Charitable Gifts That Solve Problems

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American Institute for Cancer Research®

Major Gifts, Trusts and Bequests
For the American Institute for Cancer Research

The American Institute for Cancer Research is devoted to the task of conquering our nation's most dreaded illness. Each year, the Institute sponsors important research projects at universities and research facilities across America, focusing on the cause and prevention of cancer. It has long been a leader in providing effective educational programs on the prevention of cancer – directed to both health care professionals and the general public.

The primary focus of the American Institute for Cancer Research – in both its research projects and its educational programs – has been the role of diet and nutrition in the development and prevention of cancer. (There is scientific evidence that estimates an average of 35% of all cancer deaths might be linked to diet and nutrition.)

We are winning the war against cancer. But there is still a great need for additional scientific research on the cause, prevention and treatment of cancer. As we learn more about the role of nutrition in the cause and prevention of cancer, our educational programs become more and more important and rewarding.

Millions of Americans provide financial support to our programs – often through tax-planned gifts, trusts and bequests. To encourage, facilitate and recognize this very important financial support, the Institute has created the League of Willful Cancer Fighters. We will be pleased to enroll in the League any client who has made, or intends to make, a bequest to the Institute or name the Institute as the beneficiary of a trust, life insurance policy, retirement death benefit or other form of estate gift. We invite you or your client to call us at your convenience.

We have prepared this booklet to help attorneys and other financial advisers understand all the important tax and financial rewards Congress has provided. Our staff can provide the exact tax and financial consequences of any gift, trust or bequest your clients may want to consider. Because we are so active in this specialized field, we can provide whatever technical and practical information you may request for planning and drafting a charitable gift arrangement that will provide your clients both the greatest personal satisfaction and the greatest tax and financial rewards.

Please feel free to call the Office of Gift Planning at any time. Our toll-free telephone number is 1-800-843-8114 or contact us by email at gifts@aicr.org. And please . . . if the opportunity presents itself, inform your clients about how a gift, trust or bequest to the American Institute for Cancer Research can help in the fight against cancer, while also enhancing their personal tax, investment, retirement and estate plans.

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INTRODUCTION TO GIFTS THAT SOLVE PROBLEMS

Individuals who support organizations such as the American Institute for Cancer Research hope that their contributions will help create a better world for future generations. That knowledge obviously is a source of profound personal satisfaction. But gifts can also be planned to provide donors with significant tax and financial rewards and in many cases can help achieve personal and family goals or supply the solution to a problem.

This booklet describes a variety of personal objectives that people can accomplish with their gifts:

- financial assistance for parents or other loved ones;
- supplemental college savings for children or grandchildren;
- augmented retirement nest eggs;
- reinvestment of valuable collections for lifetime income, tax free;
- support for "special needs" beneficiaries;
- financial management for family members who need it;
- influence over the actions and activities of heirs beyond one's lifetime;
- transformation of savings bonds into lifetime income, free of tax;
- support for the war against cancer.

MAKING A GIFT, ASSISTING A LOVED ONE

Financial aid for a sibling. Janice, age 68, lost her husband, Robert, to cancer last year. Her two children, Tom and Jane, are professionals earning good incomes. They and their children were well provided for through a trust set up under the will of Janice's husband, Robert. Janice's sister, Amy, age 70, is not so well off, however. Amy's husband has suffered a series of financial setbacks, and Amy has little income of her own. Janice sends Amy checks from time to time, but she would like to do something more for Amy – and memorialize her late husband, as well. Janice owns various properties, including some highly appreciated, low-yield stock worth about $190,000 and some highly appreciated, undeveloped real estate worth about $120,000. She has contemplated leaving these assets to AICR at her death.

Problem-solving gift strategy: Janice can transfer the stock and real estate to a charitable remainder unitrust that will make variable 6% payments for life to her sister Amy (with payments continuing for Janice, if she wishes). The trustee can sell and reinvest these assets without having to pay capital gains taxes (the trust is tax exempt), and Amy's future payments will be taxed as low as 15%, or may even be tax free. An experienced trustee will ensure that Amy's payments continue on a regular basis. The trust will bear the names of Janice and Robert and eventually benefit AICR in an important way. Janice also receives a substantial income tax charitable deduction.

