

# Ways to Give to the Divinity School: **Planned Giving**

Planned Giving helps donors design charitable gift plans that benefit the Divinity School, Duke and allow for the fulfillment of personal financial goals. Besides insuring a bright future for the Divinity School, a properly planned gift may:

- provide an income for life
- reduce or eliminate capital gains taxes
- generate a current income tax deduction
- reduce or eliminate gift and estate taxes
- provide a much larger gift to the Divinity School and Duke than was ever thought possible

Contributions to the Divinity School are investments in the education of generations to come. Although your contributions may help you realize financial and tax rewards, we hope that the primary motivation to give will come from your desire to be a partner in the University's broad and earnest mission.

Planned gifts come in a number of forms:

## **Gifts of Securities**

Securities, both publicly traded and closely held, and bonds can be used to make a gift to Duke University. A donor is entitled to a charitable tax deduction equal to the value of the securities on the date of the gift. Duke is able to sell the securities and employ the proceeds, without reduction by capital gains taxes because of Duke's status as a non-profit organization. Gifts of closely held stock require additional planning, and may require approval by Duke's Gift Policy Committee.

## **Gifts of Real Estate**

A gift of real estate may be a principal residence or vacation residence, a farm, a commercial building, subdivision lots, or unimproved land. The gift may be the entire property or a fractional interest in the property. The same benefits that accrue to gifts of appreciated securities, apply to gifts of appreciated real estate. All gifts of real estate require approval by Duke's Gift Policy Committee.

## **Gifts of Tangible Property**

A donor should remember that all tangible personal property, such as paintings and other works of art, will be subject to estate taxes. By giving such items to Duke during your lifetime or at death, you may realize certain benefits and discover a new way to make a gift. Gifts of tangible personal property that are related to the University's purpose generally produce a deduction equal to the fair market value of the property. Gifts which do not have a related purpose may generate a lower tax deduction but can still be attractive for contribution. Certain gifts of tangible personal property require approval by Duke's Gift Policy Committee.

### **Gift of a Residence or Farm with Retained Life Interest**

A donor may give Duke his or her personal residence or farm, yet continue to live there for life. Further, the donor's spouse may live there for life. The donor receives an immediate tax deduction for the contribution, based on the value of Duke's remainder interest.

The property does not have to be the donor's primary residence -- it may be a vacation or second home, as long as the property is used as a personal residence. Further, in the case of a farm, the donor does not have to reside on the property. All retained life estate gifts require approval by Duke's Gift Policy Committee.

*Example: Mrs. Blue, age 72, donates her personal residence, a house and land to Duke, with the reserved right to live on the property for the rest of her life. At the time of the gift, the land has a value of \$100,000, and the house has a value of \$200,000, with an estimated useful life of 45 years. Taking into consideration adjustment factors and the projected value of the property when Duke is to receive it, Mrs. Blue's charitable deduction is \$123,045. Mrs. Blue continues to live in her house until death, at which point it passes to Duke.*

### **Gifts of Life Insurance**

Life insurance offers an alternative method for making a charitable gift to Duke University. For example, a donor may:

- Give a policy that is fully paid up and take a deduction for the "present value" of the policy, as determined for tax purposes, (which generally is the approximate cash surrender value); or
- Purchase a new policy of which Duke is designated the owner and beneficiary.

Certain gifts of life insurance require approval by Duke's Gift Policy Committee.

### **Life Income Gifts**

For many friends and alumni, the desire to make a gift to Duke is coupled with a continuing need for income from those assets. Fortunately, Duke's life income gift program makes it possible for a donor to achieve both of these objectives and receive substantial tax benefits as well.

Life income gifts to Duke may take three basic forms: a gift to a charitable remainder trust, a gift to establish a charitable gift annuity, or a gift to one of Duke's pooled income funds. Often gifts in one of these forms will actually increase a donor's or beneficiary's income. Additionally, these life-income gifts may provide some or all of the following rewards:

- A current charitable income tax deduction
- Protection of capital gain in appreciated property used to make your gift
- A reduction in estate and inheritance taxes

- Professional management of your gift
- Tax-free income
- The satisfaction of having made a significant gift to Duke

While cash is often used to fund a life income gift to Duke, gifts of appreciated property or securities provide additional tax benefits.

