

July 2011

ARE YOU HELPING PAY FOR YOUR KIDS' OR GRANDKIDS' EDUCATION?

Proverbs 13:22a *A good man leaveth an inheritance to his children's children...*

One way you can leave an inheritance to your kids and grandkids is to help them with college tuition costs. But that can be really expensive.

The Problem

Education costs are high. Expenses of \$25,000 to \$50,000 per year in after-tax dollars are not uncommon.

The Solution

There is an option to help you efficiently provide those funds. You can establish a special charitable education trust for your children or grandchildren, funded with highly appreciated assets.

When you fund the trust, you will receive a current income tax charitable deduction. Long-term capital

gains will not be taxed at the time of transfer or when the trustee sells and reinvests the assets.

Income from the trust is paid for a term of years, and can be deposited in a Uniform Gift to Minor Account. Earnings for a child over the age of 14 will be taxed at the child's tax rate, which is assumed to be lower than your tax rate.

The earnings from the trust will then be available to pay educational costs for your children or grandchildren. At termination of the trust, the remaining assets will provide a charitable gift to *Victory In Grace Ministries* to spread the gospel. Result? You've saved taxes, helped your kids or grandkids, and invested in souls.

If you wish to replace the value of the asset transferred to the trust

for the benefit of your heirs, that can be done by purchasing life insurance. The tax savings generated by creation of the charitable education trust may be sufficient to pay the premiums needed to replace the asset value.

The Results

When you create a charitable education trust, you achieve the following results:

- An immediate income tax charitable deduction.
- Avoidance of capital gains tax on sale of appreciated assets.
- Avoidance of federal estate tax and probate costs on assets placed in trust.
- Generation of dollars to meet educational expenses, possibly taxed at children's lower income tax rates.
- You can guarantee today a substantial future gift to *Victory In Grace Ministries* after the educational needs are met.

We have prepared a Special Planning Report, **The Charitable Education Trust**, which provides more information on this planning tool. Please use the enclosed response card to request your free copy.



ANOTHER TOOL AVAILABLE IN PERSONAL ESTATE PLANNING

Lifetime Gifts

What is a lifetime gift? It is money or other property given away during your lifetime.

If you are thinking of doing this, you need to be aware of the tax implications.

Federal Gift Tax

The federal government imposes a tax on irrevocable transfers made during your lifetime. But there are exceptions to this rule.

There are unlimited exemptions for gifts made to a spouse and for charitable gifts.

An annual exemption is also allowed for any gift to an individual of up to \$13,000. You can make annual gifts to as many different individuals as you wish. If you are married, your spouse can consent to the gift and increase it to \$26,000.

There are no restrictions to the number of beneficiaries. The only restriction is that the gift must be a gift of current interest and not of future interest.

Example: Mr. Jones has three children. He and his wife agree to make lifetime gifts to their children. They can transfer a total of \$78,000 to their children this year. Next year, they agree to make additional gifts, and they can again give \$78,000.

However, if instead of giving \$26,000, they give each child \$35,000, or a total of \$105,000, they have made a taxable gift of \$27,000, or the amount by which the gifts exceed \$78,000 (\$26,000 times three individuals).



This does not necessarily mean there will be a tax payable. Depending upon previous gifts, a credit against taxes payable may be available. However, whether or not there is a tax payable, any gifts over \$13,000 per year to an individual must be reported on a gift tax return.

Cost Basis of Lifetime Gifts

When property is transferred through the estate at the time of death, its cost basis is “stepped-up” to the value of the property at the time of death. However, when gifts of appreciated property are made during the donor’s lifetime, the cost basis of the donor is retained by the new owner.

Example: Mr. Jones paid \$5,000 for stock that he purchased in 1990. The current fair market value of the stock is \$10,000. Mr. Jones makes a lifetime gift of the stock to his son, who later sells the stock for \$10,000. The son pays a capital gain tax on \$5,000.

If Mr. Jones left the stock to his son through his estate at the time of death, the son’s basis

in the stock would be \$10,000. And the subsequent sale of the stock for \$10,000 would create no capital gains to be taxed.

Care must be taken in selecting property used to make lifetime gifts, since the transfer can carry with it income tax liabilities, as well as gift tax consequences.

PERSONAL REPRESENTATIVE DUTIES CHECKLIST

Choosing a personal representative for your estate is an important decision, but one often taken lightly. Often an individual is nominated who is not qualified or experienced.

I have a checklist of the duties of the personal representative. I’m happy to send that to you upon request.

CONCLUSION

Please take time to request our Special Planning Report, **The Charitable Education Trust**.

I look forward to every opportunity to be of service to you.



Neal Dearyan
Estate Design Specialist

Victory In Grace Foundation
60 Quentin Road
Lake Zurich, IL 60047
1-800-479-1124
neal@victoryingrace.org

Sometimes our friends ask how they can leave a portion of their estate to *Victory In Grace* to reach others with the gospel and good Bible teaching. You can include wording in your will or trust similar to this:

“I hereby give \$ _____ (or ___%) of my estate to *Victory In Grace Ministries, Inc.* for such unrestricted charitable uses and purposes as its governing board may determine.”

Victory In Grace is a 501(c)(3) charitable organization.