Tax-wise support for a parent. Christine, age 67, sends her 85-year-old mother $400 month ($4,800 annually) from income Christine earns on her retirement savings. Her mother doesn't owe tax on the checks she receives from Christine, but her daughter will have to pay 25% in income taxes on the money she sends to mom.

Problem-solving gift strategy: Christine could transfer cash or stocks to AICR for a charitable gift annuity that would make $4,800 payments to her mother for life, and the payments could continue for Christine's lifetime, after her mother passes away.

Christine likes the idea of helping her mother and assisting our programs at the same time. But she also likes the fact that she no longer will owe income taxes on the funds provided to her mother – and that she will receive a substantial income tax charitable deduction for setting up the gift annuity.

Provide for "special needs" beneficiaries. Mr. and Mrs. W have an adult daughter with disabilities that prevent her from handling her financial affairs. They are considering establishing a special needs trust for the daughter's assistance and also would like to assist the agency that will be providing for her care.

Problem-solving gift strategy: A charitable remainder trust may pay income to a noncharitable trust for the life of an individual who is "financially disabled." The IRS has indicated that such arrangements are appropriate where the income beneficiary, by reason of a medically determinable physical or mental impairment, is unable to manage his or her own financial affairs. The trustee of the noncharitable trust could have broad discretion as to how much income or principal would be paid to the beneficiary, and could take into account government benefits to which the beneficiary may be entitled. The noncharitable trust could pass at the beneficiary's death either to charitable or noncharitable remaindermen.

Helping old and young with an IRA. Marlene is a 78-year-old widow who lost a sister and husband to cancer. Her estate currently is not large enough to owe federal estate tax, but she is concerned about what eventually will happen to her $700,000 IRA – both from an income tax and money management standpoint. She wants to use the IRA to help her sister Regina, who is 82, and her son Henry, who is 51. She notes that Henry had squandered an inheritance from her late husband and that Regina would need some assistance investing her share of the IRA. Finally, Marlene has a wish to include a significant bequest to AICR as part of her estate plan.

Her adviser pointed out that the conventional strategy would be to name a designated beneficiary for the IRA, who would then be able to "stretch" required minimum distributions over his or her life expectancy. But IRA rules require that the account be liquidated over the life expectancy of the oldest beneficiary – her sister, in this case – which was problematic from a tax and money management standpoint.

Problem-solving gift strategy: Her adviser proposed that Marlene use her IRA to establish a testamentary charitable remainder unitrust that would pay Regina and Henry 5% of the value of the trust assets annually, remainder to AICR. Minimum distributions are a nonissue with a tax-exempt unitrust, and both beneficiaries would be assured of lifetime payments. The trust would provide professional management of the funds remaining in the IRA and satisfy her goal of eventually helping AICR.

Supplement grandchildren's college funds. Mrs. G has three young grandchildren (ages 3, 5 and 6) whom she would like to help when they reach college age. She also would like to establish a memorial in the name of her late husband.

Problem-solving gift strategy: Mrs. G decides to fund a unitrust that will last for 20 years and make payments to the grandchildren, starting when the oldest enters college. The trust would be drafted and invested so little or no income is paid initially, allowing the fund to grow substantially in the pre-college years. The trust will later "flip" to pay a fixed percentage to grandchildren when they are in college. An independent trustee will decide how trust payments are to be allocated.

The trust bears the name of her husband and will eventually provide long-term research grant funding for AICR. Mrs. G also receives a substantial charitable deduction in the year she sets up the trust. With proper planning, trust income and investments can be managed to minimize any effects of the so-called kiddie tax.

Note: This idea assumes that the grandparent who funds a "college unitrust" has the twin goals of assisting our programs and supplementing grandchildren's college education. There are many other plans for funding college educations (Section 529 plans, for example) that may provide more funds for college – but they do not benefit worthwhile causes such as AICR.

