (or be held in further trust for) her grandson. She will pay little or no gift tax on the future gift to her grandson. And the trust principal will not be included in Mrs. I’s estate.

Charitable Remainder Trust

**YOUR GIFT:**
You make an irrevocable transfer of appreciated stock, real estate, or other assets into a trust that pays income to you for life or for a specified period of years. Those payments can be a fixed percentage of the initial value of the trust (an annuity trust) or a fixed percentage of the principal as it is revalued annually (a unitrust). When the trust terminates, your school will receive the remaining trust assets.

**YOUR BENEFITS:**
- The trust sells the appreciated stock, real estate, or other assets and reinvests the proceeds in investments that produce a higher annual income to you than the income produced by the assets that are sold.
- You avoid the capital gains tax on the sale of these assets — tax that you would have paid had you sold and reinvested them personally.
- Because there is no income tax on the trust sale, the entire proceeds of the sale are available for reinvestment.
- You receive an income tax deduction in the year you create the trust.

**EXAMPLE**
Mr. J, age 65, creates a charitable remainder unitrust that names his bank as trustee. He designates his grandchildren’s school as the “remainder” beneficiary and himself as a 5 percent beneficiary for life. Mr. J transfers to the trust $1 million in highly appreciated stock that pays little or no dividends. The trustee sells the stock and reinvests the proceeds in a balanced portfolio of dividend-paying stocks and bonds.

Each year for life, the trust pays Mr. J 5 percent of the value of the trust fund (initially $50,000). The trust fund principal is revalued annually. If it increases in value, the annual payments will increase as well. In the year that he creates the trust, Mr. J receives an income tax deduction of approximately $450,000. (Depending upon his total income, a portion of this deduction may have to be carried forward to subsequent years.) The trust will not be subject to an estate tax upon Mr. J’s death.
9
Life Insurance

YOUR GIFT:
You either transfer ownership of an existing life insurance policy on your life to the school, or you authorize the school to purchase a new policy on your life. You designate the school as the policy’s beneficiary and agree to pay future premiums. These modest annual premiums will generate a large future gift.

YOUR BENEFITS:
• You will receive an income tax deduction for all or a portion of the value of an existing policy at the time of your gift.
• In addition, you will receive an income tax deduction for future premium payments on an existing or a new policy.

EXAMPLE
Mr. K, age 40, authorizes his children’s school to purchase a $300,000 universal life insurance policy on his life. Mr. K agrees to pay the total requisite annual premiums, which are $6,000 per year for 10 years. These premium payments are deductible for income tax purposes, which will lower the payments’ total actual cost to Mr. K from $60,000 to about $36,000. In addition, the $300,000 will be excluded from Mr. K’s estate. When he dies, the school will receive the $300,000 proceeds.

10
IRA Charitable Rollover

YOUR GIFT:
You transfer $100,000 from your IRA to your school. This lets you take advantage of federal legislation enacted in 2015 that allows donors 70½ or older to contribute up to $100,000 each year directly from their IRAs to a charity. (This transfer is a current gift, in contrast to the deferred gift of retirement assets described above.)

YOUR BENEFITS:
• You pay no income taxes on this gift because it goes directly from the IRA to the school.
• At the same time, the contribution qualifies for the minimum distribution you are required to take each year from your IRA.

EXAMPLE
Mr. L, age 73, directs a payment of $100,000 from his IRA directly to his school. Mr. L pays no income tax on the $100,000 IRA distribution. Although this is not a deductible charitable contribution because it is paid from the IRA (rather than from Mr. L) to the school, Mr. L receives the equivalent of an income tax deduction because the distribution is excluded from his income. The $100,000 distribution to the school will reduce or perhaps even cover the minimum distribution that Mr. L would otherwise be required to receive and to pay taxes on that year.
### ABOUT THE AUTHOR

**Helen A. Colson** is the president of Helen Colson Development Associates, a firm that has provided consulting services to more than 100 independent schools since 1990. Between 1978 and 1990, she worked as associate headmaster for development and planning at Sidwell Friends School (Washington, DC). She has also served as a trustee at Sidwell Friends and five other independent schools. Colson is the editor of NAIS's *Handbook of Philanthropy at Independent Schools*.

### HOW PLANNED GIFTS CAN MEET YOUR NEEDS

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<th>HOW CAN YOU DO IT?</th>
<th>WHAT’S THE BENEFIT TO YOU?</th>
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<td>Give to your school in the future but maintain your current cash flow, portfolio, or residence now.</td>
<td>Provide a bequest through your will or give the school your home after your death. (Pages 6 and 10)</td>
<td>Make a donation at no cost while you’re alive as you arrange for future estate tax savings.</td>
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<td>Maximize your tax benefits: Option 1.</td>
<td>Give your school appreciated securities or appreciated personal property it can use. (Pages 7 and 8)</td>
<td>Avoid a capital gains tax and obtain a current income tax deduction.</td>
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<td>Maximize your tax benefits: Option 2.</td>
<td>Make your school the beneficiary of your retirement plan, or make an annual transfer from your IRA to your school. (Pages 9 and 15)</td>
<td>Avoid income tax on your retirement assets as you make other kinds of property available to your heirs.</td>
</tr>
<tr>
<td>Receive income that flows from your gifts of cash or securities to your school.</td>
<td>Set up a charitable gift annuity or a charitable remainder trust. (Pages 11 and 13)</td>
<td>Get income for life and an income tax deduction now.</td>
</tr>
<tr>
<td>Leave assets to your heirs in ways that cut down on the taxes they must pay.</td>
<td>Use a charitable lead trust to provide income to your school for a specified number of years before the assets pass to your children or grandchildren. (Page 12)</td>
<td>Lessen the gift or estate taxes your heirs will pay on what you leave them.</td>
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<tr>
<td>Make a substantial gift to your school upon your death.</td>
<td>Name the school as the beneficiary of an insurance policy on your life. (Page 14)</td>
<td>Provide a death-time gift to your school at a modest annual cost to you.</td>
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A GENEROUS GIFT AND AN INSPIRING EXAMPLE

Through planned giving, you have the potential to make a lasting contribution for which your school will be deeply grateful. You also provide an inspiring example to others who want to make a difference in the lives of young people.

To learn more about leaving a lasting legacy through a planned gift, contact the independent school of your choice directly.