

# Life Estate Agreements

## Description, Features and Benefits

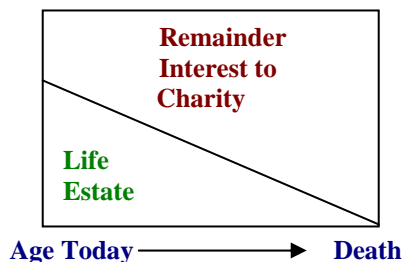
### Introduction

This kit is one in a series that together make up a program (the “Program”). The Program is shared by multiple public charities and donors that have chosen to use a common umbrella charity to accept and administer gifts. This kit provides basic information about life estate agreements. An application form that donors and their advisors may use is included in the kit.

### Life Estate and Remainder Interest

Let’s say John & Betty Doe own a residence in the big city or a vacation home on the coast. Imagine a line running through the Doe’s property, dividing it into two parts. The Does use one part for their lifetime, enjoying 100% of the property. This is the life estate. The other part is what’s left when they die. This is the remainder interest. In the real world, real estate and attached buildings cannot be physically divided in this imaginary way, of course. But legal rights of ownership and the economic value associated with these rights can be divided in this fashion.

\$1,000,000



For example, the diagram illustrates property with an appraised value today of \$1,000,000. John & Betty Doe enter into

an **irrevocable contract** with ABC Charity that says ABC gets the property when both John and Betty have died. Applying IRS-prescribed formulas concerning discount rates, life expectancy and other factors, the Does’ tax advisor figures they can deduct \$250,000 this year as a charitable income tax deduction. Why is that? Because the Does gave up their legal right to bequeath the property or their estate to sell it. A charity now owns those rights.

### Why Not Leave Property to Charity at Death?

Why bother entering into a contract now? Why not bequeath the property? Either way, a charity gets the property at death. The economic answer is that by entering into a life estate agreement now, the donor obtains a charitable income tax deduction now,

while the estate is not eligible for a charitable income tax deduction for gifting the property.

	Bequeath to Charity at Death	Life Estate Agreement Today with Charity
Property Value:	\$1,000,000	\$1,000,000
Charitable Income Tax Deduction Today:	0	250,000
<b>Tax Savings Today (41%):</b>	<b>0</b>	<b>102,500</b>
Estate Taxes:	0	0

### Who is the Charity? Will they use the Property?

A key question is will the charity actually use the property? For instance, John & Betty’s residence sits on 3 acres that their hometown would love to have for a park. The Does like the idea. The charity the Does enter into a contract with needs to be the town itself because the town wants to actually use the property. On the other hand, let’s say the property is worth \$5 million and John & Betty want this economic value used to endow medical research in Disease ‘X.’ Now what? Let’s say ABC Charity is a university that currently studies Disease ‘X’. The Does enter into a life estate agreement with it. When the Does die, ABC sells the property and reinvests the proceeds to endow the research, assuming it still is studying Disease ‘X.’ No doubt ABC will insist on having a clause in the contract that says that if it is not researching Disease ‘X’ after the Does die, it can use the endowment for, let’s say, researching Disease ‘Y’ or some other purpose.

### Restricted Endowment Fund

Alternatively, John & Betty could create a restricted endowment fund at an umbrella charity and enter into a life estate agreement with it. They could legally obligate the Fund to make grants to ABC for research in Disease ‘X’ or, if ABC no longer is doing research in that area, the Fund would make grants to other researchers in Disease ‘X.’

### What’s the Next Step?

Finish reading the pages of this kit. Complete the gift application form. Send it to the Program administrator who will telephone the applicant to review the application and answer questions. ♣

# Schedule of Expense Deductions as of January 1, 2010

**Introduction:** The Program is shared by multiple public charities and individual Donors through the use of a tax-exempt umbrella charity (“Umbrella Charity”).<sup>1</sup> This Schedule of Expense Deductions lists some of the current administrative practices of the Umbrella Charity and the deductions it makes to cover its costs. **Please note that ...**