AUGMENTING RETIREMENT SAVINGS

The "retirement unitrust" can be a useful planning tool for many individuals. The tax laws do not specifically allow deferred payment charitable remainder trusts. But it is possible to approximate such an arrangement through a net-income-with-makeup unitrust that also contains a "flip" provision. Such a trust could provide:

- An income tax deduction;
- Deferral of much – perhaps all – of the trust income until the grantor retires;
- Payment of substantial income after retirement, reflecting rapid growth of principal within a tax-exempt trust – and perhaps make-up of payment deficiencies during years when the grantor was receiving little or no trust income;
- An important gift to the grantor's charity when the trust ends.

The retirement unitrust. Marie-Claire, a 50-year-old veterinarian, is concerned about her high income taxes, which have the effect of shrinking the amount she can save for retirement. She has "maxed out" on what she can put into her 401(k) plan and needs more current deductions.

Problem-solving gift strategy: Marie-Claire transfers stocks worth $500,000 to a flip unitrust that will pay her 6% annually or the actual trust income, whichever is less. The trust contains a "flip" provision directing that she will start receiving a standard 6% payout starting in the year after she becomes 69 years of age.

In the year she sets up the trust, Marie-Claire can deduct a charitable contribution of about $104,000. The trustee invests in stock that is expected to appreciate by 5% a year but provide minimal (1%) payments to Marie-Claire until her projected retirement date: her 70th birthday. By then, the trust will have grown to $1,326,500. The following year it will "flip" to become a standard unitrust paying 6% of $1,326,500. Marie-Claire will enjoy retirement income of nearly $80,000 a year that will be partly tax free, partly long-term capital gain and a small amount of dividends.

If Marie-Claire wishes, she could suggest that the trustee sell some growth stock in the year before the "flip" occurs. If the unitrust has a "make-up" provision and the trust document has defined capital gains as income, Marie-Claire can receive a significant one-time payment that makes up for part or all deficiencies from the 6% payout amount in prior years. If Marie-Claire wishes, she can add more each year to her "retirement unitrust" – $25,000, for example – and receive additional deductions and even more income.

Deferred gift annuities. Deferred payment charitable gift annuities provide another alternative to "retirement unitrusts," although they lack some of their flexibility. Sally is age 55 and decides to give AICR $10,000 in stocks for a deferred payment gift annuity. She estimates that she might retire at age 67, so she picks that age as the "ballpark date" for when payments should begin.

She is entitled to a charitable deduction this year of roughly $4,500 (depending on current interest factors) and at age 67 can start receiving annuity payments of $730 (7.3%) a year. But if Sally decides to keep working past age 67, or for any other reason wants to postpone the start of annuity payments, she can elect to initiate benefits at a later time – age 70, for example, and be paid 8.5%, or receive 9.7% by starting at age 72. Sally can start payments earlier than 67 and take a reduced payout.

Note: Parents of baby boomers who have been unable to save sufficiently for retirement might want to consider establishing deferred payment gift annuities for their offspring that will help them in retirement and provide income tax deductions for mom and dad.

ACHIEVING ESTATE PLANNING OBJECTIVES

Time-release estate distributions. Gerald is a 70-year-old widower with a net worth of $10 million. He has two grown children and is worried about federal estate taxes – and he's also concerned about whether they will be able to handle a large inheritance responsibly. Gerald wants to do something significant to advance cancer research through his estate plan, but still help the kids.

Problem-solving gift strategy: Gerald might leave $5 million to a testamentary charitable lead annuity trust that pays AICR income for 10 or 15 years and ultimately passes all trust principal to the children. Estate tax savings will be significant, and it's a form of charitable giving that may be more appealing to the surviving family members. In the case of Gerald's offspring, a 10- or 15-year wait might be good for them – that is, they may be more mature and better able to handle large sums of money at an older age.

"Tandem Trusts" strategy: If the children feel they need benefits more immediately after their father's death, he might split the $5 million between a 15-year lead annuity trust and a 15-year charitable remainder annuity trust that makes payments to the children. AICR and the children would each receive both income and remainder interests.

