



Speaking Hope to the World

**THE USE OF TRUSTS IN ESTATE PLANNING
AND CHARITABLE GIVING**

*A SPECIAL PLANNING
REPORT TO ASSIST YOU
IN YOUR MINISTRY OF
STEWARDSHIP*

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THE USE OF TRUSTS IN ESTATE PLANNING AND CHARITABLE GIVING

The trust is the most flexible of all estate planning tools. It can be used to manage property, to save estate and gift taxes, to protect minor children from receiving too much money too soon, and to accomplish many other objectives individual have for their estate plans.

It is difficult to know how to cover such the broad and complex subject, and how much detail to present so that it will be of interest and value to you.

Therefore, we have chosen to present a hypothetical estate of Mr. and Mrs. George Martin, to show how different types of trusts will help meet their objectives for their family and charitable beneficiaries.

THE PEOPLE OF MR. AND MRS. MARTIN'S ESTATE

George Martin Birth date 05/09/52
Rosalie A. Martin Birth date 04/29/55

Andrew Birth date 01/05/79 Son
Annrita Birth date 08/19/80 Daughter
Penny Birth date 10/27/81 Daughter
Lavern Birth date 01/12/86 Son
Patricia Birth date 11/21/90 Daughter

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Mr. Martin was previously married; his first wife died in childbirth. Andrew, Annrita and Penny are children of the first marriage.

MR. AND MRS. MARTIN'S ESTATE PROPERTY

Following is a listing of Mr. and Mrs. Martin's estate property, using current valuation and ownership data which they provided.

	<i>Joint</i>	<i>Husband</i>	<i>Wife</i>
Residence	\$375,000		
240 Acres Real Estate	240,000		
Commercial Rentals	225,000		
Florida Lots	25,000		
Life Insurance		\$250,000	\$125,000
Stocks, Bonds, Mutual Funds	400,000	76,000	
Checking and Savings	18,700		
Household Goods	75,000		
Closely Held Business	750,000		
IRA		308,000	65,000
Gross Estate Value	\$2,108,700	\$634,000	\$190,000
Combined Estate Value	\$2,932,700		



MR. AND MRS. MARTIN'S ESTATE OBJECTIVES

Mr. and Mrs. Martin's estate objectives are as follows:

- To provide protection for the surviving spouse at the death of the first spouse.
- To minimize the costs of estate settlement and estate taxation.
- To provide for management of the estate in case of mental or physical disability of either spouse.
- Should death occur prematurely to both parents, to provide for guardianship and administration of property for minor children.
- At the death of the surviving spouse, or upon distribution of assets, to provide gifts to a selected charitable beneficiary.
- To divide the remainder of the estate equally among the surviving children.

ESTATE TAXATION

Before we look at the use of trusts for Mr. and Mrs. Martin's estate objectives, let's consider current tax problems, should they die without planning.

The federal tax law taxes an individual's estate at the time of death, with three major exceptions:

1. At the death of the first spouse, there is an unlimited marital deduction for qualifying property left to the surviving spouse.
2. The law also grants a full deduction from the estate for any amount distributed to a charitable beneficiary.
3. Technically, the remainder of the estate is taxable. But that does not mean that Mr. and Mrs. Martin will have to pay a federal estate tax on the full value of their estate. The law allows a credit against taxes payable.

Tax law eliminated the federal estate tax in 2010. However, beginning January 1, 2011, the federal estate tax credit will allow \$1 million to be distributed tax-free to personal beneficiaries (from the estate of each spouse). Federal estate tax rates for assets in excess of the tax credit equivalency range from 41% to 55%.

By using the unlimited marital deduction there will be no tax at the death of the first spouse. However, at the death of the surviving spouse, assuming no charitable gifts are made from the estate, any amount in addition to the tax credit equivalency would be taxable.

Based upon current estate values and assuming that death occurs to both spouses in 2011, there would be a tax payable of \$909,331.