### **Charitable Remainder Trusts**

A Charitable Remainder Trust distributes income to a donor or other beneficiaries for their lives or a specified term of years (a maximum of 20 years), with the balance of the trust assets available for Duke's use at the end of the trust.

Charitable remainder trusts offer many opportunities to address specific goals and situations for donors. For example, a charitable remainder trust established for a term of years can assist in funding the costs of college. Also, charitable remainder trusts are frequently used as a means of providing supplemental income during retirement, and can be especially attractive as a way to convert appreciated, low-yielding assets into a high-yielding diversified portfolio without incurring capital gains tax. A donor to a charitable remainder trust receives a partial charitable deduction equal to the value of the charitable remainder interest.

Charitable remainder trusts take two basic forms: the charitable remainder *uni-trust* and the charitable remainder *annuity trust*.

A charitable remainder uni-trust pays income based on a percentage of the fair market value of the trust assets as determined annually. Because a uni-trust pays a variable amount of income based on the annual market value of the trust assets, this form of charitable remainder trust can be an effective hedge against inflation. When the value of the trust principal increases, so will the donor's income. There are a number of variations of charitable remainder uni-trust, including "net income" uni-trusts, "net income with make-up" uni-trusts, and "flip" uni-trusts, which may provide opportunities for the deferral of income.

*Example: Mr. Blue, age 68, transfers appreciated securities that cost him \$100,000 and are now worth \$500,000 to a uni-trust with an annual pay out rate of six percent (6%). He is to receive payments for life. At his death, the uni-trust assets will create a scholarship endowment at Duke. Mr. Blue's charitable deduction is \$236,820. Under the provisions of the trust agreement, Mr. Blue's first annual payment will be \$30,000, a significant portion of which may be taxed at the lower 20% capital gains tax rate. In year two, assuming an eight percent (8%) total annual investment return, the trust will have a principal balance of \$102,000, and the payment will be \$30,600. Assuming the same eight percent (8%) total return, the payment in year three will be \$31,212, and so on for life. Mr. Blue may also completely avoid the tax on the gain he would have incurred had he sold the property instead of donating it.*

A charitable remainder annuity trust pays income based on a percentage of the initial value of the trust and never changes. Since the annuity payment does not change during the term of the trust, an annuity trust provides the certainty of a fixed amount of income each year regardless of any fluctuations in the value of the trust assets.

*Example: Mr. White owns appreciated securities that cost him \$60,000 originally and are now worth \$100,000. He donates these securities to Duke to establish a charitable remainder annuity trust, naming his wife, age 65, as the lifetime beneficiary. The trust agreement provides for annual payments to Mrs. White of \$6,000, or six percent (6%) of the initial trust principal for life. Mr. White qualifies for an income tax deduction of \$49,744. Additionally, he may avoid the tax on the \$40,000 appreciation that would have resulted had he sold the securities. At Mrs. White's death, the trust principal will pass to Duke for the purpose designated by Mr. White.*

### **Charitable Gift Annuities**

A charitable gift annuity is a simple agreement between a donor and the University. Duke agrees to pay a lifetime annuity in exchange for a charitable gift. The amount of the annual fixed payment is generally determined by the age of the beneficiary.

*Example: Mrs. Blue, age 70, donates \$50,000 cash to Duke for a gift annuity that will pay a lifetime to her and her husband, who is also age 70. They will receive annual payments of \$3,250 for life. Of this amount, \$1,560 is excluded from their gross income; it is, in essence, tax-free and does not fluctuate. Mrs. Blue's income tax deduction is \$18,023.*

Charitable gift annuities may also be structured to defer income until a future date. Appropriately, these gifts are considered by many to be an excellent retirement planning vehicle; because income is deferred until a later date, the annuity amount is greatly increased. The donor also receives a larger charitable deduction with a deferred gift annuity (as opposed to a current gift annuity).