Influence heirs' future behavior. Leona Helmsley wanted to ensure that her grandchildren would always make visits to their father's grave after she passed away. She also wished to benefit a worthwhile organization.

Problem-solving gift strategy: Leona's will established charitable remainder trusts for each of her two grandchildren. Each trust contained a clause providing income for life – but only if they visited the grave of their father at least once a year for the rest of their lives. The clause was framed as a "qualified contingency" under IRC §664(f)(2), which permits CRTs to terminate early upon the happening of specified contingencies. Here, if a grandchild ever failed to make an annual cemetery visit, the trust would come to an end, with all assets passing to charity.

IRC §664(f) was a creation of the Tax Reform Act of 1984. Prior to passage, a unitrust or annuity trust that directed the trustee to make payment to the grantor's widow for life, or until she remarried, would not have qualified, even though the tax deduction was based on payments for the widow's entire lifetime. The old rules made no sense, as a matter of public policy, and the law now permits "qualified contingencies" to terminate CRTs early, so long as the trust can only end sooner than the specified trust term. Virtually anything could be a "qualified contingency" – remarriage and death of some other person are two examples cited by the joint committee on taxation that drafted §664(f).

The IRS has issued private letter rulings approving various contingencies that would cause a trust to end "early": separation or divorce of the donor's son and daughter-in-law (eliminating survivorship interest of a daughter-in-law), death of a particular individual, completion of the college educations of 15 children.

Alternative strategy: Donors may be able to control a beneficiary's behavior with a charitable remainder trust provision that is less extreme than ending the trust early (see above). Suppose a mother wants to establish a trust that would withhold payments from her substance-abusing son at any time when he was not "clean and sober." If the trust had an additional income beneficiary – which could be a charitable organization – an independent trustee could be given the power to sprinkle trust income among the beneficiaries.

A private letter ruling approved a payout arrangement in which the donor and the charitable remainderman were co-income beneficiaries of an annuity trust, with an independent trustee holding the power

to sprinkle the trust's annuity amount. At least 20% was required to be paid to the donor under the trust agreement. A similar income beneficiary arrangement might work in which the donor's son was guaranteed only 5% or 10% of the payout – but more could be paid, at the trustee's discretion, if the son can pass an annual drug test. If he continues to abuse drugs, he would receive only minimum annuity or unitrust amounts from the trust, with the other beneficiary receiving the rest.

Reduce taxes on savings bonds. Maxwell has been a patriotic saver all his life and is proud that he has accumulated $230,000 of U.S. savings bonds during his lifetime. He plans to leave the bonds to Mrs. Maxwell in his will, to provide for her security, but was surprised to learn that Mrs. M will have to pay substantial income taxes on every bond she cashes.

Problem-solving gift strategy: Maxwell can leave the bonds to a tax exempt charitable remainder trust in his will. The trustee can cash the bonds without owing income tax, reinvest the proceeds and pay his widow a good income for life.

Guard against a failed marriage. Richard is happily married to Elizabeth (his fourth wife) and he wants to set up a charitable remainder unitrust for the two of them with his separate property. He expects to die married to Elizabeth, but he's also a realist and asks you privately what tax planning steps should be taken, "just in case" this marriage doesn't last. Richard understands taxes and knows that, in case of divorce, his estate would owe federal estate tax on Elizabeth's survivor income interest (the marital deduction will have been lost).

Problem-solving gift strategy: Richard should establish a two-life unitrust that pays income first to himself and then to Elizabeth as survivor beneficiary, with Richard retaining in the trust instrument the right to revoke Elizabeth's survivorship interest in his will (See Rev. Rul. 72-395). The transfer will be incomplete for gift tax purposes [Reg. §25.2511-2(c)]. If they should divorce, he changes his will and follows through with revocation at death. The trust assets will be included in his gross estate but will qualify for the 100% estate tax charitable deduction. If he dies married to Elizabeth, a 100% estate tax marital deduction should be available under IRC §2056(b)(8).