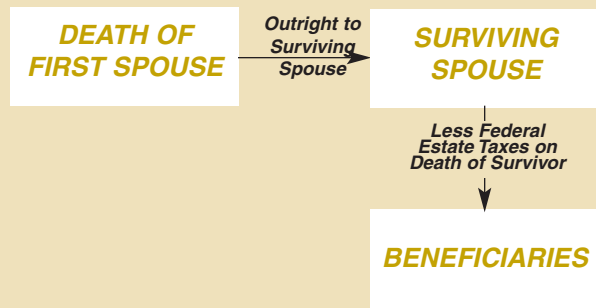
USE OF TRUSTS TO AVOID TAX

Not only do we have a federal estate tax payable at the death of the surviving spouse, if we assume that the estate will continue to appreciate in value, the tax impact will also increase. Therefore, we need to consider available means of tax planning.

Mr. and Mrs. Martin are not currently using trusts to maximize their tax planning. The following diagram illustrates their current estate plan.

PRESENT NON-TAX SAVING PLAN

ALL OUTRIGHT TO SURVIVING SPOUSE AND THEN TO BENEFICIARIES



The Irrevocable Family Trust

One of the most commonly used vehicles to conserve estate taxes is a trust funded at the death of the first spouse, and designed to avoid taxation of a portion of the estate at the death of the surviving spouse.

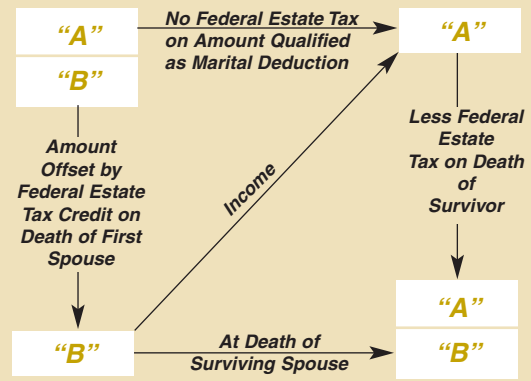
The surviving spouse can receive all income from the trust, or the trust income can be sprinkled between the surviving spouse and the children. And a trustee can be given the power to invade the trust principal to maintain the standard of living of the surviving spouse.

This trust must be an irrevocable trust, funded with property not to exceed the amount offset by the federal estate tax credit. When these qualifications are met, property placed in the trust will avoid taxation in the estate of the surviving spouse,

passing to the beneficiaries tax-free. The following diagram illustrates Mr. and Mrs. Martin's estate plan, should they establish the irrevocable family trust to save taxes.

SUGGESTED PLAN

AMOUNT PROTECTED BY FEDERAL ESTATE TAX CREDIT IN TRUST "B" FOR SURVIVING SPOUSE AND BENEFICIARIES REMAINDER QUALIFIED FOR MARITAL DEDUCTION IN TRUST "A" FOR SURVIVING SPOUSE



If at the death of the first spouse the tax savings trust is funded with property equal to the maximum tax credit equivalency, and assuming no appreciation of estate values, we will have an estate tax payable at the death of the surviving spouse (again assuming death occurs in 2011) in the amount of \$404,715. The result is a tax savings of \$504,616.

IRREVOCABLE LIFE INSURANCE TRUST

If Mr. and Mrs. Martin transfer ownership of their life insurance to an irrevocable trust, in which they maintain no ownership, the value of the life insurance will not be included in the estate.

The trust should be given power to loan money to the estate, or to purchase property from the estate to provide needed liquidity at the time of death.

The life insurance trust must be carefully drafted so that the premiums payable on the policies will not be taxable gifts. And



consideration must be given to the cash value of any life insurance transferred to the trust. If it is in excess of what can be transferred tax-free, it may be necessary to borrow the cash values from the policies, prior to transfer.

Removing the \$375,000 of life insurance from the total value of the taxable estate, we reduce the estate taxes payable at present estate values to \$235,965, for a tax savings of \$168,750 when compared to previous planning.

Please note that the irrevocable life insurance trust is only effective after it has been in existence for three years. If death occurs within three years of the establishment of the trust, the entire proceeds would be placed back into the estate and taxed as though the trust had not been created. However, if a new policy is purchased within the trust, the "three year rule" does not apply and the tax savings will be effective immediately.

It is difficult at the present time to determine whether or not to have an irrevocable life insurance trust drafted by legal counsel, to "start the clock running" on the three-year rule. The option is to wait and see what action Congress will take regarding the estate tax law.

You will want to rely upon your legal counsel to determine whether or not to establish the trust.

CHARITABLE LEAD TRUST

With the irrevocable family trust and irrevocable life insurance trust, a large portion of the estate taxes are avoided, assuming the estate value does not appreciate.