**TOTAL EXPENSES = ADMINISTRATION (Schedules ‘A’ through ‘C’) + INVESTMENT (Schedule ‘D’)**

## Schedule ‘A’ – ADMINISTRATION - Transaction Minimums, Setup & Flat Annual Deductions

	1	2	3	4	5	6	7	8	9
	Outright Gift	Endowed Gift	Donor Advised Fund	Charitable Remainder Trust	Charitable Lead Trust*	Gift Annuity Contract	Pooled Income Fund	Life Estate Agreement	Charitable Living Trust
Kit	#1	#2	#3	#4	#5	#6	#7	#8	#9
<b>Initial Minimum</b>	\$10,000	\$25,000	\$10,000	\$150,000	\$150,000			\$100,000	\$150,000
<b>Setup Deduct.</b>	(1)	100	100	750	750			750	750
<b>Annual Deduct.</b>		100	100	500	500				500 Schedule ‘C’
<b>Addition Minimum</b>		1,000	1,000	(2)	(2)				1,000
<b>Checks going out</b>		Annually	As needed	Quarterly	Annually				As needed
<b>Minimum Check</b>		250	250	<p>(1) To process outright gifts of cash/publicly-traded securities to charities, the deduction is 2.5% of the asset, plus \$10 per charity. If the gift is not cash or public securities, please note the additional charges of Schedule ‘C.’</p> <p>(2) Only “unitrust” versions can accept additional contributions. If the addition is made as of December 31<sup>st</sup> there is no additional expenses deduction. For other dates there is a setup deduction of \$250.</p>					
<b>Minimum Balance during Life</b>		5,000	5,000						
<b>Minimum Balance after Death</b>		10,000	10,000						

## Schedule ‘B’ – ADMINISTRATION - Asset-Based Deductions

**First \$1 million:** 0.57% per year; **Next \$1 - \$5 million:** 0.25%; **Next \$5 - \$15 million:** 0.15%; **Next \$15 - \$50 million:** 0.10%; **Amounts above \$50 million:** 0.05%.

Calculated on January 1<sup>st</sup> and deducted quarterly. Minimum total deduction \$1,500 per year for charitable trusts; \$100 minimum for all other account types.

## Schedule ‘C’ – ADMINISTRATION - Other Expense Deductions

Out of pocket expenses for appraisals, surveys, taxes, insurance, etc. must be funded with cash from the Donor. Will deduct additional amounts from gift for transactions that require more time compared to cash/public stock gifts. For Charitable Living Trusts there is no additional charge for standard quarterly distributions, but other tasks such as paying household bills will be charged at an hourly rate.

## Schedule ‘D’ – INVESTMENT EXPENSES

In most cases, Donors and Stewards may make suggestions, but cannot direct action by the Umbrella Charity concerning the broker-dealer (the “stock brokerage firm”), the registered representative (the individual “stock broker”) and/or the registered investment advisor (a professional who manages a portfolio), and the particular investments. Investment expenses are thus determined by the decisions made by the Umbrella Charity in selecting these firms, professionals and investments. None of the individuals involved with investments may be related by blood or marriage to the Donor or Steward.

<sup>1</sup> The initial Umbrella Charity is Charitable Foundation USA, Saint Louis, MO

<b>Application for Life Estate Agreement</b>		Write in name of Introducing Organization:
<b>Introduction:</b> The organization whose name appears in the box to the right is the "Introducing Organization" of this Program, which is shared by multiple public charities and donors through the use of a tax-exempt umbrella charity ("Umbrella Charity"). <sup>1</sup> This application form is your request for the Umbrella Charity to be a party to a life estate agreement for the benefit of charities and purposes indicated in Section 'D.' Please complete this form, sign, date and fax it to 800-757-8711. <b>Upon receipt, an administrator will telephone to review this form with you.</b> Please mail the original signed form (make a copy for your files) to: Charitable Foundation USA c/o Wise & Scott, LLC, 2333 Grissom Drive, Suite 106, Saint Louis, MO 63146-3322. Telephone: 314-779-1898.		Contact person:
		Telephone:
		<b>Please FAX To:</b> 800-757-8711
		<b>Also Mail Original To:</b> Charitable Foundation USA c/o Wise & Scott, LLC 2333 Grissom Dr., Ste. 106 Saint Louis, MO 63146-3322

**Section 'A' – About You – The Person(s) Who Owns the Property**

1	Your Name:	M/F:	Date of Birth:
2	Residence - Street:		Soc. Sec. #:
3	City:	State:	Zip:
4	Status: <input type="checkbox"/> Married, <input type="checkbox"/> Widowed, <input type="checkbox"/> Single, <input type="checkbox"/> Divorced		Res. Tel:
5	Spouse Name:	M/F:	Date of Birth:
6	You or your spouse has children? <input type="checkbox"/> No, <input type="checkbox"/> Yes, Number:		Spouse Soc. Sec. #:
7	Are you a U.S. citizen: <input type="checkbox"/> No, <input type="checkbox"/> Yes	Spouse a U.S. citizen: <input type="checkbox"/> No, <input type="checkbox"/> Yes	

**Section 'B' – About the Property to be Subject to the Agreement**  
An appraisal from an independent qualified appraiser will be required for your tax purposes.