Keep "bequests" private. Mrs. L is planning her estate and wants to provide for AICR and also establish a lifetime income for her daughter, who has a history of drug and alcohol problems. The challenge: She doesn't want her family to find out that she's doing anything for her troubled daughter. She feels she can't help her daughter through a will, which is a public document (she believes the family surely would learn of the bequest).

Problem-solving gift strategy: Mrs. L might consider establishing a deferred payment charitable gift annuity today that would start payments to her daughter in some future year selected by Mrs. L. Mrs. L's gift could be kept wholly confidential. Such life income gift arrangements can help in families where certain relatives are considered outcasts or where they simply lack the ability to manage money. Note: The annuity agreement can be structured to begin payments early – at a reduced amount – if Mrs. L dies before the annuity starting date.

Ensure heirs remember their benefactor. Caroline wanted an estate plan that memorialized her support for AICR – and ensured that she will always be remembered by her family.

Gift planning solution: Caroline decided to establish, through her will, nine separate charitable gift annuities for her brothers, sisters and other family members. The gift annuities will provide lifetime payments to her family, along with significant estate tax savings for Caroline's estate. Through special arrangement, each family member will receive quarterly checks following Caroline's death, with a large part of the payments being tax free.

"I treasure the idea that my family will have a regular reminder of my love for them, and that there will be a continuing bond with my favorite organization," Caroline declared.

Circumvent IRA beneficiary rules. Jeremy lost his wife, Anne, to colon cancer in 2006 and was remarried last December, to Rosemary. In January he sat down with his estate planning advisor and explained some changes he wished to make in his estate plan.

"Ever since Anne became ill I have made annual gifts to the American Institute for Cancer Research, and I want to include AICR in my estate plan. But I also want to make sure that Rosemary is well taken care of after I die. What are my options?"

Problem-solving gift strategy: His advisor remarked that many married couples decide to have any charitable bequests come from the estate of the second spouse to die, and that there were several ways to ensure that those gifts would ultimately occur.

Jeremy noted that he currently had more than $200,000 in an IRA and asked how that account might be used to provide for Rosemary, with later benefit to AICR. His advisor suggested some options, such as making Rosemary beneficiary of his IRA – and asking that she include AICR as beneficiary of a rollover IRA established from Jeremy's account.

"But there's no guarantee," he continued, "that Rosemary will remember to follow through and designate AICR as her IRA beneficiary.

"The surest plan would be to change your will to include a charitable remainder trust, with Rosemary as the sole beneficiary. You would name that trust as beneficiary of your IRA and Rosemary would receive payments for the rest of her life. This arrangement will qualify for the estate tax marital deduction and the trust won't have to pay income taxes on the IRA. AICR would receive whatever remains in the trust."

OTHER GOALS GIFTS CAN ADVANCE

Immunize assets from lawsuits. John is a doctor who works in a medical specialty that is at risk for occasional malpractice lawsuits. Though John has never been sued, he would like to find a way to protect some of his assets against potential judgment creditors. Like other successful professionals, John also knows he faces future gift and estate tax burdens.

Problem-solving gift strategy: John might decide to establish a lifetime charitable lead trust that pays AICR a 5% annuity for 20 years that we will put to use in our programs. At the end of 20 years the trust principal will go to his children. John is considered to have made a gift to his children on the day he creates the trust, but the taxable gift is reduced by the value of our right to receive payments during the trust term. John also may have successfully removed the trust assets from future medical malpractice claims, assuming that the transfer takes place before any claims arise.

Exit the stock market economically. "I've had it with the stock market," Roger told his financial planner. "It's time I found something that provides a good income and also lets me sleep at night!" His advisor observed that many people in Roger's situation decide to sell off some stocks and reinvest the proceeds in commercial annuities that pay a fixed lifetime income. In doing so, however, they typically lose a portion of any stock profits to capital gains taxes and possibly the net investment income tax.