However, there is potential for considerable appreciation of the estate, and we need to plan for the avoidance of taxes on that appreciation.

Another consideration which the Martins might find of interest and value is the use of a charitable lead trust. At the death of the surviving spouse, the taxable portion of the estate would be placed into an irrevocable trust which would pay income to a charitable beneficiary for a period of years. At the end of the trust period, the property would be distributed to the personal beneficiaries.

The trust instrument should clearly define a formula by which the charitable lead trust would only be funded if there is a taxable estate.

It is possible to create a charitable deduction equal to 100% of the value of the property placed in the trust. Or the amount of tax payable may be controlled by paying a lower income for the trust term, resulting in a charitable deduction of less than 100% of the value transferred.

This option is used when an individual wishes a shorter trust term than the number of years necessary to achieve a 100% deduction, or if the property can not produce the return necessary to achieve a 100% deduction.

In the following chart, we have indicated the approximate percentage of taxes which can be saved when establishing a fixed payment trust paying 8%, 10% or 12% income to a charitable beneficiary for the length of trust indicated (assuming a charitable lead annuity trust making annual payments, and a 5% midterm AFR factor).

<i>Trust Term</i>	<i>% Tax Avoided with Payment of</i>		
	8%	10%	12%
10 years	62%	77%	93%
12 years	71%	89%	100%
14 years	79%	99%	----
16 years	87%	100%	----
18 years	94%	----	----
20 years	100%	----	----

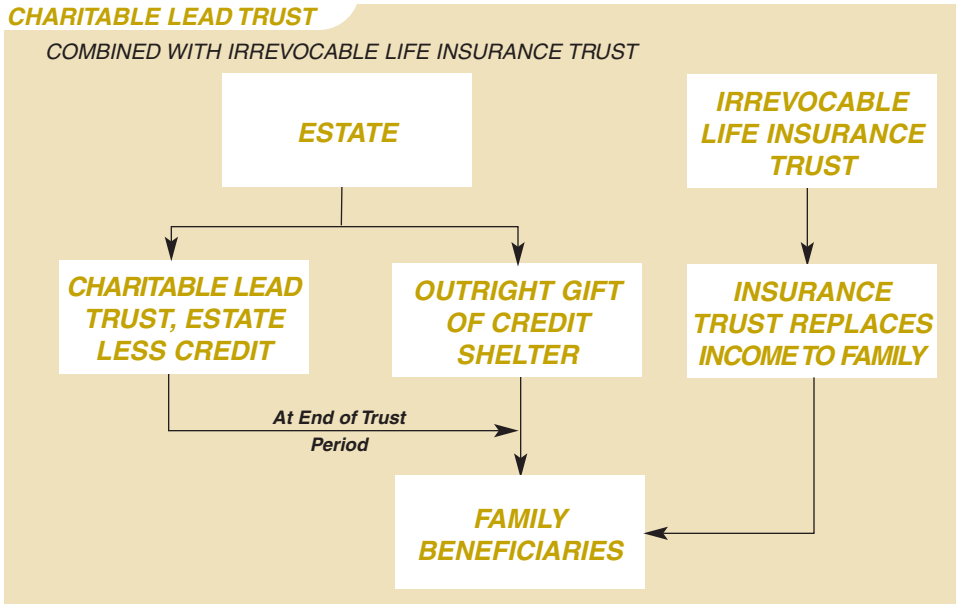


Charitable Lead Trust Combined with Irrevocable Life Insurance Trust

An interesting effect occurs when we combine the charitable lead trust with the irrevocable life insurance trust. The irrevocable life insurance trust can be funded to replace the income loss to the family on

the property placed in the charitable lead trust.

The following diagram illustrates the use of the charitable lead trust, combined with the irrevocable life insurance trust.



The end result we are striving to achieve, after the death of the surviving spouse, is for the income stream to the family to remain the same as if they had inherited

the "after-tax" estate. At the end of the trust period the family will receive the estate property, estate tax free.

SUMMARY OF TAX SAVINGS

We have reviewed several types of trusts which can be used to save taxes in the planning of the estate. Let's summarize these savings:

	<i>Tax</i>	<i>Savings</i>	<i>To Beneficiaries</i>
No Tax Planning	\$909,331	\$ 0	\$2,023,369
With Irrevocable Trust	404,715	504,616	2,527,985
With Life Insurance Trust	235,965	168,750	2,696,735
With Charitable Lead Trust	0	235,965	2,932,700

In addition, we have created an income stream of approximately \$850,000 to charitable beneficiaries.