*Example: Mrs. White, age 50, makes a gift of \$50,000 cash to fund a deferred payment gift annuity. At age 65, she will begin receiving annual payments of \$7,650, which is an effective 15.3% return. Of the total yearly payout, \$1,063 is excluded from taxes or is considered tax-free. She is able to claim an income tax charitable deduction of \$28,905.*

### **Pooled Income Funds**

Duke University has two pooled income funds: the **Tower Fund** and the **Quadrangle Fund**. Just as a mutual fund combines investments, a pooled income fund combines gifts from many donors into a common investment pool. The pool is then invested and a pro-rata share of income earned by the pool is distributed to each donor and/or other income beneficiary.

The Tower Fund was established for donors who are primarily seeking high current income. The assets of the Tower Fund are invested in a manner that seeks to achieve a high-income yield with a minimum of risk to the principal.

The Quadrangle Fund was established to benefit donors interested primarily in increasing their income through capital appreciation. The fund is managed in a manner that seeks appreciation in value that should, over the long term, result in increased income as well. Generally, a gift to the Quadrangle Fund will yield a higher income tax charitable deduction than a gift to the Tower Fund.

*Example: Mrs. Blue, age 65, invests \$10,000 cash in the Duke Tower Fund. For her investment, she will receive an annual pay out for her lifetime. The initial pay out will be approximately \$600 annually, and the income tax deduction will be \$3,902.*

### **Testamentary Gifts**

Some of the largest gifts made in support of Duke University have been testamentary gifts. In fact, University founder James B. Duke built on the foundation of his own lifetime of gifts with a bequest that continues to endow some of the University's work today.

Fortunately, today's federal estate tax laws favor testamentary gifts. With the potential for combined federal estate and state death tax rates reducing significantly the size of an estate, a testamentary gift can be a desirable way to support Duke and reduce estate taxes.

### **Bequest Gifts**

A bequest may provide for a specific dollar gift, a percentage of your estate, or specific asset(s) to be given to Duke in support of its various programs and endeavors. A bequest may also be in the form of a gift of the remaining assets of one's estate. Bequests, like other gifts, can be designated for many purposes or given without restriction.

### **Unrestricted Bequests**

An unrestricted bequest is one intended for the general and best use by the University at the discretion of the Board of Trustees. Such a bequest might read: *"I give, devise, and bequeath to Duke University, Durham, North Carolina, (the sum of \$\_\_\_\_\_) (\_\_\_\_ percent of my estate) (the following property) (the rest, residue, and remainder of my estate). The property comprising this gift may be used to further the charitable purposes of Duke University at the discretion of its trustees."*

### **Restricted Bequests**

Donors may restrict the usage of their bequests. A restricted bequest might provide as follows:

*"I give, devise, and bequeath to Duke University, Durham, North Carolina, (the sum of \$\_\_\_\_\_) (\_\_\_\_ percent of my estate) (the following property) (the rest,*

*residue, and remainder of my estate). The property comprising this gift shall be used for (state purpose). If, in the opinion of the trustees of the University, or their successors, the need for funds for the charitable purpose described above no longer exists at some future date, the trustees, or their successors, are authorized to use these funds in the best interest of the University."*

### **Bequests to Establish Endowments**

Both unrestricted and restricted bequests may be designated to establish endowment funds:

#### **Unrestricted Endowment**

*"I give, devise, and bequeath to Duke University, Durham, North Carolina, (the sum of \$\_\_\_\_\_) (\_\_\_\_\_ percent of my estate) (the following property) (the rest, residue, and remainder of my estate). The property comprising this gift may, for investment purposes, be merged with the general investment assets of Duke University. The gift shall be entered into the University's books and records as The \_\_\_\_\_ Fund and shall always be so designated. The spendable income therefrom, but not the principal, shall be used to further the purposes of Duke University in such manner as the trustees may direct."*

#### **Restricted Endowment**

*"I give, devise, and bequeath to Duke University, Durham, North Carolina, (the sum of \$\_\_\_\_\_) (\_\_\_\_\_ percent of my estate) (the following property) (the rest, residue, and remainder of my estate). The property comprising this gift may, for investment purposes, be merged with the general investment assets of Duke University. The gift shall be entered into the University's books and records as ---  
----- Fund and shall always be so designated. The spendable income therefrom, but not the principal, shall be used for (state purpose). If, in the opinion of the trustees of the University, the need for funds for the purpose described above no longer exists at some future date, the trustees, or their successors, are authorized to use these funds in the best interest of the University, provided that the identity of the fund is maintained."*

It is recommended that restricted provisions be described as broadly as possible and that detailed limitations be kept to a minimum. Please consult with the Office of Planned Giving before drafting such provisions to assure that they can be implemented according to your desires.