Problem-solving gift strategy: Investors can use gift annuities to harvest investment profits and receive annual payments from AICR that range from 4.4% to 9.0%, depending on the age or ages of the persons receiving the payments. In general, 30-50% of a donor's capital gain escapes capital gains tax completely. The remaining gain will be reported in small annual installments as part of the donor's annuity payments – and taxed at 15% or 20%, or possibly less.

In Roger's case, if he transfers $50,000 in stock to AICR, we would pay him $2,550 a year (5.1%) for as long as he lives, assuming his current age is 70. If he has a $20,000 capital gain in the stock, the gift annuity will enable him to escape tax on about $7,000, and the remaining capital gain can be prorated, $822 annually, over his life expectancy. Furthermore, a large part of his $2,550 annual payments will be tax free – and he receives a charitable deduction of about $17,000. Roger agreed that was a good combination of benefits, for himself and the war against cancer.

Reduce taxes on profit-sharing distributions. Except for Roth IRAs, withdrawals from retirement plan arrangements are generally fully taxable to the account owner. But charitably minded participants in profit-sharing plans may have an opportunity for better tax results. Here is an example:

Meredith, age 70, is planning to retire from her company, where she participates in a profit-sharing plan funded with her employer's stock. Meredith has basically three choices as to how she receives her retirement benefits, which are now worth $500,000:

- "Annuitize" her profit-sharing plan and receive fixed payments for life, that would be largely taxed as ordinary income;
- Roll over funds from the plan into an IRA. No tax would occur at that point, but future distributions would be taxed 100% as ordinary income (currently taxed as high as 39.6%);
- Take a lump sum distribution of her employer stock from the plan. She will pay income tax on the lump sum based on the shares' value when they were contributed to the plan, not the appreciated value when distributed by the plan. When Meredith later sells these shares, she will owe tax on the net unrealized appreciation (NUA), as defined in Code §402(e)(4), but at favorable long-term capital gains rates (20% top rate).

Problem-solving gift strategy: A fourth choice might be to take a lump-sum distribution of her NUA shares but then "annuitize" them within a charitable remainder unitrust. Meredith could, for example, transfer the $500,000 of stock to a 6% unitrust that will pay her $30,000 initially and generate a charitable deduction of about $232,000.

Advantages? The trustee can sell the employer shares and reinvest in a diversified portfolio – without any loss to capital gains taxes. Meredith's charitable deduction will likely eliminate any income taxes incurred when she takes her lump-sum distribution, assuming her taxable portion in the employer securities is less than her $232,000 deduction. Her unitrust payments potentially can be favorably taxed as long-term capital gains or qualified dividends (20% top rate), assuming trust investments are planned to take advantage of the four-tier system of CRT taxation.

The IRS has ruled that any gain realized from a sale of the company's shares by a CRT will not be subject to capital gains tax. Furthermore, the gain on the NUA will be considered long-term capital gain for purposes of the four-tier distribution rules, according to the IRS (PLR 200335017). Meredith will have the personal satisfaction of assisting AICR and other worthwhile organizations that she names as charitable remaindermen.

Cash in on collectibles. Franklin has collected rare stamps for most of his lifetime – quite successfully, in fact. He's invested $100,000 over the years and the collection has grown in value to $600,000. Franklin is retiring soon and wants to sell his collection to augment his retirement income. His accountant tells him, however, that his $500,000 profit will be subject to a 28% "collectibles" capital gains tax and a net 3.8% investment income tax, taking away $159,000 of his nest egg.

Problem-solving gift strategy: Franklin can avoid capital gains tax by transferring the stamp collection to a charitable remainder trust that pays him income for life, with eventual benefit to charity. After the trustee sells the stamps, Franklin will be entitled to a partial charitable deduction, calculated on his $100,000 cost basis. Most important, he can receive income from the full $600,000, not the $341,000 he would have kept had he sold the stamps himself. Collectibles subject to the 28% tax rate include any work of art, rug, antique, metal, gem, stamp, coin, alcoholic beverage or other tangible personal property specified by the IRS.