ADDITIONAL USE OF TRUSTS IN THE MARTIN'S ESTATE

There are several other uses of trusts which would be beneficial to Mr. and Mrs. Martin in the planning of their estate.

The Revocable Living Trust

The Martins could consider establishing a revocable living trust as the basic instrument of their estate plan.

They can serve as their own trustees, with a bank trust department as successor trustee. The successor trustee would assume responsibility at the time of death, during any period of mental or physical disability preventing them from managing the estate, or simply if they desire to relinquish the responsibility of management.

The trust would be funded during lifetime and designed so that it will carry out Mr. and Mrs. Martin's desires for distribution of the estate at death.

It should be combined with durable powers of attorney, to allow the transfer of any property to the trust by the holder of the power of attorney, should there be property outside of the trust at the time the successor trustee would assume responsibility due to mental or physical disability.

The trust should also be combined with pour-over wills, to transfer any property remaining outside of the trust at the time of death.

■ **Certainty**

When a living trust is established and funded during an individual's lifetime, it is very difficult to contend, at the time of death, that the trust does not express the individual's desires, especially when he has had the opportunity to change the terms of the trust during

his lifetime. This may be compared to a will which must be proven to the Court to be the desires of the individual, with proof taking place after death, removing the individual so he cannot confirm those desires. Therefore, the will may be subject to added contest.

■ **Simplicity of Will and Probate**

Where a living trust is coupled with a pour-over will, the will is a relatively simple document. Furthermore, since the pour-over technique simply involves a transfer of title to the trust already in being, the probate procedure is often simplified.

■ **Probate Expense**

Since the probate procedure is simplified and less property is subject to probate, the chances are that the trustee fees and other expenses incurred in a living trust will be less than the probate expense for a will.

In addition, while legal expenses will usually be incurred in either vehicle, the chances are that the lower cost will be incurred in a revocable living trust.

■ **Confidentiality**

Any property which has been placed within the trust, and distribution from the trust at the time of death, are not subject to public record (as is a will), therefore affording the greatest possible confidentiality.

■ **Mental and Physical Disability**

The realities of life dictate that we must give consideration to who will be in a position of management over our property, in case of mental or physical disability prior to death. While this is not a pleasant thought, it is important that it be considered and that proper plans be made.



The use of a revocable living trust, established while an individual is in a position to think and plan clearly, can provide this protection, thus saving friends and relatives the unpleasant experience and complicated procedure of legal guardianship.

■ ***Estate Liquidity***

The trustee can also help to provide liquidity for settlement costs, final expenses and taxes, by loaning cash assets of the trust to the estate, or by purchasing property from the personal representative of the estate.

■ ***Changing Conditions***

Family and financial circumstances may change during the coming years. To the extent changes require amended distribution plans, this would be accomplished simply by amending the trust. It would not be necessary to go through the more formal approach to amending a will.

■ ***Mobility***

Another advantage of the living trust is its mobility. If an individual moves from one state to another, when a will is relied upon for distribution of the assets, it is important that this will conform to the laws of the new state in which the individual lives.

However, with a revocable living trust, he may choose to take the trust with him or leave it to be administered by possibly more favorable laws.

■ ***Ancillary Estate Administration***

When an individual owns real property in more than one state, and property is transferred according to the will, the will must be probated and a personal representative must be appointed in each state in which property is owned, creating additional expense.

However, when the real property is transferred to a revocable living trust during lifetime, it continues to be managed by the trustee, without ancillary probate, and this additional expense is avoided.

Wills

As noted above, Mr. and Mrs. Martin will want to have "pour-over" wills drafted to work along with their revocable living trust. The "pour-over" will allows for the transfer of property which has not been placed into the trust during lifetime, to the trust at death.

It is also important that they name the personal representative of the estate in their wills, who is responsible for making that transfer of property to the trust.

Mr. and Mrs. Martin should also know that their wills can be very personal documents. It is possible to express one's love and appreciation for family and friends, and many Christian individuals also wish to express their Christian lifestyles by making a last testimony of their faith in the writing of their wills.