### **Testamentary Life-Income Gifts**

Charitable remainder trusts, charitable lead trusts, pooled income fund gifts and charitable gift annuities all may be established through a donor's will. While such a gift will not provide tax savings during the donor's lifetime, a testamentary gift may reduce estate taxes, provide life-income for a loved one, and provide new estate planning options.

## **Retirement Plans**

Individual Retirement Accounts (IRAs), tax-sheltered annuities, Keogh plans, self employed plans (SEPs), 401(k), 403(b) and other qualified pension and profit-sharing plans can also provide significant support for Duke. A donor needs to inform his retirement plan administrator that he wishes to name Duke as a beneficiary of the plan. The funds will usually pass to Duke outside of probate and free of all taxes.

## **Life Insurance**

A donor may name Duke as a beneficiary of an existing life insurance policy. The proceeds will usually pass to Duke outside of probate and free of all taxes.

## **Charitable Lead Trusts**

A charitable lead trust is the mirror image of the charitable remainder trust. The initial or "lead" interest is for the benefit of Duke University. You transfer assets to a charitable lead trust that distributes its income to Duke for a term of years. At the end of the trust term, the trust distributes the trust assets to designated non-charitable beneficiaries, usually children or grandchildren (or trusts for their benefit). By establishing a charitable lead trust, the donor is, in effect, "lending" the assets to Duke University for the term of the trust. The benefits of this gift arrangement are primarily the reduction or elimination of the transfer taxes (estate and/or gift taxes) imposed on the transfer of assets to children or others at the end of the trust, and the ability to make a current gift to Duke without giving away your property.

*Example: Mr. Blue contributes \$1,000,000 to a 20-year charitable lead annuity trust to benefit Duke. The trust agreement stipulates that Duke is to receive \$70,000 in income annually for the purposes spelled out in the trust agreement. At the end of the 20-year term, Mr. Blue's son, True, is to receive the trust principal. For gift tax purposes, only the remainder interest (what the IRS estimates the value of the trust principal will be at the end of the trust period) is subject to tax. In this case, Treasury tables project the value of the remainder to be \$222,540. The trust principal, however, actually grows to \$2,597,230 (assuming a three percent (3%) annual net return), and this is what True receives. The difference between the value of the remainder interest under the Treasury tables and what is actually the trust value at the end of the trust term (\$2,374,690) passes to True, free of transfer taxes. Mr. Blue's tax liability is based only on the projected value of the remainder interest (\$222,540), and even this could be offset by Mr. Blue's available estate and gift tax unified credit.*

The charitable lead trust can be a very powerful tool in gift and estate tax planning, but its complexity requires careful consideration of the technical requirements of this form of gift.

The Heritage Society - [To Honor Those Who Include Duke in Their Financial and Estate Planning](#)

The Heritage Society was founded in 1989 to honor the thousands of alumni and friends who made provisions for Duke in their wills or through another type of planned gift. While the society is relatively new, planned giving to Duke is not. It is the foundation upon which the University is built.

It is no exaggeration to say that Duke is Duke because James Buchanan Duke had foresight and great expectations for the college he cared for, as well as a keen sense of how to manage his assets to ensure his family's financial well being. He defined his bequest during his lifetime, and it produced what he had planned. While few Duke supporters can approach the magnitude of that bequest, the idea that a future gift can benefit the University and the donor is every bit as correct as it was in 1924. In fact, under current tax laws, Mr. Duke's method of giving may be even more beneficial to a donor today. There is no question that such giving is as vital to the University's future as it was in its past. That is why the Heritage Society recognizes those who make planned gifts to Duke with a certificate of appreciation, a lapel pin, and in many circumstances, reunion class gift credit.

If you have planned an estate or life income gift to benefit Duke University, we would be honored to add you to the rolls of the Heritage Society. Please fill out the form found at

<http://www.dukecomm.duke.edu/plangive/Application.html>

and return it to us at:

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The Divinity School Development Office  
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