Relieve landlord burdens. Anthony is 72 and converted his large home into student apartments after losing his wife to cervical cancer in 1995. He originally saw the apartments as a source of retirement income but now wants to shed the stresses of repairs, upkeep and dealing with young tenants.

The building is worth $600,000 and Anthony's original cost was $200,000. Depreciation deductions have reduced his basis down to only $20,000. Anthony's dream is to move to a retirement community, using the sale of the apartment building to invest for retirement income. If he sells, however, he would owe capital gains taxes of $140,200: 20% on the $400,000 of appreciation ($80,000), 3.8% net investment income tax ($15,200), plus depreciation recapture of 25% on $180,000 ($45,000).

Problem-solving gift strategy: Anthony's financial planner suggests that he transfer the apartment house to a charitable remainder unitrust that will pay him a 6% income for the rest of his life. The $140,200 capital gains and net investment income tax won't be payable when the trustee sells and reinvests, so Anthony will begin receiving trust payments based on the full $600,000 – about $36,000 a year, to start. Anthony also will receive a charitable deduction of nearly $300,000.

The trust will serve as a memorial to Anthony's wife and ultimately support AICR's cancer research efforts.

Revive "dead" savings bonds. Elderly donors (especially those 75 and older) often own substantial quantities of U.S. savings bonds – many of which have ceased earning interest. Charitable gifts involving bonds can increase their income while minimizing taxes.

Hugo owns series E and EE bonds worth $25,000. If he cashes them in, he will be taxed on about $12,000 of interest. He would like to give bonds to charity, avoid any tax, get a deduction and obtain income, too. Unfortunately, U.S. savings bonds can be transferred during life only to family members, not to a qualified charity. So to use them in a gift arrangement, Hugo would have to cash the bonds and give charity the proceeds. That means he would have to report all the built-up interest on his next tax return.

Problem-solving gift strategy: Hugo can't avoid having to report the interest for tax purposes. But he can offset some or all of the taxes if he transfers the $25,000 cash proceeds in exchange for a charitable gift annuity. His charitable deduction means that Hugo actually has more money left from the bonds to produce income than if he had cashed them and reinvested the proceeds. Note that his gift annuity payments will be about 75% tax free during his IRS life expectancy.

If the charitable deduction is insufficient to erase the donor's tax liability, the donor might consider accepting a lower gift annuity payout. If Hugo takes a reduced payout, his charitable deduction increases considerably. Alternatively, donors might defer the first payment for a few years (which increases their deductions) or hold back part of the proceeds to pay any tax. Annuity trusts and unitrusts offer flexibility to donors who own savings bonds in substantial quantities. Donors can select payouts and trust terms that leverage the charitable deduction so as to offset the interest reported from cashing bonds.

The War Against Cancer

When you have the occasion to draft a trust or a bequest for a client who wants part of his or her estate to support the war against cancer, our correct legal name is:

"American Institute for Cancer Research, a not-for-profit corporation located in Washington, DC."

Please feel free to contact our Office of Gift Planning for additional information about the mission and the future plans of the American Institute for Cancer Research.

Our Office of Gift Planning will be pleased to help you plan a trust or bequest that will accomplish the specific objectives of your client. We can also provide the exact tax consequences of any trust arrangement a client may want to consider. There is no cost or other obligation for this service.

Information for the Attorney or Advisor

- AICR's official name:
  American Institute for Cancer Research
- AICR's mailing address:
  1560 Wilson Blvd, Suite 1000,
  Arlington, VA 22209
- AICR's phone number:
  1-800-843-8114
- AICR's email address: gifts@aicr.org
- AICR's identification:
  A not-for-profit organization under Section 501(c)(3)
  of the Internal Revenue Service Code
- AICR's tax-exempt IRS number:
  52-1238026

The information and examples provided in this booklet are for information and discussion purposes only. The examples are hypothetical, and the facts and tax consequences of individual transactions may vary from person to person. Each estate planning professional must independently determine and evaluate the tax and financial consequences of each individual situation.

Office of Gift Planning

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