Durable Powers of Attorney

One of the advantages of the revocable living trust is its ability to provide management for property in case of mental or physical disability prior to death, without the necessity of court appointed guardianship.

However, the trust can only effectively manage that property which has been placed into the trust prior to disability.

Therefore, it is necessary to have a durable power of attorney, giving either the successor trustee of the revocable living trust or some other holder of the power, the ability to place property into the trust at disability, which has not been previously placed into the trust.



Property Ownership

If the revocable living trust is designed properly and property is placed in the trust during lifetime, property ownership will care for itself.

However, if the irrevocable family trust is established through the probate estate, property ownership must be coordinated so that the first spouse to die has sufficient property in his or her estate to fund the trust with an amount equal to the tax credit equivalency.

If this is not accomplished, then too much of the estate will pass to the surviving spouse by reason of joint ownership, resulting in the failure to protect the full credit equivalency at the death of the first spouse.

Trust for Minor Children

Mr. and Mrs. Martin may also consider maintaining the assets of their estate to provide financial protection for the children. In so doing, it is often important to make gifts to children in such a way that they will not vest with them until the children have attained an age of financial maturity.

We do not consider financial maturity to automatically be attained at age 18, and make the following suggestions.

- Should death occur to the surviving spouse prior to the youngest child reaching the age of 25, the assets of the estate set aside for the children would be held in trust for the benefit of the children, to provide for their maintenance and education.
- At the youngest child's age 25, the desired charitable distribution would be made.
- The remaining assets of the estate would be available for withdrawal by the children in a series of payments, for example, one-third at the youngest

child's age 25, one-half the remainder at the youngest child's age 28, and the remainder at the youngest child's age 30.

There should also be language in the trust, should any child be mentally or physically unable to provide for his or her own care, to allow the trust to continue for the benefit of that child, until the dependency is terminated. At that time, the distribution of the trust assets could be made according to that which would normally have taken place at age 25.

These provisions can be written into the revocable living trust, established and funded during Mr. and Mrs. Martin's lifetimes. In so doing, the control of the probate court is limited to the time of the parents' deaths. Only those items not previously placed in the trust are subject to probate as they are poured-over into the trust. Any assets already placed in the trust, as well as property continued in the trust during the period of benefits for the children, would not be subject to the probate court.

The Qualified Terminable Interest Property Trust

We noted at the beginning of this memorandum that Mr. Martin's first wife died in childbirth. Three of the children are from the previous marriage; Mrs. Martin has not adopted these three children.

Mr. Martin is concerned that should he predecease Mrs. Martin and should she remarry, complications of property ownership and changes of her estate plan could result in the children from his previous marriage not receiving their beneficial share of the estate.

To guarantee that Andrew, Annrita and Penny will inherit an equal share of the estate distributed to personal beneficiaries, Mr. Martin can increase the value of property placed in the irrevocable family trust, should he predecease Mrs. Martin.



He can also allow the personal representative to elect to qualify any property in excess of the amount offset by the federal estate tax credit available at the time of his death, as "qualified terminable interest property (Q-TIP)."

This simply means that the property will qualify for the marital deduction and thus will not be taxed in Mr. Martin's estate.

All of the income from the Q-TIP trust must be payable to Mrs. Martin. And like the irrevocable family trust, the independent trustee can invade the principal of the trust to guarantee the maintenance of Mrs. Martin's standard of living.

At Mrs. Martin's death, any property remaining in the trust will be distributed to the beneficiaries named by Mr. Martin, prior to his death, thus guaranteeing a beneficial share of the estate for the children of his previous marriage.

The qualified terminable interest property trust provisions can also be used if the surviving spouse has not had experience in the management of property, or has spendthrift tendencies.

Use of Trusts in Business Planning

Mr. and Mrs. Martin own their own business. And there is indication that Andrew would like to continue the family business.

However, because of Andrew's age and Mr. and Mrs. Martin's desire to provide substantial charitable gifts from their estate, it is difficult for them to guarantee that he will have complete control of the business, especially with outright distribution of other property to family members.

A specially designed trust can provide a way for the business estate to be continued until Andrew is able to purchase the other family members' interests from the trust.