8	Address of Property: _____ City _____ State _____ Describe the land, building(s) and vicinity: _____ _____		
	Legal Description of Property:		
9	How do you use the property (check all that apply): <input type="checkbox"/> Primary residence, <input type="checkbox"/> Vacation home, <input type="checkbox"/> Working farm or ranch, <input type="checkbox"/> Other:		
10	If put on the market, at what price do you believe it would sell?	How long would it take:	
11	Annual costs for insurance, taxes, assessments, etc.:	Annual revenue (if any):	
12	Are hazardous materials on this site? <input type="checkbox"/> Yes, <input type="checkbox"/> No, <input type="checkbox"/> Don't know.		
13	* Land is not depreciable, while buildings are. What percent of the value stated in Question 11 is allocable to buildings attached to the land? ____%. What is the remaining <u>useful lifetime</u> of the buildings in years? _____. At the end of its useful life, what is the salvage value of the buildings? \$_____.		
14	Are there debts, mortgages or liens against any asset described in Question 8? <input type="checkbox"/> No, <input type="checkbox"/> Yes		
15	Any assets described in Question 8 jointly owned? <input type="checkbox"/> No, <input type="checkbox"/> Yes – Who:		

\* We would like to know your estimate of the answers to Question 13. You and your tax advisor must determine the information in Question 13. To calculate and document your charitable income tax deduction, you will need a qualified appraisal.

<sup>1</sup> The initial Umbrella Charity is Charitable Foundation USA, Saint Louis, MO

**Section 'C' – About the Term of the Agreement**

**16** At the end of the Agreement Umbrella Charity receives full possession of the property and will sell it. How long do you want the Agreement to last? (This affects the amount of your tax deduction.) **Check ONE:**  
 (a)  For the life or lives of the donor(s) in Section 'A' or (b)  For a term of \_\_\_\_\_ years.

**Section 'D' – The Umbrella Charity is the Remainderman to the Agreement.**

**17** When the life estate ends, the Umbrella Charity will sell the property. For what charitable purposes do you want the sales proceeds used? **Check ALL OPTIONS** that apply, the sum of which equals 100%:

<input type="checkbox"/>	(a)	<b>Default option</b>	To Charitable Foundation USA for the [family's name] Charitable Fund (the "Fund") (Amendable). The Fund shall be held as an endowment at Charitable Foundation USA. Grants shall be made annually from the Fund by Charitable Foundation USA to one or more charities from among a class of charities that includes those that have programs in the communities where the descendants of the property owner(s) reside. The class of charities shall also include schools, colleges and universities the property owner(s) or a descendent of the owner(s) attended, but does not attend in the year that a grant is made.
<input type="checkbox"/>	(b)	%	To [name of charity]: <input type="checkbox"/> Unrestricted, <input type="checkbox"/> Restricted to:
Total:		100%	

**Section 'E' – Disclosure Statement & Signature(s)**

I understand and agree that Introducing Organization, Umbrella Charity and the charities listed in Section 'D' do not render tax or legal advice. I understand and agree that I should seek the tax and legal advice I determine is appropriate for me in my situation. I understand and agree that Umbrella Charity is not an agent for Introducing Organization or the charities listed in Section 'D,' and they are not agents for Umbrella Charity. This application is exclusively between Umbrella Charity and me, the terms of which can be modified only in writing and only by the President of Umbrella Charity making specific reference hereto.

I understand that this application is not the Life Estate Agreement (the "Agreement"); that the Agreement will be created by a separate document that will be reviewed and signed by me, and accepted by the Umbrella Charity at a later date. My purpose for entering into the Agreement is to make charitable gift of the remainder value of my property described in Section 'B.' I understand that an Agreement is not a substitute for my will or other estate planning devices. I understand that once I sign the Agreement I make an **IRREVOCABLE Gift** of a remainder interest in the property. I understand that during the term of the Agreement I continue to be responsible for the cost of insurance, taxes and maintenance of the property; my responsibilities in this regard are unaffected by the Agreement. I understand that if I sell the property during the term of the Agreement, the sales proceeds will be divided and that I will be entitled only to the life estate portion. I understand Umbrella Charity may not accept my assets or any restrictions I may have placed upon them if they do not conform to Umbrella Charity's tax-exempt purposes or standards. **I have read this application and to the best of my knowledge and belief all the information entered is true and complete.**

**DONOR SIGNATURE:** \_\_\_\_\_ **DATE:** \_\_\_\_\_

**SPOUSE SIGNATURE: \*** \_\_\_\_\_ **DATE:** \_\_\_\_\_

\* Spouse must sign if he/she joint owner of an asset listed in Section 'B' if he/she is to exercise the donor's authority.

**Administrator Use Only. Donor was interviewed by:**

**Print:** \_\_\_\_\_ **Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_