The trust would naturally attempt to distribute non-business assets to other family members, distributing the business assets to Andrew. But with the make-up of the estate and Mr. and Mrs. Martin's charitable interest, it will probably not be possible for Andrew to receive the entire business interest and still meet the other estate objectives.

Therefore, it will probably be necessary to continue the trust to hold the business interest, and arrange for Andrew to purchase the business from the trust. When the purchase is completed, the trust will distribute assets in accordance with the overall estate design.

CHARITABLE REMAINDER TRUST

Mr. and Mrs. Martin are concerned about the future of Trans World Radio, and want to continue their support of its programs after death.

They also have an income tax problem. A charitable remainder trust can meet their objective to continue their giving and provide current income tax relief.

Let's assume that Mr. and Mrs. Martin transfer all or a portion of the 240 acres of real estate to a charitable remainder trust.

The property could be maintained in the trust, paying income only, since they do not need additional income at this time, and the real estate is a growth asset rather than an income-producing asset.

At the time of Mr. Martin's retirement, the trustee will sell the real estate and reinvest the proceeds to enhance their retirement income.



The trust provides the following advantages to Mr. and Mrs. Martin:

- They will receive income payable as stated in the trust agreement (monthly, quarterly, semi-annually, annually).
- They receive income tax benefits, both now and in the future:
 - Because any assets remaining at the end of the trust period are a gift to Trans World Radio, a sizeable federal income tax charitable deduction is allowed in the year the trust is established.
 - There is no capital gains tax payable on appreciated property at the time of transfer to the trust.
 - There is no capital gains tax payable if the property is later sold by the trustee.
 - Many times, it is possible to receive favorable tax treatment of trust income.
- Mr. and Mrs. Martin are guaranteed income for the entire trust period, to the full extent of the value of their property.
- They have no management or investment worries, as assets transferred to the trust are managed by an experienced and competent trustee.
- Mr. and Mrs. Martin gain valuable advantages in the avoidance of estate taxes and probate costs.

- Mr. and Mrs. Martin can design their trust to provide a hedge against future inflation.
- But most of all, they receive a "measure of immortality here on earth," for their gift supports ideals and programs of eternal worth that will long outlast their own lives.

CONCLUSION

We trust this has given you a better understanding of some of the uses of trusts in the estate planning process.

We would like to make the services of our estate design department available to you, through a Confidential Estate Design, to show you how one or more of these trusts can meet your estate planning needs.

If you do not have an estate plan, the design will illustrate your current position and options available to save you taxes, probate costs and administration delays. It will also suggest how trusts can be used to accomplish your desires for the management and distribution of your estate.

If you have an estate plan in effect, the design will provide you with information concerning the possible need for revision of your plan, and trust options which can save you additional taxes and probate expenses.

In either case, this confidential estate design will allow you to better understand your estate plan, and will give you a format to help you discuss these options with your legal and tax advisers.



HOW YOU CAN RECEIVE THESE SERVICES

To receive these services, the first step is to gather all the necessary data. This can be accomplished by completing the Confidential Estate Inventory form which is enclosed. When you have completed the form, forward it to our office.

Based on the information you provide, we will prepare a Confidential Estate Design, which will include the following:

- An outline of the information on which the design is based,
- Analysis of your present financial circumstances and tax consequences,
- Discussion of possible alternatives, to better meet your personal and tax objectives, and
- An estate design flow chart, which will help you better understand what happens at each step.

Once you have reviewed this information in the privacy of your own home, you will want to review it with your attorney, who, at your direction, will be responsible for the actual implementation of your plan.

We are happy to provide any personal assistance you desire, but our objective is to assist you by providing the highest quality information, for review with your own legal and tax advisers.

Without Cost or Obligation

It is rare that you can obtain a service of this quality free of charge, and without obligation. While the dollar value of this service from a profit-making firm would be considerable, its real value is in the personal satisfaction which you will have, realizing that you have an estate plan which provides maximum avoidance of taxes, probate costs, and delays.

It is made available to you as a service of Trans World Radio, as our way of saying "thank you" for the assistance you have already provided in the fulfillment of our mission.

Note: The information in this planning report is of a general nature only, and should not be interpreted as legal advice. The illustrations in this memorandum were calculated using a 5% mid-term AFR rate and \$1 ml tax credit equivalency. The rate in effect in the month of the gift or in either of the two months preceding will be used to calculate the charitable deduction available for a specific transfer.

